



بنك ظفار
BankDhofar

**Unaudited interim condensed financial statements
For the three month period ended 31st March 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

CONTENTS OF THE INTERIM CONDENSED FINANCIAL STATEMENTS

	Page
The Board of Director's report	1 & 2
Interim condensed statement of financial position	4
Interim condensed statement of comprehensive income	5
Interim condensed statement of changes in equity	6 to 8
Interim condensed statement of cash flows	9
Notes to the interim condensed financial statements	10 – 44

BANK DHOFAR S.A.O.G.

THE BOARD OF DIRECTORS' REPORT FOR THE QUARTER ENDED

31st MARCH 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 Financial Statements for the quarter ended 31st March 2017.

The Bank's Financial Performance during Quarter ended March 2017

Bank Dhofar continued its progress in the first quarter of 2017 despite tough economic challenges. The net Loans, Advances and Financing portfolio crossed the OMR 3 billion mark, through prudent and quality lending and financing, and reached OMR 3.08 billion as at 31st March 2017, registering a growth of 9.61% from OMR 2.81 billion at the end of the corresponding period in the last year. To augment the loan growth, the Customer Deposits mobilized registered a strong growth of 11.39% to reach OMR 3.13 billion as at 31st March 2017 as compared to OMR 2.81 billion as at 31st March 2016.

The Net interest income and income from Islamic Financing activities earned year-to-date March 2017 was OMR 23.23 million as compared to OMR 26.03 million showing a decline of 10.76% mainly due to cost of funds increased by higher than interest and Islamic financing income. However, the Non fund income increased by 14.21% reaching OMR 8.84 million as against OMR 7.74 million for same period last year. The total operating income including non-funded income such as fees and commissions, foreign exchange profit, investment income etc. reached OMR 32.06 million for the quarter ended 31st March 2017 as against OMR 33.77 million during the corresponding period ended 31st March 2016.

Net provisions for loan impairment was contained by -30.4% to improve to OMR 2.61 million during Q1-2017 as against OMR 3.75 million during Q1-2016. There was no impairment of available for sale investments during the period compared to OMR 0.50 million last year same period. Non-performing loans to gross loans increased from 2.42% at 31st March 2016 to 2.81% at 31st March 2017. Non-performing loans, net of interest suspense, to gross loans is 1.52% at 31st March 2017 as against 1.21% at 31st March 2016.

The Net Profits of the Bank decreased by 7.72% for the quarter ended 31st March 2017 reaching OMR 12.51 million, as compared to OMR 13.56 million achieved during the corresponding period of 2016.

The earnings per share (EPS) for year-to-date March 2017 are OMR 0.006 as compared to OMR 0.007 for year-to-date March 2016.

Maisarah Financial Performance Highlights:-

Maisarah Islamic Banking Services continued its growth in balance sheet numbers during the quarter ended 31st March 2017. The total assets increased by 24.16% to OMR 420.95 million at 31st March 2017 from OMR 339.05 million as at 31st March 2016. The gross financing portfolio has grown from OMR 235.84 million as at 31st March 2016 to OMR 339.55 million as at 31st March 2017, a growth of 43.97%. Customer deposits increased from OMR 178.15 million as at 31st March 2016 to OMR 302.05 million as at 31st March 2017 showing a growth of 69.55%.

Maisarah Net Profit for the period ended 31 March 2017 decreased to OMR 0.14 million compared to OMR 1.09 million for the period ended 31 March 2016 mainly caused by higher cost of funds and provision for financing impairment.

Awards & Accolades

Following key awards were won by the Bank during the first quarter of 2017 and those awards are testimony to the continued efforts put in by the Bank to improve,

- Best Islamic Bank in Oman at the EMEA Finance's Achievement Awards 2016
- Best Islamic Community Support Bank 2017 by Global Financial Market Review
- 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.
- SME Bank of the Year – Oman by the "Wealth & Finance International Magazine"- UK (Finest in Finance)
- Brand of Excellence in SME Banking Oman 2017 by Finance Digest 2017 Brand of Excellence Program
- Brand of Excellence in E-Commerce Banking Oman 2017 by Finance Digest 2017 Brand of Excellence Program
- GTR Best Deals of 2016 by Global Trade Review "Liwa Plastics deal"

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 THREE MONTH PERIOD ENDED 31st March 2017

	Notes	Unaudited 31 st March 2017 RO'000	Unaudited 31 st March 2016 RO'000	Audited December 2016 RO'000
Assets				
Cash and balances with Central Bank of Oman	3	351,681	445,967	265,889
Loans, advances and financing to banks	4	334,327	220,745	340,060
Loans, advances and financing to customers	5	3,081,859	2,806,830	2,988,592
Available-for-sale investments	6	29,830	35,572	36,236
Held-to-maturity investments	7	208,718	175,176	218,535
Intangible asset	8	1,489	1,887	1,589
Property and equipment	9	8,341	8,544	8,328
Other assets		72,858	68,321	92,814
		4,089,103	3,763,042	3,952,043
Total assets				
Liabilities				
Due to banks	10	261,341	291,592	350,549
Deposits from customers	11	3,128,061	2,806,177	2,885,189
Other liabilities		125,332	94,393	128,430
Subordinated loans	12	53,875	103,875	53,875
		3,568,609	3,296,037	3,418,043
Total liabilities				
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	1,081	416	1,459
Retained earnings		44,917	20,424	72,289
		404,994	351,505	418,500
Total equity attributable to the equity holders of the Bank				
Perpetual Tier 1 Capital Securities	15(b)	115,500	115,500	115,500
		520,494	467,005	534,000
Total equity				
Total liabilities and equity				
		4,089,103	3,763,042	3,952,043
Net assets per share (Rials Omani)				
	16	0.198	0.207	0.220
Contingent liabilities				
	23	1,034,980	1,051,934	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
Acting 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 THREE MONTH PERIOD ENDED 31st March 2017

	Notes	Unaudited 31 March 2017 RO'000	Unaudited 31 March 2016 RO'000
Interest income		38,300	32,948
Interest expense		(16,754)	(8,676)
Net interest income	17	21,546	24,272
Income from islamic financing		4,068	2,588
Unrestricted investment account holders' share of profit		(2,388)	(835)
Net income from islamic financing activities		1,680	1,753
Fees and commission income		5,161	4,548
Fees and commission expense		(864)	(578)
Net fees and commission income		4,297	3,970
Other income	18	4,541	3,770
Operating income		32,064	33,765
Staff and administrative costs		(13,873)	(12,802)
Depreciation		(862)	(848)
Operating expenses		(14,735)	(13,650)
Profit from operations		17,329	20,115
Provision for loan impairment	5 & 19	(3,935)	(4,773)
Recoveries from allowance for loan impairment	5 & 19	1,325	1,026
Impairment of available-for-sale investments	5 & 19	-	(499)
Profit from operations after provision		14,719	15,869
Income tax expense		(2,208)	(2,311)
Profit for the period		12,511	13,558
Other comprehensive income:			
<i>Items that are or may be reclassified to profit or loss in subsequent periods:</i>			
Net changes in fair value of available-for-sale investments		(242)	(379)
Reclassification adjustment on sale of available-for-sale investments		(136)	(31)
Impairment of available-for-sale investments		-	499
Other comprehensive income for the period		(378)	89
Total comprehensive income for the period		12,133	13,647
Earnings per share attributable to equity holders of the Bank (basic and diluted) (Rials Omani)	20	0.006	0.007

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 THREE MONTH PERIOD ENDED 31st March 2017

	<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 1 January 2017		189,920	59,618	18,488	45,176	31,550	1,459	72,289	418,500	115,500	534,000
Profit for the year		-	-	-	-	-	-	12,511	12,511	-	12,511
Other comprehensive income for the year											
Net change in fair value of available-for-sale investments		-	-	-	-	-	(242)	-	(242)	-	(242)
Transfer to statement of comprehensive income on sale of available-for-sale investments		-	-	-	-	-	(136)	-	(136)	-	(136)
Impairment of available-for-sale investments		-	-	-	-	-	-	-	-	-	-
Total comprehensive income for the year		-	-	-	-	-	(378)	12,511	12,133	-	12,133
Transfer to legal reserve		-	-	-	-	-	-	-	-	-	-
Transfer to subordinated loan reserve		-	-	-	-	-	-	-	-	-	-
Transfer to retained earnings		-	-	-	-	-	-	-	-	-	-
Increase in share capital		-	-	-	-	-	-	-	-	-	-
Increase in share premium		-	-	-	-	-	-	-	-	-	-
Increase in legal reserve		-	-	-	-	-	-	-	-	-	-
Additional Tier 1 coupon		-	-	-	-	-	-	-	-	-	-
Transactions with owners recorded directly in equity											
Dividend for 2016	13	-	-	-	-	-	-	(25,639)	(25,639)	-	(25,639)
Bonus shares issued for 2016	13	14,244	-	-	-	-	-	(14,244)	-	-	-
Balances as at 31 March 2017 (Unaudited)		204,164	59,618	18,488	45,176	31,550	1,081	44,917	404,994	115,500	520,494

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 THREE MONTH PERIOD ENDED 31st March 2017 (CONTINUED)

	Notes	Share capital	Share premium	Special reserve	Legal reserve	Subordinated loans reserve	Investment revaluation reserve	Retained earnings	Total	Perpetua I Tier I capital security	Total 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		-	-	-	-	-	-	13,558	13,558	-	13,558
Other comprehensive income for the period											
Net change in fair value of available-for-sale investments		-	-	-	-	-	(379)	-	(379)	-	(379)
Transfer to profit and loss on sale of available-for-sale investments		-	-	-	-	-	(31)	-	(31)	-	(31)
Impairment of available-for-sale investments		-	-	-	-	-	499	-	499	-	499
Total comprehensive income for the year		-	-	-	-	-	89	13,558	13,647	-	13,647
Transactions with owners recorded directly in equity											
Dividend paid for 2015	13	-	-	-	-	-	-	(23,171)	(23,171)	-	(23,171)
Bonus shares issued for 2015	13	15,447	-	-	-	-	-	(15,447)	-	-	-
Balances as at 31 March 2016 (unaudited)		169,920	40,018	18,488	40,214	62,025	416	20,424	351,505	115,500	467,005

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 THREE MONTH PERIOD ENDED 31st March 2017 (CONTINUED)

	<i>Notes</i>								Perpetual Tier 1 capital securities	Total equity
	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	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
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	-	-	-	4,762	-	-	(4,762)	-	-	-
Transfer to subordinated loan reserve	-	-	-	-	19,525	-	(19,525)	-	-	-
Transfer to retained earnings	-	-	-	-	(50,000)	-	50,000	-	-	-
Increase in share capital	20,000	-	-	-	-	-	-	20,000	-	20,000
Increase in share premium	-	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	13	-	-	-	-	-	(23,171)	(23,171)	-	(23,171)
Bonus shares issued for 2015	13	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 THREE MONTH PERIOD ENDED 31ST MARCH 2017

	Unaudited 31 st March 2017	Unaudited 31 st March 2016
	RO'000	RO'000
Cash flows from operating activities		
Interest, financing income, commission and other receipts	46,958	40,495
Interest payments, return on Islamic Banking deposits	(16,937)	(7,722)
Cash payments to suppliers and employees	6,793	(24,745)
	<u>36,814</u>	<u>8,028</u>
Increase in operating assets		
Loans, advances and financing to customers	(95,877)	(81,272)
Loans, advances and financing to banks	96,686	(100,765)
Receipts from treasury bills and certificates of deposits (net)	189	(5,793)
	<u>998</u>	<u>(187,830)</u>
Increase / (decrease) in operating liabilities		
Deposits from customers	242,872	213,806
Due to banks	(89,756)	(17,205)
	<u>153,116</u>	<u>196,601</u>
Cash flow from/(used in) operating activities	<u>190,928</u>	<u>16,799</u>
Income tax paid	(5,733)	(6,217)
Net cash from/(used in) operating activities	<u>185,195</u>	<u>10,582</u>
Cash flows from/(used in) investing activities		
Investment income	1,628	818
Purchase of investments	(268)	(687)
Proceeds from sale of investments	6,296	507
Dividend received	244	463
Purchase of property and equipment	(885)	(796)
Proceeds from sale of property and equipment	(2)	421
Net cash from/(used in) investing activities	<u>7,013</u>	<u>726</u>
Cash flow used in financing activities		
Dividend	(25,639)	(23,171)
Net cash used in financing activities	<u>(25,639)</u>	<u>(23,171)</u>
Net change in cash and cash equivalents	<u>166,569</u>	<u>(11,863)</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>512,069</u>	<u>506,690</u>
Cash and balances with Central Bank of Oman (Note 3)	351,681	445,967
Capital deposit with Central Bank of Oman	(500)	(500)
Loans, advances and financing to banks due within 90 days	143,117	43,604
Treasury bills within 90 days	19,237	19,241
Due to banks within 90 days	(1,466)	(1,622)
Cash and cash equivalents for the purpose of the statement of cash flows	<u>512,069</u>	<u>506,690</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 THREE MONTH PERIOD ENDED 31st March 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 THREE MONTH PERIOD ENDED 31st March 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 THREE MONTH PERIOD ENDED 31st March 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 THREE MONTH PERIOD ENDED 31st March 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 THREE MONTH PERIOD ENDED 31st March 2017

3. Cash and balances with Central Bank of Oman

	Unaudited 31st March 2017 RO'000	Unaudited 31 st March 2016 RO'000	Audited 31 December 2016 RO'000
Cash on hand	28,836	31,340	29,919
Balances with the Central Bank of Oman	288,965	350,717	131,961
Placements with Central Bank of Oman	33,880	63,910	104,009
	351,681	445,967	265,889

At 31st March 2017 cash and balances with Central bank of Oman included balances with the Central Bank of Oman amounting to RO 500,000 (31st March 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 31st March 2017 RO'000	Unaudited 31 st March 2016 RO'000	Audited 31 December 2016 RO'000
Syndicated loans to other banks	50,628	72,299	51,590
Less: impairment allowance (collective)	(409)	(409)	(409)
	50,219	71,890	51,181
Placements with other banks	273,406	138,746	271,355
Current clearing accounts	10,702	10,109	17,524
Net loans, advances and financing	334,327	220,745	340,060

At 31st March 2017 No placement with any bank's individually represented 20% or more of the Bank's placements and (31st March 2016 one bank and 31 December 2016 – one local bank).

Movement of the impairment allowance is set out below:

	Unaudited 31st March 2017 RO'000	Unaudited 31 st March 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	-	-	-
Balance at the end of the period / year	409	409	409

BANK DHOFAR SAOG

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE THREE MONTH PERIOD ENDED 31st March 2017

5. Loans, advances and financing to customers

	Unaudited 31st March 2017 RO'000	Unaudited 31 st March 2016 RO'000	Audited 31 December 2016 RO'000
Overdrafts	152,690	165,198	146,303
Loans	2,508,280	2,339,724	2,431,536
Loans against trust receipts	114,007	104,583	113,992
Bills discounted	11,677	7,116	20,817
Advance against credit cards	7,611	7,660	7,746
Others	71,276	50,264	75,522
Islamic Banking Window financing	339,553	235,843	311,558
Gross Loans, advances and financing	3,205,094	2,910,388	3,107,474
Less: Impairment allowance	(123,235)	(103,558)	(118,882)
Net loans, advances and financing	3,081,859	2,806,830	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	3,935	4,773	19,925
Released to the statement of comprehensive income during the period / year	(1,325)	(1,026)	(5,364)
Written off during the period / year	(7)	(48)	(129)
Balance at the end of the period / year	81,845	68,509	79,242

(b) Reserved interest

Balance at beginning of the period / year	39,640	33,808	33,808
Reserved during the period / year	2,015	1,619	7,004
Released to the statement of comprehensive income during the period / year	(198)	(268)	(824)
Written-off during the period / year	(67)	(110)	(348)
Balance at the end of the period / year	41,390	35,049	39,640
Total impairment allowance	123,235	103,558	118,882

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 THREE MONTH PERIOD ENDED 31st March 2017

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

Interest is reserved by the Bank against loans and advances which are impaired.

Out of the total provisions of RO 123,235 thousand (31st March 2016 – RO 103,558 thousand (31 December 2016 - RO 118,882 thousand), a collective provision was recorded on a portfolio basis amounting to RO 41,159 thousand as of 31st March 2017 (31st March 2016 - RO 39,533 thousand, 31 December 2016 - RO 41,700 thousand).

At 31st March 2017, impaired loans and advances on which interest has been reserved amount to RO 89,228 thousand (31st March 2016 – RO 68,975 thousand, 31 December 2016 - RO 83,644 thousand and loans and advances on which interest is not being accrued amount to RO1,372 thousand (31st March 2016 - RO 1,676 thousand, 31 December 2016 – RO 1,531 thousand).

6. Available-for-sale investments

	Unaudited 31 st March 2017		Unaudited 31 st March 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	444	428	735	722	655	657
Industrial	2,993	3,113	6,440	6,066	4,631	5,191
Services	3,164	3,338	7,041	7,212	7,343	7,676
Equity Funds – Quoted – Foreign						
Quoted debt/sukuk	308	324	-	-	308	269
Foreign fixed income & bonds	3,619	3,671	2,745	2,642	3,619	3,542
Local fixed income & bonds	13	32	26	48	13	32
Total quoted investments	10,541	10,906	16,987	16,690	16,569	17,367
Un-quoted equity						
Local securities	3	3	3	7	3	3
Unit funds	1,842	2,360	1,802	2,282	1,842	2,305
Total Un-Quoted Investments	1,845	2,363	1,805	2,289	1,845	2,308
Total available-for-sale	12,386	13,269	18,792	18,979	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	6,363	6,363	6,364	6,395	6,363	6,363
	16,363	16,561	16,364	16,593	16,363	16,561
Total Quoted Investments	28,749	29,830	35,156	35,572	34,777	36,236

BANK DHOFAR SAOG

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE THREE MONTH PERIOD ENDED 31st March 2017

7. Held-to-maturity investments

	Unaudited 31st March 2017 RO'000	Unaudited 31 st March 2016 RO'000	Audited 31 December 2016 RO'000
Treasury bills with maturity of above 90 days	19,237	39,235	28,865
Government Development Bonds	179,481	125,941	179,670
	198,718	165,176	208,535
Local quoted sukuk Govt.	10,000	10,000	10,000
	208,718	175,176	218,535

8. Intangible asset

	Unaudited 31st March 2017 RO'000	Unaudited 31 st March 2016 RO'000	Audited 31 December 2016 RO'000
Goodwill net of impairment	1,489	1,887	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 31st March 2017 RO'000	Unaudited 31 st March 2016 RO'000	Audited 31 December 2016 RO'000
Conventional	6,922	7,271	6,854
Islamic window	1,419	1,273	1,474
	8,341	8,544	8,328

10. Due to banks

	Unaudited 31st March 2017 RO'000	Unaudited 31 st March 2016 RO'000	Audited 31 December 2016 RO'000
Interbank borrowings	259,875	289,970	349,631
Payable on demand	1,466	1,622	918
	261,341	291,592	350,549

At 31st March 2017, **no borrowing** with any banks represented 20% or more of the Bank's total inter-bank borrowings (31st March 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 THREE MONTH PERIOD ENDED 31st March 2017

11. Deposits from customers

	Unaudited 31st March 2017 RO'000	Unaudited 31 st March 2016 RO'000	Audited 31 December 2016 RO'000
Current accounts	846,318	922,235	625,947
Savings accounts	437,526	441,805	431,312
Time deposits / certificate of deposits	1,489,818	1,245,632	1,487,674
Margin accounts	52,354	18,358	54,582
Islamic Banking Window deposits	302,045	178,147	285,674
	<u>3,128,061</u>	<u>2,806,177</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 1,409,164 thousand (31st March 2016 - RO 1,275,243 thousand, 31 December 2016 – RO 1,148,429 thousand).

12. Subordinated loan

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

During the month of 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 2,200,000,000 ordinary shares of RO 0.100 each (2015: 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 25,939 thousand for the year ended 31 December 2016 (2015 – RO 23,171 thousand for the year ended 31 December 2015).

At 31st March 2017, the issued and paid up share capital comprise 2,041,641,506 shares of par value RO 0.100 each. 31st March 2016 and 31 December 2016 – 1,699,201,401 shares of par value RO 0.100 each).

BANK DHOFAR SAOG

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE THREE MONTH PERIOD ENDED 31st March 2017

13. Share capital (continued)

Shareholders

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

	Unaudited 31 st March 2017		Unaudited 31 st March 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	212,103,566	10.4%	174,221,313	10.2%	197,232,693	10.4%
Total	1,213,260,231	59.4%	1,004,089,047	59.0%	1,128,541,221	59.4%
Others	828,381,275	40.6%	695,112,354	41.0%	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 31st March 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, as part of strengthening its capital base and to fund planned growth in the coming years, in the extraordinary general meeting (EGM) held on 24 December 2014 has resolved to:

1. Raise its Capital by issuing Tier 1 (including Additional Tier 1) type Capital Instruments in 2015 up to OMR 115.50 million (USD 300 million), subject to Central Bank of Oman and other Regulatory Approvals;
2. Increase Bank's regulatory capital by issue of convertible bonds to raise up to OMR 100 Million (USD 259.75 Million) with a coupon to be determined at the time of issue based on market conditions, subject to regulatory approvals
3. Issue senior non-capital debt instruments up to USD 500 million in the next four years, subject to necessary Central Bank of Oman and Regulatory Approvals;

On 27 May 2015, the Bank issued Perpetual Tier 1 Capital Securities (the "Tier 1 Securities"), amounting to USD 300,000,000 (Please refer Note 18 b). The other capital fund raising program have not yet been finalised.

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% (2015 – 5%) as cash dividend of the paid share capital of the Bank amounting to RO 23,171,000 for the year ended 31 December 2015.

BANK DHOFAR SAOG

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE THREE MONTH PERIOD ENDED 31st March 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 31st March 2017 RO'000	Unaudited 31 st March 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	(242)	(379)	5
Net transfer to profit or loss on sale of available-for-sale investments	(136)	(31)	(466)
Impairment of available-for-sale investment	-	499	1,593
Balance at the end of the period / year	<u>1,081</u>	<u>416</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.

BANK DHOFAR SAOG

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE THREE MONTH PERIOD ENDED 31st March 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 31st March 2017	Unaudited 31 st March 2016	Audited 31 December 2016
Net assets (RO'000)	404,994	351,505	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)	0.198	0.207	0.220

17. Net interest income

	Unaudited 31st March 2017 RO'000	Unaudited 31 st March 2016 RO'000
Loans, advances and financing to customers	36,734	32,223
Debt investments	23	9
Money market placements	1,540	714
Others	3	2
Total interest income	38,300	32,948
Deposits from customers	(15,006)	(7,873)
Money market deposits	(1,748)	(803)
Total interest expense	(16,754)	(8,676)
Net interest income	21,546	24,272

BANK DHOFAR SAOG

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE THREE MONTH PERIOD ENDED 31st March 2017

18. Other income

	Unaudited 31st March 2017 RO'000	Unaudited 31 st March 2016 RO'000
Foreign exchange	1,453	1,412
Investment income (a)	2,347	1,621
Miscellaneous income	741	737
	<u>4,541</u>	<u>3,770</u>

(a) Investment income

	Unaudited 31st March 2017 RO'000	Unaudited 31 st March 2016 RO'000
Investment income		
Dividend income- available-for-sale investments	244	463
Income on Sukuk	266	269
Gain on disposal of available-for-sale investments	171	43
Interest income on Government Development Bonds/Other bonds	1,666	846
	<u>2,347</u>	<u>1,621</u>

19. Impairment of financial assets

	Unaudited 31st March 2017 RO'000	Unaudited 31 st March 2016 RO'000
Provision for loan impairment	3,935	4,773
Provision for inter banks loans impairment	-	-
Impairment of available-for-sale investments	-	499
	<u>3,935</u>	<u>5,272</u>
Recoveries from provision for loan impairment	(1,325)	(1,026)
	<u>2,610</u>	<u>4,246</u>

BANK DHOFAR SAOG

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE THREE MONTH PERIOD ENDED 31st March 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 31st March 2017 attributable to ordinary shareholders as follows:

	Unaudited 31st March 2017	Unaudited 31 st March 2016
Profit for the year (RO)	12,511	13,558
Profit for the period attributable to equity holders of the bank after coupon and issuance cost on Tier 1 capital securities	<u><u>12,511</u></u>	<u><u>13,558</u></u>
Number of shares outstanding at the end of the period	<u><u>2,070,044,003</u></u>	<u><u>1,870,044,003</u></u>
Earnings per share basic and diluted (RO)	<u><u>0.006</u></u>	<u><u>0.007</u></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 1 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 THREE MONTH PERIOD ENDED 31st March 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 31st March 2017 RO'000	Unaudited 31 st March 2016 RO'000	Audited 31 December 2016 RO'000
Loans, advances and financing			
Directors and shareholders holding 10% or more interest in the Bank	14,801	36,886	52,880
Other related parties	45,556	13,765	11,667
	60,357	50,651	64,547
Subordinated loans			
Directors and shareholders holding 10% or more interest in the Bank	21,663	48,663	21,663
Other related parties	17,775	40,775	17,775
	39,438	89,438	39,438
Deposits and other accounts			
Directors and shareholders holding 10% or more interest in the Bank	165,956	206,660	264,633
Other related parties	117,130	81,022	139,414
	283,086	287,682	404,047
Contingent liabilities and commitments			
Directors and shareholders holding 10% or more interest in the Bank	840	131	793
Other related parties	2,546	1,847	2,210
	3,386	1,978	3,003
Remuneration paid to Directors			
Chairman			
– remuneration paid	16	16	16
– sitting fees paid	3	5	10
Other Directors			
– remuneration paid	107	103	107
– sitting fees paid	17	18	67
	143	142	200
Other transactions			
Rental payment to related parties	120	121	471
Other transactions	14	44	84
Remuneration and fees paid to Sharia' Board of Islamic Banking Window	35	25	43

BANK DHOFAR SAOG

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE THREE MONTH PERIOD ENDED 31st March 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 31st March 2017 RO'000	Unaudited 31 st March 2016 RO'000	Audited 31 December 2016 RO'000
Total exposure:			
Direct	64,932	54,680	69,126
Indirect	3,386	1,978	3,003
	68,318	56,658	72,129
Number of members	31	27	29

23. Contingent liabilities

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

	Unaudited 31st March 2017 RO'000	Unaudited 31 st March 2016 RO'000	Audited 31 December 2016 RO'000
Letters of credit	128,159	134,377	125,671
Guarantees and performance bonds	906,821	917,557	920,277
	1,034,980	1,051,934	1,045,948

BANK DHOFAR SAOG

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE THREE MONTH PERIOD ENDED 31st March 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
31st March 2017						
Cash and balances with Central Bank of Oman	351,181	-	-	-	500	351,681
Loans, advances and financing to banks	131,567	143,889	52,114	6,757	-	334,327
Loans, advances and financing to customers	283,348	372,607	157,365	743,572	1,524,967	3,081,859
Available-for-sale investments	-	-	13,269	16,561	-	29,830
Held-to-maturity investments	-	19,237	12,238	110,659	66,584	208,718
Intangible asset	-	-	-	-	1,489	1,489
Property and equipment	-	-	-	-	8,341	8,341
Other assets	19,082	42,923	874	54	9,925	72,858
Total assets	785,178	578,656	235,860	877,603	1,611,806	4,089,103
Due to banks	24,566	3,850	32,725	200,200	-	261,341
Deposits from customers	375,054	441,779	472,895	1,138,535	699,798	3,128,061
Other liabilities	67,492	43,719	3,878	9,341	902	125,332
Subordinated loans	-	-	25,000	28,875	-	53,875
Total equity	-	-	-	115,500	404,994	520,494
Total liabilities and equity	467,112	489,348	534,498	1,492,451	1,105,694	4,089,103

BANK DHOFAR SAOG

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE THREE MONTH PERIOD ENDED 31st March 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 March 2016						
Cash and balances with Central Bank of Oman	445,467	-	-	-	500	445,967
Loans, advances and financing to banks	84,627	56,449	65,465	14,204	-	220,745
Loans, advances and financing to customers	199,256	325,663	141,884	728,989	1,411,038	2,806,830
Available-for-sale investments	-	-	18,979	16,593	-	35,572
Held-to-maturity investments	19,994	19,241	7,215	102,957	25,769	175,176
Intangible asset	-	-	-	-	1,887	1,887
Property and equipment	-	-	-	-	8,544	8,544
Other assets	36,895	9,907	12,319	17	9,183	68,321
Total assets	786,239	411,260	245,862	862,760	1,456,921	3,763,042
Due to banks	109,750	14,437	71,155	96,250	-	291,592
Deposits from customers	256,714	512,580	569,193	770,846	696,844	2,806,177
Other liabilities	56,623	10,815	15,538	10,284	1,133	94,393
Subordinated loans	-	-	50,000	25,000	28,875	103,875
Shareholders' equity	-	-	13,548	-	453,457	467,005
Total liabilities and shareholders' equity	423,087	537,832	719,434	902,380	1,180,309	3,763,042

BANK DHOFAR SAOG

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE THREE MONTH PERIOD ENDED 31st March 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

BANK DHOFAR SAOG

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE THREE MONTH PERIOD ENDED 31st March 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
31st March 2017								
Cash and balances with Central Bank of Oman	0.1%	33,880	-	-	-	500	317,301	351,681
Loans, advances and financing to banks	1.4%	130,927	202,760	-	-	-	640	334,327
Loans, advances and financing to customers	5.8%	612,392	1,055,254	316,078	493,864	604,271	-	3,081,859
Available-for-sale investments	4.1%	-	-	-	16,561	-	13,269	29,830
Held-to-maturity investments	3.7%	-	19,237	12,238	110,658	66,585	-	208,718
Intangible asset	-	-	-	-	-	-	1,489	1,489
Property and equipment	-	-	-	-	-	-	8,341	8,341
Other assets	-	-	-	-	-	-	72,858	72,858
Total assets		777,199	1,277,251	328,316	621,083	671,356	413,898	4,089,103
Due to banks	2.3%	257,491	3,850	-	-	-	-	261,341
Deposits from customers	2.2%	216,328	258,530	407,778	967,838	43,245	1,234,342	3,128,061
Other liabilities	-	-	-	-	-	-	125,332	125,332
Subordinated loans	5.8%	-	-	25,000	28,875	-	-	53,875
Total equity	-	-	-	-	115,500	-	404,994	520,494
Total liabilities and equity		473,819	262,380	432,778	1,112,213	43,245	1,764,668	4,089,103
On-balance sheet gap		303,380	1,014,871	(104,462)	(491,130)	628,111	(1,350,770)	
Cumulative interest sensitivity gap		303,380	1,318,251	1,213,789	722,659	1,350,770		

BANK DHOFAR SAOG

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE THREE MONTH PERIOD ENDED 31st March 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
31 March 2016								
Cash and balances with Central Bank of Oman	0.1%	63,910	-	-	-	500	381,557	445,967
Loans, advances and financing to banks	0.9%	84,018	136,274	-	-	-	453	220,745
Loans, advances and financing to customers	5.3%	199,256	325,663	141,884	728,989	1,411,038	-	2,806,830
Available-for-sale investments	4.7%	-	-	-	16,593	-	18,979	35,572
Held-to-maturity investments	2.3%	19,994	19,241	7,215	102,957	25,769	-	175,176
Intangible asset		-	-	-	-	-	1,887	1,887
Property and equipment		-	-	-	-	-	8,544	8,544
Other assets		-	-	-	-	-	68,321	68,321
Total assets		367,178	481,178	149,099	848,539	1,437,307	479,741	3,763,042
Due to banks	1.1%	206,000	85,592	-	-	-	-	291,592
Deposits from customers	1.5%	84,847	202,386	130,242	1,015,836	77,157	1,295,709	2,806,177
Other liabilities		-	-	-	-	-	94,393	94,393
Subordinated loans	5.2%	-	-	50,000	53,875	-	-	103,875
Shareholders 'equity		-	-	-	115,500	-	351,505	467,005
Total liabilities and shareholders' equity		290,847	287,978	180,242	1,185,211	77,157	1,741,607	3,763,042
On-balance sheet gap		76,331	193,200	(31,143)	(336,672)	1,360,150	(1,261,866)	
Cumulative interest sensitivity gap		76,331	269,531	238,388	(98,284)	1,261,866		

BANK DHOFAR SAOG

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE THREE MONTH PERIOD ENDED 31st March 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 THREE MONTH PERIOD ENDED 31st March 2017

24. Risk Management (continued)

(ii) Market risk (continued)

(b) Foreign currency exposures

	Unaudited 31st March 2017 RO'000	Unaudited 31 st March 2016 RO'000	Audited 31 December 2016 RO'000
Net assets denominated in US Dollars	43,101	158,315	22,165
Net assets denominated in other foreign currencies	845	12,094	4,845
	<u>43,946</u>	<u>170,409</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
31 March 2017						
Personal	-	1,448,616	-	616,625	-	198
Corporate	334,736	1,640,744	42,704	1,102,272	261,341	1,027,622
Government	-	115,734	195,844	1,409,164	-	7,160
	<u>334,736</u>	<u>3,205,094</u>	<u>238,548</u>	<u>3,128,061</u>	<u>261,341</u>	<u>1,034,980</u>
31 March 2016						
Personal	-	1,353,978	-	609,516	-	386
Corporate	221,154	1,474,877	38,220	921,418	291,592	1,037,947
Government	-	81,533	172,528	1,275,243	-	13,601
	<u>221,154</u>	<u>2,910,388</u>	<u>210,748</u>	<u>2,806,177</u>	<u>291,592</u>	<u>1,051,934</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.

BANK DHOFAR SAOG

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE THREE MONTH PERIOD ENDED 31st March 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 31st March 2017 is 14.16% (31st March 2016 – 14.18%, 31 December 2016 - 14.41%).

Capital structure	Unaudited 31 st March 2017 RO'000	Unaudited 31 st March 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	32,406	6,866	32,406
Proposed bonus shares	-	-	14,244
CET I/Tier I Capital	<u>391,402</u>	<u>337,531</u>	<u>391,402</u>
Additional Tier I regulatory adjustments:			
Deferred tax Assets	(62)	(62)	(62)
Goodwill	(1,489)	(1,887)	(1,589)
Negative investment revaluation reserve	<u>(318)</u>	<u>(735)</u>	<u>(196)</u>
Total CET 1 capital	<u>389,533</u>	<u>334,847</u>	<u>389,555</u>
additional Tier I capital (AT1)	<u>115,500</u>	<u>115,500</u>	<u>115,500</u>
Total Tier 1 Capital (T1=CET1+AT1)	<u>505,033</u>	<u>450,347</u>	<u>505,055</u>
TIER II CAPITAL			
Investment revaluation reserve	508	451	682
Collective provision	41,568	39,942	42,109
Subordinated loan	<u>22,325</u>	<u>33,100</u>	<u>22,325</u>
Total Tier II capital	<u>64,401</u>	<u>73,493</u>	<u>65,116</u>
Total eligible capital	<u>569,434</u>	<u>523,840</u>	<u>570,171</u>
Risk weighted assets			
Banking book	3,730,532	3,351,008	3,674,545
Trading book	66,502	144,343	56,817
Operational risk	<u>224,316</u>	<u>198,703</u>	<u>224,316</u>
Total	<u>4,021,350</u>	<u>3,694,054</u>	<u>3,955,678</u>
Total Tier 1 Capital (T1=CET1+AT1)	505,033	450,347	505,055
Tier II capital	64,401	73,493	65,116
Tier III capital	-	-	-
Total regulatory capital	<u>569,434</u>	<u>523,840</u>	<u>570,171</u>
Common Equity Tier 1 ratio	<u>9.69%</u>	<u>9.06%</u>	<u>9.85%</u>
Tier I capital ratio	<u>12.56%</u>	<u>12.19%</u>	<u>12.77%</u>
Total capital ratio	<u>14.16%</u>	<u>14.18%</u>	<u>14.41%</u>

BANK DHOFAR SAOG

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE THREE MONTH PERIOD ENDED 31st March 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 31 st March 2017	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	351,681	-	-	-	351,681	351,681
Loan, advances and financing to banks	334,327	-	-	-	334,327	334,327
Loan, advances and financing to customers	3,081,859	-	-	-	3,081,859	3,081,859
Available-for-sale investments	-	29,830	-	-	29,830	29,830
Held-to-maturity investments	-	-	208,718	-	208,718	208,718
	3,767,867	29,830	208,718	-	4,006,415	4006,415
Due to banks	-	-	-	261,341	261,341	261,341
Deposits from customers	-	-	-	3,128,061	3,128,061	3,128,061
Subordinated loans	-	-	-	53,875	53,875	53,875
				3,443,277	3,443,277	3,443,277
As of 31 st March 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	445,967	-	-	-	445,967	445,967
Loan, advances and financing to banks	220,745	-	-	-	220,745	220,745
Loan, advances and financing to customers	2,806,830	-	-	-	2,806,830	2,806,830
Available-for-sale investments	-	35,572	-	-	35,572	35,572
Held-to-maturity investments	-	-	175,176	-	175,176	175,176
	3,473,542	35,572	175,176	-	3,684,290	3,684,290
Due to banks	-	-	-	291,592	291,592	291,592
Deposits from customers	-	-	-	2,806,177	2,806,177	2,806,177
Subordinated loans	-	-	-	103,875	103,875	103,875
				3,201,644	3,201,644	3,201,644

BANK DHOFAR SAOG

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE THREE MONTH PERIOD ENDED 31st March 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 31 March 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	10,906	2,363	-	13,269
Sukuk	6,363	10,198	-	16,561
Total assets	<u>17,269</u>	<u>12,561</u>	<u>-</u>	<u>29,830</u>

BANK DHOFAR SAOG

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE THREE MONTH PERIOD ENDED 31st March 2017

26. Fair value information (continued)

At 31 March 2016	Level 1 RO'000	Level 2 RO'000	Level 3 RO'000	Total RO'000
<i>Assets</i>				
<i>Available-for-sale investments</i>				
Equity instruments	16,690	-	2,289	18,979
Sukuk	6,395	10,198	-	16,593
Total assets	<u>23,085</u>	<u>10,198</u>	<u>2,289</u>	<u>35,572</u>
At 31 December 2016	Level 1 RO'000	Level 2 RO'000	Level 3 RO'000	Total RO'000
<i>Assets</i>				
<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.

BANK DHOFAR SAOG

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE THREE MONTH PERIOD ENDED 31st March 2017

26. (b) Derivative financial instruments

At 31 March 2017	Contract / notional amount RO'000	Fair value increase / decrease	
		Assets RO'000	Liabilities RO'000
Derivatives:			
Currency forward - purchase contracts	572,872	-	316
Currency forward - sales contracts	570,360	959	-
Forward rate agreements	-	-	-
Interest rate swaps	15,400	36	36
Currency options – bought	3,741	-	24
Currency options – sold	3,741	24	-

At 31 March 2016	Contract / notional amount RO'000	Fair value increase / decrease	
		Assets RO'000	Liabilities RO'000
Derivatives:			
Currency forward - purchase contracts	196,240	160	-
Currency forward - sales contracts	194,255	-	57
Forward rate agreements	-	-	-
Interest rate swaps	-	-	-
Currency options – bought	-	-	-
Currency options – sold	-	-	-

BANK DHOFAR SAOG

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE THREE MONTH PERIOD ENDED 31st March 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.

BANK DHOFAR SAOG

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE THREE MONTH PERIOD ENDED 31st March 2017

27. Segmental information (continued)

At 31 st March 2017	Retail banking RO'000	Corporate banking RO'000	Treasury and investments RO'000	Total RO'000
Segment operating revenues	20,447	20,283	1,638	42,368
Other revenues	1,436	3,578	3,824	8,838
	<u>21,883</u>	<u>23,861</u>	<u>5,462</u>	<u>51,206</u>
Interest, Islamic Window Deposit expenses	<u>(7,440)</u>	<u>(10,746)</u>	<u>(956)</u>	<u>(19,142)</u>
Net operating income	14,443	13,115	4,506	32,064
Segment cost				
Operating expenses including depreciation	(7,203)	(6,601)	(931)	(14,735)
Impairment for loans and investment net recoveries from allowance for loans impairment	(2,025)	(585)	-	(2,610)
	<u>5,215</u>	<u>5,929</u>	<u>3,575</u>	<u>14,719</u>
Tax expenses	(783)	(889)	(536)	(2,208)
Profit for the period	<u>4,432</u>	<u>5,040</u>	<u>3,039</u>	<u>12,511</u>
Segment assets	1,598,406	1,983,441	630,900	4,212,747
Less: Impairment allowance	<u>(57,211)</u>	<u>(66,024)</u>	<u>(409)</u>	<u>(123,644)</u>
Total segment assets	<u>1,541,195</u>	<u>1,917,417</u>	<u>630,491</u>	<u>4,089,103</u>
Segment liabilities	<u>656,740</u>	<u>2,596,434</u>	<u>315,435</u>	<u>3,568,609</u>

BANK DHOFAR SAOG

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE THREE MONTH PERIOD ENDED 31st March 2017

27. Segmental information (continued)

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

At 31st March 2017	Retail banking RO'000	Corporate banking RO'000	Treasury and investments RO'000	Total RO'000
Segment operating revenues	1,586	2,470	12	4,068
Other revenues	59	183	418	660
	<u>1,645</u>	<u>2,653</u>	<u>430</u>	<u>4,728</u>
Segment operating revenues	1,645	2,653	430	4,728
Profit expenses	(95)	(2,199)	(94)	(2,388)
holders' share of profit				
Net operating income	1,550	454	336	2,340
Segment cost				
Operating expenses including depreciation	(583)	(908)	(4)	(1,495)
Impairment allowance	(147)	(560)	-	(707)
Profit for the period	<u>820</u>	<u>(1,014)</u>	<u>332</u>	<u>138</u>
Segment assets	140,787	202,967	58,641	402,395
Less: Impairment allowance	<u>(1,546)</u>	<u>(2,232)</u>	-	<u>(3,778)</u>
Total segment assets	<u>139,241</u>	<u>200,735</u>	<u>58,641</u>	<u>398,617</u>
Segment liabilities	<u>28,690</u>	<u>279,128</u>	<u>27,169</u>	<u>334,987</u>

BANK DHOFAR SAOG

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE THREE MONTH PERIOD ENDED 31st March 2017

27. Segmental information (continued)

At 31 March 2016	Retail banking RO'000	Corporate banking RO'000	Treasury and investments RO'000	Total RO'000
Segment operating revenues	19,584	15,208	744	35,536
Other revenues	1,888	2,724	3,128	7,740
	<u>21,472</u>	<u>17,932</u>	<u>3,872</u>	<u>43,276</u>
Interest, Islamic Window Deposit expenses	<u>(3,176)</u>	<u>(4,360)</u>	<u>(1,975)</u>	<u>(9,511)</u>
Net operating income	18,296	13,572	1,897	33,765
Segment cost				
Operating expenses including depreciation	(6,758)	(6,004)	(888)	(13,650)
Impairment for loans and investment net recoveries from allowance for loans impairment	(2,298)	(1,449)	(499)	(4,246)
Profit from operations after provision	<u>9,240</u>	<u>6,119</u>	<u>510</u>	<u>15,869</u>
Tax expenses	<u>(1,345)</u>	<u>(892)</u>	<u>(74)</u>	<u>(2,311)</u>
Profit for the period	<u><u>7,895</u></u>	<u><u>5,227</u></u>	<u><u>436</u></u>	<u><u>13,558</u></u>
Segment assets	1,535,232	1,820,647	511,130	3,867,009
Less: Impairment allowance	<u>(48,039)</u>	<u>(55,519)</u>	<u>(409)</u>	<u>(103,967)</u>
Total segment assets	<u><u>1,487,193</u></u>	<u><u>1,765,128</u></u>	<u><u>510,721</u></u>	<u><u>3,763,042</u></u>
Segment liabilities	<u><u>634,679</u></u>	<u><u>2,264,881</u></u>	<u><u>396,477</u></u>	<u><u>3,296,037</u></u>

BANK DHOFAR SAOG

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE THREE MONTH PERIOD ENDED 31st March 2017

27. Segmental information (continued)

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

At 31 March 2016	Retail banking RO'000	Corporate banking RO'000	Treasury and investments RO'000	Total RO'000
Segment operating revenues	1,114	1,474	-	2,588
Other revenues	89	195	258	542
	<u>1,203</u>	<u>1,669</u>	<u>258</u>	<u>3,130</u>
Unrestricted investment account holders' share of profit	(39)	(636)	(160)	(835)
Net operating income	1,164	1,033	98	2,295
Segment cost	(416)	(550)	-	(966)
Operating expenses including depreciation	(87)	(153)	-	(240)
Profit for the period	<u>661</u>	<u>330</u>	<u>98</u>	<u>1,089</u>
Segment assets	102,200	136,796	102,724	341,720
Less: Impairment allowance	<u>(1,252)</u>	<u>(1,418)</u>	<u>-</u>	<u>(2,670)</u>
Total segment assets	<u>100,948</u>	<u>135,378</u>	<u>102,724</u>	<u>339,050</u>
Segment liabilities	<u>28,634</u>	<u>151,694</u>	<u>101,808</u>	<u>282,136</u>

BANK DHOFAR SAOG

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE THREE MONTH PERIOD ENDED 31st March 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 THREE MONTH PERIOD ENDED 31st March 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>
Profit expenses share of profit	(307)	(4,940)	(653)	(5,900)
Net operating income				
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>