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Sohar
Islamic

Shari'ah Supervisory Board Report

In The Name of Allah, most Gracious, most Merciful.
Peace and Blessings Be Upon His Messenger.

To the shareholders of Sohar Islamic, Bank Sohar S.A.O.G ("The Bank")

Pursuant to the powers entrusted by the Charter of the Bank and the terms of the appointment of the Shari'ah Supervisory Board, we hereby submit the following Annual Shari'ah report:

The Shari'ah Supervisory Board monitored the operations of the Bank between the period of January 1, 2017 and December 31, 2017 to ascertain the Bank's adherence to the provisions and principles of Islamic Shari'ah in its activities and its compliance with the guidelines and decisions issued by the Shari'ah Supervisory Board. The Shari'ah Supervisory Board's monitoring function included the checking of documents and procedures to scrutinize each operation carried out by the Bank, whether directly or through the Shari'ah Audit Unit. We planned with the Shari'ah Audit Unit to carry out monitoring functions by obtaining all the information and clarifications that were deemed necessary to confirm that the Bank did not violate the principles and provisions of Islamic Shari'ah as elaborated by the Shari'ah Supervisory Board. The Shari'ah Audit Unit audited the Bank's transactions and submitted a report to the Shari'ah Supervisory Board. The report confirmed the Bank's commitment and conformity to the Shari'ah Supervisory Board's opinions. It held several meetings throughout the year ended 31 December 2017 and replied to the inquiries, in addition to approving investment opportunities presented by the Management.

The Shari'ah Supervisory Board believes that:

1. Contracts, operations and transactions conducted by the Bank throughout the year ended 31 December 2017 were in accordance with the standard contracts pre-approved by the Shari'ah Supervisory Board.
2. The distribution of profit on investment accounts was in line with the basis and principles approved by the Shari'ah Supervisory Board.
3. The audit did not show any gains resulting from sources or means prohibited by the provisions and principles of Islamic Shari'ah. As such there was no need to direct any amount to the Charity and Donations Account according to SSB's resolution.

Dr. Hussein Hamid Hassan
Chairman

Dr. Muddassir Hussain Siddiqui
Deputy Chairman

Sheikh Azzan Bin Nasir Bin Furfur Al Aamri
Member

Sheikh Fahad Mohammed Hilal Al Khalili
Member

Muscat, Sultanate of Oman

SHARI'AH RULINGS / PRONOUNCEMENTS APPROVED BY THE SSB

LIST OF FATWAS ISSUED DURING THE PERIOD 2017

No	Reference	Approvals
1	First Quarter 2017	The Fourth SSB meeting minutes for 2016 that was held in Bank Sohar Head office, Sohar Islamic on 18th December 2016 was approved.
		The profit distribution for December 2016, January and February 2017 was reviewed and approved.
		The Sharia Audit report for the Fourth Quarter of 2016 was reviewed and approved.
		The annual Sharia audit report for the year ended 2016 was reviewed and approved.
		The annual external audit report by E&Y on Sohar Islamic activities for the year ended 2016 was presented to SSB and approved.
		The Ijara contract renewal was reviewed and approved.
		The following policy documents of Sohar Islamic were reviewed and approved: Credit Risk Policy, market risk policy and RCSA & Loss of Data policies.
		The following policy documents of Sohar Islamic were reviewed and approved: Disclosure Policy, Product Development Policy, Recovery Policy and Remedial Policy.
		The Sovereign Sukuks investment was approved.
		profit and loss account for the year ended 2016 of Sohar Islamic was reviewed and approved.
2	Second Quarter 2017	Sohar Islamic profit and loss account for the first quarter 2017 was reviewed and approved
		The First SSB meeting minutes for 2017 that was held in Bank Sohar Head office, Sohar Islamic on 02nd April 2017 was reviewed and approved.
		The profit distribution for March, April, May and June 2017 was reviewed and approved.
		Sharia Audit report for the First Quarter of 2017 was reviewed and approved.
		Deposit Prize Draw Savings Account document was reviewed previously and approved.
		The profit distribution for the months of Dec 2014, Jan & Feb 2017 was reviewed and approved.
		The SSB have approved to invest in a new Oman Government Sukuk.
		The SSB members singed a fatwa on home financing cost.
3	Third Quarter 2017	Review and discussion of Sohar Islamic profit and loss account for the Third quarter 2017.
		Sohar Islamic profit and loss account for the Third quarter 2017 was reviewed.
		Approval of Second SSB meeting minutes for 2017 that was held in Bank Sohar Head office, Sohar Islamic on 09th July 2017
		The second SSB meeting minutes were reviewed and approved by the SSB
		Approval of profit distribution for July, August and September 2017
		The profit distribution for July, August and September 2017 was approved.
		Approval of Sharia Audit report for the Second Quarter of 2017
		Audit reports were sent & reviewed previously through email and approved.
		Approval of Sharia Compliance Report of the Core Banking System.
		Sharia Compliance Report of the Core Banking System was approved
		Approval of Sohar Islamic Charity Fund Document.
		The policy document was approved.
		Discussion of launching :
		Prepaid Cards
		Credit Card.
		Unique cards for Ladies, Children and HNI customers.
		SSB approved this and encouraged Sohar Islamic to launch these cards which will help in diversifying Sohar Islamic product line.
		Discussion of the annual training program of the SSB members.
		As per CBO's request to have an annual training program for the SSB member, Sohar Islamic invited the SSB members to share their views in this regard:
		SSB Vice Chairman suggested choosing from different international programs to enhance the flexibility of the program.
		SSB Chairman agreed on the Vice chairman's suggestion, furthermore he suggested that a meeting should be held annually at Sohar Islamic head office for the purpose of sharing the unique experiences of the SSB members as part of the annual training program.
		SSB member Fahad Al Khalili requested Sohar Islamic management to assign a budget for the annual training program.

SHARI'AH RULINGS / PRONOUNCEMENTS APPROVED BY THE SSB

LIST OF FATWAS ISSUED DURING THE PERIOD 2017 (CONTINUED)

No	Reference	Approvals
4	Fourth Quarter 2017	Review and discussion of Sohar Islamic profit and loss account for the Fourth quarter 2017.
		Sohar Islamic profit and loss account for the Fourth quarter 2017 was reviewed.
		Approval of Third Sharia Supervisory Board (SSB) meeting minutes for 2017, that was held at Bank Sohar Head Office on 5th October 2017
		The Third SSB meeting minutes were reviewed and approved by the SSB.
		Review and approval of Annual Audit Plan for 2018.
		The Annual Audit Plan for 2018 was reviewed and approved by the SSB.
		Review and approval of Annual Training Program for Sohar Islamic Staff for 2018.
		The Annual Training Program for Sohar Islamic staff for 2018 was reviewed and approved by the SSB.
		Review and signing of SSB Report on Sohar Islamic Activities.
		The SSB Report on SI activities was reviewed and signed by the SSB.
		Approval of profit distribution for October and November 2017.
		The profit distribution for October and November was reviewed and approved by SSB. Furthermore, the SSB confirmed that profit distribution was in line with SSB opinion.
		Approval of Sharia Audit report for the Third Quarter of 2017:
		1. Sharia audit report for Murabaha Auto Finance. (Quarterly Basis)
		2. Sharia audit report for Ijarah Housing Finance. (Quarterly Basis)
		3. Sharia audit report for Treasury. (Quarterly Basis)
		4. Sharia audit report for Commercial Auto Murabaha Finance. (Quarterly Basis)
		5. Sharia audit report for Commercial Ijarah Housing Finance. (Quarterly Basis)
		Audit reports were sent & reviewed previously through email and approved collectively in the meeting
		Approval of Debit card and Prepaid card policy.
		The report was sent to the SSB members previously through email and approved collectively in the meeting.
		Approval of Policy on Dormant Account Status & Unclaimed Balances.
		The Policy document was approved by the SSB members
		Approval of Wakala Bil Istismar Policy.
		The Policy document was approved by all the SSB members

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Financial Statements

Sohar Islamic

Building a better working world

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PR No. HMH/15/2015; HMA/9/2015

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF BANK SOHAR SAOG (the "Bank")

Report on the financial statements

We have audited the accompanying statement of financial position of Sohar Islamic (the "Islamic Window") as of 31 December 2017, and the related statements of income, changes in owners' equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information. These financial statements and the Bank's undertaking to operate its Islamic Window in accordance with Islamic Shari'a Rules and Principles as determined by the Shari'a Supervisory Board are the responsibility of the Bank's Board of Directors. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Auditing Standards for Islamic Financial Institutions issued by the Accounting and Auditing Organisation for Islamic Financial Institutions ("AAOIFI"). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Islamic Window as of 31 December 2017, the results of its operations, cash flows and changes in equity for the year then ended in accordance with the Shari'a Rules and Principles as determined by the Shari'a Supervisory Board of the Islamic Window of the Bank and the Financial Accounting Standards issued by AAOIFI.

Ernst & Young LLC

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س.ت: ١٢٢٤٠١٣
ص.ب: ١٧٥٠ روي - ١١٢، سلطنة عمان
ERNST & YOUNG LLC
C.R. No. 1224013
P.O. Box 1750 - P.C. 112, Sultanate of Oman

12 March 2018
Muscat

SOHAR ISLAMIC
(ISLAMIC BANKING WINDOW OF BANK SOHAR SAOG)

STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2017

31 December 2016 USD'000	31 December 2017 USD'000		Note	31 December 2017 RO'000	31 December 2016 RO'000
		ASSETS			
44,442	39,538	Cash and balances with central banks	B 1	15,222	17,110
36,935	20,732	Due from banks and financial institutions	B 2	7,982	14,220
20,488	31,818	Murabaha receivables	B 3	12,250	7,888
116,569	140,852	Ijarah muntahia bittamleek	B 4	54,228	44,879
52,639	106,494	Istisna followed by Ijarah muntahia bittamleek	B 5	41,000	20,266
58,525	97,257	Diminishing Musharka	B 6	37,444	22,532
26,036	41,049	Investments	B 7	15,804	10,024
3,361	2,849	Property, equipment and fixture	B 8	1,097	1,294
4,041	4,450	Other assets	B 9	1,713	1,556
363,036	485,039	TOTAL ASSETS		186,740	139,769
		LIABILITIES			
189,979	281,717	Wakala deposits	B 10	108,461	73,142
33,896	51,522	Customer deposit and other accounts	B 11	19,836	13,050
3,099	2,485	Other liabilities	B 12	957	1,193
226,974	335,724	TOTAL LIABILITIES		129,254	87,385
88,878	89,525	EQUITY OF INVESTMENT ACCOUNT HOLDERS	B 13	34,467	34,218
		EQUITY			
44,155	54,545	Assigned capital	B 14 (a)	21,000	17,000
348	348	Legal reserve	B 14 (b)	134	134
2,566	2,566	General reserve	B 14 (c)	988	988
115	2,331	Retained earnings		897	44
47,184	59,790	TOTAL OWNERS' EQUITY		23,019	18,166
363,036	485,039	TOTAL LIABILITIES, EQUITY OF INVESTMENT ACCOUNT HOLDERS AND OWNERS' EQUITY		186,740	139,769
42,690	68,128	CONTINGENT LIABILITIES	B15.1	26,229	16,436
53,099	16,470	COMMITMENTS	B15.2	6,341	20,443

These financial statements were approved and authorised for issue by the Board of Directors on 29 January 2018 and signed on their behalf by:

Chairman

Deputy Chairman

SOHAR ISLAMIC
(ISLAMIC BANKING WINDOW OF BANK SOHAR SAOG)

STATEMENT OF INCOME

FOR THE YEAR ENDED 31 DECEMBER 2017

31 December 2016 USD'000	31 December 2017 USD'000		Note	31 December 2017 RO'000	31 December 2016 RO'000
4,234	5,174	Income from jointly financed financing activities and receivables	C 1	1,992	1,630
(1,039)	(1,018)	Return on unrestricted investment account holders	C3	(392)	(400)
3,195	4,156	Share of income (as Mudarib and Rabalmal)		1,600	1,230
5,930	11,816	Income from self-financed financing activities	C 1	4,549	2,283
1,234	1,774	Income from self-financed investing activities	C 2	683	475
10,359	17,746	Income from financing ,investments and receivables		6,832	3,988
(3,377)	(7,945)	Return on due to under Wakala contracts	C3	(3,059)	(1,300)
6,982	9,801	Net revenue from financing and investing activities		3,773	2,688
1,127	1,236	Other income	C4	476	434
364	785	Foreign exchange gain – net		302	140
8,473	11,822	Total revenues		4,551	3,262
(3,517)	(4,018)	Staff costs		(1,547)	(1,354)
(1,649)	(2,558)	Other operating expenses	C 5	(985)	(635)
(741)	(733)	Depreciation	B 8	(282)	(285)
(5,907)	(7,309)	Total expenses		(2,814)	(2,274)
2,566	4,513	Operating profit		1,737	988
(818)	(1,652)	Net impairment allowance on portfolio basis		(636)	(315)
(26)	(255)	Net impairment allowance on specific basis		(98)	(10)
1,722	2,606	Profit for the year before tax		1,003	663
-	(390)	Tax allocated from head office		(150)	-
1,722	2,216	Profit for the year after tax		853	663

The attached notes A1 to D8 form an integral part of these financial statements.

SOHAR ISLAMIC
(ISLAMIC BANKING WINDOW OF BANK SOHAR SAOG)

STATEMENT OF OWNERS' EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2017

	Note	Assigned capital RO'000	Legal reserve RO'000	General reserve RO'000	Retained earnings RO'000	Total RO'000
Balance as at 1 January 2017	B14	17,000	134	988	44	18,166
Allocated during the year		4,000	-	-	-	4,000
Profit for the year		-	-	-	853	853
Balance as at 31 December 2017		21,000	134	988	897	23,019

	Note	Assigned capital USD'000	Legal reserve USD'000	General reserve USD'000	Retained earnings USD'000	Total USD'000
Balance as at 1 January 2017	B14	44,155	348	2,566	115	47,184
Allocated during the year		10,390	-	-	-	10,390
Profit for the year		-	-	-	2,216	2,216
Balance as at 31 December 2017		54,545	348	2,566	2,331	59,790

	Note	Assigned capital RO'000	Legal reserve RO'000	General reserve RO'000	Retained earnings / (accumulated losses) RO'000	Total RO'000
Balance as at 1 January 2016	B14	12,000	134	988	(619)	12,503
Allocated during the year		5,000	-	-	-	5,000
Profit for the year		-	-	-	663	663
Balance as at 31 December 2016		17,000	134	988	44	18,166

	Note	Assigned capital USD'000	Legal reserve USD'000	General reserve USD'000	Retained earnings / (accumulated losses) USD'000	Total USD'000
Balance as at 1 January 2016	B14	31,169	348	2,566	(1,607)	32,476
Allocated during the year		12,986	-	-	-	12,986
Profit for the year		-	-	-	1,722	1,722
Balance as at 31 December 2016		44,155	348	2,566	115	47,184

The attached notes A1 to D8 form an integral part of these financial statements.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2017

31 December 2016 USD'000	31 December 2017 USD'000		31 December 2017 RO'000	31 December 2016 RO'000
		Cash flows from operating activities		
1,722	2,216	Profit for the year	853	663
		Adjustments for:		
740	733	Depreciation	282	285
844	1,906	Net impairment loss on financing assets	734	325
-	47	Revaluation gain on investments	18	-
(1,187)	(1,595)	Income on Investments	(614)	(457)
2,119	3,306	Operating profit before changes in operating assets and liabilities	1,274	816
		Changes in operating assets and liabilities		
(6,127)	(11,792)	Murabaha receivables	(4,540)	(2,359)
(14,956)	(24,769)	Ijarah muntahia bittamleek	(9,536)	(5,758)
(40,343)	(54,423)	Istisna followed by Ijarah muntahia bittamleek	(20,953)	(15,532)
(13,883)	(39,122)	Diminishing Musharka	(15,062)	(5,345)
109,447	148,883	Wakala deposits	57,320	42,137
(17,857)	17,626	Customer deposit and other accounts	6,786	(6,875)
(992)	(408)	Other assets	(157)	(382)
(1,660)	(614)	Other liabilities	(236)	(639)
15,748	38,687	Net cash from operating activities	14,895	6,063
		Cash flows used in investing activities		
(488)	(221)	Acquisition of fixed assets	(85)	(188)
1,195	1,535	Income received on Investments	590	460
-	(15,000)	Acquisition of Investments	(5,775)	-
707	(13,689)	Net cash (used in)/ from in investing activities	(5,270)	272
		Cash flows from financing activities		
19,208	647	Changes in URIA	249	7,395
12,987	10,390	Allocated capital	4,000	5,000
32,195	11,037	Net cash from financing activities	4,249	12,395
48,650	36,038	Net increase in cash and cash equivalents	13,875	18,730
(24,418)	24,232	Cash and cash equivalent at beginning of the year	9,329	(9,401)
24,232	60,270	Cash and cash equivalents at 31 December	23,204	9,329
		REPRESENTING:		
44,442	39,538	Cash and balances with Central Banks	15,222	17,110
36,935	20,732	Due from banks and financial institutions	7,982	14,220
(57,145)	-	Wakala deposits from banks	-	(22,001)
24,232	60,270		23,204	9,329

The attached notes A1 to D8 form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

A1 INCORPORATION, LEGAL STATUS AND PRINCIPAL ACTIVITIES

Bank Sohar SAOG (the Head office) under an Islamic Banking License issued by the Central Bank of Oman (CBO) on 30 April 2013, carries out Islamic banking operations and other financial trading activities in accordance with Islamic Shari'a rules and regulations under the name of "Sohar Islamic" (the Window). The Bank's Shari'a Supervisory Board is entrusted to ensure the Window's adherence to Shari'a rules and principles in its transactions and activities. As required under clauses 3.5.1.2 and 3.5.1.3 of Title 1,'Licensing Requirements' of Islamic Banking Regulatory Framework (IBRF) issued by CBO, the head office assigned RO 21 million (refer note B14a) to the Window as assigned capital.

The Window 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 and undertaking investment activities and providing commercial banking services and other investment activities permitted under IBRF.

A2 BASIS OF PREPARATION

A2.1 Statement of compliance

The financial statements for the Window are prepared in accordance with the Financial Accounting Standards (FAS) issued by the Accounting and Auditing Organisation for Islamic Financial Institutions ("AAOIFI"), the Islamic Shari'a rules and principles as determined by the Shari'a Supervisory Board of the Window and Islamic Banking Regulatory Framework issued by CBO. In accordance with the requirement of AAOIFI, for matters not covered by FAS, the Window uses standards issued by the International Accounting Standards Board (IASB) and the interpretations released by the International Financial Reporting Interpretations Committee and will be replaced later by FAS when an applicable FAS is issued.

The Window has not operated as a separate legal entity. The separate financial statements of the Window has been prepared to comply with the requirement of Articles 1.5.1.2 to 1.5.1.4 of Title 2 'General Obligations and Governance' of IBRF issued by CBO.

A2.2 Basis of measurement

The financial statements have been prepared under the historical cost basis except for derivative financial instruments and investment which has been measured at fair value. These financial statements are presented in Rial Omani, which is the Window's functional currency and also in US Dollars, for the convenience of the readers. The US Dollar amounts, which are presented in these financial statements have been translated from the Rial Omani amounts at an exchange rate of US Dollar 1 = RO 0.385. All financial information presented in Rial Omani and US Dollars has been rounded off to the nearest thousands.

A2.3 Use of Judgments and estimates

In the process of applying the Window's accounting policies, management uses judgments and makes estimates in determining the amounts recognized in the financial statements. These estimates and assumptions effect the amount of assets and liabilities and disclosure of contingent liabilities, as these estimates and interpretations effect revenues, expenses and allowances, as well as changes in fair value.

Estimates and underlying assumptions are reviewed on regular basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected. The most significant uses of judgments and estimates are as follows:

Impairment provisions against financing contracts with customers

The Window reviews its financing contracts at each reporting date to assess whether an impairment provision should be recorded in the financial statements. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of provision required. Such estimates are based on assumptions about factors involving varying degrees of judgment and uncertainty and actual results may differ resulting in future changes to the provisions.

A2 BASIS OF PREPARATION (continued)

A2.3 Use of Judgments and estimates (continued)

Impairment provisions against financing contracts with customers (continued)

In addition to specific provisions against individually significant financing contracts, the Window also makes collective impairment provision against exposures which, although not specifically identified as requiring a specific provision, have a greater risk of default than when originally granted. This takes into consideration, factors such as any deterioration in country risk, industry, and technological obsolescence, as well as identified structural weaknesses or deterioration in cash flows.

Classification of investments

Management decides upon acquisition of an investment whether it should be classified as fair value through statement of income, fair value through equity or at amortised cost.

Liquidity

The Window manages its liquidity through consideration of the maturity profile of its assets and liabilities which is set out in the liquidity risk disclosures in note D2.2. This requires judgment when determining the maturity of assets and liabilities with no specific maturities.

A2.4 New standards, interpretations and amendments

These financial statements have been prepared using accounting policies, which are consistent with those used in the preparation of the annual financial statements for the year ended 31 December 2017.

Standard issued but not yet effective

Standards issued by AAOIFI during the period which may impact the financial statements of the Islamic Window is as below:

In November 2017, the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) issued Financial Accounting Standard (FAS) 30 - Impairment, credit losses and onerous commitments, the standard supersedes the earlier FAS 11 "Provisions and Reserves" effective from the financial periods beginning on or after 1 January 2020, with early adoption permitted.

However, during the year, the CBO has issued a circular BM 1149 dated 13 April 2017 governing implementation of IFRS 9 Financial Instruments (IFRS 9) for all the banks, which also apply to Islamic banks/windows subject to any specific instructions by the Central Bank for Islamic Banking entities on IFRS 9 if, as and when instructions are issued.

The Window has assessed the estimated impact of the initial application of IFRS 9 and its initial estimate is expected to impact total owner's equity by [xx% – xx%] as of 1 January 2018. This is preliminary, because not all transition work has been finalised. The actual impact of adopting IFRS 9 on 1 January 2018 may change accordingly.

A3 SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of the financial statements are set out below:

A3.1 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and balances with central bank and placements with banks and financial institutions that mature within three months, less borrowings with banks and financial institutions accounts that mature within three months and restricted balances.

A3 SIGNIFICANT ACCOUNTING POLICIES (continued)

A3.2 Foreign currency transactions

Transactions in foreign currencies are translated into functional currency at the spot exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated into the functional currency at the spot exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for the effective profit and payments during the period, and the amortised cost in the foreign currency translated at the spot exchange rate at the end of the period. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

A3.3 Investments

Classification

Debt-type instruments are investments that have terms that provide fixed or determinable payments of profits and capital.

Equity-type instruments are investments that do not exhibit features of debt-type instruments and include instruments that evidence a residual interest in the assets of an entity after deducting all its liabilities.

Investments in debt-type instruments are classified into the following categories:

1) At amortised cost
2) At fair value through statement of income

A debt-type investment is classified and measured at amortised cost only if the instrument is managed on a contractual yield basis or the instrument is not held for trading and has not been designated at fair value through statement of income.

Debt-type investments classified and measured at fair value through income statement include investments held for trading or designated at fair value through statement of income.

At inception, a debt-type investment managed on a contractual yield basis can only be designated at fair value through income statement if it eliminates an accounting mismatch that would otherwise arise on measuring the assets or liabilities or recognising the gains or losses on them on different bases.

Investments in equity type instruments are classified into the following categories:

1) At fair value through income statement
2) At fair value through equity

Equity-type investments classified and measured at fair value through income statement include investments held for trading or designated at fair value through statement of income.

An investment is classified as held for trading if acquired or originated principally for the purpose of generating a profit from short-term fluctuations in price or dealer's margin. Any investments that form part of a portfolio where there is an actual pattern of short-term profit taking are also classified as 'held for trading'.

Equity-type investments designated at fair value through income statement include investments which are managed and evaluated internally for performance on a fair value basis.

On initial recognition, the Window makes an irrevocable election to designate certain equity instruments that are not to be designated at fair value through income statement and are to be classified as investments at fair value through equity.

Recognition and de-recognition

Investment are recognised at the trade date i.e. the date that the Window contracts to purchase or sell the asset, at which date the Window becomes party to the contractual provisions of the instrument. Investment are derecognised when the rights to receive cash flows from the financial assets have expired or where the Window has transferred substantially all risk and rewards of ownership.

Measurement

Initial recognition

Investment are initially recognised at fair value plus transaction costs, except for transaction costs incurred to acquire investments at fair value through income statement which are charged to the statement of income.

A3 SIGNIFICANT ACCOUNTING POLICIES (continued)

A3.3 Investments (continued)

Measurement (continued)

Subsequent measurement

Investments at fair value through income statement are re measured at fair value at the end of each reporting period and the resultant re measurement gains or losses is recognised in the income statement in the period in which they arise.

Subsequent to initial recognition, investments classified at amortised cost are measured at amortised cost using the effective profit method less any impairment allowance. All gains or losses arising from the amortisation process and those arising on de-recognition or impairment of the investments, are recognised in the statement of income.

Investments at fair value through equity are subsequently measured at their fair values at the end of each reporting period and the resultant gain or loss, arising from a change in the fair value of investments are recognised in the statement of changes in owners' equity and presented in a separate fair value reserve within equity. When the investments classified as fair value through equity are sold, impaired, collected or otherwise disposed of, the cumulative gain or loss previously recognised in the statement of changes in equity is transferred to the statement of income.

Investments which do not have a quoted market price or other appropriate methods to fair value them on a continuous basis are stated at cost less impairment allowance, (if any).

Measurement principles

Amortised cost measurement

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus capital repayments, plus or minus the cumulative amortisation using the effective profit method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment. The calculation of the effective profit rate includes all fees and points paid or received that are an integral part of the effective profit rate.

Fair value measurement

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.

Quoted investments are marked to market using the market price for that instrument at the close of business as of the reporting date. For investments where there is no quoted market price, a reasonable estimate of the fair value is determined by reference to the current market value of another instrument, which is substantially the same or is based on the assessment of future cash flows discounted at current profit rates for contracts with similar term and risk characteristics.

A3.4 Financing assets

Financing assets comprise Shari'a compliant financing provided by the Window with fixed or determinable payments. These include financing provided through Murabaha, Mudaraba, Musharaka, Musawama, Ijarah, Istisna and other modes of Islamic financing. Financing assets are stated at their amortised cost less impairment allowances (if any).

Murabaha

Murabaha receivables are sales on deferred terms. The Window arranges a Murabaha transaction by buying a commodity (which represents the object of the Murabaha) and selling it to the Murabeh (a beneficiary) at a margin of profit over cost. The sales price (cost plus the profit margin) is repaid in instalments by the Murabeh over the agreed period. Murabaha receivables are stated net of deferred profits and impairment allowance (if any). Any promise made by potential Murabeh is considered obligatory.

A3 SIGNIFICANT ACCOUNTING POLICIES (continued)

A3.4 Financing assets (continued)

Mudaraba

Mudaraba is stated at the fair value of consideration given less any impairment.

Mudaraba is a form of partnership between work and capital in which the Window contributes capital. Mudaraba capital provided by the Window at inception in kind (if other than cash) is measured at the fair value of the assets. If the valuation of assets results in difference between fair value and book value, such difference is recognised as profit or loss to the Window.

In case mudaraba capital is lost or damaged prior to the inception of work without misconduct or negligence on the part of mudarib, then such losses are deducted from mudaraba capital and are treated as loss to the Window. In case of termination or liquidation, unpaid portion by mudarib is recognised as receivable due from mudarib.

Musharaka

Musharaka contracts represents a partnership between the Window and a customer whereby each party contributes to the capital in equal or varying proportions to establish a new project or share in an existing one, and whereby each of the parties becomes an owner of the capital on a permanent or declining basis and shall share profits or losses. These are stated at the fair value of consideration given less any amounts written off and provision for impairment, if any. In Diminishing Musharaka based transactions, Window enters into a Musharaka based on Shirkat-ul-milk for financing an agreed share of fixed asset (e.g. house, land, plant or machinery) with its customers and enters into period profit payment agreement for the utilisation of Window's Musharaka share by the customer.

Ijarah muntahia bittamleek

These are initially recorded at cost including initial direct costs. Ijarah muntahia bittamleek is a lease whereby the legal title of the leased asset passes to the lessee at the end of the ijarah (lease term), provided that all ijarah installments are settled.

Depreciation is charged on Ijarah muntahia bittamleek assets at rates calculated to write off the cost of each asset over its lease term.

Ijarah income receivables represent outstanding rentals at the end of the year less any provision for doubtful amount. The ijarah income receivable is classified under other asset.

Istisna followed by Ijarah muntahia bittamleek

Istisna followed by Ijarah muntahia bittamleek is construction finance product in which property is developed under istisna` contract between customer and the Bank. Banks develops the property and then after completion of construction the property is leased to customer under Ijarah muntahia bittamleek contract. During construction customer pays the advance rentals.

Salam

In a Salam contract a buyer pays in advance for a specified quantity and quality of a commodity, deliverable on a specific date, at an agreed spot price. Salam is particularly applicable to seasonal agricultural purchases and can be used as a means of financing production. The price is paid at the time of the contract but the delivery would take place at a future date which enables an entrepreneur to sell his output to the Window at a price determined in advance. However, at the time of sale all specifications, quality and quantity of the commodity must be determined to avoid any ambiguity which could become a cause of dispute. Furthermore, date and time of delivery must also be agreed upon but can be changed with mutual consent of the parties. Salam contracts are recognised on the date at which they are originated and are carried at their cost less impairment allowances, if any.

A3 SIGNIFICANT ACCOUNTING POLICIES (continued)

A3.4 Financing assets (continued)

Diminishing Musharakah

In Diminishing Musharakah financing, the Bank enters into Musharakah based on Shirkat-ul-milk for financing an agreed share of fixed asset (e.g. house, land, plant or machinery) with its customers and enters into period profit payment agreement for the utilisation of the Bank's Musharakah share by the customer.

A3.5 Property, equipment and fixtures

Items of property, equipment and fixtures are measured at historical cost less accumulated depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the asset. Depreciation is provided on a straight-line basis over the estimated useful lives of property, equipment and fixtures, except freehold land. The estimated useful lives for the current period are as follows:

	Years
Motor vehicles	5
Furniture and fixtures	6-7
Office equipment	6-7
Computer software	10

The assets' residual values, useful lives and depreciation methods are reviewed and adjusted if appropriate at each reporting date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within 'other operating income' in the income statement.

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

A3.6 Taxation

The tax return of the Bank is filed at head office level and the Window is not required to file a separate return on the activities of the Islamic Banking operations. During the year head office has started to allocate tax at flat rate of 15% of the Window's profit. Deferred tax assets and liabilities are recognised only at head office level.

A3.7 Employee benefits

End of service benefits

End of service indemnity for Omani employees are contributed in accordance with the terms of the Social Securities Law of 1991.

Provision for end of service indemnity for non-Omani employees has been made in accordance with the terms of the Oman Labour Law 2003 and its amendments and is based on current remuneration rates and cumulative years of service at the statement of financial position date. Employees' entitlements to annual leave and leave passage are recognised when they accrue to the employees up to the reporting date. These accruals are included in current liabilities, while that relating to end of service benefits is disclosed as a non-current liability.

Contributions to a defined contribution retirement plan for Omani employees in accordance with the Omani Social Insurance Law of 1991 are recognised as an expense in the statement of comprehensive income as incurred.

A3 SIGNIFICANT ACCOUNTING POLICIES (continued)

A3.7 Employee benefits (continued)

Short term benefits

Short term benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A provision is recognised for the amount expected to be paid if the Window has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

A3.8 Impairment losses on financing and receivables

The Window follows IFRS and CBO guidelines in assessing the impairment against non-performing financing. The Window reviews its assets portfolios to assess impairment on a monthly basis. In determining whether an impairment loss should be recorded in the income statement, the Window makes judgements as to whether there is any observable data indicating an impairment followed by measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified within that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers and or national or local economic conditions that correlate with defaults on assets. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed periodically to reduce any difference between loss estimates and actual loss experience. For individually significant financing and receivables which are impaired, the necessary impairment loss is considered based on the future cash flow estimates. Individually significant financing and receivables which are not impaired and all individually insignificant financing and receivables are then assessed collectively considering historical experience and observable data on a portfolio basis, in group of assets with similar risk characteristics to determine whether collective impairment loss is to be made. In determining collective impairment loss, the Window takes into account several factors including credit quality, concentration risk, levels of past due balances, sector performance, available collateral and macro economic conditions.

A3.9 Customer current accounts

Balances in current accounts are recognised when received by the Window. The transactions are measured as the amount received by the Window at the time of contracting. At the end of the reporting period, these accounts are measured at amortised cost.

A3.10 Equity of unrestricted investment account holders

The Window charges a management fee (Mudarib fee) to the unrestricted investment account holders. Of the total income from investments of funds, the income attributable to the unrestricted investment account holders is allocated to them after setting aside provisions, reserves (profit equalisation reserve and investment risk reserve), if any, and deducting the Window's share of income as a Mudarib. The allocation of income is determined by the management of the Window within the allowed profit sharing limits as per the terms and conditions of the unrestricted investment accounts.

A3.11 Due to and due from banks and Wakala Deposits

Due to and due from banks and financial institutions and customers comprise of wakala payables and receivables. Wakala payables and receivables are initially recognised at cost, being the fair value of consideration exchanged. Subsequently, they are carried at amortised cost less amounts repaid.

A3.12 Revenue recognition

Murabaha

Profit on Murabaha is recognised on an accrual basis. Profit on Murabaha transactions for the period from the date of disbursement to the date of culmination of Murabaha.

Mudaraba

Income on Mudaraba financing is recognised when the right to receive payment is established or on distribution by the Mudarib. Losses on the other hand are charged to the income statement on declaration by the Mudarib.

A3 SIGNIFICANT ACCOUNTING POLICIES (continued)

A3.12 Revenue recognition (continued)

Musharaka

Income on musharaka is recognised when the right to receive payment is established or on distribution. In case of losses in musharaka, the Window's share of loss is recognised to the extent that such losses are being deducted from its share of the musharaka capital.

Profit on Diminishing Musharakah financings is recognised on an accrual basis.

Profit on sukuks

Profit on Sukuks is recognized on an accrual basis. Where Sukuks are purchased at a premium or discount and are classified at amortised cost, those premiums / discounts are amortised over the remaining maturity, using the effective profit rate method.

Ijarah

Ijarah rental income is recognised over the term of the lease on accrual basis and is stated net of depreciation and impairment. Income related to non performing ijarah muntahia bittamleek accounts and ijarah installments that are above 90 days is excluded from the statement of income.

Istisna followed by Ijarah muntahia bittamleek

Income for Istisna followed by Ijarah muntahia bittamleek is booked on receipt of the rentals.

Fees and commission income

Fees and commission income that are integral to the effective profit rate of a financial asset carried at amortised cost are included in the measurement of the effective profit rate of the financial asset. Other fees and commission income, including account servicing fees, sales commission, management, arrangement and syndication fees, are recognised as the related services are performed.

Window's share of income from equity of investment accountholders (as Rabalmal and Mudarib)

Income is allocated proportionately between equity of investment accountholders and shareholders on the basis of their respective investment in the pool before allocation of the Mudarib fees. The Window's share as a Mudarib for managing the equity of investment accountholders is accrued based on the terms and conditions of the related Mudaraba agreements.

Salam

Income from salam is determined by using the percentage of completion method.

Dividend income

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

Profit on amounts due from banks and financial institutions

Profit on amounts due from banks and financial institutions is recognised on a time apportioned basis over the period of the contract based on the principal amounts outstanding and the profit agreed with clients.

SOHAR ISLAMIC
(ISLAMIC BANKING WINDOW OF BANK SOHAR SAOG)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (continued)

A3 SIGNIFICANT ACCOUNTING POLICIES (continued)

A3.13 Expense recognition

Return on equity of investment accountholders is calculated based on the income generated from joint investment accounts after deducting the expenses related to investment pool i.e. "mudarib expenses". Mudarib expenses include all expenses incurred by the Window, but excluding staff costs and other administrative expenses. The Window's "mudarib profit" is deducted from the investors' share of income before distributing such income.

A3.14 Earnings or expenditures prohibited by Sharia

The Window records these amounts in a separate account in the other payables and is not included in the Window's revenues; these amounts are distributed to charities according to the Sharia Supervisory Board directions.

A3.15 Financial guarantees

In the ordinary course of business, the Window gives financial guarantees, consisting of letters of credit, guarantees and acceptances.

Financial guarantees are initially recognized in the financial statements at fair value, being the premium received at the date the guarantee was given, and the initial fair value is amortised over the life of the financial guarantee. Subsequent to initial recognition, the Window's liability under such guarantees are measured at the higher of the amortised amount and the best estimate of the expenditure required to settle any financial obligation arising at the reporting date. These estimates are determined based on experience of similar transactions and history of past losses, supplemented by the judgment of management.

A3.16 Contingent liabilities

Contingent liabilities include guarantees, letter of credit, the Window's obligations with respect to unilateral promise to buy/sell currencies and others. Contingent liabilities are not recognized in the statement of financial position but are disclosed in the notes to the financial statements, unless they are remote.

A3.17 Shari'a supervisory board

The Window's business activities are subject to the supervision of a Shari'a supervisory board consisting of members appointed by the general assembly of shareholders.

A3.18 Offsetting

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Bank has a legal right to set off the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously. The legally enforceable rights must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Window and the counter party.

A3.19 Zakah

In accordance with the article of association Zakah is payable by individual shareholders of the Window and Zakah on unrestricted investment and other accounts is the responsibility of investment accountholders.

A3.20 Provisions

A provision is recognised if, as a result of a past event, the Window has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are equivalent to the amortised value of the future liabilities which is determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risk specific to the liability.

A3 SIGNIFICANT ACCOUNTING POLICIES (continued)

A3.21 Joint and self-financed

Assets that are jointly financed by the Window and the equity of investment accountholders are disclosed as "jointly financed" in the financial statements and assets that are financed solely by the Window are classified under "self financed".

A3.22 Profit equalisation reserve

Profit equalisation reserve, this is the amount appropriated out of Mudaraba income before allocating the Window's share as investment manager (Mudarib), in order to maintain a certain level of return on investment for unrestricted investment accountholders and increase owners' equity.

A3.23 Investment risk reserve

Investment risk reserve is the amount appropriated out of profit share of the unrestricted investment accountholders after allocating the Mudarib share, in order to cushion the effects of the risk of future investment losses. The terms and conditions whereby investment risk reserve can be set aside and utilised are determined and approved by the Shari'a Supervisory Board of the Window.

A3.24 Derecognition of financial assets and liabilities

A financial asset (or, where applicable a part of a financial asset or part of a group of similar assets) is derecognised when:

(i) the right to receive cash flows from the asset has expired;

(ii) the Bank has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

A financial liability is derecognised when the obligation specified in the contract is discharged, cancelled or expires.

A3.25 Fair value for financial assets

For investments quoted in an active market, fair value is determined by reference to quoted market prices.

For financial instruments where there is no active market, fair value is normally based on comparison with the current market value of highly similar financial instruments.

Where the fair value of an investment cannot be reliably measured, it is stated at the fair value of consideration given or amortised cost and any impairment in the value are recorded in statement of income.

For Sales (Murabaha) receivables the fair value is determined at the end of the financial period at their cash equivalent value.

A3.26 Fair value for non-financial assets

Market prices represent the fair value for non-financial assets. In case market prices are not available, they are assessed by taking average value of three assessments from experienced and certified parties.

SOHAR ISLAMIC
(ISLAMIC BANKING WINDOW OF BANK SOHAR SAOG)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (continued)

B 1 Cash and balances with central banks

2016 USD'000	2017 USD'000		2017 RO'000	2016 RO'000
		Balances with CBO:		
34,340	24,683	- current account	9,503	13,221
8,306	12,122	- cash reserve	4,667	3,198
1,796	2,733	Cash	1,052	691
44,442	39,538		15,222	17,110

The cash reserve with the Central Bank of Oman cannot be withdrawn without its approval.

B 2 Due from banks and financial institutions

2016 USD'000	2017 USD'000		2017 RO'000	2016 RO'000
25,977		Local currency : Wakalah placements with banks Foreign currency abroad:	-	10,001
10,005	20,013	Wakalah placements with banks	7,705	3,852
953	719	Demand accounts	277	367
36,935	20,732	Self-financed	7,982	14,220

B 3 Murabaha receivables

2017				2017		
Self Financed USD'000	Jointly Financed USD'000	Total USD'000		Self Financed RO'000	Jointly Financed RO'000	Total RO'000
37,078	-	37,078	Book value	14,275	-	14,275
(4,429)	-	(4,429)	Deferred profit	(1,705)	-	(1,705)
32,649	-	32,649	Net Book value	12,570	-	12,570
(574)	-	(574)	Provision for impairment - general	(221)	-	(221)
(257)	-	(257)	Provision for impairment - specific	(99)	-	(99)
31,818	-	31,818		12,250	-	12,250

Murabaha receivables which are non-performing as of 31 December 2017 amounted to RO 146 K (2016: 74 K)

2016				2016		
Self Financed USD'000	Jointly Financed USD'000	Total USD'000		Self Financed RO'000	Jointly Financed RO'000	Total RO'000
23,273	-	23,273	Book value	8,960	-	8,960
(2,416)	-	(2,416)	Deferred profit	(930)	-	(930)
20,857	-	20,857	Net Book value	8,030	-	8,030
(314) (55)	-	(314) (55)	Provision for impairment - general Provision for impairment - specific	(121) (21)	-	(121) (21)
20,488	-	20,488		7,888	-	7,888

B 4 Ijarah muntahia bittamleek

2017				2017		
Self Financed USD'000	Jointly Financed USD'000	Total USD'000		Self Financed RO'000	Jointly Financed RO'000	Total RO'000
69,904	107,732	177,636	Cost	26,913	41,477	68,390
(11,842)	(23,296)	(35,138)	Accumulated Depreciation	(4,559)	(8,969)	(13,528)
58,062	84,436	142,498	Net Book value	22,354	32,508	54,862
(561)	(1,062)	(1,623)	Provision for impairment - general	(216)	(409)	(625)
(23)	-	(23)	Provision for impairment - specific	(9)	-	(9)
57,478	83,374	140,852		22,129	32,099	54,228

Ijarah muntahia bittamleek which are non-performing as of 31 December 2017 amounted to RO 9 K (2016: Nil)

2016				2016		
Self Financed USD'000	Jointly Financed USD'000	Total USD'000		Self Financed RO'000	Jointly Financed RO'000	Total RO'000
49,416	92,478	141,894	Cost	19,025	35,604	54,629
(6,925)	(17,244)	(24,169)	Accumulated Depreciation	(2,666)	(6,639)	(9,305)
42,491	75,234	117,725	Net Book value	16,359	28,965	45,324
(413)	(743)	(1,156)	Provision for impairment - general	(159)	(286)	(445)
42,078	74,491	116,569		16,200	28,679	44,879

B 5 Istisna followed by Ijarah muntahia bittamleek

2017				2017		
Self Financed USD'000	Jointly Financed USD'000	Total USD'000		Self Financed RO'000	Jointly Financed RO'000	Total RO'000
80,668	26,926	107,594	Book value	31,057	10,366	41,423
(800)	(268)	(1,068)	Provision for impairment - general	(308)	(103)	(411)
(29)	(3)	(32)	Provision for impairment - specific	(11)	(1)	(12)
79,839	26,655	106,494		30,738	10,262	41,000

Istisna followed by Ijarah muntahia bittamleek which are non-performing as of 31 December 2017 amounted to RO 11 K (2016: Nil)

2016				2016		
Self Financed USD'000	Jointly Financed USD'000	Total USD'000		Self Financed RO'000	Jointly Financed RO'000	Total RO'000
31,717	21,452	53,169	Book value	12,211	8,259	20,470
(314)	(216)	(530)	Provision for impairment - general	(121)	(83)	(204)
31,403	21,236	52,639		12,090	8,176	20,266

B 6 Diminishing Musharka

2017				2017		
Self Financed USD'000	Jointly Financed USD'000	Total USD'000		Self Financed RO'000	Jointly Financed RO'000	Total RO'000
91,961	6,278	98,239	Book value	35,405	2,417	37,822
(919)	(63)	(982)	Provision for impairment - general	(354)	(24)	(378)
91,042	6,215	97,257		35,051	2,393	37,444

2016				2016		
Self Financed USD'000	Jointly Financed USD'000	Total USD'000		Self Financed RO'000	Jointly Financed RO'000	Total RO'000
51,592	7,525	59,117	Book value	19,863	2,897	22,760
(517)	(75)	(592)	Provision for impairment - general	(199)	(29)	(228)
51,075	7,450	58,525		19,664	2,868	22,532

B 7 Investment securities

2016 USD'000	2017 USD'000		2017 RO'000	2016 RO'000
		Debt securities - Sukuk		
7,875	7,875	Unquoted fixed rate debt-type investments classified at amortised cost (secured)	3,032	3,032
4,275	19,335	Quoted fixed rate debt-type investments classified at amortised cost (secured)	7,444	1,646
13,886	13,839	Unquoted fixed rate debt-type investments classified at fair value (secured)	5,328	5,346
26,036	41,049	Self financed	15,804	10,024

The sukuk certificates are for a period of 5 years and carry profit rate of 3% - 5% per annum.

B 8 Property, plant and equipment

	Computer software RO'000	Furniture and fixtures RO'000	Office equipment RO'000	Motor vehicle RO'000	Capital work in-progress RO'000	Total RO'000
Cost:						
At 1 January 2017	1,100	585	446	99	-	2,230
Additions	-	15	8	-	62	85
As at 31 December 2017	1,100	600	454	99	62	2,315
Accumulated depreciation:						
At 1 January 2017	(353)	(287)	(229)	(67)	-	(936)
Charge for the year	(115)	(84)	(68)	(15)	-	(282)
As at 31 December 2017	(468)	(371)	(297)	(82)	-	(1,218)
Net book value at 31 December 2017	632	229	157	17	62	1,097

B 8 Property, plant and equipment (continued)

	Computer software USD'000	Furniture and fixtures USD'000	Office equipment USD'000	Motor vehicle USD'000	Capital work in-progress USD'000	Total USD'000
Cost:						
At 1 January 2017	2,857	1,519	1,159	257	-	5,792
Additions	39	21	-	-	161	221
At 31 December 2017	2,896	1,540	1,159	257	161	6,013
Accumulated depreciation:						
At 1 January 2017	(917)	(746)	(595)	(173)	-	(2,431)
Charge for the year	(299)	(218)	(177)	(39)	-	(733)
As at 31 December 2017	(1,216)	(964)	(772)	(212)	-	(3,164)
Net book value at 31 December 2017	1,640	576	387	45	161	2,849

	Computer software RO'000	Furniture and fixtures RO'000	Office equipment RO'000	Motor vehicle RO'000	Capital work in-progress RO'000	Total RO'000
Cost:						
At 1 January 2016	1,050	481	423	86	4	2,044
Additions	50	104	23	13	(4)	186
As at 31 December 2016	1,100	585	446	99	-	2,230
Accumulated depreciation:						
At 1 January 2016	(243)	(197)	(162)	(49)	-	(651)
Charge for the year	(110)	(90)	(67)	(18)	-	(285)
As at 31 December 2016	(353)	(287)	(229)	(67)	-	(936)
Net book value at 31 December 2016	747	298	217	32	-	1,294

	Computer software USD'000	Furniture and fixtures USD'000	Office equipment USD'000	Motor vehicle USD'000	Capital work in-progress USD'000	Total USD'000
Cost:						
At 1 January 2016	2,727	1,249	1,099	223	10	5,308
Additions	130	270	60	34	(10)	484
At 31 December 2016	2,857	1,519	1,159	257	-	5,792
Accumulated depreciation:						
At 1 January 2016	(631)	(512)	(421)	(126)	-	(1,690)
Charge for the year	(286)	(234)	(174)	(47)	-	(741)
As at 31 December 2016	(917)	(746)	(595)	(173)	-	(2,431)
Net book value at 31 December 2016	1,940	773	564	84	-	3,361

B 9 Other Assets

2016 USD'000	2017 USD'000		2017 RO'000	2016 RO'000
655	1,530	Profit / rental receivable	589	252
878	732	Recoverable from head office	282	338
452	73	Advance against Financing	28	174
2,056	2,115	Others	814	792
4,041	4,450		1,713	1,556

B 10 Wakala deposits

2016 USD'000	2017 USD'000		2017 RO'000	2016 RO'000
		Local currency:		
57,145	-	-banks	-	22,001
106,190	220,634	-corporates & retail	84,944	40,883
		Foreign Currency:		
26,644	61,083	-corporates & retail	23,517	10,258
189,979	281,717		108,461	73,142

Wakalah deposits includes various facilities with a fixed profit rate ranging from 1.2% – 4.9 %. The maturity of the Wakalah payables ranges from 1 week to 61 months.

B 11 Customer accounts and other accounts

2016 USD'000	2017 USD'000		2017 RO'000	2016 RO'000
		Accounts by nature:		
20,252	26,130	- current	10,060	7,797
13,644	25,392	- margin	9,776	5,253
33,896	51,522		19,836	13,050

B 12 Other liabilities

2016 USD'000	2017 USD'000		2017 RO'000	2016 RO'000
44	106	Profit/fee payable	41	17
691	423	Staff entitlements	163	266
842	478	Payable to takaful company	184	324
1,522	1,478	Other accruals and provisions & payable	569	586
3,099	2,485		957	1,193

B 13 Equity of investment account holders

2016 USD'000	2017 USD'000		2017 RO'000	2016 RO'000
87,839	88,743	Saving accounts	34,166	33,818
1,039	782	Term accounts	301	400
88,878	89,525		34,467	34,218

Unrestricted investment account holder accounts are monies invested by customers under Mudaraba to form a pool of funds. Investment accountholder's funds are commingled with the Banks's funds for investment, no priority is granted to any party for the purpose of investments and distribution of profits.

Term deposits are deposits which can be withdrawn with no loss of capital subject to certain conditions.

The share, as Mudarib, in the profits of equity of investment accountholders is up to a maximum of 70% (2016: 70%) as per the terms of investment account holder agreements.

During the year, the Window has not charged any administrative expense to the pool.

B 13 Equity of investment account holders (continued)

Product	Participation factor	Average rate earned
Saving-OMR	17	1.83%
Saving-AED	7	0.60%
Saving-USD	7	0.57%
Term 6 Month	10	0.73%
Term 12 Months	18	1.39%

B 14 Owners' equity

(a) Assigned Capital

As required under clauses 3.5.1.2 and 3.5.1.3 of Title 1,'Licensing Requirements' of IBRF, the head office assigned capital of RO 10 million to the Window at inception. The head office raised this through a rights issue of shares. During the year head office assigned further capital of RO 4 million (2016: RO 5 million) to the Window as a result the assigned capital of the Window as of 31 December 2017 amounted to RO 21 million (2016: Ro 17 million).

(b) Legal reserve

As per Article 78 of Commercial Companies Law of Oman of 1974 'an additional amount within 2% of the nominal value of share may be collected for each share as issue fees. If the shares are issued at a value higher than the nominal value, the excess amount, after deducting issue expenses, shall be added either to the legal reserve or a special reserve to be established as provided under Article 106 of the Law'. Accordingly, the Window has transferred the net excess amount of the issue proceeds collected by the Bank during Window's inception to the legal reserve.

(c) General reserve

This represents retained earnings allocated by head office.

B15 Contingent liabilities and commitments

B15.1 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.

2016 USD'000	2017 USD'000		2017 RO'000	2016 RO'000
40,519	64,190	Guarantees	24,713	15,600
2,171	3,938	Letter of credit	1,516	836
42,690	68,128		26,229	16,436

B15.2 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 financing and advances. 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.

2016 USD'000	2017 USD'000		2017 RO'000	2016 RO'000
53,099	16,470	Credit related commitments	6,341	20,443

B16 Related parties

In the ordinary course of business, the Window conducts transactions with certain of its Directors, shareholders, senior management, head office, Shari'a Supervisory Board (SSB), 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 Window's management and Board of Directors.

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

2016 USD'000	2017 USD'000		2017 RO'000	2016 RO'000
2,000	83	Financing and advances (balance at end of year)	32	770
104	299	Financing and advances disbursed during the year	115	40
(78)	(195)	Financing and advances repaid during the year	(75)	(30)
3		Deposits (balance at end of year)	-	1
397	2,712	Deposits received during the year	1,044	153
(400)	(2,712)	Deposits paid during the year	(1,044)	(154)
112	73	Profit on financing and advances (during the year)	28	43
-	3	Profit expense (during the year)	1	-
		Senior management compensation		
543	577	Salaries and other short term benefits	222	209
		Directors' sitting fees and remuneration		
135	114	Shari'a Supervisory Board's sitting fees and remuneration	44	43
		Transaction with head office		
5	-	Profit paid on wakala borrowings	-	2
231	382	Fee on committed line	147	89
390	701	Income on forex contracts	270	150

B 17 Fair value of financial instruments

The Window considers that the fair value of financial instruments is not significantly different to their carrying value at each of those dates. As at 31 December 2017, all the financial assets of the Window were classified as debt-type instrument except for equity investments identified in note B7 of the financial statements.

Estimation of fair values

The following summarises the major methods and assumptions used in estimating the fair values of assets and liabilities.

Financial assets carried at amortised cost

Financial assets at amortised cost include 'cash and balances with central banks', 'due from banks and financial institutions and wakala deposit', 'Murabaha receivables', 'Ijarah muntahia bittamleek', 'Istisna followed by Ijarah muntahia bittamleek'and Diminishing Musharka and 'other assets'. Fair value is calculated based on discounted expected future principal and profit cash flows. Repayments are assumed to occur at contractual repayment dates, where applicable. For assets that do not have fixed repayment dates or that are subject to prepayment risk, repayments are estimated based on experience in previous periods when profit rates were at levels similar to current levels, adjusted for any differences in profit rate outlook.

Expected future cash flows are estimated considering credit risk and any indication of impairment.

Expected future cash flows for homogeneous categories of assets are estimated on a portfolio basis and discounted at current rates offered for similar assets to new borrowers with similar credit profiles. The estimated fair values of assets reflect changes in credit status since the assets were made and changes in profit rates in the case of fixed rate.

B 17 Fair value of financial instruments (continued)

Financial liabilities at amortised cost (including bank and customer deposits)

Financial liabilities at amortised cost include 'due to banks and financial institutions and wakala depost', 'customers' current accounts', 'other liabilities'. For demand deposits and deposits with no defined maturities, fair value is taken to be the amount payable on demand at the reporting date. The estimated fair value of fixed-maturity deposits is based on discounted cash flows using rates currently offered for deposits of similar remaining maturities. The value of long-term relationships with depositors at Window level is not taken into account in estimating fair values.

Other on-balance sheet financial instruments

The fair values of all on-balance sheet financial instruments approximate their book values.

Off-balance sheet financial instruments

No fair value adjustment is made with respect to credit-related off-balance sheet financial instruments, which include commitments to extend credit, standby letters of credit and guarantees, as the related future income streams materially reflect contractual fees and commissions actually charged at the reporting date for agreements of similar credit standing and maturity.

Financial assets carried at fair value

Financial assets at fair value include investments and foreign exchange contract (and includes swaps). Foreign exchange contracts are valued based on market prices. The market value adjustments in respect of foreign exchange contracts are included in the book values of 'other assets' and 'other liabilities'.

The Window measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 - Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).

Level 3 - Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

As at 31 December 2017, the window has investments and foreign exchange contracts which are carried at fair value.

B18 Derivatives

In the ordinary course of business the Window enters into various types of transactions that involve derivative financial instruments. A derivative financial instrument is a financial contract between two parties where payments are dependent upon movements in price in one or more underlying financial instrument, reference rate or index. These derivatives are stated at fair value. The fair value of a derivative is the equivalent of the unrealised gain or loss from marking to market the derivative using prevailing market rates or internal pricing models. Unrealised gains or losses are included in the statement of comprehensive income. The derivative financial instruments used by the Window are described below:

B18 Derivatives

B18.1 Derivative product types

Currency forward (Wa'ad), is a unilateral agreement between parties to buy one currency against selling another currency at an agreed price for settlement at forward/future value date. The exchange rate used for the transaction is called the forward exchange rate.

It is done to hedge from exchange rate volatility risk and to manage liquidity efficiently by allowing window to place/invest excess liquidity with offshore banks or to take funds from offshore banks in case of liquidity shortage.

As part of its asset and liability management the Window uses derivatives for hedging purposes in order to reduce its exposure to currency and profit rate risks. This is achieved by hedging specific financial instruments and forecasted transactions as well as strategic hedging against overall statement of financial position exposures.

		Notional amounts by term to maturity		
	Notional amount	Within 3months	3 - 12 months	1 - 5 years
As at 31 December 2017	RO'000	RO'000	RO'000	RO'000
Forward foreign exchange purchase contracts	79,063	47,041	32,022	-
Forward foreign exchange sales contracts	79,063	47,041	32,022	-
	USD'000	USD'000	USD'000	USD'000
Forward foreign exchange purchase contracts	205,358	122,184	83,174	-
Forward foreign exchange sales contracts	205,358	122,184	83,174	-

		Notional amounts by term to maturity		
	Notional amount	Within 3months	3 - 12 months	1 - 5 years
As at 31 December 2016	RO'000	RO'000	RO'000	RO'000
Forward foreign exchange purchase contracts	153,914	99,629	53,130	1,155
Forward foreign exchange sales contracts	153,914	99,629	53,130	1,155
	USD'000	USD'000	USD'000	USD'000
Forward foreign exchange purchase contracts	399,777	258,777	138,000	3,000
Forward foreign exchange sales contracts	399,777	258,777	138,000	3,000

Main counter party to forward contracts is head office

C 1 Income from financing activities

31 December 2016 USD'000	31 December 2017 USD'000		31 December 2017 RO'000	31 December 2016 RO'000
1,217	1,764	Murabaha	679	468
6,853	8,444	Ijarah muntahia bittamleek	3,251	2,639
1,390	4,327	Istisna followed by Ijarah muntahia bittamleek	1,666	535
704	2,455	Diminishing Musharaka	945	271
10,164	16,990		6,541	3,931
4,234	5,174	Income from jointly financed assets	1,992	1,630
5,930	11,816	Income from self-financed assets	4,549	2,283
10,164	16,990		6,541	3,931

C 2 Income from investing activities

31 December 2016 USD'000	31 December 2017 USD'000		31 December 2017 RO'000	31 December 2016 RO'000
36	179	Income from inter-bank placements with Islamic banks	69	14
1,198	1,595	Income from investment in debt-type instruments	614	461
-	-	Fair value gain net on investment carried at fair value through income statement	-	-
1,234	1,774		683	475

C 3 Profit Paid

31 December 2016 USD'000	31 December 2017 USD'000		31 December 2017 RO'000	31 December 2016 RO'000
1,039	1,018	On Mudaraba deposit	392	400
		On Wakala deposit-		
2,865	7,451	-Customers	2,869	1,103
512	494	-Banks	190	197
3,377	7,945		3,059	1,300
4,416	8,963		3,451	1,700

C 4 Other Income

31 December 2016 USD'000	31 December 2017 USD'000		31 December 2017 RO'000	31 December 2016 RO'000
1,127	1,236	Fee and commission – net	476	434
1,127	1,236		476	434

C 5 Other operating expenses

31 December 2016 USD'000	31 December 2017 USD'000		31 December 2017 RO'000	31 December 2016 RO'000
982	1,880	Operating and administration costs	724	378
556	564	Establishment costs	217	214
111	114	SSB remuneration and sitting fees	44	43
1,649	2,558		985	635

D Financial risk management

D1 Credit risk

D1.1 Credit risk in financing products

Credit risk orginates from the financing of receivables and leases (including but not limited to, Murabaha, Diminishing Musharaka, Istisna and Ijarah) and financing of working capital (including but not limited to Salam). Windows acts as financier, supplier, Rabb-ul-Mal and contributor of capital in Musharaka agreement. Window exposes itself with the risk of counterparty's failure to meet their obligations in terms of receiving deferred payment and making or taking delivery of an asset.

The Window manages and controls credit risk by setting limits on the extent of risk it is willing to accept in terms of amounts, counterparties, product types, geographical area and industry sector. It has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. Counterparty limits are established by the use of a credit risk classification system, which assigns each counterparty a risk rating. Risk ratings are subject to regular revision by the Credit Review and Analysis Department ("CR&AD"). Any changes to the Credit Risk Policy will be approved by the Board.

Exposure limits are based on the aggregate exposure to counterparty and any connected entities. Corporate contracts/facilities are reviewed on an annual basis by CR&AD.

To cover unforeseen risk, which dries up the cash flows, additional tangible investments are taken as collateral such as real estate or equity shares. The Window implements guidelines on the acceptability of specific classes of collateral credit risk mitigation. The principal types of collaterals for financings and advances are:

- charges of assets under murabaha agreements
- ownership/title of assets under Ijarah & Istisna financing
- ownership/title under Istisna arrangement

D1.2 Management of credit risk

All financings and advances of the Window are regularly monitored to ensure compliance with the stipulated repayment terms. Those financings and advances are classified into one of the 5 risk classification categories: Standard, Special Mention, Substandard, Doubtful and Loss – as stipulated by Central Bank of Oman regulations and guidelines. The responsibility for identifying problem accounts and classifying them rests with the business line functions.

D Financial risk management (continued)

D1 Credit risk (continued)

D1.2 Management of credit risk (continued)

The credit exposure of the Window as on the reporting date is as follows:

31 December 2017	Murabaha receivables	Ijarah muntahia bittamleek	Istisna followed by Ijarah muntahia bittamleek	Diminishing Musharka	Wakala placements & balance with banks	Debt type securities	Total
In (RO'000)							
Neither past due not impaired	11,073	49,015	36,822	10,596	7,982	15,804	131,292
Past due but not impaired	1,031	5,179	4,134	26,848	-	-	37,192
Past due and impaired	146	34	44	-	-	-	224
Total	12,250	54,228	41,000	37,444	7,982	15,804	168,708
In (USD'000)							
Neither past due not impaired	28,761	127,312	95,642	27,522	20,732	41,049	341,018
Past due but not impaired	2,678	13,452	10,738	69,735	-	-	96,603
Past due and impaired	379	88	114	-	-	-	581
Total	31,818	140,852	106,494	97,257	20,732	41,049	438,202

31 December 2016	Murabaha receivables	Ijarah muntahia bittamleek	Istisna followed by Ijarah muntahia bittamleek	Diminishing Musharka	Wakala placements & balance with banks	Debt type securities	Total
In (RO'000)							
Neither past due not impaired	6,338	41,691	20,116	22,532	14,220	10,024	114,921
Past due but not impaired	1,475	3,188	150	-	-	-	4,813
Past due and impaired	75	-	-	-	-	-	75
Total	7,888	44,879	20,266	22,532	14,220	10,024	119,809
In (USD'000)							
Neither past due not impaired	16,462	108,288	52,249	58,525	36,935	26,036	298,495
Past due but not impaired	3,831	8,281	390	-	-	-	12,502
Past due and impaired	195	-	-	-	-	-	195
Total	20,488	116,569	52,639	58,525	36,935	26,036	311,192

SOHAR ISLAMIC
(ISLAMIC BANKING WINDOW OF BANK SOHAR SAOG)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (continued)

D Financial risk management (continued)

D1 Credit risk (continued)

D1.2 Management of credit risk (continued)

Maximum exposure to credit risk before collateral held or other credit enhancements for all on-balance sheet assets are based on net carrying amounts as reported in the statement of financial position.

The maximum credit risk exposures relating to off-balance sheet items calculated as per Basel II guidelines are provided in note D6. The amounts represented in the note D6 represent a worst case scenario of credit risk exposure as of 31 December 2017, without taking into account any collateral held or other credit enhancements attached.

D1.3 Credit rating analysis

The table below presents an analysis of debt securities, treasury bills, gross placements and other eligible bills by rating agency designation at 31 December 2017, based on Moody's ratings or equivalent.

2016 USD'000	2017 USD'000		2017 RO'000	2016 RO'000
-	15,010	A1 to A3	5,779	-
31,761	26,717	Baa1 to Baa3	10,286	12,228
25,974	-	Ba+ to B-	-	10,000
4,275	19,335	Sovereign	7,444	1,646
62,010	61,062		23,509	23,874

The Window performs an independent assessment based on quantitative and qualitative factors in cases where a counter party is unrated.

D1.4 Allowances for impairment

The Window establishes an allowance for impairment losses account that represents its estimate of incurred losses in its loan portfolio. The components of this allowance are specific loss components that relate to individually significant exposures and a collective loan loss allowance established for group of homogenous assets in respect of losses that have been incurred but have not been identified on financings subject to individual assessment for impairment

D1.5 Write-off policy

The Window writes off a loan/security balance (and any related allowances for impairment losses) when the Window determines that the loan/security is uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the borrower/issuer's financial position such that the borrower/issuer can no longer repay the obligation, or that proceeds from the collateral will not be sufficient to pay back the entire exposure. For smaller balance standardised financings, charge off decisions generally are based on a product specific past due status.

The assets, or title to the asset, will be maintained in the Window's custody or with a custodian approved by the Window. Necessary measures are taken to ensure that the assets are maintained in useable condition.

The release of collateral without full repayment of all related financial obligations requires authorization of the same level that originally approved and sanctioned the facility. Substitution of collateral is permitted if the new collateral would further minimise the Window's risk exposure keeping in mind the regulatory requirements.

When collateral is released to the customer, the Credit Administration Department obtains and maintains in its records acknowledgement of receipt from the customer or its authorised representative.

D Financial risk management (continued)

D1 Credit risk (continued)

D1.5 Write off policy (continued)

An estimate of the fair value of collateral and other security enhancements held against financings and advances is shown below:

2016 USD'000	2017 USD'000		2017 RO'000	2016 RO'000
224,322	342,327	Property	131,796	86,364
20,662	32,273	Equity	12,425	7,955
244,984	374,600		144,221	94,319

Settlement risk is the risk of loss due to the failure of a party to honour its obligations to deliver cash, investments or other assets as contractually agreed on the day of settlement.

In foreign exchange trades, though there is fulfilment of both the legs of the transaction on the settlement date as is common practice between trading partners (free settlement), there will be risk on account of different time zones. In these cases, the settlement risk is mitigated through the execution of bilateral payment netting agreements.

D1.6 Concentrations

Concentrations of credit risk arise when a number of counter parties are engaged in similar business activities or activities in the same geographic region or have similar economic features that would cause their ability to meet contractual obligations to be affected similarly by changes in economic, political or other conditions. Concentrations of credit risk indicate the relative sensitivity of the Window's performance to developments affecting a particular industry or geographic location.

In order to avoid excessive concentrations of risk, the Window's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly.

Regulatory Caps – exposure limits to a person (including juristic person) and his connected parties has been set at 15% of the Bank's Net worth.

Net worth is the aggregate amount of assets less liabilities, which shall include assets and liabilities both within and outside the Sultanate.

Exposure to senior member in the management of the Window and any related parties shall not exceed 10% of the amount of the net worth of the Bank and aggregate of all such exposures shall not exceed 35% of the amount of the net worth.

Limits are not applicable to exposures fully secured by cash or cash equivalent (not subject to withdrawal from the Window) or are secured by guarantee of the financial institutions within or outside Sultanate of Oman or the Government of the Sultanate of Oman.

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D Financial risk management (continued)

D1 Credit risk (continued)

D1.6 Concentrations (continued)

	2017					
	Murabaha RO'000	Ijara RO'000	Istisna followed by Ijarah muntahia bittamleek RO'000	Diminishing Musharka RO'000	Due from banks RO'000	Investment securities RO'000
Concentration by sector						
Corporate	2,508	23,808	30,735	36,940	-	8,360
Personal	9,742	30,420	10,265	504	-	-
Sovereign	-	-	-	-	-	7,444
Banks	-	-	-	-	7,982	
	12,250	54,228	41,000	37,444	7,982	15,804
Concentration by location						
Middle east	12,250	54,228	41,000	37,444	4,004	15,804
Europe	-	-	-	-	82	-
North America	-	-	-	-	42	-
Asia	-	-	-	-	3,854	-
Total	12,250	54,228	41,000	37,444	7,982	15,804

	2017					
	Murabaha USD'000	Ijara USD'000	Istisna followed by Ijarah muntahia bittamleek USD'000	Diminishing Musharka USD'000	Due from banks USD'000	Investment securities USD'000
Concentration by sector						
Corporate	-	61,839	79,831	95,948	-	21,714
Personal	31,818	79,013	26,663	1,309	-	-
Sovereign	-	-	-	-	-	19,335
Banks	-	-	-	-	20,732	-
	31,818	140,852	106,494	97,257	20,732	41,049
Concentration by location						
Middle east	31,818	140,852	106,494	97,257	10,400	41,049
Europe	-	-	-	-	213	-
North America	-	-	-	-	109	-
Asia	-	-	-	-	10,010	-
	31,818	140,852	106,494	97,257	20,732	41,049

D Financial risk management (continued)

D1 Credit risk (continued)

D1.6 Concentrations (continued)

	2016					
	Murabaha RO'000	Ijara RO'000	Istisna followed by Ijarah muntahia bittamleek RO'000	Diminishing Musharka RO'000	Due from banks RO'000	Investment securities RO'000
Concentration by sector						
Corporate	3,168	18,843	11,805	22,532	-	8,378
Personal	4,720	26,036	8,461	-	-	-
Sovereign	-	-	-	-	-	1,646
Banks	-	-	-	-	14,220	-
	7,888	44,879	20,266	22,532	14,220	10,024
Concentration by location						
Middle east	7,888	44,879	20,266	22,532	13,888	10,024
Europe	-	-	-	-	289	-
North America	-	-	-	-	43	-
Asia	-	-	-	-	-	-
Total	7,888	44,879	20,266	22,532	14,220	10,024

	2016					
	Murabaha USD'000	Ijara USD'000	Istisna followed by Ijarah muntahia bittamleek USD'000	Diminishing Musharka USD'000	Due from banks USD'000	Investment securities USD'000
Concentration by sector						
Corporate	8,228	48,943	30,662	58,525	-	21,758
Personal	12,260	67,626	21,977	-	-	-
Sovereign	-	-	-	-	-	4,275
Banks	-	-	-	-	36,935	-
	20,488	116,569	52,639	58,525	36,935	26,033
Concentration by location						
Middle east	20,488	116,569	52,639	58,525	36,073	26,036
Europe	-	-	-	-	751	-
North America	-	-	-	-	112	-
Asia	-	-	-	-	-	-
	20,488	116,569	52,639	58,525	36,936	26,036

D Financial risk management (continued)

D2 Liquidity risk

Liquidity risk is the risk that the Window will encounter difficulty in meeting its obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

D2.1 Management of liquidity risk

The Window's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions without incurring unacceptable losses or risking damage to the Bank's reputation.

Window's central treasury receives information from other business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. Central treasury then maintains a portfolio of short-term liquid assets, largely made up of short-term liquid investment securities, loans and advances to banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Bank as a whole. The liquidity requirements of business units are met through short-term loans from central treasury to cover any short-term fluctuations and longer term funding to address any structural liquidity requirements. The Bank has also laid down a comprehensive liquidity contingency plan for effective management of liquidity. In this process due care is taken to ensure that the Window complies with all the CBO regulations.

All liquidity policies and procedures are subject to review and approved by Asset Liabilities Committee (ALCO). Computation of liquidity gap on maturity of assets and liabilities is provided. The computation has been prepared in accordance with guidelines provided by the regulator.

The lending ratio, which is the ratio of the total financings and advances to customer deposits and capital, is monitored on a daily basis in line with the regulatory guidelines. Internally the lending ratio is set at a more conservative basis than required by regulation. The Window also manages its liquidity risk on regular basis and by monitoring the liquid ratio which is a ratio of net liquid assets to total assets on a monthly basis. For this purpose net liquid assets are considered as including cash and cash equivalents and investment grade debt investments for which there is an active and liquid market.

Details of the reported lending and liquid ratio as at 31 December 2017 were as follows:

	2017	
	Lending ratio	Liquid ratio
Average for the year	**84.87%**	**9.46%**
Maximum for the year	**85.44%**	**21.02%**
Minimum for the year	**84.11%**	**2.37%**

	2016	
	Lending ratio	Liquid ratio
Average for the year	82.78%	17.41%
Maximum for the year	85.15%	29.24%
Minimum for the year	77.06%	5.74%

The table below summarises the maturity profile of the Window's 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 Window's deposit retention history and the availability of liquid funds.

D Financial risk management (continued)

D2 Liquidity risk (continued)

D2.2 Exposure to liquidity risk

2017	Carrying amount RO'000	Within three months RO'000	Four months to 12 months RO'000	One to three years RO'000	More than three years RO'000	Total RO'000
Wakala deposits	108,461	47,758	23,189	41,091	98	112,136
Customer deposit and other accounts	19,836	19,836	-	-	-	19,836
Other liabilities	957	957	-	-	-	957
	129,254	68,551	23,189	41,091	98	132,929
Equity of Investment account holders	34,467	34,467	-	-	-	34,467
	163,721	103,018	23,189	41,091	98	167,396

2017	Carrying amount USD'000	Within three months USD'000	Four months to 12 months USD'000	One to three years USD'000	More than three years USD'000	Total USD'000
Wakala deposits	281,717	124,047	60,231	106,730	255	291,263
Customer deposit and other accounts	51,522	51,522	-	-	-	51,522
Other liabilities	2,486	2,485	-	-	-	2,485
	335,725	178,054	60,231	106,730	255	345,270
Equity of Investment account holders	89,525	89,525	-	-	-	89,525
	425,249	267,579	60,231	106,730	255	434,795

2016	Carrying amount RO'000	Within three months RO'000	Four months to 12 months RO'000	One to three years RO'000	More than three years RO'000	Total RO'000
Wakala deposits	73,142	22,001	-	-	53,030	75,031
Customer deposit and other accounts	13,050	13,050	-	-	-	13,050
Other liabilities	1,193	1,193	-	-	-	1,193
	87,385	36,244	-	-	53,030	89,274
Equity of Investment account holders	34,218	33,819	-	-	401	34,220
	121,603	70,063	-	-	53,431	123,494

2016	Carrying amount USD'000	Within three months USD'000	Four months to 12 months USD'000	One to three years USD'000	More than three years USD'000	Total USD'000
Wakala deposits	189,979	57,145	-	-	137,740	194,886
Customer deposit and other accounts	33,896	33,896	-	-	-	33,896
Other liabilities	3,099	3,099	-	-	-	3,099
	226,974	94,140	-	-	137,740	231,881
Equity of Investment account holders	88,878	87,842	-	-	1,036	88,878
	315,852	181,982	-	-	138,776	320,758

The Window prepares a liquidity gap report to monitor the Window's short term liquidity position on the Rial denominated assets and liabilities in a time horizon spanning one month. The gap is adjusted for availability of instruments for repo or refinance and also for unavailed committed lines of credit, if any. This statement of short term liquidity is to be reported to the ALCO every month.

In addition to the above measures of liquidity, the window also monitors the Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio as per the regulator in line with Basel-III standards.

D Financial risk management (continued)

D3 Market risk

Market risk is the exposure to loss resulting from the changes in the profit rates, foreign currency exchange rates, equity prices and commodity prices. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return to risk.

D3.1 Market risk in financing products

Financing contracts mainly comprise 'Murabaha receivables' and 'Ijara Muntahia Bittamleek'. Following are the financing related market risk:

Murabaha receivables

In the case of an asset in possession for a Murabaha transaction and an asset acquired specifically for resale to a customer in a non-binding Murabaha to the purchase orderer (MPO) transaction, the asset would be treated as inventory of the Window and is subject to price risk.

Ijara Muntahia Bittamleek (IMB)

In the case of Non-binding Promise to lease an asset acquired and held for the purpose of either operating Ijarah or IMB. The asset would be treated as asset owned by the Window and is subject to price risk from its acquisition date until its disposal.

D3.2 Measurement of market risk

The Window is mainly engaged in Spots and Currency swaps. Since the positions are taken mainly for customer transactions, the complexity is further reduced. In view of above, the Window measures and controls the risk by using a limit framework. As and when the Window enters into more complex derivatives, it will have more sophisticated models and techniques to measure market risk, supported by a suitable mechanism.

D3.3 Management of market risks

The Window separates its exposure to market risk between trading and non -trading portfolios. Trading portfolios include all positions arising from market making and proprietary position taking, together with financial assets and liabilities that are managed on a fair value basis.

All foreign exchange risk within the Window is transferred by Central Treasury to the trading book. Accordingly, the foreign exchange position is treated as a part of the Window's trading portfolio for risk management purposes. Foreign currency risk is monitored and managed by the Window by establishment of Middle Office to monitor the market risk, and the risk is managed by putting in place Policy, and implementing limit framework, reporting tools like Currency Position Report, Risk Analysis of Currency Position, Breach Analysis Report, and Dealer Limit Breach report

Overall authority for market risk is vested in ALCO. The risk management function is responsible for development of detailed risk management policies (subject to approval by ALCO and Risk Management Committee of the Board). The Policy is periodically reviewed to keep it up to date with the market developments.

D3.4 Exposure to profit rate risk

Profit rate risk is the potential impact of the mismatch between the rate of return on assets and the expected rate of funding due to the sources of finance. Senior management identifies the sources of profit rate risk exposures based upon the current as well as forecasted balance sheet structure of Window. The profit rate risk in the Window may arise due to the following transactions:

- Murabaha transactions;
- Wakala transactions;
- Isitisna followed by Ijara Muntahia Bittamleek
- Ijara Muntahia Bittamleek;
- Istisna;
- Sukuk; and
- Musharaka investments.

D Financial risk management (continued)

D3 Market risk (continued)

D3.4 Exposure to profit rate risk (continued)

Window's management believes that the Window is not exposed to material profit rate risk as the re-pricing of assets, liabilities and equity of investment accountholders occur at similar intervals. The profit distribution to equity of investment accountholders is based on profit sharing agreements. Therefore, Window is not subject to any significant profit rate risk.

Sources of Profit Rate Risk

The different profit rate risks faced by the Window can be classified broadly into the following categories.

Re-pricing risk which arises from timing differences in the maturity (for fixed rate) and re-pricing (for floating rate) of assets, liabilities and off balance sheet positions. As profit rates vary, these re-pricing mismatches expose Window's income and underlying economic value to unanticipated fluctuations;

Yield curve risk which arises when unanticipated shifts of the yield curve have adverse effects on Window's income and/or underlying economic value;

Basis risk which arises from imperfect correlation in the adjustment in the rate earned on products priced and the rate paid on different instruments with otherwise similar re-pricing characteristics. When profit rates change, these differences can give rise to unexpected changes in the cash flows and earnings spread between assets, liabilities, and off balance sheet instruments of similar maturities or re-pricing frequencies; and

Displaced Commercial Risk refers to the market pressure to pay returns that exceeds the rate that has been earned on the assets financed by the liabilities, when the return on assets is under performing as compared to competitor's rates.

Profit rate risk strategy

Profit rate risk arises from the possibility that changes in profit rates will affect future profitability or the fair values of financial instruments. The window is exposed to profit rate risk as a result of mismatches or gaps in the amounts of assets and liabilities and off-balance sheet instruments that mature or re-price in a given period. The window manages this risk through risk management strategies.

The effective profit rate (effective yield) of a monetary financial instrument is the rate that, when used in a present value calculation, results in the carrying amount of the instrument. The rate is a historical rate for a fixed rate instrument carried at amortised cost and a current rate for a floating rate instrument or an instrument carried at fair value.

Profit rate risk measurement tools

Window monitors Re-pricing gap analysis which measures the arithmetic difference between the profit-sensitive assets and liabilities of book in absolute terms.

Profit rate risk monitoring and reporting

Window has implemented information systems for monitoring, controlling and reporting profit rate risk. Reports are provided on a timely basis to Executive Committee and the Board of Directors of the head office.

The Risk and Compliance Unit monitors these limits regularly. They reviews the results of gap limits and exceptions, if any, and recommends corrective action to be taken which is approved by ALCO or Executive Committee, according to authority parameters approved by the Board.

SOHAR ISLAMIC
(ISLAMIC BANKING WINDOW OF BANK SOHAR SAOG)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (continued)

D Financial risk management (continued)

D3 Market risk (continued)

D3.5 Exposure to profit rate risk – non trading portfolios

The Window's profit sensitivity position based on contractual re-pricing arrangements at 31 December 2017 was as follows:

At 31 December 2017	Effective annual Profit Rate %	Within three months RO'000	Four months to 12 months RO'000	Over one year RO'000	Non sensitive to profit rate RO'000	Total RO'000
Assets						
Cash and balances with central banks		-	-	-	15,222	15,222
Due from banks and financial institutions	1.51	7,700	-	-	282	7,982
Murabaha receivables	6.23	-	-	-	12,250	12,250
Ijarah muntahia bittamleek	4.95	9,846	25,957	18,425	-	54,228
Istisna followed by Ijarah muntahia bittamleek	5.34	7,658	26,350	6,992	-	41,000
Diminishing Musharka	4.93	20,354	17,090	-	-	37,444
Investment securities	4.60		15,804	-	-	15,804
Fixed assets		-	-	-	1,097	1,097
Other assets		-	-	-	1,173	1,173
Total assets		45,558	85,201	25,417	30,024	186,200
Liabilities and equity						
Wakala deposits	3.14	47,561	22,659	38,241	-	108,461
Customer current accounts		-	-	-	19,836	19,836
Other liabilities		-	-	-	957	957
Total liabilities		47,561	22,659	38,241	20,793	129,254
Equity of Investment Account Holders	2.08	34,467	-	-	-	34,467
Total liabilities and equity of Unrestricted Investment Account (URIA)		82,028	22,659	38,241	20,793	163,721
Total profit rate sensitivity gap		(36,470)	62,542	(12,824)	9,771	23,019
Cumulative profit rate sensitivity gap		(36,470)	26,072	13,248	23,019	25,869

D Financial risk management (continued)

D3 Market risk (continued)

D3.5 Exposure to profit rate risk – non trading portfolios (continued)

At 31 December 2017	Effective annual profit rate %	Within three months USD'000	Four months to 12 months USD'000	Over one year USD'000	Non-sensitive to profit rate USD'000	Total RO'000
Assets						
Cash and balances with central banks		-	-	-	39,538	39,538
Due from banks and financial institutions	1.51	20,000	-	-	732	20,732
Murabaha receivables	6.23	-	-	-	31,818	31,818
Ijarah muntahia bittamleek	4.95	25,574	67,421	47,857	-	140,852
Istisna followed by Ijarah muntahia bittamleek	5.34	19,891	68,442	18,161	-	106,494
Diminishing Musharka	4.93	52,868	44,389	-	-	97,257
Investment securities	4.60	-	41,049	-	-	41,049
Fixed assets		-	-	-	2,849	2,849
Other assets		-	-	-	4,450	4,450
Total assets		118,333	221,301	66,018	79,387	485,039
Liabilities and equity						
Wakala deposits	3.14	123,535	58,855	99,327	-	281,717
Customer current accounts		-	-	-	51,522	51,522
Other liabilities		-	-	-	2,485	2,485
Total liabilities		123,535	58,855	99,327	54,007	335,724
Equity of Investment Account Holders	2.08	89,525	-	-	-	89,525
Total liabilities and equity of Unrestricted Investment Account (URIA)		213,060	58,855	99,327	54,007	425,249
Total profit rate sensitivity gap		(94,727)	162,446	(33,309)	25,380	59,790
Cumulative profit rate sensitivity gap		(94,727)	67,719	34,410	59,790	67,192

D Financial risk management (continued)

D3 Market risk (continued)

D3.5 Exposure to profit rate risk – non trading portfolios (continued)

At 31 December 2016	Effective annual Profit Rate %	Within three months RO'000	Four months to 12 months RO'000	Over one year RO'000	Non sensitive to profit rate RO'000	Total RO'000
Assets						
Cash and balances with central banks		-	-	-	17,110	17,110
Due from banks and financial institutions	0.38	13,850	-	-	370	14,220
Murabaha receivables	5.30	498	1,636	5,754	-	7,888
Ijarah muntahia bittamleek	4.42	1,684	3,049	40,146	-	44,879
Istisna followed by Ijarah muntahia bittamleek	5.43	110	449	19,707	-	20,266
Diminishing Musharka	5.60	509	1,957	20,066	-	22,532
Investment securities	4.64	-	-	10,024	-	10,024
Fixed assets		-	-	-	1,294	1,294
Other assets		-	-	-	1,556	1,556
Total assets		16,651	7,091	95,697	20,330	139,769
Liabilities and equity						
Wakala deposits	3.6	42,946	11,950	18,246	-	73,142
Customer current accounts		-	-	-	13,050	13,050
Other liabilities		-	-	-	1,193	1,193
Total liabilities		42,946	11,950	18,246	14,243	87,385
Equity of Investment Account Holders	1.73	11,240	-	22,978	-	34,218
Total liabilities and equity of Unrestricted Investment Account (URIA)		54,186	11,950	41,224	14,243	121,603
Total profit rate sensitivity gap		(37,535)	(4,859)	54,473	6,087	18,166
Cumulative profit rate sensitivity gap		(37,535)	(42,394)	12,079	18,166	(49,684)

D Financial risk management (continued)

D3 Market risk (continued)

D3.5 Exposure to profit rate risk – non trading portfolios (continued)

At 31 December 2016	Effective annual profit rate %	Within three months USD'000	Four months to 12 months USD'000	Over one year USD'000	Non-sensitive to profit rate USD'000	Total USD'000
Assets						
Cash and balances with central banks		-	-	-	44,442	44,442
Due from banks and financial institutions	0.38	35,974	-	-	961	36,935
Murabaha receivables	5.30	1,294	4,249	14,945	-	20,488
Ijarah muntahia bittamleek	4.42	4,374	7,919	104,275	-	116,568
Istisna followed by Ijarah muntahia bittamleek	5.43	286	1,166	51,187	-	52,639
Diminishing Musharka	5.60	1,322	5,083	52,119	-	58,524
Investment securities	4.64	-	-	26,036	-	26,036
Fixed assets		-	-	-	3,361	3,361
Other assets		-	-	-	4,041	4,041
Total assets		43,250	18,417	248,562	52,805	363,034
Liabilities and equity						
Wakala deposits	3.60	111,548	31,039	47,392	-	189,979
Customer current accounts		-	-	-	33,896	33,896
Other liabilities		-	-	-	3,099	3,099
Total liabilities		111,548	31,039	47,392	36,995	226,974
Equity of Investment Account Holders	1.73	29,195	-	59,683	-	88,878
Total liabilities and equity of Unrestricted Investment Account (URIA)		140,743	31,039	107,075	36,995	315,852
Total profit rate sensitivity gap		(97,494)	(12,621)	141,488	15,810	47,183
Cumulative profit rate sensitivity gap		(97,494)	(110,115)	31,374	47,184	(129,051)

D Financial risk management (continued)

D3 Market risk (continued)

D 3.6 Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Board has set limits on the overall open position and for open position for each currency. The open position limits include overnight open position and intraday open position. Open positions are monitored on a daily basis and hedging strategies used to ensure positions are maintained within established limits. The Window had the following net exposures denominated in foreign currencies:

	2017		
	Assets	Liabilities & URIA	Net assets
Riyal Omani	144,263	68,066	46,197
United States Dollar	41,357	61,184	(19,827)
Euro	76	1	75
UAE Dirhams	954	1	953
Pound Sterling	89	2	87

	2016		
	Assets	Liabilities & URIA	Net assets
Riyal Omani	120,198	60,634	59,564
United States Dollar	19,077	26,746	(7,669)
Euro	6	1	5
UAE Dirhams	397	1	396
Pound Sterling	91	2	89

The Window takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board sets limits on the level of exposure by currency and in aggregate for both overnight and intra-day positions, which are monitored daily.

Changes in the non parity foreign currency prices as at 31 December 2017 and 2016 on net assets is considered negligible.

D4 Operational risk

Operational risk is defined as the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational risk arises due to variety of causes associated with the Window's processes, personnel, technology and infrastructure and from external events and to include risks other than credit, market and liquidity risks.

Window has adopted same policies and procedures to mitigate operational risk as those of the head office. Advantages of head office processes and infrastructure are obtained in compliance with IBRF. Policies on following processes are also similar to that of the head office:

- Track loss events and potential exposures;
- Reporting of losses, indicators and scenarios on a regular basis; and
- Review the reports jointly by risk and line managers;

In addition to the above, Window has a dedicated Sharia' compliance officer responsible to ensure compliance with IBRF, Sharia' guidelines and other applicable laws and regulations.

D Financial risk management (continued)

D5 Displaced commercial risk

Displaced commercial risk ("DCR") refers to the magnitude of risks that are transferred to shareholders in order to cushion the Investment Account Holder ("IAH") from bearing some or all of the risks to which they are contractually exposed in Mudaraba contracts.

Under a Mudaraba (profit sharing and loss-bearing) contract, unrestricted IAH are exposed to aggregate impact of risks arising from the assets in which their funds are invested, but this is managed by Sohar Islamic Window through DCR.

This risk-sharing is achieved by constituting and using various reserves such as PER, and by adjusting the Sohar Islamic Window's profit share in order to smooth the returns payable to the IAH from exposure to the volatility of aggregate returns arising from banking risks, and thereby to enable payment of returns that are competitive in the marketplace.

Sohar Islamic Window manages its displaced commercial risk as outlined in its Profit Distribution Policy. The Window foregoes its fee in case displaced commercial risk arises. The Window manages profit rates with other Islamic Windows and full-fledged Islamic/ Conventional Banks operating in Oman.

D6 Capital management

D6.1 Regulatory capital

The Window's lead regulator, Central Bank of Oman, sets and monitors capital requirements for the Window as a whole. In implementing current capital requirements Central Bank of Oman requires the Window to maintain a prescribed ratio of total capital to total risk-weighted assets. The Window calculates capital requirements for market risk and operational risk based upon the model prescribed by Central Bank of Oman as follows:

- Sovereign entities – Nil for Oman
- Window's – Risk weighting based upon ratings by external credit assessment institutions as approved by CBO
- Retail and Corporate financings - As per credit conversion factors and risk weightage prescribed by Central Bank of Oman.
- Off balance sheet items – As per credit conversion factors and risk weightage prescribed by Central Bank of Oman.
- The Window's regulatory capital is analysed into three tiers:
- Tier 1 capital, which includes allocated capital and reserves, retained earnings and intangible assets, and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes.
- Tier 2 capital, which includes qualifying collective impairment allowances

Various limits are applied to elements of the capital base. The amount of innovative tier 1 investments cannot exceed 15 percent of total tier 1 capital; qualifying tier 2 capital cannot exceed tier 1 capital; and qualifying term subordinated loan capital may not exceed 50 percent of tier 1 capital. There are also restrictions on the amount of collective impairment allowances, PER and IRR that may be included as part of tier 2 capital. Other deductions from capital include the carrying amounts of investments in subsidiaries that are not included in the regulatory consolidation, investments in the capital of Windows and certain other regulatory items.

Window's operations are categorized as either trading book or banking book, and risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and off-balance sheet exposures. There is no availability of data for previous three years as required under basic indicator approach for computation of capital charge for operational risk. The Window's policy is to maintain a strong capital base.

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.

SOHAR ISLAMIC
(ISLAMIC BANKING WINDOW OF BANK SOHAR SAOG)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (continued)

D Financial risk management (continued)

D6 Capital management (continued)

D6.1 Regulatory capital (continued)

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

2016 USD'000	2017 USD'000		2017 RO'000	2016 RO'000
		Tier 1 capital		
44,155	54,545	Assigned capital	21,000	17,000
348	348	Legal reserve	134	134
2,566	2,566	General reserve	988	988
115	2,330	Retained earnings	897	44
47,184	59,789	Total	23,019	18,166
		Tier 2 capital		
2,592	4,247	Impairment allowance on portfolio basis	1,635	998
2,592	4,247	Total	1,635	998
49,776	64,036	Total regulatory capital	24,654	19,164
		Risk-weighted assets		
276,127	400,894	Window credit and market risk	154,344	114,563
11,221	14,070	Operational risk	5,417	4,320
287,348	414,964	Total risk-weighted assets	159,761	118,883
		Capital adequacy ratio		
15.28%	15.43%	Total regulatory capital expressed as a percentage of total risk-weighted assets	15.43%	15.28%
16.12%	14.41%	Total tier 1 capital expressed as a percentage of total risk-weighted assets	14.41%	16.12%

The capital adequacy ratio given above is calculated in accordance with the Basel II norms as adopted by Central Bank of Oman and IBRF.

D7 Segmental information

The activities of the Window are performed as one unit. Reporting to management is made by business unit. The Window operates solely in the Sultanate of Oman and as such no geographical segment information is presented.

D8 Other disclosures

Following are the disclosures required under Islamic Banking Regulatory Framework:

There has been no comingling of the funds.

As of 31 December 2017, and amount of RO 282 thousands is receivable from head office.

During the year head office has allocated RO 258 thousands (2016: nil) cost for shared services and tax.

There has been no amount transferred to Charity fund during the year.

Proposed remuneration and sitting fee of SSB board is as follows:

Name	Remuneration	Sitting Fee	RO'000 Total
Dr. Hussain Hamed Hassan	16	1	17
Dr. Mudassir Siddiqui	12	2	14
Sheikh Azzan bin Nasir Farfoor Al Amri	8	1	9
Sheikh Fahad Mohamed Hilal Al Khalili	3	1	4
	39	5	44

Hear

We make banking
more responsive
for you.

Statutory Disclosure
Under Basel II & III Framework

Sohar Islamic

EY
Building a better working world

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C.R. No. 1224013
PR No. HMH/15/2015; HMA/9/2015

REPORT ON FACTUAL FINDINGS TO THE BOARD OF DIRECTORS OF BANK SOHAR SAOG (THE "BANK") IN RESPECT OF BASEL II - PILLAR III AND BASEL III RELATED DISCLOSURES OF SOHAR ISLAMIC

We have performed the procedures agreed with you and as prescribed in Title 5 of the Islamic Banking Regulatory Framework and Central Bank of Oman's (CBO) Circular No. BM 1027 dated 4 December 2007 with respect to the Basel II - Pillar III Disclosures and Basel III Disclosures (the disclosures) of Sohar Islamic (Islamic Window) of the Bank as at and for the year ended 31 December 2017. The disclosures were prepared by the Islamic Window's management in accordance with the related requirements set out in Title 5 of the Islamic Banking Regulatory Framework, CBO's Circular number BM 1009 dated 13 September 2006, Circular No. BM 1027 dated 4 December 2007 and Circular No. 1114 dated 17 November 2013. Our engagement was undertaken in accordance with the International Standard on Related Services applicable to agreed-upon procedures engagements. The procedures, as set out in Title 5 of Islamic Banking Regulatory Framework and Circular number BM 1027 dated 4 December 2007 were performed solely to assist you in evaluating the Islamic Window's compliance with the related disclosure requirements as set out in Title 5 of Islamic Banking Regulatory Framework, CBO's Circular number BM 1009 dated 13 September 2006 and Circular No. BM 1114 dated 17 November 2013.

We report our findings as follows:

Based on performance of the procedures detailed above, we found the disclosures free from any material misrepresentation.

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

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

Our report is solely for the purpose set forth in the first paragraph of this report and for your information and is not to be used for any other purpose. This report relates only to the accompanying disclosures to be included in the Bank's annual report for the year ended 31 December 2017 and does not extend to any financial statements of the Bank or its Islamic Window, taken as a whole or to any other reports of the Bank or its Islamic Window.

Ernst & Young LLC

12 March 2018
Muscat

ارنست ويونغ ش م م
س.ت: ١٢٢٤٠١٣
ص.ب: ١٧٥٠ روي - ١١٢ ، سلطنة عمان
EY ERNST & YOUNG LLC
C.R. No. 1224013
P.O. Box 1750 - P.C. 112, Sultanate of Oman

1. Introduction

BBank Sohar SAOG (the head office) under an Islamic Banking License issued by the Central Bank of Oman (CBO) on 30 April 2013, carries out Islamic banking operations and other financial trading activities in accordance with Islamic Shari'a rules and regulations under the name of "Sohar Islamic" (the Window). A separate set of financial statements is included in the consolidated financial statements of the Bank.

The following disclosures are being made in accordance with the Islamic Banking Regulatory Framework (IBRF) issued by Central Bank of Oman (CBO). These disclosures aim to provide market participants material qualitative and quantitative information about Sohar Islamic Window risk exposures, risk management strategies and processes of capital adequacy. The Window has not operated as a separate legal entity.

There is no restriction on transfer of funds between the Window and the Bank. However, as per the guidelines contained in Islamic Banking Regulatory Framework (IBRF), Window is not permitted to place funds with the Bank.

2. Subsidiaries and significant investments

Sohar Islamic is wholly owned window of Bank Sohar.

3. Capital structure & Un restricted Investment account holder

As required under clauses 3.5.1.2 and 3.5.1.3 of Title 1,'Licensing Requirements' of Islamic Banking Regulatory Framework (IBRF) issued by CBO, the head office assigned RO 21 million to the Window as assigned capital.

As per IBRF windows has to keep minimum RO 10 million as assigned capital.

2016 USD'000	2017 USD'000		2017 RO'000	2016 RO'000
		Tier 1 capital		
44,156	54,545	Assigned capital	21,000	17,000
348	348	Legal reserve	134	134
2,566	2,566	General reserve	988	988
115	2,330	Retained earnings	897	44
47,184	59,789	Total	23,019	18,166
		Tier 2 capital		
2,592	4,247	Impairment allowance on portfolio basis	1,635	998
2,592	4,247	Total	1,635	998
49,776	64,036	Total regulatory capital	24,654	19,164
88,878	89,525	Equity of Investment account holder	34,467	34,218

Window has not maintained any Profit Equalization and Investment risk reserve.

4. Capital adequacy

The window's capital adequacy ratio, calculated according to guidelines set by the CBO guidelines. It stipulate that license should maintain a minimum capital adequacy ratio of 12 %.

The Window's lead regulator, Central Bank of Oman, sets and monitors capital requirements for the Window as a whole.

As required under clauses 3.5.1.2 and 3.5.1.3 of Title 1,'Licensing Requirements' of Islamic Banking Regulatory Framework (IBRF) issued by CBO, the head office has allocated RO 21 million to the Window as assigned capital.

The Bank has an Internal Capital Adequacy Assessment Process (ICAAP) through which senior management assesses the Bank's capital against its risk profile. Asset Liability Committee (ALCO) is the forum in which the capital adequacy is assessed, based on the next quarter's business forecast and the risk profile envisaged.

4. Capital adequacy (continued)

Total and Tier 1 Capital Ratio, Risk Weighted Assets

S. No.	Details	Gross Balances (Book Value)	Net Balances (Book Value)*	RO '000 Risk Weighted Assets
1	On-balance sheet items	188,375	186,740	132,134
2	Off - balance sheet items	29,227	29,227	16,760
3	Derivatives	-	-	-
4	Total for Credit Risk			**148,894**
5	Risk Weighted Asset for Market Risk	-	-	5,450
6	Risk Weighted Asset for Operational Risk			5,417
7	Total Risk Weighted Assets			**159,761**
8	Tier 1 Capital		23,019	
9	Tier 2 Capital		1,635	
10	Tier 3 Capital		-	
11	Total Regulatory Capital		**24,654**	
11.1	Capital requirement for credit risk			17,867
11.2	Capital requirement for market risk			654
11.3	Capital requirement for operational risk			650
12	Total required capital			**19,171**
13	Tier 1 Ratio			14.41%
14	Total Capital Ratio			15.43%
*	Net of provisions			

Disclosure of Capital Requirements according to different risk categories for each Shari'a compliant financing contract.

	Risk weighted Assets	RO' 000 Capital Requirements
Murabaha receivables	12,259	1,471
Ijarah muntahia bittamleek	34,858	4,183
Istisna followed by Ijarah muntahia bittamleek	34,664	4,160
Diminishing Musharaka	37,822	4,539
Placements with banks	1,820	218
Investments	8,292	995
Others	2,419	290
Off Balance sheet	16,760	2,011
	148,894	17,867
Of above Risk weighted assets assets funded by the URIA	19,077	2,289

Assets funded by the URIA are treated at par for all other assets for calculation of capital adequacy.

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4. Capital adequacy (continued)

The net exposure after risk mitigation subject to Standardized approach is as follows:

	Exposure	RO'000 RWAs - Standardized Approach
Sovereign - carrying 0%	22,633	-
Banks		
carrying 20%	7,700	1,540
carrying 50%	559	280
Corporate		
Carrying 75%	2,635	1,977
Carrying 100%	11,257	11,161
Retail - carrying 100%	12,846	12,846
Claims secured by residential property- carrying 35%	40,638	14,223
Claims secured by commercial property -carrying 100%	87,369	87,369
Non-Performing Loans carrying 100%	104	104
Other Assets - carrying 100%	2,634	2,634
Total On Balance Sheet	188,375	132,134
Off-balance Sheet Items		
carrying 50%	5,415	2,694
carrying 100%	23,812	14,066
	29,227	16,760
Total Banking Book	217,602	148,894

5. Disclosure for Investment Account Holders (IAH)

Investment account holder (depositors) engage in funding of window activities on a profit and loss-bearing basis as Rabb al-Mal (investor) under a Mudaraba contract. The underlying Mudaraba contract that governs the relationship between the account holders and the Licensee.

Window has only Unrestricted Investment account holders.

5.1 Unrestricted Investment Account holder

Equity of Investment account holder under Mudaraba, Mudaraba is a form of partnership in which two or more persons establish a business (Shirkat ul Aqd) for sharing in the profits, in an agreed proportion and one or more of the partner(s) contribute with their efforts while the other partner(s) provide the financial resources. The former is/are called "Mudarib" and the latter "Rabbul Maal".

5.2 Rules and Structure of Mudaraba and sharia essentials

1. Mudaraba means an arrangement in which a person participates with his money (called Rabbul Maal) and another with his efforts (called Mudarib) for sharing in profit from investment of these funds in an agreed manner.
2. A Mudarib may be a natural person, a group of persons, or a legal entity and a corporate body.
3. Rabbul Maal shall provide his investment in money or species, other than receivables, at a mutually agreed valuation. Such investment shall be placed under the absolute disposal of the Mudarib.
4. The conduct of business of Mudaraba shall be carried out exclusively by the Mudarib within the framework of mandate given in the Mudaraba agreement.
5. The profit shall be divided in strict proportion agreed at the time of contract and no party shall be entitled to a predetermined amount of return or remuneration.
6. Financial losses of the Mudaraba shall be borne solely by the Rabbul Maal, unless it is proved that the Mudarib has been guilty of fraud, negligence or willful misconduct or has acted in contravention of the mandate.

5. Disclosure for Investment Account Holders (IAH) (continued)

5.3 Profit Distribution Mechanism between Shareholders & Depositors of Sohar Islamic under the Common Pool

This profit distribution mechanism sets out the Sharia-compliant mechanism for distribution of the Net ProfitShareholders Funds and Depositors Funds, combined together in the Common Pool will be called Joint Mudaraba capital ("Joint Mudaraba Capital")

Net profit will be calculated in accordance with the following formula:

N=G-(E+D+P)

Where:

'N' means Net Profit

'G' means Gross Profit

'E' means direct expenses in relation to the Activities ("Direct Expenses")

'D' means depreciation of the investment assets ("Investment Assets") in the Common Pool.

'P' means Provisions for bad and doubtful accounts

During the year no expense and provision has been allocated to the pool.

Unrestricted investment account holder accounts are monies invested by customers under Mudaraba to form a pool of funds. Investment accountholder's funds are commingled with the Banks's funds for investment, no priority is granted to any party for the purpose of investments and distribution of profits.

Net Profit will be allocated to the pool participants based on the weighted average balances.

Participation factor , Weights or profit sharing ratios are pre decided by the management of the bank and are intimated to the investors before start of the month . Weighted average balance is calculated at the end of the period by multiplying the participation factor with average balance for the period.

5.3.1 Modarba fee

Modarba fee will be deducted from allocated profit as per the pre-agreed ratio as approved by SSB which will be advised to customers through website or by posting in branches. Initially at the start up stage, it is being fixed as:

Bank-Upto 70% Depositors - 30%

During the year there was no change in ratios from SSB of the window. Bank can create reserves as allowed by Sharia and CBO for smoothing of returns to investors and risk management purposes. Two types of reserves allowed are Profit Equalization reserve (PER) and Investment Risk reserve (IRR). Window is not maintaining any reserves.

5.3.2 Profit Equalisation Reserve (PER)

PER comprises amounts appropriated out of the gross income from the Mudaraba to be available for smoothing returns paid to the IAH and the shareholders, and consists of IAH portion and a shareholders portion.

The basis for computing the amounts to be appropriated are applied in accordance with SSB directions.

5.3.3 Investment Risk Reserve (IRR)

This reserve is created out of the depositors' share of profit out of the Net Profit from the Common Pool. Purpose of the reserve is to offset the effect of future losses.The available balance in the reserve account shall be invested in the Common Pool and the profit earned by investing such balance will be added to the reserve account.

The basis for computing the amounts to be appropriated are applied in accordance with SSB directions.

This is to secure suitable and competitive return to the depositors in case there are certain extra ordinary circumstances, depressing the return, which were anticipated by the depositors. The disposition of the reserve amount will take place with the prior approval of the SSB.

In case the balance in the reserve account is not sufficient to face the competition, the shareholders may grant part of their share of profit to the depositors with the approval of SSB.

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5. Disclosure for Investment Account Holders (IAH) (continued)

5.3 Profit Distribution Mechanism between Shareholders & Depositors of Sohar Islamic under the Common Pool (continued)

5.3.4 Transfer to or from Profit Equalization reserve (PER)

Percentage to be approved by Bank management subject to internal sharia approval that should be appropriated by Bank out of the total common pool profit as per the policy of the bank before any distribution takes place, in order to ensure certain level of cushion for the Investment portfolio.

Any provisions that are required against the Islamic financing assets or investments will be provided in the books as per the Bank's policy which will be in adherence to the central bank revised provisioning policy.

The balance of the PER shall also be maintained as a current account.

5.3.5 Transfer to or from (IRR)

In case the rate of return to the depositors in a certain profit distribution period is substantially higher than the market rates, Bank's management may decide to deduct, after taking permission from the SSB, a portion of depositors' share of profit and transfer the same to the IRR.

In case the rate of return to the depositors in a certain profit distribution period is lower than the market, Banks's management may decide to compensate the depositors by transferring the required amount from the said reserve account to increase depositors' return.

5.3.6 Assignment of a portion of shareholders' profit to depositors

If required, the Bank may decide to allocate some portion from their own profit to a specific deposit category(s). This could be either due to increase in the rate of profit announced by other Islamic Financial Institutions / competitors or to encourage a specific category of depositors.

No Profit Equalisation reserve and investment risk reserve has been created during the year and no allocation has been made from shareholders.

Window has not charged any administrative expense to the pool.

5.4 Quantitative Disclosures

During the year profit calculated is distributed among the participation factor declared before each profit calculation period . During the year participation factor range applied and range of range of rate earned are as below:

Product	Participation factor	Average rate earned
Saving-OMR	17	1.83%
Saving-AED	7	0.60%
Saving-USD	7	0.57%
Term 6 Month	10	0.73%
Term 12 Months	18	1.39%

Close of the year the amount of unrestricted investment account holder with respective category was:

Product	Amount RO '000	% of total URIA
Saving-OMR	34,127	99.02%
Saving-USD	39	0.11%
Term 6 Month	44	0.13%
Term 12 Months	257	0.74%
TOTAL	**34,467**	**100%**

Term deposits are deposits can be withdrawn with no loss of capital subject to certain conditions.

5. Disclosure for Investment Account Holders (IAH) (continued)

5.4 Quantitative Disclosures (continued)

Return on Assets & URIA :

RO '000

	2017	2016	2015	2014	2013
Income on Mudaraba Assets	1,992	1,630	1,130	542	134
Income distributed to URIA	392	400	175	63	9
Return on Average Modarba Assets	4.40%	4.49%	4.72%	5.30%	5.35%
Return on Average URIA	1.14%	1.31%	1.00%	1.05%	0.49%

Assets allocated to common pool are :

RO '000

	Gross exposure	Provision	Net Exposure
Ijarah muntahia bittamleek	32,508	409	32,099
Istisna followed by Ijarah muntahia bittamleek	2,417	24	2,393
Diminishing Musharka	10,366	103	10,263
	45,291	536	44,755

Ratio of Equity of unrestricted Investment account holder to jointly finance assets.

As of reporting date assets allocated to the pool has been financed 76.10% by Equity of unrestricted Investment accounts holder.

Window has earned gross return of 16.33% on average equity in pool assets during the year .

The bank does not have restriction on Investment in URIA pool except if any imposed by the CBO and limits set in banks's policy.

The window does not have any Restricted Investment Accounts.

6. Risk exposure and assessment

6.1 Management of risk in Bank Sohar - approach and policy

The risk management philosophy of window is to identify, capture, monitor and manage the various dimensions of risk with the objective of protecting asset values and income streams such that the interest of head office (and others to whom Sohar Islamic owes a liability) are safeguarded, while maximizing the returns intended to optimize head office return and maintaining its risk exposure within self-imposed parameters.

Sohar Islamic is offering to Corporate and SME customers in Phase One of its operations, products like Term Financing, Working Capital Financing, Short-term Financing, Corporate Deposits, Trade Finance, Cash Management Services and Treasury products. Based on assessment of respective credit risk, security of short-term assets, plant, machinery and real estate is taken to strengthen the quality of its exposure.Sohar Islamic is guided by CBO regulatory requirements to single maximum exposure and has further controls over exposure to senior management staff members or related parties.

Sohar Islamic approves credit through an Executive Credit Committee (ECC) appointed by the Board of Directors of Bank Sohar with specific delegated limits for exceptions' approvals by Head of Islamic Window.

In Consumer Finance, policy is guided by the objectives of granting finance on sound and collectible basis, investing funds for the benefit of shareholders and protection of depositors and to serve the legitimate needs of communities in line with Sharia' guidelines as approved by the Sharia' Supervisory Board.

6. Risk exposure and assessment (continued)

6.1 Management of risk in Bank Sohar - approach and policy (continued)

Risk Management process is guided by risk diversification and avoidance of concentration of risk. Further, Business Risk Review is the mainstay of internal control of financing portfolio. Periodic Asset Quality Reviews, Sharia' Reviews, Process Reviews, Administrative and Documentation Reviews and Compliance Reviews are performed for both business and senior management.

Currently, Consumer Finance products are limited to Vehicle and House Financing only. Financing and advances are approved through Approval Matrix defining specific limits for designated officials and the Executive Credit Committee.

The Board of Directors of the parent Bank has the power to approve all policy issues relating to credit and risk. It has constituted the Credit Approval Committee (CAC) and granted the highest credit approving authority in the Bank up to the maximum regulatory limits.

6.2 Strategies, Processes and Internal Controls

Comprehensive Risk Management Policy Framework is approved by the Board of parent bank. These are also supported by appropriate limit structures. These policies provide an enterprise-wide integrated risk management framework in the Bank, which are also applicable to Sohar Islamic. Limit imposed on type of assets are as per CBO requirements and bank policies.

Sohar Islamic is exposed to various types of risk, such as market, credit, profit rate, liquidity and operational, all of which require comprehensive controls and ongoing oversight. The risk management framework summarizes the spirit behind Basel II, which includes management oversight and control, risk culture and ownership, risk recognition and assessment, control activities and segregation of duties, adequate information and communication channels, monitoring risk management activities and correcting deficiencies.

6.3 Credit risk

Sohar Islamic manages its credit risk exposure by evaluating each new product/activity with respect to the credit risk introduced by it. It has established a limit structure to avoid concentration of risks for counterparty, sector and geography.

31 December 2017	Murabaha receivables	Ijarah muntahia bittamleek	Istisna followed by Ijarah muntahia bittamleek	Diminishing Musharka	Wakala placements & balance with banks	Debt type securities	Total
In (RO'000)							
Neither past due not impaired	11,073	49,015	36,822	10,596	7,982	15,804	131,292
past due but not impaired	1,031	5,179	4,134	26,848	-	-	37,192
past due and impaired	146	34	44	-	-	-	224
Total	12,250	54,228	41,000	37,444	7,982	15,804	168,708

Definitions of past due and impaired

The classification of credit exposures is considered by the Bank for identifying impaired credit facilities, as per CBO circular number BM 977 dated 25 September 2004.

6. Risk exposure and assessment (continued)

6.3 Credit risk (continued)

6.3.1 Total gross credit risk exposures, plus average gross exposure over the period broken down by major types of credit exposure

RO '000

S. No.	Type of credit exposure	Average gross exposure 2017 RO'000	2016 RO'000	2017 RO'000	2017 %	Total gross exposure 2016 RO'000	2016 %
1	Murabaha receivables	10,300	6,743	12,570	7.74%	8,030	7.53%
2	Ijarah muntahia bittamleek	50,093	42,025	54,862	33.77%	45,324	42.52%
3	Istisna followed by Ijarah muntahia bittamleek	30,946	12,578	41,423	25.49%	20,470	19.20%
4	Diminishing Musharka	30,291	19,886	37,822	23.28%	22,760	21.35%
5	Debt-type investments	12,914	10,026	15,804	9.73%	10,024	9.40%
	Total	**134,544**	**91,258**	**162,481**	**100%**	**106,608**	**100%**

Percentage of financing for each category of counterparty to gross financing

	2017 RO'000	2017 %	2016 RO'000	2016 %
Corporate	95,089	65%	56,915	59%
Retail	50,205	35%	39,669	41%
Total	**146,677**	**100%**	**96,584**	**100%**

6.3.2 Geographic distribution of exposures, broken down in significant areas by major type of credit exposure

RO '000

S. No.	Type of credit exposure	Oman	Other GCC countries	OECD countries	India	Pakistan	Others	Total
1	Murabaha receivables	12,570						12,570
2	Ijarah muntahia bittamleek	52,541	2,321	-	-	-	-	54,862
3	Istisna followed by Ijarah muntahia bittamleek	41,423	-	-	-	-	-	41,423
4	Diminishing Musharka	37,822						37,822
5	Debt-type investments	15,804	-	-	-	-	-	15,804
	Total	**160,160**	**2,321**	**0**	**0**	**0**	**0**	**162,481**

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6. Risk exposure and assessment (continued)

6.3 Credit risk (continued)

6.3.3 Industry or counter party type distribution of exposures, broken down by major types of Credit exposure

RO '000

S. No.	Economic sector	Murabaha receivables	Ijarah muntahia bittamleek	Istisna followed by Ijarah muntahia bittamleek	Diminishing Musharka	Debt-type investments	Total	Off-balance sheet exposure
1	Import trade	57	713	-	306	-	1,076	
2	Construction	1,072	18,285	30,331	33,104	10,476	93,268	25,423
3	Service	1,264	1,694	120	3,190	-	6,268	540
4	Personal financing	10,177	30,557	10,852	-		51,586	-
5	Government					5,328	5,328	-
6	Non resident	-	2,321	-	-		2,321	-
7	Others	-	-	-	-	-	-	276
	Total	**12,570**	**54,862**	**41,423**	**37,822**	**15,804**	**162,481**	**26,299**

6.3.4 Residual contractual maturity breakdown of the whole portfolio, broken down by major types of credit exposures

RO '000

S. No.	Time band	Murabaha receivables	Ijarah muntahia bittamleek	Istisna followed by Ijarah muntahia bittamleek	Diminishing Musharka	Debt-type investments	Total	Off – balance Sheet Exposure
1	upto 1 month	313	1,939	80	372	-	2,704	4,543
2	1 - 3 months	508	497	165	542	-	1,712	5,081
3	3 - 6 months	904	1,479	288	498	-	3,169	1,295
4	6 - 9 months	707	1,113	305	1,033	-	3,158	2,360
5	9 - 12 months	880	1,526	335	729	8,361	11,831	1,023
6	1 - 3 years	4,948	8,658	4,285	7,469	1,645	27,005	11,925
7	3 - 5 years	2,792	7,324	4,892	6,737	-	21,745	-
8	Over 5 years	1,518	32,326	31,073	20,442	5,798	91,079	2
9	Total	**12,570**	**54,862**	**41,423**	**37,822**	**15,804**	**162,403**	**26,229**

6.3.5 Amount of impaired financing and advances and, if available, past due financing and advances provided separately broken down by significant geographic areas including, if practical, the amounts of specific and general allowances related to each geographical area

RO '000

S. No.	Countries	Gross financing	NPLs	Provisions held General	Provisions held Specific	Reserve Profit	Provision made during the year	Advances written off during the year
1	Oman	144,356	223	1,525	117	3	657	-
2	Other GCC	2,321		110		-	77	-
		146,677	**223**	**1,635**	**117**	**3**	**734**	**-**

6. Risk exposure and assessment (continued)

6.3 Credit risk (continued)

6.3.6 Movements of gross financing and advances

						RO '000
Details	Standard	S.M	Sub-standard	Doubtful	Loss	Total
Opening Balance	95,448	1,062	74	-	-	**96,584**
Migration / changes (+ / -)	(1,852)	1,706	42	30	74	**0**
New financing	39,105	-	-	-	-	**39,105**
Recovery of financing	10,189	795	4	-	-	**10,988**
Financing and advances written off	-	-	-	-	-	**-**
Closing Balance	**142,890**	**3,563**	**120**	**30**	**74**	**146,677**
Provisions held	1,635	-	29	15	73	**1,752**
Reserve Profit	-	-	2	-	1	**3**

6.3.7 Credit risk: Disclosures for portfolios subject to the standardised approach

6.3.7.1 Qualitative disclosures: For portfolios under standardised approach

The window is following standardised approach in assessing regulatory capital for credit risk. For sovereign risk, zero risk weight is applied, as permitted under this approach, whereas for exposures on banks, the risk weight applied depends on the rating of the banks by Eligible Credit Assessment Institution (ECAI) approved by CBO like, Moody's Standard & Poor, Fitch and Capital Intelligence, subject to the respective country rating. In the absence of external ratings for most of the corporate, the Bank treats them as unrated and applies 100% risk weight on their funded exposures. On the off-balance sheet exposures, the relevant credit conversion factors are applied and aggregated to banks or the corporate, as the case may be, and then the risk weight is applied as stated above. Unavailed or yet to be disbursed exposures are taken under commitments and risk weights assigned as permitted by the IBRF.

6.3.7.2 Quantitative disclosures

Credit rating analysis

The table below presents an analysis of debt securities, treasury bills, gross placements and other eligible bills by rating agency designation at 31 December 2017, based on Moody's ratings or equivalent.

2016 USD'000	2017 USD'000		2017 RO'000	2016 RO'000
-	**15,010**	A1 to A3	**5,779**	-
31,761	**26,717**	Baa1 to Baa3	**10,286**	12,228
25,974	**-**	Ba+ to B-	**-**	10,000
4,275	**19,335**	Sovereign	**7,444**	1,646
62,010	**61,062**		**23,509**	23,874

The Window performs an independent assessment based on quantitative and qualitative factors in cases where a counter party is unrated.

The window is following a uniform approach of considering all corporates as unrated and applying 100% risk weights.

6.3.7.3 Credit risk mitigation: Disclosure for standardised approach

The window does not make use of netting whether on or off-balance sheet.

6. Risk exposure and assessment (continued)

6.4 Profit rate risk in banking book

Profit rate risk is the potential impact of the mismatch between the rate of return on assets and the expected rate of funding due to the sources of finance. Senior management identifies the sources of profit rate risk exposures based upon the current as well as forecasted balance sheet structure of Window. The profit rate risk in the Window may arise due to the following transactions:

- Murabaha transactions;
- Wakala transactions;
- Ijara Muntahia Bittamleek;
- Diminishing Musharka
- Sukuk; and
- Musharaka investments.

Window management believe that the Window is not exposed to material profit rate risk as a result of mismatches of profit rate re-pricing of assets, liabilities and equity of investment account holders as the re-pricing of assets, liabilities and equity of investment account holders occur at similar intervals. The profit distribution to equity of investment account holders is based on profit sharing agreements. Therefore, Window is not subject to any significant profit rate risk.

6.4.1 Sources of Profit Rate Risk

The different profit rate risks faced by the Window can be classified broadly into the following categories.

- Re-pricing risk which arises from timing differences in the maturity (for fixed rate) and re-pricing (for floating rate) of assets, liabilities and off balance sheet positions. As profit rates vary, these re-pricing mismatches expose Window's income and underlying economic value to unanticipated fluctuations;
- Yield curve risk which arises when unanticipated shifts of the yield curve have adverse effects on Window's income and/or underlying economic value;
- Basis risk which arises from imperfect correlation in the adjustment in the rate earned on products priced and the rate paid on different instruments with otherwise similar re-pricing characteristics. When profit rates change, these differences can give rise to unexpected changes in the cash flows and earnings spread between assets, liabilities, and off balance sheet instruments of similar maturities or re-pricing frequencies; and
- Displaced Commercial Risk refers to the market pressure to pay returns that exceeds the rate that has been earned on the assets financed by the liabilities, when the return on assets is under performing as compared to competitor's rates.

6.4.2 Profit rate risk strategy

Profit rate risk arises from the possibility that changes in profit rates will affect future profitability or the fair values of financial instruments. The window is exposed to profit rate risk as a result of mismatches or gaps in the amounts of assets and liabilities and off-balance sheet instruments that mature or re-price in a given period. The window manages this risk through risk management strategies.

The effective profit rate (effective yield) of a monetary financial instrument is the rate that, when used in a present value calculation, results in the carrying amount of the instrument. The rate is a historical rate for a fixed rate instrument carried at amortised cost and a current rate for a floating rate instrument or an instrument carried at fair value.

6.4.3 Profit rate risk measurement tools

Window uses the following tools for profit rate risk measurement in its book:

- Re-pricing gap analysis which measures the arithmetic difference between the profit-sensitive assets and liabilities of Window book in absolute terms; and
- Basis Point Value ("BPV") analysis which is the sensitivity measure for all profit rate priced products and positions. The BPV is the change in net present value of a position arising from a 1 basis point shift in the yield curve. This quantifies the sensitivity of the position or portfolio to changes in profit rates.

6. Risk exposure and assessment (continued)

6.4 Profit rate risk in banking book (continued)

6.4.4 Profit rate risk monitoring and reporting

Window has implemented information systems for monitoring, controlling and reporting profit rate risk. Reports are provided on a timely basis to Executive Committee and the Board of Directors of the head office

6.4.5 Exposure to profit rate risk – non trading portfolios

The Window's profit sensitivity position based on contractual re-pricing arrangements at 31 December 2016 was as follows:

At 31 December 2016	Effective annual Profit Rate %	Within three months RO'000	Four months to 12 months RO'000	Over one year RO'000	Non sensitive to profit rate RO'000
Assets					
Cash and balances with central banks		-	-	-	15,222
Due from banks and financial institutions	1.51	7,700	-	-	282
Murabaha receivables	6.23	-	-	-	12,250
Ijarah muntahia bittamleek	4.95	9,846	25,957	18,425	-
Istisna followed by Ijarah muntahia bittamleek	5.34	7,658	26,350	6,992	-
Diminishing Musharka	4.93	20,354	17,090	-	-
Investment securities	4.60	-	8,292	1,635	-
Fixed assets		-	-	-	1,097
Other assets		-	-	-	1,174
Total assets		45,558	77,689	27,052	30,025
Liabilities and equity					
Wakala deposits	3.14	47,561	22,659	38,241	-
Customer current accounts		-	-	-	19,836
Other liabilities		-	-	-	957
Total liabilities		47,561	22,659	38,241	20,793
Equity of Investment Account Holders	2.08	34,467	-	-	-
Total liabilities and equity of Unrestricted Investment Account (URIA)		82,028	22,659	38,241	20,793
Total profit rate sensitivity gap		(36,470)	55,030	(11,189)	9,232
Cumulative profit rate sensitivity gap		(2,091)	52,939	41,750	50,982

SOHAR ISLAMIC
(ISLAMIC BANKING WINDOW OF BANK SOHAR SAOG)
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AS AT 31 DECEMBER 2017 (continued)

6. Risk exposure and assessment (continued)

6.5 Liquidity risk

The Window's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions without incurring unacceptable losses or risking damage to the Bank Sohar SAOG's reputation.

Central treasury receives information from other business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. Central treasury then maintains a portfolio of short-term liquid assets, largely made up of short-term liquid investment securities, financing and advances and advances to banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Bank as a whole. The liquidity requirements of business units are met through short-term financing and advances from central treasury to cover any short-term fluctuations and longer term funding to address any structural liquidity requirements. The Bank has also laid down a comprehensive liquidity contingency plan for effective management of liquidity. In this process due care is taken to ensure that the Window complies with all the CBO regulations.

All liquidity policies and procedures are subject to review and approved by Asset Liabilities Committee (ALCO). Computation of liquidity gap on maturity of assets and liabilities is provided. The computation has been prepared in accordance with guidelines provided in Circular BM 955 dated 7 May 2003.

6.5.1 Exposure to liquidity risk

The lending ratio, which is the ratio of the total financings and advances to customer deposits and capital, is monitored on a daily basis in line with the regulatory guidelines. Internally the lending ratio is set at a more conservative basis than required by regulation. The Window also manages its liquidity risk on regular basis and by monitoring the liquid ratio which is a ratio of net liquid assets to total assets on a monthly basis. For this purpose net liquid assets are considered as including cash and cash equivalents and investment grade debt securities for which there is an active and liquid market.

Details of the reported lending and liquid ratio as at 31 December 2017 were as follows:

	2017	
	Lending ratio	Liquid ratio
Average for the year	84.87%	9.46%
Maximum for the year	85.44%	21.02%
Minimum for the year	84.11%	2.37%

The table below summarises the maturity profile of the Window's 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 Window's deposit retention history and the availability of liquid funds.

2017	Carrying amount RO'000	Within three months RO'000	Four months to 12 months RO'000	One to three years RO'000	More than three years RO'000	Total RO'000
Wakala deposits	108,461	44,184	15,007	45,140	7,223	111,554
Customer deposit and other accounts	19,836	19,836	-	-	-	19,836
Other liabilities	957	957	-	-	-	957
Other liabilities	129,254	64,977	15,007	45,140	7,223	132,347
Equity of Investment account holders	34,467	34,467	-	-	401	34,220
	163,721	99,444	15,007	45,140	7,624	166,567

6. Risk exposure and assessment (continued)

6.5 Liquidity risk(continued)

The Window prepares a liquidity gap report to monitor the Window's short term liquidity position on the Rial denominated assets and liabilities in a time horizon spanning one month. The gap is adjusted for availability of instruments for repo or refinance and also for unavailed committed lines of credit, if any. This statement of short term liquidity is to be reported to the ALCO every month.

Windows exposure to profit rate risk has been further elaborated in Annexure 1 and 2 .

6.6 Market risk

Market risk is the exposure to loss resulting from the changes in the profit rates, foreign currency exchange rates and commodity prices. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return to risk.

Market risk is relevant to banking book and trading book but its measurement and management might differ in each book

Sohar Islamic proactively measures and monitors the market risk in its portfolio using appropriate measurement techniques such as limits on its foreign exchange open positions although they are insignificant.

6.6.1 Market risk in trading book

Market risk incorporates a range of risks, but the principal elements are Profit rate risk and foreign exchange risk.

Treasury business is conducted within approved market risk limits. It is Treasurer's responsibility to ensure that an appropriate market risk limits structure is available at all times to govern the business.

Limits are set for:
- foreign exchange risk
- rate of return risk
- approved dealing products
- approved dealing currencies
- maximum tenor

The Assets and Liability Committee (ALCO) conducts periodical meetings to discuss the mismatches in assets and liabilities and assesses the profit rate risk, foreign exchange risk and liquidity risk that Sohar Islamic is exposed to, so as to take steps to manage such risks. With the guidance of ALCO, the Bank's treasury manages profit rate and foreign exchange risks, adhering to the policy guidelines, which stipulate appropriate limits.

The capital charge for the applicable market risk is furnished below:

	RO' 000
Profit rate position risk	-
Equity position risk	-
Foreign exchange risk	436
Commodity risk	-

6.6.2 Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Board has set limits on the overall open position and for open position for each currency. The open position limits include overnight open position and intraday open position. Open positions are monitored on a daily basis and hedging strategies used to ensure positions are maintained within established limits.

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6. Risk exposure and assessment (continued)

6.7 Operational risk

Operational risk is defined as the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational risk arises due to variety of causes associated with the Window's processes, personnel, technology and infrastructure and from external events and to include risks other than credit, market and liquidity risks.

Window has adopted same policies and procedures to mitigate operational risk as those of the head office. Advantages of head office processes and infrastructure are obtained in compliance with IBRF. Policies on following processes are also similar to that of the head office:

- Track loss events and potential exposures;
- Reporting of losses, indicators and scenarios on a regular basis; and
- Review the reports jointly by risk and line managers;

In addition to the above, Window has a dedicated Sharia' compliance officer responsible to ensure compliance with IBRF, Sharia' guidelines and other applicable laws and regulations.

6.8 Displaced Commercial Risk

Displaced commercial risk ("DCR") refers to the magnitude of risks that are transferred to shareholders in order to cushion the Investment Account Holder ("IAH")from bearing some or all of the risks to which they are contractually exposed in Mudaraba contracts.

Under a Mudaraba (profit sharing and loss-bearing) contract, unrestricted IAH are exposed to aggregate impact of risks arising from the assets in which their funds are invested, but this is managed by Sohar Islamic Window through DCR.

This risk-sharing is achieved by constituting and using various reserves such as PER, and by adjusting the Sohar Islamic Window's profit share in order to smooth the returns payable to the IAH from exposure to the volatility of aggregate returns arising from banking risks, and thereby to enable payment of returns that are competitive in the marketplace. PER has been discussed above in detail .

Sohar Islamic Window manages its displaced commercial risk as outlined in its Profit Distribution Policy. The Window foregoes its fee in case displaced commercial risk arises. The Window manages profit rates with other Islamic Windows and full-fledged Islamic/ Conventional Banks operating in Oman.

During the year the Bank has on average charged fee of 16% of income generated by the assets allocated to the pool.

The window has not created any reserves so no analysis is presented for the same.

6.9 Contract Specific Risk

In each type of Islamic Financing asset is exposed to a varying mix of credit and market risk and accordingly capital is required to be allocated for such risk exposures.

As of reporting date financing assets only carries credit risk and accordingly capital is allocated as per the required regulations by CBO. The current product mix does not change the nature of risk according to the stage of contract.

Disclosure of Capital Requirements according to different risk categories for each Shari'a compliant financing contract.

6. Risk exposure and assessment (continued)

6.9 Contract Specific Risk (continued)

		RO' 000
	Risk weighted Assets	Capital Requirements
Murabaha receivables	12,259	1,471
Ijarah muntahia bittamleek	34,858	4,183
Istisna followed by Ijarah muntahia bittamleek	34,664	4,160
Diminishing Musharaka	37,822	4,539
Placements with banks	1,820	218
Investments	8,292	995
Others	2,419	290
Off Balance sheet	16,760	2,011
	148,894	**17,867**

7. Sharia Governance

A Shari'a governance framework has been implemented in the Window whose main objective of is to ensure sharia compliance at all the times. The key elements of sharia governance framework of the Window are as follows:

i. Shari'a Supervisory Board (SSB)
ii. Internal Reviewer who has the overall responsibility to undertake and monitor Shari'a Compliance, Shari'a Audit and training functions in accordance with IBRF.

Compliance with Shari'a (as manifested by the guidelines and Fatawa issued by the SSB) and as stipulated in IBRF is mandatory and is being done through review and approval of the contracts, agreements, policies, procedures, products, reports (profit distribution calculations), etc.

The Window ensures that the operations of the Islamic Banking Window are conducted in Shari'a compliance and controlled manner by following policies and procedures:

a) An appropriate Shari'a governance framework in compliance with IBRF, AAOIFI governance standards and guidelines and directives issued by SSB is maintained;
b) Key duties and functions are segregated. An independent executive is designated with the responsibility for Shari'a compliance and audit;
c) Policies and procedures manuals and documentation in relation to our products, operations, compliance, trainings, and internal controls are maintained and available to relevant staff;
d) Shari'a audit reports are submitted to the SSB in line with the agreed annual plan.
e) Islamic Banking Window assets are kept separate and distinct from conventional assets;
f) Window can not place funds with the conventional banks including Bank Sohar.
g) The Window management ensures that staff for certain key functions reporting to their respective department heads with dotted line reporting to the Head of The Window.
h) The Window has dedicated staff for business functions, such as consumer, corporate, treasury, etc. and the staff reports to the Head of Islamic Banking.
i) The core banking system adopted by The Window is capable of recognizing the unique nature of Islamic Banking contracts, transactions and processes.

Shari'a audits are conducted on quarterly basis in accordance with IBRF and submitted to SSB for its review and guidance. SSB has issued its annual report for 2017 on Shari'a compliance of the window and did not report any violations and did not direct any amount to Charity Account.

Internal Shari'a Reviewer oversees the Shari'a training plans and schedule for the Licensee. During the year 2017 training programs were conducted for the staff.

SSB has maintains no business relationship with the bank.

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7. Sharia Governance (continued)

Profile of the Sharia Supervisory Board

Dr. Hussain Hamed Hassan

Honorable Dr. Hussain is a Professor of Shari'ah and Comparative Law at Cairo University, he did his PhD in the Faculty of Shari'ah from Al Azhar University, Egypt and Master of Comparative Jurisprudence from University of New York, USA and graduated in Law and Economics from University of Cairo, Egypt, and he has an honorable PhD in Civil Law from Durham University in United Kingdom. He has over 50 years of experience in Islamic Banking and is the Chairman of Shari'ah Supervisory Boards of more than 30 banks and financial intuitions. He is also the author of more than 50 books and research papers, has written over 400 extensive articles and has also supervised the grand plan of translating 200 Islamic books into different languages. Additionally, he has successfully converted many conventional banks and financial intuitions into Islamic ones.

Dr. Mudassar Siddiqui

Dr. Mudassar Siddiqui is an internationally renowned expert of Islamic Studies and Western laws. He did his PhD in law from Chicago Kent College of Law, USA; Master of Law from Harvard Law School, USA; and Islamic Studies from, Islamic University of al-Madina al-Munawwarah, Kingdom of Saudi Arabia. He is a member of the AAOIFI Shari'ah Standards Committee; the Fiqh Council of North America; and a Research Fellow at the International Shari'ah Research Academy for Islamic Finance in Malaysia. He has more than 30 years of experience in providing Shari'ah and Law consultancy, Islamic banking documentation, research, lectures and arbitration for more than 40 worldwide organizations, universities and research centres.

Sheikh Azzan bin Nasir Farfoor Al Amri

Holding bachelor's degree in Islamic Studies and with a specialisation in Judiciary, Sheikh Azzan bin Nasir Farfoor Al Amri has been working as the secretary to the Grand Mufti of the Sultanate of Oman in the Fatwa Section since 2001. He is also well versed in Shari'ah Law, having done numerous courses in relevant fields and participated in many related workshops and conferences.

Sheikh Fahad Mohamed Hilal Al Khalili

Sheikh Fahad graduated from the Florida Atlantic University USA after which he joined the Central Bank of Oman (CBO), where he was part of the Treasury and Investment Division. Thereafter, Sheikh Fahad joined Al Madina Investment where he became the Deputy General Manager of Investment Banking. His key responsibilities included portfolio management, promotion of Greenfield ventures and handling high net worth individuals. Recently, Sheikh Fahad founded Bayan Investment House, which is focused on building long term relationships by provided investment banking and advisory services.

Remuneration to SSB

			RO'000
	Remuneration	Sitting Fee	Total
Dr. Hussain Hamed Hassan	16	1	17
Dr. Mudassir Siddiqui	12	2	14
Sheikh Azzan bin Nasir Farfoor Al Amri	8	1	9
Sheikh Fahad Mohamed Hilal Al Khalili	3	1	4
	39	5	44

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STATUTORY DISCLOSURES UNDER BASEL II FRAMEWORK & IBRF

AS AT 31 DECEMBER 2017 (continued)

7. Sharia Governance (continued)

Shari'a Supervisory Board's meetings and attendance

Name of Sharia Board Members	2 April-17	9 July-17	05 Oct-17	17 Dec-17	No. of Meetings Attended
Dr. Hussain Hamed Hassan	✓	✓	✓	✓	4
Dr.Mudassir Siddiqui	✓	✓	✓	✓	4
Sheikh. Azzan Al Amri	✓	✓	✓	✓	4
Sheikh Fahad Mohamed Hilal Al Khalili	✓	✓	✓	✓	4

Corporate Social Responsibility

Sohar Islamic conducts customer awareness program on Islamic banking and also supports social sharia compliant activities .

Other disclosures

Following are the disclosures required under Islamic Banking Regulatory Framework:

- There has been no comingling of the funds.
- As of 31 December 2017, and amount of OMR 282K is receivable from head office.
- There has been no amount transferred to Charity fund during the year.

SOHAR ISLAMIC
(ISLAMIC BANKING WINDOW OF BANK SOHAR SAOG)

STATUTORY DISCLOSURES UNDER BASEL II FRAMEWORK & IBRF

AS AT 31 DECEMBER 2017 (continued)

Statement on Sensitivity of Assets and Liabilities (SAL)
Annexure 1

RO'000

No.	Inflows (Assets and OBS)	Upto 1 month	1 - 3 months	3 - 6 months	6 - 12 months	1 - 2 years	2 - 3 years	3 - 4 years	4 - 5 Years	5 - 7 years	7 - 10 years	10-15 years	15-20 years	Over 20years	Non Sensitive	Total
1	Cash on Hand	-	-	-	-	-	-	-	-	-	-	-	-	-	1,052	1,052
2	Deposits with CBO	-	-	-	-	-	-	-	-	-	-	-	-	-	14,170	14,170
3	Balances due from HO/Affiliates/ Branches	-	-	-	-	-	-	-	-	-	-	-	-	-	282	282
4	Balances due from Other Banks	7,700	-	-	-	-	-	-	-	-	-	-	-	-	277	7,977
5	Investments	-	-	-	8,292	-	1,635	-	-	-	-	-	-	-	5,776	15,703
6	Bills of Exchange and Promissory Notes	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
7	Overdrafts	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
8	Loans and Advances	13,939	25,876	24,016	47,902	27,464	2,218	1,772	1,005	1,015	507	96	167	232	-	146,210
9	Non Performing Loans	-	-	-	-	-	-	345	-	-	-	-	-	-	-	345
10	Fixed Assets	-	-	-	-	-	-	-	-	-	-	-	-	-	1,098	1,098
11	Net Inter-branch Transactions	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
12	Accured Interest	-	-	-	-	-	-	-	-	-	-	-	-	-	695	695
13	Other Assets	-	-	-	-	-	-	-	-	-	-	-	-	-	842	842
14	Spot and Forward Purchases															-
15	Reverse Repos	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
16	FRAs	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
17	Swaps	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
18	Futures	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
19	Options	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
20	Others(Specify)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	Total	21,639	25,876	24,016	56,194	27,464	3,853	2,117	1,005	1,015	507	96	167	232	24,192	188,374

STATUTORY DISCLOSURES UNDER BASEL II FRAMEWORK & IBRF

AS AT 31 DECEMBER 2017 (continued)

Statement on Sensitivity of Assets and Liabilities (SAL)
Annexure 1 (continued)

No.	Outflows (Liabilities and OBS)	Upto 1 month	1 - 3 months	3 - 6 months	6 - 12 months	1 - 2 years	2 - 3 years	3 - 4 years	4 - 5 Years	5 - 7 years	7 - 10 years	10-15 years	15-20 years	Over 20years	Non Sensitive	RO'000 Total
1	Current Deposits	1	-	-	-	-	-	-	-	-	-	-	-	-	31,860	31,861
2	Saving Deposits	12,365	-	-	-	-	-	-	-	-	-	-	-	-	-	12,365
3	Time Deposits	8,438	39,175	4,108	17,985	27,567	10,000	-	83	-	-	-	-	-	-	107,357
4	Other Deposits	-	-	-	-	-	-	-	-	-	-	-	-	-	9,776	9,776
5	Balances due to HO/Affiliates/ Branches	-	-	-	-	-	-	-	-	-	-	-	-	-	18	18
6	Balances due to other Banks	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
7	Certificate of Deposits	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
8	Other Borrowings	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
9	Net Inter-branch Transactions															-
10	Bills Payable	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
11	Interest Payable	1,446	-	-	-	-	-	-	-	-	-	-	-	-	-	1,446
12	Provisons (others)															-
13	Spot and Forward Sales															-
14	Capital	-	-	-	-	-	-	-	-	-	-	-	-	-	21,000	21,000
15	Reserves	-	-	-	-	-	-	-	-	-	-	-	-	-	2,756	2,756
16	Retained Earnings	-	-	-	-	-	-	-	-	-	-	-	-	-	897	897
17	Sub-ordinated Debts	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
18	Others (Current Year's Profit/Loss)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
19	Repos	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
20	FRAs	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
21	Futures	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
22	Swaps	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
23	Options	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
24	Convertible Bonds															-
25	Other Liabilities														899	899
	Total	22,249	39,175	4,108	17,985	27,567	10,000	-	83	-	-	-	-	-	67,206	188,374
	Gap	(610)	(13,299)	19,908	38,209	(104)	(6,147)	2,117	922	1,015	507	96	167	232	(43,014)	(0)
	Cumulative Gap	(610)	(13,909)	5,999	44,208	44,104	37,957	40,074	40,997	42,012	42,519	42,615	42,782	43,014	(0)	

STATUTORY DISCLOSURES UNDER BASEL II FRAMEWORK & IBRF

AS AT 31 DECEMBER 2017 (continued)

Exposure to profit rate risk – Annexure 2

	2017 RO'000
Net Profit Income	3,772
Capital	23,164
Based on 50 bps Profit rate shock	
Impact of 50 bps profit rate shock	51.64
Impact as % to Net profit	1.37
Impact as % to CAPITAL	0.22
Based on 100 bps Profit rate shock	
Impact of 100 bps profit rate shock	103.28
Impact as % to Net profit	2.74
Impact as % to CAPITAL	0.45
Based on 200 bps Profit rate shock	
Impact of 200 bps profit rate shock	206.55
Impact as % to Net loss	5.48
Impact as % to CAPITAL	0.89

Statement on Maturity of Assets and Liabilities (MAL Annexure – 3

RO'000

No.	Inflows (Assets and OBS)	Upto 1 month	1 - 3 months	3 - 6 months	6 - 9 months	9 - 12 months	1 - 3 years	3 - 5 Years	Over 5 Years	Total
1	Cash on Hand	1,052								1,052
2	Deposits with CBO	9,979	1,419	254	430	260	1,057	97	674	14,170
3	Balances due from HO/Affiliates/ Branches	282	-	-	-	-	-	-	-	282
4	Balances due from Other Banks	7,977	-	-	-	-	-	-	-	7,977
5	Investments	1,762	1,762	1,762	-	3,007	1,636	-	5,775	15,703
6	Bills of Exchange and Promissory Notes									-
7	Overdrafts									-
8	Loans and Advances	2,670	1,705	3,158	3,148	3,459	25,277	21,707	85,088	146,212
9	Non Performing Loans	-	-	-	-	86	-	-	259	345
10	Fixed Assets								1,097	1,097
11	Net Inter-branch Transactions									-
12	Accrued Interest	695								695
13	Other Assets	842								842
14	Spot and Forward Purchases	29,259	17,782	26,180	-	5,842	-	-	-	79,063
15	Swaps									-
16	Options									-
17	Reverse Repos									-
18	Committed Lines of Credit	45,000								45,000
19	Letters of Credit/Gurantees/ Acceptances	0	56	171	203	48	15	-	6	499
20	Unutilized portion of Overdraft and Loans & Advances	906	370	531	138	29	377	35	-	2,385
21	Undrawn Exposure (Syn Loans)									-
	Total	100,424	23,094	32,056	3,918	12,731	28,361	21,839	92,899	315,322

SOHAR ISLAMIC
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STATUTORY DISCLOSURES UNDER BASEL II FRAMEWORK & IBRF
AS AT 31 DECEMBER 2017 (continued)

Statement on Maturity of Assets and Liabilities (MAL Annexure – 3 (continued)

RO'000

No.	Outflows (Liabilities and OBS)	Upto 1 month	1 - 3 months	3 - 6 months	6 - 9 months	9 - 12 months	1 - 3 years	3 - 5 Years	Over 5 Years	Total
1	Current Deposits	6,372	6,372	4,779	3,186	3,187	-	-	7,965	31,862
2	Saving Deposits	618	618	618	618	618	3,091	3,091	3,090	12,363
3	Time Deposits	8,469	39,102	2,866	10,170	4,656	31,228	70	10,797	107,357
4	Other Deposits	1,451	1,891	67	955	38	5,372	-	2	9,776
5	Balances due to HO/Affiliates/ Branches	18	-	-	-	-	-	-	-	18
6	Balances due to Other Banks	-	-	-	-	-	-	-	-	-
7	Certificate of Deposits									-
8	Other Borrowings									-
9	Net Inter-branch Transactions									-
10	Bills Payable	-								-
11	Interest Payable	1,446								1,446
12	Prov. other than for Loan Losses and Dep.in Invts.								-	-
13	Other Liabilities	899								899
14	Spot and Forward Sales	29,259	17,782	26,180	-	5,842	-	-	-	79,063
15	Swaps									-
16	Options									-
17	Repos									-
18	Letters of Credit/Guarantees/ Acceptances	61	246	157	23	3	9	-	-	499
19	Committed Lines of Credit	-	-	-	-	-	45,000	-	-	45,000
20	Unutilized portion of Overdraft and Loans and Advances	1,196	503	193	128	157	204	5	-	2,385
21	Others (Specify)									-
22	Capital								21,000	21,000
23	Reserves								2,756	2,756
24	Retained Earnings								897	897
25	Sub-ordinated Debts									-
26	Others (Current Year's Profit/Loss)								-	-
27	Undrawn Exposure (Syn Loans)									-
28	Convertible Bonds									-
	Total	49,789	66,514	34,860	15,080	14,502	84,904	3,166	46,507	315,322
	Cumulative Liabilities	49,789	116,304	151,163	166,243	180,745	265,648	268,814	315,322	
	Gap	50,634	(43,420)	(2,803)	(11,162)	(1,770)	(56,543)	18,673	46,391	
	Cumulative Gap	50,634	7,214	4,411	(6,751)	(8,521)	(65,064)	(46,391)	1	
	Cumulative Gap as a percentage of Cumulative liabilities	101.70	6.20	2.92	(4.06)	(4.71)	(24.49)	(17.26)	0.00	

SOHAR ISLAMIC
(ISLAMIC BANKING WINDOW OF BANK SOHAR SAOG)

STATUTORY DISCLOSURES UNDER BASEL II FRAMEWORK & IBRF

AS AT 31 DECEMBER 2017 (continued)

RECONCILIATION TEMPLATE - AS OF DEC ' 2017

Step 1 :

(RO '000)

	Balance sheet as in published financial statements As at Dec' 17	Under regulatory scope of consolidation As at Dec' 17
Assets		
Cash and balances with Central Bank of Oman	15,222	15,222
Certificates of deposit	-	-
Due from banks	7,982	7,982
Financing and advances	144,922	144,922
Investments in securities	15,804	15,804
Loans and advances to banks	-	-
Property and equipment	1,097	1,097
Deferred tax assets	-	-
Other assets	1,713	1,713
Total assets	186,740	186,740
Liabilities		
Due to banks	-	-
Customer deposits	162,764	162,764
Current and deferred tax liabilities	-	-
Other liabilities	957	957
Subordinated Debts		-
Compulsory Convertible bonds		-
Total liabilities	163,721	163,721
Shareholders' Equity		
Paid-up share capital	21,000	21,000
Share premium	-	-
Legal reserve	134	134
General reserve	988	988
Retained earnings*	897	897
Cumulative changes in fair value of investments	-	-
Subordinated debt reserve	-	-
Total shareholders' equity	23,019	23,019
Total liability and shareholders' funds	186,740	186,740

SOHAR ISLAMIC
(ISLAMIC BANKING WINDOW OF BANK SOHAR SAOG)
STATUTORY DISCLOSURES UNDER BASEL II FRAMEWORK & IBRF
AS AT 31 DECEMBER 2017 (continued)
RECONCILIATION TEMPLATE - AS OF DEC ' 2017

Step 2 :

(RO '000)

	Balance sheet as in published financial statements As at Dec' 17	Under regulatory scope of consolidation As at Dec' 17	Reference
Assets			
Cash and balances with CBO	15,222	15,222	
Balance with banks and money at call and short notice	7,982	7,982	
Investments :	15,804	15,804	
Of which Held to Maturity	7,444	7,444	
Out of investments in Held to Maturity:			
Investments in subsidiaries	NA	NA	
Investments in Associates and Joint Ventures	NA	NA	
Of which Available for Sale	NA	NA	
Out of investments in Available for Sale : Investments in Subsidiaries	NA	NA	
Investments in Associates and Joint Ventures	NA	NA	
Held for Trading	5,328	5,328	
Loans and advances	144,922	144,922	
Of which :			
Loans and advances to domestic banks	-	-	
Loans and advances to non-resident banks		-	
Loans and advances to domestic customers	139,551	139,551	
Loans and advances to non-resident Customers for domestic operations		-	
Loans and advances to non-resident Customers for operations abroad	2,321	2,321	
Loans and advances to SMEs	3,050	3,050	
Financing from Islamic banking window	-	-	
Fixed assets	1,097	1,097	
Other assets of which:	1,713	1,713	
Goodwill and intangible assets Out of which:			
goodwill	-	-	
Other intangibles (excluding MSRs)	-	-	
Deferred tax assets	-	-	
Goodwill on consolidation	-	-	
Debit balance in Profit & Loss account	-	-	
Total Assets	186,740	186,740	

STATUTORY DISCLOSURES UNDER BASEL II FRAMEWORK & IBRF

AS AT 31 DECEMBER 2017 (continued)

RECONCILIATION TEMPLATE - AS OF DEC ' 2017

Step 2 : (continued)

(RO '000)

	Balance sheet as in published financial statements As at Dec' 17	Under regulatory scope of consolidation As at Dec' 17	Reference
Capital & Liabilities			
Paid-up Capital	21,000	21,000	
Of which:			
Amount eligible for CET1	21,000	21,000	
Amount eligible for AT1	-	-	
Reserves & Surplus	2,019	2,019	
Out of which			
Retained earnings	897	897	
Other Reserves	1,122	1,122	
Cumulative changes in fair value of investments	-	-	
Out of which :			
Losses from fair value of investments	NA	NA	a
Gains from fair value of investments	NA	NA	
Haircut of 55% on Gains	NA	NA	
Total Capital	23,019	23,019	
Deposits :	162,764	162,764	
Of which:			
Deposits from banks	-	-	
Customer deposits	162,764	162,764	
Deposits of Islamic Banking window			
Other deposits(please specify) Wakala deposits	86,830	86,830	
Borrowings	-	-	
Of which: From CBO	-	-	
From banks	-	-	
From other institutions & agencies	-	-	
Borrowings in the form of bonds, Debentures and sukuks	-	-	
Others (Subordinated debt)	-	-	
Other liabilities & provisions Of which:	957	957	
Out of which : DTAs related to Investments			
Out of which : DTLs related to Investments			b
Out of which : DTLs related to Fixed Assets		-	
DTLs related to goodwill	-	-	
DTLs related to intangible assets	-	-	
TOTAL	186,740	186,740	

SOHAR ISLAMIC
(ISLAMIC BANKING WINDOW OF BANK SOHAR SAOG)
STATUTORY DISCLOSURES UNDER BASEL II FRAMEWORK & IBRF
AS AT 31 DECEMBER 2017 (continued)
RECONCILIATION TEMPLATE - AS OF DEC ' 2017

Step 3 :

(RO '000)

	Common Equity Tier 1 capital: instruments and reserves	Component of regulatory capital reported by bank	Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation from step 2
1	Directly issued qualifying common share (and equivalent for non-joint stock companies) capital plus related stock surplus	21,000	
2	Retained earnings	897	
3	Accumulated other comprehensive income (and other reserves)	1,122	
4	Directly issued capital subject to phase out from CET1 (only applicable to non-joint stock companies)	-	
5	Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET1)	-	
6	**Common Equity Tier 1 capital before regulatory adjustments**	**23,019**	
7	Prudential valuation adjustments	-	
8	Goodwill (net of related tax liability)	-	
9	Losses from fair value of investments	NA	a
10	DTL related to Investments	-	b
11	**Common Equity Tier 1 capital (CET1)**	**23,019**	

STATUTORY DISCLOSURES UNDER BASEL II FRAMEWORK & IBRF

AS AT 31 DECEMBER 2017 (continued)

BASEL III COMMON DISCLOSURE TEMPLATE TO BE USED DURING THE TRANSITION OF REGULATORY ADJUSTMENTS

	Basel III common disclosure template to be used during the transition of regulatory adjustments (i.e. from 1 January 2013 to 1 January 2018) (Please fill in only the cells highlighted in green with numbers and those in yellow with comments, if any)		RO '000 Amounts Subject To Pre-Basel III Treatment
1	Directly issued qualifying common share capital (and equivalent for non-joint stock companies) plus related stock surplus	21,000	
2	Retained earnings	897	
3	Accumulated other comprehensive income (and other reserves)	1,122	
4	Directly issued capital subject to phase out from CET1 (only applicable to non-joint stock companies)	-	
	Public sector capital injections grandfathered until 1 January 2018	-	
5	Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET1)	-	-
6	Common Equity Tier 1 capital before regulatory adjustments	23,019	
	Common Equity Tier 1 capital: regulatory adjustments		
7	Prudential valuation adjustments	-	-
8	Goodwill (net of related tax liability)	-	-
9	Other intangibles other than mortgage-servicing rights (net of related tax liability)	-	-
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	-	-
11	Cash-flow hedge reserve	-	-
12	Shortfall of provisions to expected losses	-	-
13	Securitisation gain on sale (as set out in paragraph 14.9 of CP-1)	-	-
14	Gains and losses due to changes in own credit risk on fair valued liabilities.	-	-
15	Defined-benefit pension fund net assets	-	-
16	Investments in own shares (if not already netted off paid-in capital on reported balance sheet)	-	-
17	Reciprocal cross-holdings in common equity	-	-
18	Investments in the capital of banking, financial, insurance and takaful entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	-	-
19	Significant investments in the common stock of banking, financial, insurance and takaful entities that are outside the scope of regulatory consolidation, net of eligible short positions (amount above 10% threshold)	-	-
20	Mortgage Servicing rights (amount above 10% threshold)	-	-
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	-	-
22	Amount exceeding the 15% threshold	-	-
23	of which: significant investments in the common stock of financials	-	-
24	of which: mortgage servicing rights	-	-
25	of which: deferred tax assets arising from temporary differences	-	-

STATUTORY DISCLOSURES UNDER BASEL II FRAMEWORK & IBRF

AS AT 31 DECEMBER 2017 (continued)

BASEL III COMMON DISCLOSURE TEMPLATE TO BE USED DURING THE TRANSITION OF REGULATORY ADJUSTMENTS (continued)

	Basel III common disclosure template to be used during the transition of regulatory adjustments (i.e. from 1 January 2013 to 1 January 2018) (Please fill in only the cells highlighted in green with numbers and those in yellow with comments, if any)		RO '000 Amounts Subject To Pre-Basel III Treatment
26	National specific regulatory adjustments REGULATORY ADJUSTMENTS APPLIED TO COMMON EQUITY TIER 1 IN RESPECT OF AMOUNTS SUBJECT TO PRE-BASEL III TREATMENT	-	-
	Of which: [INSERT NAME OF ADJUSTMENT]	-	-
	Of which: [INSERT NAME OF ADJUSTMENT]	-	-
	Of which: [INSERT NAME OF ADJUSTMENT]	-	-
27	Regulatory adjustments applied to Common Equity Tier 1 due to insufficient Additional Tier 1 and Tier 2 to cover deductions	-	
28	Total regulatory adjustments to Common equity Tier 1	-	
29	Common Equity Tier 1 capital (CET1)	23,019	
Additional Tier 1 capital: instruments			
30	Directly issued qualifying Additional Tier 1 instruments plus related stock surplus	-	
31	of which: classified as equity under applicable accounting standards 5	-	
32	of which: classified as liabilities under applicable accounting standards 6	-	
33	Directly issued capital instruments subject to phase out from Additional Tier 1	-	
34	Additional Tier 1 instruments (and CET1 instruments not included in row 5) issued by subsidiaries and held by third parties (amount allowed in group AT1)	-	
35	of which: instruments issued by subsidiaries subject to phase out	-	
36	Additional Tier 1 capital before regulatory adjustments	-	
Additional Tier 1 capital: regulatory adjustments			
37	Investments in own Additional Tier 1 instruments	-	-
38	Reciprocal cross-holdings in Additional Tier 1 instruments	-	-
39	Investments in the capital of banking, financial, insurance and takaful entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above 10% threshold)	-	-
40	Significant investments in the capital of banking, financial, insurance and takaful entities that are outside the scope of regulatory consolidation (net of eligible short positions)	-	-
41	National specific regulatory adjustments REGULATORY ADJUSTMENTS APPLIED TO ADDITIONAL TIER 1 IN RESPECT OF AMOUNTS SUBJECT TO PRE-BASEL III TREATMENT	-	
	Of which: [INSERT NAME OF ADJUSTMENT]	-	
	Of which: [INSERT NAME OF ADJUSTMENT]	-	
	Of which: [INSERT NAME OF ADJUSTMENT]	-	
42	Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions	-	
43	Total regulatory adjustments to Additional Tier 1 capital	-	
44	Additional Tier 1 capital (AT1)	-	
45	Tier 1 capital (T1 = CET1 + AT1)	23,019	
Tier 2 capital: instruments and provisions			
46	Directly issued qualifying Tier 2 instruments plus related stock surplus	-	
47	Directly issued capital instruments subject to phase out from Tier 2	-	

SOHAR ISLAMIC
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STATUTORY DISCLOSURES UNDER BASEL II FRAMEWORK & IBRF

AS AT 31 DECEMBER 2017 (continued)

BASEL III COMMON DISCLOSURE TEMPLATE TO BE USED DURING THE TRANSITION OF REGULATORY ADJUSTMENTS (continued)

			RO '000
	Basel III common disclosure template to be used during the transition of regulatory adjustments (i.e. from 1 January 2013 to 1 January 2018) (Please fill in only the cells highlighted in green with numbers and those in yellow with comments, if any)		Amounts Subject To Pre-Basel III Treatment
48	Tier 2 instruments (and CET1 and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties (amount allowed in group Tier 2)	-	
49	of which: instruments issued by subsidiaries subject to phase out	-	
50	Provisions	1,635	
51	Tier 2 capital before regulatory adjustments	1,635	
Tier 2 capital: regulatory adjustments			
52	Investments in own Tier 2 instruments	-	
53	Reciprocal cross-holdings in Tier 2 instruments	-	-
54	Investments in the capital of banking, financial, insurance and takaful entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above the 10% threshold)	-	-
55	Significant investments in the capital banking, financial, insurance and takaful entities that are outside the scope of regulatory consolidation (net of eligible short positions)	-	-
56	National specific regulatory adjustments REGULATORY ADJUSTMENTS APPLIED TO TIER 2 IN RESPECT OF AMOUNTS SUBJECT TO PRE-BASEL III TREATMENT Of which: [INSERT NAME OF ADJUSTMENT] Of which: [INSERT NAME OF ADJUSTMENT] Of which: [INSERT NAME OF ADJUSTMENT]	-	
57	Total regulatory adjustments to Tier 2 capital	-	
58	Tier 2 capital (T2)	1,635	
59	Total capital (TC = T1 + T2)	24,654	
Risk Weighted Assets			
	RISK WEIGHTED ASSETS IN RESPECT OF AMOUNTS SUBJECT TO PRE-BASEL III TREATMENT	-	
	Of which: [INSERT NAME OF ADJUSTMENT]		
	Of which: [INSERT NAME OF ADJUSTMENT]		
	Of which: [INSERT NAME OF ADJUSTMENT]		
60	Total risk weighted assets (60a+60b+60c)	159,761	
60a	Of which: Credit risk weighted assets	148,894	
60b	Of which: Market risk weighted assets	5,450	
60c	Of which: Operational risk weighted assets	5,417	
Capital Ratios			
61	Common Equity Tier 1 (as a percentage of risk weighted assets)	14.41	
62	Tier 1 (as a percentage of risk weighted assets)	14.41	
63	Total capital (as a percentage of risk weighted assets)	15.43	
64	Institution specific buffer requirement (minimum CET1 requirement plus capital conservation buffer plus countercyclical buffer requirements plus G-SIB/D-SIB buffer requirement expressed as a percentage of risk weighted assets)	9.50%	
65	of which: capital conservation buffer requirement	2.50%	
66	of which: bank specific countercyclical buffer requirement		
67	of which: D-SIB/G-SIB buffer requirement		

SOHAR ISLAMIC
(ISLAMIC BANKING WINDOW OF BANK SOHAR SAOG)

STATUTORY DISCLOSURES UNDER BASEL II FRAMEWORK & IBRF

AS AT 31 DECEMBER 2017 (continued)

BASEL III COMMON DISCLOSURE TEMPLATE TO BE USED DURING THE TRANSITION OF REGULATORY ADJUSTMENTS (continued)

			RO '000
	Basel III common disclosure template to be used during the transition of regulatory adjustments (i.e. from 1 January 2013 to 1 January 2018) (Please fill in only the cells highlighted in green with numbers and those in yellow with comments, if any)		Amounts Subject To Pre-Basel III Treatment
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk weighted assets		
National minima (if different from Basel III)			
69	National Common Equity Tier 1 minimum ratio (if different from Basel 3 minimum)	7.00%	
70	National Tier 1 minimum ratio (if different from Basel 3 minimum)	9.00%	
71	National total capital minimum ratio (if different from Basel 3 minimum)	12.00%	
Amounts below the thresholds for deduction (before risk weighting)			
72	Non-significant investments in the capital of other financials	-	
73	Significant investments in the common stock of financials	-	
74	Mortgage servicing rights (net of related tax liability)	-	
75	Deferred tax assets arising from temporary differences (net of related tax liability)	-	
Applicable caps on the inclusion of provisions in Tier 2			
76	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardised approach (prior to application of cap)	-	
77	Cap on inclusion of provisions in Tier 2 under standardised approach	-	
78	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to internal ratings-based approach (prior to application of cap)	-	
79	Cap for inclusion of provisions in Tier 2 under internal ratings-based approach	-	
Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2018 and 1 Jan 2022)			
80	Current cap on CET1 instruments subject to phase out arrangements	-	
81	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	-	
82	Current cap on AT1 instruments subject to phase out arrangements	-	
83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	-	
84	Current cap on T2 instruments subject to phase out arrangements	-	
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	-	