بنك ظفار
BankDhofar

25 YEARS

BEST BANK FOR YOU

# ANNUAL REPORT 2014

His Majesty Sultan Qaboos Bin Said

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BankDhofar wins
Sultan Qaboos Award for
Excellence in eGovernment
Best Public Mobile eService Award

# The Board of Directors' report for the financial year ended 31st December 2014

Dear Shareholders,

On behalf of the Board of Directors of Bank Dhofar S.A.O.G., I am pleased to present you the Bank's Financial Statements and the Auditors' Report for the financial year ended 31st December 2014.

## Oman's Economy

The first half of 2014 witnessed impressive numbers. Budget surplus during first six months of 2014 stood at RO250mn as against a surplus of RO 95.3mn in the corresponding period of 2013 as government revenue increased by 1.7 per cent to RO 7.19bn. As per numbers released during the first three months of 2014, there has been a notable improvement in non- petroleum activities, contributed by increase in activities such as agriculture and fisheries, mining and quarrying, wholesale and retail trade, hotels and restaurants etc. Oman has also one of the lowest inflation rates in the region. The government is continuing with its revenue diversification policies as a part of 'Vision 2020' programme and is expected to gain from such positive and forward looking policies/initiatives.  However, the key risk highlighted is the higher than anticipated decline in oil price during second half of 2014 putting pressure on 2015 Budget .  In this connection, Standard & Poor's has lowered the outlook to negative for Oman's sovereign ratings, but maintains 'A/A-1' long- and short-term sovereign rating. S&P expects Oman's real GDP growth to average 3.6 percent during 2014-17 down from 4 percent estimated in June 2014, as a result of decline in oil price.

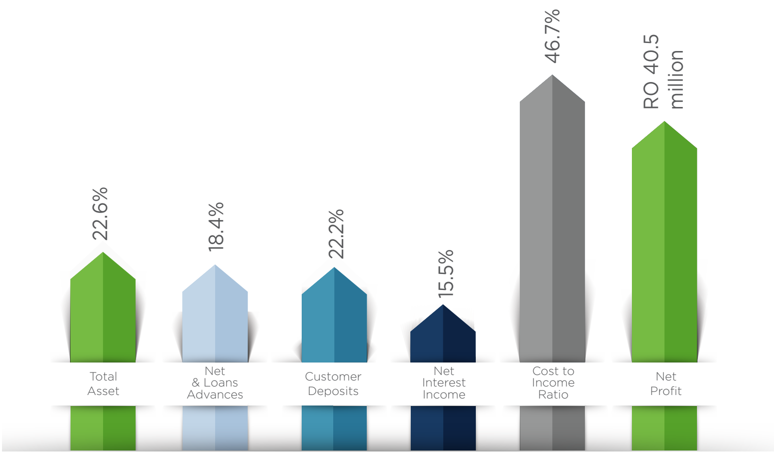
In its credit analysis report on the Sultanate, Moody's had also affirmed, Oman's A1 rating with a stable outlook reflects the government's healthy financial position and country's robust growth outlook as well as its open trade and investment regime. For 2014 and 2015, Moody's has projected real GDP growth of 3.5 per cent.

## Financial overview in 2014

The Bank continued to grow in all key areas in the year 2014 and crossed RO 3 billion in Total assets and 2 billion in Net Loans, Advances & Financing to customers, the net Loans, Advances and Financing to customers reached RO 2.25 billion at December 2014, showing a growth of 18.42% from RO 1.90 billion at the end of December 2013. The customer deposits mobilized by the bank achieved a growth of 22.17% from RO 2.03 billion at the end of 2013 to reach RO 2.48 billion at the end of 2014.

The key profitability indicators have also recorded positive growths, as net interest and financing income recording a strong growth of 15.46% reaching RO 76.79 million for the year 2014 compared to  RO 66.51 million in 2013. Non-interest and non-financing income such as fees and commission, foreign exchange profit, investment and other income have reached RO 22.06 million in 2014 as compared to RO 23.04 million achieved in the previous year.

The Cost to Income ratio during the year 2014 improved to 46.70% as compared to 50.60% in 2013. The provisions for loan impairment, net of recovery (excluding legal case recovery), during the year 2014 are RO 6.93 million, as against the RO 4.23 million during the previous year 2013 in line with loan growth.



The net profit for the year 2014 achieved by the Bank is RO 40.45 million as against RO 35.41 million, showing an increase of 14.23% year on year, excluding the effect of Legal case write back of RO 26.1 million (before taxes), in 2013. Net profit for 2013 including one-off Legal case recovery is OMR 58.51 million.

### Maisarah- Islamic Banking Services

Maisarah achieved outstanding results during 2014 in its 2nd year of operations after launch in March 2013. The Islamic Banking Window financial performance reflected strong growth as the total assets increased to RO 191.79 million at December 2014 from RO 50.02 million at the end of 2013, a growth of 3.83 times. The gross financing has grown remarkably by 4.71 times from RO 28.27 million at the end 2013 to reach RO 133.03 million at December 2014. Customer deposits raised by the Maisarah has recorded an impressive growth and increased from RO 3.68 million at the end of 2013 to RO 97.01 million at the end of 2014. The key profitability metrics showed good growth, with net financing income increased to OMR 3.72 million in 2014 compared to RO 0.26 million in 2013, recording 14.31 times growth.

Non-financing income such as fees and commissions, foreign exchange profit, investment income and other income reached RO 0.58 million during 2014 compared to RO 0.09 million in 2013.

Maisarah Islamic Banking Services became profitable in its first full year of operations in 2014, with achieving Net Profits before taxes of OMR 0.23 million for 2014 compared to net loss before taxes of OMR 2.20 million in 2013, which is nine-months operations being the year of launch and includes pre-operating expenses of OMR 0.49 million.

### Major deals

Major deals bagged during the year include Oman Refinery Petrochemicals LLC (ORPC) syndication deal for its Sohar refinery improvement project which was to upgrade the Sohar refinery and also enhance its output. We participated in the commercial facility tranche to the extent of USD 100 million.

### Strategic Initiatives

In September 2014, Bank raised Capital in the form of Tier 2 Sub-ordinated Loan of USD 75 million (RO 28.88 million). In continuation of capital augmentation plan, the Board of Directors in its meeting in December 2014 recommended to raise capital of OMR 115.5 million (USD 300 million) in the form of Tier 1 (including Additional Tier 1 capital) in 2015, subject to Regulatory Approval. Extra-ordinary General Meeting of the Shareholders would be called seeking necessary approvals.

To fund the growth of Bank's Islamic Window, the paid up capital of "Maisarah" Islamic Banking Services has been increased from RO 12.5 million to RO 25 million from the core capital of the Bank.

### Corporate Governance

The Bank has fully complied with all directives of the Code of Corporate Governance issued by the Capital Market Authority. The Bank has also assessed and reviewed the internal control procedures of the Bank during the year 2014.

In compliance with Article (101) of the Commercial Companies Law No. 4/1974 and its amendments, the Board of Directors would like to disclose that the total amount received in 2014 as sitting fees was RO 67,000 and the proposed remuneration is RO 133,000, complying with total cap of OMR 200 thousands

### Proposed Dividends

The Board of Directors in their meeting held on 27 January 2015 proposed a cash dividend of 10% (2013: 14%) for the year ended 31 December 2014 amounting to RO 13.43 million (2013: RO 16.94 million) and a bonus share issue of 10% (2013: 11%) amounting to 134,324,227 shares (2013: 133,114,093 shares) of RO 0.100 each.

| Year | 2009 | 2010 | 2011 | 2012 | 2013 |
|---|---|---|---|---|---|
| Cash Dividends | 15% | 12.5% | 7% | 15% | 14% |
| Bonus Shares | 10% | 12.5% | 20.2%* | 10% | 11% |

*Bonus shares for 2011 was distributed from Share Premium Account

Subsequently, Central Bank of Oman in their approval, advised to change the dividend distribution in the form of cash dividend of 5% amounting to RO 6.7 million and a bonus share issue of 15% aggregating to amounting 201,486,332 shares of RO 0.100 each, of the share capital of the bank. A resolution to approve these dividends and the increase in share capital will be presented to the shareholders at the annual general meeting and distributions are subject to shareholders approval.

During the year, unclaimed dividend amounting to RO 6,187 (2013: RO 29,171) was transferred to the Investor's Trust Fund account as per the guidelines issued by the Capital Market Authority of Oman.

### Corporate Social Responsibility (CSR) initiatives

Community and social awareness campaigns as well as a strong focus on engaging staff are being promoted through various channels and campaigns. External partnerships with the likes of the Environment Society of Oman, Al Noor Association for the Blind, the Oman Charitable Organisation and many others help BankDhofar interact with the community at large on a regular basis, and assess what programs to support. The list this year includes the following:

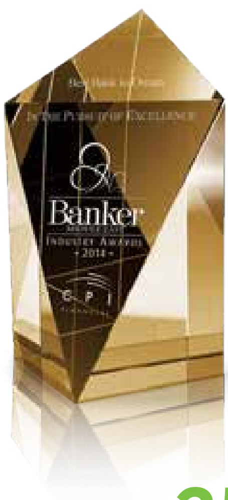
- Partnership with Tawasul supporting their Annual Civil Society's Leaders Dialogue focus on what's next in CSR
- Partnership with the Oman Association for the Disabled to provide specialized wheelchairs and medical beds for cerebral palsy patients
- Partnership with Dar Al Ata'a to provide for families in remote areas during the Holy month of Ramadhan
- Partnership with the newly formed Omani Bahja Orphan Society in Salalah to care for children
- BankDhofar blood donation drive where employees donated blood
- Internal research on attitudes and perceptions of CSR & Sustainability
- Partnership with Al Noor Association for the Blind in Muscat to help support their plan for 2014 in providing white canes and equipment
- Partnership with local school authorities to support Qura'an Memorisation competition

BankDhofar has invested in improving its own CSR in order to be a leader in the market, and offer all its stakeholders value added services with a focus not only being the best bank, but also a responsible financial institution. These efforts were recognized last year by the Capital Market Authority's Center of Corporate Governance as the leading Bank for 2013 and were given an award, in addition to recognition this year by Global Financial Market Review Award for 'Best Islamic Community Support' for Maisarah, BankDhofar's Islamic Banking Window.

### Awards and Accolades during 2014

Our Bank won the following awards during the year 2014:

- Best Managed Advisory Service, 2014 Banker Middle East Awards 2014
- Best Mobile Banking App, 2014 by Banker Middle East Awards 2014
- Best Islamic Community Support Bank 2014' by Global Financial Market Review
- Best Evolved Brand Award, 2014' by Global Financial Market Review
- Best Bank in the Sultanate 2014 by CPI Financial




- Best Retail Bank in Oman Global Banking & Finance Review 2013
- 2nd Prize Best Banks in Oman Business Today 2014
- The Sultan Qaboos Award for Excellence in e-Government 2014, for best Mobile service 2014
- 'The Customer Delight Award 2014' MENA, Oman, by The British Institute of Sales & Marketing Management

## Top Management Changes

During 2014 following changes took place in Bank's Senior Management:

- promoted Mr. Mohammed Iqbal Al Balushi as Assistant General Manager - Central Operations & Support Services
- filled the Head of Human Resources position by hiring Mr. Nasser bin Said Al-Bahantah as Deputy General Manager, Human Resources;
- following resignation of Mr.Hanna Al-Khoury, Deputy General Manager, Treasury & International for personal reasons, Mr Bashir bin Said Al Subhi, Assistant General Manager – International Banking takes over acting role as Head of Treasury & International

## Year Ahead

According to the World Economic Outlook published by IMF in October 2014, Oman's economic growth is projected to grow 3.4 per cent in 2014 and 2015 and expected to average around 3.4 per cent up to 2019. IMF has projected Oman's average inflation to be at 2.8 per cent in 2014 and 2015, against 0.3 per cent in 2013. IMF has also reported that GCC countries should continue with their reforms and that a steep or significant decline in oil price could have a negative impact on finances and economic growth.
The Oman Government has assured that Oman's development projects will continue as planned and steps are being taken to avoid any negative impact on the citizen's lives. Assessment is being made to minimize social and economic impact of the oil price drop. To continue the investment spending required to maintain economic growth rates and stimulate domestic demand, where the economy is expected to increase by 5% at constant prices (real GDP), geared by non-oil sectors as it is expected to achieve a growth rate of 5.5%.

Oman Government, through its 2015 Budget, is giving confidence to the private sector and also the investors in terms of continuity of the development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spending despite prevailing low oil prices. There are certain confidence boosting measures with respect to the MSM performance and also the upcoming Government Bond Issuances and privatization program (to be done over the next three years) would well support the local capital markets (debt and equity).

On the back of Oman's Governments plans to maintain spending in 2015 and assurances that major development projects would go on as planned, the banking industry is expected to maintain its stable growth trends in terms of loans and deposits during the year 2015.

### Acknowledgment

On behalf of the Board, I would like to thank our valuable customers for their patronage and confidence they have reposed in the Board of Directors and the Executive Management. Also I thank the shareholders for their continuous support and moreover I thank Chairman and members of Sharia Supervisory Board of Maisarah Islamic Banking Services for their great efforts made and contributions, diligent Staff and Management for their performance in the year 2014.

The Board of Directors also wishes to thank the Central Bank of Oman for its valuable guidance to the local banking sector.

Finally, on behalf of the Board of Directors, employees and the management I would like to express our most sincere gratitude to His Majesty Sultan Qaboos Bin Said for his wise leadership and generous support to the private sector.

Eng. Abdul Hafidh Salim Rajab Al-Aujaili
Chairman

# Members of the Board of Directors

**Name of Director:**
Eng. Abdul Hafidh Salim Rajab Al-Aujaili

**Basis of Membership:**
Chairman Non-executive Non-Independent Shareholder Director

**No. of other Directorships held:** –

**Name of Director:**
Sheikh Hamoud Mustahail Ahmed Al Mashani

**Basis of Membership:**
Vice-Chairman Non-executive Independent Non-shareholder Director

**No. of other Directorships held:** 3

**Name of Director:**
Sheikh Qais Mustahail Ahmed Al Mashani

**Basis of Membership:**
Member Non-executive Non-Independent Shareholder Director

**No. of other Directorships held:** 3

**Name of Director:**
Mr. Ahmed Said Mohammed Al Mahrezi

**Basis of Membership:**
Member Non-executive Independent Non-shareholder Director

**No. of other Directorships held:** 1

**Name of Director:**
Mr. Saleh Nasser Juma Al Araimi

**Basis of Membership:**
Member Non-executive Independent Shareholder Director

**No. of other Directorships held:** 3



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**Name of Director:**
Mr. Mohammed Yousuf Alawi Al Ibrahim

**Basis of Membership:**
Member Non-executive
Independent
Non-shareholder Director

**No. of other Directorships held:** 2

**Name of Director:**
Mr. Tariq Abdul Hafidh Salim Al-Aujaili

**Basis of Membership:**
Member Non-executive
Non-Independent
Non-shareholder Director

**No. of other Directorships held:** 3

**Name of Director:**
Eng. Abdul Sattar Mohammed Abdullah Al Murshidi

**Basis of Membership:**
Member Non-executive
Independent
Shareholder Director

**No. of other Directorships held:** -

**Name of Director:**
Mr. Majid Said Sulaiman Al Bahri

**Basis of Membership:**
Member Non-executive
Independent
Shareholder Director

**No. of other Directorships held:** -

# Executive Team

**Abdul Hakeem Al-Aujaili**
Acting CEO

**Kamal Al Murazza**
DGM-Wholesale Banking

**Faisal Al Wahaibi**
DGM-Retail Banking

**Ahmed Al Ibrahim**
DGM-Government Relations

**Shankar Sharma**
DGM-Chief Financial Officer

**Nasser Said Al Bahantah**
DGM-Human Resources

**Bashir Al Subhi**
AGM-International Banking

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**Shaleen Chugh**
AGM-Large Corporate &
Syndications Wholesale Banking

**Mohammed Iqbal Al Balushi**
AGM-Central Operations &
Support Services

**Hani Macki**
AGM-Mid Corporate &
Business Banking

**Tariq Taha**
AGM-Chief Information &
Transformation Officer

**Mohammed Al Riyami**
AGM-Internal Audit

**Depti Rai**
Head of Compliance

**Ranganathan Palanthandalam Madapusi**
Head of Risk Management

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# Corporate governance report for the Year Ended 31st December 2014



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EY
Building a better working world

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C.R. No. 1368095
P.R. No. MH/4

**Report of Factual Findings on the corporate governance reporting of Bank Dhofar SAOG and its application of the corporate governance practices in accordance with the CMA code of corporate governance**

**TO THE SHAREHOLDERS OF BANK DHOFAR SAOG**

We have performed the procedures prescribed in Capital Market Authority (CMA) circular no 16/2003, dated 29 December 2003 with respect to the accompanying corporate governance report of Bank Dhofar SAOG ('the bank') and its application of corporate governance practices in accordance with the CMA code of corporate governance issued under circular no. 11/2002 dated 3 June 2002 and the CMA Rules and Guidelines on disclosure, issued under CMA administrative decision 5, dated 27 June 2007. Our engagement was undertaken in accordance with the International Standard on Related Services applicable to agreed-upon procedures engagements. The procedures were performed solely to assist you in evaluating the extent of the bank's compliance with the code as issued by the CMA.

We report our findings below:

We found that the bank's corporate governance report fairly reflects the bank's application of the provisions of the code and is 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 corporate governance report.

Had we performed additional procedures or had we performed an audit or review of the corporate governance report in accordance with 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 corporate governance report of the bank to be included in its annual report for the year ended 31 December 2014 and does not extend to any financial statements of the Bank Dhofar SAOG, taken as a whole.

Ernst & Young

8 February 2015
Muscat

# Report on Corporate Governance

## Part One

### 1 - Corporate Governance Philosophy:

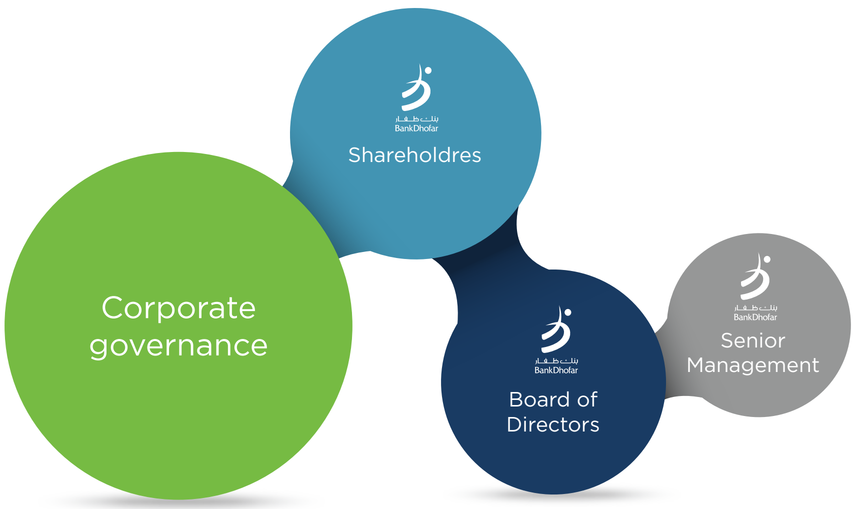
Corporate governance is an essential element in attaining, enhancing and retaining confidence of the bank's stakeholders. Corporate governance lays down the relationship and responsibilities between shareholders, board of directors and senior management of the bank through the structure of setting objectives, formulating strategies, controlling and monitoring performance while ensuring compliance with regulations in letter and spirit and promoting a culture of transparency through disclosures and commitment to highest ethical standards.

The Board of Directors of Bank Dhofar SAOG (the Bank) bear the principal responsibility of fashioning the Corporate Governance as appropriate to the Bank within the broad framework enunciated by the Central Bank of Oman (CBO) and the Capital Market Authority (CMA).

Decision-making within the Bank has been broadly divided into two levels. The Board of Directors (the Board) at the apex level, as trustees of the shareholders, bear the responsibility of strategic supervision of the Bank, apart from fulfilling statutory obligations. Some of the major responsibilities of the Board are discharged through five sub-committees, viz. the Board Credit Committee, Board Audit Committee, Board Risk Management Committee, Board HR Committee and Board Investment Committee. These sub-committees which operate under the Board approved charters have been meeting regularly and have contributed significantly to the effective functioning of the code of corporate governance. The charters of these committees meet with all the requirements as laid down in the Code of Corporate Governance enunciated by the CBO and the CMA. In addition, the Board carries the responsibility of approving the strategic plans and internal policies to institute adequate controls for achievement of the set objectives and compliance with rules and regulations. The executive management of the Bank comprises the Senior Managers headed by the Chief Executive Officer.

Through this two-tiered interlinked governance process, a wholesome balance has been created between the need for focus and executive freedom, and the need for supervision, control and checks and balances of all activities and transactions.

The formal Code of Corporate Governance prescribes the highest ethical standards in the conduct of the Bank's business. The Senior Members of the Bank are fully cognizant of their responsibilities in setting personal examples so that the code is internalized within the Bank and becomes part of its culture.



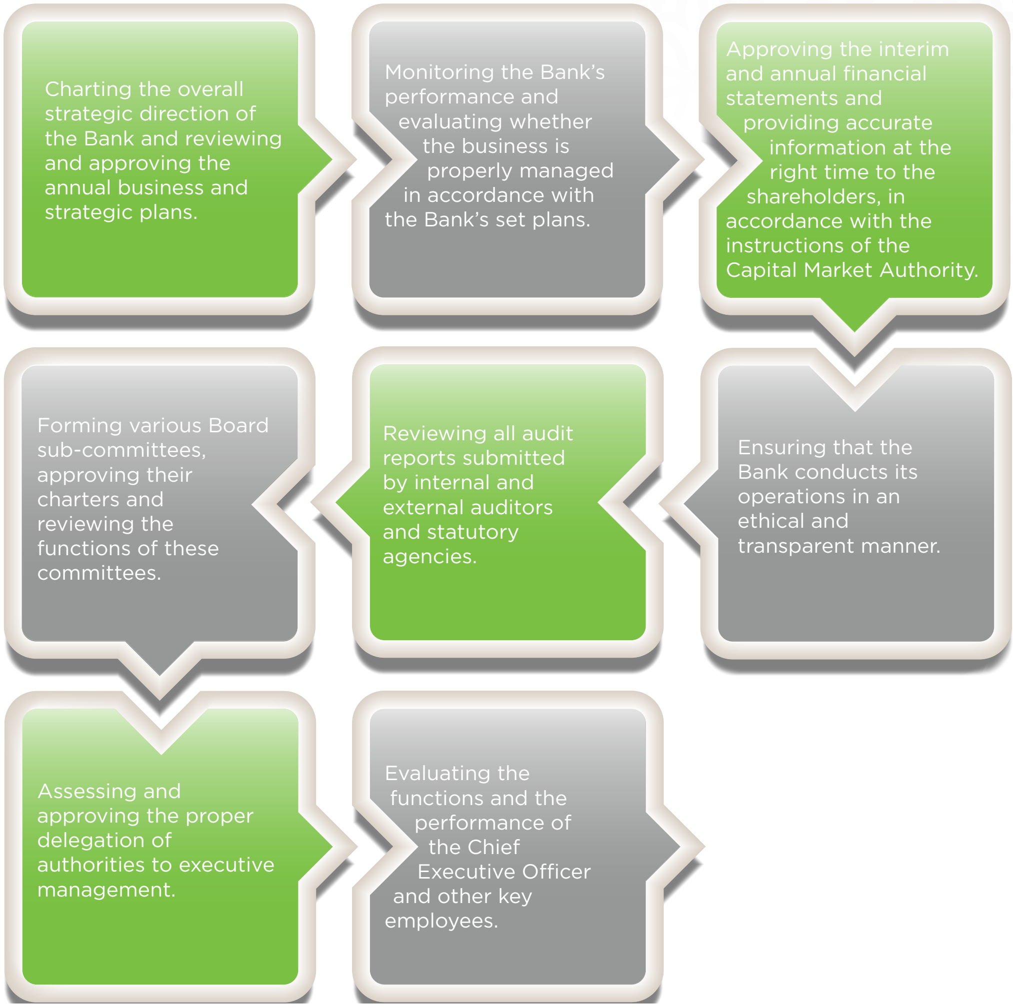
## 2. Board of Directors

### The Responsibilities of the Board of Directors

The Board has the full authority to perform all acts required for managing the Bank and protecting and growing the shareholders' interests pursuant to its objectives besides securing the interests of other stakeholders.

Such authority is not limited or restricted except as provided by the law, the Articles of Association or resolutions of the General Meetings. However, such authority is not extended to the operational matters and day-to-day affairs of the bank which remains a responsibility of the Senior Management.

The responsibilities and functions of the Board include the following:




Further, the Board exercises objective independent judgment on corporate affairs after having access to accurate, relevant and timely information.

### Size and Terms of the Board

The Board consists of nine (9) non-executive directors who are elected by the shareholders at the Annual General Meeting. The term of office of the Board of Directors is three years and each Director can be re-elected for a similar period. The term of the current Board expires in March 2016.

## Composition and Selection of the Board

Members of the Board of Directors are elected from among the Bank's shareholders or non-shareholders provided that a shareholder candidate owns not less than 50,000 shares of the Bank. All members of the Board of Directors shall be non-executive Directors.

A minimum of one-third of the Board members shall be independent Directors, meeting the amended definition of independent director by Capital Market Authority vide its Circular No.E/14/2012 dated 24 October 2012 which states that a director shall be deemed non-independent in the following cases:

1. If he holds ten percent or more of the company shares or the shares of parent company or subsidiary or fellow company
2. If he is representing a juristic person who holds ten percent or more of the company shares or the shares of parent company or subsidiary or fellow company.
3. If he is a senior executive, during the past two years, of the company or parent company or subsidiary or fellow company.
4. If he is a first degree relative of any of the directors of the company or parent company or subsidiary or fellow company.
5. If he is a first degree relative of any of the senior executives of the company or parent company or subsidiary or fellow company.
6. If he is a director of the parent company or subsidiary or fellow company of the company to which he stands as candidate for its board.
7. If he is an employee, during the past two years, of any of associated parties of the company or parent company or subsidiary or fellow company including chartered accountants and major suppliers or if holds controlling share in any of such parties during the past two years.

Please note that CMA has temporarily suspended the application of above definition by their circular E/9/2013 dated 20/11/2013. However, our Bank is complying with more stringent provisions of E/14/2012 dated 24 October 2012.

The nomination of Board members is within rules and condition of the election of directors as issued by CMA. The election process is through direct secret ballot whereby each sharerholder shall have a number of vote's equivalent to the number of shares he/she holds. Every shareholder shall have the right to vote for one candidate or more provided the total number of votes in the voting form is equivalent to the number of shares he/she holds.

At present all the directors of the Board are non-executive, three are non-independent and six are Independent within the scope of the definitions laid down by the Capital Market Authority.

## Board Committees

The Board has the following five permanent Board Committees, whose objectives, powers and procedures are governed by the terms of reference of the respective Committees as enshrined in their Charters, approved by the Board:

- **Board Credit Committee**
- **Board Audit Committee**
- **Board Risk Management Committee**
- **Board HR Committee**
- **Board Investment Committee**

Additional committees may be established from time to time based on business needs. Each committee has access to the information and resources it requires, including direct access to staff and consultants. The Board has selected the committee members based on their professional backgrounds, skills and other qualities they bring to the committees.

**Sharia Supervisory Board**

Sharia Supervisory Board was formulated in the year 2012 for guiding the Islamic Banking operations of the Bank.

## 3. Board of Directors and Senior Executive Profiles

### H.E. Engr. Abdul Hafidh Salim Rajab Al Aujaili

H.E. Engr. Abdul Hafidh Salim Rajab Al Aujaili is currently the Chairman of Bank Dhofar. He is promoter shareholder of well-established institutions in Oman such as Bank Dhofar, DIDIC, Dhofar Power Company and Oman Aviation.

### Sheikh Hamoud bin Mustahail Al Mashani – Vice Chairman

Sheikh Hamoud bin Mustahail Al Mashani is the Vice Chairman of the Board of Directors. He is also a member of the Credit Committee of the Board. He is currently holding senior positions in various corporations in Oman and has undertaken leading roles. Other positions held by him include Chief Executive Officer of Muscat Overseas Group, Manager - Qais Omani Establishment, Chairman of Dhofar Cattle Feed Co. and Director of Ports Services Corporation, Sheikh Hamoud holds a Diploma in Finance.

### Sheikh Qais bin Mustahail Al Mashani - Director

Shaikh Qais bin Mustahail Al Mashani is a member of the Board of Directors. He is also a member of the Audit Committee and Human Resources Committee of the Board. Other positions held by him within his diverse portfolio include Vice Chairman of Dhofar Insurance Co, Vice Chairman of Ports Services Corporation and Director of Dhofar Int. Development & Investment Holding Co (DIDIC). Shaikh Qais holds a Bachelor Degree from University of Yarmouk and Higher Qualification from Oxford Academy.

### Mr. Saleh bin Nasser Al Araimi- Director

Mr. Saleh bin Nasser Al Araimi is a member of the Board of Directors. He is also the Chairman of the Audit Committee and a member of the Risk Committee of the Board. He has diverse experience in the civil service spanning more than thirty five years. His experience includes holding senior positions in Ministry of Social Affairs & Labour. Presently he holds the position of Director General of Public Authority for Social Insurance. He has been a Director of Shell Marketing Oman. Mr. Saleh holds a Master Degree in Business Administration a Higher Diploma in Business Administration and a Bachelor of Business Administration.

### Mr. Ahmed bin Said Al Mahrezi- Director

Mr. Ahmed Said Al Mahrezi is a member of the Board of Directors. He is also the Chairman of the Risk Committee and a member of the Audit Committee of the Board. He has extensive experience in the public sector in Law, Finance, Investment & Administration, extending over a period of more than 25 years. He has been a Director of International Company for Hotels Management. Mr. Ahmed holds a Master of International Commercial Law and a Bachelor of Law.

### Mr. Mohammed bin Yousuf Al Ibrahim - Director

Mr. Mohammed bin Yousuf Al Ibrahim is a member of the Board of Directors. He is also a member of the Credit Committee and a member of the Risk Committee of the Board. He has extensive experience in Directorship of private and public companies. His diverse portfolio includes being Shareholder, Executive & Managing Director of various private companies & Establishments. He has been a Director of Dhofar University and Director of Raysut Cement Co. Mr. Mohammed holds a Bachelor of Business Administration.

### Mr. Tariq Abdul Hafidh Al Aujaili- Director

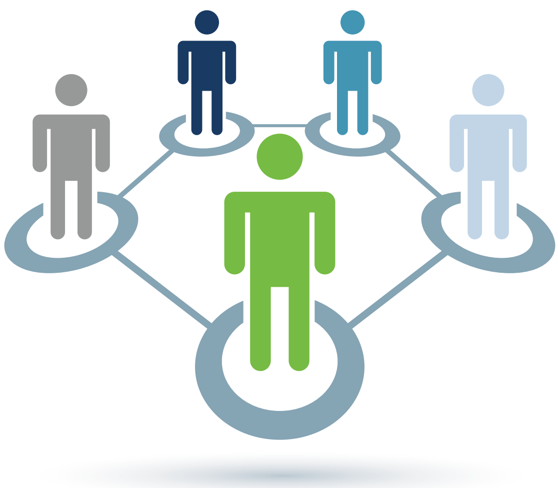
Mr. Tariq Abdul Hafidh Al-Aujaili is Chairman of the Board Human Resources Committee, a member of the Board Risk Management Committee and a member of the Board Investment Committee. Mr. Al Aujaili held previous directorship positions as Vice-Chairman of the Dhofar International Development & Investment Holding Co. SAOG, Chairman of Financial Services Co. SAOG, Director of Oman Investment & Finance Company, as well as a member of its Audit and Investment Committee. Mr. Al-Aujaili holds a Bachelor's degree in Accountancy and Finance.

### Eng. Abdul Sattar bin Mohammed Al Murshidi - Director

Eng. Abdul Sattar bin Mohammed Al Murshidi is a member of the Board of Directors. He is the Chairman of the Investment Committee of the Board, a member of the Credit Committee and a member of the Human Resource Committee of the Board. He has a successful career with Petroleum Development Oman (PDO) over the past 25 years in the fields of Well Drilling, Corporate Appraisal & Management Information, Corporate Technology Management and Business Support Management. Presently he holds the position of Oil Director – North. Eng. Abdul Sattar holds a Bachelor of Civil Engineering.

### Mr. Majid bin Said Al Bahry - Director

Mr. Majid bin Said Al Bahry is a member of the Board of Directors. He is also a member of the Audit Committee and a member of the Risk Committee of the Board. He has over 20 years' experience in accounting, finance & Information systems: Presently he holds the position of Deputy Director - Treasury & Accounts in Ministry of Defence. Mr. Majid holds a Master of Finance and Master of Business Administration.



# Part Two

## 1. Members of the Board of Directors

The Board of Directors of Bank Dhofar (SAOG) consists of the following:

| S. No. | Name of Director | Basis of Membership | | | No. of Other Directorships Held |
|---|---|---|---|---|---|
| 1 | Eng. Abdul Hafidh Salim Rajab Al-Aujaili | Chairman Non-executive | Non-Independent | Shareholder Director | - |
| 2 | Sheikh Hamoud Mustahail Ahmed Al Mashani | Vice-Chairman Non-executive | Independent | Non Shareholder Director | 2 |
| 3 | Sheikh Qais Mustahail Ahmed Al Mashani | Member Non-executive | Non-Independent | Shareholder Director | 3 |
| 4 | Mr. Ahmed Said Mohammed Al Mahrezi | Member Non-executive | Independent | Non-shareholder Director | 1 |
| 5 | Mr. Saleh Nasser Juma Al Araimi | Member Non-executive | Independent | Shareholder Director | 3 |
| 6 | Mr. Mohammed Yousuf Alawi Al Ibrahim | Member Non-executive | Independent | Non-shareholder Director | 2 |
| 7 | Mr. Tariq Abdul Hafidh Salim Rajab Al-Aujaili | Member Non-executive | Non-Independent | Non-shareholder Director | 3 |
| 8 | Eng. Abdul Sattar Mohammed Abdullah Al Murshdi | Member Non-executive | Independent | Shareholder Director | - |
| 9 | Mr. Majid Said Sulaiman Al Bahry | Member Non-executive | Independent | Shareholder Director | - |

The Board of Directors held 7 meetings during 2014 as follows:

| | | | |
|---|---|---|---|
| 29 January 2014 | 17 March 2014 | 29 April 2014 | 25 May 2014 |
| 21 July 2014 | 28 October 2014 | 24 December 2014 | |

Details of meetings and remuneration of the Board of Directors of Bank Dhofar (SAOG) are as follows:

| S. No. | Name of Director | Capacity of Membership | No. of Meetings Attended | Directors' Benefits (Amount in RO) | |
|---|---|---|---|---|---|
| | | | | Fees Paid | Remuneration Proposed |
| 1 | Eng. Abdul Hafidh Salim Rajab Al-Aujaili | In Personal Capacity | 7 | 10,000 | 16,578 |
| 2 | Sheikh. Hamoud Mustahail Ahmed Al Mashani | In Personal Capacity | 4 | 3,800 | 15,078 |
| 3 | Sheikh. Qais Mustahail Ahmed Al Mashani | Representative of Dhofar International Development & Investment Holding Company (SAOG) | 3 | 3,400 | 13,578 |
| 4 | Mr. Ahmed Said Mohammed Al Mahrezi | In Personal Capacity | 5 | 6,900 | 15,077 |
| 5 | Mr. Saleh Nasser Juma Al Araimi | Representative of Public Authority for Social Insurance | 5 | 8,000 | 15,077 |
| 6 | Mr. Mohammed Yousuf Alawi Al Ibrahim | In Personal Capacity | 5 | 8,200 | 13,578 |
| 7 | Mr. Tariq Abdul Hafidh Salim Rajab Al-Aujaili | In Personal Capacity | 7 | 10,000 | 15,078 |
| 8 | Eng. Abdul Sattar Mohammed Abdullah Al Murshidi | Representative of Malatan Trading and Contracting LLC | 4 | 10,000 | 15,078 |
| 9 | Mr. Majid Said Sulaiman Al Bahry | Representative of Ministry of Defence Pension Fund | 6 | 7,000 | 13,578 |
| **TOTAL** | | | | **67,300** | **132,700** |



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## 2. Sharia Supervisory Board (SSB)

The SSB consists of five members. The objectives of SSB include:

- To Provide the Sharia rulings in all activities of the Islamic Banking Window (IBW)
- To supervise the compliance of the IBW with Islamic Sharia rules
- To enhance the IBW contribution in spreading the awareness and contribute in development of the Islamic banking

| Name of Director | Designation | No. of Meetings Attended | Honorarium (Amount in RO) | |
|---|---|---|---|---|
| | | | Fees Paid | Remuneration Proposed |
| Sheikh Dr. Salim Bin Ali Bin Ahmed Al Dhahab | Chairman | 7 | 2,800 | 6,000 |
| Sheikh Dr. Mohammed bin Ali bin Mahmoud Al Lawati | Member | 7 | 2,100 | 4,000 |
| Sheikh. Ahmed bin Awadh bin Abdul-Rahman Al-Hassaan | Member | 7 | 2,100 | 4,000 |
| Sheikh Dr. Abdullah bin Mubarak Al Abri | Member | 5 | 1,500 | 4,000 |
| Sheikh Dr. Mohammad Ameen Ali Qattan | Member (Non-Voting) | 6 | 1,800 | 4,000 |
| | | | **10,300** | **22,000** |

The Sharia Supervisory Board has held 7 meetings in 2014.

## 3. Board Credit Committee

The Board Credit Committee consists of members with proper experience, skills and initiative. The objectives of the Board Credit Committee is to discharge responsibilities on behalf of the Board in deciding on specific policy matters demanding in-depth study and analysis, deliberation and interactive consideration and decisions on micro matters of business beyond the powers delegated to the management, but considered less important to receive the full Board's attention and time.The Board members of the Board Credit Committee are:

| Name of Director | Designation | No. of Meetings Attended |
|---|---|---|
| Eng. Abdul Hafidh Salim Rajab Al Aujaili | Chairman of the Board Credit Committee | 15 |
| Sheikh. Hamoud Mustahail Ahmed Al Mashani | Member | 5 |
| Eng. Abdul Sattar Mohd Abdullah Al Marshidi | Member | 14 |
| Mr. Mohammed Yousuf Alawi Al Ibrahim | Member | 9 |

The Board Credit Committee held 15 meetings during 2014.

## 4. Board Audit Committee

The Audit Committee was formed by the Board of Directors with the following main objectives and responsibilities:

- To focus the attention of the Board and top management of the Bank on the importance of strong financial reporting and risk management.
- To monitor the adequacy of internal controls in the Bank and to take appropriate steps to improve them where required.
- To monitor the Bank's compliance with legal and regulatory provisions, its articles of association, charter, by-laws and rules established by the Board of Directors.
- To identify the risk areas of the Bank's operations to be covered in the scope of the internal and external audits during the year.
- To monitor the effectiveness of the internal audit function and approve the audit plan as well as the availability of adequate resources (personnel and tools) and information access.
- To recommend the appointment / change of the external auditors and determine and review their terms of engagement.
- To meet the External Auditors and hear their views before forwarding the annual financial statements to the Board for approval.
- To report and bring to the attention of the Board any matters of concern with regard to the fore-going and any material accounting or auditing concerns identified as a result of the external or internal audits, or examination by supervisory authorities.

The Members of the Board Audit Committee are:

| Name of Director | Designation | No. of Meetings Attended |
|---|---|---|
| 1. Mr. Saleh Nasser Juma Al Araimi | Chairman of the Audit Committee | 6 |
| 2. Mr. Ahmed Said Mohammed Al Mahrezi | Member | 5 |
| 3. Sheikh. Qais Mustahail Al Mashani | Member | 2 |
| 4. Mr. Majid Said Sulaiman Al Bahry | Member | 5 |

The Board Audit Committee held 6 meetings in 2014.

## 5. Board Risk Management Committee:

The Risk Management Committee of the Board was formed by the Board of Directors to focus on issues relating to Risk Management policies and procedures on a Bank-wide basis by arriving at a judicious policy decision collectively.

Roles and Responsibilities:

- To understand the risks undertaken by the Bank and ensure that they are appropriately managed.
- To develop risk policies, limits and procedures after assessment of the Bank's risk bearing capacity.
- To identify, monitor and measure the overall risk profile of the Bank.
- To verify models used for pricing complex products and transfer pricing.
- To review the risk models as development takes place in the markets and also identify new risks.
- To ensure that the risk policies developed clearly spell out the quantitative prudential limits on various segments of Bank's operations.
- To build stress scenarios to measure the impact of unusual market conditions and monitor variance between the actual volatility in portfolio values and those predicted by the risk measures.
- To monitor compliance with various risk parameters by business lines.
- To hold the line management accountable for the risks under their control.
- To oversee and ensure the implementation of CBO's guidelines on risk management systems in Banks.

The members of the Board Risk Management Committee are:

| Name of Director | Designation | No. of Meetings Attended |
|---|---|---|
| 1. Mr. Ahmed Said Mohammed Al Mahrezi | Chairman of the Board RM Committee | 5 |
| 2. Mr. Tariq Abdul Hafidh Salim Al Aujaili | Member | 6 |
| 3. Mr. Saleh Nasser Juma Al Araimi | Member | 5 |
| 4. Mr. Majid Said Sulaiman Al Bahry | Member | 5 |

The Board Risk Management Committee held 6 meetings in 2014.

## 6. Board Human Resources Committee:

The Human Resources Committee of the Board of Directors was formed by the Board to ensure that the overall human resources developments at Bank level are as per the strategic direction of the Bank.

At a strategic level, the Committee is responsible for reviewing and monitoring the following:

- Ensure manpower plans take into account, the strategic and specific resources requirements at the Bank to achieve strategic plans
- Review the Omanisation plans and ensure certain defined positions are ear-marked for prospective Omanis within a prescribed period of time
- Review exit interviews and note any dismissals or resignations for middle management and top management
- Review the recruitment policy adopted by the Human Resources Department
- Review the qualifications and experience of specific candidates for the positions at the top management levels
- Review and monitor compensation and reward policy and procedures
- Review and monitor training and development policy and process

The members of the Board Human Resources Committee are:

| Name of Director | Designation | No. of Meetings Attended |
|---|---|---|
| 1. Mr. Tariq Abdul Hafidh Salim Rajab Al Aujaili | Chairman of the Board HR Committee | 7 |
| 2. Sheikh Qais Mustahail Ahmed Al Mashani | Member | 2 |
| 3. Eng. Abdul Sattar Mohammed Abdullah Al Marshidi | Member | 7 |

The Board Human Resources Committee held 7 meetings in 2014.

## 7. Board Investment Committee

The Board Investment Committee is a newly formed Board committee on 19 March 2013.The Committee oversees management practices on investment matters. The Committee, on behalf of the Board, monitors investment activities, as well as compliance with policies and regulatory requirements. The Committee ensures that the management undertakes appropriate measures to recognize adverse trends, to identify problems in investment portfolio. The Committee also approves investments (in accordance with the authorities granted by the Board and as specified in the Authority Matrix) and wherever relevant, investment matters in business activities.

The members of the Board Investment Committee are:

| Name of Director | Designation | No. of Meetings Attended |
|---|---|---|
| 1. Eng. Abdul Sattar Mohammed Abdullah Al Marshidi | Chairman of the Board Investment Committee | 4 |
| 2. Mr. Tariq Abdul Hafidh Salim Rajab Al Aujaili | Member | 3 |
| 3. Mr. Mohammed Yousuf Alawi Al Ibrahim | Member | 4 |

The Board Investment Committee held 4 meetings in 2014.

## 8. Directors' Remuneration and Executives Pay

As all members of the Board are non-executive directors, no fixed salary or performance-linked incentives are applicable. The non-executive directors are paid an annual remuneration and sitting fees for attending the Board / Committee meetings. Directors' proposed remuneration and sitting fees paid during 2014 are as follows:

| | Proposed Remuneration RO | Sitting Fees Paid RO | Total RO |
|---|---|---|---|
| Chairman of the Board | 16,578 | 10,000 | 26,578 |
| Board Members | 116,122 | 57,300 | 173,422 |
| **Total** | **132,700** | **67,300** | **200,000** |

The Bank's top five executives are Acting Chief Executive Officer, Deputy General Manager – Retail Banking, Deputy General Manager – Wholesale Banking, Deputy General Manager - Finance, Deputy General Manager – Government Relations have received the following in 2014:

| | Salaries , Performance Bonus & Others (OMR) |
|---|---|
| Top five Executives | 955,532 |

Incentives other than the fixed payments are linked to the performance. Performance is measured against the preset objective for contribution towards achievement of Bank's overall goals. The period of services contract for expatriate executives is two years while the notice period for the executives is three months.

### Profiles of the Top 5 Executives:

**Abdul Hakeem Al Ojaili,**
Acting Chief Executive Officer

Abdul Hakeem Al Ojaili is a veteran Banker with over 24 years of progressive banking experience, Abdul Hakeem assumed the leadership of the Bank in 2013 with a proven track record of vast Corporate & Retail Banking, Operations, Technology and Corporate Support Service experience gained while navigating across the organization from its embryonic inception and development which has led Bank Dhofar to become one of the leading Banks in Oman.

Prior to moving up in the ladder, Abdul Hakeem was the General Manager of Corporate Services, where he led the restructuring and transformation of the bank's entire support functions including Operations, Technology, Support Services and Human Resources.

Before that, he headed the Retail Banking and Marketing Division, during which the bank had achieved very good business growth and network expansion.

Abdul Hakeem started his career in wholesale banking for number of years where he managed all types and sizes of corporate portfolio in business and industries.

Abdul Hakeem holds a BA and MBA from Exeter University, UK. He is also an alumnus of both Harvard and London Business Schools Executive Education Programs.

Early in his banking career, Abdul Hakeem has been exposed to the international banking environment by being cross posted on assignments with JP Morgan and Lloyds TSB.

### Kamal Hassan Al Murazza

Mr. Kamal Hassan Al Murazza presently serves Bank Dhofar S.A.O.G in the capacity of Deputy General Manager Wholesale Banking Group. The Bank's Wholesale Banking Group consists of Large Corporates Division, Project Finance & Syndications, Mid Sector Corporates, Business Banking, Payments and Cash Management, MIS/Projects and The Advisory & Investment Banking Division.

Kamal Hassan Al Murazza is an astute Corporate Banker who served Bank Dhofar at various positions from 2000 to 2006 & served HSBC Muscat Corporate Banking as a Unit Head from 2006 to 2007 & As Assistant General Manager Corporate Banking at Bank Sohar S.A.O.G from 2007 to 2010 & Bank Dhofar S.A.O.G as Deputy General Manager Wholesale Banking from 2010 till date.

Mr Kamal Al Murazza is a member of the Bank's Asset & Liability Committee, the Technology Committee & sits as Deputy Chairman of the Management Credit Committee, Deputy Chairman of Management Risk Committee, and Deputy Chairman of the Management Committee and is the Chairman of Human Resources Committee & the Chairman of the Disciplinary committee.

Kamal has more than 15 years of experience in Corporate Banking, Relationship management, sales & marketing, Risk Management, Business strategies etc., He holds a Bachelor's degree from Saint Louis University U.S.A and attended several specialized banking programs in the country and as well internationally.

### Faisal Hamad Al Wahaibi

Mr. Faisal Al-Wahaibi presently serves the bank in the capacity of Deputy General Manager- Retail Banking Division. Banks Retail Banking Division comprises of Retail Credit, electronic Banking, Retail Products, Segments and Services, Branch Network, Branch Support, Institutional Sales, Customer Relationship Management and Projects Management Departments.

Mr. Faisal joined the Bank in 2009 as Assistant General Manager of the Retail Banking Division. Mr. Faisal is a member of the Bank's Asset & Liability Committee, Executive Committee, Management Credit Committee, Management Risk Committee, Purchase Committee, Disciplinary Committee, Human Resources Management Committee and is the Chairman of Staff Recognition Panel.

Mr. Faisal has more than 20 years of experience in Strategic Planning, Relationship Management, Customer Experience, Budgeting / Planning / Funding, Regulatory Affairs, Outsourcing and Restructuring, Cost Control and Reduction, Sales / Marketing / Distribution, Staff Development, Customer retention strategies, telecommunications, Operations, Retail and Accounts with organisations like Bank Muscat Oman, MENA Business Services Dubai, Omantel. Mr. Faisal holds a Bachelors (BSc /BA) degree in Marketing, University of Missouri St. Louis-Missouri, USA

### Ahmed Said Al Ibrahim

Mr. Ahmed Said Al Ibrahim presently serves Bank Dhofar in the capacity of Deputy General Manager – Government Banking and Branding. He joined the Bank in 1996. Mr. Ahmed sits on the Bank's Asset & Liability Committee, EXCO, Investment Management Committee and also the Chairman of the Purchase Committee. Mr. Ahmed has more than 22 years of experience which includes Management, Sales and Marketing, Government Banking, Quality Assurance, Investment Banking and Priority Banking with organization like Ministry of Information and Bank Dhofar. He holds an MBA from University of Hull – UK, Bachelor's Degree in Mass Communication from Sultan Qaboos University, Executive Leadership Programme from London Business School and attended a lot of programs in Management, Business and Banking.

### Shankar Sharma

Mr. Shankar Sharma joined the Bank in 2012 and serving as the Chief Financial Officer, reporting to the Chief Executive Officer. Shankar is responsible for all financial affairs, guides in setting strategy and planning for the Bank. He sets the tone and plays a key role in shaping and driving performance culture for achieving superior and sustainable long-term financial results.

Shankar sits at various Management level committees including, Asset Liability Management Committee (Deputy Chair), Human Resources Management Committee (Deputy Chair), Purchase Committee (Deputy Chair), Information Technology Steering Committee (Deputy Chair), Business Continuity Management Group (Deputy Chair), Investment Management Committee and Management Risk Committee.

Shankar comes with rich experience in financial services industry including his leadership role as Chief Executive Officer of Arab Financial Services B.S.C. (AFS), Bahrain, a regulated financial institution and regional leader in payments processing in the Middle East. Prior to his role of CEO, he was CFO at AFS.

Shankar served in a senior management role for five years in the National Commercial Bank, Saudi Arabia and four years in Canada with a leading European Bank. His wide experience includes assurance practice roles at Ernst & Young, Saudi Arabia, management consultant role at A.F. Ferguson & Co., India. Shankar, is a Certified Public Accountant (CPA) from Delaware State Board of Accountancy, USA, Chartered Accountant (ACA) from the Institute of Chartered Accountants of India, Cost and Management Accountant (CMA), Institute of Cost and Management Accountants of India and holds Masters in Business Administration (MBA) from University of Strathclyde, UK, after earning his Bachelors in Commerce degree (B.Com) from University of Madras, India.

## 9. Compliance with Regulatory and Control Requirements

The Bank adhered to and complied with all relevant regulatory requirements in the last three years except one instance in 2012 when the bank was penalized for RO 66 by two of its regulators, and two cases in 2014 when the bank was penalized for RO 15,000 by one of its regulators. The Bank has taken all corrective and necessary measures to avoid similar instance in future.

Also the Bank complied with all provisions of the Code of Corporate Governance issued by the Capital Market Authority.

## 10. Communication with Shareholders and Investors

All financial and non financial information are disseminated in a timely manner and a cost efficient access is provided to the users. The management provides regular updates to the market on the Bank's performance and new developments. The management discussion and Analysis Report form part of the annual report besides detailed disclosures in accordance with regulatory requirements and international standards.

The Bank publishes its quarterly interim financial statements and also hosts these and other relevant information at its website (www.bankdhofar.com) and Muscat Securities Market (MSM) website (www.msm.gov.om). The quarterly results are also published in two local newspapers in Arabic and English. These results remain available for the shareholders from the Bank. Bank's all official news releases are displayed on the Bank's website.

## 11. Market Price Data

### a. Share Price Movements

The high/low share price information of the Bank during the financial year ended 31 December 2014 compared with Muscat Securities Market Financial Sector Index is as follows:

| 2014 | Bank Dhofar Share Price (RO) | | | MSM Financial Sector Index |
|---|---|---|---|---|
| Month | High | Low | Closing | Closing |
| January | 0.382 | 0.356 | 0.37 | 7087.32 |
| February | 0.372 | 0.364 | 0.366 | 7113.87 |
| March | 0.386 | 0.306 | 0.334 | 6856.89 |
| April | 0.336 | 0.326 | 0.330 | 6727.19 |
| May | 0.366 | 0.302 | 0.35 | 6857.43 |
| June | 0.386 | 0.354 | 0.382 | 7008.27 |
| July | 0.400 | 0.376 | 0.39 | 7200.7 |
| August | 0.400 | 0.380 | 0.386 | 7367.16 |
| September | 0.384 | 0.370 | 0.384 | 7484.17 |
| October | 0.384 | 0.344 | 0.358 | 6974.62 |
| November | 0.360 | 0.332 | 0.336 | 6505.99 |
| December | 0.358 | 0.280 | 0.354 | 6343.22 |



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### b. Major Shareholders

The following are the major shareholders who own more than 5% of the outstanding shares as at 31 December 2014:

| Sr.No. | Shareholder | Percentage of Ownership |
|---|---|---|
| 1 | Dhofar International Development & Investment Holding Company (SAOG) | 27.82% |
| 2 | Eng. Abdul Hafidh Salim Rajab Al Aujaili & his companies | 20.84% |
| 3 | Civil Service Pension Fund | 10.22% |
| 4 | Ministry of Defence Pension Fund | 8.58% |
| 5 | Public Authority of Social Insurance | 8.36% |
| 6 | H.E. Yousuf bin Alawi bin Abdullah & his Companies | 6.85% |
| 7 | Qais Omani Establishment LLC | 6.27% |
| 8 | Others | 11.06% |
| | **Total** | **100%** |

## 12. Profile of the Statutory Auditors

The shareholders of the Bank appointed Ernst & Young (EY) as the Bank's external auditors for the year 2014. EY is the statutory auditors of the Company. EY has been operating in the Sultanate of Oman since 1974 and is the largest professional services firm in the country. EY Oman, forms part of EY's EMEIA practice, with 4,015 partners and over 90,500 professionals in 462 offices throughout the EMEIA geographical area. Globally, EY operates in more than 150 countries and employs 190,000 professionals.

## 13. Acknowledgment

The Board of Directors acknowledges confirmation of:

- Its responsibility for the preparation of the financial statements in accordance with the applicable standards and rules.
- Review of the efficiency and adequacy of internal control systems of the bank and that it complies with rules and regulations and internal policies.
- There are no material matters that affect the continuation of the bank and its ability to continue its operations during the next financial year.

## 14. Other Matters

- During 2014, the Bank has fully complied with all directives of the Code of Corporate Governance issued by the CMA.
- The Statutory Auditors of the Bank are Ernst & Young. The Professional fees paid or payable to auditors for 2014 is RO 42,900. This amount represents RO 32,000 paid for audit services and RO 10,900 paid for non-audit services. In addition, the professional fees paid or payable for Islamic Banking Window is RO 6000 (both for Audit fees and Sharia fees).
- The last Annual General Meeting was held on 20 March 2014. The meeting was conducted as per statutory requirements and attended by Eng. Abdul Hafidh Salim Rajab Al Aujaill, Sheikh. Hamoud Mustahail Ahmed Al Mashani , Mr. Saleh Nasser Juma Al Araimi , Mr. Mohammed Yousuf Alawi Al Ibrahim , Mr. Tariq Abdul Hafidh Salim Rajab Al Aujaili , Eng. Abdul Sattar Mohammed Abdullah Al Murshidi , Mr. Majid Said Sulaiman Al Bahry

## 15. Subordinated Loan of USD 75 Million

The Bank has raised USD 75 Million on 16 September 2014 by way of sub-ordinated loan (which is a Tier II Capital Instrument for Capital Adequacy purposes) to meet the banks growth and the Basel III Capital Adequacy requirements as stipulated by the Central Bank of Oman on a timely basis. The loan agreement of the subordinated debt facility has been executed as per guidelines set out at Para 12 of the Guidelines on Regulatory Capital under Basel III under CBO circular BM 1114 dated 17 November 2013. The tenor of the subordinated loan is 66 months without a call or put option. The interest shall be payable half yearly and the principal will be paid on maturity as a bullet payment.

# Management discussion and analysis report for the year ended 31st December 2014

## Strategy and Planning

BankDhofar has a clear strategic path which helped us navigate over the years and this is evident in our performance. The on-going 5 year strategy of the Bank that commenced in 2012; 'The BIG Plan' predominantly focuses on improving the customer experience. Moreover, the benchmarking and mystery shopping surveys have provided an insight into understanding customer needs, behavioral drivers, and profitability. The multi-channels strategies; such as internet banking, mobile banking, 24/7 call centre, ATM Self Service have shown a positive shift in customer's banking preferences; enabling the branch staff to focus on more complex services, while opening door for future cross-sell and up-sell opportunities. Internal process changes and enhancements such as instant issuance of debit cards, loan originating system along with the revamped products, such as Housing Loan within 5 days- are all aligned and geared towards improving the customer experience by offering a more efficient, quick, cost effective, and personalized service.


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## Economic Scenario and Outlook

The economic growth story of the country was stable and positive during 2013. According to the National Center for Statistics and Information (NCSI), Gross Domestic Product at market prices increased by 2.8 per cent in 2013. 2013 GDP stood at RO 30.63bn at the end of 2013, compared to RO29.8bn at the end of 2012. At the same time, GDP at producers' price recorded a growth of 3.4 per cent, according to the Centre.
The first half of 2014 also witnessed impressive numbers. Budget surplus during first six months of 2014 stood at RO250mn as against a surplus of RO95.3mn in the corresponding period of 2013, as government revenue increased by 1.7 per cent to RO7.19bn. As per numbers released during the first three months of 2014, there has been a notable improvement in non- petroleum activities, contributed by increase in activities such as agriculture and fisheries, mining and quarrying, wholesale and retail trade, hotels and restaurants etc. Oman has also one of the lowest inflation rates in the region. The government is continuing with its revenue diversification policies as a part of 'Vision 2020' program and is expected to gain from such positive and forward looking policies and initiatives.

However, the key risk highlighted is the higher than anticipated decline in oil price. In this connection, Standard & Poor's has lowered the outlook to negative for Oman's sovereign ratings, but maintains 'A/A-1' long- and short-term sovereign rating. S&P expects Oman's real GDP growth to average 3.6 percent during 2014-17 down from 4 percent estimated in June 2014, as a result of decline in oil price. According to the World Economic Outlook published by International Monetary Fund in October 2014, Oman's economic growth is projected to grow 3.4 per cent in 2014 and 2015 and expected to average around 3.4 per cent up to 2019. The IMF has projected Oman's average inflation to be at 2.8 per cent in 2014 and 2015, against 0.3 per cent in 2013. The IMF has also reported that GCC countries should continue with their reforms and that a steep or significant decline in oil price could have a negative impact on finances and economic growth.

## Wholesale Banking Group

BankDhofar Corporate Banking endeavors to be the most preferred, professional and reliable corporate bank delivering superior service to its target customers through a team of motivated, skilled personnel in a cost-effective manner through building and strengthening corporate relationships with an acceptable risk and reward policy.
The Wholesale Banking Group (WSB) consists of the following departments:
(i) Corporate Banking
(ii) Business Banking
(iii) Payment and Cash Management
(iv) Wholesale Banking Projects & MIS
(v) Corporate Advisory & Investment Banking

The reorganization provided the WSG more focus on different segments of business and provides full range of Commercial and Corporate banking services under a single umbrella through dedicated relationship managers. The business strategy of the WSB helps with all-round business growth with quality portfolio, by adhering to various statutory and regulatory guidelines.


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Different departments within WSB complement each other in extending timely and efficient service to customers and facilitate better internal controls and process efficiencies. WBG has undertaken many initiatives in consolidation of operations and also integration of different activities with a customer centric approach. The relationship managers' mind set has changed more towards customer service and turnaround time for various deals & service requests are improved with efficient back office transactions.

- Corporate Banking

  Corporate Banking continues to play a vital role in WSB by concentrating on top end customers, growing corporates, and project finance & syndication for infrastructure projects. The customer base is well spread out in a large spectrum of various industries that include Trading, Manufacturing, Services and Contracting. Similarly, the credit requirements of these high end customers are varied and dynamic which is catered by WSB through this department and continuous interaction with customers is maintained to understand their business cycle and requirements. For growing corporates, BankDhofar is adopting a sectoral approach in marketing new offerings/products for various businesses.

  WSB is confident that private investment in the country will witness growth in tandem with the growth of the country's economy providing new opportunities for corporate banking. WSB as a strategy is concentrating on the growing companies which have potential to grow further.
  The bank endeavours to tap the growth in oil and gas sector, expansion of the Industrial base at Barka, Sohar and Duqm and with the proposed railway project there exist many opportunities. WSB continuously adapts to this dynamic environment and realigns its approach to changing market conditions.

  Our emphasis continues to be on the development of tailor-made financial solutions that are suited to the particular needs of the customers. Regular coordination and cooperation meetings among various departments of the Bank are held to ensure prompt delivery/sale of different Bank's products (retail banking, treasury and personal banking products) to our customers irrespective of the banking segment they belong to. The department is also strengthening the Relationship Team by providing dedicated Credit Analysts for back office support functions, which has improved the control mechanism and turnaround time for customers.

  The Bank has a dedicated team of professionals in Project Finance & Syndications area to arrange syndicate and participate in various infrastructure and industrial projects promoted by the Government and quasi Government entities and private sector companies. It has worked out a strategy to increase the mix of working capital, project finance & syndication exposure for such customers, so as to optimize the return on the portfolio under this segment.

  Over the years, the Bank has participated in many of the major infrastructural projects including those by Oman India Fertilizer Company, Sohar Aluminum, Oman LNG, Oman Gas, Salalah Port, Oman Refinery (expansion) and other power and water projects. In recent years BankDhofar has Lead a number of deals, and the Bank has strong relationships with local, regional and international banks for the purpose of ensuring full participation.

The current year was challenging for the Project finance area with limited deals in the local market. Availability of long term USD funds for financing the term loan requirements of the projects remains the major challenge in this area and the Bank has initiated several steps to counter this. The outlook for 2015 is promising with many potential mandates lined up. The major projects expected in the next year include the Sohar-Buraimi rail link, Petrochemical project in Sohar, Salalah Independent Power Project and other private sector projects in various sectors.

- Business Banking Department

  With the growing importance of the Small & Medium enterprises (SME) to development of a vibrant economy, BankDhofar has embarked on the strategic initiatives to participate in the further enrich SMEs in the country. This is in line with the needs of the economy and other Governmental initiatives. The Bank has created a separate department headed by Senior personnel and has worked out a Business strategy as the Small & Medium Enterprises business requirements are different & specific in nature and credit exposure to this segment is associated with peculiar risk characteristics. The customers in this segment need to be handled by skilled and experienced resources to understand the specific business requirements to provide timely & adequate credit delivery. Dedicated business relationship officers are deployed to handle customers in this segment and provide appropriate financing solutions to the entrepreneurs in the SME segment. The Bank is also extending its delivery channels by leveraging the technology so as to reach out to customers across the country.

- Payment and Cash Management Department

  Enhancing the existing suit of products by including Payments & Cash management services is yet another initiative, so as to add value to corporate customers' overall banking services. Cash Management services/ products to corporate customers enable them to manage all aspects of the financial cash flows i.e. collection of revenue, disbursements of expenses/ payables, tracking as well as the investment of surplus funds etc. A dedicated Trade Products (Sales) unit markets and develops products in the Trade Finance area and assesses the needs of corporate clients, specific to trade finance and suggests suitable structured products to improve usage of non-fund based facilities. The Bank proposes to offer technologically advanced tailor-made products & services to customers that can add convenience/value in their day to day banking needs. The department was created to offer the above value added services to corporate customers and is headed by an experienced resource and expects to increase its share in this line of business.

- Wholesale Banking Projects & MIS department

  A new department "Wholesale Banking Projects & MIS department" was created to derive optimum productivity from the available resources. This will ensure streamlining of new initiatives/projects for enhancing existing systems & processes within the wholesale banking group. The dedicated teams of this department ensure accurate and timely reporting system to various stakeholders and carry out portfolio monitoring functions. They support the business teams in enhancing the features of existing software applications and acts as a coordinating unit between various departments within the Bank.

- Corporate Advisory & Investment Banking Services

  Wholesale Banking offers specialized services of strategic advisory to various industry sectors including Oil & Gas, Telecom, and Financial Institutions by providing tailor made solutions & products such as Mergers & Acquisitions, Divestitures, Capital Planning, Capital Structures, Private Placement, Startups, Joint Ventures, Business Re-engineering, Feasibility Studies, Financial Structuring, Raising Equity and Raising Debt etc., so as to maximize bottom line opportunities for the Bank's clients. The Bank proposes to further strengthen the Corporate Advisory Team, to provide seamless services to our corporate customers as a one stop shop. The business under this segment is driven by a well experienced Senior Manager.

### Retail Banking Division

In 2014, to drive growth in the overall asset portfolio, several best-in-class personal loan and housing loan product offers and campaigns were launched
The Retail Banking Division (RBD) of BankDhofar continued its focus on providing value-added products and services to the customers.

- Branch Network

  With 68 branches, 145 ATMs and 52 CDMs distributed across the Sultanate, the network continues to drive retail banking business growth in the overall assets & liabilities portfolios in 2014.

- Priority Banking 'Al-Riadah'

  The Al Riadah Segment boasts 4 fully equipped centers in Muscat, Salalah and Sohar. These centers have qualified Relationship managers to oversee our Priority Customers' needs and ensure that all their banking requirements are met. The services and benefits were tailor-made to cater to each individual's separate requirements and ensure that their banking needs are taken care of as per their sub-segment .

- Retail Products, Business & Segments

  During 2014, the Retail Products, Business & Segments team has worked on enhancing existing products as well as designing, developing and implementing new products and offerings.

- Retail Assets Products

  In 2014, to drive growth in the overall asset portfolio, several best-in-class personal loan and housing loan product offers and campaigns were launched, providing an exclusive banking experience for customers by making these loans the most competitive products in market. The housing loan campaign continued for the third year, providing best customer service in Oman, facilitating customers to own a new home within 5 days at most competitive and affordable pricing. The Bank also launched a special package to target large corporate employees. With focused effort in a number of key areas, BankDhofar saw a healthy growth in the personal lending and housing loan segment.

- Retail Liabilities Products

  In February 2014, the new savings scheme was launched. BankDhofar offered a Daily prize of OMR 2,000 and weekly prize of OMR 20,000. Due to the enhanced scheme the Savings product showed considerable growth in the Bank's Liabilities Portfolio.

- Credit Card Business

  In March, 2014 BankDhofar proudly launched the Student Credit Cards to students of all colleges and universities in Oman. The primary purpose of this sourcing strategy is to target potential future customers out of the youth segment. Once the students complete their studies and take up employment or venture into self-employment, we need to ensure their familiarity with BankDhofar as a brand at an early stage in their banking experience.

  In addition the Cash-back and Summer campaigns launched during the year resulted in developing a long term strategy for the Bank's credit cards portfolio with clear business objectives and expectations in terms of contributions from the portfolio.

- Bancassurance Products

  BankDhofar continued offering domestic health insurance, family protection insurance and motor insurance. These services are provided by the Bank as an insurance agency. The insurance covers all kinds of policies and offers the best no claim bonus discount in the market.

- Retail Segments

  During 2014, the Retail Segments team worked to develop Several Segments that cater to the needs of the different customer segments, ensuring maximum customer satisfaction as well as aiding in the growth of the Bank's Asset and Liabilities portfolios. Retail Segments enhanced the Bank's product services and benefits for each of its customer segments in addition to introducing the Salary Protection scheme which targets the manual labour workforce in Oman. In 2014 Retail Segments developed the full segments plan for the Bank which includes Youth & Student Banking, Ladies Banking, Children's Banking, Priority Banking and Expat Banking.

  The Bank strongly believes in the need for bringing about a positive change in the lives of different segments of society and focuses on all types of products that fall within the development of the key segments and their importance and overall benefit, both to individuals and to society. The prime objective of the segment division is to include the benefits reaching the largest number of individuals; from the youth and job-seekers to the lucrative VIP segment.

- Customer Relationship Management (CRM)

  For the second year the CRM strategy implementation continued to help the Bank focus on:

  - Customer acquisition
  - Customer satisfaction
  - Customer retention
  - Improving the effectiveness of communications to customers, improving response rates and returns on marketing investment
  - Prepare for launch of other products & services

  E-Banking As part of the distribution plan for 2014, the electronic channels witnessed a remarkable development which improved service levels.

  - Call Centre

  New services were added in the Call Center such as:

  - Temporary deactivation of Debit Card.
  - Enabling and Disabling SMS service in Credit Card System.
  - Change of SMS language in Credit Card System.
  - 24/7 Fraud Monitoring Activity.
  - Dispute form processing
  - Range of Islamic Banking services.

  The Call Centre helped in generating increased amount of business through inbound and outbound campaigns. To ensure customer satisfaction, a strict quality control procedure has been implemented. Furthermore, the Call Centre staff was put through periodic training programs on products and customer handling skills. By the end of October 2014, the Call Centre has received 183,412 calls translating into an increase of 14% compared to the same period last year (171,517).

- Self-Services

  BankDhofar ATM network has increased to 145 ATMs and 52 CDMs as 5 additional ATMs and 4 CDMs were added during 2014. New services were added such as foreign currency withdrawals for BankDhofar and non BankDhofar customers with multiple rates for multiple customer segments at selected ATMs. This is in addition to payments for American Express credit cards as well as bill payments and top ups for Ooredoo and Omantel subscribers that can be made through BankDhofar CDMs.

- Online Banking

  More services were added to internet banking such as local fund transfers with competitive rates. The self-registration process by self-creating User ID and both login & transaction passwords helped to increase the number of customers using the internet banking channel in both Retail and Corporate segments. More services were added to Internet Banking such as Ooredoo top up and bill payment, in addition to AMEX payments where customers maintaining a BankDhofar account and holding an AMEX card can pay their dues.

  As an additional security measure, BankDhofar tied up with the Information Technology Authority in Oman to introduce Mobile Public Key Infrastructure (PKI), which is an additional security measure for online Banking users.

- Mobile Banking

  As part of striving to provide customer convenience and best customer experience, BankDhofar launched the 'Beneficiary Sync' feature. All beneficiaries added in Mobile Banking will get synced to Internet Banking and vice versa. Only deletion and editing the beneficiary will happen in the selected channel. Furthermore, BankDhofar introduced unification data in which changes occurring by the customer to his/her personal details including; Mobile Number, Email ID, Preference Channel, Language Preference.

  In addition, BankDhofar eBanking witnessed a significant turning point with the launch of Mobile Banking available in both Arabic and English supporting 3 Mobile Platforms including IOS, Android and exclusively (and for the first in Oman) to BlackBerry RIM 10 devices, making it wholly customer-centric. The new features included utility payments, mobile top up for Omantel, Ooredoo & FRiENDi subscribers, prayer timing, loan payments, donations, exchange rates, self-transfers, transfers within BankDhofar Accounts and to other banks within Oman and a locator which views the distance to the nearest ATM/CDM/Branch from your current location and the available notes per ATM. Requests are now available through the Mobile Banking application which covers Savings account opening, Loan, Credit Card, Insurance, Demand Draft and Pay Orders.

  Moreover, the launch of Cardless Cash Service, the first in the Sultanate, enables customers to withdraw cash without using their ATM card from any BankDhofar ATM.

  Recently, BankDhofar introduced Credit Card Online Payments which includes online payment in which the amount gets reflected instantly, in addition to card activation and card blocking. In the latest update, the 'Join us' feature has been added for non BankDhofar customers. The application has been updated with further services such as loan calculators, fixed deposit rates and notifications.

- Retail Projects and Customer Experience

In 2014, the Retail Project and Customer Experience team worked in collaboration with various Retail banking departments and functions across the bank in conceptualizing, drafting procedures, providing system requirements/Testing, Training staff and deployed transformational projects to improve Customer experience delivery. Additionally the department identified the existing non value adding processes at branches, and have deployed and initiated process changes to increase efficiency and streamline service delivery at branches.

The followings are the major achievements the department has championed:

1. Deploying new Account opening process – Phase 1 and Phase 2
2. Conceptualizing and Developing Post Dated Cheques (PDC) process for Car Loans
3. Developed the new Branch Operating model to sell and serve effectively
4. Instant Debit Card Issuance Rollout across all branches and Process Development
5. TCR process Development and UAT support
6. Deploying Evening banking Model in Salalah Grand Mall
7. Instituting Decentralization of Account opening process at branches
8. Enhancing Home abolishment model by enabling customers CIF update from any of the branch network
9. Developed the process for Retention Unit at RBD

Weekly Turn Around Time report Generation and Reporting to identify gaps in service delivery for Personal and Housing Loans

Key business processes were studied, gaps identified and change initiated/completed, cross-functionally to optimize and remove steps that did not add value.

## Treasury & International Banking

- Treasury

BankDhofar has a proficient Treasuries department, providing a wide range of treasury products and services to corporate and individual clients ranging from traditional Foreign exchange (FX) & interest rates products to customized products and solutions. Our expert treasury team provides solutions that meet the demands of liquidity, cash flow management, interest rate fluctuations and Foreign exchange volatility.

In today's sophisticated world, every business is exposed to complex financial challenges such as liquidity and cash flow management, interest rate, as well as foreign exchange exposures. The Treasury division provides customers with up-to-date information about products and markets and offers a vast range of treasury related solutions and products satisfying their requirements ensuring maximum customer satisfaction.

According to our client's need Treasury offers FX products ranging from Spot, Forward, Swaps, Plain Vanilla and exotic FX options that help our valued clients to hedge their FX exposure. Treasury provides innovative products and strategies to help their customers manage interest rate exposure and reduce uncertainty.

BankDhofar is one of the leading market contributors of USD/OMR spot and swaps in Oman. We offer attractive interest rates on foreign currency deposits in all major currencies to corporate, retail and high net worth individuals. BankDhofar Treasury offers highly competitive exchange rates against all currencies, specially, emerging Markets, GCC, and G7 Currencies. Through this division services such as buying and selling Government securities like Government Development Bonds is possible.

In the wake of global economic crisis's prevailing across major financial markets since 2008, treasury division is consistently performing proficiently where as it managed to keep the cost of funds on the lower side. In September 2014, the Treasury department successfully raised USD 75 million subordinated loan from domestic market for a tenure of 66 month. This facility carries a fixed rate of interest payable yearly, with principal being repaid on maturity.

- International Banking

  International Banking establishes and maintains all international Correspondent Banking relationships of the Bank. The division ensures that the bank's corporate and retail clients have access to the world through our wide network of leading correspondent banks. Capitalizing on the excellent relationship with leading regional and global banks, the division actively assists the bank's corporate customers with their global trade finance requirements.

  The substantial credit lines available from financial institutions around the globe have helped the Bank increase its ability to support the increasing business needs of our customers. BankDhofar continues to be cautious in its appetite towards cross border risks and has been able to identify a select group of businesses that have a sensible credit approach in terms of risk and tenor.

  The division will continue to look to identify the treasury relationships and trade finance self-liquidating transactions within the GCC and regional markets to build a sustainable long-term relationship that would benefit both the Bank and its customers.

### Government Banking

The Government Banking Division is an important unit of the Bank, with a focus on forging and maintaining strong business relationship with all government and quasi government entities. This department facilitates all the government banking requirements by extending all products & services, such as Deposit, Loans, Trade Finance, Remittances, Point of Sale (PoS) facilities as well as retail products to the mutual benefit of both the organization and customer.

With dedicated Relationship Managers, the department coordinates with all the branches and other units of the bank to ensure customer satisfaction is achieved.

### Information & Transformation Division

During 2014, the Information Technology Division took up a number of new initiatives, further re-inforcing the bank's technology leadership in the market. Some of the pioneering initiatives include implementation of the Mobile PKI based authentication for its Internet Banking Services in collaboration with Information Technology Authority (ITA), being the first non-governmental institution to do so. The Bank also introduced Card-less cash withdrawal services through ATMs for the first time by any bank in the Sultanate of Oman, using its flagship Mobile Banking product.

The Mobile Banking services have been further enhanced by the introduction of a host of new services including inter-bank funds transfers, online credit card payments and inquiries, requests for loans, credit card, insurance, new accounts etc. Internet banking services were enhanced with introduction of Corporate Salary Upload, online international funds transfers and online credit card payments and inquiries.
A number of new process automations have been rolled out through the bank's business process management platform including account opening process with integration of ID card readers, compliant management process, auto disbursement of personal and housing loans, Government relations account planning and visit report process, integration of Moody's to the Corporate loan process etc. These initiatives have not only improved our technology leadership in the market but also enhanced productivity, customer service, internal controls and regulatory compliance.

BankDhofar recently implemented state of the art virtualization solutions for centralizing administrative tasks while improving scalability and overall hardware-resource utilization. This has led to reduction in overhead costs and dramatically improved the efficiency and availability of resources and applications in the bank.

The bank has introduced a comprehensive wireless network within the Head office, a powerful tool for boosting productivity and encouraging information sharing. By implementing wireless networks the bank has achieved increased mobility and collaboration, improved responsiveness, better access to information, easier network expansion, enhanced customer and partners' access.

BankDhofar has implemented various ATM network uptime initiatives to improve the monitoring and early alerts. Furthermore, it implemented the monitoring tool that can monitor both ATM & CDM through a single dashboard. As part of continuing customer education, CDM screens and stickers have been devised, that appraise customers on how to make successful cash deposits in CDMs.

The Bank also completed the ISO 27001 Second Annual Surveillance Certification Audit for IT Division by the accredited international entity that assessed the Bank's Information Security Management System (ISMS) for compliance with ISO/IEC 27001:2005 standard. The ISO 27001 information security certification aims at providing assurance and confidence to the Bank's customers that the confidentiality, integrity and availability of their information are secure in accordance with an internationally recognized standard available from the International Standards Organization (ISO). The ISO 27001 certification is a clear indication of the strength of our investments in people, process and technology for enhancing customer experience by improving the information security measures.

In order to mitigate the internal and external threats and vulnerabilities, a thorough security assessment covering application security testing, penetration testing and vulnerability assessment was completed for the new mobile banking system. Also, security assessment was done for the overall Bank's IT infrastructure to mitigate potential risks and align with best security practices.

During 2014 the bank established an Enterprise Project Management Office (EPMO), run independently from other departments that execute projects. This office took a leading role in ensuring that cross functional Projects in the bank are delivered with minimal delays, created visibility on projects status and provided a best practice for project management in the bank.

EPMO is also working on developing Omani professionals with project management knowledge developing them into a top notch Project Managers capable of delivering complex projects to the highest of standards.

EPMO took the project management role in many important projects this year including the revamping of Account opening process and automating it to enhance the banks customer account opening, expanding the instant issuance of cards to the full branch network and introducing more customer card types including the mass debit card, Ladies Banking card and Priority Banking card. This mass launch came in conjunction with the rebranding of these cards with EPMO taking on the crucial role of streamlining the projects to deploy new ATM locations and branch network.

To complement the efforts of delivering projects at highest standards, the project management office implemented latest edition of Microsoft Enterprise Project Management Server to enable proper tracking and reporting on projects being rolled out through the bank.

## Central Operation Division (COD)

It is the Central Operations Division's (COD) responsibility to maintain high operational standards through process re-engineering, automation and efficient use of resources. BankDhofar's COD continues to play a major role by expanding its functional scope and relieving branches and business units from back-end functions, thus enabling them to focus on customer service and business development. The volume of transactions processed at COD continues to grow steadily and by effective utilization of technological solutions, productivity of the team has increased.

- Key Projects Completed by COD 2014

In the year 2014, COD successfully completed the following projects:

1. Process Review, Simplification and Automation:
   - Automation of Generation of Monthly Balancing Certificates
   - Automation of Vouchers' Generation through the system
   - Enhancement in the process of Surprise Verification of ATM/CDMs
   - Enhancement in the process of registration of Standing Instructions (SI) and follow-up of failed SIs
   - Streamlining the process of Issuance & Handling of Audit Balance Confirmation Letters
   - Creation of Terms & Conditions for Processing of Payroll Transactions and incorporating them in Corporate Account opening Form
   - Automation of capturing of signatures from Omnidocs to SIGCAP system, without manual intervention
   - Streamlining of Inward Clearing referrals, whereby the system will check the summary account balances of the Customer and availability of any Sweep standing Instructions and eliminating such cases from referral process
   - Partnered with ITD and internally developed a system of emailing copies of SWIFT Customer Payment messages to branches instead of manually sending the copies
   - Automated Finance / CBO monthly reports and Interbank Limit monitoring reports
2. Creation of Procedural instructions for handling ATM charge-back through Oman National Switch
3. Implementation of Salary Protection System of CBO in co-ordination with ITD
4. Improvement/Maintenance of internal audit rating of various departments, under COD
5. Developing internal talent to take on higher organizational responsibilities

## The Human Resources Division (HRD)

The Human Resources Division provides overall strategic direction of the human capital management functions of BankDhofar. The mission of the department is to serve the business in attracting, recruiting, developing, and retaining the best and the brightest talent in the market, in addition to nurturing a competent and engaged workforce who effectively deliver the banks business strategy. The Human Resources Division is responsible for the following HR functions including, Staffing, Learning & Development, Performance and Rewards, Employee Engagement and Staff Benefits & Services.

Currently, the bank employs more than 1300 staffs achieving 92% Omanisation, which is above the specified regulatory requirement of the Central Bank of Oman. This requires both commitment and continued investments to effectively maintain our Omanisation Program and due to our commitment, a robust management team leads the way to ensure long term stability and continuity, resulting in sustained business performance.

The role of the Human Resources Division is to align the human resources strategy with the corporate business strategy to ensure that the Bank continues to deliver a strong performance in a sustainable manner, aimed at creating a lasting performance culture in an environment that gets the best out of human potential by creating a positive environment in which there is no room for complacency.

- Human Resources Strategy

  Over the next five years, the new HR Strategy will focus purely on Workforce Differentiation, which simply put means that we will be selective in how we approach and treat strategic talent issues. This will require the exerted efforts by the executive leadership, line management and the HRD. At BankDhofar the current workforce is somewhat differentiated, however greater differentiation will be facilitated through the following practices:
  - Recruitment & Staffing
  - Learning & Development
  - Career Opportunities Management / Learning & Development
  - Compensation & Benefits
  - Performance Management
  - Leadership & Succession
  - Communication & Relations (Employee Engagement)
  - Organization Development

- Our Values
  - Customer Focus
  - Transparency
  - Integrity
  - Innovation

  Building on our unique corporate culture and BankDhofar's values as detailed above, we will continue to engage with our stakeholders and ensure that all respective members of the BankDhofar family are well served by implementing best practice in a unique way to enhance the levels of employee engagement. This strategy is in line with the Bank's vision of becoming the Best Bank in the Gulf, and the role of HR is critical in delivering this strategy over the next few years.

- Human Resources Division Objectives

  The strategic objectives of the Human Resources Division are as follows:
  - Re-structuring and streamlining the current HR system to develop the capacity of the HR team and their capabilities allowing for superior customer experience
  - Improving the quality and efficiency of HR Services by implementing HRIS that will give employees more autonomy and enable self-service functions
  - Focusing on Talent Management in terms of Acquisition, Development and Retention
  - Focusing on Organization Development and Talent Management by implementing various Development Programs
  - Improving Employee Contribution / Engagement, and focusing on Performance and Loyalty
  - Transforming BankDhofar (People, Processes, Technology, Products/Services and Leadership) to drive and deliver best Customer Experience in Oman

The Human Resources Division, will continue to focus on the above objectives by implementing various operational and strategic initiatives, programs and plans aimed at transforming BankDhofar including:

- Performance & Rewards Program
- Management Development Program
- Graduate Development Program
- Woman Development Program
- Corporate Master-class Program
- Basic / Core Banking Program
- Soft / Functional Skills Program
- Employee Engagement Program
- Workforce Optimization Program

- Operational Achievements

This year, staff benefits and compensation in addition to transactions and service requests have been successfully centralized and are processed accordingly to ensure payroll is executed in an accurate and timely fashion. The benefits team also responds to requests from external agencies to ensure adherence to applicable local manpower regulations.

The Learning & Development department successfully managed over 220 internal and external programs across the regions of Oman. Over the year a large percentage of employees received training in areas including Functional Skills, Soft Skills, Basics of Banking, English Language and many other regulatory programs like Bank Deposit Insurance Scheme and Anti Money Laundering. The Division continued conducting Career Developmental programs; Corporate Master Class and Women's Development and informative programs aimed at preparing the Bank for upcoming challenges and regulatory changes such as BASEL III.

As part of Learning & Development's continuous efforts to deliver structured developmental programs, a number of new programs have been established and will be rolled out in 2015. These programs are the result of a thorough skill-set analysis conducted during the year in specific operating areas. The department will continue to evaluate and forge relationships with prominent service providers to deliver quality programs aimed at improving the performance of the bank. Career development programs aimed at meeting the needs of specific departments and professional development of employees to enhance efficiency and productivity of participants have been conducted throughout the year for staff in Wholesale Banking, Risk Management and Internal Audit.

The Women's Development Program, under the initiative of the BankDhofar Academy was launched in June 2013 with an objective to develop female employees, by providing them with relevant training to build their capacities preparing them for leadership roles. The program was successfully completed in April 2014.

In addition to these programs, the department also facilitated two programs for the board members and executive leadership of BankDhofar covering Risk Management and developing the skills of the Audit Committee of the Board of Directors. Various other development programs were also initiated such as: Abridged MBA, Embedding Leadership Excellence, Certificate of Competence in Occupational Testing, Kaplan-Norton Balance Scorecard Certificate boot camp and an Advanced Fraud Prevention for Banking & Financial Institutions program.


To improve productivity and align retail branches to the business plan, the Human Resources Department along with Retail Banking Division initiated a Branch Managers skills assessment and gap analysis program to understand their developmental needs and as a result tailor make pertinent and effective programs for overall better performance.

Following the feedback from staff from the Employee Engagement Survey and the 'Let's Talk' initiative, a full action implementation plan has been rolled out to address and correct real and perceived aspects of employees' issues. The action plan will be implemented in different phases throughout the next 3 years.

Following the Employee Engagement Survey the HRD also conducted a survey through the Hay Group to benchmark the Bank's Compensation & Benefits practices within the Omani banking sector. This initiative was aimed at aligning BankDhofar's Compensation & Benefits to the market ensuring that the Bank is able to retain, reward, and motivate its deserving employees. As a result of this survey the Bank also benchmarked its grading structure, and implemented a new grading and compensation & benefits structure.

The organizational structure was also redesigned by establishing the Corporate Transformation Division integrating many strategic corporate transformation programs across the business, including support units which will take BankDhofar to the next level. Progressing further on the performance management of staff, an enhanced Rewards and Recognition program has been introduced to reach out to a wider audience and clearly manage the performance and appraisal process. This serves as a strong measure in building a strong 'People and Performance' culture at BankDhofar.

Overall, these initiatives will enable the Bank to focus on key areas to create an engaged environment where employees will perform at their best, and foster a sense of ownership and personal commitment to their work, thus enhancing the performance of BankDhofar.

## Branches Operation Department (BOD)

The Branches Operation Department (BOD) was created to enhance overall operational efficiency of branches and to enable branches to concentrate on business development and customer service. The main objective is to ensure that branches maintain operational excellence to serve BankDhofar customers efficiently without compromising on the required adherence to overall internal & regulatory compliance.

BOD helped branches to maintain the best ATM uptime amongst the competitors by reaching an average 99% ATM uptime at a Bank wide level throughout the year 2014 by centralised close monitoring and follow up on a daily basis. Such achievement helped branches to gain confidence of existing and new customers and thereby helped them to grow the business.

The Credit Remedial Section (CRS) unit within BOD handles centralised follow up for collections in Retail accounts, which have passed dues in any product. The objective of this unit is to manage Days Past Dues (DPD) position and recover the past dues to prevent portfolio deterioration and classification of accounts as bad debts. The unit is aggressively handling follow up directly with Customers across the Sultanate for recovery of past dues.

Due to the support of the BOD team in these various forms, BankDhofar's branches were able to focus on business development by providing concentrated services for a superior customer experience. Also such support helped branches to ensure significant reduction in audit observations apart from ensuring compliance with certain critical areas such as Business Continuity Management, Drill Test etc.

## Card Services Center (CSC)

BankDhofar's Card Services Center continued to record healthy growth and diversified activities in 2014. During the course of the year, various card offerings, promotions and merchant tie-ups were arranged by the CSC. These value added promotions enhanced the benefits accrued to cardholders, while also improving the visibility for the Bank. The POS business with large private sector merchants and government outlets has grown significantly this year with a high volume of transactions and thereby adding to BankDhofar's market share.

During the year, the Bank launched a new Business Debit Card which is designed for small and medium enterprises to facilitate their daily business transactions like business expenses, purchase of materials, and payment of Government fees. Since the Card is issued in the name of the Company, it is regarded as the most convenient tool to control and monitor business expenses.

Another achievement during the year was the acceptance of MasterCard through BankDhofar ATMs. The number of customers using the Bank's ATM network is expected to start increasing gradually which will lead to generating higher revenues.

Furthermore, in order to cater to the needs to Priority Banking Customers of Maisarah, BankDhofar also launched the Visa Signature Debit Card which offers number of Travel and Lifestyle privileges across the globe.

## Risk Management

- Risk Management Structure

The primary responsibility of understanding the risks assumed by the Bank and ensuring that these risks are appropriately managed is vested with the Board of Directors of the Bank. The Board has set risk policies, limits and procedures by assessing the risk bearing capacity of the Bank.
The overall risk management has been delegated to an independent Risk Management Committee (RMC) of the Board of Directors of the Bank, which monitors and controls the overall risk profile (including Maisarah Islamic Banking Services). The RMC reports to the full Board, on matters of significance and keeps the Board continuously updated with the Risk Management process in the Bank. In this task, RMC relies on an independent Risk Management Division within the Bank.

The Bank has a well-established Risk Management Division (RMD) with a team of highly competent and experienced professionals. The primary responsibility of the RMD is to ensure, on a continuous basis, that an effective risk management framework exists and that the various divisions of the Bank, including Maisarah Islamic Banking Services, function within this framework. RMD also functions as an interface between the Management and the Board in defining appropriate risk tolerance levels for various business lines and operating divisions of the Bank and in ensuring that policies and procedures are tailored to the defined tolerance levels.

The Bank's risk management strategy statement is expressed as follows:

- Compliance with regulatory capital requirements;
- Ensuring balanced performance across business units;
- Placing emphasis on the diversity, quality and stability of earnings;
- Making disciplined and selective strategic investments;
- Maintaining adequate capital adequacy;
- Providing qualitative and quantitative benchmarks to gauge broad alignment between initiatives and risk appetite;
- Stable funding and strategic liquidity management allowing for business planning within the liquidity risk tolerance and regulatory requirements.

The Bank defines risk strategy and risk appetite on the basis of the strategic plan to ensure alignment of risk, capital and performance targets. The risk strategy of the Bank includes the Risk and Capital Plan and risk appetite, which allow the Bank to:

- Review the capital adequacy requirement goals with respect to risk, considering Bank's strategic focus and business plans;
- Assess risk-bearing capacity with regard to internal and external requirements;
- Apply stress testing to assess the impact on the capital demand, capital base and liquidity position.

- Management of various Risks

A brief account on the various identifiable risks and their risk management process is given below:

- Credit Risk

Credit risk is defined as the possibility that a borrower or counterparty may fail to meet its obligation in accordance with agreed terms in relation to lending, trading, hedging, settlement and other financial transactions. This risk is primarily managed by proper assessment of inherent risks in credit proposals and ensuring a balanced portfolio of customers meeting the risk appetite of the Bank. The Bank also ensures dealing with customers of good credit standing, a thorough and professional credit assessment process, obtaining collaterals to mitigate risks and continuous monitoring of the accounts. The Bank has taken the following measures to mitigate credit risk:

| |
|---|
| Credit Risk Policy addresses credit risk emanating from lending to corporates and individuals. The policy also provides broad criteria for retail loans in a structured manner and is reviewed / updated on regular basis. The policy has been defined for both Conventional Banking and Islamic Banking separately. The policies of the Bank encompasses organizational responsibilities, prudential limits, credit risk rating standards, risk pricing standards, loan review mechanism, delinquent account management and portfolio management. |
| Policy on exposure to non-resident borrowers including banks addresses credit risk emanating from exposure to banks as counterparties. The maximum exposure that can be taken on a counterparty bank is specified by an internally developed model in conventional banking and through judgmental approach in Islamic Banking. |
| The Bank has credit risk rating system and a risk grade is assigned objectively to a borrower based on the single point score provided by the rating model. The grade is assigned to the Standard category of borrowers on a scale of 7. |
| Various credit risk models are used to assess the obligor risk as well as the facility risk in conventional banking. Thus, while assessing the credit risk of the borrower, both probability of default and loss given default is estimated. In case of Maisarah, obligor rating is undertaken. |
| Risk Adjusted Return on Capital (RAROC) is computed to assess the risk based pricing of each facility, which facilitates in informed decision making. |
| The Bank conducts stress tests to assess the impact of credit risk on capital adequacy and profitability under stress situations. |
| All the corporate credit proposals from both conventional banking and Maisarah are reviewed by the RMD to assess the risk factors and suggest mitigants. The observations of RMD form an important input in credit decision making. |

The Bank employs experienced and competent staff in the areas of corporate banking and provides them with regular training to upgrade and hone their credit skills. Detailed credit policies and procedures, strict adherence to the segregation of duties, elaborate and well defined authority levels, periodical audit and examination by the internal auditors ensure that the culture of risk permeates through the business divisions supported by a rigorous environment of checks and balances.

- Liquidity Risk

Liquidity Risk is the potential inability of the Bank to meet its maturing obligations to counterparty. Liquidity planning and management are necessary to ensure that the Bank has the ability to fund its liquidity requirement effectively and to meet current and future potential obligations such as loan commitments, contingent liquidity commitments and unexpected deposit outflows.

The Bank has constituted an Asset-Liability Management Committee (ALCO), which is responsible for setting the broad framework for managing the liquidity risk effectively for both the conventional banking and Maisarah. The responsibility of managing the liquidity risk of the Bank, within this framework, lies with the Treasury Department of both the entities; conventional banking and Maisarah, which discharges this function with the assistance of other business divisions of the Bank.

The Bank has Board approved policy for both the entities on liquidity management which encompasses assessment of liquidity gaps through cash flow and static approach, reserve against deposits, lending ratio, mitigation of liquidity risk and contingency measures. The Bank has set up Middle office within RMD to ensure that the Treasury Departments of both the entities operate within these guidelines.
The Middle office regularly monitors the liquidity position of the Bank and helps in managing the liquidity gaps, well in time. It also conducts liquidity risk stress test periodically and Treasury Department ensures that sufficient liquid assets are available with the Bank all the time, to meet any business exigency.

- Market Risk

Market risk is the risk of loss arising from unexpected changes in financial prices arising out of changes in interest rates, exchange rates, bonds, equity and commodity prices. The Bank has major exposure in currency, equity and interest rate risk.

Treasury Risk Policy and Investment Management Policy of the conventional banking address all the aspects of the market risk. The Treasury Risk Policy addresses foreign exchange risk and interest rate risk whereas the Investment Management Policy addresses the equity risk.

The major foreign currency in which the Bank deals on a regular basis is United States Dollar (USD). The established parity between US Dollar and Omani Rial (OMR) substantially reduces this risk. However, in order to control currency exposure risk, limits for intraday and overnight positions have been set up in addition to currency wise stop loss limits. Limit on net open position has been placed to restrict the Treasury department to take undue currency exposure as per prudential norm set by the Central Bank of Oman (CBO). All these limits are monitored by the Middle office of the Bank.

BankDhofar manages the interest rate risk by matching the re-pricing of assets and liabilities and operating within the set gap limits. The Middle office in RMD regularly monitors the impact of adverse movement in interest rate on profitability and economic value of equity in conventional banking.

Maisarah is also vulnerable to rate of return risk (profit rate risk) and Treasury Risk Policy of Maisarah addresses this risk. Rate of Return risk arises because of unexpected changes in the market rate of return, which adversely affect a firm's earnings. The profit distribution to Investment Account Holders (IAHs) is based on profit sharing agreements and thus, Maisarah should not be subject to any significant rate of return risk. However, in order to meet customer's expectations and to remain competitive with the market, Maisarah may forego part or all of its Mudarib share of profit on funds managed on behalf of IAHs, in order to increase return to the IAHs. This absorption of additional risk by the Mudarib is known as Displaced Commercial Risk. Maisarah seeks to mitigate this risk through prudential reserve accounts such as Profit Equalization Reserve (PER) and Investment Risk Reserve (IRR).

Middle office monitors equity portfolio through daily reporting and assess the risk inherent in the quoted domestic equity portfolio through Value at Risk (VaR) approach. Various limits like stop loss limit, transaction deal limit and realized loss limit are in place to manage the equity risk. All the investment proposals categorized under Available for Sale (AFS) or Held Till Maturity (HTM) are reviewed by RMD to provide independent view on the risks associated with them.

Middle office also conducts stress tests periodically to assess the impact of adverse movement of market variables on profitability and capital adequacy and places the same to the RMC.

- Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal systems, processes, people or external events. The Bank has detailed policies and procedures that are regularly updated to ensure that a sound internal control environment exists. Management Risk Committee (MRC), comprising of the Executive Management of the Bank, precedes RMC in reviewing, evaluating and monitoring of operational risk. Business Units are responsible for management of operational risks within their respective scope of duties. In the financial year 2014, the Bank's operational risks were well controlled and losses from operational risks were kept at low level. Trained and competent staff oversee the various operational functions of the Bank.

Taking the New Capital Accord Implementation as an opportunity, the Bank has developed a comprehensive operational risk management framework comprising of the Operational Risk Management (ORM) policy, Risk Control and Self-Assessment, Key Risk Indicator, Loss Data Management (LDM) Framework. The ORM policy of the Bank provides the ORM framework which includes ORM components, management process, measurement process and governance, roles and responsibilities. Continuing the task of improvement in existing systems and processes, the management system and tools for operational risks were further strengthened during the year.

The Risk Control and Self-Assessment (RCSA) framework enables the Bank to identify the operational weaknesses in the process and procedures by conducting self-assessment workshops. A team of experts in various departments assess the operational weaknesses in various processes and its likely impact on the Bank. RMD in association with business units has been able to complete the RCSA exercise for all the departments and branches of the conventional banking. During the RCSA exercise, processes in various departments were reviewed from operational risk point of view and wherever high risk events were identified, the existing controls were reviewed. With the completion of the RCSA exercise, risk register has been created, which inter-alia includes inherent risk events, control effectiveness and residual risks.

The Key Risk Indicator (KRI) framework enables the Bank to identify and monitor the key risks. KRIs of all the departments in conventional banking have been identified and are being monitored on a monthly basis. Loss Data Management framework lays down the procedure to identify, record and report the internal and external loss events. The data on operational loss is collated on a regular basis and is presented to the Management and Board level committees. In order to avoid unexpected shocks to the financial position of the Bank, a reporting system on 'Potential Losses' has also been introduced. Potential Loss can be defined as an operational event that has not actually crystallized into actual loss but has a potential of adversely impacting the Bank's bottom-line.

Operational Risk Management Unit in RMD is responsible for implementation, development and coordination of all the operational risk activities of the Bank, while working towards achievement of stated goals and objectives. Risk Management Division conducts regular training programs for staff at various levels to inculcate 'risk awareness' and to spread the general 'risk management culture' in the Bank. Professional training in diversified forms is also imparted to improve the employees' risk management skills.

- Business Continuity Management (BCM)

  The Bank has adopted a Business Continuity/Disaster Recovery Plan with a view to continue business operations and critical customers services at all times both at Conventional and Maisarah. The plan addresses employee health and safety, potential disruptions from the unanticipated loss of services or infrastructure and resumption of business operations in the face of an emergency or disaster. Business Impact Analysis, Business Continuity/Disaster Recovery testing, Awareness Programs etc. are conducted in tune with the regulatory guidelines for meeting any unforeseen circumstances. The key initiatives on the business continuity readiness includ the following:

  - Business Continuity Management Committee, a Management level committee has been set up and entrusted with the responsibility of overall supervision for the implementation and maintaining a sound BCM for the Bank. The committee ensures that plans formulated are implemented and tested.
  - The Bank maintains an alternate Business Continuity Plan site equipped with redundancy and contingency features to ensure business continuity for resuming critical business activities in emergent scenarios. BankDhofar has strengthened BCP site seating capacity and infrastructure considering various worst case scenarios. Additional workspace has been created for critical business units to resume business services in the event of a disaster.

  - The bank-wide BCM testing exercise and Information Technology Disaster Recovery Drill is conducted to test check the resilience of technical as well as business recovery. Testing was conducted in coordination with business units to test check transaction systems using business test cases and also to test the preparedness, recovery of applications, recovery timings, assembly of key resources, functioning of equipments, coordination of business units / branches etc. The testing results along with the gaps and action taken are apprised to the risk committees at the Management and Board level.

  - For the cause of human safety and security, fire drill exercises are also conducted in the Head Office building. Through fire drills, the preparedness and recovery capabilities of the coordinators/floor leaders/fire wardens are tested and security procedures are reinforced.
  - As part of creating awareness, specific and comprehensive awareness programs are also conducted to imbibe the importance of BCM amongst staff.
  - The communication numbers of key persons are provided to all the staff so that they can contact the relevant person in case of emergency. The detail of key persons are shown below

| | Position | Contact information(+968 prefix) |
|---|---|---|
| 1. | Head of BCM – Assistant General Manager - Support Services | 24788578; 99315453 |
| 2. | Senior Manager - BCM | 24790466 Ext. 754; 95763521/99625323 |

- Country Risk

  Country risk arises from changes in the value of foreign exposure due to country specific conditions, which may result from economic, social, political or natural events and may relate to factors such as exchange controls, currency devaluations, nationalization or expropriation of assets among others.

  Country risk policy addresses the country risk that may arise due to cross border exposure in a structured manner. The Bank has in place a country risk assessment methodology which grades each country based on their risk profile. Suitable limits are assigned to undertake the business based on the internal risk rating grade of the countries.

  The Middle office in association with the Treasury department monitors the country risk and takes suitable steps in event of any downgrade or change in the economic activity of any country.

- Implementation of Basel II and Basel III

BankDhofar is computing the capital adequacy as per Basel II norms as directed by Central Bank of Oman. As per the CBO directives, the Bank has adopted Standardized Approach for both Credit and Market Risk and Basic Indicator Approach for Operational Risk. The Bank has also adopted Basel III capital standards as directed by CBO in addition to the liquidity standards of Basel III i.e. implementation of Liquidity Coverage Ratio and Net Stable Funding Ratio with effect from March 2013.

The Bank has laid down a road map to move towards adoption of advanced approaches of Basel II and to improve the risk management systems. The road map defines various activities/projects to be undertaken along with the timeline and is monitored by Risk Management Committee of Board of Directors. Most of the models and systems are developed by the risk management team internally through the expertise available in the Bank.
BankDhofar is confident that with the established risk management processes and their continued enhancement, it will move towards adopting advanced approaches of Basel II for computation of capital requirements, while keeping the quality, consistency and transparency of capital base as per Basel III norms.

## Compliance & Corporate Governance Division

Compliance, defined as adherence to laws, rules, regulations, self-regulated organization standards and codes of conduct applicable to the banking activities, is an integral part of the BankDhofar's business activities and concerns every inidividual at BankDhofar.

A well-established Compliance Policy and Standards Manual clearly specifies roles, responsibilities of the Compliance Division and duties of other departments and units towards Compliance function. The Compliance Division performs its roles independently and the Board of Directors oversees management of compliance risk in BankDhofar.

The Compliance Division is responsible for identifying, assessing, advising, monitoring, reporting various compliance risks and specifically deals with matters such as prevention of money laundering and terrorist financing. The function is organized through a risk-based approach and based on an annual compliance plan which is approved by the Board.

Some of the critical tasks performed under the annual compliance plan are:
- Putting in place an Anti-money Laundering policies & framework to ensure BankDhofar channels are not used for money laundering and terrorist financing
- Conducting training sessions on all applicable local as well as international regulations to create a compliance culture in the bank
- Reviewing and advising on changes in the regulations, policies & procedures and products to ensure continuing compliance with applicable rules and regulations
- Ensuring bank-wide application of local as well international standards on Corporate Governance
- Independent compliance testing and assessing compliance risk associated with Bank's functions
- Monitoring timely submission of regulatory returns and active co-ordination for regulatory examinations
- Reporting regulatory and compliance issues to the Board of Directors and relevant regulatory authorities

The Compliance function has been significantly strengthened over the years to complement the growth of the Bank's business.

These efforts were recognized last year by the Capital Market Authority's Center of Corporate Governance as the leading Bank for 2013 and were given an award, in addition to recognition in 2014 by Global Financial Market Review Award for 'Best Islamic Community Support' for Maisarah, BankDhofar's Islamic Banking Services arm.

## Recovery Department

In keeping with the department mission statement of recovering maximum NPAs in order to maximize the augmentation of bank's working funds, the department ensures the proactive monitoring of all Non Performing Assets to maximize the recoveries by adopting the following methods

- Effective monitoring of all legal cases with our external law firms by having regular meetings with them to review the progress made in each case
- Coordinating with Royal Oman Police / Regulatory Bodies in order to expedite the filed / pending cases of recovery
- Gathering / Maintaining market information to identify assets / investments of the defaulters to seek attachment and decree from courts.
- Rescheduling of NPAs and monitoring regular repayments
- Negotiating with customers for settlement of classified loans on mutually acceptable terms
- Maintaining effective MIS system

## Trade Finance

The Trade Finance Department is a full-fledged specialized department of the Bank handling specific trade requirements of the Bank's Corporate and Retail customers. The Department liaises closely with the Bank's Wholesale Banking, Retail Banking, Government Relations and Treasury & International Departments in providing various fund based credit facilities like Export Bills discounting and Import financing and non-fund based credit facilities like Letters of Credit, Guarantees, Availisation, Export and Import Bill collection for local and overseas transactions to the Bank's Corporate, Retail and FI customers.

During the year 2014, the Bank continued to perform strongly in its non-fund business in an extremely competitive market. The return on the non-fund business increased by 28% in 2014 as compared to previous year. The Bank could achieve this target by providing quality customer service and guidance in commendable turnaround time. To meet the challenges in a turbulent international market, the Bank's Trade Finance team is continuously trained internally and updated with the latest developments in the local and international markets. The team has continuously guided our customers with their valuable advices and placed necessary checks and balances to avoid fraudulent claims by overseas traders.

They also provided Trade Finance based training to key staff members in the WSB Division, Corporate Customers and Government Institutions during the year in order to provide a detailed background of the actual process at the Bank and enhance relationships.

- Key Achievements in the year 2014:
- 28% increase in return on non-fund exposure over 2013.
- 17% increase in non-fund based fee over 2013.
- Future Plans:
- Continue the development of skills and expertise of local staff by providing cross functional training to staff
- Provide quality guidance and training to Clients on Trade Finance related issues

## Policies and Procedures Department

The Policies & Procedures department (PPD) continues to maintain an integrated model for linking strategies with everyday business processes & decision making at every level.

The maintenance of the above stated integrated model brought together, standardized and systematized all risk, control, compliance and governance processes. Further, it helped in improving efficiency of the operational framework.

- PPD mainly undertakes following activities: -
  - Act as nodal department and work closely with Management, Business, Operations, and others to maintain and improvise internal governance & control framework of the Bank
  - Ensure that documents are designed to support business strategy & operations and promote sound working practices
  - Ensure that documents are accurate, clear-cut, presented consistently & uniformly, and easily identifiable & accessible
  - Ensure that documents are periodically reviewed for accuracy and applicability to address changing business dynamics

Apart from the core activities of developing and reviewing policies & procedures; PPD serves as a member to the Management Risk Committee, and continues to contribute significantly in successful implementation of various projects assigned time to time.

## Marketing and Corporate Communications (M&CC)

M&CC had various activities during 2014, which resulted in BankDhofar winning the prestigious 'Best Evolved Brand 2014' by Global Review and Finance.

There was a shift in M&CC's communication's strategy during 2014; the department has focused on new mediums and high exposure marketing channels rather than conventional channels. Social Media channels were essential in promoting products and services and different offerings in addition to utilizing corporate communications tools in highlighting BankDhofar's news and updates.

In addition to the campaigns related to products & services, the bank has continued supporting community related social initiatives such us Muscat Festival, Salalah Tourism Festival, Sports events and supporting SMEs exhibitions.

The Marketing and Corporate Communications department also optimized its spending verses exposure and focused on being visible in big way especially in high traffic areas, main highways, most visited spots in order to enhance BankDhofar brand visibility and ensure customer recall. M&CC backed this direction with a strategic tie-up at Muscat and Salalah International airports where BankDhofar will have maximum exposure in these two important avenues, in addition to selecting highly visible outdoor locations across the Sultanate.

One of the key initiatives that M&CC conceptualized and led across units was '#We_Love_Qaboos', created to celebrate His Majesty's speech and the 44th National Day. The initiative consisted of an Instagram Competition, BankDhofar's yearly Calendar, a musical composition and a public exhibition of the artwork.

With regards to the internal communications strategy, M&CC launched the intranet portal, which is an internal communications tool used to overcome all hindrances to communications within the Bank. This portal has ensured consistency in the message and direction across the Bank.

- Corporate Social Responsibility

  Community and social awareness campaigns as well as a strong focus on engaging staff are being promoted through various channels and campaigns. External partnerships with the likes of the Environment Society of Oman, Al Noor Association for the Blind, the Oman Charitable Organisation and many others help BankDhofar interact with the community at large on a regular basis, and assess what programs to support.

  The list this year includes the following:

  Partnership with Tawasul supporting their Annual Civil Society's Leaders Dialogue focus on what's next in CSR-Partnership with the Oman Association for the Disabled to provide specialized wheelchairs and medical beds for cerebral palsy patients

    - Partnership with Dar Al Ata'a to provide for families in remote areas during the Holy month of Ramadhan
    - Partnership with the newly formed Omani Bahja Orphan Society in Salalah to care for orphaned children
    - BankDhofar blood donation drive where employees donated blood
    - Internal research on attitudes and perceptions of CSR & Sustainability
    - Partnership with Al Noor Association for the Blind in Muscat to help support their plan for 2014 in providing white canes and equipment
    - Partnership with local school authorities to support Qura'an Memorisation competition

BankDhofar has invested in improving its own CSR in order to be a leader in the market, and offer all its stakeholders value added services with a focus not only being the best bank, but also a responsible financial institution.

## Financial Performance of the Bank

The Bank continued to grow in all key areas in the year 2014 and crossed RO 3 billion in Total assets and 2 billion in Net Loans, Advances & Financing to customers, the net Loans, Advances and Financing to customers reached RO 2.25 billion at December 2014, showing a growth of 18.4% from RO 1.90 billion at the end of December 2013.

An analysis of our loans and advances portfolio as at December 31, 2014 along with the comparative figures for the prior period is as follows:

| | OMR Million | |
|---|---|---|
| **Particulars** | **2014** | **2013** |
| Overdrafts | 130.6 | 111.9 |
| Loans | 1,953.1 | 1,724.6 |
| Loans against trust receipts | 79.5 | 77.8 |
| Bills discounted | 10.4 | 13.1 |
| Advance against credit cards | 7.7 | 7.9 |
| Others | 28.0 | 18.9 |
| Islamic Banking Window Financing | 133.0 | 28.3 |
| **Gross loans and advances to customers** | 2,342.3 | 1,982.5 |
| Less: Allowance for impairment | (87.6) | (80.6) |
| **Net Loans and Advances** | **2,254.7** | **1,901.9** |

The ratio of total non-performing advances (NPA) to gross loans improved to 2.55% at the end of 2014 from 2.95% at the end of 2013.

The customer deposits mobilized by the bank achieved a growth of 22.2% from RO 2.03 billion at the end of 2013 to reach RO 2.48 billion at the end of 2014.

The composition of customer deposits at the end of 2014 along with the corresponding figures for the prior period is as follows:

| | OMR Million | |
|---|---|---|
| **Particulars** | **2014** | **2013** |
| Current accounts | 686.1 | 652.3 |
| Saving accounts | 402.4 | 322.5 |
| Time deposits | 1,274.6 | 1,047.9 |
| Margin accounts | 22.1 | 5.3 |
| Islamic Banking Window Deposits | 97.0 | 3.7 |
| **Total customer deposits** | **2,482.2** | **2,031.7** |

### Shareholders' Equity

The shareholders' equity at the end of 2014 increased to OMR 325.3 million from OMR 303.6 million at the end of 2014. At the end of 2014 an amount of OMR 4.05 million was transferred to legal reserve being 10% of net profit.

The analysis of shareholders' funds at the end of 2014 along with the corresponding figures for the prior period is as follows:

| | OMR Million | |
|---|---|---|
| **Particulars** | **2014** | **2013** |
| Share capital | 134.32 | 121.01 |
| Share premium | 40.02 | 40.02 |
| Special Reserve * | 18.49 | 18.49 |
| Legal reserve | 35.54 | 31.49 |
| Subordinated loan reserve | 41.25 | 26.25 |
| Proposed distribution - cash | 6.72 | 16.94 |
| Proposed distribution – bonus shares | 20.15 | 13.31 |
| Investment revaluation reserve | (0.05) | 1.75 |
| Retained earnings | 28.88 | 34.34 |
| **Total Shareholders' Equity** | **325.32** | **303.61** |

* Created by the Bank due to the recognition of legal case recovery in the statement of income of OMR 26.1million in 2013

As a result of the increase in number of shares due to bonus issue the net assets per share reached OMR 0.242 baizas at the end of 2014 compared with OMR 0.251 baizes at the end of 2013.

| **Income Statement** | **(OMR "000)** | |
|---|---|---|
| **Particulars** | **2014** | **2013** |
| Net Interest Income | 73,580 | 66,341 |
| Net Income From Islamic Financing | 3,208 | 173 |
| Fees and Commissions | 12,148 | 8,905 |
| Other Income | 9,915 | 14,139 |
| **Operating Income** | **98,851** | **89,558** |
| Total Operating Costs | (46,163) | (45,316) |
| **Operating Profit** | **52,688** | **44,242** |
| **Net Profit** | **40,453** | **58,407** |

The key profitability indicators have also recorded positive growths, as net interest and financing income recording a strong growth of 15.5% reaching RO 76.79 million for the year 2014 compared to RO 66.51 million in 2013. Non-interest and non-financing income such as fees and commission, foreign exchange profit, investment and other income have reached RO 22.06 million in 2014 as compared to RO 23.04 million achieved in the previous year.

The Cost to Income ratio during the year 2014 improved to 46.7% as compared to 50.6% in 2013. The provisions for loan impairment, net of recovery (excluding legal case recovery), during the year 2014 are RO 6.93 million, as against the RO 4.23 million during the previous year 2013 in line with loan growth.

The net profit for the year 2014 achieved by the Bank is RO 40.45 million as against RO 35.41 million, showing an increase of 14.23% year on year, excluding the effect of Legal case write back of RO 26.1 million (before taxes), in 2013. Net profit for 2013 including one-off Legal case recovery is OMR 58.51 million.

The proposed profit appropriation for 2014 comparing with the previous year 2013 is provided in the following table:

| | (OMR "000) | |
|---|---|---|
| Particulars | 2014 | 2013 |
| Proposed dividends – cash | 6,716 | 16,942 |
| Proposed dividends - bonus shares | 20,149 | 13,311 |
| To Special reserve* | - | 18,488 |
| To legal reserve | 4,045 | 5,840 |
| To/(From) subordinated loan reserve | 15,000 | 15,000 |
| To/(From) retained earnings | (5,457) | (11,174) |

*Created by the Bank due to the recognition of legal case recovery in the statement of income of OMR 26.1million in 2013

25 YEARS BEST BANK FOR YOU

The percentage of dividends distributed to the Shareholders in the last five years is as follows:

| | (OMR "000) | | | | |
|---|---|---|---|---|---|
| **Year** | **2009** | **2010** | **2011** | **2012** | **2013** |
| Cash Dividends | 15% | 12.5% | 7% | 15% | 14% |
| Bonus Shares | 10% | 12.5% | 20.2% | 10% | 11% |

Net Profits and Shareholders Equity for the last five years including the current year is as follows:

| | (OMR "000) | | | | |
|---|---|---|---|---|---|
| **Year** | **2010** | **2011** | **2012** | **2013** | **2014** |
| Net Profit for the year | 33,280 | 13,976* | 37,745 | 58,407** | 40,453 |
| Total Shareholders' Equity | 226,500 | 229,237 | 261,504 | 303,607 | 325,318 |

* 2011 includes legal case loss charge off of OMR 26.1 million (before taxes). (OMR 23 million after taxes)
** 2013 includes recovery from the legal case of OMR 26.1 million (before taxes). (OMR 23 million after taxes)

### Future Prospects

The Bank won innumerable awards from several regional and international institutions for excelling in various categories in Banking in the year 2014, including the Best Islamic Window. The Bank has prudently grown, from strength to strength with strong fundamentals, in terms of both sustainable credit growth and deposits mobilization in the year 2014. Maisarah Islamic banking also progressed well in 2014 being the second year of full operation, with lots of potential opportunities in the pipeline already for the year 2015. The Bank moving into the fourth year of its' challenging 5-year plan, will continue to emerge strongly within the local financial market. The Bank has carefully planned the launch of a series of attractive products, services and other initiatives besides streamlining its processes in 2014 to improve the turnaround time for customers and to fully engage and develop its people to maximize efficiencies and reward its Shareholders. The bank is also continuing to invest heavily in advanced technology to provide "Best in Class" banking experience to its customers.
The Bank is strategically well placed to achieve robust growth in 2015 and in the coming years to support the strong economic development of the Sultanate of Oman and is always grateful for the great Wisdom and Leadership provided by His Majesty Sultan Qaboos Bin Said Al Said.

# Financial Highlights

## of last five years

## Financial highlights of last five years

| (In RO'000) For the year | 2014 | 2013 | 2012 | 2011 | 2010 |
|---|---|---|---|---|---|
| Net interest income | 73,580 | 66,341 | 64,369 | 60,318 | 57,251 |
| Net income from Islamic Financing and investment activities | 3,208 | 173 | - | - | - |
| Non interest income | 22,063 | 23,044 | 19,724 | 18,273 | 14,064 |
| Operating costs | 46,163 | 45,316 | 37,047 | 33,444 | 29,195 |
| Operating profit (before Impairment losses) | 52,688 | 44,242 | 47,046 | 45,147 | 42,120 |
| Profit from operations | 45,754 | 66,137 | 42,900 | 15,859 | 37,918 |
| Net profit for the year | 40,453 | 58,407 | 37,745 | 13,976 | 33,280 |

| At year-end | | | | | |
|---|---|---|---|---|---|
| Total assets | 3,194,127 | 2,605,379 | 2,143,830 | 1,960,591 | 1,664,296 |
| Net loan portfolio | 2,254,705 | 1,901,910 | 1,672,508 | 1,495,661 | 1,261,736 |
| Customer deposits | 2,482,179 | 2,031,746 | 1,634,628 | 1,519,318 | 1,249,605 |
| Shareholders' equity | 325,318 | 303,607 | 261,504 | 229,237 | 226,500 |
| Share capital | 134,324 | 121,013 | 110,012 | 91,524 | 81,355 |
| Full service branches | 68 | 65 | 62 | 59 | 56 |
| ATMs | 145 | 140 | 126 | 120 | 93 |
| Staff | 1,340 | 1,350 | 1,266 | 1,202 | 1,062 |

# Financial ratios

of last five years

## Financial ratios of last five years

| | As at 31 December 2014 | As at 31 December 2013 | As at 31 December 2012 | As at 31 December 2011 | As at 31 December 2010 |
|---|---|---|---|---|---|
| **I. PROFITABILITY** | | | | | |
| Return on weighted average equity | 12.86% | 20.67% | 15.38% | 6.13% | 15.46% |
| Return on weighted average capital | 31.69% | 50,56% | 37.46% | 16.17% | 40.90% |
| Return on average assets | 1.40% | 2,46% | 1.84% | 0.77% | 2.11% |
| Non-interest income to operating income | 25.56% | 25.92% | 23.45% | 23.25% | 19.72% |
| Operating expenses to operating income | 46.70% | 50.60% | 44.05% | 42.55% | 40.94% |
| **II. LIQUIDITY** | | | | | |
| Net loans to total deposits | 84.84% | 88.95% | 97.05% | 94.76% | 94.49% |
| Total customer deposits to total deposits | 93.41% | 95.03% | 94.85% | 96.26% | 93.58% |
| **III. ASSET QUALITY RATIOS** | | | | | |
| Loan loss provisions to total loans | 3.74% | 4.07% | 4.32% | 4.93% | 5.38% |
| Non-performing loans to total loans | 2.55% | 2.95% | 3.18% | 3.79% | 4.75% |
| Loan loss provisions to total Non-performing loans | 146.59% | 137.91% | 135.58% | 129.33% | 113.23% |
| **IV. CAPITAL ADEQUACY** | | | | | |
| BIS Risk Asset Ratio | 14.05% | 14.09% | 14.96% | 14.79% | 14.02% |
| BIS Risk Asset Ratio on Tier one Capital | 10.76% | 11.07% | 10.92% | 11.16% | 12.43% |
| Shareholder's Equity/ Total Assets | 10.18% | 11.65% | 12.20% | 11.69% | 13.61% |

## Branch/ ATM/ CDM Network

| BRANCH | TEL. NO. | FAX NO. | P.O. BOX | ATM | CDM |
|---|---|---|---|---|---|
| Ghala | Dir/ 24216000 - 24216001 - 24216002 | 24216006 | 468, P.C 115 MSQ | | |
| Adam | Dir/25215000 - 25215001 | 25215050 | 222, PC 618, Adam | ● | ● |
| Adam | Dir/25215000 - 25215001 | 25215050 | 222, PC 618, Adam | ● | ● |
| Al Duqum | Dir/25215801 -25215800 | 25215888 | 1507,PC 112 Ruwi | ● | ● |
| Al Ees Sur | Dir/ 25545867-25544350 - 25541912 | 25543710 | 323, PC 411Al Ees Sur | ● | |
| Al Ghashab(Rustaq) | Dir/ 26875759 - 26878737 | 26878797 | 216, PC 329 Burj Redh | ● | ● |
| Al Khuwair Ministry | Dir/ 24694710-24694725-24694715 | 24694730 | 1591, PC 130 Aziba | ● | |
| Al Khuwar 2 | Dir/ 24484880 - 24480008 - 24485554 | 24483366 | 2717, PC 112 Ruwi | ● | |
| Al Muntrib | 25583853- 25584049 | 25583510 | 154, PC 421 Mintrib | ● | |
| Amarat | Dir/ 24877838-24876580 - 24876120 | 24875829 | 346 PC 119 Amerat | ● | |
| Araqi | 25695071 - 25694126 | 25695047 | 90, PC 515 Iraqi | ● | |
| B.Al-Mauz | Dir/ 25443365- 25443466 - 25443460 | 25443462 | 97, PC 616 B. Al-Mawz | ● | |
| Bahla | Dir/25420003- 25420021 - 25420292 - | 25420387 | 661, PC 612 Bahla | ● | |
| Barka | Dir/ 26884423 - 26884428 | 26884451 | 751, PC 320 Barka | ● | |
| Bausher Polyclinic | 24502606 - 24596994 | 24595323 | 568, PC 115 MSQ | ● | |
| Bid Bid | Dir/ 25369254 - 25369044 - 25369033 | 25369055 | 307, PC 613 Bid Bid | ● | |
| Buraimi | 25651696 - 25651989 | 25651115 | 278, PC 512 Buraimi | ● | ● |
| Buraimi Industrial Area | 25669821 – 25669822 – 25669823 - 25669824 | 25669825 | 867, PC 512 | ● | ● |
| Dhofar University Booth | Dir/23237789-23237785-23237782 | 23237745 | 2334, PC 211 Salalah | ● | ● |
| Falaj Al Qabail | 26750156-26750928-26751378 | 26750891 | 209,PC 322 Falaj Al Qabail | ● | |
| G.Muttrah | Dir/ 24793297- 24707959 - 24706636 | 24706103 | 85, PC 114 Jibroo | ● | |
| Hafeet | Dir/ 26817646 - 26817991 - 26817992 | 26817993 | 596 PC 319 Saham | ● | |
| Ibra | Dir/ 25571632 - 25571631-25571658 | 25570646 | 514, PC 413 Ibra | ● | ● |
| Ibra | Dir/ 25571632 - 25571631-25571658 | 25570646 | 514, PC 413 Ibra | ● | ● |
| Ibri | Dir/ 25692283-25689341 - 25689685 | 25690341 | 28, PC 511 Ibri | ● | |
| Izki | Dir/ 25340393 - 25340089-25341016 | 25340204 | 412, PC 614 Izki | ● | |
| J. B. B. Ali | Dir/ 25553414 - 25553440 | 25553446 | 10 PC416 Jalan | ● | ● |
| J. B. B. Hassan | Dir/ 25551020 - 25551025 | 25551181 | 222, PC 415 JBBH | ● | ● |
| kamil Al Wafi | Dir/ 25557134 - 25557501 | 25557962 | 294, PC 412 Al-Kamil | ● | |
| Khaboura | 26801028-26801686 | 26805130 | 423, PC 326 Khaboura | ● | ● |
| Khoudh | Dir/ 24536132 -24545026 | 24545268 | 761, PC 132 Khoudh | ● | ● |
| Mabellah | Dir/ 24451520-24451540-24451539 | 24451542 | 1507, PC 112 Ruwi | ● | ● |
| MBD | Dir/ 24750516 - 24790466 | 24798621 | 1507, PC 112 Ruwi | ● | ● |
| MGM | Dir/ 24216666 | 24216600 | 1507 PC 112 Ruwi | ● | ● |
| Mirbat | Dir/23268007 - 23268038 | 23268080 | 199, PC 220 Salalah | ● | ● |
| Mudhaibi | Dir/25578110 - 25578113 | 25578114 | 454,PC 420 Mudhaibi | ● | ● |
| Muladdah | Dir/ 26868544-26868553 | 26868549 | 106 PC 341 Muladdah | ● | ● |
| Muscat | Dir/ 24 737865-24736614-24736606-24 737066 | 24739166 | 1613, PC 114 Muttrah | ● | ● |
| Muscat Intl. Airport | Dir/ 24510537-24510101- 24 510102 | 24510468 | 56, Pc Seeb PC 111 | ● | |
| Muttrah | Dir/ 24712970 -24714452 -24 714279 | 24713556 | 1441, PC 112 Ruwi | ● | ● |
| New Bausher | 24614768 - 24614786 | 24614764 | 895, PC 115 MSQ | ● | ● |
| New Salalah | Dir/23297534-23296158-23297492 | 23294263 | 2334, PC 211Salalah | ● | ● |
| Nizwa | Dir/ 25411028- 25410234 - 25411370 | 25411234 | 83, PC 611 Nizwa | | |

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## Branch/ ATM/ CDM Network

| BRANCH | TEL. NO. | FAX NO. | P.O. BOX | ATM | CDM |
|---|---|---|---|---|---|
| Quriyat | Dir/ 24845195-24845193-24845192 | 24845173 | 145, PC 120 Quriyat | ● | ● |
| Qurum | Dir/ 24568351 - 24567671 - 24567673 | 24567679 | 994, PC 116 Mina Al Fahal | ● | ● |
| Raysut | Dir/23219219-23219262-23219216 | 23219197 | 2334, PC 211 Salalah, | ● | ● |
| Rustaq | Dir/ 26876039 - 26875117 | 26875591 | 25, PC 318 Rustaq | ● | |
| Ruwi | 24831090- 24835854 | 24831892 | 1442, PC 112 Ruwi | ● | ● |
| Saada | Dir/ 23227177-23 225463-23225409 | 23225179 | 2334, PC 211 Salalah | ● | ● |
| Saham | Dir/ 26854400 - 26856699 | 26855277 | 92, PC 319 Saham | ● | ● |
| Salalah | Dir/ 23290644-23292299-23294863-23291631 | 23295291 | 2334, PC 211 Salalah | ● | ● |
| Salalah commercial District | Dir/23380700-23380719-23380721 | 23202761 | 2334, PC 211Salalah | ● | ● |
| Salalah Grand Mall | Dir/ 233818200 - 23381201 | 23381222 | 2334, PC 211 Salalah | ● | |
| Salalah-Al Gharbiah | Dir/ 23298046-23297526-23297536 | 23295084 | 2334, PC 211 Salalah | ● | ● |
| Samad A'Shan | Dir/ 25526736 - 25526529 | 25526574 | 123, PC 423 Samad | ● | |
| Seeb Town | Dir/ 24425851-24425852-24424434-24423373 | 24425627 | 347, PC 121 Al-Seeb | ● | ● |
| Shinas | Dir/ 26748302-26748306-26748308 | 26748304 | 434,PC 324 Shinas | ● | ● |
| Sinaw | Dir/ 25524663 - 25524367 | 25524823 | 296, PC 418 Sinaw | ● | ● |
| Sohar Al Ghail | Dir/26943400-26943401-26943402 | 26943444 | 21, PC 311 Sohar | ● | ● |
| Sumail | Dir/ 25351283 -25350543- 25351188 | 25350094 | 199, PC 620 Samail | ● | |
| Sur | Dir/ 25546677- 25541255 - 25540256 | 25540615 | 75, PC 411 Sur | ● | ● |
| Suwaiq | Dir/ 26862001- 26862010 | 26862102 | 585, PC 315 Suwaiq | ● | ● |
| Taqa | Dir/23258108 - 23258113 | 23258366 | 43 , PC 218 Salalah | ● | ● |
| Wadi Kabir | 24814127 - 24814126 | 24814128 | 1507, PC 112 Ruwi | ● | ● |
| Wattayah | Dir/24563211 - 24566731 | 24 566 732 | 1507, PC 112 Ruwi | ● | ● |
| Yanqul | Dir/25672009-25672018-25672031 | 25672041 | 440,PC500 Yanqul | ● | ● |

## Offsite ATM/ CDM Network

| Location name | Region |
|---|---|
| SHELL SUMAIL LIZGH | DHAKLIYA |
| ASAFALAH IBRA | SHARQIYA |
| SULTAN CENTER AAMERAT | MUSCAT |
| QURUM CITY CENTER | MUSCAT |
| AL HAIL MAHA | MUSCAT |
| OMAN OIL HAMBAR | BATINAH |
| AL KHOUTHER | BATINAH |
| ARMED FORCES HOSPITAL | MUSCAT |
| AZAIBA | MUSCAT |
| OMAN OIL QURUM HEIGHT | MUSCAT |
| FALAJ AL QABAIL | BATINAH |
| OMAN OIL AL HAIL | MUSCAT |
| MAWALEH SHELL | MUSCAT |
| OMAN EXHIBITION - SEEB | MUSCAT |
| AL BAHJA CENTER | MUSCAT |
| SALALAH (AL-QOAF) | DHOFAR |
| SAROOJ FILLING STATION | MUSCAT |
| OMAN OIL AL-KHUWAIR | MUSCAT |
| AL KHUWAIR PIC-N-SAVE | MUSCAT |
| SALALAH SHELL | DHOFAR |
| SALALAH HAFFA | DHOFAR |
| SALALAH NEW | DHOFAR |
| SALALAH AWAQADIN | DHOFAR |
| SALALAH - DAHAREEZ | DHOFAR |
| AL-SALAAM | DHOFAR |
| SOHAR UNIVERSITY | BATINAH |
| TYEBAT HYPERMARKET | BATINAH |
| OMAN OIL MAWALEH | MUSCAT |
| SALALAH - SQH | DHOFAR |
| AL-KHOUD | MUSCAT |
| CITY CENTRE (SEEB) | MUSCAT |
| QURAIYAT SHELL | MUSCAT |
| BURAIMI | BURAIMI |
| SHELL IBRI | DHAHIRA |
| OMAN OIL SUR | SHARQIYA |
| ISHTEQRAR HYPERMARKET | DHOFAR |
| SAADA | DHOFAR |
| MQ MAHA STATION | MUSCAT |
| MARS GHUBRA | MUSCAT |
| OMAN OIL AL KHOUDH | MUSCAT |
| MUSCAT INTER AIRPORT | MUSCAT |
| MAHA NEXT WAVE | MUSCAT |
| EXHIBITION OUTDOOR | MUSCAT |

## Offsite ATM/ CDM Network

| Location name | Region |
|---|---|
| JBBA | SHARQIYA |
| MOD GATE 5 | MUSCAT |
| NIZWA UNIVERSITY | DHAKLIYA |
| SHINAS TECHNICAL COLLEGE | BATINAH |
| SALALAH TECHNICAL COLLEGE | DHOFAR |
| AL NASER CLUB SALALAH | DHOFAR |
| MINTRIB | SHARQIYA |
| OMAN OIL AL WASIL | SHARQIYA |
| SHELL JEFNAIN | DHAKLIYA |
| JAWHARAT SHATTI | MUSCAT |
| HUJAIRMAT | DHAHIRA |
| SALALAH AIRPORT | DHOFAR |
| SULTAN CENTER AZAIBA | MUSCAT |
| ABU NAIF | DHOFAR |
| AIJA SUR | SHARQIYA |
| ENMAR HYPERMARKET | BATINAH |
| TAYEBAT SAMAD A'SHAN | SHARQIYA |
| MAWALEH VEG. MARKET | MUSCAT |
| OMAN OIL SHINAS | BATINAH |
| FALAJ ALMASHAIKH | SHARQIYA |
| IBRA TECHNICAL COLLEGE | SHARQIYA |
| LULU SALALAH | DHOFAR |
| MUSCAT GRAND MALL | MUSCAT |
| LULU NIZWA | DHAKLIYA |
| SUR AL MURTAFAA | SHARQIYA |
| MIA ARRIVALS | MUSCAT |
| MAHA WADI MAAWIL | BATINAH |
| WAHI ALMURR BAHLA | DHAKLIYA |
| OMAN OIL AUQAD | DHOFAR |
| SOHAR | BATINAH |
| **CDM** | |
| GRAND MALL | MUSCAT |
| SUR ALAIJA | SHARQIYA |
| MOD GATE 5 | MUSCAT |
| MUSCAT INTERNATIONAL AIRPORT | MUSCAT |

# Disclosure requirements under pillar-III of basel II.

31st December 2014

EY
Building a better working world

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C.R. No. 1368095
P. R. No. MH/4

**Report on factual findings to the Board of Directors of Bank Dhofar SAOG in respect of Basel II – Pillar III and Basel III related Disclosures**

We have performed the procedures agreed with you and as prescribed in the Central Bank of Oman (CBO) circular No. BM 1027 dated 4 December 2007 with respect to the Basel II – Pillar III Disclosures and Basel III related Disclosures (the disclosures) of Bank Dhofar SAOG (the bank) set out on pages 1 to 39 as at and for the year ended 31 December 2014. The disclosures were prepared by the management in accordance with the CBO's Circular No. BM 1009 dated 13 September 2006, Circular No. BM 1027 dated 4 December 2007 and Circular number 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 Circular No. BM 1027, were performed solely to assist you in evaluating the bank's compliance with the related disclosure requirements set out in CBO Circular No. BM 1009 dated 13 September 2006 and 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 2014 and does not extend to any financial statements of the bank taken as a whole or to any other reports of the bank

Ernst & Young

11 March 2015
Muscat

A member firm of Ernst & Young Global Limited

## DISCLOSURE REQUIREMENTS UNDER PILLAR – III OF BASEL II & III.

### 1. Introduction:

The following detailed qualitative and quantitative public disclosures are provided in accordance with Central Bank of Oman (CBO) rules and regulations on capital adequacy standards issued through circular BM 1009 on Guidelines on Basel II, Islamic Banking Regulatory Framework and BM 1114 on Regulatory Capital and Composition of Capital Disclosure Requirement under Basel III. The purpose of these requirements is to complement the capital adequacy requirements and the Pillar II – Supervisory review process. These disclosures are intended for market participants to assess key information about the Bank's exposure to various risks and to provide a consistent and understandable disclosure framework for easy comparison among banks operating in the market.

The major highlights of the Central Bank of Oman (CBO) regulations on capital adequacy are:

#### As per Basel II:

a. To maintain capital adequacy ratio (CAR) at a minimum of 12%;
b. To adopt the standardized approach for credit risk for implementing Basel II, using national discretion for:
o Adopting the credit rating agencies as external credit assessment institutions (ECAI) for claims on sovereigns and Banks;
o Adopting simple/comprehensive approach for Credit Risk Mitigants ( CRM)
o Treating all corporate exposures as unrated and assign 100% risk weight.
c. To adopt standardized approach for market risk and basic indicator approach for operational risk.
d. Capital Adequacy returns must be submitted to CBO on a quarterly basis; and
e. The Bank's external auditors must review capital adequacy returns.

#### As per Basel III

a. The predominant form of capital shall be Tier 1 capital of which Common Equity Tier (CET1) will form the major component.
b. To maintain capital adequacy ratio (CAR) at a minimum of 12.625% (including the capital conservation buffer and the minimum of 12% under Basel II).
c. The capital conservation buffer shall be further enforced in phases with 0.625% increase every year from 2017 to 2019. The Bank is required to maintain at all times, the following minimum capital adequacy ratios: .
o Within the overall requirement of 12.625% CAR, Tier 1 ratio is to be maintained at a minimum of 9.625%,
o Within the minimum Tier 1 ratio of 9.625%, minimum CET 1 ratio is to be maintained at 7.625%,
o Further, within the minimum overall capital ratio of 12.625%, Tier 2 capital can be admitted up to a maximum of 3% of RWA of the Bank.
o The above requirement will change correspondingly with the implementation of capital conservation buffer of 0.625% each year from 2017 to 2019.

#### As per Islamic Banking Regulatory Framework:

Islamic Windows of domestic conventional banks shall maintain a minimum allocated capital of OMR 10 million.

### 2. Scope of Application:

The Bank has no subsidiaries or significant investments. However, Bank has introduced Islamic Banking through an Islamic window named as "Maisarah". Accordingly, the information in the document pertains to the consolidated entity i.e., for both conventional banking & Islamic window (Maisarah). The disclosure pertaining to Maisarah is provided separately at the end of this document.

### 3. Basel II Disclosures:

#### 3.1. Capital Structure:

The capital base for complying with capital standards is quite distinct from accounting capital. The regulatory capital is broadly classified into three categories – Tier I, Tier II and Tier III. Bank Dhofar's capital structure consists of Tier I capital and Tier II capital.

Tier I capital includes paid up capital, share premium, legal and general reserves and other disclosed free reserves, including subordinated loan reserves, non-cumulative perpetual preferred stocks and retained earnings (available on a long term basis) less regulatory adjustments like cumulative losses of financial instruments classified as available for sale, goodwill & other intangibles.

Tier II (Supplementary capital) consists of undisclosed reserves, revaluation reserves/cumulative fair value gains on available for sale instruments, general loan loss provision/ general loan loss reserve in capital, hybrid debt capital instruments and subordinated term debt subject to certain conditions. Tier II capital of the Bank also includes 45% of Investment revaluation reserve and general provisions to the extent of 1.25% of total risk weighted assets.

The use of Tier III (short term subordinated debt) is limited only for part of the requirements of the explicit capital charge for market risks. The Bank does not have any Tier III capital and there are no innovative or complex capital instruments in the capital structure.

The details of capital structure are provided as under:

| CAPITAL STRUCTURE : | RO'000 Amount |
|---|---|
| Paid up capital | 134,324 |
| Legal reserve | 35,537 |
| Share premium | 40,018 |
| Special reserve | 18,488 |
| Subordinated loan reserve | 41,250 |
| Retained earnings | 28,882 |
| Proposed bonus shares | 20,149 |
| **Common Equity Tier (CET) I capital** | **318,648** |
| Less Goodwill | (2,383) |
| Cumulative unrealized losses recognized directly in equity | (1,634) |
| **CET I Capital – Regulatory Adjustments** | **(4,017)** |
| **Total CET I capital** | **314,631** |
| **Additional Tier I Capital** | |
| Total Tier I Capital | 314,631 |
| Investment revaluation reserve (45% only ) | 620 |
| General provision (Max of 1.25% of total risk weighted assets) | 32,788 |
| Subordinated loans | 62,625 |
| **Total Tier II capital** | **96,033** |
| **Total eligible capital (Tier I + Tier II Capital)** | **410,664** |

### 3.2 Capital Adequacy:

The Bank has adopted Standardized Approach (SA) for computation of capital charge for credit risk and market risk, and Basic Indicator Approach (BIA) for operational risk. Under Standardized approach for credit risk, the Bank has adopted simple approach for recognizing collaterals in the Banking Book and for risk weighting the claims on Sovereigns and Banks, credit ratings of external credit assessment institutions is used. Assessment of capital adequacy is carried out in conjunction with the capital adequacy reporting to the CBO.

The Bank's capital adequacy ratio is 14.05% as against the CBO requirement of 12.625%. The Bank's policy is to manage and maintain its capital with the objective of maintaining strong capital ratio and high rating. The Bank maintains capital levels that are sufficient to absorb all material risks the Bank is exposed to and provides market return to the shareholders. The Bank also ensures that the capital levels comply with regulatory requirements and satisfy the external rating agencies and other stakeholders including depositors and senior creditors. The whole objective of the capital management process in the Bank is to ensure that the Bank remains adequately capitalized at all times. Given the present level of capital adequacy, Bank has already initiated the process of raising Tier 1 capital.

The Bank has in place Internal Capital Adequacy Assessment Process (ICAAP) for assessing Bank's capital adequacy in relation to the risk profiles as well as a strategy for maintaining the capital level. The objective of ICAAP document is to explain the Risk policies adopted, Target risk structure and Capital planning, the process of assessing the capital adequacy for credit, market and operational risk, Specific assessment procedures for risks not covered under Pillar I, process of Internal Control Mechanism and stress testing methodologies adopted by the Bank.

Bank has also formed working group on capital planning which regularly meets and assess the capital adequacy to support projected asset growth. The capital adequacy ratio is periodically assessed and reported to the Risk Management Committee (RMC) of the Board of Directors. The composition of capital in terms of Tier I, II and III are also analyzed to ensure capital stability and to reduce volatility in the capital structure.

#### i) Position of various Risk weighted Assets is presented as under:

| Sl. No | Details | Gross Balances (Book Value) RO'000 | Net Balances (Book Value)* RO'000 | Risk Weighted Assets RO'000 |
|---|---|---|---|---|
| 1 | On balance sheet items | 3,355,358 | 3,232,795 | 2,401,373 |
| 2 | Off balance sheet items | 400,586 | 349,806 | 270,758 |
| 3 | Derivatives | 227,273 | 227,273 | 2,330 |
| 4 | **Total Credit Risk** | **3,983,217** | **3,809,874** | **2,674,461** |
| 5 | **Market Risk** | | | **70,357** |
| 6 | **Operational Risk** | | | **178,817** |
| 7 | **Total Risk Weighted Assets** | | | **2,923,635** |

* Net of provisions and, reserve interest


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### ii) Detail of Capital Adequacy:

| Sl. No | Details | RO'000 |
|---|---|---|
| 1 | Total CET 1/Tier 1 Capital | 314,631 |
| 2 | Tier 2 Capital | 96,033 |
| 3 | Tier 3 Capital | - |
| 4 | Total eligible capital | 410,664 |
| 5 | Capital Requirement for Credit Risk | 320,935 |
| 6 | Capital Requirement for Market Risk | 8,443 |
| 7 | Capital Requirement for Operational Risk | 21,458 |
| 8 | Total Required Capital | 350,836 |
| 9 | Tier 1 Capital Ratio | 10.76% |
| 10 | Total Capital Adequacy Ratio | 14.05% |

### 3.3 Risk Exposure and Assessment:

The risks to which banks are exposed to and the techniques that banks use to identify, measure, monitor and control those risks are important factors that market participants consider in their assessment of an institution. In this section, several key banking risks are considered: credit risk, market risk, interest rate risk in the banking book and operational risk. For each separate risk area (e.g. credit, market, operational, banking book interest rate risk) the Bank describes its risk management objectives and policies, including scope and nature of risk reporting and/or measurement systems and risk mitigation strategies.
3.3.1 Credit Risk:

Credit risk is defined as the possibility that a borrower or counterparty will fail to meet its obligations in accordance with agreed terms. Credit risk, therefore, arises from the Bank's dealings with or lending to a corporate, individual, another bank, financial institution or a country. The objective of credit risk management is to minimize the probable losses and maintaining credit risk exposure within acceptable parameters.

The Bank has well established credit risk policy duly approved by the Board which establishes prudent standards, practices in managing credit risk and setting up prudent bench marks, limits for management of credit risks. Continuous review of the credit risk policy is done to adapt to the business environment and regulatory requirements at all times.

The Board of Directors delegate credit approval powers for Wholesale Banking and Retail Banking functional areas, which are clearly defined in Authorities Matrix contained in the Manual on Delegation of Authority. All concerned executives are responsible to ensure that they exercise their delegated powers in terms of the approved Authorities Matrix and seek appropriate special approvals wherever required.

Board Credit Committee is the topmost credit approving authority of the Bank which is mainly responsible for approving all credit proposals beyond the authority level of the management. The senior management executives are also empowered with certain loan approving limits beyond which the credit proposals shall be considered by the Management Credit Committee (MCC) which is empowered to consider all credit related issues up to certain limits.

Credit risk is managed by the Risk Management Division (RMD) through a system of independent risk assessment of all the Corporate, Mid sector and Small and Medium Enterprise credit proposals before they are considered by the appropriate approving authorities. The borrowers in the Standard Category are assigned a risk rating on a scale of 7 grades based on quantitative as well as qualitative parameters. All accounts reflecting weakness in financials or operations as defined by CBO are assigned the grade 8 (Special Mention category) for closer monitoring. RMD approves the risk grade of the borrower and also identifies the risk factors in the credit proposal and suggests suitable mitigation. This facilitates the approving authorities in making informed credit decision. In addition RMD reviews grading of obligors, and conducts regular analysis of the credit portfolio. Every corporate account is reviewed annually and in case of accounts graded as 6, 7 and 8 (Special Mentioned category accounts); reviews are conducted at higher frequency.

The Bank has also established Credit Control department which looks after Loan Review Mechanism (LRM). LRM helps in ensuring credit compliance with the post-sanction processes/ procedures laid down by the Bank from time to time. It involves taking up independent account-specific reviews of individual credit exposures as per the Board approved LRM Policy. Credit Control department also monitors various credit concentration limits. Counterparty/group exposures are limited to 15% of the Bank's capital base as stipulated by CBO and where a higher limit is required for projects of national importance prior approval of CBO is obtained. The credit control department also undertakes monitoring of the retail loans.

Retail lending is strictly in accordance with the CBO guidelines. The Bank introduced a scoring mechanism as a selection tool for the personal loans in conventional banking. Bank has also implemented Loan Origination System (LOS) which has automated the workflow of retail loan credit proposals in conventional banking. In Maisarah, retail financing is mainly in auto and housing finance category.

In addition to these, the Bank also undertakes business with other banks. The maximum exposures to these banks are defined through internally developed model and the total exposure to such counterparty banks is linked to the net worth of the Bank. The Bank has also implemented country risk limits approved by the Board to ensure portfolio diversification in terms of sovereign and geographical exposure. Specific country risk limits have been set up based on the internal risk rating grades assigned to various countries and these limits are reviewed on half yearly basis.

In the absence of acceptable external credit rating agency in the Sultanate of Oman, the Bank has obtained approval of the CBO to treat all corporate exposures as unrated and accordingly assign risk weight of 100% for computing capital requirements under Basel II. The same convention has also been applied to Maisarah financing.

Past dues and impaired exposures are defined in accordance with the relevant CBO regulations. Specific and general provisions are computed periodically in accordance with the CBO regulations as well as other applicable accounting standards. General loan loss provisions equivalent to 1% of the loans categorized as Standard and Special Mention for meeting the latent loan losses are provided for. However, a general loss provision of 2% of the Standard and Special Mention personal loans is created considering the heightened risk inherent in personal loans. Furthermore, all housing finance, other than that occupied by customer, is subject to a 2% general loss provision.

All lending decisions are made after giving due consideration to credit risk policy requirements.

Credit Risk exposure of the Consolidated entity (i.e. both Conventional banking & Maisarah)



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### i) Analysis of gross credit exposures, plus average gross exposure over the period broken down by major types of credit exposure:

| Sl. No. | Type of Credit Exposure | Average Gross exposure RO'000 2014 | Average Gross exposure RO'000 2013 | Total Gross exposures RO'000 2014 | Total Gross exposures RO'000 2013 |
|---|---|---|---|---|---|
| | **Conventional** | | | | |
| 1 | Overdrafts | **119,691** | 122,483 | **130,591** | 111,959 |
| 2 | Loans | **1,887,113** | 1,628,317 | **1,953,070** | 1,724,640 |
| 3 | Loans against trust receipts | **91,232** | 80,132 | **79,484** | 77,792 |
| 4 | Other | **22,715** | 18,879 | **27,980** | 18,907 |
| 5 | Bills purchased /discounted | **10,776** | 9,647 | **10,445** | 13,099 |
| 6 | Advance against credit cards | **7,599** | 7,811 | **7,705** | 7,864 |
| | **Islamic** | | | | |
| 7 | Murabaha Receivables | **15,685** | 167 | **20,562** | 237 |
| 8 | Mudaraba Financing | **1,781** | - | **2,284** | - |
| 9 | Ijarah Assets | **42,853** | 8,603 | **29,455** | 17,606 |
| 10 | Diminishing Musharaka Financing | **24,675** | 5,369 | **80,733** | 10,425 |
| | Total Islamic | **84,994** | 14,139 | **133,034** | 28,268 |
| | **TOTAL** | **2,224,120** | **1,881,408** | **2,342,309** | **1,982,529** |

### ii) Geographic distribution of exposures, broken down in significant areas by major types of credit exposure:

| Sl. No | Type of Credit Exposure | Oman RO'000 | Other GCC Countries RO'000 | *OECD Countries RO'000 | India RO'000 | Pakistan RO'000 | Other RO'000 | Total RO'000 |
|---|---|---|---|---|---|---|---|---|
| | | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| 1 | Overdrafts | 125,756 | - | - | - | - | - | 125,756 |
| 2 | Personal Loans | 1,048,120 | - | - | - | - | - | 1,048,120 |
| 3 | Loans against trust Receipts | 78,950 | 534 | - | - | - | - | 79,484 |
| 4 | Other Loans | 912,311 | 5,016 | - | - | - | - | 917,327 |
| 5 | Bills Purchased / negotiated | 10,445 | - | - | - | - | - | 10,445 |
| 6 | Any other | 28,143 | - | - | - | - | - | 28,143 |
| | **Total** | **2,203,725** | **5,550** | **-** | **-** | **-** | **-** | **2,209,275** |
| | **Islamic** | | | | | | | |
| 7 | Murabaha Receivables | 20,562 | - | - | - | - | - | 20,562 |
| 8 | Mudaraba Financing | 2,284 | - | - | - | - | - | 2,284 |
| 9 | Ijarah Assets | 29,455 | - | - | - | - | - | 29,455 |
| 10 | Diminishing Musharakah Financing | 80,733 | - | - | - | - | - | 80,733 |
| | **Total Islamic** | **133,034** | **-** | **-** | **-** | **-** | **-** | **133,034** |
| 11 | **Total** | **2,336,759** | **5,550** | **-** | **-** | **-** | **-** | **2,342,309** |

Overdrafts and others includes in Personal loans and others
*excluding countries included in column 2

### iii) Industry or counterparty type distribution of exposures broken down by major types of credit exposures:

| Sl. No. | Economic Sector | Overdraft RO'000 | Loans & Financing RO'000 | Bills purchased RO'000 | Others RO'000 | Total RO'000 | Off balance sheet exposures RO'000 |
|---|---|---|---|---|---|---|---|
| 1 | Import Trade | 10,612 | 60,486 | 30 | 26,035 | 97,163 | 45,260 |
| 2 | Export Trade | 5 | - | - | - | 5 | - |
| 3 | Wholesale & Retail trade | 8,630 | 26,101 | - | 3,353 | 38,084 | 19,627 |
| 4 | Mining & Quarrying | 3,917 | 39,973 | 287 | 7 | 44,184 | 2,614 |
| 5 | Construction | 51,567 | 232,238 | 1,227 | 42,616 | 327,648 | 407,296 |
| 6 | Manufacturing | 11,396 | 186,443 | - | 32,788 | 230,627 | 55,645 |
| 7 | Electricity, gas & water | 34 | 41,341 | - | 402 | 41,777 | 723 |
| 8 | Transport & Comm. | 120 | 47,274 | - | - | 47,394 | 4,388 |
| 9 | Fin. Institutions | 7,693 | 108,281 | 6,552 | 1 | 122,527 | 105,790 |
| 10 | Services | 22,333 | 81,672 | 272 | 1,241 | 105,518 | 61,543 |
| 11 | Personal | 4,835 | 1,035,743 | - | 7,542 | 1,048,120 | 2,639 |
| 12 | Agriculture & Allied | 3,541 | 8,840 | 32 | 46 | 12,459 | 1,435 |
| 13 | Government | - | 136,723 | - | - | 136,723 | 1,898 |
| 14 | Non Resident lending | - | 5,016 | - | 534 | 5,550 | - |
| 15 | All others | 5,908 | 75,973 | 2,045 | 604 | 84,530 | 7,217 |
| **16** | **Total (1 to 15)** | **130,591** | **2,086,104** | **10,445** | **115,169** | **2,342,309** | **716,075** |

### iv) Residual contractual maturity breakdown of the whole portfolio, broken down by major types of credit exposure:

| Sl. No. | Time Band | Overdrafts RO'000 | Loans & Financing RO'000 | Bills purchased/ Discounted RO'000 | Others RO'000 | Total RO'000 | Off-balance sheet exp. RO'000 |
|---|---|---|---|---|---|---|---|
| 1 | Up to 1 month | **6,530** | **21,599** | **10,445** | **7,278** | **45,852** | **288,321** |
| 2 | 1-3 months | **6,530** | **79,559** | **-** | **3,346** | **89,435** | **38,662** |
| 3 | 3-6 months | **6,530** | **96,564** | **-** | **3,290** | **106,384** | **54,167** |
| 4 | 6-9 months | **6,530** | **18,204** | **-** | **16,285** | **41,019** | **36,740** |
| 5 | 9 – 12 months | **6,530** | **58** | **-** | **16,556** | **23,144** | **50,748** |
| 6 | 1-3 years | **32,647** | **157,830** | **-** | **12,337** | **202,814** | **140,141** |
| 7 | 3 – 5 years | **32,647** | **137,140** | **-** | **24,663** | **194,450** | **87,659** |
| 8 | Over 5 years | **32,647** | **1,575,150** | **-** | **31,414** | **1,639,211** | **19,637** |
| **9** | **TOTAL** | **130,591** | **2,086,104** | **10,445** | **115,169** | **2,342,309** | **716,075** |

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### v) Analysis of loan & financing book by major industry or counterparty type:

| Sl. No. | Economic Sector | Gross loans & Financing RO'000 | Of which NPLs / NPAs * RO'000 | General provision held RO'000 | Specific prov. Held RO'000 | Reserve Interest / Profit RO'000 | Specific Prov. Made during the year RO'000 | Adv. Written off during year** RO'000 |
|---|---|---|---|---|---|---|---|---|
| 1 | Import Trade | 97,163 | 7,512 | 896 | 1,425 | 5,786 | 12 | - |
| 2 | Export Trade | 5 | 4 | 1 | 3 | 1 | - | - |
| 3 | Wholesale & Retail | 38,084 | 18,994 | 191 | 4,959 | 14,153 | 22 | 27 |
| 4 | Mining & Quarrying | 44,184 | 5 | 442 | 4 | 2 | - | - |
| 5 | Construction | 327,648 | 2,611 | 4,314 | 814 | 1,910 | 15 | 151 |
| 6 | Manufacturing | 230,627 | 492 | 2,301 | 264 | 219 | 114 | - |
| 7 | Electricity, gas & water | 41,777 | 34 | 417 | 8 | 3 | 8 | - |
| 8 | Transport& Communications | 47,394 | 4 | 474 | 1 | 3 | - | - |
| 9 | Financial Institutions | 122,527 | - | 1,227 | - | - | - | - |
| 10 | Services | 105,518 | 383 | 1,051 | 160 | 198 | 13 | 42 |
| 11 | Personal | 1,048,120 | 24,201 | 18,697 | 12,289 | 7,692 | 5,877 | 564 |
| 12 | Agriculture & Allied | 12,459 | 9 | 125 | 7 | 2 | - | - |
| 13 | Government | 136,723 | - | 1,367 | - | - | - | - |
| 14 | Non-Resident lending | 5,550 | 5,016 | 6 | 4,429 | 590 | - | - |
| 15 | All Others | 84,530 | 497 | 840 | 175 | 158 | 43 | - |
| **16** | **TOTAL (1 to 15)** | **2,342,309** | **59,762** | **32,349** | **24,538** | **30,717** | **6,104** | **784** |

* Represents only on balance sheet NPLs.

### vi) Geographical distribution of amount of impaired loans:

| Sl. No. | Countries | Gross loans / financing RO'000 | Of which NPLs / NPAs RO'000 | General provisions held RO'000 | Specific provisions held RO'000 | Reserve Interest / Profit RO'000 | Specific Provisions Made during the year RO'000 | Advances Written off during year ** RO'000 |
|---|---|---|---|---|---|---|---|---|
| 1 | Oman | 2,336,759 | 54,746 | 32,343 | 20,109 | 30,127 | 6,104 | 784 |
| 2 | Other GCC countries | 5,550 | 5,016 | 6 | 4,429 | 590 | - | - |
| 3 | OECD countries* | - | - | - | - | - | - | - |
| 4 | India | - | | - | - | - | - | - |
| 5 | Pakistan | - | - | - | - | - | - | - |
| 6 | Others | - | - | - | - | - | - | - |
| **7** | **TOTAL** | **2,342,309** | **59,762** | **32,349** | **24,538** | **30,717** | **6,104** | **784** |

*excluding countries included in row 2

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### vii) Movement of Gross Loans/Financing:

(OR in 000's)

Movement of Gross Loans/Financing during the year

| Sl No | Details | Performing Loans | | | Non-performing Loans | | |
|---|---|---|---|---|---|---|---|
| | | Standard RO'000 | S.M. RO'000 | Substandard RO'000 | Doubtful RO'000 | Loss RO'000 | Total RO'000 |
| 1 | Opening Balance | 1,848,804 | 75,266 | 2,709 | 3,526 | 52,224 | 1,982,529 |
| 2 | Migration/changes (+/-) | (5,500) | 1,171 | 585 | 121 | 3,623 | - |
| 3 | New Loans | 971,028 | 19,113 | 86 | 142 | 4,776 | 995,145 |
| 4 | Recovery Loans | (607,044) | (20,291) | (381) | (181) | (2,869) | (630,766) |
| 5 | Loans written off | - | - | - | - | (4,599) | (4,599) |
| **6** | **Closing Balance** | **2,207,288** | **75,259** | **2,999** | **3,608** | **53,155** | **2,342,309** |
| 7 | Provisions held* | 32,349 | | 702 | 1,536 | 22,300 | 56,887 |
| 8 | Reserve Interest | | | 195 | 312 | 30,210 | 30,317 |

*Indicate the general provisions held under performing loans and specific provisions under non-performing loans

### 3.3.2 Credit Risk: Disclosures for portfolios subject to the Standardized Approach:

i) The Bank has obtained CBO approval vide its letter dated December 11, 2006 to use the ratings of Moody's, Standard & Poor ( S&P) or Fitch for risk weighting claims on sovereigns and banks. However, as mentioned earlier, the Bank has obtained CBO approval to treat all corporate exposures as unrated and assign 100% risk weight on all of them. Similar convention has been applied for Maisarah as well.

ii) The Bank is adopting the simplified approach for collateral recognition under the standardized approach, where 0% risk weight is assigned for the exposures covered by cash collateral. The total exposure covered by cash collateral, which attracts 0% risk weight is RO 118,088 million All other credit exposures of Corporate and Retail are assigned 100% risk weight (except mortgage loans, where valuation of the mortgaged house property is not older than 3 years, are assigned 35% risk weight).

iii) The Bank also conducts stress tests using simulation technique on portfolio basis at regular intervals to assess the impact of credit risk on its profitability and capital adequacy. The same is placed before the Risk Management Committee of Board of Directors.

### 3.3.3 Credit Risk Mitigation (CRM): Disclosures for Standardized approaches:

The Bank has adopted the simple approach for credit risk mitigation and no offsetting of the collaterals is done to calculate the capital requirement. However, the main CRM techniques followed by the Bank are based on collaterals which the Bank endeavors to obtain for its exposures, as far as commercially practicable. The collaterals mainly consist of real estate properties, shares listed on the Muscat Securities Market (MSM), government bonds, unlisted shares and Bank fixed deposits. However, the Bank's predominant form of eligible collateral as defined by CBO in its guidelines and for capital adequacy computation purposes is in the form of cash, acceptable Bank guarantees and shares listed on the MSM main index.

The Bank has credit risk rating framework comprising of Risk Rating system which is a single point indicator of diverse risk factors of a Borrower and assists in taking credit decisions in a consistent manner. The risk rating framework is having 8 performing loan grades (including special mention) and 3 non-performing loan grades. The rating grade indicates the default probability of the borrower's obligation. The Bank has also implemented the facility rating system for conventional banking based on Basel II foundation approach which considers the collateral support, seniority and other structural aspects of the facilities provided.

The Bank shall also develop required systems for estimation of Probability of Default (PD), Loss Given Default (LGD) and Exposure at Default (EAD) in order to adopt the advanced approaches under Basel II gradually. A road map to put in place risk management systems to prepare the Bank to adopt advanced approaches of Basel II has been laid down and a suitable risk based information system is also being developed. The Bank has regular training programs on risk management practices for the staff to spread awareness and develop risk culture.

Bank has also implemented model on Risk Adjusted Return on Capital (RAROC) for conventional banking which provides the risk based pricing, which refers to a process of identifying risks, understanding them and subsequently pricing them appropriately. It is an important aspect of prudent credit risk management and is essential for maintaining financial discipline while giving loans. It helps in not only identifying, but also understanding the risk and pricing it appropriately. Implementing such a system shall provide a competitive edge to the Bank in improving the quality of the portfolio and will also cover the cost of doing business in the form of pricing.

The Bank expects to refine the existing risk management systems and practices on an ongoing basis and with that experience, approach the CBO with a framework to move to Internal Rating Based approach (IRB), for its approval at an appropriate time.

### 3.3.4 Market Risk:

Market Risk is the risk to the Bank's earnings and capital due to changes in the interest rates, profit rates or prices of securities, foreign exchange and equities. The Bank for International Settlements (BIS) defines market risk as "the risk that the value of 'on' or 'off' balance sheet positions will be adversely affected by movements in equity and interest rate markets, currency exchange rates and commodity prices". Market Risk has been categorized into interest rate risk, profit rate risk, foreign exchange risk, commodity price risk and equity price risk.

Bank has a comprehensive Treasury Risk Policy for both conventional and Islamic banking and Investment Management Policy for conventional banking which encompasses assessment, monitoring and management of all the above market risks. Bank has defined various internal limits to monitor market risk and is computing the capital requirement as per standardized approach of Basel II.

Details of various market risks faced by the Bank are set out below:

**i) Interest Rate Risk (IRR) for conventional banking:**

Interest rate risk is the risk where changes in market interest rates might adversely affect a Bank's financial condition. The immediate impact (up to one year) of changes in interest rates is on the Net Interest Income (NII) and a long term impact (more than one year) of changing interest rates is on the Bank's networth.

The responsibility of interest rate risk management rests with the Bank's Asset and Liability Management Committee (ALCO). Bank periodically computes the IRR on the Banking book that arises due to re-pricing mismatches in interest rate sensitive assets and liabilities. The impact of IRR on the earnings of the Bank is computed and placed to ALCO on monthly basis. An internal limit has been set up to monitor the impact of Interest rate risk on NII. Similarly, Bank has developed a model to assess the impact of IRR on the Bank's net worth based on duration gap analysis method and an internal limit has also been fixed for the same.

Details relating to re-pricing mismatches and the interest rate risk thereon are placed to the ALCO and also to the Risk Management Committee of the Board on periodic basis. In addition, scenario analysis assuming a 200 basis point parallel shift in interest rates and its impact on the interest income and net profit of the Bank are assessed on a quarterly basis and placed to Risk Management Committee with proposals for corrective action if necessary.

**Impact on** earnings and economic value of equity due to adverse movement of 100 bps and 200 bps in interest rate in conventional banking is provided as under:

(RO in 000's)

| Position as at 31.12.2014 Impact on | + or – 1% | + or – 2% |
|---|---|---|
| Earnings | 11.875 | **23.750** |
| Economic Value of Equity | 21.387 | **42.774** |
| Impact on earning as a % of NII | 16% | **32%** |
| Impact as a % of Bank's Net worth | 5.2% | **10.4%** |

### iii) Profit Rate Risk (PRR):

Profit rate risk is the risk that Maisarah will incur a financial loss as a result of mismatch in the Profit rates on assets & Investment Account Holder (IAH). The profit distribution to IAH is based on Profit Sharing Agreements. Therefore, Maisarah is not subject to any significant PRR. However, the profit sharing agreements will result in displaced commercial risk when a Maisarah result does not allow it to distribute profits in line with the market rates.

Maisarah has a Profit Distribution Policy in place which details the process and management of Profit Distribution, including setting up of Profit Equalization & Investment Risk Reserve. The responsibility of profit rate risk management rests with the Bank's Asset and Liability Management Committee (ALCO). Maisarah periodically computes the PRR on the Banking book.

### iv) Foreign Exchange Risk:

Foreign Exchange Risk maybe defined as the risk that a Bank may suffer losses as a result of adverse exchange rate movements during a period in which it has an open position, either spot or forward, or a combination of the two, in an individual foreign currency.

The responsibility of management of foreign exchange risk rests with the Treasury department. The Bank has set up internal limit of 40% of Tier I capital to monitor foreign exchange open positions. Most of the foreign exchange transactions are conducted for corporate customers and mostly are on back to back basis. Bank has also defined various limits for foreign currency borrowing and lending.

The Bank also conducts stress tests to assess the impact of foreign exchange risk on its profitability and capital adequacy and the same is placed to Risk Management Committee of Board of Directors on regular basis.

### v) Commodity Risk:

Commodity Risk occurs due to volatility in the prices of the commodities. Presently the Bank has no exposure to Commodity Risk.

### vi) Equity Position Risk:

Equity Position risk occurs due to change in the market value of the Bank's portfolio as a result of diminution in the market value of the equity securities. The responsibility of management of equity position risk rests with the Investment Management Department of the Bank. The Bank does not hold trading position in equities in conventional banking and does not hold any position in equities in Maisarah. The Bank's portfolio is marked to market on regular basis and the difference in the book value and market value are adjusted against revaluation reserve. The Bank also conducts regular stress test on equity position risk and assesses its impact on profitability and capital adequacy.

Bank has introduced the Value at Risk (VaR) method in conventional banking for the domestic quoted equity portfolio. Out of total quoted equity portfolio of OMR 14.10 Mn. as on 31.12.2014, VaR works out to OMR 316K at 95% confidence level and 2.24% of the domestic quoted equity portfolio.

### vii) The Capital Charges:

The capital charge for the entire market risk exposure is computed as per the standardized approach using the duration method and in accordance with the guidelines issued by CBO in its circular BM 1009. The Bank adopts duration method in measuring interest rate risk in respect of debt securities held in trading book. The Bank does not hold any trading position in equities and in commodities necessitating capital charge to cover the market risk. Foreign exchange risk capital charge is computed on the three month average of the sum of net short positions or net long positions, whichever is higher of the foreign currency positions held by the Bank.

The capital charge for various components of market risk is presented below:

| Type of risk | RO'000 Amount |
|---|---|
| Interest Rate Risk | - |
| Equity Position Risk | - |
| Commodities Position risk | - |
| Foreign Exchange position risk | 5,636 |
| TOTAL | 5,636 |

### 3.3.5 Liquidity Risk

Liquidity risk is the potential inability to meet the liabilities as they become due.  It arises when the banks are unable to generate cash to cope with a decline in deposits or increase in assets.

The Bank's Liquidity Risk Management is governed by the Treasury Risk Policy document approved by the Board of Directors as well as the provisions of relevant CBO guidelines on liquidity risk management. The Treasury risk policy also incorporates contingency funding plans and measures, so as to be in a position to meet all maturing liabilities as well as to fund asset growth and business operations. The contingency funding plan includes effective monitoring of the cash flows on a day to day basis, holding of tradable high quality liquid assets, which may be readily disposed off in sizeable amount etc.

The Bank monitors its liquidity risk through cash flow approach and stock approach in conventional banking and through cash flow approach in Maisarah. Under cash flow approach the Bank generates Maturity of Assets and Liabilities (MAL) report which captures all the maturing assets and liabilities into various pre-set time buckets ranging from one month to above five years. The mismatches in various time buckets indicate liquidity gap and the Bank strictly adheres to the CBO set limit of 15% of cumulative liabilities (outflows) on mismatches (liquidity gaps) in time buckets up to one year.  In addition, the Bank has also set up internal limit on mismatches in time buckets beyond one year.  Under stock approach, the Bank monitors the liquidity risk through liquidity ratios, which portrays the liquidity stored in the balance sheet.

Treasury department of the Bank controls and monitors the liquidity risk and ensures that the Bank is not exposed to undue liquidity risk and at the same time makes optimum use of its funds. Middle office in Risk Management Division also monitors the liquidity position of the Bank and provides the liquidity gap positions to Treasury Department to   manage it.

Middle office also undertakes regular stress test using simulation technique that provides the requirement of liquidity over a given time horizon at a certain confidence level.

The Bank has reconciled the statement of Maturity of Assets and Liabilities with the discussions under IFRS (Refer item no. 35 of the Notes to financial statements).

### 3.3.6 Operational Risk:

Basel Committee on Banking Supervision has defined operational risk as "the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events." This definition includes legal risk, but excludes strategic and reputational risk. Legal risk includes, but is not limited to, exposure to fines, penalties, punitive damages resulting from supervisory actions, as well as private settlements.

Bank has a well-defined Operational Risk Management (ORM) policy which inter-alia includes Operational Risk Events, Operational Risk losses and ORM process. Business and Functional units are primarily responsible for taking and managing Operational Risk on a day-to-day basis. Risk Management Division provides guidance and assistance in the identification of risk and in the ongoing operational risk management process. Bank has set up Operational Risk Management Committee to identify, manage, measure, monitor, mitigate and report operational risks.

Basel II has provided three different approaches viz., Basic Indicator approach (BIA), The standardized approach (TSA) and Advanced measurement approach to compute the capital charge of Operational Risk. The Bank has adopted the BIA for computing the capital charge for Operational Risk as per CBO guidelines. The approach requires the Bank to provide 15% of the average gross income for the last three years as capital charge for operational risk.

While the Bank has adopted BIA approach for capital adequacy calculation purposes, initiatives has also been taken to  move towards adopting The Standardized Approach by mapping the business activities into eight business lines and assessing the operational risk in each of them.

The system of collecting and collating data on operational risk events has been improved further to build a strong loss data base and to move over to the advanced measurement system for operational risk as required by the CBO guidelines. The loss data are being captured using Operational Risk Management System and complete history of the loss data is maintained.

Bank also undertakes Risk Control and Self-Assessment exercise by which the inherent risk in various processes of each business unit is identified and control against these risks are assessed for their design and effectiveness. The residual risk (i.e. inherent risk after controls) provides the potential loss amount and based on residual risk, the controls are improved further.

Bank is also identifying and monitoring the Key Risk Indicators (KRIs) for each business unit. Each KRI has a defined threshold limit and an escalation criterion is also attached to it. A breach in threshold of the KRI escalates the risk to the higher authority. All the Operational Risk Management tools are configured in Operational Risk Management System.

## 4. Basel III Disclosures:

### Capital Adequacy Norms

The Bank has calculated its Common Equity Tier 1 (CET1), Tier 1 and Total Capital Ratios in the following manner:

i. CET1 Capital Ratio = Common Equity Tier 1 Capital/ Total RWA
ii. Tier 1 Capital Ratio= Tier 1 Capital/ Total RWA
iii. Total Capital Ratio = Total Capital/ Total RWA

Tier 1 Capital is the sum of CET1 Capital and Additional Tier 1 Capital (AT1) and Total Capital is the sum of Tier 1 Capital and Tier 2 Capital.

The denominator, viz., Total risk-weighted assets (RWA) is calculated as the sum of credit risk weighted assets, market risk-weighted assets, and operational risk-weighted assets, as provided for in BM-1009 and Islamic Banking Regulatory Framework. In the case of Islamic banks, CBO has provided an adjustment of alpha of 30% in the RWA in the manner stipulated under Article 2.3.1 of title 5 of IBRF relating to Capital adequacy. However, as per communication received from CBO, for the time being no adjustment is applicable in the computation of RWA.



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Based on the presently prescribed level of capital adequacy, banks operating in the Sultanate will be required to maintain at all times, the following minimum capital adequacy ratios:

**CET 1 Capital Ratio: 7.625% of risk weighted assets**
**Tier 1 Capital Ratio: 9.625% of risk weighted assets (Going concern capital)**
**Total Capital Ratio: 12.625% of risk weighted assets (Gone concern capital)**

Within the minimum overall capital of 12%, Tier 2 capital will be admitted up to a maximum of 3% of Risk Weighted Assets of the Bank.

With effect from 01-01-2014, Capital Conservation Buffer (CCB) has been implemented in a phased manner. The CCB shall be 2.5% of the total RWA and every year the buffer will be enhanced by 0.625% from 2017 to 2019, thereby reaching a level of 2.5% in 2019. Further, CBO may also implement Countercyclical Capital Buffer, which is intended to protect the banking sector as a whole from systemic risk that is often developed during an economic upswing, when there is a tendency towards excessive aggregate credit growth. The Countercyclical Capital Buffer lies between 0% and 2.5% of the total RWA; however presently the countercyclical capital buffer is not operationalized. Thus by the end of 2019, assuming a zero countercyclical capital buffer, banks shall operate above CET1, Tier 1 and Total Capital levels of 9.5%, 11.5% and 14.5% respectively.

Thus based on the Basel III requirement, the capital structure of the Bank (as a consolidated entity) is presented as per Annexure I. A reference is invited to paragraph 91 of the Basel III rules, which states that banks should disclose “a full reconciliation of all regulatory capital elements back to the balance sheet in the audited financial statements”. The reconciliation process laid down is aimed at addressing the issues of disconnect between the numbers disclosed for the calculation of regulatory capital and the numbers used in the published financial statements. However, there is no difference between the regulatory consolidation and the accounting consolidation. The components used in the definition of capital disclosure template are provided as per Annexure IIa and the same are mapped to the composition of capital disclosure template as per Annexure IIb.

Basel II, Pillar 3 guidance states that banks should provide qualitative disclosure that sets out “Summary information on the terms and conditions of the main features of all capital instruments, especially in the case of innovative, complex or hybrid capital instruments.” Banks are required to disclose a description of the main features of regulatory capital instruments along with the full terms and conditions of the regulatory capital instruments issued by them. Bank presently has two types of capital instruments viz., Common Shares and Subordinated Debt. The summary disclosure for these regulatory capital instrument issued by the Bank is provided at Annexure III.

### Liquidity Standards:

Bank has adopted Basel III liquidity standards and is reporting the liquidity coverage ratio and net stable funding ratio to CBO with effect from March 2013.

### Liquidity Coverage Ratio (LCR):

This ratio aims to ensure that a bank maintains an adequate level of unencumbered, high-quality liquid assets that can be converted into cash to meet its liquidity needs for a 30 calendar day time horizon under a significantly severe liquidity stress scenario. The ratio is calculated as follows –

**LCR = Stock of High Quality Liquid Assets / Total Net Cash Outflows over the next 30 calendar days**

As per guidelines, the value of the LCR should be minimum 60% on an ongoing basis with effect from 01.01.2015. Thereafter the ratio will gradually increase by 10% every year till it reaches 100% by 2019. The Bank is already meeting the regulatory limit of LCR as at 31st December 2014.

**Net Stable Funding Ratio (NSFR):** The net stable funding ratio is designed to ensure that banks rely more on long term funding and they maintain a sound funding structure over a horizon of one year to withstand Bank specific stress events. The ratio aims to reduce over-reliance on short term funding to create long term assets, especially during times of volatile liquidity conditions. The ratio is calculated as follows

**Net Stable Funding Ratio = Available Stable Funding (ASF) / Required Stable Funding (RSF) *100**

Presently, there is no threshold defined for NSFR, however the Bank endeavor to maintain the same in line with the LCR guidelines.

## 5. Disclosures of Maisarah:

### Introduction:

Maisarah Islamic Banking Services (Maisarah) is an Islamic Window of BankDhofar S.A.O.G (the Bank), established after obtaining license from the Central Bank of Oman (CBO). The principal activities of the Maisarah include taking saving, investment accounts, providing Shari'a Compliant forms of financings as well as managing investor's money on the basis of Mudarabah or Wakala, providing commercial banking services and other investment activities.

The Public disclosures under this section have been prepared in accordance with the CBO requirements outlined in the Islamic Banking Regulatory Framework (IBRF), Title 5: Capital Adequacy, Pillar III – Market Discipline.

### 1) Capital Structure:

The capital base for complying with capital standards is quite distinct from accounting capital. The regulatory capital is broadly classified into two categories – Tier I and Tier II. Maisarah's capital structure mainly consists of Tier I capital. Tier I capital includes paid up capital, share premium, legal and general reserves and other disclosed free reserves, including subordinated loan reserves, non-cumulative perpetual preferred stocks and retained earnings (available on a long term basis).

Tier II (Supplementary capital) consists of undisclosed reserves, revaluation reserves/cumulative fair value gains on available for sale instruments, general loan loss provision/ general loan loss reserve in capital and subordinated term debt subject to certain conditions.

Capital Adequacy determination for Islamic Finance Entities (IFE) differs from Conventional financial institutions (CFI) in that:

a) Its financing arrangements are either asset-based or profit and loss sharing (Musharakah) or Profit and loss bearing (Mudarabah)
b) Much of the funding is raised through Wakala deposits and unrestricted investment accounts that are, in principle, a form of liability and equity respectively.

Investment Account Holders (IAH) that impose no restrictions on investment of funds by the Bank are deemed Unrestricted Investment Account Holders (UIAH). Restricted Investment Account Holders (RIAH) imposes certain restrictions with regards to how and for what purpose the funds should be invested. Maisarah accepted deposits as Unrestricted Investments.

As such, the underlying assets involved under the Shari'a Compliant financing contracts may be exposed to Market (price) Risk, as well as to Credit Risk in respect of the amount due from the counterparty. Risk weighted assets (RWA) financed by Profit Sharing Investment Accounts (PSIA), in principle, are excluded in the calculation of the denominator of the capital ratio, insofar as the commercial risk of these assets do not affect the capital of the shareholders. However, as per communication received from CBO, RWA shall be computed in the same way as in conventional banking and therefore 100% risk weights have been assigned to all corporate borrowers.

The details of capital structure are provided as under:

| COMMON EQUITY TIER I CAPITAL | RO'000 Amount |
|---|---|
| Paid up capital | 25,000 |
| Legal reserve | |
| Retained earnings/ (Accumulated losses) | (1,972) |
| Cumulative unrealized losses recognized directly in equity | |
| **COMMON EQUITY TIER I CAPITAL** | **23,028** |
| ADDITIONAL TIER I CAPITAL | 0 |
| TOTAL TIER I CAPITAL | 23,028 |
| **TIER II CAPITAL** | |
| Investment revaluation Reserve ( 45% only ) | - |
| General Provision ( Max of 1.25% of total risk weighted assets) | 1,494 |
| PER & IRR | 0 |
| TOTAL TIER II CAPITAL | 1,494 |
| **TOTAL ELIGIBLE CAPITAL (TIER I + TIER II)** | **24,522** |

| Unrestricted IAH Funds | RO'000 Amount |
|---|---|
| PER (Shareholders Component) | 0.12 |
| PER (IAH Component) | 0.18 |
| IRR | 0.89 |

## 2) Capital Adequacy

The Bank has adopted Standardized Approach (SA) for computation of capital charge for credit risk and market risk, and Basic Indicator Approach (BIA) for operational risk. Under Standardized approach for credit risk, the Bank has adopted simple approach for recognizing collaterals in the Banking Book and for risk weighting the claims on Sovereigns and Banks, credit ratings from external credit assessment institutions is used. Assessment of capital adequacy is carried out in conjunction with the capital adequacy reporting to the CBO.

Maisarah capital adequacy ratio is 18.18% as against the CBO requirement of 12%. The Bank's policy is to manage and maintain its window capital with the objective of maintaining strong capital ratio and high rating. Maisarah maintains capital levels that are sufficient to absorb all material risks to which it is exposed to and provides market return to the shareholders. Maisarah also ensures that the capital levels comply with regulatory requirements. The whole objective of the capital management process in Maisarah is to ensure that Maisarah remains adequately capitalized at all times.

### i) Position of various Risk weighted Assets (RWA) is presented as under:

| Sl. No | Details | Gross Balances (Book Value) RO'000 | Net Balances (Book Value)* RO'000 | Risk Weighted Assets RO'000 |
|---|---|---|---|---|
| 1 | On balance sheet items | 193,287 | 193,287 | 123,944 |
| 2 | Off balance sheet items | 16,205 | 16,205 | 5,210 |
| 3 | Derivatives | 30,965 | 30,965 | 310 |
| 4 | **Total Credit Risk (RWA)** | **240,457** | **240,457** | **129,464** |
| 5 | Market Risk (RWA) | - | - | 183 |
| 6 | Operational Risk (RWA) | | | 5,239 |
| 7 | **Total Risk Weighted Assets** | | | **134,886** |

* Net of specific provisions and reserve interest

### ii) Detail of Capital Adequacy:

| Sl. No | Details | RO'000 |
|---|---|---|
| 1 | Tier 1 Capital | 23,028 |
| 2 | Tier 2 Capital | 1,494 |
| 3 | **Total Regulatory Capital** | **24,522** |
| 4 | Capital Requirement for Credit Risk | 15,536 |
| 5 | Capital Requirement for Market Risk | 22 |
| 6 | Capital Requirement for Operational Risk | 629 |
| 7 | **Total Required Capital** | **16,187** |
| 8 | **Tier 1 Capital Ratio** | **17.07%** |
| 9 | **Total Capital Adequacy Ratio** | **18.18%** |

### iii) Capital Requirement by Types of Islamic Financing Contracts:

| Sl. No | Details | Gross Balances (Book Value) RO'000 | Net Balances (Book Value)* RO'000 | Risk Weighted Assets RO'000 |
|---|---|---|---|---|
| 1 | Murabaha Receivables | 20,562 | 20,312 | 20,537 |
| 2 | Mudaraba Financings | 2,284 | 2,256 | 8.873 |
| 3 | Ijarah Assets | 29,455 | 29,113 | 11,630 |
| 4 | Diminishing Musharaka Financing | 80,733 | 79,859 | 67,418 |

* Net of provisions and reserve profit

## 3) Risk Exposure and Assessment:

The risks to which banks are exposed to and the techniques that banks use to identify, measure, monitor and control those risks are important factors that market participants consider in their assessment of an institution. In this section, several key banking risks are considered: credit risk, market risk and operational risk. For each separate risk area (e.g. credit, market, operational) Maisarah describes its risk management objectives and policies, including scope and nature of risk reporting and/or measurement systems and risk mitigation strategies.

### 3.3.1 Credit Risk:-

Credit risk is defined as the possibility that a customer or counterparty will fail to meet its obligations in accordance with agreed terms. Credit risk, therefore, arises from Maisarah's dealings with or financing to a corporate, individual, another bank or financial institution. The objective of credit risk management is to minimize the probable losses and maintaining credit risk exposure within acceptable parameters.

Maisarah has well established credit risk policy duly approved by the Board which establishes prudent standards, practices in managing credit risk and setting up prudent bench marks, limits for management of credit risks. The Board of Directors delegate credit approval powers for functional areas, which are clearly defined in Authorities Matrix contained in the Manual on Delegation of Authority. All concerned executives are responsible to ensure that they exercise their delegated powers in terms of the approved Authorities Matrix and seek appropriate special approvals wherever required.

Board Credit Committee is the topmost credit approving authority of the Bank which is mainly responsible for approving all credit proposals beyond the authority level of the management. The senior management executives are also empowered with certain finance approving limits beyond which the credit proposals shall be considered by the Management Credit Committee (MCC) which is empowered to consider all credit related issues up to certain limits.

Credit risk is managed by the Risk Management Division (RMD) through a system of independent risk assessment of all the credit corporate proposals before they are considered by the appropriate approving authorities. The customer in the Standard Category are assigned a risk rating on a scale of 7 grades based on quantitative as well as qualitative parameters. All accounts reflecting weakness in financials or operations as defined by CBO are assigned the grade 8 (Special Mention category) for closer monitoring. RMD approves the risk grade of the customer and also identifies the risk factors in the credit proposal and suggests suitable mitigation. This facilitates the approving authorities in making informed credit decision. In addition, RMD reviews grading of obligors, and conducts regular analysis of the credit portfolio. Every corporate account is reviewed annually and in case of accounts graded as 6, 7 and 8 (Special Mentioned category accounts), reviews have been prescribed at higher frequency. However, the customers who do not publish audited financials are treated as unrated.

Retail financing is strictly in accordance with the CBO guidelines.

In addition to these, Maisarah also undertakes business with other banks. The maximum exposures to these banks are defined in the policy on exposure to non-resident borrowers and restrictions are put in place on the total exposure to such counterparty banks. Maisarah has also implemented country risk limits approved by the Board to ensure portfolio diversification in terms of sovereign and geographical exposure. Specific country risk limits have been set up based on the external risk rating grades assigned to various countries and these limits are reviewed on half yearly basis.

In the absence of acceptable external credit rating agency in the Sultanate of Oman, the Bank has obtained approval of the CBO to treat all corporate exposures as unrated and accordingly assign risk weight of 100% for computing capital requirements under Basel II. The same convention is used for Maisarah as well.

Past dues and impaired exposures are defined in accordance with the relevant CBO regulations. Specific and general provisions are computed periodically in accordance with the CBO regulations as well as other applicable accounting standards. General loan loss provisions equivalent to 1% of the financing categorized as Standard and Special Mention for meeting the latent financing losses are provided for. However, a general loss provision of 2% of the Standard and Special Mention personal financing is created considering the heightened risk inherent in retail finance.

All financing decisions are made after giving due consideration to credit risk policy requirements.

### i) Analysis of gross credit exposures, plus average gross exposure over the period broken down by major types of credit exposure:

| Sl. No. | Type of Credit Exposure | Average Gross exposure RO'000 | Total Gross exposures RO'000 | Percentage of total financing |
|---|---|---|---|---|
| 1 | Murabaha Receivables | 15,686 | 20,562 | 15.46% |
| 2 | Mudaraba Financing | 1,781 | 2,284 | 1.71% |
| 3 | Ijarah Assets | 42,852 | 29,455 | 22.14% |
| 4 | Diminishing Musharaka Financing | 24,675 | 80,733 | 60.69% |
| | **TOTAL** | **84,994** | **133,034** | **100.00%** |

### ii) Geographic distribution of exposures, broken down in significant areas by major types of credit exposure:

| Sl. No | Type of Credit Exposure | Oman RO'000 | Other GCC Countries RO'000 | *OECD Countries RO'000 | Other RO'000 | Total RO'000 |
|---|---|---|---|---|---|---|
| | | 1 | 2 | 3 | 4 | 5 |
| 1 | Murabaha Receivables | 20,562 | - | - | - | **20,562** |
| 2 | Mudaraba Financing | 2,284 | - | - | - | **2,284** |
| 3 | Ijarah Assets | 29,455 | - | - | - | **29,455** |
| 4 | Diminishing Musharakah Financing | 80,733 | - | - | - | **80,733** |
| 5 | Any other | - | - | - | - | **-** |
| | **Total** | **133,034** | **-** | **-** | **-** | **133,034** |

*excluding countries included in column 2

### iii) Industry or counterparty type distribution of exposures broken down by major types of credit exposures:

| Economic Sector | Murabaha receivables RO'000 | Mudaraba Financing RO'000 | Diminishing Musharaka Financing RO'000 | Ijarah Muntahia Bittamleek RO'000 | Off balance sheet exposures RO'000 |
|---|---|---|---|---|---|
| Import trade | 7,310 | 301 | - | - | 16,205 |
| Mining and quarrying | - | 287 | 2,081 | - | - |
| Construction | - | 1,694 | 40,390 | - | - |
| Manufacturing | 11,584 | - | 1,725 | - | - |
| Transport & Communication | - | - | 97 | - | - |
| Services | - | 2 | 15,718 | - | - |
| Retail | 1,557 | - | 20,722 | 29,455 | - |
| Others | 111 | - | - | - | - |
| **Total** | **20,562** | **2,284** | **80,733** | **29,455** | **16,205** |

### iv) Residual contractual maturity breakdown of the whole portfolio, broken down by major types of credit exposure:

| | Murabaha receivables RO'000 | Mudaraba financing RO'000 | Diminishing Musharaka Financing RO'000 | Ijarah Muntahia Bittamleek RO'000 | Off Balance sheet exposures RO'000 |
|---|---|---|---|---|---|
| Upto 1 month | 6,676 | 2,284 | - | - | 10,525 |
| 1 - 3 months | 4,922 | - | 10 | - | 4,553 |
| 3 - 6 months | 7,296 | - | - | - | 577 |
| 6 - 9 months | - | - | - | - | 344 |
| 9 - 12 months | - | - | - | - | - |
| 1 - 3 years | 128 | - | 1,910 | - | 191 |
| 3 – 5 years | 489 | - | 5,694 | 319 | 15 |
| Over 5 years | 1,051 | - | 73,119 | 29,136 | - |
| **Total** | **20,562** | **2,284** | **80,733** | **29,455** | **16,205** |

### v) Analysis of asset book by major industry or counterparty type:

| | Performing Murabaha receivables RO'000 | Performing Mudaraba Financing RO'000 | Performing Diminishing Musharaka Financing RO'000 | Performing Ijarah Muntahia Bittamleek RO'000 | General provisions made during the year RO'000 |
|---|---|---|---|---|---|
| Import trade | 7,310 | 301 | - | - | 83 |
| Mining & quarrying | - | 287 | 2,081 | - | 26 |
| Construction | - | 1,694 | 40,390 | - | 456 |
| Manufacturing | 11,584 | - | 1,725 | | 144 |
| Transport & communication | - | - | 97 | - | 1 |
| Services | - | 2 | 15,718 | - | 171 |
| Retail | 1,557 | - | 20,722 | 29,455 | 612 |
| Others | 111 | - | - | - | 1 |
| **Total** | **20,562** | **2,284** | **80,733** | **29,455** | **1,494** |

### vi) Financing by type of counterparty:

| Segment | RO in 000's | % |
|---|---|---|
| Retail | 51,734 | 38.89% |
| Corporate | 81,300 | 61.11% |

### 3.3.2 Credit Risk: Disclosures for portfolios subject to the Standardized Approach:

i) The Bank has obtained CBO approval vide its letter dated December 11, 2006 to use the ratings of Moody's, Standard & Poor ( S&P) or Fitch for risk weighting claims on sovereigns and banks. However, as mentioned earlier, the Bank has obtained CBO approval to treat all corporate exposures as unrated and assign 100% risk weight on all of them. The same convention has been adopted for Maisarah as well.

ii) The Bank is adopting the simplified approach for collateral recognition under the standardized approach, where 0% risk weight is assigned for the exposures covered by cash collateral. The total exposure covered by cash collateral, which attracts 0% risk weight is NIL. All other credit exposures of Corporate and Retail (except house finance, where valuation of the property is not older than 3 years, are assigned 35% risk weight) are assigned 100% risk weight.

### 3.3.3 Credit Risk Mitigation: Disclosures for Standardized approaches:

The Bank has adopted the simple approach for credit risk mitigation and no offsetting of the collaterals is done to calculate the capital requirement. However, the main CRM techniques followed by the Bank are based on collaterals which the Bank endeavors to obtain for its exposures, as far as commercially practicable. The collaterals mainly consist of real estate properties.

The Bank has credit risk rating framework comprising of Risk Rating system which is a single point indicator of diverse risk factors of a Customer and assists in taking credit decisions in a consistent manner. The risk rating framework is having 8 performing assets grades (including special mention) and 3 non-performing assets grades. The rating grade indicates the default probability of the customer's obligation. The same rating framework has been adopted by Maisarah as well.

### 3.3.4 Market Risk:

Market Risk is the risk to the Bank's earnings and capital due to changes in the profit rates or prices of securities, foreign exchange and equities, as well as the volatilities of those changes. The Bank for International Settlements (BIS) defines market risk as "the risk that the value of 'on' or 'off' balance sheet positions will be adversely affected by movements in equity and interest rate markets, currency exchange rates and commodity prices". Market Risk has been categorized into profit rate risk, foreign exchange risk, commodity price risk and equity price risk.

Maisarah has a comprehensive Treasury Risk Policy which encompasses assessment, monitoring and management of all the above market risks. Bank has defined various internal limits to monitor market risk and is computing the capital requirement as per standardized approach of Basel II.

Details of various market risks faced by the Bank are set out below:

i) Profit Rate Risk (PRR): Profit rate risk is the risk that Maisarah will incur a financial loss as a result of mismatch in the Profit rates on assets & IAH. The profit distribution to IAH in based on Profit Sharing Agreements. Therefore, Maisarah is not subject to any significant PRR. However, the profit sharing agreements will result in displaced commercial risk when Maisarah results do not allow it to distribute profits in line with the market rates.

Maisarah has a detailed Profit Distribution Policy in place which details the process and management of Profit Distribution, including setting up of Profit Equalization & Investment Risk Reserve. The responsibility of profit rate risk management rests with the Bank's Asset and Liability Management Committee (ALCO). Maisarah periodically computes the PRR on the Banking book.

#### ii) Foreign Exchange Risk:

The responsibility of management of foreign exchange risk rests with the Treasury department. Most of the foreign exchange transactions are conducted for corporate customers and mostly are on back to back basis. Bank has defined various limits for foreign currency lending.

The Bank conducts stress tests to assess the impact of foreign exchange risk on its profitability and capital adequacy on the consolidated entity basis and the same is placed to Risk Management Committee of Board of Directors on regular basis.

#### iii) Commodity Risk:

Presently Maisarah has no exposure to the commodity market.

#### iv) Equity Position Risk:

Presently Maisarah has no exposure to the Equity market.

#### v) The Capital Charges:

The capital charge for the entire market risk exposure is computed as per the standardized approach using the duration method and in accordance with the guidelines issued by CBO in IBRF. Maisarah does not hold any trading position in equities and in commodities necessitating capital charge to cover the market risk. During the year net open position in the foreign exchange exposure was RO 275k, thus the capital charge for various components of market risk in Maisarah is RO 22.

### 3.3.5 Liquidity Risk

Maisarah's Liquidity Risk Management is governed by the Treasury Risk Policy document approved by the Board of Directors as well as the provisions of relevant CBO guidelines on liquidity risk management.

Maisarah monitors its liquidity risk through cash flow approach. Under cash flow approach Maisarah generates Maturity of Assets and Liabilities (MAL) report which captures all the maturing assets and liabilities into various pre-set time buckets ranging from one month to above five years. The mismatches in various time buckets indicate liquidity gap and Maisarah strictly adheres to the CBO set limit of 15% of cumulative liabilities (outflows) on mismatches (liquidity gaps) in time buckets up to one year. In addition, Maisarah has also set up internal limit on mismatches in time buckets beyond one year.

Treasury department of Maisarah controls and monitors the liquidity risk and ensures that the Bank is not exposed to undue liquidity risk and at the same time makes optimum use of its funds. Middle office in Risk Management Division also monitors the liquidity position of Maisarah.

### 3.3.6 Operational Risk:

Maisarah has a well-defined Operational Risk Management (ORM) policy which inter-alia includes Operational Risk Events, Operational Risk losses and ORM process. Business and Functional units are primarily responsible for taking and managing Operational Risk on a day-to-day basis. Risk Management Division provides guidance and assistance in the identification of risk and in the ongoing operational risk management process. Bank has set up Operational Risk Management Committee to identify, manage, measure, monitor, mitigate and report operational risks.

Bank has started the process of collecting and collating data on operational risk events to build a strong loss data base and to move over to the advanced measurement system for operational risk as required by the CBO guidelines. The loss data are being captured using Operational Risk Management system; however Maisarah being a new entity, there are no loss events at present. Further, Bank has also initiated the exercise of identifying and monitoring the Key Risk Indicators (KRIs) for Maisarah. Each KRI will have a defined threshold limit and an escalation criterion is attached to it. All the KRIs shall be configured in Operational Risk Management System.

Basel II has provided three different approaches viz., Basic Indicator approach (BIA), The standardized approach (TSA) and Advanced measurement approach to compute the capital charge of Operational Risk. The Bank has adopted the BIA for computing the capital charge for Operational Risk as per CBO guidelines. The approach requires Maisarah to provide 15% of the average gross income for the last three years as capital charge for operational risk. Since, it is the second year of Maisarah's operation accordingly two years gross income is taken into consideration for calculating charge which amounts to OMR 629K.

### 4) Investment Account Holders (IAH)

Maisarah manages and deploys the equity of IAH according to rules and regulations laid down in IBRF. Maisarah holds and maintains two separate pools of funds, one for its own funds and another for Equity of its IAH. Both of these pools are managed in accordance with Shari'a requirements and standard of prudence is applied in the context of managing the overall portfolio to enable Maisarah to exercise its fiduciary responsibilities. Maisarah is authorized by the IAH to invest the funds in the manner Maisarah deems fit without laying down any restrictions as to where, how and for what purpose the funds should be invested.

The composition, characteristics, diversification, and concentration of portfolios are monitored within appropriate risk limits and indicators detailed in Maisarah's credit risk, liquidity risk, and other risks policies. The strategic objectives of the investments of the fund are:

1) Investments in Shari'a compliant opportunities
2) Targeted returns
3) Compliance with Credit risk policy & overall investment plan
4) Diversified Portfolio

Funds are invested in Shari'a Compliant commercial or Retail financing as short, medium or long term investments excluding strategic investments. Under all the aforesaid arrangement, Maisarah can commingle the IAH funds with its own funds (Self-Financed). Some of the assets right from inception is designated exclusively as self-financed. These self-financed assets are deducted from total assets to arrive at "Jointly Financed Assets (JFA)". To separate the JFA into Self-Financed and IAH, Maisarah applies formula to identify the proportional share of each fund's in the JFA.

Maisarah's share of profit as a Mudarib for managing equity of IAH and their share of income is based on the terms and conditions of the related Mudarib agreements. These funds are invested in Islamic modes of financing and investments including Murabaha, Mudarabah, Musharakah and Ijarah. There are no separate designations for Portfolio Managers, Investment Advisors and trustee. IAH's accounts are managed at Head Office level by relevant departments.

Investors' share of income is calculated based on the income generated from joint investment accounts after deducting the expenses related to investment pool "Mudarib Expenses". Mudarib expenses include all expenses incurred by Maisarah, including specific provisions, but excluding staff cost and depreciation. Maisarah's Mudarib Profit is deducted from Investors' share of income before distributing such income.

The basis applied by Maisarah in arriving at the IAH's share of income is [Total Investments income less Investment Pools Expenses] divided by [average funds generating income (shareholders & equity of IAH) times average funds of IAH]. Total administrative expenses for profit distribution purposes are borne by Maisarah.

Investment account holders by category:

| Category | Amount RO in 000's |
|---|---|
| Saving Account | 9,157 |
| Term deposit | 73 |

### Profit Equalization Reserve (PER)

Maisarah appropriates a certain amount in excess of the profit to be distributed to equity of IAH before taking in to consideration the Mudarib share of income. This is used to maintain a certain level of return on investment for equity of IAH.

### Investment Risk Reserve (IRR)

Maisarah deducts IRR as per approved policy from the profit distributable to equity of IAH, after allocating the Mudarib share in order to cater against future losses for equity of IAH.

### Displaced Commercial Risk (DCR)

Maisarah is exposed to DCR in the event of having equity of IAH profit rates that are lower than market rates. Maisarah has mitigated the risk through setting up of reserves that will be used in case of a drop in IAH profit rates.

## 4.1) Shari'a Compliance

The most distinct feature of any Islamic bank is its compliance with the principles of Shari'a in all its activities, operations, transactions and investments. To ensure compliance with the rules and principles of Shari'a, Maisarah has a fully independent setup of Shari'a Governance system.

The Shari'a Compliance and Audit Department have been setup with the purpose of examination and assessment of the extent to which the Institution is observing Shari'a Principles, Fatwas, guidelines and instructions issued by the Shari'a Supervisory Board of Maisarah. It also ensures a proper segregation exists between Maisarah and the parent bank with regards to services, products, funds and investments.

The Unit comes under the direct supervision of Shari'a Supervisory Board (SSB). The SSB met 7 times in the year 2014 and the remuneration paid for theyear ended 31 December for SSB members are as follows:

| | 2014 RO | 2013 RO |
|---|---|---|
| **Remuneration paid to SSB members** | | |
| Chairman | | |
| -remuneration propsed | **6,000** | 6,000 |
| -sitting fees paid | **2,800** | 4,800 |
| Other Members | | |
| -remuneration propsed | **16,000** | 12,000 |
| -sitting fees paid | **7,500** | 9,300 |

### Non Shari'a Compliant Income

Maisarah is committed to contributing to charity any income generated from non-Islamic sources. Accordingly, any earning prohibited by Shari'a is credited to charity funds to be used for social welfare purposes.

During the year, Maisarah recorded the Non Shari'a compliant income of RO 0.056k in respect of rebate received on nostro accounts.

### Zakat

In accordance with the Policy of Maisarah, the responsibility to pay Zakat is on the shareholders & IAH.

## 4.2) Break up of PER and IRR

The following table summarized the breakdown of analysis of PER and IRR of IAH:

| Sr. No | Details | % |
|---|---|---|
| 1 | PER to PSIA Ratio | 0.003% |
| 2 | IRR to PSIA Ratio | 0.001% |

## 4.3) Movement in PER & IRR

The following table summarized the movement in PER & IRR during the year

| | RO in '000 PER | RO in '000 IRR |
|---|---|---|
| Balance at January 1 | 0.045 | 0.014 |
| Amount apportioned from income allocated equity of IAH | 0.255 | 0.075 |
| Amount utilized during the year | - | - |
| **Balance at December 31** | **0.300** | **0.089** |

The PER & IRR will revert to IAH as per the terms and conditions of the Mudaraba Contract.

As IAH funds are commingled with Maisarah's funds for investments, no priority is granted to, neither the Mudarib nor the Rab ul maal, for the purpose of Investments and distribution of profits.

## 4.4) Break up of ROA and ROE

The following table summarized the position of Return on Assets (RoA) and Return on Equity (RoE) of IAH:

| Sr. No | Details | % |
|---|---|---|
| 1 | Return on Assets (ROA) ie the amount of total net income (before distribution of profit to unrestricted IAH) / Total amount of assets financed by shareholders' equity and minority interests, Unrestricted IAH and current accounts and other liabilities | 1.950 |
| 2 | Return on Equity (ROE) ie Amount of total net income (after distribution of profit to IAH) / Amount of shareholders' equity | 15.996 |

## Annexure I

### Basel III Capital Disclosure Template

| Sr. No. | Particulars | Amount Subject to Pre-Basel III treatment (RO '000) |
|---|---|---|
| | Common Equity Tier 1 Capital: Instruments and reserves | |
| 1 | Directly issued qualifying common share capital (and equivalent for non-joint stock companies) plus related stock surplus | 174,342 |
| 2 | Retained Earnings | 49,031 |
| 3 | Accumulated other comprehensive income (and other reserves) | 95,275 |
| 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 CET 1) | |
| 6 | Common Equity Tier 1 Capital before regulatory adjustments | 318,648 |
| | **Common Equity Tier 1 Capital: Regulatory Adjustments** | |
| 7 | Prudential valuation adjustments | |
| 8 | Goodwill (net of related tax liability) | 2,383 |
| 9 | Other intangibles other than mortgage-servicing rights (net of related tax liability) | 1,634 |
| 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 loss | - |
| 13 | Securitization gain on sale (as set out in para 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 | - |
| 26 | National specific regulatory adjustments | - |
| | Regulatory adjustments applied to common equity Tier 1 in respect of amount 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 | 4,017 |
| 29 | Common Equity Tier 1 capital (CET 1) | 314,631 |
| **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 | - |
| 32 | of which: classified as liabilities under applicable accounting standards | - |
| 33 | Directly issued capital instruments subject to phase out from Additional Tier 1 | - |
| 34 | Additional Tier 1 instruments (and CET 1 instruments not included in row 5) issued by subsidiaries and held by third parties (amount allowed in group AT 1) | - |
| 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 amount 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 | - |
| 44 | Additional Tier 1 capital (CET 1) | - |
| 45 | Tier 1 capital (T1 = CET 1 + AT 1) | 314,631 |
| **Tier 2 capital: Instruments and provisions** | | |
| 46 | Directly issued qualifying Tier 2 instruments plus related stock surplus | 62,625 |
| 47 | Directly issued capital instruments subject to phase out from Tier 2 | |
| 48 | Tier 2 instruments (and CET 1 and AT 1 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 and cumulative fair value gains on available for sale instruments | 33,408 |
| 51 | Tier 2 capital before regulatory adjustments | 96,033 |
| | **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 10% threshold) | - |
| 55 | 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) | - |
| 56 | National specific regulatory adjustments | - |
| | Regulatory adjustments applied to Tier 2 in respect of amount 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 (T 2) | 96,033 |
| 59 | Total Capital (TC = T 1 + T 2) | 410,664 |
| | 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) | |
| 60 | Total Risk Weighted Assets (60a + 60b + 60c) | 2,923,635 |
| 60a | of which: Credit Risk Weighted Assets | 2,674,461 |
| 60b | of which: Market Risk Weighted Assets | 70,357 |
| 60c | of which: Operational Risk Weighted Assets | 178,817 |
| | **Capital Ratios** | |
| 61 | Common Equity Tier 1 (as a percentage of risk weighted assets) | 10.76% |
| 62 | Tier 1 (as a percentage of risk weighted assets) | 10.76% |
| 63 | Total capital (as a percentage of risk weighted assets) | 14.05% |
| 64 | Institution specific buffer requirement (minimum CET 1 requirement plus capital conservation buffer plus countercyclical buffer requirements plus G-SIB/ D-SIB buffer requirements expressed as a percentage of risk weighted assets) | 7.63% |
| 65 | of which: capital conservation buffer requirement | 0.63% |
| 66 | of which: bank specific countercyclical buffer requirement | 0.00% |
| 67 | of which: D-SIB/ G-SIB buffer requirements | 0.00% |
| 68 | Common Equity Tier 1 available to meet buffers (as a percentage of risk weighted assets) | 1.76% |
| | **National Minima (if different from Basel III)** | |
| 69 | National common equity Tier 1 minimum ratio (if different from Basel III minimum) | NA |
| 70 | National Tier 1 minimum ratio (if different from Basel III minimum) | NA |
| 71 | National total capital minimum ratio (if different from Basel III minimum) | NA |

| | | |
|---|---|---|
| **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 standardized approach (prior to application of cap) | 33,408 |
| 77 | Cap on inclusion of provisions in Tier 2 under standardized approach | 33,430 |
| 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 CET 1 instruments subject to phase out arrangements | NA |
| 81 | Amount excluded from CET 1 due to cap (excess over cap after redemptions and maturities) | NA |
| 82 | Current cap on AT 1 instruments subject to phase out arrangements | NA |
| 83 | Amount excluded from AT 1 due to cap (excess over cap after redemptions and maturities) | NA |
| 84 | Current cap on T 2 instruments subject to phase out arrangements | NA |
| 85 | Amount excluded from T 2 due to cap (excess over cap after redemptions and maturities) | NA |

## Annexure IIa

The components used in the definition of capital disclosure template are provided below:

| Particulars | Balance Sheet as in Published Financial Statement As at Period End | Under regulatory scope of consolidation As at Period end | Reference |
|---|---|---|---|
| **Assets** | | | |
| Cash & Balances with CBO | 584,370 | | |
| Balances with bank and money at call and short notice | 17,683 | | |
| **Investments:** | 176,874 | | |
| Of which **Held to Maturity** | 149,988 | | |
| Out of investments in Held to Maturity: | | | |
| Investments in Subsidiaries | | | |
| Investments in Associates & Joint Ventures | | | |
| Of which Available for Sale | 26,886 | | |
| Out of investments in **Available for Sale:** | | | |
| Investments in Subsidiaries | | | |
| Investments in Associates & Joint Ventures | | | |
| Of which **Held for Trading** | | | |
| **Loans & Advances** | 2,328,186 | | |
| Of which, | | | |
| Loans & Advances to domestic banks | | | |
| Loans & Advances to Non Resident Banks | 73,481 | | |
| Loans & Advances to domestic customers | | | |
| Loans & Advances to Non Resident Customers for domestic operations | | | |
| Loans & Advances to Non Resident Customers for operations abroad | | | |
| Loans & Advances to SMEs | | | |
| Financing from Islamic Banking Window | | | |
| **Fixed Assets** | 9,683 | | |
| **Other Asset** | 77,331 | | |
| Of which, | | | |
| Goodwill & Intangible Assets | 2,383 | | a |
| Out of which | | | |
| Goodwill | | | |
| Other Intangibles (excluding MSRs) | | | |
| Deferred Tax Assets | | | |
| Goodwill on Consolidation | | | |
| Debit balance in Profit & Loss Account | | | |
| **Total Assets** | **3,194,127** | | |

| | | | |
|---|---|---|---|
| **Capital & Liabilities** | | | |
| Paid up capital | 134,324 | | |
| of which: | | | |
| Amount eligible for CET 1 | 134,324 | | h |
| Amount eligible for AT1 | - | | i |
| Reserves & Surplus | 190,994 | | J |
| Share Premium | 40,018 | | k |
| Special Reserve | 18,488 | | p |
| Legal Reserve | 35,537 | | L |
| Subordinated loan reserve | 41,250 | | M |
| Investment Revaluation Reserve (Gains are included at 45% in Tier II and losses in full are deducted from Tier I) | (46) | (1,634) | N |
| Retained Earnings ( (The proposed dividend payment amount is excluded from retained earnings) | 55,747 | 42,315 | O |
| **Total Capital** | **325,318** | | |
| **Deposits** | | | |
| Of which, | | | |
| Deposit from Banks | 175,013 | | |
| Customer Deposits | 2,385,171 | | |
| Deposit of Islamic Banking Window | 97,008 | | |
| Other deposits (pl specify) | | | |
| **Borrowings** | | | |
| Of which, | | | |
| From CBO | | | |
| From Banks | | | |
| From other Institutions & Agencies | | | |
| Borrowings in the form of bonds, debentures & Sukuks | | | |
| Others (Plz specify) (Subordinated Loans) | 103,875 | 62,625 | |
| **Other liabilities & provisions** | **107,742** | | |
| Of which, | | | |
| DTLs related to goodwill | | | |
| DTLs related to intangible assets | 286 | | |
| **Total Liabilities** | **3,194,127** | | |

## Annexure IIb

The components mentioned in above table are mapped to the composition of capital disclosure template, which is provided below:

| Table 2c: 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 | 134,324 | H |
| 2 | Retained earnings | 184,324 | k,l,m,o,p |
| 3 | Accumulated other comprehensive income (and other reserves) | | |
| 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 | 318,648 | |
| 7 | Prudential valuation adjustments | 1,634 | N |
| 8 | Goodwill (net of related tax liability) | 2,383 | A |

## Annexure III

Main features template for capital instruments

Bank has two types of capital instruments viz., Common Shares and Subordinated Debt. The minimum level of summary disclosure for these regulatory capital instrument issued by the Bank is presented as under:

Common Shares

| Disclosure for Main Features of regulatory capital instruments – Common Shares | | |
|---|---|---|
| 1 | Issuer | Bank Dhofar |
| 2 | Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placements | OM0000002549 |
| 3 | Governing law(s) of the instrument | law of Sultanate of Oman |
| | Regulatory Treatment | |
| 4 | Transitional Basel III rules | Common Equity Tier I |
| 5 | Post-transitional Basel III rules | Common Equity Tier I |
| 6 | Eligible at solo/ group/ group & solo | Solo |
| 7 | Instrument type (types to be specified by each jurisdiction) | Ordinary shares |
| 8 | Amount to be recognized in regulatory capital (currency in Mn, as of most recent reporting date) | |
| 9 | Par Value of Instrument | |
| 10 | Accounting Classification | Shareholder's equity |
| 11 | Original date of issuance | Common shares have been issued many times. The comparative position of the last 2 years has been provided in point 18 of notes to accounts. |
| 12 | Perpetual or dated | Perpetual |
| 13 | Original Maturity date | No maturity |
| 14 | Issuer call subject to prior supervisory approval | No |
| 15 | Optional call date, contingent call dates and redemption amount | Not applicable |
| 16 | Subsequent call dates, if applicable | Not applicable |
| **Coupons / Dividends** | | |
| 17 | Fixed or floating dividend coupon | No coupon |
| 18 | Coupon rate & any related index | Not applicable |
| 19 | Existence of a dividend stopper | Yes |
| 20 | Fully discretionary, partially discretionary or mandatory | Fully discretionary |
| 21 | Existence of step up or other incentive to redeem | No |
| 22 | Non-cumulative or cumulative | Non-cumulative |

| | | |
|---|---|---|
| 23 | Convertible or non-convertible | Non-convertible |
| 24 | If convertible, conversion trigger(s) | Not applicable |
| 25 | If convertible, fully or partially | Not applicable |
| 26 | If convertible, conversion rate | Not applicable |
| 27 | If convertible, mandatory or optional conversion | Not applicable |
| 28 | If convertible, specify instrument type convertible into | Not applicable |
| 29 | If convertible, specify issuer of instrument it converts into | Not applicable |
| 30 | Write down features | Yes |
| 31 | If Write down, write down triggers | Non viability |
| 32 | If Write down, full or partial | Full |
| 33 | If Write down, permanent or temporary | Permanent |
| 34 | If temporary write down, description of write up mechanism | Not applicable |
| 35 | Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument) | Fully subordinated (Subordinated debt are senior to ordinary shares) |
| 36 | Non-compliant transitioned features | No |
| 37 | If yes, specify non complaint features | Not applicable |

Subordinated Loan 1

| Disclosure for Main Features of regulatory capital instruments – Subordinated debt | | |
|---|---|---|
| 1 | Issuer | BankDhofar |
| 2 | Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placements | Not applicable |
| 3 | Governing law(s) of the instrument | law of Sultanate of Oman |
| | Regulatory Treatment | |
| 4 | Transitional Basel III rules | Tier II |
| 5 | Post-transitional Basel III rules | Tier II |
| 6 | Eligible at solo/ group/ group & solo | Solo |
| 7 | Instrument type (types to be specified by each jurisdiction) | Subordinated Loan |
| 8 | Amount to be recognized in regulatory capital (currency in Mn, as of most recent reporting date) | RO 50 Mn |
| 9 | Par Value of Instrument | RO 50 Mn |
| 10 | Accounting Classification | Subordinated Loan |
| 11 | Original date of issuance | 15/11/2011 |
| 12 | Perpetual or dated | Dated |
| 13 | Original Maturity date | 15/12/2016 |
| 14 | Issuer call subject to prior supervisory approval | Yes |
| 15 | Optional call date, contingent call dates and redemption amount | Not applicable |
| 16 | Subsequent call dates, if applicable | Not applicable |
| **Coupons / Dividends** | | |
| 17 | Fixed or floating dividend coupon | Fixed |
| 18 | Coupon rate & any related index | 5.5% p.a. |
| 19 | Existence of a dividend stopper | Not applicable |
| 20 | Fully discretionary, partially discretionary or mandatory | Mandatory |
| 21 | Existence of step up or other incentive to redeem | No |
| 22 | Non-cumulative or cumulative | Non-cumulative |
| 23 | Convertible or non-convertible | Non-convertible |
| 24 | If convertible, conversion trigger(s) | Not applicable |
| 25 | If convertible, fully or partially | Not applicable |
| 26 | If convertible, conversion rate | Not applicable |
| 27 | If convertible, mandatory or optional conversion | Not applicable |
| 28 | If convertible, specify instrument type convertible into | Not applicable |
| 29 | If convertible, specify issuer of instrument it converts into | Not applicable |
| 30 | Write down features | No |

| | | |
|---|---|---|
| 31 | If Write down, write down triggers | Not Applicable |
| 32 | If Write down, full or partial | Not applicable |
| 33 | If Write down, permanent or temporary | Not applicable |
| 34 | If temporary write down, description of write up mechanism | Not applicable |
| 35 | Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument) | All the depositors |
| 36 | Non-compliant transitioned features (20.2 (ii) of CP1 guidelines of CBO) | No |
| 37 | If yes, specify non complaint features | Not applicable |

Subordinated Loan 2

| Disclosure for Main Features of regulatory capital instruments – Subordinated debt | | |
|---|---|---|
| 1 | Issuer | BankDhofar |
| 2 | Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placements | Not applicable |
| 3 | Governing law(s) of the instrument | law of Sultanate of Oman |
| | Regulatory Treatment | |
| 4 | Transitional Basel III rules | Tier II |
| 5 | Post-transitional Basel III rules | Tier II |
| 6 | Eligible at solo/ group/ group & solo | Solo |
| 7 | Instrument type (types to be specified by each jurisdiction) | Subordinated Loan |
| 8 | Amount to be recognized in regulatory capital (currency in Mn, as of most recent reporting date) | RO 25 Mn |
| 9 | Par Value of Instrument | RO 25 Mn |
| 10 | Accounting Classification | Subordinated Loan |
| 11 | Original date of issuance | 17/12/2012 |
| 12 | Perpetual or dated | Dated |
| 13 | Original Maturity date | 17/01/2018 |
| 14 | Issuer call subject to prior supervisory approval | Yes |
| 15 | Optional call date, contingent call dates and redemption amount | Not applicable |
| 16 | Subsequent call dates, if applicable | Not applicable |
| **Coupons / Dividends** | | |
| 17 | Fixed or floating dividend coupon | Fixed |
| 18 | Coupon rate & any related index | 5.125% p.a. |
| 19 | Existence of a dividend stopper | Not applicable |

| | | |
|---|---|---|
| 20 | Fully discretionary, partially discretionary or mandatory | Mandatory |
| 21 | Existence of step up or other incentive to redeem | No |
| 22 | Non-cumulative or cumulative | Non-cumulative |
| 23 | Convertible or non-convertible | Non-convertible |
| 24 | If convertible, conversion trigger(s) | Not applicable |
| 25 | If convertible, fully or partially | Not applicable |
| 26 | If convertible, conversion rate | Not applicable |
| 27 | If convertible, mandatory or optional conversion | Not applicable |
| 28 | If convertible, specify instrument type convertible into | Not applicable |
| 29 | If convertible, specify issuer of instrument it converts into | Not applicable |
| 30 | Write down features | No |
| 31 | If Write down, write down triggers | Not Applicable |
| 32 | If Write down, full or partial | Not applicable |
| 33 | If Write down, permanent or temporary | Not applicable |
| 34 | If temporary write down, description of write up mechanism | Not applicable |
| 35 | Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument) | All the depositors |
| 36 | Non-compliant transitioned features | Yes |
| 37 | If yes, specify non complaint features (20.4 (ii) of CP1 of CBO guidelines) | Point of Non Viability |

Subordinated Loan 3

| Disclosure for Main Features of regulatory capital instruments – Subordinated debt | | |
|---|---|---|
| 1 | Issuer | BankDhofar |
| 2 | Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placements | Not applicable |
| 3 | Governing law(s) of the instrument | law of Sultanate of Oman |
| | Regulatory Treatment | |
| 4 | Transitional Basel III rules | Tier II |
| 5 | Post-transitional Basel III rules | Tier II |
| 6 | Eligible at solo/ group/ group & solo | Solo |
| 7 | Instrument type (types to be specified by each jurisdiction) | Subordinated Loan |
| 8 | Amount to be recognized in regulatory capital (currency in Mn, as of most recent reporting date) | USD 75 Mn |
| 9 | Par Value of Instrument | USD 75 Mn |
| 10 | Accounting Classification | Subordinated Loan |
| 11 | Original date of issuance | 16/09/2014 |
| 12 | Perpetual or dated | Dated |
| 13 | Original Maturity date | 16/03/2020 |
| 14 | Issuer call subject to prior supervisory approval | Yes |
| 15 | Optional call date, contingent call dates and redemption amount | Not applicable |
| 16 | Subsequent call dates, if applicable | Not applicable |
| Coupons / Dividends | | |
| 17 | Fixed or floating dividend coupon | Fixed |
| 18 | Coupon rate & any related index | 4.75% p.a. |
| 19 | Existence of a dividend stopper | No |
| 20 | Fully discretionary, partially discretionary or mandatory | Mandatory |
| 21 | Existence of step up or other incentive to redeem | No |
| 22 | Non-cumulative or cumulative | Non-cumulative |
| 23 | Convertible or non-convertible | Non-convertible |
| 24 | If convertible, conversion trigger(s) | Not applicable |
| 25 | If convertible, fully or partially | Not applicable |
| 26 | If convertible, conversion rate | Not applicable |
| 27 | If convertible, mandatory or optional conversion | Not applicable |
| 28 | If convertible, specify instrument type convertible into | Not applicable |
| 29 | If convertible, specify issuer of instrument it converts into | Not applicable |

| | | |
|---|---|---|
| 30 | Write down features | Yes |
| 31 | If Write down, write down triggers | Trigger Event" means the earlier of:<br>(a) a notification to the Bank in writing by the Central Bank of Oman that the Central Bank of Oman is of the opinion that a write-off of the Facility is necessary without which the Borrower shall become non-viable; or<br>(b) a decision is taken to make a public sector injection of capital, or equivalent support, without which the Borrower would have become non-viable. |
| 32 | If Write down, full or partial | Full |
| 33 | If Write down, permanent or temporary | Permanent |
| 34 | If temporary write down, description of write up mechanism | Not applicable |
| 35 | Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument) | All the depositors & General Creditors |
| 36 | Non-compliant transitioned features | No |
| 37 | If yes, specify non complaint features | Not applicable |

# Report and financial statements

## 31st December 2014

EY
Building a better working world

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P. R. No. MH/4

## Independent auditor's report to the shareholders of Bank Dhofar SAOG

**Report on the financial statements**
We have audited the accompanying financial statements of Bank Dhofar SAOG (the Bank), which comprise the statement of financial position as at 31 December 2014, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

**Board of Directors' responsibility for the financial statements**
The Board of Directors is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and the relevant disclosure requirements of the Commercial Companies Law of 1974, as amended, and the Rules and Guidelines on disclosures issued by the Capital Market Authority, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor's responsibility**
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**
In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2014, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

**Other matter**
The financial statements of the Bank for the year ended 31 December 2013 were audited by another auditor who expressed an unmodified opinion on those statements on 29 January 2014.

**Report on other legal and regulatory requirements**
In our opinion the financial statements comply, in all material respects, with the relevant disclosure requirements of the Commercial Companies Law of 1974, as amended and the Rules and Guidelines on disclosure issued by the Capital Market Authority.

Ernst & Young

11 March 2015
Muscat

# Statement of financial position

as at 31 December 2014

| 2014 US$ '000 | 2013 US$ '000 | | Notes | 2014 RO'000 | 2013 RO'000 |
|---|---|---|---|---|---|
| | | **Assets** | | | |
| **1,517,844** | 898,073 | Cash and balances with Central Bank of Oman | 5 | **584,370** | 345,758 |
| **236,789** | 315,247 | Loans, advances and financing to banks | 7 | **91,164** | 121,370 |
| **5,856,377** | 4,940,026 | Loans, advances and financing to customers | 8 | **2,254,705** | 1,901,910 |
| **69,834** | 63,987 | Available-for-sale investments | 9 | **26,886** | 24,635 |
| **389,579** | 398,353 | Held-to-maturity investments | 10 | **149,988** | 153,366 |
| **6,190** | 7,221 | Intangible asset | 11 | **2,383** | 2,780 |
| **25,151** | 28,319 | Property and equipment | 12 | **9,683** | 10,903 |
| **194,670** | 115,992 | Other assets | 13 | **74,948** | 44,657 |
| **8,296,434** | 6,767,218 | **Total assets** | | **3,194,127** | 2,605,379 |
| | | **Liabilities** | | | |
| **454,579** | 276,192 | Due to banks | 14 | **175,013** | 106,334 |
| **6,447,218** | 5,277,262 | Deposits from customers | 15 | **2,482,179** | 2,031,746 |
| **279,849** | 230,369 | Other liabilities | 16 | **107,742** | 88,692 |
| **269,805** | 194,805 | Subordinated loans | 17 | **103,875** | 75,000 |
| **7,451,451** | 5,978,628 | **Total liabilities** | | **2,868,809** | 2,301,772 |
| | | **Shareholder's equity** | | | |
| **348,894** | 314,320 | Share capital | 18 | **134,324** | 121,013 |
| **103,943** | 103,943 | Share premium | 19 | **40,018** | 40,018 |
| **48,021** | 48,021 | Special reserve | 20 (d) | **18,488** | 18,488 |
| **92,304** | 81,797 | Legal reserve | 20 (a) | **35,537** | 31,492 |
| **107,143** | 68,182 | Subordinated loan reserve | 20 (b) | **41,250** | 26,250 |
| **(119)** | 4,556 | Investment revaluation reserve | 20 (c) | **(46)** | 1,754 |
| **144,797** | 167,771 | Retained earnings | 21 | **55,747** | 64,592 |
| **844,983** | 788,590 | **Total shareholders' equity** | | **325,318** | 303,607 |
| **8,296,434** | 6,767,218 | **Total liabilities and shareholders' equity** | | **3,194,127** | 2,605,379 |
| **1,859,935** | 1,199,875 | **Contingent liabilities and commitments** | 32 | **716,075** | 461,952 |
| **0.63** | 0.65 | **Net assets per share (Rial Omani)** | 22 | **0.242** | 0.251 |

The financial statements on pages 116 to 176 were approved by the Board of Directors on 27 Jan, 2015 and were signed on their behalf by:

Eng. Abdul Hafidh Salim Rajab Al-Aujaili
Chairman

Abdul Hakeem Al Ojaili
Acting Chief Executive Officer

The accompanying notes form an integral part of these financial statements.
Report of the Auditors - page 111.

# Statement of comprehensive income

for the year ended 31 December 2014

| 2014 US$ '000 | 2013 US$ '000 | | Notes | 2014 RO'000 | 2013 RO'000 |
|---|---|---|---|---|---|
| **277,356** | 259,836 | Interest income | | **106,782** | 100,037 |
| **(86,239)** | (87,522) | Interest expense | | **(33,202)** | (33,696) |
| **191,117** | 172,314 | **Net interest income** | 23 | **73,580** | 66,341 |
| **9,415** | 488 | Income from Islamic financing | | **3,625** | 188 |
| **(1,083)** | (39) | Unrestricted investment account holders' share of profit | | **(417)** | (15) |
| **8,332** | 449 | **Net income from Islamic financing and investment activities** | | **3,208** | 173 |
| **35,021** | 25,527 | Fees and commission income | | **13,483** | 9,828 |
| **(3,468)** | (2,397) | Fees and commission expense | | **(1,335)** | (923) |
| **31,553** | 23,130 | **Net fees and commission income** | | **12,148** | 8,905 |
| **25,753** | 36,725 | Other income | 24 | **9,915** | 14,139 |
| **256,755** | 232,618 | **Operating income** | | **98,851** | 89,558 |
| **(110,597)** | (108,512) | Staff and administrative costs | 25 | **(42,580)** | (41,777) |
| **(9,306)** | (9,192) | Depreciation | 12 | **(3,583)** | (3,539) |
| **(119,903)** | (117,704) | **Operating expenses** | | **(46,163)** | (45,316) |
| **136,852** | 114,914 | **Profit from operations** | | **52,688** | 44,242 |
| **(30,280)** | (19,190) | Provision for loan impairment | 26 | **(11,658)** | (7,388) |
| **12,270** | 8,195 | Recoveries from allowance for loan impairment | 26 | **4,724** | 3,155 |
| **-** | (3) | Bad debts written-off | | **-** | (1) |
| **-** | - | Impairment of available-for-sale investments | 9 | **-** | - |
| **-** | 67,868 | Recovery from a legal case | 6 | **-** | 26,129 |
| **118,842** | 171,784 | **Profit from operations after provision** | | **45,754** | 66,137 |
| **(13,769)** | (20,078) | Income tax expense | 27 | **(5,301)** | (7,730) |
| **105,073** | 151,706 | **Profit for the year** | | **40,453** | 58,407 |
| **105,073** | 151,706 | **Profit for the year** | | **40,453** | 58,407 |
| | | **Other comprehensive income:** | | | |
| | | Items that are or may be reclassified to statement of income: | | | |
| **(3,010)** | 6,356 | Net changes in fair value of available-for-sale investments | 9 | **(1,159)** | 2,447 |
| **(1,665)** | (5,842) | Reclassification adjustment on sale of available-for-sale investments | 9 | **(641)** | (2,249) |
| **(4,675)** | 514 | Other comprehensive (loss)/ income for the year, net of tax | | **(1,800)** | 198 |
| **100,398** | 152,220 | Total comprehensive income for the year | | **38,653** | 58,605 |
| **0.08** | 0.11 | Earnings per share basic and diluted (Rials Omani) | 28 | **0.030** | 0.043 |

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

Report of the Auditors - page 111.

# Statement of changes in equity

for the year ended 31 December 2014

| | Notes | Share capital RO'000 | Share premium RO'000 | Special reserve RO'000 | Legal reserve RO'000 | Subordinated loans reserve RO'000 | Investment revaluation reserve RO'000 | Retained earnings RO'000 | Total RO'000 |
|---|---|---|---|---|---|---|---|---|---|
| **Balances as at 1 January 2014** | | 121,013 | 40,018 | 18,488 | 31,492 | 26,250 | 1,754 | 64,592 | 303,607 |
| **Total comprehensive income for the year** | | - | - | - | - | - | - | 40,453 | 40,453 |
| Profit for the year | | | | | | | | | |
| **Other comprehensive income for the year** | | | | | | | | | |
| Net change in fair value of available-for-sale investments | | - | - | - | - | - | (1,159) | - | (1,159) |
| Transfer to statement of income on sale of available-for-sale investments | | - | | - | - | - | (641) | - | (641) |
| **Total comprehensive income for the year** | | - | - | - | - | - | (1,800) | 40,453 | 38,653 |
| Transfer to legal reserve | 20 | - | - | - | 4,045 | - | - | (4,045) | - |
| **Transactions with owners recorded directly in equity** | | | | | | | | | |
| Dividend paid for 2013 | 38 | - | - | - | - | - | - | (16,942) | (16,942) |
| Bonus shares issued for 2013 | 38 | 13,311 | - | - | - | - | - | (13,311) | - |
| Transfer to subordinated loan reserve | 20 | - | - | - | - | 15,000 | - | (15,000) | - |
| | | - | - | - | - | - | - | - | - |
| **Balances as at 31 December 2014** | | 134,324 | 40,018 | 18,488 | 35,537 | 41,250 | (46) | 55,747 | 325,318 |
| | | USD'000 | USD'000 | USD'000 | USD'000 | USD'000 | USD'000 | USD'000 | USD'000 |
| **Balances as at 1 January 2014** | | 314,320 | 103,943 | 48,021 | 81,797 | 68,182 | 4,556 | 167,771 | 788,590 |
| **Total Comprehensive income for the year** | | - | - | - | - | - | - | - | - |
| Profit for the year | | - | - | - | - | - | - | 105,073 | 105,073 |
| **Other Comprehensive income for the year** | | - | - | - | - | - | - | - | - |
| Net change in fair value of available for sale investments | | - | - | - | - | - | (3,010) | - | (3,010) |
| Transfer to statement of income on sale of available for sale investments | | - | - | - | - | - | (1,665) | - | (1,665) |
| **Total comprehensive income for the year** | | - | - | - | - | - | (4,675) | 105,073 | 100,398 |
| | | - | - | - | - | - | - | - | - |
| Transfer to legal reserve | 20 | - | - | - | 10,507 | - | - | (10,507) | - |
| **Transactions with owners recorded directly in equity** | | - | - | - | - | - | - | - | - |
| Dividend paid for 2013 | 38 | - | - | - | - | - | - | (44,005) | (44,005) |
| Bonus shares issued for 2013 | 38 | 34,574 | - | - | - | - | - | (34,574) | - |
| Transfer to subordinated loan reserve | 20 | - | - | - | - | 38,961 | - | (38,961) | - |
| **Balances as at 31 December 2014** | | 348,894 | 103,943 | 48,021 | 92,304 | 107,143 | (119) | 144,797 | 844,983 |

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

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# Statement of changes in equity

for the year ended 31 December 2014

| | Notes | Share capital RO'000 | Share premium RO'000 | Special reserve RO'000 | Legal reserve RO'000 | Subordinated loans reserve RO'000 | Investment revaluation reserve RO'000 | Retained earnings RO'000 | Total RO'000 |
|---|---|---|---|---|---|---|---|---|---|
| **Balances as at 1 January 2013** | | 110,012 | 40,018 | - | 25,652 | 11,250 | 1,556 | 73,016 | 261,504 |
| **Total comprehensive income for the year** | | | | | | | | | |
| Profit for the year | | - | - | - | - | - | - | 58,407 | 58,407 |
| **Other comprehensive income for the year** | | | | | | | | | |
| Net change in fair value of available-for-sale investments | | - | - | - | - | - | 2,447 | - | 2,447 |
| Transfer to statement of income on sale of available-for-sale investments | | - | - | - | - | - | (2,249) | - | (2,249) |
| **Total comprehensive income for the year** | | - | - | - | - | - | 198 | 58,407 | 58,605 |
| Transfer to legal reserve | 20 | - | - | - | 5,840 | - | - | (5,840) | - |
| **Transactions with owners recorded directly in equity** | | | | | | | | | |
| Dividend paid for 2012 | 38 | - | - | - | - | - | - | (16,502) | (16,502) |
| Bonus shares issued for 2012 | 38 | 11,001 | - | - | - | - | - | (11,001) | - |
| Transfer to subordinated loan reserve | 20 | - | - | - | - | 15,000 | - | 15,000 | - |
| Transfer to special reserve | 20 | - | - | 18,488 | - | - | - | (18,488) | - |
| **Balances as at 31 December 2013** | | 121,013 | 40,018 | 18,488 | 31,492 | 26,250 | 1,754 | 64,592 | 303,607 |
| | | **USD'000** | **USD'000** | **USD'000** | **USD'000** | **USD'000** | **USD'000** | **USD'000** | **USD'000** |
| **Balances as at 1 January 2013** | | 285,745 | 103,943 | - | 66,628 | 29,221 | 4,042 | 189,652 | 679,231 |
| **Total Comprehensive income for the year** | | | | | | | | | |
| Profit for the year | | - | - | - | - | - | - | 151,706 | 151,706 |
| **Other Comprehensive income for the year** | | | | | | | | | |
| Net change in fair value of available for sale investments | | - | - | - | - | - | 6,356 | - | 6,356 |
| Transfer to statement of income on sale of available for sale investments | | - | - | - | - | - | (5,842) | - | (5,842) |
| **Total comprehensive income for the year** | | - | - | - | - | - | 514 | 151,706 | 152,220 |
| Transfer to legal reserve | 20 | - | - | - | 15,169 | - | - | (15,169) | - |
| **Transactions with owners recorded directly in equity** | | | | | | | | | |
| Dividend paid for 2012 | 38 | - | - | - | - | - | - | (42,861) | (42,861) |
| Bonus shares issued for 2012 | 38 | 28,575 | - | - | - | - | - | (28,575) | - |
| Transfer to subordinated loan reserve | 20 | - | - | - | - | 38,961 | - | (38,961) | - |
| Transfer to special reserve | 20 | - | - | 48,021 | - | - | - | (48,021) | - |
| **Balances as at 31 December 2013** | | 314,320 | 103,943 | 48,021 | 81,797 | 68,182 | 4,556 | 167,771 | 788,590 |

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

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# Statement of cash flows

for the year ended 31 December 2014

| 2014 US$ '000 | 2013 US$ '000 | | 2014 RO'000 | 2013 RO'000 |
|---|---|---|---|---|
| | | **Cash flows from operating activities** | | |
| **337,125** | 311,234 | Interest, financing income, commission and other receipts | **129,793** | 119,825 |
| **(87,374)** | (85,821) | Interest payments, return on Islamic Banking deposits | **(33,639)** | (33,041) |
| **(133,499)** | (43,013) | Cash payments to suppliers and employees | **(51,397)** | (16,560) |
| **116,252** | 182,400 | | **44,757** | 70,224 |
| | | **Decrease in operating assets** | | |
| **(934,361)** | (606,847) | Loans, advances and financing to customers | **(359,729)** | (233,636) |
| **(31,473)** | (20,795) | Loans, advances and financing to banks | **(12,117)** | (8,006) |
| **(40,041)** | (88,795) | Receipts from treasury bills and certificates of deposits (net) | **(15,416)** | (34,186) |
| **(1,005,875)** | (716,436) | | **(387,262)** | (275,828) |
| | | **Increase in operating liabilities** | | |
| **1,169,956** | 1,031,475 | Deposits from customers | **450,433** | 397,118 |
| **177,865** | 46,613 | Due to banks | **68,478** | 17,946 |
| **1,347,821** | 1,078,088 | | **518,911** | 415,064 |
| **458,198** | 544,052 | **Net cash from operating activities** | **176,406** | 209,460 |
| **(19,688)** | (12,930) | Income tax paid | **(7,580)** | (4,978) |
| **438,510** | 531,122 | **Net cash from operating activities** | **168,826** | 204,482 |
| | | **Cash flows from investing activities** | | |
| **5,091** | 5,122 | Investment income | **1,960** | 1,972 |
| **(33,210)** | (64,034) | Purchase of investments | **(12,786)** | (24,653) |
| **22,927** | 29,914 | Proceeds from sale of investments | **8,827** | 11,517 |
| **1,966** | 1,036 | Dividend received | **757** | 399 |
| **(6,260)** | (13,231) | Purchase of property and equipment | **(2,410)** | (5,094) |
| **483** | 462 | Proceeds from sale of property and equipment | **186** | 178 |
| **(9,003)** | (40,730) | **Net cash used in investing activities** | **(3,466)** | (15,681) |
| | | **Cash flow from financing activities** | | |
| **75,000** | - | Subordinated loan | **28,875** | - |
| **(44,005)** | (42,862) | Dividend paid | **(16,942)** | (16,502) |
| **30,995** | (42,862) | **Net cash from (used in) financing activities** | **11,933** | (16,502) |
| **460,502** | 447,530 | **Net change in cash and cash equivalents** | **177,293** | 172,299 |
| **1,104,558** | 657,029 | Cash and cash equivalents at the beginning of the year | **425,255** | 252,956 |
| **1,565,060** | 1,104,558 | **Cash and cash equivalents at the end of the year** | **602,548** | 425,255 |
| **1,517,844** | 898,073 | **Cash and balances with Central Bank of Oman (Note 5)** | **584,370** | 345,758 |
| **(1,299)** | (1,299) | Capital deposit with Central Bank of Oman | **(500)** | (500) |
| **50,587** | 160,519 | Loans, advances and financing to banks due within 90 days | **19,476** | 61,800 |
| **-** | 48,816 | Treasury bills within 90 days | **-** | 18,794 |
| **(2,072)** | (1,551) | Due to banks within 90 days | **(798)** | (597) |
| **1,565,060** | 1,104,558 | **Cash and cash equivalents for the purpose of the cash flow statement** | **602,548** | 425,255 |

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

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# Notes to financial statements 2014

## 1. Legal status and principal activities

Bank Dhofar SAOG ("the Bank") is incorporated in the Sultanate of Oman as a public joint stock company and is principally engaged in corporate, retail and investment banking activities. During the year 2013, the Bank also started its Islamic Banking Window with an allocated capital of RO 12.5 million from the core paid up capital of the shareholders. The Bank has a primary listing on the Muscat Securities Market ("MSM") and its principal place of business is the Head Office, Capital Business District ("CBD"), Muscat, Sultanate of Oman.

## 2. Basis of preparation

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

### a) Statement of compliance

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

### b) Basis of measurement

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

### c) Functional and presentation currency

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

### d) Use of estimates and judgements

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

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

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

## 2. Basis of preparation (continued)

### e) Accounting policies

For the year ended 31 December 2014, the Bank has adopted all of the new and revised standards and interpretations issued by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB that are relevant to its operations and effective for periods beginning on 1 January 2014.

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

## 3. Principal accounting policies

### 3.1. Foreign currency translations

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of income. Translation differences on non-monetary items, such as equities held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation differences on non-monetary items, other than those held at cost, such as equities classified as available-for-sale financial assets, are included in the investment revaluation reserve in equity.

### 3.2. Financial instruments

The Bank measures financial instruments such as derivatives at fair value at each reporting date. Fair value related disclosures for financial instruments that are measured at fair value or where fair values are disclosed, are summarised in the financial statements.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability

Or

- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible by the Bank.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Bank uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Bank determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

### 3.2.1. Recognition

The Bank recognises loans and advances, deposits, debt securities and subordinated liabilities on the date at which they originated. . All other financial assets and liabilities (including assets and liabilities at fair value through profit or loss) are initially recognised on the trade date at which the Bank becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is measured initially at fair value, plus for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue.

### 3.2.2. Classification

The Bank classifies its financial assets in the following categories: financial assets at fair value through profit or loss; loans and receivables; held-to-maturity investments; and available-for-sale financial assets. Management determines the classification of its investments at initial recognition.

#### 3.2.2.1. Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception.  A financial asset is held in this category if acquired principally for the purpose of short-term profit taking or if so designated by management.  Derivatives are also categorised as held for trading unless they are designated as hedges instruments.

Financial assets and financial liabilities are designated at fair value through profit or loss when:

- Doing so significantly reduces measurements inconsistencies that would arise if the related derivatives were treated as held for trading and the underlying financial instruments were carried at amortised costs;

- Certain investments, that are managed and evaluated on a fair value basis in accordance with documented risk management or investments strategy and reported to key management personnel on that basis are designated at fair value through profit or loss; and

- Financial instruments, containing one or more embedded derivatives significantly modify the cash flows, are designated at fair value through profit or loss.

Gains and losses arising from changes in the fair value of derivatives that are managed in conjunction with designated financial assets or financial liabilities are included in the statement of income.

## 3. Principal accounting policies (continued)

### 3.2. Financial instruments (continued)

#### 3.2.2.2. Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They can be originated or acquired by the Bank with no intention of trading the receivable and comprise loans and advances to banks and customers other than bonds purchased at original issuance.

#### 3.2.2.3. Available-for-sale investments

Available-for-sale investments are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

#### 3.2.2.4. Held-to-maturity investments

Investments with fixed or determinable payments and fixed maturity dates that the Bank has the positive intention and ability to hold to maturity are classified as held-to-maturity investments. Held-to-maturity investments are recorded at amortised cost using the effective interest method less any impairment, with revenue recognised on an effective yield basis.

#### 3.2.3. Derecognition

The Bank recognises financial assets at fair value through profit or loss and available-for-sale assets on the trade date, the date it commits to purchase or sell the asset. From this date any gains and losses arising from changes in fair value of the assets are recognised. Loans and receivables, deposits and subordinated liabilities are recognised on the date they are originated.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Bank has transferred substantially all risks and rewards of ownership. A financial liability is derecognised when it is extinguished.

#### 3.2.4. Measurement

Financial assets are measured initially at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss.

Subsequent to initial recognition all financial assets at fair value through profit or loss and all available-for-sale assets are measured at fair value, except equity instrument that does not have a quoted market price in an active market and whose fair value cannot be reliably measured is stated at cost, including transaction costs, less impairment losses.

All non-trading financial liabilities and loans and receivables are measured at amortised cost less impairment losses. Amortised cost is calculated on the effective interest rate method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortised based on the effective interest rate of the instrument.

#### 3.2.5. Fair value measurement principles

The fair values of quoted investments in active markets are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Bank establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis and other valuation techniques commonly used by market participants.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market related rate at the reporting date for an instrument with similar terms and conditions.

The fair value of derivatives that are not exchange-traded is estimated at the amount that the Bank would receive or pay to terminate the contract at the reporting date taking into account current market conditions and the current credit worthiness of the counter-parties.

#### 3.2.6. Gains and losses on subsequent measurement

Gains and losses arising from changes in the fair value of the financial assets at fair value through profit or loss category are included in the statement of income in the period in which they arise. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised in other comprehensive income, until the financial asset is derecognised or impaired at which time the cumulative gain or loss previously recognised in other comprehensive income is recognised in the statement of income.

### 3.3. Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, including: cash on hand, non-restricted cash deposited with the Central Bank of Oman, amounts due to / from other banks and eligible treasury bills and certificate of deposits.

### 3.4. Treasury bills and certificate of deposits

Treasury bills and certificates of deposit issued for a term longer than three months are classified as available-for-sale or held-to-maturity at the date of acquisition.

### 3.5. Offsetting

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only permitted under IFRS's or for gains and losses arising from a group of similar transaction such as in the Banks trading activity.

### 3.6. Impairment of financial assets

The Bank assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Bank about the following loss events:

(i) significant financial difficulty of the issuer or obligor;

(ii) a breach of contract, such as a default or delinquency in interest or principal payments;

(iii) the Bank granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the lender would not otherwise consider;

(iv) it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;

(v) the disappearance of an active market for that financial asset because of financial difficulties; or

(vi) observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:

## 3. Principal accounting policies (continued)

### 3.6. Impairment of financial assets (continued)

- adverse changes in the payment status of borrowers in the group; or
- national or local economic conditions that correlate with defaults on the assets in the group.

The Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the statement of income. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. The Bank may measure impairment on the basis of an instrument's fair value using an observable market price.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e. on the basis of the Bank's grading process that considers asset type, industry, geographical location, collateral type, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the Bank and historical loss experience for assets with credit risk characteristics similar to those in the Group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

Estimates of changes in future cash flows for groups of assets should reflect and be directionally consistent with changes in related observable data from period to period (for example, changes in unemployment rates, property prices, payment status, or other factors indicative of changes in the probability of losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Bank to reduce any differences between loss estimates and actual loss experience.

When a loan is known to be uncollectible, all the necessary legal procedures have been completed, and the final loss has been determined, the loan is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are included in the statement of income.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the statement of income.

The Bank assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets, other than investments at fair value through profit and loss, is impaired. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from other comprehensive income and recognised in the statement of income. Impairment losses recognised in the statement of income on equity instruments are not reversed through the statement of income. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the statement of income.

### 3.7. Property and equipment

Items of property and equipment are stated at cost less accumulated depreciation and impairment loss. Depreciation is calculated so as to write off the cost of property and equipment, other than freehold land and capital work-in-progress, by equal instalments over their estimated economic useful lives from the date the asset is brought into use, as follows:

| | Years |
|---|---|
| Buildings | 7 - 25 |
| Furniture and fixtures | 3 - 7 |
| Motor vehicles | 3 - 5 |
| Computer equipment | 4 |
| Core banking system | 10 |

The assets' residual values and useful lives 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. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

Gains and losses on disposal of property and equipment are determined by reference to their carrying amount and are taken into account in determining operating profit. Repairs and renewals are charged to the statement of income when the expense is incurred. Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the item of property and equipment. All other expenditure is recognised in the statement of income as an expense when incurred.

### 3.8. Intangible assets

Goodwill represents the excess of the cost of an acquisition over the fair value of the net identifiable assets acquired at the date of acquisition. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses.

### 3.9. Provisions

A provision is recognised in the statement of financial position when the Bank has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and the amount has been reliably estimated. If the effect is material, provisions are determined by discounting the expected future cash flows at a rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

## 3. Principal accounting policies (continued)

### 3.10. Dividends

Dividends are recognised as a liability in the year in which they are declared.

### 3.11. Interest income and expense

Interest income and expense are recognised in the statement of income using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

### 3.12. Fees and commission income

Fees and commissions are generally recognised on an accrual basis when the service has been provided. Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognised as an adjustment to the effective interest rate on the loan. Loan syndication fees are recognised as revenue when the syndication has been completed and the Bank retained no part of the loan package for itself or retained a part at the same effective interest rate for the other participants. Commission and fees arising from negotiating, or participating in the negotiation of, a transaction for a third party – such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses – are recognised on completion of the underlying transaction. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time-apportionment basis. Asset management fees related to investment funds are recognised rateably over the period the service is provided. The same principle is applied for wealth management, financial planning and custody services that are continuously provided over an extended period of time.

### 3.13. Taxation

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the statement of comprehensive income except to the extent that it relates to items recognised directly in equity, or in other comprehensive income.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred income tax is provided in full, on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes (the tax base). The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the reporting date. The principal temporary differences arise from depreciation of property and equipment and provisions.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

### 3.14. Employee benefits

End of service benefits are accrued in accordance with the terms of employment of the Bank's employees at the reporting date, having regard to the requirements of the Oman Labour Law. Employee entitlements to annual leave and leave passage are recognised when they accrue to employees and an accrual is made for the estimated liability arising as a result of services rendered by employees up to the reporting date.

Contributions to a defined contribution retirement plan and occupational hazard insurance for Omani employees in accordance with the Omani Social Insurances Law of 1991 and its subsequent amendments are recognised as an expense in the statement of income as incurred.

### 3.15. Derivative financial instruments

Derivatives are stated at fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and valuation techniques, including discounted cash flow models and options pricing models, as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

The best evidence of the fair value of a derivative at initial recognition is the transaction price (i.e., the fair value of the consideration given or received) unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. When such evidence exists, the Bank recognises profits on the day of the transaction.

The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. Although the Bank enters into derivative instruments for hedging purposes, certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in the statement of income.

### 3.15.1 Embedded derivatives

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at fair value with changes in fair value recognised in profit or loss.

### 3.15.2 Hedge accounting

The Bank designates certain hedging instruments, which include derivatives, embedded derivatives and non-derivatives in respect of foreign currency risk, as either fair value hedges, cash flow hedges, or hedges of net investments in foreign operations. Hedges of foreign exchange risk on firm commitments are accounted for as cash flow hedges.

At the inception of the hedge relationship, the entity documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Bank documents whether the hedging instrument that is used in a hedging relationship is highly effective in offsetting changes in fair values or cash flows of the hedged item.

### 3.15.3 Fair value hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in profit or loss immediately, together with any changes in the fair value of the hedged item that are attributable to the hedged risk. The change in the fair value of the hedging instrument and the change in the hedged item attributable to the hedged risk are recognised in the line of the statement of income relating to the hedged item.

## 3. Principal accounting policies (continued)

### 3.15.3 Fair value hedges (continued)

Hedge accounting is discontinued when the Bank revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. The adjustment to the carrying amount of the hedged item arising from the hedged risk is amortised to profit or loss from that date.

### 3.15.4 Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are deferred in equity. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss, and is included in the "other gains and losses" line of the statement of income.

Amounts deferred in equity are recycled in profit or loss in the periods when the hedged item is recognised in profit or loss, in the same line of the statement of income as the recognised hedged item. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability.

Hedge accounting is discontinued when the Bank revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. Any cumulative gain or loss deferred in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was deferred in equity is recognised immediately in profit or loss.

### 3.16. Sale and repurchase agreements

Securities sold subject to repurchase agreements (repos) are reclassified in the financial statements as pledged assets when the transferee has the right by contract or custom to sell or repledge the collateral; the counterparty liability is included in amounts due to other banks, deposits from banks, other deposits or deposits due to customers, as appropriate. Securities purchased under agreements to resell (reverse repos) are recorded as loans and advances to other banks or customers, as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest method. Securities lent to counterparties are also retained in the financial statements.

Securities borrowed are not recognised in the financial statements, unless these are sold to third parties, in which case the purchase and sale are recorded with the gain or loss included in trading income.

### 3.17. Borrowings

Borrowings are recognised initially at fair value, being their issue proceeds (fair value of consideration received) net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between proceeds net of transaction costs and the redemption value is recognised in the statement of income over the period of the borrowings using the effective interest method.

### 3.18. Segment reporting

A segment is a distinguishable component of the Bank that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. The Bank currently operates only in the Sultanate of Oman. The Bank's primary format for reporting segmental information is business segments, based upon management and internal reporting structure. The Bank's main business segments are corporate and retail banking.

### 3.19. Fiduciary assets

Assets held in trust or in a fiduciary capacity are not treated as assets of the Bank in the statement of financial position.

### 3.20. Trade and settlement date accounting

All "regular way" purchases and sales of financial assets are recognised on the trade date, i.e. that date the Bank commits to purchase the assets. Regular way purchase or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

### 3.21. Directors' remuneration

The board of directors' remuneration is accrued within the limits specified by the Capital Market Authority and the requirements of the Commercial Companies Law of the Sultanate of Oman.

### 3.22 Due from Bank

These are stated at cost, less any amounts written off and provisions for impairment. Due from banks include Nostro balances, placements and loans to banks.

### 3.23 Collateral pending sale

The Bank occasionally acquires real estate in settlement of certain loans and advances. Real estate is stated at the lower of the net realisable value of the related loans and advances and the current fair value of such assets. Gains or losses on disposal and unrealised losses on revaluation are recognised in the statement of comprehensive income.

### 3.24 Deposits

Deposits from banks and customers, debt securities and subordinated liabilities are the Bank's sources of funding. These are initially measured at fair value plus transaction costs and subsequently measured at their amortised cost using the EIR.

### 3.25 Renegotiated loans

Where possible, the Bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective interest rate.

### 3.26 Acceptances

Acceptances are disclosed on the statement of financial position under other assets with corresponding liability disclosed under other liabilities. Therefore, there is no off-balance sheet commitment for acceptances.

### 3.27 Financial guarantees contracts

Financial guarantees are contracts that require the issuer to make specified payments to reimburse the beneficiary for a loss incurred because the debtor fails to make payments when due, in accordance with the terms of the debt. Such guarantees are given to Banks, financial institutions or other entities on behalf of the customers.

Financial guarantees are initially recognised in the financial statements at fair value on the date the guarantee was issued. Subsequent to initial recognition, the Bank's liabilities under such guarantees are measured at the higher of initial measurement, less amortisation calculated to recognise in the statement of comprehensive income the fee income earned on the straight line basis over the life of the guarantee

## 3. Principal accounting policies (continued)

### 3.27 Financial guarantees contracts (continued)

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. Any increase in the liability relating to guarantees is taken to the statement of comprehensive income.

### 3.28 Leases

Finance leases, which transfer to the Bank substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term.

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense in the statement of comprehensive income on a straight-line basis over the lease term

### 3.29 Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Group by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprises convertible notes.

### 3.30 Dividend on ordinary shares

Dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the shareholders. Interim dividends are deducted from equity when they are paid.

Dividends for the year that are approved after the reporting date are dealt with as an event after the balance sheet date.

### 3.31. Standards not yet effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Bank's financial statements are disclosed below. The Bank intends to adopt these standards, if applicable, when they become effective.

### IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments which reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. Early application of previous versions of IFRS 9 (2009, 2010 and 2013) is permitted if the date of initial application is before 1 February 2015. The adoption of IFRS 9 will have an effect on the classification and measurement of the Bank's financial assets, but no impact on the classification and measurement of the Bank's financial liabilities.

### IFRS 14 Regulatory Deferral Accounts

IFRS 14 is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of IFRS. Entities that adopt IFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in these account balances as separate line items in the statement of profit or loss and other comprehensive income. The standard requires disclosures on the nature of, and risks associated with, the entity's rate-regulation and the effects of that rate-regulation on its financial statements. IFRS 14 is effective for annual periods beginning on or after 1 January 2016. Since the Bank is an existing IFRS preparer, this standard would not apply.

### Amendments to IAS 19 Defined Benefit Plans: Employee Contributions

IAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. Where the contributions are linked to service, they should be attributed to periods of service as a negative benefit. These amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognise such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service. This amendment is effective for annual periods beginning on or after 1 July 2014. It is not expected that this amendment would be relevant to the Bank, since none of the entities within the Bank has defined benefit plans with contributions from employees or third parties.

### Annual improvements 2010-2012 Cycle

These improvements are effective from 1 July 2014 and are not expected to have a material impact on the Bank. They include:

### IFRS 2 Share-based Payment

This improvement is applied prospectively and clarifies various issues relating to the definitions of performance and service condition ns which are vesting conditions, including:

- A performance condition must contain a service condition
- A performance target must be met while the counterparty is rendering service
- A performance target may relate to the operations or activities of an entity, or to those of another entity in the same group
- A performance condition may be a market or non-market condition
- If the counterparty, regardless of the reason, ceases to provide service during the vesting period, the service condition is not satisfied

### IFRS 3 Business Combinations

The amendment is applied prospectively and clarifies that all contingent consideration arrangements classified as liabilities (or assets) arising from a business combination should be subsequently measured at fair value through profit or loss whether or not they fall within the scope of IFRS 9 (or IAS 39, as applicable).

### IFRS 8 Operating Segments

The amendments are applied retrospectively and clarifies that:

- An entity must disclose the judgements made by management in applying the aggregation criteria in paragraph 12 of IFRS 8, including a brief description of operating segments that have been aggregated and the economic characteristics (e.g., sales and gross margins) used to assess whether the segments are 'similar'
- The reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker, similar to the required disclosure for segment liabilities.

## 3. Principal accounting policies (continued)

### 3.31. Standards not yet effective (continued)

**IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets**

The amendment is applied retrospectively and clarifies in IAS 16 and IAS 38 that the asset may be revalued by reference to observable data on either the gross or the net carrying amount. In addition, the accumulated depreciation or amortisation is the difference between the gross and carrying amounts of the asset.

**IAS 24 Related Party Disclosures**

The amendment is applied retrospectively and clarifies that a management entity (an entity that provides key management personnel services) is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services.

**Annual improvements 2011-2013 Cycle**

These improvements are effective from 1 July 2014 and are not expected to have a material impact on the Bank. They include:

**IFRS 3 Business Combinations**

The amendment is applied prospectively and clarifies for the scope exceptions within IFRS 3 that:

- Joint arrangements, not just joint ventures, are outside the scope of IFRS 3
- This scope exception applies only to the accounting in the financial statements of the joint arrangement itself

**IFRS 13 Fair Value Measurement**

The amendment is applied prospectively and clarifies that the portfolio exception in IFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of IFRS 9 (or IAS 39, as applicable).

**IAS 40 Investment Property**

The description of ancillary services in IAS 40 differentiates between investment property and owner-occupied property (i.e., property, plant and equipment). The amendment is applied prospectively and clarifies that IFRS 3, and not the description of ancillary services in IAS 40, is used to determine if the transaction is the purchase of an asset or business combination.

**IFRS 15 Revenue from Contracts with Customers**

IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15 revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The principles in IFRS 15 provide a more structured approach to measuring and recognising revenue. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2017 with early adoption permitted. The Bank is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date.

**Amendments to IFRS 11 Joint Arrangements: Accounting for Acquisitions of Interests**

The amendments to IFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business must apply the relevant

IFRS 3 principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to IFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party.

The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are prospectively effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact to the Bank.

**Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation**

The amendments clarify the principle in IAS 16 and IAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets.

The amendments are effective prospectively for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact to the Bank given that the Bank has not used a revenue-based method to depreciate its non-current assets.

**Amendments to IAS 16 and IAS 41 Agriculture: Bearer Plants**

The amendments change the accounting requirements for biological assets that meet the definition of bearer plants. Under the amendments, biological assets that meet the definition of bearer plants will no longer be within the scope of IAS 41. Instead, IAS 16 will apply. After initial recognition, bearer plants will be measured under IAS 16 at accumulated cost (before maturity) and using either the cost model or revaluation model (after maturity). The amendments also require that produce that grows on bearer plants will remain in the scope of IAS 41 measured at fair value less costs to sell. For government grants related to bearer plants,IAS 20 Accounting for Government Grants and Disclosure of Government Assistance will apply. The amendments are retrospectively effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact to the Bank as the Bank does not have any bearer plants.

**Amendments to IAS 27: Equity Method in Separate Financial Statements**

The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying IFRS and electing to change to the equity method in its separate financial statements will have to apply that change retrospectively. For first-time adopters of IFRS electing to use the equity method in its separate financial statements, they will be required to apply this method from the date of transition to IFRS. The amendments are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments will not have any impact on the Bank's financial statements.

## 4. Critical accounting judgment and key sources of estimation uncertainty

**(a) Classification of investments**

Management decides on acquisition of an investment whether it should be classified as  fair value through profit or loss, available-for-sale or held-to-maturity investments.

**Available-for-sale investments**

Management follows the guidance set out in International Accounting Standard (IAS) 39 Financial Instruments: Recognition and Measurement on classifying non-derivative financial assets as available-for-sale. This classification requires management's judgement based on its intentions to hold such investments.

## 4. Critical accounting judgment and key sources of estimation uncertainty (continued)

### Held-to-maturity investments

Management follows the guidance of IAS 39 on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires significant judgements. In making this judgement, the Management evaluates its intention and ability to hold such investments to maturity. If the Management fails to keep these investments to maturity other than for the specific circumstances-for example, selling an insignificant amount close to maturity – it will be required to classify the entire class as available-for-sale. The investments would, therefore, be measured at fair value.

### (b) Fair value estimation

Fair value is based on quoted market prices at reporting date without any deduction for transaction costs. If a quoted market price is not available, fair value is estimated based on discounted cash flow and other valuation techniques.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market-related rate for a similar instrument at the reporting date.

### (c) Impairment

### Impairment losses on loans and advances

The Bank reviews its loan portfolios to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in the consolidated statement of comprehensive income, the Bank 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 in the Bank. 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 loans and advances which are impaired, the necessary impairment loss is considered based on the future cash flow estimates. Individually significant loans and advances which are not impaired and all individually insignificant loans and advances are then assessed collectively considering historical experience and observable data on a portfolio basis, in groups of assets with similar risk characteristics to determine whether collective impairment loss to be made. In determining collective impairment loss, the Bank takes into account several factors including credit quality, concentration risk, levels of past due, sector performance, available collateral and macro economic conditions.

### Impairment on due from banks

The Bank reviews its portfolio of due from banks on a quarterly basis to assess impairment. In determining whether an impairment loss should be recorded in the consolidated statement of comprehensive income, the Bank makes judgements as to whether there is any observable data indicating an impairment. For individually impaired placements, the Bank considers the necessary impairment loss based on the expected cash flows and borrower's financial position. In addition, the Bank assesses the portfolio on a collective basis and estimates the collective impairment loss if any. The judgements and estimates used for impairment assessment depend on a number of parameters which include the borrower's financial condition, local and international economic conditions and economic outlook

### Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Bank to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value.

### Impairment of available-for-sale equity investment

Management determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgement. In making this judgement, management evaluates among other factors, the normal volatility in equity price. In addition, impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology and operational and financing cash flows.

### (d) Useful life of property and equipment

Depreciation is charged so as to write off the cost of assets over their estimated useful lives. The calculation of useful lives is based on management's assessment of various factors such as the operating cycles, the maintenance programs, and normal wear and tear using its best estimates.

### (e) Deferred tax asset

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies

## 5. Cash and balances with Central Bank of Oman

| | 2014<br>RO'000 | 2013<br>RO'000 |
|---|---|---|
| Cash in hand | **36,121** | 24,294 |
| Balances with the Central Bank of Oman | **238,249** | 131,464 |
| Certificate of deposits with original maturity of 90 days or less | **310,000** | 190,000 |
| | **584,370** | 345,758 |

At 31 December 2014, cash and balances with Central Bank of Oman included balances with the Central Bank of Oman amounting to RO 500,000 (2013: RO 500,000) as minimum reserve requirements. These funds are not available for the Bank's daily business.

Outstanding certificate of deposits as of 31 December 2014 were issued by the Central Bank of Oman.

## 6 Recovery from a legal case (RO 26.1 million)

In relation to Oman International Bank "OIB" (currently HSBC Oman) case filed against the Bank, Ali Redha and his group companies, the Bank on 25 March 2013 received a cheque of RO 26.1 million from the Primary Court in Muscat. This amount being the amount transferred in September 2011 from Bank Dhofar to the Primary Court under the above mentioned case proceedings. By receiving the amount of RO 26.1 million, the case has been closed in the Bank's favour.

## 7. Loan, advances & financing to banks

| | 2014 RO'000 | 2013 RO'000 |
|---|---|---|
| Syndicated loans to other banks | **73,920** | 36,639 |
| Less: impairment allowance (collective) | **(439)** | (367) |
| Net syndicated loans to other banks | **73,481** | 36,272 |
| Placements with other banks | **4,821** | 77,591 |
| Current clearing accounts | **12,862** | 7,507 |
| | **91,164** | 121,370 |

At 31 December 2014, there are no concentration with any banks representing 20% or more of the Bank's placements (2013: no concentration).

Movement of the impairment allowance as below :

| | 2014 RO'000 | 2013 RO'000 |
|---|---|---|
| Opening balance as on 1 January | **367** | - |
| Add: Additions during the year | **256** | 367 |
| Less: Reversal during the year | **(184)** | - |
| Closing balance as on 31 December | **439** | 367 |

## 8. Loans, advances and financing to customers

| | 2014 RO'000 | 2013 RO'000 |
|---|---|---|
| Overdrafts | **130,591** | 111,959 |
| Loans | **1,953,070** | 1,724,640 |
| Loans against trust receipts | **79,484** | 77,792 |
| Bills discounted | **10,445** | 13,099 |
| Advance against credit cards | **7,705** | 7,864 |
| Others | **27,980** | 18,907 |
| Islamic Banking Window financing | **133,034** | 28,268 |
| **Gross loans, advances and financing** | **2,342,309** | 1,982,529 |
| Less: Impairment allowance | **(87,604)** | (80,619) |
| **Net loans, advances and financing** | **2,254,705** | 1,901,910 |

The movement in the impairment allowance is analysed below:

| | 2014 RO'000 | 2013 RO'000 |
|---|---|---|
| **(a) Allowance for loan impairment** | | |
| 1 January | **50,809** | 48,064 |
| Allowance during the year | **11,586** | 7,021 |
| Released to the statement of income during the year | **(4,724)** | (3,155) |
| Written off during the year | **(784)** | (1,121) |
| 31 December | **56,887** | 50,809 |
| **(b) Reserved interest** | | |
| 1 January | **29,810** | 27,416 |
| Reserved during the year | **5,682** | 5,437 |
| Released to the statement of income during the year | **(944)** | (1,103) |
| Written off during the year | **(3,831)** | (1,940) |
| 31 December | **30,717** | 29,810 |
| **Total impairment allowance** | **87,604** | 80,619 |

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

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

In 2014, the Bank has written off RO 2.66 million (2013: RO nil) as technical write off.

## 8. Loans, advances and financing to customers (continued)

Interest is reserved by the Bank against loans and advances which are impaired, to comply with the rules, regulations and guidelines issued by the Central Bank of Oman.

Under the Central Bank of Oman's guidelines for provision against classified loans, advances and financing, at 31 December 2014, out of the total provisions of RO 87,604,000 (2013: RO 80,619,390) a collective provision was made on portfolio basis amounting to RO 32,349,000 (2013: RO 26,883,000). Collective provision includes RO 1,494,000 against financing of Islamic window (2013: RO 285,000)

At 31 December 2014, impaired loans and advances on which interest has been reserved amount to RO 58,680,172 (2013: RO 57,421,242) and loans and advances on which interest is not being accrued amount to RO 1,250,659 (2013: RO 1,257,648).

Loans advances and financing are summarised as follows:

| | 2014 | | 2013 | |
|---|---|---|---|---|
| | Loans, advances and financing to customers | Loans, advances and financing to banks | Loans, advances and financing to customers | Loans, advances and financing to banks |
| | RO'000 | RO'000 | RO'000 | RO'000 |
| Neither past due nor impaired | **2,265,922** | **91,603** | 1,905,902 | 121,737 |
| Past due but not impaired | **16,625** | **-** | 18,168 | - |
| Impaired | **59,762** | **-** | 58,459 | - |
| Gross loans and advances | **2,342,309** | **91,603** | 1,982,529 | 121,737 |
| Less: Impairment allowance | **(87,604)** | **(439)** | (80,619) | (367) |
| **Total** | **2,254,705** | **91,164** | 1,901,910 | 121,370 |

### Loans, advances and financing neither past due nor impaired

The credit quality of the portfolio of loans, advances and financing that were neither past due nor impaired can be assessed by reference to the internal rating system adopted by the Bank.

### Loans and advances past due but not impaired

| | 2014<br>RO'000 | 2013<br>RO'000 |
|---|---|---|
| Past due up to 30 days | **11,019** | 12,296 |
| Past due 30 - 60 days | **4,082** | 4,324 |
| Past due 60 - 89 days | **1,524** | 1,548 |
| **Total** | **16,625** | 18,168 |

## 8. Loans, advances and financing to customers (continued)

### Impaired

| | 2014 RO'000 | 2013 RO'000 |
|---|---|---|
| Substandard | 2,999 | 2,709 |
| Doubtful | 3,608 | 3,526 |
| Loss | 53,155 | 52,224 |
| **Total** | 59,762 | 58,459 |

### Fair value of collaterals

Upon initial recognition of loans, advances and financing, the fair value of collateral is based on valuation techniques commonly used for the corresponding assets. In subsequent periods, the fair value is updated by reference to market price or indexes of similar assets.

### Loans, advances and financing renegotiated

Restructuring activities include extended payment arrangements, approved external management plans, modification and deferral of payments. Restructuring policies and practices are based on indicators or criteria which, in the judgment of management, indicate that payment will most likely continue. These policies are kept under continuous review. Restructuring is most commonly applied to term loans, in particular customer finance loans. Renegotiated loans that are classified as standard amounted to RO 44,908,000 at 31 December 2014 (2013: RO 3,247,551).

## 9. Available-for-sale investments

### a) Equity investments

| | | Fair value | |
|---|---|---|---|
| | Cost RO'000 | 2014 RO'000 | 2013 RO'000 |
| **Quoted on the Muscat Securities Market** | | | |
| Banking and investments | 1,311 | 1,211 | 1,324 |
| Services | 5,083 | 5,257 | 4,389 |
| Industrial | 8,839 | 7,737 | 6,303 |
| | 15,233 | 14,205 | 12,016 |
| **Unquoted** | | | |
| Omani companies | 1,699 | 2,483 | 2,619 |
| | 1,699 | 2,483 | 2,619 |
| | 16,932 | 16,688 | 14,635 |

### b) Sukuk

| | | | |
|---|---|---|---|
| **Unquoted** | | | |
| Omani company | 10,000 | 10,198 | 10,000 |
| | 10,000 | 10,198 | 10,000 |
| | 26,932 | 26,886 | 24,635 |

At 31 December 2014, the market value of the Sukuk approximates to the carrying value.

## 10. Held-to-maturity investments

| | 2014 RO'000 | 2013 RO'000 |
|---|---|---|
| Treasury bills | **61,121** | 74,661 |
| Government Development Bonds | **88,867** | 78,705 |
| | **149,988** | 153,366 |

Outstanding treasury bills were issued by central banks outside Sultanate of Oman for a term of 3 to 6 months and carry interest rates ranging from 0.30% to 0.38%  per annum (2013: 0.38% to  2.91) per annum.

Outstanding Government Development Bonds carry interest ranging from 3.25% to 5.50.% (2013: 3.25% to 5.50%) per annum and mature from 2015 to 2022.

## 11. Intangible asset

| | 2014 RO'000 | 2013 RO'000 |
|---|---|---|
| 1 January | **2,780** | 3,177 |
| Impaired during the year | **(397)** | (397) |
| 31 December | **2,383** | 2,780 |

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

## 12. Property and equipment

| | Freehold land RO'000 | Buildings RO'000 | Furniture And fixtures RO'000 | Motor Vehicles RO'000 | Computer equipment RO'000 | Capital work-in-progress RO'000 | Total RO'000 |
|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | |
| 1 January 2014 | 140 | 1,573 | 12,251 | 1,666 | 17,683 | 251 | 33,564 |
| Additions | - | - | 942 | 52 | 1,290 | 126 | 2,410 |
| Disposals | - | - | (55) | (377) | (72) | (20) | (524) |
| **31 December 2014** | **140** | **1,573** | **13,138** | **1,341** | **18,901** | **357** | **35,450** |
| **Depreciation** | | | | | | | |
| 1 January 2014 | - | 997 | 8,415 | 1,346 | 11,903 | - | 22,661 |
| Charge for the year | - | 59 | 1,344 | 201 | 1,979 | - | 3,583 |
| Disposals | - | - | (30) | (376) | (71) | - | (477) |
| **31 December 2014** | **-** | **1,056** | **9,729** | **1,171** | **13,811** | **-** | **25,767** |
| **Carrying value** | | | | | | | |
| **31 December 2014** | **140** | **517** | **3,409** | **170** | **5,090** | **357** | **9,683** |
| 31 December 2013 | 140 | 576 | 3,836 | 320 | 5,780 | 251 | 10,903 |

## 12. Property and equipment

| | Freehold land RO'000 | Buildings RO'000 | Furniture And fixtures RO'000 | Motor vehicles RO'000 | Computer equipment RO'000 | Capital work-in-progress RO'000 | Total RO'000 |
|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | |
| 1 January 2013 | 140 | 1,573 | 10,423 | 1,591 | 14,917 | 164 | 28,808 |
| Additions | - | - | 1,921 | 203 | 2,883 | 87 | 5,094 |
| Disposals | - | - | (93) | (128) | (117) | - | (338) |
| **31 December 2013** | **140** | **1,573** | **12,251** | **1,666** | **17,683** | **251** | **33,564** |
| **Depreciation** | | | | | | | |
| 1 January 2013 | - | 938 | 7,248 | 1,150 | 10,040 | - | 19,376 |
| Charge for the year | - | 59 | 1,253 | 323 | 1,904 | - | 3,539 |
| Disposals | - | - | (86) | (127) | (41) | - | (254) |
| **31 December 2013** | **-** | **997** | **8,415** | **1,346** | **11,903** | **-** | **22,661** |
| **Carrying value** | | | | | | | |
| **31 December 2013** | **140** | **576** | **3,836** | **320** | **5,780** | **251** | **10,903** |

## 13. Other assets

| | 2014 RO'000 | 2013 RO'000 |
|---|---|---|
| Acceptances | **65,113** | 37,213 |
| Interest receivable | **4,149** | 4,328 |
| Prepaid expenses | **1,680** | 2,158 |
| Positive fair value of derivatives (note 33) | **1,320** | 247 |
| Other receivables | **2,686** | 711 |
| | **74,948** | 44,657 |

## 14. Due to banks

| | 2014 RO'000 | 2013 RO'000 |
|---|---|---|
| Inter bank borrowings | **174,215** | 105,737 |
| Payable on demand | **798** | 597 |
| | **175,013** | 106,334 |

At 31 December 2014 two borrowings with one bank represented 20% or more of the Bank's borrowings (2013: two banks). The Bank has not had any defaults of principal, interest or other breaches during the year on its borrowed funds.

At 31 December 2014, Inter bank borrowings includes Islamic Window's inter bank borrowings with other bank of RO 23, 100, 000. (2013 RO 7,700,000)

## 15. Deposits from customers

| | 2014 RO'000 | 2013 RO'000 |
|---|---|---|
| Current accounts | **686,095** | 652,337 |
| Savings accounts | **402,433** | 322,472 |
| Time deposits | **1,274,542** | 1,047,953 |
| Margin accounts | **22,101** | 5,307 |
| Islamic Banking Window deposits | **97,008** | 3,677 |
| | **2,482,179** | 2,031,746 |

Current accounts and time deposits include deposits from the Government of the Sultanate of Oman and its entities amounting to RO 1,076,168,000 as at 31 December 2014 (2013: RO 802,103,000).

At 31 December 2014, deposits from customers include Islamic Window's current deposits, saving deposits and time deposits of RO 97,008,000 (2013 RO 3,677,000).

## 16. Other liabilities

| | 2014 RO'000 | 2013 RO'000 |
|---|---|---|
| Acceptances | **65,113** | 37,213 |
| Interest payable | **4,183** | 4,203 |
| Creditors and accruals | **29,795** | 37,848 |
| Income tax provision | **5,805** | 7,969 |
| Deferred tax liability (note 27) | **473** | 588 |
| Negative fair value of derivatives (note 33) | **1,320** | - |
| Employee terminal benefits | **1,053** | 871 |
| | **107,742** | 88,692 |

### Employee terminal benefits

The Bank's net liability and the movement in the employee terminal benefits during the year are as follows:

| | 2014 RO'000 | 2013 RO'000 |
|---|---|---|
| 1 January | **871** | 701 |
| Expense recognised in the statement of income | **255** | 245 |
| Paid to employees | **(73)** | (75) |
| | **1,053** | 871 |

## 17. Subordinated loans

| | 2014 RO'000 | 2013 RO'000 |
|---|---|---|
| Subordinated loan - US Dollar | **28,875** | - |
| Subordinated loan - RO | **75,000** | 75,000 |
| | **103,875** | 75,000 |

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

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

In November 2011, the Bank availed RO 50 million unsecured subordinated loan from the major shareholders for a tenor of 5 years and one month. This facility carries a fixed rate of interest payable half yearly, with principal being repaid on maturity.

## 18. Share capital

The authorised share capital consists of 2,200,000,000 ordinary shares of RO 0.100 each (2013: 2,200,000,000 ordinary shares of RO 0.100 each).

At 31 December 2014, the issued and paid up share capital comprise 1,343,242,214 ordinary shares of RO 0.100 each (2013: 1,210,128,121 ordinary shares of RO 0.100 each).

Shareholders

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

| | 2014 No. of shares | % | 2013 No. of shares | % |
|---|---|---|---|---|
| Dhofar International Development and Investment Company SAOG | **373,625,997** | **27.8%** | 336,600,000 | 27.8% |
| Eng. Abdul Hafidh Salim Rajab Al Aujaili and his related Companies | **279,914,110** | **20.8%** | 252,174,876 | 20.8% |
| Civil Service Employees' Pension Fund | **137,232,341** | **10.2%** | 121,542,165 | 10.1% |
| Total | **790,772,448** | **58.9%** | 710,317,041 | 58.7% |
| Others | **552,469,766** | **41.1%** | 499,811,080 | 41.3% |
| | **1,343,242,214** | **100.0** | 1,210,128,121 | 100.0 |

The Shareholders, in the Annual General Meeting held on 28 March 2012, approved an allocation of RO 10,000,000 million in respect of Islamic Banking Window from the core paid up capital of the shareholders.

Furthermore the Shareholders, in the Annual General Meeting held on 20 March 2014, acknowledged the increase of "Maisarah" Islamic Banking Services capital from RO 10,000,000 to RO 12,500,000 from the core paid up capital of the shareholders.

On 26 June 2014, the Board of Directors proposed the increase of Islamic Banking Window's allocated capital from RO 12,500,000 to RO 25,000,000 from the core paid up capital of the shareholders. A resolution to approve the increase in share capital will be presented to the shareholders in the next annual general meeting.

Bank Dhofar SAOG, as part of strengthening its capital base and to fund planned growth in the coming years, the Board of Directors, in its meeting held on 24 December 2014 has resolved to:

1. Raise its Capital by issuing Tier 1 (including Additional Tier 1) type Capital Instruments in 2015 up to OMR 115.50 million (USD 300 million), subject to Shareholders, Central Bank of Oman and other Regulatory Approvals;
2. Issue senior non-capital debt instruments up to USD 500 million in the next four years, subject to necessary Shareholders, Central Bank of Oman and Regulatory Approvals;
3. Call for Extra-ordinary General Meeting of the Shareholders to consider and approve the above, subject to Regulatory Approvals

## 19. Share premium

In the year 2008, the Bank issued 176,921,306 shares by way of rights issue at a premium of RO 0.300 resulting in an increase in share premium by RO 53,076,392.

On 19 March 2013, the Shareholders of the Bank in the annual general meeting approved the issuance of 11% bonus shares amounting to RO 13,311,409 (133,114,093 shares of par value RO 0.100 each) from the share premium account.

## 20. Reserves

### (a) Legal reserve

| | 2014 RO'000 | 2013 RO'000 |
|---|---|---|
| 1 January | **31,492** | 25,652 |
| Appropriation for the year | **4,045** | 5,840 |
| 31 December | **35,537** | 31,492 |

In accordance with Article 106 of the Commercial Companies Law of 1974, annual appropriations of 10% of profit are made to the legal reserve until the accumulated balance of the reserve is equal to one-third of the Bank's paid up share capital.  This reserve is not available for distribution.

### b) Subordinated loans reserves

| | 2014 RO'000 | 2013 RO'000 |
|---|---|---|
| 1 January | **26,250** | 11,250 |
| Appropriation for the year: | | |
| Subordinated loan reserve – RO | **15,000** | 15,000 |
| 31 December | **41,250** | 26,250 |

### Subordinated loan reserve

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

### c) Investment revaluation reserve

The movements in the investments revaluation reserve is analysed below:

| | 2014 RO'000 | 2013 RO'000 |
|---|---|---|
| 1 January | **1,754** | 1,556 |
| (Decrease)/ Increase in fair value | **(1,159)** | 2,447 |
| Net transfer to statement of income on sale of available-for-sale investments | **(641)** | (2,249) |
| 31 December | **(46)** | 1,754 |

## 20. Reserves (continued)

### d) Special reserve

During the year 2013, the Bank recognised in the statement of income, recovery from a legal case of RO 26.1 million, out of which, the Bank allocated RO 18.49 million (equivalent amount that was used from share

premium account for issuance of bonus shares, which was approved by the Shareholders in the annual general meeting held on 28 March 2012) to a special reserve to strengthen capital and requires prior approval of CBO for any distribution from this 'special reserve account' (refer note 6).

## 21. Retained earnings

Retained earnings represent the undistributed profits generated by the Bank since incorporation.

## 22. Net assets per share

Net assets per share are calculated by dividing the net assets at the year-end by the number of shares outstanding at 31 December as follows:

| | 2014<br>RO'000 | 2013<br>RO'000 |
|---|---|---|
| Net assets (RO) | **325,318,000** | 303,607,000 |
| Number of shares outstanding at 31 December (Nos.) | **1,343,242,214** | 1,210,128,121 |
| Net assets per share (RO) | **0.242** | 0.251 |

## 23. Net interest income

| | 2014<br>RO'000 | 2013<br>RO'000 |
|---|---|---|
| Loans and advances to customers | **104,535** | 97,781 |
| Debt investments | **410** | 629 |
| Money market placements | **1,827** | 1,615 |
| Others | **10** | 12 |
| **Total interest income** | **106,782** | 100,037 |
| Deposits from customers | **(32,364)** | (32,472) |
| Money market deposits | **(838)** | (1,224) |
| **Total interest expense** | **(33,202)** | (33,696) |
| **Net interest income** | **73,580** | 66,341 |

Included in interest income from debt investments is an amount of RO 396,528 (2013: RO 437,000) being interest income from held-to-maturity investments.

Included in interest expenses from customers is interest on subordinated loan against related parties of RO 4,438,908 (2013: RO 4,031,050).

## 24. Other income

| | 2014 RO'000 | 2013 RO'000 |
|---|---|---|
| Foreign exchange | **1,398** | 1,257 |
| Investment income (see below) | **3,874** | 5,724 |
| Miscellaneous income | **4,643** | 7,158 |
| | **9,915** | 14,139 |

### Investment income

| | | |
|---|---|---|
| Dividend income- available-for-sale investments | **757** | 399 |
| Gain on disposal of available-for-sale investments | **647** | 2,542 |
| Income on Sukuk | **507** | 88 |
| Financial instruments at fair value through profit or loss | **-** | 723 |
| Interest income on Government Development Bonds/Other bonds | **1,963** | 1,972 |
| | **3,874** | 5,724 |

## 25. Staff and administrative costs

### (a) Staff costs

| | 2014 RO'000 | 2013 RO'000 |
|---|---|---|
| Salaries and allowances | **23,365** | 22,690 |
| Other personnel costs | **3,586** | 2,493 |
| Scheme costs | **1,377** | 1,047 |
| Non-Omani employees terminal benefit | **255** | 245 |
| | **28,583** | 26,475 |

At 31 December 2014, the Bank had 1,340 employees (2013: 1,350 employees).

### (b) Administrative costs

| | 2014 RO'000 | 2013 RO'000 |
|---|---|---|
| Occupancy costs | **3,486** | 3,340 |
| Operating and administration cost | **9,279** | 10,474 |
| Impairment of goodwill | **397** | 397 |
| Others | **835** | 1,091 |
| | **13,997** | 15,302 |
| | **42,580** | 41,777 |

## 26. Impairment of financial assets

| | 2014 RO'000 | 2013 RO'000 |
|---|---|---|
| Provision for loan impairment (note 7 and 8) | **11,658** | 7,388 |
| Loans written-off | **-** | 1 |
| | **11,658** | 7,389 |
| Recoveries from provision for loan impairment (note 8) | **(4,724)** | (3,155) |
| Net impairment charge for financial assets | **6,934** | 4,234 |

## 27. Income tax

| Income tax | 2014 RO'000 | 2013 RO'000 |
|---|---|---|
| **(a) Income tax expense:** | | |
| Current tax | | |
| Current year | **5,416** | 7,696 |
| Prior years | **-** | - |
| | **5,416** | 7,696 |
| **Deferred tax** | | |
| Prior year | **(55)** | 18 |
| Current year | **(60)** | 16 |
| | **(115)** | 34 |
| **Tax expense for the year** | **5,301** | 7,730 |

### (b) Reconciliation:

The Bank is liable to income tax for the year 2014 in accordance with the income tax laws of the Sultanate of Oman at the rate of 12% on taxable profits in excess of RO 30,000. The following is a reconciliation of income taxes calculated at the applicable tax rate with the income tax expense:

| | | |
|---|---|---|
| Accounting profit for the year | **45,754** | 66,137 |
| Tax liability at the rates mentioned above | **5,487** | 7,933 |
| Tax exempt revenue | **(167)** | (363) |
| Non-deductible expenses | **36** | 142 |
| Prior year current tax | **-** | - |
| Deferred tax – Prior years | **(55)** | 18 |
| Tax expense | **5,301** | 7,730 |



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### (c) Temporary differences which give rise to deferred tax liability are as follows:

| Particulars | 2013 RO '000 | Recognised in income | 2014 RO '000 |
|---|---|---|---|
| Property, plant and equipment | (279) | 13 | (266) |
| Intangible asset | (333) | 47 | (286) |
| Provisions (others) | 24 | - | 24 |
| Provision – loan loss | | 55 | 55 |
| Net deferred tax (liability) | (588) | 115 | (473) |

### (d) Status of previous year returns:

The tax returns of the Bank for the years 2009 to 2013 have not yet been agreed with the Secretariat General for Taxation at the Ministry of Finance.

Management are of the opinion that additional taxes, if any, related to the open tax years would not be significant to the Bank's financial position as at 31 December 2014.

## 28. Earnings per share (basic and diluted)

The calculation of basic and diluted earnings per share is based on profit for the year attributable to ordinary shareholders as follows:

| | 2014 RO'000 | 2013 RO'000 |
|---|---|---|
| Profit for the year (RO) | 40,453,000 | 58,407,000 |
| Weighted average number of shares outstanding during the year | 1,343,242,214 | 1,343,242,214 |
| Earnings per share basic and diluted (RO) | 0.030 | 0.043 |

Earnings per share (basic and diluted) have been derived by dividing the profit for the year attributable to the shareholders by the weighted average number of shares outstanding. As there are no dilutive potential shares, the diluted earnings per share is identical to the basic earnings per share.

During the year 2014, the Bank issued 133.11 million bonus shares of RO 0.100 each to the existing shareholders, since the bonus issue was without consideration; the issue is treated as if it had occurred prior to the beginning of year 2013.

## 29. Related parties transactions

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

| | 2014 RO'000 | 2013 RO'000 |
|---|---|---|
| **Loans and advances** | | |
| Directors and shareholders holding less than 10% interest in the Bank | **9,803** | 14,680 |
| Directors and shareholders holding 10% or more interest in the Bank | **21,162** | 45,921 |
| | **30,965** | 60,601 |
| **Subordinated loans** | | |
| Directors and shareholders holding less than 10% interest in the Bank | **40,775** | 35,000 |
| Directors and shareholders holding 10% or more interest in the Bank | **54,438** | 40,000 |
| | **95,213** | 75,000 |
| **Deposits and other accounts** | | |
| Directors and shareholders holding less than 10% interest in the Bank | **87,515** | 79,131 |
| Directors and shareholders holding 10% or more interest in the Bank | **325,022** | 314,609 |
| | **412,537** | 393,740 |
| **Contingent liabilities and commitments** | | |
| Directors and shareholders holding less than 10% interest in the Bank | **1,816** | 1,807 |
| Directors and shareholders holding 10% or more interest in the Bank | **174** | 159 |
| | **1,990** | 1,966 |
| **Remuneration paid to Directors** | | |
| Chairman | | |
| – remuneration proposed | **17** | 15 |
| – sitting fees paid | **10** | 10 |
| Other Directors | | |
| – remuneration proposed | **116** | 99 |
| – sitting fees paid | **57** | 76 |
| | **200** | 200 |
| **Other transactions** | | |
| Rental payment to a related party | **380** | 464 |
| Remuneration and fees paid to Sharia' Board of Islamic Banking Window | **32** | 32 |
| Other transactions | **70** | 65 |
| **Key management compensation** | | |
| Salaries and other benefits | **956** | 1,570 |
| End of service benefits | **-** | 21 |
| | **956** | 1,591 |

## 30. Fiduciary assets

At 31 December 2014 and 2013, there were no funds under management with the Bank.

## 31. Single borrower and senior members

| | 2014 RO'000 | 2013 RO'000 |
|---|---|---|
| **(a) Single borrower** | | |
| Total direct exposure | **189,145** | 173,327 |
| Number of Members | **3** | 3 |
| **(b) Senior members** | | |
| Total exposure: | | |
| Direct | **33,907** | 62,471 |
| Indirect | **1,990** | 1,966 |
| | **35,897** | 64,437 |
| Number of Members | **16** | 27 |

## 32. Contingent liabilities and commitments

### (a) Credit related contingent items

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

| | 2014 RO'000 | 2013 RO'000 |
|---|---|---|
| Letters of credit | **87,680** | 70,425 |
| Guarantees and performance bonds | **628,395** | 391,527 |
| | **716,075** | 461,952 |

At 31 December 2014, letters of credit, guarantees and other commitments amounting to RO 26,559,520 (2013: RO 18,318,000) are counter guaranteed by other banks.

### (b) Termination of legal case

One of the Bank's customers filed a lawsuit against the Bank claiming compensation of RO 1,037,550 for commercial and moral damages. A judgment was issued directing the Bank to pay RO 400,000 to the Plaintiff. This judgment was upheld by the Appeal Court and the Bank challenged the same in the Supreme Court. On 23 May 2012, the Supreme Court revoked the Appeal Court confirmation of the primary judgment. Further, the Supreme Court directed the Appeal Court to review its judgment by different panel. On reviewing the judgment, the Appeal Court on 15 July 2014 accepted the Bank's appeal and issued new judgment dismissing the case against the Bank entirely. The other party challenged this judgment before the Supreme Court which on 23 October 2014 issued its judgment confirming the decision of the Appeal Court. In view of this, the case has been finally concluded in the Bank's favour.

## 32. Contingent liabilities and commitments (continued)

### (c) Capital and investment commitments

| | 2014 RO'000 | 2013 RO'000 |
|---|---|---|
| Contractual commitments for property and equipment | 1,152 | 2,106 |

## 33. Derivative financial instruments

The Bank uses the following derivative instruments for both hedging and non-hedging purposes:

Currency forwards represent commitments to purchase foreign and domestic currency, including undelivered spot transactions. Currency swaps are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies. No exchange of principal takes place, except for certain currency swaps. The Bank's credit risk represents the potential cost to replace the swap contracts if counterparties fail to perform their obligation. This risk is monitored on an ongoing basis with reference to the current fair value, a proportion of the notional amount of the contracts and the liquidity of the market. To control the level of credit risk taken, the Bank assesses counterparties using the same techniques as for its lending activities.

The notional amounts of certain types of financial instruments provide a basis for comparison with instruments recognised on the statement of financial position but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Bank's exposure to credit or price risks. The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates or foreign exchange rates relative to their terms. The aggregate contractual or notional amount of derivative financial instruments on hand, the extent to which instruments are favourable or unfavourable, and thus the aggregate fair values of derivative financial assets and liabilities shown within other assets and other liabilities, can fluctuate significantly from time to time. The fair values of derivative instruments held are set out below:

| At 31 December 2014 | | Fair value increase / decrease | |
|---|---|---|---|
| | Contract / notional amount RO'000 | Assets RO'000 | Liabilities RO'000 |
| **Foreign exchange derivatives** | | | |
| Currency forward - purchase contracts | **227,273** | **1,442** | **-** |
| Currency forward - sales contracts | **225,927** | **-** | **122** |

| At 31 December 2013 | | Fair value increase / decrease | |
|---|---|---|---|
| | Contract / notional amount RO'000 | Assets RO'000 | Liabilities RO'000 |
| Foreign exchange derivatives | | | |
| Currency forward - purchase contracts | 186,851 | 576 | - |
| Currency forward - sales contracts | 186,714 | - | 329 |

The following table indicates the year in which the cash flows associated with derivatives that are expected to impact statement of income.

| | Assets | | Liabilities | |
|---|---|---|---|---|
| | 2014 RO'000 | 2013 RO'000 | 2014 RO'000 | 2013 RO'000 |
| Expected cash flow less than 6 months | **1,320** | 247 | - | - |

## 34. Fair value information

Based on the valuation methodology outlined below, the fair values of all financial instruments at 31 December 2014 are considered by the Management not to be materially different to their book values.

### Estimation of fair values

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

### Loans and advances

Fair value is calculated based on discounted expected future principal and interest cash flows. Loan repayments are assumed to occur at contractual repayment dates, where applicable. For loans that do not have fixed repayment dates or that are subject to prepayment risk, repayments are estimated based on experience in previous periods when interest rates were at levels similar to current levels, adjusted for any differences in interest rate outlook. Expected future cash flows are estimated considering credit risk and any indication of impairment. Expected future cash flows for homogeneous categories of loans are estimated on a portfolio basis and discounted at current rates offered for similar loans to new borrowers with similar credit profiles. The estimated fair values of loans reflect changes in credit status since the loans were made and changes in interest rates in the case of fixed rate loans.

### Investments

Fair value is based on quoted market prices at the reporting date without any deduction for transaction costs. If a quoted market price is not available, fair value is estimated based on discounted cash flow and other valuation techniques.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market-related rate for a similar instrument at the reporting date.

### Current account balances due to and due from banks

The carrying amount of current account balances due to and from banks was considered to be a reasonable estimate of fair value due to their short term nature.

### Bank and customer deposits

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, including certificates of deposit, is based on discounted cash flows using rates currently offered for deposits of similar remaining maturities. The value of long-term relationships with depositors is not taken into account in estimating fair values.

### Other 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.

## 34. Fair value information (continued)

Foreign exchange contracts are valued based on market prices. The market value adjustments in respect of foreign exchange contracts are included in other assets and other liabilities.

### Fair value versus carrying amounts

The fair value of the financial assets and liabilities approximates their carrying value as stated in the statement of financial position.

### Fair value measurements recognised in the statement of financial position

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

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

| **At 31 December 2014** | **Level 1 RO'000** | **Level 2 RO'000** | **Level 3 RO'000** | **Cost RO'000** | **Total RO'000** |
|---|---|---|---|---|---|
| Available-for-sale investments | | | | | |
| Equity instruments | **14,205** | **-** | **2,483** | **-** | **16,688** |
| Sukuk | **-** | **10,198** | **-** | **-** | **10,198** |
| | | | | | |
| At 31 December 2013 | | | | | |
| Available-for-sale investments | | | | | |
| Equity instruments | 12,016 | - | 2,619 | - | 14,635 |
| Sukuk | - | - | - | 10,000 | 10,000 |

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

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

## 35. Financial risk management

The important types of financial risks to which the Bank is exposed are credit risk, liquidity risk and market risk. The risk management division of the Bank is an independent and dedicated unit reporting directly to the Risk Management Committee ("RMC") of the Board. The division's primary responsibility is to assess, monitor and recommend strategies for control of credit, market and operational risk. The absence of any direct or indirect reporting lines and permanent membership in all the Bank's committees are among the factors which reflect the independence of the Risk Management Divisions working and the key role it plays within the Bank.

The risk management framework is pivoted on a host of committees involving the executive management and the Board of Directors ("the Board") for approval and reporting purposes. The Board has the overall authority for approval of strategies and policies, which it exercises through it's various sub-committees. The Risk Management Committee of the Board is responsible for reviewing and recommending to the full Board for approval all risk policies and procedures. RMC also reviews the risk profile of the Bank as presented to it by the RMD and appraises the full Board in its periodic meetings.

### Credit risk

The most important risk to which the Bank is exposed, is credit risk. To manage the level of credit risk, the Bank deals with counter-parties of good credit.

Executive Committee of the Board is the final credit approving authority of the Bank which is mainly responsible for approving all credit proposals beyond the authority level of the management and also for reviewing and approving credit policies. This committee is also the final authority for approving investments beyond the authority of the management. The Management Credit Committee ("MCC") is the management decision making body which is empowered to consider all credit related issues upto certain limits.

Credit risk is managed by the RMD through a system of independent risk assessment in credit proposals beyond a threshold limit of RO 100,000 before they are considered by the appropriate approving authorities. The Bank has in place a risk grading system for analyzing the risk associated with credit. This facilitates the approving authorities in making their credit decision. In addition, RMD assists/ reviews grading of obligors, conducts regular macro analysis of the credit portfolio, and monitors credit concentration limits. Maximum counterparty/ group exposures are limited to 15% of the Bank's capital base as stipulated by CBO and where a higher limit is required for projects of national importance prior CBO approval is obtained. Individual country limits using external leading rating agencies have also been set up to ensure portfolio diversification in terms of sovereign risk ratings and geographical exposure. These limits are approved by the Board. Retail lending is strictly in accordance with the CBO guidelines. The analysis of credit is given below:

### (a) Geographical concentrations

| | Assets | | | Liabilities | | |
|---|---|---|---|---|---|---|
| | Gross loans advances and financing to banks RO'000 | Gross Loans Advances and financing RO'000 | Investment securities RO'000 | Deposits from customers RO'000 | Due to banks RO'000 | Contingent liabilities RO'000 |
| **31 December 2014** | | | | | | |
| Sultanate of Oman | **-** | **2,336,759** | **115,753** | **2,478,557** | **59,454** | **549,060** |
| Other GCC countries | **14,443** | **5,550** | **61,121** | **3,179** | **67,539** | **54,026** |
| Europe and North America | **45,189** | **-** | **-** | **4** | **25,028** | **68,025** |
| Africa and Asia | **31,971** | **-** | **-** | **439** | **22,992** | **44,964** |
| | **91,603** | **2,342,309** | **176,874** | **2,482,179** | **175,013** | **716,075** |
| 31 December 2013 | | | | | | |
| Sultanate of Oman | 35,399 | 1,977,383 | 103,340 | 2,028,843 | 92,827 | 379,346 |
| Other GCC countries | 11,164 | 5,146 | 65,300 | 2,624 | 2,085 | 42,224 |
| Europe and North America | 21,357 | - | 9,361 | 57 | 7,709 | 22,183 |
| Africa and Asia | 53,817 | - | - | 222 | 3,713 | 18,199 |
| | 121,737 | 1,982,529 | 178,001 | 2,031,746 | 106,334 | 461,952 |

## 35. Financial risk management (continued)

Credit risk (continued)

### (b) Customer concentrations

| | Assets | | | Liabilities | | |
|---|---|---|---|---|---|---|
| | Gross loans advances and financing to banks RO'000 | Gross Loans Advances and financing RO'000 | Investment securities RO'000 | Deposits from customers RO'000 | Due to banks RO'000 | Contingent liabilities RO'000 |
| **31 December 2014** | | | | | | |
| Personal | **-** | **1,048,120** | **-** | **529,288** | **-** | **2,639** |
| Corporate | **91,603** | **1,157,466** | **88,007** | **876,723** | **175,013** | **711,538** |
| Government | **-** | **136,723** | **88,867** | **1,076,168** | **-** | **1,898** |
| | **91,603** | **2,342,309** | **176,874** | **2,482,179** | **175,013** | **716,075** |
| 31 December 2013 | | | | | | |
| Personal | - | 870,226 | - | 447,248 | - | 310 |
| Corporate | 121,737 | 985,372 | 99,296 | 782,395 | 106,334 | 456,212 |
| Government | - | 126,931 | 78,705 | 802,103 | - | 5,430 |
| | 121,737 | 1,982,529 | 178,001 | 2,031,746 | 106,334 | 461,952 |

### (c) Economic sector concentrations

| | Assets | Liabilities | |
|---|---|---|---|
| | Gross loans, advances and financing RO'000 | Deposits from customers RO'000 | Contingent Liabilities RO'000 |
| **31 December 2014** | | | |
| Personal | **1,048,120** | **529,288** | **2,639** |
| International trade | **97,168** | **52,119** | **45,260** |
| Construction | **327,648** | **131,840** | **407,296** |
| Manufacturing | **230,627** | **41,999** | **55,645** |
| Wholesale and retail trade | **38,084** | **8,928** | **19,627** |
| Communication and utilities | **89,171** | **47,647** | **5,111** |
| Financial services | **122,527** | **65,474** | **105,790** |
| Government | **136,723** | **1,076,168** | **1,898** |
| Other services | **105,518** | **113,336** | **61,543** |
| Others | **146,723** | **415,380** | **11,266** |
| | **2,342,309** | **2,482,179** | **716,075** |

### (c) Economic sector concentrations (continued)

| | Assets | Liabilities | |
|---|---|---|---|
| | Gross loans, advances and financing RO'000 | Deposits from Customers RO'000 | Contingent liabilities RO'000 |
| 31 December 2013 | | | |
| Personal | 870,226 | 447,248 | 310 |
| International trade | 93,624 | 17,537 | 26,635 |
| Construction | 236,889 | 65,243 | 287,929 |
| Manufacturing | 174,020 | 22,034 | 42,739 |
| Wholesale and retail trade | 40,242 | 6,155 | 13,571 |
| Communication and utilities | 133,205 | 22,381 | 822 |
| Financial services | 119,166 | 30,572 | 18,659 |
| Government | 126,931 | 802,103 | 5,430 |
| Other services | 105,147 | 126,510 | 59,670 |
| Others | 83,079 | 491,963 | 6,187 |
| | 1,982,529 | 2,031,746 | 461,952 |

### (d) Gross credit exposure

| | Total gross exposure | | Monthly average gross exposure | |
|---|---|---|---|---|
| | 2014 RO'000 | 2013 RO'000 | 2014 RO'000 | 2013 RO'000 |
| Overdrafts | **130,591** | 111,959 | **119,691** | 122,483 |
| Loans | **1,953,070** | 1,724,640 | **1,887,113** | 1,628,317 |
| Loans against trust receipts | **79,484** | 77,792 | **91,232** | 80,132 |
| Bills discounted | **10,445** | 13,099 | **10,776** | 9,647 |
| Advance against credit cards | **7,705** | 7,864 | **7,599** | 7,811 |
| Advance against receivable | **27,980** | 18,907 | **22,715** | 18,879 |
| Islamic Banking Window financing | **133,034** | 28,268 | **84,994** | 14,139 |
| **Total** | **2,342,309** | 1,982,529 | **2,224,120** | 1,881,408 |

## 35. Financial risk management (continued)

### Credit risk (continued)

### (e) Geographical distribution of exposures:

| | Sultanate of Oman RO'000 | Other countries RO'000 | Total RO'000 |
|---|---|---|---|
| **31 December 2014** | | | |
| Overdrafts | **130,591** | **-** | **130,591** |
| Loans | **1,948,054** | **5,016** | **1,953,070** |
| Loans against trust receipts | **78,950** | **534** | **79,484** |
| Bills discounted | **10,445** | **-** | **10,445** |
| Advance against credit cards | **7,705** | **-** | **7,705** |
| Others | **27,980** | **-** | **27,980** |
| Islamic Banking Window financing | **133,034** | **-** | **133,034** |
| | **2,336,759** | **5,550** | **2,342,309** |
| 31 December 2013 | | | |
| Overdrafts | 111,959 | - | 111,959 |
| Loans | 1,719,729 | 4,911 | 1,724,640 |
| Loans against trust receipts | 77,557 | 235 | 77,792 |
| Bills discounted | 13,099 | - | 13,099 |
| Advance against credit cards | 7,864 | - | 7,864 |
| Others | 18,907 | - | 18,907 |
| Islamic Banking Window financing | 28,268 | - | 28,268 |
| | 1,977,383 | 5,146 | 1,982,529 |

### (f) Industry type distribution of exposures by major types of credit exposures:

| | Overdrafts RO'000 | Loans RO'000 | Bills discounted RO'000 | Others RO'000 | Total RO'000 | Off balance sheet exposures RO'000 |
|---|---|---|---|---|---|---|
| **31 December 2014** | | | | | | |
| Import trade | **10,612** | **60,486** | **30** | **26,035** | **97,163** | **45,260** |
| Export trade | **5** | **-** | **-** | **-** | **5** | **-** |
| Wholesale/retail trade | **8,630** | **26,101** | **-** | **3,353** | **38,084** | **19,627** |
| Mining and quarrying | **3,917** | **39,973** | **287** | **7** | **44,184** | **2,614** |
| Construction | **51,567** | **232,238** | **1,227** | **42,616** | **327,648** | **407,296** |
| Manufacturing | **11,396** | **186,443** | **-** | **32,788** | **230,627** | **55,645** |
| Electricity, gas and water | **34** | **41,341** | **-** | **402** | **41,777** | **723** |
| Transport and communication | **120** | **47,274** | **-** | **-** | **47,394** | **4,388** |
| Financial institutions | **7,693** | **108,281** | **6,552** | **1** | **122,527** | **105,790** |
| Services | **22,333** | **81,672** | **272** | **1,241** | **105,518** | **61,543** |
| Personal loans | **4,835** | **1,035,743** | **-** | **7,542** | **1,048,120** | **2,639** |
| Agriculture and allied activities | **3,541** | **8,840** | **32** | **46** | **12,459** | **1,435** |
| Government | **-** | **136,723** | **-** | **-** | **136,723** | **1,898** |
| Non-resident lending | **-** | **5,016** | **-** | **534** | **5,550** | **-** |
| Others | **5,908** | **75,973** | **2,045** | **604** | **84,530** | **7,217** |
| | **130,591** | **2,086,104** | **10,445** | **115,169** | **2,342,309** | **716,075** |
| 31 December 2013 | | | | | | |
| Import trade | 11,385 | 56,672 | 63 | 25,213 | 93,333 | 26,540 |
| Export trade | 4 | 10 | - | 277 | 291 | 95 |
| Wholesale/retail trade | 6,682 | 25,879 | - | 7,681 | 40,242 | 13,571 |
| Mining and quarrying | 4,892 | 30,632 | 726 | 1,517 | 37,767 | 1,281 |
| Construction | 40,676 | 160,828 | 1,337 | 34,048 | 236,889 | 287,929 |
| Manufacturing | 10,048 | 138,373 | 1,499 | 24,100 | 174,020 | 42,739 |
| Electricity, gas and water | 86 | 40,556 | 118 | 182 | 40,942 | 513 |
| Transport and communication | 74 | 92,189 | - | - | 92,263 | 309 |
| Financial institutions | 2,238 | 107,303 | 9,342 | 283 | 119,166 | 18,659 |
| Services | 20,767 | 82,296 | - | 2,084 | 105,147 | 59,670 |
| Personal loans | 6,434 | 856,093 | - | 7,699 | 870,226 | 310 |
| Agriculture and allied activities | 1,677 | 5,721 | 14 | 86 | 7,498 | 814 |
| Government | - | 126,931 | - | - | 126,931 | 5,430 |
| Non-resident lending | - | 4,911 | - | 235 | 5,146 | 54 |
| Others | 6,996 | 24,514 | - | 1,158 | 32,668 | 4,038 |
| | 111,959 | 1,752,908 | 13,099 | 104,563 | 1,982,529 | 461,952 |

## 35. Financial risk management (continued)

### Credit risk (continued)

### (g) Residual contractual maturities of the portfolio by major types of credit exposures:

| | Overdrafts RO'000 | Loans RO'000 | Bills discounted RO'000 | Others RO'000 | Total RO'000 | Off balance sheet exposures RO'000 |
|---|---|---|---|---|---|---|
| **31 December 2014** | | | | | | |
| Upto 1 month | **6,530** | **21,599** | **10,445** | **7,278** | **45,852** | **288,321** |
| 1 - 3 months | **6,530** | **79,559** | **-** | **3,346** | **89,435** | **38,662** |
| 3 - 6 months | **6,530** | **96,564** | **-** | **3,290** | **106,384** | **54,167** |
| 6 - 9 months | **6,530** | **18,204** | **-** | **16,285** | **41,019** | **36,740** |
| 9 - 12 months | **6,530** | **58** | **-** | **16,556** | **23,144** | **50,748** |
| 1 - 3 years | **32,647** | **157,830** | **-** | **12,337** | **202,814** | **140,141** |
| 3 – 5 years | **32,647** | **137,140** | **-** | **24,663** | **194,450** | **87,659** |
| Over 5 years | **32,647** | **1,575,150** | **-** | **31,414** | **1,639,211** | **19,637** |
| | **130,591** | **2,086,104** | **10,445** | **115,169** | **2,342,309** | **716,075** |
| 31 December 2013 | | | | | | |
| Upto 1 month | 5,598 | 11,688 | 13,099 | 3,307 | 33,692 | 169,506 |
| 1 - 3 months | 5,598 | 137,929 | - | 1,330 | 144,857 | 35,164 |
| 3 - 6 months | 5,598 | 41,627 | - | 4,011 | 51,236 | 47,607 |
| 6 - 9 months | 5,598 | 13,947 | - | 8,275 | 27,820 | 11,163 |
| 9 - 12 months | 5,598 | 1,267 | - | 4,338 | 11,203 | 21,712 |
| 1 - 3 years | 27,990 | 168,590 | - | 19,676 | 216,256 | 95,115 |
| 3 – 5 years | 27,990 | 85,125 | - | 18,784 | 131,899 | 68,051 |
| Over 5 years | 27,989 | 1,292,735 | - | 44,842 | 1,365,566 | 13,634 |
| | 111,959 | 1,752,908 | 13,099 | 104,563 | 1,982,529 | 461,952 |

## 35. Financial risk management (continued)

### (h) Distribution of impaired loans, past due and not past due loans by type of industry:

| | Performing loans RO'000 | Non-performing loans RO'000 | General provisions held RO'000 | Specific provisions held RO'000 | Interest reserve RO'000 | Specific provision during the year RO'000 | Advances written off during the year RO'000 |
|---|---|---|---|---|---|---|---|
| **31 December 2014** | | | | | | | |
| Import trade | 89,651 | 7,512 | 896 | 1,425 | 5,786 | 12 | - |
| Export trade | 1 | 4 | 1 | 3 | 1 | - | - |
| Wholesale/retail trade | 19,090 | 18,994 | 191 | 4,959 | 14,153 | 22 | 27 |
| Mining and quarrying | 44,179 | 5 | 442 | 4 | 2 | - | - |
| Construction | 325,037 | 2,611 | 4,314 | 814 | 1,910 | 15 | 151 |
| Manufacturing | 230,135 | 492 | 2,301 | 264 | 219 | 114 | - |
| Electricity, gas and water | 41,743 | 34 | 417 | 8 | 3 | 8 | - |
| Transport and communication | 47,390 | 4 | 474 | 1 | 3 | - | - |
| Financial institutions | 122,527 | - | 1,227 | - | - | - | - |
| Services | 105,135 | 383 | 1,051 | 160 | 198 | 13 | 42 |
| Personal loans | 1,023,919 | 24,201 | 18,697 | 12,289 | 7,692 | 5,877 | 564 |
| Agriculture and allied activities | 12,450 | 9 | 125 | 7 | 2 | - | - |
| Government | 136,723 | - | 1,367 | - | - | - | - |
| Non-resident lending | 534 | 5,016 | 6 | 4,429 | 590 | - | - |
| Others | 84,033 | 497 | 840 | 175 | 158 | 43 | - |
| | 2,282,547 | 59,762 | 32,349 | 24,538 | 30,717 | 6,104 | 784 |
| 31 December 2013 | | | | | | | |
| Import trade | 86,538 | 6,795 | 866 | 1,468 | 4,998 | 34 | - |
| Export trade | 277 | 14 | 3 | 3 | 10 | - | - |
| Wholesale/retail trade | 23,206 | 17,036 | 232 | 5,002 | 12,119 | 32 | - |
| Mining and quarrying | 37,762 | 5 | 378 | 4 | 1 | 290 | - |
| Construction | 232,767 | 4,122 | 2,328 | 1,776 | 1,962 | 35 | 1 |
| Manufacturing | 173,282 | 738 | 1,733 | 244 | 260 | 75 | - |
| Electricity, gas and water | 40,941 | 1 | 410 | 1 | - | - | - |
| Transport and communication | 92,260 | 3 | 923 | 1 | 2 | - | - |
| Financial institutions | 119,166 | - | 1,192 | - | - | - | - |
| Services | 104,597 | 550 | 1,046 | 211 | 334 | 54 | 1,054 |
| Personal loans | 846,482 | 23,744 | 15,791 | 10,641 | 9,506 | 3,926 | 66 |
| Agriculture and allied activities | 7,489 | 9 | 75 | 7 | 1 | 1 | - |
| Government | 126,931 | - | 1,269 | - | - | - | - |
| Non-resident lending | 235 | 4,911 | 3 | 4,429 | 486 | - | - |
| Others | 32,137 | 531 | 634 | 139 | 131 | 108 | - |
| | 1,924,070 | 58,459 | 26,883 | 23,926 | 29,810 | 4,555 | 1,121 |

## 35. Financial risk management (continued)

**Credit risk** (continued)

### (i) Distribution of impaired loans and gross loans by geographical distribution:

| | Gross loans and financing RO'000 | Non-performing loans and financing RO'000 | General provisions held RO'000 | Specific provisions held RO'000 | Interest reserve RO'000 | Specific provision made during the year RO'000 | Advances written off during the year RO'000 |
|---|---|---|---|---|---|---|---|
| **31 December 2014** | | | | | | | |
| **Sultanate of Oman** | **2,336,759** | **54,746** | **32,343** | **20,109** | **30,127** | **6,104** | **784** |
| **Other countries** | **5,550** | **5,016** | **6** | **4,429** | **590** | **-** | **-** |
| | **2,342,309** | **59,762** | **32,349** | **24,538** | **30,717** | **6,104** | **784** |
| 31 December 2013 | | | | | | | |
| Sultanate of Oman | 1,977,383 | 53,528 | 26,880 | 19,497 | 29,324 | 4,555 | 1,121 |
| Other countries | 5,146 | 4,931 | 3 | 4,429 | 486 | - | - |
| | 1,982,529 | 58,459 | 26,883 | 23,926 | 29,810 | 4,555 | 1,121 |

### (j) Maximum exposure to credit risk without consideration of collateral held:

| | 2014 RO' 000 | 2013 RO' 000 |
|---|---|---|
| Treasury bills | **61,121** | 74,661 |
| Loans, advances and financing to banks | **91,164** | 121,370 |
| Loan, advances and financing to customers | **2,254,705** | 1,901,910 |
| Government development bonds | **88,867** | 78,705 |
| | **2,495,857** | 2,176,646 |
| **Off-balance sheet items** | | |
| Financial guarantees | **527,736** | 377,627 |
| | **3,023,593** | 2,554,273 |

At 31 December 2014, impairment losses would have increased by RO 1,121,483(2013: 1,628,368) had collateral not been obtained by the Bank for the impaired loans and advances.

## 35. Financial risk management (continued)

### Liquidity risk

Liquidity risk is the potential inability to meet the Bank's liabilities that are settled by delivering cash or another financial asset as they become due. It arises when the Bank is unable to generate cash to cope with a decline in deposits or increase in assets.

Bank's Liquidity Risk Management is governed by the Treasury Risk Policy document approved by the Board of Directors as well as the provisions of relevant CBO guidelines on liquidity risk management. The Treasury risk policy also incorporates contingency plans and measures so as the Bank is always in a position to meet all maturing liabilities as well as to fund asset growth and business operations. The contingency funding plan includes effective monitoring of the cash flows on a day to day basis, holding of tradable high quality liquid assets, which may be readily disposed off in sizeable amount etc. The Bank also has in place adequate lines of credit from both local and international Banks to meet any unforeseen liquidity requirements.

The Bank monitors its liquidity risk through cash flow approach and stock approach. Under cash flow approach Bank generates Maturity of Assets and Liabilities (MAL) report which captures all the maturing assets and liabilities into various pre-set time buckets ranging from one month to five years. The mismatches in various time buckets indicate liquidity gap and Bank strictly adheres to the CBO set limit of 15% of cumulative liabilities (outflows) on mismatches (liquidity gaps) in time buckets upto one year. In addition, the Bank has also set up internal limit on mismatches in time buckets beyond one year. Under stock approach, Bank monitors the liquidity risk through liquidity ratios, which portrays the liquidity available at the reporting date.

Treasury department of the Bank controls and monitors the liquidity risk and ensures that the Bank is not exposed to undue liquidity risk and at the same time make optimum use of its funds. Middle office in Risk Management Division also monitors the liquidity position of the Bank and provide the liquidity gap to Treasury Department to meet liquidity gaps.

### Maturity profile of assets and liabilities

| | Due on demand and up to 30 days RO'000 | More than 1month to 6 months RO'000 | More than 6 months to 12 months RO'000 | More than 1 year to 5 years RO'000 | Over 5 years RO'000 | Total RO'000 |
|---|---|---|---|---|---|---|
| **31 December 2014** | | | | | | |
| Cash and balances with Central Bank of Oman | 583,870 | - | - | - | 500 | 584,370 |
| Loans and advances to banks | 17,683 | 47,446 | 18,381 | 7,654 | - | 91,164 |
| Loans and advances to customers | 174,626 | 338,998 | 147,198 | 513,580 | 1,080,303 | 2,254,705 |
| Available-for-sale Investments | - | - | 16,688 | 10,198 | - | 26,886 |
| Held-to-maturity Investments | 5,128 | 55,993 | 25,778 | 50,565 | 12,524 | 149,988 |
| Intangible asset | - | - | - | - | 2,383 | 2,383 |
| Property and equipment | - | - | - | - | 9,683 | 9,683 |
| Other assets | 4,149 | 54,399 | 9,318 | 1,396 | 5,686 | 74,948 |
| **Total assets** | 785,456 | 496,836 | 217,363 | 583,393 | 1,111,079 | 3,194,127 |
| Due to banks | 59,620 | 76,893 | - | 38,500 | - | 175,013 |
| Deposits from customers | 193,621 | 405,455 | 460,548 | 652,275 | 770,280 | 2,482,179 |
| Other liabilities | 21,440 | 55,432 | 10,446 | 13,646 | 6,778 | 107,742 |
| Subordinated loans | - | - | - | 75,000 | 28,875 | 103,875 |
| Shareholders' equity | - | 40,453 | - | - | 284,865 | 325,318 |
| **Total liabilities and shareholders' equity** | 274,681 | 578,233 | 470,994 | 779,421 | 1,090,798 | 3,194,127 |

## 35. Financial risk management (continued)

### Liquidity risk (continued)

### Maturity profile of assets and liabilities (continued)

| | Due on demand and up to 30 days RO'000 | More than 1month to 6 months RO'000 | More than 6 months to 12 months RO'000 | More than 1 year to 5 years RO'000 | Over 5 years RO'000 | Total RO'000 |
|---|---|---|---|---|---|---|
| **31 December 2013** | | | | | | |
| Cash and balances with Central Bank of Oman | 345,258 | - | - | - | 500 | 345,758 |
| Loans and advances to banks | 44,778 | 54,001 | 13,101 | 9,490 | - | 121,370 |
| Loans and advances to customers | 177,818 | 270,857 | 75,957 | 468,683 | 908,595 | 1,901,910 |
| Available-for-sale Investments | - | - | 14,635 | 10,000 | - | 24,635 |
| Held-to-maturity Investments | 20,511 | 54,150 | 20,662 | 45,496 | 12,547 | 153,366 |
| Intangible asset | - | - | - | - | 2,780 | 2,780 |
| Property and equipment | - | - | - | - | 10,903 | 10,903 |
| Other assets | 32,905 | 7,152 | 1,468 | 15 | 3,117 | 44,657 |
| Total assets | 621,270 | 386,160 | 125,823 | 533,684 | 938,442 | 2,605,379 |
| Due to banks | 66,046 | 40,288 | - | - | - | 106,334 |
| Deposits from customers | 193,575 | 424,962 | 403,383 | 450,323 | 559,503 | 2,031,746 |
| Other liabilities | 51,008 | 16,695 | 3,017 | 16,305 | 1,667 | 88,692 |
| Subordinated loans | - | - | - | 75,000 | - | 75,000 |
| Shareholders' equity | - | 58,407 | - | - | 245,200 | 303,607 |
| Total liabilities and shareholders' equity | 310,629 | 540,352 | 406,400 | 541,628 | 806,370 | 2,605,379 |

## Market risk

Market risk includes currency risk, interest rate risk and equity price risk.

### (a) Currency risk

The Bank is exposed to currency risk through its transactions in foreign currencies. The major foreign currency to which the Bank is exposed is the US Dollar which is effectively pegged to Rial Omani. The Bank finances a significant portion of its financial assets in the same currencies as the relevant measurement currencies to mitigate its foreign currency risk.

The Bank's transactional exposures give rise to foreign currency gains and losses that are recognised in the statement of income. The Bank ensures that its net exposure is kept to an acceptable level by buying and selling foreign currencies at spot rates when considered appropriate. Foreign exchange risk is computed on the average of the sum of net short positions or net long positions, whichever is higher of the foreign currency positions held by the Bank. The foreign currency exposures are given below:

### Foreign currency exposures

| | 2014 RO'000 | 2013 RO'000 |
|---|---|---|
| Net assets denominated in US Dollars | **47,511** | 56,229 |
| Net assets denominated in other foreign currencies | **2,013** | 2,090 |
| | **49,524** | 58,319 |

### (b) Interest rate risk

The Bank's operations are subject to the risk of interest rate fluctuations to the extent that interest-earning assets and interest-bearing liabilities are reset at different times. Risk management activities are aimed at optimising net interest income, given market interest rate levels, consistent with the Bank's business strategies. The Bank manages mismatches by following policy guidelines and reduces risk by matching the reprising of assets and liabilities. Details relating to re-pricing mismatches and the interest rate risk thereon are placed to the ALCO in its regular meetings and also to the Risk Management Committee of the Board. Impact on earnings due to interest rate risk in the banking book is as follows:

### Impact on earnings due to interest rate risk in the banking book

| | + or – 1% | | + or – 2% | |
|---|---|---|---|---|
| | 2014 RO'000 | 2013 RO'000 | 2014 RO'000 | 2013 RO'000 |
| Omani Rials | **10,031** | 8,258 | **20,061** | 16,516 |
| US Dollars | **1,830** | 2,064 | **3,660** | 4,128 |
| Others currencies | **181** | 201 | **361** | 402 |

## 35. Financial risk management (continued)

### Market risk (continued)

### (b) Interest rate risk (continued)

### Interest rate sensitivity gap

Sensitivity to interest rates arises from mismatches in the period to repricing of assets and that of the corresponding liability. The Bank manages these mismatches by following policy guidelines and reduces risk by matching the repricing of assets and liabilities.

| | Effective average interest rate % | Due on demand and within 30 days RO'000 | Due within 1 to 6 months RO'000 | Due within 7 to 12 months RO'000 | Due within 1 to 5 years RO'000 | Due after 5 years RO'000 | Non-interest bearing RO'000 | Total RO'000 |
|---|---|---|---|---|---|---|---|---|
| **31 December 2014** | | | | | | | | |
| Cash and balances with Central Bank of Oman | 0.13% | 310,000 | - | - | - | 500 | 273,870 | 584,370 |
| Loans, advances and financing to banks | 1.1% | 28,950 | 62,214 | - | - | - | - | 91,164 |
| Loans, advances and financing to customers | 5.3% | 174,626 | 338,998 | 147,198 | 513,580 | 1,080,303 | - | 2,254,705 |
| Available-for-sale investments | 5.0% | - | - | - | 10,198 | - | 16,688 | 26,886 |
| Held-to-maturity investments | 1.9% | 5,128 | 55,993 | 25,778 | 50,565 | 12,524 | - | 149,988 |
| Intangible asset | | - | - | - | - | - | 2,383 | 2,383 |
| Property and equipment | | - | - | - | - | - | 9,683 | 9,683 |
| Other assets | | - | - | - | - | - | 74,948 | 74,948 |
| **Total assets** | | 518,704 | 457,205 | 172,976 | 574,343 | 1,093,327 | 377,572 | 3,194,127 |
| Due to banks | 0.7% | 58,822 | 26,843 | 88,550 | - | - | 798 | 175,013 |
| Deposits from customers | 1.4% | 64,208 | 238,001 | 472,624 | 570,461 | 34,821 | 1,102,064 | 2,482,179 |
| Other liabilities | | - | - | - | - | - | 107,742 | 107,742 |
| Subordinated loan | 5.3% | - | - | - | 75,000 | 28,875 | | 103,875 |
| Shareholders' equity | | - | 40,453 | - | - | - | 284,865 | 325,318 |
| Total liabilities and shareholders' equity | | 123,030 | 305,297 | 561,174 | 645,461 | 63,696 | 1,495,469 | 3,194,127 |
| **On-balance sheet gap** | | 395,674 | 151,908 | (388,198) | (71,118) | 1,029,631 | (1,117,897) | - |
| **Cumulative interest sensitivity gap** | | 395,674 | 547,582 | 159,384 | 88,266 | 1,117,897 | - | - |

## 35. Financial risk management (continued)

### (b) Interest rate risk (continued)

### Interest rate sensitivity gap (continued)

| | Effective average interest rate % | Due on demand and within 30 days RO'000 | Due within 1 to 6 months RO'000 | Due within 7 to 12 months RO'000 | Due within 1 to 5 years RO'000 | Due after 5 years RO'000 | Non-interest bearing RO'000 | Total RO'000 |
|---|---|---|---|---|---|---|---|---|
| 31 December 2013 | | | | | | | | |
| Cash and balances with Central Bank of Oman | 0.13% | 190,000 | - | - | - | 500 | 155,258 | 345,758 |
| Loans & financing advances to banks | 1.2% | 44,778 | 58,804 | 17,788 | - | - | - | 121,370 |
| Loans and advances to customers | 5.5% | 321,524 | 809,613 | 46,432 | 385,401 | 338,940 | - | 1,901,910 |
| Available-for-sale investments | | - | - | - | - | - | 24,635 | 24,635 |
| Held-to-maturity investments | 1.7% | 20,511 | 54,150 | 20,662 | 45,496 | 12,547 | - | 153,366 |
| Intangible asset | | - | - | - | - | - | 2,780 | 2,780 |
| Property and equipment | | - | - | - | - | - | 10,903 | 10,903 |
| Other assets | | - | - | - | - | - | 44,657 | 44,657 |
| Total assets | | 576,813 | 922,567 | 84,882 | 430,897 | 351,987 | 238,233 | 2,605,379 |
| Due to banks | 0.9% | 65,449 | 40,288 | - | - | - | 597 | 106,334 |
| Deposits from customers | 1.7% | 529,275 | 238,469 | 345,684 | 396,848 | 5,018 | 516,452 | 2,031,746 |
| Other liabilities | | - | - | - | - | - | 88,692 | 88,692 |
| Subordinated loan | 5.4% | - | - | - | 75,000 | - | | 75,000 |
| Shareholders' equity | | - | 58,407 | - | - | - | 245,200 | 303,607 |
| Total liabilities and shareholders' equity | | 594,724 | 337,164 | 345,684 | 471,848 | 5,018 | 850,941 | 2,605,379 |
| On-balance sheet gap | | (17,911) | 585,403 | (260,802) | (40,951) | 346,969 | (612,708) | - |
| Cumulative interest sensitivity gap | | (17,911) | 567,492 | 306,690 | 265,739 | 612,708 | - | - |

### (c) Equity risk

Bank is exposed to the volatility in the prices of the securities held under equity portfolio. Equity investments held are for strategic/long term rather than for trading purposes and hence, Bank does not hold trading positions in equity investments. However, Bank's portfolio is marked to market on regular basis and the difference in the book value and market value are adjusted against investment revaluation reserve in shareholder's equity and for impaired investments to statement of income.

Further, Bank also conducts stress testing and sensitivity analysis to take an informed decision on equity risk exposure.

If equity price for listed shares had been 5% lower:

## 35. Financial risk management (continued)

### Market risk (continued)

If there is adverse impact of 5% on equity portfolio, the value of the portfolio may decrease by RO 707,625 . (2013: decrease by RO 598,015).

If equity price for unlisted shares had been 5% lower:

The financial statements include holdings in unlisted shares which are measured at fair value. Fair value is estimated using either Net Asset Value (NAV) provided by the fund managers or book value per share of the investee company. If the estimation were 5% lower / higher while all other variables were held constant, the carrying amount of the shares would decrease / increase by RO 126,793(2013: decrease / increase by RO 133,710).

### Operational risk

Operational risk is the deficiencies in information systems/internal controls or uncontrollable external events leading to financial/ non-financial losses for the Bank. The risk is associated with human error, systems failure and inadequate procedures or control and external causes. As per the Basel Committee on Banking Supervision (BCBS), operational risk is the risk of losses resulting from inadequate or failed internal processes, people and systems or from external events. Operational risk includes legal risk but excludes strategic and reputational risk.

The Bank has detailed policies and procedures that are regularly updated to ensure that a sound internal control environment exists. Risk Management Committee (RMC), a sub-committee of the Board, drives the implementation of the risk management framework, approved by the Board, at the apex level. The RMC ensure that the risk policies developed clearly spell out the quantitative prudential limits on various segments of the Bank's operations and also ensures implementation of Central Bank of Oman's guidelines on Risk Management/ Basel II/Basel III and internationally accepted best practices in the area of risk management including Operational risk management. Management Risk Committee (MRC), comprising of Senior Management of the Bank, precedes RMC in reviewing, evaluating and monitoring of operational risk. Business Units are responsible for management of operational risks within their respective scope of duties. In the financial year 2014, the Bank's operational risks were well controlled and losses from operational risks were kept at low level. Trained and competent staff oversees the various operational functions of the Bank.

Taking the New Capital Accord Implementation as an opportunity, the Bank has developed a comprehensive operational risk management framework comprising of the Operational Risk Management (ORM) policy, Risk Control and Self-Assessment, Key Risk Indicator, Loss Data Management (LDM) Framework. The ORM policy of the Bank provides the ORM framework which includes ORM components, management process, measurement process and governance, roles and responsibilities. The Bank has also set up Operational Risk Management Software to aid assessment of operational risk as well as collection and analysis of operational losses and key risk indicators.

The Risk Control and Self-Assessment (RCSA) framework enables the Bank to identify the operational weaknesses in the process and procedures by conducting self-assessment workshops. A team of experts in various departments assess the operational weaknesses in various processes and its likely impact on the Bank. RMD in association with business units has been able to complete the RCSA exercise for all the departments and branches of the conventional banking. During RCSA exercise, processes in various departments were reviewed from operational risk point of view and wherever high risk events were identified, the extant controls were reviewed. With the completion of the RCSA exercise, risk register has been created, which inter-alia includes inherent risk events, control effectiveness and residual risks.

The Key Risk Indicator (KRI) framework enables the Bank to identify and monitor the key risks. KRIs of all the departments in conventional banking have been identified and are being monitored on monthly basis. Loss Data Management framework lays down the procedure to identify, record and report the internal and external loss

## 35. Financial risk management (continued)

### Market risk (continued)

events. The data on operational loss is collated on regular basis and is presented to the Management and Board level committees. In order to avoid unexpected shocks to the financial position of the Bank, a reporting system on "Potential Losses" has also been introduced. Potential Loss can be defined as an operational event that has not actually crystallized into actual loss but has a potential of adversely impacting Bank's bottom-line. Operational Risk Management Unit (ORMU) in RMD is responsible for implementation, development and coordination of all the operational risk activities of the Bank, while working towards achievement of stated goals and objectives. Risk Management Division (RMD) conducts regular training programs for staff at various levels to inculcate 'risk awareness' and to spread the general 'risk management culture' in the Bank. Professional training in diversified forms is also imparted to improve the employees' risk management skills.

### Business Continuity Planning (BCP)

Business Continuity Management is the implementation and management of preventative measures, planning and preparation to ensure the Bank can continue to operate following an incident, significant unplanned event or major operational disruption. The Bank ensures that its systems and procedures are resilient to ensure business continuity through potential situations of failure. Bank has adopted Business Continuity / Disaster Recovery Plan with a view to continue business operations and critical customers services at all times both at Conventional and Maisarah. The plan addresses employee health and safety, potential disruptions from the unanticipated loss of services or infrastructure and resumption of business operations in the face of an emergency or disaster. Business Impact Analysis, Business Continuity/ Disaster Recovery testing, Awareness Programs etc. are conducted in tune with the regulatory guidelines for meeting any unforeseen circumstances. The key initiatives on the business continuity readiness included the following:

- Business Continuity Management (BCM) Steering Committee, a Management level committee has been set up and entrusted with the responsibility of overall supervision for the implementation and maintaining a sound BCM for the Bank. The committee ensures that plans formulated are implemented and tested.

- Bank maintains an alternate / Business Continuity Plan (BCP) site equipped with redundancy and contingency features to ensure business continuity for resuming critical business activities in emergent scenarios. Bank has strengthened BCP site seating capacity and infrastructure considering various worst case scenarios. Additional workspace has been created for critical business units to resume business services in the event of a disaster.

- Bank wide BCP testing exercise and Information Technology Disaster Recovery Drill is conducted to test check the resilience of technical as well as business recovery. Testing was conducted in coordination with business units to test check transaction systems using business test cases and also to test the preparedness, recovery of applications, recovery timings, assembly of key resources, functioning of equipments, coordination of business units / branches etc. The testing results along with the gaps and action taken are apprised to the risk committees at the Management and Board level.

- For the cause of human safety and security, fire drill exercises are also conducted in Head Office building. Through fire drills, the preparedness and recovery capabilities of the coordinators /floor leaders /fire wardens are tested and security procedures are reinforced.

- As part of creating awareness, specific as well as comprehensive awareness programme are also conducted to imbibe the importance of BCP amongst staff.

- The communication numbers of key persons are provided to all the staff so that they can contact the relevant person in case of emergency.

## 35. Financial risk management (continued)

### Internal Capital Adequacy Assessment Process (ICAAP):

The Bank has put in place Internal Capital Adequacy Assessment Process (ICAAP) with an objective to explain the Risk policies adopted, Risk policy principles, Target risk structure and Capital planning, the process of assessing the capital adequacy for all the three risks viz., Credit Risk, Market Risk and Operational Risk, Specific assessment procedures for all material risks like interest rate risk in banking book, reputational risk, credit concentration risk etc, the process of Internal Control Mechanism and the stress testing methodologies adopted by the Bank.

As a part of capital planning process, ICAAP provides a detailed assessment of its current capital adequacy, and also project future capital requirement to meet the regulatory capital adequacy ratios in line with approved business plans. The process covers a forward looking plan for the next 3 years. The overall framework has introduced a structured methodology for a comprehensive forward-looking assessment of capital based on the Bank's risk profile. It is also expected that the establishment of ICAAP in the Bank will facilitate the awareness

for risk sensitive topics when it comes to strategic decisions like acquisitions, launch of new products or organic growth targets. ICAAP is approved by the Board of Directors through Board Risk Committee. On a quarterly basis, reporting is done to the Board on the adequacy of capital. The Bank believes that its current and foreseen capital endowment is suitable to support its business strategy in a soothing market environment. The capital planning is reviewed on half yearly basis and the entire ICAAP document is updated at least annually for a rolling, forward-looking planning period of 3 years.

In order to determine the Bank's capability to withstand adverse conditions, in addition to the base case, scenario and sensitivity analysis is also carried out. The scenario analysis entails boom in the economy & rise in oil prices, Decline in GDP due to economic downturn or due to decline in oil prices and capital adequacy sensitivity due to increase & decrease in growth of loans and advances. Besides this, Bank also conducts stress testing to assess the potential impact of the stress situations on the Bank's earnings & capital position and enable the Bank to understand its risk profile & adjusting it in accordance with the risk appetite.

## 36. Capital risk management

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

The capital base of the Bank consists of debt, which includes borrowings disclosed in note 17, and equity attributable to shareholders of the Bank comprising issued share capital, share premium, reserves and retained earnings as disclosed in notes 18 to 21.

## 36. Capital risk management (continued)

### Capital adequacy

The ratio of equity to risk weighted assets, as formulated by the Basel II and Basel III, for the year ended 31 December 2014 is **14.05%** (2013: 14.09%).

| Capital structure | 2014 RO'000 | 2013 RO'000 |
|---|---|---|
| **Common Equity Tier (CET) I/ TIER I CAPITAL** | | |
| Paid up capital | **134,324** | 121,013 |
| Legal reserve | **35,537** | 31,492 |
| Share premium | **40,018** | 40,018 |
| Special reserve | **18,488** | 18,488 |
| Subordinated loan reserve | **41,250** | 26,250 |
| Retained earnings | **28,882** | 34,339 |
| Proposed bonus shares | **20,149** | 13,311 |
| CET I/Tier I Capital | **318,648** | 284,911 |
| Additional Tier I regulatory adjustments: | | |
| Goodwill | **(2,383)** | (2,780) |
| Negative investment revaluation reserve | **(1,634)** | (28) |
| **Total CET I/ Tier I capital** | **314,631** | 282,103 |
| **TIER II CAPITAL** | | |
| Investment revaluation reserve | **620** | 802 |
| General provision | **32,788** | 27,250 |
| Subordinated loan | **62,625** | 48,750 |
| **Total Tier II capital** | **96,033** | 76,802 |
| **Total eligible capital** | **410,664** | 358,905 |
| **Risk weighted assets** | | |
| Banking book | **2,674,461** | 2,324,129 |
| Trading book | **70,357** | 56,798 |
| Operational risk | **178,817** | 166,581 |
| Total | **2,923,635** | 2,547,508 |
| CET I/ Tier I capital | **314,631** | 282,103 |
| Tier II capital | **96,033** | 76,802 |
| Tier III capital | **-** | - |
| Total regulatory capital | **410,664** | 358,905 |
| CET I/ Tier I capital ratio | **10.76%** | 11.07% |
| Total capital ratio | **14.05%** | 14.09% |

## 37. Segmental information

The Bank is organised into three main business segments:

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

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

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

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

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

| At 31 December 2014 | Retail banking RO'000 | Corporate banking RO'000 | Treasury and investments RO'000 | Total RO'000 |
|---|---|---|---|---|
| Segment operating revenues | 61,043 | 46,894 | 2,470 | 110,407 |
| Other revenues | 7,567 | 7,758 | 6,738 | 22,063 |
| Segment operating revenues | 68,610 | 54,652 | 9,208 | 132,470 |
| Interest, Islamic Window Deposit expenses | (12,273) | (15,491) | (5,855) | (33,619) |
| Net operating income | 56,337 | 39,161 | 3,353 | 98,851 |
| Segment cost | | | | |
| Operating expenses including depreciation | (22,864) | (20,211) | (3,088) | (46,163) |
| Impairment for loans and investment net recoveries from allowance for loans impairment | (5,188) | (1,674) | (72) | (6,934) |
| Profit from operations after provision | 28,285 | 17,247 | 193 | 45,754 |
| Tax expenses | (3,279) | (2,000) | (22) | (5,301) |
| Net profit for the year | 25,006 | 15,276 | 171 | 40,453 |
| Segment assets | 1,160,090 | 1,492,117 | 629,963 | 3,282,170 |
| Less: Impairment allowance | (52,330) | (35,274) | (439) | (88,043) |
| Total segment assets | 1,107,760 | 1,456,843 | 629,524 | 3,194,127 |
| Segment liabilities | 671,636 | 1,917,840 | 279,333 | 2,868,809 |

## 37. Segmental information (continued)

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

| At 31 December 2014 | Retail banking RO'000 | Corporate banking RO'000 | Treasury and investments RO'000 | Total RO'000 |
|---|---|---|---|---|
| Segment operating revenues | 1,536 | 2,017 | 72 | 3,625 |
| Other revenues | 89 | 467 | 532 | 1,088 |
| Segment operating revenues | 1,625 | 2,484 | 604 | 4,713 |
| Unrestricted investment account holders' share of profit | (26) | (263) | (128) | (417) |
| Net operating income | 1,599 | 2,221 | 476 | 4,296 |
| Segment cost | | | | |
| Operating expenses including depreciation | (1,211) | (1,590) | (57) | (2,858) |
| Impairment allowance | (427) | (782) | - | (1208) |
| Net profit for the year | (39) | (150) | 419 | 230 |
| Segment assets | 52,091 | 85,856 | 55,339 | 193,286 |
| Less: Impairment allowance | (612) | (882) | - | (1,494) |
| Total segment assets | 51,479 | 84,974 | 55,339 | 191,792 |
| Segment liabilities | 1,797 | 91,291 | 66,277 | 159,365 |

| At 31 December 2013 | Retail banking RO'000 | Corporate banking RO'000 | Treasury and investments RO'000 | Total RO'000 |
|---|---|---|---|---|
| Segment operating revenues | 57,808 | 40,161 | 2,256 | 100,225 |
| Other revenues | 9,428 | 5,512 | 8,104 | 23,044 |
| Segment operating revenues | 67,236 | 45,673 | 10,360 | 123,269 |
| Interest expenses | (12,315) | (15,361) | (6,035) | (33,711) |
| Net operating income | 54,921 | 30,312 | 4,325 | 89,558 |
| Segment cost | | | | |
| Operating expenses including depreciation | (24,479) | (15,527) | (5,310) | (45,316) |
| Impairment for loans and investment net recoveries from allowance for loans impairment | (1,823) | (2,044) | (367) | (4,234) |
| Legal case written back | 10,355 | 13,264 | 2,510 | 26,129 |
| Profit from operations after provision | 38,974 | 26,005 | 1,158 | 66,137 |
| Tax expenses | (4,556) | (3,039) | (135) | (7,730) |
| Net profit for the year | 34,418 | 22,966 | 1,023 | 58,407 |
| Segment assets | 947,588 | 1,246,011 | 492,766 | 2,686,365 |
| Less: Impairment allowance | (36,039) | (44,580) | (367) | (80,986) |
| Total segment assets | 911,549 | 1,201,431 | 492,399 | 2,605,379 |
| Segment liabilities | 488,143 | 1,632,295 | 181,334 | 2,301,772 |

## 37. Segmental information (continued)

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

| At 31 December 2013 | Retail banking RO'000 | Corporate banking RO'000 | Treasury and investments RO'000 | Total RO'000 |
|---|---|---|---|---|
| Segment operating revenues | 98 | 56 | 34 | 188 |
| Other revenues | 18 | 74 | 88 | 180 |
| Segment operating revenues | 116 | 130 | 122 | 368 |
| Unrestricted investment account holders' share of profit | (4) | - | (11) | (15) |
| Net operating income | 112 | 130 | 111 | 353 |
| Segment cost | | | | |
| Operating expenses including depreciation | (804) | (461) | (1,005) | (2,270) |
| Impairment allowance | (185) | (100) | - | (285) |
| Net loss for the year | (877) | (431) | (894) | (2,202) |
| Segment assets | 18,302 | 10,711 | 21,292 | 50,306 |
| Less: Impairment allowance | (185) | (100) | - | (285) |
| Total segment assets | 18,117 | 10,611 | 21,292 | 50,021 |
| Segment liabilities | 5,058 | 1,095 | 7,782 | 13,935 |

## 38. Proposed dividend

The Board of Directors in their meeting held on 27 January 2015 proposed a cash dividend of 10% (2013: 14%) for the year ended 31 December 2014 amounting to RO 13.43 million (2013: RO 16.94 million) and a bonus share issue of 10% (2013: 11%) amounting to 134,324,227 shares (2013: 133,114,093 shares) of RO 0.100 each.

Subsequently, Central Bank of Oman in their approval, advised to change the dividend distribution in the form of cash dividend of 5% amounting to RO 6.7 million and a bonus share issue of 15% aggregating to amounting 201,486,332 shares of RO 0.100 each, of the share capital of the bank. A resolution to approve these dividends and the increase in share capital will be presented to the shareholders at the annual general meeting and distributions are subject to shareholders approval.

During the year, unclaimed dividend amounting to RO 6,187 (2013: RO 29,171) was transferred to the Investor's Trust Fund account as per the guidelines issued by the Capital Market Authority of Oman.

## 39. Comparative figures

Certain amounts of the prior year financial statement have been reclassified to conform with the current year's presentation except Note 36.

مَيْسَرة
MAISARAH
للخدمات المصرفية الإسلامية
Islamic Banking Services

# Maisarah Islamic Banking Services-window of BankDhofar SAOG

## Annual Report 2014

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25 YEARS BEST BANK FOR YOU

# Annual Report of Shari'a Supervisory Board

## 31st December 2014

To: General Assembly and Board of Directors of Maisarah Islamic Banking Services – Bank Dhofar (S.A.O.G)

Assalam Alaikum Wa Rahrnat Allah Wa Baeakatuh

All perfect praise be to Allah; and may Allah send blessing and peace upon the noblest of Messengers, our Prophet Muhammad, sallallahu 'alayhi wa sallam, his family and companions.

In compliance with the letter of appointment, we are required to submit the following report for the year ended 31/12/2014:

We have reviewed the principles and the contracts relating to the transactions and applications introduced by Maisarah Islamic Banking Services (MIBS) during the year ended on 31/12/2014. We have also conducted our review to form an opinion as to whether the MIBS has complied with Sharia principles and also with the specific Fatawa, rulings and guidelines issued by us.

Maisarah's management is responsible for ensuring that the Maisarah conducts its business in accordance with Sharia principle. It is our responsibility to form an independent opinion, based on our review of the operations of Maisarah, and report to you.

We conducted our review which included examining, on a test basis, of each type of transaction, the relevant documentation and procedure adopted by Maisarah.

We planned and performed our review so as to obtain all the information and explanations which we consider necessary in order to provide us with sufficient evidence to give reasonable assurance that the Maisarah has not violated Sharia principles;
In our opinion:

a) The contacts, transactions and dealings entered into by the Maisarah during the year ended 2014 that we have reviewed are in compliance with Sharia principles;

b) The allocation of profit and charging of losses relating to investment accounts conform to the basis that had been approved by us in accordance with Sharia principles;

c) Earnings that have been realized from sources or by means prohibited by Shari'a principles have been identified and segregated for disposal to charity.

We have identified the following areas where we believe there is room for further improvement by the management of Maisarah in order to follow truly the letter and spirit of the Sharia and to enhance the public's confidence in Islamic banking in general and the Maisarah in particular:

a) Although 15 training sessions on Islamic banking products and executions were conducted during the year, but still more focus in this area is needed particularly with the expansion of MIBS;

b) Public awareness programs and seminars should be conducted to create awareness of Islamic banking

c) As MIBS operations are expected to increase in 2015, therefore, management should further focus on ensuring highest standard of Sharia compliance

d) The SSB advises MIBS to actively participate in Sharia compliant social and community activities to fulfill its corporate responsibilities.

We beg Allah the almighty to grant us all the success and straight-forwardness.

Wassalam Alikum Wa Rahmat Allah Wa Barakatuh

**Sheikh Dr. Salim Bin Ali Bin Ahmed Al Dhahab**
**Chairman**

**Sheikh Dr. Mohammed Bin Ali Bin Mahmoud Al Lawati**
**Member**

**Sheikh Ahmed Bin Awadh Bin Abdul Rahman Al Hassaan**
**Member**

**Sheikh Dr. Abdullah Bin Mubarak Al Abri**
**Member**

**Sheikh Dr. Mohammad Ameen Ali Qattan**
**Member**

**Annexure (as per IBRF 2.2.2.14)**
**Fatawa Issued by the Sharia Supervisory Board of Maisarah Islamic Banking Services**

| Serial No. | Fatwa Reference Number | Fatwa Title | Executive Summary | Sharia evidence/bases |
|---|---|---|---|---|
| 1 | 1/2013 | Activities that are prohibited under Sharia and it is not allowed to be involved in it | Indicative list of activities that are prohibited by Sharia (the haram activities well known in the Islamic religion) and bank should not enter into any dealing related to them | The mentioned activities are Haram by virtue of Quran, Sunnah, Ijma'a and Qiyas |
| 2 | 2/2013 | Standards for Sharia compliant companies | The criteria for companies that is permissible to invest/deal and participate with them | AAOIFI Sharia Standard number 21 |
| 3 | 3/2013 | Murabaha to the purchase orderer | Necessary Sharia principles for Murabaha based transactions and products | AAOIFI Sharia Standard number 8 |
| 4 | 4/2013 | Diminishing Musharaka Product | Sharia pronouncement for Diminishing Musharaka product | Musharaka is permissible by virtue of Quraan, Sunnah and Ijmaa. |
| 5 | 5/2013 | Guarantee and its applications in the bank | Sharia principles for application of *Daman* and *Kafala* concept in case of bank guaranties and LCs. | AAOIFI Sharia Standards number 5 and 14 |
| 6 | 6/2013 | Home finance / Ijara Muntahiya Bil Tamlik | Sharia principles for home financing based on leasing and purchase and lease back concept | AAOIFI Sharia Standard number 9 |
| 7 | 7/2013 | Saving Accounts and Term deposit - Mudaraba | Sharia principles of Mudaraba as applied to the Saving and Term deposit accounts of Maisarah | AAOIFI Sharia Standards number 13 and 40 |
| 8 | 8/2013 | Investment Wakala – Ameen Saving Account | Sharia pronouncement for Investment wakala – Ameen saving account | AAOIFI Sharia Standard number 23 |
| 9 | 9/2013 | Investment Wakala – Ameen Term Deposit | Sharia pronouncement for Investment wakala – Ameen Term deposit investment account | AAOIFI Sharia Standard number 23 |
| 10 | 10/2013 | Mudaraba – Working capital financing | Detailed Sharia pronouncement and steps of the Mudaraba financing. | AAOIFI Sharia Standard number 13 |
| 11 | 1/2014 | Increase ratio of interest bearing debts upto 50% | Fatwa to enable companies shift to Islamic banking gradually. | AAOIFI Sharia Standard number 21 |

Disclaimer: if you further detailed information about the fatwa please refer to Maisarah web site http://www.maisarah-oman.com/

# Shari'a Supervisory Board Members

**Name of Chairman:**
Sheikh Dr. Salim bin Ali bin Ahmed Al Dhahab

**Basis of Membership:**
Chairman of Shari'a Supervisory Board

**No. of other Directorships held:** None

**Name of Member:**
Sheikh Ahmed bin Awadh bin Abdul-Rahman Al-Hassaan

**Basis of Membership:**
Member

**No. of other Directorships held:** None

**Name of Member:**
Sheikh Dr. Mohammed bin Ali bin Mohmoud Al Lawati

**Basis of Membership:**
Member

**No. of other Directorships held:** None

**Name of Member:**
Sheikh Dr. Abdullah bin Mubarak Al Abri

**Basis of Membership:**
Member

**No. of other Directorships held:** None

**Name of Member:**
Sheikh Dr. Mohammad Ameen Ali Qattan

**Basis of Membership:**
Member

**No. of other Directorships held:** None

25 YEARS BEST BANK FOR YOU

# Management Team

**Sohail Niazi**
Chief Islamic Banking Officer

**Faisal Ali Abdullah Al Tamimi**
Head of Corporate

**Ismail Jama Ismail Bait Isihaq**
Financial Controller

**Yousuf Mohammed Suleiman Al Balushi**
Head of Treasury

**Jamsheed Hamza**
Head of Retail

**Syed Muzaffar Alam**
Head of Operations

**Muhammed Abdullah Dewaya**
Head of Sharia Compliance & Audit

# Management discussion and analysis report for the year ended 31st December 2014

## Corporate Profile of Maisarah Islamic Banking Services

Maisarah, the Islamic banking window of Bank Dhofar is a full-service provider of a broad range of Sharia-compliant financial products and solutions to its customers. Maisarah is one of the fastest growing Islamic banking windows in the Sultanate of Oman with total assets of more than OMR 190 million.

Maisarah was established in March 2013, after the issuance of Royal Decree permitting the commencement of Islamic Banking in the Sultanate. The dedicated head office of Maisarah is located in Muscat (Athaibah) with three branches in Muscat, Salalah and Sohar.

Maisarah has adopted 'Bank within a Bank' model by maintaining a complete segregation of business activities form BankDhofar to provide Sharia compliant financial services for its valued customers. Under this model Maisarah offers a complete range of products and services through its dedicated team specialized in Wholesale Banking, Retail Banking, Trade Finance and Treasury.

Maisarah has a strong Sharia compliance and governance setup comprising of five members Sharia Supervisory Board, and a full-fledged Sharia Compliance & Audit department monitoring its business activities from a Sharia compliance perspective.
As a part of its strategy, Maisarah has maintained high standards of corporate governance, research and development, corporate social responsibility and customer service that have helped in winning various awards in local and international markets.

### Maisarah Wholesale Banking Group

The Wholesale Banking Group (WSB) of Maisarah offers a variety of innovative products and services to cater to financial needs of our valued clients in a Sharia compliant manner. Our dedicated team has both local and international experience that gives Maisarah an edge over the competition in terms of providing clients with professional advice and guidance at every stage of their relationship with us. Maisarah's clients include public and private sector companies, governments and quasi-governmental entities.
Key to the success of customer relationships is Maisarah's ability to timely and dynamically assess and address our clients' requirements and expectations. Professional relationship managers identify clients' needs and prepare a complete financial package, focusing on multi-product solutions and delivering high-quality service. In 2014 the WSB provided financing totaling OMR 81.3 million to its clients in its first full year of operations.
In order to provide customized financial solutions to our clients, the WSB is categorized into two segments namely Large Corporates and Mid Sector and Business Banking. Maisarah has a dedicated team for each business segment that offers banking solutions to our corporate customers covering working capital requirements, term finance, project finance and trade finance.

### Maisarah – Retail Banking Services

As a part of its strategy, the Maisarah Retail team remained focused on providing excellent customer service and launching innovative products to fulfill the needs of its customers. During the year, the retail portfolio continued its growth and registered a total financing of OMR 51.734 million.

Retail Banking Service offers a wide range of products and services with flexible features to meet the financial and investment needs of customers. During the year Maisarah continued to expand its branch network by opening one more branch in April 2014 in Sohar. Maisarah currently has three branches, one each in Muscat, Salalah and Sohar.
New asset products and product variants were added to the existing suite of Home Finance and Auto Finance solutions. In 2014, Property Finance product was launched to meet customers' property finance needs. Auto Finance options were made available to customers to finance used vehicles also. With the introduction of Goods Finance, Maisarah expanded its outreach to customers who were to finance their consumer goods purchases.

On the liability side, in addition to the previously launched Current Account, Saving Account and Fixed Deposits, Wakala deposit was also launched. Also as part of enhancing their services, the VISA Signature card was introduced for Priority Banking customers which gave the card holder not only access to many airport lounges but also priority service at branches.

In 2015 Retail team of Maisarah will continue its approach in term of expansion of branch network, asset booking, deposit mobilization and product offerings.

### Maisarah – Treasury & Investment

Maisarah Treasury continued to ensure that MIBS funds and currency positions are managed prudently as the business grew throughout the year 2014. With increased market volatility and uncertainty, Maisarah's treasury effectively managed its cash flows by adhering to internal and regulatory limits throughout its business operations with the overall objective of achieving planned growth.

Maisarah's treasury also expanded interbank relationships with offshore banks by signing bilateral Wakalah agreements. This further strengthened treasury's position in securing sources of funding to finance its asset books. Furthermore, Maisarah's treasury department launched 'Wa'ad' to cater the foreign exchange needs of its customers. Maisarah's treasury is now positioned to provide range of foreign exchange services to its customers. Maisarah's treasury team provided its clients with Shariah compliant financial tools to help manage their liquidity needs. They built their liability books by providing excellent customer service and by offering attractive rates on Mudaraba based Savings and Wakalah based Call and Term Deposit accounts.

### Product Development

Maisarah has a dedicated product development department that focuses on creatively developing new and innovative product along with enhancing the existing products through continuous research and customer feedback.  The main objective of product development is to come-up with product structures that best fits the customer requirements in the best possible manner, whilst helping Maisarah expand its business. As a result, MIBS was able to develop and successfully launch various innovative products and services expanding its market coverage.

In order to enhance the product base of Treasury Department, Wakalah (Ameen) Term Deposit and Wakalah (Ameen) Investment Accounts were launched during the year, in addition to the previously launched liability products; Current Account, Saving Account and Fixed Deposit. MIBS also developed sharia compliant alternatives for conventional forward transactions on the basis of the Wa'ad concept.

Property Finance was launched using the Diminishing Musharakah structure to meet the customer's requirement of buying ready property, construction, purchase of land, renovation and extension of existing properties. Bank also launched the Goods Finance product based on the Islamic structure of Murabaha to finance customer's requirement for purchase of goods for personal use.
As an ongoing activity of process improvement and product enhancement, the Auto Finance product was enhanced to enable customers of financing the purchase of used cars. Product development efforts will continue to play an important role in providing best customer experience through development and launch of innovative products and services.

### Sharia Supervisory Board

Maisarah's Sharia Supervisory Board (SSB), with the aim of upholding the highest Sharia standards held regular meetings during the year under the Chairmanship of Sheikh Dr. Salim bin Ali bin Ahmed Al Dhahab, and membership of Sheikh Dr. Mohammed bin Ali bin Mahmoud Al Lawati, Sheikh Ahmed bin Awadh bin Abdul-Rahman Al-Hassaan, Sheikh Dr. Abdullah bin Mubarak Al Abri, Sheikh Dr. Mohammad Ameen Ali Qattan. The SSB reviewed and approved all products, services, policies, procedures and manuals to ensure ongoing sharia compliance and supervisory guidance. The SSB has been fulfilling its responsibility of playing an important role in ensuring Sharia governance in line with CBO Islamic Banking Regulatory Framework (IBRF) and industry best practices with the help of Sharia Compliance and the Audit Department. The respected members of the SSB also attended high level conference of AAOIFI.

### Sharia Compliance and Audit Department

In order to ensure that all the business operations conducted by Maisarah are in-line with the Sharia principles, a full-fledged Sharia Compliance and Audit department is working under the supervision of Sharia Supervisory Board (SSB). To implement Sharia controls and ensure highest standards of Sharia compliance, the Sharia department works closely with all departments and management within Miasarah to ensure all activities, operations and transactions are conducted in accordance with Sharia rules, principles and IBRF guidelines. As part of its role, the Sharia department monitors and audits all the transactions and activities of Maisarah branches in addition to Corporate, Treasury, Trade Finance, Operations, Finance and Risk Management Departments. The profit distribution and service level agreements with Bank Dhofar are also reviewed and audited by the Sharia Compliance and audit departments.

Furthermore, Maisarah has entered into an engagement with an External Sharia Auditor that conducted a third party independent Sharia audit and review to ensure highest standards of Sharia compliance are maintained within Maisarah. The Sharia Compliance department is actively involved in Islamic banking and product training of staff, management and other stakeholders overseeing all training plans and schedules.

### Maisarah Operations & Support Team

Maisarah Operations & Support Team (MOST) functions as the infrastructure support provider for the operations of Maisarah Islamic Banking Services. This team consists of various functions that include:

- Operations
- Credit Administration
- Trade Finance
- Policies and Procedures

MOST facilitates all operations of Maisarah to allow business units to offer best and efficient services to customers, and continuously works on streamlining and re-engineering the processes to ensure that operational risks are minimized while enhancing the operational efficiencies to execute and process the transactions on day to day basis. MOST also plays an important implementation of systems and procedures to automate its activities to fulfill its goal of providing best customer experience through state of the art infrastructure support.

### Future Plans of Maisarah

Maisarah Plans for 2015 include:

- Launching new products and services to fulfill customers' needs and gain market share
- Enhancing customer experience by providing internet and mobile banking services
- Enhancing call center capabilities to provide around the clock exceptional customer service
- Opening more branches across Oman to widen the network and increase customer and market reach
- Increase awareness regarding Islamic Finance through seminars, workshops & corporate events

### Maisarah - Financial Performance

Since its operations, Maisarah has successfully achieved the total asset portfolio of OMR 191.793 million, including net financing of OMR 131.540 Million and Sukuk investment of OMR 10.198 million at end of year 2014. Customer deposits have reached OMR 97.008 million at the end of 2014.
A brief analysis of our Financing portfolio as at December 31, 2014 period is as follows:

| Particulars | OMR in Million | |
|---|---|---|
| | 2014 | 2013 |
| Murabaha receivables | 20.6 | 0.2 |
| Mudaraba financing | 2.3 | - |
| Diminishing Musharaka financing | 80.7 | 10.4 |
| Ijarah Muntahia Bittamleek | 29.4 | 17.6 |
| **Gross Financing to customers** | **133.0** | **28.2** |
| Less: Allowance for impairment | (1.5) | (0.3) |
| **Net Financing** | **131.5** | **27.9** |

As at 31 December 2014 non – performing financing has been reported as Nil (2013: Nil).
Customer deposits of MIBS at the end of 2014 comprises of the following:

| Particulars | OMR in Million | |
|---|---|---|
| | 2014 | 2013 |
| Current accounts | 14.9 | 2.5 |
| Margin accounts | 0.2 | - |
| Saving accounts | 9.1 | 1.1 |
| Term deposits | 72.8 | 0.02 |
| **Total customer deposits** | **97.0** | **3.62** |

## Assigned capital

MIBS started its operations with the assigned capital of OMR 12.5 million. During 2014, additional capital of OMR 12.5 million has been assigned from Banks' core capital resulting in the total assigned capital of OMR 25 million.
Income Statement

| Particulars | OMR in Million | |
|---|---|---|
| | 2014 | 2013 |
| Net Financing income | 3.7 | 0.2 |
| Fees, commissions & other income | 0.6 | 0.0 |
| Operating Income | 4.3 | 0.3 |
| Total operating costs | (2.9) | (2.2) |
| Net operating profit / (loss) | 1.4 | (1.9) |
| Impairment allowance | (1.2) | (0.2) |
| Net profit / (loss) before tax | 0.2 | (2.2) |

During the year 2014, Maisarah earned a total profit income of OMR 4.13 million from Murabaha, Ijarah Muntahia Bittamleek, Diminishing Musharaka, Mudaraba, Wakala placement and financial asset at fair value through equity. During the reporting period Maisarah became profitable and reported the net profit of OMR 0.20 million. This includes other income of OMR 0.58 Million and operating cost OMR 2.86 Million. Further, an amount of OMR 1.21 Million was provided during the period as a general provision.

## Maisarah - Future Prospect

The year 2015 is expected to be a challenging year as the competition in Islamic banking sector will continue to increase. Maisarah plans to distinguish itself from competition by focusing on providing outstanding customer service, developing and launching new products and investing in technology to provide the best customer service experience in timely and convenient manner.

# Financial statements

31st December 2014



25 YEARS BEST BANK FOR YOU

Building a better working world

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C.R. No. 1368095
P. R. No. MH/4

**INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF Bank Dhofar SAOG (the "Bank")**

We have audited the accompanying statement of financial position of Maisarah Islamic Banking Services (the "Islamic Window") as of 31 December 2014, and the related statements of income, changes in owners' equity, sources and uses of charity fund and cash flows for the year then ended 31 December 2014, 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 2014, the results of its operations, changes in owner's equity, sources and uses of charity fund and cash flows for the year then ended 31 December 2014 in accordance with the Shari'a Rules and Principles as determined by the Shari'a Supervisory Board of the Islamic Window and the Financial Accounting Standards issued by AAOIFI.

**Other matter**

The financial statements of the Islamic Window for the year ended 31 December 2013 were audited by another auditor who expressed an unmodified opinion on those statements on 29 January 2014.

Ernst & Young

11 March 2015
Muscat

## Statement of Financial Position

As on 31 December 2014

| 2014 USD | 2013 USD | | Note | 2014 RO | 2013 RO |
|---|---|---|---|---|---|
| | | **Assets** | | | |
| **115,611,854** | 7,867,036 | Cash and balances with Central Bank of Oman | 5 | **44,510,564** | 3,028,809 |
| **538,756** | 20,000,000 | Due from banks and financial institutions | 6 | **207,421** | 7,700,000 |
| **52,758,699** | 602,140 | Murabaha receivables – net | 7 | **20,312,099** | 231,824 |
| **5,860,184** | - | Mudaraba financing – net | 8 | **2,256,171** | - |
| **207,427,283** | 26,817,626 | Diminishing Musharaka financing | 9 | **79,859,504** | 10,324,786 |
| **26,487,013** | 25,974,026 | Financial assets at fair value through equity | 10 | **10,197,500** | 10,000,000 |
| **75,618,125** | 45,262,314 | Ijarah Muntahia Bittamleek – net | 11 | **29,112,978** | 17,425,991 |
| **2,744,314** | 2,799,512 | Property and equipment – net | 12 | **1,056,561** | 1,077,812 |
| **11,116,943** | 597,652 | Other assets | 13 | **4,280,023** | 230,096 |
| **498,163,171** | 129,920,306 | **Total assets** | | **191,792,821** | 50,019,318 |
| | | **Liabilities, equity of unrestricted investment account holders and owners' equity** | | | |
| | | **Liabilities** | | | |
| **124,935,065** | 78,441,558 | Due to Head office and other banks | 14 | **48,100,000** | 30,200,000 |
| **44,716,187** | 8,537,761 | Qard Hasan from Head office | 15 | **17,215,732** | 3,287,038 |
| **188,896,104** | - | Customer Wakala deposits | | **72,725,000** | - |
| **38,694,125** | 6,602,979 | Current accounts | | **14,897,238** | 2,542,147 |
| **16,622,137** | 6,642,522 | Other liabilities | 16 | **6,399,523** | 2,557,371 |
| **413,863,618** | 100,224,820 | **Total liabilities** | | **159,337,493** | 38,586,556 |
| **23,974,358** | 2,948,429 | **Equity of unrestricted investment account holders** | 17 | **9,230,128** | 1,135,145 |
| | | **Owners' equity** | | | |
| **64,935,065** | 32,467,532 | Capital | 18 | **25,000,000** | 12,500,000 |
| **512,987** | - | Reserves | | **197,500** | - |
| **(5,122,857)** | (5,720,475) | Accumulated losses | | **(1,972,300)** | (2,202,383) |
| **60,325,195** | 26,747,057 | **Total owners' equity** | | **23,225,200** | 10,297,617 |
| **498,163,171** | 129,920,306 | **Total liabilities, equity of unrestricted investment account holders and owners' equity** | | **191,792,821** | 50,019,318 |
| **42,089,852** | 7,766,000 | **Contingent liabilities** | 25 | **16,204,593** | 2,989,910 |

The financial statements were approved by the Board of Directors on 27 January 2015 and signed on its behalf by:

Chairman

Chief Islamic Banking Officer

The notes on pages 191 to 220 form an integral part of these financial statements.
The independent auditor's report is set forth on page 185.

## Income Statement

For the year ended 31 December 2014

| 2014 USD | 2013 USD | | Note | 2014 RO | 2013 RO |
|---|---|---|---|---|---|
| | | **Income** | | | |
| **10,545,663** | 625,943 | Income of investment and financings | 20 | **4,060,080** | 240,988 |
| **186,623** | 89,457 | Income on Wakala placements | | **71,850** | 34,441 |
| **10,732,286** | 715,400 | | | **4,131,930** | 275,429 |
| | | **Less:** | | | |
| **(66,270)** | (11,922) | Return on unrestricted investment account holders | | **(25,514)** | (4,590) |
| **(682,257)** | - | Return on customer Wakala deposits | | **(262,669)** | - |
| **(333,857)** | (27,634) | Return on interbank Wakala deposit | | **(128,535)** | (10,639) |
| **(1,082,384)** | (39,556) | | | **(416,718)** | (15,229) |
| **9,649,902** | 675,844 | **Maisarah's share in income from investment as a Mudarib and Rabul Maal** | | **3,715,212** | 260,200 |
| **1,444,257** | 241,135 | Revenue from banking services | | **556,039** | 92,837 |
| **64,410** | 691 | Foreign exchange gain – net | | **24,798** | 266 |
| **11,158,569** | 917,670 | **Total revenue** | | **4,296,049** | 353,303 |
| **-** | (1,287,057) | **Pre-operating expenses** | 21 | **-** | (495,517) |
| **(4,936,309)** | (2,748,395) | **Staff costs** | 22 | **(1,900,479)** | (1,058,132) |
| **(1,970,232)** | (1,553,036) | **General and administrative expenses** | 23 | **(758,539)** | (597,919) |
| **(3,138,509)** | (740,932) | **Impairment allowance** | 7,8,9 &11 | **(1,208,326)** | (285,259) |
| **(515,901)** | (308,725) | **Depreciation and amortization** | 12 | **(198,622)** | (118,859) |
| **(10,560,951)** | (6,638,145) | **Total expenses** | | **(4,065,966)** | (2,555,686) |
| **597,618** | (5,720,475) | **Net profit / (loss) for the period before taxation** | | **230,083** | (2,202,383) |

The notes on pages 191 to 220 form an integral part of these financial statements.

The independent auditor's report is set forth on page 185.

* 2013 is first year of operation of the Window, accordingly, the comparative financial information included in financial statements cover the period from 3 March 2013 to 31 December 2013

## Statement of changes in owners' equity

For the year ended 31 December 2014

| | 31 December 2014 | | | |
|---|---|---|---|---|
| | Capital RO | Investment Revaluation Reserve RO | Accumulated losses RO | Total RO |
| **Balance at 1 January 2014** | 12,500,000 | - | (2,202,383) | 10,297,617 |
| Addition of capital during the year | 12,500,000 | - | - | 12,500,000 |
| Cumulative changes in fair value Investment | - | 197,500 | - | 197,500 |
| Net profit for the period | - | - | 230,083 | 230,083 |
| **Balance as at 31 December 2014** | 25,000,000 | 197,500 | (1,972,300) | 23,225,200 |

| | 31 December 2014 | | | |
|---|---|---|---|---|
| | USD | USD | USD | USD |
| **Balance at 1 January 2014** | 32,467,532 | - | (5,720,475) | 26,747,057 |
| Addition of capital during the year | 32,467,533 | - | - | 32,467,533 |
| Cumulative changes in fair value Investment | - | 512,987 | - | 512,987 |
| Net profit for the period | - | - | 597,618 | 597,618 |
| **Balance as at 31 December 2014** | 64,935,065 | 512,987 | (5,122,857) | 60,325,195 |

| | 31 December 2013 | | | |
|---|---|---|---|---|
| | Capital RO | Investment Revaluation Reserve RO | Accumulated losses RO | Total RO |
| Capital | 12,500,000 | - | - | 12,500,000 |
| Net (loss) for the period | - | - | (2,202,383) | (2,202,383) |
| Balance as at 31 December 2013 | 12,500,000 | - | (2,202,383) | 10,297,617 |

| | 31 December 2013 | | | |
|---|---|---|---|---|
| | USD | USD | USD | USD |
| Capital | 32,467,532 | - | - | 32,467,532 |
| Net (loss) for the period | - | - | (5,720,475) | (5,720,475) |
| Balance as at 31 December 2013 | 32,467,532 | - | (5,720,475) | 26,747,057 |

The notes on pages 191 to 220 form an integral part of these financial statements.
The independent auditors' report is set forth on page 185.

## Statement of sources and uses of charity fund

For the year ended 31 December 2014

| 2014 USD | 2013 USD | | 2014 RO | 2013 RO |
|---|---|---|---|---|
| | | **Sources of charity funds** | | |
| - | - | Undistributed charity funds at beginning of the year | - | - |
| 145 | - | Sharia Non-compliant income | 56 | - |
| - | - | Donations | - | - |
| 145 | - | Total sources of funds during the year | 56 | - |
| | | **Uses of charity funds** | | |
| - | - | University and school students | - | - |
| - | - | Philanthropic societies | - | - |
| - | - | Aid to needy families | - | - |
| - | - | Total uses of funds during the year | - | - |
| 145 | - | Undistributed charity funds at end of the year | 56 | - |

The notes on pages 191 to 220 form an integral part of these financial statements.

The independent auditors' report is set forth on page 185.

## Statement of cash flows

For the year ended 31 December 2014

| 2014 USD | 2013 USD | | 2014 RO | 2013 RO |
|---|---|---|---|---|
| | | **Cash flows from operating activities** | | |
| **597,618** | (5,720,475) | Net profit/(loss) for the period before taxation | **230,083** | (2,202,383) |
| | | **Adjustments for:** | | |
| **515,901** | 308,725 | Depreciation and amortization | **198,622** | 118,859 |
| **3,078,944** | 868,774 | Depreciation on Ijarah assets | **1,185,393** | 334,478 |
| **3,138,509** | 740,932 | Impairment allowance | **1,208,326** | 285,259 |
| **197** | 36 | Investment risk reserve | **76** | 14 |
| **662** | 117 | Profit equalization reserve | **255** | 45 |
| **7,331,831** | (3,801,891) | **Cash flows used in operating activities before changes in operating assets and liabilities** | **2,822,755** | (1,463,728) |
| | | **Operating assets and liabilities:** | | |
| **(52,790,688)** | (616,348) | Murabaha receivables | **(20,324,415)** | (237,294) |
| **(36,469,795)** | (46,751,060) | Ijarah Muntahia Bittamleek assets | **(14,040,871)** | (17,999,158) |
| **2,613,338** | 154,106 | Proceeds from sale in Ijarah Muntahia Bittamleek assets | **1,006,135** | 59,331 |
| **(182,618,699)** | (27,078,486) | Diminishing Musharaka financing | **(70,308,199)** | (10,425,217) |
| **(5,933,815)** | - | Mudaraba financing | **(2,284,519)** | - |
| **(269,735)** | (398,805) | Other assets | **(103,848)** | (153,540) |
| **(710,756)** | 6,642,522 | Other liabilities | **(273,641)** | 2,557,371 |
| **35,753,992** | 5,230,678 | Qard Hasan from Head Office | **13,765,287** | 2,013,811 |
| **(233,094,327)** | (66,619,284) | **Net cash used in operating activities** | **(89,741,316)** | (25,648,424) |
| | | **Cash flows from investing activities** | | |
| **-** | (25,974,026) | Purchase of financial asset at fair value through equity | **-** | (10,000,000) |
| **-** | (25,974,026) | **Net cash used in investing activities** | **-** | (10,000,000) |
| | | **Cash flows from financing activities** | | |
| **32,091,145** | 6,602,979 | Current account | **12,355,091** | 2,542,147 |
| **188,896,104** | - | Customer Wakala deposit | **72,725,000** | - |
| **404,540** | - | Margin accounts | **155,748** | - |
| **21,025,073** | 2,948,277 | Unrestricted investment account holders | **8,094,653** | 1,135,086 |
| **32,467,532** | 32,467,532 | Capital | **12,500,000** | 12,500,000 |
| **274,884,394** | 42,018,788 | **Net cash from financing activities** | **105,830,492** | 16,177,233 |
| **41,790,067** | (50,574,522) | **Cash and cash equivalents during the period** | **16,089,176** | (19,471,191) |
| **(50,574,522)** | - | **Cash and cash equivalents at the beginning of the period** | **(19,471,191)** | - |
| **(8,784,455)** | (50,574,522) | **Cash and cash equivalents at the end of the period** | **(3,382,015)** | (19,471,191) |
| | | **Cash and cash equivalents at the end of the period comprise:** | | |
| **115,611,854** | 7,867,036 | Cash and balances with CBO | **44,510,564** | 3,028,809 |
| **538,756** | 20,000,000 | Due from banks and financial institutions | **207,421** | 7,700,000 |
| **(124,935,065)** | (78,441,558) | Due to Head office and other banks | **(48,100,000)** | (30,200,000) |
| **(8,784,455)** | (50,574,522) | | **(3,382,015)** | (19,471,191) |

The notes on pages 191 to 220 form an integral part of these financial statements.

The independent auditor's report is set forth on page 185

## Notes to the financial statements
For the year ended 31 December 2014

### 1 LEGAL STATUS AND PRINCIPAL ACTIVITIES

Maisarah Islamic Banking Services ("Maisarah") was established in Sultanate of Oman as window of Bank Dhofar SAOG. Maisarah's operations commenced on 3 March 2013 and it currently operates through 3 branches in the Sultanate under the license issued by the Central Bank of Oman on 27 February 2013.

The principle activities of Maisarah is taking demand, saving and deposit accounts, providing Murabaha finance, Ijarah financing and other Shari'a compliant forms of financing as well as managing investor's money on the basis of Mudaraba or agency for a fee, providing commercial banking services and other investment activities.

Maisarah's activities are regulated by the Central Bank of Oman ("CBO") and supervised by Shari'a Supervisory Board ("SSB") comprising of five members.

### 2 BASIS OF PREPARATION

#### 2.1 Statement of compliance

The financial statements of Maisarah Islamic Banking Services are prepared in accordance with the Financial Accounting Standards ("FAS") issued by the Accounting and Auditing Organization for Islamic Financial Institutions ("AAOIFI"), the Shari'a rules and principles as determined by the SSB of Maisarah and the applicable laws and regulations issued by the CBO.

Maisarah complies with the requirements of AAOIFI, for matters for which no AAOIFI standards exist, Maisarah uses the relevant International Financial Reporting Standards ("IFRS") or International Accounting Standards ("IAS") as issued by International Accounting Standards Board ("IASB").

Statement of changes in restricted investment amount, statement of sources of funds in zakah and statement of sources and uses of funds in Qard Fund have not been presented as these are not applicable / relevant to Maisarah's operations.

#### 2.2 Basis of measurement

The financial statements are prepared on a historical cost basis, except for certain investments carried at fair value.

#### 2.3 Functional and presentation currency

Items included in Maisarah's financial statements are measured using Rials Omani ("RO") which is the currency of the primary economic environment in which Maisarah operates, rounded off to the nearest Rial Omani.

#### 2.4 Use of estimates and judgements

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

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

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

## 3 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set below have been consistently applied in dealing with items that are considered material in relation to Maisarah's financial statements to the period presented.

### 3.1 Foreign currency translations

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in income statement.

### 3.2 Investments

Equity and debt type instruments at fair value through equity

This includes all equity and debt type instruments that are not fair valued through income statement. Subsequent to acquisition, investments designated at fair value through equity are re-measured at fair value with unrealised gains or losses recognised proportionately in owners' equity and equity of unrestricted investment account holders until the investment is derecognised or determined to be impaired at which time the cumulative gain or loss previously recorded in owners' equity or equity of investment accountholders is recognised in income statement.

### 3.3 De-recognition 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 derecognized when:

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

(ii) Maisarah 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 derecognized when the obligation specified in the contract is discharged, cancelled or expired.

### 3.4 Fair value measurement principles

The fair values of quoted investments in active markets are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), Maisarah establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis and other valuation techniques commonly used by market participants.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market related rate at the reporting date for an instrument with similar terms and conditions.

### 3.5 Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, including: cash on hand, non-restricted cash deposited with the Central Bank of Oman, amounts due to / from other banks including nostro accounts.

## Notes to the financial statements

For the year ended 31 December 2014

### 3.6 Offsetting

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously in accordance with Shari'a principles and guidelines.

Income and expenses are presented on a net basis only for permitted transactions.

### 3.7 Murabaha receivables

Murabaha receivables are stated net of deferred profits and provisions for impairment.

### 3.8 Mudaraba and Musharaka investments

Mudaraba and Musharaka investments are stated at the fair value less provision for impairment.

### 3.9 Ijarah Muntahia Bittamleek assets

Ijarah Muntahia Bittamleek assets are initially recorded at cost. 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 instalments are settled.

Depreciation will be calculated as per Equal Monthly Instalment (EMI) method as per the terms agreed with customer.

### 3.10 Property and equipment

Items of property and equipment are stated at cost less accumulated depreciation and impairment loss. Depreciation is calculated so as to write off the cost of property and equipment, other than freehold land and capital work-in-progress, by equal installments over their estimated economic useful lives from the date the asset is brought into use, as follows:

| | Years |
|---|---|
| Furniture, fixtures and equipment | 3 - 7 |
| Motor vehicles | 3 - 5 |
| Computer equipment | 4 |
| Core banking system | 10 |

The assets' residual values and useful lives 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. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

Gains and losses on disposal of property and equipment are determined by reference to their carrying amount and are taken into account in determining operating profit. Repairs and renewals are charged to income statement when the expense is incurred. Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the item of property and equipment. All other expenditure is recognized in income statement as an expense when incurred.

### 3.11Equity of unrestricted investment accountholders

All unrestricted investment accounts are carried at cost plus profit and related reserves less amounts settled.

Unrestricted investment account holders' share of income is calculated based on the income generated from investment accounts after deducting Mudarib's share. Operating expenses are charged to shareholders' funds and not included in the calculation.

The basis applied by Maisarah in arriving at the unrestricted investment account holders' share of income is total income from jointly financed Islamic assets less shareholders' income. Pre-agreed profit share generated from unrestricted investment account holders is deducted as Mudarib' s share after deducting profit equalisation reserve and the remaining amount is distributed to the unrestricted investment account holders after deducting investment risk reserve.

### 3.12 Profit equalisation reserve

Maisarah appropriates certain amount in excess of the profit to be distributed to unrestricted investment accounts before taking into consideration the Mudarib share of income. This will be used to maintain a certain level of return on investment for unrestricted investment account holders.

### 3.13 Investment risk reserve

Investment risk reserves are amounts appropriated out of the income of unrestricted investment account holders, after allocating the Mudarib' s share, to cater against future losses for unrestricted investment account holders.

### 3.14 Provisions

A provision is recognised in the statement of financial position when Maisarah has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and the amount has been reliably estimated.

### 3.15 Earnings prohibited by Shari'a

All the funds mobilized and income earned by Maisarah is from Islamic sources. Maisarah is committed to avoid recognizing any income generated from non-Islamic sources. Accordingly, all non-Islamic income is credited to a charity account where Maisarah uses these funds for social welfare activities. It includes but not limited to cases/transactions classified by Shari'a as non-compliant income and approved by the SSB to be forfeited, interest paid by other banks on Nostro accounts, late payment fee received from the customer in financing and investment transaction.

### 3.16 Zakah

The responsibility of payment of zakah is on individual shareholders and investment account holders.

### 3.17 Joint and self-financed

Investments, financing and receivables that are jointly owned by Maisarah and the unrestricted investment accounts holders are classified under the caption "jointly financed" in the financial statements. Investments, financing and receivables that are financed solely by Maisarah are classified under "self-financed".

### 3.18 Funds for Maisarah

Maisarah functions with funds specifically available for Islamic Banking activities and there is no commingling of funds with conventional banking financial business.

## Notes to the financial statements
For the year ended 31 December 2014

### 3.19 Revenue recognition

3.19.1 Murabaha receivables
Where the income is quantifiable and contractually determined at the commencement of the contract, income is recognized on a time-apportioned basis over the period of the contract based on the principal amounts outstanding. Where the income from a contract is not quantifiable, it is recognized when realized. Income related to non-performing accounts is excluded from income statement.

3.19.2 Musharaka investments
Income is recognised when the right to receive payment is established or on distribution by the Musharik, whereas the losses are charged to income on their declaration by the Musharik. Income related to non-performing accounts is excluded from income statement.

3.19.3 Mudaraba investments
Income on Murdaraba financing is recognised when the right to receive payment is established or on distribution by the Mudarib, whereas the losses are charged to income on declaration by the Mudarib. Income related to non-performing accounts is excluded from income statement.

3.19.4 Ijarah Muntahia Bittamleek
Income from Ijarah Muntahia Bittamleek assets is recognised on a time-apportioned basis over the lease term, net of depreciation. Income related to non-performing Ijarah Muntahia Bittamleek assets is excluded from income statement.

3.19.5 Dividends
Dividends are recognised when the right to receive payment is established.

3.19.6 Fee and Commission income
Fee and commission income is recognised when earned.

3.19.7 Maisarah's share as a Mudarib
Maisarah's share as a Mudarib for managing unrestricted investment accounts is accrued based on the terms and conditions of the related Mudaraba agreements.

3.19.8 Income allocation
Income from jointly financed activities is allocated proportionately between unrestricted investment accounts in accordance to their pre-agreed assigned weightages and shareholders on the basis of the average balances outstanding during the year.

### 3.20 Taxation

Maisarah is Islamic Banking Window of Bank Dhofar SAOG, hence it is not taxable on a stand-alone basis as per the prevailing tax laws. Accordingly, no current tax and deferred tax has been accounted for in these financial statements.

Bank Dhofar SAOG is taxable on combined results i.e. including Maisarah's financial results, accounted for as per IFRS.

### 3.21 Employee benefits

End of service benefits are accrued in accordance with the terms of employment of Maisarah's employees at the reporting date, having regard to the requirements of the Oman Labour Law. Employee entitlements to annual leave and leave passage are recognized when they accrue to employees and an accrual is made for the estimated liability arising as a result of services rendered by employees up to the reporting date. Contributions to a defined contribution retirement plan and occupational hazard insurance for Omani employees in accordance with the Omani Social Insurances Law of 1991 and its subsequent amendments are recognized as an expense in income statement as incurred.

### 3.22 Shari'a supervisory board

All business activities, products, transactions, agreements, contracts and other relevant documents are subject to the supervision of the Shari'a Supervisory Board of Maisarah, which meets quarterly and consists of five prominent Shari'a scholars appointed by the Shareholders for a period of three years, namely:

| Sr. No. | Name | Title |
|---|---|---|
| 1 | Sheikh Dr. Salim Bin Ali Bin Ahmed Al Dhahab | Chairman |
| 2 | Sheikh Dr. Mohammed bin Ali bin Mahmoud Al Lawati | Member |
| 3 | Sheikh Ahmed bin Awadh bin Abdul-Rahman Al-Hassaan | Member |
| 4 | Sheikh Dr. Abdullah bin Mubarak Al Abri | Member |
| 5 | Sheikh Dr. Mohammad Ameen Ali Qattan | Member |

### 3.23 Trade date accounting

All "regular way" purchases and sales of financial assets are recognized on the trade date, i.e. that date Maisarah commits to purchase or sell the assets. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulations or convention in the market place.

### 3.24 Segment reporting

A segment is a distinguishable component of Maisarah that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

Maisarah currently operates only in the Sultanate of Oman. Maisarah's primary format for reporting segmental information is business segments, based upon management and internal reporting structure. Maisarah's main business segments are retail banking, corporate banking, treasury and investments.

### 3.25 Fiduciary assets

Assets held in trust or in a fiduciary capacity are not treated as assets of Maisarah in the statement of financial position.

## 4 Critical accounting judgment and key sources of estimation uncertainty

#### (a) Impairment

Management reviews its financing portfolio to assess impairment at each reporting date. In determining whether an impairment loss should be recorded in the income statement, management makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of finances before the decrease can be identified with an individual receivable in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of customers in a group that correlates with defaults on assets in the group. 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 regularly to reduce any differences between loss estimates and actual loss experience.

## Notes to the financial statements
For the year ended 31 December 2014

(b) Useful life of property and equipment and Ijarah Muntahia Bittamleek
Depreciation is charged so as to write off the cost of assets over their estimated useful lives. The calculation of useful lives is based on management's assessment of various factors such as the operating cycles, the maintenance programs, and normal wear and tear using its best estimates. Maisarah prospectively adopted EMI method as set out in note 3.9 for estimating depreciation on Ijarah Muntahia Bittamleek assets during 2014.

### 5 Cash and balances with Central Bank of Oman

| | 2014<br>RO | 2013<br>RO |
|---|---|---|
| Cash in hand | **507,828** | 269,584 |
| Balances with Central Bank of Oman | **44,002,736** | 2,759,225 |
| | **44,510,564** | 3,028,809 |

### 6 Due from banks and financial institutions

| | 2014 | | |
|---|---|---|---|
| | Self Financed<br>RO | Jointly Financed<br>RO | Total<br>RO |
| Wakala placement | - | - | - |
| Current clearing account | **207,421** | - | **207,421** |
| | **207,421** | - | **207,421** |

| | 2013 | | |
|---|---|---|---|
| | Self Financed<br>RO | Jointly Financed<br>RO | Total<br>RO |
| Wakala placement | 7,621,617 | 78,383 | 7,700,000 |
| Current clearing account | - | - | - |
| | 7,621,617 | 78,383 | 7,700,000 |

## 7 Murabaha receivables – net

| | 2014 | | |
|---|---|---|---|
| | Self- Financed RO | Jointly Financed RO | Total RO |
| Gross Murabaha receivables | **20,752,347** | **205,304** | **20,957,651** |
| Less: Unearned income | **(392,063)** | **(3,879)** | **(395,942)** |
| | **20,360,284** | **201,425** | **20,561,709** |
| Less: impairment allowance | **(247,165)** | **(2,445)** | **(249,610)** |
| | **20,113,119** | **198,980** | **20,312,099** |

| | 2013 | | |
|---|---|---|---|
| | Self- Financed RO | Jointly Financed RO | Total RO |
| Gross Murabaha receivables | 270,730 | 2,784 | 273,514 |
| Less: Unearned income | (35,851) | (369) | (36,220) |
| | 234,879 | 2,415 | 237,294 |
| Less: impairment allowance | (5,414) | (56) | (5,470) |
| | 229,465 | 2,359 | 231,824 |

## 8 Mudaraba financing – net

| | 2014 | | |
|---|---|---|---|
| | Self -Financed RO | Jointly Financed RO | Total RO |
| Mudaraba financing | **2,262,140** | **22,379** | **2,284,519** |
| Less: impairment allowance | **(28,070)** | **(278)** | **(28,348)** |
| | **2,234,070** | **22,101** | **2,256,171** |

During 2013, Mudaraba financing portfolio was RO Nil.

Mudaraba financing past due but not impaired amounts to RO Nil (2013: Nil).

## Notes to the financial statements
For the year ended 31 December 2014

### 9 Diminishing Musharaka financing - net

| | 2014 | | |
|---|---|---|---|
| | Self -Financed RO | Jointly Financed RO | Total RO |
| Diminishing Musharaka | **79,942,540** | **790,876** | **80,733,416** |
| Less: impairment allowance | **(865,351)** | **(8,561)** | **(873,912)** |
| | **79,077,189** | **782,315** | **79,859,504** |

| | 2013 | | |
|---|---|---|---|
| | Self -Financed RO | Jointly Financed RO | Total RO |
| Diminishing Musharaka | 10,319,093 | 106,124 | 10,425,217 |
| Less: impairment allowance | (99,409) | (1,022) | (100,431) |
| | 10,219,684 | 105,102 | 10,324,786 |

#### Fair value of collaterals
Upon initial recognition of Diminishing Musharaka, the fair value of collateral is based on valuation techniques commonly used for the corresponding assets. In subsequent periods, the fair value is updated by reference to market price or indexes of similar assets.

### 10 Financial asset at fair value through equity

| | 2014 | | |
|---|---|---|---|
| | Self-Financed RO | Jointly Financed RO | Total RO |
| Local un-listed sukuk | **10,097,604** | **99,896** | **10,197,500** |

| | 2013 | | |
|---|---|---|---|
| | Self-Financed RO | Jointly Financed RO | Total RO |
| Local un-listed sukuk | 9,898,204 | 101,796 | 10,000,000 |

Maisarah has invested RO 10 million in Ijarah Sukuk issued by Modern Sukuk SAOC. At 31 December 2014, the market value of the Sukuk was RO 1.975 per unit (2013: RO Nil).

## 11 Ijarah Muntahia Bittamleek – net

| | 2014 | | |
|---|---|---|---|
| | Self-Financed RO | Jointly Financed RO | Total RO |
| Cost | | | |
| At 1 January | 4,813,734 | 13,125,424 | 17,939,158 |
| Additions | 13,903,325 | 137,546 | 14,040,871 |
| Disposals | (1,266,801) | (12,533) | (1,279,334) |
| At 31 December | 17,450,258 | 13,250,437 | 30,700,695 |
| Accumulated depreciation | | | |
| At 1 January | 89,573 | 244,236 | 333,809 |
| Charge for the period | 1,173,781 | 11,612 | 1,185,393 |
| Disposals | (270,523) | (2,676) | (273,199) |
| At 31 December | 992,831 | 253,172 | 1,246,003 |
| Net book value at 31 December | 16,457,427 | 12,997,265 | 29,454,692 |
| Less: impairment allowance | (338,367) | (3,347) | (341,714) |
| **Net Ijarah Muntahia Bittamleek** | 16,119,060 | 12,993,918 | 29,112,978 |

| | 2013 | | |
|---|---|---|---|
| | Self-Financed RO | Jointly Financed RO | Total RO |
| Cost | | | |
| Additions | 17,815,933 | 183,225 | 17,999,158 |
| Disposals | (59,389) | (611) | (60,000) |
| At 31 December | 17,756,544 | 182,614 | 17,939,158 |
| Accumulated depreciation | | | |
| Charge for the period | 331,073 | 3,405 | 334,478 |
| Disposals | (662) | (7) | (669) |
| At 31 December | 330,411 | 3,398 | 333,809 |
| Net book value at 31 December | 17,426,133 | 179,216 | 17,605,349 |
| Less: impairment allowance | (177,532) | (1,826) | (179,358) |
| Net Ijarah Muntahia Bittamleek | 17,248,601 | 177,390 | 17,425,991 |

Ijarah Muntahia Bittamleek past due but not impaired is as follows:

| | 2014 | 2013 |
|---|---|---|
| Past due up to 30 days | - | 673,526 |
| Past due 30 – 60 days | - | 25,195 |
| **Total** | - | 698,721 |

25 YEARS BEST BANK FOR YOU

## Notes to the financial statements
For the year ended 31 December 2014

### 12 Property and equipment – net

| | 2014 | | | | |
|---|---|---|---|---|---|
| | Furniture , fixtures & equipment RO | Motor vehicles RO | Computer equipment RO | Capital work in progress RO | Total RO |
| Cost | | | | | |
| At 1 January | 191,935 | 18,100 | 971,325 | 15,311 | 1,196,671 |
| Additions | 93,782 | 9,652 | 66,280 | 29,875 | 199,589 |
| Disposals / Transfers | (2,992) | - | - | (20,328) | (23,320) |
| At 31 December | 282,725 | 27,752 | 1,037,605 | 24,858 | 1,372,940 |
| Accumulated depreciation | | | | | |
| At 1 January | (28,927) | (4,199) | (85,733) | - | (118,859) |
| Provided during the year | (57,691) | (8,184) | (132,747) | - | (198,622) |
| Reversal of depreciation | 1,102 | - | - | - | 1,102 |
| At 31 December | (85,516) | (12,383) | (218,480) | - | (316,379) |
| Net book value at 31 December | 197,209 | 15,369 | 819,125 | 24,858 | 1,056,561 |

| | 2013 | | | | |
|---|---|---|---|---|---|
| | Furniture , fixtures & equipment RO | Motor vehicles RO | Computer equipment RO | Capital work in progress RO | Total RO |
| Cost | | | | | |
| Additions | 191,935 | 18,100 | 971,325 | 15,311 | 1,196,671 |
| At 31 December | 191,935 | 18,100 | 971,325 | 15,311 | 1,196,671 |
| Accumulated depreciation | | | | | |
| Provided during the period | (28,927) | (4,199) | (85,733) | - | (118,859) |
| At 31 December | (28,927) | (4,199) | (85,733) | - | (118,859) |
| **Net book value at 31 December** | 163,008 | 13,901 | 885,592 | 15,311 | 1,077,812 |

## Notes to the financial statements
For the year ended 31 December 2014

### 13 Other assets

| | 2014 RO | 2013 RO |
|---|---|---|
| Ijarah rental receivables | **20,558** | 12,561 |
| Other profit receivables | **220,633** | 121,141 |
| Prepayments | **62,592** | 73,108 |
| Others | **16,197** | 23,286 |
| Acceptances | **3,960,043** | - |
| Total | **4,280,023** | 230,096 |

### 14 Due to Head office and other banks

| | 2014 RO | 2013 RO |
|---|---|---|
| Due to Head office | **25,000,000** | 22,500,000 |
| Due to other banks | **23,100,000** | 7,700,000 |
| Total | **48,100,000** | 30,200,000 |

Due to Head office and other banks comprises of Wakala deposits.

### 15 Qard Hasan from Head Office

| | 2014 RO | 2013 RO |
|---|---|---|
| Qard e Hasan from Head Office (15.1) | **5,732,877** | 3,287,038 |
| Current clearing account (15.2) | **11,482,855** | - |
| Total | **17,215,732** | 3,287,038 |

15.1 This amount represents profit-free Qard Hasan facility from Head Office to meet Maisarah's capital and operating expenditures.

15.2 This amount represents the vostro account of parent bank opened with Maisarah.

## Notes to the financial statements
For the year ended 31 December 2014

### 16 Other liabilities

| | 2014 RO | 2013 RO |
|---|---|---|
| Payables | **1,474,233** | 2,361,438 |
| Accrued expenses | **519,156** | 186,840 |
| Profit payables | **287,885** | 9,093 |
| Margins received | **155,748** | - |
| Others | **2,402** | - |
| Charity Payable | **56** | - |
| Acceptances contra | **3,960,043** | - |
| Total | **6,399,523** | 2,557,371 |

### 17 Equity of unrestricted investment accountholders

| | 2014 RO | 2013 RO |
|---|---|---|
| Saving account | **9,156,444** | 1,117,586 |
| Term deposit | **73,295** | 17,500 |
| Profit Equalisation reserve | **300** | 45 |
| Investment Risk Reserve | **89** | 14 |
| **Total** | **9,230,128** | 1,135,145 |

There is no restricted investment at reporting date.

Basis of distribution of the profit between owners' equity and unrestricted investment accountholders

The investment profits are distributed between owners' equity and unrestricted investment account holders for the period ended 31 December 2014 and 2013 as follows:

| | Percentage |
|---|---|
| Unrestricted investment account holders share | 60% |
| Mudarib' s share | 40% |

The investment risk reserve is deducted from investment account holders share after allocating the Mudarib's s share of profit as per the approved policy in order to cater against future losses of equity of unrestricted investment account holders. Investment risk reserve will revert to the investment account holders as per terms and conditions of Mudaraba contract.

The profit equalization reserve is the amount Maisarah appropriates in excess of the profit to be distributed to equity of unrestricted account holders before allocating the Mudarib share of income to maintain a certain level of return. Profit equalization reserve will revert to owner's equity and unrestricted investment accountholders as per terms and condition of Mudaraba contract. Unrestricted investment account holders funds are commingled with Maisarah's funds for investment, no priority is granted to any party for the purpose of investments and distribution of profits. The administration expenses are only charged on the Maisarah expenses.

## Notes to the financial statements
For the year ended 31 December 2014

### 18 Capital

During 2014, Head office has increased the assigned capital to RO 25 million (2013: RO 12.5 million) to Maisarah from the core paid up capital of the shareholders.

### 19 Fiduciary assets

There were no funds under management with Maisarah (2013: RO Nil).

### 20 Income of investment and financings

| | 2014 RO | 2013 RO |
|---|---|---|
| Murabaha receivables | **322,421** | 5,673 |
| Mudaraba | **83,190** | - |
| Ijarah muntahia bittamleek - net* | **1,133,463** | 91,914 |
| Diminishing Musharaka | **2,014,062** | 55,901 |
| Profit on financial assets at fair value through equity | **506,944** | 87,500 |
| Total | **4,060,080** | 240,988 |

* Depreciation on Ijarah Muntahia Bitamleek amounts to RO 927,674 (2013: RO 334,478).

### 21 Pre-operating expenses

| | 2014 RO | 2013 RO |
|---|---|---|
| Staff cost | - | 238,814 |
| General administration cost | - | 188,127 |
| Others | - | 68,576 |
| Total | - | 495,517 |

### 22 Staff costs

| | 2014 RO | 2013 RO |
|---|---|---|
| Salaries and allowances | **1,662,969** | **981,984** |
| Other personnel cost | **214,193** | **73,535** |
| Non-Omani employee terminal benefit | **23,317** | **2,613** |
| Total | **1,900,479** | **1,058,132** |

## Notes to the financial statements
For the year ended 31 December 2014

### 23 General and administrative expenses

| | 2014 RO | 2013 RO |
|---|---|---|
| Occupancy cost | **251,417** | 190,464 |
| Operating and administration cost | **507,122** | 407,455 |
| Total | **758,539** | 597,919 |

### 24 Related parties transactions

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

| | 2014 RO | 2013 RO |
|---|---|---|
| **Finances** | | |
| Directors, members of Sharia Supervisory Board and shareholders holding interest in the Bank | **330,654** | - |
| **Deposits and other accounts** | | |
| Directors, members of Sharia Supervisory Board and shareholders holding interest in the Bank | **7,018,923** | - |

| | | |
|---|---|---|
| **Remuneration paid to Directors & Sharia Supervisor** | | |
| Chairman | | |
| – remuneration proposed | **6,000** | 6,000 |
| – sitting fees paid | **2,800** | 4,800 |
| Other Members | | |
| – remuneration proposed | **16,000** | 12,000 |
| – sitting fees paid | **7,500** | 9,300 |
| **Other transactions** | | |
| Rental payment to a related party | **34,560** | 69,120 |
| Other transactions | **-** | - |
| **Key management compensation** | | |
| Salaries and other benefits | **103,348** | 139,944 |
| End of service benefits | **2,741** | 2,087 |

## 25 Contingent liabilities and commitments

### (a) Credit related contingent items

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

| | 2014<br>RO | 2013<br>RO |
|---|---|---|
| Letters of credit | **10,223,708** | 2,989,910 |
| Guarantees | **5,980,885** | - |
| Total | **16,204,593** | 2,989,910 |

### (b) Capital and investment commitments

| | 2014<br>RO | 2013<br>RO |
|---|---|---|
| Contractual commitments for property and equipment | **57,102** | 279,367 |

## 26 Islamic financial derivatives

Forward exchange contracts represent commitments to purchase foreign and domestic currency, including undelivered spot transactions. The values of the derivative instruments held are set out as below:

| At 31 December 2014 | Contract / Notional Amount<br>RO |
|---|---|
| **Forward exchange contracts** | |
| Currency forward - purchase contracts | 30,965,091 |
| Currency forward - sale contracts | 30,963,968 |

As at 31 December 2014, fair value of the exchange contracts remains equivalent to its notional amount. During 2013, Maisarah did not enter into any Islamic financial derivative contracts.

## 27 Fair value information

Fair value is an amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Consequently, differences can arise between the carrying value and fair value estimates. As at the reporting date the fair values of Maisarah's financial instruments are not significantly different from their carrying values.

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

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

## Notes to the financial statements
For the year ended 31 December 2014

### 27 Fair value information (continued)

| Fair value information | 2014 Level 1 RO | 2014 Level 2 RO | 2014 Level 3 RO | 2014 Total RO |
|---|---|---|---|---|
| Financial asset at fair value through Equity | - | 10,197,500 | - | 10,197,500 |
| **Total** | **-** | **10,197,500** | **-** | **10,197,500** |

As at 31 December 2013, investment in Sukuk was stated at cost.

### 28 Financial risk management

The important types of financial risks to which Maisarah is exposed are credit risk, liquidity risk and market risk. The risk management division of Maisarah is an independent and dedicated unit reporting directly to the Risk Management Committee ("RMC") of the Board. The division's primary responsibility is to assess, monitor and recommend strategies for control of credit, market and operational risk. The absence of any direct or indirect reporting lines and permanent membership in all Maisarah's committees are among the factors which reflect the independence of the Risk Management Division's working and the key role it plays within Maisarah.

The risk management framework is pivoted on a host of committees involving the executive management and the Board of Directors ("the Board") for approval and reporting purposes. The Board has the overall authority for approval of strategies and policies, which it exercises through its various sub-committees. RMC of the Board is responsible for reviewing and recommending to the full Board, approval risk policies and procedures. RMC also reviews the risk profile of Maisarah as presented to it by the Risk Management Division and appraises the full Board in its periodic meetings.

### Credit risk

The most important risk to which Maisarah is exposed is credit risk. To manage the level of credit risk, Maisarah deals with counter-parties of good credit. Board Credit Committee is the final credit approving authority of Maisarah which is mainly responsible for approving all credit proposals beyond the authority level of the management. RMC is the management decision making body which is empowered to consider all credit related issues upto certain limits.

Credit risk is managed by the Risk Management Division ("RMD") through a system of independent risk assessment in credit proposals before they are considered by the appropriate approving authorities. Maisarah has in place a risk grading system for analysing the risk associated with credit. This facilitates the approving authorities in making their credit decision. Maximum counterparty/group exposures are limited to 15% of the Bank's capital base as stipulated by CBO and where a higher limit is required for projects of national importance prior CBO approval is obtained. Individual country limits using Moody's, S&P and Fitch ratings have also been set up to ensure portfolio diversification in terms of sovereign risk ratings and geographical exposure. These limits are approved by the Board. Retail financing is strictly in accordance with the CBO guidelines. The analysis of credit portfolio is provided below. It is pertinent to mention that the credit portfolio consists of all standard accounts and there is no impairment in the portfolio.

## 28 Financial risk management (continued)

### Credit risk (continued)

#### (a) Geographical concentrations

| | 2014 | |
|---|---|---|
| | Due from banks and financial institutions RO | Due to Banks and financial Institutions RO |
| Sultanate of Oman | - | 25,000,000 |
| Other GCC Countries | 183,247 | 3,850,000 |
| Europe and North America | 24,174 | - |
| Africa and Asia | - | 19,250,000 |
| | 207,421 | 48,100,000 |

During 2013, Maisarah did not have any exposure outside Sultanate of Oman.

#### (b) Customer concentrations

**Customer concentrations on asset (Gross)**

| | 2014 | | | | |
|---|---|---|---|---|---|
| | Due from banks and financial institutions RO | Murabaha receivables RO | Mudaraba Financing RO | Diminishing Musharaka financing RO | Ijarah Muntahia Bittamleek RO |
| Retail | - | 1,557,312 | - | 20,722,465 | 29,454,692 |
| Corporate | 207,421 | 19,004,397 | 2,284,519 | 60,010,951 | - |
| | 207,421 | 20,561,709 | 2,284,519 | 80,733,416 | 29,454,692 |

| | 2013 | | | | |
|---|---|---|---|---|---|
| | Due from banks and financial institutions RO | Murabaha receivables RO | Mudaraba Financing RO | Diminishing Musharaka financing RO | Ijarah Muntahia Bittamleek RO |
| Retail | - | 237,294 | - | - | 17,605,349 |
| Corporate | 7,700,000 | - | - | 10,425,217 | - |
| | 7,700,000 | 237,294 | - | 10,425,217 | 17,605,349 |

## Notes to the financial statements
For the year ended 31 December 2014

### 28 Financial risk management (continued)

### Credit risk (continued)

### (c) Economic sector concentrations

| | 2014 | | | |
|---|---|---|---|---|
| | Murabaha receivables RO | Mudaraba Financing RO | Diminishing Musharaka Financing RO | Ijarah Muntahia Bittamleek RO |
| Personal | 1,557,312 | - | 20,722,465 | 29,454,692 |
| Construction | - | 1,693,709 | 40,390,230 | - |
| Manufacturing | 11,583,787 | - | 1,724,611 | - |
| Other services | - | 2,347 | 15,718,454 | - |
| Others | 7,420,610 | 588,463 | 2,177,656 | - |
| | 20,561,709 | 2,284,519 | 80,733,416 | 29,454,692 |

| | 2013 | | | |
|---|---|---|---|---|
| | Murabaha receivables RO | Mudaraba Financing RO | Diminishing Musharaka Financing RO | Ijarah Muntahia Bittamleek RO |
| Personal | 237,294 | - | - | 17,605,349 |
| Construction | - | - | 6,957,659 | - |
| Manufacturing | - | - | 1,670,200 | - |
| Other services | - | - | 303,683 | - |
| Others | - | - | 1,493,675 | - |
| | 237,294 | - | 10,425,217 | 17,605,349 |

## 28 Financial risk management (continued)

### Credit risk (continued)

### (d) Gross credit exposure

| | 2014 | |
|---|---|---|
| | Total gross exposure RO | Monthly average gross exposure RO |
| Murabaha receivables | 20,561,709 | 15,685,358 |
| Mudaraba financing | 2,284,519 | 1,781,264 |
| Diminishing Musharaka Financing | 80,733,416 | 42,852,556 |
| Ijarah Muntahia Bittamleek | 29,454,692 | 24,674,430 |

| | 2013 | |
|---|---|---|
| | Total gross exposure RO | Monthly average gross exposure RO |
| Murabaha receivables | 237,294 | 167,425 |
| Mudaraba financing | - | - |
| Diminishing Musharaka Financing | 10,425,217 | 5,368,439 |
| Ijarah Muntahia Bittamleek | 17,605,349 | 8,603,110 |

### (e) Industry type distribution of exposures by major types of credit exposures

| | 2014 | | | | |
|---|---|---|---|---|---|
| | Murabaha receivables RO | Mudaraba financing RO | Diminishing Musharaka Financing RO | Ijarah Muntahia Bittamleek RO | Off balance sheet exposures RO |
| Import trade | 7,310,196 | 300,981 | - | - | 16,204,593 |
| Mining & quarrying | - | 287,482 | 2,080,917 | - | - |
| Construction | - | 1,693,709 | 40,390,230 | - | - |
| Manufacturing | 11,583,787 | - | 1,724,611 | - | - |
| Transport & communication | - | - | 96,739 | - | - |
| Services | - | 2,347 | 15,718,454 | | - |
| Retail | 1,557,312 | - | 20,722,465 | 29,454,692 | - |
| Others | 110,414 | - | - | - | - |
| | 20,561,709 | 2,284,519 | 80,733,416 | 29,454,692 | 16,204,593 |

## Notes to the financial statements
For the year ended 31 December 2014

### 28 Financial risk management (continued)

**Credit risk** (continued)

**(e) Industry type distribution of exposures by major types of credit exposures** (continued)

| | 2013 | | | | |
|---|---|---|---|---|---|
| | Murabaha receivables RO | Mudaraba financing RO | Diminishing Musharaka Financing RO | Ijarah Muntahia Bittamleek RO | Off balance sheet exposures RO |
| Import trade | - | - | - | - | 2,989,910 |
| Mining and quarrying | - | - | 1,493,675 | - | - |
| Construction | - | - | 6,957,659 | - | - |
| Manufacturing | - | - | 1,670,200 | - | - |
| Services | - | - | 303,683 | - | - |
| Retail | 237,294 | - | - | 17,605,349 | - |
| | 237,294 | - | 10,425,217 | 17,605,349 | 2,989,910 |

**(f) Residual contractual maturities of the portfolio by major types of credit exposures:**

| **31 December 2014** | Murabaha receivables RO | Mudaraba financing RO | Diminishing Musharaka Financing RO | Ijarah Muntahia Bittamleek RO | Off Balance sheet exposures RO |
|---|---|---|---|---|---|
| Upto 1 month | **6,676,319** | **2,284,519** | **-** | **-** | **10,524,911** |
| 1 - 3 months | **4,921,489** | **-** | **10,000** | **-** | **4,553,113** |
| 3 - 6 months | **7,296,175** | **-** | **-** | **-** | **577,223** |
| 6 - 9 months | **-** | **-** | **-** | **-** | **343,588** |
| 9 - 12 months | **-** | **-** | **-** | **-** | **-** |
| 1 - 3 years | **128,422** | **-** | **1,909,433** | **-** | **190,758** |
| 3 – 5 years | **488,504** | **-** | **5,695,221** | **319,286** | **15,000** |
| Over 5 years | **1,050,800** | **-** | **73,118,762** | **29,135,406** | **-** |
| | **20,561,709** | **2,284,519** | **80,733,416** | **29,454,692** | **16,204,593** |

| 31 December 2013 | Murabaha receivables RO | Mudaraba financing RO | Diminishing Musharaka Financing RO | Ijarah Muntahia Bittamleek RO | Off Balance sheet exposures RO |
|---|---|---|---|---|---|
| Upto 1 month | 4,768 | - | 195,851 | 125,592 | - |
| 1 - 3 months | 9,536 | - | 391,702 | 251,184 | - |
| 3 - 6 months | 14,304 | - | 587,553 | 376,776 | 2,989,910 |
| 6 - 9 months | 14,304 | - | 531,276 | 376,776 | - |
| 9 - 12 months | 14,304 | - | 512,128 | 376,776 | - |
| 1 - 3 years | 109,088 | - | 5,470,115 | 3,014,208 | - |
| 3 – 5 years | 70,990 | - | 1,953,190 | 2,965,652 | - |
| Over 5 years | - | - | 783,402 | 10,118,385 | - |
| | 237,294 | - | 10,425,217 | 17,605,349 | 2,989,910 |

## 28 Financial risk management (continued)

### Credit risk (continued)

### (g) Distribution of past due and not past due financing by type of industry:

| | 2014 | | | | |
|---|---|---|---|---|---|
| | Performing Murabaha receivables RO | Performing Mudaraba Financing RO | Performing Diminishing Musharaka Financing RO | Performing Ijarah Muntahia Bittamleek RO | General provisions made during the year RO |
| Import trade | 7,310,196 | 300,981 | - | - | (82,574) |
| Mining & quarrying | - | 287,482 | 2,080,917 | - | (25,695) |
| Construction | - | 1,693,709 | 40,390,230 | - | (456,572) |
| Manufacturing | 11,583,787 | - | 1,724,611 | - | (144,384) |
| Transport & communication | - | - | 96,739 | - | (1,050) |
| Services | - | 2,347 | 15,718,455 | - | (170,556) |
| Retail | 1,557,312 | - | 20,722,464 | 29,454,692 | (611,556) |
| Others | 110,414 | - | - | - | (1,198) |
| | 20,561,709 | 2,284,519 | 80,733,416 | 29,454,692 | (1,493,585) |

| | 2013 | | | | |
|---|---|---|---|---|---|
| | Performing Murabaha receivables RO | Performing Mudaraba Financing RO | Performing Diminishing Musharaka Financing RO | Performing Ijarah Muntahia Bittamleek RO | General provisions made during the year RO |
| Import trade | - | - | - | - | - |
| Mining & quarrying | - | - | 1,493,675 | - | (14,389) |
| Construction | - | - | 6,957,659 | - | (67,026) |
| Manufacturing | - | - | 1,670,200 | - | (16,090) |
| Transport & communication | - | - | - | - | - |
| Services | - | - | 303,683 | - | (2,926) |
| Retail | 237,294 | - | - | 17,605,349 | (184,828) |
| | 237,294 | - | 10,425,217 | 17,605,349 | (285,259) |

### (h) Maximum exposure to credit risk without consideration of collateral held:

During the year there is no credit exposure provided without collateral (2013: RO Nil).

### Liquidity risk

Liquidity risk is the potential inability to meet Maisarah's liabilities as they become due, because of the difficulty in liquidating assets (market liquidity risk) or in obtaining adequate funding (funding liquidity risk). It arises when Maisarah is unable to generate cash to cope with a decline in deposits or increase in assets.

Maisarah's liquidity risk management is governed by the treasury risk policy document approved by the Board of Directors as well as the provisions of relevant CBO guidelines on liquidity risk management. Maisarah

## Notes to the financial statements
For the year ended 31 December 2014

### 28 Financial risk management (continued)

### Liquidity risk (continued)

monitors its liquidity risk through cash flow approach. Under cash flow approach Maisarah generates Maturity of Assets and Liabilities (MAL) report which captures all the maturing assets and liabilities into various pre-set time buckets ranging from one month to five years. The mismatches in various time buckets indicate liquidity gap and Maisarah strictly adheres to the CBO set limit of 15% of cumulative liabilities (outflows) on mismatches (liquidity gaps) in time buckets upto one year. In addition, Maisarah has also set up internal limit on mismatches in time buckets beyond one year.

Treasury department of Maisarah controls and monitors the liquidity risk and ensures that the window is not exposed to undue liquidity risk and at the same time makes optimum use of its funds. Middle office in Risk Management Division also monitors the liquidity position of Maisarah.

### Maturity profile of assets and liabilities

| | Due on demand and up to 30 days RO | More than 1month to 6 months RO | More than 6 months to 12 months RO | More than 1 year to 5 years RO | Over 5 years RO | Total RO |
|---|---|---|---|---|---|---|
| **31 December 2014** | | | | | | |
| Cash and balances with Central Bank of Oman ("CBO") | 44,510,564 | - | - | - | - | 44,510,564 |
| Due from banks and financial institutions | 207,421 | - | - | - | - | 207,421 |
| Murabaha receivables - net | 6,891,330 | 12,183,100 | 118,057 | 1,056,810 | 62,802 | 20,312,099 |
| Mudaraba financing – net | 114,209 | 228,460 | 221,373 | 1,142,260 | 549,869 | 2,256,171 |
| Diminishing Musharaka financing – net | 1,482,666 | 7,423,110 | 8,665,702 | 41,632,980 | 20,655,046 | 79,859,504 |
| Financial assets at fair value through equity | - | - | - | 10,197,500 | - | 10,197,500 |
| Ijarah Muntahia Bittamleek–net | 209,183 | 1,045,920 | 1,169,671 | 9,899,730 | 16,788,474 | 29,112,978 |
| Property and equipment – net | - | - | - | - | 1,056,561 | 1,056,561 |
| Other assets | 4,201,234 | - | - | - | 78,789 | 4,280,023 |
| **Total assets** | 57,616,607 | 20,880,590 | 10,174,803 | 63,929,280 | 39,191,541 | 191,792,821 |
| Due to Head office and other banks | 48,100,000 | - | - | - | - | 48,100,000 |
| Qard Hasan from Head Office | - | - | - | 17,215,732 | - | 17,215,732 |
| Customer Wakala Deposit | - | 53,700,000 | 15,025,000 | 4,000,000 | - | 72,725,000 |
| Current accounts | 2,979,447 | 5,214,033 | 2,979,448 | - | 3,724,310 | 14,897,238 |
| Other liabilities | 6,274,924 | 54,512 | 31,150 | - | 38,937 | 6,399,523 |
| Equity of unrestricted investment account holders | 507,823 | 938,939 | 915,644 | 4,578,222 | 2,289,500 | 9,230,128 |
| Owner's equity | - | - | - | - | 23,225,200 | 23,225,200 |
| **Total liabilities and account holders & owners' equity** | 57,862,194 | 59,907,484 | 18,951,242 | 25,793,954 | 29,277,947 | 191,792,821 |

## 28 Financial risk management (continued)

### Liquidity risk Liquidity risk (continued)

### Maturity profile of assets and liabilities (continued)

| | Due on demand and up to 30 days RO | More than 1month to 6 months RO | More than 6 months to 12 months RO | More than 1 year to 5 years RO | Over 5 years RO | Total RO |
|---|---|---|---|---|---|---|
| **31 December 2013** | | | | | | |
| Cash and balances with Central Bank of Oman ("CBO") | 3,028,809 | - | - | - | - | 3,028,809 |
| Due from banks and financial institutions | 7,700,000 | - | - | - | - | 7,700,000 |
| Murabaha receivables - net | 4,658 | 23,290 | 27,949 | 175,927 | - | 231,824 |
| Mudaraba financing – net | - | - | - | - | - | - |
| Diminishing Musharaka financing | 193,964 | 969,821 | 1,033,352 | 7,351,793 | 775,856 | 10,324,786 |
| Financial assets at fair value through equity | - | - | - | 10,000,000 | - | 10,000,000 |
| Ijarah Muntahia Bittamleek– net | 124,313 | 621,563 | 745,875 | 5,918,939 | 10,015,301 | 17,425,991 |
| Property and equipment – net | - | - | - | - | 1,077,812 | 1,077,812 |
| Other assets | 133,702 | - | - | - | 96,394 | 230,096 |
| **Total assets** | 11,185,446 | 1,614,674 | 1,807,176 | 23,446,659 | 11,965,363 | 50,019,318 |
| Due to Head office and other banks | 30,200,000 | - | - | - | - | 30,200,000 |
| Qard Hasan from Head Office | - | - | - | 3,287,038 | - | 3,287,038 |
| Customer Wakala Deposit | - | - | - | - | - | - |
| Current accounts | 508,429 | 889,751 | 508,429 | - | 635,538 | 2,542,147 |
| Other liabilities | 2,557,371 | - | - | - | - | 2,557,371 |
| Equity of unrestricted investment account holders | 55,879 | 126,259 | 114,759 | 558,793 | 279,455 | 1,135,145 |
| Owner's equity | - | - | - | - | 10,297,617 | 10,297,617 |
| **Total liabilities and account holders & owners' equity** | 33,321,679 | 1,016,010 | 623,188 | 3,845,831 | 11,212,610 | 50,019,318 |

Notes to the financial statements
For the year ended 31 December 2014

## 28 Financial risk management (continued)

### Market risk

Market risk includes currency risk, profit rate risk and equity price risk.

### (a) Currency risk

Maisarah is exposed to currency risk through its transactions in foreign currencies. The major foreign currency to which Maisarah is exposed is the US Dollar which is effectively pegged to Rial Omani. Presently Maisarah does not have major foreign exchange exposure.

### (b) Profit rate risk

Profit rate risk (PRR) is the risk that Maisarah will incur a financial loss as a result of mismatch in the profit rates on assets & investment accountholders. The profit distribution to investment accountholders is based on profit sharing agreements. However, the profit sharing agreements will result in displaced commercial risk when Maisarah results do not allow it to distribute profits in line with the market rates.

Maisarah has a detailed profit distribution policy in place which details the process and management of profit distribution, including setting up of profit equalization & investment risk reserve. The responsibility of profit rate risk management rests with the Maisarah's Asset and Liability Management Committee (ALCO).

### Profit rate sensitivity gap

Sensitivity to profit rates arises from mismatches in the period to repricing of assets and that of the corresponding liability. Maisarah manages these mismatches by following policy guidelines and reduces risk by matching the repricing of assets and liabilities.

## 28 Financial risk management (continued)

### Market risk (continued)

### Profit rate sensitivity gap (continued)

| | Effective average profit rates % | Due on demand and within 30 days RO | Due within 1 to 6 months RO | Due within 7 to 12 months RO | Due within 1 to 5 years RO | Due after 5 years RO | Non-profit bearing RO | Total RO |
|---|---|---|---|---|---|---|---|---|
| **31 December 2014** | | | | | | | | |
| Cash and balances with Central Bank of Oman | - | - | - | - | - | - | 44,510,564 | 44,510,564 |
| Due from banks and financial institutions | 0.53% | 207,421 | - | - | - | - | - | 207,421 |
| Murabaha receivables | 2.34% | 6,891,330 | 12,183,100 | 118,057 | 1,056,810 | 62,802 | - | 20,312,099 |
| Mudaraba financing | 7.51% | 114,209 | 228,460 | 221,373 | 1,142,260 | 549,869 | - | 2,256,171 |
| Diminishing Musharaka Financing | 4.95% | 1,482,666 | 7,423,110 | 8,665,702 | 41,632,980 | 20,655,046 | - | 79,859,504 |
| Financial assets at fair value through equity | 5.00% | - | - | - | 10,197,500 | - | - | 10,197,500 |
| Ijara Muntahia Bittamleek – net | 4.68% | 209,183 | 1,045,920 | 1,169,671 | 9,899,730 | 16,788,474 | - | 29,112,978 |
| Property and equipment – net | - | - | - | - | - | - | 1,056,561 | 1,056,561 |
| Other assets | - | - | - | - | - | - | 4,280,023 | 4,280,023 |
| **Total assets** | - | 8,904,809 | 20,880,590 | 10,174,803 | 63,929,280 | 38,056,191 | 49,847,148 | 191,792,821 |
| Due to Head office and other banks | 0.20% | 48,100,000 | - | - | - | - | - | 48,100,000 |
| Qard Hasan from Head office | - | - | - | - | - | - | 17,215,732 | 17,215,732 |
| Customer Wakala deposit | 1.24% | - | 53,700,000 | 15,025,000 | 4,000,000 | - | - | 72,725,000 |
| Current accounts | | - | - | - | - | - | 14,897,238 | 14,897,238 |
| Other liabilities | - | - | - | - | - | - | 6,399,523 | 6,399,523 |
| Equity of unrestricted investment account holders | 0.85% | 507,823 | 938,939 | 915,644 | 4,578,222 | 2,289,500 | - | 9,230,128 |
| Owner's equity | - | - | - | - | - | - | 23,225,200 | 23,225,200 |
| Equity of account holders & Total liabilities and shareholders' equity | - | 48,607,823 | 54,638,939 | 15,940,644 | 8,578,222 | 2,289,500 | 61,737,693 | 191,792,821 |
| On-balance sheet gap | | (39,703,014) | (33,758,349) | (5,765,841) | 55,351,058 | 35,766,691 | (11,890,545) | - |
| Cumulative profit sensitivity gap | | (39,703,014) | (73,461,363) | (79,227,204) | (23,876,146) | 11,890,545 | - | - |

## Notes to the financial statements
For the year ended 31 December 2014

### 28 Financial risk management (continued)

### Market risk (continued)

### Profit rate sensitivity gap (continued)

| | Effective average profit rates % | Due on demand and within 30 days RO | Due within 1 to 6 months RO | Due within 7 to 12 months RO | Due within 1 to 5 years RO | Due after 5 years RO | Non-profit bearing RO | Total RO |
|---|---|---|---|---|---|---|---|---|
| **31 December 2013** | | | | | | | | |
| Cash and balances with Central Bank of Oman | - | - | - | - | - | - | 3,028,809 | 3,028,809 |
| Due from banks and financial institutions | 0.91% | 7,700,000 | - | - | - | - | - | 7,700,000 |
| Murabaha receivables | 5.13% | 4,658 | 23,290 | 27,949 | 175,927 | - | - | 231,824 |
| Mudaraba financing | - | - | - | - | - | - | - | - |
| Diminishing Musharaka Financing | 5.28% | 193,964 | 969,821 | 1,033,352 | 7,351,793 | 775,856 | - | 10,324,786 |
| Financial assets at fair value through equity | 5.00% | - | - | - | 10,000,000 | - | - | 10,000,000 |
| Ijara Muntahia Bittamleek – net | 4.32% | 124,313 | 621,563 | 745,875 | 5,918,939 | 10,015,301 | - | 17,425,991 |
| Property and equipment – net | - | - | - | - | - | - | 1,077,812 | 1,077,812 |
| Other assets | - | - | - | - | - | - | 230,096 | 230,096 |
| Total assets | | 8,022,935 | 1,614,674 | 1,807,176 | 23,446,659 | 10,791,157 | 4,336,717 | 50,019,318 |
| Due to Head office and other banks | 0.47% | 30,200,000 | - | - | - | - | - | 30,200,000 |
| Qard Hasan from Head office | - | - | - | - | - | - | 3,287,038 | 3,287,038 |
| Customer Wakala deposit | - | - | - | - | - | - | - | - |
| Current accounts | - | - | - | - | - | - | 2,542,147 | 2,542,147 |
| Other liabilities | - | - | - | - | - | - | 2,557,371 | 2,557,371 |
| Equity of unrestricted investment account holders | 0.52% | 55,879 | 126,259 | 114,759 | 558,793 | 279,455 | - | 1,135,145 |
| Owner's equity | - | - | - | - | - | - | 10,297,617 | 10,297,617 |
| Equity of account holders & Total liabilities and shareholders' equity | | 30,255,879 | 126,259 | 114,759 | 558,793 | 279,455 | 18,684,173 | 50,019,318 |
| On-balance sheet gap | | (22,232,944) | 1,488,415 | 1,692,417 | 22,887,866 | 10,511,702 | (14,347,456) | - |
| Cumulative profit sensitivity gap | | (22,232,944) | (20,744,529) | (19,052,112) | 3,835,754 | 14,347,456 | - | - |

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## 28 Financial risk management (continued)

### (c) Equity risk

Presently Maisarah is not exposed to any equity price risk.

### Operational risk

Maisarah has adopted the Basic Indicator Approach under Basel II for the purpose of measuring capital charge for Operational Risk. The approach requires Maisarah to provide 15% of the average three years gross annual income as capital charge for operational risk.

## 29 Segmental information

Maisarah is organised into three main business segments:

(1) Retail banking – incorporating private customer current accounts, savings account, term deposits, murabaha and ijarah muntahia bittamleek;

(2) Corporate banking – incorporating current accounts, savings account, term deposits and diminishing musharaka financing; and

(3) Treasury & investments

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

## Notes to the financial statements
For the year ended 31 December 2014

### 29 Segmental information (continued)

Segment assets and liabilities comprise operating assets and liabilities, being the majority of the statement of financial position.

| 31 December 2014 | Retail banking RO | Corporate banking RO | Treasury and investments RO | Total RO |
|---|---|---|---|---|
| Segment operating revenues | 1,536,537 | 2,016,599 | 71,850 | 3,624,986 |
| Other revenues | 89,011 | 467,028 | 531,742 | 1,087,781 |
| Total segment operating revenues | 1,625,548 | 2,483,627 | 603,592 | 4,712,767 |
| Profit expenses | (25,599) | (262,584) | (128,535) | (416,718) |
| Net operating income | 1,599,949 | 2,221,043 | 475,057 | 4,296,049 |
| Segment cost | | | | |
| Operating expenses including depreciation | (1,211,279) | (1,589,720) | (56,641) | (2,857,640) |
| Impairment allowance | (426,728) | (781,598) | - | (1,208,326) |
| Net profit / (loss) for the year before tax | (38,058) | (150,275) | 418,416 | 230,083 |
| Segment assets | 52,091,046 | 85,856,375 | 55,338,985 | 193,286,406 |
| Less: Impairment allowance | (611,556) | (882,029) | - | (1,493,585) |
| Total segment assets | 51,479,490 | 84,974,346 | 55,338,985 | 191,792,821 |
| Segment liabilities | 1,796,685 | 91,275,314 | 66,265,494 | 159,337,493 |

## 29 Segmental information (continued)

| 31 December 2013 | Retail banking RO | Corporate banking RO | Treasury and investments RO | Total RO |
|---|---|---|---|---|
| Segment operating revenues | 97,587 | 55,901 | 121,941 | 275,429 |
| Other revenues | 17,637 | 75,378 | 88 | 93,103 |
| Total segment operating revenues | 115,224 | 131,279 | 122,029 | 368,532 |
| Profit expenses | (4,577) | (13) | (10,639) | (15,229) |
| Net operating income | 110,647 | 131,266 | 111,390 | 353,303 |
| Segment cost | | | | |
| Operating expenses including depreciation | (804,438) | (460,802) | (1,005,187) | (2,270,427) |
| Impairment allowance | (184,828) | (100,431) | - | (285,259) |
| Net (loss) for the year before tax | (878,619) | (429,967) | (893,797) | (2,202,383) |
| Segment assets | 18,301,600 | 10,711,503 | 21,291,474 | 50,304,577 |
| Less: Impairment allowance | (184,828) | (100,431) | - | (285,259) |
| Total segment assets | 18,116,772 | 10,611,072 | 21,291,474 | 50,019,318 |
| Segment liabilities | 5,196,305 | 1,835,184 | 31,555,067 | 38,586,556 |

## 30 Comparative

The comparative financial information included in the financial statements cover the period from 3 March 2013 to 31 December 2013. Certain of the corresponding figures have been reclassified in order to conform with the presentation for the current year. Such reclassification do not affect previously reported loss or owners' equity.

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