



**Board of Directors' Report and financial statements (Unaudited)  
For three –month period ended 31<sup>st</sup> March 2013**

**Registered office and principal place of business:**

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

## **BANKDHOFAR SAOG**

### **Board of Directors' Report and financial statements (Unaudited) for three -month period ended 31 March 2013**

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# **BANKDHOFAR S.A.O.G.**

## **THE BOARD OF DIRECTORS' REPORT FOR THE QUARTER ENDED 31<sup>st</sup> March 2013**

### **Dear Shareholders,**

On behalf of the Board of Directors of BankDhofar S.A.O.G., I am pleased to present to you the Bank's Financial Statements for the quarter ended 31<sup>st</sup> March 2013.

### **The Bank's Financial Performance during Q1 ended March 2013:-**

The Bank showed sustained progress in Q1 2013 through prudent lending and borrowing, with Customer Deposits growing by 14.74% to reach RO 1.79 billion and Loans and Advances to customers growing by 8.22% to reach RO 1.71 billion. Net interest income earned during the quarter ended 31<sup>st</sup> March 2013 was RO 15.62 million showing a growth of 2.56%.

Non-Interest income including fees and commissions, foreign exchange profit, investment and other income grew by 21.33% to reach RO 6.54 million during the quarter ended 31<sup>st</sup> March 2013 as compared to RO 5.39 million achieved during the corresponding period of last year. Loan loss recovery improved and specific provision for loan impairment reduced, with a net provision of RO 0.76 million for quarter ended 31<sup>st</sup> March 2013 as against RO 1.54 million for quarter ended 31<sup>st</sup> March 2012.

The Bank commenced the operations of its Islamic Banking Window, the "Maisarah" Islamic Banking Services during the month of March 2013 with a dedicated capital of RO 10 million, following the receipt of approval from the Regulators.

The Net Profits for the quarter ended 31<sup>st</sup> March 2013 reached RO 32.44 million compared to RO 9.18 million achieved for the quarter ended 31<sup>st</sup> March 2012. 2013 Net Profits is after recognizing RO 0.59 million, net loss relating to the start-up operations of the Maisarah Islamic Banking Services. The higher profit shown in Q1-2013 is on account of RO 26.1 million (net of taxes, RO 22.9 million) recovered in connection with the legal case filed by Oman International Bank (now HSBC Bank Oman SAOG) against BankDhofar, which is now finally closed.

The earnings per share (EPS) at the end of 2013 are RO 0.109 as compared to RO 0.030 at end March 2012.

Also, the Bank is making good progress during the second year of its 5-year plan and is committed to its goal of best in class customer service and employee development.

**Acknowledgment:-**

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

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

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

**Eng. Abdul Hafidh Salim Rajab Al-Aujaili**  
Chairman

**Statement of financial position (Unaudited)  
as at 31 March 2013**

	Notes	March 2013 RO'000	March 2012 RO'000	Audited Dec 2012 RO'000
<b>ASSETS</b>				
Cash and balances with Central Bank of Oman	2	270,278	262,350	208,495
Claims with other banks	3	151,088	42,337	97,410
Loans and advances to customers	4	1,711,226	1,578,679	1,672,508
Available-for-sale investments	5	10,984	10,671	11,588
Held-to-maturity investments	6	136,979	106,014	100,386
Financial instruments at fair value through Profit or Loss	7	734	-	-
Intangible asset	8	3,078	3,479	3,177
Property and equipment		10,394	8,640	9,432
Other assets		48,062	28,389	40,834
<b>Total assets</b>		<b>2,342,823</b>	<b>2,040,559</b>	<b>2,143,830</b>
<b>LIABILITIES</b>				
Due to banks	9	107,098	96,944	88,675
Deposits from customers	10	1,792,206	1,559,763	1,634,628
Other liabilities		91,187	63,201	84,023
Subordinated loans	11	75,000	88,500	75,000
<b>Total liabilities</b>		<b>2,065,491</b>	<b>1,808,408</b>	<b>1,882,326</b>
<b>SHAREHOLDERS' EQUITY</b>				
Share capital	12	121,013	110,012	110,012
Share premium		40,018	40,018	40,018
Legal reserve	13	25,652	21,877	25,652
Subordinated loan reserve	13	11,250	34,617	11,250
Investment revaluation reserve	13	1,447	771	1,556
Retained earnings		77,952	24,856	73,016
<b>Total shareholders' equity</b>		<b>277,332</b>	<b>232,151</b>	<b>261,504</b>
<b>Total liabilities and shareholders' equity</b>		<b>2,342,823</b>	<b>2,040,559</b>	<b>2,143,830</b>
<b>Contingent liabilities and commitments</b>	21	<b>388,042</b>	<b>367,429</b>	<b>378,908</b>
<b>Net assets per share (Rials Omani)</b>		<b>0.229</b>	<b>0.211</b>	<b>0.238</b>

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

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## Statement of comprehensive income (Unaudited) for three-month period ended 31 March 2013

	Notes	3 Months ended March 2013 RO'000	3 Months ended March 2012 RO'000
Interest income		23,666	22,243
Interest expense		(8,049)	(7,014)
<b>Net interest income</b>	<b>16</b>	<b>15,617</b>	<b>15,229</b>
Fees and commission income		1,920	1,673
Fees and commission expenses		(136)	(149)
<b>Net fees and commission income</b>		<b>1,784</b>	<b>1,524</b>
Other income	17	4,754	3,869
<b>Operating income</b>		<b>22,155</b>	<b>20,622</b>
Staff and administrative costs		(9,806)	(7,989)
Depreciation		(825)	(703)
<b>Operating expenses</b>		<b>(10,631)</b>	<b>(8,692)</b>
<b>Profit from operations</b>		<b>11,524</b>	<b>11,930</b>
Provision for loan impairment	4&18	(1,597)	(2,141)
Recoveries from allowance for loan impairment	4&18	837	601
Written Back From Legal Case	24	26,129	-
<b>Profit from operations after provision</b>		<b>36,893</b>	<b>10,390</b>
Income tax expense		(4,454)	(1,213)
<b>Profit for the period</b>		<b>32,439</b>	<b>9,177</b>
<b>Profit for the period</b>		<b>32,439</b>	<b>9,177</b>
<b>Other comprehensive income:</b>			
Net changes in fair value of available-for-sale investments	13	628	397
Reclassification adjustment on sale of available-for-sale investments	13	(737)	(253)
<b>Total comprehensive income for the period</b>		<b>32,330</b>	<b>9,321</b>
<b>Earnings per share (basic and diluted) – annualized (Rials Omani)</b>	<b>14</b>	<b>0.109</b>	<b>0.030</b>

The accompanying notes form an integral part of these financial statements

Profit for the period RO 32,439,000 includes RO 589,000 Net loss of the new division Maisarah Islamic Banking Services start -up excluding this profit for the period is RO 33,028,000(Ro 9,177,000 in 2012)

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## Statement of changes in equity (Unaudited) for three-month period ended 31 March 2013

	Notes	Share capital RO'000	Share premium RO'000	Legal reserve RO'000	Subordinated loan reserve RO'000	Investment revaluation reserve RO'000	Retained earnings RO'000	Total RO'000
<b>1 January 2013</b>		<b>110,012</b>	<b>40,018</b>	<b>25,652</b>	<b>11,250</b>	<b>1,556</b>	<b>73,016</b>	<b>261,504</b>
<b>Total comprehensive income for the period</b>								
Net profit for the period		-	-	-	-		<b>32,439</b>	<b>32,439</b>
<b>Other comprehensive income for the period</b>								
Net change in fair value of available-for-sale investments		-	-	-	-	<b>628</b>	-	<b>628</b>
Transfer to statement of income on sale of available-for-sale investments	13	-	-	-	-	<b>(737)</b>	-	<b>(737)</b>
<b>Total comprehensive income for the period</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(109)</b>	<b>32,439</b>	<b>32,330</b>
<b>Transactions with owners recorded directly in equity</b>								
Dividend paid for 2012		-	-	-	-	-	<b>(16,502)</b>	<b>(16,502)</b>
Bonus shares issued for 2012	12	<b>11,001</b>					<b>(11,001)</b>	<b>-</b>
<b>31 March 2013</b>		<b>121,013</b>	<b>40,018</b>	<b>25,652</b>	<b>11,250</b>	<b>1,447</b>	<b>77,952</b>	<b>277,332</b>

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

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## Statement of changes in equity (Unaudited) for three-month period ended 31 March 2013

	Notes	Share capital RO'000	Share premium RO'000	Legal reserve RO'000	Subordinated loan reserve RO'000	Investment revaluation reserve RO'000	Retained earnings RO'000	Total RO'000
<b>1 January 2012</b>		91,524	58,506	21,877	34,617	627	22,086	229,237
<b>Total Comprehensive income for the period</b>								
Net profit for the period		-	-	-	-	-	9,177	9,177
<b>Other comprehensive income for the period</b>								
Net change in fair value of available-for-sale investments		-	-	-	-	397	-	397
Transfer to statement of income on sale of available-for-sale investments	13	-	-	-	-	(253)	-	(253)
<b>Total comprehensive income for the period</b>		-	-	-	-	144	9,177	9,321
<b>Transactions with owners recorded directly in equity</b>								
Dividend paid for 2011		-	-	-	-	-	(6,407)	(6,407)
Bonus shares issued for 2011	12	18,488	(18,488)	-	-	-	-	-
<b>31 March 2012</b>		110,012	40,018	21,877	34,617	771	24,856	232,151

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



**BANKDHOFAR S.A.O.G**

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**Statement of cash flows (Unaudited)  
for three -month period ended 31 March 2013**

	2013 RO'000	2012 RO'000
<b>Cash flows from operating activities</b>		
Interest and commission receipts	28,798	25,886
Interest payments	(6,106)	(5,799)
Cash payments to suppliers and employees	(10,875)	(5,501)
Written Back from Legal Case	26,129	-
	<u>37,946</u>	<u>14,586</u>
<b>(Increase) in operating assets</b>	<b>(109,226)</b>	<b>(86,664)</b>
<b>Increase in operating liabilities</b>	<b>173,934</b>	<b>77,568</b>
<b>Net cash (used in) / from operating activities</b>	<b>102,654</b>	<b>5,490</b>
Income tax paid	(4,882)	(1,846)
<b>Net cash (used in) / from operating activities</b>	<b>97,772</b>	<b>3,644</b>
<b>Net cash (used in) / investing activities</b>	<b>(1,031)</b>	<b>696</b>
<b>Net cash (used in) / financing activities</b>	<b>(16,502)</b>	<b>(6,407)</b>
<b>Net decrease / increase in cash and cash equivalents</b>	<b>80,239</b>	<b>(2,067)</b>
Cash and cash equivalents at 1 <sup>st</sup> January	252,956	299,327
<b>Cash and cash equivalents at 31 March</b>	<b>333,195</b>	<b>297,260</b>
<b>Cash and balances with Central Bank of Oman(Note 5)</b>	<b>270,278</b>	<b>262,350</b>
Capital deposit with Central Bank of Oman	(500)	(500)
Loans and advances to banks due within 90 days	66,368	36,524
Due to banks within 90 days	(2,951)	(1,114)
<b>Cash and cash equivalents for the purpose of the cash flow statement</b>	<b>333,195</b>	<b>297,260</b>

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

**BANKDHOFAR S.A.O.G**

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**Notes to the financial statements (Unaudited)  
for the three- month period ended 31 March 2013**

***1. Intentionally Left Blank***

**Notes to the financial statements (Unaudited)  
for the three- month period ended 31 March 2013**

**2. Cash and Bank balances**

	2013 RO'000	2012 RO'000
Cash on hand	19,676	13,554
Balances with the Central Bank of Oman	200,602	118,796
Certificate of deposits with maturity of 90 days or less	50,000	130,000
	<u>270,278</u>	<u>262,350</u>

At 31 March 2013, cash and balances with Central bank of Oman included balances with the Central Bank of Oman amounting to RO 500,000 (2012 - 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 March 2013 were issued by the Central Bank of Oman

**3. Claims on other banks**

	2013 RO'000	2012 RO'000
Loans with other banks	75,967	2,599
Placements with other banks	65,184	29,892
Current clearing accounts	10,697	9,846
	<u>151,848</u>	<u>42,337</u>
Gross loans and advances with other banks	151,848	42,337
Less: Impairment allowance	(760)	-
<b>Net loans and advances</b>	<u>151,088</u>	<u>42,337</u>

At 31 March 2013, no placement with any bank represented 20% or more of the Bank's placements (2012 - Two).

**Notes to the financial statements (Unaudited)  
for the three- month period ended 31 March 2013**

**4. Loans and advances to customers**

	<b>2013</b>	2012
	<b>RO'000</b>	RO'000
Overdrafts	<b>114,212</b>	112,797
Loans	<b>1,573,317</b>	1,445,991
Loans against trust receipts	<b>68,559</b>	74,500
Bills discounted	<b>2,624</b>	5,160
Advance against credit cards	<b>7,777</b>	7,459
Others	<b>18,768</b>	13,257
	<hr/>	<hr/>
<b>Gross loans and advances</b>	<b>1,785,257</b>	1,659,164
Less: Impairment allowance	<b>(74,031)</b>	(80,485)
	<hr/>	<hr/>
<b>Net loans and advances</b>	<b>1,711,226</b>	1,578,679
	<hr/> <hr/>	<hr/> <hr/>

**As per the CBO requirements, the movements in the impairment allowance is analysed below:**

**(a) Allowance for loan impairment**

1 January	<b>48,064</b>	47,548
Allowance made during the period	<b>837</b>	2,141
Released to the statement of comprehensive income during the period	<b>(837)</b>	(601)
Written off during the period	<b>(1,072)</b>	(6)
	<hr/>	<hr/>
31 March	<b>46,992</b>	49,082

**(b) Reserved interest**

1 January	<b>27,416</b>	30,006
Reserved during the period	<b>1,275</b>	1,525
Released to the statement of comprehensive income during the period	<b>(222)</b>	(126)
Written-off during the period	<b>(1,430)</b>	(2)
	<hr/>	<hr/>
31 March	<b>27,039</b>	31,403

**Total impairment allowance**

<b>74,031</b>	80,485
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As a matter of policy, the Bank considers waiver / write-off or settlement only in such cases where the Bank is satisfied that the recovery of the full outstanding liabilities from the borrower is not possible in the normal course of business or out of the securities realisation or through enforcement of the guarantee (wherever available) and that legal action will not yield higher recoveries after considering the time and costs involved.

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

**Notes to the financial statements (Unaudited)  
for the three- month period ended 31 March 2013**

**4. Loans and advances 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 and advances, at 31 March 2013, out of the total provisions of **RO 74,791,000** (2012 – RO 80,485,000) a collective provision was made on a general portfolio basis amounting to **RO 25,389,374** (2012 – RO 22,808,000).

At 31 March 2013, impaired loans and advances on which interest has been reserved amount to **RO 52,757,296** (2012 - RO 60,242,531) and loans and advances on which interest is not being accrued amount to **RO 1,341,110** (2012 - to RO 1,496,380).

**5. Available-for-sale investments**

	2013 RO'000	2012 RO'000
<b>Equity instruments</b>		
- Quoted	8,784	7,730
- Unquoted	2,200	2,941
	<u>10,984</u>	<u>10,671</u>
	<b>Cost</b>	<b>Fair value</b>
	RO'000	2013 RO'000
		2012 RO'000
<b>Quoted on the Muscat Securities Market</b>		
Banking and investments	1,314	1,413
Services	3,744	4,049
Industrial	2,780	3,322
	<u>7,838</u>	<u>8,784</u>
		<u>7,730</u>
<b>Unquoted</b>		
Omani companies	1,699	2,200
	<u>9,537</u>	<u>10,671</u>

**6. Held-to-maturity investments**

	2013 RO'000	2012 RO'000
Treasury bills with maturity of above 90 days	59,908	36,656
Government Development Bonds	77,071	69,358
	<u>136,979</u>	<u>106,014</u>

**Notes to the financial statements (Unaudited)  
for the three- month period ended 31 March 2013**

**7. Financial instruments at fair value through Profit or Loss**

Financial instruments at fair value through Profit or Loss	<b>734</b>	-
	<u>          </u>	<u>          </u>

**8. Intangible asset**

The movement in the goodwill account is as follows:

1st January	<b>3,177</b>	3,574
Impaired during the period	<b>(99)</b>	(95)
31 March	<b>3,078</b>	3,479
	<u>          </u>	<u>          </u>

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.

**9. Due to banks**

Other borrowings	<b>104,147</b>	95,830
Payable on demand	<b>2,951</b>	1,114
	<u>          </u>	<u>          </u>
	<b>107,098</b>	96,944
	<u>          </u>	<u>          </u>

In 2011, the Bank successfully availed bilateral loans amounting to USD 75 million from various regional banks.

At 31 March 2013, and 2012 no borrowing from a bank individually represented 20% or more of the Bank's borrowings. The Bank has not had any defaults of principal, interest or other breaches during of the period on its borrowed funds (2012 - Nil).

**10. Deposits from customers**

	<b>2013</b>	2012
	<b>RO'000</b>	RO'000
Current accounts	<b>527,485</b>	404,896
Savings accounts	<b>287,314</b>	260,008
Time deposits/Certificate of deposits	<b>973,020</b>	890,351
Margin accounts	<b>4,387</b>	4,508
	<u>          </u>	<u>          </u>
	<b>1,792,206</b>	1,559,763
	<u>          </u>	<u>          </u>

Current accounts and time deposits include deposits from the Government of the Sultanate of Oman and its entities amounting to RO 681,145,000 (2012 - RO 526,804,000).

Saving Deposits Includes Islamic Banking Service RO 261,000

**Notes to the financial statements (Unaudited)  
for the three- month period ended 31 March 2013**

**11. Subordinated loan**

	<b>2013</b>	2012
	<b>RO'000</b>	RO'000
Subordinated loan - US Dollar	-	38,500
Subordinated loan - RO	<b>75,000</b>	50,000
	<u><b>75,000</b></u>	<u>88,500</u>

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 of 5.12% per annum 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.

In August 2007, the Bank availed an unsecured subordinated loan of US \$ 100 million with a tenor of 5 years and one month. The rate of interest is linked to 3 month LIBOR plus margin, payable quarterly, while principal is payable in lump sum at maturity.

**12. Share capital**

The authorised share capital consists of 2,200,000,000 shares of RO 0.100 each (2012: 2,200,000,000,000 shares of RO 0.100 each).

On 19 March 2013 the Shareholders of the Bank in the annual general meeting approved the issuance of 10% bonus shares amounting to 110,011,647 shares of par value RO 0.100 each.

At 31 March 2013, the issued and paid up share capital comprise 1,210,128,121 shares of par value RO 0.100 each. (2012 – 1,100,116,474 shares of par value RO 0.100 each).

**Shareholders**

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

	<b>2013</b>		2012	
	<b>No of shares</b>	<b>%</b>	No of shares	%
Dhofar International Development and Investment Company SAOG	<b>336,600,000</b>	<b>27.82</b>	302,539,951	27.50
Eng. Abdul Hafidh Salim Rajab	<b>252,174,876</b>	<b>20.84</b>	229,249,889	20.84
Al Aujaili and his related Companies	<b>122,814,240</b>	<b>10.15</b>	111,359,828	10.12
Civil Service Employees' Pension Fund	<u>711,589,116</u>	<u>58.81</u>	<u>643,149,668</u>	<u>58.46</u>
Total	<b>711,589,116</b>	<b>58.81</b>	643,149,668	58.46
Others	<b>498,539,005</b>	<b>41.19</b>	456,966,806	41.54
	<u><b>1,210,128,121</b></u>	<u><b>100.00</b></u>	<u>1,100,116,474</u>	<u>100.00</u>

**Notes to the financial statements (Unaudited)  
for the three- month period ended 31 March 2013**

**13. Reserves**

**(a) Legal reserve**

In accordance with Article 106 of the Commercial Companies Law of 1974, annual appropriations of 10% of profit are made to the legal reserve until the accumulated balance of the reserve is equal to one-third of the Bank's paid up share capital. This reserve is not available for distribution.

**(b) Subordinated loan reserves**

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

**13. Reserves (continued)**

**(c) Investment revaluation reserve**

The movements in the investments revaluation reserve is analysed below:

	<b>2013</b> <b>RO'000</b>	2012 RO'000
1 January	<b>1,556</b>	627
Increase/decrease in fair value	<b>628</b>	397
Net transfer to statement of comprehensive income on sale of available-for-sale investment	<b>(737)</b>	(253)
31 March	<b>1,447</b>	771

**14. Earnings per share (basic and diluted)**

The calculation of basic and diluted earnings per share is based on profit for the three months period ended 31 March as follows:

	<b>2013</b>	<b>2012</b>
Net Profit for the period (RO)	<b>32,439,000</b>	9,177,000
Weighted average number of shares outstanding during of the period	<b>1,210,128,121</b>	1,210,128,121
Earnings per share basic and diluted - annualized	<b>0.109</b>	0.030

Earnings per share (basic and diluted) has been derived by dividing the profit for the period 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.

For the purpose of earning per share calculation, the Bank has restated the previous year weighted average number of shares outstanding to include the 10% bonus Shares 110,011,647 shares with RO 0.100 par each) issued in the first quarter of 2013.



**Notes to the financial statements (Unaudited)  
for the three- month period ended 31 March 2013**

**15. Capital adequacy**

The ratio of equity to risk weighted assets, as formulated by the Basel II, for three - months period ended 31 March 2013 is **14.26%** (2012 – 14.42%).

<b>Capital structure</b>	<b>2013</b>	<b>2012</b>
	<b>RO'000</b>	<b>RO'000</b>
<b>TIER I CAPITAL</b>		
Paid up capital	<b>121,013</b>	110,012
Legal reserve	<b>25,652</b>	21,877
Share premium	<b>40,018</b>	40,018
Subordinated bonds and loan reserve	<b>11,250</b>	34,617
Retained earnings	<b>45,513</b>	15,679
Less: goodwill	<b>(3,078)</b>	(3,479)
Less: negative investment revaluation reserve	<b>(190)</b>	(465)
<b>Total Tier I capital</b>	<b>240,178</b>	218,259
<b>TIER II CAPITAL</b>		
Investment revaluation reserve	<b>737</b>	556
General provision	<b>25,389</b>	22,808
Subordinated loan	<b>63,750</b>	48,750
<b>Total Tier II capital</b>	<b>89,876</b>	72,114
<b>Total eligible capital</b>	<b>330,054</b>	290,373
<b>Risk weighted assets</b>		
Banking book	<b>2,126,927</b>	1,836,517
Trading book	<b>31,891</b>	34,480
Operational risk	<b>156,465</b>	142,830
<b>Total</b>	<b>2,315,283</b>	2,013,827
Tier I capital	<b>240,178</b>	218,259
Tier II capital	<b>89,876</b>	72,114
Tier III capital	-	-
<b>Total regulatory capital</b>	<b>330,054</b>	290,373
<b>Tier I capital ratio</b>	<b>10.37%</b>	10.83%
<b>Total capital ratio</b>	<b>14.26%</b>	14.42%

**Notes to the financial statements (Unaudited)  
for the three- month period ended 31 March 2013**

**16. Net interest income**

	2013 RO'000	2012 RO'000
Loans and advances to customers	23,292	22,139
Debt investments	80	51
Money market placements	291	50
Others	3	3
<b>Total interest income</b>	<b>23,666</b>	<b>22,243</b>
Deposits from customers	(7,838)	(6,561)
Money market deposits	(211)	(453)
<b>Total interest expense</b>	<b>(8,049)</b>	<b>(7,014)</b>
<b>Net interest income</b>	<b>15,617</b>	<b>15,229</b>

**17. Other income**

Foreign exchange	334	279
Investment income (a)	2,321	952
Miscellaneous income	2,099	2,638
	<b>4,754</b>	<b>3,869</b>

**(a) Investment income**

**Investment income**

Dividend income- available-for-sale investments	332	256
financial instruments at fair value through profit or loss	734	-
Gain of disposal of available-for-sale investments	782	318
Interest income on Government Development Bonds (HTM)	473	378
	<b>2,321</b>	<b>952</b>

**18. Impairment of financial assets**

Provision for loan impairment	837	2,141
Provision for Inter Banks Loans impairment	760	-
	<b>1,597</b>	<b>2,141</b>
Recoveries from provision for loan impairment	(837)	(601)
31 March	<b>760</b>	<b>1,540</b>

**Notes to the financial statements (Unaudited)  
for the three- month period ended 31 March 2013**

**19. Related parties transactions**

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

	2013 RO'000	2012 RO'000
<b>Loans and advances</b>		
Directors and shareholders holding less than 10% interest in the Bank	13,456	19,368
Directors and shareholders holding 10% or more interest in the Bank	<u>29,348</u>	<u>28,005</u>
	<u>42,804</u>	<u>47,373</u>
<b>Subordinated Loans</b>		
Directors and shareholders holding less than 10% interest in the Bank	35,000	23,000
Directors and shareholders holding 10% or more interest in the Bank	<u>40,000</u>	<u>27,000</u>
	<u>75,000</u>	<u>50,000</u>
<b>Deposits and other accounts</b>		
Directors and shareholders holding less than 10% interest in the Bank	131,220	73,972
Directors and shareholders holding 10% or more interest in the Bank	<u>211,542</u>	<u>207,534</u>
	<u>342,762</u>	<u>281,506</u>
<b>Contingent liabilities and commitments</b>		
Directors and shareholders holding less than 10% interest in the Bank	2,081	1,889
Directors and shareholders holding 10% or more interest in the Bank	<u>14,750</u>	<u>16,050</u>
	<u>16,831</u>	<u>17,939</u>
<b>Remuneration paid to Directors</b>		
Chairman		
– remuneration paid	15	15
– sitting fees paid	4	7
Other Directors		
– remuneration paid	102	101
– sitting fees paid	34	27
	<u>155</u>	<u>150</u>
<b>Other transactions</b>		
Rental payment to related parties	<u>110</u>	<u>91</u>
Other transactions	<u>34</u>	<u>29</u>

**Notes to the financial statements (Unaudited)  
for the three- month period ended 31 March 2013**

**20. Senior member borrowing**

**Senior member**

	<b>2013</b>	2012
	<b>RO'000</b>	RO'000
Total exposure:		
Direct	<b>44,385</b>	49,587
Indirect	<b>16,831</b>	17,939
	<u><b>61,216</b></u>	<u>67,526</u>
	<u><b>23</b></u>	<u>24</u>
Number of members		

**21. Contingent liabilities and commitments**

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

	<b>2013</b>	2012
	<b>RO'000</b>	RO'000
Letters of credit	<b>89,863</b>	89,602
Guarantees and performance bonds	<b>129,986</b>	118,363
Advance payment guarantees	<b>77,222</b>	77,979
Payment guarantees	<b>78,188</b>	64,066
Others	<b>12,783</b>	17,419
	<u><b>388,042</b></u>	<u>367,429</u>

**22. Amount due to brokerage customers**

The amount due to brokerage customers as at 31 March 2013 RO 2,906  
(2012: RO 5,282.)

**Notes to the financial statements (Unaudited)  
for the three- month period ended 31 March 2013**

**23. Risk Management**

(i) Liquidity risk

**Maturity profile of assets and liabilities**

	<b>Due on demand and up to 30 days RO'000</b>	<b>More than 1 month to 6 months RO'000</b>	<b>More than 6 months to 12 months RO'000</b>	<b>More than 1 year to 5 years RO'000</b>	<b>Over 5 years RO'000</b>	<b>Total RO'000</b>
<b>31 March 2013</b>						
Cash and balances with Central Bank of Oman	269,778	-	-	-	500	270,278
Loans and advances to banks	66,340	45,690	29,529	9,529	-	151,088
Loans and advances to customers	140,094	264,061	108,335	403,794	794,942	1,711,226
Available-for-sale Investments	-	-	10,984	-	-	10,984
Held-to-maturity investments	-	59,908	-	66,661	10,410	136,979
Financial instruments at fair value through Profit or Loss	-	-	734	-	-	734
Intangible asset	-	-	-	-	3,078	3,078
Property and equipment	-	-	-	-	10,394	10,394
Other assets	2,817	37,754	2,147	-	5,344	48,062
<b>Total assets</b>	<b>479,029</b>	<b>407,413</b>	<b>151,729</b>	<b>479,984</b>	<b>824,668</b>	<b>2,342,823</b>
Due to banks	74,768	3,455	-	28,875	-	107,098
Deposits from customers	183,743	472,097	363,631	563,835	208,900	1,792,206
Other liabilities	21,459	39,514	3,027	24,153	3,034	91,187
Subordinated loans	-	-	-	75,000	-	75,000
Shareholders' equity	-	-	-	32,439	244,893	277,332
<b>Total liabilities and shareholders' equity</b>	<b>279,970</b>	<b>515,066</b>	<b>366,658</b>	<b>724,302</b>	<b>456,827</b>	<b>2,342,823</b>

**Notes to the financial statements (Unaudited)  
for the three- month period ended 31 March 2013**

**23. Risk Management (continued)**

**(i) Liquidity risk (continued)**

**Maturity profile of assets and liabilities (continued)**

	Due on demand and up to 30 days RO'000	More than 1 month to 6 months RO'000	More than 6 months to 12 months RO'000	More than 1 year to 5 years RO'000	Over 5 years RO'000	Total RO'000
31 March 2012						
Cash and balances with Central Bank of Oman	261,850	-	-	-	500	262,350
Loans and advances to banks	26,525	13,668	2,144	-	-	42,337
Loans and advances to customers	191,668	243,199	144,327	619,875	379,610	1,578,679
Available-for-sale Investments	-	-	10,671	-	-	10,671
Held-to-maturity investments	19,714	32,470	-	20,704	33,126	106,014
Intangible asset	-	-	-	-	3,479	3,479
Property and equipment	-	-	-	-	8,640	8,640
Other assets	3,724	20,621	31	-	4,013	28,389
<b>Total assets</b>	<b>503,481</b>	<b>309,958</b>	<b>157,173</b>	<b>640,579</b>	<b>429,368</b>	<b>2,040,559</b>
Due to banks	62,294	5,775	-	28,875	-	96,944
Deposits from customers	221,282	437,268	319,675	415,312	166,226	1,559,763
Other liabilities	14,785	22,341	1,987	21,643	2,445	63,201
Subordinated loan	-	38,500	-	50,000	-	88,500
Shareholders' equity	-	-	-	9,177	222,974	232,151
<b>Total liabilities and shareholders' equity</b>	<b>298,361</b>	<b>503,884</b>	<b>321,662</b>	<b>525,007</b>	<b>391,645</b>	<b>2,040,559</b>

**Notes to the financial statements (Unaudited)  
for the three- month period ended 31 March 2013**

**23 Risk Management (continued)**

**(ii) Market risk**

**(a) Interest rate risk**

**Interest rate sensitivity gap**

Sensitivity to interest rates arises from mismatches in the period to re pricing of assets and that of the corresponding liability. The Bank manages these mismatches by following policy guidelines and reduces risk by matching the re pricing of assets and liabilities.

	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
<b>31 March 2013</b>							
Cash and balances with Central Bank of Oman	130,000	-	-	-	500	139,778	270,278
Loans and advances to banks	66,340	45,690	29,529	9,529	-	-	151,088
Loans and advances to customers	140,094	264,061	108,335	403,794	794,942	-	1,711,226
Available-for-sale investments	-	-	-	-	-	10,984	10,984
Held-to-maturity investments	-	59,908	-	66,661	10,410	-	136,979
Financial instruments at fair value through Profit or Loss	-	-	-	-	-	734	734
Intangible asset	-	-	-	-	-	3,078	3,078
Property and equipment	-	-	-	-	-	10,394	10,394
Other assets	-	-	-	-	-	48,062	48,062
<b>Total assets</b>	<b>336,434</b>	<b>369,659</b>	<b>137,864</b>	<b>479,984</b>	<b>805,852</b>	<b>213,030</b>	<b>2,342,823</b>
Due to banks	71,817	3,455	-	28,875	-	2,951	107,098
Deposits from customers	427,886	258,746	299,403	420,178	5,200	450,793	1,792,206
Other liabilities	-	-	-	-	-	91,187	91,187
Subordinated loans	-	-	-	75,000	-	-	75,000
Shareholders' equity	-	-	-	-	-	277,332	277,332
<b>Total liabilities and shareholders' equity</b>	<b>499,703</b>	<b>262,201</b>	<b>229,403</b>	<b>524,053</b>	<b>5,200</b>	<b>822,263</b>	<b>2,342,823</b>
<b>On-balance sheet gap</b>	<b>(163,269)</b>	<b>107,458</b>	<b>(91,539)</b>	<b>(44,069)</b>	<b>800,652</b>	<b>(609,233)</b>	
<b>Cumulative interest sensitivity gap</b>	<b>(163,269)</b>	<b>(55,811)</b>	<b>(147,350)</b>	<b>(191,419)</b>	<b>609,233</b>	<b>-</b>	

**Notes to the financial statements (Unaudited)  
for the three-month period ended 31 March 2013**

**23. Risk Management (continued)**

**(ii) Market risk (continued)**

**(a) Interest rate risk (continued)**

**Interest rate sensitivity gap (continued)**

	Due on demand and within 30 days RO'000	Due within 1 to 6 months RO'000	Due within 7 to 12 months RO'000	Due within 1 to 5 years RO'000	Due after 5 years RO'000	Non- interest bearing RO'000	Total RO'000
31 March 2012							
Cash and balances with Central Bank of Oman	130,000	-	-	-	500	131,850	262,350
Loans and advances to banks	26,525	15,112	700	-	-	-	42,337
Loans and advances to customers	191,668	243,199	144,327	619,875	379,610	-	1,578,679
Available-for-sale investments	-	-	-	-	-	10,671	10,671
Held-to-maturity investments	19,714	32,470	-	20,704	33,126	-	106,014
Intangible asset	-	-	-	-	-	3,479	3,479
Property and equipment	-	-	-	-	-	8,640	8,640
Other assets	-	-	-	-	-	28,389	28,389
<b>Total assets</b>	<b>367,907</b>	<b>290,781</b>	<b>145,027</b>	<b>640,579</b>	<b>413,236</b>	<b>183,029</b>	<b>2,040,559</b>
Due to banks	61,814	19,250	-	15,400	-	480	96,944
Deposits from customers	379,157	269,555	212,695	285,308	-	413,048	1,559,763
Other liabilities	-	-	-	-	-	63,201	63,201
Subordinated loan	-	38,500	-	50,000	-	-	88,500
Shareholders' equity	-	-	-	-	-	232,151	232,151
<b>Total liabilities and shareholders' equity</b>	<b>440,971</b>	<b>327,305</b>	<b>212,695</b>	<b>350,708</b>	<b>-</b>	<b>708,880</b>	<b>2,040,559</b>
<b>On-balance sheet gap</b>	<b>(73,064)</b>	<b>(36,524)</b>	<b>(67,668)</b>	<b>289,871</b>	<b>413,236</b>	<b>(525,851)</b>	
<b>Cumulative interest sensitivity gap</b>	<b>(73,064)</b>	<b>(109,588)</b>	<b>(177,256)</b>	<b>112,615</b>	<b>525,851</b>	<b>-</b>	



**Notes to the financial statements (Unaudited)  
for the three-month period ended 31 March 2013**

**(b) Foreign currency exposures**

	<b>2013</b>	2012
	<b>RO'000</b>	RO'000
Net assets denominated in US Dollars	<b>64,951</b>	36,442
Net assets denominated in other foreign currencies	<b>1,095</b>	550
	<b><u>66,046</u></b>	<u>36,992</u>

**24. The Current Status of legal Cases**

**A) The Legal Case (RO 26.1M)**

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<sup>th</sup> March 2013 received a cheque of RO.26.1 million from the Primary Court in Muscat. This amount being the amount transferred in June 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 finally closed against the Bank.

**Notes to the financial statements (Unaudited)  
for the three-month period ended 31 March 2013****B) Other Legal Cases:**

i) During the previous years, the Primary Court decided a compensation of RO 5.0 million to be paid by the Bank to the plaintiff Mr. Ali Redha Al-Lawati against his alleged commercial damages. The plaintiff appealed requesting increase in the judgment amount. The Bank had also appealed against the primary judgment and the Appeal Court appointed a team of experts to report on technical issues in the dispute. During 2009, the team of experts submitted their report on technical issues and based on that report, the Appeal Court ruled in favour of the Bank and revoked the previous judgment issued by the Primary Court. Further, during 2010, the Plaintiff again appealed to the Supreme Court against the decision of the Appeal Court and the final decision is awaited.

Bank's lawyers firmly believe that the Bank's case is strong and sustainable. Taking into consideration that a similar claim from the same Plaintiff against a local bank had been dismissed by the Primary Court, Bank's lawyers anticipate that the Supreme Court will reject the appeal filed by the Plaintiff and dismiss the case accordingly.

Bank had earlier received in 2004 and 2007 three final judgments, in the Bank's favour, ordering Ali Redha Al-Lawati and his companies (Ali Redha Trading and Muttrah Holding) to pay off the dues amounting to RO 11.9 million to the Bank.

ii) Another plaintiff 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 23rd May 2012 the Supreme Court revoked the Appeal Court confirmation of the primary judgment. Further, the Supreme Court directed the Appeal Court to review the primary judgment. The final decision is awaited.

It is noteworthy to mention that the Bank, in a case failed against the same above plaintiff, had earlier received in its favour a final judgment directing the Plaintiff to pay to the Bank an amount of RO 381,203 together with interest at the rate of 10.5% per annum to be calculated up to the date of final payment.