



بنك ظفار
BankDhofar

**Unaudited interim condensed financial statements
For the six month period ended 30th June 2015**

Registered office and principal place of business:

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

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BANK DHOFAR S.A.O.G.

**THE BOARD OF DIRECTORS' REPORT FOR THE SIX-MONTH PERIOD
ENDED 30th June 2015**

Dear Shareholders,

On behalf of the Board of Directors of Bank Dhofar S.A.O.G., I am pleased to present to you the Bank's Financial Statements for the half-year ended 30th June 2015.

The Bank's consolidated Financial Performance during half year ended 30th June 2015:-

The Bank has continued to show significant growth in all areas during the first half of 2015, with the total assets increased to RO 3.39 billion at the end of June 2015 as compared to RO 2.85 billion at the end of June 2014 recording a growth of 18.95% year on year. Net Loans Advances and Financing to customers shows strong growth of 14.68% to reach RO 2.50 billion as at end of June 2015 compared to RO 2.18 billion as at end of June 2014. This growth in Loans Advances and Financing was supported by a corresponding growth in the customer deposits, which improved by 20.09% to reach RO 2.63 billion as at June 2015 as against RO 2.19 billion at June 2014.

The total operating income including the Non-funded income such as fees and commissions, foreign exchange profit, investment income grew by 13.29% to reach RO 54.91 million for the half year ended 30th June 2015 as compared to RO 48.47 million for the same period last year.

The Cost to Income ratio for the first half of 2015 improved to 45.21 % from 45.84% for the first half of 2014. Net provisions for loan and investment impairments increased to RO 4.45 million year-to-date June 2015 as compared to RO 3.05 million year-to-date June 2014 with impairment allowance of RO 0.90 million required for available-for-sale investments during first half 2015.

The Net Profits of the Bank for the first half ended June 2015 reached RO 22.63 million as compared to RO 20.50 million first half of 2014 showing a growth of 10.39%.

The earnings per share (EPS) for first half 2015 are RO 0.030 as compared to RO 0.027 achieved in first half 2014.

Capital Increase - Additional Tier 1 (AT1) Perpetual bond issue

In May 2015, the Bank successfully completed country's debut Basel III compliant AT1 Perpetual Bond issue of USD 300 million which are listed and traded in the Irish Stock Exchange. This capital instrument issue helped the Bank enhance the capital adequacy ratio to 16.47% as at 30th June 2015 and augment the future growth.

"Maisarah" Islamic Banking Services highlights:

Bank's Islamic Banking Window, Maisarah Islamic Banking Services, continued the trend of showing strong growth in assets, customer deposits and profitability. The total assets have

increased by 90.50% to RO 238.53 million at June 2015 from RO 125.21 million at June 2014. The gross financing portfolio has grown from RO 89.62 million at June 2014 to RO 174.25 million at June 2015, recording a significant growth of 94.43%. Customer deposits have grown fivefold from RO 26.96 million at June 2014 to RO 144.29 million at June 2015.

Maisarah's key profitability indicators continued to record strong growth. The net financing income increased to RO 2.56 million in June 2015 compared to RO 1.12 million in June 2014, recording a growth of 128.57%. Non-financing Income such as fees and commissions, foreign exchange profit, investment income and other income have also increased by 10.87% to RO 0.61 million at half year ended June 2015 compared RO 0.55 million at half year end June 2014. The cost to income ratio has improved from 80.60% at June 2014 to 46.75% at June 2015, thus proving Maisarah's long term strategic efforts and commitment to manage cost and increase profitability for the benefit of all the stakeholders.

During the half year ended 30 June 2015 Maisarah Islamic Banking Services recorded fivefold increase in net profit before tax of RO 1.28 million compared to a net loss before tax of RO 0.29 million during the corresponding period of June 2014 (being first full year of operation).

To support the continued strong growth, Maisarah's paid-up capital was increased from OMR 25 million to OMR 40Million from its shareholders core capital. Maisarah expanded its product offerings by adding a new Personal Finance Product for retail banking customers. Maisarah also continued to expand its operations and has opened a new branch at Dhakhliya region- Barkat Al Muz in the month of June 2015 thus increasing the branch network to total of four branches.

Awards & Accolades:-

The Bank continues to invest in various Customer initiatives and staff Training as part of the program to upgrade customer experience. The following excellence awards won during the first half of year 2015 are testimony to the Bank's unstinted efforts.

| |
|--|
| •SME Bank of the Year - Oman in the ABF Retail Banking Awards 2015 |
| •Website of the Year - Oman in the ABF Retail Banking Awards 2015 |
| •Oman Domestic Project Finance Bank of the Year in the ABF Wholesale Banking Awards 2015 |
| •Oman Domestic Cash Management Bank of the Year in the ABF Wholesale Banking Awards 2015 |
| •Best Branch Automation Project in Middle East 2015 by The Asian Banker |
| •Islamic Bank of the Year – Oman 2015 by The Banker |
| •Best Islamic Window – Maisarah, Oman 2015 by International Finance Magazine (IMF) |
| •Best SME Bank Oman 2015 by Global Banking & Finance Review |
| •Best Mobile Banking Oman 2015 by International Finance Magazine (IMF) |
| •Best Mobile E-Commerce Bank 2015 by Global Banking & Finance Review |
| •STP Award 2014 by Commerzbank, Germany |

Acknowledgment

On behalf of the Board of Directors and staff, 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 first half year of 2015.

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, would like to express our most sincere gratitude to His Majesty Sultan Qaboos Bin Said for his wise leadership and generous support to the private sector.

Eng. Abdul Hafidh Salim Rajab Al-Aujaili
Chairman

BANK DHOFAR SAOG

INTERIM CONDENSED STATEMENT OF FINANCIAL POSITION AT 30 JUNE 2015

| | | Unaudited 30 June 2015 | Unaudited 30 June 2014 | Audited 31 December 2014 |
|--|-------------------|---------------------------------------|------------------------------|-----------------------------------|
| | <i>Note s</i> | RO'000 | RO'000 | RO'000 |
| Assets | | | | |
| Cash and balances with Central Bank of Oman | 3 | 290,091 | 293,651 | 584,370 |
| Loans, advances and financing to banks | 4 | 251,704 | 199,489 | 91,164 |
| Loans, advances and financing to customers | 5 | 2,502,925 | 2,178,282 | 2,254,705 |
| Available-for-sale investments | 6 | 28,597 | 30,265 | 26,886 |
| Held-to-maturity investments | 7 | 219,795 | 87,590 | 149,988 |
| Intangible asset | 8 | 2,184 | 2,581 | 2,383 |
| Property and equipment | 9 | 9,312 | 10,394 | 9,683 |
| Other assets | | 80,724 | 51,944 | 74,948 |
| Total assets | | 3,385,332 | 2,854,196 | 3,194,127 |
| Liabilities | | | | |
| Due to banks | 10 | 82,730 | 193,854 | 175,013 |
| Deposits from customers | 11 | 2,625,040 | 2,192,497 | 2,482,179 |
| Other liabilities | | 116,472 | 85,628 | 107,742 |
| Subordinated loans | 12 | 103,875 | 75,000 | 103,875 |
| Total liabilities | | 2,928,117 | 2,546,979 | 2,868,809 |
| Shareholders' equity | | | | |
| Share capital | 13 | 154,473 | 134,324 | 134,324 |
| Share premium | | 40,018 | 40,018 | 40,018 |
| Special reserve | | 18,488 | 18,488 | 18,488 |
| Legal reserve | 14 | 35,537 | 31,492 | 35,537 |
| Subordinated loan reserve | 14 | 41,250 | 26,250 | 41,250 |
| Investment revaluation reserve | 14 | 1,028 | 1,802 | (46) |
| Retained earnings | | 50,921 | 54,843 | 55,747 |
| Total shareholders' equity attributable to the equity holders of the Bank | | 341,715 | 307,217 | 325,318 |
| Perpetual Tier 1 Capital Securities | 14 | <u>115,500</u> | - | - |
| Total equity | | 457,215 | 307,217 | 325,318 |
| Total liabilities and equity | | 3,385,332 | 2,854,196 | 3,194,127 |
| Contingent liabilities and commitments | 22 | 831,877 | 651,150 | 716,075 |
| Net assets per share (Rials Omani) | 15 | 0.296 | 0.229 | 0.242 |

The interim condensed financial statements were approved by the Board of Directors on -----
July 2015 and signed on their behalf by:

Eng. Abdul Hafidh Salim Rajab Al-Aujaili
Chairman

Abdul Hakeem Omar Al Ojaili
Acting Chief Executive Officer

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

BANK DHOFAR SAOG

INTERIM CONDENSED STATEMENT OF COMPREHENSIVE INCOME FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2015

| | Notes | Unaudited 6 months ended 30 June 2015 RO'000 | Unaudited 6 months ended 30 June 2014 RO'000 | Unaudited 3 months ended 30 June 2015 RO'000 | Unaudited 3 months ended 30 June 2014 RO'000 |
|---|--------|---|---|---|---|
| Interest income | | 56,490 | 51,782 | 28,712 | 26,292 |
| Interest expense | | (17,025) | (16,344) | (8,539) | (8,247) |
| Net interest income | 16 | 39,465 | 35,438 | 20,173 | 18,045 |
| Income from islamic financing | | 3,335 | 1,208 | 1,811 | 712 |
| Unrestricted investment account holders' share of profit | | (777) | (84) | (428) | (64) |
| Net income from islamic financing and Investment activities | | 2,558 | 1,124 | 1,383 | 648 |
| Fees and commission income | | 8,523 | 6,990 | 4,488 | 3,930 |
| Fees and commission expense | | (777) | (642) | (423) | (343) |
| Net fees and commission income | | 7,746 | 6,348 | 4,065 | 3,587 |
| Other income | 17 | 5,136 | 5,555 | 2,482 | 2,516 |
| Operating income | | 54,905 | 48,465 | 28,103 | 24,796 |
| Staff and administrative costs | | (23,173) | (20,330) | (12,065) | (10,409) |
| Depreciation | | (1,652) | (1,884) | (824) | (944) |
| Operating expenses | | (24,825) | (22,214) | (12,889) | (11,353) |
| Profit from operations | | 30,080 | 26,251 | 15,214 | 13,443 |
| Provision for loan impairment | 5 & 18 | (6,170) | (5,646) | (3,488) | (3,399) |
| Recoveries from allowance for loan impairment | 5 & 18 | 2,620 | 2,601 | 1,209 | 1,613 |
| Impairment of available-for-sale investments | 5 & 18 | (903) | - | (624) | - |
| Profit from operations after provision | | 25,627 | 23,206 | 12,311 | 11,657 |
| Income tax expense | | (3,000) | (2,702) | (1,461) | (1,371) |
| Profit for the period | | 22,627 | 20,504 | 10,850 | 10,286 |
| Profit for the period | | 22,627 | 20,504 | 10,850 | 10,286 |
| Other comprehensive income: | | | | | |
| <i>Other comprehensive income to be reclassified to profit or loss in subsequent periods:</i> | | | | | |
| Net changes in fair value of available-for-sale investment | | 229 | 376 | 394 | (15) |
| Reclassification adjustment on sale of available-for-sale investments | | (58) | (328) | (12) | (7) |
| Impairment of available-for-sale investments | | 903 | - | 624 | - |
| Other comprehensive income for the period | | 1,074 | 48 | 1,006 | (22) |
| Total comprehensive income for the period | | 23,701 | 20,552 | 11,856 | 10,264 |
| Earnings per share (basic and diluted) (Rials Omani) | 19 | 0.030 | 0.027 | 0.028 | 0.027 |

The accompanying notes form an integral part of these interim condensed financial statements

BANK DHOFAR SAOG

INTERIM CONDENSED STATEMENT OF CHANGES IN EQUITY FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2015

| | Notes | Share capital RO'000 | Share premium RO'000 | Special reserve RO'000 | Legal reserve RO'000 | Subordinated loan reserve RO'000 | Investment revaluation reserve RO'000 | Retained earnings RO'000 | Total RO'000 | Perpetual Tier capital security RO'000 | Total Equity RO'000 |
|---|-------|-------------------------|-------------------------|---------------------------|-------------------------|-------------------------------------|--|-----------------------------|-----------------|---|------------------------|
| Balance as at 1 January 2015 | | 134,324 | 40,018 | 18,488 | 35,537 | 41,250 | (46) | 55,747 | 325,318 | - | 325,318 |
| Total comprehensive income for the period | | | | | | | | | | | |
| Net profit for the period | | - | - | - | - | - | - | 22,627 | 22,627 | - | 22,627 |
| Other comprehensive income for the period | | | | | | | | | | | |
| Net change in fair value of available-for-sale investments | | - | - | - | - | - | 229 | - | 229 | - | 229 |
| Transfer to statement of income on sale of available-for-sale investments | | - | - | - | - | - | (58) | - | (58) | - | (58) |
| Impairment of available-for-sale investments | | - | - | - | - | - | 903 | - | 903 | - | 903 |
| Total comprehensive income for the period | | - | - | - | - | - | 1,074 | 22,627 | 23,701 | | 23,701 |
| Transactions recorded directly in equity | | | | | | | | | | | |
| Proceeds from Perpetual Tier 1 capital securities | 14 | - | - | - | - | - | - | - | - | 115,500 | 115,500 |
| Perpetual Tier 1 issuance cost | 14 | - | - | - | - | - | - | (588) | (588) | - | (588) |
| Dividend paid for 2014 | | - | - | - | - | - | - | (6,716) | (6,716) | - | (6,716) |
| Bonus shares issued for 2014 | 13 | 20,149 | - | - | - | - | - | (20,149) | - | - | - |
| Balance as at 30 June 2015 (Unaudited) | | 154,473 | 40,018 | 18,488 | 35,537 | 41,250 | 1,028 | 50,921 | 341,715 | 115,500 | 457,215 |

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BANK DHOFAR SAOG

INTERIM CONDENSED STATEMENT OF CHANGES IN EQUITY FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2015 (CONTINUED)

| | Notes | Share capital RO'000 | Share premium RO'000 | Special reserve RO'000 | Legal reserve RO'000 | Subordinated loan reserve RO'000 | Investment revaluation reserve RO'000 | Retained earnings RO'000 | Total RO'000 |
|---|-------|-------------------------|-------------------------|---------------------------|-------------------------|-------------------------------------|--|-----------------------------|-----------------|
| Balance 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 period | | | | | | | | | |
| Net profit for the period | | - | - | - | - | - | - | 20,504 | 20,504 |
| Other comprehensive income for the period | | | | | | | | | |
| Net change in fair value of available-for-sale investments | | - | - | - | - | - | 376 | - | 376 |
| Transfer to statement of income on sale of available-for-sale investments | | - | - | - | - | - | (328) | - | (328) |
| Total comprehensive income for the period | | - | - | - | - | - | 48 | 20,504 | 20,552 |
| Transactions recorded directly in equity | | | | | | | | | |
| Dividend paid for 2013 | | - | - | - | - | - | - | (16,942) | (16,942) |
| Bonus shares issued for 2013 | 13 | 13,311 | - | - | - | - | - | (13,311) | - |
| Balance as at 30 June 2014 (Unaudited) | | 134,324 | 40,018 | 18,488 | 31,492 | 26,250 | 1,802 | 54,843 | 307,217 |

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

BANK DHOFAR SAOG

INTERIM CONDENSED STATEMENT OF CHANGES IN EQUITY FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2015 (CONTINUED)

| | <i>Notes</i> | Share capital RO'000 | Share premium RO'000 | Special reserve RO'000 | Legal reserve RO'000 | Subordinated loans reserve RO'000 | Investment revaluation reserve RO'000 | Retained earnings RO'000 | Total RO'000 |
|--|--------------|----------------------------|----------------------------|------------------------------|----------------------------|--|--|--------------------------------|-----------------|
| 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 | | | | | | | | | |
| Profit for the year | | - | - | - | - | - | - | 40,453 | 40,453 |
| 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 | | - | - | - | 4,045 | - | - | (4,045) | - |
| Transactions recorded directly in equity | | | | | | | | | |
| Dividend paid for 2013 | | - | - | - | - | - | - | (16,942) | (16,942) |
| Bonus shares issued for 2013 | 13 | 13,311 | - | - | - | - | - | (13,311) | - |
| Transfer to subordinated loan reserve | | - | - | - | - | 15,000 | - | (15,000) | - |
| Balances as at 31 December 2014 (Audited) | | 134,324 | 40,018 | 18,488 | 35,537 | 41,250 | (46) | 55,747 | 325,318 |

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

BANK DHOFAR SAOG

INTERIM CONDENSED STATEMENT OF CASH FLOWS FOR SIX MONTH PERIOD ENDED 30 JUNE 2015

| | Unaudited 30 June 2015 RO'000 | Unaudited 30 June 2014 RO'000 |
|---|--|--|
| Cash flows from operating activities | | |
| Interest, financing income, commission and other receipts | 69,832 | 62,490 |
| Interest payments, return on Islamic Banking deposits | (16,383) | (16,143) |
| Cash payments to suppliers and employees | (18,315) | (25,275) |
| | <u>35,134</u> | <u>21,072</u> |
| Decrease in operating assets | | |
| Loans, advances and financing to customers | (251,780) | (279,417) |
| Loans, advances and financing to banks | (43,189) | (68,661) |
| Receipts from treasury bills and certificates of deposits (net) | (69,807) | 46,982 |
| | <u>(364,776)</u> | <u>(301,096)</u> |
| Increase in operating liabilities | | |
| Deposits from customers | 142,861 | 160,751 |
| Due to banks | (93,365) | 87,501 |
| | <u>49,496</u> | <u>248,252</u> |
| Cash used in operating activities | <u>(280,146)</u> | <u>(31,772)</u> |
| Income tax paid | (5,392) | (7,580) |
| Net cash used in operating activities | <u>(285,538)</u> | <u>(39,352)</u> |
| Cash flows from investing activities | | |
| Investment income | 1,318 | 984 |
| Purchase of investments | (2,771) | (7,086) |
| Proceeds from sale of investments | 981 | 1,504 |
| Dividend received | 597 | 662 |
| Purchase of property and equipment | (922) | (1,396) |
| Proceeds from sale of property and equipment | 129 | 163 |
| Net cash used in investing activities | <u>(668)</u> | <u>(5,169)</u> |
| Cash flow from financing activities | | |
| Dividend paid | (6,716) | (16,942) |
| Proceeds from issue of Perpetual Tier 1 capital securities (Note 14) | 115,500 | - |
| Perpetual Tier 1 capital securities issuance cost (Note x) | (588) | - |
| Net cash used in financing activities | <u>108,196</u> | <u>(16,942)</u> |
| Net change in cash and cash equivalents | <u>(178,010)</u> | <u>(61,463)</u> |
| Cash and cash equivalents at the beginning of the period | <u>602,548</u> | <u>425,255</u> |
| Cash and cash equivalents at the end of the period | <u>424,538</u> | <u>363,792</u> |
| Cash and balances with Central Bank of Oman | 290,091 | 293,651 |
| Capital deposit with Central Bank of Oman | (500) | (500) |
| Loans, advances and financing to banks due within 90 days | 136,827 | 71,257 |
| Due to banks within 90 days | (1,880) | (616) |
| Cash and cash equivalents for the purpose of the cash flow statement | <u>424,538</u> | <u>363,792</u> |

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

BANK DHOFAR SAOG

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2015

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. Which was subsequently increased to RO 40 million. 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.

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BANK DHOFAR SAOG

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2015

3. Cash and balances with Central Bank of Oman

| | Unaudited 30 June 2015 RO'000 | Unaudited 30 th June 2014 RO'000 | Audited 31 December 2014 RO'000 |
|--|--|--|--|
| Cash on hand | 31,532 | 28,389 | 36,121 |
| Balances with the Central Bank of Oman | 155,659 | 155,262 | 238,249 |
| Certificate of deposits with maturity of 90 days or less | 102,900 | 110,000 | 310,000 |
| | <u>290,091</u> | <u>293,651</u> | <u>584,370</u> |

At 30 June 2015, cash and balances with Central bank of Oman included balances with the Central Bank of Oman amounting to RO 500,000 (30 June 2014 - RO 500,000 and 31 December 2014 – RO 500,000) as minimum reserve requirements. These funds are not available for the Bank's daily business.

Outstanding certificate of deposits as of 30 June 2015 were issued by the Central Bank of Oman.

4. Loans, advances and financing to banks

| | Unaudited 30 June 2015 RO'000 | Unaudited 30 June 2014 RO'000 | Audited 31 December 2014 RO'000 |
|---|--|--|--|
| Syndicated loans to other banks | 84,891 | 86,627 | 73,920 |
| Less: impairment allowance (collective) | <u>(439)</u> | <u>(439)</u> | <u>(439)</u> |
| | 84,452 | 86,188 | 73,481 |
| Placements with other banks | 153,600 | 103,944 | 4,821 |
| Current clearing accounts | 13,652 | 9,357 | 12,862 |
| | <u>251,704</u> | <u>199,489</u> | <u>91,164</u> |

At 30 June 2015 and 31 December 2014, there are no concentrations with any banks representing 20% or more of the Bank's placements (30 June 2014 – Three Placement with two Banks).

Movement of the impairment allowance as below:

| | Unaudited 30 June 2015 RO'000 | Unaudited 30 June 2014 RO'000 | Audited 31 December 2014 RO'000 |
|---|--|--|--|
| Balance at beginning of the period / year | 439 | 367 | 367 |
| Add: Additions during the period / year | - | 272 | 256 |
| Less: Reversal during the period / year | - | (200) | (184) |
| | <u>439</u> | <u>439</u> | <u>439</u> |

BANK DHOFAR SAOG

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2015

5. Loans, advances and financing to customers

| | Unaudited 30 June 2015 RO'000 | Unaudited 30 June 2014 RO'000 | Audited 31 December 2014 RO'000 |
|--|--|--|--|
| Overdrafts | 132,524 | 111,945 | 130,591 |
| Loans | 2,146,400 | 1,922,156 | 1,953,070 |
| Loans against trust receipts | 89,890 | 103,786 | 79,484 |
| Bills discounted | 8,801 | 7,821 | 10,445 |
| Advance against credit cards | 7,625 | 7,619 | 7,705 |
| Others | 36,268 | 19,418 | 27,980 |
| Islamic Banking Window financing | 174,245 | 89,615 | 133,034 |
| Gross Loans, advances and financing | 2,595,753 | 2,262,360 | 2,342,309 |
| Less: Impairment allowance | (92,828) | (84,078) | (87,604) |
| Net loans, advances and financing | 2,502,925 | 2,178,282 | 2,254,705 |

The movement in the impairment allowance is analysed below:

(a) Allowance for loan impairment

| | | | |
|---|---------|---------|---------|
| Balance at beginning of the period / year | 56,887 | 50,809 | 50,809 |
| Allowance made during the period | 6,170 | 5,574 | 11,586 |
| Released to the statement of comprehensive income during the period | (2,620) | (2,601) | (4,724) |
| Written off during the period | (259) | (193) | (784) |
| Balance at the end of the period / year | 60,178 | 53,589 | 56,887 |

(b) Reserved interest

| | | | |
|--|--------|---------|---------|
| Balance at beginning of the period / year | 30,717 | 29,810 | 29,810 |
| Reserved during the period / year | 2,872 | 2,820 | 5,682 |
| Released to the statement of comprehensive income during the period / year | (465) | (541) | (944) |
| Written-off during the period / year | (474) | (1,600) | (3,831) |
| Balance at the end of the period / year | 32,650 | 30,489 | 30,717 |

Total impairment allowance

| | | |
|--------|--------|--------|
| 92,828 | 84,078 | 87,604 |
|--------|--------|--------|

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

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

Bank has not written off any loan as technical write off during the three month period ended 30 June 2015 (30 June 2014 – RO nil, year ended 31 December 2014 – RO 2.66 million).

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NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2015

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

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

Out of the total provisions of RO 92,828,000 (30 June 2014 – 84,078,000, 31 December 2014 – RO 87,604,000) a collective provision was made on portfolio basis amounting to RO 34,911,000 as of 30 June 2015 (30 June 2014 RO 29,603,000, 31 December 2014 – RO 32,349,000).

At 30 June 2015, impaired loans and advances on which interest has been reserved amount to 61,847,000 June 2014 - RO 57,344,431, 31 December 2014 - RO 58,680,172) and Loans and advances on which interest is not being accrued amount to RO 1,309,000 (30 June 2014 - RO 1,410,335, 31 December 2014 – RO 1,250,659).

6. Available-for-sale investments

| | Unaudited 30 June 2015 | | Unaudited 30 June 2014 | | Audited 31 December 2014 | |
|---|------------------------|----------------------|------------------------|----------------------|--------------------------|----------------------|
| | Cost RO'000 | Fair value RO'000 | Cost RO'000 | Fair value RO'000 | Cost RO'000 | Fair value RO'000 |
| a) Equity instruments | | | | | | |
| Quoted on the Muscat Securities Market | | | | | | |
| Banking and investments | 1,267 | 1,265 | 1,243 | 1,301 | 1,311 | 1,211 |
| Services | 4,809 | 5,002 | 5,871 | 6,199 | 5,083 | 5,257 |
| Industrial | 9,794 | 9,705 | 9,650 | 9,799 | 8,839 | 7,737 |
| | <u>15,870</u> | <u>15,972</u> | <u>16,764</u> | <u>17,299</u> | <u>15,233</u> | <u>14,205</u> |
| Unquoted | | | | | | |
| Omani companies | 1,699 | 2,427 | 1,699 | 2,768 | 1,699 | 2,483 |
| | <u>17,569</u> | <u>18,399</u> | <u>18,463</u> | <u>20,067</u> | <u>16,932</u> | <u>16,688</u> |
| b) Sukuk | | | | | | |
| Unquoted | | | | | | |
| Omani companies | 10,000 | 10,198 | 10,000 | 10,198 | 10,000 | 10,198 |
| | <u>10,000</u> | <u>10,198</u> | <u>10,000</u> | <u>10,198</u> | <u>10,000</u> | <u>10,198</u> |
| Total | <u>27,569</u> | <u>28,597</u> | <u>28,463</u> | <u>30,265</u> | <u>26,932</u> | <u>26,886</u> |

BANK DHOFAR SAOG

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2015

7. Held-to-maturity investments

| | Unaudited 30 June 2015 RO'000 | Unaudited 30 June 2014 RO'000 | Audited 31 December 2014 RO'000 |
|---|--|--|--|
| Treasury bills with maturity of above 90 days | 115,186 | 9,344 | 61,121 |
| Government Development Bonds | 104,609 | 78,246 | 88,867 |
| | <u>219,795</u> | <u>87,590</u> | <u>149,988</u> |

8. Intangible asset

| | Unaudited 30 June 2015 RO'000 | Unaudited 30 June 2014 RO'000 | Audited 31 December 2014 RO'000 |
|---|--|--|--|
| The movement in the goodwill account is as follows: | | | |
| Balance at beginning of the period / year | 2,383 | 2,780 | 2,780 |
| Impaired during the period | (199) | (199) | (397) |
| Balance at the end of the period / year | <u>2,184</u> | <u>2,581</u> | <u>2,383</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. An assessment has been made to establish projected future cash flows associated with the cash generating unit (CGU) by using discount rate equivalent to cost of funds of the Bank.

9. Property and equipment

| | Unaudited 30 June 2015 RO'000 | Unaudited 30 June 2014 RO'000 | Audited 31 December 2014 RO'000 |
|----------------|--|--|--|
| Conventional | 8,190 | 9,271 | 8,564 |
| Islamic window | 1,122 | 1,123 | 1,119 |
| | <u>9,312</u> | <u>10,394</u> | <u>9,683</u> |

10. Due to banks

| | Unaudited 30 June 2015 RO'000 | Unaudited 30 June 2014 RO'000 | Audited 31 December 2014 RO'000 |
|----------------------|--|--|--|
| Interbank borrowings | 80,850 | 193,238 | 174,215 |
| Payable on demand | 1,880 | 616 | 798 |
| | <u>82,730</u> | <u>193,854</u> | <u>175,013</u> |

At 30 June 2015, two borrowings with one bank represented 20% or more of the Bank's borrowings (30 June 2014: Nil, 31 December 2014: two banks). The Bank has not had any defaults of principal, interest or other breaches during the year on its borrowed funds.

BANK DHOFAR SAOG

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2015

11. Deposits from customers

| | Unaudited 30 June 2015 RO'000 | Unaudited 30 June 2014 RO'000 | Audited 31 December 2014 RO'000 |
|---|--|--|--|
| Current accounts | 795,669 | 713,905 | 686,095 |
| Savings accounts | 434,438 | 376,468 | 402,433 |
| Time deposits / Certificate of deposits | 1,226,311 | 1,068,680 | 1,274,542 |
| Margin accounts | 24,335 | 6,488 | 22,101 |
| Islamic Banking Window deposits | 144,287 | 26,956 | 97,008 |
| | <u>2,625,040</u> | <u>2,192,497</u> | <u>2,482,179</u> |

Current accounts and time deposits include deposits from the Government of the Sultanate of Oman and its entities amounting to RO 1,141,306 (30 June 2014 - RO 836,252,000 31 December 2014 – RO 1,076,168,000).

12. Subordinated loan

| | Unaudited 30 June 2015 RO'000 | Unaudited 30 June 2014 RO'000 | Audited 31 December 2014 RO'000 |
|-------------------------------|--|--|--|
| Subordinated loan - US Dollar | 28,875 | - | 28,875 |
| Subordinated loan - RO | 75,000 | 75,000 | 75,000 |
| | <u>103,875</u> | <u>75,000</u> | <u>103,875</u> |

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.

13. Share capital

The authorised share capital consists of 2,200,000,000 shares of RO 0.100 each (31 March 2014 and 31 December 2014: 2,200,000,000 shares of RO 0.100 each (2013: 2,200,000,000 ordinary shares of RO 0.100 each).

On 29 March 2015 the shareholders of the Bank in the annual general meeting approved the issuance of 15% bonus shares amounting to 201,486,332 shares of par value RO 0.100 each. (2013: 133,114,093 shares of par value RO 0.100 each).

At 30th June 2015, the issued and paid up share capital comprise 1,544,728,546 shares of par value RO 0.100 each. (30 June 2014 and 31 December 2014 – 1,343,242,214 shares of par value RO 0.100 each).

BANK DHOFAR SAOG

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2015

13. Share capital (continued)

Shareholders

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

| | Unaudited 30 June 2015 No of shares | % | Unaudited 30 June 2014 No of shares | % | Audited December 2014 No. of shares | % |
|--|--|--------------|---|----------|---|----------|
| Dhofar International Development and Investment Company SAOG | 432,523,991 | 28.0 | 373,625,997 | 27.8 | 373,625,997 | 27.8 |
| Eng. Abdul Hafidh Salim Rajab Al Aujaili and his related Companies | 321,901,224 | 20.8 | 279,914,110 | 20.8 | 279,914,110 | 20.8 |
| Civil Service Employees Pension Fund | 157,676,944 | 10.2 | 135,161,467 | 10.1 | 137,232,341 | 10.2 |
| Total | 912,102,159 | 59.0 | 788,701,574 | 58.7 | 790,772,448 | 58.9 |
| Others | 632,626,387 | 41.0 | 554,540,640 | 41.3 | 552,469,766 | 41.1 |
| | 1,544,728,546 | 100.0 | 1,343,242,214 | 100.0 | 1,343,242,214 | 100.0 |

14. Perpetual Tier 1 Capital Securities

On 27 May 2015, the Bank issued Perpetual Tier 1 Capital Securities (the "Tier 1 Securities"), amounting to USD 300,000,000.

The Tier 1 Securities constitute direct, unconditional, subordinated and unsecured obligations of the Bank and are classified as equity in accordance with IAS 32: Financial Instruments – Classification. The Tier 1 Securities do not have a fixed or final maturity date. They are redeemable by the Bank at its discretion on 27 May 2020 (the "First Call Date") or on any interest payment date thereafter subject to the prior consent of the regulatory authority.

The Tier 1 Securities bear interest on their nominal amount from the issue date to the First Call Date at a fixed annual rate of 6.85%. Thereafter the interest rate will be reset at five year intervals. Interest will be payable semi-annually in arrears and treated as deduction from equity.

The Bank at its sole discretion may elect not to distribute interest and this is not considered an event of default. If the Bank does not pay interest on the Tier 1 Securities, on a scheduled interest payment date (for whatever reason), then the Bank must not make any other distribution or payment on or with respect to its ordinary shares or any of its Other Common Equity Tier 1 Instruments or securities, ranking junior to or pari passu with the Tier 1 Securities unless and until it has paid one interest payment in full on the Tier 1 Securities. The Tier 1 Securities also allow the Bank to write-down (in whole or in part) any amounts due to the holders of the Securities in certain circumstances.

14. 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. Appropriation to legal reserve is made on an annual basis.

(b) Subordinated loan reserves

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

(c) Investment revaluation reserve

The movements in the investments revaluation reserve is analysed below:

| | Unaudited 30 June 2015 RO'000 | Unaudited 30 June 2014 RO'000 | Audited 31 December 2014 RO'000 |
|---|--|--|--|
| Balance at beginning of the period / year | (46) | 1,754 | 1,754 |
| (Decrease)/ increase in fair value | 229 | 376 | (1,159) |
| Net transfer to statement of income on sale of available-for-sale investments | (58) | (328) | (641) |
| Impairment of available-for-sale investment | 903 | - | - |
| Balance at the end of the period / year | <u>1,028</u> | <u>1,802</u> | <u>(46)</u> |

BANK DHOFAR SAOG

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2015

15. Net assets per share

Net assets per share are calculated by dividing the net assets at the period / year end by the number of shares outstanding at period / year end as follows:

| | Unaudited 30 June 2015 | Unaudited 30 June 2014 | Audited 31 December 2014 |
|--|---------------------------------------|------------------------------|--------------------------------|
| Net assets (RO'000) | 457,215 | 307,217 | 325,318 |
| Number of shares outstanding at 31 December (Nos.) | 1,544,728,546 | 1,343,242,214 | 1,343,242,214 |
| Net assets per share (RO) | 0.296 | 0.229 | 0.242 |

16. Net interest income

| | Unaudited 30 June 2015 RO'000 | Unaudited 30 June 2014 RO'000 |
|--|--|--|
| Loans, advances and financing to customers | 55,264 | 50,477 |
| Debt investments | 248 | 277 |
| Money market placements | 973 | 1,022 |
| Others | 5 | 6 |
| Total interest income | 56,490 | 51,782 |
| Deposits from customers | (16,487) | (16,034) |
| Money market deposits | (538) | (310) |
| Total interest expense | (17,025) | (16,344) |
| Net interest income | 39,465 | 35,438 |

17. Other income

| | Unaudited 30 June 2015 RO'000 | Unaudited 30 June 2014 RO'000 |
|-----------------------|--|--|
| Foreign exchange | 1,005 | 593 |
| Investment income (a) | 2,251 | 2,262 |
| Miscellaneous income | 1,880 | 2,700 |
| | 5,136 | 5,555 |

BANK DHOFAR SAOG

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2015

17. Other income (continued)

(a) Investment income

| | Unaudited 30 June 2015 RO'000 | Unaudited 30 June 2014 RO'000 |
|---|--|--|
| Investment income | | |
| Dividend income- available-for-sale investments | 597 | 662 |
| Income on Sukuk | 251 | 251 |
| Gain of disposal of available-for-sale investments | 85 | 363 |
| Interest income on Government Development Bonds (HTM) | 1,318 | 986 |
| | <u>2,251</u> | <u>2,262</u> |

18. Impairment of financial assets

| | Unaudited 30 June 2015 RO'000 | Unaudited 30 June 2014 RO'000 |
|---|--|--|
| Provision for loan impairment | 6,170 | 5,574 |
| Provision for inter banks loans impairment | - | 72 |
| Impairment of available-for-sale investments | 903 | - |
| | <u>7,073</u> | <u>5,646</u> |
| Recoveries from provision for loan impairment | (2,620) | (2,601) |
| | <u>4,453</u> | <u>3,045</u> |

19. Earnings per share (basic and diluted)

The calculation of basic and diluted earnings per share is based on profit for the six months period ended 30 June as follows:

| | Unaudited 30 June 2015 | Unaudited 30 June 2014 |
|---|---------------------------------------|------------------------------|
| Net Profit for the period / year (RO'000) | 22,627 | 20,504 |
| Weighted average number of shares outstanding during of the period / year | <u>1,544,728,546</u> | <u>1,544,728,546</u> |
| Earnings per share basic and diluted (RO) | <u>0.030</u> | <u>0.027</u> |

Earnings per share (basic and diluted) have 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 15% bonus shares of 201,486,332 shares issued in the second quarter of 2015.

BANK DHOFAR SAOG

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE SIX PERIOD ENDED 30 JUNE 2015

20. Related parties transactions

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

| | Unaudited 30 June 2015 RO'000 | Unaudited 30 June 2014 RO'000 | Audited 31 December 2014 RO'000 |
|---|--|--|--|
| Loans, advances and financing | | | |
| Directors and shareholders holding 10% or more interest in the Bank | 21,471 | 35,009 | 21,162 |
| Other related parties | 11,234 | 11,274 | 9,803 |
| | <u>32,705</u> | <u>46,283</u> | <u>30,965</u> |
| Subordinated Loans | | | |
| Directors and shareholders holding 10% or more interest in the Bank | 48,663 | 35,000 | 54,438 |
| Other related parties | 40,775 | 40,000 | 40,775 |
| | <u>89,438</u> | <u>75,000</u> | <u>95,213</u> |
| Deposits and other accounts | | | |
| Directors and shareholders holding 10% or more interest in the Bank | 322,386 | 360,284 | 325,022 |
| Other related parties | 72,886 | 69,327 | 87,515 |
| | <u>395,272</u> | <u>429,611</u> | <u>412,537</u> |
| Contingent liabilities and commitments | | | |
| Directors and shareholders holding 10% or more interest in the Bank | 129 | 12,158 | 174 |
| Other related parties | 1,989 | 1,884 | 1,816 |
| | <u>2,118</u> | <u>14,042</u> | <u>1,990</u> |
| Remuneration paid to Directors | | | |
| Chairman | | | |
| – remuneration paid | 17 | 15 | 17 |
| – sitting fees paid | 10 | 7 | 10 |
| Other Directors | | | |
| – remuneration paid | 116 | 99 | 116 |
| – sitting fees paid | 46 | 34 | 57 |
| | <u>179</u> | <u>155</u> | <u>200</u> |
| Other transactions | | | |
| Rental payment to related parties | 183 | 186 | 380 |
| Other transactions | 54 | 49 | 70 |
| | <u>26</u> | <u>25</u> | <u>32</u> |
| Remuneration and fees paid to Sharia' Board of Islamic Banking Window | | | |

BANK DHOFAR SAOG

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2015

21. Senior member borrowing

Senior member

| | Unaudited 30 June 2015 RO'000 | Unaudited 30 June 2014 RO'000 | Audited 31 December 2014 RO'000 |
|-------------------|--|--|--|
| Total exposure: | | | |
| Direct | 35,971 | 48,933 | 33,907 |
| Indirect | 2,118 | 14,042 | 1,990 |
| | 38,089 | 62,975 | 35,897 |
| Number of members | 28 | 27 | 16 |

22. Contingent liabilities and commitments

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

| | Unaudited 30 June 2015 RO'000 | Unaudited 30 June 2014 RO'000 | Audited 31 December 2014 RO'000 |
|----------------------------------|--|--|--|
| Letters of credit | 139,331 | 145,680 | 87,680 |
| Guarantees and performance bonds | 692,546 | 505,470 | 628,395 |
| | 831,877 | 651,150 | 716,075 |

BANK DHOFAR SAOG

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2015

23. Risk Management

(i) Liquidity risk

Maturity profile of assets and liabilities

| | Due on demand and up to 30 days RO'000 | More than 1 month to 6 months RO'000 | More than 6 months to 12 months RO'000 | More than 1 year to 5 years RO'000 | Over 5 years RO'000 | Total RO'000 |
|---|---|---|---|---|---------------------------|------------------|
| 30 June 2015 | | | | | | |
| Cash and balances with Central Bank of Oman | 289,591 | - | - | - | 500 | 290,091 |
| Loans, advances and financing to banks | 156,437 | 45,319 | 26,009 | 23,939 | - | 251,704 |
| Loans, advances and financing to customers | 196,408 | 358,963 | 113,637 | 600,301 | 1,233,616 | 2,502,925 |
| Available-for-sale investments | - | - | - | 10,198 | 18,399 | 28,597 |
| Held-to-maturity investments | 64,790 | 56,261 | - | 72,898 | 25,846 | 219,795 |
| Intangible asset | - | - | - | - | 2,184 | 2,184 |
| Property and equipment | - | - | - | - | 9,312 | 9,312 |
| Other assets | 51,139 | 7,528 | 15,953 | - | 6,104 | 80,724 |
| Total assets | 758,365 | 468,071 | 155,599 | 707,336 | 1,295,961 | 3,385,332 |
| Due to banks | 1,880 | 26,950 | 15,400 | 38,500 | - | 82,730 |
| Deposits from customers | 286,625 | 550,385 | 372,594 | 575,906 | 839,530 | 2,625,040 |
| Other liabilities | 75,366 | 8,555 | 19,979 | 6,158 | 6,414 | 116,472 |
| Subordinated loans | - | - | - | 75,000 | 28,875 | 103,875 |
| Shareholders' equity | - | - | 22,627 | - | 434,588 | 457,215 |
| Total liabilities and shareholders' equity | 363,871 | 585,890 | 430,600 | 695,564 | 1,309,407 | 3,385,332 |

BANK DHOFAR SAOG

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2015

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 |
|--|---|---|--|---|---------------------------|------------------|
| 30 June 2014 | | | | | | |
| Cash and balances with Central Bank of Oman | 293,151 | - | - | - | 500 | 293,651 |
| Loans, advances and financing to banks | 75,628 | 72,725 | 37,729 | 13,407 | - | 199,489 |
| Loans, advances and financing to customers | 182,859 | 394,846 | 164,316 | 862,700 | 573,561 | 2,178,282 |
| Available-for-sale investments | - | - | 20,067 | 10,198 | - | 30,265 |
| Held-to-maturity investments | 9,344 | 20,541 | - | 45,230 | 12,475 | 87,590 |
| Financial instruments at fair value through Profit or Loss | - | - | - | - | - | - |
| Intangible asset | - | - | - | - | 2,581 | 2,581 |
| Property and equipment | - | - | - | - | 10,394 | 10,394 |
| Other assets | 44,010 | 3,063 | 25 | 36 | 4,810 | 51,944 |
| Total assets | 604,992 | 491,175 | 222,137 | 931,571 | 604,321 | 2,854,196 |
| Due to banks | 107,653 | 36,151 | 50,050 | - | - | 193,854 |
| Deposits from customers | 261,938 | 571,543 | 499,968 | 568,896 | 290,152 | 2,192,497 |
| Other liabilities | 61,652 | 4,332 | 4,066 | 13,942 | 1,636 | 85,628 |
| Subordinated loan | - | - | - | 75,000 | - | 75,000 |
| Shareholders' equity | - | - | 20,504 | - | 286,713 | 307,217 |
| Total liabilities and shareholders' equity | 431,243 | 612,026 | 574,588 | 657,838 | 578,501 | 2,854,196 |

BANK DHOFAR SAOG

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2015

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 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 |

BANK DHOFAR SAOG

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2015

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 EIR 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 |
|---|------|--|---|--|--|-----------------------------------|---------------------------------------|------------------|
| 30 June 2015 | | | | | | | | |
| Cash and balances with Central Bank of Oman | 0.1% | 102,900 | - | - | - | 500 | 186,691 | 290,091 |
| Loans, advances and financing to banks | 1.0% | 175,558 | 76,146 | - | - | - | - | 251,704 |
| Loans, advances and financing to customers | 5.0% | 196,408 | 358,963 | 113,637 | 600,301 | 1,233,616 | - | 2,502,925 |
| Available-for-sale investments | 5.0% | - | - | - | 10,198 | - | 18,399 | 28,597 |
| Held-to-maturity investments | 1.3% | 64,790 | 56,261 | - | 72,898 | 25,846 | - | 219,795 |
| Intangible asset | | - | - | - | - | - | 2,184 | 2,184 |
| Property and equipment | | - | - | - | - | - | 9,312 | 9,312 |
| Other assets | | - | - | - | - | - | 80,724 | 80,724 |
| Total assets | | 539,656 | 491,370 | 113,637 | 683,397 | 1,259,962 | 297,310 | 3,385,332 |
| Due to banks | 1.0% | - | 80,850 | - | - | - | 1,880 | 82,730 |
| Deposits from customers | 1.2% | 569,778 | 485,384 | 355,042 | 442,747 | 52,795 | 719,294 | 2,625,040 |
| Other liabilities | | - | - | - | - | - | 116,472 | 116,472 |
| Subordinated loans | 5.2% | - | - | - | 75,000 | 28,875 | - | 103,875 |
| Shareholders 'equity | | - | - | 22,627 | - | 434,588 | - | 457,215 |
| Total liabilities and shareholders' equity | | 569,778 | 566,234 | 377,669 | 517,747 | 516,258 | 837,646 | 3,385,332 |
| On-balance sheet gap | | (30,122) | (74,864) | (264,032) | 165,650 | 743,704 | 540,336 | |
| Cumulative interest sensitivity gap | | (30,122) | (104,986) | (369,018) | (203,368) | 540,336 | - | |

BANK DHOFAR SAOG

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2015

23. Risk Management (continued)

(ii) Market risk (continued)

(a) Interest rate risk (continued)

Interest rate sensitivity gap (continued)

| | EIR | Due on demand and within 30 days RO'000 | Due within 1 to 6 months RO'000 | Due within 7 to 12 months RO'000 | Due within 1 to 5 years RO'000 | Due after 5 years RO'000 | Non-interest bearing RO'000 | Total RO'000 |
|---|------|---|---------------------------------|----------------------------------|--------------------------------|--------------------------|-----------------------------|------------------|
| 30 June 2014 | | | | | | | | |
| Cash and balances with Central Bank of Oman | 0.1% | 110,000 | - | - | - | 500 | 183,151 | 293,651 |
| Loans, advances and financing to banks | 1.0 | 92,953 | 80,149 | 26,387 | - | - | - | 199,489 |
| Loans, advances and financing to customers | 5.2% | 182,859 | 394,846 | 164,316 | 862,700 | 573,561 | - | 2,178,282 |
| Available-for-sale investments | 5.0% | - | - | - | 10,198 | - | 20,067 | 30,265 |
| Held-to-maturity investments | 2.0% | 9,344 | 20,541 | - | 45,230 | 12,475 | - | 87,590 |
| Intangible assets | | | | | | | 2,581 | 2,581 |
| Property and equipment | | - | - | - | - | - | 10,394 | 10,394 |
| Other assets | | - | - | - | - | - | 51,944 | 51,944 |
| Total assets | | 395,156 | 495,536 | 190,703 | 918,128 | 586,536 | 268,137 | 2,854,196 |
| Due to banks | 1.0% | 107,037 | 36,151 | 50,050 | - | - | 616 | 193,854 |
| Deposits from customers | 1.5% | 584,691 | 332,792 | 144,586 | 527,461 | 5,000 | 597,967 | 2,192,497 |
| Other liabilities | | - | - | - | - | - | 85,628 | 85,628 |
| Subordinated loan Shareholders' equity | 5.4% | - | - | - | 75,000 | - | - | 75,000 |
| | | - | - | 20,504 | - | - | 286,713 | 307,217 |
| Total liabilities and shareholders' equity | | 691,728 | 368,943 | 215,140 | 602,461 | 5,000 | 970,924 | 2,854,196 |
| On-balance sheet gap | | (296,572) | 126,593 | (24,437) | 315,667 | 581,536 | (702,787) | - |
| Cumulative interest sensitivity gap | | (296,572) | (169,979) | (194,416) | 121,251 | 702,787 | - | - |

BANK DHOFAR SAOG

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2015

23. Risk Management (continued)

(ii) Market risk (continued)

(a) Interest rate risk (continued)

Interest rate sensitivity gap (continued)

| | EIR | Due on demand and within 30 days RO'000 | Due within 1 to 6 months RO'000 | Due within 7 to 12 months RO'000 | Due within 1 to 5 years RO'000 | Due after 5 years RO'000 | Non-interest bearing RO'000 | Total RO'000 |
|---|------|---|---------------------------------|----------------------------------|--------------------------------|--------------------------|-----------------------------|------------------|
| 31 December 2014 | | | | | | | | |
| Cash and balances with Central Bank of Oman | 0.1% | 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 | | |

BANK DHOFAR SAOG

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2015

23. Risk Management (continued)

(ii) Market risk (continued)

(b) Foreign currency exposures

| | Unaudited 30 June 2015 RO'000 | Unaudited 30 June 2014 RO'000 | Audited 31 December 2014 RO'000 |
|--|--|--|--|
| Net assets denominated in US Dollars | 31,291 | 89,178 | 47,511 |
| Net assets denominated in other foreign currencies | 2,856 | 637 | 2,013 |
| | <u>34,147</u> | <u>89,815</u> | <u>49,524</u> |

(iii) Credit Risk

Customer concentrations

| | Assets | | | Liabilities | | |
|-----------------------------|---|--|------------------------------------|---|--------------------------------|-------------------------------------|
| | Loans and advances to banks RO'000 | Gross loans and advances RO'000 | Investment Securities RO'000 | Deposits from customers RO'000 | Deposits to banks RO'000 | Contingent liabilities RO'000 |
| 30 June 2015 | | | | | | |
| Personal | - | 1,187,414 | - | 582,249 | - | 346 |
| Corporate | 252,143 | 1,301,940 | 113,810 | 901,485 | 82,730 | 808,331 |
| Government | - | 106,399 | 134,582 | 1,141,306 | - | 23,200 |
| | <u>252,143</u> | <u>2,595,753</u> | <u>248,392</u> | <u>2,625,040</u> | <u>82,730</u> | <u>831,877</u> |
| 30 June 2014 | | | | | | |
| Personal | - | 942,439 | - | 504,159 | - | 267 |
| Corporate | 199,928 | 1,153,211 | 39,609 | 852,086 | 193,854 | 646,463 |
| Government | - | 166,710 | 78,246 | 836,252 | - | 4,420 |
| | <u>199,928</u> | <u>2,262,360</u> | <u>117,855</u> | <u>2,192,497</u> | <u>193,854</u> | <u>651,150</u> |
| 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 |
| | <u>91,603</u> | <u>2,342,309</u> | <u>176,874</u> | <u>2,482,179</u> | <u>175,013</u> | <u>716,075</u> |

24 Capital risk management

The Bank manages its capital to ensure that it will be able to continue as a going concern while maximising the return to shareholders within acceptable risk return framework. The Bank's overall strategy remains unchanged from prior year.

The capital base of the Bank consists of debt, which includes borrowings and equity attributable to shareholders of the Bank comprising issued share capital, share premium, reserves and retained earnings.

BANK DHOFAR SAOG

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2015

24 Capital risk management (continued)

Capital adequacy

The ratio of equity to risk weighted assets, as formulated by the Basel II and Basel III, for three - months period ended 30 June 2015 is 16.47% (30 June 2014 – 12.21% 31 December 2014 - 14.05%).

| Capital structure | Unaudited 30 June 2015 | Unaudited 30 June 2014 | Audited 31 December 2014 |
|---|-----------------------------------|---------------------------|--------------------------------|
| | RO'000 | RO'000 | RO'000 |
| Common Equity Tier (CET) I/ Tier I CAPITAL | | | |
| Paid up capital | 154,473 | 134,324 | 134,324 |
| Legal reserve | 35,537 | 31,492 | 35,537 |
| Share premium | 40,018 | 40,018 | 40,018 |
| Special reserve | 18,488 | 18,488 | 18,488 |
| Subordinated bonds and loan reserve | 41,250 | 26,250 | 41,250 |
| Retained earnings | 28,294 | 34,339 | 28,882 |
| Proposed bonus shares | - | - | 20,149 |
| CET I/Tier I Capital | 318,060 | 284,911 | 318,648 |
| Additional Tier I regulatory adjustments: | | | |
| Goodwill | (2,184) | (2,581) | (2,383) |
| Negative investment revaluation reserve | (743) | (416) | (1,634) |
| Total CET 1 capital | 315,133 | 281,914 | 314,631 |
| Additional Tier I capital (AT1) | 115,500 | - | - |
| Total Tier 1 Capital (T1=CET1+AT1) | 430,633 | 281,914 | 314,631 |
| TIER II CAPITAL | | | |
| Investment revaluation reserve | 697 | 998 | 620 |
| General provision | 35,350 | 30,042 | 32,788 |
| Subordinated loan | 62,625 | 48,750 | 62,625 |
| Total Tier II capital | 98,672 | 79,790 | 96,033 |
| Total eligible capital | 529,305 | 361,704 | 410,664 |
| Risk weighted assets | | | |
| Banking book | 2,982,971 | 2,719,441 | 2,674,461 |
| Trading book | 51,216 | 76,145 | 70,357 |
| Operational risk | 178,817 | 166,581 | 178,817 |
| Total | 3,213,004 | 2,962,167 | 2,923,635 |
| Total Tier 1 Capital (T1=CET1+AT1) | 430,633 | 281,914 | 314,631 |
| Tier II capital | 98,672 | 79,790 | 96,033 |
| Total regulatory capital | 529,305 | 361,704 | 410,664 |
| Common Equity Tier 1 ratio | 9.81% | 9.52% | 10.76% |
| Tier I capital ratio | 13.40% | 9.52% | 10.76% |
| Total capital ratio | 16.47% | 12.21% | 14.05% |

BANK DHOFAR SAOG

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2015

25 Fair value information

Based on the valuation methodology outlined below, the fair values of all financial instruments at 30 June 2015 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.

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.

BANK DHOFAR SAOG

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2015

25 Fair value information (continued)

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 30 June 2015 | Level 1 RO'000 | Level 2 RO'000 | Level 3 RO'000 | Cost RO'000 | Total RO'000 |
|---------------------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| Available-for-sale investments | | | | | |
| Equity instruments | 15,972 | - | 2,427 | - | 18,399 |
| Sukuk | - | 10,198 | - | - | 10,198 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| At 30 June 2014 | | | | | |
| <i>Available-for-sale investments</i> | | | | | |
| Equity instruments | 17,299 | - | 2,768 | - | 20,067 |
| Sukuk | - | 10,198 | - | - | 10,198 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| At 31 December 2014 | | | | | |
| <i>Available-for-sale investments</i> | | | | | |
| Equity instruments | 14,205 | - | 2,483 | - | 16,688 |
| Sukuk | - | 10,198 | - | - | 10,198 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> |

Valuation techniques include net present value and discounted cash flow models, comparison with similar instruments for which market observable prices exist and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premia used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index process and expected price volatilities and correlations.

Observable prices or model inputs are usually available in the market for listed debt and equity securities, exchange-traded derivatives and simple over-the-counter derivatives such as interest rate swaps. Availability of observable market prices and model inputs reduces the need for management judgment and estimation and also reduces the uncertainty associated with determining fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.