



بنك ظفار
Bank Dhofar

BANK DHO FAR S.A.O.G

Report and financial statements

31 December 2013

Registered and principal place of business:

Bank Dhofar SAOG
Central Business District
P.O. Box 1507
Ruwi 112
Sultanate of Oman

BANK DHOFAR S.A.O.G

Report and financial statements

for the year ended 31 December 2013

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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF BANK DHOFAR SAOG

Report on the financial statements

We have audited the financial statements of Bank Dhofar SAOG ("the Bank"), set out on pages 3 to 62, which comprise the statement of financial position as at 31 December 2013, the statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, the disclosure requirements of the Capital Market Authority and the Commercial Companies Law of 1974, as amended, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2013, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on other legal and regulatory requirements

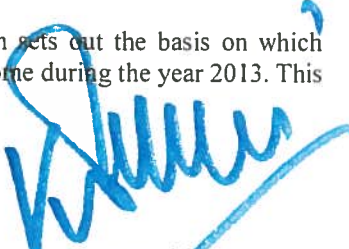
In our opinion the financial statements of the Bank as at and for the year ended 31 December 2013, in all material respects, comply with:

- the relevant disclosure requirements of the Capital Market Authority: and
- the Commercial Companies Law of 1974, as amended.

Emphasis of matter

Without qualifying our opinion, we draw attention to note 6 on page 23 which sets out the basis on which recovery from a legal case in the amount of RO 26.1 million is recognised as income during the year 2013. This was charged as loss from a legal case during the year 2011.

29 January 2014



Khalid Masud Ansari

BANK DHOFAR SAOG

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Statement of financial position

as at 31 December 2013

	Notes	2013 RO'000	2012 RO'000
Assets			
Cash and balances with Central Bank of Oman	5	345,758	208,495
Loans and advances to banks	7	121,370	97,410
Loans and advances to customers	8	1,901,910	1,672,508
Available-for-sale investments	9	24,635	11,588
Held-to-maturity investments	10	153,366	100,386
Intangible asset	11	2,780	3,177
Property and equipment	12	10,903	9,432
Other assets	13	44,657	40,834
Total assets		2,605,379	2,143,830
Liabilities			
Due to banks	14	106,334	88,675
Deposits from customers	15	2,031,746	1,634,628
Other liabilities	16	88,692	84,023
Subordinated loans	17	75,000	75,000
Total liabilities		2,301,772	1,882,326
Shareholder's equity			
Share capital	18	121,013	110,012
Share premium	19	40,018	40,018
Special reserve	20 (d)	18,488	-
Legal reserve	20 (a)	31,492	25,652
Subordinated loan reserve	20 (b)	26,250	11,250
Investment revaluation reserve	20 (c)	1,754	1,556
Retained earnings	21	64,592	73,016
Total shareholders' equity		303,607	261,504
Total liabilities and shareholders' equity		2,605,379	2,143,830
Contingent liabilities and commitments	32	461,952	378,908
Net assets per share (Rial Omani)	22	0.251	0.238

The financial statements on pages 3 to 62 were approved by the Board of Directors on 29/1/2014 and were signed on their behalf by:



Eng. Abdul Hafidh Salim Rajab Al-Aujaili
Chairman



Abdul Hakeem Al-Ojaili
Acting Chief Executive Officer

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

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Statement of comprehensive income*for the year ended 31 December 2013*

	<i>Notes</i>	2013 RO'000	2012 RO'000
Interest income		100,037	93,701
Interest expense		(33,696)	(29,332)
Net interest income	23	66,341	64,369
Income from Islamic financing and investment activities		188	-
Unrestricted investment account holders' share of profit		(15)	-
Net income from Islamic financing and investment activities		173	-
Fees and commission income		9,828	7,299
Fees and commission expense		(923)	(753)
Net fees and commission income		8,905	6,546
Other income	<i>24</i>	14,139	13,178
Operating income		89,558	84,093
Staff and administrative costs	<i>25</i>	(41,777)	(34,013)
Depreciation	<i>12</i>	(3,539)	(3,034)
Operating expenses		(45,316)	(37,047)
Profit from operations		44,242	47,046
Provision for loan impairment	<i>26</i>	(7,388)	(7,043)
Recoveries from allowance for loan impairment	<i>26</i>	3,155	3,189
Bad debts written-off		(1)	(5)
Impairment of available-for-sale investments	<i>9</i>	-	(287)
Recovery from a legal case	<i>6</i>	26,129	-
Profit from operations after provision		66,137	42,900
Income tax expense	<i>27</i>	(7,730)	(5,155)
Profit for the year		58,407	37,745
Profit for the year		58,407	37,745
Other comprehensive income:			
<i>Items that are or may be reclassified to statement of income:</i>			
Net changes in fair value of available-for-sale investments	<i>9</i>	2,447	1,434
Reclassification adjustment on sale of available-for-sale investments	<i>9</i>	(2,249)	(792)
Total comprehensive income for the year		58,605	38,387
Earnings per share basic and diluted (Rials Omani)	28	0.048	0.031

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

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Statement of changes in equity for the year ended 31 December 2013

	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
1 January 2013	110,012	40,018	-	25,652	11,250	1,556	73,016	261,504
Total comprehensive income for the year	-	-	-	-	-	-	58,407	58,407
Profit for the year	-	-	-	-	-	-	-	-
Other comprehensive income for the year	-	-	-	-	-	2,447	-	2,447
Net change in fair value of available-for-sale investments	-	-	-	-	-	2,447	-	2,447
Transfer to statement of income on sale of available-for-sale investments	-	-	-	-	-	(2,249)	-	(2,249)
Impairment of available-for-sale investments	-	-	-	-	-	-	-	-
Total comprehensive income for the year	-	-	-	-	-	198	58,407	58,605
Transfer to legal reserve	-	-	-	5,840	-	-	(5,840)	-
Transactions with owners recorded directly in equity	-	-	-	-	-	-	(16,502)	(16,502)
Dividend paid for 2012	11,001	-	-	-	-	-	(11,001)	-
Bonus shares issued for 2012	-	-	-	-	15,000	-	(15,000)	-
Transfer to subordinated loan reserve	-	-	-	-	-	-	(18,488)	-
Transfer to special reserve	-	-	18,488	-	-	-	(18,488)	-
31 December 2013	121,013	40,018	18,488	31,492	26,250	1,754	64,592	303,607

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

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Statement of changes in equity for the year ended 31 December 2012

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	Notes	Share capital RO'000	Share premium RO'000	Legal reserve RO'000	Subordinated loans reserve RO'000	Investment revaluation reserve RO'000	Retained earnings RO'000	Total RO'000
1 January 2012		91,524	58,506	21,877	34,617	627	22,086	229,237
Total comprehensive income for the year		-	-	-	-	-	37,745	37,745
Profit for the year		-	-	-	-	-	-	-
Other comprehensive income for the year		-	-	-	-	1,434	-	1,434
Net change in fair value of available-for-sale investments		-	-	-	-	(792)	-	(792)
Transfer to statement of income on sale of available-for-sale investments		-	-	-	-	287	-	287
Impairment of available-for-sale investments		-	-	-	-	-	-	-
Total comprehensive income for the year		-	-	-	-	929	37,745	38,674
Transfer to legal reserve	20	-	-	3,775	-	-	(3,775)	-
Transactions with owners recorded directly in equity		-	-	-	-	-	-	-
Dividend paid for 2011	38	-	-	-	-	-	(6,407)	(6,407)
Bonus shares issued for 2011	38	18,488	(18,488)	-	-	-	-	-
Transfer to subordinated loan reserve	20	-	-	-	15,133	-	(15,133)	-
Transfer to retained earnings	20	-	-	-	(38,500)	-	38,500	-
31 December 2012		110,012	40,018	25,652	11,250	1,556	73,016	261,504

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

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Statement of cash flows*for the year ended 31 December 2013*

	2013 RO'000	2012 RO'000
Cash flows from operating activities		
Interest, commission and other receipts	119,825	111,105
Interest payments	(33,041)	(28,892)
Cash payments to suppliers and employees	(16,560)	(27,073)
	<u>70,224</u>	<u>55,140</u>
Decrease in operating assets		
Loans and advances to customers	(233,636)	(180,706)
Loans and advances to banks	(8,006)	(48,100)
Receipts from treasury bills and certificates of deposits (net)	(34,186)	5,870
	<u>(275,828)</u>	<u>(222,936)</u>
Increase in operating liabilities		
Deposits from customers	397,118	115,310
Due to banks	17,946	29,084
	<u>415,064</u>	<u>144,394</u>
Net cash from operating activities	<u>209,460</u>	<u>(23,402)</u>
Income tax paid	(4,978)	(1,846)
Net cash from (used in) operating activities	<u>204,482</u>	<u>(25,248)</u>
Cash flows from investing activities		
Investment income	1,972	1,696
Purchase of investments	(24,653)	(4,248)
Proceeds from sale of investments	11,517	4,704
Dividend received	399	399
Purchase of property and equipment	(5,094)	(4,044)
Proceeds from sale of property and equipment	178	277
Net cash used in investing activities	<u>(15,681)</u>	<u>(1,216)</u>
Cash flow from financing activities		
Subordinated loan	-	25,000
Subordinated loan repaid	-	(38,500)
Dividend paid	(16,502)	(6,407)
Net cash used in financing activities	<u>(16,502)</u>	<u>(19,907)</u>
Net change in cash and cash equivalents	<u>172,299</u>	<u>(46,371)</u>
Cash and cash equivalents at the beginning of the year	<u>252,956</u>	<u>299,327</u>
Cash and cash equivalents at the end of the year	<u>425,255</u>	<u>252,956</u>
Cash and balances with Central Bank of Oman (Note 5)	<u>345,758</u>	<u>208,495</u>
Capital deposit with Central Bank of Oman	(500)	(500)
Loans and advances to banks due within 90 days	61,800	45,845
Treasury bills within 90 days	18,794	-
Due to banks within 90 days	(597)	(884)
Cash and cash equivalents for the purpose of the cash flow statement	<u>425,255</u>	<u>252,956</u>

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

Report of the Auditors - page 2

1. Legal status and principal activities

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

2. Basis of preparation

a) Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by International Accounting Standards Board (IASB), disclosure requirements of the Capital Market Authority and the Commercial Companies Law of 1974, as amended.

b) Basis of measurement

The financial statements have been prepared on the historical cost basis except for derivative financial instruments, financial instruments at fair value through profit and loss and available-for-sale financial assets which are measured at fair value.

c) Functional and presentation currency

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

d) Use of estimates and judgements

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

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

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

e) Accounting policies

During the year, the Bank has adopted the following standards effective for the annual period beginning on or after 1 January 2013. The new standards had no significant impact on the financial statements of the Bank, other than additional disclosures which are required under the below standards:

- IAS 1 (amendment) - Presentation of items of other comprehensive income
- IFRS 7 (Amendment) - Offsetting financial assets and financial liabilities
- IFRS 13 - Fair value measurement

The accounting policies set below have been consistently applied in dealing with items that are considered material in relation to the Bank's financial statements to all the periods presented.

3. Principal accounting policies**3.1. Foreign currency translations**

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

3.2. Financial instruments**3.2.1. Recognition**

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

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

3.2.2. Classification

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

3.2.2.1. Financial assets at fair value through profit or loss

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

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

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

3. Principal accounting policies (continued)**3.2. Financial instruments (continued)****3.2.2.1. Financial assets at fair value through profit or loss (continued)**

- Certain investments, that are managed and evaluated on a fair value basis in accordance with documented risk management or investments strategy and reported to key management personnel on that basis are designated at fair value through profit or loss; and
- Financial instruments, containing one or more embedded derivatives significantly modify the cash flows, are designated at fair value through profit or loss.

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

3.2.2.2. Loans and receivables

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

3.2.2.3. Available-for-sale investments

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

3.2.2.4. Held-to-maturity investments

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

3.2.3. Derecognition

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

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

3. Principal accounting policies (continued)**3.2. Financial instruments (continued)****3.2.4. Measurement**

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

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

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

3.2.5. Fair value measurement principles

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

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

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

3.2.6. Gains and losses on subsequent measurement

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

3. Principal accounting policies (continued)**3.3. Cash and cash equivalents**

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

3.4. Treasury bills and certificate of deposits

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

3.5. Offsetting

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

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

3.6. Impairment of financial assets

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

- (i) significant financial difficulty of the issuer or obligor;
- (ii) a breach of contract, such as a default or delinquency in interest or principal payments;
- (iii) the Bank granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the lender would not otherwise consider;
- (iv) it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- (v) the disappearance of an active market for that financial asset because of financial difficulties; or
- (vi) observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:
 - adverse changes in the payment status of borrowers in the group; or
 - national or local economic conditions that correlate with defaults on the assets in the group.

3. Principal accounting policies (continued)**3.6. Impairment of financial assets (continued)**

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

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

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

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

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

3. Principal accounting policies (continued)**3.6. Impairment of financial assets (continued)**

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

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

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

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

3.7. Property and equipment

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

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

3. Principal accounting policies (continued)**3.7. Property and equipment (continued)**

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

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

3.8. Intangible assets

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

3.9. Provisions

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

3.10. Dividends

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

3.11. Interest income and expense

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

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

3. Principal accounting policies (continued)**3.11. Interest income and expense (continued)**

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

3.12. Fees and commission income

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

3.13. Taxation

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

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

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

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

3. Principal accounting policies (continued)**3.14. Employee benefits**

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

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

3.15. Derivative financial instruments

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

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

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

3.15.1 Embedded derivatives

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

3. Principal accounting policies (continued)**3.15. Derivative financial instruments (continued)***3.15.2 Hedge accounting*

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

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

3.15.3 Fair value hedges

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

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

3.15.4 Cash flow hedges

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

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

3. Principal accounting policies (continued)**3.15. Derivative financial instruments (continued)****3.15.4 Cash flow hedges (continued)**

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

3.16. Sale and repurchase agreements

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

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

3.17. Borrowings

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

3.18. Segment reporting

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

3.19. Fiduciary assets

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

3. Principal accounting policies (continued)**3.20. Trade and settlement date accounting**

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

3.21. Directors’ remuneration

Directors’ remuneration is calculated in accordance with the Commercial Companies Law of 1974.

3.22. Standards not yet effective

Management anticipates that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of the Bank in the period of initial application except:

- IFRS 9 Financial Instruments: Classification and Measurement (effective from 1 January 2015) deals with classification and measurement of financial assets. The requirements of this standard represent a significant change from the existing requirements in IAS 39 in respect of financial assets.
- Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32) – (effective on or after 1 January 2014)
- Defined Benefit Plans: Employee Contributions (Amendments to IAS 19) – (effective on or after 30 June 2015)

The management are in the process of determining the impacts, if any, on the Bank’s financial position and financial performance.

4. Critical accounting judgment and key sources of estimation uncertainty**(a) Classification of investments**

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

Available-for-sale investments

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

Held-to-maturity investments

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

(b) Fair value estimation

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

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

4. Critical accounting judgment and key sources of estimation uncertainty (continued)**(c) Impairment***Impairment losses on loans and advances*

Management reviews its loan portfolio to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in the statement of income, management makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans and advances before the decrease can be identified with an individual receivable in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group that correlates with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Impairment of goodwill

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

Impairment of available-for-sale investment

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

(d) Useful life of property and equipment

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

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5. Cash and balances with Central Bank of Oman

	2013 RO'000	2012 RO'000
Cash in hand	24,294	20,468
Balances with the Central Bank of Oman	131,464	118,027
Certificate of deposits with maturity of 90 days or less	190,000	70,000
	<u>345,758</u>	<u>208,495</u>

At 31 December 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 December 2013 were issued by the Central Bank of Oman.

6 Recovery from a legal case

The Enforcement Court vide its order ref 1959/2006/10484 dated 25 June 2011 had ordered the Bank to transfer an amount of RO 26.1 million to its account (which has been paid) in connection with the legal case filed by Oman International Bank ("OIB") (currently HSBC Oman) against Ali Redha Al-Lawati and his companies (Ali Redha Trading and Muttrah Holding) and the Bank wherein Ali Redha Al-Lawati and his companies had claimed to own 1.925 million shares of the Bank and OIB (currently HSBC Oman) had claimed that these shares were pledged in its favour. This was categorically disputed by the Bank from the beginning and clarified clearly that this pledge was invalid and baseless due to lack of clear supporting documentation.

The case was primarily filed against Majan International Bank ("MIB") in 2001, which was acquired by the Bank in 2003 and the disputed shares were MIB shares.

On 24 July 2011, the Primary Court with the bench of three judges issued a judgment overruling the above judgment of the Enforcement Court that imposed an attachment of RO 26.1 million and considered the attachment as null and void. This judgment was appealed by OIB (currently HSBC Oman), Ali Redha and his group companies on 3 August 2011. The Appeal Court on 12 March 2012 rejected the appeal and upheld the Primary Court judgment.

On 25 March 2013, the Bank received a cheque of RO 26.1 million from the Primary Court in Muscat and the case has been closed against the Bank.

7. Loans and advances to banks

Syndicated loans to other banks	36,639	32,465
Less: impairment allowance	<u>(367)</u>	<u>-</u>
Net syndicated loans to other banks	36,272	32,465
Placements with other banks	77,591	53,107
Current clearing accounts	7,507	11,838
	<u>121,370</u>	<u>97,410</u>

At 31 December 2013, there are no placements with any banks representing 20% or more of the Bank's placements (2012: three placements with one local bank).

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8. Loans and advances to customers

	2013 RO'000	2012 RO'000
Overdrafts	111,959	130,559
Loans	1,724,640	1,499,949
Loans against trust receipts	77,792	88,009
Bills discounted	13,099	3,532
Advance against credit cards	7,864	7,881
Others	18,907	18,058
Islamic Banking Window financing	28,268	-
Gross loans and advances	1,982,529	1,747,988
Less: Impairment allowance	(80,619)	(75,480)
Net loans and advances	1,901,910	1,672,508

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

(a) Allowance for loan impairment

1 January	48,064	47,548
Allowance during the year	7,021	7,043
Released to the statement of income during the year	(3,155)	(3,189)
Written off during the year	(1,121)	(3,338)
31 December	50,809	48,064

(b) Reserved interest

1 January	27,416	30,006
Reserved during the year	5,437	6,403
Released to the statement of income during the year	(1,103)	(875)
Written off during the year	(1,940)	(8,118)
31 December	29,810	27,416
Total impairment allowance	80,619	75,480

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

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

In 2012, the Bank has written off RO 10.59 million as technical write off.

8. 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 December 2013, out of the total provisions of RO 80,619,390 (2012: RO 75,479,554) a collective provision was made on a general portfolio basis amounting to RO 26,883,000 (2012: RO 24,447,000). General provision includes RO 285,000 against loans and advances of Islamic window.

At 31 December 2013, impaired loans and advances on which interest has been reserved amount to RO 57,421,242 (2012: RO 54,550,882) and loans and advances on which interest is not being accrued amount to RO 1,257,648 (2012: RO 1,389,352).

Loan and advances are summarised as follows:

	2013		2012	
	Loans and advances to customers RO'000	Loans and advances to banks RO'000	Loans and advances to customers RO'000	Loans and advances to banks RO'000
Neither past due nor impaired	1,905,902	121,737	1,680,052	97,410
Past due but not impaired	18,168	-	12,264	-
Impaired	58,459	-	55,672	-
Gross loans and advances	1,982,529	121,737	1,747,988	97,410
Less: Impairment allowance	(80,619)	(367)	(75,480)	-
Total	1,901,910	121,370	1,672,508	97,410

Loans and advances neither past due nor impaired

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

Loans and advances past due but not impaired

	2013 RO'000	2012 RO'000
Past due up to 30 days	12,296	6,838
Past due 30 – 60 days	4,324	4,139
Past due 60 – 89 days	1,548	1,287
Total	18,168	12,264

8. Loans and advances to customers (continued)

Impaired

	2013 RO'000	2012 RO'000
Substandard	2,709	2,011
Doubtful	3,526	3,585
Loss	52,224	50,076
Total	58,459	55,672

Fair value of collaterals

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

Loans and advances renegotiated

Restructuring activities include extended payment arrangements, approved external management plans, modification and deferral of payments. Restructuring policies and practices are based on indicators or criteria which, in the judgment of management, indicate that payment will most likely continue. These policies are kept under continuous review. Restructuring is most commonly applied to term loans, in particular customer finance loans. Renegotiated loans that are classified as standard amounted to RO 3,247,551 at 31 December 2013 (2012: RO 5,210,000).

9. Available-for-sale investments**a) Equity investments**

	Cost RO'000	Fair value	
		2013 RO'000	2012 RO'000
Quoted on the Muscat Securities Market			
Banking and investments	1,147	1,324	1,635
Services	4,053	4,389	4,278
Industrial	5,982	6,303	2,749
	<u>11,182</u>	<u>12,016</u>	<u>8,662</u>
Unquoted			
Omani companies	1,699	2,619	2,926
	<u>1,699</u>	<u>2,619</u>	<u>2,926</u>
	<u>12,881</u>	<u>14,635</u>	<u>11,588</u>
b) Sukuk			
Unquoted			
Omani company	10,000	10,000	-
	<u>10,000</u>	<u>10,000</u>	<u>-</u>
	<u>22,881</u>	<u>24,635</u>	<u>11,588</u>

9. Available-for-sale investments (continued)**b) Sukuk (continued)**

At 31 December 2013, the market value of the Sukuk approximates to the carrying value.

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10. Held-to-maturity investments

	2013 RO'000	2012 RO'000
Treasury bills	74,661	23,094
Government Development Bonds	78,705	77,292
	<u>153,366</u>	<u>100,386</u>

Outstanding treasury bills were issued by central banks outside Sultanate of Oman for a term of 3 to 6 months and carry interest rates ranging from 0.38% to 2.91% per annum (2012: 0.33% to 0.39%) per annum.

Outstanding Government Development Bonds carry interest ranging from 3.25% to 5.50% (2012: 3.25% to 5.50%) per annum and mature from 2014 to 2022.

11. Intangible asset

The movement in goodwill account is as follows:

1 January	3,177	3,574
Impaired during the year	(397)	(397)
	<u>2,780</u>	<u>3,177</u>
31 December	<u>2,780</u>	<u>3,177</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.

Notes

12. Property and equipment

	Freehold land RO'000	Buildings RO'000	Furniture And fixtures RO'000	Motor vehicles RO'000	Computer equipment RO'000	Capital work-in- progress RO'000	Total RO'000
Cost							
1 January 2013	140	1,573	10,423	1,591	14,917	164	28,808
Additions	-	-	1,921	203	2,883	87	5,094
Disposals	-	-	(93)	(128)	(117)	-	(338)
31 December 2013	140	1,573	12,251	1,666	17,683	251	33,564
Depreciation							
1 January 2013	-	938	7,248	1,150	10,040	-	19,376
Charge for the year	-	59	1,253	323	1,904	-	3,539
Disposals	-	-	(86)	(127)	(41)	-	(254)
31 December 2013	-	997	8,415	1,346	11,903	-	22,661
Carrying value							
31 December 2013	140	576	3,836	320	5,780	251	10,903
31 December 2012	140	635	3,175	441	4,877	164	9,432

Notes

13. Other assets

	2013 RO'000	2012 RO'000
Acceptances	37,213	33,447
Interest receivable	4,328	3,352
Prepaid expenses	2,158	2,101
Dividends receivable	-	8
Positive fair value of derivatives (note 33)	247	-
Other receivables	711	1,926
	<u>44,657</u>	<u>40,834</u>

14. Due to banks

Inter bank borrowings	105,737	87,791
Payable on demand	597	884
	<u>106,334</u>	<u>88,675</u>

At 31 December 2013, two borrowings with one bank represented 20% or more of the Bank's borrowings (2012: three banks). The Bank has not had any defaults of principal, interest or other breaches during the year on its borrowed funds.

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

15. Deposits from customers

Current accounts	652,337	322,219
Savings accounts	322,472	269,817
Time deposits	1,047,953	1,038,405
Margin accounts	5,307	4,187
Islamic Banking Window deposits	3,677	-
	<u>2,031,746</u>	<u>1,634,628</u>

Current accounts and time deposits include deposits from the Government of the Sultanate of Oman and its entities amounting to RO 802,103,000 as at 31 December 2013 (2012: RO 562,397,000).

At 31 December 2013, deposits from customers include Islamic window's current deposits, saving deposits and time deposits of RO 3,677,000.

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16. Other liabilities

	2013 RO'000	2012 RO'000
Acceptances	37,213	33,447
Interest payable	4,203	3,533
Creditors and accruals	37,848	40,497
Income tax provision	7,969	5,251
Deferred tax liability (note 27)	588	554
Negative fair value of derivatives (note 33)	-	40
Employee terminal benefits	871	701
	<u>88,692</u>	<u>84,023</u>

Employee terminal benefits

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

1 January	701	683
Expense recognised in the statement of income	245	176
Paid to employees	(75)	(158)
	<u>871</u>	<u>701</u>

17. Subordinated loans

Subordinated loan - RO	75,000	75,000
	<u>75,000</u>	<u>75,000</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 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.

Notes

18. Share capital

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

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

Shareholders

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

	2013 No. of shares	%	2012 No. of shares	%
Dhofar International Development and Investment Company SAOG Eng. Abdul Hafidh Salim Rajab	336,600,000	27.8%	305,767,544	27.8%
Al Aujaili and his related Companies	252,174,876	20.8%	229,249,889	20.8%
Civil Service Employees' Pension Fund	121,542,165	10.1%	111,124,474	10.1%
Total	710,317,041	58.7%	646,141,907	58.7%
Others	499,811,080	41.3%	453,974,567	41.3%
	1,210,128,121	100.0	1,100,116,474	100.0

The Shareholders, in the Annual General Meeting held on 28 March 2012, approved an allocation of RO 10,000,000 million in respect of Islamic Banking window from the core paid up capital of the shareholders.

On 30 July 2013, the Board of Directors proposed the increase of Islamic Banking Window's allocated capital from RO 10,000,000 to RO 12,500,000 from the core paid up capital of the shareholders. A resolution to approve the increase in share capital will be presented to the shareholders at the annual general meeting.

19. Share premium

In the year 2008, the Bank issued 176,921,306 shares by way of rights issue at a premium of RO 0.300 resulting in an increase in share premium by RO 53,076,392.

On 28 March 2012, the Shareholders of the Bank in the annual general meeting approved the issuance of 20.20% bonus shares amounting to RO 18,487,814 (184,878,143 shares of par value RO 0.100 each) from the share premium account.

20. Reserves

(a) Legal reserve	2013 RO'000	2012 RO'000
1 January	25,652	21,877
Appropriation for the year	5,840	3,775
31 December	31,492	25,652

Notes

20. Reserves (continued)

(a) Legal reserve (continued)

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

(b) Subordinated loans reserves

	2013 RO'000	2012 RO'000
1 January	11,250	34,617
Appropriation for the year:		
Subordinated loan reserve - US Dollar	-	5,133
Subordinated loan reserve – RO	15,000	10,000
Transfer to retained earnings on maturity - US Dollar	-	(38,500)
	<u>26,250</u>	<u>11,250</u>
31 December	<u>26,250</u>	<u>11,250</u>

Subordinated loan reserve

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

(c) Investment revaluation reserve

The movements in the investments revaluation reserve is analysed below:

1 January	1,556	627
Increase in fair value	2,447	1,434
Impairment of available-for-sale investments taken to statement of income	-	287
Net transfer to statement of income on sale of available-for-sale investments	(2,249)	(792)
	<u>1,754</u>	<u>1,556</u>
31 December	<u>1,754</u>	<u>1,556</u>

(d) Special reserve

During the year 2013, the Bank recognised in the statement of income, recovery from a legal case of RO 26.1 million, out of which, the Bank allocated RO 18.49 million (equivalent amount that was used from share premium account for issuance of bonus shares, which was approved by the Shareholders in the annual general meeting held on 28 March 2012) to a special reserve to strengthen capital and requires prior approval of CBO for any distribution from this 'special reserve account' (refer note 6).

21. Retained earnings

Retained earnings represent the undistributed profits generated by the Bank since incorporation.

Notes

22. Net assets per share

Net assets per share are calculated by dividing the net assets at the year-end by the number of shares outstanding at 31 December as follows:

	2013	2012
Net assets (RO)	303,607,000	261,504,000
Number of shares outstanding at 31 December (Nos.)	1,210,128,121	1,100,116,474
Net assets per share (RO)	0.251	0.238

23. Net interest income

	2013 RO'000	2012 RO'000
Loans and advances to customers	97,781	93,106
Debt investments	629	193
Money market placements	1,615	392
Others	12	10
Total interest income	100,037	93,701
Deposits from customers	(32,472)	(27,711)
Money market deposits	(1,224)	(1,621)
Total interest expense	(33,696)	(29,332)
Net interest income	66,341	64,369

Included in interest income from debt investments is an amount of RO 437,000 (2012: RO 97,573) being interest income from held-to-maturity investments.

Included in interest expenses from customers is interest on subordinated loan against related parties of RO 4,031,050 (2012: RO 2,810,188).

24. Other income

Foreign exchange	1,257	1,162
Investment income (see below)	5,724	2,954
Miscellaneous income	7,158	9,062
	14,139	13,178
Investment income		
Dividend income- available-for-sale investments	399	391
Gain on disposal of available-for-sale investments	2,542	867
Income on Sukuk	88	-
Financial instruments at fair value through profit or loss	723	-
Interest income on Government Development Bonds/Other bonds	1,972	1,696
	5,724	2,954

Notes

25. Staff and administrative costs

(a) Staff costs

	2013 RO'000	2012 RO'000
Salaries and allowances	22,690	19,705
Other personnel costs	2,493	1,974
Scheme costs	1,047	963
Non-Omani employees terminal benefit	245	176
	<u>26,475</u>	<u>22,818</u>

At 31 December 2013, the Bank had 1,350 employees (2012: 1,266 employees).

(b) Administrative costs

Occupancy costs	3,340	2,884
Operating and administration cost	10,474	7,221
Impairment of goodwill	397	397
Others	1,091	693
	<u>15,302</u>	<u>11,195</u>
	<u>41,777</u>	<u>34,013</u>

26. Impairment of financial assets

	2013 RO'000	2012 RO'000
Impairment of available-for-sale investments	-	287
Provision for loan impairment (note 7 and 8)	7,388	7,043
Loans written-off	1	5
	<u>7,389</u>	<u>7,335</u>
Recoveries from provision for loan impairment (note 8)	<u>(3,155)</u>	<u>(3,189)</u>
Net impairment charge of financial assets	<u>4,234</u>	<u>4,146</u>

Notes

27. Income tax

(a) Income tax expense:

	2013 RO'000	2012 RO'000
<i>Current tax</i>		
Current year	7,696	5,045
<i>Deferred tax</i>		
Current year	16	38
Prior years	18	72
Tax expense for the year	<u>7,730</u>	<u>5,155</u>

(b) Reconciliation:

The Bank is liable to income tax for the year 2013 in accordance with the income tax laws of the Sultanate of Oman at the rate of 12% on taxable profits in excess of RO 30,000. The following is a reconciliation of income taxes calculated at the applicable tax rate with the income tax expense:

Accounting profit for the year	<u>66,137</u>	<u>42,900</u>
Tax liability at the rates mentioned above	7,933	5,144
Tax exempt revenue	(363)	(151)
Non-deductible expenses	142	90
Deferred tax prior years	18	72
Tax expense	<u>7,730</u>	<u>5,155</u>

Notes

27. Income tax (continued)

(c) Temporary differences which give rise to deferred tax liability are as follows:

Particulars	2012 RO'000	Recognised in statement of income RO'000	2013 RO'000
Property, plant and equipment	(206)	(73)	(279)
Intangible asset	(372)	39	(333)
Provisions	24	-	24
Net deferred tax liability	(554)	(34)	(588)

(d) Status of previous year returns:

The tax returns of the Bank for the years 2009 to 2012 have not yet been agreed with the Secretariat General for Taxation at the Ministry of Finance.

Management are of the opinion that additional taxes, if any, related to the open tax years would not be significant to the Bank's financial position as at 31 December 2013.

28. Earnings per share (basic and diluted)

The calculation of basic and diluted earnings per share is based on profit for the year attributable to ordinary shareholders as follows:

	2013	2012
Profit for the year (RO)	58,407,000	37,745,000
Weighted average number of shares outstanding during the year	1,210,128,121	1,210,128,121
Earnings per share basic and diluted (RO)	0.048	0.031

Earnings per share (basic and diluted) have been derived by dividing the profit for the year attributable to the shareholders by the weighted average number of shares outstanding. As there are no dilutive potential shares, the diluted earnings per share is identical to the basic earnings per share.

During the year 2013, the Bank issued 110.01 million bonus shares of RO 0.100 each to the existing shareholders, since the bonus issue was without consideration; the issue is treated as if it had occurred prior to the beginning of year 2012.

Notes

29. Related parties transactions

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

	2013 RO'000	2012 RO'000
Loans and advances		
Directors and shareholders holding less than 10% interest in the Bank	14,680	11,690
Directors and shareholders holding 10% or more interest in the Bank	<u>45,921</u>	<u>25,391</u>
	<u>60,601</u>	<u>37,081</u>
Subordinated loans		
Directors and shareholders holding less than 10% interest in the Bank	35,000	35,000
Directors and shareholders holding 10% or more interest in the Bank	<u>40,000</u>	<u>40,000</u>
	<u>75,000</u>	<u>75,000</u>
Deposits and other accounts		
Directors and shareholders holding less than 10% interest in the Bank	79,131	127,357
Directors and shareholders holding 10% or more interest in the Bank	<u>314,609</u>	<u>229,495</u>
	<u>393,740</u>	<u>356,852</u>
Contingent liabilities and commitments		
Directors and shareholders holding less than 10% interest in the Bank	1,807	2,380
Directors and shareholders holding 10% or more interest in the Bank	<u>159</u>	<u>14,750</u>
	<u>1,966</u>	<u>17,130</u>
Remuneration paid to Directors		
Chairman		
– remuneration proposed	15	15
– sitting fees paid	10	10
Other Directors		
– remuneration proposed	99	102
– sitting fees paid	76	73
	<u>200</u>	<u>200</u>
Other transactions		
Rental payment to a related party	<u>464</u>	<u>374</u>
Remuneration and fees paid to Sharia' Board of Islamic Banking Window	<u>32</u>	<u>-</u>
Other transactions	<u>65</u>	<u>60</u>

Notes

29. Related parties transactions *(continued)*

	2013 RO'000	2012 RO'000
Key management compensation		
Salaries and other benefits	1,570	923
End of service benefits	21	36
	<u>1,591</u>	<u>959</u>

30. Fiduciary assets

At 31 December 2013 and 2012, there were no funds under management with the Bank.

31. Single borrower and senior members

(a) Single borrower

Total direct exposure	<u>173,327</u>	<u>68,524</u>
Number of Members	<u>3</u>	<u>2</u>

(b) Senior members

Total exposure:		
Direct	62,471	39,297
Indirect	1,966	17,130
	<u>64,437</u>	<u>56,427</u>
Number of Members	<u>27</u>	<u>23</u>

Notes

32. Contingent liabilities and commitments

(a) Credit related contingent items

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

	2013 RO'000	2012 RO'000
Letters of credit	70,425	70,239
Guarantees and performance bonds	70,767	136,197
Advance payment guarantees	161,615	79,633
Payment guarantees	145,245	78,048
Others	13,900	14,791
	<u>461,952</u>	<u>378,908</u>

At 31 December 2013, letters of credit, guarantees and other commitments amounting to RO 18,318,000 (2012: RO 13,408,000) are counter guaranteed by other banks.

(b) Legal cases

One of the Bank's customers filed a lawsuit against the Bank claiming compensation of RO 1,037,550 for commercial and moral damages. A judgment was issued directing the Bank to pay RO 400,000 to the Plaintiff. This judgment was upheld by the Appeal Court and the Bank challenged the same in the Supreme Court. On 23 May 2012, the Supreme Court revoked the Appeal Court confirmation of the primary judgment. Further, the Supreme Court directed the Appeal Court to review the primary judgment. The final decision is awaited.

The Bank, 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 up to the date of final payment.

(c) Capital and investment commitments

	2013 RO'000	2012 RO'000
Contractual commitments for property and equipment	<u>2,106</u>	<u>2,015</u>

33. Derivative financial instruments

The Bank uses the following derivative instruments for both hedging and non-hedging purposes:

Currency forwards represent commitments to purchase foreign and domestic currency, including undelivered spot transactions. Currency swaps are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies. No exchange of principal takes place, except for certain currency swaps. The Bank's credit risk represents the potential cost to replace the swap contracts if counterparties fail to perform their obligation. This risk is monitored on an ongoing basis with reference to the current fair value, a proportion of the notional amount of the contracts and the liquidity of the market. To control the level of credit risk taken, the Bank assesses counterparties using the same techniques as for its lending activities.

Notes

33. Derivative financial instruments (continued)

The notional amounts of certain types of financial instruments provide a basis for comparison with instruments recognised on the statement of financial position but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Bank's exposure to credit or price risks. The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates or foreign exchange rates relative to their terms. The aggregate contractual or notional amount of derivative financial instruments on hand, the extent to which instruments are favourable or unfavourable, and thus the aggregate fair values of derivative financial assets and liabilities shown within other assets and other liabilities, can fluctuate significantly from time to time. The fair values of derivative instruments held are set out below:

At 31 December 2013	Contract / notional amount RO'000	Fair value increase / decrease	
		Assets RO'000	Liabilities RO'000
<i>Foreign exchange derivatives</i>			
Currency forward - purchase contracts	186,851	576	-
Currency forward - sales contracts	186,714	-	329
At 31 December 2012			
	Contract / notional amount RO'000	Assets RO'000	Liabilities RO'000
<i>Foreign exchange derivatives</i>			
Currency forward - purchase contracts	46,430	67	-
Currency forward - sales contracts	46,473	-	107

The following table indicates the year in which the cash flows associated with derivatives that are expected to impact statement of income.

	Assets		Liabilities	
	2013 RO'000	2012 RO'000	2013 RO'000	2012 RO'000
Expected cash flow less than 6 months	247	-	-	40

Notes**34. Fair value information**

Based on the valuation methodology outlined below, the fair values of all financial instruments at 31 December 2013 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.

Notes

34. Fair value information (continued)

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.

Fair value measurements recognised in the statement of financial position

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

At 31 December 2013	Level 1 RO'000	Level 2 RO'000	Level 3 RO'000	Cost RO'000	Total RO'000
<i>Available-for-sale investments</i>					
Equity instruments	12,016	-	2,619	-	14,635
Sukuk	-	-	-	10,000	10,000
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
At 31 December 2012					
<i>Available-for-sale investments</i>					
Equity instruments	8,662	-	2,926	-	11,588
	<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.

Notes

35. Financial risk management

The important types of financial risks to which the Bank is exposed are credit risk, liquidity risk and market risk. The risk management division of the Bank is an independent and dedicated unit reporting directly to the Risk Management Committee (“RMC”) of the Board. The division’s primary responsibility is to assess, monitor and recommend strategies for control of credit, market and operational risk. The absence of any direct or indirect reporting lines and permanent membership in all the Bank’s committees are among the factors which reflect the independence of the Risk Management Divisions working and the key role it plays within the Bank.

The risk management framework is pivoted on a host of committees involving the executive management and the Board of Directors (“the Board”) for approval and reporting purposes. The Board has the overall authority for approval of strategies and policies, which it exercises through its various sub-committees. The Risk Management Committee of the Board is responsible for reviewing and recommending to the full Board for approval all risk policies and procedures. RMC also reviews the risk profile of the Bank as presented to it by the RMD and appraises the full Board in its periodic meetings.

Credit risk

The most important risk to which the Bank is exposed, is credit risk. To manage the level of credit risk, the Bank deals with counter-parties of good credit.

Executive Committee of the Board is the final credit approving authority of the Bank which is mainly responsible for approving all credit proposals beyond the authority level of the management and also for reviewing and approving credit policies. This committee is also the final authority for approving investments beyond the authority of the management. The Management Credit Committee (“MCC”) is the management decision making body which is empowered to consider all credit related issues upto certain limits.

Credit risk is managed by the RMD through a system of independent risk assessment in credit proposals beyond a threshold limit of RO 100,000 before they are considered by the appropriate approving authorities. The Bank has in place a risk grading system for analyzing the risk associated with credit. This facilitates the approving authorities in making their credit decision. In addition, RMD assists/ reviews grading of obligors, conducts regular macro analysis of the credit portfolio, and monitors credit concentration limits. Maximum counterparty/group exposures are limited to 15% of the Bank’s capital base as stipulated by CBO and where a higher limit is required for projects of national importance prior CBO approval is obtained. Individual country limits using external leading rating agencies have also been set up to ensure portfolio diversification in terms of sovereign risk ratings and geographical exposure. These limits are approved by the Board. Retail lending is strictly in accordance with the CBO guidelines. The analysis of credit is given below:

Notes

35. Financial risk management (continued)

Credit risk (continued)

(a) Geographical concentrations

	Assets			Liabilities		
	Gross loans and advances to banks RO'000	Gross loans and advances RO'000	Investment securities RO'000	Deposits from customers RO'000	Due to banks RO'000	Contingent liabilities RO'000
31 December 2013						
Sultanate of Oman	35,399	1,977,383	103,340	2,028,843	92,827	379,346
Other GCC countries	11,164	5,146	65,300	2,624	2,085	42,224
Europe and North America	21,357	-	9,361	57	7,709	22,183
Africa and Asia	53,817	-	-	222	3,713	18,199
	121,737	1,982,529	178,001	2,031,746	106,334	461,952
31 December 2012						
Sultanate of Oman	38,175	1,741,403	88,880	1,631,711	10,175	292,818
Other GCC countries	5,898	5,687	23,094	2,699	66,809	29,033
Europe and North America	33,877	898	-	-	82	38,994
Africa and Asia	19,460	-	-	218	11,609	18,063
	97,410	1,747,988	111,974	1,634,628	88,675	378,908

Notes

35. Financial risk management (continued)

Credit risk (continued)

(b) Customer concentrations

	Assets			Liabilities		
	Gross loans and advances to banks RO'000	Gross loans and advances RO'000	Investment securities RO'000	Deposits from customers RO'000	Due to banks RO'000	Contingent liabilities RO'000
31 December 2013						
Personal	-	870,226	-	447,248	-	310
Corporate	121,737	985,372	99,296	782,395	106,334	456,212
Government	-	126,931	78,705	802,103	-	5,430
	121,737	1,982,529	178,001	2,031,746	106,334	461,952
31 December 2012						
Personal	-	789,742	-	374,414	-	13,909
Corporate	97,410	843,978	34,682	697,817	88,675	360,048
Government	-	114,268	77,292	562,397	-	4,951
	97,410	1,747,988	111,974	1,634,628	88,675	378,908

(c) Economic sector concentrations

	Assets		Liabilities
	Gross loans and advances RO'000	Deposits from customers RO'000	Contingent liabilities RO'000
31 December 2013			
Personal	870,226	447,248	310
International trade	93,624	17,537	26,635
Construction	236,889	65,243	287,929
Manufacturing	174,020	22,034	42,739
Wholesale and retail trade	40,242	6,155	13,571
Communication and utilities	133,205	22,381	822
Financial services	119,166	30,572	18,659
Government	126,931	802,103	5,430
Other services	105,147	126,510	59,670
Others	83,079	491,963	6,187
	1,982,529	2,031,746	461,952

Notes

35. Financial risk management (continued)

Credit risk (continued)

(c) Economic sector concentrations (continued)

	Assets		Liabilities	
	Gross loans and advances RO'000	Deposits from customers RO'000		Contingent liabilities RO'000
31 December 2012				
Personal	789,742	374,414		13,909
International trade	99,387	17,185		24,463
Construction	217,077	60,838		196,370
Manufacturing	154,985	23,035		44,213
Wholesale and retail trade	40,091	6,247		12,205
Communication and utilities	57,828	16,004		12,669
Financial services	88,864	31,329		322
Government	114,268	562,397		4,951
Other services	95,661	129,237		54,723
Others	90,085	413,942		15,083
	1,747,988	1,634,628		378,908

(d) Gross credit exposure

	Total gross exposure		Monthly average gross exposure	
	2013 RO'000	2012 RO'000	2013 RO'000	2012 RO'000
Overdrafts	111,959	130,559	122,483	120,272
Loans	1,724,640	1,499,949	1,628,317	1,472,942
Loans against trust receipts	77,792	88,009	80,132	76,477
Bills discounted	13,099	3,532	9,647	3,493
Advance against credit cards	7,864	7,881	7,811	7,597
Advance against receivable	18,907	18,058	18,879	14,796
Islamic Banking Window financing	28,268	-	14,139	-
Total	1,982,529	1,747,988	1,881,408	1,695,577

Notes

35. Financial risk management (continued)

Credit risk (continued)

(e) Geographical distribution of exposures:

	Sultanate of Oman RO'000	Other countries RO'000	Total RO'000
31 December 2013			
Overdrafts	111,959	-	111,959
Loans	1,719,729	4,911	1,724,640
Loans against trust receipts	77,557	235	77,792
Bills discounted	13,099	-	13,099
Advance against credit cards	7,864	-	7,864
Others	18,907	-	18,907
Islamic Banking Window financing	28,268	-	28,268
	<u>1,977,383</u>	<u>5,146</u>	<u>1,982,529</u>
31 December 2012			
Overdrafts	130,559	-	130,559
Loans	1,493,653	6,296	1,499,949
Loans against trust receipts	87,720	289	88,009
Bills discounted	3,532	-	3,532
Advance against credit cards	7,881	-	7,881
Others	18,058	-	18,058
	<u>1,741,403</u>	<u>6,585</u>	<u>1,747,988</u>

Notes

35. Financial risk management (continued)

Credit risk (continued)

(f) Industry type distribution of exposures by major types of credit exposures:

	Overdrafts RO'000	Loans RO'000	Bills discounted RO'000	Others RO'000	Total RO'000	Off balance sheet exposures RO'000
31 December 2013						
Import trade	11,385	56,672	63	25,213	93,333	26,540
Export trade	4	10	-	277	291	95
Wholesale/retail trade	6,682	25,879	-	7,681	40,242	13,571
Mining and quarrying	4,892	30,632	726	1,517	37,767	1,281
Construction	40,676	160,828	1,337	34,048	236,889	287,929
Manufacturing	10,048	138,373	1,499	24,100	174,020	42,739
Electricity, gas and water	86	40,556	118	182	40,942	513
Transport and communication	74	92,189	-	-	92,263	309
Financial institutions	2,238	107,303	9,342	283	119,166	18,659
Services	20,767	82,296	-	2,084	105,147	59,670
Personal loans	6,434	856,093	-	7,699	870,226	310
Agriculture and allied activities	1,677	5,721	14	86	7,498	814
Government	-	126,931	-	-	126,931	5,430
Non-resident lending	-	4,911	-	235	5,146	54
Others	6,996	24,514	-	1,158	32,668	4,038
	<u>111,959</u>	<u>1,752,908</u>	<u>13,099</u>	<u>104,563</u>	<u>1,982,529</u>	<u>461,952</u>
31 December 2012						
Import trade	11,247	62,484	-	25,400	99,131	24,372
Export trade	5	13	-	238	256	91
Wholesale/retail trade	6,612	25,085	-	8,394	40,091	12,205
Mining and quarrying	4,093	17,109	218	2,116	23,536	2,450
Construction	49,542	136,432	1,006	30,097	217,077	196,370
Manufacturing	9,405	107,419	2,142	36,019	154,985	44,213
Electricity, gas and water	52	34,234	156	58	34,500	8,585
Transport and communication	204	23,124	-	-	23,328	4,084
Financial institutions	2,972	85,868	-	24	88,864	322
Services	30,415	62,234	-	3,012	95,661	54,723
Personal loans	8,695	773,313	-	7,734	789,742	13,909
Agriculture and allied activities	2,164	5,093	10	84	7,351	915
Government	-	114,265	-	3	114,268	4,951
Non resident lending	-	6,296	-	289	6,585	30
Others	5,153	46,980	-	480	52,613	11,688
	<u>130,559</u>	<u>1,499,949</u>	<u>3,532</u>	<u>113,948</u>	<u>1,747,988</u>	<u>378,908</u>

Notes

35. Financial risk management (continued)

Credit risk (continued)

(g) Residual contractual maturities of the portfolio by major types of credit exposures:

	Overdrafts RO'000	Loans RO'000	Bills discounted RO'000	Others RO'000	Total RO'000	Off balance sheet exposures RO'000
31 December 2013						
Upto 1 month	5,598	11,688	13,099	3,307	33,692	169,506
1 - 3 months	5,598	137,929	-	1,330	144,857	35,164
3 - 6 months	5,598	41,627	-	4,011	51,236	47,607
6 - 9 months	5,598	13,947	-	8,275	27,820	11,163
9 - 12 months	5,598	1,267	-	4,338	11,203	21,712
1 - 3 years	27,990	168,590	-	19,676	216,256	95,115
3 - 5 years	27,990	85,125	-	18,784	131,899	68,051
Over 5 years	27,989	1,292,735	-	44,842	1,365,566	13,634
	<u>111,959</u>	<u>1,752,908</u>	<u>13,099</u>	<u>104,563</u>	<u>1,982,529</u>	<u>461,952</u>
31 December 2012						
Upto 1 month	6,528	3,806	17	683	11,034	96,187
1 - 3 months	6,528	106,753	-	4,044	117,325	35,311
3 - 6 months	6,528	46,836	-	6,743	60,107	37,800
6 - 9 months	6,528	1,061	-	22,941	30,530	20,796
9 - 12 months	6,527	201	-	5,304	12,032	15,137
1 - 3 years	32,640	104,629	537	19,886	157,692	101,628
3 - 5 years	32,640	87,172	218	9,830	129,860	54,400
Over 5 years	32,640	1,149,491	2,760	44,517	1,229,408	17,649
	<u>130,559</u>	<u>1,499,949</u>	<u>3,532</u>	<u>113,948</u>	<u>1,747,988</u>	<u>378,908</u>

Notes

35. Financial risk management (continued)

Credit risk (continued)

(h) Distribution of impaired loans, past due and not past due loans by type of industry:

	Performing loans RO'000	Non performing loans RO'000	General provisions held RO'000	Specific provisions held RO'000	Interest reserve RO'000	Specific provision during the year RO'000	Advances written off during the year RO'000
31 December 2013							
Import trade	86,538	6,795	866	1,468	4,998	34	-
Export trade	277	14	3	3	10	-	-
Wholesale/retail trade	23,206	17,036	232	5,002	12,119	32	-
Mining and quarrying	37,762	5	378	4	1	290	-
Construction	232,767	4,122	2,328	1,776	1,962	35	1
Manufacturing	173,282	738	1,733	244	260	75	-
Electricity, gas and water	40,941	1	410	1	-	-	-
Transport and communication	92,260	3	923	1	2	-	-
Financial institutions	119,166	-	1,192	-	-	-	-
Services	104,597	550	1,046	211	334	54	1,054
Personal loans	846,482	23,744	15,791	10,641	9,506	3,926	66
Agriculture and allied activities	7,489	9	75	7	1	1	-
Government	126,931	-	1,269	-	-	-	-
Non resident lending	235	4,911	3	4,429	486	-	-
Others	32,137	531	634	139	131	108	-
	<u>1,924,070</u>	<u>58,459</u>	<u>26,883</u>	<u>23,926</u>	<u>29,810</u>	<u>4,555</u>	<u>1,121</u>
31 December 2012							
Import trade	93,107	6,024	931	1,492	4,203	98	2,910
Export trade	206	50	2	11	17	-	16
Wholesale/retail trade	24,906	15,185	249	4,981	10,276	23	-
Mining and quarrying	23,532	4	235	3	-	2	-
Construction	212,084	4,993	2,121	1,985	2,269	554	198
Manufacturing	154,199	786	1,542	241	211	70	-
Electricity, gas and water	34,473	27	345	6	5	-	-
Transport and communication	23,325	3	233	1	2	-	-
Financial institutions	88,809	55	888	5	45	-	-
Services	92,696	2,965	927	1,257	1,708	13	71
Personal loans	769,399	20,343	15,218	9,392	8,210	3,257	143
Agriculture and allied activities	7,343	8	73	7	1	1	-
Government	114,268	-	1,143	-	-	-	-
Non resident lending	1,777	4,808	18	4,140	382	290	-
Others	52,192	421	522	96	87	65	-
	<u>1,692,316</u>	<u>55,672</u>	<u>24,447</u>	<u>23,617</u>	<u>27,416</u>	<u>4,373</u>	<u>3,338</u>

Notes

35. Financial risk management (continued)

Credit risk (continued)

(i) Distribution of impaired loans and gross loans by geographical distribution:

	Gross loans	Non-performing loans	General provisions held	Specific provisions held	Interest reserve	Specific provision made during the year	Advances written off during the year
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
31 December 2013							
Sultanate of Oman	1,977,383	53,528	26,880	19,497	29,324	4,555	1,121
Other countries	5,146	4,931	3	4,429	486	-	-
	<u>1,982,529</u>	<u>58,459</u>	<u>26,883</u>	<u>23,926</u>	<u>29,810</u>	<u>4,555</u>	<u>1,121</u>
31 December 2012							
Sultanate of Oman	1,741,403	50,864	24,429	19,477	27,034	4,083	3,338
Other countries	6,585	4,808	18	4,140	382	290	-
	<u>1,747,988</u>	<u>55,672</u>	<u>24,447</u>	<u>23,617</u>	<u>27,416</u>	<u>4,373</u>	<u>3,338</u>

(j) Maximum exposure to credit risk without consideration of collateral held:

	2013 RO' 000	2012 RO' 000
Treasury bills	74,661	23,094
Loans and advances to banks	121,370	97,410
Loans and advances to customers	1,901,910	1,672,508
Government development bonds	78,705	77,292
	<u>2,176,646</u>	<u>1,870,304</u>
Off-balance sheet items		
Financial guarantees	377,627	293,878
	<u>2,554,273</u>	<u>2,164,182</u>

At 31 December 2013, impairment losses would have increased by RO 1,628,368 (2012: RO 2,712,067) had collateral not been obtained by the Bank for the impaired loans and advances.

Notes**35. Financial risk management (continued)****Liquidity risk**

Liquidity risk is the potential inability to meet the Bank's liabilities that are settled by delivering cash or another financial asset as they become due. It arises when the Bank is unable to generate cash to cope with a decline in deposits or increase in assets.

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

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

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

Notes

35. Financial risk management (continued)

Liquidity risk (continued)

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
31 December 2013						
Cash and balances with Central Bank of Oman	345,258	-	-	-	500	345,758
Loans and advances to banks	44,778	54,001	13,101	9,490	-	121,370
Loans and advances to customers	177,818	270,857	75,957	468,683	908,595	1,901,910
Available-for-sale investments	-	-	14,635	10,000	-	24,635
Held-to-maturity investments	20,511	54,150	20,662	45,496	12,547	153,366
Intangible asset	-	-	-	-	2,780	2,780
Property and equipment	-	-	-	-	10,903	10,903
Other assets	32,905	7,152	1,468	15	3,117	44,657
Total assets	621,270	386,160	125,823	533,684	938,442	2,605,379
Due to banks	66,046	40,288	-	-	-	106,334
Deposits from customers	193,575	424,962	403,383	450,323	559,503	2,031,746
Other liabilities	51,008	16,695	3,017	16,305	1,667	88,692
Subordinated loans	-	-	-	75,000	-	75,000
Shareholders' equity	-	58,407	-	-	245,200	303,607
Total liabilities and shareholders' equity	310,629	540,352	406,400	541,628	806,370	2,605,379

Notes

35. Financial risk management (continued)

Liquidity risk (continued)

Maturity profile of assets and liabilities (continued)

	Due on demand and up to 30 days RO'000	More than 1month to 6 months RO'000	More than 6 months to 12 months RO'000	More than 1 year to 5 years RO'000	Over 5 years RO'000	Total RO'000
31 December 2012						
Cash and balances with Central Bank of Oman	207,995	-	-	-	500	208,495
Loans and advances to banks	62,727	6,583	28,100	-	-	97,410
Loans and advances to customers	149,656	259,996	72,904	410,931	779,021	1,672,508
Available-for-sale Investments	-	-	11,588	-	-	11,588
Held-to-maturity Investments	-	23,094	-	66,853	10,439	100,386
Intangible asset	-	-	-	-	3,177	3,177
Property and equipment	-	-	-	-	9,432	9,432
Other assets	7,417	30,823	2,554	40	-	40,834
Total assets	427,795	320,496	115,146	477,824	802,569	2,143,830
Due to banks	45,095	20,480	15,400	7,700	-	88,675
Deposits from customers	158,745	386,236	371,028	570,410	148,209	1,634,628
Other liabilities	20,012	38,312	4,440	18,901	2,358	84,023
Subordinated loans	-	-	-	50,000	25,000	75,000
Shareholders' equity	-	37,745	-	-	223,759	261,504
Total liabilities and shareholders' equity	223,852	482,773	390,868	647,011	399,326	2,143,830

Notes

35. Financial risk management (continued)

Market risk

Market risk includes currency risk, interest rate risk and equity price risk.

(a) Currency risk

The Bank is exposed to currency risk through its transactions in foreign currencies. The major foreign currency to which the Bank is exposed is the US Dollar which is effectively pegged to Rial Omani. The Bank finances a significant portion of its financial assets in the same currencies as the relevant measurement currencies to mitigate its foreign currency risk.

The Bank's transactional exposures give rise to foreign currency gains and losses that are recognised in the statement of income. The Bank ensures that its net exposure is kept to an acceptable level by buying and selling foreign currencies at spot rates when considered appropriate. Foreign exchange risk is computed on the average of the sum of net short positions or net long positions, whichever is higher of the foreign currency positions held by the bank. The foreign currency exposures are given below:

Foreign currency exposures

	2013 RO'000	2012 RO'000
Net assets denominated in US Dollars	56,229	16,553
Net assets denominated in other foreign currencies	2,090	1,194
	<u>58,319</u>	<u>17,747</u>

(b) Interest rate risk

The Bank's operations are subject to the risk of interest rate fluctuations to the extent that interest-earning assets and interest-bearing liabilities are reset at different times. Risk management activities are aimed at optimising net interest income, given market interest rate levels, consistent with the Bank's business strategies. The Bank manages mismatches by following policy guidelines and reduces risk by matching the repricing of assets and liabilities. Details relating to re-pricing mismatches and the interest rate risk thereon are placed to the ALCO in its regular meetings and also to the Risk Management Committee of the Board. Impact on earnings due to interest rate risk in the banking book is as follows:

Impact on earnings due to interest rate risk in the banking book

	+ or - 1%		+ or - 2%	
	2013 RO'000	2012 RO'000	2013 RO'000	2012 RO'000
Omani Rials	8,258	5,944	16,516	11,888
US Dollars	2,064	1,203	4,128	2,406
Others currencies	201	159	402	317
	<u>10,523</u>	<u>7,306</u>	<u>21,046</u>	<u>14,611</u>

Notes

35. Financial risk management (continued)

Market risk (continued)

(b) Interest rate risk (continued)

Interest rate sensitivity gap

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

	Effective average interest rate %	Due on demand and within 30 days RO'000	Due within 1 to 6 months RO'000	Due within 7 to 12 months RO'000	Due within 1 to 5 years RO'000	Due after 5 years RO'000	Non- interest bearing RO'000	Total RO'000
31 December 2013								
Cash and balances with Central Bank of Oman	0.13%	190,000	-	-	-	500	155,258	345,758
Loans and advances to banks	1.2%	44,778	58,804	17,788	-	-	-	121,370
Loans and advances to customers	5.5%	321,524	809,613	46,432	385,401	338,940	-	1,901,910
Available-for-sale investments	-	-	-	-	-	-	24,635	24,635
Held-to-maturity investments	1.7%	20,511	54,150	20,662	45,496	12,547	-	153,366
Intangible asset	-	-	-	-	-	-	2,780	2,780
Property and equipment	-	-	-	-	-	-	10,903	10,903
Other assets	-	-	-	-	-	-	44,657	44,657
Total assets		576,813	922,567	84,882	430,897	351,987	238,233	2,605,379
Due to banks	0.9%	65,449	40,288	-	-	-	597	106,334
Deposits from customers	1.7%	529,275	238,469	345,684	396,848	5,018	516,452	2,031,746
Other liabilities	-	-	-	-	-	-	88,692	88,692
Subordinated loan	5.4%	-	-	-	75,000	-	-	75,000
Shareholders' equity	-	-	58,407	-	-	-	245,200	303,607
Total liabilities and shareholders' equity		594,724	337,164	345,684	471,848	5,018	850,941	2,605,379
On-balance sheet gap		(17,911)	585,403	(260,802)	(40,951)	346,969	(612,708)	
Cumulative interest sensitivity gap		(17,911)	567,492	306,690	265,739	612,708		

Notes

35. Financial risk management (continued)

Market risk (continued)

(b) Interest rate risk (continued)

Interest rate sensitivity gap (continued)

	Effective average interest rate %	Due on demand and within 30 days RO'000	Due within 1 to 6 months RO'000	Due within 7 to 12 months RO'000	Due within 1 to 5 years RO'000	Due after 5 years RO'000	Non- interest bearing RO'000	Total RO'000
31 December 2012								
Cash and balances with Central Bank of Oman	0.9%	70,000	-	-	-	500	137,995	208,495
Loans and advances to banks	0.9%	64,460	32,950	-	-	-	-	97,410
Loans and advances to customers	5.8%	149,656	259,996	72,904	410,931	779,021	-	1,672,508
Available-for-sale investments	-	-	-	-	-	-	11,588	11,588
Held-to-maturity investments	1.5%	-	23,094	-	66,853	10,439	-	100,386
Intangible asset	-	-	-	-	-	-	3,177	3,177
Property and equipment	-	-	-	-	-	-	9,432	9,432
Other assets	-	-	-	-	-	-	40,834	40,834
Total assets		284,116	316,040	72,904	477,784	789,960	203,026	2,143,830
Due to banks	1.3%	44,820	43,580	-	-	-	275	88,675
Deposits from customers	1.7%	259,941	246,478	279,603	435,501	200	412,905	1,634,628
Other liabilities	-	-	-	-	-	-	84,023	84,023
Subordinated loan	5.5%	-	-	-	50,000	25,000	-	75,000
Shareholders' equity	-	-	37,745	-	-	-	223,759	261,504
Total liabilities and shareholders' equity		304,761	327,803	279,603	485,501	25,200	720,962	2,143,830
On-balance sheet gap		(20,645)	(11,763)	(206,699)	(7,717)	764,760	(517,936)	
Cumulative interest sensitivity gap		(20,645)	(32,408)	(239,107)	(246,824)	517,936	-	

Notes**35. Financial risk management (continued)****Market risk (continued)****(c) Equity risk**

Bank is exposed to the volatility in the prices of the securities held under equity portfolio. Equity investments held are for strategic/long term rather than for trading purposes and hence, Bank does not hold trading positions in equity investments. However, Bank's portfolio is marked to market on regular basis and the difference in the book value and market value are adjusted against investment revaluation reserve in shareholder's equity and for impaired investments to statement of income.

Further, Bank also conducts stress testing and sensitivity analysis to take an informed decision on equity risk exposure.

If equity price for listed shares had been 5% lower:

If there is adverse impact of 5% on equity portfolio, the value of the portfolio may decrease by RO 598,015 (2012: decrease by RO 418,413).

If equity price for unlisted shares had been 5% lower:

The financial statements include holdings in unlisted shares which are measured at fair value. Fair value is estimated using either Net Asset Value (NAV) provided by the fund managers or book value per share of the investee company. If the estimation were 5% higher / lower while all other variables were held constant, the carrying amount of the shares would decrease / increase by RO 133,710 (2012: decrease / increase by RO 146,280).

Operational risk

The Bank has adopted the Basic Indicator Approach under Basel II for the purpose of measuring capital charge for Operational Risk. The approach requires the Bank to provide 15% of the average three years gross annual income as capital charge for operational risk.

36. Capital management

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

The capital base of the Bank consists of debt, which includes borrowings disclosed in note 17, and equity attributable to shareholders of the Bank comprising issued share capital, share premium, reserves and retained earnings as disclosed in notes 18 to 21.

Notes

36. Capital management (continued)

Capital adequacy

The ratio of equity to risk weighted assets, as formulated by the Basel II and Basel III, for the year ended 31 December 2013 is 14.09 % (2012: 14.96%).

Capital structure	2013 RO'000	2012 RO'000
Common Equity Tier (CET) I/ TIER I CAPITAL		
Paid up capital	121,013	110,012
Legal reserve	31,492	25,652
Share premium	40,018	40,018
Special reserve	18,488	-
Subordinated loan reserve	26,250	11,250
Retained earnings	34,339	45,513
Proposed bonus shares	13,311	11,001
CET I/Tier I Capital	284,911	243,446
Additional Tier I regulatory adjustments:		
Goodwill	(2,780)	(3,177)
Negative investment revaluation reserve	(28)	(124)
Total CET I/ Tier I capital	282,103	240,145
TIER II CAPITAL		
Investment revaluation reserve	802	756
General provision	27,250	24,447
Subordinated loan	48,750	63,750
Total Tier II capital	76,802	88,953
Total eligible capital	358,905	329,098
Risk weighted assets		
Banking book	2,324,129	2,005,481
Trading book	56,798	37,853
Operational risk	166,581	156,465
Total	2,547,508	2,199,799
CET I/ Tier I capital	282,103	240,145
Tier II capital	76,802	88,953
Tier III capital	-	-
Total regulatory capital	358,905	329,098
CET I/ Tier I capital ratio	11.07%	10.92%
Total capital ratio	14.09%	14.96%

Notes

37. Segmental information

The Bank is organised into three main business segments:

- 1) Retail banking – incorporating, private customer current accounts, savings, deposits, investment savings products, custody, credit and debit cards, consumer loans and mortgages;
- 2) Corporate banking – incorporating direct debit facilities, current accounts, deposits, overdrafts, loan and other credit facilities, foreign currency and derivative products; and
- 3) Treasury and investments

Other operations comprise investment management and institutional finance neither of which constitutes a separately reportable segment.

Transactions between the business segments are on normal commercial terms and conditions. Funds are ordinarily allocated between segments, resulting in funding cost transfers disclosed in operating income. Interest charged for these funds is based on the Bank's cost of capital. There are no other material items of income or expense between the business segments.

Segment assets and liabilities comprise operating assets and liabilities, being the majority of the statement of financial position, but exclude items such as taxation and borrowings.

Internal charges and transfer pricing adjustments have been reflected in the performance of each business. Revenue sharing agreements are used to allocate external customer revenues to a business segment on a reasonable basis.

At 31 December 2013	Retail banking RO'000	Corporate banking RO'000	Treasury and investments RO'000	Total RO'000
Segment operating revenues	57,808	40,161	2,256	100,225
Other revenues	9,428	5,512	8,104	23,044
	<hr/>	<hr/>	<hr/>	<hr/>
Segment operating revenues	67,236	45,673	10,360	123,269
Interest expenses	(12,315)	(15,361)	(6,035)	(33,711)
	<hr/>	<hr/>	<hr/>	<hr/>
Net operating income	54,921	30,312	4,325	89,558
Segment cost				
Operating expenses including depreciation	(24,479)	(15,527)	(5,310)	(45,316)
Impairment for loans and investment net recoveries from allowance for loans impairment	(1,823)	(2,044)	(367)	(4,234)
Legal case written back	10,355	13,264	2,510	26,129
	<hr/>	<hr/>	<hr/>	<hr/>
Profit from operations after provision	38,974	26,005	1,158	66,137
Tax expenses	(4,556)	(3,039)	(135)	(7,730)
	<hr/>	<hr/>	<hr/>	<hr/>
Net profit for the year	34,418	22,966	1,023	58,407
	<hr/>	<hr/>	<hr/>	<hr/>
Segment assets	947,588	1,246,011	492,766	2,686,365
Less: Impairment allowance	(36,039)	(44,580)	(367)	(80,986)
	<hr/>	<hr/>	<hr/>	<hr/>
Total segment assets	911,549	1,201,431	492,399	2,605,379
	<hr/>	<hr/>	<hr/>	<hr/>
Segment liabilities	488,143	1,632,295	181,334	2,301,772
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Notes

37. Segmental information (continued)

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

At 31 December 2013	Retail banking RO'000	Corporate banking RO'000	Treasury and investments RO'000	Total RO'000
Segment operating revenues	98	56	34	188
Other revenues	18	74	88	180
	<u>116</u>	<u>130</u>	<u>122</u>	<u>368</u>
Unrestricted investment account holders' share of profit	(4)	-	(11)	(15)
Net operating income	112	130	111	353
Segment cost				
Operating expenses including depreciation	(804)	(461)	(1,005)	(2,270)
Impairment allowance	(185)	(100)	-	(285)
Net loss for the year	<u>(877)</u>	<u>(431)</u>	<u>(894)</u>	<u>(2,202)</u>
Segment assets	18,302	10,711	21,292	50,306
Less: Impairment allowance	<u>(185)</u>	<u>(100)</u>	<u>-</u>	<u>(285)</u>
Total segment assets	<u>18,117</u>	<u>10,611</u>	<u>21,292</u>	<u>50,020</u>
Segment liabilities	<u>5,058</u>	<u>1,095</u>	<u>7,782</u>	<u>13,935</u>

Notes

37. Segmental information (continued)

At 31 December 2012	Retail banking RO'000	Corporate banking RO'000	Treasury and investments RO'000	Total RO'000
Segment operating revenues	56,889	36,216	596	93,701
Other revenues	11,020	3,817	4,887	19,724
	<u>67,909</u>	<u>40,033</u>	<u>5,483</u>	<u>113,425</u>
Segment operating revenues	67,909	40,033	5,483	113,425
Interest expenses	(10,721)	(13,327)	(5,284)	(29,332)
	<u>57,188</u>	<u>26,706</u>	<u>199</u>	<u>84,093</u>
Net operating income	57,188	26,706	199	84,093
Segment cost				
Operating expenses including depreciation	(20,375)	(12,966)	(3,706)	(37,047)
Impairment for loans and investment net recoveries from allowance for loans impairment	(4,967)	1,108	(287)	(4,146)
	<u>31,846</u>	<u>14,848</u>	<u>(3,794)</u>	<u>42,900</u>
Profit from operations after provision	31,846	14,848	(3,794)	42,900
Tax expenses	(2,330)	(2,825)	-	(5,155)
	<u>29,516</u>	<u>12,023</u>	<u>(3,794)</u>	<u>37,745</u>
Net profit (loss) for the year	29,516	12,023	(3,794)	37,745
Segment assets	860,402	1,079,524	279,384	2,219,310
Less: Impairment allowance	(32,820)	(42,660)	-	(75,480)
	<u>827,582</u>	<u>1,036,864</u>	<u>279,384</u>	<u>2,143,830</u>
Total Segment assets	827,582	1,036,864	279,384	2,143,830
Segment liabilities	411,334	1,307,317	163,675	1,882,326

38. Proposed dividend

The Board of Directors in their meeting held on 29 January 2014 proposed a cash dividend of 14% (2012: 15%) for the year ended 31 December 2013 amounting to RO 16.94 million (2012: RO 16.50 million) and a bonus share issue of 11% (2012: 10%) amounting to 133,114,093 shares (2012: 110,011,647 shares) of RO 0.100 each. A resolution to approve these dividends and the increase in share capital will be presented to the shareholders at the annual general meeting.

During the year, unclaimed dividend amounting to RO 29,171 (2012: RO 1,290) was transferred to the Investor's Trust Fund account as per the guidelines issued by the Capital Market Authority of Oman.

39. Comparative figures

Certain amounts of the prior year financial statement have been reclassified to conform with the current year's presentation except Note 36.



**“MAISARAH” ISLAMIC BANKING SERVICES -
WINDOW OF BANK DHOFAR S.A.O.G**

Financial statements

31 December 2013

Registered office and principal place of business:

Head office, Ground Floor, Al Sahwa Tower – 1
P.O. Box 1792
PC 130
Azaiba, Muscat
Sultanate of Oman

MAISARAH ISLAMIC BANKING SERVICES - WINDOW OF BANK DHOFAR S.A.O.G

Financial statements

For the period from 3 March 2013 to 31 December 2013

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Statement of cash flows	5
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4th Floor, HSBC Bank Building
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Sultanate of Oman

Tel 968 24709181
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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF MAISARAH ISLAMIC BANKING SERVICES – WINDOW OF BANK DHOFAR SAOG

Report on the financial statements

We have audited the financial statements of Maisarah Islamic Banking Services– Window of Bank Dhofar SAOG (“the Bank”), set out on pages 2 to 30 which comprise the statement of financial position as at 31 December 2013, and the income statement, statement of changes in owners’ equity and statement of cash flows for the period from 3 March 2013 to 31 December 2013, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management’s responsibility

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the Financial Accounting Standards ("FAS") issued by the Accounting and Auditing Organization for Financial Institutions ("AAOIFI") and the Shari'a rules and principles determined by the Shari'a Supervisory Board of the Bank and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors’ responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Auditing Standards for Islamic Financial Institutions issued by AAOIFI. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

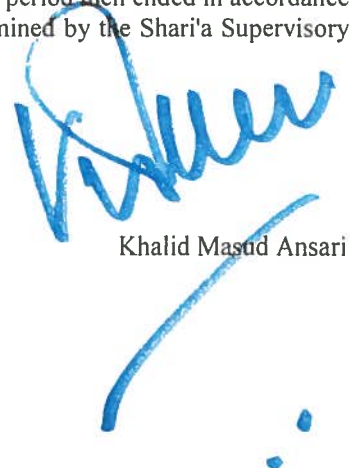
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2013 and its financial performance and its cash flows for the period then ended in accordance with the FAS issued by AAOIFI and the Shari'a rules and principles as determined by the Shari'a Supervisory Board of the Bank.

29 January 2014



Khalid Masud Ansari

**MAISARAH ISLAMIC BANKING SERVICES - WINDOW OF BANK DHOFAR
SAOG**

Statement of Financial Position

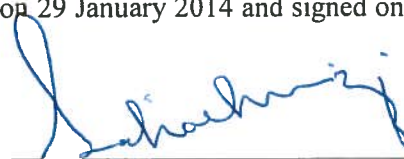
As on 31 December 2013

	<i>Note</i>	2013 RO
Assets		
Cash and balances with Central Bank of Oman	5	3,028,809
Due from banks and financial institutions	6	7,700,000
Murabaha receivables – net	7	231,824
Diminishing Musharaka financing	8	10,324,786
Financial assets at fair value through equity	9	10,000,000
Ijarah Muntahia Bittamleek – net	10	17,425,991
Property and equipment – net	11	287,383
Intangible asset – net	12	790,429
Other assets	13	230,096
Total assets		50,019,318
Liabilities, equity of unrestricted investment account holders and owners' equity		
Liabilities		
Due to Head office and other banks	14	30,200,000
Qard Hasan from Head office	15	3,287,038
Current accounts		2,542,147
Other liabilities	16	2,557,371
Total liabilities		38,586,556
Equity of unrestricted investment account holders	17	1,135,145
Owners' equity		
Capital	18	12,500,000
Accumulated losses		(2,202,383)
Total owners' equity		10,297,617
Total liabilities, equity of unrestricted investment account holders and owners' equity		50,019,318
Contingent liabilities	29	2,989,910

The financial statements were approved by the Board of Directors on 29 January 2014 and signed on its behalf by:



Chairman



Chief Islamic Banking Officer

The notes on pages 6 to 30 form an integral part of these financial statements.

The independent auditor's report is set forth on page 1.

MAISARAH ISLAMIC BANKING SERVICES - WINDOW OF BANK DHOFAR S.A.O.G

Income Statement

For the period from 3 March 2013 to 31 December 2013

	<i>Note</i>	2013
Income		RO
Murabaha	20	5,673
Ijarah Muntahia Bittamleek	21	91,914
Diminishing Musharaka	22	55,901
Wakala placement	23	34,441
Profit on financial assets at fair value through equity	24	87,500
		<u>275,429</u>
Less:		
Return on unrestricted investment account holders		(4,590)
Return on interbank Wakala deposit		(10,639)
		<u>(15,229)</u>
Maisarah's share in income from investment as a Mudarib and Rabul Maal		260,200
Revenue from banking services		92,837
Foreign exchange gain – net		266
Total revenue		<u>353,303</u>
Pre-operating expenses	25	(495,517)
Staff costs	26	(1,058,132)
General and administrative expenses	27	(597,919)
Impairment allowance	7,8&1 0	(285,259)
Depreciation and amortization	11&12	(118,859)
Total expenses		<u>(2,555,686)</u>
Net loss for the period		<u>(2,202,383)</u>

The notes on pages 6 to 30 form an integral part of these financial statements.

MAISARAH ISLAMIC BANKING SERVICES - WINDOW OF BANK DHOFAR S.A.O.G

Statement of changes in owners' equity
for the period from 3 March 2013 to 31 December 2013

	Capital <i>RO</i>	Accumulate d losses <i>RO</i>	Total <i>RO</i>
Capital	12,500,000	-	12,500,000
Net loss for the period	-	(2,202,383)	(2,202,383)
Balance as at 31 December 2013	12,500,000	(2,202,383)	10,297,617

The notes on pages 6 to 30 form an integral part of these financial statements.

MAISARAH ISLAMIC BANKING SERVICES - WINDOW OF BANK DHOFAR S.A.O.G

Statement of cash flows

For the period from 3 March 2013 to 31 December 2013

	2013 <i>RO</i>
Cash flows from operating activities	
Net loss for the period	(2,202,383)
Adjustments for:	
Depreciation and amortization	118,859
Depreciation on Ijarah assets	334,478
Impairment allowance	285,259
Investment risk reserve	14
Profit equalization reserve	45
Cash flows used in operating activities before changes in operating assets and liabilities	<u>(1,463,728)</u>
Operating assets and liabilities:	
Murabaha receivables	(237,294)
Ijarah Muntahia Bittamleek assets	(17,999,158)
Proceeds from sale in Ijarah Muntahia Bittamleek assets	59,331
Diminishing Musharaka financing	(10,425,217)
Other asset	(153,540)
Other liabilities	2,557,371
Qard Hasan from Head Office	2,013,811
Net cash used in operating activities	<u>(25,648,424)</u>
Cash flows from investing activities	
Purchase of financial asset at fair value through equity	(10,000,000)
Net cash used in investing activities	<u>(10,000,000)</u>
Cash flows from financing activities	
Current account	2,542,147
Unrestricted investment account holders	1,135,086
Capital	12,500,000
Net cash from financing activities	<u>16,177,233</u>
Cash and cash equivalents at the end of the period	<u>(19,471,191)</u>
Cash and cash equivalents at the end of the period comprise:	
Cash and balances with CBO	3,028,809
Due from banks and financial institutions	7,700,000
Due to Head office and other banks	(30,200,000)
	<u>(19,471,191)</u>

The notes on pages 6 to 30 form an integral part of these financial statements.

MAISARAH ISLAMIC BANKING SERVICES - WINDOW OF BANK DHOFAR S.A.O.G**Notes to the financial statements**

For the period from 3 March 2013 to 31 December 2013

1 LEGAL STATUS AND PRINCIPAL ACTIVITIES

Maisarah Islamic Banking Services ("Maisarah") was established in Sultanate of Oman as window of Bank Dhofar SAOG. Maisarah's operations commenced on 3 March 2013 and it currently operates through 2 branches in the Sultanate under the license issued by the Central Bank of Oman on 27 February 2013.

The principle activities of Maisarah is taking demand, saving and deposit accounts, providing Murabaha finance, Ijarah financing and other Shari'a compliant forms of financing as well as managing investor's money on the basis of Mudaraba or agency for a fee, providing commercial banking services and other investment activities.

Maisarah's activities are regulated by the Central Bank of Oman ("CBO") and supervised by Shari'a Supervisory Board ("SSB") comprising of five members.

2 BASIS OF PREPARATION**2.1 Statement of compliance**

The financial statements of Maisarah Islamic Banking Services are prepared in accordance with the Financial Accounting Standards ("FAS") issued by the Accounting and Auditing Organization for Financial Institutions ("AAOIFI"), the Shari'a rules and principles as determined by the SSB of Maisarah and the applicable laws and regulations issued by the CBO.

Maisarah complies with the requirements of AAOIFI, for matters for which no AAOIFI standards exist, Maisarah uses the relevant International Financial Reporting Standards ("IFRS") or International Accounting Standards ("IAS") as issued by International Accounting Standards Board ("IASB").

Statement of changes in restricted investment amount, statement of sources of funds in zakah and charity and statement of sources and uses of funds in Qard Fund have not been presented as these are not applicable / relevant to Maisarah's operations.

2.2 Basis of measurement

The financial statements are prepared on a historical cost basis, except for certain investments carried at fair value.

2.3 Functional and presentation currency

Items included in Maisarah's financial statements are measured using Rials Omani ("RO") which is the currency of the primary economic environment in which Maisarah operates, rounded off to the nearest Rial Omani.

Notes to the financial statements

For the period from 3 March 2013 to 31 December 2013

2.4 Use of estimates and judgements

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

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

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

3 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set below have been consistently applied in dealing with items that are considered material in relation to Maisarah's financial statements to the period presented.

3.1 Foreign currency translations

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in income statement.

3.2 Investments

Equity and debt type instruments at fair value through equity

This includes all equity and debt type instruments that are not fair valued through income statement. Subsequent to acquisition, investments designated at fair value through equity are re-measured at fair value with unrealised gains or losses recognised proportionately in owners' equity and equity of unrestricted investment account holders until the investment is derecognised or determined to be impaired at which time the cumulative gain or loss previously recorded in owners' equity or equity of investment account holders is recognised in income statement.

Notes to the financial statements

For the period from 3 March 2013 to 31 December 2013

3.3 Derecognition of financial assets and liabilities

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

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

A financial liability is derecognized when the obligation specified in the contract is discharged, cancelled or expired.

3.4 Fair value measurement principles

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

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

3.5 Cash and cash equivalents

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

3.6 Offsetting

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

Income and expenses are presented on a net basis only for permitted transactions.

3.7 Murabaha receivables

Murabaha receivables are stated net of deferred profits and provisions for impairment.

MAISARAH ISLAMIC BANKING SERVICES - WINDOW OF BANK DHOFAR S.A.O.G

Notes to the financial statements

For the period from 3 March 2013 to 31 December 2013

3.8 Musharaka investments

Musharaka investments are stated at the fair value less provision for impairment.

3.9 Ijarah Muntahia Bittamleek assets

Ijarah Muntahia Bittamleek assets are initially recorded at cost. Ijarah Muntahia Bittamleek is a lease whereby the legal title of the leased asset passes to the lessee at the end of the Ijarah (lease term), provided that all Ijarah instalments are settled.

Depreciation is calculated using the straight-line method on all Ijarah Muntahia Bittamleek assets, at rates calculated to write off the cost of each asset over its useful life or period of the lease whichever is lower.

3.10 Property and equipment

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

	<i>Years</i>
Furniture, fixtures and equipment	3 - 7
Motor vehicles	3 - 5
Computer equipment	4

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

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

3.11 Intangibles

Intangible assets are classified according to their useful life for a specified or unspecified period of time. Intangible assets with definite useful life are amortized during that life, and amortization is recorded in income statement. Intangible assets with indefinite useful life, are reviewed at each reporting date and impairment, if any is recorded in income statement.

MAISARAH ISLAMIC BANKING SERVICES - WINDOW OF BANK DHOFAR S.A.O.G**Notes to the financial statements**

For the period from 3 March 2013 to 31 December 2013

3.11 Intangibles (continued)

Intangible assets arising from Maisarah's operations are not capitalized and are charged to the income statement as incurred.

Any indications of impairment of intangible assets are reviewed at the reporting date; in addition, the useful lives of these assets are reviewed annually. If expected useful lives vary from the estimated ones the change in estimate is adjusted prospectively.

3.12 Equity of unrestricted investment account holders

All unrestricted investment accounts are carried at cost plus profit and related reserves less amounts settled.

Unrestricted investment account holders' share of income is calculated based on the income generated from investment accounts after deducting Mudarib's share. Operating expenses are charged to shareholders' funds and not included in the calculation.

The basis applied by Maisarah in arriving at the unrestricted investment account holders' share of income is total income from jointly financed Islamic assets less shareholders' income. Pre-agreed profit share generated from unrestricted investment account holders is deducted as Mudarib's share after deducting profit equalisation reserve and the remaining amount is distributed to the unrestricted investment account holders after deducting investment risk reserve.

3.13 Profit equalisation reserve

Maisarah appropriates certain amount in excess of the profit to be distributed to unrestricted investment accounts before taking into consideration the Mudarib share of income. This will be used to maintain a certain level of return on investment for unrestricted investment account holders.

3.14 Investment risk reserve

Investment risk reserves are amounts appropriated out of the income of unrestricted investment account holders, after allocating the Mudarib's share, to cater against future losses for unrestricted investment account holders.

MAISARAH ISLAMIC BANKING SERVICES - WINDOW OF BANK DHOFAR S.A.O.G**Notes to the financial statements**

For the period from 3 March 2013 to 31 December 2013

3.15 Provisions

A provision is recognised in the statement of financial position when Maisarah has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and the amount has been reliably estimated.

3.16 Earnings prohibited by Shari'a

All the funds mobilized and income earned by Maisarah is from Islamic sources. Maisarah is committed to avoid recognizing any income generated from non-Islamic sources. Accordingly, all non-Islamic income is credited to a charity account where Maisarah uses these funds for social welfare activities. It includes but not limited to cases/transactions classified by Shari'a as non-compliant income and approved by the SSB to be forfeited, interest paid by other banks on Nostro accounts, late payment fee received from the customer in financing and investment transaction.

3.17 Zakah

The responsibility of payment of zakah is on individual shareholders and investment account holders.

3.18 Joint and self-financed

Investments, financing and receivables that are jointly owned by Maisarah and the unrestricted investment accounts holders are classified under the caption "jointly financed" in the financial statements. Investments, financing and receivables that are financed solely by Maisarah are classified under "self-financed".

3.19 Funds for Maisarah

Maisarah functions with funds specifically available for Islamic Banking activities and there is no commingling of funds with conventional banking financial business.

MAISARAH ISLAMIC BANKING SERVICES - WINDOW OF BANK DHOFAR S.A.O.G**Notes to the financial statements**

For the period from 3 March 2013 to 31 December 2013

3.20 Revenue recognition*3.20.1 Murabaha receivables*

Where the income is quantifiable and contractually determined at the commencement of the contract, income is recognized on a time-apportioned basis over the period of the contract based on the principal amounts outstanding. Where the income from a contract is not quantifiable, it is recognized when realized. Income related to non-performing accounts is excluded from income statement.

3.20.2 Musharaka investments

Income is recognised when the right to receive payment is established or on distribution by the Musharik, whereas the losses are charged to income on their declaration by the Musharik. Income related to non-performing accounts is excluded from income statement.

3.20.3 Ijarah Muntahia Bittamleek

Income from Ijarah Muntahia Bittamleek assets is recognised on a time-apportioned basis over the lease term, net of depreciation. Income related to non-performing Ijarah Muntahia Bittamleek assets is excluded from income statement.

3.20.4 Dividends

Dividends are recognised when the right to receive payment is established.

3.20.5 Fee and Commission income

Fee and commission income is recognised when earned.

3.20.6 Maisarah's share as a Mudarib

Maisarah's share as a Mudarib for managing unrestricted investment accounts is accrued based on the terms and conditions of the related Mudaraba agreements.

3.20.7 Income allocation

Income from jointly financed activities is allocated proportionately between unrestricted investment accounts in accordance to their pre-agreed assigned weightages and shareholders on the basis of the average balances outstanding during the year.

MAISARAH ISLAMIC BANKING SERVICES - WINDOW OF BANK DHOFAR S.A.O.G

Notes to the financial statements

For the period from 3 March 2013 to 31 December 2013

3.21 Taxation

Maisarah is Islamic Banking Window of Bank Dhofar SAOG, hence it is not taxable on a stand-alone basis as per the prevailing tax laws. Accordingly, no current tax and deferred tax has been accounted for in these financial statements.

Bank Dhofar SAOG is taxable on combined results i.e. including Maisarah's financial results, accounted for as per IFRS.

3.22 Employee benefits

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

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

3.23 Shari'a supervisory board

All business activities, products, transactions, agreements, contracts and other relevant documents are subject to the supervision of the Shari'a Supervisory Board of Maisarah, which meets quarterly and consists of five prominent Shari'a scholars appointed by the Shareholders for a period of three years, namely:

Sr. No.	Name	Title
1	Sheikh Dr. Salim Bin Ali Bin Ahmed Al Dhahab	Chairman
2	Sheikh Dr. Mohammed bin Ali bin Mahmoud Al Lawati	Member
3	Sheikh Ahmed bin Awadh bin Abdul-Rahman Al-Hassaan	Member
4	Sheikh Dr. Abdullah bin Mubarak Al Abri	Member
5	Sheikh Dr. Mohammad Ameen Ali Qattan	Member

3.24 Trade date accounting

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

MAISARAH ISLAMIC BANKING SERVICES - WINDOW OF BANK DHOFAR S.A.O.G**Notes to the financial statements**

For the period from 3 March 2013 to 31 December 2013

3.25 Segment reporting

A segment is a distinguishable component of Maisarah that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

Maisarah currently operates only in the Sultanate of Oman. Maisarah's primary format for reporting segmental information is business segments, based upon management and internal reporting structure. Maisarah's main business segments are retail banking, corporate banking, treasury and investments.

3.26 Fiduciary assets

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

4 Critical accounting judgment and key sources of estimation uncertainty**(a) Impairment**

Management reviews its financing portfolio to assess impairment at each reporting date. In determining whether an impairment loss should be recorded in the income statement, management makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of finances before the decrease can be identified with an individual receivable in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of customers in a group that correlates with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

(b) Useful life of property and equipment and Ijarah Muntahia Bittamleek

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

MAISARAH ISLAMIC BANKING SERVICES - WINDOW OF BANK DHOFAR S.A.O.G

Notes to the financial statements*For the period from 3 March 2013 to 31 December 2013***5 Cash and balances with Central Bank of Oman**

	2013 RO
Cash in hand	269,584
Balances with Central Bank of Oman	<u>2,759,225</u>
	<u>3,028,809</u>

6 Due from banks and financial institutions

	Self- Financed RO	Jointly Financed RO	Total RO
Wakala placement	<u>2,066,193</u>	<u>5,633,807</u>	<u>7,700,000</u>

The Wakala placement represents investment of RO 7.7 Million (USD 20 Million).

7 Murabaha receivables –net

	Self- Financed RO	Jointly Financed RO	Total RO
Gross Murabaha receivables	73,394	200,120	273,514
Less: Unearned income	(9,719)	(26,501)	(36,220)
	<u>63,675</u>	<u>173,619</u>	<u>237,294</u>
Less: impairment allowance	(1,468)	(4,002)	(5,470)
	<u>62,207</u>	<u>169,617</u>	<u>231,824</u>

Murabaha receivables past due but not impaired with the period less than 30 days amount to RO 14,144

8 Diminishing Musharaka Financing

	Self – Financed RO	Jointly Financed RO	Total RO
Diminishing Musharaka	2,797,468	7,627,749	10,425,217
Less: impairment allowance	(26,949)	(73,482)	(100,431)
	<u>2,770,519</u>	<u>7,554,267</u>	<u>10,324,786</u>

Fair value of collaterals

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

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Notes to the financial statements

For the period from 3 March 2013 to 31 December 2013

9 Financial asset at fair value through equity

	Self- Financed RO	Jointly Financed RO	2013 Total RO
Local un-listed sukuk	2,683,370	7,316,630	10,000,000

Maisarah has invested RO 10 million in Ijarah Sukuk issued by Modern Sukuk SAOC. At 31 December 2013, the market value of the Sukuk approximates to the carrying value.

10 Ijarah Muntahia Bittamleek – net

	Self- Financed RO	Jointly Financed RO	Total RO
<i>Cost</i>			
Additions	4,829,834	13,169,324	17,999,158
Disposals	(16,100)	(43,900)	(60,000)
At 31 December 2013	4,813,734	13,125,424	17,939,158
<i>Accumulated depreciation</i>			
Charge for the period	89,753	244,725	334,478
Disposals	(180)	(489)	(669)
At 31 December 2013	89,573	244,236	333,809
Net book value at 31 December	4,724,161	12,881,188	17,605,349
Less: impairment allowance	(48,128)	(131,230)	(179,358)
Net Ijarah Muntahia Bittamleek	4,676,033	12,749,958	17,425,991

Ijarah Muntahia Bittamleek past due but not impaired is as follows:

Past due up to 30 days	673,526
Past due 30 – 60 days	25,195
Total	698,721

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For the period from 3 March 2013 to 31 December 2013

11 Property and equipment - net

	Furniture , fixtures & equipment RO	Motor vehicles RO	Computer equipment RO	Capital work in progress RO	Total RO
<i>Cost</i>					
Additions	191,935	18,100	117,787	15,311	343,133
At 31 December 2013	191,935	18,100	117,787	15,311	343,133
<i>Accumulated depreciation</i>					
Provided during the year	(28,927)	(4,199)	(22,624)	-	(55,750)
At 31 December 2013	(28,927)	(4,199)	(22,624)	-	(55,750)
Net book value at 31 December 2013	163,008	13,901	95,163	15,311	287,383

12 Intangible asset - net

	2013 RO
Computer software	853,538
Amortization	(63,109)
Net book value at 31 December 2013	790,429

13 Other assets

Profit receivable	133,702
Prepaid expenses	73,108
Other	23,286
	<u>230,096</u>

14 Due to Head office and other banks

Due to Head office	22,500,000
Due to other banks	7,700,000
	<u>30,200,000</u>

Due to Head office and other banks comprises of Wakala deposits.

15 Qard Hasan from Head Office

Qard Hasan from Head Office	<u>3,287,038</u>
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This amount represents profit-free Qard Hasan facility from Head Office.

MAISARAH ISLAMIC BANKING SERVICES - WINDOW OF BANK DHOFAR S.A.O.G

Notes to the financial statements

For the period from 3 March 2013 to 31 December 2013

16 Other liabilities

	2013 RO
Payables	2,361,438
Profit payable	9,093
Accrued expenses	<u>186,840</u>
	<u>2,557,371</u>

17 Equity of unrestricted investment accountholders

Savings account	1,117,586
Term deposit	17,500
Profit equalization reserve	45
Investment risk reserve	<u>14</u>
	<u>1,135,145</u>

There is no restricted investment at reporting date.

Basis of distribution of the profit between owners' equity and unrestricted investment accountholders

The investment profits are distributed between owners' equity and unrestricted investment account holders for the period ended 31 December 2013 as follows:

	<u>Percentage</u>
Unrestricted investment account holders share	60%
Mudarib' s share	40%

The investment risk reserve is deducted from investment account holders share after allocating the Mudarib' s share of profit as per the approved policy in order to cater against future losses of equity of unrestricted investment account holders. Investment risk reserve will revert to the investment account holders as per terms and conditions of Mudaraba contract.

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Notes to the financial statements*For the period from 3 March 2013 to 31 December 2013***17 Equity of unrestricted investment accountholders (continued)**

The profit equalization reserve is the amount Maisarah appropriates in excess of the profit to be distributed to equity of unrestricted account holders before allocating the Mudarib share of income to maintain a certain level of return. Profit equalization reserve will revert to owner's equity and unrestricted investment accountholders as per terms and condition of Mudaraba contract.

Unrestricted investment account holders funds are commingled with Maisarah's funds for investment, no priority is granted to any party for the purpose of investments and distribution of profits. The administration expenses are only charged on the Maisarah expenses.

18 Capital

The Head office has assigned a capital of RO 12.5 million to Maisarah from the core paid up capital of the shareholders.

19 Fiduciary assets

At 31 December 2013, there were no funds under management with Maisarah.

20 Murabaha income

	Self- Financed RO	Jointly Financed RO	2013 Total RO
Murabaha income	1,522	4,151	5,673

21 Ijarah Muntahia Bittamleek income

	Self- Financed RO	Jointly Financed RO	Total RO
Income from Ijarah Muntahia Bittamleek	114,417	311,975	426,392
Less: Depreciation	(89,753)	(244,725)	(334,478)
	24,664	67,250	91,914

22 Diminishing Musharaka income

	Self- Financed RO	Jointly Financed RO	Total RO
Diminishing Musharaka income	15,000	40,901	55,901

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For the period from 3 March 2013 to 31 December 2013

23 Income on Wakala placement

	Self- Financed RO	Jointly Financed RO	2013 Total RO
Income on Wakala placement	9,242	25,199	34,441

24 Profit on financial assets at fair value through equity

	Self- Financed RO	Jointly Financed RO	Total RO
Local un-listed sukuk	23,479	64,021	87,500

25 Pre-operating expenses

Staff cost	238,814
General administration cost	188,127
Others	68,576
	<u>495,517</u>

26 Staff costs

Salaries and allowances	981,984
Other personnel cost	73,535
Non-Omani employee terminal benefit	2,613
	<u>1,058,132</u>

27 General and administrative expenses

	RO
Occupancy cost	190,464
Operating and administration cost	407,455
	<u>597,919</u>

MAISARAH ISLAMIC BANKING SERVICES - WINDOW OF BANK DHOFAR S.A.O.G

Notes to the financial statements*For the period from 3 March 2013 to 31 December 2013***28 Related parties transactions**

In the ordinary course of business, Maisarah 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:

During the current year, there have been no financing, deposits and other facilities been provided by Maisarah to the Directors, Shari'a Supervisory Board and shareholders holding 10% or more.

	2013
	RO
Remuneration paid to Shari'a Supervisory Board	
Chairman	
– remuneration proposed	6,000
– sitting fees paid	4,800
Other members	
– remuneration proposed	12,000
– sitting fees paid	9,300
Other transactions	
Rental payment to a related party	69,120
Key management compensation	
Salaries and other benefits	139,944
End of service benefits	<u>2,087</u>
29 Contingent liabilities and commitments	
(a) Credit related contingent items	
Letters of credit and other commitments for which there are corresponding customer liabilities:	
Letters of credit	<u><u>2,989,910</u></u>
(b) Capital and investment commitments	
Contractual commitments for property and equipment	<u><u>279,367</u></u>

Notes to the financial statements

For the period from 3 March 2013 to 31 December 2013

30 Fair value information

Fair value is an amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Consequently, differences can arise between the carrying value and fair value estimates. As at the reporting date the fair values of Maisarah's financial instruments are not significantly different from their carrying values.

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

At reporting date, Maisarah has investments in Sukuk, which are stated at cost.

31 Financial risk management

The important types of financial risks to which Maisarah is exposed are credit risk, liquidity risk and market risk. The risk management division of Maisarah is an independent and dedicated unit reporting directly to the Risk Management Committee ("RMC") of the Board. The division's primary responsibility is to assess, monitor and recommend strategies for control of credit, market and operational risk. The absence of any direct or indirect reporting lines and permanent membership in all Maisarah's committees are among the factors which reflect the independence of the Risk Management Division's working and the key role it plays within Maisarah.

The risk management framework is pivoted on a host of committees involving the executive management and the Board of Directors ("the Board") for approval and reporting purposes. The Board has the overall authority for approval of strategies and policies, which it exercises through its various sub-committees. RMC of the Board is responsible for reviewing and recommending to the full Board, approval risk policies and procedures. RMC also reviews the risk profile of Maisarah as presented to it by the Risk Management Division and appraises the full Board in its periodic meetings.

Notes to the financial statements*For the period from 3 March 2013 to 31 December 2013***31 Financial risk management (continued)****Credit risk**

The most important risk to which Maisarah is exposed is credit risk. To manage the level of credit risk, Maisarah deals with counter-parties of good credit. Board Credit Committee is the final credit approving authority of Maisarah which is mainly responsible for approving all credit proposals beyond the authority level of the management. RMC is the management decision making body which is empowered to consider all credit related issues upto certain limits.

Credit risk is managed by the Risk Management Division (“RMD”) through a system of independent risk assessment in credit proposals before they are considered by the appropriate approving authorities. Maisarah has in place a risk grading system for analysing the risk associated with credit. This facilitates the approving authorities in making their credit decision. Maximum counterparty/group exposures are limited to 15% of the Bank’s capital base as stipulated by CBO and where a higher limit is required for projects of national importance prior CBO approval is obtained. Individual country limits using Moody’s, S&P and Fitch ratings have also been set up to ensure portfolio diversification in terms of sovereign risk ratings and geographical exposure. These limits are approved by the Board. Retail financing is strictly in accordance with the CBO guidelines. The analysis of credit portfolio is provided below. It is pertinent to mention that the credit portfolio consists of all standard accounts and there is no impairment in the portfolio.

(a) Geographical concentrations

All the financial asset and financial liabilities balance are based in Sultanate of Oman.

(b) Customer concentrations**Customer concentrations on asset (Gross)**

	Due from banks and financial institutions RO	Murabaha receivables RO	Diminishing Musharaka financing RO	Ijarah Muntahia Bittamleek RO
31 December 2013				
Retail	-	237,294	-	17,605,349
Corporate	7,700,000	-	10,425,217	-
	<u>7,700,000</u>	<u>237,294</u>	<u>10,425,217</u>	<u>17,605,349</u>

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Notes to the financial statements

For the period from 3 March 2013 to 31 December 2013

31 Financial risk management (continued)

Credit risk (continued)

(c) Economic sector concentrations

	Murabaha receivables RO	Diminishing Musharaka Financing RO	Ijarah Muntahia Bittamleek RO
31 December 2013			
Personal	237,294	-	17,605,349
Construction	-	6,957,659	-
Manufacturing	-	1,670,200	-
Other services	-	303,683	-
Others	-	1,493,675	-
	<u>237,294</u>	<u>10,425,217</u>	<u>17,605,349</u>

(d) Gross credit exposure

	Total gross exposure 2013 RO	Monthly average gross exposure 2013 RO
Murabaha receivables	237,294	167,425
Diminishing Musharaka Financing	10,425,217	5,368,439
Ijarah Muntahia Bittamleek	<u>17,605,349</u>	<u>8,603,110</u>

(e) Industry type distribution of exposures by major types of credit exposures:

	Murabaha receivables RO	Diminishing Musharaka Financing RO	Ijarah Muntahia Bittamleek RO	Off balance sheet exposures RO
31 December 2013				
Import trade	-	-	-	2,989,910
Mining and quarrying	-	1,493,675	-	-
Construction	-	6,957,659	-	-
Manufacturing	-	1,670,200	-	-
Services	-	303,683	-	-
Retail	237,294	-	17,605,349	-
	<u>237,294</u>	<u>10,425,217</u>	<u>17,605,349</u>	<u>2,989,910</u>

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Notes to the financial statements

For the period from 3 March 2013 to 31 December 2013

31 Financial risk management (continued)

Credit risk (continued)

(f) Residual contractual maturities of the portfolio by major types of credit exposures:

	Murabaha receivables	Diminishing Musharaka Financing	Ijarah Muntahia Bittamleek	Off Balance sheet exposures
	RO	RO	RO	RO
31 December 2013				
Upto 1 month	4,768	195,851	125,592	-
1 - 3 months	9,536	391,702	251,184	-
3 - 6 months	14,304	587,553	376,776	2,989,910
6 - 9 months	14,304	531,276	376,776	-
9 - 12 months	14,304	512,128	376,776	-
1 - 3 years	109,088	5,470,115	3,014,208	-
3 - 5 years	70,990	1,953,190	2,965,652	-
Over 5 years	-	783,402	10,118,385	-
	<u>237,294</u>	<u>10,425,217</u>	<u>17,605,349</u>	<u>2,989,910</u>

(g) Distribution of past due and not past due financing by type of industry:

	Performing Murabaha receivables	Performing Diminishing Musharaka Financing	Performing Ijarah Muntahia Bittamleek	General provisions made during the year
	RO	RO	RO	RO
31 December 2013				
Mining and quarrying	-	1,493,675	-	(14,389)
Construction	-	6,957,659	-	(67,026)
Manufacturing	-	1,670,200	-	(16,090)
Services	-	303,683	-	(2,926)
Retail	237,294	-	17,605,349	(184,828)
	<u>237,294</u>	<u>10,425,217</u>	<u>17,605,349</u>	<u>(285,259)</u>

(h) Maximum exposure to credit risk without consideration of collateral held:

There is no credit exposure provided without collateral.

Liquidity risk

Liquidity risk is the potential inability to meet Maisarah's liabilities as they become due, because of the difficulty in liquidating assets (market liquidity risk) or in obtaining adequate funding (funding liquidity risk). It arises when Maisarah is unable to generate cash to cope with a decline in deposits or increase in assets.

MAISARAH ISLAMIC BANKING SERVICES - WINDOW OF BANK DHOFAR S.A.O.G

Notes to the financial statements

For the period from 3 March 2013 to 31 December 2013

31 Financial risk management (continued)

Liquidity risk (continued)

Maisarah's liquidity risk management is governed by the treasury risk policy document approved by the Board of Directors as well as the provisions of relevant CBO guidelines on liquidity risk management. Maisarah monitors its liquidity risk through cash flow approach. Under cash flow approach Maisarah generates Maturity of Assets and Liabilities (MAL) report which captures all the maturing assets and liabilities into various pre-set time buckets ranging from one month to five years. The mismatches in various time buckets indicate liquidity gap and Maisarah strictly adheres to the CBO set limit of 15% of cumulative liabilities (outflows) on mismatches (liquidity gaps) in time buckets upto one year. In addition, Maisarah has also set up internal limit on mismatches in time buckets beyond one year.

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

Maturity profile of assets and liabilities

	Due on demand and up to 30 days RO	More than 1 month to 6 months RO	More than 6 months to 12 months RO	More than 1 year to 5 years RO	Over 5 years RO	Total RO
31 December 2013						
Cash and balances with Central Bank of Oman ("CBO")	3,028,809	-	-	-	-	3,028,809
Due from banks and financial institutions	7,700,000	-	-	-	-	7,700,000
Murabaha receivables - net	4,658	23,290	27,949	175,927	-	231,824
Diminishing Musharaka financing	193,964	969,821	1,033,352	7,351,793	775,856	10,324,786
Financial assets at fair value through equity	-	-	-	10,000,000	-	10,000,000
Ijarah Muntahia Bittamleek- net	124,313	621,563	745,875	5,918,939	10,015,301	17,425,991
Property and equipment – net	-	-	-	-	287,383	287,383
Intangible asset	-	-	-	-	790,429	790,429
Other asset	133,702	-	-	-	96,394	230,096
Total assets	11,185,446	1,614,674	1,807,176	23,446,659	11,965,363	50,019,318
Due to Head office and other banks	30,200,000	-	-	-	-	30,200,000
Qard Hasan from Head Office	-	-	-	3,287,038	-	3,287,038
Current accounts	508,429	889,751	508,429	-	635,538	2,542,147
Other liabilities	2,557,371	-	-	-	-	2,557,371
Equity of unrestricted investment account holders	55,879	126,259	114,759	558,793	279,455	1,135,145
Owner's equity	-	-	-	-	10,297,617	10,297,617
Total liabilities and account holders & owners' equity	33,321,679	1,016,010	623,188	3,845,831	11,212,610	50,019,318

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For the period from 3 March 2013 to 31 December 2013

31 Financial risk management (continued)**Market risk**

Market risk includes currency risk, profit rate risk and equity price risk.

(a) Currency risk

Maisarah is exposed to currency risk through its transactions in foreign currencies. The major foreign currency to which Maisarah is exposed is the US Dollar which is effectively pegged to Rial Omani. Presently Maisarah does not have major foreign exchange exposure. There is only one placement in US dollar which has been financed through Wakala deposit of the same tenure.

(b) Profit rate risk

Profit rate risk (PRR) is the risk that Maisarah will incur a financial loss as a result of mismatch in the profit rates on assets & investment accountholders. The profit distribution to investment accountholders is based on profit sharing agreements. However, the profit sharing agreements will result in displaced commercial risk when Maisarah results do not allow it to distribute profits in line with the market rates.

Maisarah has a detailed profit distribution policy in place which details the process and management of profit distribution, including setting up of profit equalization & investment risk reserve. The responsibility of profit rate risk management rests with the Maisarah's Asset and Liability Management Committee (ALCO).

Profit rate sensitivity gap

Sensitivity to profit rates arises from mismatches in the period to repricing of assets and that of the corresponding liability. Maisarah manages these mismatches by following policy guidelines and reduces risk by matching the repricing of assets and liabilities.

MAISARAH ISLAMIC BANKING SERVICES - WINDOW OF BANK DHOFAR S.A.O.G

Notes to the financial statements

For the period from 3 March 2013 to 31 December 2013

31 Financial risk management (continued)

Market risk (continued)

Profit rate sensitivity gap (continued)

	Effective average profit rates %	Due on demand and within 30 days RO	Due within 1 to 6 months RO	Due within 7 to 12 months RO	Due within 1 to 5 years RO	Due after 5 years RO	Non-profit bearing RO	Total RO
31 December 2013								
Cash and balances with Central Bank of Oman	-	-	-	-	-	-	3,028,809	3,028,809
Due from banks and financial institutions	0.91%	7,700,000	-	-	-	-	-	7,700,000
Murabaha receivables	5.13%	4,658	23,290	27,949	175,927	-	-	231,824
Diminishing Musharaka Financing	5.28%	193,964	969,821	1,033,352	7,351,793	775,856	-	10,324,786
Financial assets at fair value through equity	5%	-	-	-	10,000,000	-	-	10,000,000
Ijara Muntahia Bittamleek – net	4.32%	124,313	621,563	745,875	5,918,939	10,015,301	-	17,425,991
Property and equipment – net	-	-	-	-	-	-	287,383	287,383
Intangible asset	-	-	-	-	-	-	790,429	790,429
Other asset	-	-	-	-	-	-	230,096	230,096
Total assets		8,022,935	1,614,674	1,807,176	23,446,659	10,791,157	4,336,717	50,019,318
Due to Head office and other banks	0.47%	30,200,000	-	-	-	-	-	30,200,000
Qard Hasan from Head office	-	-	-	-	-	-	3,287,038	3,287,038
Current accounts	-	-	-	-	-	-	2,542,147	2,542,147
Other liabilities	-	-	-	-	-	-	2,557,371	2,557,371
Equity of unrestricted investment account holders	0.52%	55,879	126,259	114,759	558,793	279,455	-	1,135,145
Owner's equity	-	-	-	-	-	-	10,297,617	10,297,617
Equity of account holders & Total liabilities and shareholders' equity		30,255,879	126,259	114,759	558,793	279,455	18,684,173	50,019,318
On-balance sheet gap		(22,232,944)	1,488,415	1,692,417	22,887,866	10,511,702	(14,347,456)	-
Cumulative profit sensitivity gap		(22,232,944)	(20,744,529)	(19,052,112)	3,835,754	14,347,456	-	-

MAISARAH ISLAMIC BANKING SERVICES - WINDOW OF BANK DHOFAR S.A.O.G**Notes to the financial statements**

For the period from 3 March 2013 to 31 December 2013

31 Financial risk management (continued)**Market risk (continued)****(c) Equity risk**

Presently Maisarah is not exposed to any equity price risk.

Operational risk

Maisarah has adopted the Basic Indicator Approach under Basel II for the purpose of measuring capital charge for Operational Risk. The approach requires Maisarah to provide 15% of the average three years gross annual income as capital charge for operational risk.

32 Segmental information

Maisarah is organised into three main business segments:

- 4) Retail banking – incorporating private customer current accounts, savings account, term deposits, murabaha and ijarah muntahia bittamleek;
- 5) Corporate banking – incorporating current accounts, savings account, term deposits and diminishing musharaka financing; and
- 6) Treasury & investments

Transactions between the business segments are on normal commercial terms and conditions. Funds are ordinarily allocated between segments, resulting in funding cost transfers disclosed in operating income. Profit charged for these funds is based on Maisarah's cost of capital. There are no other material items of income or expense between the business segments.

Segment assets and liabilities comprise operating assets and liabilities, being the majority of the statement of financial position.

MAISARAH ISLAMIC BANKING SERVICES - WINDOW OF BANK DHOFAR S.A.O.G

Notes to the financial statements*For the period from 3 March 2013 to 31 December 2013***32 Segmental information (continued)**

At 31 December 2013	Retail banking	Corporate banking	Treasury and investments	Total
	RO	RO	RO	RO
Segment operating revenues	97,587	55,901	121,941	275,429
Other revenues	17,637	75,378	88	93,103
Total segment operating revenues	115,224	131,279	122,029	368,532
Profit expenses	(4,577)	(13)	(10,639)	(15,229)
Net operating income	110,647	131,266	111,390	353,303
Segment cost				
Operating expenses including depreciation	(804,438)	(460,802)	(1,005,187)	(2,270,427)
Impairment allowance	(184,828)	(100,431)	-	(285,259)
Net loss for the year	(878,619)	(429,967)	(893,797)	(2,202,383)
Segment assets	18,301,600	10,711,503	21,291,474	50,304,577
Less: Impairment allowance	(184,828)	(100,431)	-	(285,259)
Total segment assets	18,116,772	10,611,072	21,291,474	50,019,318
Segment liabilities	5,196,305	1,835,184	31,555,067	38,586,556

33 Comparative

No comparative information has been presented as Maisarah has commenced its operation from 3 March 2013.