



بنك ظفار  
BankDhofar

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

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

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

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**BANK DHOFAR S.A.O.G.**

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

**Dear Shareholders,**

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

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

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

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

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

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

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

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

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

**"Maisarah" Islamic Banking Services highlights:**

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

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

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

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

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

#### **Awards & Accolades:-**

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

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

## **Acknowledgment**

On behalf of the Board of Directors and staff, I would like to thank our valuable customers for their patronage and confidence reposed in the Bank. I thank the shareholders for the continuous support and the Bank's staff and management for the good performance during the first half year of 2015.

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

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

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

# BANK DHOFAR SAOG

## INTERIM CONDENSED STATEMENT OF FINANCIAL POSITION AT 30 JUNE 2015

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

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

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

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

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

# BANK DHOFAR SAOG

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

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

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

## BANK DHOFAR SAOG

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

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

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



## BANK DHOFAR SAOG

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

	Notes	Share capital RO'000	Share premium RO'000	Special reserve RO'000	Legal reserve RO'000	Subordinated loan reserve RO'000	Investment revaluation reserve RO'000	Retained earnings RO'000	Total RO'000
<b>Balance as at 1 January 2014</b>		121,013	40,018	18,488	31,492	26,250	1,754	64,592	303,607
<b>Total comprehensive income for the period</b>									
Net profit for the period		-	-	-	-	-	-	20,504	20,504
<b>Other comprehensive income for the period</b>									
Net change in fair value of available-for-sale investments		-	-	-	-	-	376	-	376
Transfer to statement of income on sale of available-for-sale investments		-	-	-	-	-	(328)	-	(328)
<b>Total comprehensive income for the period</b>		-	-	-	-	-	48	20,504	20,552
<b>Transactions recorded directly in equity</b>									
Dividend paid for 2013		-	-	-	-	-	-	(16,942)	(16,942)
Bonus shares issued for 2013	13	13,311	-	-	-	-	-	(13,311)	-
<b>Balance as at 30 June 2014 (Unaudited)</b>		134,324	40,018	18,488	31,492	26,250	1,802	54,843	307,217

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

## BANK DHOFAR SAOG

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

	<i>Notes</i>	Share capital RO'000	Share premium RO'000	Special reserve RO'000	Legal reserve RO'000	Subordinated loans reserve RO'000	Investment revaluation reserve RO'000	Retained earnings RO'000	Total RO'000
<b>Balances as at 1 January 2014</b>		<b>121,013</b>	<b>40,018</b>	<b>18,488</b>	<b>31,492</b>	<b>26,250</b>	<b>1,754</b>	<b>64,592</b>	<b>303,607</b>
<b>Total comprehensive income for the year</b>									
Profit for the year		-	-	-	-	-	-	40,453	40,453
<b>Other comprehensive income for the year</b>									
Net change in fair value of available-for-sale investments		-	-	-	-	-	(1,159)	-	(1,159)
Transfer to statement of income on sale of available-for -sale investments		-	-	-	-	-	(641)	-	(641)
Total comprehensive income for the year		-	-	-	-	-	(1,800)	40,453	38,653
Transfer to legal reserve		-	-	-	4,045	-	-	(4,045)	-
<b>Transactions recorded directly in equity</b>									
Dividend paid for 2013		-	-	-	-	-	-	(16,942)	(16,942)
Bonus shares issued for 2013	13	13,311	-	-	-	-	-	(13,311)	-
Transfer to subordinated loan reserve		-	-	-	-	15,000	-	(15,000)	-
<b>Balances as at 31 December 2014 (Audited)</b>		<b>134,324</b>	<b>40,018</b>	<b>18,488</b>	<b>35,537</b>	<b>41,250</b>	<b>(46)</b>	<b>55,747</b>	<b>325,318</b>

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

# BANK DHOFAR SAOG

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

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

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

# **BANK DHOFAR SAOG**

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

### **1. LEGAL STATUS AND PRINCIPAL ACTIVITIES**

Bank Dhofar SAOG (“the Bank”) is incorporated in the Sultanate of Oman as a public joint stock company and is principally engaged in corporate, retail and investment banking activities. During the year 2013, the Bank also started its Islamic Banking Window with an allocated capital of RO 12.5 million from the core paid up capital of the shareholders. Which was subsequently increased to RO 40 million. The Bank has a primary listing on the Muscat Securities Market (“MSM”) and its principal place of business is the Head Office, Capital Business District (“CBD”), Muscat, Sultanate of Oman.

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# BANK DHOFAR SAOG

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

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

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

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

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

### 4. Loans, advances and financing to banks

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

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

Movement of the impairment allowance as below:

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

# BANK DHOFAR SAOG

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

### 5. Loans, advances and financing to customers

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

The movement in the impairment allowance is analysed below:

#### (a) Allowance for loan impairment

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

#### (b) Reserved interest

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

#### Total impairment allowance

	<b>92,828</b>	84,078	87,604
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As a matter of policy, the Bank considers waiver / write-off or settlement only in such cases where the Bank is satisfied that the recovery of the full outstanding liabilities from the borrower is not possible in the normal course of business or out of the securities realisation or through enforcement of the guarantee (wherever available) and that legal action will not yield higher recoveries after considering the time and costs involved.

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

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

# BANK DHOFAR SAOG

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

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

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

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

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

### 6. Available-for-sale investments

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

# BANK DHOFAR SAOG

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

### 7. Held-to-maturity investments

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

### 8. Intangible asset

	<b>Unaudited 30 June 2015 RO'000</b>	Unaudited 30 June 2014 RO'000	Audited 31 December 2014 RO'000
The movement in the goodwill account is as follows:			
Balance at beginning of the period / year	2,383	2,780	2,780
Impaired during the period	(199)	(199)	(397)
Balance at the end of the period / year	<u>2,184</u>	<u>2,581</u>	<u>2,383</u>

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

### 9. Property and equipment

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

### 10. Due to banks

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

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



# BANK DHOFAR SAOG

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

### 11. Deposits from customers

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

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

### 12. Subordinated loan

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

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

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

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

### 13. Share capital

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

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

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

# BANK DHOFAR SAOG

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

### 13. Share capital (continued)

#### Shareholders

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

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

### 14. Perpetual Tier 1 Capital Securities

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

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

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

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

# BANK DHOFAR SAOG

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## 14. Reserves

### (a) Legal reserve

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

### (b) Subordinated loan reserves

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

### (c) Investment revaluation reserve

The movements in the investments revaluation reserve is analysed below:

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

# BANK DHOFAR SAOG

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

### 15. Net assets per share

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

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

### 16. Net interest income

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

### 17. Other income

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

# BANK DHOFAR SAOG

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

### 17. Other income (continued)

#### (a) Investment income

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

### 18. Impairment of financial assets

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

### 19. Earnings per share (basic and diluted)

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

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

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

For the purpose of earning per share calculation, the Bank has restated the previous year weighted average number of shares outstanding to include the 15% bonus shares of 201,486,332 shares issued in the second quarter of 2015.

# BANK DHOFAR SAOG

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

### 20. Related parties transactions

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

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

# BANK DHOFAR SAOG

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

### 21. Senior member borrowing

#### Senior member

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

### 22. Contingent liabilities and commitments

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

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

# BANK DHOFAR SAOG

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

### 23. Risk Management

#### (i) Liquidity risk

##### Maturity profile of assets and liabilities

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



# BANK DHOFAR SAOG

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

### 23. Risk Management (continued)

#### (i) Liquidity risk (continued)

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

	Due on demand and up to 30 days RO'000	More than 1 month to 6 months RO'000	More than 6 months to 12 months RO'000	More than 1 year to 5 years RO'000	Over 5 years RO'000	Total RO'000
30 June 2014						
Cash and balances with Central Bank of Oman	293,151	-	-	-	500	293,651
Loans, advances and financing to banks	75,628	72,725	37,729	13,407	-	199,489
Loans, advances and financing to customers	182,859	394,846	164,316	862,700	573,561	2,178,282
Available-for-sale investments	-	-	20,067	10,198	-	30,265
Held-to-maturity investments	9,344	20,541	-	45,230	12,475	87,590
Financial instruments at fair value through Profit or Loss	-	-	-	-	-	-
Intangible asset	-	-	-	-	2,581	2,581
Property and equipment	-	-	-	-	10,394	10,394
Other assets	44,010	3,063	25	36	4,810	51,944
<b>Total assets</b>	<b>604,992</b>	<b>491,175</b>	<b>222,137</b>	<b>931,571</b>	<b>604,321</b>	<b>2,854,196</b>
Due to banks	107,653	36,151	50,050	-	-	193,854
Deposits from customers	261,938	571,543	499,968	568,896	290,152	2,192,497
Other liabilities	61,652	4,332	4,066	13,942	1,636	85,628
Subordinated loan	-	-	-	75,000	-	75,000
Shareholders' equity	-	-	20,504	-	286,713	307,217
<b>Total liabilities and shareholders' equity</b>	<b>431,243</b>	<b>612,026</b>	<b>574,588</b>	<b>657,838</b>	<b>578,501</b>	<b>2,854,196</b>

# BANK DHOFAR SAOG

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

### 23. Risk Management (continued)

#### (i) Liquidity risk (continued)

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

	Due on demand and up to 30 days RO'000	More than 1 month to 6 months RO'000	More than 6 months to 12 months RO'000	More than 1 year to 5 years RO'000	Over 5 years RO'000	Total RO'000
31 December 2014						
Cash and balances with Central Bank of Oman	583,870	-	-	-	500	584,370
Loans and advances to banks	17,683	47,446	18,381	7,654	-	91,164
Loans and advances to customers	174,626	338,998	147,198	513,580	1,080,303	2,254,705
Available-for-sale Investments	-	-	16,688	10,198	-	26,886
Held-to-maturity Investments	5,128	55,993	25,778	50,565	12,524	149,988
Intangible asset	-	-	-	-	2,383	2,383
Property and equipment	-	-	-	-	9,683	9,683
Other assets	4,149	54,399	9,318	1,396	5,686	74,948
<b>Total assets</b>	<b>785,456</b>	<b>496,836</b>	<b>217,363</b>	<b>583,393</b>	<b>1,111,079</b>	<b>3,194,127</b>
Due to banks	59,620	76,893	-	38,500	-	175,013
Deposits from customers	193,621	405,455	460,548	652,275	770,280	2,482,179
Other liabilities	21,440	55,432	10,446	13,646	6,778	107,742
Subordinated loans	-	-	-	75,000	28,875	103,875
Shareholders' equity	-	40,453	-	-	284,865	325,318
<b>Total liabilities and shareholders' equity</b>	<b>274,681</b>	<b>578,233</b>	<b>470,994</b>	<b>779,421</b>	<b>1,090,798</b>	<b>3,194,127</b>

# BANK DHOFAR SAOG

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

### 23. Risk Management (continued)

#### (ii) Market risk

##### (a) Interest rate risk

##### Interest rate sensitivity gap

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

		Due on demand and within 30 days EIR RO'000	Due within 1 to 6 months RO'000	Due within 7 to 12 months RO'000	Due within 1 to 5 years RO'000	Due after 5 years RO'000	Non- interest bearing RO'000	Total RO'000
<b>30 June 2015</b>								
Cash and balances with Central Bank of Oman	0.1%	102,900	-	-	-	500	186,691	290,091
Loans, advances and financing to banks	1.0%	175,558	76,146	-	-	-	-	251,704
Loans, advances and financing to customers	5.0%	196,408	358,963	113,637	600,301	1,233,616	-	2,502,925
Available-for-sale investments	5.0%	-	-	-	10,198	-	18,399	28,597
Held-to-maturity investments	1.3%	64,790	56,261	-	72,898	25,846	-	219,795
Intangible asset		-	-	-	-	-	2,184	2,184
Property and equipment		-	-	-	-	-	9,312	9,312
Other assets		-	-	-	-	-	80,724	80,724
<b>Total assets</b>		<b>539,656</b>	<b>491,370</b>	<b>113,637</b>	<b>683,397</b>	<b>1,259,962</b>	<b>297,310</b>	<b>3,385,332</b>
Due to banks	1.0%	-	80,850	-	-	-	1,880	82,730
Deposits from customers	1.2%	569,778	485,384	355,042	442,747	52,795	719,294	2,625,040
Other liabilities		-	-	-	-	-	116,472	116,472
Subordinated loans	5.2%	-	-	-	75,000	28,875	-	103,875
Shareholders 'equity		-	-	22,627	-	434,588	-	457,215
<b>Total liabilities and shareholders' equity</b>		<b>569,778</b>	<b>566,234</b>	<b>377,669</b>	<b>517,747</b>	<b>516,258</b>	<b>837,646</b>	<b>3,385,332</b>
<b>On-balance sheet gap</b>		<b>(30,122)</b>	<b>(74,864)</b>	<b>(264,032)</b>	<b>165,650</b>	<b>743,704</b>	<b>540,336</b>	
<b>Cumulative interest sensitivity gap</b>		<b>(30,122)</b>	<b>(104,986)</b>	<b>(369,018)</b>	<b>(203,368)</b>	<b>540,336</b>	<b>-</b>	

# BANK DHOFAR SAOG

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

### 23. Risk Management (continued)

#### (ii) Market risk (continued)

##### (a) Interest rate risk (continued)

##### Interest rate sensitivity gap (continued)

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

# BANK DHOFAR SAOG

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

### 23. Risk Management (continued)

#### (ii) Market risk (continued)

#### (a) Interest rate risk (continued)

#### Interest rate sensitivity gap (continued)

	EIR	Due on demand and within 30 days RO'000	Due within 1 to 6 months RO'000	Due within 7 to 12 months RO'000	Due within 1 to 5 years RO'000	Due after 5 years RO'000	Non-interest bearing RO'000	Total RO'000
31 December 2014								
Cash and balances with Central Bank of Oman	0.1%	310,000	-	-	-	500	273,870	584,370
Loans, advances and financing to banks	1.1%	28,950	62,214	-	-	-	-	91,164
Loans, advances and financing to customers	5.3%	174,626	338,998	147,198	513,580	1,080,303	-	2,254,705
Available-for-sale investments	5.0%	-	-	-	10,198	-	16,688	26,886
Held-to-maturity investments	1.9%	5,128	55,993	25,778	50,565	12,524	-	149,988
Intangible asset		-	-	-	-	-	2,383	2,383
Property and equipment		-	-	-	-	-	9,683	9,683
Other assets		-	-	-	-	-	74,948	74,948
<b>Total assets</b>		<b>518,704</b>	<b>457,205</b>	<b>172,976</b>	<b>574,343</b>	<b>1,093,327</b>	<b>377,572</b>	<b>3,194,127</b>
Due to banks	0.7%	58,822	26,843	88,550	-	-	798	175,013
Deposits from customers	1.4%	64,208	238,001	472,624	570,461	34,821	1,102,064	2,482,179
Other liabilities		-	-	-	-	-	107,742	107,742
Subordinated loan	5.3%	-	-	-	75,000	28,875	-	103,875
Shareholders equity		-	40,453	-	-	-	284,865	325,318
<b>Total liabilities and shareholders' equity</b>		<b>123,030</b>	<b>305,297</b>	<b>561,174</b>	<b>645,461</b>	<b>63,696</b>	<b>1,495,469</b>	<b>3,194,127</b>
On-balance sheet gap		395,674	151,908	(388,198)	(71,118)	1,029,631	(1,117,897)	
Cumulative interest sensitivity gap		395,674	547,582	159,384	88,266	1,117,897		

# BANK DHOFAR SAOG

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

### 23. Risk Management (continued)

#### (ii) Market risk (continued)

#### (b) Foreign currency exposures

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

#### (iii) Credit Risk

#### Customer concentrations

	<b>Assets</b>			<b>Liabilities</b>		
	<b>Loans and advances to banks RO'000</b>	<b>Gross loans and advances RO'000</b>	<b>Investment Securities RO'000</b>	<b>Deposits from customers RO'000</b>	<b>Deposits to banks RO'000</b>	<b>Contingent liabilities RO'000</b>
<b>30 June 2015</b>						
Personal	-	1,187,414	-	582,249	-	346
Corporate	252,143	1,301,940	113,810	901,485	82,730	808,331
Government	-	106,399	134,582	1,141,306	-	23,200
	<b>252,143</b>	<b>2,595,753</b>	<b>248,392</b>	<b>2,625,040</b>	<b>82,730</b>	<b>831,877</b>
<b>30 June 2014</b>						
Personal	-	942,439	-	504,159	-	267
Corporate	199,928	1,153,211	39,609	852,086	193,854	646,463
Government	-	166,710	78,246	836,252	-	4,420
	199,928	2,262,360	117,855	2,192,497	193,854	651,150
<b>31 December 2014</b>						
Personal	-	1,048,120	-	529,288	-	2,639
Corporate	91,603	1,157,466	88,007	876,723	175,013	711,538
Government	-	136,723	88,867	1,076,168	-	1,898
	91,603	2,342,309	176,874	2,482,179	175,013	716,075

#### 24 Capital risk management

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

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

# BANK DHOFAR SAOG

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

### 24 Capital risk management (continued)

#### Capital adequacy

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

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

# **BANK DHOFAR SAOG**

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

### **25 Fair value information**

Based on the valuation methodology outlined below, the fair values of all financial instruments at 30 June 2015 are considered by the Management not to be materially different to their book values.

#### **Estimation of fair values**

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

#### **Loans and advances**

Fair value is calculated based on discounted expected future principal and interest cash flows. Loan repayments are assumed to occur at contractual repayment dates, where applicable. For loans that do not have fixed repayment dates or that are subject to prepayment risk, repayments are estimated based on experience in previous periods when interest rates were at levels similar to current levels, adjusted for any differences in interest rate outlook. Expected future cash flows are estimated considering credit risk and any indication of impairment. Expected future cash flows for homogeneous categories of loans are estimated on a portfolio basis and discounted at current rates offered for similar loans to new borrowers with similar credit profiles. The estimated fair values of loans reflect changes in credit status since the loans were made and changes in interest rates in the case of fixed rate loans.

#### **Investments**

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

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

#### **Current account balances due to and due from banks**

The carrying amount of current account balances due to and from banks was considered to be a reasonable estimate of fair value due to their short term nature.

#### **Bank and customer deposits**

For demand deposits and deposits with no defined maturities, fair value is taken to be the amount payable on demand at the reporting date. The estimated fair value of fixed-maturity deposits, including certificates of deposit, is based on discounted cash flows using rates currently offered for deposits of similar remaining maturities. The value of long-term relationships with depositors is not taken into account in estimating fair values.

#### **Other financial instruments**

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

Foreign exchange contracts are valued based on market prices. The market value adjustments in respect of foreign exchange contracts are included in other assets and other liabilities.

#### **Fair value versus carrying amounts**

The fair value of the financial assets and liabilities approximates their carrying value as stated in the statement of financial position.



# BANK DHOFAR SAOG

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

### 25 Fair value information (continued)

#### Fair value measurements recognised in the statement of financial position

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

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

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

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

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