



بنك ظفار
BankDhofar

**Board of Directors' Report and financial statements (Unaudited)
For six –month period ended 30th June 2014**

Registered office and principal place of business:

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

BANK DHOFAR SAOG

Board of Directors' Report and financial statements (Unaudited) for six -month period ended 30th June 2014

	Page
The Board of Director's Report	1- 2
Statement of financial position	3
Statement of comprehensive income	4
Statement of changes in equity	5 - 6
Statement of cash flows	7
Notes to the financial statements	8 – 24

BANK DHOFAR S.A.O.G.

**THE BOARD OF DIRECTORS' REPORT FOR THE SIX-MONTH PERIOD
ENDED 30th June 2014**

Dear Shareholders,

On behalf of the Board of Directors of Bank Dhofar S.A.O.G., I am pleased to present to you the Bank's Financial Statements for the half-year ended 30th June 2014.

The Bank's Financial Performance during half year ended 30th June 2014:-

The Bank has continued to show significant growth in all areas during the first half of 2014, with the total assets improving to RO 2.85 billion at the end of June 2014 as compared to RO 2.35 billion at the end of June 2013 recording a growth of 21.28% year on year, with net Loans and advances to customers growing by a strong 21.11% to reach RO 2.18 billion as at end of June 2014 compared to RO 1.80 billion as at end of June 2013. This growth in Loans and Advances was supported by the corresponding growth in the customer deposits, which improved by 25.86% to reach RO 2.19 billion as at June 2014 compared to RO 1.74 billion as at June 2013.

The total operating income including the Non-funded income such as fees and commissions, foreign exchange profit, investment etc. grew by 8.77% to reach OMR 48.47 million for the half year ended 30th June 2014 as compared to OMR 44.56 million for same period of last year.

The Cost to Income ratio for the first half of 2014 improved significantly to 45.84% from high of 49.53% for the first half of 2013. Last year includes one-off pre-operating expenses of OMR 0.49 million for setting up the Islamic Banking Window. Net provisions for loan impairment increased to OMR 3.05 million year-to-date June 2014 compared to OMR 2.30 million year-to-date June 2013.

The Net Profits of the Bank for the first half ended June 2014 reached OMR 20.50 million as compared to OMR 40.80 million achieved in first half of 2013. The Net Profits for 2013 includes one-off recovery of OMR 26.13 million (before taxes) in connection with the legal case relating to Oman International Bank (currently HSBC Bank Oman SAOG), and excluding this, first half 2013 Net Profits was OMR 17.81 million, adjusted for taxes. The Net profit is showing a healthy growth of 15.10% year on year, excluding the effect of the legal case.

The earnings per share (EPS) for first half 2014 are OMR 0.031 as compared to OMR 0.061 first half 2013 (which includes the one-off legal case recovery).

With the strong loan book growth and overall improvement in results in all areas of the Bank, we expect to maintain momentum of earnings during second half, subject to market conditions.

"Maisarah" Islamic Banking Services

"Maisarah" Islamic Banking Services that was launched end of March 2013, has successfully completed the first half of 2014. "Maisarah" Islamic Banking continues to expand its network and product offerings for its retail and corporate customers to grow the Sharia compliant business in Oman. During the first half of 2014, Maisarah added its third branch to its network now covering three branches, namely, Muscat, Salalah and Sohar. Furthermore, Maisarah

launched three new products during first half of 2014 including Retail Property Finance, Retail Goods finance and Used Vehicle Auto Finance, taking the total number of fifteen Sharia compliant products, in line with its strategy to fulfill the requirements of customers and to gain market share by providing new innovative sharia compliant retail and corporate financing solutions. In addition, “Maisarah” also entered into an agreement with Takaful Company in order to ensure that Sharia compliant Islamic insurance facility is available to our valued customers.

During first half of 2014, Maisarah entered into a financing contract of OMR 17.60 million for the construction of a hotel project, located in the Wave Muscat. By the end of June 2014, “Maisarah” has successfully achieved a new milestone of reaching total assets of OMR 125.21 million, including Net Financing of OMR 88.71 million and Sukuk investment of OMR 10.20 million and customer deposits of OMR 26.96 million. During the first half of second year of operations, “Maisarah” has incurred a net loss of OMR 0.258 million from a strong financing income of OMR 1.21 million.

Maisarah is playing a vital role towards the corporate social responsibility and accordingly in co-ordination with one of the leading charity organization launched the campaign to assist needy people during the month of Ramadan.

Merger Proposal with Bank Sohar:

As disclosed earlier to the market on the proposed merger with Bank Sohar, we would like to update you that Bank Dhofar has proposed a preliminary swap ratio, which will be subject to the completion of a due diligence exercise and obtaining necessary approvals. Bank Sohar has announced that they will consider the bank Dhofar proposal in its forthcoming meeting and take necessary decisions on future course of action. We shall keep the shareholders apprised of developments in this regard, through suitable disclosures in line with the disclosure requirements.

Awards:-

- Bank Dhofar, has been named as best Bank in Oman by CPI Financial. CPI Financial awards cover a variety of financial services including retail, corporate, investment, private banking, asset management, fund management, finance companies and consultancy practices. This year, nominations for the award have been received from United Arab Emirates, Qatar, Saudi Arabia, Oman, Kuwait, Bahrain, Jordan and Lebanon representing more than 200 institutions.
- Bank Dhofar has been recognized for its exemplary implementation of Newgen’s Business Process Management (BPM) platform, to automate its loan origination and credit card processes. The Workflow Management Coalition (WfMC) declared Bank Dhofar as winner in the Banking and Financial Services – Loan Origination category.

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 2014.

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

3

Statement of financial position (Unaudited) for six-month period ended 30 June 2014

	Notes	June 2014 RO'000	June 2013 RO'000	Audited Dec 2013 RO'000
ASSETS				
Cash and balances with Central Bank of Oman	2	293,651	214,432	345,758
Claims with other banks	3	199,489	121,297	121,370
Loans and advances to customers	4	2,178,282	1,803,982	1,901,910
Available-for-sale investments	5	30,265	11,271	24,635
Held-to-maturity investments	6	87,590	147,429	153,366
Financial instruments at fair value through Profit or Loss	7	-	129	-
Intangible asset	8	2,581	2,978	2,780
Property and equipment		10,394	10,839	10,903
Other assets		51,944	40,810	44,657
Total assets		2,854,196	2,353,167	2,605,379
LIABILITIES				
Due to banks	9	193,854	170,020	106,334
Deposits from customers	10	2,192,497	1,739,066	2,031,746
Other liabilities		85,628	83,282	88,692
Subordinated loans	11	75,000	75,000	75,000
Total liabilities		2,546,979	2,067,368	2,301,772
SHAREHOLDERS' EQUITY				
Share capital	12	134,324	121,013	121,013
Share premium		40,018	40,018	40,018
Special reserve		18,488	-	18,488
Legal reserve	13	31,492	25,652	31,492
Subordinated loan reserve	13	26,250	11,250	26,250
Investment revaluation reserve	13	1,802	1,550	1,754
Retained earnings		54,843	86,316	64,592
Total shareholders' equity		307,217	285,799	303,607
Total liabilities and shareholders' equity		2,854,196	2,353,167	2,605,379
Contingent liabilities and commitments	21	651,150	410,306	461,952
Net assets per share (Rials Omani)		0.229	0.236	0.251

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

**Statement of comprehensive income (Unaudited)
for six -month period ended 30 June 2014**

	Notes	6 Months ended June 2014 RO'000	6 Months ended June 2013 RO'000	3 Months ended June 2014 RO'000	3 Months ended June 2013 RO'000
Interest income		51,782	48,359	26,292	24,693
Interest expense		(16,344)	(16,139)	(8,247)	(8,090)
Net interest income	16	35,438	32,220	18,045	16,603
Income from financing		1,208	20	712	20
Unrestricted investment account holders' share of profit		(84)	-	(64)	-
Net income from Islamic financing activities		1,124	20	648	20
Fees and commission income		6,990	4,301	3,930	2,381
Fees and commission expenses		(642)	(369)	(343)	(233)
Net fees and commission income		6,348	3,932	3,587	2,148
Other income	17	5,555	8,391	2,516	3,637
Operating income		48,465	44,563	24,796	22,408
Staff and administrative costs		(20,330)	(20,373)	(10,409)	(10,567)
Depreciation		(1,884)	(1,701)	(944)	(876)
Operating expenses		(22,214)	(22,074)	(11,353)	(11,443)
Profit from operations		26,251	22,489	13,443	10,965
Provision for loan impairment	4&18	(5,646)	(4,007)	(3,399)	(2,410)
Recoveries from allowance for loan impairment	4&18	2,601	1,704	1,613	867
Written Back From Legal Case	24	-	26,129	-	-
Profit/(Loss)from operations after provision		23,206	46,315	11,657	9,422
Income tax expense		(2,702)	(5,512)	(1,371)	(1,058)
Profit / (Loss) for the period		20,504	40,803	10,286	8,364
Profit / (Loss) for the period		20,504	40,803	10,286	8,364
Other comprehensive income:					
Net changes in fair value of available-for-sale investments	13	376	1,476	(15)	848
Reclassification adjustment on sale of available-for-sale investments	13	(328)	(1,482)	(7)	(745)
Total comprehensive income/ (Loss) for the period		20,552	40,797	10,264	8,467
Profit / (Loss) Earnings per share (basic and diluted) – annualized (Rials Omani)	14	0.031	0.061	0.031	0.025

The accompanying notes form an integral part of these financial statements

Profit for the period **RO 20,504,000** includes RO (258,000) Net loss of the new division Maisarah Islamic banking services excluding this, profit for the period is RO 20,762,000 (2013 RO 40,803,000 includes RO (889,000) Net loss of the new division Maisarah Islamic Banking Services start -up excluding this profit for the period is RO 41,692,000).

BANK DHOFAR SAOG

5

Statement of changes in equity (Unaudited) for six-month period ended 30 June 2014

	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
1 January 2014		121,013	40,018	18,488	31,492	26,250	1,754	64,592	303,607
Total comprehensive income for the period									
Net profit for the period		-	-	-	-	-	-	20,504	20,504
Other comprehensive income for the period									
Net change in fair value of available-for-sale investments		-	-	-	-	-	376	-	376
Transfer to statement of income on sale of available-for-sale investments	13	-	-	-	-	-	(328)	-	(328)
Total comprehensive income for the period		-	-	-	-	-	48	20,504	20,552
Transactions with owners recorded directly in equity									
Dividend paid for 2013		-	-	-	-	-	-	(16,942)	(16,942)
Bonus shares issued for 2013	12	13,311	-	-	-	-	-	(13,311)	-
30 June 2014		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 financial statements.

BANK DHOFAR SAOG

6

Statement of changes in equity (Unaudited) for six-month period ended 30 June 2014

	Notes	Share capital RO'000	Share premium RO'000	Legal reserve RO'000	Subordinated loan reserve RO'000	Investment revaluation reserve RO'000	Retained earnings RO'000	Total RO'000
1 January 2013		110,012	40,018	25,652	11,250	1,556	73,016	261,504
Total comprehensive income for the period								
Net profit for the period		-	-	-	-	-	40,803	40,803
Other comprehensive income for the period								
Net change in fair value of available-for-sale investments		-	-	-	-	1,476	-	1,476
Transfer to statement of income on sale of available-for-sale investments	13	-	-	-	-	(1,482)	-	(1,482)
Total comprehensive income for the period		-	-	-	-	(6)	40,803	40,797
Transactions with owners recorded directly in equity								
Dividend paid for 2012		-	-	-	-	-	(16,502)	(16,502)
Bonus shares issued for 2012	12	11,001	-	-	-	-	(11,001)	-
30th June 2013		121,013	40,018	25,652	11,250	1,550	86,316	285,799

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

BANK DHOFAR SAOG

7

Notes to the financial statements (Unaudited) for the six- month period ended 30 June 2014

Statement of cash flows (Unaudited) for six -month period ended 30 June 2014

	2014 RO'000	2013 RO'000
Cash flows from operating activities		
Interest and commission receipts	62,490	59,334
Interest payments	(16,143)	(15,404)
Cash payments to suppliers and employees	(25,275)	(21,938)
Written Back from Legal Case	-	26,129
	<u>21,072</u>	<u>48,121</u>
(Increase) in operating assets	(301,096)	(215,266)
Increase in operating liabilities	248,252	184,470
Net cash (used in) / from operating activities	(31,772)	17,325
Income tax paid	(7,580)	(4,897)
Net cash (used in) / from operating activities	(39,352)	12,428
Net cash (used in) / investing activities	(5,169)	(1,861)
Net cash (used in) / financing activities	(16,942)	(16,502)
Net (decrease) / increase in cash and cash equivalents	(61,463)	(5,935)
Cash and cash equivalents at 1 st January	<u>425,255</u>	<u>252,956</u>
Cash and cash equivalents at 30 June	<u>363,792</u>	<u>247,021</u>
Cash and cash equivalents (Note 2)	293,651	214,432
Capital deposit with Central Bank of Oman	(500)	(500)
Loans and advances to banks due within 90 days	71,257	35,286
Due to banks within 90 days	(616)	(2,197)
Cash and cash equivalents for the purpose of the cash flow statement	<u>363,792</u>	<u>247,021</u>

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

**Notes to the financial statements (Unaudited)
for the six- month period ended 30 June 2014**

2. Cash and Bank balances

	2014 RO'000	2013 RO'000
Cash on hand	28,389	22,330
Balances with the Central Bank of Oman	155,262	119,651
Treasury Bills with maturity of 90 days or less	-	22,451
Certificate of deposits with maturity of 90 days or less	110,000	50,000
	<u>293,651</u>	<u>214,432</u>

At 30 June 2014, cash and balances with Central bank of Oman included balances with the Central Bank of Oman amounting to RO 500,000 (2013 - RO 500,000) as minimum reserve requirements. These funds are not available for the Bank's daily business.

Outstanding certificate of deposits as of 30 June 2014 were issued by the Central Bank of Oman

3. Claims on other banks

	2014 RO'000	2013 RO'000
Loans with other banks	86,627	51,717
Placements with other banks	103,944	62,002
Current clearing accounts	9,357	8,118
	<u>199,928</u>	<u>121,837</u>
Gross loans and advances with other banks	199,928	121,837
Less: Impairment allowance	(439)	(540)
Net loans and advances	<u>199,489</u>	<u>121,297</u>

At 30 June 2014, three placements with two banks represented 20% or more of the Bank's placements (2013 -three).

AT 30 June 2014 Placements with other banks Includes Maisarah Islamic Banking Service Placement of RO 9,971,000 (2013: RO 8,000,000)

**Notes to the financial statements (Unaudited)
for the six- month period ended 30 June 2014**

4. Loans and advances to customers

	2014	2013
	RO'000	RO'000
Overdrafts	111,945	123,017
Loans	2,011,771	1,636,099
Loans against trust receipts	103,786	90,241
Bills discounted	7,821	4,075
Advance against credit cards	7,619	7,832
Others	19,418	19,593
Gross loans and advances	2,262,360	1,880,857
Less: Impairment allowance	(84,078)	(76,875)
Net loans and advances	2,178,282	1,803,982

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

(a) Allowance for loan impairment

1 January	50,809	48,064
Allowance made during the period	5,574	3,467
Released to the statement of comprehensive income during the period	(2,601)	(1,704)
Written off during the period	(193)	(1,081)
30 June	53,589	48,746

(b) Reserved interest

1 January	29,810	27,416
Reserved during the period	2,820	2,615
Released to the statement of comprehensive income during the period	(541)	(449)
Written-off during the period	(1,600)	(1,453)
30 June	30,489	28,129

Total impairment allowance

84,078	76,875
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As a matter of policy, the Bank considers waiver / write-off or settlement only in such cases where the Bank is satisfied that the recovery of the full outstanding liabilities from the borrower is not possible in the normal course of business or out of the securities realisation or through enforcement of the guarantee (wherever available) and that legal action will not yield higher recoveries after considering the time and costs involved.

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

**Notes to the financial statements (Unaudited)
for the six- month period ended 30 June 2014**

4. Loans and advances to customers (continued)

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

Under the Central Bank of Oman's guidelines for provision against classified loans and advances, at 30 June 2014, out of the total provisions of **RO 84,078,000** (2013 – RO 76,875,000) a collective provision was made on a general portfolio basis amounting to **RO 29,603,000** (2013 – RO 26,289,000).

At 30 June 2014, impaired loans and advances on which interest has been reserved amount to **RO 57,344,431** (2013 - RO 55,381,339) and loans and advances on which interest is not being accrued amount to **RO 1,410,335** (2013 - to RO 1,356,012).

Gross Loans and Advance Includes Maisarah Islamic banking Service RO **89,615,000** as end of June 2014 (2013: 1,696,000).

5. a) Available-for-sale investments

		2014	2013
		RO'000	RO'000
Equity instruments			
- Quoted		17,299	8,860
- Unquoted		2,768	2,411
		20,067	11,271
		Fair value	
	Cost	2014	2013
	RO'000	RO'000	RO'000
Quoted on the Muscat Securities Market			
Banking and investments	1,243	1,301	926
Services	5,871	6,199	3,348
Industrial	9,650	9,799	4,586
	16,764	17,299	8,860
Unquoted			
Omani companies	1,699	2,768	2,411
	18,463	20,067	11,271
b) Sukuk			
Unquoted			
Omani companies	10,000	10,198	-
	10,000	10,198	-
	28,463	30,265	11,271

**Notes to the financial statements (Unaudited)
for the six- month period ended 30 June 2014**

6. Held-to-maturity investments

	2014	2013
	RO'000	RO'000
Treasury bills with maturity of above 90 days	9,344	68,258
Government Development Bonds	78,246	79,171
	<u>87,590</u>	<u>147,429</u>

7. Financial instruments at fair value through Profit or Loss

Financial instruments at fair value through Profit or Loss	-	129
	<u>-</u>	<u>129</u>

8. Intangible asset

The movement in the goodwill account is as follows:

1st January	2,780	3,177
Impaired during the period	(199)	(199)
30 June	<u>2,581</u>	<u>2,978</u>

Intangible asset represents goodwill which resulted from the acquisition of branches of the Commercial Bank of Oman in the year 2001 and merger with Majan International Bank in the year 2003. Goodwill is tested for impairment each year.

9. Due to banks

Other borrowings	193,238	167,823
Payable on demand	616	2,197
	<u>193,854</u>	<u>170,020</u>

At 30 June 2014 no borrowing from any banks individually represented 20% or more of the Bank's borrowings. The Bank has not had any defaults of principal, interest or other breaches during of the period on its borrowed funds (2013 - Nil).

**Notes to the financial statements (Unaudited)
for the six- month period ended 30 June 2014**

10. Deposits from customers

	2014	2013
	RO'000	RO'000
Current accounts	722,911	495,701
Savings accounts	378,146	297,859
Time deposits/Certificate of deposits	1,084,938	940,890
Margin accounts	6,502	4,616
	<hr/> 2,192,497 <hr/>	<hr/> 1,739,066 <hr/>

Current accounts and time deposits include deposits from the Government of the Sultanate of Oman and its entities amounting to RO 836,252,000 (2013 - RO 662,008,000).

In June 2014 Current accounts, Saving Deposits and Time deposits Includes Maisarah Islamic Banking Service RO 26,956,000 : (2013 RO 869,000)

11. Subordinated loan

	2014	2013
	RO'000	RO'000
Subordinated loan - RO	75,000	75,000
	<hr/> 75,000 <hr/>	<hr/> 75,000 <hr/>

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 to the financial statements (Unaudited) for the six- month period ended 30 June 2014

12. Share capital

The authorised share capital consists of 2,200,000,000 shares of RO 0.100 each (2013: 2,200,000,000,000 shares of RO 0.100 each).

On 20 March 2014 the Shareholders of the Bank in the annual general meeting approved the issuance of 11% bonus shares amounting to 133,114,093 shares of par value RO 0.100 each.

At 30 June 2014, the issued and paid up share capital comprise 1,343,242,214 shares of par value RO 0.100 each. (2013 – 1,210,128,121 shares of par value RO 0.100 each).

Shareholders

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

	2014		2013	
	No of shares	%	No of shares	%
Dhofar International Development and Investment Company SAOG	373,625,997	27.82	336,600,000	27.81
Eng. Abdul Hafidh Salim Rajab				
Al Aujaili and his related Companies	279,914,110	20.84	252,174,876	20.84
Civil Service Employees' Pension Fund	135,536,467	10.09	121,012,782	10.00
Total	789,076,574	58.75	709,787,658	58.65
Others	554,165,640	41.25	500,340,463	41.35
	1,343,242,214	100.00	1,210,128,121	100.00

13. Reserves

(a) Legal reserve

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

(b) Subordinated loan reserves

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

**Notes to the financial statements (Unaudited)
for the six- month period ended 30 June 2014**

13. Reserves (continued)

(c) Investment revaluation reserve

The movements in the investments revaluation reserve is analysed below:

	2014 RO'000	2013 RO'000
1 January	1,754	1,556
Increase/ (decrease) in fair value	376	1,476
Net transfer to statement of comprehensive income on sale of available-for-sale investment	(328)	(1,482)
30 June	1,802	1,550

14. 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:

	2014	2013
Net Profit for the period (RO)	20,504,000	40,803,000
Weighted average number of shares outstanding during of the period	1,343,242,214	1,343,242,214
Earnings per share basic and diluted - annualized	0.031	0.061

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 are 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 11% bonus Shares 133,114,093 shares with RO 0.100 par each) issued in the first quarter of 2014.

**Notes to the financial statements (Unaudited)
for the six- month period ended 30 June 2014**

15. Capital adequacy

The ratio of equity to risk weighted assets, as formulated by the Basel II, for six - months period ended 30 June 2014 is **12.21%** (2013 – 13.86 %).

Capital structure	2014	2013
	RO'000	RO'000
Common Equity Tier (CET) I/ tier I CAPITAL		
Paid up capital	134,324	121,013
Legal reserve	31,492	25,652
Share premium	40,018	40,018
Special reserve	18,488	-
Subordinated bonds and loan reserve	26,250	11,250
Retained earnings	34,339	45,513
	<hr/>	<hr/>
CET I/Tier I Capital	284,911	243,446
Additional Tier I regulatory adjustments:		
Goodwill	(2,581)	(2,978)
Negative investment revaluation reserve	(416)	(362)
Total CET I/ Tier I capital	281,914	240,106
	<hr/>	<hr/>
TIER II CAPITAL		
Investment revaluation reserve	998	860
General provision	30,042	26,289
Subordinated loan	48,750	63,750
	<hr/>	<hr/>
Total Tier II capital	79,790	90,899
	<hr/>	<hr/>
Total eligible capital	361,704	331,005
	<hr/> <hr/>	<hr/> <hr/>
Risk weighted assets		
Banking book	2,719,441	2,188,159
Trading book	76,145	43,851
Operational risk	166,581	156,465
	<hr/>	<hr/>
Total	2,962,167	2,388,475
	<hr/>	<hr/>
CET I/ Tier I capital	281,914	240,106
Tier II capital	79,790	90,899
Tier III capital	-	-
	<hr/>	<hr/>
Total regulatory capital	361,704	331,005
	<hr/>	<hr/>
CET I/ Tier I capital ratio	9.52%	10.05%
	<hr/>	<hr/>
Total capital ratio	12.21%	13.86%
	<hr/> <hr/>	<hr/> <hr/>

**Notes to the financial statements (Unaudited)
for the six- month period ended 30 June 2014**

16. Net interest income

	2014 RO'000	2013 RO'000
Loans and advances to customers	50,477	47,445
Debt investments	277	223
Money market placements	1,022	705
Others	6	6
Total interest income	51,782	48,379
Deposits from customers	(16,034)	(15,609)
Money market deposits	(310)	(530)
Total interest expense	(16,344)	(16,139)
Net interest income	35,438	32,240

17. Other income

Foreign exchange	593	661
Investment income (a)	2,262	3,705
Miscellaneous income	2,700	4,025
	5,555	8,391

(a) Investment income

Dividend income- available-for-sale investments	662	351
financial instruments at fair value through profit or loss	-	728
Income on Sukuk	251	-
Gain of disposal of available-for-sale investments	363	1,656
Interest income on Government Development Bonds (HTM)	986	970
	2,262	3,705

18. Impairment of financial assets

Impairment of available-for-sale investments	-	-
Provision for loan impairment	5,574	3,467
Provision for Inter Banks Loans impairment	72	540
Loans written-off	-	-
	5,646	4,007
Recoveries from provision for loan impairment	(2,601)	(1,704)
30 June	3,045	2,303

**Notes to the financial statements (Unaudited)
for the six- month period ended 30 June 2014**

19. Related parties transactions

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

	2014 RO'000	2013 RO'000
Loans and advances		
Directors and shareholders holding less than 10% interest in the Bank	11,274	13,063
Directors and shareholders holding 10% or more interest in the Bank	<u>35,009</u>	<u>28,375</u>
	<u>46,283</u>	<u>41,438</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	69,327	119,108
Directors and shareholders holding 10% or more interest in the Bank	<u>360,284</u>	<u>228,941</u>
	<u>429,611</u>	<u>348,049</u>
Contingent liabilities and commitments		
Directors and shareholders holding less than 10% interest in the Bank	1,884	1,706
Directors and shareholders holding 10% or more interest in the Bank	<u>12,158</u>	<u>14,900</u>
	<u>14,042</u>	<u>16,606</u>
Remuneration paid to Directors		
Chairman		
– remuneration paid	15	15
– sitting fees paid	7	5
Other Directors		
– remuneration paid	99	102
– sitting fees paid	<u>34</u>	<u>34</u>
	<u>155</u>	<u>156</u>
Other transactions		
Rental payment to related parties	<u>186</u>	<u>241</u>
Other transactions	<u>49</u>	<u>44</u>
Remuneration and fees paid to Sharia' Board of Islamic Banking Window	<u>25</u>	<u>10</u>

In June 2014 Directors and shareholders holding less than 10% interest in the Bank s Includes Maisarah Islamic Banking Service RO 38,000 : (2013 RO Nil)

**Notes to the financial statements (Unaudited)
for the six- month period ended 30 June 2014**

20. Senior member borrowing

Senior member

	2014	2013
	RO'000	RO'000
Total exposure:		
Direct	48,933	43,620
Indirect	14,042	16,606
	<u>62,975</u>	<u>60,226</u>
Number of members	<u>27</u>	<u>26</u>

In June 2014 Senior member borrowing Includes Maisarah Islamic Banking Service RO 295,000:
(2013 RO Nil)

21. Contingent liabilities and commitments

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

	2014	2013
	RO'000	RO'000
Letters of credit	145,680	93,121
Guarantees	505,470	317,185
	<u>651,150</u>	<u>410,306</u>

In June 2014 Letters of credit and Guarantees Includes Maisarah Islamic Banking Service RO 13,696,000 : (2013 RO Nil)

22. Amount due to brokerage customers

The amount due to brokerage customers as at 30 June 2014 RO 2,835
(2013: RO 2,906.)

**Notes to the financial statements (Unaudited)
for the six- month period ended 30 June 2014**

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
30th June 2014						
Cash and balances with Central Bank of Oman	293,151	-	-	-	500	293,651
Loans and advances to banks	75,628	72,725	37,729	13,407	-	199,489
Loans and advances 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
Intangible asset	-	-	-	-	2,581	2,581
Property and equipment	-	-	-	-	10,394	10,394
Other assets	44,010	3,063	25	36	4,810	51,944
Total assets	604,992	491,175	222,137	931,571	604,321	2,854,196
Due to banks	107,653	36,151	50,050	-	-	193,854
Deposits from customers	261,938	571,543	499,968	568,896	290,152	2,192,497
Other liabilities	61,652	4,332	4,066	13,942	1,636	85,628
Subordinated loans	-	-	-	75,000	-	75,000
Shareholders' equity	-	-	20,504	-	286,713	307,217
Total liabilities and shareholders' equity	431,243	612,026	574,588	657,838	578,501	2,854,196

**Notes to the financial statements (Unaudited)
for the six- month period ended 30 June 2014**

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
30th June 2013						
Cash and balances with Central Bank of Oman	191,481	22,451	-	-	500	214,432
Loans and advances to banks	16,704	71,319	23,749	9,525	-	121,297
Loans and advances to customers	212,134	241,351	117,372	406,648	826,477	1,803,982
Available-for-sale Investments	-	-	11,271	-	-	11,271
Held-to-maturity investments	20,529	47,729	-	66,549	12,622	147,429
Financial instruments at fair value through Profit or Loss	-	-	129	-	-	129
Intangible asset	-	-	-	-	2,978	2,978
Property and equipment	-	-	-	-	10,839	10,839
Other assets	3,368	33,019	276	-	4,147	40,810
Total assets	444,216	415,869	152,797	482,722	857,563	2,353,167
Due to banks	58,370	75,075	36,575	-	-	170,020
Deposits from customers	147,817	446,722	251,859	414,511	478,157	1,739,066
Other liabilities	21,593	34,684	7,452	17,473	2,080	83,282
Subordinated loans	-	-	-	75,000	-	75,000
Shareholders' equity	-	-	40,803	-	244,996	285,799
Total liabilities and shareholders' equity	227,780	556,481	336,689	506,984	725,233	2,353,167

**Notes to the financial statements (Unaudited)
for the six- month period ended 30 June 2014**

23 Risk Management (continued)

(ii) Market risk

(a) Interest rate risk

Interest rate sensitivity gap

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

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

**Notes to the financial statements (Unaudited)
for the six-month period ended 30 June 2014**

23. Risk Management (continued)

(ii) Market risk (continued)

(a) Interest rate risk (continued)

Interest rate sensitivity gap (continued)

	Due on demand and within 30 days RO'000	Due within 1 to 6 months RO'000	Due within 7 to 12 months RO'000	Due within 1 to 5 years RO'000	Due after 5 years RO'000	Non- interest bearing RO'000	Total RO'000
30 th June 2013							
Cash and balances with Central Bank of Oman	50,000	22,451	-	-	500	141,481	214,432
Loans and advances to banks	24,236	97,061	-	-	-	-	121,297
Loans and advances to customers	212,134	241,351	117,372	406,648	826,477	-	1,803,982
Available-for-sale investments	-	-	-	-	-	11,271	11,271
Held-to-maturity investments	20,529	47,729	-	66,549	12,622	-	147,429
Financial instruments at fair value through Profit or Loss	-	-	-	-	-	129	129
Intangible asset	-	-	-	-	-	2,978	2,978
Property and equipment	-	-	-	-	-	10,839	10,839
Other assets	-	-	-	-	-	40,810	40,810
Total assets	306,899	408,592	117,372	473,197	839,599	207,508	2,353,167
Due to banks	57,622	111,650	-	-	-	748	170,020
Deposits from customers	376,679	346,217	186,659	360,188	5,000	464,323	1,739,066
Other liabilities	-	-	-	-	-	83,282	83,282
Subordinated loans	-	-	-	75,000	-	-	75,000
Shareholders' equity	-	-	40,803	-	-	244,996	285,799
Total liabilities and shareholders' equity	434,301	457,867	227,462	435,188	5,000	793,349	2,353,167
On-balance sheet gap	(127,402)	(49,275)	(110,090)	38,009	834,599	(585,841)	
	(127,402)	(176,677)	(286,767)	(248,758)	585,841	-	

(b) Foreign currency exposures

	2014 RO'000	2013 RO'000
Net assets denominated in US Dollars	89,178	81,255
Net assets denominated in other foreign currencies	637	1,983
	89,815	83,238

**Notes to the financial statements (Unaudited)
for the six-month period ended 30 June 2014**

23. Risk Management (continued)

(iii) Credit Risk

	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	Deposits from banks RO'000	Contingent liabilities RO'000
30th June 2014						
Personal	-	942,439	-	504,159	-	267
Corporate	199,928	1,153,211	39,609	852,086	193,854	646,463
Government	-	166,710	78,246	836,252	-	4,420
	199,928	2,262,360	117,855	2,192,497	193,854	651,150
30th June 2013						
Personal	-	813,433	-	419,349	-	314
Corporate	121,837	884,932	79,658	657,709	170,020	403,722
Government	-	182,492	79,171	662,008	-	6,270
	121,837	1,880,857	158,829	1,739,066	170,020	410,306

24. The Current Status of legal Cases

A) The Legal Case (RO 26.1M)

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

B) Other Legal Cases:

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

**Notes to the financial statements (Unaudited)
for the six-month period ended 30 June 2014**

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

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

ii) Another plaintiff filed a lawsuit against the Bank claiming compensation of RO. 1,037,550. for commercial and moral damages. A judgment was issued directing the Bank to pay RO. 400,000. to the Plaintiff. This judgment was upheld by the Appeal Court and the Bank challenged the same in the Supreme Court. On 23rd May 2013 the Supreme Court revoked the Appeal Court confirmation of the primary judgment. Further, the Supreme Court directed the Appeal Court to review the primary judgment. The final decision is awaited.

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