



**Board of Directors' Report and financial statements (Unaudited)  
For nine – month period ended 30<sup>th</sup> September 2013**

**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 nine -month period ended 30 September 2013**

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**BANK DHOFAR S.A.O.G.****THE BOARD OF DIRECTORS' REPORT FOR THE 9- MONTH PERIOD  
ENDED 30<sup>th</sup> Sept 2013****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 period ended 30<sup>th</sup> Sept 2013.

**The Bank's Financial Performance during the period ended 30<sup>th</sup> Sept 2013:-**

The Bank showed sustained progress in the first 9 months of 2013 and the Customer Deposits grew by 19.38% to reach OMR 1.91 billion and Loans and Advances to customers increased by 13.86% to reach OMR 1.89 billion.

The Net Profits for the period ended 30<sup>th</sup> September 2013 reached OMR 49.06 million as compared to OMR 28.73 million achieved for the period ended 30<sup>th</sup> September 2012.

Included in the above, is a net loss of OMR 1.31 million pertaining to Maisarah Islamic Banking Services for the period ended September 2013.

Year-to-date September 2013 results include OMR 26.1 million recovered in connection with the legal case filed by Oman International Bank (now HSBC Bank Oman SAOG) against Bank Dhofar and this case is now finally closed with settlement in favour of Bank Dhofar. After taxes of OMR 3.2 million, the net of OMR 22.9 million is included in the Net Profits.

Net interest income earned during the period ended 30<sup>th</sup> September 2013 was OMR 49.34 million showing a growth of 2.75%. Non-Interest Income including Fees and Commissions, Foreign exchange gains and other income grew by 15.62% to reach OMR 17.69 million during the period ended 30<sup>th</sup> September 2013. The net impairments for loan losses stood at OMR 3.94 million for the period ended 30<sup>th</sup> September 2013.

The earnings per share (EPS) at the end of September 2013 are OMR 0.054 as compared to OMR 0.032 at end of September 2012.

Bank Dhofar has received awards for different aspects of its operations and presence, by renowned bodies worldwide as well as locally. Named the Best Retail Bank in Oman twice in 2013 by both Global Finance Market Review as well as Global Banking & Finance review Awards, we have humbly been rewarded for the ongoing investment in infrastructure, personnel and improvement on services. Business Today magazine, a homegrown well-respected publication also identified Bank Dhofar among the best banks in Oman in their recent rankings for 2013.

### **Maisarah Islamic Banking Services**

Maisarah Islamic Banking Services is making a good progress since commencing operation in March 2013 and have achieved the following milestones during the period ended 30<sup>th</sup> September 2013:

- Awarded the best Islamic Window in Oman by Global Financial Market.
- Share capital increased to OMR 12.5 million (June 30, 2013: OMR 10 million).
- Obtained approval of four additional products from Central Bank of Oman including Term Deposit Products

In line with the directives of the Central Bank of Oman, Maisarah Islamic Banking Services is also focusing on SME and Corporate Sectors to ensure that these sectors also get the benefit of Islamic Banking.

### **Acknowledgment:-**

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

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

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

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

**Statement of financial position (Unaudited)  
for nine-month period ended 30 September 2013**

	Notes	September 2013 RO'000	September 2012 RO'000	Audited Dec 2012 RO'000
<b>ASSETS</b>				
Cash and balances with Central Bank of Oman	2	228,797	188,594	208,495
Claims with other banks	3	164,754	54,242	97,410
Loans and advances to customers	4	1,886,055	1,658,293	1,672,508
Available-for-sale investments	5	12,108	11,647	11,588
Held-to-maturity investments	6	134,880	144,715	100,386
Financial instruments at fair value through Profit or Loss	7	185	-	-
Intangible asset	8	2,879	3,290	3,177
Property and equipment		10,954	9,418	9,432
Other assets		48,266	45,141	40,834
<b>Total assets</b>		<b>2,488,878</b>	<b>2,115,340</b>	<b>2,143,830</b>
<b>LIABILITIES</b>				
Due to banks	9	95,172	129,171	88,675
Deposits from customers	10	1,906,143	1,598,084	1,634,628
Other liabilities		118,471	85,917	84,023
Subordinated loans	11	75,000	50,000	75,000
<b>Total liabilities</b>		<b>2,194,786</b>	<b>1,863,172</b>	<b>1,882,326</b>
<b>SHAREHOLDERS' EQUITY</b>				
Share capital	12	121,013	110,012	110,012
Share premium		40,018	40,018	40,018
Legal reserve	13	25,652	21,877	25,652
Subordinated loan reserve	13	11,250	34,617	11,250
Investment revaluation reserve	13	1,584	1,235	1,556
Retained earnings		94,575	44,409	73,016
<b>Total shareholders' equity</b>		<b>294,092</b>	<b>252,168</b>	<b>261,504</b>
<b>Total liabilities and shareholders' equity</b>		<b>2,488,878</b>	<b>2,115,340</b>	<b>2,143,830</b>
<b>Contingent liabilities and commitments</b>	21	<b>440,224</b>	<b>346,659</b>	<b>378,908</b>
<b>Net assets per share (Rials Omani)</b>		<b>0.243</b>	<b>0.229</b>	<b>0.238</b>

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

**Statement of comprehensive income (Unaudited)  
for nine -month period ended 30 September 2013**

		9 Months ended September 2013	9 Months ended September 2012	3 Months ended September 2013	3 Months ended September 2012
	Notes	RO'000	RO'000	RO'000	RO'000
Interest income		<b>74,167</b>	69,292	<b>25,788</b>	23,895
Interest expense		<b>(24,829)</b>	(21,270)	<b>(8,690)</b>	(7,313)
<b>Net interest income</b>	<b>16</b>	<b>49,338</b>	48,022	<b>17,098</b>	16,582
Fees and commission income		<b>6,886</b>	5,218	<b>2,585</b>	1,766
Fees and commission expenses		<b>(582)</b>	(614)	<b>(213)</b>	(261)
<b>Net fees and commission income</b>		<b>6,304</b>	4,604	<b>2,372</b>	1,505
Other income	<b>17</b>	<b>11,383</b>	10,691	<b>2,992</b>	2,183
<b>Operating income</b>		<b>67,025</b>	63,317	<b>22,462</b>	20,270
Staff and administrative costs		<b>(30,922)</b>	(24,796)	<b>(10,549)</b>	(8,395)
Depreciation		<b>(2,601)</b>	(2,231)	<b>(900)</b>	(786)
<b>Operating expenses</b>		<b>(33,523)</b>	(27,027)	<b>(11,449)</b>	(9,181)
<b>Profit from operations</b>		<b>33,502</b>	36,290	<b>11,013</b>	11,089
Provision for loan impairment	<b>4&amp;18</b>	<b>(6,273)</b>	(5,512)	<b>(2,266)</b>	(1,329)
Recoveries from allowance for loan impairment	<b>4&amp;18</b>	<b>2,338</b>	2,105	<b>634</b>	767
Bad debts written-off		-	(4)	-	(1)
Impairment of available-for-sale investments		-	(287)	-	-
Written Back From Legal Case	<b>24</b>	<b>26,129</b>	-	-	-
<b>Profit/ (Loss) from operations after provision</b>		<b>55,696</b>	32,592	<b>9,381</b>	10,526
Income tax expense		<b>(6,634)</b>	(3,862)	<b>(1,122)</b>	(1,259)
<b>Profit / (Loss) for the period</b>		<b>49,062</b>	28,730	<b>8,259</b>	9,267
<b>Profit / (Loss) for the period</b>		<b>49,062</b>	28,730	<b>8,259</b>	9,267
<b>Other comprehensive income:</b>					
Net changes in fair value of available-for-sale investments	<b>13</b>	<b>2,084</b>	868	<b>608</b>	11
Reclassification adjustment on sale of available-for-sale investments	<b>13</b>	<b>(2,056)</b>	(547)	<b>(574)</b>	(61)
<b>Total comprehensive income/ (Loss) for the period</b>		<b>49,090</b>	29,051	<b>8,293</b>	9,217
<b>Profit / (Loss) Earnings per share (basic and diluted) – annualized (Rials Omani)</b>	<b>14</b>	<b>0.054</b>	0.032	<b>0.027</b>	0.030

The accompanying notes form an integral part of these financial statements

Profit for the period nine months ended September 2013 RO 49,062,000 includes RO 1,307,000 (RO 1,485,000 before tax) Net loss of the new division Maisarah Islamic Banking Services ('Maisarah'), excluding this, profit for the period is RO 50,369,000(RO 28,730,000 in 2012). Profit for three months ended September 2013 includes RO 475,000 Net loss of Maisarah, excluding this, profit for the three months ended September 2013 is RO 8,734,000 (RO 9,267,000 in 2012)

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## Statement of changes in equity (Unaudited) for nine-month period ended 30 September 2013

	Notes	Share capital RO'000	Share premium RO'000	Legal reserve RO'000	Subordinated loan reserve RO'000	Investment revaluation reserve RO'000	Retained earnings RO'000	Total RO'000
<b>1 January 2013</b>		<b>110,012</b>	<b>40,018</b>	<b>25,652</b>	<b>11,250</b>	<b>1,556</b>	<b>73,016</b>	<b>261,504</b>
<b>Total comprehensive income for the period</b>								
Net profit for the period		-	-	-	-	-	49,062	49,062
<b>Other comprehensive income for the period</b>								
Net change in fair value of available-for-sale investments		-	-	-	-	2,084	-	2,084
Transfer to statement of income on sale of available-for-sale investments	13	-	-	-	-	(2,056)	-	(2,056)
<b>Total comprehensive income for the period</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>28</b>	<b>49,062</b>	<b>49,090</b>
<b>Transactions with owners recorded directly in equity</b>								
Dividend paid for 2012		-	-	-	-	-	(16,502)	(16,502)
Bonus shares issued for 2012	12	11,001	-	-	-	-	(11,001)	-
<b>30<sup>th</sup> September 2013</b>		<b>121,013</b>	<b>40,018</b>	<b>25,652</b>	<b>11,250</b>	<b>1,584</b>	<b>94,575</b>	<b>294,092</b>

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

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## Statement of changes in equity (Unaudited) for nine-month period ended 30 September 2013

	Notes	Share capital RO'000	Share premium RO'000	Legal reserve RO'000	Subordinated loan reserve RO'000	Investment revaluation reserve RO'000	Retained earnings RO'000	Total RO'000
<b>1 January 2012</b>		91,524	58,506	21,877	34,617	627	22,086	229,237
<b>Total Comprehensive income for the period</b>								
Net profit for the period		-	-	-	-	-	28,730	28,730
<b>Other comprehensive income for the period</b>								
Net change in fair value of available-for-sale investments		-	-	-	-	868	-	868
Transfer to statement of income on sale of available-for-sale investments	15	-	-	-	-	(547)	-	(547)
Impairment of available-for-sale investments	15	-	-	-	-	287	-	287
<b>Total comprehensive income for the period</b>		-	-	-	-	608	28,730	29,338
<b>Transactions with owners recorded directly in equity</b>								
Dividend paid for 2011		-	-	-	-	-	(6,407)	(6,407)
Bonus shares issued for 2011	14	18,488	(18,488)	-	-	-	-	-
<b>30<sup>th</sup> September 2012</b>		110,012	40,018	21,877	34,617	1,235	44,409	252,168

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

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## Notes to the financial statements (Unaudited) for the nine- month period ended 30 September 2013

### Statement of cash flows (Unaudited) for nine -month period ended 30 September 2013

	2013 RO'000	2012 RO'000
<b>Cash flows from operating activities</b>		
Interest and commission receipts	85,995	80,224
Interest payments	(22,121)	(19,332)
Cash payments to suppliers and employees	(33,827)	(19,588)
Written Back from Legal Case	26,129	-
	<u>56,176</u>	<u>41,304</u>
<b>(Increase) in operating assets</b>	(335,092)	(224,476)
<b>Increase in operating liabilities</b>	<u>308,207</u>	<u>147,494</u>
<b>Net cash (used in) / from operating activities</b>	29,291	(35,678)
Income tax paid	(4,897)	(1,846)
<b>Net cash (used in) / from operating activities</b>	<u>24,394</u>	<u>(37,524)</u>
<b>Net cash (used in) / investing activities</b>	<u>(3,242)</u>	<u>265</u>
<b>Net cash (used in) / financing activities</b>	<u>(16,502)</u>	<u>(44,907)</u>
<b>Net decrease / increase in cash and cash equivalents</b>	<u>4,650</u>	<u>(82,166)</u>
Cash and cash equivalents at 1 <sup>st</sup> January	<u>252,956</u>	<u>299,327</u>
<b>Cash and cash equivalents at 30 September</b>	<u>257,606</u>	<u>217,161</u>
<b>Cash and cash equivalents (Note 2)</b>	228,797	188,594
Capital deposit with Central Bank of Oman	(500)	(500)
Loans and advances to banks due within 90 days	30,073	30,803
Due to banks within 90 days	(764)	(1,736)
<b>Cash and cash equivalents for the purpose of the cash flow statement</b>	<u>257,606</u>	<u>217,161</u>

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

**Notes to the financial statements (Unaudited)  
for the nine- month period ended 30 September 2013**

**2. Cash and Bank balances**

	2013 RO'000	2012 RO'000
Cash on hand	24,080	20,053
Balances with the Central Bank of Oman	81,420	38,541
Treasury Bills with maturity of 90 days or less	13,297	-
Certificate of deposits with maturity of 90 days or less	110,000	130,000
	<u>228,797</u>	<u>188,594</u>

At 30 September 2013, cash and balances with Central bank of Oman included balances with the Central Bank of Oman amounting to RO 500,000 (2012 - RO 500,000) as minimum reserve requirements. These funds are not available for the Bank's daily business.

Outstanding certificate of deposits as of 30 September 2013 were issued by the Central Bank of Oman

**3. Claims on other banks**

	2013 RO'000	2012 RO'000
Loans with other banks	43,019	19,539
Placements with other banks	113,924	23,390
Current clearing accounts	8,242	11,313
	<u>165,185</u>	<u>54,242</u>
Gross loans and advances with other banks	165,185	54,242
Less: Impairment allowance	(431)	-
<b>Net loans and advances</b>	<u>164,754</u>	<u>54,242</u>

At 30 September 2013, two placements with one bank represented 20% or more of the Bank's placements (2012 - Two).

Placements with other banks includes Maisarah Islamic Banking Service Placement of RO 8,000,000/- as end of September 2013

**Notes to the financial statements (Unaudited)  
for the nine- month period ended 30 September 2013**

**4. Loans and advances to customers**

	<b>2013</b>	2012
	<b>RO'000</b>	RO'000
Overdrafts	<b>129,354</b>	123,470
Loans	<b>1,713,137</b>	1,501,528
Loans against trust receipts	<b>86,897</b>	87,585
Bills discounted	<b>8,849</b>	4,643
Advance against credit cards	<b>7,864</b>	7,698
Others	<b>19,669</b>	17,924
<b>Gross loans and advances</b>	<b>1,965,770</b>	1,742,848
Less: Impairment allowance	<b>(79,715)</b>	(84,555)
<b>Net loans and advances</b>	<b>1,886,055</b>	1,658,293

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

**(a) Allowance for loan impairment**

1 January	<b>48,064</b>	47,548
Allowance made during the period	<b>5,842</b>	5,512
Released to the statement of comprehensive income during the period	<b>(2,338)</b>	(2,105)
Written off during the period	<b>(1,094)</b>	(140)
30 September	<b>50,474</b>	50,815

**(b) Reserved interest**

1 January	<b>27,416</b>	30,006
Reserved during the period	<b>4,036</b>	4,766
Released to the statement of comprehensive income during the period	<b>(719)</b>	(705)
Written-off during the period	<b>(1,492)</b>	(327)
30 September	<b>29,241</b>	33,740

**Total impairment allowance**

<b>79,715</b>	84,555
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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 nine- month period ended 30 September 2013**

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

	<b>2013</b>	2012
	<b>RO'000</b>	RO'000
Treasury bills with maturity of above 90 days	<b>55,942</b>	79,764
Government Development Bonds	<b>78,938</b>	64,951
	<u><b>134,880</b></u>	<u>144,715</u>

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

Financial instruments at fair value through Profit or Loss	<b>185</b>	-
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**8. Intangible asset**

The movement in the goodwill account is as follows:

1st January	<b>3,177</b>	3,574
Impaired during the period	<b>(298)</b>	(284)
30 September	<u><b>2,879</b></u>	<u>3,290</u>

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

**9. Due to banks**

Other borrowings	<b>94,408</b>	127,435
Payable on demand	<b>764</b>	1,736
	<u><b>95,172</b></u>	<u>129,171</u>

At 30 September 2013 four borrowings from two 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 (2012 - Nil).

**Notes to the financial statements (Unaudited)  
for the nine- month period ended 30 September 2013**

**10. Deposits from customers**

	<b>2013</b>	2012
	<b>RO'000</b>	RO'000
Current accounts	<b>543,344</b>	362,956
Savings accounts	<b>283,822</b>	261,635
Time deposits/Certificate of deposits	<b>1,074,455</b>	969,816
Margin accounts	<b>4,522</b>	3,677
	<u><b>1,906,143</b></u>	<u>1,598,084</u>

Current accounts and time deposits include deposits from the Government of the Sultanate of Oman and its entities amounting to **RO 778,028,000** (2012 - RO 566,548,000).

Current accounts and Saving Deposits Includes Maisarah Islamic Banking Service RO 1,968,000

**11. Subordinated loan**

	<b>2013</b>	2012
	<b>RO'000</b>	RO'000
Subordinated loan - RO	<b>75,000</b>	50,000
	<u><b>75,000</b></u>	<u>50,000</u>

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

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

**Notes to the financial statements (Unaudited)  
for the nine- month period ended 30 September 2013**

**12. Share capital**

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

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

At 30 September 2013, the issued and paid up share capital comprise 1,210,128,121 shares of par value RO 0.100 each. (2012 – 1,100,116,474 shares of par value RO 0.100 each)

**Shareholders**

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

	2013		2012	
	No of shares	%	No of shares	%
Dhofar International Development and Investment Company SAOG	<b>336,600,000</b>	<b>27.82</b>	305,402,129	27.76
Eng. Abdul Hafidh Salim Rajab				
Al Aujaili and his related Companies	<b>252,174,876</b>	<b>20.84</b>	229,249,889	20.84
Civil Service Employees' Pension Fund	<b>121,012,782</b>	<b>10.00</b>	111,462,828	10.13
Total	<b>709,787,658</b>	<b>58.66</b>	646,114,846	58.73
Others	<b>500,340,463</b>	<b>41.34</b>	454,001,628	41.27
	<b>1,210,128,121</b>	<b>100.00</b>	1,100,116,474	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 nine- month period ended 30 September 2013**

**13. Reserves (continued)**

**(c) Investment revaluation reserve**

The movements in the investments revaluation reserve is analysed below:

	<b>2013</b> <b>RO'000</b>	2012 RO'000
1 January	<b>1,556</b>	627
Increase/decrease in fair value	<b>2,084</b>	868
Impairment of available for sale investment taken to statement of comprehensive income	-	287
Net transfer to statement of comprehensive income on sale of available-for-sale investment	<u><b>(2,056)</b></u>	<u>(547)</u>
30 September	<u><b>1,584</b></u>	<u>1,235</u>

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

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

	<b>2013</b>	2012
Net Profit for the period (RO)	<u><b>49,062,000</b></u>	<u>28,730,000</u>
Weighted average number of shares outstanding during of the period	<u><b>1,210,128,121</b></u>	<u>1,210,128,121</u>
Earnings per share basic and diluted - annualized	<u><b>0.054</b></u>	<u>0.032</u>

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

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

**Notes to the financial statements (Unaudited)  
for the nine- month period ended 30 September 2013**

**15. Capital adequacy**

The ratio of equity to risk weighted assets, as formulated by the Basel II, for nine - months period ended 30 September 2013 is 13.17 % (2012 – 13.91 %).

<b>Capital structure</b>	<b>2013</b>	<b>2012</b>
	<b>RO'000</b>	<b>RO'000</b>
<b>TIER I CAPITAL</b>		
Paid up capital	121,013	110,012
Legal reserve	25,652	21,877
Share premium	40,018	40,018
Subordinated bonds and loan reserve	11,250	34,617
Retained earnings	45,513	15,679
Less: goodwill	(2,879)	(3,290)
Less: negative investment revaluation reserve	(77)	(184)
<b>Total Tier I capital</b>	<b>240,490</b>	<b>218,729</b>
<b>TIER II CAPITAL</b>		
Investment revaluation reserve	748	639
General provision	27,101	23,844
Subordinated loan	63,750	48,750
<b>Total Tier II capital</b>	<b>91,599</b>	<b>73,233</b>
<b>Total eligible capital</b>	<b>332,089</b>	<b>291,962</b>
<b>Risk weighted assets</b>		
Banking book	2,307,000	1,935,147
Trading book	58,350	20,737
Operational risk	156,465	142,830
<b>Total</b>	<b>2,521,815</b>	<b>2,098,714</b>
Tier I capital	240,490	218,729
Tier II capital	91,599	73,233
Tier III capital	-	-
<b>Total regulatory capital</b>	<b>332,089</b>	<b>291,962</b>
<b>Tier I capital ratio</b>	<b>9.54%</b>	<b>10.42%</b>
<b>Total capital ratio</b>	<b>13.17%</b>	<b>13.91%</b>

**Notes to the financial statements (Unaudited)  
for the nine- month period ended 30 September 2013**

**16. Net interest income**

	<b>2013</b>	2012
	<b>RO'000</b>	RO'000
Loans and advances to customers	<b>72,608</b>	68,930
Debt investments	<b>424</b>	147
Money market placements	<b>1,127</b>	207
Others	<b>8</b>	8
<b>Total interest income</b>	<b>74,167</b>	69,292
Deposits from customers	<b>(23,867)</b>	(19,950)
Money market deposits	<b>(962)</b>	(1,320)
<b>Total interest expense</b>	<b>(24,829)</b>	(21,270)
<b>Net interest income</b>	<b>49,338</b>	48,022

**17. Other income**

Foreign exchange	<b>913</b>	896
Investment income (a)	<b>4,871</b>	2,230
Miscellaneous income	<b>5,599</b>	7,565
	<b>11,383</b>	10,691

**(a) Investment income**

Dividend income- available-for-sale investments	<b>387</b>	375
financial instruments at fair value through profit or loss	<b>726</b>	-
Gain of disposal of available-for-sale investments	<b>2,287</b>	604
Interest income on Government Development Bonds (HTM)	<b>1,471</b>	1,251
	<b>4,871</b>	2,230

**18. Impairment of financial assets**

Impairment of available-for-sale investments	-	287
Provision for loan impairment	<b>5,842</b>	5,512
Provision for Inter Banks Loans impairment	<b>431</b>	-
Loans written-off	-	4
	<b>6,273</b>	5,803
Recoveries from provision for loan impairment	<b>(2,338)</b>	(2,105)
30 September	<b>3,935</b>	3,698

**Notes to the financial statements (Unaudited)  
for the nine- month period ended 30 September 2013**

**19. Related parties transactions**

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

	2013 RO'000	2012 RO'000
<b>Loans and advances</b>		
Directors and shareholders holding less than 10% interest in the Bank	41,162	16,769
Directors and shareholders holding 10% or more interest in the Bank	<u>32,979</u>	<u>24,400</u>
	<u>74,141</u>	<u>41,169</u>
<b>Subordinated Loans</b>		
Directors and shareholders holding less than 10% interest in the Bank	35,000	23,000
Directors and shareholders holding 10% or more interest in the Bank	<u>40,000</u>	<u>27,000</u>
	<u>75,000</u>	<u>50,000</u>
<b>Deposits and other accounts</b>		
Directors and shareholders holding less than 10% interest in the Bank	111,599	112,897
Directors and shareholders holding 10% or more interest in the Bank	<u>252,324</u>	<u>216,664</u>
	<u>363,923</u>	<u>329,561</u>
<b>Contingent liabilities and commitments</b>		
Directors and shareholders holding less than 10% interest in the Bank	2,391	2,285
Directors and shareholders holding 10% or more interest in the Bank	<u>14,906</u>	<u>16,051</u>
	<u>17,297</u>	<u>18,336</u>
<b>Remuneration paid to Directors</b>		
Chairman		
– remuneration paid	15	15
– sitting fees paid	8	10
Other Directors		
– remuneration paid	102	101
– sitting fees paid	<u>58</u>	<u>68</u>
	<u>183</u>	<u>194</u>
<b>Other transactions</b>		
Rental payment to related parties	<u>308</u>	<u>281</u>
Other transactions	<u>55</u>	<u>48</u>

**Notes to the financial statements (Unaudited)  
for the nine- month period ended 30 September 2013**

**20. Senior member borrowing**

**Senior member**

	<b>2013</b>	2012
	<b>RO'000</b>	RO'000
Total exposure:		
Direct	<b>76,359</b>	43,747
Indirect	<b>17,297</b>	18,336
	<hr/> <b>93,656</b> <hr/>	<hr/> 62,083 <hr/>
Number of members	<hr/> <b>26</b> <hr/>	<hr/> 22 <hr/>

**21. Contingent liabilities and commitments**

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

	<b>2013</b>	2012
	<b>RO'000</b>	RO'000
Letters of credit	<b>97,653</b>	71,019
Guarantees and performance bonds	<b>141,084</b>	128,859
Advance payment guarantees	<b>101,854</b>	75,446
Payment guarantees	<b>86,628</b>	70,292
Others	<b>13,005</b>	1,043
	<hr/> <b>440,224</b> <hr/>	<hr/> 346,659 <hr/>

**22. Amount due to brokerage customers**

The amount due to brokerage customers as at 30 September 2013 RO 2,906  
(2012: RO 2,906.)

**Notes to the financial statements (Unaudited)  
for the nine- month period ended 30 September 2013**

**23. Risk Management**

**(i) Liquidity risk**

**Maturity profile of assets and liabilities**

	<b>Due on demand and up to 30 days</b>	<b>More than 1 month to 6 months</b>	<b>More than 6 months to 12 months</b>	<b>More than 1 year to 5 years</b>	<b>Over 5 years</b>	<b>Total</b>
	<b>RO'000</b>	<b>RO'000</b>	<b>RO'000</b>	<b>RO'000</b>	<b>RO'000</b>	<b>RO'000</b>
<b>30 September 2013</b>						
Cash and balances with Central Bank of Oman	215,000	13,297	-	-	500	228,797
Loans and advances to banks	40,073	99,436	15,768	9,477	-	164,754
Loans and advances to customers	173,519	352,459	148,007	754,880	457,190	1,886,055
Available-for-sale Investments	-	-	12,108	-	-	12,108
Held-to-maturity investments	20,529	35,413	-	66,353	12,585	134,880
Financial instruments at fair value through Profit or Loss	-	-	185	-	-	185
Intangible asset	-	-	-	-	2,879	2,879
Property and equipment	-	-	-	-	10,954	10,954
Other assets	7,314	33,832	3,030	-	4,090	48,266
<b>Total assets</b>	<b>456,435</b>	<b>534,437</b>	<b>179,098</b>	<b>830,710</b>	<b>488,198</b>	<b>2,488,878</b>
Due to banks	10,472	48,125	36,575	-	-	95,172
Deposits from customers	245,571	407,284	391,568	649,929	211,791	1,906,143
Other liabilities	53,853	42,060	4,624	15,942	1,992	118,471
Subordinated loans	-	-	-	75,000	-	75,000
Shareholders' equity	-	-	49,062	-	245,030	294,092
<b>Total liabilities and shareholders' equity</b>	<b>309,896</b>	<b>497,469</b>	<b>481,829</b>	<b>740,871</b>	<b>458,813</b>	<b>2,488,878</b>

**Notes to the financial statements (Unaudited)  
for the nine- month period ended 30 September 2013**

**23. Risk Management (continued)**

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

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

	Due on demand and up to 30 days RO'000	More than 1 month to 6 months RO'000	More than 6 months to 12 months RO'000	More than 1 year to 5 years RO'000	Over 5 years RO'000	Total RO'000
30 September 2012						
Cash and balances with Central Bank of Oman	188,094	-	-	-	500	188,594
Loans and advances to banks	31,503	7,531	15,208	-	-	54,242
Loans and advances to customers	149,314	290,803	131,548	644,393	442,235	1,658,293
Available-for-sale Investments	-	-	11,647	-	-	11,647
Held-to-maturity investments	19,713	60,051	-	54,475	10,476	144,715
Intangible asset	-	-	-	-	3,290	3,290
Property and equipment	-	-	-	-	9,418	9,418
Other assets	8,043	32,839	4,227	32	-	45,141
<b>Total assets</b>	<b>396,667</b>	<b>391,224</b>	<b>162,630</b>	<b>698,900</b>	<b>465,919</b>	<b>2,115,340</b>
Due to banks	56,021	44,275	5,775	23,100	-	129,171
Deposits from customers	158,084	411,923	313,001	558,928	156,148	1,598,084
Other liabilities	14,314	38,364	10,357	20,417	2,465	85,917
Subordinated loan	-	-	-	50,000	-	50,000
Shareholders' equity	-	-	28,730	-	223,438	252,168
<b>Total liabilities and shareholders' equity</b>	<b>228,419</b>	<b>494,562</b>	<b>357,863</b>	<b>652,445</b>	<b>382,051</b>	<b>2,115,340</b>

**Notes to the financial statements (Unaudited)  
for the nine- month period ended 30 September 2013**

**23 Risk Management (continued)**

**(ii) Market risk**

**(a) Interest rate risk**

**Interest rate sensitivity gap**

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

	Due on demand and within 30 days RO'000	Due within 1 to 6 months RO'000	Due within 7 to 12 months RO'000	Due within 1 to 5 years RO'000	Due after 5 years RO'000	Non- interest bearing RO'000	Total RO'000
<b>30 September 2013</b>							
Cash and balances with Central Bank of Oman	110,000	13,297	-		500	105,000	228,797
Loans and advances to banks	40,073	99,436	15,768	9,477	-	-	164,754
Loans and advances to customers	173,519	352,459	148,007	754,880	457,190	-	1,886,055
Available-for-sale investments	-	-	-	-	-	12,108	12,108
Held-to-maturity investments	20,529	35,413	-	66,353	12,585	-	134,880
Financial instruments at fair value through Profit or Loss	-	-	-	-	-	185	185
Intangible asset	-	-	-	-	-	2,879	2,879
Property and equipment	-	-	-	-	-	10,954	10,954
Other assets	-	-	-	-	-	48,266	48,266
<b>Total assets</b>	<b>344,121</b>	<b>500,605</b>	<b>163,775</b>	<b>830,710</b>	<b>470,275</b>	<b>179,392</b>	<b>2,488,878</b>
Due to banks	9,708	48,125	36,575	-	-	764	95,172
Deposits from customers	504,774	188,732	254,517	508,018	5,000	445,102	1,906,143
Other liabilities	-	-	-	-	-	118,471	118,471
Subordinated loans	-	-	-	75,000	-	-	75,000
Shareholders' equity	-	-	49,062	-	-	245,030	294,092
<b>Total liabilities and shareholders' equity</b>	<b>514,482</b>	<b>236,857</b>	<b>340,154</b>	<b>583,018</b>	<b>5,000</b>	<b>809,367</b>	<b>2,488,878</b>
<b>On-balance sheet gap</b>	<b>(170,361)</b>	<b>263,748</b>	<b>(176,379)</b>	<b>247,692</b>	<b>465,275</b>	<b>(629,975)</b>	
<b>Cumulative interest sensitivity gap</b>	<b>(170,361)</b>	<b>93,387</b>	<b>(82,992)</b>	<b>164,700</b>	<b>629,975</b>		

**Notes to the financial statements (Unaudited)  
for the nine-month period ended 30 September 2013**

**23. Risk Management (continued)**

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

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

**Interest rate sensitivity gap (continued)**

	Due on demand and within 30 days RO'000	Due within 1 to 6 months RO'000	Due within 7 to 12 months RO'000	Due within 1 to 5 years RO'000	Due after 5 years RO'000	Non-interest bearing RO'000	Total RO'000
30 September 2012							
Cash and balances with Central Bank of Oman	160,000	-	-	-	500	28,094	188,594
Loans and advances to banks	31,503	7,531	15,208	-	-	-	54,242
Loans and advances to customers	149,314	290,803	131,548	644,393	442,235	-	1,658,293
Available-for-sale investments	-	-	-	-	-	11,647	11,647
Held-to-maturity investments	19,713	60,051	-	54,475	10,476	-	144,715
Intangible asset	-	-	-	-	-	3,290	3,290
Property and equipment	-	-	-	-	-	9,418	9,418
Other assets	-	-	-	-	-	-	-
						45,141	45,141
<b>Total assets</b>	<b>360,530</b>	<b>358,385</b>	<b>146,756</b>	<b>698,868</b>	<b>453,211</b>	<b>97,590</b>	<b>2,115,340</b>
Due to banks	55,643	44,275	5,775	-	23,100	378	129,171
Deposits from customers	291,250	258,725	214,246	428,110	-	405,753	1,598,084
Other liabilities	-	-	-	-	-	85,917	85,917
Subordinated loan	-	-	-	50,000	-	-	50,000
Shareholders' equity	-	-	28,730	-	-	223,438	252,168
<b>Total liabilities and shareholders' equity</b>	<b>346,893</b>	<b>303,000</b>	<b>248,751</b>	<b>478,110</b>	<b>23,100</b>	<b>715,486</b>	<b>2,115,340</b>
<b>On-balance sheet gap</b>	<b>13,637</b>	<b>55,385</b>	<b>(101,995)</b>	<b>220,758</b>	<b>430,111</b>	<b>(617,896)</b>	
Cumulative interest sensitivity gap	13,637	69,022	(32,973)	187,785	617,896		

**(b) Foreign currency exposures**

	2013 RO'000	2012 RO'000
Net assets denominated in US Dollars	67,948	50,846
Net assets denominated in other foreign currencies	581	944
	<b>68,529</b>	<b>51,790</b>

**Notes to the financial statements (Unaudited)  
for the nine-month period ended 30 September 2013**

**23. Risk Management (continued)**

**(iii) Credit Risk**

**Customer concentrations**

	Assets			Liabilities		
	Loans and advances to banks RO'000	Gross loans and advances RO'000	Investment Securities RO'000	Deposits from customers RO'000	Deposits from banks RO'000	Contingent liabilities RO'000
<b>30 September 2013</b>						
Personal	-	843,007	-	406,673	-	285
Corporate	165,185	961,887	81,532	711,442	95,172	433,774
Government	-	160,876	188,938	788,028	-	6,165
	<b>165,185</b>	<b>1,965,770</b>	<b>270,470</b>	<b>1,906,143</b>	<b>95,172</b>	<b>440,224</b>
<b>30 September 2012</b>						
Personal	-	780,192	-	384,721	-	10,601
Corporate	54,242	821,969	91,411	646,815	129,171	331,324
Government	-	140,687	194,951	566,548	-	4,734
	<b>54,242</b>	<b>1,742,848</b>	<b>286,362</b>	<b>1,598,084</b>	<b>129,171</b>	<b>346,659</b>

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

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

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

**B) Other Legal Cases:**

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

It is noteworthy to mention that the Bank, in a case 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 R.O. 381,203/= together with interest at the rate of 10.5% per annum to be calculated up to the date of final payment.