



**Board of Directors' Report and financial statements (Unaudited)
For nine – month period ended 30th September 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 S.A.O.G

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

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BANK DHOFAR S.A.O.G.**THE BOARD OF DIRECTORS' REPORT FOR THE NINE-MONTH PERIOD
ENDED 30th SEPTEMBER 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 nine-month period ended 30th September 2014.

The Bank's Financial Performance during 9 months ended 30th September 2014:-

The Bank has continued to show significant growth in all areas during the first nine months of 2014, with the total assets improving to OMR 2.92 billion at the end of September 2014 as compared to OMR 2.49 billion at the end of September 2013 recording a growth of 17.27% year on year, with net Loans and advances to customers growing by a strong 19.58% to reach OMR 2.26 billion as at end of September 2014 compared to OMR 1.89 billion as at end of September 2013. This growth in Loans and Advances was correspondingly supported by growth in the customer deposits, which improved by 15.18% to reach OMR 2.20 billion as at September 2014 compared to OMR 1.91 billion as at September 2013.

The total operating income including the Non-funded income such as fees and commissions, foreign exchange profit, investment etc. grew by 9.37% to reach OMR 73.31 million for the nine months ended 30th September 2014 as compared to OMR 67.03 million for same period of last year.

The Cost to Income ratio year-to-date September 2014 improved significantly to 46.85% from high of 50.01% during the corresponding period of 2013. Net provisions for loan impairment increased to OMR 4.60 million year-to-date September 2014 compared to OMR 3.94 million during the same period ended September 2013.

The Net Profits of the Bank for the nine months year-to-date ended September 2014 reached OMR 30.33 million as compared to OMR 49.06 million achieved for the same period of 2013. The Net Profits of last year, 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, year-to-date September 2013 nine months' Net Profits was OMR 26.07 million, adjusted for taxes. The Net profit is showing a healthy growth of 16.34% year on year, excluding the effect of the legal case.

The earnings per share (EPS) for nine months ended September 2014 are OMR 0.030 as compared to OMR 0.049 during the corresponding period ended September 2013 (which includes the one-off legal case recovery).

"Maisarah" Islamic Banking Services

By the end of third quarter of 2014 Maisarah has successfully achieved a new milestone of total asset of OMR 161.62 million, including gross financing of OMR 103.32 million and investments of OMR 10.20 million. At the end of third quarter 2014, Maisarah achieved Net Profit of OMR 0.01 million compared to Net Loss of OMR 1.31 million for same period of last year. Maisarah will continue to steadily build its brand and reputation as the best Islamic window in Oman to serve its customers and to fulfill the expectations of its shareholders.

With the goal of being the best Islamic window in the market, Maisarah has also made dedicated efforts towards sustainability and corporate social responsibility in numerous ways. These initiatives and collective efforts have earned Maisarah the 'Best Islamic Community Support Bank 2014' by Global Financial Market Review (GFM).

Capital Increase:

To support strong growth, in September 2014, the Bank raised USD 75 million sub-ordinated debt towards Tier II capital (OMR 28.8 million) after obtaining the appropriate Regulatory approval.

Maisarah's paid-up capital was increased from OMR 12.5 million to OMR 25 Million to finance its impressive business growth and expansion.

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.
- Bank Dhofar has been awarded the 'Best Evolved Brand in Oman 2014' by Global Financial Market Review. This award is granted based on our success on rebranding and maximizing the visibility of Bank Dhofar's brand to align with the bank's strategy and vision of our new approach.

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 nine months ended 30th September 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

Statement of financial position (Unaudited)
As at 30 September 2014

	Notes	September 2014 RO'000	September 2013 RO'000	Audited Dec 2013 RO'000
ASSETS				
Cash and balances with Central Bank of Oman	2	313,099	228,797	345,758
Claims with other banks	3	135,692	164,754	121,370
Loans and advances to customers	4	2,256,987	1,886,055	1,901,910
Available-for-sale investments	5	30,057	12,108	24,635
Held-to-maturity investments	6	108,776	134,880	153,366
Financial instruments at fair value through Profit or Loss	7	-	185	-
Intangible asset	8	2,482	2,879	2,780
Property and equipment		9,995	10,954	10,903
Other assets		67,827	48,266	44,657
Total assets		2,924,915	2,488,878	2,605,379
LIABILITIES				
Due to banks	9	203,020	95,172	106,334
Deposits from customers	10	2,199,707	1,906,143	2,031,746
Other liabilities		100,953	118,471	88,692
Subordinated loans	11	103,875	75,000	75,000
Total liabilities		2,607,555	2,194,786	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	2,122	1,584	1,754
Retained earnings		64,666	94,575	64,592
Total shareholders' equity		317,360	294,092	303,607
Total liabilities and shareholders' equity		2,924,915	2,488,878	2,605,379
Contingent liabilities and commitments	21	631,675	440,224	461,952
Net assets per share (Rials Omani)		0.236	0.243	0.251

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

**Statement of comprehensive income (Unaudited)
for nine -month period ended 30 September 2014**

	Notes	9 Months ended September 2014 RO'000	9 Months ended September 2013 RO'000	3 Months ended September 2014 RO'000	3 Months ended September 2013 RO'000
Interest income		78,939	74,065	27,157	25,706
Interest expense		(24,694)	(24,827)	(8,350)	(8,688)
Net interest income	16	54,245	49,238	18,807	17,018
Income from financing		2,242	102	1,034	82
Unrestricted investment account holders' share of profit		(205)	(2)	(121)	(2)
Net income from Islamic financing activities		2,037	100	913	80
Fees and commission income		10,065	6,886	3,075	2,585
Fees and commission expenses		(969)	(582)	(327)	(213)
Net fees and commission income		9,096	6,304	2,748	2,372
Other income	17	7,929	11,383	2,374	2,992
Operating income		73,307	67,025	24,842	22,462
Staff and administrative costs		(31,602)	(30,922)	(11,272)	(10,549)
Depreciation		(2,745)	(2,601)	(861)	(900)
Operating expenses		(34,347)	(33,523)	(12,133)	(11,449)
Profit from operations		38,960	33,502	12,709	11,013
Provision for loan impairment	4&18	(8,380)	(6,273)	(2,734)	(2,266)
Recoveries from allowance for loan impairment	4&18	3,783	2,338	1,182	634
Written Back From Legal Case	24	-	26,129	-	-
Profit/(Loss)from operations after provision		34,363	55,696	11,157	9,381
Income tax expense		(4,036)	(6,634)	(1,334)	(1,122)
Profit / (Loss) for the period		30,327	49,062	9,823	8,259
Profit / (Loss) for the period		30,327	49,062	9,823	8,259
Other comprehensive income:					
Net changes in fair value of available-for-sale investments	13	888	2,084	512	608
Reclassification adjustment on sale of available-for-sale investments	13	(520)	(2,056)	(192)	(574)
Total comprehensive income/ (Loss) for the period		30,695	49,090	10,143	8,293
Profit / (Loss) Earnings per share (basic and diluted) – annualized (Rials Omani)	14	0.030	0.049	0.029	0.024

The accompanying notes form an integral part of these financial statements

Profit for the period **RO 30,327,000** includes **RO 12,000** Net Profit of the new division Maisarah Islamic banking services excluding this, profit for the period is **RO 30,315,000** (2013: RO 49,062,000) includes RO (1,307,000) Net loss of the new division Maisarah Islamic Banking Services start -up excluding this profit for the period is RO 50,369,000).

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Statement of changes in equity (Unaudited) for nine-month period ended 30 September 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		-	-	-	-	-	-	30,327	30,327
Other comprehensive income for the period									
Net change in fair value of available-for-sale investments		-	-	-	-	-	888	-	888
Transfer to statement of income on sale of available-for-sale investments	13	-	-	-	-	-	(520)	-	(520)
Total comprehensive income for the period		-	-	-	-	-	368	30,327	30,695
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 September 2014		134,324	40,018	18,488	31,492	26,250	2,122	64,666	317,360

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 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		-	-	-	-	-	49,062	49,062
Other comprehensive income for the period								
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)
Total comprehensive income for the period		-	-	-	-	28	49,062	49,090
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 September 2013		121,013	40,018	25,652	11,250	1,584	94,575	294,092

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 2014**

	2014	2013
	RO'000	RO'000
Cash flows from operating activities		
Interest and commission receipts	92,943	85,995
Interest payments	(24,614)	(22,121)
Cash payments to suppliers and employees	(36,089)	(33,827)
Written Back from Legal Case	-	26,129
	<u>32,240</u>	<u>56,176</u>
(Increase) in operating assets	(349,582)	(335,092)
Increase in operating liabilities	263,354	308,207
Net cash (used in) / from operating activities	(53,988)	29,291
Income tax paid	(7,580)	(4,897)
Net cash (used in) / from operating activities	(61,568)	24,394
Net cash (used in) / investing activities	(4,495)	(3,242)
Net cash (used in) / financing activities	11,933	(16,502)
Net (decrease) / increase in cash and cash equivalents	(54,130)	4,650
Cash and cash equivalents at 1 st January	425,255	252,956
Cash and cash equivalents at 30 September	371,125	257,606
Cash and cash equivalents (Note 2)	313,099	228,797
Capital deposit with Central Bank of Oman	(500)	(500)
Loans and advances to banks due within 90 days	60,043	30,073
Due to banks within 90 days	(1,517)	(764)
Cash and cash equivalents for the purpose of the cash flow statement	371,125	257,606

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 2014**

2. Cash and Bank balances

	2014 RO'000	2013 RO'000
Cash on hand	45,670	24,080
Balances with the Central Bank of Oman	207,429	81,420
Treasury Bills with maturity of 90 days or less	-	13,297
Certificate of deposits with maturity of 90 days or less	60,000	110,000
	<u>313,099</u>	<u>228,797</u>

At 30 September 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 September 2014 were issued by the Central Bank of Oman

3. Claims on other banks

	2014 RO'000	2013 RO'000
Loans with other banks	76,867	43,019
Placements with other banks	51,048	113,924
Current clearing accounts	8,216	8,242
	<u>136,131</u>	<u>165,185</u>
Gross loans and advances with other banks	136,131	165,185
Less: Impairment allowance	(439)	(431)
Net loans and advances	<u>135,692</u>	<u>164,754</u>

At 30 September 2014, No placements with any banks represented 20% or more of the Bank's placements (2013 - Two).

AT 30 September 2014 Placements with other banks Includes Maisarah Islamic Banking Service Placement of RO 19,971,000 (2013: RO 8,000,000)

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

4. Loans and advances to customers

	2014	2013
	RO'000	RO'000
Overdrafts	130,769	129,354
Loans	2,075,705	1,713,137
Loans against trust receipts	96,704	86,897
Bills discounted	9,124	8,849
Advance against credit cards	7,716	7,864
Others	23,699	19,669
Gross loans and advances	2,343,717	1,965,770
Less: Impairment allowance	(86,730)	(79,715)
Net loans and advances	2,256,987	1,886,055

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	8,308	5,842
Released to the statement of comprehensive income during the period	(3,783)	(2,338)
Written off during the period	(211)	(1,094)
30 September	55,123	50,474

(b) Reserved interest

1 January	29,810	27,416
Reserved during the period	4,264	4,036
Released to the statement of comprehensive income during the period	(848)	(719)
Written-off during the period	(1,619)	(1,492)
30 September	31,607	29,241

Total impairment allowance

86,730	79,715
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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 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 September 2014, out of the total provisions of **RO 86,730,000** (2013 – RO 79,715,000) a collective provision was made on a general portfolio basis amounting to **RO 30,608,000** (2013 – RO 26,670,000). Includes Maisarah Islamic Banking service **RO 1,054,000** (2013-RO 117,000)

At 30 September 2014, impaired loans and advances on which interest has been reserved amount to **RO 60,833,002** (2013 - RO 58,536,171) and loans and advances on which interest is not being accrued amount to **RO 1,735,612** (2013 - to RO 1,368,101).

Gross Loans and Advance includes Maisarah Islamic Banking Service **RO 103,323,000** as end of September 2014 (2013: RO 10,092,000)

5. a) Available-for-sale investments

		2014	2013
		RO'000	RO'000
Equity instruments			
- Quoted		17,097	9,548
- Unquoted		2,762	2,560
		19,859	12,108
		Fair value	
	Cost	2014	2013
	RO'000	RO'000	RO'000
Quoted on the Muscat Securities Market			
Banking and investments	1,811	1,859	1,241
Services	6,203	6,714	4,214
Industrial	8,222	8,524	4,093
	16,236	17,097	9,548
Unquoted			
Omani companies	1,699	2,762	2,560
	17,935	19,859	12,108
b) Sukuk			
Unquoted			
Omani companies	10,000	10,198	-
	10,000	10,198	-
	27,935	30,057	12,108

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

6. Held-to-maturity investments

	2014	2013
	RO'000	RO'000
Treasury bills with maturity of above 90 days	30,763	55,942
Government Development Bonds	78,013	78,938
	<u>108,776</u>	<u>134,880</u>

7. Financial instruments at fair value through Profit or Loss

Financial instruments at fair value through Profit or Loss	-	185
	<u>-</u>	<u>185</u>

8. Intangible asset

The movement in the goodwill account is as follows:

1st January	2,780	3,177
Impaired during the period	(298)	(298)
30 September	<u>2,482</u>	<u>2,879</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	201,129	94,408
Payable on demand	1,891	764
	<u>203,020</u>	<u>95,172</u>

At 30 September 2014 no borrowing from any banks individually represented 20% or more of the Bank's borrowings (2013- Nil.) 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 nine - month period ended 30 September 2014**

10. Deposits from customers

	2014	2013
	RO'000	RO'000
Current accounts	620,359	543,344
Savings accounts	385,252	283,822
Time deposits/Certificate of deposits	1,184,698	1,074,455
Margin accounts	9,398	4,522
	<hr/> 2,199,707 <hr/>	<hr/> 1,906,143 <hr/>

Current accounts and time deposits include deposits from the Government of the Sultanate of Oman and its entities amounting to **RO 889,467,000** (2013 - RO 788,028,000).

In September 2014 Current accounts, Saving Deposits and Time deposits Includes Maisarah Islamic Banking Service **RO 32,054,000** : (2013 RO 1,968,000)

11. Subordinated loan

	2014	2013
	RO'000	RO'000
Subordinated loan - RO	75,000	75,000
Subordinated loan - FCY	28,875	-
	<hr/> 103,875 <hr/>	<hr/> 75,000 <hr/>

In September 2014, the Bank availed USD 75 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.

Notes to the financial statements (Unaudited) for the nine - month period ended 30 September 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 September 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	27.82
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	137,428,557	10.23	121,012,782	10.00
Total	790,968,664	58.89	709,787,658	58.66
Others	552,273,550	41.11	500,340,463	41.34
	<u>1,343,242,214</u>	<u>100</u>	<u>1,210,128,121</u>	<u>100.00</u>

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.

13. Reserves (continued)

(c) Investment revaluation reserve

The movements in the investments revaluation reserve is analysed below:

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

	2014 RO'000	2013 RO'000
1 January	1,754	1,556
Increase/ (decrease) in fair value	888	2,084
Net transfer to statement of comprehensive income on sale of available-for-sale investment	<u>(520)</u>	<u>(2,056)</u>
30 September	<u><u>2,122</u></u>	<u><u>1,584</u></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:

	2014	2013
Net Profit for the period (RO)	<u>30,327,000</u>	<u>49,062,000</u>
Weighted average number of shares outstanding during of the period	<u>1,343,242,214</u>	<u>1,343,242,214</u>
Earnings per share basic and diluted - annualized	<u><u>0.030</u></u>	<u><u>0.049</u></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 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 nine - month period ended 30 September 2014**

15. Capital adequacy

The ratio of equity to risk weighted assets, as formulated by the Basel II, for nine - months period ended 30 September 2014 is **12.93%** (2013 – 13.17 %).

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	(2,482)	(2,879)
Negative investment revaluation reserve	(397)	(77)
Total CET I/ Tier I capital	282,032	240,490
	<hr/>	<hr/>
TIER II CAPITAL		
Investment revaluation reserve	1,038	748
General provision	31,047	27,101
Subordinated loan	77,625	63,750
	<hr/>	<hr/>
Total Tier II capital	109,710	91,599
	<hr/>	<hr/>
Total eligible capital	391,742	332,089
	<hr/> <hr/>	<hr/> <hr/>
Risk weighted assets		
Banking book	2,797,475	2,307,000
Trading book	65,824	58,350
Operational risk	166,581	156,465
	<hr/>	<hr/>
Total	3,029,880	2,521,815
	<hr/>	<hr/>
CET I/ Tier I capital	282,032	240,490
Tier II capital	109,710	91,599
Tier III capital	-	-
	<hr/>	<hr/>
Total regulatory capital	391,742	332,089
	<hr/>	<hr/>
CET I/ Tier I capital ratio	9.31%	9.54%
	<hr/>	<hr/>
Total capital ratio	12.93%	13.17%
	<hr/> <hr/>	<hr/> <hr/>

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

16. Net interest income

	2014	2013
	RO'000	RO'000
Loans and advances to customers	77,140	72,531
Debt investments	329	424
Money market placements	1,463	1,102
Others	<u>7</u>	<u>8</u>
Total interest income	<u>78,939</u>	<u>74,065</u>
Deposits from customers	(24,112)	(23,865)
Money market deposits	<u>(582)</u>	<u>(962)</u>
Total interest expense	<u>(24,694)</u>	<u>(24,827)</u>
Net interest income	<u><u>54,245</u></u>	<u><u>49,238</u></u>

17. Other income

Foreign exchange	980	913
Investment income (a)	3,167	4,871
Miscellaneous income	<u>3,782</u>	<u>5,599</u>
	<u><u>7,929</u></u>	<u><u>11,383</u></u>

(a) Investment income

Dividend income- available-for-sale investments	702	387
financial instruments at fair value through profit or loss	-	726
Income on Sukuk	379	-
Gain of disposal of available-for-sale investments	600	2,287
Interest income on Government Development Bonds (HTM)	<u>1,486</u>	<u>1,471</u>
	<u><u>3,167</u></u>	<u><u>4,871</u></u>

18. Impairment of financial assets

Impairment of available-for-sale investments	-	-
Provision for loan impairment	7,941	5,842
Provision for Inter Banks Loans impairment	439	431
Loans written-off	<u>-</u>	<u>-</u>
	<u>8,380</u>	<u>6,273</u>
Recoveries from provision for loan impairment	<u>(3,783)</u>	<u>(2,338)</u>
30 September	<u><u>4,597</u></u>	<u><u>3,935</u></u>

**Notes to the financial statements (Unaudited)
for the nine - month period ended 30 September 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	9,571	41,162
Directors and shareholders holding 10% or more interest in the Bank	<u>34,703</u>	<u>32,979</u>
	<u>44,274</u>	<u>74,141</u>
Subordinated Loans		
Directors and shareholders holding less than 10% interest in the Bank	40,775	35,000
Directors and shareholders holding 10% or more interest in the Bank	<u>54,438</u>	<u>40,000</u>
	<u>95,213</u>	<u>75,000</u>
Deposits and other accounts		
Directors and shareholders holding less than 10% interest in the Bank	92,531	111,599
Directors and shareholders holding 10% or more interest in the Bank	<u>322,472</u>	<u>252,324</u>
	<u>415,003</u>	<u>363,923</u>
Contingent liabilities and commitments		
Directors and shareholders holding less than 10% interest in the Bank	1,699	2,391
Directors and shareholders holding 10% or more interest in the Bank	<u>12,145</u>	<u>14,906</u>
	<u>13,844</u>	<u>17,297</u>
Remuneration paid to Directors		
Chairman		
– remuneration paid	15	15
– sitting fees paid	10	8
Other Directors		
– remuneration paid	99	102
– sitting fees paid	<u>44</u>	<u>58</u>
	<u>168</u>	<u>183</u>
Other transactions		
Rental payment to related parties	<u>283</u>	<u>308</u>
Other transactions	<u>60</u>	<u>55</u>
Remuneration and fees paid to Sharia' Board of Islamic Banking Window	<u>27</u>	<u>14</u>

In September 2014 to Directors and shareholders holding less than 10% interest in the Bank's Includes Maisarah Islamic Banking Service RO 55,549: (2013 RO Nil)

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

20. Senior member borrowing

Senior member

	2014	2013
	RO'000	RO'000
Total exposure:		
Direct	47,439	76,359
Indirect	13,844	17,297
	61,283	93,656
	38	26

In September 2014 senior member borrowing Includes Maisarah Islamic Banking Service RO 368,060 : (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	104,057	97,653
Guarantees	527,618	342,571
	631,675	440,224

In September 2014 Letters of credit and Guarantees Includes Maisarah Islamic Banking Service RO 11,621,000: (2013 RO Nil)

22. Amount due to brokerage customers

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

**Notes to the financial statements (Unaudited)
for the nine - month period ended 30 September 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 September 2014						
Cash and balances with Central Bank of Oman	312,599	-	-	-	500	313,099
Loans and advances to banks	54,748	49,142	22,232	9,570	-	135,692
Loans and advances to customers	144,877	399,608	141,502	529,217	1,041,783	2,256,987
Available-for-sale Investments	-	-	19,859	10,198	-	30,057
Held-to-maturity investments	10,254	40,989	25,600	19,496	12,437	108,776
Intangible asset	-	-	-	-	2,482	2,482
Property and equipment	-	-	-	-	9,995	9,995
Other assets	7,294	54,222	990	48	5,273	67,827
Total assets	529,772	543,961	210,183	568,529	1,072,470	2,924,915
Due to banks	119,899	33,071	50,050	-	-	203,020
Deposits from customers	231,452	343,449	414,213	513,516	697,077	2,199,707
Other liabilities	25,507	55,422	6,226	13,040	758	100,953
Subordinated loans	-	-	-	75,000	28,875	103,875
Shareholders' equity	-	-	30,327	-	287,033	317,360
Total liabilities and shareholders' equity	376,858	431,942	500,816	601,556	1,013,743	2,924,915

**Notes to the financial statements (Unaudited)
for the nine - month period ended 30 September 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 September 2013						
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
Total assets	456,435	534,437	179,098	830,710	488,198	2,488,878
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
Total liabilities and shareholders' equity	309,896	497,469	481,829	740,871	458,813	2,488,878

**Notes to the financial statements (Unaudited)
for the nine - month period ended 30 September 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 September 2014							
Cash and balances with Central Bank of Oman	94,650	-	-	-	500	217,949	313,099
Loans and advances to banks	71,779	37,609	26,304	-	-	-	135,692
Loans and advances to customers	144,877	399,608	141,502	529,217	1,041,783	-	2,256,987
Available-for-sale investments	-	-	-	10,198	-	19,859	30,057
Held-to-maturity investments	10,254	40,989	25,600	19,496	12,437	-	108,776
Intangible asset	-	-	-	-	-	2,482	2,482
Property and equipment	-	-	-	-	-	9,995	9,995
Other assets	-	-	-	-	-	67,827	67,827
Total assets	321,560	478,206	193,406	558,911	1,054,720	318,112	2,924,915
Due to banks	107,593	93,536	-	-	-	1,891	203,020
Deposits from customers	155,205	254,737	446,981	398,995	5,000	938,789	2,199,707
Other liabilities	-	-	-	-	-	100,953	100,953
Subordinated loans	-	-	-	75,000	28,875	-	103,875
Shareholders' equity	-	-	30,327	-	-	287,033	317,360
Total liabilities and shareholders' equity	262,798	348,273	477,308	473,995	33,875	1,328,666	2,924,915
On-balance sheet gap	58,762	129,933	(283,902)	84,916	1,020,845	(1,010,554)	
Cumulative interest sensitivity gap	58,762	188,695	(95,207)	(10,291)	1,010,554	-	

**Notes to the financial statements (Unaudited)
for the nine - month period ended 30 September 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 September 2013							
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
Total assets	344,121	500,605	163,775	830,710	470,275	179,392	2,488,878
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
Total liabilities and shareholders' equity	514,482	236,857	340,154	583,018	5,000	809,367	2,488,878
On-balance sheet gap	(170,361)	263,748	(176,379)	247,692	465,275	(629,975)	
	(170,361)	93,387	(82,992)	164,700	629,975	-	

(b) Foreign currency exposures

	2014 RO'000	2013 RO'000
Net assets denominated in US Dollars	41,803	67,948
Net assets denominated in other foreign currencies	1,323	581
	43,126	68,529

**Notes to the financial statements (Unaudited)
for the nine - month period ended 30 September 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
30 th September 2014						
Personal	-	999,801	-	500,827	-	277
Corporate	135,757	1,177,066	60,820	809,413	202,647	626,917
Government	-	166,850	78,013	889,467	-	4,481
	<u>135,757</u>	<u>2,343,717</u>	<u>138,833</u>	<u>2,199,707</u>	<u>202,647</u>	<u>631,675</u>
30 th September 2013						
Personal	-	843,007	-	406,673	-	285
Corporate	165,185	961,887	68,235	711,442	95,172	433,774
Government	-	160,876	78,938	788,028	-	6,165
	<u>165,185</u>	<u>1,965,770</u>	<u>147,173</u>	<u>1,906,143</u>	<u>95,172</u>	<u>440,224</u>

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

**Notes to the financial statements (Unaudited)
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RO.26.1 million from the Primary Court in Muscat. This amount being the amount transferred in September 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.

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.