



بنك ظفار
BankDhofar

**Unaudited interim condensed financial statements
For the nine month period ended 30th September 2015**

Registered office and principal place of business:

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

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BANK DHOFAR S.A.O.G.

**THE BOARD OF DIRECTORS' REPORT FOR THE NINE-MONTH PERIOD
ENDED 30th September 2015**

Dear Shareholders,

On behalf of the Board of Directors of Bank Dhofar S.A.O.G., I am pleased to present to you the Bank's Financial Statements for the 9-month period ended 30th September 2015.

The Bank's consolidated Financial Performance during nine-month period ended 30th September 2015:

The Bank has continued to show significant growth in all areas during the period ended 30th September 2015, with the total assets increasing to RO 3.34 billion at the end of September 2015 as compared to RO 2.92 billion at the end of September 2014 recording a growth of 14.38% year on year. Net Loans, Advances and Financing to customers showed strong growth of 16.81% to reach RO 2.64 billion at end of September 2015 as compared to RO 2.26 billion as at end of September 2014. This growth in Loans Advances and Financing was supported by a corresponding growth in the customer deposits by 15.91% to reach RO 2.55 billion as at September 2015, as against RO 2.20 billion at September 2014.

The total operating income including the Non-fund income such as fees and commissions, foreign exchange profit, investment income grew by 15.45% to reach RO 84.64 million for the nine months ended 30th September 2015 as compared to RO 73.31 million for the same period last year.

The Cost to Income ratio for the 9 months ended September 2015 improved to 45.38% from 46.85% during the same period of 2014. Net provisions for loan and investment impairments increased to RO 8.37 million year-to-date September 2015 as compared to RO 4.60 million for the same period in 2014.

The Net Profits of the Bank for the period ended September 2015 reached RO 33.40 million as compared to RO 30.33 million for the corresponding period of 2014 showing a growth of 10.12%.

The earnings per share (EPS) for 9 months ended 30th September 2015 increased to RO 0.029 as compared to RO 0.026 for the first 9 months ended 30th September 2014.

"Maisarah" Islamic Banking Services highlights:

Maisarah Islamic Banking Services shows strong results during the nine month ended September 2015 and continued its rapid growth in assets, customer deposits and profitability. The total assets have increased by 48.89% to RO 240.63 million at September 2015 from RO 161.62 million at September 2014. The gross financing portfolio has grown from RO 103.32 million at September 2014 to RO 186.32 million at September 2015, thus posting a growth 80.33%. Non-performing financing continued to stand at nil, in the third year since commencement of operations. Customer deposits records a strong growth by 3.5 times, increased from RO 32.05 million at September 2014 to RO 145.07 million at September 2015.

In its third year of operations, Maisarah Islamic Banking Services reported profit before tax of RO 1.89 million compared to a net profit before tax of RO 0.01 million during the corresponding period in 2014, the year the Window achieved break-even. Maisarah also continued to expand its operations and has opened a new branch at Muscat North region- Al Hail in the month of July 2015 thus increasing the branch network to total of five branches (Azaiba, Salalah, Sohar, Barkat Al Muz and Al-Hail branch).

Awards & Accolades:

The Bank continues to invest in various Customer initiatives and staff Training as part of the program to upgrade customer experience. The following excellence awards won during the nine month period ended September 2015 are testimony to the Bank’s unstinted efforts.

SME Bank of the Year - Oman in the Asian Banking & Finance - Retail Banking Awards 2015.
Website of the Year - Oman in the Asian Banking & Finance - Retail Banking Awards 2015.
Oman Domestic Project Finance Bank of the Year in the Asian Banking & Finance - Wholesale Banking Awards 2015.
Oman Domestic Cash Management Bank of the Year in the Asian Banking & Finance - Wholesale Banking Awards 2015.
Best Branch Automation Project in Middle East 2015 by The Asian Banker.
Islamic Bank of the Year – Oman 2015 by The Banker.
Best Islamic Window – Maisarah, Oman 2015 by International Finance Magazine.
Best SME Bank Oman 2015 by Global Banking & Finance Review.
Best Mobile Banking Oman 2015 by International Finance Magazine
Best Mobile E-Commerce Bank 2015 by Global Banking & Finance Review.
Straight-Through-Processing Award 2014 for financial payments in Euro by Commerzbank, Germany.
Straight-Through-Processing Award 2014 for financial payments in U.S. Dollar by Citibank.

Corporate Social Responsibility (CSR) Initiatives:

BankDhofar’s Islamic window “Maisarah” took up religious awareness initiatives and conducted Quran Competitions for Children and Youth. Also Share & Care initiatives were undertaken to celebrate the Azzan Bin Qais International School Charity Day to spread the values and importance of Charity. Social visits were made to hospitals to donate gifts to hospitalized children and the less fortunate. Blood donation camps were organized reinforcing the importance of blood (life saver) donation to critical patients to save their lives.

BankDhofar also participated in the World Food Day 2015 to reemphasize the importance of “Food for all”. To reiterate this Bank also distributed Ramadan packages containing food for the needy families.

As part of its environment sustainability awareness campaign in today’s world “Save Paper when Printing” message was spread across urging users to save paper that would minimize felling of trees.

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 nine months ended 30th September 2015.

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

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

Eng. Abdul Hafidh Salim Rajab Al-Aujaili
Chairman

BANK DHOFAR SAOG

INTERIM CONDENSED STATEMENT OF FINANCIAL POSITION AT 30 SEPTEMBER 2015

		Unaudited 30th September 2015 RO'000	Unaudited 30 th September 2014 RO'000	Audited 31 st December 2014 RO'000
Assets				
Cash and balances with Central Bank of Oman	3	257,830	313,099	584,370
Loans, advances and financing to banks	4	112,960	135,692	91,164
Loans, advances and financing to customers	5	2,636,732	2,256,987	2,254,705
Available-for-sale investments	6	29,811	30,057	26,886
Held-to-maturity investments	7	198,344	108,776	149,988
Intangible asset	8	2,085	2,482	2,383
Property and equipment	9	9,023	9,995	9,683
Other assets		90,973	67,827	74,948
Total assets		3,337,758	2,924,915	3,194,127
Liabilities				
Due to banks	10	92,607	203,020	175,013
Deposits from customers	11	2,550,865	2,199,707	2,482,179
Other liabilities		122,891	100,953	107,742
Subordinated loans	12	103,875	103,875	103,875
Total liabilities		2,870,238	2,607,555	2,868,809
Shareholders' equity				
Share capital	13	154,473	134,324	134,324
Share premium		40,018	40,018	40,018
Special reserve		18,488	18,488	18,488
Legal reserve	14	35,537	31,492	35,537
Subordinated loan reserve	14	41,250	26,250	41,250
Investment revaluation reserve	14	728	2,122	(46)
Retained earnings		61,526	64,666	55,747
Total shareholders' equity attributable to the equity holders of the Bank		352,020	317,360	325,318
Perpetual Tier 1 Capital Securities	14	115,500	-	-
Total equity		467,520	317,360	325,318
Total liabilities and equity		3,337,758	2,924,915	3,194,127
Contingent liabilities and commitments	22	868,378	631,675	716,075
Net assets per share (Rials Omani)	15	0.303	0.236	0.242

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

Eng. Abdul Hafidh Salim Rajab Al-Aujaili
Chairman

Abdul Hakeem Omar Al Ojaili
Acting Chief Executive Officer

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

BANK DHOFAR SAOG

INTERIM CONDENSED STATEMENT OF COMPREHENSIVE INCOME FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2015

	Notes	Unaudited 9 months ended September 2015 RO'000	Unaudited 9 months ended September 2014 RO'000	Unaudited 3 months ended September 2015 RO'000	Unaudited 3 months ended September 2014 RO'000
Interest income		86,409	78,939	29,919	27,157
Interest expense		(25,541)	(24,694)	(8,516)	(8,350)
Net interest income	16	60,868	54,245	21,403	18,807
Income from islamic financing		5,433	2,242	2,098	1,034
Unrestricted investment account holders' share of profit		(1,271)	(205)	(494)	(121)
Net income from islamic financing and Investment activities		4,162	2,037	1,604	913
Fees and commission income		13,471	10,065	4,948	3,075
Fees and commission expense		(1,274)	(969)	(497)	(327)
Net fees and commission income		12,197	9,096	4,451	2,748
Other income	17	7,410	7,929	2,274	2,374
Operating income		84,637	73,307	29,732	24,842
Staff and administrative costs		(35,922)	(31,602)	(12,749)	(11,272)
Depreciation		(2,491)	(2,745)	(839)	(861)
Operating expenses		(38,413)	(34,347)	(13,588)	(12,133)
Profit from operations		46,224	38,960	16,144	12,709
Provision for loan impairment	5 & 18	(10,299)	(8,380)	(4,129)	(2,734)
Recoveries from allowance for loan impairment	5 & 18	4,080	3,783	1,460	1,182
Impairment of available-for-sale investments	5 & 18	(2,149)	-	(1,246)	-
Profit from operations after provision		37,856	34,363	12,229	11,157
Income tax expense		(4,461)	(4,036)	(1,461)	(1,334)
Profit for the period		33,395	30,327	10,768	9,823
Profit for the period		33,395	30,327	10,768	9,823
Other comprehensive income:					
<i>Other comprehensive income to be reclassified to profit or loss in subsequent periods:</i>					
Net changes in fair value of available-for-sale investment		(1,298)	888	(1,527)	512
Reclassification adjustment on sale of available-for-sale investments		(77)	(520)	(19)	(192)
Impairment of available-for-sale investments		2,149	-	1,246	-
Other comprehensive income for the period		774	368	(300)	320
Total comprehensive income for the period		34,169	30,695	10,468	10,143
Earnings per share (basic and diluted) (Rials Omani)	19	0.029	0.026	0.028	0.025

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

BANK DHOFAR SAOG

INTERIM CONDENSED STATEMENT OF CHANGES IN EQUITY FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2015

	Notes	Share capital RO'000	Share premium RO'000	Special reserve RO'000	Legal reserve RO'000	Subordinated loan reserve RO'000	Investment revaluation reserve RO'000	Retained earnings RO'000	Total RO'000	Perpetual Tier capital security RO'000	Total Equity RO'000
Balance as at 1 January 2015		134,324	40,018	18,488	35,537	41,250	(46)	55,747	325,318	-	325,318
Total comprehensive income for the period											
Net profit for the period		-	-	-	-	-	-	33,395	33,395	-	33,395
Other comprehensive income for the period											
Net change in fair value of available-for-sale investments		-	-	-	-	-	(1,298)	-	(1,298)	-	(1,298)
Transfer to statement of income on sale of available-for-sale investments		-	-	-	-	-	(77)	-	(77)	-	(77)
Impairment of available-for-sale investments		-	-	-	-	-	2,149	-	2,149	-	2,149
Total comprehensive income for the period		-	-	-	-	-	774	33,395	34,169		34,169
Transactions recorded directly in equity											
Proceeds from Perpetual Tier 1 capital securities	14	-	-	-	-	-	-	-	-	115,500	115,500
Perpetual Tier 1 issuance cost	14	-	-	-	-	-	-	(751)	(751)	-	(751)
Dividend paid for 2014		-	-	-	-	-	-	(6,716)	(6,716)	-	(6,716)
Bonus shares issued for 2014	13	20,149	-	-	-	-	-	(20,149)	-	-	-
Balance as at 30 September 2015		154,473	40,018	18,488	35,537	41,250	728	61,526	352,020	115,500	467,520

(Unaudited)

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

BANK DHOFAR SAOG

INTERIM CONDENSED STATEMENT OF CHANGES IN EQUITY FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2015 (CONTINUED)

	Notes	Share capital RO'000	Share premium RO'000	Special reserve RO'000	Legal reserve RO'000	Subordinated loan reserve RO'000	Investment revaluation reserve RO'000	Retained earnings RO'000	Total RO'000
Balance as at 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		-	-	-	-	-	(520)	-	(520)
Total comprehensive income for the period		-	-	-	-	-	368	30,327	30,695
Transactions recorded directly in equity									
Dividend paid for 2013		-	-	-	-	-	-	(16,942)	(16,942)
Bonus shares issued for 2013	13	13,311	-	-	-	-	-	(13,311)	-
Balance as at 30 September 2014 (Unaudited)		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 interim condensed financial statements.

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INTERIM CONDENSED STATEMENT OF CHANGES IN EQUITY FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2015 (CONTINUED)

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

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

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INTERIM CONDENSED STATEMENT OF CASH FLOWS FOR NINE MONTH PERIOD ENDED 30 SEPTEMBER 2015

	Unaudited 30 September 2015 RO'000	Unaudited 30 September 2014 RO'000
Cash flows from operating activities		
Interest, financing income, commission and other receipts	103,462	92,943
Interest payments, return on Islamic Banking deposits	(25,805)	(24,614)
Cash payments to suppliers and employees	(31,928)	(36,089)
	<u>45,729</u>	<u>32,240</u>
Decrease in operating assets		
Loans, advances and financing to customers	(388,246)	(359,674)
Loans, advances and financing to banks	(24,517)	(15,704)
Receipts from treasury bills and certificates of deposits (net)	(48,356)	25,796
	<u>(461,119)</u>	<u>(349,582)</u>
Increase in operating liabilities		
Deposits from customers	68,686	167,961
Due to banks	(82,585)	95,393
	<u>(13,899)</u>	<u>263,354</u>
Cash used in operating activities	(429,289)	(53,988)
Income tax paid	(5,392)	(7,580)
Net cash used in operating activities	<u>(434,681)</u>	<u>(61,568)</u>
Cash flows from investing activities		
Investment income	2,055	1,484
Purchase of investments	(5,157)	(11,882)
Proceeds from sale of investments	1,458	6,828
Dividend received	646	662
Purchase of property and equipment	(1,954)	(1,750)
Proceeds from sale of property and equipment	160	163
Net cash used in investing activities	<u>(2,792)</u>	<u>(4,495)</u>
Cash flow from financing activities		
Dividend paid	(6,716)	(16,942)
Subordinated loan	-	28,875
Proceeds from issue of Perpetual Tier 1 capital securities (Note 14)	115,500	-
Perpetual Tier 1 capital securities issuance cost (Note 14)	(751)	-
Net cash used in financing activities	<u>108,033</u>	<u>11,933</u>
Net change in cash and cash equivalents	(329,440)	(54,130)
Cash and cash equivalents at the beginning of the period	<u>602,548</u>	<u>425,255</u>
Cash and cash equivalents at the end of the period	<u>273,108</u>	<u>371,125</u>
Cash and balances with Central Bank of Oman	257,830	313,099
Capital deposit with Central Bank of Oman	(500)	(500)
Loans, advances and financing to banks due within 90 days	16,755	60,043
Due to banks within 90 days	(977)	(1,517)
Cash and cash equivalents for the purpose of the cash flow statement	<u>273,108</u>	<u>371,125</u>

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

BANK DHOFAR SAOG

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2015

1. LEGAL STATUS AND PRINCIPAL ACTIVITIES

Bank Dhofar SAOG (“the Bank”) is incorporated in the Sultanate of Oman as a public joint stock company and is principally engaged in corporate, retail and investment banking activities. The Bank’s Islamic Banking Window, Maisarah Islamic Banking services has an allocated capital of RO 40 million from the core paid up capital of the shareholders. The Bank has a primary listing on the Muscat Securities Market (“MSM”) and its principal place of business is the Head Office, Capital Business District (“CBD”), Muscat, Sultanate of Oman.

2. BASIS OF PREPERATION AND ACCOUNTING POLICIES

2.1 Basis of preparation

- a) The unaudited interim condensed financial statements for the three month period ended 30 September 2015 of the Bank are prepared in accordance with International Accounting Standard (IAS) 34, 'Interim Financial Reporting', applicable regulations of the Central Bank of Oman (CBO) and the disclosure requirements set out in the Rules and Disclosure and Proformas issued by the Capital Market Authority (CMA).
- b) The accounting policies used in the preparation of the unaudited interim condensed financial statements as at end of nine month ended 30 September 2015 are consistent with those used in preparing the last audited financial statements as at and for the year ended 31 December 2014.
- c) The unaudited interim condensed financial statements do not contain all information and disclosures required for full financial statements prepared in accordance with International Financial Reporting Standards. In addition, results for the nine month period ended 30th September 2015 are not necessarily indicative of the results that may be expected for the financial year 2015.
- d) The unaudited interim condensed financial statements are prepared under the historical cost convention as modified for the measurement at fair value of derivatives and investment securities other than held to maturity securities.
- e) Items included in the Bank’s financial statements are measured using Rial Omani which is the currency of the primary economic environment in which the Bank operates, rounded off to the nearest thousand.

2.2 Adoption of new and revised International Financial Reporting Standards (“IFRS”)

For the period ended 30 September 2015, the Bank has adopted all of the new and revised standards and interpretations issued by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB that are relevant to its operations and effective for periods beginning on 1 January 2015.

The following standards, amendments and interpretations became effective from 1 January 2015:

- Amendments to IAS 19 Defined Benefit Plans: Employee Contributions
- Annual Improvements 2010-2012 Cycle
 - IFRS 2 Share-based Payment
 - IFRS 3 Business Combinations
 - IFRS 8 Operating Segments
- IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets
- IAS 24 Related Party Disclosures
- Annual Improvements 2011-2013 Cycle
 - IFRS 3 Business Combinations
 - IFRS 13 Fair Value Measurement
 - IAS 40 Investment Property

The adoption of those standards and interpretations has not resulted in changes to the Bank’s accounting policies and has not affected the amounts reported for the current and prior periods.

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NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2015

3. Cash and balances with Central Bank of Oman

	Unaudited 30 September 2015 RO'000	Unaudited 30 th September 2014 RO'000	Audited 31 December 2014 RO'000
Cash on hand	36,614	45,670	36,121
Balances with the Central Bank of Oman	171,166	207,429	238,249
Placement with Central bank with maturity of 91 days or less	50,050	-	-
Certificate of deposits with maturity of 90 days or less	-	60,000	310,000
	<u>257,830</u>	<u>313,099</u>	<u>584,370</u>

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

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

4. Loans, advances and financing to banks

	Unaudited 30 September 2015 RO'000	Unaudited 30 September 2014 RO'000	Audited 31 December 2014 RO'000
Syndicated loans to other banks	61,768	76,867	73,920
Less: impairment allowance (collective)	<u>(409)</u>	<u>(439)</u>	<u>(439)</u>
	61,359	76,428	73,481
Placements with other banks	42,546	51,048	4,821
Current clearing accounts	9,055	8,216	12,862
	<u>112,960</u>	<u>135,692</u>	<u>91,164</u>

At 30 September 2015-there are no concentrations with any banks representing 20% or more of the Bank's placements and 31 December 2014, there are no concentrations with any banks representing 20% or more of the Bank's placements (30 September 2014 –Nil).

Movement of the impairment allowance as below:

	Unaudited 30 September 2015 RO'000	Unaudited 30 September 2014 RO'000	Audited 31 December 2014 RO'000
Balance at beginning of the period / year	439	367	367
Add: Additions during the period / year	-	272	256
Less: Reversal during the period / year	<u>(30)</u>	<u>(200)</u>	<u>(184)</u>
	409	439	439

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NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2015

5. Loans, advances and financing to customers

	Unaudited 30 September 2015 RO'000	Unaudited 30 September 2014 RO'000	Audited 31 December 2014 RO'000
Overdrafts	137,400	130,769	130,591
Loans	2,252,100	1,972,382	1,953,070
Loans against trust receipts	104,385	96,704	79,484
Bills discounted	8,663	9,124	10,445
Advance against credit cards	7,732	7,716	7,705
Others	36,983	23,699	27,980
Islamic Banking Window financing	186,315	103,323	133,034
Gross Loans, advances and financing	2,733,578	2,343,717	2,342,309
Less: Impairment allowance	(96,846)	(86,730)	(87,604)
Net loans, advances and financing	2,636,732	2,256,987	2,254,705

The movement in the impairment allowance is analysed below:

(a) Allowance for loan impairment

Balance at beginning of the period / year	56,887	50,809	50,809
Allowance made during the period	10,329	8,308	11,586
Released to the statement of comprehensive income during the period	(4,080)	(3,783)	(4,724)
Written off during the period	(342)	(211)	(784)
Balance at the end of the period / year	62,794	55,123	56,887

(b) Reserved interest

Balance at beginning of the period / year	30,717	29,810	29,810
Reserved during the period / year	4,441	4,264	5,682
Released to the statement of comprehensive income during the period / year	(589)	(848)	(944)
Written-off during the period / year	(517)	(1,619)	(3,831)

Balance at the end of the period / year	34,052	31,607	30,717
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Total impairment allowance	96,846	86,730	87,604
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As a matter of policy, the Bank considers waiver / write-off or settlement only in such cases where the Bank is satisfied that the recovery of the full outstanding liabilities from the borrower is not possible in the normal course of business or out of the securities realisation or through enforcement of the guarantee (wherever available) and that legal action will not yield higher recoveries after considering the time and costs involved.

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

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

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NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2015

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

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

Out of the total provisions of RO 96,846,000, 30 September 2014 – 86,730,000, 31 December 2014 - RO 87,604,000 a collective provision was made on portfolio basis amounting to RO 37,038,000 as of 30 September 2015 30 September 2014 RO 30, 608, 000, 31 December 2014 – RO 32,349,000.

At 30 September 2015, impaired loans and advances on which interest has been reserved amount to RO 64,653,008 September 2014 - RO 60,833,002, 31 December 2014 - RO 58,680,172 and Loans and advances on which interest is not being accrued amount to RO 1,169,461, 30 September 2014 - RO 1,735,612, 31 December 2014 – RO 1,250,659.

6. Available-for-sale investments

	Unaudited 30 September 2015		Unaudited 30 September 2014		Audited 31 December 2014	
	Cost	Fair value	Cost	Fair value	Cost	Fair value
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
a) Equity instruments						
Quoted on the Muscat Securities Market						
Banking and investments	2,970	2,983	1,811	1,859	1,311	1,211
Services	4,987	5,220	6,203	6,714	5,083	5,257
Industrial	9,427	9,127	8,222	8,524	8,839	7,737
	<u>17,384</u>	<u>17,330</u>	<u>16,236</u>	<u>17,097</u>	<u>15,233</u>	<u>14,205</u>
Unquoted						
Omani companies	1,699	2,283	1,699	2,762	1,699	2,483
	<u>19,083</u>	<u>19,613</u>	<u>17,935</u>	<u>19,859</u>	<u>16,932</u>	<u>16,688</u>
b) Sukuk						
Unquoted						
Omani companies	10,000	10,198	10,000	10,198	10,000	10,198
	<u>10,000</u>	<u>10,198</u>	<u>10,000</u>	<u>10,198</u>	<u>10,000</u>	<u>10,198</u>
Total	<u>29,083</u>	<u>29,811</u>	<u>27,935</u>	<u>30,057</u>	<u>26,932</u>	<u>26,886</u>

BANK DHOFAR SAOG

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2015

7. Held-to-maturity investments

	Unaudited 30 September 2015 RO'000	Unaudited 30 September 2014 RO'000	Audited 31 December 2014 RO'000
Treasury bills with maturity of above 90 days	77,972	30,763	61,121
Government Development Bonds	120,372	78,013	88,867
	<u>198,344</u>	<u>108,776</u>	<u>149,988</u>

8. Intangible asset

	Unaudited 30 September 2015 RO'000	Unaudited 30 September 2014 RO'000	Audited 31 December 2014 RO'000
The movement in the goodwill account is as follows:			
Balance at beginning of the period / year	2,383	2,780	2,780
Impaired during the period	(298)	(298)	(397)
Balance at the end of the period / year	<u>2,085</u>	<u>2,482</u>	<u>2,383</u>

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

9. Property and equipment

	Unaudited 30 September 2015 RO'000	Unaudited 30 September 2014 RO'000	Audited 31 December 2014 RO'000
Conventional	7,888	8,909	8,564
Islamic window	1,135	1,086	1,119
	<u>9,023</u>	<u>9,995</u>	<u>9,683</u>

10. Due to banks

	Unaudited 30 September 2015 RO'000	Unaudited 30 September 2014 RO'000	Audited 31 December 2014 RO'000
Interbank borrowings	91,630	201,129	174,215
Payable on demand	977	1,891	798
	<u>92,607</u>	<u>203,020</u>	<u>175,013</u>

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

BANK DHOFAR SAOG

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2015

11. Deposits from customers

	Unaudited 30 September 2015 RO'000	Unaudited 30 September 2014 RO'000	Audited 31 December 2014 RO'000
Current accounts	742,985	615,795	686,095
Savings accounts	436,797	383,092	402,433
Time deposits / Certificate of deposits	1,187,145	1,159,422	1,274,542
Margin accounts	38,866	9,344	22,101
Islamic Banking Window deposits	145,072	32,054	97,008
	<u>2,550,865</u>	<u>2,199,707</u>	<u>2,482,179</u>

Current accounts and time deposits include deposits from the Government of the Sultanate of Oman and its entities amounting to RO 1,091,123 (30 September 2014 - RO 889,467,000, 31 December 2014 – RO 1,076,168,000).

12. Subordinated loan

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

In September 2014, the Bank availed USD 75 million (RO 28.875 million) unsecured subordinated loan for a tenor of 69 months. This facility carries a fixed rate of interest payable half yearly, with principal being repaid on maturity.

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

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

13. Share capital

The authorised share capital consists of 2,200,000,000 shares of RO 0.100 each (30th September 2014 and 31 December 2014: 2,200,000,000 shares of RO 0.100 each (2013: 2,200,000,000 ordinary shares of RO 0.100 each).

On 29 March 2015 the shareholders of the Bank in the annual general meeting approved the issuance of 15% bonus shares amounting to 201,486,332 shares of par value RO 0.100 each. (2014: 133,114,093 shares of par value RO 0.100 each).

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

BANK DHOFAR SAOG

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2015

13. Share capital (continued)

Shareholders

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

	Unaudited 30 September 2015		Unaudited) September 2014		Audited December 2014	
	No of shares	%	No of shares	%	No. of shares	%
Dhofar International Development and Investment Company SAOG	432,523,991	28.0	373,625,997	27.8	373,625,997	27.8
Eng. Abdul Hafidh Salim Rajab Al Aujaili and his related Companies	321,901,224	20.8	279,914,110	20.8	279,914,110	20.8
Civil Service Employees Pension Fund	157,196,944	10.2	137,428,557	10.2	137,232,341	10.2
Total	911,622,159	59.0	790,968,664	58.9	790,772,448	58.9
Others	633,106,387	41.0	552,273,550	41.1	552,469,766	41.1
	1,544,728,546	100.0	1,343,242,214	100.0	1,343,242,214	100.0

14. Perpetual Tier 1 Capital Securities

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

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

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

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

BANK DHOFAR SAOG

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2015

14. Reserves

(a) Legal reserve

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

(b) Subordinated loan reserves

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

(c) Investment revaluation reserve

The movements in the investments revaluation reserve is analysed below:

	Unaudited 30 September 2015 RO'000	Unaudited 30 September 2014 RO'000	Audited 31 December 2014 RO'000
Balance at beginning of the period / year	(46)	1,754	1,754
(Decrease)/ increase in fair value	(1,298)	888	(1,159)
Net transfer to statement of income on sale of available-for-sale investments	(77)	(520)	(641)
Impairment of available-for-sale investment	2,149	-	-
Balance at the end of the period / year	<u>728</u>	<u>2,122</u>	<u>(46)</u>

BANK DHOFAR SAOG

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2015

15. Net assets per share

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

	Unaudited 30 September 2015	Unaudited 30 September 2014	Audited 31 December 2014
Net assets (RO'000)	467,520	317,360	325,318
Number of shares outstanding at 31 December (Nos.)	1,544,728,546	1,343,242,214	1,343,242,214
Net assets per share (RO)	0.303	0.236	0.242

16. Net interest income

	Unaudited 30 September 2015 RO'000	Unaudited 30 September 2014 RO'000
Loans, advances and financing to customers	84,646	77,140
Debt investments	323	329
Money market placements	1,432	1,463
Others	8	7
Total interest income	86,409	78,939
Deposits from customers	(24,817)	(24,112)
Money market deposits	(724)	(582)
Total interest expense	(25,541)	(24,694)
Net interest income	60,868	54,245

17. Other income

	Unaudited 30 September 2015 RO'000	Unaudited 30 September 2014 RO'000
Foreign exchange	1,531	980
Investment income (a)	3,207	3,167
Miscellaneous income	2,672	3,782
	7,410	7,929

BANK DHOFAR SAOG

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2015

17. Other income (continued)

(a) Investment income

	Unaudited 30 September 2015 RO'000	Unaudited 30 September 2014 RO'000
Investment income		
Dividend income- available-for-sale investments	646	702
Income on Sukuk	379	379
Gain of disposal of available-for-sale investments	127	600
Interest income on Government Development Bonds (HTM)	2,055	1,486
	<u>3,207</u>	<u>3,167</u>

18. Impairment of financial assets

	Unaudited 30 September 2015 RO'000	Unaudited 30 September 2014 RO'000
Provision for loan impairment	10,299	7,941
Provision for inter banks loans impairment	-	439
Impairment of available-for-sale investments	2,149	-
	<u>12,448</u>	<u>8,380</u>
Recoveries from provision for loan impairment	(4,080)	(3,783)
	<u>8,368</u>	<u>4,597</u>

19. 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:

	Unaudited 30 September 2015	Unaudited 30 September 2014
Net Profit for the period / year (RO'000)	33,395	30,327
Weighted average number of shares outstanding during of the period / year	1,544,728,546	1,544,728,546
Earnings per share basic and diluted (RO)	<u>0.029</u>	<u>0.026</u>

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

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

BANK DHOFAR SAOG

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

20. Related parties transactions

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

	Unaudited 30 September 2015 RO'000	Unaudited 30 September 2014 RO'000	Audited 31 December 2014 RO'000
Loans, advances and financing			
Directors and shareholders holding 10% or more interest in the Bank	27,411	34,703	21,162
Other related parties	<u>10,877</u>	<u>9,571</u>	<u>9,803</u>
	<u>38,288</u>	<u>44,274</u>	<u>30,965</u>
Subordinated Loans			
Directors and shareholders holding 10% or more interest in the Bank	48,663	40,775	54,438
Other related parties	<u>40,775</u>	<u>54,438</u>	<u>40,775</u>
	<u>89,438</u>	<u>95,213</u>	<u>95,213</u>
Deposits and other accounts			
Directors and shareholders holding 10% or more interest in the Bank	259,565	322,472	325,022
Other related parties	<u>74,512</u>	<u>92,531</u>	<u>87,515</u>
	<u>334,077</u>	<u>415,003</u>	<u>412,537</u>
Contingent liabilities and commitments			
Directors and shareholders holding 10% or more interest in the Bank	129	1,699	174
Other related parties	<u>2,230</u>	<u>12,145</u>	<u>1,816</u>
	<u>2,359</u>	<u>13,844</u>	<u>1,990</u>
Remuneration paid to Directors			
Chairman			
– remuneration paid	17	15	17
– sitting fees paid	10	10	10
Other Directors			
– remuneration paid	116	99	116
– sitting fees paid	<u>58</u>	<u>44</u>	<u>57</u>
	<u>201</u>	<u>168</u>	<u>200</u>
Other transactions			
Rental payment to related parties	<u>307</u>	<u>283</u>	<u>380</u>
Other transactions	<u>66</u>	<u>60</u>	<u>70</u>
Remuneration and fees paid to Sharia' Board of Islamic Banking Window	<u>29</u>	<u>27</u>	<u>32</u>

BANK DHOFAR SAOG

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2015

21. Senior member borrowing

Senior member

	Unaudited 30 September 2015 RO'000	Unaudited 30 September 2014 RO'000	Audited 31 December 2014 RO'000
Total exposure:			
Direct	41,649	47,439	33,907
Indirect	2,359	13,844	1,990
	44,008	61,283	35,897
Number of members	25	38	16

22. Contingent liabilities and commitments

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

	Unaudited 30 September 2015 RO'000	Unaudited 30 September 2014 RO'000	Audited 31 December 2014 RO'000
Letters of credit	125,017	104,057	87,680
Guarantees and performance bonds	743,361	527,618	628,395
	868,378	631,675	716,075

BANK DHOFAR SAOG

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2015

23. Risk Management

(i) Liquidity risk

Maturity profile of assets and liabilities

	Due on demand and up to 30 days RO'000	More than 1 month to 6 months RO'000	More than 6 months to 12 months RO'000	More than 1 year to 5 years RO'000	Over 5 years RO'000	Total RO'000
30 September 2015						
Cash and balances with Central Bank of Oman	238,080	19,250	-	-	500	257,830
Loans, advances and financing to banks	26,500	45,572	13,254	27,634	-	112,960
Loans, advances and financing to customers	197,682	355,084	116,211	641,255	1,326,500	2,636,732
Available-for-sale investments	-	-	-	10,198	19,613	29,811
Held-to-maturity investments	-	57,982	-	112,237	28,125	198,344
Intangible asset	-	-	-	-	2,085	2,085
Property and equipment	-	-	-	-	9,023	9,023
Other assets	9,961	67,150	10,136	-	3,726	90,973
Total assets	472,223	545,038	139,601	791,324	1,389,572	3,337,758
Due to banks	38,707	-	15,400	38,500	-	92,607
Deposits from customers	266,456	370,548	335,653	773,025	805,183	2,550,865
Other liabilities	21,840	72,596	11,800	10,967	5,688	122,891
Subordinated loans	-	-	-	75,000	28,875	103,875
Total equity	-	-	33,395	-	434,125	467,520
Total liabilities and equity	327,003	443,144	396,248	897,492	1,273,871	3,337,758

BANK DHOFAR SAOG

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2015

23. Risk Management (continued)

(i) Liquidity risk (continued)

Maturity profile of assets and liabilities (continued)

	Due on demand and up to 30 days RO'000	More than 1 month to 6 months RO'000	More than 6 months to 12 months RO'000	More than 1 year to 5 years RO'000	Over 5 years RO'000	Total RO'000
30 September 2014						
Cash and balances with Central Bank of Oman	312,599	-	-	-	500	313,099
Loans, advances and financing to banks	54,748	49,142	22,232	9,570	-	135,692
Loans, advances and financing 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
Financial instruments at fair value through Profit or Loss	-	-	-	-	-	-
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 loan	-	-	-	75,000	28,875	103,875
Total equity	-	-	30,327	-	287,033	317,360
Total liabilities and equity	376,858	431,942	500,816	601,556	1,013,743	2,924,915

BANK DHOFAR SAOG

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2015

23. Risk Management (continued)

(i) Liquidity risk (continued)

Maturity profile of assets and liabilities (continued)

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

BANK DHOFAR SAOG

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2015

23. Risk Management (continued)

(ii) Market risk

(a) Interest rate risk

Interest rate sensitivity gap

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

	EIR	Due on demand and within 30 days RO'000	Due within 1 to 6 months RO'000	Due within 7 to 12 months RO'000	Due within 1 to 5 years RO'000	Due after 5 years RO'000	Non-interest bearing RO'000	Total RO'000
30 September 2015								
Cash and balances with Central Bank of Oman	0.1%	30,800	19,250	-	-	500	207,280	257,830
Loans, advances and financing to banks	1.0%	30,687	82,273	-	-	-	-	112,960
Loans, advances and financing to customers	4.9%	197,682	355,084	116,211	641,255	1,326,500	-	2,636,732
Available-for-sale investments	5.0%	-	-	-	10,198	-	19,613	29,811
Held-to-maturity investments	1.3%	-	57,982	-	112,237	28,125	-	198,344
Intangible asset	-	-	-	-	-	-	2,085	2,085
Property and equipment	-	-	-	-	-	-	9,023	9,023
Other assets	-	-	-	-	-	-	90,973	90,973
Total assets		259,169	514,589	116,211	763,690	1,355,125	328,974	3,337,758
Due to banks	1.0%	37,730	53,900	-	-	-	977	92,607
Deposits from customers	1.2%	747,759	214,895	259,800	720,019	400	607,992	2,550,865
Other liabilities	-	-	-	-	-	-	122,891	122,891
Subordinated loans	5.2%	-	-	-	75,000	28,875	-	103,875
Total equity	-	-	-	33,395	-	-	434,125	467,520
Total liabilities and equity		785,489	268,795	293,195	795,019	29,275	1,165,985	3,337,758
On-balance sheet gap		(526,320)	245,794	(176,984)	(31,329)	1,325,850	(837,011)	
Cumulative interest sensitivity gap		(526,320)	(280,526)	(457,510)	(488,839)	837,011	-	

BANK DHOFAR SAOG

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2015

23. Risk Management (continued)

(ii) Market risk (continued)

(a) Interest rate risk (continued)

Interest rate sensitivity gap (continued)

	EIR	Due on demand and within 30 days RO'000	Due within 1 to 6 months RO'000	Due within 7 to 12 months RO'000	Due within 1 to 5 years RO'000	Due after 5 years RO'000	Non-interest bearing RO'000	Total RO'000
30 September 2014								
Cash and balances with Central Bank of Oman	0.1%	94,650	-	-	-	500	217,949	313,099
Loans, advances and financing to banks	1.0%	71,779	37,609	26,304	-	-	-	135,692
Loans, advances and financing to customers	5.2%	144,877	399,608	141,502	529,217	1,041,783	-	2,256,987
Available-for-sale investments	5.0%	-	-	-	10,198	-	19,859	30,057
Held-to-maturity investments	1.9%	10,254	40,989	25,600	19,496	12,437	-	108,776
Intangible assets		-	-	-	-	-	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	1.0%	107,593	93,536	-	-	-	1,891	203,020
Deposits from customers	1.2%	155,205	254,737	446,981	398,995	5,000	938,789	2,199,707
Other liabilities		-	-	-	-	-	100,953	100,953
Subordinated loan	5.2%	-	-	-	75,000	28,875	-	103,875
Total equity		-	-	30,327	-	-	287,033	317,360
Total liabilities and 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	-	

BANK DHOFAR SAOG

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2015

23. Risk Management (continued)

(ii) Market risk (continued)

(a) Interest rate risk (continued)

Interest rate sensitivity gap (continued)

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

BANK DHOFAR SAOG

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2015

23. Risk Management (continued)

(ii) Market risk (continued)

(b) Foreign currency exposures

	Unaudited 30 September 2015 RO'000	Unaudited 30 September 2014 RO'000	Audited 31 December 2014 RO'000
Net assets denominated in US Dollars	116,629	41,803	47,511
Net assets denominated in other foreign currencies	14,424	1,323	2,013
	<u>131,053</u>	<u>43,126</u>	<u>49,524</u>

(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 to banks RO'000	Contingent liabilities RO'000
30 September 2015						
Personal	-	1,286,469	-	584,451	-	301
Corporate	113,369	1,342,770	67,804	875,291	92,607	845,162
Government	-	104,339	160,351	1,091,123	-	22,915
	<u>113,369</u>	<u>2,733,578</u>	<u>228,155</u>	<u>2,550,865</u>	<u>92,607</u>	<u>868,378</u>
30 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>
31 December 2014						
Personal	-	1,048,120	-	529,288	-	2,639
Corporate	91,603	1,157,466	88,007	876,723	175,013	711,538
Government	-	136,723	88,867	1,076,168	-	1,898
	<u>91,603</u>	<u>2,342,309</u>	<u>176,874</u>	<u>2,482,179</u>	<u>175,013</u>	<u>716,075</u>

24 Capital risk management

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

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

BANK DHOFAR SAOG

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2015

24 Capital risk management (continued)

Capital adequacy

The ratio of equity to risk weighted assets, as formulated by the Basel II and Basel III, for Nine - months period ended 30 September 2015 is 15.53% (30 September 2014 – 12.93% 31 December 2014 - 14.05%).

Capital structure	Unaudited 30 September 2015 RO'000	Unaudited 30 September 2014 RO'000	Audited 31 December 2014 RO'000
Common Equity Tier (CET) I/ Tier I CAPITAL			
Paid up capital	154,473	134,324	134,324
Legal reserve	35,537	31,492	35,537
Share premium	40,018	40,018	40,018
Special reserve	18,488	18,488	18,488
Subordinated bonds and loan reserve	41,250	26,250	41,250
Retained earnings	28,131	34,339	28,882
Proposed bonus shares	-	-	20,149
CET I/Tier I Capital	<u>317,897</u>	284,911	318,648
Additional Tier I regulatory adjustments:			
Goodwill	(2,085)	(2,482)	(2,383)
Negative investment revaluation reserve	(694)	(397)	(1,634)
Total CET 1 capital	<u>315,118</u>	282,032	314,631
Additional Tier I capital (AT1)	<u>115,500</u>	-	-
Total Tier 1 Capital (T1=CET1+AT1)	<u><u>430,618</u></u>	<u><u>282,032</u></u>	<u><u>314,631</u></u>
TIER II CAPITAL			
Investment revaluation reserve	545	1,038	620
General provision	37,447	31,047	32,788
Subordinated loan	62,625	77,625	62,625
Total Tier II capital	<u>100,617</u>	109,710	96,033
Total eligible capital	<u><u>531,235</u></u>	<u><u>391,742</u></u>	<u><u>410,664</u></u>
Risk weighted assets			
Banking book	3,198,533	2,797,475	2,674,461
Trading book	42,957	65,824	70,357
Operational risk	178,817	166,581	178,817
Total	<u>3,420,307</u>	3,029,880	2,923,635
Total Tier 1 Capital (T1=CET1+AT1)	<u>430,618</u>	282,032	314,631
Tier II capital	<u>100,617</u>	109,710	96,033
Total regulatory capital	<u><u>531,235</u></u>	<u><u>391,742</u></u>	<u><u>410,664</u></u>
Common Equity Tier 1 ratio	<u>9.21%</u>	9.31%	10.76%
Tier I capital ratio	<u>12.59%</u>	9.31%	10.76%
Total capital ratio	<u><u>15.53%</u></u>	<u><u>12.93%</u></u>	<u><u>14.05%</u></u>

BANK DHOFAR SAOG

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2015

25 Fair value information

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

Estimation of fair values

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

Loans and advances

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

Investments

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

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

Current account balances due to and due from banks

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

Bank and customer deposits

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

Other financial instruments

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

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

Fair value versus carrying amounts

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

BANK DHOFAR SAOG

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2015

25 Fair value information (continued)

Fair value measurements recognised in the statement of financial position

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

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

At 30 September 2015	Level 1 RO'000	Level 2 RO'000	Level 3 RO'000	Cost RO'000	Total RO'000
Available-for-sale investments					
Equity instruments	17,330	-	2,283	-	19,613
Sukuk	-	10,198	-	-	10,198
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
At 30 September 2014					
<i>Available-for-sale investments</i>					
Equity instruments	17,097	-	2,762	-	19,859
Sukuk	-	10,198	-	-	10,198
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
At 31 December 2014					
<i>Available-for-sale investments</i>					
Equity instruments	14,205	-	2,483	-	16,688
Sukuk	-	10,198	-	-	10,198
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>

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

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

BANK DHOFAR SAOG

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2015

26. Segmental information

The Bank is organised into three main business segments:

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

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

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

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

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

At 30 September 2015	Retail banking RO'000	Corporate banking RO'000	Treasury and investments RO'000	Total RO'000
Segment operating revenues	50,852	39,113	1,877	91,842
Other revenues	5,509	8,309	5,789	19,607
	<u>56,361</u>	<u>47,422</u>	<u>7,666</u>	<u>111,449</u>
Interest, Islamic Window Deposit expenses	(9,302)	(12,269)	(5,241)	(26,812)
Net operating income	47,059	35,153	2,425	84,637
Segment cost				
Operating expenses including depreciation	(19,034)	(16,857)	(2,522)	(38,413)
Impairment for loans and investment net recoveries from allowance for loans impairment	(6,248)	(1)	(2,119)	(8,368)
	<u>21,777</u>	<u>18,295</u>	<u>(2,216)</u>	<u>37,856</u>
Profit from operations after provision				
Tax expenses	(2,566)	(2,156)	261	(4,461)
Net profit for during of the period	<u>19,211</u>	<u>16,139</u>	<u>(1,955)</u>	<u>33,395</u>
Segment assets	1,377,802	1,630,537	426,674	3,435,013
Less: Impairment allowance	(45,463)	(51,383)	(409)	(97,255)
Total segment assets	<u>1,332,339</u>	<u>1,579,154</u>	<u>426,265</u>	<u>3,337,758</u>
Segment liabilities	610,210	2,062,227	197,801	2,870,238

BANK DHOFAR SAOG

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2015

26. Segmental information (continued)

	Retail banking RO'000	Corporate banking RO'000	Treasury and investments RO'000	Total RO'000
Segment assets	1,095,181	1,522,673	394,230	3,012,084
Less: Impairment allowance	<u>(38,976)</u>	<u>(47,754)</u>	<u>(439)</u>	<u>(87,169)</u>
Total segment assets	<u>1,056,205</u>	<u>1,474,919</u>	<u>393,791</u>	<u>2,924,915</u>
Segment liabilities	<u>539,438</u>	<u>1,758,771</u>	<u>309,346</u>	<u>2,607,555</u>

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

At 30 September 2014	Retail banking RO'000	Corporate banking RO'000	Treasury and investments RO'000	Total RO'000
Segment operating revenues	1,085	1,096	61	2,242
Other revenues	25	380	412	817
Segment operating revenues	<u>1,110</u>	<u>1,476</u>	<u>473</u>	<u>3,059</u>
Unrestricted investment account holders' share of profit	<u>(13)</u>	<u>(114)</u>	<u>(77)</u>	<u>(204)</u>
Net operating income	1,097	1,362	396	2,855
Segment cost				
Operating expenses including depreciation	(1,003)	(1,014)	(56)	(2,073)
Impairment allowance	(263)	(505)	-	(768)
Profit from operations after provision	<u>(169)</u>	<u>(157)</u>	<u>340</u>	<u>14</u>
Segment assets	41,604	70,251	50,816	162,671
Less: Impairment allowance	<u>(448)</u>	<u>(606)</u>	<u>-</u>	<u>(1,054)</u>
Total segment assets	<u>41,156</u>	<u>69,645</u>	<u>50,816</u>	<u>161,617</u>
Segment liabilities	<u>3,778</u>	<u>36,824</u>	<u>98,005</u>	<u>138,607</u>