



**Board of Directors' Report and Financial Statements (Unaudited)  
For six – month period ended 30<sup>th</sup> June 2013**

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

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

# **BANKDHOFAR S.A.O.G**

## **Board of Directors' Report and Financial Statements (Unaudited) for six -month period ended 30<sup>th</sup> June 2013**

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# **BANKDHO FAR S.A.O.G.**

## **THE BOARD OF DIRECTORS' REPORT FOR THE HALF YEAR ENDED 30<sup>th</sup> June 2013**

### **Dear Shareholders,**

On behalf of the Board of Directors of Bank Dhofar S.A.O.G., I am pleased to present to you the Bank's Financial Statements for the half-year ended 30<sup>th</sup> June 2013.

### **The Bank's Financial Performance during half year ended 30<sup>th</sup> June 2013:-**

The Bank showed sustained progress in first half of 2013 through prudent lending and borrowing, with Customer Deposits growing by 8.07% to reach RO 1.74 billion and Loans and Advances to customers growing by 11.80% to reach RO 1.80 billion.

The Net Profits for the half year ended 30<sup>th</sup> June 2013 reached RO 40.80 million as compared to RO 19.46 million achieved for the half year ended 30<sup>th</sup> June 2012.

Maisarah Islamic Banking Services reported net loss of RO 0.889 million for the first half of 2013 included in the above net profit.

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

Net interest income earned during the half year ended 30<sup>th</sup> June 2013 was RO 32.24 million showing a growth of 2.54%. Non-Interest Income including Fees and Commissions, Foreign exchange gains and other income grew by 6.12% to reach RO 12.32 million during the half year ended 30<sup>th</sup> June 2013 as compared to RO 11.61 million achieved during the corresponding period of last year. The net impairment of loan losses reduced to RO 2.30 million for the half year ended 30<sup>th</sup> June 2013 from RO 2.85 million for first half of 2012.

The earnings per share (EPS) at the end of June 2013 are RO 0.068 as compared to RO 0.033 at end of June 2012.

### **Maisarah Islamic Banking Services**

In April 2013, Maisarah Islamic Banking Services opened its second Branch in the city of Salalah. H.E. Sayyid Mohammed bin Sultan al-Busaidi, Minister of State and Governor of Dhofar was the chief guest and also present were members from public, customers of the Bank, members and Chairman of Shariah Supervisor Board. Maisarah Islamic Banking continues to build the team and expand product offering for its retail and corporate customers to grow the Sharia compliant business.

**Acknowledgment:-**

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

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

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

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

**Statement of financial position (Unaudited)  
for six-month period ended 30 June 2013**

	Notes	June 2013 RO'000	June 2012 RO'000	Audited Dec 2012 RO'000
<b>ASSETS</b>				
Cash and balances with Central Bank of Oman	2	214,432	266,969	208,495
Claims with other banks	3	121,297	43,853	97,410
Loans and advances to customers	4	1,803,982	1,612,419	1,672,508
Available-for-sale investments	5	11,271	11,071	11,588
Held-to-maturity investments	6	147,429	121,477	100,386
Financial instruments at fair value through Profit or Loss	7	129	-	-
Intangible asset	8	2,978	3,384	3,177
Property and equipment		10,839	9,309	9,432
Other assets		40,810	31,637	40,834
<b>Total assets</b>		<b>2,353,167</b>	<b>2,100,119</b>	<b>2,143,830</b>
<b>LIABILITIES</b>				
Due to banks	9	170,020	90,813	88,675
Deposits from customers	10	1,739,066	1,609,940	1,634,628
Other liabilities		83,282	67,915	84,023
Subordinated loans	11	75,000	88,500	75,000
<b>Total liabilities</b>		<b>2,067,368</b>	<b>1,857,168</b>	<b>1,882,326</b>
<b>SHAREHOLDERS' EQUITY</b>				
Share capital	12	121,013	110,012	110,012
Share premium		40,018	40,018	40,018
Legal reserve	13	25,652	21,877	25,652
Subordinated loan reserve	13	11,250	34,617	11,250
Investment revaluation reserve	13	1,550	1,285	1,556
Retained earnings		86,316	35,142	73,016
<b>Total shareholders' equity</b>		<b>285,799</b>	<b>242,951</b>	<b>261,504</b>
<b>Total liabilities and shareholders' equity</b>		<b>2,353,167</b>	<b>2,100,119</b>	<b>2,143,830</b>
<b>Contingent liabilities and commitments</b>	21	<b>410,306</b>	<b>389,397</b>	<b>378,908</b>
<b>Net assets per share (Rials Omani)</b>		<b>0.236</b>	<b>0.221</b>	<b>0.238</b>

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

**Statement of comprehensive income (Unaudited)  
for six -month period ended 30 June 2013**

	Notes	6 Months ended June 2013 RO'000	6 Months ended June 2012 RO'000	3 Months ended June 2013	3 Months ended June 2012
Interest income		48,379	45,397	24,713	23,154
Interest expense		(16,139)	(13,957)	(8,090)	(6,943)
<b>Net interest income</b>	<b>16</b>	<b>32,240</b>	<b>31,440</b>	<b>16,623</b>	<b>16,211</b>
Fees and commission income		4,301	3,452	2,381	1,779
Fees and commission expenses		(369)	(353)	(233)	(204)
<b>Net fees and commission income</b>		<b>3,932</b>	<b>3,099</b>	<b>2,148</b>	<b>1,575</b>
Other income	17	8,391	8,508	3,637	4,639
<b>Operating income</b>		<b>44,563</b>	<b>43,047</b>	<b>22,408</b>	<b>22,425</b>
Staff and administrative costs		(20,373)	(16,401)	(10,567)	(8,412)
Depreciation		(1,701)	(1,445)	(876)	(742)
<b>Operating expenses</b>		<b>(22,074)</b>	<b>(17,846)</b>	<b>(11,443)</b>	<b>(9,154)</b>
<b>Profit from operations</b>		<b>22,489</b>	<b>25,201</b>	<b>10,965</b>	<b>13,271</b>
Provision for loan impairment	4&18	(4,007)	(4,183)	(2,410)	(2,042)
Recoveries from allowance for loan impairment	4&18	1,704	1,338	867	737
Bad debts written-off		-	(3)	-	(3)
Impairment of available-for-sale investments		-	(287)	-	(287)
Written Back From Legal Case	24	26,129	-	-	-
<b>Profit/ (Loss) from operations after provision</b>		<b>46,315</b>	<b>22,066</b>	<b>9,422</b>	<b>11,676</b>
Income tax expense		(5,512)	(2,603)	(1,058)	(1,390)
<b>Profit / (Loss) for the period</b>		<b>40,803</b>	<b>19,463</b>	<b>8,364</b>	<b>10,286</b>
<b>Profit / (Loss) for the period</b>		<b>40,803</b>	<b>19,463</b>	<b>8,364</b>	<b>10,286</b>
<b>Other comprehensive income:</b>					
Net changes in fair value of available-for-sale investments	13	1,476	857	848	460
Reclassification adjustment on sale of available-for-sale investments	13	(1,482)	(486)	(745)	(233)
<b>Total comprehensive income/ (Loss) for the period</b>		<b>40,797</b>	<b>19,834</b>	<b>8,467</b>	<b>10,513</b>
<b>Profit / (Loss) Earnings per share (basic and diluted) – annualized (Rials Omani)</b>	<b>14</b>	<b>0.068</b>	<b>0.033</b>	<b>0.028</b>	<b>0.034</b>

The accompanying notes form an integral part of these financial statements

Profit for the period six months ended June 2013 RO 40,803,000 includes RO 889,000 (RO 1,010,000 before tax) Net loss of the new division Maisarah Islamic Banking Services ('Maisarah'), excluding this, profit for the period is RO 41,692,000 (RO 19,463,000 in 2012). Profit for three months ended June 2013 includes RO 300,000 Net loss of Maisarah, excluding this, profit for the three months ended June 2013 is RO 8,664,000 (RO 10,286,000 in 2012)

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

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

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

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

	Notes	Share capital RO'000	Share premium RO'000	Legal reserve RO'000	Subordinated loan reserve RO'000	Investment revaluation reserve RO'000	Retained earnings RO'000	Total RO'000
<b>1 January 2012</b>		91,524	58,506	21,877	34,617	627	22,086	229,237
<b>Total Comprehensive income for the period</b>								
Net profit for the period		-	-	-	-	-	19,463	19,463
<b>Other comprehensive income for the period</b>								
Net change in fair value of available-for-sale investments		-	-	-	-	857	-	857
Transfer to statement of income on sale of available-for-sale investments	13	-	-	-	-	(486)	-	(486)
Impairment of available-for-sale investments	15	-	-	-	-	287	-	287
<b>Total comprehensive income for the period</b>		-	-	-	-	658	19,463	20,121
<b>Transactions with owners recorded directly in equity</b>								
Dividend paid for 2011		-	-	-	-	-	(6,407)	(6,407)
Bonus shares issued for 2011	12	18,488	(18,488)	-	-	-	-	-
<b>30<sup>th</sup> June 2012</b>		110,012	40,018	21,877	34,617	1,285	35,142	242,951

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



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

### Statement of cash flows (Unaudited) for six -month period ended 30 June 2013

	2013 RO'000	2012 RO'000
<b>Cash flows from operating activities</b>		
Interest and commission receipts	59,334	55,562
Interest payments	(15,404)	(14,095)
Cash payments to suppliers and employees	(21,938)	(12,060)
Written Back from Legal Case	26,129	-
	<u>48,121</u>	<u>29,407</u>
<b>(Increase) in operating assets</b>	<b>(215,266)</b>	<b>(147,474)</b>
<b>Increase in operating liabilities</b>	<b>184,470</b>	<b>122,390</b>
<b>Net cash (used in) / from operating activities</b>	<b>17,325</b>	<b>4,323</b>
Income tax paid	(4,897)	(1,846)
<b>Net cash (used in) / from operating activities</b>	<b>12,428</b>	<b>2,477</b>
<b>Net cash (used in) / investing activities</b>	<b>(1,861)</b>	<b>(1,528)</b>
<b>Net cash (used in) / financing activities</b>	<b>(16,502)</b>	<b>(6,407)</b>
<b>Net decrease / increase in cash and cash equivalents</b>	<b>(5,935)</b>	<b>(5,458)</b>
Cash and cash equivalents at 1 <sup>st</sup> January	<u>252,956</u>	<u>299,327</u>
<b>Cash and cash equivalents at 30 June</b>	<b>247,021</b>	<b>293,869</b>
<b>Cash and cash equivalents (Note 2)</b>	<b>214,432</b>	<b>266,969</b>
Capital deposit with Central Bank of Oman	(500)	(500)
Loans and advances to banks due within 90 days	35,286	27,738
Due to banks within 90 days	(2,197)	(338)
<b>Cash and cash equivalents for the purpose of the cash flow statement</b>	<b>247,021</b>	<b>293,869</b>

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

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

**2. Cash and Bank balances**

	<b>2013</b>	2012
	<b>RO'000</b>	RO'000
Cash on hand	<b>22,330</b>	16,351
Balances with the Central Bank of Oman	<b>119,651</b>	90,618
Treasury Bills with maturity of 90 days or less	<b>22,451</b>	-
Certificate of deposits with maturity of 90 days or less	<b>50,000</b>	160,000
	<hr/> <b>214,432</b> <hr/>	<hr/> 266,969 <hr/>

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

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

**3. Claims on other banks**

	<b>2013</b>	2012
	<b>RO'000</b>	RO'000
Loans with other banks	<b>51,717</b>	-
Placements with other banks	<b>62,002</b>	38,891
Current clearing accounts	<b>8,118</b>	4,962
	<hr/> <b>121,837</b> <hr/>	<hr/> 43,853 <hr/>
Gross loans and advances with other banks		
	<hr/> <b>(540)</b> <hr/>	<hr/> - <hr/>
Less: Impairment allowance		
<b>Net loans and advances</b>	<hr/> <b>121,297</b> <hr/>	<hr/> 43,853 <hr/>

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

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

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

**4. Loans and advances to customers**

	<b>2013</b>	2012
	<b>RO'000</b>	RO'000
Overdrafts	<b>123,017</b>	113,624
Loans	<b>1,636,099</b>	1,496,044
Loans against trust receipts	<b>90,241</b>	61,596
Bills discounted	<b>4,075</b>	2,099
Advance against credit cards	<b>7,832</b>	7,356
Others	<b>19,593</b>	14,574
<b>Gross loans and advances</b>	<b>1,880,857</b>	1,695,293
Less: Impairment allowance	<b>(76,875)</b>	(82,874)
<b>Net loans and advances</b>	<b>1,803,982</b>	1,612,419

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

**(a) Allowance for loan impairment**

1 January	<b>48,064</b>	47,548
Allowance made during the period	<b>3,467</b>	4,183
Released to the statement of comprehensive income during the period	<b>(1,704)</b>	(1,338)
Written off during the period	<b>(1,081)</b>	(71)
30 June	<b>48,746</b>	50,322

**(b) Reserved interest**

1 January	<b>27,416</b>	30,006
Reserved during the period	<b>2,615</b>	3,096
Released to the statement of comprehensive income during the period	<b>(449)</b>	(419)
Written-off during the period	<b>(1,453)</b>	(131)
30 June	<b>28,129</b>	32,552

**Total impairment allowance**

<b>76,875</b>	82,874
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As a matter of policy, the Bank considers waiver / write-off or settlement only in such cases where the Bank is satisfied that the recovery of the full outstanding liabilities from the borrower is not possible in the normal course of business or out of the securities realisation or through enforcement of the guarantee (wherever available) and that legal action will not yield higher recoveries after considering the time and costs involved.

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

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

**4. Loans and advances to customers (continued)**

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

Under the Central Bank of Oman's guidelines for provision against classified loans and advances, at 30 June 2013, out of the total provisions of **RO 76,875,000** (2012 – RO 82,874,000) a collective provision was made on a general portfolio basis amounting to **RO 26,289,000** (2012 – RO 23,611,000).

At 30 June 2013, impaired loans and advances on which interest has been reserved amount to **RO 55,381,339** (2012 - RO 62,098,820) and loans and advances on which interest is not being accrued amount to **RO 1, 356, 012** (2012 - to RO 1,467,506).

Loans and Advance Includes Maisarah Islamic banking Service OMR 1,669 as end of June 2013 (2012 : Nil)

**5. Available-for-sale investments**

		2013 RO'000	2012 RO'000
<b>Equity instruments</b>			
- Quoted		8,860	8,109
- Unquoted		2,411	2,962
		<u>11,271</u>	<u>11,071</u>
		<u><u>11,271</u></u>	<u><u>11,071</u></u>
		<b>Fair value</b>	
	Cost RO'000	2013 RO'000	2012 RO'000
<b>Quoted on the Muscat Securities Market</b>			
Banking and investments	737	926	1,369
Services	3,517	3,348	3,785
Industrial	3,768	4,586	2,955
	<u>8,022</u>	<u>8,860</u>	<u>8,109</u>
<b>Unquoted</b>			
Omani companies	1,699	2,411	2,962
	<u>9,721</u>	<u>11,271</u>	<u>11,071</u>
	<u><u>9,721</u></u>	<u><u>11,271</u></u>	<u><u>11,071</u></u>

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

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

	<b>2013</b>	2012
	<b>RO'000</b>	RO'000
Treasury bills with maturity of above 90 days	<b>68,258</b>	41,274
Government Development Bonds	<b>79,171</b>	80,203
	<u><b>147,429</b></u>	<u>121,477</u>

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

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

**8. Intangible asset**

The movement in the goodwill account is as follows:

1st January	<b>3,177</b>	3,574
Impaired during the period	<b>(199)</b>	(190)
30 June	<u><b>2,978</b></u>	<u>3,384</u>

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

**9. Due to banks**

Other borrowings	<b>167,823</b>	90,475
Payable on demand	<b>2,197</b>	338
	<u><b>170,020</b></u>	<u>90,813</u>

At 30 June 2013 one borrowing from a bank individually represented 20% or more of the Bank's borrowings. The Bank has not had any defaults of principal, interest or other breaches during of the period on its borrowed funds (2012 - Nil).

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

**10. Deposits from customers**

	<b>2013</b>	2012
	<b>RO'000</b>	RO'000
Current accounts	<b>495,701</b>	427,902
Savings accounts	<b>297,859</b>	271,243
Time deposits/Certificate of deposits	<b>940,890</b>	906,989
Margin accounts	<b>4,616</b>	3,806
	<hr/> <b>1,739,066</b> <hr/>	<hr/> 1,609,940 <hr/>

Current accounts and time deposits include deposits from the Government of the Sultanate of Oman and its entities amounting to RO 662,008,000 (2012 - RO 539,522,000).

Current accounts and Saving Deposits Includes Maisarah Islamic Banking Service RO 869,000

**11. Subordinated loan**

	<b>2013</b>	2012
	<b>RO'000</b>	RO'000
Subordinated loan - US Dollar	-	38,500
Subordinated loan - RO	<b>75,000</b>	50,000
	<hr/> <b>75,000</b> <hr/>	<hr/> 88,500 <hr/>

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

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

In August 2007, the Bank availed an unsecured subordinated loan of US \$ 100 million with a tenor of 5 years and one month. The rate of interest is linked to 3 month LIBOR plus margin, payable quarterly, while principal is payable in lump sum at maturity.

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

**12. Share capital**

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

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

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

**Shareholders**

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

	2013		2012	
	No of shares	%	No of shares	%
Dhofar International Development and Investment Company SAOG	<b>336,600,000</b>	<b>27.81</b>	305,402,129	27.76
Eng. Abdul Hafidh Salim Rajab				
Al Aujaili and his related Companies	<b>252,174,876</b>	<b>20.84</b>	229,249,889	20.84
Civil Service Employees' Pension Fund	<b>121,012,782</b>	<b>10.00</b>	111,489,828	10.13
Total	<b>709,787,658</b>	<b>58.65</b>	646,141,846	58.73
Others	<b>500,340,463</b>	<b>41.35</b>	453,974,628	41.27
	<b>1,210,128,121</b>	<b>100.00</b>	1,100,116,474	100.00

**13. Reserves**

**(a) Legal reserve**

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

**(b) Subordinated loan reserves**

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

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

**13. Reserves (continued)**

**(c) Investment revaluation reserve**

The movements in the investments revaluation reserve is analysed below:

	<b>2013</b> <b>RO'000</b>	2012 RO'000
1 January	<b>1,556</b>	627
Increase/decrease in fair value	<b>1,476</b>	857
Impairment of available for sale investment taken to statement of comprehensive income	-	287
Net transfer to statement of comprehensive income on sale of available-for-sale investment	<u><b>(1,482)</b></u>	<u>(486)</u>
30 June	<u><b>1,550</b></u>	<u>1,285</u>

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

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

	<b>2013</b>	<b>2012</b>
Net Profit for the period (RO)	<u><b>40,803,000</b></u>	<u>19,463,000</u>
Weighted average number of shares outstanding during of the period	<u><b>1,210,128,121</b></u>	<u>1,210,128,121</u>
Earnings per share basic and diluted - annualized	<u><b>0.068</b></u>	<u>0.033</u>

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

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



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

**15. Capital adequacy**

The ratio of equity to risk weighted assets, as formulated by the Basel II, for six - months period ended 30 June 2013 is 13.86% (2012 – 14.17 %).

<b>Capital structure</b>	<b>2013</b>	<b>2012</b>
	<b>RO'000</b>	<b>RO'000</b>
<b>TIER I CAPITAL</b>		
Paid up capital	<b>121,013</b>	110,012
Legal reserve	<b>25,652</b>	21,877
Share premium	<b>40,018</b>	40,018
Subordinated bonds and loan reserve	<b>11,250</b>	34,617
Retained earnings	<b>45,513</b>	15,679
Less: goodwill	<b>(2,978)</b>	(3,384)
Less: negative investment revaluation reserve	<b>(362)</b>	(251)
<b>Total Tier I capital</b>	<b>240,106</b>	218,568
<b>TIER II CAPITAL</b>		
Investment revaluation reserve	<b>860</b>	691
General provision	<b>26,289</b>	23,611
Subordinated loan	<b>63,750</b>	48,750
<b>Total Tier II capital</b>	<b>90,899</b>	73,052
<b>Total eligible capital</b>	<b>331,005</b>	291,620
<b>Risk weighted assets</b>		
Banking book	<b>2,188,159</b>	1,897,415
Trading book	<b>43,851</b>	18,237
Operational risk	<b>156,465</b>	142,830
<b>Total</b>	<b>2,388,475</b>	2,058,482
Tier I capital	<b>240,106</b>	218,568
Tier II capital	<b>90,899</b>	73,052
Tier III capital	-	-
<b>Total regulatory capital</b>	<b>331,005</b>	291,620
<b>Tier I capital ratio</b>	<b>10.05%</b>	10.62%
<b>Total capital ratio</b>	<b>13.86%</b>	14.17%

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

**16. Net interest income**

	<b>2013</b>	2012
	<b>RO'000</b>	RO'000
Loans and advances to customers	<b>47,445</b>	45,202
Debt investments	<b>223</b>	99
Money market placements	<b>705</b>	93
Others	<b>6</b>	3
<b>Total interest income</b>	<b>48,379</b>	45,397
Deposits from customers	<b>(15,609)</b>	(13,049)
Money market deposits	<b>(530)</b>	(908)
<b>Total interest expense</b>	<b>(16,139)</b>	(13,957)
<b>Net interest income</b>	<b>32,240</b>	31,440

**17. Other income**

Foreign exchange	<b>661</b>	602
Investment income (a)	<b>3,705</b>	1,667
Miscellaneous income	<b>4,025</b>	6,239
	<b>8,391</b>	8,508

**(a) Investment income**

Dividend income- available-for-sale investments	<b>351</b>	343
financial instruments at fair value through profit or loss	<b>728</b>	-
Gain of disposal of available-for-sale investments	<b>1,656</b>	544
Interest income on Government Development Bonds (HTM)	<b>970</b>	780
	<b>3,705</b>	1,667

**18. Impairment of financial assets**

Impairment of available-for-sale investments	-	287
Provision for loan impairment	<b>3,467</b>	4,183
Provision for Inter Banks Loans impairment	<b>540</b>	-
Loans written-off	-	3
	<b>4,007</b>	4,473
Recoveries from provision for loan impairment	<b>(1,704)</b>	(1,338)
30 June	<b>2,303</b>	3,135

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

**19. Related parties transactions**

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

	2013 RO'000	2012 RO'000
<b>Loans and advances</b>		
Directors and shareholders holding less than 10% interest in the Bank	13,063	18,090
Directors and shareholders holding 10% or more interest in the Bank	<u>28,375</u>	<u>25,000</u>
	<u>41,438</u>	<u>43,090</u>
<b>Subordinated Loans</b>		
Directors and shareholders holding less than 10% interest in the Bank	35,000	23,000
Directors and shareholders holding 10% or more interest in the Bank	<u>40,000</u>	<u>27,000</u>
	<u>75,000</u>	<u>50,000</u>
<b>Deposits and other accounts</b>		
Directors and shareholders holding less than 10% interest in the Bank	119,108	112,646
Directors and shareholders holding 10% or more interest in the Bank	<u>228,941</u>	<u>230,892</u>
	<u>348,049</u>	<u>343,538</u>
<b>Contingent liabilities and commitments</b>		
Directors and shareholders holding less than 10% interest in the Bank	1,706	1,448
Directors and shareholders holding 10% or more interest in the Bank	<u>14,900</u>	<u>16,050</u>
	<u>16,606</u>	<u>17,498</u>
<b>Remuneration paid to Directors</b>		
Chairman		
– remuneration paid	15	15
– sitting fees paid	5	10
Other Directors		
– remuneration paid	102	101
– sitting fees paid	<u>34</u>	<u>57</u>
	<u>156</u>	<u>183</u>
<b>Other transactions</b>		
Rental payment to related parties	<u>241</u>	<u>185</u>
Other transactions	<u>44</u>	<u>38</u>

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

**20. Senior member borrowing**

**Senior member**

	<b>2013</b>	2012
	<b>RO'000</b>	RO'000
Total exposure:		
Direct	<b>43,620</b>	45,674
Indirect	<b>16,606</b>	17,498
	<u><b>60,226</b></u>	<u>63,172</u>
Number of members	<u><b>26</b></u>	<u>24</u>

**21. Contingent liabilities and commitments**

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

	<b>2013</b>	2012
	<b>RO'000</b>	RO'000
Letters of credit	<b>93,121</b>	86,360
Guarantees and performance bonds	<b>139,835</b>	119,753
Advance payment guarantees	<b>79,566</b>	74,385
Payment guarantees	<b>83,805</b>	64,789
Others	<b>13,979</b>	44,110
	<u><b>410,306</b></u>	<u>389,397</u>

**22. Amount due to brokerage customers**

The amount due to brokerage customers as at 30 June 2013 RO 2,906  
(2012: RO 2,947.)

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

**23. Risk Management**

**(i) Liquidity risk**

**Maturity profile of assets and liabilities**

	<b>Due on demand and up to 30 days RO'000</b>	<b>More than 1 month to 6 months RO'000</b>	<b>More than 6 months to 12 months RO'000</b>	<b>More than 1 year to 5 years RO'000</b>	<b>Over 5 years RO'000</b>	<b>Total RO'000</b>
<b>30 June 2013</b>						
Cash and balances with Central Bank of Oman	191,481	22,451	-	-	500	214,432
Loans and advances to banks	16,704	71,319	23,749	9,525	-	121,297
Loans and advances to customers	212,134	241,351	117,372	406,648	826,477	1,803,982
Available-for-sale Investments	-	-	11,271	-	-	11,271
Held-to-maturity investments	20,529	47,729	-	66,549	12,622	147,429
Financial instruments at fair value through Profit or Loss	-	-	129	-	-	129
Intangible asset	-	-	-	-	2,978	2,978
Property and equipment	-	-	-	-	10,839	10,839
Other assets	3,368	33,019	276	-	4,147	40,810
<b>Total assets</b>	<b>444,216</b>	<b>415,869</b>	<b>152,797</b>	<b>482,722</b>	<b>857,563</b>	<b>2,353,167</b>
Due to banks	58,370	75,075	36,575	-	-	170,020
Deposits from customers	147,817	446,722	251,859	414,511	478,157	1,739,066
Other liabilities	21,593	34,684	7,452	17,473	2,080	83,282
Subordinated loans	-	-	-	75,000	-	75,000
Shareholders' equity	-	-	40,803	-	244,996	285,799
<b>Total liabilities and shareholders' equity</b>	<b>227,780</b>	<b>556,481</b>	<b>336,689</b>	<b>506,984</b>	<b>725,233</b>	<b>2,353,167</b>

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

**23. Risk Management (continued)**

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

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

	Due on demand and up to 30 days RO'000	More than 1 month to 6 months RO'000	More than 6 months to 12 months RO'000	More than 1 year to 5 years RO'000	Over 5 years RO'000	Total RO'000
30 June 2012						
Cash and balances with Central Bank of Oman	266,469	-	-	-	500	266,969
Loans and advances to banks	26,538	17,315	-	-	-	43,853
Loans and advances to customers	154,345	268,188	149,323	607,845	432,718	1,612,419
Available-for-sale Investments	-	-	11,071	-	-	11,071
Held-to-maturity investments	12,526	44,371	-	54,162	10,418	121,477
Intangible asset	-	-	-	-	3,384	3,384
Property and equipment	-	-	-	-	9,309	9,309
Other assets	3,972	19,431	4,464	-	3,770	31,637
<b>Total assets</b>	<b>463,850</b>	<b>349,305</b>	<b>164,858</b>	<b>662,007</b>	<b>460,099</b>	<b>2,100,119</b>
Due to banks	51,735	10,203	5,775	23,100	-	90,813
Deposits from customers	163,191	513,035	295,263	463,664	174,787	1,609,940
Other liabilities	13,534	21,487	9,123	21,201	2,570	67,915
Subordinated loan	-	38,500	-	50,000	-	88,500
Shareholders' equity	-	-	19,463	-	223,488	242,951
<b>Total liabilities and shareholders' equity</b>	<b>228,460</b>	<b>583,225</b>	<b>329,624</b>	<b>557,965</b>	<b>400,845</b>	<b>2,100,119</b>

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

**23 Risk Management (continued)**

**(ii) Market risk**

**(a) Interest rate risk**

**Interest rate sensitivity gap**

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

	Due on demand and within 30 days RO'000	Due within 1 to 6 months RO'000	Due within 7 to 12 months RO'000	Due within 1 to 5 years RO'000	Due after 5 years RO'000	Non- interest bearing RO'000	Total RO'000
<b>30 June 2013</b>							
Cash and balances with Central Bank of Oman	50,000	22,451	-	-	500	141,481	214,432
Loans and advances to banks	24,236	97,061	-	-	-	-	121,297
Loans and advances to customers	212,134	241,351	117,372	406,648	826,477	-	1,803,982
Available-for-sale investments	-	-	-	-	-	11,271	11,271
Held-to-maturity investments	20,529	47,729	-	66,549	12,622	-	147,429
Financial instruments at fair value through Profit or Loss	-	-	-	-	-	129	129
Intangible asset	-	-	-	-	-	2,978	2,978
Property and equipment	-	-	-	-	-	10,839	10,839
Other assets	-	-	-	-	-	40,810	40,810
<b>Total assets</b>	<b>306,899</b>	<b>408,592</b>	<b>117,372</b>	<b>473,197</b>	<b>839,599</b>	<b>207,508</b>	<b>2,353,167</b>
Due to banks	57,622	111,650	-	-	-	748	170,020
Deposits from customers	376,679	346,217	186,659	360,188	5,000	464,323	1,739,066
Other liabilities	-	-	-	-	-	83,282	83,282
Subordinated loans	-	-	-	75,000	-	-	75,000
Shareholders' equity	-	-	-	-	-	285,799	285,799
<b>Total liabilities and shareholders' equity</b>	<b>434,301</b>	<b>457,867</b>	<b>186,659</b>	<b>435,188</b>	<b>5,000</b>	<b>834,152</b>	<b>2,353,167</b>
<b>On-balance sheet gap</b>	<b>(127,402)</b>	<b>(49,275)</b>	<b>(69,287)</b>	<b>38,009</b>	<b>834,599</b>	<b>(626,644)</b>	
<b>Cumulative interest sensitivity gap</b>	<b>(127,402)</b>	<b>(176,677)</b>	<b>(245,964)</b>	<b>(207,955)</b>	<b>626,644</b>	<b>-</b>	

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

**23. Risk Management (continued)**

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

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

**Interest rate sensitivity gap (continued)**

	Due on demand and within 30 days RO'000	Due within 1 to 6 months RO'000	Due within 7 to 12 months RO'000	Due within 1 to 5 years RO'000	Due after 5 years RO'000	Non- interest bearing RO'000	Total RO'000
30 June 2012							
Cash and balances with Central Bank of Oman	160,000	-	-	-	500	106,469	266,969
Loans and advances to banks	26,538	17,315	-	-	-	-	43,853
Loans and advances to customers	154,345	268,188	149,323	607,845	432,718	-	1,612,419
Available-for-sale investments	-	-	-	-	-	11,071	11,071
Held-to-maturity investments	12,526	44,371	-	54,162	10,418	-	121,477
Intangible asset	-	-	-	-	-	3,384	3,384
Property and equipment	-	-	-	-	-	9,309	9,309
Other assets	-	-	-	-	-	31,637	31,637
<b>Total assets</b>	<b>353,409</b>	<b>329,874</b>	<b>149,323</b>	<b>662,007</b>	<b>443,636</b>	<b>161,870</b>	<b>2,100,119</b>
Due to banks	51,397	10,203	5,775	-	23,100	338	90,813
Deposits from customers	325,421	336,147	182,559	328,041	-	437,772	1,609,940
Other liabilities	-	-	-	-	-	67,915	67,915
Subordinated loan	-	38,500	-	50,000	-	-	88,500
Shareholders' equity	-	-	-	-	-	242,951	242,951
<b>Total liabilities and shareholders' equity</b>	<b>376,818</b>	<b>384,850</b>	<b>188,334</b>	<b>378,041</b>	<b>23,100</b>	<b>748,976</b>	<b>2,100,119</b>
<b>On-balance sheet gap</b>	<b>(23,409)</b>	<b>(54,976)</b>	<b>(39,011)</b>	<b>283,966</b>	<b>420,536</b>	<b>(587,106)</b>	
<b>Cumulative interest sensitivity gap</b>	<b>(23,409)</b>	<b>(78,385)</b>	<b>(117,396)</b>	<b>166,570</b>	<b>587,106</b>		

**(b) Foreign currency exposures**

	<b>2013 RO'000</b>	2012 RO'000
Net assets denominated in US Dollars	<b>81,255</b>	7,940
Net assets denominated in other foreign currencies	<b>1,983</b>	685
	<b>83,238</b>	8,625



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

**23. Risk Management (continued)**

**(iii) Credit Risk**

**Customer concentrations**

	Assets			Liabilities		
	Loans and advances to banks RO'000	Gross loans and advances RO'000	Investment Securities RO'000	Deposits from customers RO'000	Deposits from banks RO'000	Contingent liabilities RO'000
<b>30 June 2013</b>						
Personal	-	813,433	-	419,349	-	314
Corporate	121,297	884,932	102,109	657,709	170,020	403,722
Government	-	182,492	129,171	662,008	-	6,270
	<b>121,297</b>	<b>1,880,857</b>	<b>231,280</b>	<b>1,739,066</b>	<b>170,020</b>	<b>410,306</b>
<b>30 June 2012</b>						
Personal	-	769,652	-	423,792	-	13,979
Corporate	43,853	777,658	52,345	646,626	90,813	369,828
Government	-	147,983	240,203	539,522	-	5,590
	<b>43,853</b>	<b>1,695,293</b>	<b>292,548</b>	<b>1,609,940</b>	<b>90,813</b>	<b>389,397</b>

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

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

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

**B) Other Legal Cases:**

i) 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. On 18 April the

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

Supreme Court rejected Mr. Ali Redha's appeal and the case has been finally decided in the Bank's favour.

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 2012 the Supreme Court revoked the Appeal Court confirmation of the primary judgment. Further, the Supreme Court directed the Appeal Court to review the primary judgment. The final decision is awaited.

It is noteworthy to mention that the Bank, in a case failed 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.