



**Board of Directors' Report and financial statements (Unaudited)  
For three –month period ended 31<sup>st</sup> March 2014**

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

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

# **BANK DHOFAR S.A.O.G**

## **Board of Directors' Report and financial statements (Unaudited) for three -month period ended 31 March 2014**

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# **BANK DHOFAR S.A.O.G.**

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## **THE BOARD OF DIRECTORS' REPORT FOR THE QUARTER ENDED 31<sup>st</sup> March 2014**

**Dear Shareholders,**

On behalf of the Board of Directors of Bank Dhofar S.A.O.G., I am pleased to present to you the Bank's Financial Statements for the quarter ended 31<sup>st</sup> March 2014.

### **The Bank's Financial Performance during Quarter ended March 2014:-**

Bank Dhofar showed sustained progress with its strong fundamentals, to reach the OMR 2 billion mark in loans and advances (net) at 31<sup>st</sup> March 2014, growing 17.5% from OMR 1.71 billion at the end of March 2013 to reach OMR 2.01 billion at the end of March 2014, through prudent and quality lending. Customer Deposits also grew by 21.8% to reach OMR 2.18 billion year-on-year. Net interest income earned during the quarter ended March 2014 was OMR 17.39 million showing a growth of 11.4%.

The total operating income including the Non-funded income such as fees and commissions, foreign exchange profit, investment etc. grew 6.8% to reach OMR 23.67 million for the quarter ended 31<sup>st</sup> March 2014.

The Cost to Income ratio at end of first quarter 2014 was at 45.9% as compared to 45.3% Q1-2013. Net provisions for loan impairment increased to OMR 1.25 million during Q1-2014 as against OMR 0.76 million for the quarter ended 31<sup>st</sup> March 2013.

The Net Profits of the Bank for the quarter ended March 2014 reached OMR 10.22 million as compared to OMR 32.44 million achieved last year first quarter ended March 2013. Last year Net Profits include one-off recovery of OMR 26.12 million (before taxes) in connection with the legal case relating to Oman International Bank (currently HSBC Bank Oman SAOG), and excluding this, last year Net Profits was OMR 9.44 million. The Net profit growth excluding the effect of the legal case recovery is 8.2% compared to similar period last year.

The earnings per share (EPS) at the end of Q1 2014 are OMR 0.031 as compared to OMR 0.097 at end March 2013 (which includes the one-off legal case recovery).

Maisarah Islamic Banking Services, in line with its proposed strategy has successfully achieved the total asset of OMR 81.7 Million as at 31<sup>st</sup> March 2014, including gross financing of OMR 50.4 Million and Sukuk investment of OMR 10 Million. Net Islamic Banking financing income amounting to OMR 476K has been recorded in Q1 of 2014. Maisarah Islamic Banking Services has launched three new products in first quarter of 2014 namely Ameen Term deposit for retail segment, Mudaraba – Working Capital finance and Letter of Guarantee for corporate segment and in future aims to continue to fulfil the requirements of customers through new innovative sharia compliant retail and corporate financing solutions.

Maisarah with two fully operational branches in Muscat and Dhofar region plans to add another new branch in Sohar region and will be available to our esteemed customers during second quarter of 2014, subject to Regulatory approvals. Maisarah is also very proud to inform the exclusive arrangement it has made with our renowned national football star 'Ali Al-Habsi' to represent Maisarah as its brand ambassador. At Maisarah the highest quality of customer service is the top priority and accordingly Maisarah entered into an agreement with one of the leading

training institute in Islamic Finance industry to provide an on-going training and certification program for Maisarah team members which in turn will play a vital role in the professional development of staff and will ensure full compliance with Sharia principles offering high quality of service to our customers.

Also, the Bank is making good progress during the 3<sup>rd</sup> year of its 5-year plan and is committed to its goal of best in class customer service and employee development.

**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 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 of the Bank would like to express our most sincere gratitude to His Majesty Sultan Qaboos Bin Said for his wise leadership and generous support to the private sector.

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

**Statement of financial position (Unaudited)  
as at 31 March 2014**

	Notes	March 2014 RO'000	March 2013 RO'000	Audited Dec 2013 RO'000
<b>ASSETS</b>				
Cash and balances with Central Bank of Oman	2	342,097	270,278	345,758
Loans and advances to banks	3	170,921	151,088	121,370
Loans and advances to customers	4	2,008,043	1,711,226	1,901,910
Available-for-sale investments	5	27,826	10,984	24,635
Held-to-maturity investments	6	140,733	136,979	153,366
Financial instruments at fair value through Profit or Loss	7	-	734	-
Intangible asset	8	2,681	3,078	2,780
Property and equipment		10,571	10,394	10,903
Other assets		54,409	48,062	44,657
<b>Total assets</b>		<b>2,757,281</b>	<b>2,342,823</b>	<b>2,605,379</b>
<b>LIABILITIES</b>				
Due to banks	9	106,269	107,098	106,334
Deposits from customers	10	2,182,044	1,792,206	2,031,746
Other liabilities		97,015	91,187	88,692
Subordinated loans	11	75,000	75,000	75,000
<b>Total liabilities</b>		<b>2,460,328</b>	<b>2,065,491</b>	<b>2,301,772</b>
<b>SHAREHOLDERS' EQUITY</b>				
Share capital	12	134,324	121,013	121,013
Share premium		40,018	40,018	40,018
Special reserve		18,488	-	18,488
Legal reserve	13	31,492	25,652	31,492
Subordinated loan reserve	13	26,250	11,250	26,250
Investment revaluation reserve	13	1,824	1,447	1,754
Retained earnings		44,557	77,952	64,592
<b>Total shareholders' equity</b>		<b>296,953</b>	<b>277,332</b>	<b>303,607</b>
<b>Total liabilities and shareholders' equity</b>		<b>2,757,281</b>	<b>2,342,823</b>	<b>2,605,379</b>
<b>Contingent liabilities and commitments</b>	21	<b>527,001</b>	<b>388,042</b>	<b>461,952</b>
<b>Net assets per share (Rials Omani)</b>		<b>0.223</b>	<b>0.229</b>	<b>0.251</b>

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

**Statement of comprehensive income (Unaudited)  
for three-month period ended 31 March 2014**

	Notes	3 Months ended March 2014 RO'000	3 Months ended March 2013 RO'000
Interest income		25,490	23,666
Interest expense		(8,097)	(8,049)
<b>Net interest income</b>	<b>16</b>	<b>17,393</b>	<b>15,617</b>
Income from Islamic financing activities		496	-
Unrestricted investment account holders' share of profit		(20)	-
<b>Net income from Islamic financing activities</b>		<b>476</b>	<b>-</b>
Fees and commission income		3,060	1,920
Fees and commission expenses		(299)	(136)
<b>Net fees and commission income</b>		<b>2,761</b>	<b>1,784</b>
Other income	17	3,039	4,754
<b>Operating income</b>		<b>23,669</b>	<b>22,155</b>
Staff and administrative costs		(9,921)	(9,806)
Depreciation		(940)	(825)
<b>Operating expenses</b>		<b>(10,861)</b>	<b>(10,631)</b>
<b>Profit from operations</b>		<b>12,808</b>	<b>11,524</b>
Provision for loan impairment	4&18	(2,247)	(1,597)
Recoveries from allowance for loan impairment	4&18	988	837
Written Back From Legal Case	24	-	26,129
<b>Profit from operations after provision</b>		<b>11,549</b>	<b>36,893</b>
Income tax expense		(1,331)	(4,454)
<b>Profit for the period</b>		<b>10,218</b>	<b>32,439</b>
<b>Profit for the period</b>		<b>10,218</b>	<b>32,439</b>
<b>Other comprehensive income:</b>			
Net changes in fair value of available-for-sale investment	13	391	628
Reclassification adjustment on sale of available-for-sale investments	13	(321)	(737)
<b>Total comprehensive income for the period</b>		<b>10,288</b>	<b>32,330</b>
<b>Earnings per share (basic and diluted) – annualized (Rials Omani)</b>	<b>14</b>	<b>0.031</b>	<b>0.097</b>

The accompanying notes form an integral part of these financial statements

Profit for the period RO 10,218,000 includes RO 128,000 Net loss of the new division Maisarah Islamic banking services excluding this, profit for the period is RO 10,346,000.

(2013 RO 32,439,000 includes RO 518,000 Net loss of the new division Maisarah Islamic Banking Services start -up excluding this profit for the period is RO 32,957,000).

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## Statement of changes in equity (Unaudited) for three-month period ended 31 March 2014

	Notes	Share capital RO'000	Share premium RO'000	Special reserve RO'000	Legal reserve RO'000	Subordinated loan reserve RO'000	Investment revaluation reserve RO'000	Retained earnings RO'000	Total RO'000
<b>1 January 2014</b>		<b>121,013</b>	<b>40,018</b>	<b>18,488</b>	<b>31,492</b>	<b>26,250</b>	<b>1,754</b>	<b>64,592</b>	<b>303,607</b>
<b>Total comprehensive income for the period</b>									
Net profit for the period		-	-		-	-		10,218	10,218
<b>Other comprehensive income for the period</b>									
Net change in fair value of available-for-sale investments		-	-		-	-	391	-	391
Transfer to statement of income on sale of available-for-sale investments	13	-	-		-	-	(321)	-	(321)
<b>Total comprehensive income for the period</b>		<b>-</b>	<b>-</b>		<b>-</b>	<b>-</b>	<b>70</b>	<b>10,218</b>	<b>10,288</b>
<b>Transactions with owners recorded directly in equity</b>									
Dividend paid for 2013		-	-		-	-	-	(16,942)	(16,942)
Bonus shares issued for 2013	12	13,311						(13,311)	-
<b>31 March 2014</b>		<b>134,324</b>	<b>40,018</b>	<b>18,488</b>	<b>31,492</b>	<b>26,250</b>	<b>1,824</b>	<b>44,557</b>	<b>296,953</b>

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

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## Statement of changes in equity (Unaudited) for three-month period ended 31 March 2014

	Notes	Share capital RO'000	Share premium RO'000	Legal reserve RO'000	Subordinated loan reserve RO'000	Investment revaluation reserve RO'000	Retained earnings RO'000	Total RO'000
<b>1 January 2013</b>		110,012	40,018	25,652	11,250	1,556	73,016	261,504
<b>Total Comprehensive income for the period</b>								
Net profit for the period		-	-	-	-	-	32,439	32,439
<b>Other comprehensive income for the period</b>								
Net change in fair value of available-for-sale investments		-	-	-	-	628	-	628
Transfer to statement of income on sale of available-for-sale investments	13	-	-	-	-	(737)	-	(737)
<b>Total comprehensive income for the period</b>		-	-	-	-	(109)	32,439	32,330
<b>Transactions with owners recorded directly in equity</b>								
Dividend paid for 2012		-	-	-	-	-	(16,502)	(16,502)
Bonus shares issued for 2012	12	11,001	-	-	-	-	(11,001)	-
<b>31 March 2013</b>		121,013	40,018	25,652	11,250	1,447	77,952	277,332

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



**BANK DHOFAR S.A.O.G**

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**Statement of cash flows (Unaudited)  
for three -month period ended 31 March 2014**

	2014 RO'000	2013 RO'000
<b>Cash flows from operating activities</b>		
Interest and commission receipts	30,106	28,798
Interest payments	(5,981)	(6,106)
Cash payments to suppliers and employees	(6,600)	(10,875)
Written Back from Legal Case	-	26,129
	<u>17,525</u>	<u>37,946</u>
<b>(Increase) in operating assets</b>	<b>(174,686)</b>	<b>(109,226)</b>
<b>Increase in operating liabilities</b>	<b>150,041</b>	<b>173,934</b>
<b>Net cash (used in) / from operating activities</b>	<b>(7,120)</b>	<b>102,654</b>
Income tax paid	(7,580)	(4,882)
<b>Net cash (used in) / from operating activities</b>	<b>(14,700)</b>	<b>97,772</b>
<b>Net cash (used in) / investing activities</b>	<b>(2,588)</b>	<b>(1,031)</b>
<b>Net cash (used in) / financing activities</b>	<b>(16,942)</b>	<b>(16,502)</b>
<b>Net decrease / increase in cash and cash equivalents</b>	<b>(34,230)</b>	<b>80,239</b>
Cash and cash equivalents at 1 <sup>st</sup> January	<u>425,255</u>	<u>252,956</u>
<b>Cash and cash equivalents at 31 March</b>	<b>391,025</b>	<b>333,195</b>
<b>Cash and balances with Central Bank of Oman(Note 2)</b>	<b>342,097</b>	<b>270,278</b>
Capital deposit with Central Bank of Oman	(500)	(500)
Loans and advances to banks due within 90 days	50,217	66,368
Due to banks within 90 days	(789)	(2,951)
<b>Cash and cash equivalents for the purpose of the cash flow statement</b>	<b>391,025</b>	<b>333,195</b>

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

**Notes to the financial statements (Unaudited)  
for the three- month period ended 31 March 2014**

**2. Cash and Bank balances**

	2014	2013
	RO'000	RO'000
Cash on hand	23,439	19,676
Balances with the Central Bank of Oman	248,658	200,602
Certificate of deposits with maturity of 90 days or less	70,000	50,000
	<u>342,097</u>	<u>270,278</u>

At 31 March 2014, cash and balances with Central bank of Oman included balances with the Central Bank of Oman amounting to RO 500,000 (2013 - RO 500,000) as minimum reserve requirements. These funds are not available for the Bank's daily business.

Outstanding certificate of deposits as of 31 March 2014 were issued by the Central Bank of Oman

**3. Claims on other banks**

	2014	2013
	RO'000	RO'000
Loans with other banks	52,162	75,967
Placements with other banks	113,561	65,184
Current clearing accounts	5,535	10,697
	<u>171,258</u>	<u>151,848</u>
Gross loans and advances with other banks	171,258	151,848
Less: Impairment allowance	(337)	(760)
<b>Net loans and advances</b>	<u>170,921</u>	<u>151,088</u>

At 31 March 2014, three placement with one bank represented 20% or more of the Bank's placements (2013 - Nil).

**Notes to the financial statements (Unaudited)  
for the three- month period ended 31 March 2014**

**4. Loans and advances to customers**

	<b>2014</b>	2013
	<b>RO'000</b>	RO'000
Overdrafts	<b>107,951</b>	114,212
Loans	<b>1,852,196</b>	1,573,317
Loans against trust receipts	<b>86,966</b>	68,559
Bills discounted	<b>13,474</b>	2,624
Advance against credit cards	<b>7,468</b>	7,777
Others	<b>21,853</b>	18,768
	<hr/>	<hr/>
<b>Gross loans and advances</b>	<b>2,089,908</b>	1,785,257
Less: Impairment allowance	<b>(81,865)</b>	(74,031)
	<hr/>	<hr/>
<b>Net loans and advances</b>	<b>2,008,043</b>	1,711,226
	<hr/> <hr/>	<hr/> <hr/>

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

**(a) Allowance for loan impairment**

1 January	<b>50,809</b>	48,064
Allowance made during the period	<b>2,277</b>	837
Released to the statement of comprehensive income during the period	<b>(988)</b>	(837)
Written off during the period	<b>(31)</b>	(1,072)
	<hr/>	<hr/>
31 March	<b>52,067</b>	46,992

**(b) Reserved interest**

1 January	<b>29,810</b>	27,416
Reserved during the period	<b>1,414</b>	1,275
Released to the statement of comprehensive income during the period	<b>(395)</b>	(222)
Written-off during the period	<b>(1,031)</b>	(1,430)
	<hr/>	<hr/>
31 March	<b>29,798</b>	27,039

**Total impairment allowance**

<b>81,865</b>	74,031
<hr/> <hr/>	<hr/> <hr/>

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 three- month period ended 31 March 2014**

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

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

Under the Central Bank of Oman's guidelines for provision against classified loans and advances, at 31 March 2014, out of the total provisions of **RO 81,865,000** (2013 – RO 74,791,000) a collective provision was made on a general portfolio basis amounting to **RO 27,637,000** (2013 RO 25,389,374).

At 31 March 2014, impaired loans and advances on which interest has been reserved amount to **RO 57,596,323** (2013 - RO 52,757,296) and loans and advances on which interest is not being accrued amount to **RO 1,398,054** (2013 - to RO 1,341,110).

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

		<b>2014</b>	2013
		<b>RO'000</b>	RO'000
<b>Equity instruments</b>			
- Quoted		<b>15,108</b>	8,784
- Unquoted		<b>2,718</b>	2,200
		<b>17,826</b>	10,984
		<b>17,826</b>	10,984
		<b>Fair value</b>	
	<b>Cost</b>	<b>2014</b>	2013
	<b>RO'000</b>	<b>RO'000</b>	RO'000
<b>Quoted on the Muscat Securities Market</b>			
Banking and investments	<b>1,502</b>	<b>1,550</b>	1,413
Services	<b>5,318</b>	<b>5,688</b>	4,049
Industrial	<b>7,484</b>	<b>7,870</b>	3,322
	<b>14,304</b>	<b>15,108</b>	8,784
	<b>14,304</b>	<b>15,108</b>	8,784
<b>Unquoted</b>			
Omani companies	<b>1,699</b>	<b>2,718</b>	2,200
	<b>16,003</b>	<b>17,826</b>	10,984
	<b>16,003</b>	<b>17,826</b>	10,984

**b) Sukuk**

<b>Unquoted</b>			
Omani companies	<b>10,000</b>	<b>10,000</b>	-
	<b>10,000</b>	<b>10,000</b>	-
	<b>26,003</b>	<b>27,826</b>	10,984
	<b>26,003</b>	<b>27,826</b>	10,984

**Notes to the financial statements (Unaudited)  
for the three- month period ended 31 March 2014**

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

	<b>2014</b>	2013
	<b>RO'000</b>	RO'000
Treasury bills with maturity of above 90 days	<b>62,256</b>	59,908
Government Development Bonds	<b>78,477</b>	77,071
	<u><b>140,733</b></u>	<u>136,979</u>

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

Financial instruments at fair value through Profit or Loss	-	734
	<u>-</u>	<u>734</u>

**8. Intangible asset**

The movement in the goodwill account is as follows:

1st January	<b>2,780</b>	3,177
Impaired during the period	<b>(99)</b>	(99)
31 March	<u><b>2,681</b></u>	<u>3,078</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>105,480</b>	104,147
Payable on demand	<b>789</b>	2,951
	<u><b>106,269</b></u>	<u>107,098</u>

In 2011, the Bank successfully availed bilateral loans amounting to USD 75 million from various regional banks.

At 31 March 2014, and 2013 two borrowings from one 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 (2013 - Nil).

**Notes to the financial statements (Unaudited)  
for the three- month period ended 31 March 2014**

**10. Deposits from customers**

	<b>2014</b>	2013
	<b>RO'000</b>	RO'000
Current accounts	<b>777,000</b>	527,485
Savings accounts	<b>352,911</b>	287,053
Time deposits/Certificate of deposits	<b>1,041,462</b>	973,020
Margin accounts	<b>6,101</b>	4,387
Islamic Banking Window deposits	<b>4,570</b>	261
	<hr/> <b>2,182,044</b> <hr/>	<hr/> 1,792,206 <hr/>

Current accounts and time deposits include deposits from the Government of the Sultanate of Oman and its entities amounting to RO 925,736,000 (2013 - RO 681,145,000).

**11. Subordinated loan**

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

In December 2013, 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 of 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.

**12. Share capital**

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

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

At 31 March 2014, the issued and paid up share capital comprise 1,343,242,214 shares of par value RO 0.100 each. (2013 – 1,210,128,121 shares of par value RO 0.100 each).

**Notes to the financial statements (Unaudited)  
for the three- month period ended 31 March 2014**

**Shareholders**

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

	2014		2013	
	No of shares	%	No of shares	%
Dhofar International Development and Investment Company SAOG	<b>373,625,997</b>	<b>27.82</b>	336,600,000	27.82
Eng. Abdul Hafidh Salim Rajab				
Al Aujaili and his related Companies	<b>279,914,110</b>	<b>20.84</b>	252,174,876	20.84
Civil Service Employees' Pension Fund	<b>135,161,553</b>	<b>10.06</b>	122,814,240	10.15
Total	<b>788,701,660</b>	<b>58.72</b>	711,589,116	58.81
Others	<b>554,540,554</b>	<b>41.28</b>	498,539,005	41.19
	<b>1,343,242,214</b>	<b>100.00</b>	1,210,128,121	100.00

**13. Reserves**

**(a) Legal reserve**

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

**(b) Subordinated loan reserves**

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

**13. Reserves (continued)**

**(c) Investment revaluation reserve**

The movements in the investments revaluation reserve is analysed below:

	2014	2013
	RO'000	RO'000
1 January	<b>1,754</b>	1,556
Increase/decrease in fair value	<b>391</b>	628
Net transfer to statement of comprehensive income on sale of available-for-sale investment	<b>(321)</b>	(737)
31 March	<b>1,824</b>	1,447

**Notes to the financial statements (Unaudited)  
for the three- month period ended 31 March 2014**

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

The calculation of basic and diluted earnings per share is based on profit for the three months period ended 31 March as follows:

	2014	2013
Net Profit for the period (RO)	<b>10,218,000</b>	32,439,000
Weighted average number of shares outstanding during of the period	<b>1,343,242,214</b>	1,343,242,214
Earnings per share basic and diluted - annualized	<b>0.031</b>	0.097

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



**Notes to the financial statements (Unaudited)  
for the three- month period ended 31 March 2014**

**15. Capital adequacy**

The ratio of equity to risk weighted assets, as formulated by the Basel II and Basel III, for three - months period ended 31 March 2014 is **13.31%** (2013 – 14.26%).

<b>Capital structure</b>	<b>2014</b>	<b>2013</b>
	<b>RO'000</b>	<b>RO'000</b>
<b>Common Equity Tier (CET) I/ tier I CAPITAL</b>		
Paid up capital	<b>134,324</b>	121,013
Legal reserve	<b>31,492</b>	25,652
Share premium	<b>40,018</b>	40,018
Special reserve	<b>18,488</b>	-
Subordinated bonds and loan reserve	<b>26,250</b>	11,250
Retained earnings	<b>34,339</b>	45,513
	<hr/>	<hr/>
CET I/Tier I Capital	<b>284,911</b>	243,446
Additional Tier I regulatory adjustments:		
Goodwill	<b>(2,681)</b>	(3,078)
Negative investment revaluation reserve	<b>(165)</b>	(190)
<b>Total CET I/ Tier I capital</b>	<b>282,065</b>	240,178
	<hr/>	<hr/>
<b>TIER II CAPITAL</b>		
Investment revaluation reserve	<b>895</b>	737
General provision	<b>27,974</b>	25,389
Subordinated loan	<b>48,750</b>	63,750
	<hr/>	<hr/>
<b>Total Tier II capital</b>	<b>77,619</b>	89,876
	<hr/>	<hr/>
<b>Total eligible capital</b>	<b>359,684</b>	330,054
	<hr/> <hr/>	<hr/> <hr/>
<b>Risk weighted assets</b>		
Banking book	<b>2,477,901</b>	2,126,927
Trading book	<b>57,424</b>	31,891
Operational risk	<b>166,581</b>	156,465
	<hr/>	<hr/>
<b>Total</b>	<b>2,701,906</b>	2,315,283
	<hr/>	<hr/>
CET I/ Tier I capital	<b>282,065</b>	240,178
Tier II capital	<b>77,619</b>	89,876
Tier III capital	<b>-</b>	-
	<hr/>	<hr/>
<b>Total regulatory capital</b>	<b>359,684</b>	330,054
	<hr/>	<hr/>
<b>CET I/ Tier I capital ratio</b>	<b>10.43%</b>	10.37%
	<hr/>	<hr/>
<b>Total capital ratio</b>	<b>13.31%</b>	14.26%
	<hr/> <hr/>	<hr/> <hr/>

**Notes to the financial statements (Unaudited)  
for the three- month period ended 31 March 2014**

**16. Net interest income**

	2014 RO'000	2013 RO'000
Loans and advances to customers	24,849	23,292
Debt investments	167	80
Money market placements	472	291
Others	2	3
<b>Total interest income</b>	<b>25,490</b>	<b>23,666</b>
Deposits from customers	(7,972)	(7,838)
Money market deposits	(125)	(211)
<b>Total interest expense</b>	<b>(8,097)</b>	<b>(8,049)</b>
<b>Net interest income</b>	<b>17,393</b>	<b>15,617</b>

**17. Other income**

Foreign exchange	239	334
Investment income (a)	1,330	2,321
Miscellaneous income	1,470	2,099
	<b>3,039</b>	<b>4,754</b>

**(a) Investment income**

**Investment income**

Dividend income- available-for-sale investments	425	332
financial instruments at fair value through profit or loss	-	734
Income on Sukuk	125	-
Gain of disposal of available-for-sale investments	291	782
Interest income on Government Development Bonds (HTM)	489	473
	<b>1,330</b>	<b>2,321</b>

**18. Impairment of financial assets**

Provision for loan impairment	2,277	837
Provision for Inter Banks Loans impairment	(30)	760
	<b>2,247</b>	<b>1,597</b>
Recoveries from provision for loan impairment	(988)	(837)
31 March	<b>1,259</b>	<b>760</b>

**Notes to the financial statements (Unaudited)  
for the three- month period ended 31 March 2014**

**19. Related parties transactions**

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

	2014 RO'000	2013 RO'000
<b>Loans and advances</b>		
Directors and shareholders holding less than 10% interest in the Bank	14,849	13,456
Directors and shareholders holding 10% or more interest in the Bank	<u>34,081</u>	<u>29,348</u>
	<u><b>48,930</b></u>	<u><b>42,804</b></u>
<b>Subordinated Loans</b>		
Directors and shareholders holding less than 10% interest in the Bank	35,000	35,000
Directors and shareholders holding 10% or more interest in the Bank	<u>40,000</u>	<u>40,000</u>
	<u><b>75,000</b></u>	<u><b>75,000</b></u>
<b>Deposits and other accounts</b>		
Directors and shareholders holding less than 10% interest in the Bank	77,545	131,220
Directors and shareholders holding 10% or more interest in the Bank	<u>284,378</u>	<u>211,542</u>
	<u><b>361,923</b></u>	<u><b>342,762</b></u>
<b>Contingent liabilities and commitments</b>		
Directors and shareholders holding less than 10% interest in the Bank	1,885	2,081
Directors and shareholders holding 10% or more interest in the Bank	<u>12,159</u>	<u>14,750</u>
	<u><b>14,044</b></u>	<u><b>16,831</b></u>
<b>Remuneration paid to Directors</b>		
Chairman		
– remuneration paid	15	15
– sitting fees paid	3	4
Other Directors		
– remuneration paid	99	102
– sitting fees paid	<u>14</u>	<u>34</u>
	<u><b>131</b></u>	<u><b>155</b></u>
<b>Other transactions</b>		
Rental payment to related parties	<u>84</u>	<u>110</u>
Other transactions	<u><b>39</b></u>	<u><b>34</b></u>
Remuneration and fees paid to Sharia' Board of Islamic Banking Window	<u><b>23</b></u>	<u><b>9</b></u>

**Notes to the financial statements (Unaudited)  
for the three- month period ended 31 March 2014**

**20. Senior member borrowing**

**Senior member**

	<b>2014</b>	2013
	<b>RO'000</b>	RO'000
Total exposure:		
Direct	<b>51,300</b>	44,385
Direct (Maisarah Islamic banking services)	<b>27</b>	-
	<u><b>51,327</b></u>	<u>44,385</u>
Indirect	<b>14,044</b>	16,831
	<u><b>65,371</b></u>	<u>61,216</u>
Number of members	<u><b>23</b></u>	<u>23</u>

**21. Contingent liabilities and commitments**

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

	<b>2014</b>	2013
	<b>RO'000</b>	RO'000
Letters of credit	<b>109,291</b>	89,863
Guarantees and performance bonds	<b>176,805</b>	129,986
Advance payment guarantees	<b>146,242</b>	77,222
Payment guarantees	<b>80,619</b>	78,188
Others	<b>14,044</b>	12,783
	<u><b>527,001</b></u>	<u>388,042</u>

**22. Amount due to brokerage customers**

The amount due to brokerage customers as at 31 March 2014 RO 2,906  
(2013: RO 2,906)

**Notes to the financial statements (Unaudited)  
for the three- month period ended 31 March 2014**

**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>31 March 2014</b>						
Cash and balances with Central Bank of Oman	341,597	-	-	-	500	342,097
Loans and advances to banks	57,417	79,078	21,038	13,388	-	170,921
Loans and advances to customers	203,413	289,199	168,797	839,497	507,137	2,008,043
Available-for-sale Investments	-	-	17,826	10,000	-	27,826
Held-to-maturity investments	20,519	41,737	20,602	32,963	24,912	140,733
Intangible asset	-	-	-	-	2,681	2,681
Property and equipment	-	-	-	-	10,571	10,571
Other assets	39,528	9,536	1,505	39	3,801	54,409
<b>Total assets</b>	<b>662,474</b>	<b>419,550</b>	<b>229,768</b>	<b>895,887</b>	<b>549,602</b>	<b>2,757,281</b>
Due to banks	61,927	44,342	-	-	-	106,269
Deposits from customers	257,301	569,512	482,579	584,041	288,611	2,182,044
Other liabilities	64,786	12,299	2,937	15,207	1,786	97,015
Subordinated loans	-	-	-	75,000	-	75,000
Shareholders' equity	-	-	10,218	-	286,735	296,953
<b>Total liabilities and shareholders' equity</b>	<b>384,014</b>	<b>626,153</b>	<b>495,734</b>	<b>674,248</b>	<b>577,132</b>	<b>2,757,281</b>

**Notes to the financial statements (Unaudited)  
for the three- month period ended 31 March 2014**

**23. Risk Management (continued)**

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

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

	Due on demand and up to 30 days RO'000	More than 1 month to 6 months RO'000	More than 6 months to 12 months RO'000	More than 1 year to 5 years RO'000	Over 5 years RO'000	Total RO'000
31 March 2013						
Cash and balances with Central Bank of Oman	269,778	-	-	-	500	270,278
Loans and advances to banks	66,340	45,690	29,529	9,529	-	151,088
Loans and advances to customers	140,094	264,061	108,335	403,794	794,942	1,711,226
Available-for-sale Investments	-	-	10,984	-	-	10,984
Held-to-maturity investments	-	59,908	-	66,661	10,410	136,979
Financial instruments at fair value through Profit or Loss	-	-	734	-	-	734
Intangible asset	-	-	-	-	3,078	3,078
Property and equipment	-	-	-	-	10,394	10,394
Other assets	2,817	37,754	2,147	-	5,344	48,062
<b>Total assets</b>	<b>479,029</b>	<b>407,413</b>	<b>151,729</b>	<b>479,984</b>	<b>824,668</b>	<b>2,342,823</b>
Due to banks	74,768	3,455	-	28,875	-	107,098
Deposits from customers	183,743	472,097	363,631	563,835	208,900	1,792,206
Other liabilities	21,459	39,514	3,027	24,153	3,034	91,187
Subordinated loan	-	-	-	75,000	-	75,000
Shareholders' equity	-	-	-	32,439	244,893	277,332
<b>Total liabilities and shareholders' equity</b>	<b>279,970</b>	<b>515,066</b>	<b>366,658</b>	<b>724,302</b>	<b>456,827</b>	<b>2,342,823</b>

**Notes to the financial statements (Unaudited)  
for the three- month period ended 31 March 2014**

**23 Risk Management (continued)**

**(ii) Market risk**

**(a) Interest rate risk**

**Interest rate sensitivity gap**

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

	Due on demand and within 30 days RO'000	Due within 1 to 6 months RO'000	Due within 7 to 12 months RO'000	Due within 1 to 5 years RO'000	Due after 5 years RO'000	Non- interest bearing RO'000	Total RO'000
<b>31 March 2014</b>							
Cash and balances with Central Bank of Oman	70,000	-	-	-	500	271,597	342,097
Loans and advances to banks	61,187	109,734	-	-	-	-	170,921
Loans and advances to customers	203,413	289,199	168,797	839,497	507,137	-	2,008,043
Available-for-sale investments	-	-	-	10,000	-	17,826	27,826
Held-to-maturity investments	20,519	41,737	20,602	32,963	24,912	-	140,733
Intangible asset	-	-	-	-	-	2,681	2,681
Property and equipment	-	-	-	-	-	10,571	10,571
Other assets	-	-	-	-	-	54,409	54,409
<b>Total assets</b>	<b>355,119</b>	<b>440,670</b>	<b>189,399</b>	<b>882,460</b>	<b>532,549</b>	<b>357,084</b>	<b>2,757,281</b>
Due to banks	61,138	44,342	-	-	-	789	106,269
Deposits from customers	640,587	260,975	291,099	407,002	5,000	577,381	2,182,044
Other liabilities	-	-	-	-	-	97,015	97,015
Subordinated loans	-	-	-	75,000	-	-	75,000
Shareholders' equity	-	-	-	-	-	296,953	296,953
<b>Total liabilities and shareholders' equity</b>	<b>701,725</b>	<b>305,317</b>	<b>291,099</b>	<b>482,002</b>	<b>5,000</b>	<b>972,138</b>	<b>2,757,281</b>
<b>On-balance sheet gap</b>	<b>(346,606)</b>	<b>135,353</b>	<b>(101,700)</b>	<b>400,458</b>	<b>527,549</b>	<b>(617,054)</b>	
<b>Cumulative interest sensitivity gap</b>	<b>(346,606)</b>	<b>(211,253)</b>	<b>(312,953)</b>	<b>87,505</b>	<b>615,054</b>		

**Notes to the financial statements (Unaudited)  
for the three-month period ended 31 March 2014**

**23. Risk Management (continued)**

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

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

**Interest rate sensitivity gap (continued)**

	Due on demand and within 30 days RO'000	Due within 1 to 6 months RO'000	Due within 7 to 12 months RO'000	Due within 1 to 5 years RO'000	Due after 5 years RO'000	Non-interest bearing RO'000	Total RO'000
31 March 2013							
Cash and balances with Central Bank of Oman	130,000	-	-	-	500	139,778	270,278
Loans and advances to banks	66,340	45,690	29,529	9,529	-	-	151,088
Loans and advances to customers	140,094	264,061	108,335	403,794	794,942	-	1,711,226
Available-for-sale investments	-	-	-	-	-	10,984	10,984
Held-to-maturity investments	-	59,908	-	66,661	10,410	-	136,979
Financial instruments at fair value through Profit or Loss	-	-	-	-	-	734	734
Intangible assets	-	-	-	-	-	3,078	3,078
Property and equipment	-	-	-	-	-	10,394	10,394
Other assets	-	-	-	-	-	48,062	48,062
<b>Total assets</b>	<b>336,434</b>	<b>369,659</b>	<b>137,864</b>	<b>479,984</b>	<b>805,852</b>	<b>213,030</b>	<b>2,342,823</b>
Due to banks	71,817	3,455	-	28,875	-	2,951	107,098
Deposits from customers	427,886	258,746	229,403	420,178	5,200	450,793	1,792,206
Other liabilities	-	-	-	-	-	91,187	91,187
Subordinated loan	-	-	-	75,000	-	-	75,000
Shareholders' equity	-	-	-	-	-	277,332	277,332
<b>Total liabilities and shareholders' equity</b>	<b>499,703</b>	<b>262,201</b>	<b>229,403</b>	<b>524,053</b>	<b>5,200</b>	<b>822,263</b>	<b>2,342,823</b>
<b>On-balance sheet gap</b>	<b>(163,269)</b>	<b>107,458</b>	<b>(91,539)</b>	<b>(44,069)</b>	<b>800,652</b>	<b>(609,233)</b>	<b>-</b>
<b>Cumulative interest sensitivity gap</b>	<b>(163,269)</b>	<b>(55,811)</b>	<b>(147,350)</b>	<b>(191,419)</b>	<b>609,233</b>	<b>-</b>	<b>-</b>

**(b) Foreign currency exposures**

	<b>2014 RO'000</b>	2013 RO'000
Net assets denominated in US Dollars	<b>85,394</b>	64,951
Net assets denominated in other foreign currencies	<b>550</b>	1,095
	<b>85,944</b>	66,046



**Notes to the financial statements (Unaudited)  
for the three-month period ended 31 March 2014**

**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>31 March 2014</b>						
Personal	-	896,642	-	481,064	-	789
Corporate	171,258	1,048,849	90,082	775,244	106,269	521,357
Government	-	144,417	148,477	925,736	-	4,855
	<b>171,258</b>	<b>2,089,908</b>	<b>238,559</b>	<b>2,182,044</b>	<b>106,269</b>	<b>527,001</b>
<b>31 March 2013</b>						
Personal	-	796,163	-	401,648	-	281
Corporate	151,848	840,174	70,892	709,413	107,098	381,212
Government	-	148,920	127,071	681,145	-	6,549
	<b>151,848</b>	<b>1,785,257</b>	<b>197,963</b>	<b>1,792,206</b>	<b>107,098</b>	<b>388,042</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

**Notes to the financial statements (Unaudited)  
for the three-month period ended 31 March 2014**

again appealed to the Supreme Court against the decision of the Appeal Court and the final decision is awaited.

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

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

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

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