بنك ظفار
BankDhofar

BANK DHOFAR SAOG

Report and financial statements

31 December 2014

Registered and principal place of business:

Bank Dhofar SAOG
Central Business District
P.O. Box 1507
Ruwi 112
Sultanate of Oman

Building a better working world

Ernst & Young
P.O. Box 1750, Ruwi 112
3-4 th Floor
Ernst & Young Building
Al Qurum, Muscat
Sultanate of Oman

Tel: +968 2455 9559
Fax: +968 2456 6043
muscat@om.ey.com
ey.com/mena
C.R. No. 1368095
P.R. No. MH/4

Independent auditor's report to the shareholders of Bank Dhofar SAOG

Report on the financial statements

We have audited the accompanying financial statements of Bank Dhofar SAOG (the Bank), which comprise the statement of financial position as at 31 December 2014, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Board of Directors' responsibility for the financial statements

The Board of Directors is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and the relevant disclosure requirements of the Commercial Companies Law of 1974, as amended, and the Rules and Guidelines on disclosures issued by the Capital Market Authority, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2014, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Other matter

The financial statements of the Bank for the year ended 31 December 2013 were audited by another auditor who expressed an unmodified opinion on those statements on 29 January 2014.

Report on other legal and regulatory requirements

In our opinion the financial statements comply, in all material respects, with the relevant disclosure requirements of the Commercial Companies Law of 1974, as amended and the Rules and Guidelines on disclosure issued by the Capital Market Authority.

Ernst & Young

11 March 2015
Muscat

Building a better working world

Ernst & Young
P.O. Box 1750, Ruwi 112
3-4 th Floor
Ernst & Young Building
Al Qurum, Muscat
Sultanate of Oman

Tel: +968 2455 9559
Fax: +968 2456 6043
muscat@om.ey.com
ey.com/mena
C.R. No. 1368095
P.R. No. MH/4

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF
Bank Dhofar SAOG (the "Bank")

We have audited the accompanying statement of financial position of Maisarah Islamic Banking Services (the "Islamic Window") as of 31 December 2014, and the related statements of income, changes in owners' equity, sources and uses of charity fund and cash flows for the year then ended 31 December 2014, and a summary of significant accounting policies and other explanatory information. These financial statements and the Bank's undertaking to operate its Islamic Window in accordance with Islamic Shari'a Rules and Principles as determined by the Shari'a Supervisory Board are the responsibility of the Bank's Board of Directors. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Auditing Standards for Islamic Financial Institutions issued by the Accounting and Auditing Organisation for Islamic Financial Institutions ("AAOIFI"). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

Opinion
In our opinion, the financial statements present fairly, in all material respects, the financial position of the Islamic Window as of 31 December 2014, the results of its operations, changes in owner's equity, sources and uses of charity fund and cash flows for the year then ended 31 December 2014 in accordance with the Shari'a Rules and Principles as determined by the Shari'a Supervisory Board of the Islamic Window and the Financial Accounting Standards issued by AAOIFI.

Other matter
The financial statements of the Islamic Window for the year ended 31 December 2013 were audited by another auditor who expressed an unmodified opinion on those statements on 29 January 2014.

Ernst & Young

11 March 2015
Muscat

Statement of financial position

as at 31 December 2014

2014 US$ '000	2013 US$ '000		Notes	2014 RO'000	2013 RO'000
		Assets			
1,517,844	898,073	Cash and balances with Central Bank of Oman	5	**584,370**	345,758
236,789	315,247	Loans, advances and financing to banks	7	**91,164**	121,370
5,856,377	4,940,026	Loans, advances and financing to customers	8	**2,254,705**	1,901,910
69,834	63,987	Available-for-sale investments	9	**26,886**	24,635
389,579	398,353	Held-to-maturity investments	10	**149,988**	153,366
6,190	7,221	Intangible asset	11	**2,383**	2,780
25,151	28,319	Property and equipment	12	**9,683**	10,903
194,670	115,992	Other assets	13	**74,948**	44,657
8,296,434	6,767,218	**Total assets**		**3,194,127**	2,605,379
		Liabilities			
454,579	276,192	Due to banks	14	**175,013**	106,334
6,447,218	5,277,262	Deposits from customers	15	**2,482,179**	2,031,746
279,849	230,369	Other liabilities	16	**107,742**	88,692
269,805	194,805	Subordinated loans	17	**103,875**	75,000
7,451,451	5,978,628	**Total liabilities**		**2,868,809**	2,301,772
		Shareholder's equity			
348,894	314,320	Share capital	18	**134,324**	121,013
103,943	103,943	Share premium	19	**40,018**	40,018
48,021	48,021	Special reserve	20 (d)	**18,488**	18,488
92,304	81,797	Legal reserve	20 (a)	**35,537**	31,492
107,143	68,182	Subordinated loan reserve	20 (b)	**41,250**	26,250
(119)	4,556	Investment revaluation reserve	20 (c)	**(46)**	1,754
144,797	167,771	Retained earnings	21	**55,747**	64,592
844,983	788,590	**Total shareholders' equity**		**325,318**	303,607
8,296,434	6,767,218	**Total liabilities and shareholders' equity**		**3,194,127**	2,605,379
1,859,935	1,199,875	**Contingent liabilities and commitments**	32	**716,075**	461,952
0.63	0.65	**Net assets per share (Rial Omani)**	22	**0.242**	0.251

The financial statements on pages 116 to 176 were approved by the Board of Directors on 27 Jan, 2015 and were signed on their behalf by:

Eng. Abdul Hafidh Salim Rajab Al-Aujaili
Chairman

Abdul Hakeem Al Ojaili
Acting Chief Executive Officer

The accompanying notes form an integral part of these financial statements.
Report of the Auditors - page 111.

25 YEARS BEST BANK FOR YOU

BANK DHOFAR S.A.O.G

Statement of comprehensive income

for the year ended 31 December 2014

	Notes	2014 RO'000	2013 RO'000
Interest income		**106,782**	100,037
Interest expense		**(33,202)**	(33,696)
Net interest income	23	**73,580**	66,341
Income from Islamic financing		**3,625**	188
Unrestricted investment account holders' share of profit		**(417)**	(15)
Net income from Islamic financing and investment activities		**3,208**	173
Fees and commission income		**13,483**	9,828
Fees and commission expense		**(1,335)**	(923)
Net fees and commission income		**12,148**	8,905
Other income	24	**9,915**	14,139
Operating income		**98,851**	89,558
Staff and administrative costs	25	**(42,580)**	(41,777)
Depreciation	12	**(3,583)**	(3,539)
Operating expenses		**(46,163)**	(45,316)
Profit from operations		**52,688**	44,242
Provision for loan impairment	26	**(11,658)**	(7,388)
Recoveries from allowance for loan impairment	26	**4,724**	3,155
Bad debts written-off		**-**	(1)
Impairment of available-for-sale investments	9	**-**	-
Recovery from a legal case	6	**-**	26,129
Profit from operations after provision		**45,754**	66,137
Income tax expense	27	**(5,301)**	(7,730)
Profit for the year		**40,453**	58,407
Profit for the year		**40,453**	58,407
Other comprehensive income:			
Items that are or may be reclassified to statement of income:			
Net changes in fair value of available-for-sale investments	9	**(1,159)**	2,447
Reclassification adjustment on sale of available-for-sale investments	9	**(641)**	(2,249)
Total comprehensive income for the year		**38,653**	58,605
Earnings per share basic and diluted (Rials Omani)	28	**0.030**	0.043

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

BANK DHOFAR S.A.O.G
Statement of changes in equity
for the year ended 31 December 2014

	Notes	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	*20*	-	-	-	4,045	-	-	(4,045)	-
Transactions with owners recorded directly in equity									
Dividend paid for 2013	*38*	-	-	-	-	-	-	(16,942)	(16,942)
Bonus shares issued for 2013	*38*	13,311	-	-	-	-	-	(13,311)	-
Transfer to subordinated loan reserve	*20*	-	-	-	-	15,000	-	(15,000)	-
		-	-	-	-	-	-	-	-
Balances as at 31 December 2014		134,324	40,018	18,488	35,537	41,250	(46)	55,747	325,318

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

BANK DHOFAR S.A.O.G
Statement of changes in equity
for the year ended 31 December 2014

	Notes	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 2013		**110,012**	**40,018**	**-**	**25,652**	**11,250**	**1,556**	**73,016**	**261,504**
Total comprehensive income for the year		-	-	-	-	-	-	**58,407**	**58,407**
Profit for the year									
Other comprehensive income for the year									
Net change in fair value of available-for-sale investments		-	-	-	-	-	**2,447**	-	**2,447**
Transfer to statement of income on sale of available-for -sale investments		-	-	-	-	-	**(2,249)**	-	**(2,249)**
Total comprehensive income for the year		-	-	-	-	-	**198**	**58,407**	**58,605**
Transfer to legal reserve	20	-	-	-	**5,840**	-	-	**(5,840)**	-
Transactions with owners recorded directly in equity									
Dividend paid for 2012	38	-	-	-	-	-	-	**(16,502)**	**(16,502)**
Bonus shares issued for 2012	38	**11,001**	-	-	-	-	-	**(11,001)**	-
Transfer to subordinated loan reserve	20	-	-	-	-	**15,000**	-	**(15,000)**	-
Transfer to special reserve	20	-	-	**18,488**	-	-	-	**(18,488)**	-
Balances as at 31 December 2013		**121,013**	**40,018**	**18,488**	**31,492**	**26,250**	**1,754**	**64,592**	**303,607**

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

BANK DHOFAR S.A.O.G

Statement of cash flows

for the year ended 31 December 2014

	2014 RO'000	2013 RO'000
Cash flows from operating activities		
Interest, financing income, commission and other receipts	**129,793**	119,825
Interest payments, return on Islamic Banking deposits	**(33,639)**	(33,041)
Cash payments to suppliers and employees	**(51,397)**	(16,560)
	44,757	70,224
Decrease in operating assets		
Loans, advances and financing to customers	**(359,729)**	(233,636)
Loans, advances and financing to banks	**(12,117)**	(8,006)
Receipts from treasury bills and certificates of deposits (net)	**(15,416)**	(34,186)
	(387,262)	(275,828)
Increase in operating liabilities		
Deposits from customers	**450,433**	397,118
Due to banks	**68,478**	17,946
	518,911	415,064
Net cash from operating activities	**176,406**	209,460
Income tax paid	**(7,580)**	(4,978)
Net cash from operating activities	**168,826**	204,482
Cash flows from investing activities		
Investment income	**1,960**	1,972
Purchase of investments	**(12,786)**	(24,653)
Proceeds from sale of investments	**8,827**	11,517
Dividend received	**757**	399
Purchase of property and equipment	**(2,410)**	(5,094)
Proceeds from sale of property and equipment	**186**	178
Net cash used in investing activities	**(3,466)**	(15,681)
Cash flow from financing activities		
Subordinated loan	**28,875**	-
Dividend paid	**(16,942)**	(16,502)
Net cash from (used in) financing activities	**11,933**	(16,502)
Net change in cash and cash equivalents	**177,293**	172,299
Cash and cash equivalents at the beginning of the year	**425,255**	252,956
Cash and cash equivalents at the end of the year	**602,548**	425,255
Cash and balances with Central Bank of Oman (Note 5)	**584,370**	345,758
Capital deposit with Central Bank of Oman	**(500)**	(500)
Loans, advances and financing to banks due within 90 days	**19,476**	61,800
Treasury bills within 90 days	**-**	18,794
Due to banks within 90 days	**(798)**	(597)
Cash and cash equivalents for the purpose of the cash flow statement	**602,548**	425,255

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

2. Basis of preparation (*continued*)

e) Accounting policies

For the year ended 31 December 2014, 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 2014.

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.

3. Principal accounting policies

3.1. *Foreign currency translations*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of income. Translation differences on non-monetary items, such as equities held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation differences on non-monetary items, other than those held at cost, such as equities classified as available-for-sale financial assets, are included in the investment revaluation reserve in equity.

3.2. *Financial instruments*

The Bank measures financial instruments such as derivatives at fair value at each reporting date. Fair value related disclosures for financial instruments that are measured at fair value or where fair values are disclosed, are summarised in the financial statements.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability

Or

- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible by the Bank.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Bank uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Bank determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

3. **Principal accounting policies (*continued*)**

3.2.1. *Recognition*

The Bank recognises loans and advances, deposits, debt securities and subordinated liabilities on the date at which they originated. . All other financial assets and liabilities (including assets and liabilities at fair value through profit or loss) are initially recognised on the trade date at which the Bank becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is measured initially at fair value, plus for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue.

3.2.2. *Classification*

The Bank classifies its financial assets in the following categories: financial assets at fair value through profit or loss; loans and receivables; held-to-maturity investments; and available-for-sale financial assets. Management determines the classification of its investments at initial recognition.

3.2.2.1. *Financial assets at fair value through profit or loss*

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is held in this category if acquired principally for the purpose of short-term profit taking or if so designated by management. Derivatives are also categorised as held for trading unless they are designated as hedges instruments.

Financial assets and financial liabilities are designated at fair value through profit or loss when:

- Doing so significantly reduces measurements inconsistencies that would arise if the related derivatives were treated as held for trading and the underlying financial instruments were carried at amortised costs;

- Certain investments, that are managed and evaluated on a fair value basis in accordance with documented risk management or investments strategy and reported to key management personnel on that basis are designated at fair value through profit or loss; and

- Financial instruments, containing one or more embedded derivatives significantly modify the cash flows, are designated at fair value through profit or loss.

Gains and losses arising from changes in the fair value of derivatives that are managed in conjunction with designated financial assets or financial liabilities are included in the statement of income.

3.2.2.2. Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They can be originated or acquired by the Bank with no intention of trading the receivable and comprise loans and advances to banks and customers other than bonds purchased at original issuance.

3. Principal accounting policies *(continued)*

3.2. Financial instruments *(continued)*

3.2.2.3. Available-for-sale investments

Available-for-sale investments are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

3.2.2.4. Held-to-maturity investments

Investments with fixed or determinable payments and fixed maturity dates that the Bank has the positive intention and ability to hold to maturity are classified as held-to-maturity investments. Held-to-maturity investments are recorded at amortised cost using the effective interest method less any impairment, with revenue recognised on an effective yield basis.

3.2.3. *Derecognition*

The Bank recognises financial assets at fair value through profit or loss and available-for-sale assets on the trade date, the date it commits to purchase or sell the asset. From this date any gains and losses arising from changes in fair value of the assets are recognised. Loans and receivables, deposits and subordinated liabilities are recognised on the date they are originated.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Bank has transferred substantially all risks and rewards of ownership. A financial liability is derecognised when it is extinguished.

3.2.4. *Measurement*

Financial assets are measured initially at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss.

Subsequent to initial recognition all financial assets at fair value through profit or loss and all available-for-sale assets are measured at fair value, except equity instrument that does not have a quoted market price in an active market and whose fair value cannot be reliably measured is stated at cost, including transaction costs, less impairment losses.

All non-trading financial liabilities and loans and receivables are measured at amortised cost less impairment losses. Amortised cost is calculated on the effective interest rate method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortised based on the effective interest rate of the instrument.

3. Principal accounting policies *(continued)*

3.2. Financial instruments (continued)

3.2.5. *Fair value measurement principles*

The fair values of quoted investments in active markets are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Bank establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis and other valuation techniques commonly used by market participants.

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 at the reporting date for an instrument with similar terms and conditions.

The fair value of derivatives that are not exchange-traded is estimated at the amount that the Bank would receive or pay to terminate the contract at the reporting date taking into account current market conditions and the current credit worthiness of the counter-parties.

3.2.6. *Gains and losses on subsequent measurement*

Gains and losses arising from changes in the fair value of the financial assets at fair value through profit or loss category are included in the statement of income in the period in which they arise. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised in other comprehensive income, until the financial asset is derecognised or impaired at which time the cumulative gain or loss previously recognised in other comprehensive income is recognised in the statement of income.

3. **Principal accounting policies** *(continued)*

3.3. ***Cash and cash equivalents***

For the purpose of the cash flow statement, cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, including: cash on hand, non-restricted cash deposited with the Central Bank of Oman, amounts due to / from other banks and eligible treasury bills and certificate of deposits.

3.4. ***Treasury bills and certificate of deposits***

Treasury bills and certificates of deposit issued for a term longer than three months are classified as available-for-sale or held-to-maturity at the date of acquisition.

3.5. ***Offsetting***

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only permitted under IFRS's or for gains and losses arising from a group of similar transaction such as in the Banks trading activity.

3.6. ***Impairment of financial assets***

The Bank assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Bank about the following loss events:

(i) significant financial difficulty of the issuer or obligor;

(ii) a breach of contract, such as a default or delinquency in interest or principal payments;

(iii) the Bank granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the lender would not otherwise consider;

(iv) it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;

(v) the disappearance of an active market for that financial asset because of financial difficulties; or

(vi) observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:

–adverse changes in the payment status of borrowers in the group; or

–national or local economic conditions that correlate with defaults on the assets in the group.

3. Principal accounting policies *(continued)*

3.6. *Impairment of financial assets (continued)*

The Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the statement of income. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. The Bank may measure impairment on the basis of an instrument's fair value using an observable market price.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e. on the basis of the Bank's grading process that considers asset type, industry, geographical location, collateral type, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the Bank and historical loss experience for assets with credit risk characteristics similar to those in the Group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

3. Principal accounting policies *(continued)*

3.6. Impairment of financial assets *(continued)*

Estimates of changes in future cash flows for groups of assets should reflect and be directionally consistent with changes in related observable data from period to period (for example, changes in unemployment rates, property prices, payment status, or other factors indicative of changes in the probability of losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Bank to reduce any differences between loss estimates and actual loss experience.

When a loan is known to be uncollectible, all the necessary legal procedures have been completed, and the final loss has been determined, the loan is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are included in the statement of income.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the statement of income.

The Bank assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets, other than investments at fair value through profit and loss, is impaired. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from other comprehensive income and recognised in the statement of income. Impairment losses recognised in the statement of income on equity instruments are not reversed through the statement of income. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the statement of income.

3.7. Property and equipment

Items of property and equipment are stated at cost less accumulated depreciation and impairment loss. Depreciation is calculated so as to write off the cost of property and equipment, other than freehold land and capital work-in-progress, by equal instalments over their estimated economic useful lives from the date the asset is brought into use, as follows:

	Years
Buildings	7 - 25
Furniture and fixtures	3 - 7
Motor vehicles	3 - 5
Computer equipment	4
Core banking system	10

3. Principal accounting policies *(continued)*

3.7. *Property and equipment (continued)*

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

Gains and losses on disposal of property and equipment are determined by reference to their carrying amount and are taken into account in determining operating profit. Repairs and renewals are charged to the statement of income when the expense is incurred. Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the item of property and equipment. All other expenditure is recognised in the statement of income as an expense when incurred.

3.8. *Intangible assets*

Goodwill represents the excess of the cost of an acquisition over the fair value of the net identifiable assets acquired at the date of acquisition. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses.

3.9. *Provisions*

A provision is recognised in the statement of financial position when the Bank has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and the amount has been reliably estimated. If the effect is material, provisions are determined by discounting the expected future cash flows at a rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

3.10. *Dividends*

Dividends are recognised as a liability in the year in which they are declared.

3.11. *Interest income and expense*

Interest income and expense are recognised in the statement of income using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

3. Principal accounting policies *(continued)*

3.11. ***Interest income and expense (continued)***

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

3.12. ***Fees and commission income***

Fees and commissions are generally recognised on an accrual basis when the service has been provided. Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognised as an adjustment to the effective interest rate on the loan. Loan syndication fees are recognised as revenue when the syndication has been completed and the Bank retained no part of the loan package for itself or retained a part at the same effective interest rate for the other participants. Commission and fees arising from negotiating, or participating in the negotiation of, a transaction for a third party – such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses – are recognised on completion of the underlying transaction. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time-apportionment basis. Asset management fees related to investment funds are recognised rateably over the period the service is provided. The same principle is applied for wealth management, financial planning and custody services that are continuously provided over an extended period of time.

3.13. ***Taxation***

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the statement of comprehensive income except to the extent that it relates to items recognised directly in equity, or in other comprehensive income.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred income tax is provided in full, on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes (the tax base). The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the reporting date. The principal temporary differences arise from depreciation of property and equipment and provisions.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

3. Principal accounting policies *(continued)*

3.14. *Employee benefits*

End of service benefits are accrued in accordance with the terms of employment of the Bank's employees at the reporting date, having regard to the requirements of the Oman Labour Law. Employee entitlements to annual leave and leave passage are recognised when they accrue to employees and an accrual is made for the estimated liability arising as a result of services rendered by employees up to the reporting date.

Contributions to a defined contribution retirement plan and occupational hazard insurance for Omani employees in accordance with the Omani Social Insurances Law of 1991 and its subsequent amendments are recognised as an expense in the statement of income as incurred.

3.15. *Derivative financial instruments*

Derivatives are stated at fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and valuation techniques, including discounted cash flow models and options pricing models, as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

The best evidence of the fair value of a derivative at initial recognition is the transaction price (i.e., the fair value of the consideration given or received) unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. When such evidence exists, the Bank recognises profits on the day of the transaction.

The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. Although the Bank enters into derivative instruments for hedging purposes, certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in the statement of income.

3.15.1 Embedded derivatives

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at fair value with changes in fair value recognised in profit or loss.

3. **Principal accounting policies** *(continued)*

3.15. ***Derivative financial instruments*** *(continued)*

3.15.2 Hedge accounting

The Bank designates certain hedging instruments, which include derivatives, embedded derivatives and non-derivatives in respect of foreign currency risk, as either fair value hedges, cash flow hedges, or hedges of net investments in foreign operations. Hedges of foreign exchange risk on firm commitments are accounted for as cash flow hedges.

At the inception of the hedge relationship, the entity documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Bank documents whether the hedging instrument that is used in a hedging relationship is highly effective in offsetting changes in fair values or cash flows of the hedged item.

3.15.3 Fair value hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in profit or loss immediately, together with any changes in the fair value of the hedged item that are attributable to the hedged risk. The change in the fair value of the hedging instrument and the change in the hedged item attributable to the hedged risk are recognised in the line of the statement of income relating to the hedged item.

Hedge accounting is discontinued when the Bank revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. The adjustment to the carrying amount of the hedged item arising from the hedged risk is amortised to profit or loss from that date.

3.15.4 Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are deferred in equity. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss, and is included in the "other gains and losses" line of the statement of income.

Amounts deferred in equity are recycled in profit or loss in the periods when the hedged item is recognised in profit or loss, in the same line of the statement of income as the recognised hedged item. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability.

3. Principal accounting policies *(continued)*

3.15. ***Derivative financial instruments (continued)***

3.15.4 Cash flow hedges (continued)

Hedge accounting is discontinued when the Bank revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. Any cumulative gain or loss deferred in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was deferred in equity is recognised immediately in profit or loss.

3.16. ***Sale and repurchase agreements***

Securities sold subject to repurchase agreements (repos) are reclassified in the financial statements as pledged assets when the transferee has the right by contract or custom to sell or repledge the collateral; the counterparty liability is included in amounts due to other banks, deposits from banks, other deposits or deposits due to customers, as appropriate. Securities purchased under agreements to resell (reverse repos) are recorded as loans and advances to other banks or customers, as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest method. Securities lent to counterparties are also retained in the financial statements.

Securities borrowed are not recognised in the financial statements, unless these are sold to third parties, in which case the purchase and sale are recorded with the gain or loss included in trading income.

3.17. ***Borrowings***

Borrowings are recognised initially at fair value, being their issue proceeds (fair value of consideration received) net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between proceeds net of transaction costs and the redemption value is recognised in the statement of income over the period of the borrowings using the effective interest method.

3.18. ***Segment reporting***

A segment is a distinguishable component of the Bank that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. The Bank currently operates only in the Sultanate of Oman. The Bank's primary format for reporting segmental information is business segments, based upon management and internal reporting structure. The Bank's main business segments are corporate and retail banking.

3.19. ***Fiduciary assets***

Assets held in trust or in a fiduciary capacity are not treated as assets of the Bank in the statement of financial position.

3. Principal accounting policies *(continued)*

3.20. *Trade and settlement date accounting*

All "regular way" purchases and sales of financial assets are recognised on the trade date, i.e. that date the Bank commits to purchase the assets. Regular way purchase or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

3.21. *Directors' remuneration*

The board of directors' remuneration is accrued within the limits specified by the Capital Market Authority and the requirements of the Commercial Companies Law of the Sultanate of Oman.

3.22 *Due from Bank*

These are stated at cost, less any amounts written off and provisions for impairment. Due from banks include Nostro balances, placements and loans to banks.

3.23 *Collateral pending sale*

The Bank occasionally acquires real estate in settlement of certain loans and advances. Real estate is stated at the lower of the net realisable value of the related loans and advances and the current fair value of such assets. Gains or losses on disposal and unrealised losses on revaluation are recognised in the statement of comprehensive income.

3.24 *Deposits*

Deposits from banks and customers, debt securities and subordinated liabilities are the Bank's sources of funding. These are initially measured at fair value plus transaction costs and subsequently measured at their amortised cost using the EIR.

3.25 *Renegotiated loans*

Where possible, the Bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective interest rate.

3.26 Acceptances

Acceptances are disclosed on the statement of financial position under other assets with corresponding liability disclosed under other liabilities. Therefore, there is no off-balance sheet commitment for acceptances.

3.27 Financial guarantees contracts

Financial guarantees are contracts that require the issuer to make specified payments to reimburse the beneficiary for a loss incurred because the debtor fails to make payments when due, in accordance with the terms of the debt. Such guarantees are given to Banks, financial institutions or other entities on behalf of the customers.

3. Principal accounting policies *(continued)*

3.27 Financial guarantees contracts *(continued)*

Financial guarantees are initially recognised in the financial statements at fair value on the date the guarantee was issued. Subsequent to initial recognition, the Bank's liabilities under such guarantees are measured at the higher of initial measurement, less amortisation calculated to recognise in the statement of comprehensive income the fee income earned on the straight line basis over the life of the guarantee and the best estimate of the expenditure required to settle any financial obligation arising at the reporting date. These estimates are determined based on experience of similar transactions and history of past losses, supplemented by the judgment of management. Any increase in the liability relating to guarantees is taken to the statement of comprehensive income.

3.28 Leases

Finance leases, which transfer to the Bank substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term.

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense in the statement of comprehensive income on a straight-line basis over the lease term

3.29 Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Group by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprises convertible notes.

3.30 Dividend on ordinary shares

Dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the shareholders. Interim dividends are deducted from equity when they are paid.

Dividends for the year that are approved after the reporting date are dealt with as an event after the balance sheet date.

3.31. Standards not yet effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Bank's financial statements are disclosed below. The Bank intends to adopt these standards, if applicable, when they become effective.

3. **Principal accounting policies** *(continued)*

3.31. Standards not yet effective *(continued)*

IFRS 9 *Financial Instruments*

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments which reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. Early application of previous versions of IFRS 9 (2009, 2010 and 2013) is permitted if the date of initial application is before 1 February 2015. The adoption of IFRS 9 will have an effect on the classification and measurement of the Bank's financial assets, but no impact on the classification and measurement of the Bank's financial liabilities.

IFRS 14 Regulatory Deferral Accounts

IFRS 14 is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of IFRS. Entities that adopt IFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in these account balances as separate line items in the statement of profit or loss and other comprehensive income. The standard requires disclosures on the nature of, and risks associated with, the entity's rate-regulation and the effects of that rate-regulation on its financial statements. IFRS 14 is effective for annual periods beginning on or after 1 January 2016. Since the Bank is an existing IFRS preparer, this standard would not apply.

Amendments to IAS 19 Defined Benefit Plans: Employee Contributions

IAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. Where the contributions are linked to service, they should be attributed to periods of service as a negative benefit. These amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognise such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service. This amendment is effective for annual periods beginning on or after 1 July 2014. It is not expected that this amendment would be relevant to the Bank, since none of the entities within the Bank has defined benefit plans with contributions from employees or third parties.

Annual improvements *2010-2012 Cycle*

These improvements are effective from 1 July 2014 and are not expected to have a material impact on the Bank. They include:

IFRS 2 *Share-based Payment*

This improvement is applied prospectively and clarifies various issues relating to the definitions of performance and service condition ns which are vesting conditions, including:

► A performance condition must contain a service condition

► A performance target must be met while the counterparty is rendering service

► A performance target may relate to the operations or activities of an entity, or to those of another entity in the same group

► A performance condition may be a market or non-market condition

► If the counterparty, regardless of the reason, ceases to provide service during the vesting period, the service condition is not satisfied

3. **Principal accounting policies** *(continued)*

3.31. Standards not yet effective *(continued)*

IFRS 3 *Business Combinations*

The amendment is applied prospectively and clarifies that all contingent consideration arrangements classified as liabilities (or assets) arising from a business combination should be subsequently measured at fair value through profit or loss whether or not they fall within the scope of IFRS 9 (or IAS 39, as applicable).

IFRS 8 *Operating Segments*
The amendments are applied retrospectively and clarifies that:

►An entity must disclose the judgements made by management in applying the aggregation criteria in paragraph 12 of IFRS 8, including a brief description of operating segments that have been aggregated and the economic characteristics (e.g., sales and gross margins) used to assess whether the segments are 'similar'
►The reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker, similar to the required disclosure for segment liabilities.

IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets*
The amendment is applied retrospectively and clarifies in IAS 16 and IAS 38 that the asset may be revalued by reference to observable data on either the gross or the net carrying amount. In addition, the accumulated depreciation or amortisation is the difference between the gross and carrying amounts of the asset.

IAS 24 *Related Party Disclosures*
The amendment is applied retrospectively and clarifies that a management entity (an entity that provides key management personnel services) is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services.

Annual improvements 2011-2013 Cycle

These improvements are effective from 1 July 2014 and are not expected to have a material impact on the Bank. They include:

IFRS 3 Business Combinations

The amendment is applied prospectively and clarifies for the scope exceptions within IFRS 3 that:
► Joint arrangements, not just joint ventures, are outside the scope of IFRS 3
► This scope exception applies only to the accounting in the financial statements of the joint arrangement itself

IFRS 13 *Fair Value Measurement*
The amendment is applied prospectively and clarifies that the portfolio exception in IFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of IFRS 9 (or IAS 39, as applicable).

IAS 40 *Investment Property*
The description of ancillary services in IAS 40 differentiates between investment property and owner-occupied property (i.e., property, plant and equipment). The amendment is applied prospectively and clarifies that IFRS 3, and not the description of ancillary services in IAS 40, is used to determine if the transaction is the purchase of an asset or business combination.

IFRS 15 *Revenue from Contracts with Customers*
IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15 revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

3. Principal accounting policies *(continued)*

3.31. Standards not yet effective *(continued)*

The principles in IFRS 15 provide a more structured approach to measuring and recognising revenue. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2017 with early adoption permitted. The Bank is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date.

Amendments to IFRS 11 *Joint Arrangements: Accounting for Acquisitions of Interests*
The amendments to IFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business must apply the relevant IFRS 3 principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to IFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party.

The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are prospectively effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact to the Bank.

Amendments to IAS 16 and IAS 38: *Clarification of Acceptable Methods of Depreciation and Amortisation*
The amendments clarify the principle in IAS 16 and IAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets.

The amendments are effective prospectively for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact to the Bank given that the Bank has not used a revenue-based method to depreciate its non-current assets.

Amendments to IAS 16 and IAS 41 *Agriculture: Bearer Plants*
The amendments change the accounting requirements for biological assets that meet the definition of bearer plants. Under the amendments, biological assets that meet the definition of bearer plants will no longer be within the scope of IAS 41. Instead, IAS 16 will apply. After initial recognition, bearer plants will be measured under IAS 16 at accumulated cost (before maturity) and using either the cost model or revaluation model (after maturity). The amendments also require that produce that grows on bearer plants will remain in the scope of IAS 41 measured at fair value less costs to sell. For government grants related to bearer plants,IAS 20 Accounting for Government Grants and Disclosure of Government Assistance will apply. The amendments are retrospectively effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact to the Bank as the Bank does not have any bearer plants.

Amendments to IAS 27: *Equity Method in Separate Financial Statements*
The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying IFRS and electing to change to the equity method in its separate financial statements will have to apply that change retrospectively. For first-time adopters of IFRS electing to use the equity method in its separate financial statements, they will be required to apply this method from the date of transition to IFRS. The amendments are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments will not have any impact on the Bank's financial statements.

4. Critical accounting judgment and key sources of estimation uncertainty

(a) Classification of investments

Management decides on acquisition of an investment whether it should be classified as fair value through profit or loss, available-for-sale or held-to-maturity investments.

Available-for-sale investments

Management follows the guidance set out in International Accounting Standard (IAS) 39 Financial Instruments: Recognition and Measurement on classifying non-derivative financial assets as available-for-sale. This classification requires management's judgement based on its intentions to hold such investments.

Held-to-maturity investments

Management follows the guidance of IAS 39 on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires significant judgements. In making this judgement, the Management evaluates its intention and ability to hold such investments to maturity. If the Management fails to keep these investments to maturity other than for the specific circumstances-for example, selling an insignificant amount close to maturity – it will be required to classify the entire class as available-for-sale. The investments would, therefore, be measured at fair value.

(b) Fair value estimation

Fair value is based on quoted market prices at 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.

4. Critical accounting judgment and key sources of estimation uncertainty *(continued)*

(c) Impairment

Impairment losses on loans and advances

The Bank reviews its loan portfolios to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in the consolidated statement of comprehensive income, the Bank makes judgements as to whether there is any observable data indicating an impairment followed by measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified within that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers and or national or local economic conditions that correlate with defaults on assets in the Bank. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed periodically to reduce any difference between loss estimates and actual loss experience. For individually significant loans and advances which are impaired, the necessary impairment loss is considered based on the future cash flow estimates. Individually significant loans and advances which are not impaired and all individually insignificant loans and advances are then assessed collectively considering historical experience and observable data on a portfolio basis, in groups of assets with similar risk characteristics to determine whether collective impairment loss to be made. In determining collective impairment loss, the Bank takes into account several factors including credit quality, concentration risk, levels of past due, sector performance, available collateral and macro economic conditions.

Impairment on due from banks

The Bank reviews its portfolio of due from banks on a quarterly basis to assess impairment. In determining whether an impairment loss should be recorded in the consolidated statement of comprehensive income, the Bank makes judgements as to whether there is any observable data indicating an impairment. For individually impaired placements, the Bank considers the necessary impairment loss based on the expected cash flows and borrower's financial position. In addition, the Bank assesses the portfolio on a collective basis and estimates the collective impairment loss if any. The judgements and estimates used for impairment assessment depend on a number of parameters which include the borrower's financial condition, local and international economic conditions and economic outlook

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Bank to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value.

Impairment of available-for-sale equity investment

Management determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgement. In making this judgement, management evaluates among other factors, the normal volatility in equity price. In addition, impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology and operational and financing cash flows.

4. Critical accounting judgment and key sources of estimation uncertainty *(continued)*

(d) Useful life of property and equipment

Depreciation is charged so as to write off the cost of assets over their estimated useful lives. The calculation of useful lives is based on management's assessment of various factors such as the operating cycles, the maintenance programs, and normal wear and tear using its best estimates.

(e) Deferred tax asset

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies

5. Cash and balances with Central Bank of Oman

	2014 RO'000	2013 RO'000
Cash in hand	**36,121**	24,294
Balances with the Central Bank of Oman	**238,249**	131,464
Certificate of deposits with original maturity of 90 days or less	**310,000**	190,000
	584,370	345,758

At 31 December 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 December 2014 were issued by the Central Bank of Oman.

6 Recovery from a legal case (RO 26.1 million)

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 March 2013 received a cheque of RO 26.1 million from the Primary Court in Muscat. This amount being the amount transferred in September 2011 from Bank Dhofar to the Primary Court under the above mentioned case proceedings. By receiving the amount of RO 26.1 million, the case has been closed in the Bank's favour.

7. Loans and advances to banks

	2014 RO'000	2013 RO'000
Syndicated loans to other banks	**73,920**	36,639
Less: impairment allowance (collective)	**(439)**	(367)
Net syndicated loans to other banks	**73,481**	36,272
Placements with other banks	**4,821**	77,591
Current clearing accounts	**12,862**	7,507
	91,164	121,370

At 31 December 2014, there are no concentration with any banks representing 20% or more of the Bank's placements (2013: no concentration).

Movement of the impairment allowance as below :

	2014 RO'000	2013 RO'000
Opening balance as on 1 January	**367**	-
Add: Additions during the year	**256**	367
Less: Reversal during the year	**(184)**	-
Closing balance as on 31 December	**439**	367

8. Loans, advances and financing to customers

	2014 RO'000	2013 RO'000
Overdrafts	**130,591**	111,959
Loans	**1,953,070**	1,724,640
Loans against trust receipts	**79,484**	77,792
Bills discounted	**10,445**	13,099
Advance against credit cards	**7,705**	7,864
Others	**27,980**	18,907
Islamic Banking Window financing	**133,034**	28,268
Gross loans, advances and financing	**2,342,309**	1,982,529
Less: Impairment allowance	**(87,604)**	(80,619)
Net loans, advances and financing	**2,254,705**	1,901,910

The movement in the impairment allowance is analysed below:

(a) Allowance for loan impairment

	2014	2013
1 January	**50,809**	48,064
Allowance during the year	**11,586**	7,021
Released to the statement of income during the year	**(4,724)**	(3,155)
Written off during the year	**(784)**	(1,121)
31 December	**56,887**	50,809

(b) Reserved interest

	2014	2013
1 January	**29,810**	27,416
Reserved during the year	**5,682**	5,437
Released to the statement of income during the year	**(944)**	(1,103)
Written off during the year	**(3,831)**	(1,940)
31 December	**30,717**	29,810
Total impairment allowance	**87,604**	80,619

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 etc.

In 2014, the Bank has written off RO 2.66 million (2013: RO nil) as technical write off.

8. Loans, advances and financing 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, advances and financing, at 31 December 2014, out of the total provisions of RO 87,604,000 (2013: RO 80,619,390) a collective provision was made on portfolio basis amounting to RO 32,349,000 (2013: RO 26,883,000). Collective provision includes RO 1,494,000 against financing of Islamic window (2013: RO 285,000)

At 31 December 2014, impaired loans and advances on which interest has been reserved amount to RO 58,680,172 (2013: RO 57,421,242) and loans and advances on which interest is not being accrued amount to RO 1,250,659 (2013: RO 1,257,648).

Loans advances and financing are summarised as follows:

	2014		2013	
	Loans, advances and financing to customers	**Loans, advances and financing to banks**	Loans, advances and financing to customers	Loans, advances and financing to banks
	RO'000	**RO'000**	RO'000	RO'000
Neither past due nor impaired	**2,265,922**	**91,603**	1,905,902	121,737
Past due but not impaired	**16,625**	-	18,168	-
Impaired	**59,762**	-	58,459	-
Gross loans and advances	**2,342,309**	**91,603**	1,982,529	121,737
Less: Impairment allowance	**(87,604)**	**(439)**	(80,619)	(367)
Total	**2,254,705**	**91,164**	1,901,910	121,370

Loans, advances and financing neither past due nor impaired

The credit quality of the portfolio of loans, advances and financing that were neither past due nor impaired can be assessed by reference to the internal rating system adopted by the Bank.

Loans and advances past due but not impaired

	2014	2013
	RO'000	RO'000
Past due up to 30 days	**11,019**	12,296
Past due 30 – 60 days	**4,082**	4,324
Past due 60 – 89 days	**1,524**	1,548
Total	**16,625**	18,168

8. Loans, advances and financing to customers *(continued)*

Impaired

	2014 RO'000	2013 RO'000
Substandard	**2,999**	2,709
Doubtful	**3,608**	3,526
Loss	**53,155**	52,224
Total	**59,762**	58,459

Fair value of collaterals

Upon initial recognition of loans, advances and financing, the fair value of collateral is based on valuation techniques commonly used for the corresponding assets. In subsequent periods, the fair value is updated by reference to market price or indexes of similar assets.

Loans, advances and financing renegotiated

Restructuring activities include extended payment arrangements, approved external management plans, modification and deferral of payments. Restructuring policies and practices are based on indicators or criteria which, in the judgment of management, indicate that payment will most likely continue. These policies are kept under continuous review. Restructuring is most commonly applied to term loans, in particular customer finance loans. Renegotiated loans that are classified as standard amounted to RO 44,908,000 at 31 December 2014 (2013: RO 3,247,551).

9. Available-for-sale investments

a) Equity investments

		Fair value	
	Cost RO'000	2014 RO'000	2013 RO'000
Quoted on the Muscat Securities Market			
Banking and investments	**1,311**	**1,211**	1,324
Services	**5,083**	**5,257**	4,389
Industrial	**8,839**	**7,737**	6,303
	15,233	**14,205**	12,016
Unquoted			
Omani companies	**1,699**	**2,483**	2,619
	1,699	**2,483**	2,619
	16,932	**16,688**	14,635

b) Sukuk

Unquoted			
Omani company	**10,000**	**10,198**	10,000
	10,000	**10,198**	10,000
	26,932	**26,886**	24,635

12. Property and equipment

	Freehold land RO'000	Buildings RO'000	Furniture And fixtures RO'000	Motor Vehicles RO'000	Computer equipment RO'000	Capital work-in-progress RO'000	Total RO'000
Cost							
1 January 2014	140	1,573	12,251	1,666	17,683	251	33,564
Additions	-	-	942	52	1,290	126	2,410
Disposals	-	-	(55)	(377)	(72)	(20)	(524)
31 December 2014	**140**	**1,573**	**13,138**	**1,341**	**18,901**	**357**	**35,450**
Depreciation							
1 January 2014	-	997	8,415	1,346	11,903	-	22,661
Charge for the year	-	59	1,344	201	1,979	-	3,583
Disposals	-	-	(30)	(376)	(71)	-	(477)
31 December 2014	**-**	**1,056**	**9,729**	**1,171**	**13,811**	**-**	**25,767**
Carrying value							
31 December 2014	**140**	**517**	**3,409**	**170**	**5,090**	**357**	**9,683**
31 December 2013	140	576	3,836	320	5,780	251	10,903

12. Property and equipment

	Freehold land RO'000	Buildings RO'000	Furniture And fixtures RO'000	Motor vehicles RO'000	Computer equipment RO'000	Capital work-in-progress RO'000	Total RO'000
Cost							
1 January 2013	140	1,573	10,423	1,591	14,917	164	28,808
Additions	-	-	1,921	203	2,883	87	5,094
Disposals	-	-	(93)	(128)	(117)	-	(338)
31 December 2013	**140**	**1,573**	**12,251**	**1,666**	**17,683**	**251**	**33,564**
Depreciation							
1 January 2013	-	938	7,248	1,150	10,040	-	19,376
Charge for the year	-	59	1,253	323	1,904	-	3,539
Disposals	-	-	(86)	(127)	(41)	-	(254)
31 December 2013	-	**997**	**8,415**	**1,346**	**11,903**	-	**22,661**
Carrying value 31 December 2013	**140**	**576**	**3,836**	**320**	**5,780**	**251**	**10,903**

13. Other assets

	2014 RO'000	2013 RO'000
Acceptances	**65,113**	37,213
Interest receivable	**4,149**	4,328
Prepaid expenses	**1,680**	2,158
Positive fair value of derivatives (note 33)	**1,320**	247
Other receivables	**2,686**	711
	74,948	44,657

14. Due to banks

	2014 RO'000	2013 RO'000
Inter bank borrowings	**174,215**	105,737
Payable on demand	**798**	597
	175,013	106,334

At 31 December 2014 two borrowings with one bank represented 20% or more of the Bank's borrowings (2013: two banks). The Bank has not had any defaults of principal, interest or other breaches during the year on its borrowed funds.

At 31 December 2014, Inter bank borrowings includes Islamic Window's inter bank borrowings with other bank of RO 23, 100, 000. (2013 RO 7,700,000)

15. Deposits from customers

	2014 RO'000	2013 RO'000
Current accounts	**686,095**	652,337
Savings accounts	**402,433**	322,472
Time deposits	**1,274,542**	1,047,953
Margin accounts	**22,101**	5,307
Islamic Banking Window deposits	**97,008**	3,677
	2,482,179	2,031,746

Current accounts and time deposits include deposits from the Government of the Sultanate of Oman and its entities amounting to RO 1,076,168,000 as at 31 December 2014 (2013: RO 802,103,000).

At 31 December 2014, deposits from customers include Islamic Window's current deposits, saving deposits and time deposits of RO 97,008,000 (2013 RO 3,677,000).

16. Other liabilities

	2014 RO'000	2013 RO'000
Acceptances	**65,113**	37,213
Interest payable	**4,183**	4,203
Creditors and accruals	**29,795**	37,848
Income tax provision	**5,805**	7,969
Deferred tax liability (note 27)	**473**	588
Negative fair value of derivatives (note 33)	**1,320**	-
Employee terminal benefits	**1,053**	871
	107,742	88,692

Employee terminal benefits

The Bank's net liability and the movement in the employee terminal benefits during the year are as follows:

	2014 RO'000	2013 RO'000
1 January	**871**	701
Expense recognised in the statement of income	**255**	245
Paid to employees	**(73)**	(75)
	1,053	871

17. Subordinated loans

	2014 RO'000	2013 RO'000
Subordinated loan - US Dollar	**28,875**	-
Subordinated loan - RO	**75,000**	75,000
	103,875	75,000

In September 2014, the Bank availed USD 75 million (RO 28.875 million) unsecured subordinated loan for a tenor of 66 months. This facility carries a fixed rate of interest payable half yearly, with principal being repaid on maturity.

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

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

18. Share capital

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

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

Shareholders

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

	2014 No. of shares	**%**	2013 No. of shares	%
Dhofar International Development and Investment Company SAOG	**373,625,997**	**27.8%**	336,600,000	27.8%
Eng. Abdul Hafidh Salim Rajab Al Aujaili and his related Companies	**279,914,110**	**20.8%**	252,174,876	20.8%
Civil Service Employees' Pension Fund	**137,232,341**	**10.2%**	121,542,165	10.1%
Total	**790,772,448**	**58.9%**	710,317,041	58.7%
Others	**552,469,766**	**41.1%**	499,811,080	41.3%
	1,343,242,214	**100.0**	1,210,128,121	100.0

The Shareholders, in the Annual General Meeting held on 28 March 2012, approved an allocation of RO 10,000,000 million in respect of Islamic Banking Window from the core paid up capital of the shareholders.

Furthermore the Shareholders, in the Annual General Meeting held on 20 March 2014, acknowledged the increase of "Maisarah" Islamic Banking Services capital from RO 10,000,000 to RO 12,500,000 from the core paid up capital of the shareholders.

On 26 June 2014, the Board of Directors proposed the increase of Islamic Banking Window's allocated capital from RO 12,500,000 to RO 25,000,000 from the core paid up capital of the shareholders. A resolution to approve the increase in share capital will be presented to the shareholders in the next annual general meeting.

Bank Dhofar SAOG, as part of strengthening its capital base and to fund planned growth in the coming years, the Board of Directors, in its meeting held on 24 December 2014 has resolved to:

1. Raise its Capital by issuing Tier 1 (including Additional Tier 1) type Capital Instruments in 2015 up to OMR 115.50 million (USD 300 million), subject to Shareholders, Central Bank of Oman and other Regulatory Approvals;
2. Issue senior non-capital debt instruments up to USD 500 million in the next four years, subject to necessary Shareholders, Central Bank of Oman and Regulatory Approvals;
3. Call for Extra-ordinary General Meeting of the Shareholders to consider and approve the above, subject to Regulatory Approvals

19. Share premium

In the year 2008, the Bank issued 176,921,306 shares by way of rights issue at a premium of RO 0.300 resulting in an increase in share premium by RO 53,076,392.

On 19 March 2013, the Shareholders of the Bank in the annual general meeting approved the issuance of 11% bonus shares amounting to RO 13,311,409 (133,114,093 shares of par value RO 0.100 each) from the share premium account.

20. Reserves

(a) Legal reserve

	2014 RO'000	2013 RO'000
1 January	**31,492**	25,652
Appropriation for the year	**4,045**	5,840
31 December	**35,537**	31,492

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 loans reserves

	2014 RO'000	2013 RO'000
1 January	**26,250**	11,250
Appropriation for the year:		
Subordinated loan reserve – RO	**15,000**	15,000
31 December	**41,250**	26,250

Subordinated loan reserve

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:

	2014	2013
1 January	**1,754**	1,556
(Decrease)/ Increase in fair value	**(1,159)**	2,447
Net transfer to statement of income on sale of available-for-sale investments	**(641)**	(2,249)
31 December	**(46)**	1,754

d) Special reserve

During the year 2013, the Bank recognised in the statement of income, recovery from a legal case of RO 26.1 million, out of which, the Bank allocated RO 18.49 million (equivalent amount that was used from share

Notes

20. Reserves *(continued)*

premium account for issuance of bonus shares, which was approved by the Shareholders in the annual general meeting held on 28 March 2012) to a special reserve to strengthen capital and requires prior approval of CBO for any distribution from this 'special reserve account' (refer note 6).

21. Retained earnings

Retained earnings represent the undistributed profits generated by the Bank since incorporation.

22. Net assets per share

Net assets per share are calculated by dividing the net assets at the year-end by the number of shares outstanding at 31 December as follows:

	2014	2013
Net assets (RO)	**325,318,000**	303,607,000
Number of shares outstanding at 31 December (Nos.)	**1,343,242,214**	1,210,128,121
Net assets per share (RO)	**0.242**	0.251

23. Net interest income

	2014 RO'000	2013 RO'000
Loans and advances to customers	**104,535**	97,781
Debt investments	**410**	629
Money market placements	**1,827**	1,615
Others	**10**	12
Total interest income	**106,782**	100,037
Deposits from customers	**(32,364)**	(32,472)
Money market deposits	**(838)**	(1,224)
Total interest expense	**(33,202)**	(33,696)
Net interest income	**73,580**	66,341

Included in interest income from debt investments is an amount of RO 396,528 (2013: RO 437,000) being interest income from held-to-maturity investments.

Included in interest expenses from customers is interest on subordinated loan against related parties of RO 4,438,908 (2013: RO 4,031,050).

Notes

24. Other income

	2014 RO'000	2013 RO'000
Foreign exchange	**1,398**	1,257
Investment income (see below)	**3,874**	5,724
Miscellaneous income	**4,643**	7,158
	9,915	14,139

	2014 RO'000	2013 RO'000
Investment income		
Dividend income- available-for-sale investments	**757**	399
Gain on disposal of available-for-sale investments	**647**	2,542
Income on Sukuk	**507**	88
Financial instruments at fair value through profit or loss	**-**	723
Interest income on Government Development Bonds/Other bonds	**1,963**	1,972
	3,874	5,724

25. Staff and administrative costs

(a) Staff costs

	2014 RO'000	2013 RO'000
Salaries and allowances	**23,365**	22,690
Other personnel costs	**3,586**	2,493
Scheme costs	**1,377**	1,047
Non-Omani employees terminal benefit	**255**	245
	28,583	26,475

At 31 December 2014, the Bank had 1,340 employees (2013: 1,350 employees).

(b) Administrative costs

	2014 RO'000	2013 RO'000
Occupancy costs	**3,486**	3,340
Operating and administration cost	**9,279**	10,474
Impairment of goodwill	**397**	397
Others	**835**	1,091
	13,997	15,302
	42,580	41,777

26. Impairment of financial assets

	2014 RO'000	2013 RO'000
Provision for loan impairment (note 7 and 8)	**11,658**	7,388
Loans written-off	**-**	1
	11,658	7,389
Recoveries from provision for loan impairment (note 8)	**(4,724)**	(3,155)
Net impairment charge for financial assets	**6,934**	4,234

Notes

27. Income tax

Income tax	2014 RO'000	2013 RO'000
(a) *Income tax expense:*		
Current tax		
Current year	**5,416**	7,696
Prior years	**-**	-
	5,416	7,696
Deferred tax		
Prior year	**(55)**	18
Current year	**(60)**	16
	(115)	34
Tax expense for the year	**5,301**	7,730

(b) *Reconciliation:*

The Bank is liable to income tax for the year 2014 in accordance with the income tax laws of the Sultanate of Oman at the rate of 12% on taxable profits in excess of RO 30,000. The following is a reconciliation of income taxes calculated at the applicable tax rate with the income tax expense:

	2014	2013
Accounting profit for the year	**45,754**	66,137
Tax liability at the rates mentioned above	**5,487**	7,933
Tax exempt revenue	**(167)**	(363)
Non-deductible expenses	**36**	142
Prior year current tax	**-**	-
Deferred tax – Prior years	**(55)**	18
Tax expense	**5,301**	7,730

(c) Temporary differences which give rise to deferred tax liability are as follows:

Particulars	2013 RO '000	Recognised in income	2014 RO '000
Property, plant and equipment	(279)	13	(266)
Intangible asset	(333)	47	(286)
Provisions (others)	24	-	24
Provision – loan loss		55	55
Net deferred tax (liability)	(588)	115	(473)

(d) Status of previous year returns:

The tax returns of the Bank for the years 2009 to 2013 have not yet been agreed with the Secretariat General for Taxation at the Ministry of Finance.

Management are of the opinion that additional taxes, if any, related to the open tax years would not be significant to the Bank's financial position as at 31 December 2014.

28. Earnings per share (basic and diluted)

The calculation of basic and diluted earnings per share is based on profit for the year attributable to ordinary shareholders as follows:

	2014	2013
Profit for the year (RO)	**40,453,000**	58,407,000
Weighted average number of shares outstanding during the year	**1,343,242,214**	1,343,242,214
Earnings per share basic and diluted (RO)	**0.030**	0.043

Earnings per share (basic and diluted) have been derived by dividing the profit for the year 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.

During the year 2014, the Bank issued 133.11 million bonus shares of RO 0.100 each to the existing shareholders, since the bonus issue was without consideration; the issue is treated as if it had occurred prior to the beginning of year 2013.

29. **Related parties transactions**

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

	2014 RO'000	2013 RO'000
Loans and advances		
Directors and shareholders holding less than 10% interest in the Bank	9,803	14,680
Directors and shareholders holding 10% or more interest in the Bank	21,162	45,921
	30,965	60,601
Subordinated loans		
Directors and shareholders holding less than 10% interest in the Bank	40,775	35,000
Directors and shareholders holding 10% or more interest in the Bank	54,438	40,000
	95,213	75,000
Deposits and other accounts		
Directors and shareholders holding less than 10% interest in the Bank	87,515	79,131
Directors and shareholders holding 10% or more interest in the Bank	325,022	314,609
	412,537	393,740
Contingent liabilities and commitments		
Directors and shareholders holding less than 10% interest in the Bank	1,816	1,807
Directors and shareholders holding 10% or more interest in the Bank	174	159
	1,990	1,966
Remuneration paid to Directors		
Chairman		
– remuneration proposed	17	15
– sitting fees paid	10	10
Other Directors		
– remuneration proposed	116	99
– sitting fees paid	57	76
	200	200
Other transactions		
Rental payment to a related party	380	464
Remuneration and fees paid to Sharia' Board of Islamic Banking Window	32	32
Other transactions	70	65

29. Related parties transactions *(continued)*

	2014 RO'000	2013 RO'000
Key management compensation		
Salaries and other benefits	**956**	1,570
End of service benefits	**-**	21
	956	1,591

30. Fiduciary assets

At 31 December 2014 and 2013, there were no funds under management with the Bank.

31. Single borrower and senior members

(a) Single borrower

	2014	2013
Total direct exposure	**189,145**	173,327
Number of Members	**3**	3

(b) Senior members

	2014	2013
Total exposure:		
Direct	**33,907**	62,471
Indirect	**1,990**	1,966
	35,897	64,437
Number of Members	**16**	27

32. Contingent liabilities and commitments

(a) Credit related contingent items

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

	2014 RO'000	2013 RO'000
Letters of credit	**87,680**	70,425
Guarantees and performance bonds	**628,395**	391,527
	716,075	461,952

At 31 December 2014, letters of credit, guarantees and other commitments amounting to RO 26,559,520 (2013: RO 18,318,000) are counter guaranteed by other banks.

(b) Termination of legal case

One of the Bank's customers 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 23 May 2012, the Supreme Court revoked the Appeal Court confirmation of the primary judgment. Further, the Supreme Court directed the Appeal Court to review its judgment by a different panel. On reviewing the judgment, the Appeal Court on 15 July 2014 accepted the Bank's appeal and issued new judgment dismissing the case against the Bank entirely. The other party challenged this judgment before the Supreme Court which on 23 October 2014 issued its judgment confirming the decision of the Appeal Court. In view of this, the case has been finally concluded in the Bank's favour.

(c) Capital and investment commitments

	2014 RO'000	2013 RO'000
Contractual commitments for property and equipment	**1,152**	2,106

33. Derivative financial instruments

The Bank uses the following derivative instruments for both hedging and non-hedging purposes:

Currency forwards represent commitments to purchase foreign and domestic currency, including undelivered spot transactions. Currency swaps are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies. No exchange of principal takes place, except for certain currency swaps. The Bank's credit risk represents the potential cost to replace the swap contracts if counterparties fail to perform their obligation. This risk is monitored on an ongoing basis with reference to the current fair value, a proportion of the notional amount of the contracts and the liquidity of the market. To control the level of credit risk taken, the Bank assesses counterparties using the same techniques as for its lending activities.

Notes

33. Derivative financial instruments *(continued)*

The notional amounts of certain types of financial instruments provide a basis for comparison with instruments recognised on the statement of financial position but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Bank's exposure to credit or price risks. The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates or foreign exchange rates relative to their terms. The aggregate contractual or notional amount of derivative financial instruments on hand, the extent to which instruments are favourable or unfavourable, and thus the aggregate fair values of derivative financial assets and liabilities shown within other assets and other liabilities, can fluctuate significantly from time to time. The fair values of derivative instruments held are set out below:

At 31 December 2014		**Fair value increase / decrease**	
	Contract / notional amount RO'000	**Assets RO'000**	**Liabilities RO'000**
Foreign exchange derivatives			
Currency forward - purchase contracts	**227,273**	**1,442**	**-**
Currency forward - sales contracts	**225,927**	**-**	**122**

At 31 December 2013		Fair value increase / decrease	
	Contract / notional amount RO'000	Assets RO'000	Liabilities RO'000
Foreign exchange derivatives			
Currency forward - purchase contracts	186,851	576	-
Currency forward - sales contracts	186,714	-	329

The following table indicates the year in which the cash flows associated with derivatives that are expected to impact statement of income.

	Assets		**Liabilities**	
	2014 RO'000	2013 RO'000	**2014 RO'000**	2013 RO'000
Expected cash flow less than 6 months	**1,320**	247	**-**	-

34. Fair value information

Based on the valuation methodology outlined below, the fair values of all financial instruments at 31 December 2014 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.

34. Fair value information *(continued)*

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.

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 31 December 2014	**Level 1 RO'000**	**Level 2 RO'000**	**Level 3 RO'000**	**Cost RO'000**	**Total RO'000**
Available-for-sale investments					
Equity instruments	**14,205**	**-**	**2,483**	**-**	**16,688**
Sukuk	**-**	**10,198**	**-**	**-**	**10,198**
At 31 December 2013					
Available-for-sale investments					
Equity instruments	12,016	-	2,619	-	14,635
Sukuk	-	-	-	10,000	10,000

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.

35. **Financial risk management**

The important types of financial risks to which the Bank is exposed are credit risk, liquidity risk and market risk. The risk management division of the Bank is an independent and dedicated unit reporting directly to the Risk Management Committee ("RMC") of the Board. The division's primary responsibility is to assess, monitor and recommend strategies for control of credit, market and operational risk. The absence of any direct or indirect reporting lines and permanent membership in all the Bank's committees are among the factors which reflect the independence of the Risk Management Divisions working and the key role it plays within the Bank.

The risk management framework is pivoted on a host of committees involving the executive management and the Board of Directors ("the Board") for approval and reporting purposes. The Board has the overall authority for approval of strategies and policies, which it exercises through it's various sub-committees. The Risk Management Committee of the Board is responsible for reviewing and recommending to the full Board for approval all risk policies and procedures. RMC also reviews the risk profile of the Bank as presented to it by the RMD and appraises the full Board in its periodic meetings.

Credit risk

The most important risk to which the Bank is exposed, is credit risk. To manage the level of credit risk, the Bank deals with counter-parties of good credit.

Executive Committee of the Board is the final credit approving authority of the Bank which is mainly responsible for approving all credit proposals beyond the authority level of the management and also for reviewing and approving credit policies. This committee is also the final authority for approving investments beyond the authority of the management. The Management Credit Committee ("MCC") is the management decision making body which is empowered to consider all credit related issues upto certain limits.

Credit risk is managed by the RMD through a system of independent risk assessment in credit proposals beyond a threshold limit of RO 100,000 before they are considered by the appropriate approving authorities. The Bank has in place a risk grading system for analyzing the risk associated with credit. This facilitates the approving authorities in making their credit decision. In addition, RMD assists/ reviews grading of obligors, conducts regular macro analysis of the credit portfolio, and monitors credit concentration limits. Maximum counterparty/group exposures are limited to 15% of the Bank's capital base as stipulated by CBO and where a higher limit is required for projects of national importance prior CBO approval is obtained. Individual country limits using external leading rating agencies have also been set up to ensure portfolio diversification in terms of sovereign risk ratings and geographical exposure. These limits are approved by the Board. Retail lending is strictly in accordance with the CBO guidelines. The analysis of credit is given below:

35. **Financial risk management** *(continued)*

Credit risk *(continued)*

(a) Geographical concentrations

	Assets			Liabilities		
	Gross loans advances and financing to banks	**Gross Loans Advances and financing**	**Investment securities**	**Deposits from customers**	**Due to banks**	**Contingent liabilities**
	RO'000	**RO'000**	**RO'000**	**RO'000**	**RO'000**	**RO'000**
31 December 2014						
Sultanate of Oman	**-**	**2,336,759**	**115,753**	**2,478,557**	**59,454**	**549,060**
Other GCC countries	**14,443**	**5,550**	**61,121**	**3,179**	**67,539**	**54,026**
Europe and North America	**45,189**	**-**	**-**	**4**	**25,028**	**68,025**
Africa and Asia	**31,971**	**-**	**-**	**439**	**22,992**	**44,964**
	91,603	**2,342,309**	**176,874**	**2,482,179**	**175,013**	**716,075**
31 December 2013						
Sultanate of Oman	35,399	1,977,383	103,340	2,028,843	92,827	379,346
Other GCC countries	11,164	5,146	65,300	2,624	2,085	42,224
Europe and North America	21,357	-	9,361	57	7,709	22,183
Africa and Asia	53,817	-	-	222	3,713	18,199
	121,737	1,982,529	178,001	2,031,746	106,334	461,952

35. **Financial risk management** *(continued)*

Credit risk *(continued)*

(b) **Customer concentrations**

	Assets			Liabilities		
	Gross loans, Advances and financing to banks	Gross Loans, Advances and financing	Investment securities	Deposits from customers	Due to banks	Contingent liabilities
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
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
	91,603	2,342,309	176,874	2,482,179	175,013	716,075
31 December 2013						
Personal	-	870,226	-	447,248	-	310
Corporate	121,737	985,372	99,296	782,395	106,334	456,212
Government	-	126,931	78,705	802,103	-	5,430
	121,737	1,982,529	178,001	2,031,746	106,334	461,952

(c) **Economic sector concentrations**

	Assets	Liabilities	
	Gross loans, advances and financing	Deposits from customers	Contingent Liabilities
	RO'000	RO'000	RO'000
31 December 2014			
Personal	1,048,120	529,288	2,639
International trade	97,168	52,119	45,260
Construction	327,648	131,840	407,296
Manufacturing	230,627	41,999	55,645
Wholesale and retail trade	38,084	8,928	19,627
Communication and utilities	89,171	47,647	5,111
Financial services	122,527	65,474	105,790
Government	136,723	1,076,168	1,898
Other services	105,518	113,336	61,543
Others	146,723	415,380	11,266
	2,342,309	2,482,179	716,075

35. Financial risk management *(continued)*

Credit risk *(continued)*

(c) Economic sector concentrations *(continued)*

	Assets	Liabilities	
	Gross loans, advances and financing	Deposits from Customers	Contingent liabilities
	RO'000	RO'000	RO'000
31 December 2013			
Personal	870,226	447,248	310
International trade	93,624	17,537	26,635
Construction	236,889	65,243	287,929
Manufacturing	174,020	22,034	42,739
Wholesale and retail trade	40,242	6,155	13,571
Communication and utilities	133,205	22,381	822
Financial services	119,166	30,572	18,659
Government	126,931	802,103	5,430
Other services	105,147	126,510	59,670
Others	83,079	491,963	6,187
	1,982,529	2,031,746	461,952

(d) Gross credit exposure

	Total gross exposure		Monthly average gross exposure	
	2014	2013	**2014**	2013
	RO'000	RO'000	**RO'000**	RO'000
Overdrafts	**130,591**	111,959	**119,691**	122,483
Loans	**1,953,070**	1,724,640	**1,887,113**	1,628,317
Loans against trust receipts	**79,484**	77,792	**91,232**	80,132
Bills discounted	**10,445**	13,099	**10,776**	9,647
Advance against credit cards	**7,705**	7,864	**7,599**	7,811
Advance against receivable	**27,980**	18,907	**22,715**	18,879
Islamic Banking Window financing	**133,034**	28,268	**84,994**	14,139
Total	**2,342,309**	1,982,529	**2,224,120**	1,881,408

Notes

35. Financial risk management *(continued)*

Credit risk *(continued)*

(e) Geographical distribution of exposures:

	Sultanate of Oman RO'000	Other countries RO'000	Total RO'000
31 December 2014			
Overdrafts	**130,591**	**-**	**130,591**
Loans	**1,948,054**	**5,016**	**1,953,070**
Loans against trust receipts	**78,950**	**534**	**79,484**
Bills discounted	**10,445**	**-**	**10,445**
Advance against credit cards	**7,705**	**-**	**7,705**
Others	**27,980**	**-**	**27,980**
Islamic Banking Window financing	**133,034**	**-**	**133,034**
	2,336,759	**5,550**	**2,342,309**
31 December 2013			
Overdrafts	111,959	-	111,959
Loans	1,719,729	4,911	1,724,640
Loans against trust receipts	77,557	235	77,792
Bills discounted	13,099	-	13,099
Advance against credit cards	7,864	-	7,864
Others	18,907	-	18,907
Islamic Banking Window financing	28,268	-	28,268
	1,977,383	5,146	1,982,529

Notes

35. Financial risk management *(continued)*

Credit risk *(continued)*

(f) Industry type distribution of exposures by major types of credit exposures:

	Overdrafts RO'000	Loans RO'000	Bills discounted RO'000	Others RO'000	Total RO'000	Off balance sheet exposures RO'000
31 December 2014						
Import trade	10,612	60,486	30	26,035	97,163	45,260
Export trade	5	-	-	-	5	-
Wholesale/retail trade	8,630	26,101	-	3,353	38,084	19,627
Mining and quarrying	3,917	39,973	287	7	44,184	2,614
Construction	51,567	232,238	1,227	42,616	327,648	407,296
Manufacturing	11,396	186,443	-	32,788	230,627	55,645
Electricity, gas and water	34	41,341	-	402	41,777	723
Transport and communication	120	47,274	-	-	47,394	4,388
Financial institutions	7,693	108,281	6,552	1	122,527	105,790
Services	22,333	81,672	272	1,241	105,518	61,543
Personal loans	4,835	1,035,743	-	7,542	1,048,120	2,639
Agriculture and allied activities	3,541	8,840	32	46	12,459	1,435
Government	-	136,723	-	-	136,723	1,898
Non-resident lending	-	5,016	-	534	5,550	-
Others	5,908	75,973	2,045	604	84,530	7,217
	130,591	**2,086,104**	**10,445**	**115,169**	**2,342,309**	**716,075**
31 December 2013						
Import trade	11,385	56,672	63	25,213	93,333	26,540
Export trade	4	10	-	277	291	95
Wholesale/retail trade	6,682	25,879	-	7,681	40,242	13,571
Mining and quarrying	4,892	30,632	726	1,517	37,767	1,281
Construction	40,676	160,828	1,337	34,048	236,889	287,929
Manufacturing	10,048	138,373	1,499	24,100	174,020	42,739
Electricity, gas and water	86	40,556	118	182	40,942	513
Transport and communication	74	92,189	-	-	92,263	309
Financial institutions	2,238	107,303	9,342	283	119,166	18,659
Services	20,767	82,296	-	2,084	105,147	59,670
Personal loans	6,434	856,093	-	7,699	870,226	310
Agriculture and allied activities	1,677	5,721	14	86	7,498	814
Government	-	126,931	-	-	126,931	5,430
Non-resident lending	-	4,911	-	235	5,146	54
Others	6,996	24,514	-	1,158	32,668	4,038
	111,959	1,752,908	13,099	104,563	1,982,529	461,952

35. **Financial risk management** *(continued)*

Credit risk *(continued)*

(g) **Residual contractual maturities of the portfolio by major types of credit exposures:**

	Overdrafts RO'000	Loans RO'000	Bills discounted RO'000	Others RO'000	Total RO'000	Off balance sheet exposures RO'000
31 December 2014						
Upto 1 month	**6,530**	**21,599**	**10,445**	**7,278**	**45,852**	**288,321**
1 - 3 months	**6,530**	**79,559**	**-**	**3,346**	**89,435**	**38,662**
3 - 6 months	**6,530**	**96,564**	**-**	**3,290**	**106,384**	**54,167**
6 - 9 months	**6,530**	**18,204**	**-**	**16,285**	**41,019**	**36,740**
9 - 12 months	**6,530**	**58**	**-**	**16,556**	**23,144**	**50,748**
1 - 3 years	**32,647**	**157,830**	**-**	**12,337**	**202,814**	**140,141**
3 – 5 years	**32,647**	**137,140**	**-**	**24,663**	**194,450**	**87,659**
Over 5 years	**32,647**	**1,575,150**	**-**	**31,414**	**1,639,211**	**19,637**
	130,591	**2,086,104**	**10,445**	**115,169**	**2,342,309**	**716,075**
31 December 2013						
Upto 1 month	5,598	11,688	13,099	3,307	33,692	169,506
1 - 3 months	5,598	137,929	-	1,330	144,857	35,164
3 - 6 months	5,598	41,627	-	4,011	51,236	47,607
6 - 9 months	5,598	13,947	-	8,275	27,820	11,163
9 - 12 months	5,598	1,267	-	4,338	11,203	21,712
1 - 3 years	27,990	168,590	-	19,676	216,256	95,115
3 – 5 years	27,990	85,125	-	18,784	131,899	68,051
Over 5 years	27,989	1,292,735	-	44,842	1,365,566	13,634
	111,959	1,752,908	13,099	104,563	1,982,529	461,952

35. **Financial risk management** *(continued)*

Credit risk *(continued)*

(h) Distribution of impaired loans, past due and not past due loans by type of industry:

	Performing loans RO'000	Non-performing loans RO'000	General provisions held RO'000	Specific provisions held RO'000	Interest reserve RO'000	Specific provision during the year RO'000	Advances written off during the year RO'000
31 December 2014							
Import trade	**89,651**	**7,512**	**896**	**1,425**	**5,786**	**12**	**-**
Export trade	**1**	**4**	**1**	**3**	**1**	**-**	**-**
Wholesale/retail trade	**19,090**	**18,994**	**191**	**4,959**	**14,153**	**22**	**27**
Mining and quarrying	**44,179**	**5**	**442**	**4**	**2**	**-**	**-**
Construction	**325,037**	**2,611**	**4,314**	**814**	**1,910**	**15**	**151**
Manufacturing	**230,135**	**492**	**2,301**	**264**	**219**	**114**	**-**
Electricity, gas and water	**41,743**	**34**	**417**	**8**	**3**	**8**	**-**
Transport and communication	**47,390**	**4**	**474**	**1**	**3**	**-**	**-**
Financial institutions	**122,527**	**-**	**1,227**	**-**	**-**	**-**	**-**
Services	**105,135**	**383**	**1,051**	**160**	**198**	**13**	**42**
Personal loans	**1,023,919**	**24,201**	**18,697**	**12,289**	**7,692**	**5,877**	**564**
Agriculture and allied activities	**12,450**	**9**	**125**	**7**	**2**	**-**	**-**
Government	**136,723**	**-**	**1,367**	**-**	**-**	**-**	**-**
Non-resident lending	**534**	**5,016**	**6**	**4,429**	**590**	**-**	**-**
Others	**84,033**	**497**	**840**	**175**	**158**	**43**	**-**
	2,282,547	**59,762**	**32,349**	**24,538**	**30,717**	**6,104**	**784**
31 December 2013							
Import trade	86,538	6,795	866	1,468	4,998	34	-
Export trade	277	14	3	3	10	-	-
Wholesale/retail trade	23,206	17,036	232	5,002	12,119	32	-
Mining and quarrying	37,762	5	378	4	1	290	-
Construction	232,767	4,122	2,328	1,776	1,962	35	1
Manufacturing	173,282	738	1,733	244	260	75	-
Electricity, gas and water	40,941	1	410	1	-	-	-
Transport and communication	92,260	3	923	1	2	-	-
Financial institutions	119,166	-	1,192	-	-	-	-
Services	104,597	550	1,046	211	334	54	1,054
Personal loans	846,482	23,744	15,791	10,641	9,506	3,926	66
Agriculture and allied activities	7,489	9	75	7	1	1	-
Government	126,931	-	1,269	-	-	-	-
Non-resident lending	235	4,911	3	4,429	486	-	-
Others	32,137	531	634	139	131	108	-
	1,924,070	58,459	26,883	23,926	29,810	4,555	1,121

Notes

35. **Financial risk management** *(continued)*

Credit risk *(continued)*

(i) **Distribution of impaired loans and gross loans by geographical distribution:**

	Gross loans and financing RO'000	Non-performing loans and financing RO'000	General provisions held RO'000	Specific provisions held RO'000	Interest reserve RO'000	Specific provision made during the year RO'000	Advances written off during the year RO'000
31 December 2014							
Sultanate of Oman	**2,336,759**	**54,746**	**32,343**	**20,109**	**30,127**	**6,104**	**784**
Other countries	**5,550**	**5,016**	**6**	**4,429**	**590**	**-**	**-**
	2,342,309	**59,762**	**32,349**	**24,538**	**30,717**	**6,104**	**784**
31 December 2013							
Sultanate of Oman	1,977,383	53,528	26,880	19,497	29,324	4,555	1,121
Other countries	5,146	4,931	3	4,429	486	-	-
	1,982,529	58,459	26,883	23,926	29,810	4,555	1,121

(j) **Maximum exposure to credit risk without consideration of collateral held:**

	2014 RO' 000	2013 RO' 000
Treasury bills	**61,121**	74,661
Loans, advances and financing to banks	**91,164**	121,370
Loan, advances and financing to customers	**2,254,705**	1,901,910
Government development bonds	**88,867**	78,705
	2,495,857	2,176,646
Off-balance sheet items		
Financial guarantees	**527,736**	377,627
	3,023,593	2,554,273

At 31 December 2014, impairment losses would have increased by RO 1,121,483(2013: 1,628,368) had collateral not been obtained by the Bank for the impaired loans and advances.

35. Financial risk management *(continued)*

Liquidity risk

Liquidity risk is the potential inability to meet the Bank's liabilities that are settled by delivering cash or another financial asset as they become due. It arises when the Bank is unable to generate cash to cope with a decline in deposits or increase in assets.

Bank's Liquidity Risk Management is governed by the Treasury Risk Policy document approved by the Board of Directors as well as the provisions of relevant CBO guidelines on liquidity risk management. The Treasury risk policy also incorporates contingency plans and measures so as the Bank is always in a position to meet all maturing liabilities as well as to fund asset growth and business operations. The contingency funding plan includes effective monitoring of the cash flows on a day to day basis, holding of tradable high quality liquid assets, which may be readily disposed off in sizeable amount etc. The Bank also has in place adequate lines of credit from both local and international Banks to meet any unforeseen liquidity requirements.

The Bank monitors its liquidity risk through cash flow approach and stock approach. Under cash flow approach Bank generates Maturity of Assets and Liabilities (MAL) report which captures all the maturing assets and liabilities into various pre-set time buckets ranging from one month to five years. The mismatches in various time buckets indicate liquidity gap and Bank strictly adheres to the CBO set limit of 15% of cumulative liabilities (outflows) on mismatches (liquidity gaps) in time buckets upto one year. In addition, the Bank has also set up internal limit on mismatches in time buckets beyond one year. Under stock approach, Bank monitors the liquidity risk through liquidity ratios, which portrays the liquidity available at the reporting date.

Treasury department of the Bank controls and monitors the liquidity risk and ensures that the Bank is not exposed to undue liquidity risk and at the same time make optimum use of its funds. Middle office in Risk Management Division also monitors the liquidity position of the Bank and provide the liquidity gap to Treasury Department to meet liquidity gaps.

35. **Financial risk management** *(continued)*

Liquidity risk *(continued)*

Maturity profile of assets and liabilities

	Due on demand and up to 30 days RO'000	More than 1month 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
Shareholders' equity	-	40,453	-	-	284,865	325,318
Total liabilities and shareholders' equity	274,681	578,233	470,994	779,421	1,090,798	3,194,127

Notes

35. Financial risk management *(continued)*

Liquidity risk *(continued)*

Maturity profile of assets and liabilities *(continued)*

	Due on demand and up to 30 days RO'000	More than 1month 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 2013						
Cash and balances with Central Bank of Oman	345,258	-	-	-	500	345,758
Loans and advances to banks	44,778	54,001	13,101	9,490	-	121,370
Loans and advances to customers	177,818	270,857	75,957	468,683	908,595	1,901,910
Available-for-sale Investments	-	-	14,635	10,000	-	24,635
Held-to-maturity Investments	20,511	54,150	20,662	45,496	12,547	153,366
Intangible asset	-	-	-	-	2,780	2,780
Property and equipment	-	-	-	-	10,903	10,903
Other assets	32,905	7,152	1,468	15	3,117	44,657
Total assets	621,270	386,160	125,823	533,684	938,442	2,605,379
Due to banks	66,046	40,288	-	-	-	106,334
Deposits from customers	193,575	424,962	403,383	450,323	559,503	2,031,746
Other liabilities	51,008	16,695	3,017	16,305	1,667	88,692
Subordinated loans	-	-	-	75,000	-	75,000
Shareholders' equity	-	58,407	-	-	245,200	303,607
Total liabilities and shareholders' equity	310,629	540,352	406,400	541,628	806,370	2,605,379

35. Financial risk management *(continued)*

Market risk

Market risk includes currency risk, interest rate risk and equity price risk.

(a) Currency risk

The Bank is exposed to currency risk through its transactions in foreign currencies. The major foreign currency to which the Bank is exposed is the US Dollar which is effectively pegged to Rial Omani. The Bank finances a significant portion of its financial assets in the same currencies as the relevant measurement currencies to mitigate its foreign currency risk.

The Bank's transactional exposures give rise to foreign currency gains and losses that are recognised in the statement of income. The Bank ensures that its net exposure is kept to an acceptable level by buying and selling foreign currencies at spot rates when considered appropriate. Foreign exchange risk is computed on the average of the sum of net short positions or net long positions, whichever is higher of the foreign currency positions held by the Bank. The foreign currency exposures are given below:

Foreign currency exposures

	2014	2013
	RO'000	RO'000
Net assets denominated in US Dollars	**47,511**	56,229
Net assets denominated in other foreign currencies	**2,013**	2,090
	49,524	58,319

(b) Interest rate risk

The Bank's operations are subject to the risk of interest rate fluctuations to the extent that interest-earning assets and interest-bearing liabilities are reset at different times. Risk management activities are aimed at optimising net interest income, given market interest rate levels, consistent with the Bank's business strategies. The Bank manages mismatches by following policy guidelines and reduces risk by matching the reprising of assets and liabilities. Details relating to re-pricing mismatches and the interest rate risk thereon are placed to the ALCO in its regular meetings and also to the Risk Management Committee of the Board. Impact on earnings due to interest rate risk in the banking book is as follows:

Impact on earnings due to interest rate risk in the banking book

	+ or – 1%		**+ or – 2%**	
	2014	2013	**2014**	2013
	RO'000	RO'000	**RO'000**	RO'000
Omani Rials	**10,031**	8,258	**20,061**	16,516
US Dollars	**1,830**	2,064	**3,660**	4,128
Others currencies	**181**	201	**361**	402

Notes

35. Financial risk management *(continued)*

Market risk *(continued)*

(b) Interest rate risk *(continued)*

Interest rate sensitivity gap

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

	Effective average interest rate %	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	0.13%	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
Shareholders' equity		-	40,453	-	-	-	284,865	325,318
Total liabilities and shareholders' 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		

Notes

35. Financial risk management *(continued)*

(b) Interest rate risk *(continued)*

Interest rate sensitivity gap *(continued)*

	Effective average interest rate %	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 2013								
Cash and balances with Central Bank of Oman	0.13%	190,000	-	-	-	500	155,258	345,758
Loans and advances to banks	1.2%	44,778	58,804	17,788	-	-	-	121,370
Loans and advances to customers	5.5%	321,524	809,613	46,432	385,401	338,940	-	1,901,910
Available-for-sale investments		-	-	-	-	-	24,635	24,635
Held-to-maturity investments	1.7%	20,511	54,150	20,662	45,496	12,547	-	153,366
Intangible asset		-	-	-	-	-	2,780	2,780
Property and equipment		-	-	-	-	-	10,903	10,903
Other assets		-	-	-	-	-	44,657	44,657
Total assets		576,813	922,567	84,882	430,897	351,987	238,233	2,605,379
Due to banks	0.9%	65,449	40,288	-	-	-	597	106,334
Deposits from customers	1.7%	529,275	238,469	345,684	396,848	5,018	516,452	2,031,746
Other liabilities		-	-	-	-	-	88,692	88,692
Subordinated loan	5.4%	-	-	-	75,000	-		75,000
Shareholders' equity		-	58,407	-	-	-	245,200	303,607
Total liabilities and shareholders' equity		594,724	337,164	345,684	471,848	5,018	850,941	2,605,379
On-balance sheet gap		(17,911)	585,403	(260,802)	(40,951)	346,969	(612,708)	
Cumulative interest sensitivity gap		(17,911)	567,492	306,690	265,739	612,708		

35. Financial risk management *(continued)*

Market risk *(continued)*

(c) Equity risk

Bank is exposed to the volatility in the prices of the securities held under equity portfolio. Equity investments held are for strategic/long term rather than for trading purposes and hence, Bank does not hold trading positions in equity investments. However, Bank's portfolio is marked to market on regular basis and the difference in the book value and market value are adjusted against investment revaluation reserve in shareholder's equity and for impaired investments to statement of income.

Further, Bank also conducts stress testing and sensitivity analysis to take an informed decision on equity risk exposure.

***If equity price for listed shares had been 5% lower*:**

If there is adverse impact of 5% on equity portfolio, the value of the portfolio may decrease by RO 707,625 . (2013: decrease by RO 598,015).

***If equity price for unlisted shares had been 5% lower*:**

The financial statements include holdings in unlisted shares which are measured at fair value. Fair value is estimated using either Net Asset Value (NAV) provided by the fund managers or book value per share of the investee company. If the estimation were 5% lower / higher while all other variables were held constant, the carrying amount of the shares would decrease / increase by RO 126,793(2013: decrease / increase by RO 133,710).

Operational risk

Operational risk is the deficiencies in information systems/internal controls or uncontrollable external events leading to financial/ non-financial losses for the Bank. The risk is associated with human error, systems failure and inadequate procedures or control and external causes. As per the Basel Committee on Banking Supervision (BCBS), operational risk is the risk of losses resulting from inadequate or failed internal processes, people and systems or from external events. Operational risk includes legal risk but excludes strategic and reputational risk.

The Bank has detailed policies and procedures that are regularly updated to ensure that a sound internal control environment exists. Risk Management Committee (RMC), a sub-committee of the Board, drives the implementation of the risk management framework, approved by the Board, at the apex level. The RMC ensure that the risk policies developed clearly spell out the quantitative prudential limits on various segments of the Bank's operations and also ensures implementation of Central Bank of Oman's guidelines on Risk Management/Basel II/Basel III and internationally accepted best practices in the area of risk management including Operational risk management. Management Risk Committee (MRC), comprising of Senior Management of the Bank, precedes RMC in reviewing, evaluating and monitoring of operational risk. Business Units are responsible for management of operational risks within their respective scope of duties. In the financial year 2014, the Bank's operational risks were well controlled and losses from operational risks were kept at low level. Trained and competent staff oversees the various operational functions of the Bank.

Taking the New Capital Accord Implementation as an opportunity, the Bank has developed a comprehensive operational risk management framework comprising of the Operational Risk Management (ORM) policy, Risk Control and Self-Assessment, Key Risk Indicator, Loss Data Management (LDM) Framework. The ORM policy of the Bank provides the ORM framework which includes ORM components, management process, measurement process and governance, roles and responsibilities. The Bank has also set up Operational Risk Management Software to aid assessment of operational risk as well as collection and analysis of operational losses and key risk indicators.

35. Financial risk management *(continued)*

The Risk Control and Self-Assessment (RCSA) framework enables the Bank to identify the operational weaknesses in the process and procedures by conducting self-assessment workshops. A team of experts in various departments assess the operational weaknesses in various processes and its likely impact on the Bank. RMD in association with business units has been able to complete the RCSA exercise for all the departments and branches of the conventional banking. During RCSA exercise, processes in various departments were reviewed from operational risk point of view and wherever high risk events were identified, the extant controls were reviewed. With the completion of the RCSA exercise, risk register has been created, which inter-alia includes inherent risk events, control effectiveness and residual risks.

The Key Risk Indicator (KRI) framework enables the Bank to identify and monitor the key risks. KRIs of all the departments in conventional banking have been identified and are being monitored on monthly basis. Loss Data Management framework lays down the procedure to identify, record and report the internal and external loss events. The data on operational loss is collated on regular basis and is presented to the Management and Board level committees. In order to avoid unexpected shocks to the financial position of the Bank, a reporting system on "Potential Losses" has also been introduced. Potential Loss can be defined as an operational event that has not actually crystallized into actual loss but has a potential of adversely impacting Bank's bottom-line.

Operational Risk Management Unit (ORMU) in RMD is responsible for implementation, development and coordination of all the operational risk activities of the Bank, while working towards achievement of stated goals and objectives. Risk Management Division (RMD) conducts regular training programs for staff at various levels to inculcate 'risk awareness' and to spread the general 'risk management culture' in the Bank. Professional training in diversified forms is also imparted to improve the employees' risk management skills.

Business Continuity Planning (BCP)

Business Continuity Management is the implementation and management of preventative measures, planning and preparation to ensure the Bank can continue to operate following an incident, significant unplanned event or major operational disruption. The Bank ensures that its systems and procedures are resilient to ensure business continuity through potential situations of failure. Bank has adopted Business Continuity / Disaster Recovery Plan with a view to continue business operations and critical customers services at all times both at Conventional and Maisarah. The plan addresses employee health and safety, potential disruptions from the unanticipated loss of services or infrastructure and resumption of business operations in the face of an emergency or disaster. Business Impact Analysis, Business Continuity/ Disaster Recovery testing, Awareness Programs etc. are conducted in tune with the regulatory guidelines for meeting any unforeseen circumstances. The key initiatives on the business continuity readiness included the following:

- Business Continuity Management (BCM) Steering Committee, a Management level committee has been set up and entrusted with the responsibility of overall supervision for the implementation and maintaining a sound BCM for the Bank. The committee ensures that plans formulated are implemented and tested.

- Bank maintains an alternate / Business Continuity Plan (BCP) site equipped with redundancy and contingency features to ensure business continuity for resuming critical business activities in emergent scenarios. Bank has strengthened BCP site seating capacity and infrastructure considering various worst case scenarios. Additional workspace has been created for critical business units to resume business services in the event of a disaster.

- Bank wide BCP testing exercise and Information Technology Disaster Recovery Drill is conducted to test check the resilience of technical as well as business recovery. Testing was conducted in coordination with business units to test check transaction systems using business test cases and also to test the preparedness, recovery of applications, recovery timings, assembly of key resources, functioning of equipments, coordination of business units / branches etc. The testing results along with the gaps and action taken are apprised to the risk committees at the Management and Board level.

Notes

35. Financial risk management – Operation risk*(continued)*

- For the cause of human safety and security, fire drill exercises are also conducted in Head Office building. Through fire drills, the preparedness and recovery capabilities of the coordinators /floor leaders /fire wardens are tested and security procedures are reinforced.

- As part of creating awareness, specific as well as comprehensive awareness programme are also conducted to imbibe the importance of BCP amongst staff.

- The communication numbers of key persons are provided to all the staff so that they can contact the relevant person in case of emergency.

Internal Capital Adequacy Assessment Process (ICAAP):

The Bank has put in place Internal Capital Adequacy Assessment Process (ICAAP) with an objective to explain the Risk policies adopted, Risk policy principles, Target risk structure and Capital planning, the process of assessing the capital adequacy for all the three risks viz., Credit Risk, Market Risk and Operational Risk, Specific assessment procedures for all material risks like interest rate risk in banking book, reputational risk, credit concentration risk etc, the process of Internal Control Mechanism and the stress testing methodologies adopted by the Bank.

As a part of capital planning process, ICAAP provides a detailed assessment of its current capital adequacy, and also project future capital requirement to meet the regulatory capital adequacy ratios in line with approved business plans. The process covers a forward looking plan for the next 3 years. The overall framework has introduced a structured methodology for a comprehensive forward-looking assessment of capital based on the Bank's risk profile. It is also expected that the establishment of ICAAP in the Bank will facilitate the awareness for risk sensitive topics when it comes to strategic decisions like acquisitions, launch of new products or organic growth targets. ICAAP is approved by the Board of Directors through Board Risk Committee. On a quarterly basis, reporting is done to the Board on the adequacy of capital. The Bank believes that its current and foreseen capital endowment is suitable to support its business strategy in a soothing market environment. The capital planning is reviewed on half yearly basis and the entire ICAAP document is updated at least annually for a rolling, forward-looking planning period of 3 years.

In order to determine the Bank's capability to withstand adverse conditions, in addition to the base case, scenario and sensitivity analysis is also carried out. The scenario analysis entails boom in the economy & rise in oil prices, Decline in GDP due to economic downturn or due to decline in oil prices and capital adequacy sensitivity due to increase & decrease in growth of loans and advances. Besides this, Bank also conducts stress testing to assess the potential impact of the stress situations on the Bank's earnings & capital position and enable the Bank to understand its risk profile & adjusting it in accordance with the risk appetite.

36. 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 disclosed in note 17, and equity attributable to shareholders of the Bank comprising issued share capital, share premium, reserves and retained earnings as disclosed in notes 18 to 21.

36. Capital risk management *(continued)*

Capital adequacy

The ratio of equity to risk weighted assets, as formulated by the Basel II and Basel III, for the year ended 31 December 2014 is 14.05% (2013: 14.09%).

Capital structure	**2014 RO'000**	2013 RO'000
Common Equity Tier (CET) I/ TIER I CAPITAL		
Paid up capital	**134,324**	121,013
Legal reserve	**35,537**	31,492
Share premium	**40,018**	40,018
Special reserve	**18,488**	18,488
Subordinated loan reserve	**41,250**	26,250
Retained earnings	**28,882**	34,339
Proposed bonus shares	**20,149**	13,311
CET I/Tier I Capital	**318,648**	284,911
Additional Tier I regulatory adjustments:		
Goodwill	**(2,383)**	(2,780)
Negative investment revaluation reserve	**(1,634)**	(28)
Total CET I/ Tier I capital	**314,631**	282,103
TIER II CAPITAL		
Investment revaluation reserve	**620**	802
General provision	**32,788**	27,250
Subordinated loan	**62,625**	48,750
Total Tier II capital	**96,033**	76,802
Total eligible capital	**410,664**	358,905
Risk weighted assets		
Banking book	**2,674,461**	2,324,129
Trading book	**70,357**	56,798
Operational risk	**178,817**	166,581
Total	**2,923,635**	2,547,508
CET I/ Tier I capital	**314,631**	282,103
Tier II capital	**96,033**	76,802
Tier III capital	-	-
Total regulatory capital	**410,664**	358,905
CET I/ Tier I capital ratio	**10.76%**	11.07%
Total capital ratio	**14.05%**	14.09%

37. Segmental information

The Bank is organised into three main business segments:

1) Retail banking – incorporating, private customer current accounts, savings, deposits, investment savings products, custody, credit and debit cards, consumer loans and mortgages;
2) Corporate banking – incorporating direct debit facilities, current accounts, deposits, overdrafts, loan and other credit facilities, foreign currency and derivative products; and
3) 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 31 December 2014	Retail banking RO'000	Corporate banking RO'000	Treasury and investments RO'000	Total RO'000
Segment operating revenues	61,043	46,894	2,470	110,407
Other revenues	7,567	7,758	6,738	22,063
Segment operating revenues	68,610	54,652	9,208	132,470
Interest, Islamic Window Deposit expenses	(12,273)	(15,491)	(5,855)	(33,619)
Net operating income	56,337	39,161	3,353	98,851
Segment cost				
Operating expenses including depreciation	(22,864)	(20,211)	(3,088)	(46,163)
Impairment for loans and investment net recoveries from allowance for loans impairment	(5,188)	(1,674)	(72)	(6,934)
Profit from operations after provision	28,285	17,247	193	45,754
Tax expenses	(3,279)	(2,000)	(22)	(5,301)
Net profit for the year	25,006	15,276	171	40,453
Segment assets	1,160,090	1,492,117	629,963	3,282,170
Less: Impairment allowance	(52,330)	(35,274)	(439)	(88,043)
Total segment assets	1,107,760	1,456,843	629,524	3,194,127
Segment liabilities	671,636	1,917,840	279,333	2,868,809

37. Segmental information *(continued)*

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

At 31 December 2014	**Retail banking RO'000**	**Corporate banking RO'000**	**Treasury and investments RO'000**	**Total RO'000**
Segment operating revenues	**1,536**	**2,017**	**72**	**3,6,25**
Other revenues	**89**	**467**	**532**	**1,088**
Segment operating revenues	**1,625**	**2,484**	**604**	**4,713**
Unrestricted investment account holders' share of profit	**(26)**	**(263)**	**(128)**	**(417)**
Net operating income	**1,599**	**2,221**	**476**	**4,296**
Segment cost				
Operating expenses including depreciation	**(1,211)**	**(1,590)**	**(57)**	**(2,858)**
Impairment allowance	**(427)**	**(782)**	**-**	**(1208)**
Net profit for the year	**(39)**	**(150)**	**419**	**230**
Segment assets	**52,091**	**85,856**	**55,339**	**193,286**
Less: Impairment allowance	**(612)**	**(882)**	**-**	**(1,494)**
Total segment assets	**51,479**	**84,974**	**55,339**	**191,792**
Segment liabilities	**1,797**	**91,291**	**66,277**	**159,365**

At 31 December 2013	Retail banking RO'000	Corporate banking RO'000	Treasury and investments RO'000	Total RO'000
Segment operating revenues	57,808	40,161	2,256	100,225
Other revenues	9,428	5,512	8,104	23,044
Segment operating revenues	67,236	45,673	10,360	123,269
Interest expenses	(12,315)	(15,361)	(6,035)	(33,711)
Net operating income	54,921	30,312	4,325	89,558
Segment cost				
Operating expenses including depreciation	(24,479)	(15,527)	(5,310)	(45,316)
Impairment for loans and investment net recoveries from allowance for loans impairment	(1,823)	(2,044)	(367)	(4,234)
Legal case written back	10,355	13,264	2,510	26,129
Profit from operations after provision	38,974	26,005	1,158	66,137
Tax expenses	(4,556)	(3,039)	(135)	(7,730)
Net profit for the year	34,418	22,966	1,023	58,407

	Retail banking RO'000	Corporate banking RO'000	Treasury and investments RO'000	Total RO'000
Segment assets	947,588	1,246,011	492,766	2,686,365
Less: Impairment allowance	(36,039)	(44,580)	(367)	(80,986)
Total segment assets	911,549	1,201,431	492,399	2,605,379
Segment liabilities	488,143	1,632,295	181,334	2,301,772

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

At 31 December 2013	Retail banking RO'000	Corporate banking RO'000	Treasury and investments RO'000	Total RO'000
Segment operating revenues	98	56	34	188
Other revenues	18	74	88	180
Segment operating revenues	116	130	122	368
Unrestricted investment account holders' share of profit	(4)	-	(11)	(15)
Net operating income	112	130	111	353
Segment cost				
Operating expenses including depreciation	(804)	(461)	(1,005)	(2,270)
Impairment allowance	(185)	(100)	-	(285)
Net loss for the year	(877)	(431)	(894)	(2,202)
Segment assets	18,302	10,711	21,292	50,306
Less: Impairment allowance	(185)	(100)	-	(285)
Total segment assets	18,117	10,611	21,292	50,021
Segment liabilities	5,058	1,095	7,782	13,935

38. Proposed dividend

The Board of Directors in their meeting held on 27 January 2015 and subsequent to CBO approval thereafter a cash dividend of 5% (2013: 14%) for the year ended 31 December 2014 amounting to RO 6.7 million (2013: RO 16.94 million) and a bonus share issue of 15% (2013: 11%) amounting to 201,486,332 shares (2013: 133,114,093 shares) of RO 0.100 each. A resolution to approve these dividends and the increase in share capital will be presented to the shareholders at the annual general meeting.

During the year, unclaimed dividend amounting to RO 6,187 (2013: RO 29,171) was transferred to the Investor's Trust Fund Account as per the guidelines issued by the Capital Market Authority of Oman.

MAISARAH ISLAMIC BANKING SERVICES - WINDOW OF BANK DHOFAR SAOG

Financial statements

31 December 2014

Registered office and principal place of business:

Head office, Ground Floor, Al Sahwa Tower – 1
P.O. Box 1792
PC 130
Azaiba, Muscat
Sultanate of Oman

MAISARAH ISLAMIC BANKING SERVICES - WINDOW OF BANK DHOFAR SAOG

Financial statements
For the period ended 31 December 2014

Contents *Page*

MAISARAH ISLAMIC BANKING SERVICES

Statement of Financial Position
As on 31 December 2014

	Note	2014 RO	2013 RO
Assets			
Cash and balances with Central Bank of Oman	5	**44,510,564**	3,028,809
Due from banks and financial institutions	6	**207,421**	7,700,000
Murabaha receivables – net	7	**20,312,099**	231,824
Mudaraba financing – net	8	**2,256,171**	-
Diminishing Musharaka financing	9	**79,859,504**	10,324,786
Financial assets at fair value through equity	10	**10,197,500**	10,000,000
Ijarah Muntahia Bittamleek – net	11	**29,112,978**	17,425,991
Property and equipment – net	12	**1,056,561**	1,077,812
Other assets	13	**4,280,023**	230,096
Total assets		**191,792,821**	50,019,318
Liabilities, equity of unrestricted investment account holders and owners' equity			
Liabilities			
Due to Head office and other banks	14	**48,100,000**	30,200,000
Qard Hasan from Head office	15	**17,215,732**	3,287,038
Customer Wakala deposits		**72,725,000**	-
Current accounts		**14,897,238**	2,542,147
Other liabilities	16	**6,399,523**	2,557,371
Total liabilities		**159,337,493**	38,586,556
Equity of unrestricted investment account holders	17	**9,230,128**	1,135,145
Owners' equity			
Capital	18	**25,000,000**	12,500,000
Reserves		**197,500**	-
Accumulated losses		**(1,972,300)**	(2,202,383)
Total owners' equity		**23,225,200**	10,297,617
Total liabilities, equity of unrestricted investment account holders and owners' equity		**191,792,821**	50,019,318
Contingent liabilities	25	**16,204,593**	**2,989,910**

The financial statements were approved by the Board of Directors on 27 January 2015 and signed on its behalf by:

Chairman

Chief Islamic Banking Officer

The notes on pages 7 to 36 form an integral part of these financial statements.

MAISARAH ISLAMIC BANKING SERVICES

Income Statement
For the year ended 31 December 2014

	Note	2014	2013
Income			RO
Income of investment and financings	20	**4,060,080**	240,988
Income on Wakala placements		**71,850**	34,441
		4,131,930	275,429
Less:			
Return on unrestricted investment account holders		**(25,514)**	(4,590)
Return on customer Wakala deposits		**(262,669)**	
Return on interbank Wakala deposit		**(128,535)**	(10,639)
		(416,718)	(15,229)
Maisarah's share in income from investment as a Mudarib and Rabul Maal		**3,715,212**	260,200
Revenue from banking services		**556,039**	92,837
Foreign exchange gain – net		**24,798**	266
Total revenue		**4,296,049**	353,303
Pre-operating expenses	21	**-**	(495,517)
Staff costs	22	**(1,900,479)**	(1,058,132)
General and administrative expenses	23	**(758,539)**	(597,919)
Impairment allowance	7,8,9 &11	**(1,208,326)**	(285,259)
Depreciation and amortization	12	**(198,622)**	(118,859)
Total expenses		**(4,065,966)**	(2,555,686)
Net profit / (loss) for the period before taxation		**230,083**	(2,202,383)

The notes on pages 7 to 36 form an integral part of these financial statements.

* 2013 is first year of operation of the Window, accordingly, the comparative financial information included in financial statements cover the period from 3 March 2013 to 31 December 2013

MAISARAH ISLAMIC BANKING SERVICES

Statement of changes in owners' equity
For the year ended 31 December 2014

	31 December 2014			
	Capital	**Investment Revaluation Reserve**	**Accumulated losses**	**Total**
	RO	*RO*	*RO*	*RO*
Balance at 1 January 2014	**12,500,000**	**-**	**(2,202,383)**	**10,297,617**
Addition of capital during the year	**12,500,000**	**-**	**-**	**12,500,000**
Cumulative changes in fair value Investment	**-**	**197,500**	**-**	**197,500**
Net profit for the period	**-**	**-**	**230,083**	**230,083**
Balance as at 31 December 2014	**25,000,000**	**197,500**	**(1,972,300)**	**23,225,200**

	31 December 2013			
	Capital	Investment Revaluation Reserve	Accumulated losses	Total
	RO	*RO*	*RO*	*RO*
Capital	12,500,000	-	-	12,500,000
Net (loss) for the period	-	-	(2,202,383)	(2,202,383)
Balance as at 31 December 2013	12,500,000		(2,202,383)	10,297,617

The notes on pages 7 to 36 form an integral part of these financial statements.

MAISARAH ISLAMIC BANKING SERVICES

Statement of sources and uses of charity fund
For the year ended 31 December 2014

	2014 *RO*	*2013* *RO*
Sources of charity funds		
Undistributed charity funds at beginning of the year	-	-
Sharia Non-compliant income	56	-
Donations	-	-
Total sources of funds during the year	56	-
Uses of charity funds		
University and school students	-	-
Philanthropic societies	-	-
Aid to needy families	-	-
Total uses of funds during the year	-	-
Undistributed charity funds at end of the year	56	-

The notes on pages 7 to 36 form an integral part of these financial statements.

MAISARAH ISLAMIC BANKING SERVICES

Statement of cash flows
For the year ended 31 December 2014

	2014 RO	2013 RO
Cash flows from operating activities		
Net profit/(loss) for the period before taxation	**230,083**	(2,202,383)
Adjustments for:		
Depreciation and amortization	**198,622**	118,859
Depreciation on Ijarah assets	**1,185,393**	334,478
Impairment allowance	**1,208,326**	285,259
Investment risk reserve	**76**	14
Profit equalization reserve	**255**	45
Cash flows used in operating activities before changes in operating assets and liabilities	**2,822,755**	(1,463,728)
Operating assets and liabilities:		
Murabaha receivables	**(20,324,415)**	(237,294)
Ijarah Muntahia Bittamleek assets	**(14,040,871)**	(17,999,158)
Proceeds from sale in Ijarah Muntahia Bittamleek assets	**1,006,135**	59,331
Diminishing Musharaka financing	**(70,308,199)**	(10,425,217)
Mudaraba financing	**(2,284,519)**	-
Other asset	**(103,848)**	(153,540)
Other liabilities	**(273,641)**	2,557,371
Qard Hasan from Head Office	**13,765,287**	2,013,811
Net cash used in operating activities	**(89,741,316)**	(25,648,424)
Cash flows from investing activities		
Purchase of financial asset at fair value through equity	-	(10,000,000)
Net cash used in investing activities	-	(10,000,000)
Cash flows from financing activities		
Current account	**12,355,091**	2,542,147
Customer Wakala deposit	**72,725,000**	-
Margin accounts	**155,748**	-
Unrestricted investment account holders	**8,094,653**	1,135,086
Capital	**12,500,000**	12,500,000
Net cash from financing activities	**105,830,492**	16,177,233
Cash and cash equivalents during the period	**16,089,176**	(19,471,191)
Cash and cash equivalents at the beginning of the period	**(19,471,191)**	-
Cash and cash equivalents at the end of the period	**(3,382,015)**	(19,471,191)
Cash and cash equivalents at the end of the period comprise:		
Cash and balances with CBO	**44,510,564**	3,028,809
Due from banks and financial institutions	**207,421**	7,700,000
Due to Head office and other banks	**(48,100,000)**	(30,200,000)
	(3,382,015)	(19,471,191)

The notes on pages 7 to 36 form an integral part of these financial statements.

MAISARAH ISLAMIC BANKING SERVICES

Notes to the financial statements
For the year ended 31 December 2014

1 LEGAL STATUS AND PRINCIPAL ACTIVITIES

Maisarah Islamic Banking Services ("Maisarah") was established in Sultanate of Oman as window of Bank Dhofar SAOG. Maisarah's operations commenced on 3 March 2013 and it currently operates through 3 branches in the Sultanate under the license issued by the Central Bank of Oman on 27 February 2013.

The principle activities of Maisarah is taking demand, saving and deposit accounts, providing Murabaha finance, Ijarah financing and other Shari'a compliant forms of financing as well as managing investor's money on the basis of Mudaraba or agency for a fee, providing commercial banking services and other investment activities.

Maisarah's activities are regulated by the Central Bank of Oman ("CBO") and supervised by Shari'a Supervisory Board ("SSB") comprising of five members.

2 BASIS OF PREPARATION

2.1 Statement of compliance

The financial statements of Maisarah Islamic Banking Services are prepared in accordance with the Financial Accounting Standards ("FAS") issued by the Accounting and Auditing Organization for Financial Institutions ("AAOIFI"), the Shari'a rules and principles as determined by the SSB of Maisarah and the applicable laws and regulations issued by the CBO.

Maisarah complies with the requirements of AAOIFI, for matters for which no AAOIFI standards exist, Maisarah uses the relevant International Financial Reporting Standards ("IFRS") or International Accounting Standards ("IAS") as issued by International Accounting Standards Board ("IASB").

Statement of changes in restricted investment amount, statement of sources of funds in zakah and statement of sources and uses of funds in Qard Fund have not been presented as these are not applicable / relevant to Maisarah's operations.

2.2 Basis of measurement

The financial statements are prepared on a historical cost basis, except for certain investments carried at fair value.

2.3 Functional and presentation currency

Items included in Maisarah's financial statements are measured using Rials Omani ("RO") which is the currency of the primary economic environment in which Maisarah operates, rounded off to the nearest Rial Omani.

MAISARAH ISLAMIC BANKING SERVICES

Notes to the financial statements
For the year ended 31 December 2014

2.4 Use of estimates and judgements

The preparation of financial statements in conformity with AAOIFI and IFRS requires management to make judgments, estimates and assumptions that effect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

Information about significant areas of uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements are described in note 4.

3 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set below have been consistently applied in dealing with items that are considered material in relation to Maisarah's financial statements to the period presented.

3.1 Foreign currency translations

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in income statement.

3.2 Investments

Equity and debt type instruments at fair value through equity

This includes all equity and debt type instruments that are not fair valued through income statement. Subsequent to acquisition, investments designated at fair value through equity are re-measured at fair value with unrealised gains or losses recognised proportionately in owners' equity and equity of unrestricted investment account holders until the investment is derecognised or determined to be impaired at which time the cumulative gain or loss previously recorded in owners' equity or equity of investment accountholders is recognised in income statement.

3.3 De-recognition of financial assets and liabilities

A financial asset (or, where applicable a part of a financial asset or part of a group of similar assets) is derecognized when:

(i) the right to receive cash flows from the asset has expired;
(ii) Maisarah has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

MAISARAH ISLAMIC BANKING SERVICES
Notes to the financial statements
For the year ended 31 December 2014

3.3 De-recognition of financial assets and liabilities *(continued)*

A financial liability is derecognized when the obligation specified in the contract is discharged, cancelled or expired.

3.4 Fair value measurement principles

The fair values of quoted investments in active markets are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), Maisarah establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis and other valuation techniques commonly used by market participants.

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 at the reporting date for an instrument with similar terms and conditions.

3.5 Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, including: cash on hand, non-restricted cash deposited with the Central Bank of Oman, amounts due to / from other banks including nostro accounts.

3.6 Offsetting

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously in accordance with Shari'a principles and guidelines.

Income and expenses are presented on a net basis only for permitted transactions.

3.7 Murabaha receivables

Murabaha receivables are stated net of deferred profits and provisions for impairment.

3.8 Mudaraba and Musharaka investments

Mudaraba and Musharaka investments are stated at the fair value less provision for impairment.

3.9 Ijarah Muntahia Bittamleek assets

Ijarah Muntahia Bittamleek assets are initially recorded at cost. Ijarah Muntahia Bittamleek is a lease whereby the legal title of the leased asset passes to the lessee at the end of the Ijarah (lease term), provided that all Ijarah instalments are settled.

Depreciation will be calculated as per Equal Monthly Instalment (EMI) method as per the terms agreed with customer.

MAISARAH ISLAMIC BANKING SERVICES

Notes to the financial statements
For the year ended 31 December 2014

3.10 Property and equipment

Items of property and equipment are stated at cost less accumulated depreciation and impairment loss. Depreciation is calculated so as to write off the cost of property and equipment, other than freehold land and capital work-in-progress, by equal installments over their estimated economic useful lives from the date the asset is brought into use, as follows:

	Years
Furniture, fixtures and equipment	3 - 7
Motor vehicles	3 - 5
Computer equipment	4
Core banking system	10

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

Gains and losses on disposal of property and equipment are determined by reference to their carrying amount and are taken into account in determining operating profit. Repairs and renewals are charged to income statement when the expense is incurred. Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the item of property and equipment. All other expenditure is recognized in income statement as an expense when incurred.

3.11 Equity of unrestricted investment accountholders

All unrestricted investment accounts are carried at cost plus profit and related reserves less amounts settled.

Unrestricted investment account holders' share of income is calculated based on the income generated from investment accounts after deducting Mudarib's share. Operating expenses are charged to shareholders' funds and not included in the calculation.

The basis applied by Maisarah in arriving at the unrestricted investment account holders' share of income is total income from jointly financed Islamic assets less shareholders' income. Pre-agreed profit share generated from unrestricted investment account holders is deducted as Mudarib' s share after deducting profit equalisation reserve and the remaining amount is distributed to the unrestricted investment account holders after deducting investment risk reserve.

3.12 Profit equalisation reserve

Maisarah appropriates certain amount in excess of the profit to be distributed to unrestricted investment accounts before taking into consideration the Mudarib share of income. This will be used to maintain a certain level of return on investment for unrestricted investment account holders.

MAISARAH ISLAMIC BANKING SERVICES

Notes to the financial statements
For the year ended 31 December 2014

3.13 Investment risk reserve

Investment risk reserves are amounts appropriated out of the income of unrestricted investment account holders, after allocating the Mudarib' s share, to cater against future losses for unrestricted investment account holders.

3.14 Provisions

A provision is recognised in the statement of financial position when Maisarah has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and the amount has been reliably estimated.

3.15 Earnings prohibited by Shari'a

All the funds mobilized and income earned by Maisarah is from Islamic sources. Maisarah is committed to avoid recognizing any income generated from non-Islamic sources. Accordingly, all non-Islamic income is credited to a charity account where Maisarah uses these funds for social welfare activities. It includes but not limited to cases/transactions classified by Shari'a as non-compliant income and approved by the SSB to be forfeited, interest paid by other banks on Nostro accounts, late payment fee received from the customer in financing and investment transaction.

3.16 Zakah

The responsibility of payment of zakah is on individual shareholders and investment account holders.

3.17 Joint and self-financed

Investments, financing and receivables that are jointly owned by Maisarah and the unrestricted investment accounts holders are classified under the caption "jointly financed" in the financial statements. Investments, financing and receivables that are financed solely by Maisarah are classified under "self-financed".

3.18 Funds for Maisarah

Maisarah functions with funds specifically available for Islamic Banking activities and there is no commingling of funds with conventional banking financial business.

3.19 Revenue recognition

Murabaha receivables Where the income is quantifiable and contractually determined at the commencement of the contract, income is recognized on a time-apportioned basis over the period of the contract based on the principal amounts outstanding. Where the income from a contract is not quantifiable, it is recognized when realized. Income related to non-performing accounts is excluded from income statement.

MAISARAH ISLAMIC BANKING SERVICES

Notes to the financial statements
For the year ended 31 December 2014

3.19 Revenue recognition *(continued)*

3.19.2 Musharaka investments

Income is recognised when the right to receive payment is established or on distribution by the Musharik, whereas the losses are charged to income on their declaration by the Musharik. Income related to non-performing accounts is excluded from income statement.

3.19.3 Mudaraba investments

Income on Murdaraba financing is recognised when the right to receive payment is established or on distribution by the Mudarib, whereas the losses are charged to income on declaration by the Mudarib. Income related to non-performing accounts is excluded from income statement.

3.19.4 Ijarah Muntahia Bittamleek

Income from Ijarah Muntahia Bittamleek assets is recognised on a time-apportioned basis over the lease term, net of depreciation. Income related to non-performing Ijarah Muntahia Bittamleek assets is excluded from income statement.

3.19.5 Dividends

Dividends are recognised when the right to receive payment is established.

3.19.6 Fee and Commission income

Fee and commission income is recognised when earned.

3.19.7 Maisarah's share as a Mudarib

Maisarah's share as a Mudarib for managing unrestricted investment accounts is accrued based on the terms and conditions of the related Mudaraba agreements.

3.19.8 Income allocation

Income from jointly financed activities is allocated proportionately between unrestricted investment accounts in accordance to their pre-agreed assigned weightages and shareholders on the basis of the average balances outstanding during the year.

3.20 Taxation

Maisarah is Islamic Banking Window of Bank Dhofar SAOG, hence it is not taxable on a stand-alone basis as per the prevailing tax laws. Accordingly, no current tax and deferred tax has been accounted for in these financial statements.

Bank Dhofar SAOG is taxable on combined results i.e. including Maisarah's financial results, accounted for as per IFRS.

MAISARAH ISLAMIC BANKING SERVICES

Notes to the financial statements
For the year ended 31 December 2014

3.21 Employee benefits

End of service benefits are accrued in accordance with the terms of employment of Maisarah's employees at the reporting date, having regard to the requirements of the Oman Labour Law. Employee entitlements to annual leave and leave passage are recognized when they accrue to employees and an accrual is made for the estimated liability arising as a result of services rendered by employees up to the reporting date.

Contributions to a defined contribution retirement plan and occupational hazard insurance for Omani employees in accordance with the Omani Social Insurances Law of 1991 and its subsequent amendments are recognized as an expense in income statement as incurred.

3.22 Shari'a supervisory board

All business activities, products, transactions, agreements, contracts and other relevant documents are subject to the supervision of the Shari'a Supervisory Board of Maisarah, which meets quarterly and consists of five prominent Shari'a scholars appointed by the Shareholders for a period of three years, namely:

Sr. No.	Name	Title
1	Sheikh Dr. Salim Bin Ali Bin Ahmed Al Dhahab	Chairman
2	Sheikh Dr. Mohammed bin Ali bin Mahmoud Al Lawati	Member
3	Sheikh Ahmed bin Awadh bin Abdul-Rahman Al-Hassaan	Member
4	Sheikh Dr. Abdullah bin Mubarak Al Abri	Member
5	Sheikh Dr. Mohammad Ameen Ali Qattan	Member

3.23 Trade date accounting

All "regular way" purchases and sales of financial assets are recognized on the trade date, i.e. that date Maisarah commits to purchase or sell the assets. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulations or convention in the market place.

3.24 Segment reporting

A segment is a distinguishable component of Maisarah that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

Maisarah currently operates only in the Sultanate of Oman. Maisarah's primary format for reporting segmental information is business segments, based upon management and internal reporting structure. Maisarah's main business segments are retail banking, corporate banking, treasury and investments.

MAISARAH ISLAMIC BANKING SERVICES

Notes to the financial statements
For the year ended 31 December 2014

3.25 Fiduciary assets

Assets held in trust or in a fiduciary capacity are not treated as assets of Maisarah in the statement of financial position.

4 Critical accounting judgment and key sources of estimation uncertainty

(a) Impairment

Management reviews its financing portfolio to assess impairment at each reporting date. In determining whether an impairment loss should be recorded in the income statement, management makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of finances before the decrease can be identified with an individual receivable in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of customers in a group that correlates with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

(b) Useful life of property and equipment and Ijarah Muntahia Bittamleek

Depreciation is charged so as to write off the cost of assets over their estimated useful lives. The calculation of useful lives is based on management's assessment of various factors such as the operating cycles, the maintenance programs, and normal wear and tear using its best estimates. Maisarah prospectively adopted EMI method as set out in note 3.9 for estimating depreciation on Ijarah Muntahia Bittamleek assets during 2014.

5 Cash and balances with Central Bank of Oman

	2014	2013
	RO	RO
Cash in hand	**507,828**	269,584
Balances with Central Bank of Oman	**44,002,736**	2,759,225
	44,510,564	3,028,809

6 Due from banks and financial institutions

		2014	
	Self-Financed	**Jointly Financed**	**Total**
Wakala placement	-	-	-
Current clearing account	**207,421**	-	**207,421**
	207,421	-	**207,421**

MAISARAH ISLAMIC BANKING SERVICES

Notes to the financial statements
For the year ended 31 December 2014

6 **Due from banks and financial institutions** *(continued)*

	2013		
	Self FinancedSelf-Financed	Jointly Financed	Total
Wakala placement	7,621,617	78,383	7,700,000
Current clearing account	-	-	-
	7,621,617	78,383	7,700,000

7 **Murabaha receivables – net**

	2014		
	Self-Financed RO	**Jointly Financed RO**	**Total RO**
Gross Murabaha receivables	**20,752,347**	**205,304**	**20,957,651**
Less: Unearned income	**(392,063)**	**(3,879)**	**(395,942)**
	20,360,284	**201,425**	**20,561,709**
Less: impairment allowance	**(247,165)**	**(2,445)**	**(249,610)**
	20,113,119	**198,980**	**20,312,099**

	2013		
	Self-Financed RO	Jointly Financed RO	Total RO
Gross Murabaha receivables	270,730	2,784	273,514
Less: Unearned income	(35,851)	(369)	(36,220)
	234,879	2,415	237,294
Less: impairment allowance	(5,414)	(56)	(5,470)
	229,465	2,359	231,824

8 **Mudaraba financing – net**

	2014		
	Self – Financed RO	**Jointly Financed RO**	**Total RO**
Mudaraba financing	**2,262,140**	**22,379**	**2,284,519**
Less: impairment allowance	**(28,070)**	**(278)**	**(28,348)**
	2,234,070	**22,101**	**2,256,171**

During 2013, Mudaraba financing portfolio was RO Nil.

Mudaraba financing past due but not impaired amounts to RO Nil (2013: Nil).

MAISARAH ISLAMIC BANKING SERVICES

Notes to the financial statements
For the year ended 31 December 2014

9 Diminishing Musharaka financing - net

	2014 Self – Financed RO	Jointly Financed RO	Total RO
Diminishing Musharaka	**79,942,540**	**790,876**	**80,733,416**
Less: impairment allowance	**(865,351)**	**(8,561)**	**(873,912)**
	79,077,189	**782,315**	**79,859,504**

	2013 Self – Financed RO	Jointly Financed RO	Total RO
Diminishing Musharaka	10,319,093	106,124	10,425,217
Less: impairment allowance	(99,409)	(1,022)	(100,431)
	10,219,684	105,102	10,324,786

Fair value of collaterals

Upon initial recognition of Diminishing Musharaka, the fair value of collateral is based on valuation techniques commonly used for the corresponding assets. In subsequent periods, the fair value is updated by reference to market price or indexes of similar assets.

10 Financial asset at fair value through equity

	2014 Self-Financed RO	Jointly Financed RO	Total RO
Local un-listed sukuk	**10,097,604**	**99,896**	**10,197,500**

	2013 Self-Financed RO	Jointly Financed RO	Total RO
Local un-listed sukuk	9,898,204	101,796	10,000,000

Maisarah has invested RO 10 million in Ijarah Sukuk issued by Modern Sukuk SAOC. At 31 December 2014, the market value of the Sukuk was RO 1.975 per unit (2013: RO Nil).

MAISARAH ISLAMIC BANKING SERVICES

Notes to the financial statements
For the year ended 31 December 2014

11 Ijarah Muntahia Bittamleek – net

	2014 Self-Financed RO	2014 Jointly Financed RO	Total RO
Cost			
At 1 January	**4,813,734**	**13,125,424**	**17,939,158**
Additions	**13,903,325**	**137,546**	**14,040,871**
Disposals	**(1,266,801)**	**(12,533)**	**(1,279,334)**
At 31 December	**17,450,258**	**13,250,437**	**30,700,695**
Accumulated depreciation			
At 1 January	**89,573**	**244,236**	**333,809**
Charge for the period	**1,173,781**	**11,612**	**1,185,393**
Disposals	**(270,523)**	**(2,676)**	**(273,199)**
At 31 December	**992,831**	**253,172**	**1,246,003**
Net book value at 31 December	**16,457,427**	**12,997,265**	**29,454,692**
Less: impairment allowance	**(338,367)**	**(3,347)**	**(341,714)**
Net Ijarah Muntahia Bittamleek	**16,119,060**	**12,993,918**	**29,112,978**

	2013 Self-Financed RO	2013 Jointly Financed RO	Total RO
Cost			
Additions	17,815,933	183,225	17,999,158
Disposals	(59,389)	(611)	(60,000)
At 31 December	17,756,544	182,614	17,939,158
Accumulated depreciation			
Charge for the period	331,073	3,405	334,478
Disposals	(662)	(7)	(669)
At 31 December	330,411	3,398	333,809
Net book value at 31 December	17,426,133	179,216	17,605,349
Less: impairment allowance	(177,532)	(1,826)	(179,358)
Net Ijarah Muntahia Bittamleek	17,248,601	177,390	17,425,991

Ijarah Muntahia Bittamleek past due but not impaired is as follows:

	2014	2013
Past due up to 30 days	-	673,526
Past due 30 – 60 days	-	25,195
Total	-	698,721

MAISARAH ISLAMIC BANKING SERVICES

Notes to the financial statements
For the year ended 31 December 2014

12 Property and equipment – net

	2014				
	Furniture , fixtures & equipment	**Motor vehicles**	**Computer equipment**	**Capital work in progress**	**Total**
	RO	***RO***	***RO***	***RO***	***RO***
Cost					
At 1 January	**191,935**	**18,100**	**971,325**	**15,311**	**1,196,671**
Additions	**93,782**	**9,652**	**66,280**	**29,875**	**199,589**
Disposals / Transfers	**(2,992)**			**(20,328)**	**(23,320)**
At 31 December	**282,725**	**27,752**	**1,037,605**	**24,858**	**1,372,940**
Accumulated depreciation					
At 1 January	**(28,927)**	**(4,199)**	**(85,733)**	**-**	**(118,859)**
Provided during the year	**(57,691)**	**(8,184)**	**(132,747)**	**-**	**(198,622)**
Reversal of depreciation	**1,102**	**-**	**-**	**-**	**1,102**
At 31 December	**(85,516)**	**(12,383)**	**(218,480)**	**-**	**(316,379)**
Net book value at 31 December	**197,209**	**15,369**	**819,125**	**24,858**	**1,056,561**

	2013				
	Furniture , fixtures & equipment	**Motor vehicles**	**Computer equipment**	**Capital work in progress**	**Total**
	RO	**RO**	**RO**	**RO**	**RO**
Cost					
Additions	191,935	18,100	971,325	15,311	1,196,671
At 31 December	191,935	18,100	971,325	15,311	1,196,671
Accumulated depreciation					
Provided during the period	(28,927)	(4,199)	(85,733)	-	(118,859)
At 31 December	(28,927)	(4,199)	(85,733)	-	(118,859)
Net book value at 31 December	163,008	13,901	885,592	15,311	1,077,812

13 Other assets

	2014	**2013**
	RO	***RO***
Ijarah rental receivables	**20,558**	12,561
Other profit receivables	**220,633**	121,141
Prepayments	**62,592**	73,108
Others	**16,197**	23,286
Acceptances	**3,960,043**	-
Total	**4,280,023**	230,096

MAISARAH ISLAMIC BANKING SERVICES

Notes to the financial statements
For the year ended 31 December 2014

14 Due to Head office and other banks

	2014	2013
	RO	*RO*
Due to Head office	**25,000,000**	22,500,000
Due to other banks	**23,100,000**	7,700,000
Total	**48,100,000**	30,200,000

Due to Head office and other banks comprises of Wakala deposits.

15 Qard Hasan from Head Office

	2014	2013
	RO	*RO*
Qard e Hasan from Head Office (15.1)	**5,732,877**	3,287,038
Current clearing account (15.2)	**11,482,855**	-
Total	**17,215,732**	3,287,038

15.1 This amount represents profit-free Qard Hasan facility from Head Office to meet Maisarah's capital and operating expenditures.

15.2 This amount represents the vostro account of parent bank opened with Maisarah.

16 Other liabilities

	2014	2013
	RO	*RO*
Payables	**1,474,233**	2,361,438
Accrued expenses	**519,156**	186,840
Profit payables	**287,885**	9,093
Margins received	**155,748**	-
Others	**2,402**	-
Charity Payable	**56**	-
Acceptances contra	**3,960,043**	-
Total	**6,399,523**	2,557,371

17 Equity of unrestricted investment accountholders

	2014	2013
	RO	*RO*
Saving account	**9,156,444**	1,117,586
Term deposit	**73,295**	17,500
Profit Equalisation reserve	**300**	45
Investment Risk Reserve	**89**	14
Total	**9,230,128**	1,135,145

There is no restricted investment at reporting date.

MAISARAH ISLAMIC BANKING SERVICES

Notes to the financial statements
For the year ended 31 December 2014

17 Equity of unrestricted investment accountholders *(continued)*

Basis of distribution of the profit between owners' equity and unrestricted investment accountholders

The investment profits are distributed between owners' equity and unrestricted investment account holders for the period ended 31 December 2014 and 2013 as follows:

	Percentage
Unrestricted investment account holders share	60%
Mudarib' s share	40%

The investment risk reserve is deducted from investment account holders share after allocating the Mudarib' s share of profit as per the approved policy in order to cater against future losses of equity of unrestricted investment account holders. Investment risk reserve will revert to the investment account holders as per terms and conditions of Mudaraba contract.

The profit equalization reserve is the amount Maisarah appropriates in excess of the profit to be distributed to equity of unrestricted account holders before allocating the Mudarib share of income to maintain a certain level of return. Profit equalization reserve will revert to owner's equity and unrestricted investment accountholders as per terms and condition of Mudaraba contract.Unrestricted investment account holders funds are commingled with Maisarah's funds for investment, no priority is granted to any party for the purpose of investments and distribution of profits. The administration expenses are only charged on the Maisarah expenses.

18 Capital

During 2014, Head office has increased the assigned capital to RO 25 million (2013: RO 12.5 million) to Maisarah from the core paid up capital of the shareholders.

19 Fiduciary assets

There were no funds under management with Maisarah (2013: RO Nil).

20 Income of investment and financings

	2014	**2013**
	RO	***RO***
Murabaha receivables	**322,421**	5,673
Mudaraba	**83,190**	-
Ijarah muntahia bittamleek - net*	**1,133,463**	91,914
Diminishing Musharaka	**2,014,062**	55,901
Profit on financial assets at fair value through equity	**506,944**	87,500
Total	**4,060,080**	240,988

* Depreciation on Ijarah Muntahia Bitamleek amounts to RO 927,674 (2013: RO 334,478).

MAISARAH ISLAMIC BANKING SERVICES

Notes to the financial statements
For the year ended 31 December 2014

21 Pre-operating expenses

	2014	2013
	RO	RO
Staff cost	-	238,814
General administration cost	-	188,127
Others	-	68,576
Total	-	495,517

22 Staff costs

	2014	2013
	RO	RO
Salaries and allowances	**1,662,969**	981,984
Other personnel cost	**214,193**	73,535
Non-Omani employee terminal benefit	**23,317**	2,613
Total	**1,900,479**	1,058,132

23 General and administrative expenses

	2014	2013
	RO	RO
Occupancy cost	**251,417**	190,464
Operating and administration cost	**507,122**	407,455
Total	**758,539**	597,919

24 Related parties transactions

In the ordinary course of business, Maisarah conducts transactions with certain of its Directors, members of Shari'a Supervisory Board, 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	2013
	RO	RO
Finances		
Directors, members of Sharia Supervisory Board and shareholders holding interest in the Bank	**330,654**	-
Deposits and other accounts		
Directors, members of Sharia Supervisory Board and shareholders holding interest in the Bank	**7,018,923**	-

MAISARAH ISLAMIC BANKING SERVICES

Notes to the financial statements
For the year ended 31 December 2014

24 Related parties transactions *(continued)*

	2014 RO	2013 RO
Remuneration paid to Directors & Sharia Supervisor		
Chairman		
– remuneration proposed	**6,000**	6,000
– sitting fees paid	**2,800**	4,800
Other Members		
– remuneration proposed	**16,000**	12,000
– sitting fees paid	**7,500**	9,300
Other transactions		
Rental payment to a related party	**34,560**	69,120
Other transactions	-	-
Key management compensation		
Salaries and other benefits	**103,348**	139,944
End of service benefits	**2,741**	2,087

25 Contingent liabilities and commitments

(a) Credit related contingent items

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

	2014 RO	2013 RO
Letters of credit	**10,223,708**	2,989,910
Guarantees	**5,980,885**	-
Total	**16,204,593**	2,989,910

(b) Capital and investment commitments

	2014 RO	2013 RO
Contractual commitments for property and equipment	**57,102**	279,367

MAISARAH ISLAMIC BANKING SERVICES
Notes to the financial statements
For the year ended 31 December 2014

26 Islamic financial derivatives

Forward exchange contracts represent commitments to purchase foreign and domestic currency, including undelivered spot transactions. The values of the derivative instruments held are set out as below:

At 31 December 2014

	Contract / Notional Amount
	RO
Forward exchange contracts	
Currency forward - purchase contracts	30,965,091
Currency forward - sale contracts	30,963,968

As at 31 December 2014, fair value of the exchange contracts remains equivalent to its notional amount. During 2013, Maisarah did not enter into any Islamic financial derivative contracts.

27 Fair value information

Fair value is an amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Consequently, differences can arise between the carrying value and fair value estimates. As at the reporting date the fair values of Maisarah's financial instruments are not significantly different from their carrying values.

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).

	2014			
Fair value information	**Level 1**	**Level 2**	**Level 3**	**Total**
	RO	**RO**	**RO**	**RO**
Financial asset at fair value through Equity	-	10,197,500	-	10,197,500
Total	**-**	**10,197,500**	**-**	**10,197,500**

As at 31 December 2013, investment in Sukuk was stated at cost.

MAISARAH ISLAMIC BANKING SERVICES

Notes to the financial statements
For the year ended 31 December 2014

28 Financial risk management

The important types of financial risks to which Maisarah is exposed are credit risk, liquidity risk and market risk. The risk management division of Maisarah is an independent and dedicated unit reporting directly to the Risk Management Committee ("RMC") of the Board. The division's primary responsibility is to assess, monitor and recommend strategies for control of credit, market and operational risk. The absence of any direct or indirect reporting lines and permanent membership in all Maisarah's committees are among the factors which reflect the independence of the Risk Management Division's working and the key role it plays within Maisarah.

The risk management framework is pivoted on a host of committees involving the executive management and the Board of Directors ("the Board") for approval and reporting purposes. The Board has the overall authority for approval of strategies and policies, which it exercises through its various sub-committees. RMC of the Board is responsible for reviewing and recommending to the full Board, approval risk policies and procedures. RMC also reviews the
risk profile of Maisarah as presented to it by the Risk Management Division and appraises the full Board in its periodic meetings.

Credit risk

The most important risk to which Maisarah is exposed is credit risk. To manage the level of credit risk, Maisarah deals with counter-parties of good credit. Board Credit Committee is the final credit approving authority of Maisarah which is mainly responsible for approving all credit proposals beyond the authority level of the management. RMC is the management decision making body which is empowered to consider all credit related issues upto certain limits.

Credit risk is managed by the Risk Management Division ("RMD") through a system of independent risk assessment in credit proposals before they are considered by the appropriate approving authorities. Maisarah has in place a risk grading system for analysing the risk associated with credit. This facilitates the approving authorities in making their credit decision. Maximum counterparty/group exposures are limited to 15% of the Bank's capital base as stipulated by CBO and where a higher limit is required for projects of national importance prior CBO approval is obtained. Individual country limits using Moody's, S&P and Fitch ratings have also been set up to ensure portfolio diversification in terms of sovereign risk ratings and geographical exposure. These limits are approved by the Board. Retail financing is strictly in accordance with the CBO guidelines. The analysis of credit portfolio is provided below. It is pertinent to mention that the credit portfolio consists of all standard accounts and there is no impairment in the portfolio.

MAISARAH ISLAMIC BANKING SERVICES

Notes to the financial statements
For the year ended 31 December 2014

28 Financial risk management *(continued)*

Credit risk *(continued)*

(a) Geographical concentrations

	2014 Due from banks and financial institutions RO	2014 Due to Banks and financial Institutions RO
Sultanate of Oman	-	25,000,000
Other GCC Countries	183,247	3,850,000
Europe and North America	24,174	-
Africa and Asia	-	19,250,000
	207,421	48,100,000

During 2013, Maisarah did not have any exposure outside Sultanate of Oman.

(b) Customer concentrations

Customer concentrations on asset (Gross)

	2014				
	Due from banks and financial institutions	Murabaha receivables	Mudaraba Financing	Diminishing Musharaka financing	Ijarah Muntahia Bittamleek
	RO	RO	RO	RO	RO
Retail	-	1,557,312	-	20,722,465	29,454,692
Corporate	207,421	19,004,397	2,284,519	60,010,951	-
	207,421	20,561,709	2,284,519	80,733,416	29,454,692

	2013				
	Due from banks and financial institutions	Murabaha receivables	Mudaraba Financing	Diminishing Musharaka financing	Ijarah Muntahia Bittamleek
	RO	RO	RO	RO	RO
Retail	-	237,294	-	-	17,605,349
Corporate	7,700,000	-	-	10,425,217	-
	7,700,000	237,294	-	10,425,217	17,605,349

MAISARAH ISLAMIC BANKING SERVICES

Notes to the financial statements
For the year ended 31 December 2014

28 Financial risk management *(continued)*

Credit risk *(continued)*

(c) Economic sector concentrations

	2014			
	Murabaha receivables	Mudaraba Financing	Diminishing Musharaka Financing	Ijarah Muntahia Bittamleek
	RO	RO	RO	RO
Personal	1,557,312	-	20,722,465	29,454,692
Construction	-	1,693,709	40,390,230	-
Manufacturing	11,583,787	-	1,724,611	-
Other services	-	2,347	15,718,454	-
Others	7,420,610	588,463	2,177,656	-
	20,561,709	2,284,519	80,733,416	29,454,692

	2013			
	Murabaha receivables	Mudaraba Financing	Diminishing Musharaka Financing	Ijarah Muntahia Bittamleek
	RO	RO	RO	RO
Personal	237,294	-	-	17,605,349
Construction	-	-	6,957,659	-
Manufacturing	-	-	1,670,200	-
Other services	-	-	303,683	-
Others	-	-	1,493,675	-
	237,294	-	10,425,217	17,605,349

(d) Gross credit exposure

	2014	
	Total gross exposure	Monthly average gross exposure
	RO	RO
Murabaha receivables	20,561,709	15,685,358
Mudaraba financing	2,284,519	1,781,264
Diminishing Musharaka Financing	80,733,416	42,852,556
Ijarah Muntahia Bittamleek	29,454,692	24,674,430

MAISARAH ISLAMIC BANKING SERVICES
Notes to the financial statements
For the year ended 31 December 2014

28 Financial risk management *(continued)*

Credit risk *(continued)*

(d) Gross credit exposure *(continued)*

	2013	
	Total gross exposure	**Monthly average gross exposure**
	RO	**RO**
Murabaha receivables	237,294	167,425
Mudaraba financing	-	-
Diminishing Musharaka Financing	10,425,217	5,368,439
Ijarah Muntahia Bittamleek	17,605,349	8,603,110

(e) Industry type distribution of exposures by major types of credit exposures:

	2014				
	Murabaha receivables	**Mudaraba financing**	**Diminishing Musharaka Financing**	**Ijarah Muntahia Bittamleek**	**Off balance sheet exposures**
	RO	**RO**	**RO**	**RO**	**RO**
Import trade	**7,310,196**	**300,981**	-	-	**16,204,593**
Mining & quarrying	-	**287,482**	**2,080,917**	-	-
Construction	-	**1,693,709**	**40,390,230**	-	-
Manufacturing	**11,583,787**	-	**1,724,611**	-	-
Transport & communication	-	-	**96,739**	-	-
Services	-	**2,347**	**15,718,454**		-
Retail	**1,557,312**	-	**20,722,465**	**29,454,692**	-
Others	**110,414**	-	-	-	-
	20,561,709	**2,284,519**	**80,733,416**	**29,454,692**	**16,204,593**

	2013				
	Murabaha receivables	Mudaraba financing	Diminishing Musharaka Financing	Ijarah Muntahia Bittamleek	Off balance sheet exposures
	RO	RO	RO	RO	RO
Import trade	-	-	-	-	2,989,910
Mining and quarrying	-	-	1,493,675	-	-
Construction	-	-	6,957,659	-	-
Manufacturing	-	-	1,670,200	-	-
Services	-	-	303,683	-	-
Retail	237,294	-	-	17,605,349	-
	237,294	-	10,425,217	17,605,349	2,989,910

MAISARAH ISLAMIC BANKING SERVICES
Notes to the financial statements
For the year ended 31 December 2014

28 Financial risk management *(continued)*

Credit risk *(continued)*

(f) Residual contractual maturities of the portfolio by major types of credit exposures:

	Murabaha receivables RO	Mudaraba financing RO	Diminishing Musharaka Financing RO	Ijarah Muntahia Bittamleek RO	Off Balance sheet exposures RO
31 December 2014					
Upto 1 month	**6,676,319**	**2,284,519**	-	-	10,524,911
1 - 3 months	**4,921,489**	-	**10,000**	-	4,553,113
3 - 6 months	**7,296,175**	-	-	-	577,223
6 - 9 months	-	-	-	-	343,588
9 - 12 months	-	-	-	-	-
1 - 3 years	**128,422**	-	**1,909,433**	-	190,758
3 – 5 years	**488,504**	-	**5,695,221**	**319,286**	15,000
Over 5 years	**1,050,800**	-	**73,118,762**	**29,135,406**	-
	20,561,709	2,284,519	80,733,416	29,454,692	16,204,593

	Murabaha receivables RO	Mudaraba financing RO	Diminishing Musharaka Financing RO	Ijarah Muntahia Bittamleek RO	Off Balance sheet exposures RO
31 December 2013					
Upto 1 month	4,768	-	195,851	125,592	-
1 - 3 months	9,536	-	391,702	251,184	-
3 - 6 months	14,304	-	587,553	376,776	2,989,910
6 - 9 months	14,304	-	531,276	376,776	-
9 - 12 months	14,304	-	512,128	376,776	-
1 - 3 years	109,088	-	5,470,115	3,014,208	-
3 – 5 years	70,990	-	1,953,190	2,965,652	-
Over 5 years	-	-	783,402	10,118,385	-
	237,294	-	10,425,217	17,605,349	2,989,910

(g) Distribution of past due and not past due financing by type of industry:

			2014		
	Performing Murabaha receivables RO	Performing Mudaraba Financing RO	Performing Diminishing Musharaka Financing RO	Performing Ijarah Muntahia Bittamleek RO	General provisions made during the year RO
Import trade	**7,310,196**	**300,981**	-	-	**(82,574)**
Mining & quarrying	-	**287,482**	**2,080,917**	-	**(25,695)**
Construction	-	**1,693,709**	**40,390,230**	-	**(456,572)**
Manufacturing	**11,583,787**	-	**1,724,611**	-	**(144,384)**
Transport & communication	-	-	**96,739**	-	**(1,050)**
Services	-	**2,347**	**15,718,455**	-	**(170,556)**
Retail	**1,557,312**	-	**20,722,464**	**29,454,692**	**(611,556)**
Others	**110,414**	-	-	-	**(1,198)**
	20,561,709	**2,284,519**	**80,733,416**	**29,454,692**	**(1,493,585)**

MAISARAH ISLAMIC BANKING SERVICES

Notes to the financial statements
For the year ended 31 December 2014

28 Financial risk management *(continued)*

Credit risk *(continued)*

(g) Distribution of past due and not past due financing by type of industry *(continued)***:**

	2013				
	Performing Murabaha receivables	**Performing Mudaraba Financing**	**Performing Diminishing Musharaka Financing**	**Performing Ijarah Muntahia Bittamleek**	**General provisions made during the year**
	RO	**RO**	**RO**	**RO**	**RO**
Import trade	-	-	-	-	-
Mining & quarrying	-	-	1,493,675	-	(14,389)
Construction	-	-	6,957,659	-	(67,026)
Manufacturing	-	-	1,670,200	-	(16,090)
Transport & communication	-	-	-	-	-
Services	-	-	303,683	-	(2,926)
Retail	237,294	-	-	17,605,349	(184,828)
	237,294	-	10,425,217	17,605,349	(285,259)

(h) Maximum exposure to credit risk without consideration of collateral held:

During the year there is no credit exposure provided without collateral (2013: RO Nil).

Liquidity risk

Liquidity risk is the potential inability to meet Maisarah's liabilities as they become due, because of the difficulty in liquidating assets (market liquidity risk) or in obtaining adequate funding (funding liquidity risk). It arises when Maisarah is unable to generate cash to cope with a decline in deposits or increase in assets.

Maisarah's liquidity risk management is governed by the treasury risk policy document approved by the Board of Directors as well as the provisions of relevant CBO guidelines on liquidity risk management. Maisarah monitors its liquidity risk through cash flow approach. Under cash flow approach Maisarah generates Maturity of Assets and Liabilities (MAL) report which captures all the maturing assets and liabilities into various pre-set time buckets ranging from one month to five years. The mismatches in various time buckets indicate liquidity gap and Maisarah strictly adheres to the CBO set limit of 15% of cumulative liabilities (outflows) on mismatches (liquidity gaps) in time buckets upto one year. In addition, Maisarah has also set up internal limit on mismatches in time buckets beyond one year.

Treasury department of Maisarah controls and monitors the liquidity risk and ensures that the window is not exposed to undue liquidity risk and at the same time makes optimum use of its funds. Middle office in Risk Management Division also monitors the liquidity position of Maisarah.

MAISARAH ISLAMIC BANKING SERVICES

Notes to the financial statements
For the year ended 31 December 2014

28 Financial risk management *(continued)*

Liquidity risk *(continued)*

Maturity profile of assets and liabilities

	Due on demand and up to 30 days RO	More than 1month to 6 months RO	More than 6 months to 12 months RO	More than 1 year to 5 years RO	Over 5 years RO	Total RO
31 December 2014						
Cash and balances with Central Bank of Oman ("CBO")	44,510,564	-	-	-	-	44,510,564
Due from banks and financial institutions	207,421	-	-	-	-	207,421
Murabaha receivables - net	6,891,330	12,183,100	118,057	1,056,810	62,802	20,312,099
Mudaraba financing – net	114,209	228460	221,373	1,142,260	549,869	2,256,171
Diminishing Musharaka financing – net	1,482,666	7,423,110	8,665,702	41,632,980	20,655,046	79,859,504
Financial assets at fair value through equity	-	-	-	10,197,500	-	10,197,500
Ijarah Muntahia Bittamleek– net	209,183	1,045,920	1,169,671	9,899,730	16,788,474	29,112,978
Property and equipment – net	-	-	-	-	1,056,561	1,056,561
Other asset	4,201,234	-	-	-	78,789	4,280,023
Total assets	57,616,607	20,880,590	10,174,803	63,929,280	39,191,541	191,792,821
Due to Head office and other banks	48,100,000	-	-	-	-	48,100,000
Qard Hasan from Head Office	-	-	-	17,215,732	-	17,215,732
Customer Wakala Deposit	-	53,700,000	15,025,000	4,000,000	-	72,725,000
Current accounts	2,979,447	5,214,033	2,979,448	-	3,724,310	14,897,238
Other liabilities	6,274,924	54,512	31,150	-	38,937	6,399,523
Equity of unrestricted investment account holders	507,823	938,939	915,644	4,578,222	2,289,500	9,230,128
Owner's equity	-	-	-	-	23,225,200	23,225,200
Total liabilities and account holders & owners' equity	57,862,194	59,907,484	18,951,242	25,793,954	29,277,947	191,792,821

MAISARAH ISLAMIC BANKING SERVICES

Notes to the financial statements
For the year ended 31 December 2014

28 Financial risk management *(continued)*

Liquidity risk *(continued)*

Maturity profile of assets and liabilities *(continued)*

	Due on demand and up to 30 days RO	More than 1month to 6 months RO	More than 6 months to 12 months RO	More than 1 year to 5 years RO	Over 5 years RO	Total RO
31 December 2013						
Cash and balances with Central Bank of Oman ("CBO")	3,028,809	-	-	-	-	3,028,809
Due from banks and financial institutions	7,700,000	-	-	-	-	7,700,000
Murabaha receivables - net	4,658	23,290	27,949	175,927	-	231,824
Mudaraba financing – net	-	-	-	-	-	-
Diminishing Musharaka financing	193,964	969,821	1,033,352	7,351,793	775,856	10,324,786
Financial assets at fair value through equity	-	-	-	10,000,000	-	10,000,000
Ijarah Muntahia Bittamleek– net	124,313	621,563	745,875	5,918,939	10,015,301	17,425,991
Property and equipment – net	-	-	-	-	1,077,812	1,077,812
Other asset	133,702	-	-	-	96,394	230,096
Total assets	11,185,446	1,614,674	1,807,176	23,446,659	11,965,363	50,019,318
Due to Head office and other banks	30,200,000	-	-	-	-	30,200,000
Qard Hasan from Head Office	-	-	-	3,287,038	-	3,287,038
Customer Wakala Deposit	-	-	-	-	-	-
Current accounts	508,429	889,751	508,429	-	635,538	2,542,147
Other liabilities	2,557,371	-	-	-	-	2,557,371
Equity of unrestricted investment account holders	55,879	126,259	114,759	558,793	279,455	1,135,145
Owner's equity	-	-	-	-	10,297,617	10,297,617
Total liabilities and account holders & owners' equity	33,321,679	1,016,010	623,188	3,845,831	11,212,610	50,019,318

Market risk

Market risk includes currency risk, profit rate risk and equity price risk.

(a) Currency risk

Maisarah is exposed to currency risk through its transactions in foreign currencies. The major foreign currency to which Maisarah is exposed is the US Dollar which is effectively pegged to Rial Omani. Presently Maisarah does not have major foreign exchange exposure. There is only one placement in US dollar which has been financed through Wakala deposit of the same tenure.

MAISARAH ISLAMIC BANKING SERVICES

Notes to the financial statements
For the year ended 31 December 2014

28 Financial risk management *(continued)*

Market risk *(continued)*

(b) Profit rate risk

Profit rate risk (PRR) is the risk that Maisarah will incur a financial loss as a result of mismatch in the profit rates on assets & investment accountholders. The profit distribution to investment accountholders is based on profit sharing agreements. However, the profit sharing agreements will result in displaced commercial risk when Maisarah results do not allow it to distribute profits in line with the market rates.

Maisarah has a detailed profit distribution policy in place which details the process and management of profit distribution, including setting up of profit equalization & investment risk reserve. The responsibility of profit rate risk management rests with the Maisarah's Asset and Liability Management Committee (ALCO).

Profit rate sensitivity gap

Sensitivity to profit rates arises from mismatches in the period to repricing of assets and that of the corresponding liability. Maisarah manages these mismatches by following policy guidelines and reduces risk by matching the repricing of assets and liabilities.

MAISARAH ISLAMIC BANKING SERVICES

Notes to the financial statements
For the year ended 31 December 2014

28 Financial risk management *(continued)*

Market risk *(continued)*

Profit rate sensitivity gap *(continued)*

	Effective average profit rates	Due on demand and within 30 days	Due within 1 to 6 months	Due within 7 to 12 months	Due within 1 to 5 years	Due after 5 years	Non-profit bearing	Total
	%	RO	RO	RO	RO	RO	RO	RO
31 December 2014								
Cash and balances with Central Bank of Oman	-	-	-	-	-	-	44,510,564	44,510,564
Due from banks and financial institutions	0.53%	207,421	-	-	-	-	-	207,421
Murabaha receivables	2.34%	6,891,330	12,183,100	118,057	1,056,810	62,802	-	20,312,099
Mudaraba financing	7.51%	114,209	228,460	221,373	1,142,260	549,869	-	2,256,171
Diminishing Musharaka Financing	4.95%	1,482,666	7,423,110	8,665,702	41,632,980	20,655,046	-	79,859,504
Financial assets at fair value through equity	5.00%	-	-	-	10,197,500	-	-	10,197,500
Ijara Muntahia Bittamleek – net	4.68%	209,183	1,045,920	1,169,671	9,899,730	16,788,474	-	29,112,978
Property and equipment – net	-	-	-	-	-	-	1,056,561	1,056,561
Other asset	-	-	-	-	-	-	4,280,023	4,280,023
Total assets		8,904,809	20,880,590	10,174,803	63,929,280	38,056,191	49,847,148	191,792,821
Due to Head office and other banks	0.20%	48,100,000	-	-	-	-	-	48,100,000
Qard Hasan from Head office	-	-	-	-	-	-	17,215,732	17,215,732
Customer Wakala deposit	1.24%	-	53,700,000	15,025,000	4,000,000	-	-	72,725,000
Current accounts		-	-	-	-	-	14,897,238	14,897,238
Other liabilities	-	-	-	-	-	-	6,399,523	6,399,523
Equity of unrestricted investment account holders	0.85%	507,823	938,939	915,644	4,578,222	2,289,500	-	9,230,128
Owner's equity		-	-	-	-	-	23,225,200	23,225,200
Equity of account holders & Total liabilities and shareholders' equity	-	48,607,823	54,638,939	15,940,644	8,578,222	2,289,500	61,737,693	191,792,821
On-balance sheet gap		(39,703,014)	(33,758,349)	(5,765,841)	55,351,058	35,766,691	(11,890,545)	-
Cumulative profit sensitivity gap		(39,703,014)	(73,461,363)	(79,227,204)	(23,876,146)	11,890,545	-	-

MAISARAH ISLAMIC BANKING SERVICES

Notes to the financial statements
For the year ended 31 December 2014

28 Financial risk management *(continued)*

Market risk *(continued)*

Profit rate sensitivity gap *(continued)*

	Effective average profit rates	Due on demand and within 30 days	Due within 1 to 6 months	Due within 7 to 12 months	Due within 1 to 5 years	Due after 5 years	Non-profit bearing	Total
	%	RO	RO	RO	RO	RO	RO	RO
31 December 2013								
Cash and balances with Central Bank of Oman	-	-	-	-	-	-	3,028,809	3,028,809
Due from banks and financial institutions	0.91%	7,700,000	-	-	-	-	-	7,700,000
Murabaha receivables	5.13%	4,658	23,290	27,949	175,927	-	-	231,824
Mudaraba financing	-	-	-	-	-	-	-	-
Diminishing Musharaka Financing	5.28%	193,964	969,821	1,033,352	7,351,793	775,856	-	10,324,786
Financial assets at fair value through equity	5.00%	-	-	-	10,000,000	-	-	10,000,000
Ijara Muntahia Bittamleek – net	4.32%	124,313	621,563	745,875	5,918,939	10,015,301	-	17,425,991
Property and equipment – net	-	-	-	-	-	-	1,077,812	1,077,812
Other asset	-	-	-	-	-	-	230,096	230,096
Total assets	-	8,022,935	1,614,674	1,807,176	23,446,659	10,791,157	4,336,717	50,019,318
Due to Head office and other banks	0.47%	30,200,000	-	-	-	-	-	30,200,000
Qard Hasan from Head office	-	-	-	-	-	-	3,287,038	3,287,038
Customer Wakala deposit	-	-	-	-	-	-	-	-
Current accounts	-	-	-	-	-	-	2,542,147	2,542,147
Other liabilities	-	-	-	-	-	-	2,557,371	2,557,371
Equity of unrestricted investment account holders	0.52%	55,879	126,259	114,759	558,793	279,455	-	1,135,145
Owner's equity	-	-	-	-	-	-	10,297,617	10,297,617
Equity of account holders & Total liabilities and shareholders' equity		30,255,879	126,259	114,759	558,793	279,455	18,684,173	50,019,318
On-balance sheet gap		(22,232,944)	1,488,415	1,692,417	22,887,866	10,511,702	(14,347,456)	-
Cumulative profit sensitivity gap		(22,232,944)	(20,744,529)	(19,052,112)	3,835,754	14,347,456	-	-

MAISARAH ISLAMIC BANKING SERVICES

Notes to the financial statements
For the year ended 31 December 2014

28 Financial risk management *(continued)*

(c) Equity risk

Presently Maisarah is not exposed to any equity price risk.

Operational risk

Maisarah has adopted the Basic Indicator Approach under Basel II for the purpose of measuring capital charge for Operational Risk. The approach requires Maisarah to provide 15% of the average three years gross annual income as capital charge for operational risk.

29 Segmental information

Maisarah is organised into three main business segments:

(1) Retail banking – incorporating private customer current accounts, savings account, term deposits, murabaha and ijarah muntahia bittamleek;
(2) Corporate banking – incorporating current accounts, savings account, term deposits and diminishing musharaka financing; and
(3) Treasury & investments

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. Profit charged for these funds is based on Maisarah'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.

31 December 2014	Retail banking	Corporate banking	Treasury and investments	Total
	RO	RO	RO	RO
Segment operating revenues	1,536,537	2,016,599	71,850	3,624,986
Other revenues	89,011	467,028	531,742	1,087,781
Total segment operating revenues	1,625,548	2,483,627	603,592	4,712,767
Profit expenses	(25,599)	(262,584)	(128,535)	(416,718)
Net operating income	1,599,949	2,221,043	475,057	4,296,049
Segment cost				
Operating expenses including depreciation	(1,211,279)	(1,589,720)	(56,641)	(2,857,640)
Impairment allowance	(426,728)	(781,598)	-	(1,208,326)
Net profit / (loss) for the year before tax	(38,058)	(150,275)	418,416	230,083
Segment assets	52,091,046	85,856,375	55,338,985	193,286,406
Less: Impairment allowance	(611,556)	(882,029)	-	(1,493,585)
Total segment assets	51,479,490	84,974,346	55,338,985	191,792,821
Segment liabilities	1,796,685	91,275,314	66,265,494	159,337,493

MAISARAH ISLAMIC BANKING SERVICES

Notes to the financial statements
For the year ended 31 December 2014

29 Segmental information *(continued)*

31 December 2013	Retail banking	Corporate banking	Treasury and investments	Total
	RO	*RO*	*RO*	*RO*
Segment operating revenues	97,587	55,901	121,941	275,429
Other revenues	17,637	75,378	88	93,103
Total segment operating revenues	115,224	131,279	122,029	368,532
Profit expenses	(4,577)	(13)	(10,639)	(15,229)
Net operating income	110,647	131,266	111,390	353,303
Segment cost				
Operating expenses including depreciation	(804,438)	(460,802)	(1,005,187)	(2,270,427)
Impairment allowance	(184,828)	(100,431)	-	(285,259)
Net (loss) for the year before tax	(878,619)	(429,967)	(893,797)	(2,202,383)
Segment assets	18,301,600	10,711,503	21,291,474	50,304,577
Less: Impairment allowance	(184,828)	(100,431)	-	(285,259)
Total segment assets	18,116,772	10,611,072	21,291,474	50,019,318
Segment liabilities	5,196,305	1,835,184	31,555,067	38,586,556

30 Comparative

The comparative financial information included in the financial statements cover the period from 3 March 2013 to 31 December 2013. Certain of the corresponding figures have been reclassified in order to conform with the presentation for the current year. Such reclassification do not affect previously reported loss or owners' equity.