



Bank Sohar SAOG

BANK SOHAR SAOG

FINANCIAL STATEMENTS

FOR THE PERIOD ENDED 30 SEPTEMBER 2014

Registered office and principal place of business:

Bank Sohar Building
P.O.Box 44, Hai Al - Mina
PC 114, Muscat
Sultanate of Oman

STATEMENT OF FINANCIAL POSITION
AS AT 30 SEPTEMBER 2014

		30 September 2014	31 December 2013
	<i>Notes</i>	RO'000	RO'000
ASSETS			
Cash and balances with Central Bank	<i>B1</i>	51,533	106,070
Due from banks and other money market placements	<i>B2</i>	114,212	294,662
Loans, advances and financing (net)	<i>B3</i>	1,419,249	1,245,964
Investment securities	<i>B4</i>	226,956	206,216
Property, equipment and fixtures	<i>B5</i>	13,059	13,234
Investment properties	<i>B6</i>	2,900	2,900
Other assets	<i>B7</i>	26,494	16,574
		1,854,403	1,885,620
LIABILITIES			
Due to banks and other money market borrowings	<i>B8</i>	226,787	238,886
Customers' deposits	<i>B9</i>	1,340,997	1,382,626
Other liabilities	<i>B10</i>	39,221	35,689
Subordinated loans	<i>B11</i>	50,000	50,000
Compulsorily convertible bonds	<i>B12</i>	7,150	7,150
		1,664,155	1,714,351
SHAREHOLDERS' EQUITY			
Share capital	<i>B13</i>	114,400	110,000
Legal reserve	<i>B14</i>	10,827	10,827
General reserve	<i>B15</i>	1,063	1,063
Fair value reserve	<i>B16</i>	(837)	(467)
Subordinated loans reserve	<i>B11</i>	14,167	14,167
Retained earnings		50,628	35,679
		190,248	171,269
		1,854,403	1,885,620
Net assets per share (in baizas)	<i>B17</i>	166.30	155.70
CONTINGENT LIABILITIES			
COMMITMENTS	<i>B18</i>	304,666	257,011
	<i>B18</i>	262,049	222,779

The financial statements were approved and authorized for issue by the Board of Directors on 28th Oct 2014 and signed on their behalf by:

Chairman

Board Member

STATEMENT OF COMPREHENSIVE INCOME
FOR THE PERIOD ENDED 30 September 2014

		9 Months ended 30 September 2014 RO'000	9 Months ended 30 September 2013 RO'000	3 Months ended 30 September 2014 RO'000	3 Months ended 30 September 2013 RO'000
Interest income	C1	55,127	53,865	18,682	17,868
Interest expense	C2	(19,702)	(22,149)	(6,306)	(7,178)
Net interest income		35,425	31,716	12,376	10,690
Net income from Islamic financing and investing activities		1,212	126	471	117
Other operating income	C3	16,625	10,975	5,148	4,214
OPERATING INCOME		53,262	42,817	17,995	15,021
OPERATING EXPENSES					
Staff costs		(14,131)	(12,054)	(4,992)	(4,191)
Other operating expenses	C4	(7,395)	(6,920)	(2,453)	(2,367)
Depreciation	B5	(1,346)	(1,141)	(445)	(394)
		(22,872)	(20,115)	(7,890)	(6,952)
OPERATING PROFIT		30,390	22,702	10,105	8,069
Impairment allowance on portfolio basis	B3	(2,152)	(1,436)	(743)	(692)
Impairment allowance on specific basis	B3	(1,735)	(1,005)	(847)	(447)
NET PROFIT BEFORE TAX		26,503	20,261	8,515	6,930
Income tax expense	C5	(2,754)	(2,151)	(919)	(774)
NET PROFIT FOR THE PERIOD		23,749	18,110	7,596	6,156
Other comprehensive income					
Net changes in fair value of available for sale financial assets net of income tax (re-classifiable to profit or loss)		(370)	(744)	804	(575)
Other comprehensive income for the period net of income tax		(370)	(744)	804	(575)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		23,379	17,366	8,400	5,581
Basic earnings per share for the period – in baizas	C6	20.760	16.041	6.640	5.453
Basic earnings per share for the period (annualized) – in baizas	C6	27.756	21.447	26.343	21.633
Diluted earnings per share for the period – in baizas	C6	20.328	15.555	6.505	5.246
Diluted earnings per share for the period (annualized) – in baizas	C6	27.178	20.797	25.807	20.813
Net profit/(loss) for the period					
Conventional banking		23,987	18,564	7,724	6,354
Islamic banking		(238)	(454)	(128)	(198)
Total		23,749	18,110	7,596	6,156

**STATEMENT OF CHANGES IN EQUITY
FOR THE PERIOD ENDED 30 SEPTEMBER 2014**

	Share capital RO'000	Legal reserve RO'000	General reserve RO'000	Fair value reserve RO'000	Subordinated loans reserve RO'000	Retained earnings RO'000	Total RO'000
Balance as at 1 January 2013	100,000	8,006	413	(851)	4,167	33,145	144,880
Total comprehensive income for the period							
Net profit for the period	-	-	-	-	-	18,110	18,110
Other comprehensive income for the period							
Change in fair value of available for sale investments – net of tax	-	-	-	409	-	-	409
Release on sale of available for sale investments	-	-	-	(1,153)	-	-	(1,153)
Total comprehensive income for the period	-	-	-	(744)	-	18,110	17,366
Issue of Rights shares	10,000	-	-	-	-	-	10,000
Rights issue expenses	-	134	-	-	-	-	134
Transfers	-	-	-	-	-	(7,150)	(7,150)
Dividends paid for the year 2012	-	-	-	-	-	(3,850)	(3,850)
Balance as at 30 September 2013	110,000	8,140	413	(1,595)	4,167	40,255	161,380
Balance as at 1 October 1 2013	110,000	8,140	413	(1,595)	4,167	40,255	161,380
Total comprehensive income for the period							
Net profit for the period	-	-	-	-	-	8,761	8,761
Other comprehensive income for the period							
Change in fair value of available for sale investments – net of tax	-	-	-	1,331	-	-	1,331
Release on sale of available for sale investments	-	-	-	(203)	-	-	(203)
Total comprehensive income for the period	-	-	-	1,128	-	8,761	9,889
Transfers	-	2,687	650	-	10,000	(13,337)	-
Balance as at 31 December 2013	110,000	10,827	1,063	(467)	14,167	35,679	171,269
Balance as at 1 January 2014	110,000	10,827	1,063	(467)	14,167	35,679	171,269
Total comprehensive income for the period							
Net profit for the period	-	-	-	-	-	23,749	23,749
Other comprehensive income for the period							
Change in fair value of available for sale investments – net of tax	-	-	-	3,969	-	-	3,204
Release on sale of available for sale investments	-	-	-	(4,339)	-	-	(3,574)
Total comprehensive income for the period	-	-	-	(370)	-	23,749	23,379
Issue of stock dividend	4,400	-	-	-	-	(4,400)	-
Transfers	-	-	-	-	-	-	-
Dividend paid for the year 2013	-	-	-	-	-	(4,400)	(4,400)
Balance as at 30 September 2014	114,400	10,827	1,063	(837)	14,167	50,628	190,248

STATEMENT OF CASH FLOWS
FOR THE PERIOD ENDED 30 September 2014

	30 September 2014 RO'000	30 September 2013 RO'000
OPERATING ACTIVITIES		
Net profit for the year before tax	26,503	20,261
Adjustments for:		
Depreciation	1,346	1,141
Impairment for credit losses and investment	3,887	2,450
Profit on sale of investment securities	(3,404)	(1,989)
Profit /loss on sale of property, equipment and fixtures	-	(4)
Interest on investment	(1,005)	(829)
Operating profit before changes in operating assets and liabilities	27,327	21,030
Due from banks and money market placements	74,209	138,026
Loans, advances and financing	(176,846)	(80,730)
Other assets	(10,365)	(8,192)
Due to banks and other money market borrowings	155,920	60,052
Customers' deposits	(41,629)	(13,659)
Other liabilities	4,111	4,686
Investment in held for trading investment	-	(10,598)
Cash from/ (used in) operating activities	32,727	110,615
Income tax paid	(3,225)	(2,858)
Net cash from / (used in) operating activities	29,502	107,757
INVESTING ACTIVITIES		
Purchase of investments (net)	(41,017)	(17,087)
Proceeds from sale/redemption of investments	32,956	16,258
Purchase of property, equipment and fixtures	(1,171)	(2,332)
Proceeds from sale of property , equipment and fixtures	-	-
Interest received on investments	1,005	829
Net cash from/(used) in investing activities	(8,227)	(2,332)
FINANCING ACTIVITIES		
Issue of rights shares (net of Issue expenses)	-	10,000
Rights issue expenses	-	134
Dividends paid	(4,400)	(3,850)
Net cash from/(used) in financing activities	(4,400)	6,284
NET CHANGE IN CASH AND CASH EQUIVALENTS	16,875	111,709
CASH AND CASH EQUIVALENT AT BEGINNING OF THE YEAR	216,674	125,268
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	233,549	236,977
REPRESENTING:		
Cash and balances with Central Banks	51,533	86,137
Due from banks and other money market lending	42,782	174,773
Investments securities	153,979	153,985
Due to banks and other money market borrowings	(14,745)	(177,918)
	233,549	236,977

NOTES TO FINANCIAL STATEMENTS

FOR THE PERIOD ENDED 30 SEPTEMBER 2014

A1 Legal status and principal activities

Bank Sohar SAOG (“the Bank”) was established in the Sultanate of Oman on 4 March 2007 as a public joint stock company and is primarily engaged in commercial, investment and Islamic banking through a network of twenty six commercial banking branches and 4 Islamic banking branches within the Sultanate of Oman. The Bank operates under commercial, investment and Islamic banking licences issued by the Central Bank of Oman (CBO) and are covered by its deposit insurance scheme. The Bank started commercial operations from 9 April 2007. The registered address of the Bank is PO Box 44, Hai Al Mina, Postal Code 114, Muscat, Sultanate of Oman. The Bank has its primary listing on the Muscat Securities Market.

With effect from 30 April 2013, the Bank obtained a license to operate an Islamic Banking Window (“Sohar Islamic”).

Sohar Islamic offers a full range of Islamic banking services and products. The principal activities of the Window include accepting Shari'a compliant customer deposits, providing Shari'a compliant financing based on Murabaha, Mudaraba, Musharaka, Ijarah, Istisna'a, Salam and providing commercial banking services, investment and other activities permitted under Islamic Banking Regulatory Framework (IBRF).

The Bank employed 637 employees as of 30 September 2014 (31 December 2013: 639).

A2 Basis of preparation

Since these are interim condensed financial statements, they do not contain all information and disclosures for the full financial statements prepared in accordance with IFRS and should be read in conjunction with the Bank's annual financial statements as at 31 December 2013.

A2.1 Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”), requirements of the Oman Commercial Companies Law of 1974, as amended and the disclosure requirements of the Capital Market Authority and the applicable regulations of the CBO.

In accordance with the Royal Decree 69/2012 regarding the amendment in the Banking Law 2000, the CBO has issued circular no. IB - 1 under which a complete Islamic Banking Regulatory Framework (IBRF) has been promulgated. The framework identifies the permissible form of trade-related modes of financing including purchase of goods by banks from their customers and immediate resale to them at appropriate profit in price on deferred payment basis. The purchases and sales arising under these arrangements are not reflected in these financial statements as such, but are restricted to the amount of facility actually utilized and the appropriate portion of profit thereon.

The financial results of the Islamic Banking Window have been reflected in these financial statements for reporting purposes after eliminating inter branch transactions / balances.

A2.2 Basis of measurement

The financial statements have been prepared under the historical cost convention except for derivative financial instruments, held for trading and available for sale financial assets which have been measured at fair value.

A2.3 Functional and presentation currency

These financial statements are presented in Rial Omani, which is the Bank's functional currency and also in US Dollars, for the convenience of readers. The US Dollar amounts, which are presented in these financial statements have been translated from the Rial Omani amounts at an exchange rate of US Dollar 1 = RO 0.385 (RO 1 = 1000 baizas). All financial information presented in Rial Omani and US Dollars has been rounded to the nearest thousands.

A2.4 Use of estimates and judgements

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

The estimates and associated assumptions are based on industry data and various other factors that are believed by the Bank to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources.

The estimates and underlying assumptions are reviewed on a regular basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods. Estimates considered by the Bank to have a significant risk of material adjustment in subsequent periods are discussed in note A4.

NOTES TO FINANCIAL STATEMENTS

FOR THE PERIOD ENDED 30 SEPTEMBER 2014

A2 Basis of preparation (continued)

A2.5 Standards, amendments and interpretations effective in 2014 and relevant for the Bank's operations

For the period ended 30 September 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.

A2.6 Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Bank:

The following standards, amendments and interpretations to existing standards have been published and are mandatory for the Bank's accounting periods beginning after 1 January 2014 or later periods, but the Bank has not early adopted them and the impact of these standards and interpretations is not reasonably estimable as at 30 September 2014:

IFRS 9, 'Financial instruments part 1: Classification and measurement', (effective date to be set later)

IAS 19 (amendments) Employee benefits, regarding defined benefit plans (effective on or after 1 July 2014).

A3 Significant accounting policies

The accounting policies set out below have been applied consistently by the Bank to all periods presented in these financial statements, unless otherwise stated.

A3.1 Foreign currency translation

Transactions in foreign currencies are translated into functional currency at the spot exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated into the functional currency at the spot exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for the effective interest and payments during the period, and the amortised cost in the foreign currency translated at the spot exchange rate at the end of the period. The non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated into the functional currency at the spot exchange rate at the date the fair value was determined. Foreign currency differences arising on retranslation are recognized in the statement of comprehensive income, except for non-monetary financial assets, such as equities classified as available-for-sale, which are included in other comprehensive income. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

A3.2 Revenue and expense recognition

A3.2.a Interest income and expense

Interest income and expense is recognised in the statement of comprehensive income using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. The effective interest rate is established on initial recognition of the financial asset/liability and is not revised subsequently. Interest income and expense presented in the statement of comprehensive income include:

- Interest on financial assets and liabilities at amortised cost on an effective interest rate basis;
- Interest on available for sale investment securities on an effective interest rate basis; and
- Fair value changes in qualifying derivatives (including hedge ineffectiveness) and related hedged items when interest rate risk is the hedged risk.

NOTES TO FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 SEPTEMBER 2014

A3 Significant accounting policies (continued)

A3.2 Revenue and expense recognition (continued)

A3.2.a Interest income and expense (continued)

Interest income which is doubtful of recovery is included in impairment allowance and excluded from income until it is received in cash.

A3.2.b Fair value gains and losses

Fair value changes on derivatives held for risk management purposes and available for sale financial assets are presented in the statement of other comprehensive income.

Net income from financial assets at fair value through profit or loss, including all realised and unrealised fair value changes, interest, dividend and foreign exchange differences are presented in the income statement.

A3.2.c Dividend income

Dividend income is recognized when the right to receive dividend is established.

A3.2.d Fees and commission

Fees and commission income and expenses that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Other fees and commission income include account servicing fees, credit related fees, advisory fees, administration fees and other management fees, sales commission, placement fees and syndication fees. These are recognised as the related services are performed.

A3.2.e Provisions

A provision is recognised if, as a result of a past event, the Bank has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are equivalent to the amortised value of the future liabilities which is determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risk specific to the liability.

A3.2.f Offsetting of income and expense

Income and expenses are presented on a net basis only when permitted by the IFRS, or for gains and losses arising from a group of similar transactions such as in the Bank's trading activity.

A3.3 Financial assets and liabilities

A3.3.a Classification

The Bank classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, held to maturity and available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term. Derivatives are also categorised as held for trading unless they are designated as hedging instruments.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and the Bank does not intend to sell immediately or in the near term.

NOTES TO FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 SEPTEMBER 2014**A3 Significant accounting policies (continued)****A3.3 Financial assets and liabilities (continued)****A3.3.a Classification (continued)****Loans and receivables (continued)**

Loans and receivables are initially recognised at fair value which is the cash consideration to originate or purchase the loan including any transaction costs - and measured subsequently at amortised cost using the effective interest method less specifically identified and collective allowance for impairment and recognised in the statement of comprehensive income as 'impairment allowance'. Specific provisions are made against the carrying amount of loans and receivables that are identified as being impaired based on regular reviews of outstanding balances to reduce the impaired loans and receivables to their recoverable amounts. Loans and receivables are reported in the statement of financial position as loans and advances to banks or customers. Interest on loans is included in the statement of comprehensive income and is reported as 'interest income'.

Held to maturity financial assets

Held to maturity financial assets are non-derivative assets with fixed or determinable payments and fixed maturity that the Bank has the positive intent and ability to hold to maturity and which are not designated at fair value through profit or loss or available-for-sale.

These are initially recognised at fair value including direct and incremental transaction costs and measured subsequently at amortised cost, using the effective interest method.

Interest on held to maturity investments is included in the statement of comprehensive income and reported as 'interest income'. In the case of impairment, the impairment loss has been reported as a deduction from the carrying value of the investment and recognised in the statement of comprehensive income as 'impairment on investments'. Held to maturity investments includes corporate bonds and other debt securities.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories.

Available-for-sale investments are financial assets that are 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 or that are not classified as loans and receivables, held to maturity investments or financial assets at fair value through profit or loss.

Available-for-sale financial assets are initially recognised at fair value, which is the cash consideration including any transaction costs, and measured subsequently at fair value with gains and losses being recognised in the statement of other comprehensive income, except for impairment losses and foreign exchange gains and losses, until the financial asset is derecognised. If an available-for-sale financial asset is determined to be impaired, the cumulative gain or loss previously recognised in the statement of other comprehensive income is recognised in the statement of comprehensive income. However, interest is calculated using the effective interest method, and foreign currency gains and losses on monetary assets classified as available for sale are recognised in the statement of comprehensive income. Dividends on available-for-sale equity instruments are recognised in the statement of comprehensive income in 'other operating income' when the Bank's right to receive payment is established.

A3.3.b Recognition

The Bank initially recognises loans and advances, deposits, debt securities issued and subordinated liabilities on the date that they are originated. All other financial assets and liabilities are initially recognised on the trade date at which the Bank becomes a party to the contractual provisions of the instrument.

NOTES TO FINANCIAL STATEMENTS

FOR THE PERIOD ENDED 30 SEPTEMBER 2014

A3 Significant accounting policies (continued)

A3.3 Financial assets and liabilities (continued)

A3.3.c *Derecognition*

The Bank derecognises a financial asset when the contractual rights to receive the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. The Bank derecognises a financial liability when its contractual obligations are discharged or cancelled or expired.

A3.3.d *Offsetting of financial assets and financial liabilities*

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Bank has a legal right to set off the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

A3.3.e *Amortised cost measurement*

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

A3.3.f *Fair value measurement*

A number of the Bank's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on a number of accounting policies and methods. Where applicable, information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

For investments where there is no quoted market price, a reasonable estimate of the fair value is determined by reference to the current market value of a similar investment, or is based on the expected discounted cash flows. Investments having short term maturities are not discounted.

The fair value of loans and advances is estimated at the present value of future cash flows, discounted at the market rate of interest at the reporting date.

The fair value of forward exchange contracts is based on their quoted price, if available. If a quoted price is not available, then fair value is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk-free interest rate (based on government bonds). The fair value of interest rate swaps is based on broker quotes. Those quotes are tested for reasonableness by discounting estimated future cash flows based on the terms and maturity of each contract and using market interest rates for a similar instrument at the measurement date. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Bank and counterparty when appropriate.

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

A3.3.g *Identification and measurement of impairment of financial assets*

(i) **Assets carried at amortised cost**

The Bank assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired and an impairment loss is 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 as well as considering the guidelines issued by the CBO:



NOTES TO FINANCIAL STATEMENTS

FOR THE PERIOD ENDED 30 SEPTEMBER 2014

A3 Significant accounting policies (continued)

A3.3 Financial assets and liabilities (continued)

A3.3.g Identification and measurement of impairment of financial assets (continued)

(i) Assets carried at amortised cost (continued)

- significant financial difficulty of the issuer or obligor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- 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;
- it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- the disappearance of an active market for that financial asset because of financial difficulties; or
- 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 Bank, 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 Bank.

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 or held-to-maturity investments 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 comprehensive income. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

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.

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 group and historical loss experience for assets with credit risk characteristics similar to those in the group.

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 uncollectible, it is written off against the related allowance 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.

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, the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the statement of comprehensive income.

(ii) Assets classified as available-for-sale

The Bank assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. For debt securities, the Bank uses the criteria referred to in (i) above. 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 also evidence that 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 equity and recognised in the statement of comprehensive income. Impairment losses recognised in the statement of comprehensive income on equity instruments are not reversed through the statement of comprehensive income.

NOTES TO FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 SEPTEMBER 2014

A3 Significant accounting policies (continued)

A3.3 Financial assets and liabilities (continued)

A3.3.h Cash and cash equivalents

Cash and cash equivalents consist of cash in hand, unrestricted balances held with central banks and highly liquid financial assets with original maturities of up to three months, which are subject to insignificant risk of changes in their fair value, and are used by the Bank in management of its short term commitments. Cash and cash equivalents are carried at amortised cost in the statement of financial position.

A3.3.i Repurchase and resale agreements

Securities sold with a commitment to repurchase (repos) at a specified future date are recognised in the statement of financial position and are measured in accordance with accounting policies for trading securities or investment securities. The counterparty liability for amounts received under these agreements is included in 'due to banks and other money market borrowings'. The difference between sale and repurchase price is treated as interest expense and accrued over the life of the repo agreement.

Securities purchased with a corresponding commitment to resell at a specified future date (reverse repos) are not recognised in the statement of financial position and the amounts paid under these agreements are included in 'due from banks and other money market lendings'. The difference between purchase and resale price is treated as interest income and accrued over the life of the reverse repo agreement.

A3.3.j 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.

A3.3.k Derivatives held for risk management purposes

Derivatives held for risk management purposes include all derivative assets and liabilities that are not classified as trading assets or trading liabilities. Derivatives held for risk management purposes are measured at fair value in the statement of financial position. The treatment of changes in their fair value depends on their classification into the following categories:

Fair value hedge

When a derivative is designated as a hedge of the change in fair value of a recognised asset or liability or a firm commitment, changes in the fair value of the derivative are recognised immediately in statement of comprehensive income together with changes in the fair value of the hedged item that are attributable to the hedged risk.

If the derivative expires or is sold, terminated, or exercised, no longer meets the criteria for fair value hedge accounting, or the designation is revoked, hedge accounting is discontinued. Any adjustment up to that point, to a hedged item for which the effective interest method is used, is amortised to profit or loss as part of the recalculated effective interest rate of the item over its remaining life.

Cash flow hedge

When a derivative is designated as the hedging instrument in a hedge of the variability in cash flows attributable to a particular risk associated with a recognised asset or a liability or a highly probable forecast transaction that could affect profit or loss, the effective portion of changes in the fair value of the derivative is recognised in other comprehensive income in hedging reserve. The amount recognised in other comprehensive income is reclassified to comprehensive income as a reclassification adjustment in the same period as the hedged cash flows affect profit or loss, and in the same line item in the statement of comprehensive income. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in statement of comprehensive income.

If the hedging derivative expires or is sold, terminated, or exercised, or the hedge no longer meets the criteria for cash flow hedge accounting, or the hedge designation is revoked, then the hedge accounting is discontinued prospectively. In a discontinued hedge of a forecast transaction the cumulative amount recognized in other comprehensive income from the period when the hedge was effective is reclassified from the equity to statement of comprehensive income as a reclassification adjustment when the forecast transaction occurs and affects profit or loss. If the forecast transaction is no longer expected to occur, then the balance in other comprehensive income is reclassified immediately to statement of comprehensive income as a reclassification adjustment.

NOTES TO FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 SEPTEMBER 2014

A3 Significant accounting policies (continued)

A3.3 Financial assets and liabilities (continued)

A3.3.k Derivatives held for risk management purposes (continued)

Other non-trading derivative

When a derivative is not held for trading, and is not designated in a qualifying hedge relationship, all changes in its fair value are recognised immediately in statement of comprehensive income.

A3.4 Property, equipment and fixtures

Items of property, equipment and fixtures are measured at historical cost less accumulated depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the asset and preparing the asset for its intended use. Depreciation is provided on a straight-line basis over the estimated useful lives of property, equipment and fixtures, except freehold land. The estimated useful lives for the current period are as follows:

	Years
Motor vehicles	5
Furniture and fixtures	6-7
Office equipment	6-7
Production software	10

The assets' residual values, useful lives and depreciation methods 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.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within 'other operating income' in the statement of comprehensive income.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

A3.5 Investment properties

Investment properties comprise plots of land received by the bank as grant from the Government of Sultanate of Oman during the year 2008. These are currently held for an undetermined business use and not occupied by the Bank. These are carried at the average valuation of the two professional valuers carried out during 2008.

A3.6 Deposits, debt securities issued and subordinated liabilities

All money market and customer deposits are initially measured at fair value plus transaction cost and subsequently carried at amortised cost. Deposits, debt securities issued and subordinated liabilities are measured at their amortized cost using the effective interest method. The Bank classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instrument.

A3.7 Taxation

Taxation is provided in accordance with Omani fiscal regulations. Income tax comprises current and deferred tax. Income tax expense is recognised in the statement of comprehensive income except to the extent that it relates to items recognised directly in equity or 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.

NOTES TO FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 SEPTEMBER 2014

A3 Significant accounting policies (continued)

A3.7 Taxation (continued)

Deferred tax assets/liabilities are calculated using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary difference when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

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 utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

A3.8 Fiduciary assets

Assets held in trust or in a fiduciary capacity are not treated as assets of the Bank and accordingly are not included in these financial statements.

A3.9 Trade and settlement date accounting

All “regular way” purchases and sales of financial assets are recognised on the trade date, i.e. the date that the entity commits to purchase or sell the asset. 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.

A3.10 Leases

Operating lease payments are recognised as an expense in the statement of comprehensive income on a straight-line basis over the lease term.

A3.11 Financial guarantees

Financial guarantees are contracts that require the Bank to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment, when due in accordance with the terms of a debt instrument.

Financial guarantee liabilities are initially recognised at their fair value, and the initial fair value is amortised over the life of the financial guarantee. The guarantee liability is subsequently carried at the higher of this amortised amount and the present value of any expected payment (when a payment under the guarantee has become probable). The unamortized value or present value of the expected payment arising from the financial guarantee as the case may be is included in the other liabilities.

A3.12 Employee benefits

A3.12.a Terminal 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 2003, as amended.

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

A3.12.b Short term benefits

Short term benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A provision is recognised for the amount expected to be paid if the Bank has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

NOTES TO FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 SEPTEMBER 2014**A3 Significant accounting policies (continued)****A3.13 Earnings per share**

The Bank 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 Bank by the weighted average number of ordinary shares outstanding during the year. Annualised EPS is calculated by annualizing the basic EPS for the whole year. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise convertible notes or similar instruments.

A3.14 Corresponding figures

The corresponding figures included for comparative purposes have been reclassified /restated to conform to the presentation in the current year.

A3.15 Segment reporting

An operating segment is the component of the Bank that engages in business activities from which it may earn revenues and incur expenses, including revenue and expenses that relate to transactions with any of the Bank's other components, whose operating results are reviewed regularly by the Bank's CEO (being the chief operating decision maker) to make decisions about resources allocated to each segment and assess its performance, and for which discrete financial information is available.

A3.16 Directors' remuneration and sitting fees

The Directors' remuneration is governed as set out in the Commercial Companies Law, regulations issued by the Capital Market Authority and the Articles of Association of the Company.

The Annual General Meeting determines and approves the remuneration and the sitting fees for the Board of Directors and its sub-committees provided such fees, in accordance with Article 106 of the Commercial Companies Law of 1974 as amended, shall not exceed 5% of the annual net profit after deduction of the legal reserve and the optional reserve and the distribution of dividends to the shareholders provided that such fees does not exceed RO 200,000. The sitting fee for each Director does not exceed RO 10,000 in one year.

A4 Critical accounting estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. The resulting accounting estimates will, by definition, seldom equal the related actual results.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods. The Bank's significant accounting estimates are on:

A4.1 Impairment losses on loans and advances

The Bank follows IFRS and CBO guidelines in assessing the impairment against non-performing loans. The Bank reviews its loan portfolios to assess impairment on a monthly basis. In determining whether an impairment loss should be recorded in the 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. 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 group of assets with similar risk characteristics to determine whether collective impairment loss to be made.

NOTES TO FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 SEPTEMBER 2014

A4 Critical accounting estimates and judgements (continued)

A4.1 Impairment losses on loans and advances (continued)

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.

A4.2 Fair value of derivatives and other financial instruments

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. The Bank uses its judgement to select a variety of methods and makes assumptions that are mainly based on market conditions existing at the end of each reporting period. The Bank uses expected cash flow analysis for various available-for-sale financial assets that are not traded in active markets.

A4.3 Impairment of available-for-sale equity investments

The Bank 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 or objective evidence of impairment exists. This determination of what is considered to be significant or prolonged requires judgement. In applying judgement, the Bank evaluates among other factors, the volatility in share price. Objective evidence of impairment may be due to deterioration in the financial health of the investee, industry and sector performance.

A4.4 Fair value estimation of unquoted securities

In cases where the underlying assets are fair valued such as private equity funds, management uses net assets value. Management believe that net assets values of these investments are representative of their fair values as the majority of the underlying assets are fair valued and the reported net assets of those entities takes into account the updated fair values changes.

B1 Cash and balances with central bank

	30 September	31 December
	2014	2013
	RO'000	RO'000
Cash	15,450	10,603
Capital deposit with CBO	500	500
Balance with CBO	35,583	94,967
	<u>51,533</u>	<u>106,070</u>
	<u>51,533</u>	<u>106,070</u>

The capital deposit with the CBO cannot be withdrawn without the approval of CBO. The amortized cost of capital deposit with CBO included interest accrued as of the reporting date as disclosed in note B7.

B2 Due from banks and other money market placements

	30 September	31 December
	2014	2013
	RO'000	RO'000
Local currency:		
Money market placements	-	-
	<u>-</u>	<u>-</u>
	<u>-</u>	<u>-</u>
Foreign currency:		
Money market placements	56,338	251,807
Lending to Banks	48,721	32,314
Demand balances	9,153	10,541
	<u>114,212</u>	<u>294,662</u>
	<u>114,212</u>	<u>294,662</u>

NOTES TO FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 SEPTEMBER 2014

B2 Due from banks and other money market placements (continued)

As per recent CBO circular BM 1120 dated 31 March 2014, banks are required to report lending to banks under due from banks in the balance sheet. Accordingly for 31 December 2013 due from banks and other money market placements and loans, advances and financing (net) are restated.

The amortized cost of due from banks and other money market placement included interest accrued as of the reporting date as disclosed in note B7.

B3 Loans, advances and financing - net

	30 September 2014 RO'000	31 December 2013 RO'000
Corporate loans and financing	948,479	838,380
Retail loans and financing	500,310	432,901
	<hr/>	<hr/>
Gross loans, advances and financing	1,448,789	1,271,281
Impairment allowance on portfolio basis	(18,568)	(16,416)
Impairment allowance on specific basis (including reserved interest)	(10,972)	(8,901)
	<hr/>	<hr/>
Net loans and advances and financing	1,419,249	1,245,964
	<hr/> <hr/>	<hr/> <hr/>

Gross loans ,advances and financing include RO 36,636,417 through Sohar Islamic financing activities, under Islamic mode of financing.

The amortized cost of loans, advances and financing included interest accrued as of the reporting date as disclosed in note B7.

Loans, advances and financing comprise:

	30 September 2014 RO'000	31 December 2013 RO'000
Loans	1,322,925	1,167,427
Overdrafts	54,611	44,753
Loan against trust receipts	47,439	43,936
Bills discounted	23,814	15,165
	<hr/>	<hr/>
Gross loans , advances and financing	1,448,789	1,271,281
Impairment allowance on portfolio basis	(18,568)	(16,416)
Impairment allowance on specific basis (including reserve interest)	(10,972)	(8,901)
	<hr/>	<hr/>
Net loans , advances and financing	1,419,249	1,245,964
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NOTES TO FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 SEPTEMBER 2014

B3 Loans, advances and financing - net (continued)

As per the CBO requirements, the movement in the impairment allowance is as analysed below:

Loan loss provision	30 September	31 December
	2014	2013
	RO'000	RO'000
Impairment allowance on portfolio basis		
Balance at beginning of period	16,416	14,910
Provided during the period	2,152	1,506
	<hr/>	<hr/>
Balance at the end of the period	18,568	16,416
	<hr/> <hr/>	<hr/> <hr/>
Impairment allowance on specific basis		
1) Loan loss provision		
Balance at beginning of period	6,228	7,774
Provided during the period	3,209	2,831
Written off	-	(1,638)
Written back due to recovery	(1,474)	(2,739)
Transfer to other liabilities	(328)	-
	<hr/>	<hr/>
Balance at the end of the period	7,635	6,228
	<hr/> <hr/>	<hr/> <hr/>
2) Reserved interest		
Balance at beginning of period	2,673	2,587
Reserved during the period	902	1,399
Written off	-	(610)
Written back due to recovery	(238)	(703)
	<hr/>	<hr/>
Balance at end of the period	3,337	2,673
	<hr/> <hr/>	<hr/> <hr/>
Total	10,972	8,901
	<hr/> <hr/>	<hr/> <hr/>

Impairment allowance on portfolio basis is established to meet the credit risks inherent within the loans, advances and financing on a portfolio basis.

All loans and advances require payment of interest, some at fixed rates and others at rates that reprice prior to maturity. Interest reserve account is maintained by the Bank to comply with rules, regulations and guidelines issued by CBO against loans and advances which are impaired. As of 30 September 2014, loans and advances on which interest is not being accrued or where interest has been reserved amounted to RO 16,548,038 (31 December 2013 - RO 13,618,071).

NOTES TO FINANCIAL STATEMENTS
 FOR THE PERIOD ENDED 30 SEPTEMBER 2014

B4 Investment Securities

	30 September 2014 RO'000	31 December 2013 RO'000
Held for trading investments	24,600	18,500
Available for sale investments	192,801	178,158
Held to maturity investments	9,555	9,558
	<u>226,956</u>	<u>206,216</u>

B4.a Held-for-trading investments comprise:

	30 September 2014 RO'000	31 December 2013 RO'000
Government development bonds – Oman	18,500	18,500
Sukuk trust certificates	6,100	-
	<u>24,600</u>	<u>18,500</u>

B4.b Available for sale investments comprise:

	Carrying/ fair value 30 September 2014 RO'000	Cost 30 September 2014 RO'000	Carrying/ fair value 31 December 2013 RO'000	Cost 31 December 2013 RO'000
Unquoted securities	1,180	1,446	975	1,304
Quoted securities	37,642	38,325	32,837	33,143
Treasury bills	153,979	153,993	144,346	144,352
	<u>192,801</u>	<u>193,764</u>	<u>178,158</u>	<u>178,799</u>

B4.c Held-to-maturity investments comprise:

	30 September 2014 RO'000	31 December 2013 RO'000
Quoted	1,540	1,540
Unquoted	8,015	8,018
	<u>9,555</u>	<u>9,558</u>

B4.d The amortised cost of investment securities included interest accrued as of the reporting date as disclosed in note B7.

NOTES TO FINANCIAL STATEMENTS

FOR THE PERIOD ENDED 30 SEPTEMBER 2014

B5 Property, Equipment and Fixtures

	Freehold land RO'000	Computer software RO'000	Furniture and fixtures RO'000	Office equipment RO'000	Motor vehicles RO'000	Capital work in progress RO'000	Total RO'000
Cost:							
1 January 2014	4,100	7,736	3,536	4,710	726	1,947	22,755
Additions	-	410	414	214	-	133	1,171
Disposals	-	-	-	-	-	-	-
As at 30 September 2014	4,100	8,146	3,950	4,924	726	2,080	23,926
Accumulated depreciation:							
1 January 2014	-	(3,906)	(2,273)	(2,937)	(405)	-	(9,521)
Depreciation and amortisation	-	(475)	(308)	(487)	(76)	-	(1,346)
Disposals	-	-	-	-	-	-	-
As at 30 September 2014	-	(4,381)	(2,581)	(3,424)	(481)	-	(10,867)
Net book value at 30 September 2014	4,100	3,765	1,369	1,500	245	2,080	13,059

	Freehold land RO'000	Computer software RO'000	Furniture and fixtures RO'000	Office equipment RO'000	Motor vehicles RO'000	Capital work in progress RO'000	Total RO'000
Cost:							
At 1 January 2013	4,100	6,588	3,241	3,986	505	1,711	20,131
Additions	-	1,148	295	724	232	236	2,635
Disposals	-	-	-	-	(11)	-	(11)
At 31 December 2013	4,100	7,736	3,536	4,710	726	1,947	22,755
Accumulated depreciation:							
At 1 January 2013	-	(3,379)	(1,947)	(2,285)	(333)	-	(7,944)
Depreciation and amortisation	-	(527)	(326)	(652)	(83)	-	(1,588)
Disposals	-	-	-	-	11	-	11
As at 31 December 2013	-	(3,906)	(2,273)	(2,937)	(405)	-	(9,521)
Net book value: 31 December 2013	4,100	3,830	1,263	1,773	321	1,947	13,234

NOTES TO FINANCIAL STATEMENTS
 FOR THE PERIOD ENDED 30 SEPTEMBER 2014

B6 Investment properties

Investment properties represent two plots of land received by the Bank as grant from the Government of Sultanate of Oman during the year 2008. The Bank has recorded the land based on the average valuation of the two professional valuers carried out during 2008. The plots of land are currently held vacant. The fair value of these properties as at 31 December 2013 is RO 3.053 million.

B7 Other Assets

	30 September 2014 RO'000	31 December 2013 RO'000
Interest receivable		
- Capital deposit with CBO	6	8
- Due from banks and other money market placements	397	1,823
- Loans, advances and financing	3,246	2,107
- Investment securities	616	140
	4,265	4,078
Acceptances	11,383	5,026
Prepayments	3,234	2,356
Other receivables	1,670	1,121
Other	5,942	3,993
	22,229	12,496
	26,494	16,574

B8 Due to banks and other money market borrowings

	30 September 2014 RO'000	31 December 2013 RO'000
<i>Local currency:</i>		
Money market borrowings	47,650	71,867
Demand balances	1,870	439
	49,520	72,306
<i>Foreign currency:</i>		
Money market borrowings	176,758	166,580
Demand Balances	509	-
	177,267	166,580
	226,787	238,886

The amortized cost of due to banks and other money market placement included interest accrued as of the reporting date as disclosed in note B10.

NOTES TO FINANCIAL STATEMENTS

FOR THE PERIOD ENDED 30 SEPTEMBER 2014

B9 Customers' deposits

	30 September 2014 RO'000			31 December 2013 RO'000		
Term deposits	701,808			759,901		
Demand deposits	392,595			398,156		
Saving deposits	234,492			218,603		
Margin deposits	12,102			5,966		
	1,340,997			1,382,626		

	30 September 2014			31 December 2013		
	Conventional banking RO'000	Islamic banking RO'000	Total RO'000	Conventional banking RO'000	Islamic banking RO'000	Total RO'000
<i>Retail customers:</i>						
Term deposits	15,608	221	15,829	17,656	181	17,837
Demand deposits	17,292	2,013	19,305	15,504	867	16,371
Saving deposits	227,886	6,606	234,492	215,079	3,524	218,603
<i>Corporate customers:</i>						
Term deposits	685,779	200	685,979	742,064	-	742,064
Demand deposits	365,557	7,733	373,290	370,637	11,148	381,785
Margin deposits	4,131	7,971	12,102	2,372	3,594	5,966
	1,316,253	24,744	1,340,997	1,363,312	19,314	1,382,626

The amortized cost of customers' deposits included interest accrued as of the reporting date as disclosed in note B10.

B10 Other liabilities

	30 September 2014 RO'000	31 December 2013 RO'000
Interest payable		
- Due to banks and other money market borrowings	281	298
- Customers' deposits	8,577	9,759
- Subordinated loans	413	1,231
- Compulsorily convertible bonds	138	57
	9,409	11,345
Acceptances	11,383	5,026
Staff entitlements	3,572	3,516
Income tax payable	2,893	3,364
Deferred tax liability (note C5)	85	71
Other accruals and provisions	11,879	12,367
	29,812	24,344
	39,221	35,689

NOTES TO FINANCIAL STATEMENTS
 FOR THE PERIOD ENDED 30 SEPTEMBER 2014

B11 Subordinated Loans

The Bank raised an unsecured subordinated loan of RO 50 million in 2011 with a maturity of 7 years. The instrument is unlisted, non-transferable, and non-negotiable and non-convertible with no early call option. The instrument carries a fixed rate of interest of 6.5%. Principal amount of the subordinated loan is repayable on maturity while interest is payable semi-annually. The Bank is required to create a subordinated loan reserve equal to 20% of the issue value annually from August 2012 up till the maturity of the subordinated loans. This reserve is created at the end of each financial year from retained earnings. According to the Regulations of CBO, the subordinated loan as reduced by subordinated loan reserve is considered as Tier II capital for Capital Adequacy purposes. The amortized cost of subordinated loans included interest accrued as of the reporting date as disclosed in note B10.

B12 Compulsorily convertible bonds

The compulsorily convertible bonds of RO 7.150 million carrying an annual coupon rate of 4.5% were issued on 28 April 2013. These bonds will be converted into ordinary shares of the Bank in three equal instalments at the end of 3rd, 4th and 5th years from their dates of issue at a conversion price derived by applying a discount of 20% to the 3 months average share price of the Bank on the Muscat Securities Market prior to the date of conversion. The amortized cost of compulsorily convertible bonds included interest accrued as of the reporting date as disclosed in note B10.

B13 Share capital

The authorised share capital of the Bank is 2,000,000,000 shares of RO 0.100 each (2013 - 2,000,000,000 of RO 0.100 each). The issued and paid up share capital of the Bank is 1,144,000,000 shares of RO 0.100 each (2013 - 1,100,000,000 shares of RO 0.100 each).

In the Annual general meeting held on 30th March 2014 the shareholders approved the board's recommendation to distribute 4% stock dividend resulting in issuance of 44,000,000 new shares.

On 11 February 2013, the Bank issued 100,000,000 shares through a rights issue to its existing shareholders at a price of 102 baiza per share consisting of nominal value of 100 baiza per share and 2 baiza per share to cover the rights issue expenses. The rights issue was open for subscription to eligible share holders from 13 January to 27 January 2013 and was listed on Muscat Securities Market on 11 February 2013. The Bank has assigned this capital of RO 10 million to Sohar Islamic.

The proceeds of rights issue amounting to RO 10.2 million was credited to the share capital account to the extent of RO 10 million and RO 0.134 million to legal reserve being balance after meeting share issue expenses.

As of 30 September 2014, the following shareholders held 10% or more of the Bank's capital, either individually or together with family members:

	<i>Number of shares</i>	<i>% Holding</i>
Oman Investment & Finance Co.SAOG	171,600,000	15.00%
The Royal Court of Affairs	166,669,748	14.57%

B14 Legal reserve

In accordance with the Commercial Companies Law of Oman of 1974, an annual appropriation of 10% of the net profit for the year is required to be made to legal reserve until such time that the accumulated reserve is equal to at least one third of the Bank's issued share capital.

B 15 General reserve

The Board of Directors has decided to create a non distributable general reserve with the amount of RO 412,500 during the year 2010. During the year 2013 the bank has created a general reserve of RO 650,000 to cover the losses incurred by Sohar Islamic.

B16 Fair value reserve

The fair value reserve includes the cumulative net change in the fair value of the available-for-sale investments net of applicable income tax until the investment is derecognised or impaired.

NOTES TO FINANCIAL STATEMENTS

FOR THE PERIOD ENDED 30 SEPTEMBER 2014

B17 Net assets per share

The calculation of net assets per share is based on net assets of RO 190,248,000 as at 30 September 2014 (2013: RO 171,269,000) attributable to ordinary shareholders on 1,144,000,000 ordinary shares, being the number of shares outstanding as at 30 September 2014 (2013: 1,100,000,000 ordinary shares).

B18 Contingent liabilities and commitments
B18.1 Contingent liabilities

Standby letters of credit and guarantees commit the Bank to make payments on behalf of customers' contingent upon the failure of the customer to perform under the terms of the contract.

	30 September 2014 RO'000	31 December 2013 RO'000
Guarantees	255,963	215,635
Documentary letters of credit	48,703	41,376
	<u>304,666</u>	<u>257,011</u>

B18.2 Commitments

Credit related commitments include commitments to extend credit, standby letters of credit and guarantees, which are designed to meet the requirements of the Bank's customers. Commitments to extend credit represent contractual commitments to make loans and revolving credits. Commitments generally have fixed expiry dates or other termination clauses and require the payment of a fee. Since commitments may expire without being drawn upon, the total contract amounts do not necessarily represent future cash obligations.

	30 September 2014 RO'000	31 December 2013 RO'000
Capital commitments	1,324	1,176
Credit related commitments	260,725	221,603
	<u>262,049</u>	<u>222,779</u>

NOTES TO FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 SEPTEMBER 2014

B19 RELATED PARTY TRANSACTIONS

In the ordinary course of business the Bank conducts transactions with certain of its directors, shareholders, senior management, Shari'a supervisory board, shari'a reviewer and companies in which they have a significant interest. These transactions are conducted on an arm's length basis and are approved by the Bank's management and Board of Directors. The aggregate amount of balances and the income and expenses generated with such related parties are as follows:

	9 Months ended 30 September 2014 RO'000	12 Months ended 31 December 2013 RO'000
Loans and advances (balance at end of period)	26,093	25,549
Loans disbursed during the period	66,399	68,336
Loans repaid during the period	(71,601)	(66,577)
Deposits (balance at end of period)	10,980	13,973
Deposits received during the period	10,985	21,703
Deposits paid during the period	(6,086)	(6,936)
Credit related commitments	5,285	2,894
Interest income (during the period)	642	735
Interest expense (during the period)	44	49
Senior management compensation		
Salaries and other short term benefits	3,302	4,016
Directors' sitting fees and remuneration	189	196
Shari'a Supervisory Board members	17	54

No specific provision has been established in respect of the loans given to related parties.

NOTES TO FINANCIAL STATEMENTS

FOR THE PERIOD ENDED 30 SEPTEMBER 2014

B20 Derivatives

In the ordinary course of business the Bank enters into various types of transactions that involve derivative financial instruments. A derivative financial instrument is a financial contract between two parties where payments are dependent upon movements in price in one or more underlying financial instrument, reference rate or index. These derivatives are stated at fair value. The fair value of a derivative is the equivalent of the unrealised gain or loss from marking to market the derivative using prevailing market rates or internal pricing models. Unrealised gains or losses are included in the statement of comprehensive income. The derivative financial instruments used by the Bank are described below:

B20.1 Derivative product types

Forwards and futures are contractual agreements to either buy or sell a specified currency, commodity or financial instrument at a specific price and date in the future.

Swaps are contractual agreements between two parties to exchange interest or foreign currency differentials based on a specific notional amount. For interest rate swaps, counter parties generally exchange fixed and floating rate interest payments based on a notional value in a single currency.

Options are contractual agreements that convey the right, but not the obligation, to either buy or sell a specific amount of a commodity, foreign currency or financial instrument at a fixed price, either at a fixed future date or at any time within a specified period.

B20.2 Derivatives held or issued for hedging purposes

As part of its asset and liability management the Bank uses derivatives for hedging purposes in order to reduce its exposure to currency and interest rate risks. This is achieved by hedging specific financial instruments and forecasted transactions as well as strategic hedging against overall statement of financial position exposures.

The Bank uses forward foreign exchange contracts, to hedge against specifically identified currency risks. The Bank uses forward foreign exchange contracts to hedge against exposures in various currencies to meet the net open position limit as specified by CBO.

For interest rate risk strategic hedging is carried out by monitoring the re-pricing of financial assets and liabilities and entering into interest rate swaps to hedge a proportion of the interest rate exposure. As strategic hedging does not qualify for special hedge accounting, the related derivatives are accounted for as trading instruments.

The table below shows the notional amounts of derivative financial instruments as on the reporting date, which are the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured.

As at 30 September 2014	Notional amount RO'000	Notional amounts by term to maturity		
		Within 3 months RO'000	3 - 12 months RO'000	1 - 5 years RO'000
Foreign exchange purchase contracts	510,439	354,179	156,260	-
Forward foreign exchange sales contracts	509,072	353,953	155,119	-

As at 31 December 2013	Notional amount RO'000	Notional amounts by term to maturity		
		Within 3 months RO'000	3 - 12 months RO'000	1 - 5 years RO'000
Forward Foreign exchange purchase contracts	643,001	322,302	290,669	30,030
Forward foreign exchange sales contracts	664,566	332,466	302,095	30,005

NOTES TO FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 SEPTEMBER 2014
C1 Interest income

	9 Months ended 30 September 2014 RO'000	9 Months ended 30 September 2013 RO'000	3 Months ended 30 September 2014 RO'000	3 Months ended 30 September 2013 RO'000
Loans and advances to customers	51,354	47,793	17,720	16,292
Due from banks and other money market placements	2,768	5,243	627	1,326
Investment securities	1,005	829	335	250
	<u>55,127</u>	<u>53,865</u>	<u>18,682</u>	<u>17,868</u>

C2 Interest expense

	9 Months ended 30 September 2014 RO'000	9 Months ended 30 September 2013 RO'000	3 Months ended 30 September 2014 RO'000	3 Months ended 30 September 2013 RO'000
Customers' deposits	14,854	17,499	4,690	5,450
Subordinated debt	2,431	2,431	819	819
Due to banks and other money market borrowings	2,176	2,081	716	827
Compulsorily convertible bonds	241	138	81	82
	<u>19,702</u>	<u>22,149</u>	<u>6,306</u>	<u>7,178</u>

C3 Other operating income

	9 Months ended 30 September 2014 RO'000	9 Months ended 30 September 2013 RO'000	3 Months ended 30 September 2014 RO'000	3 Months ended 30 September 2013 RO'000
Fees and commission	9,950	6,827	3,214	3,060
Net gains from foreign exchange dealings	1,621	1,263	565	345
Dividend income	1,608	771	298	154
Net gains from held for trading investment securities	178	121	98	118
Net realised gains from available for sale investment securities	3,226	1,989	973	537
Profit on sale of assets	-	4	-	-
Bad debt recovery – written off earlier	42	-	-	-
	<u>16,625</u>	<u>10,975</u>	<u>5,148</u>	<u>4,214</u>

NOTES TO FINANCIAL STATEMENTS

FOR THE PERIOD ENDED 30 SEPTEMBER 2014

C4 Other operating expenses

	9 Months ended 30 September 2014 RO'000	9 Months ended 30 September 2013 RO'000	3 Months ended 30 September 2014 RO'000	3 Months ended 30 September 2013 RO'000
Operating and administration costs	5,573	5,252	1,914	1,835
Establishment cost	1,616	1,475	523	514
Directors sitting fees	189	193	16	18
Shari'a supervisory board remuneration and sitting fees	17	-	-	-
	<u>7,395</u>	<u>6,920</u>	<u>2,453</u>	<u>2,367</u>

C5 Income tax
a) Recognized in the statement of comprehensive income

	9 Months ended 30 September 2014 RO'000	9 Months ended 30 September 2013 RO'000
Tax expenses		
Current tax	2,765	2,132
Deferred tax (income)/expense	(11)	19
	<u>2,754</u>	<u>2,151</u>

b) Reconciliation

Net profit before tax for the year	26,503	20,261
Income tax	3,180	2,431
Tax impact of:		
Tax exempt income	(415)	(299)
Current year deferred tax	(11)	19
Income tax expense	<u>2,754</u>	<u>2,151</u>

c) Deferred tax (liability)/asset

	30 September 2014 RO'000	31 December 2013 RO'000
On comprehensive income items	(196)	(208)
On other comprehensive income Items	111	137
	<u>(85)</u>	<u>(71)</u>

NOTES TO FINANCIAL STATEMENTS
 FOR THE PERIOD ENDED 30 SEPTEMBER 2014

C5 Income tax (continued)
d) Tax assessment

The assessments of the Bank for the years 2007 to 2009 are completed and for the year 2010 to 2013 have not yet been agreed with the Secretariat General for Taxation at the Ministry of Finance. The Bank is of the opinion that additional taxes, if any, related to the open tax years would not be significant to the financial position of the Bank as at 30 September 2014.

C6 Basic and Diluted Earnings Per Share

Earnings per share are calculated by dividing the net profit for the year by the weighted average number of shares outstanding during the year.

	9 Months ended 30 September 2014 RO'000	9 Months ended 30 September 2013 RO'000
Net profit for the year	23,749	18,110
Weighted average number of shares of RO 0.100 each outstanding during the period (in thousands)	1,144,000	1,128,982
Basic earnings per share for the period (in baizas)	20.760	16.041
Basic earnings per share for the period annualized (in baizas)	27.756	21.447

Diluted earnings per share is calculated by dividing the profit attributable to ordinary shareholders (after adjusting for interest on the convertible bonds, net of tax) for the period by the weighted average number of ordinary shares including dilutive potential ordinary shares issued on the conversion of convertible bonds.

	9 Months ended 30 September 2014 RO'000	9 Months ended 30 September 2013 RO'000
Net profit for the period	23,749	18,110
Interest on convertible bonds, net of Taxation	212	121
	23,961	18,231
Weighted average number of shares of RO 0.100 each outstanding during the period (in thousands)	1,178,709	1,172,054
Diluted earnings per share for the period (in baizas)	20.328	15.555
Diluted earnings per share for the period Annualized (in baizas)	27.178	20.797

NOTES TO FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 SEPTEMBER 2014**D Financial risk management**

The primary objective of the risk management system is to safeguard the Bank's capital and its financial resources from various risks. The Bank has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk
- Operational risk

The Board of Directors has overall responsibility for the establishment and oversight of the Bank's risk management framework. Such responsibility is discharged by the Board through a Risk Management Committee, constituted by the Board which is responsible for developing and monitoring the Bank's risk management policies in their specified areas. Risk Management Committee submits periodic reports to the Board, appraising on various aspects of risk and movement of risk profile of the Bank.

The Bank's risk management policies will focus on identification, measurement, monitoring and mitigation of risk, irrespective of its manner of manifestation. In this process, the Bank recognizes that dynamics of markets may necessitate decisions that may deviate on few occasions from the principles of CRM and to cater to such requirements, minimal and requisite level of flexibilities need to be built into the Bank's Risk Management policies, along with suitable and adequate safeguards/controls.

The Bank's Audit Committee is responsible for monitoring compliance with the Bank's risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Bank. The Bank's Audit Committee is assisted in these functions by Internal Audit department. Internal Audit department undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

There are sub-committees at the management level for managing risks in businesses. Asset Liability Committee (ALCO) is for managing the risks in the balance sheet arising out of liquidity management, interest rates management as well as tenor of exposures taken by the Bank. Guidance is provided to the management by ALCO on managing these risks and risk appetite is articulated through various limits, ratios and caps. Operational Risk is managed under the guidance of Operational Risk Committee (ORCO) at the management level. Risk & Control Committee comprising of heads of Risk, Compliance and Audit is constituted to examine various critical events of risks that have surfaced and deliberate on weaknesses and suggest improvements in control, if required.

A separate ALCO has also been established to monitor the performance of the assets of Islamic banking services.

D1 Credit risk

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations, In simpler terms, it represents the probability of default by any counterparty in repayment of principal obligations and / or servicing interest obligations in accordance with the set redemption schedule or terms of contract.

D1.1 Management of credit risk

The Board of Directors has delegated responsibility for the monitoring of credit risk to its Risk Management Committee of the Board and is responsible for handling all facets of risk for both Islamic and conventional banking division. The Bank has a Chief Risk Officer who heads the management of Risk reporting to the Risk Management Committee. Credit risk is managed by the following:

- setting up risk limits and boundaries, within the regulatory guidelines, for risk origination to be within the approved risk appetite of the Bank;
- Credit risk at the origination is managed and controlled through a time tested credit appraisal process which includes independent credit risk review of individual corporate credit proposals and through a Board approved Retail products policy and template lending. Exceptions are reviewed by Credit Risk function.
- continuous monitoring of these stand-alone credit risks in the 'corporate' and 'emerging corporate' portfolio as well as in the retail credit portfolio through an independent loan review group (LRG), reporting to head of risk, for risk grading of the portfolios and tracking the movement of the grades;

NOTES TO FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 SEPTEMBER 2014**D Financial risk management (continued)****D1 Credit risk (continued)****D1.1 Management of credit risk (continued)**

- portfolio credit risk measurement through tracking on the set portfolio risk parameters such as concentration risk;
- the Bank will not entertain credit proposals from entities/individuals, whose name appears in the CBO classified list under Bank Credit and Statistical Bureau (BCSB) . However, in exceptional cases in the retail business unit, loans are approved, with strong justifications and risk mitigations for considering any such proposals, and then these have to be referred to delegated authorities, as per the retail loan policy;
- limiting concentrations of exposure to counterparties, geographies and industries (for loans and advances), and by issuer, market liquidity and country (for investment securities);
- developing and maintaining the Bank's risk grading in order to categorise exposures according to the degree of risk of financial loss faced and to focus management on the attendant risks; and
- providing advice, guidance and specialist skills to business units to promote best practice throughout the bank in the management of credit risk.

The Bank employs a range of policies and practices to mitigate credit risk. The Bank follows a risk mitigation practice of identifying business cash flows as the primary driver for the advances extended. These cash flows are then tested for sustainability over the tenor of the credit facility and a suitable mechanism is put in place to capture the same into the client account with the Bank. To cover unforeseen risk, which dries up the cash flows, additional tangible securities are taken such as real estate or equity shares. The Bank implements guidelines on the acceptability of specific classes of collateral credit risk mitigation. The principal types of collaterals for loans and advances are:

- mortgages over properties;
- charges of assets under murabaha agreements
- ownership/title of assets under Ijarah financing
- charges over business assets such as premises inventory and accounts receivable;
- Charges over financial instruments such as debt securities and equities.

All loans and advances of the Bank are regularly monitored to ensure compliance with the stipulated repayment terms. Those loans and advances are classified into one of the 5 risk classification categories: Standard, Special Mention, Substandard, Doubtful and Loss – as stipulated by CBO regulations and guidelines. The responsibility for identifying problem accounts and classifying them rests with business line function.

NOTES TO FINANCIAL STATEMENTS
 FOR THE PERIOD ENDED 30 SEPTEMBER 2014

D Financial risk management (continued)
D2 Exposure to liquidity risk

	<i>Carrying amount</i>	<i>Gross Nominal Outflow</i>	<i>Within 3 months</i>	<i>3 - 12 months</i>	<i>Over 1 year</i>
	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>
30 September 2014					
<i>Non-derivative liabilities</i>					
Due to banks and other money market borrowings	226,787	229,162	17,455	86,804	124,903
Customers' deposits	1,340,997	1,490,370	805,835	403,914	280,621
Other liabilities	39,221	39,221	39,221	-	-
Subordinated loans	50,000	59,956	1,603	1,603	56,750
Compulsorily convertible bonds	<u>7,150</u>	<u>8,121</u>	<u>159</u>	<u>159</u>	<u>7,803</u>
Total	<u>1,664,155</u>	<u>1,826,830</u>	<u>864,273</u>	<u>492,480</u>	<u>470,077</u>

	<i>Carrying amount</i>	<i>Gross Nominal Outflow</i>	<i>Within 3 months</i>	<i>3 - 12 months</i>	<i>Over 1 year</i>
	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>
31 December 2013					
<i>Non-derivative liabilities</i>					
Due to banks and other money market borrowings	238,886	227,807	184,750	23,555	19,502
Customers' deposits	1,382,626	1,435,834	799,033	329,893	306,908
Other liabilities	35,689	35,689	35,689	-	-
Subordinated loans	50,000	63,161	1,603	1,603	59,955
Compulsorily convertible bonds	<u>7,150</u>	<u>8,120</u>	<u>-</u>	<u>317</u>	<u>7,803</u>
Total	<u>1,714,351</u>	<u>1,770,611</u>	<u>1,021,075</u>	<u>355,368</u>	<u>394,168</u>

NOTES TO FINANCIAL STATEMENTS
 FOR THE PERIOD ENDED 30 SEPTEMBER 2014

D Financial risk management (continued)
D3 Exposure to interest rate risk – non trading portfolios

The Bank's interest sensitivity position based on contractual re-pricing arrangements at 30 September 2014 was as follows:

	Effective annual interest rate %	Within three months RO'000	Four months to 12 months RO'000	Over one year RO'000	Non- sensitive to interest rate RO'000	Total RO'000
30 September 2014						
Assets						
Cash and balances with Central Banks	0.01	17	-	500	51,016	51,533
Due from banks and other money market lending	2.21	81,230	32,356	-	626	114,212
Loans and advances	4.99	581,111	252,243	565,510	20,385	1,419,249
Investment securities	0.90	175,327	8,165	8,001	35,463	226,956
Property, equipment and fixtures	-	-	-	-	13,059	13,059
Investment properties	-	-	-	-	2,900	2,900
Other assets	-	212	-	-	26,282	26,494
Total assets		837,897	292,764	574,011	149,731	1,854,403
Liabilities and equity						
Due to banks and other money market borrowings	0.71	137,940	81,147	7,700	-	226,787
Customers' deposits	1.44	196,526	272,347	254,089	618,035	1,340,997
Other liabilities	-	-	-	-	39,221	39,221
Subordinated loans	6.50	-	-	50,000	-	50,000
Convertible bonds	4.50	-	-	7,150	-	7,150
Shareholders' funds	-	-	-	-	190,248	190,248
Total liabilities and equity		334,466	353,494	318,939	847,504	1,854,403
Total interest rate sensitivity gap		503,431	(60,730)	255,702	(697,773)	-
Cumulative interest rate sensitivity gap		503,431	442,701	697,773	-	-

NOTES TO FINANCIAL STATEMENTS
 FOR THE PERIOD ENDED 30 SEPTEMBER 2014

D Financial risk management (continued)
D3 Exposure to interest rate risk – non trading portfolios (continued)

	Effective annual interest rate %	Within three months RO'000	Four months to 12 months RO'000	Over one year RO'000	Non- sensitive to interest rate RO'000	Total RO'000
31 December 2013						
Assets						
Cash and balances with Central Banks	0.01	-	-	500	105,570	106,070
Due from banks and other money market placements	2.10	146,746	115,324	-	278	262,348
Loans and advances	5.42	470,241	296,658	500,866	10,513	1,278,278
Investment securities	0.47	161,699	6,167	11,688	26,662	206,216
Property, equipment and fixtures	-	-	-	-	13,234	13,234
Investment properties	-	-	-	-	2,900	2,900
Other assets	-	-	-	-	16,574	16,574
Total assets		<u>778,686</u>	<u>418,149</u>	<u>513,054</u>	<u>175,731</u>	<u>1,885,620</u>
Liabilities and equity						
Due to banks and other money market borrowings	0.66	223,111	15,775	-	-	238,886
Customers' deposits	1.73	220,157	350,662	197,211	614,596	1,382,626
Other liabilities	-	-	-	-	35,689	35,689
Subordinated loans	6.50	-	-	50,000	-	50,000
Convertible bonds	4.96	-	-	7,150	-	7,150
Shareholders' funds	-	-	-	-	171,269	171,269
Total liabilities and equity		<u>443,268</u>	<u>366,437</u>	<u>254,361</u>	<u>821,554</u>	<u>1,885,620</u>
Total interest rate sensitivity gap		<u>335,418</u>	<u>51,712</u>	<u>258,693</u>	<u>(645,823)</u>	<u>-</u>
Cumulative interest rate sensitivity gap		<u>335,418</u>	<u>387,130</u>	<u>645,823</u>	<u>-</u>	<u>-</u>

NOTES TO FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 SEPTEMBER 2014

D Financial risk management (continued)

D4 Exposure to currency risk

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Board has set limits on the overall open position and for open position for each currency. The open position limits include overnight open position and intraday open position. Open positions are monitored on a daily basis and hedging strategies used to ensure positions are maintained within established limits. The Bank had the following net exposures denominated in foreign currencies:

	30 September 2014			31 December 2013		
	Assets	Liabilities	Net assets/(liabilities)	Assets	Liabilities	Net assets/(liabilities)
US Dollar	1,297,102	1,351,478	(54,376)	1,524,532	1,598,026	(73,494)
Euro	120	121,277	(121,157)	60	59,838	(59,778)
UAE Dirhams	33	36,304	(36,271)	86	154,836	(154,750)
Japanese Yen	8,612	8,608,380	(8,599,768)	3,897	3,902,524	(3,898,627)
Pound Sterling	4	3,667	(3,663)	4	4,162	(4,158)
Indian Rupee	12	48	(36)	8	48	(40)

NOTES TO FINANCIAL STATEMENTS
 FOR THE PERIOD ENDED 30 SEPTEMBER 2014

D Financial Risk Management (continued)
D5 Capital management
D5.1 Regulatory capital

The international standard for measuring capital adequacy is the risk asset ratio, which relates capital to balance sheet assets and off balance sheet exposures weighted according to broad categories of risk.

The risk asset ratio calculated in accordance with the capital adequacy guidelines of the Bank for International Settlement is as follows:

	30 September 2014	31 December 2013
	RO'000	RO'000
Tier I capital		
Ordinary share capital	114,400	110,000
Legal reserve	10,827	10,827
General reserve	1,063	1,063
Subordinated loan reserve	14,167	14,167
Retained earnings	50,628	31,279
Fair value losses	(1,738)	(1,412)
Deferred tax asset	(10)	(144)
Total	189,337	165,780
Tier 2 capital		
Impairment allowance on portfolio basis	18,569	16,416
Fair value gains	410	426
Subordinated loan	35,833	35,833
Compulsorily convertible bonds	7,150	7,150
Total	61,962	59,825
Total regulatory capital	251,299	225,605
Risk-weighted assets		
Credit and market risks	1,703,602	1,565,398
Operational risk	89,704	89,706
Total risk-weighted assets	1,793,306	1,655,104
Capital adequacy ratio		
Total regulatory capital expressed as a percentage of total risk-weighted assets	14.01%	13.63%
Total tier I capital expressed as a percentage of total risk-weighted assets	10.56%	10.02%

The capital adequacy ratio is calculated in accordance with the Basel II norms as adopted by Central Bank of Oman. Disclosures required under Basel III and circular BM-1114 dated 17 November 2013 issued by Central Bank of Oman is available at investor relations section of the bank's website.

NOTES TO FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 SEPTEMBER 2014

E Segmental information

Segment information is presented in respect of the Bank's operating segments. For management purposes, the Bank is organised into five operating segments based on products and services as follows:

- Wholesale banking includes loans and deposits including current accounts, term deposit etc. for corporate and Trade finance customers.
- Retail banking includes deposits from retail customers, consumer loans, overdrafts, credit card and fund transfer facilities.
- Investments, FIG & Treasury includes proprietary investments, treasury, international banks, international companies, institutional and government relationships.
- Head office includes the pool of resources considered for transfer pricing and absorbs the cost of impairment loss on portfolio basis and income tax expense.
- Islamic banking includes Islamic financing activities, current accounts, unrestricted investment accounts and other products and services to corporate and individual customers under Sharia principles.

The CEO monitors the operating results of the bank's business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss. Income taxes are managed on a Bank basis and are not allocated to operating segments.

Interest income is reported net as the CEO primarily relies on net interest income as a performance measure, not the gross income and expense.

Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties.

No revenue from transactions with a single external customer or counterparty amounted to 10% or more of the Bank's total revenue in 2014 or 2013.

NOTES TO FINANCIAL STATEMENTS
 FOR THE PERIOD ENDED 30 SEPTEMBER 2014

E Segmental information (continued)

	30 September 2014					
	Retail Banking RO'000	Wholesale Banking RO'000	Investments FIG* & Treasury RO'000	Head Office RO'000	Islamic Banking RO'000	Total RO'000
Net interest income	17,393	16,704	3,993	(2,665)	-	35,425
Net income from Islamic banking financing and investing activities	-	-	-	-	1,212	1,212
Other operating income	4,352	5,188	8,138	(1,360)	307	16,625
Operating income	21,745	21,892	12,131	(4,025)	1,519	53,262
Operating expense	(13,284)	(5,079)	(3,072)	-	(1,437)	22,872
Operating profit /(loss)	8,462	16,814	9,058	(4,025)	81	30,390
Impairment allowance on portfolio basis	-	-	-	(1,833)	(319)	(2,152)
Impairment allowance on specific basis	(1,508)	(227)	-	-	-	(1,735)
Profit / (loss) for the year	6,954	16,587	9,058	(5,858)	(238)	26,503
Income tax expense	-	-	-	(2,754)	-	(2,754)
Segment profit /(loss) for the year	6,954	16,587	9,058	(8,612)	(238)	23,749
Segment assets						
Cash and balances with central bank	-	-	-	44,259	7,274	51,533
Due from banks and other money market placements	-	-	107,306	(5,000)	11,906	114,212
Loans and advances (net)	470,206	849,219	63,599	-	36,225	1,419,249
Investment securities	-	-	217,841	-	9,115	226,956
Property, equipment and fixtures	-	-	-	11,359	1,700	13,059
Investment properties	-	-	-	2,900	-	2,900
Other assets	-	-	-	25,650	844	26,494
Total	470,206	849,219	388,746	79,168	67,064	1,854,403
Segment liabilities						
Due to banks and other money market borrowings	-	-	201,462	(5,000)	30,325	226,787
Customers' deposits	260,787	269,013	786,453	-	24,744	1,340,997
Other liabilities	-	-	-	37,122	2,099	39,221
Subordinated loan	-	-	-	50,000	-	50,000
Compulsory convertible bonds	-	-	-	7,150	-	7,150
Total	260,787	269,013	987,915	89,272	57,168	1,664,155
Share holders equity	-	-	-	180,352	9,896	190,248
Total	260,787	269,013	987,915	269,624	67,064	1,854,403

* FIG stands for Financial Institution Group

NOTES TO FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 SEPTEMBER 2014
E Segment information (continued)

	30 September 2013					
	Retail Banking RO'000	Wholesale Banking RO'000	Investments FIG* & Treasury RO'000	Head Office RO'000	Islamic Banking RO'000	Total RO'000
Net interest income	14,578	13,415	7,404	(3,681)	-	31,716
Net income from Islamic banking financing and investing activities	-	-	-	-	126	126
Other operating income	2,496	4,841	3,638	(31)	31	10,975
Operating income	17,074	18,256	11,042	(3,712)	157	42,817
Operating expense	(14,381)	(2,215)	(2,980)	-	(539)	(20,115)
Operating profit /(loss)	2,693	16,041	8,062	(3,712)	(382)	22,702
Impairment allowance on portfolio basis	-	-	-	(1,364)	(72)	(1,436)
Impairment allowance on specific basis	(971)	(34)	-	-	-	(1,005)
Profit / (loss) for the year	1,722	16,007	8,062	(5,076)	(454)	20,261
Income tax expense	-	-	-	(2,151)	-	(2,151)
Segment profit /(loss) for the year	1,722	16,007	8,062	(7,227)	(454)	18,110
Segment assets						
Cash and balances with central bank	-	-	-	84,037	2,100	86,137
Due from banks and other money market placements	-	-	306,987	(8,700)	15,543	313,830
Loans and advances (net)	394,191	756,889	55,947	-	6,001	1,213,027
Investment securities	-	-	196,000	-	-	196,000
Property, equipment and fixtures	-	-	-	11,743	1,638	13,381
Investment properties	-	-	-	2,900	-	2,900
Other assets	-	-	-	23,536	223	23,759
Total	394,191	756,889	558,934	113,516	25,505	1,849,034
Segment liabilities						
Due to banks and other money market borrowings	-	-	268,765	(8,700)	12,700	272,765
Customers' deposits	230,741	327,391	763,287	-	2,321	1,323,740
Other liabilities	-	-	-	33,195	804	33,999
Subordinated loans	-	-	-	50,000	-	50,000
Compulsorily convertible bonds	-	-	-	7,150	-	7,150
Total	230,741	327,391	1,032,052	81,645	15,825	1,687,654
Share holders equity	-	-	-	151,700	9,680	161,380
Total	230,741	327,391	1,032,052	233,345	25,505	1,849,034

* FIG stands for Financial Institution Group