



Bank Sohar SAOG

BANK SOHAR SAOG

FINANCIAL STATEMENTS

For the Period ended 30 September 2013

Registered office and principal place of business:

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



Bank Sohar SAOG

Board of Directors Report for the nine months period ended 30th September 2013

Our Valued Shareholders,

On behalf of the Board of Directors of Bank Sohar (SAOG), I am pleased to present the results of your bank as at 30th September 2013.

Your bank has achieved a Net Profit of OMR 18.110 million during the nine months period ended 30th September 2013 as compared to a Net Profit of OMR 15.722 million during the same period of the previous year, a growth of 15.2%. The bank is continuing with its efforts to achieve a sustainable and profitable growth.

The Net Interest Income witnessed an improvement of 4.2% increasing from OMR 30.443 million for the period ended 30th September 2012 to OMR 31.716 million for the period ended 30th September 2013. The operating income increased by 12.1% from OMR 38.205 million during the nine months period of last year to OMR 42.817 million during nine months period of the current year. The operating cost increased by 10.9% from OMR 18.141 million to OMR 20.115 million during the same period.

Gross loans have increased by 7.8% from OMR 1.162 billion on 30th September 2012 to OMR 1.253 billion as at 30th September 2013. The Net loans and advances grew by 7.6% from OMR 1.138 billion on 30th September 2012 to reach OMR 1.224 billion as at 30th September 2013. Customer deposits stood at OMR 1.324 billion as at 30th September 2013, as compared to OMR 1.421 billion registered as at 30th September 2012 with a decrease of 6.8%. This decline in deposits is due to the bank's conscious initiative to reduce interest expenses on high cost term deposits and protect the net interest margin in the fact of continuing decrease in yields on assets. The bank's market share of Private Sector Credit was 8.82%, while the Private Sector Deposit share was 7.78% as at end of August 2013.

The bank has been successful in various business initiatives, and has officially launched three of its Sohar Islamic branches located at Falaj Al Qabail, Firq and Al Sa'adah branch. These branches have earned the trust and confidence of our customers, and have been successful in opening many Sharia compliant accounts.

Bank Sohar made an agreement with “Career Path” Company to improve recruitment strategy and advance the mechanisms that are used to select the right person for the right job. This selection process is done through some clear standards and procedures. Bank Sohar started to review job description of each job and standardize the minimum requirements. Also, the bank uniformed the mechanisms that are used in valuation process and some staff was trained to use these mechanisms. The total staff headcount as at 30th September 2013 stood at 609 and the Omanisation ratio at end of September 2013 stood at 90%.

The bank also offers a variety of other services through its various outlets such as branches, ATMs, the Call Centre as well as electronic banking outlets such as Internet and SMS banking. The bank presently has a network of 25 commercial banking branches, 3 Islamic banking branches and 48 ATMs spread out in various areas in the Sultanate.

Bank Sohar continues to make meaningful contributions in various areas of social services. Pressing ahead with its multi-faceted programme of Corporate Social Responsibility (CSR) activities, the principal beneficiaries of the Bank’s CSR initiatives were the Al Noor Association for the Blind, the Association for the Welfare of Handicapped Children and their Autism Centre, the Association of Early Intervention for Children with Disabilities, the Omani Association for Friends of the Elderly and the Environmental Society of Oman. The bank also contributed to Dar Al Atta’a during the holy month of Ramadan.

As part of the Bank’s ongoing “Be Safe... Be Responsible” Road Safety Campaign, the bank together with Oman Road Safety Association (ORSA) launched the ‘Traffic Educational Village’ with the aim to educate children on road safety. The village has already been used in many events including the Salalah Tourism Festival 2013, which was sponsored by Bank Sohar for the seventh consecutive year in line with its belief in supporting national events that reflect the country’s rich history and cultural.

Due to the Bank’s dedication towards CSR initiatives and the contributions to local organisations, Bank Sohar received the “Best Corporate Social Responsibility Bank - Oman 2013 Award”, from renowned UK based Global Banking & Finance Review. In addition, Bank Sohar was also named as one of the ‘Top Five Large Corporate Enterprises in Oman’ Award from Alam Al Iktisad Wal A’mal (AIWA), while Dr. Mohamed Abdulaziz Kalmoor won the ‘CEO of the Year 2013’ award at the same ceremony. Winning these prestigious awards stands as a testament to the bank’s commitment towards excellence.

The globally renowned credit agency Fitch ratings have reaffirmed Bank Sohar's long-term rating at investment grade BBB+ with stable forward outlook. This rating underlines Bank Sohar as one of the most prominent players in the banking and finance sector in the Sultanate of Oman. Fitch ratings covers a lot of aspects of the organization include balance sheet integrity, profitability and risk management.

The bank has continued achieving success & significant improvements in services & developing products after entering in to the social network through the internet & issuing the diamond credit card.

On behalf of the Board of Directors, management and staff of the Bank, I would like to thank the Central Bank of Oman and the Capital Market Authority for their astute regulation and guidance. Above all, I would like to express my humble gratitude and pay tribute to His Majesty Sultan Qaboos Bin Said for his wise and discerning leadership that has firmly set Oman on the path of progress and sustainable development.

Abdullah Humaid Al Mamary
Chairman



STATEMENT OF FINANCIAL POSITION
AS AT 30 SEPTEMBER 2013

	Notes	30 September 2013 RO'000	31 December 2012 RO'000
ASSETS			
Cash and balances with Central Bank	B1	86,137	121,746
Due from Banks and other money market placements	B2	302,554	335,389
Loans, advances and financing (net)	B3	1,224,303	1,146,023
Investment securities	B4	196,000	152,686
Property, equipment and fixtures	B5	13,381	12,187
Investment Properties	B6	2,900	2,900
Other assets	B7	23,759	16,235
		<u>1,849,034</u>	<u>1,787,166</u>
LIABILITIES			
Due to Banks and other money market borrowings	B8	272,765	224,048
Customers' deposits	B9	1,323,740	1,337,400
Other liabilities	B10	33,999	30,838
Subordinated loans	B11	50,000	50,000
Compulsorily convertible bonds	B12	7,150	-
		<u>1,687,654</u>	<u>1,642,286</u>
SHAREHOLDERS' EQUITY			
Share capital	B13	110,000	100,000
Legal reserve	B14	8,140	8,006
General reserve	B15	413	413
Fair value reserve	B16	(1,595)	(851)
Subordinated loans reserve	B11	4,167	4,167
Retained earnings		40,255	33,145
		<u>161,380</u>	<u>144,880</u>
		<u>1,849,034</u>	<u>1,787,166</u>
Net assets per share (in baizas)	B17	<u>146.709</u>	<u>144.880</u>
CONTINGENT LIABILITIES			
COMMITMENTS	B18	215,971	203,955
	B18	449,951	162,228

The financial statements were approved and authorized for issue by the Board of Directors on 30th October 2013 and signed on their behalf by:

Chairman

Deputy Chairman



STATEMENT OF COMPREHENSIVE INCOME
FOR THE PERIOD ENDED 30 SEPTEMBER 2013

	Notes	9 Months ended 30 September 2013 RO'000	9 Months ended 30 September 2012 RO'000	3 Months ended 30 September 2013 RO'000	3 Months ended 30 September 2012 RO'000
Interest income	C1	53,865	53,042	17,868	18,561
Interest expense	C2	(22,149)	(22,599)	(7,178)	(8,127)
Net interest income		31,716	30,443	10,690	10,434
Net income from Islamic financing and investing activities		126	-	117	-
Other operating income	C3	10,975	7,762	4,214	2,342
OPERATING INCOME		42,817	38,205	15,021	12,776
OPERATING EXPENSES					
Staff costs		(12,054)	(10,783)	(4,191)	(3,543)
Other operating expenses	C4	(6,920)	(5,819)	(2,367)	(2,053)
Depreciation	B5	(1,141)	(1,539)	(394)	(520)
		(20,115)	(18,141)	(6,952)	(6,116)
OPERATING PROFIT		22,702	20,064	8,069	6,660
Impairment on investments		-	(17)	-	-
Impairment allowance on portfolio basis	B3	(1,436)	(1,305)	(692)	(380)
Impairment allowance on specific basis	B3	(1,005)	(1,036)	(447)	(281)
NET PROFIT BEFORE TAX		20,261	17,706	6,930	5,999
Income tax expense	C5	(2,151)	(1,984)	(774)	(638)
NET PROFIT/ (LOSS) FOR THE PERIOD		18,110	15,722	6,156	5,361
Other comprehensive income					
Net changes in fair value of available for sale financial assets net of income tax		409	1,277	783	781
Other comprehensive income for the period net of income tax		409	1,277	783	781
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		18,519	16,999	6,939	6,142
Basic earnings per share for the period – in baizas	C6	16.692	15.722	5.596	5.361
Basic earnings per share for the period (annualized) – in baizas	C6	22.317	21.020	22.203	21.269
Diluted earnings per share for the period – in baizas	C6	16.161	15.073	5.448	5.140
Diluted earnings per share for the period (annualized) – in baizas	C6	21.608	20.152	21.614	20.391
Net profit/(loss) for the period					
Conventional banking		18,564	15,722	6,354	5,361
Islamic banking		(454)	-	(198)	-
Total		18,110	15,722	6,156	5,361



STATEMENT OF CHANGES IN EQUITY
FOR THE PERIOD ENDED 30 SEPTEMBER 2013

	<i>Share capital</i> <i>RO'000</i>	<i>Legal reserve</i> <i>RO'000</i>	<i>General reserve</i> <i>RO'000</i>	<i>Fair value reserve</i> <i>RO'000</i>	<i>Subordinated loans reserve</i> <i>RO'000</i>	<i>Retained earnings</i> <i>RO'000</i>	<i>Total</i> <i>RO'000</i>
Balance as at 1 January 2012	100,000	5,705	413	(2,034)	-	24,602	128,686
Total comprehensive income for the period							
Net profit for the period	-	-	-	-	-	15,722	15,722
Other comprehensive income for the period							
Net change in fair value of available for sale investments	-	-	-	1,277	-	-	1,277
Release on sale of available for sale investments	-	-	-	(87)	-	-	(87)
Total comprehensive income for the period	-	-	-	1,190	-	15,722	16,912
Dividends paid for the year 2011	-	-	-	-	-	(8,000)	(8,000)
Balance as at 30 September 2012	100,000	5,705	413	(844)	-	32,324	137,598
Balance as at 1 October 2012	100,000	5,705	413	(844)	-	32,324	137,598
Total Comprehensive income for the period							
Net profit for the period	-	-	-	-	-	7,289	7,289
Other Comprehensive Income for the period							
Net change in fair value of available for sale investments	-	-	-	1,695	-	-	1,695
Transfers	-	2,301	-	-	4,167	(6,468)	-
Balance as at 31 December 2012	100,000	8,006	413	(851)	4,167	33,145	144,880

	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>
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							
Net change in fair value of available for sale investments – net of tax (note B4)	-	-	-	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 (net)	-	134	-	-	-	-	134
Transfers	-	-	-	-	-	(7,150)	(7,150)
Dividend 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

STATEMENT OF CASH FLOWS
 FOR THE PERIOD ENDED 30 SEPTEMBER 2013

	<i>30 September 2013 RO'000</i>	<i>30 September 2012 RO'000</i>
OPERATING ACTIVITIES		
Net profit for the period before tax	20,261	17,706
Adjustments for:		
Depreciation	1,141	1,539
Impairment for credit losses and investment	2,450	2,358
(Profit)/loss on sale of investment securities	(1,989)	(241)
Profit/loss on sale of property, equipment and fixtures	(4)	(6)
Interest on investment	(829)	(1,745)
Operating profit before changes in operating assets and liabilities	21,030	19,611
loans and advances	(80,730)	(120,398)
Other assets	(8,192)	5,801
Customers' deposits	(13,659)	249,978
Due to banks and other money market borrowings	60,052	(10,000)
Due from banks and money market lending	138,026	(65,848)
Other liabilities	4,686	(10,591)
Investment in held for trading investment	(10,598)	(22,400)
Cash from/ (used in) operating activities	110,615	46,153
Income tax paid	(2,858)	(1,840)
Net cash from /(used in) operating activities	107,757	44,313
INVESTING ACTIVITIES		
Purchase of investments (net)	(17,087)	(6,826)
Proceeds from sale/redemption of investments	16,258	6,458
Purchase of property, equipment and fixtures	(2,332)	(1,402)
Proceeds from sale of property, equipment and fixtures	-	6
Interest received on investments	829	1,745
Net cash used in investing activities	(2,332)	(19)
FINANCING ACTIVITIES		
Issue of Rights shares	10,000	-
Rights issue expenses	134	-
Dividends paid	(3,850)	(8,000)
Net cash from financing activities	6,284	(8,000)
NET CHANGE IN CASH AND CASH EQUIVALENTS	111,709	36,294
CASH AND CASH EQUIVALENT AT BEGINNING OF THE PERIOD	125,268	153,286
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	236,977	189,580
REPRESENTING:		
Cash and balances with Central Banks	86,137	101,761
Due from Banks and other money market lending	174,773	108,454
Investments securities	153,985	125,115
Due to Banks and other money market borrowings	(177,918)	(145,750)
	236,977	189,580



NOTES TO FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 SEPTEMBER 2013

A1 Legal status and principal activities

Bank Sohar SAOG (“the Bank”) was established in the Sultanate of Oman on 4 March 2007 as a joint stock company and is primarily engaged in commercial, investment and Islamic banking through a network of twenty five commercial banking branches and 3 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 and is 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.

The Bank employed 609 employees as of 30 September 2013 (31 December 2012: 573).

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 2012.

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 Central Bank of Oman.

A2.2 Basis of measurement

The financial statements have been prepared under the historical cost convention except for derivative financial instruments 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 the 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. 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.

A2.5 Standards, amendments and interpretations effective in 2013 and relevant for the Bank’s operations

For the period ended 30 September 2013, 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 2013.

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



NOTES TO FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 SEPTEMBER 2013

A2 Basis of preparation (continued)

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 on or 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 2013:

IAS 32 (Amendments), 'Financial Instruments: presentation', on offsetting financial assets and financial liabilities (effective on or after 1 January 2014)
IFRS 9, 'Financial instruments', (effective on or after 1 January 2015);

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.

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.



NOTES TO FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 SEPTEMBER 2013

A3 Significant accounting policies (continued)

A3.2.b Fair value gains and losses (continued)

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.

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'.



NOTES TO FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 SEPTEMBER 2013

A3 Significant accounting policies (continued)

A3.3 Financial assets and liabilities (continued)

A3.3.a Classification (continued)

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 is 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 include 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.

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.



NOTES TO FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 SEPTEMBER 2013

A3 Significant accounting policies (continued)

A3.3 Financial assets and liabilities (continued)

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 Central Bank of Oman:

- 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.

NOTES TO FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 SEPTEMBER 2013

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)

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.

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.



NOTES TO FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 SEPTEMBER 2013

A3 Significant accounting policies (continued)

A3.3 Financial assets and liabilities (continued)

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 and 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 2013

A3 Significant accounting policies (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. Based on the recent estimation, the Bank has changed the useful life of furniture and fixtures to 6-7 years and production software to 10 years. The change of estimated useful life is accounted for as a change in estimate by adjusting the depreciation charge for the current year as the change affects the current year and by adjusting the charge for future years to the extent that it affects the future years.

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 2013

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 2013

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 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 transaction 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.

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 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. 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.

NOTES TO FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 SEPTEMBER 2013

A4 Critical accounting estimates and judgements (continued)

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.

B1 Cash and balances with central bank

	<i>30 September</i> <i>2013</i> <i>RO'000</i>	<i>31 December</i> <i>2012</i> <i>RO'000</i>
Cash	10,114	10,975
Capital deposit with Central Bank of Oman	500	500
Balance with Central Bank	75,523	110,271
	<u>86,137</u>	<u>121,746</u>

The capital deposit with the Central Bank of Oman cannot be withdrawn without the approval of the Central Bank of Oman.

B2 Due from banks and other money market lending

	<i>30 September</i> <i>2013</i> <i>RO'000</i>	<i>31 December</i> <i>2012</i> <i>RO'000</i>
<i>Local currency:</i>		
Money market lending	19,000	2,000
	<u>19,000</u>	<u>2,000</u>
<i>Foreign currency:</i>		
Money market lending	276,383	324,559
Demand balances	7,171	8,830
	<u>283,554</u>	<u>333,389</u>
	<u>302,554</u>	<u>335,389</u>



NOTES TO FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 SEPTEMBER 2013

B3 Loans, advances and financing - net

	<i>30 September</i>	<i>31 December</i>
	<i>2013</i>	<i>2012</i>
	<i>RO'000</i>	<i>RO'000</i>
Loans to Banks	11,283	38,183
Corporate loans	829,771	749,496
Retail loans	411,723	383,615
	<u>1,252,777</u>	<u>1,171,294</u>
Gross loans, advances and financing	1,252,777	1,171,294
Impairment allowance on portfolio basis	(16,346)	(14,910)
Impairment allowance on specific basis(including reserved interest)	(12,128)	(10,361)
	<u>1,224,303</u>	<u>1,146,023</u>
Net loans and advances	1,224,303	1,146,023

Retail loans include RO17, 533,233 provided to staff on concessional terms (2012: RO 16,560,954).
Gross loans and advances include RO 6,073,014 from Sohar Islamic financing activities.

B3 Loans, advances and financing - net

Loans , advances and financing comprise:

	<i>30 September</i>	<i>31 December</i>
	<i>2013</i>	<i>2012</i>
	<i>RO'000</i>	<i>RO'000</i>
Loans	1,135,956	1,075,981
Overdrafts	59,767	53,300
Loan against trust receipts	43,997	32,266
Bills discounted	13,057	9,747
	<u>1,252,777</u>	<u>1,171,294</u>
Gross loans and advances	1,252,777	1,171,294
Impairment allowance on portfolio basis	(16,346)	(14,910)
Impairment allowance on specific basis(including reserve interest)	(12,128)	(10,361)
	<u>1,224,303</u>	<u>1,146,023</u>
Net loans and advances	1,224,303	1,146,023

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

Loan Loss Provision	<i>30 September</i>	<i>31 December</i>
	<i>2013</i>	<i>2012</i>
	<i>RO'000</i>	<i>RO'000</i>
Impairment allowance on portfolio basis		
Balance at beginning of period	14,910	13,559
Provided during the period	1,436	1,351
	<u>16,346</u>	<u>14,910</u>
Balance at the end of the period	16,346	14,910
Impairment allowance on specific basis		
1) Loan loss provision		
Balance at beginning of period	7,774	6,414
Provided during the period	2,144	3,287
Written off	(45)	-
Written back due to recovery	(1,139)	(1,927)
	<u>8,734</u>	<u>7,774</u>
Balance at the end of the period	8,734	7,774



NOTES TO FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 SEPTEMBER 2013

B3 Loans, advances and financing - net (continued)

2) Reserved interest

Balance at beginning of period	2,587	1,400
Reserved during the period	1,097	1,464
Written off	(14)	-
Written back due to recovery	(276)	(277)
	<u>3,394</u>	<u>2,587</u>
Balance at end of the period	3,394	2,587
Total	<u>12,128</u>	<u>10,361</u>

Impairment allowance on portfolio basis is established to meet the credit risks inherent within the loans and advances 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 2013, loans and advances on which interest is not being accrued or where interest has been reserved amounted to RO 20,023,428 (2012: RO 18,280,354).

B4 INVESTMENT SECURITIES

	<i>30 September</i>	<i>31 December</i>
	<i>2013</i>	<i>2012</i>
	<i>RO'000</i>	<i>RO'000</i>
Available for sale investment	178,862	146,146
Held to maturity investment	6,540	6,540
Held for trading investment	10,598	-
	<u>196,000</u>	<u>152,686</u>

B4.a Available for sale investment comprise:

	<i>Carrying/ fair value</i>	<i>Cost</i>	<i>Carrying/ fair value</i>	<i>Cost</i>
	<i>30 September</i>	<i>30 September</i>	<i>31 December</i>	<i>31 December</i>
	<i>2013</i>	<i>2013</i>	<i>2012</i>	<i>2012</i>
	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>
Unquoted securities	1,055	1,674	1,629	2,019
Quoted Securities	23,822	25,017	21,324	21,851
Treasury Bills	153,985	153,985	123,193	123,179
	<u>178,862</u>	<u>180,676</u>	<u>146,146</u>	<u>147,049</u>

B4.b Held-to-maturity investments comprise:

	<i>30 September</i>	<i>31 December</i>
	<i>2013</i>	<i>2012</i>
	<i>RO'000</i>	<i>RO'000</i>
Corporate Bond	1,540	1,540
Debt Securities	5,000	5,000
	<u>6,540</u>	<u>6,540</u>

B4.c Held-for-trading investments comprise:

Government development bonds – Oman	10,598	-
	<u>10,598</u>	<u>-</u>



NOTES TO FINANCIAL STATEMENTS

FOR THE PERIOD ENDED 30 SEPTEMBER 2013

B5 PROPERTY, EQUIPMENT AND FIXTURES

	<i>Freehold Land*</i>	<i>Production Software</i>	<i>Furniture & fixtures</i>	<i>Office Equipments</i>	<i>Motor Vehicles</i>	<i>Capital Work in progress</i>	<i>Total</i>
	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>
Cost:							
1 January 2013	4,100	6,588	3,241	3,986	505	1,711	20,131
Additions	-	619	263	674	219	560	2,335
Disposals/ reallocation	-	-	-	-	(11)	-	(11)
As at 30 September 2013	4,100	7,207	3,504	4,660	713	2,271	22,455
Accumulated depreciation:							
1 January 2013	-	(3,379)	(1,947)	(2,285)	(333)	-	(7,944)
Depreciation	-	(375)	(234)	(476)	(56)	-	(1,141)
Disposals	-	-	-	-	11	-	11
As at 30 September 2013	-	(3,754)	(2,181)	(2,761)	(378)	-	(9,074)
Net book value at 30 September 2013	4,100	3,453	1,323	1,899	335	2,271	13,381

	Freehold land*	Production software	Furniture & fixtures	Office equipments	Motor vehicles	Capital work in progress	Total
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Cost:							
At 1 January 2012	4,100	6,172	3,119	3,692	596	203	17,882
Additions	-	416	122	294	12	1,508	2,352
Disposals	-	-	-	-	(103)	-	(103)
At 31 December 2012	4,100	6,588	3,241	3,986	505	1,711	20,131
Accumulated depreciation:							
At 1 January 2012	-	(2,908)	(1,656)	(1,694)	(367)	-	(6,625)
Depreciation	-	(471)	(291)	(591)	(68)	-	(1,421)
Disposals	-	-	-	-	102	-	102
As at 31 December 2012	-	(3,379)	(1,947)	(2,285)	(333)	-	(7,944)
Net book value:							
At 31 December 2012	4,100	3,209	1,294	1,701	172	1,711	12,187

*Freehold land represents a plot 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 plot of land is being used for the construction of new Head Office.

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 2012 is RO 1.160 million.



NOTES TO FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 SEPTEMBER 2013

B7 OTHER ASSETS

	<i>30 September</i> 2013 <i>RO'000</i>	<i>31 December</i> 2012 <i>RO'000</i>
Interest receivable	5,614	6,450
Acceptances	9,010	4,687
Prepayments	2,815	1,877
Deferred tax	3	-
Other receivables	1,919	1,026
Others	4,398	2,195
	<u>23,759</u>	<u>16,235</u>

B8 Due to banks and other money market borrowings

	<i>30 September</i> 2013 <i>RO'000</i>	<i>31 December</i> 2012 <i>RO'000</i>
<i>Local currency:</i>		
Money market borrowings	54,042	44,660
Demand Balances	545	214
	<u>54,587</u>	<u>44,874</u>
<i>Foreign currency:</i>		
Money market borrowings	218,150	179,153
Demand Balances	28	21
	<u>218,178</u>	<u>179,174</u>
	<u>272,765</u>	<u>224,048</u>



NOTES TO FINANCIAL STATEMENTS

FOR THE PERIOD ENDED 30 SEPTEMBER 2013

B9 Customers' deposits

	<i>30 September</i> 2013 <i>RO'000</i>	<i>31 December</i> 2012 <i>RO'000</i>
Term deposits	733,585	822,064
Demand deposits	387,352	321,524
Saving deposits	199,659	191,817
Margin accounts	3,144	1,995
	<u>1,323,740</u>	<u>1,337,400</u>

	<i>Bank Sohar</i>	<i>Sohar Islamic</i>	<i>Total</i>	<i>Bank Sohar</i>	<i>Sohar Islamic</i>	<i>Total</i>
<i>Retail customers:</i>						
Saving deposits	198,194	1,465	199,659	191,817	-	191,817
Term deposits	18,460	124	18,585	15,569	-	15,569
Demand deposits	14,087	540	14,627	14,099	-	14,099
<i>Corporate customers:</i>						
Term deposits	715,001	-	715,001	806,494	-	806,494
Demand deposits	372,533	192	372,725	307,426	-	307,426
Others	3,144	-	3,144	1,995	-	1,995
	<u>1,321,419</u>	<u>2,321</u>	<u>1,323,741</u>	<u>1,337,400</u>	<u>-</u>	<u>1,337,400</u>

B10 Other liabilities

	<i>30 September</i> 2013 <i>RO'000</i>	<i>31 December</i> 2012 <i>RO'000</i>
Interest payable	11,402	12,317
Acceptances	9,010	4,687
Staff entitlements	3,088	2,948
Income tax payable	2,271	2,996
Deferred tax liability (note C5)	-	133
Other accruals and provisions	8,228	7,757
	<u>33,999</u>	<u>30,838</u>

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%. According to the Regulations of Central Bank of Oman, the subordinated loan as reduced by subordinated loan reserve is considered as Tier II capital for Capital Adequacy purposes. 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. Accordingly, during the year 2012 a reserve of RO 4,166,667 was created.



NOTES TO FINANCIAL STATEMENTS
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B12 Compulsorily convertible bonds

The compulsorily convertible bonds carry an annual coupon rate of 4.5%. 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.

B13 Share capital

The authorised share capital of the bank is 2,000,000,000 shares of RO 0.100 each (2012 - 2,000,000,000 of RO 0.100 each). The issued and paid up share capital of the Bank is 1,100,000,000 shares of RO 0.100 each (2012 - 1,000,000,000 shares of RO 0.100 each). The Bank has assigned capital of RO 10 million for Sohar Islamic

On 11th 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 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.

The Rights Issue was open for subscription to eligible share holders from 13th to 27th January 2013 and was listed on Muscat Securities Market from 11th February 2013.

The Bank has assigned a capital of RO 10 million for its Islamic banking operations.

As of 30 September 2013, 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	165,000,000	15.00%
The Royal Court of Affairs	160,259,374	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.

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.

B17 Net assets per share

The calculation of net assets per share is based on net assets of RO 161,380,000 as at 30 September 2013 (2012 - RO 144,880,000) attributable to ordinary shareholders on 1,100,000,000 ordinary shares, being the number of shares outstanding as at 30 September 2013 (2012: 1,000,000,000 ordinary shares).



NOTES TO FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 SEPTEMBER 2013

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.

	<i>30 September 2013 RO'000</i>	<i>31 December 2012 RO'000</i>
Guarantees	174,387	164,223
Documentary letters of credit	41,584	39,732
	<u>215,971</u>	<u>203,955</u>

B18.2 Commitments

Contractual obligations including contracts for purchase and sale of foreign exchange are stated at fair value as 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.

	<i>30 September 2013 RO'000</i>	<i>31 December 2012 RO'000</i>
Capital commitments	1,123	1,207
Credit related commitments	448,828	161,021
	<u>449,951</u>	<u>162,228</u>

B19 RELATED PARTY TRANSACTIONS

In the ordinary course of business the Bank conducts transactions with certain of its directors, shareholders, senior management and companies in which they have a significant interest. These transactions are conducted on an arms length basis and are approved by the Bank's management and Board of Directors.

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 2013

B19 RELATED PARTY TRANSACTIONS (continued)

The aggregate amount of balances and the income and expenses generated with such related parties are as follows:

	<i>30 September</i>	<i>31 December</i>
	<i>2013</i>	<i>2012</i>
	<i>RO'000</i>	<i>RO'000</i>
Loans and advances (balance at end of period)	22,429	31,804
Loans disbursed during the period	283,720	417,754
Loans repaid during the period	(284,033)	(415,528)
Deposits (balance at end of period)	35,236	44,081
Deposits received during the period	237,371	201,460
Deposits paid during the period	(238,481)	(192,127)
Interest income (during the period)	536	1,530
Interest expense (during the period)	426	(652)
Senior management compensation		
Salaries and other short term benefits	3,131	3,559
Directors' sitting fees and remuneration	193	198

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.

NOTES TO FINANCIAL STATEMENTS
 FOR THE PERIOD ENDED 30 SEPTEMBER 2013

B20.2 Derivatives held or issued for hedging purposes (continued)

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 Central Bank of Oman.

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 2013	Notional amount RO'000	Notional amounts by term to maturity		
		Within 3 months	3 - 12 months	1 - 5 years
		RO'000	RO'000	RO'000
Foreign exchange purchase contracts	441,625	199,356	242,269	-
Forward foreign exchange sales contracts	449,166	199,583	249,583	-

As at 31 December 2012	Notional amount RO'000	Notional amounts by term to maturity		
		Within 3 months	3 - 12 months	1 - 5 years
		RO'000	RO'000	RO'000
Foreign exchange purchase contracts	564,957	367,790	197,167	-
Forward foreign exchange sales contracts	565,398	368,054	197,344	-

C1 Interest income

	9 Months ended 30 September 2013 RO'000	9 Months ended 30 September 2012 RO'000	3 Months ended 30 September 2013 RO'000	3 Months ended 30 September 2012 RO'000
Loans and advances to customers	47,793	45,307	16,292	15,617
Due from Banks and other money market lendings	5,243	5,990	1,326	2,402
Investment securities	829	1,745	250	542
	<u>53,865</u>	<u>53,042</u>	<u>17,868</u>	<u>18,561</u>



NOTES TO FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 SEPTEMBER 2013

C2 Interest expense

	<i>9 Months ended 30 September 2013 RO'000</i>	<i>6 Months ended 30 September 2012 RO'000</i>	<i>9 Months ended 30 September 2013 RO'000</i>	<i>3 Months ended 30 September 2012 RO'000</i>
Customers' deposits	17,499	18,539	5,450	6,768
Subordinated Debt	2,431	2,440	819	819
Due to Banks and other money market borrowings	2,081	1,620	827	540
Compulsorily convertible bonds	138	-	82	-
	<u>22,149</u>	<u>22,599</u>	<u>7,178</u>	<u>8,127</u>

C3 Other operating income

	<i>9 Months ended 30 September 2013 RO'000</i>	<i>9 Months ended 30 September 2012 RO'000</i>	<i>3 Months ended 30 September 2013 RO'000</i>	<i>3 Months ended 30 September 2012 RO'000</i>
Fees and commission	6,827	5,402	3,060	1,146
Net gain from foreign exchange dealings	1,263	1,140	345	451
Dividend income	771	487	154	26
Realised gains from AFS investment securities	1,989	241	537	241
Net gains from HFT investment securities	121	486	118	478
Profit on sale of assets	4	6	-	-
	<u>10,975</u>	<u>7,762</u>	<u>4,214</u>	<u>2,342</u>

C4 Other operating expense

	<i>9 Months ended 30 September 2013 RO'000</i>	<i>9 Months ended 30 September 2012 RO'000</i>	<i>3 Months ended 30 September 2013 RO'000</i>	<i>3 Months ended 30 September 2012 RO'000</i>
Operating and administration costs	5,252	4,310	1,835	1,592
Establishment Cost	1,475	1,321	514	453
Directors remuneration and sitting fees	193	188	18	8
	<u>6,920</u>	<u>5,819</u>	<u>2,367</u>	<u>2,053</u>



NOTES TO FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 SEPTEMBER 2013

C5 Income tax

a) Recognized in the statement of comprehensive income

	<i>9 Months ended 30 September 2013 RO'000</i>	<i>9 Months ended 30 September 2012 RO'000</i>
<i>Tax expenses</i>		
Current tax	2,132	2,014
Deferred tax expense /(income)	19	(30)
	<u> </u>	<u> </u>
Total tax expenses	<u>2,151</u>	<u>1,984</u>

The Bank is liable to income tax for the year in accordance with the income tax laws of the Sultanate of Oman at the rate of 12% on taxable profits in excess of RO 30,000

b) Reconciliation

Accounting profit for the year	20,261	17,706
	<u> </u>	<u> </u>
Income tax	2,431	2,125
Non deductible expenses	-	-
Tax exempt income	(299)	(141)
Current year deferred tax	19	-
	<u> </u>	<u> </u>
Income tax expense	<u>2,151</u>	<u>1,984</u>

c) Deferred tax (liability)/ Asset

	<i>30 September 2013 RO'000</i>	<i>31 December 2012 RO'000</i>
On comprehensive income items	(186)	(167)
On other comprehensive income items	189	34
	<u> </u>	<u> </u>
	<u>3</u>	<u>(133)</u>

d) Tax assessment

The assessments of the Bank for the years 2007 to 2012 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 2013.



NOTES TO FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 SEPTEMBER 2013

C6 BASIC EARNINGS / (LOSS) 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.

	<i>9 months ended 30 September 2013 RO'000</i>	<i>9 months ended 30 September 2012 RO'000</i>
Net profit for the period	18,110	15,722
Weighted average number of shares of RO 0.100 each outstanding during the period (in thousands)	1,084,615	1,000,000
Basic earnings per share for the period (in baizas)	16.692	15.722
Basic earnings per share annualized (in baizas)	22.317	21.020

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.

	<i>9 months ended 30 September 2013 RO'000</i>	<i>9 months ended 30 September 2012 RO'000</i>
Net profit for the period	18,110	15,722
Interest on convertible bonds, net of taxation	121	-
	18,231	15,722
Weighted average number of shares of RO 0.100 each outstanding during the period (in thousands)	1,128,054	1,043,072
Diluted earnings per share for the period (in baizas)	16.161	15.073
Diluted earnings per share annualized (in baizas)	21.608	20.152

NOTES TO FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 SEPTEMBER 2013**D Financial risk management**

The primary objective of the risk management system is to safeguard the Bank's capital, its financial resources and from various risks. The Bank has exposure to the following risk 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. The Board has established the Asset and Liability Committee (ALCO) and Risk Management Committee, which are responsible for developing and monitoring the Bank's risk management policies in their specified areas. All board committees report regularly to the Board of Directors on their activities.

The Bank's risk management policies will focus on identification, measurement, monitoring and mitigation of credit 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 Credit Policy, 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.

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. Bank has a Chief Risk Officer who heads the management of Risk reporting to the Risk Management Committee. Credit risk will be 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;
- 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;
- 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 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;
- retail credit risk is managed at the origination stage by ensuring adherence to the various retail product parameters which are set in the respective product policy approved by the Risk Management Committee of the board, after a risk review by the CRM. Only credit with exceptions to the policy will be reviewed by the CRM for offering risk observations to the approving authority;
- in the 'corporate', 'financial institution group' and 'emerging corporate' lending business, individual credit proposals are reviewed by the CRM of risk management department with a template through which the following risks are examined and risk observations given to the approving authority:
 - risk of non-compliance to the regulatory guidelines and other applicable laws (example: related party exposure or connected party exposure, margin requirement for loans against shares);



NOTES TO FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 SEPTEMBER 2013

D1 Credit risk (continued)

D1.1 Management of credit risk (continued)

- risks in the industry in which the borrower is conducting his business or to the prospects of which the business has very high positive correlation;
 - risks out of the business model being followed (risks on the business cash flows);
 - risks out of ownership, absence of succession and absence of professional management team etc.;
 - financial risks indicated out of an analysis of their last three years' financials where ever available. The overall risk rating with quantitative inputs from financials and qualitative inputs by the credit analyst on business, management etc are approved or overridden by risk management department;
 - risks out of wrong structuring of credit facilities, inadequacy of critical covenants and securities. Comments on risk-pricing will be given by risk objectively after setting up a model to price loans to the risk that it has;
 - risk of adverse selection and mitigation by more due diligence while taking over loans from other banks or buying loan assets from secondary market, especially when it is sold at a discount; and
 - risk of non availability of loan repayments tied up and aligned to specific identified cash flows with assignment.
- renewals and reviews of facilities are subject to the same review process. The process also includes approval by risk of borrower ratings arrived at by the business units;
 - 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 take out 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 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 Central Bank of Oman regulations and guidelines. The responsibility for identifying problem accounts and classifying them rests with business line function.



NOTES TO FINANCIAL STATEMENTS
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D 2 Exposure to liquidity risk

	Within three months RO'000	Four months to 12 months RO'000	One to three years RO'000	More than three years RO'000	Total RO'000
30 September 2013					
Assets					
Cash and balances with Central Banks	32,854	25,812	10,127	17,344	86,137
Due from banks and other money market lendings	173,771	117,233	11,550	-	302,554
Loans and advances	302,948	129,598	197,816	593,941	1,224,303
Investment securities	161,059	3,533	25,362	6,046	196,000
Property and equipment and other assets	13,704	942	318	22,176	37,140
Investment properties	-	-	-	2,900	2,900
Total assets	<u>684,336</u>	<u>277,118</u>	<u>245,173</u>	<u>642,407</u>	<u>1,849,034</u>
Liabilities and equity					
Due to banks and other money market borrowings	176,917	51,576	44,272	-	272,765
Customers' deposits	378,920	462,017	181,277	301,526	1,323,740
Other liabilities	13,271	10,166	1,228	9,334	33,999
Subordinated loans	-	-	-	50,000	50,000
Compulsorily convertible bonds	-	-	2,383	4,767	7,150
Shareholders' funds	-	-	-	161,380	161,380
Total liabilities and equity	<u>569,108</u>	<u>523,759</u>	<u>229,160</u>	<u>527,007</u>	<u>1,849,034</u>

	Within three months RO'000	Four months to 12 months RO'000	One to three years RO'000	More than three years RO'000	Total RO'000
31 December 2012					
Assets					
Cash and balances with Central Banks	67,316	23,773	13,893	16,764	121,746
Due from banks and other money market lendings	120,170	215,219	-	-	335,389
Loans and advances	258,582	142,986	173,296	571,159	1,146,023
Investment securities	123,201	-	21,920	7,565	152,686
Property and equipment and other assets	8,231	2,892	138	17,161	28,422
Investment Properties	-	-	-	2,900	2,900
Total assets	<u>577,500</u>	<u>384,870</u>	<u>209,247</u>	<u>615,549</u>	<u>1,787,166</u>
Liabilities and equity					
Due to banks and other money market borrowings	210,572	13,476	-	-	224,048
Customers' deposits	351,516	434,589	253,969	297,326	1,337,400
Other liabilities	17,075	5,821	1,945	5,997	30,838
Subordinated loans	-	-	-	50,000	50,000
Shareholders' funds	-	-	-	144,880	144,880
Total liabilities and equity	<u>579,163</u>	<u>453,886</u>	<u>255,914</u>	<u>498,203</u>	<u>1,787,166</u>



NOTES TO FINANCIAL STATEMENTS

FOR THE PERIOD ENDED 30 SEPTEMBER 2013

D3 Exposure to interest rate risk – non trading portfolios

The Bank's interest sensitivity position based on contractual re-pricing arrangements at 30 Sep 2013 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 2013						
Assets						
Cash and balances with Central Banks	0.01	-	-	-	86,137	86,137
Due from banks and other money market lendings	2.21	165,928	117,233	19,250	143	302,554
Loans and advances	5.41	543,417	209,851	475,974	(4,939)	1,224,303
Investment securities	1.09	166,059	3,533	10,433	15,975	196,000
Property, equipment and fixtures	-	-	-	-	13,381	13,381
Investment properties	-	-	-	-	2,900	2,900
Other assets	-	-	-	-	23,759	23,759
Total assets		878,404	330,617	505,657	137,356	1,849,034
Liabilities and equity						
Due to banks and other money market borrowings	0.68	217,190	54,575	-	1,000	272,765
Customers' deposits	1.81	230,443	351,849	157,810	583,638	1,323,740
Other liabilities	-	-	-	-	33,999	33,999
Subordinated debt	6.50	-	-	50,000	-	50,000
Compulsorily convertible bonds	4.50	-	-	-	7,150	7,150
Shareholders' funds	-	-	-	-	161,380	161,380
Total liabilities and equity		447,633	406,424	207,810	787,167	1,849,034
Total interest rate sensitivity gap		427,771	(75,807)	297,847	(649,811)	-
Cumulative interest rate sensitivity gap		427,771	351,964	649,811	-	-

	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 2012						
Assets						
Cash and balances with Central Banks	0.01	-	-	-	121,746	121,746
Due from banks and other money market lendings	2.87	120,170	215,219	-	-	335,389
Loans and advances	5.63	474,247	220,706	452,978	(1,908)	1,146,023
Investment securities	1.72	128,201	2,573	9,434	12,478	152,686
Property, equipment and fixtures	-	-	-	-	12,187	12,187
Investment properties	-	-	-	-	2,900	2,900
Other assets	-	-	-	-	16,235	16,235
Total assets		722,618	438,498	462,412	163,638	1,787,166
Liabilities and equity						
Due to banks and other money market borrowings	1.49	210,572	13,476	-	-	224,048
Customers' deposits	1.94	225,721	335,975	266,103	509,601	1,337,400
Other liabilities	-	-	-	-	30,838	30,838
Subordinated loans	6.5	-	-	-	50,000	50,000
Shareholders' funds	-	-	-	-	144,880	144,880
Total liabilities and equity		436,293	349,451	266,103	735,319	1,787,166
Total interest rate sensitivity gap		286,325	89,047	196,309	(571,681)	-
Cumulative interest rate sensitivity gap		286,325	375,372	571,681	-	-



NOTES TO FINANCIAL STATEMENTS
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D FINANCIAL RISK MANAGEMENT *(continued)*

D4 Exposure to 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:

	2013			2012		
	Assets RO'000	Liabilities RO'000	Net assets RO'000	Assets RO'000	Liabilities RO'000	Net assets RO'000
US Dollar	617,332	646,443	(29,111)	675,201	681,359	(6,158)
Saudi Rial	127	27	100	317	-	317
Euro	28,596	28,587	9	33,448	33,427	21
UAE Dirhams	2,030	10,457	(8,427)	14,963	11,408	3,555
Qatari Rial	184	11	174	32	19	13
Kuwaiti Dinar	60	24	36	11	5	6
Japanese Yen	10,276	10,260	16	17,364	17,391	(27)
Pound Sterling	499	505	(6)	1,757	1,764	(7)
Indian Rupee	57	1	56	39	1	38
Sri Lankan Rupee	2,755	2,761	(5)	-	-	-
China CNH	11,904	11,864	(42)	-	-	-
Others	237	171	66	217	96	121

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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:

	<i>30 September</i> <i>2013</i> <i>RO'000</i>	<i>31 December</i> <i>2012</i> <i>RO'000</i>
Tier I capital		
Ordinary share capital	110,000	100,000
Legal reserve	8,140	8,006
General reserve	413	413
Subordinated loan reserve	4,167	4,167
Retained earnings	40,255	33,145
Fair value losses	(2,161)	(1,457)
Deferred tax asset	(190)	(45)
Total	160,624	144,229
Tier 2 capital		
Impairment allowance on portfolio basis	16,345	14,910
Fair value gains	254	273
Subordinated loan	45,833	45,833
Compulsorily convertible bonds	7,150	-
Total	69,582	61,016
Total regulatory capital	230,206	205,245
Risk-weighted assets		
Credit and market risks	1,541,780	1,414,282
Operational risk	78,482	78,482
Total risk-weighted assets	1,620,262	1,492,764
Capital adequacy ratio		
Total regulatory capital expressed as a percentage of total risk-weighted assets	14.21%	13.75%
Total tier I capital expressed as a percentage of total risk-weighted assets	9.91%	9.66%

The capital adequacy ratio is calculated in accordance with the Basel II norms as adopted by Central Bank of Oman.



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D6 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 include the banks investment activities including proprietary investments, international banks, international companies, institutional customers and treasury activities.
- 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 its 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 Bank basis and are not allocated to operating segments.

Interest income is reported net as 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 2012 or 2013.



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FOR THE PERIOD ENDED 30 SEPTEMBER 2013

D6 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 Financing and investing activities	-	-	-	-	126	126
Other operating income	2,495	4,841	3,639	(31)	31	10,975
Operating income	17,073	18,256	11,043	(3,712)	157	42,817
Operating expense	(14,382)	(2,215)	(2,979)	-	(539)	(20,115)
Operating Profit / (loss)	2,691	16,041	8,064	(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	1,720	16,007	8,064	(5,076)	(454)	20,261
Income tax expense	-	-	-	(2,151)	-	(2,151)
Segment profit / (loss) for the year	1,720	16,007	8,064	(7,227)	(454)	18,110
Segment assets	402,836	764,751	507,986	147,956	25,505	1,849,034
Segment liabilities	230,742	327,391	1,032,052	91,010	6,459	1,687,654
Segment Equity	-	-	-	151,700	9,680	161,380

30 September 2012

	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Net Interest Income	11,891	10,177	10,558	(2,183)	-	30,443
Net Income from Islamic Financing and investing activities	-	-	-	-	-	-
Other operating income	2,832	2,656	1,169	1,105	-	7,762
Operating income	14,723	12,833	11,727	(1,078)	-	38,205
Operating expense	(13,638)	(2,272)	(2,231)	-	-	(18,141)
Operating Profit	1,085	10,560	9,497	(1,078)	-	20,064
Impairment on investments	-	-	-	-	-	-
Impairment allowance on portfolio basis	-	-	-	(1,305)	-	(1,305)
Impairment allowance on specific basis	(846)	(17)	(173)	-	-	(1,036)
Profit / (loss) for the year	239	10,544	9,307	(2,383)	-	17,706
Income tax expense	-	-	-	(1,984)	-	(1,984)
Segment profit / (loss) for the year	239	10,544	9,307	(4,367)	-	15,722
Segment assets	375,501	650,022	596,144	161,470	-	1,783,137
Segment liabilities	208,829	193,259	1,036,414	207,038	-	1,645,540
Segment Equity	-	-	-	137,598	-	137,598