

Annual Report 2012



بنك ظفار
BankDhofar



His Majesty Sultan Qaboos Bin Said



GOAL
IDEAS
VISION
SUCCESS

Our philosophy

What we believe

At BankDhofar we believe every customer is important. We understand the customers' needs and continually innovate to improve their customer experience.

With a reputation for commitment, foresight and solid financial growth, we are committed to maintaining valuable personalised relationships by surpassing customer needs and continually innovating to improve our customers' experience. This applies to customers at all levels: Priority Banking; Youth & Student Banking; Personal Banking; and our Business & Corporate Banking customers.

We are committed to new ideas, innovation, revision and fine-tuning of our practices. We continue to offer innovative products and services and implement creative strategies ahead of market trends to achieve sustained growth.

BankDhofar is well known for reliability as its foundation for service, based on advanced technology delivered by professional, competent and approachable staff. We consistently demonstrate good faith and integrity in our dealings with our stakeholders, providing acceptable returns to shareholders whilst maintaining a strong financial base.

We deliver the best banking experience. We nurture our employees to deliver the best products and services. Being the best is our destiny.

BankDhofar, the best bank for you.

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**The Board
of Directors’
report for
the financial
year ended
31st December
2012**

the



Dear Shareholders,

On behalf of the Board of Directors of BankDhofar S.A.O.G., I am pleased to present you [BankDhofar's Financial Statements and the Auditors' Report](#) for the financial year ended 31st December 2012.

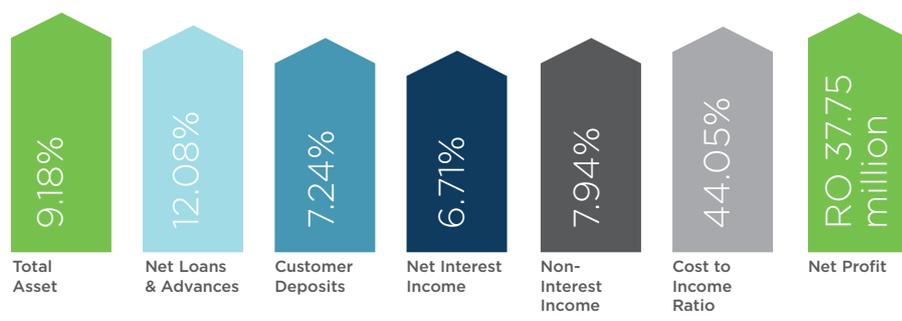
Financial Performance in 2012

BankDhofar continued to grow in all key areas in the year 2012, with the Total Assets sustaining a growth of 9.18%, improving from RO 1.96 Billion at the end of December 2011 to reach RO 2.14 Billion at the end of December 2012. Net Loans and Advances extended to customers achieved a growth of 12.08% from RO 1.49 Billion at the end of 2011 to reach RO 1.67 Billion at the end of December 2012. Further, the customer deposits mobilized by BankDhofar achieved a growth of 7.24% from RO 1.52 Billion at the end of 2011 to reach RO 1.63 Billion at the end of 2012.

The key profitability indicators have also achieved positive growth, as net interest income grew from RO 60.32 million achieved during the year 2011 to reach RO 64.37 million during the year 2012 signifying a growth of 6.71%. Non-interest income such as fees and commissions, foreign exchange profit, investment and other income has shown a significant growth of 7.94% to reach RO 19.72 million during the year 2012 as compared with RO 18.27 million achieved in the previous year.

The Cost to Income ratio during the year 2012 was at a level of 44.05% as compared to 42.55% in 2011. The provisions, net of recovery, during the year 2012 are RO 4.15 million as against the RO 3.16 million during the previous year 2011.

The net profit for the year 2012 achieved by BankDhofar is RO 37.75 million as against RO 13.98 million, due to the effect of the legal case loss of RO 26.1 million, in 2011.



Subordinated Loan

During the last quarter, BankDhofar availed a Subordinated Loan of RO 25 million eligible to be Tier II capital as per the terms and conditions stated in Basel II guidelines. BankDhofar will utilize this loan for funding its long term strategic lending. Additionally, the loan shall augment BankDhofar's capital base, thereby providing additional funds for accelerating its asset growth. The capital adequacy ratio of BankDhofar shall also improve further.

Corporate Governance

BankDhofar has fully complied with all directives of the Code of Corporate Governance issued by the Capital Market Authority. BankDhofar has also assessed and reviewed the internal control procedures of BankDhofar during the year 2012.

In compliance with article (101) of the Commercial Companies Law No. 4/1974 and its amendments, the Board of Directors would like to disclose that the total amount received in 2012 as sitting fees was RO 83,300 and the proposed remuneration for the same year is RO 116,700.

Proposed Dividends

The Board of Directors recommends cash dividend of 15% amounting to RO 16.5 million and a Bonus share issue of 10%, aggregating to 110.01 million shares of RO 0.100 each, of the share capital of BankDhofar. The percentage of dividends distributed to the Shareholders in the last five years is as follows:

Year	2007	2008	2009	2010	2011
Cash Dividends	25%	15.5%	15%	12.5%	7%
Bonus Shares	—	4.5%	10%	12.5%	20.2%

Maisarah - Islamic Banking Services

Year 2012 was a very energetic year for the commencement of Islamic Banking Window Operations. Based on His Majesty Sultan Qaboos bin Said Al Said guidance and the Central Bank of Oman's directive on Islamic Banking, the Board of Directors of BankDhofar called for shareholders meetings, which approved the following:

- . Assignment of separate capital of RO 10 million as initial capital for Islamic Banking Window Operations from core paid up capital of shareholders.
- . Appointment of 100% Omani Shariah Supervisory Board.
- . Amendment of Article of Association to include Islamic banking services.

The Board of Directors have approved a brand name & logo as "Maisarah Islamic Banking Services" for the Islamic Banking Window operations. BankDhofar will be commencing its Islamic Banking Window operations initially with a separate head office and two branches. BankDhofar will be providing pure innovative Islamic banking products and services equipped with highly experienced and trained staff, separate books of account and separate accounting and financial reporting systems from conventional banking operations. BankDhofar as always is committed to its esteemed customers and has initiated all the necessary steps to offer a high quality Islamic banking window services to its customers.

Acknowledgment

On behalf of the Board, I would like to thank our valuable customers for their patronage and confidence they have reposed in the Board of Directors and the Executive Management. Also I thank the shareholders for their continuous support and moreover I thank the diligent staff and management for their performance in the year 2012.

The Board of Directors also wishes to thank the Central Bank of Oman for its valuable guidance to the local banking sector. Finally, on behalf of the Board of Directors, employees and the management I would like to express our most sincere gratitude to **His Majesty Sultan Qaboos Bin Said** for his wise leadership and generous support to the private sector.

Eng. Abdul Hafidh Salim Rajab Al-Aujali
Chairman



INFORM
PERFORM
ADVANCE
VISION
STRATEGY
TEAM

Members of the Board of Directors



1 _____

Name of Director:

Eng. Abdul Hafidh Salim Rajab Al-Aujaili

Basis of Membership:

Chairman Non-executive
Dependent
Shareholder Director

No. of other Directorships held:

-

2 _____

Name of Director:

Sheikh Hamoud Mustahail Ahmed Al Mashani

Basis of Membership:

Vice-Chairman Non-executive
Independent
Non-shareholder Director

No. of other Directorships held:

3



3 _____

Name of Director:

Sheikh Qais Mustahail Ahmed Al Mashani

Basis of Membership:

Member Non-executive
Dependent
Non-shareholder Director

No. of other Directorships held:

3



4 _____

Name of Director:

Mr. Ahmed Said Mohammed Al Mahrezi

Basis of Membership:

Member Non-executive
Independent
Non-shareholder Director

No. of other Directorships held:

1



5 _____

Name of Director:

Mr. Saleh Nasser Juma Al Araiimi

Basis of Membership:

Member Non-executive
Independent
Non-shareholder Director

No. of other Directorships held:

2





6 _____

Name of Director:
Mr. Mohammed Yousuf Alawi Al Ibrahim

Basis of Membership:
Member Non-executive
Independent
Non-shareholder Director

No. of other Directorships held:
2



8 _____ (Vacated office after the full term)

Name of Director:
Mrs. Najah Musallim Al Kiyumi

Basis of Membership:
Member Non-executive
Independent
Non-shareholder Director

No. of other Directorships held:
-

7 _____ (Vacated office after the full term)

Name of Director:
Mr. Ali Ahmed Al Mashani

Basis of Membership:
Member Non-executive
Independent
Non-shareholder Director

No. of other Directorships held:
-



10 _____ (Appointed at AGM March 2013)

Name of Director:
Engineer Abdul Sattar
Mohammed Abdullah Al Murshidi

Basis of Membership:
Member Non-executive
Independent
Non-shareholder Director

No. of other Directorships held:
-



9 _____

Name of Director:
Mr. Tariq Abdul Hafidh Salim
Rajab Al-Aujaili

Basis of Membership:
Member Non-executive
Dependent
Non-shareholder Director

No. of other Directorships held:
3



11 _____ (Appointed at AGM March 2013)

Name of Director:
Mr. Majid Said Sulaiman Al Bahri

Basis of Membership:
Member Non-executive
Independent
Non-shareholder Director

No. of other Directorships held:
-

Executive Team



Abdul Hakeem Al Ojaili
GM of Corporate Services



Tony Mahoney
CEO



Kamal Al Murazza
DGM Wholesale Banking



Ahmed Al Ibrahim
DGM Government Relations



Faisal Al Wahaibi
DGM Retail Banking



Hanna Khoury
DGM Treasury and International
Banking Relations



Shankar Sharma
DGM Chief Financial Officer



Mohammed al Balushi
AGM Human Resources



Bashir Al Subhi
AGM International Banking



Hani Macki
AGM Mid Corporate &
Business Banking



Tariq Taha
AGM Chief Information &
Transformation Officer



Mohammed Al Riyami
AGM Internal Audit



Ranganathan Palanthandalam Madapusi
Head of Risk Management



Depti Rai
Head of Compliance

**Corporate
governance
report for
the year ended
31st December
2012**

best



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PC. 112
Sultanate of Oman

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Report to the Shareholders of Bank Dhofar SAOG ("the Bank") of Factual Findings in connection with the Corporate Governance Report of the Bank and application of the Corporate Governance practices in accordance with Capital Market Authority Code of Corporate Governance

We have performed the procedures prescribed in the Capital Market Authority ("CMA") Circular No. 16/2003 dated 29 December 2003 with respect to the Corporate Governance Report of the Bank ("the Report") and its application of the Corporate Governance practices in accordance with the CMA Code of Corporate Governance ("the Code") issued under Circular No. 11/2002 dated 3 June 2002, and the CMA Rules and Guidelines on disclosure, issued under CMA Administrative Decision 5/2007, dated 27 June 2007, as amended. The Report is set out on pages 18 to 30.

Our engagement was undertaken in accordance with the International Standards on Auditing applicable to agreed-upon procedures engagements. The procedures were performed solely to assist you in evaluating the Report.

We found the Report reflects, in all material respects, the Bank's application of the provisions of the Code and is free from any material misrepresentation.

Because the above procedures do not constitute either an audit or a review made in accordance with International Standards on Auditing, we do not express any assurance on the Bank's Corporate Governance Report. Had we performed additional procedures or had we performed an audit or review of this Report in accordance with International Standards on Auditing, other matters might have come to our attention that would have been reported to you.

This report is solely for the purpose set forth in the second paragraph above, and for inclusion, with the Report, in the Bank's annual report, and is not to be used for any other purpose. This report relates only to the Report included in the Bank's annual report for the year ended 31 December 2012 and does not extend to the financial statements or any other reports of Bank Dhofar SAOG, taken as a whole.

29 January 2013

Khalid Masud Ansari

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Report on Corporate Governance

Part One

1 - Corporate Governance Philosophy

Corporate governance is an essential element in attaining, enhancing and retaining confidence of BankDhofar’s stakeholders. Corporate governance lays down the relationship and responsibilities between shareholders, Board of directors and the senior management of BankDhofar through the structure of setting objectives, formulating strategies, controlling and monitoring performance while ensuring compliance with regulations in letter and spirit and promoting a culture of transparency through disclosures and commitment to the highest ethical standards.

The Board of Directors of BankDhofar S.A.O.G bears the principal responsibility of fashioning the Corporate Governance code as appropriate to BankDhofar within the broad framework enunciated by the Central Bank of Oman (CBO) and the Capital Market Authority (CMA). It is also charged with the responsibility of subjecting the code to periodic review to keep it refurbished and contemporary.

Decision making within BankDhofar has been broadly divided into two levels. The Board of Directors (the Board) at the apex level, as trustees of the shareholders, bears the responsibility of strategic supervision of BankDhofar, apart from fulfilling statutory obligations. Some of the major responsibilities of the Board, namely audit, senior management succession, legal and regulatory compliance are discharged through four sub-committees, namely the Executive Committee, the Audit Committee, the Risk Management Committee and the Human Resources Strategic Committee. These sub-committees which operate under the Board approved charters have been meeting regularly and have contributed significantly to the effective functioning of the code of corporate governance. The charters of these committees meet with all the requirements as laid down in the Code of Corporate Governance enunciated by the CBO and the CMA. In addition, the Board carries the responsibility of approving the strategic plans and internal policies to institute adequate controls for achievement of the set objectives and compliance with rules and regulations. The executive management of BankDhofar comprises the Senior Managers headed by the Chief Executive Office.

Through this two-tiered interlinked governance process, a wholesome balance has been created between the need for focus and executive freedom, and the need for supervision, control and checks and balances of all activities and transactions.

The formal Code of Corporate Governance prescribes the highest ethical standards in the conduct of BankDhofar’s business. The Senior Members of BankDhofar are fully cognizant of their responsibilities in setting personal examples so that the code is internalized within BankDhofar and becomes part of its culture.



2 - The Responsibilities of the Board of Directors

The Board has the full authority to perform all acts required for managing BankDhofar and protecting and growing the shareholders' interests pursuant to its objectives besides securing the interests of other stakeholders. Such authority is not limited or restricted except as provided by the law, the Articles of Association or resolutions of the General Meetings. However, such authority is not extended to the operational matters and day-to-day affairs of BankDhofar which remains a responsibility of the Senior Management.

The responsibilities and functions of the Board include the following:



Charting the overall strategic direction of BankDhofar and reviewing and approving the annual business and strategic plans.



Monitoring BankDhofar's performance and evaluating whether the business is properly managed in accordance with BankDhofar's set plans.



Approving the interim and annual financial statements and providing accurate information at the right time to the shareholders, in accordance with the instructions of the Capital Market Authority.



Forming various Board sub-committees, approving their charters and reviewing the functions of these committees.



Reviewing all audit reports submitted by internal and external auditors and statutory agencies.



Ensuring that BankDhofar conducts its operations in an ethical and transparent manner.

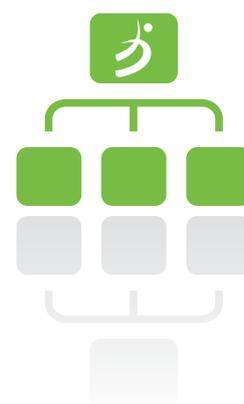


Assessing and approving the proper delegation of authorities to executive management.



Evaluating the functions and the performance of the Chief Executive Officer and other key employees.

Further, the Board exercises objective independent judgment on corporate affairs after having access to accurate, relevant and timely information.



Size and Terms of the Board

The Board consists of nine (9) non-executive directors who are elected by the shareholders at the Annual General Meeting. The term of office of the Board of Directors is three years and each Director can be re-elected for a similar period. The term of the current Board expires in March 2013.

Composition and Selection of the Board

Members of the Board of Directors are elected from among BankDhofar's shareholders or non-shareholders provided that a shareholder candidate owns not less than 50,000 shares of BankDhofar. All members of the Board of Directors shall be non-executive Directors.

A minimum of one-third of the Board members shall be independent Directors, meeting the amended definition of independent director by Capital Market Authority vide its Circular No.E/14/2012 dated 24 October 2012 which states that a director shall be deemed non-independent in the following cases:

1. If he holds ten percent or more of the company shares or the shares of parent company or subsidiary or fellow company.
2. If he is representing a juristic person who holds ten percent or more of the company shares or the shares of parent company or subsidiary or fellow company.
3. If he is a senior executive, during the past two years, of the company or parent company or subsidiary or fellow company.
4. If he is a first degree relative of any of the directors of the company or parent company or subsidiary or fellow company.
5. If he is a first degree relative of any of the senior executives of the company or parent company or subsidiary or fellow company.
6. If he is a director of the parent company or subsidiary or fellow company of the company to which he stands as candidate for its Board.
7. If he is an employee, during the past two years, of any of associated parties of the company or parent company or subsidiary or fellow company including chartered accountants and major suppliers or if holds controlling share in any of such parties during the past two years.

The nomination of Board members is within rules and condition of the election of directors as issued by the Capital Market Authority. The election process is through direct secret ballot whereby each shareholder shall have a number of vote's equivalent to the number of shares he/she holds. Every shareholder shall have the right to vote for one candidate or more provided the total number of votes in the voting form is equivalent to the number of shares he/she holds.

At present all the directors of the Board are non-executive, three are dependent and six are Independent within the scope of the definitions laid down by the Capital Market Authority.

Board Committees

The Board has the following four permanent Board Committees, whose objectives, powers and procedures are governed by the terms of reference of the respective Committees as enshrined in their Charters, approved by the Board:

Executive Committee

Audit Committee

Risk Management Committee

Human Resources Committee

Additional committees may be established from time to time based on business needs. Each committee has access to the information and resources it requires, including direct access to staff and consultants. The Board has selected the committee members based on their professional backgrounds, skills and other qualities they bring to the committees.

Part Two

1. Members of the Board of Directors

The Board of Directors of BankDhofar (S.A.O.G.) consists of the following:

S. No	Name of Director	Basis of membership			No. of other directorships held
1	Eng. Abdul Hafidh Salim Rajab Al-Aujaili	Chairman Non-executive	Dependent	Shareholder Director	-
2	Sheikh Hamoud Mustahail Ahmed Al Mashani	Vice-Chairman Non-executive	Independent	Non-shareholder Director	3
3	Sheikh Qais Mustahail Ahmed Al Mashani	Member Non-executive	Dependent	Non-shareholder Director	3
4	Mr. Ahmed Said Mohammed Al Mahrezi	Member Non-executive	Independent	Non-shareholder Director	1
5	Mr. Saleh Nasser Juma Al Aرامي	Member Non-executive	Independent	Non-shareholder Director	2
6	Mr. Mohammed Yousuf Alawi Al Ibrahim	Member Non-executive	Independent	Non-shareholder Director	2
7	Mr. Ali Ahmed Al Mashani	Member Non-executive	Independent	Non-shareholder Director	-
8	Mrs. Najah Musallim Al Kiyumi	Member Non-executive	Independent	Non-shareholder Director	-
9	Mr. Tariq Abdul Hafidh Salim Rajab Al-Aujaili	Member Non-executive	Dependent	Non-shareholder Director	3

The Board of Directors held **15** meetings during 2012 as follows:

4 Jan 12	24 Apr 12	24 Jul 12
25 Jan 12	6 May 12	30 Sep 12
9 Feb 12	22 May 12	23 Oct 12
11 Feb 12	23 May 12	17 Dec 12
21 March 12	12 Jul 12	25 Dec 12

Details of meetings and remuneration of the Board of Directors of BankDhofar (S.A.O.G.) is as follows:

Sl. No	Name of Director	Capacity of membership	No. of meetings attended	Directors' benefits (amount in RO)	
				Fees Paid	Remuneration Proposed
1	Eng. Abdul Hafidh Salim Rajab Al-Aujaili	In Personal Capacity	15	10,000	15,136
2	Sheikh Hamoud Mustahail Ahmed Al Mashani	In Personal Capacity	5	3,500	13,633
3	Sheikh Qais Mustahail Ahmed Al Mashani	Representative of Dhofar International Development & Investment Holding Company (S.A.O.G.)	12	10,000	12,133
4	Mr. Ahmed Said Mohammed Al Mahrezi	In Personal Capacity	12	10,000	12,922
5	Mr. Saleh Nasser Juma Al Araimi	Representative of Public Authority for Social Insurance	14	10,000	12,133
6	Mr. Mohammed Yousuf Alawi Al Ibrahim	In Personal Capacity	11	10,000	13,633
7	Mr. Ali Ahmed Al Mashani	In Personal Capacity	9	9,800	12,133
8	Mrs. Najah Musalim Al Kiyumi	Representative of Ministry of Defense Pension Fund	13	10,000	12,133
9	Mr. Tariq Abdul Hafidh Salim Rajab Al-Aujaili	In Personal Capacity	15	10,000	12,844
TOTAL				83,300	116,700



2. Executive Committee

The Committee consists of five members with proper experience, skills and initiative. The objectives of the Executive Committee is to discharge responsibilities on behalf of the Board in deciding on specific policy matters demanding in-depth study and analysis, deliberation and interactive consideration and decisions on micro matters of business beyond the powers delegated to the management, but considered less important to receive the full Board's attention and time.

The Board members of the Executive Committee before 10 October 2012 are:

	Name of Director	Designation	No. of meetings attended (before 10 Oct 2012)
1	Eng. Abdul Hafidh Salim Rajab Al-Aujaili	Chairman of the Committee	14
2	Shk. Qais Mustahail Ahmed Al Mashani	Member	9
3	Mr. Ahmed Said Mohammed Al Mahrezi	Member	11

The Board members of the Executive Committee after 10 October 2012 are:

	Name of Director	Designation	No. of meetings attended (after 10 Oct 2012)
1	Eng. Abdul Hafidh Salim Rajab Al-Aujaili	Chairman of the Committee	5
2	Shk. Qais Mustahail Ahmed Al Mashani	Member	2
3	Mr. Ahmed Said Mohammed Al Mahrezi	Member	2
4	Mr. Ali Ahmed Al Mashani	Member	4
5	Mr. Tariq Abdul Hafidh Al Aujaili	Member	5

The Executive Committee held **19** meetings during 2012.

3. Audit Committee

The Audit Committee was formed by the Board of Directors with the following main objectives and responsibilities:

- To focus the attention of the Board and top management of BankDhofar on the importance of strong financial reporting and risk management.
- To monitor the adequacy of internal controls in BankDhofar and to take appropriate steps to improve them where required.
- To monitor BankDhofar's compliance with legal and regulatory provisions, its articles of association, charter, by-laws and rules established by the Board of Directors.
- To identify the risk areas of BankDhofar's operations to be covered in the scope of the internal and external audits during the year.
- To monitor the effectiveness of the internal audit function and approve the audit plan as well as the availability of adequate resources (personnel and tools) and information access.
- To recommend the appointment / change of the external auditors and determine and review their terms of engagement.
- To meet the External Auditors and hear their views before forwarding the annual financial statements to the Board for approval.
- To report and bring to the attention of the Board any matters of concern with regard to the fore-going and any material accounting or auditing concerns identified as a result of the external or internal audits, or examination by supervisory authorities.



The Members of the Audit Committee during 2012 are:

	Name of Director	Designation	No. of meetings attended
1	Sheikh Hamoud Mustahail Ahmed Al Mashani	Chairman of the Committee	1
2	Mr. Saleh Nasser Juma Al Araiimi	Member	5
3	Mr. Mohammed Yousuf Alawi Al Ibrahim	Member	5
4	Mrs. Najah Musalim Al Kiyumi	Member	5

The Audit Committee held **5** meetings in 2012.

4. Risk Management Committee

The Risk Management Committee of the Board was formed by the Board of Directors to focus on issues relating to Risk Management policies and procedures on a bank-wide basis by arriving at a judicious policy decision collectively.



Roles and Responsibilities:

- To understand the risks undertaken by BankDhofar and ensure that they are appropriately managed.
- To develop risk policies, limits and procedures after assessment of BankDhofar's risk bearing capacity.
- To identify, monitor and measure the overall risk profile of BankDhofar.
- To verify models used for pricing complex products and transfer pricing.
- To review the risk models as development takes place in the markets and also identify new risks.
- To ensure that the risk policies developed clearly spell out the quantitative prudential limits on various segments of Bank's operations.
- To build stress scenarios to measure the impact of unusual market conditions and monitor variance between the actual volatility in portfolio values and those predicted by the risk measures.
- To monitor compliance with various risk parameters by business lines.
- To hold the line management accountable for the risks under their control.
- To oversee and ensure the implementation of CBO's guidelines on risk management systems in Banks.

The members of the Risk Management Committee during 2012 were:

	Name of Director	Designation	No. of meetings attended
1	Mr. Mohammed Yousuf Alawi Al Ibrahim	Chairman of the Committee	4
2	Mr. Saleh Nasser Juma Al Araimi	Member	4
3	Mrs. Najah Musalim Al Kiyumi	Member	2

The Risk Committee held **4** meetings in 2012.

5. Human Resources Committee

The Human Resources Committee of the Board of Directors was formed in March 2005 by the Board to ensure that the overall human resources developments at Bank level are as per the strategic direction of BankDhofar.

At a strategic level, the Committee is responsible for reviewing and monitoring the following:



The members of the Human Resources Committee before June 2012 are:

	Name of Director	Designation	No. of meetings attended (before June 2012)
1	Mr. Ahmed Said Mohammed Al Mahrezi	Chairman of the Committee	1
2	Sheikh Qais Mustahail Ahmed Al Mashani	Member	2
3	Mr. Ali Ahmed Salim Al Mashani	Member	1

The members of the Human Resources Committee after June 2012 are:

	Name of Director	Designation	No. of meetings attended (after June 2012)
1	Mr. Tariq Abdul Hafidh Al Aujaili	Chairman of the Committee	3
2	Sheikh Qais Mustahail Ahmed Al Mashani	Member	3
3	Mr. Ali Ahmed Salim Al Mashani	Member	1

The Human Resources Committee held **5** meetings in 2012.

6. Directors' Remuneration and Executives Pay

As all members of the Board are non-executive directors, no fixed salary or performance-linked incentives are applicable. The non-executive directors are paid an annual remuneration and sitting fees for attending the Board / Committee meetings. Directors' proposed remuneration and sitting fees paid during 2012 are as follows:

	Proposed remuneration RO	Sitting fees paid RO	Total RO
Chairman of the Board	15,136	10,000	25,136
Board Members	101,564	73,300	174,864
Total	116,700	83,300	200,000

BankDhofar's top six executives, namely the Chief Executive Officer, General Manager - Wholesale Banking, General Manager - Support Services, Deputy General Manager - Wholesale Banking, Deputy General Manager - Finance and Deputy General Manager - Treasury & International have received the following in 2012:

	Salaries, Performance Bonus & Others RO
Top six Executives	923,000

Incentives other than the fixed payments are linked to the performance. Performance is measured against the preset objective for contribution towards achievement of BankDhofar's overall goals. The period of services contract for expatriate executives is two years while the notice period for the executives is three months.

7. Compliance with Regulatory and Control Requirements

BankDhofar adhered to and complied with all relevant regulatory requirements in the last three years except two instances in 2010 when BankDhofar was penalized for RO 7,500 and in 2012 when BankDhofar was penalized for RO 66 by two of its regulators. BankDhofar has taken all corrective and necessary measures to avoid similar instance in future.

Also BankDhofar complied with all provisions of the Code of Corporate Governance issued by the Capital Market Authority.

8. Communication with Shareholders and Investors



All financial and non financial information are disseminated in a timely manner and a cost efficient access is provided to the users. The management provides regular updates to the market on BankDhofar's performance and new developments. The management discussion and Analysis Report form part of the annual report besides detailed disclosures in accordance with regulatory requirements and international standards.

BankDhofar publishes its quarterly interim financial statements and also hosts these and other relevant information at its website (www.bankdhofar.com) and Muscat Securities Market (MSM) website (www.msm.gov.om). The quarterly results are also published in two local newspapers in Arabic and English. These results remain available for the shareholders from BankDhofar. Bank's all official news releases are displayed on BankDhofar's website.

9. Market Price Data

a. Share Price Movements

The high/low share price information of BankDhofar during the financial year ended 31 December 2012 compared with Muscat Securities Market Index is as follows:



2012	BankDhofar Share Price (RO)			MSM Index
	Month	High	Low	Closing
January	0.560	0.520	0.520	5561.39
February	0.550	0.520	0.539	5837.66
March	0.602	0.440	0.440	5690.07
April	0.500	0.439	0.444	5868.90
May	0.460	0.435	0.439	5754.69
June	0.441	0.410	0.418	5689.83
July	0.418	0.405	0.406	5358.29
August	0.420	0.399	0.399	5480.02
September	0.400	0.366	0.374	5534.38
October	0.376	0.361	0.362	5660.03
November	0.365	0.330	0.332	5533.76
December	0.360	0.320	0.357	5760.84

b. Major Shareholders

The following are the major shareholders who own more than 5% of the outstanding shares as at 31 December 2012:

Serial No.	Shareholder	Percentage of Ownership
1	Dhofar International Development & Investment Holding Company (S.A.O.G.)	27.79%
2	Abdul Hafidh Salim Rajab Al Aujaili & his companies	20.84%
3	Civil Service Pension Fund	10.10%
4	Ministry of Defence Pension Fund	8.58%
5	Public Authority of Social Insurance	8.21%
6	H.E. Yousuf bin Alawi bin Abdullah & his companies	6.85%
7	Qais Omani Establishment LLC	6.27%
8	Others	11.36%
	Total	100%

10. Profile of the Statutory Auditors

The shareholders of BankDhofar appointed KPMG as BankDhofar's auditors for the year 2012. KPMG is a leading accounting firm in Oman and is a part of KPMG Lower Gulf that was established in 1974. KPMG in Oman employs more than 130 people, amongst whom are 4 Partners, 5 Directors

and 20 Managers, including Omani nationals and is a member of the KPMG network of independent firms affiliated with KPMG International Co-operative. KPMG is a global network of independent firms providing Audit, Tax and Advisory services and has more than 152,000

outstanding professionals working together in 156 countries worldwide. KPMG in Oman is accredited by the Capital Market Authority (CMA) to audit joint stock companies (S.A.O.G.'s).

11. Acknowledgment

The Board of Directors acknowledges confirmation of:

- Its responsibility for the preparation of the financial statements in accordance with the applicable standards and rules.
- Review of the efficiency and adequacy of internal control systems of BankDhofar and that it complies with rules and regulations and internal policies.
- There are no material matters that affect the continuation of BankDhofar and its ability to continue its operations during the next financial year.

12. Other Matters

- During 2012 BankDhofar has fully complied with all directives of the Code of Corporate Governance issued by the CMA.
- The Statutory Auditors of BankDhofar are KPMG. The Professional fees paid or payable to auditors for 2012 is RO 47,930. This amount represents RO 37,000 paid for audit services and RO 10,930 paid for non-audit services.
- The last Annual General Meeting and Extra Ordinary General meeting were held on 28 March 2012. In addition another Extra Ordinary General Meeting was held on 10 October 2012. The meetings were conducted as per statutory requirements.







**Management
discussion
and analysis
report for
the year ended
31st December 2012**

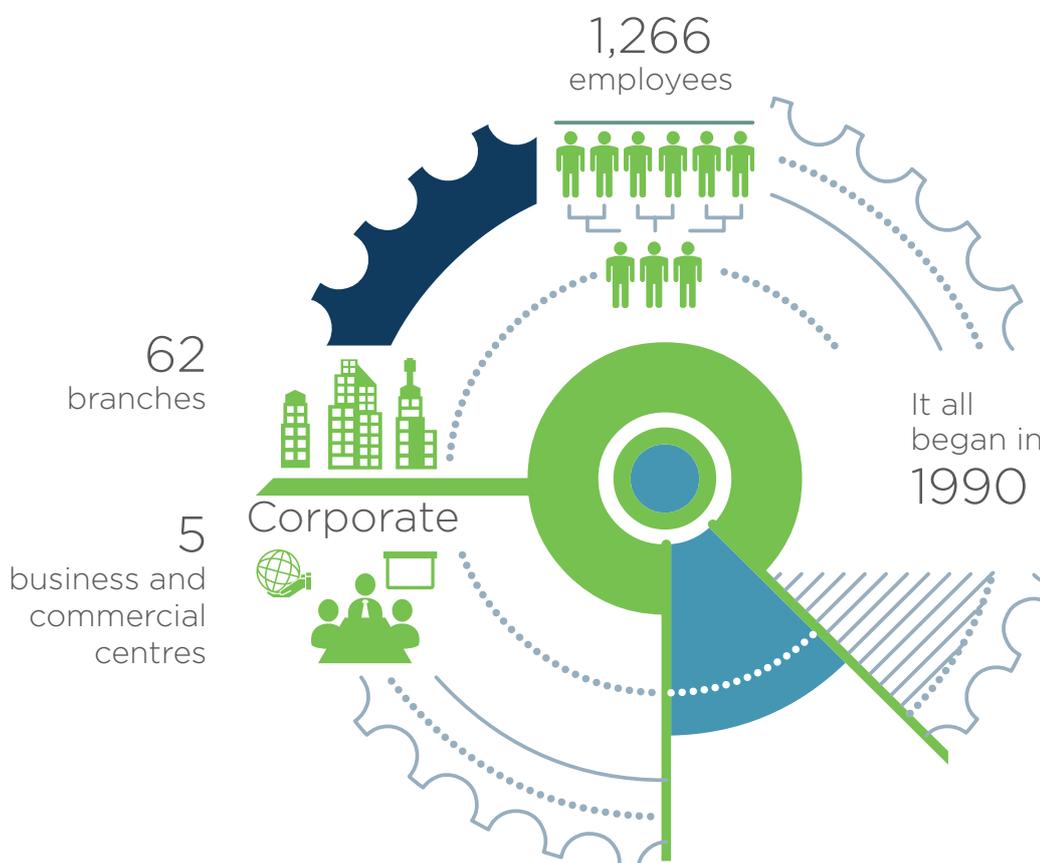
bank

Background and Strategy

BankDhofar was established in 1990 and has 62 branches, 2 kiosks as well as 5 business and commercial centres, powered by 1,266 employees. We are pleased to inform that the Central Bank of Oman, as on 27 February 2013, has granted license for Maisarah Islamic Banking Services to commence their operations. "Maisarah Islamic Banking Services" will start offering the services from its first two branches in Azaiba in Muscat region and Salah Al-Wadi in Dhofar region with separate Head Office in Azaiba.

It is a universal bank focusing heavily on the development of the very strong Omani market. With the support of some of the world's top consultants it has prepared a new and challenging 5 year strategic plan and aims to be the most progressive bank in Oman putting its customers and employees at the heart of everything it does, whilst carefully balancing its risks and rewards.

BankDhofar has already started realizing strong and encouraging results. With a clear focus on service quality and operational efficiency, the stage is set for strong and sustainable growth. Business goals are closely aligned with the overall strategic vision with the purpose of offering a quality and valuable experience to all our customers across all our channels which will become unrivalled in the Gulf. Our mantra is to become "the best bank for you".



Economic Scenario and Outlook

The improved domestic economic performance continued in 2012, supported by higher oil and gas revenue and prudent macro-economic policies adopted by the government among other things. International Monetary Fund too has a positive medium term outlook primarily driven by government's public expenditure program. According to National Centre for Statistics and Information, domestic nominal gross domestic product increased by 13.1 per cent during the first nine months of 2012. The nine month nominal GDP stood at RO 22 billion when compared to RO 19.47 billion recorded during the same period in 2011. As far as 2013 budget is concerned, government revenue is estimated to be around RO 11.2 billion, with revenue from the oil sector calculated at RO 8 billion. Government expenditure during the period is forecasted at RO 12.9 billion, approximately 30% higher than the budget for 2012. The increased government expenditure coupled with efforts towards economic diversification is likely to result in development of sectors such as tourism, industry, agriculture, fisheries etc. In addition, the increase in number of employment opportunities for nationals, presence of young workforce, development of Small Medium Enterprises (SME) sector etc. are some of the key factors expected to contribute positively towards economic development. The improved economic scenario is likely to benefit banking system as well with Moody's recently assigning a stable outlook for the domestic banking sector.

Wholesale Banking Group (WBG)

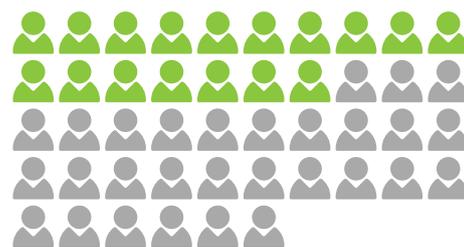
In 2012, on the back of a sustained crude prices and a moderate increase in crude oil production Oman's growth trajectory continued to have an uptrend and the projections for the next year are also encouraging. The larger economy continued to remain unaffected by the continued economic crisis in certain parts of the globe and overall stagnancy in the major parts of the world as an aftermath of 2008 global financial crisis. The credit off take in 2012 for BankDhofar in general was better than previous years due to the uptick in the business environment and the Wholesale Banking Group (WBG) which caters to the needs of the corporate clientele performed reasonably well.

New initiatives taken during 2012

As a part of five-year strategy and quest to become the best bank in Gulf, WBG has taken various new initiatives taken during the year, which are as under:

- 1 To improve our presence in various regions such as Sur, Nizwa, Sohar, Buraimi and Salalah exclusive Business & Corporate Banking centres have been opened in five locations outside Muscat to be closer to the clients, especially in Small and Mid-Sector segment.
- 2 Project to automate credit approval process has been initiated and implemented to a large extent.
- 3 We have started a new stream of business i.e. Corporate Advisory Services which should add good fee income during the years to come.
- 4 We have already launched another stream of business i.e. Point of Sales (PoS) in November 2012 which has received an excellent response from the market.
- 5 An exclusive Corporate Banking Call Centre for our corporate customers has been test-launched and will be fully launched during the year.
- 6 With various projects under implementation at WBG, we have strengthened our Project Management Capabilities by adding senior resources.
- 7 We have also taken steps to further centralize Corporate Banking activities which will free up relationship team to have lot more interface time with the clients.

Wholesale Banking Group consists of four lending arms, these are: Large Corporate Banking Department, Project Finance & Syndications Department, Mid Segment Corporate Department and Business Banking and SME Department



Large Corporate Banking Department

This department deals with large corporate clients categorized in terms of the size of the balance sheet and facility exposure. BankDhofar has introduced customer segmentation based on certain quantitative criteria for a specialized and focused approach. The customer profile spans across various industries which includes Trading, Manufacturing, Services and Contracting. The asset growth in this segment has been good chiefly on account of the efforts put in by the team to target new clients and build on existing relationships while an equal emphasis was also placed on maintaining asset quality through early detection of problem situations and taking pro-active steps to mitigate the same. There was pressure on interest margins due to increased competition and abundant liquidity in the system. On fund based income which is mainly the commissions derived from issuances of various guarantees and letters of credit was better than previous years due to improvement in the award of new contracts. As per the new 5-year strategy, the emphasis was more on improving our fee income from the existing products, cross-selling and by introducing new products and services.

The challenge in 2013 would be to grow our market share of quality well priced assets and deposits.

Project Finance & Syndications Department

Over the years BankDhofar has participated in almost all the major infrastructural projects including the earlier power projects, LNG project, and Refinery, Fertilizer and petro-chemical projects. BankDhofar has now graduated to the level of a Lead Arranger from modest beginnings and has in place the technical capability to independently arrange funds for medium sized ventures with local, regional and international banks.

The outlook for 2013 is good with some large financings round the corner in the refinery/petrochemical space which is expected to test the local banks financing capacity. Also with the recent events pointing to a large scale manipulation of the benchmark used for international financing namely LIBOR, it appears possible that the lending rates for USD could return to realistic levels.

Mid Sector Corporate Department

The Mid Sector Corporate department caters to the needs of the Corporates at the smaller end of the scale. BankDhofars' products and services are designed to suit the particular needs of the smaller corporates and to enable them to meet the challenges in the marketplace. In consonance with the objective of the Government to strengthen the SME sector, BankDhofar has gone ahead and opened five business centres in the country to improve the credit delivery to this segment and be closer to the customers. Further, we are working on introducing innovative and customer friendly products with a quick delivery mechanism to customers delight.

During 2012, the department had laid emphasis on maintaining and improving the quality of its portfolio as against concentrating on sheer asset growth. BankDhofar was able to nurture some troubled assets in the real estate sector through innovative solutions coupled with strong recovery efforts.

Over the longer term, BankDhofar is going to invest more in this segment and expects it to be major revenue driver.

Business Banking Department (SME)

This department caters to the needs of smaller business customers. The categorisation of such clients mainly follows the standard definition of Business Banking clients.

Considering the opportunities and growth prospects in the SME segment and also Government objectives in development of SMEs with a social objective of creating employment opportunities, and supporting the growth of Oman' Economy, The Board of Directors has approved strong expansion into this area. Therefore, during the year 2012, the Board of Directors of BankDhofar has agreed to approve a five year budget for establishing a Business Banking/SME structure within Wholesale Banking Group. The expansion in SME business will include; Setting up of 7 Business Centres (five have already been opened) in major Regions & Recruitment of additional staff to serve Small and Medium Businesses in all regions.

New Corporate and business Centres were opened during 2012 in Sohar, Nizwa, Buraimi, Sur addition to the existing centre in Salalah. Additional two centres planned to be opened during 2013 in Muscat area.

New Initiatives



With a view to capitalize on the opportunities arising out of the rapid development of Sohar as an industrial hub, efforts are on to expand the present business centre into a Corporate branch there. There are also plans to start strengthening our newly opened business centres and also to open Corporate desks at high volume centres in Muscat such as Azaiba and Rusayl.

Further, in line with the latest initiatives by Government of Oman on financing SMEs, we already have created a separate department with sufficient staff to give a boost to our efforts in that direction and that will provide us good revenue growth too in the years to come.

Other new products and services to improve fee income are in the pipeline are planned to be launched during the year 2013.

We also propose to re-launch our internet banking with the state of the Art features for Corporate Clients.

Remedial Management Department

This department was created in 2009 within WBG group, to identify Early Warning signals and incipient problems in accounts. This department helps the front office business units' in initiating appropriate advisory and restructuring measures for the account, in timely manner in order to maintain the health of the portfolio.

Trade Finance Sales Department

A separate Trade Finance Sales Department markets and develops products in the Trade Finance area. The dedicated officer from the department assesses the needs of corporate clients specific to trade finance area and suggests suitable structured products to improve usage of Non fund based (NFB) facilities from BankDhofar. The department conducted seminars to disseminate the awareness of Trade Finance products to Corporate clients to bring them on stronger footing while dealing with their exporters and importers clients.

Brokerage Division

Our Brokerage Division is currently offering brokerage services in Oman for Equity and Debt trades on the Muscat Securities Market (MSM). The division is equipped with an advanced trading platform which offers the clients the convenience to trade through various delivery channels including internet and mobile. The trading platform is integrated real time with our core banking to allow easy movement of funds for investing and also has the capability to connect real time to other GCC brokers in the future in order to enable client trades on GCC exchanges. The Division operates with an experienced team of brokers to execute your orders at the best price and in a timely manner and is supported by an efficient Back Office team to carry out end of trade activities. We have strict compliance procedures to ensure integrity of trades and protect client confidentiality and interests.

Retail Products & Segments

During 2012 Retail Products & Segments team has worked on enhancing existing products as well as designing, developing and implementing new products and services. As part of the restructuring, the newly created department's main tasks are listed below:



Retail assets

In 2012 in our effort to drive growth in overall asset portfolio several best-in-class personal loan and housing loan product offers and campaigns were launched. BankDhofar also launched a new housing loan campaign, providing best customer service in Oman and commitment of facilitating customers to own a new home within 5 days, and at most competitive and affordable pricing. Bank also launched a special package to target large corporate employees. With focused effort in number of key areas BankDhofar saw a healthy growth in personal lending and housing loan segment.



Retail liabilities

In April 2012 the new saving scheme was launched and the scheme provided Monthly prizes starting from RO 5,000 to RO 100,000. There were special draws for children, youth, ladies and Priority Banking customers. Due to the enhanced scheme the Savings product showed considerable growth in BankDhofars Liabilities Portfolio.



Credit Card Business

Cards business unit is an important wing within the retail business space with special focus on identifying areas of enhancement, improving card performance and profitability. The cards business unit is also looking at developing new policies and products to promote cards, have competitive campaigns to give card customers the best value for their money and in ensuring that BankDhofar develops and maintains its competitive edge at all points in time.

Renewed focus on cards resulted in developing a long term strategy for BankDhofar's credit cards portfolio with clear business objectives and expectations in terms of contributions from the portfolio.



Bancassurance

In 2012 Bancassurance launched two new services: domestic helper and family protection in addition to the existing motor insurance. These services are provided by BankDhofar through an insurance agency. The insurance covers all kinds of policies and offers the best no-claim bonus discount in the market.

Retail segments

BankDhofar strongly believes in the need for bringing about a positive change in the lives of different segments of society and focuses on all types of products that fall within the development of the key segments and their importance and overall benefit both to society and individuals. The prime objective of the segment division is to include the benefit reaching the largest number of individuals; the youth and job-seekers and the lucrative VIP segment.

Well diversified loans and advances portfolio to avoid concentration risk in segment, sector, geographies and counterparty. Segmentation will facilitate the awareness for risk sensitive products when it comes to strategic decisions like acquisitions, launch of new products or organic growth targets. It will help scrutinize the current business model of BankDhofar and may lead to corresponding adjustments if the inherent risk goes beyond BankDhofar's risk appetite.



Customer Relationship Management (CRM)

There is a large opportunity to improve customer experience, in addition to our ability to sell better if we have additional information about our customers. The CRM project will also help us determine which customers are eligible for other products. Moreover, obtaining additional information about our customers enables us to measure or focus on:

- . Customer acquisition
- . Customer satisfaction
- . Customer retention
- . Improving the effectiveness of communications to customers, improving response rates and return on marketing investment
- . Prepare for launch of other products & services

Electronic channels

As part of the of the distribution plan for 2012, the electronic channels witnessed a remarkable development which improved service levels. New services were added in the Call Center such as online banking registrations, reactivation of credit cards and debit cards for Internet users, registering for e-statements and assist branch queries for customers "Wakallah Shareya". The Call Center strength was increased appropriately to take the new load. The Call Center helped in generating increased amount of business through inbound and outbound campaigns. To ensure

customer satisfaction, a strict quality control procedure has been implemented. Furthermore, the Call Center staff where put through periodic training programs on products and customer handling skills. In the period of last 12 months, the Call Center continued witnessing an increase in the number of calls being handled by staff - approximately 159,628 calls were handled by dedicated Call Center staff in 2012.

The ATM network has increased to 126 ATMs and 43 CDMs. 6 additional ATMs and 6 CDMs were added along with two multi-function machines.

New services were added such as foreign currency withdrawals for BankDhofar and non BankDhofar customers at selected ATMs and the requests for cheque books through BankDhofar ATMs.

More services were added to the internet banking such as local fund transfers with competitive rates. The instant registration process and the creation of pre-printed User ID and passwords helped to increase the number of customers using internet banking channel in both Retail and Corporate segments.



Treasury

BankDhofar boasts one of the proficient Treasuries in Oman, providing corporate and individual clients with a wide selection of Foreign exchange (FX) & Interest Rate products ranging from the traditional to the customized. Our expert team provides solutions that meet the demands of liquidity, cash flow management, interest rate fluctuations and FX volatility.

In today's sophisticated world, every business is exposed to complex financial challenges such as liquidity and cash flow management, interest rate, as well as foreign exchange exposures. Customer satisfaction is the key focus to the Treasury department's business. Treasury division provides its valued customers with up-to-date information about products and markets.

BankDhofar Treasury offers highly competitive Interest Rate Swaps rates in order to reduce its valued customer's vulnerability to changes in interest rates scenario. Treasury provides innovative products and strategies to help you manage interest rate exposure and reduce uncertainty.

According to our client's need Treasury offers FX products ranging from Spot, Forward, Swaps, plain vanilla and exotic FX options that helps our valued client's to hedge their FX exposure.

We are one of the leading market contributors in USD/RO spot and swaps. We offer attractive interest rates on foreign currency deposits in all major currencies to corporate, retail and high net worth individual.

At BankDhofar Treasury, we offer highly competitive exchange rates against all currencies, specially, to the emerging Markets, GCC and G7 Currencies. Through Treasury, we provide services of buying and selling Government securities like Government Development Bonds.

In the wake of global economic crises prevailing across major financial markets since 2008, treasury division is consistently performing efficiently and specially during 2012, when the deposits grew significantly, where it managed to keep the cost of funds at the lower side. During 2012, Investment in international and regional T-Bills, currency swaps and corporate relationship played a major role in robust growth.



International Banking

International Banking establishes and maintains all international Correspondent Banking relationships of BankDhofar. The division ensures that BankDhofar's corporate and retail clients have access to the world through our wide network of leading correspondent banks. Capitalizing on the excellent relationship with leading regional and global banks, the division actively assists BankDhofar's corporate customers with their global trade finance requirements. Adequate credit lines available from financial institutions around the globe have helped BankDhofar increase its ability to support the increasing business needs of our customers.

BankDhofar continues to be cautious in its appetite towards cross border risks and has been able to identify very select business that has a sensible credit approach in terms of risk and tenor. To ensure that BankDhofar maintains a good overseas credit portfolio, the division has been visiting counterparties in countries on which such exposures are taken.

The International Division will continue to look to identify the treasury relationships and trade finance self-liquidating transactions within the GCC and regional markets to build a sustainable long-term relationship that would benefit both BankDhofar and its customers.

Government Relations

Government Relations department is an important unit of BankDhofar, mainly focused in establishing and maintaining strong business relationship with all government and quasi government organizations. It facilitates all the government banking requirement such as deposits, loans, trade, remittances as well as retail products for the mutual benefit of both the organization. With dedicated Relationship Managers, it coordinates with all the branches and other units of BankDhofar to ensure customer satisfaction is achieved.



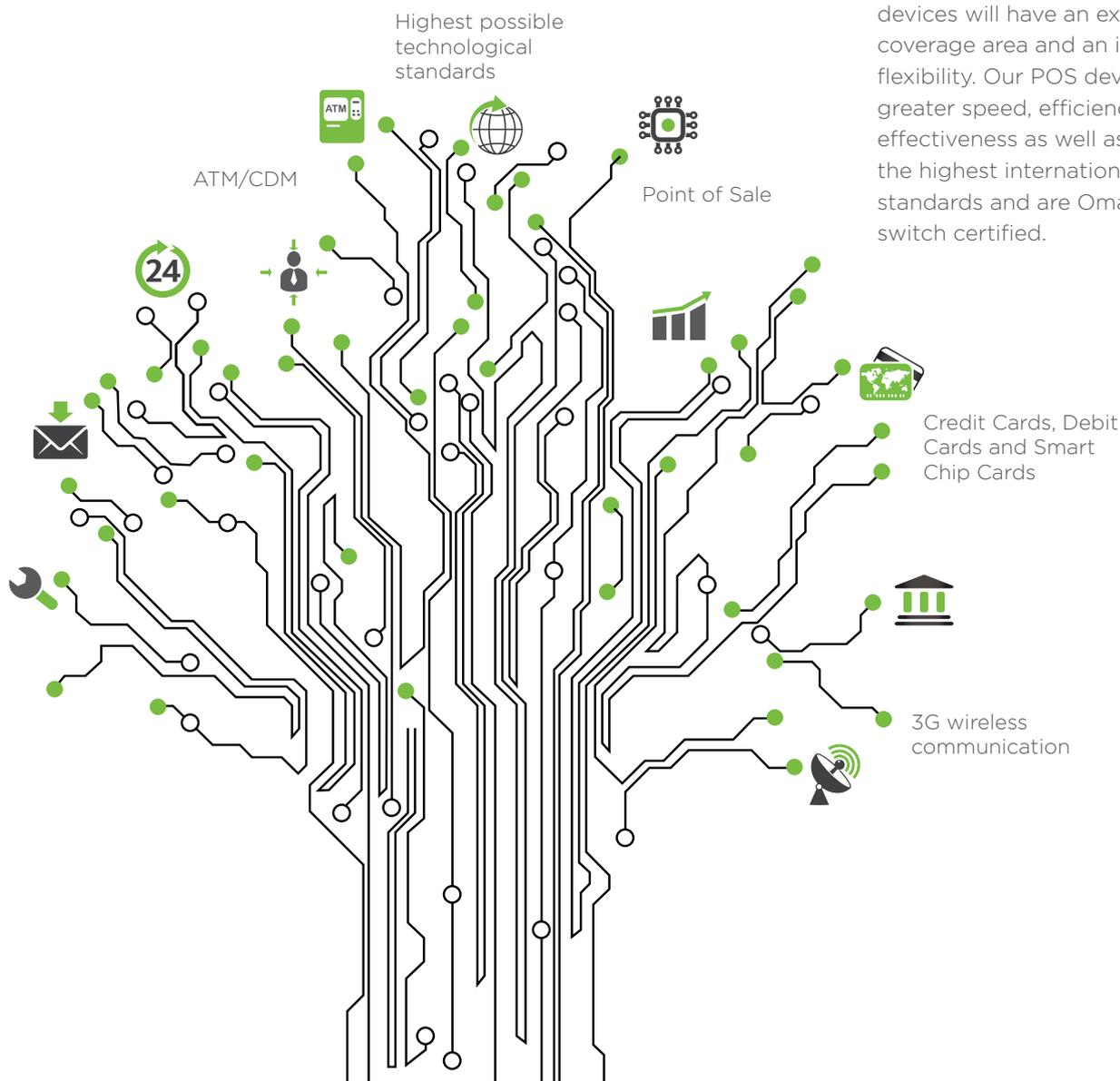
Support services

Information & Transformation Division

As part of BankDhofar re-engineering and optimizing its processes and organization structure, the Information Technology Division was changed into Information & Transformation Division with some expanded responsibilities.

During 2012, Bank expanded and enhanced its ATM/CDM network to meet the highest possible technological standards, enabling it to record an impressive average of 99% + uptime on terminals. We have setup dedicated operations room to monitor the performance of the terminals spread across the Sultanate. Moreover, a revamped procedure was put in place to identify, isolate and fix any downtime causing issue as quickly as possible.

In the merchant acquiring business, BankDhofar Introduced new Point of Sale (POS) device which utilizes the most up to date technology in the market providing retailers with advanced functionality and capabilities. This unique device will allow merchants to process payments promptly and securely, from credit cards, debit cards and smart chip cards. Taking advantage of the latest 3G wireless communication services, these devices will have an extended coverage area and an increased flexibility. Our POS devices facilitate greater speed, efficiency and cost effectiveness as well as adhering to the highest international security standards and are Oman switch certified.



Support services (continued)



Business Process Management (BPM) platform was put in place and was to automate retail and corporate business processes covering Retail Personal Loan, Retail Housing Loan, Credit Cards issuance, Loan Eligibility, Corporate Branch Referral, Trade Finance Referral & Visit Report which resulted in overall increase in efficiency and cost optimization. Furthermore, BPM platform would be the foundation to automate new processes to support BankDhofar's strategic initiative of lean operating model under best in the Gulf (BiG) plan.

BankDhofar virtualized a big part of its IT infrastructure in the production Data Center by reducing the number of servers to one-tenth of earlier number of servers to save the cost of power, cooling and administration. Server's virtualization is one of the hottest trends in IT today. Apart from the cost saving, virtualization is seen strategically as a catalyst of overall IT modernization and changes that can protect the business-critical data & applications and can maximize systems uptime. Thousands of Companies including a large percentage of Fortune 500 corporations have adopted this technology for high availability and to cut down overall IT infrastructure cost. The system is now successfully implemented in BankDhofar and there are plans to expand the same to cater for more infrastructure items.

Bank implemented network optimization solution to enable its networking team to prioritize data communication pertaining to business applications and improve the performance of its applications & services, save bandwidth by excluding redundant data from being transmitted across the links and reduce cost. The technology will also offer encryption for all IP traffic between various BankDhofar sites.

Financial organizations face an ever increasing range of challenges within the financial crime arena. There is increasing focus on risk management systems and making greater use of intelligence in the response. In order to maintain and strengthen the customer experience, advance ATM/CDM fraud monitoring system was implemented in BankDhofar. It has been designed and customized to address specific fraud risks by configuring the business rules.

BankDhofar has joined hands with Nawras to provide its customers free wireless Internet (WiFi) access in the first batch of select branches, making customers time spent banking with BankDhofar even more convenient. BankDhofar's high speed WiFi system enabled customers to access the Internet from the comfort of their branch premises, and all of BankDhofar's requirement can be completed through WiFi enabled laptops, mobile phones or similar device. Customers can also check e-mails, read online newspapers or simply catch up with friends on a social networking site while at the same time accessing the many benefits and services being offered in the branch.

A dedicated and separate Sharia compliant Core Banking platform for our Islamic Banking Window was implemented during 2012. The system is a new generation of comprehensive enterprise Islamic Banking and Investment tools addressing the in-depth business functionality and the state-of-the-art technology in a single, highly integrated front, middle and back office. It is based completely on the Sharia rules and regulations.

Bank also implemented an Operational Risk Management system for the management of operational risks. In addition to the analysis of the actual losses, potential losses are also to be identified and assessed proactively to assure effective operational risk management framework.

Initial Public Offering (IPO) Management System was implemented to facilitate processing of IPO collections including front and back office functions.

Upgraded the brokerage management system which now offers an intuitive trading workspace that combines efficient order, execution & transaction management, advanced technical analysis.

Internet banking services were further enhanced to introduce Automated Clearing House (ACH) & Real-Time Gross Settlement (RTGS) facility for online transfers of funds to other local banks in a quicker and reliable manner. Internet Banking extended support for iPad, iPhone, and Mac Machines. BankDhofar

introduced instant Internet Banking registration for its customers through its branches.

'Verified by Visa' was introduced to put an extra layer of security when customer shop online. In addition to our other ways of preventing, detecting, and resolving fraud, Verified by Visa is a free, simple-to-use service that confirms your identity with an extra password when you make an online transaction.

Following a successful re-certification audit, BankDhofar is one of only two banks in the Sultanate to have achieved the ISO/IEC 27001:2005 Information Security Re-Certification for its entire Information & Transformation division. The certification assures BankDhofar customers that the confidentiality, integrity and availability of their information is secured in accordance with an internationally recognized standard available from the International Organization for Standardization (ISO). In addition, a successful implementation of the Information Security Management System (ISMS) reduces the IT related operational risks, builds confidence with our stakeholders, demonstrates increased protection of the information and increases the trust between BankDhofar and its customers.

Currently, a number of initiatives and projects are in the pipeline that would be rolled-out during the year 2013 which would be a continuation to our strategic standing of becoming best in Gulf.

Central Operations Division

The scope of Central Operations Division (COD) has widened with centralization of branch functions and transfer of many functional areas from Retail Banking Division (RBD) to COD, during the year.

The volume of transactions processed at COD continues to grow steadily. COD continuously strives in effectively utilizing technological solutions to automate routine processes, streamline the work flows, thereby increasing the productivity and consistency. COD also works towards maintaining high operational standards, efficiency and reduce operational errors. A synopsis of the functional process improvements completed during the year 2012 is given below:

Categories of Process Improvements	Numbers Completed
Centralization	7
Automation	8
Process Review & Re-engineering	39

Details of Major Process Change Improvements Completed by COD in 2012:

-  Centralization of Account Opening Back-end Process for Retail, Staff & Corporate accounts.
-  Automation of capturing of customers' signatures, eliminating the manual process of sending the specimen signature cards by the branches.
-  Successful implementation of front/back-office concept at all the branches much ahead of the planned schedule. The implementation of this concept has improved the operational efficiency at the branches, enabling them in improved customer service and marketing of Bank's products.
-  Successful relocation of Branch Operational functions from RBD to COD.
-  Relocation of follow-up of retail loans, prior to classification, from RBD to COD and after the take-over, considerable reduction in monthly provisioning of overdue loans.
-  Successful relocation of Branch Operations Control Unit from RBD to COD and significant reduction in old outstanding audit issues of branches & departments.
-  Maintaining of ATM up-time at more than 99% on all days.
-  On-line integration of core banking with Real-time Gross Settlement, Automated Clearing House systems for outward remittances eliminating duplication of efforts at COD and faxing of applications by branches to COD.
-  Revision of the existing Instruction Manual - Operations.
-  Creation of new Procedure Manuals for Cash Centre Operations, COD functions, Card Centre Operations.
-  Review & rationalization of existing Branch/Departmental reports.
-  Re-engineering of processes relating to Cash transactions, Outward remittances, CBO correspondence, Issuance of Demand Draft/Pay Order, Cross-branch referral transactions, Monitoring of excess cash holdings at branches.
-  Replacement of many Manual Registers, maintained at branches, with system-generated reports.

Human Resources Division

The Human Resources Division of BankDhofarDhofar believes in strengthening its intellectual capital through specific development programs, creating a lasting performance culture and introducing best practices to enhance the levels of employee engagement.

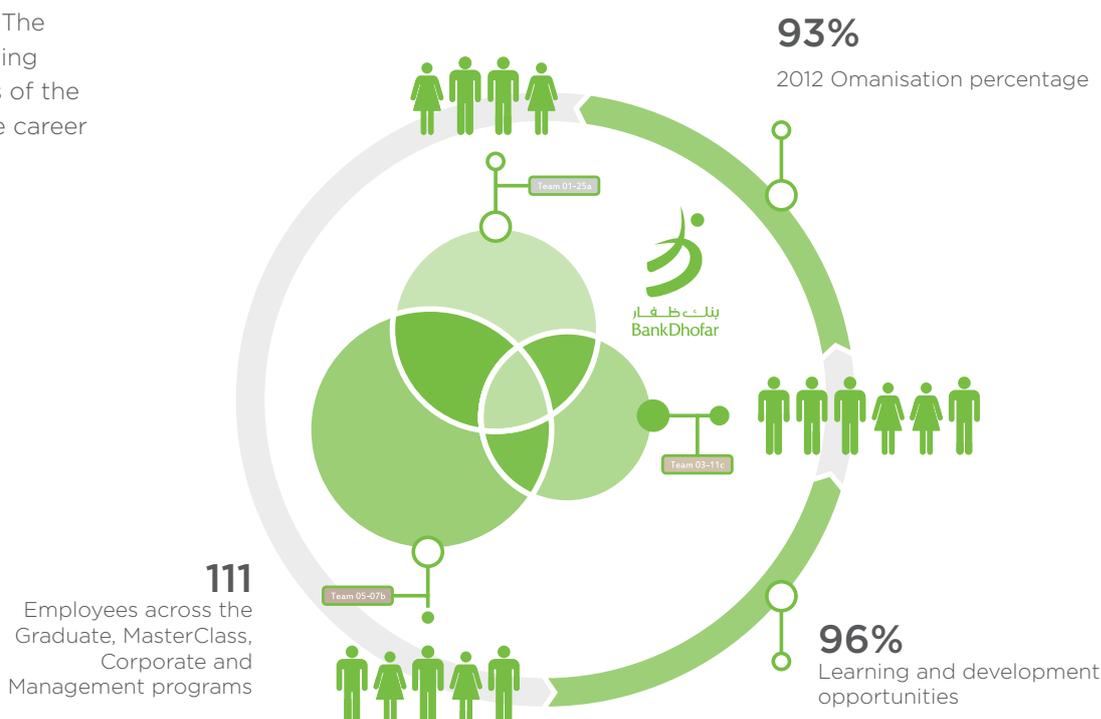
The year 2012 has been remarkable for the Human Resources Division on account of its accomplishments. BankDhofarDhofar received the award for its achievement in Omanisation from the Ministry of Manpower, showing our strong commitment to development of Nationals. The Omanisation percentage as of 2012 is 93%.

In line with vision of His Majesty’s development of the young Omanis, BankDhofarDhofar Academy was launched enrolling a total of 111 employees across the Graduate, MasterClass, Corporate and Management programs. The programs focus on building the knowledge and skills of the employees as part of the career development initiatives

of BankDhofar. The learning and development opportunities provided for more than 96% of the employees receiving a minimum of one training during the year 2012, including the mandatory training programs.

The introduction of the Balanced Scorecard for Top management, Heads of Department and Regional Managers and strengthening of the Performance Management system in BankDhofar, through improved process; aligning individual goals to the goals and objectives of BankDhofar, emphasized on the ‘performance culture’ adopted by BankDhofar. Research and benchmarking of Best Practices helped us to adopt standard Metrics for many positions across BankDhofar that cover large number of employees. Today BankDhofar is the first bank in Oman to implement Balanced Scorecard.

As strong contributor to the five year strategy plan, the HR division of BankDhofar is committed to ‘creating a better workplace’ for the employees and being the preferred business partner for the business units.



Risk Management

Risk Management Structure

The primary responsibility of understanding the risks assumed by BankDhofar and ensuring that these risks are appropriately managed is vested with the Board of Directors of BankDhofar. Board has set risk policies, limits and procedures by assessing the risk bearing capacity of BankDhofar.

The overall risk management has been delegated to an independent Risk Management Committee of the Board of Directors (RMC) of BankDhofar, which monitors and controls the overall risk profile of BankDhofar. The RMC reports to the full Board, on matters of significance and keeps the Board continuously updated with the Risk Management process in BankDhofar. In this task RMC relies on an independent Risk Management Division.

Bank has a well-established Risk Management Division (RMD) with a team of competent and experienced professionals. The primary responsibility of the RMD is to ensure on a continuous basis that an effective risk management framework exists and the various divisions of BankDhofar function within this framework. RMD also functions as an interface between the Management and the Board in defining appropriate risk tolerance levels for various business lines and operating divisions of BankDhofar and in ensuring that policies and procedures are tailored to the defined tolerance levels.

Risk Management Strategy

The Risk Management strategy of BankDhofar is pivoted on the following:

- Understand, measure and manage risk and aims at ensuring sustained growth of healthy asset portfolio;
- Well defined risk measurement processes and procedures by way of documented authority levels and limits;
- Continuous monitoring and control of these limits at business unit level and at portfolio level; and
- Updating various authorities on risk profile of BankDhofar and suggest ways for risk mitigation.

Management of various Risks

A brief account on the various identifiable risks and their risk management process is given below:



Credit Risk

Credit risk is defined as the possibility that a borrower or counterparty will fail to meet its obligation in accordance with agreed terms in relation to lending, trading, hedging, settlement and other financial transactions. This risk is primarily managed by proper assessment of inherent risks in credit proposals and ensuring a balanced portfolio of customers meeting the risk appetite of BankDhofar. BankDhofar also ensures dealing with customers of good credit standing, a thorough and professional credit assessment process, obtaining collaterals to mitigate risks and continuous monitoring of the accounts. BankDhofar has taken the following measures to mitigate credit risk:

- Credit Risk Policy addresses credit risk emanating from lending to corporate and individuals in a structured manner and is reviewed / updated on regular basis. The policy of BankDhofar encompasses organizational responsibilities, prudential limits, credit risk rating standards, risk pricing standards, loan review mechanism, delinquent account management and portfolio management.
- Counterparty Credit Risk Policy addresses credit risk from banks as counterparties. The maximum exposure that can be taken on counterparty is specified by an internally developed model.
- Bank has credit risk rating system and a risk grade is assigned objectively to a borrower based on the single point score provided by the rating model. The grade is assigned to the Standard category of borrowers on a scale of 7.
- Credit risk models are used to assess the obligor risk as well as the facility risk. Thus, while assessing the credit risk of the borrower, both probability of default and loss given default is estimated.
- Risk Adjusted Return on Capital (RAROC) is computed to assess the risk based pricing of each facility, which facilitates in informed decision making.
- Bank conducts stress tests to assess the impact of credit risk on capital adequacy and profitability under stress situations.
- All the corporate credit proposals are reviewed by the RMD to assess the risk factors and suggest mitigants. The observations of RMD form an important input in credit decision.

BankDhofar employs experienced and competent staff in the areas of corporate Banking and provides them with regular training to upgrade and hone their credit skills. Detailed credit policies and procedures, strict adherence to the segregation of duties principle, elaborate and well defined authority levels, periodical audit and examination by the internal auditors ensure that the culture of risk permeates through the business divisions supported by a rigorous environment of checks and balances.

Liquidity Risk

Liquidity Risk is the potential inability of BankDhofar to meet its maturing obligations to a counterparty. Liquidity planning and management are necessary to ensure that BankDhofar has the ability to fund its liquidity requirement effectively and to meet current and future potential obligations such as loan commitments, contingent liquidity commitments and unexpected deposit outflows.

While BankDhofar's Asset-Liability Management Committee (ALCO) is responsible for setting the broad framework for managing the liquidity risk effectively, the responsibility of managing the liquidity risk of BankDhofar, within this framework, lies with the Treasury Department, which discharges this function with the assistance of other business divisions of BankDhofar.

BankDhofar has Board approved policy on liquidity management which encompasses assessment of liquidity gaps through cash flow and static approach, reserve against deposits, lending ratio, mitigation of liquidity risk and contingency measures. Bank has set up Middle office within RMD to ensure that Treasury Department operates within these guidelines.

Our Middle office regularly monitors the liquidity position of BankDhofar and helps in managing the liquidity gaps, well in time. It also conducts liquidity risk stress test periodically and Treasury Department ensures that sufficient liquid assets are available with BankDhofar to meet any business exigency.

Market Risk

Market risk is the risk of loss arising from unexpected changes in financial prices arising out of changes in interest rate, exchange rate, bond, equity and commodity prices. Bank has major exposure in currency, equity and interest rate risk.

Treasury Risk Policy and Investment Management Policy of BankDhofar address all the aspects of the market risks. The Treasury Risk Policy address foreign exchange risk and interest rate risk whereas the Investment Management Policy addresses the equity risk.

The major foreign currency in which BankDhofar deals on a regular basis is United States Dollar (USD). The established parity between US Dollar

and Omani Rial (RO) substantially reduces this risk. However, in order to control currency exposure risk, limits for intraday and overnight positions have been set up in addition to currency wise stop loss limits. Limit on net open position has been placed to restrict the Treasury department to take undue currency exposure as per prudential norm set by Central Bank of Oman (CBO). All these limits are monitored by the Middle office of BankDhofar.

BankDhofar manages the interest rate risk by matching the re-pricing of assets and liabilities and operating within the set gap limits. Middle office in RMD regularly monitors the impact of adverse movement in interest rate on profitability and economic value of equity.

Middle office monitors equity portfolio through daily reporting and assess the risk inherent in the quoted domestic equity portfolio through Value at Risk (VaR) approach. Various limits like stop loss limit, transaction deal limit and realized loss limit are in place to manage the equity risk.

Middle office conducts stress tests periodically to assess the impact of adverse movement of market variables on profitability and capital adequacy and places the same to the RMC.

All the investment proposals categorized under Available for Sale (AFS) or Held Till Maturity (HTM) are reviewed by RMD to provide independent view on the risks associated with them.

Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal systems, processes, and people or from external events. BankDhofar has detailed policies and procedures that are regularly updated to ensure that a sound internal control environment exists in BankDhofar. Trained and competent staff oversees the various operational functions of BankDhofar.

BankDhofar has developed a comprehensive operational risk management framework comprising of the Operational Risk Management (ORM) policy, Risk Control and Self-Assessment (RCSA), Key Risk Indicator (KRI), Loss Data Management (LDM) Framework. The ORM policy of BankDhofar provides the ORM framework which includes ORM components, management process, measurement process and governance, roles and responsibilities. The RCSA framework enables BankDhofar to identify the operational weaknesses in the systems and procedures by conducting self-assessment surveys. A team of experts in various departments assess the operational weaknesses in the system and its likely impact on BankDhofar. The KRI framework enables us to identify and monitor the key risks. LDM framework lays down the procedure to identify record and report the internal and external loss events.

Operational Risk Management Unit (ORMU) in RMD is responsible for implementation, development and coordination of all the operational risk activities of BankDhofar, while working towards achievement of stated goals and objectives. To ensure effective control and mitigation of operational risk, BankDhofar has placed the following:

- Business Continuity Planning (BCP) Document
- Internal Audit Framework
- IT Policies
- Insurance Plans
- Outsourcing Policy

Risk Management Division (RMD) conducts regular training programmes for staff at various levels to inculcate 'risk awareness' and to spread the general 'risk management culture' in BankDhofar.

Country Risk

Country risk arises from changes in the value of foreign exposure due to country specific conditions, which may result from economic, social, political or natural events and may relate to factors such as exchange controls, currency devaluations, nationalization or expropriation of assets among others.

Country risk policy addresses the country risk that may arise due to cross border exposure in a structured manner. BankDhofar has in place a country risk assessment methodology which grades each country based on their risk profile. Suitable limits are assigned to undertake the business based on the internal risk rating grade of the countries.

Middle office in association with Treasury department monitors the country risk and takes suitable steps in event of any downgrade or change in the economic activity of any country.

Business Continuity Management (BCM)

Bank has a robust Business Continuity Planning (BCP) aiming at continued operations and customers services at all times. Bank ensures that its systems and procedures are capable to meet the contingency arising out of any unforeseen disasters such as, natural calamities, technological failures and various other threats. Bank conducts Business Impact Analysis of the processes and based on regulatory guidelines and international standards, updates and enhances its plan to meet any unforeseen circumstances. The key initiatives on the business continuity readiness included the following:

- BankDhofar has set up BCP Steering Committee /Crisis Management Team, which is entrusted with the responsibility of implementing, testing and maintaining a sound BCP for BankDhofar. Committee periodically reviews the plan and ensures that BCP formulated across BankDhofar are implemented and tested.
- BankDhofar has set up an alternate site to ensure business continuity in case of relocating operations for resuming select business activities in emergent scenarios, as well as Data Back Up Centre with required infrastructure as a disaster recovery centre. As part of testing initiative, recovery of core and other business applications were also tested to ensure availability of systems in the event of any major disaster.
- In terms of disaster recovery and safety measures, we have conducted surprise Fire drill exercises in coordination with relevant Government Agencies, in Head Office building to test the preparedness as well as to test the recovery capabilities in line with the recovery strategies. Floor leaders /Fire wardens were nominated and trained in fire prevention and important procedures that need to be followed in the event of an emergency.
- To create BCP awareness, table top testing exercises was also conducted, at the department level to cross verify the preparedness and focused business continuity awareness training programme is also conducted to necessitate the importance of BCP.

	Position	Contact information (+968 prefix)
1	BCP Head - General Manager, Corporate Services	24750518; 99484888
2	Head, Risk Management	24795954; 24790466 Ext. 744; 99414809
3	BCP Manager	24790466 Ext. 754; 95763521/99625323

Implementation of Basel II

The Central Bank of Oman (CBO) has directed that BankDhofars operating in the Sultanate of Oman are required to compute their capital adequacy as per Basel II framework with effect from 01 January 2007. As per the CBO directives, BankDhofar has adopted Standardized Approach for Credit and Market Risk and Basic Indicator Approach for Operational Risk.

BankDhofar has laid down a road map to move towards adoption of advanced approaches of Basel II and to improve the risk management systems. The road map defines various activities/projects to be undertaken along with the timeline and is monitored by Risk Management Committee of Board of Directors. Most of the models and systems are developed by the risk management team internally through the expertise available in BankDhofar.

BankDhofar is confident that with the established Risk Management Processes and their continued enhancement, it will move towards adopting advanced approaches of Basel II, to adopt best risk management practices and improve the quality of the assets on its books.

Recovery Department

BankDhofar has a well-established and centralized Recovery department under Corporate Services group which is specialized and primarily responsible in handling / monitoring all Non-Performing Assets. The main objective of the department is to maximize the recoveries by adopting various methods such as;

- Close follow-up with the customers for recovery of past dues before initiating legal action.
- Liaison with Legal department for demand notices, taking legal action for recovery etc.
- Constantly monitoring the progress of legal cases with BankDhofar's external lawyers.
- Coordinating with Government Agencies / Regulatory Bodies in order to expedite various legal process/ execution of decrees / court orders.
- Gathering / Maintaining market information on assets / investments of the defaulters.
- Negotiating for mutually acceptable settlements.

Compliance Division

Compliance, defined as adherence to laws, rules, regulations, self-regulated organization standards and codes of conduct applicable to BankDhofar activities, is an integral part of BankDhofar's business activities and concerns everyone at BankDhofar.

A well-established Compliance Policy and Standards Manual clearly specify roles, responsibilities of the Compliance Division and duties of other departments and units towards Compliance function. Compliance Division performs its roles independently and the Board oversees management of compliance risk in BankDhofar.

Compliance function is responsible for identifying, assessing, advising, monitoring, reporting various compliance risks and specifically deals with matters such as prevention of money laundering and terrorist financing. The function is organized through a risk-based approach and an annual compliance plan which is approved by the Board.

Some of the critical tasks performed under the annual compliance plan entail the following:

- Putting in place an Anti-money Laundering policies & framework to ensure BankDhofar channels are not used for money laundering and terrorist financing.
- Conducting training sessions on all applicable local as well as international regulations to create compliance culture in BankDhofar.
- Reviewing and advising on changes in the regulations, policies & procedures and products to ensure continuing compliance with applicable rules and regulations.
- Ensuring bank-wide application of local as well international standards on Corporate Governance.
- Independent compliance testing and assessing compliance risk associated with Bank's functions.
- Monitoring timely submission of regulatory returns and active co-ordination for regulatory examinations.
- Reporting regulatory and compliance issues to the Board of Directors and relevant regulatory authorities.

Compliance function has been strengthened over the years to complement the growth of BankDhofar's business.

Credit Administration Department

Credit Administration Department is involved in post-credit operations as the custodian for all security documentation of BankDhofar pertaining to Large Corporate, Mid Sector, Business Banking/SME, Syndication & Project Finance and Retail Loans.

The disbursements of facilities/ limits for Wholesale Banking Divisions which are handled by the Credit Administration Department were already centralized whilst the centralization of Housing Loans took place in May 2012 with the launch of the 'Daruna' Housing Loan Scheme. Subsequent to the implementation of new Business Process Management

(Loan Origination System), the disbursement of Personal Loans also is being centralized at Credit Administration Department.

The Department is responsible for creation & execution of Mortgages, Commercial Charges, Pledging of public quoted shares.

In addition, the department is responsible for coordinating with BankDhofar Credit Statistics Bureau (BCSB) related functions and part of Central Bank Compliance reporting. Several monitoring and reporting functions of the department were automated during the year.

Wholesale Banking Monitoring Unit is being established at Credit Administration Department, which will handle monitoring of contract financing & covenants, expired limits, excess over limits, receipt of Financial Statements etc.

Further, a separate team for 'Credit Administration- Retail Banking' is being established at the Department which will be responsible for post-credit operations of all Retail Banking facilities including Car Loans/ Educational Loans.

Credit Control Department



In compliance with the directives of Central Bank of Oman on best risk management practices, BankDhofar established Credit Control Department (CCD) in 2007 under Support Services Division. This Department was formed primarily with the objective of strengthening the credit risk management processes through independent review of loan portfolio so as to bring about the qualitative improvement in loan administration and controls on an on-going basis.

The Department is entrusted with the responsibility of implementation of Loan Review Mechanism (LRM), approved by BankDhofar's Board. LRM is a comprehensive and independent credit review process, distinct from Risk Management and Internal Audit functions. The scope of LRM covers evaluation of credit risk assessment and approval processes, adherence to loan policies/ procedures, sufficiency of loan documentation, overall quality of post-disbursement follow up loan administration, identification of early warning signals, independent review of risk grading, loan loss provisioning etc. in respect of large, unsecured and critical borrowal accounts handled by various /business units in BankDhofar's Wholesale Banking Division. Loan reviews are conducted within 3 months from the grant / release of credit facilities. Such review mechanism facilitates taking timely corrective measures for any deficiencies observed in specific reviews and also to improve upon any weaknesses / irregularities observed in various credit management processes. All major findings / important observations are also reported to the Board. In terms of regulatory guidelines, at least 30-40% of the corporate loan portfolio has to be subjected to LRM in a year. However during the year 2012, CCD had conducted loan reviews in respect of over 90% of the aggregate corporate credit facilities sanctioned by various authorities.

Personal and housing loans approved at Head Office level are also reviewed by CCD for independently reviewing adherence with BankDhofar lending policies and delegated authority's matrix. Post disbursement reviews of such loans are also conducted on a daily basis through management information system (MIS). Periodically, the department also conducts various portfolio analyses to review adherence by business divisions with applicable internal and regulatory ceilings on advances as prescribed in BankDhofar's Credit Risk Policy. CCD also independently reviews International Financial Reporting Standard (IFRS) provisioning, classification and de-classification of Non-Performing Assets. In 2012, past due loan portfolio is additionally monitored by CCD regularly to ensure timely recovery or classification of impaired loans by business divisions apart from development / revision of past due MIS reports. In line with the objectives, CCD would continue to play an important role in reviewing and strengthening various credit control measures in credit management processes.

Policies & Procedures Department



Sound Policies & Procedures framework contributes immensely to the stability of overall operating environment and internal control framework.

In order to remain committed to the aforesaid objective, Policies & Procedures Department (PPD) acts as a nodal department and works in coordination with departments for timely development and review of documents to cascade Bank strategy and Senior Management's directions in Bank's documents.

BankDhofar's continued effort to strengthen the Policies & Procedures framework got recognized by external agencies. Notwithstanding the appreciation, BankDhofar is cognizant of the need to remain committed and continue to marshal its resources to ensure the maintenance of sound corporate governance standards on an on-going basis.

The department has been assigned the responsibility of initiatives for 'Business Process improvement' and ensures that operational framework continues to be 'customer centric'. The department shall also explore the opportunity of obtaining recognition of international repute to further strengthen BankDhofar brand equity.

Brand & Marketing Communications



The Brand & Marketing Communications (B&MC) department has placed a heavy emphasis on both product and brand awareness via traditional marketing communications tools. B&MC played a pivotal role in communicating with BankDhofar customers, employees, shareholders and the community at large.

Throughout the year some large campaigns took place and BankDhofar utilized traditional 'above-the-line' techniques to achieve commercial targets. In addition 'below-the-line' activities have been conducted at a regional level to help BankDhofar continue strengthening its regional presence and relationships with their customers.

Internal communication has been a focus for BankDhofar, whereby the B&MC department has consistently contributed to delivering news to all staff members in a standard template, and offered undivided support throughout the year to all departments.

During the year 2012, B&MC department was restructured to align itself with the 5-year strategic objectives and to support their delivery. The department will now act more like an internal agency offering full support for Corporate Social Responsibilities (CSR), events, sponsorships, embedding a new culture, product campaigns, digital & social marketing, public relations and primary research, while at the same time re-investing in media spend and technological improvements.

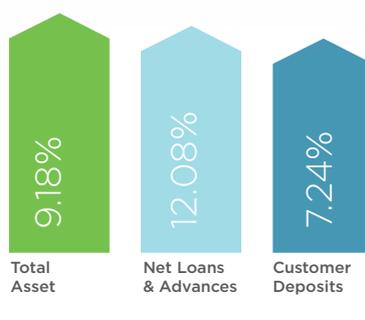
Corporate Social Responsibility

This year BankDhofar has introduced a dedicated Corporate Social Responsibility Unit attached to Brand & Marketing Communications department which has continued supporting its main initiative (Diabetes) to enhance the awareness of diabetes within the community to educate them about the diseases and ways to prevent it happening from early stages. Many activities were organized / sponsored in this regards such as the diabetes day exhibition, diabetes walkathon, using the calendar theme for healthy life awareness. BankDhofar has also signed partnership with Oman Diabetes Association; media houses and a hospital to support the initiative through the year in terms of media awareness and diabetic's checkup camps. For 2013, in addition to continuing the support for Diabetes Association and awareness program, we plan to support environment awareness in the form of paper recycling campaign with educational institutions; promote financial literacy through pilot workshops.

Financial Performance

BankDhofar continued to grow in all key areas in the year 2012, with the Total Asset sustaining a growth of 9.18%, improving from RO 1.96 Billion at the end of December 2011 to reach RO 2.14 Billion at end December 2012. The net Loans and Advances extended to customers achieved a growth of 12.08% from RO 1.49 Billion at the end of 2011 to reach RO 1.67 Billion at the end of December 2012. Further, the customer deposits mobilized by BankDhofar achieved a growth of 7.24% from RO 1.52 Billion at the end of 2011 to reach RO 1.63 Billion at the end of 2012.

An analysis of our loans and advances portfolio as at December 31, 2012 along with the comparative figures for the prior period is as follows:



RO Million

Particulars	2012	2011
Overdrafts	130.6	108.9
Loans	1,499.9	1,373.3
Loans against trust receipts	88.0	69.3
Bills discounted	3.5	2.2
Advance against credit cards	7.9	7.7
Others	18.1	11.8
Gross loans and advances to customers	1,748.0	1,573.2
Less: Allowance for impairment	(75.5)	(77.5)
Net Loans and Advances	1,672.5	1,495.7

The ratio of total non-performing advances (NPA) to gross loans improved to 3.19% at the end of 2012 from 3.79% at the end of 2011.

The composition of customer deposits at the end of 2012 along with the corresponding figures for the prior period is as follows:

Particulars	RO Million	
	2012	2011
Current accounts	322.2	282.1
Saving accounts	269.8	242.5
Time deposits	1,038.4	991.5
Margin accounts	4.2	3.2
Total customer deposits	1,634.6	1,519.3

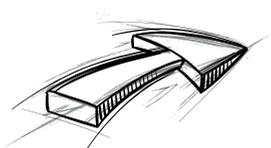
Shareholders' Equity

The shareholders' equity at the end of 2012 increased to RO 261.5 million from RO 229.2 million at the end of 2011. At the end of 2012 an amount of RO 3.78 million was transferred to legal reserve being 10% of net profit.

The analysis of shareholders' funds at the end of 2012 along with the corresponding figures for the prior period is as follows:

Particulars	RO Million	
	2012	2011
Share capital	110.01	91.52
Share premium*	40.02	40.02
Legal reserve	25.65	21.88
Subordinated loan reserve	11.25	34.62
Proposed distribution - cash	16.50	6.41
Proposed distribution - bonus shares*	11.00	18.49
Investment revaluation reserve	1.56	0.63
Retained earnings	45.51	15.67
Total Shareholders' Equity	261.50	229.24

*Bonus shares for 2011 was issued from Share premium account of RO 18.49 million



As a result of the increase in shareholders' equity the net assets per share reached RO 0.238 baizas at the end of 2012 compared with RO 0.250 baizas at the end of 2011.

Income Statement

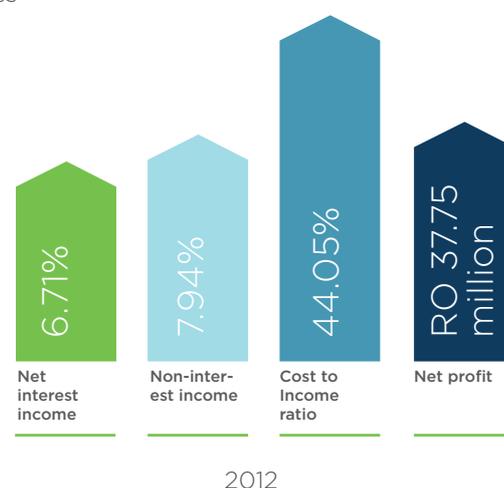
Particulars	RO Million	
	2012	2011
Net Interest Income	64.36	60.32
Fees and Commissions	6.54	5.87
Other Income	13.17	12.39
Operating Income	84.09	78.59
Total Operating Costs	(37.07)	(33.44)
Operating Profit	47.04	45.14
Net Profit	37.75	13.98

The key profitability indicators have also achieved positive growths, as net interest income grew from RO 60.32 million achieved during the year 2011 to reach RO 64.37 million during the year 2012 signifying a growth of 6.71%. Non-interest income such as fees and commissions, foreign exchange profit, investment and other income have shown a significant growth of 7.94% to reach RO 19.72 million during the year 2012 as compared with RO 18.27 million achieved in the previous year.

The Cost to Income ratio during the year 2012 was at a level of 44.05% as compared to 42.55% in 2011. The provisions, net of recovery, during the year 2012 is RO 4.15 million as against the RO 3.16 million during the previous year 2011.

The profit before tax for the year 2012 achieved by BankDhofar was RO 42.9 million compared to RO 15.9 million in 2011, after the legal case loss charge off, and the same, after excluding the effect of legal case loss of RO 26.1 million, profit before tax for 2011 would have been RO 42 million, recording a growth of 2.14% in 2012.

The net profit for the year 2012 achieved by BankDhofar is RO 37.75 million as against RO 13.98 million, due to the effect of Legal case loss of RO 26.1 million in 2011.

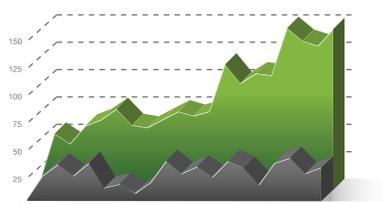


The proposed profit appropriation for 2012 comparing with the previous year 2011 is provided in the following table:

RO Million

Particulars	2012	2011
Proposed dividends - cash	16.50	6.40
Proposed dividends - bonus shares*	11.00	-
To legal reserve	3.77	1.39
To/(From) subordinated loan reserve	(23.36)	8.95
To/(From) retained earnings	29.83	(2.77)

*Bonus shares for 2011 was issued from Share premium account of RO 18.49 million



The percentage of dividends distributed to the Shareholders in the last five years is as follows:

Year	2007	2008	2009	2010	2011*
Cash Dividends	25%	15.5%	15%	12.5%	7%
Bonus Shares*	-	4.5%	10%	12.5%	20.2%

*Bonus shares for 2011 was issued from Share premium account

Net Profits and Shareholders Equity for the last five years including the current year is as follows:

RO Million

Year	2008	2009	2010	2011*	2012
Net Profit for the year	23.68	25.39	33.28	13.97	37.74
Total Shareholders' Equity	188.43	204.00	226.50	229.23	261.50

* 2011 includes legal case loss charge off of RO 26.1 million

Maisarah Islamic Banking Services



Year 2012 marked an important and exciting milestone for the commencement of Islamic Banking Window Operations. Based on His Majesty Sultan Qaboos Bin Said Al Said guidance and the Central Bank of Oman's directive on Islamic Banking several key activities were carried out by BankDhofar during the year 2012.

The Board of Directors of BankDhofar decided to set up Shariah complied Islamic Banking Window operations. In Annual General Meeting held on March 28, 2012 the shareholder's approved to assign capital of RO 10 million from the initial core capital of BankDhofar for Islamic Banking Window Operations. Thereafter, an extensive feasibility study was carried out for Islamic banking business. Based on the positive prospect of feasibility study BankDhofar conducted an Extra Ordinary General Meeting on October 10, 2012. The Extra Ordinary General Meeting approved the amendment of Article of Association by including a clause of Islamic Banking Services and also appointed the Shariah Supervisory Board.

The details of Shariah Supervisory Board are as follows:

Sr. No.	Name of Member	Position
1	Dr. Salim bin Ali bin Ahmed Al Zahab.	Chairman of Shariah Supervisory Board
2	Dr. Abdullah Bin Mubarak Bin Saif Al Abri	Member
3	Dr. Mohammed bin Ali bin Mohmoud Al Lawati.	Member
4	Sheikh Ahmed bin Awadh bin Abdul-Rahman Al Hassaan.	Member
5	Dr. Muhammad Amin Ali Qattan.	Non - voting Member

The Board of Directors has approved the following brand name and logo “Maisarah Islamic Banking Services” for which all necessary regulatory approvals have been obtained by BankDhofar.

BankDhofar has completed the process of recruitment and has hired specialized and highly experienced staff for Islamic Banking Window operations.

BankDhofar has also put an extensive training and development plan in place for the staff of its Islamic Banking to enable them to deal with all Shariah compliant transactions with ease. Awareness training programs for the staff members in all regions have been conducted successfully. In order to facilitate the smooth operations of Islamic Banking Window, BankDhofar has invested in industry leading Sharia-compliant dedicated core banking system for the Islamic Banking Window, independent of the conventional bank’s core banking platform.

BankDhofar has availed the services of professional organizations for establishing policies and procedure for Islamic Banking Window Operations as per the directives issued by regulatory authorities. The Shariah Supervisory Board has already reviewed and approved the policies and procedures. BankDhofar has also availed services from various other highly recognized companies to assist them in offering high quality products and services for their customers.

BankDhofar will be providing pure innovative Islamic Banking products and services with separate books of accounts and separate accounting and financial reporting system from conventional banking operations.

We are pleased to inform that the Central Bank of Oman as on February 27, 2013 has granted license to Maisarah Islamic Banking Services to commence their operations. “ Maisarah Islamic Banking Services” will start offering the services from its first two branches in Azaiba in Muscat region and Salalah Al-Wadi in Dhofar region with separate Head Office in Azaiba.

Future Prospects

BankDhofar has performed well in 2012. With a keen focus on the implementation of its 5 years strategy BankDhofar will continue to emerge strongly within the local financial market and will move into the second year of the challenging 5-year plan developed with the support of one of the world’s leading consulting groups. BankDhofar will become the strongest bank in the Gulf across a series pre-defined Key Performance Indicators.

BankDhofar has carefully planned the introduction of many game changing new products, initiatives, services, technologies and processes in 2013 to delight its customers, fully engage and develop its people and reward its Shareholders.

It is very well placed to achieve further robust growth and to support the strong economic development of the Sultanate of Oman and is always grateful for the great Wisdom and Leadership provided by His Majesty Sultan Qaboos Bin Said Al Said.

Financial highlights

of last
five years

fore

Financial highlights of last five years

(In RO'000)	2012	2011	2010	2009	2008
For the year					
Net interest income	64,369	60,318	57,251	49,227	39,899
Non interest income	19,724	18,273	14,064	15,802	16,265
Operating costs	37,047	33,444	29,195	23,658	21,105
Operating profit (before Impairment losses)	47,046	45,147	42,120	41,371	35,059
Profit from operations	42,900	15,859	37,918	29,021	27,077
Net profit for the year	37,745	13,976	33,280	25,393	23,686
At year-end					
Total assets	2,143,830	1,960,591	1,664,296	1,509,265	1,323,820
Net loan portfolio	1,672,508	1,495,661	1,261,736	1,194,243	1,018,441
Customer deposits	1,634,628	1,519,318	1,249,605	1,101,267	971,596
Shareholders' equity	261,504	229,237	226,500	204,007	188,433
Share capital	110,012	91,524	81,355	73,959	70,774
Full service branches	62	59	56	54	51
ATMs	126	120	93	88	91
Staff	1,266	1,202	1,062	937	840

Financial ratios

of last
five years



Financial ratios of last five years

	As at 31 December 2012	As at 31 December 2011	As at 31 December 2010	As at 31 December 2009	As at 31 December 2008
I. PROFITABILITY					
Return on weighted average equity	15.38%	6.13%	15.46%	12.94%	21.15%
Return on weighted average capital	37.46%	16.17%	40.90%	35.09%	44.34%
Return on average assets	1.84%	0.77%	2.11%	1.81%	2.08%
Non-interest income to operating income	23.45%	23.25%	19.72%	24.30%	28.96%
Operating expenses to operating income	44.05%	42.55%	40.94%	36.38%	37.58%
II. LIQUIDITY					
Net loans to total deposits	97.05%	94.76%	94.49%	99.41%	95.97%
Total customer deposits to total deposits	94.85%	96.26%	93.58%	91.67%	91.55%
III. ASSET QUALITY RATIOS					
Loan loss provisions to total loans	4.32%	4.93%	5.38%	5.06%	4.71%
Non-performing loans to total loans	3.18%	3.79%	4.75%	4.81%	3.58%
Loan loss provisions to total Non-performing loans	135.58%	129.33%	113.23%	105.20%	131.57%
IV. CAPITAL ADEQUACY					
BIS Risk Asset Ratio	14.96%	14.79%	14.02%	14.81%	16.63%
BIS Risk Asset Ratio on Tier one Capital	10.92%	11.16%	12.43%	12.53%	13.59%
Shareholder's Equity/ Total Assets	12.20%	11.69%	13.61%	13.72%	14.23%



Muscat Grand Mall branch



Picture on the top right:
Golf Tournament – 8th November 2012



Picture on the bottom right:
Annual General Meeting – 19th March 2013

Developing your business just got easier

Inspired by the vision of His Majesty Sultan Qaboos bin Said - God bless him - in strengthening the small and medium enterprises sector and encouraging entrepreneurs to pursue their ongoing development, Bank Dhofar is proud to announce the opening of six Business & Corporate Banking Centers in various provinces in the Sultanate.

Our new Business & Corporate Banking Centers provide the entrepreneurs of Oman with the latest services, advice and financial solutions. Supporting economic development of Oman and Omani entrepreneurs and providing further job opportunities in the region.

These services can help you set up your business.

- LPO finance • import, overdraft finance • finance against pos receivables • contract finance • real-estate finance
- equipment finance • capital assets finance



بنك ظفار
BankDhofar



Talk or meet with one of our dedicated Relationship Managers at a center near you.

Muscat: 24790466 Ext.718/621/631
Salalah: 23380730
Sohar: 26750156
Nizwa: 25411370; 25410234
Sur: 25544350; 25541912 Ext.109
Buraimi: 25652224

NO	BRANCH	WORD	NO	BR SIZE	CODE	MANAGER'S NAME
RM- MUSCAT NORTH		Hassan Ahmed A.Mohsin Al Essa				
ROM- MUSCAT NORTH		Nasser Salim Al Hussaini				
PS-RM- MUSCAT NORTH		Alia Said Darweesh Al Zadjali				
1	Azaiba	AZB	19	M	1K	Hamed Abdullah Al-Hajri
2	Al Khuwar 2	KWC	32	M	MA	Act. Amin Salim Said AL-Shanfari
3	Al Khuwair	AKR	35	L	NO	Safiya Mohammed Al Suqri
4	Al Khuwair Ministry	KWM	31	M	NP	Mohammed Aufit Ba'Omar
5	Bausher	BSH	5	M	1J	Mohd Arif Al Balushi
6	Khoudh	KHD	33	L	1N	Amal Said Al Amri
7	Mabellah	MBL	91	M	NU	Hassan Abdullah Al Ajmi
8	Muscat International Airport	MIA	30	L	MO	Naeem Noor Mohammed Al Balushi
9	Seeb Town	SBT	70	L	YO	Badriya Shugheel Al Hashmi
10	New Bausher	BUS	23	S	OU	Zahra Said Al-Amri
RM- MUSCAT SOUTH		Salim Said Al-Mashani				
ROM- MUSCAT SOUTH		Abdullah Ali Al Harthy				
PS-RM- MUSCAT SOUTH		Hadeel Fahmi Khalid Al Harthy				
1	Amarat	AMT	6	M	1L	Badar Said Badar Al Mandhri
2	G.Muttrah	GMH	17	M	1Q	Abdul Hannan Ali Al Balushi
3	Muscat	MUS	25	M	KO	Muneer Haroon Al Zadjali
4	Muttrah	MUT	20	M	HO	Munnera Mohd Al-Balushi
5	MBD	MBD	9	XL	EO	Jokha Nasser Said Al Mugheri
6	Qurum	QRM	14	M	1M	Omar Hassan Suhail Al Hadhari
7	Quriyat	QRT	59	S	NA	Suleiman Nasser Al Maskary
8	Ruwi	RUW	15	M	GO	Ali Malallah Mohammed Said
9	Wadi Kabir	WKB	13	M	1F	Hassan Mohammed Salman
10	Wattayah	WTY	22	M	1U	Hanifa Ramadhan Al Balushi
RM-BATINAH & BURIMI		Salim Amer Al Hamdi				
ROM-BATINAH & BURIMI		Amor Saif Nasser Al Yahyai				
PS-RM- BATINAH & BURAIMI		Aysha Khamis Al-Ghaithi				
1	Buraimi	BUR	80	L	BO	Hamad Saeed Suleiman Al Ghaithi
2	Buraimi Industrial Area	BIA	26	S	QK	Ali Suwaid Salim AlBalushi
3	Barka	BRK	90	L	LO	Said Rubaya Mohd Al Badi
4	Falaj Al Qabail	FLJ	66	S	NK	Mohd Salim Al Abdul Salam
5	Hafeet	HFT	56	M	VO	Abdul Hameed Said Al Shahi
6	Khadhra	KDA	57	S	MF	Mohd Zaher Suleiman Al Shukaily
7	Khaboura	KBA	54	M	1V	Nasser Saif Majid Al- Jahwari
8	Suwaiq	SWQ	52	M	1P	Hassan Salim Sualiman Al Sahi
9	Saham	SHM	53	M	1C	Naeema Mohd AL-Shizawi
10	Sohar	SHR	55	L	UO	Laila Darwish Al Obaidani
11	Shinas	SHN	58	M	NF	Hamed Said Al-Balushi
12	Al Ghashab(Rustaq)	RQ2	62	M	1W	Salim Hamad Saud Al-Dhohly
13	Muladdah	MLD	85	M	DO	Saud Abdul Rahim Al Balushi
14	Rustaq	RTQ	60	L	XO	Ahmed Zahran Al Baqlani

GSM	TEL. NO.	FAX NO.	P.O. BOX
99859099	24472106 - 24472105	24488574	1507, PC 112 Ruwi
99253100	24472106 - 24472105	24488574	1507, PC 112 Ruwi
	24472106 - 24472105	24488574	1507, PC 112 Ruwi
93892573	Dir/ 24527295 - 24527291-24527271	24527296	468, PC 115 MSQ
92533123	Dir/ 24484880 - 24480008 - 24485554	24483366	2717, PC 112 Ruwi
99315454	Dir/ 24475090 - 24475701	24488574	1507, PC 112 Ruwi
93892428	Dir/ 24694710 - 24694725 - 24694715	24694730	1591, PC 130 Aziba
93892581	24502606 - 24596994	24595323	568, PC 115 MSQ
93892562	Dir/ 24536132 - 24545026	24545268	761, PC 132 Khoudh
93892420	Dir/ 24451520 - 24451540 - 24451539	24451542	1507, PC 112 Ruwi
93892529	Dir/ 24510537 - 24510101 - 24 510102	24510468	56, PC Seeb PC 111
93892528	Dir/ 24425851 - 24425852 - 24424434 - 24423373	24425627	347, PC 121 Al-Seeb
93892501	24614768 - 24614786	24614764	895, PC 115 MSQ
92777858	24700728-24701080	24701090	85, PC 114 Jibroo
99479474	24700728-24701080	24701090	85, PC 114 Jibroo
	24700728-24701080	24701090	85, PC 114 Jibroo
93892580	Dir/ 24877838 - 24876580 - 24876120	24875829	346 PC 119 Amerat
93892423	Dir/ 24793297 - 24707959 - 24706636	24706103	85, PC 114 Jibroo
93892572	Dir/ 24 737865 - 24736614 - 24736606 - 24 737066	24739166	1613, PC 114 Muttrah
93892570	Dir/ 24712970 - 24714452 - 24 714279	24713556	1441, PC 112 Ruwi
93892506	Dir/ 24750516 - 24790466	24798621	1507, PC 112 Ruwi
93892451	Dir/ 24568351 - 24567671 - 24567673	24567679	994, PC 116 Mina Al Fahal
93892437	Dir/ 24845195 - 24845193 - 24845192	24845173	145, PC 120 Quriyat
93892579	24831090 - 24835854	24831892	1442, PC 112 Ruwi
93892429	24814127 - 24814126	24814128	1507, PC 112 Ruwi
93892519	Dir/ 24565137 - 24566731 - 24565208	24566732	1507, PC 112 Ruwi
99312211	26841712 - 26840228	26845512	21, PC 311 Sohar
92516117	26845562	26845512	21, PC 311 Sohar
	26840794-26840228	26845512	21, PC 311 Sohar
93892566	25651696 - 25651989	25651115	278, PC 512 Buraimi
99322016	25669821 - 25669822 - 25669823 - 25669824	25669825	867, PC 512
93892564	Dir/ 26884423 - 26884428	26884451	751, PC 320 Barka
93892436	26750156 - 26750928 - 26751378	26750891	209, PC 322 Falaj Al Qabail
93892517	Dir/ 26817646 - 26817991 - 26817992	26817993	596 PC 319 Saham
93892450	26714164 - 26714162	26714163	505, PC 315 Al-Suwaiq
93892575	26801028 - 26801686	26805130	423, PC 326 Khaboura
93892510	Dir/ 26862001 - 26862010	26862102	585, PC 315 Suwaiq
93892577	Dir/ 26854400 - 26856699	26855277	92, PC 319 Saham
93892508	Dir/26840794 - 26840228	26841229	21, PC 311 Sohar
93892421	Dir/ 26748302 - 26748306 - 26748308	26748304	434, PC 324 Shinas
93892419	Dir/ 26875759 - 26878737	26878797	216, PC 329 Burj Redh
93892576	Dir/ 26868544 - 26868553	26868549	106 PC 341 Muladdah
93892568	Dir/ 26876039 - 26875117	26875591	25, PC 318 Rustaq

NO	BRANCH	WORD	NO	BR SIZE	CODE	MANAGER'S NAME
RM-DHAKHLIYA & DHAHIRA		Khamis Hamed Salim Al Alawi				
ROM-DHAKHLIYA & DHAHIRA		Mohammed Suleiman Al Sibani				
PS-RM- DHAKHLIYA & DHAHIRA		Salima Said Nasser AL-Mani				
1	Araqi	IRQ	51	S	1D	Khalid Abdullah Said Al-Yaqoubi
2	B.Al-Mauz	BMZ	75	S	QO	Said Salim Al Ruqishi
3	Bahla	BAH	47	M	1A	Ali Talib Ahmed Al Riyami
4	Bid Bid	BID	73	S	1B	Zahra Humaid Al Sawafi
5	Izki	Izk	69	S	MK	Abdul Wahab Mubarak Al-Rawahi
6	Ibri	IBR	50	L	TO	Khalifa Salim Masaad AL-Omairi
7	Nizwa	NIZ	45	M	RO	Muhana Saif Ali Awalad Thani
8	Sumail	SMA	74	M	1X	Nasser Mohammed Al-Hashami
9	Yanqul	YNQ	18	S	OF	Nasra Salim Abdullah AL Moqbali
RM-SHARQIYA		Salim Khamis Al Khambousi				
ROM-SHARQIYA		Mubarak Al Hassani				
PS-RM- SHARQIYA		Munira Ali Ibrahim AL Balushi				
1	Al Ees Sur	Ess	67	M	1Z	Yahya Hamed Al Mashaiki
2	Ibra	IBA	82	M	1R	Khalfan Masoud Khalfan Al Esri
3	J. B. B. Ali	BBA	95	L	JO	Khalfan Mohd. Sroor Al-Sinidi
4	J. B. B. Hassan	BBH	96	S	QA	Saleh Salim Al Mashaikhi
5	kamil Al Wafi	KAM	83	M	MP	Mohammed Salim Al Hajri
6	Al Muntrib	MTB	81	M	1Y	Mohammed Salim Saad Al Maskari
7	Sinaw	SNW	79	M	1G	Shinoona Salim Issa Al Busaidi
8	Sur	SUR	65	L	WO	Mohammed Said Mohd Al Mukhaini
9	Samad A>Shan	SAM	84	M	MU	Nadia Khalfan Al Sinawi
10	Mudhaibi	MUD	21	S	OK	Ali Khalid Al Naamani
RM-DHOFAR		Mohammed Ahmed Al-Rawas				
ROM-DHOFAR		Abdul Hakeem Eid Awadh Bait Sabuee				
1	Al Wadi	WSL	41	L	FO	Said Basheer Saleh Abedun
2	Saada	SDA	42	L	1H	Husam Ali Awadh Al Ojaili
3	Salalah	SAL	40	XL	PO	Abdullah Amer Al-Rawas
4	Salalah-Al Gharbiah	GAR	94	M	GA	Hafeedh Abdul Qadir Al Ghasani
5	Raysut	RST	93	S	TK	Qais Mubarak Salim
6	Taqa	TAQ	43	S	TU	Fatma Mohammed Mahad AL Amry
7	Mirbat	MRB	44	S	TP	Abid Huwait Obidan Hawaii
8	Salalah commercial District	SCOM	48	S	QF	Abubaker Salim Abdullah Ba Hajaj
9	New Salalah	NSL	27	S	QP	Mataab Said Tamam Al Maashani

GSM	TEL. NO.	FAX NO.	P.O. BOX
99365568	25410814 - 25412688	25410815	83, PC 611 Nizwa
99369529	25410814 - 25412688	25410815	83, PC 611 Nizwa
	25410814 - 25412688	25410815	83, PC 611 Nizwa
93892438	25695071 - 25694126	25695047	90, PC 515 Iraqi
93892439	Dir/ 25443365 - 25443466 - 25443460	25443462	97, PC 616 B. Al-Mawz
93892509	Dir/ 25420021 - 25420292	25420387	661, PC 612 Bahla
93892433	Dir/ 25369254 - 25369044 - 25369033	25369055	307, PC 613 Bid Bid
93892435	Dir/ 25340393 - 25340089 - 25341016	25340204	412, PC 614 Izki
93892565	Dir/ 25692283 - 25689341 - 25689685	25690341	28, PC 511 Ibri
93892571	Dir/ 25411028 - 25410234 - 25411370	25411234	83, PC 611 Nizwa
93892583	Dir/ 25350543 - 25351283 - 25351188	25350094	199, PC 620 Samail
93892503	Dir/25672009 - 25672018 - 25672031	25672041	440,PC500 Yanqul
99103559	25544955-25541255	25544922	75, PC 411 Sur
99880085	25544955-25541255	25544922	75, PC 411 Sur
	25544955-25541255	25544922	75, PC 411 Sur
93892578	Dir/ 25545867 - 25544350 - 25541912	25543710	323, PC 411Al Ees Sur
93892569	Dir/ 25571632 - 25571631 - 25571658	25570646	514, PC 413 Ibra
93892829	Dir/ 25553414 - 25553440	25553446	10 PC416 Jalan
93892434	Dir/ 25551020 - 25551025	25551181	222, PC 415 JBBH
93892431	Dir/ 25557134 - 25557501	25557962	294, PC 412 Al-Kamil
93892516	25583853 - 25584049	25583510	154, PC 421 Mintrib
93892582	Dir/ 25524663 - 25524367	25524823	296, PC 418 Sinaw
93892527	Dir/ 25546677 - 25541255 - 25540256	25540615	75, PC 411 Sur
93892430	Dir/ 25526736 - 25526529	25526574	123, PC 423 Samad
93892452	Dir/25578110 - 25578113	25578114	454,PC 420 Mudhaibi
99491322	23292299 - 23294863 - 23291631	23293505	2334, PC 211 Salalah
95300332	23292299 - 23294863 - 23291631	23293505	2334, PC 211 Salalah
93892561	Dir/ 23211130 - 23212185 - 23212180	23210085	2334, PC 211 Salalah
93892567	Dir/ 23227177 - 23 225463 - 23225409	23225179	2334, PC 211 Salalah
93892507	Dir/ 23290644 - 23292299 - 23294863 - 23291631	23295291	2334, PC 211 Salalah
93892432	Dir/ 23298046 - 23297526 - 23297536	23295084	2334, PC 211 Salalah
93892451	Dir/23219219 - 23219262 - 23219216	23219197	2334, PC 211 Salalah,
xxxxxxx	Dir/23258108 - 23258113	23258366	43 , PC 218 Salalah
93892502	Dir/23268007 - 23268038	23268080	199, PC 220 Salalah
93892505	Dir/23380700 - 23380719 - 23380721	23202761	2334, PC 211Salalah
99823240	23297534 - 23296158 - 23297492	23294263	2334, PC 211Salalah

ID	LOC1	BRANCH	TYPE	MODEL
001	SUMAIL LIZGH	SUMAIL	ATM	TTW
002	ASAFALAH MARKET IBRA	IBRA	ATM	TTW
003	SULTAN CENTER AAMERAT	CCO	ATM	TTW
004	CITY CENTER QURUM	CCO	ATM	LOBBY
005	BAUSHER BRANCH OPP ROYAL HOSPITAL	BAUSHER	ATM	TTW
006	AL AMARAT BRANCH	AAMRAT	ATM	TTW
007	HEAD OFFICE-1	MBD	ATM	TTW
008	AL HAIL MAHA FILLING STATION	CCO	ATM	LOBBY
009	OMAN OIL HAMBAR-SOHAR	SOHAR	ATM	LOBBY
010	AL KHOUTHOR OUTDOOR	RUSTAQ	ATM	DTW
012	ARMED FORCES HOSPITAL AL KHOUDH	CCO	ATM	TTW
013	WADI KABIR BRANCH	WADI KABIR	ATM	TTW
014	QURUM BRANCH	QURUM	ATM	TTW
015	RUWI STREET BRANCH	RUWI	ATM	TTW
017	G-MUTTRAH BRANCH (REX ROAD)	GREATER MUTTRAH	ATM	TTW
018	AZAIBA OFFSITE	CCO	ATM	DTW
020	CORNICHE BRANCH	MUTTRAH SOOK	ATM	TTW
021	OMAN OIL QURUM HIEGHTS	CCO	ATM	LOBBY
023	NEW BOUSHER BRANCH	BOUSHER	ATM	TTW
024	FAQ DRIVE THROUGH	SOHAR	ATM	DTW
025	MUSCAT BRANCH	MUSCAT	ATM	TTW
026	OMAN OIL AL-HAIL	CCO	ATM	LOBBY
028	MAWALEH SHELL OFFSITE	CCO	ATM	TTW
029	OMAN EXHIBITION - SEEB	CCO	ATM	LOBBY
030	SEEB AIR PORT BRANCH	SEEB AIRPORT	ATM	TTW
031	AL BAHJA CENTER	CCO	ATM	LOBBY
032	AI-KUWAIR NEW CENTER BRANCH	AL KHUWAIR CENTRE	ATM	TTW
033	AL KHOUD BRANCH	KHOUDH	ATM	TTW
034	SALALAH (AL-QOAF)	COU	ATM	LOBBY
035	AL-KUWAIR MAIN BRANCH	AL KHUWAIR	ATM	TTW
036	SAROOJ FILLING STATION	CCO	ATM	TTW
037	OMAN OIL OFFSITE AL-KHUWAIR	CCO	ATM	TTW
038	AL KHUWAIR PIC-N-SAVE	CCO	ATM	TTW
039	SALALAH SHELL OFFSITE	COU	ATM	TTW
040	SALALAH BRANCH	SALALAH	ATM	TTW
042	SALALAH SAADAH BRANCH	SAADA	ATM	TTW
043	SALALAH HAFFA OFFSITE	COU	ATM	TTW
044	SALALAH NEW OFFSITE	COU	ATM	TTW
046	AL AWAQADAIN - COMMERCIAL OFFSITE	COU	ATM	TTW
047	BAHLA BRANCH	BAHLA	ATM	TTW
048	DAHAREEZ	COU	ATM	TTW
049	AL SALAAM DRIVE THROUGH	COU	ATM	DTW
050	IBRI BRANCH	IBRI	ATM	TTW

ID	LOC1	BRANCH	TYPE	MODEL
051	AL IRAQI - IBRI	IRAQI	ATM	TTW
052	SUWAIQ BRANCH	SUWAIQ	ATM	TTW
053	SAHAM BRANCH	SAHAM	ATM	TTW
054	KHABOORA BRANCH	AL KHABOURAH	ATM	TTW
055	SOHAR BRANCH	SOHAR	ATM	TTW
056	HAFEET BRANCH	HAFEET	ATM	TTW
057	AL-KHADRA BRANCH	AL KHADRA	ATM	TTW
058	SHINAS BRANCH	SHINAS	ATM	TTW
059	SOHAR UNIVERSITY	SOHAR	ATM	TTW
060	RUSTAQ BRANCH -1	RUSTAQ	ATM	TTW
062	RUSTAQ BRANCH-2 (GHASAB)	GASHEB	ATM	LOBBY
063	TAYIBAT HYPERMARKET	MULLADAH	ATM	LOBBY
064	OMAN OIL MAWALEH	CCO	ATM	LOBBY
065	SUR BARNCH-1	SUR	ATM	TTW
066	FALAJ AL-QABAIL BRANCH	FALAJ AL QABAIL	ATM	TTW
067	AL EES SUR	AL EES SUR	ATM	TTW
068	SQH R/A	COU	ATM	TTW
069	IZKI BRANCH	IZKI	ATM	TTW
070	SEEB TOWN BRANCH	SEEB TOWN	ATM	TTW
071	AL-KHOUD OFFSITE	CCO	ATM	TTW
072	CITY CENTRE MAWALAH	CCO	ATM	LOBBY
073	BID BID BRANCH	BIDBID	ATM	TTW
074	SUMAIL BRANCH	SUMAIL	ATM	LOBBY
075	BARKAT AL MAUZ	BARKAT AL MOUZ	ATM	TTW
076	QURAIYAT SHELL OFF-SITE	QURAIYAT	ATM	TTW
077	AL-KUWAIR MINISTRY BRANCH	AL KHUWAIR MINISTRY	ATM	TTW
078	MUDHAIBI BRANCH	MUDHAIBI	ATM	TTW
079	SINAW BRANCH	SINAW	ATM	TTW
080	BUREIMI BRANCH	BURAIMI	ATM	TTW
081	MINTRIB BRANCH	MINTRIB	ATM	TTW
082	IBRA BRANCH	IBRA	ATM	TTW
083	KAMAL WAFI	KAMAL WAFI	ATM	TTW
084	SAMAD A'SHAN BRANCH	SAMAD SHAAN	ATM	TTW
085	MULADA BRANCH	MULLADAH	ATM	TTW
086	BURAIMI DRIVE UP OFFSITE	BURAIMI	ATM	DTW
087	SHELL STATION IBRI	IBRI	ATM	TTW
088	OMAN OIL SUR	SUR	ATM	TTW
089	AL ISHTEQRAR HYPERMARKET	COU	ATM	TTW
090	BARKA BRANCH	BARKA	ATM	TTW
091	MAABELAH BRANCH	MAABELAH	ATM	TTW
092	SAADA DRIVE THRU	COU	ATM	TTW
093	MQ MAHA STATION	CCO	ATM	DTW
094	SALALAH GHARBIYA BRANCH	GHARBIYA	ATM	TTW

ID	LOC1	BRANCH	TYPE	MODEL
095	JALAN BANI BU ALI BRANCH	JBBA	ATM	TTW
096	MARS AL-GHUBRA	CCO	ATM	LOBBY
097	OMAN OIL KHOUDH	CCO	ATM	LOBBY
099	MAHA MAWALEH NEXT WAVE	CCO	ATM	DTW
100	MUSCAT FESTIVAL NASEEM PARK	BARKA	ATM	LOBBY
101	OMAN EXHIBITION OUTDOOR	CCO	ATM	TTW
102	QURAIYAT BRANCH	QURAIYAT	ATM	TTW
103	JBBH BRANCH	JBBH	ATM	TTW
104	JBBA OFF-SITE	JBBA	ATM	TTW
105	MOD GATE 5	CCO	ATM	DTW
106	RAYSUT BRANCH	RAYSUT	ATM	TTW
107	NIZWA UNIVERSITY	BARKAT AL MOUZ	ATM	TTW
108	YANQUL BRANCH	YANQUL	ATM	TTW
109	SHINAS TECHNICAL COLLEGE	SHINAS	ATM	TTW
110	MIRBAT BRANCH	MIRBAT	ATM	TTW
111	TAQA BRANCH	TAQA	ATM	TTW
112	SALALAH TECHNICAL COLLEGE	COU	ATM	TTW
113	AL NASER CLUB	COU	ATM	TTW
114	MINTRIB OFF-SITE	MINTRIB	ATM	TTW
115	OMAN OIL AL-WASEL	MINTRIB	ATM	TTW
116	SHEL JEFNEIN	CCO	ATM	TTW
117	JAWHARAT SHATTI	CCO	ATM	TTW
118	SHELL HUJAIRAMAT	IRAQI	ATM	TTW
119	SALALAH AIRPORT	COU	ATM	TTW
120	SULTAN CENTER AZAIBA	CCO	ATM	STW
121	ABU NAIF AWQADAIN	COU	ATM	TTW
122	AIJA SUR	SUR	ATM	TTW
124	ENMAR HYPER MARKET	RUSTAQ	ATM	LOBBY
125	TYEBAT SAMAD SHAN	SAMAD SHAAN	ATM	LOBBY
126	Mawaleh Vegetable Market	CCO	ATM	TTW
127	OMAN OIL SHINAS	SHINAS	ATM	DTW
128	Salalah Special Banking Branch	Salalah Special Banking Branch	ATM	TTW
130	FALAJ AL MASHAYIKH	JBBH	ATM	TTW
131	DHOFAR UNIVERSITY BOTH	COU	ATM	LOBBY
132	BURAIMI INDUSTRIAL	BURAIMI INDUSTRIAL	ATM	TTW
133	NEW SALALAH BRANCH	NEW SALALAH	ATM	TTW
134	IBRA TECHNICAL COLLEGE	IBRA	ATM	TTW
135	LULU CENTER SALALAH	COU	ATM	LOBBY
147	WAHI AL MURR	BAHLA	ATM	TTW
148	MGM EXPRESS ZONE 1	COD	ATM	TTW
149	MGM EXPRESS ZONE 2	COD	ATM	TTW
CDM006	AL AMARAT BRANCH	AAMERAT	MBV / CPM	TTW
CDM009	HEAD OFFICE BRANCH	MBD	HBV/CPM	TTW

ID	LOC1	BRANCH	TYPE	MODEL
CDM013	WADI KABIR BRANCH	WADI KABIR	HBV/CPM	TTW
CDM014	QURUM BRANCH	QURUM	HBV/CPM	TTW
CDM015	RUWI HIGH STREET BRANCH	RUWI	HBV/CPM	TTW
CDM020	MUTTRAH SOOK BRANCH	MUTTRAH SOOK	HBV/CPM	TTW
CDM023	NEW BOUSER BRANCH	BOUSER	GBNA/CPM	TTW
CDM025	MUSCAT BRANCH	MUSCAT	GBNA/CPM	TTW
CDM030	SEEB AIR PORT BRANCH	SEEB AIRPORT	HBV/CPM	TTW
CDM032	KHUWAIR CENTER32	KHUWAIR CENTER32	GBNA/CPM	TTW
CDM033	AL KHOUD BRANCH	AL KHOUD	HBV/CPM	TTW
CDM035	AL-KUWAIR BRANCH (CITY PLAZA)	AL KHUWAIR	HBV/CPM	TTW
CDM040	SALALAH MAIN BRANCH	SALALAH	HBV/CPM	TTW
CDM042	SALALAH SAADAH BRANCH	SAADA	MBV / CPM	TTW
CDM052	SUWAIQ BRANCH	SUWAIQ	GBNA/CPM	TTW
CDM054	KHABOURAH BRANCH	AL KHABOURAH	HBV/CPM	TTW
CDM055	SOHAR BRANCH	SOHAR	HBV/CPM	TTW
CDM059	QURAIYAT BRANCH	QURAIYAT	HBV/CPM	TTW
CDM065	SUR BRANCH	SUR	MBV / CPM	TTW
CDM067	AL EES SUR	AL EES SUR	GBNA/CPM	TTW
CDM070	SEEB TOWN BRANCH	SEEB TOWN	HBV/CPM	TTW
CDM078	MUDHAIBI BRANCH	MUDHAIBI	GBNA/CPM	TTW
CDM079	SINAW BRANCH	SINAW	GBNA/CDM	TTW
CDM080	BURAIMI BRANCH	BURAIMI	MBV / CPM	TTW
CDM081	MINTRIB BRANCH	MINTRIB	GBNA/CPM	TTW
CDM082	IBRA BRANCH	IBRA	HBV/CPM	TTW
CDM090	BARKA BRANCH	BARKA	HBV/CPM	TTW
CDM091	MAABELAH BRANCH	MAABELAH	GBNA/CPM	TTW
CDM094	SALALAH GHARBIYA BRANCH	GHARBIYA	HBV/CPM	TTW
CDM095	J.B.B.A BRANCH	JBBA	HBV/CPM	TTW
CDM096	JBBH BRANCH	JBBH	MBV / CPM	TTW
CDM105	MOD GATE 5	CCO	MBV / CPM	TTW
CDM106	RAYSUT BRANCH	RAYSUT	GBNA/CPM	TTW
CDM108	YANQUL BRANCH	YANQUL	GBNA/CPM	TTW
CDM110	MIRBAT BRANCH	MIRBAT	GBNA/CPM	TTW
CDM111	TAQA BRANCH	TAQA	GBNA/CPM	TTW
CDM122	SUR BRANCH	AJJA SUR	GBNA/CPM	TTW
CDM128	Salalah Special Banking Branch	Salalah Special Banking Branch	GBNA/CPM	TTW
CDM132	BURAIMI INDUSTRIAL	BURAIMI INDUSTRIAL	GBNA/CPM	TTW
CDM133	NEW SALALAH BRANCH	NEW SALALAH	GBNA/CPM	TTW
CDM148	MGM EXPRESS ZONE 1	COD	GBNA/CPM	TTW
FFM045	NIZWA BRANCH	NIZWA	ATM/GBNA	TTW
FFM098	MUSCAT INTERNATIONAL AIRPORT	CCO	ATM/GBNA	TTW
FFM136	MGM	CCO	ATM/GBNA	LOBBY

Disclosure requirements underpillar - III of Basel II

the



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Report to the Board of Directors of Bank Dhofar SAOG in respect of the Basel II – Pillar III Disclosures

We have performed the procedures agreed with you and as prescribed in the Central Bank of Oman (“CBO”) Circular No. BM 1027 dated 4 December 2007 (“the Procedures”) with respect to the Basel II – Pillar III disclosures (“the Disclosures”) of Bank Dhofar SAOG (the “Bank”) set out on pages 80 to 97 as at and for the year ended 31 December 2012. The Disclosures were prepared by the Management in accordance with CBO Circular No. BM 1009 dated 13 September 2006 and Circular No. BM 1027 dated 4 December 2007, as amended. Our engagement was undertaken in accordance with the International Standard on Related Services applicable to agreed-upon procedures engagements. The Procedures were performed solely to assist you in evaluating the Bank’s compliance with the disclosure requirements set out in CBO Circular No. BM 1009 dated 13 September 2006, as amended.

We report our findings as follows:

Based solely on performance of the Procedures, we found no exceptions which require to be reported herein.

Because the Procedures do not constitute either an audit or a review made in accordance with International Standards on Auditing or International Standards on Review Engagements, we do not express any assurance on the Disclosures.

Had we performed additional procedures or had we performed an audit or review of the Disclosures in accordance with International Standards on Auditing or International Standards on Review Engagements, other matters might have come to our attention that would have been reported to you.

Our report is solely for the purpose set forth in the first paragraph of this report and for your information and is not to be used for any other purpose or to be distributed to any other parties other than Central Bank of Oman; and we accept no liability to any third party. This report relates only to the Bank’s Disclosures and does not extend to the financial statements of the Bank taken as a whole or to any other reports of the Bank.

29 January 2013

KPMG

1. Disclosure Policy

The following detailed qualitative and quantitative public disclosures are provided in accordance with Central Bank of Oman (CBO) rules and regulations on capital adequacy standard Basel II issued through circular BM 1009 on September 13, 2006. The purpose of these requirements is to complement the capital adequacy requirements and the Pillar II – Supervisory review process. These disclosures are intended for market participants to assess key information about BankDhofar's exposure to various risks and to provide a consistent and understandable disclosure framework for easy comparison among banks operating in the market. BankDhofar has an approved disclosure policy to comply with the disclosure requirements set out by the Central Bank of Oman, other regulatory authorities, International Financial Reporting Standards (IFRS) and International Accounting Standards (IAS) .

The major highlights of the Central Bank of Oman (CBO) regulations on capital adequacy are:

- a. To maintain capital adequacy ratio (CAR) at a minimum of 12%;
- b. To adopt the standardized approach for credit risk for implementing Basel II, using national discretion for:
 - . Adopting the credit rating agencies as external credit assessment institutions (ECAI) for claims on sovereigns and Banks;
 - . Adopting simple/comprehensive approach for Credit Risk Mitigants (CRM)
 - . Treating all corporate exposures as unrated and assign 100% risk weight.
- c. To adopt standardized approach for market risk and basic indicator approach for operational risk.
- d. Capital Adequacy returns must be submitted to CBO on a quarterly basis; and
- e. BankDhofar's external auditors must review capital adequacy returns.

2. Scope of Application:

BankDhofar has no subsidiaries or significant investments and Basel II is applied at BankDhofar level only.

3. Range of Disclosures:

3.1. Capital Structure:

The capital base for complying with capital standards is quite distinct from accounting capital. The regulatory capital is broadly classified into three categories – Tier I, Tier II and Tier III. BankDhofar's capital structure consists of Tier I capital and Tier II capital.

Tier I capital includes paid up capital, share premium, legal and general reserves and other disclosed free reserves, including subordinated loan reserves, non cumulative perpetual preferred stocks and retained earnings (available on a long term basis).

Tier II (Supplementary capital) consists of undisclosed reserves, revaluation reserves/cumulative fair gains or losses on available for sale instruments, general loan loss provision/ general loan loss reserve in capital, hybrid debt capital instruments and subordinated term debt subject to certain conditions.

Tier II capital of BankDhofar also includes 45% of Investment revaluation reserve and general provisions to the extent of 1.25% of total risk weighted assets.

The use of Tier III (short term subordinated debt) is limited only for part of the requirements of the explicit capital charge for market risks. BankDhofar does not have any Tier III capital and there are no innovative or complex capital instruments in the capital structure.

The details of capital structure are provided as under

TIER I CAPITAL	RO'000 Amount
Paid up capital	110,012
Legal reserve	25,652
Share premium	40,018
Proposed bonus shares	11,001
Subordinated loans reserve	11,250
Retained Earnings	45,513
Less Goodwill	(3,177)
Cumulative unrealized losses recognized directly in equity	(124)
TOTAL TIER I CAPITAL	240,145
TIER II CAPITAL	
Investment revaluation Reserve (45% only)	756
General Provision (Max of 1.25% of total risk weighted assets)	24,447
Subordinated Loans	63,750
TOTAL TIER II CAPITAL	88,953
TOTAL ELIGIBLE CAPITAL	329,098



3.2 Capital Adequacy

BankDhofar has adopted Standardized Approach (SA) for computation of capital charge for credit risk and market risk, and Basic Indicator Approach (BIA) for operational risk. Under Standardized approach for credit risk, BankDhofar has adopted simple approach for recognizing collaterals in BankDhofaring Book and for risk weighting the claims on Sovereigns and Banks, credit ratings of Moody's, S & P, or Fitch is used. Assessment of capital adequacy is carried out in conjunction with the capital adequacy reporting to the CBO.

BankDhofar's capital adequacy ratio is 14.96% as against the CBO requirement of 12%. BankDhofar's policy is to manage and maintain its capital with the objective of

maintaining strong capital ratio and high rating. BankDhofar maintains capital levels that are sufficient to absorb all material risks BankDhofar is exposed to and provides market return to the shareholders. BankDhofar also ensures that the capital levels comply with regulatory requirements and satisfy the external rating agencies and other stakeholders including depositors and senior creditors. The whole objective of the capital management process in BankDhofar is to ensure that BankDhofar remains adequately capitalized at all times.

BankDhofar has in place Internal Capital Adequacy Assessment Process (ICAAP) for assessing Bank's capital adequacy in relation to the risk profiles as well as a strategy for maintaining the capital level. The objective of ICAAP document is to explain the Risk policies adopted, Target risk structure and Capital planning, the process of assessing the capital adequacy for credit, market and operational risk, Specific assessment procedures for risks not covered under Pillar I, process of Internal Control Mechanism and stress testing methodologies adopted by BankDhofar.

Bank has also formed working group on capital planning which regularly meets and assess the capital adequacy to support projected asset growth. The capital adequacy ratio is periodically assessed and reported to the Risk Management Committee (RMC) of the Board of Directors. The composition of capital in terms of Tier I, II and III are also analyzed to ensure capital stability and to reduce volatility in the capital structure.



i) Position of various Risk weighted Assets is presented as under

Serial No.	Details	Gross Balances (Book Value)	Net Balances (Book Value)*	Risk Weighted Assets
		RO'000	RO'000	RO'000
1	On balance sheet items	2,282,293	2,174,657	1,764,752
2	Off balance sheet items	279,416	244,263	239,231
3	Derivatives	4,643	4,643	1,498
4	Total Credit Risk	2,566,352	2,423,563	2,005,481
5	Market Risk			37,853
6	Operational Risk			156,465
7	Total Risk Weighted Assets			2,199,799

* Net of provisions and, reserve interest

ii) Detail of Capital Adequacy

Serial No.	Details	RO'000
1	Tier 1 Capital	240,145
2	Tier 2 Capital	88,953
3	Tier 3 Capital	-
4	Total Regulatory Capital	329,098
5	Capital Requirement for Credit Risk	240,658
6	Capital Requirement for Market Risk	4,542
7	Capital Requirement for Operational Risk	18,776
8	Total Required Capital	263,976
9	Tier 1 Capital Ratio	10.92%
10	Total Capital Ratio	14.96%

3.3 Risk Exposure and Assessment

The risks to which banks are exposed to and the techniques that banks use to identify, measure, monitor and control those risks are important factors market participants consider in their assessment of an institution. In this section, several key banking risks are considered: credit risk, market risk, interest rate risk in BankDhofar's book and operational risk. For each separate risk area (e.g. credit, market, operational, banking book interest rate risk) BankDhofar describes its risk management objectives and policies, including scope and nature of risk reporting and/or measurement systems and risk mitigation strategies.

3.3.1 Credit Risk

Credit risk is defined as the possibility that a borrower or counterparty will fail to meet its obligations in accordance with agreed terms. Credit risk, therefore, arises from BankDhofar's dealings with or lending to a corporate, individual, another bank, financial institution or a country. The objective of credit risk management is to minimize the probable losses and maintaining credit risk exposure within acceptable parameters.

BankDhofar has well established credit risk policy duly approved by the Board which establishes prudent standards, practices in managing credit risk and setting up prudent benchmarks, limits for management of credit risks. Continuous review of the credit risk policy is done to adapt to the business environment and regulatory requirements at all times.

The Board of Directors delegate credit approval powers for Wholesale Banking and Consumer Banking functional areas, which are clearly defined in Authorities Matrix contained in the Manual on Delegation of Authority. All concerned executives are responsible to ensure that they exercise their delegated powers in terms of the approved Authorities Matrix and seek appropriate special approvals wherever required.

Executive Committee of the Board is the topmost credit approving authority of BankDhofar which is mainly responsible for approving all credit proposals beyond the authority level of the management. This committee is also the final authority for approving investments beyond the authority of the management. The senior management executives are also empowered with certain loan approving limits beyond which the credit proposals shall be considered by the Management Credit Committee (MCC) which is empowered to consider all credit related issues up to certain limits.

Credit risk is managed by the Risk Management Division (RMD) through a system of independent risk assessment of all the corporate, Mid sector and Small and Medium Enterprise credit proposals before they are considered by the appropriate approving authorities. The borrowers in the Standard Category are assigned a risk rating on a scale of 7 grades based on quantitative as well as qualitative parameters. All accounts reflecting weakness in financials or operations as defined by CBO are assigned the grade 8 (Special Mention category) for closer monitoring. RMD approves the risk grade of the borrower and also identifies the risk factors in the credit proposal and suggests suitable mitigation. This facilitates the approving authorities in making informed credit decision. In addition RMD reviews grading of obligors, and conducts regular analysis of the credit portfolio. Every corporate account is reviewed annually and in case of accounts graded as 6,7 and 8 (Special Mentioned category accounts), reviews are conducted at higher frequency. However, the borrowers who do not publish audited financials are treated as unrated.

BankDhofar has also established Credit Control department which looks after Loan Review Mechanism (LRM). LRM helps in ensuring credit compliance with the post-sanction processes/ procedures laid down by BankDhofar from time to time. It involves taking up independent

account-specific reviews of individual credit exposures as per the Board approved LRM Policy. Credit Control department also monitors various credit concentration limits. Counterparty/group exposures are limited to 15% of BankDhofar's capital base as stipulated by CBO and where a higher limit is required for projects of national importance prior approval of CBO is obtained. The credit control department also undertakes a pre-sanction review and monitoring of the retail loans and personal loans.

Retail lending is strictly in accordance with the CBO guidelines. BankDhofar introduced a scoring mechanism as a selection tool for the personal loans in selected branches. Bank is also implementing Loan Origination System (LOS) which will automate the workflow of retail loan credit proposals. The personal loan score card shall be implemented for all the branches through LOS. In addition to these, BankDhofar also undertakes business with other banks. The maximum exposures to these banks are defined through internally developed model and the total exposure to such counterparty banks is restricted at 200% of the net worth of BankDhofar. BankDhofar has also implemented country risk limits approved by the Board to ensure portfolio diversification in terms of sovereign and geographical exposure. Specific country risk limits have been set up based on the internal risk rating grades assigned to various countries and these limits are reviewed on half yearly basis.

In the absence of acceptable external credit rating agency in the Sultanate of Oman, BankDhofar has obtained approval of the CBO to treat all corporate exposures as unrated and accordingly assign risk weight of 100% for computing capital requirements under Basel II.

Past dues and impaired exposures are defined in accordance with the relevant CBO regulations. Specific and general provisions are computed periodically in accordance with the CBO regulations as well as other applicable accounting standards. General loan loss provisions equivalent to 1% of the loans categorized as Standard and Special Mention for meeting the latent loan losses are provided for. However, a general loss provision of 2% of the Standard and Special Mention personal loans is created considering the heightened risk inherent in personal loans.

All lending decisions are made after giving due consideration to credit risk policy requirements.

i) Analysis of gross credit exposures, plus average gross exposure over the period broken down by major types of credit exposure

Serial No.	Type of Credit Exposure	Average Gross exposure		Total Gross exposure	
		RO'000	RO'000	RO'000	RO'000
		2012	2011	2012	2011
1	Overdrafts	120,272	107,806	130,559	108,851
2	Loans	1,472,942	1,228,455	1,499,949	1,373,295
3	Loans against trust receipts	76,477	77,842	88,009	69,372
4	Other	14,796	11,292	18,058	11,788
5	Bills purchased /discounted	3,493	3,495	3,532	2,208
6	Advance against credit cards	7,597	8,405	7,881	7,701
7	TOTAL	1,695,577	1,437,295	1,747,988	1,573,215

ii) Geographic distribution of exposures, broken down in significant areas by major types of credit exposure

Serial No.	Type of Credit Exposure	Oman	Other GCC Countries	*OECD Countries	India	Pakistan	Other	Total
		RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
		1	2	3	4	5	6	7
1	Overdrafts	121,864	-	-	-	-	-	121,864
2	Personal Loans	789,742	-	-	-	-	-	789,742
3	Loans against trust Receipts	87,720	289	-	-	-	-	88,009
4	Other Loans	720,340	5,398	898	-	-	-	726,636
5	Bills Purchased / negotiated	3,532	-	-	-	-	-	3,532
6	Any other	18,205	-	-	-	-	-	18,205
7	Total	1,741,403	5,687	898	-	-	-	1,747,988

Overdraft and others include Personal overdraft and others
*excluding countries included in column 2

iii) Industry or counterparty type distribution of exposures broken down by major types of credit exposures

Serial No.	Economic Sector	Overdraft	Loans	Bills purchased	Others	Total	Off balance sheet exposures
		RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
1	Import Trade	11,247	62,484	-	25,400	99,131	24,372
2	Export Trade	5	13	-	238	256	91
3	Wholesale & Retail trade	6,612	25,085	-	8,394	40,091	12,205
4	Mining & Quarrying	4,093	17,109	218	2,116	23,536	2,450
5	Construction	49,542	136,432	1,006	30,097	217,077	196,370
6	Manufacturing	9,405	107,419	2,142	36,019	154,985	44,213
7	Electricity, gas & water	52	34,234	156	58	34,500	8,585
8	Transport & Comm.	204	23,124	-	-	23,328	4,084
9	Fin. Institutions	2,972	85,868	-	24	88,864	322
10	Services	30,415	62,234	-	3,012	95,661	54,723
11	Personal	8,695	773,313	-	7,734	789,742	13,909
12	Agriculture & Allied	2,164	5,093	10	84	7,351	915
13	Government	-	114,265	-	3	114,268	4,951
14	Non Resident lending	-	6,296	-	289	6,585	30
15	All others	5,153	46,980	-	480	52,613	11,688
16	Total (1 to 15)	130,559	1,499,949	3,532	113,948	1,747,988	378,908



iv) Residual contractual maturity breakdown of the whole portfolio, broken down by major types of credit exposure

Serial No.	Time Band	Overdraft	Loans	Bills purchased/ discounted	Others	Total	Off balance sheet exposures
		RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
1	Upto 1 month	6,528	3,806	17	683	11,034	96,187
2	1-3 months	6,528	106,753	-	4,044	117,325	35,311
3	3-6 months	6,528	46,836	-	6,743	60,107	37,800
4	6-9 months	6,528	1,061	-	22,941	30,530	20,796
5	9 - 12 months	6,527	201	-	5,304	12,032	15,137
6	1-3 years	32,640	104,629	537	19,886	157,692	101,628
7	3 - 5 years	32,640	87,172	218	9,830	129,860	54,400
8	Over 5 years	32,640	1,149,491	2,760	44,517	1,229,408	17,649
9	TOTAL	130,559	1,499,949	3,532	113,948	1,747,988	378,908

v) Analysis of loan book by major industry or counterparty type

Serial No.	Economic Sector	Gross loans	Of which NPLs *	General provision held	Specific prov. Held	Reserve Interest	Specific Prov. Made during the year	Adv. Written off during year**
		RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
1	Import Trade	99,131	6,024	931	1,492	4,203	98	2,910
2	Export Trade	256	50	2	11	17	-	16
3	Wholesale & Retail	40,091	15,185	249	4,981	10,276	23	-
4	Mining & Quarrying	23,536	4	235	3	-	2	-
5	Construction	217,077	4,993	2,121	1,985	2,269	554	198
6	Manufacturing	154,985	786	1,542	241	211	70	-
7	Electricity, gas & water	34,500	27	345	6	5	-	-
8	Transport & Communications	23,328	3	233	1	2	-	-
9	Financial Institutions	88,864	55	888	5	45	-	-
10	Services	95,661	2,965	927	1,257	1,708	13	71
11	Personal	789,742	20,343	15,218	9,392	8,210	3,257	143
12	Agriculture & Allied	7,351	8	73	7	1	1	-
13	Government	114,268	-	1,143	-	-	-	-
14	Non-Resident lending	6,585	4,808	18	4,140	382	290	-
15	All Others	52,613	421	522	96	87	65	-
16	TOTAL (1 to 15)	1,747,988	55,672	24,447	23,617	27,416	4,373	3,338

* Represents only on balance sheet NPLs.

** Advance written off during of the Year against Provision.

vi) Geographical distribution of amount of impaired loans

Serial No.	Countries	Gross loans	Of which NPLs	General provision held	Specific prov. Held	Reserve Interest	Specific Prov. Made during the year	Advances Written off during year**
		RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
1	Oman	1,741,403	50,864	24,429	19,477	27,034	4,083	3,338
2	Other GCC countries	5,687	4,808	9	4,140	382	290	-
3	OECD countries*	898	-	9	-	-	-	-
4	India	-	-	-	-	-	-	-
5	Pakistan	-	-	-	-	-	-	-
6	Others	-	-	-	-	-	-	-
7	TOTAL	1,747,988	55,672	24,447	23,617	27,416	4,373	3,338

* Excluding countries included in row 2

** Advance written off during of the Year against Provision.

vii) Movement of Gross Loans:

Movement of Gross Loans during the year							(RO in 000's)
Serial No.	Details	Performing Loans		Non-performing Loans			Total
		Standard	S.M.	Substandard	Doubtful	Loss	
		RO'000	RO'000	RO'000	RO'000	RO'000	
1	Opening Balance	1,470,035	43,525	2,054	1,976	55,625	1,573,215
2	Migration/changes (+/-)	(17,957)	14,211	235	1,895	1,616	-
3	New Loans	564,745	12,787	78	120	5,761	583,491
4	Recovery Loans	(375,435)	(19,595)	(356)	(406)	(1,472)	(397,264)
5	Loans written off	-	-	-	-	(11,454)	(11,454)
6	Closing Balance	1,641,388	50,928	2,011	3,585	50,076	1,747,988
7	Provisions held*	24,447	-	478	1,418	21,721	48,064
8	Reserve Interest	-	-	101	337	26,978	27,416

*Indicate the general provisions held under performing loans and specific provisions under non performing loans

3.3.2 Credit Risk: Disclosures for portfolios subject to the Standardized Approach

1

BankDhofar has obtained CBO approval vide its letter dated December 11, 2006 to use the ratings of Moody's, Standard & Poor (S&P) or Fitch for risk weighting claims on sovereigns and banks. However, as mentioned earlier, BankDhofar has obtained CBO approval to treat all corporate exposures as unrated and assign 100% risk weight on all of them.

2

BankDhofar is adopting the simplified approach for collateral recognition under the standardized approach, where 0% risk weight is assigned for the exposures covered by cash collateral. The total exposure covered by cash collateral, which attracts 0% risk weight is RO 95.68 million. All other credit exposures of Corporate and Retail (except mortgage loans, where valuation of the mortgaged house property is not older than 3 years, are assigned 35% risk weight) are assigned 100% risk weight.

3

BankDhofar also conducts stress tests using simulation technique on portfolio basis at regular intervals to assess the impact of credit risk on its profitability and capital adequacy. The same is placed before the Risk Management Committee of Board of Directors.



3.3.3 Credit Risk Mitigation: Disclosures for Standardized approaches

BankDhofar has adopted the simple approach for credit risk mitigation and no offsetting of the collaterals is done to calculate the capital requirement. However, the main CRM techniques followed by BankDhofar are based on collaterals which BankDhofar endeavors to obtain for its exposures, as far as commercially practicable. The collaterals mainly consist of real estate properties, shares listed on the Muscat Securities Market (MSM), government bonds, unlisted shares and Bank fixed deposits. However, BankDhofar's predominant form of eligible collateral as defined by CBO in its guidelines and for capital adequacy computation purposes is in the form of cash, acceptable Bank guarantees and shares listed on the MSM main index.

BankDhofar has credit risk rating framework comprising of Risk Rating system which is a single point indicator of diverse risk factors of a Borrower and assists in taking credit decisions in a consistent manner. The risk rating framework is having 8 performing loan grades (including special mention) and 3 non performing loan grades. The rating grade indicates the default probability of the borrower's obligation. BankDhofar has also implemented the facility rating system based on Basel II foundation approach which considers the collateral support, seniority and other structural aspects of the facilities provided.

BankDhofar shall also develop required systems for estimation of Probability of Default (PD), Loss

Given Default (LGD) and Exposure at Default (EAD) in order to adopt the advanced approaches under Basel II gradually. A road map to put in place risk management systems to prepare BankDhofar to adopt advanced approaches of Basel II has been laid down and a suitable risk based information system is also being developed. Bank has already started conducting training programmes on risk management practices for the staff and such trainings shall be intensified further to ensure percolation of risk culture across BankDhofar.

Bank has also implemented model on Risk Adjusted Return on Capital (RAROC) which provides the risk based pricing, which refers to a process of identifying risks, understanding them and subsequently pricing them appropriately. It is an important aspect of prudent credit risk management and is essential for maintaining financial discipline while giving loans. It helps in not only identifying, but also understanding the risk and pricing it appropriately. Implementing such a system shall provide a competitive edge to BankDhofar in improving the quality of the portfolio and will also cover the cost of doing business in the form of pricing.

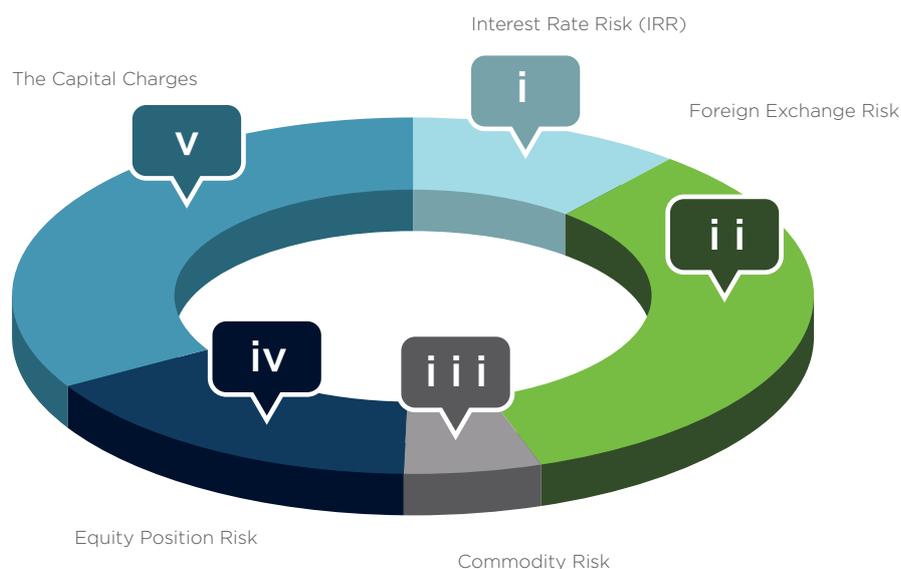
BankDhofar expects to refine the existing risk management systems and practices on an ongoing basis and with that experience, approach the CBO with a framework to move to Internal Rating Based approach (IRB), for its approval at an appropriate time.

3.3.4 Market Risk:

Market Risk is the risk to BankDhofar's earnings and capital due to changes in the interest rates or prices of securities, foreign exchange and equities, as well as the volatilities of those changes. BankDhofar for International Settlements (BIS) defines market risk as "the risk that the value of 'on' or 'off' balance sheet positions will be adversely affected by movements in equity and interest rate markets, currency exchange rates and commodity prices". Market Risk has been categorized into interest rate risk, foreign exchange risk, commodity price risk and equity price risk.

BankDhofar has a comprehensive Treasury Risk Policy and Investment Management Policy which encompasses assessment, monitoring and management of all the above market risks. Bank has defined various internal limits to monitor market risk and is computing the capital requirement as per standardized approach of Basel II.

Details of various market risks faced by BankDhofar are set out below:



i) Interest Rate Risk (IRR)

Interest rate risk is the risk where changes in market interest rates might adversely affect a Bank's financial condition. The immediate impact (up to one year) of changes in interest rates is on the Net Interest Income (NII) and a long term impact (more than one year) of changing interest rates is on BankDhofar's net worth.

The responsibility of interest rate risk management rests with BankDhofar's Asset and Liability Management Committee (ALCO). Bank periodically computes the IRR on BankDhofar's book that arises

due to re-pricing mismatches in interest rate sensitive assets and liabilities. The impact of IRR on the earnings of BankDhofar is computed and placed to ALCO on monthly basis. An internal limit has been set up to monitor the impact of Interest rate risk on NII. Similarly, Bank has developed a model to assess the impact of IRR on BankDhofar's net worth based on duration gap analysis method and an internal limit has also been fixed for the same.

Details relating to re-pricing mismatches and the interest rate

risk thereon are placed to the ALCO and also to the Risk Management Committee of the Board on periodic basis. In addition, scenario analysis assuming a 200 basis point parallel shift in interest rates and its impact on the interest income and net profit of BankDhofar are assessed on a quarterly basis and placed to Risk Management Committee with proposals for corrective action if necessary.

Impact on earnings and economic value of equity due to adverse movement of 100 bps and 200 bps in interest rate is provided as under:

	(RO in Millions)	
Position as at 31.12.2012 Impact on	+ or - 1%	+ or - 2%
Earnings	6.41	12.82
Economic Value of Equity	18.115	36.231
Impact on earning as a % of NII	10.10%	20.20%
Impact as a % of Equity capital	5.50%	11.01%

ii) Foreign Exchange Risk

Foreign Exchange Risk may be defined as the risk that a Bank may suffer losses as a result of adverse exchange rate movements during a period in which it has an open position, either spot or forward, or a combination of the two, in an individual foreign currency.

The responsibility of management of foreign exchange risk rests with the Treasury department. BankDhofar has set up internal limit of 40% of Tier I capital to monitor foreign exchange open positions. Most of the foreign exchange transactions are conducted for corporate customers and mostly are on back to back basis. BankDhofar has also defined various limits for foreign currency borrowing and lending.

BankDhofar also conducts stress tests to assess the impact of foreign exchange risk on its profitability and capital adequacy and the same is placed to Risk Management Committee of Board of Directors on regular basis.

iii) Commodity Risk

Commodity Risk occurs due to volatility in the prices of the commodities. Presently BankDhofar has no exposure to the commodity market.

iv) Equity Position Risk

Equity Position risk occurs due to change in the market value of BankDhofar's portfolio as a result of diminution in the market value of the equity securities. The responsibility of management of equity position risk rests with the Investment Management Department of BankDhofar. BankDhofar does not hold trading position in equities. BankDhofar's portfolio is marked to market on regular basis and the difference in the book value and market value are adjusted against revaluation reserve. BankDhofar also conducts regular stress test on equity position risk and assesses its impact on profitability and capital adequacy.

Bank has introduced the Value at Risk (VaR) method for the domestic quoted equity portfolio and as on 31.12.2012, VaR works out to RO 232K at 95% confidence level, which is 2.78 % of the domestic quoted equity portfolio of RO 8.36Mn.



v) The Capital Charges

The capital charge for the entire market risk exposure is computed as per the standardized approach using the duration method and in accordance with the guidelines issued by CBO in its circular BM 1009. BankDhofar adopts duration method in measuring interest rate risk in respect of debt securities held in trading book. BankDhofar does not hold any trading position in equities and in commodities necessitating capital charge to cover the market risk. Foreign exchange risk capital charge is computed on the three month average of the sum of net short positions or net long positions, whichever is higher of the foreign currency positions held by BankDhofar.

The capital charge for various components of market risk is presented below:

Type of risk	RO'000 Amount
Interest Rate Risk	-
Equity Position Risk	-
Commodities Position risk	-
Foreign Exchange position risk	3,028
TOTAL	3,028

For assessing the Market risk, BankDhofar shall, with the approval of CBO, graduate to more advanced measurement techniques from the present Standardized method.

3.3.5 Liquidity Risk

Liquidity risk is the potential inability to meet the liabilities as they become due. It arises when BankDhofar's are unable to generate cash to cope with a decline in deposits or increase in assets.

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

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

Treasury department of BankDhofar controls and monitors the liquidity risk and ensures that BankDhofar is not exposed to undue liquidity risk and at the same time make optimum use of its funds. Middle office in Risk Management Division also monitors the liquidity position of BankDhofar and provides the liquidity gap positions to Treasury Department to manage it.

Middle office also undertakes regular stress test using simulation technique that provides the requirement of liquidity over a given horizon at a certain confidence level.

BankDhofar has reconciled the statement of Maturity of Assets and Liabilities with the discussions under IFRS (Refer item no. 35 of the Notes to financial statements).



3.3.6 Operational Risk

Basel Committee on Banking Supervision has defined operational risk as "the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events." This definition includes legal risk, but excludes strategic and reputational risk. Legal risk includes, but is not limited to, exposure to fines, penalties, punitive damages resulting from supervisory actions, as well as private settlements.

BankDhofar has a well defined Operational Risk Management (ORM) policy which inter-alia includes Operational Risk Events, Operational Risk losses and ORM process. Business and Functional units are primarily responsible for taking and managing Operational Risk on a day-to-day basis. Risk Management Division provides guidance and assistance in the identification of risk and in the ongoing operational risk management process. Bank has set up Operational Risk Management Committee to identify, manage, measure, monitor, mitigate and report operational risks.

Basel II has provided three different approaches viz., Basic Indicator approach (BIA), The standardized approach (TSA) and Advanced measurement approach to compute the capital charge of Operational Risk. BankDhofar has adopted the BIA for computing the capital charge for Operational Risk as per CBO guidelines. The approach requires BankDhofar to provide 15% of the average gross income for the last three years as capital charge for operational risk.

While BankDhofar has adopted BIA approach for capital adequacy calculation purposes, initiatives has also been taken to move towards adopting The Standardized Approach by mapping the business activities into eight business lines and assessing the operational risk in each of them.

The system of collecting and collating data on operational risk events has been improved further to build a strong loss data base and to move over to the advanced measurement system for operational risk as required by the CBO guidelines. The loss data are being captured using Operational Risk Management System and complete history of the loss data is maintained.

BankDhofar also undertakes Risk Control and Self Assessment exercise by which the inherent risk in various processes of each business unit is identified and control against these risks are assessed for their design and effectiveness. The residual risk (ie inherent risk after controls) provides the potential loss amount and based on residual risk, the controls are improved further.

BankDhofar is also identifying and monitoring the Key Risk Indicators (KRIs) for each business unit. Each KRI has defined threshold limit and an escalation criteria is also attached to it. A breach in threshold of the KRI escalates the risk to the higher authority. All the Operational Risk Management tools are configured in Operational Risk Management System.



Financial statements for the year ended 31st December 2012

best



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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF BANK DHOFAR SAOG

Report on the financial statements

We have audited the financial statements of Bank Dhofar SAOG ("the Bank"), set out on pages 100 to 158, which comprise the statement of financial position as at 31 December 2012, the statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

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

Auditors' responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2012, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on other legal and regulatory requirements

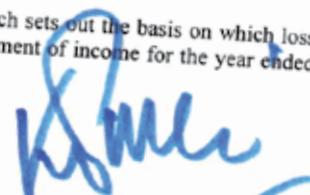
In our opinion the financial statements of the Bank as at and for the year ended 31 December 2012, in all material respects, comply with:

- the relevant disclosure requirements of the Capital Market Authority; and
- the Commercial Companies Law of 1974, as amended.

Emphasis of matter

Without qualifying our opinion, we draw attention to note 6 on page 119 which sets out the basis on which loss from a legal case in the amount of RO 26.1 million was charged to the statement of income for the year ended 31 December 2011.

29 January 2013


Khalid Masud Ansari

Statement of financial position

As at 31 December 2012

2012	2011			2012	2011
USD'000	USD'000		Notes	RO'000	RO'000
Assets					
541,545	647,545	Cash and balances with Central Bank of Oman	5	208,495	249,305
253,013	141,086	Loans and advances to banks	7	97,410	54,318
4,344,177	3,884,834	Loans and advances to customers	8	1,672,508	1,495,661
30,099	29,026	Available-for-sale investments	9	11,588	11,175
260,743	275,990	Held-to-maturity investments	10	100,386	106,256
8,252	9,283	Intangible asset	11	3,177	3,574
24,499	22,091	Property and equipment	12	9,432	8,505
106,062	82,589	Other assets	13	40,834	31,797
5,568,390	5,092,444	Total assets		2,143,830	1,960,591
Liabilities					
230,325	153,345	Due to banks	14	88,675	59,038
4,245,787	3,946,281	Deposits from customers	15	1,634,628	1,519,318
218,242	167,527	Other liabilities	16	84,023	64,498
194,805	229,870	Subordinated loans	17	75,000	88,500
4,889,159	4,497,023	Total liabilities		1,882,326	1,731,354
Shareholder's equity					
285,745	237,724	Share capital	18	110,012	91,524
103,943	151,964	Share premium	19	40,018	58,506
66,628	56,823	Legal reserve	20 (a)	25,652	21,877
29,221	89,915	Subordinated loan reserve	20 (b)	11,250	34,617
4,042	1,629	Investment revaluation reserve	20 (c)	1556	627
189,652	57,366	Retained earnings	21	73,016	22,086
679,230	595,421	Total shareholders' equity		261,504	229,237
5,568,390	5,092,444	Total liabilities and shareholders' equity		2,143,830	1,960,591
984,177	867,364	Contingent liabilities and commitments	32	378,908	333,935
0.618	0.649	Net assets per share (Rial Omani)	22	0.238	0.250

The financial statements on pages 100 to 158 were approved by the Board of Directors on 29 January 2013 and were signed on their behalf by:



Eng. Abdul Hafidh Salim Rajab Al Aujaili
Chairman



Tony Mahoney
Chief Executive Officer

The accompanying notes form an integral part of these financial statements.
Report of the Auditors - page 99

Statement of comprehensive income

for the year ended 31 December 2012

2012	2011		Notes	2012	2011
USD'000	USD'000			RO'000	RO'000
243,379	216,075	Interest income		93,701	83,189
(76,187)	(59,405)	Interest expense		(29,332)	(22,871)
167,192	156,670	Net interest income	23	64,369	60,318
18,958	17,002	Fees and commission income		7,299	6,546
(1,956)	(1,740)	Fees and commission expenses		(753)	(670)
17,002	15,262	Net fees and commission income		6,546	5,876
34,229	32,200	Other income	24	13,178	12,397
218,423	204,132	Operating income		84,093	78,591
(88,345)	(79,600)	Staff and administrative costs	25	(34,013)	(30,646)
(7,881)	(7,267)	Depreciation	12	(3,034)	(2,798)
(96,226)	(86,867)	Operating expenses		(37,047)	(33,444)
122,197	117,265	Profit from operations		47,046	45,147
(18,294)	(17,494)	Provision for loan impairment	8	(7,043)	(6,735)
8,283	12,029	Recoveries from allowance for loan impairment	8	3,189	4,631
(13)	(5)	Bad debts written-off		(5)	(2)
(745)	(2,213)	Impairment of available-for-sale investments	9	(287)	(852)
-	(522)	Other operational losses		-	(201)
-	(67,868)	Loss from a legal case	6	-	(26,129)
111,428	41,192	Profit from operations after provision		42,900	15,859
(13,390)	(4,891)	Income tax expense	27	(5,155)	(1,883)
98,038	36,301	Profit for the year		37,745	13,976
Other comprehensive income:					
3,725	(3,717)	Net changes in fair value of available-for-sale investments	9	1,434	(1,431)
(2,057)	(1,275)	Reclassification adjustment on sale of available-for-sale investments	9	(792)	(491)
99,706	31,309	Total comprehensive income for the year		38,387	12,054
0.088	0.040	Earnings per share basic and diluted (Rials Omani)	28	0.034	0.013

The accompanying notes form an integral part of these financial statements.
Report of the Auditors - page 99

Statement of cash flows

For the year ended 31 December 2012

2012	2011		2012	2011
USD'000	USD'000		RO'000	RO'000
Cash flows from operating activities				
288,584	246,643	Interest, commission and other receipts	111,105	94,958
(75,044)	(54,771)	Interest payments	(28,892)	(21,087)
(70,319)	(125,688)	Cash payments to suppliers and employees	(27,073)	(48,390)
143,221	66,184		55,140	25,481
Decrease in operating assets				
(469,366)	(613,067)	Loans and advances to customers	(180,706)	(236,031)
(124,935)	(948)	Loans and advances to banks	(48,100)	(365)
15,247	2,870	Receipts from treasury bills and certificates of deposits (net)	5,870	1,105
(579,054)	(611,145)		(222,936)	(235,291)
Increase in operating liabilities				
299,506	700,553	Deposits from customers	115,310	269,713
75,543	(68,592)	Due to banks	29,084	(26,408)
375,049	631,961		144,394	243,305
(60,784)	87,000	Net cash from operating activities	(23,402)	33,495
(4,795)	(9,252)	Income tax paid	(1,846)	(3,562)
(65,579)	77,748	Net cash (used in) from operating activities	(25,248)	29,933
Cash flows from investing activities				
4,405	3,647	Investment income	1,696	1,404
(11,033)	(1,049)	Purchase of investments	(4,248)	(404)
12,218	9,655	Proceeds from sale of investments	4,704	3,717
1,036	1,696	Dividend received	399	653
(10,503)	(6,473)	Purchase of property and equipment	(4,044)	(2,492)
719	112	Proceeds from sale of property and equipment	277	43
(3,158)	7,588	Net cash (used in) from investing activities	(1,216)	2,921
Cash flow from financing activities				
64,935	129,870	Subordinate loan	25,000	50,000
(100,000)	-	Subordinate loan repaid	(38,500)	-
(16,642)	(26,413)	Dividend paid	(6,407)	(10,169)
(51,707)	103,457	Net cash (used in) from financing activities	(19,907)	39,831
(120,444)	188,793	Net change in cash and cash equivalents	(46,371)	72,685
777,473	588,680	Cash and cash equivalents at the beginning of the year	299,327	226,642
657,029	777,473	Cash and cash equivalents at the end of the year	252,956	299,327
541,545	647,546	Cash and balances with Central Bank of Oman (Note 5)	208,495	249,305
(1,298)	(1,299)	Capital deposit with Central Bank of Oman	(500)	(500)
119,078	132,086	Loans and advances to banks due within 90 days	45,845	50,853
(2,296)	(860)	Due to banks within 90 days	(884)	(331)
657,029	777,473	Cash and cash equivalents for the purpose of the cash flow statement	252,956	299,327

The accompanying notes form an integral part of these financial statements.
Report of the Auditors - page 99

Statement of changes in equity

	Notes	Share capital	Share premium	Legal reserve	Subordinated loans reserve	Investment revaluation reserve	Retained earnings	Total
		RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
For the year ended 31 December 2012								
1-Jan-2011		81,355	58,506	20,479	25,667	1,697	38,796	226,500
Total comprehensive income for the year								
Profit for the year		-	-	-	-	-	13,976	13,976
Other comprehensive income for the year								
Net change in fair value of available-for-sale investments		-	-	-	-	(1,431)	-	(1,431)
Transfer to statement of income on sale of available-for-sale of investments		-	-	-	-	(491)	-	(491)
Impairment of available-for-sale investments		-	-	-	-	852	-	852
Total comprehensive income for the year						(1,070)	13,976	12,906
Transfer to legal reserve	20	-	-	1,398	-	-	(1,398)	-
Transactions with owners recorded directly in equity								
Dividend paid for 2010		-	-	-	-	-	(10,169)	(10,169)
Bonus shares issued for 2010		10,169	-	-	-	-	(10,169)	-
Transfer to subordinated loan reserve	20	-	-	-	8,950	-	(8,950)	-
31-Dec-2011		91,524	58,506	21,877	34,617	627	22,086	229,237
		USD'000	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000
1-Jan-2011		211,311	151,964	53,192	66,668	4,407	100,769	588,311
Total comprehensive income for the year								
Profit for the year		-	-	-	-	-	36,301	36,301
Other comprehensive income for the year								
Net change in fair value of available-for-sale investments		-	-	-	-	(3,717)	-	(3,717)
Transfer to statement of income on sale of available-for-sale of investments		-	-	-	-	(1,275)	-	(1,275)
Impairment of available-for-sale investments		-	-	-	-	2,213	-	2,213
Total comprehensive income for the year						(2,779)	36,301	33,522
Transfer to legal reserve	20	-	-	3,631	-	-	(3,631)	-
Transactions with owners recorded directly in equity								
Dividend paid for 2010		-	-	-	-	-	(26,413)	(26,413)
Bonus shares issued for 2010		26,413	-	-	-	-	(26,413)	-
Transfer to subordinated loan reserve	20	-	-	-	23,247	-	(23,247)	-
31-Dec-2011		237,724	151,964	56,823	89,915	1,629	57,366	595,421

The accompanying notes form an integral part of these financial statements.
Report of the Auditors – page 99

Statement of changes in equity

For the year ended 31 December 2012	Notes	Share capital	Share premium	Legal reserve	Subordinated loans reserve	Investment revaluation reserve	Retained earnings	Total
		RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
1-Jan-2012		91,524	58,506	21,877	34,617	627	22,086	229,237
Total comprehensive income for the year								
Profit for the year		-	-	-	-	-	37,745	37,745
Other comprehensive income for the year								
Net change in fair value of available-for-sale investments		-	-	-	-	1,434	-	1,434
Transfer to statement of income on sale of available-for-sale of investments		-	-	-	-	(792)	-	(792)
Impairment of available-for-sale investments		-	-	-	-	287	-	287
Total comprehensive income for the year		-	-	-	-	929	37,745	38,674
Transfer to legal reserve	20	-	-	3,775	-	-	(3,775)	-
Transactions with owners recorded directly in equity								
Dividend paid for 2011		-	-	-	-	-	(6,407)	(6,407)
Bonus shares issued for 2011		18,488	(18,488)	-	-	-	-	-
Transfer to subordinated loan reserve	20	-	-	-	15,133	-	(15,133)	-
Transfer to retained earnings	20	-	-	-	(38,500)	-	38,500	-
31-Dec-2012		110,012	40,018	25,652	11,250	1,556	73,016	261,504
		USD'000	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000
1-Jan-2012		237,724	151,964	56,823	89,915	1,628	57,366	595,420
Total comprehensive income for the year								
Profit for the year		-	-	-	-	-	98,039	98,039
Other comprehensive income for the year								
Net change in fair value of available-for-sale investments		-	-	-	-	3,725	-	3,725
Transfer to statement of income on sale of available-for-sale of investments		-	-	-	-	(2,057)	-	(2,057)
Impairment of available-for-sale investments		-	-	-	-	745	-	745
Total comprehensive income for the year		-	-	-	-	2,414	98,039	100,453
Transfer to legal reserve	20	-	-	9,805	-	-	(9,805)	-
Transactions with owners recorded directly in equity								
Dividend paid for 2011		-	-	-	-	-	(16,642)	(16,642)
Bonus shares issued for 2011		48,021	(48,021)	-	-	-	-	-
Transfer to subordinated loan reserve	20	-	-	-	39,306	-	(39,306)	-
Transfer to retained earnings	20	-	-	-	(100,000)	-	100,000	-
31-Dec-2012		285,745	103,943	66,628	29,221	4,042	189,652	679,231

The accompanying notes form an integral part of these financial statements.
Report of the Auditors - page 99



Notes to financial statements 2012

BankDhofar S.A.O.G.



bank

1. Legal status and principal activities

BankDhofar S.A.O.G. (“BankDhofar”) is incorporated in the Sultanate of Oman as a public joint stock company and is principally engaged in corporate, retail and investment banking activities. BankDhofar has a primary listing on the Muscat Securities Market (“MSM”) and its principal place of business is the Head Office, Capital Business District (“CBD”), Muscat, Sultanate of Oman.

2. Basis of preparation

a) Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by International Accounting Standards Board (IASB), disclosure requirements of the Capital Market Authority and the Commercial Companies Law of 1974, as amended.

b) Basis of measurement

The financial statements have been prepared on the historical cost basis except for derivative financial instruments, financial instruments at fair value through profit and loss and available-for-sale financial assets which are measured at fair value.

c) Functional and presentation currency

Items included in BankDhofar’s financial statements are measured using Rials Omani which is the currency of the primary economic environment in which BankDhofar operates, rounded off to the nearest thousand.

d) 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 the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

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

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

e) Accounting policies

The accounting policies set below have been consistently applied in dealing with items that are considered material in relation to BankDhofar’s financial statements to all the periods presented.

3. Principal accounting policies

3.1. Foreign currency translations

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

3.2. Financial instruments

3.2.1. Recognition

BankDhofar recognises loans and advances, deposits, debt securities and subordinated liabilities on the date at which they originated. Regular way purchases and sales of financial assets are recognised on the trade date at which BankDhofar commits to purchase and sell the asset. All other financial assets and liabilities (including assets and liabilities at fair value through profit or loss) are initially recognised on the trade date at which BankDhofar becomes a party to the contractual provisions of the instrument.

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

3.2.2. Classification

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

3.2.2.1. Financial assets at fair value through profit or loss

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

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

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

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

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

3.2.2. Classification (Continued)

3.2.2.2. Loans and receivables

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

3.2.2.3. Available-for-sale investments

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

3.2.2.4. Held-to-maturity investments

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

3.2.3. Derecognition

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

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

3.2.4. Measurement

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

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

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

3.2.5. Fair value measurement principles

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

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market related rate at the reporting date for an instrument with similar terms and conditions.

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

3.2. Financial instruments (Continued)

3.2.6. Gains and losses on subsequent measurement

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

3.3. Cash and cash equivalents

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

3.4. Treasury bills and certificate of deposits

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

3.5. Offsetting

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

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

3.6. Impairment of financial assets

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

- (i) significant financial difficulty of the issuer or obligor;
- (ii) a breach of contract, such as a default or delinquency in interest or principal payments;
- (iii) BankDhofar granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the lender would not otherwise consider;
- (iv) it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- (v) the disappearance of an active market for that financial asset because of financial difficulties; or
- (vi) observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:
 - adverse changes in the payment status of borrowers in the group;
 or
 - national or local economic conditions that correlate with defaults on the assets in the group.

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

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

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

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

3.6. Impairment of financial assets (Continued)

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 BankDhofar and historical loss experience for assets with credit risk characteristics similar to those in the Group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

Estimates of changes in future cash flows for groups of assets should reflect and be directionally consistent with changes in related observable data from period to period (for example, changes in unemployment rates, property prices, payment status, or other factors indicative of changes in the probability of losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by BankDhofar to reduce any differences between loss estimates and actual loss experience. When a loan is known to be uncollectible, all the necessary legal procedures have been completed, and the final loss has been determined, the loan is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are included in the statement of income.

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

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

3.7. Property and equipment

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

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

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

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

3.8. Intangible assets

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

3.9. Provisions

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

3.10. Dividends

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

3.11. Interest income and expense

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

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

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

3.12. Fees and commission income

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

3.13. Taxation

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

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

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

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

3.14. Employee benefits

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

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

3.15. Derivative financial instruments

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

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

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

3.15.1 Embedded derivatives

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

3.15.2 Hedge accounting

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

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

3.15.3 Fair value hedges

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

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

3.15.4 Cash flow hedges

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

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

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

3.16. Sale and repurchase agreements

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

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

3.17. Borrowings

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

3.18. Segment reporting

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

3.19. Fiduciary assets

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

3.20. Trade and settlement date accounting

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

3.21. Directors' remuneration

Directors' remuneration is calculated in accordance with the Commercial Companies Law of 1974.

3.22. Standards not yet effective

Management anticipates that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of the Company in the period of initial application except IFRS 9: Financial Instruments : Classification and Measurement and IFRS 13: Fair Value measurement.

IFRS 9 Financial Instruments: Classification and Measurement (effective from 1 January 2015) deals with classification and measurement of financial assets. The requirements of this standard represent a significant change from the existing requirements in IAS 39 in respect of financial assets. IFRS 13 Fair value measurement (effective from 1 January 2013) deals with the fair value measurements and disclosures about fair value measurements.

The management are in the process of determining the impacts, if any, on BankDhofar's financial position and financial performance.

4. Critical accounting judgment and key sources of estimation uncertainty

(a) Classification of investments

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

Available-for-sale investments

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

Held-to-maturity investments

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

(b) Fair value estimation

Fair value is based on quoted market prices at reporting date without any deduction for transaction costs. If a quoted market price is not available, fair value is estimated based on discounted cash flow and other valuation techniques.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market-related rate for a similar instrument at the reporting date.

(c) Impairment

Impairment losses on loans and advances

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

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires BankDhofar to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value. The carrying amount of goodwill at the reporting date in the financial statements was RO 3,176,795 (2011: RO 3,573,899).

Impairment of available-for-sale investment

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

(d) Useful life of property and equipment

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

5. Cash and balances with Central Bank of Oman

	2012	2011
	RO'000	RO'000
Cash in hand	20,468	12,512
Balances with the Central Bank of Oman	118,027	96,793
Certificate of deposits with maturity of 90 days or less	70,000	140,000
	208,495	249,305

At 31 December 2012, cash and balances with Central bank of Oman included balances with the Central Bank of Oman amounting to RO 500,000 (2011: RO 500,000) as minimum reserve requirements. These funds are not available for BankDhofar's daily business.

Outstanding certificate of deposits as of 31 December 2012 were issued by the Central Bank of Oman and carried an average interest rate of 0.09% (2011: 0.06%) per annum.

6. Loss from a legal case

The Enforcement Court vide its order ref 1959/2006/10484 dated 25 June 2011 had ordered BankDhofar to transfer an amount of RO 26.1 million to its account (which has been paid) in connection with the legal case filed by Oman International Bank ("OIB") (currently HSBC Oman) against Ali Redha Al-Lawati and his companies (Ali Redha Trading and Muttrah Holding) and BankDhofar wherein Ali Redha Al-Lawati and his companies had claimed to own 1.925 million shares of BankDhofar and OIB (currently HSBC Oman) had claimed that these shares were pledged in its favour. This was categorically disputed by BankDhofar from the beginning and clarified clearly that this pledge was invalid and baseless due to lack of clear supporting documentation.

The case was primarily filed against Majan International Bank ("MIB") in 2001, which was acquired by BankDhofar in 2003 and the disputed shares were MIB shares.

On 24 July 2011, the Primary Court with the bench of three judges issued a judgment overruling the above judgment of the Enforcement Court that imposed an attachment of RO 26.1 million and considered the attachment as null and void. This judgment was appealed by OIB (currently HSBC Oman), Ali Redha and his group companies on 3 August 2011. The Appeal Court on 12 March 2012 rejected the appeal and upheld the Primary Court judgment. BankDhofar is taking all necessary legal action to recover RO 26.1 million.

7. Loans and advances to banks

	2012	2011
	RO'000	RO'000
Placements with other banks	85,572	44,883
Current clearing accounts	11,838	9,435
	97,410	54,318

At 31 December 2012, three placements with one local bank represented 20% or more of BankDhofar's placements (2011: two banks).

8. Loans and advances to customers

	2012	2011
	RO'000	RO'000
Overdrafts	130,559	108,851
Loans	1,499,949	1,373,295
Loans against trust receipts	88,009	69,372
Bills discounted	3,532	2,208
Advance against credit cards	7,881	7,701
Others	18,058	11,788
Gross loans and advances	1,747,988	1,573,215
Less: Impairment allowance	(75,480)	(77,554)
Net loans and advances	1,672,508	1,495,661

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

Loan and advances are summarised as follows

	2012		2011	
	Loans and advances to customers RO'000	Loans and advances to banks RO'000	Loans and advances to customers RO'000	Loans and advances to banks RO'000
Neither past due nor impaired	1,680,052	97,410	1,477,217	54,318
Past due but not impaired	12,264	-	36,343	-
Impaired	55,672	-	59,655	-
Gross loans and advances	1,747,988	97,410	1,573,215	54,318
Less: Impairment allowance	(75,480)	-	(77,554)	-
Total	1,672,508	97,410	1,495,661	54,318

Loans and advances neither past due nor impaired

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

Loans and advances past due but not impaired

	2012	2011
	RO'000	RO'000
Past due up to 30 days	6,838	29,772
Past due 30 - 60 days	4,139	3,042
Past due 60 - 89 days	1,287	3,529
Total	12,264	36,343

Impaired

	2012	2011
	RO'000	RO'000
Substandard	2,011	2,054
Doubtful	3,585	1,976
Loss	50,076	55,625
Total	55,672	59,655

Fair value of collaterals

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

Loans and advances renegotiated

Restructuring activities include extended payment arrangements, approved external management plans, modification and deferral of payments. Restructuring policies and practices are based on indicators or criteria which, in the judgment of management, indicate that payment will most likely continue. These policies are kept under continuous review. Restructuring is most commonly applied to term loans, in particular customer finance loans. Renegotiated loans that are classified as standard amounted to RO 5,210,000 at 31 December 2012 (2011: RO 3,009,000).

9. Available-for-sale investments

Quoted on the Muscat Securities Market

	Fair Value		
	Cost	2012	2011
	RO'000	RO'000	RO'000
Banking and investments	1,530	1,635	1,418
Services	3,787	4,278	3,477
Industrial	2,267	2,749	3,394
	7,584	8,662	8,289
Unquoted			
Omani companies	2,448	2,926	2,886
	2,448	2,926	2,886
	10,032	11,588	11,175

10. Held-to-maturity investments

	2012	2011
	RO'000	RO'000
Treasury bills with maturity of above 90 days	23,094	36,658
Government Development Bonds	77,292	69,598
	100,386	106,256

Outstanding treasury bills were issued by central banks outside Sultanate of Oman for a term of 3 to 6 months and carry interest rates ranging from 0.33% to 0.39% (2011: 0.14% to 0.20%) per annum.

Outstanding Government Development Bonds carry interest ranging from 3.25% to 5.50% (2011: 3.25% to 4%) per annum and mature from 2014 to 2022.

11. Intangible asset

The movement in goodwill account is as follows:

1 January	3,574	3,971
Impaired during the year	(397)	(397)
31 December	3,177	3,574

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

12. Property and equipment

Cost	Freehold land	Buildings	Furniture And Fixtures	Motor vehicles	Computer equipment	Capital work-in-progress	Total
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
1 January 2012	140	1,573	8,471	1,440	13,756	166	25,546
Additions	-	-	2,217	284	1,543	-	4,044
Disposals/transfers	-	-	(265)	(133)	(382)	(2)	(782)
31 December 2012	140	1,573	10,423	1,591	14,917	164	28,808
Depreciation							
1 January 2012	-	879	6,465	950	8,747	-	17,041
Charge for the year	-	59	1,041	331	1,603	-	3,034
Disposals	-	-	(258)	(131)	(310)	-	(699)
31 December 2012	-	938	7,248	1,150	10,040	-	19,376
Carrying value -31 December 2012	140	635	3,175	441	4,877	164	9,432
31 December 2011	140	694	2,006	490	5,009	166	8,505

13. Other assets

	2012	2011
	RO'000	RO'000
Acceptances	33,447	25,142
Interest receivable	3,352	3,321
Prepaid expenses	2,101	1,920
Dividends receivable	8	49
Positive fair value of derivatives (note 33)	-	130
Other receivables	1,926	1,235
	40,834	31,797

14. Due to banks

	2012	2011
	RO'000	RO'000
Inter bank borrowings	87,791	58,707
Payable on demand	884	331
	88,675	59,038

In 2012, BankDhofar availed bilateral loans amounting to US Dollar 64,500,000 and Euro 25,000,000 from various regional banks (2011: US Dollar 75,000,000).

At 31 December 2012, three borrowings with one bank represented 20% or more of BankDhofar's borrowings (2011: one bank). BankDhofar has not had any defaults of principal, interest or other breaches during the year on its borrowed funds.

15. Deposits from customers

Current accounts	322,219	282,133
Savings accounts	269,817	242,524
Time deposits	1,038,405	991,462
Margin accounts	4,187	3,199
	1,634,628	1,519,318

Current accounts and time deposits include deposits from the Government of the Sultanate of Oman and its entities amounting to RO 562,397,000 as at 31 December 2012 (2011: RO 498,002,000).

16. Other liabilities

	2012	2011
	RO'000	RO'000
Acceptances	33,447	25,142
Interest payable	3,533	3,093
Creditors and accruals	40,497	33,084
Income tax provision	5,251	2,052
Deferred tax liability (note 27)	554	444
Negative fair value of derivatives (note 33)	40	-
Employee terminal benefits	701	683
	84,023	64,498

Employee terminal benefits

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

1 January	683	554
Expense recognised in the statement of income	176	184
Paid to employees	(158)	(55)
	701	683

17. Subordinated loans

Subordinated loan - US Dollar	-	38,500
Subordinated loan - RO	75,000	50,000
	75,000	88,500

In December 2012, BankDhofar availed RO 25 million unsecured subordinated loan from the major shareholders for a tenor of 5 years and one month. This facility carries a fixed rate of interest of 5.12% per annum payable half yearly with principle being repaid on maturity.

In November 2011, BankDhofar availed RO 50 million unsecured subordinated loan from the major shareholders for a tenor of 5 years and one month. This facility carries a fixed rate of interest of 5.5% per annum payable half yearly, with principal being repaid on maturity.

Subordinate loan denominated in US Dollar was fully paid during the year.

18. Share capital

The authorised share capital consists of 2,200,000,000 shares of RO 0.100 each (2011: 1,000,000,000 shares of RO 0.100 each).

At 31 December 2012, the issued and paid up share capital comprise 1,100,116,474 shares of RO 0.100 each (2011: 915,238,331 shares of RO 0.100 each).

Shareholders

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

	2012		2011	
	No. of shares	%	No. of shares	%
	RO'000	RO'000	RO'000	RO'000
Dhofar International Development and Investment Company S.A.O.G.	305,767,544	27.8	251,697,133	27.5
Eng. Abdul Hafidh Salim Rajab Al Aujaili and his related Companies	229,249,889	20.8	188,891,756	20.6
Civil Service Employees Pension Fund	111,124,474	10.1	92,516,601	10.1
Total	646,141,907	58.7	533,105,490	58.2
Others	453,974,567	41.3	382,132,841	41.8
	1,100,116,474	100.0	915,238,331	100.0

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

19. Share premium

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

On 28 March 2012, the Shareholders of BankDhofar in the annual general meeting approved the issuance of 20.20% bonus shares amounting to RO 18,487,814 (184,878,143 shares of par value RO 0.100 each) from the share premium account.

20. Reserves

(a) Legal reserve

	2012	2011
	RO'000	RO'000
1 January	21,877	20,479
Appropriation for the year	3,775	1,398
31 December	25,652	21,877

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

(b) Subordinated loans reserves

	2012	2011
	RO'000	RO'000
1 January	34,617	25,667
Appropriation for the year:	-	
Subordinated loan reserve - US Dollar	5,133	7,700
Subordinated loan reserve - RO	10,000	1,250
Transfer to retained earnings on maturity - US Dollar	(38,500)	-
31 December	11,250	34,617

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

(c) Investment revaluation reserve

The movements in the investments revaluation reserve is analysed below:

1 January	627	1,697
Increase (Decrease) in fair value	1,434	(1,431)
Impairment of available-for-sale investments taken to statement of income	287	852
Net transfer to statement of income on sale of available-for-sale investment	(792)	(491)
31 December	1,556	627

21. Retained earnings

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

22. Net assets per share

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

	2012	2011
Net assets (RO)	261,504,000	229,237,000
Number of shares outstanding at 31 December (Nos.)	1,100,116,474	915,238,331
Net assets per share (RO)	0.238	0.250

23. Net interest income

	2012	2011
	RO'000	RO'000
Loans and advances to customers	93,106	82,966
Debt investments	193	138
Money market placements	392	75
Others	10	10
Total interest income	93,701	83,189
Deposits from customers	(27,711)	(20,864)
Money market deposits	(1,621)	(2,007)
Total interest expense	(29,332)	(22,871)
Net interest income	64,369	60,318

Included in interest income from debt investments is an amount of RO 97,573 (2011: RO 54,082) being interest income from held-to-maturity investments.

Included in interest expenses from customer interest on subordinated loan against related parties RO 2,810,188 (2011: RO 354,109)

24. Other income

	2012	2011
Foreign exchange	1,162	1,195
Investment income (see below)	2,954	2,739
Miscellaneous income	9,062	8,463
	13,178	12,397
Investment income		
Dividend income- available-for-sale investments	391	604
Gain on disposal of available-for-sale investments	867	731
Interest income on Government Development Bonds/Other Bonds	1,696	1,404
	2,954	2,739

25. Staff and administrative costs

(a) Staff costs

	2012	2011
	RO'000	RO'000
Salaries and allowances	19,705	17,823
Other personnel costs	1,785	1,518
Scheme costs	963	850
Non-Omani employees terminal benefit	176	184
	22,629	20,375



At 31 December 2012, BankDhofar had 1,266 employees (2011: 1,202 employees).

(b) Administrative costs

Occupancy costs	2,884	2,450
Operating and administration cost	7,410	6,834
Impairment of goodwill	397	397
Others	693	590
	11,384	10,271
	34,013	30,646

26. Impairment of financial assets

	2012	2011
	RO'000	RO'000
Impairment of available-for-sale investments	287	852
Provision for loan impairment	7,043	6,735
Other operating losses	-	201
Loans written-off	5	2
	7,335	7,790
Recoveries from provision for loan impairment	(3,189)	(4,631)
Net impairment charge of financial assets	4,146	3,159

27. Income tax

(a) Income tax expense:

Current tax

Current year	5,045	1,729
Prior years	-	4

	5,045	1,733
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Deferred tax

Current year	110	179
Prior years	-	(29)

Tax expense for the year	5,155	1,883
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(b) Reconciliation:

BankDhofar is liable to income tax for the year 2012 in accordance with the income tax laws of the Sultanate of Oman at the rate of 12% on taxable profits in excess of RO 30,000.

The following is a reconciliation of income taxes calculated at the applicable tax rate with the income tax expense:

	2012	2011
	RO'000	RO'000
Accounting profit for the year	42,900	15,859
Tax liability at the rates mentioned above	5,144	1,900
Tax exempt revenue	(151)	(138)
Non-deductible expenses	90	146
Prior years current tax	-	4
Deferred tax Prior years	72	(29)
Tax expense	5,155	1,883

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

Particulars	2011	Recognised in statement of income	2012
	RO'000	RO'000	RO'000
Property, plant and equipment	(156)	(50)	(206)
Intangible asset	(384)	12	(372)
Provisions	96	(72)	24
Net deferred tax liability	(444)	(110)	(554)

(d) Status of previous year returns:

The tax returns of BankDhofar for the years 2009 to 2011 have not yet been agreed with the Secretariat General for Taxation at the Ministry of Finance.

Management are of the opinion that additional taxes, if any, related to the open tax years would not be significant to BankDhofar's financial position as at 31 December 2012.

28. Earnings per share (basic and diluted)

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

	2012	2011
Profit for the year (RO)	37,745,000	13,976,000
Weighted average number of shares outstanding during the year	1,100,116,474	1,100,116,474
Earnings per share basic and diluted (RO)	0.034	0.013

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

During the year ended 31 December 2012, BankDhofar issued 184.878 million bonus shares of RO 0.100 each to the existing shareholders, since the bonus issue was without consideration; the issue is treated as if it had occurred prior to the beginning of year 2011.

29. Related parties transactions

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

Loans and advances

Directors and shareholders holding less than 10% interest in BankDhofar	11,690	19,005
Directors and shareholders holding 10% or more interest in BankDhofar	25,391	28,734
	37,081	47,739

Subordinated loans

Directors and shareholders holding less than 10% interest in BankDhofar	35,000	23,000
Directors and shareholders holding 10% or more interest in BankDhofar	40,000	27,000
	75,000	50,000

	2012	2011
Deposits and other accounts		
Directors and shareholders holding less than 10% interest in BankDhofar	127,357	97,315
Directors and shareholders holding 10% or more interest in BankDhofar	229,495	205,484
	356,852	302,799
Contingent liabilities and commitments		
Directors and shareholders holding less than 10% interest in BankDhofar	2,380	1,453
Directors and shareholders holding 10% or more interest in BankDhofar	14,750	16,050
	17,130	17,503
Remuneration paid to Directors		
Chairman		
- remuneration proposed	15	15
- sitting fees paid	10	10
Other Directors		
- remuneration proposed	102	101
- sitting fees paid	73	74
	200	200
Other transactions		
Rental payment to a related party	374	331
Other transactions	60	52
	923	974
	36	93
	959	1,067
Key management compensation		
Salaries and other benefits	923	974
End of service benefits	36	93
	959	1,067

30. Fiduciary assets

At 31 December 2012, there were no funds under management with BankDhofar (2011 RO Nil).

31. Single borrower and senior members

	2012	2011
Total direct exposure	68,524	28,653
Number of Members	2	1

(b) Senior Members

Total exposure:		
Direct	39,297	49,939
Indirect	17,130	17,503
	56,427	67,442
Number of Members	23	24

32. Contingent liabilities and commitments

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

	2012	2011
	RO'000	RO'000
Letters of credit	70,239	62,117
Guarantees and performance bonds	136,197	124,555
Advance payment guarantees	79,633	79,274
Payment guarantees	78,048	67,047
Others	14,791	942
	378,908	333,935

At 31 December 2012, letters of credit, guarantees and other commitments amounting to RO 13,408,000 (2011: RO 7,266,000) are counter guaranteed by other banks.

(b) Legal cases

(i) During the previous years, the Primary Court decided a compensation of RO 5,000,000 to be paid by BankDhofar to the plaintiff Mr. Ali Redha Al Lawati against his alleged commercial damages. The plaintiff appealed requesting increase in the judgment amount. BankDhofar had also appealed against the primary judgment and the Appeal Court had appointed a team of experts to report on technical issues in the dispute. During 2009, the team of experts submitted their report on technical issues to the Court and based on that report, the Appeal Court ruled in favour of BankDhofar and revoked the previous judgment by the Primary Court. Further, during 2010, the Plaintiff again appealed against the decision of the Appeal Court in the Supreme Court and the final decision is awaited.

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

BankDhofar has earlier received in its favour judgments ref 365/2002, 364/2002 and 598/2002 dated 3 June 2007, 6 January 2004 and 14 January 2004 respectively from the Primary Court ordering Ali Redha Al Lawati and his companies (Ali Redha Trading and Muttrah Holding) to pay off the dues amounting to RO 11.9 million to BankDhofar.

(ii) Another plaintiff has filed a lawsuit against BankDhofar claiming a compensation of RO 1,037,550 for commercial and moral damages. A judgement was issued directing BankDhofar to pay to the plaintiff an amount of RO 400,000. BankDhofar challenged the judgement in the Supreme Court. On 23 May 2012, the Supreme Court revoked the Appeal Court confirmation of the primary judgment. Further, the Supreme Court directed the Appeal Court to review the primary judgment, and final decision is awaited. BankDhofar had earlier received in its favour a final judgement directing the plaintiff to pay to BankDhofar an amount of RO 381,203 together with interest at the rate of 10.5% per annum up to the date of final payment.

(c) Capital and investment commitments

	2012	2011
	RO'000	RO'000
Contractual commitments for property and equipment	2,015	1,740

33. Derivative financial instruments

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

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

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

Fair value increase / decrease

At 31 December 2012

	Contract / notional amount	Assets	Liabilities
	RO'000	RO'000	RO'000
Foreign exchange derivatives			
Currency forward - purchase contracts	46,430	67	-
Currency forward - sales contracts	46,473	-	107

Fair value increase

At 31 December 2011

	Contract / notional amount	Assets	Liabilities
	RO'000	RO'000	RO'000
Foreign exchange derivatives			
Currency forward - purchase contracts	73,234	354	-
Currency forward - sales contracts	73,112	-	224

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

	Assets		Liabilities	
	2012	2011	2012	2011
	RO'000	RO'000	RO'000	RO'000
Expected cash flow less than 6 months	-	130	40	-

34. Fair value information

Based on the valuation methodology outlined below, the fair values of all financial instruments at 31 December 2012 are considered by the Management not to be materially different to their book values.

Estimation of fair values

The following summarises the major methods and assumptions used in estimating the fair values of assets and liabilities:

Loans and advances

Fair value is calculated based on discounted expected future principal and interest cash flows. Loan repayments are assumed to occur at contractual repayment dates, where applicable. For loans that do not have fixed repayment dates or that are subject to prepayment risk, repayments are estimated based on experience in previous periods when interest rates were at levels similar to current levels, adjusted for any differences in interest rate outlook. Expected future cash flows are estimated considering credit risk and any indication of impairment. Expected future cash flows for homogeneous categories of loans are estimated on a portfolio basis and discounted at current rates offered for similar loans to new borrowers with similar credit profiles. The estimated fair values of loans reflect changes in credit status since the loans were made and changes in interest rates in the case of fixed rate loans.

Investments

Fair value is based on quoted market prices at the reporting date without any deduction for transaction costs. If a quoted market price is not available, fair value is estimated based on discounted cash flow and other valuation techniques.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market-related rate for a similar instrument at the reporting date.

Current account balances due to and due from banks

The carrying amount of current account balances due to and from banks was considered to be a reasonable estimate of fair value due to their short term nature.

Bank and customer deposits

For demand deposits and deposits with no defined maturities, fair value is taken to be the amount payable on demand at the reporting date. The estimated fair value of fixed-maturity deposits, including certificates of deposit, is based on discounted cash flows using rates currently offered for deposits of similar remaining maturities. The value of long-term relationships with depositors is not taken into account in estimating fair values.

Other financial instruments

No fair value adjustment is made with respect to credit-related off-balance sheet financial instruments, which include commitments to extend credit, standby letters of credit and guarantees, as the related future income streams materially reflect contractual fees and commissions actually charged at the reporting date for agreements of similar credit standing and maturity.

Foreign exchange contracts are valued based on market prices. The market value adjustments in respect of foreign exchange contracts are included in other assets and other liabilities.

Fair value versus carrying amounts

The fair value of the financial assets and liabilities approximates their carrying value as stated in the statement of financial position.

Fair value measurements recognised in the statement of financial position

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into levels 1 to 3 based on the degree to which the fair value is observable:



Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;



Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and



Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	Level 1	Level 2	Level 3	Level 4
	RO'000	RO'000	RO'000	RO'000
At 31 December 2012				
Available-for-sale investments Equity instruments	8,662	-	2,926	11,588
At 31 December 2011				
Available-for-sale investments Equity instruments	8,289	-	2,886	11,175

35. Financial risk management

The important types of financial risks to which BankDhofar is exposed are credit risk, liquidity risk and market risk. The risk management division of BankDhofar is an independent and dedicated unit reporting directly to the Risk Management Committee ("RMC") of the Board. The division's primary responsibility is to assess, monitor and recommend strategies for control of credit, market and operational risk. The absence of any direct or indirect reporting

lines and permanent membership in all BankDhofar's committees are among the factors which reflect the independence of the Risk Management Divisions (RMD) working and the key role it plays within BankDhofar.

The risk management framework is pivoted on a host of committees involving the executive management and the Board of Directors ("the Board") for approval and reporting

purposes. The Board has the overall authority for approval of strategies and policies, which it exercises through its various sub-committees. The Risk Management Committee of the Board is responsible for reviewing and recommending to the full Board for approval all risk policies and procedures. RMC also reviews the risk profile of BankDhofar as presented to it by the RMD and appraises the full Board in its periodic meetings.

Credit risk

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

Executive Committee of the Board is the final credit approving authority of BankDhofar which is mainly responsible for approving all credit proposals beyond the authority level of the management and also for reviewing and approving credit policies. This committee is also the final authority for approving investments beyond the authority of the management. The Management

Credit Committee ("MCC") is the management decision making body which is empowered to consider all credit related issues upto certain limits.

Credit risk is managed by the RMD through a system of independent risk assessment in credit proposals beyond a threshold limit of RO 100,000 before they are considered by the appropriate approving authorities. BankDhofar has in place a risk grading system for analyzing the risk associated with credit. This facilitates the approving authorities in making their credit decision. In addition, RMD

assists/ reviews grading of obligors, conducts regular macro analysis of the credit portfolio, and monitors credit concentration limits. Maximum counterparty/group exposures are limited to 15% of BankDhofar's capital base as stipulated by CBO and where a higher limit is required for projects of national importance prior CBO approval is obtained. Individual country limits using Moody's, S&P and Fitch ratings have also been set up to ensure portfolio diversification in terms of sovereign risk ratings and geographical exposure. These limits are approved by the Board. Retail lending is strictly in accordance with the CBO guidelines. The analysis of credit is given below:

(a) Geographical concentrations

	Assets			Liabilities		
	Loans and advances to banks	Gross loans and advances	Investment securities	Deposits from customers	Due to banks	Contingent liabilities
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
31 December 2012						
Sultanate of Oman	38,175	1,741,403	88,880	1,631,711	10,175	292,818
Other GCC countries	5,898	5,687	23,094	2,699	66,809	29,033
Europe and North America	33,877	898	-	-	82	38,994
Africa and Asia	19,460	-	-	218	11,609	18,063
	97,410	1,747,988	111,974	1,634,628	88,675	378,908
31 December 2011						
Sultanate of Oman	10,000	1,565,848	80,773	1,517,105	266	271,467
Other GCC countries	23,118	6,156	36,658	2,070	45,297	22,485
Europe and North America	17,610	1,211	-	-	13,475	31,248
Africa and Asia	3,590	-	-	143	-	8,735
	54,318	1,573,215	117,431	1,519,318	59,038	333,935

(b) Customer concentrations

	Assets			Liabilities		
	Loans and advances to banks	Gross loans and advances	Investment securities	Deposits from customers	Due to banks	Contingent liabilities
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
31 December 2012						
Personal	-	789,742	-	374,414	-	13,909
Corporate	97,410	843,978	34,682	697,817	88,675	360,048
Government	-	114,268	77,292	562,397	-	4,951
	97,410	1,747,988	111,974	1,634,628	88,675	378,908
31 December 2011						
Personal	-	690,953	-	373,924	-	268
Corporate	54,318	740,112	47,833	647,392	59,038	332,030
Government	-	142,150	69,598	498,002	-	1,637
	54,318	1,573,215	117,431	1,519,318	59,038	333,935



(c) Economic sector concentrations

	Assets		Liabilities	
	Gross loans and advances	Deposits from customers	Contingent liabilities	
	RO'000	RO'000	RO'000	
31 December 2012				
Personal	789,742	374,414	13,909	
International trade	99,387	17,185	24,463	
Construction	217,077	60,838	196,370	
Manufacturing	154,985	23,035	44,213	
Wholesale and retail trade	40,091	6,247	12,205	
Communication and utilities	57,828	16,004	12,669	
Financial services	88,864	31,329	322	
Government	114,268	562,397	4,951	
Other services	95,661	129,237	54,723	
Others	90,085	413,942	15,083	
	1,747,988	1,634,628	378,908	
31 December 2011				
Personal	690,953	373,924	268	
International trade	102,162	15,510	23,703	
Construction	166,700	62,161	180,617	
Manufacturing	110,791	31,096	39,350	
Wholesale and retail trade	54,371	6,511	12,300	
Communication and utilities	70,787	11,277	12,316	
Financial services	86,330	36,489	13,227	
Government	142,150	498,002	1,637	
Other services	68,563	122,336	31,443	
Others	80,408	362,012	19,074	
	1,573,215	1,519,318	333,935	

(d) Gross credit exposure

	Total gross exposure		Monthly average gross exposure	
	2012	2011	2012	2011
	RO'000	RO'000	RO'000	RO'000
Overdrafts	130,559	108,851	120,272	107,806
Loans	1,499,949	1,373,295	1,472,942	1,228,455
Loans against trust receipts	88,009	69,372	76,477	77,842
Bills discounted	3,532	2,208	3,493	3,495
Advance against credit cards	7,881	7,701	7,597	8,405
Advance against receivable	18,058	11,788	14,796	11,292
Total	1,747,988	1,573,215	1,695,577	1,437,295

(e) Geographical distribution of exposures:

	Sultanate of Oman	Other countries	Total
	RO'000	RO'000	RO'000
31 December 2012			
Overdrafts	130,559	-	130,559
Loans	1,493,653	6,296	1,499,949
Loans against trust receipts	87,720	289	88,009
Bills discounted	3,532	-	3,532
Advance against credit cards	7,881	-	7,881
Others	18,058	-	18,058
	1,741,403	6,585	1,747,988
31 December 2011			
Overdrafts	108,851	-	108,851
Loans	1,366,278	7,017	1,373,295
Loans against trust receipts	69,022	350	69,372
Bills discounted	2,208	-	2,208
Advance against credit cards	7,701	-	7,701
Others	11,788	-	11,788
	1,565,848	7,367	1,573,215

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

	Overdrafts	Loans	Bills discounted	Others	Total	Off balance sheet exposures
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
31 December 2012						
Import trade	11,247	62,484	-	25,400	99,131	24,372
Export trade	5	13	-	238	256	91
Wholesale/retail trade	6,612	25,085	-	8,394	40,091	12,205
Mining and quarrying	4,093	17,109	218	2,116	23,536	2,450
Construction	49,542	136,432	1,006	30,097	217,077	196,370
Manufacturing	9,405	107,419	2,142	36,019	154,985	44,213
Electricity, gas and water	52	34,234	156	58	34,500	8,585
Transport and communication	204	23,124	-	-	23,328	4,084
Financial institutions	2,972	85,868	-	24	88,864	322
Services	30,415	62,234	-	3,012	95,661	54,723
Personal loans	8,695	773,313	-	7,734	789,742	13,909
Agriculture and allied activities	2,164	5,093	10	84	7,351	915
Government	-	114,265	-	3	114,268	4,951
Non resident lending	-	6,296	-	289	6,585	30
Others	5,153	46,980	-	480	52,613	11,688
	130,559	1,499,949	3,532	113,948	1,747,988	378,908
31 December 2011						
Import trade	9,017	78,064	128	14,573	101,782	23,592
Export trade	102	16	-	262	380	111
Wholesale/retail trade	6,608	35,929	-	11,834	54,371	12,300
Mining and quarrying	1,993	50,705	262	5	52,965	1,233
Construction	35,104	115,833	227	15,536	166,700	180,617
Manufacturing	9,622	63,365	1,569	36,235	110,791	39,190
Electricity, gas and water	35	43,015	22	12	43,084	8,617
Transport and communication	1,551	26,152	-	-	27,703	3,699
Financial institutions	5,966	80,354	-	10	86,330	13,227
Services	20,150	47,534	-	879	68,563	31,443
Personal loans	11,279	672,118	-	7,556	690,953	268
Agriculture and allied activities	1,788	3,146	-	797	5,731	2,111
Government	-	142,149	-	1	142,150	1,637
Non resident lending	-	7,017	-	350	7,367	160
Others	5,636	7,898	-	811	14,345	15,730
	108,851	1,373,295	2,208	88,861	1,573,215	333,935

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

	Overdrafts	Loans	Bills discounted	Others	Total	Off balance sheet exposures
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
31 December 2012						
Upto 1 month	6,528	3,806	17	683	11,034	96,187
1 - 3 months	6,528	106,753	-	4,044	117,325	35,311
3 - 6 months	6,528	46,836	-	6,743	60,107	37,800
6 - 9 months	6,528	1,061	-	22,941	30,530	20,796
9 - 12 months	6,527	201	-	5,304	12,032	15,137
1 - 3 years	32,640	104,629	537	19,886	157,692	101,628
3 - 5 years	32,640	87,172	218	9,830	129,860	54,400
Over 5 years	32,640	1,149,491	2,760	44,517	1,229,408	17,649
	130,559	1,499,949	3,532	113,948	1,747,988	378,908
31 December 2011						
Upto 1 month	5,443	86,725	77	3,517	95,762	29,224
1 - 3 months	5,443	170,842	-	2,695	178,980	76,821
3 - 6 months	5,443	49,765	66	8,028	63,302	33,545
6 - 9 months	5,443	41,662	22	5,565	52,692	19,763
9 - 12 months	5,443	64,639	-	3,055	73,137	35,113
1 - 3 years	27,212	354,641	624	10,155	392,632	46,816
3 - 5 years	27,212	229,841	262	16,124	273,439	9,321
Over 5 years	27,212	375,180	1,157	39,722	443,271	83,332
	108,851	1,373,295	2,208	88,861	1,573,215	333,935



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

	Performing loans	Non performing loans	General provisions held	Specific provisions held	Interest reserve	Specific provision made during the year	Advances written off during the year
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
31 December 2012							
Import trade	93,107	6,024	931	1,492	4,203	98	2,910
Export trade	206	50	2	11	17	-	16
Wholesale/retail trade	24,906	15,185	249	4,981	10,276	23	-
Mining and quarrying	23,532	4	235	3	-	2	-
Construction	212,084	4,993	2,121	1,985	2,269	554	198
Manufacturing	154,199	786	1,542	241	211	70	-
Electricity, gas and water	34,473	27	345	6	5	-	-
Transport and communication	23,325	3	233	1	2	-	-
Financial institutions	88,809	55	888	5	45	-	-
Services	92,696	2,965	927	1,257	1,708	13	71
Personal loans	769,399	20,343	15,218	9,392	8,210	3,257	143
Agriculture and allied activities	7,343	8	73	7	1	1	-
Government	114,268	-	1,143	-	-	-	-
Non resident lending	1,777	4,808	18	4,140	382	290	-
Others	52,192	421	522	96	87	65	-
	1,692,316	55,672	24,447	23,617	27,416	4,373	3,338
31 December 2011							
Import trade	87,690	14,092	877	4,325	9,425	32	-
Export trade	304	76	3	38	23	17	-
Wholesale/retail trade	40,804	13,567	408	4,961	8,656	55	-
Mining and quarrying	52,963	2	530	2	-	1	-
Construction	161,195	5,505	1,612	2,208	2,224	427	-
Manufacturing	110,262	529	1,103	222	176	114	-
Electricity, gas and water	43,062	22	431	6	1	6	-
Transport and communication	27,700	3	277	1	2	-	-
Financial institutions	86,330	-	863	-	-	-	-
Services	65,579	2,984	656	1,347	1,602	94	4
Personal loans	672,617	18,336	13,370	8,650	7,569	2,657	47
Agriculture and allied activities	5,724	7	57	6	-	6	-
Government	142,150	-	1,422	-	-	-	-
Non resident lending	3,243	4,124	32	3,850	275	-	-
Others	13,937	408	139	152	53	39	-
	1,513,560	59,655	21,780	25,768	30,006	3,448	51

(i) Distribution of impaired loans and past due loans by geographical distribution:

	Gross loans	Non performing loans	General provisions held	Specific provisions held	Interest reserve	Specific provision made during the year	Advances written off during the year
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
31 December 2012							
Sultanate of Oman	1,741,403	50,864	24,429	19,477	27,034	4,083	3,338
Other countries	6,585	4,808	18	4,140	382	290	-
	1,747,988	55,672	24,447	23,617	27,416	4,373	3,338
31 December 2011							
Sultanate of Oman	1,565,848	55,531	21,748	21,918	29,731	3,448	51
Other countries	7,367	4,124	32	3,850	275	-	-
	1,573,215	59,655	21,780	25,768	30,006	3,448	51

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

	2012	2011
	RO'000	RO'000
Treasury bills	23,094	36,658
Loans and advances to banks	97,410	54,318
Loans and advances to customers	1,672,508	1,495,661
Government development bonds	77,292	69,598
	1,870,304	1,656,235
Off-balance sheet items		
Financial guarantees	293,878	270,876
	2,164,182	1,927,111

At 31 December 2012, impairment losses would have increased by RO 2,712,067 (2011: RO 2,198,438) had collateral not been obtained by BankDhofar for the impaired loans and advances.

Liquidity risk

Liquidity risk is the potential inability to meet BankDhofar's liabilities as they become due. It arises when BankDhofar is unable to generate cash to cope with a decline in deposits or increase in assets.

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

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



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

Maturity profile of assets and liabilities	Due on demand and up to 30 days	More than 1 month to 6 months	More than 6 months to 12 months	More than 1 year to 5 years	Over 5 years	Total
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
31 December 2012						
Cash and balances with Central Bank of Oman	207,995	-	-	-	500	208,495
Loans and advances to banks	62,727	6,583	28,100	-	-	97,410
Loans and advances to customers	149,656	259,996	72,904	410,931	779,021	1,672,508
Available-for-sale investments	-	-	11,588	-	-	11,588
Held-to-maturity investments	-	23,094	-	66,853	10,439	100,386
Intangible asset	-	-	-	-	3,177	3,177
Property and equipment	-	-	-	-	9,432	9,432
Other assets	7,417	30,823	2,554	40	-	40,834
Total assets	427,795	320,496	115,146	477,824	802,569	2,143,830
Due to banks	45,095	20,480	15,400	7,700	-	88,675
Deposits from customers	158,745	386,236	371,028	570,410	148,209	1,634,628
Other liabilities	20,012	38,312	4,440	18,901	2,358	84,023
Subordinated loans	-	-	-	50,000	25,000	75,000
Shareholders' equity	-	37,745	-	-	223,759	261,504
Total liabilities and shareholders' equity	223,852	482,773	390,868	647,011	399,326	2,143,830
31 December 2011						
Cash and balances with Central Bank of Oman	248,805	-	-	-	500	249,305
Loans and advances to banks	35,078	15,775	3,465	-	-	54,318
Loans and advances to customers	176,465	230,205	100,904	632,469	355,618	1,495,661
Available-for-sale investments	-	-	11,175	-	-	11,175
Held-to-maturity investments	19,715	16,943	15,559	20,844	33,195	106,256
Intangible asset	-	-	-	-	3,574	3,574
Property and equipment	-	-	-	-	8,505	8,505
Other assets	3,502	24,922	38	-	3,335	31,797
Total assets	483,565	287,845	131,141	653,313	404,727	1,960,591
Due to banks	14,763	15,400	-	28,875	-	59,038
Deposits from customers	192,059	375,925	386,026	434,143	131,165	1,519,318
Other liabilities	13,535	30,779	1,808	18,376	-	64,498
Subordinated loans	-	38,500	-	50,000	-	88,500
Shareholders' equity	-	13,976	-	-	215,261	229,237
Total liabilities and shareholders' equity	220,357	474,580	387,834	531,394	346,426	1,960,591

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

(a) Currency risk

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

BankDhofar's transactional exposures give rise to foreign currency gains and losses that are recognised in the statement of income. BankDhofar ensures that its net exposure is kept to an acceptable level by buying and selling foreign currencies at spot rates when considered appropriate. Foreign exchange risk is computed on the average of the sum of

net short positions or net long positions, whichever is higher of the foreign currency positions held by BankDhofar. The foreign currency exposures are given below:

Foreign currency exposures

	2012	2011
	RO'000	RO'000
Net assets denominated in US Dollars	16,553	17,386
Net assets denominated in other foreign currencies	1,194	553
	17,747	17,939

(b) Interest rate risk

BankDhofar's operations are subject to the risk of interest rate fluctuations to the extent that interest-earning assets and interest-bearing liabilities are reset at different times. Risk management activities are aimed at optimising

net interest income, given market interest rate levels, consistent with BankDhofar's business strategies. BankDhofar manages mismatches by following policy guidelines and reduces risk by matching the repricing of assets and liabilities.

Details relating to re-pricing mismatches and the interest rate risk thereon are placed to the ALCO in its regular meetings and also to the Risk Management Committee of the Board. Impact on earnings due to interest rate risk in BankDhofaring book is as follows:

Impact on earnings due to interest rate risk in BankDhofaring book

	+ or - 1%		+ or - 2%	
	2012	2011	2012	2011
	RO'000	RO'000	RO'000	RO'000
Omani Rials	5,944	5,337	11,888	10,674
US Dollars	1,203	1,734	2,406	3,468
Others currencies	159	85	317	170

Interest rate sensitivity gap

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

	Effective average interest rate	Due on demand and within 30 days	Due within 1 to 6 months	Due within 7 to 12 months	Due within 1 to 5 years	Due after 5 years	Non-interest bearing	Total
	%	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
31 December 2012								
Cash and balances with Central Bank of Oman	0.9%	70,000	-	-	-	500	137,995	208,495
Loans and advances to banks	0.9%	64,460	32,950	-	-	-	-	97,410
Loans and advances to customers	5.8%	149,656	259,996	72,904	410,931	779,021	-	1,672,508
Available-for-sale investments	-	-	-	-	-	-	11,588	11,588
Held-to-maturity investments	1.5%	-	23,094	-	66,853	10,439	-	100,386
Intangible asset	-	-	-	-	-	-	3,177	3,177
Property and equipment	-	-	-	-	-	-	9,432	9,432
Other assets	-	-	-	-	-	-	40,834	40,834
Total assets		284,116	316,040	72,904	477,784	789,960	203,026	2,143,830
Due to banks	1.3%	44,820	43,580	-	-	-	275	88,675
Deposits from customers	1.7%	259,941	246,478	279,603	435,501	200	412,905	1,634,628
Other liabilities	-	-	-	-	-	-	84,023	84,023
Subordinated loans	5.5%	-	-	-	50,000	25,000	-	75,000
Shareholders' equity	-	-	37,745	-	-	-	223,759	261,504
Total liabilities and shareholders' equity		304,761	327,803	279,603	485,501	25,200	720,962	2,143,830
On-balance sheet gap		(20,645)	(11,763)	(206,699)	(7,717)	764,760	(517,936)	
Cumulative interest sensitivity gap		(20,645)	(32,408)	(239,107)	(246,824)	517,936	-	

Interest rate sensitivity gap (Continued)

	Effective average interest rate	Due on demand and within 30 days	Due within 1 to 6 months	Due within 7 to 12 months	Due within 1 to 5 years	Due after 5 years	Non-interest bearing	Total
	%	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
31 December 2011								
Cash and balances with Central Bank of Oman	.06%	140,000	-	-	-	500	108,805	249,305
Loans and advances to banks	.05%	35,078	15,775	3,465	-	-	-	54,318
Loans and advances to customers	6.1%	176,465	230,205	100,904	632,469	355,618	-	1,495,661
Available-for-sale investments		-	-	-	-	-	11,175	11,175
Held-to-maturity investments	1.4%	19,715	16,943	15,000	20,000	32,000	2,598	106,256
Intangible asset		-	-	-	-	-	3,574	3,574
Property and equipment		-	-	-	-	-	8,505	8,505
Other assets		-	-	-	-	-	31,797	31,797
Total assets		371,258	262,923	119,369	652,469	388,118	166,454	1,960,591
Due to banks	1.6%	14,432	44,275	-	-	-	331	59,038
Deposits from customers	1.7%	273,173	252,926	305,348	312,881	-	374,990	1,519,318
Other liabilities		-	-	-	-	-	64,498	64,498
Subordinated loans	2.2%	-	38,500	-	50,000	-	-	88,500
Shareholders' equity		-	13,976	-	-	-	215,261	229,237
Total liabilities and shareholders' equity		287,605	349,677	305,348	362,881	-	655,080	1,960,591
On-balance sheet gap		83,653	(86,754)	(185,979)	289,588	388,319	(488,626)	-
Cumulative interest sensitivity gap		83,653	(3,101)	(189,080)	100,508	488,626	-	-

(c) Equity risk

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

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

If there is adverse impact of 5% on equity portfolio, the value of the portfolio may decrease by RO 418,413 only (2011: decrease by RO 396,927).

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

The financial statements include holdings in unlisted shares which are measured at fair value. Fair value is estimated using either Net Asset Value (NAV) provided by the fund managers or book value per share of the investee company. If the estimation were 5% higher / lower

while all other variables were held constant, the carrying amount of the shares would decrease / increase by RO 146,280 (2011: decrease / increase by RO 144,300).

Operational risk

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

36. Capital risk management

BankDhofar manages its capital to ensure that it will be able to continue as a going concern while maximising the return to shareholders within acceptable risk return framework. BankDhofar's overall strategy remains unchanged from prior year.

The capital base of BankDhofar consists of debt, which includes borrowings disclosed in note 17, and equity attributable to shareholders of BankDhofar comprising issued share capital, share premium, reserves and retained earnings as disclosed in notes 18 to 21.

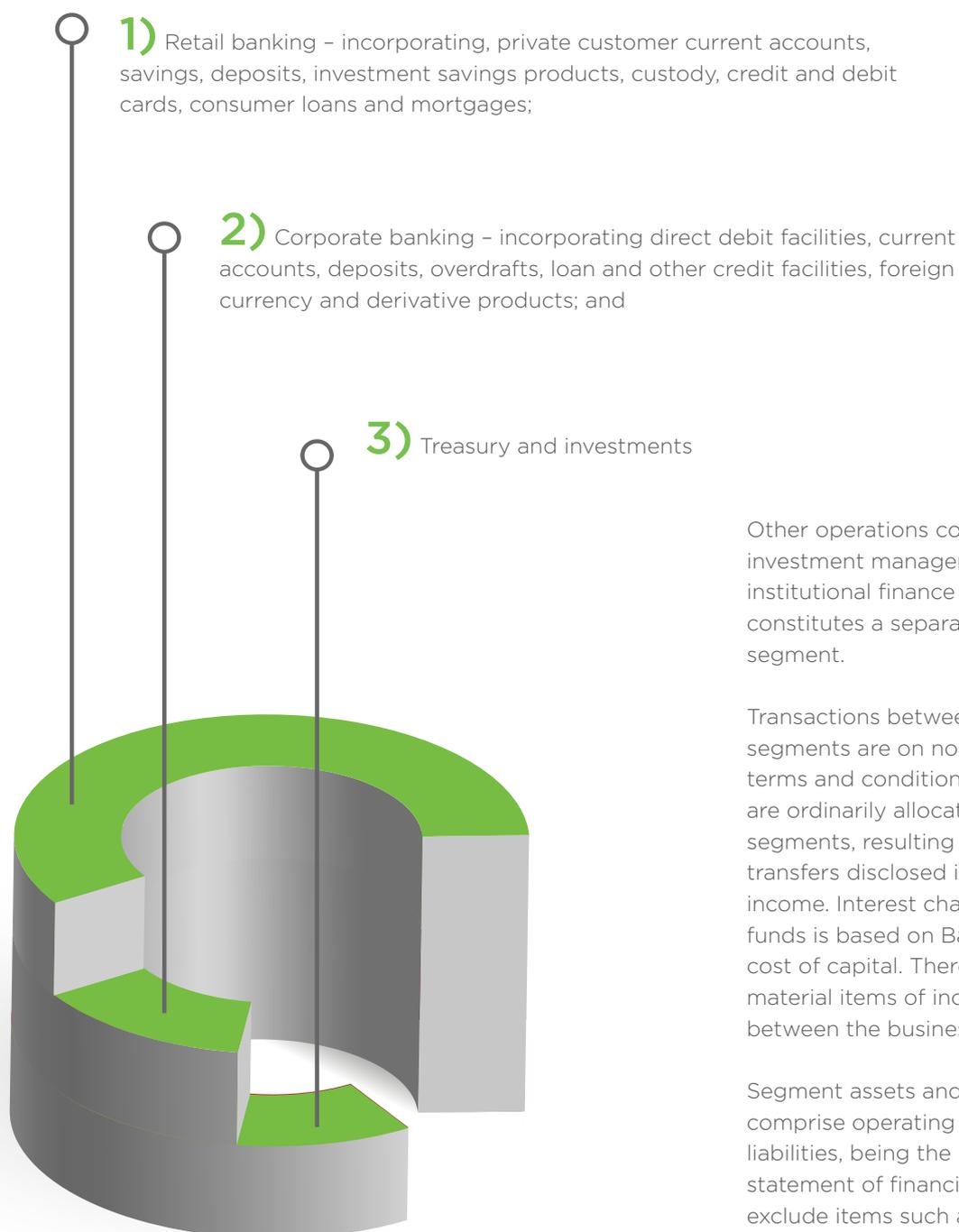
Capital adequacy

The ratio of equity to risk weighted assets, as formulated by the Basel II, for the year ended 31 December 2012 is 14.96% (2011: 14.79%).

Capital structure	2012	2011
	RO'000	RO'000
TIER I CAPITAL		
Paid up capital	110,012	91,524
Legal reserve	25,652	21,877
Share premium	40,018	40,018
Proposed bonus shares issued from share premium	-	18,488
Subordinated bonds and loan reserve	11,250	34,617
Retained earnings	45,513	15,679
Proposed bonus shares	11,001	-
Less: goodwill	(3,177)	(3,574)
Less: negative investment revaluation reserve	(124)	(381)
Total Tier I capital	240,145	218,248
TIER II CAPITAL		
Investment revaluation reserve	756	454
General provision	24,447	21,780
Subordinated loan	63,750	48,750
Total Tier II capital	88,953	70,984
Total eligible capital	329,098	289,232
Risk weighted assets		
Banking book	2,005,481	1,774,750
Trading book	37,853	38,093
Operational risk	156,465	142,830
Total	2,199,799	1,955,673
Tier I capital	240,145	218,248
Tier II capital	88,953	70,984
Tier III capital	-	-
Total regulatory capital	329,098	289,232
Tier I capital ratio	10.92%	11.16%
Total capital ratio	14.96%	14.79%

37. Segmental information

BankDhofar is organised into three main business segments:



Other operations comprise investment management and institutional finance neither of which constitutes a separately reportable segment.

Transactions between the business segments are on normal commercial terms and conditions. Funds are ordinarily allocated between segments, resulting in funding cost transfers disclosed in operating income. Interest charged for these funds is based on BankDhofar's cost of capital. There are no other material items of income or expense between the business segments.

Segment assets and liabilities comprise operating assets and liabilities, being the majority of the statement of financial position, but exclude items such as taxation and borrowings.

Internal charges and transfer pricing adjustments have been reflected in the performance of each business. Revenue sharing agreements are used to allocate external customer revenues to a business segment on a reasonable basis.

	Retail banking	Corporate banking	Treasury and investments	Total
	RO'000	RO'000	RO'000	RO'000
At 31 December 2012				
Segment operating revenues	56,889	36,216	596	93,701
Other revenues	11,020	3,817	4,887	19,724
Segment operating revenues	67,909	40,033	5,483	113,425
Interest expenses	(10,721)	(13,327)	(5,284)	(29,332)
Net operating income	57,188	26,706	199	84,093
Segment cost				
Operating expenses including depreciation	(20,375)	(12,966)	(3,706)	(37,047)
Impairment for loans and investment net recoveries from allowance for loans impairment	(4,967)	1,108	(287)	(4,146)
Profit from operations after provision	31,846	14,848	(3,794)	42,900
Tax expenses	(2,330)	(2,825)	-	(5,155)
Net profit (loss) for the year	29,516	12,023	(3,794)	37,745
Segment assets	860,402	1,079,524	279,384	2,219,310
Less: Impairment allowance	(32,820)	(42,660)	-	(75,480)
Total Segment assets	827,582	1,036,864	279,384	2,143,830
Segment liabilities	411,334	1,307,317	163,675	1,882,326



	Retail banking	Corporate banking	Treasury and investments	Total
	RO'000	RO'000	RO'000	RO'000
At 31 December 2011				
Segment operating revenues	49,045	33,921	223	83,189
Other revenues	10,064	4,333	3,876	18,273
Segment operating revenues	59,109	38,254	4,099	101,462
Interest expenses	(8,619)	(11,041)	(3,211)	(22,871)
Net operating income	50,490	27,213	888	78,591
Segment cost				
Operating expenses including depreciation	(18,368)	(14,338)	(738)	(33,444)
Impairment for loans and investment net recoveries from allowance for loans impairment	(1,455)	(852)	(852)	(3,159)
Profit from operations after provision				
Loss from a legal case	(10,355)	(13,264)	(2,510)	(26,129)
Profit from operations after provision	20,312	(1,241)	(3,212)	15,859
Tax expenses	(746)	(956)	(181)	(1,883)
Net profit (loss) for the year	19,566	(2,197)	(3,393)	13,976
Segment assets	753,766	972,630	311,749	2,038,145
Less: Impairment allowance	(29,589)	(47,965)	-	(77,554)
Total Segment assets	724,177	924,665	311,749	1,960,591
Segment liabilities	1,178,982	404,834	147,538	1,731,354

38. Proposed dividend

The Board of Directors in their meeting held on 29 January 2013 proposed a cash dividend of 15% (2011: 7%) for the year ended 31 December 2012 amounting to RO 16.50 million (2011: RO 6.41 million) and a bonus share issue of 10% (2011: 20.20%) amounting to 110,011,647 shares (2011: 184,878,143 shares) of RO 0.100 each. A resolution to approve these dividends and the increase in share capital will be presented to the shareholders at the annual general meeting.

During the year, unclaimed dividend amounting to RO 1,290 (2011: RO 1,986) was transferred to the Investor's Trust Fund account as per the guidelines issued by the Capital Market Authority of Oman.

39. Comparative figures

Certain amounts of the prior year financial statement have been reclassified to conform with the current year's presentation.

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