



بنك ظفار
BankDhofar

**Board of Directors' Report and financial statements (Unaudited)
For three –month period ended 31st March 2015**

Registered office and principal place of business:

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

BANK DHOFAR SAOG

Board of Directors' Report and financial statements (Unaudited) for three -month period ended 31st March 2015

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BANK DHOFAR S.A.O.G.

THE BOARD OF DIRECTORS' REPORT FOR THE YEAR-TO-DATE 31st MARCH 2015

Dear Shareholders,

On behalf of the Board of Directors of Bank Dhofar S.A.O.G., I am pleased to present to you the Bank's Financial Statements for the quarter ended 31st March 2015.

The Bank's Financial Performance during Quarter ended March 2015

As in the past, BankDhofar continued to support all major initiatives of economic importance through prudent, quality lending. The Bank with its strong fundamentals, showed a sustained growth of 19.07% to reach OMR 2.39 billion under net Customer Loans, Advances and Islamic Financing as at 31st March 2015, from OMR 2.01 billion achieved at the end of March 2014. To supplement this loan growth, the Customer Deposits mobilized, grew by 21.08% to reach OMR 2.64 billion at 31st March 2015 compared to OMR 2.18 billion at 31st March 2014.

The Net interest income and income from Islamic Financing activities earned year-to-date March 2015 was OMR 20.47 million showing a growth of 14.55% from 17.87 million.

The total operating income including the Non-funded income such as fees and commissions, foreign exchange profit, investment etc. grew 13.24% to reach OMR 26.80 million year-to-date 31st March 2015 from OMR 23.67 million year-to-date 31st March 2014.

The Cost to Income ratio at year-to-date 31st March 2015 improved to 44.53% as compared to 45.89% during the same period in 2014. This reiterates that our revenues are growing faster than cost and continued efforts for cost optimization.

Net provisions for loan impairment marginally increased to OMR 1.27 million during Q1-2015 as against OMR 1.26 million during Q1-2014. Impairment of available for sale investments was OMR 0.27 million from domestic equity market movements caused by oil price changes.

The Net Profits of the Bank for the year ended 31st March 2015 reached OMR 11.78 million as compared to OMR 10.22 million achieved year-to-date 31st March 2014 growing at 15.26%.

The earnings per share (EPS) at the end of March 2015 are OMR 0.031 as compared to OMR 0.027 at end March 2014.

Additional Capital

To augment the sustained growth of the Bank, the Board has recommended raising of Additional Tier 1 Capital amounting to USD 300 million and in parallel raise capital in the form of rights issue of ordinary shares up to OMR 45 million. The Bank is working on the necessary regulatory approvals.

Maisarah Financial Highlights

Maisarah is continuing its success story and reports good results for the year-to-date 31st March 2015. Maisarah total assets increased from RO 81.29 million at the end of March 2014 to RO 185.55 million at March 2015, a growth of 128%. The gross total financing has also grown by 195%, from RO 50.46 million at 31st March 2014 to reach RO 148.94 million at 31st March 2015. The customer deposits raised by the Maisarah has recorded an impressive growth increasing from RO 4.57 million at end of March 2014 to RO 102.30 million at end of March 2015. Furthermore, all the key profitability showed significant growth, as net financing income increased from RO 0.48 million year-to-date March 2014 to reach RO 1.18 million year-to-date March 2015 recording a growth of 145.83%.

The non-funded income such as fees and commissions, foreign exchange profit, investment income and other income grew by 26% to reach RO 0.27 million year-to-date 2015 compared to previous period of RO 0.21 million. The cost to income ratio was reduced from 89.09% year-to-date March 2014 to 48.72% year-to-date March 2015. The operating profit of Maisarah as a result of the above factors grew by 885% from RO 0.075 million year-to-date March 2014 to RO 0.74 million current year-to-date March 2015.

Maisarah Islamic Banking Services declared a net profit before tax of RO 0.58 million, recording a growth of almost five times compared to net loss of RO (0.15) million last year-to-date March 2014, as Maisarah commenced operations in March 2013.

Awards during the First Quarter of 2015:

In March 2015, Bank Dhofar has won the following awards from Global Banking and Finance Review.

- 1- Best SME Bank in Oman 2015
- 2- Best Mobile E- Commerce Bank Oman 2015

Acknowledgment:-

On behalf of the Board, I would like to thank our valuable customers for their patronage and confidence reposed in the Bank. I thank the shareholders for the continuous support and the Bank's staff and management for the good performance during the period.

The Board of Directors also thanks the Central Bank of Oman and the Capital Market Authority for their valuable guidance to the local banking sector and the listed companies.

Finally, the Board of Directors and all staff of the Bank would like to express our most sincere gratitude to His Majesty Sultan Qaboos Bin Said for his wise leadership and generous support to the private sector.

Eng. Abdul Hafidh Salim Rajab Al-Aujaili
Chairman

**Statement of financial position (Unaudited)
for three-month period ended 31st March 2015**

	Notes	March 2015 RO'000	March 2014 RO'000	Audited Dec 2014 RO'000
ASSETS				
Cash and balances with Central Bank of Oman	2	253,861	342,097	584,370
Loans, advances and financing to banks	3	278,403	170,921	91,164
Loans, advances and financing to customers	4	2,391,056	2,008,043	2,254,705
Available-for-sale investments	5	27,416	27,826	26,886
Held-to-maturity investments	6	272,265	140,733	149,988
Intangible asset	7	2,284	2,681	2,383
Property and equipment	8	9,683	10,571	9,683
Other assets		58,714	54,409	74,948
Total assets		3,293,682	2,757,281	3,194,127
LIABILITIES				
Due to banks	9	130,483	106,269	175,013
Deposits from customers	10	2,642,493	2,182,044	2,482,179
Other liabilities		86,384	97,015	107,742
Subordinated loans	11	103,875	75,000	103,875
Total liabilities		2,963,235	2,460,328	2,868,809
SHAREHOLDERS' EQUITY				
Share capital	12	154,473	134,324	134,324
Share premium		40,018	40,018	40,018
Special reserve		18,488	18,488	18,488
Legal reserve	13	35,537	31,492	35,537
Subordinated loan reserve	13	41,250	26,250	41,250
Investment revaluation reserve	13	22	1,824	(46)
Retained earnings		40,659	44,557	55,747
Total shareholders' equity		330,447	296,953	325,318
Total liabilities and shareholders' equity		3,293,682	2,757,281	3,194,127
Contingent liabilities and commitments	21	792,402	527,001	716,075
Net assets per share (Rials Omani)		0.214	0.223	0.242

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

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Statement of comprehensive income (Unaudited) for three-month period ended 31st March 2015

		3 Months ended March 2015	3 Months ended March 2014
	Notes	RO'000	RO'000
Interest income		27,778	25,490
Interest expense		(8,486)	(8,097)
Net interest income	16	19,292	17,393
Income from financing and Investment activities		1,524	496
Unrestricted investment account holders' share of profit		(349)	(20)
Net income from Islamic financing activities		1,175	476
Fees and commission income		4,035	3,060
Fees and commission expenses		(354)	(299)
Net fees and commission income		3,681	2,761
Other income	17	2,654	3,039
Operating income		26,802	23,669
Staff and administrative costs		(11,108)	(9,921)
Depreciation		(828)	(940)
Operating expenses		(11,936)	(10,861)
Profit from operations		14,866	12,808
Provision for loan impairment	4&18	(2,682)	(2,247)
Recoveries from allowance for loan impairment	4&18	1,411	988
Impairment of available-for-sale investments	4&18	(279)	-
Profit from operations after provision		13,316	11,549
Income tax expense		(1,539)	(1,331)
Profit for the period		11,777	10,218
Profit for the period		11,777	10,218
Other comprehensive income:			
Net changes in fair value of available-for-sale investment	13	(165)	391
Reclassification adjustment on sale of available-for-sale investments	13	(46)	(321)
Total comprehensive income for the period		11,566	10,288
Earnings per share (basic and diluted) – annualized (Rials Omani)	14	0.031	0.027

The accompanying notes form an integral part of these financial statements

Profit for the period RO 11,777,000 includes RO 512,000 Net profit of the new division Maisarah Islamic banking services excluding this, profit for the period is RO 11,265,000.

(2014 RO 10,218,000 includes RO 128,000 Net loss of the new division Maisarah Islamic Banking Services start -up excluding this profit for the period is RO 10,346,000).

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Statement of changes in equity (Unaudited) for three-month period ended 31st March 2015

	Notes	Share capital RO'000	Share premium RO'000	Special reserve RO'000	Legal reserve RO'000	Subordinated loan reserve RO'000	Investment revaluation reserve RO'000	Retained earnings RO'000	Total RO'000
1 January 2015		134,324	40,018	18,488	35,537	41,250	(46)	55,747	325,318
Total comprehensive income for the period									
Net profit for the period		-	-	-	-	-	-	11,777	11,777
Other comprehensive income for the period									
Net change in fair value of available-for-sale investments		-	-	-	-	-	(165)	-	(165)
Transfer to statement of income on sale of available-for-sale investments	13	-	-	-	-	-	(46)	-	(46)
Impairment of available-for-sale investments							279	-	279
Total comprehensive income for the period		-	-	-	-	-	68	11,777	11,845
Transactions with owners recorded directly in equity									
Dividend paid for 2014		-	-	-	-	-	-	(6,716)	(6,716)
Bonus shares issued for 2014	12	20,149						(20,149)	-
31 March 2015		154,473	40,018	18,488	35,537	41,250	22	40,659	330,447

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

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Statement of changes in equity (Unaudited) for three-month period ended 31st March 2015

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

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

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Statement of cash flows (Unaudited) for three -month period ended 31st March 2015

	2015 RO'000	2014 RO'000
Cash flows from operating activities		
Interest and commission receipts	33,243	30,106
Interest payments	(6,480)	(5,981)
Cash payments to suppliers and employees	(13,803)	(6,600)
	<u>12,960</u>	<u>17,525</u>
(Increase) in operating assets	(315,060)	(174,686)
Increase in operating liabilities	115,074	150,041
Net cash (used in) / from operating activities	(187,026)	(7,120)
Income tax paid	(5,392)	(7,580)
Net cash (used in) / from operating activities	(192,418)	(14,700)
Net cash (used in) / investing activities	(7)	(2,588)
Net cash (used in) / financing activities	(6,716)	(16,942)
Net decrease / increase in cash and cash equivalents	(199,141)	(34,230)
Cash and cash equivalents at 1 st January	602,548	425,255
Cash and cash equivalents at 31 March	403,407	391,025
Cash and balances with Central Bank of Oman(Note 2)	253,861	342,097
Capital deposit with Central Bank of Oman	(500)	(500)
Loans, advances and financing to banks due within 90 days	151,554	50,217
Due to banks within 90 days	(1,508)	(789)
Cash and cash equivalents for the purpose of the cash flow statement	403,407	391,025

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

**Notes to the financial statements (Unaudited)
for the three- month period ended 31st March 2015**

2. Cash and Bank balances

	2015	2014
	RO'000	RO'000
Cash on hand	31,382	23,439
Balances with the Central Bank of Oman	82,479	248,658
Certificate of deposits with maturity of 90 days or less	140,000	70,000
	<u>253,861</u>	<u>342,097</u>

At 31 March 2015, cash and balances with Central bank of Oman included balances with the Central Bank of Oman amounting to RO 500,000 (2014 - RO 500,000) as minimum reserve requirements. These funds are not available for the Bank's daily business.

Outstanding certificate of deposits as of 31 March 2015 were issued by the Central Bank of Oman

3. Claims on other banks

	2015	2014
	RO'000	RO'000
Loans with other banks	75,248	52,162
Less: impairment allowance (collective)	<u>(439)</u>	<u>(337)</u>
	74,809	51,825
Placements with other banks	195,876	113,561
Current clearing accounts	7,718	5,535
	<u>278,403</u>	<u>170,921</u>

At 31 March 2015 No placements with any banks represented 20% or more of the Bank's placements (2014 –One Bank).

**Notes to the financial statements (Unaudited)
for the three- month period ended 31st March 2015**

4. Loans, advances and financing to customers

	2015	2014
	RO'000	RO'000
Overdrafts	131,999	107,951
Loans	2,068,366	1,801,739
Loans against trust receipts	85,768	86,966
Bills discounted	9,777	13,474
Advance against credit cards	7,493	7,468
Others	28,261	21,853
Islamic Banking Window financing	148,943	50,457
	<hr/>	<hr/>
Gross Loans, advances and financing	2,480,607	2,089,908
Less: Impairment allowance	(89,551)	(81,865)
	<hr/>	<hr/>
Net loans, advances and financing	2,391,056	2,008,043
	<hr/> <hr/>	<hr/> <hr/>

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

(a) Allowance for loan impairment

1 January	56,887	50,809
Allowance made during the period	2,682	2,277
Released to the statement of comprehensive income during the period	(1,411)	(988)
Written off during the period	(210)	(31)
	<hr/>	<hr/>
31 March	57,948	52,067

(b) Reserved interest

1 January	30,717	29,810
Reserved during the period	1,417	1,414
Released to the statement of comprehensive income during the period	(230)	(395)
Written-off during the period	(301)	(1,031)
	<hr/>	<hr/>
31 March	31,603	29,798

Total impairment allowance

	89,551	81,865
	<hr/> <hr/>	<hr/> <hr/>

As a matter of policy, the Bank considers waiver / write-off or settlement only in such cases where the Bank is satisfied that the recovery of the full outstanding liabilities from the borrower is not possible in the normal course of business or out of the securities realisation or through enforcement of the guarantee (wherever available) and that legal action will not yield higher recoveries after considering the time and costs involved.

Proposals for waivers/write-off are not formula driven and are decided on case by case basis after weighing all pros and cons. The rationale is invariably documented. In all cases, the Bank aims to recover the maximum value through enforcement of collaterals/guarantees of guarantors, etc.

**Notes to the financial statements (Unaudited)
for the three- month period ended 31st March 2015**

4. Loans, advances and financing to customers (continued)

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

Under the Central Bank of Oman's guidelines for provision against classified Loans, advances and financing, at 31 March 2015, out of the total provisions of **RO 89,551,000** (2014 – RO 81,865,000) a collective provision was made on a general portfolio basis amounting to **RO 34,041,000** (2014 RO 27,637,000).

At 31 March 2015, impaired Loans, advances and financing on which interest has been reserved amount to **59,631,182** (2014 - RO 57,596,323) and Loans, advances and financing on which interest is not being accrued amount to **RO 1,302,870** (2014 - to RO 1,398,054).

5. a) Available-for-sale investments

		2015	2014
		RO'000	RO'000
Equity instruments			
- Quoted		14,731	15,108
- Unquoted		2,487	2,718
		17,218	17,826
		17,218	17,826
		Fair value	
	Cost	2015	2014
	RO'000	RO'000	RO'000
Quoted on the Muscat Securities Market			
Banking and investments	1,282	1,214	1,550
Services	4,650	4,765	5,688
Industrial	9,762	8,752	7,870
	15,694	14,731	15,108
Unquoted			
Omani companies	1,699	2,487	2,718
	17,393	17,218	17,826

b) Sukuk

Unquoted			
Omani companies	10,000	10,198	10,000
	10,000	10,198	10,000
	27,393	27,416	27,826

**Notes to the financial statements (Unaudited)
for the three- month period ended 31st March 2015**

6. Held-to-maturity investments

	2015	2014
	RO'000	RO'000
Treasury bills with maturity of above 90 days	167,403	62,256
Government Development Bonds	104,862	78,477
	<u>272,265</u>	<u>140,733</u>

7. Intangible asset

The movement in the goodwill account is as follows:

1st January	2,383	2,780
Impaired during the period	(99)	(99)
31 March	<u>2,284</u>	<u>2,681</u>

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

8. Fixed Assets

Conventional	8,564	9,485
Islamic window	1,119	1,086
	<u>9,683</u>	<u>10,571</u>

9. Due to banks

Other borrowings	128,975	105,480
Payable on demand	1,508	789
	<u>130,483</u>	<u>106,269</u>

At 31 March 2015 One borrowings with one bank represented 20% or more of the Bank's borrowings (2014: two banks). The Bank has not had any defaults of principal, interest or other breaches during the year on its borrowed funds.

**Notes to the financial statements (Unaudited)
for the three- month period ended 31st March 2015**

10. Deposits from customers

	2015 RO'000	2014 RO'000
Current accounts	816,738	777,000
Savings accounts	418,413	352,911
Time deposits/Certificate of deposits	1,282,143	1,041,462
Margin accounts	22,897	6,101
Islamic Banking Window deposits	102,302	4,570
	<u>2,642,493</u>	<u>2,182,044</u>

Current accounts and time deposits include deposits from the Government of the Sultanate of Oman and its entities amounting to RO 1,142,972,000 (2014 - RO 925,736,000).

11. Subordinated loan

Subordinated loan - US Dollar	28,875	-
Subordinated loan - RO	75,000	75,000
	<u>103,875</u>	<u>75,000</u>

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

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

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

**Notes to the financial statements (Unaudited)
for the three- month period ended 31st March 2015**

12. Share capital

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

On 29 March 2015 the Shareholders of the Bank in the annual general meeting approved the issuance of 15% bonus shares amounting to 201,486,332 shares of par value RO 0.100 each.

At 31 March 2015, the issued and paid up share capital comprise 1,544,728,546 shares of par value RO 0.100 each. (2014 – 1,343,242,214 shares of par value RO 0.100 each).

Shareholders

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

	2015		2014	
	No of shares	%	No of shares	%
Dhofar International Development and Investment Company SAOG	432,523,988	28.00	373,625,997	27.82
Eng. Abdul Hafidh Salim Rajab				
Al Aujaili and his related Companies	321,901,224	20.84	279,914,110	20.84
Civil Service Employees' Pension Fund	157,676,944	10.21	135,161,553	10.06
	<u>912,102,156</u>	<u>59.05</u>	<u>788,701,660</u>	<u>58.72</u>
Total				
Others	632,626,390	40.95	554,540,554	41.28
	<u>1,544,728,546</u>	<u>100.00</u>	<u>1,343,242,214</u>	<u>100.00</u>

13. Reserves

(a) Legal reserve

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

(b) Subordinated loan reserves

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

**Notes to the financial statements (Unaudited)
for the three- month period ended 31st March 2015**

13. Reserves (continued)

(c) Investment revaluation reserve

The movements in the investments revaluation reserve is analysed below:

	2015	2014
	RO'000	RO'000
1 January	(46)	1,754
(Decrease)/ Increase in fair value	(165)	391
Net transfer to statement of income on sale of available-for-sale investments	(46)	(321)
Impairment of available-for-sale investment	279	-
	<u>22</u>	<u>1,824</u>
31 March		

14. Earnings per share (basic and diluted)

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

	2015	2014
Net Profit for the period (RO)	11,777,000	10,218,000
Weighted average number of shares outstanding during of the period	1,544,728,546	1,544,728,546
Earnings per share basic and diluted - annualized	0.031	0.027

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

For the purpose of earning per share calculation, the Bank has restated the previous year weighted average number of shares outstanding to include the 15% bonus Shares 201,486,332 shares with RO 0.100 par each) issued in the first quarter of 2015.

**Notes to the financial statements (Unaudited)
for the three- month period ended 31st March 2015**

15. Capital adequacy

The ratio of equity to risk weighted assets, as formulated by the Basel II and Basel III, for three - months period ended 31 March 2015 is **13.36%** (2014 – 13.31%).

Capital structure	2015	2014
	RO'000	RO'000
Common Equity Tier (CET) I/ tier I CAPITAL		
Paid up capital	154,473	134,324
Legal reserve	35,537	31,492
Share premium	40,018	40,018
Special reserve	18,488	18,488
Subordinated bonds and loan reserve	41,250	26,250
Retained earnings	28,882	34,339
	<hr/>	<hr/>
CET I/Tier I Capital	318,648	284,911
Additional Tier I regulatory adjustments:		
Goodwill	(2,284)	(2,681)
Negative investment revaluation reserve	(1,561)	(165)
Total CET I/ Tier I capital	314,803	282,065
	<hr/>	<hr/>
TIER II CAPITAL		
Investment revaluation reserve	617	895
General provision	34,041	27,974
Subordinated loan	62,625	48,750
	<hr/>	<hr/>
Total Tier II capital	97,283	77,619
	<hr/>	<hr/>
Total eligible capital	412,086	359,684
	<hr/> <hr/>	<hr/> <hr/>
Risk weighted assets		
Banking book	2,830,061	2,477,901
Trading book	75,194	57,424
Operational risk	178,817	166,581
	<hr/>	<hr/>
Total	3,084,072	2,701,906
	<hr/>	<hr/>
CET I/ Tier I capital	314,803	282,065
Tier II capital	97,283	77,619
Tier III capital		-
	<hr/>	<hr/>
Total regulatory capital	412,086	359,684
	<hr/>	<hr/>
CET I/ Tier I capital ratio	10.21%	10.43%
	<hr/>	<hr/>
Total capital ratio	13.36%	13.31%
	<hr/> <hr/>	<hr/> <hr/>

**Notes to the financial statements (Unaudited)
for the three- month period ended 31st March 2015**

16. Net interest income

	2015 RO'000	2014 RO'000
Loans, advances and financing to customers	27,151	24,849
Debt investments	132	167
Money market placements	493	472
Others	2	2
Total interest income	27,778	25,490
Deposits from customers	(8,204)	(7,972)
Money market deposits	(282)	(125)
Total interest expense	(8,486)	(8,097)
Net interest income	19,292	17,393

17. Other income

Foreign exchange	523	239
Investment income (a)	1,259	1,330
Miscellaneous income	872	1,470
	2,654	3,039

(a) Investment income

Investment income

Dividend income- available-for-sale investments	458	425
Income on Sukuk	125	125
Gain of disposal of available-for-sale investments	61	291
Interest income on Government Development Bonds (HTM)	615	489
	1,259	1,330

18. Impairment of financial assets

Provision for loan impairment	2,682	2,277
Provision for Inter Banks Loans impairment	-	(30)
Impairment of available-for-sale investments	279	
	2,961	2,247
Recoveries from provision for loan impairment	(1,411)	(988)
31 March	1,550	1,259

**Notes to the financial statements (Unaudited)
for the three- month period ended 31st March 2015**

19. Related parties transactions

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

	2015 RO'000	2014 RO'000
Loans, advances and financing		
Directors and shareholders holding less than 10% interest in the Bank	10,510	14,849
Directors and shareholders holding 10% or more interest in the Bank	<u>36,241</u>	<u>34,081</u>
	<u>46,751</u>	<u>48,930</u>
Subordinated Loans		
Directors and shareholders holding less than 10% interest in the Bank	40,775	35,000
Directors and shareholders holding 10% or more interest in the Bank	<u>48,663</u>	<u>40,000</u>
	<u>89,438</u>	<u>75,000</u>
Deposits and other accounts		
Directors and shareholders holding less than 10% interest in the Bank	91,478	77,545
Directors and shareholders holding 10% or more interest in the Bank	<u>356,416</u>	<u>284,378</u>
	<u>447,894</u>	<u>361,923</u>
Contingent liabilities and commitments		
Directors and shareholders holding less than 10% interest in the Bank	1,746	1,885
Directors and shareholders holding 10% or more interest in the Bank	<u>124</u>	<u>12,159</u>
	<u>1,870</u>	<u>14,044</u>
Remuneration paid to Directors		
Chairman		
– remuneration paid	17	15
– sitting fees paid	5	3
Other Directors		
– remuneration paid	116	99
– sitting fees paid	<u>19</u>	<u>14</u>
	<u>157</u>	<u>131</u>
Other transactions		
Rental payment to related parties	<u>94</u>	<u>84</u>
Other transactions	<u>11</u>	<u>39</u>
Remuneration and fees paid to Sharia' Board of Islamic Banking Window	<u>23</u>	<u>23</u>

**Notes to the financial statements (Unaudited)
for the three- month period ended 31st March 2015**

20. Senior member borrowing

Senior member

	2015	2014
	RO'000	RO'000
Total exposure:		
Direct	49,348	51,300
Direct (Maisarah Islamic banking services)	417	27
	<u>49,765</u>	<u>51,327</u>
Indirect	<u>1,870</u>	<u>14,044</u>
	<u>51,635</u>	<u>65,371</u>
Number of members	<u>28</u>	<u>23</u>

21. Contingent liabilities and commitments

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

	2015	2014
	RO'000	RO'000
Letters of credit	126,418	109,291
Guarantees and performance bonds	665,984	417,710
	<u>792,402</u>	<u>527,001</u>

22. Amount due to brokerage customers

The amount due to brokerage customers as at 31 March 2015 RO 2,193
(2014: RO 2,906)

**Notes to the financial statements (Unaudited)
for the three- month period ended 31st March 2015**

23. Risk Management

(i) Liquidity risk

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 March 2015						
Cash and balances with Central Bank of Oman	253,361	-	-	-	500	253,861
Loans, advances and financing to banks	158,792	93,965	16,077	9,569	-	278,403
Loans, advances and financing to customers	222,039	340,289	139,502	550,144	1,139,082	2,391,056
Available-for-sale Investments	-	-	17,218	10,198	-	27,416
Held-to-maturity investments	28,951	164,360	-	50,821	28,133	272,265
Intangible asset	-	-	-	-	2,284	2,284
Property and equipment	-	-	-	-	9,683	9,683
Other assets	4,885	37,599	9,592	20	6,618	58,714
Total assets	668,028	636,213	182,389	620,752	1,186,300	3,293,682
Due to banks	18,833	73,150	-	38,500	-	130,483
Deposits from customers	231,501	634,626	301,273	647,372	827,721	2,642,493
Other liabilities	21,965	38,687	10,680	11,913	3,139	86,384
Subordinated loans	-	-	-	75,000	28,875	103,875
Shareholders' equity	-	-	11,777	-	318,670	330,447
Total liabilities and shareholders' equity	272,299	746,463	323,730	772,785	1,178,405	3,293,682

**Notes to the financial statements (Unaudited)
for the three- month period ended 31st March 2015**

23. Risk Management (continued)

(i) Liquidity risk (continued)

Maturity profile of assets and liabilities (continued)

	Due on demand and up to 30 days RO'000	More than 1 month to 6 months RO'000	More than 6 months to 12 months RO'000	More than 1 year to 5 years RO'000	Over 5 years RO'000	Total RO'000
31 March 2014						
Cash and balances with Central Bank of Oman	341,597	-	-	-	500	342,097
Loans, advances and financing to banks	57,417	79,078	21,038	13,388	-	170,921
Loans, advances and financing to customers	203,413	289,199	168,797	839,497	507,137	2,008,043
Available-for-sale Investments	-	-	17,826	10,000	-	27,826
Held-to-maturity investments	20,519	41,737	20,602	32,963	24,912	140,733
Financial instruments at fair value through Profit or Loss	-	-	-	-	-	-
Intangible asset	-	-	-	-	2,681	2,681
Property and equipment	-	-	-	-	10,571	10,571
Other assets	39,528	9,536	1,505	39	3,801	54,409
Total assets	662,474	419,550	229,768	895,887	549,602	2,757,281
Due to banks	61,927	44,342	-	-	-	106,269
Deposits from customers	257,301	569,512	482,579	584,041	288,611	2,182,044
Other liabilities	64,786	12,299	2,937	15,207	1,786	97,015
Subordinated loan	-	-	-	75,000	-	75,000
Shareholders' equity	-	-	10,218	-	286,735	296,953
Total liabilities and shareholders' equity	384,014	626,153	495,734	674,248	577,132	2,757,281

**Notes to the financial statements (Unaudited)
for the three- month period ended 31st March 2015**

23 Risk Management (continued)

(ii) Market risk

(a) Interest rate risk

Interest rate sensitivity gap

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

	Due on demand and within 30 days RO'000	Due within 1 to 6 months RO'000	Due within 7 to 12 months RO'000	Due within 1 to 5 years RO'000	Due after 5 years RO'000	Non- interest bearing RO'000	Total RO'000
31 March 2015							
Cash and balances with Central Bank of Oman	140,000	-	-	-	500	113,361	253,861
Loans, advances and financing to banks	162,982	115,421	-	-	-	-	278,403
Loans, advances and financing to customers	222,039	340,289	139,502	550,144	1,139,082	-	2,391,056
Available-for-sale investments	-	-	-	10,198	-	17,218	27,416
Held-to-maturity investments	28,951	164,360	-	50,821	28,133	-	272,265
Intangible asset	-	-	-	-	-	2,284	2,284
Property and equipment	-	-	-	-	-	9,683	9,683
Other assets	-	-	-	-	-	58,714	58,714
Total assets	553,972	620,070	139,502	611,163	1,167,715	201,260	3,293,682
Due to banks	17,325	111,650	-	-	-	1,508	130,483
Deposits from customers	656,285	548,508	163,421	540,894	-	733,385	2,642,493
Other liabilities	-	-	-	-	-	86,384	86,384
Subordinated loans	-	-	-	103,875	-	-	103,875
Shareholders' equity	-	-	11,777	-	-	318,670	330,447
Total liabilities and shareholders' equity	673,610	660,158	175,198	644,769	-	1,139,947	3,293,682
On-balance sheet gap	(119,638)	(40,088)	(35,696)	(33,606)	1,167,715	(938,687)	
Cumulative interest sensitivity gap	(119,638)	(159,726)	(195,422)	(229,028)	938,687		

**Notes to the financial statements (Unaudited)
for the three-month period ended 31 March 2015**

23. Risk Management (continued)

(ii) Market risk (continued)

(a) Interest rate risk (continued)

Interest rate sensitivity gap (continued)

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

(b) Foreign currency exposures

	2015 RO'000	2014 RO'000
Net assets denominated in US Dollars	66,495	85,394
Net assets denominated in other foreign currencies	1,606	550
	68,101	85,944

**Notes to the financial statements (Unaudited)
for the three-month period ended 31 March 2015**

23. Risk Management (continued)

(iii) Credit Risk

Customer concentrations

	Assets			Liabilities		
	Loans and advances to banks RO'000	Gross loans and advances RO'000	Investment Securities RO'000	Deposits from customers RO'000	Deposits from banks RO'000	Contingent liabilities RO'000
31 March 2015						
Personal	-	1,096,097	-	580,694	-	304
Corporate	278,842	1,244,113	108,523	918,827	130,146	769,280
Government	-	140,397	191,158	1,142,972	-	22,818
	278,842	2,480,607	299,681	2,642,493	130,146	792,402
31 March 2014						
Personal	-	896,642	-	481,064	-	789
Corporate	171,258	1,048,849	90,082	775,244	106,269	521,357
Government	-	144,417	78,477	925,736	-	4,855
	171,258	2,089,908	168,559	2,182,044	106,269	527,001