Bank Sohar SAOG

BANK SOHAR SAOG

FINANCIAL STATEMENTS

FOR THE PERIOD ENDED 30 SEPTEMBER 2014

Registered office and principal place of business:

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

Bank Sohar SAOG

Board of Directors Report
for the nine months period ended 30th September 2014

Our Valued Shareholders,

On behalf of the Board of Directors of Bank Sohar (SAOG), I am pleased to present the results of your bank as at 30th September 2014.

Your bank has achieved a Net Profit of OMR 23.749 million during the nine months period ended 30th September 2014 as compared to a Net Profit of OMR 18.110 million during the same period of the previous year, a growth of 31.14%. The bank is continuing with its efforts to achieve a sustainable and profitable growth.

The Net Interest Income witnessed an improvement of 15.06% increasing from OMR 31.842 million for the period ended 30th September 2013 to OMR 36.637 million for the period ended 30th September 2014. The operating income increased by 24.39% from OMR 42.817 million during the nine months period of last year to OMR 53.262 million during nine months period of the current year. The operating cost increased by 13.71% from OMR 20.115 million to OMR 22.872 million during the same period. Cost to income ratio improved to 42.94% for the nine months ended 30th September 2014 from 46.98% during the same period of the previous year.

Gross loans have increased by 16.70% from OMR 1.241 billion as on 30th September 2013 to OMR 1.449 billion as at 30th September 2014. The Net loans and advances grew by 17.00% from OMR 1.213 billion as on 30th September 2013 to reach OMR 1.419 billion as at 30th September 2014. Customer deposits stood at OMR 1.341 billion as at 30th September 2014, as compared to OMR 1.324 billion as at 30th September 2013 registering an increase of 1.30%. As at end of August 2014, the bank's market share in Private Sector Credit was 9.34%, while the Private Sector Deposit share was 7.13%.

During the third quarter of 2014, Bank Sohar has positioned itself as one of the leading banks that provides innovative banking solutions.

On the Corporate Social Responsibility (CSR) front, Bank Sohar has had multi-faceted CSR activities to improve the lives of individuals who need special care and attention. The principal recipients of the donations include Al Noor Association, Omani Bahja Orphan Society, Al Wafa Centre for Handicapped Children Education, Oman Cancer Association, Oman Association for the Disabled, Association for the welfare of handicapped children, Omani Association for Elderly Friends, Autism Centre of the Association for the welfare of handicapped children and the Al Amal Association.

As a testament to the Bank's commitment in providing excellent banking solutions, the organisation has recently received the 'Business Excellence Award' at the Bizz 2014 organized by USA based World Confederation of Businesses (WORLDCOB). Bank Sohar's year-long 'Saving Water, Electricity and Our Planet' campaign also received recognition at the OER Oman Green Awards where the Bank was awarded with the 'Green Campaign of the Year' award.

The Board of Directors have decided to proceed with the issuance of ordinary equity shares on a rights basis to the shareholders of the Bank, up to an amount of OMR 40 million, subject to regulatory approvals. Shareholders will be updated with further details regarding the Rights Issue when available.

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

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

Abdullah Humaid Al Mamary
Chairman

STATEMENT OF FINANCIAL POSITION
AS AT 30 SEPTEMBER 2014

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

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

Chairman *Board Member*

STATEMENT OF COMPREHENSIVE INCOME
FOR THE PERIOD ENDED 30 September 2014

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

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

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

STATEMENT OF CASH FLOWS
FOR THE PERIOD ENDED 30 September 2014

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

The attached notes A1 to E form an integral part of these financial statements

NOTES TO FINANCIAL STATEMENTS

FOR THE PERIOD ENDED 30 SEPTEMBER 2014

A1 Legal status and principal activities

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

With effect from 30 April 2013, the Bank obtained a license to operate an Islamic Banking Window ("Sohar Islamic").
Sohar Islamic offers a full range of Islamic banking services and products. The principal activities of the Window include accepting Shari'a compliant customer deposits, providing Shari'a compliant financing based on Murabaha, Mudaraba, Musharaka, Ijarah, Istisna'a, Salam and providing commercial banking services, investment and other activities permitted under Islamic Banking Regulatory Framework (IBRF).

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

A2 Basis of preparation

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

A2.1 Statement of compliance

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

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

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

A2.2 Basis of measurement

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

A2.3 Functional and presentation currency

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

A2.4 Use of estimates and judgements

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

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

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

A2 Basis of preparation (continued)

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

For the period ended 30 September 2014, the Bank has adopted all of the new and revised standards and interpretations issued by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB that are relevant to its operations and effective for periods beginning on 1 January 2014.

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

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

IFRS 9, 'Financial instruments part 1: Classification and measurement', (effective date to be set later)
IAS 19 (amendments) Employee benefits, regarding defined benefit plans (effective on or after 1 July 2014).

A3 Significant accounting policies

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

A3.1 Foreign currency translation

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

A3.2 Revenue and expense recognition

A3.2.a Interest income and expense

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

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

A3 Significant accounting policies (continued)

A3.2 Revenue and expense recognition (continued)

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

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

A3.2.b Fair value gains and losses

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

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

A3.2.c Dividend income

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

A3.2.d Fees and commission

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

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

A3.2.e Provisions

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

A3.2.f Offsetting of income and expense

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

A3.3 Financial assets and liabilities

A3.3.a Classification

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

Financial assets at fair value through profit or loss

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

Loans and receivables

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

A3 Significant accounting policies (continued)

A3.3 Financial assets and liabilities (continued)

A3.3.a Classification (continued)

Loans and receivables (continued)

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

Held to maturity financial assets

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

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

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

Available-for-sale financial assets

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

Available-for-sale investments are financial assets that are intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices or that are not classified as loans and receivables, held to maturity investments or financial assets at fair value through profit or loss.

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

A3.3.b Recognition

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

A3 Significant accounting policies (continued)

A3.3 Financial assets and liabilities (continued)

A3.3.c Derecognition

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

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

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

A3.3.e Amortised cost measurement

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

A3.3.f Fair value measurement

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

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

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

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

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

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

(i) Assets carried at amortised cost

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

A3 Significant accounting policies (continued)

A3.3 Financial assets and liabilities (continued)

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

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

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

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

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

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

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the group and historical loss experience for assets with credit risk characteristics similar to those in the group.

The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Bank to reduce any differences between loss estimates and actual loss experience.

When a loan is uncollectible, it is written off against the related allowance for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the statement of comprehensive income.

(ii) Assets classified as available-for-sale

The Bank assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. For debt securities, the Bank uses the criteria referred to in (i) above. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss - is removed from equity and recognised in the statement of comprehensive income. Impairment losses recognised in the statement of comprehensive income on equity instruments are not reversed through the statement of comprehensive income.

A3 Significant accounting policies (continued)

A3.3 Financial assets and liabilities (continued)

A3.3.h Cash and cash equivalents

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

A3.3.i Repurchase and resale agreements

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

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

A3.3.j Acceptances

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

A3.3.k Derivatives held for risk management purposes

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

Fair value hedge

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

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

Cash flow hedge

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

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

A3 Significant accounting policies (continued)

A3.3 Financial assets and liabilities (continued)

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

Other non-trading derivative

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

A3.4 Property, equipment and fixtures

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

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

The assets' residual values, useful lives and depreciation methods are reviewed and adjusted if appropriate at each reporting date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

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

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

A3.5 Investment properties

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

A3.6 Deposits, debt securities issued and subordinated liabilities

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

A3.7 Taxation

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

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

A3 Significant accounting policies (continued)

A3.7 Taxation (continued)

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

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

A3.8 Fiduciary assets

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

A3.9 Trade and settlement date accounting

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

A3.10 Leases

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

A3.11 Financial guarantees

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

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

A3.12 Employee benefits

A3.12.a Terminal benefits

End of service benefits are accrued in accordance with the terms of employment of the Bank's employees at the reporting date, having regard to the requirements of the Oman Labour Law 2003, as amended.

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

A3.12.b Short term benefits

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

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

A3 Significant accounting policies (continued)

A3.13 Earnings per share

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

A3.14 Corresponding figures

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

A3.15 Segment reporting

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

A3.16 Directors' remuneration and sitting fees

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

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

A4 Critical accounting estimates and judgements

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

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

A4.1 Impairment losses on loans and advances

The Bank follows IFRS and CBO guidelines in assessing the impairment against non-performing loans. The Bank reviews its loan portfolios to assess impairment on a monthly basis. In determining whether an impairment loss should be recorded in the statement of comprehensive income, the Bank makes judgements as to whether there is any observable data indicating an impairment followed by measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified within that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers and or national or local economic conditions that correlate with defaults on assets. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed periodically to reduce any difference between loss estimates and actual loss experience. For individually significant loans and advances which are impaired, the necessary impairment loss is considered based on the future cash flow estimates. Individually significant loans and advances which are not impaired and all individually insignificant loans and advances are then assessed collectively considering historical experience and observable data on a portfolio basis, in group of assets with similar risk characteristics to determine whether collective impairment loss to be made.

A4 Critical accounting estimates and judgements (continued)

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

In determining collective impairment loss, the Bank takes into account several factors including credit quality, concentration risk, levels of past due, sector performance, available collateral and macro economic conditions.

A4.2 Fair value of derivatives and other financial instruments

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

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

The Bank determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost or objective evidence of impairment exists. This determination of what is considered to be significant or prolonged requires judgement. In applying judgement, the Bank evaluates among other factors, the volatility in share price. Objective evidence of impairment may be due to deterioration in the financial health of the investee, industry and sector performance.

A4.4 Fair value estimation of unquoted securities

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

B1 Cash and balances with central bank

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

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

B2 Due from banks and other money market placements

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

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

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

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

B3 Loans, advances and financing - net

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

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

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

Loans, advances and financing comprise:

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

B3 Loans, advances and financing - net (continued)

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

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

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

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

B4 Investment Securities

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

B4.a Held-for-trading investments comprise:

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

B4.b Available for sale investments comprise:

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

B4.c Held-to-maturity investments comprise:

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

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

NOTES TO FINANCIAL STATEMENTS

FOR THE PERIOD ENDED 30 SEPTEMBER 2014

B5 Property, Equipment and Fixtures

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

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

B6 Investment properties

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

B7 Other Assets

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

B8 Due to banks and other money market borrowings

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

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

NOTES TO FINANCIAL STATEMENTS

FOR THE PERIOD ENDED 30 SEPTEMBER 2014

B9 Customers' deposits

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

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

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

B10 Other liabilities

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

B11 Subordinated Loans

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

B12 Compulsorily convertible bonds

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

B13 Share capital

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

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

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

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

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

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

B14 Legal reserve

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

B 15 General reserve

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

B16 Fair value reserve

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

B17 Net assets per share

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

B18 Contingent liabilities and commitments

B18.1 Contingent liabilities

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

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

B18.2 Commitments

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

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

B19 RELATED PARTY TRANSACTIONS

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

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

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

B20 Derivatives

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

B20.1 Derivative product types

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

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

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

B20.2 Derivatives held or issued for hedging purposes

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

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 SEPTEMBER 2014

C1 Interest income

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

C2 Interest expense

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

C3 Other operating income

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

NOTES TO FINANCIAL STATEMENTS

FOR THE PERIOD ENDED 30 SEPTEMBER 2014

C4 Other operating expenses

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

C5 Income tax

a) Recognized in the statement of comprehensive income

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

b) Reconciliation

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

c) Deferred tax (liability)/asset

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

C5 Income tax (continued)

d) Tax assessment

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

C6 Basic and Diluted Earnings Per Share

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

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

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

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

D Financial risk management

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

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

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

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

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

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

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

D1 Credit risk

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

D1.1 Management of credit risk

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

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

D Financial risk management (continued)

D1 Credit risk (continued)

D1.1 Management of credit risk (continued)

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

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

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

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

D Financial risk management (continued)

D2 Exposure to liquidity risk

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

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

D Financial risk management (continued)

D3 Exposure to interest rate risk – non trading portfolios

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

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

D Financial risk management (continued)

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

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

D Financial risk management (continued)

D4 Exposure to currency risk

Currency risk

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

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

D Financial Risk Management (continued)

D5 Capital management

D5.1 Regulatory capital

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

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

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

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

E Segmental information

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

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

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

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

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

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

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FOR THE PERIOD ENDED 30 SEPTEMBER 2014

E Segmental information (continued)

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

* FIG stands for Financial Institution Group

E Segment information (continued)

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

* FIG stands for Financial Institution Group