



**Bank Sohar SAOG**

**BANK SOHAR SAOG**

**FINANCIAL STATEMENTS**

**For the Period ended 30 June 2013**

**Registered office and principal place of business:**

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



## **Board of Directors Report for the six months period ended 30<sup>th</sup> June 2013**

Our Valued Shareholders,

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

Your bank has achieved a Net Profit of OMR 11.954 million during the six months period ended 30<sup>th</sup> June 2013 as compared to a Net Profit of OMR 10.361 million during the same period of the previous year, a growth of 15.4%. The bank is continuing with its efforts to achieve a sustainable and profitable growth.

The Net Interest Income witnessed an improvement of 5.1% increasing from OMR 20.009 million for the period ended 30<sup>th</sup> June 2012 to OMR 21.035 million for the period ended 30<sup>th</sup> June 2013. The operating income increased by 9.3% from OMR 25.429 million during the first six months of last year to OMR 27.796 million during the first six months of the current year. The operating cost increased by 9.4% from OMR 12.025 million to OMR 13.163 million during the same period.

Gross loans have increased by 7.2% from OMR 1.125 billion on 30<sup>th</sup> June 2012 to OMR 1.205 billion as at 30<sup>th</sup> June 2013. The Net loans and advances grew by 7% from OMR 1.101 billion on 30<sup>th</sup> June 2012 to reach OMR 1.178 billion as at 30<sup>th</sup> June 2013. Customer deposits stood at OMR 1.249 billion as at 30<sup>th</sup> June 2013, as compared to OMR 1.309 billion registered as at 30<sup>th</sup> June 2012 with a decrease of 4.6%. This decline in deposits is due to the bank's conscious initiative to reduce interest expenses on high cost term deposits and protect the net interest margin in the fact of continuing decrease in yields on assets. The bank's market share of Private Sector Credit was 8.77% while the Private Sector Deposit share was 7.89% as at end of May 2013.

The bank has received the final approval and license from the Central Bank of Oman to operate the Islamic Banking window on 30<sup>th</sup> of April 2013. Accordingly, the bank has proceeded with opening the three Sohar Islamic branches located at Falaj Al Qabail in Sohar, Firq branch in Nizwa and Al Sa'adah branch in Salalah during the second quarter of 2013. By Gods grace, we shall also open a fourth branch in Ghubra in the Muscat Governate after the Eid holidays. The bank is launching many products and services that confirm to the sharia through its full-fledged islamic branches and expects the response to be good on these products and services from the customers.

One hundred and thirty staff joined the new blended learning program, branded as "Erteqa'a Program" partnering with Harvard Business Publishing & Knowledge Horizon, which represents 23% of our workforce. The program aims towards developing staffs' competencies for handling higher responsibilities and future challenges. More than 50% of those registered in the program were successful in completing all the requirements within record time. The total staff headcount as at 30<sup>th</sup> June 2013 stood at 588 and the Omanisation ratio at end June 2013 stood at 90.14%.



The bank also offers a variety of other services through its various outlets such as branches, ATMs, the Call Centre as well as electronic banking outlets such as Internet and SMS banking. The bank presently has a network of 28 branches and 48 ATMs spread out in various areas in the Sultanate.

Through its generous philanthropy, Bank Sohar has consistently made meaningful contributions towards wellbeing of the local community and raising awareness to various causes. Pressing ahead with its multi-faceted programme of Corporate Social Responsibility (CSR) activities, the principal beneficiaries of the Bank's CSR initiatives were the Creative Centre for Rehabilitation, Al Amal School for the Deaf and Oman Association for the disabled. In Addition, the Bank was honoured for the second year running for its support of a pioneering 'Educational Village' project committed to eradicating illiteracy in rural communities.

In the Bank's ongoing "Be Safe... Be Responsible" road safety campaign, numerous initiatives had been undertaken which included a generous contribution to Oman Road Safety Association (ORSA), participation in the College for Women's three-day symposium and an entire series of activities and road shows to raise public awareness on road safety in different regions of the Sultanate.

The Bank achieved two major milestones recently with the bank's successful entrance into social media and the launch of its exclusive Excel Diamond Infinite Credit Card.

During the second quarter, the bank has received numerous prestigious awards in acknowledgement of its commitment towards raising the industry benchmark of service excellence. The Bank recently won the distinguished 'Golden Order of Merit Award' in the field of prudent management & the best supportive bank for tourism projects in the Arab world from the Lebanon based Tatweej Academy, the award for 'Fastest Growing Bank in Oman' from the UAE based CPI Financial Organization, 'The Golden Award for Quality & Business Prestige' from the French based Otherways Management & Consulting Association and one of the 'Top Five Large Corporate Enterprises in Oman' Award from Alam Al Iktisad Wal A'mal (AIWA). I would also like to congratulate the Chief Executive Officer, Dr. Mohamed Abdulaziz Kalmoor, for winning the 'CEO of the Year 2012' award. Winning these prestigious awards stands as a testament to the bank's commitment towards banking excellence.

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 JUNE 2013

		<b>30 June 2013 RO'000</b>	<b>31 December 2012 RO'000</b>
<b>ASSETS</b>	<i>Notes</i>		
Cash and balances with Central Bank	<i>B1</i>	<b>106,566</b>	121,746
Due from Banks and other money market placements	<i>B2</i>	<b>261,651</b>	335,389
Loans, advances and financing (net)	<i>B3</i>	<b>1,177,936</b>	1,146,023
Investment securities	<i>B4</i>	<b>164,823</b>	152,686
Property, equipment and fixtures	<i>B5</i>	<b>12,777</b>	12,187
Investment Properties	<i>B6</i>	<b>2,900</b>	2,900
Other assets	<i>B7</i>	<b>18,200</b>	16,235
		<b>1,744,853</b>	1,787,166
<b>LIABILITIES</b>			
Due to Banks and other money market borrowings	<i>B8</i>	<b>255,065</b>	224,048
Customers' deposits	<i>B9</i>	<b>1,249,516</b>	1,337,400
Other liabilities	<i>B10</i>	<b>28,474</b>	30,838
Subordinated loans	<i>B11</i>	<b>50,000</b>	50,000
Compulsorily convertible bonds	<i>B12</i>	<b>7,150</b>	-
		<b>1,590,205</b>	1,642,286
<b>SHAREHOLDERS' EQUITY</b>			
Share capital	<i>B13</i>	<b>110,000</b>	100,000
Legal reserve	<i>B14</i>	<b>8,140</b>	8,006
General reserve	<i>B15</i>	<b>413</b>	413
Fair value reserve	<i>B16</i>	<b>(2,171)</b>	(851)
Subordinated loans reserve	<i>B11</i>	<b>4,167</b>	4,167
Retained earnings		<b>34,099</b>	33,145
		<b>154,648</b>	144,880
		<b>1,744,853</b>	1,787,166
<b>Net assets per share (in baizas)</b>	<i>B17</i>	<b>140.589</b>	144.880
<b>CONTINGENT LIABILITIES</b>	<i>B18</i>	<b>196,548</b>	203,955
<b>COMMITMENTS</b>	<i>B18</i>	<b>365,089</b>	162,228

The financial statements were approved and authorized for issue by the Board of Directors on 29<sup>th</sup> July 2013 and signed on their behalf by:

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*Chairman*

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*Deputy Chairman*



STATEMENT OF COMPREHENSIVE INCOME  
FOR THE PERIOD ENDED 30 JUNE 2013

	Notes	6 Months ended 30 June 2013 RO'000	6 Months ended 30 June 2012 RO'000	3 Months ended 30 June 2013 RO'000	3 Months ended 30 June 2012 RO'000
Interest income	C1	35,997	34,481	17,827	17,865
Interest expense	C2	(14,971)	(14,472)	(7,398)	(7,416)
<b>Net interest income</b>		<b>21,026</b>	<b>20,009</b>	<b>10,429</b>	<b>10,449</b>
Net income from Islamic financing and investing activities		9	-	9	-
Other operating income	C3	6,761	5,420	3,620	2,416
<b>OPERATING INCOME</b>		<b>27,796</b>	<b>25,429</b>	<b>14,058</b>	<b>12,865</b>
<b>OPERATING EXPENSES</b>					
Staff costs		(7,863)	(7,240)	(4,034)	(3,659)
Other operating expenses	C4	(4,553)	(3,766)	(2,292)	(1,836)
Depreciation	B5	(747)	(1,019)	(376)	(515)
		(13,163)	(12,025)	(6,702)	(6,010)
<b>OPERATING PROFIT</b>		<b>14,633</b>	<b>13,404</b>	<b>7,356</b>	<b>6,855</b>
Impairment on investments		-	(17)	-	(17)
Impairment allowance on portfolio basis	B3	(744)	(925)	(282)	(587)
Impairment allowance on specific basis	B3	(558)	(755)	(505)	(538)
<b>NET PROFIT BEFORE TAX</b>		<b>13,331</b>	<b>11,707</b>	<b>6,569</b>	<b>5,713</b>
<b>Income tax expense</b>	C5	<b>(1,377)</b>	<b>(1,346)</b>	<b>(696)</b>	<b>(682)</b>
<b>NET PROFIT/ (LOSS) FOR THE PERIOD</b>		<b>11,954</b>	<b>10,361</b>	<b>5,873</b>	<b>5,031</b>
<b>Other comprehensive income</b>					
Net changes in fair value of available for sale financial assets net of income tax		(374)	496	(805)	(668)
<b>Other comprehensive income for the period net of income tax</b>		<b>(374)</b>	<b>496</b>	<b>(805)</b>	<b>(668)</b>
<b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD</b>		<b>11,580</b>	<b>10,857</b>	<b>5,068</b>	<b>4,363</b>
Basic earnings per share for the period – in baizas	C6	11.096	10.361	5.464	5.031
Basic earnings per share for the period (annualized) – in baizas	C6	22.375	20.894	21.915	20.179
Diluted earnings per share for the period – in baizas	C6	10.679	9.898	5.122	4.806
Diluted earnings per share for the period (annualized) – in baizas	C6	21.534	19.961	20.542	19.278
<b>Net profit/(loss) for the period</b>					
Conventional banking		12,210	10,361	6,129	5,031
Islamic banking		(256)	-	(256)	-
Total		11,954	10,361	5,873	5,031



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

	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 2012	100,000	5,705	413	(2,034)	-	24,602	128,686
Total comprehensive income for the period							
Net profit for the period	-	-	-	-	-	10,361	10,361
Other comprehensive income for the period							
Net change in fair value of available for sale investments	-	-	-	496	-	-	496
Release on sale of available for sale of financial assets	-	-	-	-	-	-	-
Total comprehensive income for the period	-	-	-	496	-	10,361	10,857
Dividends paid for the year 2011	-	-	-	-	-	(8,000)	(8,000)
Balance as at 30 June 2012	100,000	5,705	413	(1,538)	-	26,963	131,543
Balance as at 1 July 2012	100,000	5,705	413	(1,538)	-	26,963	131,543
Total Comprehensive income for the period							
Net profit for the period	-	-	-	-	-	12,650	12,650
Other Comprehensive Income for the period							
Net change in fair value of available for sale investments	-	-	-	687	-	-	687
Transfers	-	2,301	-	-	4,167	(6,468)	-
Balance as at 31 December 2012	100,000	8,006	413	(851)	4,167	33,145	144,880

	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
<b>Balance as at 1 January 2013</b>	<b>100,000</b>	<b>8,006</b>	<b>413</b>	<b>(851)</b>	<b>4,167</b>	<b>33,145</b>	<b>144,880</b>
<b>Total comprehensive income for the period</b>							
Net profit for the period	-	-	-	-	-	11,954	11,954
<b>Other comprehensive income for the period</b>							
Net change in fair value of available for sale investments – net of tax (note B4)	-	-	-	(374)	-	-	(374)
Release on Sale of available for sale of financial assets	-	-	-	(946)	-	-	(946)
Total comprehensive income for the period	-	-	-	(1,320)	-	11,954	10,634
Issue of Rights shares	10,000	-	-	-	-	-	10,000
Rights issue expenses	-	134	-	-	-	-	134
Transfers	-	-	-	-	-	(7,150)	(7,150)
Dividend paid for the year 2012	-	-	-	-	-	(3,850)	(3,850)
Balance as at 30 June 2013	110,000	8,140	413	(2,171)	4,167	34,099	154,648

**STATEMENT OF CASH FLOWS**  
 FOR THE PERIOD ENDED 30 JUNE 2013

	<i>30 June 2013 RO'000</i>	<i>30 June 2012 RO'000</i>
<b>OPERATING ACTIVITIES</b>		
Net profit for the period before tax	13,331	11,707
Adjustments for:		
Depreciation	747	1,019
Impairment for credit losses and investment	1,316	1,697
(Profit)/loss on sale of investment securities	(1,455)	-
Profit/loss on sale of property, equipment and fixtures	(4)	-
Interest on investment	(579)	(1,203)
<b>Operating profit before changes in operating assets and liabilities</b>	<b>13,356</b>	<b>13,220</b>
loans and advances	(33,229)	(83,049)
Other assets	(2,224)	698
Customers' deposits	(87,884)	138,044
Due to banks and other money market borrowings	57,253	30,770
Due from banks and money market lending	71,264	(111,649)
Other liabilities	(479)	(6,147)
Investment in held for trading investment	(214)	(27,440)
<b>Cash from/ (used in ) operating activities</b>	<b>17,843</b>	<b>(45,553)</b>
<b>Income tax paid</b>	<b>(2,858)</b>	<b>(1,840)</b>
<b>Net cash from /(used in) operating activities</b>	<b>14,985</b>	<b>(47,393)</b>
<b>INVESTING ACTIVITIES</b>		
Purchase of investments (net)	(11,670)	(2,621)
Proceeds from sale/redemption of investments	11,291	-
Purchase of property, equipment and fixtures	(1,923)	(604)
Proceeds from sale of property, equipment and fixtures	589	13
Interest received on investments	579	1,203
<b>Net cash used in investing activities</b>	<b>(1,134)</b>	<b>(2,009)</b>
<b>FINANCING ACTIVITIES</b>		
Issue of Rights shares	10,000	-
Rights issue expenses	134	-
Dividends paid	(3,850)	(8,000)
<b>Net cash from financing activities</b>	<b>6,284</b>	<b>(8,000)</b>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	<b>20,135</b>	<b>(57,402)</b>
<b>CASH AND CASH EQUIVALENT AT BEGINNING OF THE PERIOD</b>	<b>125,268</b>	<b>153,286</b>
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD</b>	<b>145,403</b>	<b>95,884</b>
<b>REPRESENTING:</b>		
Cash and balances with Central Banks	106,567	90,768
Due from Banks and other money market lending	58,406	29,967
Investments securities	134,747	121,899
Due to Banks and other money market borrowings	(154,317)	(146,750)
	<b>145,403</b>	<b>95,884</b>



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**NOTES TO FINANCIAL STATEMENTS**  
FOR THE PERIOD ENDED 30 JUNE 2013

**A1 Legal status and principal activities**

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

The Bank employed 588 employees as of 30 June 2013 (31 December 2012: 573).

**A2 Basis of preparation**

Since these are interim condensed financial statements, they do not contain all information and disclosures for the full financial statements prepared in accordance with IFRS and should be read in conjunction with the Bank’s annual financial statements as at 31 December 2012.

**A2.1 Statement of compliance**

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

**A2.2 Basis of measurement**

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

**A2.3 Functional and presentation currency**

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

**A2.4 Use of estimates and judgements**

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

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

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

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

For the quarter ended 30 June 2013, the Bank has adopted all of the new and revised standards and interpretations issued by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB that are relevant to its operations and effective for periods beginning on 1 January 2013.

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



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NOTES TO FINANCIAL STATEMENTS  
FOR THE PERIOD ENDED 30 JUNE 2013

**A2 Basis of preparation (continued)**

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

The following standards, amendments and interpretations to existing standards have been published and are mandatory for the Bank's accounting periods beginning on or after 1 January 2014 or later periods, but the Bank has not early adopted them and the impact of these standards and interpretations is not reasonably estimable as at 30 June 2013:

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

**A3 Significant accounting policies**

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

**A3.1 Foreign currency translation**

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

**A3.2 Revenue and expense recognition**

**A3.2.a Interest income and expense**

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

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

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

**A3.2.b Fair value gains and losses**

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



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NOTES TO FINANCIAL STATEMENTS  
FOR THE PERIOD ENDED 30 JUNE 2013

**A3 Significant accounting policies (continued)**

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

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

**A3.2.c Dividend income**

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

**A3.2.d Fees and commission**

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

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

**A3.2.e Provisions**

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

**A3.2.f Offsetting of income and expense**

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

**A3.3 Financial assets and liabilities**

**A3.3.a Classification**

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

**Financial assets at fair value through profit or loss**

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

**Loans and receivables**

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

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



NOTES TO FINANCIAL STATEMENTS  
FOR THE PERIOD ENDED 30 JUNE 2013

**A3 Significant accounting policies (continued)**

**A3.3 Financial assets and liabilities (continued)**

**A3.3.a Classification (continued)**

**Held to maturity financial assets**

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

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

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

**Available-for-sale financial assets**

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

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

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

**A3.3.b Recognition**

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

**A3.3.c Derecognition**

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

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

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

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NOTES TO FINANCIAL STATEMENTS  
FOR THE PERIOD ENDED 30 JUNE 2013

**A3 Significant accounting policies (continued)**

**A3.3 Financial assets and liabilities (continued)**

**A3.3.e Amortised cost measurement**

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

**A3.3.f Fair value measurement**

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

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

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

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

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

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

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

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

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

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NOTES TO FINANCIAL STATEMENTS  
FOR THE PERIOD ENDED 30 JUNE 2013

**A3 Significant accounting policies (continued)**

**A3.3 Financial assets and liabilities (continued)**

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

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

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

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

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

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

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

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

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

**(ii) Assets classified as available-for-sale**

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

**A3.3.h Cash and cash equivalents**

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



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NOTES TO FINANCIAL STATEMENTS  
FOR THE PERIOD ENDED 30 JUNE 2013

**A3 Significant accounting policies (continued)**

**A3.3 Financial assets and liabilities (continued)**

**A3.3.i Repurchase and resale agreements**

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

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

**A3.3.j Acceptances**

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

**A3.3.k Derivatives held for risk management purposes**

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

**Fair value hedge**

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

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

**Cash flow hedge**

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

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

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NOTES TO FINANCIAL STATEMENTS  
FOR THE PERIOD ENDED 30 JUNE 2013

**A3 Significant accounting policies (continued)**

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

**Other non-trading derivative**

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

**A3.4 Property, equipment and fixtures**

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

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

The assets' residual values, useful lives and depreciation methods are reviewed and adjusted if appropriate at each reporting date. Based on the recent estimation, the Bank has changed the useful life of furniture and fixtures to 6-7 years and production software to 10 years. The change of estimated useful life is accounted for as a change in estimate by adjusting the depreciation charge for the current year as the change affects the current year and by adjusting the charge for future years to the extent that it affects the future years.

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

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

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

**A3.5 Investment properties**

Investment properties comprise plots of land held for a currently undetermined business use and not occupied by the Bank. Investment properties are carried at cost, less impairment. Any required impairment charge is recorded in the statement of comprehensive income.

**A3.6 Deposits, debt securities issued and subordinated liabilities**

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

**A3.7 Taxation**

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

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





NOTES TO FINANCIAL STATEMENTS  
FOR THE PERIOD ENDED 30 JUNE 2013

**A3 Significant accounting policies (continued)**

**A3.7 Taxation (continued)**

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

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

**A3.8 Fiduciary assets**

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

**A3.9 Trade and settlement date accounting**

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

**A3.10 Leases**

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

**A3.11 Financial guarantees**

Financial guarantees are contracts that require the Bank to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment, when due in accordance with the terms of a debt instrument. Financial guarantee liabilities are initially recognised at their fair value, and the initial fair value is amortised over the life of the financial guarantee. The guarantee liability is subsequently carried at the higher of this amortised amount and the present value of any expected payment (when a payment under the guarantee has become probable). The unamortized value or present value of the expected payment arising from the financial guarantee as the case may be is included in the other liabilities.

**A3.12 Employee benefits**

**A3.12.a Terminal benefits**

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

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

**A3.12.b Short term benefits**

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

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





NOTES TO FINANCIAL STATEMENTS  
FOR THE PERIOD ENDED 30 JUNE 2013

**A3 Significant accounting policies (continued)**

**A3.13 Earnings per share**

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

**A3.14 Corresponding figures**

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

**A3.15 Segment reporting**

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

**A4 Critical accounting estimates and judgements**

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

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

**A4.1 Impairment losses on loans and advances**

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

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**NOTES TO FINANCIAL STATEMENTS**  
 FOR THE PERIOD ENDED 30 JUNE 2013

**A4 Critical accounting estimates and judgements (continued)**
**A4.2 Fair value of derivatives and other financial instruments**

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

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

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

**B1 Cash and balances with central bank**

	<i>30 June</i> <i>2013</i> <i>RO'000</i>	<i>31 December</i> <i>2012</i> <i>RO'000</i>
Cash	12,116	10,975
Capital deposit with Central Bank of Oman	500	500
Balance with Central Bank	93,950	110,271
	<hr/>	<hr/>
	<b>106,566</b>	<b>121,746</b>
	<hr/> <hr/>	<hr/> <hr/>

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

**B2 Due from banks and other money market lending**

	<i>30 June</i> <i>2013</i> <i>RO'000</i>	<i>31 December</i> <i>2012</i> <i>RO'000</i>
<i>Local currency:</i>		
Money market lending	-	2,000
	<hr/>	<hr/>
	-	2,000
	<hr/>	<hr/>
<i>Foreign currency:</i>		
Money market lending	246,986	324,559
Demand balances	14,665	8,830
	<hr/>	<hr/>
	<b>261,651</b>	<b>333,389</b>
	<hr/>	<hr/>
	<b>261,651</b>	<b>335,389</b>
	<hr/> <hr/>	<hr/> <hr/>



## NOTES TO FINANCIAL STATEMENTS

FOR THE PERIOD ENDED 30 JUNE 2013

**B3 Loans, advances and financing - net (continued)**

	<b>30 June</b>	<b>31 December</b>
	<b>2013</b>	<b>2012</b>
	<b>RO'000</b>	<b>RO'000</b>
Loans to Banks	<b>28,215</b>	38,183
Corporate loans	<b>789,509</b>	749,496
Retail loans	<b>387,378</b>	383,615
	<hr/>	<hr/>
Gross loans and advances	<b>1,205,102</b>	1,171,294
Impairment allowance on portfolio basis	<b>(15,654)</b>	(14,910)
Impairment allowance on specific basis(including reserved interest)	<b>(11,512)</b>	(10,361)
	<hr/>	<hr/>
Net loans and advances	<b>1,177,936</b>	1,146,023
	<hr/> <hr/>	<hr/> <hr/>

Retail loans include RO 15,699,852 provided to staff on concessional terms (2012: RO 16,560,954).  
Gross loans and advances include RO 4,399,328 from Sohar Islamic financing activities.

**B3 Loans, advances and financing - net (continued)**

Loans and advances comprise:

	<b>30 June</b>	<b>31 December</b>
	<b>2013</b>	<b>2012</b>
	<b>RO'000</b>	<b>RO'000</b>
Loans	<b>1,107,340</b>	1,075,981
Overdrafts	<b>49,275</b>	53,300
Loan against trust receipts	<b>36,811</b>	32,266
Bills discounted	<b>11,676</b>	9,747
	<hr/>	<hr/>
Gross loans and advances	<b>1,205,102</b>	1,171,294
Impairment allowance on portfolio basis	<b>(15,654)</b>	(14,910)
Impairment allowance on specific basis(including reserve interest)	<b>(11,512)</b>	(10,361)
	<hr/>	<hr/>
Net loans and advances	<b>1,177,936</b>	1,146,023
	<hr/> <hr/>	<hr/> <hr/>

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

<b>Loan Loss Provision</b>	<b>30 June</b>	<b>31 December</b>
	<b>2013</b>	<b>2012</b>
	<b>RO'000</b>	<b>RO'000</b>
<b>Impairment allowance on portfolio basis</b>		
Balance at beginning of period	<b>14,910</b>	13,559
Provided during the period	<b>744</b>	1,351
	<hr/>	<hr/>
Balance at the end of the period	<b>15,654</b>	14,910
	<hr/> <hr/>	<hr/> <hr/>
<b>Impairment allowance on specific basis</b>		
<b>1) Loan loss provision</b>		
Balance at beginning of period	<b>7,774</b>	6,414
Provided during the period	<b>1,501</b>	3,287
Written off	<b>(40)</b>	-
Written back due to recovery	<b>(943)</b>	(1,927)
	<hr/>	<hr/>
Balance at the end of the period	<b>8,292</b>	7,774
	<hr/> <hr/>	<hr/> <hr/>



NOTES TO FINANCIAL STATEMENTS  
FOR THE PERIOD ENDED 30 JUNE 2013

**B3 Loans, advances and financing - net (continued)**

**2) Reserved interest**

Balance at beginning of period	2,587	1,400
Reserved during the period	790	1,464
Written off	(14)	-
Written back due to recovery	(143)	(277)
	<u>3,220</u>	<u>2,587</u>
Balance at end of the period	<u>3,220</u>	<u>2,587</u>
Total	<u>11,512</u>	<u>10,361</u>

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

All loans and advances require payment of interest, some at fixed rates and others at rates that reprice prior to maturity. Interest reserve account is maintained by the Bank to comply with rules, regulations and guidelines issued by CBO against loans and advances which are impaired. As of 30 June 2013, loans and advances on which interest is not being accrued or where interest has been reserved amounted to RO 19,119,668 (2012: RO 18,280,354).

**B4 INVESTMENT SECURITIES**

	<i>30 June 2013 RO'000</i>	<i>31 December 2012 RO'000</i>
Available for sale investment	158,069	146,146
Held to maturity investment	6,540	6,540
Held for trading investment	214	-
	<u>164,823</u>	<u>152,686</u>

**B4.a Available for sale investment comprise:**

	<i>Carrying/ fair value 30 June 2013 RO'000</i>	<i>Cost 30 June 2013 RO'000</i>	<i>Carrying/ fair value 31 December 2012 RO'000</i>	<i>Cost 31 December 2012 RO'000</i>
Unquoted securities	1,208	1,674	1,629	2,019
Quoted Securities	22,327	24,247	21,324	21,851
Treasury Bills	134,748	134,741	123,193	123,179
	<u>158,283</u>	<u>160,662</u>	<u>146,146</u>	<u>147,049</u>

**B4.b Held-to-maturity investments comprise:**

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



NOTES TO FINANCIAL STATEMENTS  
FOR THE PERIOD ENDED 30 JUNE 2013

**B5 PROPERTY, EQUIPMENT AND FIXTURES**

	<i>Freehold Land*</i>	<i>Production Software</i>	<i>Furniture &amp; fixtures</i>	<i>Office Equipments</i>	<i>Motor Vehicles</i>	<i>Capital Work in progress</i>	<i>Total</i>
	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>
<b>Cost:</b>							
1 January 2013	4,100	6,588	3,241	3,986	505	1,711	20,131
Additions	-	44	38	365	49	841	1,337
Disposals/ reallocation	-	-	-	-	(11)	-	(11)
<b>As at 30 June 2013</b>	<b>4,100</b>	<b>6,632</b>	<b>3,279</b>	<b>4,351</b>	<b>543</b>	<b>2,552</b>	<b>21,457</b>
<b>Accumulated depreciation:</b>							
1 January 2013	-	(3,379)	(1,947)	(2,285)	(333)	-	(7,944)
Depreciation	-	(248)	(154)	(310)	(35)	-	(747)
Disposals	-	-	-	-	11	-	11
<b>As at 30 June 2013</b>	<b>-</b>	<b>(3,627)</b>	<b>(2,101)</b>	<b>(2,595)</b>	<b>(357)</b>	<b>-</b>	<b>(8,680)</b>
<b>Net book value at 30 June 2013</b>	<b>4,100</b>	<b>3,005</b>	<b>1,178</b>	<b>1,756</b>	<b>186</b>	<b>2,552</b>	<b>12,777</b>

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

\*Freehold land represents a plot of land received by the Bank as grant from the Government of Sultanate of Oman during the year 2008. The Bank has recorded the land based on the average valuation of the two professional valuers carried out during 2008. The plot of land is being used for the construction of new Head Office.

**B6 Investment properties**

Investment properties represent two plots of land received by the Bank as grant from the Government of Sultanate of Oman during the year 2008. The Bank has recorded the land based on the average valuation of the two professional valuers carried out during 2008. The plots of land are currently held vacant. The fair value of these properties as at 31 December 2012 is RO 1.160 million.



NOTES TO FINANCIAL STATEMENTS  
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**B7 OTHER ASSETS**

	<i>30 June</i> <i>2013</i> <i>RO'000</i>	<i>31 December</i> <i>2012</i> <i>RO'000</i>
Interest receivable	3,370	6,450
Acceptances	6,136	4,687
Prepayments	2,498	1,877
Deferred tax	21	-
Other receivables	4,172	1,026
Others	2,003	2,195
	<u>18,200</u>	<u>16,235</u>

**B8 Due to banks and other money market borrowings**

	<i>30 June</i> <i>2013</i> <i>RO'000</i>	<i>31 December</i> <i>2012</i> <i>RO'000</i>
<i>Local currency:</i>		
Money market borrowings	42,500	44,660
Demand Balances	240	214
	<u>42,740</u>	<u>44,874</u>
<i>Foreign currency:</i>		
Money market borrowings	212,247	179,153
Demand Balances	78	21
	<u>212,325</u>	<u>179,174</u>
	<u>255,065</u>	<u>224,048</u>



NOTES TO FINANCIAL STATEMENTS  
FOR THE PERIOD ENDED 30 JUNE 2013

**B9 Customers' deposits**

	<i>30 June</i> <b>2013</b> <i>RO'000</i>	<i>31 December</i> <b>2012</b> <i>RO'000</i>
Term deposits	707,972	822,064
Demand deposits	334,482	321,524
Saving deposits	201,001	191,817
Margin accounts	6,061	1,995
	<u>—</u>	<u>—</u>
	<b>1,249,516</b>	<b>1,337,400</b>

	<i>Bank Sohar</i>	<i>Sohar Islamic</i>	<i>Total</i>	<i>Bank Sohar</i>	<i>Sohar Islamic</i>	<i>Total</i>
<i>Retail customers:</i>						
Saving deposits	200,309	692	201,001	191,817	-	191,817
Term deposits	19,406	-	19,406	15,569	-	15,569
Demand deposits	13,953	273	14,226	14,099	-	14,099
<i>Corporate customers:</i>						
Term deposits	688,566	-	688,566	806,494	-	806,494
Demand deposits	315,723	4,533	320,256	307,426	-	307,426
Others	6,061	-	6,061	1,995	-	1,995
	<u>1,244,018</u>	<u>5,498</u>	<u>1,249,516</u>	<u>1,337,400</u>	<u>-</u>	<u>1,337,400</u>

**B10 Other liabilities**

	<i>30 June</i> <b>2013</b> <i>RO'000</i>	<i>31 December</i> <b>2012</b> <i>RO'000</i>
Interest payable	13,096	12,317
Acceptances	6,136	4,687
Staff entitlements	2,039	2,948
Income tax payable	1,523	2,996
Deferred tax liability (note C5)	-	133
Other accruals and provisions	5,680	7,757
	<u>28,474</u>	<u>30,838</u>

**B11 SUBORDINATED LOANS**

The Bank raised an unsecured subordinated loan of RO 50 million in 2011 with a maturity of 7 years. The instrument is unlisted, non-transferable, and non-negotiable and non-convertible with no early call option. The instrument carries a fixed rate of interest of 6.5%. According to the Regulations of Central Bank of Oman, the subordinated loan as reduced by subordinated loan reserve is considered as Tier II capital for Capital Adequacy purposes. Principal amount of the subordinated loan is repayable on maturity while interest is payable semi-annually. The Bank is required to create a subordinated loan reserve equal to 20% of the issue value annually from August 2012 up till the maturity of the subordinated loans. This reserve is created at the end of each financial year from retained earnings. Accordingly, during the year 2012 a reserve of RO 4,166,667 was created.

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**NOTES TO FINANCIAL STATEMENTS**  
 FOR THE PERIOD ENDED 30 JUNE 2013

**B12 Compulsorily convertible bonds**

The compulsorily convertible bonds carry an annual coupon rate of 4.5%. These bonds will be converted into ordinary shares of the bank in three equal instalments at the end of 3rd, 4th and 5th years from their dates of issue at a conversion price derived by applying a discount of 20% to the 3 months average share price of the Bank on the Muscat Securities Market prior to the date of conversion.

**B13 Share capital**

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

On 11<sup>th</sup> February 2013, the bank issued 100,000,000 shares through a rights issue to its existing shareholders at a price of 102 baiza per share consisting of nominal value of 100 baiza per share and 2 baiza per share to cover the rights issue expenses. The proceeds of rights issue amounting to RO 10.2 million was credited to the share capital account to the extent of RO 10 million and RO 0.134 million to legal reserve being balance after meeting share issue expenses.

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

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

As of 30 June 2013, the following shareholders held 10% or more of the Bank's capital, either individually or together with family members:

	<i>Number of shares</i>	<i>% Holding</i>
Oman Investment & Finance Company SAOG	<b>165,000,000</b>	<b>15.00%</b>
The Royal Court of Affairs	<b>160,259,374</b>	<b>14.57%</b>

**B14 Legal reserve**

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

**B 15 General reserve**

The Board of Directors has decided to create a non distributable general reserve with the amount of RO 412,500 during the year 2010.

**B16 Fair value reserve**

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

**B17 Net assets per share**

The calculation of net assets per share is based on net assets of RO 154,648,000 as at 30 June 2013 (2012 - RO 144,880,000) attributable to ordinary shareholders on 1,100,000,000 ordinary shares, being the number of shares outstanding as at 30 June 2013 (2012: 1,000,000,000 ordinary shares).





NOTES TO FINANCIAL STATEMENTS  
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**B18 CONTINGENT LIABILITIES AND COMMITMENTS**

**B18.1 Contingent liabilities**

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

	<i>30 June</i> <i>2013</i> <i>RO'000</i>	<i>31 December</i> <i>2012</i> <i>RO'000</i>
Guarantees	<b>163,636</b>	164,223
Documentary letters of credit	<b>32,912</b>	39,732
	<b>196,548</b>	<b>203,955</b>

**B18.2 Commitments**

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

	<i>30 June</i> <i>2013</i> <i>RO'000</i>	<i>31 December</i> <i>2012</i> <i>RO'000</i>
Capital commitments	<b>967</b>	1,207
Credit related commitments	<b>364,122</b>	161,021
	<b>365,089</b>	162,228

**B19 RELATED PARTY TRANSACTIONS**

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

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



NOTES TO FINANCIAL STATEMENTS  
FOR THE PERIOD ENDED 30 JUNE 2013

**B19 RELATED PARTY TRANSACTIONS (continued)**

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

	<i>30 June</i>	<i>31 December</i>
	<i>2013</i>	<i>2012</i>
	<i>RO'000</i>	<i>RO'000</i>
Loans and advances (balance at end of period)	<b>22,125</b>	31,804
Loans disbursed during the period	<b>204,352</b>	417,754
Loans repaid during the period	<b>(204,961)</b>	(415,528)
Deposits (balance at end of period)	<b>37,819</b>	44,081
Deposits received during the period	<b>150,755</b>	201,460
Deposits paid during the period	<b>(149,235)</b>	(192,127)
Interest income (during the period)	<b>345</b>	1,530
Interest expense (during the period)	<b>288</b>	(652)
<b>Senior management compensation</b>		
Salaries and other short term benefits	<b>2,483</b>	3,559
Directors' sitting fees and remuneration	<b>175</b>	198

**B20 Derivatives**

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

**B20.1 Derivative product types**

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

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

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

**B20.2 Derivatives held or issued for hedging purposes**

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

**NOTES TO FINANCIAL STATEMENTS**  
 FOR THE PERIOD ENDED 30 JUNE 2013

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

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

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

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

As at 30 June 2013	Notional amount RO'000	Notional amounts by term to maturity		
		Within 3 months	3 - 12 months	1 - 5 years
		RO'000	RO'000	RO'000
Foreign exchange purchase contracts	543,216	355,296	158,275	29,645
Forward foreign exchange sales contracts	543,180	354,974	158,542	29,664

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

**C1 Interest income**

	6 Months ended 30 June 2013 RO'000	6 Months ended 30 June 2012 RO'000	3 Months ended 30 June 2013 RO'000	3 Months ended 30 June 2012 RO'000
Loans and advances to customers	31,501	29,690	15,948	15,043
Due from Banks and other money market lendings	3,917	3,588	1,608	2,066
Investment securities	579	1,203	271	756
	<u>35,997</u>	<u>34,481</u>	<u>17,827</u>	<u>17,865</u>



NOTES TO FINANCIAL STATEMENTS  
FOR THE PERIOD ENDED 30 JUNE 2013

**C2 Interest expense**

	<i>6 Months ended 30 June 2013 RO'000</i>	<i>6 Months ended 30 June 2012 RO'000</i>	<i>3 Months ended 30 June 2013 RO'000</i>	<i>3 Months ended 30 June 2012 RO'000</i>
Customers' deposits	12,049	11,771	5,916	6,031
Subordinated Debt	1,612	1,621	811	811
Due to Banks and other money market borrowings	1,254	1,080	615	574
Compulsorily convertible bonds	56	-	56	-
	<u>14,971</u>	<u>14,472</u>	<u>7,398</u>	<u>7,416</u>

**C3 Other operating income**

	<i>6 Months ended 30 June 2013 RO'000</i>	<i>6 Months ended 30 June 2012 RO'000</i>	<i>3 Months ended 30 June 2013 RO'000</i>	<i>3 Months ended 30 June 2012 RO'000</i>
Fees and commission	3,767	4,257	2,191	2,043
Net gain from foreign exchange dealings	918	689	490	347
Dividend income	617	466	23	18
Realised gains from AFS investment securities	1,452	(1)	908	(1)
Net gains from HFT investment securities	3	9	3	9
Profit on sale of assets	4	-	5	-
	<u>6,761</u>	<u>5,420</u>	<u>3,620</u>	<u>2,416</u>

**C4 Other operating expense**

	<i>6 Months ended 30 June 2013 RO'000</i>	<i>6 Months ended 30 June 2012 RO'000</i>	<i>3 Months ended 30 June 2013 RO'000</i>	<i>3 Months ended 30 June 2012 RO'000</i>
Operating and administration costs	3,403	2,718	1,633	1,392
Establishment Cost	961	868	486	429
Directors remuneration and sitting fees	175	180	159	15
	<u>4,539</u>	<u>3,766</u>	<u>2,278</u>	<u>1,836</u>



NOTES TO FINANCIAL STATEMENTS  
FOR THE PERIOD ENDED 30 JUNE 2013

**C5 Income tax**

**a) Recognized in the statement of comprehensive income**

	<i>6 Months ended 30 June 2013 RO'000</i>	<i>6 Months ended 30 June 2012 RO'000</i>
<b><i>Tax expenses</i></b>		
Current tax	<b>1,385</b>	1,373
Deferred tax expense /(income)	<b>(8)</b>	(27)
Total tax expenses	<b>1,377</b>	1,346

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

**b) Reconciliation**

Accounting profit for the year	<b>13,331</b>	11,707
Income tax	<b>1,600</b>	1,405
Non deductible expenses	<b>8</b>	25
Tax exempt income	<b>(223)</b>	(57)
Current year deferred tax	<b>(8)</b>	(27)
Income tax expense	<b>1,377</b>	1,346

**c) Deferred tax (liability)/ Asset**

	<i>30 June 2013 RO'000</i>	<i>31 December 2012 RO'000</i>
On comprehensive income items	<b>(159)</b>	(167)
On other comprehensive income items	<b>180</b>	34
	<b>21</b>	(133)

**d) Tax assessment**

The assessments of the Bank for the years 2007 to 2012 have not yet been agreed with the Secretariat General for Taxation at the Ministry of Finance. The Bank is of the opinion that additional taxes, if any, related to the open tax years would not be significant to the financial position of the Bank as at 30 June 2013.



NOTES TO FINANCIAL STATEMENTS  
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**C6 BASIC EARNINGS / (LOSS) PER SHARE**

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

	<i>6 months ended 30 June 2013 RO'000</i>	<i>6 months ended 30 June 2012 RO'000</i>
Net profit for the period	<b>11,954</b>	10,361
Weighted average number of shares of RO 0.100 each outstanding during the period (in thousands)	<b>1,076,796</b>	1,000,000
Basic earnings per share for the period (in baizas)	<b>11.096</b>	10.361
Basic earnings per share annualized (in baizas)	<b>22.375</b>	20.894

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

	<i>6 months ended 30 June 2013 RO'000</i>	<i>6 months ended 30 June 2012 RO'000</i>
Net profit for the period	<b>11,954</b>	10,361
Interest on convertible bonds, net of taxation	<b>50</b>	-
	<b>12,004</b>	10,361
Weighted average number of shares of RO 0.100 each outstanding during the period (in thousands)	<b>1,124,080</b>	1,046,732
Diluted earnings per share for the period (in baizas)	<b>10.679</b>	9.898
Diluted earnings per share annualized (in baizas)	<b>21.534</b>	19.961



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**NOTES TO FINANCIAL STATEMENTS**  
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**D Financial risk management**

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

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

The Board of Directors has overall responsibility for the establishment and oversight of the Bank's risk management framework. The Board has established the Asset and Liability Committee (ALCO) and Risk Management Committee, which are responsible for developing and monitoring the Bank's risk management policies in their specified areas. All board committees report regularly to the Board of Directors on their activities.

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

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

**D1 Credit risk**

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

**D1.1 Management of credit risk**

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

- setting up risk limits and boundaries, within the regulatory guidelines, for risk origination to be within the approved risk appetite of the bank;
- continuous monitoring of these stand-alone credit risks in the 'corporate' and 'emerging corporate' portfolio as well as in the retail credit portfolio through an independent loan review group (LRG), reporting to head of risk, for risk grading of the portfolios and tracking the movement of the grades;
- portfolio credit risk measurement through tracking on the set portfolio risk parameters such as concentration risk;
- the bank will not entertain credit proposals from entities/individuals, whose name appears in the CBO classified list under BCSB. However, in exceptional cases in the retail business unit, loans are approved, with strong justifications and risk mitigations for considering any such proposals, and then these have to be referred to delegated authorities, as per the retail loan policy;
- retail credit risk is managed at the origination stage by ensuring adherence to the various retail product parameters which are set in the respective product policy approved by the Risk Management Committee of the board, after a risk review by the CRM. Only credit with exceptions to the policy will be reviewed by the CRM for offering risk observations to the approving authority;
- in the 'corporate', 'financial institution group' and 'emerging corporate' lending business, individual credit proposals are reviewed by the CRM of risk management department with a template through which the following risks are examined and risk observations given to the approving authority:
  - risk of non-compliance to the regulatory guidelines and other applicable laws (example: related party exposure or connected party exposure, margin requirement for loans against shares);



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**D1 Credit risk (continued)**

**D1.1 Management of credit risk (continued)**

- risks in the industry in which the borrower is conducting his business or to the prospects of which the business has very high positive correlation;
  - risks out of the business model being followed (risks on the business cash flows);
  - risks out of ownership, absence of succession and absence of professional management team etc.;
  - financial risks indicated out of an analysis of their last three years' financials where ever available. The overall risk rating with quantitative inputs from financials and qualitative inputs by the credit analyst on business, management etc are approved or overridden by risk management department;
  - risks out of wrong structuring of credit facilities, inadequacy of critical covenants and securities. Comments on risk-pricing will be given by risk objectively after setting up a model to price loans to the risk that it has;
  - risk of adverse selection and mitigation by more due diligence while taking over loans from other banks or buying loan assets from secondary market, especially when it is sold at a discount; and
  - risk of non availability of loan repayments tied up and aligned to specific identified cash flows with assignment.
- renewals and reviews of facilities are subject to the same review process. The process also includes approval by risk of borrower ratings arrived at by the business units;
  - limiting concentrations of exposure to counterparties, geographies and industries (for loans and advances), and by issuer, market liquidity and country (for investment securities);
  - developing and maintaining the bank's risk grading in order to categorise exposures according to the degree of risk of financial loss faced and to focus management on the attendant risks; and
  - providing advice, guidance and specialist skills to business units to promote best practice throughout the bank in the management of credit risk.

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

- mortgages over properties;
- charges over business assets such as premises inventory and accounts receivable;
- Charges over financial instruments such as debt securities and equities.

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





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## D 2 Exposure to liquidity risk

	Within three months RO'000	Four months to 12 months RO'000	One to three years RO'000	More than three years RO'000	Total RO'000
<b>30 June 2013</b>					
<b>Assets</b>					
Cash and balances with Central Banks	51,583	28,849	8,596	17,538	106,566
Due from banks and other money market lendings	100,782	160,869	-	-	261,651
Loans and advances	264,510	153,384	187,334	572,709	1,177,936
Investment securities	134,892	71	22,604	7,256	164,823
Property and equipment and other assets	10,897	861	129	19,090	30,977
Investment properties	-	-	-	2,900	2,900
<b>Total assets</b>	<b><u>562,664</u></b>	<b><u>344,034</u></b>	<b><u>218,663</u></b>	<b><u>619,493</u></b>	<b><u>1,744,853</u></b>
<b>Liabilities and equity</b>					
Due to banks and other money market borrowings	197,817	38,001	19,247	-	255,065
Customers' deposits	323,561	490,223	145,751	289,981	1,249,516
Other liabilities	10,957	9,098	766	7,653	28,474
Subordinated loans	-	-	-	50,000	50,000
Compulsorily convertible bonds	-	-	2,383	4,767	7,150
Shareholders' funds	-	-	-	154,648	154,648
<b>Total liabilities and equity</b>	<b><u>532,335</u></b>	<b><u>537,322</u></b>	<b><u>168,147</u></b>	<b><u>507,049</u></b>	<b><u>1,744,853</u></b>

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



## NOTES TO FINANCIAL STATEMENTS

FOR THE PERIOD ENDED 30 JUNE 2013

**D3 Exposure to interest rate risk – non trading portfolios**

The Bank's interest sensitivity position based on contractual re-pricing arrangements at 31 March 2013 was as follows:

	Effective annual interest rate %	Within three months RO'000	Four months to 12 months RO'000	Over one year RO'000	Non- sensitive to interest rate RO'000	Total RO'000
<b>30 June 2013</b>						
<b>Assets</b>						
Cash and balances with Central Banks	0.01	-	-	-	106,566	106,566
Due from banks and other money market lendings	2.32	100,633	160,869	-	149	261,651
Loans and advances	5.47	514,387	204,063	463,326	(3,840)	1,177,936
Investment securities	1.17	139,892	71	11,481	13,379	164,823
Property, equipment and fixtures	-	-	-	-	12,777	12,777
Investment properties	-	-	-	-	2,900	2,900
Other assets	-	-	-	-	18,192	18,192
<b>Total assets</b>		<b>754,912</b>	<b>365,011</b>	<b>474,807</b>	<b>150,123</b>	<b>1,744,853</b>
<b>Liabilities and equity</b>						
Due to banks and other money market borrowings	0.71	217,065	38,000	-	-	255,065
Customers' deposits	1.86	183,106	398,650	135,478	532,282	1,249,516
Other liabilities	-	-	-	-	28,474	28,474
Subordinated debt	6.50	-	-	50,000	-	50,000
Compulsorily convertible bonds	4.50	-	-	-	7,150	7,150
Shareholders' funds	-	-	-	-	154,648	154,648
<b>Total liabilities and equity</b>		<b>400,171</b>	<b>436,650</b>	<b>185,478</b>	<b>722,554</b>	<b>1,744,853</b>
<b>Total interest rate sensitivity gap</b>		<b>354,741</b>	<b>(71,639)</b>	<b>289,329</b>	<b>(572,431)</b>	<b>=</b>
<b>Cumulative interest rate sensitivity gap</b>		<b>354,741</b>	<b>283,102</b>	<b>572,431</b>	<b>=</b>	<b>=</b>

	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
<b>31 December 2012</b>						
<b>Assets</b>						
Cash and balances with Central Banks	0.01	-	-	-	121,746	121,746
Due from banks and other money market lendings	2.87	120,170	215,219	-	-	335,389
Loans and advances	5.63	474,247	220,706	452,978	(1,908)	1,146,023
Investment securities	1.72	128,201	2,573	9,434	12,478	152,686
Property, equipment and fixtures	-	-	-	-	12,187	12,187
Investment properties	-	-	-	-	2,900	2,900
Other assets	-	-	-	-	16,235	16,235
<b>Total assets</b>		<b>722,618</b>	<b>438,498</b>	<b>462,412</b>	<b>163,638</b>	<b>1,787,166</b>
<b>Liabilities and equity</b>						
Due to banks and other money market borrowings	1.49	210,572	13,476	-	-	224,048
Customers' deposits	1.94	225,721	335,975	266,103	509,601	1,337,400
Other liabilities	-	-	-	-	30,838	30,838
Subordinated loans	6.5	-	-	-	50,000	50,000
Shareholders' funds	-	-	-	-	144,880	144,880
<b>Total liabilities and equity</b>		<b>436,293</b>	<b>349,451</b>	<b>266,103</b>	<b>735,319</b>	<b>1,787,166</b>
<b>Total interest rate sensitivity gap</b>		<b>286,325</b>	<b>89,047</b>	<b>196,309</b>	<b>(571,681)</b>	<b>=</b>
<b>Cumulative interest rate sensitivity gap</b>		<b>286,325</b>	<b>375,372</b>	<b>571,681</b>	<b>=</b>	<b>=</b>



NOTES TO FINANCIAL STATEMENTS  
FOR THE PERIOD ENDED 30 JUNE 2013

**D FINANCIAL RISK MANAGEMENT** *(continued)*

**D4 Exposure to Currency risk**

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

	2013			2012		
	Assets RO'000	Liabilities RO'000	Net assets RO'000	Assets RO'000	Liabilities RO'000	Net assets RO'000
US Dollar	578,278	590,362	(12,084)	675,201	681,359	(6,158)
Saudi Rial	333	-	333	317	-	317
Euro	24,211	24,211	-	33,448	33,427	21
UAE Dirhams	25,101	11,517	13,585	14,963	11,408	3,555
Qatari Rial	86	25	61	32	19	13
Kuwaiti Dinar	92	77	16	11	5	6
Japanese Yen	8,039	8,184	(145)	17,364	17,391	(27)
Pound Sterling	1,364	1,364	-	1,757	1,764	(7)
Indian Rupee	92	19	73	39	1	38
Sri Lankan Rupee	3,817	3,805	12	-	-	-
China CNH	11,789	11,830	(42)	-	-	-
Others	206	160	48	217	96	121

**NOTES TO FINANCIAL STATEMENTS**  
 FOR THE PERIOD ENDED 30 JUNE 2013

**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:

	<b>30 June 2013 RO'000</b>	<b>31 December 2012 RO'000</b>
<b>Tier I capital</b>		
Ordinary share capital	<b>110,000</b>	100,000
Legal reserve	<b>8,140</b>	8,006
General reserve	<b>413</b>	413
Subordinated loan reserve	<b>4,167</b>	4,167
Retained earnings	<b>34,099</b>	33,145
Fair value losses	<b>(2,486)</b>	(1,457)
Deferred tax asset	<b>(194)</b>	(45)
<b>Total</b>	<b>154,139</b>	144,229
<b>Tier 2 capital</b>		
Impairment allowance on portfolio basis	<b>15,653</b>	14,910
Fair value gains	<b>139</b>	273
Subordinated loan	<b>45,833</b>	45,833
Compulsorily convertible bonds	<b>7,150</b>	-
<b>Total</b>	<b>68,775</b>	61,016
<b>Total regulatory capital</b>	<b>222,914</b>	205,245
<b>Risk-weighted assets</b>		
Credit and market risks	<b>1,473,606</b>	1,414,282
Operational risk	<b>78,501</b>	78,482
<b>Total risk-weighted assets</b>	<b>1,552,107</b>	1,492,764
<b>Capital adequacy ratio</b>		
Total regulatory capital expressed as a percentage of total risk-weighted assets	<b>14.36%</b>	13.75%
Total tier I capital expressed as a percentage of total risk-weighted assets	<b>9.93%</b>	9.66%

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



**NOTES TO FINANCIAL STATEMENTS**  
FOR THE PERIOD ENDED 30 JUNE 2013

**D6 Segmental information**

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

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

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

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

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

No revenue from transactions with a single external customer or counterparty amounted to 10% or more of the Bank's total revenue in 2012 or 2013.

**NOTES TO FINANCIAL STATEMENTS**  
 FOR THE PERIOD ENDED 30 JUNE 2013

**D6 Segment information (continued)**

	30 June 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	9,440	8,551	5,842	(2,807)	-	21,026
Net Income from Islamic Financing and investing activities	-	-	-	-	9	9
Other operating income	1,279	2,874	2,615	(8)	1	6,761
<b>Operating income</b>	<b>10,719</b>	<b>11,425</b>	<b>8,457</b>	<b>(2,815)</b>	<b>10</b>	<b>27,796</b>
Operating expense	(9,613)	(1,826)	(1,489)	-	(222)	(13,149)
<b>Operating Profit /(loss)</b>	<b>1,106</b>	<b>9,599</b>	<b>6,969</b>	<b>(2,815)</b>	<b>(212)</b>	<b>14,647</b>
Impairment allowance on portfolio basis	-	-	-	(700)	(44)	(744)
Impairment allowance on specific basis	(242)	(330)	-	-	-	(572)
<b>Profit / (loss) for the year</b>	<b>864</b>	<b>9,269</b>	<b>6,969</b>	<b>(3,515)</b>	<b>(256)</b>	<b>13,331</b>
Income tax expense	-	-	-	(1,377)	-	(1,377)
<b>Segment profit /(loss) for the year</b>	<b>864</b>	<b>9,269</b>	<b>6,969</b>	<b>(4,892)</b>	<b>(256)</b>	<b>11,954</b>
<b>Segment assets</b>	<b>380,730</b>	<b>707,154</b>	<b>489,855</b>	<b>147,730</b>	<b>19,384</b>	<b>1,744,853</b>
<b>Segment liabilities</b>	<b>233,668</b>	<b>987,205</b>	<b>274,209</b>	<b>85,617</b>	<b>9,506</b>	<b>1,590,205</b>
<b>Segment Equity</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>144,770</b>	<b>9,878</b>	<b>154,648</b>

	30 June 2012					
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Net Interest Income	8,328	9,286	5,780	(3,385)	-	20,009
Net Income from Islamic Financing and investing activities	-	-	-	-	-	-
Other operating income	2,489	1,921	626	384	-	5,420
<b>Operating income</b>	<b>10,817</b>	<b>11,207</b>	<b>6,406</b>	<b>(3,001)</b>	<b>-</b>	<b>5,420</b>
Operating expense	(9,035)	(1,823)	(1,167)	-	-	(12,025)
<b>Operating Profit</b>	<b>1,782</b>	<b>9,384</b>	<b>5,239</b>	<b>(3,001)</b>	<b>-</b>	<b>13,404</b>
Impairment on investments	-	-	(17)	-	-	(17)
Impairment allowance on portfolio basis	-	-	-	(925)	-	(925)
Impairment allowance on specific basis	(602)	20	(173)	-	-	(756)
<b>Profit / (loss) for the year</b>	<b>1,180</b>	<b>9,404</b>	<b>5,049</b>	<b>(3,926)</b>	<b>-</b>	<b>11,707</b>
Income tax expense	-	-	-	(1,346)	-	(1,346)
<b>Segment profit /(loss) for the year</b>	<b>1,180</b>	<b>9,404</b>	<b>5,049</b>	<b>(5,272)</b>	<b>-</b>	<b>10,361</b>
<b>Segment assets</b>	<b>373,708</b>	<b>699,663</b>	<b>475,328</b>	<b>161,922</b>	<b>-</b>	<b>1,710,621</b>
<b>Segment liabilities</b>	<b>208,830</b>	<b>1,079,469</b>	<b>208,572</b>	<b>82,207</b>	<b>-</b>	<b>1,579,078</b>
<b>Segment Equity</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>131,543</b>	<b>-</b>	<b>131,543</b>