Bank Sohar SAOG

BANK SOHAR SAOG

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2013

Registered office and principal place of business:

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

Bank Sohar SAOG

Board of Directors Report 2013

It is my privilege to present you with Bank Sohar's financial performance report for the year ending December 31, 2013.

2013 proved to be a yet another milestone year for Oman and the Banking sector under the wise leadership of His Majesty Sultan Qaboos bin Said. Not only did the Sultanate celebrate the 43rd National Day anniversary, it also recorded a rise in real growth rate to 5% in 2013. Last year was also a momentous one for Bank Sohar, having recorded a net profit of OMR 26.871 million, an impressive growth of 16.77% over the previous year. As a result, the Board of Directors has recommended a cash dividend of 4% for the year, which corresponds to 4 baizas per share, and a stock dividend of 4%.

As a testament to this success, Bank Sohar received numerous prestigious foreign, regional and local awards last year including the 'Best Corporate Social Responsibility Bank Oman 2013' award by renowned UK based Global Banking & Finance Review; the 'The Golden Award for Quality & Business Prestige' by Otherways Management & Consulting Association in Rome; the distinguished Tatweej Academy's 'Golden Order of Merit' in the field of prudent management; 'Fastest Growing Bank In Oman' at the Banker Middle East Industry Awards 2013 by UAE-based CPI Financial for the second consecutive year; the Majestic Five Continents Award for Quality & Excellence by Otherways International Research & Consultants; and `Best Enterprise` from the Europe Business Assembly (EBA). In addition, the Alam Al Iktisad Wal Amaal Magazine has awarded the bank as one of the 'Top Five Large Corporate Enterprises in Oman' as well as Dr. Mohamed Abdulaziz Kalmoor was honoured with 'CEO of the Year 2013' Award from the same magazine. Furthermore, the bank has received accolades to its pioneering CSR efforts as it bagged the "Golden Excellence Award for Corporate Social Responsibility" for the second year in a row by Arab Organization for Social Responsibility in Dubai; the Tatweej Academy - Golden Order of Merit award for the best supportive bank for tourism projects in the Arab world; and 'Best CSR Bank 2013' award by Global Banking & Finance Review.

ECONOMY

The Omani economy experienced another year of growth in 2013 and the outlook for the banking sector in Oman remains positive. During 2013, monetary and financial policies had a positive impact on business growth and performance of the banking system in Oman. The economic figures for the first nine months of 2013 showed that the GDP experienced a moderate growth of 2.6% year-on-year. The first nine months of 2013 saw GDP total $58.96 billion, compared to $57.40 billion for the same period the previous year. This strong showing, and a similar increase in earnings, saw the state budget record a surplus of $5.4 billion in the ten months ending October 31, 2013.

According to the 2014 Budget of Oman, the State's total revenues for 2014 are estimated to be RO 11.7 billion, with a growth rate of 4.5% compared to last year's approved revenues. Oil revenues represent 83% of total revenues, while non-oil revenues form the remaining 17%.

With participation of commercial and Islamic banks in the development process of the economy, the balance sheet of banks remains robust and the growth momentum was sustained. The total assets of commercial banks increased by 7.8% to RO 22.3 billion in November 2013 compared to RO 20.7 billion in November 2012. Total credit increased by 6.3% over the year to RO 15.2 billion as at the end of November 2013 in comparison to RO 14.3 billion at the end of November 2012. Total deposits held with commercial banks also witnessed a significant rise of 7.5% to RO 15.2 billion in November 2013 from RO 14.1 billion in November 2012.

The position on the inflation front has been improving, with the average CPI for Oman lower at 1.3% during January-November 2013 compared to 2.9% during the corresponding period last year. This is in line with the key goal of the Eighth Plan, to ensure that inflation in the Sultanate is brought within control and remains within acceptable limits. The CBO's policy interest rate for absorption of surplus liquidity increased slightly to 0.13% in November 2013 from 0.08% in November 2012. On the other hand, CBO's policy rate for injection of liquidity remained unchanged at 1% since March 2012.

Underscoring the inherent strengths of the Omani banking sector, international ratings agency Moody's affirmed Oman's A1 rating, stating the outlook on the Sultanate's banks as 'stable' in its review of the sector in August 2013. The Moody's A1 rating highlights Oman's on-going economic diversification programme, coupled with the government's track record of budget surpluses, very low levels of debt, and its strong net financial asset position. High levels of domestic savings and a healthy banking sector complement the government's sound finances.

Within the framework of the government's policy to diversify and stimulate the economy, the State General Budget (SGB) stated that the total spending was estimated at RO 13.5 billion, an increase of 5 per cent compared with 2013 budget, and includes allocations of about RO 9.2 billion to meet social requirements in such fields as education, health, housing, training, subsidy and other social services, compared to RO 8.7 billion in last year's budget, an increase of RO 465 million and a growth rate of 5.3%. This will generate an estimated budget deficit of RO 1.8 billion, that is 15 per cent of the overall revenues and 6 per cent of GDP. However, this has been calculated on a base price for crude of $85 per barrel, which is $20 below the international trading rate of around $105 per barrel, as of December 2012.

FINANCIAL OVERVIEW 2013

2013 has proved to be yet another great year for Bank Sohar. Completing six years of successful operation, the bank has made an impressive net profit of OMR 26.871 million for the year, which is 16.77% higher than the previous year's net profit of OMR 23.011 million. The operating profit for the year was OMR 31.735 million as compared to OMR 28.644 million in 2012, an increase of 10.79%. Net interest income during the year climbed 3.90% to OMR 43.526 million, as compared to OMR 41.894 million in 2012. The operating income for the year 2013 increased to OMR 59.210 million, an increase of 13.18% as compared to OMR 52.317 million in 2012.

Impressive gains were achieved in other areas of the Bank's business as well. Net loans and advances jumped 11.54% during the year to touch OMR 1,278 million, against the previous year's level of OMR 1,146 million. Customer deposits grew 3.38% to OMR 1,383 million during the year, as compared to OMR 1,337 million in 2012. The Bank's share of Private Sector Credit stood at 9.23% as at November 2013 as compared to 8.59% in December 2012 while the Bank's share of Private Sector Deposit was 7.66% in November 2013 as against 8.55% at the end of 2012.

Our impressive financial performance during 2013 was in no small part the result of the continued hard work and commitment of the bank's staff to deliver excellent service to our customers and clients in a very competitive environment. It is through their efforts that Bank Sohar has succeeded in building customer's trust in our establishment and delivering sustainable value to our shareholders. These efforts were supplemented by an intensive drive by the management to improve the overall quality of its assets, enhance yield growth, and reduce operating expenses.

Further contributing to its financial accomplishments was the successful revamp of the organizational structure of various divisions within the bank, coupled with the introduction of numerous innovative and unique retail and corporate products. In addition, the successful launch of Sohar Islamic, the bank's Islamic Banking Window, ensured our customers a wide choice of products to choose from, which will further strengthens the continued growth of the bank's business.

Reaffirming its confidence in Bank Sohar's policies and growth strategy, leading international ratings agency Fitch has once again assigned a Long Term Issuer Default Rating of BBB+ to the Bank in 2013. The positive rating is in recognition of the bank's strengthening profitability due to the successful deployment of its strategy, and its capable and experienced management. It also acknowledges the Bank's success in maintaining one of the lowest non-performing loan ratios among the banks in Oman as well as a strong reserve coverage. The rating recognises the bank's balanced growth of loans and deposits, in addition to its decreased cost of funding and increasing profitability. In essence, the BBB+ Rating is a testament to Bank Sohar's sound asset quality and a reflection of the confidence that is shared by both our retail and wholesale customers.

FUTURE PLANS

2013 was another prosperous year for the bank, having made consistent progress right across every facet of its business as we enter 2014 in a stronger position. However, in the face of ever-increasing competition, we will need to diversify our revenue streams to derive maximum benefits in every field of our operation. To this end, we have already initiated key projects that will drive future revenues and profitability.

2013 saw the introduction Islamic Banking into the Oman Banking market and has since grown in acceptability and market size. Based on the Islamic Banking Regulatory Framework (IBRF) issued by the Central Bank of Oman (CBO) Bank Sohar successfully launched its Islamic Banking Window – 'Sohar Islamic' (SI) and opened its first branch in Falaj Al Qabail, in the Sohar region, in May 2013. The Islamic window has since added three more branches to its network covering Muscat (in Ghubra), Salalah (in Saadah) and Dakhiliya (in Firq) regions. Sohar Islamic will continue to play a key role in the Bank's operation in 2014. SI is also working towards launching internet and mobile banking in addition to SMS alerts in 2014.

In line with the Government's aim to reduce its dependence on hydrocarbon exports, diversify Oman's industrial and business environment and increase privatization and in turn increase job opportunities for the increasing numbers of educated youth, Bank Sohar is incorporating an Oman Development Fund, in partnership with Omani institutional investors. This Fund has already identified seven mid-sector manufacturing projects in industries as diverse as iron and steel, wheel manufacture, aquaculture, ferro-chrome and welded pipes. Once commissioned, these projects are expected to diversify the economy, create employment and encourage downstream businesses.

In order to free-up time and resources for corporate clients and for added flexibility, Bank Sohar has initiated the Remote Online Payment System (ROPS) project. This service is expected to revolutionize the way banking is done by most corporates by putting the bank directly on the clients' desktop. The client is able to schedule payments, monitor account activity, handle their foreign exchange and trade finance requirements, clear cheques and have a real-time access to their accounts with the bank. The ROPS service will dramatically improve the efficiency of cash management for clients of Bank Sohar and dramatically reduce the number of times the client has to visit the Bank. Furthermore, technology allows all the controls and safe-guards necessary to ensure a fail-safe operation.

The bank is constantly finding additional ways to structure and provide meaningful products and services, which leverage the banking platform to improve the lives of customers. In line with this objective, the bank will also be launching its Bankassurance service later this year, while at the same time further improve its remittance and wealth management services to benefit both clients as well as the Bank in the near future.

People are the cornerstone of our Bank's successes. We will continue to invest in the development of our staff as great assets to the Bank and the country. We will use best practice people development tools such as assessment centres, blended learning, leadership and executive development initiatives to enhance the skills and competencies of our staff to meet all future challenges and their career aspirations. Ongoing development in this field will continue to be a long term strategy of the bank and continuous training and development will continue with vigour and commitment at all levels within the Bank.

Once accomplished, these significant milestones will go a long way toward building a solid institution which is responsive to the financial needs of Omani Market. It will also pave the way for the introduction of the ninth five-year plan in 2015. With the strength and stability of our financial assets coupled with our sound management, dedicated staff and ever-increasing customer base, we are well positioned to take advantage of these opportunities and manage the risks in the emerging economic landscape for 2014. As we look forward, we shall consolidate the Bank's achievements, always aiming for strategic fit, quality and effectiveness in the course of fulfilling our mandate and meeting our customer's expectations.

CORPORATE GOVERANCE

The Bank has included a comprehensive report on Corporate Governance duly certified by the statutory auditors within the Annual Report for the year 2013. This Report has been made in line with the directives provided for the same under the Code of Corporate Governance promulgated by the Capital Market Authority. Bank Sohar continues to confirm its adherence to the best traditions of Corporate Governance and to provide both adequate disclosure and accountability. We have consistently honoured that assurance during the current year and will continue to do so in years to come. The Bank's system of internal control is based on an ongoing process designed to identify the principal risks to the achievement of the Bank's aims and objectives. It is also designed to identify the nature and extent of those risks and manage them efficiently and economically, thereby providing reasonable assurance the Bank's shareholders, board of directors and customers of the Bank's effectiveness.

CORPORATE SOCIAL RESPONSIBILITY

Since its inception in 2006, Bank Sohar has demonstrated a strong commitment towards its social obligations, and this has since become an integral part of the Bank's brand image and the corner stone of its operations. This has led to the Bank's continued support of the Sultanate's numerous tourism, social and cultural activities, including the Muscat Festival and the Salalah Tourism Festival in 2013.

As part of its ongoing programme of philanthropy, Bank Sohar continued to generously contribute to our community, having helped support organisations covering all aspects of welfare, health, employment and education initiatives with a long history of exemplary services to the underprivileged segments of society. Bank Sohar has also extended support to various charitable associations that focus on varying demographics, including the 'Association of Early Intervention for Children with Disabilities', 'Omani Association for Friends of the Elderly', 'Association for the Welfare of Handicapped Children' (including their Autism Centre), 'Al Noor Association for the Blind' and many more. In addition, Bank Sohar also partnered with and supported a number of other campaigns aimed at increasing awareness in the fields of education and health such as the bank's sponsorship of the Najah Education Programme, which was organised in association with the Oman Chamber of Commerce and Industry (OCCI).

At the social level, in 2013 we took a more focused approach by partnering with the Oman Road Safety Association (ORSA) to successfully run a year-long 'Be Safe...Be Responsible' road safety campaign which was aimed at raising road safety awareness for the public and specifically drivers, passengers and pedestrians on the road. As an extension of the campaign the bank also supported the Traffic Safety Exhibition held recently in Muscat.

IN CONCLUSION

Bringing this report to a close, it gives me great pleasure to express my appreciation towards everyone who has worked towards making our sixth year one of success and prosperity. For a growing Bank like us, it is essential to have a team comprising of dedicated and committed professionals, and I would like to take this opportunity to demonstrate my gratitude to all our stakeholders, the Board of Directors, Management and staff.

More importantly, it is necessary for us to highlight the role that our customers have played in making 2013 noteworthy and aiding us in our stride towards excellence. They have been a constant pillar of strength, believing in us and our products and inspiring us to achieve greater heights.

Our gratitude is also extended to the Central Bank of Oman and the Capital Market Authority who have pioneered the financial services sector in the Sultanate and encouraged an environment of transparency. To conclude, we must acknowledge the efforts of the Government of His Majesty the Sultan, for their commendable efforts in promoting the banking sector in Oman, in line with the vision of His Majesty. Lastly and most significantly, we extend our heartfelt thanks to His Majesty Sultan Qaboos bin Said for his vision, foresight and benevolent leadership.

Abdullah Humaid Al Mamary
Chairman

pwc

Independent auditor's report to the shareholders of Bank Sohar SAOG

Report on the financial statements

We have audited the accompanying financial statements of **Bank Sohar SAOG** (the Bank) which comprise the statement of financial position as at 31 December 2013 and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the financial statements

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

Auditor's responsibility

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

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

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

Opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2013, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Other legal and regulatory requirements

Further, as required by the Rules and Guidelines on Disclosure by Issuers of Securities and Insider Trading (R&G) issued by the Capital Market Authority (CMA) of the Sultanate of Oman, we report that the accompanying financial statements have been properly prepared, in all material respects, in accordance with the R&G, with the Rules for Disclosure and Proformas issued by the CMA and with the Commercial Companies Law of 1974, as amended.

PricewaterhouseCoopers

6 March 2014
Muscat, Sultanate of Oman

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STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2013

31 December 2012 USD'000	**31 December 2013 USD'000**		*Notes*	**31 December 2013 RO'000**	31 December 2012 RO'000
		ASSETS			
316,223	**275,506**	Cash and balances with Central Bank	*B1*	**106,070**	121,746
871,140	**681,423**	Due from banks and other money market placements	*B2*	**262,348**	335,389
2,976,683	**3,320,203**	Loans, advances and financing (net)	*B3*	**1,278,278**	1,146,023
396,588	**535,626**	Investment securities	*B4*	**206,216**	152,686
31,655	**34,374**	Property, equipment and fixtures	*B5*	**13,234**	12,187
7,532	**7,532**	Investment properties	*B6*	**2,900**	2,900
42,169	**43,049**	Other assets	*B7*	**16,574**	16,235
4,641,990	**4,897,713**			**1,885,620**	1,787,166
		LIABILITIES			
581,943	**620,483**	Due to banks and other money market borrowings	*B8*	**238,886**	224,048
3,473,766	**3,591,236**	Customers' deposits	*B9*	**1,382,626**	1,337,400
80,099	**92,699**	Other liabilities	*B10*	**35,689**	30,838
129,870	**129,870**	Subordinated loans	*B11*	**50,000**	50,000
-	**18,571**	Compulsorily convertible bonds	*B12*	**7,150**	-
4,265,678	**4,452,859**			**1,714,351**	1,642,286
		SHAREHOLDERS' EQUITY			
259,740	**285,714**	Share capital	*B13*	**110,000**	100,000
20,795	**28,119**	Legal reserve	*B14*	**10,827**	8,006
1,073	**2,761**	General reserve	*B15*	**1,063**	413
(2,210)	**(1,213)**	Fair value reserve	*B16*	**(467)**	(851)
10,823	**36,797**	Subordinated loans reserve	*B11*	**14,167**	4,167
86,091	**92,676**	Retained earnings		**35,679**	33,145
376,312	**444,854**			**171,269**	144,880
4,641,990	**4,897,713**			**1,885,620**	1,787,166
-	**-**	**Net assets per share (in baizas)**	*B17*	**155.70**	144.88
37.63	**40.44**	**Net assets per share (in cents)**		**-**	-
529,753	**667,561**	**CONTINGENT LIABILITIES**	*B18*	**257,011**	203,955
421,371	**578,662**	**COMMITMENTS**	*B18*	**222,785**	162,228

The financial statements were approved and authorized for issue by the Board of Directors on 29 January 2014 and signed on their behalf by:

Chairman

Board member

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

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2013

31 December 2012 USD'000	**31 December 2013 USD'000**			**31 December 2013 RO'000**	31 December 2012 RO'000
187,644	**187,862**	Interest income	C1	**72,327**	72,243
(78,829)	**(74,808)**	Interest expense	C2	**(28,801)**	(30,349)
108,815	**113,054**	**Net interest income**		**43,526**	41,894
-	**982**	Net income from Islamic financing and investing activities		**378**	-
27,073	**39,756**	Other operating income	C3	**15,306**	10,423
135,888	**153,792**	**OPERATING INCOME**		**59,210**	52,317
		OPERATING EXPENSES			
(37,293)	**(42,738)**	Staff costs		**(16,454)**	(14,358)
(20,504)	**(24,501)**	Other operating expenses	C4	**(9,433)**	(7,894)
(3,691)	**(4,125)**	Depreciation	B5	**(1,588)**	(1,421)
(61,488)	**(71,364)**			**(27,475)**	(23,673)
74,400	**82,428**	**OPERATING PROFIT**		**31,735**	28,644
(43)	**-**	Impairment of investments		**-**	(17)
(3,510)	**(3,911)**	Impairment allowance on portfolio basis	B3	**(1,506)**	(1,351)
(3,533)	**(239)**	Impairment allowance on specific basis	B3	**(92)**	(1,360)
67,314	**78,278**	**NET PROFIT BEFORE TAX**		**30,137**	25,916
(7,545)	**(8,483)**	**Income tax expense**	C5	**(3,266)**	(2,905)
59,769	**69,795**	**NET PROFIT FOR THE YEAR**		**26,871**	23,011
		Other comprehensive income			
3,281	**4,519**	Net changes in fair value of available for sale financial assets net of income tax (re-classifiable to profit or loss)		**1,740**	1,263
3,281	**4,519**	**Other comprehensive income for the year net of income tax**		**1,740**	1,263
63,050	**74,314**	**TOTAL COMPREHENSIVE INCOME FOR THE YEAR**		**28,611**	24,274
-	**-**	Basic earnings per share for the year – **in baizas**	C6	**24.68**	23.01
5.98	**6.41**	Basic earnings per share for the year – **in cents**	C6	**-**	-
-	**-**	Diluted earnings per share for the year – **in baizas**	C6	**23.91**	23.01
5.98	**6.21**	Diluted earnings per share for the year – **in cents**	C6	**-**	-
		Net profit/(loss) for the year			
59,769	**71,483**	Conventional banking		**27,521**	23,011
-	**(1,688)**	Islamic banking		**(650)**	-
59,769	**69,795**	Total		**26,871**	23,011

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

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 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 year							
Net profit for the year	-	-	-	-	-	23,011	23,011
Other comprehensive income for the year							
Net change in fair value of available for sale investments – net of tax	-	-	-	1,263	-	-	1,263
Release on sale of available for sale investments	-	-	-	(80)	-	-	(80)
Total comprehensive income for the year	-	-	-	1,183	-	23,011	24,194
Dividends paid for the year 2011	-	-	-	-	-	(8,000)	(8,000)
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
Balance as at 1 January 2013	**100,000**	**8,006**	**413**	**(851)**	**4,167**	**33,145**	**144,880**
Total comprehensive income for the year							
Net profit for the year	**-**	**-**	**-**	**-**	**-**	**26,871**	**26,871**
Other comprehensive income for the year							
Net change in fair value of available for sale investments – net of tax	**-**	**-**	**-**	**1,740**	**-**	**-**	**1,740**
Release on sale of available for sale investments	**-**	**-**	**-**	**(1,356)**	**-**	**-**	**(1,356)**
Total comprehensive income for the year	-	-	-	**384**	-	**26,871**	**27,255**
Issue of rights shares	**10,000**	-	-	-	-	-	**10,000**
Rights issue expenses (net)	-	**134**	-	-	-	-	**134**
Transfers	-	**2,687**	**650**	-	**10,000**	**(13,337)**	-
Issue of compulsorily convertible bonds	-	-	-	-	-	**(7,150)**	**(7,150)**
Dividend paid for the year 2012	-	-	-	-	-	**(3,850)**	**(3,850)**
Balance as at 31Decemberr 2013	**110,000**	**10,827**	**1,063**	**(467)**	**14,167**	**35,679**	**171,269**

STATEMENT OF CHANGES IN EQUITY (continued)
FOR THE YEAR ENDED 31 DECEMBER 2013

	Share capital USD'000	Legal reserve USD'000	General reserve USD'000	Fair value reserve USD'000	Subordinated loans reserve USD'000	Retained earnings USD'000	Total USD'000
Balance as at 1 January 2012	259,740	14,818	1,073	(5,283)	-	63,901	334,249
Total comprehensive income for the year							
Net profit for the year	-	-	-	-	-	59,769	59,769
Other comprehensive income for the year							
Net change in fair value of available for sale investments – net of tax	-	-	-	3,281	-	-	3,281
Release on sale of available for sale investments	-	-	-	(208)	-	-	(208)
Total comprehensive income for the year	-	-	-	3,073	-	59,769	62,842
Dividends paid for the year 2011	-	-	-	-	-	(20,779)	(20,779)
Transfers	-	5,977	-	-	10,823	(16,800)	-
Balance as at 31 December 2012	259,740	20,795	1,073	(2,210)	10,823	86,091	376,312
Balance as at 1 January 2013	**259,740**	**20,795**	**1,073**	**(2,210)**	**10,823**	**86,091**	**376,312**
Total comprehensive income for the year							
Net profit for the year	**-**	**-**	**-**	**-**	**-**	**69,795**	**69,795**
Other comprehensive income for the year							
Net change in fair value of available for sale investments – net of tax	**-**	**-**	**-**	**4,519**	**-**	**-**	**4,519**
Release on sale of available for sale investments	**-**	**-**	**-**	**(3,522)**	**-**	**-**	**(3,522)**
Total comprehensive income for the year	-	-	-	**997**	-	**69,795**	**70,792**
Issue of rights shares	**25,974**	-	-	-	-	-	**25,974**
Rights issue expenses (net)	-	**345**	-	-	-	-	**345**
Transfers		**6,979**	**1,688**	-	**25,974**	**(34,641)**	-
Issue of compulsorily convertible bonds	-	-	-	-	-	**(18,571)**	**(18,571)**
Dividend paid for the year 2012	-	-	-	-	-	**(9,998)**	**(9,998)**
Balance as at 31Decemberr 2013	**285,714**	**28,119**	**2,761**	**(1,213)**	**36,797**	**92,676**	**444,854**

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

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2013

31 December 2012 USD'000	**31 December 2013 USD'000**		**31 December 2013 RO'000**	31 December 2012 RO'000
		OPERATING ACTIVITIES		
67,314	**78,278**	Net profit for the year before tax	**30,137**	25,916
		Adjustments for:		
3,691	**4,125**	Depreciation	**1,588**	1,421
7,086	**4,150**	Impairment for credit losses and investment	**1,599**	2,728
(1,091)	**(6,579)**	Profit on sale of investment securities	**(2,533)**	(420)
(122)	**(10)**	Profit on sale of property, equipment and fixtures	**(4)**	(47)
(7,042)	**(2,216)**	Interest on investment	**(853)**	(2,711)
69,836	**77,748**	**Operating profit before changes in operating assets and liabilities**	**29,934**	26,887
(272,034)	**405,673**	Due from banks and money market placements	**156,184**	(104,733)
(335,530)	**(343,416)**	Loans, advances and financing	**(132,215)**	(129,179)
-	**(48,052)**	Investment in held for trading investment	**(18,500)**	-
8,338	**(1,005)**	Other assets	**(387)**	3,210
87,000	**45,784**	Due to banks and other money market borrowings	**17,627**	33,495
431,075	**117,470**	Customers' deposits	**45,226**	165,963
(23,455)	**3,966**	Other liabilities	**1,527**	(9,030)
(34,770)	**258,168**	**Cash from/ (used in) operating activities**	**99,396**	(13,387)
(4,779)	**(7,423)**	**Income tax paid**	**(2,858)**	(1,840)
(39,549)	**250,745**	**Net cash from /(used in) operating activities**	**96,538**	(15,227)
		INVESTING ACTIVITIES		
(32,248)	**(81,412)**	Purchase of investments (net)	**(31,344)**	(12,414)
18,743	**56,756**	Proceeds from sale/redemption of investments	**21,851**	7,216
(6,109)	**(7,221)**	Purchase of property, equipment and fixtures	**(2,780)**	(2,352)
125	**10**	Proceeds from sale of property, equipment and fixtures	**4**	48
7,042	**2,216**	Interest received on investments	**853**	2,711
(12,447)	**(29,651)**	**Net cash used in investing activities**	**(11,416)**	(4,791)
		FINANCING ACTIVITIES		
-	**26,322**	Issue of rights shares (net of Issue expenses)	**10,134**	-
(20,779)	**(9,998)**	Dividends paid	**(3,850)**	(8,000)
(20,779)	**16,324**		**6,284**	(8,000)
(72,775)	**237,418**	**NET CHANGE IN CASH AND CASH EQUIVALENTS**	**91,406**	(28,018)
398,146	**325,271**	**CASH AND CASH EQUIVALENT AT BEGINNING OF THE YEAR**	**125,268**	153,286
325,371	**562,689**	**CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR**	**216,674**	125,268
		REPRESENTING:		
316,223	**275,506**	Cash and balances with Central Banks	**106,070**	121,746
158,132	**381,775**	Due from banks and other money market lending	**147,022**	60,881
319,982	**374,927**	Investments securities	**144,347**	123,193
(468,966)	**(469,519)**	Due to banks and other money market borrowings	**(180,765)**	(180,552)
325,371	**562,689**		**216,674**	125,268

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

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 4 Islamic banking branches within the Sultanate of Oman. The Bank operates under commercial, investment and Islamic banking licences issued by the Central Bank of Oman (CBO) and is covered by its deposit insurance scheme. The Bank started commercial operations from 9 April 2007. The registered address of the Bank is PO Box 44, Hai Al Mina, Postal Code 114, Muscat, Sultanate of Oman. The Bank has its primary listing on the Muscat Securities Market.

With effect from 30 April 2013, the Bank obtained a license to operate an Islamic Banking Window ("Sohar Islamic"). Accordingly, there are no comparative figures for Islamic banking operations. Sohar Islamic offers a full range of Islamic banking services and products. The principal activities of the Window include accepting Shari'a compliant customer deposits, providing Shari'a compliant financing based on Murabaha, Mudaraba, Musharaka, Ijarah, Istisna'a, Salam and providing commercial banking services, investment and other activities permitted under Islamic Banking Regulatory Framework (IBRF).

The Bank employed 639 employees as of 31 December 2013 (31 December 2012: 573).

A2 Basis of preparation

A2.1 Statement of compliance

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

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

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

A2.2 Basis of measurement

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

A2.3 Functional and presentation currency

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

A2.4 Use of estimates and judgements

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

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

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

A2 Basis of preparation (continued)

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

For the year ended 31 December 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.

Amendment to IAS 1, 'Financial statements presentation' regarding other comprehensive income the main change resulting from these amendments is a requirement to entities to group items presented in 'other comprehensive income on the basis of whether they are potentially re-classifiable to profit or loss subsequently.

IFRS 13, 'Fair value measurement', aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for across IFRSs.

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.

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 31 December 2013:

IFRS 9, 'Financial instruments part 1: Classification and measurement', (effective on or after 1 January 2015);
IAS 32, 'Financial Instruments (amendments): Presentation' (effective on or after 1 January 2014)
IAS 36 (amendments), 'Impairment of assets (effective on or after 1 January 2014)
IAS 39 (amendments) 'Financial instruments: Recognition and measurement', on novation of derivatives and hedge accounting (effective on or after 1 January 2014).
IAS 19 (amendments) Employee benefits, regarding defined benefit plans (effective on or after 1 July 2014).
IFRIC 21, 'Levies' (effective on or after 1 January 2014).

A3 Significant accounting policies

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

A3.1 Foreign currency translation

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

A3.2 Revenue and expense recognition

A3.2.a Interest income and expense

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

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

A3 Significant accounting policies (continued)

A3.2 Revenue and expense recognition (continued)

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

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

A3.2.b Fair value gains and losses

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

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

A3.2.c Dividend income

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

A3.2.d Fees and commission

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

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

A3.2.e Provisions

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

A3.2.f Offsetting of income and expense

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

A3.3 Financial assets and liabilities

A3.3.a Classification

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

Financial assets at fair value through profit or loss

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

Loans and receivables

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

A3 Significant accounting policies (continued)

A3.3 Financial assets and liabilities (continued)

A3.3.a Classification (continued)

Loans and receivables (continued)

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

Held to maturity financial assets

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

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

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

Available-for-sale financial assets

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

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

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

A3.3.b Recognition

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

A3 Significant accounting policies (continued)

A3.3 Financial assets and liabilities (continued)

A3.3.c Derecognition

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

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

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

A3.3.e Amortised cost measurement

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

A3.3.f Fair value measurement

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

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

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

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

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

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

(i) Assets carried at amortised cost

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

A3 Significant accounting policies (continued)

A3.3 Financial assets and liabilities (continued)

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

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

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

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

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

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

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

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

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

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

(ii) Assets classified as available-for-sale

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

A3 Significant accounting policies (continued)

A3.3 Financial assets and liabilities (continued)

A3.3.h Cash and cash equivalents

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

A3.3.i Repurchase and resale agreements

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

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

A3.3.j Acceptances

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

A3.3.k Derivatives held for risk management purposes

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

Fair value hedge

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

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

Cash flow hedge

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

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

A3 Significant accounting policies (continued)

A3.3 Financial assets and liabilities (continued)

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

Other non-trading derivative

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

A3.4 Property, equipment and fixtures

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

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

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

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

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

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

A3.5 Investment properties

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

A3.6 Deposits, debt securities issued and subordinated liabilities

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

A3.7 Taxation

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

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

A3 Significant accounting policies (continued)

A3.7 Taxation (continued)

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

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

A3.8 Fiduciary assets

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

A3.9 Trade and settlement date accounting

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

A3.10 Leases

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

A3.11 Financial guarantees

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

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

A3.12 Employee benefits

A3.12.a Terminal benefits

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

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

A3.12.b Short term benefits

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

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

A3 Significant accounting policies (continued)

A3.13 Earnings per share

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

A3.14 Corresponding figures

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

A3.15 Segment reporting

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

A3.16 Directors' remuneration and sitting fees

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

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

A4 Critical accounting estimates and judgements

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

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

A4.1 Impairment losses on loans and advances

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

A4 Critical accounting estimates and judgements (continued)

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

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

A4.2 Fair value of derivatives and other financial instruments

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

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

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

A4.4 Fair value estimation of unquoted securities

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

B1 Cash and balances with central bank

31 December 2012 USD'000	**31 December 2013 USD'000**		**31 December 2013 RO'000**	31 December 2012 RO'000
28,506	**27,540**	Cash	**10,603**	10,975
1,299	**1,299**	Capital deposit with CBO	**500**	500
286,418	**246,667**	Balance with CBO	**94,967**	110,271
316,223	**275,506**		**106,070**	121,746

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

B2 Due from banks and other money market placements

31 December 2012 USD'000	**31 December 2013 USD'000**		**31 December 2013 RO'000**	31 December 2012 RO'000
		Local currency:		
5,195	**-**	Money market placements	**-**	2,000
5,195	**-**		**-**	2,000
		Foreign currency:		
843,010	**654,044**	Money market placements	**251,807**	324,559
22,935	**27,379**	Demand balances	**10,541**	8,830
865,945	**681,423**		**262,348**	333,389
871,140	**681,423**		**262,348**	335,389

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

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B3 Loans, advances and financing - net

31December 2012 USD'000	31December 2013 USD'000		31 December 2013 RO'000	31 December 2012 RO'000
99,177	**83,932**	Loans to banks	**32,314**	38,183
1,946,743	**2,177,611**	Corporate loans	**838,380**	749,496
996,403	**1,124,418**	Retail loans	**432,901**	383,615
3,042,323	**3,385,961**	Gross loans, advances and financing	**1,303,595**	1,171,294
(38,728)	**(42,639)**	Impairment allowance on portfolio basis	**(16,416)**	(14,910)
(26,912)	**(23,119)**	Impairment allowance on specific basis (including reserved interest)	**(8,901)**	(10,361)
2,976,683	**3,320,203**	Net loans and advances	**1,278,278**	1,146,023

Retail loans include RO 18,674,299 provided to staff (2012: RO 16,560,954).

Gross loans and advances include RO 9,580,155 through Sohar Islamic financing activities, under Islamic mode of financing.

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

Loans, advances and financing comprise:

31December 2012 USD''000	31December 2013 USD'000		31 December 2013 RO'000	31 December 2012 RO'000
2,794,756	**3,116,210**	Loans	**1,199,741**	1,075,981
138,442	**116,242**	Overdrafts	**44,753**	53,300
83,808	**114,119**	Loan against trust receipts	**43,936**	32,266
25,317	**39,390**	Bills discounted	**15,165**	9,747
3,042,323	**3,385,961**	Gross loans and advances	**1,303,595**	1,171,294
(38,728)	**(42,639)**	Impairment allowance on portfolio basis	**(16,416)**	(14,910)
(26,912)	**(23,119)**	Impairment allowance on specific basis (including reserve interest)	**(8,901)**	(10,361)
2,976,683	**3,320,203**	Net loans and advances	**1,278, 278**	1,146,023

B3 Loans, advances and financing - net (continued)

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

31 December 2012 USD'000	**31 December 2013 USD'000**	**Loan loss provision**	**31 December 2013 RO'000**	31 December 2012 RO'000
		Impairment allowance on portfolio basis		
35,218	**38,728**	Balance at beginning of period	**14,910**	13,559
3,510	**3,911**	Provided during the period	**1,506**	1,351
38,728	**42,639**	Balance at the end of the period	**16,416**	14,910
		Impairment allowance on specific basis		
		1) Loan loss provision		
16,660	**20,193**	Balance at beginning of period	**7,774**	6,414
8,538	**7,353**	Provided during the period	**2,831**	3,287
-	**(4,255)**	Written off	**(1,638)**	-
(5,005)	**(7,114)**	Written back due to recovery	**(2,739)**	(1,927)
20,193	**16,177**	Balance at the end of the period	**6,228**	7,774
		2) Reserved interest		
3,636	**6,720**	Balance at beginning of period	**2,587**	1,400
3,803	**3,634**	Reserved during the period	**1,399**	1,464
-	**(1,585)**	Written off	**(610)**	-
(719)	**(1,827)**	Written back due to recovery	**(703)**	(277)
6,720	**6,942**	Balance at end of the period	**2,673**	2,587
26,912	**23,119**	Total	**8,901**	10,361

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 31 December 2013, loans and advances on which interest is not being accrued or where interest has been reserved amounted to RO 13,618,071 (2012 - RO 18,280,354).

B3 Loans, advances and financing - net (continued)

The table below analyses the concentration of gross loans and advances by economic sector:

31 December 2012 USD'000	**31 December 2013 USD'000**		**31 December 2013 RO'000**	31 December 2012 RO'000
996,403	**1,124,418**	Personal	**432,901**	383,615
522,395	**577,239**	Construction	**222,237**	201,122
461,813	**464,683**	Whole sale and retail	**178,903**	177,798
333,647	**443,068**	Services	**170,581**	128,454
269,016	**242,813**	Financial institutions	**93,483**	103,571
122,522	**121,125**	Transport and communication	**46,633**	47,171
122,226	**150,771**	Manufacturing	**58,047**	47,057
80,088	**99,239**	International trade	**38,207**	30,834
52,416	**92,340**	Mining and quarrying	**35,551**	20,180
50,964	**36,319**	Electricity, gas and water	**13,983**	19,621
29,488	**22,940**	Non – resident	**8,832**	11,353
1,000	**6,881**	Agriculture and allied activities	**2,649**	385
249	**114**	Government	**44**	96
96	**4,011**	Other	**1,544**	37
3,042,323	**3,385,961**		**1,303,595**	1,171,294

B4 Investment Securities

31 December 2012 USD'000	**31 December 2013 USD'000**		**31 December 2013 RO'000**	31 December 2012 RO'000
-	**48,052**	Held for trading investments	**18,500**	-
379,601	**462,748**	Available for sale investments	**178,158**	146,146
16,987	**24,826**	Held to maturity investments	**9,558**	6,540
396,588	**535,626**		**206,216**	152,686

B4.a Held-for-trading investments comprise:

31December 2012 USD'000	**31December 2013 USD'000**		**31December 2013 RO'000**	31 December 2012 RO'000
-	**48,052**	Government development bonds – Oman	**18,500**	-

B4.b Available for sale investments comprise:

	Carrying/ fair value 31 December 2013 RO'000	**Cost 31December 2013 RO'000**	Carrying/ fair value 31 December 2012 RO'000	Cost 31 December 2012 RO'000
Unquoted securities	**975**	**1,304**	1,629	2,019
Quoted securities	**32,837**	**33,143**	21,324	21,851
Treasury bills	**144,346**	**144,352**	123,193	123,179
	178,158	**178,799**	146,146	147,049

B4.b Available for sale investments comprise: (continued)

	Carrying/ fair value 31 December 2013 USD'000	**Cost 31December 2013 USD'000**	Carrying/ fair value 31 December 2012 USD'000	Cost 31 December 2012 USD'000
Unquoted securities	**2,532**	**3,387**	4,231	5,244
Quoted securities	**85,291**	**86,086**	55,388	56,756
Treasury bills	**374,925**	**374,940**	319,982	319,945
	462,748	**464,413**	379,601	381,945

B4.c Held-to-maturity investments comprise:

31December 2012 USD'000	**31December 2013 USD'000**		**31December 2013 RO'000**	31 December 2012 RO'000
4,000	**4,000**	Quoted	**1,540**	1,540
12,987	**20,826**	Unquoted	**8,018**	5,000
16,987	**24,826**		**9,558**	6,540

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

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B5 Property, Equipment and Fixtures

	Freehold land RO'000	Computer software RO'000	Furniture and fixtures RO'000	Office equipment RO'000	Motor vehicles RO'000	Capital work in progress RO'000	Total RO'000
Cost:							
1 January 2013	**4,100**	**6,588**	**3,241**	**3,986**	**505**	**1,711**	**20,131**
Additions	**-**	**1,148**	**295**	**724**	**232**	**236**	**2,635**
Disposals	**-**	**-**	**-**	**-**	**(11)**	**-**	**(11)**
As at 31 December 2013	**4,100**	**7,736**	**3,536**	**4,710**	**726**	**1,947**	**22,755**
Accumulated depreciation:							
1 January 2013	**-**	**(3,379)**	**(1,947)**	**(2,285)**	**(333)**	**-**	**(7,944)**
Depreciation and amortisation	**-**	**(527)**	**(326)**	**(652)**	**(83)**	**-**	**(1,588)**
Disposals	**-**	**-**	**-**	**-**	**11**	**-**	**11**
As at 31 December 2013	**-**	**(3,906)**	**(2,273)**	**(2,937)**	**(405)**	**-**	**(9,521)**
Net book value at							
31 December 2013(OMR)	**4,100**	**3,830**	**1,263**	**1,773**	**321**	**1,947**	**13,234**
31 December 2013 (USD'000)	**10,649**	**9,948**	**3,281**	**4,605**	**834**	**5,057**	**34,374**

	Freehold land RO'000	Computer software RO'000	Furniture and fixtures RO'000	Office equipment RO'000	Motor vehicles RO'000	Capital work in progress RO'000	Total RO'000
Cost:							
At 1 January 2012	4,100	6,172	3,119	3,692	596	203	17,882
Additions	-	416	122	294	12	1,508	2,352
Disposals	-	-	-	-	(103)	-	(103)
At 31 December 2012	4,100	6,588	3,241	3,986	505	1,711	20,131
Accumulated depreciation:							
At 1 January 2012	-	(2,908)	(1,656)	(1,694)	(367)	-	(6,625)
Depreciation and amortisation	-	(471)	(291)	(591)	(68)	-	(1,421)
Disposals	-	-	-	-	102	-	102
As at 31 December 2012	-	(3,379)	(1,947)	(2,285)	(333)	-	(7,944)
Net book value:							
31 December 2012*(OMR)*	4,100	3,209	1,294	1,701	172	1,711	12,187
31 December 2012(USD'000)	10,649	8,335	3,361	4,418	447	4,445	31,655

B6 Investment properties

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

B7 Other Assets

31 December 2012 USD'000	**31 December 2013 USD'000**		**31 December 2013 RO'000**	31 December 2012 RO'000
		Interest receivable		
21	**21**	- Capital deposit with CBO	**8**	8
11,350	**4,735**	- Due from banks and other money market placements	**1,823**	4,370
5,208	**5,473**	- Loans, advances and financing	**2,107**	2,005
174	**363**	- Investment securities	**140**	67
16,753	**10,592**		**4,078**	6,450
12,174	**13,055**	Acceptances	**5,026**	4,687
4,875	**6,119**	Prepayments	**2,356**	1,877
2,665	**2,912**	Other receivables	**1,121**	1,026
5,702	**10,371**	Other	**3,993**	2,195
42,169	**43,049**		**16,574**	16,235

B8 Due to banks and other money market borrowings

31 December 2012 USD'000	**31 December 2013 USD'000**		**31 December 2013 RO'000**	31 December 2012 RO'000
		Local currency:		
116,000	**186,668**	Money market borrowings	**71,867**	44,660
556	**1,140**	Demand balances	**439**	214
116,556	**187,808**		**72,306**	44,874
		Foreign currency:		
465,332	**432,675**	Money market borrowings	**166,580**	179,153
55	**-**	Demand Balances	**-**	21
465,387	**432,675**		**166,580**	179,174
581,943	**620,483**		**238,886**	224,048

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

B9 Customers' deposits

31 December 2012 USD'000	**31 December 2013 USD'000**		**31 December 2013 RO'000**	31 December 2012 RO'000
2,135,231	**1,973,768**	Term deposits	**759,901**	822,064
835,127	**1,034,172**	Demand deposits	**398,156**	321,524
498,226	**567,800**	Saving deposits	**218,603**	191,817
5,182	**15,496**	Margin deposits	**5,966**	1,995
3,473,766	**3,591,236**		**1,382,626**	1,337,400

	31 December 2013			31 December 2012		
	Conventional banking RO'000	**Islamic banking RO'000**	**Total RO'000**	Conventional banking RO'000	Islamic banking RO'000	Total RO'000
Retail customers:						
Term deposits	**17,656**	**181**	**17,837**	15,569	-	15,569
Demand deposits	**15,504**	**867**	**16,371**	14,099	-	14,099
Saving deposits	**215,079**	**3,524**	**218,603**	191,817	-	191,817
Corporate customers:						
Term deposits	**742,064**	**-**	**742,064**	806,495	-	806,495
Demand deposits	**370,637**	**11,148**	**381,785**	307,425	-	307,425
Margin deposits	**2,372**	**3,594**	**5,966**	1,995	-	1,995
	1,363,312	**19,314**	**1,382,626**	1,337,400	-	1,337,400

	USD'000	**USD'000**	**USD'000**	USD'000	USD'000	USD'000
Retail customers:						
Term deposits	**45,860**	**470**	**46,330**	40,439	-	40,439
Demand deposits	**40,270**	**2,252**	**42,522**	36,620	-	36,620
Saving deposits	**558,647**	**9,153**	**567,800**	498,226	-	498,226
Corporate customers:						
Term deposits	**1,927,438**	**-**	**1,927,438**	2,094,792	-	2,094,792
Demand deposits	**962,693**	**28,957**	**991,650**	798,507	-	798,507
Margin deposits	**6,161**	**9,335**	**15,496**	5,182	-	5,182
	3,541,069	**50,167**	**3,591,236**	3,473,766	-	3,473,766

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

B10 Other liabilities

31 December 2012 USD'000	**31 December 2013 USD'000**		**31 December 2013 RO'000**	31 December 2012 RO'000
		Interest payable		
535	**775**	- Due to banks and other money market borrowings	**298**	206
28,273	**25,348**	- Customers' deposits	**9,759**	10,885
3,184	**3,197**	- Subordinated loans	**1,231**	1,226
-	**148**	- Compulsorily convertible bonds	**57**	-
31,992	**29,468**		**11,345**	12,317
12,174	**13,055**	Acceptances	**5,026**	4,687
7,657	**9,132**	Staff entitlements	**3,516**	2,948
7,782	**8,738**	Income tax payable	**3,364**	2,996
346	**184**	Deferred tax liability (note C5)	**71**	133
20,148	**32,122**	Other accruals and provisions	**12,367**	7,757
80,099	**92,699**		**35,689**	30,838
		Staff entitlements:		
1,049	**1,371**	End of service benefits	**528**	404
6,608	**7,761**	Other liabilities	**2,988**	2,544
7,657	**9,132**		**3,516**	2,948
		Movement in the end of service benefits liability:		
766	**1,049**	At 1 January	**404**	295
332	**457**	Expenses recognised in the profit or loss	**176**	128
(49)	**(135)**	End of service benefits paid	**(52)**	(19)
1,049	**1,371**	At 31 December	**528**	404

B11 Subordinated Loans

The Bank raised an unsecured subordinated loan of RO 50 million in 2011 with a maturity of 7 years. The instrument is unlisted, non-transferable, and non-negotiable and non-convertible with no early call option. The instrument carries a fixed rate of interest of 6.5%. Principal amount of the subordinated loan is repayable on maturity while interest is payable semi-annually. The Bank is required to create a subordinated loan reserve equal to 20% of the issue value annually from August 2012 up till the maturity of the subordinated loans. This reserve is created at the end of each financial year from retained earnings. Accordingly, during the year a reserve of RO 10 million (2012: RO 4.167 million) was created. According to the Regulations of CBO, the subordinated loan as reduced by subordinated loan reserve is considered as Tier II capital for Capital Adequacy purposes. The amortized cost of subordinated loans included interest accrued as of the reporting date as disclosed in note B10.

B12 Compulsorily convertible bonds

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

B13 Share capital

The authorised share capital of the Bank is 2,000,000,000 shares of RO 0.100 each (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).

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

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

As of 31 December 2013, the following shareholders held 10% or more of the Bank's capital, either individually or together with family members:

	Number of shares	*% Holding*
Oman Investment & Finance Co.SAOG	**165,000,000**	**15.00%**
The Royal Court of Affairs	**160,259,374**	**14.57%**

B14 Legal reserve

In accordance with the Commercial Companies Law of Oman of 1974, an annual appropriation of 10% of the net profit for the year is required to be made to legal reserve until such time that the accumulated reserve is equal to at least one third of the Bank's issued share capital. During the year, an amount of RO 134,000 received towards right issue expenses net of actual cost was transferred to the legal reserve.

B 15 General reserve

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

B16 Fair value reserve

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

B17 Net assets per share

The calculation of net assets per share is based on net assets of RO 171,269,000 as at 31 December 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 31 December 2013 (2012: 1,000,000,000 ordinary shares).

B18 Contingent liabilities and commitments

B18.1 Contingent liabilities

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

31December 2012 USD'000	**31December 2013 USD'000**		**31December 2013 RO'000**	31 December 2012 RO'000
426,553	**560,091**	Guarantees	**215,635**	164,223
103,200	**107,470**	Documentary letters of credit	**41,376**	39,732
529,753	**667,561**		**257,011**	**203,955**

31December 2012 USD'000	**31December 2013 USD'000**		**31December 2013 RO'000**	31 December 2012 RO'000
221,953	**391,727**	Construction	**150,815**	85,452
134,530	**90,216**	Financial institution	**34,733**	51,794
74,205	**50,761**	International trade	**19,543**	28,569
39,039	**77,197**	Services	**29,721**	15,030
20,451	**30,852**	Manufacturing	**11,878**	7,874
18,104	**9,821**	Government	**3,781**	6,970
6,294	**7,158**	Transport and communication	**2,756**	2,423
15,177	**9,829**	Others	**3,784**	5,843
529,753	**667,561**		**257,011**	203,955

B18.2 Commitments

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

31 December 2012 USD'000	**31 December 2013 USD'000**		**31 December 2013 RO'000**	31 December 2012 RO'000
3,135	**3,055**	Capital commitments	**1,176**	1,207
418,236	**575,607**	Credit related commitments	**221,609**	161,021
421,371	**578,662**		**222,785**	162,228

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B19 RELATED PARTY TRANSACTIONS

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

31 December 2012 USD'000	**31 December 2013 USD'000**		**31 December 2013 RO'000**	31 December 2012 RO'000
82,608	**66,361**	Loans and advances (balance at end of period)	**25,549**	31,804
253,127	**177,496**	Loans disbursed during the period	**68,336**	97,454
(250,031)	**(172,927)**	Loans repaid during the period	**(66,577)**	(96,262)
114,494	**120,740**	Deposits (balance at end of period)	**46,485**	44,080
33,099	**56,371**	Deposits received during the period	**21,703**	12,743
(11,545)	**(18,678)**	Deposits paid during the period	**(7,191)**	(4,445)
3,974	**1,909**	Interest income (during the period)	**735**	1,530
(1,694)	**1,462**	Interest expense (during the period)	**563**	(652)
		Senior management compensation		
9,244	**10,431**	Salaries and other short term benefits	**4,016**	3,559
514	**509**	Directors' sitting fees and remuneration	**196**	198
-	**140**	Shari'a Supervisory Board members	**54**	-

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

B 20 Fair value of financial instruments

The Bank considers that the fair value of financial instruments is not significantly different to their carrying value (including accrued interest) at each of those dates. The table below sets out the classification of each class of financial assets and liabilities, and their fair values as at 31 December 2013:

At 31 December 2013	**Loans and receivables RO'000**	**Held to maturity RO'000**	**Available for sale RO'000**	**Held for trading RO'000**	**Total carrying (including accrued interest)/fair value RO'000**
Assets as per statement of financial position					
Cash and balances with CBO	**106,078**	**-**	**-**	**-**	**106,078**
Due from banks and other money market lendings	**264,171**	**-**	**-**	**-**	**264,171**
Loans and advances	**1,280,385**	**-**	**-**		**1,280,385**
Investment securities	**-**	**9,698**	**178,158**	**18,500**	**206,356**
Other assets (excluding prepayments)	**10,140**	**-**	**-**	**-**	**10,140**
Total	**1,660,774**	**9,698**	**178,158**	**18,500**	**1,867,130**

Liabilities as per statement of financial position	**RO'000**
Due to banks and other money market borrowings	**239,184**
Customers' deposits	**1,392,385**
Other liabilities	**24,344**
Convertible bonds	**7,207**
Subordinated loans	**51,231**
Total	**1,714,351**

At 31 December 2012	Loans and receivables RO'000	Held to maturity RO'000	Available for sale RO'000	Held for trading RO'000	Total carrying (including accrued interest)/fair value RO'000
Assets as per statement of financial position					
Cash and balances with Central Bank	121,754	-	-	-	121,754
Due from banks and other money market lendings	339,759	-	-	-	339,759
Loans and advances	1,148,029	-	-	-	1,148,029
Investment securities	-	6,607	146,146	-	152,753
Other assets (excluding prepayments)	9,376	-	-	-	9,376
Total	1,618,918	6,607	146,146	-	1,771,671

Liabilities as per statement of financial position	RO 000
Due to banks and other money market borrowings	224,254
Customers' deposits	1,348,285
Other liabilities	18,521
Subordinated loans	51,226
Total	1,642,286

B20 Fair value of financial instruments (continued)

At 31 December 2013	**Loans and receivables USD'000**	**Held to maturity USD'000**	**Available for sale USD'000**	**Held for trading USD'000**	**Total carrying (including accrued interest)/fair value USD'000**
Assets as per statement of financial position					
Cash and balances with Central Bank	**275,527**	**-**	**-**	**-**	**275,527**
Due from banks and other money market lendings	**686,158**	**-**	**-**	**-**	**686,158**
Loans and advances	**3,325,675**	**-**	**-**	**-**	**3,325,675**
Investment securities	**-**	**24,190**	**462,748**	**48,052**	**535,990**
Other assets (excluding prepayments)	**26,338**	**-**	**-**	**-**	**26,338**
Total	**4,313,698**	**24,190**	**462,748**	**48,052**	**4,849,688**

Liabilities as per statement of financial position	**USD'000**
Due to banks and other money market borrowings	**621,257**
Customers' deposits	**3,616,584**
Other liabilities	**63,231**
Convertible bonds	**18,719**
Subordinated loans	**133,068**
Total	**4,452,859**

At 31 December 2012	Loans and receivables USD'000	Held to maturity USD'000	Available for sale USD'000	Held for trading USD'000	Total carrying (including accrued interest)/fair value USD'000
Assets as per statement of financial position					
Cash and balances with Central Bank	316,243	-	-	-	316,243
Due from banks and other money market lendings	882,490	-	-	-	882,490
Loans and advances	2,981,894	-	-	-	2,981,894
Investment securities	-	17,161	379,600	-	396,761
Other assets (excluding prepayments)	41,107	-	-	-	24,353
Total	4,204,980	17,161	379,600	-	4,601,741

Liabilities as per statement of financial position	USD'000
Due to banks and other money market borrowings	582,478
Customers' deposits	3502,039
Other liabilities	48,106
Subordinated loans	133,055
Total	4,265,678

B 20 Fair value of financial instruments (continued)

Estimation of fair values

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

Loans and advances

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

Investments carried at amortised cost and derivatives

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

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

Bank and customer deposits

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

Other on-balance sheet financial instruments

The fair values of all on-balance sheet financial instruments are considered to approximate their book values.

Off-balance sheet financial instruments

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

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

Valuation of financial instruments:

The Bank measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 - Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).

Level 3 - Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

B20 Fair value of financial instruments (continued)

The table below analyses financial instruments measured at fair value at the end of the reporting period:

	31 December 2013			31 December 2012		
	Investment securities RO '000	**Derivatives RO '000**	**Total RO '000**	Investment securities RO '000	Derivatives RO '000	Total RO '000
Level 1	**18,734**	**-**	**18,734**	6,787	-	6,787
Level 2	**177,924**	**(86)**	**177,838**	139,359	(41)	139,318
	196,658	**(86)**	**196,572**	146,146	(41)	146,105

	31 December 2013			31 December 2012		
	Investment securities USD '000	**Derivatives USD'000**	**Total USD '000**	Investment securities USD '000	Derivatives USD '000	Total USD '000
Level 1	**48,661**	**-**	**48,661**	17,630	-	17,630
Level 2	**462,140**	**(223)**	**461,917**	361,971	(107)	361,864
	510,801	**(223)**	**510,578**	379,601	(107)	379,494

B21 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:

B21.1 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.

B21.2 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.

B21.2 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 CBO.

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

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

		Notional amounts by term to maturity		
As at *31 December* 2013	**Notional amount**	**Within 3 months**	**3 - 12 months**	**1 - 5 years**
	RO'000	**RO'000**	**RO'000**	**RO'000**
Foreign exchange purchase contracts	**643,001**	**332,312**	**301,699**	**30,030**
Forward foreign exchange sales contracts	**664,566**	**322,456**	**291,065**	**30,005**
	USD'000	**USD'000**	**USD'000**	**USD'000**
Forward Foreign exchange purchase contracts	**1,670,132**	**863,148**	**783,634**	**78,000**
Forward foreign exchange sales contracts	**1,726,145**	**837,548**	**756,013**	**77,935**

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

		Notional amounts by term to maturity		
As at 31 December 2012	Notional amount	Within 3 months	3 - 12 months	1 - 5 years
	USD'000	USD'000	USD'000	USD'000
Forward Foreign exchange purchase contracts	1,467,421	955,299	512,122	-
Forward foreign exchange sales contracts	1,468,566	955,984	512,582	-

B22 Proposed dividend

For the year 2013, the Board of Directors has proposed a cash dividend of 4% of the share capital i.e. 4 baizas per share amounting to RO 4.40 million (2012: Cash dividend of 3.5% of the share capital i.e. 3.5 baizas per share amounting to RO 3.85 million) and stock dividend of 4% of the share capital amounting to RO 4.40 million (2012: 6.5% of the share capital in the form of compulsorily convertible bonds amounting to RO 7.15 million). The proposed dividend is subject to formal approval of the shareholders at the Annual General Meeting.

C1 Interest income

31 December 2012 USD'000	**31 December 2013 USD'000**		**31 December 2013 RO'000**	31 December 2012 RO'000
158,927	**168,867**	Loans and advances to customers	**65,014**	61,187
21,675	**16,779**	Due from banks and other money market placements	**6,460**	8,345
7,042	**2,216**	Investment securities	**853**	2,711
187,644	**187,862**		**72,327**	72,243

C2 Interest expense

31 December 2012 USD'000	**31 December 2013 USD'000**		**31 December 2013 RO'000**	31 December 2012 RO'000
64,582	**58,705**	Customers' deposits	**22,601**	24,864
8,465	**8,442**	Subordinated debt	**3,250**	3,259
5,782	**7,092**	Due to banks and other money market borrowings	**2,731**	2,226
-	**569**	Compulsorily convertible bonds	**219**	-
78,829	**74,808**		**28,801**	30,349

C3 Other operating income

31 December 2012 USD'000	**31 December 2013 USD'000**		**31 December 2013 RO'000**	31 December 2012 RO'000
18,275	**25,545**	Fees and commission	**9,835**	7,036
3,961	**4,260**	Net gains from foreign exchange dealings	**1,640**	1,525
1,414	**2,244**	Dividend income	**864**	544
122	**10**	Profit on sale of fixed assets	**4**	47
2,210	**1,380**	Net gains from held for trading investment securities	**531**	851
1,091	**6,317**	Net realised gains from available for sale investment securities	**2,432**	420
27,073	**39,756**		**15,306**	10,423

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C4 Other operating expenses

31December 2012 USD'000	31December 2013 USD'000		31December 2013 RO'000	31December 2012 RO'000
15,338	**18,660**	Operating and administration costs	**7,184**	5,905
4,652	**5,192**	Establishment cost	**1,999**	1,791
514	**509**	Directors sitting fees	**196**	198
-	**140**	Shari'a supervisory board remuneration and sitting fees	**54**	-
20,504	**24,501**		**9,433**	7,894

C5 Income tax

a) Recognized in the statement of comprehensive income

31 December 2012 USD'000	31 December 2013 USD'000		31 December 2013 RO'000	31 December 2012 RO'000
		Tax expenses		
7,421	**8,377**	Current tax	**3,225**	2,857
124	**106**	Deferred tax expense	**41**	48
7,545	**8,483**	Total tax expenses	**3,266**	2,905

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

31 December 2012 USD'000	31 December 2013 USD'000		31 December 2013 RO'000	31 December 2012 RO'000
67,314	**78,278**	Net profit before tax for the year	**30,137**	25,916
8,078	**9,392**	Income tax	**3,616**	3,110
		Tax impact of:		
5	**-**	Non deductible expenses	**-**	2
(662)	**(1,015)**	Tax exempt income	**(391)**	(255)
124	**106**	Current year deferred tax	**41**	48
7,545	**8,483**	Income tax expense	**3,266**	2,905

c) Deferred tax (liability)/ asset

31 December 2012 USD'000	31 December 2013 USD'000		31 December 2013 RO'000	31 December 2012 RO'000
(434)	**(540)**	On comprehensive income items	**(208)**	(167)
88	**356**	On other comprehensive income items	**137**	34
(346)	**(184)**		**(71)**	(133)

C5 Income tax (continued)

d) Tax assessment

The assessments of the Bank for the years 2007 to 2009 are completed and for the year 2010 to 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 31 December 2013.

C6 Basic and Diluted Earnings Per Share

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

31 December 2012 USD'000	**31 December 2013 USD'000**		**31 December 2013 RO'000**	31December 2012 RO'000
59,769	**69,795**	Net profit for the year	**26,871**	23,011
1,000,000	**1,088,767**	Weighted average number of shares of RO 0.100 each outstanding during the period (in thousands)	**1,088,767**	1,000,000
		Basic earnings per share for the year (in baizas)	**24.68**	23.01
5.98	**6.41**	Basic earnings per share for the year (in cents)		

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.

31 December 2012 USD'000	**31 December 2013 USD'000**		**31 December 2013 RO'000**	31 December 2012 RO'000
59,769	**69,795**	Net profit for the period	**26, 871**	23,011
-	**500**	Interest on convertible bonds, net of taxation	**192**	-
59,769	**70,295**		**27,063**	23,011
1,000,000	**1,131,839**	Weighted average number of shares of RO 0.100 each outstanding during the period (in thousands)	**1,131,839**	1,000,000
		Diluted earnings per share for the period (in baizas)	**23.91**	23.01
5.98	**6.21**	Diluted earnings per share for the period (in cents)		

D Financial risk management

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

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

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

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

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

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

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

D1 Credit risk

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

D1.1 Management of credit risk

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

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

D1 Credit risk (continued)

D1.1 Management of credit risk (continued)

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

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

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

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

D1.2 Exposure to credit risk

The credit exposure of the Bank as on the reporting date is as follows:

	2013			2012		
	Loans and advances- gross RO'000	**Due from banks and other money market lendings RO'000**	**Debt securities RO'000**	Loans and advances- gross RO'000	Due from banks and other money market borrowings RO'000	Debt securities RO'000
Carrying amount	**1,303,595**	**262,348**	**176,045**	1,171,294	335,389	135,137
Past due but not impaired						
1-30 days	**919**	-	-	13,126	-	-
31-60 days	**4,231**	-	-	3,434	-	-
61-89 days	**2,456**	-	-	2,154	-	-
	7,606	-	-	18,714	-	-
Past due and impaired	**13,618**	-	-	18,280	-	-
Neither past due nor impaired	**1,282,371**	**262,348**	**176,045**	1,134,300	335,389	135,137

D Financial risk management (continued)

D1 Credit risk (continued)

D1.2 Exposure to credit risk (continued)

	2013 Loans and advances-gross USD'000	2013 Due from banks and other money market lendings USD'000	2013 Investment securities USD'000	2012 Loans and advances-gross USD'000	2012 Due from banks and other money market borrowings USD'000	2012 Investment securities USD'000
Carrying amount	**3,385,961**	**681,423**	**457,262**	3,042,323	871,140	351,005
Past due but not impaired						
1-30 days	**2,387**	-	-	34,094	-	-
31-60 days	**10,990**	-	-	8,919	-	-
61-89 days	**6,379**	-	-	5,595	-	-
	19,756	-	-	48,608	-	-
Past due and impaired	**35,371**	-	-	47,481	-	-
Neither past due nor impaired	**3,330,834**	**681,423**	**457,262**	2,946,234	871,140	351,005

Maximum exposure to credit risk before collateral held or other credit enhancements for all on-balance sheet assets are based on net carrying amounts as reported in the statement of financial position.

The maximum credit risk exposures relating to off-balance sheet items calculated as per Basel II guidelines are provided in note D5. The amounts represented in the note D5 represent a worst case scenario of credit risk exposure as of 31 December 2013 and 2012, without taking into account of any collateral held or other credit enhancements attached.

D1.3 Credit rating analysis

The table below presents an analysis of debt securities, treasury bills and other eligible bills by rating agency designation at 31 December 2013, based on Moody's ratings or equivalent.

2012 USD'000	2013 USD'000		2013 RO'000	2012 RO'000
4,000	**-**	B-	**-**	1,540
-	**4,000**	BB-	**1,540**	-
-	**12,987**	BBB-	**5,000**	-
-	**7,839**	BBB+	**3,018**	-
27,023	**9,457**	Unrated bonds	**3,641**	10,404
319,982	**422,979**	Sovereign securities	**162,846**	123,193
351,005	**457,262**		**176,045**	135,137

The following table shows the gross placements held with counterparties at the reporting date:

2012 USD'000	2013 USD'000		2013 RO'000	2012 RO'000
40,600	**127,023**	Aaa1 to Aaa3	**48,904**	15,631
113,945	**66,663**	A1 to A3	**25,665**	43,869
-	**240,031**	Baa1 to Baa3	**92,412**	-
711,400	**80,013**	Ba1 to Ba3	**30,805**	273,889
5,195	**147,696**	B1 to Caa	**56,863**	2,000
-	**19,997**	Unrated	**7,699**	-
871,140	**681,423**		**262,348**	335,389

The Bank performs an independent assessment based on quantitative and qualitative factors in cases where a bank is unrated.

D Financial risk management (continued)

D1 Credit risk (continued)

D1.4 Impaired loans and securities

These are loans and securities for which the Bank determines that it is probable that it will be unable to collect all the principal and interest due according to the contractual terms of the loan /securities agreement.

D1.4.a Past due but not impaired

These are loans and securities where contractual interest or principal payments are past due but the Bank believes that impairment is not appropriate on the basis of the level of security /collateral available and /or the stage of collection of amounts owed by the Bank.

D1.4.b Loans with renegotiated terms

Loans with renegotiated terms are loans that have been restructured due to deterioration in the borrower's financial position and where the Bank has made concessions that it would not otherwise consider. Once the loan is restructured it remains in this category independent of satisfactory performance after restructuring.

D1.4.c Allowances for impairment

The Bank establishes an allowance for impairment losses account that represents its estimate of incurred losses in its loan portfolio. The main components of this allowance are specific loss components that relate to individually significant exposures, and a collective loan loss allowance established for group of homogenous assets in respect of losses that have been incurred but have not been identified on loans subject to individual assessment for impairment.

D1.4.d Write off policy

The Bank writes off a loan/security balance (and any related allowances for impairment losses) when the Bank determines that the loan/security is uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the borrower/issuer's financial position such that the borrower/issuer can no longer repay the obligation, or that proceeds from the collateral will not be sufficient to pay back the entire exposure. For smaller balance standardised loans, charge off decisions generally are based on a product specific past due status.

Set out below is an analysis of gross and net (of allowances for impairment) amounts of individually impaired assets by risk classification.

	2013		2012	
	Loans and advances		Loans and advances	
Particulars	**Gross**	**Net**	Gross	Net
	RO'000	**RO'000**	RO'000	RO'000
Sub-standard	**1,880**	**1,376**	1,224	897
Doubtful	**2,128**	**1,000**	8,437	5,187
Loss	**9,610**	**2,341**	8,619	1,835
	13,618	**4,717**	18,280	7,919

Particulars	**Gross**	**Net**	Gross	Net
	USD'000	**USD'000**	USD'000	USD'000
Sub-standard	**4,883**	**3,574**	3,179	2,330
Doubtful	**5,527**	**2,597**	21,915	13,473
Loss	**24,961**	**6,081**	22,387	4,766
	35,371	**12,252**	47,481	20,569

D Financial risk management (continued)

D1 Credit risk (continued)

D 1.5 Collateral securities

The Bank holds collateral against the loans and advances to customers in the form of mortgage interests over property, other registered securities, assets and guarantees. Estimates of fair value are based on the value of the collateral assessed at the time of borrowing and updated once in three years, except when a loan is individually assessed as impaired. The shares of MSM listed companies which are taken as securities are valued on fortnightly basis, unless there are significant fluctuations whereby the valuation is done on daily basis to manage the risks of extreme volatility.

An estimate of the fair value of collateral and other security enhancements held against loans and advances is shown below:

2012 USD'000	**2013 USD'000**		**2013 RO'000**	2012 RO'000
		Against past due but not impaired		
47,870	**2,265**	Property	**872**	18,430
		Against past due and impaired		
20,719	**11,348**	Property	**4,369**	7,977
		Against neither past due nor impaired		
553,725	**603,919**	Property	**232,509**	213,184
276,719	**220,610**	Commercial mortgage	**84,935**	106,537
59,094	**43,361**	Fixed deposits	**16,694**	22,751
75,647	**99,753**	Equity	**38,405**	29,124
35,213	**25,670**	Guarantees	**9,883**	13,557
1,000,398	**993,313**		**382,426**	385,153
1,068,987	**1,006,926**		**387,667**	411,560

D1.6 Settlement risk

Settlement risk is the risk of loss due to the failure of a party to honour its obligations to deliver cash, securities or other assets as contractually agreed on the day of settlement.

In foreign exchange trades, though there is fulfilment of both the legs of the transaction on the settlement date as is common practice between trading partners (free settlement), there will be risk on account of different time zones. In these cases, the settlement risk is mitigated through the execution of bilateral payment netting agreements.

D1.7 Concentrations

Concentrations of credit risk arise when a number of counter parties are engaged in similar business activities or activities in the same geographic region or have similar economic features that would cause their ability to meet contractual obligations to be affected similarly by changes in economic, political or other conditions. Concentrations of credit risk indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographic location.

The Bank seeks to manage its credit risk exposure through diversification of lending activities to avoid undue concentrations of risks with individuals or group of customers in specific locations or businesses. It also obtains appropriate security.

D Financial risk management (continued)

D1 Credit risk (continued)

D1.7 Concentrations (continued)

	2013 Loans and advances-gross	**2013 Due from banks and other money market lendings**	**2013 Investment securities**	2012 Loans and advances-gross	2012 Due from banks and other money market lendings	2012 Investment securities
	RO'000	**RO'000**	**RO'000**	RO'000	RO'000	RO'000
Concentration by sector						
Corporate	**838,336**	**-**	**61,870**	749,400	-	29,493
Personal	**432,901**	**-**	**-**	383,615	-	-
Sovereign	**44**	**-**	**144,346**	96	-	123,193
Banks	**32,314**	**262,348**	**-**	38,183	335,389	-
	1,303,595	**262,348**	**206,216**	1,171,294	335,389	152,686
Concentration by location						
Middle east	**1,269,906**	**117,072**	**49,699**	1,131,186	134,402	19,434
Europe	**26,924**	**5,517**	**12,171**	28,558	63,923	133,252
North America	**-**	**3,110**	**144,346**	-	11,035	-
South America	**-**	**7,700**	**-**	-	-	-
Asia	**6,765**	**128,940**	**-**	11,550	126,017	-
Australia	**-**	**9**	**-**	-	12	-
	1,303,595	**262,348**	**206,216**	1,171,294	335,389	152,686
	USD'000	**USD'000**	**USD'000**	USD'000	USD'000	USD'000
Concentration by sector						
Corporate	**2,177,497**	**-**	**160,701**	1,946,494	-	76,605
Personal	**1,124,418**	**-**	**-**	996,403	-	-
Sovereign	**114**	**-**	**374,925**	249	-	319,983
Banks	**83,932**	**681,423**	**-**	99,177	871,140	-
	3,385,961	**681,423**	**535,626**	3,042,323	871,140	396,588
Concentration by location						
Middle east	**3,298,457**	**304,083**	**129,088**	2,938,145	349,096	50,479
Europe	**69,932**	**14,330**	**31,613**	74,178	166,034	346,109
North America	**-**	**8,078**	**374,925**	-	28,662	-
South America	**-**	**20,000**	**-**	-	-	-
Asia	**17,572**	**334,909**	**-**	30,000	327,317	-
Australia	**-**	**23**	**-**	-	31	-
	3,385,961	**681,423**	**535,626**	3,042,323	871,140	396,588

Concentration by location for loans and advances is measured based on the location of the entity holding the asset, which has a high correlation with the location of the borrower. Concentration by location for investment securities is measured based on the location of the issuer of the security. The Bank seeks to manage its credit risk exposure through diversification of lending activities to avoid undue concentrations of risk with banks or customers in a specific currency. It also obtains security when appropriate. An analysis of the Bank's gross exposure to relevant segments is provided in note E.

D Financial risk management (continued)

D2 Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in meeting its obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

D2.1 Management of liquidity risk

The Bank's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions without incurring unacceptable losses or risking damage to the Bank's reputation. The Bank has put in place an approved Contingency Liquidity Plan to facilitate management of liquidity

Liquidity risk is managed by the Bank through closely monitoring the liquidity gap against the limit fixed.

Adequate liquidity is ensured by Treasury, which receives information from other business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. Central Treasury then maintains a portfolio of short-term liquid assets, largely made up of short-term liquid investment securities, loans and advances to banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Bank as a whole. In this process due care is taken to ensure that the Bank complies with all the Central Bank regulations.

All liquidity policies and procedures are subject to review and approval by ALCO.

D2.2 Exposure to liquidity risk

The lending ratio, which is the ratio of the total loans and advances to customer deposits and capital, is monitored on a daily basis in line with the regulatory guidelines. Internally the lending ratio is set at a more conservative basis than required by regulation. The Bank also manages its liquidity risk on a regular basis and by monitoring the liquid ratio which is a ratio of net liquid assets to total assets on monthly basis. For this purpose net liquid assets are considered as including cash and cash equivalents and investment grade debt securities for which there is an active and liquid market.

Details of the reported lending and liquid ratio as at 31 December 2013 were as follows:

	2013		2012	
	Lending ratio	**Liquid ratio**	Lending ratio	Liquid ratio
Average for the year	**83.53%**	**24.00%**	83.47%	30.00%
Maximum for the year	**85.40%**	**27.60%**	85.60%	32.47%
Minimum for the year	**81.00%**	**20.55%**	80.70%	26.14%

The table below summarises the maturity profile of the Bank's liabilities as on the reporting date based on contractual repayment arrangements. The contractual maturities of assets and liabilities have been determined on the basis of the remaining period at the statement of financial position date to the contractual maturity date and do not take account of the effective maturities as indicated by the Bank's deposit retention history and the availability of liquid funds.

D Financial risk management (continued)

D2 Liquidity risk (continued)

D2.2 Exposure to liquidity risk (continued)

	Within three months RO'000	Four months to 12 months RO'000	One to three years RO'000	More than three years RO'000	Total RO'000
31 December 2013					
Assets					
Cash and balances with Central Bank	50,059	26,034	11,471	18,506	106,070
Due from banks and other money market placements	147,024	115,324	-	-	262,348
Loans and advances	283,830	148,536	205,013	640,899	1,278,278
Investment securities	156,699	6,167	35,255	8,095	206,216
Property and equipment and other assets	10,474	773	115	18,446	29,808
Investment properties	-	-	-	2,900	2,900
Total assets	648,086	296,834	251,854	688,846	1,885,620
Liabilities and equity					
Due to banks and other money market borrowings	184,614	15,776	38,496	-	238,886
Customers' deposits	385,868	467,597	204,514	324,647	1,382,626
Other liabilities	21,970	5,877	1,532	6,310	35,689
Subordinated loans	-	-	-	50,000	50,000
Compulsorily convertible bonds	-	-	-	7,150	7,150
Shareholders' funds	-	-	-	171,269	171,269
Total liabilities and equity	592,452	489,250	244,542	559,376	1,885,620

	Within three months USD'000	Four months to 12 months USD'000	One to three years USD'000	More than three years USD'000	Total USD'000
31 December 2013					
Assets					
Cash and balances with Central Bank	130,020	67,621	29,795	48,070	275,506
Due from banks and other money market placements	381,879	299,544	-	-	681,423
Loans and advances	737,220	385,808	532,501	1,664,674	3,320,203
Investment securities	407,010	16,018	91,571	21,027	535,626
Property and equipment and other assets	27,204	2,008	299	47,912	77,423
Investment properties	-	-	-	7,532	7,532
Total assets	1,683,333	770,999	654,166	1,789,215	4,897,713
Liabilities and equity					
Due to banks and other money market borrowings	479,516	40,977	99,990	-	620,483
Customers' deposits	1,002,256	1,214,537	531,205	843,238	3,591,236
Other liabilities	57,065	15,265	3,979	16,390	92,699
Subordinated loans	-	-	-	129,870	129,870
Compulsorily convertible bonds	-	-	-	18,571	18,571
Shareholders' funds	-	-	-	444,854	444,854
Total liabilities and equity	1,538,837	1,270,779	635,174	1,452,923	4,897,713

D Financial risk management (continued)

D2 Liquidity risk (continued)

D2.2 Exposure to liquidity risk (continued)

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

	Within three months USD'000	Four months to 12 months USD'000	One to three years USD'000	More than three years USD'000	Total USD'000
31 December 2012					
Assets					
Cash and balances with Central Banks	174,846	61,748	36,086	43,543	316,223
Due from banks and other money market placements	312,130	559,010	-	-	871,140
Loans and advances	671,642	371,392	450,119	1,483,530	2,976,683
Investment securities	320,004	-	56,935	19,649	396,588
Property and equipment and other assets	21,380	7,512	358	44,574	73,824
Investment properties	-	-	-	7,532	7,532
Total assets	1,500,002	999,662	543,498	1,598,828	4,641,990
Liabilities and equity					
Due to banks and other money market borrowings	546,940	35,003	-	-	581,943
Customers' deposits	913,028	1,128,803	659,660	772,275	3,473,766
Other liabilities	44,351	15,119	5,052	15,577	80,099
Subordinated loans	-	-	-	129,870	129,870
Shareholders' funds	-	-	-	376,312	376,312
Total liabilities and equity	1,504,319	1,178,925	664,712	1,294,034	4,641,990

D Financial risk management (continued)

D2 Liquidity risk (continued)

D2.2 Exposure to liquidity risk (continued)

The Bank prepares a liquidity gap report to monitor the Bank's short term liquidity position on the Rial denominated assets and liabilities in a time horizon spanning one month. The gap is adjusted for availability of instruments for repo or refinance and also for unavailed committed lines of credit, if any. This statement of short term liquidity is to be reported to the ALCO every month.

D3 Market risk

Market risk is the exposure to loss resulting from the changes in the interest rates, foreign currency exchange rates, equity prices and commodity prices. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return to risk.

D3.1 Measurement of market risk

The Bank is mainly engaged in Spots, Forwards and Currency swaps. Since the positions are taken mainly for customer transactions, the complexity is further reduced. In view of above, the Bank measures and controls the risk by using a limit framework. As and when the Bank enters into more complex derivatives, it will have more sophisticated models and techniques to measure market risk, supported by suitable mechanism.

D3.2 Management of market risks

The Bank separates its exposure to market risk between trading and non trading portfolios. Trading portfolios include all positions arising from market making and proprietary position taking, together with financial assets and liabilities that are managed on a fair value basis.

All foreign exchange risk within the Bank is transferred by Central Treasury to the trading book. Accordingly, the foreign exchange position is treated as a part of the Bank's trading portfolio for risk management purposes. Foreign currency risk is monitored and managed by the Bank by establishment of Mid Office to monitor the market risk, and the risk is managed by putting in place Market Risk Management Policy, and implementing limit framework, reporting tools like Currency Position Report, Risk Analysis of Currency Position, Breach Analysis Report, and Dealer Limit Breach report.

Overall authority for market risk is vested in ALCO. The risk management function is responsible for development of detailed risk management policies (subject to approval by ALCO and Risk Management Committee of the Board). The Market Risk Policy is periodically reviewed to keep it up to date with the market developments.

D3.3 Exposure to interest rate risk – non trading portfolios

Interest rate risk arises from the possibility that changes in interest rates will affect future profitability or the fair values of financial instruments. The Bank is exposed to interest rate risk as a result of mismatches of interest rate and re-pricing tenure of rate sensitive assets and liabilities.

The effective interest rate (effective yield) of a monetary financial instrument is the rate used in a present value calculation which results in the carrying amount of the instrument. The rate is a historical rate for a fixed rate instrument carried at amortised cost and a current rate for a floating rate instrument or an instrument carried at fair value.

The principal risk to which non-trading portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instrument because of a change in market interest rates. Interest rate risk is managed principally through monitoring interest rate gaps. The ALCO is the monitoring body for compliance with these limits and is assisted by Risk Management in its day-to-day monitoring activities. A summary of the Bank's interest rate gap position on non-trading portfolios is provided in this note. The Bank also assesses interest rate risk by assessing the interest rate impact (both earnings perspective and economic value perspective) as per Basel-II guidelines communicated by CBO by applying interest rate shock of 200 bps and takes measures to reduce the impact. The Bank also assesses impact on earnings of interest rate shock of 50,100 and 200 bps.

D Financial risk management (continued)

D3 Market risk (continued)

D3.3 Exposure to interest rate risk – non trading portfolios (continued)

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

D Financial risk management (continued)

D3 Market risk (continued)

D3.3 Exposure to interest rate risk – non trading portfolios (continued)

	Effective annual interest rate %	Within three months USD'000	Four months to 12 months USD'000	Over one year USD'000	Non-sensitive to interest rate USD'000	Total USD'000
31 December 2013						
Assets						
Cash and balances with Central Banks	0.01	-	-	1,299	274,207	275,506
Due from banks and other money market placements	2.10	381,159	299,542	-	722	681,423
Loans and advances	5.42	1,221,406	770,540	1,300,950	27,307	3,320,203
Investment securities	0.47	419,998	16,018	30,358	69,252	535,626
Property, equipment and fixtures	-	-	-	-	34,374	34,374
Investment properties	-	-	-	-	7,532	7,532
Other assets	-	-	-	-	43,049	43,049
Total assets		2,022,563	1,086,100	1,332,607	456,443	4,897,713
Liabilities and equity						
Due to banks and other money market borrowings	0.66	579,509	40,974	-	-	620,483
Customers' deposits	1.73	571,837	910,810	512,236	1,596,353	3,591,236
Other liabilities	-	-	-	-	92,699	92,699
Subordinated loans	6.50	-	-	129,870	-	129,870
Convertible bonds	4.96	-	-	18,571	-	18,571
Shareholders' funds	-	-	-	-	444,854	444,854
Total liabilities and equity		1,151,346	951,784	660,677	2,133,906	4,897,713
Total interest rate sensitivity gap		871,217	134,316	671,930	(1,677,463)	-
Cumulative interest rate sensitivity gap		871,217	1,005,533	1,677,463	-	-

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013

D Financial risk management (continued)

D3 Market risk (continued)

D3.3 Exposure to interest rate risk – non trading portfolios (continued)

	Effective annual interest rate %	Within three months RO'000	Four months to 12 months RO'000	Over one year RO'000	Non-sensitive to interest rate RO'000	Total RO'000
31 December 2012						
Assets						
Cash and balances with Central Banks	0.01	-	-	500	121,246	121,746
Due from banks and other money market placements	2.87	120,170	215,219	-	-	335,389
Loans and advances	5.63	468,156	217,871	447,160	12,836	1,146,023
Investment securities	1.72	128,201	2,573	9,434	12,478	152,686
Property, equipment and fixtures	-	-	-	-	12,187	12,187
Investment properties	-	-	-	-	2,900	2,900
Other assets	-	-	-	-	16,235	16,235
Total assets		716,527	435,663	457,094	177,882	1,787,166
Liabilities and equity						
Due to banks and other money market borrowings	1.49	210,572	13,476	-	-	224,048
Customers' deposits	1.94	225,721	335,975	266,103	509,601	1,337,400
Other liabilities	-	-	-	-	30,838	30,838
Subordinated loans	6.5	-	-	50,000	-	50,000
Shareholders' funds	-	-	-	-	144,880	144,880
Total liabilities and equity		436,293	349,451	316,103	685,319	1,787,166
Total interest rate sensitivity gap		280,234	86,212	140,991	(507,437)	-
Cumulative interest rate sensitivity gap		280,234	366,446	507,437	-	-

D Financial risk management (continued)

D3 Market risk (continued)

D3.3 Exposure to interest rate risk – non trading portfolios (continued)

	Effective annual interest rate %	Within three months USD’000	Four months to 12 months USD’000	Over one year USD’000	Non-sensitive to interest rate USD’000	Total USD’000
31 December 2012						
Assets						
Cash and balances with Central Banks	0.01	-	-	1,299	314,924	316,223
Due from banks and other money market placements	2.87	312,130	559,010	-	-	871,140
Loans and advances	5.63	1,215,990	565,900	1,161,455	33,338	2,976,683
Investment securities	1.72	332,991	6,683	24,504	32,410	396,588
Property, equipment and fixtures	-	-	-	-	31,655	31,655
Investment properties	-	-	-	-	7,532	7,532
Other assets	-	-	-	-	42,169	42,169
Total assets		1,861,111	1,131,593	1,187,258	462,028	4,641,990
Liabilities and equity						
Due to banks and other money market borrowings	1.49	546,940	35,003	-	-	581,943
Customers’ deposits	1.94	586,288	872,662	691,177	1,323,639	3,473,766
Other liabilities	-	-	-	-	80,099	80,099
Subordinated loans	6.5	-	-	-	129,870	129,870
Shareholders’ funds	-	-	-	-	376,312	376,312
Total liabilities and equity		1,133,228	907,665	691,177	1,909,920	4,641,990
Total interest rate sensitivity gap		727,883	223,928	496,081	(1,447,892)	-
Cumulative interest rate sensitivity gap		727,883	951,811	1,447,892	-	-

D Financial risk management (continued)

D3 Market risk (continued)

D3.3 Exposure to interest rate risk – non trading portfolios (continued)

The Bank's present business is being done with basic products. The risk is managed by taking views on interest rate movements for the year and realigning the portfolios and covenants of lending, so as to be proactive and minimize any adverse effects. The benchmark presently available in Oman is the 28-day CBO CD rate. The statistics on movement of the rate in CDs and weighted average cost of deposits and the interest on loans are provided below:

2013	**Jan**	**Feb**	**Mar**	**Apr**	**May**	**Jun**	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**
CD rate	**0.11%**	**0.12%**	**0.13%**	**0.13%**	**0.13%**	**0.13%**	**0.13%**	**0.13%**	**0.13%**	**0.13%**	**0.13%**
Deposit rate	**1.31%**	**1.32%**	**1.28%**	**1.27%**	**1.25%**	**1.25%**	**1.25%**	**1.24%**	**1.24%**	**1.19%**	**1.18%**
Lending rate	**5.66%**	**5.63%**	**5.58%**	**5.56%**	**5.54%**	**5.51%**	**5.46%**	**5.48%**	**5.46%**	**5.46%**	**5.43%**

2012	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
CD rate	0.11%	0.09%	0.08%	0.09%	0.08%	0.07%	0.08%	0.08%	0.07%	0.07%	0.08%	0.09%
Deposit rate	1.39%	1.36%	1.32%	1.30%	1.31%	1.30%	1.32%	1.33%	1.30%	1.30%	1.28%	1.32%
Lending rate	6.17%	6.15%	6.09%	6.01%	5.90%	5.90%	5.89%	5.84%	5.77%	5.74%	5.71%	5.65%

The management of interest rate risk is one of the critical components of market risk management in banks. Interest rate risk primarily arises on account of mismatch of the Bank's assets with its liabilities that fund the assets. There are basically two approaches to management of interest rate risk in banks, namely "Earnings Approach" and "Economic Value Approach". The interest rate risk is assessed based on the impact of interest rate shock on the Bank's earnings and capital.

The focus of earnings approach is understanding the impact of interest rate changes (shock) of assets and liabilities on the Net Interest Income of the Bank. It measures the extent of capability of the Bank to absorb decline in net interest income caused by interest rate changes.

Interest rate risk also influences the present value of the Bank's asset and liabilities. Economic value perspective considers the present value of the Bank's assets and liabilities and assesses the potential longer term impact of interest rates on the Bank. This perspective focuses on how the economic value of the Bank's assets, liabilities, change with movements in interest rates and it reflects the impact of fluctuation in the interest rates on the economic value of the institution.

D Financial risk management (continued)

D3 Market risk (continued)

D3.3 Exposure to interest rate risk – non trading portfolios (continued)

Basel-II Accord has recommended for assessing the impact of interest rate risk by applying 200 bps interest rate sensitivity and accordingly the impact of 200 bps interest rate shock on the Bank's earnings and capital is provided below:

2012 USD'000	**2013 USD'000**		**2013 RO'000**	2012 RO'000
108,815	**113,054**	**Net interest income**	**43,526**	41,894
108,815	**113,054**	**Annualized net interest income**	**43,526**	41,894
524,013	**585,980**	**Capital**	**225,605**	201,745
		Based on 50 bps interest rate shock		
4,205	**4,440**	Impact of 50 bps interest rate shock	**1,709**	1,619
3.86%	**3.93%**	Impact as % to net interest income	**3.93%**	3.86%
0.80%	**0.74%**	Impact as % to capital	**0.76%**	0.80%
		Based on 100 bps interest rate shock		
8,408	**8,879**	Impact of 100 bps interest rate shock	**3,418**	3,238
7.73%	**7.85%**	Impact as % to net interest income	**7.85%**	7.73%
1.60%	**1.52%**	Impact as % to capital	**1.52%**	1.60%
		Based on 200 bps interest rate shock		
16,818	**17,758**	Impact of 200 bps interest rate shock	**6,837**	6,476
15.45%	**15.71%**	Impact as % to net interest income	**15.71%**	15.45%
3.21%	**3.03%**	Impact as % to capital	**3.03%**	3.21%

D3.4 Exposure to other market risks

Investment value risk is the risk of reduction in the market value of the Bank's portfolio as a result of diminution in the market value of individual investments. The responsibility for management of investment value risk rests with the Investment division under the supervision and guidance of the Management Investment Committee and Board Executive Committee of the Bank. The Bank's investments are governed by an investment policy approved by the Board of Directors. The rating and price of the instruments are monitored on a regular basis and necessary actions are taken to reduce exposure if needed. The portfolio is revalued at market price to ensure that unrealised losses, if any, on account of reduction in the market value of the investments remains within the acceptable parameters.

D Financial risk management (continued)

D3 Market risk (continued)

D3.4 Exposure to other market risks (continued)

Security as per country	**Changes in fair value +/- 5%**	
	2013 RO'000	2012 RO'000
Organisation for Economic Co-operation (OECD) Countries	**613**	508
Oman	**1,003**	572
Other Gulf Co-operation Council (GCC) countries	**74**	67

Security as per country	**Changes in fair value +/- 5%**	
	2013 USD'000	2012 USD'000
OECD Countries	**1,592**	1,319
Oman	**2,605**	1,486
Other GCC countries	**192**	174

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/(liabilities) RO'000**	Assets RO'000	Liabilities RO'000	Net assets/(liabilities) RO'000
US Dollar	**1,524,532**	**1,598,026**	**(73,494)**	675,201	681,359	(6,158)
Saudi Rial	**-**	**-**	**-**	317	-	317
Euro	**60**	**59,838**	**(59,778)**	33,448	33,427	21
UAE Dirhams	**86**	**154,836**	**(154,750)**	14,963	11,408	3,555
Qatari Rial	**-**	**-**	**-**	32	19	13
Kuwaiti Dinar	**-**	**-**	**-**	11	5	6
Japanese Yen	**3,897**	**3,902,524**	**(3,898,627)**	17,364	17,391	(27)
Pound Sterling	**4**	**4,162**	**(4,158)**	1,757	1,764	(7)
Indian Rupee	**8**	**48**	**(40)**	39	1	38
Others	**-**	**-**	**-**	217	96	121

D Financial risk management (continued)

D3 Market risk (continued)

D3.4 Exposure to other market risks (continued)

Currency risk (continued)

	2013			2012		
	Assets	**Liabilities**	**Net assets/(liabilities)**	Assets	Liabilities	Net assets/(liabilities)
	USD'000	**USD'000**	**USD'000**	USD'000	USD'000	USD'000
US Dollar	**3,959,823**	**4,150,717**	**(190,894)**	1,753,769	1,769,764	(15,995)
Saudi Rial	**-**	**-**	**-**	823	-	823
Euro	**156**	**155,423**	**(155,267)**	86,878	86,823	55
UAE Dirhams	**223**	**402,171**	**(401,948)**	38,865	29,631	9,234
Qatari Rial	**-**	**-**	**-**	83	49	34
Kuwaiti Dinar	**-**	**-**	**-**	29	13	16
Japanese Yen	**10,122**	**10,136,426**	**(10,126,304)**	45,101	45,171	(70)
Pound Sterling	**10**	**10,810**	**(10,800)**	4,564	4,582	(18)
Indian Rupee	**21**	**125**	**(104)**	101	3	98
Others	**-**	**-**	**-**	564	249	315

The Bank takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board sets limits on the level of exposure by currency and in aggregate for both overnight and intra-day positions, which are monitored daily.

Changes in the non parity foreign currency prices as at 31 December 2013 on net assets is considered negligible.

D4 Operational risk

Operational risk is defined as the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational risk arises due to a variety of causes associated with the Bank's processes, personnel, technology and infrastructure and from external events and to include risks other than credit, market and liquidity risks.

The Bank's objective is to manage operational risk to avoid/reduce financial losses to the Bank by establishment of necessary controls, systems and procedures. The Bank recognises that over an controlled environment will affect the Bank's business and earnings, besides adding to costs. Therefore, the Bank aims at effective management of operational risk through control optimisation and well established systems, methods and governance framework.

The primary responsibility for development and implementation of controls to address operational risk is assigned to senior management within each business unit. This responsibility is supported by the development of overall Bank standards in the following areas for management of operational risk:

- Clear reporting lines;
- Proper delegation of powers;
- Appropriate segregation of duties and authorisation of transactions through a maker checker system and authorisation matrix;
- Ownership reconciliation and monitoring of accounts;
- Documentation of controls and processes;
- Compliance with regulatory and other legal requirements;
- Periodic assessment of the operational risks faced and evaluating the adequacy of controls and procedures to address the risks identified;
- Reporting of operational losses and incidents triggering operational losses and remedial action;
- Development of contingency plans;
- Training, skill up gradation and professional development;
- Ethical and business standards; and
- Risk mitigation through insurance, wherever desirable.

D Financial risk management (continued)

D4 Operational risk (continued)

Compliance with Bank standards for both conventional and Islamic banking divisions is supported by a programme of periodic reviews undertaken by Internal Audit. The results of Internal Audit reviews are discussed with the management of the business unit to which they relate, with summaries submitted to the Audit Committee and senior management of the Bank. The Bank has also implemented a comprehensive Operational Risk Management Framework by which Bank has put in place Operational Risk Management Policy, Risk and Control Self Assessment (RCSA) Policy, Operational Risk Loss Event Reporting Framework, Maintenance of Operational Risk Loss Data Base and RCSA Framework. The Bank has developed an in-house RCSA model and has conducted Risk and Control Self Assessment for all major business activities like Corporate Banking, Retail Banking, Treasury, Card operations, Deposits, HR and E-banking. The Bank has further identified Key Risk Indicators (KRI) of operational risk in major activities of the Bank and fixed threshold limits which are monitored on monthly basis to gauge the level of risk and manage the same.

D5 Capital management

D5.1 Regulatory capital

The Bank's lead regulator, CBO, sets and monitors capital requirements for the Bank as a whole. In implementing current capital requirements CBO requires the Bank to maintain a prescribed ratio of total capital to total risk-weighted assets. The Bank calculates capital requirements for market risk and operational risk based upon the model prescribed by CBO as follows:

- Claims against sovereign entities in the respective national currencies – Nil
- Claims against sovereign entities in other currencies – Risk weights based upon ratings by Moody's
- Retail and Corporate loans – In the absence of credit rating model 100% risk weighting is taken.
- Off balance sheet items – As per credit conversion factors and risk weighting prescribed by CBO.

The Bank's regulatory capital is analysed into three tiers:

- Tier 1 capital, which includes ordinary share capital, share premium, perpetual bonds (which are classified as innovative Tier 1 securities), retained earnings, translation reserve and minority interests after deductions for goodwill and intangible assets, and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes.

- Tier 2 capital, which includes qualifying subordinated liabilities, collective impairment allowances and the element of the fair value reserve relating to unrealised gains on equity instruments classified as available-for-sale.

- Tier 3 capital, which includes short term subordinated debts which if circumstances demand would be capable of becoming the Bank's permanent capital.

Various limits are applied to elements of the capital base. The amount of innovative tier 1 securities cannot exceed 15 percent of total tier 1 capital; qualifying tier 2 capital cannot exceed tier 1 capital; and qualifying term subordinated loan capital may not exceed 50 percent of tier 1 capital. There are also restrictions on the amount of collective impairment allowances that may be included as part of tier 2 capital. Other deductions from capital include the carrying amounts of investments in subsidiaries that are not included in the regulatory consolidation, investments in the capital of banks and certain other regulatory items.

Banking operations are categorized as either trading book or banking book, and risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and off-balance sheet exposures. The Bank's policy is to maintain a strong capital base as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognized and the Bank recognizes the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

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D Financial Risk Management (continued)

D5 Capital management (continued)

D5.1 Regulatory capital (continued)

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:

31December 2012 USD'000	**31December 2013 USD'000**		**31 December 2013 RO'000**	31 December 2012 RO'000
		Tier I capital		
259,740	**285,714**	Ordinary share capital	**110,000**	100,000
20,795	**28,119**	Legal reserve	**10,827**	8,006
1,073	**2,761**	General reserve	**1,063**	413
10,823	**36,797**	Subordinated loan reserve	**14,167**	4,167
86,091	**81,244**	Retained earnings	***31,279**	33,145
(3,784)	**(3,670)**	Fair value losses	**(1,412)**	(1,457)
(117)	**(374)**	Deferred tax asset	**(144)**	(45)
374,231	**430,591**	Total	**165,780**	144,229
		Tier 2 capital		
38,728	**42,639**	Impairment allowance on portfolio basis	**16,416**	14,910
709	**1,106**	Fair value gains	**426**	273
119,047	**93,073**	Subordinated loan	**35,833**	45,833
-	**18,571**	Compulsorily convertible bonds	**7,150**	-
158,484	**155,389**	Total	**59,825**	61,016
533,105	**585,980**	**Total regulatory capital**	**225,605**	205,745
		Risk-weighted assets		
3,673,460	**4,065,970**	Credit and market risks	**1,565,398**	1,414,282
203,849	**233,002**	Operational risk	**89,706**	78,482
3,877,309	**4,298,972**	Total risk-weighted assets	**1,655,104**	1,492,764
		Capital adequacy ratio		
13.75%	**13.63%**	Total regulatory capital expressed as a percentage of total risk-weighted assets	**13.63%**	13.75%
9.66%	**10.02%**	Total tier I capital expressed as a percentage of total risk-weighted assets	**10.02%**	9.66%

*****Retained earnings for the year 2013 is after excluding proposed cash dividend of RO 4,400,000 as disclosed in note B22.

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

E Segmental information

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

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

The CEO monitors the operating results of 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 a Bank basis and are not allocated to operating segments.

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

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

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

E Segmental information (continued)

31 December 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	19,994	19,496	9,942	(5,906)	-	43,526
Net income from Islamic banking financing and investing activities	-	-	-	-	378	378
Other operating income	3,552	6,815	4,892	-	47	15,306
Operating income	23,546	26,311	14,834	(5,906)	425	59,210
Operating expense	(19,442)	(3,059)	(3,991)	-	(983)	(27,475)
Operating profit /(loss)	4,104	23,252	10,843	(5,906)	(558)	31,735
Impairment allowance on portfolio basis	-	-	-	(1,414)	(92)	(1,506)
Impairment allowance on specific basis	(813)	721	-	-	-	(92)
Profit / (loss) for the year	3,291	23,973	10,843	(7,320)	(650)	30,137
Income tax expense	-	-	-	(3,266)	-	(3,266)
Segment profit /(loss) for the year	3,291	23,973	10,843	(10, 586)	(650)	26,871
Segment assets						
Cash and balances with central bank	-	-	-	100,548	5,522	106,070
Due from banks and other money market placements	-	-	231,270	-	31,078	262,348
Loans and advances (net)	417,658	763,992	87,140	-	9,488	1,278,278
Investment securities	-	-	203,198	-	3,018	206,216
Property, equipment and fixtures	-	-	-	11,591	1,643	13,234
Investment properties	-	-	-	2,900	-	2,900
Other assets	-	-	-	16,211	363	16,574
Total	417,658	763,992	521,608	131,250	51,112	1,885,620
Segment liabilities						
Due to banks and other money market borrowings	-	-	222,836	-	16,050	238,886
Customers' deposits	248,238	333,021	782,052	-	19,315	1,382,626
Other liabilities	-	-	-	32,425	3,264	35,689
Subordinated loan	-	-	-	50,000	-	50,000
Compulsory convertible bonds	-	-	-	7,150	-	7,150
Total	248,238	333,021	1,004,888	89,575	38,629	1,714,351
Share holders equity	-	-	-	161,135	10,134	171,269
Total	248,238	333,021	1,004,888	250,710	48,763	1,885,620

* FIG stands for Financial Institution Group

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E Segment information (continued)

31 December 2012

	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	19,212	18,248	10,977	(6,543)	-	41,894
Net income from Islamic banking financing and investing activities	-	-	-	-	-	-
Other operating income	3,362	4,280	2,781	-	-	10,423
Operating income	22,574	22,528	13,758	(6,543)	-	52,317
Operating expense	(17,825)	(3,805)	(2,043)	-	-	(23,673)
Operating profit /(loss)	4,749	18,723	11,715	(6,543)	-	28,644
Impairment on investment	-	-	(17)	-	-	(17)
Impairment allowance on portfolio basis	-	-	-	(1,351)	-	(1,351)
Impairment allowance on specific basis	(933)	(80)	(347)	-	-	(1,360)
Profit / (loss) for the year	3,816	18,643	11,351	(7,894)	-	25,916
Income tax expense	-	-	-	(2,905)	-	(2,905)
Segment profit /(loss) for the year	3,816	18,643	11,351	(10,799)	-	23,011
Segment assets						
Cash and balances with central bank	-	-	-	121,746	-	121,746
Due from banks and other money market placements	-	-	335,389	-	-	335,389
Loans and advances (net)	368,936	671,003	106,084	-	-	1,146,023
Investment securities	-	-	152,686	-	-	152,686
Property, equipment and fixtures	-	-	12,187	-	-	12,187
Investment properties	-	-	2,900	-	-	2,900
Other assets	-	-	16,235	-	-	16,235
Total	368,936	671,003	625,481	121,746	-	1,787,166
Segment liabilities						
Due to banks and other money market borrowings	-	-	224,048	-	-	224,048
Customers' deposits	221,485	303,923	811,992	-	-	1,337,400
Other liabilities	-	-	-	30,838	-	30,838
Subordinated loans	-	-	-	50,000	-	50,000
Compulsorily convertible bonds	-	-	-	-	-	-
Total	221,485	303,923	1,036,040	80,838	-	1,642,286
Share holders equity	-	-	-	144,880	-	144,880
Total	221,485	303,923	1,036,040	225,718	-	1,787,166

* FIG stands for Financial Institution Group

E Segment information (continued)

	31 December 2013					
	Retail Banking USD'000	Wholesale Banking USD'000	Investments FIG* & Treasury USD'000	Head Office USD'000	Islamic Banking USD'000	Total USD'000
Net interest income	51,932	50,639	25,823	(15,340)	-	113,054
Net income from Islamic banking financing and investing activities		-	-	-	982	982
Other operating income	9,226	17,702	12,706	-	122	39,756
Operating income	61,158	68,341	38,529	(15,340)	1,104	153,792
Operating expense	(50,499)	(7,945)	(10,367)	-	(2,553)	(71,364)
Operating profit /(loss)	10,659	60,396	28,162	(15,340)	(1,449)	82,428
Impairment allowance on portfolio basis	-	-	-	(3,672)	(239)	(3,911)
Impairment allowance on specific basis	(2,112)	1,873	-	-	-	(239)
Profit / (loss) for the year	8,547	62,269	28,162	(19,012)	(1,688)	78,278
Income tax expense		-	-	(8,483)	-	(8,483)
Segment profit /(loss) for the year	8,547	62,269	28,162	(27,495)	(1,688)	69,795
Segment assets						
Cash and balances with central bank	-	-	-	261,163	14,343	275,506
Due from banks and other money market placements	-	-	600,701	-	80,722	681,423
Loans and advances (net)	1,084,826	1,984,395	226,337	-	24,645	3,320,203
Investment securities	-	-	527,787	-	7,839	535,626
Property, equipment and fixtures	-	-	-	30,106	4,268	34,374
Investment properties	-	-	-	7,532	-	7,532
Other assets	-	-	-	40,415	2,634	43,049
Total	1,084,826	1,984,395	1,354,825	339,216	134,451	4,897,713
Segment liabilities						
Due to banks and other money market borrowings	-	-	578,795	-	41,688	620,483
Customers' deposits	644,774	864,990	2,031,306	-	50,166	3,591,236
Other liabilities	-	-	-	84,218	8,481	92,699
Subordinated loan	-	-	-	129,870	-	129,870
Compulsorily convertible bonds	-	-	-	18,571	-	18,571
Total	644,774	864,990	2,610,101	232,659	100,335	4,452,859
Share holders equity				418,532	26,322	444,854
Total	644,774	864,990	2,610,101	651,191	126,657	4,897,713

* FIG stands for Financial Institution Group

E Segment information (continued)	31 December 2012					
	Retail banking	Wholesale Banking	Investments FIG* & Treasury	Head Office	Islamic Banking	Total
	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000
Net interest income	49,901	47,397	28,512	(16,995)	-	108,815
Net income from Islamic banking financing and investing activities	-	-	-	-	-	-
Other operating income	8,733	11,117	7,223	-	-	27,073
Operating income	58,634	58,514	35,735	(16,995)	-	135,888
Operating expense	(46,299)	(9,883)	(5,306)	-	-	(61,488)
Operating profit /(loss)	12,335	48,631	30,429	(16,995)	-	74,400
Impairment on investment	-	-	(43)	-	-	(43)
Impairment allowance on portfolio basis	-	-	-	(3,510)	-	(3,510)
Impairment allowance on specific basis	(2,423)	(209)	(901)	-	-	(3,533)
Profit / (loss) for the year	9,912	48,422	29,485	(20,505)	-	67,314
Income tax expense	-	-	-	(7,545)	-	(7,545)
Segment profit /(loss) for the year	9,912	48,422	29,485	(28,050)	-	59,769
Segment assets						
Cash and balances with central bank	-	-	-	316,223	-	316,223
Due from banks and other money market placements	-	-	871,140	-	-	871,140
Loans and advances - net	958,275	1,742,865	275,543	-	-	2,976,683
Available for sale investments	-	-	396,588	-	-	396,588
Property, equipment and fixtures	-	-	31,655	-	-	31,655
Investment properties	-	-	7,532	-	-	7,532
Other assets	-	-	42,169	-	-	42,169
Total	958,275	1,742,865	1,624,627	316,223	-	4,641,990
Segment liabilities						
Due to banks and other money market borrowings	-	-	581,943	-	-	581,943
Customers' deposits	575,286	789,410	2,109,070	-	-	3,473,766
Other liabilities	-	-	-	80,099	-	80,099
Subordinated loan	-	-	-	129,870	-	129,870
Compulsorily convertible bonds	-	-	-	-	-	-
Total	575,286	789,410	2,691,013	209,969	-	4,265,678
Share holders equity		-	-	376,312	-	376,312
Total	575,286	789,410	2,691,013	586,281	-	4,641,990

* FIG stands for Financial Institution Group

SOHAR ISLAMIC
(ISLAMIC BANKING WINDOW OF BANK SOHAR SAOG)

FINANCIAL STATEMENTS
FOR THE PERIOD FROM 30 APRIL 2013 TO 31 DECEMBER 2013

Registered office and principal place of business:

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

pwc

Independent auditor's report to the shareholders of SOHAR ISLAMIC (ISLAMIC BANKING WINDOW OF BANK SOHAR SAOG)

Report on the financial statements

We have audited the accompanying carve-out statement of financial position of the Islamic Banking Window of Bank Sohar SAOG ["the Window"] as of 31 December 2013, and the related carve-out statements of income, carve-out cash flows and carve-out changes in equity for the period then ended as described in note 2.1 to the financial statements. These financial statements and the Window's undertaking to operate in accordance with Islamic Shari'a Rules and Principles are the responsibility of the Bank's Board of Directors. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Auditing Standards for Islamic Financial Institutions issued by the Accounting and Auditing Organisation for Islamic Financial Institutions ["AAOIFI"]. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Bank's Board of Directors, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion, the carve-out financial statements present fairly, in all material respects, the carve-out financial position of the Window as of 31 December 2013, the carve-out results of its operations, its cash flows and changes in equity for the period then ended in accordance with the Financial Accounting Standards issued by AAOIFI.

Other legal and regulatory requirements

As required by Article 1.4.3 of Title 3 'Accounting Standards and Auditor Reports' of Islamic Banking Regulatory Framework (IBRF), we report that, we have:

a) received all required information and explanations to prepare the report; and
b) carried out any other procedures considered necessary as required by AAOIFI and the Central Bank of Oman.

Emphasis of matter

Without qualifying our opinion, we draw attention to the fact that, as described in note 2.1, the Window of Bank Sohar SAOG has not operated as a separate entity. These carve-out financial statements are, therefore, not necessarily indicative of results that would have occurred if the Window of Bank Sohar SAOG had been a separate stand-alone entity during the period presented of the Window.

PricewaterhouseCoopers LLP

6 March 2014
Muscat, Sultanate of Oman

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SOHAR ISLAMIC
(ISLAMIC BANKING WINDOW OF BANK SOHAR SAOG)

STATEMENT OF COMPREHENSIVE INCOME
FOR THE PERIOD FROM 30 APRIL 2013 TO 31 DECEMBER 2013

Period from 30 April to 31 December 2013 (Note 1) USD'000		Note	Period from 30 April to 31 December 2013 (Note 1) RO'000
400	Income from financing activities	C 1	154
732	Income from investing activities	C 2	282
1,132	**Total income from financing and investing activities**		**436**
47	Return to investment account holders		(18)
(23)	Mudarib share from investment account holders		9
24	**Share of investment account holders' profit for the period**	C 4	(9)
114	Fee and commission - net		44
9	Foreign exchange gain - net		3
1,231			474
(127)	Profit on due to Banks under wakala arrangements		(49)
1,104	**Net income**		**425**
(1,078)	Staff costs		(415)
(1,252)	Other operating expenses	C 3	(482)
(223)	Depreciation	B 6	(86)
(2,553)	**Total expenses**		**(983)**
(239)	Net impairment loss on financing assets	B3, B 4	(92)
(1,688)	**Loss for the period**		**(650)**

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SOHAR ISLAMIC
(ISLAMIC BANKING WINDOW OF BANK SOHAR SAOG)

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2013

2013 USD'000		Note	2013 RO'000
	ASSETS		
14,343	Cash and balances with central banks	B 1	**5,522**
80,722	Due from banks and financial institutions	B 2	**31,078**
655	Murabaha receivables	B 3	**252**
23,990	Ijarah muntahia bittamleek	B 4	**9,236**
7,839	Investment securities	B 5	**3,018**
4,268	Fixed assets	B 6	**1,643**
2,634	Other assets	B 7	**1,014**
134,451	**TOTAL ASSETS**		**51,763**
	LIABILITIES		
49,481	Due to banks and financial institutions	B 8	**19,050**
40,543	Customers' current accounts	B 9	**15,609**
8,479	Other liabilities	B 10	**3,264**
98,503	**TOTAL LIABILITIES**		**37,923**
9,626	**EQUITY OF INVESTMENT ACCOUNTHOLDERS**	B 11	**3,706**
	OWNERS' EQUITY		
25,974	Assigned capital	B 12 (a)	**10,000**
348	Legal reserve	B 12 (b)	**134**
1,688	General reserve	B 12 (c)	**650**
(1,688)	Loss for the period		**(650)**
26,322	**TOTAL OWNERS' EQUITY**		**10,134**
134,451	**TOTAL LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS AND OWNERS' EQUITY**		**51,763**

These financial statements were approved and authorised for issue by the Board of Directors on 29 January 2014 and signed on their behalf by:

__________________________ __________________________

Chairman **Deputy Chairman**

Report of the Auditors - page 1

SOHAR ISLAMIC
(ISLAMIC BANKING WINDOW OF BANK SOHAR SAOG)

STATEMENT OF OWNERS' EQUITY
FOR THE PERIOD FROM 30 APRIL 2013 TO 31 DECEMBER 2013

	Note	Assigned capital RO'000	Legal reserve RO'000	General reserve RO'000	Loss for the period RO'000	Total RO'000
Capital assigned by head office through right issue of shares	B12	**10,000**	**-**	**-**	**-**	**10,000**
Issue related costs received - net		**-**	**134**	**-**	**-**	**134**
Net loss for the period		**-**	**-**	**-**	**(650)**	**(650)**
Reserve allocated by the head office	B7	**-**	**-**	**650**		**650**
Balance as at 31 December 2013		**10,000**	**134**	**650**	**(650)**	**10,134**

	Note	Assigned capital USD'000	Legal reserve USD'000	General reserve USD'000	Loss for the period USD'000	Total USD'000
Capital assigned by head office through right issue of shares	B12	**25,974**	**-**	**-**	**-**	**25,974**
Issue related costs received - net		**-**	**348**	**-**	**-**	**348**
Net loss for the period		**-**	**-**	**-**	**(1,688)**	**(1,688)**
Reserve allocated by the head office	B7	**-**	**-**	**1,688**		
Balance as at 31 December 2013		**25,974**	**348**	**1,688**	**(1,688)**	**26,322**

Report of the Auditors - page 1

SOHAR ISLAMIC
(ISLAMIC BANKING WINDOW OF BANK SOHAR SAOG)

STATEMENT OF CASH FLOWS
FOR THE PERIOD FROM 30 APRIL 2013 TO 31 DECEMBER 2013

Period from 30 April to 31 December 2013 (Note 1) USD'000		Period from 30 April to 31 December 2013 (Note 1) RO'000
	Cash flows from operating activities	
(1,688)	Net loss for the period	**(650)**
	Adjustments for:	
223	Depreciation and amortisation	**86**
239	Net impairment loss on financing assets	**92**
(1,226)	***Operating loss before changes in operating assets and liabilities***	**(472)**
	Changes in operating assets and liabilities	
(29,980)	Due from banks and financial institutions	**(11,542)**
(668)	Murabaha receivables	**(257)**
(24,216)	Ijarah muntahia bittamleek	**(9,323)**
17,792	Due to banks and financial institutions	**6,850**
40,543	Customer current accounts	**15,609**
(945)	Other assets	**(364)**
619	Other liabilities	**238**
1,919	**Net cash from operating activities**	**739**
	Cash flows from investing activities	
(4,491)	Acquisition of fixed assets	**(1,729)**
	Cash flows from financing activities	
9,626	Change in investment accounts	**3,706**
26,323	Assigned capital net of issue expenses	**10,134**
35,949	**Net cash from financing activities**	**13,840**
33,377	**Net increase in cash and cash equivalents**	**12,850**
33,377	**Cash and cash equivalents at 31 December**	**12,850**
	REPRESENTING:	
14,343	Cash and balances with Central Banks	**5,522**
50,722	Due from banks and other money market lending	**19,528**
(31,688)	Due to banks and other money market borrowings	**(12,200)**
33,377		**12,850**

A1 INCORPORATION, LEGAL STATUS AND PRINCIPAL ACTIVITIES

Bank Sohar SAOG (the head office) under an Islamic Banking License issued by the Central Bank of Oman (CBO) on 30 April 2013, carries out Islamic banking operations and other financial trading activities in accordance with Islamic Shari'a rules and regulations under the name of "Sohar Islamic" (the Window). The Bank's Shari'a Supervisory Board is entrusted to ensure the Window's adherence to Shari'a rules and principles in its transactions and activities. As required under clauses 3.5.1.2 and 3.5.1.3 of Title 1,'*Licensing Requirements*' of Islamic Banking Regulatory Framework (IBRF) issued by CBO, the head office raised RO 10 million through right issue and assigned this amount to the Window as assigned capital.

The Window offers a full range of Islamic banking services and products. The principal activities of the Window include accepting Shari'a compliant customer deposits, providing Shari'a compliant financing based on Murabaha, Mudaraba, Musharaka, Ijarah, Salam and providing commercial banking services, investment activities permitted under IBRF. As this is the first year of the Window operations, there are no comparative amounts.

A2 BASIS OF PREPARATION

A2.1 Statement of compliance

The financial statements for the Window are prepared in accordance with the Financial Accounting Standards (FAS) issued by the Accounting and Auditing Organisation for Islamic Financial Institutions ("AAOIFI"), the Islamic Shari'a rules and principles as determined by the Shari'a Supervisory Board of the Window and Islamic Banking Regulatory Framework issued by CBO. In accordance with the requirement of AAOIFI, for matters not covered by FAS, the Window uses standards issued by the International Accounting Standards Board (IASB) and the interpretations released by the International Financial Reporting Interpretations Committee and will be replaced later by FAS when an applicable FAS is issued.

The Window has not operated as a separate legal entity. The separate financial statements of the Window has been prepared to comply with the requirement of Articles 1.5.1.2 to 1.5.1.4 of Title 2 'General Obligations and Governance' of IBRF issued by CBO.

A2.2 Basis of measurement

The financial statements have been prepared under the historical cost basis except for derivative financial instruments which has been measured at fair value. These financial statements are presented in Rial Omani, which is the Window'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 off to the nearest thousands.

A2.3 Use of Judgments and estimates

In the process of applying the Window's accounting policies, management uses judgments and makes estimates in determining the amounts recognized in the financial statements. These estimates and assumptions effect the amount of assets and liabilities and disclosure of contingent liabilities, as these estimates and interpretations effect revenues, expenses and allowances, as well as changes in fair value.

Estimates and underlying assumptions are reviewed on regular basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected. The most significant uses of judgments and estimates are as follows:

Impairment provisions against financing contracts with customers

The Window reviews its financing contracts at each reporting date to assess whether an impairment provision should be recorded in the financial statements. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of provision required. Such estimates are based on assumptions about factors involving varying degrees of judgment and uncertainty and actual results may differ resulting in future changes to the provisions.

A2 BASIS OF PREPARATION (continued)

A2.3 Use of Judgments and estimates

In addition to specific provisions against individually significant financing contracts, the Window also makes collective impairment provision against exposures which, although not specifically identified as requiring a specific provision, have a greater risk of default than when originally granted. This takes into consideration, factors such as any deterioration in country risk, industry, and technological obsolescence, as well as identified structural weaknesses or deterioration in cash flows.

Classification of investments

Management decides upon acquisition of an investment whether it should be classified as fair value through statement of income, fair value through equity or at amortised cost.

Liquidity

The Window manages its liquidity through consideration of the maturity profile of its assets and liabilities which is set out in the liquidity risk disclosures in note D2.2. This requires judgment when determining the maturity of assets and liabilities with no specific maturities.

A2.3 Standards, amendments and interpretations effective in 2013 and relevant for the Window's operations

AAOIFI issued a new Financial Accounting Standard (FAS 26) "Investment in real estate", which is effective for period beginning on and after 1 January 2014.

The Window has adopted FAS 26 issued by AAOIFI which covers the recognition, measurement, presentation and disclosure of investment in real estate that is acquired for the purpose of earning periodical income or held for future capital appreciation or both.

IASB has also issued the following new standards and amendments which are effective for the period beginning on and after 1 January 2013:

- IFRS 9, 'Financial instruments part 1: Classification and measurement', (effective on or after 1 January 2015);
- IAS 32 – Financial Instruments (amendments): Presentation (effective on or after 1 January 2014)
- IAS 36 (amendments), 'Impairment of assets (effective on or after 1 January 2014)
- IAS 39 (amendments) 'Financial instruments: Recognition and measurement', on novation of derivatives and hedge accounting (effective on or after 1 January 2014).
- IAS 19 (amendments) Employee benefits, regarding defined benefit plans (effective on or after 1 July 2014).
- IFRIC 21, 'Levies' (effective on or after 1 January 2014).

The adoption of these standards should not have any impact on the accounting policies, financial position or performance of the Window.

A3 Significant accounting policies

The significant accounting policies adopted in the preparation of the financial statements are set out below:

A3.1 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and balances with central bank and placements with banks and financial institutions that mature within three months, less borrowings with banks and financial institutions accounts that mature within three months and restricted balances.

A3.2 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 profit 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. 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 Significant accounting policies (continued)

A3.1 Investments

Classification

a. Debt-type instruments are investments that have terms that provide fixed or determinable payments of profits and capital.

b. Equity-type instruments are investments that do not exhibit features of debt-type instruments and include instruments that evidence a residual interest in the assets of an entity after deducting all its liabilities. Investments in debt-type instruments are classified into the following categories:

1) At amortised cost
2) At fair value through statement of income

A debt-type investment is classified and measured at amortised cost only if the instrument is managed on a contractual yield basis or the instrument is not held for trading and has not been designated at fair value through statement of income.

Debt-type investments classified and measured at fair value through income statement include investments held for trading or designated at fair value through statement of income.

At inception, a debt-type investment managed on a contractual yield basis can only be designated at fair value through income statement if it eliminates an accounting mismatch that would otherwise arise on measuring the assets or liabilities or recognising the gains or losses on them on different bases.

Investments in equity type instruments are classified into the following categories:

1) At fair value through income statement
2) At fair value through equity

Equity-type investments classified and measured at fair value through income statement include investments held for trading or designated at fair value through statement of income.

An investment is classified as held for trading if acquired or originated principally for the purpose of generating a profit from short-term fluctuations in price or dealer's margin. Any investments that form part of a portfolio where there is an actual pattern of short-term profit taking are also classified as 'held for trading'.

Equity-type investments designated at fair value through income statement include investments which are managed and evaluated internally for performance on a fair value basis.

On initial recognition, the Window makes an irrevocable election to designate certain equity instruments that are not to be designated at fair value through income statement and are to be classified as investments at fair value through equity.

Recognition and de-recognition

Investment securities are recognised at the trade date i.e. the date that the Window contracts to purchase or sell the asset, at which date the Window becomes party to the contractual provisions of the instrument. Investment securities are derecognised when the rights to receive cash flows from the financial assets have expired or where the Window has transferred substantially all risk and rewards of ownership.

Measurement

Initial recognition

Investment securities are initially recognised at fair value plus transaction costs, except for transaction costs incurred to acquire investments at fair value through income statement which are charged to the statement of income.

A3 Significant accounting policies (continued)

A3.3 Investments (continued)

Subsequent measurement

Investments at fair value through income statement are re measured at fair value at the end of each reporting period and the resultant re measurement gains or losses is recognised in the income statement in the period in which they arise.

Subsequent to initial recognition, investments classified at amortised cost are measured at amortised cost using the effective profit method less any impairment allowance. All gains or losses arising from the amortisation process and those arising on de-recognition or impairment of the investments, are recognised in the statement of income.

Investments at fair value through equity are subsequently measured at their fair values at the end of each reporting period and the resultant gain or loss, arising from a change in the fair value of investments are recognised in the statement of changes in owners' equity and presented in a separate fair value reserve within equity. When the investments classified as fair value through equity are sold, impaired, collected or otherwise disposed of, the cumulative gain or loss previously recognised in the statement of changes in equity is transferred to the statement of income.

Investments which do not have a quoted market price or other appropriate methods to fair value them on a continuous basis are stated at cost less impairment allowance, (if any).

Measurement principles

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 capital repayments, plus or minus the cumulative amortisation using the effective profit method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment. The calculation of the effective profit rate includes all fees and points paid or received that are an integral part of the effective profit rate.

Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Quoted investments are marked to market using the market price for that instrument at the close of business as of the reporting date. 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 another instrument, which is substantially the same or is based on the assessment of future cash flows discounted at current profit rates for contracts with similar term and risk characteristics.

A3.4 Financing assets

Financing assets comprise Shari'a compliant financing provided by the Window with fixed or determinable payments. These include financing provided through Murabaha, Mudaraba, Musharaka, Musawama, Ijarah and other modes of Islamic financing. Financing assets are stated at their amortised cost less impairment allowances (if any).

Murabaha

Murabaha receivables are sales on deferred terms. The Window's arranges a Murabaha transaction by buying a commodity (which represents the object of the Murabaha) and selling it to the Murabeh (a beneficiary) at a margin of profit over cost. The sales price (cost plus the profit margin) is repaid in instalments by the Murabeh over the agreed period. Murabaha receivables are stated net of deferred profits and impairment allowance (if any). Any promise made by potential Murabeh is considered obligatory.

A3 Significant accounting policies (continued)

A3.4 Financing assets (continued)

Mudaraba

Mudaraba is stated at the fair value of consideration given less any impairment.

Mudaraba is a form of partnership between work and capital in which the Window contributes capital. Mudaraba capital provided by the Window at inception in kind (if other than cash) is measured at the fair value of the assets. If the valuation of assets results in difference between fair value and book value, such difference is recognised as profit or loss to the Window.

In case mudaraba capital is lost or damaged prior to the inception of work without misconduct or negligence on the part of mudarib, then such losses are deducted from mudaraba capital and are treated as loss to the Window. In case of termination or liquidation, unpaid portion by mudarib is recognised as receivable due from mudarib.

Musharaka

Musharaka contracts represents a partnership between the Window and a customer whereby each party contributes to the capital in equal or varying proportions to establish a new project or share in an existing one, and whereby each of the parties becomes an owner of the capital on a permanent or declining basis and shall share profits or losses. These are stated at the fair value of consideration given less any amounts written off and provision for impairment, if any. In Diminishing Musharaka based transactions, Window enters into a Musharaka based on Shirkat-ul-milk for financing an agreed share of fixed asset (e.g. house, land, plant or machinery) with its customers and enters into period profit payment agreement for the utilisation of Window's Musharaka share by the customer.

Ijarah muntahia bittamleek

These are initially recorded at cost including initial direct costs. Ijarah muntahia bittamleek is a lease whereby the legal title of the leased asset passes to the lessee at the end of the ijarah (lease term), provided that all ijarah installments are settled.

Depreciation is charged on Ijarah muntahia bittamleek assets at rates calculated to write off the cost of each asset over its lease term.

Ijarah income receivables represent outstanding rentals at the end of the year less any provision for doubtful amount. The ijarah income receivable is classified under other asset.

Salam

In a Salam contract a buyer pays in advance for a specified quantity and quality of a commodity, deliverable on a specific date, at an agreed spot price. Salam is particularly applicable to seasonal agricultural purchases and can be used as a means of financing production. The price is paid at the time of the contract but the delivery would take place at a future date which enables an entrepreneur to sell his output to the Window at a price determined in advance. However, at the time of sale all specifications, quality and quantity of the commodity must be determined to avoid any ambiguity which could become a cause of dispute. Furthermore, date and time of delivery must also be agreed upon but can be changed with mutual consent of the parties. Salam contracts are recognised on the date at which they are originated and are carried at their cost less impairment allowances, if any.

A3 Significant accounting policies (continued)

A3.5 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. 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
Computer software	10

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

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

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

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 Window 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.

A3.6 Taxation

The tax return of the Bank is filed at head office level and the Window is not required to file a separate return on the activities of the Islamic Banking operations.

A3.7 Employee benefits

End of service benefits
End of service indemnity for Omani employees are contributed in accordance with the terms of the Social Securities Law of 1991.

Provision for end of service indemnity for non-Omani employees has been made in accordance with the terms of the Oman Labour Law 2003 and its amendments and is based on current remuneration rates and cumulative years of service at the statement of financial position date. Employees' entitlements to annual leave and leave passage are recognised when they accrue to the employees up to the reporting date. These accruals are included in current liabilities, while that relating to end of service benefits is disclosed as a non-current liability.

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

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 Window has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

A3 Significant accounting policies (continued)

A3.8 Impairment losses on financing and receivables

The Window follows IFRS and CBO guidelines in assessing the impairment against non-performing loans. The Window reviews its assets portfolios to assess impairment on a monthly basis. In determining whether an impairment loss should be recorded in the Income Statement , the Window 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 financing and receivables which are impaired, the necessary impairment loss is considered based on the future cash flow estimates. Individually significant financing and receivables which are not impaired and all individually insignificant financing and receivables 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 is to be made. In determining collective impairment loss, the Window takes into account several factors including credit quality, concentration risk, levels of past due balances, sector performance, available collateral and macro economic conditions.

A3.9 Customer current accounts

Balances in current accounts are recognised when received by the Window. The transactions are measured as the amount received by the Window at the time of contracting. At the end of the reporting period, these accounts are measured at amortised cost.

A3.10 Equity of unrestricted investment account holders

The Window charges a management fee (Mudarib fee) to the unrestricted investment account holders. Of the total income from investments of funds, the income attributable to the unrestricted investment account holders is assigned to them after setting aside provisions, reserves (profit equalisation reserve and investment risk reserve) if any and deducting the Window’s share of income as a Mudarib. The allocation of income is determined by the management of the Window within the allowed profit sharing limits as per the terms and conditions of the unrestricted investment accounts.

A3.11 Due to and due from banks

Due to and due from banks and financial institutions comprise of wakala payables and receivables. Wakala payables and receivables are initially recognised at cost, being the fair value of consideration exchanged. Subsequently, they are carried at amortised cost less amounts repaid.

A3.12 Revenue recognition

Mudaraba
Income on Mudaraba financing is recognised when the right to receive payment is established or on distribution by the Mudarib. Losses on the other hand are charged to the income statement on declaration by the Mudarib. In case the Mudaraba capital is lost or damaged prior to the inception of work without misconduct or negligence on the part of the Mudarib, then such losses are deducted from the Mudaraba capital and are treated as a loss to the Window. In case of termination or liquidation, the unpaid portion by Mudarib is recognized as receivable due from the Mudarib.

3. Significant accounting policies (continued)

A3.12 Revenue recognition (continued)

Musharaka
Income on musharaka is recognised when the right to receive payment is established or on distribution. In case of losses in musharaka, the Window's share of loss is recognised to the extent that such losses are being deducted from its share of the musharaka capital.

Profit on sukuks
Profit on Sukuks is recognized on an accrual basis. Where Sukuks are purchased at a premium or discount and are classified at amortised cost, those premiums / discounts are amortised over the remaining maturity, using the effective profit rate method.

Ijarah
Ijarah income is recognised on a time apportioned basis over the Ijarah term and is stated net of depreciation and impairment. Income related to non performing ijarah muntahia bittamleek accounts and ijarah installments that are above 90 days is excluded from the statement of income.

Fees and commission income
Fees and commission income that are integral to the effective profit rate of a financial asset carried at amortised cost are included in the measurement of the effective profit rate of the financial asset. Other fees and commission income, including account servicing fees, sales commission, management, arrangement and syndication fees, are recognised as the related services are performed.

Window's share of income from equity of investment accountholders (as Rabalmal and Mudarib)
Income is allocated proportionately between equity of investment accountholders and shareholders on the basis of their respective investment in the pool before allocation of the Mudarib fees. The Window’s share as a Mudarib for managing the equity of investment accountholders is accrued based on the terms and conditions of the related Mudaraba agreements.

Salam
Income from salam is determined by using the percentage of completion method.

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

Profit on amounts due from banks and financial institutions
Profit on amounts due from banks and financial institutions is recognised on a time apportioned basis over the period of the contract based on the principal amounts outstanding and the profit agreed with clients.

A3.13 Expense recognition

Return on equity of investment accountholders
Return on equity of investment accountholders is calculated based on the income generated from joint investment accounts after deducting the expenses related to investment pool i.e. "mudarib expenses". Mudarib expenses include all expenses incurred by the Window, but excluding staff costs and other administrative expenses. The Window's "mudarib profit" is deducted from the investors' share of income before distributing such income.

3. Significant accounting policies (continued)

A3.14 Earnings or expenditures prohibited by Sharia

The Window records these amounts in a separate account in the other payables and is not included in the Window's revenues; these amounts are distributed to charities according to the Sharia Supervisory Board directions.

A3.15 Financial guarantees

In the ordinary course of business, the Window gives financial guarantees, consisting of letters of credit, guarantees and acceptances.

Financial guarantees are initially recognized in the financial statements at fair value, being the premium received at the date the guarantee was given, and the initial fair value is amortised over the life of the financial guarantee. Subsequent to initial recognition, the Window's liability under such guarantees are measured at the higher of the amortised amount and the best estimate of the expenditure required to settle any financial obligation arising at the reporting date. These estimates are determined based on experience of similar transactions and history of past losses, supplemented by the judgment of Management.

A3.16 Contingent liabilities

Contingent liabilities include guarantees, letter of credit, the Window's obligations with respect to unilateral promise to buy/sell currencies and others. Contingent liabilities are not recognized in the statement of financial position but are disclosed in the notes to the financial statements, unless they are remote.

A3.17 Shari'a supervisory board

The Window's business activities are subject to the supervision of a Shari'a supervisory board consisting of members appointed by the general assembly of shareholders.

A3.18 Offsetting

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

A3.19 Zakah

In accordance with the article of association Zakah is payable individual shareholders of the Bank and zakah on unrestricted investment and other accounts is the responsibility by investment accountholders.

A3.20 Joint and self-financed

Assets that are jointly financed by the Window and the equity of investment accountholders are disclosed as "jointly financed" in the financial statements and assets that are financed solely by the Window are classified under "self financed".

B 1 Cash and balances with central banks

2013 USD'000		2013 RO'000
	Balances with CBO:	
11,166	- current account	**4,299**
1,642	- cash reserve	**632**
1,535	Cash	**591**
14,343		**5,522**

The cash reserve with the Central Bank of Oman cannot be withdrawn without its approval.

B 2 Due from banks

2013 USD'000		2013 RO'000
80,000	Wakalah placements with banks	**30,800**
722	Demand accounts	**278**
80,722		**31,078**

B 3 Murabaha receivables

2013 USD'000		2013 RO'000
738	Murabaha receivables	**284**
(70)	Deferred profit	**(27)**
(13)	Provision for impairment	**(5)**
655	Net Murabaha receivables	**252**
655	Equity financed	**252**

B 4 Ijarah muntahia bittamleek

2013 USD'000		2013 RO'000
22,945	Assets acquired during the period	**8,834**
(335)	Depreciation charged during the period	**(129)**
22,610	Net book value	**8,705**
(226)	Provision for impairment	**(87)**
1,606	Advance against future ijarah	**618**
23,990	Total net book value	**9,236**
13,013	Jointly financed	**5,010**
10,977	Equity financed	**4,226**
23,990		**9,236**

B 5 Investment securities

2013 USD'000		2013 RO'000
	Sukuk	
7,839	Unquoted fixed rate Debt-type investments classified at amortised cost (secured)	**3,018**

The Sukuk trust certificates (Sukuk Al-Ijara) were issued on 3 October 2013 by Modern Sukuk SAOC, a Special Purpose Entity (SPE) of Al Madina Investment SAOG, Oman. Pending listing of the Sukuk on the Muscat Security Market (MSM), the certificates are yet to be registered in the name of the Window. The certificates are for a period of 5 years and carry fixed profit rate of 5% per annum.

B 6 Fixed assets

	Computer software RO'000	Furniture and fixtures RO'000	Office equipment RO'000	Motor vehicle RO'000	Capital work in-progress RO'000	Total RO'000
Cost:						
Transferred from head office	-	56	70	24	452	**602**
Additions	1,006	241	291	63	1,149	**2,750**
Disposals/transfers	-	-	-	-	(1,601)	**(1,601)**
As at 31 December 2013	**1,006**	**297**	**361**	**87**	**-**	**1,751**
Accumulated depreciation:						
Transferred from head office	-	(7)	(9)	(6)	-	**(22)**
Charge for the period	(27)	(26)	(24)	(9)	-	**(86)**
As at 31 December 2013	**(27)**	**(33)**	**(33)**	**(15)**	**-**	**(108)**
Net Book Value at 31 December 2013	**979**	**264**	**328**	**72**	**-**	**1,643**

	Production software USD'000	Furniture & fixtures USD'000	Office equipment USD'000	Motor vehicle USD'000	Capital work in progress USD'000	Total USD'000
Cost:						
Transferred from head office	-	145	182	62	1,174	**1,563**
Additions	2,613	626	756	164	2,984	**7,143**
Disposals/ transfers	-	-	-	-	(4,158)	**(4,158)**
As at 31 December 2013	**2,613**	**771**	**938**	**226**	**-**	**4,548**
Accumulated depreciation:						
Transferred from head office	-	(18)	(23)	(16)	-	**(57)**
Charge for the period	(70)	(68)	(62)	(23)	-	**(223)**
As at 31 December 2013	**(70)**	**(86)**	**(85)**	**(39)**	**-**	**(280)**
Net book value at 31 December 2013	**2,543**	**685**	**853**	**187**	**-**	**4,268**

B7 Other Assets

2013 USD'000		2013 RO'000
1,688	Receivable from head office	650
510	Other	196
436	Profit receivable	168
2,634		1,014

B 8 Due to banks and financial institutions

2013 USD'000		2013 RO'000
49,481	Wakalah payable	19,050

Wakalah payable includes various facilities with a fixed profit rate ranging from 0.1% – 0.75%. The maturity of the Wakalah payables ranges from 1 week to 6 months.

B 9 Customer current accounts

2013 USD'000		2013 RO'000
	Current accounts by sector:	
28,958	- corporate	11,149
11,585	- individuals	4,460
40,543		15,609

B 10 Other liabilities

2013 USD'000		2013 RO'000
7,860	Payable for sukuk purchases (see note B5)	3,026
39	Staff entitlements	15
23	Due to head office	9
9	Profit payable	3
548	Other	211
8,479		3,264

B 11 Equity of investment account holders

2013 USD'000	**By type:**	2013 RO'000
9,153	Saving accounts	3,524
473	Term accounts	182
9,626		3,706

B 12 OWNERS' EQUITY

(a) Assigned Capital

As required under clauses 3.5.1.2 and 3.5.1.3 of Title 1,'*Licensing Requirements*' of IBRF, the head office assigned capital of RO 10 million to the Window. The head office raised through a rights issue of shares.

(b) Legal reserve

As per Article 78 of Commercial Companies Law of Oman of 1974 'an additional amount within 2% of the nominal value of share may be collected for each share as issue fees. If the shares are issued at a value higher than the nominal value, the excess amount, after backing issue expenses, shall be added either to the legal reserve or a special reserve to be established as provided under Article 106 of the Law'. Accordingly, the Window has transferred the net issue proceeds to the legal reserve.

(c) General reserve

This represents retained earnings allocated from the head office.

B13 Contingent liabilities and commitments

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

2013 USD'000	By type:	2013 RO'000
25,670	Guarantees	9,883

B14 Related parties

In the ordinary course of business, the Window conducts transactions with certain of its Directors, shareholders, senior management, head office, Shari'a Supervisory Board (SSB), Shari'a reviewer and companies in which they have a significant interest. These transactions are conducted on an arm's length basis and are approved by the Window's management and Board of Directors.

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

2013 USD'000		2013 RO'000
206	Financing and advances (balance at end of period)	79
255	Financing and advances disbursed during the period	98
49	Financing and advances repaid during the period	19
16,912	Deposits (balance at end of period)	6,500
16,912	Deposits received during the period	6,500
5	Profit on financing and advances (during the period)	2
	Senior management compensation	
374	Salaries and other short term benefits	144
	Directors' sitting fees and remuneration	
140	Shari'a Supervisory Board's sitting fees and remuneration	54

B15 Fair value of financial instruments

The Window considers that the fair value of financial instruments is not significantly different to their carrying value at each of those dates. As at 31 December 2013, all the financial assets of the Window were classified as debt-type instrument.

Estimation of fair values

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

Financial assets carried at amortised cost
Financial assets at amortised cost include 'cash and balances with central banks', 'due from banks and financial institutions', 'Murabaha receivables', 'Ijarah muntahia bittamleek' and 'other assets'. Fair value is calculated based on discounted expected future principal and profit cash flows. Repayments are assumed to occur at contractual repayment dates, where applicable. For assets that do not have fixed repayment dates or that are subject to prepayment risk, repayments are estimated based on experience in previous periods when profit rates were at levels similar to current levels, adjusted for any differences in profit rate outlook.

Expected future cash flows are estimated considering credit risk and any indication of impairment.

Expected future cash flows for homogeneous categories of assets are estimated on a portfolio basis and discounted at current rates offered for similar assets to new borrowers with similar credit profiles. The estimated fair values of assets reflect changes in credit status since the assets were made and changes in profit rates in the case of fixed rate.

Financial liabilities at amortised cost (including bank and customer deposits)
Financial liabilities at amortised cost include 'due to banks and financial institutions', 'customers' current accounts', 'other liabilities'. For demand deposits and deposits with no defined maturities, fair value is taken to be the amount payable on demand at the reporting date. The estimated fair value of fixed-maturity deposits is based on discounted cash flows using rates currently offered for deposits of similar remaining maturities. The value of long-term relationships with depositors at Window level is not taken into account in estimating fair values.

Other on-balance sheet financial instruments
The fair values of all on-balance sheet financial instruments are considered to approximate their book values.

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

Financial assets carried at fair value
Financial assets at fair value includes Foreign exchange contract (and includes forwards). Foreign exchange contracts are valued based on market prices. The market value adjustments in respect of foreign exchange contracts are included in the book values of 'other assets' and 'other liabilities'.

The Window measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:
Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities.
Level 2 - Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).
Level 3 - Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

As at 31 December 2013, the window has Foreign exchange contracts which are carried at fair value.

C 1 Income from financing activities

Period from 30 April to 31 December 2013 USD'000		Period from 30 April to 31 December 2013 RO'000
390	Ijarah	150
10	Murabaha	4
400		154

C 2 Income from investing activities

Period from 30 April to 31 December 2013 USD'000		Period from 30 April to 31 December 2013 RO'000
685	Income from inter-bank wakalah placement with Islamic banks	264
47	Income from investment in debt-type instruments	18
732		282

C 3 Other operating expenses

Period from 30 April to 31 December 2013 USD'000		Period from 30 April to 31 December 2013 USD'000
857	Operating and administration costs	330
255	Establishment costs	98
140	SSB remuneration and sitting fees	54
1,252		482

C 4 Return to investment account holders and Wakalah fees

Period from 30 April to 31 December 2013 USD'000		Period from 30 April to 31 December 2013 USD'000
127	Wakala deposits from banks	49
24	Restricted investment accounts from customers	9
151		58
47	Share of investment account holders' profit for the period	18
(23)	Less: mudarib share	(9)
24	Total profit to investment account holders for the period	9

D Financial risk management

D1 Credit risk

D1.1 Credit risk in financing products

Credit risk orginates from the financing of receivables and leases (including but not limited to , Murabaha, Diminishing Musharaka and Ijarah) and financing of working capital (including but not limited to Salam). Windows acts as financier, supplier, Rabb-ul-Mal and contributor of capital in Musharaka agreement. Wondows exposes themselves with the risk of counterparty‟s failure to meet their obligations in terms of receiving deferred payment and making or taking delivery of an asset.

D1.2 Management of credit risk

The Window manages and controls credit risk by setting limits on the amount of risk it is willing to accept in terms of counterparties, product types, geographical area and industry sector. It has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. Counterparty limits are established by the use of a credit risk classification system, which assigns each counterparty a risk rating. Risk ratings are subject to regular revision by the Credit Review and Analysis Department ("CR&AD"). Any changes to the Credit Risk Policy will be approved by the Board.

Exposure limits are based on the aggregate exposure to counterparty and any connected entities. Corporate contracts/facilities are reviewed on an annual basis by CR&AD.

To cover unforeseen risk, which dries up the cash flows, additional tangible securities are taken such as real estate or equity shares. The Window implements guidelines on the acceptability of specific classes of collateral credit risk mitigation. The principal types of collaterals for financings and advances are:

- charges of assets under murabaha agreements
- ownership/title of assets under Ijarah financing

All financings and advances of the Window are regularly monitored to ensure compliance with the stipulated repayment terms. Those financings 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 the business line functions.

D Financial risk management (continued)

D1 Credit risk (continued)

D1.3 Exposure to credit risk

The credit exposure of the Window as on the reporting date is as follows:

	Murabaha receivables	Ijarah muntahia bittamleek	Wakala placements & balance with banks	Investment securities	Total
In (RO'000)	252	9,236	31,078	3,018	43,584
In (USD'000)	655	23,990	80,722	7,839	113,206

All of the above balances are catogorised as "neither past due nor impaired". Maximum exposure to credit risk before collateral held or other credit enhancements for all on-balance sheet assets are based on net carrying amounts as reported in the statement of financial position.

The maximum credit risk exposures relating to off-balance sheet items calculated as per Basel II guidelines are provided in note D5. The amounts represented in the note D5 represent a worst case scenario of credit risk exposure as of 31 December 2013, without taking into account any collateral held or other credit enhancements attached.

D1.4 Credit rating analysis

The table below presents an analysis of debt securities, treasury bills and other eligible bills by rating agency designation at 31 December 2013, based on Moody's ratings or equivalent.

2013 USD'000		2013 RO'000
722	A1 to A3	278
70,000	Baa1 to Baa3	26,950
10,000	Ba+ to B-	3,850
80,722		31,078

The Window performs an independent assessment based on quantitative and qualitative factors in cases where a counter party is unrated.

D1.5 *Allowances for impairment*

The Window establishes an allowance for impairment losses account that represents its estimate of incurred losses in its loan portfolio. The components of this allowance are specific loss components that relate to individually significant exposures and a collective loan loss allowance established for group of homogenous assets in respect of losses that have been incurred but have not been identified on financings subject to individual assessment for impairment. As of 31 December 2013, there are no parties identified as non-performing and accordingly no specific provision has been made in these financial statements.

D1.6. Write off policy

The Window writes off a loan/security balance (and any related allowances for impairment losses) when the Window determines that the loan/security is uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the borrower/issuer's financial position such that the borrower/issuer can no longer repay the obligation, or that proceeds from the collateral will not be sufficient to pay back the entire exposure. For smaller balance standardised financings, charge off decisions generally are based on a product specific past due status.

D Financial risk management (continued)

D1 Credit risk (continued)

D 1.7 Collateral securities

The assets, or title to the asset, will be maintained in the Window's custody or with a custodian approved by the Window. Necessary measures are taken to ensure that the assets are maintained useable condition.

The release of collateral without full repayment of all related financial obligations requires authorization of the same level that originally approved and sanctioned the facility. Substitution of collateral is permitted if the new collateral would further minimize the Window's risk exposure keeping in mind the regulatory requirements.

When collateral is released to the customer, the Credit Administration Department obtains and maintains in its records acknowledgement of receipt from the customer or his/her authorized representative.

An estimate of the fair value of collateral and other security enhancements held against financings and advances is shown below:

2013 USD '000		2013 RO' 000
15,556	Property	**5,989**
43,922	Commercial Mortgage	**16,910**
1,151	Vehicle	**443**
60,629		**23,342**

Settlement risk is the risk of loss due to the failure of a party to honour its obligations to deliver cash, securities or other assets as contractually agreed on the day of settlement.

In foreign exchange trades, though there is fulfilment of both the legs of the transaction on the settlement date as is common practice between trading partners (free settlement), there will be risk on account of different time zones. In these cases, the settlement risk is mitigated through the execution of bilateral payment netting agreements.

D1.8 Concentrations

Concentrations of credit risk arise when a number of counter parties are engaged in similar business activities or activities in the same geographic region or have similar economic features that would cause their ability to meet contractual obligations to be affected similarly by changes in economic, political or other conditions. Concentrations of credit risk indicate the relative sensitivity of the Window's performance to developments affecting a particular industry or geographic location.

In order to avoid excessive concentrations of risk, the Window's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly.

- Regulatory Caps – Exposure Limits to a person (including juristic person) and his connected parties has been set at 15% of the Bank's Net worth.
- Net worth is the aggregate amount of assets less liabilities other than capital and surplus, which shall include assets and liabilities both within and outside the Sultanate.
- Exposure to senior member in the management of the Window and any related parties shall not exceed 10% of the amount of the net worth of the Bank and aggregate of all such exposures shall not exceed 35% of the amount of the net worth.
- Limitations inapplicable to exposures fully secured by cash or cash equivalent not subject to withdrawal from the Window or guaranteed by a Window or financial institution within or outside the Sultanate to the satisfaction of the Central bank or the payment of the principal or profit of such financings is guaranteed by the Government of the Sultanate or by any Ministry or corporation thereof. Exposures to SAOG companies are not required to be reckoned for arriving at the aggregation of credit facilities enjoyed by a person and his related parties.

D Financial risk management (continued)

D1 Credit risk (continued)

D1.8 Concentrations (continued)

	2013			
	Murabaha RO'000	**Ijara RO'000**	**Due from banks and other money market lendings RO'000**	**Investment securities RO'000**
Concentration by sector				
Corporate	**58**	**5,681**	**-**	**3,018**
Personal	**194**	**3,555**	**-**	**-**
Banks	**-**	**-**	**31,078**	
	252	**9,236**	**31,078**	**3,018**
Concentration by location				
Middle east	**252**	**9,236**	**122**	**3,018**
Europe	**-**	**-**	**57**	**-**
North America	**-**	**-**	**99**	**-**
Asia	**-**	**-**	**30,800**	**-**
Total	**252**	**9,236**	**31,078**	**3,018**
	USD'000	**USD'000**	**USD'000**	**USD'000**
Concentration by sector				
Corporate	**151**	**14,756**	**-**	**7,839**
Personal	**504**	**9,234**	**-**	**-**
Banks	**-**	**-**	**80,722**	**-**
	655	**23,990**	**80,722**	**7,839**
Concentration by location				
Middle east	**655**	**23,990**	**317**	**7,839**
Europe	**-**	**-**	**148**	**-**
North America	**-**	**-**	**257**	**-**
Asia	**-**	**-**	**80,000**	**-**
	655	**23,990**	**80,722**	**7,839**

D Financial risk management (continued)

D2 Liquidity risk

Liquidity risk is the risk that the Window will encounter difficulty in meeting its obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

D2.1 Management of liquidity risk

The Window's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions without incurring unacceptable losses or risking damage to the Bank Sohar SAOG's reputation.

Central treasury receives information from other business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. Central treasury then maintains a portfolio of short-term liquid assets, largely made up of short-term liquid investment securities, loans and advances to banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Bank as a whole. The liquidity requirements of business units are met through short-term loans from central treasury to cover any short-term fluctuations and longer term funding to address any structural liquidity requirements. The Bank has also laid down a comprehensive liquidity contingency plan for effective management of liquidity. In this process due care is taken to ensure that the Window complies with all the CBO regulations.

All liquidity policies and procedures are subject to review and approved by Asset Liabilities Committee (ALCO). Computation of liquidity gap on maturity of assets and liabilities is provided. The computation has been prepared in accordance with guidelines provided in Circular BM 955 dated 7 May 2003.

D2.2 Exposure to liquidity risk

The lending ratio, which is the ratio of the total financings and advances to customer deposits and capital, is monitored on a daily basis in line with the regulatory guidelines. Internally the lending ratio is set at a more conservative basis than required by regulation. The Window also manages its liquidity risk on regular basis and by monitoring the liquid ratio which is a ratio of net liquid assets to total assets on monthly basis. For this purpose net liquid assets are considered as including cash and cash equivalents and investment grade debt securities for which there is an active and liquid market.

Details of the reported lending and liquid ratio as at 31 December 2013 were as follows:

	2013	
	Lending Ratio	**Liquid ratio**
Average for the period	**65.20%**	**103%**
Maximum for the period	**79.96%**	**249%**
Minimum for the period	**42.76%**	**9%**

The table below summarises the maturity profile of the Window's liabilities as on the reporting date based on contractual repayment arrangements. The contractual maturities of assets and liabilities have been determined on the basis of the remaining period at the statement of financial position date to the contractual maturity date and do not take account of the effective maturities as indicated by the Window's deposit retention history and the availability of liquid funds.

D Financial risk management (continued)

D2 Liquidity risk (continued)

D2.2 Exposure to liquidity risk (continued)

D 2.2 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
Assets					
Cash and balances with central banks	5,522	-	-	-	5,522
Due from banks and financial institutions	19,528	11,550	-	-	31,078
Murabaha receivables	24	76	106	46	252
Ijarah muntahia bittamleek	766	533	1,645	6,292	9,236
Investment securties	-	-	-	3,018	3,018
Other assets	1,014	-	-	-	1,014
Total assets	26,854	12,159	1,751	9,356	50,120
Liabilities and equity					
Due to banks and financial institutions	16,050	3,000	-	-	19,050
Customer current accounts	6,244	5,463	-	3,902	15,609
Other liabilities	3,264	-	-	-	3,264
Total liabilities	25,558	8,463	-	3,902	37,923
Equity of investment account holders	354	652	881	1,819	3,706
Total liabilities and equity	25,912	9,115	881	5,721	41,629
Total liquidity gap	942	3,044	870	3,635	8,491
Cumulative liquidity gap	942	3,986	4,856	8,491	

	Within three months USD'000	Four months to 12 months USD'000	One to three years USD'000	More than three years USD'000	Total USD'000
Assets					
Cash and balances with central banks	14,343	-	-	-	14,343
Due from banks and financial institutions	50,722	30,000	-	-	80,722
Murabaha receivables	62	197	277	119	655
Ijarah muntahia bittamleek	1,990	1384	4,273	16,343	23,990
Investment securties	-	-	-	7,839	7,839
Other assets	2,634	-	-	-	2,634
Total assets	69,751	31,581	4,550	24,301	130,183
Liabilities and equity					
Due to banks and financial institutions	41,688	7,793	-	-	49,481
Customer current accounts	16,218	14,190	-	10,135	40,543
Other liabilities	8,479	-	-	-	8,479
Total liabilities	66,385	21,983	-	10,135	98,503
Equity of investment account holders	919	1,694	2,288	4,725	9,626
Total liabilities and equity	67,304	23,677	2,288	14,860	108,129
Total liquidity gap	2,447	7,904	2,262	9,441	22,054
Cumulative liquidity gap	2,447	10,351	12,613	22,054	

D Financial risk management (continued)

D2 Liquidity risk (continued)

D2.2 Exposure to liquidity risk (continued)

The Window prepares a liquidity gap report to monitor the Window's short term liquidity position on the Rial denominated assets and liabilities in a time horizon spanning one month. The gap is adjusted for availability of instruments for repo or refinance and also for unavailed committed lines of credit, if any. This statement of short term liquidity is to be reported to the ALCO every month.

D3 Market risk

Market risk is the exposure to loss resulting from the changes in the profit rates, foreign currency exchange rates and commodity prices. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return to risk.

D3.1 Market risk in financing products

Financing contracts mainly comprise 'Murabaha receivables' and 'Ijara Muntahia Bittamleek'. Following are the financing related market risk:

Murabaha receivables

In the case of an asset in possession for a Murabaha transaction and an asset acquired specifically for resale to a customer in a non-binding Murabaha to the purchase orderer (MPO) transaction, the asset would be treated as inventory of the Window and is subject to price risk.

Ijara Muntahia Bittamleek (IMB)

In the case of Non-binding Promise to lease of an asset acquired and held for the purpose of either operating Ijarah or IMB, the capital charge to cater for market (price) risk in respect of the leased asset from its acquisition date until its disposal.

D3.2 Measurement of market risk

The Window is mainly engaged in Spots and Currency forwards. Since the positions are taken mainly for liquidity management, the complexity is further reduced. In view of above, the Window measures and controls the risk by using a limit framework. As and when the Window enters into more complex derivatives, it will have more sophisticated models and techniques to measure market risk, supported by a suitable mechanism.

D3.3 Management of market risks

The Window separates its exposure to market risk between trading and non trading portfolios. Trading portfolios include all positions arising from market making and proprietary position taking, together with financial assets and liabilities that are managed on a fair value basis.

All foreign exchange risk within the Window is transferred by Central Treasury to the trading book. Accordingly, the foreign exchange position is treated as a part of the Window's trading portfolio for risk management purposes. Foreign currency risk is monitored and managed by the Window by establishment of Middle Office to monitor the market risk, and the risk is managed by putting in place Market Risk Management Policy, and implementing limit framework, reporting tools like Currency Position Report, Risk Analysis of Currency Position, Breach Analysis Report, and Dealer Limit Breach report.

Overall authority for market risk is vested in ALCO. The risk management function is responsible for development of detailed risk management policies (subject to approval by ALCO and Risk Management Committee of the Board). The Market Risk Policy is periodically reviewed to keep it up to date with the market developments.

D Financial risk management (continued)

D3 Market risk (continued)

D3.4 Exposure to profit rate risk

Profit rate risk is the potential impact of the mismatch between the rate of return on assets and the expected rate of funding due to the sources of finance. Senior management identifies the sources of profit rate risk exposures based upon the current as well as forecasted balance sheet structure of Window. The profit rate risk in the Window may arise due to the following transactions:

- Murabaha transactions;
- Wakala transactions;
- Ijara Muntahia Bittamleek;
- Sukuk; and
- Musharaka investments.

Window management believe that the Window is not exposed to material profit rate risk as a result of mismatches of profit rate re-pricing of assets, liabilities and equity of investment accountholders as the re-pricing of assets, liabilities and equity of investment accountholders occur at similar intervals. The profit distribution to equity of investment accountholders is based on profit sharing agreements. Therefore, Window is not subject to any significant profit rate risk.

Sources of Profit Rate Risk

The different profit rate risks faced by the Window can be classified broadly into the following categories.

- Re-pricing risk which arises from timing differences in the maturity (for fixed rate) and re-pricing (for floating rate) of assets, liabilities and off balance sheet positions. As profit rates vary, these re-pricing mismatches expose Window income and underlying economic value to unanticipated fluctuations;
- Yield curve risk which arises when unanticipated shifts of the yield curve have adverse effects on Window income and/or underlying economic value;
- Basis risk which arises from imperfect correlation in the adjustment in the rate earned on products priced and the rate paid on different instruments with otherwise similar re-pricing characteristics. When profit rates change, these differences can give rise to unexpected changes in the cash flows and earnings spread between assets, liabilities, and off balance sheet instruments of similar maturities or re-pricing frequencies; and
- Displaced Commercial Risk refers to the market pressure to pay returns that exceeds the rate that has been earned on the assets financed by the liabilities, when the return on assets is under performing as compared to competitor’s rates.

Profit rate risk strategy

Profit rate risk arises from the possibility that changes in profit rates will affect future profitability or the fair values of financial instruments. The window is exposed to profit rate risk as a result of mismatches or gaps in the amounts of assets and liabilities and off-balance sheet instruments that mature or re-price in a given period. The window manages this risk through risk management strategies.

The effective profit rate (effective yield) of a monetary financial instrument is the rate that, when used in a present value calculation, results in the carrying amount of the instrument. The rate is a historical rate for a fixed rate instrument carried at amortised cost and a current rate for a floating rate instrument or an instrument carried at fair value.

Profit rate risk measurement tools

Window uses the following tools for profit rate risk measurement in its book:

- Re-pricing gap analysis which measures the arithmetic difference between the profit-sensitive assets and liabilities of Window book in absolute terms; and
- Basis Point Value (“BPV”) analysis which is the sensitivity measure for all profit rate priced products and positions. The BPV is the change in net present value of a position arising from a 1 basis point shift in the yield curve. This quantifies the sensitivity of the position or portfolio to changes in profit rates.

Profit rate risk monitoring and reporting

Window has implemented information systems for monitoring, controlling and reporting profit rate risk. Reports are provided on a timely basis to Executive Committee and the Board of Directors of the head office.

D Financial risk management (continued)

D2 Market risk (continued)

Profit rate risk monitoring and reporting (continued)

The Risk and Compliance Unit monitors these limits regularly. General Manager Compliance and Risk Management (GM-C&RM) reviews the results of gap limits and exceptions, if any, and recommends corrective action to be taken which is approved by ALCO or Executive Committee, according to authority parameters approved by the Board.

D3.5 Exposure to profit rate risk – non trading portfolios

The Window's profit sensitivity position based on contractual re-pricing arrangements at 31 December 2013 was as follows:

	Effective annual Profit rate %	Within three months RO'000	Four months to 12 months RO'000	Over one year RO'000	Non-sensitive to profit rate RO'000
31 December 2013					
Assets					
Cash and balances with central banks	-	-	-	-	5,522
Due from banks and financial institutions	2.61	19,250	11,550	-	278
Murabaha receivables	5.96	24	76	152	-
Ijarah muntahia bittamleek	4.81	765	534	7,937	-
Investment securties	5	-	-	3,018	-
Fixed assets	-	-	-	-	1,643
Other assets	-	188	-	-	826
Total assets		20,227	12,160	11,107	8,269
Liabilities and equity					
Due to banks and financial institutions	0.45	16,050	3,000	-	-
Customer current accounts	-	-	-	-	15,609
Other liabilities	-	1	-	-	3,263
Total liabilities		16,051	3,000	-	18,872
Equity of Investment Account Holders	1.18	3,706	-	-	-
Total liabilities and equity of Unrestricted Investment Account (URIA)		19,757	3,000	-	18,872
Total profit rate sensitivity gap		470	9,160	11,107	(10,603)
Cumulative profit rate sensitivity gap		470	9,630	20,737	10,134

D Financial risk management (continued)

D3 Market risk (continued)

D3.5 Exposure to profit rate risk – non trading portfolios (continued)

	Effective annual profit rate	Within three months	Four months to 12 months	Over one year	Non-sensitive to profit rate
	%	USD'000	USD'000	USD'000	USD'000
31 December 2013					
Assets					
Cash and balances with central banks	-	-	-	-	**14,343**
Due from banks and financial institutions	2.61	**50,000**	**30,000**	-	**722**
Murabaha receivables	5.96	**62**	**197**	**396**	-
Ijarah muntahia bittamleek	4.81	**1,987**	**1,387**	**20,616**	-
Investment securties	5	-	-	**7,839**	-
Fixed assets	-	-	-	-	**4,268**
Other assets	-	**488**	-	-	**2,146**
Total assets		**52,537**	**31,584**	**28,851**	**21,479**
Liabilities and equity					
Due to banks and financial institutions	0.45	**41,688**	**7,791**	-	-
Customer current accounts	-	-	-	-	**40,543**
Other liabilities	-	**4**	-	-	**8,475**
Total liabilities		**41,692**	**7,791**	-	**49,018**
Equity of Investment Account Holders		**9,626**	-	-	-
Total liabilities and equity of Unrestricted Investment Account (URIA)	1.18	**51,318**	**7,792**	**28,851**	**49,018**
Total profit rate sensitivity gap		**1,219**	**23,792**	**28,851**	**(27,539)**
Cumulative profit rate sensitivity gap		**1,219**	**25,011**	**53,862**	**26,323**

D Financial risk management (continued)

D3 Market risk (continued)

D 3.6 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 Window had the following net exposures denominated in foreign currencies:

	2013		
	Assets RO'000	**Liabilities RO'000**	**Net assets RO'000**
Riyal Omani	**112,512**	**30,523**	**51,466**
Saudi Rial	**28**	**-**	**28**
Euro	**67**	**-**	**67**
UAE Dirhams	**352**	**163**	**26**
Qatari Rial	**28**	**-**	**28**
Kuwaiti Dinar	**52**	**-**	**52**
Pound Sterling	**83**	**-**	**83**
Others	**13**	**-**	**13**
	113,055	**30,686**	**51,763**
	USD'000	**USD'000**	**USD'000**
Riyal Omani	**212,958**	**79,281**	**133,677**
Saudi Rial	**73**	**-**	**73**
Euro	**174**	**-**	**174**
UAE Dirhams	**491**	**422**	**69**
Qatari Rial	**73**	**-**	**73**
Kuwaiti Dinar	**135**	**-**	**135**
Pound Sterling	**216**	**-**	**216**
Others	**34**	**-**	**34**
	214,154	**79,703**	**134,451**

The Window takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board sets limits on the level of exposure by currency and in aggregate for both overnight and intra-day positions, which are monitored daily.

Changes in the non parity foreign currency prices as at 31 December 2013 on net assets is considered negligible.

D4 Operational risk

Operational risk is defined as the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational risk arises due to variety of causes associated with the Window's processes, personnel, technology and infrastructure and from external events and to include risks other than credit, market and liquidity risks.

D Financial risk management (continued)

D4 Operational risk (continued)

Window has adopted same policies and procedures to mitigate operational risk as those of the head office. Advantages of head office processes and infrastructure are obtained in compliance with IBRF. Policies on following processes are also similar to that of the head office:

- Track loss events and potential exposures;
- Reporting of losses, indicators and scenarios on a regular basis; and
- Review the reports jointly by risk and line managers;

In addition to the above, Window has a dedicated Sharia' compliance officer responsible to ensure compliance with IBRF, Sharia' guidelines and other applicable laws and regulations.

D5 Displaced Commercial Risk

Displaced commercial risk ("DCR") refers to the magnitude of risks that are transferred to shareholders in order to cushion the Investment Account Holder ("IAH") from bearing some or all of the risks to which they are contractually exposed in Mudaraba contracts.

Under a Mudaraba (profit sharing and loss-bearing) contract, unrestricted IAH are exposed to aggregate impact of risks arising from the assets in which their funds are invested, but this is managed by Sohar Islamic Window through DCR.
This risk-sharing is achieved by constituting and using various reserves such as PER, and by adjusting the Sohar Islamic Window's profit share in order to smooth the returns payable to the IAH from exposure to the volatility of aggregate returns arising from banking risks, and thereby to enable payment of returns that are competitive in the marketplace.

Sohar Islamic Window manages its displaced commercial risk as outlined in its Profit Distribution Policy. The Window foregoes its fee in case displaced commercial risk arises. The Window manages profit rates with other Islamic Windows and full-fledged Islamic/ Conventional Banks operating in Oman.

D6 Capital management

D6.1 Regulatory capital

The Window's lead regulator, Central Bank of Oman, sets and monitors capital requirements for the Window as a whole. In implementing current capital requirements Central Bank of Oman requires the Window to maintain a prescribed ratio of total capital to total risk-weighted assets. The Window calculates capital requirements for market risk and operational risk based upon the model prescribed by Central Bank of Oman as follows:

- Sovereign entities – Nil
- Window's – Risk weighting based upon ratings by external credit assessment institutions as approved by CBO
- Retail and Corporate financings - As per credit conversion factors and risk weightage prescribed by Central Bank of Oman.
- Off balance sheet items – As per credit conversion factors and risk weightage prescribed by Central Bank of Oman.

D6 Capital management (continued)

D6.1 Regulatory capital (continued)

The Window's regulatory capital is analysed into three tiers:

- Tier 1 capital, which includes assigned capital, share premium, reserves, perpetual bonds (which are classified as innovative Tier 1 securities), retained earnings, translation reserve and intangible assets, and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes.
- Tier 2 capital, which includes qualifying subordinated liabilities, collective impairment allowances the element of the fair value reserve relating to unrealised gains on equity instruments classified as fair value through equity, Profit Equalization Reserve (PER) and Investment Risk Reserve (IRR).

Various limits are applied to elements of the capital base. The amount of innovative tier 1 securities cannot exceed 15 percent of total tier 1 capital; qualifying tier 2 capital cannot exceed tier 1 capital; and qualifying term subordinated loan capital may not exceed 50 percent of tier 1 capital. There are also restrictions on the amount of collective impairment allowances, PER and IRR that may be included as part of tier 2 capital. Other deductions from capital include the carrying amounts of investments in subsidiaries that are not included in the regulatory consolidation, investments in the capital of Windows and certain other regulatory items.

Window's operations are categorized as either trading book or banking book, and risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and off-balance sheet exposures. No capital charge for operational risk has been considered being the first year of operations of the Window. There is no availability of data for previous three years as required under basic indicator approach for computation of capital charge for operational risk. The Window's policy is to maintain a strong capital base .

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 Window for International Settlement is as follows:

2013 USD'000		2013 RO'000
	Tier 1 capital	
25,974	Assigned capital	**10,000**
348	Legal reserve	**134**
1,688	General reserve	**650**
(1,688)	Loss for the period	**(650)**
26,322	**Total**	**10,134**
	Tier 2 capital	
239	Impairment allowance on portfolio basis	**92**
239	**Total**	**92**
26,561	**Total regulatory capital**	**10,226**
	Risk-weighted assets	
92,913	Window retail and corporate loans and market risk	**35,864**
-	Operational risk	**-**
92,913	**Total risk-weighted assets**	**35,864**
	Capital adequacy ratio	
28.51%	Total regulatory capital expressed as a percentage of total risk-weighted assets	**28.51%**
28.26%	Total tier 1 capital expressed as a percentage of total risk-weighted assets	**28.26%**

D6 Capital management (continued)

D6.1 Regulatory capital (continued)

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

D7 Segmental information

The activities of the Window are performed as one unit. Reporting to management is made by business unit. The Window operates solely in the Sultanate of Oman and as such no geographical segment information is presented.

D8 Other disclosures

Following are the mandatory disclosures required under Article 1.6.1 to 1.6.6 of Title 2 '*General Obligations and Governance*' of IBRF:

- The deficit of the Window has been recuperated by the head office (refer note B7);
- As of 31 December 2013, 4.54% of the total funds of the Window is obtained from the head office.

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