البنك الوطني العماني
National Bank of Oman

ANNUAL REPORT 2013

40 Years of Banking Excellence

For You. For Our Nation.

HIS MAJESTY SULTAN QABOOS BIN SAID

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Chairman's Report

Chairman's Report

Omar Hussain Al Fardan
Chairman

To Our Esteemed Shareholders

On behalf of the Board of Directors, I am pleased to share with you the results of the Bank for the year ended 31 December 2013. During this period, the Bank recorded a strong overall performance and looks forward to continued earnings growth in 2014.

In 2013, Oman's economy experienced GDP growth of 5%. This growth is expected to continue through 2014 as outlined in the recently released Budget. The Government has announced its largest budget on record, with anticipated expenditure of RO 13.5 billion. Significant spending has been allocated to road, rail and oil refining infrastructure, health and education. In addition, inflation is expected to be 1.4% for 2014, below the level recorded in 2013.

The Bank has achieved a net profit after tax of RO 41.4 million for the year ended 31 December 2013 compared to RO 40.7 million in 2012, representing an increase of 1.8%.

The operating profit of the Bank in 2013 grew by 6.5%, from RO 52 million in 2012 to RO 55.3 million for the year ended December 2013. Net operating income which comprises of net interest and non interest income grew by 5.3% to RO 103.9 million. This growth was achieved despite an 8% decline in non-interest income which was mainly as a result of market changes relating to "salary related loans" introduced during 2012. During the year, yields on assets declined in line with the market but the Bank was able to make corresponding reductions in its deposit expenses. This produced growth of more than 11% in net interest income. Low cost deposit's now represent 53.3% of the Bank's deposit base compared to 46.1% in 2012.

Operating expenses grew by 4.1% to RO 48.6 million for the year ended December 2013 mainly because of staff related costs.

The net cost of credit was RO 8.4 million for the year ended 31 December 2013, a 58.6% increase over 2012. The increase in this provision has come from one large manufacturing sector exposure where the Bank has taken a conservative decision to be fully provided. As at the year end, the non-performing loan coverage ratio was 168%.

The Bank's net loans and advances stood at RO 2.068 billion at December 31, 2013, representing an 8.2% growth. Customer deposits grew by 15.5% to RO 2.18 billion.

The Bank secured its Dubai branch license during the year and it will be looking to leverage this promising development in 2014.

The Board has recommended a cash dividend of RO 0.015 per share and stock dividend of 10% (one for every ten shares held) based on the Dividend Policy approved by the Board of Directors.

As at December 31, 2013, the eligible capital of the Bank was RO 378 million and the Capital Adequacy Ratio was 14.6% compared to 14.4% in 2012. This ratio is well above the minimum requirement of 12%.

In accordance with the directives of the Code of Corporate Governance advanced by the Capital Market Authority, the Bank includes a report on the implementation and effectiveness of Corporate Governance guidelines, directives and recommendations duly certified by the statutory auditors, within the Annual Report.

Corporate Social Responsibility (CSR) is the way the Bank conducts itself within the wider communities in which it operates and the societies which it impacts.

Youth development was the Bank's focus area for its 2013 CSR initiatives. This was in line with having more sustainable and carefully assessed initiatives.

The Bank has achieved a net profit after tax of RO 41.4 million for the year ended 31 December 2013 compared to RO 40.7 million in 2012, representing an increase of 1.8%.

During the year 2013, the total cost of the Bank's CSR Initiatives was RO 184,000.

In a further notable event, at the end of 2013, National Bank of Oman hosted the NBO Golf Classic at the Almouj Golf Course. This was the first time a European Golf Challenge tournament had been held in the Sultanate. The four day competition saw 84 Challenge Tour players participate in one of the most successful events in the Tour's season. The event was a huge success in aligning the Bank with a leading global sporting occasion and presented the Bank with the perfect opportunity to network with their valued clients and other visitors in the informal setting of the golf course on Muscat's pristine coastline.

The outlook for Oman's economy remains positive. Notably, the increase in government spending, focused on infrastructure projects, is likely to boost economic growth. This spending may not only increase opportunities for our retail business but also for our Corporate and Small Business units. The Bank continuously evaluates its strategy in order to allocate its resources to the various businesses efficiently, ensuring sustainable returns for its shareholders. Furthermore, the Bank continuously looks at ways of achieving better synergies with its strategic partner, Commercial Bank of Qatar, and affiliates in business transactions as well as sharing best practices.

The members of the Board of Directors join me in offering our thanks to our valued customers, correspondent Banks and shareholders for the continued support and confidence they have in the Bank.

We would also like to thank and express our appreciation to the Central Bank of Oman and the Capital Market Authority for their prudent supervision and guidance.

We thank the Bank's management and staff for their dedication and commitment.

Above all, we pay tribute to His Majesty, Sultan Qaboos Bin Said, for his inspiring leadership and vision under whose wise guidance all of us in Oman, will assuredly remain on the path towards continued successful development.

Omar Hussain Al Fardan
Chairman

Board of Directors

Omar Hussain Alfardan
Chairman

Omar Alfardan serves as Chairman of the Board of Directors of National Bank of Oman (S.A.O.G.) and Chairman of the Executive Committee of the Board.

He also holds the position of Board Member of The Commercial Bank of Qatar (Q.S.C.), in addition to serving as Vice Chairman of United Arab Bank (P.J.S.C.) Sharjah and Chairman of the Board Executive Committee. Other Chairmanship, Directorship and senior positions held include the posts of President & CEO of Alfardan Group Holding, Alfardan Hotels and Resorts, Alfardan Automotive Group in Qatar and Oman besides Alfardan Properties in Qatar and Oman. Also holds a vital role as Director of other Alfardan subsidiaries, such as the Jewelry divisions (in Qatar and Saudi Arabia) and the Investment and Marine divisions in Qatar to name a few. He also holds the position of Director at United Development Company P.S.C., Qatar; Director of MARSARABIA, Director of Qatar Red Crescent Society and a Trustee at the American University of Beirut.

Omar Alfardan holds a BA in Business Administration and a Masters in Finance from Webster University, Geneva

Mohammed Mahfoodh Al Ardhi
Deputy Chairman

Director since March 2011. Chairman of Credit Committee of the Board.

He is Director of The Board of Investcorp Bank, NYC, USA, The International Advisory Board of The Brookings Institute, Washington DC, USA and a member on the Board of Trustees of Eisenhower Fellowships Philadelphia, USA. A retired Air Vice Marshal by profession, Mr. Mohammed Mahfoodh Al Ardhi joined the Royal Air Force of Oman (RAFO) in 1978, and was subsequently appointed as Chief of the Omani Air Force. In 2000, he was awarded the "Order of Oman" by His Majesty Sultan Qaboos bin Said Al-Said. Mr. Al Ardhi holds a Bachelor of Science degree in Military Science from Royal Air Force Staff College in Bracknell, England and a Masters in Public Policy from John F. Kennedy School of Government, Harvard University USA.

Sayyidah Rawan Al Said
Director

Director since April 2005. Chairperson of the Audit Committee and member of the Executive Committee of the Board. She has 25 years of experience in the investment field, both in public and private sectors. Prior to joining ONIC Holding Group as Managing Director & Group CE, she held the position of Deputy CEO of investment at the State General Reserve Fund of Oman. She is on the Board of a number of reputed Companies and Financial Institutions in Oman and across the GCC. Sayyidah Rawan is also a member on the Investment Committee of the Public Authority for Social Insurance, Chairperson of Al Kawther Fund (Islamic Compliant Fund) and a Member of the Investment Committee of Orphans & Incapacitated Funds in the Ministry of Justice. In 2011, Sayyidah Rawan was bestowed the Business Professional (BizPro) Leader Award. In 2012, she was ranked 14th in Forbes Middle East for the 'Most Powerful Arab Business Women in Listed Companies'. Sayyidah Rawan holds a M.Sc in Economics & Finance from Loughborough University, UK. She also holds a Post Graduate Diploma in Investment Analysis from Stirling University, UK and a BA in Economics & Political Science from the American University, (AUC), Cairo.

Sheikh Abdullah Bin Ali Bin Jabor Al Thani
Director

Director since July 2005. Member of the Credit Committee of the Board. Deputy Chairman of The Commercial Bank of Qatar (Q.S.C.) and Director of United Arab Bank, Sharjah. Sheikh Abdullah Bin Ali Bin Jabor Al Thani holds a BA in Social Science from Qatar University.

Andrew Charles Stevens
Director

Director since July 2005. Member of the Board Executive Committee and Credit Committee of the Board. He is the Group Chief Executive Officer of The Commercial Bank of Qatar (Q.S.C.) and is Vice Chairman of Alternatifbank A.Ş., Turkey and a Director of United Arab Bank (P.J.S.C.), Sharjah. Other key senior positions assumed by Mr Stevens include President/Chairman of Orient Limited; Vice Chairman of CBQ Finance Ltd and Director of Qatar Insurance Company International LLC. He is also on Visa's International Senior Client Council. Mr. Stevens graduated from Birmingham University, England with a B.Com (Hons) in Banking and Finance. He was previously with Standard Chartered Bank serving in Ireland, Hong Kong, Bahrain and Uganda.

Saleh Nasser Abood Al Habsi
Director

Director since March 2008. Member of the Credit Committee of the Board. He previously held the position of Chairman of the Board Risk Committee of the Bank. Having 21 years of experience in the financial sector, Mr. Al Habsi is currently General Manager of MOD Pension Fund. He is a member of the Board of Growth Gate Capital, a regional Private Equity Company. He is also a member of the Investors Committee of the Investment Stabilization Fund. Previously, he served as Chairman of Muscat Fund, Deputy Chairman of Gulf Custody Company Oman, SAOC. Board member of Bank Dhofar SAOG, and Al Omaniya Financial Services SAOG. Mr. Saleh holds a MBA and M.Sc. in Finance both from University of Maryland (USA), and BSBA and BA from Boston University (USA). He also attended a senior executive program at London Business School and High Performance Boards Program at IMD Switzerland.

Saif Said Salim Al Yazidi
Director

Director since March 2008. Member of the Credit Committee of the Board. He is the Director of Investment at the Civil Service Employees Pension Fund. Mr. Al Yazidi has over 17 years of experience in asset management covering various investment classes such as capital markets, fixed income and alternative invests. He sits on several boards of public and private companies locally and abroad. Mr. Al Yazidi holds a Bachelor Degree in Management Sciences, Accounting and a Masters in Business Administration (MBA).

Suresh M. Shivdasani
Director

Director since June 2010. A member of the Risk Committee and Executive Committee of the Board. Mr. Shivdasani is the Managing Director, Sohar International Urea and Chemical Industries S.A.O.C. and Advisor to the Chairman of the Suhail Bahwan Group.

Mr. Suresh Shivdasani holds a B.Tech degree in Electrical Engineering from the Indian Institute of Technology (IIT) Delhi- India, and a MBA degree from McMaster University Canada.

Robert Sharpe
Director

Mr. Sharpe has been a member of the Board since March 2011. He is the Chairman of the Risk Committee and a member of the Audit Committee of the Board. Mr. Sharpe is also a Board Director of Alternatif Bank AS in Turkey and a Board Director of United Arab Bank in the UAE. He has over 36 years of experience in Banking at Board and CEO level. He also has considerable experience as an Independent Board Director having served on the Boards of several listed and private companies in the UK including subsidiaries of Barclays Bank and HSBC. Mr. Sharpe lives in Muscat.

Faisal Abdullah Al Farsi
Director

Director since September 2011. A member of the Audit Committee and Risk Committee of the Board. In 1995 he joined the Public Authority for Social Insurance where he occupied various positions including Manager of Insurance Benefits, and acting Manager of Insurance Services. He has been a Board member of several General Joint Stock Companies including Banks. Mr. Faisal holds a Bachelor Degree in General Administration and a Master Degree in International Business Law. Currently he is the Manager of the Planning Department at the Public Authority for Social Insurance.

Omar Suhail Salim Bahwan Al Mukhaini
Director

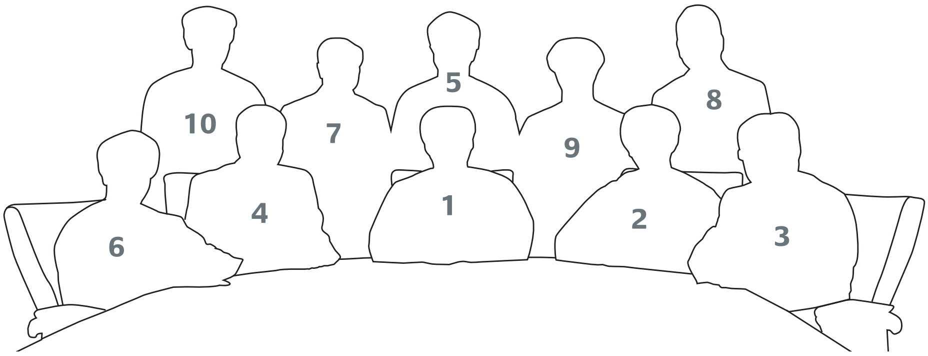
Director since May 2013. Member of the Risk Committee of the Board since June 2013.

Mr.Omar Bahwan is the Director of Investments, Suhail Bahwan Group (Holding) LLC and Director, Bahwan Engineering Co. LLC.

Mr.Omar Bahwan holds a B.A. Degree in Economics and Politics from the School of Oriental and African Studies, London

Executive Management

Executive Management



1. **Salaam Said Al Shaksy**
   Chief Executive Officer
2. **Ahmed Jaffer Al Musalmi**
   Deputy Chief Executive Officer
3. **Stephen Clayton**
   General Manager – Chief Risk Officer
4. **Humayun Kabir**
   General Manager – Wholesale Banking
5. **Nasser Salim Al Rashdi**
   General Manager - Chief Internal Auditor
6. **Nasser Mohammed Al Hajri**
   General Manager – Chief Human Resources Officer
7. **Faizal Mohamed Eledath**
   General Manager - Chief Information Officer
8. **Ananthraman Pathai Venkat**
   General Manager- Chief Financial Officer
9. **Mansoor Darwish Al Raisi**
   Chief Compliance Officer
10. **Moosa Masoud Al Jadidi**
    Acting Head Retail & Private Banking

Corporate Governance Report 2013

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Report to the shareholders of National Bank of Oman SAOG ("the Bank") of factual findings in connection with the Corporate Governance report of the Bank and application of the Corporate Governance practices in accordance with Capital Market Authority Code of Corporate Governance

We have performed the procedures prescribed in the Capital Market Authority ("CMA") Circular No. 16/2003 dated 29 December 2003 ("the Procedures") with respect to the Corporate Governance Report of the Bank ("the Report") and its application of the Corporate Governance practices in accordance with the CMA Code of Corporate Governance ("the Code") issued under Circular No. 11/2002 dated 3 June 2002 and the CMA Rules and Guidelines on disclosure, issued under CMA Administrative Decision 5/2007, dated 27 June 2007. The Report is set out on pages 1 to 18.

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

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

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

This report is solely for the purpose set forth in the second paragraph above, and for inclusion, with the Report, in the Bank's annual report, and is not to be used for any other purpose; and we accept no responsibility to any third party. This report relates only to the Report included in the Bank's annual report for the year ended 31 December 2013 and does not extend to the financial statements or any other reports of the Bank, taken as a whole.

22 January 2014

Paul Callaghan

Corporate Governance Report 2013

Corporate governance deals with the way companies are managed and led, defines the roles of the Directors and formalizes the internal control process within the institution.

The Board of Directors of National Bank of Oman (the Bank) supports the fostering of a healthy governance culture at the Bank. Accordingly, the Board and its Committees continuously evaluate and improve their governance practices, policies and procedures and confirm that the Bank applies the principles set out in the Capital Market Authority (the CMA) Code of Corporate Governance (the Code) as amended for MSM Listed Companies and the regulations for Corporate Governance of Banking and Financial Institutions issued by the Central Bank of Oman.

In recognition of the best practices and corporate governance measures applied, the Bank has reached its highest achievements in 2013 by winning "First Honorable mention in Corporate Governance Award from Hawkamah Institute of Corporate Governance", for the fifth consecutive year – June 2013, " Best New Retail Product Award " by CPI Financial – Banker Middle East Product Awards 2013 , "Asian HR Leadership Award 2013" presented by World HRD Congress, "Excellence in Banking- Oman" award 2013, within the Third Edition of the "Global Prize for Excellence", awarded by the renowned International Alternative Investment Review "IAIR" Magazine and finally " Oman Asset Manager of the Year " Award 2013, awarded by Middle East and North Africa (MENA) Fund Manager Magazine, for excellence in Asset Management.

In accordance with the directives of the Code promulgated by the CMA, we continue to include a separate report on the bank's Corporate Governance duly certified by the statutory auditors within the Annual Report.

Board of Directors

The Board of Directors is responsible for the overall direction, supervision and control of the Bank. Specific responsibilities of the Board include approving the business objectives of the Bank, approving strategies and policies which need to be pursued in order to achieve these objectives, and reviewing on an on-going basis the performance of the Bank in relation to its stated objectives as well as adherence to policies.

Appointment of Directors

The Board is comprised of 11 members who have been elected by the shareholders in March 2011 for a period of three years. The current term of all the Directors will expire in March 2014.

Process of nomination of the Directors

The nomination of the Directors is as per Articles 29 to 34 of the Bank's Articles of Association.

The Board reviews the appropriate skills and characters required of the Board Members and recommends suitable names to the shareholders for election. Shareholders retain the power to elect any candidate to the Board irrespective of whether this candidate is recommended by the Board or otherwise.

Characteristics and core competency of the Board

Members of the Board and its committees bring appropriate knowledge and experience as well as independent judgment to Board meetings and in passing resolutions. The Board collectively possesses professional knowledge, business expertise, industry knowledge and financial awareness to carry out its oversight responsibilities over the Executive and Senior Management of the Bank.

Information given to the Board

The Directors are given appropriate and timely information so that they can maintain full and effective control over strategic, financial, operational, risk, compliance and governance issues. The information provided to the Board is as per the guidelines provided in the Code.

On appointment, each Director receives information about the Bank and is advised of the legal, regulatory and other obligations devolving upon a Director of listed companies.

Composition of the Board

No Director is a member of the Board of more than four public joint stock companies or banks whose principal place of business is in the Sultanate of Oman, or is a Chairman of more than two such companies.

The following tables show the position of each of the current Board members in line with the Code's requirements:

Table 1

Name of the Directors	Representing	Category of the Director*
Mr. Omar Hussain Al Fardan – Chairman	Himself	NEX-NIND
Mr. Mohammed Mahfoodh Al Ardhi – Deputy Chairman	Rimal Investment Projects LLC Equity Investor	NEX-IND
Sayyidah Rawan Ahmed Al Said	Herself	NEX-IND
Mr. Omar Suhail Bahwan	Himself	NEX-NIND
Sheikh Abdullah Bin Ali Al Thani	The Commercial Bank of Qatar - Equity Investor	NEX-NIND
Mr. Andrew Charles Stevens	Himself	NEX-NIND
Mr. Robert Sharpe	Himself	NEX-NIND
Mr. Faisal Abdullah Al Farsi	Public Authority for Social Insurance - Equity Investor	NEX – IND
Mr. Saleh Nasser Al Habsi	Ministry of Defense Pension Fund - Equity Investor	NEX-IND
Mr. Saif Said Al Yazidi	Himself	NEX-IND
Mr. Suresh M Shivdasani	Suhail Bahwan Group (Holding) Equity Investor	NEX- NIND

*NEX: Non-Executive Director, IND: Independent, NIND: Non Independent

Circular no. 9/2013 issued on November 20th 2013 by the CMA regarding the definition of an "Independent Director" and "Related Parties" made the definition not mandatory (as per circular K/14/2012 dated October 24th 2012). As per that guideline, five Board members are currently considered as independent (which is more than one third of the Board as per the required minimum number of independent directors as stated in the Bank's Articles of Association and the Commercial Companies Law.

Table 2

Name of the Directors	Other Board Committees Membership*	No. of other S.A.O.G Boards	No. of Board Meetings attended	Attended last AGM on 26th MARCH 2013(Yes/No/NA)
Mr. Omar Hussain Al Fardan– Chairman	EXCOB	Nil	6	Yes
Mr. Mohammed Mahfoodh Al Ardhi – Deputy Chairman	CCB	NIL	6	Yes
Sayyidah Rawan Ahmed Al Said	EXCOB, BAC	3	6	Yes
Mr. Omar Suhail Bahwan Appointed on 07.May.2013	BRC	NIL	2	NA
Sheikh Abdullah Bin Ali Al Thani	CCB	Nil	5	Yes
Mr. Andrew Charles Stevens	EXCOB, CCB	Nil	6	Yes
Mr. Saleh Nasser Al Habsi	CCB	Nil	6	Yes
Mr. Saif Said Al Yazidi	CCB	2	4	Yes
Mr. Robert Sharpe	BAC,BRC	Nil	6	Yes
Mr. Suresh M Shivdasani	EXCOB, BRC	Nil	5	Yes
Mr. Faisal Abdullah Al Farsi	BAC,BRC	Nil	6	Yes
Mr. Anil Kumar Nahar Resigned on 07.May.2013	BAC, BRC	NIL	1	No

*BAC: Board Audit Committee, CCB: Credit Committee of the Board, BRC: Board Risk Committee, EXCOB: Executive Committee of the Board.

Number and dates of Board meetings

National Bank of Oman held six Board meetings during 2013. They were on 24th January, 26th March, 26th May, 18th September, 08th December and 12th December 2013. The maximum interval between two meetings was 114 days. This is in compliance with Article 4 of the Code, which requires meetings to be held within a maximum time gap of four months.

Remuneration to Board and Top Management

The sum of the benefits (e.g. salaries, perquisites, bonuses, gratuity, pension, etc.) paid to the top senior managers of the Bank in 2013 is RO 1,427,362.

Staff service contracts are 2 years for expatriate officers and determined by the prevailing labor laws for Omanis. The notice period is between 2 and 4 months for the existing contracts. The Board instructed the Management to include new notice periods of six months for employees of AGM levels and above.

As all members of the Board are Non-Executive Directors, accordingly no fixed remuneration or performance linked incentives are applicable. The Non-Executive Directors are paid sitting fees and reimbursement of expenses for attending the Board and Committee meetings. In addition to the sitting fees paid, the total remuneration for the Directors, in 2013, is RO 120,700.000 subject to the Annual General Meeting approval proposed to be held on 26th March 2014.

The details of the sitting fees paid or accrued for payment during 2013 are as follows:

Table 3

Name of the Directors	Total fees RO	Remarks
Mr. Omar Hussain Al Fardan- Chairman	5,800.000	
Mr. Mohammed Mahfoodh Al Ardhi – Deputy Chairman	8,000.000	
Sayyidah Rawan Ahmed Al Said	8,200.000	
Mr. Omar Suhail Bahwan	1,800.000	Appointed on 07.05.2013
Sheikh Abdullah Bin Ali Al Thani	7,500.000	
Mr. Andrew Charles Stevens	10,000.000	
Mr. Saleh Nasser Al Habsi	8,000.000	
Mr. Saif Said Al Yazidi	7,000.000	
Mr. Robert Sharpe	8,600.000	
Mr. Suresh M Shivdasani	4,900.000	
Mr. Faisal Abdullah Al Farsi	7,800.000	
Mr. Anil Kumar Nahar	1,700.000	Resigned on 07.05.2013
Total	**79,300.000**	

The total hotel and travel expenses related to the Board Members during 2013 is RO 25,725.000

Board Committees

As at December 2013, The Board of Directors has four standing committees, the Credit Committee, the Audit Committee, the Risk Committee and the Executive Committee of the Board.

Audit Committee of the Board (BAC):

The Audit Committee comprises of three members. Two of which are independent, being the majority as required by the law. The committee has met eight times in 2013.

The composition of the Audit Committee and particulars of meetings attended by the members of the Audit Committee are given in the table below:

Table 4

Name	Position	Meetings attended	Remarks
Sayyidah Rawan Ahmed Al Said	Chairperson	6	
Mr. Anil Kumar Nahar	Member	2	Resigned on 7.05.2013
Mr. Robert Sharpe	Member	8	
Mr.Faisal Abdullah Al Farsi	Member	7	

The Audit Committee Charter which specifies the responsibility and authority of the Board Audit Committee is approved, annually, by the Board.

The responsibilities of the Committee as specified in the Audit Committee Charter include:

• Assisting the Board in discharging its statutory/oversight responsibilities on financial and accounting matters.

• Overseeing the financial reporting process, on behalf of the Board, including reviewing the annual and quarterly financial statements and recommending such statements for the approval by the Board. To review accounting qualifications, if any, in the draft financial statements and discussion of the accounting principles with the external auditors.

• Reviewing the audit plans and reports of the external auditors and internal auditors and considering the effectiveness of the actions taken by management on the auditors' recommendations.

• Appraising and reporting to the Board on the audits undertaken by the external auditors and internal auditors, the adequacy of disclosure of information and the appropriateness and quality of the system of management including internal controls.

• Reviewing the independence (particularly with reference to any other non-audit services), fees and terms of engagement of the bank's external auditor and recommend their selection to the Board for placing before Annual General Meeting for appointment.

• Reviewing and approving the Audit Division Charter annually, which describes the independence, authority, scope, responsibility and standards of the Internal Audit function. Directing and supervising the activities of the Internal Audit function.

Credit Committee of the Board (CCB):

The Credit Committee comprises of five members and met ten times during 2013. The names of the members, their positions and their meeting attendance appear in the table below:

Table 5

Name	Position	Meetings attended	Remarks
Mr. Mohammed Mahfoodh Al Ardhi	Chairman	9	
Mr. Andrew Charles Stevens	Member	10	
Mr. Saleh Nasser Al Habsi	Member	8	
Sh. Abdullah Bin Ali Bin Jabor Al Thani	Member	7	
Mr. Saif Said Al Yazidi	Member	8	

The CCB's main responsibilities are:

• To approve and renew credit transactions up to the maximum legal limits of the Bank including underwriting exposures and sell down targets.

• Review reports of risk assets covering bank wide portfolio trends including higher risk assets, exposures as well as the other reports at least every quarter.

Board Risk Committee (BRC):

The Risk Committee of the Board comprises of four members and met six times during the year 2013. The major responsibilities of the committee include risk identification and review, risk policy, risk limits and risk management and monitoring in addition to reviewing management of recovery strategies of problem loans and adequacy of provisioning.

The names of the members appear in the table below:

Table 6

Name	Position	Meetings attended	Remarks
Mr. Robert Sharpe	Chairman	6	
Mr. Faisal Al Farsi	Member	5	
Mr. Suresh M Shivdasani	Member	3	
Mr. Omar Suhail Bahwan	Member	2	Appointed on 07.05.2013
Mr. Anil Nahar	Member	1	Resigned on 07.05.2013

The responsibilities of the Committee as specified in the Terms of Reference include:

• The Committee sets the policy on all risk issues and maintains oversight of all Bank risks through the Management Risk Committee (MRC). More specifically the key responsibilities of the Committee are:

1. To establish an appropriate Credit Risk Environment.

2. To develop appropriate Operational Risk Management.

3. To maintain an oversight on Interest Rate Risk.

4. Management of Liquidity.

5. Management of all other Market Risks including Foreign Exchange.

• Specific Responsibilities of the Committee include the following:

1. Recommend the Risk Strategy of the Bank, including but not limited to credit strategy, for Board approval.

2. Recommend the Risk Charter of the Bank for Board approval, review the Charter annually.

3. Sets a high-level bank-wide risk policy framework within the segments of credit, market, operational, reputation, legal and accounting risks.

4. Establishes risk tolerance levels and portfolio limits, including limits associated with industry sector, geography, asset quality and others, as appropriate.

5. Monitor the enterprise wide dashboard of risk through the MRC.

6. Review and assess the performance of MRC and the Risk Group in monitoring and controlling all risk to ensure that risk strategies and policies approved by the Board are adhered to and implemented.

7.Direct oversight over Regulatory and Legal Compliance through the MRC.

8.Regularly review stress scenarios to measure the impact of unusual market conditions and monitor variance between the actual volatility in portfolio values and that predicted by the risk measures.

9.Monitor compliance of various risk parameters by business lines.

10. Approval and annual review of all asset and liability product strategies to include but not be restricted to, all retail credit and deposit products, treasury and investment products and any other non-standard products relating to corporate banking.

11.Direct oversight over specific credit policy issues including but not limited to:

- Credit rating models, country limits, concentration issues, loan review mechanism and classification policy for loans and provisioning policy.

- Approval of new product strategies/ initiatives having credit implications for the Bank.

- Review of appropriateness of credit authorities and delegations to management.

- Periodic review of the Bank's Credit Risk Rating methodology and appropriateness of risk ratings.

Executive Committee of the Board (EXCOB)

The Executive Committee of the Board comprises of four members and met seven times during the year 2013. The names of the members and their positions are as set out in the table below:

Table 7

Name	Position	Meetings attended
Mr. Omar Hussain Al Fardan	Chairman	7
Sayyidah Rawan Ahmed Al Said	Member	7
Mr. Andrew Charles Stevens	Member	7
Mr. Suresh M Shivdasani	Member	3

The main responsibilities of the EXCOB as specified in the Terms of Reference include:

• To develop the long term strategy of the Bank based on economic and market conditions and the Board's vision and recommend for Board approval.

• To review the performance of the Bank against agreed strategic goals and financial budgets.

• To review and recommend for Board approval the Bank's annual financial budgets and business plans including all operating and capital expenditure budgets of the Bank in line with the long term strategy and changes in economic, market and regulatory environments.

• To review the performance of the investment banking function including all investment reports.

• To review and recommend to the Board the Bank's proposals for capital management and the raising of any new capital required.

• To review and approve the Banks dividend policy and recommend to the Board the proposed dividend distribution.

• Review and approve the Bank's human resources manual.

• To be responsible for setting the Bank's remuneration framework for management and staff.

• To review and recommend to the Board prevailing compensation and benefits and ensure consistency with market trends.

• To review, approve and amend policies related to employee reward and performance related incentive plans.

• To review the Bank's Omanisation policies and the development of the Omani middle and senior management executives of the Bank.

Board Members Profiles

Mr. Omar Hussain Alfardan, Chairman

Omar Alfardan serves as Chairman of the Board of Directors of National Bank of Oman (S.A.O.G.) and Chairman of the Executive Committee of the Board. He also holds the position of Board Member of The Commercial Bank of Qatar (Q.S.C.), in addition to serving as Vice Chairman of United Arab Bank (P.J.S.C.) Sharjah and Chairman of the Board Executive Committee.

Other Chairmanship, Directorship and senior positions held include the posts of President & CEO of Alfardan Group Holding, Alfardan Hotels and Resorts, Alfardan Automotive Group in Qatar and Oman besides Alfardan Properties in Qatar and Oman. Also holds a vital role as Director of other Alfardan subsidiaries, such as the Jewelry divisions (in Qatar and Saudi Arabia) and the Investment and Marine divisions in Qatar to name a few. He also holds the position of Director at United Development Company P.S.C., Qatar; Director of MARSARABIA, Director of Qatar Red Crescent Society and a Trustee at the American University of Beirut.

Omar Alfardan holds a BA in Business Administration and a Masters in Finance from Webster University, Geneva

Mr. Mohammed Mahfoodh Al Ardhi, Deputy Chairman

Director since March 2011. Chairman of Credit Committee of the Board.

He is Director of The Board of Investcorp Bank, NYC, USA, The International Advisory Board of The Brookings Institute, Washington DC, USA and Member Board of Trustees of Eisenhower Fellowships Philadelphia, USA.

A retired Air Vice Marshal by profession, Mr. Mohammed Mahfoodh Al Ardhi joined the Royal Air Force of Oman (RAFO) in 1978, and was subsequently appointed as Chief of Omani Air Force. In 2000, he was awarded the "Order of Oman" by His Majesty Sultan Qaboos bin Said Al-Said.

Mr. Al Ardhi holds a Bachelor of Science degree in Military Science from Royal Air Force Staff College in Bracknell, England and a Masters in Public Policy from John F. Kennedy School of Government, Harvard University USA.

Sayyidah Rawan Al Said, Director

Director since April 2005. Chairperson of the Audit Committee and member of the Executive Committee of the Board.

She has 25 years of experience in the investment field both in public and private sectors. Prior to joining ONIC Holding Group as Managing Director & Group CE, she held the position of Deputy CEO of investment at the State General Reserve Fund of Oman.

She is on the Board of a number of reputed Companies and Financial Institutions in Oman and across the GCC.

Sayyidah Rawan is also a member on the Investment Committee of the Public Authority for Social Insurance, Chairperson of Al Kawther Fund (Islamic Compliant Fund) and a Member of the Investment Committee of Orphans & Incapacitated Funds in the Ministry of Justice.

In 2011, Sayyidah Rawan was bestowed the Business Professional (BizPro) Leader Award. In 2012, she was ranked 14th in Forbes Middle East for the 'Most Powerful Arab Business Women in Listed Companies'.

Sayyidah Rawan holds a M.Sc in Economics & Finance from Loughborough University, UK. She also holds a Post Graduate Diploma in Investment Analysis from Stirling University, UK and a BA in Economics & Political Science from the American University, (AUC), Cairo.

Sheikh Abdullah Bin Ali Bin Jabor Al Thani, Director

Director since July 2005. Member of the Credit Committee of the Board.

Deputy Chairman of The Commercial Bank of Qatar (Q.S.C.) and Director of United Arab Bank, Sharjah.

Sheikh Abdullah Bin Ali Bin Jabor Al Thani holds a BA in Social Science from Qatar University.

Mr. Andrew Charles Stevens, Director

Director since July 2005. Member of the Board Executive Committee and Credit Committee of the Board.

He is the Group Chief Executive Officer of The Commercial Bank of Qatar (Q.S.C.) and is Vice Chairman of Alternatifbank A.Ş., Turkey and a Director of United Arab Bank (P.J.S.C.), Sharjah. Other key senior positions assumed by Mr Stevens include President/Chairman of Orient Limited; Vice Chairman of CBQ Finance Ltd and Director of Qatar Insurance Company International LLC. He is also on Visa's International Senior Client Council.

Mr. Stevens graduated from Birmingham University, England with a B.Com (Hons) in Banking and Finance. He was previously with Standard Chartered Bank serving in Ireland, Hong Kong, Bahrain and Uganda.

Mr. Saleh Nasser Abood Al Habsi, Director

Director since March 2008. Member of the Credit Committee of the Board. He previously held the position of Chairman of the Board Risk Committee of the Bank.

Having 21 years of experience in the financial sector, Mr. Al Habsi is currently General Manager of MOD Pension Fund.

He is a member of the Board of Growth Gate Capital, a regional Private Equity Company. He is also a member of the Investors Committee of the Investment Stabilization Fund.

Previously, he served as Chairman of Muscat Fund, Deputy Chairman of Gulf Custody Company Oman, SAOC. Board member of Bank Dhofar SAOG, and Al Omaniya Financial Services SAOG.

Mr. Saleh holds a MBA and M.Sc. in Finance both from University of Maryland (USA), and BSBA and BA from Boston University (USA). He also attended a senior executive program at London Business School and High Performance Boards Program at IMD Switzerland.

Mr. Saif Said Salim Al Yazidi, Director

Director since March 2008. Member of the Credit Committee of the Board. He is the Director of Investment at the Civil Service Employees Pension Fund.

Mr. Al Yazidi has over 17 years of experience in asset management covering various investment classes such as capital markets, fixed income and alternative invests. He sits on several boards of public and private companies locally and abroad.

Mr. Al Yazidi holds a Bachelor Degree in Management Sciences, Accounting and a Masters in Business Administration (MBA).

Mr. Suresh M. Shivdasani, Director

Director since June 2010. A member of the Risk Committee and Executive Committee of the Board.

Mr. Shivdasani is the Managing Director, Sohar International Urea and Chemical Industries S.A.O.C. and Advisor to the Chairman of the Suhail Bahwan Group.

Mr. Suresh Shivdasani holds a B.Tech degree in Electrical Engineering from the Indian Institute of Technology (IIT) Delhi-India, and a MBA degree from McMaster University Canada.

Mr. Robert Sharpe, Director

Mr. Sharpe has been a member of the Board since March 2011. He is the Chairman of Risk Committee and a member of Audit Committee of the Board.

Mr. Sharpe is also a Board Director of Alternatif Bank AS in Turkey and a Board Director of United Arab Bank in the UAE. He has over 36 years of experience in Banking at Board and CEO level. He also has considerable experience as an Independent Board Director having served on the Boards of several listed and private companies in the UK including subsidiaries of Barclays Bank and HSBC. Mr. Sharpe lives in Muscat.

Mr. Faisal Abdullah Al Farsi, Director

Director since September 2011. A member of the Audit Committee and Risk Committee of the Board. In 1995 he joined the Public Authority for Social Insurance where he occupied various positions including Manager of Insurance Benefits, and acting Manager of Insurance Services.

He has been a Board member of several General Joint Stock Companies including Banks.

Mr. Faisal holds a Bachelor Degree in General Administration and a Master Degree in International Business Law. Currently he is the Manager of the Planning Department at the Public Authority for Social Insurance.

Mr. Omar Suhail Salim Bahwan Al Mukhaini, Director

Director since May 2013. Member of the Risk Committee of the Board since June 2013.

Mr.Omar Bahwan is the Director of Investments, Suhail Bahwan Group (Holding) LLC and Director, Bahwan Engineering Co. LLC.

Mr.Omar Bahwan holds a B.A. Degree in Economics and Politics from the School of Oriental and African Studies, London

Composition of the Management:

The organization chart of the Bank's management includes a Chief Executive Officer as the leader of the organization whose appointment, functions and package are determined by the Board. The Deputy CEO and General Managers are appointed to assist the CEO and to lead functional groups in the Bank. The organization chart also includes Deputy General Managers and Assistant General Managers besides the Divisional Heads. The following table gives details of the top eight management officers along with their positions:

Table 8

Name	Position
Salaam Said Al Shaksy	Chief Executive Officer
Ahmed Jaffer Al Musalmi	Deputy Chief Executive Officer
Humayun Kabir	General Manager - Wholesale Banking
Stephen Clayton	General Manager - Chief Risk Officer
Nasser Salim Al Rashdi	General Manager - Chief Internal Auditor
Faizal Mohamed Eledath	General Manager - Chief Information Officer
Ananthraman Venkat	General Manager - Chief Financial Officer
Nasser Mohammed Al Hajri	General Manager - Chief Human Resources Officer

Market Price Data:

The following table shows the high, low, and average prices of the Bank's shares and compares the Bank's performance against the broad index of banks and investment companies during 2013.

Table 9

NBO AND MSM BANK & INVESTMENT INDEX -FY 2013

Banks & Investment index			
Month	**High**	**Low**	**Closing**
Jan-13	6843.99	6624.06	6763.81
Feb-13	7102.86	6733.64	7050.81
Mar-13	7553.26	7021.92	7271.57
Apr-13	7886.46	7242.76	7499.45
May-13	7731.92	7475.05	7718.99
Jun-13	8196.26	7556.67	7728.43
Jul-13	8312.76	7724.34	8220.42
Aug-13	8573.48	8143.45	8198.92
Sep-13	8338.84	7759.24	8113.85
Oct-13	8209.22	8096.95	8166.84
Nov-13	8264.1	8125.59	8127.79
Dec-13	8233.53	8102.85	8153.77

NBO price			
Month	**High**	**Low**	**Closing**
Jan-13	0.302	0.285	0.295
Feb-13	0.295	0.285	0.290
Mar-13	0.308	0.279	0.283
Apr-13	0.286	0.267	0.269
May-13	0.281	0.267	0.274
Jun-13	0.285	0.268	0.270
Jul-13	0.302	0.269	0.300
Aug-13	0.311	0.293	0.303
Sep-13	0.303	0.288	0.298
Oct-13	0.300	0.291	0.295
Nov-13	0.306	0.292	0.304
Dec-13	0.328	0.302	0.322

Related Party Transactions

Details of all transactions where a Director and/or other related parties might have a potential interest are provided to the Board for their review and approval, and the interested Director neither participates in the discussions, nor do they vote on such matters.

On a half yearly basis, as of June 30th and December 31st of each financial year, the details of the related party transactions are produced and submitted to the Central Bank and other regulatory bodies for information and proper disclosure.

Details of all the related party transactions are provided to the shareholders as part of the financial statements submitted for approval at the Annual General Meeting along with the statement that transactions are on an arm's length and independent basis and are reasonable.

Internal Control Review

The Board attaches great importance to maintaining a strong control environment and their review has covered all controls, including financial, operational, compliance and risk management.

The Board has a collective responsibility for the establishment, maintenance and review of a system of internal controls that provides reasonable assurance of effective and efficient operations, internal financial control, and compliance with the relevant laws and regulations.

The Board has established a management structure that clearly defines roles and responsibility and reporting lines and has approved the updated policies including credit, expenditure, disclosure, corporate governance etc.

The Bank's financial position, operational and business performance is regularly reported to the Board. The actual performance achieved against budgets and prior period is reported and closely monitored.

Financial information is prepared using appropriate accounting policies that are consistently applied. Operational procedures and controls have been established to facilitate complete, accurate and timely processing of transactions and the safeguarding of assets. They are monitored through compliance with policies and procedures manuals, desk performance instructions and other circulars.

The Bank's internal Disclosure Policy includes the Closed Season period definition. This is notified to all the insiders on a quarterly basis or when required.

Shareholders

Communication with shareholders and investors

The Board is committed to ensure that all material information relating to the Bank's business operations is regularly communicated to its stakeholders and members of the investment community.

The Bank has its own web site, where relevant information relating to the Bank, its products, its operations and annual and quarterly financial statements are posted. The Bank's web-site address is www.nbo.co.om.

The quarterly, half-yearly, and annual results of operations of the Bank are published in leading Arabic and English newspapers in the Sultanate of Oman. After completion of the statutory audit, the annual report and the summary financial statements are sent by post to all shareholders along with the notice of the forthcoming Annual General Meeting of the Bank. Further, the shareholders are advised to contact the Bank whenever they require any updated information regarding the Bank or its operations.

Distribution of Dividends

The distribution of dividends to the shareholders by the Bank during the last five years appears in the table below:

Table 10

Year	Cash dividend	Bonus shares
2009	12%	Nil
2010	15%	Nil
2011	17.5%	2.5%
2012	17.5%	Nil
2013 (subject to Shareholders' approval)	15%	10%

Corporate Social Responsibility (CSR):

During the year 2013, the Bank distributed donations to the charitable organizations and other non-profitable organizations and participated in CSR initiatives totaling RO. 183,609.6 which is within the RO 200,000 limit approved by the Annual General Meeting held on 26th March 2013.

Details of NBO main donations and CSR initiatives during the year 2013:

Table 11

Amount OMR	Details
5,000	Student Excellence Awards
5,000	ESO Ball 2013
16,000	Outward Bound Oman
2,100	Art of Living - YLTP
7,000	Safety First
1,500	Dar Al Atta - 2nd Big Give Competition
2,719.2	Iftar Sa'im
700	Sohar University - Meals for the Blind
3,000	International Surgical update Conference Dr. Salim Al Busaidi
2,000	1st Intl Conference on Advances in Obstetrics & Gynaecology
300	Campaign for Drugs & Smoking - Ministry of Health
251.4	Child Care Centre - night out
2,484	Dinner for Deaf Community
7,000	Issa Al Hassani – Funding going towards supporting his athletic career campaign in body building
300	Injaz Development Programme (support to young achievers)
10,000	Al Mada Arabian
1,600	Oman Association for Elderly
2,000	ECO BOWL 2013
2,500	Industrial Engineering Students
3,500	Group Marriage
700	Al Massarah Hospital
2,000	Oman Hockey Association
1,500	Men's Bowling Association
3,200	SQU Ambassadors
16,255	SQU Students – Al Nattiq
5,000	Oman Cancer Association (OCA) – Funding going towards OCA walkathon
10,000	Oman Association for the Disabled (OAD) - Funding going towards support in the form of disability aids (wheelchairs, hearing aids, etc.)
50,000	Al Watani Foundation
20,000	Partnership with Universities
Total OMR	**183,609.6**

Distribution of Shareholding:

Major shareholders (5% and above)

Table 12

Shareholder name	No. of shares as on 31st December 2013	% of Capital
COMMERCIAL BANK OF QATAR	386,699,095	34.90
SUHAIL BAHWAN GROUP HOLDING LLC	163,370,045	14.74
CIVIL SERVICE EMPLOYEES PENSION FUND	112,191.000	10.13
HSBC A/C MINISTRY OF DEFENCE PENSION FUND	84,847,347	7.66
PUBLIC AUTHORITY FOR SOCIAL INSURANCE	66,425,447	5.99

The shareholding pattern as on 31 December 2013 was:

Table 13

Number of Shares	Number of Shareholders	Total Shares	% of Capital
7,000,000 and above	16	1,003,800,078	90.6
3,000,000 to 6,999,999	6	33,777,770	3
1,500,000 to 2,999,999	5	9,471,727	0.85
500,000 to 1,499,999	33	28,793,369	2.5
100,000 to 499,999	94	20,664,438	1.85
Below 100,000	1079	11,517,618	1.2
Total		**1,108,025,000**	**100%**

A copy of the Management Discussion and Analysis is circulated as part of the Annual Report.

There are no Global Depository Receipts/ Warrants or any Convertible Instruments outstanding.

Auditors:

Having strong internal and external auditors is recognized by the Board as part of sound corporate governance providing an independent and continuous assessment of the adequacy of, and compliance with, the Bank's established policies and procedures.

KPMG

"The shareholders of the Company appointed KPMG as the Company's auditors for the year 2013. KPMG is a leading accounting firm in Oman and is a part of KPMG Lower Gulf that was established in 1974. KPMG in Oman employs more than 130 people, including 4 Partners, 5 Directors and 20 Managers, including Omani nationals and is a member of the KPMG network of independent firms affiliated with KPMG International Co-operative. KPMG is a global network of independent firms providing Audit, Tax and Advisory services and has more than 155,000 people working together in 155 countries worldwide.

KPMG in Oman is accredited by the Capital Market Authority (CMA) to audit joint stock companies (SAOG's). During the year 2013, KPMG billed an amount of RO 72,500 towards professional services rendered to the Company."

Declaration

The Board of Directors declares its liability for preparation of the financial statements in accordance with the applicable standards and rules.

For the year under review the Board has conducted a review of the effectiveness of the Bank's internal control policies and procedures and is satisfied that the Bank's internal control are effective and that appropriate procedures are in place to implement the code's requirements.

The Board of Directors confirms that there are no material issues that affect the continuation of the company and its ability to continue its operations during the next financial year.

Omar Hussain Al Fardan

Chairman

Basel II and III – Pillar III Report 2013

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MBD
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Sultanate of Oman

Tel 968 24709181
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Report to the Board of Directors of National Bank of Oman SAOG in respect of the Basel II – Pillar III Disclosures

We have performed the procedures agreed with you and as prescribed in the Central Bank of Oman ("CBO") Circular No. BM 1027 dated 4 December 2007 ("the Procedures") with respect to the Basel II – Pillar III disclosures ("the Disclosures") of National Bank of Oman SAOG (the "Bank") as at and for the year ended 31 December 2013. The Disclosures were prepared by the Management in accordance with CBO Circular No. BM 1009 dated 13 September 2006, Circular No. BM 1027 dated 4 December 2007 and Circular No. BM 1114 dated 17 November 2013. Our engagement was undertaken in accordance with the International Standard on Related Services applicable to agreed-upon procedures engagements. The Procedures were performed solely to assist you in evaluating the Bank's compliance with the disclosure requirements set out in CBO Circular No. BM 1009 dated 13 September 2006 and Circular No. BM 1114 dated 17 November 2013.

We report our findings as follows:

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

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

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

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

22 January 2014

Paul Callaghan

Name: - NATIONAL BANK OF OMAN S.A.O.G
This is a standalone entity.

CAPITAL STRUCTURE

The authorised share capital of the bank as at 31 December 2013 is 2,000,000,000 shares of RO 0.100 each.

The issued and paid up capital of the bank as at 31 December 2013 is 1,108,025,000 shares of RO 0.100 each

The bank in the prior years has deposited in UAE and Egypt, an amount of RO 5.5 million and RO 19.25 million respectively, of capital as support for its overseas branches. These amounts cannot be withdrawn without the approval of the Central Banks of the countries concerned. The bank has allocated RO 10.5 million of capital towards the Islamic banking window.

The bank's capital structure as at close of 31 December 2013, based on Central Bank of Oman's (CBO) guidelines is as follows:

S. no	Elements of Capital	Amount in RO 000's
	Tier I Capital	
	Local Banks	
1	Paid-up capital	110,803
2	Share premium	34,465
3	Legal reserve	39,586
4	General reserve	4,419
5	Subordinated debt reserve	38,340
6	Stock dividend	11,080
7	Retained earnings	66,206
8	Non-cumulative perpetual preferred stock	-
9	Other non-distributable reserve	-
	Foreign Banks	
10	Assigned capital	-
11	Capital deposits	-
12	Retained earnings	-
13	Interest free funds from HO	-
	Total Gross Tier I Capital	**304,899**
	Deductions	
14	Goodwill	-
15	Deferred tax asset	(460)
16	Intangible Assets, including cumulative unrealised losses recognised directly in equity	-
17	Reciprocal crossholding of bank capital, artificially designed to inflate the capital position of banks/ Shortfall in MCR of Islamic Banking window and foreign branches of the bank.	(19)
	Sub-total	**(479)**
18	**Tier I capital after the above deductions**	**304,420**
19	50% of investments in the capital of banks and other financial entities, other than reciprocal cross holdings of bank capital	-
20	50% of Significant minority and majority investments in commercial entities, which exceed 5% of the bank's net worth for individual significant investments and 20% of the banks' net worth for aggregate of such investments	-
21	50% of shortfall in the regulatory capital requirements in the un-consolidated entities	-
22	50% of investments in unconsolidated banking and financial subsidiary companies associates or affiliates, etc	-
	Sub-total	-
23	**Tier I capital after all deductions**	**304,420**

CAPITAL STRUCTURE (continued)

S. no	Elements of Capital	Amount in RO 000›s
	Tier II Capital	
24	Undisclosed reserves	-
25	Revaluation reserves / Cumulative fair value gains or losses on available for sale instruments	1,263
26	General loan loss provision/General loan loss reserve	30,724
27	Subordinated debt	41,360
28	Hybrid debt capital instruments	-
29	**Total Tier II Capital**	**73,347**
	Deductions	
30	50% of investments in the capital of banks and other financial entities, other than reciprocal cross holdings of bank capital	-
31	50% of Significant minority and majority investments in commercial entities, which exceed 5% of the bank's net worth for individual significant investments and 20% of the banks' net worth for aggregate of such investments	-
32	50% of shortfall in the regulatory capital requirements in the un-consolidated entities	-
33	50% of investments in unconsolidated banking and financial subsidiary companies associates or affiliates, etc	-
	Total deductions from Tier II	-
	Tier II Capital (Net)	**73,347**
34	**Tier III Capital (eligible)**	-
35	**Total Regulatory Capital**	**377,767**

Note: Retained earnings are after deduction of RO 16.6 million towards proposed cash dividend.

CAPITAL ADEQUACY

Qualitative Disclosures:

The ultimate objectives of capital management are three fold:

- Ensure stability of the bank by holding enough capital to cover unexpected loss
- Enhance the efficiency of the bank, by increasing the risk adjusted return at various levels of aggregation (and thereby ensuring that "excess" capital is not held unnecessarily)
- Incentivize informed decision making and proactive risk management through an efficient and effective allocation of capital across the business.

The capital management plan envisaged for the bank is based on the regulatory risk capital framework of Basel II and using standardised approach for calculating the credit as well market risk and the basic indicator approach for operational risk as prescribed by CBO.

The capital management policy of the bank aims to ensure that on a risk adjusted return on capital basis (RAROC), individual lines of business are allocated an appropriate amount of capital. The RAROC model has been implemented for the entire portfolio except for Retail banking where the Central Bank of Oman has defined caps on interest rates, which are followed.

The Asset Liability Committee (ALCO) currently reviews and monitors capital adequacy and requirement for capital on an ongoing basis. Capital adequacy calculation is prepared and submitted for ALCO's review every month. Various stress scenarios, taking into account the earning volatility, credit and market risk impact along with capital allocation by line of business is reviewed in this forum.

CAPITAL ADEQUACY (continued)

Qualitative Disclosures:

A set of triggers is followed as part of the capital management so as to provide the bank with an early warning system in terms of its level of capital, to enable it to take suitable measures at an early stage to prevent capital falling below acceptable limits.

The Bank prepares ICAAP (Internal Capital Adequacy Assessment Process) document in line with Basel II guidelines to evaluate all Enterprise-wide Risks that are not fully captured in the Pillar I Risks. This document addresses through objective and subjective evaluation, the adequacy of capital after considering the impact of additional risks, such as, Residual Credit Risk, Residual Credit Risk Mitigation (CRM) Risk, Residual Credit Risk - Equity, Residual Market Risk - Currency, Credit Concentration Risk, Liquidity Risk, Interest Rate Risk in Banking Book, Settlement Risk, Reputation Risk, Strategic Risk and Compliance Risk as well as various levels of stress tests. Following the guidelines issued by the Central Bank of Oman in December 2012, assessment under ICAAP is carried out and submitted to the Central Bank of Oman within the prescribed guidelines. The bank will also factor in Basel III, while carrying out its assessment.

Quantitative Disclosures:

Position as at 31.12.13 (RO'000)

S.no.	Details	Amount
1	**Tier I capital (after supervisory deductions)**	**304,420**
2	**Tier II capital (after supervisory deductions & upto eligible limits)**	**73,347**
3	Tier III capital (upto a limit where Tier II & Tier III does not exceed Tier I)	-
4	Of which, total Eligible Tier III Capital	-
5	**Risk Weighted Assets (RWAs) – Banking Book**	**2,349,255**
6	**Risk Weighted Assets (RWAs) – Operational Risk**	**183,501**
7	**Total Risk Weighted Assets (RWAs) – Banking Book + Operational Risk**	**2,532,756**
8	Minimum required capital to support RWAs of banking book and operational risk	303,931
	i) Minimum required Tier I capital for banking book and operational risk	230,584
	ii) Tier II capital required for banking book and operational risk	73,347
9	Tier I capital available for supporting Trading Book	69,977
10	Tier II capital available for supporting Trading book	-
11	**Risk Weighted Assets (RWAs) – Trading Book**	**48,385**
12	Total capital required to support Trading Book	5,806
13	Minimum Tier I capital required for supporting Trading Book	1,655
14	Used Eligible Tier III Capital	-
15	**Total Regulatory Capital**	**377,767**
16	**Total Risk Weighted Assets – Whole bank**	**2,581,141**
17	**BIS Capital Adequacy Ratio**	**14.6**
18	Unused but eligible Tier III Capital	-

Basel III Disclosures:

In compliance with CBO circular BM 1114 dated 17 November 2013; mandatory disclosures are made in the report.

CAPITAL ADEQUACY (continued)

Certain additional capital adequacy disclosures are as follows:

Position as at 31.12.13 (RO'000)

Sl No	Details.	Gross balance (Book value)	Net balance (Book value)	Risk Weighted Assets
1	On balance sheet items	2,943,272	2,826,868	2,012,494
2	Off balance sheet items	401,613	401,613	328,611
3	Derivatives	8,150	8,150	8,150
4	Operational Risk	-	-	183,501
5	Market Risk	-	-	48,385
6	Total	3,353,035	3,236,631	2,581,141
7	Tier I Capital	304,420	-	-
8	Tier 2 Capital	73,347	-	-
9	Tier 3 Capital	-	-	-
10	Total Regulatory Capital	377,767	-	-
11	Total required Capital	309,737		
11.1	Capital requirement for credit risk	281,911	-	-
11.2	Capital requirement for market risk	5,806	-	-
11.3	Capital requirement for operational risk	22,020	-	-
12	Tier I Ratio	11.8		
13	**Total Capital ratio**	**14.6**		

RISK EXPOSURE AND ASSESSMENT:

Risk Management

The primary objective of risk management is to safeguard the Bank's resources from the various risks which the Bank faces. The Risk Group comprises of Corporate Credit Risk, Retail Credit Risk, Market Risk, Operational Risk, Information Security and Business Continuity Risk, Legal Risk, Loan Review Mechanism and Remedial Management. All risk management functions report to Chief Risk Officer and are independent from Business Units.

The Bank's Credit Risk Strategy is aimed at adopting a structured approach to credit growth and de-emphasizing areas that are considered relatively high risk based on the prevailing and expected market conditions.

The administrative framework and the policies and procedures in place for the management of risks are based on international best practices, the recommendations of the Basel Committee and the guidelines of the Central Bank of Oman.

The Bank has exposure to the following risks:-

Credit Risk

Qualitative Disclosures:

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, and arises principally from the Bank's loans and advances to customers and other banks and investment securities. For risk management reporting purposes, the Bank considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, country and sector risk).

The Bank manages and controls credit risk by setting internal limits on the amount of risk it is willing to accept for individual counterparties and groups (single obligors) and industry sectors in line with the guidelines of Central Bank of Oman. The Bank computes expected losses on credit exposure on the basis of risk classification of both corporate and retail loans in the delinquent category based on the guidelines of Central Bank of Oman. The objective of the Bank in management of credit risk is to protect the credit quality of its credit exposures. Credit Risk is managed within the regulatory requirement of Central Bank of Oman, risk framework provided in the Risk Charter and Credit Policies and Procedures.

The policies and procedures are periodically reviewed by the Management and the Board Risk Committee to ensure alignment to the current best practices. Credit exposures are approved by delegated authorities based on delegation by the Board and Board Risk Committee. The delegation of authorities is based on the size of the single obligor exposure, the credit quality (internal, external rating) as well as level of credit risk mitigation (collateral, guarantees, etc.) for the proposed exposures. For retail exposures, there is delegation of authority for handling exceptions to approved program lending. Control, monitoring and management of credit exposures are done in coordination with respective Business Units as per established procedures.

The Bank has in place a robust credit risk management structure comprising of Corporate Credit Risk, Retail Credit Risk, Loan Review Mechanism, Remedial Management and Credit Administration and Control Divisions.

Corporate Credit Risk:

Corporate Credit Risk Division is responsible for independent assessment and control of the risks related to all Corporate, Business Banking and Financial Institutions exposures. The Division reviews and assesses credit risk for proposed exposures prior to facilities being committed to customers by the concerned business units. Renewals and reviews of facilities are subject to the same process. Each proposal is also assessed with respect to established concentration limits for various economic sectors, countries, risk grades, etc. and deviations, if any are highlighted. The bank follows risk based pricing and each credit proposal is also assessed based on internal benchmarks of required risk adjusted returns. The bank has implemented a customized Moody's Risk Analyst model for risk rating corporate borrowers. Corporate Credit Risk Division also provides advice and guidance to business units with a view to promoting best practices throughout the bank in the management of credit risk.

In addition to formal annual credit risk reviews of each corporate facility, more frequent reviews are also undertaken for watch list accounts, public companies and large exposures. Further, the bank continues to undertake quarterly review of financial institutions and country portfolio including stress tests and review of adverse rating migrations and outlooks in line with best practices and regulatory guidelines.

Retail Credit Risk:

Retail Credit Division manages the credit risk in the retail portfolio. Credit facilities are offered to retail customers primarily based on Product Programs. A programmed lending approach contains standard risk acceptance criteria and loan processing practices in order to optimize the efficiency and risk/ reward of those portfolios. Product programs are approved by Board Risk Committee and their performance is monitored on a regular basis and reviewed.

Based on the prevailing market conditions, the Bank sustained its continuous monitoring of the portfolio with a thorough review of the Credit Policy / Product Program. Credit facilities outside the Product Programs / Policy Parameters are individually reviewed and assessed by the Retail Banking division & the Retail Credit Risk Division.

Credit Risk (continued)

Several system enhancements and new processes have been introduced across critical activities to improve processing quality and efficiency and to enhance the recovery methodologies of the retail portfolio. The Bank has implemented an automated Loan Collection System in order to enhance its collections and recovery processes. It also implemented an automated Loan Origination System to further enhance its Retail Credit Risk framework.

Loan Review Mechanism

An independent Loan Review Mechanism Division evaluates the quality of loan book, balance between risk and reward and brings about qualitative improvements in credit administration. The division evaluates effectiveness of loan administration, integrity of credit grading process, assessment of general and specific loan loss provisions, portfolio quality, etc.

Remedial Management:

Remedial Management is responsible for pursuing each delinquent account, by using all available measures, to reduce exposure to high risk groups, to maximize recoveries, rehabilitating these relationships so that they can be returned to the business lines as fully performing accounts and progressively improve the status of the portfolio.

Credit Administration and Control:

The Credit Administration and Control section ensures:

- Documentation for all loans is properly completed, executed and maintained.
- The correct approving authority approves credit lines and details are accurately recorded.
- Production of adequate and accurate reports covering various credit risk exposures.
- Irregularities are reported and corrective action is taken.
- Review of and participation in any new/existing product offerings of the Bank.
- Various internal reporting and external reporting is prepared on a periodical basis.
- That all approved limits are input into the system under a “maker and checker” concept.
- Disbursement of funds for all approved credit exposures is appropriately authorized.

Risk Reporting and Measurement Systems

The scope and nature of the risk reporting and/or measurement system are as follows:

Risk Reporting

A comprehensive review of the Corporate Credit Portfolio is conducted on a quarterly basis and provided to the Senior Management and the Risk Committee of the Board. Salient areas covered in the review include:

- Exposures downgraded/negatively migrated
- Weighted average credit grade profile
- Portfolio concentration/ performance
- Position of restructured exposures
- Position of past due exposures
- Exposures secured by equity
- Exposures to real estate and leasing sectors
- Syndicated exposures
- New relationships
- Exposures to senior members and non-resident borrowers
- Exposures to countries / financial institutions

Credit Risk (continued)

In addition, the bank conducts industry studies in various sectors considered to have a bearing on the portfolio credit quality, such as, real estate, leasing, and sectors impacted by volatility in commodity prices. For FIG exposures the bank conducts stress tests and quarterly reviews of adverse rating migrations and outlooks in line with best practices and regulatory guidelines. These reports are reviewed periodically by the Management and Board Risk Committees.

A review of the Retail Credit Portfolio is conducted on a monthly basis and provided to the Management Risk Committee, and every quarter the latest report is presented to the Board Risk Committee. Salient areas covered in the review include:

- Portfolio review
- Management summary, delinquency and NPA trends (including product-wise delinquency analysis, vintage analysis, delinquencies across various credit criteria, etc.)
- Projects undertaken / fulfilled during the month
- Recoveries

Measurement:

Currently the Bank computes the expected losses on its credit exposure on the basis of risk classification of both corporate and retail loans to delinquent category based on guidelines of the Central Bank.

The Bank obtains collateral/ credit mitigants against loans and advances in the form of mortgage over property, pledges over cash/ securities, guarantees, etc. Estimates of fair value are based on the value of the collateral assessed at the time of borrowing and at regular intervals as per internally approved procedures - every three years for properties, daily for equities, etc. Collateral generally is not held against credit exposures to banks.

Definition of past due and impaired:

A loan, where repayments of principal and interest are pre-determined, shall be considered as past due, when it has not been paid on the due date fixed by the Bank, as per terms of sanction.

Credit facilities like overdrafts, lines of credit, etc. where no definite repayments are pre-determined shall be treated past due, if:

- The outstanding balance remains continuously in excess of 10% of the sanctioned/authorized limit, or
- In cases where the outstanding balance in the principal operating account is less than the sanctioned/authorized limit, but there are not enough credits in the account to cover the interest charged, or
- In cases where unauthorized drawings have frequently been allowed.
- Bills, which remain unpaid on due dates, shall be considered as past due.

All loans and advances, which are classified as substandard, doubtful and loss, are categorized as Non-Performing Loans ("NPL") i.e. impaired assets.

An evaluation in made on an ongoing basis, at least quarterly, to determine whether there is objective evidence that a specific financial asset may be impaired. If such evidence exists, the estimated recoverable amount of that asset is determined and any impairment loss, based on the net present value of future anticipated cash flows, recognized in the income statement.

Credit Risk (continued)

Credit Risk Management Policy:

A comprehensive set of Corporate Credit Risk Policy and Procedures Manuals, provides detailed policy guidelines and embedded in which are the regulatory/ in-house limits. Further, Procedures Manuals provide detailed process guidelines about the credit process and the templates to be used to process the individual credit applications. Financial Institutions Group (FIG) exposures are managed as per the Financial Institutions Policy guidelines. Retail Credit Policy outlines the policy guidelines related to retail banking and covers product programs and parameters relating to Salary Related Loans, Mortgages, Credit Cards and other retail product offerings. Credit Policies and Procedures are periodically reviewed to ensure that they are aligned to the market and regulatory guidelines

Quantitative Disclosure:

(i) Total gross credit exposures, plus daily average of gross exposure over the period broken down by major types of credit exposure as at 31 December 2013:

(RO'000)

S. No	Type of Credit Exposure	Average Gross Exposure		Total Gross Exposure as at	
		Current Year	Previous Year	31 December 13	31 December 12
1	Overdrafts	51,953	45,606	54,268	39,630
2	Personal loans	1,004,726	883,158	1,056,760	963,568
3	Loans against trust receipts	65,935	49,487	60,723	57,286
4	Other loans	976,913	896,679	951,636	906,332
5	Bills purchased / discounted	17,427	25,145	20,121	19,576
6	Islamic Finance	8,346	-	13,333	-
	Total	**2,125,100**	**1,900,075**	**2,156,841**	**1,986,392**

(ii) Geographic distribution of exposures by major types of credit exposure as at 31 December 2013:

(RO'000)

S. No	Type of Credit Exposure	Oman	Other GCC countries	OECD countries	India	Pakistan	Others	Total
1	Overdrafts	45,354	8,710	-	-	-	204	54,268
2	Personal loans	1,054,482	1,765	-	-	-	513	1,056,760
3	Loans against trust receipts	52,065	8,658	-	-	-	-	60,723
4	Other loans	880,618	48,302	21,175	-	-	1,541	951,636
5	Bills purchased / discounted	20,121	-	-	-	-	-	20,121
6	Islamic Finance	13,333	-	-	-	-	-	13,333
	Total	**2,065,973**	**67,435**	**21,175**	**-**	**-**	**2,258**	**2,156,841**

Credit Risk (continued)

(iii) Industry or counter party type distribution of exposures, broken down by major types of credit exposure as at 31 December 2013:

S. No	Economic Sector	Overdraft	Loans	Bills Purchased / Discounted	Others	Total	Islamic Finance	Gross Total	Off Balance Sheet Exposure
1	Import trade	-	-	-	52,065	52,065	-	52,065	-
2	Export trade	-	341	-	-	341	-	341	-
3	Wholesale and retail trade	10,768	82,333	579	8,044	101,724	-	101,724	44,868
4	Mining and quarrying	972	4,937	1,282	-	7,191	-	7,191	2,945
5	Construction	11,578	171,348	7,726	305	190,957	5,061	196,018	155,254
6	Manufacturing	4,512	158,255	699	-	163,466	-	163,466	44,118
7	Electricity, gas and water	64	104,538	441	-	105,043	-	105,043	50,383
8	Transport and Communication	340	112,039	180	-	112,559	-	112,559	6,574
9	Financial institutions	12,902	71,853	2	-	84,757	-	84,757	203,353
10	Services	5,517	145,095	7,875	309	158,796	-	158,796	44,564
11	Personal loans	-	1,056,751	-	-	1,056,751	8,272	1,065,023	190
12	Agriculture and allied activities	261	13,170	54	-	13,485	-	13,485	740
13	Government	-	21	-	-	21	-	21	-
14	Non-Resident lending	-	49,162	-	-	49,162	-	49,162	-
15	All Others	7,354	38,553	1,283	-	47,190	-	47,190	9,761
	Total	**54,268**	**2,008,396**	**20,121**	**60,723**	**2,143,508**	**13,333**	**2,156,841**	**562,750**

(iv) Residual contractual maturity as at 31 December 2013 of the whole loan portfolio, broken down by major types of credit exposure:

(RO'000)

S. No	Time Band	Overdraft	Loans	Bills Purchased/ Discounted	Others	Islamic Finance	Total	Off Balance Sheet Exposure
1	Up to 1 month	2,713	140,576	9,618	17,117	-	170,024	168,019
2	1-3 months	2,713	159,265	8,678	23,100	-	193,756	128,272
3	3-6 months	2,713	62,593	1,825	19,776	-	86,907	137,971
4	6-9 months	2,713	38,624	-	730	-	42,068	34,580
5	9-12 months	2,713	90,239	-	-	-	92,952	32,718
6	1-3 years	13,568	213,819	-	-	242	227,629	44,304
7	3-5 years	13,568	150,539	-	-	911	165,018	16,733
8	Over 5 years	13,567	1,152,740	-	-	12,180	1,178,487	153
	Total	**54,268**	**2,008,395**	**20,121**	**60,723**	**13,333**	**2,156,841**	**562,750**

Credit Risk (continued)

(v) Total loan broken down by major industry or counter party type as at 31 December 2013:

(RO'000)

S. No	Economic Sector	Gross Loans	Of which, NPLs	General Provisions held	Specific Provisions held	Reserve Interest	Provisions made during the year	Advances written off during the year
1	Import Trade	52,065	-	521	-	-	-	-
2	Export Trade	341	341	0	341.00	-	-	-
3	Wholesale & Retail Trade	101,724	12,229	895	5,032	7,060	1,197	223
4	Mining & Quarrying	7,191	-	72	-	-	-	-
5	Construction	196,018	3,229	1,928	1,543	5,233	225	1,661
6	Manufacturing	163,466	16,118	1,473	10,889	3,867	2,214	-
7	Electricity, gas and water	105,043	-	1,050	-	-	-	-
8	Transport and Communication	112,559	1,823	1,107	1,254	570	601	-
9	Financial Institutions	84,757	-	848	-	-	-	-
10	Services	158,796	1,212	1,576	484	586	5,024	-
11	Personal Loans	1,065,032	22,003	19,584	11,006	1,652	9,489	5,472
12	Agriculture and Allied Activities	13,485	1,252	122	332	791	-	-
13	Government	21	-	-	-	-	-	-
14	Non-Resident Lending	49,162	-	492	-	-	-	-
15	All Others	47,181	3,080	917	6,286	1,131	443	118
	Total	**2,156,841**	**61,287**	**30,585**	**37,167**	**20,890**	**19,193**	**7,474**

(vi) Amount of impaired loans as at 31 December 2013, broken down by significant geographical areas including, with the amounts of specific and general allowances related to each geographical area:

(RO'000)

S. No	Gross Loans	Gross Loans	Of which NPL's	General Provisions Held	Specific Provisions Held	Reserve Interest	Provisions made during the year	Advances written off during the year
1	Oman	2,065,973	50,392	29,559	27,428	17,474	17,671	5,710
2	Other GCC Countries	67,435	8,646	814	7,578	3,323	1,305	1,764
3	OECD Countries	21,175	-	212	-	-	212	-
4	India	-	-	-	-	-	-	-
5	Pakistan	-	-	-	-	-	-	-
6	Others	2,258	2,249	-	2,161	93	5	-
	Total	**2,156,841**	**61,287**	**30,585**	**37,167**	**20,890**	**19,193**	**7,474**

Credit Risk (continued)

(vii) Movement of gross loans

(RO'000)

S. No	Details	Performing Loans: Standard	Performing Loans: Special Mention	Non-performing Loans: Sub-Standard	Non-performing Loans: Doubtful	Non-performing Loans: Loss	Total
	Movement of Gross Loans during the year ended 31 December 2013						
1	Opening balance	1,866,582	66,612	6,989	18,395	27,814	1,986,392
2	Migration / changes (+/-)	(54,882)	34,603	2,807	(5,809)	23,281	-
3	New loans	708,816	1,854	151	674	2,953	714,448
4	Recovery of loans	(512,810)	(15,221)	(1,703)	(5,446)	(1,345)	(536,525)
5	Loans written off	-	-	-	(1,656)	(5,818)	(7,474)
6	**Closing balance**	**2,007,706**	**87,848**	**8,244**	**6,158**	**46,885**	**2,156,841**
7	Provisions held	30,081	3,300	2,508	2,677	29,186	67,752
8	Reserve interest	-	4,494	255	403	15,738	20,890

Credit Risk –Disclosures for portfolios subject to the standardized approach.

Qualitative Disclosures:

- The bank is following Moody's rating for both sovereign and interbank exposures and the balance is treated as unrated at 100% risk.
- With the approval of the CBO, the bank uses the discretion to treat loans and advances as unrated at risk weight of 100%, except housing loans which are risk weighted at 35% based on the requirements as stipulated in the guidelines issued by CBO.
- Similarly, with the approval of CBO, the bank uses the discretion of the simple approach for recognising collaterals.

Quantitative Disclosures:

Gross exposure amount as at 31 December 2013, subject to the standardized approach is as below:

(RO'000)

S. No	Product / Rating	Carrying 0%	Carrying 20%	Carrying 35%	Carrying 50%	Carrying 100%	Carrying 150%	Total
	Rated							
1	Sovereign	485,903	-	-	-	5,012	-	490,915
2	Banks	-	105,785	-	81,715	46,633	56	234,189
	Unrated							
1	Corporate	-	35,918	-	-	814,241	-	850,159
2	Retail	-	-	-	-	833,781	-	833,781
3	Claims secured by residential property	-	-	199,974	-	-	-	216,869
4	Claims secured by commercial property	-	-	-	-	138,535	-	138,535
5	Past due loans	-	-	-	-	56,257	-	56,257
6	Other assets	36,538	18,525	-	-	53,377	10,644	119,084
7	Venture Capital & Private Equity Investments	-	-	-	-	-	3,483	3,483
8	Off-balance Sheet Items	1,662	5,335	-	134,144	268,622	-	409,763
	Total Banking Book	**524,103**	**165,563**	**199,974**	**215,859**	**2,233,353**	**14,183**	**3,353,035**

Credit Risk Mitigation

Qualitative Disclosures:

The bank holds collateral against loans and advances to customers in the form of cash, government development bonds, acceptable financial securities, mortgage interest over property, and other registered charge over assets, and guarantees. Estimates of fair value are based on the value of the collateral assessed on an on-going basis.

The Bank has adopted the simple approach for collaterals.

Quantitative Disclosures:

S.No	Details	Amount
1	Corporate Cash Collateral	58,347
2	Specific provisions on loans and advances and due from banks	58,058
3	**Total**	**116,405**

The capital requirement on credit risk as at 31 December 2013 is RO (‘000) 281,911.

Market Risk

Market Risk arises from fluctuations in interest rates, foreign exchange rates and equity prices. The board has set limits for acceptable levels of Market Risk. The Assets and Liabilities Committee (ALCO) monitors this on a regular basis. Market Risk is managed based on Central Bank of Oman guidelines and the Market Risk Policy, which is approved and periodically reviewed by the Risk Committee of the Board. Separate market risk policies exist for the Bank’s operations in Egypt and UAE to make them compatible with the local regulatory and operational environments. Stress tests are also conducted periodically to analyze the impact of bank and market specific crises on the earnings and capital of the Bank. Variables include movements in equity value, foreign exchange, etc. The results are reviewed by ALCO, Management and Board Committees.

Market Risk Division provides risk-weightings for treasury products in line with best practices based on potential future exposure. The middle-office along with Treasury and Investment Banking Operations monitors the Market Risk positions of the Bank.

Trading Book

The exposure under the trading book of the Bank includes relatively small foreign exchange exposure primarily arising from the holding of day-end positions in currencies overnight, and exposure towards interest rate related instruments. Value-at-risk (VaR) is computed every month for all non-pegged currencies in which the Bank’s end-of-the-day position is above a minimum threshold. The VaR is reviewed by ALCO, Management Risk Committee and Board Risk Committee.

For the purpose of capital charge, the three month average of the sum of the net short positions or net long positions, whichever is higher, is taken. The average is worked out on the basis of the actual positions as obtained on all the working days during the three month period immediately preceding the reporting date. The capital charge is computed at 12% to reflect the general market risk.

Capital required for trading book as at 31 December 2013:

- Foreign Exchange Risk - RO (‘000) 5,806.

Banking book

Equity Price Risk

The proprietary equity positions are held in the 'Available for Sale' category and not in the 'Held for Trading' category. As such, no VaR is calculated. The market risk is monitored though daily Mark to Market reports which are circulated to the management and required actions, if any, are promptly taken as per the investment Policy, which inter-alia provides sector concentration limits, trigger levels and other guidelines for prudent management of the portfolio.

Interest Rate Risk

The principal market risk to which non-trading portfolio is exposed is the risk of loss from fluctuation in the future cash flows or fair values of financial instruments because of changes in market interest rates. 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 re-pricing of assets and liabilities.

Interest rate risk is managed by monitoring the sensitivity of the Bank's financial assets and liabilities to various standard interest rate scenarios. Standard scenarios that are considered on a monthly basis include a 200 basis point (bp) parallel fall or rise in yield curves to review the impact on the economic value of the assets and liabilities and the equity of the Bank and impact on the earnings of the Bank up to one year.

In respect of monitoring the impact of interest rate changes on the earnings of the Bank, the Bank has set internal limits. Positions are monitored on a monthly basis and hedging strategies used to ensure positions are maintained within established limits.

The methods for interest rate sensitivity analysis are a traditional Maturity Gap Analysis (to measure the interest rate sensitivity of earnings), and duration (to measure interest rate sensitivity of capital) as per methodology provided by Basel Committee in 2004.

Quantitative Disclosures:

The assumptions used to measure the sensitivity is parallel shift in interest rate by 200 basis points (bps) to measure the interest sensitivity of earnings and interest rate sensitivity of capital.

As at December 2013	200 bps increase	200 bps decrease
Earnings impact - RO›000s	**11,447**	**(11,447)**
Earnings impact - USD›000s	**29,732**	**(29,732)**

The bank has been consistently using the above methods/assumptions to conduct interest rate sensitivity analysis. The analysis is carried out at monthly rests and results thereof monitored against the in-house prescribed limits; the results are also actively deliberated at the ALCO meetings. There have not been any significant changes in interest rate risk management process in the bank during the year.

Interest Rate Risk (continued)

The bank's interest sensitivity position, in line with guidelines issued by Central bank of Oman, based on contractual re-pricing arrangements at 31 December 2013 was as follows:

	Average effective interest rate	On demand within 3 months RO'000	3 to 12 months RO'000	1 to 5 years RO'000	Over 5 years RO'000	Non interest sensitive RO'000	Total RO'000
Cash and balances with Central Banks	**0.12%**	**105,000**	**-**	**-**	**-**	**263,316**	**368,316**
Due from banks and other money market placements	**1.78%**	**228,518**	**-**	**-**	**-**	**-**	**228,518**
Loans and advances (net)	**5.49%**	**812,003**	**384,922**	**417,422**	**453,852**	**-**	**2,068,199**
Non-trading financial investments	**2.66%**	**13,201**	**7,552**	**85,083**	**-**	**26,767**	**132,603**
Premises and equipment	**N/A**	**-**	**-**	**-**	**-**	**20,104**	**20,104**
Deferred tax assets	**N/A**	**-**	**-**	**-**	**-**	**460**	**460**
Other assets	**N/A**	**-**	**-**	**-**	**-**	**78,141**	**78,141**
Total assets		**1,158,722**	**392,474**	**502,505**	**453,852**	**388,788**	**2,896,341**
Due to banks and other money market deposits	**1.96%**	**226,359**	**-**	**-**		**-**	**226,359**
Customers' deposits	**1.66%**	**196,240**	**770,013**	**319,393**	**-**	**893,513**	**2,179,159**
Other liabilities	**N/A**	**-**	**-**	**-**	**-**	**77,512**	**77,512**
Taxation	**N/A**	**-**	**-**	**-**	**-**	**5,527**	**5,527**
Subordinated funds	**6.10%**	**-**	**-**	**37,100**	**42,600**	**-**	**79,700**
Shareholders' equity	**N/A**	**-**	**-**	**-**	**-**	**328,084**	**328,084**
Total liabilities and shareholders' equity		**422,599**	**770,013**	**356,493**	**42,600**	**1,304,636**	**2,896,341**
Total interest rate sensitivity gap		**736,123**	**(377,539)**	**146,012**	**411,252**	**(915,848)**	**-**
Cumulative interest rate sensitivity gap		**736,123**	**358,584**	**504,596**	**915,848**	**-**	**-**

Liquidity Risk

Qualitative Disclosures:

Liquidity may be defined as a bank's ability to ensure the availability of funds to meet all on-balance sheet and off-balance sheet commitments at a reasonable price. Liquidity Risk can in turn be defined as the risk to earnings and capital arising from a bank's potential inability to meet its liabilities when they become due. Conversely, liquidity risk also manifests itself in the form of opportunity losses due to holding excess liquidity relative to liabilities.

The strategy of the Bank in management of liquidity risk is to minimize the resultant impact on the earnings of the Bank. 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 manages the liquidity risk based on Central Bank of Oman guidelines and Liquidity Risk Policy and Liquidity Contingency Policy.

NBO takes a two-tiered approach to Liquidity Risk Management

Going concern Liquidity Management - management of the liquidity position within specified parameters to ensure all liabilities can be met on a timely basis.

Event Risk Liquidity Management - ensuring that in the event of either a firm-specific or general market event, the Bank is able to generate sufficient liquidity to withstand a short term liquidity crisis. Event Risk Liquidity Management includes the following tools:

- Stress test: a quantitative analysis of liquidity impact of several (market and bank specific) liquidity crises.
- Liquidity buffer: mitigation of an event risk is achieved through the provision of standby liquidity in the form of unencumbered, Central Bank eligible collateral and stand-by lines.
- Contingency Funding Plan: A comprehensive Liquidity Contingency Plan is in place at the Bank.

The overall Liquidity Risk is kept at such a level that NBO is able to resume its business after a specified crisis.

Treasury division of the Bank 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. Treasury division maintains a portfolio of short-term liquid assets, largely made up of short-term liquid investment securities and inter-bank facilities, to ensure that sufficient liquidity is maintained within the Bank as a whole.

The Bank is subject to liquidity limits prescribed by the CBO. Additionally, the bank has also set internal mismatch limits by currency and limits for ensuring that liquidity lines are sufficient to meet short term maturing obligations.

The monthly liquidity position is monitored through the Statement of Maturities of Assets and Liabilities to ensure that the gaps are within the limits prescribed by the regulator and those set in-house. The Bank also periodically conducts stress tests on liquidity based on market and bank specific events.

Management periodically reviews the strategy and policies related to management of liquidity to ensure that necessary actions are implemented for monitoring and controlling liquidity risk.

The Bank has in place an effective and efficient liquidity risk management structure comprising an active ALCO which meets at monthly intervals and more frequently, if required. ALCO is kept informed regularly of the liquidity situation of the Bank and immediately if there are any material changes in the Bank's current or prospective liquidity position.

Liquidity Risk (continued)

The scope and nature of the risk reporting and/or measurement system:

Scope and Nature of Risk Reporting:

Maturities of Assets and Liabilities is prepared on a monthly basis and more frequently, as required, setting out the maturity profile of the various assets and liabilities and off-balance sheet items. The statement contains the cumulative gaps vis-à-vis cumulative liabilities for each prescribed time band and the position of these gaps vis-à-vis the Regulatory and in-house limits is also reported therein. This statement is placed before the ALCO at its meetings and in case any of the gap limits is exceeded, the same is escalated immediately to the ALCO along with analysis and further action planned to bring the position within the limits.

A Liquidity Lines statement is also prepared based on assumptions set out in the Liquidity Policy to evaluate the Bank's ability to meet its liabilities maturing in one month time band. Further, the liquidity of the Bank is assessed under bank specific and market specific stress scenarios and impact on gap positions and Liquidity Lines is estimated. Daily Financial Risk Report is used for monitoring the daily ratios and gaps and Early Warning Indicators for assessing any potential liquidity impact of leading indicators. These reports are regularly reviewed by the ALCO, Management and Board Risk Committee.

Measurement:

The monitoring and control of Liquidity Risk is done on an ongoing basis. The Bank uses the maturity ladder approach, which calculates the cumulative surplus or deficit of funds at selected time bands. The cash flows are placed in different time bands based on future behavior of assets, liabilities and off-balance sheet positions. In order to ensure uniformity in the treatment of behavioral patterns of assets, liabilities and off-balance sheet positions, the Central Bank has evolved a broad framework, which has been subscribed to by the Bank. In addition, the Bank regularly evaluates its liquidity position with respect to the liquidity ratios prescribed in the Liquidity Risk Policy.

The Bank has put in place "Liquidity Risk Policy" and "Liquidity Contingency Plan"- duly approved by the Board Risk Committee, which provides detailed guidelines for mitigating the risk. In case of a contingency, the policy provides a blue-print for asset sales, market access and restructuring the maturity and composition of assets and liabilities.

As an on-going mitigant the Bank has in place the availability of liquidity support in the form of committed lines of credit and reciprocal arrangements. The continuing availability of the CBO liquidity window, which was introduced in the wake of the global financial crisis, is also one of the mitigants of the liquidity risk. Besides, the Bank ensures the liquidity of certain assets as per the Liquidity Contingency Plan as a buffer against liquidity events.

The Bank has also put in place Country and Transfer Risk Policies to primarily control and monitor cross border exposures.

Quantitative Disclosures:

The maturity profile of the assets and liabilities in line with guidelines issued by Central bank of Oman, at 31 December 2013 was as follows:

	On demand within 3 months	3 to 12 months	Subtotal less than 12 months	1 to 5 years	Over 5 years	Subtotal over 12 months	Total
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Cash and balances with Central Banks	266,853	45,450	312,303	32,522	23,491	56,013	368,316
Due from banks and other money market placements	199,258	29,260	228,518	-	-	-	228,518
Loans and advances (net)	363,780	155,446	519,226	392,647	1,156,326	1,548,973	2,068,199
Non-trading financial investments	102,121	3,357	105,478	27,125	-	27,125	132,603
Premises and equipment	-	-	-	-	20,104	20,104	20,104
Deferred tax assets	460	-	460	-	-	-	460
Other assets	75,923	2,218	78,141	-	-	-	78,141
Total assets	1,008,395	235,731	1,244,126	452,294	1,199,921	1,652,215	2,896,341
Due to banks and other money market deposits	87,759	42,350	130,109	96,250	-	96,250	226,359
Customers' deposits	494,630	712,949	1,207,579	578,620	392,960	971,580	2,179,159
Other liabilities	67,165	6,790	73,955	3,557	-	3,557	77,512
Taxation	5,527	-	5,527	-	-	-	5,527
Subordinated funds	-	-	-	53,200	26,500	79,700	79,700
Shareholders' equity	-	-	-	-	328,084	328,084	328,084
Total liabilities and shareholders' equity	655,081	762,089	1,417,170	731,627	747,544	1,479,171	2,896,341

Operational Risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Bank cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Bank is able to manage the risks. Controls include effective segregation of duties, access, authorization and reconciliation procedures, staff training and assessment processes, including the use of internal audit.

The bank follows basic indicator approach for determining operational risk.

The Capital charge for operational risk under Basic Indicator approach is calculated by taking the average of gross income multiplied by 15%, for each of the last three financial years, excluding years of negative or zero gross income. The gross income is Net interest income (+) Non interest income (+) Provisions for unpaid interest (-) realized profit on sale of Available for Sale (AFS) investments (-) extraordinary / irregular items of income

Capital requirement for operational risk as per Basel II is RO (000s) 22,020

Insurance is another tool used by the bank as an operational risk mitigant. Insurance such as Bankers' Blanket Bond, Electronic and Computer Crimes, Professional Indemnity, incomplete transactions, etc as obtained by the bank aim at protecting the bank from high severity risks by reducing the financial impact of the same.

In addition to the above and in order to keep control of operational incidences / losses the bank has set in place a special operational risk appetite against which incidents / losses are being monitored regularly for possible breaches and appropriate mitigates are put in place.

BASEL III – Transition Disclosure:

Further to the Guidelines on composition of capital disclosure requirements (CP1 & CP2) issued by Central Bank of Oman, the following are the mandatory disclosures for the year ended 31 December 2013.

Basel III common disclosure template to be used during the transition of regulatory adjustments (i.e. from 1 January 2013 to 1 January 2018) (RO '000)

	AMOUNTS SUBJECT TO PRE-BASEL III TREATMENT
Common Equity Tier 1 capital: instruments and reserves	
Directly issued qualifying common share capital (and equivalent for non-joint stock companies) plus related stock surplus	145,268
Retained earnings	66,206
Accumulated other comprehensive income (and other reserves)	93,425
Public sector capital injections grandfathered until 1 January 2018	-
Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET1)	-
Common Equity Tier 1 capital before regulatory adjustments	**304,899**
Common Equity Tier 1 capital: regulatory adjustments	
Deferred tax assets arising from temporary differences (net of related tax liability)	(460)
National specific regulatory adjustments of which: Shortfall in MCR of Islamic Banking window and foreign branches of the bank	(19)
Total regulatory adjustments to Common equity Tier 1	**(479)**
Common Equity Tier 1 capital (CET1)	**304,420**
Additional Tier 1 capital: instruments - NIL	
Additional Tier 1 capital: regulatory adjustments	
Total regulatory adjustments to Additional Tier 1 capital	**-**
Additional Tier 1 capital (AT1)	**-**
Tier 1 capital (T1 = CET1 + AT1)	**304,420**

Tier 2 capital: instruments and provisions	
Directly issued qualifying Tier 2 instruments plus related stock surplus	-
Directly issued capital instruments subject to phase out from Tier 2	41,360
Tier 2 instruments (and CET1 and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties (amount allowed in group Tier 2)	-
of which: instruments issued by subsidiaries subject to phase out	-
Provisions	31,987
Tier 2 capital before regulatory adjustments	**73,347**

Tier 2 capital: regulatory adjustments	
National specific regulatory adjustments	-
REGULATORY ADJUSTMENTS APPLIED TO TIER 2 IN RESPECT OF AMOUNTS SUBJECT TO PRE-BASEL III TREATMENT.	-
OF WHICH: Cumulative fair value gains or losses on available for sale instruments	-
Total regulatory adjustments to Tier 2 capital	-
Tier 2 capital (T2)	**73,347**
Total capital (TC = T1 + T2)	**377,767**
Total risk weighted assets	**2,581,141**
Of which: Credit risk weighted assets	2,349,255
Of which: Market risk weighted assets	48,385
Of which: Operational risk weighted assets	183,501
Capital Ratios	
Common Equity Tier 1 (as a percentage of risk weighted assets)	11.8
Tier 1 (as a percentage of risk weighted assets)	11.8
Total capital (as a percentage of risk weighted assets)	14.6
Institution specific buffer requirement (minimum CET1 requirement plus capital conservation buffer plus countercyclical buffer requirements plus G-SIB/D-SIBbuffer requirement expressed as a percentage of risk weighted assets)	
of which: capital conservation buffer requirement	
of which: bank specific countercyclical buffer requirement	
of which: D-SIB/G-SIB buffer requirement	
Common Equity Tier 1 available to meet buffers (as a percentage of risk weighted assets	14.6
National minima (if different from Basel III)	
National Common Equity Tier 1 minimum ratio (if different from Basel 3 minimum)	7.0
National Tier 1 minimum ratio (if different from Basel 3 minimum)	9.0
National total capital minimum ratio (if different from Basel 3 minimum)	12.0

Disclosure template for main features of all regulatory capital instruments

1. Common Equity.

Common equity comprises of 1,108,025,000 equity shares of RO 0.100 each fully paid up, issued and governed under the laws of Sultanate of Oman.

2. All other regulatory capital instruments

1	Issuer	-	National Bank of Oman
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	-	Private Placements comprises of 18 issues
3	Governing law(s) of the instrument	-	Sultanate of Oman
4	Transitional Basel III rules	-	Tier 2
5	Post-transitional Basel III rules	-	Ineligible
6	Eligible at solo/group/group & solo	-	Solo
7	Instrument type	-	Subordinated debts
8	Amount recognised in regulatory capital	-	RO 41.4 million (Aggregate of 18 issues)
9	Par value of instrument	-	RO 79.7 million (Aggregate of 18 issues)
10	Accounting classification	-	Liability –amortised cost
11	Original date of issuance	-	Between Oct 2008 to Mar 2013
12	Perpetual or dated	-	Dated
13	Original maturity date	-	Dec 2015 to Mar 2019
14	Issuer call subject to prior supervisory approval	-	Yes – 4 issues, No – 14 issues
15	Optional call date, contingent call dates and redemption amount	-	For Yes above, Oct 2014 to Mar 2015
16	Subsequent call dates, if applicable	-	Not applicable
	Coupons / dividends		
17	Fixed or floating dividend/coupon	-	Fixed
18	Coupon rate and any related index	-	4.50% to 7.95%
19	Existence of a dividend stopper	-	No
20	Fully discretionary, partially discretionary or mandatory	-	Mandatory
21	Existence of step up or other incentive to redeem	-	Yes – 4 issues, No – 14 issues
22	Noncumulative or cumulative	-	Not applicable
23	Convertible or non-convertible	-	Non-convertible
24	If convertible, conversion trigger (s)	-	Not applicable
25	If convertible, fully or partially	-	Not applicable
26	If convertible, conversion rate	-	Not applicable
27	If convertible, mandatory or optional conversion	-	Not applicable
28	If convertible, specify instrument type convertible into	-	Not applicable
29	If convertible, specify issuer of instrument it converts into	-	Not applicable
30	Write-down feature	-	No
31	If write-down, write-down trigger(s)	-	No
32	If write-down, full or partial	-	No
33	If write-down, permanent or temporary	-	No
34	If temporary write-down, description of write-up mechanism	-	No
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	-	Subordinated to Senior Liabilities
36	Non-compliant transitioned features	-	No
37	If yes, specify non-compliant features	-	Not applicable

This report on Basel II & III disclosures set out from pages no 1 to 20 was authorized for issue by the Board of Directors on 22 January 2013.

Omar Hussain Al Fardan
Chairman

Management Discussion And Analysis Report – 2013

Management Discussion And Analysis Report – 2013

Economic Development

The economy of the Sultanate of Oman has experienced a strong 2013 fiscal year. Oman's economy saw a 5% growth in GDP with inflation falling to 1.5%. Additionally, higher than budgeted oil prices mean that 2013 is expected to record a Government current account surplus.

The recently announced 2014 budget envisages Government expenditure of RO 13.5 billion, forecasting consistent growth in line with 2013. 2014 marks Oman's biggest ever budget with defense, education, health care, infrastructure and oil & gas production being the major beneficiaries of this planned spend. Additionally, the Government has also announced grade standardization for all government employees costing approximately RO 800 Million.

We believe this budget is well balanced and that it takes a conservative view, assuming oil prices at USD 85 a barrel. It is expected to support economic growth and bolster employment levels, a key ongoing social objective.

The Omani Banking Sector

The banking sector appears very stable, recording a 7% growth in the combined assets of commercial banks in Oman and accompanying credit growth, with an improvement in asset quality and capital base. A slight decline in sector profitability throughout 2013 may be attributed to market conditions and some regulatory changes that have occurred in 2012 and in 2013. Towards the end of 2013, the final concept papers regarding regulatory capital under Basel 3 and disclosures have been issued. These guidelines encourage banks to strengthen their capital base qualitatively and quantitatively over a defined future period.

Based on the latest market statistics, the 7% growth in total assets to RO 22.35 billion has been driven predominantly by a rise in deposits from Government and related entities. Cash on hand and deposits of commercial banks with the Central Bank of Oman increased by 12.4% to RO 2.8 billion at the end of December 2013, indicating that banks are more liquid in comparison to the previous year. The interest rate environment remains under pressure, largely as a result of market conditions. Overall, the banking sector in Oman is well poised to take advantage of all future opportunities. Significant government expenditure, as indicated in the budget, is expected to foster further credit expansion.

Duqm Frontier Town Project solely financed by National Bank of Oman

National Bank of Oman 2013

The Bank achieved a net profit after tax of RO 41.4 million for the year ended 31 December 2013 compared to RO 40.7 million in 2012, an increase of 2%. Given the market conditions, this is a satisfactory performance.

Operating profit grew from RO 52 million in 2012 to RO 55.3 million for the year ended December 2013. Net operating income, comprising of net interest and non-interest income, grew by 5.3% to RO 103.9 million. During the year, yields on assets declined as a result of market conditions; however, the Bank was able to make corresponding reductions in its deposit expenses resulting in an 11.2% growth in net interest income. Several successful initiatives were launched to support low cost deposit gathering, increasing low cost deposits as a percentage of total deposits from 46.1% in 2012 to 53.3% in 2013.

Operating expenses grew by 4% to RO 48.6 million, with revenues growing by 5.3%; reflecting an improvement in profitability for the bank. Costs will continue to be closely managed without compromising on our strategic objectives to improve efficiency and effectiveness.

Loan loss provisions at RO 8.4 million for the year ended 31 December 2013, represented a 58% increase over 2012. This increase in provisions resulted from the Bank's prudent and conservative decision to fully provide for one large manufacturing sector exposure. The Bank remains well provided for all its doubtful exposures. At year-end, the coverage on Non-Performing Loans (NPL) stands at 168%.

The Bank's net loans and advances at RO 2.068 billion registered an 8% growth while customer deposits grew by 15.5%. This resulted in surplus liquidity, especially towards the latter half of the year.

During the year the Bank launched its Islamic window "Muzn". Given the acceptable growth witnessed in the short period since the launch, we feel confident about its prospects. The Bank also secured its Dubai branch license during the year and commenced operations early in the new year, with the Bank seeking to maximize benefits from a resurgent UAE economy. The above two initiatives will support the Bank by diversifying earnings in the coming years.

The eligible capital of the Bank now stands at RO 378 million and the total capital ratio stands at 14.6%, as at 31 December 2013; a slight improvement over the 2012 figure of 14.4%. This ratio is well above the regulatory requirement and takes into account the proposed cash dividend of 15% amounting to RO 16.6 Million. The Bank is well positioned to adhere to the new Basel 3 guidelines issued in December.

Key developments - Core segments

Retail and Private Banking

The Retail and Private Banking Group has had another year of excellent growth and increased profits despite turbulent market conditions. The introduction of new and innovative products have been well received by the market, contributing to the successful booking of high quality assets and low cost deposits, thereby increasing our market share.

National Bank of Oman's Dubai Branch on Sheikh Zayed Road

Graduates seen with CEO Salaam Al Shaksy and the Bank's Senior Management Members at the ' NBO's Got Talent' Certificate Award Ceremony'

The Retail Bank has continued to invest in customer facing initiatives, which includes a network of 64 branches as at December 2013. Additionally, the Bank has commenced a migration to "Full Function" ATMs that cater to both deposits and withdrawals. This is expected to improve the Bank's current footprint yet minimizes the impact on distribution costs.

The Private Banking business witnessed a growth in high value transactions, whilst the Sadara Wealth Management division introduced a mobile banking application – Sadara Deals - for customers to gain access to exclusive offers from selected merchants. As another first in Oman, Sadara launched the representative card with resounding success and National Bank of Oman is the first bank in the country to successfully introduce EMV cards. Another initiative in 2013 was the launch of the Innovation Lab, from which several customer centric innovations have been generated for implementation in 2014. The Bank continues to focus on grooming and developing young Omani talent by investing in their training to improve their personal effectiveness, especially in certifying branch managers, wealth managers and private bankers.

The Bank successfully concluded its first mystery shopping service audit and will utilize the results of this as an initial

Sadara Center – CBD Branch

benchmark to improve on the current service levels. In 2014, the Bank will continue its focus on delivering superior customer service, whilst changing its focus to segments centered on customer needs rather than a product driven approach. The key focus segments will be the Small Business Unit (SBU) and Mazaya (mass affluent) segments. In addition, the key products of Housing Loans, Low Cost Deposits, Business Installment Loans, Bancassurance as well as Credit and Debit Cards will be combined and tailored to segment needs as part of a complete value proposition to all segments. Sadara Wealth Management is an established segment which we seek to constantly improve by continuing to provide unique services and offerings to our cclients.

Wholesale Banking

The Wholesale Banking Group comprises of seven divisions, namely: Corporate Banking – serving large corporate entities across Oman; Business Banking – serving mid-sized corporate entities; Government Banking – serving government entities and pension funds; Financial Institutions Group – handling banking relationships with local & international financial institutions; Investment Banking – offering complete investment banking services for asset management, corporate finance & advisory and brokerage services; Treasury – serving bank-wide treasury requirements; and Transaction Banking – consisting of trade finance and electronic delivery channels.

2013 was an excellent year for the Wholesale Banking Group with each of its divisions outperforming expectations to contribute to this achievement. In the past three years, Wholesale Banking has seen a tremendous change in contribution to income across the group. Where Corporate Banking previously accounted for over 85% of Wholesale Banking profits, it now accounts for 60% as other divisions become more strategic contributors to the group. As Corporate Banking is a relatively more saturated and mature segment, revenue diversification across other divisions within the group have resulted in improved profitability and overall returns. Most notably, our revenues from Government Banking have almost doubled this year; our mid-market revenues have grown by 50%; Investment Banking is up by 25%, while Treasury has grown by over 20%. Our continued growth across the group also accentuates the fact that the National Bank of Oman is a full service bank offering a complete array of services across the spectrum. Over the last few years, our emphasis has been on adopting a holistic approach towards the customer, and the diversification of revenue reflects the success of this strategy.

We have enhanced client segmentation to offer improved services to suit the needs of the respective target segments. For example, we have significantly improved our services to the government sector by providing superior levels of attention and care to this sector, with dedicated relationship managers who work closely with government entities and pension funds. The same holds true for Business Banking clients. We have customized our offerings for them, as their needs are different from those of the large corporates.

As we look to the future, we will continue to grow our mature businesses while nurturing our focus areas of Government Banking, Investment Banking, Business Banking, Tier 2 Large Corporates and Transaction Banking, as we believe that these areas have high growth potential. Additionally, we plan to extend our geographical reach outside Muscat to cover Mid-Corporates all over the country. The National Bank of Oman continues to play a significant role in upcoming large projects and we expect this trend to continue. On the whole, we expect Oman to grow steadily on the back of government spending and we expect this trend to continue.

Corporate Banking

2013 was a year of consolidation of the gains made in 2012 and to recalibrate the asset book of Corporate Banking in order to achieve higher return on capital employed. As the local market became even more competitive, with new Islamic banks and the increased appetite from regional banks for Oman risk, the Bank ensured that its margins were protected by adjusting its focus on the mid-market segment and tenor based financing, which would give the Bank ancillary business. A systematic approach to marketing NBO among the large & tier 2 corporates, which have the potential to make the Bank achieve its growth strategy, has been put in place.

The year was also one in which the Bank continued to play a notable role in some of the major fund raising undertaken for large corporates and quasi government entities, but only where the transactions met the Bank's internal return on capital criteria. The Bank continued in its stated objective of being the best service provider in the market to large corporates with its special corporate internet banking and other add-on services.

The Bank also continued to support the activities of quasi government entities in some of the important sectors of the economy, but sought to widen the scope of services offered to these entities with the Bank's Treasury and Investment Banking capabilities and the unique internet and online transaction facility for their regular payments and receipts both locally and internationally.

The ongoing 3 year strategy implementation continued in 2013. As part of this, the division recruited young and talented Omanis to drive growth in business and is also investing in their development to continue to maintain this momentum.

The dedicated Corporate Loan Administration Unit within the division continues to provide strong support in delivering quality and timely services to the corporate customers and acts as an interface between the customer-relationship managers, Credit Risk and Credit Administration Departments within the Bank. Systems and procedures have been put in place to track the flow of work within the Bank in dealing with corporate customers and Service Level Agreements are adhered to further enabling seamless and quick services are provided to corporate customers.

The alliance banks initiative to capitalize on synergies with the Commercial Bank of Qatar alliance banks, targeting large customers and projects, by partnering with them on specific transactions, has been a success. Regular cross-alliance interactions and visits have opened up new opportunities during the year not only to NBO but also to the other alliance banks across the region. The Bank was able to effectively leverage this and attract some of the international companies to use NBO as their bank while bidding for large projects.

A dedicated Business Banking Division within Wholesale Banking was significantly strengthened to target the emerging corporates more aggressively in the coming years. The exercise to identify businesses among the existing client base fulfilling the parameters of mid-corporates was completed and these are now serviced by the Business Banking to make it easier and faster for this important segment of the economy to obtain banking services. The benefits of this division have started showing during the year as it contributed a major part of the growth in asset book.

The Bank has been able to sustain the high level of competition, protecting its asset book and margins on its loan book due to our strong marketing team and the quality services that we have been able to offer.

The Bank successfully financed projects of national importance which required large funding, while maintaining its focus on the infrastructure, oil & gas and contracting businesses that remain the driving forces of the Omani economy. The Bank has also been working closely during the year with the largest oil refinery to provide a number of funded and debt advisory services to these players and looks at these advisory services as value additions to the customers and as an important source of income for the Bank.

The Wholesale Banking model adopted by the Bank to seamlessly integrate and deliver Corporate Banking, Investment Banking, Treasury and Transaction Banking continues to perform well and the group's results in 2013 has been testimony to its acceptance by our clients.

Investment Banking

The year 2013 turned out to be a watershed year for the markets as some of the developed and emerging markets touched their life-time highs on renewed investor confidence. Oil price remained upward of US$ 100 per barrel, leading to GCC markets performing well, with the Dubai Financial Market leading the pack with a gain of 107.69%. The Muscat Securities Market gained 18.64% making it one of the best years for the market in recent times, although the market gains appear subdued when compared to most regional peers.

The Bank performed well on its proprietary portfolio and booked significant dividend income and capital gains during the year. The Bank continues to follow a prudent, research driven fundamental investment approach through its investment team, which is expected to benefit the Bank in the coming year as well.

The Asset Management unit turned a major corner in 2013 and successfully launched by far, the largest listed equities Fund in Oman amongst all similar launches by competitors during the year. The Fund's success was reflected by the fact that it was the largest Fund in terms of number of units in terms of Net Asset Value as on 31st Dec 2013 among the privately launched and managed Funds in the Sultanate. The GCC Fund attracted institutional and other investors from Oman and regionally, reflecting the confidence of its clients in the Fund management capabilities of the Bank. The unit also won major accolades during the year, being awarded the "Oman Asset Management of the Year " 2013 by the prestigious MENA Fund Manager Magazine, UK, staving off

Sayyid Wasfi Jamshid Al Said (*centre*) - Head Investment Banking Division, and Hassan A. A. Shaban (*second from left*) – Head – Government Banking, along with team members at the MENA FM Awards stiff competition from other banks and asset management institutions. The unit is committed to introduce and deliver robust investment products that address the investment requirements of our clients.

The Corporate Finance & Advisory (CF&A) unit successfully executed the initial public offering of Takaful Oman – one of the first Takaful companies in the Sultanate. The IPO was well received by both institutional and retail investors, with oversubscription in both segments. In addition, the unit also won other mandates relating to capital market, financial advisory and placement, which included the successful placement of a significant equity stake of a five-star hotel in Oman. The unit partnered with regional and international advisory institutions to participate in large scale advisory mandates in Oman. The unit also signed an exclusive mandate with QInvest, Qatar to provide advisory services for Sukuk issuance in Oman. The unit currently has a healthy deal pipeline, which bodes well for its performance going forward. The CF&A unit also exhibited its commitment as the market leader in the Fund Custody and Administration business by further increasing its market share by winning more mandates.

The Brokerage unit continued to maintain its presence in a tough and highly competitive business environment and delivered yet another credible performance. The unit continues to work towards increasing market share and ranking in 2014.

Treasury

NBO's Treasury division offers Foreign Exchange, Interest Rate & Commodities risk hedging through vanilla contracts and derivative solutions to customers and continues to be a major player in this segment. These products and services are aimed at managing customers' Financial Risk hedging needs through Forwards, Swaps, Options and other customized structured products. The Bank hedges its market risks related to these products with banking counterparties. The Treasury division's continuous efforts to deep mine the existing relationship as well as to penetrate the wider client base has helped in creating its prominence in the domestic market as a strategic player to key corporate clients. The division handles the entire bank's inter-bank Foreign Exchange and Money Market business in local and foreign currencies besides supporting in formulating and executing an appropriate Asset Liability Management strategy.

Financial Institutions Group (FIG)

NBO's Financial Institution Group maintains alliance with a large network of Local/International Banks facilitating state of the art international trade and payment products to NBO's Corporate and Institutional Clients. The Group also maintains correspondent banking relationships with a large number of banks facilitating various business activities such as:

- Confirmation of L/Cs in favor of customers in Oman.
- Risk Participation Funded/Un-funded on LCs/ Trade loans
- Buyer Credit/ Post Finance funding to Banks for their importers.
- Primary and secondary market purchase of syndicated loans
- Issuance of guarantees against counter guarantees of Correspondent Banks

Apart from FIG's current countries under coverage, the division looks to extend its business to other countries selectively in South Asia and Africa.

Risk Management

Policies and procedures were reviewed and approved and new initiatives were undertaken for further enhancing the risk management practices in the areas of Credit Risk, Market Risk, Operational Risk, Information Security and Business Continuity Risk and Recoveries. As part of the initiatives undertaken to move to advanced Basel approaches, the division carried out an enterprise – wide assessment of all risks as part of the preparation for ICAAP (Internal Capital Adequacy Assessment Process) which was presented to the Central Bank of Oman. Further, in line with best practices and regulatory recommendations, the Bank continues to operate an independent Loan Review Mechanism Division with a mandate for constantly evaluating the quality of the loan book and the integrity of our credit processes.

Corporate Credit Risk

During the year, the division was involved in developing a loan origination system along with the Bank's Wholesale Banking Group, which would help provide better system based controls in the credit appraisal process and also improve the turnaround time of credit approvals.

While continuing with prudent credit practices, the Bank supported deserving entities in the mid-sector corporate segment with adequate credit facilities for their business requirements. While the credit and liquidity stresses in the global markets, especially in Europe and the USA have considerably eased up, there are still some areas requiring closer attention and monitoring from the perspective of credit risk management. The Bank took measures to proactively rationalize its exposures to counterparty banks and countries. Apart from monitoring credit exposures on a regular basis, the Bank was also regularly tracking portfolio credit quality, concentration risks, exposures to sensitive sectors and conducting stress tests on various aspects of our credit portfolio.

Retail Credit Risk

Credit facilities are offered to retail customers primarily based on a Product Program approach, which contains standard risk acceptance criteria & loan processing practice. The approach is followed to optimize the efficiency & risk / reward of the portfolio. Product Programs are reviewed by the concerned group including Risk, Compliance, Finance, Credit Administration etc. and approved by the Board Risk Committee. Credit facilities outside the Product Programs were individually assessed by the Retail Risk Division and approved as per the delegated authorities. The lending criteria were continually revised through a review of the Product program performance and market conditions.

A comprehensive review of the Retail Credit Portfolio was conducted at regular intervals. Salient areas covered include delinquency analysis, NPA trends and recoveries, monthly through-the-door analysis. Several system enhancements and new processes have been introduced across critical activities to improve processing quality and efficiency and to enhance the recovery methodologies of delinquent accounts in the retail portfolio.

The Bank has implemented an automated Loan Collection System in order to enhance its collections and recovery processes. The Loan Origination System was implemented to further enhance the Credit Risk framework.

Liquidity Risk

Liquidity conditions in the global markets showed some distinct signs of easing up as the year progressed, which was reflected in improved liquidity as compared to the preceding year, although market liquidity is yet to reach its normal levels. At the same time, the year saw a continuing surplus of short tenor Omani Rials in the banking system leading to close-to-nil yields on Central Bank of Oman CDs.

Our Liquidity Contingency Plan underwent detailed review and was further strengthened by incorporating measures for such contingencies as intraday funding crises and operational disruptions.

The regular projections of maturity gaps for both Omani Rials and US Dollars enabled the Bank's ALCO (Asset Liability Committee) to formulate action plans in a timely manner, thus enabling it to effectively manage its liquidity position through a combination of available measures.

Liquidity Risk position continues to be monitored regularly through the analysis of various reports, such as Maturity of Assets and Liabilities, Liquidity Lines, Early Warning Indicators, Stock Ratios, Simulation of Gaps in Omani Rials and US Dollars, Stress Tests and the Daily Financial Risk (DFR) report.

Market Risk

The middle-office within the Market Risk division along with Treasury and Investment Banking Operations continued daily monitoring of Market Risk positions in foreign exchange and investments for the Bank.

The Bank transacted a few derivative option structures for customers desiring to hedge their exposures, which were covered back to back in the interbank market. The counterparty credit risk on account of these transactions was monitored as per the approved policy of the Bank.

The Interest Rate Risk in the Banking Book was analyzed at regular frequencies, and presented to ALCO based on the impact on the Economic Value, as well as the Earnings at Risk on account of parallel shifts in the interest rates. The analysis was done based on Basel Committee and CBO guidelines. Monthly stress tests were conducted to study the adverse movements in the currency rates, as well as impairment in investment exposures.

The Bank is at the testing stage of implementing an integrated Treasury Front Office, Mid-Office and Back Office system to enhance the capturing and monitoring of Market Risks on a real time basis in line with best practices and regulatory requirements.

Transaction Risk

The Operational Risk unit within the Transaction Risk department continued the regular monitoring of Incidents to ensure that effective and robust controls are in place / established. Following the incidents of card skimming in the country, a thorough review of the processes relating to card issuance / management was undertaken and stringent security measures were introduced.

As part of the annual business plan, the division conducted Risk Self-Assessment (RSA) exercises which included conducting of training on operational risk tools and information security awareness across all the branches in the Sultanate; identification, measurement and establishment (of thresholds) of Key Risk Indicators (KRIs) across pre-identified divisions / business units. The internally set and quantified risk appetite for the various operational loss parameters (people, systems, frauds, external disruptions and processes) continues to be monitored and root causes of breaches, if any, are rectified and brought to the notice of Senior Management.

The Information Security & Business Continuity Plan (BCP) unit within the Transaction Risk department successfully conducted a BCP and Disaster Recovery (DR) exercise for all the critical divisions of the Bank.

Legal Risk

The Legal Division continued to provide legal services to the Bank, vetting all the Bank's contracts, agreements, forms as well as handling the Bank's lawsuits and liaising with the external law firms.

The division updated the management and the Board of Directors about all the changes in the legal framework in Oman, and worked closely with the Human Resource Management on HR related issues and lawsuits. In coordination with the Fraud Section in the Internal Audit Division, the Legal Division was effectively involved in ensuring compliance with the prevailing laws and regulations in the Sultanate.

The Legal Division was, during the year 2013, heavily engaged in vetting Islamic Banking contracts and forms, assisting its management in setting it up in a proper legal shape.

Remedial Management

The Remedial Management Division (RMD) directly and proactively manages the Bank's substandard, Doubtful and Loss graded corporate accounts. The division also manages a few Special Mention Accounts. The Special Mention and Substandard accounts are administered with the objectives of collateralizing these facilities, if possible, restructuring them, if needed, and hopefully rehabilitating these relationships so that they can be returned to the Corporate Banking Division as fully performing accounts. RMD manages all Doubtful and Loss graded accounts to minimize the risk of loss to the Bank. The Bank pursues legal collection options in the event that normal resolution is not possible.

Major Objectives / Strategy Plan action for 2014:

- Maximize recoveries to bring down NPAs.
- Budgeted write-back of provisions.

  Strategy / Plan of action 2014:

- All pending legal cases particularly Decree enforcement actions to be followed with the Courts through Legal Department for the purpose of recovery. To initiate legal actions in cases where the borrower is not forthcoming in paying or if the agreed repayment terms are not being complied with.
- Recovery of agreed payments / installments wherever arrangement is in place to minimize the defaults.
- Vigorous efforts to trace Personal Loans borrowers through legal action / arrest order to effect recovery / Rescheduling.

Business Continuity

Business Continuity Manangement (BCM) is an integral component of the Risk Manangment framework of National Bank of Oman (NBO). The BCM framework of NBO encompasses Business Impact Analysis (BIA), Business Continuity Plans (BCP), Recovery strategies, Crisis Management and awareness. Senior Management oversees the implementation of the BCM framework principles to ensure there is continuous monitoring and improvement to the BCM Program. As part of BCM initiatives, NBO takes necessary actions to ensure effective measures in a crisis situation. The Bank has taken the following steps to ensure effectiveness and efficiencies of its BCM:

a) BCM Committee comprising of Senior Management routinely ensures business continuity frameworks alignment with business needs

b) Evacuation drills are conducted to ensure preparedness levels of staff as per regulatory guidelines

c) Critical systems, applications and individual business units are tested from Disaster Recovery (DR) sites to ensure availabilty

d) Learning issues from BCP drills are documented, discussed and incorporated to ensure continuous improvement of the framework

The Bank has the capability to ensure that critical banking processes are tested to ascertain availability during crisis situations.

Compliance

The Bank has been proactive in managing its compliance risk. The Board of Directors and Senior Management endeavor to ensure the Bank's operations and business conduct are consistent with the laws and regulations of the Sultanate and the other markets it operates in. These include, but are not limited to, Laws and Regulations issued by the Central Bank of Oman and Capital Market Authority, as well as internationally accepted best practices. The Bank fosters a culture of compliance which is seen not only as a requirement of law but also as a good business practice. As such the NBO customers are assured of their rights and privileges.

The compliance division is involved in reviewing the Bank's policies and procedures, services and products, to ensure compliance with various laws and regulations and internationally accepted best practices.

The Bank remains committed to combating money laundering and terrorism financing by improving control measures as the regulatory environment becomes more challenging. To this end, the Bank has in place comprehensive policies and procedures, and a state of the art Anti - Money Laundering system which has enhanced the Bank's ability to effectively monitor and detect suspicious transactions.

The Bank also ensures that its staff knowledge and skills are commensurate with its commitment to combat money laundering and terrorism financing. To this end, the Bank has, in addition to in-house and on-the-job training, put in place an AML E-Learning program that is mandatory for all employees of the Bank.

Operations

2013 has been a very successful year for the Operations Group which has been able to successfully implement a continuous improvement in processes and operational services. The division played a key role by delivering high quality services to support the different lines of business in their customer acquisition and asset growth.

During the course of the year, the division has been re-aligned with the creation of dedicated support lines for Wholesale and Retail Operations divisions. The operational focus theme for the year 2013 has been to implement continuous improvement in the processes and identifying & implementing opportunities for automation and straight through processing. The initiatives undertaken during the year include the Corporate Credit Loan Origination system to help provide better system based controls in the credit appraisal process and also improve the turnaround time of credit approvals, and automation of a fully integrated Treasury process. The Bank also implemented a system to further assist with compliance to Anti-Money Laundering requirements.

Information Technology

The Bank views IT to be a key enabler to its business strategy. In line with the three year IT strategy (2012-2015), over thirty initiatives were executed covering implementation of innovative and functionally rich banking systems, modernizing the Bank's technology infrastructure, enhancing its processes for effectiveness and developing and nurturing its talent pool. The Information Technology Division (ITD) works very closely with its business counterparts to ensure it caters to both strategic and operational goals of the business. Some of the 2013 initiatives implemented include:

- A complete end-to-end infrastructure inclusive of Islamic banking core system, channels and back office systems were implemented for the launch of Muzn Islamic Banking
- A comprehensive payment platform that allows NBO to introduce market differentiating cards products and commence Point Of Sale (POS) acquiring business
- A new Treasury platform which offers real-time risk management controls and enhances operational efficiency
- A new Corporate Loan Origination System which significantly improves customer service through reduced turn-around-time and process automation
- Upgraded technology infrastructure for scalability and security - primary data center upgrade, security, core banking hardware upgrade, etc.

Human Resources

The year 2013 was a challenging year not only for the Human Resources (HR) Group but also from the overall bank perspective. During the year, the HR Group continued to focus on tactical implementations of actions aligned to the HR strategic plan.

In 2013, the HR Group furthered the strategic transformation process by achieving the following:

- Talent Management – A framework was designed and implemented for assessment and creation of a development plan. The assessment of the Platinum layer (senior management) was completed and development plans have also been created as part of this phase.
- Succession Planning – In line with the strategic goals of HR to ensure that we mitigate against the various people related risks, a succession plan for critical positions has been designed for the identified individuals.
- E-HR: Automation of HR services – The final phase of automation of all staff benefits was completed and the system is currently live and being used by all staff for availing various benefits.

- Electronic Document Management Systems (EDMS) – HR Group successfully implemented the EDMS solution, whereby all staff files and related information will be electronically stored, thereby resulting in operational efficiency.
- HR Analytics – Further strengthening of HR Analytics was carried out via segregated dashboards for each group across the Bank. The information included in these dashboards provides a basis for making informed decisions with regards to staff costs, recruitment, retention and other parameters.
- Job Evaluation – As part of the HR strategy to provide for right sizing and placement of the job in terms of grade, the Job Evaluation project was launched. This will also help in ensuring that the job is aligned to the market conditions.
- Staff Engagement and Communication – Staff engagement initiatives have been launched to ensure that employees are provided with a work environment conducive to enhanced performance, promoting retention and encouraging a healthy, transparent culture. Additionally, a bi-monthly communiqué from HR, HR Connect, is disseminated to all staff to share the success stories of individuals as well as Divisional achievements.
- Awards: HR group won 2 prestigious awards this year, the Asian HR Leadership Award and the Middle East HR Excellence Award for Recruitment Program.

Apart from the above, ongoing initiatives include the further strengthening of HR practices aligned to business objectives, emphasizing a performance management culture and improving on the service delivery model of HR.

Finance

The Finance Group ensures that business performance is measured, monitored and reported to internal and external stakeholders in compliance with applicable regulations.

During the year, in line with business needs, the structure within finance has been altered to reflect the specialization required for the different functions within the group, such as financial control, business performance management, reporting, support and regulatory matters. Introduction of new performance measures and raising awareness of the use of capital has been a key accomplishment during the latter half of 2013.

Several challenges await the finance function in the light of changing regulations e.g. Basel 3. Capital planning and execution is critical to the Bank's overall financial health and in delivering the necessary room to do business for the Bank's key business units. Performance Management and internal reporting have received a lot of attention and initiatives are under way in monitoring and delivering the planned performance.

Corporate Social Responsibility (CSR) & Corporate Communications

CSR in its essence is how the Bank manages its business processes to produce an overall positive impact on society. This is seen through the Bank's Corporate Citizenship - its role and responsibilities towards society.

The Bank's focus area for its CSR Initiatives for the year 2013 was Youth Development. This was in line with having more sustainable carefully assessed CSR Initiatives, as opposed to the purely philanthropic donations of previous years.

During the year 2013, the Bank›s CSR Initiatives totaled RO. 82,354.6 which is within the RO 200,000 limit approved by the Annual General Meeting held on 26th March 2013.

Internal Audit

The Internal Audit Division, conducts an independent assessment of the quality of the Bank's internal controls, risk management and governance processes. The authority for oversight of the internal audit division rests with the Board Audit Committee.

Internal Audit is required to form opinions by evaluating the effectiveness, quality, adequacy and cost effectiveness of the business controls in all the business & support areas (e.g. Corporate Banking, Consumer Banking, Treasury, Operations, etc.). Internal Audit shall furnish the Board, Chief Executive Officer and other senior management in general with opinions, analyses and recommendations concerning products, processes, activities, departments and divisions reviewed.

The audit methodology is aligned with the COSO Framework (Committee of Sponsoring Organizations of the Treadway Commission). The integration of the COSO into the audit process is in line with the IIA report on Internal Auditor's role in management reporting on internal controls. According to the COSO the three primary objectives of the internal control system is to ensure (1) the effectiveness and efficiency of operations, (2) the reliability of financial reporting and (3) the compliance of applicable laws and regulations." The COSO Model of Internal Controls uses five elements of internal controls: control environment, risk assessment, information and communication, control activities, and monitoring.

The internal audit covers the review of all head-office divisions, local and overseas branches, including operational review of Islamic window (Shari'a Compliance undertaken by the Sharia Auditor reporting to Sharia board) of the Bank as well as conducting fraud investigations.

The division has a robust quality assurance and improvement program (internal and external) that covers all aspects of the internal audit activity.

Outlook

The outlook for Oman's economy in 2014 is positive with the increase in government spending and the focus on infrastructure projects expected to boost economic growth. The launch of Islamic banking operations also opens up new opportunities for banks in the coming years.

In this economic environment, the Bank continues its focus on sustainable growth and is poised to take advantage of the growth opportunities so created through the above Government initiatives.

Oman will remain the primary focus in the coming year, with the Bank capitalizing on the UAE franchise as an additional service point for its Omani customers. Strong risk management will remain a key to mitigation of potential risks as the Bank embarks on its strategic journey of diversified revenue growth and cost management

We look forward to 2014 with optimism, as continued Government expenditure expects to maintain growth momentum, creating adequate opportunities for the banking sector.

Salaam Al Shaksy
Chief Executive Officer

Financials

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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF NATIONAL BANK OF OMAN SAOG

Report on the financial statements
We have audited the financial statements of National Bank of Oman SAOG ('the bank'), set out on pages 2 to 55 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.

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

Auditors' responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance 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 judgement, 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 for 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 opinion.

Opinion
In our opinion, the 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.

Report on other legal and regulatory requirements
In our opinion the financial statements as at and for the year ended 31 December 2013, in all material respects, comply with:

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

22 January 2014

Paul Callaghan

2012 USD'000	2013 USD'000		Notes	2013 RO'000	2012 RO'000
		ASSETS			
560,358	**956,665**	Cash and balances with Central Banks	4	**368,316**	215,738
564,314	**593,553**	Due from banks and other money market placements (net)	5	**228,518**	217,261
4,965,096	**5,371,946**	Loans, advances and financing activities for customers (net)	6	**2,068,199**	1,911,562
287,590	**344,423**	Financial investments	7	**132,603**	110,722
53,242	**52,218**	Premises and equipment	8	**20,104**	20,498
1,062	**1,195**	Deferred tax asset	13	**460**	409
160,073	**202,964**	Other assets	9	**78,141**	61,628
6,591,735	**7,522,964**	**TOTAL ASSETS**		**2,896,341**	2,537,818
		LIABILITIES, SUBORDINATED DEBT AND EQUITY			
		LIABILITIES			
546,616	**587,945**	Due to banks and other money market deposits	10	**226,359**	210,447
4,900,660	**5,660,153**	Customers' deposits and unrestricted investment accounts	11	**2,179,159**	1,886,754
178,644	**201,330**	Other liabilities	12	**77,512**	68,778
14,771	**14,357**	Taxation	13	**5,527**	5,687
5,640,691	**6,463,785**	**TOTAL LIABILITIES**		**2,488,557**	2,171,666
		SUBORDINATED DEBT			
160,260	**207,013**	Subordinated debt	14	**79,700**	61,700
		EQUITY			
287,799	**287,799**	Share capital	15	**110,803**	110,803
89,519	**89,519**	Share premium	16	**34,465**	34,465
102,821	**102,821**	Legal reserve	17	**39,586**	39,586
11,478	**11,478**	General reserve	18	**4,419**	4,419
79,790	**116,636**	Other non-distributable reserves	19	**44,905**	30,719
50,366	**43,169**	Proposed cash dividend	20	**16,620**	19,391
-	**28,779**	Proposed stock dividend	20	**11,080**	-
169,011	**171,965**	Retained earnings		**66,206**	65,069
790,784	**852,166**	**TOTAL EQUITY**		**328,084**	304,452
6,591,735	**7,522,964**	**TOTAL LIABILITIES, SUBORDINATED DEBT AND EQUITY**		**2,896,341**	2,537,818

The financial statements were authorised for issue on 22nd January 2014 in accordance with a resolution of the Board of Directors.

Chairman

Chief Executive Officer

The attached notes 1 to 34 form integral part of these financial statements.

Statement of Comprehensive Income

For the year ended 31st December 2013

2012 USD'000	2013 USD'000		Notes	2013 RO'000	2012 RO'000
278,184	**302,935**	Interest income	22	**116,630**	107,101
(103,693)	**(108,808)**	Interest expense	23	**(41,891)**	(39,922)
174,491	**194,127**	**Net interest income**		**74,739**	67,179
-	**870**	Income from Islamic financing and Investment activities		**335**	-
-	**(278)**	Unrestricted investment account holders› share of profit		**(107)**	-
-	**592**	**Net Income from Islamic financing and Investment activities**		**228**	-
81,729	**75,208**	Other operating income	24	**28,955**	31,466
256,220	**269,927**	**Operating income**		**103,922**	98,645
(68,917)	**(74,275)**	Staff costs		**(28,596)**	(26,533)
(42,665)	**(43,234)**	Other operating expenses	25	**(16,645)**	(16,426)
(9,678)	**(8,673)**	Depreciation	8	**(3,339)**	(3,726)
(121,260)	**(126,182)**	**Total operating expenses**		**(48,580)**	(46,685)
134,960	**143,745**	**PROFIT FROM OPERATIONS BEFORE IMPAIRMENT LOSSES AND TAX**		**55,342**	51,960
(44,002)	**(49,852)**	Credit loss expense – customers' loan	6	**(19,193)**	(16,941)
9,039	**9,192**	Recoveries and releases from provision for credit losses	6	**3,539**	3,480
25,252	**19,538**	Recoveries from loans and advances written off		**7,522**	9,722
(4,003)	**(29)**	Impairment losses on available for sale investments	7	**(11)**	(1,541)
-	**(361)**	Credit loss expense - bank loans		**(139)**	-
-	**(238)**	Provision – others		**(92)**	-
(13,714)	**(21,750)**	**TOTAL IMPAIRMENT LOSSES (NET)**		**(8,374)**	(5,280)
121,246	**121,995**	**PROFIT BEFORE TAX**		**46,968**	46,680
(15,630)	**(14,522)**	Taxation	13	**(5,591)**	(6,018)
105,616	**107,473**	**PROFIT FOR THE YEAR**		**41,377**	40,662
		OTHER COMPREHENSIVE INCOME			
3,868	**4,400**	Net movement on available for sale investments		**1,694**	1,489
(21)	**(125)**	Tax effect of net movement on available for sale investments		**(48)**	(8)
3,847	**4,275**	**OTHER COMPREHENSIVE INCOME / (EXPENSE) FOR THE YEAR**		**1,646**	1,481
109,463	**111,748**	**TOTAL COMPREHENSIVE INCOME FOR THE YEAR**		**43,023**	42,143
0.10	**0.10**	Earnings per share: (USD) – Basic and diluted – (RO)	27	**0.037**	0.037

The attached notes 1 to 34 form integral part of these financial statements.

(RO'000)	Share capital	Share premium	Legal reserve	General reserve	Other non-distributable reserves	Proposed cash dividend	Proposed stock dividend	Retained earnings	Total
	(RO'000)								
Balance at 1 January 2012	108,100	34,465	38,642	4,419	18,298	18,918	2,703	55,682	281,227
Total comprehensive income for the year									
Profit for the year	-	-	-	-	-	-	-	40,662	40,662
Net movement on available for sale investments	-	-	-	-	1,481	-	-	-	1,481
Transactions with owners recorded directly in equity									
Issue of Shares	2,703	-	-	-	-	-	(2,703)	-	-
Dividend paid	-	-	-	-	-	(18,918)	-	-	(18,918)
Proposed cash dividend	-	-	-	-	-	19,391	-	(19,391)	-
Proposed stock dividend	-	-	-	-	-	-	-	-	-
Transfer to subordinated debt reserve	-	-	-	-	10,940	-	-	(10,940)	-
Transfer to legal reserve	-	-	944	-	-	-	-	(944)	-
Balance at 31 December 2012	110,803	34,465	39,586	4,419	30,719	19,391	-	65,069	304,452
Balance at 1 January 2013	**110,803**	**34,465**	**39,586**	**4,419**	**30,719**	**19,391**	**-**	**65,069**	**304,452**
Total comprehensive income for the year									
Profit for the year	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**41,377**	**41,377**
Net movement on available for sale investments	**-**	**-**	**-**	**-**	**1,646**	**-**	**-**	**-**	**1,646**
Transactions with owners recorded directly in equity									
Dividend paid	**-**	**-**	**-**	**-**	**-**	**(19,391)**	**-**	**-**	**(19,391)**
Proposed cash dividend	**-**	**-**	**-**	**-**	**-**	**16,620**	**-**	**(16,620)**	**-**
Proposed stock dividend	**-**	**-**	**-**	**-**	**-**	**-**	**11,080**	**(11,080)**	**-**
Transfer to subordinated debt reserve	**-**	**-**	**-**	**-**	**12,540**	**-**	**-**	**(12,540)**	**-**
Transfer to legal reserve	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Balance at 31 December 2013	**110,803**	**34,465**	**39,586**	**4,419**	**44,905**	**16,620**	**11,080**	**66,206**	**328,084**
Balance at 1 January 2013 – In USD'000	287,799	89,519	102,821	11,478	79,790	50,366	-	169,011	790,784
Balance at 31 December 2013 – In USD'000	**287,799**	**89,519**	**102,821**	**11,478**	**116,636**	**43,169**	**28,779**	**171,965**	**852,166**

The attached notes 1 to 34 form integral part of these financial statements.

Statement of Cash Flows
For the year ended 31st December 2013

2012 USD'000	**2013 USD'000**		Notes	**2013 RO'000**	2012 RO'000
		OPERATING ACTIVITIES			
121,246	**121,994**	Profit before taxation		**46,968**	46,680
		Adjustments for:			
9,678	**8,673**	Depreciation	8	**3,339**	3,726
30,961	**35,876**	Provision for credit losses (net)		**13,812**	11,920
4,003	**29**	Impairment losses on available for sale investments	7	**11**	1,541
-	**238**	Provision against collateral assets		**92**	-
(790)	**(112)**	Profit on sale of equipment (net)		**(43)**	(304)
(990)	**(4,416)**	Profit on sale of investments	24	**(1,700)**	(381)
(8,402)	**(8,691)**	Investment income		**(3,346)**	(3,235)
155,706	**153,592**	**Operating profit before changes in operating assets and liabilities**		**59,133**	59,947
(88,184)	**50,623**	Due from banks and other money market placements		**19,490**	(33,951)
(68,000)	**84,998**	Due to banks and other money market deposits		**32,724**	(26,180)
(656,374)	**(442,725)**	Loans and advances to customers		**(170,449)**	(252,704)
(1,709)	**(43,130)**	Other assets		**(16,605)**	(658)
745,273	**759,494**	Customers' deposits		**292,405**	286,930
9,990	**22,686**	Other liabilities		**8,734**	3,846
96,702	**585,538**	**Cash from operations**		**225,432**	37,230
(14,247)	**(14,938)**	Taxes paid		**(5,751)**	(5,485)
82,455	**570,600**	**Net cash from operating activities**		**219,681**	31,745
		INVESTING ACTIVITIES			
(55,514)	**(96,909)**	Purchase of non-trading investments		**(37,310)**	(21,373)
15,158	**48,893**	Proceeds from sale of non-trading investments		**18,824**	5,836
(10,171)	**(7,836)**	Purchase of premises and equipment	8	**(3,017)**	(3,916)
1,265	**221**	Disposal of premises and equipment		**85**	487
5,992	**6,943**	Income from bond and other investments	24	**2,673**	2,307
2,410	**1,748**	Dividend income	24	**673**	928
416	**(211)**	Translation differences on premises and equipment and tax		**(81)**	160
(40,444)	**(47,151)**	**Net cash used in investing activities**		**(18,153)**	(15,571)
		FINANCING ACTIVITIES			
(49,138)	**(50,366)**	Payment of dividend		**(19,391)**	(18,918)
18,182	**46,753**	Net movement in subordinated debt	14	**18,000**	7,000
(30,956)	**(3,613)**	**Net cash (used in) / from financing activities**		**(1,391)**	(11,918)
11,055	**519,836**	**INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS**		**200,137**	4,256
714,083	**725,138**	Cash and cash equivalents at the beginning of the year		**279,178**	274,922
725,138	**1,244,974**	**CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR**		**479,315**	279,178
		REPRESENTING:			
559,060	**955,366**	Cash and balances with Central Banks	4	**367,816**	215,238
166,078	**289,608**	Deposits and balances with other banks and financial institutions (net)		**111,499**	63,940
725,138	**1,244,974**			**479,315**	279,178

The attached notes 1 to 34 form integral part of these financial statements.

1 LEGAL STATUS AND PRINCIPAL ACTIVITIES

National Bank of Oman SAOG ("NBO", "the bank") was established in the Sultanate of Oman in 1973 as a joint stock company and is engaged in retail banking, wholesale banking, investment banking services and Islamic banking within the Sultanate of Oman with overseas branches in the United Arab Emirates and Egypt. The bank operates in Oman under a banking licence issued by the Central Bank of Oman and is covered by its deposit insurance scheme. The registered address of the bank is PO Box 751, Ruwi, Postal Code 112, Muscat, Sultanate of Oman. The bank has a primary listing on Muscat Stock Exchange.

The bank employed 1,370 employees as at 31 December 2013 (2012: 1,352).

2 BASIS OF PREPARATION

2.1 Basis of measurement

The financial statements are prepared under the historical cost convention as modified to include the revaluation of freehold land and buildings and the measurement at fair value of derivatives, investments classified as available for sale and investment carried at fair value through profit and loss.

2.2 Functional and presentation currencies

These financial statements are presented in Rial Omani rounded to the nearest thousand Rial Omani, except when otherwise indicated. The functional currencies of the bank's operations are as follows:

- Sultanate of Oman: Rial Omani
- United Arab Emirates: UAE Dirham
- Egypt: US Dollar

The United States Dollar amounts shown in the financial statements have been translated from Rial Omani at an exchange rate of RO 0.385 to each US Dollar, and are shown for the convenience of the reader only.

2.3 Statement of compliance

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

The bank presents its statement of financial position broadly in order of liquidity.

2.4 Significant accounting judgments and estimates

In the process of applying the bank's accounting policies, management has used its judgments and made estimates in determining the amounts recognised in the financial statements. The most significant use of judgments and estimates are as follows:

Going concern

The bank's management has made an assessment of the bank's ability to continue as a going concern and is satisfied that the bank has the resources to continue in business for the foreseeable future. Furthermore, the management is not aware of any material uncertainties that may cast significant doubt upon the bank's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

2 BASIS OF PREPARATION (continued)

2.4 Significant accounting judgments and estimates (continued)

Impairment losses on loans and advances

The bank reviews its individually significant loans and advances at each reporting date to assess whether an impairment loss should be recorded in the statement of comprehensive income. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. In estimating these cash flows, the bank makes judgments about the borrower's financial situation and the net realisable value of collateral. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

Loans and advances that have been assessed individually and found not to be impaired and all individually insignificant loans and advances are then assessed collectively, in groups of assets with similar risk characteristics, to determine whether provision should be made due to incurred loss events for which there is objective evidence but whose effects are not yet evident. The collective assessment takes account of data from the loan portfolio (such as credit quality, levels of arrears, credit utilisation, loan to collateral ratios etc.) and concentrations of risks.

Impairment of equity investments

The bank treats available-for-sale equity investments as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is 'significant' or 'prolonged' requires judgment.

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded on the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data are not available, judgment is required to establish fair values.

Deferred tax assets

Deferred tax assets are recognized for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

Investment Funds

The Bank acts as fund manager and investment advisor to investment funds. For all funds managed by the Bank, the investors (whose number ranges from 30 to 100) are able to vote by simple majority to remove the Bank as fund manager without cause, and the Bank's aggregate economic interest is in each case is in each case less than 5%. As a result, the Bank has concluded that it acts as agent for the investors in all cases, and therefore has not consolidated these funds.

2.5 Standards, Amendments and interpretations that are not yet effective and have not been early adopted by the Bank

IFRS 12 – Disclosure of Interests in Other Entities (Investment funds) (effective on or after 1 January 2014)

IFRS 9 – Financial Instruments – (effective on or after 1 January 2016)

IAS 32 – Financial Instruments: Presentation – (effective on or after 1 January 2016)

3 SIGNIFICANT ACCOUNTING POLICIES

During the period, the Bank has adopted the following standards effective for the annual period beginning on or after 1 January 2013. The new standards do not have any material impact to the Group, but they will result in extensive additional disclosures:

- IAS 1 (amendment) - Presentation of items of other comprehensive income
- IFRS 13 - Fair value measurement

Date of recognition

All financial assets and liabilities are initially recognised on the trade date, i.e., the date that the bank becomes a party to the contractual provisions of the instrument. This includes "regular way trades": 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.

Initial measurement of financial instruments

The classification of financial instruments at initial recognition depends on the purpose and the management's intention for which the financial instruments were acquired and their characteristics. All financial instruments are measured initially at their fair value plus transaction costs, except in the case of financial assets and financial liabilities recorded at fair value through profit or loss.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, balances with banks and other financial institutions, treasury bills and money market placements, deposits and certificates of deposit maturing within three months of the date of acquisition. Cash and cash equivalents are carried at amortised cost in the statement of financial position.

Financial assets and financial liabilities designated at fair value through profit or loss

Financial assets and financial liabilities classified in this category are designated by management on initial recognition when the following criteria are met:

- the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognizing gains or losses on them on a different basis; or
- the assets and liabilities are part of a group of financial assets, financial liabilities or both which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or
- The financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

Financial assets and financial liabilities at fair value through profit or loss are recorded in the statement of financial position at fair value. Changes in fair value are recorded in 'other operating income'. Interest is earned or incurred is accrued in 'Interest income' or 'Interest expense', respectively, using the effective interest rate (EIR), while dividend income is recorded in 'Other operating income' when the right to the payment has been established.

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

Held to maturity

Held-to-maturity financial investments are those which carry fixed or determinable payments and have fixed maturities and which the bank has the intention and ability to hold to maturity. After initial measurement, held-to-maturity financial investments are subsequently measured at amortised cost using the effective interest rate method, less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The amortisation is included in 'Interest income' in the statement of comprehensive income. The losses arising from impairment of such investments are recognised in the statement of comprehensive income.

If the bank were to sell or reclassify more than an insignificant amount of held-to-maturity investments before maturity (other than in certain specific circumstances), the entire category would be tainted and would have to be reclassified as available-for-sale. Furthermore, the bank would be prohibited from classifying any financial asset as held to maturity during the following two years.

Available for sale

Available-for-sale investments include equity and debt securities. Equity investments classified as available-for - sale are those which are neither classified as held-for-trading nor designated at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions.

The bank has not designated any loans or receivables as available-for-sale.

After initial measurement, available-for-sale financial investments are subsequently measured at fair value, unless fair value cannot be reliably determined in which case they are measured at cost less impairment. Fair value changes are reported as a separate component of equity until the investment is derecognised or the investment is determined to be impaired. On derecognition or impairment, the cumulative gain or loss previously reported as "cumulative changes in fair value" within equity, is included in the profit or loss for the year. Interest earned whilst holding available-for-sale financial investments is reported as interest income using the EIR. Dividends earned whilst holding available-for-sale financial investments are recognised in the statement of comprehensive income as 'Other operating income' when the right of the payment has been established. The losses arising from impairment of such investments are recognised in the profit or loss for the year in 'Impairment losses on financial investments' and removed from the 'Available-for-sale reserve'.

Due from banks and loans and advances to customers

Due from banks and loans and advances to customers are financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale. After initial measurement, amounts due from banks and loans and advances to customers are subsequently measured at amortised cost using the effective interest rate method, less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the effective interest rate. The amortisation is included in 'Interest income' in the profit or loss for the year. The losses arising from impairment are recognised in the profit or loss for the year in 'Credit loss expense'.

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

Determination of fair values

The fair value for financial instruments traded in active markets at the reporting date is based on their quoted market price or dealer price quotations, without any deduction for transaction costs.

For all other financial instruments not traded in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include the discounted cash flow method, comparison to similar instruments for which market observable prices exist, options pricing models, credit models and other relevant valuation models.

Certain financial instruments are recorded at fair value using valuation techniques in which current market transactions or observable market data are not available. Their fair value is determined using a valuation model.

Premises and equipment

Premises and equipment are initially recorded at cost or deemed cost. Revaluations of buildings are carried out every five years on an open market value for existing use basis by an independent valuer. Net surpluses arising on revaluation are credited to a capital reserve, except that a revaluation increase is recognised as income to the extent that it reverses a revaluation decrease of the same asset previously recognised as an expense.

A decrease as a result of a revaluation is recognised as an expense, except that it is charged directly against any related revaluation surplus to the extent that the decrease does not exceed the amount held in the revaluation surplus in respect of that same asset. On disposal the related revaluation surplus is credited to retained earnings.

Depreciation is provided on a straight-line basis over the estimated useful lives of all premises and equipment other than freehold land, which is deemed to have an indefinite life, and capital work in progress. The rates of depreciation are based upon the following estimated useful lives:

• Buildings on freehold land	25 years
• Buildings on leasehold land	10 years
• Leasehold improvements	3 to 5 years
• Motor vehicles	4 years
• Furniture	10 years
• Equipment	5 years

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

Derecognition of financial assets and financial liabilities

Financial assets:

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired; or
- the bank has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and
- Either (a) the bank has transferred substantially all the risks and rewards of the asset, or (b) the bank has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

Derecognition of financial assets and financial liabilities(Continued)

When the bank has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the bank's continuing involvement in the asset. In that case, the bank also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the bank has retained. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the bank could be required to repay.

Financial liabilities:

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss for the year.

Collateral pending sale

The bank occasionally acquires real estate in settlement of certain loans and advances. Real estate is stated at the lower of the net realisable value of the related loans and advances and the current fair value of such assets. Gains or losses on disposal, and unrealised losses on revaluation, are recognised in the profit or loss for the year.

Deposits

All money market and customer deposits are carried at amortised cost using EIR.

Other borrowed funds

Other borrowings including subordinate private placements are recognised initially at their issue proceeds. Borrowings are subsequently stated at amortised cost; any difference between proceeds, net of transaction costs, and the redemption value is recognised in the profit or loss over the period of the borrowings using EIR.

Taxation – current and deferred

Taxation is provided for based on the relevant tax laws of the respective countries, in which the bank operates.

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

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

Deferred tax is calculated using the balance sheet 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. The amount of deferred tax provided is based on expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at 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 utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Financial guarantees

In the ordinary course of business, the bank gives financial guarantees. Financial guarantees are initially recognised in the financial statements at fair value, in "other liabilities". Subsequent to initial recognition, the bank measures such guarantees at the higher of the initial fair value less, when appropriate, cumulative amortisation calculated to recognise the fee in the profit or loss for the year in "Net fees and commission income" over the term of the guarantee, and the best estimate of the expenditure required to settle any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is taken to the profit or loss for the year. Any financial guarantee liability remaining is recognised in the statement of comprehensive income when the guarantee is discharged, cancelled or expires.

Provisions

Provisions are recognised when the bank has a present obligation (legal or constructive) arising from a past event and the costs to settle the obligation are both probable and able to be reliably measured.

Impairment of financial assets

The bank assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults. If such evidence exists, the impairment loss is recognized in the profit or loss for the year.

Due from banks and loans and advances to customers

For amounts due from banks and loans and advances to customers carried at amortised cost, the bank first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, 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.

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

Due from banks and loans and advances to customers (Continued)

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). 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 profit or loss for the year. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the bank. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the 'Recoveries from loans and advances written off'.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the bank's internal credit grading system that considers credit risk characteristics such as asset type, industry, geographical location, collateral type, past-due status and other relevant factors.

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the years on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year (such as changes in unemployment rates, property prices, payment status, or other factors that are indicative of incurred losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Held-to-maturity financial investments

For held-to-maturity investments the bank assesses individually whether there is objective evidence of impairment. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows. The carrying amount of the asset is reduced and the amount of the loss is recognised in the profit or loss for the year.

If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognised, any amounts formerly charged are credited to the 'Impairment losses on financial investments'.

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

Available-for-sale financial investments

For available-for-sale financial investments, the bank assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the profit or loss – is removed from equity and recognised in the profit or loss for the year. Impairment losses on equity investments are not reversed through the profit or loss; increases in their fair value after impairment are recognised directly in equity.

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. Interest continues to be accrued at the original effective interest rate on the reduced carrying amount of the asset and is recorded as part of 'Interest income'. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the profit or loss, the impairment loss is reversed through the profit or loss.

Renegotiated loans

Where possible, the bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews renegotiated loans to
ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective interest rate.

Offsetting

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

Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the bank and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised.

Interest and similar income and expense

For all financial instruments measured at amortised cost, interest bearing financial assets classified as available for-sale and financial instruments designated at fair value through profit or loss, interest income or expense is recorded using the EIR, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the EIR, but not future credit losses.

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

Interest and similar income and expense (continued)

The carrying amount of the financial asset or financial liability is adjusted if the bank revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original EIR and the change in carrying amount is recorded as 'Other operating income'

Fee and commission income

The bank earns fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided into the following two categories:

Fee income earned from services that are provided over a certain period of time

Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income and asset management, custody and other management and advisory fees.

Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognised as an adjustment to the EIR on the loan. When it is unlikely that a loan will be drawn down, the loan commitment fees are recognised over the commitment period on a straight line basis.

Fee income from providing transaction services

Fees arising from negotiating or participating in the negotiation of a transaction for a third party, such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses, sale of insurance products are recognised on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognised after fulfilling the corresponding criteria.

Dividend income

Dividend income is recognised when the bank's right to receive the payment is established.

Foreign currencies

(i) Transactions denominated in foreign currencies are translated into Rial Omani and recorded at rates of exchange ruling at the value dates of the transactions.

(ii) Monetary assets and liabilities denominated in foreign currencies are translated into Rial Omani at exchange rates ruling at the reporting date. Realised and unrealised gains and losses are dealt with in profit or loss for the year.

(iii) As at the reporting date, the assets and liabilities of overseas branches are translated into the bank's presentation currency at the rate of exchange as at the reporting date, and their statement of comprehensive incomes are translated at the weighted average exchange rates for the year. Exchange differences arising on translation are taken directly to a separate component of equity. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the profit or loss in 'Other operating expenses' or 'Other operating income'. As the functional currencies of the bank's overseas branches are pegged to Rial Omani, there are no major exchange differences arising on translation.

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

Repurchase and resale agreements

Assets 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 counter party liability for amounts received under these agreements is included in due to banks and other financial institutions. The difference between sale and repurchase price is treated as interest expense and accrued over the life of the repo agreement. Assets 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 deposits with banks and other financial institutions. The difference between purchase and resale price is treated as interest income and accrued over the life of the reverse repo agreement.

Leases

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

Staff terminal benefits

The terminal benefits for employees in Oman are provided in accordance with the Sultanate of Oman's labour law. The end of service benefits for employees in UAE are provided for in accordance with the employees' contracts of employment and applicable requirements of the UAE labour laws. For Egyptian employees the terminal benefits are provided in accordance with the Egyptian social security law.

Segment reporting

The bank's segmental reporting is based on the following operating segments: retail banking, corporate banking, investment banking, treasury and international banking and head office functions. Segment results are reported to the Chief Executive Officer of the Bank, (being the chief operating decision maker) and include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

Dividend on ordinary shares

Dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the bank's shareholders. Interim dividends are deducted from equity when they are paid.

Dividends for the year that are approved after the balance sheet date are dealt with as an event after the balance sheet date.

Directors' remuneration

The board of directors' remuneration is accrued within the limits specified by the Capital Market Authority and the requirements of the Commercial Companies Law of the Sultanate of Oman.

Impairment of non-financial assets

The carrying amount of the Bank's non-financial assets, other than investment property and deferred tax assets are reviewed at each reporting date to determine whether there is any indication whether there is any indication of impairment. An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is reversed, only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss has been recognised.

4 CASH AND BALANCES WITH CENTRAL BANKS

2012 USD'000	2013 USD'000		2013 RO'000	2012 RO'000
80,974	**94,904**	Cash	**36,538**	31,175
9,234	**-**	Treasury bills with Central Banks	**-**	3,555
64,935	**272,727**	Certificates of deposit with Central Banks	**105,000**	25,000
403,916	**587,735**	Other balances with Central Banks	**226,278**	155,508
559,059	**955,366**	**Cash and cash equivalents**	**367,816**	215,238
1,299	**1,299**	Capital deposit with Central Bank of Oman	**500**	500
560,358	**956,665**	**Cash and balances with Central Banks**	**368,316**	215,738

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

5 DUE FROM BANKS AND OTHER MONEY MARKET PLACEMENTS (NET)

2012 USD'000	2013 USD'000		2013 RO'000	2012 RO'000
212,636	**36,000**	Loans and advances to banks	**13,860**	81,865
295,722	**488,735**	Placement with banks	**188,163**	113,853
73,073	**69,179**	Demand balances	**26,634**	28,133
581,431	**593,914**	**Due from banks and other money market placements**	**228,657**	223,851
(16,940)	**(361)**	Less: allowance for credit losses	**(139)**	(6,522)
(177)	**-**	Less: reserved interest	**-**	(68)
564,314	**593,553**	**Net due from banks and other money market placements**	**228,518**	217,261

6 LOANS, ADVANCES AND FINANCING ACTIVITIES FOR CUSTOMERS (NET)

2012 USD'000	2013 USD'000		2013 RO'000	2012 RO'000
102,935	**140,956**	Overdrafts	**54,268**	39,630
2,502,774	**2,744,831**	Personal loans	**1,056,760**	963,568
2,354,109	**2,471,783**	Other loans	**951,636**	906,332
148,795	**157,722**	Loans against trust receipts	**60,723**	57,286
50,847	**52,262**	Bills discounted	**20,121**	19,576
-	**34,631**	Islamic financing activities	**13,333**	-
5,159,460	**5,602,185**	**Gross loans and advances**	**2,156,841**	1,986,392
(150,652)	**(175,979)**	Allowance for credit losses	**(67,752)**	(58,001)
(43,712)	**(54,260)**	Reserved interest	**(20,890)**	(16,829)
4,965,096	**5,371,946**	**Net loans and advances**	**2,068,199**	1,911,562

6 LOANS, ADVANCES AND FINANCING ACTIVITIES FOR CUSTOMERS (NET) (Continued)

The movement in the allowance for credit losses and reserved interest accounts is set out below:

2012 USD'000	**2013 USD'000**		**2013 RO'000**	2012 RO'000
		Allowance for credit losses		
128,460	**150,652**	Balance at beginning of the year	**58,001**	49,457
44,002	**49,852**	Provided during the year	**19,193**	16,941
(8,153)	**(8,189)**	Released/recovered during the year	**(3,153)**	(3,139)
(13,426)	**(15,927)**	Written off during the year	**(6,132)**	(5,169)
(231)	**(409)**	Translation difference	**(157)**	(89)
150,652	**175,979**	Balance at end of the year	**67,752**	58,001
		Reserved interest		
34,943	**43,712**	Balance at beginning of the year	**16,829**	13,453
14,197	**15,561**	Reserved during the year	**5,991**	5,466
(886)	**(1,003)**	Released/recovered during the year	**(386)**	(341)
(506)	**(501)**	Released/recovered during the year to interest income	**(193)**	(195)
(4,021)	**(3,486)**	Written off during the year	**(1,342)**	(1,548)
(15)	**(23)**	Translation difference	**(9)**	(6)
43,712	**54,260**	Balance at end of the year	**20,890**	16,829

A further analysis of allowances for credit losses is set out below:

2012 USD'000	**2013 USD'000**		**2013 RO'000**	2012 RO'000
74,751	**96,538**	Specific impairment	**37,167**	28,779
75,901	**79,441**	Collective impairment	**30,585**	29,222
150,652	**175,979**		**67,752**	58,001

All loans and advances require payment of interest based on agreed tenors, some at fixed rates and others at rates that re-price prior to maturity. At 31 December 2013, impaired loans on which interest is not being accrued or where interest has been reserved amounted to RO 61 million – USD 158 (2012 – RO 53 million – USD 138 million).

During the year, the bank has written-off fully provided loans and advances amounting to RO 7.5 million – USD 19.5 million (2012: RO 6.7 million – USD 17.4 million) against impairment provisions where the bank believes the possibility of a recovery is low. The bank will continue to pursue the recovery of these loans through all possible means and any future recovery from these written-off loans will be recognised in the profit or loss for the year.

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.

6 LOANS, ADVANCES AND FINANCING ACTIVITIES FOR CUSTOMERS (NET) (Continued)

The table below analyses the concentration of gross loans and advances by various sectors.

Total 2012 USD'000	Total 2013 USD'000		Total 2013 RO'000	Total 2012 RO'000
2,502,774	**2,744,831**	Personal	**1,056,760**	963,568
399,938	**495,992**	Construction	**190,957**	153,976
361,574	**424,590**	Manufacturing	**163,467**	139,206
296,442	**412,457**	Service	**158,796**	114,130
294,491	**292,361**	Transport and communication	**112,559**	113,379
234,229	**272,839**	Electricity, gas and water	**105,043**	90,178
304,958	**264,218**	Wholesale and retail trade	**101,724**	117,409
254,216	**250,242**	Others	**96,343**	97,873
245,325	**220,148**	Financial institutions	**84,757**	94,450
136,374	**135,234**	Import trade	**52,065**	52,504
33,195	**35,023**	Agriculture	**13,484**	12,780
94,013	**18,678**	Mining and quarrying	**7,191**	36,195
849	**886**	Export trade	**341**	327
1,082	**55**	Government	**21**	417
5,159,460	**5,567,554**	**Total Gross Loans**	**2,143,508**	1,986,392
-	**34,631**	Islamic financing activities	**13,333**	-
5,159,460	**5,602,185**	**Total**	**2,156,841**	1,986,392

The geographic distribution of loans and advances to customers, based on the location of the borrower is as follows:

2012 USD'000	2013 USD'000		2013 RO'000	2012 RO'000
4,968,434	**5,366,164**	Sultanate of Oman	**2,065,973**	1,912,847
143,829	**146,029**	United Arab Emirates	**56,221**	55,374
6,463	**5,865**	Egypt	**2,258**	2,488
40,734	**84,127**	Others	**32,389**	15,683
5,159,460	**5,602,185**	**Total**	**2,156,841**	1,986,392

7 FINANCIAL INVESTMENTS

2012 USD'000	2013 USD'000		2013 RO'000	2012 RO'000
		A. Held for trading		
		Quoted investments- Oman		
-	**69,506**	Government Development Bonds	**26,760**	-
-	**69,506**	**Total held for trading**	**26,760**	-
		B. Available for sale		
		Quoted investments- Oman		
1,925	**496**	Banking and investment sector	**191**	741
3,018	**2,855**	Manufacturing sector	**1,099**	1,162
21,727	**21,026**	Service sector	**8,095**	8,365
223,818	**195,504**	Government Development Bonds	**75,269**	86,170
250,488	**219,881**		**84,654**	96,438
		Quoted investments- Foreign		
-	**1,130**	Banking and investment sector	**435**	-
-	**7,088**	Service sector	**2,729**	-
9,332	**3,634**	Government Development Bonds	**1,399**	3,593
9,332	**11,852**		**4,563**	3,593
		Unquoted investments		
17,974	**27,416**	Banking and investment sector	**10,555**	6,920
9,047	**9,047**	Manufacturing sector	**3,483**	3,483
748	**2,106**	Service sector	**811**	288
27,769	**38,569**		**14,849**	10,691
287,590	**270,302**	**Total available for sale**	**104,066**	110,722
		C. Held to maturity		
		Quoted investments- Overseas		
-	**4,615**	Manufacturing sector	**1,777**	-
-	**4,615**	**Total Held to maturity**	**1,777**	-
287,590	**344,423**	**TOTAL FINANCIAL INVESTMENTS**	**132,603**	110,722

Included under unquoted available for sale investments are investments with a value of RO 3.87 million – USD 10.05 million (2012 – RO 3.91 million – USD 10.16 million), which are carried at cost, less any impairment losses, due to the unpredictable nature of future cash flows and the lack of other suitable methods for arriving at a reliable fair value. All other available for sale investments are carried at fair value.

During the year, the bank has recorded RO 0.01 million - USD 0.03 million (2012 – RO 1.54 million – USD 4.0 million) as impairment losses against its available for sale investments. The impairment loss on available for sale investments is recognised in view of either a significant or prolonged decline in the fair value of the investment below cost.

7 FINANCIAL INVESTMENTS (Continued)

Details of significant investments

Details of investments exceeding 10% of the carrying value of the bank's investment are as follows:

Bank's portfolio %	Carrying value USD'000	2013	Bank's portfolio %	Carrying value RO'000
76.9	**265,010**	Government Development Bonds-Oman	**76.9**	**102,029**
Bank's portfolio %	Carrying value USD'000	2012	Bank's portfolio %	Carrying value RO'000
77.8	223,818	Government Development Bonds-Oman	77.8	86,170

8 PREMISES AND EQUIPMENT

	Freehold land and buildings and leasehold improvements RO'000	Motor vehicles, furniture and equipment RO'000	Capital work in progress RO'000	Total RO'000
Reconciliation of carrying amount:				
Balance as at 1 January 2013, net of accumulated				
depreciation	**12,696**	**5,443**	**2,359**	**20,498**
Additions	**140**	**843**	**2,034**	**3,017**
Disposals	**-**	**(42)**	**-**	**(42)**
Transfers	**531**	**887**	**(1,418)**	**-**
Translation difference	**(30)**	**-**	**-**	**(30)**
Depreciation	**(970)**	**(2,369)**	**-**	**(3,339)**
Balance as at 31 December 2013, net of accumulated depreciation	**12,367**	**4,762**	**2,975**	**20,104**
At cost	**22,357**	**25,782**	**2,975**	**51,114**
At revaluation	**3,766**	**-**	**-**	**3,766**
Accumulated depreciation	**(13,756)**	**(21,020)**	**-**	**(34,776)**
Net carrying value at 31 December 2013	**12,367**	**4,762**	**2,975**	**20,104**
Net carrying value at 31 December 2013 – USD'000	**32,122**	**12,369**	**7,727**	**52,218**
At cost 1 January 2012	21,844	24,565	2,359	48,768
At revaluation	3,766	-	-	3,766
Accumulated depreciation	(12,914)	(19,122)	-	(32,036)
Net carrying value at 31 December 2012	12,696	5,443	2,359	20,498
Net carrying value at 31 December 2012 – USD'000	32,977	14,138	6,127	53,242

8 PREMISES AND EQUIPMENT (Continued)

Freehold land stated at cost of RO 8.56 million – USD 22.23 million (2012 – RO 8.56 million – USD 22.23 million) is not depreciated. Land and buildings include three buildings on freehold land, which were re-valued at their open market value for existing use by an independent professional valuer as of 31 October 2010, at RO 3.77 million (USD 9.79 million) from then existing value of RO 2.81 million (USD 7.30 million). On revaluation, the gross carrying amount of each building re-valued was restated so that the net carrying amount of the asset after revaluation equals its re-valued amount. Should the buildings be carried at cost less depreciation, the net carrying amount would have been RO 0.79 million – USD 2.05 million (2012 – RO 0.88 million – USD 2.29 million).

9 OTHER ASSETS

2012 USD'000	**2013 USD'000**		**2013 RO'000**	2012 RO'000
58,988	**94,258**	Interest receivable and others	**36,289**	22,710
28,753	**14,044**	Positive fair value of derivatives (note 33)	**5,407**	11,070
72,332	**94,662**	Customers' indebtedness for acceptances	**36,445**	27,848
160,073	**202,964**		**78,141**	61,628

10 DUE TO BANKS AND OTHER MONEY MARKET DEPOSITS

2012 USD'000	**2013 USD'000**		**2013 RO'000**	2012 RO'000
528,000	**567,779**	Acceptances and borrowings	**218,595**	203,280
18,616	**20,166**	Other balances	**7,764**	7,167
546,616	**587,945**		**226,359**	210,447

11 CUSTOMERS' DEPOSITS AND UNRESTRICTED INVESTMENT ACCOUNTS

2012 USD'000	**2013 USD'000**		**2013 RO'000**	2012 RO'000
1,002,504	**1,583,997**	Current accounts	**609,839**	385,964
1,254,400	**1,405,940**	Savings accounts	**541,287**	482,944
2,630,769	**2,630,956**	Term deposits	**1,012,918**	1,012,846
12,987	**-**	Certificates of deposit	**-**	5,000
-	**39,260**	Islamic deposits	**15,115**	-
4,900,660	**5,660,153**		**2,179,159**	1,886,754

12 OTHER LIABILITIES

2012 USD'000	**2013 USD'000**		**2013 RO'000**	2012 RO'000
74,281	**89,281**	Interest payable & others	**34,373**	28,598
3,026	**3,366**	Staff entitlements	**1,296**	1,165
72,332	**94,662**	Liabilities under acceptances	**36,445**	27,848
29,005	**14,021**	Negative fair value of derivatives (note 33)	**5,398**	11,167
178,644	**201,330**		**77,512**	68,778
		Staff entitlements are as follows:		
2,652	**2,862**	End of service benefits	**1,102**	1,021
374	**504**	Other liabilities	**194**	144
3,026	**3,366**		**1,296**	1,165
		Movement in the end of service benefits liability are as follows:		
2,291	**2,652**	Liability as at 1 January	**1,021**	882
704	**792**	Expense recognised in the statement of comprehensive income	**305**	271
(343)	**(582)**	End of service benefits paid	**(224)**	(132)
2,652	**2,862**	Liability as at 31 December	**1,102**	1,021

13 TAXATION

2012 USD'000	**2013 USD'000**		**2013 RO'000**	2012 RO'000
		Current tax expense		
15,462	**14,522**	Current period/year	**5,591**	5,953
168	**-**	Deferred tax adjustment	**-**	65
15,630	**14,522**		**5,591**	6,018

The bank is liable to income tax at the following rates:

- Sultanate of Oman: 12% of consolidated taxable income in excess of RO 30,000
- United Arab Emirates: 20% of taxable income
- Egypt: 20% of taxable income

Set out below is reconciliation between income tax calculated on accounting profits with income tax expense for the year:

2012 USD'000	**2013 USD'000**		**2013 RO'000**	2012 RO'000
121,246	**121,994**	Accounting profit	**46,968**	46,680
14,540	**14,639**	Tax at applicable rate	**5,636**	5,598
764	**286**	Non-deductible expenses	**110**	294
(857)	**(909)**	Tax exempt revenues	**(350)**	(330)
1,183	**506**	Others	**195**	456
15,630	**14,522**		**5,591**	6,018

13 TAXATION (Continued)

Taxable income / Loss for Islamic banking operations has been included in calculation of the bank's taxation.

The bank's liabilities for taxation in the Sultanate of Oman has been assessed up to the year ended 31 December 2007. The tax assessments of the Egypt operations in respect of the different taxes applicable are at different stages of completion with the respective tax authorities. The bank's liability in respect of its branch in UAE has been agreed with the tax authorities up to 31 December 2012.

Tax liability

2012 USD'000	**2013 USD'000**		**2013 RO'000**	2012 RO'000
15,462	**14,522**	Income tax and other taxes – Current year	**5,591**	5,953
(691)	**(165)**	Income tax and other taxes – Prior years	**(64)**	(266)
14,771	**14,357**		**5,527**	5,687

Recognised deferred tax assets and liabilities

Deferred tax assets are attributable to the following:

990	**1,247**	Deductible temporary differences	**480**	381
72	**(52)**	Available for sale investments	**(20)**	28
1,062	**1,195**		**460**	409
		De-recognized deferred tax assets		
168	-	Deductible temporary differences Provisions	-	65

14 SUBORDINATED DEBT

2012 USD'000	**2013 USD'000**		**2013 RO'000**	2012 RO'000
142,078	**160,260**	At I January	**61,700**	54,700
18,182	**46,753**	Received during the year	**18,000**	7,000
160,260	**207,013**		**79,700**	61,700

(i) Placements received in 2013 are repayable in December 2018.

(ii) Placements received in prior years are repayable up to 2017.

15 SHARE CAPITAL

2012 USD'000	2013 USD'000		2013 RO'000	2012 RO'000
519,481	**519,481**	Authorised - ordinary shares of RO 0.100 each	**200,000**	200,000
287,799	**287,799**	Issued and fully paid - ordinary shares of RO 0.100 each	**110,803**	110,803

As of 31 December 2013, the following shareholders held 10% or more of the bank's capital:

	Number of shares '000	% Holding
The Commercial Bank of Qatar	**386,699**	**34.90%**
Suhail Bahwan Group (Holdings) L.L.C	**163,370**	**14.74%**
Civil Service Employee Pension Fund	**112,191**	**10.13%**

The percentage shareholding is calculated based on the total shares of the bank outstanding at the reporting date.

16 SHARE PREMIUM

The share premium of RO 34.5 million (USD 89.5 million) represents the premium collected on issue of 10 million shares by the bank through a private placement for RO 4.45 (USD 11.56) per share. This was approved by the Bank's shareholders at the Bank's Extraordinary General Meeting held on 25 June 2005 at which time the face value of the Bank's share was RO 1.

17 LEGAL RESERVE

The legal reserve, which is not available for distribution, is accumulated in accordance with the requirements of the Commercial Companies Law of Oman and the Union Law No. 10 of Abu Dhabi. The annual appropriations must not be less than 10% of the profit for the year until such time that the respective reserve account balance amounts to at least one third of the share capital in Oman and half of the branch capital in Abu Dhabi. At 31 December 2013, the legal reserve of Oman has reached one third of the issued capital.

18 GENERAL RESERVE

The general reserve was created on 9 May 2006 by way of a transfer from the subordinated debt reserve to a general reserve. The transfer was made on account of prepayment of certain subordinated debt during 2006 resulting in surplus in subordinated debt reserve. This reserve is available for distribution.

19 OTHER NON-DISTRIBUTABLE RESERVES

	Available for sale reserve RO '000	Revaluation reserve RO '000	Subordinated debt reserve RO '000	Total RO '000
At 1 January 2013	1,153	3,766	25,800	30,719
Net movement on available for sale investments	1,694	-	-	1,694
Tax effect of net losses on available for sale financial investments	(48)	-	-	(48)
Transfer to subordinated debt reserve	-	-	12,540	12,540
At 31 December 2013	**2,799**	**3,766**	**38,340**	**44,905**
At 31 December 2013 – In USD'000	**7,270**	**9,782**	**99,584**	**116,636**

(i) The revaluation reserve represents the surplus on revaluation of building and is not available for distribution until the related assets have been disposed off or used.

(ii) The subordinated debt reserve represents an annual transfer towards subordinated debt which is due to mature within the next five years period (note 14). The reserve is available for transfer back to retained earning upon maturity of the private placement.

20 DIVIDENDS PAID AND PROPOSED

The Board of Directors have proposed a cash dividend of RO 0.015 per share totalling RO 16.6 million (USD 0.039 per share totalling USD 43.2 million) and stock dividend of RO 0.010 per share totalling RO 11.1 million (USD 0.026 per share totalling USD 28.8 million) for the year ended 31 December 2013, which is subject to the approval of the shareholders at the Annual General Meeting to be held in March 2014.

At the Annual General Meeting held in March 2013, a cash dividend of RO 0.0175 per share totalling RO 19.4 million (USD 0.045 per share totalling USD 50.4 million) for the year ended 31 December 2012 was approved and subsequently paid.

21 CONTINGENT LIABILITIES AND COMMITMENTS

To meet the financial needs of customers, the bank enters into various irrevocable commitments and contingent liabilities. Even though these obligations may not be recognized on the statement of financial position, they do contain credit risk and are therefore part of the overall risk of the bank.

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 expiration 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 requirements.

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.

21 CONTINGENT LIABILITIES AND COMMITMENTS (Continued)

Contingent liabilities

As of the reporting date, commitments on behalf of customers for which there were corresponding customer liabilities consisted of the following:

2012 USD'000	2013 USD'000		2013 RO'000	2012 RO'000
1,186,288	**1,252,797**	Guarantees	**482,327**	456,721
155,590	**208,891**	Documentary letters of credit	**80,423**	59,902
1,341,878	**1,461,688**		**562,750**	516,623

The table below analyses the concentration of contingent liabilities by economic sector

2012 USD'000	2013 USD'000		2013 RO'000	2012 RO'000
488,639	**528,190**	Financial institutions	**203,353**	188,126
361,325	**403,257**	Construction	**155,254**	139,110
128,197	**130,865**	Electricity, gas and water	**50,383**	49,356
111,818	**116,540**	Wholesale and retail trade	**44,868**	43,050
88,145	**115,751**	Service	**44,564**	33,936
74,514	**114,592**	Manufacturing	**44,118**	28,688
70,725	**25,353**	Others	**9,761**	27,229
15,060	**17,075**	Transport and communication	**6,574**	5,798
1,912	**7,649**	Mining and Quarrying	**2,945**	736
956	**1,922**	Agriculture	**740**	368
506	**494**	Personal	**190**	195
81	**-**	Import trade	**-**	31
1,341,878	**1,461,688**		**562,750**	516,623

Guarantees include RO 0.1 million – USD 0.3 million (Dec 2012: RO 0.1 million – USD 0.3 million) relating to non-performing loans.

Commitments

2012 USD'000	2013 USD'000		2013 RO'000	2012 RO'000
388,639	**254,119**	Undrawn commitment	**97,836**	149,626
2,114	**7,997**	Capital expenditure	**3,079**	814
7,218	**8,112**	Operating lease commitments	**3,123**	2,779
		Future minimum lease payments:		
3,096	**3,888**	Not later than one year	**1,497**	1,192
4,122	**4,224**	Later than one year and not later than five years	**1,626**	1,587
-	**-**	Later than five years	**-**	-
7,218	**8,112**		**3,123**	2,779

21 CONTINGENT LIABILITIES AND COMMITMENTS (Continued)

Branches

The bank has deposited in the countries concerned, the following amounts of capital as support for its overseas branches. These amounts cannot be withdrawn without the approval of the Central Banks of the countries concerned.

2012 USD'000	2013 USD'000		2013 RO'000	2012 RO'000
14,294	**14,294**	Abu Dhabi branch	**5,503**	5,503
50,000	**50,000**	Egypt branches	**19,250**	19,250
64,294	**64,294**		**24,753**	24,753

Legal claims

Litigation is a common occurrence in the banking industry due to the nature of its business. The bank has an established protocol for dealing with such legal claims. Once professional advice has been obtained and the amount of damages reasonably estimated, the bank makes adjustments to account for any adverse effects which the claims may have on its financial standing. At year end, the bank had certain unresolved legal claims which are not expected to have any significant implication on the bank's financial statements.

Fiduciary assets

The fair value of securities as of 31 December 2013 held on trust for customers amounts to RO 66.82 million -USD 173.56 million (2012 – RO 59.07 million – USD 153.43 million).

22 INTEREST INCOME

2012 USD'000	2013 USD'000		2013 RO'000	2012 RO'000
270,865	**294,714**	Interest from customers	**113,465**	104,283
7,319	**8,221**	Interest from banks	**3,165**	2,818
278,184	**302,935**		**116,630**	107,101

Interest bearing assets, other than investments earned interest at an overall effective annual rate of 4.93% for the year ended 31 December 2013 (31 December 2012 – 5.07%).

23 INTEREST EXPENSE

2012 USD'000	2013 USD'000		2013 RO'000	2012 RO'000
94,979	**98,359**	Interest to customers	**37,868**	36,567
8,714	**10,449**	Interest to banks	**4,023**	3,355
103,693	**108,808**		**41,891**	39,922

For the year ended 31 December 2013, the average overall effective annual cost of bank's funds was 1.84% (31 December 2012 – 1.98%).

24 OTHER OPERATING INCOME

2012 USD'000	**2013 USD'000**		**2013 RO'000**	2012 RO'000
25,083	**28,293**	Fees and commission income	**10,893**	9,657
(55)	**(31)**	Fees and commission expense	**(12)**	(21)
25,028	**28,262**	**Net fees and commissions**	**10,881**	9,636
37,426	**24,239**	Service charges	**9,332**	14,409
990	**4,416**	Profit on sale of investments	**1,700**	381
8,504	**8,803**	Net gains from foreign exchange dealings	**3,389**	3,274
1,379	**797**	Miscellaneous income	**307**	531
5,992	**6,943**	Income from bonds and others	**2,673**	2,307
2,410	**1,748**	Dividend income	**673**	928
81,729	**75,208**		**28,955**	31,466

25 OTHER OPERATING EXPENSES

2012 USD'000	**2013 USD'000**		**2013 RO'000**	2012 RO'000
12,013	**12,442**	Establishment costs	**4,790**	4,625
30,133	**30,218**	Operating and administration costs	**11,634**	11,601
519	**574**	Directors' remuneration and sitting fees	**221**	200
42,665	**43,234**		**16,645**	16,426

26 RELATED PARTY TRANSACTIONS

Other related party transactions:

In the ordinary course of business, the bank conducts transactions with certain of its directors and/or shareholders and companies over which they have significant interest. The aggregate amounts of balances with such related parties are as follows:

	2013			2012		
	Principal shareholders RO'000	**Others RO'000**	**Total RO'000**	Principal shareholders RO'000	Others RO'000	Total RO'000
Loans and advances	**-**	**36,107**	**36,107**	-	53,677	53,677
Customer›s deposits	**188,244**	**23,498**	**211,742**	-	9,631	9,631
Due from banks	**36,589**	**12,898**	**49,487**	34,682	-	34,682
Due to banks	**99**	**-**	**99**	9,683	13,475	23,158
Subordinated debt	**14,500**	**5,500**	**20,000**	-	5,500	5,500
Letter of credit, guarantees and acceptance	**45**	**1,029**	**1,074**	2,177	2,724	4,901
Standby revolving credit facility	**77,000**	**-**	**77,000**	77,000	-	77,000
Risk indemnities received	**1,793**	**1,333**	**3,126**	546	4,000	4,546
Investment	**1,800**	**129**	**1,929**	-	-	-

26 RELATED PARTY TRANSACTIONS (Continued)

The statement of comprehensive income includes the following amounts in relation to transactions with related parties:

	2013			2012		
	Principal shareholders	Others	Total	Principal shareholders	Others	Total
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Interest income	26	1,619	1,645	13	1,460	1,473
Commission income	-	21	21	5	19	24
Interest expense	721	634	1,355	353	355	708
Other expenses	-	1,620	1,620	205	1,148	1,353

	2013			2012		
	Principal shareholders	Others	Total	Principal shareholders	Others	Total
	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000
Loans and advances	-	93,784	93,784	-	139,421	139,421
Customer›s deposits	488,945	61,034	549,979	-	25,016	25,016
Due from banks	95,036	33,501	128,537	90,082	-	90,082
Due to banks	257	-	257	25,152	35,000	60,152
Subordinated debt	37,662	14,286	51,948	-	14,286	14,286
Letter of credit, guarantees and acceptance	117	2,673	2,790	5,655	7,075	12,730
Standby revolving credit facility	200,000	-	200,000	200,000	-	200,000
Risk indemnities received	4,657	3,462	8,119	1,418	10,390	11,808
Investment	4,675	335	5,010	-	-	-

The statement of comprehensive income includes following amounts as relation to the transaction with related party.

	2013			2012		
	Principal shareholders	Others	Total	Total	Others	Total
	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000
Interest income	68	4,205	4,273	33	3,793	3,826
Commission income	-	55	55	13	49	62
Interest expense	1,872	1,647	3,519	916	922	1,838
Other expenses	-	4,208	4,208	533	2,983	3,516

26 RELATED PARTY TRANSACTIONS (Continued)

Details regarding senior management compensation are set out below:

2012 USD'000	2013 USD'000		2013 RO'000	2012 RO'000
		Salaries and other short term benefits		
5,147	**5,862**	- Fixed	**2,257**	1,981
1,652	**2,613**	- Discretionary	**1,006**	636
6,799	**8,475**		**3,263**	2,617

27 BASIC AND DILUTED EARNING PER SHARE

Earning per share is calculated by dividing the profit for the year by the weighted average number of shares outstanding during the year as follows:

	2013	2012
Profit for the year (RO'000s)	**41,377**	40,662
Weighted average number of shares outstanding during the year (in '000s)	**1,108,025**	1,108,025
Earnings per share (RO)	**RO 0.037**	RO 0.037
Profit for the year (USD'000s)	**107,473**	105,616
Weighted average number of shares outstanding during the year (in '000s)	**1,108,025**	1,108,025
Earnings per share (USD)	**USD 0.10**	USD 0.10

No figure for diluted earnings per share has been presented, as the bank has not issued any instruments, which would have an impact on earnings per share when exercised.

28 CAPITAL ADEQUACY

The bank maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the bank's capital is monitored using, among other measures, the rules and ratios established by the Basel Committee on Banking Supervision and adopted by the Central Bank of Oman in supervising the bank.

During the past year, the bank had complied in full with all its externally imposed capital requirements.

Capital management

The primary objectives of the bank's capital management are to ensure that the bank complies with externally imposed capital requirements and that the bank maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise shareholders' value.

The bank manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the bank may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities. The Capital Management Policy was revised during the year to incorporate the regulatory changes.

28 CAPITAL ADEQUACY (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:

2012 USD'000	**2013 USD'000**		**2013 RO'000**	2012 RO'000
		Capital base		
726,439	**790,702**	Common equity Tier 1 - shareholders' funds	**304,439**	279,679
170,527	**190,512**	Tier 2 - subordinated debt and collective impairment provisions	**73,347**	65,653
896,966	**981,214**	**Total capital base**	**377,786**	345,332
		Risk weighted assets		
5,768,641	**6,101,961**	Credit risk	**2,349,255**	2,220,927
432,860	**476,626**	Operational risk	**183,501**	166,651
26,081	**125,675**	Market risk	**48,385**	10,041
6,227,582	**6,704,262**	**Total risk weighted assets**	**2,581,141**	2,397,619
11.7%	**11.8%**	CET 1 Ratio / Tier 1 Ratio	**11.8%**	11.7%
14.4%	**14.6%**	**Risk asset ratio (Basel II norms)**	**14.6%**	14.4%

29 RISK MANAGEMENT

The primary objective of risk management is to safeguard the bank from the various risks it is exposed to. The Risk Group comprises of Corporate Credit Risk, Retail Credit Risk, Market Risk, Operational Risk, Information Security and Business Continuity Risk, Legal Risk and Loan Review Mechanism. All risk management functions report to Chief Risk Officer and are independent from Business Units. The bank has exposure to the following risks:-

29.1 CREDIT RISK

Credit risk is the risk that the bank will incur a loss because its customers, clients or counterparties fail to discharge their contractual obligations to the bank. The bank manages and controls credit risk by setting internal limits on the amount of risk it is willing to accept for individual counterparties and groups (single obligors) and industry sectors in line with the guidelines of Central Bank of Oman. The bank computes expected losses on credit exposure on the basis of risk classification of both corporate and retail loans in the delinquent category based on the guidelines of Central Bank of Oman.

Credit risk management

Credit Risk is managed within the regulatory requirements of Central Bank of Oman; risk framework provided in the Board approved Risk Charter and Credit Policies and Procedures. The policies and procedures are periodically reviewed to ensure alignment to the current best practices. Credit exposures are approved by delegated authorities based on delegation by the Board and Board Risk Committee. The delegation of authorities is based on the size of the single obligor exposure, the credit quality (internal, external rating) as well as level of credit risk mitigation (collateral, guarantees, etc.) for the proposed exposures. For retail exposures, there is delegation of authority for handling exceptions to approved program lending. Control, monitoring and management of credit exposures and remedial management are done in coordination with respective Business Units as per established procedures.

29 RISK MANAGEMENT (Continued)

29.1 CREDIT RISK (Continued)

Corporate credit

Corporate Credit Risk Division is responsible for independent assessment and control of the risks related to all Corporate, Business Banking and Financial Institutions exposures. The Division reviews and assesses credit risk for proposed exposures prior to facilities being committed to customers by the concerned business units. Renewals and reviews of facilities are subject to the same process. Each proposal is also assessed with respect to established concentration limits for various economic sectors, countries, risk grades, etc. and deviations, if any are highlighted. The bank follows risk based pricing and each credit proposal is also assessed based on internal benchmarks of required risk adjusted returns. The bank has implemented a customized Moody's Risk Analyst model for risk rating corporate borrowers. Corporate Credit Risk Division also provides advice and guidance to business units with a view to promoting best practices throughout the bank in the management of credit risk.

In addition to formal annual credit risk reviews of each corporate facility, more frequent reviews are also undertaken for watch list accounts, public companies and large exposures. Further, the bank continues to undertake quarterly review of financial institutions and country portfolio including stress tests and review of adverse rating migrations and outlooks in line with best practices and regulatory guidelines.

A comprehensive review of the Corporate Credit Portfolio is conducted on a quarterly basis and provided to the Senior Management and the Board Risk Committee. Salient areas covered in the review include:-

- Exposures downgraded/negatively migrated
- Weighted average credit grade profile
- Portfolio concentration/ performance
- Position of restructured exposures
- Position of past due exposures
- Exposures secured by equity
- Exposures to real estate and leasing sectors
- Syndicated exposures
- New relationships
- Exposures to senior members and non-resident borrowers
- Exposures to countries / financial institutions
- Clean lending and name lending exposures
- Clean lending and name lending exposures

Retail credit

Retail Credit Division manages the credit risk in the retail portfolio. Credit facilities are offered to retail customers primarily based on Product Programs approved by Risk Committee of the Board. The lending criteria for these programs are regularly reviewed and revised, if required, based on an on-going analysis of product performance and portfolio credit quality and perceived risk. Credit facilities outside the Product Programs are individually assessed by the Retail Credit Risk Division and approved as per the delegated authorities.

29 RISK MANAGEMENT (Continued)

29.1 CREDIT RISK (Continued)

A review of the Retail Credit Portfolio is conducted on a monthly basis and provided to the Management Risk Committee, and every quarter the preceding month's report is presented to the Board Risk Committee. Salient areas covered in the review include:

- Portfolio review
- Management Summary of Delinquency and NPA trends (which includes product-wise delinquency analysis, vintage analysis and delinquencies across various credit criteria, etc.)
- Projects undertaken / fulfilled during the month
- Recoveries

Several system enhancements and new processes have been introduced across critical activities to improve processing quality and efficiency, and to enhance the recovery methodologies of the retail portfolio. The bank has reworked its strategy of lending through adoption of stricter lending criteria and continuous monitoring of the portfolio and is in the process of implementing a Loan origination system, Credit Scoring Module and Collections solution to enhance its Retail Credit Risk framework.

Loan review mechanism

The bank an independent Loan Review Mechanism Division with a mandate for constantly evaluating the quality of the loan book; balance between risk and reward and to bring about qualitative improvements in credit administration. The division evaluates the effectiveness of loan administration, integrity of the credit grading process, assessment of general and specific loan loss provisions, portfolio quality, etc.

Risk mitigation policies

The bank manages, limits and controls concentrations of credit risk – in particular, with respect to individual counterparties and groups, and industries and countries. The bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Such risks are monitored and reviewed periodically by the Management Credit Committee and Board Risk Committee.

Maximum exposure to credit risk

Gross maximum exposure 2012 USD'000	**Gross maximum exposure 2013 USD'000**		**Gross maximum exposure 2013 RO '000**	Gross maximum exposure 2012 RO '000
479,385	**861,761**	Balances with Central Banks	**331,778**	184,563
564,314	**593,553**	Due from banks and other money market placements(net)	**228,518**	217,261
4,965,096	**5,371,946**	Loans, advances and financing activities for customers (net)	**2,068,199**	1,911,562
287,590	**344,423**	Financial investments	**132,603**	110,722
160,073	**202,964**	Other assets	**78,141**	61,628
6,456,458	**7,374,647**	**Total on balance sheet exposure**	**2,839,239**	2,485,736
1,186,288	**1,252,797**	Guarantees	**482,327**	456,721
155,590	**208,891**	Documentary letters of credit	**80,423**	59,902
388,639	**252,951**	Undrawn commitment	**97,386**	149,626
1,730,517	**1,714,639**	**Total off balance sheet exposure**	**660,136**	666,249

29 RISK MANAGEMENT (Continued)

29.1 CREDIT RISK (Continued)

The above table represents the worst case scenario of credit risk exposure to the bank at 31 December 2013 and 2012 without taking into account the collateral held or other credit enhancements. Management is confident that the bank has suitable policies to measure and control the credit risk. In addition credit risk is mitigated through collaterals in the form of mortgages and guarantees wherever required.

An analysis of the credit quality of the bank's loan and advances is set out below:

	Performing loans (neither past due nor impaired) RO'000	Loans past due and not impaired RO'000	Non performing loans RO'000	Gross loans RO'000
Balance as at 1 January 2013	1,912,836	20,358	53,198	1,986,392
Additions during the year	607,954	76,631	29,864	714,449
Attrition during the year	(472,356)	(49,869)	(14,301)	(536,526)
Written-off during the year	-	-	(7,474)	(7,474)
Balance as at 31 December 2013	**2,048,434**	**47,120**	**61,287**	**2,156,841**
Balance as at 31 December 2013 – USD'000s	**5,320,608**	**122,390**	**159,187**	**5,602,185**
Balance as at 31 December 2012	1,912,836	20,358	53,198	1,986,392
Balance as at 31 December 2012 – USD'000s	4,968,405	52,878	138,177	5,159,460

An ageing analysis of the bank's loans which are past due but not impaired is set out below:

	Loans in arrears 1-30 days RO'000	Loans in arrears 31-60 days RO'000	Loans in arrears 61-89 days RO'000	Total RO'000
Loans and advances to customers (net) at				
31 December 2013	**30,844**	**12,074**	**4,202**	**47,120**
31 December 2013 – USD'000s	**80,114**	**31,361**	**10,914**	**122,389**
31 December 2012	2,438	11,470	6,450	20,358
31 December 2012 – USD'000s	6,332	29,792	16,754	52,878

Collateral and other credit enhancements

The bank employs a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of security for funds advanced, which is the common practice. The bank implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation. The principal collateral types for loans and advances are:

- Charges over business assets such as premises, inventory and accounts receivable
- Lien on fixed deposits
- Cash margins
- Mortgages over residential and commercial properties
- Pledge of marketable shares and securities

29 RISK MANAGEMENT (Continued)

29.1 CREDIT RISK (Continued)

The housing loans are secured by mortgage over the residential property.

The Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for impairment losses.

It is the bank's policy to dispose of repossessed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim. In general, the bank does not occupy repossessed properties for business use.

An analysis of the collateral held and other credit enhancement held against loan and advances granted is as follows:

	Performing loans (neither past due nor impaired) RO'000	Loans past due and not impaired RO'000	Non performing loans RO'000	Total RO'000
Collateral available	1,142,250	106,226	26,014	**1,274,490**
Guarantees available	12,402	-	-	**12,402**
Government soft loans*	7,696	-	1,258	**8,954**
Balance as at 31 December 2013	**1,162,348**	**106,226**	**27,272**	**1,295,846**
Balance as at 31 December 2013 – USD'000s	**3,019,086**	**275,912**	**70,836**	**3,365,834**
Balance as at 31 December 2012	946,778	41,737	16,299	1,004,814
Balance as at 31 December 2012 – USD'000s	2,459,163	108,408	42,335	2,609,906

* Government Soft Loans are guaranteed by the Government to the extent of the outstanding principal.

The amount of total secured loans and advances is less than the total value of collateral as stated above.

Impairment and provisioning policy

An assessment is made at each reporting date to determine whether there is objective evidence that a specific financial asset may be impaired. If such evidence exists, the estimated recoverable amount of that asset is determined and any impairment loss, based on the net present value of future anticipated cash flows, recognised in the statement of comprehensive income. In addition the bank creates collective provision.

29 RISK MANAGEMENT (Continued)

29.1 CREDIT RISK (Continued)

A further analysis of the bank's non-performing loans in accordance with the classification requirements of Central Bank of Oman is as follows:

	Substandard RO'000	Doubtful RO'000	Loss RO'000	Total RO'000
Balance as at 1 January 2013	6,989	18,395	27,814	53,198
Additions during the year	2,958	674	26,232	29,864
Attrition during the year	(1,704)	(11,251)	(1,346)	(14,301)
Written-off during the year	-	(1,656)	(5,818)	(7,474)
Balance as at 31 December 2013	**8,243**	**6,162**	**46,882**	**61,287**
Balance as at 31 December 2013 – USD'000s	**21,410**	**16,005**	**121,772**	**159,187**
Balance as at 31 December 2012	6,989	18,395	27,814	53,198
Balance as at 31 December 2012 – USD'000s	18,153	47,779	72,245	138,177

Movement of rescheduled loans:

	2013 RO'000	2012 RO'000
Balance as at 1 January	**54,256**	78,053
Additions during the year	**12,356**	3,611
Attrition during the year	**(21,628)**	(27,408)
Balance as at 31December	**44,984**	54,256
Balance as at 31December – USD'000s	**116,842**	140,925

29.2 LIQUIDITY RISK

Liquidity risk is the risk that the bank will be unable to meet its payment obligations when they fall due under normal and stressed circumstances. To limit this risk, the management continuously looks for opportunities to diversify its funding sources in addition to its core deposit base, manages assets with liquidity in mind, and monitors future cash flows and liquidity on a daily basis. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required.

The bank maintains liquidity by continually assessing, identifying and monitoring changes in funding needs required to meet strategic goals set in terms of the overall strategy. In addition the bank holds certain liquid assets as part of its liquidity risk management strategy.

The bank manages the liquidity risk based on the Central Bank of Oman guidelines and the Liquidity and Liquidity Contingency Policies, which are approved and periodically reviewed by the Board Risk Committee. Liquidity Risk position is monitored regularly thorough analysis of various reports, such as, Maturity of Assets and Liabilities, Liquidity Lines, Early Warning Indicators and Stock Ratios. Further, the bank also periodically conducts stress tests on liquidity based on market and bank specific events in line with Basel Committee recommendations. The liquidity position of the bank and stress test scenarios are regularly reviewed by the management and also discussed at the Board Risk Committee.

29 RISK MANAGEMENT (Continued)

29.2 LIQUIDITY RISK

The maturity profile of the assets, liabilities and equity at 31 December 2013 is as follows:

	On demand within 3 months	3 to 12 months	Subtotal less than 12 months	1 to 5 years	Over 5 years	Subtotal over 12 months	Total
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Cash and balances with Central Banks	266,853	45,450	312,303	32,522	23,491	56,013	368,316
Due from banks and other money market placements (net)	199,258	29,260	228,518	-	-	-	228,518
Loans, advances and financing activities for customers (net)	363,780	155,446	519,226	392,647	1,156,326	1,548,973	2,068,199
Financial investments	102,121	3,357	105,478	27,125	-	27,125	132,603
Premises and equipment	-	-	-	-	20,104	20,104	20,104
Deferred tax asset	460	-	460	-	-	-	460
Other assets	75,923	2,218	78,141	-	-	-	78,141
Total assets	1,008,395	235,731	1,244,126	452,294	1,199,921	1,652,215	2,896,341
Due to banks and other money market deposits	87,759	42,350	130,109	96,250	-	96,250	226,359
Customers' deposits and unrestricted investment accounts	494,630	712,949	1,207,579	578,620	392,960	971,580	2,179,159
Other liabilities	67,165	6,790	73,955	3,557	-	3,557	77,512
Taxation	5,527	-	5,527	-	-	-	5,527
Subordinated debt	-	-	-	53,200	26,500	79,700	79,700
Shareholders' equity	-	-	-	-	328,084	328,084	328,084
Total liabilities and shareholders' equity	655,081	762,089	1,417,170	731,627	747,544	1,479,171	2,896,341

	On demand within 3 months	3 to 12 months	Subtotal less than 12 months	1 to 5 years	Over 5 years	Subtotal over 12 months	Total
	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000
Cash and balances with Central Banks	693,124	118,052	811,176	84,473	61,016	145,489	956,665
Due from banks and other money market placement (net)	517,553	76,000	593,553	-	-	-	593,553
Loans, advances and financing activities for customers (net)	944,884	403,756	1,348,640	1,019,862	3,003,444	4,023,306	5,371,946
Financial investments	265,249	8,719	273,968	70,455	-	70,455	344,423
Premises and equipment	-	-	-	-	52,218	52,218	52,218
Deferred tax asset	1,195	-	1,195	-	-	-	1,195
Other assets	197,203	5,761	202,964	-	-	-	202,964
Total assets	2,619,208	612,288	3,231,496	1,174,790	3,116,678	4,291,468	7,522,964
Due to banks and other money market deposits	227,945	110,000	337,945	250,000	-	250,000	587,945
Customers' deposits and unrestricted investment accounts	1,284,753	1,851,816	3,136,569	1,502,909	1,020,675	2,523,584	5,660,153
Other liabilities	174,455	17,636	192,091	9,239	-	9,239	201,330
Taxation	14,357	-	14,357	-	-	-	14,357
Subordinated debt	-	-	-	138,182	68,831	207,013	207,013
Shareholders' equity	-	-	-	-	852,166	852,166	852,166
Total liabilities and shareholders' equity	1,701,510	1,979,452	3,680,962	1,900,330	1,941,672	3,842,002	7,522,964

29 RISK MANAGEMENT (Continued)

29.2 LIQUIDITY RISK (Continued)

The maturity profile of the assets, liabilities and equity at 31 December 2012 is as follows:

	On demand within 3 months RO'000	3 to 12 months RO'000	Subtotal less than 12 months RO'000	1 to 5 years RO'000	Over 5 years RO'000	Subtotal over 12 months RO'000	Total RO'000
Cash and balances with Central Banks	128,296	34,973	163,269	32,456	20,013	52,469	215,738
Due from banks and other money market placements (net)	168,512	48,749	217,261	-	-	-	217,261
Loans and advances (net)	461,545	110,386	571,931	354,349	985,282	1,339,631	1,911,562
Financial investments	89,985	-	89,985	20,737	-	20,737	110,722
Premises and equipment	-	-	-	-	20,498	20,498	20,498
Deferred tax asset	409	-	409	-	-	-	409
Other assets	59,737	1,797	61,534	94	-	94	61,628
Total assets	908,484	195,905	1,104,389	407,636	1,025,793	1,433,429	2,537,818
Due to banks and other money market deposits	104,572	9,625	114,197	96,250	-	96,250	210,447
Customers' deposits	409,083	597,154	1,006,237	540,303	340,214	880,517	1,886,754
Other liabilities	58,091	7,194	65,285	3,493	-	3,493	68,778
Taxation	5,687	-	5,687	-	-	-	5,687
Subordinated debt	-	-	-	54,700	7,000	61,700	61,700
Shareholders' equity	-	-	-	-	304,452	304,452	304,452
Total liabilities and shareholders' equity	577,433	613,973	1,191,406	694,746	651,666	1,346,412	2,537,818

29 RISK MANAGEMENT (Continued)

29.2 LIQUIDITY RISK (Continued)

	On demand within 3 months USD'000	3 to 12 months USD'000	Subtotal less than 12 months USD'000	1 to 5 years USD'000	Over 5 years USD'000	Subtotal over 12 months USD'000	Total USD'000
Cash and balances with Central Banks	333,236	90,839	424,075	84,301	51,982	136,283	560,358
Due from banks and other money market placement (net)	437,693	126,621	564,314	-	-	-	564,314
Loans and advances (net)	1,198,818	286,717	1,485,535	920,387	2,559,174	3,479,561	4,965,096
Financial investments	233,728	-	233,728	53,862	-	53,862	287,590
Premises and equipment	-	-	-	-	53,242	53,242	53,242
Deferred tax asset	1,062	-	1,062	-	-	-	1,062
Other assets	155,161	4,668	159,829	244	-	244	160,073
Total assets	2,359,698	508,845	2,868,543	1,058,794	2,664,398	3,723,192	6,591,735
Due to banks and other money market deposits	271,616	25,000	296,616	250,000	-	250,000	546,616
Customers' deposits	1,062,554	1,551,049	2,613,603	1,403,384	883,673	2,287,057	4,900,660
Other liabilities	150,885	18,686	169,571	9,073	-	9,073	178,644
Taxation	14,771	-	14,771	-	-	-	14,771
Subordinated debt	-	-	-	142,078	18,182	160,260	160,260
Shareholders' equity	-	-	-	-	790,784	790,784	790,784
Total liabilities and shareholders' equity	1,499,826	1,594,735	3,094,561	1,804,535	1,692,639	3,497,174	6,591,735

The bank is exposed to market risk, which is the risk that the fair value of the financial assets held by the bank will fluctuate because of changes in market prices. Market risk arises from changes in the fair value of open positions held in foreign exchange, interest rate, currency, equity, credit spreads, etc. Market Risk is managed based on the Central Bank of Oman guidelines and the Market Risk Policy, which is approved and periodically reviewed by the Board Risk Committee. Stress tests incorporating adverse movements in equity value, foreign exchange, etc. are also periodically conducted and reviewed by the Management and Board Risk Committee.

29 RISK MANAGEMENT (Continued)

29.3 MARKET RISK (Continued)

The bank offers hedging products to its customers to hedge their genuine exposures, related to interest rate risk, foreign exchange risk and commodity risk. The counterparty credit risk exposures for such transactions (interest rate swaps, commodities contracts, currency forwards and options, etc.) are assessed based on the positive marked-to-market values of the contracts and the potential future exposures. The bank has adopted risk weightings in line with best practices being followed by other banks to capture the credit risk related to these off-balance exposures.

- **Equity risk**

The proprietary equity positions are held in the 'Available for Sale' category. The market risk is monitored through daily mark-to-market reports which are circulated to the management and required actions, if any, are promptly taken. The portfolio is also monitored and managed as per the Investment Policy approved by the Board Risk Committee.

- **Interest rate risk**

The principal market risk to which non-trading portfolio is exposed is the risk of loss from fluctuation in the future cash flows or fair values of financial instruments because of changes in market interest rates.

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 re-pricing of assets and liabilities.

Methods and assumptions used in preparing the sensitivity analysis: The methods for interest rate sensitivity analysis are Maturity Gap Analysis (which measures the interest rate sensitivity of earnings) and Duration (which measures the interest rate sensitivity of capital). These are in line with the BIS in its paper on 'Principles for the Management and Supervision of Interest Rate Risk' issued in July 2004.

Interest rate risk is managed by monitoring the sensitivity of the bank's financial assets and liabilities to various standardized interest rate shocks. Standardised shocks include a 100 basis point and 200 basis point parallel shifts in yield curves. The impact of these shocks is analysed in the context of its impact on Earnings and Economic Value. The impact is compared against internal limits which have been formulated in line with the Central Bank of Oman and Basel Committee guidelines. The analysis is regularly reviewed by the Management and Board Risk Committee.

Earning impact of 200 basis points parallel shift in interest rate is provided below:

As at December 2013	200 bps increase	200 bps decrease
Earnings impact - RO›000s	**11,447**	**(11,447)**
Earnings impact - USD›000s	**29,732**	**(29,732)**

In addition, stress scenarios based on specific events or market disruptions are also analysed and presented at monthly ALCO meetings to estimate the impact on liquidity and earnings.

29 RISK MANAGEMENT (Continued)

29.3 MARKET RISK (Continued)

The bank has been consistently using the above methods/assumptions to conduct interest rate sensitivity analysis. The above sensitivity analyses are carried out at monthly rests and results thereof monitored against the in-house limits and the results are also actively deliberated at the ALCO meetings and presented to the Board Risk Committee.

There have not been any significant changes in Interest Rate Risk management process in the bank during the year.

The bank's interest sensitivity position based on contractual re-pricing arrangements at 31 December 2013 is as follows:

	Average effective interest rate	On demand within 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non-interest sensitive	Total
		RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Cash and balances with Central Banks	0.12%	105,000	-	-	-	263,316	368,316
Due from banks and other money market placements (net)	1.78%	228,518	-	-	-	-	228,518
Loans, advances and financing activities for customers (net)	5.49%	812,003	384,922	417,422	453,852	-	2,068,199
Financial investments	2.66%	13,201	7,552	85,083	-	26,767	132,603
Premises and equipment	N/A	-	-	-	-	20,104	20,104
Deferred tax asset	N/A	-	-	-	-	460	460
Other assets	N/A	-	-	-	-	78,141	78,141
Total assets		1,158,722	392,474	502,505	453,852	388,788	2,896,341
Due to banks and other money market deposits	1.96%	226,359	-	-	-	-	226,359
Customers' deposits and unrestricted investment accounts	1.66%	196,240	770,013	319,393	-	893,513	2,179,159
Other liabilities	N/A	-	-	-	-	77,512	77,512
Taxation	N/A	-	-	-	-	5,527	5,527
Subordinated debt	6.10%	-	-	37,100	42,600	-	79,700
Shareholders' equity	N/A	-	-	-	-	328,084	328,084
Total liabilities and shareholders' equity		422,599	770,013	356,493	42,600	1,304,636	2,896,341
Total interest rate sensitivity gap		736,123	(377,539)	146,012	411,252	(915,848)	-
Cumulative interest rate sensitivity gap		736,123	358,584	504,596	915,848	-	-

29 RISK MANAGEMENT (Continued)

29.3 MARKET RISK (Continued)

The bank's interest sensitivity position based on contractual re-pricing arrangements at 31 December 2013 is as follows:

	Average effective interest rate	On demand within 3 months USD'000	3 to 12 months USD'000	1 to 5 years USD'000	Over 5 years USD'000	Non interest sensitive USD'000	Total USD'000
Cash and balances with Central Banks	0.12%	272,727	-	-	-	683,938	956,665
Due from banks and other money market placements (net)	1.78%	593,553	-	-	-	-	593,553
Loans, advances and financing activities for customers (net)	5.49%	2,109,100	999,797	1,084,213	1,178,836	-	5,371,946
Financial investments	2.66%	34,288	19,616	220,994	-	69,525	344,423
Premises and equipment	N/A	-	-	-	-	52,218	52,218
Deferred tax asset	N/A	-	-	-	-	1,195	1,195
Other assets	N/A	-	-	-	-	202,964	202,964
Total assets		3,009,668	1,019,413	1,305,207	1,178,836	1,009,840	7,522,964
Due to banks and other money market deposits	1.96%	587,945	-	-	-	-	587,945
Customers' deposits and unrestricted investment accounts	1.66%	509,714	2,000,034	829,592	-	2,320,813	5,660,153
Other liabilities	N/A	-	-	-	-	201,330	201,330
Taxation	N/A	-	-	-	-	14,357	14,357
Subordinated debt	6.10%	-	-	96,364	110,649	-	207,013
Shareholders' equity	N/A	-	-	-	-	852,166	852,166
Total liabilities and shareholders' equity		1,097,659	2,000,034	925,956	110,649	3,388,666	7,522,964
Total interest rate sensitivity gap		1,912,009	(980,621)	379,251	1,068,187	(2,378,827)	-
Cumulative interest rate sensitivity gap		1,912,009	931,388	1,310,639	2,378,826	-	-

29 RISK MANAGEMENT (Continued)

29.3 MARKET RISK (Continued)

The bank's interest sensitivity position based on contractual re-pricing arrangements at 31 December 2012 is as follows:

	Average effective interest rate	On demand within 3 months	3 to 12 months	1 to 5 year	Over 5 year	Non interest sensitive	Total
		RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Cash and balances with Central Banks	0.08%	28,554	-	-	-	187,184	215,738
Due from banks and other money market placements (net)	1.53%	195,373	21,888	-	-	-	217,261
Loans and advances (net)	5.67%	822,246	296,461	361,907	393,077	37,871	1,911,562
Financial investments	3.00%	6,870	10,000	73,115	-	20,737	110,722
Premises and equipment	N/A	-	-	-	-	20,498	20,498
Deferred tax asset	N/A	-	-	-	-	409	409
Other assets	N/A	-	-	-	-	61,628	61,628
Total assets		1,053,043	328,349	435,022	393,077	328,327	2,537,818
Due to banks and other money market deposits	1.59%	210,447	-	-	-	-	210,447
Customers' deposits	1.89%	212,521	686,977	343,400	-	643,856	1,886,754
Other liabilities	N/A	-	-	-	-	68,778	68,778
Taxation	N/A	-	-	-	-	5,687	5,687
Subordinated debt	6.55%	-	-	54,700	7,000	-	61,700
Shareholders' equity	N/A	-	-	-	-	304,452	304,452
Total liabilities and shareholders' equity		422,968	686,977	398,100	7,000	1,022,773	2,537,818
Total interest rate sensitivity gap		630,075	(358,628)	36,922	386,077	(694,446)	-
Cumulative interest rate sensitivity gap		630,075	271,447	308,369	694,446	-	-

29 RISK MANAGEMENT (Continued)

29.3 MARKET RISK (Continued)

The bank's interest sensitivity position based on contractual re-pricing arrangements at 31 December 2012 is as follows:

	Average effective interest rate	On demand within 3 months	3 to 12 months	1 to 5 year	Over 5 year	Non interest sensitive	Total
		USD'000	USD'000	USD'000	USD'000	USD'000	USD'000
Cash and balances with Central Banks	0.08%	74,166	-	-	-	486,192	560,358
Due from banks and other money market placements (net)	1.53%	507,462	56,852	-	-	-	564,314
Loans and advances (net)	5.67%	2,135,704	770,029	940,018	1,020,979	98,366	4,965,096
Financial investments	3.00%	17,844	25,974	189,909	-	53,863	287,590
Premises and equipment	N/A	-	-	-	-	53,242	53,242
Deferred tax asset	N/A	-	-	-	-	1,062	1,062
Other assets	N/A	-	-	-	-	160,073	160,073
Total assets		2,735,176	852,855	1,129,927	1,020,979	852,798	6,591,735
Due to banks and other money market deposits	1.59%	546,616	-	-	-	-	546,616
Customers' deposits	1.89%	552,003	1,784,356	891,948	-	1,672,353	4,900,660
Other liabilities	N/A	-	-	-	-	178,644	178,644
Taxation	N/A	-	-	-	-	14,771	14,771
Subordinated debt	6.55%	-	-	142,078	18,182	-	160,260
Shareholders' equity	N/A	-	-	-	-	790,784	790,784
Total liabilities and shareholders' equity		1,098,619	1,784,356	1,034,026	18,182	2,656,552	6,591,735
Total interest rate sensitivity gap		1,636,557	(931,501)	95,901	1,002,797	(1,803,754)	-
Cumulative interest rate sensitivity gap		1,636,557	705,056	800,957	1,803,754	-	-

- Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The bank has set limits on open positions by currency. Positions are monitored on a daily basis and hedging strategies used to ensure positions are maintained within established limits.

The foreign exchange positions in the books of the bank are largely held on account of customers and any variations in the exchange rates are absorbed by the customers.

Foreign exchange VAR is computed monthly for all non-pegged currencies at 99% confidence level and a holding period of 10 days. Additionally earnings impact of a 15% adverse movement in exchange rates for all open positions is factored in the monthly stress tests.

29 RISK MANAGEMENT (Continued)

29.3 MARKET RISK (Continued)

The bank had the following significant net exposures denominated in foreign currencies:

2012 USD'000	**2013 USD'000**		**2013 RO'000**	2012 RO'000
6,971	**195,031**	US Dollar	**75,087**	2,684
2,574	**608**	UAE Dirham	**234**	991
13,392	**1,577**	Others	**607**	5,156

29.4 OPERATIONAL RISK

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The bank cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the bank is able to manage the risks. Controls include effective segregation of duties, access, authorization and reconciliation procedures, staff training and assessment processes, including the use of internal audit. Further, the Bank now has established an operational loss appetite statement to monitor losses under various operational loss categories and any breaches of set off thresholds will be reported to the Board Risk Committee. In addition to this, the bank has an operational loss reporting database.

29.5 STRATEGIC RISKS

The Bank monitors strategic risks through regular reporting at the Board Risk Committee. This also includes reviews of Human Resource related risks and the monitoring of strategic project risks.

30 CONCENTRATIONS

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

The distribution of assets, liabilities and contingent items by geographical regions as of 31 December 2013 is as follows:

	Sultanate of Oman RO'000	UAE RO'000	Egypt RO'000	Others RO'000	Total RO'000
Cash and balances with Central Banks	348,454	10,875	8,987	-	368,316
Due from banks and other money market placements (net)	-	27,275	54	201,189	228,518
Loans, advances and financing activities for customers (net)	1,991,304	45,551	1	31,343	2,068,199
Financial investments	123,360	4,635	1,399	3,209	132,603
Premises and equipment	19,480	308	316	-	20,104
Deferred tax asset	460	-	-	-	460
Other assets	74,551	2,130	1,460	-	78,141
Total assets	2,557,609	90,774	12,217	235,741	2,896,341
Due to banks and other money market deposits	31,816	296	6,478	187,769	226,359
Customers' deposits and unrestricted investment accounts	2,079,303	50,236	8,974	40,646	2,179,159
Other liabilities	74,252	2,635	625	-	77,512
Taxation	5,190	1	336	-	5,527
Subordinated debt	79,700	-	-	-	79,700
Shareholders' equity	322,178	4,820	1,086	-	328,084
Liabilities and shareholders' equity	2,592,439	57,988	17,499	228,415	2,896,341
Contingent liabilities	320,261	52,338	298	189,853	562,750

30 CONCENTRATIONS (continued)

	Sultanate of Oman USD'000	UAE USD'000	Egypt USD'000	Others USD'000	Total USD'000
Cash and balances with Central Banks	905,075	28,247	23,343	-	956,665
Due from banks and other money market placements (net)	-	70,844	140	522,569	593,553
Loans, advances and financing activities for customers (net)	5,172,218	118,314	3	81,411	5,371,946
Financial investments	320,416	12,039	3,634	8,334	344,423
Premises and equipment	50,597	800	821	-	52,218
Deferred tax asset	1,195	-	-	-	1,195
Other assets	193,640	5,532	3,792	-	202,964
Total assets	6,643,141	235,776	31,733	612,314	7,522,964
Due to banks and other money market deposits	82,639	769	16,826	487,711	587,945
Customers' deposits and unrestricted investment accounts	5,400,787	130,483	23,309	105,574	5,660,153
Other liabilities	192,863	6,844	1,623	-	201,330
Taxation	13,481	3	873	-	14,357
Subordinated debt	207,013	-	-	-	207,013
Shareholders' equity	836,826	12,519	2,821	-	852,166
Liabilities and shareholders' equity	6,733,609	150,618	45,452	593,285	7,522,964
Contingent liabilities	831,847	135,943	774	493,125	1,461,688

30 CONCENTRATIONS (continued)

The distribution of assets, liabilities and off balance sheet items by geographical regions as of 31 December 2012 is as follows:

	Sultanate of Oman RO'000	UAE RO'000	Egypt RO'000	Others RO'000	Total RO'000
Cash and balances with Central Banks	201,919	7,737	6,082	-	215,738
Due from banks and other money market placements (net)	-	10,359	2,560	204,342	217,261
Loans and advances (net)	1,851,790	44,612	-	15,160	1,911,562
Financial investments	106,107	-	3,593	1,022	110,722
Premises and equipment	19,809	286	403	-	20,498
Deferred tax asset	409	-	-	-	409
Other assets	53,644	1,340	810	5,834	61,628
Total assets	2,233,678	64,334	13,448	226,358	2,537,818
Due to banks and other money market deposits	5,840	36,706	4,620	163,281	210,447
Customers' deposits	1,790,936	43,692	18,852	33,274	1,886,754
Other liabilities	60,781	1,795	368	5,834	68,778
Taxation	5,152	98	437	-	5,687
Subordinated debt	61,700	-	-	-	61,700
Shareholders' equity	299,215	4,818	419	-	304,452
Liabilities and shareholders' equity	2,223,624	87,109	24,696	202,389	2,537,818
Contingent liabilities	313,260	36,427	574	166,362	516,623

30 CONCENTRATIONS (Continued)

The distribution of assets, liabilities and off balance sheet items by geographical regions as of 31 December 2012 is as follows:

	Sultanate of Oman USD'000	UAE USD'000	Egypt USD'000	Others USD'000	Total USD'000
Cash and balances with Central Banks	524,465	20,096	15,797	-	560,358
Due from banks and other money market placements (net)	-	26,906	6,649	530,759	564,314
Loans and advances (net)	4,809,844	115,875	-	39,377	4,965,096
Financial investments	275,603	-	9,332	2,655	287,590
Premises and equipment	51,452	743	1,047	-	53,242
Deferred tax asset	1,062	-	-	-	1,062
Other assets	139,335	3,481	2,104	15,153	160,073
Total assets	5,801,761	167,101	34,929	587,944	6,591,735
Due to banks and other money market deposits	15,169	95,340	12,000	424,107	546,616
Customers' deposits	4,651,782	113,486	48,966	86,426	4,900,660
Other liabilities	157,873	4,662	956	15,153	178,644
Taxation	13,381	255	1,135	-	14,771
Subordinated debt	160,260	-	-	-	160,260
Shareholders' equity	777,182	12,514	1,088	-	790,784
Liabilities and shareholders' equity	5,775,647	226,257	64,145	525,686	6,591,735
Contingent liabilities	813,662	94,616	1,491	432,109	1,341,878

31 SEGMENTAL INFORMATION

For management purposes, the bank is organised into four operating segments based on business units and are as follows:

- Retail banking offers various products and facilities to individual customers to meet everyday banking needs.
- Corporate banking delivers a variety of products and services to corporate customers that include lending, accepting deposits, trade finance and foreign exchange.
- Investment banking offers investment products such as asset management, corporate advisory and brokerage services to retail customers as well as high net worth individuals and institutional clients.
- Treasury provides a full range of treasury products and services including money market and foreign exchange to the clients in addition to managing liquidity and market risk.
- International banking offers services such as issuance of guarantee, risk participation, syndications, etc.

Management monitors the operating results of the operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss which in certain respects is measured differently from operating profit or loss in the financial statements. The costs incurred by the central functions are managed on a group basis and are not allocated to operating segments.

Segment information is as follows:

Year ended 31 December 2013	Retail banking RO'000	Corporate banking RO'000	Investment banking RO'000	Treasury and international banking RO'000	Head office RO'000	Islamic banking RO'000	Total RO'000
Net income	39,898	30,002	(54)	1,938	2,955	228	74,967
Other income	13,527	6,202	3,490	3,418	2,294	24	28,955
Operating profit	33,219	32,144	2,691	4,691	(16,893)	(510)	55,342
Impairment provisions (net)	(2,998)	(5,106)	5	(139)	-	(136)	(8,374)
Net Profit	30,221	27,038	2,696	4,552	(22,484)	(646)	41,377
Total assets	1,023,915	1,067,325	29,175	100,755	660,496	14,675	2,896,341
Total liabilities and equity	788,234	1,326,082	52,706	-	714,644	14,675	2,896,341

Year ended 31 December 2013	Retail banking USD'000	Corporate banking USD'000	Investment banking USD'000	Treasury and international banking USD'000	Head office USD'000	Islamic banking USD'000	Total USD'000
Net income	103,631	77,927	(140)	5,034	7,675	592	194,719
Other income	35,135	16,109	9,065	8,878	5,959	62	75,208
Operating profit	86,284	83,491	6,990	12,184	(43,879)	(1,325)	143,745
Impairment provisions (net)	(7,788)	(13,262)	13	(361)	-	(353)	(21,751)
Net Profit	78,496	70,229	7,003	11,823	(58,400)	(1,678)	107,473
Total assets	2,659,519	2,772,273	75,779	261,701	1,715,575	38,117	7,522,964
Total liabilities and equity	2,047,361	3,444,369	136,899	-	1,856,218	38,117	7,522,964

31 SEGMENTAL INFORMATION (Continued)

For management purposes the bank also reports the segment information of its operations by the following geographical locations:

i) Oman
ii) United Arab Emirates (UAE)
iii) Egypt

Transactions between the above segments are conducted at estimated market rates on an arm's length basis.

Segment information by geography is as follows:

For the year ended 31 December 2013	Oman RO'000	UAE RO'000	Egypt RO'000	Total RO'000
Segment revenue				
Interest income and Income from Islamic financing and Investment activities – external	114,656	1,784	525	116,965
Interest income – internal	9	39	879	927
Other operating income – external	27,567	870	518	28,955
Other operating income – internal	130	-	-	130
Total	142,362	2,693	1,922	146,977
Segment costs				
Interest costs and Unrestricted investment account holders' share of profit – external	41,056	483	459	41,998
Interest costs – internal	78	48	801	927
Other operating expenses – external	43,023	1,690	528	45,241
Other operating expenses – internal	-	67	63	130
Depreciation	3,157	125	57	3,339
Credit loss expense - customer loan	17,883	1,305	5	19,193
Recoveries	(9,170)	(1,028)	(863)	(11,061)
Impairment losses on available for sale investments	11	-	-	11
Credit loss expense – bank loans	139	-	-	139
Provision – others	-	-	92	92
Taxation	5,465	1	125	5,591
Total	101,642	2,691	1,267	105,600
Segment profit for the year	40,720	2	655	41,377
Other information				
Segment assets	2,808,781	59,795	27,765	2,896,341
Segment capital expenses	2,872	145	-	3,017

31 SEGMENTAL INFORMATION (Continued)

For the year ended 31 December 2013	Oman USD'000	UAE USD'000	Egypt USD'000	Total USD'000
Segment revenue				
Interest income and Income from Islamic financing and Investment activities – external	297,808	4,634	1,363	303,805
Interest income – internal	23	101	2,283	2,407
Other operating income – external	71,603	2,260	1,345	75,208
Other operating income – internal	338	-	-	338
Total	369,772	6,995	4,991	381,758
Segment costs				
Interest costs and Unrestricted investment account holders' share of profit – external	106,639	1,255	1,192	109,086
Interest costs – internal	203	125	2,079	2,407
Other operating expenses – external	111,748	4,390	1,371	117,509
Other operating expenses – internal	-	174	164	338
Depreciation	8,200	325	148	8,673
Credit loss expense - customer loan	46,450	3,389	13	49,852
Recoveries	(23,817)	(2,671)	(2,242)	(28,730)
Impairment losses on available for sale investments	29	-	-	29
Credit loss expense – bank loans	361	-	-	361
Provision – others	-	-	238	238
Taxation	14,194	3	325	14,522
Total	264,007	6,990	3,288	274,285
Segment profit for the year	105,765	5	1,703	107,473
Other information				
Segment assets	7,295,535	155,312	72,117	7,522,964
Segment capital expenses	7,460	377	-	7,837

31 SEGMENTAL INFORMATION (Continued)

Segment information is as follows:

Year ended 31 December 2012	Retail banking RO'000	Corporate banking RO'000	Investment banking RO'000	Treasury and international banking RO'000	Head office RO'000	Total RO'000
Net interest income	37,462	25,216	(338)	962	3,877	67,179
Other income	18,615	5,229	2,096	3,612	1,914	31,466
Operating profit	35,166	27,663	1,001	4,270	(16,140)	51,960
Impairment provisions (net)	(2,475)	(2,930)	(1,471)	-	1,596	(5,280)
Net profit	32,691	24,733	(470)	4,270	(20,562)	40,662
Total assets	936,151	993,947	20,959	106,146	480,615	2,537,818
Total liabilities and equity	692,836	1,152,235	34,193	5,834	652,720	2,537,818

Year ended 31 December 2012	Retail banking USD'000	Corporate banking USD'000	Investment banking USD'000	Treasury and international banking USD'000	Head office USD'000	Total USD'000
Net interest income	97,304	65,496	(878)	2,499	10,070	174,491
Other income	48,350	13,582	5,444	9,382	4,971	81,729
Operating profit	91,339	71,852	2,600	11,091	(41,922)	134,960
Impairment provisions (net)	(6,429)	(7,610)	(3,821)	-	4,146	(13,714)
Net profit	84,910	64,242	(1,221)	11,091	(53,406)	105,616
Total assets	2,431,561	2,581,681	54,439	275,704	1,248,350	6,591,735
Total liabilities and equity	1,799,574	2,992,818	88,813	15,153	1,695,377	6,591,735

31 SEGMENTAL INFORMATION (Continued)

Segment information by geography is as follows:

For the year ended 31 December 2012	Oman RO'000	UAE RO'000	Egypt RO'000	Total RO'000
Segment revenue				
Interest income - external	104,047	1,857	1,197	107,101
Interest income - internal	-	40	1,636	1,676
Other operating income - external	29,971	630	865	31,466
Other operating income - internal	191	-	-	191
Total	134,209	2,527	3,698	140,434
Segment costs				
Interest costs - external	38,402	546	974	39,922
Interest costs - internal	243	88	1,345	1,676
Other operating expenses - external	40,516	1,379	1,064	42,959
Other operating expenses – internal	-	62	129	191
Depreciation	3,515	127	84	3,726
Credit loss expense - customer loan	15,859	1,079	3	16,941
Provision – others	-	-	-	-
Impairment losses on available for sale investments	1,471	-	70	1,541
Recoveries	(11,282)	(1,244)	(676)	(13,202)
Taxation	5,677	54	287	6,018
Total	94,401	2,091	3,280	99,772
Segment profit for the year	39,808	436	418	40,662
Other information				
Segment assets	2,448,605	53,258	35,955	2,537,818
Segment capital expenses	3,612	289	15	3,916

31 SEGMENTAL INFORMATION (Continued)

For the year ended 31 December 2012	Oman USD'000	UAE USD'000	Egypt USD'000	Total USD'000
Segment revenue				
Interest income - external	270,252	4,823	3,109	278,184
Interest income - internal	-	104	4,249	4,353
Operating income - external	77,847	1,636	2,246	81,729
Operating income - internal	496	-	-	496
Total	348,595	6,563	9,604	364,762
Segment costs				
Interest costs - external	99,745	1,418	2,530	103,693
Interest costs - internal	630	229	3,494	4,353
Operating expenses - external	105,236	3,582	2,764	111,582
Operating expenses – internal	-	161	335	496
Depreciation	9,130	330	218	9,678
Credit loss expense - customer loan	41,193	2,802	7	44,002
Provision – others	-	-	-	-
Impairment losses on available for sale investments	3,822	-	181	4,003
Recoveries	(29,304)	(3,231)	(1,756)	(34,291)
Taxation	14,745	140	745	15,630
Total	245,197	5,431	8,518	259,146
Segment profit for the year	103,398	1,132	1,086	105,616
Other information				
Segment assets	6,360,014	138,332	93,390	6,591,736
Segment capital expenses	9,382	751	39	10,172

32 FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair values of financial instruments that are traded in active markets are based on quoted market prices or dealer price quotations. Other unquoted equities are valued based on information provided by fund managers, investee financial information and current purchase prices.

The Bank measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements.

32 FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

Valuation models

Level 1: inputs that are quoted market prices (unadjusted) in active markets for identical instruments.

Level 2: inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.

Level 3: inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The following table shows an analysis of financial instruments other than derivatives instruments recorded at fair value by level of the fair value hierarchy:

Total USD'000	Level 2 USD'000	Level 1 USD'000		Level 1 RO'000	Level 2 RO'000	Total RO'000
			Investments – held for trading:			
69,506	**-**	**69,506**	Government development bonds	**26,760**	**-**	**26,760**
69,506	**-**	**69,506**	**Total**	**26,760**	**-**	**26,760**
			Investments - available for sale:			
199,138	**-**	**199,138**	Government development bonds	**76,668**	**-**	**76,668**
32,595	**-**	**32,595**	Quoted equities	**12,549**	**-**	**12,549**
38,569	**38,569**	**-**	Other unquoted equities	**-**	**14,849**	**14,849**
270,302	**38,569**	**231,733**	**Total**	**89,217**	**14,849**	**104,066**
339,808	**38,569**	**301,239**	**Total financial assets**	**115,977**	**14,849**	**130,826**
287,590	27,769	259,821	Total financial assets at 31 December 2012	100,031	10,691	110,722

Derivative financial instrument at level 2 are valued based on counter party valuation, quoted forward rates and yield curves (see note 23).

33 DERIVATIVES

In the ordinary course of business, the bank enters into various types of transactions with customers and for own account for hedging purpose 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. The bank uses the following derivative financial instruments:

Derivative product types

Forwards are contractual agreements to either buy or sell a specified currency, commodity or financial instrument at a specific price and date in the future. Forwards are customised contracts transacted in the over-the-counter market.

Swaps are contractual agreements between two parties to exchange movements in interest or foreign currency rates and equity indices, and (in the case of credit default swaps) to make payments with respect to defined credit events based on specified notional amounts.

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.

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. Hedging specific financial instruments and forecasted transactions as well as strategic hedging against overall balance sheet exposures achieve this.

The bank uses forward foreign exchange contracts, options and currency swaps to hedge against specifically identified currency risks. In addition, the bank uses interest rate swaps to hedge against the cash flow risks arising from certain fixed interest rate loans and deposits.

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.

During the reporting period ended 31 December 2013 and 31 December 2012, the bank has not entered into any derivative financial instrument for its on balance sheet hedging.

The table below shows the positive and negative fair values of derivative financial instruments entered with and on behalf of customers, which are equivalent to the market values, together with the notional amounts analysed by the term to maturity. The notional amount is 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.

33 DERIVATIVES (Continued)

31 December 2013	**Positive fair value RO'000 (note 9)**	**Negative fair value RO'000 (note 12)**	**Notional amount RO'000**	**Notional amounts by term to maturity** Within 3 months RO'000	3 - 12 months RO'000	1 - 5 years RO'000
Interest rate swaps	**5,261**	**(5,261)**	**144,155**	**2,125**	**11,690**	**130,340**
Forward foreign exchange purchase contracts	**53**	**(49)**	**49,505**	**39,660**	**9,845**	**-**
Forward foreign exchange sales contracts	**54**	**(49)**	**49,505**	**39,663**	**9,842**	**-**
Currency options	**16**	**(16)**	**4,244**	**3,820**	**424**	**-**
Commodity hedging	**23**	**(23)**	**2,193**	**2,193**	**-**	**-**
Total	**5,407**	**(5,398)**	**249,602**	**87,461**	**31,801**	**130,340**
Total – USD'000	**14,044**	**(14,021)**	**648,317**	**227,172**	**82,600**	**338,545**

31 December 2012	Positive fair value RO'000 (note 9)	Negative fair value RO'000 (note 12)	Notional amount RO'000	Notional amounts by term to maturity Within 3 months RO'000	3 - 12 months RO'000	1 - 5 years RO'000
Interest rate swaps	9,753	(9,753)	138,276	4,762	6,901	126,613
Forward foreign exchange purchase contracts	64	(361)	66,657	48,716	17,941	-
Forward foreign exchange sales contracts	370	(170)	66,657	48,649	18,008	-
Currency options	325	(325)	45,483	33,253	12,230	-
Commodity hedging	558	(558)	51,161	30,980	20,181	-
Total	11,070	(11,167)	368,234	166,360	75,261	126,613
Total – USD'000	28,753	(29,005)	956,452	432,104	195,483	328,865

34 COMPARATIVE AMOUNTS

Certain of the corresponding figures for 2012 have been reclassified in order to conform with the presentation for the current year. Such reclassifications were made within the same notes to the financial statements and do not affect previously reported profit or equity.

These reclassifications have been done as a result of adoption of new standards and interpretations and to improve the quality of information presented. The reclassifications do not affect the reported profit for the year 2012.

Muzn Islamic Banking

Muzn Islamic Banking is the licensed Islamic Banking window of National Bank of Oman operating in the Sultanate of Oman. National Bank of Oman has the unique distinction of being the first local conventional bank to be established in 1973.

Our aim is to create ethical value for our customers through our Shari'a compliant Islamic products and services.

Our Mission is to provide innovative, competitive and quality Islamic Banking products and services; ensuring these are accessible and understood by all.

Our Vision is to be the leading provider of Islamic financial services in the country.

Muzn's independent Shari'a Supervisory Board is an external Shari'a Committee comprising of independent and well renowned Shari'a Scholars who guide and ensure that the operations, services and products offered by Muzn Islamic Banking comply with the principles of Shari'a. Our Shari'a Supervisory Board consists of three prominent Shari'a Scholars namely:

- **Sheikh Dr. Mohamed Bin Ali Elgari**, is a Professor of Islamic Economics at King Abdulaziz University, Saudi Arabia. He is an expert at the Islamic Jurisprudence Academy of the Organisation of Islamic Cooperation (OIC) and the Islamic Jurisprudence Academy of the Islamic World League and a member of the Shari›a Council of Accounting and Auditing Organisation for Islamic Financial Institutions (AAOFI), Chairman Shari'a Supervisory Board of Muzn Islamic Banking Services and Board Member of several reputable Islamic Banks and Takaful Companies.

- **Sheikh Dr. Mohamed Daud Baker**, is a Malaysian Shari'a Scholar, his area of specialization includes Islamic Legal Theory, Islamic Banking and Finance and Islamic Law of Zakah. Dr. Bakar has published more than 30 articles in academic journals. Sheikh Baker is also Chairman of the Central Shari›a Advisory Council of the Central Bank of Malaysia, Securities Commission of Malaysia and member of several Shari'a Boards for banks and Islamic financial institutions worldwide.

- **Sheikh Khalfan Al-Esry**, is a leading Omani Shari'a Scholar and recognized public figure in Oman. He is a coach and facilitator on Personal Leadership with extensive knowledge and experience in multicultural management and organizational behavior. Sheikh Al-Esry has sound experience in Shari'a and regularly contributes towards education of Shari'a Principles to the communities in Oman.

Remuneration for Shari'a Supervisory Board Members 2013:

Total Remuneration paid to the three Scholars for the year 2013 was **OMR 21,367.000**

The breakup is as follows:

Name of the Board Member	Total Fees(OMR)	Remarks
Sheikh Dr. Mohamed Bin Ali Elgari	8,085.000	
Sheikh. Khalfan Bin Mohammed Al-Esry	6,641.000	
Dr. Mohammed Daud Bakar	6,641.000	

Muzn Islamic Financials

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Sultanate of Oman

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INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF MUZN ISLAMIC BANKING WINDOW OF NATIONAL BANK OF OMAN SAOG

Report on the financial statements

We have audited the accompanying financial statements of Muzn Islamic Banking – Window of National Bank of Oman SAOG ("the Window"), set out on pages 3 to 26 which comprise the statement of financial position as at 31 December 2013, and the income statement, statement of changes in equity and statement of cash flows for the period from 17 January 2013 to 31 December 2013, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's responsibility

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the Financial Accounting Standards ("FAS") issued by the Accounting and Auditing Organization for Financial Institutions ("AAOIFI") , to operate the Window in accordance with Shari'a rules and principles determined by the Shari'a Supervisory Board of the Bank, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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 Auditing Standards for Islamic Financial Institutions issued by AAOIFI. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance 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 judgement, 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 for 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 opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Window as at 31 December 2013 and its financial performance and its cash flows for the period then ended in accordance with the FAS issued by AAOIFI, and the Shari'a rules and principles as determined by the Shari'a Supervisory Board of the Bank.

22 January 2014

Paul Callaghan

C R. No 1/30936/6

Statement of Comprehensive Income
For the year ended 31st December 2013

2013 USD'000		Note	2013 RO'000
	ASSETS		
28,564	Cash and balances with Central Bank of Oman ("CBO")	5	**10,997**
545	Due from banks and financial institutions	6	**210**
535	Deferred sales receivable	7	**206**
27,327	Ijarah Muntahia Bittamleek-Net	8	**10,521**
6,203	Forward Ijarah	9	**2,388**
1,353	Property and equipment-Net	10	**521**
551	Other assets	11	**212**
65,078	**TOTAL ASSETS**		**25,055**
	LIABILITIES, EQUITY OF UNRESTRICTED INVESTMENT ACCOUNT HOLDERS AND OWNERS' EQUITY		
	LIABILITIES		
3,675	Current accounts		**1,415**
655	Other liabilities	12	**252**
4,330	**TOTAL LIABILITIES**		**1,667**
35,623	Equity of unrestricted investment accountholders	13	**13,715**
	OWNERS' EQUITY		
27,273	Assigned capital	14	**10,500**
(2,148)	Accumulated Losses		**(827)**
25,125	**TOTAL OWNERS' EQUITY**		**9,673**
65,078	**TOTAL LIABILITIES, EQUITY OF UNRESTRICTED INVESTMENT ACCOUNT HOLDERS AND OWNERS'S EQUITY**		**25,055**

The financial statements were approved by the Board of Directors on 22 January 2014 and signed on its behalf by:

Chairman

Chief Executive Officer

The notes 1 to 24 form an integral part of these financial statements.
The independent auditors' report is set forth on page number 135.

2013 USD'000		Note	2013 RO '000
	INCOME		
13	Deferred sales	15	**5**
418	Ijarah Muntahia Bittamleek	16	**161**
431			**166**
	Less		
(278)	Return on unrestricted investment accountholders	17	**(107)**
(34)	Profit equalization reserve		**(13)**
(5)	Investment risk reserve		**(2)**
(317)			**(122)**
114	**MUZN'S SHARE IN INCOME FROM INVESTMENT AS MUDARIB AND RABUL MAAL**		**44**
50	Revenue from banking services		**19**
5	Foreign exchange gains-Net		**2**
169	**TOTAL OPERATING REVENUE**		**65**
(1,678)	General and administrative expenses	18	**(646)**
(351)	General provision	7, 8 & 9	**(135)**
(288)	Depreciation	10	**(111)**
(2,317)	**TOTAL OPERATING EXPENSES**		**(892)**
(2,148)	**NET LOSS FOR THE PERIOD**		**(827)**

The notes 1 to 24 form an integral part of these financial statements.
The independent auditors' report is set forth on page number 135.

(RO'000)	Share capital	Accumulated losses	Total
Assigned capital	10,500	-	10,500
Net loss for the period	-	(827)	(827)
Balance at 31 December 2013	**10,500**	**(827)**	**9,673**
Balance at 31 December 2013 (USD'000s)	**27,273**	**(2,148)**	**25,125**

The notes 1 to 24 form an integral part of these financial statements.
The independent auditors' report is set forth on page number 135.

For the period to 31 December 2013 USD'000		For the period to 31 December 2013 RO '000
	OPERATING ACTIVITIES	
(2,148)	Net loss for the period before tax	(827)
	Adjustments for:	
288	Depreciation for the period	111
351	General provision	135
34	Profit equalization reserve	13
5	Investment risk reserve	2
(1,470)	**Operating cash flow before changes in operating assets & liabilities**	(566)
(545)	Increase in Deferred sales receivable	(210)
(27,605)	Increase in Ijarah Muntahia Bittamleek assets	(10,628)
(6,265)	Increase in Forward Ijarah assets	(2,412)
(551)	Increase in other assets	(212)
3,675	Increase in customer's current accounts	1,415
655	Increase in other liabilities	252
(32,106)	**Net cash used in operating activities**	(12,361)
	INVESTING ACTIVITIES	
(1,642)	Purchase of property and equipment	(632)
(1,642)	**Net cash used in investing activities**	(632)
	FINANCING ACTIVITIES	
35,584	Increase in unrestricted investment accountholders	13,700
27,273	Assigned capital	10,500
62,857	**Net cash from financing activities**	24,200
29,109	**CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD**	11,207
	REPRESENTING:	
28,564	Cash and balances with Central Banks	10,997
545	Due from banks and financial institutions	210
29,109		11,207

The notes 1 to 24 form an integral part of these financial statements.
The independent auditors' report is set forth on page number 135.

1 LEGAL STATUS AND PRINCIPAL ACTIVITIES

Muzn Islamic Banking – Window of National Bank of Oman SAOG ('Muzn') was registered in Sultanate of Oman as a window of National Bank of Oman SAOG. Muzn's principle place of business is in Muscat, Sultanate of Oman.

Muzn's operations commenced on 17 January 2013 and it currently operates through a single branch in the Sultanate under the license issued by the Central Bank of Oman on 15 January 2013.

The principle activities of Muzn are taking demand, saving and deposit accounts, providing Murabaha finance, Ijarah financing and other Sharia compliant forms of financing as well as managing investor's money on the basis of Mudaraba or agency for a fee, providing commercial banking services and other investment activities.

Muzn's activities are regulated by the Central Bank of Oman ('CBO') and supervised by Shari'a Supervisory Board comprising of three members.

Muzn's address is PO Box 751 and PC 112 Muscat, Sultanate of Oman.

2 BASIS OF PREPARATION

2.1 Statement of compliance

The financial statements of Muzn Islamic Banking have been prepared in accordance with Financial Accounting Standards ('FAS') issued by the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI), the Shari'a rules and principles as determined by the Shari'a Supervisory Board of Muzn and the applicable laws and regulations issued by the CBO. In accordance with the requirements of AAOIFI, for accounting matters which are not covered by the AAOIFI standards, Muzn uses the relevant International Financial Reporting Standards ('IFRS') issued by the International Accounting Standards Board.

Statement of changes in restricted investment amount, statement of sources of funds in Zakah and charity and statement of sources and uses of funds in Qard Fund have not been presented as these are not applicable/ relevant to Muzn operations.

2.2 Basis of measurement

The financial statements are prepared on historical cost basis.

2.3 Functional and presentation currency

The financial statements have been presented in Rial Omani (RO) which is the functional currency of Muzn. Except as otherwise indicated, financial information presented has been rounded off to the nearest thousand Rial Omani (RO).

2 BASIS OF PREPARATION (Continued)

2.4 Use of estimates and judgements

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

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

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

3 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set below have been consistently applied in dealing with items that are considered material in relation to Muzn's financial statements to the period presented.

3.1 Foreign currency translations

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in income statement.

Figures are also presented in United States Dollar (USD) for statement of financial position, income statement, statement of changes in equity and statement of cash flows, which have been translated from Rial Omani at an exchange rate of RO 0.385 to each US Dollar.

3.2 Financial instruments

3.2.1 Recognition

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

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

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.2 Financial instruments (continued)

3.2.2 Derecognition

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

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

3.2.3 Measurement

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

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

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

3.3 Cash and cash equivalents

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

3.4 Offsetting

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously. Further, this should also be as per the Shari'a principles and guidelines.

Income and expenses are presented on a net basis only for permitted transaction.

3.5 Deferred sales receivables

Deferred sales receivables is stated net of deferred profits and provisions for impairment.

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.6 Ijarah Muntahia Bittamleek assets and Forward Ijarah

Ijarah Muntahia Bittamleek assets are initially recorded at cost. 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 calculated using the straight-line method on all Ijarah Muntahia Bittamleek assets, at rates calculated to write off the cost of each asset over its useful life.

Forward Ijarah assets are recognised as assets at cost during the period of construction.

3.7 Property and equipment

Items of property and equipment are stated at cost less accumulated depreciation and impairment loss. Depreciation is calculated so as to write off the cost of property and equipment, by equal installments over their estimated economic useful lives from the date the asset is brought into use, as follows:

Nature of Assets	Useful Life in Years
Buildings	25
Furniture and fixtures	10
Equipment	5
Motor vehicles	4
Leasehold improvements	3-5

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

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

3.8 Unrestricted investment accountholders

All unrestricted investment accounts will be carried at cost plus profit attributable to unrestricted investment account holders and related reserves, less amounts settled.

Unrestricted investment account holders' share of income will be calculated based on the income generated from investment accounts after deducting Mudarib share. Operating expenses will be charged to shareholders' funds and not included in the calculation.

The basis applied by Muzn in arriving at the unrestricted investment account holders' share of income will be (total income from jointly financed Islamic finances less shareholders' income). Pre-agreed profit share generated from unrestricted investment account holders will be deducted as Mudarib share and the remaining will be distributed to the unrestricted investment account holders.

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.9 Investment risk reserve

Investment risk reserves are amounts appropriated out of the income of unrestricted investment account holders, after allocating the Mudharib share, in order to cater against future losses for unrestricted investment account holders.

3.10 Profit equalization reserve

Muzn appropriates a certain amount in excess of the profit to be distributed to unrestricted investment accounts before taking into consideration the Mudarib share of income. This will be used to maintain a certain level of return on investment for unrestricted investment account holders.

3.11 Provisions

Provisions are recognized when Muzn has a present obligation (legal or constructive) arising from a past event and the costs to settle the obligation are both probable and able to be measured reliably.

According to the regulations of the Central Bank of Oman; Banks are required to have general credit loss provisions, at least equivalent to 1% of the total financing categorized as Standard and Special Mention. However, for personal finance a minimum general loss provision of 2% of the Standard and Special Mention is required to address the heightened inherent risk.

3.12 Dividends

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

3.13 Earnings prohibited by Shari'a

All the funds mobilized and income earned by Muzn is from Islamic sources. Muzn is committed to avoid recognizing any income generated from non-Islamic sources. Accordingly, all non-Islamic income will be credited to a charity account where Muzn uses these funds for social welfare activities. It include but not limited to cases/transaction classified by Shari'a as non-compliance income and approved by the SSB to be forfeited, Profit paid by other banks on Nostro accounts, late payment fee received from the customer in financing and investment transaction.

3.14 Zakah

The responsibility of payment of Zakah is on individual shareholders and investment account holders.

3.15 Joint and self-financed

Financing and receivables that are jointly owned by Muzn and the unrestricted investment accounts holders will be classified under the caption "jointly financed" in the financial statements. Financing and receivables that are financed solely by Muzn will be classified under "self-financed".

3.16 Funds for Muzn

Muzn functions with funds specifically available for its Islamic banking activities and there is no commingling of funds with conventional banking financial business.

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.17 Revenue recognition

3.17.1 Deferred sales receivables

Where the income is quantifiable and contractually determined at the commencement of the contract, income will be recognized on a time-apportioned basis over the period of the contract based on the principal amounts outstanding. Where the income from a contract is not quantifiable, it will be recognized when realized. Income related to non performing accounts will be excluded from the comprehensive statement of income.

3.17.2 Ijarah Muntahia Bittamleek

Income from Ijarah Muntahia Bittamleek will be recognised on a time-apportioned basis over the lease term, net of depreciation. Income related to non performing Ijarah Muntahia Bittamleek assets will be excluded from income statement.

3.17.3 Dividends

Dividends will be recognised when the right to receive payment is established.

3.17.4 Fee and Commission Income

Fee and commission income will be recognised when earned.

3.17.5 Muzn's Share as a Mudarib

Muzn's share as a Mudarib for managing unrestricted investment accounts will be accrued based on the terms and conditions of the related Mudaraba agreements

3.17.6 Income allocation

Income from jointly financed activities will be allocated proportionately between unrestricted investment accounts and shareholders on the basis of the average balances outstanding during the year.

3.18 Taxation

Muzn is not taxable on a stand-alone basis as per the prevailing tax laws.
National Bank of Oman SAOG is taxable on a consolidated basis i.e including Muzn's financial results, accounted for as per the International Financial Reporting Standards. Accordingly, no current tax and deferred tax has been accounted for in these financial statements.

3.19 Employee benefits

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

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

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.20 Shari'a supervisory board

All business activities, products, transactions, agreements, contracts and other relevant documents are subject to the supervision of the Shari'a Supervisory Board of Muzn, which meets quarterly and consists of three prominent Shari'a scholars appointed by the General Assembly of Shareholders for a period of two years, namely:

- Sh. Dr. Mohamed Bin Ali Elgari – Chairman
- Dr. Mohammed Daud Bakar - Member
- Sh. Khalfan Bin Mohammed Al-Esry – Member

3.21 Trade date accounting

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

4 Critical accounting judgment and key sources of estimation uncertainty

4.1 Impairment

Impairment losses on financing

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

4.2 Useful life of property and equipment

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

5 Cash and balances with Central bank of Oman ("CBO")

	2013 RO'000
Cash in hand	128
Balances with Central Bank of Oman	10,869
Cash and cash equivalent	**10,997**

6 Due from banks and financial institutions

	Self-Financed	Jointly Financed	Total 2013 RO'000
Due from foreign banks	84	126	210
Due from banks and financial institutions	**84**	**126**	**210**

7 Deferred sales receivables

	Self-Financed	Jointly Financed	Total 2013 RO'000
Gross deferred sales receivables	96	143	239
Less: Unearned income	(12)	(17)	(29)
	84	126	210
Less: Provision	(1)	(3)	(4)
Deferred sales receivables	**83**	**123**	**206**

The deferred sales receivables pertain to finance provided to retail customers. The credit quality of the deferred sales receivables that were neither past due nor impaired can be assessed by reference to the internal rating system adopted by Muzn.

Deferred sales receivables past due but not impaired

	2013 RO'000
Past due up to 30 days	10
Past due 30 – 60 days	24
Total	**34**

8 Ijarah Muntahia Bittamleek – net

	Self-Financed	Jointly Financed	Total 2013 RO'000
Cost			
Additions	4,502	6,754	11,256
At 31 December	4,502	6,754	11,256
Depreciation			
Provided During the Year	(251)	(377)	(628)
At 31 December	(251)	(377)	(628)
Net book value at 31 December	4,251	6,377	10,628
Less: provision	(43)	(64)	(107)
Ijarahh Muntahiah Bittamleek – net	**4,208**	**6,313**	**10,521**

The Ijarah Muntahia Bittamleek pertains to finance provided to retail and corporate customers. The credit quality of the Ijarah Muntahia Bittamleek that were neither past due nor impaired can be assessed by reference to the internal rating system adopted by the Bank.

Ijarah Muntahia Bittamleek past due but not impaired

	2013 RO'000
Past due up to 30 days	1,064
Past due 30 – 60 days	161
Past due 60 – 89 days	151
Total	**1,376**

9 Forward Ijarah

	Self-Financed	Jointly Financed	Total 2013 RO'000
Forward Ijarah receivables	965	1,447	2,412
Less: Provision	(10)	(14)	(24)
Total	**955**	**1,433**	**2,388**

10 Property and equipment – net

	Motor vehicles, furniture and equipment	Leasehold improvements	Total
	RO'000	RO'000	RO'000
Cost			
Additions	530	398	928
31 December 2013	**530**	**398**	**928**
Depreciation			
17 January 2013			
Transferred from Head Office	(110)	(186)	(296)
Charge for the period	(74)	(37)	(111)
31 December 2013	**(184)**	**(223)**	**(407)**
Net book value at 31 December 2013	**346**	**175**	**521**

11 Other assets

	2013 RO'000
Profit receivable	109
Advanced rent	98
Miscellaneous assets	5
	212

12 Other liabilities

	2013 RO'000
Sundry creditors	103
Profits payable	75
Forward Ijarah advances	45
Deferred profit	29
	252

13 Equity of unrestricted investment account holders

	2013 RO'000
Wakala deposit	5,829
Savings account	1,090
Flex Wakala	6,781
Profit equalization reserve	13
Investment risk reserve	2
	13,715

There is no restricted investment as at December 31, 2013.

13.1 Basis of distribution of the profit between owners' equity and unrestricted investment accountholders

The investment profits are distributed between owners' equity and unrestricted investment accountholders for the period of 2013 as follows:

	Percentage
Unrestricted investment accountholders share	40%
Mudarib share	60%

The investment risk reserve at 5 percent is deducted from customer's share after allocating the Mudarib share of profit as per the approved policy in order to cater against future losses of equity of unrestricted investment accountholders. Investment risk reserve will revert to the investment accountholders as per terms and conditions of Mudaraba contract.

The profit equalization reserve is the amount the bank appropriates in excess of the profit to be distributed to equity of unrestricted accountholders before allocating the Mudarib share of income to maintain a certain level of return. Profit equalization reserve will revert to owner equity and unrestricted investment accountholders.

The percentages of the profit allocation between owners' equity and unrestricted investment account holders are as follows:

Account type	Average rate of return
Savings account	0.5%

Unrestricted investment accountholders are commingled with Bank funds for investment, no priority is granted to any party for the purpose of investments and distribution of profits. The administration expenses are only charged on the bank expenses.

13 Equity of unrestricted investment account holders (Continued)

Account type	2013 RO'000
Savings account	1,090
	1,090

14 Assigned capital

The assigned capital consists of RO 10,500,000 transferred from National Bank of Oman SAOG.

15 Deferred sales income

	Self-Financed	Jointly Financed	2013 RO'000
Deferred sales income	**2**	**3**	**5**

16 Ijarah Muntahiah Bittamleek income

	Self-Financed	Jointly Financed	2013 RO'000
Income from Ijarah Muntahiah Bittamleek	316	473	789
Less : depreciation	(251)	(377)	(628)
	65	**96**	**161**

17 Return on unrestricted investment accountholders

	2013 RO'000
Wakala	106
Savings account	1
	107

18 General and administrative expenses

	2013 RO'000
Salaries and allowances	398
Rent, rates and taxes	106
Stationery	35
Directors fees	25
Repair expenses	25
Travel and entertainment	25
Miscellaneous expenses	32
	646

19 Related parties transactions

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

	2013 RO'000
Deposits and other accounts	
Directors, Sharia Supervisors and shareholders holding less than 10% interest in Muzn	**192**
Remuneration paid to Directors & Sharia Supervisor	
Chairman	
– remuneration proposed	**6**
– sitting fees paid	**2**
Other Directors	
– remuneration proposed	**10**
– sitting fees paid	**5**

20 Contingent liabilities and commitments

20.1 Credit related contingent items

There are no letters of credit and other commitments

20.2 Capital and investment commitments

	2013 RO'000
Contractual commitments for forward ijarah	3,070

21 Financial risk management

The primary objective of risk management is to safeguard the Muzn's resources from the various risks which Muzn faces. The Risk Group comprises of Corporate Credit Risk, Retail Credit Risk, Market Risk and Operational Risk. All risk management functions report to Chief Risk Officer and are independent from Business Units. Muzn has exposure to credit risk, liquidity risk and market risk.

Credit risk

Credit risk is the risk that Muzn will incur a loss because its customers, clients or counterparties failed to discharge their contractual obligations to Muzn. Muzn manages and controls credit risk by setting internal limits on the amount of risk it is willing to accept for individual counterparties and groups (single obligors) and industry sectors in line with the guidelines of Central Bank of Oman.

21 Financial risk management (Continued)

Credit risk (continued)

Credit risk management

To manage the level of credit risk, Muzn deals with counter-parties of good credit. Corporate Credit Committee of the Board is the Final credit approving authority of Muzn which is mainly responsible for approving all credit proposals beyond the authority level of the management. The Management Credit Committee ("MCC") is the management decision making body which is empowered to consider all credit related issues upto certain limits.

Credit risk mitigation policies

Muzn manages, limits and controls concentrations of credit risk – in particular, with respect to individual counterparties and groups, and industries and countries. Muzn structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Such risks are monitored and reviewed periodically by the Management Credit Committee and Board Risk Committee.

To facilitate risk mitigation Moody's, S&P and Fitch ratings have also been set up and are also being used as guidelines to ensure portfolio diversification in terms of sovereign risk ratings and geographical exposure. These limits are approved by the Board. Retail financing is strictly in accordance with the CBO guidelines.

The analysis of financing portfolio is provided below. It is pertinent to mention that the financing portfolio consists of all standard accounts and there is no impairment in the portfolio.

(a) Geographical concentrations

All the financial asset and financial liabilities reported in the balance sheet and all the items reported in off balance are based in Sultanate of Oman.

(b) Customer concentrations

On Assets	Due from Banks and financial institutions	Deferred sales receivables	Ijarah Muntahia Bittamleek	Forward Ijarah
31 December 2013	**RO'000**	**RO'000**	**RO'000**	**RO'000**
Retail	210	206	5,961	1,908
Corporate	-	-	4,560	480
	210	**206**	**10,521**	**2,388**

On Liabilities	Current accounts	Equity of unrestricted investment accountholders
31 December 2013	**RO'000**	**RO'000**
Retail	451	1,192
Corporate	964	12,523
	1,415	**13,715**

21 Financial risk management (Continued)

Credit risk (continued)

(c) Economic sector concentrations

	Assets			Liabilities	
	Deferred sales receivables	Ijarah Muntahiah Bittamleek	Forward Ijarah	Current accounts	Wakala and Savings deposit
	RO›000	RO›000	RO›000	RO›000	RO›000
31 December 2013					
Retail	206	6,258	1,908	1,415	13,715
Construction	-	4,263	480	-	-
	206	**10,521**	**2,388**	**1,415**	**13,715**

Liquidity risk

Liquidity risk is the potential inability to meet Muzn's liabilities as they become due. It arises when the Bank is unable to generate cash to cope with a decline in deposits or increase in assets.
Muzn's Liquidity Risk Management is governed by the Treasury Risk Policy document approved by the Board of Directors as well as the provisions of relevant CBO guidelines on liquidity risk management through cash flow approach.
Muzn monitors its liquidity risk through cash flow approach and stock approach. Under the cash flow approach, Muzn generates Maturity of Assets and Liabilities (MAL) report which captures all the maturing assets and liabilities into various pre-set time buckets ranging from one month to five years. The mismatches in various time buckets indicate liquidity gap and Muzn strictly adheres to the CBO set limit of 15% of cumulative liabilities (outflows) on mismatches (liquidity gaps) in time buckets up to one year. In addition, the Muzn has also set up internal limit on mismatches in time buckets beyond one year.

Treasury department of Muzn controls and monitors the liquidity risk and ensures that Muzn is not exposed to undue liquidity risk and at the same time makes optimum use of its funds. The middle office in Credit risk division also monitors the liquidity position of Muzn and provides the liquidity gap to Treasury Department to meet liquidity gaps.

21 Financial risk management (Continued)

Credit risk (continued)

31-Dec-2013	Due on demand and up to 30 days RO'000	More than 1month to 6 months RO'000	More than 6 months to 12 months RO'000	More than 1 year to 5 years RO'000	Over 5 years RO'000	Total RO'000
Cash and balances with Central Bank of Oman	10,448	383	-	54	112	10,997
Due from banks and financial institutions	210	-	-	-	-	210
Deferred sales receivables	-	22	22	151	11	206
Ijarah Muntahiah Bittamleek – net	-	793	793	6,239	2,696	10,521
Forward Ijarah	-	2,388	-	-	-	2,388
Property and equipment (net)	-	-	-	-	521	521
Other assets	212	-	-	-	-	212
Total assets	**10,870**	**3,586**	**815**	**6,444**	**3,340**	**25,055**
Current accounts	1,415	-	-	-	-	1,415
Other liabilities	252	-	-	-	-	252
Equity of unrestricted investment account holders	-	7,871	-	5,829	15	13,715
Owner's equity	-	-	-	-	9,673	9,673
Total liabilities and equity of unrestricted investment accountholders and owners' equity	**1,667**	**7,871**	**-**	**5,829**	**9,688**	**25,055**

Market risk

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

(a) Currency risk

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

21 Financial risk management (Continued)

Market risk (continued)

(b) Profit rate risk

Profit rate risk (PRR) is the risk that Muzn will incur a financial loss as a result of mismatch in the profit rates on assets & investment accountholders. The profit distribution to investment accountholders in based on Profit Sharing Agreements. Therefore, Muzn is not subject to any significant PRR. However, the profit sharing agreements will result in displaced commercial risk when Muzn's results do not allow it to distribute profits in line with the market rates.

Muzn has a detailed Profit Distribution Policy in place which details the process and management of Profit Distribution, including setting up of Profit Equalization & Investment Risk Reserve. The responsibility of profit rate risk management rests with the Bank's Asset and Liability Management Committee (ALCO).

Profit rate sensitivity gap

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

	Effective average profit rate	Due on demand and within 6 months	Due within 7 to 12 months	Due within 1 to 5 years	Due after 5 years	Non-profit bearing	Total
	%	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
31 December 2013							
Cash and balances with Central Bank of Oman ("CBO")	**N/A**	-	-	-	-	10,997	10,997
Due from banks and financial Institutions	**N/A**	-	-	-	-	210	210
Deferred sales receivables	**6.5%**	22	22	151	11	-	206
Ijarah Muntahia Bittamleek – net	**5.5%**	793	793	6,239	2,696	-	10,521
Forward Ijarah	**N/A**	-	-	-	-	2,388	2,388
Property and equipment – net		-	-	-	-	521	521
Other asset		-	-	-	-	212	212
Total assets		**815**	**815**	**6,390**	**2,707**	**14,328**	**25,055**

21 Financial risk management (Continued)

Market risk (continued)

Profit risk (continued)

	Effective average profit rate	Due on demand and within 6 months	Due within 7 to 12 months	Due within 1 to 5 years	Due after 5 years	Non-profit bearing	Total
	%	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Current accounts	N/A	-	-	-	-	1,415	1,415
Other liabilities	N/A	-	-	-	-	252	252
Equity of unrestricted investment accountholders	1.66%	7,871	-	5,829	-	15	13,715
Owners' equity	N/A	-	-	-	-	9,673	9,673
Total liabilities and owners' equity		**7,871**	**-**	**5,829**	**-**	**11,355**	**25,055**
On-balance sheet gap		**(7,056)**	**815**	**561**	**2,707**	**2,973**	**-**
Cumulative profit sensitivity gap		**(7,056)**	**(6,241)**	**(5,680)**	**(2,973)**	**-**	**-**

(c) Equity risk

Currently Muzn is not exposed to any Equity risk.

Operational risk

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

22 Capital risk management

Muzn manages its capital to ensure that it will be able to continue as a going concern while maximising the return to shareholders within acceptable risk return framework. Muzn's overall strategy remains the same as applicable for Head Office. The Capital adequacy ratio computed as per the conventional method stands at 97.9% as of 31 December 2013.

23 Segmental information

Muzn is organised into three main business segments:

1) Retail banking – incorporating private customer current accounts, savings, deposits, deferred sales, Ijarah Muntahia Bittamleek, Forward Ijarah and Sales & Lease back.

23 Segmental information (Continued)

2) Corporate banking – incorporating corporate customer current accounts, savings, deposits, deferred sales, Ijarah Muntahia Bittamleek, Forward Ijarah, and Sales & Lease back.

3) Treasury and investments

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

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

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

At 31 December 2013	Retail banking	Corporate banking	Treasury and investments	Other	Total
	RO'000	RO'000	RO'000		RO'000
Segment operating revenues	95	71	-	-	**166**
Other revenues	12	9	-	-	**21**
Segment operating revenues	**107**	**80**	-	-	**187**
Profit expenses	(16)	(106)	-	-	(122)
Net operating income	**91**	**(26)**	-	-	**65**
Segment cost					
Operating expenses including depreciation	(687)	(70)	-	-	(757)
Impairment for finances net of allowance for provision	(84)	(51)	-	-	(135)
Net loss for the period	**(680)**	**(147)**	-	-	**(827)**
Segment assets	**8,456**	**4,794**	**11,207**	**733**	**25,190**
Less: Impairment allowance	(84)	(51)	-	-	(135)
Total Segment assets	**8,372**	**4,743**	**11,207**	**733**	**25,055**
Segment liabilities	**1,642**	**13,473**	**9,673**	**267**	**25,055**

24 Comparative

No comparative information has been presented as Muzn has started its operations during the current year.

National Bank of Oman Branches

National Bank of Oman Branches

62 Branches in Oman

1 Branch in Egypt

2 Branches in UAE (1 in Abu Dhabi and 1 in Dubai)

Muscat Governorate

Main Branch C.B.D. Area
Tel: 24 778 350, 24 778 352

Hamriya
Tel: 24 833 792, 24 831 520

Bait Al Falaj
Tel: 24 700 166, 24 702 130

Corniche
Tel: 24 715 103, 24 714 245

Mina Al-Fahal
Tel: 24 677 020, 24 565 561

Wattaya
Tel : 24 568 244, 24 563 830, 24 560 585

Qurum
Tel : 24 562 615, 24 560 050

Shatti Al Qurum
Tel : 24 607161

Al Amerat
Tel: 24 875 766, 24 877 379

Muscat International Airport
Tel: 24 510 007, 24 510 543, 24 521 448

Bowsher
Tel: 24 587 291, 24 587 294, 24 587 293

Seeb Town
Tel: 24 423 511, 24 423 512, 24 420 441, 24 421 773

Al Khuwair
Tel: 24 486 481, 24 486 441, 24 486 479

Azaiba R/A
Tel: 24 591 341, 24 597 855, 24 590 145

Ma'abella
Tel: 24 453 314, 24 455 957

Mawaleh
Tel: 24 511 164, 24 511 165, 24511167

Ghoubrah R/A
Tel: 24 491 062, 24 497 229

Al Khuwair North
Ministry of Health Building
Tel: 24 602 763, 24 692 310, 24 692 309

Quriyat
Tel: 24 846 100, 24 846 415

Al Khoudh
Tel: 24 537 950, 24 537 951

Sultan Qaboos University
Tel: 24 446 556, 24 446 889

Musanadam

Khasab
Tel: 26 730 467, 26 731 442

Bukha
Tel: 26 828 014

Dakhiliyah Governarate & Dhahira Governorate

Nizwa
Tel: 25 410 072, 25 410 043, 25 413 169

Nizwa Firq
Tel: 25 431 140, 25 432 149

Ibri
Tel: 25 691 161, 25 690 782

Al Araqi
Tel: 25 694 342, 25 694 141

Bahla
Tel: 25 419 673, 25 420 772

Sumail
Tel: 25 351 483, 25 350 355

Fanja
Tel: 25 360 444, 25 361 190

Al Hamra
Tel: 25 422 008, 25 423 121

Dhank
Tel: 25 676 603

Buraimi Governorate

Buraimi
Tel: 25 653 037, 25 655 226

Batinah Governorate (North & South)

Saham
Tel: 26 855 299, 26 857 979

Al Khaboura
Tel: 268 05 155, 26 802 970, 26 802 232, 26 802 380

Barka
Tel: 26 882 368, 26 882 007

Bidaya
Tel: 26 709 240, 26 709 340

Musn'a
Tel: 26 868 145, 268 68 136

Shinas
Tel: 26 747 663, 26 748 394

Rustaq
Tel: 26 878 332, 26 878 334

New Rustaq
Tel: 26 875 241, 26 875 254

Liwa
Tel: 26 762 073, 26 762 075,
26 762 073

Afi
Tel: 26 780 972, 26 781 562

Sohar Hambar
Tel: 26 859 104, 26 859 106

Sohar New
Tel: 26 840 234, 26 845 388

Sohar Industrial Branch
Tel: 26751309, 26 751 309

Suwaiq
Tel: 26 860 518, 26 862 764

Dhofar Governorate

Salalah Main Branch
Tel: 23 291 601, 23 291 346,
23 291 604

Salalah 23rd July Street Branch or New Salalah
Tel: 23 298 019, 23 298 027

Hafa
Tel: 23 291 952, 23 291 940

Sultan Qaboos Hospital
Tel: 23 211 042, 23 211 092

Mirbat
Tel: 23 268 346, 23 268 345

Saadah
Tel: 23 226 031, 23 225 283

Sharqiyah Governorate (North & South)

Sur
Tel: 25 540 246, 25 545 158

Ibra
Tel: 25 570 015, 2 5570 144

Bilad Bani Bu Ali
Tel: 25 5 54 015, 25 5 54 138

Ja'alan
Tel: 25 550 950, 25 550 110

Masira
Tel: 25 504 516, 25504026

Al Kamil
Tel: 25 557 524, 25 557 770

Al Mudaibi
Tel: 25 578 014, 25 578 484

Sinaw
Tel: 25 524 212, 25 524 223,
25 524 101

Duqum
Tel: 25427101,25427130,
25 427 172

Sadara Wealth Management Centres

CBD Center
Tel: 24 778 009

Al Khuwair
Tel: 24 487 356

Shatti Al Qurum Center
Tel:24 607 679

Mina Al Fahal Center
Tel: 24 567 223

Sohar Center
Tel: 26 859 103

Salalah Center
Tel: 23 298 092

Sur Center
Tel: 25 545 414

MBD- Small Business Unit(SBU)
Tel: 24 778 554, 24 778 553,
24 778 558

Corporate Branch (HO)
GETCO Building CBD
Tel: 24 778 060, 24 778 055,
24 778 056, 24 778 059

Muzn Branches

Azaiba Muzn
Tel: 24 527 262, 24 527 272

Ma'abella Muzn
Tel: 24 4 52 304, 24 452 387,
24 511 167

Overseas Branches

United Arab Emirates

Abu Dhabi
Tel: (+9712) 6710555

Dubai
Tel: (+9714) 3049400

Egypt
Country Head Office
Tel: +(202) 229 00413

National Bank of Oman
P.O. Box 751
Ruwi, Muscat
Sultanate of Oman

www.nbo.co.om