Annual Report 2014

لأجلك. لأجل الوطن.
For You. For Our Nation.

البنك الوطني العماني
National Bank of Oman

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National Bank of Oman's New Prestigious Head Office is a vote of confidence in the wisdom of His Majesty Sultan Qaboos bin Said's government and the strength of the Omani economy. It is a beautiful addition to the unique architecture and natural topology of our capital Muscat

- To be completed in 2017

HIS MAJESTY SULTAN QABOOS BIN SAID

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To Our Esteemed Shareholders

On behalf of the Board of Directors, I am pleased to present National Bank of Oman's Annual Report for the year ended 31 December 2014. Over this 12-month period, the Bank recorded its strongest performance in terms of net profit and crossed the RO 50 million mark for the first time in its long and distinguished 41-year history. Following an excellent year, the Bank looks forward to 2015 with confidence.

In 2014, Oman's economy is estimated to have grown by 5.2%. While the recent drop in oil prices could put pressure on public finances, the recently announced budget for 2015 indicates a healthy 4.5% year-on-year increase in spending. I am hopeful that this increase, along with a comprehensive package of policy initiatives, will ensure that the momentum of the ongoing diversification of the Omani economy is maintained.

National Bank of Oman's 2014 full year net profit of RO 50.3 million was an increase of 21% on the 2013 figure of RO 41.4 million. As a result, return on equity also increased, from 14% in 2013 to 15% in 2014.

The Bank's operating profit in 2014 grew by 8% year-on-year, from RO 55.3 million to RO 59.8 million. Net operating income, which comprises of net interest and non-interest income, grew by 10% to RO 114.2 million.

The market experienced margin pressure on assets through 2014 but the Bank was able to make corresponding reductions in its deposit expenses. The year also witnessed the successful issuance of a 5-year USD 500million bond under the Bank's Euro Medium-Term Note (EMTN) programme, which contributed towards the diversification of our funding base as well as a reduction in the cost of funds.

Operating expenses grew by 12% to RO 54.4 million for the year ended 31 December 2014, mainly due to staff-related costs. The Bank has increased the size of its talent pool to support its growing Islamic banking operations in Oman, as well as its UAE operations.

In 2014, the Bank opened a branch in Dubai, its second branch in the UAE. The UAE operations recorded a strong performance in 2014, with loans and advances growing by 157% while net profit increased by over 100% to reach AED 12.3 million.

The Bank's continued focus on target segments resulted into net cost of impairments, including the statutory general provisions, contained to a mere RO 2.3 million for 2014, which translates to a 0.1% over the average loan book. This was made possible through a robust recovery process. As of 31 December 2014, the Bank's asset quality is sound and its non-performing loans are well provisioned with a coverage ratio of 142%.

The Bank's net loans and advances stood at RO 2.3 billion at 31 December 2014, representing a growth of 12%. Customer deposits remained level at RO 2.2 billion.

The Board has recommended a cash dividend of RO 0.017 per share and a stock dividend of 10% (one for every 10 shares held) based on the Dividend Policy approved by the Board of Directors. After providing for the proposed dividend, the Bank's eligible capital as at 31 December 2014 will be RO 396 million, with a Capital Adequacy Ratio of 14.6%, the same level as last year. This ratio is above the minimum requirement of 12.625%. The Bank is in advanced stages for the issuance of additional Tier 1 and Tier 2 subordinated debts.

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

National Bank of Oman embraces its responsibility towards contributing to a thriving, successful society. To fulfill this commitment, the Bank seeks to make a positive and sustainable difference in the community by investing in Corporate Social Responsibility (CSR) initiatives, with a particular focus on five key areas: Health and human services, community, education, environment, and women and youth.

Re-affirming our commitment to developing and promoting Omani talent to senior roles in support of Oman's nationalization efforts, the Bank has recently appointed nine experienced Omanis to key senior positions to help drive the Bank's transformation forward and deliver its strategic objectives. Identifying and developing a strong pipeline of experienced local business leaders and banking professionals is very high on the Bank's agenda. In addition, the Bank is committed to advancing talented Omani women to senior leadership positions, as demonstrated by Ms. Salma Al Jaaidi's appointment to the Chief Risk Officer role; the first Omani woman Chief Risk Officer in Oman's banking industry.

The Bank continues to conduct the National Bank of Oman Chairman's Speaker Series for the wider benefit of the business community, with the next speaker series event planned for March 2015. During 2014, the Bank held the European challenge tour National Bank of Oman Golf Classic NBO golf classic event, which was a world class event with prominent players from around the globe. It received a lot of acclaim from local and international visitors who attended the event. This is an opportunity for NBO to promote local Omani Golf talent and showcase Oman as an international destination promoting it across the globe as a top destination for a world class golf course and event.

The outlook for Oman's economy, despite falling oil prices, remains positive. Notably, the increase in government spending, focused on infrastructure projects, is likely to boost economic growth and diversification. The Bank continuously evaluates its strategy in order to allocate its resources across its operations 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 deals, 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 their enduring confidence 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 inspirational leadership and vision, under whose wise guidance all of us in Oman will assuredly remain on the path towards continued successful development.

Mohammed Mahfoodh Al Ardhi
Chairman

Mr. Mohammed Mahfoodh Al Ardhi,
Chairman

Director since March 2011. Chairman of the Executive and Credit Committees of the Board.

Mr. Al Ardhi is also a 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. 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.

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.

Board of Directors

Sheikh Abdullah Bin Ali Bin Jabor Al Thani,
Deputy Chairman

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

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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 26 years of experience in the investment field both in public and private sectors. Prior to joining Takaful Oman in The beginning of 2014, she was the Managing Director & Group CEO for ONIC Holding and prior to this 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 of the Board of the Public Authority for SME and sits 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 and has appeared for over 7 consecutive years in the Oman Economic Review (OER) as the Most Powerful Women in Corporates. In 2014, Sayyidah Rawan was awarded a Hall of Fame title at the MARA Excellence Awards. 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.

Mr. Andrew Charles Stevens, Director

Director since July 2005. Member of the Executive and Credit Committees of the Board. Director of United Arab Bank P.J.S.C., Sharjah; Director of Alternatifbank A.Ş., Turkey; President/Chairman of Orient 1 Limited; Director of Qatar Insurance Company International; and Group Chief Executive Officer, The Commercial Bank of Qatar (Q.S.C.). Andrew Stevens graduated from Birmingham University, England with a B.Com (Hons) in Banking and Finance.

Mr. Saif Said Salim Al Yazidi, Director

Director since March 2008. Member of the Credit Committee of the Board. Member of the Board of Oman International Development and Investment Company and Ooredoo. Mr. Al Yazidi holds a Bachelor's Degree in Management Sciences, Accounting and a Masters in Business Administration (M.B.A). He is the Director of Investment at The Civil Service Employees Pension Fund. Mr. Al Yazidi has over 18 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. Suresh M. Shivdasani, Director

Director since June 2010. Member of the Risk and Executive Committees of the Board. Mr. Shivdasani is the Managing Director of 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. Faisal Abdullah Al Farsi, Director

Director since September 2011. A member of the Audit and Risk Committees of the Board. In 1995 he joined the Public Authority for Social Insurance where he occupied various positions including Manager of Insurance Benefits, acting Manager of Insurance Services and an acting Manager of Media and public relations. He is a member of the Board of Muscat National Development & Investment Company. 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 Board Audit Committee since November 2014. 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.

Mr. Hamad Mohammad Hamood Al Wahaibi, Director

Director since March 2014 and member of the Credit Committee of the Board. Mr. Al Wahaibi holds a Masters of Business Administration (MBA) degree, specializing in Finance, and he is a Chartered Financial Analyst (CFA) charter holder, as well as he is a Chartered Alternative Investment Analyst (CAIA) charter holder. He has working experience of 16 years. He is currently working as Director of Investment with Ministry of Defense Pension Fund for the last eight years. Mr. Al Wahaibi also sits on the Boards of Galfar, Madina Takaful and Voltamp Power.

His Excellency Abdul Rahman bin Hamad Al Attiyah, Director

Director since November 2014 and a member of the Board Risk Committee (BRC). HE Abdul Rahman bin Hamad Al Attiyah, Minister of State for the State of Qatar and a member of the Board of The Commercial Bank of Qatar (Q.S.C.) since March 2014; began his career in 1972 at Qatar's Ministry of Foreign Affairs. He served as Qatar's Ambassador in Geneva, Saudi Arabia, France, Italy, Greece, Switzerland, Yemen, and the Republic of Djibouti. He also served as a permanent representative to the United Nations in Geneva, the Food and Agriculture Organization (FAO) in Rome, and UNESCO in Paris. HE Al Attiyah was the former Secretary-General of the Gulf Cooperation Council (GCC) from 2002 until 2011. HE Al Attiyah holds a Bachelor of Arts Degree in Political Science and Geography from the University of Miami.

Mr. Mohammed Ismail Al Emadi , Director

Director since November 2014. Chairperson of the Board Risk Committee (BRC) and member of the Board Audit Committee (BAC). Mr. Mohammed Ismail Mandani Al Emadi is a member of the Board of The Commercial Bank of Qatar (Q.S.C.) and Alternatifbank A.Ş., Turkey and has over 30 years of banking experience. Mr. Al Emadi has held a number of key roles at The Commercial Bank of Qatar until 2006, after which he served as Chief Executive Officer of Qatar Real Estate Investment Company Q.S.C. up to 2011, and also served as its Director from 2003 until 2005. Mr. Al Emadi holds a Bachelor of Arts degree in Business Administration and Economics.

1. **Ahmed Al Musalmi** Chief Executive Officer
2. **Humayun Kabir** General Manager – Chief Wholesale Banking Officer
3. **Ananthraman Venkat** General Manager – Chief Financial Officer
4. **Hamood Al Aisri** Head of Internal Audit
5. **Faizal Mohamed Eledath** General Manager – Chief Information Officer and Head of Transformation

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Executive Management

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National Bank of Oman

6. **Nasser Salim Said Al Rashdi** General Manager – Chief SME Officer and Head of International Business
7. **Nasser Mohammed Nasser Al Hajri** General Manager – Chief Human Resources Officer & Head of Corporate Affairs
8. **Salma Al Jaaidi** General Manager – Chief Risk Officer
9. **John Chang** General Manager – Chief Retail Banking Officer

Our Vision

To be the bank of choice

Our Values

- Customer 1st
- Execution
- One Bank
- Integrity
- Quality

Our guiding principles

- The customer is the bedrock of our business
- One bank agenda
- A high performance culture
- Develop alternative revenue sources and optimize costs
- Technological leadership
- We must embrace change

Our strategic Objectives

• Customers:

The best bank in service, value and convenience for our target customer segments.

• Employees:

The best workplace and career opportunities for our employees.

• Shareholders:

The highest return on equity and sustainability for our shareholders.

• Community:

For You. For Our Nation.

Our Vision, Values, Guiding Principles & Strategic Objectives

البنك الوطني العماني
National Bank of Oman

معاً نستطيع!
TOGETHER WE CAN!

Management Discussion and Analysis Report 2014

البنك الوطني العماني
National Bank of Oman

> "We enter 2015 in a strong position and from a stable platform which will ensure that the Bank is well-placed for future success."

Introduction

2014 was a year of building momentum and growth at National Bank of Oman, as we increased the size and scale of the Bank. This is evident in National Bank of Oman delivering its strongest ever performance in terms of net profit (RO 50.3 million) since it was founded. Our long-term strategy also helped to deliver growth across all divisions of the Bank – and will continue to set the tone as we introduce new services to customers and enhance our banking offering. We enter 2015 in a strong position and from a stable platform which will ensure that the Bank is well-placed for future success.

Over the course of 2014, National Bank of Oman demonstrated growth in both its revenue, range of products and services and geographic coverage. Despite a volatile and fast-changing market environment, National Bank of Oman continued its solid earnings growth. Muzn Islamic Banking, National Bank of Oman's Islamic Banking window, our branches in the UAE, and the Wholesale Banking division should all be celebrated for their accomplishments in 2014. We retained and acquired more customers, attracting higher revenues across our international operations in the United Arab Emirates.

There were many drivers of our success in 2014, and I would like to thank our valued customers and dedicated management team and staff who have created opportunities and managed challenges so successfully over the last 12 months. Our achievements are the result of the dedication, hard work and professionalism of our employees, and I wish to take this opportunity to recognise their efforts and applaud their achievements.

A key theme for the Bank in 2014 was digital leadership through innovation and the implementation of new digital banking technologies, both for employees and customers. National Bank of Oman has always been a frontrunner in developing and adopting the best practices in the world of technology. Our vision is to be the bank of choice by delivering a consistently superior customer experience, engaging customers through technology and offering them convenience, personalized services and innovative products. In the last year, this has included the launch of a new and interactive corporate portal, a state-of-the-art mobile banking app and new social media channels to better engage with customers.

We have also continued to foster a high performance and values-based culture within the Bank by delivering a comprehensive bank-wide training and development programme to enhance skill-sets and to develop a strong pipeline of future business leaders. We are committed to nurturing talent and delivering a consistently superior customer experience through all our customer-touch points to realize our vision and strategic objectives, and to contribute to National Bank of Oman's success.

Economic Development

The GDP of the Sultanate of Oman reportedly increased by 5.2% (RO 23.6 billion) during 2014 up from RO 22.4 billion in 2013, according to Oman's National Centre for Statistics and Information (NCSI). In line with the Government's projections, the World Bank expects GDP to continue at a steady growth rate of 5% during 2015, although most commentators expect a slowdown in subsequent years on the back of lower oil prices; the Economist Intelligence Unit forecasts an average GDP growth rate of 3.8% between 2015 and 2019. The International Monetary Fund (IMF) estimates that inflation in 2015 will remain stable at approximately 2.8%.

The sharp reduction in oil prices may exert increasing pressure on government finances over the medium-term. However, the 2015 Government budget that was recently announced strikes a positive note, with spending amounting to RO 14.1 billion in 2015, a 4.5% increase over the previous year.

Oman's 2015 budget plans to run a deficit of RO 2.5 billion (8% of GDP) largely due to lower oil prices assumed at US$75 per barrel according to the Ministry of Finance. The deficit is expected to be financed mainly through draw-downs of accumulated reserves and through increased debt issuance. Although reserves are lower relative to most neighboring countries, they are nevertheless substantial and provide an important buffer for anticipated fiscal deficits in the medium-term. In addition, there are very low levels of government debt prevailing, which provides substantial scope for increasing deficit financing through sovereign debt issuance over the next few years.

Overall, the Bank believes that the 2015 budget is appropriate given the macro environment. The successful completion of key planned projects will support the Sultanate's economic growth and bolster employment opportunities in the private sector, gradually de-emphasizing the contribution required from the public sector to sustain economic growth in the Sultanate at compelling levels.

The Banking Sector

The banking sectors in Oman and in the UAE, the two countries the Bank operates in, recorded robust asset growth in 2014, coupled with an improvement in asset quality and capital adequacy. Whilst credit growth has been strong, average liquid assets to total banking assets of commercial banks has increased, exerting downward pressure on asset yields.

The 2015 outlook for the banking sectors of Oman and the UAE is expected to be somewhat subdued compared to 2014, with moderate operating conditions expected. Although infrastructure and development spend in both countries is expected to continue to support credit growth, challenges from lower than budgeted oil prices have the potential to affect the pace of project roll-outs.

National Bank of Oman in 2014

The Bank achieved a net profit of RO 50.3 million for the year ended 31 December 2014, marking an increase of 21.5% over the previous year. Given the market conditions and considering the sector's results, this is very commendable. Return on equity has shown strong improvement to 14.6% in 2014 vs. 13.3% in 2013, which compares favourably relative to the market.

Total operating revenues comprising of net interest income, income from Islamic financing and non-interest income grew by 10% to RO 114 million, and this was mainly aided by credit growth both in Oman and the UAE. The UAE operations, albeit from a small base, grew by 122%. Operating expenses for the Bank overall

> **"Our vision is to be the bank of choice by delivering a consistently superior customer experience, engaging customers through technology and offering them convenience, personalized services and innovative products."**

increased by 12% mainly because of investments in people in the UAE as well as in Oman's Islamic banking business, which are in their growth phases, and as a result, require above average growth in resource allocations.

Impairments on loans and investments during 2014 were RO 2.3 million, resulting in a reduction of 72% over the previous year and representing 0.10% of the Bank's total loans and advances. Non-performing loans (NPLs) as a % of total loans stood at 2% (compared with 1.9% in 2013). NPL coverage has been maintained at 142%, which is amongst the most conservative in the local market.

Pre-tax profits for the year ended 31 December 2014, grew by 22.4% to RO 57.5million and net profit grew to RO 50.3 million, a 21.5% increase from the previous year. This is the highest net profit recorded by the Bank since its formation in 1973. These results translate to an improvement in return on equity to 14.6% (compared with 13.3% in 2013) and return on assets to 1.5% (compared with 1.5% in 2013).

The Bank's net loans and advances grew by 12% to RO 2,317 million, whilst customer deposits and other long-term borrowings grew by 9% to RO 2,373 million.

Following a highly successful international investor road show, National Bank of Oman's first bond issuance under its new Euro Medium-Term Note (EMTN) programme was more than three times oversubscribed. The US$500 million bond attracted significant interest from a wide group of global investors and will enable the Bank to diversify sources of its long-term funding while capitalising on excellent pricing available in the debt markets. The strong appetite from international investors clearly demonstrates international confidence in the Bank's position and future strategic direction as well as the Sultanate of Oman's international standing. The Bank has identified a strong current demand for project finance in local and foreign currencies, which the EMTN bond issuance will facilitate.

In 2013, the Bank launched its Muzn Islamic Banking Window, the first Islamic Banking window to be established in the Sultanate. Simultaneously the bank also opened a branch in Dubai, the Bank's second branch in the United Arab Emirates. Although they are both in their early growth phases, the UAE business and Muzn Islamic Banking have both recorded solid performances in 2014 associated with strong revenue and asset growth. With strong foundations in place, the Bank expects further growth and progress in these areas.

Notwithstanding the challenges that lower oil prices present, the Bank is strongly positioned for continued growth, driven by a stable and diversified funding base, good asset quality and NPL coverage, a well-established UAE operation and a promising Islamic Banking window. The Retail and Corporate businesses will continue to be core contributors to the Bank's revenues, and fee income from investment banking activities - particularly in the advisory space- is expected to continue to exhibit strong growth, to play an increasingly important role in the Bank's approach to serving the rapidly evolving needs of its wholesale banking clients.

The Bank enjoys high quality capital with 12.3% core equity resulting from increased retention. In addition, the Bank is in the advanced stages of concluding the issuances of Basel-III compliant additional tier 1 and tier 2 subordinated debt. These issuances will give the bank adequate room to pursue its growth aspirations.

> “A key component of the Bank’s comprehensive banking operations is its large and growing Project Finance division and the Bank’s strategy is aligned to the Sultanate of Oman’s economic agenda.”

Key developments - Core segments

Retail and Private Banking

The Retail and Private Banking Group has posted a modest revenue growth of 2.8% against a backdrop of increasing pressure on the Group’s loan book associated with recent regulatory changes, specifically relating to personal loans. The Bank’s customer touch points, which includes one of the largest branch networks in the country and a strongly emerging digital capability centered around delivering a superior customer experience; are a strong focus for the Bank going forward. National Bank of Oman is committed to delivering a consistently superior customer experience through all its customer touch points, by introducing market-leading innovations and financial solutions.

As a testament to its customer-centric approach, the Bank established a dedicated Customer Experience Division within the Bank to continue to deliver on its commitment to customer service excellence.

The Private Banking business continued to see growth in acquisition of high value clients through the delivery of bespoke investment research and investment advisory services, whilst the Sadara Wealth Management platform introduced a mobile banking application Sadara Deals - for customers to gain access to exclusive offers from select merchants.

The Bank successfully concluded its first mystery shopping service audit and will utilize the results as an initial benchmark to improve on current service levels. In 2015, the Bank will continue its focus on delivering a superior customer service, whilst adopting a segment-based approach to product development.

The Bank will be sharpening its customer-centric focus to deliver tailor-made solutions to specific segments, namely: Young Omani Professionals, affluent or emerging high net-worth individuals through the Bank’s Mazaya Banking proposition, high net-worth individuals to be served through the Bank’s ‘Sadara Wealth Management’ proposition, and Youth through the ‘Mustaqbali’ banking proposition. In addition, key products such as housing loans, short-term deposits, Bancassurance and Credit and Debit Cards will be customised to these segments’ needs to deliver value-added products and services.

Wholesale Banking

National Bank of Oman continues to lend support to large projects in the Sultanate of Oman which are of national and strategic importance, including projects in the tourism, transport, infrastructure, power and water sectors. A key component of the Bank’s comprehensive banking operations is its large and growing Project Finance division and the Bank’s strategy is aligned to the Sultanate of Oman’s economic agenda. National Bank of Oman offers project finance and loan syndication services to encourage private and foreign investments and further support Oman’s diversification strategy. In 2014, the Bank also signed a Memorandum of Understanding with the Special Economic Zone at Duqm (SEZAD) to provide financial support to potential investors at SEZAD, this important milestone demonstrates the Bank’s commitment to supporting Oman’s economic diversification strategy.

2014 was another successful year for the Wholesale Banking Group with each of its divisions exceeding their ambitious targets. Revenue grew by 21% over the previous year on the back of good

Duqm

The Bank is proud to be the sole financier of Duqm's Phase I Frontier Town.

> **"The strong appetite from international investors clearly demonstrates international confidence in the Bank's position and future strategic direction as well as the Sultanate of Oman's international standing."**

asset growth and strong fee income. There's a continued focus on diversifying sources of income away from pure corporate lending, with strong contributions from other businesses within the Group over the past 4 years.

Corporate Banking

Corporate Banking division has seen significant successes in 2014, driven by a talented and experienced team of bankers. The Bank participated in strategic projects of national importance, and played a key role in the Sohar Refinery re-financing and expansion project.

Government Banking

The highlight of the year was the strong performance by the Government Banking division, which recorded strong growth in deposits, trade business, new account acquisition and foreign exchange services. The division was formed two years ago, and has quickly emerged into one of the Bank's strategic businesses. The Government Banking division has been driving government business not only from a funding and liquidity perspective, but also from a much more holistic view of the opportunities to serve this all-important sector of the economy. The Government Banking division also extends its services to Retail and SME clients as well as the Bank's international operations. It delivers an integrated approach to client servicing, offering a comprehensive banking solution to these organizations from a single window.

Treasury

The Bank's treasury division plays a critical role in helping Wholesale Banking clients manage their financial risks efficiently by offering a comprehensive suite of products tailored to each client's specific requirements.

Investment Banking

The Investment Banking division has also seen another strong year with the performance of the proprietary investment portfolio contributing to the Bank's bottom-line through a healthy combination of significant dividend and coupon returns complemented by profit taking in some select positions. The Bank continues to follow a prudent, research-driven, fundamental investment approach, and balanced strategy that is well-poised to continue to deliver a strong and steady performance going forward. The Asset Management Unit had another good year growing its GCC equity fund to be the largest equity fund in Oman by the end of 2014. The Bank also won the MENA FM 'Oman Asset Manager of the Year' award for the second year running against very strong competition. The Corporate Finance and Advisory Unit performed well, executing several advisory mandates, most notably in the real estate and oil and gas sectors.

Trade Finance

The Bank's Trade Finance and Financial Institutions divisions all delivered solid performances in 2014, accentuating the broad-based success of the Wholesale Banking group.

Technological Leadership within Wholesale Banking

As part of the Bank's commitment to drive technological leadership to deliver a superior banking experience, it continues to work with clients to automate and integrate its services - wherever possible - so that there is straight-through processing of routine transactions. It introduced an innovative solution to Wholesale Banking clients

Sohar Refinery Project

Sohar Refinery is a project of national importance in which the National Bank of Oman has played a significant financing role both at the time the project was originally set up as well as in the on-going improvement and expansion phase.

through a Business-to-Business platform which enables the integration of all payments, collections and MIS reports under a single system.

The Bank also launched its Point of Sale (PoS) acquiring business that has been positively received by corporate and SME clients. In the trade business, the Group has enhanced clients' banking experience by introducing guaranteed turnaround times, and the Bank will continue to enhance its segment offering, supported by innovative digital solutions, to deliver a consistently superior client experience and increased internal efficiencies.

In 2015, the Bank will continue to build on the strong foundations that it has put in place in 2014. Going forward, the Bank will focus increasingly on providing advisory services to clients, transitioning from a liquidity provider to a more strategic partner for wholesale banking clients. The overriding objective is to further enhance the Bank's position as an innovative, value add and trusted banking partner.

Commercial Banking

Small & Medium Enterprises (SME)

National Bank of Oman understands the importance of SMEs in developing a strong and diversified economy for Oman, and sees entrepreneurs as the leading business figures and employers of the future. Therefore, in 2014, National Bank of Oman revamped its Small Business Unit in a bid to extend support to Oman's SME sector. As part of the revamp, National Bank of Oman has launched a first of its kind initiative in the form of mobile SME hubs which have dedicated staff who can service SMEs across the Sultanate. As the only Omani bank with operations in the UAE, the Bank is also able to facilitate trade flows between Oman and the UAE, to support medium-sized Omani companies with cross-border trade requirements.

2014 has been a milestone year for the Bank with regards to the initiatives taken on the SME Banking front. The strong foundations that were put in place in 2013 bore fruit in 2014, with total credit to this segment going up by over 300%, extending financial and non-financial solutions to over 15,000 new SMEs in 2014.

Business Banking

Business Banking works closely, from an advisory-led approach, with many emerging mid-sector corporates in Oman and supports them with their operational and strategic decision making. The Bank works with clients to create bespoke financial and advisory solutions tailored to their unique needs and requirements.

A dedicated team offers tailor-made solutions and services such as: Cash management, treasury, trade finance, retail banking for employees, and the exclusive Sadara Banking service for the Senior Management. Expert advisory capabilities, many of which are offered on a complimentary basis, seek to offer an enhanced and value-added customer experience, and are key strategic differentiators in the Bank's approach to the client relationship.

As at December 2014, the total credit given to the mid corporate sector stood at RO 54 million. With the expected growth in the mid corporate sector in 2015 and beyond, the Bank continues to focus on assisting clients in identifying their specific financial needs and becoming their bank of choice.

Muzn Islamic Banking

Muzn Islamic Banking, the Bank's Sharia'a compliant window has witnessed robust growth in 2014. Total assets significantly increased in 2014 vis-à-vis the previous year and reached OMR 90 million.

To support its growth and expand its reach to a wider client-base in

> "The UAE business and Muzn Islamic Banking have both recorded solid performances in 2014 associated with strong revenue and asset growth. With strong foundations in place, the Bank expects further growth and progress in these areas."

the Sultanate, three new Muzn branches were opened in Mabellah, Sur and Sohar. The Bank continues to enhance its product offering to cater to this segment's needs and deliver financial solutions that are in line with their beliefs. In addition, Muzn actively seeks to enhance its distribution channels by introducing new digital platforms that will improve customers' experience and provide easy access to Muzn's products and services. As a testament to this, Muzn Islamic Banking launched its dedicated Internet Banking services in 2014.

Muzn Corporate banking has also recorded robust growth in high value transactions in 2014. The Bank introduced Shariah-compliant products for its corporate customers such as project financing, construction financing, etc.

Risk Management

The principal risks facing the Bank's business are credit risk, liquidity risk, market risk (including foreign exchange risk, interest rate risk and profit rate risk), operational risk (including regulatory and legal risks) and strategic risk. The Bank's risk management policies and procedures are designed to identify and analyse these risks, prescribe appropriate risk limitations, monitor the level and incidence of such risks on an ongoing basis and prescribe appropriate remedial action. Policies and procedures having a bearing on Risk Management were reviewed and approved by the Board Risk Committee (BRC), and new initiatives were undertaken to further enhance risk management practices in the areas of Credit Risk, Market Risk, Operational Risk as well as Information Security and Business Continuity Risk.

Corporate Credit Risk

The sharp decline in oil price has the potential to slowdown inflow of new projects in Oman. However, the Government of Oman sets all these speculations to rest in its 2015 budget with a commitment that existing and critical projects will remain on track and that projects intended to diversify the economy, and stimulate economic growth, will continue to be supported. The Bank is mindful of these developments and monitoring and carrying out the stress testing of price of oil on the Corporate Credit portfolio on an ongoing basis.

Although 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 has been regularly tracking portfolio credit quality, concentration risks, exposures to sensitive sectors and conducting stress tests on various aspects of the 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 and loan processing practices. The approach is followed to enhance the efficiency of the portfolio, optimizing its risk-and-reward mechanism. A comprehensive review of the Retail Credit Portfolio is conducted at regular intervals. Salient areas covered include delinquency analysis, Non-Performing Assets trends and recoveries, monthly analysis. Additionally, Retail Risk endeavors to implement international best practices through introducing analytic systems that aim to improve portfolio performance management and delinquency.

Liquidity Risk Management

Comfortable liquidity conditions prevailed for the most part of the year, which was evidenced by the surge in short-term, low yielding Certificates of Deposits (CDs) with the Central Bank of Oman. During the last quarter, coinciding with the fall in oil prices, the volume of CDs witnessed a perceptible decline. The liquidity conditions are influenced by system-wide factors, and the Bank has in place a robust Liquidity Contingency Plan which takes into account various scenarios and has already been further strengthened by incorporating measures for contingencies such as intraday funding crisis 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, Lending Ratio, Early Warning Indicators, Stock Ratios, Simulation of Gaps in Omani Rials and US Dollars, Liquidity Stress Tests and the Daily Financial Risk (DFR) report.

Market Risk Management

The middle-office within the Market Risk division along with Treasury and Investment Banking Operations continued daily monitoring of positions in foreign exchange and investments for 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 implemented an integrated Treasury Front Office, Mid-Office and Back Office system during the year to enhance the capturing and monitoring of Market Risks real-time in line with best practices and regulatory requirements.

Moreover, a system to integrate the entire spectrum of investment banking activities spanning Front Office, Back Office and Middle Office is being implemented, which will automate the transaction booking, processing and monitoring functions to an online functionality.

Legal Risk Management

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 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 Resources Management Group on HR-related issues and lawsuits. In co-ordination 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 heavily engaged in vetting Islamic Banking contracts and forms in 2014, assisting the team to up set it up in accordance with legal requirements.

Operational Risk Management (ORM)

The Operational Risk Management (ORM) continued the regular monitoring of incidents to ensure that effective and robust controls are in place / established. Following the reported 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.

The Fraud Risk Management Division implemented a real-time fraud monitoring system to monitor Debit and Credit MasterCard transactions. In addition, a comprehensive training programme on the identification, management, and prevention of ATM and operational frauds was delivered to branch managers and ATM custodians across the Sultanate.

Remedial Management

Remedial Management Division (RMD) directly and proactively manages the Bank's sub-standard, doubtful and loss graded Corporate, Business and SME accounts. The division also manages a few Special Mention Accounts. The Special Mention and sub-standard 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 substandard, 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.

Business Continuity Management

Business Continuity Management (BCM) is an integral component of the Bank's Risk Management framework. The BCM framework encompasses Business Impact Analysis (BIA), Business Continuity Plans (BCP), Recovery strategies, Crisis Management and awareness. The Senior Management team 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, the Bank takes necessary actions to ensure effective measures are taken in a crisis situation.

Compliance

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 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.

Operations

2014 has been a very eventful year for the Operations Group which has extended its support to all the businesses to help

them achieve their financial targets. The operational focus was on improving productivity and efficiency across the divisions to deliver a consistently superior customer experience. To achieve this, the Group put a measurement framework in place to enhance efficiencies.

During the course of the year, the treasury operations were fully automated to ensure straight-through processing of treasury deals. The Operations Group was able to reap the benefits of Loan Origination systems in both Corporate and Retail credit delivery operations resulting in an improved customer experience. The Group had also initiated automation of other processes such as salary processing, automated customer confirmation for remittances, and bulk remittance capability. Further enhancements were made in Trade Operations, Corporate and Retail Credit Operations and centralized remittance processes to implement preventive controls to mitigate operational risks.

Information Technology

National Bank of Oman has continuously sought to be at the forefront by introducing new digital banking innovations to deliver a consistently superior customer experience through all its customer touch points. Technology will be a key enabler for the Bank as it continuously seeks to enhance efficiencies.

New Corporate Portal

The Bank has launched a new interactive corporate portal to enable customers to bank-on-the-go and manage their finances at their own convenience. The new webpage sketches a fresh image for the Bank creating an alluring appeal to attract and connect with customers.

New State-of-the-Art Mobile Banking Application

With the shift in technology towards mobility, the Bank continued to invest in its digital platforms to deliver a high-tech and state-of-the-art mobile banking application that contains smart features and services that enable customers to bank with National Bank of Oman in a new and unique way.

Other Digital enhancements and Innovations

In addition, following the implementation of a comprehensive payments platform in 2013, the Bank leveraged that investment and implemented several new payments services. As a testament to this, the Bank launched its Point-of-Sale service, attracting new corporate banking clients and expanding its services to its existing clientele. Furthermore, the Bank enhanced online shopping security parameters for customers by introducing 3D secure technology, enabling cardholders to enjoy their banking experience online with peace of mind. The Bank also activated cash deposit services on its ATM machines to facilitate cash withdrawals and deposits from the same machine, thereby delivering an enhanced platform for self-service banking, enabling customers to manage their finances at their own convenience.

Driving Internal Innovations to Deliver Customer Service Excellence

As part of the Bank's focus on driving technological leadership, it initiated an internal innovation program named 'Ibtikar'. The annual programme creates an open platform in which staff focus on building innovative technology concepts which could be applied to improving banking services and operations. The "ibtikar" participants developed a number of successful prototypes and those are in the process of being fully developed for rollout.

> "National Bank of Oman is committed to developing its employees' skill-sets to drive a high-performance and value-based culture."

Human Resources

The HR Group advanced the strategic transformation of the Bank by introducing initiatives aimed at driving a high performance and value-based culture, staff engagement, fostering a learning environment and delivering training and development programmes for all employees to enhance capabilities, as well as attracting, retaining and motivating talent.

Learning and Development

The Bank's training arm, the National Bank of Oman Academy of Excellence, continues to go from strength-to-strength. National Bank of Oman is committed to developing its employees' skill-sets to drive a high-performance and value-based culture. The Academy of Excellence applies the most advanced methods to provide employees an interactive and hands-on learning experience, which yields improved communication, motivation, teamwork and strong results across the organization. In 2014, the Bank collaborated with the prestigious London Business School of Management to deliver an 8-month Transformational Leadership Programme for employees. In addition, the Bank introduced a 15-months "Future Leaders Programme", which was delivered by Cambridge University's Judge Business School in Qatar. The objective of the programme was to fast-track young employees with the potential to take on leadership roles within the bank in the future.

Supporting and Developing local Talent

The Bank continues to focus on developing and promoting Omani nationals in support of the Nation's Omanisation efforts. A successful, well-balanced economy is nearly always driven by well-trained workers who have been empowered with the skills and knowledge to make them productive in their chosen career path. Meanwhile, it is through high-quality education programmes that the next generation of Omani leaders will be inspired. National Bank of Oman is committed to developing a strong pipeline of business leaders to help safeguard the nation's prosperity in the future. It was through this specific focus that the Bank announced the first female Omani Chief Risk Officer, Salma Salim Said Al Jaaidi. People are undoubtedly the Bank's most important asset, and National Bank of Oman is deeply committed to their ongoing development.

In addition, the Bank launched the "Qadat Al Mustqbal" Graduate Development program to attract talented Omani graduates and fast-track them through their careers, hence developing a strong pipeline of business leaders. The program aims to provide career opportunities for top graduates of local universities and colleges across the Sultanate.

Omanisation for the year 2014 stood at 91.57% compared to 90.87% in 2013. At the end of 2014, the Bank had a workforce of 1368 full-time employees, with a net profitability per employee of RO 36,746 at the end of 2014, compared with 30,202 at the end of 2013. Attrition in 2014 stood at 9.5% compared with 9.26% in 2013.

Finance

The Finance Group ensures that business performance is measured, monitored and reported to internal and external stakeholders in compliance with applicable regulations. Finance plays a key role in the Bank's business and financial strategy in Oman and the

UAE in addition to day-to-day business performance and support. The function played a key role in the successful conclusion of the USD 500 million Euro Medium Term Note issuance during the last quarter of 2014.
The function is responsible for compiling and returning all regulatory returns the Central Bank of Oman and the UAE require, and complying with any requests the two regulators may have. With the support of the Compliance function, it strives to maintain a strong and healthy relationship with the regulators.

Corporate Social Responsibility (CSR)

National Bank of Oman upholds the highest standards of integrity, compliance and ethics. The Bank remains dedicated to serving the communities in which it operates through its corporate social responsibility programmes. Making a positive and sustainable difference in the community is an important part of National Bank of Oman's culture. As Oman's first local bank, the Bank's heritage is interwoven with the Sultanate and seeks to celebrate the nation's unique identity and traditions whenever possible.
Being the Sultanate of Oman's first local bank, National Bank of Oman hosts several initiatives throughout the year, which are aimed at supporting the local community, upholding Oman's traditions and making a positive and sustainable difference in the sultanate, For You and For Our Nation.

As part of its commitment to the community, National Bank of Oman has invested in a large number of corporate social responsibility initiatives over the years, which include a workshop for Omani designers to help them run their SMEs, Ernst & Young's 'Student Excellence Awards' to recognize and reward the future leaders of Oman, the annual distribution of food hampers to underprivileged families in various Governorates across the Sultanate during the Holy month of Ramadhan, in addition to sponsoring community initiatives that most recently included a symposium in the Wilayat of Wadi Al Maawal highlighting the historical significance and heritage of the area. The symposium was held under the Auspices of H.E. Dr. Yahya bin Mahfoodh Al Mandhari, Chairman of the State Council.

The Bank continues to support the Sultanate in a host of ways; one patent example of this is the National Bank of Oman Golf Classic. National Bank of Oman identifies with the values of the game of golf – integrity, honour, sportsmanship and fair play – particularly among younger Omanis. The Bank's collaboration with The European Challenge Tour, the 'Nursery Tour' for The European Tour which has produced many of its finest golfers, aims to encourage youngsters to take up golf and embrace those values, and perhaps produce top-class Omani tournament stars in the future.

The National Bank of Oman Golf Classic continues to build its reputation as one of the most popular and well-organized events on the European Challenge Tour schedule. Future Golfing stars, as well as several experienced champions, praised the first and second edition of the penultimate event. The tournament has put Oman on the world golf map and provided a considerable boost to the business sector and Oman tourism. Hosting an event like the National Bank of Oman Golf Classic has generated worldwide publicity virtually over a 12 month period. This initiative truly ties in with National Bank of Oman's commitment to supporting the community and economy as it continues to focus on realizing its vision: To be the Bank of Choice.

The tournament is a full field, 4-day European Challenge Tour event, and includes three Members of the Oman National amateur Team: Azaan Al Rumhy, Ali Hameed and Hamood Al Harthy, plus other Arab Nationals. It is held annually at the Almouj Golf, the Wave Muscat, with prize money $300,000.

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.

The Internal Audit division covers the review of all Head Office divisions, local and overseas branches, including operational review of the Bank's Islamic window (Sharia'a Compliance is undertaken by the Sharia'a Auditor who reports into the Sharia'a Board) as well as 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 2015 is positive with the increase in government spending and the focus on infrastructure projects expected to boost economic growth.

In this economic environment, the Bank continues its focus on sustainable growth and is strongly positioned to take advantage of the growth opportunities created through the Government's investments. We have developed a robust five-year growth strategy and innovative plans to build on the strong foundations that we have put in place. The UAE operations and Muzn Islamic Banking operations will support the Bank's efforts to diversify revenue streams. As the only bank with a license to operate in the United Arab Emirates, the Bank will capitalize on its UAE franchise as an additional service point for customers with cross-border trading requirements. Strong risk management remains key to mitigation of potential risks as the Bank embarks on its strategic journey of diversified revenue growth and cost management.

> **"We have developed a robust five-year growth strategy and innovative plans to build on the strong foundations that we have put in place."**

We look forward to 2015 with optimism, as continued Government expenditure is expected to maintain growth momentum, creating adequate opportunities for the banking sector.

The members of the management team join me in offering our thanks to our valued customers, correspondent banks and shareholders for their enduring confidence in the bank. We would like to express our gratitude to the Capital Market Authority and the Central Bank of Oman for their wise leadership and direction. Finally, we are eternally indebted to His Majesty, Sultan Qaboos bin Said, for his wisdom and inspirational leadership. His strength and vision continues to inspire us, and under his direction, Oman is poised for future success.

We look forward to continuing to build impetus in 2015 and for the long-term future.

Ahmed Al Musalmi
Chief Executive Officer

Corporate Governance Report 2014

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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 16.

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 2014 and does not extend to the financial statements or any other reports of the Bank, taken as a whole.

27 January 2015

Paul Callaghan

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 Muscat Securities Market (the 'MSM') Listed Companies and the regulations for Corporate Governance of Banking and Financial Institutions issued by the Central Bank of Oman (the 'CBO').

In recognition of the best practices and corporate governance measures applied, the Bank has reached its highest achievements in 2014 by winning 'Excellence in Banking – Oman, from IAIR Awards 2014 (4th annual edition of the IAIR AWARDS), 'Best Banking Group – Oman, from WORLD FINANCE BANKING AWARDS 2014, 'Best Investment Bank- Oman, from WORLD FINANCE BANKING AWARDS 2014, 'Best Service Provider – Government and Corporate Banking – National Bank of Oman, from The International Finance Awards 2014, 'Most Innovative Bank – National Bank of Oman, from The International Finance Awards 2014 , "Best Customer Loyalty Program – National Bank of Oman, from The International Finance Awards 2014, 'Best Call Center', from CPI Financial, Banker Middle East Awards 2014, 'Best Premium Banking Service', from CPI Financial, Banker Middle East Awards 2014 , 'Best Customer Service', from CPI Financial, Banker Middle East Awards 2014, 'Best Customer Experience Overall'- Ethos Benchmarking Survey , 'Best Customer Experience Online'- Ethos and finally 'Bank of the Year-Oman 2014'- Global Finance Magazine.

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 were elected by the shareholders in March 2014 for a period of three years. The current term of all the Directors will expire in March 2017.

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. Mohammed Mahfoodh Al Ardhi –Chairman	Rimal Investment Projects LLC - Equity Investor	NEX-IND
Sheikh Abdullah Bin Ali Bin Jabor Al Thani – Deputy Chairman	The Commercial Bank of Qatar - Equity Investor	NEX-IND
Sayyidah Rawan Ahmed Al Said	Herself	NEX-IND
Mr. Omar Suhail Bahwan	Himself	NEX-IND
Mr. Andrew Charles Stevens	Himself	NEX-IND
Mr. Suresh M Shivdasani	Suhail Bahwan Group (Holding) - Equity Investor	NEX-NIND
Mr. Faisal Abdullah Al Farsi	Public Authority for Social Insurance - Equity Investor	NEX-IND
Mr. Hamad Mohammed Al Wahaibi	Ministry of Defense Pension Fund - Equity Investor	NEX-IND
Mr. Saif Said Al Yazidi	Himself	NEX-IND
H.E. Abdulrahman Hamad Al Attiyah	Himself	NEX-IND
Mr. Mohammed Ismail Al Emadi	Himself	NEX-IND

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

As per CMA guidelines, ten 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 Director	Other Board Committees Membership*	No. of other S.A.O.G Boards membership	No. of Board meetings attended	Attended last AGM on 26th March 2014
Mr. Mohammed Mahfoodh Al Ardhi – Chairman	EXCOB, CCB	NIL	6	Yes
Sheikh Abdullah Bin Ali Bin Jabor Al Thani - Deputy Chairman	CCB	NIL	7	Yes
Sayyidah Rawan Ahmed Al Said	EXCOB, BAC	3	6	Yes
Mr. Omar Suhail Bahwan	BRC, BAC	NIL	4	Yes
Mr. Andrew Charles Stevens	EXCOB, CCB	NIL	6	Yes
Mr. Suresh M Shivdasani	EXCOB, BRC	NIL	3	Yes
Mr. Saif Said Al Yazidi	CCB	2	6	Yes
Mr. Faisal Abdullah Al Farsi	BAC, BRC	1	5	Yes
Mr. Omar Hussain Al Fardan – Ex Chairman (Left the Board on 26 March 2014)	EXCOB	NIL	1	Yes
Mr. Robert Sharpe (Resigned on 29 October 2014)	BAC, BRC	NIL	6	Yes
Mr. Saleh Nasser Al Habsi (Left the Board on 26 March 2014)	CCB	NIL	1	No
Mr. Hamad Mahmood Al Wahaibi (Elected on 26 March 2014)	CCB	3	6	N/A

Name of the Director	Other Board Committees Membership*	No. of other S.A.O.G Boards membership	No. of Board meetings attended	Attended last AGM on 26th March 2014
Dr. Abdul-Aziz Al Ghorairi (Elected on 26 March 2014 and resigned on 29 October 2014)	BAC	NIL	5	N/A
H.E Abdulrahman Hamad Al Attiyah (Appointed on 12 November 2014)	BRC	NIL	1	N/A
Mr. Mohammed Ismail Al Emadi Appointed on 12 November 2014)	BRC, BAC	NIL	1	N/A

*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 seven Board meetings during 2014. They were on 22nd January, 26th March, 08th May, 18th June, 02nd September, 29th October and 11th December 2014. The maximum interval between two meetings was 75 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 5 senior managers of the Bank in 2014 is RO 1,511,681/-

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 had instructed the Management to include 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 2014, is RO 130,000.000 subject to the Annual General Meeting approval proposed to be held on 26th March 2015.

The details of the sitting fees paid or accrued for payment during 2014 are as follows:

Table 3

Name of the Directors	Total fees RO	Remarks
Mr. Mohammed Mahfoodh Al Ardhi – Chairman	8,200.000	
Sheikh Abdullah Bin Ali Bin Jabor Al Thani – Deputy Chairman	7,100.000	
Sayyidah Rawan Ahmed Al Said	7,800.000	
Mr. Omar Suhail Bahwan	3,200.000	
Mr. Andrew Charles Stevens	7,400.000	
Mr. Suresh M Shivdasani	3,900.000	
Mr. Faisal Abdullah Al Farsi	6,900.000	
Mr. Saif Said Al Yazidi	4,200.000	
Mr. Hamad Mohammed Al Wahaibi	5,800.000	Elected on 26 March 2014
Mr. Omar Hussain Al Fardan- ex Chairman	1,300.000	Left the Board on 26 March 2014
Mr. Saleh Nasser Al Habsi	900.000	Left the Board on 26 March 2014
Mr. Robert Sharpe	7,400.000	Resigned on 29 October 2014
Dr. Abdul-Aziz Al Ghorairi	4,100.000	Elected on 26 March 2014 and resigned on 29 October 2014
H.E. Abdulrahman Hamad Al Attiyah	900.000	Appointed on 12 November 2014
Mr. Mohammed Ismail Al Emadi	900.000	Appointed on 12 November 2014

Name of the Directors	Total fees RO	Remarks
Total	70,000.000	

The total hotel and travel expenses related to the Board Members during 2014 is RO 12,807.

Board Committees

As at December 2014, The Board of Directors has four standing committees, the Credit Committee, the Audit Committee, the Risk Committee and the Executive Committee of the Board.

Board Audit Committee (BAC):

The BAC comprises of four members all of which are independent. The committee has met six times in 2014.

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

Table 4

Name	Position	Meetings attended	Remarks
Sayyidah Rawan Ahmed Al Said	Chairperson	6	
Mr. Faisal Abdullah Al Farsi	Member	6	
Mr. Robert Sharpe	Member	6	Resigned on 29 October 2014
Dr. Abdulaziz Abdullah Al-Ghorairi	Member	4	Appointed on 26 March 2014 And resigned on 29 October 2014
Mr. Omar Bahwan	Member	0	Appointed on 18 November 2014
Mr. Mohd Ismail Mandani Al-Emadi	Member	0	Appointed on 18 November 2014

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 includes but is not limited to:

- 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.
- Review and discuss with the Chief Auditor, the findings of critical importance arising from the internal audits carried out in the period between meetings.

- Review the effectiveness of the internal audit function, including conformance with The Institute of Internal Auditors' the Definition of Internal Auditing, Code of Ethics and the International Standards for Professional Practice of Internal Auditing.
- Review and discuss with the management, internal auditors and external auditors the adequacy and effectiveness of the internal control system, including information technology security, accounting and financial controls and the bank's system to monitor and manage business risk, and its legal and ethical compliance programs. They may appoint external consultants if deemed necessary.
- Review proposed specific transactions with related parties for making suitable recommendations to the Board and setting rules for entering into small value transactions with related parties without obtaining the prior approval of the Audit Committee and the Board.

Credit Committee of the Board (CCB):

The CCB comprises of five members. The committee has met nine times during 2014. 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	Chairperson	9	
Sh. Abdullah Bin Ali Bin Jabor Al Thani	Member	9	
Mr. Andrew Charles Stevens	Member	5	
Mr. Saif Said Al Yazidi	Member	3	
Mr. Hamad Al Wahaibi	Member	7	Appointed on 26 March 2014
Mr. Saleh Nasser Al Habsi	Member	1	Left on 26 March 2014

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 Board Risk Committee comprises of four members. The committee has met six times during the year 2014. The major responsibilities of the committee include risk identification and review, risk policy, risk limits and risk management and monitoring, review management of recovery strategies of problem loans and adequacy of provisioning.

The names of the members of the BRC, their positions and their meeting attendance appear in the table below:

Table 6

Name	Position	Meetings Attended	Remarks
Mr. Mohd Ismail Mandani Al-Emadi	Chairperson	1	Appointed on 18 November 2014
Mr. Robert Sharpe	Ex- Chairperson	5	Resigned on 29 October 2014
Mr. Faisal Al Farsi	Member	5	
Mr. Omar Suhail Bahwan	Member	3	Left on 18 November 2014
Mr. Suresh M Shivdasani	Member	2	
H.E. Abdul Rahman Hamad Al-Attiyah	Member	1	Appointed on 18 November 2014

The responsibilities of the Committee as specified in the Terms of Reference which includes but is not limited to:

- 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, the bank's balance-sheet and income risks.
4. Management of Liquidity Risk.
5. Management of all other Market Risks including Foreign Exchange.
6. Approval of new policies of the Bank and periodic review of the existing policies.
7. Consider strategic Risks facing the Bank and refer suggestions for mitigating such risks to the full Board.
8. Approval of credit loss write-offs which are over the limits prescribed for the Management.
9. Overseeing information security risk and business continuity risk.
10. Review management of recovery strategies of problem loans and adequacy of provisioning.

- 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. Set a high-level bank-wide risk policy framework within the segments of credit, market, operational, reputation, legal and accounting risks.
4. Establish 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 findings 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.
12. Review the Corporate Governance Report.

Executive Committee of the Board (EXCOB)

The EXCOB comprises of four members and met six times during the year 2014.

The names of the EXCOB members, their positions and their meeting attendance appear in the table below:

Table 7

Name	Position	Meetings Attended	Remarks
Mr. Mohammed Mahfoodh Al Ardhi	Chairperson	4	Appointed on 26 March 2014
Mr. Omar Hussain Al Fardan	Ex- Chairperson	2	Left on 26 March 2014
Sayyidah Rawan Ahmed Al Said	Member	6	
Mr. Andrew Charles Stevens	Member	6	
Mr. Suresh Shivdasani	Member	4	

The main responsibilities of the EXCOB as specified in the Terms of Reference includes but is not limited to:

- Develop the long term strategy of the Bank based on economic and market conditions and the Board's vision and recommend it for Board approval.
- Review the performance of the Bank against approved strategic goals and financial budgets.
- 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.
- Review the performance of the investment banking function including all investment reports.
- Review and recommend to the Board the Bank's proposals for capital management and the raising of any new capital required.
- 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.

- Responsible for setting the Bank's remuneration framework for management and staff.
- Review and recommend to the Board prevailing compensation and benefits and ensure consistency with market trends.
- Review, approve and amend policies related to employee reward and performance related incentive plans.
- Review the Bank's Omanisation policies and the development of the Omani middle and senior management executives of the Bank.
- Review the Bank's overall strategy and monitor implementation and execution.
- Handle appointment and movement of key executives in the Bank from the reward level Assistant General Manager (AGM) and above.
- Review and approve major changes in the Bank's organizational structure at the level of Divisional Heads and above.
- Have specific responsibility to recommend for Board approval, and to review and update as necessary, a general strategy and policies for the acquisition, ownership and development of the Bank's properties.
- Approve the acquisition and sale of any property required for the business of the Bank and approve the appointment of construction companies and consultants for the Bank's Head Office, and agree the terms of any construction contract (including any variation order), consultancy or property or facilities management contract relating to any property owned by the Bank.
- Oversee the performance and implementation of any property-related projects.
- Propose the annual CSR and Sustainability budget to the Board, which shall submit the same to the shareholders in their Annual General Meeting for approval.
- Identify methods of payment for CSR and Sustainability initiatives.
- Submit a report at the end of the year to the AGM for ratification of amounts paid to CSR and Sustainability initiatives.

Board Members Profiles

Mr. Mohammed Mahfoodh Al Ardhi, Chairman

Director since March 2011. Chairman of the Executive and Credit Committees of the Board.

Mr. Al Ardhi is also a 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. 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.

Sheikh Abdullah Bin Ali Bin Jabor Al Thani, Deputy Chairman

Director since July 2005. Deputy Chairman of the Board of Directors and member of the Credit Committee of the Board.

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

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

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 26 years of experience in the investment field both in public and private sectors. Prior to joining Takaful Oman in The beginning of 2014, she was the Managing Director & Group CEO for ONIC Holding and prior to this 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 of the Board of the Public Authority for SME and sits 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 and has appeared for over 7 consecutive years in the Oman Economic Review (OER) as the Most Powerful Women in Corporates.

In 2014, Sayyidah Rawan was awarded a Hall of Fame title at the MARA Excellence Awards.

Sayyidah Rawan holds 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.

Mr. Andrew Charles Stevens, Director

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

Director of United Arab Bank P.J.S.C., Sharjah; Director of Alternatifbank A.Ş., Turkey;

President/Chairman of Orient 1 Limited; Director of Qatar Insurance Company International; and Group Chief Executive Officer, The Commercial Bank of Qatar (Q.S.C.).

Andrew Stevens graduated from Birmingham University, England with a B.Com (Hons) in Banking and Finance.

Mr. Saif Said Salim Al Yazidi, Director

Director since March 2008. Member of the Credit Committee of the Board.

Member of the Board of Oman International Development and Investment Company and Ooredoo.

Mr. Al Yazidi holds a Bachelor's Degree in Management Sciences, Accounting and a Masters in Business Administration (M.B.A). He is the Director of Investment at The Civil Service Employees Pension Fund.

Mr. Al Yazidi has over 18 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. Suresh M. Shivdasani, Director

Director since June 2010. Member of the Risk and Executive Committees of the Board.

Mr. Shivdasani is the Managing Director of 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. Faisal Abdullah Al Farsi, Director

Director since September 2011. A member of the Audit and Risk Committees of the Board.

In 1995 he joined the Public Authority for Social Insurance where he occupied various positions including Manager of Insurance Benefits, acting Manager of Insurance Services and an acting Manager of Media and public relations.

He is a member of the Board of Muscat National Development & Investment Company.

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 Board Audit Committee since November 2014.

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.

Hamad Mohammad Hamood Al Wahaibi, Director

Director since March 2014 and member of the Credit Committee of the Board. Mr. Al Wahaibi holds a Masters of Business Administration (MBA) degree, specializing in Finance, and he is a Chartered Financial Analyst (CFA) charter holder, as well as he is a Chartered Alternative Investment Analyst (CAIA) charter holder. He has working experience of 16 years. He is currently working as Director of Investment with Ministry of Defense Pension Fund for the last eight years.

Mr. Al Wahaibi also sits on the Boards of Galfar, Madina Takaful and Voltamp Power.

His Excellency Abdul Rahman bin Hamad Al Attiyah, Director

Director since November 2014 and a member of the Board Risk Committee (BRC). HE Abdul Rahman bin Hamad Al Attiyah, Minister of State for the State of Qatar and a member of the Board of The Commercial Bank of Qatar (Q.S.C.) since March 2014; began his career in 1972 at Qatar's Ministry of Foreign Affairs. He served as Qatar's Ambassador in Geneva, Saudi Arabia, France, Italy, Greece, Switzerland, Yemen, and the Republic of Djibouti. He also served as a permanent representative to the United Nations in Geneva, the Food and Agriculture Organization (FAO) in Rome, and UNESCO in Paris. HE Al Attiyah was the former Secretary-General of the Gulf Cooperation Council (GCC) from 2002 until 2011.

HE Al Attiyah holds a Bachelor of Arts Degree in Political Science and Geography from the University of Miami.

Mr. Mohammed Ismail Al Emadi , Director

Director since November 2014. Chairperson of the Board Risk Committee (BRC) and member of the Board Audit Committee (BAC). Mr. Mohammed Ismail Mandani Al Emadi is a member of the Board of The Commercial Bank of Qatar (Q.S.C.) and Alternatifbank A.Ş., Turkey and has over 30 years of banking experience. Mr. Al Emadi has held a number of key roles at The Commercial Bank of Qatar until 2006, after which he served as Chief Executive Officer of Qatar Real Estate Investment Company Q.S.C. up to 2011, and also served as its Director from 2003 until 2005.

Mr. Al Emadi holds a Bachelor of Arts degree in Business Administration and Economics.

Composition of the Management:

The organization chart of the Bank's management includes a Chief Executive Officer (CEO) as the leader of the organization whose appointment, functions and package are determined by the Board. The 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 seven management officers along with their positions:

Table 8

Name	Position
Ahmed Jaffer Al Musalmi	CEO
Humayun Kabir	GM - Chief Wholesale Banking Officer
Nasser Salim Al Rashdi	GM - Chief SME Officer and Head of International Business
Faizal Mohamed Eledath	GM - Chief Information Officer and Head of Transformation
Ananthraman Venkat	GM - Chief Financial Officer
Nasser Mohammed Al Hajri	GM - Chief Human Resource Officer and Head of Corporate Affairs
Salma Salim Said Al Jaaidi	GM - Chief Risk Officer
John Chang	GM - Chief Retail Banking 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 2014.

Table 9

NBO AND MSM BANK & INVESTMENT INDEX -FY 2014

Banking & Investment Index
NBO

DATE	HIGH	LOW	CLOSE	DATE	HIGH	LOW	CLOSE
January-14	8,664.65	8,158.51	8,498.04	January-14	0.342	0.322	0.334
February-14	8,579.03	8,385.76	8,387.22	February-14	0.334	0.330	0.334
March-14	8,999.32	8,099.44	8,197.62	March-14	0.334	0.285	0.291
April-14	8243.65	7989.04	7,998.45	April-14	0.294	0.284	0.292
May-14	8,153.15	7,958.74	8,153.15	May-14	0.326	0.292	0.324
June-14	8,577.16	8,153.15	8,548.45	June-14	0.364	0.314	0.352
July-14	8,854.70	8,548.45	8,756.15	July-14	0.388	0.340	0.368
August-14	8,998.24	8,764.64	8,896.66	August-14	0.400	0.370	0.390
September-14	9,520.96	8,897.34	9,305.60	September-14	0.410	0.388	0.396
October-14	9,338.73	8,114.77	8,480.28	October-14	0.396	0.342	0.364
November-14	8,608.64	7,749.95	7,760.75	November-14	0.382	0.334	0.336
December-14	7,913.43	6,487.82	7,854.84	December-14	0.350	0.274	0.326

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.

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.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
2010	15%	Nil
2011	17.5%	2.5%
2012	17.5%	Nil
2013	15%	10%
(Recommended by the Board subject to Shareholders' approval) 2014	17%	10%

Corporate Social Responsibility (CSR):

During the year 2014, the Bank distributed donations to the charitable organizations and other non-profitable organizations and participated in CSR initiatives totaling **RO. 81,771.360** which is within the RO 200,000 limit approved by the Annual General Meeting held on 26th March 2014.

Details of NBO main donations and CSR initiatives during the year 2014:

Table 11

Initiative	Details	Actuals (OMR)
Student Excellence Awards Oman 2014 - E&Y	The Student Excellence Awards is an initiative set up by Ernst and Young, Oman, in 2012. The award celebrates the achievements of Omani students in the fields of 'Accounting and Finance'. The Bank's CEO attended the awards as well as CEO's and senior management from various institutions.	5,000
Tamil Play	In keeping with the Bank's commitment to CSR, the Bank was the title sponsor of a Tamil Play which had 4 shows in total, 2 of which were held exclusively for labourers – free of charge. The transport for them to attend the play was also arranged.	2,000
Al Noor Association for the Blind	Supported them in financing their new office in Nizwa.	500
Visually impaired students at SQU	The Bank supported a group of visually impaired students at SQU with the purchase of braille equipment for them - 3 Braille Sense U2 and 4 Flick Camera System.	15,455
Oman Designer forum	The Bank supported a forum/workshop which guided upcoming Omani designers on how to run their SME›s and also equipped them with new skills in how to design their garments	2,500
Society of Mechanical Engineers	The Bank supported a group of students at SQU with an event showcasing cars and how they work.	1,000
Charity event	The Bank supported the school 'My School' for a fundraising event they held for local charities.	500
SME event AIESEC	The Bank supported AIESEC who hosted an event to inspire and guide SME's on how to run their businesses.	300
Oman Association for the Disabled (OAD)	OAD was established to provide support, education and recreational activities for people with disabilities. OAD also works towards achieving a better understanding of the needs of people with disabilities in the wider community. The Bank is supporting OAD for their annual activities 2014.	10,000
Ramadan Initiatives		11,016.74
Charity Event	Held by Dar Al Atta'a and Assoc for Early Intv.	4,000
Team Oman	Supporting the Oman Karting team's drivers (2)	20,000
Support Your team	The Ministry of Sports are hosting an inter-governorate Football and Volleyball competition aimed at youths between the ages of 15-18. It will run throughout the summer starting from the 1th of June 2014 until Eid Al-Fitr	8,000
Dakhilia and Dhahira region event for the disabled	A fun day was held for members of the disabled community in the Dakhilia and Dhahira region.	1,000
Awabi Club	Archery event held in Awabi.	500
Total CS Spend		**81,771.736**

Distribution of Shareholding:

Major shareholders (5% and above)

Table 12

Shareholder name	No. of shares as on 31st December 2014	of Capital %
COMMERCIAL BANK OF QATAR	425,369,004	34.90
SUHAIL BAHWAN GROUP HOLDING LLC	179,707,049	14.74
CIVIL SERVICE EMPLOYEES PENSION FUND	130,774.616	10.73
HSBC A/C MINISTRY OF DEFENCE PENSION FUND	93,332,081	7.66
PUBLIC AUTHORITY FOR SOCIAL INSURANCE	73,067,991	5.99

The shareholding pattern as on 31 December 2014 was:

Table 13

Number of Shares	Number of Shareholders	Total Shares	of Capital %
Above 7,000,000	17	1,102,489,569	90
To 6,999,999 3,000,000	5	19,954,264	2
To 2,999,999 1,500,000	18	34,727,576	3
To 1,499,999 500,000	34	28,165,937	2
To 499,999 100,000	104	23,235,697	2
Below 100,000	6,723	10,254,457	1
Total		1,218,827.500	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 2014. KPMG is a leading Audit, Tax and Advisory firm in Oman and is a part of KPMG Lower Gulf that was established in 1974. KPMG in Oman employs more than 150 people, amongst who are 4 Partners, 5 Directors and 20 Managers, including Omani nationals. KPMG is a global network of professional firms providing Audit, Tax and Advisory services. KPMG operates in 155 countries and has more than 162,000 people working in member firms around the world. The independent member firms of the KPMG network are affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

KPMG in Oman is accredited by the Capital Market Authority (CMA) to audit joint stock companies (SAOGs). During the year 2014, KPMG billed an amount of RO 112,418/200 towards professional services rendered to the Company (RO 78,000/-. for audit and RO 34,418/200 for other services.)

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.

Mohammed Mahfoodh Al Ardhi

Chairman

Basel II and III– Pillar III Report 2014

البنك الوطني العماني

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Sultanate of Oman

Tel 968 24709181
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Report on factual findings 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 and Basel III related disclosures ("the Disclosures") set out on pages 1 to 20 of National Bank of Oman SAOG ("the Bank") as at and for the year ended 31 December 2014. 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 set out in the Circular No. BM 1027 dated 4 December 2007 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 on performance of the Procedures detailed above, we found the disclosures to be 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 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.

27 January 2015

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 2014 is 2,000,000,000 shares of RO 0.100 each.

The issued and paid up capital of the bank as at 31 December 2014 is 1,218,827,500 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 13.5 million of capital towards the Islamic banking window.

The bank's capital structure as at close of 31 December 2014, based on Central Bank of Oman's (CBO) guidelines is as follows:

Elements of Capital	Amount in RO 000's
Tier I Capital	
Local Banks	
Paid-up capital	121,883
Share premium	34,465
Legal reserve	43,380
General reserve	4,419
Subordinated debt reserve	34,960
Stock dividend	12,188
Retained earnings*	83,152
Total Gross Tier I Capital	**334,447**
Deduction	
Deferred tax asset	(436)
Tier I capital after all deductions	**334,011**
Tier II Capital	
Revaluation reserves/Cumulative fair value gains or losses on available for sale instruments	1,188
General loan loss provision/General loan loss reserve	32,995
Subordinated debt	28,640
Total Tier II Capital	**62,823**
Total Regulatory Capital	**396,834**

*Note: Retained earnings are after deduction of RO 20.7 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.

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 in accordance with the prescribed guidelines. The bank will also factor in the regulatory guidelines, wherever applicable on Basel III, while carrying out its assessment.

CAPITAL ADEQUACY (continued)

Quantitative Disclosures:

Position as at 31.12.2014 (RO'000)

Details	Amount
Tier I capital (after supervisory deductions)	**334,011**
Tier II capital (after supervisory deductions & upto eligible limits)	**62,823**
Tier III capital (upto a limit where Tier II & Tier III does not exceed Tier I)	-
Of which, total Eligible Tier III Capital	-
Risk Weighted Assets (RWAs) – Banking Book	**2,490,741**
Risk Weighted Assets (RWAs) – Operational Risk	**197,760**
Total Risk Weighted Assets (RWAs) – Banking Book + Operational Risk	**2,688,501**
Minimum required capital to support RWAs of banking book and operational risk	339,423
i) Minimum required Tier I capital for banking book and operational risk	276,600
ii) Tier II capital required for banking book and operational risk	62,823
Tier I capital available for supporting Trading Book	57,411
Tier II capital available for supporting Trading book	-
Risk Weighted Assets (RWAs) – Trading Book	**23,210**
Total capital required to support Trading Book	2,930
Minimum Tier I capital required for supporting Trading Book	835
Used Eligible Tier III Capital	-
Total Regulatory Capital	**396,834**
Total Risk Weighted Assets – Whole bank	**2,711,711**
BIS Capital Adequacy Ratio	**14.6**
Unused but eligible Tier III Capital	**-**

CAPITAL ADEQUACY (continued)

Basel III Disclosures:

In compliance with CBO circular BM 1114 dated 17 November 2013; mandatory disclosures are made in the report. Certain additional capital adequacy disclosures are as follows:

Position as at 31.12.2014 (RO'000)

Details.	Gross balance (Book value)	Net balance (Book value)	Risk Weighted Assets
On balance sheet items	3,014,335	2,895,923	2,154,557
Off balance sheet items	370,627	370,627	322,411
Derivatives	13,773	13,773	13,773
Operational Risk	-	-	197,760
Market Risk	-	-	23,210
Total	**3,398,735**	**3,280,324**	**2,711,711**
Tier I Capital	-	-	334,011
Tier 2 Capital	-	-	62,823
Tier 3 Capital	-	-	-
Total Regulatory Capital	**-**	**-**	**396,834**
Total required Capital	-	-	342,354
Capital requirement for credit risk	-	-	314,457
Capital requirement for market risk	-	-	2,930
Capital requirement for operational risk.	-	-	24,967
Tier I Ratio	-	-	12.3
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 Corporate Credit Risk, SBU Credit Risk, Retail Credit Risk, Market Risk, Operational Risk, Information Security and Business Continuity Risk, Loan Review Mechanism. 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 comprised of Corporate Credit Risk, SME credit risk, Retail Credit Risk, Loan Review Mechanism, Remedial Management and Credit Administration and Control Divisions.

Corporate credit Risk and SME Credit Risk:

Corporate Credit Risk Division is responsible for independent assessment and control of the risks related to all Corporate Banking and Financial Institutions exposures while SME Credit Risk Division independently reviews Business Banking and Small Business Unit exposures. Both 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.

Credit Risk (continued)

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.

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

Derivatives

The bank has undertaken interest rate derivative deal to manage its own interest rate exposure by way of Interest Rate Swap. This position is initiated with the approval of ALCO and is reported as banking book exposure

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 2014:

(RO'000)

Sl No	Type of Credit Exposure	Average Gross Exposure		Total Gross Exposure as at	
		Current Year	Previous Year	31 December 14	31 December 13
1	Overdrafts	62,067	51,953	59,781	54,268
2	Personal loans	1,069,263	1,010,245	1,046,172	1,065,032
3	Loans against trust receipts	98,411	65,935	117,195	60,723
4	Other loans	995,059	979,740	1,124,900	956,697
5	Bills purchased / discounted	28,764	17,427	47,713	20,121
	Total	**2,253,564**	**2,125,300**	**2,395,761**	**2,156,841**

(ii) Geographic distribution of exposures by major types of credit exposure as at 31 December 2014:

(RO'000)

S. No	Type of Credit Exposure	Oman	Other GCC countries	OECD countries	India	Pakistan	Others	Total
1	Overdrafts	53,764	5,819	-	-	-	198	59,781
2	Personal loans	1,044,241	1,464	-	-	-	467	1,046,172
3	Loans against trust receipts	75,608	41,587	-	-	-	-	117,195
4	Other loans	1,007,501	97,781	18,150	-	-	1,468	1,124,900
5	Bills purchased / discounted	39,971	7,742	-	-	-	-	47,713
	Total	**2,221,085**	**154,393**	**18,150**	**-**	**-**	**2,133**	**2,395,761**

Credit Risk (continued)

(iii) Industry or counter party type distribution of exposures, broken down by major types of credit exposure as at 31 December 2014:

(RO'000)

S. No	Economic Sector	Overdraft	Loans	Bills Purchased / Discounted	Others	Gross Total	Off Balance Sheet Exposure
1	Import trade	-	-	-	75,608	75,608	-
2	Export trade	-	300	-	-	300	-
3	Wholesale and retail trade	10,559	63,844	3,649	22,781	100,833	60,679
4	Mining and quarrying	1,483	11,361	930	-	13,774	567
5	Construction	9,661	201,599	24,674	14	235,948	199,275
6	Manufacturing	5,733	201,587	4,151	9,821	221,292	49,709
7	Electricity, gas and water	95	112,229	120	303	112,747	49,165
8	Transport and Communication	845	131,158	278	-	132,281	10,507
9	Financial institutions	11,823	68,923	-	-	80,746	126,873
10	Services	8,013	224,651	11,264	8,668	252,596	39,074
11	Personal loans	-	1,046,172	-	-	1,046,172	397
12	Agriculture and allied activities	41	10,363	26	-	10,430	166
13	Government	23	3,850	-	-	3,873	-
14	Non-Resident lending	-	49,427	-	-	49,427	-
15	All Others	11,505	45,608	2,621	-	59,734	28,570
	Total	**59,781**	**2,171,072**	**47,713**	**117,195**	**2,395,761**	**564,982**

(iv) Residual contractual maturity as at 31 December 2014 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	Total	Off Balance Sheet Exposure
1	Up to 1 month	2,989	118,746	32,977	29,462	184,174	158,303
2	1-3 months	2,989	204,801	12,597	45,547	265,934	147,548
3	3-6 months	2,989	86,879	2,139	38,869	130,876	100,700
4	6-9 months	2,989	50,161	-	3,317	56,467	42,191
5	9-12 months	2,989	100,031	-	-	103,020	44,781
6	1-3 years	14,945	256,481	-	-	271,426	56,274
7	3-5 years	14,946	172,012	-	-	186,958	15,180
8	Over 5 years	14,945	1,181,961	-	-	1,196,906	5
	Total	**59,781**	**2,171,072**	**47,713**	**117,195**	**2,395,761**	**564,982**

Credit Risk (continued)

(v) Total loan broken down by major industry or counter party type as at 31 December 2014:

(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	75,608	-	756	-	-	-	-
2	Export Trade	300	300	-	300	-	-	-
3	Wholesale & Retail Trade	100,833	5,108	957	3,735	1,142	134	7,833
4	Mining & Quarrying	13,774	142	136	35	1	35	-
5	Construction	235,948	2,871	2,331	991	522	699	6,133
6	Manufacturing	221,292	14,869	2,064	9,763	3,736	22	2,323
7	Electricity, gas and water	112,747	-	1,127	-	-	-	-
8	Transport and Communication	132,281	2,326	1,300	1,382	757	66	-
9	Financial Institutions	80,746	50	807	12	-	12	-
10	Services	252,596	887	2,517	434	166	128	589
11	Personal Loans	1,046,172	26,816	19,115	14,395	2,090	8,611	5,061
12	Agriculture and Allied Activities	10,430	1,251	92	382	731	244	257
13	Government	3,873	-	39	-	-	-	-
14	Non-Resident Lending	49,427	-	494	-	-	-	-
15	All Others	59,734	3,845	1,260	4,773	606	2,348	-
	Total	**2,395,761**	**58,465**	**32,995**	**36,202**	**9,751**	**12,299**	**22,196**

Credit Risk (continued)

(vi) Amount of impaired loans as at 31 December 2014, 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	2,221,085	52,541	30,586	28,184	8,542	11,055	17,781
2	Other GCC Countries	154,393	3,794	2,227	5,978	1,118	1,242	4,392
3	OECD Countries	18,150	-	182	-	-	-	-
4	India	-	-	-	-	-	-	-
5	Pakistan	-	-	-	-	-	-	-
6	Others	2,133	2,130	-	2,040	91	2	23
	Total	**2,395,761**	**58,465**	**32,995**	**36,202**	**9,751**	**12,299**	**22,196**

(vii) Movement of gross loans

(RO'000)

S. No	Details	Movement of Gross Loans during the year ended 31 December 2014					
		Performing Loans		Non-performing Loans			
		Standard	Special Mention	Sub-Standard	Doubtful	Loss	Total
1	Opening balance	2,007,706	87,848	8,244	6,158	46,885	2,156,841
2	Migration / changes (+/-)	(46,243)	30,202	3,495	4,171	8,375	0
3	New loans	1,185,731	5	417	172	3,990	1,190,315
4	Recovery of loans	(896,493)	(27,672)	(2,362)	(1,973)	(699)	(929,199)
5	Loans written off	-	(3,788)	-	-	(18,408)	(22,196)
6	**Closing balance**	**2,250,701**	**86,595**	**9,794**	**8,528**	**40,143**	**2,395,761**
7	Provisions held	32,993	2,050	2,710	3,674	27,770	69,197
8	Reserve interest	-	-	180	373	9,198	9,751

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 2014, subject to the standardized approach is as below:

(RO'000)

Sr No	Product / Rating	Carrying 0%	Carrying 20%	Carrying 35%	Carrying 50%	Carrying 100%	Carrying 150%	Total
	Rated							
1	Sovereign	414,258	-	-	-	109	-	414,367
2	Banks	-	102,642	-	51,731	43	3,915	158,331
	Unrated							
1	Corporate	-	37,973	-	-	1,092,212	-	1,130,185
2	Retail	-	-	-	-	766,442	-	766,442
3	Claims secured by residential property	-	-	222,138	-	34,945	-	257,083
4	Claims secured by commercial property	-	-	-	-	109,238	-	109,238
5	Past due loans	-	-	-	-	57,106	-	57,106
6	Other assets	47,834	1,056	-	-	67,971	1,239	118,100
7	Venture Capital & Private Equity Investments	-	-	-	-	-	3,483	3,483
8	Off-balance Sheet Items	3,792	8,444	-	75,337	296,827	-	384,400
	Total Banking Book	**465,884**	**150,115**	**222,138**	**127,068**	**2,424,893**	**8,637**	**3,398,735**

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:

(RO'000)

S.No	Details	Amount
1	Corporate Cash Collateral	72,460
2	Specific provisions on loans and advances and due from banks	45,952
3	**Total**	**118,412**

The capital requirement on credit risk as at 31 December 2014 is RO ('000) 314,457

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 Board Risk Committee. 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 stress factors 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.

The bank has a very small Held for Trading (HFT) book consisting of investments in equities which is managed by the Investment Banking division. The exposures are daily monitored by the Middle Office as per the approved stop loss and exposure limits through Mark-to-Market (MTM) reports.

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 12.625% to reflect the general market risk.

Capital required for trading book as at 31 December 2014:

- Foreign Exchange Risk - RO ('000) 2,930

Banking Book

Equity Price Risk

The proprietary equity positions are held in the 'Available for Sale' (AFS) category and not in the 'Held for Trading' category. As such, no VaR is calculated for the AFS portfolio. 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 2014	200 bps increase	200 bps decrease
Earnings impact - RO›000s	**13,009**	**(13,009)**
Earnings impact - USD›000s	**33,790**	**(33,790)**

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 2014 was 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%	8,000	-	-	-	280,832	288,832
Due from banks and other money market placements (net)	0.89%	140,848	3,850	-	-	235	144,933
Loans, advances and financing activities for customers (net)	5.36%	932,245	475,732	441,577	467,259	-	2,316,813
Financial investments	2.32%	702	27,410	60,491	19,337	39,584	147,524
Premises and equipment	N/A	-	-	-	-	23,204	23,204
Deferred tax asset	N/A	-	-	-	-	436	436
Other assets	N/A	-	-	-	-	54,352	54,352
Total assets		1,081,795	506,992	502,068	486,596	398,643	2,976,094
Due to banks and other money market deposits	2.22%	102,188	-	-	-	-	102,188
Customers' deposits and unrestricted investment accounts	1.09%	221,008	679,160	163,820	13,090	1,100,664	2,177,742
Euro medium term notes	1.79%	-	-	195,223	-	-	195,223
Other liabilities	N/A	-	-	-	-	69,761	69,761
Taxation	N/A	-	-	-	-	6,051	6,051
Subordinated debt	6.00%	-	-	63,600	-	-	63,600
Shareholders' equity	N/A	-	-	-	-	361,529	361,529
Total liabilities and shareholders' equity		323,196	679,160	422,643	13,090	1,538,005	2,976,094
Total interest rate sensitivity gap		758,599	(172,168)	79,425	473,506	(1,139,362)	-
Cumulative interest rate sensitivity gap		758,599	586,431	665,856	1,139,362	-	-

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 2014 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	198,328	37,307	235,635	31,028	22,169	53,197	288,832
Due from banks and other money market placements	130,971	13,962	144,933	-	-	-	144,933
Loans and advances (net)	450,109	231,153	681,262	458,384	1,177,167	1,635,551	2,316,813
Non-trading financial investments	62,817	27,340	90,157	57,367	-	57,367	147,524
Premises and equipment	-	-	-	-	23,204	23,204	23,204
Deferred tax assets	436	-	436	-	-	-	436
Other assets	52,226	2,086	54,312	40	-	40	54,352
Total assets	894,887	311,848	1,206,735	546,819	1,222,540	1,769,359	2,976,094
Due to banks and other money market deposits	102,188	-	102,188	-	-	-	102,188
Customers' deposits	599,349	719,579	1,318,928	428,664	430,150	858,814	2,177,742
Euro medium term notes	-	-	-	195,223	-	195,223	195,223
Other liabilities	59,735	9,296	69,031	715	15	730	69,761
Taxation	6,051	-	6,051	-	-	-	6,051
Subordinated funds	-	-	-	63,600	-	63,600	63,600
Shareholders' equity	-	-	-	-	361,529	361,529	361,529
Total liabilities and shareholders' equity	767,323	728,875	1,496,198	688,202	791,694	1,479,896	2,976,094

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.

Operational Risk (continued)

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) 24,967

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 2014.

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	156,348
Retained earnings	83,152
Accumulated other comprehensive income (and other reserves)	94,947
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	**334,447**
Common Equity Tier 1 capital: regulatory adjustments	
Deferred tax assets arising from temporary differences (net of related tax liability)	(436)
National specific regulatory adjustments of which: Shortfall in MCR of Islamic Banking window and foreign branches of the bank	-
Total regulatory adjustments to Common equity Tier 1	**(436)**
Common Equity Tier 1 capital (CET1)	**334,011**
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)	**334,011**

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	28,640
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	34,183
Tier 2 capital before regulatory adjustments	**62,823**

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)	**62,823**
Total capital (TC = T1 + T2)	**396,834**
Total risk weighted assets	**2,711,711**
Of which: Credit risk weighted assets	2,490,741
Of which: Market risk weighted assets	23,210
Of which: Operational risk weighted assets	197,760
Capital Ratios	
Common Equity Tier 1 (as a percentage of risk weighted assets)	12.3
Tier 1 (as a percentage of risk weighted assets)	12.3
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)	2.7

National minima (if different from Basel III)	
National Common Equity Tier 1 minimum ratio (if different from Basel 3 minimum)	7.625
National Tier 1 minimum ratio (if different from Basel 3 minimum)	9.625
National total capital minimum ratio (if different from Basel 3 minimum)	12.625

Disclosure template for main features of all regulatory capital instruments

1. Common Equity

Common equity comprises of 1,218,827,500 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 (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	-	Private Placements comprises of 15 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 28.6 million (Aggregate of 15 issues)
9	Par value of instrument	-	RO 63.6 million (Aggregate of 15 issues)
10	Accounting classification	-	Liability –amortised cost
11	Original date of issuance	-	Between Mar 2009 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 – 1 issue, No – 14 issues
15	Optional call date, contingent call dates and redemption amount	-	For Yes above, 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 – 1 issue, 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 on27th January 2015.

Mohammed Mahfoodh Al Ardhi
Chairman


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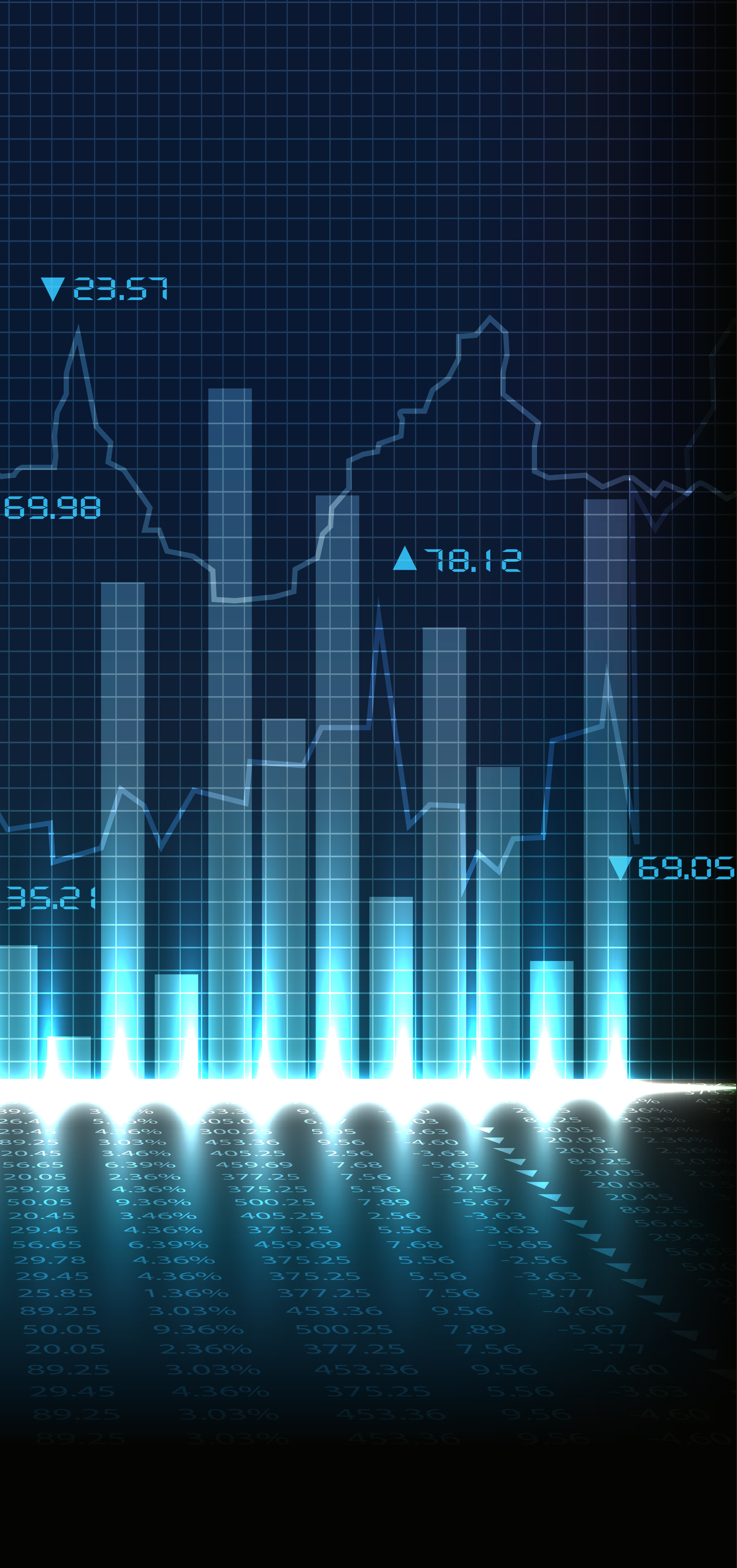

Financials

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INDEPENDENT AUDITOR'S 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 53 which comprise the statement of financial position as at 31 December 2014, 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.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with 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 2014 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 of the Bank as at and for the year ended 31 December 2014, in all material respects, comply with:

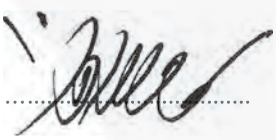
- the relevant disclosure requirements of the Capital Market Authority; and
- the Commercial Companies Law of 1974, as amended.

27 January 2015

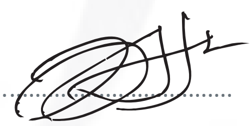
Paul Callaghan

2013 USD'000	2014 USD'000		Notes	2014 RO'000	2013 RO'000
		ASSETS			
956,665	**750,213**	Cash and balances with Central Banks	4	**288,832**	368,316
593,553	**376,449**	Due from banks and other money market placements (net)	5	**144,933**	228,518
5,371,946	**6,017,696**	Loans, advances and financing activities for customers (net)	6	**2,316,813**	2,068,199
344,423	**383,179**	Financial investments	7	**147,524**	132,603
52,218	**60,270**	Premises and equipment	8	**23,204**	20,104
1,195	**1,132**	Deferred tax asset	14	**436**	460
202,964	**141,175**	Other assets	9	**54,352**	78,141
7,522,964	**7,730,114**	**TOTAL ASSETS**		**2,976,094**	2,896,341
		LIABILITIES, SUBORDINATED DEBT AND EQUITY			
		LIABILITIES			
587,945	**265,423**	Due to banks and other money market deposits	10	**102,188**	226,359
5,660,153	**5,656,473**	Customers' deposits and unrestricted investment accounts	11	**2,177,742**	2,179,159
-	**507,073**	Euro medium term notes	12	**195,223**	-
201,330	**181,198**	Other liabilities	13	**69,761**	77,512
14,357	**15,717**	Taxation	14	**6,051**	5,527
6,463,785	**6,625,884**	**TOTAL LIABILITIES**		**2,550,965**	2,488,557
		SUBORDINATED DEBT			
207,013	**165,195**	Subordinated debt	15	**63,600**	79,700
		EQUITY			
287,799	**316,579**	Share capital	16	**121,883**	110,803
89,519	**89,519**	Share premium	17	**34,465**	34,465
102,821	**112,675**	Legal reserve	18	**43,380**	39,586
11,478	**11,478**	General reserve	19	**4,419**	4,419
116,636	**107,330**	Other non-distributable reserves	20	**41,322**	44,905
43,169	**53,818**	Proposed cash dividend	21	**20,720**	16,620
28,779	**31,657**	Proposed stock dividend	21	**12,188**	11,080
171,965	**215,979**	Retained earnings		**83,152**	66,206
852,166	**939,035**	**TOTAL EQUITY**		**361,529**	328,084
7,522,964	**7,730,114**	**TOTAL LIABILITIES, SUBORDINATED DEBT AND EQUITY**		**2,976,094**	2,896,341

The financial statements were authorised for issue on 27th January 2015 in accordance with a resolution of the Board of Directors.



Chairman



Chief Executive Officer

The attached notes 1 to 35 form integral part of these financial statements.

2013 USD'000	2014 USD'000		Notes	2014 RO'000	2013 RO'000
302,935	**305,395**	Interest income	23	**117,577**	116,630
(108,808)	**(95,784)**	Interest expense	24	**(36,877)**	(41,891)
194,127	**209,611**	**Net interest income**		**80,700**	74,739
870	**5,239**	Income from Islamic financing and Investment activities		**2,017**	335
(278)	**(668)**	Unrestricted investment account holders› share of profit		**(257)**	(107)
592	**4,571**	**Net Income from Islamic financing and Investment activities**		**1,760**	228
75,208	**82,519**	Other operating income	25	**31,770**	28,955
269,927	**296,701**	**Operating income**		**114,230**	103,922
(74,275)	**(87,534)**	Staff costs		**(33,701)**	(28,596)
(43,234)	**(46,016)**	Other operating expenses	26	**(17,716)**	(16,645)
(8,673)	**(7,800)**	Depreciation	8	**(3,003)**	(3,339)
(126,182)	**(141,350)**	**Total operating expenses**		**(54,420)**	(48,580)
143,745	**155,351**	**PROFIT FROM OPERATIONS BEFORE IMPAIRMENT LOSSES AND TAX**		**59,810**	55,342
(49,852)	**(31,945)**	Credit loss expense – customers' loan	6	**(12,299)**	(19,193)
9,192	**7,501**	Recoveries and releases from provision for credit losses	6	**2,888**	3,539
19,538	**19,249**	Recoveries from loans and advances written off		**7,411**	7,522
(29)	**(860)**	Impairment losses on available for sale investments	7	**(331)**	(11)
(361)	**39**	Write back / credit loss expense - bank loans		**15**	(139)
(238)	**-**	Provision – others		**-**	(92)
(21,750)	**(6,016)**	**TOTAL IMPAIRMENT LOSSES (NET)**		**(2,316)**	(8,374)
121,995	**149,335**	**PROFIT BEFORE TAX**		**57,494**	46,968
(14,522)	**(18,769)**	Taxation	14	**(7,226)**	(5,591)
107,473	**130,566**	**PROFIT FOR THE YEAR**		**50,268**	41,377
		OTHER COMPREHENSIVE INCOME			
		Items that are or may be reclassified subsequently to profit or loss			
4,400	**(465)**	Net movement on available for sale investments		**(179)**	1,694
(125)	**(62)**	Tax effect of net movement on available for sale investments		**(24)**	(48)
4,275	**(527)**	**OTHER COMPREHENSIVE INCOME / (EXPENSE) FOR THE YEAR**		**(203)**	1,646
111,748	**130,039**	**TOTAL COMPREHENSIVE INCOME FOR THE YEAR**		**50,065**	43,023
0.09	**0.11**	Earnings per share: (USD) – Basic and diluted – (RO)	28	**0.041**	0.034

(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 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)	-
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 2014	**110,803**	**34,465**	**39,586**	**4,419**	**44,905**	**16,620**	**11,080**	**66,206**	**328,084**
Total comprehensive income for the year									
Profit for the year	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**50,268**	**50,268**
Net movement on available for sale investments	**-**	**-**	**-**	**-**	**(203)**	**-**	**-**	**-**	**(203)**
Transactions with owners recorded directly in equity									
Dividend paid	**-**	**-**	**-**	**-**	**-**	**(16,620)**	**-**	**-**	**(16,620)**
Issue of shares	**11,080**	**-**	**-**	**-**	**-**	**-**	**(11,080)**	**-**	**-**
Proposed cash dividend	**-**	**-**	**-**	**-**	**-**	**20,720**	**-**	**(20,720)**	**-**
Proposed stock dividend	**-**	**-**	**-**	**-**	**-**	**-**	**12,188**	**(12,188)**	**-**
Transfer to retained earnings	**-**	**-**	**-**	**-**	**(16,100)**	**-**	**-**	**16,100**	**-**
Transfer to subordinated debt reserve	**-**	**-**	**-**	**-**	**12,720**	**-**	**-**	**(12,720)**	**-**
Transfer to legal reserve	**-**	**-**	**3,794**	**-**	**-**	**-**	**-**	**(3,794)**	**-**
Balance at 31 December 2014	**121,883**	**34,465**	**43,380**	**4,419**	**41,322**	**20,720**	**12,188**	**83,152**	**361,529**
Balance at 1 January 2014 – In USD'000	287,799	89,519	102,821	11,478	116,636	43,169	28,779	171,965	852,166
Balance at 31 December 2014 – In USD'000	**316,579**	**89,519**	**112,675**	**11,478**	**107,330**	**53,818**	**31,657**	**215,979**	**939,035**

2013 USD'000	2014 USD'000		Notes	2014 RO'000	2013 RO'000
		OPERATING ACTIVITIES			
121,994	**149,335**	Profit before taxation		**57,494**	46,968
		Adjustments for:			
8,673	**7,800**	Depreciation	8	**3,003**	3,339
40,660	**24,444**	Provision for credit losses (net)		**9,411**	15,654
361	**(39)**	Provision for credit losses (net)- due from banks		**(15)**	139
29	**860**	Impairment losses on available for sale investments	7	**331**	11
239	**-**	Provision against collateral assets		**-**	92
(112)	**(42)**	Profit on sale of equipment (net)		**(16)**	(43)
(4,416)	**(5,382)**	Profit on sale of investments	25	**(2,072)**	(1,700)
(8,691)	**(10,725)**	Investment income		**(4,129)**	(3,346)
158,737	**166,251**	Operating profit before changes in operating assets and liabilities		**64,007**	61,114
50,262	**15,860**	Due from banks and other money market placements		**6,106**	19,351
84,998	**(346,384)**	Due to banks and other money market deposits		**(133,358)**	32,724
(447,509)	**(670,195)**	Loans and advances to customers		**(258,025)**	(172,291)
(43,130)	**68,863**	Other assets		**26,512**	(16,605)
759,494	**(3,681)**	Customers' deposits		**(1,417)**	292,405
-	**500,000**	Euro medium term notes		**192,500**	-
22,686	**(20,132)**	Other liabilities		**(7,751)**	8,734
585,538	**(289,418)**	**Cash from operations**		**(111,426)**	225,432
(14,938)	**(17,400)**	Taxes paid		**(6,699)**	(5,751)
570,600	**(306,818)**	**Net cash (used in / generated from) operating activities**		**(118,125)**	219,681
		INVESTING ACTIVITIES			
(96,909)	**(63,894)**	Purchase of non-trading investments		**(24,599)**	(37,310)
48,893	**29,205**	Proceeds from sale of non-trading investments		**11,244**	18,824
(7,836)	**(15,896)**	Purchase of premises and equipment	8	**(6,120)**	(3,017)
221	**65**	Disposal of premises and equipment		**25**	85
6,943	**6,735**	Income from bond and other investments	25	**2,593**	2,673
1,748	**3,990**	Dividend income	25	**1,536**	673
(211)	**(36)**	Translation differences on premises and equipment and tax		**(14)**	(81)
(47,151)	**(39,831)**	**Net cash used in investing activities**		**(15,335)**	(18,153)
		FINANCING ACTIVITIES			
(50,366)	**(43,169)**	Payment of dividend		**(16,620)**	(19,391)
46,753	**(41,818)**	Net movement in subordinated debt	15	**(16,100)**	18,000
(3,613)	**(84,987)**	**Net cash used in financing activities**		**(32,720)**	(1,391)
519,836	**(431,636)**	**(DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS**		**(166,180)**	200,137
725,138	**1,244,974**	Cash and cash equivalents at the beginning of the year		**479,315**	279,178
1,244,974	**813,338**	**CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR**		**313,135**	479,315
		REPRESENTING:			
955,366	**748,914**	Cash and balances with Central Banks	4	**288,332**	367,816
289,608	**64,424**	Deposits and balances with other banks and financial institutions (net)		**24,803**	111,499
1,244,974	**813,338**			**313,135**	479,315

The attached notes 1 to 35 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 and with overseas branches in the United Arab Emirates and Egypt. The bank operates in Oman under a banking License 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 1,368 employees as at 31 December 2014 (2013: 1,370).

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 9 – Financial Instruments – (effective on or after 1 January 2018) – The Bank is assessing the potential impact on its consolidated financial statements.

I FRS 15 – Revenue from contracts with Customers (effective on or after 1 January 2017) – The Bank is assessing the potential impact on the its consolidated financial statements.

2 BASIS OF PREPARATION (continued)

The following new or amended standards are not expected to have a significant impact of the Bank's consolidated financial statements.

- Defined benefit plans: employee contributions (amendments to IAS 19).
- Annual improvements to IFRSs 2010-2012 cycle.
- Annual improvements to IFRSs 2011-2013 cycle.
- IFRS 14 regulatory deferral accounts.
- Accounting for acquisitions of Interests in joint operations (amendments to IFRS 11).
- Clarification of acceptable methods of depreciation and amortisation (amendments to IAS 16 and IAS 38).
- Agriculture: bearer plants (amendments to IAS 16 and IAS 41).
- Equity method in separate financial statements (amendments to IAS 27).
- Sale or contribution of assets between an Investor and its associate or joint venture (amendments to IFRS 10 and IAS 28).
- Annual improvements to IFRSs 2012-2014 cycle - various standards

3 SIGNIFICANT ACCOUNTING POLICIES

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.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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'.

Derivative financial instruments and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Bank designates certain derivatives as either:

(i) hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge);
(ii) hedges of a particular risk associated with a recognised asset or liability or a highly probable forecast transaction (cash flow hedge); or
(iii) hedges of a net investment in a foreign operation (net investment hedge).

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Bank makes use of derivative instruments to manage exposures to interest rate, foreign currency and credit risks, including exposures arising from highly probable forecast transactions and firm commitments. In order to manage particular risks, the Bank applies hedge accounting for transactions which meet specified criteria. Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any such derivative instruments are recognised immediately in the statement of comprehensive income within 'Other operating income'.

At inception of the hedge relationship, the Bank formally documents the relationship between the hedged item and the hedging instrument, including the nature of the risk, the risk management objective and strategy for undertaking the hedge and the method that will be used to assess the effectiveness of the hedging relationship at inception and ongoing basis.

At each hedge effectiveness assessment date, a hedge relationship must be expected to be highly effective on a prospective

basis and demonstrate that it was effective (retrospective effectiveness) for the designated period in order to qualify for hedge accounting. A formal assessment is undertaken by comparing the hedging instrument's effectiveness in offsetting the changes in fair value or cash flows attributable to the hedged risk in the hedged item, both at inception and at each quarter end on an ongoing basis. A hedge is expected to be highly effective if the changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated were offset by the hedging instrument in a range of 80% to 125% and were expected to achieve such offset in future periods. Hedge ineffectiveness is recognised in the profit or loss in 'Other operating income'. For situations where the hedged item is a forecast transaction, the Bank also assesses whether the transaction is highly probable and an exposure to variations in cash flows that could ultimately affect the profit or loss.

Fair value hedges

For designated and qualifying fair value hedges, the cumulative change in the fair value of a hedging derivative is recognised in the profit or loss in other operating income. Meanwhile, the cumulative change in the fair value of the hedged item attributable to the risk hedged is recorded as part of the carrying value of the hedged item in the consolidated statement of financial position and is also recognised in the profit or loss in other operating income. If the hedging instrument expires or is sold, terminated or exercised, or where the hedge no longer meets the criteria for hedge accounting, the hedge relationship is discontinued prospectively. For hedged items recorded at amortised cost, the difference between the carrying value of the hedged item on termination and the face value is amortised over the remaining term of the original hedge using the recalculated EIR method. If the hedged item is derecognised, the unamortised fair value adjustment is recognised immediately in the profit or loss.

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'.

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.

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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'.

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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'.

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.

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fee and commission income (continued)

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.

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.

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

2013 USD'000	2014 USD'000		2014 RO'000	2013 RO'000
94,904	**124,244**	Cash	**47,834**	36,538
272,727	**20,779**	Certificates of deposit with Central Banks	**8,000**	105,000
587,735	**603,891**	Other balances with Central Banks	**232,498**	226,278
955,366	**748,914**	**Cash and cash equivalents**	**288,332**	367,816
1,299	**1,299**	Capital deposit with Central Bank of Oman	**500**	500
956,665	**750,213**	**Cash and balances with Central Banks**	**288,832**	368,316

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)

2013 USD'000	2014 USD'000		2014 RO'000	2013 RO'000
36,000	**64,210**	Loans and advances to banks	**24,721**	13,860
488,735	**186,603**	Placement with banks	**71,842**	188,163
69,179	**125,958**	Demand balances	**48,494**	26,634
593,914	**376,771**	**Due from banks and other money market placement**	**145,057**	228,657
(361)	**(322)**	Less: allowance for credit losses	**(124)**	(139)
593,553	**376,449**	**Net due from banks and other money market placement**	**144,933**	228,518

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

2013 USD'000	2014 USD'000		2014 RO'000	2013 RO'000
140,956	**155,275**	Overdrafts	**59,781**	54,268
2,766,317	**2,717,330**	Personal loans	**1,046,172**	1,065,032
2,484,928	**2,921,818**	Other loans	**1,124,900**	956,697
157,722	**304,403**	Loans against trust receipts	**117,195**	60,723
52,262	**123,930**	Bills discounted	**47,713**	20,121
5,602,185	**6,222,756**	**Gross loans and advances**	**2,395,761**	2,156,841
(175,979)	**(179,733)**	Allowance for credit losses	**(69,197)**	(67,752)
(54,260)	**(25,327)**	Reserved interest	**(9,751)**	(20,890)
5,371,946	**6,017,696**	**Net loans and advances**	**2,316,813**	2,068,199

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

2013 USD'000	2014 USD'000		2014 RO'000	2013 RO'000
		Allowance for credit losses		
150,652	**175,979**	Balance at beginning of the year	**67,752**	58,001
49,852	**31,945**	Provided during the year	**12,299**	19,193
(8,189)	**(6,922)**	Released/recovered during the year	**(2,665)**	(3,153)
(15,927)	**(21,031)**	Written off during the year	**(8,097)**	(6,132)
(409)	**(238)**	Translation difference	**(92)**	(157)
175,979	**179,733**	Balance at end of the year	**69,197**	67,752
		Reserved interest		
43,712	**54,260**	Balance at beginning of the year	**20,890**	16,829
15,561	**8,273**	Reserved during the year	**3,185**	5,991
(1,003)	**(579)**	Released/recovered during the year	**(223)**	(386)
(501)	**-**	Released/recovered during the year to interest income	**-**	(193)
(3,486)	**(36,621)**	Written off during the year	**(14,099)**	(1,342)
(23)	**(6)**	Translation difference	**(2)**	(9)
54,260	**25,327**	Balance at end of the year	**9,751**	20,890

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

2013 USD'000	2014 USD'000		2014 RO'000	2013 RO'000
96,538	**94,032**	Specific impairment	**36,202**	37,167
79,441	**85,701**	Collective impairment	**32,995**	30,585
175,979	**179,733**		**69,197**	67,752

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 2014, impaired loans on which interest is not being accrued or where interest has been reserved amounted to RO 58 million – USD 151 million (2013 – RO 61 million – USD 158 million).

During the year, the bank has written-off fully provided loans and advances amounting to RO 22.2 million – USD 57.7 million (2013: RO 7.5 million – USD 19.5 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.

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

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

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

Total 2013 USD'000	**Total 2014 USD'000**		**Total 2014 RO'000**	Total 2013 RO'000
2,766,317	**2,717,330**	Personal	**1,046,172**	1,065,032
412,457	**656,094**	Service	**252,596**	158,796
509,137	**612,852**	Construction	**235,948**	196,018
424,590	**574,787**	Manufacturing	**221,293**	163,467
292,361	**343,587**	Transport and communication	**132,281**	112,559
272,839	**292,849**	Electricity, gas and water	**112,747**	105,043
250,242	**283,532**	Others	**109,160**	96,343
264,218	**261,904**	Wholesale and retail trade	**100,833**	101,724
220,148	**209,730**	Financial institutions	**80,746**	84,757
135,234	**196,384**	Import trade	**75,608**	52,065
18,678	**35,777**	Mining and quarrying	**13,774**	7,191
35,023	**27,091**	Agriculture	**10,430**	13,484
55	**10,060**	Government	**3,873**	21
886	**779**	Export trade	**300**	341
5,602,185	**6,222,756**	**Total Gross Loans**	**2,395,761**	2,156,841

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

2013 USD'000	**2014 USD'000**		**2014 RO'000**	2013 RO'000
5,366,164	**5,769,052**	Sultanate of Oman	**2,221,085**	2,065,973
146,029	**375,371**	United Arab Emirates	**144,518**	56,221
5,865	**5,540**	Egypt	**2,133**	2,258
84,127	**72,793**	Others	**28,025**	32,389
5,602,185	**6,222,756**	**Total**	**2,395,761**	2,156,841

7 FINANCIAL INVESTMENTS

2013 USD'000	2014 USD'000		2014 RO'000	2013 RO'000
		A. Held for trading		
		Quoted investments- Oman		
69,506	102,057	Government Development Bonds	39,292	26,760
69,506	102,057	**Total held for trading**	39,292	26,760
		B. Available for sale		
		Quoted investments- Oman		
496	1,273	Banking and investment sector	490	191
2,855	2,135	Manufacturing sector	822	1,099
21,026	51,158	Service sector	19,696	8,095
195,504	179,096	Government Development Bonds	68,952	75,269
219,881	233,662		89,960	84,654
		Quoted investments- Foreign		
1,130	4,649	Banking and investment sector	1,790	435
7,088	1,824	Service sector	702	2,729
3,634	-	Government Development Bonds	-	1,399
11,852	6,473		2,492	4,563
		Unquoted investments		
27,416	26,319	Banking and investment sector	10,133	10,555
9,047	9,047	Manufacturing sector	3,483	3,483
2,106	455	Service sector	175	811
38,569	35,821		13,791	14,849
270,302	275,956	**Total available for sale**	106,243	104,066
		C. Held to maturity		
		Quoted investments- Overseas		
4,615	-	Manufacturing sector	-	1,777
-	5,166	Banking sector	1,989	-
4,615	5,166	**Total Held to maturity**	1,989	1,777
344,423	383,179	**TOTAL FINANCIAL INVESTMENTS**	147,524	132,603

Included under unquoted available for sale investments are investments with a value of RO 3.76 million – USD 9.76 million (2013 – RO 3.87 million – USD 10.05 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 0.33 million - USD 0.86 million (2013 – RO 0.01 million – USD 0.03 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		Bank's portfolio %	Carrying value RO'000
73.4	**281,153**	Government Development Bonds-Oman-2014	**73.4**	**108,244**
76.9	265,010	Government Development Bonds-Oman-2013	76.9	102,029

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 2014, net of accumulated				
depreciation	**12,367**	**4,762**	**2,975**	**20,104**
Additions	**349**	**1,109**	**4,661**	**6,119**
Disposals	**-**	**(9)**	**-**	**(9)**
Transfers	**59**	**1,733**	**(1,792)**	**-**
Translation difference	**(7)**	**-**	**-**	**(7)**
Depreciation	**(828)**	**(2,175)**	**-**	**(3,003)**
Balance as at 31 December 2014, net of accumulated depreciation	**11,940**	**5,420**	**5,844**	**23,204**
At cost	**22,373**	**27,789**	**5,844**	**56,006**
At revaluation	**3,766**	**-**	**-**	**3,766**
Accumulated depreciation	**(14,199)**	**(22,369)**	**-**	**(36,568)**
Net carrying value at 31 December 2014	**11,940**	**5,420**	**5,844**	**23,204**
Net carrying value at 31 December 2014 – USD'000	**31,013**	**14,078**	**15,179**	**60,270**
At cost 1 January 2013	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

Freehold land stated at cost of RO 8.56 million – USD 22.22 million (2013 – 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 0.72 million – 1.87 million (2013 – RO 0.79 million – USD 2.05 million).

9 OTHER ASSETS

2013 USD'000	2014 USD'000		2014 RO'000	2013 RO'000
94,258	**35,128**	Interest receivable and others	**13,524**	36,289
14,044	**23,452**	Positive fair value of derivatives (note 34)	**9,029**	5,407
94,662	**82,595**	Customers' indebtedness for acceptances	**31,799**	36,445
202,964	**141,175**		**54,352**	78,141

10 DUE TO BANKS AND OTHER MONEY MARKET DEPOSITS

2013 USD'000	2014 USD'000		2014 RO'000	2013 RO'000
567,779	**245,091**	Acceptances and borrowings	**94,360**	218,595
20,166	**20,332**	Other balances	**7,828**	7,764
587,945	**265,423**		**102,188**	226,359

11 CUSTOMERS' DEPOSITS AND UNRESTRICTED INVESTMENT ACCOUNTS

2013 USD'000	2014 USD'000		2014 RO'000	2013 RO'000
1,605,285	**2,141,784**	Current accounts	**824,587**	618,035
1,408,769	**1,464,231**	Savings accounts	**563,729**	542,376
2,646,099	**2,050,458**	Term deposits	**789,426**	1,018,748
5,660,153	**5,656,473**		**2,177,742**	2,179,159

12 EURO MEDIUM TERM NOTES

The Bank has established a 5-year, USD 500 million Regulation S, bond issuance under its Euro Medium Term Note (EMTN) programme of USD 600 million with regional and international investors. The bonds are listed on the Irish Stock Exchange and are governed by English law. The carrying amount of EMTN is stated after taking into amount of MTM value of the fair value hedge (Refer note 34).

13 OTHER LIABILITIES

2013 USD'000	2014 USD'000		2014 RO'000	2013 RO'000
89,281	**80,110**	Interest payable & others	**30,842**	34,373
3,366	**4,049**	Staff entitlements	**1,559**	1,296
94,662	**82,595**	Liabilities under acceptances	**31,799**	36,445
14,021	**14,444**	Negative fair value of derivatives (note 34)	**5,561**	5,398
201,330	**181,198**		**69,761**	77,512
		Staff entitlements are as follows:		
2,862	**3,470**	End of service benefits	**1,336**	1,102
504	**579**	Other liabilities	**223**	194
3,366	**4,049**		**1,559**	1,296

13 OTHER LIABILITIES (Continued)

2013 USD'000	2014 USD'000		2014 RO'000	2013 RO'000
		Movement in the end of service benefits liability are as follows:		
2,652	**2,862**	Liability as at 1 January	**1,102**	1,021
792	**894**	Expense recognised in the statement of comprehensive income	**344**	305
(582)	**(286)**	End of service benefits paid	**(110)**	(224)
2,862	**3,470**	Liability as at 31 December	**1,336**	1,102

14 TAXATION

2013 USD'000	2014 USD'000		2014 RO'000	2013 RO'000
		Current tax expense		
14,522	**18,769**	Current period/year	**7,226**	5,591
14,522	**18,769**		**7,226**	5,591

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:

2013 USD'000	2014 USD'000		2014 RO'000	2013 RO'000
121,995	**149,335**	Accounting profit	**57,494**	46,968
14,639	**17,920**	Tax at applicable rate	**6,899**	5,636
286	**262**	Non-deductible expenses	**101**	110
(909)	**(1,034)**	Tax exempt revenues	**(398)**	(350)
506	**1,621**	Others	**624**	195
14,522	**18,769**		**7,226**	5,591

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 2013.

Tax liability

2013 USD'000	2014 USD'000		2014 RO'000	2013 RO'000
14,522	**18,769**	Income tax and other taxes – Current year	**7,226**	5,591
(165)	**(3,052)**	Income tax and other taxes – Prior years	**(1,175)**	(64)
14,357	**15,717**		**6,051**	5,527

14 TAXATION (Continued)

Recognised deferred tax assets and liabilities

Deferred tax assets are attributable to the following:

1,247	**1,247**	Deductible temporary differences	**480**	480
(52)	**(115)**	Available for sale investments	**(44)**	(20)
1,195	**1,132**		**436**	460

15 SUBORDINATED DEBT

2013 USD'000	**2014 USD'000**		**2014 RO'000**	2013 RO'000
160,260	**207,013**	At I January	**79,700**	61,700
46,753	**(41,818)**	Received / (Paid) during the year	**(16,100)**	18,000
207,013	**165,195**		**63,600**	79,700

16 SHARE CAPITAL

The Authorised share capital of the bank is 2,000,000,000 shares of RO 0.100 each (2013 – 2,000,000,000 of RO 0.100 each). At 31 December 2014 – 1,218,827,500 shares of RO 0.100 each (2013 – 1,108,025,000 of RO 0.100 each) have been issued and fully paid.

As of 31 December 2014, the following shareholders held 10% or more of the bank's capital:

	Number of shares '000	**% Holding**
The Commercial Bank of Qatar	**425,369**	**34.90%**
Suhail Bahwan Group (Holdings) L.L.C	**179,707**	**14.74%**
Civil Service Employee Pension Fund	**138,829**	**11.39%**

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

17 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.

18 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 UAE. 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 UAE. At 31 December 2014, the legal reserve of Oman and UAE has reached one third and half of the issued capital respectively.

19 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.

20 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 2014	**2,799**	**3,766**	**38,340**	**44,905**
Net movement on available for sale investments	**(179)**	-	-	**(179)**
Tax effect of net losses on available for sale financial investments	**(24)**	-	-	**(24)**
Transfer to subordinated debt reserve	-		**12,720**	**12,720**
Transfer to retained earnings	-	-	**(16,100)**	**(16,100)**
At 31 December 2014	**2,596**	**3,766**	**34,960**	**41,322**
At 31 December 2014 – In USD'000	**6,743**	**9,782**	**90,805**	**107,330**

(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 15). The reserve is available for transfer back to retained earning upon maturity of the private placement.

21 DIVIDENDS PAID AND PROPOSED

The Board of Directors have proposed a cash dividend of RO 0.017 per share totalling RO 20.7 million (USD 0.044 per share totalling USD 53.8 million) and stock dividend of RO 0.010 per share totalling RO 12.2 million (USD 0.026 per share totalling USD 31.7 million) for the year ended 31 December 2014, which is subject to the approval of the shareholders at the Annual General Meeting to be held in March 2015.

At the Annual General Meeting held in March 2014, 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 was approved and subsequently paid.

22 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.

22 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:

2013 USD'000	2014 USD'000		2014 RO'000	2013 RO'000
1,252,797	**1,267,439**	Guarantees	**487,964**	482,327
208,891	**200,047**	Documentary letters of credit	**77,018**	80,423
1,461,688	**1,467,486**		**564,982**	562,750

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

2013 USD'000	2014 USD'000		2014 RO'000	2013 RO'000
403,257	**517,597**	Construction	**199,275**	155,254
528,190	**329,540**	Financial Institutions	**126,873**	203,353
116,540	**157,608**	Wholesale and Retail Trade	**60,679**	44,868
114,592	**129,114**	Manufacturing	**49,709**	44,118
130,865	**127,701**	Electricity, Gas and Water	**49,165**	50,383
115,751	**101,491**	Service	**39,074**	44,564
25,353	**74,209**	Others	**28,570**	9,761
17,075	**27,291**	Transport and communication	**10,507**	6,574
7,649	**1,473**	Mining & quarrying	**567**	2,945
494	**1,031**	Personal	**397**	190
1,922	**431**	Agriculture	**166**	740
1,461,688	**1,467,486**		**564,982**	562,750

Guarantees include RO 0.2 million – USD 0.5 million (Dec 2013: RO 0.1 million – USD 0.3 million) relating to non-performing loans.

Commitments

2013 USD'000	2014 USD'000		2014 RO'000	2013 RO'000
254,119	**217,239**	Undrawn commitment	**83,637**	97,836
7,997	**11,860**	Capital expenditure	**4,566**	3,079
8,112	**7,582**	Operating lease commitments	**2,919**	3,123
		Future minimum lease payments:		
3,888	**3,766**	Not later than one year	**1,450**	1,497
4,224	**3,816**	Later than one year and not later than five years	**1,469**	1,626
8,112	**7,582**		**2,919**	3,123

22 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.

2013 USD'000	2014 USD'000		2014 RO'000	2013 RO'000
14,294	14,294	UAE 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 2014 held on trust for customers amounts to RO 64.83 million –USD 168.40 million (2013 – RO 66.82 million – USD 173.56 million).

23 INTEREST INCOME

2013 USD'000	2014 USD'000		2014 RO'000	2013 RO'000
294,714	301,644	Interest from customers	116,133	113,465
8,221	3,751	Interest from banks	1,444	3,165
302,935	305,395		117,577	116,630

Interest bearing assets, other than investments earned interest at an overall effective annual rate of 4.20% for the year ended 31 December 2014 (31 December 2013 – 4.93%).

24 INTEREST EXPENSE

2013 USD'000	2014 USD'000		2014 RO'000	2013 RO'000
98,359	85,486	Interest to customers	32,912	37,868
10,449	8,205	Interest to banks	3,159	4,023
-	2,093	Euro medium term notes	806	-
108,808	95,784		36,877	41,891

For the year ended 31 December 2014, the average overall effective annual cost of bank's funds was 1.29% (31 December 2013 – 1.84%).

25 OTHER OPERATING INCOME

2013 USD'000	2014 USD'000		2014 RO'000	2013 RO'000
28,293	**37,179**	Fees and commission income	**14,314**	10,893
(31)	**(39)**	Fees and commission expense	**(15)**	(12)
28,262	**37,140**	Net fees and commissions	**14,299**	10,881
24,239	**16,753**	Service charges	**6,450**	9,332
4,416	**5,382**	Profit on sale of investments	**2,072**	1,700
8,803	**10,618**	Net gains from foreign exchange dealings	**4,088**	3,389
797	**1,901**	Miscellaneous income	**732**	307
6,943	**6,735**	Income from bonds and others	**2,593**	2,673
1,748	**3,990**	Dividend income	**1,536**	673
75,208	**82,519**		**31,770**	28,955

26 OTHER OPERATING EXPENSES

2013 USD'000	2014 USD'000		2014 RO'000	2013 RO'000
12,442	**13,104**	Establishment costs	**5,045**	4,790
30,218	**32,216**	Operating and administration costs	**12,403**	11,634
574	**696**	Directors' remuneration and sitting fees	**268**	221
43,234	**46,016**		**17,716**	16,645

27 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:

	2014			2013		
	Principal shareholders RO'000	**Others RO'000**	**Total RO'000**	Principal shareholders RO'000	Others RO'000	Total RO'000
Loans and advances	**-**	**12,952**	**12,952**	-	36,107	36,107
Customer›s deposits	**93,196**	**22,513**	**115,709**	188,244	23,498	211,742
Due from banks	**16**	**12,898**	**12,914**	36,589	12,898	49,487
Due to banks	**48,282**	**-**	**48,282**	99	-	99
Subordinated debt	**14,500**	**4,000**	**18,500**	14,500	5,500	20,000
Letter of credit, guarantees and acceptance	**469**	**1,229**	**1,698**	45	1,029	1,074
Standby revolving credit facility	**77,000**	**-**	**77,000**	77,000	-	77,000
Risk indemnities received	**906**	**-**	**906**	1,793	1,333	3,126
Investment	**2,174**	**-**	**2,174**	1,800	129	1,929

27 RELATED PARTY TRANSACTIONS (Continued)

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

	2014			2013		
	Principal shareholders	Others	Total	Principal shareholders	Others	Total
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Interest income	4	949	953	26	1,619	1,645
Commission income	-	45	45	-	21	21
Interest expense	4,754	595	5,349	721	634	1,355
Other expenses	-	810	810	-	1,620	1,620

	2014			2013		
	Principal shareholders	Others	Total	Principal shareholders	Others	Total
	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000
Loans and advances	-	33,642	33,642	-	93,784	93,784
Customer›s deposits	242,068	58,475	300,543	488,945	61,034	549,979
Due from banks	42	33,501	33,543	95,036	33,501	128,537
Due to banks	125,408	-	125,408	257	-	257
Subordinated debt	37,662	10,390	48,052	37,662	14,286	51,948
Letter of credit, guarantees and acceptance	1,218	3,192	4,410	117	2,673	2,790
Standby revolving credit facility	200,000	-	200,000	200,000	-	200,000
Risk indemnities received	2,353	-	2,353	4,657	3,462	8,119
Investment	5,647	-	5,647	4,675	335	5,010

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

	2014			2013		
	Principal shareholders	Others	Total	Principal shareholders	Others	Total
	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000
Interest income	10	2,465	2,475	68	4,205	4,273
Commission income	-	117	117	-	55	55
Interest expense	12,348	1,545	13,893	1,872	1,647	3,519
Other expenses	-	2,104	2,104	-	4,208	4,208

Details regarding senior management compensation are set out below:

2013 USD'000	2014 USD'000		2014 RO'000	2013 RO'000
		Salaries and other short term benefits		
5,862	5,969	- Fixed	2,298	2,257
2,613	2,364	- Discretionary	910	1,006
8,475	8,333		3,208	3,263

28 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:

	2014	2013
Profit for the year (RO'000s)	**50,268**	41,377
Weighted average number of shares outstanding during the year (in '000s)	**1,218,828**	1,218,828
Earnings per share (RO)	**RO 0.041**	RO 0.034
Profit for the year (USD'000s)	**130,566**	107,473
Weighted average number of shares outstanding during the year (in '000s)	**1,218,828**	1,218,828
Earnings per share (USD)	**USD 0.11**	USD 0.09

During the year 2014, the bank issued stock dividend of RO 0.010 per share totalling RO 11.1 million (USD 0.026 per share totalling USD 28.8 million) to the existing shareholders. As issue was without any consideration, the number of ordinary shares outstanding before the event is adjusted for the proportionate change in the number of ordinary shares outstanding as if the event had occurred at the beginning of the earliest period presented.

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.

29 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.

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.

29 CAPITAL ADEQUACY (Continued)

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

2013 USD'000	**2014 USD'000**		**2014 RO'000**	2013 RO'000
		Capital base		
790,701	**867,561**	Common equity Tier 1 - shareholders' funds	**334,011**	304,420
190,512	**163,177**	Tier 2 - subordinated debt and collective impairment provisions	**62,823**	73,347
981,213	**1,030,738**	Total capital base	**396,834**	377,767
		Risk weighted assets		
6,101,961	**6,469,457**	Credit risk	**2,490,741**	2,349,255
476,626	**513,662**	Operational risk	**197,760**	183,501
125,675	**60,286**	Market risk	**23,210**	48,385
6,704,262	**7,043,405**	Total risk weighted assets	**2,711,711**	2,581,141
11.8%	**12.3%**	CET 1 Ratio / Tier 1 Ratio	**12.3%**	11.8%
14.6%	**14.6%**	Risk asset ratio (Basel II norms)	**14.6%**	14.6%

30 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:-

30.1 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.

30 RISK MANAGEMENT (Continued)

30.1 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.

0A 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:

30 RISK MANAGEMENT (Continued)

30.1 CREDIT RISK (Continued)

- 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 as well as the recovery methodologies of the retail portfolio. The Bank has reworked its lending strategy through the adoption of pre-defined lending criteria and continuous monitoring of the portfolio, and is in the process of implementing a Credit Scoring Module to enhance the Retail Credit Risk framework.

The Bank has automated a major part of the regulatory and management reporting requirements during the year 2014

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 2013 USD'000	**Gross maximum exposure 2014 USD'000**		**Gross maximum exposure 2014 RO '000**	Gross maximum exposure 2013 RO '000
861,761	**625,969**	Balances with Central Banks	**240,998**	331,778
593,553	**376,449**	Due from banks and other money market placements(net)	**144,933**	228,518
5,371,946	**6,017,696**	Loans, advances and financing activities for customers (net)	**2,316,813**	2,068,199
344,423	**383,179**	Financial investments	**147,524**	132,603
202,964	**141,175**	Other assets	**54,352**	78,141
7,374,647	**7,544,468**	**Total on balance sheet exposure**	**2,904,620**	2,839,239
1,252,797	**1,267,439**	Guarantees	**487,964**	482,327
208,891	**200,047**	Documentary letters of credit	**77,018**	80,423
252,951	**217,239**	Undrawn commitment	**83,637**	97,386
1,714,639	**1,684,725**	**Total off balance sheet exposure**	**648,619**	660,136

30 RISK MANAGEMENT (Continued)

30.1 CREDIT RISK (Continued)

The above table represents the worst case scenario of credit risk exposure to the bank at 31 December 2014 and 2013 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 2014	**2,048,434**	**47,120**	**61,287**	**2,156,841**
Additions during the year	**1,104,563**	**65,132**	**20,620**	**1,190,315**
Attrition during the year	**(866,069)**	**(58,096)**	**(5,034)**	**(929,199)**
Written-off during the year	**(3,788)**	**-**	**(18,408)**	**(22,196)**
Balance as at 31 December 2014	**2,283,140**	**54,156**	**58,465**	**2,395,761**
Balance as at 31 December 2014 – USD'000s	**5,930,234**	**140,665**	**151,857**	**6,222,756**
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

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 2014	**35,572**	**11,984**	**6,600**	**54,156**
31 December 2014 – USD'000s	**92,395**	**31,127**	**17,143**	**140,665**
31 December 2013	30,844	12,074	4,202	47,120
31 December 2013 – USD'000s	80,114	31,361	10,914	122,389

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

30 RISK MANAGEMENT (Continued)

30.1 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	**1,354,072**	**65,567**	**36,190**	**1,455,829**
Guarantees available	**9,673**	**-**	**-**	**9,673**
Government soft loans*	**6,746**	**-**	**1,253**	**7,999**
Balance as at 31 December 2014	**1,370,491**	**65,567**	**37,443**	**1,473,501**
Balance as at 31 December 2014 – USD'000s	**3,559,717**	**170,304**	**97,255**	**3,827,276**
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

* 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.

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 2014	**8,243**	**6,162**	**46,882**	**61,287**
Additions during the year	**3,913**	**4,339**	**12,368**	**20,620**
Attrition during the year	**(2,362)**	**(1,973)**	**(699)**	**(5,034)**
Written-off during the year	**-**	**-**	**(18,408)**	**(18,408)**
Balance as at 31 December 2014	**9,794**	**8,528**	**40,143**	**58,465**
Balance as at 31 December 2014 – USD'000s	**25,439**	**22,151**	**104,268**	**151,858**
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

30 RISK MANAGEMENT (Continued)

30.1 CREDIT RISK (Continued)

Movement of rescheduled loans:

	2014 RO'000	2013 RO'000
Balance as at 1 January	44,984	54,256
Additions during the year	16,065	12,356
Attrition during the year	(24,521)	(21,628)
Balance as at 31December	36,528	44,984
Balance as at 31December – USD'000s	94,878	116,842

30.2 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 through 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.

30 RISK MANAGEMENT (Continued)

30.2 LIQUIDITY RISK (Continued)

The maturity profile of the assets, liabilities and equity at **31 December 2014** 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	198,328	37,307	235,635	31,028	22,169	53,197	288,832
Due from banks and other money market placements (net)	130,971	13,962	144,933	-	-	-	144,933
Loans, advances and financing activities for customers (net)	450,109	231,153	681,262	458,384	1,177,167	1,635,551	2,316,813
Financial investments	62,817	27,340	90,157	57,367	-	57,367	147,524
Premises and equipment	-	-	-	-	23,204	23,204	23,204
Deferred tax asset	436	-	436	-	-	-	436
Other assets	52,226	2,086	54,312	40	-	40	54,352
Total assets	894,887	311,848	1,206,735	546,819	1,222,540	1,769,359	2,976,094
Due to banks and other money market deposits	102,188	-	102,188	-	-	-	102,188
Customers' deposits and unrestricted investment accounts	599,349	719,579	1,318,928	428,664	430,150	858,814	2,177,742
Euro medium term notes	-	-	-	195,223	-	195,223	195,223
Other liabilities	59,735	9,296	69,031	715	15	730	69,761
Taxation	6,051	-	6,051	-	-	-	6,051
Subordinated debt	-	-	-	63,600	-	63,600	63,600
Shareholders' equity	-	-	-	-	361,529	361,529	361,529
Total liabilities and shareholders' equity	767,323	728,875	1,496,198	688,202	791,694	1,479,896	2,976,094

30 RISK MANAGEMENT (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	515,138	96,901	612,039	80,592	57,582	138,174	750,213
Due from banks and other money market placement (net)	340,184	36,265	376,449	-	-	-	376,449
Loans, advances and financing (activities for customers (net	1,169,114	600,397	1,769,511	1,190,608	3,057,577	4,248,185	6,017,696
Financial investments	163,161	71,013	234,174	149,005	-	149,005	383,179
Premises and equipment	-	-	-	-	60,270	60,270	60,270
Deferred tax asset	1,132	-	1,132	-	-	-	1,132
Other assets	135,652	5,419	141,071	104	-	104	141,175
Total assets	2,324,381	809,995	3,134,376	1,420,309	3,175,429	4,595,738	7,730,114
Due to banks and other money market deposits	265,423	-	265,423	-	-	-	265,423
Customers' deposits and unrestricted investment accounts	1,556,751	1,869,036	3,425,787	1,113,413	1,117,273	2,230,686	5,656,473
Euro medium term notes	-	-	-	507,073	-	507,073	507,073
Other liabilities	155,156	24,146	179,302	1,857	39	1,896	181,198
Taxation	15,717	-	15,717	-	-	-	15,717
Subordinated debt	-	-	-	165,195	-	165,195	165,195
Shareholders' equity	-	-	-	-	939,035	939,035	939,035
Total l iabilities and shareholders' equity	1,993,047	1,893,182	3,886,229	1,787,538	2,056,347	3,843,885	7,730,114

30 RISK MANAGEMENT (Continued)

30.2 LIQUIDITY RISK (Continued)

The maturity profile of the assets, liabilities and equity at 31 December 2013 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	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 and advances (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	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

30 RISK MANAGEMENT (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	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 and advances (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	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

30 RISK MANAGEMENT (Continued)

30.3 MARKET RISK

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.

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 sheet exposures.

- **Equity risk**

The proprietary equity positions are held in the 'Available for Sale' category. 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. 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 2014	bps 200 increase	bps 200 decrease
Earnings impact - RO›000s	**13,009**	**(13,009)**
Earnings impact - USD›000s	**33,790**	**(33,790)**

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.

30 RISK MANAGEMENT (Continued)

30.3 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 2014** is 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%	8,000	-	-	-	280,832	288,832
Due from banks and other money market placements (net)	0.89%	140,848	3,850	-	-	235	144,933
Loans, advances and financing activities for customers (net)	5.36%	932,245	475,732	441,577	467,259	-	2,316,813
Financial investments	2.32%	702	27,410	60,491	19,337	39,584	147,524
Premises and equipment	N/A	-	-	-	-	23,204	23,204
Deferred tax asset	N/A	-	-	-	-	436	436
Other assets	N/A	-	-	-	-	54,352	54,352
Total assets		1,081,795	506,992	502,068	486,596	398,643	2,976,094
Due to banks and other money market deposits	2.22%	102,188	-	-	-	-	102,188
Customers' deposits and unrestricted investment accounts	1.09%	221,008	679,160	163,820	13,090	1,100,664	2,177,742
Euro medium term notes	1.79%	-	-	195,223	-	-	195,223
Other liabilities	N/A	-	-	-	-	69,761	69,761
Taxation	N/A	-	-	-	-	6,051	6,051
Subordinated debt	6.00%	-	-	63,600	-	-	63,600
Shareholders' equity	N/A	-	-	-	-	361,529	361,529
Total liabilities and shareholders' equity		323,196	679,160	422,643	13,090	1,538,005	2,976,094
Total interest rate sensitivity gap		758,599	(172,168)	79,425	473,506	(1,139,362)	-
Cumulative interest rate sensitivity gap		758,599	586,431	665,856	1,139,362	-	-

30 RISK MANAGEMENT (Continued)

30.3 MARKET RISK (Continued)

The bank's interest sensitivity position based on contractual re-pricing arrangements **at 31 December 2014** 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%	20,779	-	-	-	729,434	750,213
Due from banks and other money market placements (net)	0.89%	365,839	10,000	-	-	610	376,449
Loans, advances and financing activities for customers (net)	5.36%	2,421,415	1,235,668	1,146,953	1,213,660	-	6,017,696
Financial investments	2.32%	1,823	71,195	157,119	50,226	102,816	383,179
Premises and equipment	N/A	-	-	-	-	60,270	60,270
Deferred tax asset	N/A	-	-	-	-	1,132	1,132
Other assets	N/A	-	-	-	-	141,175	141,175
Total assets		2,809,856	1,316,863	1,304,072	1,263,886	1,035,437	7,730,114
Due to banks and other money market deposits	2.22%	265,423	-	-	-	-	265,423
Customers' deposits and unrestricted investment accounts	1.09%	574,047	1,764,052	425,506	34,000	2,858,868	5,656,473
Euro medium term notes	1.79%	-	-	507,073	-	-	507,073
Other liabilities	N/A	-	-	-	-	181,198	181,198
Taxation	N/A	-	-	-	-	15,717	15,717
Subordinated debt	6.00%	-	-	165,195	-	-	165,195
Shareholders' equity	N/A	-	-	-	-	939,035	939,035
Total liabilities and shareholders' equity		839,470	1,764,052	1,097,774	34,000	3,994,818	7,730,114
Total interest rate sensitivity gap		1,970,386	(447,189)	206,298	1,229,886	(2,959,382)	-
Cumulative interest rate sensitivity gap		1,970,386	1,523,197	1,729,495	2,959,381	-	-

30 RISK MANAGEMENT (Continued)

30.3 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 RO'000	3 to 12 months RO'000	1 to 5 year RO'000	Over 5 year 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 (net)	1.78%	228,518	-	-	-	-	228,518
Loans and advances (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	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	-	-

30 RISK MANAGEMENT (Continued)

30.3 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 year USD'000	Over 5 year 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 and advances (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	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	-	-

- **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.

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

2013 USD'000	**2014 USD'000**		**2014 RO'000**	2013 RO'000
195,031	**178,538**	US Dollar	**68,737**	75,087
608	**1,195**	UAE Dirham	**460**	234
1,577	**8,034**	Others	**3,093**	607

30 RISK MANAGEMENT (Continued)

30.4 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.

30.5 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.

31 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 2014** 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	275,011	12,562	1,259	-	288,832
Due from banks and other money market placements (net)	-	15,595	63	129,275	144,933
Loans, advances and financing activities for customers (net)	2,153,113	136,719	2	26,979	2,316,813
Financial investments	139,952	2,691	-	4,881	147,524
Premises and equipment	22,543	353	308	-	23,204
Deferred tax asset	436	-	-	-	436
Other assets	44,447	9,004	901	-	54,352
Total assets	2,635,502	176,924	2,533	161,135	2,976,094
Due to banks and other money market deposits	3,028	20,749	6,545	71,866	102,188
Customers' deposits and unrestricted investment accounts	2,073,867	101,436	2,439	-	2,177,742
Euro medium term notes	195,223	-	-	-	195,223
Other liabilities	58,834	10,362	565	-	69,761
Taxation	5,414	321	316	-	6,051
Subordinated debt	63,600	-	-	-	63,600
Shareholders' equity	354,751	6,106	672	-	361,529
Liabilities and shareholders' equity	2,754,717	138,974	10,537	71,866	2,976,094
Contingent liabilities	406,189	48,193	14	110,586	564,982

31 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	**714,314**	**32,629**	**3,270**	**-**	**750,213**
Due from banks and other money market placements (net)	**-**	**40,506**	**164**	**335,779**	**376,449**
Loans, advances and financing activities for customers (net)	**5,592,502**	**355,114**	**5**	**70,075**	**6,017,696**
Financial investments	**363,512**	**6,990**	**-**	**12,677**	**383,179**
Premises and equipment	**58,553**	**917**	**800**	**-**	**60,270**
Deferred tax asset	**1,132**	**-**	**-**	**-**	**1,132**
Other assets	**115,448**	**23,387**	**2,340**	**-**	**141,175**
Total assets	**6,845,461**	**459,543**	**6,579**	**418,531**	**7,730,114**
Due to banks and other money market deposits	**7,865**	**53,894**	**17,000**	**186,664**	**265,423**
Customers' deposits and unrestricted investment accounts	**5,386,668**	**263,470**	**6,335**	**-**	**5,656,473**
Euro medium term notes	**507,073**	**-**	**-**	**-**	**507,073**
Other liabilities	**152,816**	**26,914**	**1,468**	**-**	**181,198**
Taxation	**14,062**	**834**	**821**	**-**	**15,717**
Subordinated debt	**165,195**	**-**	**-**	**-**	**165,195**
Shareholders' equity	**921,430**	**15,860**	**1,745**	**-**	**939,035**
Liabilities and shareholders' equity	**7,155,109**	**360,972**	**27,369**	**186,664**	**7,730,114**
Contingent liabilities	**1,055,037**	**125,177**	**36**	**287,236**	**1,467,486**

The distribution of assets, liabilities and off balance sheet 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 and advances (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	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

31 CONCENTRATIONS (Continued)

The distribution of assets, liabilities and off balance sheet items by geographical regions as of 31 December 2013 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	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 and advances (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	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

32 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 2014	Retail banking	Corporate banking	Investment banking	Treasury and international banking	Head office	Islamic banking	Total
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Net income	42,214	37,750	(333)	627	443	1,760	82,460
Other income	12,720	8,030	4,953	3,391	2,600	75	31,770
Operating profit	33,969	41,248	3,941	3,413	(23,166)	405	59,810
Impairment provisions (net)	120	(1,556)	(331)	15	-	(564)	(2,316)
Net Profit	34,089	39,692	3,610	3,428	(30,371)	(180)	50,268
Total assets	987,366	1,292,620	39,280	57,196	509,444	90,188	2,976,094
Total liabilities and equity	881,577	1,208,271	42,054	-	754,003	90,189	2,976,094

Year ended 31 December 2014	Retail banking	Corporate banking	Investment banking	Treasury and international banking	Head office	Islamic banking	Total
	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000
Net income	109,647	98,052	(866)	1,628	1,150	4,571	214,182
Other income	33,040	20,858	12,866	8,809	6,751	195	82,519
Operating profit	88,231	107,138	10,236	8,865	(60,171)	1,052	155,351
Impairment provisions (net)	312	(4,042)	(860)	39	0	(1,465)	(6,016)
Net Profit	88,543	103,096	9,376	8,904	(78,885)	(468)	130,566
Total assets	2,564,587	3,357,455	102,026	148,561	1,323,230	234,255	7,730,114
Total liabilities and equity	2,289,810	3,138,366	109,231	-	1,958,450	234,257	7,730,114

32 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 2014	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	115,712	3,814	68	119,594
Interest income – internal	88	26	177	291
Other operating income – external	29,831	1,783	156	31,770
Other operating income – internal	168	-	-	168
Total	145,799	5,623	401	151,823
Segment costs				
Interest costs and Unrestricted investment account holders› share of profit – external	36,296	723	115	37,134
Interest costs – internal	57	112	122	291
Other operating expenses – external	48,367	2,450	600	51,417
Other operating expenses – internal	21	141	6	168
Depreciation	2,873	129	1	3,003
Credit loss expense - customer loan	11,056	1,242	1	12,299
Recoveries	(9,460)	(781)	(58)	(10,299)
Impairment losses on available for sale investments	331	-	-	331
Credit loss expense – bank loans	(15)	-	-	(15)
Provision – others	-	-	-	-
Taxation	6,890	321	15	7,226
Total	96,416	4,337	802	101,555
Segment profit for the year	49,383	1,286	(401)	50,268
Other information				
Segment assets	2,780,699	175,012	20,383	2,976,094
Segment capital expenses	5,937	182	-	6,119

32 SEGMENTAL INFORMATION (Continued)

For the year ended 31 December 2014	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	300,551	9,906	177	310,634
Interest income – internal	228	68	460	756
Other operating income – external	77,483	4,631	405	82,519
Other operating income – internal	436	-	-	436
Total	378,698	14,605	1,042	394,345
Segment costs				
Interest costs and Unrestricted investment account holders› share of profit – external	94,275	1,878	299	96,452
Interest costs – internal	148	291	317	756
Other operating expenses – external	125,628	6,364	1,558	133,550
Other operating expenses – internal	54	366	16	436
Depreciation	7,462	335	3	7,800
Credit loss expense - customer loan	28,716	3,226	3	31,945
Recoveries	(24,570)	(2,029)	(151)	(26,750)
Impairment losses on available for sale investments	860	-	-	860
Credit loss expense – bank loans	(39)	-	-	(39)
Provision – others	-	-	-	-
Taxation	17,896	834	39	18,769
Total	250,430	11,265	2,084	263,779
Segment profit for the year	128,268	3,340	(1,042)	130,566
Other information				
Segment assets	7,222,594	454,577	52,943	7,730,114
Segment capital expenses	15,421	473	-	15,894

32 SEGMENTAL INFORMATION (Continued)

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

32 SEGMENTAL INFORMATION (Continued)

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

32 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

33 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.

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	31 December 2014	Level 1 RO'000	Level 2 RO'000	Total RO'000
			Investments – held for trading:			
102,169	-	**102,169**	Government development bonds	**39,335**	-	**39,335**
102,169	-	**102,169**	**Total**	**39,335**	-	**39,335**
			Investments - available for sale:			
179,278	-	**179,278**	Government development bonds	**69,022**	-	**69,022**
61,039	-	**61,039**	Quoted equities	**23,500**	-	**23,500**
35,821	**35,821**	-	Other unquoted equities	-	**13,791**	**13,791**
276,138	**35,821**	**240,317**	**Total**	**92,522**	**13,791**	**106,313**
378,307	**35,821**	**342,486**	**Total financial assets**	**131,857**	**13,791**	**145,648**

33 FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

Total USD'000	Level 2 USD'000	Level 1 USD'000	December 2013 31	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

Derivative financial instrument at level 2 are valued based on counter party valuation, quoted forward rates and yield curves (see note 34).

34 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.

34 DERIVATIVES (Continued)

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.

The Bank has entered into an interest rate swap, which is designated as a fair value hedge, for hedging the interest rate risk on Euro medium term notes. The cumulative change in the fair value of the Euro medium term notes (hedged item) attributable to the risk hedged is recorded as part of the carrying value of the Euro medium term notes and accordingly presented in statement of financial position.

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.

31 December 2014			Notional amounts by term to maturity			
	Positive fair value	Negative fair value	Notional amount	Within 3 months	3 - 12 months	1 - 5 years
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
	(note 9)	(note 13)				
Fair value hedge	2,723	-	192,500	-	-	192,500
Interest rate swaps	5,252	(5,252)	130,872	2,125	11,690	117,057
Forward purchase contracts	7	(164)	229,953	86,860	143,093	-
Forward sales contracts	1,047	(145)	229,953	86,718	143,235	-
Total	**9,029**	**(5,561)**	**783,278**	**175,703**	**298,018**	**309,557**
Total – USD'000	**23,452**	**(14,444)**	**2,034,488**	**456,371**	**774,073**	**804,044**

34 DERIVATIVES (Continued)

31 December 2013			Notional amounts by term to maturity			
	Positive fair value	Negative fair value	Notional amount	Within 3 months	3 - 12 months	1 - 5 years
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
	(note 9)	(note 13)				
Interest rate swaps	5,261	(5,261)	144,155	2,125	11,690	130,340
Forward purchase contracts	53	(49)	49,505	39,660	9,845	-
Forward 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

35 COMPARATIVE AMOUNTS

Certain of the corresponding figures for 2013 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 2013.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البنك الوطني العماني
National Bank of Oman

مزن للصيرفة الإسلامية
Muzn Islamic Banking

شهادة

التزام بأحكام الشريعة الإسلامية

بهذا نقر بأن الخدمات والمنتجات المقدمة من قبل البنك الوطني العماني عن طريق مزن للصيرفة الإسلامية، متوافقة مع متطلبات وضوابط مجلس الفتوى والرقابة الشرعية لمزن للصيرفة الإسلامية:

منتجات وخدمات مزن الإسلامية:

• الحسابات الجارية (القرض الحسن) وحساب الإدخار (مضاربة) • الوكالة الإستثمارية • حساب الوكالة المرن
• المرابحة لتمويل السيارات • الإجارة للتمويل السكني • المرابحة لتمويل رأس المال العامل
• التمويل لأجل للإجارة المنتهية بالتمليك • تمويل البيع وإعادة الإستئجار • التمويل التجاري

CERTIFICATE

of
Shari'a Compliance

We hereby certify that the following Islamic Products and Services offered by Muzn Islamic Banking, comply with the requirements as defined in the Shari'a Guidelines issued by the Fatwa and Shari'a Supervisory Board of Muzn Islamic Banking:

MUZN ISLAMIC PRODUCTS AND SERVICES:

• CURRENT ACCOUNT (QARD HASAN) • SAVINGS ACCOUNT (MUDARABA) • WAKALA INVESTMENT • FLEXI WAKALA ACCOUNT
• MURABAHA AUTO FINANCE • IJARA HOME FINANCE • MURABAHA WORKING CAPITAL FINANCE
• IJARA MUNTAHIA BITTAMLEEK TERM FINANCE • SALE AND LEASEBACK FINANCE • TRADE FINANCE

تم اعتماده من قبل أعضاء مجلس الفتوى والرقابة الشرعية بالبنك الوطني العماني
Approved by Muzn Shari'a Supervisory Board Members

الشيخ الدكتور/ محمد بن علي القري	المكرم الشيخ/ خلفان بن محمد العيسري	الشيخ الدكتور/ محمد داوود بكر
رئيس وعضو مجلس إدارة الفتوى والرقابة الشرعية	عضو مجلس إدارة الفتوى والرقابة الشرعية	عضو مجلس إدارة الفتوى والرقابة الشرعية
Sheikh Dr. Mohamed Bin Ali Elgari	**Honorable Sheikh Khalfan El-Esry**	**Sheikh Datuk Mohammed Daud Bakar**
Chairman Shari'a Supervisory Board	Shari'a Supervisory Board Member	Shari'a Supervisory Board Member

KPMG
4th Floor, HSBC Bank Building
MBD
P.O. Box 641
P.C. 112
Sultanate of Oman

Tel 968 24709181
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INDEPENDENT AUDITOR'S REPORT TO THE BOARD OF DIRECTORS 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 ("Muzn"), set out on pages 3 to 30 which comprise the statement of financial position as at 31 December 2014, the statement of comprehensive income, statement of changes in equity, statement of cash flows and statement of sources and uses of charity fund for the year ended 31 December 2014, and 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 Islamic Financial Institutions ("AAOIFI") and to operate in accordance with Shari'a rules and principles determined by the Shari'a Supervisory Board of Muzn 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 Muzn as at 31 December 2014 and its financial performance and its cash flows for the period then ended in accordance with the Financial Accounting Standards ("FAS") issued by AAOIFI and the Shari'a rules and principles as determined by the Shari'a Supervisory Board of Muzn.

27 January 2015

Paul Callaghan

مزن للصيرفة الإسلامية
Muzn Islamic Banking

Report of Shari'a Supervisory Board
Muzn Islamic Banking Services
National Bank of Oman,
Oman.

In the name of Allah, the Beneficent, The Merciful

To the Shareholders of Muzn Islamic Banking Services

السلام عليكم ورحمة الله وبركاته

In compliance with the Letter of appointment, we are required to submit the following report:

We have reviewed the principles and the contracts relating to the transactions and applications introduced by the Muzn Islamic Banking Services during the period ended. We have also conducted our review to form an opinion as to whether the Muzn Islamic Banking Services complied with Shari principles and also with the specific Fatawa, rulings and guidelines issued by us.

We conducted our review which included examining, on a test basis, of each type of transactions, the relevant documentation and procedures adopted by the Muzn Islamic Banking Services.

We planned and performed our review so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Muzn Islamic Banking Services has not violated Shari'a principles. In our opinion:

a) The Contracts, transactions, and dealings entered into by the Muzn Islamic Banking Services during the year ended 31st December 2014 that we have reviewed are in compliance with Shari'a principles.

b) The allocation of profit & charging of losses relating to investment account conform to the basis that had been approved by us in accordance with Shari'a principles.

We beg Allah the Almighty to grant us all the success and straight forwardness.

وعليكم السلام ورحمة الله وبركاته

Muzn Shari'a Supervisory Board Members:

Sheikh Dr. Mohamed Bin Ali Elgari Chairman of Shari'a Supervisory Board	Sheikh Dr. Mohammed Daud Bakar Shari'a Supervisory Board Member	Honorable Sheikh Khalfan El-Esry Shari'a Supervisory Board Member

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. Sheikh Elgari is also 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 Shari'a Board Member of several reputable Islamic Banks and Takaful Companies across the globe.
- **Sheikh Datuk Dr. Mohamed Daud Bakar**, is a Malaysian Shari'a Scholar and he is the Chairman of the Central Shari'a Advisory Council of the Central Bank of Malaysia and Securities Commission of Malaysia. Sheikh Bakar's area of specialization includes Islamic Legal Theory, Islamic Banking and Finance and Islamic Law of Zakah. Datuk Dr. Bakar has published more than 30 articles in academic journals while also being a 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. Sheikh Al-Esry has sound experience in Shari'a and regularly contributes towards education of Shari'a Principles to the communities in Oman. He is also a coach and facilitator on Personal Leadership with extensive knowledge and experience in multicultural management and organizational behavior.

There were a total of four SSB meetings held in 2014. Each of the SSB meetings was attended by all three SSB members.

Remuneration for Shari'a Supervisory Board Members in 2014:

Total Remuneration paid to the three Scholars for the year 2014 was OMR 28, 490

The breakup is as follows:

Name of the Board Member	Total Fees(OMR)	Remarks
Sheikh Dr. Mohamed Bin Ali Elgari	10,780	
Sheikh. Khalfan Bin Mohammed Al-Esry	8,855	
Sheikh Datuk Dr. Mohammed Daud Bakar	8,855	

The Board of Directors is recommending the following remuneration for 2015, subject to AGM approval.

Name of the Board Member	Total Fees(OMR)	Remarks
Sheikh Dr. Mohamed Bin Ali Elgari	10,780.000	
Sheikh. Khalfan Bin Mohammed Al-Esry	8,855.000	
Sheikh Datuk Dr. Mohammed Daud Bakar	8,855.000	

2013 USD'000	**2014 USD'000**		Note	**2014 RO'000**	2013 RO'000
		ASSETS			
28,564	**52,361**	Cash and balances with Central Bank of Oman ("CBO")	5	**20,159**	10,997
545	**997**	Due from banks and financial institutions	6	**384**	210
535	**2,525**	Deferred sales receivable	7	**972**	206
27,327	**156,091**	Ijarah Muntahia Bittamleek-Net	8	**60,095**	10,521
6,203	**16,821**	Forward Ijarah	9	**6,476**	2,388
1,353	**1,353**	Property and equipment-Net	10	**521**	521
551	**2,270**	Other assets	11	**874**	212
65,078	**232,418**	**TOTAL ASSETS**		**89,481**	25,055
		LIABILITIES, EQUITY OF UNRESTRICTED INVESTMENT ACCOUNT HOLDERS AND OWNERS' EQUITY			
		LIABILITIES			
3,675	**9,094**	Current accounts		**3,501**	1,415
655	**2,460**	Other liabilities	12	**947**	252
4,330	**11,554**	**TOTAL LIABILITIES**		**4,448**	1,667
35,623	**191,140**	Equity of unrestricted investment accountholders	14	**73,589**	13,715
		OWNERS' EQUITY			
27,273	**35,065**	Assigned capital	15	**13,500**	10,500
(2,148)	**(5,341)**	Accumulated Losses		**(2,056)**	(827)
25,125	**29,724**	**TOTAL OWNERS' EQUITY**		**11,444**	9,673
65,078	**232,418**	**TOTAL LIABILITIES, EQUITY OF UNRESTRICTED INVESTMENT ACCOUNT HOLDERS AND OWNERS'S EQUITY**		**89,481**	25,055

The financial statements were approved by the Board of Directors on 1 February 2015.

Chairman

Chief Executive Officer

The notes 1 to 25 form an integral part of these financial statements.

The independent auditors' report is set forth on page 2.

For the period ended 31 December 2013 USD'000	Year ended 31 December 2014 USD'000		Note	Year ended 31 December 2014 RO '000	For the period ended 31 December 2013 RO '000
		INCOME			
13	**75**	Deferred sales	16	**29**	5
418	**2,457**	Ijarah Muntahia Bittamleek	17	**946**	161
-	**16**	Inter-Bank Wakala		**6**	-
431	**2,548**			**981**	166
		Less			
(278)	**(668)**	Return on unrestricted investment accountholders	18	**(257)**	(107)
(34)	**(26)**	Profit equalization reserve		**(10)**	(13)
(5)	**(5)**	Investment risk reserve		**(2)**	(2)
(317)	**(699)**			**(269)**	(122)
114	**1,849**	**MUZN'S SHARE IN INCOME FROM INVESTMENT AS MUDARIB AND RABUL MAAL**		**712**	44
50	**49**	Revenue from banking services		**19**	19
5	**55**	Foreign exchange gains-Net		**21**	2
169	**1,953**	**TOTAL OPERATING REVENUE**		**752**	65
(1,678)	**(3,091)**	General and administrative expenses	19	**(1,190)**	(646)
(351)	**(1,465)**	General provision	7, 8, 9 & 13	**(564)**	(135)
(288)	**(590)**	Depreciation	10	**(227)**	(111)
(2,317)	**(5,146)**	**TOTAL OPERATING EXPENSES**		**(1,981)**	(892)
(2,148)	**(3,193)**	**NET LOSS FOR THE YEAR/PERIOD**		**(1,229)**	(827)

The notes 1 to 25 form an integral part of these financial statements.

The independent auditors' report is set forth on page 2.

(RO'000)	Share capital	Accumulated losses	Total
Balance at 1 January 2014	**10,500**	**(827)**	**9,673**
Additional capital transferred from Head Office	**3,000**	**-**	**3,000**
Net loss for the year	**-**	**(1,229)**	**(1,229)**
Balance at 31 December 2014	**13,500**	**(2,056)**	**11,444**
(Balance at 31 December 2014 (USD'000s	**35,065**	**(5,341)**	**29,724**

(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 25 form an integral part of these financial statements.

The independent auditors' report is set forth on page 2.

For the period ended 31 December 2013 USD'000	Year ended 31 December 2014 USD'000		Year ended 31 December 2014 RO '000	For the period ended 31 December 2013 RO '000
		OPERATING ACTIVITIES		
(2,148)	(3,193)	Net loss for the year / period	(1,229)	(827)
		Adjustments for:		
288	590	Depreciation	227	111
351	1,465	General provision	564	135
34	26	Profit equalization reserve	10	13
5	5	Investment risk reserve	2	2
(1,470)	(1,107)	**Operating cash flow before changes in operating assets & liabilities**	(426)	(566)
(545)	(2,029)	Increase in Deferred sales receivable	(781)	(210)
(27,605)	(130,086)	Increase in Ijarah Muntahia Bittamleek assets	(50,083)	(10,628)
(6,265)	(10,725)	Increase in Forward Ijarah assets	(4,129)	(2,412)
(551)	(1,719)	Increase in other assets	(662)	(212)
3,675	5,418	Increase in customer ‹s current accounts	2,086	1,415
655	1,805	Increase in other liabilities	695	252
(32,106)	(138,443)	**Net cash used in operating activities**	(53,300)	(12,361)
		INVESTING ACTIVITIES		
(1,642)	(587)	Purchase of property and equipment	(226)	(632)
(1,642)	(587)	**Net cash used in investing activities**	(226)	(632)
		FINANCING ACTIVITIES		
35,584	155,486	Increase in unrestricted investment accountholders	59,862	13,700
27,273	7,793	Assigned capital	3,000	10,500
62,857	163,279	**Net cash from financing activities**	62,862	24,200
-	24,249	**Increase in cash and cash equivalents**	9,336	-
-	29,109	**Cash and cash equivalents at the beginning of the year**	11,207	-
29,109	53,358	**CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR**	20,543	11,207
		REPRESENTING:		
28,564	52,361	Cash and balances with Central Banks	20,159	10,997
545	997	Due from banks and financial institutions	384	210
29,109	53,358		20,543	11,207

The notes 1 to 25 form an integral part of these financial statements.
The independent auditors' report is set forth on page 2.

For the period ended 31 December 2013	Year ended 31 December 2014		Year ended 31 December 2014	For the period ended 31 December 2013
USD	USD		RO	RO
-	-	Balance as at 1 January	-	-
153	732	Non-Islamic income for the year/period	282	59
153	732	**Total source**	282	59
(153)	(732)	(Use of charity fund (Oman Association for Disabled	(282)	(59)
-	-	**Undistributed charity fund**	-	-

The notes 1 to 25 form an integral part of these financial statements.
The independent auditors' report is set forth on page 2.

1 LEGAL STATUS AND PRINCIPAL ACTIVITIES

Muzn Islamic Banking – Window of National Bank of Oman SAOG ('Muzn') was registered in the 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 four branches 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 Sharia Supervisory Board comprising of three members.

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

Muzn employed 51 employees as at 31 December 2014 (2013: 34).

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 Sharia rules and principles as determined by the Sharia 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 (IASB).

These financial statements relate to the Islamic Window operation only and do not include the financial results of the Bank. The complete set of Bank's financial statements are presented separately.

Statement of restricted investment accountholders and statement of Qard fund and Zakat are not presented as these are not applicable/relevant to Muzn's 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, statement of cash flows and statement of sources and uses of charity fund, 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 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.

3.2.2 Derecognition

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

(i) the right to receive cash flows from the asset has expired;

(ii) Muzn has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

A financial liability is derecognized when the obligation specified in the contract is discharged, cancelled or expires.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Financial instruments (continued)

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 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 Sharia 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. Muzn considers the promise made in the deferred sales to the purchase orderer as obligatory.

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 SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

3.9 Investment risk reserve

Investment risk reserves are amounts appropriated out of the income of unrestricted investment account holders, after allocating the Mudarib 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 SIGNIFICANT ACCOUNTING POLICIES (continued)

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 and interbank 0.5% 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

Muzn is committed to avoid recognising any income generated from non-Islamic sources. Accordingly, all non-Islamic income, is credited to a charity fund where Muzn disburses these funds according to the Sharia Supervisory Board's supervision and instructions.

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 business.

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 or contractually determinable, it will be recognized when realized. Income related to non performing accounts will be excluded from the income statement.

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 the income statement.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.17 Revenue recognition (continued)

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.

1.20 Segment reporting

An operating segment is a component of Muzn that engages in business activities from which it may earn revenues and incur expenses including revenue and expenses that relate to transactions with any of the Muzn's other components whose operating results are reviewed regularly by the management to make decisions about the resources allocated to each segment and asses its performance and for which discrete financial information is available. Muzn's primary format for reporting segmental information is business segment, based upon management internal reporting structure. Muzn's main business segments comprise of retail, corporate and treasury operations.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.21 Sharia supervisory board

All business activities, products, transactions, agreements, contracts and other relevant documents are subject to the supervision of the Sharia Supervisory Board of Muzn, which meets quarterly and consists of three prominent Sharia 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

3.22 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")

	2014 RO'000	2013 RO'000
Cash in hand	**354**	128
Balances with Central Bank of Oman ('CBO')	**19,805**	10,869
Cash and balances with Central bank of Oman ("CBO")	**20,159**	10,997

6 Due from banks and financial institutions

	Self- Financed	**Jointly Financed**	**Total 2014 RO'000**
Due from Foreign Banks	**47**	**188**	**235**
Due to Local Banks	**30**	**119**	**149**
Due from banks and financial institutions	**77**	**307**	**384**

	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 2014 RO'000**
Gross deferred sales receivables	**220**	**879**	**1,099**
Less: Unearned income	**(22)**	**(86)**	**(108)**
	198	**793**	**991**
Less: Provision for doubtful receivables	**(4)**	**(15)**	**(19)**
Deferred sales receivables	**194**	**778**	**972**

	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 for doubtful receivables	(1)	(3)	(4)
Deferred sales receivables	83	123	206

7 Deferred sales receivables (continued)

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

	2014 RO'000	2013 RO'000
Past due up to 30 days	2,260	10
Past due 30 – 60 days	587	24
Total	2,847	34

8 Ijarah Muntahia Bittamleek – net

	Self- Financed	Jointly Financed	Total 2014 RO'000
Cost			
At 1 January 2014	2,251	9,005	11,256
Additions	10,735	42,941	53,676
At 31 December 2014	12,986	51,946	64,932
Depreciation			
At 1 January 2014	(126)	(502)	(628)
Charge for the year	(719)	(2,874)	(3,593)
At 31 December 2014	(845)	(3,376)	(4,221)
Net book value at 31 December 2014	12,141	48,570	60,711
Less: provision for doubtful debts	(123)	(493)	(616)
Ijarah Muntahiah Bittamleek – net	12,018	48,077	60,095

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

8 **Ijarah Muntahia Bittamleek – net** (continued)

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 Muzn.

Ijarah Muntahia Bittamleek past due but not impaired

	2014 RO'000	2013 RO'000
Past due up to 30 days	**2,431**	1,064
Past due 30 – 60 days	**1,648**	161
Past due 60 – 89 days	**55**	151
Total	**4,134**	1,376

9 **Forward Ijarah**

	Self- Financed	**Jointly Financed**	**Total 2014 RO'000**
Forward Ijarah receivables	**1,308**	**5,233**	**6,541**
Less: Provision for doubtful receivables	**(13)**	**(52)**	**(65)**
Total	**1,295**	**5,181**	**6,476**

	Self- Financed	Jointly Financed	Total 2013 RO'000
Forward Ijarah receivables	965	1,447	2,412
Less: Provision for doubtful receivables	(10)	(14)	(24)
Total	955	1,433	2,388

10 Property and equipment – net

	Motor vehicles, furniture and equipment RO'000	Leasehold improve-ments RO'000	Total RO'000
Cost			
January 2014 1	**530**	**398**	**928**
Additions	**128**	**98**	**226**
Transferred from Head Office	**1**	**2**	**3**
December 2014 31	**659**	**498**	**1,157**
Depreciation			
January 2014 1	**184**	**223**	**407**
Transferred from Head Office	**1**	**1**	**2**
Charge for the period	**131**	**96**	**227**
December 2014 31	**316**	**320**	**636**
Net book value at 31 December 2014	**343**	**178**	**521**

	Motor vehicles, furniture and equipment RO'000	Leasehold im-provements RO'000	Total RO'000
Cost			
Additions	530	398	928
December 2013 31	530	398	928
Depreciation			
January 2013 17			
Transferred from Head Office	(110)	(186)	(296)
Charge for the period	(74)	(37)	(111)
December 2013 31	(184)	(223)	(407)
Net book value at 31 December 2013	346	175	521

11 Other assets

	2014 RO'000	2013 RO'000
Profit receivable	**769**	109
Advanced rent	**96**	98
Miscellaneous assets	**9**	5
	874	212

12 Other liabilities

Sundry creditors	**328**	103
Profits payable	**166**	75
Forward Ijarah advances	**345**	45
Deferred profit	**108**	29
	947	252

13 General provision

At 1 January	**135**	-
Provided during the year	**564**	135
At 31 December	**699**	135

14 Equity of unrestricted investment account holders

	2014 RO'000	2013 RO'000
Wakala deposit	**11,370**	5,829
Savings account	**1,601**	1,090
Flex Wakala	**60,591**	6,781
Profit equalization reserve	**23**	13
Investment risk reserve	**4**	2
	73,589	13,715

There is no restricted investment as at 31 December 2014 (31 December 2013 : none).

14 Equity of unrestricted investment account holders (continued)

14.1 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 year ended 31 December 2014 and period ended December 2013 as follows:

	2014 Percentage	2013 Percentage
Unrestricted investment accountholders share	40%	40%
Mudarib share	60%	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 at 10 percent is the amount Muzn 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:

	2014 Average rate of return	2013 Average rate of return
Savings acount	0.5%	0.5%
Flex wakala Government	0.5%	-
Flex wakala Private	0.1%	-
Wakala one month tenure	0.1%	-
Wakala three months tenure	0.3%	-
Wakala six months tenure	0.4%	-
Wakala nine months tenure	0.5%	-
Wakala One year and above tenure	2.0%	-

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 Muzn expenses.

Account type	2014 RO'000	2013 RO'000
Savings account	1,601	1,090
Term deposit accounts		
One month	60,991	-
Three months	97	-
Six months	145	-
Nine months	334	-
One year	10,394	-
	73,562	1,090

15 Assigned capital

The assigned capital consists of RO 13,500,000 transferred from National Bank of Oman SAOG. (31 December 2013 : RO 10,500,000)

16 Deferred sales income

	Self- Financed	Jointly Financed	2014 RO'000
Deferred sales income	**6**	**23**	**29**

	Self- Financed	Jointly Financed	RO'000 2013
Deferred sales income	2	3	5

17 Ijarah Muntahiah Bittamleek income

	Self- Financed	Jointly Financed	2014 RO'000
Income from Ijarah Muntahiah Bittamleek	**908**	**3,631**	**4,539**
Less : depreciation	**(719)**	**(2,874)**	**(3,593)**
	189	**757**	**946**

	Self- Financed	Jointly Financed	RO'000 2013
Income from Ijarah Muntahiah Bittamleek	316	473	789
Less : depreciation	(251)	(377)	(628)
	65	96	161

18 Return on unrestricted investment accountholders

	2014 RO'000	2013 RO'000
Wakala	**196**	106
Savings account	**3**	1
Flex Wakala	**58**	-
	257	107

19 General and administrative expenses

	2014 RO'000	2013 RO'000
Salaries and allowances	732	398
Rent, rates and taxes	223	106
Stationery	15	35
Directors' fees	40	25
Repair expenses	51	25
Travel and entertainment	41	25
Miscellaneous expenses	88	32
	1,190	646

20 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:

Deposits and other accounts		
Directors, Sharia Supervisors and shareholders holding less than 10% interest in Muzn	7,047	192

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

Remuneration paid to Directors & Sharia Supervisors		
Chairman		
remuneration proposed –	8	6
sitting fees paid –	3	2
Other Directors		
remuneration proposed –	12	10
sitting fees paid –	6	5
other expenses paid –	11	-
Management fee payable to conventional banking	21	-

21 Contingent liabilities and commitments

21.1 Credit related contingent items

There are no letters of credit and other commitments.

21.2 Capital and investment commitments

	2014	2013
	RO'000	RO'000
Contractual commitments for forward ijarah	2,609	3,070

22 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.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.

22 Financial risk management (continued)

Credit risk (continued)

(b) Customer concentrations

On Assets	Due from Banks and financial institutions	Deferred sales receivables	Ijarah Muntahia Bittamleek	Forward Ijarah
December 2014 31	RO'000	RO'000	RO'000	RO'000
Retail	384	930	17,563	4,566
Corporate	-	42	42,532	1,910
	384	972	60,095	6,476

On Liabilities	Current accounts	Equity of unrestricted investment accountholders
December 2014 31	RO'000	RO'000
Retail	34	1,887
Corporate	3,467	71,702
	3,501	73,589

On Assets	Due from Banks and financial institutions	Deferred sales receivables	Ijarah Muntahia Bittamleek	Forward Ijarah
December 2013 31	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
December 2013 31	RO'000	RO'000
Retail	451	1,192
Corporate	964	12,523
	1,415	13,715

22 **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
December 2014 31					
Personal	930	17,563	4,566	3,501	73,589
Construction	42	42,532	1,910	-	-
	972	60,095	6,476	3,501	73,589

	Assets			Liabilities	
31 December 2013	Deferred sales receivables	Ijarah Muntahiah Bittamleek	Forward Ijarah	Current accounts	Wakala and Savings deposit
Personal	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 Muzn 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 the 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 over 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, 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.

22 Financial risk management (continued)

Liquidity risk (continued)

31 December 2014	Due on demand and up to 30 days RO'000	More than 1 month to months 6 RO'000	More than 6 months to months 12 RO'000	More than year to 1 5 years RO'000	Over years 5 RO'000	Total RO'000
Cash and balances with Central Bank of Oman	17,443	968	566	468	714	20,159
Due from banks and financial institutions	384	-	-	-	-	384
Deferred sales receivables	31	30	55	122	734	972
Ijarah Muntahiah Bittamleek – net	1,899	1,857	3,425	7,554	45,360	60,095
Forward Ijarah	205	200	369	814	4,888	6,476
Property and equipment (net)	-	-	-	-	521	521
Other assets	874	-	-	-	-	874
Total assets	20,836	3,055	4,415	8,958	52,217	89,481

31 December 2014	Due on demand and up to 30 days RO'000	More than 1month to months 6 RO'000	More than 6 months to months 12 RO'000	More than year to 1 5 years RO'000	Over years 5 RO'000	Total RO'000
Current accounts	3,501	-	-	-	-	3,501
Other liabilities	947	-	-	-	-	947
Equity of unrestricted investment account holders	9,677	22,761	13,301	11,001	16,849	73,589
Owner's equity	-	-	-	-	11,444	11,444
Total liabilities and equity of unrestricted investment accountholders and owners' equity	14,125	22,761	13,301	11,001	28,293	89,481

22 Financial risk management (continued)

Liquidity risk (continued)

31 December 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.

(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.

22 Financial risk management (continued)

(b) Profit rate risk (continued)

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 Muzn'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.

31 December 2014	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
Cash and balances with Central Bank of Oman ("CBO")	N/A	-	-	-	-	20,159	20,159
Due from banks and financial Institutions	N/A	-	-	-	-	384	384
Deferred sales receivables	5.3%	61	55	122	734	-	972
Ijarah Muntahia Bittamleek – net	5.0%	3,756	3,425	7,554	45,360	-	60,095
Forward Ijarah	N/A	-	-	-	-	6,476	6,476
Property and equipment – net	N/A	-	-	-	-	521	521
Other assets	N/A	-	-	-	-	874	874
Total assets		3,817	3,480	7,676	46,094	28,414	89,481

22 Financial risk management (continued)

Market risk (continued)

(b) Profit rate risk (continued)

31 December 2014	Effective average profit rate %	Due on demand and within 6 months RO'000	Due within to 12 7 months RO'000	Due within 1 to 5 years RO'000	Due after 5 years RO'000	-Non profit bearing RO'000	Total RO'000
Current accounts	N/A	-	-	-	-	3,501	3,501
Other liabilities	N/A	-	-	-	-	947	947
Equity of unrestricted investment accountholders	1.7%	32,438	13,301	11,001	16,822	27	73,589
Owners' equity	N/A	-	-	-	-	11,444	11,444
Total liabilities and owners' equity		32,438	13,301	11,001	16,822	15,919	89,481
On-balance sheet gap		(28,621)	(9,821)	(3,325)	29,272	12,495	-
Cumulative profit sensitivity gap		(28,621)	38,442)	(41,767)	(12,495)	-	-

December 2013 31							
Cash and balances with Cen- ("tral 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
Current accounts	N/A	-	-	-	-	1,415	1,415
Other liabilities	N/A	-	-	-	-	252	252
Equity of unrestricted investment accountholders	1.7%	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)	-	-

22 Financial risk management (continued)

Market risk (continued)

(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.

23 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 22.7% as of 31 December 2014 (31 December 2013 : 97.9%).

24 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 and Forward Ijarah.

2) Corporate banking – incorporating corporate customer current accounts, savings, deposits, deferred sales, Ijarah Muntahia Bittamleek and Forward Ijarah.

3) Treasury and investments

Other operations comprise investment management and institutional finance neither of which constitutes a separately reportable segment.

S egment 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.

24 **Segmental information** (continued)

At 31 December 2014	Retail banking RO'000	Corporate banking RO'000	Treasury and investments RO'000	Other RO'000	Total RO'000
Segment operating revenues	478	497	6	-	981
Other revenues	19	-	21	-	40
Segment operating revenues	497	497	27	-	1,021
Profit expenses	(21)	(200)	(36)	(12)	(269)
Net operating income	476	297	(9)	(12)	752
Segment cost					
Operating expenses including depreciation	(1,221)	(130)	(45)	(21)	(1,417)
Impairment for finances net of allowance for provision	(159)	(405)	-	-	(564)
Net loss for the year	(904)	(238)	(54)	(33)	(1,229)
Segment assets	23,348	45,663	20,160	1,010	90,181
Less: Impairment allowance	(244)	(455)	-	-	(699)
Total Segment assets	23,104	45,208	20,160	1,009	89,481
Segment liabilities	2,189	75,161	11,445	686	89,481
At 31 December 2013					
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)

24 **Segmental information** (continued)

At 31 December 2013	Retail banking RO'000	Corporate banking RO'000	Treasury and investments RO'000	Other RO'000	Total RO'000
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

25 **Corresponding figures**

Corresponding figures have been rearranged and reclassified, wherever necessary for the purpose of comparison and for better presentation, the effect of which is not material. Muzn was established on 17 January 2013; accordingly corresponding figures for the income statement, statement of cash flows and statement of sources and uses of charity fund are for the period from 17 January 2013 to 31 December 2013.

61 Branches in Oman
4 Muzn Islamic Banking
2 Branches in UAE (1 in Abu Dhabi and 1 in Dubai)
1 Branch in Egypt

Muscat (South)	Tel	Fax
Main Branch C.B.D. Area	24778350	24778394
Hamriya	24833792	24833147
Bait Al Falaj	24700166	24708980
Corniche	24714245	24713131
Main Al-Fahal	24565561	24563647
Wattaya	24560585	24561334
Qurum	24560050	24562616
Shatti Al Qurum	24607161	24607023
Al Amerat	24875766	24875366
Quriyat	24846100	24845899

Muscat (North)	Tel	Fax
Muscat Int. Airport	24510007	24521483
Bowsher	24587291	24587295
Seeb Town	24420441	24423513
Al Khuwair	24486479	24486480
Azaiba North	24527262	24527247
Ma'abella	24455957	24450120
Mawaleh	24511164	24511173
Ghoubrah R/A	24497229	24491583
Ministry of Health	24602763	24697076
Al Khoudh	24537950	24537952
SQU	24446768	24446686

Dhofar	Tel	Fax
Salalah Main Branch	23291601	23295695
Salalah 23rd July St.	23298019	23297135
Hafa	23291952	23290066
Sultan Qaboos Hospital	23211042	23211040
Mirbat	23268345	23268010
Sadah	23226031	23225374

Batinah	Tel	Fax
Saham	26855146	26854006
Al Khaboura	26805155	26805204
Barka	26882368	26884332
Bidaya	26709240	26709350
Shinas	26747663	26747134
Rustaq	26878332	26878335
Liwa	26762075	26762021
Afi	26780972	26780967
Sohar Hambar	26859104	26859109
Sohar Industrial	26751309	26751705
Suwaiq	26860518	26860517
Sohar Souq	26840234	26845322
Musanah	26871118	26869635

61 Branches in Oman
4 Muzn Islamic Banking
2 Branches in UAE (1 in Abu Dhabi and 1 in Dubai)
1 Branch in Egypt

Dakhiliyah & Dhahira	Tel	Fax
Nizwa	25410072	25410048
Nizwa Firq	25432149	25432008
Ibri	25691161	25689391
Al Araqi	25694141	25694340
Buraimi	25655226	25650346
Bahla	25419673	25419167
Sumail	25351483	25350234
Fanja	25360444	25360011
Al Hamra	25422008	25422766
Dhank	25676603	25676191

Sharqiyah	Tel	Fax
Sur	25540246	25542046
Ibra	25570015	25572498
Bilad Bani Bu Ali	25554015	25553211
Ja'alan	25550950	25550020
Masira	25504026	25504494
Al Kamil	25557770	25557020
Al Mudaibi	25578484	25578015
Sinaw	25524223	25524227
Duqum	25427101	25427120

Musandam	Tel	Fax
Khasab	26730467	26730266
Bukha	26828014	26828466

Sadara Centers	Tel	Fax
CBD (Head Office)	24778002	24778500
Al Khuwair	24487356	24487355
Barka	26882007	26884332
Mina Al Fahal (MAF)	24567223	24567033
Salalah	23289951	
Nizwa	25431122	25432008
Shatti Al Qurum	24607679	24693620
Sohar	26859103	26859110
Sohar Industrial Area	26755886	26755889
Rustaq	26875241	26875156
Sur	25545414	25542046

Muzn Islamic Banking		
Muscat (North)		
Azaiba R/A	24527198	24527247
Ma'abella	24452387	24452351
Sharqiyah		
Sur	25540726	
Batinah		
Sohar	26846692	26846698

UAE Offices	Tel
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