

## Chairman's Report – Third Quarter 2014

Dear Shareholders,

I am glad to share with you the results achieved by the bank during the third quarter ending 30<sup>th</sup> September 2014. The key business lines of the bank maintained performance momentum during the period in question. Going forward, the bank will continue its prudent policies and align growth according to market conditions, which pose a challenging situation.

### *Financial Overview*

The bank posted net profit of RO 126.73 million for the period compared to RO 102.51 million reported during the same period in 2013.

Net interest income from Conventional Banking and income from Islamic Financing stood at RO 182.75 million for the nine months of 2014 compared to RO 171.97 million for the same period of 2013, an increase of 6.3 per cent.

Non-interest income at RO 104.1 million was higher by 33.2 per cent compared to RO 78.16 million for the nine months ended 30<sup>th</sup> September 2013. This includes one-off investment gain of RO 9.4 million arising from investment in Al Salam Bank accounted in second quarter 2014.

Operating expenses for the nine months period ended 30<sup>th</sup> September 2014 stood at RO 117.55 million as compared to RO 123.02 for the same period in 2013. Last year operating expenses included RO 14.98 million prepaid travel card operating loss provision. Excluding that, the operating expenses increased by 8.8 per cent.

Impairment for credit losses for the nine months period in 2014 was RO 40.71 million as against RO 26.42 million for the same period in 2013. Recoveries from impairment for credit loss was RO 19.55 million for the nine months period of 2014 as against RO 20.61 million for the same period in 2013. Share of income from associates for the nine months period in 2014 was RO 896 thousand against RO 349 thousand for the same period in 2013.

Net Loans and advances increased by 5.2 per cent to RO 6,042 million as against RO 5,741 million as at 30<sup>th</sup> September 2013. Customer deposits, including CDs, increased by 14.9 per cent to RO 6,351 million as against RO 5,527 million as at 30<sup>th</sup> September 2013.

Islamic Financing receivables amounted to RO 385 million as of 30<sup>th</sup> September 2014 compared to RO 247 million in the same period of 2013. Islamic Banking customer deposits amounted to RO 231 million as of 30<sup>th</sup> September 2014 compared to RO 124 million reported in 30<sup>th</sup> September 2013.

### *Strategic Initiatives*

- The bank in collaboration with the Royal Oman Police (ROP) introduced a state-of-the-art biometric system compatible with the national identification card (NID). The new system is the first-of-its-kind in the banking sector in Oman.

- The bank launched al Wathbah Academy, a major initiative for training entrepreneurs in Oman, leading to accredited international certification. The academy marked a milestone, building up on the series of initiatives by the bank to complement government efforts in strengthening the role of SMEs in the economic development of Oman.
- Identifying new business opportunities, bank muscat Oryx Fund widened the objective of the fund to invest in companies listed in the MENA region, in addition to the GCC markets.
- Meethaq Islamic Banking signed a Memorandum of Understanding (MoU) with Islamic Development Bank (IDB) and Islamic Research & Training Institution (IRTI) to support joint business opportunities in the Islamic Banking sector.

### ***Key Developments***

- Inculcating a strong savings culture, momentum has started building up for Oman's flagship al Mazyona Savings Scheme, which is all set to reward with the grand year-end bonanza of RO 1.9 million to be shared between 15 customers.
- The bank, as part of its commitment to human resources development, nominated nine senior Omani executives to participate in management and leadership development programmes at leading global business schools.
- Highlighting new horizons in the world of technology contributing to the progress of the banking sector, the bank hosted a conference on 'Technology Evolutions & Banking'.
- Marking the Holy Month of Ramadhan, the bank's Tadamun initiative, in association with the Ministry of Social Development, targeted social welfare families and distributed household goods and appliances to low-income beneficiaries across Oman. The bank also hosted al Wathbah Ramadhan Souq, which promoted a variety of products developed by women entrepreneurs.
- The bank extended lead support to Salalah Tourism Festival 2014, the Sultanate's annual tourism and cultural celebration, as part of efforts to promote tourism in the country.
- Marking the successful third year, the bank significantly enhanced support to the Green Sports initiative aimed at strengthening sports infrastructure in general and greening of football grounds in particular in Oman, benefiting 14 teams in 2014 compared to 10 teams in the previous year.

- Consolidating Islamic Banking services, Meethaq Islamic Banking widened the network with state-of-the-art branches in Al Khuwair and Al Khoud.

### ***Accolades***

- The bank topped 38 Omani companies ranked in the Forbes Top 500 Companies in the Arab World 2014. The awards celebrated the region's corporate success.
- For the fourth consecutive year, the bank was ranked the Best Bank in Oman by Business Today magazine. The best performance ranking was based on return on capital, tighter controls on non-performing loans (NPLs) and healthy growth in deposits.
- The bank won straight through processing (STP) excellence awards from Standard Chartered Bank and Deutsche Bank for outstanding performance in dollar and euro denominated fund transfer and commercial payments.

### ***In Conclusion***

On behalf of the Board of Directors, I take this opportunity to thank the banking community, both in Oman and overseas, for the confidence reposed in the bank. I would also like to thank the Management Team and all our employees for their dedication and commitment to press ahead amid the challenging situation to reach higher levels of excellence.

The Board of Directors welcomes and supports the measures taken by the Central Bank of Oman and the Capital Market Authority to strengthen the financial market in the Sultanate. The foresight and market-friendly policies adopted by His Majesty's Government have helped the bank to record encouraging results.

The Board of Directors is deeply grateful to His Majesty Sultan Qaboos Bin Saïd for his vision and guidance, which has helped the country along its path of growth and prosperity during the last 44 years.



**Khalid bin Mustahail Al Mashani**

**Unaudited Consolidated Statement of Comprehensive Income**  
**For the nine months ended 30 September 2014**

	Notes	9 months ended 30 Sep 2014 RO' 000	9 months ended 30 Sep 2013 RO' 000	3 months ended 30 Sep 2014 RO' 000	3 months ended 30 Sep 2013 RO' 000
Interest income	1	243,381	236,803	83,244	79,527
Interest expense	2	(73,043)	(73,917)	(25,103)	(24,922)
<b>NET INTEREST INCOME</b>		<b>170,338</b>	<b>162,886</b>	<b>58,141</b>	<b>54,605</b>
Income from Islamic financing		15,000	10,172	5,272	3,870
Distribution to depositor's		(2,589)	(1,088)	(1,077)	(503)
<b>Net income from Islamic financing</b>		<b>12,411</b>	<b>9,084</b>	<b>4,195</b>	<b>3,367</b>
<b>Net interest income and Income from Islamic financing</b>		<b>182,749</b>	<b>171,970</b>	<b>62,336</b>	<b>57,972</b>
Other operating income	3	104,104	78,159	31,210	26,413
<b>OPERATING INCOME</b>		<b>286,853</b>	<b>250,129</b>	<b>93,546</b>	<b>84,385</b>
<b>OPERATING EXPENSES</b>					
Other operating expenses		(109,086)	(99,796)	(36,196)	(32,831)
Depreciation		(8,460)	(8,239)	(2,536)	(2,785)
Exceptional Operational loss	13	-	(14,982)	-	-
		<b>(117,546)</b>	<b>(123,017)</b>	<b>(38,732)</b>	<b>(35,616)</b>
Impairment for credit losses	5	(40,705)	(26,415)	(13,348)	(8,931)
Impairment for due from banks		(706)	(450)	(150)	(150)
Impairment for investments		(2,210)	(2,498)	(1,025)	(1,248)
Recoveries from provision for credit losses	5	19,546	20,612	5,364	7,117
Share of results from associate	8a	896	349	625	139
		<b>(140,725)</b>	<b>(131,419)</b>	<b>(47,266)</b>	<b>(38,689)</b>
<b>PROFIT BEFORE TAXATION</b>		<b>146,128</b>	<b>118,710</b>	<b>46,280</b>	<b>45,696</b>
Tax expense		(19,396)	(16,201)	(5,893)	(6,286)
<b>PROFIT FOR THE PERIOD</b>		<b>126,732</b>	<b>102,509</b>	<b>40,387</b>	<b>39,410</b>
<b>OTHER COMPREHENSIVE INCOME</b>					
Foreign currency translation in associates, before tax		-	(1,237)	-	(478)
Share of other comprehensive income of associates, before tax		184	(1,896)	184	376
Foreign currency translation of investments in associate transferred to income statement on derecognition of associate		3,198	-	-	-
Share of other comprehensive income of associate transferred to income statement on derecognition of associate		1,167	-	-	-
Translation of net investments in foreign operations, before tax		(424)	(134)	(466)	164
Change in fair value of investments available-for-sale, before tax		7,642	6,801	5,370	1,039
Change in fair value of cash flow hedges, before tax		(782)	2,462	251	(34)
<b>OTHER COMPREHENSIVE INCOME FOR THE PERIOD</b>		<b>10,985</b>	<b>5,996</b>	<b>5,339</b>	<b>1,066</b>
<b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD</b>		<b>137,717</b>	<b>108,505</b>	<b>45,726</b>	<b>40,476</b>
<b>Total comprehensive income for the period attributable to:</b>					
Equity holders of parent company		137,725	108,515	45,728	40,477
Non-controlling interest		(8)	(10)	(2)	(1)
		<b>137,717</b>	<b>108,505</b>	<b>45,726</b>	<b>40,476</b>
<b>Profit attributable to:</b>					
Equity holders of Parent Company		126,740	102,519	40,389	39,411
Non-controlling interests		(8)	(10)	(2)	(1)
		<b>126,732</b>	<b>102,509</b>	<b>40,387</b>	<b>39,410</b>
<b>Earnings per share:</b>					
- Basic		0.058	0.049		
- Diluted		0.056	0.047		

**Unaudited Consolidated Statement of Financial Position  
as at 30 September 2014**

	Notes	30-Sep-14 RO' 000	30-Sep-13 RO' 000
<b>ASSETS</b>			
Cash and balances with Central Banks		1,169,408	706,864
Due from banks		942,878	911,478
Loans and advances	4 & 5	6,042,008	5,740,960
Islamic financing receivables	4 & 5	384,822	246,883
Other assets		250,719	237,992
Investments securities:			
- Available for sale	8b	347,521	307,105
- Held to Maturity	8c	470,359	283,767
Investment in associates	8a	46,809	43,157
Property and equipment		69,360	67,698
		<u>9,723,884</u>	<u>8,545,904</u>
<b>LIABILITIES AND EQUITY</b>			
<b>LIABILITIES</b>			
Deposits from banks		938,534	718,376
Customers' deposits	6	6,304,124	5,478,002
Islamic customers' deposits	6	230,640	124,371
Certificates of deposit		47,000	49,100
Unsecured bonds		-	29,803
Euro Medium Term Notes		188,593	188,393
Mandatory Convertible bonds		62,239	46,432
Other liabilities		401,520	478,855
Taxation		30,707	27,203
Subordinated liabilities		240,450	246,867
		<u>8,443,807</u>	<u>7,387,402</u>
<b>EQUITY</b>			
<b>Equity attributable to equity holders of parent:</b>			
Share capital		218,269	215,226
Share premium		464,951	451,837
General reserve		169,808	150,558
Legal reserve		71,735	67,950
Revaluation reserve		5,145	5,145
Subordinated loan reserve		82,317	59,117
Cash flow hedge reserve		(398)	64
Cumulative changes in fair value	8a & 8b	25,150	13,326
Foreign exchange translation reserve		(533)	(4,225)
Retained profit		243,423	199,285
		<u>1,279,867</u>	<u>1,158,283</u>
Non-controlling interest		210	219
<b>TOTAL EQUITY</b>		<u>1,280,077</u>	<u>1,158,502</u>
<b>TOTAL LIABILITIES AND EQUITY</b>		<u>9,723,884</u>	<u>8,545,904</u>
<b>Net assets per share</b>		<u>0.586</u>	<u>0.538</u>
<b>Contingent liabilities</b>	11	<u>2,315,807</u>	<u>1,816,107</u>

**Unaudited Consolidated Statement of Cash Flows**  
**For the nine months ended 30 September 2014**

	<b>9 months ended 30 Sep 2014</b>	<b>9 months ended 30 Sep 2013</b>
	<b>RO' 000</b>	<b>RO' 000</b>
<b>Cash flow from operating activities</b>		
Net profit for the period before taxation	146,128	118,710
Adjustments for :		
Depreciation	8,460	8,239
Investment income	(17,371)	(7,720)
Operating profit before working capital changes	137,217	119,229
Change in operating assets*	(435,337)	(662,512)
Change in operating liabilities**	869,969	471,908
<b>Net cash (used in) / from operating activities</b>	<b>571,849</b>	<b>(71,375)</b>
<b>Net cash (used in) / from financing activities</b>	<b>(60,223)</b>	<b>10,976</b>
<b>Net cash (used in) / from investing activities</b>	<b>(8,351)</b>	<b>3,552</b>
<b>Net increase / (decrease) in cash and cash equivalents</b>	<b>503,275</b>	<b>(56,847)</b>
Cash and cash equivalents brought forward	845,645	1,097,061
<b>Cash and cash equivalents carried forward</b>	<b>1,348,920</b>	<b>1,040,214</b>

\* Operating assets includes deposits with central banks, bank placements, loans and advances and other assets.

\*\* Operating liabilities includes customer deposits, deposits from banks and other liabilities.

**Unaudited Consolidated Statement of Changes in Equity  
as at 30 September 2014**

RO' 000

	Share capital	Share premium	General reserve	Legal reserve	Revaluation reserve	Subordinated loan reserve	Cash flow hedge reserve	Cumulative changes in fair value	Foreign currency translation reserve	Retained Profit	Subtotal	Non-controlling interest	Total
<b>Balance at 1 January 2013</b>	<b>203,851</b>	<b>388,137</b>	<b>150,558</b>	<b>67,950</b>	<b>5,145</b>	<b>59,117</b>	<b>(2,398)</b>	<b>8,112</b>	<b>(2,544)</b>	<b>178,345</b>	<b>1,056,273</b>	<b>191</b>	<b>1,056,464</b>
Profit for the year	0	0	0	0	0	0	0	0	0	152,204	152,204	(12)	152,192
Share of other comprehensive income of associates	0	0	0	0	0	0	0	(873)	(295)	0	(1,168)	0	(1,168)
Other comprehensive income	0	0	0	0	0	0	2,782	9,201	(750)	0	11,233	0	11,233
<b>Total comprehensive income</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>2,782</b>	<b>8,328</b>	<b>(1,045)</b>	<b>152,204</b>	<b>162,269</b>	<b>(12)</b>	<b>162,257</b>
Dividends paid	0	0	0	0	0	0	0	0	0	(50,963)	(50,963)	0	(50,963)
Issue of mandatory convertible bonds	0	0	0	0	0	0	0	0	0	(30,275)	(30,275)	0	(30,275)
Issue expenses of mandatory convertible bonds	0	0	0	0	0	0	0	0	0	(302)	(302)	0	(302)
Issue of shares during the year	11,375	63,700	0	0	0	0	0	0	0	0	75,075	0	75,075
Transfer to legal reserve	0	0	0	3,785	0	0	0	0	0	(3,785)	0	0	0
Transfer from subordinated loan reserve	0	0	12,834	0	0	(12,834)	0	0	0	0	0	0	0
Transfer to subordinated loan reserve	0	0	0	0	0	42,450	0	0	0	(42,450)	0	0	0
Other Movements	0	0	0	0	0	0	0	0	0	0	0	38	38
<b>Balance at 31 December 2013</b>	<b>215,226</b>	<b>451,837</b>	<b>163,392</b>	<b>71,735</b>	<b>5,145</b>	<b>88,733</b>	<b>384</b>	<b>16,440</b>	<b>(3,589)</b>	<b>202,774</b>	<b>1,212,077</b>	<b>217</b>	<b>1,212,294</b>

	Share capital	Share premium	General reserve	Legal reserve	Revaluation reserve	Subordinated loan reserve	Cash flow hedge reserve	Cumulative changes in fair value	Foreign currency translation reserve	Retained Profit	Subtotal	Non-controlling interest	Total
<b>Balance at 1 January 2014</b>	<b>215,226</b>	<b>451,837</b>	<b>163,392</b>	<b>71,735</b>	<b>5,145</b>	<b>88,733</b>	<b>384</b>	<b>16,440</b>	<b>(3,589)</b>	<b>202,774</b>	<b>1,212,077</b>	<b>217</b>	<b>1,212,294</b>
Profit for the year	0	0	0	0	0	0	0	0	0	126,740	126,740	(8)	126,732
Transfer to comprehensive income statement on derecognition of associates	0	0	0	0	0	0	0	872	3,493	0	4,365	0	4,365
Other comprehensive income	0	0	0	0	0	0	(782)	7,838	(437)	0	6,619	0	6,619
<b>Total other comprehensive income</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(782)</b>	<b>8,710</b>	<b>3,056</b>	<b>126,740</b>	<b>137,724</b>	<b>(8)</b>	<b>137,716</b>
Conversion of convertible bonds	3,043	13,114	0	0	0	0	0	0	0	0	16,157	0	16,157
Dividends paid	0	0	0	0	0	0	0	0	0	(53,807)	(53,807)	0	(53,807)
Issue of mandatory convertible bonds	0	0	0	0	0	0	0	0	0	(31,964)	(31,964)	0	(31,964)
Issue expenses of mandatory convertible bonds	0	0	0	0	0	0	0	0	0	(320)	(320)	0	(320)
Transfer from subordinated loan reserve	0	0	6,416	0	0	(6,416)	0	0	0	0	0	0	0
<b>Balance at 30 September 2014</b>	<b>218,269</b>	<b>464,951</b>	<b>169,808</b>	<b>71,735</b>	<b>5,145</b>	<b>82,317</b>	<b>(398)</b>	<b>25,150</b>	<b>(533)</b>	<b>243,423</b>	<b>1,279,867</b>	<b>210</b>	<b>1,280,077</b>

**Notes to the Consolidated Financial Statements for the period ended 30 September 2014**

**1. Interest/Profit earned**

Interest/profit bearing assets carried at an overall rate of 4.13 % for the period ended 30 Sep 2014. (Sep 2013 : 4.38%).

**2. Interest/Profit expense**

Interest/profit bearing liabilities incurred an average overall cost of funds of 1.34%. (Sep 2013 : 1.50%).

**3. Other operating income**

	YTD		For the three months ended	
	30-Sep-14	30-Sep-13	30-Sep-14	30-Sep-13
	RO' 000	RO' 000	RO' 000	RO' 000
Foreign Exchange	15,486	9,307	5,731	2,948
Commission and fees (net)	68,597	59,528	22,813	19,925
Dividend income	3,792	1,956	767	162
Profit/(loss) on sale of investment securities	13,579	5,764	959	2,807
Other income	2,650	1,604	940	571
	<u>104,104</u>	<u>78,159</u>	<u>31,210</u>	<u>26,413</u>

The commission and fees shown above is net off commission and fees paid of RO 867 K. (2013 : RO 865 K.)

**4. Loans and advances / Islamic banking financing**

	30-Sep-14	30-Sep-13
	RO' 000	RO' 000
<b>4.a. <u>Loans and advances - Conventional</u></b>		
Corporate and Other Loans	3,873,887	3,708,091
Personal and Housing loans	2,406,115	2,251,894
Gross loans and advances	<u>6,280,002</u>	<u>5,959,985</u>
Less : Allowances for impairment	237,994	219,025
Net loans and advances	<u>6,042,008</u>	<u>5,740,960</u>
<b>4.b. <u>Islamic financing receivables</u></b>		
Corporate and Other financing	110,694	60,051
Personal and Housing financing	281,246	191,675
Gross financing receivables	<u>391,940</u>	<u>251,726</u>
Less : Allowances for impairment	7,118	4,843
Net Islamic financing receivables	<u>384,822</u>	<u>246,883</u>
<b>4.c. <u>Total loan &amp; advances/ Islamic financing receivables</u></b>		
Corporate and Other loans/financing	3,984,581	3,768,142
Personal and Housing loans/financing	2,687,361	2,443,569
Gross loans & advances/financing receivables	<u>6,671,942</u>	<u>6,211,711</u>
Less : Allowances for impairment	245,112	223,868
Net loans & advances/Islamic financing receivables	<u>6,426,830</u>	<u>5,987,843</u>
<b>4.d. The maturity of these is analysed as follows:</b>	<b>30-Sep-14</b>	<b>30-Sep-13</b>
	<b>RO' 000</b>	<b>RO' 000</b>
Less than 1 year	2,565,057	2,732,568
1 to 3 years	657,471	592,451
3 to 5 years	563,178	418,394
Over 5 years	2,886,236	2,468,298
Gross loans & advances/financing receivables	<u>6,671,942</u>	<u>6,211,711</u>



**Notes to the Consolidated Financial Statements for the period ended 30 September 2014**

**4.e.** The interest/ profit rate band of these are as follows:

	<b>30-Sep-14</b>	30-Sep-13
	<b>RO' 000</b>	RO' 000
0-5%	3,276,349	2,987,237
5-7%	2,592,894	2,039,219
7-9%	661,873	1,039,677
9-11%	39,555	60,191
11-13%	66,391	54,127
more than 13%	34,880	31,260
Gross loans & advances/financing receivables	<u>6,671,942</u>	<u>6,211,711</u>

**5. Provisions and reserved interest**

The movement on the provision for possible credit losses and reserved interest for the period is analysed as follows:

	Provisions	Reserved Interest
	RO' 000	RO' 000
At 1 January 2014	201,822	15,750
Provided during the period	40,705	-
Released/recovered during the period	(18,575)	-
Written off during the period	(840)	(1,367)
Interest reserved during the period	-	9,763
Reserved interest recovered	-	(4,159)
Transfer from Memorandum portfolio	2,023	54
Translation adjustment of opening balances	(64)	-
At 30 September 2014	<u>225,071</u>	<u>20,041</u>

	Provisions	Reserved Interest
	RO' 000	RO' 000
At 1 January 2013	189,862	20,967
Provided during the period	26,415	-
Released/recovered during the period	(19,020)	-
Written off during the period	(868)	(279)
Interest reserved during the period	-	8,638
Reserved interest recovered	-	(4,960)
Transfer from Memorandum portfolio	2,971	202
Transfer from Classified to Memorandum portfolio	-	(41)
Translation adjustment of opening balances	(19)	-
At 30 September 2013	<u>199,341</u>	<u>24,527</u>

Recoveries of RO 19,546 K (Sep 2013: 20,612 K) reported in the income statement includes RO 971 K (Sep 2013: 1,592 K ) recovered from loans written off earlier

Interest is reserved on loans and advances which are impaired.

At 30 September 2014 loans and advances on which contractual interest is not being accrued or has not been recognised amounted to RO 214.13 mn (Sep 2013 : RO 182.2 mn).

Total Impairment above includes impairment for off-balance sheet exposure as well

\* *Specific provisions are established after considering security on a case by case basis in respect of specific loans and advances where recovery appears doubtful.*

\*\* *General Provisions are established to meet the credit risks inherent within the loans and advances portfolio.*

Notes to the Consolidated Financial Statements for the period ended 30 September 2014

**6. Deposits**

	<b>30-Sep-14</b>	30-Sep-13
	<b>RO' 000</b>	RO' 000
<b>6.a. <u>Customer Deposits - Conventional</u></b>		
Current accounts	1,966,481	1,746,658
Call accounts	317,120	245,166
Savings accounts	1,860,009	1,409,038
Time deposits	2,117,230	2,038,878
Other	43,284	38,262
<b>Customer Deposits</b>	<b>6,304,124</b>	<b>5,478,002</b>
CD's / Unsecured Bonds / FRN's	235,593	267,296
<b>Total</b>	<b>6,539,717</b>	<b>5,745,298</b>

**6.b. Islamic customer deposits**

Current accounts	11,454	43,538
Savings accounts	26,303	7,911
Time deposits	192,460	72,917
Other	423	5
<b>Total</b>	<b>230,640</b>	<b>124,371</b>

**6.c. Total customer deposits**

Current accounts	1,977,935	1,790,196
Call accounts	317,120	245,166
Savings accounts	1,886,312	1,416,949
Time deposits	2,309,690	2,111,795
Other	43,707	38,267
<b>Customer Deposits</b>	<b>6,534,764</b>	<b>5,602,373</b>
CD's / Unsecured Bonds / FRN's	235,593	267,296
<b>Total</b>	<b>6,770,357</b>	<b>5,869,669</b>

**6.d. The maturities of deposits are as follows**

	<b>30-Sep-14</b>	30-Sep-13
	<b>RO' 000</b>	RO' 000
Less than 1 year	2,892,408	2,588,646
1 to 3 years	1,504,708	1,247,026
3 to 5 years	1,197,045	1,076,410
Over 5 years	1,176,196	957,587
<b>Total customer deposits</b>	<b>6,770,357</b>	<b>5,869,669</b>

**6.e. The interest/profit rate bands of deposits are as follows:**

	<b>30-Sep-14</b>	30-Sep-13
	<b>RO' 000</b>	RO' 000
0%	2,991,804	2,294,008
0-2%	2,316,146	2,157,477
2-4%	1,197,870	1,088,160
4-6%	255,829	287,115
more than 6%	8,708	42,909
<b>Total customer deposits</b>	<b>6,770,357</b>	<b>5,869,669</b>

## Notes to the Consolidated Financial Statements for the period ended 30 September 2014

### 7. Asset liability mismatch

The asset liability mismatch is analysed as follows:

<i>Maturities</i>	30-Sep-14			30-Sep-13		
	Assets RO' 000	Liabilities RO' 000	Mismatch RO' 000	Assets RO' 000	Liabilities RO' 000	Mismatch RO' 000
Less than 1 year	5,059,941	3,973,599	1,086,342	4,680,689	3,777,603	903,086
1 to 3 years	909,328	1,910,798	(1,001,470)	713,707	1,370,991	(657,284)
3 to 5 years	682,769	1,279,067	(596,298)	501,258	1,094,410	(593,152)
Over 5 years	3,071,846	2,560,420	511,426	2,650,250	2,302,900	347,350
	<u>9,723,884</u>	<u>9,723,884</u>	<u>-</u>	<u>8,545,904</u>	<u>8,545,904</u>	<u>-</u>

Mismatch represents the difference between assets and liabilities for each maturity band. Share capital is included within liabilities.

### 8. Non Trading Investments

#### 8.a. Investment in associates

##### 1 Investment in BMI Bank, Bahrain

The carrying value of the investment in BMI was as follows:

	30-Sep-14 RO. 000's	30-Sep-13 RO. 000's
Carrying value of the investment at January 1	36,547	36,318
Share of profit for the period	271	442
Share of other comprehensive income	-	(1,896)
Dividend received	(1,465)	-
Derecognised on acquisition by Al Salam Bank, Bahrain <sup>(note below)</sup>	(35,353)	-
Carrying value of the Investment at Sep 30	<u>-</u>	<u>34,864</u>

Note: On 30 March 2014, Al Salam Bank ("ASB"), Bahrain has acquired BMI Bank by issuing 11 shares for 1 share of BMI bank. As per the share swap ratio, bank muscat received 315,494,795 shares in ASB in exchange of 28,681,345 shares of BMI bank giving a stake of 14.74%.

As per the International Financial Reporting Standards (IFRS), we have accounted the investment in Al Salam as an associate at the adjusted fair value and accordingly recorded an investment gain of RO 9.48 million. This gain is included in the second quarter results as part of other operating income in the income statement.

The carrying value of investment in ASB is as reflected below:

##### 2 Investment in Al Salam Bank ('ASB'), Bahrain

	30-Sep-14 RO. 000's	30-Sep-13 RO. 000's
Carrying value of the Investment at April 1	46,000	-
Share of profit for the period Apr 14 to Jun 14	625	-
Share of other comprehensive income Apr 14 to Jun 14	184	-
Carrying value of the Investment at Sep 30	<u>46,809</u>	<u>-</u>

##### 3 Investment in Mangal Keshav Holdings Limited (MKHL), India

The carrying value of the investment in MKHL was as follows:

	30-Sep-14 RO. 000's	30-Sep-13 RO. 000's
Carrying value of the Investment at January 1	-	9,623
Share of profit for the period Oct 12 to Jun 13	-	(93)
Profit / (loss) on translation of foreign currency investments	-	(1237)
Carrying value of the Investment at Sep 30	<u>-</u>	<u>8,293</u>

Notes to the Consolidated Financial Statements for the period ended 30 September 2014

8. Non Trading Investments (continued)

8.b. Available For Sale	Fair Value 30-Sep-14 RO' 000	Fair Value 30-Sep-13 RO' 000
<i>Quoted investments</i>		
<i>Equity</i>		
Foreign securities	29,273	25,087
Other services sector	33,290	13,460
Investment fund units	10,656	9,896
Financial services sector	9,778	10,107
Industrial sector	3,164	4,304
<i>Debt</i>		
Government bonds	198,210	175,435
Foreign Bonds	25,828	30,638
Local Bonds	-	411
<b>Total Quoted investments</b>	<b>310,199</b>	<b>269,338</b>
<i>Unquoted investments</i>		
<i>Equity</i>		
Foreign securities	13,050	14,738
Local securities	8,028	8,039
Investment fund units	50	50
<i>Debt</i>		
Foreign Bonds	-	-
Local Bonds	23,677	24,200
<b>Total Unquoted investments</b>	<b>44,805</b>	<b>47,027</b>
Total available for sale investments	355,004	316,365
Impairment losses on investments	(7,483)	(9,260)
Available for sale investments (net)	347,521	307,105
<b>8.c. Held To Maturity</b>		
<i>Quoted</i>		
Treasury Bills	439,874	261,427
Bonds	24,585	17,340
Unquoted local Bonds	5,900	5,000
	<b>470,359</b>	<b>283,767</b>

## Notes to the Consolidated Financial Statements for the period ended 30 September 2014

### 9. Related Party Transactions

9.a. The balances of directors and their related concerns were as follows:

	30-Sep-14 RO' 000	30-Sep-13 RO' 000
Loans and advances (Gross)	50,226	42,079
Provision and reserve interest	(8,264)	(9,074)
Loans and advances (Net)	41,962	33,005
Current, deposit and other accounts	51,291	56,255
Customers' liabilities under documentary credits, guarantees and other commitments	22,352	8,386

*On restructuring arrangement of banks exposure to Dubai financial group the suspended interest of RO 1.1 mn during the year from the provisions held was written off.*

9.b. The income and expenses in respect of related parties are as follows:

	9 months ended 30 Sep 2014 RO' 000	9 months ended 30 Sep 2013 RO' 000
Interest income	1,150	1,378
Interest expenditure	321	238
Commission and other income	6	2

### 10. Shareholders

Shareholders of the bank who hold 10% or more of the bank's shares are given below:

	30-Sep-14		30-Sep-13	
	% of holding	No. of shares	% of holding	No. of shares
Royal Court Affairs	23.58%	514,733,262	23.56%	507,175,701
Dubai Financial Group LLC	12.33%	269,211,333	12.51%	269,211,333

### 11. Contingent liabilities

	30-Sep-14 RO' 000	30-Sep-13 RO' 000
- Letters of Credit	560,586	459,739
- Guarantees	1,755,221	1,356,368
	<u>2,315,807</u>	<u>1,816,107</u>

### 12. Spot / Forwards and options

#### Spot and Forwards

- Purchases	1,825,078	1,156,023
- Sales	1,824,759	1,155,791

#### Options

- Sales	201,814	189,277
- Purchases	201,814	189,277

## Notes to the Consolidated Financial Statements for the period ended 30 September 2014

### 13 SEGMENTAL INFORMATION

The Group reports business segment information by the following segments Corporate, Consumer, Wholesale, Islamic and International. The following table shows the distribution of the Group's operating income, net profit and total assets by business segments:

30 September 2014	Conventional Banking					Islamic Banking	Total
	Corporate Banking RO 000's	Consumer Banking RO 000's	Wholesale Banking RO 000's	International Banking RO 000's	Total Conventional RO 000's		
<b>Segment revenue</b>							
Net interest income	56,974	79,798	26,526	7,040	170,338	-	170,338
Net income from Islamic financing	-	-	-	-	-	12,411	12,411
Commission, fees and other income (net)	13,246	46,240	32,172	11,371	103,029	1,075	104,104
<b>Operating income</b>	<u>70,220</u>	<u>126,038</u>	<u>58,698</u>	<u>18,411</u>	<u>273,367</u>	<u>13,486</u>	<u>286,853</u>
<b>Segment costs</b>							
Operating expenses (incl. depreciation)	(19,352)	(74,032)	(10,829)	(8,354)	(112,567)	(4,979)	(117,546)
Impairment for credit & other losses (net)	(12,849)	(2,562)	(2,629)	(4,081)	(22,121)	(1,954)	(24,075)
Share of profit from associates	-	-	-	896	896	-	896
Tax expense	(5,145)	(6,714)	(5,696)	(956)	(18,511)	(885)	(19,396)
	<u>(37,346)</u>	<u>(83,308)</u>	<u>(19,154)</u>	<u>(12,495)</u>	<u>(152,303)</u>	<u>(7,818)</u>	<u>(160,121)</u>
Segment profit / (loss) for the year	<u>32,874</u>	<u>42,730</u>	<u>39,544</u>	<u>5,916</u>	<u>121,064</u>	<u>5,668</u>	<u>126,732</u>
Segment assets	<u>3,662,395</u>	<u>2,511,338</u>	<u>2,457,590</u>	<u>672,875</u>	<u>9,304,198</u>	<u>419,686</u>	<u>9,723,884</u>

  

30 September 2013	Conventional Banking					Islamic Banking	Total
	Corporate Banking RO 000's	Consumer Banking RO 000's	Wholesale Banking RO 000's	International Banking RO 000's	Total Conventional RO 000's		
<b>Segment revenue</b>							
Net interest income	50,213	82,326	23,152	7,195	162,886	-	162,886
Net income from Islamic financing	-	-	-	-	-	9,084	9,084
Commission, fees and other income (net)	13,263	38,891	20,928	4,873	77,955	204	78,159
<b>Operating income</b>	<u>63,476</u>	<u>121,217</u>	<u>44,080</u>	<u>12,068</u>	<u>240,841</u>	<u>9,288</u>	<u>250,129</u>
<b>Segment costs</b>							
Operating expenses (incl. depreciation)	(17,819)	(67,773)	(10,694)	(8,570)	(104,856)	(3,179)	(108,035)
Impairment for credit & other losses (net)	(4,809)	1,598	(1,948)	(2,229)	(7,388)	(1,363)	(8,751)
Exceptional Operational loss	-	(14,982)	-	-	(14,982)	-	(14,982)
Share of profit from associates	-	-	-	349	349	-	349
Tax expense	(5,370)	(5,435)	(4,133)	(639)	(15,577)	(624)	(16,201)
	<u>(27,998)</u>	<u>(86,592)</u>	<u>(16,775)</u>	<u>(11,089)</u>	<u>(142,454)</u>	<u>(5,166)</u>	<u>(147,620)</u>
Segment profit / (loss) for the year	<u>35,478</u>	<u>34,625</u>	<u>27,305</u>	<u>979</u>	<u>98,387</u>	<u>4,122</u>	<u>102,509</u>
Segment assets	<u>3,509,965</u>	<u>2,300,223</u>	<u>1,607,084</u>	<u>840,743</u>	<u>8,258,015</u>	<u>287,889</u>	<u>8,545,904</u>

### 14. Comparative Figures

The corresponding figures for 2013 included for comparative purposes have been reclassified to conform with the presentation in the current year.