bank muscat SAOG

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2014

DRAFT

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF BANK MUSCAT SAOG

Report on the consolidated financial statements
We have audited the accompanying consolidated financial statements of bank muscat SAOG (the "Bank" or the "Parent Company") and its subsidiary (together the "Group"), which comprise the consolidated statement of financial position as at 31 December 2014, and the consolidated statement of comprehensive income, consolidated statement of cash flows and consolidated statement of changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory information.

Board of Directors' responsibility for the consolidated financial statements
The Bank's Board of Directors' is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards and relevant disclosure requirements of the Commercial Companies Laws of 1974, as amended, and the Rules and Guidelines on disclosure issued by Capital Market Authority and for such internal control as management determines is necessary to enable the preparation of consolidated 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 consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2014, and its financial performance and 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 consolidated financial statements comply, in all material respects, with 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.

Date
Muscat

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2014

2013 US$ 000's	***2014 US$ 000's***		*Notes*	***2014 RO 000's***	*2013 RO 000's*
		ASSETS			
1,512,494	**2,173,881**	Cash and balances with Central Banks	5	**836,944**	582,310
2,251,898	**2,698,249**	Due from banks	6	**1,038,826**	866,981
15,229,957	**16,586,039**	Loans and advances	7	**6,385,625**	5,863,533
725,489	**1,039,714**	Islamic financing receivables	7	**400,290**	279,313
594,999	**536,495**	Other assets	8	**206,550**	229,075
		Investment securities:			
866,205	**832,659**	- Available-for-sale	9	**320,574**	333,489
593,639	**1,091,418**	- Held to maturity	9	**420,196**	228,551
94,925	**123,244**	Investment in associates	11	**47,449**	36,547
173,119	**186,660**	Property and equipment	12	**71,864**	66,651
22,042,725	**25,268,359**			**9,728,318**	8,486,450
		LIABILITIES AND EQUITY			
		LIABILITIES			
1,737,291	**2,308,621**	Deposits from banks	14	**888,819**	668,857
14,423,150	**16,361,948**	Customers' deposits	15	**6,299,350**	5,552,913
241,448	**734,439**	Islamic customers' deposit	15	**282,759**	92,957
122,078	**119,481**	Certificates of deposit	16	**46,000**	47,000
77,410	**-**	Unsecured bonds	17	**-**	29,803
488,575	**493,452**	Euro medium term notes	18	**189,979**	188,102
120,602	**161,660**	Mandatory convertible bonds	19	**62,239**	46,432
959,279	**981,327**	Other liabilities	20	**377,811**	369,323
82,862	**74,919**	Taxation	21	**28,844**	31,902
641,213	**624,545**	Subordinated liabilities	22	**240,450**	246,867
18,893,908	**21,860,392**			**8,416,251**	7,274,156
		EQUITY			
		Equity attributable to equity holders of parent			
559,029	**566,933**	Share capital	23	**218,269**	215,226
1,173,603	**1,207,665**	Share premium		**464,951**	451,837
424,395	**441,060**	General reserve	24	**169,808**	163,392
186,325	**188,977**	Legal reserve	24	**72,756**	71,735
13,364	**13,364**	Revaluation reserve	12	**5,145**	5,145
230,475	**308,052**	Subordinated loan reserve	25	**118,600**	88,733
997	**(1,496)**	Cash flow hedge reserve	38	**(576)**	384
42,701	**56,205**	Cumulative changes in fair value		**21,639**	16,440
(9,322)	**(2,403)**	Foreign currency translation reserve		**(925)**	(3,589)
526,686	**629,610**	Retained profit		**242,400**	202,774
3,148,253	**3,407,967**			**1,312,067**	1,212,077
564	**-**	Non-controlling interests	10	**-**	217
3,148,817	**3,407,967**	**TOTAL EQUITY**		**1,312,067**	1,212,294
22,042,725	**25,268,359**	**TOTAL LIABILITIES AND EQUITY**		**9,728,318**	8,486,450
US$ 1.46	**US$ 1.56**	Net assets per share	27	**RO 0.601**	RO 0.563
5,476,821	**6,487,431**	Contingent liabilities and commitments	28	**2,497,661**	2,108,576

The consolidated financial statements were authorised on ______ 2015 for issue in accordance with a resolution of the Board of Directors.

Chairman **Director** **Chief Executive**

The attached notes 1 to 43 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2014

2013 US$ 000's	***2014 US$ 000's***		*Notes*	***2014 RO 000's***	*2013 RO 000's*
829,932	**843,055**	Interest income	29	**324,576**	319,524
(251,632)	**(253,662)**	Interest expense	30	**(97,660)**	(96,878)
578,300	**589,393**	**NET INTEREST INCOME**		**226,916**	222,646
37,494	**52,938**	Income from Islamic financing	29	**20,381**	14,435
(4,569)	**(9,504)**	Distribution to depositors	30	**(3,659)**	(1,759)
32,925	**43,434**	**Net income from Islamic financing**		**16,722**	12,676
611,225	**632,827**	**Net interest income and income from Islamic financing**		**243,638**	235,322
210,797	**243,943**	Commission and fee income (net)	31	**93,918**	81,157
61,499	**118,322**	Other operating income	32	**45,554**	23,677
883,521	**995,092**	**OPERATING INCOME**		**383,110**	340,156
		OPERATING EXPENSES			
(344,641)	**(381,003)**	Other operating expenses	33	**(146,686)**	(132,687)
(28,564)	**(29,101)**	Depreciation	12	**(11,204)**	(10,997)
(373,205)	**(410,104)**			**(157,890)**	(143,684)
(894)	**(2,223)**	Impairment for due from banks	6	**(856)**	(344)
(131,070)	**(167,091)**	Impairment for credit losses	7	**(64,330)**	(50,462)
84,488	**67,696**	Recoveries from provision for credit losses	7	**26,063**	32,528
(4,823)	**(3,486)**	Impairment for investments available-for-sale	9	**(1,342)**	(1,857)
(7,138)	**-**	Impairment for an associate	11	**-**	(2,748)
3,387	**3,935**	Share of results from associates	11	**1,515**	1,304
(429,255)	**(511,273)**			**(196,840)**	(165,263)
454,266	**483,819**	**PROFIT BEFORE TAXATION**		**186,270**	174,893
(58,964)	**(59,852)**	Tax expense	21	**(23,043)**	(22,701)
395,302	**423,967**	**PROFIT FOR THE YEAR**		**163,227**	152,192
		OTHER COMPREHENSIVE INCOME			
		Net other comprehensive income to be reclassified to profit or loss in subsequent periods			
(1,730)	**8,888**	Foreign currency translation of investment in associates	11	**3,422**	(666)
(218)	**(1,969)**	Translation of net investments in foreign operations		**(758)**	(84)
(3,034)	**2,982**	Share of other comprehensive income of an associate	11	**1,148**	(1,168)
23,899	**10,522**	Change in fair value of investments available-for-sale	21	**4,051**	9,201
7,226	**(2,494)**	Change in fair value of cash flow hedge	38	**(960)**	2,782
26,143	**17,929**	**OTHER COMPREHENSIVE INCOME FOR THE YEAR**		**6,903**	10,065
421,445	**441,896**	**TOTAL COMPREHENSIVE INCOME FOR THE YEAR**		**170,130**	162,257

Items in the other comprehensive income are disclosed net of tax. The income tax relating to each component of other comprehensive income is disclosed in note 21.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (continued)

For the year ended 31 December 2014

2013	***2014***			***2014***	*2013*
US$ 000's	***US$ 000's***		*Notes*	***RO 000's***	*RO 000's*
		Total comprehensive income attributable to:			
421,476	**441,896**	Equity holders of Parent Company		**170,130**	162,269
(31)	-	Non-controlling interests	10	**-**	(12)
421,445	**441,896**			**170,130**	162,257
		Profit attributable to:			
395,333	**423,967**	Equity holders of Parent Company		**163,227**	152,204
(31)	-	Non-controlling interests	10	**-**	(12)
395,302	**423,967**			**163,227**	152,192
		Earnings per share:			
US$ 0.19	**US$ 0.19**	- Basic	35	**RO 0.075**	RO 0.072
US$ 0.18	**US$ 0.19**	- Diluted	35	**RO 0.072**	RO 0.070

The attached notes 1 to 43 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT CHANGES IN EQUITY
For the year ended 31 December 2014

Attributable to equity holders of Parent Company

RO 000's

	Notes	*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*	*Sub total*	*Non-controlling interest*	*Total*
At 1 January 2014		215,226	451,837	163,392	71,735	5,145	88,733	384	16,440	(3,589)	202,774	1,212,077	217	1,212,294
Profit for the year		-	-	-	-	-	-	-	-	-	163,227	163,227	-	163,227
Share of other comprehensive income of associates		-	-	-	-	-	-	-	1,148	3,422	-	4,570	-	4,570
Other comprehensive income		-	-	-	-	-	-	(960)	4,051	(758)	-	2,333	-	2,333
Total comprehensive income for the year		-	-	-	-	-	-	(960)	5,199	2,664	163,227	170,130	-	170,130
Dividends paid	26	-	-	-	-	-	-	-	-	-	(53,807)	(53,807)	-	(53,807)
Issue of mandatory convertible bonds	26	-	-	-	-	-	-	-	-	-	(31,964)	(31,964)	-	(31,964)
Issue expenses of mandatory convertible bonds	26	-	-	-	-	-	-	-	-	-	(320)	(320)	-	(320)
Transfer to legal reserve	24	-	-	-	1,021	-	-	-	-	-	(1,021)	-	-	-
Conversion of convertible bonds	26	3,043	13,114	-	-	-	-	-	-	-	-	16,157	-	16,157
Transfer from subordinated loan reserve	25	-	-	6,416	-	-	(6,416)	-	-	-	-	-	-	-
Transfer to subordinated loan reserve	25	-	-	-	-	-	36,283	-	-	-	(36,283)	-	-	-
Other movements		-	-	-	-	-	-	-	-	-	(206)	(206)	(217)	(423)
At 31 December 2014 (RO 000's)		**218,269**	**464,951**	**169,808**	**72,756**	**5,145**	**118,600**	**(576)**	**21,639**	**(925)**	**242,400**	**1,312,067**	**-**	**1,312,067**
At 31 December 2014 (US$ 000's)		**566,933**	**1,207,665**	**441,060**	**188,977**	**13,364**	**308,052**	**(1,496)**	**56,205**	**(2,403)**	**629,610**	**3,407,967**	**-**	**3,407,967**

The attached notes 1 to 43 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT CHANGES IN EQUITY (continued)
For the year ended 31 December 2014

Attributable to equity holders of Parent Company

RO 000's

	Notes	*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*	*Sub total*	*Non-controlling interest*	*Total*
At 1 January 2013		203,851	388,137	150,558	67,950	5,145	59,117	(2,398)	8,112	(2,544)	178,345	1,056,273	191	1,056,464
Profit for the year		-	-	-	-	-	-	-	-	-	152,204	152,204	(12)	152,192
Share of other comprehensive income of associates		-	-	-	-	-	-	-	(873)	(295)	-	(1,168)	-	(1,168)
Other comprehensive income		-	-	-	-	-	-	2,782	9,201	(750)	-	11,233	-	11,233
Total comprehensive income for the year		-	-	-	-	-	-	2,782	8,328	(1,045)	152,204	162,269	(12)	162,257
Dividends paid	26	-	-	-	-	-	-	-	-	-	(50,963)	(50,963)	-	(50,963)
Issue of mandatory convertible bonds	26	-	-	-	-	-	-	-	-	-	(30,275)	(30,275)	-	(30,275)
Issue expenses of mandatory convertible bonds	26	-	-	-	-	-	-	-	-	-	(302)	(302)	-	(302)
Issue of shares during the year	23	11,375	63,700	-	-	-	-	-	-	-	-	75,075	-	75,075
Transfer to legal reserve	24	-	-	-	3,785	-	-	-	-	-	(3,785)	-	-	-
Transfer from subordinated loan reserve	25	-	-	12,834	-	-	(12,834)	-	-	-	-	-	-	-
Transfer to subordinated loan reserve	25	-	-	-	-	-	42,450	-	-	-	(42,450)	-	-	-
Other movements		-	-	-	-	-	-	-	-	-	-	-	38	38
At 31 December 2013 (RO 000's)		215,226	451,837	163,392	71,735	5,145	88,733	384	16,440	(3,589)	202,774	1,212,077	217	1,212,294
At 31 December 2013 (US$ 000's)		559,029	1,173,603	424,395	186,325	13,364	230,475	997	42,701	(9,322)	526,686	3,148,253	564	3,148,817

The attached notes 1 to 43 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended 31 December 2014

2013 US$ 000's	***2014 US$ 000's***		*Notes*	***2014 RO 000's***	*2013 RO 000's*
		CASH FLOWS FROM OPERATING ACTIVITIES			
454,266	**483,819**	**Profit for the year before taxation**		**186,270**	174,893
		Adjustments for:			
(3,387)	**(3,935)**	Share of results from associates	11	**(1,515)**	(1,304)
28,564	**29,101**	Depreciation	12	**11,204**	10,997
4,823	**3,486**	Impairment for investments available-for-sale	9	**1,342**	1,857
131,070	**167,091**	Impairment for credit losses	7	**64,330**	50,462
894	**2,223**	Impairment for due from banks		**856**	344
7,138	**-**	Impairment for an associate	11	**-**	2,748
(84,488)	**(67,696)**	Recoveries from impairment for credit losses	7	**(26,063)**	(32,528)
(405)	**(345)**	Profit on sale of property and equipment		**(133)**	(156)
(16,018)	**(36,091)**	Profit on sale of investments		**(13,895)**	(6,167)
(5,249)	**(10,166)**	Dividend income		**(3,914)**	(2,021)
517,208	**567,487**	**Operating profit before working capital changes**		**218,482**	199,125
(500,208)	**(200,655)**	Due from banks		**(77,252)**	(192,580)
(728,610)	**(1,449,306)**	Loans and advances		**(557,983)**	(280,515)
(725,488)	**(320,397)**	Islamic financing receivables		**(123,353)**	(279,313)
(63,977)	**56,553**	Other assets		**21,773**	(24,631)
(317,161)	**(13,987)**	Deposits from banks		**(5,385)**	(122,107)
594,538	**1,938,797**	Customers' deposits		**746,437**	228,897
241,447	**492,992**	Islamic customers' deposits		**189,802**	92,957
(17,143)	**(2,597)**	Certificates of deposit		**(1,000)**	(6,600)
(64,935)	**(77,410)**	Unsecured deposits		**(29,803)**	(25,000)
500,000	**-**	Euro medium term notes		**-**	192,500
(179)	**17,173**	Other liabilities		**6,612**	(70)
(564,508)	**1,008,650**	Cash from (used in) operations		**388,330**	(217,337)
(45,961)	**(55,538)**	Income taxes paid		**(21,382)**	(17,695)
(610,469)	**953,112**	**Net cash from (used in) operating activities**		**366,948**	(235,032)
		CASH FLOWS FROM INVESTING ACTIVITIES			
-	**3,805**	Dividend from an associate	11	**1,465**	-
5,249	**10,166**	Dividends received from investment securities		**3,914**	2,021
(263,000)	**(152,953)**	Purchase of investments		**(58,887)**	(101,255)
205,886	**201,725**	Proceeds from sale of investments		**77,664**	79,266
(22,634)	**(43,938)**	Purchase of property and equipment	12	**(16,916)**	(8,714)
1,249	**1,618**	Proceeds from sale of property and equipment		**623**	481
(73,250)	**20,423**	**Net cash from (used in) investing activities**		**7,863**	(28,201)
		CASH FLOWS FROM FINANCING ACTIVITIES			
(132,371)	**(139,758)**	Dividends paid		**(53,807)**	(50,963)
195,000	**-**	Proceeds from issue of shares		**-**	75,075
(33,332)	**(16,668)**	Subordinated loan paid		**(6,417)**	(12,833)
99	**-**	Non-controlling interests		**-**	38
29,396	**(156,426)**	**Net cash (used in) from financing activities**		**(60,224)**	11,317

CONSOLIDATED STATEMENT OF CASH FLOWS (continued)
For the year ended 31 December 2014

2013 US$ 000's	***2014 US$ 000's***			***2014 RO 000's***	*2013 RO 000's*
(654,323)	**817,109**	**NET CHANGE IN CASH AND CASH EQUIVALENTS**		**314,587**	(251,916)
2,849,505	**2,195,182**	Cash and cash equivalents at 1 January		**845,145**	1,097,061
2,195,182	**3,012,291**	**CASH AND CASH EQUIVALENTS AT 31 DECEMBER**	34	**1,159,732**	845,145

The attached notes 1 to 43 form part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
As at 31 December 2014

1. LEGAL STATUS AND PRINCIPAL ACTIVITIES

bank muscat (SAOG) (the Bank or the Parent Company) is a joint stock company incorporated in the Sultanate of Oman and is engaged in commercial and investment banking activities through a network of 148 branches within the Sultanate of Oman and one branch in Riyadh, Kingdom of Saudi Arabia and one in Kuwait. The Bank has representative offices in Dubai, United Arab Emirates and Singapore. The Bank has a subsidiary in Riyadh, Kingdom of Saudi Arabia. The Bank operates in Oman under a banking license issued by the Central Bank of Oman (CBO) and is covered by its deposit insurance scheme. The Bank has its primary listing on the Muscat Securities Market.

The Bank and its subsidiary (together, the Group) operate in five countries (2013 - five countries) and employed 3,607 employees as of 31 December 2014 (2013: 3,360).

During 2013, the Parent Company inaugurated "Meethaq Islamic banking window" (“Meethaq”) in the Sultanate of Oman to carry out banking and other financial activities in accordance with Islamic Shari’a rules and regulations. Meethaq operates under an Islamic banking license granted by the CBO on 13 January 2013. Meethaq’s Shari’a Supervisory Board is entrusted to ensure Meethaq's adherence to Shari’a rules and principles in its transactions and activities. The principal activities of Meethaq include: accepting customer deposits; providing Shari'a compliant financing based on various Shari'a compliant modes; undertaking Shari'a compliant investment activities permitted under the CBO's Regulated Islamic Banking Services as defined in the licensing framework. As of 31 December 2014, Meethaq has 11 branches (2013 - 5 branches) in the Sultanate of Oman.

2. BASIS OF PREPERATION

2.1 Statement of compliance

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

The preparation of consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 4.

2.2 Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis, modified to include the revaluation of freehold land and buildings and the measurement at fair value of derivative financial instruments and available-for-sale investment securities.

The consolidated statement of financial position is presented in descending order of liquidity as this presentation is more appropriate to the Group’s operations.

2. BASIS OF PREPERATION (continued)

2.2 Basis of preparation (continued)

The Islamic window operation of the Parent Company; "Meethaq" uses Financial Accounting Standards ("FAS"), issued by Accounting and Auditing Organisation for Islamic Financial Institutions ("AAOIFI"), for preparation and reporting of its financial information. Meethaq's financial information is included in the results of the Bank, after adjusting financial reporting differences, if any, between AAOIFI and IFRS.

For the ease of users, relevant balances of Meethaq are separately presented in these consolidated financial statements wherever applicable. A complete set of standalone financial statements of Meethaq, prepared under AAOIFI, is included in the annual report.

2.3 Functional and presentation currency

These consolidated financial statements are presented in Rial Omani, which is the Group's functional currency and also in US Dollars, for the convenience of the readers. The US Dollar amounts, which are presented in these consolidated financial statements have been translated from the Rial Omani amounts at an exchange rate of US Dollar 1 = RO .385. All financial information presented in Rial Omani and US Dollars has been rounded to the nearest thousands, unless otherwise stated.

2.4 (a) New and amended standards and interpretations to IFRS relevant to the Group

For the year ended 31 December 2014, the Group has adopted all of the new and revised standards and interpretations issued by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB that are relevant to its operations and effective for periods beginning on 1 January 2014.

The following new standards and amendments became effective as of 1 January 2014:

- Investment Entities – Amendments to IFRS 10 Consolidated Financial Statements, IFRS 12 Disclosure of Interests in Other Entities and IAS 27 Separate Financial Statements
- Offsetting Financial Assets and Financial Liabilities — Amendments to IAS 32 Financial Instruments: Presentation
- Recoverable Amount Disclosures for Non-Financial Assets — Amendments to IAS 36 Impairment of Assets
- Novation of Derivatives and Continuation of Hedge Accounting — Amendments to IAS 39 Financial Instruments: Recognition and Measurement
- IFRIC 21 Levies
- Improvements to IFRSs – 2010-2012 Cycle: Amendments to IFRS 13 – Short-term receivables and payables"
- Improvements to IFRSs – 2011-2013 Cycle: Amendments to IFRS 1 – Meaning of 'effective IFRSs'

The adoption of those standards and interpretations has not resulted in any major changes to the Group's accounting policies and has not affected the amounts reported for the current and prior periods.

2. BASIS OF PREPERATION (continued)

2.4 (b) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group:

The following new standards and amendments have been issued by the International Accounting Standards Board (IASB) but are not yet mandatory for the year ended 31 December 2014:

- IFRS 15, Revenue from Contracts with Customers: effective for annual periods commencing 1 January 2017;
- IFRS 9, Financial Instruments - Hedge accounting: effective for annual periods commencing 1 January 2015;
- IFRS 14 Regulatory Deferral Accounts
- Amendments to IAS 19 Defined Benefit Plans: Employee Contributions

IFRS 9 Financial Instruments
In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments which reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. Early application of previous versions of IFRS 9 (2009, 2010 and 2013) is permitted if the date of initial application is before 1 February 2015. The adoption of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but no impact on the classification and measurement of the Group's financial liabilities.

Other IASB Standards and Interpretations that have been issued but are not yet mandatory, and have not been early adopted by the Group, are not expected to have a material impact on the Group's consolidated financial statements.

2.5 Consolidation

(a) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group and its subsidiary as at 31 December 2014. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee, and
- The ability to use its power over the investee to affect its returns

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee.
- Rights arising from other contractual arrangements.
- The Group's voting rights and potential voting rights.

2. BASIS OF PREPERATION (continued)

2.5 Consolidation (continued)

(a) Basis of consolidation (continued)

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- derecognises the assets (including goodwill) and liabilities of the subsidiary
- derecognises the carrying amount of any non-controlling interests
- derecognises the cumulative translation differences recorded in equity
- recognises the fair value of the consideration received
- recognises the fair value of any investment retained
- recognises any surplus or deficit in profit or loss
- reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

(b) Transactions with non-controlling interests

The Group treats transactions with non-controlling interests as transactions with equity owners of the group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

When the Group ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

2 BASIS OF PREPARATION (continued)

2.5 Consolidation (continued)

(c) Investment in associates

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

The considerations made in determining significant influence or joint control is similar to those necessary to determine control over subsidiaries. The Group's investments in its associates are accounted for using the equity method.

Under the equity method, the investment in an associate is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the associate since the acquisition date. Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment.

The statement of profit or loss reflects the Group's share of the results of operations of the associate. Any change in other comprehensive income of those investees is presented as part of the Group's other comprehensive income. In addition, when there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes, when applicable, in the statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

The aggregate of the Group's share of profit or loss of an associate is shown on the face of the statement of profit or loss outside operating profit and represents profit or loss after tax and non-controlling interests in the subsidiaries of the associate.

The financial statements of the associate are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investment in its associate. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value, then recognises the loss as 'Share of results of associates in the statement of profit or loss.

Upon loss of significant influence over the associate, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently by the Group to all periods presented in these consolidated financial statements

3.1 Foreign currency translation

(i) Transactions in foreign currencies are translated into Rial Omani at exchange rates 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. The foreign currency gain or loss on monetary items is the difference between amortised costs in the Rial Omani at the beginning of the period, adjusted for effective interest and payments during the period and the amortised costs in foreign currency translated at the exchange rate at the end of the period. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income, except when deferred in other comprehensive income as qualifying cash flow hedges and qualifying net investment hedges.

(iii) Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to Rial Omani at the exchange rate at the date that the fair value was determined. Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets, such as equities classified as available-for-sale, are included in other comprehensive income.

(iv) On consolidation, the assets and liabilities of foreign operations are translated into Rial Omani at the rate of exchange prevailing at the reporting date and their income statements are translated at exchange rates prevailing at the dates of the transactions. The exchange differences arising on translation for consolidation are recognised in other comprehensive income. 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. Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operations and translated at closing rate.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Revenue and expense 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.

3.2.1 Interest

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 effective interest rate (EIR). EIR 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 Group 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 "interest income' for financial assets and "interest expense" for financial liabilities. However, for a reclassified financial asset for which the Group subsequently increases its estimates of future cash receipts as a result of increased recoverability of those cash receipts, the effect of that increase is recognised as an adjustment to the EIR from the date of the change in estimate.

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

3.2.2 Fees and commission

Fees and commission income and expenses that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate. Other fees and commission income, including service charges, advisory fees, processing fees, syndication fees and others are recognised when they are due.

3.2.3 Dividends

Dividend income is recognised in the consolidated statement of comprehensive income in ‘Other operating income, when the Group’s right to receive income is established.

3.2.4 Provisions

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3 Financial assets and liabilities

3.3.1 Classification

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

(a) Financial assets at fair value through profit or loss

Financial assets and financial liabilities classified in this category are those that have been designated by management upon initial recognition. Management may only designate an instrument at fair value through profit or loss upon initial recognition when the following criteria are met, and designation is determined on an instrument-by-instrument basis:

i) The designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on them on a different basis.

ii) 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.

iii) The financial instrument contains one or more embedded derivatives, which significantly modify the cash flows that would otherwise be required by the contract.

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 earned or incurred is accrued in interest income or interest expense, respectively, using the EIR, while dividend income is recorded in other operating income when the right to the payment has been established.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

When the Group is the lessor in a lease agreement that transfers substantially all of the risks and rewards incidental to ownership of an asset to the lessee, the arrangement is presented within loans and advances.

Loans and receivables are initially recognised at fair value – which is the cash consideration to originate or purchase the loan including any transaction costs – and measured subsequently at amortised cost using the effective interest rate method. Interest on loans is included in the consolidated statement of comprehensive income and is reported as ‘interest income’. In the case of an impairment, the impairment loss is reported as a deduction from the carrying value of the loan and recognised in the consolidated statement of comprehensive income as ‘Impairment for credit losses’.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3 Financial assets and liabilities (continued)

3.3.1 Classification (continued)

(c) Held to maturity

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

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

Interest on held to maturity investments is included in the consolidated statement of comprehensive income and reported as ‘interest income’. In the case of impairment, the impairment loss is been reported as a deduction from the carrying value of the investment and recognised in the consolidated statement of comprehensive income as ‘impairment for investments’. Held to maturity investments are corporate bonds and treasury bills.

(d) Available-for-sale financial assets

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 intended to be held for an indefinite period of time and 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.

Unrealised gains and losses are recognised directly in equity (other comprehensive income) in the change in fair value of investments available-for-sale. When the investment is disposed of, the cumulative gain or loss previously recognised in equity is recognised in the profit or loss in other operating income. 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 profit or loss 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 in impairment for investments and removed from the change in fair value of investments available-for-sale.

(e) ‘Day 1’ profit or loss

When the transaction price differs from the fair value of other observable current market transactions in the same instrument, or based on a valuation technique whose variables include only data from observable markets, the Bank immediately recognises the difference between the transaction price and fair value (a Day 1 profit or loss) in other operating income. In cases where fair value is determined using data which is not observable, the difference between the transaction price and model value is only recognised in the income statement when the inputs become observable, or when the instrument is derecognised.

3.3.2 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 Group designates certain derivatives as either:

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3.2 Derivative financial instruments and hedging activities (continued)

(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).

The Group 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 Group 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 Group 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 Group also assesses whether the transaction is highly probable and an exposure to variations in cash flows that could ultimately affect the profit or loss.

(i) 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.

(ii) Cash flow hedges

For designated and qualifying cash flow hedges, the effective portion of the cumulative gain or loss on the hedging instrument is initially recognised directly in equity in the Cash flow hedge reserve. The ineffective portion of the gain or loss on the hedging instrument is recognised immediately in other operating income in the profit or loss.

When the hedged cash flow affects the profit or loss, the gain or loss on the hedging instrument is recorded in the corresponding income or expense line of the profit or loss. When the forecast transaction subsequently results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously recognised in the other comprehensive income are removed from the reserve and included in the initial cost of the asset or liability.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3 Financial assets and liabilities (continued)

3.3.2 Derivative financial instruments and hedging activities (continued)

(ii) Cash flow hedges (continued)
When a hedging instrument expires, or is sold, terminated, exercised, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss that has been recognised in other comprehensive income at that time remains in other comprehensive income and is recognised when the hedged forecast transaction is ultimately recognised in the profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in other comprehensive income is immediately transferred to the profit or loss.

3.3.3 Recognition

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

3.3.4 Derecognition

(i) 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 when:

- The rights to receive cash flows from the asset have expired
- The Group 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:
  - The Group has transferred substantially all the risks and rewards of the asset; Or
  - The Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset

When the Group 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 of the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. In that case, the Group 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 Group could be required to repay.

(ii) 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. The difference between the carrying value of the original financial liability and the consideration paid is recognised in profit or loss.

3.3.5 Offsetting

Financial assets and financial liabilities are only offset and the net amount reported in the statement of financial position when there is a legally enforceable right to set off the recognised amounts and the Group intends to either settle on a net basis or to realise the asset and settle the liability simultaneously. Income and expenses are presented on a net basis only when permitted by the accounting standards or for gains and losses arising from a Group of similar transactions.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3.6 Amortised cost measurement

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

3.3.7 Fair value measurement

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on a number of accounting policies and methods. Where applicable, information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability. Details are set out in note 43.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible to the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

At each reporting date, the Group analyses the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per the Group's accounting policies. For this analysis, the Group verifies the major inputs applied in the latest valuation by agreeing the information in the Valuation computation to contracts and other relevant documents.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3 Financial assets and liabilities (continued)

3.3.7 Fair value measurement (continued)

The Group also compares each the changes in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

3.3.8 Investment in equity and debt securities

For investments traded in organised financial markets, fair value is determined by reference to Stock Exchange quoted market prices at the close of business on the reporting date.

The fair value of interest-bearing items is estimated based on discounted cash flows using interest rates for items with similar terms and risk characteristics.

For unquoted equity investments fair value is determined by reference to the market value of a similar investment or is based on the expected discounted cash flows.

3.3.9 Fair value measurement of financial assets

The fair value of forward contracts is estimated based on observable market inputs for such contracts as on the reporting date.

The fair value of interest rate swaps is arrived at by discounting estimated future cash flows based on the terms and maturity of each contract and using market interest rates for a similar instrument at the measurement date.

3.4 Identification and measurement of impairment of financial assets

(a) Assets carried at amortised cost

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

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

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.4 Identification and measurement of impairment of financial assets (continued)

(a) Assets carried at amortised cost (continued)

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a Group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

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

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

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

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

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

If in a subsequent period, the amount of impairment loss decreases and decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the consolidated statement of comprehensive income. Also refer to notes 2.5 (c) associates, 3.3.1. (b) loans and receivables and 3.3.1. (c) held to maturity investments.

(b) Assets classified as available-for-sale

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. For debt securities, the Group uses the criteria referred to at (a) above. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss - is removed from equity and recognised in the profit or loss. Impairment losses on equity instruments recognised in the profit or loss are not reversed through separate profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the profit or loss.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.4 Identification and measurement of impairment of financial assets (continued)

(c) 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.

3.5 Non-current assets held for sale

The Group classifies non-current assets and disposal groups as held for sale if their carrying amounts will be recovered principally through a sale rather than through continuing use. Such non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell.

The criteria for held for sale classification is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of reclassification.

Equity accounting for investment in associate ceases once classified and included as held for sale.

Investment in an associate classified as held for sale is disclosed in Note 8 to the consolidated financial statements.

3.6 Cash and cash equivalents

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

3.7 Due from banks

These are stated at cost, less any amounts written off and provisions for impairment. Due from banks include Nostro balances, placements and loans to banks.

3.8 Property and equipment

Items of property and equipment are measured at cost less accumulated depreciation and impairment loss. Cost includes expenditures that are directly attributable to the acquisition of the asset.

When parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

Revaluations of freehold land and buildings are carried out every five years on an open market value for existing use basis, by an independent valuer. Increases in the carrying amount arising on revaluation are credited to other comprehensive income and shown as revaluation reserve in shareholders' equity. Decreases that offset previous increases of the same asset are charged in other comprehensive income and debited against other reserves directly in equity; all other decreases are charged to the statement of comprehensive income. On disposal the related revaluation surplus is transferred directly to retained earnings. Transfers from revaluation surplus to retained earnings are not made through statement of comprehensive income. Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives, as follows:

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.8 Property and equipment (continued)

	Years
Freehold and leasehold buildings	20 - 50
Leased hold improvements	5 - 10
Furniture, fixtures and equipment	5 - 10
Motor vehicles	3 - 5

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

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

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

Repairs and renewals are charged to the statement of comprehensive income when the expense is incurred. Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the item of property and equipment. All other expenditure is recognised in the statement of comprehensive income as an expense as incurred.

3.9 Collateral pending sale

The Group 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 statement of comprehensive income.

3.10 Business combination and Goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred measured at acquisition date fair value and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, any previously held equity interest is re-measured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss. It is then considered in the determination of goodwill.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IAS 39 *Financial Instruments: Recognition and Measurement*, is measured at fair value with changes in fair value recognised either in either profit or loss or as a change to OCI. If the contingent consideration is not within the scope of IAS 39, it is measured in accordance with the appropriate IFRS. Contingent consideration that is classified as equity is not re-measured and subsequent settlement is accounted for within equity.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.10 Business combination and Goodwill (continued)

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests, and any previous interest held, over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the re-assessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill has been allocated to a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

3.11 Deposits

Deposits from banks and customers, debt securities and subordinated liabilities are the Group's sources of funding. These are initially measured at fair value plus transaction costs and subsequently measured at their amortised cost using the EIR.

3.12 Income tax

Income tax expense comprises current and deferred tax. Taxation is provided in accordance with Omani fiscal regulations.

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

Income tax is recognised in the profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Deferred tax assets/liabilities are calculated using the balance sheet 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 the 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.

The carrying amount of deferred income tax assets/liabilities is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.13 Fiduciary assets

The Group provides trustee, corporate administration, investment management and advisory services to third parties, which involve the Group making allocation and purchase and sale decisions in relation to a wide range of financial instruments. Those assets that are held in a fiduciary capacity are not included in these consolidated financial statements.

3.14 Acceptances

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

3.15 Repurchase and resale agreements

Securities sold subject to repurchase agreements ('repos') are reclassified in the financial statements as pledged assets when the transferee has the right by contract or custom to sell or repledge the collateral; the counterparty liability is included in deposits from banks or deposits from customers, as appropriate. Securities purchased under agreements to resell ('reverse repos') are recorded as loans and advances to other banks or customers, as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest method. Securities lent to counterparties are also retained in the consolidated financial statements.

3.16 Trade and settlement date accounting

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

3.17 Leases

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term.

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense in the statement of comprehensive income on a straight-line basis over the lease term.

3.18 Employee terminal benefits

Contributions to a defined contribution retirement plan, for Omani employees, in accordance with the Oman Social Insurance Scheme, are recognised as expense in the statement of comprehensive income when accrued.

The Group's obligation in respect of non-Omani terminal benefits, which is an unfunded defined benefit retirement plan, is the amount of future benefit that such employees have earned in return for their service in current and prior periods.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.19 Earnings per share

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

3.20 Financial guarantees contracts

Financial guarantees are contracts that require the issuer to make specified payments to reimburse the beneficiary for a loss incurred because the debtor fails to make payments when due, in accordance with the terms of the debt. Such guarantees are given to banks, financial institutions or other entities on behalf of the customers.

Financial guarantees are initially recognised in the financial statements at fair value on the date the guarantee was issued. Subsequent to initial recognition, the bank’s liabilities under such guarantees are measured at the higher of initial measurement, less amortisation calculated to recognise in the statement of comprehensive income the fee income earned on the straight line basis over the life of the guarantee and the best estimate of the expenditure required to settle any financial obligation arising at the reporting date. These estimates are determined based on experience of similar transactions and history of past losses, supplemented by the judgment of management. Any increase in the liability relating to guarantees is taken to the statement of comprehensive income.

3.21 Borrowings

Borrowings are recognised initially at fair value, being their issue proceeds (fair value of consideration received) net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds, net of transaction costs, and the redemption value is recognised in the statement of comprehensive income over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

3.22 Dividend on ordinary shares

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

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

3.23 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.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of consolidated financial statements requires the Management to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. The resulting accounting estimates will, by definition, seldom equal the related actual results. Specific fair value estimates are disclosed in note 43.

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

(a) Impairment losses on loans and advances

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

(b) Impairment on due from banks

The Group reviews its portfolio of due from banks on a quarterly basis to assess impairment. In determining whether an impairment loss should be recorded in the consolidated statement of comprehensive income, the Group makes judgements as to whether there is any observable data indicating an impairment. For individually impaired placements, the Group considers the necessary impairment loss based on the expected cash flows and borrower's financial position. In addition, the Group assesses the portfolio on a collective basis and estimates the collective impairment loss if any. The judgements and estimates used for impairment assessment depend on a number of parameters which include the borrower's financial condition, local and international economic conditions and economic outlook.

(c) Fair value of derivatives and other financial instruments

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

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

(d) Impairment of available-for-sale equity investments

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

(e) Impairment loss on investments in associates

The Group reviews its investments in associates periodically and evaluates the objective evidence of impairment. Objective evidence includes the performance of associate, the future business model, local economic conditions and other relevant factors. Based on the objective evidences, the Group determines the need for impairment loss on investments in associates.

(f) Taxes

Uncertainties exist with respect to the interpretation of tax regulations and the amount and timing of future taxable income. Given the wide range of business relationships and nature of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense already recorded. The Group establishes provisions, based on reasonable estimates, for possible consequences of finalisation of tax assessments of the Group. The amount of such provisions is based on various factors, such as experience of previous tax assessments and differing interpretations of tax regulations by the taxable entity and the responsible tax authority.

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

5. CASH AND BALANCES WITH CENTRAL BANKS

2013 US$ 000's	***2014 US$ 000's***		***2014 RO 000's***	*2013 RO 000's*
424,901	**595,540**	Cash	**229,283**	163,587
1,299	**1,299**	Capital deposit with Central Banks	**500**	500
47,714	**418,616**	Certificate of deposits with Central Banks	**161,167**	18,370
1,038,580	**1,158,426**	Other balances with Central Banks	**445,994**	399,853
1,512,494	**2,173,881**		**836,944**	582,310

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

6. DUE FROM BANKS

2013 US$ 000's	***2014 US$ 000's***		***2014 RO 000's***	*2013 RO 000's*
379,558	**684,688**	Nostro balances	**263,605**	146,130
1,641,197	**1,726,686**	Inter-bank placements	**664,774**	631,861
241,777	**299,732**	Loans to banks	**115,397**	93,084
2,262,532	**2,711,106**		**1,043,776**	871,075
(10,634)	**(12,857)**	Provision for impairment	**(4,950)**	(4,094)
2,251,898	**2,698,249**		**1,038,826**	866,981

The movement in provision for impairment is analysed below:

2013 US$ 000's	***2014 US$ 000's***		***2014 RO 000's***	*2013 RO 000's*
9,740	**10,634**	1 January	**4,094**	3,750
894	**2,223**	Provided during the year	**856**	344
10,634	**12,857**	31 December	**4,950**	4,094

7. LOANS AND ADVANCES/ISLAMIC FINANCING RECEIVABLES

Loans and advances - conventional

2013 US$ 000's	***2014 US$ 000's***		***2014 RO 000's***	*2013 RO 000's*
13,890,655	**15,204,556**	Loans	**5,853,754**	5,347,902
659,730	**653,961**	Overdrafts and credit cards	**251,775**	253,996
576,177	**701,496**	Loans against trust receipts	**270,076**	221,828
124,213	**52,551**	Bills purchased and discounted	**20,232**	47,822
530,977	**626,106**	Other advances	**241,051**	204,426
15,781,752	**17,238,670**		**6,636,888**	6,075,974
(551,795)	**(652,631)**	Provision for impairment	**(251,263)**	(212,441)
15,229,957	**16,586,039**		**6,385,625**	5,863,533

Islamic financing receivables

2013 US$ 000's	***2014 US$ 000's***		***2014 RO 000's***	*2013 RO 000's*
519,468	**708,475**	Housing finance	**272,763**	199,995
28,234	**78,894**	Consumer finance	**30,374**	10,870
191,114	**272,166**	Corporate finance	**104,784**	73,579
738,816	**1,059,535**		**407,921**	284,444
(13,327)	**(19,821)**	Provision for impairment	**(7,631)**	(5,131)
725,489	**1,039,714**		**400,290**	279,313

7. LOANS AND ADVANCES /ISLAMIC FINANCING RECEIVABLES (continued)

The movement in provision for impairment is analysed below:

Impairment for credit losses

2013 US$ 000's	***2014 US$ 000's***		***2014 RO 000's***	*2013 RO 000's*
493,145	**524,213**	**1 January**	**201,822**	189,861
131,070	**167,091**	Provided during the year	**64,330**	50,462
(76,260)	**(65,119)**	Released during the year	**(25,071)**	(29,360)
(33,200)	**(3,252)**	Written off during the year	**(1,252)**	(12,782)
9,488	**6,535**	Transfer from memorandum portfolio	**2,516**	3,653
(30)	**(311)**	Foreign currency translation difference	**(120)**	(12)
-	**(11,622)**	Transfer to collateral pending sale	**(4,475)**	-
524,213	**617,535**	**31 December (a)**	**237,750**	201,822

Contractual interest/profit not recognised

2013 US$ 000's	***2014 US$ 000's***		***2014 RO 000's***	*2013 RO 000's*
54,460	**40,909**	At 1 January	**15,750**	20,967
31,312	**34,287**	Contractual interest not recognised	**13,201**	12,055
(21,904)	**(13,761)**	Contractual interest recovered	**(5,298)**	(8,433)
(23,642)	**(6,582)**	Written off during the year	**(2,534)**	(9,102)
683	**384**	Transfer from memorandum portfolio	**148**	263
-	**(156)**	Transfer to memorandum portfolio	**(60)**	-
-	**(164)**	Transfer to collateral pending sale	**(63)**	-
40,909	**54,917**	**At 31 December (b)**	**21,144**	15,750
565,122	**672,452**	Total impairment (a) + (b)	**258,894**	217,572

Recoveries during the year of RO 26.063 million (2013: RO 32.528 million) include RO 0.992 million (2013- RO 3.168 million) recovered from loans written off earlier. The loans written off during the year include an amount of RO 0.06 million (2013: RO 10.83 million) transferred to memorandum portfolio, which were fully provided by the Group.

As of 31 December 2014, loans and advances on which contractual interest is not being accrued or has not been recognised amounted to RO 200.1 million (2013 - RO 168.4 million).

During the year, written off loans amounting to RO 2.664 million (2013: RO 3.916 million) were regularised. Accordingly these loans were reclassified from memorandum account to loans and advances. These accounts were fully provided.

8. OTHER ASSETS

2013 US$ 000's	***2014 US$ 000's***		***2014 RO 000's***	*2013 RO 000's*
307,935	**274,457**	Acceptances	**105,666**	118,555
110,997	**74,668**	Other debtors and prepaid expenses	**28,747**	42,734
73,345	**84,810**	Positive fair value of derivatives (Note 38)	**32,652**	28,238
59,166	**54,078**	Accrued interest	**20,820**	22,779
15,034	**1,855**	Deferred tax asset (Note 21)	**714**	5,788
14,759	**2,517**	Asset held for sale (Note 11.(iii))	**969**	5,682
13,503	**8,481**	Others	**3,265**	5,199
260	**35,629**	Collateral pending sale (net of provisions)	**13,717**	100
594,999	**536,495**		**206,550**	229,075

Recoveries from impairment of collateral pending sale:

2013 US$ 000's	***2014 US$ 000's***	***2014 RO 000's***	*2013 RO 000's*
86	**-**	**-**	33

The Parent Company has acquired collateral amounting to RO 18.3 million during the year towards a loan settlement. In accordance with the CBO's requirements, the bank has retained the existing impairment provision till the properties are disposed.

9. INVESTMENT SECURITIES

	Available for sale RO 000's	***Held to Maturity RO 000's***	***2014 Total RO 000's***	*2013 Total RO 000's*
Quoted investments	**267,219**	**23,891**	**291,110**	326,005
Unquoted investments:				
Treasury bills	**-**	**390,379**	**390,379**	200,528
Bonds/equities	**59,916**	**5,926**	**65,842**	44,092
Total unquoted	**59,916**	**396,305**	**456,221**	244,620
Total investments	**327,135**	**420,196**	**747,331**	570,625
Impairment losses on investments	**(6,561)**	**-**	**(6,561)**	(8,585)
Net investments	**320,574**	**420,196**	**740,770**	562,040
2013	333,489	228,551	562,040	

9. INVESTMENT SECURITIES (continued)

	Available for sale US$ 000's	***Held to Maturity US$ 000's***	***2014 Total US$ 000's***	*2013 Total US$ 000's*
Quoted investments	**694,075**	**62,055**	**756,130**	846,766
Unquoted investments:				
Treasury bills	**-**	**1,013,971**	**1,013,971**	520,852
Bonds/securities	**155,626**	**15,392**	**171,018**	114,525
Total unquoted	**155,626**	**1,029,363**	**1,184,989**	635,377
Total investments	**849,701**	**1,091,418**	**1,941,119**	1,482,143
Impairment losses on investments	**(17,042)**	**-**	**(17,042)**	(22,299)
Net investments	**832,659**	**1,091,418**	**1,924,077**	1,459,844
2013	866,205	593,639	1,459,844	

An analysis of available-for-sale investments is set out below:

2013 US$ 000's	***2014 US$ 000's***		***2014 RO 000's***	*2013 RO 000's*
		Quoted investments		
		Equity		
69,977	**73,215**	Foreign securities	**28,188**	26,941
37,397	**87,455**	Other services sector	**33,670**	14,398
26,421	**23,818**	Unit funds	**9,170**	10,172
27,088	**23,332**	Financial services sector	**8,983**	10,429
13,434	**2,444**	Industrial sector	**941**	5,172
		Debt		
515,745	**409,309**	Government bonds	**157,584**	198,562
82,852	**73,481**	Foreign bonds	**28,290**	31,898
1,065	**1,021**	Local bonds	**393**	410
773,979	**694,075**	***Total quoted investments***	**267,219**	297,982
		Unquoted investments		
		Equity		
30,506	**38,714**	Foreign securities	**14,905**	11,745
22,390	**21,930**	Local securities	**8,443**	8,620
130	**1,465**	Unit funds	**564**	50
		Debt		
61,499	**93,517**	Local bonds	**36,004**	23,677
114,525	**155,626**	***Total unquoted investments***	**59,916**	44,092
888,504	**849,701**	**Total available for sale investments**	**327,135**	342,074
(22,299)	**(17,042)**	Impairment losses on investments	**(6,561)**	(8,585)
866,205	**832,659**	**Available for sale investments (net)**	**320,574**	333,489

9. INVESTMENTS SECURITIES (continued)

The movement in impairment of investment securities is summarised as follows:

2013 US$ 000's	***2014 US$ 000's***		***2014 RO 000's***	*2013 RO 000's*
21,826	**22,299**	At 1 January	**8,585**	8,403
4,823	**3,486**	Provided during the year	**1,342**	1,857
(4,350)	**(8,743)**	Released during the year on sales	**(3,366)**	(1,675)
22,299	**17,042**	At 31 December	**6,561**	8,585

The movement in investment securities may be summarised as follows:

	Available for sale RO 000's	***Held to maturity RO 000's***	***Total RO 000's***
At 1 January 2014	333,489	228,551	**562,040**
Exchange differences on monetary assets	138	-	**138**
Additions	59,497	391,280	**450,777**
Disposals and redemption	(77,664)	(201,981)	**(279,645)**
Gain from change in fair value	4,583	-	**4,583**
Impairment losses	(1,342)	-	**(1,342)**
Amortisation of discount / premium	(2,542)	2,346	**(196)**
Realised gains on sale	4,415	-	**4,415**
At 31 December 2014	**320,574**	**420,196**	**740,770**
US$ 000's	**832,659**	**1,091,418**	**1,924,077**

	Available for sale RO 000's	***Held to maturity RO 000's***	***Total RO 000's***
At 1 January 2013	304,820	300,553	605,373
Exchange differences on monetary assets	(358)	-	(358)
Additions	96,032	205,865	301,897
Disposals and redemption	(79,266)	(279,873)	(359,139)
Gain from change in fair value	9,780	-	9,780
Impairment losses	(1,857)	-	(1,857)
Amortisation of discount / premium	(1,829)	2,006	177
Realised gains on sale	6,167	-	6,167
At 31 December 2013	333,489	228,551	562,040
US$ 000's	866,205	593,639	1,459,844

10. INVESTMENTS IN A SUBSIDIARY

Details regarding the Parent company's investment in a subsidiary are set out below:

Company name	**Country of incorporation**	***Proportion held***	
		2014	*2013*
Muscat Capital LLC	Kingdom of Saudi Arabia (KSA)	99.99%	96.25%

As at 31 December 2014, the authorised and issued share capital of the subsidiary is SAR 60 million (2013 - SAR 100 million).

During the year, Muscat Capital LLC had a reduction in its share capital from SAR 100 million to SAR 60 million through equivalent reduction in accumulated losses from SAR 42.7 million to SAR 2.7 million. The reduction in capital is in conformity with the provisions of the KSA Companies Law in an event a limited liability company's losses exceed fifty percent of its share capital. Relevant regulatory approvals from Central Bank of Oman and Capital Market Authority, Oman have been obtained. During the year, the bank acquired additional stake of 3.74% for a consideration of RO 423 thousands, adjusting its receivable from non-controlling interests stakeholder.

11. INVESTMENTS IN ASSOCIATES

2013 US$ 000's	***2014 US$ 000's***		***2014 RO 000's***	*2013 RO 000's*
94,925	**-**	BMI Bank B.S.C. (c), Kingdom of Bahrain (i)	**-**	36,547
-	**123,244**	Al Salam Bank ('ASB'), Kingdom of Bahrain (ii)	**47,449**	-
94,925	**123,244**		**47,449**	36,547

During 2014, share of results from associates amounted to RO 1.515 million (2013: RO 1.304 million) and share of other comprehensive income from associates amounted to RO 0.2 million (2013: RO 1.1 million). Details of investment in associates are as given below:

(i) Investment in BMI Bank B.S.C. (c), Kingdom of Bahrain (BMI)

On 30 March 2014, Al Salam Bank ("ASB"), Bahrain has acquired BMI by issuing 11 shares for 1 share of BMI. In accordance with the share swap ratio, the Bank received 315,494,795 shares in ASB in exchange of 28,681,345 shares of BMI resulting in its 14.74% shareholding in ASB. The market value of the bank's shareholding in ASB on the date of acquisition amounted to RO 68.98 million.

The Bank has accounted for investment in ASB as an associate at an adjusted market value of RO 46 million and recorded the difference between fair value of investment in ASB and carrying value of investment in BMI as a gain on derecognition of investment in BMI. This gain amounting to RO 9.48 million is included as part of other operating income in the consolidated statement of comprehensive income. The related other comprehensive components recorded by the Bank till the date of actual disposal were transferred to profit or loss upon derecognition of investment.

2013 US$ 000's	***2014 US$ 000's***		***2014 RO 000's***	*2013 RO 000's*
94,330	94,925	At 1 January	36,547	36,318
(3,034)	-	Share of other comprehensive income	-	(1,168)
-	(3,805)	Dividend received	(1,465)	-
3,629	704	Share of results for the year	271	1,397
-	(91,824)	Derecognition of investment in BMI	(35,353)	-
94,925	-	At 31 December	-	36,547

11. INVESTMENTS IN ASSOCIATES (continued)

(ii) Al Salam Bank ('ASB'), Kingdom of Bahrain

As of 31 December 2014, the Bank held 14.74% (2013 - nil) shareholding in ASB. The bank is the single largest shareholder in ASB and has board representation. Accordingly, the bank has significant influence over ASB and the investment is recorded as an associate. The carrying value of the investment in ASB as on 31 December 2014 was as follows:

2013 US$ 000's	***2014 US$ 000's***		***2014 RO 000's***	*2013 RO 000's*
-	**119,481**	Recognition of investment (note (i))	**46,000**	-
-	**3,231**	Share of results for the period	**1,244**	-
-	**532**	Share of other comprehensive income	**205**	-
-	**123,244**	At 31 December	**47,449**	-

The Bank's share of the results and other comprehensive income of ASB are reflected on the basis of reviewed results for the period ended 30 September 2014. The financial statements of ASB are prepared in accordance with Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI). The Management of the Bank believes that it is not practicable to restate the financial statements of ASB in order to reflect the position as per International Financial Reporting Standards and also considers the impact not to be material to the Group.

(iii) Investment in Mangal Keshav Holdings Limited, India (MKHL)

As at 31 December 2014, the Parent Company held 12.72% (2013: 45.7%) shareholding in MKHL (note 8). The investment in MKHL was classified as "asset held for sale" as of 31 December 2013 and a negative adjustment of RO 2.7 million was incorporated in the consolidated financial statements to determine the fair value less costs to sell of MKHL. A major portion of the investment was sold during the year and accordingly the related cumulative foreign exchange difference of RO 3.2 million (net of tax) recorded by the bank till the date of reclassification of MKHL was transferred to the profit or loss during the year.

2013 US$ 000's	***2014 US$ 000's***		***2014 RO 000's***	*2013 RO 000's*
24,997	-	At 1 January	-	9,623
(243)	-	Add: Share of results	-	(93)
(7,138)	-	Adjustment to record at fair value	-	(2,748)
(2,857)	-	Translation of foreign currency	-	(1,100)
(14,759)	-	Transferred to non-current asset held for sale (note 8)	-	(5,682)
-	-	At 31 December	-	-

11. INVESTMENTS IN ASSOCIATES (continued)

(iv) Financial information relating to associates

Financial information relating to associates is summarised as follows

2013 US$ 000's	***2014 US$ 000's***		***2014 RO 000's***	*2013 RO 000's*
67,127	**93,784**	Total revenue	**36,107**	25,844
8,979	**32,795**	Net adjusted gain	**12,626**	3,457
1,919,509	**5,177,218**	Total assets	**1,993,229**	739,011
1,654,036	**4,315,764**	Total liability	**1,661,569**	636,804
265,473	**861,455**	Equity	**331,660**	102,207

12. PROPERTY AND EQUIPMENT

	Land and buildings RO 000's	***Furniture, fixtures and equipment RO 000's***	***Motor vehicles RO 000's***	***Total RO 000's***
Cost or valuation:				
At 1 January 2014	47,423	89,246	929	137,598
Additions during the year	2,481	14,247	188	16,916
Disposals	-	(928)	(294)	(1,222)
Translation adjustment	(11)	(22)	-	(33)
At 31 December 2014	49,893	102,543	823	153,259
Depreciation:				
At 1 January 2014	7,826	62,527	594	70,947
Charge for the year	1,091	10,009	104	11,204
Relating to disposals	-	(598)	(134)	(732)
Translation adjustment	(8)	(16)	-	(24)
At 31 December 2014	8,909	71,922	564	81,395
Net book value:				
At 31 December 2014	**40,984**	**30,621**	**259**	**71,864**
At 31 December 2014 (US$ 000's)	**106,452**	**79,535**	**673**	**186,660**

12. PROPERTY AND EQUIPMENT (continued)

	Land and buildings RO 000's	*Furniture, fixtures and equipment RO 000's*	*Motor vehicles RO 000's*	*Total RO 000's*
Cost or valuation :				
At 1 January 2013	47,429	81,418	742	129,589
Additions during the year	-	8,470	244	8,714
Disposals	-	(639)	(57)	(696)
Translation adjustment	(6)	(3)	-	(9)
At 31 December 2013	47,423	89,246	929	137,598
Depreciation:				
At 1 January 2013	6,724	53,050	552	60,326
Charge for the year	1,103	9,795	99	10,997
Relating to disposals	-	(314)	(57)	(371)
Translation adjustment	(1)	(4)	-	(5)
At 31 December 2013	7,826	62,527	594	70,947
Net book value:				
At 31 December 2013	39,597	26,719	335	66,651
At 31 December 2013 (US$ 000's)	102,849	69,400	870	173,119

Land and buildings above includes leasehold land and buildings of RO 34,975 thousands (2013: RO 35,805 thousands). In accordance with the Group's policy, the owned land and buildings were revalued during 2012 by independent professional valuers on an open market basis.

The revaluation reserve is not available for distribution until the related asset is disposed.

13. FINANCE LEASE LIABILITIES

The Group has entered into a lease agreement with a third party (a quasi government entity) to lease a purpose built head office which was constructed for exclusive use of the Group. The construction of building was completed in 2009. The lease is for a period of 50 years. The annual lease payment of building for the initial 25 years is RO 2.7 million. Subsequently, for the next 10 years, the annual rent will increase by 25% to RO 3.4 million. From 36th year onwards, the annual rent will further increase by 10% to RO 3.7 million. Due to which the minimum lease payments in the first 25 years of the lease period are less than the finance charges payable every year.

The minimum lease payments and total liability in respect of these leases relating to future periods are as follows:

2013 US$ 000's	***2014 US$ 000's***		***2014 RO 000's***	*2013 RO 000's*
(106)	**(114)**	Current	**(44)**	(41)
99,558	**99,673**	Non-current	**38,374**	38,330
99,452	**99,559**	Total (note 20)	**38,330**	38,289
		Represented by:		
384,992	**377,984**	Gross finance lease payment due	**145,524**	148,222
(285,540)	**(278,425)**	Less: future finance charges	**(107,194)**	(109,933)
99,452	**99,559**	Net lease liability/ present value recognised as Property	**38,330**	38,289

The following tables show the maturity analysis of finance lease payable:

	Less than 1 year	***Between 1 and 2 years***	***Between 2 and 5 years***	***More than 5 years***	***Total***
RO 000's					
As at 31 December 2014					
Total minimum lease payments	2,697	2,697	8,091	132,039	**145,524**
Less: Amounts representing finance charges	(2,741)	(2,744)	(8,251)	(93,458)	**(107,194)**
Net finance lease liability	**(44)**	**(47)**	**(160)**	**38,581**	**38,330**

	Less than 1 year	***Between 1 and 2 years***	***Between 2 and 5 years***	***More than 5 years***	***Total***
US$ 000's					
As at 31 December 2014					
Total minimum lease payments	7,005	7,005	21,016	342,958	**377,984**
Less: Amounts representing finance charges	(7,119)	(7,127)	(21,431)	(242,748)	**(278,425)**
Net finance lease liability	**(114)**	**(122)**	**(415)**	**100,210**	**99,559**

13. FINANCE LEASE LIABILITIES (continued)

The following table shows the maturity analysis of finance lease payable:

RO 000's	***Less than 1 year***	***Between 1 and 2 years***	***Between 2 and 5 years***	***More than 5 years***	***Total***
As at 31 December 2013					
Total minimum lease payments	2,697	2,697	8,091	134,737	148,222
Less: Amounts representing finance charges	(2,738)	(2,741)	(8,241)	(96,213)	(109,933)
Net finance lease liability	(41)	(44)	(150)	38,524	38,289

US$ 000's	***Less than 1 year***	***Between 1 and 2 years***	***Between 2 and 5 years***	***More than 5 years***	***Total***
As at 31 December 2013					
Total minimum lease payments	7,005	7,005	21,016	349,966	384,992
Less: Amounts representing finance charges	(7,112)	(7,119)	(21,405)	(249,904)	(285,540)
Net finance lease liability	(107)	(114)	(389)	100,062	99,452

14. DEPOSITS FROM BANKS

2013 US$ 000's	***2014 US$ 000's***		***2014 RO 000's***	*2013 RO 000's*
808,618	**906,514**	Inter bank borrowings	**349,008**	311,318
302,016	**802,107**	Vostro balances	**308,811**	116,276
626,657	**600,000**	Other money market deposits	**231,000**	241,263
1,737,291	**2,308,621**		**888,819**	668,857

15. CUSTOMERS' DEPOSITS

Conventional customer deposits

2013 US$ 000's	***2014 US$ 000's***		***2014 RO 000's***	*2013 RO 000's*
4,919,616	**5,224,829**	Deposit accounts	**2,011,559**	1,894,052
4,094,049	**5,092,649**	Savings accounts	**1,960,670**	1,576,209
4,671,584	**5,174,260**	Current accounts	**1,992,090**	1,798,560
652,709	**760,114**	Call accounts	**292,644**	251,293
85,192	**110,096**	Margin accounts	**42,387**	32,799
14,423,150	**16,361,948**		**6,299,350**	5,552,913

15. CUSTOMERS' DEPOSITS (continued)

Islamic customer deposits

2013 US$ 000's	***2014 US$ 000's***		***2014 RO 000's***	*2013 RO 000's*
202,652	**589,847**	Deposit accounts	**227,091**	78,021
26,894	**86,956**	Savings accounts	**33,478**	10,354
11,803	**56,327**	Current accounts	**21,686**	4,544
99	**1,309**	Margin accounts	**504**	38
241,448	**734,439**		**282,759**	92,957

As on the reporting date, deposits from Ministries and other Government organisations represent 31% of the total customer deposits (2013: 35%).

16. CERTIFICATES OF DEPOSIT

During the year, the Parent Company issued certificates of deposit of RO nil (2012: nil) and RO 1 million (2013: RO 6.6 million) of certificates of deposits matured. The certificates of deposits issued by the Parent Company are unsecured and are denominated in Rial Omani. The maturity profile and interest rate are disclosed in notes 42.3.2 and 42.4.4 respectively.

17. UNSECURED BONDS

Unsecured bonds were non-convertible, unsecured and listed on the Muscat Securities Market. The bonds had a maturity of 10 years. The maturity profile and interest rate of unsecured bonds are disclosed in notes 42.3.2 and 42.4.4 respectively.

18. EURO MEDIUM TERM NOTES

Euro medium term notes are issued by the Parent Company under its Euro Medium Term Note Programme and are denominated in US Dollars. These are non-convertible, unsecured and listed on Luxemburg stock exchange. During 2014, notes amounting to nil (2013: RO 193 million) were issued and RO nil (2013: nil) matured. The Parent Company 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 maturity profile and interest rates of floating rate notes are disclosed in notes 42.3.2 and 42.4.4 respectively.

19. MANDATORY CONVERTIBLE BONDS

2013 US$ 000's	***2014 US$ 000's***		***2014 RO 000's***	*2013 RO 000's*
41,966	**120,602**	At 1 January	**46,432**	16,157
78,636	**83,024**	Issuance during the year	**31,964**	30,275
-	**(41,966)**	Conversion during the year	**(16,157)**	-
120,602	**161,660**	At 31 December	**62,239**	46,432

19. MANDATORY CONVERTIBLE BONDS (continued)

The maturity profile and interest rate of mandatory convertible bonds are disclosed in notes 42.3.2 and 42.4.4 respectively. Mandatory convertible bonds were issued by the Parent Company as part of its dividend distribution. On maturity, the bonds will be converted to ordinary shares of the Parent Company by using a “conversion price” which will be calculated by applying 20% discount to 3 month average share price of the Parent Company on the Muscat Securities Market prior to the conversion. 50% of bonds representing RO 16.157 million matured in Q1-2014. Based on the terms of prospectus, conversion price was calculated at RO 0.531 which represented a 20% discount to average closing market price over the preceding 90 calendar day period prior to the conversion date after adjusting for the impact of bonus shares issued in Q1-2014. The Bank issued 30,427,504 shares on account of conversion.

20. OTHER LIABILITIES

2013 US$ 000’s	***2014 US$ 000’s***		***2014 RO 000’s***	*2013 RO 000’s*
327,760	**353,282**	Other liabilities and accrued expenses	**136,014**	126,188
307,935	**274,457**	Acceptances	**105,666**	118,555
104,953	**114,462**	Accrued interest	**44,068**	40,407
99,452	**99,559**	Finance lease (note 13)	**38,330**	38,289
84,966	**95,481**	Negative fair value of derivatives (note 38)	**36,760**	32,712
16,735	**23,704**	Unearned discount and interest	**9,126**	6,443
13,574	**15,231**	Employee terminal benefits	**5,864**	5,226
3,904	**5,151**	Deferred tax liability (note 21)	**1,983**	1,503
959,279	**981,327**		**377,811**	369,323

The charge for the year and amounts paid in respect of employee terminal benefits were RO 1,178 thousands (2013: RO 1,093 thousands) and RO 536 thousands (2013 - RO 692 thousands), respectively.

21. TAXATION

2013 US$ 000’s	***2014 US$ 000’s***		***2014 RO 000’s***	*2013 RO 000’s*
		Current liability:		
54,768	**60,104**	Current year	**23,140**	21,086
28,094	**14,815**	Prior years	**5,704**	10,816
82,862	**74,919**		**28,844**	31,902

2013 US$ 000’s	***2014 US$ 000’s***		***2014 RO 000’s***	*2013 RO 000’s*
		Consolidated statement of comprehensive income:		
54,768	**60,104**	Current year	**23,140**	21,086
4,196	**(13,434)**	Prior years	**(5,172)**	1,615
58,964	**46,670**		**17,968**	22,701
-	**13,182**	Relating to origination and reversal of temporary differences	**5,075**	-
58,964	**59,852**		**23,043**	22,701

21. TAXATION (continued)

i) The tax rate applicable to the Parent Company is 12% (2013 - 12%). For the purpose of determining the tax expense for the year, the accounting profit has been adjusted for tax purposes. Adjustments for tax purposes include items relating to both income and expense. After giving effect to these adjustments, the average effective tax rate is estimated to be 12.37% (2013 – 12.98%).

The difference between the applicable tax rate of 12% (2013 - 12%) and effective tax rate of 12.37% (2013: 12.98%) arises due to tax effect of income not considered to be taxable and expenses not considered to be deductible. The adjustments are based on the current understanding of the existing tax laws, regulations and practices.

ii) The reconciliation of taxation on the accounting profit before tax for the year at RO 186.3 million (2013: RO 174.9 million) after the basic exemption limit of RO 30,000 and the taxation charge in the consolidated financial statements is as follows:

2013 US$ 000's	***2014 US$ 000's***		***2014 RO 000's***	*2013 RO 000's*
54,504	**58,049**	Tax charge at 12% on accounting profit before tax	**22,349**	20,984
		Add/(less) tax effect of:		
(2,329)	**(3,070)**	Income not taxable	**(1,182)**	(897)
6,109	**4,805**	Expenses not deductible or deferred	**1,850**	2,352
397	-	Foreign taxes on foreign-sourced income	-	153
283	**320**	Tax relating to subsidiary	**123**	109
-	**13,182**	Relating to origination and reversal of temporary differences	**5,075**	-
-	**(13,434)**	Reversal of provision for prior years	**(5,172)**	-
58,964	**59,852**	Tax charge as per consolidated statement of comprehensive income	**23,043**	22,701

iii) The deferred tax asset/liability has been recognised at the effective tax rate of 12% (2013 - 12%).

Deferred tax asset (liability) in the statement of financial position and the deferred tax credit/(charge) in the statement of comprehensive income relates to the tax effect of provisions and accelerated depreciation.

	At 1 January 2014 RO 000's	***Reversal to consolidated statement of comprehensive income RO 000's***	***At 31 December 2014 RO 000's***
Asset:			
Tax effect of provisions	**6,291**	**(5,206)**	**1,085**
Change in fair value of hedge	-	**78**	**78**
Liability:			
Tax effect of accelerated tax depreciation	**(503)**	**53**	**(450)**
	5,788	**(5,075)**	**713**

21. TAXATION (continued)

	At 1 January 2013 RO 000's	*Reversal to consolidated statement of comprehensive income RO 000's*	*At 31 December 2013 RO 000's*
Asset			
Tax effect of provisions	5,857	434	6,291
Liability			
Tax effect of accelerated tax depreciation	(503)	-	(503)
	5,354	434	5,788

The tax (charge)/credit relating to components of other comprehensive income is as follows:

	31 December 2014			*31 December 2013*		
	Before tax RO 000's	***Tax (charge)/ credit RO 000's***	***After tax RO 000's***	*Before tax RO 000's*	*Tax (charge)/ credit RO 000's*	*After tax RO 000's*
Loss on translation of foreign operations	**(758)**	-	**(758)**	(84)	-	(84)
Changes in fair value of hedge	**(1,012)**	**52**	**(960)**	3,155	(373)	2,782
Share of other comprehensive income of associate	**205**	-	**205**	(1,168)	-	(1,168)
Foreign currency translation of investment in associates	**3,493**	-	**3,493**	-	-	-
Share of other comprehensive income of associate transferred to statement of comprehensive income on derecognition of investment in an associate	**872**	-	**872**	-	-	-
Change in fair value of investments available for sale	**4,583**	**(532)**	**4,051**	9,782	(581)	9,201
Sub total	**7,383**	**(480)**	**6,903**	11,685	(954)	10,731
Loss on translation of net investments in associates	-	-	-	(1,100)	434	(666)
Total	**7,383**	**(480)**	**6,903**	10,585	(520)	10,065

	1 January 2014 RO 000's	***Tax (charge)/ credit RO 000's***	***31 December 2014 RO 000's***	*1 January 2013 RO 000's*	*Tax (charge)/ Credit RO 000's*	*31 December 2013 RO 000's*
Deferred tax liability	**1,503**	**480**	**1,983**	549	954	1,503

During the year, the Group charged deferred tax liability of RO 480 thousands (2013: RO 954 thousands) relating to fair value changes of investments available for sale and changes in fair value of hedge, which may be taxable in the future. The deferred tax credit/charge is disclosed under other comprehensive income.

21. TAXATION (continued)

	31 December 2014			*31 December 2013*		
	Before tax US$ 000's	***Tax (charge)/ credit US$ 000's***	***After tax US$ 000's***	*Before tax US$ 000's*	*Tax (charge)/ credit US$ 000's*	*After tax US$ 000's*
Loss on translation of foreign operations	**(1,969)**	**-**	**(1,969)**	(218)	-	(218)
Changes in fair value of hedge	**(2,629)**	**135**	**(2,494)**	8,195	(969)	7,226
Share of other comprehensive income of associate	**532**	**-**	**532**	(3,034)	-	(3,034)
Foreign currency translation of investment in associates	**9,073**	**-**	**9,073**	-	-	-
Share of other comprehensive income of associate transferred to statement of comprehensive income on derecognition of investment in an associate	**2,265**	**-**	**2,265**	-	-	-
Change in fair value of investments available for sale	**11,904**	**(1,382)**	**10,522**	25,408	(1,509)	23,899
Sub total	**19,177**	**(1,247)**	**17,930**	30,351	(2,478)	27,873
Loss on translation of net investments in associates	**-**	**-**	**-**	(2,857)	1,127	(1,730)
Total	**19,177**	**(1,247)**	**17,930**	27,494	(1,351)	26,143

	1 January 2014 US$ 000's	***Tax (charge)/ credit US$ 000's***	***31 December 2014 US$ 000's***	*1 January 2013 US$ 000's*	*Tax (charge)/ credit US$ 000's*	*31 December 2013 US$ 000's*
Deferred tax liability	**3,904**	**1,247**	**5,151**	1,426	2,478	3,904

The Bank's tax assessments have been completed by the tax authorities up to tax year 2009.

22 SUBORDINATED LIABILITIES

In accordance with the Central Bank of Oman's regulations, subordinated loans are included in the calculation of supplementary capital as defined by the Bank for International Settlements (BIS) for capital adequacy purposes. During the year, the Bank obtained Tier II capital of Nil (2013: RO Nil) and repaid RO 6.4 million (2013: RO 12.83 million).

2013 US$ 000's	***2014 US$ 000's***		***2014 RO 000's***	*2013 RO 000's*
454,545	**454,545**	Fixed rate Rial Omani subordinated loans	**175,000**	175,000
186,668	**170,000**	Floating rate US$ subordinated loans	**65,450**	71,867
641,213	**624,545**		**240,450**	246,867

Subordinated loans are repayable at par on maturity. The maturity profile and interest rate of subordinated liabilities are disclosed in notes 42.3.2 and 42.4.4 respectively.

23. SHARE CAPITAL

Share capital

The authorised share capital of the Parent Company is 3,500,000,000 shares of RO 0.100 each (2013 - 3,500,000,000 of RO 0.100 each). At 31 December 2014, 2,182,688,188 shares of RO 0.100 each (2013 – 2,152,260,684 shares of RO 0.100 each) have been issued and fully paid. The Bank's shares are listed on Muscat Securities Market, Bahrain stock exchange and London stock exchange. Listing in London stock exchange is through Global Depository Receipts issued by the Bank.

During March 2014, the bank converted remaining 50% portion of its mandatory convertible bonds issued in 2009 into share capital (note 19). The conversion amounting to RO 16.157 million was credited to the share capital and share premium amounting to RO 3.043 million and RO 13.114 million, respectively.

In May 2013, the bank issued 113,750,000 shares of RO 0.100 each, through a private placement issue at a price of RO 0.660 per share. The proceeds of private placement amounting to RO 75.075 million was credited to the share capital account to the extent of RO 11.375 million and RO 63.70 million to share premium account.

Significant shareholders

The following shareholders held 10% or more of the Parent Company's capital, either individually or together with other Group companies:

2013			***2014***	
No.of shares	*% holding*		*No.of shares*	*% holding*
507,175,701	23.56%	Royal Court Affairs	514,733,262	23.58%
269,211,333	12.51%	Dubai Financial Group	269,211,333	12.33%

24 LEGAL AND GENERAL RESERVES

(i) In accordance with the Omani Commercial Companies Law of 1974, the Parent Company is required to transfer 10% of its profit for the year to legal reserve until the accumulated balance of the reserve equals one third of the Parent Company's paid up share capital. During the year RO 1,021 thousands (2013: RO 3,785 thousands) was transferred from profits to legal reserve. After this transfer the Parent Company's legal reserve is equal to one third of its share capital.

(ii) The general reserve is established to support the operations and the capital structure of the Group.

25. SUBORDINATED LOAN RESERVE

The subordinated loan reserve is created in accordance with the guidelines given by the Bank of International Settlement and The Central Bank of Oman. During the year 2014, the Parent Company transferred RO 36.28 million (2013: 42.45 million) to subordinated loan reserve from retained profit.

A subordinated loan of RO 6.42 million was repaid during the year (2013: RO 12.83 million). On maturity, the reserve of RO 6.42 million (2013: RO 12.83 million) related to this loan was thus transferred to general reserves.

26. PROPOSED DIVIDENDS

The Board of Directors has proposed a dividend of 45%, 25% in the form of cash, 5% in the form of bonus shares and 15% in the form of mandatory-convertible bonds. Thus shareholders would receive cash dividend of RO 0.025 per ordinary share of RO 0.100 each aggregating to RO 54.57 million on the Bank's existing share capital. In addition, they would receive bonus shares in the proportion of one share for every 20 ordinary shares aggregating to 109,134,409 shares of RO 0.100 each amounting to RO 10.91 million. They would also receive mandatory-convertible bonds of RO 0.015 per ordinary share of RO 0.100 each aggregating to RO 32.74 million (including issue expenses), which will carry a coupon rate of 3.5% per annum. These bonds will mature after a period of 3 years from the date of issuance. On maturity, the bonds will be converted to ordinary shares of the Bank by using a "conversion price" which will be calculated by applying 20% discount to 3 month average share price of the Bank on the Muscat Securities Market prior to the conversion. The bonds will be listed on the Muscat Securities Market.

The proposed cash dividend and issuance of bonus shares and mandatory-convertible bonds are subject to formal approval of the Annual General Meeting of the shareholders and the regulatory authorities.

For the year 2013, the Board of Directors have approved a dividend of 40%, 25% in the form of cash and 15% in the form of mandatory-convertible bonds. Thus shareholders would receive cash dividend of RO 0.025 per ordinary share of RO 0.100 each aggregating to RO 53.81 million on Bank's existing share capital. In addition, they would receive mandatory-convertible bonds in lieu of dividend of RO 0.015 per ordinary share of RO 0.100 each aggregating to RO 32.28 million, including issue expenses. The mandatory-convertible bonds will carry a coupon rate of 4.5% per annum. On maturity, the bonds will be converted to ordinary shares of the Bank by using a "conversion price" which will be calculated by applying 20% discount to 3 month average share price of the Bank on the Muscat Securities Market prior to the conversion. These bonds will mature after a period of 3 years from the date of issuance. The bonds will be listed on the Muscat Securities Market.

27. NET ASSETS PER SHARE

The calculation of net assets per share is based on net assets as at 31 December 2014 attributable to ordinary shareholders of RO 1,312.067 million (2013: RO 1,212.294 million) and on 2,182,688,188 ordinary shares (2013: 2,152,260,684 ordinary shares) being the number of shares outstanding as at 31 December 2014
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28. CONTINGENT LIABILITIES AND COMMITMENTS

(a) Legal proceedings

Litigation is a common occurrence in the Banking industry due to the nature of the business undertaken. There were a number of legal proceedings outstanding against the Parent Company at 31 December 2014. No provision has been made, as professional advice indicates that it is unlikely that any significant loss will arise**.**

(b) Credit related commitments

Credit related commitments include commitments to extend credit, standby letters of credit and guarantees which are designed to meet the requirements of the Parent Company'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 obligations.

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

Irrevocable commitments to extend credit at the reporting date amounted to RO 401.5 million (2013: RO 614.7 million).

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

2013 US $ 000's	***2014 US $ 000's***		***2014 RO 000's***	*2013 RO 000's*
1,385,094	**1,213,335**	Letters of credit	**467,134**	533,261
4,091,727	**5,274,096**	Guarantees	**2,030,527**	1,575,315
5,476,821	**6,487,431**		**2,497,661**	2,108,576

(c) Capital commitments

As of the reporting date, capital commitments were as follows :

2013 US $ 000's	***2014 US $ 000's***		***2014 RO 000's***	*2013 RO 000's*
10,533	**5,000**	Purchase of property and equipment	**1,925**	4,055

(d) As of the reporting date, the bank has not pledged any of its assets as security (2013: no assets were pledged).

(e) As of the reporting date, the amount payable on partly paid shares investments held by the bank was RO 5.9 million (2013: RO 6 million)

28. CONTINGENT LIABILITIES AND COMMITMENTS (continued)

28.1 Concentration of credit related commitments

The table below analyses the concentration of credit related commitments by economic sector:

2013	***2014***		***2014***	*2013*
US $ 000's	***US $ 000's***		***RO 000's***	*RO 000's*
45,099	**26,021**	Agriculture/allied activity	**10,018**	17,363
1,101,000	**1,580,901**	Construction	**608,647**	423,885
3,078	**10,332**	Export trade	**3,978**	1,185
2,295,891	**2,427,187**	Financial institutions	**934,467**	883,918
102,408	**167,171**	Government	**64,361**	39,427
316,857	**437,034**	Import trade	**168,258**	121,990
242,626	**243,169**	Manufacturing	**93,620**	93,411
374,060	**286,842**	Mining and quarrying	**110,434**	144,013
34,540	**29,226**	Real estate	**11,252**	13,298
647,538	**849,881**	Services	**327,204**	249,302
37,296	**50,517**	Transport	**19,449**	14,359
61,725	**69,992**	Utilities	**26,947**	23,764
125,184	**144,187**	Wholesale and retail trade	**55,512**	48,196
89,519	**164,971**	Others	**63,514**	34,465
5,476,821	**6,487,431**	Total	**2,497,661**	2,108,576

29. INTEREST INCOME / INCOME ON ISLAMIC FINANCING

2013	***2014***		***2014***	*2013*
US $ 000's	***US $ 000's***		***RO 000's***	*RO 000's*
770,914	**772,730**	Loans and advances	**297,501**	296,802
30,834	**39,031**	Due from banks	**15,027**	11,871
28,184	**31,294**	Investments	**12,048**	10,851
829,932	**843,055**		**324,576**	319,524
37,494	**52,226**	Islamic financing receivable	**20,107**	14,435
-	**60**	Islamic due from banks	**23**	-
-	**652**	Islamic investment income	**251**	-
37,494	**52,938**		**20,381**	14,435
867,426	**895,993**		**344,957**	333,959

Effective annual rates on yielding assets are provided in note 42.4.4.

30. INTEREST EXPENSE / DISTRIBUTION TO DEPOSITORS

2013 US $ 000's	***2014 US $ 000's***		***2014 RO 000's***	*2013 RO 000's*
165,891	**174,481**	Customers' deposits	**67,175**	63,868
46,455	**47,579**	Subordinated liabilities / mandatory convertible bonds	**18,318**	17,885
6,917	**6,179**	Certificates of deposits	**2,379**	2,663
15,745	**12,613**	Bank borrowings	**4,856**	6,062
7,112	**2,418**	Unsecured bonds	**931**	2,738
9,512	**10,392**	Euro medium term notes	**4,001**	3,662
251,632	**253,662**		**97,660**	96,878
2,953	**8,390**	Islamic customers' deposits	**3,230**	1,137
1,616	**1,114**	Islamic bank borrowings	**429**	622
4,569	**9,504**		**3,659**	1,759
256,201	**263,166**	Total	**101,319**	98,637

Interest expense on customer deposits include accruals towards prize schemes of RO 8 million (2013: RO 7.2 million) offered by the bank to its saving deposit holders.

Effective annual rate of interest bearing liabilities are provided in note 42.4.4.

31. COMMISSION AND FEES INCOME (NET)

The commission and fee income shown in the consolidated statement of comprehensive income is net of commission and fees paid of RO 944 thousands (2013: RO 1,109 thousands).

32. OTHER OPERATING INCOME

2013 US $ 000's	***2014 US $ 000's***		***2014 RO 000's***	*2013 RO 000's*
33,268	**62,974**	Foreign exchange	**24,245**	12,808
16,018	**36,091**	Profit on sale of non-trading investments	**13,895**	6,167
5,249	**10,166**	Dividend income	**3,914**	2,021
6,964	**9,091**	Other income	**3,500**	2,681
61,499	**118,322**		**45,554**	23,677

33. OTHER OPERATING EXPENSES

2013 US $ 000's	***2014 US $ 000's***		***2014 RO 000's***	*2013 RO 000's*
139,135	**154,155**	Employees' salaries	**59,350**	53,567
54,478	**56,364**	Other staff costs	**21,700**	20,974
6,662	**9,751**	Contribution to social insurance schemes	**3,754**	2,565
2,839	**3,060**	Employees' end of service benefits	**1,178**	1,093
203,114	**223,330**		**85,982**	78,199
105,057	**119,003**	Administrative expenses	**45,816**	40,447
35,951	**38,151**	Occupancy costs	**14,688**	13,841
519	**519**	Directors' remuneration	**200**	200
344,641	**381,003**		**146,686**	132,687

34. CASH AND CASH EQUIVALENTS

Cash and cash equivalents included in the statement of cash flows comprise the following amounts:

2013 US $ 000's	***2014 US $ 000's***		***2014 RO 000's***	*2013 RO 000's*
1,216,231	**1,464,151**	Due from banks	**563,698**	468,249
1,511,195	**2,172,582**	Cash and balances with Central Banks	**836,444**	581,810
520,852	**1,013,971**	Treasury bills	**390,379**	200,528
(1,053,096)	**(1,638,413)**	Deposits from banks	**(630,789)**	(405,442)
2,195,182	**3,012,291**		**1,159,732**	845,145

35. EARNINGS PER SHARE

Basic earnings per share are calculated by dividing the profit for the year by the weighted average number of shares outstanding during the year as follows:

	2014	*2013*
Profit attributable to ordinary shareholders of parent company for basic earnings per share (RO 000's)	**163,227**	152,204
Weighted average number of shares outstanding during the year (in 000's)	**2,176,103**	2,109,877
Basic earnings per share (RO)	**0.075**	0.072
Basic earnings per share (US$)	**0.19**	0.19

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

35. EARNINGS PER SHARE (continued)

	2014	2013
Profit for the year (RO 000's)	**163,227**	152,204
Interest on convertible bonds, net of taxation (RO 000's)	**2,191**	1,948
	165,418	154,152
Weighted average number of shares outstanding during the year (in 000's)	**2,309,778**	2,201,712
Diluted earnings per share (RO)	**0.072**	0.070
Diluted earnings per share (US$)	**0.19**	0.18

36. RELATED PARTY TRANSACTIONS

In the ordinary course of business, the Group conducts transactions with certain of its directors, shareholders, senior management and companies in which they have a significant interest. The terms of these transactions are approved by the Bank's Board and Management. As of the reporting date balances and transactions with directors and their related concerns during the year were as follows:

2013 US $ 000's	**2014 US $ 000's**		**2014 RO 000's**	2013 RO 000's
		Loans and advances (net)		
126,139	**76,820**	At January 1	**29,575**	48,563
12,616	**9,958**	Disbursed during the year	**3,834**	4,857
(60,569)	**(11,875)**	Repaid during the year	**(4,572)**	(23,319)
(1,366)	**2,322**	Less: decrease (increase) in provisions	**894**	(526)
76,820	**77,225**	At December 31	**29,731**	29,575
		Current deposit and other accounts		
152,616	**118,567**	At January 1	**45,648**	58,757
9,242	**77,055**	Received during the year	**29,666**	3,558
(43,291)	**(7,514)**	Repaid during the year	**(2,893)**	(16,667)
118,567	**188,108**	At December 31	**72,421**	45,648
37,239	**47,029**	Customers' liabilities under documentary credits, guarantees and other commitments	**18,107**	14,338

At 31 December 2014, the placements and other receivable balances due from the associates amount to RO 0.4 million (2013: RO 1.27 million) and the deposits due to the associates amount to RO 0.03 million (2013: RO 0.06 million).

For the year ending 31 December 2014 the interest income received from and interest expense paid to the associates amount to RO 5 thousands (2013: RO 176 thousands) and Nil (2013: RO nil) respectively.

36. RELATED PARTY TRANSACTIONS (continued)

Loans, advances or receivables and non-funded exposure due from related parties or holders of 10% or more of Banks shares, or their family members, less all provisions and write-offs, are further analysed as follows:

2013	***2014***		***2014***	*2013*
US $ 000's	***US $ 000's***		***RO 000's***	*RO 000's*
5,509	**5,932**	Royal Court Affairs	**2,284**	2,121
		Dubai Financial Group:		
23,917	**21,595**	Gross	**8,314**	9,208
(23,917)	**(21,595)**	Less: provisions	**(8,314)**	(9,208)
96,797	**106,273**	HE Sheikh Mustahail Ahmed Al Mashani Group Companies	**40,915**	37,267
11,753	**12,049**	Others	**4,639**	4,525
114,059	**124,254**		**47,838**	43,913

The income and expenses in respect of related parties included in the consolidated financial statements are as follows:

2013	***2014***		***2014***	*2013*
US $ 000's	***US $ 000's***		***RO 000's***	*RO 000's*
4,340	**4,060**	Interest income	**1,563**	1,671
956	**1,397**	Interest expenditure	**538**	368
42	**18**	Commission and other income	**7**	16
351	**338**	Directors' remuneration	**130**	135
169	**182**	Directors' sitting fees	**70**	65

During 2014, on restructuring arrangement of bank's exposure to Dubai Financial Group the suspended interest of RO 1.1 million was written off from the provisions held.

Interest expense incurred on deposits:

Items of expense which were paid to related parties or holders of 10% or more of the bank's shares, or their family members, during the year can be further analysed as follows:

2013	***2014***		***2014***	*2013*
US $ 000's	***US $ 000's***		***RO 000's***	*RO 000's*
670	**839**	Royal Court Affairs	**323**	258
268	**545**	HE Sheikh Mustahail Ahmed Al Mashani Group Companies	**210**	103
18	**13**	Others	**5**	7
956	**1,397**		**538**	368

36. RELATED PARTY TRANSACTIONS (continued)

Key management compensation

Key management comprises of 6 members (2013 - 6 members) of the management executive committee in the year 2014.

2013 US $ 000's	***2014 US $ 000's***		***2014 RO 000's***	*2013 RO 000's*
8,405	**8,649**	Salaries and other short-term benefits	**3,330**	3,236
161	**171**	Post-employment benefits	**66**	62
8,566	**8,820**		**3,396**	3,298

The amounts disclosed in the table are the amounts recognised as an expense during the reporting period related to key management personnel.

Certain components of key management compensation are on accrual basis. Hence the previous year figures are revised considering the actual payment.

37. FIDUCIARY ACTIVITIES

The bank's fiduciary activities consist of investment management activities conducted as trustee and manager for a number of investment funds and individuals. The aggregate amounts of funds managed, which are not included in the Group's statement of financial position, are as follows:

2013 US $ 000's	***2014 US $ 000's***		***2014 RO 000's***	*2013 RO 000's*
967,688	**1,244,262**	Funds under management	**479,041**	372,560

38. DERIVATIVES

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

Derivative product types

Forwards and futures are contractual agreements to either buy or sell a specified currency, commodity or financial instrument at a specific price and date in the future. Forwards are customised contracts transacted in the over-the-counter market. Forward rate agreements are effectively tailor-made interest rate futures which fix a forward rate of interest on a notional loan, for an agreed period of time starting on a specified future date.

Interest rate swaps are contractual agreements between two parties to exchange interest differentials based on a specific notional amount. Counter parties generally exchange fixed and floating rate interest payments based on a notional value in a single currency.

38. DERIVATIVES (continued)

Derivative product types (continued)

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. The Group transacts only in currency options for its customers. The Group does not engage in writing of options.

Derivatives held or issued for hedging purposes

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

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

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

The table on the following page shows the positive and negative fair values of derivative financial instruments, 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.

38. DERIVATIVES (continued)

31 December 2014	***Positive fair value RO 000's (Note 8)***	***Negative fair value RO 000's (Note 20)***	***Notional amount total RO 000's***	***Notional amounts by term to maturity RO 000's***		
				Within 3 months	***4-12 months***	***>12 months***
Derivatives:						
Fair value hedge	**-**	**2,520**	**192,500**	**-**	**-**	**192,500**
Cash flow hedge	**-**	**655**	**65,450**	**-**	**-**	**65,450**
Interest rate swaps	**16,994**	**16,968**	**432,939**	**-**	**6,002**	**426,937**
Interest rate CAP	**394**	**394**	**19,466**	**-**	**19,466**	**-**
Cross currency swap	**-**	**964**	**385,000**	**-**	**77,000**	**308,000**
Currency options – bought	**1,431**	**-**	**77,194**	**30,413**	**44,575**	**2,206**
Currency options – sold	**-**	**1,431**	**77,194**	**30,413**	**44,575**	**2,206**
Commodity derivatives – bought	**232**	**-**	**11,322**	**2,830**	**8,492**	**-**
Commodity derivatives – sold	**-**	**232**	**11,322**	**2,830**	**8,492**	**-**
Commodities purchase contracts	**758**	**3,569**	**68,606**	**50,411**	**17,435**	**760**
Commodities sale contracts	**3,607**	**748**	**68,647**	**50,435**	**17,451**	**761**
Forward purchase contracts	**319**	**8,765**	**1,598,012**	**1,021,592**	**397,768**	**178,652**
Forward sales contracts	**8,917**	**514**	**1,597,573**	**1,019,592**	**397,229**	**180,752**
Total	**32,652**	**36,760**	**4,605,225**	**2,208,516**	**1,038,485**	**1,358,224**
Total (*US$ 000's*)	**84,810**	**95,481**	**11,961,623**	**5,736,405**	**2,697,364**	**3,527,855**

31 December 2013	*Positive fair value RO 000's (Note 8)*	*Negative fair value RO 000's (Note 20)*	*Notional amount total RO 000's*	*Notional amounts by term to maturity RO 000's*		
				Within 3 months	*4-12 months*	*>12 months*
Derivatives:						
Fair value hedge	-	4,398	192,500	-	-	192,500
Cash flow hedge	436	-	65,450	-	-	65,450
Interest rate swaps	20,091	20,129	399,294	13,748	8,982	376,564
Interest rate CAP	891	891	24,348	-	-	24,348
Cross currency swap	44	595	157,429	-	3,429	154,000
Currency options – bought	473	-	95,369	55,756	33,220	6,393
Currency options – sold	-	473	95,369	55,756	33,220	6,393
Commodity derivatives – bought	2	-	2,972	2,972	-	-
Commodity derivatives – sold	-	2	2,972	2,972	-	-
Commodities purchase contracts	1,129	557	49,798	40,050	8,194	1,554
Commodities sale contracts	579	1,107	49,842	40,079	8,206	1,557
Forward purchase contracts	2,451	1,874	1,447,658	924,522	406,326	116,810
Forward sales contracts	2,142	2,686	1,447,441	924,370	406,119	116,952
Total	28,238	32,712	4,030,442	2,060,225	907,696	1,062,521
Total (*US$ 000's*)	73,345	84,966	10,468,681	5,351,234	2,357,652	2,759,795

The terms of the currency options entered on behalf of customers have been negotiated with the counter party banks to match the terms of commitments. The aggregate fair value of the respective rights and obligations in respect of the currency options has been recorded in the consolidated financial statements.

39. REPURCHASE AGREEMENTS

The Group did not have any repurchase transactions outstanding as of the reporting date (2013: RO nil).

40. GEOGRAPHICAL DISTRIBUTION OF ASSETS AND LIABILITIES

The geographical distribution of assets and liabilities was as follows:

At 31 December 2014	*Sultanate of Oman RO 000's*	*Other GCC countries RO 000's*	*Europe RO 000's*	*United States of America RO 000's*	*Others RO 000's*	*Total RO 000's*
Cash and balances with Central Banks	**720,847**	**116,097**	**-**	**-**	**-**	**836,944**
Due from banks	**93,883**	**224,909**	**182,735**	**58,923**	**478,376**	**1,038,826**
Loans and advances	**6,340,441**	**405,507**	**-**	**-**	**39,967**	**6,785,915**
Investments	**359,548**	**217,741**	**166,901**	**9,767**	**34,262**	**788,219**
Property and equipment and other assets	**273,528**	**4,886**	**-**	**-**	**-**	**278,414**
Total assets	**7,788,247**	**969,140**	**349,636**	**68,690**	**552,605**	**9,728,318**
Deposits from banks	**54,957**	**186,486**	**291,275**	**78**	**356,023**	**888,819**
Customers' deposits and certificates of deposit	**6,181,124**	**427,716**	**-**	**-**	**19,269**	**6,628,109**
Unsecured bonds and Euro medium term notes	**-**	**-**	**189,979**	**-**	**-**	**189,979**
Other liabilities and taxation	**399,061**	**7,552**	**-**	**-**	**42**	**406,655**
Subordinated liabilities / mandatory convertible bonds	**237,239**	**-**	**-**	**65,450**	**-**	**302,689**
Shareholders' funds	**1,312,067**	**-**	**-**	**-**	**-**	**1,312,067**
Total liabilities and equity	**8,184,448**	**621,754**	**481,254**	**65,528**	**375,334**	**9,728,318**

At 31 December 2014	*Sultanate of Oman US$ 000's*	*Other GCC countries US$ 000's*	*Europe US$ 000's*	*United States of America US$ 000's*	*Others US$ 000's*	*Total US$ 000's*
Cash and balances with Central Banks	**1,872,330**	**301,551**	**-**	**-**	**-**	**2,173,881**
Placements with banks	**243,852**	**584,179**	**474,636**	**153,047**	**1,242,535**	**2,698,249**
Loans and advances	**16,468,678**	**1,053,265**	**-**	**-**	**103,810**	**17,625,753**
Investments	**933,890**	**565,561**	**433,509**	**25,369**	**88,992**	**2,047,321**
Property and equipment and other assets	**710,464**	**12,691**	**-**	**-**	**-**	**723,155**
Total assets	**20,229,214**	**2,517,247**	**908,145**	**178,416**	**1,435,337**	**25,268,359**
Deposits from banks	**142,746**	**484,379**	**756,558**	**203**	**924,735**	**2,308,621**
Customers' deposits and certificates of deposit	**16,054,868**	**1,110,951**	**-**	**-**	**50,049**	**17,215,868**
Unsecured bonds and Euro medium term notes	**-**	**-**	**493,452**	**-**	**-**	**493,452**
Other liabilities and taxation	**1,036,521**	**19,616**	**-**	**-**	**109**	**1,056,246**
Subordinated liabilities / mandatory convertible bonds	**616,205**	**-**	**-**	**170,000**	**-**	**786,205**
Shareholders' funds	**3,407,967**	**-**	**-**	**-**	**-**	**3,407,967**
Total liabilities and equity	**21,258,307**	**1,614,946**	**1,250,010**	**170,203**	**974,893**	**25,268,359**

40. GEOGRAPHICAL DISTRIBUTION OF ASSETS AND LIABILITIES (continued)

At 31 December 2013	*Sultanate of Oman*	*Other GCC countries*	*Europe*	*United States of America*	*Others*	*Total*
	RO 000's	*RO 000's*	*RO 000's*	*RO 000's*	*RO 000's*	*RO 000's*
Cash and balances with Central Banks	504,882	77,428	-	-	-	582,310
Due from banks	94,841	209,307	163,548	80,048	319,237	866,981
Loans and advances	5,808,981	308,134	-	-	25,731	6,142,846
Investments	323,213	126,174	109,055	8,748	31,397	598,587
Property and equipment and other assets	292,674	3,052	-	-	-	295,726
Total assets	7,024,591	724,095	272,603	88,796	376,365	8,486,450
Deposits from banks	40,785	141,495	250,286	11,270	225,021	668,857
Customers' deposits and certificates of deposit	5,227,419	462,000	-	-	3,451	5,692,870
Unsecured bonds and Euro medium term notes	29,803	-	188,102	-	-	217,905
Other liabilities and taxation	391,930	9,257	-	-	38	401,225
Subordinated liabilities / mandatory convertible bonds	221,432	-	-	71,867	-	293,299
Shareholders' funds	1,212,294	-	-	-	-	1,212,294
Total liabilities and equity	7,123,663	612,752	438,388	83,137	228,510	8,486,450

At 31 December 2013	*Sultanate of Oman*	*Other GCC countries*	*Europe*	*United States of America*	*Others*	*Total*
	US$ 000's	*US$ 000's*	*US$ 000's*	*US$ 000's*	*US$ 000's*	*US$ 000's*
Cash and balances with Central Banks	1,311,382	201,112	-	-	-	1,512,494
Due from banks	246,339	543,655	424,800	207,917	829,187	2,251,898
Loans and advances	15,088,264	800,348	-	-	66,834	15,955,446
Investments	839,511	327,725	283,260	22,722	81,551	1,554,769
Property and equipment and other assets	760,191	7,927	-	-	-	768,118
Total assets	18,245,687	1,880,767	708,060	230,639	977,572	22,042,725
Deposits from banks	105,935	367,519	650,094	29,273	584,470	1,737,291
Customers' deposits and certificates of deposit	13,577,712	1,200,000	-	-	8,964	14,786,676
Unsecured bonds and Euro medium term notes	77,408	-	488,577	-	-	565,985
Other liabilities and taxation	1,017,998	24,044	-	-	99	1,042,141
Subordinated liabilities / mandatory convertible bonds	575,147	-	-	186,668	-	761,815
Shareholders' funds	3,148,817	-	-	-	-	3,148,817
Total liabilities and equity	18,503,017	1,591,563	1,138,671	215,941	593,533	22,042,725

41. SEGMENTAL INFORMATION

Management has determined the operating segments based on the reports reviewed by the executive committee that are used to make strategic decisions. The committee considers the business from both a geographic and product perspective. Geographically, management considers the performance of whole bank in Oman and International markets. The Oman market is further segregated into corporate, consumer, wholesale and Islamic banking, as all of these business lines are located in Oman.

Segment information in respect of geographical locations is as follows:

For the year ended 31 December 2014:

Total *US$ 000's*	International *US$ 000's*	Oman *US$ 000's*	**Segment revenue**	Oman *RO 000's*	International *RO 000's*	Total *RO 000's*
843,055	36,800	806,255	Interest income	310,408	14,168	324,576
(253,662)	(12,254)	(241,408)	Interest expense	(92,942)	(4,718)	(97,660)
52,938	-	52,938	Income from Islamic financing	20,381	-	20,381
(9,504)	-	(9,504)	Distribution to depositors	(3,659)	-	(3,659)
243,943	16,535	227,408	Commission and fee income (net)	87,552	6,366	93,918
118,322	18,930	99,392	Other operating income	38,266	7,288	45,554
995,092	**60,011**	**935,081**	**Other operating income**	**360,006**	**23,104**	**383,110**
			Segment costs			
(381,003)	(21,733)	(359,270)	Other operating expenses	(138,319)	(8,367)	(146,686)
(29,101)	(1,054)	(28,047)	Depreciation	(10,798)	(406)	(11,204)
(2,223)	-	(2,223)	Impairment for placements	(856)	-	(856)
(167,091)	(45,109)	(121,982)	Impairment for credit losses	(46,963)	(17,367)	(64,330)
67,696	2,732	64,964	Recoveries from impairment for credit losses	25,011	1,052	26,063
(3,486)	-	(3,486)	Impairment for investments	(1,342)	-	(1,342)
3,935	3,935	-	Share of profit from associates	-	1,515	1,515
(59,852)	(3,133)	(56,719)	Tax expense	(21,837)	(1,206)	(23,043)
(571,125)	(64,362)	(506,763)	Total	(195,104)	(24,779)	(219,883)
423,967	**(4,351)**	**428,318**	**Segment profit (loss) for the year**	**164,902**	**(1,675)**	**163,227**
			Other information			
25,268,359	1,699,805	23,568,554	Segment assets and liabilities	9,073,893	654,425	9,728,318
43,938	1,257	42,681	Segment capital expenses	16,432	484	16,916

41. SEGMENTAL INFORMATION (continued)

For the year ended 31 December 2013:

Total US$ 000's	International US$ 000's	Oman US$ 000's	Segment revenue	Oman RO 000's	International RO 000's	Total RO 000's
829,932	44,538	785,394	Interest income	302,377	17,147	319,524
(251,632)	(19,330)	(232,302)	Interest expense	(89,436)	(7,442)	(96,878)
37,494	-	37,494	Income from Islamic financing	14,435	-	14,435
(4,569)	-	(4,569)	Distribution to depositors	(1,759)	-	(1,759)
210,797	11,034	199,763	Commission and fee income (net)	76,909	4,248	81,157
61,499	1,930	59,569	Other operating income	22,934	743	23,677
883,521	38,172	845,349	Other operating income	325,460	14,696	340,156
			Segment costs			
(344,641)	(21,281)	(323,360)	Other operating expenses	(124,494)	(8,193)	(132,687)
(28,564)	(1,416)	(27,148)	Depreciation	(10,452)	(545)	(10,997)
(894)	-	(894)	Impairment on due from banks	(344)	-	(344)
(131,070)	(21,753)	(109,317)	Impairment for credit losses	(42,087)	(8,375)	(50,462)
84,488	6,065	78,423	Recoveries from impairment for credit losses	30,193	2,335	32,528
(4,823)	-	(4,823)	Impairment for investments	(1,857)	-	(1,857)
(7,138)	(7,138)	-	Impairment for an associate	-	(2,748)	(2,748)
3,387	3,387	-	Share of loss from associates	-	1,304	1,304
(58,964)	(1,660)	(57,304)	Tax expense	(22,062)	(639)	(22,701)
(488,219)	(43,796)	(444,423)	Total	(171,103)	(16,861)	(187,964)
395,302	(5,624)	400,926	Segment profit (loss) for the year	154,357	(2,165)	152,192
			Other information			
22,042,725	1,786,031	20,256,694	Segment assets and liabilities	7,798,828	687,622	8,486,450
22,634	190	22,444	Segment capital expenses	8,641	73	8,714

41. SEGMENTAL INFORMATION (continued)

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

As at 31 December 2014	Corporate banking *RO 000's*	Consumer banking *RO 000's*	Wholesale banking *RO 000's*	International banking * *RO 000's*	Subtotal *RO 000's*	Islamic banking *RO 000's*	Total *RO 000's*
Segment revenue							
Net interest income	76,092	104,570	36,770	9,484	226,916	-	**226,916**
Net income from Islamic financing	-	-	-	-	-	16,722	**16,722**
Commission, fees and other income (net)	18,834	61,612	43,581	14,087	138,114	1,358	**139,472**
Operating income	**94,926**	**166,182**	**80,351**	**23,571**	**365,030**	**18,080**	**383,110**
Segment costs							
Operating expenses (including depreciation)	(25,862)	(98,425)	(15,547)	(11,114)	(150,948)	(6,942)	(157,890)
Impairment for credit losses (net)	(14,597)	(5,098)	256	(16,343)	(35,782)	(2,485)	(38,267)
Impairment on due from banks / for investments	-	-	(2,198)	-	(2,198)	-	(2,198)
Share of results from associates	-	-		1,515	1,515	-	1,515
Tax expense	(6,394)	(7,354)	(6,921)	(1,206)	(21,875)	(1,168)	(23,043)
	(46,853)	**(110,877)**	**(24,410)**	**(27,148)**	**(209,288)**	**(10,595)**	**(219,883)**
Segment profit / (loss) for the year	**48,073**	**55,305**	**55,941**	**(3,577)**	**155,742**	**7,485**	**163,227**
Segment assets	**3,901,433**	**2,522,129**	**2,223,733**	**654,425**	**9,301,720**	**426,598**	**9,728,318**
Operating income (US $ 000's)	**246,562**	**431,642**	**208,704**	**61,223**	**948,131**	**46,961**	**995,092**
Profit / (loss) (US $ 000's)	**124,866**	**143,649**	**145,301**	**(9,291)**	**404,525**	**19,442**	**423,967**
Segment assets (US $ 000's)	**10,133,593**	**6,550,984**	**5,775,930**	**1,699,805**	**24,160,312**	**1,108,047**	**25,268,359**

* International banking includes overseas operations and cost allocations from Oman operations.

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41. SEGMENTAL INFORMATION (continued)

As at 31 December 2013	Corporate banking *RO 000's*	Consumer banking *RO 000's*	Wholesale banking *RO 000's*	International banking * *RO 000's*	Subtotal *RO 000's*	Islamic banking *RO 000's*	Total *RO 000's*
Segment revenue							
Net interest income	70,142	110,517	32,232	9,755	222,646	-	222,646
Net income from Islamic financing	-	-	-	-	-	12,676	12,676
Commission, fees and other income (net)	18,019	52,846	26,527	7,184	104,576	258	104,834
Operating income	88,161	163,363	58,759	16,939	327,222	12,934	340,156
Segment costs							
Operating expenses (including depreciation)	(23,576)	(90,123)	(14,954)	(10,909)	(139,562)	(4,122)	(143,684)
Impairment for credit losses (net)	(12,681)	2,693	(256)	(6,040)	(16,284)	(1,650)	(17,934)
Impairment on due from banks / for investments	-	-	(2,201)	-	(2,201)	-	(2,201)
Impairment for an associate	-	-	-	(2,748)	(2,748)	-	(2,748)
Share of results from associates	-	-	-	1,304	1,304	-	1,304
Tax expense	(6,666)	(9,692)	(4,737)	(639)	(21,734)	(967)	(22,701)
	(42,923)	(97,122)	(22,148)	(19,032)	(181,225)	(6,739)	(187,964)
Segment profit / (loss) for the year	45,238	66,241	36,611	(2,093)	145,997	6,195	152,192
Segment assets	3,598,222	2,331,600	1,570,748	687,622	8,188,192	298,258	8,486,450
Operating income (US $ 000's)	228,990	424,319	152,621	43,996	849,926	33,595	883,521
Profit / (loss) (US $ 000's)	117,500	172,053	95,094	(5,436)	379,211	16,091	395,302
Segment assets (US $ 000's)	9,346,031	6,056,104	4,079,864	1,786,030	21,268,029	774,696	22,042,725

42. FINANCIAL RISK MANAGEMENT

42.1 Introduction and overview

Risk Management is a process by which bank muscat SAOG (the group) identifies key risks, applies consistent, understandable risk measures, and chooses which risks to reduce and which to hold and by what means and establishes procedures to monitor and report the resulting risk position for necessary action. The objective of risk management is to ensure that the group operates within the risk appetite levels set by its Board of Directors while various business functions pursue their objective of maximizing the risk adjusted returns. The Group has exposure to the following core risks from its use of financial instruments:

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

Risk management is the overall responsibility of the group's Board of Directors and managed through the Board Risk Committee (BRC). BRC provides recommendations to the Board of Directors on the risk-reward strategy, risk appetite and policies and framework for managing different types of risks. The Board reviews and approves the risk management strategy of the group and defines the risk appetite of the group. The Board approved strategy is implemented at management level through management committees. For the purpose of day-to-day management of risks, the group has created an independent Risk Management department (RMD). Risk Management department objectively reviews and ensures that the various functions of the group operate in compliance with the risk parameters set by the Board of Directors. Risk Management department has a direct reporting line to the Board of Directors of the group.

The risk appetite, approved by the Board of Directors of the group, in various business areas is defined and communicated through an enterprise-wide risk policy. The group's risk policy, approved by the Board of Directors, analyses and sets risk limits for core risks - Credit risk, Liquidity risk, Market risk and Operational risk. The risk levels of each of these categories is measured and monitored on a continuous basis and compliance to prescribed risk levels reported on a quarterly basis. This ensures prudent management of the risks assumed by the group in its normal course of business. The risk policy is updated regularly, based on an analysis of the economic trends and the operating environment in the countries where the group operates.

The group's risk management processes have proven effective throughout the review year. group's Board of Directors have remained closely involved with key risk management initiatives, in ensuring the group's risks are effectively managed, appropriate levels of liquidity are maintained and adequate capital is held in line with the requirements.

The group recognises that an effective risk management process is key to its objective of enhancing shareholder value and is committed to developing risk management as an area of core competence. It continues in investing in its risk management capabilities so as to ensure that it is able to deliver on its growth plans while managing the underlying risks in an effective manner.

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42.2 Credit risk

42.2.1 Management of credit risk

Credit risk is the potential loss resulting from the failure of a borrower or counter party to honour its financial or contractual obligations in accordance with the agreed terms. It includes the below sub types:

- Cross border risk
- Counterparty Risk
- Settlement risk

42. FINANCIAL RISK MANAGEMENT (continued)

42.2 Credit risk (continued)

42.2.1 Management of credit risk (continued)

The function of credit risk management is to maximise the Group's risk-adjusted rate of return by maintaining credit risk exposure within acceptable parameters. Credit risk makes up the largest part of the group's risk exposure. Credit risk management process of the Group begins with the risk policy, updated regularly, which clearly defines parameters for each type of risks assumed by the Group.

The Group has set for itself clear and well defined limits to address different dimensions of credit risk including concentration risk. Compliance with the various parameters set in the risk policy, is reviewed on a regular basis and exceptions are reported to enable remedial actions.

Risk limit control and mitigation policies
The group has set for itself clear and well defined limits to address different dimensions of credit risk including credit concentration risk. Compliance, with the various parameters set in the risk policy, is reviewed on a regular basis and exceptions are reported to enable remedial actions. The Group addresses credit risk through the following process**:**

- All credit processes – Approval, disbursal, administration, classification, recoveries and write-off, all are governed by the Group's credit manual which is reviewed by Risk Management department and approved by appropriate approval authorities. The credit policy stipulates clear guidelines for each of these functions and the lending authority at various levels as stipulated in appropriate 'Lending Authority Limits'**.**

- All Corporate lending proposals, where the proposed credit limit for a borrower or related group exceeds a threshold, are submitted for approval/renewal to the appropriate authority after an independent review by the Risk Management Department whose comments are incorporated into the proposal.

- All Corporate relationships are reviewed at least once a year. Retail portfolio, including credit cards and mortgage portfolio, is reviewed on a portfolio basis at a product level at least once a year.

- Concentration of exposure to counterparties, geographies and sector are governed and monitored according to regulatory norms and limits prescribed in the Group's risk policy.

- Credit exposures are risk rated to provide support for credit decisions. The portfolio is analysed based on risk grades and risk grade migration to focus on management of prevalent credit risk**.**

- Retail portfolio is rated using an application score card.

A robust collateral management system is in place to mitigate any operational risk. The Group has a strong credit administration process that ensures compliance with terms of approval, documentation and continuous review to ensure quality of credit and collaterals. While securities such as listed equities are valued regularly, credit policy mandates securities obtained by way of legal mortgage over real estate to be valued at least once in 3 years or more frequently if situation warrants.

The Group executes Credit Support annex to the International Swaps and Derivatives Association (ISDA) document with major counterparty banks to mitigate credit risk arising out of change in the value of underlying for the derivative exposures. The Treasury Middle office undertakes daily valuation of all the derivative deals and raises appropriate margin calls.

Longer-term finance and lending to corporate entities are generally secured; revolving individual credit facilities are generally unsecured. In addition, in order to minimise the credit loss, the Group will seek additional collateral from the counterparty as soon as impairment indicators are noticed for the relevant individual loans and advances. Collateral held as security for financial assets other than loans and advances, is determined by the nature of the instrument. Debt securities, treasury and other eligible bills are generally unsecured.

42. FINANCIAL RISK MANAGEMENT (continued)

42.2 Credit risk (continued)

42.2.1 Management of credit risk (continued)

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

42.2.2 Exposure to credit risk – Statement of financial position items

	Loans and advances and Islamic financing to customers		**Due from banks**	
	2014	*2013*	***2014***	*2013*
	RO 000's	*RO 000's*	***RO 000's***	*RO 000's*
Individually impaired				
Sub-Standard	**13,516**	6,472	-	-
Doubtful	**31,975**	21,286	-	-
Loss	**90,943**	80,781	-	-
Gross amount	**136,434**	108,539	-	-
Allowance for impairment	**(91,681)**	(62,786)	-	-
Carrying amount	**44,753**	45,753	-	-
Collectively impaired				
Sub-Standard	**7,301**	8,208	-	-
Doubtful	**10,503**	10,561	-	-
Loss	**45,911**	41,100	-	-
Gross amount	**63,715**	59,869	-	-
Allowance for impairment	**(54,886)**	(48,806)	-	-
Carrying amount	**8,829**	11,063	-	-
Past due but not impaired				
Standard	**59,698**	85,981	-	-
Carrying amount	**59,698**	85,981	-	-
Past due but not impaired				
1-30 days	**31,889**	42,688	-	-
30-60 days	**19,045**	33,908	-	-
60-90 days	**8,764**	9,385	-	-
	59,698	85,981	-	-

42. FINANCIAL RISK MANAGEMENT (continued)

42.2 Credit risk (continued)

42.2.2 Exposure to credit risk – Statement of financial position items (continued)

	Loans and advances and Islamic financing to customers		***Due from banks***	
	2014	*2013*	***2014***	*2013*
	RO 000's	*RO 000's*	***RO 000's***	*RO 000's*
Neither past due nor impaired				
Standard	**6,416,836**	5,874,320	**1,043,776**	871,075
Special mention	**368,126**	231,709	**-**	-
Gross amount	**6,784,962**	6,106,029	**1,043,776**	871,075
Allowance for impairment	**(112,327)**	(105,980)	**(4,950)**	(4,094)
Carrying amount	**6,672,635**	6,000,049	**1,038,826**	866,981
Total carrying amount	**6,785,915**	6,142,846	**1,038,826**	866,981
Carrying amount in USD'000	**17,625,753**	15,955,444	**2,698,249**	2,251,899
Total allowances for impairment	**(258,894)**	(217,572)	**(4,950)**	(4,094)
US$ 000's	**(672,452)**	(565,122)	**(12,857)**	(10,634)

Total impairment above includes impairment for off-balance sheet exposures as well.

Restructured and rescheduled loans during the year on standard portfolio amounted to RO 12 million (2013: RO 14 million) and on classified portfolio amounted to RO 110 million (2013: RO 19 million).

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

The maximum credit risk equivalents relating to off-balance sheet items calculated as per Basel II guidelines are as follows:

2013	***2014***		***2014***	*2013*
US$ 000's	***US$ 000's***		***RO 000's***	*RO 000's*
562,112	**744,686**	Financial guarantees	**286,704**	216,413
1,645,270	**2,164,034**	Other credit related liabilities	**833,153**	633,429
723,522	**482,977**	Loan commitments	**185,946**	278,556
2,930,904	**3,391,697**		**1,305,803**	1,128,398

The above table represents a worst case scenario of credit risk exposure as of 31 December, without taking into account of any collateral held or other credit enhancements attached.

42. FINANCIAL RISK MANAGEMENT (continued)

42.2 Credit risk (continued)

42.2.2 Exposure to credit risk – Statement of financial position items (continued)

Management is confident in its ability to continue to control and sustain minimal exposure of credit risk resulting from the Group's loan and advances portfolio based on the following:

- Regular review of the loans and advances portfolio to identify any potential risk;
- 98.3% of the loans and advances portfolio are considered to be neither past due nor impaired (2013: 97.7%);
- Of the RO 4,301 million (2013: RO 3,875 million) loans and advances assessed on an individual basis, less than 3.2% (2013: 2.8%) is impaired;
- Personal and housing loans represent 38.95% (2013: 39.1%) of total loans and advances which are backed by salary assignment and/or by collaterals;
- Well diversified loans and advances portfolio to avoid concentration risk in segment, sector, geographies and counterparty.

42.2.3 Impaired loans and securities

Impaired loans and securities are loans and securities for which the Group determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan and security agreements. Those loans are categorised either as Sub-standard, Doubtful or Loss in the internal credit risk system.

42.2.4 Past due but not impaired loans

Loans and securities where contractual interest or principal payments are past due but the Group believes that impairment is not appropriate on the basis of the stage of collection of amounts owed to the Group.

42.2.5 Allowances for impairment

The Group establishes an allowance for impairment losses that represents its estimate of incurred losses in its loan portfolio. The main components of this allowance are a specific loss component that relates to individually significant exposures. A collective loan loss allowance is established for Groups of homogeneous assets in respect of losses that have been incurred but have not been identified on loans subject to individual assessment for impairment. The Group makes provision for bad and doubtful debts promptly when required in line with the conservative provisioning norms it has set for itself.

42.2.6 Write-off policy

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

The Group holds collateral against credit exposures to customers in the form of cash on deposits, bank guarantees, quoted securities, mortgage interest over property, other registered securities over assets and other guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing and are updated regularly.

42. FINANCIAL RISK MANAGEMENT (continued)

42.2 Credit risk (continued)

42.2.7 Analysis of impairment and collaterals

(a) An estimate of the fair value of collateral and other security enhancements held against financial assets is shown below:

Loans and advances and Islamic financing to customers			***Loans and advances and Islamic financing to customers***	
2013	***2014***		***2014***	*2013*
US$ 000's	***US$ 000's***		***RO 000's***	*RO 000's*
		Against individually impaired		
348,953	**358,704**	Property	**138,101**	134,347
987	**73**	Equities	**28**	380
1,294	**16,270**	Others	**6,264**	498
351,234	**375,047**		**144,393**	135,225
		Against past due but not impaired		
631,044	**432,571**	Property	**166,540**	242,952
383,036	**389,906**	Equities	**150,114**	147,469
13,826	**10,400**	Others	**4,004**	5,323
1,027,906	**832,877**		**320,658**	395,744
		Against neither past due nor impaired		
5,410,787	**6,682,294**	Property	**2,572,683**	2,083,153
883,805	**1,179,605**	Equities	**454,148**	340,265
500,618	**503,312**	Others	**193,775**	192,738
6,795,210	**8,365,211**		**3,220,606**	2,616,156
8,174,350	**9,573,135**	**Total**	**3,685,657**	3,147,125

(b) Repossessed collateral

The Group obtains assets by taking possession of collateral held as security. The carrying value of collateral held for sale as at 31 December 2014 is as follows:

	Carrying Amount	
	2014	*2013*
Nature of assets	***RO 000's***	*RO 000's*
Residential/commercial property	**13,717**	101
US$ 000's	**35,629**	262

Repossessed properties are sold as soon as practicable, with the proceeds used to reduce the outstanding indebtedness. Repossessed property is classified in the statement of financial position within other assets

42. FINANCIAL RISK MANAGEMENT (continued)

42.2 Credit risk (continued)

42.2.8 Credit rating analysis

The table below presents an analysis of debt securities, treasury bills and other eligible bills by rating agency designation, based on Moody's ratings or their equivalent:

At 31 December 2014

Debt and T Bills Rated:	***2014 RO 000's***	*2013 RO 000's*
Aaa to Aa3	**473,672**	373,516
A1 to A3	**77,944**	33,301
Baa1 to Baa3	**22,263**	19,341
Unrated	**3,700**	7,269
	577,579	433,427
Equity	**169,752**	137,198
Total investment securities	**747,331**	570,625
Total investment securities (US$ 000's)	**1,941,119**	1,482,143

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

Banks rated:	***2014 RO 000's***	*2013 RO 000's*
Aaa to Aa3	**23,426**	64,932
A1 to A3	**464,718**	239,178
Baa1 to Baa3	**379,604**	436,973
Ba1 to Ba3	**75,458**	1,407
B1 & Below	**7,231**	178
Banks unrated	**93,339**	128,407
Total	**1,043,776**	871,075
Total (US$ 000's)	**2,711,106**	2,262,532

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

42. FINANCIAL RISK MANAGEMENT (continued)

42.2.9 Concentration of credit risk

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 Group's performance to developments affecting a particular industry or geographic location.

The Group seeks to manage its credit risk exposure through diversification of lending activities to avoid undue concentrations of risks with individuals or Groups of customers in specific locations or businesses. It also obtains appropriate security concentration by location for loans and advances and is measured based on the location of the Group holding the asset, which has a high co-relation with the location of the borrower. Concentration by location for investment securities is measured based on the location of the issuer of the security.

An analysis of concentrations of credit risk as the reporting date is shown below.

	Gross loans and advances and Islamic financing to customers		***Due from banks***	
Carrying amount	***2014***	*2013*	***2014***	*2013*
	RO 000's	*RO 000's*	***RO 000's***	*RO 000's*
Concentration by sector				
Corporate	**3,962,986**	3,575,490	**-**	-
Sovereign	**41**	35	**-**	-
Financial institution	**337,799**	299,338	**1,043,776**	871,075
Retail	**2,743,983**	2,485,555	**-**	-
Total	**7,044,809**	6,360,418	**1,043,776**	871,075
US$ 000's	**18,298,205**	16,520,566	**2,711,106**	2,262,532

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

2013	***2014***		***2014***	*2013*
USD 000's	***USD 000's***		***RO 000's***	*RO 000's*
		Corporate and other loans		
1,673,400	**1,647,878**	Services	**634,433**	644,259
963,044	**1,245,639**	Mining and quarrying	**479,571**	370,772
1,210,026	**1,325,265**	Manufacture	**510,227**	465,860
623,634	**627,561**	Real estate	**241,611**	240,099
419,371	**372,597**	Wholesale and retail trade	**143,450**	161,458
651,888	**794,930**	Import trade	**306,048**	250,977
777,501	**877,400**	Financial institutions	**337,799**	299,338
1,293,468	**1,242,019**	Utilities	**478,177**	497,985
1,420,771	**1,727,491**	Transport	**665,084**	546,997
605,104	**811,275**	Construction	**312,341**	232,965
91	**106**	Government	**41**	35
35,795	**52,106**	Agriculture and allied activities	**20,061**	13,781
121,187	**42,005**	Export trade	**16,172**	46,657
269,299	**404,704**	Others	**155,811**	103,680
10,064,579	**11,170,976**		**4,300,826**	3,874,863
6,455,987	**7,127,229**	Personal and housing loans	**2,743,983**	2,485,555
16,520,566	**18,298,205**		**7,044,809**	6,360,418

42. FINANCIAL RISK MANAGEMENT (continued)

42.2.9 Concentration of credit risk (continued)

The Group monitors concentrations of credit risk by sector and by geographic location.

An analysis of concentrations of credit risk by location at the reporting date is shown below.

Carrying amount	***Gross loans and advances and Islamic financing to customers***		***Due from banks***	
	2014	*2013*	***2014***	*2013*
	RO 000's	*RO 000's*	***RO 000's***	*RO 000's*
Concentration by location				
Sultanate of Oman	**6,569,734**	6,001,996	**98,833**	98,935
Other GCC countries	**435,665**	326,314	**224,909**	209,307
Europe	**-**	-	**182,735**	163,548
United States of America	**-**	-	**58,923**	80,048
Others	**39,410**	32,108	**478,376**	319,237
Total	**7,044,809**	6,360,418	**1,043,776**	871,075
US$ 000's	**18,298,205**	16,520,566	**2,711,106**	2,262,532

42.2.10 Settlement risk

The Group's activities may give rise to risk at the time of settlement of transactions and trades. Settlement risk is the risk of loss due to the failure of counterparty to honor its obligation to deliver cash, securities or other assets as contractually agreed.

The Group mitigates settlement risk by conducting settlements through a settlement / clearing agent or having bilateral payment netting agreements.

42.3 Liquidity risk

Liquidity risk is the potential inability of the Group to meet its maturing obligations to counterparty.

42.3.1 Management of liquidity risk

Liquidity risk arises when the group is unable to generate sufficient cash resources to meet obligations as they fall due or can do so only at materially disadvantageous terms. Such liquidity risk may arise even when the institution is solvent. Liquidity stress may be caused by counterparties withdrawing credit lines or of not rolling over existing funding or as a result of general disruption in the markets or run on group deposits etc.

Asset Liability Committee (ALCO) of the group manages the liquidity position of the group. In order to ensure that the group meets its financial obligations as and when they fall due, cash flow positions are closely monitored. Liquidity risk management ensures that the group has the ability, under varying levels of stress to efficiently and economically meet liquidity needs.

The group consciously diversifies its funding base to include deposits raised from intergroup, issue of Certificate of deposits, retail customer deposits, bonds and medium term funds raised through Euro medium term notes and subordinated liabilities. These together with the strength of the Group's equity and asset quality ensure that funds are available at competitive rates at all times.

The sources and maturities of assets and liabilities are closely monitored to avoid any undue concentration and ensure a robust management of liquidity risks. The Group undertakes structural profiling based on the actual behavioral patterns of customers to study the structural liquidity position and initiate measures to fund these gaps.

42. FINANCIAL RISK MANAGEMENT (continued)

42.3. Liquidity risk (continued)

42.3.1 Management of liquidity risk (continued)

The group undertakes liquidity management through both cash flow approach and stock approach. Under stock approach, Liquid assets to total deposits and Liquid assets to total assets ratios are closely monitored and managed. Under cash approach, assets and liabilities are bucketed based on their residual maturity to ascertain liquidity gaps. The ALCO reviews the liquidity position on a continuous basis.

The Group's statement on maturity of asset and liability is outlined in note 42.3.2 to the consolidated financial statements.

42.3.2. Exposure to liquidity risk

The key measure used by the Group for managing liquidity risk is the ratio of liquid assets to total deposits and liquid assets to total assets. For this purpose the liquid assets include cash and balances with Central Banks, government securities, treasury bills and due from banks. The table below provides the ratio of liquid assets to deposits from customers and liquid assets to total assets at the reporting date and during the reporting period.

	Liquid assets to total assets ratio		***Liquid assets to total deposits ratio***	
	2014	*2013*	***2014***	*2013*
As at 31 December	**27.10%**	21.78%	**34.10%**	28.09%
Average for the period	**26.19%**	24.78%	**33.07%**	31.53%
Maximum for the period	**27.10%**	27.36%	**34.10%**	34.63%
Minimum for the period	**26.95%**	21.78%	**33.79%**	28.09%

42. FINANCIAL RISK MANAGEMENT (continued)

42.3. Liquidity risk (continued)

42.3.2 Exposure to liquidity risk (continued)

The table below analyses the Group's non-derivative financial liabilities and net-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. Derivative financial liabilities are included in the analysis if their contractual maturities are essential for an understanding of the timing of the cash flows. The amounts disclosed in the table are the contractual undiscounted cash flows.

The asset and liability maturity profile was as follows:

	On demand or within 3 months RO 000's	*Four months to 12 months RO 000's*	*One to five years RO 000's*	*More than five years RO 000's*	*Total RO 000's*
At 31 December 2014					
Cash balances with central banks	547,981	80,771	140,574	67,618	**836,944**
Due from banks	563,698	341,698	133,430	-	**1,038,826**
Loans and advances	1,718,823	754,720	1,364,157	2,948,215	**6,785,915**
Investments	621,683	34,323	73,232	58,981	**788,219**
Property and equipment and other assets	165,323	43,173	833	69,085	**278,414**
Total assets	**3,617,508**	**1,254,685**	**1,712,226**	**3,143,899**	**9,728,318**
Deposits from banks	630,789	7,780	250,250	-	888,819
Customers' deposits and certificates of deposit	1,415,202	1,480,005	2,538,626	1,194,276	6,628,109
Unsecured bonds and Euro medium term notes	-	-	189,979	-	189,979
Other liabilities and taxation	277,884	93,161	514	35,096	406,655
Subordinated liabilities / mandatory convertible bonds	-	-	237,239	65,450	302,689
Shareholders' funds	-	-	-	1,312,067	1,312,067
Total liabilities and equity	**2,323,875**	**1,580,946**	**3,216,608**	**2,606,889**	**9,728,318**
Assets off balance sheet					
Future interest cash flows	**73,081**	**202,744**	**726,465**	**475,062**	**1,477,352**
Liabilities off balance sheet					
Future interest cash flows	**18,844**	**55,370**	**137,398**	**103,775**	**315,387**

42. FINANCIAL RISK MANAGEMENT (continued)

42.3. Liquidity risk (continued)

42.3.2 Exposure to liquidity risk (continued)

	On demand or within 3 months US$ 000's	*Four months to 12 months US$ 000's*	*One to five years US$ 000's*	*More than five years US$ 000's*	*Total US$ 000's*
As of 31 December 2014					
Cash balances with central banks	1,423,328	209,795	365,127	175,631	**2,173,881**
Due from banks	1,464,151	887,527	346,571	-	**2,698,249**
Loans and advances	4,464,475	1,960,312	3,543,265	7,657,701	**17,625,753**
Investments	1,614,760	89,151	190,213	153,197	**2,047,321**
Property and equipment and other assets	429,411	112,138	2,164	179,442	**723,155**
Total assets	**9,396,125**	**3,258,923**	**4,447,340**	**8,165,971**	**25,268,359**
Deposits from banks	1,638,413	20,208	650,000	-	**2,308,621**
Customers' deposits and certificates of deposit	3,675,849	3,844,169	6,593,834	3,102,016	**17,215,868**
Unsecured bonds and Euro medium term notes	-	-	493,452	-	**493,452**
Other liabilities and taxation	721,776	241,977	1,335	91,158	**1,056,246**
Subordinated liabilities / mandatory convertible bonds	-	-	616,205	170,000	**786,205**
Shareholders' funds	-	-	-	3,407,967	**3,407,967**
Total liabilities and equity	**6,036,038**	**4,106,354**	**8,354,826**	**6,771,141**	**25,268,359**
Assets off balance sheet					
Future interest cash flows	**189,821**	**526,608**	**1,886,922**	**1,233,927**	**3,837,278**
Liabilities off balance sheet					
Future interest cash flows	**48,945**	**143,818**	**356,878**	**269,545**	**819,186**

42. FINANCIAL RISK MANAGEMENT (continued)

42.3. Liquidity risk (continued)

42.3.2 Exposure to liquidity risk (continued)

	On demand or within 3 months RO 000's	*Four months to 12 months RO 000's*	*One to five years RO 000's*	*More than five years RO 000's*	*Total RO 000's*
At 31 December 2013					
Cash balances with central banks	328,072	62,561	130,933	60,744	582,310
Due from banks	468,249	362,243	36,489	-	866,981
Loans and advances	1,318,128	1,038,944	1,114,077	2,671,697	6,142,846
Investments	447,667	13,679	95,594	41,647	598,587
Property and equipment and other assets	163,439	63,094	1,348	67,845	295,726
Total assets	2,725,555	1,540,521	1,378,441	2,841,933	8,486,450
Deposits from banks	405,442	244,165	19,250	-	668,857
Customers' deposits and certificates of deposit	1,325,624	1,107,609	2,236,661	1,022,976	5,692,870
Unsecured bonds and Euro medium term notes	-	29,803	188,102	-	217,905
Other liabilities and taxation	258,912	102,579	1,062	38,672	401,225
Subordinated liabilities / mandatory convertible bonds	22,574	-	205,275	65,450	293,299
Shareholders' funds	-	-	-	1,212,294	1,212,294
Total liabilities and equity	2,012,552	1,484,156	2,650,350	2,339,392	8,486,450
Assets off balance sheet Future interest cash flows	73,549	202,652	712,193	475,090	1,463,484
Liabilities off balance sheet Future interest cash flows	19,462	56,747	160,511	108,597	345,317

	On demand or within 3 months US $ 000's	*Four months to 12 months US $ 000's*	*One to five years US $ 000's*	*More than five years US $ 000's*	*Total US $ 000's*
As of 31 December 2013					
Cash balances with central banks	852,135	162,496	340,086	157,777	1,512,494
Due from banks	1,216,230	940,891	94,777	-	2,251,898
Loans and advances	3,423,711	2,698,556	2,893,706	6,939,473	15,955,446
Investments	1,162,769	35,530	248,296	108,174	1,554,769
Property and equipment and other assets	424,515	163,881	3,501	176,221	768,118
Total assets	7,079,360	4,001,354	3,580,366	7,381,645	22,042,725

42.3.2. EXPOSURE TO LIQUIDITY RISK (continued)

	On demand or within 3 months US $ 000's	*Four months to 12 months US $ 000's*	*One to five years US $ 000's*	*More than five years US $ 000's*	*Total US $ 000's*
Deposits from banks	1,053,096	634,195	50,000	-	1,737,291
Customers' deposits and certificates of deposit	3,443,180	2,876,906	5,809,509	2,657,081	14,786,676
Unsecured bonds and Euro medium term notes	-	77,408	488,577	-	565,985
Other liabilities and taxation	672,497	266,439	2,758	100,447	1,042,141
Subordinated liabilities / mandatory convertible bonds	58,634	-	533,181	170,000	761,815
Shareholders' funds	-	-	-	3,148,817	3,148,817
Total liabilities and equity	5,227,407	3,854,948	6,884,025	6,076,345	22,042,725
Assets off balance sheet					
Future interest cash flows	191,036	526,369	1,849,852	1,234,000	3,801,257
Liabilities off balance sheet					
Future interest cash flows	50,551	147,395	416,912	282,070	896,928

Interest cash flows shown in the above table represent inflows and outflows up to the contractual maturity of financial assets and liabilities. Mismatch in interest cash flows arise as contractual maturity of financial assets is longer than contractual maturity of financial liabilities. Historically, financial liabilities are rolled over on contractual maturity which is not considered in the future interest cash flow calculations. Furthermore, the interest cash flows do not factor in the stable nature of unambiguous maturity financial liabilities such as demand and savings accounts.

42.4 Market risk

42.4.1 Management of market risks

The Group sets limits for each product and risk type in order to ensure that the Group's market risk is managed well within the overall regulatory requirements set by the Central Bank of Oman and internal regulations contained in the Risk Policy. The Group does not enter into trading positions in commodities & derivatives. Limits and all internal/external guidelines are strictly adhered to, deviations, if any, are immediately escalated and action taken wherever necessary.

The principal categories of market risk faced by the Group are set out below:

- Foreign exchange risk
- Investment price risk
- Interest rate risk
- Commodity price risk

42.4.2 Foreign exchange risk

Foreign exchange risk is the risk of loss due to volatility in the exchange rates. Foreign exchange risk management in the Group is ensured through regular measurement and monitoring of open foreign exchange positions against approved limits. Majority of the foreign exchange transactions carried out by the division are on behalf of corporate customers and are on a back-to-back basis. The treasury ensures that positions with customers are covered in the interbank market.

The Group conservatively restricts its open currency position at below 35% of its net worth as against the regulatory limit of 40% of net worth.

42. FINANCIAL RISK MANAGEMENT (continued)

42.4 Market risk (continued)

42.4.2 Foreign exchange risk (continued)

It also stipulates that exposure on any single non parity currency should be restricted to the extent of 3% of Parent Company's net worth and restricted to the extent of 10% of the Parent Company's net worth for all non-parity currencies taken together. As at the reporting date, the Group had the following net exposures denominated in foreign currencies:

2013 USD 000's	***2014 USD 000's***		***2014 RO 000's***	*2013 RO 000's*
484,706	**598,532**	US Dollar	**230,435**	186,612
195,797	**186,042**	Saudi Riyal	**71,626**	75,382
103,865	**123,847**	Bahraini Dinar	**47,681**	39,988
113,262	**59,387**	UAE Dirhams	**22,864**	43,606
59,564	**58,868**	Kuwait Dinar	**22,664**	22,932
8,353	**8,743**	Pakistani Rupee	**3,366**	3,216
23,971	**7,301**	Indian Rupee	**2,811**	9,229
26,722	**4,982**	Qatari Riyal	**1,918**	10,288
2,831	**5,842**	Others	**2,249**	1,090
1,019,071	**1,053,544**		**405,614**	392,343

Positions are monitored on a daily basis to ensure positions are maintained within the limits approved by the Central Bank of Oman.

The net exposure in foreign currencies includes foreign currency exposure on investment in overseas associates and branches of equivalent RO 100 million (2013: RO 100 million) which are exempted from regulatory limit on foreign exchange exposure.

The Group's significant portion of foreign exchange exposure is in USD and other GCC currencies which have other than Kuwaiti Dinar fixed parity with Omani Rial.

Exposure and sensitivity analysis:

The table below indicates the sensitivity analysis of foreign exchange exposure of the Group to changes in the non-parity foreign currency prices as at 31 December 2014 with all other variables held constant.

Non parity foreign currency net assets	***At 31 December 2014*** % of change in the currency price(+/-)	Change in profit (+/-)	*At 31 December 2013* % of change in the currency price(+/-)	Change in profit (+/-)
Indian Rupees	**10%**	**281**	10%	923
Pakistani Rupees	**10%**	**337**	10%	322
Kuwaiti Dinar	**10%**	**2,266**	10%	2,293
Others	**10%**	**225**	10%	109

42. FINANCIAL RISK MANAGEMENT (continued)

42.4.3 Investment Price Risk

Investment price risk is the risk of decline in the market value of the Group's portfolio as a result of diminishment in the market value of individual investments. The Group's investments are governed by the Investment Policy and Risk Policy approved by the Board of Directors and are subject to rigorous due diligence. Investment limits such as position limits, exposure limits, stop loss limits, sectorial limits are defined in various policies enabling proper risk management of the Group's investments. The Group's Investment Committee monitors the investments. The rating and cost vis-a-vis the market price of the instruments are monitored on daily basis and necessary actions taken to reduce exposure, if needed. Traded portfolio is revalued on daily basis and the rest at regular interval to ensure that unrealised losses, if any, on account of reduction in the market value of the investments over its cost remain within the acceptable parameters defined in the Group's Investment Policy.

Exposure and sensitivity analysis

The Group analyses price sensitivity of the equity portfolio as follows:

a) For the local quoted equity portfolio, based on the beta factor of the portfolio performance to the MSM30 Index performance.

b) For the international quoted equity portfolio, based on the individual security market price movement.

The Group's market risk is affected mainly by changes to the actual market price of financial assets. Actual performance of the Group's local equity portfolio has a correlation to the performance of MSM30 Index.

The beta of the Group's quoted local equity portfolio against the MSM30 Index for 2014 was 0.62. Thus, a +/-5% change in the value of MSM30 index may result in 3.10 % change in the value of Group's quoted local equity portfolio, amounting to RO 1.85 million adjustment in the unrealised gain recognised in the statement of other comprehensive income for the year.

The beta of the Group's quoted local equity portfolio against the MSM30 Index for 2013 was 0.97. Thus, a +/-5% change in the value of MSM30 index may result in 4.85% change in the value of Group's quoted local equity portfolio, amounting to RO 1.98 million adjustment in the unrealised gain recognised in the statement of other comprehensive income for the year.

International quoted equity portfolio of the Group comprises of shares listed in GCC stock markets, Indian Stock markets and other international markets. A +/-5% change in the market price of the respective securities, have resulted in change in value of the portfolio of +/- RO 1.91 million (2013: +/-RO 1.29 million) and consequently increased or decreased in the unrealised gain recognised in the statement of other comprehensive income.

42.4.4. Interest rate risk management.

Interest rate risk is the risk of adverse impact on the Bank's financial position due to change in market interest rates. While the impact on the trading book is by way of change in the value of the portfolio, the banking book leads to impact on the net Interest Income (NII) and/or Economic Value of Equity (EVE). The short term impact of interest rate risk is measured by studying the impact on the NII of the Bank while the long term impact is measured through the study of the impact on the Economic Value of Equity. The responsibility for interest rate risk management rests with the Parent Company's Treasury under the supervision of the ALCO. The Group's interest rate sensitivity position of assets and liabilities, based on the contractual repricing or maturity dates, whichever dates are earlier, is as follows:

42. FINANCIAL RISK MANAGEMENT (continued)

42.4.4. Interest rate risk management (continued)

	Effective annual interest rate %	*Floating rate or within 3 months RO 000's*	*Months 4 to 12 RO 000's*	*Year 1 to 5 RO 000's*	*Over 5 years RO 000's*	*Non-interest sensitive RO 000's*	*Total RO 000's*
As of 31 December 2014							
Cash and balances with Central Banks	**0-0.5**	**94,725**	**2,624**	**-**	**-**	**739,595**	**836,944**
Due from banks	**1.19**	**605,586**	**391,275**	**8,635**	**26,681**	**6,649**	**1,038,826**
Loans and advances	**4.92**	**2,350,570**	**907,122**	**1,980,245**	**1,543,852**	**4,126**	**6,785,915**
Investments	**2.14**	**374,938**	**69,280**	**153,733**	**45,317**	**144,951**	**788,219**
Property and equipment and other assets	**None**	**805**	**32,104**	**-**	**-**	**245,505**	**278,414**
Total assets		**3,426,624**	**1,402,405**	**2,142,613**	**1,615,850**	**1,140,826**	**9,728,318**
Deposits from banks	**0.79**	**847,090**	**10,153**	**19,250**	**1,695**	**10,631**	**888,819**
Customers' deposits and certificates of deposit	**1.20**	**675,784**	**3,603,135**	**1,010,827**	**135,342**	**1,203,021**	**6,628,109**
Unsecured bonds and Euro medium term notes	**2.12**	**-**	**-**	**189,979**	**-**	**-**	**189,979**
Other liabilities and taxation	**None**	**-**	**-**	**-**	**2,066**	**404,589**	**406,655**
Subordinated liabilities / mandatory convertible bonds	**5.78**	**65,450**	**-**	**237,239**	**-**	**-**	**302,689**
Shareholders' funds	**None**	**-**	**-**	**-**	**-**	**1,312,067**	**1,312,067**
Total liabilities and equity		**1,588,324**	**3,613,288**	**1,457,295**	**139,103**	**2,930,308**	**9,728,318**
Total interest rate sensitivity gap		**1,838,300**	**(2,210,883)**	**685,318**	**1,476,747**	**(1,789,482)**	**-**
Cumulative interest rate sensitivity gap		**1,838,300**	**(372,583)**	**312,735**	**1,789,482**	**-**	**-**
In US$ 000		**4,774,805**	**(967,748)**	**812,299**	**4,648,005**	**-**	**-**

42. FINANCIAL RISK MANAGEMENT (continued)

42.4.4. Interest rate risk management (continued)

	Effective annual interest rate %	*Floating rate or within 3 months RO 000's*	*Months 4 to 12 RO 000's*	*Year 1 to 5 RO 000's*	*Over 5 years RO 000's*	*Non-interest sensitive RO 000's*	*Total RO 000's*
As of 31 December 2013							
Cash and balances with Central Banks	0-0.5	53,464	4,761	-	-	524,085	582,310
Due from banks	1.00	386,682	416,767	1,771	43,029	18,732	866,981
Loans and advances	5.19	1,908,921	1,155,054	1,671,109	1,407,427	335	6,142,846
Investments	2.70	183,411	69,409	195,971	37,169	112,627	598,587
Property and equipment and other assets	None	-	-	-	-	295,726	295,726
Total assets		2,532,478	1,645,991	1,868,851	1,487,625	951,505	8,486,450
Deposits from banks	1.19	579,110	29,495	19,250	11,664	29,338	668,857
Customers' deposits and certificates of deposit	1.31	677,886	3,021,920	957,072	142,937	893,055	5,692,870
Unsecured bonds and Euro medium term notes	3.24	-	29,803	188,102	-	-	217,905
Other liabilities and taxation	None	-	-	-	-	401,225	401,225
Subordinated liabilities / mandatory convertible bonds	5.83	22,574	-	205,275	65,450	-	293,299
Shareholders' funds	None	-	-	-	-	1,212,294	1,212,294
Total liabilities and equity		1,279,570	3,081,218	1,369,699	220,051	2,535,912	8,486,450
Total interest rate sensitivity gap		1,252,908	(1,435,227)	499,152	1,267,574	(1,584,407)	-
Cumulative interest rate sensitivity gap		1,252,908	(182,319)	316,833	1,584,407	-	-
In US$ 000		3,254,306	(473,556)	822,943	4,115,343	-	-

42. FINANCIAL RISK MANAGEMENT (continued)

42.4.4. Interest rate risk management (continued)

(i) The off-balance sheet gap represents the net notional amount of off-balance sheet financial instruments, including interest rate swaps which are used to manage interest rate risk.

(ii) The repricing profile is based on the remaining period to the next interest repricing date.

(iii) An asset (or positive) gap position exists when assets reprice more quickly or in greater proportion than liabilities during a given period and tends to benefit net interest income in a rising interest rate environment. A liability (or negative) gap position exists when liabilities reprice more quickly or in greater proportion than assets during a given period and tends to benefit net interest income in a declining interest rate environment.

Re-pricing gap is the difference between interest rate sensitive assets and liabilities spread over distinct maturity bands based on residual maturity or re-pricing dates. The Parent Company uses currency-wise and consolidated re-pricing gaps to quantify interest rate risk exposure over distinct maturities and analyse the magnitude of portfolio changes necessary to alter existing risk profile. The distribution of assets and liabilities over these time bands is done based on the actual repricing schedules. The schedules are used as a guideline to assess interest rate risk sensitivity and to focus the efforts towards reducing the mismatch in the repricing pattern of assets and liabilities.

The Parent Company uses simulation reports as an effective tool for understanding risk exposure under variety of interest rate scenarios. These reports help ALCO to understand the direction of interest rate risk in the Parent Company and decide on the appropriate strategy and hedging mechanism for managing it. The Parent Company's current on- and off-balance sheet exposures are evaluated under static environment to quantify potential effect of external interest rate shocks on the earnings and economic value of equity at risk, using assumptions about future course of interest rates and changes in Parent Company's business profile. The impact of interest rate changes on EVE is monitored by recognising the changes in the value of assets and liabilities for a given change in the market interest rate. The interest rate risk management is facilitated by limits of 5% NII impact and 20% impact on EVE for a 200 basis points shock.

An analysis of the Group's sensitivity to an increase or decrease in market interest rates is as follows:

Impact on Net Interest income	***+200 bps RO 000's***	***-200 bps RO 000's***	***+100 bps RO 000's***	***-100 bps RO 000's***	***+50 bps RO'000's***	***-50 bps RO 000's***
2014						
As at 31 December	**7,062**	**36**	**4,111**	**1,222**	**1,587**	**2,077**
Average for the period	**8,563**	**1,306**	**4,655**	**1,077**	**1,837**	**1,873**
Maximum for the period	**19,899**	**10,016**	**10,489**	**4,532**	**4,660**	**3,348**
Minimum for the period	**706**	**(5,701)**	**(83)**	**(3,207)**	**(471)**	**(198)**
2013						
As at 31 December	(1,203)	9,758	(428)	5,736	(66)	5,002
Average for the period	(2,095)	4,989	(1,833)	1,738	(1,534)	1,803
Maximum for the period	3,351	10,814	1,123	6,603	1,893	5,577
Minimum for the period	(6,182)	(3,040)	(3,623)	(2,878)	(3,143)	(513)

42. FINANCIAL RISK MANAGEMENT (continued)

42.4.4. Interest rate risk management (continued)

Impact on Economic Value	***+200 bps RO 000's***	***-200 bps RO 000's***	***+100 bps RO 000's***	***-100 bps RO 000's***	***+50 bps RO 000's***	***-50 bps RO 000's***
2014						
As at 31 December	**9,545**	**479,424**	**(103,536)**	**121,201**	**(53,045)**	**57,181**
Average for the period	**25,380**	**462,400**	**(99,553)**	**107,307**	**(50,245)**	**52,098**
Maximum for the period	**71,756**	**512,333**	**(89,781)**	**121,201**	**(46,022)**	**57,181**
Minimum for the period	**(96,903)**	**332,545**	**(143,945)**	**56,189**	**(55,417)**	**41,929**
2013						
As at 31 December	(171,412)	235,600	(89,511)	109,604	(45,888)	50,923
Average for the period	(162,198)	220,808	(81,006)	103,772	(44,266)	51,609
Maximum for the period	(118,964)	254,272	(41,290)	140,677	(36,210)	89,950
Minimum for the period	(219,838)	203,612	(91,223)	94,686	(64,250)	44,793

Impact on Net Interest income	***+200 bps US$ '000***	***-200 bps US$ '000***	***+100 bps US$ '000***	***-100 bps US$ '000***	***+50 bps US$ '000***	***-50 bps US$ '000***
2014						
As at 31 December	**18,344**	**93**	**10,677**	**3,173**	**4,123**	**5,394**
Average for the period	**22,242**	**3,393**	**12,091**	**2,797**	**4,771**	**4,866**
Maximum for the period	**51,687**	**26,016**	**27,245**	**11,771**	**12,105**	**8,696**
Minimum for the period	**1,834**	**(14,808)**	**(216)**	**(8,329)**	**(1,223)**	**(513)**
2013						
As at 31 December	(3,125)	25,345	(1,112)	14,899	(171)	12,992
Average for the period	(5,442)	12,958	(4,761)	4,514	(3,984)	4,683
Maximum for the period	8,704	28,088	2,917	17,151	4,917	14,486
Minimum for the period	(16,057)	(7,896)	(9,410)	(7,475)	(8,164)	(1,332)

Impact on Economic Value	***+200 bps US$ 000's***	***-200 bps US$ 000's***	***+100 bps US$ 000's***	***-100 bps US$ 000's***	***+50 bps US$ 000's***	***-50 bps US$ 000's***
2014						
As at 31 December	**24,792**	**1,245,256**	**(268,925)**	**314,809**	**(137,778)**	**148,523**
Average for the period	**65,923**	**1,201,038**	**(258,579)**	**278,719**	**(130,507)**	**135,319**
Maximum for the period	**186,380**	**1,330,735**	**(233,198)**	**314,809**	**(119,537)**	**148,523**
Minimum for the period	**(251,697)**	**863,753**	**(373,882)**	**145,946**	**(143,939)**	**108,908**
2013						
As at 31 December	(445,226)	611,948	(232,496)	284,686	(119,190)	132,268
Average for the period	(421,294)	573,527	(210,405)	269,538	(114,977)	134,049
Maximum for the period	(308,997)	660,447	(107,247)	365,395	(94,052)	233,636
Minimum for the period	(571,008)	528,862	(236,943)	245,938	(166,883)	116,345

42. FINANCIAL RISK MANAGEMENT (continued)

42.5 Commodity Price Risk

As part of its treasury operations, the Group offers commodities hedging facility to its clients. Customers of the group who are exposed to commodities like Copper, Aluminium and also Jewellers with exposure to gold prices cover their commodity exposures through the Group. The Group covers all its commodity exposures back-to-back in the intergroup market.

The Group operates in the commodities market purely as a provider of hedging facilities and does not either trade in commodities or bullion or maintain positions in commodities. Customers of the Group are sanctioned a transaction volume limit based on their turn-over/ orders as well as a Variation Margin limit is applied to mitigate any mark-to-mark related credit exposures for the Group. The transaction volume limit is to restrict the total outstanding contracts value to the business requirement of the customer and the variation margin limit is to protect the Group from excessive credit risk due to adverse price movement in the underlying commodity prices. Margin calls for additional collateral or cash deposits is demanded from customers on the breach of the Variation Margin limit. The treasury middle-office monitors customers' positions and MTMs on daily basis.

42.6 Operational risks

Operational risk is the deficiencies in information systems/internal controls or uncontrollable external events will result in loss. The risk is associated with human error, systems failure and inadequate procedures or control and external causes. As per the Basel Committee on Banking Supervision (BCBS), operational risk is the risk of monetary losses resulting from inadequate or failed internal processes, people and systems or from external events. Operational risk includes legal risk but excludes strategic and reputational risk.

Losses from external events such as a natural disaster that has a potential to damage the Group's physical assets or electrical or telecommunications failures that disrupt business are relatively easier to define than losses from internal problems such as employee fraud and product flaws. The risks from internal problems are more closely tied to the Group's specific products and business lines; they are more specific to the Group's operations than the risks due to external events. Operational risks faced by the Group include IT Security, telecom failure, fraud, and operational errors.

The Group has developed its own Operational Risk Management Software to aid assessment of operational risks as well as the collection and analysis of operational losses.

The Group's risk policy provides the framework to identify, assess, monitor, control and report operational risks in a consistent and comprehensive manner across the Group. Operational Risk Management function independently supports business units in the management of operational risks. Operational risk management in the Group is driven by the objective to increase the efficiency and effectiveness of the available resources, minimise losses and utilise opportunities. The main objectives of Operational Risk Management are as follows:

- To achieve strong risk control by harnessing the latest risk management technologies and techniques, resulting in a distinctive risk management capability, enabling business units to meet their performance and growth objectives.
- To enable adequate capital allocation in respect of potential impact of operational risks
- To minimize the impact of operational risks through means such as a fully functional IT Disaster Recovery facility, Business Continuity Plans, up-to-date documentation and by developing general operational risk awareness within the group.

Operational risk appetite is defined at a business unit and Group level. Business units have the primary responsibility for identifying, measuring and managing the operational risks that are inherent in their respective operations. Operational risk is controlled through a series of strong internal controls and audits, well-defined segregation of duties and reporting lines, detailed operational manuals and standards. The responsibility of overseeing the process lies with Operational Risk Unit in accordance with the Operational Risk Management Framework. Internal Audit independently reviews effectiveness of the Group's internal controls and its ability to minimise the impact of operational risks.

42. FINANCIAL RISK MANAGEMENT (continued)

42.6 Operational risks (continued)

The Operations committee is the primary oversight body for operational risk. The Operations committee is represented by business and control functions and is responsible for ensuring that the group has an adequate risk management process that covers identification, evaluation and management of operational risks and the formulation of adequate policies pertaining to operational risk management.

Business Continuity Planning (BCP)
Business Continuity Management within the Group is the implementation and management of preventative measures, planning and preparation to ensure the group can continue to operate following an incident, significant unplanned event or major operational disruption. The Group ensures that its systems and procedures are resilient to ensure business continuity through potential situations of failure. The Group has put in place Business Continuity Plans (BCP) to ensure that its business runs effectively in the event of most unforeseen disasters as required by the CBO Business Continuity Guidelines, the Basel Committee Joint Forum High-level principles for business continuity and international business continuity standards. The Group continuously strengthens and enhances its existing plans by implementing a robust business continuity framework to ensure that its systems and procedures are resilient and ready to meet 'emergency preparedness'. The BCM Committee is entrusted with the responsibility of formulating, adopting, implementing, testing and maintaining a robust BCP for the Group. The BCM Committee continuously review and agree the strategic Business Continuity assessment and planning information to ensure Business Continuity Management, planning and maintenance responsibilities are assigned, understood and implemented across the business areas.

The Group has made significant strides in enhancing its business continuity framework. Some of the major developments in line with the objective of the continuous evolution of the Group's BCM framework were:

- BCM Committee ensures business continuity is closely aligned and integrated with business initiatives and developments.
- Fire evacuation drills were conducted for each section of the Seeb Head Office and a collective, full-fledged surprise fire drill and evacuation was conducted in conjunction with the Royal Oman Police. Fire evacuation response leaders were appointed and trained.
- Comprehensive testing of the recovery of the groups key systems and applications was conducted in conjunction with the Business.
- The group's Business Recovery Centre of the group has the capability to meet any unforeseen disaster and ensure continual operational capability in the event of a major operational disruption. To ensure the functionality of the Business Recovery Centre.

42.7 Capital management

42.7.1 Regulatory capital

The Parent Company's regulator, Central Bank of Oman (CBO), sets and monitors capital requirements for the Parent Company as a whole. In implementing Basel III's capital requirement, the CBO requires the Parent Company to maintain a minimum of 12.625% ratio of total capital to total risk-weighted assets. The group's regulatory capital is analysed into three tiers:

- Tier I capital, which includes ordinary share capital, share premium, distributable and non-distributable reserves and retained earnings (net of proposed dividend) after deductions for goodwill and fifty percent of carrying value of investment in associates as per the regulatory adjustments that are included in equity but are treated differently for capital adequacy purposes;
- Tier II capital, which includes qualifying subordinated liabilities, collective impairment allowances and the element of the fair value reserve relating to unrealised gains on equity instruments classified as available-for-sale after deductions for fifty percent of carrying value of investments in associates;
- Tier III capital which includes qualifying subordinated liabilities (net of reserves).

42. FINANCIAL RISK MANAGEMENT (continued)

42.7.1 Regulatory capital (continued)

Various limits are applied to elements of the capital base. The qualifying Tier II and Tier III capital cannot exceed Tier I capital; qualifying subordinated liabilities may not exceed fifty percent of Tier I capital; and amount of collective impairment allowances that may be included as part of Tier II capital is limited to 1.25 percent of the total risk-weighted assets.

42.7.2 Capital adequacy

Capital adequacy indicates the ability of the group in meeting any contingency without compromising the interest of the depositors and to provide credit across the business cycles. Sufficient capital in relation to the risk profile of the Group's assets helps promote financial stability and confidence of the stakeholders and creditors. The Group aims to maximise the shareholder's value through an optimal capital structure that protects the stakeholders interests under most extreme stress situations, provides sufficient room for growth while meeting the regulatory requirements and at the same time gives a reasonable return to the shareholders. The Group has a forward looking capital policy which considers the current risk, planned growth and an assessment of the emerging risk for the forecasted period.

While risk coverage is the prime factor influencing capital retention, the Group is conscious of the fact that as a business entity, its capital needs to be serviced and a comfortable rate of return needs to be provided to the shareholders. Excessive capital will dilute the return on capital and this in turn can exert pressure for profitability, propelling business asset growth resulting in the group assuming higher levels of risk. Hence, with regards to the retention of capital, the Group's policy is governed by the need for adequately providing for associated risks and the needs for servicing the capital retained. The Group makes good use of subordinated loans as Tier II Capital and raises share capital as and when the need arises. The Group's strong and diverse shareholder profile gives the Group the necessary confidence in its ability to raise capital when it is needed.

The Group desires to move to more advanced approaches for measuring credit risk, market risk and operational risk and has put in place a 'building block' approach. A road map has been laid down for each core area of risk viz. credit, market, operational. Progress has been made in line with the road map and is being monitored on a continuous basis and reported.

Basel III regulatory reporting

The Central Bank of Oman has issued final guidelines on the implementation of the new capital norms along with the phase-in arrangements and reporting norms. The Group remains strongly capitalised and is ahead of the transitional phase-in arrangements.

42. FINANCIAL RISK MANAGEMENT (continued)

42.7 Capital management (continued)

42.7.2 Capital adequacy (continued)

The following table sets out the capital adequacy position of the Group:

2013 USD 000's	***2014 USD 000's***		***2014 RO 000's***	*2013 RO 000's*
		Common Equity Tier 1 (CET1) capital: Instruments and reserves		
559,029	**566,932**	Share capital	**218,269**	215,226
1,173,603	**1,207,665**	Share premium	**464,951**	451,387
186,325	**188,977**	Legal reserve	**72,756**	71,735
424,395	**441,060**	General reserve	**169,808**	163,392
230,475	**308,052**	Subordinated loan reserve	**118,600**	88,733
386,930	**487,878**	Retained profit (post proposed cash dividend)	**187,833**	148,968
2,960,757	**3,200,564**	**Total**	**1,232,217**	1,139,441
		Less:		
(2,886)	**(5,538)**	Cumulative loss on fair value	**(2,132)**	(1,111)
-	**(1,496)**	Cumulative loss on cash flow hedge	**(576)**	-
(15,034)	**(1,855)**	Deferred tax assets	**(714)**	(5,788)
(9,322)	**(2,403)**	Foreign currency translation reserve	**(925)**	(3,589)
(69,574)	**(92,969)**	Significant investments in the common stock of banking, financial and insurance entities	**(35,793)**	(26,786)
(96,816)	**(104,261)**	Total regulatory adjustments to CET1	**(40,140)**	(37,274)
2,863,941	**3,096,303**	Total Common Equity Tier 1 capital (CET1)	**1,192,077**	1,102,617
-	**-**	Additional Tier 1 capital (AT1)	**-**	-
2,863,941	**3,096,303**	Total Tier 1 capital (T1 = CET1 + AT1)	**1,192,077**	1,102,617
		Tier 2 capital: instruments and provisions		
20,513	**27,784**	Cumulative change in fair value (45%)	**10,697**	7,898
224,384	**254,504**	General Loan loss impairment	**97,984**	86,388
393,738	**282,494**	Subordinated liabilities (net of reserves)	**108,760**	151,589
120,603	**161,660**	Mandatory convertible Bonds	**62,239**	46,432
759,238	**726,442**		**279,680**	292,307
		Less: Regulatory adjustments		
(46,382)	**(39,844)**	Significant investments in the common stock of banking, financial and insurance entities	**(15,340)**	(17,857)
712,856	**686,598**	Tier 2 capital (T2)	**264,340**	274,449
3,576,797	**3,782,901**	Total Regulatory Capital (TC = T1 + T2)	**1,456,417**	1,377,067
21,782,236	**23,761,634**	Total risk weighted assets	**9,148,229**	8,386,161
19,393,317	**20,883,691**	Of which: Credit risk weighted assets	**8,040,221**	7,466,427
866,527	**1,228,545**	Of which: Market risk weighted assets	**472,990**	333,613
1,522,392	**1,649,397**	Of which: Operational risk weighted assets	**635,018**	586,121

42. FINANCIAL RISK MANAGEMENT (continued)

42.7 Capital management (continued)

42.7.2 Capital adequacy (continued)

2013	***2014***	*Capital Ratios: (expressed as a % of total risk weighted assets)*	***2014***	*2013*
13.15%	**13.03%**	Common Equity Tier 1	**13.03%**	13.15%
13.15%	**13.03%**	Tier 1	**13.03%**	13.15%
16.42%	**15.92%**	Total capital	**15.92%**	16.42%

The total regulatory capital adequacy ratio of 15.92% (2013:16.42%) is after considering the proposed dividend of 45%:25% Cash and 20% Mandatory convertible bonds (2013: 25% Cash and 15% Mandatory convertible bonds). The total capital adequacy pre consideration of dividend would be 16.52% (2013: 17.06%).

Capital Adequacy as per Basel II reporting for monitoring purposes:

The following table sets out the capital adequacy position as per Basel II guidelines issued by Central Bank of Oman of the Group for monitoring purposes:

2013 USD 000's	***2014 USD 000's***		***2014 RO 000's***	*2013 RO 000's*
2,875,536	**3,122,864**	**Tier I Capital**	**1,202,303**	1,107,181
718,260	**694,034**	**Tier II Capital**	**267,203**	276,530
3,593,796	**3,816,898**	**Total regulatory capital**	**1,469,506**	1,383,611
		Risk weighted assets		
19,393,317	**20,883,691**	Credit risk	**8,040,221**	7,466,427
866,527	**1,228,545**	Market risk	**472,990**	333,613
1,522,392	**1,649,397**	Operational risk	**635,018**	586,121
21,782,236	**23,761,633**	**Total risk weighted assets**	**9,148,229**	8,386,161
		Capital ratios		
16.50%	**16.06%**	Total regulatory capital expressed as a % of total risk weighted assets	**16.06%**	16.50%
13.20%	**13.14%**	Total Tier I capital expressed as a % of total risk weighted assets	**13.14%**	13.20%

The total regulatory capital adequacy ratio of 16.06% (2013: 16.50%) is after considering the proposed dividend of 25% Cash and 20% mandatory convertible bonds(2013: 25% Cash and 15% mandatory convertible bonds). The total capital adequacy ratio pre consideration of dividend would be 16.66% (2013: 17.14%).

42. FINANCIAL RISK MANAGEMENT (continued)

42.7 Capital management (continued)

42.7.3 Internal Capital Adequacy Assessment Process (ICAAP):

The Bank has in place Internal Capital Adequacy Assessment Process (ICAAP) which provides an assessment of the Bank's actual capital adequacy on an advanced Economic Capital measure. ICAAP incorporates the impact of residual risk including business risk, concentration risk, correlation risk, interest rate risk on banking book. The purpose of the Bank's ICAAP is not only to provide a detailed assessment of its current capital adequacy, but also to project future capital adequacy ratios in line with approved business plans in order to evaluate their validity from a risk perspective. The process covers a forward looking plan for the next 5 years. The overall framework has introduced a structured methodology for a comprehensive forward-looking assessment of capital based on the Bank's risk profile. It is also expected that the establishment of ICAAP in the Bank will facilitate the awareness for risk sensitive topics when it comes to strategic decisions like acquisitions, launch of new products or organic growth targets. It will scrutinize the current business model of the Bank and may lead to corresponding adjustments if the inherent risk goes beyond the Bank's risk appetite. ICAAP was approved by the Board of Directors through Board Risk Committee. On a quarterly basis, reporting is done to the Board on the adequacy of capital. The Bank believes that its current and foreseen capital endowment is suitable to support its business strategy in a soothing market environment. The present plan will be updated at least annually for a rolling, forward-looking planning period of 5 years.

In order to determine the Bank's capability to withstand adverse conditions, in addition to the base case, a stress scenario has also been examined. This scenario assumes a prolonged recession and specifically incorporates a deterioration of credit quality, increased IRRBB and Market Risk as well as a decrease in retained profits.

42.7.4 Capital allocation

The allocation of capital between specific business units and activities is, to large extent, driven by optimisation of the return on capital allocated. Although maximisation of the return on risk-adjusted capital is the principal basis used in determining how capital is allocated within the Bank to particular business units or activities, it is not the sole basis used for decision making. Other factors such as synergies between the units or activities, the availability of management and other resources, and the fit of the activity with the Bank's longer term strategic objectives are taken in to account while allocating capital.

43. FAIR VALUE INFORMATION

Based on the valuation methodology outlined below, the fair values of all on and off-balance sheet financial instruments at reporting dates are considered by the Board and Management not to be materially different to their book values:

	Notes	*Loans and receivables RO 000's*	*Available-for-sale RO 000's*	*Held-to-maturity RO 000's*	*Other amortised cost RO 000's*	*Total carrying value RO 000's*	*Fair value RO 000's*
At 31 December 2014							
Cash and balances with Central Banks	5	**836,944**	-	-	-	**836,944**	**836,944**
Due from banks	6	**1,038,826**	-	-	-	**1,038,826**	**1,038,826**
Loans and advances	7	**6,385,625**	-	-	-	**6,385,625**	**6,385,625**
Islamic financing receivables	7	**400,290**	-	-	-	**400,290**	**400,290**
Investment securities	9	**-**	**320,574**	**420,196**	-	**740,770**	**740,770**
		8,661,685	**320,574**	**420,196**	**-**	**9,402,455**	**9,402,455**
Deposits from banks	14	-	-	-	**888,819**	**888,819**	**888,819**
Customers' deposits	15	-	-	-	**6,299,350**	**6,299,350**	**6,299,350**
Islamic customer deposits	15	-	-	-	**282,759**	**282,759**	**282,759**
Certificates of deposit	16	-	-	-	**46,000**	**46,000**	**46,000**
Unsecured bonds	17	-	-	-	**-**	**-**	**-**
Floating rate notes	18			-	**189,979**	**189,979**	**189,979**
Subordinated liabilities / mandatory convertible bonds	22	-	-	-	**302,689**	**302,689**	**302,689**
					8,009,596	**8,009,596**	**8,009,596**

43. FAIR VALUE INFORMATION (continued)

	Notes	*Loans and receivables RO 000's*	*Available-for-sale RO 000's*	*Held-to-maturity RO 000's*	*Other amortised cost RO 000's*	*Total carrying value RO 000's*	*Fair value RO 000's*
At 31 December 2013							
Cash and balances with Central Banks	5	582,310	-	-	-	582,310	582,310
Due from banks	6	866,981	-	-	-	866,981	866,981
Loans and advances	7	5,863,533	-	-	-	5,863,533	5,863,533
Islamic financing receivables	7	279,313	-	-	-	279,313	279,313
Investment securities	9	-	333,489	228,551	-	562,040	562,040
		7,592,137	333,489	228,551	-	8,154,177	8,154,177
Deposits from banks	14	-	-	-	668,857	668,857	668,857
Customers' deposits	15	-	-	-	5,552,913	5,552,913	5,552,913
Islamic customer deposits	15	-	-	-	92,957	92,957	92,957
Certificates of deposit	16	-	-	-	47,000	47,000	47,000
Unsecured bonds	17	-	-	-	29,803	29,803	29,803
Euro medium term notes	19	-	-	-	188,102	188,102	188,102
Subordinated liabilities / mandatory convertible bonds	22	-	-	-	293,299	293,299	293,299
		-	-	-	6,872,931	6,872,931	6,872,931

43. FAIR VALUE INFORMATION (continued)

Effective 1 January 2010, the Group adopted the amendment to IFRS 7 for financial instruments that are measured in the statement of financial position at fair value; this requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

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

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

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

The following table presents the Group's assets and liabilities that are measured at fair value at 31 December:

2014	***Level 1 RO 000's***	***Level 2 RO 000's***	***Level 3 RO 000's***	***Total RO 000's***
Assets				
Derivatives	**-**	**32,652**	**-**	**32,652**
Available-for-sale financial assets:				
- Equity securities	**74,391**	**-**	**23,912**	**98,303**
- Debt investments	**186,267**	**-**	**36,004**	**222,271**
Total assets	**260,658**	**32,652**	**59,916**	**353,226**
Liabilities				
Derivatives	**-**	**36,760**	**-**	**36,760**

2013	*Level 1 RO 000's*	*Level 2 RO 000's*	*Level 3 RO 000's*	*Total RO 000's*
Assets				
Derivatives	-	28,238	-	28,238
Available-for-sale financial assets:				
- Equity securities	58,527	-	20,415	78,942
- Debt investments	230,870	-	23,677	254,547
Total assets	289,397	28,238	44,092	361,727
Liabilities				
Derivatives	-	32,712	-	32,712

43. FAIR VALUE INFORMATION (continued)

The following table demonstrate the movement of the Group's level 3 investments:

	Equity securities RO 000's	***Debt investments RO 000's***	***Total RO 000's***
At 1 January 2014	**20,415**	**23,677**	**44,092**
Realised gain on sale	**1,142**	**-**	**1,142**
Gain from change in fair value	**1,886**	**98**	**1,984**
Additions	**6,362**	**17,052**	**23,414**
Disposals and redemption	**(5,891)**	**(4,823)**	**(10,714)**
Exchange differences	**(2)**	**-**	**(2)**
At 31 December 2014	**23,912**	**36,004**	**59,916**

	Equity securities RO 000's	*Debt investments RO 000's*	*Total RO 000's*
At 1 January 2013	22,969	25,200	48,169
Realised gain on sale	192	-	192
Gain from change in fair value	604	-	604
Additions	1,449	-	1,449
Disposals and redemption	(4,855)	(1,523)	(6,378)
Exchange differences	56	-	56
At 31 December 2013	20,415	23,677	44,092

As of 31 December 2014, 36% (2013: 42%) of the level 3 equity securities were valued on the basis of the latest available audited financial statements and 64% (2013: 58%) were valued on the basis of latest available capital accounts statements of the investee companies received from independent fund managers. The debt investments were carried at cost. The Group holds adequate provisioning on the above investments as of the reporting date.

43.1 Estimation of fair values

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

43.1.1 Loans and advances

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

43.1.2 Investments carried at cost and derivatives

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

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

43. FAIR VALUE INFORMATION (continued)

43.1.3 Bank and customer deposits

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

43.1.4 Other on-balance sheet financial instruments

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

43.1.5 Off-balance sheet financial instruments

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

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

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