

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

**1. Interest/Profit earned**

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

**2. Interest/Profit expense**

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

**3. Other operating income**

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

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

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

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

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<b>4.e.</b>	The interest/ profit rate band of these are as follows:	<b>30-Sep-14</b>	30-Sep-13
		<b>RO' 000</b>	RO' 000
	0-5%	3,276,349	2,987,237
	5-7%	2,592,894	2,039,219
	7-9%	661,873	1,039,677
	9-11%	39,555	60,191
	11-13%	66,391	54,127
	more than 13%	34,880	31,260
	Gross loans & advances/financing receivables	<u>6,671,942</u>	<u>6,211,711</u>

**5. Provisions and reserved interest**

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

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

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

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

Interest is reserved on loans and advances which are impaired.

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

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

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

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

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

**6. Deposits**

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

**6.b. Islamic customer deposits**

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

**6.c. Total customer deposits**

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

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

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

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

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

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

**7. Asset liability mismatch**

The asset liability mismatch is analysed as follows:

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

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

**8. Non Trading Investments**

**8.a. Investment in associates**

**1 Investment in BMI Bank, Bahrain**

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

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

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

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

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

	30-Sep-14 RO. 000's	30-Sep-13 RO. 000's
<b>2 Investment in Al Salam Bank ('ASB'), Bahrain</b>		
Carrying value of the Investment at April 1	46,000	-
Share of profit for the period Apr 14 to Jun 14	625	-
Share of other comprehensive income Apr 14 to Jun 14	184	-
Carrying value of the Investment at Sep 30	<u>46,809</u>	<u>-</u>

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

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

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

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

8. Non Trading Investments (continued)

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

**Notes to the Consolidated Financial Statements for the period ended 30 September 2014**
**9. Related Party Transactions**

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

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

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

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

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

**10. Shareholders**

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

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

**11. Contingent liabilities**

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

**12. Spot / Forwards and options**
**Spot and Forwards**

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

**Options**

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

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

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

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

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

**14. Comparative Figures**

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