



OMINVEST

الشركة العمانية العالمية للتنمية والاستثمار
Oman International Development and Investment Company SAOG

ANNUAL REPORT
2013

Ominvest aims to provide its shareholders
with a consistent annual return
on their capital, and the opportunity to
participate in long-term gains
from sound local and
international investments.





CONTENTS

Directors' Report	4
Auditor's Report on Corporate Governance	6
Corporate Governance Report	7
Management Discussion and Analysis Report	15
Auditor's Report	26
Statements of Financial Position	27
Statements of Comprehensive Income	28
Statements of Changes in Equity	29
Statements of Cash Flow	31
Notes to the Group and Parent Company Financial Statements	32

BOARD OF DIRECTORS



Khalid Muhammad Al Zubair
Chairman (E)



Taya Jandal Ali
Deputy Chairman (E)



Abdul Kader Askalan
Director



Abdullah Said Al Balushi
Director



Jamal Shamis Al Hooti
Director (A)



Majid Salim Al Araimi
Director (A)



Khalil Abdulla Al Khonji
Director (A)



Saif Said Al Yazidi
Director (E)



Imad Kamal Sultan
Director (E)



C.S. Badrinath
Director (E)

(E) Member of the Executive Committee (A) Member of the Audit Committee

DIRECTORS' REPORT



On behalf of the Board of Directors, I am pleased to welcome you to the twenty-ninth Annual General Meeting and to present the Annual Report and the audited Group and Parent Company financial statements for the year ended 31 December 2013.

STRONG HISTORY SPANNING 29 YEARS

Ominvest has established a trusted track record of 29 years of incessant profits and dividend distribution to its valuable shareholders. Established in 1983 with a paid-up share capital of RO 8m, the Company paid-up capital currently is RO 30.61m. Ominvest has distributed a total of RO 63.8m in cash dividends in the preceding 28 years and delivered an IRR of 16% to its shareholders since inception.

Ominvest Market Capitalization as at December 31, 2013 equates to RO 133m.

ECONOMIC ENVIRONMENT IN 2013

The Sultanate's economic performance for 2013 is estimated to be 5%. While this is lower than previously estimated GDP growth of 7%, it is viewed as strong performance when compared to the global economic growth rate of 2.1% for the same period. The Government is taking key initiatives and setting the foundation for the future to further strengthen the domestic economic landscape.

PERFORMANCE FOR THE YEAR

The Group recorded a consolidated profit of RO 26.44m for 2013 compared to RO 22.71m for 2012, a 16.4% rise in Year-on-Year financial performance and equating to Earnings per Share of RO 0.046. Profit attributable to the equity holders of the Parent Company increased to RO 14.18m from RO 10.33m (+37%) in 2012.

In accordance with the directives of the Capital Market Authority (CMA), we also present Parent Company financial statements along with Group financial statements. The Parent Company recorded a profit of RO 8.02m in 2013 compared to RO 2.94m for 2012. This represents a 173% rise in net profit and is primarily attributed to the outstanding performance of our team in Capital Markets Department investing in domestic and regional markets. Increased profits from Capital Market activities for the Parent Company were RO 3.62m compared to RO 1.37m in 2012. The Parent Company increased its balance-sheet footing to RO 81.4m from RO 78.2m, and reduced total liabilities by 9.5% to RO 22.86m. The total Shareholders' Equity as at December 31, 2013 stands at RO 58.53m compared to RO 52.90m corresponding to a 10.7% rise. This represents a Net Asset Value per Share increase to RO 0.191 from RO 0.173.

Our banking subsidiary, Oman Arab Bank SAOC, which constitutes 52.84% of the Parent Company's total assets, reported a profit of RO 25.02m for 2013 compared with RO 25.27m in 2012. The banking subsidiary's gross loans and advances grew to RO 1.08b from RO 966m at 31 December 2012, and customer deposits recorded an increase of

11% to RO 1.15b. The share of profit attributable to the equity holders of the Parent Company for the year was RO 12.76m. Cash dividend from OAB's 2012 profits received during 2013 by the Parent Company amounted to 5.91m.

DIVIDEND FOR THE YEAR

The Company follows a policy of providing its shareholders with a consistent annual return on their capital, together with an opportunity to participate in long-term gains from sound domestic and international investments. To comply with the stated policy coupled with the consideration for capital required to fund new investments and large projects, the Board has recommended a cash dividend of RO 4.59m that represents a 15% of the total paid-up share capital (the 2012 cash dividend was RO 3.34m representing 12% of the paid-up share capital) and a stock dividend of RO 3.06m, representing 10% of the paid-up share capital (the 2012 stock dividend was RO 2.78m representing 10% of paid-up share capital). Ominvest's dividend history is detailed under Management Discussion and Analysis.

MANAGEMENT

I am pleased to announce the appointment of Abdulaziz Al-Balushi as Chief Executive Officer of Ominvest. Abdulaziz has assumed his CEO responsibilities from January 19, 2014 and he comes with a distinguished and successful career from the Banking Industry. We extend our complete support to him and the management team.

In addition, I would like to take this opportunity to thank our Deputy Chairman, Taya Jandal Ali, for his immense and untiring contribution to Ominvest in the preceding year as Acting CEO of Ominvest. Under his guidance during this period, the Company continued to develop its core business by identifying investment prospects and optimal capital deployment.

OUTLOOK FOR 2014

The Sultanate of Oman forecast for 2014 remains stable. The country continues to have a measured approach and the GDP outlook for 2014 is 5%, with a target of achieving 6% GDP growth. This is promising when compared to the Global GDP forecast of 3% to 3.7%. Key drivers to achieve and sustain GDP growth include Hydro-Carbon production, promotion of commercial sector investments, infrastructure, and social expenditure.

Ominvest will continue to pursue its business strategy to identify and invest in quality assets with an objective of income generation and sustainable earnings over the medium and long term.

Ominvest Board of Directors and Management remains optimistic on the future prospects of your Company. We are committed to nurturing our existing assets, identifying new opportunities, and dedicated to the tradition of enhancing shareholder value.

Overall, the Sultanate under the wise leadership of His Majesty Sultan Qaboos Bin Said stands today as an enviable model for sound economic policies aimed at spurring growth while ensuring stability. The standards of corporate governance prevalent among commercial enterprises operating in the country are comparable to the best in the world. The sound legal and regulatory framework governing commercial activity in the country ensures due process and an environment conducive for business to be conducted in conditions of security and fairness.

Finally, I would like to thank the Directors, management, staff, and shareholders for their support in 2013 and look forward to the Company's continued progress in 2014 and beyond.



KHALID MUHAMMAD AL ZUBAIR

Chairman

February 24, 2014

TO THE SHAREHOLDERS OF OMAN INTERNATIONAL DEVELOPMENT AND INVESTMENT COMPANY SAOG

We have performed the procedures prescribed in Capital Market Authority (CMA) Circular No. 16/2003 dated 29 December 2003 with respect to the accompanying corporate governance report of **Oman International Development and Investment Company SAOG** and its application of corporate governance practices in accordance with CMA Code of Corporate Governance issued under circular No. 11/2002 dated 3 June 2002 as supplemented by the Rules and Guidelines on Disclosure by Issuers of Securities and Insider Trading approved by Administrative Decisions no. 5/2007 dated 27 June 2007 and the Executive Regulation of the Capital Market Law issued under the Decision No. 1/2009 dated 18 March 2009 (collectively the Code and additional regulations and disclosures). Our engagement was undertaken in accordance with the International Standards on Related Services applicable to agreed-upon procedures engagements. The procedures were performed solely to assist you in evaluating the Company's compliance with the code as issued by the CMA.

We report our findings as below:

We found that the Company's corporate governance report fairly reflects the Company's application of the provisions of the Code and is free from any material misrepresentation.

Because the above procedures do not constitute either an audit or a review made in accordance with International Standards on Auditing or International Standards on Review Engagements, we do not express any assurance on the corporate governance report.

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

Our report is solely for the purpose set forth in the first paragraph of this report and for your information and is not to be used for any other purpose. This report relates only to the accompanying corporate governance report of **Oman International Development and Investment Company SAOG** to be included in its annual report for the year ended 31 December 2013 and does not extend to any financial statements of **Oman International Development and Investment Company SAOG**, taken as a whole.

Deloitte  

Deloitte & Touche (M.E.) & Co. LLC
Muscat, Sultanate of Oman
24 February 2014

CORPORATE GOVERNANCE REPORT

The principles of Corporate Governance mainly deals with the way companies are led and managed, the role of the Board of Directors and a framework of internal controls. At Ominvest, the Board supports the highest standards in Corporate Governance. The Board of Directors is responsible for approving and monitoring the Company's overall strategy and policies, including risk management policies, control systems, business plan and annual budget. The Management is responsible to provide the Board with appropriate and timely information to monitor and maintain effective control over strategic, financial, operational and compliance issues. The Board confirms that Ominvest (the Company) applies the principles set out in the Capital Market Authority's (CMA) Code of Corporate Governance (Code) for companies listed on the Muscat Securities Market (MSM) published on 3 June 2002 (Circular no. 11/2002) as amended on 11 January 2003 (Circular no. 1/2003), and other relevant amendments to the Code, rules and guidelines issued by the CMA from time to time.

BOARD OF DIRECTORS

Appointment of Directors

The Articles of Association of the Company provide for ten (10) directors. Each director on the Board is required to own/represent at least two hundred thousand (200,000) shares in the Company as qualification shares. Election to the Board is subject to approval by the regulatory authorities based on nomination form filed by the candidate who meets the minimum qualification requirements as per CMA guidelines. The election for the Board of Directors was held at the Annual General Meeting (AGM) held on 31 March 2011 for a term of three years and the next election to the Board is due to be held at the AGM scheduled for 31 March 2014

Composition of the Board

During the year 2013, the Board consisted of ten directors who have varied backgrounds and experience and who individually and collectively exercise independent and objective judgement. The composition of the board of directors is in accordance with the Article 3 of the Code.

- i) All Directors, including the Chairman, are non-executive. With the exception of one Director who was the Chief Executive Officer of our banking subsidiary until 31 December 2013, all other Directors are independent.
- ii) All Directors with the exception of one nominee director representing an institutional shareholder, were elected by the shareholders in their individual capacities.

Directors meet the criteria of 'independent director' as defined by Article 1 of the CMA Code of Corporate Governance issued under Circular no. 11/2002 dated 3 June 2002 and subsequent amendments.

Number of Board meetings

Ominvest held six Board meetings during the year ended 31 December 2013. These were held on 25 February, 31 March, 13 May, 05 August, 12 November and 19 December. The Board meeting held on 31st March 2013 immediately following the AGM was held only to elect the Chairman. Therefore, no sitting fee was paid to the directors for attending the meeting. The maximum interval between any two meetings was 98 days. This is in compliance with Article 4 of the Code which requires meetings to be held within a maximum time gap of four months.

Directors' attendance record

Director	No. of Board meetings attended	Whether attended last AGM
Khalid Muhammad Al Zubair	5	Yes
Taya Jandal Ali	5	Yes
Abdul Kader Askalan	2	Yes
Abdullah Said Al Balushi	4	Yes
Jamal Shamis Al Hooti	4	Yes
Majid Salim Al Araimi	2	Yes
Khalil Abdulla Al Khonji	3	No
Saif Said Al Yazidi	5	No
Imad Kamal Sultan	5	Yes
Ceruseri Sreenivas Badrinath	5	Yes

None of the Directors is a member of the board of more than four public joint stock companies whose principal place of business is in the Sultanate of Oman, or is a chairman of more than two such companies. Particulars of directorships of other joint stock companies and memberships of other Board Committees is set out in Appendix I of this Report. Furthermore, no director is a member of the board of directors of a joint stock company which has similar objectives to the Company and whose principal place of business is in the Sultanate of Oman.

Directors with materially significant related party transactions, pecuniary or business relationship with the Company

All details relating to financial and commercial transactions where directors may have a potential interest are provided to the Board, and the interested directors neither participate in the discussion, nor do they vote on such matters. All such matters are also discussed in detail by the Audit Committee.

During the year, there were no material related party transactions or pecuniary transactions between the Company and its directors that may have potential conflict with the interests of the Company at large.

The following shareholders are deemed to be related parties by virtue of their shareholding during the year (10% or more of the voting power) in the Company:

	At 31 Dec 2013
	(% Holding)
• Al Hilal Investment Company LLC	20.22%
• Civil Service Employees Pension Fund	14.92%

COMMITTEES OF THE BOARD

Audit Committee

The Committee consists of three non-executive and independent directors. All members of the Committee are familiar with finance, industry, Omani laws and regulations governing SAOG companies.

The Audit Committee met four times during the year on 19 February, 5 May, 30 July and 3 November and the attendance record is tabled below.

Attendance record of Audit Committee Members:

Name of Committee Member	Position	Meetings attended during the year
Majid Salim Al Araiimi	Chairman	3
Jamal Shamis Al Hooti	Member	4
Khalil Abdulla Al Khonji	Member	4

The Committee receives reports on the findings of internal and external audits and on actions taken by the Management in response to these. It meets with the external auditors at least once every year and reviews the scope, findings and cost effectiveness of the Company's statutory audit and the independence and objectivity of the external auditors. It also reviews changes to the accounting policies and reviews the audited annual and unaudited quarterly financial statements and recommends for Board approval. In addition, the Committee periodically reviews and reports to the Board on the effectiveness of the Company's system of internal control and risk management process.

Executive Committee

The Executive Committee is delegated powers and authority to facilitate the smooth running of the operations of the Company and exercise all of the responsibilities of the Board between its meetings within the limits set out in the Manual of Internal Regulations approved by the Board. The exceptions to the delegated powers are:

- i) Approval of the Company's annual budget and business plan;
- ii) Approval of the Group's and Company's quarterly unaudited financial statements and the annual audited financial statements; and
- iii) acquisition and disposal of strategic investments.

The Executive Committee consists of five independent non-executive Directors.

The Committee met eight times during the year on 19 January, 20 February, 13 March, 10 April, 6 May, 31 July, 4 November and 16 December and the attendance record of the members is tabled below:

Name of Committee Member	Position	Meetings attended during the year
Khalid Muhammad Al Zubair	Chairman	7
Taya Jandal Ali	Member	8
Saif Said Al Yazidi	Member	8
Imad Kamal Sultan	Member	6
Ceruseri Sreenivas Badrinath *	Member	6

* Appointed as a member on 25 February 2013.

In addition, certain Committee members, together with the management of the Company, attended various meetings with Government authorities and consultants in Muscat and Salalah. There was no specific compensation to members made by the Company for the time spent on Company business.

REMUNERATION OF DIRECTORS

During the year, following the approval by the shareholders at the AGM held on 31 March 2013, the Directors were paid a remuneration of RO 138,000 for 2012.

Directorship sitting fees of RO 500 was paid to the Directors for each Board/Board Committee meeting attended during the year. Total sitting fees for Board and Board Committee meetings held during 2013 were as follows:

	(RO)
Board	20,000
Executive Committee	17,500
Audit Committee	5,500
Total	43,000

There was no other remuneration paid by Ominvest to any of the Directors.

Travel and incidental expenses relating to Group's business paid by the Parent Company to certain Board members during the year was RO 16,602.

Remuneration for 2012 paid in 2013 and sitting fees paid for 2013 relating to individual Directors was (in RO):

Director	Sitting Fees				Remuneration (2012)	Total Paid
	Board	Executive Committee	Audit Committee	Total		
Khalid Muhammad Al Zubair (1)	2,500	3,500	-	6,000	10,500	16,500
Taya Jandal Ali	2,500	4,000	-	6,500	15,800	22,300
Abdul Kader Askalan	1,000	-	-	1,000	12,900	13,900
Abdullah Said Al Balushi	2,000	-	-	2,000	12,900	14,900
Jamal Shamis Al Hooti	2,000	-	2,000	4,000	12,900	16,900
Majid Salim Al Araiimi	1,000	-	1,500	2,500	12,900	15,400
Khalil Abdulla Al Khonji	1,500	-	2,000	3,500	12,900	16,400
Saif Said Al Yazidi	2,500	4,000	-	6,500	12,900	19,400
Imad Kamal Sultan	2,500	3,000	-	5,500	12,900	18,400
Ceruseri Sreenivas Badrinath	2,500	3,000	-	5,500	-	5,500
Hani Muhammad Al Zubair (1)	-	-	-	-	8,500	8,500
Ziyad Muhammad Al Zubair (2)	-	-	-	-	12,900	12,900
Total	20,000	17,500	5,500	43,000	138,000	181,000

(1) The Directors Remuneration for 2012 for the Chairman was split between Hani Muhammad Al Zubair (01.01.2012 to 12.05.2012) and Khalid Muhammad Al Zubair (13.05.12 to 31.12.12).

(2) Director until 10 December 2012

Directors' Remuneration proposed for 2013 is RO 157,000 and this is subject to shareholders' approval at the AGM scheduled to be held on Monday, 31 March 2014. As per Royal Decree 99/2005 of 5 December 2005, the maximum permissible limit on Board remuneration, including sitting fees is 5% of net profit (subject to specified deductions), subject to an overall limit of RO 200,000. Each Director's sitting fees per annum is limited to RO 10,000.

INTERNAL CONTROL REVIEW

The Code introduced a requirement that the directors should, at least annually, review the effectiveness of the Company's system of internal controls and report to the shareholders that they have done so. The Board attach great importance to maintaining a strong control environment and confirm that its review has covered the financial statements, all controls, including financial, operational, compliance and risk management. The Board has reviewed the Parent Company's internal control policies and procedures and is satisfied that appropriate procedures are in place to implement the Code's requirement.

MANAGEMENT

Management Discussion and Analysis

A copy of the Management Discussion and Analysis is included in the annual report.

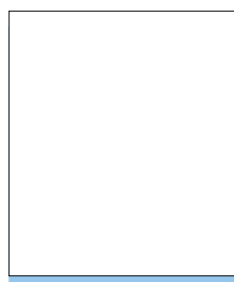
Management Remuneration

At 31 December 2013, the Company had twenty five (25) full-time employees. The expense (salaries and allowances and other statutory payments) incurred for 2013 relating to the 6 full-time executive management team of the Company was RO 659,421.

In addition, some of the full-time members of the executive management team who represent the Company on the boards and board committees of investee companies and funds received an amount of RO 35,694 as sitting fees and remuneration directly from the investee companies and funds. Sitting fees received by the company from the investee companies and funds was RO 31,267. Travel and incidental expenses for Group's business incurred by some of the above executives for 2013 amounted to RO 22,049.

All employees are employed on two year renewable employment contracts. Notice period is 3 months for all positions or salary in lieu thereof.

PROFILE OF EXECUTIVE MANAGEMENT



ABDULAZIZ MOHAMMED AL BALUSHI

Chief Executive Officer

Taya Jandal Ali, Deputy Chairman has been undertaking the responsibilities of the CEO as assigned by the board. In December 2013 the Board appointed Abdulaziz Mohammed Al Balushi as the CEO and he has joined the Company on 19th January 2014.



K P KARNIK

Chief Financial Officer

K P Karnik started his professional career with AF Ferguson & Co. in Mumbai and moved to Oman in 1979 to join a leading international firm of public accountants. Since joining Ominvest in November 1984, he has been a member of the executive management team and has represented the company on the Board of number of listed companies. Karnik graduated from the University of Mysore, India and qualified as a Chartered Accountant in 1976.



(LATE) AHMED SAID ZAKI

Ex-Chief Compliance Officer

With profound sadness, the Chairman, Board of Directors and Staff of Ominvest mourn the tragic and untimely loss of Ahmed Said Zaki, Chief Compliance Officer, who left for his heavenly abode on 5th December 2013. Mr. Zaki had joined Ominvest in 1995.

Search for a replacement has been initiated and until a new Chief Compliance Officer is appointed, Shadi Zghoul, Vice President-Legal Affairs, has been assigned to undertake the responsibilities of Chief Compliance Officer.



TARIQ IBRAHIM AL ASFOOR

Executive Vice President, Capital Markets

Tariq Al Asfoor joined Ominvest in January 1995, prior to which he was involved in project appraisal and feasibility studies for a public sector bank. Thereafter he served as Research Analyst at a sovereign fund in Oman where he was involved in undertaking economic analysis for investment decisions. Tariq graduated from the US International University, UK in 1987 and obtained his MBA from Wolverhampton Business School, UK in 1994.



TAIMUR HASAN

Senior Vice President, Private Equity & Corporate Finance

Taimur Hasan has more than 19 years of international experience and an extensive Investment Banking background with a focus on Mergers & Acquisitions, Private Equity, and Equity Capital Markets. Prior to joining Ominvest, he worked for large financial institutions in the GCC, Pakistan and USA, where he concluded several landmark transactions globally. Taimur graduated from Coe College in Cedar Rapids, Iowa, USA, where he earned his Bachelor's degree in Business Administration with a concentration in Finance. He is National Association of Securities Dealers (NASD) Series 7 and Series 63 certified.



THAMOOD SHUHAIL AL ADAWY

Senior Vice President, Real Estate Investments

Thamood Al Adawy joined Ominvest in September 2011. Thamood is a graduate of Glamorgan University in UK with Bachelor Degree in Building and Post Graduate Certificate in Construction Management. He is a Member of various institutes in UK. Prior to joining OMINVEST he has experience of over 24 years' in Civil Engineering, Building Development in Housing and Retail, Marine, Highways, Project Management, Construction Management, Environmental, Health and Safety Management and Design and Supervision. He held various senior positions including Section Engineer, Senior Engineer, Construction Manager, Project Manager & Director of Rwgulf between Oman and United Kingdom.

SHAREHOLDERS

Communication to shareholders and investors

Information relating to the Company and its quarterly and annual financial statements are posted on the Company's website - www.ominvest.net. Financial statements, in Arabic and English, are also available at the Company's offices during the Company's business hours. The quarterly unaudited and annual audited sections of the financial statements of the Group and Parent Company are published in leading Arabic and English newspapers in the Sultanate of Oman.

Audited financial statements (abridged), in Arabic, together with the Notice and Agenda for the AGM are sent by post to all shareholders to their registered addresses provided by the Muscat Clearing and Depository Company saoc. Extracts from the financial statements are published at least in an Arabic and an English newspaper within five days of filing it through electronic transmission system of MSM.

Presentations were made to institutional investors who had approached the Company during the year.

Distribution of shareholding

The shareholding pattern as on 31 December 2013 was:

Number of Shares	% Held	Number of shareholders	Total Shares	% of Share Capital
30,613,001 and above	Above 10%	2	107,562,593	35.14%
15,306,501 to 30,613,000	5% - 10%	-	-	-
3,061,301 to 15,306,500	1% - 5%	15	95,315,101	31.13%
Below 3,061,301	Below 1%	1,260	103,252,306	33.73%
		<u>1,277</u>	<u>306,130,000</u>	<u>100.00%</u>

PROFESSIONAL PROFILE OF THE STATUTORY AUDITOR

The shareholders of the Company have appointed M/s Deloitte & Touche as the auditors for the year ended 31 December 2013.

Deloitte & Touche (M.E.) & Co. LLC – Statutory Auditors

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee, and its network of member firms, each of which is a legally separate and independent entity.

Deloitte provides audit, tax, consulting, and financial advisory services to public and private clients spanning multiple industries. With a globally connected network of member firms in more than 150 countries, Deloitte brings world-class capabilities and high-quality service to clients, delivering the insights they need to address their most complex business challenges. Deloitte's more than 200,000 professionals are committed to becoming the standard of excellence.

Deloitte & Touche (M.E.) is a member firm of Deloitte Touche Tohmatsu Limited (DTTL) and is the first Arab professional services firm established in the Middle East region with uninterrupted presence for over 85 years. Deloitte is among the region's leading professional services firms, providing audit, tax, consulting, and financial advisory services through 26 offices in 15 countries with over 2,500 partners, directors and staff.

Remuneration to statutory auditors: (RO)

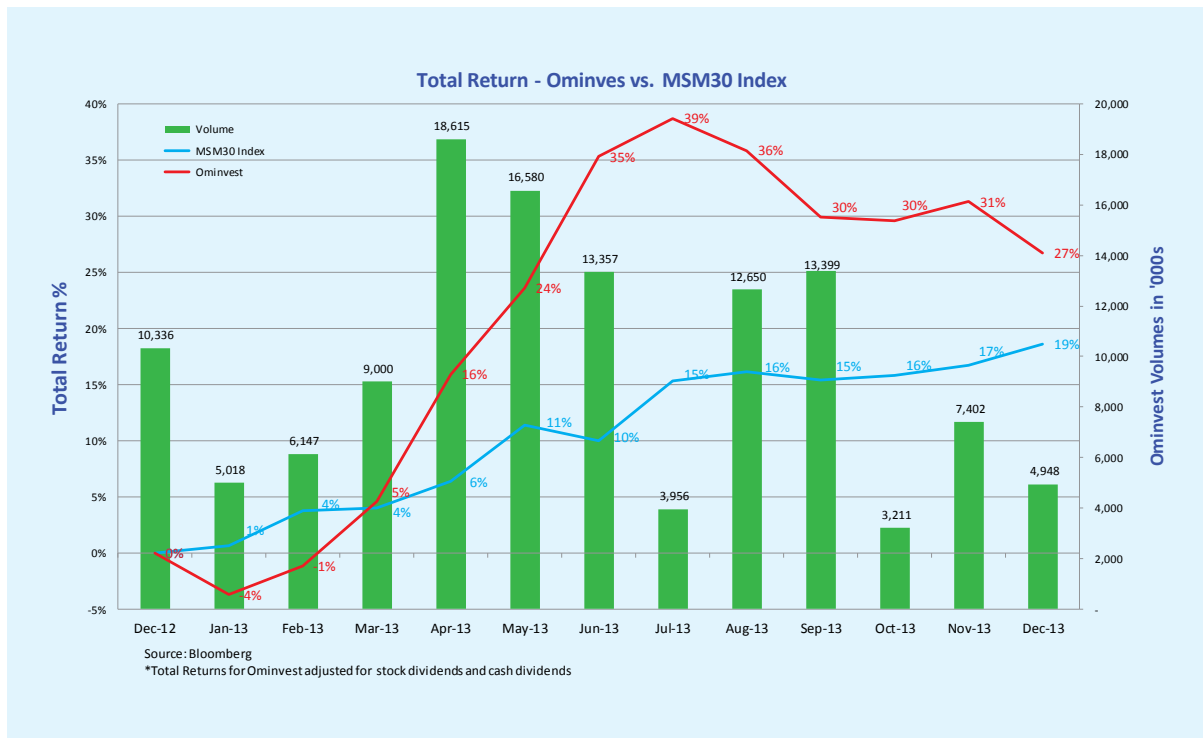
Audit fees for 2013:	Parent Company	9,500
	Subsidiaries	30,050
		<u>39,550</u>

LEGAL ADVISOR

M/s Al Busaidy, Mansoor Jamal & Co. continued to serve the Company as the Legal Advisor during the year.

MARKET PRICE DATA

The performance of the Company's share price (total returns) in 2013 versus MSM-30 Index is shown below:



Details of Ominvest's high, low and closing share prices during each month are as follows:

	Dec'12	Jan'13	Feb'13	Mar'13	Apr'13	May'13	Jun'13	Jul'13	Aug'13	Sep'13	Oct'13	Nov'13	Dec'13
High	0.409	0.394	0.399	0.409	0.439	0.445	0.475	0.485	0.513	0.485	0.456	0.474	0.456
Low	0.335	0.363	0.370	0.379	0.360	0.390	0.395	0.445	0.451	0.400	0.440	0.444	0.424
Close	0.386	0.372	0.382	0.404	0.396	0.423	0.464	0.476	0.466	0.445	0.444	0.450	0.434

Source : MSM Monthly Investors' Guide

DETAILS OF NON-COMPLIANCE

There have been no instances of non-compliance on any matter relating to the Commercial Companies Law No. 4/1974 (as amended), CMA's code of corporate governance for MSM listed companies, CMA regulations or the MSM listing agreements.

ACKNOWLEDGEMENT BY THE BOARD

The Board acknowledges its responsibilities and confirm that:

- the audited Group and Parent Company financial statements have been prepared in accordance with the IFRS, the minimum requirements of the Commercial Companies Laws, No. 4/1974, as amended, and the disclosure requirements of the Capital Market Authority;
- the internal controls and procedures have been reviewed through an established process of regular internal audit, review by the Audit Committee and the final clearance by the Board;
- the Parent Company and the Group have a strong financial standing to carry on their successful operations in the foreseeable future.

Date: 24 February 2014

APPENDIX 1

PARTICULARS OF DIRECTORSHIPS OF OTHER PUBLIC JOINT STOCK COMPANIES AND MEMBERSHIPS OF THEIR COMMITTEES

Director	OTHER DIRECTORSHIPS			
	Company	Position	Committee	Position
Taya Jandal Ali	National Finance Co. SAOG	Chairman	EC	Chairman
Abdul Kader Askalan	Oman Telecommunications Co. SAOG	Dy. Chairman	-	-
Majid Salim Al Araimi	Oman Packaging Co. SAOG	Dy. Chairman	-	-
Saif Said Al Yazidi	National Bank of Oman SAOG	Director	CC	Member
	Muscat Gases Co. SAOG	Director	EC	Member
Imad Kamal Sultan	National Hospitality Institute SAOG	Director	EC	Member
			EC = Executive Committee CC = Credit Committee	

MANAGEMENT DISCUSSION AND ANALYSIS REPORT

OVERVIEW

Oman International Development and Investment Company saog (Ominvest or the Company), an Omani General Joint Stock Company, was established by a Ministerial Decree in 1983. The Company's stated objectives are to provide its shareholders a consistent annual return on their capital, together with an opportunity to participate in the long-term gains from its sound investments in and outside the Sultanate of Oman.

To achieve these objectives, the Company's current investment strategy consists of the following major categories:

- Investment in core assets
- Investment in private equity (mainly direct) and special projects
- Investment in Real estate and development projects
- Investment in Capital markets .

Within the above strategy, Ominvest is exploring opportunities to increase and diversify its portfolio of investments within and outside the Sultanate with an objective of growth in sustainable earnings and to mitigate volatility in its portfolio of investments.

The Company's shares are listed on the Muscat Securities Market (MSM) and it is a constituent of the MSM Index which comprises a basket of 30 listed companies.

The Capital Market Authority (CMA) is the government body responsible for regulating the Muscat Securities Market (MSM), the central depository (Muscat Clearing & Depository SAOC) and their participants. MSM is divided into regular, parallel and third markets. The three markets differ with regard to listing requirements. There are a number of listed investment entities and these include public joint stock companies, holding companies and closed and open-ended investment mutual funds.

Summary of MSM performance:

	<u>2013</u>		<u>2012</u>		<u>Growth (%)</u>	
	<u>No. of Listed Cos.</u>	<u>(RO billion)</u>	<u>No. of Listed Cos.</u>	<u>(RO billion)</u>	<u>2013</u>	<u>2012</u>
Market capitalisation by sector:						
Financial	33	4.19	36	3.61	16.07	9.60
Services	35	3.32	39	2.75	20.73	4.90
Industry	48	1.94	52	1.44	34.72	30.10
Total market capitalisation	116	9.45	127	7.80	21.15	11.10

MSM Index for the last five years at 31 December is as follows:

<u>Year-end</u>	<u>General Index</u>	<u>Industry</u>	<u>Financial</u>	<u>Service</u>	<u>% Change in General Index</u>
2013	6,834.56	10,406.82	8,153.77	3,669.10	18.64
2012	5,760.84	7,412.92	6,264.06	2,941.28	1.15
2011	5,695.12	5,958.75	6,385.67	2,567.28	(15.69)
2010	6,754.92	7,306.48	8,319.73	2,705.72	6.06
2009	6,368.80	7,446.79	9,374.73	2,701.95	17.05
2008	5,441.12	4321.64	6,620.92	2,527.87	(39.78)
No. of stocks included in the Indices	30	7	16	7	

(Source: MSM Annual Statistical Bulletin 2013)

The total value of securities traded on the secondary market (shares, bonds and OTC) increased to RO 2.26 billion from RO 1.07 billion in 2012. The Market was open for 245 days in 2013. The Company shares were traded on 245 days with 11,475 contracts amounting to a total volume of 115.20 million shares with an aggregate traded value of RO 49.71m.

Foreign institutions and individuals are eligible to invest in listed Omani companies. It is an MSM prerequisite that all companies seeking listing as a public company must be open to foreign investors, at least 49% of equity. Foreign investors buy and sell equities on the MSM via MSM licensed brokerage companies. There are no taxes on dividends received and capital gains from shares listed on the MSM and no limits on repatriation.

(Source: MSM Annual Stastical Bulletin 2013)

GROUP AUDITED CONSOLIDATED FINANCIAL STATEMENTS

The Group audited consolidated financial statements include the audited financial statements of the following companies for the financial year ended 31 December 2013:

<u>Company</u>	<u>Activity</u>	<u>Country</u>	<u>Staff</u>	<u>Status</u>
Oman International Development & Investment Company SAOG	Investment	Oman	25	Parent Company
Oman Arab Bank SAOC	Banking	Oman	1,137	Subsidiary (51%)
Oman Investment Services SAOC	Investment	Oman	3	Subsidiary (99.98%)
Salalah Resorts SAOC	Integrated Tourism	Oman	-	Subsidiary (99.98%)
Al Jabal Al Aswad Investment LLC	Tourism	Oman	-	Subsidiary (99.98%)
Budva Beach Properties d.o.o. [Subsidiary of Al Jabal Al Aswad Inv. LLC]	Tourism	Montenegro	2	Subsidiary (100%)

Also included are the separate Parent Company audited financial statements presented in accordance with the Capital Market Authority's Circular E/2/2007 issued on 14 January 2007.

The financial highlights based on the audited financial statements for the financial year ended 31 December 2013 are:

	<u>Group</u>		<u>Parent Company</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
	(RO '000)	(RO '000)	(RO '000)	(RO '000)
Profit for the year attributable to the shareholders of the Parent Company	14,177	10,326	8,016	2,937
Share capital	30,613	27,830	30,613	27,830
Shareholders funds	123,176	110,757	58,533	52,895
Proposed cash dividend	4,592	3,340	4,592	3,340
Proposed stock dividend	3,061	2,783	3,061	2,783
Basic earnings per share (RO)	0.046	0.034	0.026	0.010
Net assets per share (RO)	0.402	0.362	0.191	0.173
Cash dividend per share (RO)	0.015	0.012	0.015	0.012
Stock dividend per share (RO)	0.010	0.010	0.010	0.010

PERFORMANCE FOR THE YEAR

The Group consolidated profit for the year was RO 26.44m (2012: RO 22.71m) and is attributable to:

	<u>2013</u>	<u>2012</u>
	(RO'000)	(RO'000)
Shareholders of the Parent Company	14,177	10,326
Non-Controlling interests	12,264	12,385
	<u>26,441</u>	<u>22,711</u>

Non-controlling interests represents 49% of the banking subsidiary's equity owned by the minority shareholder, Arab Bank, Jordan. Accordingly, 49% of Oman Arab Bank's profit for the year is attributable to non-controlling interests.

Earnings per share increased to RO 0.046 (2012: RO 0.034) for the Group and RO 0.026 (2012: RO 0.010) for the Parent Company. NAV per share increased to RO 0.402 (2012: RO 0.362) for the Group and RO 0.191 (2012: RO 0.173) for the Parent Company.

Parent Company

Income

Investment Income: RO 11.18m (2012: RO 6.25m)

Investment income comprise dividend income, profit from capital market investments and from available for sale investments. Investment income details are presented in Note 19 to the financial statements.

(i) **Dividend income** – RO 7.60m (2012: RO 7.33m)

Ominvest's main income was from its single largest investment (at cost) of RO 41.30m (50.73% of total assets) in its banking subsidiary, Oman Arab Bank SAOC (OAB). During 2013, cash dividend of RO 5.91m (2012: RO 6.12m) was received from OAB.

Cash dividend and directors' sitting fees received from associate investments in National Finance Company, National Detergent Company and National Biscuits Industries Limited was RO 0.75m (2012: RO 0.57m).

Cash dividend received from capital market investments in Oman and other GCC markets amounted to RO 0.26m (2012: RO 0.22m) and cash dividend received from other investments in Oman was RO 0.68m (2012: RO 0.42m).

(ii) **Profit from capital markets investments**

Profit from capital markets investments amounted to RO 3.36m (2012: RO 1.15m) representing net realized and unrealized gains. Capital market investments performed exceptionally recording 37.5% gains (2012: 18.1%) gains for the year.

Movement in capital market investments for the year was as follows:

	<u>MSM</u>	<u>Other GCC Portfolio*</u>	<u>Others Markets</u>	<u>Total</u>
	(RO'000)	(RO'000)	(RO'000)	(RO'000)
At 1 January 2013	2,614	3,556	1,290	7,460
Market gains	1,039	2,433	(110)	3,362
Net flows	(357)	(3,928)	335	(2,950)
At 31 December 2012	<u>3,296</u>	<u>2,061</u>	<u>1,515</u>	<u>7,872</u>

* include managed GCC focused mutual funds.

Movement in the index of selected GCC markets was as follows:

PERIOD	MSM General Index	DFM General Index	ADSM
31 December 2013	6834.56	3369.81	4290.30
31 December 2012	5760.84	1622.53	2630.86
Change for the year	↑ 18.64%	↑ 107.69%	↑ 63.08%

DFM = Dubai Financial Market

ADSM = Abu Dhabi Stock Market

(iii) Available for Sale investments

Available for sale investments included under investment securities comprise:

a-1) Investments in overseas unquoted private equity direct investments and managed funds:

These positions are generally held for long periods, at least over three years. Fair values of these investments are estimated based on periodic reports received from the fund managers. Based on the periodic reports received, following a review of each position, the management estimates impairment charges, if any, and such charge is recognized as an expense in the statement of comprehensive income. Estimated positive fair value changes, if any, are recognized in shareholders total equity through 'other comprehensive income' in the statement of comprehensive income.

Additional provisions for impairment losses during the year was created mainly for investment in Mountain Partners.

• **Mountain Partners AG**

Ominvest had invested RO 2.23m since 2009 in Mountain Partners AG (MPAG). The Company is a global asset management company headquartered in Switzerland, focused on Venture Capital investing. The Company has a large and diversified portfolio of investments through various divisions targeting sectors that include Internet / E-commerce, Radio Frequency Identification (RFID), and Clean Technology & Green Energy.

While the MPAG management efforts continue to protect shareholders' value, in our view, the value of one investment in the foreseeable future will continue to impair. Therefore, an additional estimated provision of RO 600,000 has been created in 2013 taking the total impairment provision to RO 1,191,000.

a-2) Profit realized from private equity managed funds was RO 0.2m (2012: RO 0.04m). This was earned from those private equity funds which mainly represent residual balances.

Three managed funds which were fully provided for in earlier years and written off during the year, amounted to RO 0.20m.

Movement during the year, investments at cost, impairment provision for changes in fair values is as follows:

Particulars	Investments	Provisions for Impairment	Fair value Reserve
	(RO'000)	(RO'000)	(RO'000)
At 1 January 2013	5,400	2,957	113
Additions	-	730	-
Disposals	(284)	-	-
Investments written off	(781)	(781)	-
Reduction	-	-	(35)
At 31 December 2013	<u>4,335</u>	<u>2,906</u>	<u>78</u>

b) Unquoted local investments:

Unquoted local investments are initially recognized at acquisition cost, being the fair value. At the reporting date, these investments were fair valued mainly based on DCF valuation which is considered to be the most appropriate basis. Following this, these investments are reported at a fair value of RO 6.30m compared to acquisition cost of RO 0.70m. The positive changes in fair values amounting to RO 5.6m (before deferred tax reserve) is recognized through other comprehensive income and included in shareholders' equity.

STATEMENT OF FINANCIAL POSITION

Total assets were RO 81.40m vs. RO 78.16m at 31 December 2012. Concentration of total assets by geography is, Sultanate of Oman: RO 68.25m (83.85%) [2012: RO 65.37m] and outside the Sultanate RO 13.15m (16.15%) [2012: RO 12.79m].

Shareholders' total equity at RO 58.53m has grown by 11% compared to RO 52.90m at 31 December 2012. Share Capital increased to RO 30.61m (from RO 27.83m), the increase represent stock dividend of RO 2.78m approved at the Annual General Meeting held on 31 March 2012. Retained Earnings was RO 13.32m compared to RO 12.24m at 31 December 2012.

Investments in Associates (Group)

<u>2013</u>	<u>2012</u>
(RO'000)	(RO'000)
<u>12,372</u>	<u>11,303</u>

There are three (2012: three) SAOG companies in which the Group and the Parent Company have shareholding between 20% and 50% of the voting rights, and deemed to exercise significant influence by representation on the investee company Board and Board committees. The market value of investments in associate companies quoted on the Muscat Securities Market held by the Group amounted to RO 13.46m (2012: RO 12.13m). The major exposure is to a leasing associate which accounted for a carrying value of RO 8.63m (market value: RO 9.38m). The Group will continue to hold these investments subject to returns meeting internal benchmarks.

Associates generally performed well and contributed positively. Share of profits from associates recognised in the Group's statement of comprehensive income amounted to RO 1.52m for 2013 (2012: RO 1.23m). Cash dividend from associates recognised in the parent company amounted to RO 0.75m (2012: RO 0.57m)

Fair Value Disclosures

As per International Accounting Standard 27: Consolidated and Separate Financial Statements, the parent company is only required to present the consolidated financial statements which incorporate its results and financial position as well as those of the subsidiary companies. IAS 27 also prescribes the accounting treatment for investments in subsidiaries and associates when the parent company is required to prepare separate financial statements by the local regulators.

In accordance with the Capital Market Authority's Circular E/2/2007 issued on 14th January 2007, the Parent Company's detailed financial statements are presented along with the Group financial statements. These financial statements are prepared by adopting accounting policies which are in compliance with the International Financial Reporting Standards (IFRS).

We would like to draw readers' attention to the following important disclosures relating to the Fair Value of investments in subsidiaries and investments in associate companies in the Parent Company's separate financial statements.

Investments in Subsidiaries

The Parent Company's investments in subsidiaries, which are unquoted, are stated "at cost" and comprise the following:

	2013		2012	
	% held	(RO'000)	% held	(RO'000)
Oman Arab Bank SAOC	50.99	41,302	50.99	36,203
Oman Investment Services SAOC	99.98	903	99.98	903
Salalah Resorts SAOC	99.98	1,000	99.98	500
Al Jabal Al Aswad Investment LLC	99.98	-	99.98	-
Budva Beach Properties d.o.o. (fully owned subsidiary of Al Jabal Al Aswad Investment LLC)	100.00	5,231	100.00	5,231

While the investment in the banking subsidiary is reported at cost (RO 41.30m) under IAS 27, the fair value of the Parent Company's investment in Oman Arab Bank SAOC's equity (50.99%) could be significantly higher. IFRS set out valuation techniques such as using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and options pricing models for determining the fair value of unquoted investments. Fair value of Parent Company's investment in Oman Arab Bank could vary depending on the valuation technique that may be applied.

Budva Beach Properties and Salalah Resorts SAOC were established to focus on property development and Integrated Tourism Complex project in Budva, Montenegro and Salalah, Oman respectively.

Investments in Associates

In accordance with International Accounting Standard 28: Investments in Associates (revised) effective for annual periods beginning on or after 1 January 2005, investments in associates are stated "at cost". Income from such investments is recognised in the Parent Company's separate financial statements as the cash dividend received from associate companies.

Investments in associates are in companies which are listed on the Muscat Securities Market. At the balance sheet date, the market value of these investments at closing prices was RO 13.36m (2012: RO 12.05m) compared with the balance sheet carrying value (at cost) in the Parent Company's separate financial statements of RO 5.63m (2012: RO 5.33m) reflecting a positive value difference of RO 7.73m (2012: RO 6.72m).

Therefore, to conclude, the fair value of net assets held by the Parent Company as shown in its separate financial statements, would be significantly higher as compared to the reported net asset value of RO 58.63m (2012: RO 52.90m) considering the value ascribed to subsidiaries and associates at the balance sheet date under IFRS.

All other financial assets and liabilities of the Parent Company are reported at fair values, as per IFRS.

In adopting these policies, the Group applies prudence and consistency in methodology used as this involves certain judgements and estimates. It is the Group's policy to report any material issues relating to its results and financial position immediately on notification.

Due from subsidiaries: RO 4.52m (2012: RO 4.67m)

This represents the development costs and expenses due to the Parent Company from directly managed and fully owned by two subsidiaries in the real estate sector.

Property & Equipment: RO 5.52m (2012: RO 3.65m)

Property and equipment include freehold land in Oman on which the construction of commercial property has commenced in the last quarter of 2012 and is expected to be completed by the first quarter of 2014.

Bank borrowings

Decrease in		
<u>2013</u>	<u>2013</u>	<u>2012</u>
(RO'000)	(RO'000)	(RO'000)
<u>3,325</u>	<u>21,200</u>	<u>24,525</u>

This comprises the Parent Company borrowings including short-term borrowings from the banking subsidiary of RO 5m (2012: RO 4.9m) which has been set off on consolidation. The borrowings are mainly to fund Parent Company's investment activities. All outstanding borrowings are clean facilities without any tangible securities and are due for settlement within one year.

Ominvest's debt/equity ratio at the balance sheet date is positioned at 0.36:1 on shareholders' total equity of RO 58.63m in the Parent Company.

INTERNAL CONTROL

The Board has collective responsibility for the establishment and maintenance of a system of internal control that provides reasonable assurance of effective and efficient operations, internal financial control and compliance with laws and regulations. However, it recognises that any system of internal control can provide only reasonable, and not absolute, assurance against material misstatement or loss.

The system of internal control is monitored regularly by the Board, its Committees, Management and Internal Audit. The Company's business is conducted with a regulated control framework, underpinned by policy statements, written procedures and control manuals. The Board has established a management structure which clearly defines roles, responsibilities and reporting lines. Delegated authorities are documented and communicated.

The business performance of the Company is reported regularly to its management and the Board. Performance trends, forecasts as well as actual performance against budgets and prior periods are closely monitored. Financial information is prepared using appropriate accounting policies fully in compliance with the IFRS which are applied consistently. Operational procedures and controls have been established to facilitate complete, accurate and timely processing of transactions and the safeguarding of assets. These controls also include the segregation of duties, the regular reconciliation of accounts and the valuation of assets and positions.

Critical Accounting Policies

The Group's accounting policies have been adopted in conformity with the International Financial Reporting Standards (IFRS) and have been consistently applied.

In applying certain accounting policies, the management of the Parent Company and of investee companies is required to make estimates and judgements regarding certain assets which are expected to be generating income and cash flows over a longer period, say up to ten years. Carrying values of assets recognised in the financial statements from such estimates are necessarily based on assumptions about numerous factors involving varying, and possibly significant, degrees of judgement and uncertainty. Accordingly, the carrying values reported in the financial statements may prove, with the benefit of hindsight, to be inaccurate. The balance sheet items which may most significantly be affected by these estimates are unquoted investments held by the Group and loans and advances to customers by the banking subsidiary.

Considering the Group's principal activities, the following accounting policies fully detailed in the consolidated financial statements could be considered critical as their application could have a significant bearing on the reported results and the financial position of the Group:

- **Impairment and uncollectability of financial assets**

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

Loans and advances to customers are presented net of specific and general allowances for uncollectibility.

- **Fair Values**

Fair values relating to valuation of unquoted investments and measurement of estimated change in values is by reference to external reports received. Fair values of unquoted investments cannot be determined without extensive, subjective, judgmental and possibly speculative estimates by the Company. Such investments are initially stated at cost, re-measured to estimated values at periodic intervals.

Unrealised gains and losses on re-measurement of fair values of financial assets at fair value through profit or loss are included in the statement of comprehensive income and positive changes in fair values on available for sale financial assets are included under shareholders equity.

Dividends and Share Capital

The Parent Company's objective is to provide its shareholders with a reasonable and consistent annual cash return on their investment in the share capital of the Company.

Since inception, the Parent Company has an uninterrupted record of dividend payments. Cash dividends of RO 63.77m have been declared and distributed to shareholders. In addition, stock dividends totalling RO 18.61m were distributed since inception.

Share capital paid in by the shareholders to date amounted to RO 12m, of which RO 8 m was paid in November 1983 when the Company was incorporated and RO 4m in April 1994, following an increase in paid up share capital. The market capitalisation of the Parent Company at end 2013 was RO 132.86m (2012: RO 107m).

RISKS AND CONCERNS

We discuss below risks associated with our operations. However, these risks and uncertainties may not be the only ones facing our Company. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also affect us. If any of these risks actually occur, our business, financial condition or results of operations could be impacted.

A substantial part of our balance sheet is exposed to the banking industry:

- The banking subsidiary, Oman Arab Bank saoc, is the largest investment of the Parent Company. The Bank operates within the confines of the Omani economy which is substantially dependent on income derived from oil and gas which is dependent on the crude reserves, annual production and international demand and supply. The growth in the Bank's loan book and resultant earnings is dependent on the continuous growth in Oman's economic activities.
- The banking industry is licensed and regulated by the Central Bank of Oman. Changes in regulations could impact the earnings and operational ability of the Bank.

Exposure to Real Estate industry:

The Real Estate investments by the Company include the development of properties over time. This exposes the Company to the risks in property market conditions and thereby potential decrease in the value of its real estate investments.

The Company is exposed to the leasing industry:

- The leasing associate, National Finance Company saog, is carried on an equity basis at a value of RO 5.72 million in the consolidated financial statements. Any deterioration in the fundamentals of leasing industry could impact the financial statements of the associate thus reducing earnings recorded by the Group and the carrying value of our investment.
- The leasing industry is regulated by the Central Bank of Oman and any changes in regulations may impact the earnings ability of this company.

The Company has invested in private equity:

- The investment in private equity is illiquid and the timing and size of distributions is not under the control of the Company's management. Furthermore, exits are dependent on the market conditions prevalent in the global economies.
- Provisions for impairments, which are considered other than temporary, have been estimated by management and are mainly based on external reports issued by the Fund Managers and investee companies. Continued economic weakness in developed markets and the lack of availability of funding could affect the viability of some of these investments.

The Company has exposure to investment in quoted securities:

- While the Group's exposure to the companies listed on the Muscat Securities Market is primarily in leading index stocks, any volatility in the local, regional and asian markets could impact the returns from this segment of the Group's assets. As the portfolio is fairly well diversified, relatively small compared to Group's total assets, and is regularly monitored by the management, timely response would minimise the impact.

Date: February 24, 2014

FINANCIAL OVERVIEW (GROUP) YEARS 2000 - 2013

Period*→	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000
Earnings, Assets and Shareholders' Funds														
Consolidated Profit (RO '000)	14,177	10,326	8,620	11,959	11,408	8,341	17,351	8,591	10,704	7,637	7,007	4,539	1,319	4,941
Total Shareholders' Funds (RO '000)	123,176	110,757	98,266	92,625	82,844	72,535	67,580	51,522	48,734	44,030	40,893	36,886	33,847	37,136
Paid-up Capital (RO '000) **	30,613	27,830	25,300	23,000	20,000	18,000	15,000	15,000	15,000	15,000	15,000	15,000	15,000	15,000
Reserves (RO '000)	69,896	60,486	45,405	42,195	38,272	32,740	26,432	19,843	17,082	14,139	12,808	11,677	10,837	12,396
Retained Profits (RO '000)	22,667	22,441	27,561	27,430	24,573	21,795	26,148	16,679	10,652	8,891	8,585	7,209	6,510	5,990
Financial Ratios														
Return on Paid-up Capital (%)	46.3	37.1	34.1	52.0	57.0	46.3	115.7	57.3	71.4	50.9	46.7	30.3	8.8	32.9
Dividend/Paid-up Capital (%) **	25	22	20	20	25	21	50	15	40	40	30	20	10	25
Dividend Payout Ratio (%)	54	59	53	38	44	46	43	26	56	79	64	66	114	76
Return on Average Shareholders' Funds (%)	12.1	9.9	9.0	13.6	14.7	11.9	29.1	17.1	23.1	18.0	18.0	12.8	3.7	13.7
Book Value per Share (RO) **	0.102	0.362	0.388	0.403	0.414	0.403	0.375	0.343	3.249	2.935	2.726	2.459	2.256	2.476
* Period : 2000 to 2013 Year ended 31 December. ** Share Capital : 2000 to 2005 - 15 million shares of RO 1 each fully paid. 2006 & 2007 - 150 million shares of RO 0.100 each fully paid, following a share split of 10:1 in April 2006. 2007 dividend includes RO 3 million bonus shares. 2008 - 180 million shares, following the issue of bonus shares approved by the shareholders in March 2008. 2009 - 200 million shares, following the issue of 2m bonus shares approved by the shareholders in March 2009. 2010 - 230 million shares, following the issue of 3m bonus shares approved by the shareholders in March 2010. 2011 - 253 million shares, following the issue of 2.3m bonus shares approved by the shareholders in March 2011. 2012 - 278.3 million shares, following the issue of 25.3m bonus shares approved by the shareholders in March 2012. 2013 - 306.13 million shares following the issue of RO 27.83m bonus shares approved by the shareholders on 31 March 2013.														

FINANCIAL OVERVIEW (GROUP) YEARS 1999 - 1999															
Period*→	1999	1998	1997	1996	1995	1994	1993	1992	1991	1990	1989	1988	1987	1986	1985
Earnings, Assets and Shareholders' Funds															
Consolidated Profit (RO '000)	4,157	1,551	11,382	3,621	3,326	2,319	2,199	1,014	1,159	1,161	3,478	1,479	1,240	1,882	1,520
Total Shareholders' Funds (RO '000)	35,196	32,645	34,176	24,730	23,019	21,003	15,970	14,657	14,508	14,225	14,338	11,783	11,175	10,807	9,797
Paid-up Capital (RO '000) **	15,000	15,000	15,000	12,000	12,000	12,000	8,000	8,000	8,000	8,000	8,000	8,000	8,000	8,000	8,000
Reserves (RO '000)	11,566	10,830	9,853	7,850	6,978	6,047	5,528	2,507	2,266	2,147	2,000	1,391	1,136	902	463
Retained Profits (RO '000)	5,630	5,315	6,323	3,080	2,241	1,756	1,242	3,350	3,442	3,278	3,138	1,592	1,239	1,105	534
Financial Ratios															
Return on Paid-up Capital (%)	27.7	10.3	75.9	30.2	27.7	19.3	27.5	12.7	14.5	14.5	43.5	18.5	15.5	23.5	19.0
Dividend/Paid-up Capital (%) **	20	10	50	15	15	10	15	10	10	10	15	10	10	10	10
Dividend Payout Ratio (%)	72	97	53	50	54	52	55	79	69	69	35	54	65	43	53
Return on Average Shareholders' Funds (%)	12.3	4.6	38.6	15.2	15.1	12.5	14.4	7.0	8.1	8.1	26.6	12.9	11.3	18.3	17.1
Book Value per Share (RO) **	2,346	2,176	2,278	2,061	1,918	1,750	0,998	0,916	0,907	0,889	0,896	0,736	0,698	0,675	0,612
* Period : 1985 - 19 months to 30 June 1985; 1986 to 1988 - Year ended 30 June; 1989 - 18 months to 31 December 1989; 1990 to 1999 - Year ended 31 December.															
** Share Capital : 1985 to 1993 - 16 million shares of RO 1 each, 50% paid; 1994 to 1996 - 12 million shares of RO 1 each fully paid; 1997 includes RO 3 million bonus shares; 1998 to 1999 - 15 million shares of RO 1 each fully paid.															

Independent auditor's report to the shareholders of Oman International Development and Investment Company SAOG and its subsidiaries

Report on the financial statements

We have audited the accompanying financial statements of **Oman International Development and Investment Company SAOG** ("the Parent company") and the consolidated financial statements of **Oman International Development and Investment Company SAOG and its subsidiaries** ("the Group"), which comprise of the Parent company's and consolidated statement of financial position as at 31 December 2013 and the Parent company's and consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes as set out on pages 3 to 79.

Board of Directors' responsibility for the financial statements

The Board of Directors is responsible for the preparation and fair presentation of the Parent company's and consolidated financial statements in accordance with International Financial Reporting Standards and the relevant disclosure requirements of the Commercial Companies Law of 1974, as amended and the Rules and Guidelines on disclosure issued by the Capital Market Authority and for such internal control as the Board of Directors determines is necessary to enable the preparation of the Parent company's and 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 the Parent company's and 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 whether the Parent company's and consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Parent company's and consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the Parent company's and consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Group's preparation and fair presentation of the Parent company's and consolidated financial statements in order to design audit procedures that are appropriate for the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group'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 Parent company's and consolidated financial statements.

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

Opinion

In our opinion, the Parent company's and consolidated financial statements, present fairly, in all material respects, the financial position of **the Parent company and the Group**, as of 31 December 2013, 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

Also, in our opinion, the Parent company's and 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.

Other matter

The financial statements of the Parent company and the Group for the year ended 31 December 2012 were audited by another auditor who expressed an unmodified opinion on those statements on 25 February 2013.

 
Deloitte & Touche (M.E.) & Co. LLC
Muscat, Sultanate of Oman
24 February 2014

Signed by 
Alfred Strolla
Partner


GROUP AND PARENT COMPANY STATEMENTS OF FINANCIAL POSITION AT 31 DECEMBER 2013

	Note	Group		Parent Company	
		2013	2012	2013	2012
		(RO'000)	(RO'000)	(RO'000)	(RO'000)
ASSETS					
Balances with banks and money at call	23	134,338	169,627	2,078	329
Certificates of deposit	6	100,000	90,000	-	-
Deposits with banks	7	35,150	83,275	-	-
Investment securities	8	68,476	56,169	15,017	15,657
Investments in associates	8(d)	12,372	11,303	5,627	5,330
Investments in subsidiaries	8(e)	-	-	48,436	47,936
Loans and advances to customers	9(a)	1,071,291	929,914	-	-
Due from subsidiaries		-	-	4,522	4,671
Other assets		32,850	31,490	193	591
Projects work in progress	10(a)	8,717	9,538	-	-
Property and equipment	10(b)	32,333	25,427	5,522	3,647
TOTAL ASSETS		1,495,527	1,406,743	81,395	78,161
EQUITY AND LIABILITIES					
EQUITY					
Share capital	12	30,613	27,830	30,613	27,830
Legal reserve	13(a)	22,838	20,757	8,571	7,770
Capital reserve	13(b)	17,846	17,846	-	-
General reserve	13(c)	10,615	9,977	-	-
Subordinated debt reserve	13(d)	10,198	5,099	-	-
Revaluation reserve	13(e)	1,677	1,677	-	-
Cumulative changes in fair value	8(b)	6,712	5,130	6,017	5,055
Retained earnings		22,677	22,441	13,332	12,240
Equity attributable to equity holders of the Parent Company		123,176	110,757	58,533	52,895
Non-controlling interests		97,410	90,233	-	-
TOTAL EQUITY		220,586	200,990	58,533	52,895
LIABILITIES					
Due to banks	11	20,062	79,334	21,200	24,525
Deposits from customers		1,148,504	1,030,159	-	-
Other liabilities		52,683	42,410	1,662	741
Taxation	16(c)	3,692	3,850	-	-
Subordinated bonds	15	50,000	50,000-	-	-
TOTAL LIABILITIES		1,274,941	1,205,753	22,862	25,266
TOTAL EQUITY AND LIABILITIES		1,495,527	1,406,743	81,395	78,161
Net assets per share (Rial Omani)	36	0.402	0.362	0.191	0.173

These financial statements were approved and authorised for release by the Board of Directors on February 24, 2014 and were signed by:



Khalid Muhammad Al Zubair
Chairman



Taya Jandal Ali
Deputy Chairman

The attached notes 1 to 36 form part of these financial statements.

The report of the Auditors – page 26.

**GROUP AND PARENT COMPANY STATEMENTS OF PROFIT OR
LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR
ENDED 31 DECEMBER 2013**

	Note	Group		Parent Company	
		2013	2012	2013	2012
		(RO'000)	(RO'000)	(RO'000)	(RO'000)
Interest income	17	53,504	50,410	-	-
Interest expense	18	(11,523)	(9,909)	(463)	(464)
Net interest income / (expense)		41,981	40,501	(463)	(464)
Investment income	19	6,933	1,082	11,180	6,253
Fee and commission income - net	20	14,417	14,245	-	-
Other operating income	21	4,721	4,217	70	42
Total income		68,052	60,045	10,787	5,831
Operating expenses	22	(36,064)	(30,779)	(2,041)	(2,123)
Provision for impairment of work in progress	10(a)	(1,329)	-	-	-
Allowance for loan impairment	9(b)	(6,351)	(5,727)	-	-
Recoveries/release from allowance for loan impairment	9(b)	4,999	2,284	-	-
Provision for impairment on investments		(730)	(771)	(730)	(771)
OPERATING PROFIT		28,577	25,052	8,016	2,937
Share of profit from associates	8(d)	1,519	1,232	-	-
PROFIT BEFORE TAX		30,096	26,284	8,016	2,937
Income tax expense	16(a)	(3,655)	(3,573)	-	-
PROFIT FOR THE YEAR		26,441	22,711	8,016	2,937
Other comprehensive income:					
Items that may be reclassified subsequently to profit or loss:					
Changes in the fair value of available for sale investments		2,180	5,373	962	5,490
Deferred tax liability		-	(659)	-	(659)
Other comprehensive income for the year		2,180	4,714	962	4,831
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		28,621	27,425	8,978	7,768
Profit for the year attributable to:					
Shareholders of the Parent Company		14,177	10,326	8,016	2,937
Non-controlling interests		12,264	12,385	-	-
		26,441	22,711	8,016	2,937
Total comprehensive income for the year attributable to:					
Shareholders of the Parent Company		15,759	15,098	8,978	7,768
Non-controlling interests		12,862	12,327	-	-
		28,621	27,425	8,978	7,768
Basic earnings per share on profit attributable to the shareholders of the Parent Company (Rial Omani)	35	0.046	0.034	0.026	0.010

The attached notes 1 to 36 form part of these financial statements.

The report of the Auditors – page 26.

**GROUP AND PARENT COMPANY STATEMENTS OF CHANGES
IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2013**

	Share capital (R'O'000)	Legal reserve (R'O'000)	Capital reserve (R'O'000)	General reserve (R'O'000)	Sub-ordinated debt reserve (R'O'000)	Revaluation reserve (R'O'000)	Cumulative changes in fair value (R'O'000)	Retained earnings (R'O'000)	Attributable to equity holders of the Company (R'O'000)		Total (R'O'000)
									Company	Non-controlling interests	
GROUP											
At 1 January 2012	25,300	19,173	14,787	9,333	-	1,754	358	27,561	98,266	78,886	177,152
Profit for the year	-	-	-	-	-	-	-	10,326	10,326	12,385	22,711
Net changes in fair values	-	-	-	-	-	-	4,772	-	4,772	(58)	4,714
Total comprehensive income for the year	-	-	-	-	-	-	4,772	10,326	15,098	12,327	27,425
Transfer to legal reserve (note 13a)	-	1,584	-	-	-	-	-	(1,584)	-	-	-
Transfer to general reserve (note 13c)	-	-	-	644	-	-	-	(644)	-	-	-
Transfer to subordinated debt reserve (note 13d)	-	-	-	-	5,099	-	-	(5,099)	-	-	-
Increase in share capital through capitalisation of retained earnings	2,530	-	-	-	-	-	-	(2,530)	-	-	-
Increase in share capital of banking subsidiary through capitalisation of retained earnings (note 13b)	-	-	3,059	-	-	-	-	(3,059)	-	-	-
Decrease in revaluation reserves	-	-	-	-	-	(77)	-	-	(77)	-	(77)
Dividend paid relating to 2011	-	-	-	-	-	-	-	(2,530)	(2,530)	(5,881)	(8,411)
Subscription to rights issue of the banking subsidiary	-	-	-	-	-	-	-	-	-	4,901	4,901
At 31 December 2012	27,830	20,757	17,846	9,977	5,099	1,677	5,130	22,441	110,757	90,233	200,990
Profit for the year	-	-	-	-	-	-	-	14,177	14,177	12,264	26,441
Net changes in fair values	-	-	-	-	-	-	1,582	-	1,582	598	2,180
Total comprehensive income for the year	-	-	-	-	-	-	1,582	14,177	15,759	12,862	28,621
Transfer to legal reserve (note 13a)	-	2,081	-	-	-	-	-	(2,081)	-	-	-
Transfer to general reserve (note 13c)	-	-	-	638	-	-	-	(638)	-	-	-
Transfer to subordinated debt reserve (note 13d)	-	-	-	-	5,099	-	-	(5,099)	-	-	-
Increase in share capital through capitalisation of retained earnings	2,783	-	-	-	-	-	-	(2,783)	-	-	-
Dividend paid relating to 2012	-	-	-	-	-	-	-	(3,340)	(3,340)	(5,685)	(9,025)
At 31 December 2013	30,613	22,838	17,846	10,615	10,198	1,677	6,712	22,677	123,176	97,410	220,586

The attached notes 1 to 36 form part of these financial statements.

The report of the Auditors – page 26.

**GROUP AND PARENT COMPANY STATEMENTS OF CHANGES
IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2013**

	<u>Share capital</u> (RO'000)	<u>Legal reserve</u> (RO'000)	<u>Cumulative changes in fair value</u> (RO'000)	<u>Retained earnings</u> (RO'000)	<u>Total</u> (RO'000)
PARENT COMPANY					
At 1 January 2012	25,300	7,476	224	14,657	47,657
Profit for the year	-	-	-	2,937	2,937
Net changes in fair value	-	-	4,831	-	4,831
Total comprehensive income for the year	-	-	4,831	2,937	7,768
Transfer to legal reserve (note 13a)	-	294	-	(294)	-
Increase in share capital through capitalisation of retained earnings	2,530	-	-	-	(2,530)
Dividend paid relating to 2011 (note 14)	-	-	-	(2,530)	(2,530)
At 31 December 2012	27,830	7,770	5,055	12,240	52,895
Profit for the year	-	-	-	8,016	8,016
Net changes in fair value	-	-	962	-	962
Total comprehensive income for the year	-	-	962	8,016	8,978
Transfer to legal reserve (note 13a)	-	801	-	(801)	-
Increase in share capital through capitalisation of retained earnings	2,783	-	-	-	(2,783)
Dividend paid relating to 2012 (note 14)	-	-	-	(3,340)	(3,340)
At 31 December 2013	30,613	8,571	6,017	13,332	58,533

The attached notes 1 to 36 form part of these financial statements.

The report of the Auditors – page 26.

GROUP AND PARENT COMPANY STATEMENTS OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2013

	Note	Group		Parent Company	
		2013 (R0'000)	2012 (R0'000)	2013 (R0'000)	2012 (R0'000)
Cash flows from operating activities					
Profit before tax		30,096	26,284	8,016	2,937
Adjustments for:					
End of service benefits		433	525	68	53
Depreciation	10 (b)	2,424	2,064	87	148
Allowance for loan impairment	9 (b)	6,351	5,727	-	-
Provision for impairment of work in progress	9 (b)	1,329	-	-	-
Recoveries/release from allowance for loan impairment	9 (b)	(4,999)	(2,284)	-	-
Provision for impairment on investments		730	771	730	771
Change in the fair value of financial assets at fair value through profit or loss		(964)	(464)	(307)	1,957
Profit on sale of available-for-sale investments		(966)	115	-	-
Income from held-to-maturity investments		(745)	(567)	-	-
Non-controlling interests		(5,087)	(1,038)	-	-
Operating profit before working capital changes		28,602	31,133	8,594	5,866
Changes in operating assets and liabilities					
Investment securities		(8,780)	(1,529)	1,179	(243)
Loans and advances to customers		(142,729)	(107,411)	-	-
Due from subsidiaries		-	-	149	(1,046)
Other assets		(1,360)	(6,060)	398	(406)
Deposits from customers		118,345	121,258	-	-
Other liabilities		9,840	8,096	853	(88)
Cash generated from operations		3,918	45,487	11,173	4,083
Tax paid		(3,813)	(3,282)	-	-
Net cash from operating activities		105	42,205	11,173	4,083
Cash flows from investing activities					
Investments in subsidiaries		-	-	(500)	(5,099)
Investments in associates		(1,069)	(2,529)	(297)	(1,848)
Projects work in progress		(508)	(932)	-	-
Additions to property and equipment		(9,379)	(9,258)	(1,962)	(578)
Proceeds from sale of property and equipment		49	3	-	-
Net cash used in investing activities		(10,907)	(12,716)	(2,759)	(7,525)
Cash flows from financing activities					
Bank borrowings		(3,425)	5,000	(3,325)	6,000
Proceeds from issue of subordinated bonds		-	50,000	-	-
Dividends paid		(3,340)	(2,530)	(3,340)	(2,530)
Net cash (used in) /generated from financing activities		(6,765)	52,470	(6,665)	3,470
(Decrease) / increase in cash and cash equivalents		(17,567)	81,959	1,749	28
Cash and cash equivalents at the beginning of the year		282,693	200,734	329	301
Cash and cash equivalents at the end of the year	23	265,126	282,693	2,078	329

The attached notes 1 to 36 form part of these financial statements.

The report of the Auditors – page 26.

NOTES TO THE GROUP AND PARENT COMPANY FINANCIAL STATEMENTS 31 DECEMBER 2013

1. GENERAL INFORMATION

Oman International Development and Investment Company SAOG ('the Company' or 'the Parent company') is incorporated in the Sultanate of Oman as a public joint stock company and is principally engaged in investment related activities. The Parent Company has its listing on the Muscat Securities Market.

The Parent Company's principal place of business and registered address is Ominvest Building, Central Business District, Greater Muttrah, P.O. Box 3886, Ruwi, Postal Code 112, Sultanate of Oman.

These consolidated financial statements for the year ended 31 December 2013 comprise the Parent Company and its subsidiaries (together referred to as the Group) and the Group's interest in associates. The separate financial statements represent the financial statements of the Parent Company on a stand-alone basis. The consolidated and separate financial statements are collectively referred to as "the financial statements".

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), the Commercial Companies Law of 1974, as amended and comply with the disclosure requirements as set out in the Rules for disclosures and proformas issued by the Capital Market Authority of the Sultanate of Oman.

2.2 Basis of preparation

These financial statements are prepared under the historical cost convention, as modified by remeasurement of fair value of financial assets at fair value through profit or loss and available-for-sale financial assets. The basis of consolidation is set out in note 2.4.

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

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to these financial statements are disclosed in note 3

2.3 Changes in accounting policies and disclosures

The accounting policies are consistent with those used in the previous financial year except for where the Group has adopted certain new standards of, amendments and interpretations to IFRS.

2.4 Basis of consolidation

The consolidated financial statements comprise those of the Parent Company and each of its subsidiaries as at 31 December each year. Subsidiaries are all entities (including special purpose entities) over which the Group exercises control. Control is achieved when the Parent Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect the investee's returns.

The Parent Company reassesses 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 listed above.

When the Parent Company has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Parent Company considers all relevant facts and circumstances in assessing whether or not the Parent Company's voting rights in an investee are to give it power including:

- the size of the Parent Company's holding of the voting rights relative to the size and dispersion of holdings of the other vote holders;

- potential voting rights held by the Parent Company, or other holders or other parties;
- rights arising from other contractual arrangements;
- any facts and circumstances that indicates that the Parent Company has, or does not have, the current ability to direct the relevant activities at the time the decisions need to be made, including voting patterns at previous shareholders meetings.

Consolidation of a subsidiary begins when the Parent company obtains control over the subsidiary and ceases when the Parent company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the date the Parent Company gains control until the date when the Parent Company ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Parent company and to the non-controlling interests. Total comprehensive income of subsidiary is attributed to the owners of the Parent company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date when such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the Parent Company, using consistent accounting policies. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated in full.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. The carrying amounts of the Group's interest and non-controlling interest are adjusted to reflect the changes in their relative interest in subsidiaries. Any difference between the amount by which the non-controlling interest are adjusted and the fair value of the consideration paid or received directly is equity and attributed to the owners of the Parent Company.

If the Group loses control over a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between:

- the aggregate of the fair value of consideration received and the fair value of any retained interest; and
- the carrying amount of assets (including goodwill), and liabilities of the subsidiary and any non-controlling interest.

All amounts previously recognised in other comprehensive income in relation to subsidiary are accounted for as if the Group has directly disposed of the assets and liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable IFRS). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39, when applicable, the cost on initial recognition of an investment as associate or joint venture.

In the Parent Company's separate financial statements investments in subsidiaries are stated at cost, less provision for impairment in value of any individual investment. Dividend income is recognised in the profit or loss in the period in which entitlement is established.

2.4.1 Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. In the consolidated financial statements, investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. The Group's investments in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition. The Group's share of its associates' post-acquisition profits or losses and movements in reserves are recognised in the profit or loss. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred

obligations or made payments on behalf of the associate. Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

In the Parent Company's separate financial statements investments in associates are stated at cost, less provision for impairment in value of any individual investment. Dividend income is recognised in the profit or loss in the period in which entitlement is established.

2.5 Financial assets – Initial recognition and subsequent measurement

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

2.5.1 Date of recognition

All financial assets and liabilities are initially recognised on the trade date, i.e., the date that the Group becomes a party to the contractual provisions of the instrument. This includes "regular way trades": purchases or sales of financial assets that require delivery of assets within the time frame *generally established by regulation or convention in the market place*.

2.5.2 Initial measurement of financial instruments

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

2.5.3 Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss comprise financial securities held-for-trading which are acquired principally for the purpose of selling in the short-term and instruments so designated by management upon inception. Financial assets at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the statement of comprehensive income. Unrealised gains or losses arising from changes in fair value are included in the statement of profit or loss and other comprehensive income in the period in which they arise. Derivatives are also categorised as held for trading unless they are designated as hedging instruments.

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:

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

2.5.4 Available-for-sale investments

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 Group 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 other comprehensive income in the cumulative changes in fair value. When the investment is disposed of, the cumulative gain or loss previously recognised in equity is recognised in the statement of profit or loss in other operating income. Where the Group holds more than one investment in the same security, they are deemed to be disposed of on a first-in first-out basis. Interest earned whilst holding available-for-sale financial investments is reported as interest income using the Effective Interest Rate (EIR). Dividends earned whilst holding available-for-sale financial investments are recognised in the statement of profit or loss and other comprehensive income as investment income when the right of the payment has been established. The losses arising from impairment of such investments are recognised in the statement of profit or loss and other comprehensive income in 'Impairment losses on financial investments' and removed from the cumulative changes in fair value.

2.5.5 Financial investments held-to-maturity

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. In the case where the Group sells more than an insignificant amount of held to maturity assets, the entire category would be tainted and reclassified as available-for-sale.

Held-to-maturity investments are initially recognised at fair value plus transaction costs. These are subsequently carried at amortised cost using the effective interest method.

2.5.6 Loans and advances to customers and due from banks

Loans and receivables to customers and due from banks are non-derivative financial assets with fixed or determinable repayments that are not quoted in an active market. They arise when the Group provides money directly to a debtor with no intention of trading the receivable. Loans and receivables are recognised when cash is advanced to customers and are carried at amortised cost using the effective interest method.

2.5.7 Fair value measurement principles

Regular purchases and sales of financial assets are recognised on the trade-date basis – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or losses are initially recognised at fair value, and transaction costs are expensed in the statement of profit or loss. The fair value of financial instruments is based on their quoted market bid price at the reporting date without any deduction for transaction costs. If a quoted market price is not available, the fair value of the instrument is estimated based on discounted cash flow and other valuation techniques. The fair value of derivatives that are not exchange-traded is estimated at the amount that the bank would receive or pay to terminate the contract at the reporting date taking into account current market conditions and the current creditworthiness of the counter-parties.

2.5.8 Derecognition of financial assets and liabilities

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; or
- 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.

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

2.5.9 Impairment of financial assets

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.

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.

(a) Assets carried at amortised cost

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 profit or loss. 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 Group and historical loss experience for assets with credit risk characteristics similar to those in the Group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group 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 the impairment loss decreases and the 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 statement of profit or loss.

(b) Available-for-sale financial investments

For available-for-sale financial investments, the Group assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired. In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. The determination of what is 'significant' or 'prolonged' requires judgement. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of profit or loss – is removed from equity and recognised in the statement of profit or loss.

Impairment losses on equity investments are not reversed through the statement of comprehensive income; increases in their fair value after impairment are recognised directly in other comprehensive income. In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. Interest continues to be accrued at the original effective interest rate on the reduced carrying amount of the asset and is recorded as part of 'Interest income'. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the statement of profit or loss, the impairment loss is reversed through the statement of profit or loss.

(c) Renegotiated loans

Loans that are either subject to collective impairment assessment or individually significant and whose terms have been renegotiated are no longer considered to be past due but are treated as new loans. In subsequent years, the asset is considered to be past due and disclosed only if renegotiated.

2.5.10 Islamic banking

Murabaha to the Purchase Orderer

Murabaha to the purchase orderer represents the sale of goods at cost plus an agreed profit. Murabaha receivables consist of deferred sales transaction agreements. Promise made in the Murabaha to the purchase orderer is not obligatory upon the customer.

Ijarah Muntahia Bittamleek

Ijarah Muntahia Bittamleek is a lease whereby the legal title of the leased asset passes to the lessee at the end of the Ijarah (lease term), provided that all Ijarah installments are settled.

Musharaka

Musharaka contracts represents a partnership between the Window and a customer whereby each party contributes to the capital in equal or varying proportions to establish a new project or share in an existing one, and whereby each of the parties becomes an owner of the capital on a permanent or declining basis and shall have a share of profits or losses.

Diminishing Musharaka

Diminishing Musharaka is a form of partnership where two or more persons jointly own a tangible asset in an agreed proportion and one of the partners undertakes to buy the ownership rights of other partner by way of periodical payments till the title of such tangible assets completely transferred to the purchasing partner.

Mudaraba

A contract between two parties, whereby one party provides the funds (Rab Al Mal) and the other party (the Mudarib) invest the funds in an asset, project or particular activity and any generated profits are distributed between the parties according to the profit shares that were pre-agreed upon in the contract. The Mudarib is responsible for losses caused by his misconduct, negligence or violation of the terms and conditions of the Mudarib; otherwise, losses are borne by Rab Al Mal. The Mudaraba capital of Mudaraba is paid to the Mudarib or placed under his disposition.

Wakalah

A contract between two parties whereby one party (the principal: Muwakkil) appoints the other party (the agent: Wakil) to invest certain funds according to terms and conditions of the Wakalah for a fixed fee in addition to any profit exceeding the expected profits as an incentive for the Wakil for the good performance. Any losses as a result of the misconduct or negligence or violation of the terms and conditions of the Wakalah are borne by the Wakil; otherwise, they are borne by the principal.

Qard Hassan

A non-profit bearing loan enables the borrower to use the borrowed amounts for a specific period of time, at the end of which the same borrowed amounts would be repaid free of any charges of profits.

2.6 Segment reporting

The Group's segmental reporting is based on the following operating segment:

Investments for the Parent Company and retail banking, corporate banking, investment banking and support and unallocated functions for the banking subsidiary. The segment information is set out in note 25.

2.7 Foreign currency translation

2.7.1 Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using Rial Omani which is the currency of the primary economic environment in which the entity operates (the functional currency). These financial statements are presented in Rial Omani, which is the Group's functional and presentation currency.

2.7.2 Transactions and balances

Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Transactions in foreign currencies are initially recorded in the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. All differences are taken to the profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

As at the reporting date, the assets and liabilities of the Group entities are translated into the functional currency of the consolidated financial statements (the Rial Omani) at the rate of exchange ruling at the reporting date and its profit or loss is translated at the weighted average exchange rates for the year. The exchange differences arising on the translation are taken directly to a foreign currency translation reserve in other comprehensive income.

On disposal of foreign operations, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the profit or loss.

2.8 Property and equipment

Property and equipment are stated at historical cost, less accumulated depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the profit or loss during the financial period in which they are incurred.

Land is not depreciated. Depreciation of other assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

Freehold building	-	25 years
Leasehold buildings	-	lower of 25 years and unexpired lease period
Furniture, fixtures and equipment	-	up to 5 years
Motor vehicles	-	up to 5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 2.9).

Freehold land and land with factory buildings are considered as a separate class of assets by the Group's associate companies. These are revalued on a regular basis.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the statements of profit or loss.

Projects work in progress

Projects work-in-progress is recognised at cost and not depreciated. The carrying values of projects work in progress are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount, being the higher of their fair value less costs to sell and their value in use.

2.9 Impairment of non-financial assets

Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

2.10 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities up to three months or less and bank overdrafts. Bank overdrafts are shown within borrowings in the statement of financial position.

2.11 Borrowings

Borrowings are initially recognised at fair value, 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 as interest expense in the statements of profit or loss 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.

2.12 Other liabilities

Other liabilities are stated at amortised cost using the effective interest method.

2.13 Taxation

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

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

Deferred tax is calculated using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on 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.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

2.14 Employees' end of service benefits

End of service benefits are accrued in accordance with the terms of employment of the Group's employees at the reporting date, having regard to the requirements of the Oman Labour Law 2003, as amended. Employee entitlements to annual leave and leave passage are recognised when they accrue to employees and an accrual is made for the estimated liability arising as a result of services rendered by employees up to the reporting date.

Contributions to the Omani Government Social Security Scheme under Royal Decree No. 72/91 for Omani employees in accordance with the Omani Social Insurance Law 1991 are recognised as an expense in the statements of profit or loss as incurred.

2.15 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. If the effect is material, provisions are determined by discounting the expected future cash flows at a rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

2.16 Revenue recognition

Interest income and expense

Interest income and expense are recognised in the profit or loss for all instruments measured at amortised cost using the effective interest method, unless collectability is in doubt. The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Fee and commission income

Fees and commissions are generally recognised on an accrual basis when the service has been provided. Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognised as an adjustment to the effective interest rate on the loan. Loan syndication fees are recognised as revenue when the syndication has been completed and the Group retained no part of the loan package for itself or retained a part at the same effective interest rate for the other participants. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time-apportionment basis. Asset management fees related to investment funds are recognised pro-rata over the period the service is provided. The same revenue recognition criteria are applied for custody services that are continuously provided over an extended period of time.

Dividend income

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

2.17 Fiduciary assets

Assets held in trust or in a fiduciary capacity are not treated as assets of the Group and accordingly are shown as off-balance sheet items in these financial statements.

2.18 Derivative financial instruments

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at their fair value. Fair value adjustments are recorded in the profit or loss. Fair values are obtained from quoted market prices in active markets, including recent market transactions. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

2.19 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 or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

2.20 Offsetting

Financial assets and financial liabilities are only offset and the net amount reported in the balance sheet 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.

2.21 Dividends

Dividend distribution to the Parent Company's shareholders is recognised as a liability in these financial statements in the period in which the dividends are approved by the Parent Company's shareholders.

2.22 Directors' remuneration

Directors' remuneration is calculated based on the Group profit for the year (before Directors' remuneration), applying the overall limits set out by the current regulations governing the determination of Directors' remuneration including sitting fees.

2.23 Earnings per share

The Group and the Parent Company presents basic 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 and the Parent Company by the weighted average number of ordinary shares outstanding during the period.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS IN APPLYING ACCOUNTING POLICIES

The key assumptions concerning the future and other key sources of estimating uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

3.1 Going concern

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

3.2 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 statement of profit or loss, the Group makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, 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 and in line with the Central Bank of Oman guidelines in this respect. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

3.3 Held-to-maturity investments

The Group follows the guidance of IAS 39 on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires significant judgment. In making this judgment, the Group evaluates its intention and ability to hold such investments to maturity. If the Group fails to keep these investments to maturity other than for the specific circumstances – for example, selling an insignificant amount close to maturity – it will be required to reclassify the entire class as available-for-sale. In such situations, the investments would therefore be measured at fair value and not at amortised cost.

3.4 Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded on the statement of financial position cannot be derived from active markets, they are determined using certain valuation techniques, derived from observable market data where possible. Where observable market data are not available, judgment is used to establish fair values.

3.5 Impairment of available-for-sale investments

The Group reviews its debt securities classified as available-for-sale investments at each reporting date to assess whether they are impaired. This requires similar judgment as applied to the individual assessment of loans and advances.

The Group also records impairment charges on available-for-sale equity investments when there has been a significant or prolonged decline in the fair value below their cost. The determination of what is 'significant' or 'prolonged' requires judgment.

In making this judgment, the Group and the Parent Company evaluates, among other factors, historical share price movements and duration and extent to which the fair value of an investment is less than its cost.

3.6 Taxes

The Group and the Parent Company establishes provisions, based on reasonable estimates, for possible consequences of finalisation of tax assessments. The amount of such provisions is based on factors such as experience of previous tax assessments and interpretations of tax regulations by the Group and the responsible tax authority.

4. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

For the year ended 31 December 2013, the Group has adopted all 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 the period beginning on 1 January 2013.

4.1 Standards and Interpretations adopted with no effect on the financial statements

The following new and revised Standards and Interpretations have been adopted in these financial statements. Their adoption has not had any significant impact on the amounts reported in these financial statements but may affect the accounting for future transactions or arrangements.

Amendments to IFRS 7 Disclosures - Offsetting Financial Assets and Financial Liabilities	The amendments to IFRS 7 require entities to disclose information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreement or similar arrangement.
IFRS 10: Consolidated Financial Statements	IFRS 10 replaces the parts of IAS 27 Consolidated and Separate Financial Statements that deal with consolidated financial statements and SIC-12 Consolidation - Special Purpose Entities. IFRS 10 changes the definition of control such that an investor has control over an investee when a) it has power over the investee, b) it is exposed, or has rights, to variable returns from its involvement with the investee and c) has the ability to use its power to affect its returns. All three of these criteria must be met for an investor to have control over an investee. Previously, control was defined as the power to govern financial and operating policies of the entity so as to obtain benefits from its activities.
IFRS 11: Joint arrangements	IFRS 11, replaces IAS 31 Interest in Joint Ventures and guidance contained in a related interpretations. IFRS 11, deals with how a joint arrangement of which two or more parties have joint control should be classified and account for. Under IFRS 11, investments in joint arrangements are classified either as joint operations or joint ventures, based on rights and obligation of parties to the arrangements by considering the structure, the legal form of the arrangement, the contractual terms agreed by the parties to the arrangement, and when relevant, other facts and circumstances.
IFRS 12: Disclosure of Interests in Other Entities	IFRS 12 is a new disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the application of IFRS 12 has resulted in more extensive disclosures in the consolidated financial statements.

IFRS 13: Fair Value Measurement

IFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The scope of IFRS 13 is broad; the fair value measurement requirements of IFRS 13 apply to both financial instrument items and non-financial instrument items for which other IFRSs require or permit fair value measurements and disclosures about fair value measurements, except for share-based payment transactions that are within the scope of IFRS 2 Share-based Payment, leasing transactions that are within the scope of IAS 17 Leases, and measurements that have some similarities to fair value but are not fair value (e.g. net realisable value for the purposes of measuring inventories or value in use for impairment assessment purposes).

Amendments to IAS 1 Presentation of Items of Other Comprehensive Income

The amendments introduce new terminology, whose use is not mandatory, for the statement of comprehensive income and income statement. Under the amendments to IAS 1, the 'statement of comprehensive income' is renamed as the 'statement of profit or loss and other comprehensive income' [and the 'income statement' is renamed as the 'statement of profit or loss']. The amendments to IAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to IAS 1 require items of other comprehensive income to be grouped into two categories in the other comprehensive income section: (a) items that will not be reclassified subsequently to profit or loss and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis - the amendments do not change the option to present items of other comprehensive income either before tax or net of tax.

The amendments have been applied retrospectively, and hence the presentation of items of other comprehensive income has been modified to reflect the changes. Other than the above mentioned presentation changes, the application of the amendments to IAS 1 does not result in any impact on profit or loss, other comprehensive income and total comprehensive income.

Annual Improvements 2009-2011 Cycle

Makes amendments to the following standards:

IAS 1 — Clarification of the requirements for comparative information

IAS 16 — Classification of servicing equipment

IAS 32 — Clarify that tax effect of a distribution to holders of equity instruments should be accounted for in accordance with IAS 12 Income Taxes

IAS 34 — Clarify interim reporting of segment information for total assets in order to enhance consistency with the requirements in IFRS 8 Operating Segments.

IAS 19 Employee Benefits (as revised in 2011)

IAS 19 (as revised in 2011) changes the accounting for defined benefit plans and termination benefits. The most significant change relates to the accounting for changes in defined benefit obligations and plan assets. The amendments require the recognition of changes in defined benefit obligations and in the fair value of plan assets when they occur, and hence eliminate the 'corridor approach' permitted under the previous version of IAS 19 and accelerate the recognition of past service costs. All actuarial gains and losses are recognised immediately through other comprehensive income in order for the net pension asset or liability recognised in the consolidated statement of financial position to reflect the full value of the plan deficit or surplus.

Furthermore, the interest cost and expected return on plan assets used in the previous version of IAS 19 are replaced with a 'net interest' amount under IAS 19 (as revised in 2011), which is calculated by applying the discount rate to the net defined benefit liability or asset. These changes have had an impact on the amounts recognised in profit or loss and other comprehensive income in prior years (see the tables below for details). In addition, IAS 19 (as revised in 2011) introduces certain changes in the presentation of the defined benefit cost including more extensive disclosures.

4.2 Standards and Interpretations in issue not yet effective

At the date of authorisation of these consolidated financial statements, the following new and revised Standards and Interpretations were in issue but not yet effective:

	Effective for annual periods beginning on or after
New IFRS and relevant amendments Financial Instruments	
IFRS 9: Financial Instruments (as revised in 2010 to include requirements for the classification and measurement of financial liabilities and incorporate existing derecognition requirements)	January 2015
Consolidation, joint arrangements, associates and disclosures	
Amendment to IFRS 10 Consolidated Financial Statements, IFRS 12 Disclosure of Interests in Other Entities and IAS 27 Separate Financial Statements, to provide 'investment entities' (as defined) an exemption from the consolidation of particular subsidiaries and instead require that an investment entity measure the investment in each eligible subsidiary at fair value through profit or loss in accordance with IFRS 9 Financial Instruments or IAS 39 Financial Instruments: Recognition and Measurement.	January 2014

Amendments to IFRSs

Effective for annual periods beginning on or after

IAS 32 : Financial instruments: presentation, Offsetting Financial Assets and Financial Liabilities: to clarify certain aspects because of diversity in application of the requirements on offsetting, focused on four main area (a) the meaning of 'currently has a legally enforceable right of set-off' (b) the application of simultaneous realisation and settlement (c) the offsetting of collateral amounts (d) the unit of account for applying the offsetting requirements

January 2014

IAS 36: impairment of assets, Recoverable Amount Disclosures for Non-Financial Assets to reduce the circumstances in which the recoverable amount of assets or cash-generating units is required to be disclosed, clarify the disclosures required, and to introduce an explicit requirement to disclose the discount rate used in determining impairment (or reversals) where recoverable amount (based on fair value less costs of disposal) is determined using a present value technique.

January 2014

IAS 39: Financial Instruments: Recognition and Measurement, Novation of Derivatives and Continuation of Hedge Accounting' makes it clear that there is no need to discontinue hedge accounting if a hedging derivative is novated, provided certain criteria are met.

January 2014

A novation indicates an event where the original parties to a derivative agree that one or more clearing counterparties replace their original counterparty to become the new counterparty to each of the parties. In order to apply the amendments and continue hedge accounting, novation to a central counterparty (CCP) must happen as a consequence of laws or regulations or the introduction of laws or regulations.

The Group and the Parent Company anticipate that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of the Group's in the period of initial application. The adoption of these standards and interpretations has not resulted in changes to the Group's accounting policies and has not affected the amounts reported for the current or prior periods except for IFRS 9: Financial Instruments 9. IFRS 9 introduces new requirements for the classification and measurement of financial assets, new criteria for amortised cost measurement, a new measurement category - fair value through other comprehensive income, impairment assessment only for amortised cost assets, eliminates the category available-for-sale assets, eliminates held-to-maturity assets and tainting rules, eliminates embedded derivatives in financial assets and eliminates unquoted equity investments measured at cost less impairment. The management is currently assessing this standard which may have an impact on the financial statements of the Group as described above.

5. FINANCIAL RISK MANAGEMENT POLICIES

5.1 Financial risk management

The Group's activities expose it to a variety of financial risks and those activities involve the evaluation, analysis, acceptance and management of risk or combination of risks. As taking risk is core to the financial business and operational risks are an inevitable consequence of any business, the Group's aim is to achieve an appropriate balance between risk and return while minimising the potential adverse effects on the Group's financial performance of the respective Group companies.

The Board of Directors defines risk limits and sets suitable policies in this regard for management of credit risk, liquidity risk as well as market risk in both the trading and the banking book of the respective Group company. Risk Management is carried out by the Risk Management team in accordance with documented policies approved by the Board of Directors of the respective Group company.

The principal types of risks at the Group and Parent Company are credit risk, liquidity risk, market risk (market price risk, interest rate risk and currency risk) and operational risk.

5.2 Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Credit exposures arise principally from lending activities at the banking subsidiary and investment activities and other assets in the Group's asset portfolio. There is also credit risk in off-balance sheet financial instruments, such as loan commitments and financial guarantees given by the banking subsidiary.

5.2.1 Credit risk management

The Group attempts to control credit risk by monitoring credit exposures, limiting transactions with specific counterparties, and continually assessing the creditworthiness of counterparties. Concentrations of credit risk arise when a number of counterparties are engaged in similar business activities, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected 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 details of concentrations of credit risk based on counterparties by industry are disclosed in Note 8(d) and the geographical concentration is disclosed in Note 30.

5.2.2 Risk mitigation policies

The Group manages, limits and controls concentrations of credit risk – in particular, to individual counterparties and Groups, and to industries and countries.

The banking subsidiary structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or Groups of borrowers, and to geographical and industry segments. Such risks are monitored and reviewed periodically by the Management Credit Committee, Audit & Risk Management committee of the Board of Directors and the Executive Committee of the Board of Directors of the banking subsidiary.

The exposure to any one borrower including banks and brokers is further restricted by sub-limits covering on and off-balance sheet exposures. Exposure to credit risk is also managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate.

Some other specific control and mitigation measures are outlined below.

(a) Collateral

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

- charges over business assets such as premises, inventory and accounts receivable
- lien on fixed deposits
- cash margins
- mortgages over residential and commercial properties
- pledge of marketable shares and securities

Longer-term finance and lending to corporate entities are generally secured. The housing loans are secured by mortgage over the residential property. Credit cards and similar revolving credit facilities are unsecured. Additionally, in order to minimise the credit loss the bank seeks additional collateral from the counterparty as soon as impairment indicators are noticed for the relevant individual loans and advances.

(b) Assessment of the financial capabilities of the borrowers

The borrowers with balances above the limit specified are subject to the review of their audited financial statements. The banking subsidiary assesses the financial performance of the borrowers by reviewing key performance ratios, including solvency and liquidity ratios. The annual reviews are performed by the relationship managers and are also reviewed by the Risk Management team.

(c) Credit-related commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit carry the same credit risk as loans. Documentary and commercial letters of credit – which are written undertakings by the banking subsidiary on behalf of a customer authorising a third party to draw drafts on the banking subsidiary up to a stipulated amount under specific terms and conditions – are collateralised by the underlying shipments of goods to which they relate and therefore carry less risk than a direct loan.

An analysis of the loans and advances, other than government soft loans, for which collaterals or other credit enhancements are held is as follows:

	Performing loans (neither past due nor impaired)	Loans past due but not impaired	Non performing loans	Gross loans
	(RO'000)	(RO'000)	(RO'000)	(RO'000)
Loans and advances with available collateral	184,583	13,462	21,096	219,141
Loans and advances with available guarantees	97,630	-	9,250	106,880
At 31 December 2013	282,213	13,462	30,346	326,021
At 31 December 2012	319,837	7,061	25,448	352,346

5.2.3 Impairment and provisioning policy

Impairment provisions are recognised for financial reporting purposes only for losses that have been incurred at the reporting date based on objective evidence of impairment. Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the banking subsidiary about the loss events set out in Note 2.5.9 as well as considering the guidelines issued by the Central Bank of Oman.

The banking subsidiary's credit policy requires the review of individual financial assets on a quarterly basis or earlier when individual circumstances require. Impairment allowances on individually assessed accounts are determined by an evaluation of the incurred loss at the reporting date on a case-by-case basis, and are applied to all individually significant accounts. The assessment normally encompasses collateral held (including re-confirmation of its enforceability) and the anticipated receipts for that individual account.

Collectively assessed impairment allowances are provided for: (i) portfolios of homogenous assets that are individually not significant; and (ii) losses that have been incurred but have not yet been identified, by using the available historical experience and experienced judgment.

5.2.4 Maximum exposure to credit risk before collateral held or other credit enhancements

	Group	
	2013	2012
	(RO'000)	(RO'000)
Items on the statement of financial position		
Certificates of deposit (note 6)	100,000	90,000
Deposit from banks – Money market placement	35,150	83,275
Loans and advances		
Corporate loans	677,178	558,990
Personal loans	428,427	402,445
Other assets	32,850	31,490
Investment in securities		
Government Development Bonds	32,073	27,860
	<u>1,305,678</u>	<u>1,194,060</u>
Off - balance sheet items		
Financial guarantees	89,681	85,183
Undrawn loan commitments	770	8,088
	<u>90,451</u>	<u>93,271</u>

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

- a) 100% (2012 – 76.7%) of the inter-bank money market placements are with banks rated investment grade and above based on the ratings assigned by External Credit Rating Agencies.
- b) Loans and advances represent 74% (2012 – 68%) of the total on-balance sheet items. Of the total loans and advances 96% (2012 – 95%) are neither past due nor impaired.
- c) The impaired loans have increased from 2.8% at 31 December 2012 to 3.3% at 31 December 2013. The impaired personal loans constitute 1.8% of the total loans at 31 December 2013 compared to 0.98% at 31 December 2012.
- d) Certificates of deposit which represent 6.8% (2012 – 6.6%) of the total on-balance sheet items are placed with the Central Bank of Oman.

5.2.5 Loans and advances to customers and due from banks

- a) Loans and advances to customers and due from banks held by the Group are summarised as follows:

	<u>2013</u>			<u>2012</u>		
	<u>Loans and advances to customers</u>	<u>Due from banks</u>	<u>Total</u>	<u>Loans and advances to customers</u>	<u>Due from banks</u>	<u>Total</u>
	(RO'000)	(RO'000)	(RO'000)	(RO'000)	(RO'000)	(RO'000)
Neither past due nor impaired	1,048,174	35,150	1,083,324	917,849	83,275	1,001,124
Special mentioned loans	7,357	-	7,357	10,438	-	10,438
Past due but not impaired	13,462	-	13,462	7,061	-	7,061
Impaired	36,613	-	36,613	26,087	-	26,087
Gross loans and advances	1,105,606	35,150	1,140,756	961,435	83,275	1,044,710
Less: Allowance for loan impairment and contractual interest not recognised (Refer to note (a) below)	(34,315)	-	(34,315)	(31,521)	-	(31,521)
Net loans and advances	<u>1,071,291</u>	<u>35,150</u>	<u>1,106,441</u>	<u>929,914</u>	<u>83,275</u>	<u>1,013,189</u>

- b) The total impairment provision for loans and advances is RO 34,315,000 (2012 - RO 31,521,000) of which RO 19,674,000 (2012 - RO 18,152,000) represents the individually impaired loans and the remaining amount of RO 14,641,000 (2012 - RO 13,369,000) represents the collective impairment provision made on a portfolio basis.
- c) The break-up of the loans and advances to customers in respect of the risk ratings adopted by the banking subsidiary are:

	<u>2013</u>			<u>2012</u>		
	<u>Retail loans</u>	<u>Corporate loans</u>	<u>Total</u>	<u>Retail loans</u>	<u>Corporate loans</u>	<u>Total</u>
	(RO'000)	(RO'000)	(RO'000)	(RO'000)	(RO'000)	(RO'000)
Standard loans	417,334	644,302	1,061,636	392,587	532,323	924,910
Special mention loans	1,077	6,280	7,357	399	10,039	10,438
Substandard loans	1,110	5,155	6,265	769	198	967
Doubtful loans	1,484	1,533	3,017	1,075	1,614	2,689
Loss	7,422	19,909	27,331	7,615	14,816	22,431
	<u>428,427</u>	<u>677,179</u>	<u>1,105,606</u>	<u>402,445</u>	<u>558,990</u>	<u>961,435</u>

d) Age analysis of the Group's loans and advances past due but not impaired

	<u>2013</u>	<u>2012</u>
	(RO'000)	(RO'000)
Past due up to 30 days	1,520	339
Past due 30-60 days	7,181	1,428
Past due 60-89 days	4,761	5,294
Total	<u>13,462</u>	<u>7,061</u>
Fair value of related collateral	<u>5,535</u>	<u>6,226</u>

e) Loans and advances individually impaired

	<u>2013</u>	<u>2012</u>
	(RO'000)	(RO'000)
Individually impaired loans	36,613	26,087
Fair value of related collateral available	15,561	19,222

5.2.6 Loans and advances renegotiated

These arrangements include extended payment arrangements, deferral of payments and modification of interest rates. Following restructuring, a previously past due loan account is reclassified as a normal loan and managed with other similar loans which are neither past due nor impaired. The restructuring arrangements are based on the criteria and indicators which in the judgement of the management will indicate that the payment will most likely continue.

The Group's total restructured loans at 31 December 2013 amounted to RO 6,060,000 (2012 – RO 5,473,000).

5.2.7 Debt securities

The Group's investments in debt securities are mainly in Government Development Bonds or Certificates of Deposit denominated in Rial Omani issued mainly by the Government of Oman. The Group also invests in debt securities issued by other banks based on their individual external credit rating. These investments are made to deploy the surplus liquid funds with maximum return.

5.2.8 Repossessed collateral

Repossessed properties are sold as soon as practicable with the proceeds used to reduce the outstanding balance of the debt. Repossessed assets are classified as other assets in the statement of financial position. The value of assets obtained by the Group by taking possession held as collateral as security at 31 December 2013 is RO 310,000 (2012 – RO 310,000).

5.3 Market risk

The Group and the Parent Company take on exposures to market risk which is the risk that the fair value or the future cash flows of the financial assets carried at fair value will fluctuate because of changes in market prices. Market risks arise from the open positions in interest rate, currency and equity products, all of which are exposed to changes in interest rates, credit spreads, equity prices and foreign exchange rates for the banking subsidiary.

The market risks on investments listed in the securities markets for the Parent Company are monitored by the Board and Management committees. The Management committee monitor the risks, allocations and returns from local and foreign investments through regular meetings. The Management of the Parent Company has proper risk management policies in place to ensure that interest risk, liquidity risk and foreign exchange risk are mitigated considering the macroeconomic indicators affecting the investment activities.

5.3.1 Market price risk measurement techniques

The Group and Parent Company manages its market risk in the trading book using various techniques such as position limits, stop loss limits and regular monitoring of risk statistical data.

The impact of 10% change in the market price of the quoted equities and funds which are part of the financial assets at fair value through profit or loss at 31 December 2013 is 3.19% of the Group's total income (2012 – 2.75%).

The Parent Company is exposed to equity securities price risk because of investments held and classified as investments at fair value through profit or loss and available for sale financial assets. The Parent Company manages its market risk from its investing activities by diversification based on extensive research on equity or fund positions. Market risks are measured against management targets, past trends in world indices and market specific indices, before taking positions and subsequently monitored regularly.

The impact of 10% change in the market price of the quoted equities which are classified as financial assets at fair value through profit or loss at 31 December 2013 is 6.11% of the Parent Company's total income (2012 – 11.85%).

5.3.2 Interest rate risk

Interest rate risk is the risk that the value of a financial instrument carried at fair value will fluctuate due to changes in the market interest rates. The Group is exposed to interest rate risk as a result of mismatches or gaps in the amount of interest based assets and liabilities that mature or re-price in a given period. The Group manages this risk by matching/re-pricing of assets and liabilities. The Group is not excessively exposed to interest rate risk as its assets and liabilities are re-priced frequently. The banking subsidiary's Assets and Liabilities Committee (ALCO) monitors and manages the interest rate risk with the objective of limiting the potential adverse effects on the banking subsidiary's profitability. The table in Note 32 summarises the Group's exposure to the interest rate risks. It includes the Group's financial instruments at the carrying amount, categorised by the earlier of the contractual re-pricing and maturity dates.

For managing its interest rate risk in the banking book the Group stipulates limits on open interest rate sensitive gaps for maturities up to 1 year and also periodically calculates Earnings at Risk (EaR) impact on its Net Interest Income (NII) from 100 bps change in interest rates on open interest rate gaps for maturities up to 1 year. The EaR gap limit is stipulated as a certain percentage of the NII of the Group for the previous year. The EaR at 31 December 2013 is 11.57% (2012 – 1.41%).

The Parent Company's interest rate risk is limited since all of its financial assets are non-interest bearing and all of its borrowings are due within 6 months of the reporting date and are bearing a fixed interest rate for the period. The table in Note 32 summarises the Parent Company's exposure to the interest rate risk.

5.3.3 Currency risk

Currency risk arises where the value of a financial instrument changes due to changes in foreign exchange rates. In order to manage currency risk exposure the Group enters into ready, spot and forward transactions in the inter-bank market as per documented policies approved by the Board of Directors of the respective Group Company.

The Group's foreign exchange exposure comprises of forward contracts, foreign currencies cash in hand, balances with banks abroad, foreign placements and other assets and liabilities denominated in foreign currency. The individual Group company's management manages the risk by monitoring net open position in line with limits set by the management and entering into forward contracts based on the underlying commercial transactions with the customers. Additionally, appropriate segregation of duties exist between the front and back office functions while compliance with the net open position is independently monitored on an ongoing basis by the management and in the case of the banking subsidiary, the Assets and Liabilities Committee (ALCO).

Oman operates with a fixed exchange rate and the Omani Rial is pegged to the US Dollar at US\$ 2.6008 per Omani Rial. Accordingly, currency risk arises on assets not denominated in Rial Omani or currencies linked to the US Dollar.

The Parent Company's exposure to assets denominated in foreign currencies (excluding US Dollars which the Omani Rial is pegged to) was 9.95% (2012 - 10.56%) of the total assets at the reporting date. Management regularly monitors the currency risk by reviewing the positions and within the overall context of its investment guidelines.

The net open position of the Group and Parent Company at the year-end is set out below:

Foreign currency exposures

	Group		Parent Company	
	2013 (RO'000)	2012 (RO'000)	2013 (RO'000)	2012 (RO'000)
Assets denominated in US Dollars (includes assets denominated in GCC currency pegged with US Dollars)	5,169	7,887	3,883	3,590
Percentage of total assets	0.35%	0.56%	4.77%	4.55%
Assets denominated in other foreign currencies	8,876	9,285	8,101	8,320
Percentage of total assets	0.59%	0.66%	9.95%	10.56%

5.4 Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at close to its fair value. It includes the risk of being unable to fund assets at appropriate maturities and rates and the risk of being unable to liquidate an asset at a reasonable price and in an appropriate time frame.

The Group's funding activities are based on a range of instruments including deposits, other liabilities and assigned capital. Consequently, funding flexibility is increased and dependence on any one source of funds is reduced. The Group maintains liquidity by continually assessing, identifying and monitoring changes in funding needs required to meet strategic goals set in terms of the overall strategy. In addition the Group holds certain liquid assets as part of its liquidity risk management strategy.

The Group and the Parent Company hold investment securities listed on the securities markets and other quoted investments. Those investments are liquid in nature and can be sold in response to need for liquidity. As at 31 December 2013, the quoted investments for the Group were 24% of the total investment securities and 48% for the Parent Company (2012: 24% and 48% respectively).

5.5 Fair value estimation

The estimate of fair values of the financial instruments is based on information available to the individual Group company's management at the reporting date. Whilst management has used its best judgment in estimating the fair value of the financial instruments, there are inherent weaknesses in any estimation technique. The estimates involve matters of judgment and cannot be determined with precision. The bases adopted by the Group and Parent Company in deriving the fair values are as follows:

5.5.1 Current account balances due to and from banks

The carrying amount of current account balances due to and from banks was considered to be a reasonable estimate of fair value due to their short-term nature.

5.5.2 Loans and advances

The estimated fair value of loans whose interest rates are materially different from the prevailing market interest rates is determined by discounting the contracted cash flows using market interest rates currently charged on similar loans. The fair value of non-performing loans approximates to the book value as adjusted for allowance for loan impairment. For the remainder, the fair value is taken as being equivalent to the carrying amount as the prevailing interest rates offered on similar loans are not materially different from the actual loan rates.

5.5.3 Investments at fair value through profit or loss and available for sale

Quoted market prices, when available, are used as the measure for fair value. However, when the quoted market prices do not exist, fair value presented is estimated using discounted cash flow models or other valuation techniques. The total amount of changes in value estimated using valuation techniques that were recognised in the statement of comprehensive income during the year.

Where quoted market price do not exist and when investments are in closely held entities, the management of the Parent Company presents such investments at cost less impairment losses, by factoring all known elements which could influence the unrealisation for each investment individually. These elements would include both internal and external factors.

5.5.4 Customers' deposits

The fair value of demand, call, and savings deposits is the amount payable on demand at the reporting date, which is equal to the carrying value of those liabilities. The estimated fair value of fixed rate deposits whose interest rates are materially different from the prevailing market interest rates are determined by discounting the contractual cash flows using the market interest rates currently offered for similar deposits.

5.5.5 Derivatives

The banking subsidiary usually enters into short term forward foreign exchange contracts, on behalf of its customers for the sale and purchase of foreign currencies. For forward foreign exchange contracts, it uses a valuation model with readily available market observable inputs. The model incorporates various inputs including the credit quality of counterparties, foreign exchange spot and forward rates and interest rate curves.

The related fair value details are set out in note 30.

5.6 Capital management

The Group's objectives of capital management are:

- to comply with the capital requirements set by the regulator for the banking subsidiary i.e. the Central Bank of Oman;
- to safeguard the Group's ability to continue as a going concern while providing adequate returns to the shareholders; and
- to maintain a strong capital base to support the development of its business.

The principal objective of the Central Bank of Oman's (CBO) capital adequacy requirements is to ensure that an adequate level of capital is maintained to withstand any losses which may result from the risks in a bank's balance sheet, in particular credit risk. The CBO's risk-based capital adequacy framework is consistent with the international standards of the Bank for International Settlements (BIS).

The CBO required the banks registered in the Sultanate of Oman to maintain a minimum capital adequacy ratio of 10% based on guidelines of the Basel II Accord from January 2007. The minimum capital adequacy ratio has been increased to 12% from 31 December 2010 onwards.

The ratio for the banking subsidiary calculated in accordance with the CBO and BIS capital adequacy guidelines as per the Basel II Accord is as follows:

	2013	2012
	(RO'000)	(RO'000)
Capital		
Tier 1	185,788	172,365
Tier 2	45,255	53,435
Total capital base	<u>231,043</u>	<u>225,800</u>
Risk weighted assets		
Credit risk	1,279,113	1,222,512
Market risk	7,713	7,950
Operational risk	112,025	104,838
Total risk weighted assets	<u>1,398,851</u>	<u>1,335,300</u>
Capital adequacy ratio %	<u>16.52</u>	<u>16.91</u>

The Tier 1 capital consists of paid-up capital and reserves. The Tier 2 capital consists of the subordinated bond and collective provisions made for the loan impairment on the performing portion of the loans and advances against the losses incurred but not identified.

The Parent Company's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns to shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

During 2013, the Parent Company's strategy, which was unchanged from 2012, was to maintain the gearing ratio at an acceptable level. The gearing ratio at 31 December 2013 and 2012 for the Parent Company was 24.62% and 31.39% respectively.

	2013	2012
	(RO'000)	(RO'000)
Total borrowings	(21,200)	(24,525)
Less: bank balances and cash	2,078	329
Cash and cash equivalents	(19,122)	(24,196)
Total equity	<u>(58,533)</u>	<u>(52,895)</u>
	<u>(77,655)</u>	<u>(77,091)</u>
Gearing ratio	24.62%	31.39%

6. CERTIFICATES OF DEPOSIT

Certificates of deposit are issued by the Central Bank of Oman for period of 28 days and carry interest at the rate of 0.13% (2012 – 0.09%) per annum.

7. DEPOSITS WITH BANKS

Deposits with banks include RO 500,000 (2012 - RO 500,000) being a capital deposit with the Central Bank of Oman in terms of regulations applicable to the banking subsidiary which earn interest at 1.5% (2012 – 1.5%) per annum. This deposit cannot be withdrawn without prior approval of the Central Bank of Oman. The remaining RO 34.65 million (2012 - RO 82.77 million) was placed with international and local banks.

8. INVESTMENT SECURITIES

As at the reporting date, investment securities comprised the following:

	<u>Group</u>		<u>Parent Company</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
	(RO'000)	(RO'000)	(RO'000)	(RO'000)
Financial assets at fair value through profit or loss	9,371	9,887	6,872	7,460
Available-for-sale investments	27,032	18,422	8,145	8,197
Held-to-maturity investments	32,073	27,860	-	-
	<u>68,476</u>	<u>56,169</u>	<u>15,017</u>	<u>15,657</u>

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

(i) Financial assets designated at fair value through profit or loss

As at the reporting date, financial assets designated at fair value through profit or loss comprised the following:

	<u>Group</u>		<u>Parent Company</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
	(RO'000)	(RO'000)	(RO'000)	(RO'000)
Quoted investments				
Local investments by sector				
Banking	2,378	1,208	1,846	1,022
Investment	266	812	266	812
Services	509	493	461	460
Industrial	775	370	723	320
	<u>3,928</u>	<u>2,883</u>	<u>3,296</u>	<u>2,614</u>
Oman Al Arabi Fund	539	1,436	-	992
Vision Real Economy GCC Fund	-	855	-	855
	<u>4,467</u>	<u>5,174</u>	<u>3,296</u>	<u>4,461</u>

	<u>Group</u>		<u>Parent Company</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
	(RO'000)	(RO'000)	(RO'000)	(RO'000)
Foreign investments				
Equity and equity related	3,576	2,999	3,576	2,999
	<u>8,043</u>	<u>8,173</u>	<u>6,872</u>	<u>7,460</u>
Unquoted local investments	286	271	-	-
Total financial assets designated at fair value through profit or loss	<u>8,329</u>	<u>8,444</u>	<u>6,872</u>	<u>7,460</u>

(ii) Financial assets held for trading

	Group		Parent Company	
	2013	2012	2013	2012
	(RO'000)	(RO'000)	(RO'000)	(RO'000)
Total financial assets held for trading	1,042	1,443	-	-
Total financial assets at fair value through profit or loss	9,371	9,887	6,872	7,460

Unquoted local investments held by the Group include investment in the Financial Settlement and Guarantee Fund of RO 189,783 (2012 – RO 175,062) which is not realisable until the date the banking subsidiary ceases its brokerage activities or the fund is liquidated, whichever is earlier.

(b) Available-for-sale investments

	Group		Parent Company	
	2013	2012	2013	2012
	(RO'000)	(RO'000)	(RO'000)	(RO'000)
Local investments				
Quoted investments	15,915	9,979	-	-
Fair value reserve	693	97	-	-
Unquoted investments	850	700	700	700
Fair value reserve	6,598	5,601	6,598	5,601
Deferred tax liability on fair value reserve	(659)	(659)	(659)	(659)
Total local investments	23,397	15,718	6,639	5,642
Foreign investments				
Quoted investments	2,074	171	-	-
Fair value reserve	4	(22)	-	-
	2,078	149	-	-
Unquoted investments	4,387	5,399	4,334	5,399
Less: Provision for impairment	(2,906)	(2,957)	(2,906)	(2,957)
	1,481	2,442	1,428	2,442
Fair value reserve	76	113	78	113
Total foreign investments	1,557	2,555	1,506	2,555
Total available-for-sale investments	27,032	18,422	8,145	8,197

Fair value reserve changes in available-for-sale investments are recognised in other comprehensive income under "changes in fair value of available-for-sale investments". Provision for impairment for available for sale investments are charged to profit or loss.

(c) Held-to-maturity investments

	Group		Parent Company	
	2013	2012	2013	2012
	(RO'000)	(RO'000)	(RO'000)	(RO'000)
Oman Government Development Bonds - held by the banking subsidiary	32,073	27,860	-	-

All the bonds are denominated in Rial Omani and are issued by the Government of Oman. They carry interest rates varying between 2.75% and 5.5% (2012-3.25% and 4%) per annum. The maturity profile of the bonds based on the remaining period to maturity from the reporting date, is as follows:

	2013	2012
	(RO'000)	(RO'000)
Within one year	2,400	4,000
Between one and five years	29,673	23,860
	<u>32,073</u>	<u>27,860</u>

(d) Investments in associates

As at the reporting date, investments in associates represented holdings in the following companies registered in the Sultanate of Oman:

	2013			2012		
	Carrying	Carrying	Cost	Carrying	Carrying	Cost
	Holding	value	Cost	Holding	value	Cost
	(%)	RO'000	RO'000	(%)	RO'000	RO'000
National Finance Company SAOG	24.22	8,699	4,182	24.22	8,148	4,182
National Biscuit Industries SAOG	29.22	988	732	21.30	571	435
National Detergent Company SAOG	20.94	2,685	713	20.94	2,584	713
		<u>12,372</u>	<u>5,627</u>		<u>11,303</u>	<u>5,330</u>

All the Group's associated companies' shares are listed on the Muscat Securities Market (MSM). The market value of investments in associated companies as of the reporting date amounted to RO 13,455,015 (2012 - RO 12,132,567).

Total assets, liabilities and revenues of the Group's associates, all of which are registered in the Sultanate of Oman are shown below, along with the Group's share of the results of these associates:

Name of the associate	Assets	Liabilities	Revenues	Share of profit
	(RO'000)	(RO'000)	(RO'000)	(RO'000)
2013				
National Finance Company SAOG	151,119	115,069	14,538	1,152
National Biscuit Industries SAOG	6,898	3,698	11,305	140
National Detergent Company SAOG	24,073	10,943	21,704	227
				<u>1,519</u>
2012				
National Finance Company SAOG	132,174	98,411	12,605	987
National Biscuit Industries SAOG	7,507	4,781	11,554	109
National Detergent Company SAOG	22,508	9,838	21,014	136
				<u>1,232</u>

(e) Investments in subsidiaries

As at the reporting date, investments held by the Parent Company in subsidiaries are:

	Country of Incorporation	2013		2012	
		Holding	Cost	Holding	Cost
		%	(RO'000)	%	(RO'000)
Oman Arab Bank SAOC (Principal activity: Banking)	Oman	50.99	41,302	50.99	41,302
Oman Investment Services SAOC (Principal activity: Investments)	Oman	99.98	903	99.98	903
Salalah Resorts SAOC (Principal activity: Integrated Tourism Project)	Oman	100.00	1,000	100.00	500
Al Jabal Al Aswad Investment LLC (Principal activity: Real Estate)	Oman	100.00	-	100.00	-
Budva Beach Properties d.o.o. (Principal activity: Tourism project)	Montenegro	100.00	5,231	100.00	5,231
			<u>48,436</u>		<u>47,936</u>

(f) Details of significant investments

As at reporting date, the Group's investments for which either, the Group's holding represents 10% or more of the issuer's share capital, or, the Group's holding exceeds 10% of the market value of the Group's investment portfolio, are detailed as follows:

Quoted securities

	Holding	Number of shares	Fair value	Carrying value
	%		(RO'000)	(RO'000)
2013				
Group				
National Biscuit Industries Ltd SAOG	29.22	292,197	1,096	988
National Finance Company SAOG	24.22	60,687,024	9,467	8,699
National Detergent Company SAOG	20.94	3,561,700	2,892	2,685
Oman National Dairy Products Co. Ltd SAOC	19.65	482,726	-	-
			<u>13,455</u>	<u>12,372</u>

As at reporting date, the Parent Company's investments for which either, the Parent Company's holding represents 10% or more of the issuer's share capital, or, the Parent Company's holding exceeds 10% of the market value of the Parent Company's investment portfolio, are detailed as follows:

	Holding	Number of shares	Fair value	Carrying value
	%		(RO'000)	(RO'000)
Parent Company				
National Biscuit Industries Ltd SAOG	28.92	289,197	1,084	732
National Finance Company SAOG	24.01	60,146,475	9,383	4,182
National Detergent Company SAOG	20.94	3,561,700	2,892	713
Oman National Dairy Products Co. Ltd SAOC	19.65	482,726	-	-
			<u>13,359</u>	<u>5,627</u>

2012	<u>Holding</u>	<u>Number of shares</u>	<u>Fair value</u>	<u>Carrying value</u>
	%		(RO'000)	(RO'000)
Group				
National Biscuit Industries Ltd SAOG	29.22	292,197	1,096	988
National Finance Company SAOG	24.22	60,687,024	9,467	8,699
National Detergent Company SAOG	20.94	3,561,700	2,892	2,685
Oman National Dairy Products Co. Ltd SAOC	19.65	482,726	-	-
Oman Al Arabi Fund	16.78	1,537,000	1,436	1,436
			<u>14,891</u>	<u>13,808</u>
Parent				
National Biscuit Industries Ltd SAOG	28.92	289,197	1,084	732
National Finance Company SAOG	23.74	60,146,475	8,060	4,182
National Detergent Company SAOG	20.94	3,561,700	3,202	713
Oman National Dairy Products Co. Ltd SAOC	19.65	482,726	-	-
Oman Al Arabi Fund	11.05	1,060,000	992	992
			<u>13,338</u>	<u>6,619</u>

Unquoted securities

2013	<u>Holding</u>	<u>Number of shares</u>	<u>Carrying value</u>
	%		(RO'000)
Group			
<i>Subsidiaries</i>			
Oman Arab Bank SAOC	51.00	59,264,400	101,364
Oman Investment Services SAOC	99.98	999,800	714
Salalah Resorts SAOC	100.00	1,000,000	-
Budva Beach Properties d.o.o.	100.00	-	4,984
<i>Others</i>			
Al Shamal Plastics LLC (g)	21.44	200,000	913
Modern Steel Mills LLC (g)	19.49	1,363,950	4,828
Gulf Acrylic Industries LLC (g)	17.64	100,000	621
			<u>113,424</u>
Parent Company			
<i>Subsidiaries</i>			
Oman Arab Bank SAOC	50.99	59,148,400	41,302
Oman Investment Services SAOC	99.98	999,800	903
Salalah Resorts SAOC	100.00	1,000,000	1,000
Budva Beach Properties d.o.o.	100.00	-	5,231
<i>Others</i>			
Al Shamal Plastics LLC (g)	16.08	150,000	876
Modern Steel Mills LLC (g)	19.49	1,363,950	4,828
Gulf Acrylic Industries LLC (g)	13.23	75,000	561
			<u>54,701</u>

	<u>Holding</u> %	<u>Number of shares</u>	<u>Carrying value</u> (RO'000)
2012			
Group			
<i>Subsidiaries</i>			
Oman Arab Bank SAOC	51.00	59,160,000	93,897
Oman Investment Services SAOC	99.98	999,800	682
Salalah Resorts SAOC	99.98	499,800	161
Budva Beach Properties d.o.o.	100.00	-	5,231
<i>Others</i>			
Al Shamal Plastics LLC (g)	21.44	200,000	187
Modern Steel Mills LLC (g)	19.49	1,363,950	5,445
Gulf Acrylic Industries LLC (g)	17.64	100,000	391
			<u>105,994</u>
Parent Company			
<i>Subsidiaries</i>			
Oman Arab Bank SAOC	50.99	59,148,400	41,302
Oman Investment Services SAOC	99.98	999,800	903
Salalah Resorts SAOC	99.98	499,800	500
Budva Beach Properties d.o.o.	100.00	-	5,231
<i>Others</i>			
Al Shamal Plastics LLC (g)	16.08	150,000	150
Modern Steel Mills LLC (g)	19.49	1,363,950	5,445
Gulf Acrylic Industries LLC (g)	13.23	75,000	332
			<u>53,863</u>

(g) These are not recognised as investment in associates since the Group does not have significant influence.

9. LOANS AND ADVANCES TO CUSTOMERS

(a) Loans and advances to customers extended by the banking subsidiary were as follows:

	<u>2013</u> (RO'000)	<u>2012</u> (RO'000)
Corporate loans		
Term loans	541,682	443,610
Overdrafts	111,290	96,497
Bills discounted	21,319	18,883
Islamic finance	2,888	-
	<u>677,179</u>	<u>558,990</u>
Personal loans		
Consumer loans	328,076	310,571
Mortgage loans	66,520	55,317
Overdrafts	27,237	30,232
Credit cards	5,759	6,325
Islamic finance	835	-
	<u>428,427</u>	<u>402,445</u>
Gross loans and advances	<u>1,105,606</u>	<u>961,435</u>
Less: allowance for loan impairment and unrecognised contractual interest (note 9(b))	<u>(34,315)</u>	<u>(31,521)</u>
Net loans and advances	<u>1,071,291</u>	<u>929,914</u>

(b) Allowance for loan impairment and unrecognised contractual interest

The movement in the allowance for loan impairment and unrecognised contractual interest was as follows:

	Allowance for loan impairment	Unrecognised contractual interest	Total
	(RO 000)	(RO 000)	(RO 000)
2013			
At 1 January	24,777	6,744	31,521
Additional provision made	6,306	2,103	8,409
Provided during the year for Islamic financing	46	-	46
Amounts written off	(276)	(385)	(661)
Amounts released/recovered	(3,534)	(1,465)	(4,999)
At 31 December	<u>27,319</u>	<u>6,997</u>	<u>34,316</u>
2012			
At 1 January	21,328	5,827	27,155
Additional provision made	5,727	1,802	7,529
Amounts written off	(565)	(314)	(879)
Amounts released/recovered	(1,713)	(571)	(2,284)
At 31 December	<u>24,777</u>	<u>6,744</u>	<u>31,521</u>

(c) Islamic financing

Included in the above loans and advances are the following Islamic financing contracts:

	Personal	Corporate	Total
	(RO 000)	(RO 000)	(RO 000)
Musharaka	570	2,888	3,458
Murabaha	202	-	202
Ijarah Muntahia Bittamleek	63	-	63
At 31 December	<u>835</u>	<u>2,888</u>	<u>3,723</u>

	Gross Investment in lease	Present value of minimum lease payment
	(RO'000)	(RO'000)
Within one year	10	7
Two to five years	29	21
More than five years	49	35
	88	63
Deferred profit	(25)	-
Net investment in lease finance	<u>63</u>	<u>63</u>

(d) At 31 December 2013, loans and advances on which contractual interest was not recognised or has not been accrued amounted to RO 36,613,000 (2012 - RO 26,087,000).

At 31 December 2013, loan impairment provision amounting to RO14,641,000 (2012 - RO 13,369,000) has been made towards losses incurred but not identified on performing portion of the loans and advances on a portfolio basis.

(e) All loans and advances were made to customers within the Sultanate of Oman. The concentration of loans and advances by sector is as follows:

	<u>2013</u>	<u>2012</u>
	(RO'000)	(RO'000)
Personal and consumer loans	428,427	402,445
Transportation	139,672	121,693
Manufacturing	110,532	106,897
Construction	105,490	76,865
Electricity, water and gas	44,249	39,191
Wholesale and retail trade	34,252	21,236
Services	34,007	45,034
Import trade	32,157	33,549
Financial institutions	23,952	16,988
Mining and quarrying	15,064	17,281
Agriculture and allied activities	4,771	8,916
Others	133,033	71,340
	<u>1,105,606</u>	<u>961,435</u>

10(A) PROJECTS WORK IN PROGRESS

At 31 December 2013, projects work in progress includes:

	<u>2013</u>	<u>2012</u>
	(RO'000)	(RO'000)
Salalah Resorts SAOC		
Initial stage	1,067	1,067
Consultancy charges	2,798	2,568
	3,865	3,635
Less: Provision for impairment	(1,329)	-
Total	<u>2,536</u>	<u>3,635</u>
Budva Beach Properties:		
Cost of land	5,231	5,231
Consultancy and other costs	950	672
	<u>6,181</u>	<u>5,903</u>
	<u>8,717</u>	<u>9,538</u>

At 31 December 2013, the project development cost relating to Salalah Resorts SAOC amounted to RO 2.5 million (2012: 3.6 million). Although there are certain delays in execution of the Development Agreement (DA) thenegotiations on terms and conditions of the DA are now in an advanced stage with the authorities involved. The Board of Directors believe that the DA will be formally executed in due course and the project will generate returns to the shareholders. Accordingly the development costs incurred as of 31 December 2013 will be fully realised.

10(B) PROPERTY AND EQUIPMENT

	<u>Land and buildings</u>	<u>Furniture, fixtures and equipment</u>	<u>Motor vehicles</u>	<u>Capital Work in Progress</u>	<u>Total</u>
	(R0'000)	(R0'000)	(R0'000)	(R0'000)	(R0'000)
Group					
Cost:					
At 1 January 2012	9,921	18,058	611	6,022	34,612
Additions	1,236	1,303	57	6,662	9,258
Transfers	-	317	-	(317)	-
Disposals	-	(13)	(80)	-	(93)
At 1 January 2013	11,157	19,665	588	12,367	43,777
Additions	-	2,109	20	7,474	9,603
Transfers	13,931	2,336	-	(16,267)	-
Disposals	(270)	(132)	(34)	-	(436)
At 31 December 2013	24,818	23,978	574	3,574	52,944
Depreciation:					
At 1 January 2012	2,964	12,986	426	-	16,376
Charge for the year	53	1,928	83	-	2,064
Disposals	-	(12)	(78)	-	(90)
At 1 January 2013	3,017	14,902	431	-	18,350
Charge for the year	411	1,947	66	-	2,424
Disposals	-	(129)	(34)	-	(163)
At 31 December 2013	3,428	16,720	463	-	20,611
at 31 December 2013	21,390	7,258	111	3,574	32,333
at 31 December 2012	8,140	4,763	157	12,367	25,427

Depreciation charge for the year is allocated as follows:

	<u>2013</u>	<u>2012</u>
	(R0'000)	(R0'000)
Operating expenses (note 22)	2,381	2,064
Operating expenses of Islamic window	43	-
	2,424	2,064

	Land and buildings	Furniture, fixtures and equipment	Motor vehicles	Capital Work in Progress	Total
	(R0'000)	(R0'000)	(R0'000)	(R0'000)	(R0'000)
Parent Company					
Cost:					
At 1 January 2012	3,400	446	36	89	3,971
Additions	-	30	-	548	578
Disposals	-	(11)	(31)	-	(42)
At 1 January 2013	3,400	465	5	637	4,507
Additions	-	13	-	1,949	1,962
Disposals	-	(3)	-	-	(3)
At 31 December 2013	3,400	475	5	2,586	6,466
Depreciation:					
At 1 January 2012	395	322	36	-	753
Charge for the year	53	95	-	-	148
Disposals	-	(10)	(31)	-	(41)
At 1 January 2013	448	407	5	-	860
Charge for the year	40	47	-	-	87
Disposals	-	(3)	-	-	(3)
At 31 December 2013	488	451	5	-	944
Carrying value					
at 31 December 2013	2,912	24	-	2,586	5,522
at 31 December 2012	2,952	58	-	637	3,647

11. DUE TO BANKS

As at the reporting date, due to banks are as follows:

	Group		Parent Company	
	2013	2012	2013	2012
	(R0'000)	(R0'000)	(R0'000)	(R0'000)
Due to banks	3,862	59,709	-	-
Loans and overdrafts	16,200	19,625	21,200	24,525
	20,062	79,334	21,200	24,525

12. SHARE CAPITAL

- (a) The Parent Company's authorised share capital is 500,000,000 (2012 – 300,000,000) shares of 100 baises each (2012 – 100baises). 306,130,000 (2012 – 278,300,000) shares of 100 baises (2012- 100 baises) each have been issued and are fully paid.

- (b) Shareholders of the Parent Company who own 10% or more of the Parent Company's shares, whether in their name or through nominee accounts, and the number of shares they hold at the reporting date are as follows:

	2013		2012	
	Holding %	Shares	Holding %	Shares
Al Hilal Investment Co. LLC	20.22	61,902,542	20.22	56,275,040
Civil Service Employees' Pension Fund	14.92	45,660,051	12.78	35,564,783
	<u>35.14</u>	<u>107,562,593</u>	<u>33.00</u>	<u>91,839,823</u>

13. RESERVES

(a) Legal reserve

As required by Article 106 of the Commercial Companies Law of Oman, the Parent Company and each of its Omani subsidiaries are required to transfer 10% of their profit for the year to this reserve until such time as the legal reserve amounts to at least one third of the respective company's paid-up share capital. The reserve is not available for distribution. The balance at the end of the year represents amounts relating to the Parent Company and its share of the legal reserve of its Omani subsidiaries.

	2013	2012
	(RO'000)	(RO'000)
Parent company	8,571	7,770
Share of subsidiaries' legal reserve	14,267	12,987
Group	<u>22,838</u>	<u>20,757</u>

(b) Capital reserve

Oman Arab Bank SAOC, the banking subsidiary, has increased its paid up share capital through capitalisation of retained profits and issue of rights. The Parent Company's share of the increased paid up share capital (50.99%) through capitalisation of retained profits has been transferred to a non-distributable capital reserve in the Group's financial statements.

	2013	2012
	(RO'000)	(RO'000)
At 1 January	17,846	14,787
Transferred during the year	-	3,059
At 31 December	<u>17,846</u>	<u>17,846</u>

(c) General reserve

This discretionary reserve held by the banking subsidiary is available for distribution.

(d) Subordinated debt reserve

The subordinated debt reserve has been created by the banking subsidiary by a transfer of 10% of the subordinated bonds each year out of the profit after tax for the year. The Central Bank of Oman requires that a reserve be set aside annually for the subordinated bonds which are due to mature within five years. The reserve is available for transfer back to retained earnings upon maturity of the subordinated bonds.

(e) *Revaluation reserve*

The revaluation reserve represents the Parent Company's share of the revaluation reserve arising from the revaluation of land in associated companies.

14. DIVIDEND PROPOSED AND PAID

Parent Company

Final dividends are not accounted for until they have been approved at the Annual General Meeting. At the forthcoming Annual General Meeting, to be held on 31 March 2014, a cash dividend of RO 0.015 per share (2012 - RO 0.012 per share) amounting to RO 4,591,950 (2012 - RO 3,339,600) and a stock dividend of RO 0.010 per share (2012 - RO 0.010) amounting to RO 3,061,300 (2012 - RO 2,783,000) in respect of year ended 31 December 2013 is to be proposed by the Board of Directors. The financial statements for the year ended 31 December 2013 do not reflect proposed dividend, which will be accounted for in shareholders' equity as an appropriation of retained profits in the year ending 31 December 2014.

In respect of year ended 31 December 2012, at the Annual General Meeting, held on 31 March 2013, a cash dividend of RO 0.012 per share (2011 - RO 0.010 per share) amounting to RO 3,339,600 (2011 - RO 2,530,000) and a stock dividend of RO 0.010 per share (2011 - RO 0.010) amounting to RO 2,783,000 (2011 - RO 2,530,000) was approved and subsequently paid.

15. SUBORDINATED BONDS

In order to enhance the capital adequacy and to meet the funding requirements, in April 2012 the Banking subsidiary issued non-convertible unsecured subordinated bonds of RO 50 Million (50,000,000 units of RO 1 each) for a tenor of five years and one month through private placement. The bonds are listed in the Muscat Securities Market and are transferable through trading. The bonds carry a fixed coupon rate payable semi-annually with the principal payable on maturity.

16. TAXATION

(a) *Recognised in the statements of comprehensive income*

	Group		Parent Company	
	2013	2012	2013	2012
	(RO'000)	(RO'000)	(RO'000)	(RO'000)
Current tax expense				
Current year	3,409	3,579	-	-
Prior year	250	-	-	-
Deferred tax	(4)	(6)	-	-
Tax Expense	3,655	3,573	-	-

The Parent Company and each of its Omani subsidiaries are subject to income tax at the rate of 12% of taxable income in excess of RO 30,000, respectively. There is no concept of Group taxation in Oman.

(b) Reconciliation of income tax expense

The following is a reconciliation of income tax calculated at the applicable tax rate with the income tax expense:

	<u>Group</u>		<u>Parent Company</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
	(RO'000)	(RO'000)	(RO'000)	(RO'000)
Profit before tax	30,096	26,284	8,016	2,937
Income tax at the rates mentioned above	3,601	3,150	962	353
Tax-exempt revenues	(627)	(393)	(1,015)	(933)
Non-deductible expenses	520	466	284	284
Deferred tax (income) / expense not recognised during the year	(6)	74	(6)	74
Unrecognised deferred tax on losses utilised during the year	(225)	-	(225)	-
Deferred tax on losses not recognised during the year	178	228	-	222
Current tax-prior year	250	-	-	-
Effect of minimum exemption limit	-	-	-	-
Others	(36)	48	-	-
Income tax expense	<u>3,655</u>	<u>3,573</u>	<u>-</u>	<u>-</u>

(c) Current liability

	<u>Group</u>		<u>Parent Company</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
	(RO'000)	(RO'000)	(RO'000)	(RO'000)
At 1 January	3,850	3,559	-	-
Provided during the year	3,655	3,573	-	-
Paid in current year	(3,813)	(3,282)	-	-
At 31 December	<u>3,692</u>	<u>3,850</u>	<u>-</u>	<u>-</u>

(d) Status of tax assessments

The consolidated tax liability comprises the tax liability of the Parent Company and its subsidiaries Oman Arab Bank SAOC, Oman Investment Services SAOC, Salalah Resorts SAOC and Budva Beach Properties.

Oman International Development and Investment Company SAOG (Ominvest)

The assessments of Ominvest have been completed by the Tax Department up to and including 2007. The assessment of the tax returns filed for the years 2008 to 2012 respectively have not yet been finalised by the Secretariat General for Taxation at the Ministry of Finance. Management believes however that any additional taxes that may arise on the completion of the tax assessments for the open tax years will not be significant to Ominvest's financial position as at 31 December 2013.

Oman Investment Services SAOC (OIS)

The assessments of OIS have been completed by the Tax Department up to and including 2009. The assessment of the tax return filed for 2010 and 2011 has not yet been finalised by the Secretariat General for Taxation at the Ministry of Finance. Management believes however that any additional taxes that may arise on completion of the tax assessments for the open tax year will not be significant to OIS' financial position at 31 December 2013.

Oman Arab Bank SAOC (OAB)

OAB was exempt from tax for the year from 16 April 1994 to 31 July 2000. The assessments for the years up to and including 2008 are complete. The assessments for 2009 to 2012 are not yet finalised by the Tax Authorities. Management believes that no significant further liabilities will be incurred by the OAB on completion of the pending tax assessments as compared to the existing provision established.

Salalah Resorts SAOC

The Company was registered as a closed joint stock company in the Sultanate of Oman in April 2010. The assessment of the tax return filed for the nine month period ended 31 December 2010 and 2011 to 2012 has not yet been finalised by the Secretariat General for Taxation at the Ministry of Finance. Management believes however that any additional taxes that may arise on completion of the tax assessment for the open tax year will not be significant to Salalah Resorts SAOC's financial position at 31 December 2013.

Budva Beach Properties d.o.o.

Budva Beach Properties is an entity that was registered in Montenegro in September 2010. The Company is yet to commence its commercial operations.

17. INTEREST INCOME

	Group		Parent Company	
	2013	2012	2013	2012
	(RO'000)	(RO'000)	(RO'000)	(RO'000)
Loans and advances to customers	52,588	49,613	-	-
Oman Government Development Bonds	745	567	-	-
Placements with banks and other money market placements	57	145	-	-
Certificates of deposit	114	85	-	-
	<u>53,504</u>	<u>50,410</u>	<u>-</u>	<u>-</u>

18. INTEREST EXPENSE

	Group		Parent Company	
	2013	2012	2013	2012
	(RO'000)	(RO'000)	(RO'000)	(RO'000)
Time deposits	6,699	6,077	-	-
Subordinated bonds	2,742	1,829	-	-
Call accounts	736	545	-	-
Savings accounts	382	373	-	-
Bank borrowings	964	1,085	463	464
	<u>11,523</u>	<u>9,909</u>	<u>463</u>	<u>464</u>

19. INVESTMENT INCOME

	<u>Group</u>		<u>Parent Company</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
	(RO'000)	(RO'000)	(RO'000)	(RO'000)
Dividend from investments	1,597	1,145	7,579	7,333
Quoted local investments				
Profit on sale	1,954	1,203	875	337
Change in fair value	820	389	164	238
Quoted foreign investments				
Profit on sale	2,179	502	2,179	502
Change in fair value	143	(1,859)	143	(1,859)
Unquoted foreign investments				
Profit / (loss) on sale	240	(298)	240	(298)
	<u>6,933</u>	<u>1,082</u>	<u>11,180</u>	<u>6,253</u>

20. FEE AND COMMISSION INCOME – NET

	<u>Group</u>		<u>Parent Company</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
	(RO'000)	(RO'000)	(RO'000)	(RO'000)
Fee and commission income	16,222	16,101	-	-
Fee and commission expense	(1,805)	(1,856)	-	-
	<u>14,417</u>	<u>14,245</u>	<u>-</u>	<u>-</u>

21. OTHER OPERATING INCOME

	<u>Group</u>		<u>Parent Company</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
	(RO'000)	(RO'000)	(RO'000)	(RO'000)
Foreign exchange (net)	4,453	4,100	-	-
Income from Islamic window	23	-	-	-
Other income	245	117	70	42
	<u>4,721</u>	<u>4,217</u>	<u>70</u>	<u>42</u>

22. OPERATING EXPENSES

	<u>Group</u>		<u>Parent Company</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
	(RO'000)	(RO'000)	(RO'000)	(RO'000)
Staff costs(refer below)	21,984	19,672	1,488	1,527
Other operating expenses	10,680	8,739	266	248
Operating expenses of the Islamic window	723			
Depreciation	2,381	2,064	87	148
Directors'sitting fees and remuneration:				
Parent Company	200	200	200	200
Banking subsidiary	96	104	-	-
	<u>36,064</u>	<u>30,779</u>	<u>2,041</u>	<u>2,123</u>
Staff costs:				
Salaries	18,281	16,431	1,101	1,292
End of service benefits	433	525	68	53
Social security costs	974	851	29	29
Other costs	2,296	1,865	290	153
	<u>21,984</u>	<u>19,672</u>	<u>1,488</u>	<u>1,527</u>

23. CASH AND CASH EQUIVALENTS

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

	<u>Group</u>		<u>Parent Company</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
	(RO'000)	(RO'000)	(RO'000)	(RO'000)
Balances with banks and money at call	134,338	169,627	2,078	329
Deposits with banks (note 7)	34,650	82,775	-	-
Certificates of deposit (note 6)	100,000	90,000	-	-
Due to banks (note 11)	(3,862)	(59,709)	-	-
	<u>265,126</u>	<u>282,693</u>	<u>2,078</u>	<u>329</u>

24. END OF SERVICE BENEFITS

In accordance with the Labour Law of Oman, the Group and Parent Company accrues for employees' end of service benefits for its non-Omani employees.

Movements in the liability recognised in the financial statements are as follows:

	<u>Group</u>		<u>Parent Company</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
	(RO'000)	(RO'000)	(RO'000)	(RO'000)
At 1 January	2,907	2,689	210	310
Expense recognised in the statements of profit or loss	433	525	68	53
End of service benefits paid	(772)	(307)	(27)	(153)
At 31 December	<u>2,568</u>	<u>2,907</u>	<u>251</u>	<u>210</u>

The above balance is recorded under other liabilities in the statement of financial position.

25. SEGMENTAL INFORMATION

The Group is organised into two main business segments:

- 1) Banking Segment – incorporating corporate, retail, treasury and investment banking activities carried out by the Group's banking subsidiary; and
- 2) Investment Segment – incorporating investment activities with both short-term and long-term objectives.

Transactions between the business segments are on normal commercial terms and conditions and are entered into between the banking subsidiary and the rest of the Group. Such transactions are eliminated on consolidation.

	Banking Sector					Al-Yusr (RO'000)	Adjust- ments (RO'000)	Total (RO'000)
	Invest- ments (RO'000)	Retail banking (RO'000)	Corporate banking (RO'000)	Investment banking (RO'000)	Support and un- allocated function (RO'000)			
2013								
Interest income	-	28,146	24,541	-	916	-	(106)	53,497
Interest expenses	(471)	(1,494)	(6,323)	-	(3,341)	-	106	(11,523)
	(471)	26,652	18,218	-	(2,425)	-	-	41,974
Other operating income	9,837	7,716	4,443	4,607	4,587	23	(5,135)	26,078
Share of profit from associates	1,519	-	-	-	-	-	-	1,519
Total operating income	10,885	34,368	22,661	4,607	2,162	23	(5,135)	69,571
Allowance for loan impairment	-	14,350	19,919	-	-	46	-	34,315
Provision for impairment on investments	730	-	-	-	-	-	-	730
Assets	91,408	413,243	659,388	35,273	338,992	9,459	(52,236)	1,495,527
Liabilities	27,494	356,713	792,384	35,273	71,466	1,767	(10,156)	1,274,941
2012								
Interest income	-	28,431	21,284	-	798	-	(103)	50,410
Interest expenses	(464)	(1,430)	(5,607)	-	(2,511)	-	103	(9,909)
	(464)	27,001	15,677	-	(1,713)	-	-	40,501
Other operating income	6,375	8,812	4,031	2,714	4,304	-	(6,692)	19,544
Share of profit from associates	1,232	-	-	-	-	-	-	1,232
Total operating income	7,143	35,813	19,708	2,714	2,591	-	(6,692)	61,277
Allowance for loan impairment	-	13,370	18,151	-	-	-	-	31,521
Provision for impairment on investments	771	-	-	-	-	-	-	771
Assets	88,923	389,075	545,739	20,994	414,601	-	(52,589)	1,406,743
Liabilities	30,004	309,202	721,942	20,994	134,160	-	(10,549)	1,205,753

26. RELATED PARTY TRANSACTIONS

- (a) These represent transactions with related parties defined in International Accounting Standard 24 – Related Party Disclosures. Pricing policies and the terms of the transactions are approved by the Parent Company's and subsidiaries' respective Boards of Directors.
- (b) Transactions and balances with related parties of the Parent Company or holders of 10% or more of the Parent Company's shares or their family members, included in the statements of comprehensive income, statement of financial position and off-balance sheet are as follows:

	<u>Total</u>	<u>Major share-holders</u>	<u>Directors</u>	<u>Asso-ciates</u>	<u>Key manage-ment</u>	<u>Non-controlling interests</u>
	(RO'000)	(RO'000)	(RO'000)	(RO'000)	(RO'000)	(RO'000)
Group – 2013						
Statements of comprehensive income						
Interest and commission income	435	-	11	144	-	280
Interest expense	401	-	-	1	-	400
Directors' sitting fees and remuneration	296	-	258	-	-	38
Staff costs	1,953	-	-	-	1,953	-
Terminal benefits	146	-	-	-	146	-
Operating expenses	62	-	62	-	-	-
Statements of financial position						
Loans and advances	11,837	750	93	5,470	-	5,524
Deposits from customers	4,842	9	2,740	323	-	1,770
Other assets	7	-	7	-	-	-
Off balance sheet						
Letters of credit and guarantees	158,233	-	-	-	-	158,233
Group – 2012						
Statements of comprehensive income						
Interest and commission income	626	1	5	238	-	382
Interest expense	349	-	-	3	-	346
Directors' sitting fees and remuneration	304	-	268	-	-	36
Staff costs	2,029	-	-	-	2,029	-
Terminal benefits	231	-	-	-	231	-
Operating expenses	10	-	10	-	-	-
Statements of financial position						
Loans and advances	64,562	150	136	7,482	-	56,794
Deposits from customers	2,803	37	1,303	62	-	1,401
Other assets	8	-	8	-	-	-
Off balance sheet						
Letters of credit and guarantees	185,750	-	-	-	-	185,750

- (c) The Banking subsidiary has a management agreement with Arab Bank plc, Jordan, which owns 49% of the Banking subsidiary's share capital. In accordance with the terms of the management agreement, Arab Bank plc provides banking related technical assistance and other management services, including secondment of managerial staff. The annual management fee is RO75,000 (2012-RO 28,850).

	<u>2013</u>			<u>2012</u>		
	<u>Subsidiaries</u>	<u>Directors</u>	<u>Key management</u>	<u>Subsidiary</u>	<u>Directors</u>	<u>Key management</u>
	(RO'000)	(RO'000)	(RO'000)	(RO'000)	(RO'000)	(RO'000)
Parent						
Statement of profit or loss and other comprehensive income						
Directors' sitting fees and remuneration	-	200	-	-	200	-
Staff costs	-	-	563	-	-	723
Terminal benefits	-	-	53	-	-	35
Operating expenses	-	62	-	-	10	-
Interest expenses	106	-	-	106	-	-
Statements of financial position						
Property and equipment	-	7	-	-	8	-
Bank borrowings	5,000	-	-	4,900	-	-
Bank balances	430	-	-	149	-	-
Due from subsidiaries	4,522	-	-	4,671	-	-

(d) Due from subsidiaries in the Parent Company include an amount of RO 3,306,242 (2012 - RO 3,874,587) related to the tourist resort project in Salalah. The Board of Directors believe that the project is financially viable and a specific entity Salalah Resorts SAOC has been set up for this purpose and accordingly the amount is fully recoverable on implementation of the project.

27. FIDUCIARY ACTIVITIES

As at 31 December 2013, balances stated at cost arising from fiduciary activities are as follows:

	<u>Group</u>		<u>Parent Company</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
	(RO'000)	(RO'000)	(RO'000)	(RO'000)
Investments syndicated by the Group and registered in its name:				
Parent Company	1,102	1,537	1,102	1,537
Funds under management:				
Banking subsidiary	324,163	236,848	-	-
	<u>325,265</u>	<u>238,385</u>	<u>1,102</u>	<u>1,537</u>

These investments are held beneficially for and on behalf of investors and, accordingly, are not treated as assets of the Group and the Parent Company. These are included in the Group's and Parent Company's financial statements as off balance sheet items.

The Banking subsidiary's fiduciary activities consist of investment management activities conducted as trustee and manager for investment funds and individuals. The aggregate amounts of funds managed are not included in the Group's statement of financial position.

28. COMMITMENTS

As of the reporting date, the Group and the Parent Company had the following outstanding commitments which are expected to crystallise within one year:

	Group (RO'000)	Parent Company (RO'000)
2013		
Construction	3,013	1,629
Undrawn loan commitments	770	-
Contractual interest charge to maturity	42	42
	<u>3,825</u>	<u>1,671</u>
2012		
Construction	9,184	3,555
Undrawn loan commitments	8,088	-
Unquoted foreign investments	68	68
Contractual interest charge to maturity	55	62
	<u>17,395</u>	<u>3,685</u>

As of reporting date the Group has capital commitment of RO 3,013,000 (2012 RO 9,184,000) toward building under construction.

	Up to 1 year (RO'000)	1 to 5 years (RO'000)	Over 5 years (RO'000)	Total (RO'000)
2013				
Capital commitments	3,013	-	-	3,013
Undrawn loan commitments	-	770	-	770
Contractual interest charge to maturity	42	-	-	42
	<u>3,055</u>	<u>770</u>	<u>-</u>	<u>3,825</u>
2012				
Capital commitments	9,184	-	-	9,184
Undrawn loan commitments	388	7,700	-	8,088
Unquoted foreign investments	68	-	-	68
Contractual interest charge to maturity	55	-	-	55
	<u>9,695</u>	<u>7,700</u>	<u>-</u>	<u>17,395</u>

29. CONTINGENT LIABILITIES

The outstanding contract values or the notional amounts of these instruments at 31 December were as follows:

	<u>2013</u>	<u>2012</u>
	(RO'000)	(RO'000)
Letters of credit	461,952	553,403
Guarantees	394,281	415,986
Financial guarantees	89,681	85,183
	<u>945,914</u>	<u>1,054,572</u>

The concentration of letters of credit, guarantees and financial guarantees by industry sector is as follows:

	<u>Group</u>		<u>Parent Company</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
	(RO'000)	(RO'000)	(RO'000)	(RO'000)
Export trade	399,213	505,131	-	-
Construction	264,317	264,433	-	-
Government	94,033	108,848	-	-
Transportation	49,323	72,292	-	-
Import trade	62,740	48,270	-	-
Utilities	46,941	24,452	-	-
Services	11,406	12,422	-	-
Wholesale and retail trade	10,764	11,277	-	-
Manufacturing	7,177	7,447	-	-
	<u>945,914</u>	<u>1,054,572</u>	<u>-</u>	<u>-</u>

Group's letters of credit and guarantees amounting to RO 696,813,000 (2012 - RO 849,010,000) were counter guaranteed by other banks.

Letter of credit and guarantees include RO 392,000 (2012 – RO 411,000) relating to non-performing loans.

Legal claims

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

30. DERIVATIVES

A derivative financial instrument is a financial contract between two parties when payments are dependent upon movement in price in one or more underlying financial instrument, reference rate or index.

Group

At the reporting date, there were outstanding forward foreign exchange contracts held by the Banking subsidiary, all maturing within one year, entered into on behalf of customers for the sale and purchase of foreign currencies. These financial instruments have been recognised at prices in active markets for identical assets or liabilities. These fair values and the notional contracted amounts are summarised below:

	Positive fair value	Negative fair value	Notional amount	Notional amounts by term to maturity		
				Within 3 months	3 - 12 months	1-5 years
	(RO'000)	(RO'000)	(RO'000)	(RO'000)	(RO'000)	(RO'000)
31 December 2013						
Purchase contracts	251	-	60,041	54,421	5,620	-
Sale contracts	-	(240)	(60,030)	(54,412)	(5,618)	-
	<u>251</u>	<u>(240)</u>	<u>11</u>	<u>9</u>	<u>2</u>	<u>-</u>
31 December 2012						
Purchase contracts	249	-	20,895	12,642	8,253	-
Sale contracts	-	(236)	(20,882)	(12,633)	(8,249)	-
	<u>249</u>	<u>(236)</u>	<u>13</u>	<u>9</u>	<u>4</u>	<u>-</u>

31. GEOGRAPHICAL CONCENTRATION OF ASSETS AND LIABILITIES

	Sultanate of Oman	North America	UK and Europe	Other Countries	Total
	(RO'000)	(RO'000)	(RO'000)	(RO'000)	(RO'000)
Group - 2013					
Assets					
Balances with banks and money at call	132,698	-	28	1,612	134,338
Certificates of deposit	100,000	-	-	-	100,000
Deposits with banks	18,915	4,346	6,427	5,462	35,150
Investment securities	60,303	159	1,817	6,197	68,476
Investments in associates	12,372	-	-	-	12,372
Loans and advances to customers	1,071,291	-	-	-	1,071,291
Other assets	32,839	-	11	-	32,850
Projects work in progress	2,536	-	6,181	-	8,717
Property and equipment	32,333	-	-	-	32,333
Total assets	1,463,287	4,505	14,464	13,271	1,495,527
Liabilities					
Due to banks	16,449	33	481	3,099	20,062
Deposits from customers	1,148,504	-	-	-	1,148,504
Other liabilities	50,100	-	15	-	50,115
Subordinated bonds	50,000	-	-	-	50,000
End of service benefits	2,568	-	-	-	2,568
Taxation	3,692	-	-	-	3,692
Total liabilities	1,271,313	33	496	3,099	1,274,941
Group - 2012					
Assets					
Balances with banks and money at call	149,395	-	71	20,161	169,627
Certificates of deposit	90,000	-	-	-	90,000
Deposits with banks	9,640	8,466	7,450	57,719	83,275
Investment securities	48,960	415	1,990	4,804	56,169
Investments in associates	11,303	-	-	-	11,303
Loans and advances to customers	929,914	-	-	-	929,914
Other assets	31,490	-	-	-	31,490
Projects work in progress	3,635	-	5,903	-	9,538
Property and equipment	25,427	-	-	-	25,427
Total assets	1,299,764	8,881	15,414	82,684	1,406,743
Liabilities					
Due to banks	73,087	1,063	425	4,759	79,334
Deposits from customers	1,030,159	-	-	-	1,030,159
Other liabilities	39,503	-	-	-	39,503
Subordinated bonds	50,000	-	-	-	50,000
End of service benefits	2,907	-	-	-	2,907
Taxation	3,850	-	-	-	3,850
Total liabilities	1,199,506	1,063	425	4,759	1,205,753

	Sultanate of Oman	North America	UK and Europe	Other Countries	Total
	(RO'000)	(RO'000)	(RO'000)	(RO'000)	(RO'000)
Parent Company - 2013					
Assets					
Balances with banks and money at call	446	-	20	1,612	2,078
Investment securities	9,934	160	1,420	3,503	15,017
Investments in associates	5,627	-	-	-	5,627
Investments in subsidiaries	43,205	-	5,231	-	48,436
Due from subsidiaries	3,321	-	1,201	-	4,522
Other assets	193	-	-	-	193
Property and equipment	5,522	-	-	-	5,522
Total assets	68,248	160	7,872	5,115	81,395
Liabilities					
Due to banks	21,200	-	-	-	21,200
Other liabilities	1,411	-	-	-	1,411
End of service benefits	251	-	-	-	251
Total liabilities	22,862	-	-	-	22,862

Parent Company - 2012

Assets

Balances with banks and money at call	135	-	71	123	329
Investment securities	9,087	415	1,990	4,165	15,657
Investments in associates	5,330	-	-	-	5,330
Investments in subsidiaries	42,705	-	5,231	-	47,936
Due from subsidiaries	3,877	-	794	-	4,671
Other assets	591	-	-	-	591
Property and equipment	3,647	-	-	-	3,647
Total assets	65,372	415	8,086	4,288	78,161

Liabilities

Due to banks	24,525	-	-	-	24,525
Other liabilities	531	-	-	-	531
End of service benefits	210	-	-	-	210
Total liabilities	25,266	-	-	-	25,266

32. INTEREST RATE SENSITIVITY ANALYSIS

The Group's and the Parent Company's interest rate sensitivity position, based on the contractual re-pricing or maturity dates, whichever dates are earlier, are as follows:

	Average effective interest rate	Within 6 months	6 to 12 months	Over 1 year	Not exposed to interest rate risk	Total
		(R0'000)	(R0'000)	(R0'000)	(R0'000)	(R0'000)
Group - 2013						
Assets						
Balances with banks and money at call	-	-	-	-	134,338	134,338
Certificates of deposit	0.13%	100,000	-	-	-	100,000
Deposits with banks	0.11%	34,650	-	500	-	35,150
Investment securities:						
-Govt. Development Bonds	2.75-5.5%	-	2,400	29,673	-	32,073
-Investments	NIL	-	-	-	36,403	36,403
Investments in associates	NIL	-	-	-	12,372	12,372
Loans and advances to customers	5.06%	206,107	225,778	635,719	3,687	1,071,291
Other assets	NIL	4,199	-	-	28,651	32,850
Projects work in progress	2.50%	-	-	2,536	6,181	8,717
Property and equipment	NIL	-	-	-	32,333	32,333
Total assets		344,956	228,178	668,428	253,965	1,495,527
Liabilities						
Due to banks	2.4%	16,200	-	-	3,862	20,062
Deposits from customers	0.94%	397,372	180,175	57,694	513,263	1,148,504
Other liabilities	NIL	25,904	379	81	23,751	50,115
End of service benefits	NIL	-	-	-	2,568	2,568
Subordinated bonds	5.50%	-	-	50,000	-	50,000
Taxation	NIL	-	-	-	3,692	3,692
Total liabilities		439,476	180,554	107,775	547,136	1,274,941

	Average effective interest rate	Within 6 months	6 to 12 months	Over 1 year	Not exposed to interest rate risk	Total
		(R0'000)	(R0'000)	(R0'000)	(R0'000)	(R0'000)
Group - 2012						
Assets						
Balances with banks						
Balances with banks and money at call	-	-	-	-	169,627	169,627
Certificates of deposit	0.08%	90,000	-	-	-	90,000
Deposits with banks	0.23-2%	82,775	-	500	-	83,275
Investment securities:						
- Govt. Development Bonds	3.25-4%	-	4,000	23,860	-	27,860
- Investments	NIL	-	-	-	28,309	28,309
Investments in associates	NIL	-	-	-	11,303	11,303
Loans and advances to customers	5.32%	217,164	180,159	532,591	-	929,914
Other assets	NIL	4,689	-	-	26,801	31,490
Projects work in progress	NIL	-	-	-	9,538	9,538
Property and equipment	NIL	-	-	-	25,427	25,427
Total assets		394,628	184,159	556,951	271,005	1,406,743
Liabilities						
Due to banks	2.5%	19,625	-	-	59,709	79,334
Deposits from customers	0.94%	429,095	116,150	44,033	440,881	1,030,159
Other liabilities	NIL	24,939	531	182	13,851	39,503
End of service benefits	NIL	-	-	-	2,907	2,907
Subordinated bonds	5.50%	-	-	50,000	-	50,000
Taxation	NIL	-	-	-	3,850	3,850
Total liabilities		473,659	116,681	94,215	521,198	1,205,753

	Average effective interest rate	Within 6 months	6 to 12 months	Over 1 year	Not exposed to interest rate risk	Total
		(R0'000)	(R0'000)	(R0'000)	(R0'000)	(R0'000)
Parent Company						
2013						
Assets						
Balances with banks and money at call	NIL	-	-	-	2,078	2,078
Investment securities:	NIL	-	-	-	15,017	15,017
Investments in associates	NIL	-	-	-	5,627	5,627
Investments in subsidiaries	NIL	-	-	-	48,436	48,436
Due from subsidiaries	NIL	-	-	-	4,522	4,522
Other assets	NIL	-	-	-	193	193
Property and equipment	NIL	-	-	-	5,522	5,522
Total assets		-	-	-	81,395	81,395
Liabilities						
Bank borrowings	2.5%	21,200	-	-	-	21,200
Other liabilities	NIL	-	-	-	1,411	1,411
End of service benefits	NIL	-	-	-	251	251
Total equity and liabilities		21,200	-	-	1,662	22,862
2012						
Assets						
Balances with banks and money at call	NIL	-	-	-	329	329
Investment securities	NIL	-	-	-	15,657	15,657
Investments in associates	NIL	-	-	-	5,330	5,330
Investments in subsidiaries	NIL	-	-	-	47,936	47,936
Due from subsidiaries	NIL	-	-	-	4,671	4,671
Other assets	NIL	-	-	-	591	591
Property and equipment	NIL	-	-	-	3,647	3,647
Total assets		-	-	-	78,161	78,161
Liabilities						
Bank borrowings	2.5%	24,525	-	-	-	24,525
Other liabilities	NIL	-	-	-	531	531
End of service benefits	NIL	-	-	-	210	210
Total equity and liabilities		24,525	-	-	741	25,266

33. ASSETS AND LIABILITIES MATURITY PROFILE

	<u>Within 3 months</u>	<u>3 to 12 months</u>	<u>1 to 5 years</u>	<u>Over 5 years</u>	<u>Total</u>
	(R0'000)	(R0'000)	(R0'000)	(R0'000)	(R0'000)
Group - 2013					
Assets					
Balances with banks and money at call	75,369	26,682	15,542	16,745	134,338
Certificates of deposit	100,000	-	-	-	100,000
Deposits with banks	34,650	-	-	500	35,150
Investment securities	28,250	2,400	35,826	2,000	68,476
Investments in associates	-	-	-	12,372	12,372
Loans and advances to customers	186,251	175,348	273,231	436,461	1,071,291
Other assets	27,557	4,061	577	655	32,850
Projects work in progress	-	-	-	8,717	8,717
Property and equipment	-	-	-	32,333	32,333
Total assets	452,077	208,491	325,176	509,783	1,495,527
Equity					
Capital and reserves attributable to the shareholders of the Parent Company	-	-	-	123,176	123,176
Non-controlling interests	-	-	-	97,410	97,410
Total equity	-	-	-	220,586	220,586
Liabilities					
Due to banks	20,062	-	-	-	20,062
Deposits from customers	419,749	250,980	272,703	205,072	1,148,504
Other liabilities	44,634	1,358	4,123	-	50,115
Subordinated bonds	-	-	50,000	-	50,000
End of service benefits	-	-	2,568	-	2,568
Taxation	3,419	273	-	-	3,692
Total equity and liabilities	487,864	252,611	329,394	425,658	1,495,527

	Within 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
	(R0'000)	(R0'000)	(R0'000)	(R0'000)	(R0'000)
Group - 2012					
Assets					
Balances with banks and money at call	95,531	33,260	17,551	23,285	169,627
Certificates of deposit	90,000	-	-	-	90,000
Deposits with banks	82,775	-	-	500	83,275
Investment securities	20,111	4,000	30,058	2,000	56,169
Investments in associates	-	-	-	11,303	11,303
Loans and advances to customers	188,524	103,815	238,590	398,985	929,914
Other assets	22,480	8,011	335	664	31,490
Projects work in progress	-	-	-	9,538	9,538
Property and equipment	-	-	-	25,427	25,427
Total assets	499,421	149,086	286,534	471,702	1,406,743
Equity					
Capital and reserves attributable to the shareholders of the Parent Company	-	-	-	110,757	110,757
Non-controlling interests	-	-	-	90,233	90,233
Total equity	-	-	-	200,990	200,990
Liabilities					
Due to banks	79,334	-	-	-	79,334
Deposits from customers	432,902	271,760	143,405	182,092	1,030,159
Other liabilities	33,543	5,865	95	-	39,503
Subordinated bonds	-	-	50,000	-	50,000
End of service benefits	-	-	2,907	-	2,907
Taxation	3,567	283	-	-	3,850
Total equity and liabilities	549,346	277,908	196,407	383,082	1,406,743

	Within 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
	(R0'000)	(R0'000)	(R0'000)	(R0'000)	(R0'000)
Parent Company – 2013					
Assets					
Balances with banks and money at call	2,078	-	-	-	2,078
Investment securities	6,872	-	8,145	-	15,017
Investments in associates	-	-	-	5,627	5,627
Investments in subsidiaries	-	-	-	48,436	48,436
Due from subsidiaries	-	-	4,522	-	4,522
Other assets	193	-	-	-	193
Property and equipment	-	-	-	5,522	5,522
Total assets	9,143	-	12,667	59,585	81,395
Equity					
Capital and reserves	-	-	-	58,533	58,533
Capital and reserves	-	-	-	58,533	58,533
Liabilities					
Due to banks	21,200	-	-	-	21,200
Other liabilities	1,411	-	-	-	1,411
End of service benefits	-	-	251	-	251
Total equity and liabilities	22,611	-	251	58,533	81,395

	Within 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
	(R0'000)	(R0'000)	(R0'000)	(R0'000)	(R0'000)
Parent Company – 2012					
Assets					
Balances with banks and money at call	329	-	-	-	329
Investment securities	7,460	-	8,197	-	15,657
Investments in associates	-	-	-	5,330	5,330
Investments in subsidiaries	-	-	-	47,936	47,936
Due from subsidiaries	-	-	4,671	-	4,671
Other assets	591	-	-	-	591
Property and equipment	-	-	-	3,647	3,647
Total assets	8,380	-	12,868	56,913	78,161
Equity					
Capital and reserves	-	-	-	52,895	52,895
Total equity	-	-	-	52,895	52,895
Liabilities					
Due to banks	24,525	-	-	-	24,525
Other liabilities	531	-	-	-	531
End of service benefits	-	-	210	-	210
Total equity and liabilities	25,056	-	210	52,895	78,161

34. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is the amount for which an asset could be exchanged or a liability settled between known parties in an arm's length transaction. Consequently, differences can arise between carrying values and fair value estimates.

Group

The fair values of on balance sheet financial instruments, except for the following, are not significantly different from the carrying values included in the Group financial statements. The carrying value and estimated fair value of the following financial instruments are set out below:

	<u>Carrying value</u>	<u>Fair value</u>	<u>Difference</u>
Investments in associates (note 8(e))	(RO'000)	(RO'000)	(RO'000)
2013	12,372	13,455	1,083
2012	11,303	12,133	830

The fair value of the investments in associates is based on the closing bid prices on the Muscat Securities Market at the reporting date. Certain available-for-sale investments amounting to RO 949,520 (2012: 949,520) are stated at cost in the absence of fair value information.

Parent Company

The fair values of on balance sheet financial instruments, except for investments in subsidiaries and associates, are not significantly different from the carrying values included in the financial statements. The fair value of investments in associates based on the closing bid prices on the Muscat Securities Market at the reporting date is set out below:

	<u>Carrying value</u>	<u>Fair value</u>	<u>Difference</u>
Investments in associates (note 8(e))	(RO'000)	(RO'000)	(RO'000)
2013	5,627	13,359	7,732
2012	5,330	12,133	6,803

Investments in subsidiaries amounting to RO48.4 million (2012 – RO 47.9 million) are stated at cost. The fair value of Parent Company's investments in subsidiaries could vary depending on the valuation technique (IAS 39) that may be applied.

Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial investments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

Transfers between levels

During the reporting period ended 31 December 2013, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

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

As at 31 December 2013

Group	<u>Level 1</u> (R0'000)	<u>Level 2</u> (R0'000)	<u>Level 3</u> (R0'000)	<u>Total</u> (R0'000)
Financial assets at fair value through profit or loss	8,043	-	286	8,329
Financial assets held for trading	1,042	-	-	1,042
Available-for-sale investments	18,686	8,345	-	27,031
Derivative financial instruments				
Purchase contracts	-	251	-	251
Sale contracts	-	(240)	-	(240)
Parent company				
	<u>Level 1</u> (R0'000)	<u>Level 2</u> (R0'000)	<u>Level 3</u> (R0'000)	<u>Total</u> (R0'000)
Financial assets at fair value through profit or loss	6,871	-	-	6,871
Available-for-sale investments	-	8,145	-	8,145

As at 31 December 2012

Group	<u>Level 1</u> (R0'000)	<u>Level 2</u> (R0'000)	<u>Level 3</u> (R0'000)	<u>Total</u> (R0'000)
Financial assets at fair value through profit or loss	8,173	-	271	8,444
Financial assets held for trading	1,443	-	-	1,443
Available-for-sale investments	10,224	8,198	-	18,422
Derivative financial instruments				
Purchase contracts	-	249	-	249
Sale contracts	-	(236)	-	(236)
Parent company				
	<u>Level 1</u> (R0'000)	<u>Level 2</u> (R0'000)	<u>Level 3</u> (R0'000)	<u>Total</u> (R0'000)
Financial assets at fair value through profit or loss	7,460	-	-	7,460
Financial assets held for trading	-	-	-	-
Available-for-sale investments	-	8,197	-	8,197

35. BASIC EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit for the year by the number of shares outstanding during the year.

	<u>Group</u>		<u>Parent Company</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
	(RO'000)	(RO'000)	(RO'000)	(RO'000)
Profit for the year attributable to shareholders profit (RO'000)	14,177	10,326	8,106	2,937
Weighted average number of shares outstanding during the year	306,130,000	306,130,000	306,130,000	306,130,000
Basic earnings per share(RO)	0.046	0.034	0.026	0.010

During the year, the Parent Company issued stock dividend of 27,783,000 shares (2012 – 25,300,000) without consideration related to the year 2012. According to IAS 33 - Earnings per share, the weighted average number of ordinary shares outstanding during the period and for all periods presented shall be adjusted. In the present financial statement, the issue has been treated as if it had occurred at the beginning of 2012 and the basic earnings per share was recalculated accordingly. As there was no dilutive potential shares, the diluted earnings per share is identical to the basic earnings per share.

36. NET ASSETS PER SHARE

The calculation of net assets per share is as follows:

	<u>Group</u>		<u>Parent Company</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
	(RO'000)	(RO'000)	(RO'000)	(RO'000)
Net assets value attributable to shareholders profit (RO'000)	123,176	110,757	58,533	52,895
Weighted average number of shares outstanding during the year	306,130,000	306,130,000	306,130,000	306,130,000
Net assets per share (RO)	0.402	0.362	0.191	0.173

The report of the auditors – page 26.



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