Oman Arab Bank (SAOC)

UN-AUDITED FINANCIAL STATEMENTS
FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2014

UN-AUDITED FINANCIAL STATEMENTS
FOR THE NINE MONTHS ENDED 30 September 2014

Contents

SUMMARY OF UN-AUDITED RESULTS AT 30 September 2014

Particulars	30-Sep-14 RO 000	30-Sep-13 RO 000
Net Loans and advances	1,228,046	1,142,671
Customers’ Deposits	1,355,032	1,081,712
Other assets	38,072	37,484
Net worth	208,480	192,149
Net interest income	32,582	31,414
Net profit for the period	21,224	18,649
Basic earnings per share for the period	OMR 0.024	OMR 0.022
Capital Adequacy Ratio	15.42%	15.87%

Oman Arab Bank SAOC

UN-AUDITED STATEMENT OF FINANCIAL POSITION AT 30 SEPTEMBER 2014

	Note	30-Sep-14	30-Sep-13
		RO 000	**RO 000**
Assets			
Cash and balances with Central Bank of Oman	3	**70,062**	244,696
Certificates of deposit	4	**225,000**	91,000
Due from banks	5	**50,508**	21,699
Loans and advances	6	**1,228,046**	1,142,671
Investments in securities	7	**55,516**	47,941
Property and equipment	8	**27,451**	26,421
Other assets	9	**38,072**	37,484
Total assets		**1,694,655**	**1,611,912**
Liabilities			
Due to banks	10	**12,112**	24,481
Customers' deposits	11	**1,355,032**	1,081,712
Other liabilities	12	**65,764**	260,899
Subordinated Bonds	13	**50,000**	50,000
Taxation	14	**3,266**	2,671
Total liabilities		**1,486,174**	**1,419,763**
Shareholders' funds			
Share capital	15	**116,000**	116,000
Legal reserve	16	**27,627**	25,125
General reserve		**20,819**	19,568
Subordinated debt reserve		**20,000**	10,000
Cumulative changes in fair value of investments		**1,469**	1,135
Retained earnings		**22,566**	20,321
Total shareholders' funds		**208,481**	**192,149**
Total liabilities and shareholders' funds		**1,694,655**	**1,611,912**
Contingent liabilities	22	**945,089**	**895,938**

The financial statements were approved by the board of directors on 27th October 2014 and were signed on their behalf by:

Rashad Muhammad Al Zubair
Chairman

Amin Al-Husseini
Chief Executive Officer

The notes 7 to 26 form part of these financial statements

UN-AUDITED STATEMENT OF COMPREHENSIVE INCOME
FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2014

	Note	30-Sep-14	30-Sep-13
		RO 000	**RO 000**
Interest income	17	42,864	39,588
Interest expense	18	(10,282)	(8,174)
Net interest income		**32,582**	**31,414**
Investment Income	19	2,483	1,800
Other operating income	20	18,332	13,691
Total income		**53,397**	**46,905**
Staff expenses		(17,512)	(14,945)
Other operating expenses		(8,430)	(7,642)
Depreciation	8	(1,917)	(1,205)
Operating expenses		**(27,859)**	**(23,792)**
Operating profit		**25,538**	**23,113**
Allowance for loan impairment	6	(7,952)	(5,331)
Recoveries from allowance for loan impairment		6,645	3,538
Profit before tax		**24,231**	**21,320**
Taxation	14	(3,007)	(2,671)
Net profit for the period		**21,224**	**18,649**
Other comprehensive income			
Changes in fair value of investments		**105**	989
Total Comprehensive Income for the period		**21,329**	19,638
Basic Earnings per share (annualised)	23	**OMR 0.024**	**OMR 0.022**

The notes 7 to 26 form part of these financial statements

Oman Arab Bank SAOC

UNAUDITED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2014

	Share capital	Legal reserve	General reserve	Subordinated Debt reserve	Proposed Cash dividends	Retained earnings	Cumulative changes in fair value	Total
	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000
Balance at 1-Jan-13	**116,000**	**25,125**	**19,568**	**10,000**	**11,600**	**1,672**	**146**	**184,111**
Dividends paid	**-**	**-**	**-**	**-**	**(11,600)**	**-**	**-**	**(11,600)**
Change in fair value of investment available for sale (refer to note 10)	**-**	**-**	**-**	**-**	**-**	**-**	**989**	**989**
Net profit	**-**	**-**	**-**	**-**	**-**	**18,649**	**-**	**18,649**
Proceeds from issue of share capital	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Transfer to share capital	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Balance at 30-Sep-2013	**116,000**	**25,125**	**19,567**	**10,000**	**-**	**20,321**	**1,135**	**192,149**
Balance at 1-Jan-14	**116,000**	**27,627**	**20,819**	**20,000**	**11,600**	**1,342**	**1,364**	**198,752**
Dividends paid	**-**	**-**	**-**	**-**	(11,600)	-	-	(11,600)
Change in fair value of investment available for sale (refer to note 10)	-	-	-	-	-	-	105	105
Net profit	-	-	-	-	-	21,224		21,223
Proceeds from issue of share capital	-	-	-	-	-	-	-	-
Transfer to share capital	-	-	-	-	-	-		-
Balance at 30-Sep-14	**116,000**	**27,627**	**20,819**	**20,000**	**-**	**22,566**	**1,469**	**208,481**

The notes 7 to 26 form part of these financial statements

Oman Arab Bank SAOC

UN-AUDITED STATEMENT OF CASH FLOWS
FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2014

	30-Sep-14	30-Sep-13
Operating activities	**RO 000**	RO 000
Profit before taxation	**24,230**	**21,320**
Adjustments:		
Depreciation	**1,917**	**1,225**
Allowance for loan impairment	**7,952**	**5,331**
Recoveries /release from allowance for loan impairment	**(6,645)**	**(3,538)**
Profit on sale of fixed assets	**(23)**	**(47)**
Loss on sale of fixed assets	**-**	**-**
Income from investments held-to-maturity	**(591)**	**(536)**
Changes in fair value of investments at fair value through profit or loss	**(185)**	**(499)**
Cash flows from Operating profit before changes in operating assets & liabilities	**26,655**	**23,256**
Net changes in:		
Loans and advances	**(153,062)**	(209,649)
Financial assets at fair value through profit or loss	**720**	401
Other assets	**(6,272)**	(7,258)
Customers' deposits	**205,879**	50,568
Other liabilities	**19,055**	219,303
Cash from (used in) operating activities	**92,975**	76,621
Tax paid	**(3,433)**	(3,850)
Net cash from (used in) operating activities	**89,542**	72,771
Investing activities		
Purchase of property & equipment	**(2,570)**	(6,136)
Proceeds from sale of property & equipment	**34**	317
Purchase of non-trading investments	**-**	-
Purchase of investments available-for-sale	**(29,176)**	(11,721)
Proceeds from sale of investments available-for-sale	**27,137**	5,824
Sale or maturities of investments held-to-maturity	**(301)**	-
Purchase of Investment held to maturity	**(168)**	(89)
Income from investments held- to- maturity	**591**	536
Net cash (used in) investing activities	**(4,453)**	(11,269)
Financing activities		
Proceeds from issue of share capital	**-**	-
Proceeds from Subordinated bonds	**-**	-
Dividends paid	**(11,600)**	(11,600)
Net cash (used in) financing activities	**(11,600)**	(11,600)
Net increase/(decrease) in cash and cash equivalents	**73,489**	**49,902**
Cash and cash equivalents at beginning of period	**263,469**	282,512
Cash and cash equivalents at end of period	**336,958**	332,414
Cash and cash equivalents comprise:		
Cash and balances with Central Bank of Oman	**70,062**	244,696
Less restricted deposits	**(500)**	(500)
Net Cash and balances with Central Bank of Oman	**69,562**	**244,196**
Deposits with Banks	**50,481**	21,694
Less: Due to banks	**(8,085)**	(24,476)
Certificates of deposit	**225,000**	91,000
Cash and cash equivalents at end of period	**336,958**	332,414

The notes 7 to 26 form part of these financial statements

1 Legal status and principal activities

Oman Arab Bank SAOC (the Bank) was incorporated in the Sultanate of Oman on 1 October 1984 as a closed joint stock company. It is principally engaged in commercial and investment banking activities through a network of branches in the Sultanate of Oman. The registered head office of the Bank is at Muttrah Business District, PO Box 2010, Ruwi, Postal Code 112, Sultanate of Oman.

The Bank has a management agreement with Arab Bank Plc Jordan, which owns 49% of the Bank's share capital. In accordance with the terms of the management agreement, Arab Bank Plc Jordan provides banking related technical assistance and other management services, including the secondment of managerial staff. The bank employed 1,179 staff as at 30 September 2014 (30 Sep 2013: 1,110)

2 PRINCIPAL ACCOUNTING POLICIES

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), the requirements of the Commercial Companies Law of 1974, as amended and the disclosure requirements of the Central Bank of Oman.

Basis of preparation

The financial statements are prepared under the historical cost convention, as modified by the revaluation of investment securities, financial assets and financial liabilities at fair value through profit or loss and all derivative contracts.

Financial assets

The Bank classifies its financial assets in the following categories: financial assets at fair value through profit or loss, available for sale investments, loans and advances and held-to-maturity investments. Management determines the classification of its investments at initial recognition.

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 income statement. Unrealised gains or losses arising from changes in fair value are included in the income statement in the period in which they arise. Derivatives are also categorised as held for trading unless they are designated as hedging instruments.

Loans and advances

Loans and receivables are non-derivative financial assets with fixed or determinable repayments that are not quoted in an active market. They arise when the Bank 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.

Available for sale investments

Available for sale investments are that non-derivative financial assets that are either designated in this category or not classified in any other categories of investment. Available for sale financial assets are initially recognised at fair value including transaction costs. Subsequently these assets are carried at fair value. The changes in fair value are recognised in equity. When assets classified as available for sale are sold or impaired, the accumulated fair value changes recognised in equity are included in the income statement as gains and losses from investments.

2 PRINCIPAL ACCOUNTING POLICIES (continued)

Held-to-maturity investments

Held to maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Bank's management has the positive intention and ability to hold to maturity. Were the Bank to sell other 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 carried at amortised cost using the effective interest method.

Fair value measurement principles

The fair value of financial instruments is based on their quoted market bid price at the balance sheet 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.

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

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 balance sheet date taking into account current market conditions and the current creditworthiness of the counter-parties.

Derecognition

Financial assets are derecognised when the right to receive cash from the financial asset has expired or when the Bank has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognised when the liability is extinguished.

Impairment of financial assets

(a) Assets carried at amortised cost

The Bank assesses at each balance sheet date whether there is objective evidence that a financial asset or 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 Bank about the following loss events:

- significant financial difficulty of the issuer or obligor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- the Bank 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;
- 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 Bank, or national or local economic conditions that correlate with defaults on the assets in the Bank; or
- Any other guidelines issued by the Central Bank of Oman.

2 PRINCIPAL ACCOUNTING POLICIES (continued)

The Bank 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 Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss 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 income statement.

The calculation of the p
resent 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.

When a loan is uncollectible, it is written off against the related provision 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. Subsequent recoveries of amounts previously written off decrease the amount of the provision for loan impairment in the income statement.

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 income statement.

(b) 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.

Fiduciary assets
Assets held in trust or in a fiduciary capacity are not treated as assets of the Bank and accordingly are not included in these financial statements.
Offsetting

Financial assets and financial liabilities are offset and the net amount reported in the balance sheet only when there is a legally enforceable right to set off the recognised amounts and the Bank intends to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

Trade and settlement date accounting

All regular way purchases and sales of financial assets are recognised on the trade date, i.e. the date that the entity commits to purchase the asset. Regular way 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 PRINCIPAL ACCOUNTING POLICIES (continued)

Property and equipment

Property and equipment are initially recorded at cost and are subsequently carried at cost less accumulated depreciation and accumulated impairment losses. The carrying amounts are reviewed at each balance sheet date to assess whether they are recorded in excess of their recoverable amount, and where carrying values exceed this recoverable amount, assets are written down to their recoverable amount. Depreciation is calculated so as to write off the cost of property and equipment, other than freehold land and capital work in progress, using the straight-line basis over the estimated useful lives, as follows:

Freehold property	25 years
Leasehold property	25 years or period of lease if less
Equipment, furniture and fixtures	5 years
Motor vehicles	5 years

Gains and losses on disposal of property and equipment are determined by reference to their carrying amount and are taken into account in determining operating profit. Repairs and renewals are charged to the income statement when the expense is incurred. Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the item of property and equipment. All other expenditure is recognised in the income statement as an expense as incurred.

Borrowings

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

Employee Terminal Benefits

End of service benefits are accrued in accordance with the terms of employment of the Bank's employees at the balance sheet date, having regard to the requirements of the Oman Labour Law 2003. 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 balance sheet date. These accruals are included in liabilities.

Contributions to a defined contribution retirement plan for Omani employees in accordance with the Omani Social Insurance Law 1991, are recognised as an expense in the income statement as incurred.

Taxation

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

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

Deferred tax is calculated using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet 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 PRINCIPAL ACCOUNTING POLICIES (continued)

Foreign currencies

(a) Functional and presentation currency

Items included in the financial statements of the Bank are measured and presented in Rial Omani being the currency of the primary economic environment in which the Bank operates.

(b) Transactions and balances

Transactions in foreign currencies are translated into Rial Omani and recorded at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated into Rial Omani at the foreign exchange rate ruling at the balance sheet date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated into Rial Omani at the foreign exchange rate ruling at the date of the transaction.

Interest income and expense

Interest income and expense are recognised in the income statement for all instruments measured at amortised cost using the effective interest method.

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 Bank estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) 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.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

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 Bank 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 rateably over the period the service is provided. The same principle is applied for custody services that are continuously provided over an extended period of time.

Provisions

A provision is recognised in the balance sheet when the Bank has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits 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.

2 PRINCIPAL ACCOUNTING POLICIES (continued)

Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, including: cash and non-restricted balances with the Central Bank of Oman, treasury bills and other eligible bills, loans and advances to banks, amounts due from other banks and short-term government securities.

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 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.

Financial guarantees contracts

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

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

Segment reporting

The bank's segmental reporting is based on the following operating segments: Retail banking, corporate banking, Investment banking, and Group functions. The segment information is set out in note 24.

Risk management policies

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

The Bank manages its credit risk exposure through diversification of lending activities to avoid undue concentrations of risks with individuals or groups of customers in specific locations or businesses. It also obtains security when appropriate.

For details of the composition of the loans and advances portfolio refer Note 6.

2 PRINCIPAL ACCOUNTING POLICIES (continued)

Risk management policies (continued)

Credit risk (continued)

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 balance sheet.

Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in the market interest rates. The Bank is exposed to interest/mark-up rate risk as a result of mismatches or gaps in the amount of interest/mark-up based assets and liabilities that mature or re-price in a given period. The Bank manages this risk by matching/re-pricing of assets and liabilities. The Bank is not excessively exposed to interest/mark-up rate risk as its assets and liabilities are re-priced frequently. The Assets and Liabilities Committee (ALCO) of the Bank monitors and manages the interest rate risk with the objective of limiting the potential adverse effects on the profitability of the Bank.

Liquidity risk

Liquidity risk is the risk that the Bank 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 Bank’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 Bank maintains liquidity by continually assessing, identifying and monitoring changes in funding needs required to strategic goals set in terms of the overall strategy. In addition the Bank holds certain liquid assets as part of its liquidity risk management strategy.

Currency risk

Currency risk arises where the value of financial instrument changes due to changes in foreign exchange rates. In order to manage currency risk exposure the Bank enters into ready, spot and forward transactions in the inter bank market.

The Bank’s foreign exchange exposure comprises of forward contracts, foreign currencies cash in hand, balances with banks abroad, foreign placements and foreign currencies assets and liabilities. The net open position is managed within the acceptable limits by buying and selling foreign currencies at spot rates when considered 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.

Fair value of financial assets and liabilities

The estimate of fair values of the financial instruments is based on information available to management as at 31 March 2011.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 in deriving the fair values are as follows:

Certificate of Deposit and current account balances due to and from banks

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

2 PRINCIPAL ACCOUNTING POLICIES (continued)

Risk management policies (continued)

Loans and advances

The estimated fair value of loans whose interest rates are materially different from the prevailing market interest rates are determined by discounting the contracted cash follows using market interest rates currently charged to similar loans. The fair value of non-performing loans approximates to the book value adjusted for provision for loan impairment. For the remainder, the fair value has been taken at book value as the prevailing interest rates offered on similar loans are not materially different from the actual loan rates.

Investments

Quoted market prices, when available are used as the measure for fair value. However, when the quoted market prices do not exist, fair values presented are estimates derived using the net present value or other valuation techniques.

Customers' deposits

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

Directors' remuneration

The Directors' remuneration is governed as set out in the Articles of Association of the Bank, the Commercial Companies Law, regulations issued by the Capital Market Authority and regulations issued by the Central Bank of Oman.

The Annual General Meeting shall determine and approve the remuneration and the sitting fees for the Board of Directors and its sub-committees provided that such fees shall not exceed 5% of the annual net profit after deduction of the legal reserve and the optional reserve and the distribution of dividends to the shareholders provided that such fees shall not exceed RO 200,000. The sitting fees for each director shall not exceed RO 10,000 in one year.

Comparative figures

Certain previous year figures have been adjusted to conform to changes in presentation in the current year.

3 Cash and balances with Central Bank of Oman

	30-Sep-14	30-Sep-13
	RO 000	RO 000
Cash	26,963	24,195
Balances with Central Bank of Oman		
-Clearing account and other balances	42,599	220,001
-Statutory capital deposit	500	500
	70,062	**244,696**

The capital deposit cannot be withdrawn without the approval of the Central Bank of Oman. Balances with Central Bank of Oman are non-interest bearing.

4 Certificates of deposit

Certificates of deposit are issued by the Central Bank of Oman for a period of 28 days and carry interest at the average rate of 0.125% as at 30 September 2014 (30 September 2013 – 0.125%).

5 Due from banks

	30-Sep-14	30-Sep-13
	RO 000	RO 000
Money market placements	32,416	5,775
Current accounts	18,092	15,924
	50,508	**21,699**

6 Loans and advances

	30-Sep-14	30-Sep-13
	RO 000	RO 000
Commercial loans	617,795	566,806
Overdrafts	130,850	161,818
Personal loans	492,993	442,115
Credit cards	5,200	5,872
Al-Yusr Financing activities	16,918	227
	1,263,756	1,176,838
Less: Allowance for loan impairment and reserved interest	(35,710)	(34,167)
	1,228,046	**1,142,671**

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6 Loans and advances (continued)

(a) *Allowance for loan impairment and reserved interest*

The movements in the provision for loan impairment and reserved interest were as follows:

	30-Sep-14		
	Allowance for loan impairment	**Contractual interest not recognised**	**Total**
	RO 000	**RO 000**	**RO 000**
Balance at beginning of period	**27,272**	**6,997**	**34,269**
Provided during the period	7,720	1,752	9,472
General Provision - Islamic Banking	232	-	232
Amounts written off during the period	(680)	(938)	(1,618)
Amounts recovered during the period	(4,802)	(1,843)	(6,645)
Balance at end of period	**29,742**	**5,968**	**35,710**

	30-Sep-13		
	Allowance for loan impairment	**Contracrual interest not recognised**	**Total**
	RO 000	**RO 000**	**RO 000**
Balance at beginning of period	**24,777**	**6,744**	**31,521**
Provided during the period	5,326	1,507	6,833
General Provision - Islamic Banking	5	-	5
Amounts written off during the period	(276)	(378)	(654)
Amounts recovered during the period	(2,686)	(852)	(3,538)
Balance at end of period	**27,146**	**7,021**	**34,167**

Total allowance for the potential loss on the performing loans as at 30 September 2014 is RO 16,943,718 (30 September 2013: 14,901,706). The Central Bank of Oman regulations require that the allowance for impaired loan account should be the higher of the provision determined in accordance with IAS 39 and Central Bank of Oman guidelines. Loans and advances on which interest has been reserved and/or has not been accrued amounted to RO 34,978,509 (30 September 2013: RO 28,168,417).

6 Loans and advances (continued)

(b) *Concentration of loans and advances*

Loans and advances were granted to customers within the Sultanate of Oman. The concentration of gross loans and advances by industry sector is as follows:

	30-Sep-14 RO 000	30-Sep-13 RO 000
Personal loans including credit cards	**509,399**	448,214
Transportation	**145,892**	147,351
Construction	**125,413**	103,230
Manufacturing	**109,496**	112,869
Services	**62,376**	67,259
Utilities	**61,158**	62,397
Wholesale and retail trade	**50,455**	37,872
Import trade	**42,612**	42,392
Financial Institutions	**24,783**	25,908
Mining and quarrying	**16,537**	15,845
Agriculture and allied activities	**5,260**	6,724
Export trade	**753**	550
Others	**109,622**	106,227
	1,263,756	1,176,838

7 Investment securities

	30-Sep-14 RO' 000	30-Sep-13 RO' 000
Available for sale		
- quoted	**21,087**	17,230
- unquoted	**377**	363
	21,464	17,593
Designated at fair value through profit or loss		
- quoted	**867**	696
- unquoted	**293**	286
Total investments at fair value through profit or loss	**1,160**	982
Held for trading		
- quoted	**349**	1,417
- unquoted	**-**	-
	349	1,417
Held to maturity		
Oman Government Development Bonds	**31,869**	27,949
Corporate Securities	**168**	-
Corporate Securities - Islamic banking	**506**	-
Total investments held to maturity	**32,543**	27,949
Total investments in securities	**55,516**	47,941

The movement in the investment can be summarized as follow:

	At 1 January 2014 RO'000	Additions RO'000	Disposals (sale & redemption) RO'000	Changes in fair value recorded in statement of comprehensive income RO'000	Changes in fair value recorded in equity RO'000	At 30 September 2014 RO'000
Available-for- sale						
Quoted – level 1	18,949	29,176	(27,137)	-	99	21,087
Unquoted – level 3	371	-	-	-	6	377
Designated as at fair value through profit or loss						
Quoted – level 1	716	-	-	151	-	867
Unquoted – level 3	286	-	-	7	-	293
Held for trading						-
Quoted – level 1	1,042	165	(885)	27	-	349
Unquoted – level 2		-	-	-	-	-
Investments held to Maturity	32,073	674	(204)	0	0	32,543
	53,437	29,509	(28,226)	185	105	55,516

7 Investment securities (continued)

All the Oman government development bonds are denominated in Rial Omani and are issued by the Government of Oman. They carry interest rates varying between 2.75 % and 5.50% (2013– 3.25% to 5.5%) per annum. The maturity profile of the bonds, based on the remaining maturity from the balance sheet date, is as follows:

	30-Sep-14	30-Sep-13
Within One year	2,400	-
1 to 5 years	29,469	27,949
	31,869	27,949

8 Property and equipment

	Land and buildings RO 000	Computer equipment RO 000	Furniture and fixture RO 000	Motor Vehicles RO 000	Capital WIP RO 000	Total RO 000
Cost						
At 1 January 2014	21,418	14,757	8,741	569	988	46,473
Additions	606	469	452	133	909	2,569
Transfers	-	89	305	-	(394)	-
Disposals	-	(4)	(7)	(100)	-	(111)
At 30 Sep 2014	22,024	15,311	9,491	602	1,503	48,931
Depreciation						
At 1 January 2014	2,940	10,492	5,774	458	-	19,664
Charge for the period	452	770	672	23	-	1,917
Disposals	-	(4)	(5)	(92)	-	(101)
At 30 Sep 2014	3,392	11,258	6,441	389	-	21,480
Net book value						
At 30 Sep 2014	**18,632**	**4,053**	**3,050**	**213**	**1,503**	**27,451**
At 30 September 2013	**4,918**	**3,344**	**1,495**	**137**	**16,527**	**26,421**

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9 Other assets

	30-Sep-14 RO 000	30-Sep-13 RO 000
Acceptances	**23,486**	18,298
Interest receivable	**6,244**	6,558
Prepayments	**2,815**	1,930
Receivable from Investment customers	**1,225**	1,058
Positive Fair Value change - Forward contracts	**395**	429
Credit card settlement	**1,694**	1,620
Others	**2,213**	7,583
	38,072	**37,476**

Others as at September 30 2014 include the value of repossessed collateral property RO 310,000 (30 September 2013: RO 310,000).

10 Due to banks

	30-Sep-14 RO 000	30-Sep-13 RO 000
Money at call and short term deposits	-	15,400
Current accounts	12,112	9,081
	12,112	**24,481**

11 Customers' deposits

	30-Sep-14 RO 000	30-Sep-13 RO 000
Demand and call accounts	550,097	471,994
Term deposits	592,395	447,476
Savings accounts	212,540	162,221
	1,355,032	**1,081,691**

The concentration of customers' deposits by government and private sector is as follows:

	30-Sep-14 RO 000	30-Sep-13 RO 000
Private	1,007,075	766,105
Government	347,957	315,586
	1,355,032	**1,081,691**

12 Other liabilities

	30-Sep-14	30-Sep-13
	RO 000	RO 000
Acceptances	23,486	18,298
Balances in investment customers accounts	13,406	13,214
Acceptances and certified cheques	7,080	2,343
Staff related provisions	2,369	3,497
Interest Payable	6,473	4,921
Accrued expenses and others	8,984	4,719
Interest and commission received in advance	1,695	1,324
credit card settlement	762	418
Negative Fair Value change - Forward contracts	360	424
Subscriptions for IPO	1,150	211,610
	65,765	**260,768**

The charge and amounts paid in respect of staff terminal benefits were RO 320,708 (30 September 2013: RO 118,918) and RO 278,777 (30 September 2013: 194,703).

12 Subordinated bonds

In order to enhance the capital adequacy and to meet the funding requirements, the Bank 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 in April 2012 through private placement. The bonds are listed in the Muscat Securities Market and are transferable through trading. The bonds carry a fixed coupon rate of 5.5% per annum (2013: 5.5% per annum), payable semi-annually with the principal payable on maturity.

13 Taxation

The Bank is liable for income tax in accordance with the income tax laws of the Sultanate of Oman. The tax has been provided at 12%, the rate applicable to the Bank. The assessments for the years up to 2008 are complete. The bank has adequate provisions for the tax liability, if any.

14 Share capital

The authorized capital is RO 200,000,000 and the issued share capital comprises 1,160,000,000 fully paid shares of RO 0.100 each. RO 12 million has been assigned as capital for the Islamic Banking services of the Bank.

		30-Sep-14		30-Sep-13	
	Country of in corporation	Share holding %	RO 000	Share holding %	RO 000
OMINVEST	Oman	**50.99**	**59,148**	50.99	59,148
Arab Bank Plc	Jordan	**49**	**56,840**	49	56,840
Oman Investment services	Oman	**0.01**	**12**	0.01	12
		100	**116,000**	100	116,000

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15 Legal reserve

According to the Omani Commercial Companies Law of 1974, the Bank is required to transfer 10% of the profit for the year to legal reserve until the accumulated balance of this reserve equals at least one third of the Bank's Paid up share capital. The legal reserve is not available for distribution.

16 Interest income

	9 months ended	
	30-Sep-14	30-Sep-13
	RO 000	RO 000
Loans and advances	42,010	38,920
Placements with banks	108	49
Interest from Certificate of Deposits	155	83
Interest from Government Development Bonds	591	536
	42,864	**39,588**

Interest bearing assets earned interest at an average rate of 4.00% for the nine months ended 30 September 2014 (30 September 2013: 4.39%).

17 Interest expense

	9 months ended	
	30-Sep-14	30-Sep-13
	RO 000	RO 000
Time deposits	7,339	5,282
Interest on subordinated bonds	2,064	2,064
Call accounts	556	542
Savings accounts	323	286
	10,282	**8,174**

For the nine months ended 30 September 2014, the average cost of funds was 1.05% (30 September 2013: 1.02%)

18 Investment income

Income from investments at fair value through profit or loss	**30-Sep-14**	**30-Sep-13**
	RO 000	**RO 000**
Profit/Loss on sale of investments	**1,329**	723
Dividend income	**969**	578
Changes in fair value	**185**	499
Total investment income	**2,483**	1,800

19 Other operating income

	9 months ended	
	30-Sep-14	30-Sep-13
	RO 000	RO 000
Fees & Commissions	14,785	9,856
Exchange income	3,456	3,364
Other income	91	471
	18,332	13,691

20 Related party transactions

Oman Arab Bank has a management agreement with Arab Bank Plc Jordan, which owns 49% of the bank's share capital. In accordance with the terms of that management agreement, Arab Bank Plc Jordan provides banking related technical assistance and other management services, including the secondment of managerial staff. The annual fee payable to Arab Bank is 0.3% of NPAT.

The Bank accepts deposits from its directors and other related concerns including its affiliate banks. Similarly, the Bank provides loans and advances, and other banking services to these parties. These transactions are entered into in the normal course of the Bank's business, on an arm's length basis at open market prices. All loans and advances to related parties are performing advances and are free of any provision for possible credit losses. At 30 September, balances with directors and other related parties were as follows:

	Sep-14		Sep-13	
	RO' 000		RO' 000	
Related party transactions	**Major Shareholders**	**Others**	**Major Shareholders**	**Others**
Loans and advances	**4,500**	**46,142**	**6,502**	**44,568**
Customers' deposits	**264**	**6,966**	**359**	**6,823**
Investments	**1,117**	**663**	**487**	**514**
Due from banks	**9,756**	**-**	**6,647**	**-**
Due to banks	**1,702**	**-**	**20,561**	**-**
Stand by line of credit	**48,125**	**-**	**48,125**	**-**
Letters of credit, guarantees and acceptances	**212,600**	**3,180**	**169,819**	**998**
The Income Statement includes the following amounts in relation to the transactions with related parties:				
Interest & commission income	**97**	**599**	**190**	**796**
Interest & commission expense	**309**	**5**	**265**	**11**

Key Management Compensation

	30-Sep-14	30-Sep-13
	RO 000	RO 000
Salaries and other short term benefits	**588**	621
End of service benefits	**69**	75

21 (a) Commitments and Contingent Liabilities

The Bank is a party to financial instrument with off-balance sheet credit risk in the normal course of business to meet the financing needs of its customers. These financial instruments include standby letters of credit, financial guarantees to third parties, commitments to extend credit and others. The Bank's exposure to credit loss in the event of non-performance by the other party to such financial instruments is represented by the contract value or the notional amount of the instrument. However, generally the credit risk on these transactions is lower than the contract value or the notional amount. In addition, some commitments to extend credit can be cancelled or revoked at any time at the banks option.

The risk involved is essentially the same as the credit risk involved in extending loan facilities and therefore these transactions are subject to the same credit organisation, portfolio maintenance and collateral requirements for customers applying for loans and advances. The outstanding contract value or the notional amounts of these instruments at 31 March were as follows:

	30-Sep-14	30-Sep-13
	RO 000	RO 000
Letters of credit	417,494	399,564
Guarantees	527,595	496,374
	945,089	**895,938**

Letters of credit and guarantees amounting to RO 667,408,975 (30 September 2013: RO 676,464,412) were counter guaranteed by other banks.

(b) *Forward foreign exchange contracts*

At the balance sheet date, there were outstanding forward foreign exchange contracts, all maturing within one year, on behalf of customers for the sale and purchase of foreign currencies. The contract values are summarised below:

	30-Sep-14	30-Sep-13
	RO 000	RO 000
sales	23,659	89,945
purchases	(23,694)	(89,950)
	(35)	(5)

(c) *Assets pledged as Security*

At the balance sheet date, the bank has not pledged any of its assets as security. (30 September 2013 no assets pledged).

22 Basic Earnings per share

	2014	2013
Profit for the year (RO'000)	**21,223,522**	18,653,843
Weighted average number of shares outstanding during the year	**116,000,000**	116,000,000
Basic earning per share (RO)	**0.024**	0.022

Basic Earnings per share (Continued)

The par value of each share is 100 Baizas. The basic earnings per share is the profit for the period divided by the weighted average number of shares outstanding.

23 Capital adequacy

The principal objective of the Central Bank of Oman's (CBO) capital adequacy requirement 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. CBO's risk based capital adequacy framework is consistent with the international standards of the Bank of International Settlement (BIS).

CBO requires the banks' registered in the Sultanate of Oman to maintain the capital adequacy a minimum of 12% based on guidelines of the Basel II accord from December 2010 onwards. The requirements of Basel III will be gradually implemented starting from 2013. The banks in Oman have to comply with the related disclosure requirements issued by CBO.The transition period of phasing-in of regulatory adjustments of capital under Basel III in Oman would be from December 31, 2013 to December 31, 2017. During the transition period of phasing-in of regulatory deductions under Basel III the banks in Oman will use a modified version of disclosure of the components of capital.The minimum capital required for 2014 under Basel III guidelines is 12.625% including the capital conservation buffer of 0.625%, which will be 2.5% by December 31 2017

The ratio calculated in accordance with the CBO and BIS capital adequacy guidelines as per Basle II accord is as follows. :

	30-Sep-14	30-Sep-13
Capital	**RO 000**	**RO 000**
Tier I	**185,264**	172,366
Tier II	**45,255**	53,435
Total capital base	**230,519**	225,800
Risk Weighted Assets		
Credit risk	**1,376,639**	1,309,982
Market risk	**6,163**	8,050
Operation risk	**112,263**	104,838
Total risk weighted assets	**1,495,065**	1,422,870
BIS Capital Adequacy Ratio	**15.42%**	15.87%

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24 Segmental Information

The bank operates in only one geographical location, the Sultanate of Oman. The conventional banking operating revenues arise primarily from three business segments-corporate, retail and treasury/investment banking. The bank's Islamic banking window – Al Yusr commenced operations from July 14 2013.

For management purposes, the conventional operations of the Bank is organised into four operating segments based on products and services. The Islamic banking services is offered under the brand name – "Al Yusr".

The following table shows the distribution of the bank's net operating income and total assets by business segments.

	Corporate	Retail	Investment banking	Unallocated and support functions	Al-Yusr	Total
	RO 000	RO 000	RO 000	RO 000	RO 000	RO 000
At 30 Sep 2014						
Net operating income	**17,352**	**29,249**	**4,364**	**1,773**	**659**	**53,397**
Segmental assets	**727,830**	**483,578**	**22,674**	**440,975**	**19,598**	**1,694,655**
At 30 Sep 2013						
Net operating income	16,760	25,371	3,257	1,514	(477)	**46,425**
Segmental assets	706,948	435,501	19,514	440,274	9,675	**1,611,912**

25 FIDUCIARY ACTIVITIES

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

	30-Sep-14	30-Sep-13
	RO'000	*RO'000*
Funds under management	**390,031**	281,653