



**Oman Arab Bank SAOC**



**Oman Arab Bank (SAOC)**

**UN-AUDITED FINANCIAL STATEMENTS  
FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2015**

# **UN-AUDITED FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2015**

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**SUMMARY OF UN-AUDITED RESULTS AT 30 SEPTEMBER 2015**

<b>Particulars</b>	<b>30-Sep-15 RO 000</b>	<b>30-Sep-14 RO 000</b>
Net Loans and advances	1,486,086	1,228,046
Customers' Deposits	1,525,532	1,355,032
Other assets	45,089	38,072
Net worth	218,904	208,480
Net interest income	35,944	32,582
Net profit for the period	21,091	21,224
Basic earnings per share for the period	OMR 0.024	OMR 0.024
Capital Adequacy Ratio	12.88%	15.42%



## UN-AUDITED STATEMENT OF FINANCIAL POSITION AT 30 SEPTEMBER 2015

	Note	30-Sep-15	30-Sep-14
		RO 000	RO 000
<b>Assets</b>			
Cash and balances with Central Bank of Oman	3	135,155	295,062
Due from banks	4	70,038	50,508
Loans and advances	5	1,486,086	1,228,046
Investments in securities	6	116,685	55,516
Property and equipment	7	28,892	27,451
Other assets	8	45,089	38,072
<b>Total assets</b>		<b>1,881,945</b>	<b>1,694,655</b>
<b>Liabilities</b>			
Due to banks	9	9,733	12,112
Customers' deposits	10	1,525,532	1,355,032
Other liabilities	11	74,490	65,764
Subordinated Bonds	12	50,000	50,000
Taxation	13	3,286	3,266
<b>Total liabilities</b>		<b>1,663,041</b>	<b>1,486,174</b>
<b>Shareholders' funds</b>			
Share capital	14	116,000	116,000
Legal reserve	15	30,467	27,627
General reserve		23,660	20,819
Subordinated debt reserve		30,000	20,000
Cumulative changes in fair value of investments		(2,456)	1,469
Retained earnings		21,233	22,566
<b>Total shareholders' funds</b>		<b>218,904</b>	<b>208,481</b>
<b>Total liabilities and shareholders' funds</b>		<b>1,881,945</b>	<b>1,694,655</b>
<b>Contingent liabilities</b>	22	<b>913,271</b>	<b>945,089</b>

The financial statements were approved by the board of directors on 7<sup>th</sup> October 2015 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

**Oman Arab Bank SAOC****UN-AUDITED STATEMENT OF COMPREHENSIVE INCOME  
FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2015**

	<b>Note</b>	<b>30-Sep-15</b>	<b>30-Sep-14</b>
		<b>RO 000</b>	<b>RO 000</b>
Interest income	16	46,975	42,864
Interest expense	17	<u>(11,031)</u>	<u>(10,282)</u>
<b>Net interest income</b>		<b>35,944</b>	<b>32,582</b>
Investment Income	18	2,477	2,483
Other operating income	19	<u>20,098</u>	<u>18,332</u>
<b>Total income</b>		<b>58,519</b>	<b>53,397</b>
Staff expenses		(20,431)	(17,512)
Other operating expenses		(9,203)	(8,430)
Depreciation		(2,515)	(1,917)
<b>Operating expenses</b>		<b><u>(32,149)</u></b>	<b><u>(27,859)</u></b>
<b>Operating profit</b>		<b><u>26,370</u></b>	<b><u>25,538</u></b>
Allowance for loan impairment	5	(9,129)	(7,952)
Impairment Provisions AFS		(398)	-
Profit from sale of non-banking assets	20	2,400	-
Recoveries from allowance for loan impairment		4,807	6,645
<b>Profit before tax</b>		<b><u>24,050</u></b>	<b><u>24,231</u></b>
Taxation	13	(2,959)	(3,007)
<b>Net profit for the period</b>		<b><u>21,091</u></b>	<b><u>21,224</u></b>
<b>Other comprehensive income</b>			
Changes in fair value of investments		<u>(1,127)</u>	<u>105</u>
<b>Total Comprehensive Income for the period</b>		<b><u>19,964</u></b>	<b><u>21,329</u></b>
<b>Basic Earnings per share (annualized)</b>	23	<b><u>OMR 0.024</u></b>	<b><u>OMR 0.024</u></b>

The notes 7 to 26 form part of these financial statements



**UNAUDITED STATEMENT OF CHANGES IN EQUITY  
FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2015**

	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
<b>Balance at 1-Jan-14</b>	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	-	21,224
Proceeds from issue of share capital	-	-	-	-	-	-	-	-
Transfer to share capital	-	-	-	-	-	-	-	-
<b>Balance at 30-Sep-2014</b>	<u>116,000</u>	<u>27,627</u>	<u>20,819</u>	<u>20,000</u>	<u>-</u>	<u>22,566</u>	<u>1,469</u>	<u>208,481</u>
<b>Balance at 1-Jan-15</b>	<b>116,000</b>	<b>30,467</b>	<b>23,660</b>	<b>30,000</b>	<b>13,920</b>	<b>142</b>	<b>(1,329)</b>	<b>212,860</b>
Dividends paid	-	-	-	-	(13,920)	-	-	(13,920)
Change in fair value of investment available for sale (refer to note 10)	-	-	-	-	-	-	(1,127)	(1,127)
Net profit	-	-	-	-	-	21,091	-	21,091
Proceeds from issue of share capital	-	-	-	-	-	-	-	-
Transfer to share capital	-	-	-	-	-	-	-	-
<b>Balance at 30-Sep-15</b>	<u>116,000</u>	<u>30,467</u>	<u>23,660</u>	<u>30,000</u>	<u>-</u>	<u>21,233</u>	<u>(2,456)</u>	<u>218,904</u>

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 2015**

	30-Sep-15	30-Sep-14
<b>Operating activities</b>	<b>RO 000</b>	<b>RO 000</b>
Profit before taxation	24,049	24,230
Adjustments:		
Depreciation	2,516	1,917
Allowance for loan impairment	9,128	7,952
Recoveries /release from allowance for loan impairment	(24,564)	(6,645)
Profit on sale of fixed assets	(2,442)	(23)
Loss on sale of fixed assets	2	-
Income from investments held-to-maturity	(884)	(591)
Changes in fair value of investments at fair value through profit or loss	(660)	(185)
<b>Cash flows from Operating profit before changes in operating assets &amp; liabilities</b>	<b>7,543</b>	<b>26,655</b>
Net changes in:		
Loans and advances	(210,815)	(153,062)
Financial assets at fair value through profit or loss	1,069	720
Other assets	(3,579)	(6,272)
Customers' deposits	59,221	205,879
Other liabilities	(1,921)	19,055
<b>Cash from (used in) operating activities</b>	<b>(148,482)</b>	<b>92,975</b>
Tax paid	(3,909)	(3,433)
<b>Net cash from (used in) operating activities</b>	<b>(152,391)</b>	<b>89,542</b>
<b>Investing activities</b>		
Purchase of property & equipment	(2,105)	(2,570)
Proceeds from sale of property & equipment	2,458	34
Purchase of non-trading investments	-	-
Purchase of investments available-for-sale	(46,040)	(29,176)
Proceeds from sale of investments available-for-sale	(23,187)	27,137
Sale or maturities of investments held-to-maturity	25,498	(301)
Purchase of Investment held to maturity	-	(168)
Income from investments held- to- maturity	884	591
<b>Net cash (used in) investing activities</b>	<b>(42,492)</b>	<b>(4,453)</b>
<b>Financing activities</b>		
Proceeds from issue of share capital	-	-
Proceeds from Subordinated bonds	-	-
Dividends paid	(13,920)	(11,600)
<b>Net cash (used in) financing activities</b>	<b>(13,920)</b>	<b>(11,600)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>(208,803)</b>	<b>73,489</b>
<b>Cash and cash equivalents at beginning of period</b>	<b>403,763</b>	<b>263,469</b>
<b>Cash and cash equivalents at end of period</b>	<b>194,960</b>	<b>336,958</b>
<b>Cash and cash equivalents comprise:</b>		
Cash and balances with Central Bank of Oman	135,155	70,062
Less restricted deposits	(500)	(500)
Net Cash and balances with Central Bank of Oman	134,655	69,562
Deposits with Banks	69,728	50,481
Less: Due to banks	(9,423)	(8,085)
Certificates of deposit	-	225,000
<b>Cash and cash equivalents at end of period</b>	<b>194,960</b>	<b>336,958</b>

The notes 7 to 26 form part of these financial statements



**NOTES TO THE UN-AUDITED FINANCIAL STATEMENTS  
FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2015**

**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 1,259 staff as at 30 September 2015 (30 Sep 2014: 1,179)

**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.





**NOTES TO THE UN-AUDITED FINANCIAL STATEMENTS  
FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2015**

**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.



**NOTES TO THE UN-AUDITED FINANCIAL STATEMENTS  
FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2015**

**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 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.

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.



NOTES TO THE UN-AUDITED FINANCIAL STATEMENTS  
FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2015

**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.



NOTES TO THE UN-AUDITED FINANCIAL STATEMENTS  
FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2015

**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.



**NOTES TO THE UN-AUDITED FINANCIAL STATEMENTS  
FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2015**

**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.



**NOTES TO THE UN-AUDITED FINANCIAL STATEMENTS  
FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2015**

**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.





**NOTES TO THE UN-AUDITED FINANCIAL STATEMENTS  
FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2015**

**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 flows 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.



NOTES TO THE UN-AUDITED FINANCIAL STATEMENTS  
FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2015

**3 Cash and balances with Central Bank of Oman**

	<b>30-Sep-15</b>	<b>30-Sep-14</b>
	<b>RO 000</b>	<b>RO 000</b>
Cash	40,539	26,963
Balances with Central Bank of Oman		
-Clearing account and other balances	94,116	42,599
-Statutory capital deposit	500	500
Certificate of Deposits	-	225,000
	<u>135,155</u>	<u>295,062</u>

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.

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% (30 September 2014 – 0.125%).

**4 Due from banks**

	<b>30-Sep-15</b>	<b>30-Sep-14</b>
	<b>RO 000</b>	<b>RO 000</b>
Money market placements	39,490	32,416
Current accounts	30,548	18,092
	<u>70,038</u>	<u>50,508</u>

**5 Loans and advances**

	<b>30-Sep-15</b>	<b>30-Sep-14</b>
	<b>RO 000</b>	<b>RO 000</b>
Commercial loans	758,831	617,795
Overdrafts	148,106	130,850
Personal loans	576,356	492,993
Credit cards	4,941	5,200
Al-Yusr Financing activities	40,937	16,918
	<u>1,529,171</u>	<u>1,263,756</u>
Less: Allowance for loan impairment and reserved interest	<u>(43,085)</u>	<u>(35,710)</u>
	<u><b>1,486,086</b></u>	<u><b>1,228,046</b></u>





NOTES TO THE UN-AUDITED FINANCIAL STATEMENTS  
FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2015

5 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-15		
	Allowance for loan impairment	Contractual interest not recognised	Total
	RO 000	RO 000	RO 000
Balance at beginning of period	30,651	6,997	34,315
Provided during the period	9,129	1,852	10,981
Amounts written off during the period	(51)	(28)	(79)
Amounts recovered during the period	(3,672)	(1,135)	(4,807)
Balance at end of period	<u>36,057</u>	<u>7,028</u>	<u>43,085</u>
	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	<u>29,742</u>	<u>5,968</u>	<u>35,710</u>

Total allowance for the potential loss on the performing loans as at 30 September 2015 is RO 19,749, 625 (30 September 2014: 16,943,718). 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 43,649,964 (30 September 2014: RO 34,978,509).



NOTES TO THE UN-AUDITED FINANCIAL STATEMENTS  
FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2015

5 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-15 RO 000	30-Sep-14 RO 000
Personal loans including credit cards	608,073	509,399
Transportation	121,281	145,892
Construction	107,009	125,413
Manufacturing	162,097	109,496
Services	48,018	62,376
Utilities	69,759	61,158
Wholesale and retail trade	78,537	50,455
Import trade	69,815	42,612
Financial Institutions	58,876	24,783
Mining and quarrying	71,110	16,537
Agriculture and allied activities	6,333	5,260
Export trade	882	753
Government	4,209	-
Others	123,172	109,622
	<u>1,529,171</u>	<u>1,263,756</u>



NOTES TO THE UN-AUDITED FINANCIAL STATEMENTS  
FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2015

6 Investment securities

	30-Sep-15 RO' 000	30-Sep-14 RO' 000
<b>Available for sale</b>		
- quoted	18,541	21,592
- unquoted	847	377
	<u>19,388</u>	<u>21,969</u>
<b>Designated at fair value through profit or loss</b>		
- quoted	458	867
- unquoted	314	293
Total investments at fair value through profit or loss	<u>772</u>	<u>1,160</u>
<b>Held for trading</b>		
- quoted	83	349
	<u>83</u>	<u>349</u>
<b>Held to maturity</b>		
Oman Government Development Bonds	53,332	32,038
Treasury Bills	43,110	-
Total investments held to maturity	<u>96,442</u>	<u>32,038</u>
<b>Total investments in securities</b>	<u>116,685</u>	<u>55,516</u>

The movement in the investment can be summarized as follow:

	At 1 January 2015 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 2015 RO'000
<b>Designated as at fair value through profit or loss</b>						
Quoted – level 1	617	45	(841)	637	-	458
Unquoted – level 3	317	-	-	(3)	-	314
<b>Held for trading</b>						
Quoted – level 1	330	144	(417)	26	-	83
Unquoted – level 2		-	-	-	-	-
<b>Available-for- sale</b>						
Quoted – level 1	22,365	23,183	(25,482)	(398)	(1,127)	18,541
Unquoted – level 3	355	509	(17)	-	-	847
<b>Investments held to Maturity</b>	<u>50,402</u>	<u>46,040</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>96,442</u>
	<u>74,386</u>	<u>69,921</u>	<u>(26,757)</u>	<u>262</u>	<u>(1,127)</u>	<u>116,685</u>



NOTES TO THE UN-AUDITED FINANCIAL STATEMENTS  
FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2015

6 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% (2014–3.25% 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-15	30-Sep-14
Within One year	-	2,400
1 to 5 years	<u>53,332</u>	<u>29,469</u>
	<u>53,332</u>	<u>31,869</u>

Treasury Bills are issued by Central Bank of Oman for a period of 30 days to 3 years and carry interest at the average rate of 0.49%. As at 30 September 2015 the balance outstanding in treasury bills is RO 43,110,000 (30 September 2014 Nil)

7 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
<b>Cost</b>						
At 1 January 2015	24,140	15,818	9,617	565	1,258	51,398
Additions	-	1,000	835	161	109	2,105
Transfers	-	-	59	-	(60)	(1)
Disposals	(2,569)	-	-	(107)	-	(2,676)
At 30 Sep 2015	<u>21,571</u>	<u>16,818</u>	<u>10,511</u>	<u>619</u>	<u>1,307</u>	<u>50,826</u>
<b>Depreciation</b>						
At 1 January 2015	3,552	11,499	6,648	377	-	22,076
Charge for the period	442	1,251	770	52	-	2,515
Disposals	(2,569)	-	-	-	(88)	(2,657)
At 30 Sep 2015	<u>1,425</u>	<u>12,751</u>	<u>7,418</u>	<u>429</u>	<u>(88)</u>	<u>21,934</u>
<b>Net book value</b>						
At 30 Sep 2015	<u>20,146</u>	<u>4,067</u>	<u>3,093</u>	<u>191</u>	<u>1,395</u>	<u>28,892</u>
At 30 September 2014	<b>18,632</b>	<b>4,053</b>	<b>3,050</b>	<b>213</b>	<b>1,503</b>	<b>27,451</b>



**NOTES TO THE UN-AUDITED FINANCIAL STATEMENTS  
FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2015**

**8 Other assets**

	<b>30-Sep-15</b>	<b>30-Sep-14</b>
	<b>RO 000</b>	<b>RO 000</b>
Acceptances	25,854	23,486
Interest receivable	8,885	6,244
Prepayments	2,438	2,815
Receivable from Investment customers	3,337	1,225
Positive Fair Value change - Forward contracts	266	395
Credit card settlement	2,079	1,694
Others	2,230	2,213
	<u><b>45,089</b></u>	<u><b>38,072</b></u>

Others as at September 30 2015 include the value of repossessed collateral property RO NIL (30 September 2014: RO 310,000).

**9 Due to banks**

	<b>30-Sep-15</b>	<b>30-Sep-14</b>
	<b>RO 000</b>	<b>RO 000</b>
Current accounts	9,733	8,112

**10 Customers' deposits**

	<b>30-Sep-15</b>	<b>30-Sep-14</b>
	<b>RO 000</b>	<b>RO 000</b>
Demand and call accounts	679,575	550,097
Term deposits	613,525	592,395
Savings accounts	232,432	212,540
	<u><b>1,525,532</b></u>	<u><b>1,355,032</b></u>

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

	<b>30-Sep-15</b>	<b>30-Sep-14</b>
	<b>RO 000</b>	<b>RO 000</b>
Private	1,120,777	1,007,075
Government	404,755	347,957
	<u><b>1,525,532</b></u>	<u><b>1,355,032</b></u>



NOTES TO THE UN-AUDITED FINANCIAL STATEMENTS  
FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2015

**11 Other liabilities**

	<b>30-Sep-15</b>	<b>30-Sep-14</b>
	<b>RO 000</b>	<b>RO 000</b>
Acceptances	25,854	23,486
Balances in investment customers accounts	16,817	13,406
Acceptances and certified cheques	5,753	7,080
Staff related provisions	2,367	2,369
Interest Payable	9,818	6,473
Accrued expenses and others	11,324	8,984
Interest and commission received in advance	1,831	1,695
Credit card settlement	487	762
Negative Fair Value change - Forward contracts	239	360
Subscriptions for IPO	-	1,150
	<b><u>74,490</u></b>	<b><u>65,764</u></b>

**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, 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 13 million has been assigned as capital for the Islamic Banking services of the Bank.

		30-Sep-15		30-Sep-14	
	Country of in corporation	Share holding %	RO 000	Share holding %	RO 000
OMINVEST	Oman	<b>50.99</b>	<b>59,148</b>	50.99	59,148
Arab Bank Plc	Jordan	<b>49</b>	<b>56,840</b>	49	56,840
Oman Investment services	Oman	<b><u>0.01</u></b>	<b><u>12</u></b>	<b><u>0.01</u></b>	<b><u>12</u></b>
		<b><u>100</u></b>	<b><u>116,000</u></b>	<b><u>100</u></b>	<b><u>116,000</u></b>



NOTES TO THE UN-AUDITED FINANCIAL STATEMENTS  
FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2015

**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**

	<b>9 months ended</b>	
	<b>30-Sep-15</b>	<b>30-Sep-14</b>
	<b>RO 000</b>	<b>RO 000</b>
Loans and advances	45,705	42,010
Placements with banks	195	108
Interest from Certificate of Deposits	191	155
Interest from Government Development Bonds	884	591
	<u>46,975</u>	<u>42,864</u>

Interest bearing assets earned interest at an average rate of 3.88% for the nine months ended 30 September 2015 (30 September 2014: 4.00%).

**17 Interest expense**

	<b>9 months ended</b>	
	<b>30-Sep-15</b>	<b>30-Sep-14</b>
	<b>RO 000</b>	<b>RO 000</b>
Time deposits	8,039	7,339
Interest on subordinated bonds	2,057	2,064
Call accounts	715	556
Savings accounts	220	323
	<u>11,031</u>	<u>10,282</u>

For the nine months ended 30 September 2015, the average cost of funds was 0.97% (30 September 2014: 1.05%)

**18 Investment income**

<b>Income from investments at fair value through profit or loss</b>	<b>30-Sep-15</b>	<b>30-Sep-14</b>
	<b>RO 000</b>	<b>RO 000</b>
Profit/Loss on sale of investments	1,731	1,329
Dividend income	859	969
Changes in fair value	(113)	185
<b>Total investment income</b>	<u>2,477</u>	<u>2,483</u>



NOTES TO THE UN-AUDITED FINANCIAL STATEMENTS  
FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2015

**19 Other operating income**

	9 months ended	
	30-Sep-15	30-Sep-14
	RO 000	RO 000
Fees & Commissions	15,146	14,785
Exchange income	3,946	3,456
Other income	1,006	91
	20,098	18,332

**20 Profit from sale of non-banking assets**

During July 2015 the Bank sold its old head office premises at Ruwi since the head office operations have moved to the new premises at Al Ghubrah. The Ruwi branch will continue to operate from the old premises under an operating lease agreement.

**21 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:

<u>Related party transactions</u>	Sep-15		Sep-14	
	RO' 000		RO' 000	
	Major Shareholders	Others	Major Shareholders	Others
Loans and advances	19,500	46,404	4,500	46,142
Customers' deposits	2,932	9,978	264	6,966
Investments	-	458	1,117	663
Due from banks	13,274	-	9,756	-
Due to banks	7,155	-	1,702	-
Stand by line of credit	48,125	-	48,125	-
Letters of credit, guarantees and acceptances	236,256	3,506	212,600	3,180

*The Income Statement includes the following amounts in relation to the transactions with related parties:*

Interest & commission income	55	672	97	599
Interest & commission expense	324	1	309	5





NOTES TO THE UN-AUDITED FINANCIAL STATEMENTS  
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**22 (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 30 September were as follows:

	<b>30-Sep-15</b>	<b>30-Sep-14</b>
	<b>RO 000</b>	<b>RO 000</b>
Letters of credit	256,078	417,494
Guarantees	657,193	527,595
	<u>913,271</u>	<u>945,089</u>

Letters of credit and guarantees amounting to RO 577,261,213 (30 September 2014: RO 667,408,975) 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:

	<b>30-Sep-15</b>	<b>30-Sep-14</b>
	<b>RO 000</b>	<b>RO 000</b>
sales	49,734	23,659
purchases	<u>(49,761)</u>	<u>(23,694)</u>
	<u>(27)</u>	<u>(35)</u>

**(c) Assets pledged as Security**

At the balance sheet date, the bank has not pledged any of its assets as security. (30 September 2014 no assets pledged).



NOTES TO THE UN-AUDITED FINANCIAL STATEMENTS  
FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2015

**23 Basic Earnings per share**

	<b>2015</b>	<b>2014</b>
Profit for the year (RO'000)	<b>21,091,041</b>	21,223,522
Weighted average number of shares outstanding during the year	<b>116,000,000</b>	116,000,000
Basic earnings per share (RO)	<u><b>0.024</b></u>	<u>0.024</u>

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.

**24 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. :

	<b>30-Sep-15</b>	<b>30-Sep-14</b>
<b>Capital</b>	<b>RO 000</b>	<b>RO 000</b>
Tier I	<b>198,880</b>	185,264
Tier II	<u><b>37,264</b></u>	<u>45,255</u>
Total capital base	<u><b>236,144</b></u>	<u>230,519</u>
<b>Risk Weighted Assets</b>		
Credit risk	<b>1,705,500</b>	1,376,639
Market risk	<b>4,588</b>	6,163
Operation risk	<u><b>122,800</b></u>	<u>112,263</u>
Total risk weighted assets	<u><b>1,832,888</b></u>	<u>1,495,065</u>
<b>BIS Capital Adequacy Ratio</b>	<u><b>12.88%</b></u>	<u>15.42%</u>



NOTES TO THE UN-AUDITED FINANCIAL STATEMENTS  
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**25 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 organized 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
<b>At 30 Sep 2015</b>						
Net operating income	<u>22,557</u>	<u>30,766</u>	<u>3,749</u>	<u>2,929</u>	<u>918</u>	<u>60,919</u>
Segmental assets	<u>882,518</u>	<u>563,301</u>	<u>19,453</u>	<u>366,730</u>	<u>49,943</u>	<u>1,881,945</u>
<b>At 30 Sep 2014</b>						
Net operating income	<u>17,352</u>	<u>29,249</u>	<u>4,364</u>	<u>1,773</u>	<u>659</u>	<u>53,397</u>
Segmental assets	<u>727,830</u>	<u>483,578</u>	<u>22,674</u>	<u>440,975</u>	<u>19,598</u>	<u>1,694,655</u>

**26 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-15 RO'000	30-Sep-14 RO'000
Funds under management	<u>312,517</u>	<u>390,031</u>