Annual Report 2012

Moving ahead in **excellence !**

بنك عُمان العربي ش.م.ع.م

OMAN ARAB BANK S.A.O.C.

Annual Report 2012

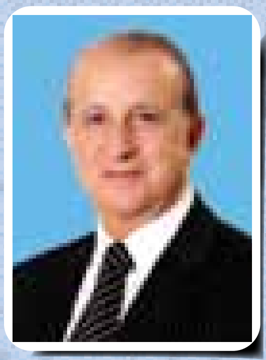
The last year has seen tremendous challenges in the Banking Sector due to global crises and internal competition. Oman Arab Bank has stood up to those challenges with enhanced performance and outstanding service to our customers and endeavoured to maintain the quality of our assets and the strength of our financial position.

We draw our inspiration from the visionary leadership of **His Majesty Sultan Qaboos Bin Said** and stay committed to his ideals and beliefs to take the country forward by being a part of the progress.

In this Annual Report we look at our excellent performance in 2012 and strive towards further growth next year.

His Majesty Sultan Qaboos Bin Said

CONTENTS



MR. RIAD KAMAL
DEPUTY CHAIRMAN

Riad Kamal is the Founder of Arabtec Construction and Vice Chairman of Arabtec Holding, which operates out of Dubai, Abu Dhabi, Saudi Arabia, Kuwait, Bahrain, Doha, Karachi, Damascus, Cairo and St. Petersburg. Mr. Kamal began his Civil Engineering and Construction career in London in 1966, following a year of design work he went on to work on construction projects in Jordan, The U.K. and Spain for Tarmac and Sir Robert McAlpine.

In 1974 Mr. Kamal moved to Dubai and started his own construction company which he took public thirty years later to become the first private company to become public in the UAE. Today Arabtec Construction is one of the five largest contractors in the MENA region and specializes in building and civil engineering works and its name has become a household name in the construction industry in the Gulf States. It has over 40,000 employees on its payroll and has constructed some world class developments such as Burj Khalifa (the tallest building in the world) and the interiors of Burj Al Arab in Dubai, The Emirates Palace hotel in Abu Dhabi, and the Okhta Centre Tower in St. Petersburg.

Mr. Kamal graduated as a Civil Engineer from the Imperial College of London University and holds a Master's degree from the same college in Structural Engineering.

CURRENT AFFILIATIONS

Member of the Board of Directors, Arab Bank, Amman, Jordan
Member of the Board of Directors, Turkland Bank, Istanbul, Turkey
Member of the Board of Directors, Arabia Insurance Co., Beirut, Lebanon
Deputy Chairman and Board Member - Oman Arab Bank - Oman
Advisory Board Member (Middle East & Africa) - Deutsche Bank (Swiss)SA
Member of the Board of Directors, Gulf Capital, Abu Dhabi, U.A.E.
Founder & Member of the Board of Directors, DEPA United Group, Dubai
Member of the Board of Directors, Rotana Hotels Co., Abu Dhabi
Member of the Board of Trustees, The American University of Beirut (AUB)
Member of the Board of Trustees and Vice Chairman of the Board, The Welfare Association, Geneva, Switzerland
Member of World Presidents' Organization (WPO)

MR. RASHAD BIN MUHAMMED AL ZUBAIR
CHAIRMAN

Appointed Chairman in June 1999, Mr. Rashad Al Zubair has more than 21 years of business experience. He has been the Chairman of The Zubair Corporation from 1996 till 2010. Mr. Rashad Al Zubair was a member of the Board of Directors of the Capital Market Authority for more than six years until 2008.

He is also the Deputy Chairman of Barr Al Jissah Resort & Spa. Over the years, he has held various other directorships in Omani joint stock companies such as Oman Refreshments, Port Services Corporation and United Power Company.

MR. ABDUL KADER ASKALAN
CHIEF EXECUTIVE OFFICER

Mr. Askalan commenced his career as a banker in January 1957 with Arab Bank Plc., Jordan. He was appointed the Regional Executive Manager in charge of the Oman operations in 1973 when Arab Bank established its branch in Oman. In October 1984, Mr. Askalan was appointed the Managing Director of Oman Arab Bank when the Arab Bank branches in Oman were reconstituted as a closed joint stock company. In December 1998, in compliance with CBO regulations, he was appointed as the Chief Executive Officer.

He is a member of the Board of Directors of Ominvest and Gulf Investment Corporation, Kuwait. He is the Deputy Chairman of the Banking & Investment Committee of the Oman Chamber of Commerce. He is a member of the Board of Directors of the College of Banking & Financial Studies. He is also a member of the Managing Committee of the Deposit Insurance Scheme at the Central Bank of Oman and Deputy Chairman of Omantel.

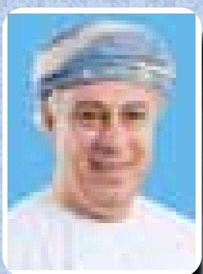
MR. HANI BIN MUHAMMED AL ZUBAIR
DIRECTOR

Mr. Hani was educated in Brummana High School Beirut, Orchard Portman Preparatory School and Millfield School in the U.K. before attending Richmond University in London. He started his working career in investment banking in Geneva and moved to Morgan Greenfell Bank in London before joining OMINVEST.

He has always had a passion for cars, so when an opportunity arose in the Marketing Department of Zubair Automotive, he jumped at it. He started as Marketing clerk and worked his way up to Manager. He then moved to the Finance department at Zubair Enterprises and started studying the business before establishing the Investment Division, which was later made into a separate company called Al Hilal Investment Co. LLC. He was asked to join the Board of Directors of Government-owned Hotels and represented the Oman Chamber of Commerce and Industry at the Indian Ocean Rim Association for Regional Cooperation for approximately five years.
He served on the Boards of the Commercial Bank of Oman, Muscat Finance Company, FINCORP and as Chairman of Ominvest. Hani also served on the regional board of the Young Arab Leaders. He is the Chairman of the Fund for Development of Youth Projects (Sharakah), Vice-chairman of the National Finance Company and a director of Oman Arab Bank.

He is a keen sportsman and was a member of Millfield's first hockey and cricket teams, as well as the shooting team and captain of the Tae Kwondo team. He was Oman National Go-karting Champion in 1990 and 1991 and runner-up in the Middle East Go-karting Championships. He was also the National Jet Ski Champion in 1994 and 1995 and took part in the Aquabike World Championships in Dubai in 1995.

MR. SAID ZAKI
DIRECTOR

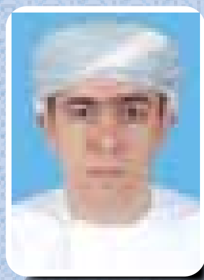


A Director since February 1997, member of the Audit Committee since January 2003 and member of the Executive Committee since December 2005. He is also a Director on the Board of National Finance Company SAOG.

Mr. Said Zaki holds a Bachelor's degree in Commerce and a Diploma in Management. He has more than 38 years of experience in banking, finance and investment.

Since 1995, Mr. Said Zaki has been with Ominvest where he currently holds the position of Chief Compliance Officer. Previously, he worked for the The Zubair Corporation LLC ('TZC') for 11 years in senior management positions and represented TZC as a Director on the Board of several public and private companies in Oman.

MR. MULHAM AL JARF
DIRECTOR



As Deputy Chief Executive Officer, Mr. Mulham supports the Oman Oil Company's leadership in managing and pursuing investment opportunities in energy and energy related sectors both inside and outside Oman.

He currently serves as Chairman of Takamul Investment Company SAOC, Chairman of Sohar Aluminium LLC, Vice Chairman of Gulf Energy Maritime PSC, Deputy Chairman of Oman Oil Marketing Company SAOC, Director in MOL Plc., Director in China Gas Holdings Limited and Director in Oman Arab Bank SAOC.

He is a graduate of International Business & Finance from Marymount University and a registered Barrister at the Bar of England & Wales.

MR. AMIN HUSSEINI
DIRECTOR

Mr. Amin Husseini joined Arab Bank Plc in 1994 and was later promoted to Executive Vice President/Head of Financial Institutions & Transaction Services Group at Arab Bank Head Office in Amman.

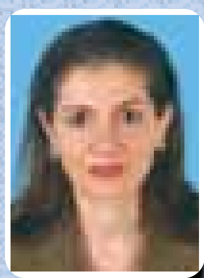
He was relocated to Manama to hold the position of Executive Vice President/Bahrain Country Manager in March 2009 and is currently managing the retail bank in Bahrain as well as the Offshore Banking Unit which has regional responsibilities and client coverage.

At Head Office he was a member of the Asset and Liability Management Committee, Senior Management Committee, Strategic Planning Committee and the Senior Joint Credit Committee.

Mr. Husseini is a member of T-Bank (a 50% owned subsidiary of Arab Bank in Turkey), and is also a member of Oman Arab Bank's Board of Directors. Oman Arab Bank is a 49% owned subsidiary of Arab Bank Plc.

Born in 1967, Mr. Husseini has a Bachelor's degree in Physics and a Master's degree in Business Administration.

MS. RANDA SADIK
DIRECTOR



A Board Member of Oman Arab Bank and a Deputy Chief Executive Officer of Arab Bank Group since July 2010. Ms. Sadik has broad international banking experience built over 25 years.

Before joining Arab Bank, Ms. Sadik served as Group General Manager for National Bank of Kuwait, responsible for the bank's international and regional network of branches and subsidiaries. Ms. Sadik is also a board member of Arab Tunisian Bank in Tunis, Vice Chairman of Arab Bank Australia Ltd, a board member of Arab Investment Bank S.A.L.-Lebanon, Chairman of Al- Arabi for Finance (Holding co.) S.A.L.-Lebanon and Chairman of the Management Committee of Al-Arabi Investment Group.

FINANCIAL HIGHLIGHTS 2012

	RO'000
Total Assets	1,370,409
Deposits	1,031,144
Loans	934,814
Shareholders' Equity	172,511
Net Profit	25,270

SUMMARY

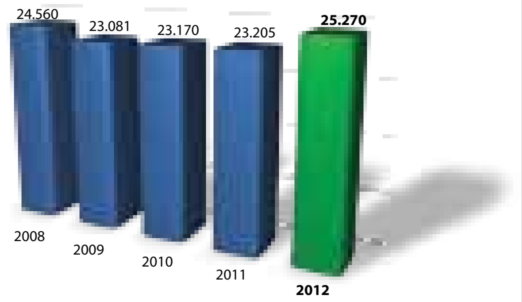
RO'000 (UNLESS OTHERWISE INDICATED)

	2012	2011	2010	2009	2008
Financial Highlights					
Net interest income	40,967	36,480	33,357	30,778	28,880
Other operating income	19,861	18,895	18,175	17,768	15,798
Net operating income	**60,828**	**55,375**	**51,532**	**48,546**	**44,678**
Operating expenses	(28,542)	(25,347)	(21,970)	(20,541)	(18,223)
Provision for loan impairment	(5,727)	(6,173)	(4,562)	(4,325)	(3,961)
Release/recovery from provision for loan impairment	2,284	2,667	1,742	2,459	5,435
Taxation	(3,573)	(3,317)	(3,572)	(3,058)	(3,369)
Net Profit after taxation	**25,270**	**23,205**	**23,170**	**23,081**	**24,560**
Dividend	11,600	18,000	17,000	15,000	20,000
Total Assets	1,370,409	1,114,665	953,655	858,891	779,106
Gross Loans and advances	966,335	857,000	682,349	583,404	553,978
Provision for loan impairment	(31,521)	(27,155)	(22,003)	(17,847)	(14,982)
Net Loans and advances	934,814	829,845	660,346	565,557	538,996
Non-performing loans	26,087	24,446	20,953	15,787	8,856
Customer deposits	1,031,144	909,660	769,761	696,072	610,905
Shareholders' funds	172,511	148,956	125,831	111,481	90,462
Share Capital	116,000	100,000	85,000	75,000	60,000
Analysis					
1. Profitability					
Return on shareholders' funds	15.72%	16.89%	19.53%	22.86%	29.04%
Return on Total Assets	2.03%	2.24%	2.56%	2.82%	3.72%
Cost to income	46.92%	45.77%	42.63%	42.31%	40.79%
2. Capital					
Capital Adequacy (BIS standard)	16.91%	13.69%	14.49%	13.44%	11.75%
Shareholders' funds to Total Assets	12.59%	13.36%	13.19%	12.98%	11.61%
3. Asset quality					
Non-performing loans to total loans	2.70%	2.85%	3.07%	2.71%	1.60%
Provision coverage	120.83%	111.08%	105.01%	113.05%	169.17%
4. Liquidity					
Net loans to customer deposits	90.66%	91.23%	85.79%	81.25%	88.23%
Net loans to total assets	68.21%	74.45%	69.24%	65.85%	69.18%
Liquid assets to customer deposits	36.08%	25.92%	32.70%	36.80%	31.92%
5. Others					
Dividend rate	10.00%	18.00%	20.00%	20.00%	33.33%
Dividends per share in RO	0.010	0.180	0.200	0.200	0.333
Basic earnings per share in RO*	0.022	0.241	0.272	0.310	0.400

* Nominal value of shares converted to 100 baizas from RO 1.000 in 2012

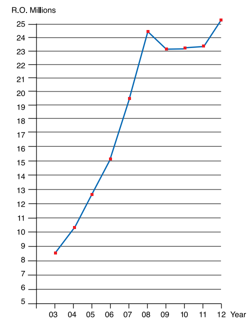
Financial Trends

Ten Year Trends

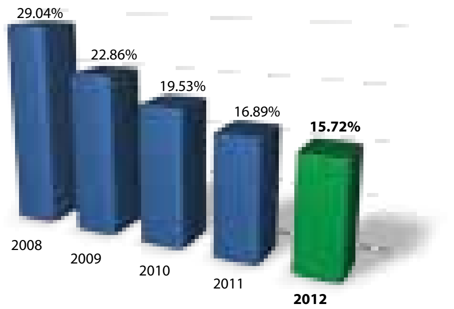


Profit

The Net Profit After Tax for the year has increased by 9% from previous year with the growth in the loans contributing to a healthy growth in net interest income.

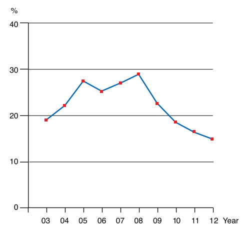


Net Profit After tax
Profit tax exempt until 31 July, 2003

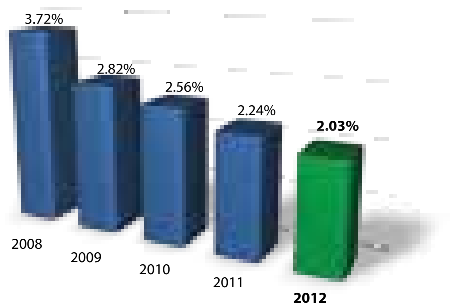


Equity

The Return on Equity reduced from the previous year due to lower rate of growth in the Net Profit After Tax combined with the increased equity due to the rights issue for the Islamic banking services.

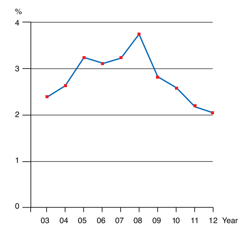


Return on average shareholders' equity

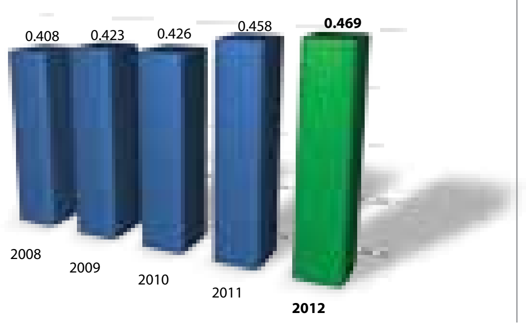


Assets

The return on assets at 2.03% for 2012 is still the best amongst Oman's banks despite a 23% growth in total assets.

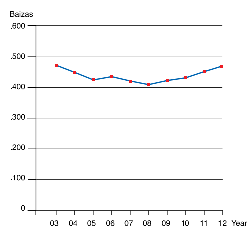


Return on Total Assets



Cost to income

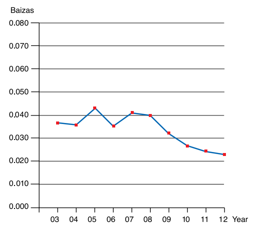
The additional staff costs with the growth in the Bank's operation resulted in an increase in cost to income ratio as the growth in income is under pressure due to the higher level of competition.



Cost to income

Ten Year Trends

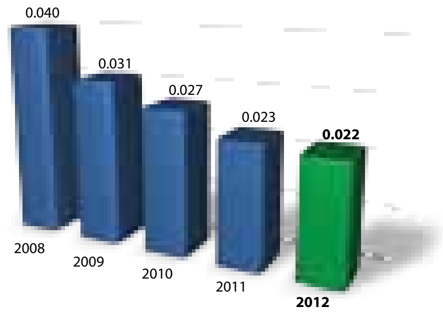
Financial Trends

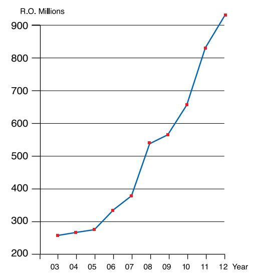


Earnings per share in RO

Earnings

Earnings Per Share reduced by 4% from previous year due to the lower rate of growth in net profit while the share capital increased.

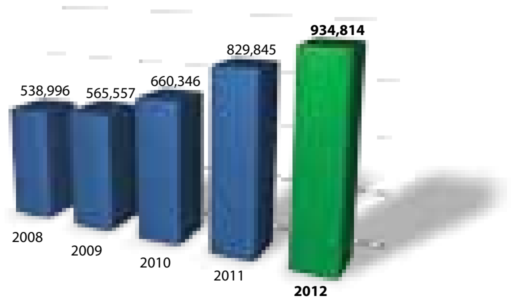


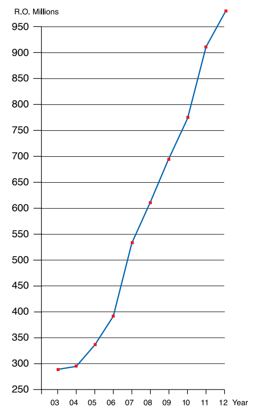


Loans & advances net of provision

Loans

Growth in loans at 13% with a 11% increase in corporate loans and 13% increase in personal loans is line with the average market growth.

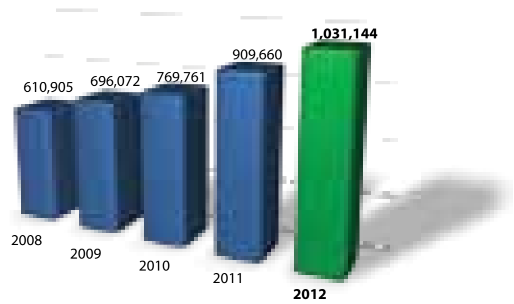


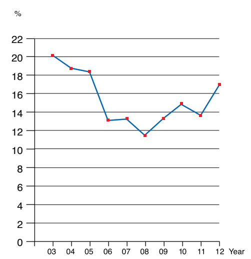


Customer deposits

Deposits

Deposit growth of 13%, which is at same level as growth in total deposits of all banks, supported the growth in loans.

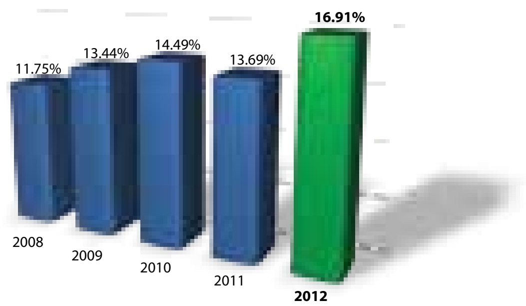




Capital Adequacy ratio

Capital

Issue of subordinated bonds contributed to the strong Capital Adequacy Ratio which is well above the minimum requirement of 12% by the CBO.



CHAIRMAN'S REPORT

Dear Shareholders,

On behalf of the Board of Directors, it gives me great pleasure to present to you the Annual Report of OAB for the financial year 2012 along with the financial statements that reflect the results and achievements of OAB.

Impacts of the global financial crisis are still causing an economic disruption in most countries across the world, with the economies of most European countries still unstable and suffering from slackening economic performance, shrinking cash flows, increased level of unemployment and difficulty in reaching conclusive decisions by such countries to correct their economic situations.

Likewise, at the regional level, most of the Arab countries are still facing severe political and economic circumstances that had adversely affected their stability, disrupted their state of affairs placing a lot of strain on all the financial and economic sectors.

However Oman was less vulnerable to such upheavals, thanks to the sound planning of our visionary Government, which announced the next year's budget, confirming the stability of the economic situation and the capacity of the Government to deliver the projects that will assist all the economic sectors in the future.

As for the results for FY 2012, OAB had increased its share capital at the beginning of the year by RO 10 Million to RO 116 Million, in order to meet the capital requirement for Islamic banking services, which will be provided by OAB to its clients through a dedicated Islamic window during the second quarter of 2013. Key indicators in OAB's balance sheet reflect a profit increase by 9% to RO 25.27 Million from the previous RO 23.2 Million. Total Assets recorded a growth of 23% from RO 1,114 Million to RO 1,370 Million, while Net Loans increased by 13% to reach RO 934 Million from RO 829 Million. Deposits also increased by 13% from RO 909 Million to RO 1,031 Million. Capital adequacy improved from 13.69% to 16.91%, while the ratio of Non-Performing Loans to Total Loans reduced to 2.7%, with the provision coverage of 120.8%. Shareholders' Equity increased to RO 184.1 Million from RO 160.9 Million.

The results reflect the steady growth of OAB based on sound banking principles that maintain a robust financial position and high quality of loan portfolio. The reports issued by the regulatory authorities confirm the compliance of OAB with the laws and regulations issued by CBO as well as MSM and CMA, which is further evidenced by our disclosures within the Annual Report under the Corporate Governance report.

Based on the above results, the Board of Directors has recommended the distribution of dividends representing 10% of the share capital, after setting aside RO 10 Million as reserve for the subordinated bonds of RO 50 Million issued by the Bank during the year.

The Board of Directors would like to express its sincere gratitude and appreciation to the prudent Government for its continued support to the banking sector.

We would like to take this opportunity also to thank CBO for the support and guidance it provides to the banking sector with a view to preserving the integrity of the banking sector.

Thanks are due also to the Management of MSM and CMA for their support to all the companies to boost investment and ensure business integrity.

We thank the Management of Arab Bank for their continuous support to us, which contributed significantly in achieving such results.

We sincerely thank our clients for their trust and support, and would like to reiterate our unwavering commitment to the provision of the highest level of services to satisfy their needs and develop their business.

We thank the Executive Management and all the dedicated staff of OAB for their efforts to support this Bank and ensure its continuous progress.

May Allah help us continue to serve the nation and contribute to the development under the wise leadership of **His Majesty Sultan Qaboos bin Said** and his prudent Government.

Thank you

Rashad Bin Muhammed Al Zubair
Chairman

KEY HIGHLIGHTS OF 2012

KEY HIGHLIGHTS OF 2012

Duqm Port Project

Oman Air

KEY HIGHLIGHTS OF 2012

Saham Ship

Dualization of Bid Bid-Sur Road Package1A - Section 1

CHIEF EXECUTIVE OFFICER'S REPORT

Undoubtedly banking has increasingly become challenging as a result of the global crises, as well as the fierce interbank competition. Although such competition could help developing the financial institutions and upgrade the services they furnish to the public, it could have adverse impacts on the community and the institutions themselves. Competition should exist in order to enhance performance and institutions must not gain their competitive advantage by waiving collaterals or offering facilities unmatched to the financial and administrative capabilities of the applicants. Therefore, we have based our dealings with customers on principles that warrant our credibility and strived to provide them with outstanding services. We have also endeavoured to maintain the quality of our assets and the strength of our financial position. Profitability is not the only reason behind OAB's success; as the success of financial institutions depends on the set up of a solid structure complying with all the criteria that confirm the administrative organization designed to create support and control tools in order to avoid risks in all fields of our business. Bearing this in mind, we have enhanced the capabilities of the Bank's auditing apparatus and made sure to follow all the remarks included in the reports issued by the said apparatus so as to ensure the workflow is sound at our branches and departments. We have given full support to the Risks Department as well as the Compliance Department so that all the branches and departments abide by the laws and regulations and credit risks are avoided as much as possible. Further, we have sought to implement the directives issued by the regulatory bodies and to adhere to the transparency and disclosure standards. Accordingly, we have continued to place an emphasis on the values of achievement, commitment, stability, and sustainability so as to guarantee that OAB would remain one of the main pillars of the economy and we affirmed our continuous contribution to all the genuine aspects of development.

This year, OAB participated in the syndicated loan furnished to the subsidiaries of Electricity Holding Company SAOC to the amount of RO 38 Million. The Bank also issued the necessary guarantees for the contractor executing Phase I of Muscat Airport Expansion Project to the amount of $720 million. We also provided a loan of $124 Million to Oman Air in order to finance the procurement of Boeing airplanes; and issued the required guarantees for Al Ghubra Desalination Plant Project at the cost of $ 450 Million. OAB has also financed the contractor executing Bid Bid-Sur Road Project to the amount of RO 20 Million.

Accordingly, and despite the severe competition prevailing in this sector, the figures set forth in the Chairman's Report, confirm the growth witnessed by all the balance sheet items, as well as Bank's soundness and ability to safeguard its position and achievements.

During the first half of next year we will be relocating to the Bank's new building in Athaiba. The design of this building confirms the soundness of our business, stability of our position and our commitment to partake in the development of our nation. This new building would enhance the organizational structure of our departments so as to become more effective, more businesslike and more capable of uplifting the standard of our services.

Our Services

Throughout our 39-year journey of brilliant work, we have considered the special services we provide to be the foundation of our business and our success. Therefore, we always endeavour to upgrade the services we render to our customers, making sure they cater for their needs and aim at the same time to making us participate in planning their business. This year we continued to expand our presence and our branch network and services through opening new branches in Khasab, Shinas and Athaiba, in addition to an OAB's Office at the Muscat Airport Expansion Project.

This year we have continued to develop our e-services, whether in the field of our government services, or in respect of the needs of our customers. In this area, we seek to provide our services with the highest levels of security and confidentiality and we have managed to achieve the following:

- Developing our e-banking services
- Designing the information center, and establishing a new communication network in the new building
- Linking the e-payment system via the CBO's systems
- Linking the systems of some government institutions and departments to the Bank's e-payment systems
- Testing the Bank's main systems in cases of emergency
- Installing systems relating to the Islamic Services Window
- Setting up a new communication network within the new building
- In addition to other systems and software aimed at upgrading the e-services rendered to our customers.

Our Investment Services

The Investment Group has continued to play a key role in formulating and developing the concept of investment business in the Sultanate. In fact, OAB, through the Investment Group, has played a pivotal role in listing the first Islamic bank in the Sultanate (Bank Nizwa) through acting as Lead Issue Manager, Underwriting Arranger and Collecting Bank. The IPO, oversubscribed by more than 11 times, bears testimony to the ability of OAB's team and Investment Management Group to make this activity a success. Furthermore, the Portfolio Management Team has also achieved a better performance than the MSM 30 Index and S&P Index for 2012. As for brokerage, the Bank ranked among the top 5 companies in Muscat Securities Market in terms of size, backed up by a research team highly active in providing services for market traders. This year OAB has launched Al Arabi MENA200 Index, the first of its kind in the region, while the Special Banking Services Team has continued to add diversified investment products with a view to meeting our customers' needs.

Human Resources

Out of its keenness to base its services on the values of expertise and proficiency, OAB places a special emphasis on enhancing the competence of its staff members by sending them abroad to attend training courses in order to strengthen their capabilities and qualify them for assuming leading positions. Therefore, the Bank has organized 226 training courses covering all banking areas wherein 1941 persons participated. Scholarships were granted to 15 employees to enable them to pursue their academic studies and obtain a diploma in business administration and banking and financial sciences. Furthermore, 25 employees were sent abroad to obtain BA and MA degrees as well as other professional certificates in the fields of banking, and another 18 employees were sent overseas to follow specialized studies in the fields of accounting, business administration and compliance. Up to the end of 2012, there have been a total number of 1002 employees working at the Bank with an Omanization rate of 93%. Moreover, 85% of the leading positions at the Bank are occupied by Omanis, which confirms OAB's keenness on nurturing qualified cadres that are able to render highly professional services to its customers.

In this area, we would like to extend our thanks and appreciation to all the executives, managers, officers and employees for their support, without which the Bank's achievements wouldn't have materialized.

Social Responsibility

We believe that supporting and participating in social activities is the obligation of all the institutions operating in the Sultanate. Being part of this society, they are responsible for supporting the social, charitable and sports institutions in a way that confirm their sense of responsibility towards our community and commitment to it. We, at OAB, have always fulfilled this duty through supporting and sponsoring many activities seeking to uplift the cultural, social, economic and sports levels in the society. Enclosed with the Report is a special booklet about our corporate social responsibility.

May Allah guide us all to strive for the prosperity of our nation, under the wise leadership of the builder of our renaissance, Sultan Qaboos bin Said, May Allah protect him.

Abdul Kader Askalan
Chief Executive Officer

OMAN ARAB BANK SAOC

CORPORATE GOVERNANCE REPORT
AND
MANAGEMENT DISCUSSION & ANALYSIS

For the Year Ended 31st December 2012

ERNST & YOUNG

P.O. Box 1750, Ruwi 112
Ernst & Young Building
Qurum
Muscat, Sultanate of Oman
Tel: +968 [illegible] Fax: +968 [illegible]
[illegible]
[illegible]
C.R. No. [illegible]
P.R. No. [illegible]

Report of Factual Findings on the corporate governance reporting of Oman Arab Bank SAOC and its application of the corporate governance practices in accordance with the CMA Code of Corporate Governance

TO THE SHAREHOLDERS OF OMAN ARAB BANK SAOC

We have performed the procedures prescribed in the Capital Market Authority (CMA) circular no 16/2003, dated 29 December 2003 with respect to the accompanying corporate governance report of Oman Arab Bank SAOC (the bank) and its application of corporate governance practices in accordance with the CMA Code of Corporate Governance issued under circular no. 11/2002 dated 3 June 2002 and the CMA Rules and Guidelines on disclosure, issued under CMA administrative decision 5, dated 27 June 2007. Our engagement was undertaken in accordance with the International Standard on Related Services applicable to agreed-upon procedures engagements. The procedures were performed solely to assist you in evaluating the extent of the bank's compliance with the code as issued by the CMA.

We report our findings below:

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

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

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

Our report is solely for the purpose set forth in the first paragraph of this report and for your information and is not to be used for any other purpose. This report relates only to the accompanying corporate governance report of Oman Arab Bank SAOC to be included in its annual report for the year ended 31 December 2012 and does not extend to any financial statements of Oman Arab Bank SAOC, taken as a whole.

Ernst & Young

23 January 2013
Muscat

CORPORATE GOVERNANCE REPORT

OAB's approach to corporate governance

Framework and Approach to corporate governance and responsibility

The Board is committed to maintaining the highest standards of corporate governance.

The Board believes that corporate governance is about having a set of values and behaviours that governs the Bank's everyday activities - values and behaviours that ensure transparency, fair dealing and protection of the interest of the Bank's stakeholders namely customers, shareholders, employees and the community. In line with this belief, the Board's approach is to consider corporate governance within the broader framework of corporate responsibility and regulatory oversight.

The business case for good governance is compelling. A Bank's level of governance and responsibility has emerged as a significant indicator of its overall health as a business. The genuine commitment to good governance is fundamental to the sustainability of the Bank's business and its performance.

In pursuing its commitment to best practice governance standards, the Board will continue to:

- review and improve our governance practices;
- monitor global developments in best corporate governance practice, in particular developments from the United States Sarbanes- Oxley Act 2002; and
- contribute wherever we can to local debates on what represents best corporate governance practice.

Our Governance Standards - Principles and Processes

We believe that the best approach is to be guided by the principles and practices that are in our stakeholders' interests. However, as a minimum we ensure full compliance with legal requirements, in particular to the letter and spirit of the local governance practices issued by the Capital Market Authority (CMA), guidelines issued by the Central Bank of Oman and the Corporate Governance regulations issued by the Ministry of Commerce and Industry for closed joint stock companies.

What is in this statement?

This corporate governance statement is divided in two Parts. Part 1 discusses the broad principles of corporate governance adopted by the Bank. Part 2 provides specific disclosures.

In the Directors' opinion, Part 1 and Part 2 together as a minimum comply with the requirements of the Code of Corporate Governance issued by the CMA.

Date of this statement

This statement reflects the Bank's corporate governance policies and procedures as at 31 December 2012.

Corporate Governance - Part 1

In this part we set out the following contents as required under the Code of Corporate Governance issued by CMA:

1. The Board – putting governance into practice
2. Board Committees and their role

Corporate Governance - Part 1 (continued)

3. Audit governance and independence

4. Executive pay and reward scheme

5. Controlling and managing risk

6. Communication with Shareholders, regulators and wider market

1. The Board - putting governance into practice

Role of the Board

The Board of Directors is accountable to the shareholders. The Board's specific responsibilities include:

- ensuring our business is conducted ethically and transparently;
- providing strategic direction and approving corporate strategies;
- ensuring maintenance of adequate risk management controls and reporting mechanisms;
- monitoring management and financial performance;
- reviewing and approving the Bank's quarterly and annual financial reports;
- approving the business plan and budgets;
- selecting and evaluating the Chief Executive Officer (CEO) and senior management;
- planning for executive succession; and
- setting Chief Executive Officer's remuneration and recommending the Directors' remuneration to the shareholders for approval in the Annual General Meeting.

Board size and Composition

The Directors of the Bank are elected by the two major shareholders namely OMINVEST and Arab Bank Plc Jordan subject to the limits imposed by our constitution. The Bank's constitution requires a minimum of seven and a maximum of nine Directors. In accordance with the Central Bank of Oman's regulations, we do not have an executive Director in the Board.

Currently, there are seven non-executive Directors, of whom two are independent Directors and two are nominated Directors representing OMINVEST and Arab Bank Plc.

The current composition of the Board and Board Committees is set out in Part 2.

Selection and Role of the Chairman

The Chairman is a non-executive Director, appointed by the Board. The Chairman's role includes:

- ensuring that, when all Board members take office, they are fully briefed on the terms of their appointment, their duties and responsibilities;
- providing effective leadership on formulating the Board's strategy;

Corporate Governance - Part 1 (continued)

1. The Board - putting governance into practice (continued)

- representing the views of the Board to the public;
- ensuring that the Board meets at regular intervals throughout the year, and that minutes of meetings accurately record decisions taken and, where appropriate, the views of individual Directors; and
- reviewing the contributions made by the Board members.

Board Independence

Having an independent Board is a key to good corporate governance. The Bank has structures and procedures in place to ensure that the Board operates independently of executive management. These include appointing an independent, non-executive Director as chairman and ensuring that there are non-executive Directors who can bring special professional expertise to the Board. All the existing Directors meet the criteria of 'independent director' as defined by Article 1 of the CMA code of corporate governance issued under circular no. 11/2002 dated June 2002. The CMA has amended the definition of 'independent director' in the circular issued on 24 October 2012 and the Bank will ensure compliance with the new definition during 2013.

Meetings of the Board and their Conduct

The Board meets formally at least four times a year. In addition, it meets whenever necessary to deal with specific matters needing attention between the scheduled meetings. Meeting agendas are established by the Chairman in consultation with the CEO to ensure adequate coverage of financial, strategic and major risk areas throughout the year. Copies of Board papers are circulated in advance of meetings.

Meetings attended by the Directors for the past financial year are reported in Part 2.

Attendance at Annual General Meeting

The Directors attend, and are available to answer questions at, the Annual General Meeting.

Avoidance of Conflicts of Interest of Directors

In accordance with the constitution of the Bank, any Director with a material personal interest in a matter being considered by the Board must not be present when the matter is being considered, and may not vote on the matter.

Expertise of our Board

The Board has a broad range of expertise and experience to meet its objectives. The current Board composition is set out in Part 2, with details of each member's expertise and experience and other current Directorships, is set out in the annual report.

Succession Planning

The Board is responsible for CEO succession planning taking into account the skills and experience required.

Corporate Governance - Part 1 (continued)

Nomination and Appointment of New Directors

Recommendations for nominations of new Directors are made by the shareholders. When Directors are nominated, the shareholders assesses them against a range of criteria including background, experience, professional skills, personal qualities, whether their skills and experience will augment the existing Board, and their availability to commit themselves to the Board's activities. If these criteria are met then the shareholders appoint a new Director.

When appointed to the Board, all new Directors receive an induction appropriate to their experience to familiarize them with matters relating to the Bank's business, strategy and current issues before the Board.

The Board is appointed for a period of three years. The term of the current Board expires in March 2013.

Review of Board Performance

The Board regularly reviews its overall performance, as well as the performance of individual Directors.

1. The Board - putting governance into practice

Board Access to Information

The Board needs high quality, unfiltered information on which to base decisions. All Directors have unrestricted access to the Bank's records and information, and receive regular detailed financial and operational reports from senior management to enable them to carry out their duties.

2. Board Committees

We currently have three Board Committees whose powers are governed by the relevant Committee's terms of reference, as approved by the Board. The three Board Committees are: Executive Committee, Audit and Risk Management Committee and Selection and Remuneration Committee. Other committees may be established from time to time to consider matters of special importance.

Operation of the Committees

The Board Committees meet at least quarterly and at any other times as necessary. Each committee is entitled to the resources and information it requires, including direct access to employees and advisers. Senior managers and other employees are invited to attend committee meetings as necessary. All Directors receive minutes of the committee meetings and can attend all committee meetings.

Composition and Independence of the Committees

Committee members are chosen for the skills, experience and other qualities they bring to the committees. All committees are currently composed of only non-executive Directors. In addition, the Chief Internal Auditor is the secretary of the Audit and Risk Management Committee.

How the Committees report to the Board

Minutes of every meeting of the Board Committees are included in the agenda for the first full Board meeting scheduled to be held after the committee meeting. When necessary the chairman of the respective committee may also provide a verbal report.

Corporate Governance - Part 1 (continued)

Brief Terms of Reference of Board Committees

a) Board Executive Committee

The Board Executive Committee:

- reviews and approves policies with regard to credit risk limits and controls
- reviews and approves credit facilities above the executive management's approval limits,
- reviews and approves expenses or capital expenditures above executive management's approval limits,
- considers matters of special importance as delegated by the Board.

b) Board Audit and Risk Management Committee

The Board Audit and Risk Management Committee oversees all matters concerning:

- Integrity of the financial statements.
- Compliance with legal and regulatory requirement.
- Ensuring that Bank has an effective risk management system and clear policies and procedures for reporting, taking action and documenting breaches of laws including fraud and theft.
- Reviewing and recommending risk management policies and controls to Board.
- Review and recommendation to the Board the terms of engagement of our external auditors.
- Performance of the internal audit function.

c) Board Selection and Remuneration Committee

The Board Selection and Remuneration Committee oversees all matters concerning:

- Recommending the appointment of Chief Executive Officer to the Board.
- Ensuring independence of the Board members and avoidance of conflict of interest.
- Approving the appointment of executive management team based on recommendation by Chief Executive Officer except the appointment of Chief Audit Executive, Head of Compliance, Head of Risk Management, and Legal Counsel who will be appointed directly by the Board or its committees.
- Recommending remuneration of the Chief Executive Officer to the Board including the salary and other benefits.
- Approving remuneration of executive management team include the salaries and other benefits.
- Ensuring that the Bank has a proper compensation policy, reviewing and recommending amendments in policy to the Board.
- Reviewing and monitoring the human resource plan and align the plan to achieve the Bank's strategies.

Corporate Governance - Part 1 (continued)

- Ensuring that the Bank has proper training, career development and succession plans.
- Reviewing and monitoring the "Omanisation" plan and identifying the positions that should be occupied by Omanis with the time table to achieve the plan.

Integrity of the Financial Statements

The Committee considers whether the accounting methods applied by management are consistent and comply with accounting standards and concepts. The committee reviews and assesses any significant estimates and judgments in the financial reports and monitors the methods used to account for unusual transactions. In addition it assesses the processes used to monitor and ensure compliance with laws, regulations and other requirements relating to external reporting of financial and non-financial information.

Internal Audit Function

The committee supervises the Internal Audit function. It reviews the Internal Audit responsibilities, budget, plan and staffing. The Committee also reviews significant reports prepared by Internal Audit and management responses and the committee meets separately with the Head of Internal Audit.

Composition of the Committee and Meetings

The current committee memberships together with dates of meetings held are set out in Part 2.

3. Audit Governance and Independence

The Board is committed to three basic principles:

- the Bank must produce true and fair financial reports;
- the Bank must have independent auditors who serve shareholder interests by ensuring shareholders know the Bank's true financial position; and
- the accounting and auditing standards are comprehensive and relevant and comply with applicable accounting standards and policies.

Engagement of Auditors

The Bank's independent external auditors are Ernst & Young for the financial year ended at 31 December 2012. They were appointed by shareholders at the Annual General Meeting held on 28 March 2012.

Certification and Discussions with Auditors on Independence

The Board Audit and Risk Management Committee require the Bank's external auditors to confirm that they maintained their independence at the commencement and during the audit. Board Audit and Risk Management Committee also meets with the external auditors to discuss their audit and any concerns they may have.

Rotation of External Auditors

Subject to applicable regulatory requirements, the Bank will require rotation of the external auditor every four years and a minimum two years' 'cooling off' period before an auditor is reappointed.

Corporate Governance - Part 1 (continued)

Restrictions on Non-Audit Work by the Audit Firm

The Bank's external auditors will not be able to carry out the following types of non-audit work for the Bank:

- preparation of accounting records and financial statements;
- IT systems design and implementation;
- valuation services and other corporate finance activities;
- internal audit services;
- temporary senior staff assignments, management functions;
- broker or dealer, investment adviser or investment banking;
- legal services; and
- litigation services.

For all other non-audit related services that are required, if our external audit firm were selected then the need for that will be assessed and approved by the Audit and Risk Management Committee.

Attendance at Annual General Meeting

The Bank's auditors attend, and are available to answer questions at, the Annual General Meeting.

4. Executive Pay and Reward Schemes

Overview

The Bank's goal in rewarding the CEO and other executives is to provide base pay plus performance-linked rewards and other benefits that will attract and retain key executives. The Bank's policy is to provide individual performers with a level of income that:

- recognizes the market value of each position in a competitive market;
- rewards the individual's capabilities and experience;
- recognizes the performance of individuals; and
- assists in executive retention.

To do this, the Bank has designed a fair and transparent structure for rewarding the Bank's executives that matches comparable remuneration in the marketplace.

Who decides how individuals should be paid and rewarded?

The Board recommends the remuneration and the sitting fee for individual Directors to be approved in the Annual General meeting. The remuneration of the CEO is recommended by the Board Selection and Remuneration Committee and approved by the Board of Directors.

The CEO recommends the pay and reward packages for key senior management staff consistent with the market practice and this is approved by the Board Selection and Remuneration Committee.

Fees paid to each Director during the 12 month period ended 31 December 2012 together with pay and rewards for the Bank's top five executives are set out in Part 2.

Corporate Governance - Part 1 (continued)

5. Controlling and Managing Risk

Approach to Risk Management

Risk is inherent in Banking business. Risk management is a strategic issue in today's competitive environment. Taking and managing risk are central to the Bank's business and to building shareholder value. To do this effectively the Bank needs to optimize its level of risk. The Bank's risk approach links its vision and values, objectives and strategies, and procedures and training.

The Bank recognizes three main types of risk:

- Credit risk, being the risk of financial loss from the failure of customers to honour fully the terms of their contract with us;
- Market risk, being the risk to earnings from changes in market factors such as interest and foreign exchange rates, or liquidity and funding profiles; and
- Operational risk, being the risk of unexpected financial, reputation or other damage arising from the way our organization pursues its business objectives.

We recognize that these risk categories are interlinked and therefore we take an integrated approach to managing them. We have comprehensive risk principles that apply to each category of risk.

The risk management function aims at ensuring that:

(a) the Bank operates its key risk activities within acceptable risk/reward parameters through establishment as well as maintenance of policies and procedures

(b) the trend and quality of risk is adequately monitored and controlled; and

(c) all the attendant risks are adequately monitored.

Risk Management Roles and Responsibilities

The Board is responsible for approving and reviewing the Bank's risk management strategy and policy. Executive management is responsible for implementing the Board-approved risk management strategy and developing policies, controls, processes and procedures to identify and manage risks in all of our activities.

In order to effectively manage various risks in the business, the Bank has set up a Risk Management department. The head of this department is responsible for independently evaluating and managing the risks. He reports directly to the CEO and also reports to the Board Audit & Risk Management Committee.

Internal Review and Risk Evaluation

Based on Board approved policies the Bank has established appropriate procedures to manage and monitor the risks. Broadly the Asset and Liability Committee is responsible for monitoring market risks arising from the Bank's core lending and deposit-taking activities. Similarly, the Investment Management Committee is responsible for monitoring market risk and related credit and operational risk exposures arising from trading activity. Internal Audit is responsible for independently evaluating the adequacy and effectiveness of management's control of operational risk.

Corporate Governance - Part 1 (continued)

Approach to Risk Management (continued)

6. Communication with Shareholders, Regulators and Wider Market

The Bank is committed to giving all shareholders comprehensive and equal access to information about the Bank's activities, and to fulfilling our continuous disclosure obligations to the broader market including the regulatory authorities namely Central Bank of Oman, Capital Market Authority and Muscat Securities Market.

The Bank's website includes annual reports, quarterly financial statements, briefings and presentations given by CEO and other executives, public announcements and economic updates. Further details on means of communications, including website address, are set out in Part 2.

Corporate Governance - Part 2

In this part, we set out the disclosures specifically required under Annexure 4 of the Code of Corporate Governance issued by CMA. The contents are as follows:

1. Board of Directors
2. Board Committees
3. Process of nomination of Directors
4. Remuneration matters
5. Details of non-compliance by the Bank
6. Means of communication with the shareholders and investors
7. Cash dividend policy
8. Market price data
9. Profile of the statutory auditors
10. Areas of non-compliance with the provisions of Corporate Governance

1. Board of Directors

The current composition of the Board and Board Committees are set out in table 1, with further details on each Director provided in the annual report.

2. Board Committees

There are three Board Committees. The terms of references of the Committees are set out in Part 1.

Table 1

Director	Board Membership	Appointed as Director from	Shareholder Representation	Committee Membership		
				Executive Committee	Audit and Risk Management Committee	Selection and Remuneration Committee
Rashad Bin Muhammed Al Zubair	Chairman Chairman of Executive Committee	October 1989	OMINVEST	√	-	-
Abdel Hamid Shoman(*)	Deputy Chairman	October 1984	Arab Bank Plc	√	-	-
Riad Kamal (*)	Deputy Chairman	August 2012	Arab Bank Plc	-	-	-
Amin R Husseini	Director	May 2010		√	√	√
Randa Sadik(*)	Director	June 2010		√	-	-
Hani Bin Muhammed Al Zubair	Director Independent	June 1999		-	√	-
Said Zaki	Director Chairman of Audit & Risk Management Committee	February 1997		√	√	√
Mulham Bashir Al Jarf	Director Chairman of Selection & Remuneration Committee Independent	September 2007		√	-	√

(*) – During the year Abdel Hamid Shoman has resigned from the Board of Directors of the Bank with effect from 16 August 2012 and Riad Kamal has been nominated in his place as the Deputy Chairman of the Bank. Randa Sadik has been nominated as a member of Executive Committee of the Board in the place of Abdel Hamid Shoman with effect from 13 December 2012.

Corporate Governance - Part 2 (continued)

2. Board Committees (continued)

The members of the Committees together with the number of meetings held in 2012 and attended by each member are set out in the Table 2.

Table 2

Directors' attendance record

Director	Board Meetings		Executive Committee		Audit and Risk Management Committee		Selection and Remuneration Committee	
	(Note 1)		(Note 2)		(Note 3)		(Note 5)	
	No. of meetings held	No. of meetings attended	No. of meetings held	No. of meetings attended	No. of meetings held	No. of meetings attended	No. of meetings held	No. of meetings attended
Rashad Bin Muhammed Al Zubair	5	5	7	7	-	-	-	-
Abdel Hamid Shoman	5	2	-	-	-	-	-	-
Riad Kamal	5	2	-	-	-	-	-	-
Hani Bin Muhammed Al Zubair	5	3	-	-	7	5	-	-
Said Zaki	5	5	7	6	7	7	1	1
Amin R Husseini	5	5	7	7	7	7	1	1
Randa Sadik	5	3	7	-	-	-	-	-
Mulham Bashir Al Jarf	5	3	7	6	-	-	1	-

Note 1 Board meetings were held on 11 February, 12 May, 23 July, 10 October and 13 December during the year 2012.

Note 2 Executive Committee meetings were held on 18 January, 14 March, 20 June, 23 July, 14 August, 17 September and 14 November during the year 2012.

Note 3 Audit and Risk Management Committee meetings were held on 30 January, 16 April, 13 May, 23 July, 17 September, 15 October and 26 December during the year 2012.

Note 4 Abdel Hamid Shoman is a resident of Jordan. The Executive Committee agendas were circulated to him before every meeting. Following the meeting, the minutes were signed by him as evidence/concurrence of his approval/agreement of the discussions/decisions.

Note 5 Selection and Remuneration Committee meeting was held on 26 December 2012.

Corporate Governance - Part 2 (continued)

3. Process of nomination of Directors

The nomination process is explained in Part 1 paragraph 1.

4. Remuneration Matters

The processes and procedures of the Bank to reward and remunerate the Directors and senior executives are set out in Part 1, paragraph 4. The Directors' remuneration is governed as set out in the Memorandum 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 approves 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 (subject to specified deductions) and subject to an overall limit of RO 200,000. The sitting fees for each Director shall not exceed RO 10,000 in one year.

In the Annual General Meeting held on 28 March 2012 the shareholders approved the Directors' remuneration and sitting fees for 2011 as well as the sitting fees of RO 500 per meeting for 2012. The remuneration and sitting fees for 2011were paid during 2012. A resolution to approve the proposed remuneration of RO 64,500 and sitting fees of RO 37,500 for 2012 will be presented in the upcoming Annual General Meeting of the shareholders. The remuneration and sitting fees paid to each Director for 2011 was as follows:

Table 3

Director's Name	**Remuneration RO**	**Sitting fees RO**	**Total RO**
Rashad Bin Muhammed Al Zubair	12,500	10,000	22,500
Abdel Hamid Shoman	7,500	7,500	15,000
Hani Bin Muhammed Al Zubair	7,500	7,500	15,000
Said Zaki	7,000	10,000	17,000
Amin R Husseini	5,000	8,500	13,500
Randa Sadik	5,000	2,500	7,500
Mulham Bashir Al Jarf	7,500	6,000	13,500
Total	**52,000**	**52,000**	**104,000**

The remuneration paid to the top five key executives of the Bank for 2012 is RO 1,466,354 (2011: RO 1,198,883)

No stock options are available to Directors or the executives of the Bank. The Executives are required to provide 30-60 days notice should they wish to resign. No severance fees are payable to the top five executives in the event of termination of employment.

Corporate Governance - Part 2 (continued)

5. Non-Compliance of Corporate Governance and Penalties

During the year, the Bank complied with all requirements of the regulatory authorities, CMA and Muscat Securities Market including Central Bank of Oman. There were no penalties or strictures imposed by any statutory/regulatory authority on the Bank for non-compliance during the last three years.

6. Means of Communicating with the Shareholders

We confirm the following:

a) Half-yearly results were sent to the shareholders.

b) Quarterly results and the annual report are posted on the Bank website www.oman-arabbank.com.

c) The website displays all official Bank information releases.

d) Management Discussion and Analysis (MD&A) forms part of the annual report.

Our policy with regard to communication with shareholders, regulators and wider market is set out in Part 1, paragraph 6.

7. Acknowledgment by the Board

The Board of Directors acknowledges its responsibilities and confirms that:

i The audited financial statements of the Bank have been prepared in accordance with the 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.

ii The Bank will be able to carry on its operations successfully in the foreseeable future.

iii The Bank has adequate internal controls and procedures which are reviewed regularly through internal audit and overseen by the Audit Committee of the Board.

8. Cash Dividend Policy

The Bank's Cash Dividend Policy complies with CBO's guidance and adopted to achieve:

1. Establish provisions that support the Bank's financial position.
2. Pay cash dividend to the shareholders appropriate to their investment.
3. Retain sufficient provisions that support the future growth of the Bank operations and strengthen its position in case of any unexpected crisis.
4. Strike a balance between the retention of some earnings appropriate to the economic conditions and the understandable desire of shareholders for immediate and high returns.

9. Market Price Data

The Bank is a closed joint stock company and its shares therefore are not listed for trading on the Muscat Securities Market.

Corporate Governance - Part 2 (continued)

The two single largest shareholders of Oman Arab Bank are OMINVEST and Arab Bank Plc Jordan who hold 50.99% and 49% of the share capital respectively. OMINVEST is a public joint stock company listed at the Muscat Securities Market and Arab Bank Plc is a publicly held company and is listed at the Amman Stock Exchange, Jordan.

10. Profile of the Statutory Auditors

Ernst & Young are the statutory auditor's of the bank. Ernst & Young is one of Oman's oldest established accounting firms, having had a permanent office in the country since 1974. The practice comprises around 180 professionals, and is working under the direction of six partners. The Oman office forms part of Ernst & Young's MENA practice, with 102 partners and over 5626 other professionals in 18 offices in 13 countries throughout the region. The MENA practice is a member firm of Ernst & Young Global, operating in more than 140 countries with approximately 167,000 personnel world-wide.

11. Audit fees

The Bank paid RO 24,500 to the external auditors for their audit and related services for the year ended 2012.

12. Areas of Non-Compliance with the Provisions of Corporate Governance

None

MANAGEMENT DISCUSSION & ANALYSIS

Industry Structure and Development

The banking industry in Oman is governed by the Banking Law issued by Royal Decree 114/2000, and the regulations issued by the banking regulatory authority, the Central Bank of Oman (CBO). In addition the banks must also comply with the requirements of the Commercial Companies Law of 1974, as amended, and the Capital Market Authority.

A summary of the banking sector performance for the year 2012 based on the latest publications and statistics issued by the Central Bank of Oman is as follows:

1. The total assets of the commercial banks increased by 13.9% from 2011 to reach RO 20.96 billion at 31 December 2012.
2. Loans and advances recorded a growth of 14.4% reaching RO 14.3 billion at 31 December 2012 from RO 12.5 billion at 31 December 2011.
3. Customer deposits increased by 12.7% to RO 14.2 billion at December 31 2012 from RO 12.6 billion at December 31 2011. The private sector deposits constituted 65% of the total customer deposits at December 2012 compared to 78% at December 2011.
4. Average deposit interest rate on Rial Omani deposits was around 1.3% and the interest rate on foreign currency deposits was around 1% as at December 2012. During 2011 the average interest rate on Rial Omani and foreign currency term deposits decreased by 0.1%.
5. Average Rial Omani lending rates decreased to 5.7% at December 2012 from 6.2% at December 2011 due to the surplus liquidity and increased competition among the local banks while average US Dollar rates increased by 0.1% reaching 2.4% at December 2012.

Opportunities and threats

The Oman Government Budget for 2013 based on the oil price of USD 85 per barrel provides for an expenditure of RO 12.9 Billion which is almost the same as the actual expenditure in 2012. The Government will continue with the expenditure on infrastructure projects - roads, airports and ports as planned. Expansions at Duqum Port with Special Economic Zone, Airports expansion at Muscat and Salalah, New airports at Sohar are the major infrastructure projects planned for 2013. The National Railway Project in Oman will be funded from part of a $10bn fund from the Gulf Co-operation Council and is expected to provide a boost to jobs and economic development in the region. There will an increased focus on the development of Small and Medium Enterprise (SME) sector. The planned government expenditure is expected to provide adequate business opportunities for the banks, especially in financing for working capital and equipments. The projects will also increase the business opportunities for sub-contractors. The Government spending will result in creation of additional employment opportunities for young Omanis with a target of 56,000 jobs. This will result in the growth in personal lending.

The Rial Omani lending rates reduced by 0.5% in 2012 while the foreign currency rates continued to remain the same during 2012. The time deposit rates also decreased marginally during 2012 by around 0.1% due to the surplus liquidity. The reduction in the interest rate ceiling of personal loans to 7% during 2012 and increase competition are likely to tighten the interest margin in 2013. The interest rate on Central Bank CD is expected to remain at around the same range.

The impact of Islamic Banking in the market will become clear during 2013 with Bank Nizwa in operation and all the large banks offering the Islamic Banking services.

MANAGEMENT DISCUSSION & ANALYSIS (CONTINUED)

Analysis and performance of segments

Segmental performance analysis forms part of the financial statements and are provided in note 39 to the financial statements.

Economic Outlook

OAB operates only in Oman and changes in the Oman economy have a direct impact on OAB's performance. Oman is expected to record a growth of 4.1% in GDP for 2013 and will be the fastest growing economy in GCC region. Inflation in GCC countries has generally remained low and even decelerated in some countries despite healthy activity levels and increased credit growth. Inflation in Oman is expected to be around 4.1% in 2013. Oman's projected revenue for 2013 is at RO 11.2 billion which is 27% higher than the projection for fiscal year 2012. Average crude oil price of USD 85 per barrel has been assumed for 2013 budget against USD 75 per barrel for the 2012 budget. The actual oil price during 2012 was at an average of USD 109 per barrel and the resultant surplus will be used for funding the budget deficit for 2013. The oil production estimated for 2013 at 930,000 barrels per day compared to the 915,000 barrels per day budgeted for 2012. Non-oil revenue is budgeted at 16.1% of the total revenue. As per Government estimates, the overall deficit for 2013 is budgeted at RO 1.7 Billion, forming about 5% of estimated of the nominal GDP.

The stable economic and political environment of Oman has provided confidence to local investors while the foreign investors are guided by the regional perspective. The trading volumes in MSM during 2012 improved by 82% as compared to 2011 with increased turnover in the banking, industry and service sectors along with Oman Government Bond issues. The MSM 30 Index closed at 5,760 points, which is 1% up from 5,695 point at December 31 2011.The IPOs of Bank Nizwa and the rights issue for Islamic Banking by other banks during 2012 provided the required momentum to the activities in MSM. MSM remains an attractive market for investors in GCC region with high dividend yields.

Internal control systems and their adequacy

Management of OAB has established and maintains internal controls supplemented by a program of internal audits. The internal controls are designed to provide reasonable assurance that assets are safeguarded and transactions are executed, recorded and reported in accordance with management's intentions and authorizations and to comply with applicable laws and regulations. The internal control system includes an organizational structure that provides appropriate delegation of authority and segregation of duties, established policies and procedures, and comprehensive internal audit and loan review programs.

To enhance the reliability of internal controls, management recruits and trains qualified personnel, and maintains sound risk management practices. There are inherent limitations in any internal control, including the possibility of human error and the circumvention or overriding of controls. Accordingly, even effective internal controls can provide only reasonable assurance with respect to financial statement preparation. Further, because of changes in conditions, the effectiveness of internal controls may vary over time. The Internal Audit Department of OAB reviews, evaluates, monitors and makes recommendations on policies and procedures, which serves as an integral, but independent component of internal control.

OAB's financial reporting and internal controls are under the general oversight of the Board of Directors, acting through the Audit and Risk Management Committee. The Audit and Risk Management Committee is composed entirely of independent non-executive directors. The Audit Committee meets periodically with management,

MANAGEMENT DISCUSSION & ANALYSIS (CONTINUED)

internal auditors and external auditors to determine that each is fulfilling its responsibilities and to support actions to identify measure and control risks and augment internal controls.

Discussion on financial and operational performance

1. Net profit

Net profit for the year ended 31 December 2012 is RO 25.3 million. This is 9% higher than the previous year. The operating profit at RO 32.3 million is 8% higher than previous year. The significant changes in income and expenses during 2012 are as follows:

- Growth in net interest from 2011 is 12% as the interest income increased by 16% while the interest expense increased by 39%. The growth in loans during the last during the year by 13% contributed to the growth in interest income. The Bank managed to retain the yield on loans at the same level as 2011 in spite of the high liquidity and competition from local banks. The interest rate on term deposits reduced during the year as the market rates dropped. The increase in interest expense is due to the interest on the subordinated bonds issued during April 2012 in order to enhance the capital base of the Bank.

- Other operating income increased by 5% during the year. The commission income from trade finance activities remained at the same level as 2011 though there was growth in the volume of Letters of credit and Guarantees issued due to lower commission rates as a result of competition. The high realized gains were mainly due to the sale of certain shares as the market improved during the year compared to the unrealized loss for 2011 due to the downturn in MSM due to various factors like regional social unrest as well as Euro zone sovereign debt crisis. The turnover in the MSM during 2012 improved with a 100% increase from 2011. MSM-30 index also performed reasonably well compared to previous year ending 1.15% higher than 2011. The dividend income in 2012 is lower than 2011 because of the RO 480K from the Investment Stabilization Fund received in 2011. The fee income from the investment banking increased by 27% mainly due to the fees from the management of the IPO of Bank Nizwa.

- Operating expenses at RO 28 million increased by 13% mainly due to the increased salary costs as a result of promotions and increments combined with the increase in number of staff from 944 at December 2011 to 1002 at December 2012. The fees paid to CBO for the BDIS was higher due to the growth in deposits. The advertisement costs were higher than the previous year which is part of the Bank's public relations strategy.

- The Earnings per share of RO 0.022 at December 31 2012 compared with RO 0.023 (restated for bonus shares) at December 31 2010 on the increased capital of RO 116 million at 100 baizas per share.

2. Assets

The total assets of the Bank at 31 December 2012 have increased by 23% to RO 1.37 Billion from RO 1.14 Billion at 31 December 2011. The significant changes are as follows:

Certificates of Deposit

The investments in Central Bank Certificates of Deposit are at RO 90 million at December 2012 reflecting the surplus liquidity prevailing in the market.

MANAGEMENT DISCUSSION & ANALYSIS (CONTINUED)

Loans and advances

Gross loans increased by RO 109 million (13%) during 2012 from RO 857 million at December 31 2011 to RO 966 million at December 31 2012. The personal loans increased by 15% while the corporate loans increased by 11%.

Non-performing loans decreased to 2.7% of the total loans from 2.9% at December 2011 as there was no significant increase in non-performing loans during 2012. The total provision coverage at December 31 2012 is 121% of the non performing assets as compared to 111% at December 31 2011.

The specific provision is at 70% of the Non-performing loans as the provision requirement is lower after considering the collaterals available for these loans. The provision levels were considered adequate and have been determined in accordance with the Central Bank of Oman and International Financial Reporting Standards.

3. Liabilities

The customer deposits constitute 87% of the liabilities. The Bank issued subordinated bonds of RO 50 million in April 2012. The bonds were issued to provide additional capital base to fund the Bank's growth. The savings deposits grew by 15% and the current accounts increased by 17% from previous year contributing to the total increase of 13% in customer deposits.

4. Shareholders' funds

Shareholders' funds increased to RO 17.5 million from RO 142.9 million from the previous year. The paid-up share capital was increased to RO 116 million in March 2012. RO 10 million of the capital will be assigned to the Bank's Islamic Banking operations during 2013.

5. Capital adequacy

Capital adequacy ratio calculated in accordance with the guidelines issued by Bank for International Settlement (BIS) was 16.91% (2011: 13.69%). The details of the calculation and the Bank's policy for capital management are provided in notes to the financial statements and the disclosure as per Pillar 3 of the Basel II guidelines.

6. Human Resources

Omanisation at 31 December 2012 was 92.81% (2011: 93.01%), which is higher than the minimum regulatory requirement of 90%. We provide the following as additional information regarding the number of years completed by staff.

	Below 3 Years	4 to 6 Years	7 to 9 Years	10 to 14 Years	15 Years and above	Total
Staff Numbers	349	232	83	89	249	1,002

Events after end of financial year

We are not aware of any matter or circumstance that has arisen since 31 December 2012 which has significantly affected, or may significantly affect the operations of the Bank.

Date of the statement 15 February 2013

FINANCIAL STATEMENTS
31st December 2012

CONTENTS

ERNST & YOUNG

P.O. Box 1750, Ruwi 112
Ernst & Young Building
Qurum
Muscat, Sultanate of Oman
Tel: +968 2455 9559 · Fax: +968 2456 6043
muscat@om.ey.com
www.ey.com/me
C.R. No. 1/26800/5
P.R. No. MH/4

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF OMAN ARAB BANK SAOC

Report on the financial statements

We have audited the accompanying financial statements of Oman Arab Bank SAOC ("the bank"), which comprise the statement of financial position as at 31 December 2012, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Board of Directors' responsibility for the financial statements

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

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement.

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the bank as at 31 December 2012, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on Other Legal and Regulatory Requirements

In our opinion the financial statements comply, in all material respects, with the relevant disclosure requirements of the Commercial Companies Law of 1974, as amended and the Rules and Guidelines on disclosure issued by the Capital Market Authority.

Ernst & Young

24 February 2013
Muscat

STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER 2012

	Notes	2012 RO'000	2011 RO'000
ASSETS			
Cash and balances with the Central Bank of Oman	7	**149,893**	32,895
Certificates of deposit	8	**90,000**	100,000
Due from banks	9	**102,829**	75,887
Loans and advances to customers	10	**934,814**	829,845
Investment securities	11	**40,867**	36,389
Other assets	12	**30,227**	24,632
Property and equipment	13	**21,779**	15,017
Total assets		**1,370,409**	1,114,665
LIABILITIES			
Due to banks	14	**59,709**	7,678
Deposits from customers	15	**1,031,144**	909,660
Other liabilities	16	**41,595**	32,812
Subordinated bonds	17	**50,000**	-
Taxation	18	**3,850**	3,559
Total liabilities		**1,186,298**	953,709
EQUITY			
Share capital	19	**116,000**	100,000
Legal reserve	20	**25,125**	22,598
General reserve	21	**19,568**	18,304
Subordinated debt reserve	22	**10,000**	-
Cumulative changes in fair value		**146**	261
Proposed cash dividend	23	**11,600**	12,000
Proposed stock dividend	23	**-**	6,000
Retained earnings		**1,672**	1,793
Total equity		**184,111**	160,956
Total equity and liabilities		**1,370,409**	1,114,665
Contingent liabilities and commitments	34(a)	**1,054,572**	776,177

The financial statements were authorised for issue by the Board of Directors on 23 January 2013 and signed by:

Rashad Muhammed Al Zubair
Chairman

Abdul Kader Askalan
Chief Executive Officer

The attached notes 1 to 41 form part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME
YEAR ENDED 31 DECEMBER 2012

	Notes	2012	2011
		RO'000	RO'000
Interest income	24	**50,516**	43,373
Interest expense	25	**(9,549)**	(6,893)
Net interest income		**40,967**	36,480
Fee and commission income - net	26	**14,245**	13,635
Investment income	27	**1,441**	625
Other operating income	28	**4,175**	4,635
Total income		**60,828**	55,375
Operating expenses	29	**(28,542)**	(25,347)
Allowance for loan impairment	10(a)	**(5,727)**	(6,173)
Recoveries/release from allowance for loan impairment	10(a)	**2,284**	2,667
Profit before tax		**28,843**	26,522
Income tax expense	18	**(3,573)**	(3,317)
Profit for the year		**25,270**	23,205
Other comprehensive expense			
Net movement in unrealised loss on available-for-sale financial investments		**(115)**	(1,080)
Total comprehensive income for the year		**25,155**	22,125
Earnings per share:			
Basic profit for the year attributable to equity holders	30	**RO 0.022**	RO 0.023

The attached notes 1 to 41 form part of these financial statements.

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2012

	Notes	2012 RO'000	2011 RO'000
Operating activities			
Profit before tax		**28,843**	26,522
Adjustments:			
Depreciation	13	**1,916**	1,865
Allowance for loan impairment and reserved interest	10 (a)	**5,727**	6,173
Recoveries/release from allowance for loan impairment	10 (a)	**(2,284)**	(2,667)
Income from held-to-maturity investments	11	**(567)**	(517)
Profit on sale of property and equipment	13	**(17)**	(1)
Profit on sale of availabe-for-sale investments	11	**115**	46
Change in the fair value of financial assets at fair value through profit or loss	27	**(150)**	570
Operating profit before changes in operating assets and liabilities		**33,583**	31,991
Changes in operating assets and liabilities			
Loans and advances		**(108,412)**	(173,005)
Financial assets at fair value through profit or loss		**3,510**	(236)
Other assets		**(5,594)**	(2,365)
Deposits from customers		**121,484**	139,899
Other liabilities		**8,783**	1,092
Cash from (used in) operations		**53,354**	(2,624)
Tax paid		**(3,282)**	(3,330)
Net cash generated from (used in) operating activities		**50,072**	(5,954)
Investing activities			
Held-to-maturity investments matured	11	**13,387**	-
Purchase of held-to-maturity investments	11	**(18,835)**	(2,335)
Purchase of investment available for sale	11	**(4,293)**	(4,349)
Proceeds from sale of investment available for sale		**1,673**	645
Income from maturing of held-to-maturity investments		**567**	517
Purchase of property and equipment	13	**(8,681)**	(4,652)
Proceeds from sale of property and equipment		**19**	254
Net cash used in investing activities		**(16,163)**	(9,920)

STATEMENT OF CASH FLOWS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2012

	Notes	**2012 RO'000**	2011 RO'000
Financing activities			
Proceeds from issue of share capital	19	**10,000**	13,000
Proceeds from issue of subordinated bonds	22	**50,000**	-
Dividends paid		**(12,000)**	(17,000)
Net cash from (used in) financing activities		**48,000**	(4,000)
Net increase (decrease) in cash and cash equivalents		**81,909**	(19,874)
Cash and cash equivalents at the beginning of the year		**200,604**	220,478
Cash and cash equivalents at the end of the year	32	**282,513**	200,604

The attached notes 1 to 41 form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2012

	Notes	Share capital	Legal reserve	General reserve	Subordinated debt reserve	Cumulative Changes in fair value	Proposed Cash dividends	Proposed Stock dividends	Retained earnings	Total
		RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
At 1 January 2011		85,000	20,277	15,983	-	1,341	17,000	-	3,230	142,831
Profit for the year		-	-	-	-	-	-	-	23,205	23,205
Other comprehensive expense for the year		-	-	-	-	(1,080)	-	-	-	(1,080)
Total comprehensive income (expense) for the year		-	-	-	-	(1,080)	-	-	23,205	22,125
Issue of share capital	19	13,000	-	-	-	-	-	-	-	13,000
Issue of bonus shares	19	2,000	-	-	-	-	-	-	(2,000)	-
Transfer to legal reserve	20	-	2,321	-	-	-	-	-	(2,321)	-
Transfer to general reserve	21	-	-	2,321	-	-	-	-	(2,321)	-
Dividend paid relating to 2010	23	-	-	-	-	-	(17,000)	-	-	(17,000)
Proposed cash dividend	23	-	-	-	-	-	12,000	-	(12,000)	-
Proposed stock dividend	23	-	-	-	-	-	-	6,000	(6,000)	-
At 31 December 2011		**100,000**	**22,598**	**18,304**	**-**	**261**	**12,000**	**6,000**	**1,793**	**160,956**

The attached notes 1 to 41 form part of these financial statements

STATEMENT OF CHANGES IN EQUITY (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2012

	Notes	Share capital RO'000	Legal reserve RO'000	General reserve RO'000	Subordinated debt reserve RO'000	Cumulative Changes in fair value RO'000	Proposed Cash dividends RO'000	Proposed Stock dividends RO'000	Retained earnings RO'000	Total RO'000
At 1 January 2012		100,000	22,598	18,304	-	261	12,000	6,000	1,793	160,956
Profit for the year		-	-	-	-	-	-	-	25,270	25,270
Other comprehensive expense		-	-	-	-	(115)	-	-	-	(115)
Total comprehensive income (expense) for the year		-	-	-	-	(115)	-	-	25,270	25,155
Issue of share capital	19	10,000	-	-	-	-	-	-	-	10,000
Issue of bonus shares	19	6,000	-	-	-	-	-	(6,000)	-	-
Transfer to legal reserve	20	-	2,527	-	-	-	-	-	(2,527)	-
Transfer to general reserve	21	-	-	1,264	-	-	-	-	(1,264)	-
Transfer to subordinated debt reserve		-	-	-	10,000	-	-	-	(10,000)	-
Dividend paid relating to 2011	23	-	-	-	-	-	(12,000)	-	-	(12,000)
Proposed cash dividend	23	-	-	-	-	-	11,600	-	(11,600)	-
At 31 December 2012		**116,000**	**25,125**	**19,568**	**10,000**	**146**	**11,600**	**-**	**1,672**	**184,111**

The attached notes 1 to 41 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER 2012

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 bank operates in Oman under a banking licence issued by the Central Bank of Oman and is covered by its deposit insurance scheme. The registered address of the bank is Muttrah Business District, P.O Box 2010, Ruwi, Postal Code 112, Muscat, 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 that management agreement, Arab Bank Plc Jordan provides banking related technical assistance and other management services, including the secondment of managerial staff.

During 2012, the bank approached the Capital Market Authority regarding its plan to go for an initial public offering. Thereafter the bank has received a letter from the Capital Market Authority advising that the esteemed Council of Ministers have agreed to exempt OAB from Article (61) of the Commercial Companies Law for offering 25% of its shares for public subscription instead of 40%. The bank is exploring possible opportunities for selling additional part(s) by way of private placement concurrently with the initial public offering.

The bank has raised RO 10 Million from proceeds of its rights issue during 2012, which will be assigned as Capital towards Islamic Banking Services. The bank is planning to commence its Islamic banking services in 2013.

2 SIGNIFICANT ACCOUNTING POLICIES

2.1 Statement of compliance

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

2.2 Basis of preparation

The financial statements are prepared under the historical cost convention, modified to include the measurement at fair value of the financial assets classified as available for sale and fair value through profit or loss and the derivative contracts.

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

The bank presents its statement of financial position in order of liquidity. An analysis regarding recovery or settlement within 12 months after the reporting date (current) and more than 12 months after the reporting date (non-current) is presented in note 35.

2.3 Changes in accounting policies and disclosures

New and amended standards and interpretations to IFRS relevant to the bank

The accounting policies adopted are consistent with those of the previous financial year, except for the following

IFRS 7 Financial Instruments: Disclosures (amendment)

The IASB issued an amendment to IFRS 7 on 7 October 2010. The amendment provides enhanced disclosures for "Transferred financial assets that are derecognised in their entirety" and "Transferred assets that are not derecognised in their entirety". The effective date is for annual periods beginning on or after 1 July 2011.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER 2012

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Changes in accounting policies and disclosures (continued)

Other amendments resulting from Improvements to IFRSs to the following standards did not have any impact on the accounting policies, financial position or performance of the bank:

IAS 12 Income Taxes (Amendment) – Deferred Taxes: Recovery of Underlying Assets

IFRS 1 First-Time Adoption of International Financial Reporting Standards (Amendment) – Severe Hyperinflation and Removal of Fixed Dates for First-Time Adopter

2.4 Financial instruments - initial recognition and subsequent measurement

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

The bank classifies its financial liabilities into deposits and due to banks.

2.4.1 Date of recognition

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

2.4.2 Initial measurement of financial instruments

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

2.4.3 Financial assets at fair value through profit or loss

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

Management may only designate an instrument at fair value through profit or loss upon initial recognition when the following criteria are met, and designation is determined on an instrument-by-instrument basis:

- The designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on them on a different basis.
- The assets and liabilities are part of a group of financial assets, financial liabilities or both, which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy.
- The financial instrument contains one or more embedded derivatives, which significantly modify the cash flows that would otherwise be required by the contract.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER 2012

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Financial instruments - initial recognition and subsequent measurement (continued)

2.4.4 Available-for-sale investments

Available-for-sale investments include equity and debt securities. Equity investments classified as available-for-sale are those which are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are intended to be held for an indefinite period of time and may be sold in response to needs for liquidity or in response to changes in the market conditions.

The bank has not designated any loans or receivables as available-for-sale.

After initial measurement, available-for-sale financial investments are subsequently measured at fair value.

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

2.4.5 Financial investments held to maturity

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the bank's management has the positive intention and ability to hold to maturity. In the case where the bank sells more than an insignificant amount of held-to-maturity assets, the entire category would be tainted and reclassified as available-for-sale. Held-to-maturity investments are initially recognised at fair value plus transaction costs. These are subsequently carried at amortised cost using the effective interest method.

2.4.6 Loans and advances to customers and due from banks

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

2.4.7 Fair value measurement principles

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER 2012

2.4.8 Derecognition of financial assets and liabilities

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- The rights to receive cash flows from the asset have expired; or
- The bank has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either:
- the bank has transferred substantially all the risks and rewards of the asset, or
- the bank has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

2.4.9 Impairment of financial assets

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

- significant financial difficulty of the issuer or obligor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- the 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; or
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including adverse changes in the payment status of borrowers in the bank, or national or local economic conditions that correlate with defaults on the assets in the bank.

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.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER 2012

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Financial instruments - initial recognition and subsequent measurement (continued)

2.4.9 Impairment of financial assets (continued)

(a) Assets carried at amortised cost

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

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

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the bank and historical loss experience for assets with credit risk characteristics similar to those in the bank. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

The methodology and assumptions used for estimating future cash flows are reviewed regularly by the bank to reduce any differences between loss estimates and actual loss experience. When a loan is uncollectible, it is written off against the related allowance for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the statement of comprehensive income.

(b) Available-for-sale financial investments

For available-for-sale financial investments, the bank assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. The determination of what is 'significant' or 'prolonged' requires judgement. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of comprehensive income – is removed from equity and recognised in the statement of comprehensive income. Impairment losses on equity investments are not reversed through the statement of comprehensive income; increases in their fair value after impairment are recognised directly in equity.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER 2012

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Financial instruments - initial recognition and subsequent measurement (continued)

2.4.9 Impairment of financial assets (continued)

(b) Available-for-sale financial investments (continued)

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. Interest continues to be accrued at the original effective interest rate on the reduced carrying amount of the asset and is recorded as part of 'Interest income'. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the statement of comprehensive income, the impairment loss is reversed through the statement of comprehensive income.

(c) Renegotiated loans

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

2.5 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, amounts due to other banks and short-term government securities.

2.6 Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously. Income and expenses are not offset in the statement of comprehensive income unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the bank.

2.7 Property and equipment

Property and equipment are initially recorded at cost and are subsequently carried at cost less accumulated depreciation and accumulated impairment losses, if any. Depreciation on the assets except land is calculated using the straight-line basis to allocate their cost over the estimated useful lives, as follows:

Building	25 years
Equipment, furniture and fixtures	5 years
Motor vehicles	5 years

The assets' residual values and useful lives are reviewed at each reporting 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. 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 statement of comprehensive income when the expense is incurred. Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the item of property and equipment. All other expenditure is recognised in the statement of comprehensive income as an expense as incurred.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER 2012

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8 Impairment of non-financial assets

The bank assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the bank estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the bank estimates the asset's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceeds the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the statement of comprehensive income.

2.9 Collateral pending sale

The bank occasionally acquires real estate in settlement of certain loans and advances. Real estate is stated at the lower of the net realisable value of the related loans and advances and the current fair value of such assets. Gains or losses on disposal, and unrealised losses on revaluation, are recognised in the statement of comprehensive income.

2.10 Borrowings

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

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

2.11 Employee terminal benefits

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER 2012

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.12 Provisions

A provision is recognised in the statement of financial position when the bank has a legal or constructive obligation as a result of a past event; 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.

2.13 Taxation

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the statement of comprehensive income 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 reporting date, and any adjustment to tax payable in respect of previous years.

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

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

2.14 Interest income and expense

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

2.15 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 pro-rata over the period the service is provided. The same revenue recognition criteria are applied for custody services that are continuously provided over an extended period of time.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER 2012

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.16 Dividend income

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

2.17 Fiduciary assets

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

2.18 Derivative financial instruments

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured 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.

2.19 Financial guarantees contracts

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

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

2.20 Dividends on shares

Dividends on shares are recognised as a liability and deducted from equity when they are approved by the bank's shareholders. Dividends for the year that are approved after the reporting date are disclosed as an event after the reporting date.

2.21 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 reporting date. Foreign exchange differences arising on translation are recognised in the statement of comprehensive income. 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.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER 2012

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.21 Foreign currencies (continued)

(b) Transactions and balances (continued)

Changes in the fair value of monetary securities denominated in foreign currency classified as available-for-sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in amortised cost are recognised in profit or loss, and other changes in carrying amount are recognised in equity. Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets such as equities classified as available-for-sale are included in the fair value reserve in equity.

2.22 Directors' remuneration

The Directors' remuneration is governed as set out in the Memorandum 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.

2.23 Segment reporting

The bank's segmental reporting is based on the following operating segments: Retail banking, Corporate banking, Investment banking, and support and unallocated functions. The segment information is set out in note 39.

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

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

3.1 Going concern

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

3.2 Impairment losses on loans and advances

The bank reviews its loan portfolios to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in the statement of comprehensive income, the bank makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows and in line with the Central Bank of Oman guidelines in this respect. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER 2012

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (continued)

3.3 Held-to-maturity investments

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

3.4 Fair value of financial instruments

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

3.5 Impairment of available-for-sale investments

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

The bank also records impairment charges on available-for-sale equity investments when there has been a significant or prolonged decline in the fair value below their cost. The determination of what is ‘significant’ or ‘prolonged’ requires judgment. In making this judgment, the bank evaluates, among other factors, historical share price movements and duration and extent to which the fair value of an investment is less than its cost.

3.6 Taxes

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

4 STANDARDS ISSUED BUT NOT YET EFFECTIVE

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the bank’s financial statements are disclosed below. The bank intends to adopt these standards, if applicable, when they become effective.

IFRS 1 Government Loans – Amendments to IFRS 1

These amendments require first-time adopters to apply the requirements of IAS 20 Accounting for Government Grants and Disclosure of Government Assistance, prospectively to government loans existing at the date of transition to IFRS. Entities may choose to apply the requirements of IFRS 9 (or IAS 39, as applicable) and IAS 20 to government loans retrospectively if the information needed to do so had been obtained at the time of initially accounting for that loan. The exception would give first-time adopters relief from retrospective measurement of government loans with a below-market rate of interest. The amendment is effective for annual periods on or after 1 January 2013. The amendment has no impact on the bank.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER 2012

4 STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)

IFRS 7 Disclosures – Offsetting Financial Assets and Financial Liabilities – Amendments to IFRS 7

These amendments require an entity to disclose information about rights to set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32 Financial Instruments: Presentation. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with IAS 32. These amendments will not impact the bank's financial position or performance and will become effective for annual periods beginning on or after 1 January 2013.

IFRS 9 Financial Instruments

IFRS 9, as issued, reflects the first phase of the IASB's work though the adoption date is subject to the recently issued Exposure Draft on the replacement of IAS 39 and applies to classification and measurement of financial assets and liabilities as defined in IAS 39. The standard was initially effective for annual periods beginning on or after 1 January 2013, but Amendments to IFRS 9 Mandatory Effective Date of IFRS 9 and Transition Disclosures, issued in December 2011, moved the mandatory effective date to 1 January 2015. In subsequent phases, the Board will address impairment and hedge accounting. The bank will quantify the effect of the adoption of the first phase of IFRS 9 in conjunction with the other phases, when issued, to present a comprehensive picture.

IFRS 10 - Consolidated Financial Statements, IAS 27 Separate Financial Statements

The standard becomes effective for annual periods beginning on or after 1 January 2013. It replaces the requirements of IAS 27 Consolidated and Separate Financial Statements that address the accounting for consolidated financial statements and SIC 12 Consolidation – Special Purpose Entities. What remains in IAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. The bank is currently assessing the impact of adopting IFRS 10. The impact of the new standard will be affected by the financial position and performance of the entity to be consolidated until the effective date of the new standard and by any possible change in the standard until such date.

IFRS 11 - Joint Arrangements

The standard becomes effective for annual periods beginning on or after 1 January 2013. It replaces IAS 31 Interests in Joint Ventures and SIC 13 Jointly Controlled Entities – Non-monetary Contributions by Venturers. Because IFRS 11 uses the principle of control in IFRS 10 to define control, the determination of whether joint control exists may change. The adoption of IFRS 11 is not expected to have a significant impact on the accounting treatment of investments currently held by the bank.

IFRS 12 - Disclosure of Involvement with Other Entities

The standard becomes effective for annual periods beginning on or after 1 January 2013. It includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 Interests in Joint Ventures and IAS 28 Investment in Associates. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. One of the most significant changes introduced by IFRS 12 is that an entity is now required to disclose the judgements made to determine whether it controls another entity. Many of these changes were introduced by the IASB in response to the financial crisis. Now, even if the bank concludes that it does not control an entity, the information used to make that judgement will be transparent to users of the financial statements to make their own assessment of the financial impact were the bank to reach a different conclusion regarding consolidation.

The bank will need to disclose more information about the consolidated and unconsolidated structure entities with which it is involved or has sponsored. However, the standard will not have any impact on the financial position or performance of the bank.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER 2012

4 STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)

IFRS 13 - Fair Value measurement

The standard becomes effective for annual periods beginning on or after 1 January 2013. IFRS 13 does not change when an entity is required to use fair value, but rather, provides guidance on how to measure the fair value of financial and non-financial assets and liabilities when required or permitted by IFRS. There are also additional disclosure requirements.

Adoption of the standard is not expected to have a material impact on the financial position or performance of the bank.

IAS 1 Presentation of Items of Other Comprehensive Income - Amendments to IAS 1

The amendments to IAS 1 change the grouping of items presented in other comprehensive income (OCI). Items that could be reclassified (or recycled) to profit or loss at a future point in time (for example, net gains on hedges of net investments, exchange differences on translation of foreign operations, net movements on cash flow hedges and net losses or gains on available-for-sale financial assets) would be presented separately from items that will never be reclassified (for example, actuarial gains and losses on defined benefit plans). The amendment affects presentation only and has no impact on the bank's financial position or performance. The amendment becomes effective for annual periods beginning on or after 1 July 2012.

IAS 19 Employee Benefits - Amendments

The amendments to IAS 19 remove the option to defer the recognition of actuarial gains and losses, i.e., the corridor mechanism. All changes in the value of defined benefit plans will be recognised in profit or loss and other comprehensive income. The effective date of the standard is 1 January 2013. The amendment is not expected to have a significant impact on the bank.

IAS 27 Separate Financial Statements (as revised in 2011)

As a consequence of the new IFRS 10 and IFRS 12, what remains in IAS 27 is limited to accounting for subsidiaries, jointly controlled entities and associates in separate financial statements. The amendment becomes effective for annual periods beginning on or after 1 January 2013.The amendment is not expected to have significant impact on the bank.

IAS 28 Investments in Associates and Joint Ventures (as revised in 2011)

As a consequence of the new IFRS 11 Joint Arrangements, and IFRS 12 Disclosure of Interests in Other Entities, IAS 28 Investments in Associates, has been renamed IAS 28 Investments in Associates and Joint Ventures, and describes the application of the equity method to investments in joint ventures in addition to associates. The revised standard becomes effective for annual periods beginning on or after 1 January 2013.

IAS 32 Offsetting Financial Assets and Financial Liabilities – Amendments to IAS 32

These amendments clarify the meaning of "currently has a legally enforceable right to set-off". It will be necessary to assess the impact to the bank by reviewing settlement procedures and legal documentation to ensure that offsetting is still possible in cases where it has been achieved in the past. In certain cases, offsetting may no longer be achieved. In other cases, contracts may have to be renegotiated. The requirement that the right of set-off be available for all counterparties to the netting agreement may prove to be a challenge for contracts where only one party has the right to offset in the event of default.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER 2012

4 STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)

The amendments also clarify the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. Offsetting on the grounds of simultaneous settlement is particularly relevant for the Bank as to where it engages in large numbers of sale and repurchase transactions. Currently, transactions settled through clearing systems are, in most cases, deemed to achieve simultaneous settlement. While many settlement systems are expected to meet the new criteria, some may not. Any changes in offsetting are expected to impact leverage ratios, regulatory capital requirements, etc. As the impact of the adoption depends on the bank's examination of the operational procedures applied by the central clearing houses and settlement systems it deals with to determine if they meet the new criteria, it is not practical to quantify the effects.

These amendments become effective for annual periods beginning on or after 1 January 2014.

Annual Improvements May 2012

These improvements will not have an impact on the bank, but include:

IFRS 1 First-time Adoption of International Financial Reporting Standards

This improvement clarifies that an entity that stopped applying IFRS in the past and chooses, or is required, to apply IFRS, has the option to re-apply IFRS 1. If IFRS 1 is not re-applied, an entity must retrospectively restate its financial statements as if it had never stopped applying IFRS.

IAS 1 Presentation of Financial Statements

This improvement clarifies the difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative information is the previous period.

IAS 16 Property Plant and Equipment

This improvement clarifies that major spare parts and servicing equipment that meet the definition of property, plant and equipment are not inventory.

IAS 32 Financial Instruments, Presentation

This improvement clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with IAS 12 Income Taxes.

IAS 34 Interim Financial Reporting

The amendment aligns the disclosure requirements for total segment assets with total segment liabilities in interim financial statements. This clarification also ensures that interim disclosures are aligned with annual disclosures.

These improvements are effective for annual periods beginning on or after 1 January 2013.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER 2012

5 FINANCIAL RISK MANAGEMENT

5.1 Credit Risk

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

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

The principal types of risks that the bank faces are credit risk, liquidity risk, market risk (price risk, interest rate risk and currency risk) and operational risk.

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

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 details of concentrations of credit risk based on counterparties by industry are disclosed in Note 10(b) and the geographical concentration is disclosed in Note 37.

The credit risk management and control are centralised in the credit risk management team which is divided into corporate, financial institutions and retail groups. The credit risk in corporate and financial institutions portfolio is primarily managed by the Credit Department while the Retail Banking Department manages the credit risk in the retail portfolio. The Risk Management Department reviews the credit risk independently and directly reports to the Audit and Risk Management Committee of the Board of Directors. The bank's assessment of probability of default of individual counterparties is mainly linked with the number of days the borrower was in default as defined by the Central Bank of Oman (CBO) circular number BM 977 dated 25 September 2004. In addition, the bank assesses the adequacy of the security and financial performance of the borrowers in further downgrading the classification.

The bank rates its customers into the following categories:

Bank's rating	Past due days	
	Retail loans	Commercial loans
Standard loans	0-60 days	0-60 days
Special mention loan	60-90 days	60-90 days
Substandard loan	90-180 days	90-270 days
Doubtful loans	180-365 days	270-630 days
Loss	365 days and over	630 days and over

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER 2012

5 FINANCIAL RISK MANAGEMENT (continued)

5.1.2 Risk mitigation policies

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

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

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

Some other specific control and mitigation measures are outlined below.

(a) Collateral

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

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

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

(b) Assessment of the financial capabilities of the borrowers

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

(c) Credit-related commitments

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER 2012

5 FINANCIAL RISK MANAGEMENT (continued)

5.1 Credit risk (continued)

5.1.2 Risk mitigation policies (continued)

(c) Credit-related commitments (continued)

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the bank is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards.

The bank monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments. The concentration of credit related commitments by industry sector at the year end is set out in Note 10(b).

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

	Performing loans (neither past due nor impaired)	Loans past due and not paid	Non performing loans	Gross loans
	RO'000	RO'000	RO'000	RO'000
Loans and advances with collateral available	215,458	7,061	25,448	247,967
Loans and advances with guarantees available	104,379	-	-	104,379
Balance as at 31 December 2012	**319,837**	**7,061**	**25,448**	**352,346**
Balance as at 31 December 2011	250,156	7,023	15,182	272,361

5.1.3 Impairment and provisioning policy

Impairment provisions are recognised for financial reporting purposes only for losses that have been incurred at the reporting date based on objective evidence of impairment. Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the bank about the loss events as set out in Note 2.4.9 as well as considering the guidelines issued by the Central Bank of Oman.

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

Collectively assessed impairment allowances are provided for: (i) portfolios of homogenous assets that are individually not significant; and (ii) losses that have been incurred but have not yet been identified, by using the available historical experience and experienced judgement. The critical estimates used in determining the provision for impairment are explained in Note 3.2.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER 2012

5 FINANCIAL RISK MANAGEMENT (continued)

5.1 Credit risk (continued)

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

	2012	2011
Items on the statement of financial position	**RO' 000**	RO' 000
Certificates of deposit (note (d))	**90,000**	100,000
Due from banks - Money market placements	**102,829**	75,887
Loans and advances		
Corporate loans	**563,890**	508,124
Personal loans	**402,445**	348,876
Other assets		
Investment in securities	**30,227**	24,632
Government Development Bonds	**27,860**	22,412
	1,217,251	1,079,931
Off-balance sheet items		
Financial guarantees	**85,183**	78,119
Undrawn loan commitments	**8,088**	50,856
	93,271	128,975

The above table represents the worst case scenario of credit risk exposure to the bank at 31 December 2012 and 31 December 2011 without taking into account the collateral held or other credit enhancements. Management is confident that the bank has suitable policies to measure and control the credit risk. In addition credit risk is mitigated through collaterals in the form of mortgages and guarantees wherever required.

a) 76.7 % (2011 - 68%) of the inter-bank money market placements are with banks rated investment grade and above based on the ratings assigned by External Credit Rating Agencies.

b) Loans and advances represent 68 % (2011 - 74%) of the total on-balance sheet items. Of the total loans and advances 93.55% (2011 - 95.2%) are neither past due nor impaired.

c) The impaired loans have decreased from 2.8% at 31 December 2011 to 2.7% at 31 December 2012. The impaired personal loans constitute 0.98% of the total loans at 31 December 2012 compared to 0.93% at 31 December 2011.

d) Certificates of deposit which represent 6.6% (2011 - 8.9%) of the total on-balance sheet items are placed with the Central Bank of Oman.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER 2012

5 FINANCIAL RISK MANAGEMENT (continued)

5.1 Credit risk (continued)

5.1.5 Loans and advances and due from banks

Loans and advances and due from banks are summarised as follows:

	2012	**2012**	**2012**	2011	2011	2011
	Loans and advances to customers	**Due from banks**	**Total**	Loans and advances to customers	Due from banks	Total
	RO' 000	**RO' 000**	**RO' 000**	RO' 000	RO' 000	RO' 000
Neither past due nor impaired	**922,749**	**102,829**	**1,025,578**	816,056	75,887	891,943
Special mention loans	**10,438**	**-**	**10,438**	9,475	-	9,475
Past due but not impaired	**7,061**	**-**	**7,061**	7,023	-	7,023
Impaired	**26,087**	**-**	**26,087**	24,446	-	24,446
Gross loans and advances	**966,335**	**102,829**	**1,069,164**	857,000	75,887	932,887
Less: allowance for loan impairment and contractual interest not recognized (Refer to note (a) below)	**(31,521)**	**-**	**(31,521)**	(27,155)	-	(27,155)
Net loans and advances	**934,814**	**102,829**	**1,037,643**	829,845	75,887	905,732

a) The total impairment provision for loans and advances is RO 31,521 thousand (2011 - RO 27,155 thousand) of which RO 18,152 thousand (2011 - RO 15,421) represents the provision for individually impaired loans and the remaining amount of RO 13,369 thousand (2011 – 11,734 thousand) represents the collective impairment provision made on a portfolio basis.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER 2012

5 FINANCIAL RISK MANAGEMENT (continued)

5.1 Credit risk (continued)

5.1.5 Loans and advances and due from banks (continued)

b) The break-up of the loans and advances to customers in respect of the risk ratings adopted by the bank are:

	2012 Retail loans RO' 000	**2012 Corporate loans RO' 000**	**2012 Total RO' 000**	2011 Retail loans RO' 000	2011 Corporate loans RO' 000	2011 Total RO' 000
Standard loans	**392,587**	**537,223**	**929,810**	340,227	482,852	823,079
Special mention loans	**399**	**10,039**	**10,438**	656	8,819	9,475
Substandard loans	**769**	**198**	**967**	560	828	1,388
Doubtful loans	**1,075**	**1,614**	**2,689**	562	3,907	4,469
Loss	**7,615**	**14,816**	**22,431**	6,871	11,718	18,589
	402,445	**563,890**	**966,335**	348,876	508,124	857,000

c) Age analysis of loans and advances past due but not impaired:

	2012 RO' 000	2011 RO' 000
Past due up to 30 days	**339**	1,956
Past due 30-60 days	**1,428**	523
Past due 60-90 days	**5,294**	4,544
Total	**7,061**	7,023
Fair value of collateral	**6,226**	6,477

d) Loans and advances individually impaired

	2012 RO' 000	2011 RO' 000
Individually impaired loans	**26,087**	24,446
Fair value of collateral	**19,222**	12,255

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER 2012

5 FINANCIAL RISK MANAGEMENT (continued)

5.1 Credit risk (continued)

5.1.6 Loans and advances renegotiated

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

The total restructured loans at 31 December 2012 amounted to RO 5,473 thousand (2011 - RO 5,824 thousand).

5.1.7 Debt securities

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

5.1.8 Repossessed collateral

Repossessed properties are sold as soon as practicable with the proceeds used to reduce the outstanding balance of the debt. Repossessed assets are classified as other assets in the statement of financial position. The value of assets obtained by the bank by taking possession held as collateral as security at 31 December 2012 is RO 310 thousand (2011 - RO nil).

5.2 Market risk

The bank takes on exposures to market risk which is the risk that the fair value or the future cash flows of the financial assets carried at fair value will fluctuate because of changes in market prices. Market risks arise from the open positions in interest rate, currency and equity products, all of which are exposed to changes in interest rates, credit spreads, equity prices and foreign exchange rates. The market risks are monitored by the Treasury Division and the Risk Management Department. Management is confident that the bank has proper risk management policies in place to ensure that interest risk, liquidity risk and foreign exchange risk are mitigated considering the macro economic indicators affecting the banking business.

5.2.1 Price risk

The bank holds listed securities classified as held-for-trading to take advantage of short-term and capital market movements. All investment securities present a risk of loss of capital. The bank controls this risk through a careful selection of securities in accordance with Investment Management Policy approved by the Board. The maximum risk resulting from financial instruments is determined by the carrying amount of the financial instruments. The bank's market positions are managed on a daily basis by the Head of Investment Management Department and are reviewed periodically by the Investment Committee.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER 2012

5 FINANCIAL RISK MANAGEMENT (continued)

5.2 Market risk (continued)

5.2.1 Price risk (continued)

A significant portion of bank's investments include equity securities which are publicly traded on the Muscat Securities Market (MSM). The bank's profits at 31 December 2012 may change by 0.28% (2011 - + 1.02%) due to increase/decrease by 10% in the MSM - 30 Index and the GCC market indices, with all the other variables held constant. The bank's investments have historically performed in line with the MSM - 30 Index.

5.2.2 Interest rate risk

Interest rate risk is the risk that the value of a financial instrument carried at fair value will fluctuate due to changes in the market interest rates. The bank is exposed to interest rate risk as a result of mismatches or gaps in the amount of interest based assets and liabilities that mature or re-price in a given period. The bank manages this risk by matching/re-pricing of assets and liabilities. The bank is not excessively exposed to interest rate risk as its assets and liabilities are re-priced frequently. The bank's Assets and Liabilities Committee (ALCO) monitors and manages the interest rate with the objective of limiting the potential adverse effects on the bank's profitability. The table in Note 36 summarises the bank's exposure to the interest rate risks. It includes the bank's financial instruments at the carrying amount, categorised by the earlier of the contractual re-pricing and maturity dates.

For managing its interest rate risk in the banking book the bank stipulates limits on open interest rate sensitive gaps for maturities up to 1 year and also periodically calculates Earnings at Risk (EaR) impact on its Net Interest Income (NII) from 100bps change in interest rates on open interest rate gaps for maturities up to 1 year. The EaR limit is stipulated as a certain percentage of the NII of the bank for the previous year. The EaR at 31 December 2012 is 1.41% (2011 - 13.78%).

5.2.3 Currency risk

Currency risk arises when the value of a 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 as per documented policies approved by the Board of Directors.

The bank's foreign exchange exposure comprises of forward contracts, foreign currencies cash in hand, balances with banks abroad, foreign placements and other assets and liabilities denominated in foreign currency. The management manages the risk by monitoring net open position in line with limits set by the management and approved by the Executive Committee of the Board and entering into forward contracts based on the underlying commercial transactions with the customers.

Additionally, appropriate segregation of duties exist between the front and back office functions while compliance with the net open position is independently monitored on an ongoing basis by the management and the Assets and Liabilities Committee (ALCO). The net open position of the bank in foreign currency exposures at the year end is set out below:

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER 2012

5 FINANCIAL RISK MANAGEMENT (continued)

5.2 Market risk (continued)

	2012	2011
	RO'000	RO'000
Foreign currency exposures		
Net assets denominated in US Dollars	**4,297**	849
Net assets denominated in other foreign currencies	**965**	1,189
	5,262	2,038

Oman operates with a fixed exchange rate, and the Omani Rial is pegged to the US Dollar at $2.6008 per Omani Rial.

5.2.4 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 meet 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.

The bank manages the liquidity risk based on estimated maturities using the guidelines provided by the Central Bank of Oman for the estimates. The table in Note 35 represents cash flows receivable to and payable by the bank under derivative and non derivative assets and liabilities by estimated remaining maturities at the reporting date.

5.3 Operational risk

Operational risk is the risk of direct or indirect loss resulting from inadequate or failed internal processes, people, and systems or from external events.

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

Operational risk is controlled through a series of strong internal controls and audits, well-defined segregation of duties and reporting lines, operational manuals and standards. Internal audit independently reviews the effectiveness of the bank's internal controls and its ability to minimize the impact of operational risks.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER 2012

5 FINANCIAL RISK MANAGEMENT (continued)

5.4 Fair value estimation

The estimate of fair values of the financial instruments is based on information available to management as at 31 December 2012. Whilst management has used its best judgement in estimating the fair value of the financial instruments, there are inherent weaknesses in any estimation technique. The estimates involve matters of judgement and cannot be determined with precision. The bases adopted in deriving the fair values are as follows:

5.4.1 Current account balances due to and from banks

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

5.4.2 Loans and advances

The fair value of non-performing loans approximates to the book value adjusted for allowance for loan impairment. For the performing loans, the fair value is taken as being equivalent to its carrying amount as the prevailing interest rates offered on similar loans are not materially different from the actual loan rates.

5.4.3 Investments at fair value through profit and loss and available for sale

Quoted market prices, when available, are used as the measure for fair value. However, when the quoted market prices do not exist, fair value presented is estimated using discounted cash flow models or other valuation techniques. Changes in fair value resulting from these calculations are not material to the financial statements.

5.4.4 Customers' deposits

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

5.4.5 Derivatives

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER 2012

5 FINANCIAL RISK MANAGEMENT (continued)

5.5 Financial instruments by category

The accounting policies for financial instruments have been applied to the line items below:

Assets as per statement of financial position	Fair value through profit or loss	Held to maturity	Available for sale investments	Loans and receivables	Total
	RO'000	RO'000	RO'000	RO'000	RO'000
31-Dec-12					
Bank balances and cash	-	**149,893**	-	-	**149,893**
Certificates of deposit	-	**90,000**	-	-	**90,000**
Due from banks	-	**102,829**	-	-	**102,829**
Loans and advances	-	-	-	**934,814**	**934,814**
Investment securities	**2,301**	**27,860**	**10,706**	-	**40,867**
Other assets	-	-	-	**30,227**	**30,227**
	2,301	**370,582**	**10,706**	**965,041**	**1,348,630**
31-Dec-11					
Bank balances and cash	-	32,895	-	-	32,895
Certificates of deposit	-	100,000	-	-	100,000
Due from banks	-	75,887	-	-	75,887
Loans and advances	-	-	-	829,845	829,845
Investment securities	5,661	22,412	8,316	-	36,389
Other assets	-	-	-	24,632	24,632
	5,661	231,194	8,316	854,477	1,099,648

Liabilities as per statement of financial position				Other liabilities	Total
				RO'000	RO'000
31-Dec-12					
Due to banks	-	-	-	**59,709**	**59,709**
Deposits from customers	-	-	-	**1,031,144**	**1,031,144**
Other liabilities	-	-	-	**41,595**	**41,595**
Subordinated bonds	-	-	-	**50,000**	**50,000**
Taxation	-	-	-	**3,850**	**3,850**
	-	-	-	**1,186,298**	**1,186,298**
31-Dec-11					
Due to banks	-	-	-	7,678	7,678
Deposits from customers	-	-	-	909,660	909,660
Other liabilities	-	-	-	32,812	32,812
Taxation	-	-	-	3,559	3,559
	-	-	-	953,709	953,709

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER 2012

5 FINANCIAL RISK MANAGEMENT (continued)

6 CAPITAL MANAGEMENT

The bank's objectives of capital management are:

to comply with the capital requirements set by the regulator i.e. the Central Bank of Oman;

to safeguard the bank's ability to continue as a going concern while providing adequate returns to the shareholders; and

to maintain a strong capital base to support the development of its business.

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

The CBO requires the banks registered in the Sultanate of Oman to maintain a minimum capital adequacy ratio of 12% based on guidelines of the Basel II Accord. The ratio calculated in accordance with the CBO and BIS capital adequacy guidelines as per the Basel II Accord is as follows:

	2012	2011
	RO'000	RO'000
Capital		
Tier 1	**172,365**	148,695
Tier 2	**53,435**	11,851
Total capital base	**225,800**	160,546
Risk weighted assets		
Credit risk	**1,222,375**	1,059,532
Market risk	**7,950**	16,363
Operational risk	**104,838**	97,163
Total risk weighted assets	**1,335,163**	1,173,058
Capital adequacy ratio %	**16.91**	13.69%

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER 2012

7 CASH AND BALANCES WITH THE CENTRAL BANK OF OMAN

	2012 RO'000	2011 RO'000
Cash in hand	**23,194**	19,459
Balances with the Central Bank of Oman:		
Clearing account and other balances	**126,199**	12,936
Capital deposit	**500**	500
	149,893	32,895

The capital deposit cannot be withdrawn without the approval of the Central Bank of Oman.The capital deposit earns interest at 1.5% per annum (2011 - 2% p.a.).

8 CERTIFICATES OF DEPOSIT

Certificates of deposit are issued by the Central Bank of Oman for periods ranging from 28 days to 6 months and carry interest at the rate of 0.09% (2011 - 0.09%) per annum.

9 DUE FROM BANKS

	2012 RO'000	2011 RO'000
Money market placements	**82,775**	57,548
Current accounts	**20,054**	18,339
	102,829	75,887

At 31 December 2012, 75% of the bank's placements were with five banks rated between Aa3 to Ba3 by Moody's (2011 - 76% of the bank's placements were with five banks rated Aaa to A1)

10 LOANS AND ADVANCES

	2012 RO'000	2011 RO'000
Corporate loans		
Term loans	**448,510**	399,466
Overdrafts	**96,497**	89,837
Bills discounted	**18,883**	18,821
	563,890	508,124
Personal loans		
Consumer loans	**310,571**	275,023
Mortgage loans	**55,317**	45,191
Overdrafts	**30,232**	22,660
Credit cards	**6,325**	6,002
	402,445	348,876
Gross loans and advances	**966,335**	857,000
Less: allowance for loan impairment and contractual interest not recognised (refer to note (a) below)	**(31,521)**	(27,155)
Net loans and advances	**934,814**	829,845

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER 2012

10 LOANS AND ADVANCES (continued)

(a) Allowance for loan impairment

The movements in the allowance for loan impairment are as follows:

	Allowance for loan impairment RO'000	**Contractual interest not recognised RO'000**	**Total RO'000**
Balance at 1 January 2012	**21,328**	**5,827**	**27,155**
Provided during the year	**5,727**	**1,802**	**7,529**
Amounts written off during the year	**(565)**	**(314)**	**(879)**
Amounts released/recovered during the year	**(1,713)**	**(571)**	**(2,284)**
Balance at 31 December 2012	**24,777**	**6,744**	**31,521**

	Allowance for loan impairment RO'000	Contractual interest not recognised RO'000	Total RO'000
Balance at 1 January 2011	17,401	4,602	22,003
Provided during the year	6,173	1,968	8,141
Amounts written off during the year	(266)	(56)	(322)
Amounts released/recovered during the year	(1,980)	(687)	(2,667)
Balance at 31 December 2011	21,328	5,827	27,155

At 31 December 2012, RO 13,369 thousand (2011 - RO 11,734 thousand) out of the total loan impairment provisions has been made on a portfolio basis against the losses incurred but not identified on the performing portion of the loans and advances.

At 31 December 2012, loans and advances on which contractual interest was not recognised or has not been accrued amounted to RO 26,087 thousand (31 December 2011 – RO 24,446 thousand).

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER 2012

10 LOANS AND ADVANCES (continued)

(b) Concentration of loans and advances

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

	2012 RO'000	2011 RO'000
Personal loans	**402,445**	348,876
Transportation	**121,693**	83,995
Manufacturing	**106,897**	92,025
Construction	**76,865**	75,325
Services	**45,034**	63,282
Electricity, water and gas	**39,191**	11,101
Import trade	**33,549**	26,061
Financial institutions	**21,888**	20,201
Wholesale and retail trade	**21,236**	52,486
Mining and quarrying	**17,281**	30,742
Agriculture and allied activities	**8,916**	6,449
Others	**71,340**	46,457
	966,335	857,000

Of the above, loans with variable interest rates amount to RO 380,607 thousand (2011 - 331,783 RO thousand) and loans carrying fixed interest rates amount to RO 585,728 thousand (2011 - RO 525,217 thousand).

11 INVESTMENT SECURITIES

	2012 Carrying value RO'000	2012 Cost RO'000	2011 Carrying value RO'000	2011 Cost RO'000
Available-for-sale				
- quoted	**10,357**	**10,165**	7,980	7,659
- unquoted	**349**	**396**	336	396
	10,706	**10,561**	8,316	8,055
Designated as at fair value through profit or loss				
- quoted	**586**	**517**	573	517
- unquoted	**272**	**1,271**	506	1,263
	858	**1,788**	1,079	1,780
Held-for-trading				
- quoted	**1,443**	**1,996**	4,582	5,516
	1,443	**1,996**	4,582	5,516
Held-to-maturity				
Oman Government Development Bonds	**27,860**	**27,860**	22,412	22,412
Total investment securities	**40,867**	**42,205**	36,389	37,763

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER 2012

11 INVESTMENT SECURITIES (continued)

Unquoted financial assets at fair value through profit or loss include investment in the Financial Settlement and Guaranteed Fund of RO 175,062 (2011 – RO 166,130) which is not recoverable until the date the bank ceases its brokerage activities or the fund is liquidated, whichever is earlier.

Refer note 35 for the maturity profile of the investment securities.

Fair value hierarchy

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

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

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

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

Transfers between levels

During the reporting period ended 31 December 2012, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

The movements in investment securities may be summarised as follows:

	At 1 January 2012	Additions	Disposals (sale and redemption)	Changes in fair value recorded in statement of comprehensive income	Changes in fair value recorded in equity	At 31 December 2012
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Available-for- sale						
Quoted - level 1	7,980	4,293	(1,788)	-	(128)	**10,357**
Unquoted - level 3	336	-	-	-	13	**349**
Designated as at fair value through profit or loss						
Quoted - level 1	573	13	-	-	-	**586**
Unquoted - level 3	506	-	(4)	(230)	-	**272**
Held for trading						
Quoted - level 1	4,582	3,373	(6,892)	380	-	**1,443**
Investments held to Maturity	22,412	18,835	(13,387)	-	-	**27,860**
At 31 December 2012	**36,389**	**26,514**	**(22,071)**	**150**	**(115)**	**40,867**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER 2012

11 INVESTMENT SECURITIES (continued)

	At 1 January 2011 RO'000	Additions RO'000	Disposals (sale and 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 31 December 2011 RO'000
Available-for- sale						
Quoted - level 1	5,392	4,349	(691)	-	(1,070)	7,980
Unquoted - level 3	346	-	-	-	(10)	336
Designated as at fair value through profit or loss						
Quoted - level 1	618	-	-	(45)	-	573
Unquoted - level 3	503	-	-	3	-	506
Held for trading						-
Quoted - level 1	4,874	9,006	(8,770)	(528)	-	4,582
Investments held to maturity	20,077	2,335	-	-	-	22,412
At 31 December 2011	31,810	15,690	(9,461)	(570)	(1,080)	36,389

Included under investments held to maturity are bonds issued by the Government of Oman amounting to RO 27,860 thousand (2011: RO 22,412 thousand). The bonds are denominated in Rial Omani and carry interest rates varying between 3.25% and 5.50% (2011 - 3.25% to 4%) per annum. The maturity profile of these bonds, based on the remaining maturity from the reporting date, is as follows:

	2012 RO'000	2011 RO'000
Within 3 months	**-**	-
4 to 12 months	**4,000**	13,191
1 to 5 years	**23,860**	9,221
	27,860	22,412

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER 2012

12 OTHER ASSETS

	2012	2011
	RO'000	RO'000
Customers' indebtedness against acceptances	**19,953**	14,924
Interest receivable	**3,615**	3,132
Prepayments	**1,478**	1,299
Receivable from investment customers	**565**	1,183
Positive fair value of derivatives (note 33)	**249**	321
Others	**4,367**	3,773
	30,227	24,632

13 PROPERTY AND EQUIPMENT

	Land and buildings RO'000	**Computer equipment RO'000**	**Equipment, furniture & fixtures RO'000**	**Motor vehicles RO'000**	**Capital work in progess RO '000**	**Total RO'000**
2012						
Cost						
At 1 January 2012	**6,521**	**11,326**	**6,284**	**575**	**5,933**	**30,639**
Additions	**1,236**	**1,077**	**196**	**57**	**6,115**	**8,681**
Transfers	**-**	**156**	**161**	**-**	**(317)**	**-**
Disposals	**-**	**(1)**	**(1)**	**(49)**	**-**	**(51)**
At 31 December 2012	**7,757**	**12,558**	**6,640**	**583**	**11,730**	**39,268**
Depreciation						
At 1 January 2012	**2,569**	**8,276**	**4,387**	**390**	**-**	**15,622**
Charge for the year	**-**	**1,166**	**667**	**83**	**-**	**1,916**
Relating to disposals	**-**	**(1)**	**(1)**	**(47)**	**-**	**(49)**
At 31 December 2012	**2,569**	**9,441**	**5,053**	**426**	**-**	**17,489**
Net book value						
At 31 December 2012	**5,188**	**3,117**	**1,587**	**157**	**11,730**	**21,779**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER 2012

13 PROPERTY AND EQUIPMENT (continued)

	Land and buildings	Computer equipment	Equipment, furniture & fixtures	Motor vehicles	Capital work in progess	Total
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
2011						
Cost						
At 1 January 2011	6,521	9,939	6,042	587	3,660	26,749
Additions	-	549	718	15	3,370	4,652
Transfers	-	852	17	-	(869)	-
Disposals	-	(14)	(493)	(27)	(228)	(762)
At 31 December 2011	6,521	11,326	6,284	575	5,933	30,639
Depreciation						
At 1 January 2011	2,569	7,258	4,116	323	-	14,266
Charge for the year	-	1,032	739	94	-	1,865
Relating to disposals	-	(14)	(468)	(27)	-	(509)
At 31 December 2011	2,569	8,276	4,387	390	-	15,622
Net book value						
At 31 December 2011	3,952	3,050	1,897	185	5,933	15,017

14 DUE TO BANKS

	2012	2011
	RO'000	RO'000
Current accounts	**59,709**	7,678

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER 2012

15 DEPOSITS FROM CUSTOMERS

	2012	2011
	RO'000	RO'000
Term deposits	**430,361**	391,725
Demand and call accounts	**444,188**	381,038
Saving accounts	**156,595**	136,897
	1,031,144	909,660

The concentration of customers' deposits by Private and Government sector is as follows:

	2012	2011
	RO'000	RO'000
Private	**700,710**	603,529
Government	**330,434**	306,131
	1,031,144	909,660

16 OTHER LIABILITIES

	2012	2011
	RO'000	RO'000
Liabilities against acceptances	**19,953**	14,924
Payable to investment customers	**6,668**	7,084
Accrued expenses and other payables	**4,381**	3,002
Acceptances and certified cheques	**2,918**	2,462
Staff terminal benefits	**2,666**	2,352
Interest payable	**3,514**	1,789
Interest and commission received in advance	**1,259**	898
Negative fair value of derivatives (note 33)	**236**	301
	41,595	32,812

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER 2012

16 OTHER LIABILITIES (continued)

The bank's net liability and the movement in the staff terminal benefits during the year are as follows:

	2012	2011
	RO'000	RO'000
At 1 January	**2,352**	2,079
Charge for the year	**469**	288
Payment to employees during the year	**(155)**	(15)
At 31 December	**2,666**	2,352

17 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 payable semi-annually with the principal payable on maturity.

18 TAXATION

	2012	2011
	RO'000	RO'000
Statement of comprehensive income		
Current year	**3,579**	3,276
Prior years	**-**	3
Deferred tax	**(6)**	38
	3,573	3,317
Statement of financial position		
Current year	**3,573**	3,276
Deferred tax liability	**277**	283
	3,850	3,559
Deferred tax liability		
At 1 January	**283**	245
Movement for the year	**(6)**	38
At 31 December	**277**	283

The bank is liable for income tax in accordance with the income tax laws of the Sultanate of Oman. The tax rate applicable to the bank is 12%. For determining the tax expense for the year, the accounting profit for the year has been adjusted for tax purposes. Adjustments for tax purposes include items relating to both income and expense. After giving effect to these adjustments, the average effective tax rate is estimated to be 12.39 % (2011 - 12.36%).

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER 2012

18 TAXATION (continued)

The deferred tax liability has been recognised at the effective rate of 12% (2011 - 12%).

The reconciliation between the profit before taxation and the tax expense is as follows:

	2012 **RO'000**	2011 RO'000
Profit before tax	**28,843**	26,522
Tax at the applicable rate of 12% after statutory deduction of RO 30,000 (2008 - 12%)	**3,458**	3,179
Tax effect of temporary differences	**(6)**	38
Tax effect of income that is not taxable and expenses that are not deductible in determining taxable profit	**127**	59
Tax expense for the currrent year	**3,579**	3,276
Deferred tax liability (reversed) created during the year	**(6)**	38
Tax expense for the year	**3,573**	3,314

Status of tax assessments

The assessments for the years up to 2008 are complete. The assessments for 2009 to 2011 are not yet finalised by the Tax Authorities. Management believes that no significant further liabilities will be incurred by the bank on completion of the pending tax assessments as compared to the existing provision eatablished.

19 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. In the extraordinary general meeting held on 17 April 2012 the shareholders approved the conversion of the nominal value of shares of the bank from RO 1.000 to 100 baizas each.

In the Annual General Meeting held on 28 March 2012 the shareholders approved the stock dividend of RO 6 million (6 million shares @ RO 1 each) and rights issue of RO 10 million (10 million shares @ RO 1 each). RO 10 million will be assigned as capital for the Islamic Banking services of the Bank, which is planned to commence operations during 2013.

The shareholders of the bank at the reporting date were as follows:

	Country of incorporation	Share holding %	**2012** **RO'000**	2011 RO'000
Oman International Development & Investment Co. SAOG	Oman	50.99	**59,148**	50,990
Arab Bank Plc	Jordan	49.00	**56,840**	49,000
Oman Investment Services SAOC	Oman	0.01	**12**	10
			116,000	100,000

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER 2012

20 LEGAL RESERVE

In accordance with Article 106 of the Omani Commercial Companies Law of 1974, the bank is required to transfer 10% of its profit after tax for the year to legal reserve until the accumulated balance of the reserve equals at least one third of the bank's paid up share capital. This reserve is not available for distribution.

21 GENERAL RESERVE

The bank has established a policy to set aside a portion of the profit each year to a 'General reserve' in order to meet any unforeseen contingencies.

22 SUBORDINATED DEBT RESERVE

The subordinated debt reserve has been created by a transfer of 20% of the subordinated bonds out of the profit after tax for the year. The Central Bank of Oman requires that a reserve be set aside annually for the subordinated bonds which are due to mature within five years (refer note 17). The reserve is available for transfer back to retained earnings upon maturity of the subordinated bonds.

23 DIVIDEND PROPOSED AND PAID

The Board of Directors proposed a cash dividend of RO 0.100 per share totalling to RO 11.6 million for the year ended 31 December 2012 (2011 - RO 0.120 per share totalling to RO 12 million). A resolution to approve the dividend will be presented to the shareholders at the Annual General Meeting.

At the Annual General Meeting held on 28 March 2012 , a cash dividend of RO 0.120 per share totalling to RO 12 million (2011 : RO 0.200 per share totalling to RO 17 million) and a stock dividend of RO 0.060 per share totaling to RO 6 million (2011 : nil) for the year ended 31 December 2011 was approved and subsequently paid.

24 INTEREST INCOME

	2012	2011
	RO'000	RO'000
Loans and advances	**49,719**	42,691
Oman Government Development Bonds	**567**	517
Placements with banks and other money market placements	**145**	80
Certificates of deposits	**85**	85
	50,516	43,373

25 INTEREST EXPENSE

	2012	2011
	RO'000	RO'000
Time deposits	**6,077**	5,608
Bank borrowings	**2,554**	457
Call accounts	**545**	470
Savings accounts	**373**	358
	9,549	6,893

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER 2012

26 FEE AND COMMISSION INCOME - NET

	2012 RO'000	2011 RO'000
Fee and commission income	**16,101**	15,247
Fee and commission expense	**(1,856)**	(1,612)
	14,245	13,635

27 INVESTMENT INCOME

	2012 RO'000	2011 RO'000
Fair value changes from financial assetes at fair value through profit or loss	**150**	(570)
Profit on sale of investments	**832**	314
Dividend income	**459**	881
	1,441	625

28 OTHER OPERATING INCOME

	2012 RO'000	2011 RO'000
Exchange income	**4,100**	3,967
Other income	**75**	668
	4,175	4,635

29 OPERATING EXPENSES

	2012 RO'000	2011 RO'000
Staff costs (refer below)	**18,089**	15,452
Other operating expenses	**8,435**	7,926
Depreciation	**1,916**	1,865
Directors' remuneration and sitting fees	**102**	104
	28,542	25,347

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER 2012

29 OPERATING EXPENSES (continued)

Details of staff costs are as follows:	**2012**	2011
	RO'000	RO'000
Salaries	**12,518**	10,801
Allowances	**2,578**	2,240
Social security costs	**822**	717
End of service benefits	**469**	286
Other costs	**1,702**	1,408
	18,089	15,452

30 EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit for the year attributable to the ordinary shareholders as follows:

	2012	2011
	RO'000	RO'000
Profit for the year (RO'000)	**25,270**	23,205
Weighted average number of shares outstanding during the year (in '000)	**1,130,959**	1,023,014
Basic earning per share (RO)	**0.022**	0.023

During the year ended 31 December 2012, the bank issued 6,000,000 shares of RO 1 each (2011 : 2,000,000 bonus shares of RO 1 each) to the existing shareholders. As the bonus issue was without consideration, the number of ordinary shares outstanding before the event is adjusted for the proportionate change in the number of ordinary shares outstanding as if the event had occurred at the beginning of the earliest period presented. Nominal value of the shares was converted to 100 Baizas, as approved in the bank's extraordinary general meeting held on 17 April 2012. The weighted average number of shares outstanding during the year have been adjusted for rights issue and increase in number of shares due to change in the nominal value of shares.

The basic earnings per share is the profit for the period divided by the weighted average number of shares outstanding. The basic earnings per share for 2011 has been restated at 100 baizas per share.

No figure for diluted earnings per share has been presented, as the bank has not issued any instruments, which would have an impact on earnings per share when exercised.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER 2012

31 RELATED PARTY TRANSACTIONS

Management service agreement with a shareholder

The bank has a management agreement with Arab Bank Plc Jordan, a shareholder. The details of the agreement are set out in note 1. During the year ended 31 December 2012, the management fees as per the agreement amounted to RO 29 thousand (2011: RO 29 thousand).

Other related parties transactions

In the ordinary course of business, the bank conducts transactions with certain of its Directors and/or shareholders and companies over which they are able to exert significant influence. The aggregate amounts of balances with such related parties are as follows:

	2012			2011		
	Major shareholders	**Others**	**Total**	Major shareholders	Others	Total
	RO'000	**RO'000**	**RO'000**	RO'000	RO'000	RO'000
Loans and advances	**4,907**	**39,508**	**44,415**	3,900	39,020	42,920
Customers' deposits	**152**	**7,532**	**7,684**	218	7,103	7,321
Investments	**626**	**443**	**1,069**	582	432	1,014
Due from banks	**56,794**	**-**	**56,794**	41,014	-	41,014
Due to banks	**1,401**	**-**	**1,401**	2,395	-	2,395
Stand by line of credit	**48,125**	**-**	**48,125**	48,125	-	48,125
Letters of credit, guarantees and acceptances	**183,150**	**2,600**	**185,750**	220,268	1,866	222,134

Movement of loans and advances given to related parties:

	2012	2011
	RO'000	RO'000
At 1 January 2012	**42,920**	16,267
Disbursed during the year	**19,537**	56,724
Paid during the year	**(18,042)**	(30,071)
At 31 December 2012	**44,415**	42,920

None of the loans and advances given to related parties were identified as impaired and no provision for any impairment has been recognised (2011 : none identified or recognised)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER 2012

31 RELATED PARTY TRANSACTIONS (continued)

The statement of comprehensive income includes the following amounts in relation to the transactions with related parties:

	2012 Major shareholders RO'000	**Others RO'000**	**Total RO'000**	2011 Major shareholders RO'000	Others RO'000	Total RO'000
Interest and commission income	**402**	**1,220**	**1,622**	605	1,113	1,718
Interest expense	**346**	**34**	**380**	301	14	315

Key management compensation

The Directors' remuneration is set out in Note 29. The remuneration of other members of key management during the year was as follows:

	2012 RO'000	2011 RO'000
Salaries and other short-term benefits	**1,281**	1,132
End of service benefits	**185**	67
	1,466	1,199

32 CASH AND CASH EQUIVALENTS

	2012 RO'000	2011 RO'000
Cash and balances with the Central Bank of Oman (CBO)	**149,893**	32,895
Certificates of deposit	**90,000**	100,000
Due from banks	**102,829**	75,887
Less: due to banks	**(59,709)**	(7,678)
Restricted deposits included under balances with the CBO	**(500)**	(500)
	282,513	200,604

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER 2012

33 DERIVATIVE FINANCIAL INSTRUMENTS

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

	Positive fair value RO'000 (note 12)	Negative fair value RO'000 (note 16)	Notional amount RO'000	Notional amounts by term to maturity		
				Within 3 months RO'000	3 - 12 months RO'000	1 – 5 Years RO'000
31-Dec-12						
Purchase contracts	249	-	20,895	12,642	8,253	-
Sale contracts	-	(236)	(20,882)	(12,633)	(8,249)	-
	249	(236)	13	9	4	-
31-Dec-11						
Purchase contracts	321	-	30,348	25,420	4,928	-
Sale contracts	-	(301)	(30,327)	(25,411)	(4,916)	-
	321	(301)	21	9	12	-

34 CONTINGENT LIABILITIES AND COMMITMENTS

(a) Letters of credit and guarantees

The bank is a party to financial instruments 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 acceptances.

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 bank's option.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER 2012

34 CONTINGENT LIABILITIES AND COMMITMENTS (continued)

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 as for customers applying for loans and advances.

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

	2012 RO'000	2011 RO'000
Letters of credit	**553,403**	259,731
Guarantees	**415,986**	438,327
Financial guarantees	**85,183**	78,119
	1,054,572	776,177

Letters of credit and guarantees amounting to RO 849,010 thousand (2011 - RO 571,861 thousand) were counter guaranteed by other banks.

Letters of credit and guarantees include RO 411 thousand (2011: RO 619 thousand) relating to non-performing loans.

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

	2012 RO'000	2011 RO'000
Export trade	**505,131**	208,636
Construction	**264,433**	217,284
Government	**108,848**	171,685
Transportation	**72,292**	53,342
Import trade	**48,270**	51,095
Utilities	**24,452**	36,815
Services	**12,422**	8,775
Wholesale and retail trade	**11,277**	16,384
Manufacturing	**7,447**	12,161
	1,054,572	776,177

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER 2012

(b) Capital commitments

At the reporting date, outstanding capital commitments in respect of premises and equipment purchases were RO 5,629 thousand (2011 - RO 4,892 thousand). During the previous year, bank has entered into a contract for the construction of an additional Head Office Building. The capital commitments for 2012 include RO 5,277 thousand (2011- RO 4,875 thousand) payable for the construction of the bank's new Head Office building.

(c) Undrawn loan commitments

At the reporting date, outstanding undrawn loan commitments amounted to RO 8,088 thousand (2011- RO 50,856 thousand). Each undrawn loan commitment is included in the time band containing the earliest date it can be drawn down.

The commitments set out in (b) to (c) above are expected to crystallise in the following periods:

	Up to 1 year	1 to 5 years	Over 5 years	Total
	RO'000	RO'000	RO'000	RO'000
2012				
Capital commitments	5,629	-	-	5,629
Undrawn loan commitments	388	7,700	-	8,088
2011				
Capital commitments	4,892	-	-	4,892
Undrawn loan commitments	39,856	11,000	-	50,856

(d) Legal claims

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

35 ASSETS AND LIABILITIES MATURITY PROFILE

The bank has established policies to manage the liquidity risk arising from the mismatch in the final maturity of the assets and liabilities on the statement of financial position as explained in note 5.2.4. The table below represents cash flows receivable to and payable by the bank under derivative and non derivative assets and liabilities by estimated remaining maturities at the reporting date.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER 2012

35 ASSETS AND LIABILITIES MATURITY PROFILE (continued)

2012	On demand or within 3 months RO'000	3 to 12 months RO'000	1 to 5 years RO'000	Over 5 years RO'000	Total RO'000
Assets					
Cash and balances with the Central Bank of Oman	76,297	33,260	17,551	22,785	149,893
Certificates of deposit	90,000	-	-	-	90,000
Due from banks	102,829	-	-	-	102,829
Loans and advances	193,424	103,815	238,590	398,985	934,814
Investment securities	13,007	4,000	21,860	2,000	40,867
Other assets	21,881	8,011	335	-	30,227
Property and equipment	-	-	-	21,779	21,779
Total assets	497,438	149,086	278,336	445,549	1,370,409
Liabilities					
Due to banks	59,709	-	-	-	59,709
Deposits from customers	433,887	271,760	143,405	182,092	1,031,144
Other liabilities	32,728	5,865	3,002	-	41,595
Subordinated bonds	-	-	50,000	-	50,000
Taxation	3,567	283	-	-	3,850
Total liabilities	529,891	277,908	196,407	182,092	1,186,298
Net assets	(32,453)	(128,822)	81,929	263,457	184,111
Forward exchange contracts at notional amounts (note 33)					
Purchase contracts	12,642	8,253	-	-	20,895
Sale contracts	(12,633)	(8,249)	-	-	(20,882)
	9	4	-	-	13

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER 2012

35 ASSETS AND LIABILITIES MATURITY PROFILE (continued)

2011	On demand or within 3 months RO'000	3 to 12 months RO'000	1 to 5 years RO'000	Over 5 years RO'000	Total RO'000
Assets					
Cash and balances with the					
Central Bank of Oman	25,278	3,529	1,476	2,612	32,895
Certificates of deposit	100,000	-	-	-	100,000
Due from banks	75,887	-	-	-	75,887
Loans and advances	237,875	57,863	146,270	387,837	829,845
Investment securities	13,977	13,191	9,221	-	36,389
Other assets	17,122	6,477	1,033	-	24,632
Property and equipment	-	-	-	15,017	15,017
Total assets	472,662	81,060	158,000	402,943	1,114,665
Liabilities					
Due to banks	7,678	-	-	-	7,678
Deposits from customers	409,186	248,178	103,818	148,478	909,660
Other liabilities	26,880	2,548	3,384	-	32,812
Taxation	3,276	283	-	-	3,559
Total liabilities	447,020	251,009	107,202	148,478	953,709
Net assets	25,642	(169,949)	50,798	254,465	160,956
Forward exchange contractst					
notional amounts (note 33)					
Purchase contracts	25,420	4,928	-	-	30,348
Sale contracts	(25,411)	(4,916)	-	-	(30,327)
	9	12	-	-	21

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER 2012

35 ASSETS AND LIABILITIES MATURITY PROFILE (continued)

The following table below shows the contractual expiry by maturity of the bank's contingent liabilities and commitments. For issued guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called.

2012	**On demand or within 3 months**	**3 to 12 months**	**1 to 5 years**	**Over 5 years**	**Total**
	RO'000	**RO'000**	**RO'000**	**RO'000**	**RO'000**
Letters of guarantee	**170,999**	**97,336**	**232,633**	**201**	**501,169**
Letters of credit	**152,859**	**398,239**	**2,305**	**-**	**553,403**
Total commitments and contingencies	**323,858**	**495,575**	**234,938**	**201**	**1,054,572**

2011	On demand or within 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
	RO'000	RO'000	RO'000	RO'000	RO'000
Letters of guarantee	160,619	120,163	235,613	51	516,446
Letters of credit	243,231	10,050	6,450	-	259,731
Total commitments and contingencies	403,850	130,213	242,063	51	776,177

The bank expects that not all of the contingent liabilities or commitments will be drawn before expiry of the commitments.

The details of bank's capital commitments, operating lease commitments and undrawn loan commitments are disclosed in note 34.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER 2012

36 ASSETS AND LIABILITIES RE-PRICING PROFILE

The re-pricing profile is based on contractual re-pricing or maturity dates, whichever dates are earlier. The bank's assets and liabilities are included at carrying amounts.

2012	Average effective interest rate	Within 3 months	4 to 12 months	1 to 5 years	Over 5 years	Non-interest bearing	Total
	%	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Assets							
Cash and balances with							
the Central Bank of Oman	2.00	-	-	-	500	149,393	149,893
Certificates of deposit	0.08	90,000	-	-	-	-	90,000
Due from banks	0.23	82,775	-	-	-	20,054	102,829
Loans and advances	5.32	222,064	180,159	525,512	7,079	-	934,814
Investment securities							
at fair value		-	-	-	-	13,007	13,007
Investment-held to maturity	2.83	-	4,000	21,860	2,000	-	27,860
Other assets		4,689	-	-	-	25,538	30,227
Property and equipment		-	-	-	-	21,779	21,779
Total assets		399,528	184,159	547,372	9,579	229,771	1,370,409
Liabilities							
Due to banks		-	-	-	-	59,709	59,709
Deposits from customers	0.94	429,095	116,150	44,033	-	441,866	1,031,144
Other liabilities		24,938	531	182	-	15,944	41,595
Subordinated bonds	5.50	-	-	50,000	-	-	50,000
Taxation		-	-	-	-	3,850	3,850
Total liabilities		454,033	116,681	94,215	-	521,369	1,186,298
Total interest sensitivity gap		(54,505)	67,478	453,157	9,579	(291,598)	184,111

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER 2012

36 ASSETS AND LIABILITIES RE-PRICING PROFILE (continued)

2011	Average effective interest rate	Within 3 months	4 to 12 months	1 to 5 years	Over 5 years	Non-interest bearing	Total
	%	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Assets							
Cash and balances with							
the Central Bank of Oman	2.00	-	-	-	500	32,395	32,895
Certificates of deposit	0.08	100,000	-	-	-	-	100,000
Due from banks	0.22	57,548	-	-	-	18,339	75,887
Loans and advances	5.96	265,729	162,494	395,196	6,426	-	829,845
Investment securities							
at fair value		-	-	-	-	13,977	13,977
Investment-held to maturity	3.83	-	13,191	9,221	-	-	22,412
Other assets		8,667	-	-	-	15,965	24,632
Property and equipment		-	-	-	-	15,017	15,017
Total assets		431,944	175,685	404,417	6,926	95,693	1,114,665
Liabilities							
Due to banks		-	-	-	-	7,678	7,678
Deposits from customers	0.81	384,431	118,308	16,149	-	390,772	909,660
Other liabilities		16,892	548	309	-	15,063	32,812
Taxation		-	-	-	-	3,559	3,559
Total liabilities		401,323	118,856	16,458	-	417,072	953,709
Total interest							
sensitivity gap		30,621	56,829	387,959	6,926	(321,379)	160,956

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER 2012

37 GEOGRAPHICAL DISTRIBUTION OF ASSETS AND LIABILITIES

2012	Sultanate of Oman	Other GCC countries	Europe	United States of America	Others	Total
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Assets						
Cash and balances with the Central Bank of Oman	149,893	-	-	-	-	149,893
Certificates of deposit	90,000	-	-	-	-	90,000
Due from banks	9,640	76,254	7,450	8,466	1,019	102,829
Loans and advances	934,814	-	-	-	-	934,814
Investment securities	40,228	639	-	-	-	40,867
Other assets	30,227	-	-	-	-	30,227
Property and equipment	21,779	-	-	-	-	21,779
Total assets	1,276,581	76,893	7,450	8,466	1,019	1,370,409
Liabilities						
Due to banks	53,462	3,733	425	1,063	1,026	59,709
Deposits from customers	1,031,144	-	-	-	-	1,031,144
Other liabilities	41,595	-	-	-	-	41,595
Subordinated bonds	50,000	-	-	-	-	50,000
Taxation	3,850	-	-	-	-	3,850
Total liabilities	1,180,051	3,733	425	1,063	1,026	1,186,298

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER 2012

37 GEOGRAPHICAL DISTRIBUTION OF ASSETS AND LIABILITIES (continued)

2011	Sultanate of Oman	Other GCC countries	Europe	United States of America	Others	Total
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Assets						
Cash and balances with the Central of Bank of Oman	32,895	-	-	-	-	32,895
Certificates of deposit	100,000	-	-	-	-	100,000
Due from banks	-	33,904	28,918	11,810	1,255	75,887
Loans and advances	829,723	122	-	-	-	829,845
Investment securities	34,994	962	-	433	-	36,389
Other assets	24,632	-	-	-	-	24,632
Property and equipment	15,017	-	-	-	-	15,017
Total assets	1,037,261	34,988	28,918	12,243	1,255	1,114,665
Liabilities						
Due to banks	-	6,365	921	277	115	7,678
Deposits from customers	909,660	-	-	-	-	909,660
Other liabilities	32,812	-	-	-	-	32,812
Taxation	3,559	-	-	-	-	3,559
Total liabilities	946,031	6,365	921	277	115	953,709

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER 2012

38 CUSTOMER CONCENTRATIONS

	Due from banks	Assets Gross loans and advances	Investment securities	Deposits from customers	Liabilities Due to banks	Contingent liabilities
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
31-Dec-12						
Personal	-	402,445	-	309,202	-	641
Corporate	102,829	452,877	13,007	391,508	59,709	548,800
Government	-	111,013	27,860	330,434	-	505,131
	102,829	966,335	40,867	1,031,144	59,709	1,054,572
31-Dec-11						
Personal	-	348,876	-	283,549	-	259
Corporate	75,887	408,265	13,977	319,980	7,678	604,233
Government	-	99,859	22,412	306,131	-	171,685
	75,887	857,000	36,389	909,660	7,678	776,177

39 SEGMENT INFORMATION

The bank mainly operates in only one geographical location, the Sultanate of Oman. The bank has however earned interest income and incurred interest expenses on account of money market placements and borrowings with banks outside the Sultanate of Oman as of 31 December 2012. The information regarding the bank's due from banks and due to banks based on the geographical locations for the years ended 31 December 2012 and 2011 is set out in note 37.

For management purposes, the bank is organised into four operating segments based on products and services as follows:

Retail banking -	Individual personal loan, overdraft, credit card and funds transfer facilities.
Corporate banking -	Loans and other credit facilities for corporate and institutional customers.
Investment banking -	Asset management services involving investment products and services to institutional investors and intermediaries and other investment banking services including corporate finance, merger and acquisitions advice, specialised financial advice and trading.
Support and unallocated functions -	Treasury and other central functions.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER 2012

39 SEGMENT INFORMATION (continued)

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss which in certain respects is measured differently from operating profit or loss in the financial statements. The costs incurred by the central functions are managed on a group basis and are not allocated to operating segments.

Cash and balances with Central Bank of Oman, Certificate of deposits, due from banks, property and equipment and other assets are unallocated assets. No revenue from transactions with a single external customer or counterparty amounted to 10% or more of the bank's total revenue in 2012 or 2011.

2012	Retail banking RO'000	Corporate banking RO'000	Investment banking RO'000	Support and unallocated functions RO'000	Total RO'000
Interest income	28,434	21,284	-	798	50,516
Interest expense	(1,430)	(5,607)	-	(2,512)	(9,549)
Other operating income	8,812	4,031	2,714	4,304	19,861
Total operating income	35,816	19,708	2,714	2,590	60,828
Assets	389,075	545,739	20,994	414,601	1,370,409
Liabilities	309,202	721,942	20,994	134,160	1,186,298
Allowance for impairment	13,370	18,151	-	-	31,521

2011	Retail Banking RO'000	Corporate Banking RO'000	Investment Banking RO'000	Support and Unallocated Functions RO'000	Total RO'000
Interest income	23,618	19,073	-	682	43,373
Interest expense	(1,591)	(4,845)	-	(457)	(6,893)
Other operating income	8,649	4,497	1,771	3,978	18,895
Total operating income	30,676	18,725	1,771	4,203	55,375
Assets	337,628	492,217	22,512	263,494	1,114,665
Liabilities	283,549	626,111	22,512	22,724	953,709
Allowance for impairment	11,248	15,907	-	-	27,155

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER 2012

40 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:

	2012	2011
	RO'000	RO'000
Funds under management	**236,848**	215,673

41 COMPARATIVE AMOUNTS

Certain corresponding figures for 2011 have been reclassified in order to conform with the presentation for the current period. Such reclassifications were made within the same notes to the financial statements and do not affect previously reported profit or shareholder's equity.

OMAN ARAB BANK SAOC

DISCLOSURES UNDER PILLAR III OF BASEL II
For The Year Ended 31st December 2012

IN TERMS OF CENTRAL BANK OF OMAN CIRCULAR BM 1027
DATED 4 DECEMBER 2007

Ernst & Young

P.O. Box 1750, Ruwi 112
Ernst & Young Building
Qurum
Muscat, Sultanate of Oman
Tel: +968 2455 9559 Fax: +968 2456 6043
muscat@om.ey.com
www.ey.com/me
C.R. No. 1/36809/5
P.R. No. HH/4

Report on factual findings to the Board of Directors of Oman Arab Bank SAOC in respect of Basel II – Pillar III Disclosures

We have performed the procedures agreed with you and as prescribed in the Central Bank of Oman (CBO) circular no. BM 1027 dated 4 December 2007 with respect to the Basel II – Pillar III disclosures (the disclosures) of Oman Arab Bank SAOC (the bank) as at and for the year ended 31 December 2012. The disclosures were prepared by the bank's management in accordance with the related requirements set out in CBO circular number BM 1009 dated 13 September 2006 and circular number BM 1027 dated 4 December 2007 (the circulars). Our engagement was undertaken in accordance with the International Standard on Related Services applicable to agreed-upon procedures engagements. The procedures, as set out in Circular number BM 1027, were performed solely to assist you in evaluating the bank's compliance with the related disclosure requirements as set out in CBO Circular number BM 1009.

We report our findings as follows:

We found that the bank's disclosures are free from any material misrepresentation.

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

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

Our report is solely for the purpose set forth in the first paragraph of this report and for your information and is not to be used for any other purpose. This report relates only to the accompanying disclosures to be included in the bank's annual report for the year ended 31 December 2012 and does not extend to any financial statements of the bank taken as a whole or to any other reports of the bank.

28 January 2013
Muscat

DISCLOSURES UNDER PILLAR III OF BASEL II
FOR THE YEAR ENDED 31ST DECEMBER 2012

A. SCOPE OF APPLICATION

Oman Arab Bank SAOC (the Bank) was incorporated in the Sultanate of Oman on 1 October 1984 as a closed joint stock company. The Bank is a subsidiary of Oman International Investment and Development Company SAOG (OMINVEST) which owns 51% of the shares and the remaining 49% is owned by Arab Bank Plc, Jordan.

The Bank's objectives of capital management are:

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

The Bank complies with CBO's requirements for the capital adequacy as specified in the Circular provided for the implementation of the Basel II accord.

Basel II (the New Accord) consists of three mutually reinforcing Pillars - Minimum Capital Requirements (First Pillar), Supervisory Review Process (Second Pillar) and Market Discipline (Third Pillar). Under the First Pillar, the new framework offers three distinct options, for computing capital requirements for credit and operational risks, respectively. The approaches for credit risk (Standardized, Internal Ratings-Based – Foundation and Advanced) and operational risk (Basic Indicator, Standardized and Advanced measurement) are based on increasing risk sensitivity and allow banks to choose any of the approaches that are most appropriate to their risk management practices.

B. CAPITAL STRUCTURE

The Bank's Tier 1 and Tier 2 capital are as follows:

	RO '000
Paid up share capital	116,000
Legal reserves	25,125
General reserves	19,568
Subordinated Debt reserve	10,000
Retained earnings/(losses) of previous years	1,672
Tier 1 Capital	172,365
Collective impairment provisions for loan losses on portfolio basis	13,369
Cumulative fair value gains on investments available-for-sale	66
Subordinated term debt	40,000
Tier 2 Capital	53,435
Total Capital	225,800

Tier 1 Capital

The Bank's authorised and issued share capital comprises 200,000,000 fully paid shares of RO 0.100 each. In accordance with Article 106 of the Omani Commercial Companies Law of 1974, the Bank is required to transfer 10% of its profit after tax for the year to the legal reserve until the accumulated balance of the reserve equals at least one third of the Bank's paid up share capital. General reserves have been created out of the Bank's retained earnings to meet any unforeseen contingency.

DISCLOSURES UNDER PILLAR III OF BASEL II
FOR THE YEAR ENDED 31ST DECEMBER 2012

B. CAPITAL STRUCTURE (continued)

The subordinated debt reserve has been created by a transfer of 20% of the subordinated bonds out of the profit after tax for the year. The Central Bank of Oman requires that a reserve be set aside annually for the subordinated bonds which are due to mature within five years. The reserve is available for transfer back to retained earnings upon maturity of the subordinated bonds.

Tier 2 Capital

Tier 2 Capital consists of the Subordinated Bonds, provision for loan impairment on collective portfolio basis as required by the CBO and cumulative fair value gains on investments available for sale as allowed under the guidelines for Basel II by CBO.

In April 2012 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 in order to enhance the capital adequacy and to meet the funding requirements. The bonds are listed in the Muscat Securities Market and are transferable through trading. The bonds carry a fixed coupon rate payable semi-annually with the principal payable on maturity.

The provisions are made for the loan impairment on the performing portion of the loans and advances against the losses incurred but not identified.

C. CAPITAL ADEQUACY

Qualitative disclosures

Basel II provides a range of options for determining the regulatory capital requirements for credit and operational risks. It allows the banks and the supervisors to select approaches that seem most appropriate for the level of sophistication of the banks' activities, financial market infrastructure and risk management practices.

The Bank has chosen the following approaches for determining the regulatory capital with the approval of Central Bank of Oman:

(i) Standardized Approach for the credit risk with a simplified approach for the risk weighting of collaterals under the credit risk mitigation and

(ii) Basic Indicator approach for the operational risk.

The Bank's Board of Directors reviews the capital requirements based on the strategic plan of the Bank. This is reviewed periodically based on the current market and economic conditions. While formulating the Bank's strategic plans, the Bank's management takes into account forward-looking factors such as changes in the economic conditions, market and liquidity conditions. The Bank's current and future capital requirements are calculated in relation to its strategic business objectives. The strategic plan delineates the Bank's short-term and long-term capital needs, capital expenditures required for the foreseeable future, target capital levels, and capital sources. The Bank prepares its capital planning and operational budgeting on an annual basis.

Management considers that the Bank has adequate systems for monitoring and reporting risk exposures. The capital needs are assessed based on changes in the Bank's risk profile. The Board of Directors and the senior management receive regular reports or updates on the Bank's risk profile and capital needs through the Assets and Liabilities Committee (ALCO), Management Credit Committee (MCC) and directly from the Risk Management Department. This information is used to:

DISCLOSURES UNDER PILLAR III OF BASEL II
FOR THE YEAR ENDED 31ST DECEMBER 2012

C. CAPITAL ADEQUACY (continued)

a. evaluate the level and trend of material risks and their effect on capital requirements;

b. evaluate the sensitivity and reasonableness of the main assumptions used in the capital measurement system;

c. determine that the Bank holds sufficient capital against various risks;

d. determine that the Bank meets its internal capital adequacy goals; and

e. assess its future capital requirements based on the Bank's reported risk profile and in turn make necessary adjustments to the Bank's strategic plan.

The Management is in the process of setting the policies and procedures to progressively move to the advanced approaches set out in Basel II for the capital measurement.

Quantitative disclosure

Table-1

2012

Sl. No.	Details	Gross Balance (Book Value)	Net Balance (Book Value)	Risk Weighted Assets
		RO'000	**RO'000**	**RO'000**
1	On-Balance sheet Item	1,401,929	1,381,141	955,157
2	Off-Balance sheet Item	1,062,660	397,275	260,344
3	Assets for Operations risk	104,838	104,838	104,838
4	Assets in Trading book	7,950	7,950	7,950
5	Derivatives	11,400	11,400	6,874
6	Total	2,588,777	1,902,604	1,335,163
7	Tier 1 Capital			172,365
8	Tier 2 Capital			53,435
9	Tier 3 Capital			-
10	Total Regulatory Capital			225,800
10.1	Capital requirement for credit risk			146,685
10.2	Capital requirement for market risk			954
10.3	Capital requirement for operational risk			12,581
11	Total required capital			160,220
12	Tier 1 Ratio			12.91%
13	Total Capital Ratio			16.91%

DISCLOSURES UNDER PILLAR III OF BASEL II
FOR THE YEAR ENDED 31ST DECEMBER 2012

C. CAPITAL ADEQUACY (continued)

Table-1 (continued)

2011

Sl. No.	Details	Gross Balance (Book Value)	Net Balance (Book Value)	Risk Weighted Assets
		RO'000	**RO'000**	**RO'000**
1	On-Balance sheet Item	1,141,821	1,115,304	835,282
2	Off-Balance sheet Item	827,033	411,236	206,729
3	Assets for Operational risk	97,163	97,163	97,163
4	Assets in Trading book	16,363	16,363	16,363
5	Derivatives	3,816	3,816	17,521
6	Total	2,086,196	1,643,882	1,173,058
7	Tier 1 Capital			148,695
8	Tier 2 Capital			11,851
9	Tier 3 Capital			-
10	Total Regulatory Capital			160,546
10.1	Capital requirement for credit risk			127,144
10.2	Capital requirement for market risk			1,964
10.3	Capital requirement for operational risk			11,660
11	Total required capital			140,768
12	Tier 1 Ratio			12.68%
13	Total Capital Ratio			13.69%

D. CREDIT RISK EXPOSURE AND ASSESSMENT

i. General disclosure

Qualitative disclosures

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

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.

DISCLOSURES UNDER PILLAR III OF BASEL II
FOR THE YEAR ENDED 31ST DECEMBER 2012

D. CREDIT RISK EXPOSURE AND ASSESSMENT (continued)

Credit Risk Management and Control

The credit risk management and control are centralised in the credit risk management team which is divided into corporate, financial institutions and retail groups. The credit risk in corporate and financial institutions portfolio is primarily managed by the Credit Department while the Retail Banking Department manages the credit risk in the retail portfolio. The Risk Management Department reviews the credit risk independently and directly reports to the Audit and Risk Management Committee of the Board of Directors. The Bank's assessment of probability of default of individual counterparties is mainly linked with the number of days the borrower was in default as defined by the CBO circular number BM 977 dated 25 September 2004. In addition, the Bank assesses the adequacy of the security and financial performance of the borrowers in further downgrading the classification. The Bank's clients are segmented into the following five rating classes:

Bank's Rating	Past due days	
	Retail loans	Commercial loans
Standard loans	0-60 days	0-60 days
Special mention loan	60-90 days	60-90 days
Substandard loan	90-180 days	90-270 days
Doubtful loans	180-365 days	270-630 days
Loss	365 days and over	630 days and over

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

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

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

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Bank monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

Impairment provisioning

Impairment provisions are recognised for financial reporting purposes only for losses that have been incurred at the balance sheet date based on objective evidence of impairment. Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Bank about the loss events such as delays in repayment of contracted amounts by counterparties as well as considering the guidelines issued by the CBO.

DISCLOSURES UNDER PILLAR III OF BASEL II
FOR THE YEAR ENDED 31ST DECEMBER 2012

D. CREDIT RISK EXPOSURE AND ASSESSMENT (continued)

Impairment provisioning (continued)

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

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

Quantitative disclosure

ii. Gross credit risk exposures

Table-2

Sl. No.	Type of credit exposure	Average Gross Exposure		Total Gross Exposure as at	
		2012 RO'000	2011 RO'000	31-Dec-12 RO'000	31-Dec-11 RO'000
1	Overdrafts	98,282	83,003	96,497	89,837
2	Personal Loans	388,848	326,413	402,445	348,876
3	Loans againt Trust Receipts	27,082	30,395	29,226	29,558
4	Other Loans	403,224	290,320	419,284	369,909
5	Bills Purchased Discounted	16,342	14,524	18,883	18,820
	Total	**933,778**	**744,655**	**966,335**	**857,000**

iii. Geographic distribution of exposures

Table-3

2012

Sl. No.	Type of credit exposure	Oman RO'000	Other GCC countries RO'000	OECD countries RO'000	India RO'000	Pakistan RO'000	Others RO'000	Total RO'000
1	Overdrafts	96,497	-	-	-	-	-	96,497
2	Personal Loans	402,445	-	-	-	-	-	402,445
3	Loans against Trust Receipts	29,226	-	-	-	-	-	29,226
4	Other Loans	419,284	-	-	-	-	-	419,284
5	Bills Purchased/ Discounted	18,883	-	-	-	-	-	18,883
	Total	**966,335**	-	-	-	-	-	**966,335**

DISCLOSURES UNDER PILLAR III OF BASEL II
FOR THE YEAR ENDED 31ST DECEMBER 2012

iii. Geographic distribution of exposures (continued)

Table-3 (continued)

2011

Sl. No.	Type of credit exposure	Oman	Other GCC countries	OECD countries	India	Pakistan	Others	Total
		RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
1	Overdrafts	89,837	-	-	-	-	-	89,837
2	Personal loans	348,876	-	-	-	-	-	348,876
3	Loans against trust receipts	29,558	-	-	-	-	-	29,558
4	Other loans	369,909	-	-	-	-	-	369,909
5	Bills purchased discounted	18,820	-	-	-	-	-	18,820
	Total	**857,000**	-	-	-	-	-	**857,000**

iv. Industry or counterparty type distribution of exposures

Table-4

2012

Sl. No.	Economic Sector	Overdraft	Loans	Bills Purchased/ discounted	Others	Total	Off-balance sheet exposure
		RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
1	Import trade	12,434	20,048	1,067	-	33,549	48,270
2	Export trade	108	583	118	-	809	505,131
3	Wholesale & retail trade	7,281	13,388	567	-	21,236	11,277
4	Mining & quarrying	1,632	15,589	60	-	17,281	-
5	Construction	32,069	38,484	6,312	-	76,865	264,433
6	Manufacturing	18,216	84,959	3,722	-	106,897	7,447
7	Electricity, gas and water	322	38,369	500	-	39,191	24,452
8	Transport and communication	2,744	118,744	205	-	121,693	72,292
9	Financial institutions	844	20,737	307	-	21,888	-
10	Services	13,582	28,752	2,700	-	45,034	12,422
11	Personal loans	-	402,396	-	-	402,396	-
12	Agriculture and allied activities	4,806	3,677	433	-	8,916	-
13	Government	-	-	-	-	-	108,848
14	Non-resident lending	-	93	-	-	93	-
15	All others	2,459	65,136	2,892	-	70,487	-
16	Total (1 to 15)	**96,497**	**850,955**	**18,883**	**-**	**966,335**	**1,054,572**

DISCLOSURES UNDER PILLAR III OF BASEL II
FOR THE YEAR ENDED 31ST DECEMBER 2012

iv. Industry or counterparty type distribution of exposures (continued)

Table-4 (continued)

2011

Sl. No.	Economic Sector	Overdraft	Loans	Bills Purchased/ discounted	Others	Total	Off-balance sheet exposure
		RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
1	Import trade	12,581	12,470	1,010	-	26,061	51,095
2	Export trade	126	4,160	-	-	4,286	208,636
3	Wholesale & retail trade	6,985	44,926	575	-	52,486	16,384
4	Mining & quarrying	1,543	28,844	355	-	30,742	-
5	Construction	28,635	36,085	10,605	-	75,325	217,284
6	Manufacturing	9,754	79,267	3,004	-	92,025	12,161
7	Electricity, gas and water	736	10,338	-	-	11,074	36,815
8	Transport and communication	4,615	79,370	10	-	83,995	53,342
9	Financial institutions	1,448	18,753	-	-	20,201	-
10	Services	13,607	48,136	1,539	-	63,282	8,775
11	Personal loans	-	348,798	-	-	348,798	-
12	Agriculture and allied activities	1,191	5,109	149	-	6,449	-
13	Government	-	-	-	-	-	171,685
14	Non-resident lending	-	122	-	-	122	-
15	All others	8,616	31,965	1,573	-	42,154	-
16	**Total (1 to 15)**	**89,837**	**748,343**	**18,820**	**-**	**857,000**	**776,177**

DISCLOSURES UNDER PILLAR III OF BASEL II
FOR THE YEAR ENDED 31ST DECEMBER 2012

v. Residual contractual maturity of credit exposure

Table-5

2012

Sl. No.	Time Band	Overdraft	Loans	Bills Purchased/ discounted	Others	Total	Off-balance sheet exposure
		RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
1	Up to 1 month	4,825	21,088	4,382	-	30,295	139,450
2	1-3 months	4,825	144,556	13,749	-	163,130	551,746
3	3-6 months	4,825	39,579	308	-	44,712	62,664
4	6-9 months	4,825	16,749	189	-	21,763	29,319
5	9-12 months	4,825	36,826	231	-	41,879	40,053
6	1-3 years	24,124	121,046	22	-	145,192	187,237
7	3-5 years	24,124	69,272	2	-	93,398	44,103
8	Over 5 years	24,124	401,842	-	-	425,966	-
9	**Total**	**96,497**	**850,955**	**18,883**	**-**	**966,335**	**1,054,572**

2011

Sl. No.	Time Band	Overdraft	Loans	Bills Purchased/ discounted	Others	Total	Off-balance sheet exposure
		RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
1	Up to 1 month	4,492	62,500	3,613	-	70,605	103,390
2	1-3 months	4,492	144,476	18,978	-	167,946	300,460
3	3-6 months	4,492	19,733	4,491	-	28,716	65,569
4	6-9 months	4,492	8,951	2,713	-	16,156	22,493
5	9-12 months	4,492	9,978	2,838	-	17,308	42,150
6	1-3 years	22,459	68,716	103	-	91,278	196,275
7	3-5 years	22,459	35,914	2	-	58,375	45,789
8	Over 5 years	22,459	384,157	-	-	406,616	51
9	**Total**	**89,837**	**734,425**	**32,738**	**-**	**857,000**	**776,177**

vi. Loans and provisions by major industry or counterparty type

Table-6

2012

Sl. No.	Economic Sector	Gross loans	Of which NPLs	Collective impairment provision held	Specific provision held	Unrecognised contractual interest	Provisions made during the year(*)	Advances written off during the year
		RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
1	Import trade	33,549	2,357	312	899	1,286	56	-
2	Export trade	809	90	7	19	16	-	-
3	Wholesale & retail trade	21,236	652	206	211	406	62	11
4	Mining & quarrying	17,281	-	173	-	-	-	-
5	Construction	76,865	4,287	726	1,582	1,139	233	55
6	Manufacturing	106,897	5,026	1,054	3,684	1,193	1,650	11
7	Electricity, gas and water	39,191	-	393	-	-	-	-
8	Transport and communication	121,693	65	1,216	39	25	106	-
9	Financial institutions	21,888	287	216	110	47	2	-
10	Services	45,034	3,380	417	935	610	473	-
11	Personal loans	402,396	9,459	7,859	3,642	1,832	1,411	20
12	Agriculture and allied activities	8,916	67	88	30	37	-	-
13	Government	-	-	-	-	-	-	-
14	Non-resident lending	93	-	1	-	-	-	-
15	All others	70,487	417	701	257	153	51	466
16	**Total**	**966,335**	**26,087**	**13,369**	**11,408**	**6,744**	**4,044**	**563**

* - The provision shown under this column represents the specific provision made during the year. The general provisions are made on a portfolio basis.

vi. Loans and provisions by major industry or counterparty type (continued)

Table-6 (continued)

2011

Sl. No.	Economic Sector	Gross loans	Of which NPLs	Collective impairment provision held	Specific provision held	Unrecognised contractual interest	Provisions made during the year(*)	Advances written off during the year
		RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
1	Import trade	26,061	1,971	241	857	1,066	17	12
2	Export trade	4,286	146	41	45	27	4	-
3	Wholesale & retail trade	52,486	655	518	225	376	69	3
4	Mining & quarrying	30,742	-	307	-	-	-	-
5	Construction	75,325	4,247	711	1,751	1,253	474	22
6	Manufacturing	92,025	5,040	870	2,312	1,024	702	13
7	Electricity, gas and water	11,074	-	112	-	-	-	-
8	Transport and communication	83,995	129	839	60	50	25	-
9	Financial institutions	20,201	272	199	108	32	108	-
10	Services	63,282	3,346	599	842	462	787	-
11	Personal loans	348,798	7,994	6,816	3,079	1,352	1,661	264
12	Agriculture and allied activities	6,449	275	62	77	55	48	6
13	Government	-	-	-	-	-	-	-
14	Non-resident lending	122	-	1	-	-	-	-
15	All others	42,154	371	418	238	130	11	2
16	**Total**	**857,000**	**24,446**	**11,734**	**9,594**	**5,827**	**3,906**	**322**

* - The provision shown under this column represents the specific provision made during the year. The general provisions are made on a portfolio basis.

vii. Geographic distribution of impaired loans

Table-7

2012

Sl. No.	Countries	Gross Loans	Of which NPLs	Collective impairment provision held	Specific provision held	Unrecognized contractual interest	Provisions made during the year (*)	Advances written off during the year
		RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
1	Oman	966,335	26,087	13,369	11,408	6,744	5,272	563
2	Other GCC countries	-	-	-	-	-	-	-
3	OECD countries	-	-	-	-	-	-	-
4	India	-	-	-	-	-	-	-
5	Pakistan	-	-	-	-	-	-	-
6	Others	-	-	-	-	-	-	-
7	**Total**	**966,335**	**26,087**	**13,369**	**11,408**	**6,744**	**5,272**	**563**

2011

Sl. No.	Countries	Gross Loans	Of which NPLs	Collective impairment provision held	Specific provision held	Unrecognized contractual interest	Provisions made during the year (*)	Advances written off during the year
		RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
1	Oman	857,000	24,446	11,734	9,594	5,827	6,173	322
2	Other GCC countries	-	-	-	-	-	-	-
3	OECD countries	-	-	-	-	-	-	-
4	India	-	-	-	-	-	-	-
5	Pakistan	-	-	-	-	-	-	-
6	Others	-	-	-	-	-	-	-
7	**Total**	**857,000**	**24,446**	**11,734**	**9,594**	**5,827**	**6,173**	**322**

* - includes the specific provisions and general provisions net of recoveries

DISCLOSURES UNDER PILLAR III OF BASEL II
FOR THE YEAR ENDED 31ST DECEMBER 2012

viii. Movement in gross loans

Table-8

Movement of Gross Loans during the year - 2012

Sl. No.	Details	Performing loans		Non-performing loans			
		Standard	Specially Mentioned	Sub-Standard	Doubtful	Loss	Total
		RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
1	Opening balance	823,079	9,475	1,388	4,469	18,589	857,000
2	Migration /changes (+/-)	(10,325)	6,876	(205)	(1,424)	5,078	-
3	New loans	899,759	160	-	16	389	900,324
4	Recovery of loans	(782,699)	(6,073)	(213)	(361)	(765)	(790,111)
5	Loans written off	(4)	-	(3)	(11)	(860)	(878)
6	Closing balance	**929,810**	**10,438**	**967**	**2,689**	**22,431**	**966,335**
7	Provisions held	13,369	-	250	817	10,341	24,777
8	Unrecognised contractual interest	-	-	28	140	6,576	6,744

Movement of Gross Loans during the year - 2011

Sl. No.	Details	Performing loans		Non-performing loans			
		Standard	Specially Mentioned	Sub-Standard	Doubtful	Loss	Total
		RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
1	Opening balance	631,958	29,441	4,223	4,449	12,278	682,349
2	Migration /changes (+/-)	9,554	(13,394)	(3,263)	(137)	6,966	-
3	New loans	576,129	-	1,395	300	741	578,565
4	Recovery of loans	(394,560)	(6,572)	(964)	(402)	(1,094)	(403,592)
5	Loans written off	(2)	-	(3)	(15)	(302)	(322)
6	Closing balance	**823,079**	**9,475**	**1,388**	**4,469**	**18,589**	**857,000**
7	Provisions held	11,734	-	549	1,257	7,788	21,328
8	Unrecognised contractual interest	-	-	32	521	5,274	5,827

DISCLOSURES UNDER PILLAR III OF BASEL II
FOR THE YEAR ENDED 31ST DECEMBER 2012

E. DISCLOSURE FOR PORTFOLIO SUBJECT TO STANDARDISED APPROACH

Qualitative disclosures

The Bank uses the ratings by Moody's Investor Services for the credit ratings for the purpose of determining the risk weight to be assigned to the exposure for on-balance sheet assets such as loans and advances and inter-bank exposure as well as off-balance sheet items such as Letters of Credit, Guarantees and forward contracts. In the absence of a rating by the Moody's Investor Service, the Bank uses the ratings, if any, by Standard & Poors, Fitch Ratings or Capital Intelligence which are recognized by the Central Bank of Oman.

The claims on corporate are assigned 100% risk weight except for the claims with eligible financial collaterals and the Bank uses the simple approach for recognizing the collaterals in banking book with the approval of Central Bank of Oman. The Bank's retail loan portfolio is assigned a 100% risk weight except the loans secured by residential mortgage for which risk weight assigned is 35%.

Quantitative Disclosure

The net exposure after risk mitigation subject to Standardized Approach is as follows:

Table-9

2012

Sl. No.	Risk bucket	0%	20%	35%	50%	100%	Total
		RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
1	Sovereigns (Rated)	294,196	-	-	-	-	294,196
2	Banks (Rated)	-	166,802	-	190,144	85,803	442,749
3	Corporate (Unrated)	-	25,483	-	-	509,203	534,686
4	Retail	-	-	-	-	337,669	337,669
5	Claims secured by residential property	-	-	-	-	55,317	55,317
6	Claims secured by commercial property	-	-	-	-	23,269	23,269
7	Past due loans	-	-	-	-	7,934	7,934
8	Other assets	23,194	-	-	-	62,713	85,907
9	Undrawn exposure	-	-	-	-	8,088	8,088
	Total	**317,390**	**192,285**	**-**	**190,144**	**1,089,996**	**1,789,815**

DISCLOSURES UNDER PILLAR III OF BASEL II
FOR THE YEAR ENDED 31ST DECEMBER 2012

E. DISCLOSURE FOR PORTFOLIO SUBJECT TO STANDARDISED APPROACH (continued)

Table-9 (continued)

2011

Sl. No.	Risk bucket	0%	20%	35%	50%	100%	Total
		RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
1	Sovereigns (Rated)	188,572	-	-	-	-	188,572
2	Banks (Rated)	-	135,994	-	153,513	68,669	358,176
3	Corporate (Unrated)	-	28,092	-	-	461,998	490,090
4	Retail	-	-	-	-	295,692	295,692
5	Claims secured by residential property	-	-	45,191	-	-	45,191
6	Claims secured by commercial property	-	-	-	-	25,265	25,265
7	Past due loans	-	-	-	-	9,024	9,024
8	Other assets	19,459	-	-	-	47,962	67,421
9	Undrawn exposure	-	-	-	-	50,856	50,856
	Total	**208,031**	**164,086**	**45,191**	**153,513**	**959,466**	**1,530,287**

F. CREDIT RISK MITIGATION UNDER STANDARDISED APPROACH

Qualitative disclosures

Following are some of the specific credit risk mitigation measures employed by the Bank:

(a) Collateral

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

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

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

DISCLOSURES UNDER PILLAR III OF BASEL II
FOR THE YEAR ENDED 31ST DECEMBER 2012

(b) Assessment of the financial capabilities of the borrowers

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

(c) Credit-related commitments

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

Quantitative disclosure

	2012	2011
	RO'000	RO'000
Total exposure covered by eligible financial collateral	**25,483**	28,702
Value of the eligible collateral	**27,491**	28,615

G. MARKET RISK IN TRADING BOOK

Qualitative disclosures

The Bank takes on exposures to market risk which is the risk that the fair value or the future cash flows of the financial assets carried at fair value will fluctuate because of changes in market prices. Market risks arise from the open positions in interest rate, currency and equity products, all of which are exposed to changes in interest rates, credit spreads, equity prices and foreign exchange rates. The market risks are monitored by the Treasury Division and the Risk Management Department. Management is confident that the Bank has proper risk management policies in place to ensure that interest risk, liquidity risk and foreign exchange risk are mitigated considering the macro economic indicators affecting the banking business.

The Bank manages its market risk in the trading book using tools such as position limits and stop loss limits.

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

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

Quantitative disclosure

The impact of 10% change in the market price of the quoted equities which are part of the investments held for trading at 31 December 2012 is ± 0.28% of the total income (2011 – ± 1.02%).

DISCLOSURES UNDER PILLAR III OF BASEL II
FOR THE YEAR ENDED 31ST DECEMBER 2012

H. INTEREST RATE RISK IN BANKING BOOK

Qualitative disclosures

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

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

Quantitative disclosure

The EaR at 31 December 2012 is 1.41% (2011 - 13.78%).

The table below summarises the Bank's exposure to the interest rate risks. It includes the Bank's financial instruments at the carrying amount, categorised by the earlier of the contractual re-pricing and maturity dates.

2012	Average effective interest rate %	Within 3 months RO'000	4 to 12 months RO'000	1 to 5 years RO'000	Over 5 years RO'000	Non-interest bearing RO'000	Total RO'000
Assets							
Cash and balances with the Central Bank of Oman	2.00	-	-	-	500	149,393	149,893
Certificates of deposit	0.08	90,000	-	-	-	-	90,000
Due from banks	0.23	82,775	-	-	-	20,054	102,829
Loans and advances	5.32	222,064	180,159	525,512	7,079	-	934,814
Investment securities at fair value		-	-	-	-	13,007	13,007
Investment - held to maturity	2.83	-	4,000	21,860	2,000	-	27,860
Other assets		4,689	-	-	-	25,538	30,227
Property and equipment		-	-	-	-	21,779	21,779
Total assets		399,528	184,159	547,372	9,579	229,771	1,370,409
Liabilities							
Due to banks	-	-	-	-	-	59,709	59,709
Deposits from customers	0.94	429,095	116,150	44,033	-	441,866	1,031,144
Other liabilities		24,938	531	182	-	15,944	41,595
Subordinated bond	5.50		-	50,000	-	-	50,000
Taxation		-	-	-	-	3,850	3,850
Total liabilities		454,033	116,681	94,215	-	521,369	1,186,298
Total interest sensitivity gap		(54,505)	67,478	453,157	9,579	(291,589)	184,111
Cumulative interest sensitivity gap		(54,505)	12,973	466,130	475,709	184,111	

DISCLOSURES UNDER PILLAR III OF BASEL II
FOR THE YEAR ENDED 31ST DECEMBER 2012

H. INTEREST RATE RISK IN BANKING BOOK (continued)

2011	Average effective interest rate	Within 3 months	4 to 12 months	1 to 5 years	Over 5 years	Non-interest bearing	Total
	%	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Assets							
Cash and balances with the Central Bank of Oman	2.00	-	-	-	500	32,395	32,895
Certificates of deposit	0.08	100,000	-	-	-	-	100,000
Due from banks	0.22	57,548	-	-	-	18,339	75,887
Loans and advances	5.96	265,729	162,494	395,196	6,426	-	829,845
Investment securities at fair value		-	-	-	-	13,977	13,977
Investment - held to maturity	3.83	-	13,191	9,221	-	-	22,412
Other assets		8,667	-	-	-	18,488	27,155
Property and equipment		-	-	-	-	12,494	12,494
Total assets		431,944	175,685	404,417	6,926	95,693	1,114,665
Liabilities							
Due to banks	-	-	-	-	-	7,678	7,678
Deposits from customers	0.81	384,431	118,308	16,149	-	390,772	909,660
Other liabilities		16,892	548	309	-	15,063	32,812
Taxation		-	-	-	-	3,559	3,559
Total liabilities		401,323	118,856	16,458	-	417,072	953,709
Total interest sensitivity gap		30,621	56,829	387,959	6,926	(321,379)	160,956
Cumulative interest sensitivity gap		30,621	87,450	475,409	482,335	160,956	

I. LIQUIDITY RISK

Qualitative Disclosures

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 meet 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.

The Bank manages the liquidity risk based on estimated maturities using the guidelines provided by the Central Bank of Oman for the estimates. The table below represents cash flows receivable to and payable by the Bank under derivative and non derivative assets and liabilities by estimated remaining maturities at the balance sheet date.

DISCLOSURES UNDER PILLAR III OF BASEL II
FOR THE YEAR ENDED 31ST DECEMBER 2012

I. LIQUIDITY RISK (continued)

2012	On demand or within 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
	RO'000	RO'000	RO'000	RO'000	RO'000
Assets					
Cash and balances with the Central Bank of Oman	76,297	33,260	17,551	22,785	149,893
Certificates of deposit	90,000	-	-	-	90,000
Due from banks	102,829	-	-	-	102,829
Loans and advances	193,424	103,815	238,590	398,985	934,814
Investment securities	13,007	4,000	21,860	2,000	40,867
Other assets	21,881	8,011	335	-	30,227
Property and equipment	-	-	-	21,779	21,779
Total assets	**497,438**	**149,086**	**278,336**	**445,549**	**1,370,409**
Liabilities					
Due to banks	59,709	-	-	-	59,709
Deposits from customers	433,887	271,760	143,405	182,092	1,031,144
Other liabilities	32,728	5,865	3,002	-	41,595
Subordinated bond	-	-	50,000	-	50,000
Taxation	3,567	283	-	-	3,850
Total liabilities	**529,891**	**277,908**	**196,407**	**182,092**	**1,186,298**
Net assets	**(32,453)**	**(128,822)**	**81,929**	**263,457**	**184,111**
Forward exchange contracts at notional amounts (note 32)					
Purchase contracts	12,642	8,253			20,895
Sale contracts	(12,633)	(8,249)			(20,882)
	9	**4**	**-**	**-**	**13**

The Bank manages the liquidity risk based on estimated maturities using the guidelines provided by the Central Bank of Oman for the estimates. The table below represents cash flows receivable to and payable by the Bank under derivative and non derivative assets and liabilities by estimated remaining maturities at the balance sheet date.

DISCLOSURES UNDER PILLAR III OF BASEL II
FOR THE YEAR ENDED 31ST DECEMBER 2012

I. LIQUIDITY RISK (continued)

2011	**On demand or within 3 months**	**3 to 12 months**	**1 to 5 years**	**Over 5 years**	**Total**
	RO'000	**RO'000**	**RO'000**	**RO'000**	**RO'000**
Assets					
Cash and balances with the Central Bank of Oman	25,278	3,529	1,476	2,612	32,895
Certificates of deposit	100,000				100,000
Due from banks	75,887				75,887
Loans and advances	237,875	57,863	146,270	387,837	829,845
Investment securities	13,977	13,191	9,221	-	36,389
Other assets	19,645	6,477	1,033	-	27,155
Property and equipment	-	-	-	12,494	12,494
Total assets	**472,662**	**81,060**	**158,000**	**402,943**	**1,114,665**
Liabilities					
Due to banks	7,678	-	-	-	7,678
Deposits from customers	409,186	248,178	103,818	148,478	909,660
Other liabilities	26,880	2,548	3,384	-	32,812
Taxation	3,276	283	-	-	3,559
Total liabilities	**447,020**	**251,009**	**107,202**	**148,478**	**953,709**
Net assets	25,642	(169,949)	50,798	254,465	160,956
Forward exchange contracts at notional amounts (note 32)					
Purchase contracts	25,420	4,928			30,348
Sale contracts	(25,411)	(4,916)			(30,327)
	9	**12**	**-**	**-**	**21**

J. OPERATIONAL RISK

Qualitative Disclosures

The Bank is in the process of setting up the systems for collecting the data relating to operational risk. The measurement of the operational risk requires historical data for at least 3 years in order to perform the calculations.

Quantitative Disclosures

The Risk Weighted Assets for the operational risk using the Basic Indicator Approach is RO 104.84 million at December 31 2012 (2011: RO 97.16 million).

OUR NETWORK

General Management & Ruwi Branch Location: Muttrah Business District, P.O. Box 2010, Postal Code 112, Ruwi, Sultanate of Oman.
Tel: 24706265, Fax: 24797736, Website: www.oman-arabbank.com

BRANCHES

MUSCAT

Main Br. in Ruwi
P.O. Box 2010
P.C. 112, Ruwi
Tel: 24797747
Fax: 24701061

Al Seeb
P.O. Box 189
P.C. 121, Seeb
Tel: 24421505
Fax: 24425581

Al-Khoudh
P.O. Box 326
P.C. 132, Al-Khoudh
Tel: 24540529
Fax: 24535363

Al Mabella
P.O. Box 1206
P.C. 121, Seeb
Tel: 24450274
Fax: 24451364

Al Mawaleh
P.O. Box 3137
P.C. 111, Ar Rusayl
Tel: 24540030
Fax: 24543993

Al Rusayl
P.O. Box 124
P.C. 124, Al Rusayl
Tel: 24446950
Fax: 24446025

Al Qurum
P.O. Box 2010
P.C. 112, Ruwi
Tel: 24571578
Fax: 24566145

Al Khuwair
P.O. Box 2010
P.C. 112, Ruwi
Tel: 24489312
Fax: 24482948

Al Khuwair Comm. Market
P.O. Box 617
P.C.133, Al Khuwair
Tel: 24480574
Fax: 24480087

Al Amerat
P.O. Box 335
P.C.119, Wadi Kabir
Tel: 24875690
Fax: 24875694

Al Azaiba
P.O. Box 1017
P.C.130
Tel: 24121210, 24493628
Fax: 24121214

Bowsher
P.O. Box 862
P.C.133, Al Ghubra
Tel: 24621510, 24621513
Fax: 24621551

Ghala
P.O. Box 653
P.C. 130, Ghala
Tel: 24594887
Fax: 24501734

Knowledge Oasis Muscat (KOM)
P.O. Box 124, P.C. 124
Tel: 24152320
Fax: 24152324

Muaskar Al Murtafa
P.O. Box 2010
P.C. 112, Ruwi
Tel: 24339352
Fax: 24332377

Muttrah
P.O. Box 169
P.C. 112, Ruwi
Tel: 24711974
Fax: 24714378

Muscat
P.O. Box 991
P.C. 100, Muscat
Tel: 24736246
Fax: 24736803

Muscat City Centre
P.O. Box 1479
P.C. 121
Tel: 24558786
Fax: 24558242

North Al Ghubra
P.O. Box 862
P.C.133, Al Ghubra
Tel: 24614049
Fax: 24495548

Omantel
P.O. Box 480
P.C. 122
Tel: 24445903
Fax: 24445905

Quriyat
P.O. Box 443
P.C. 120, Quriyat
Tel: 24845270
Fax: 24845274

OUR NETWORK

General Management & Ruwi Branch Location: Muttrah Business District, P.O. Box 2010, Postal Code 112, Ruwi, Sultanate of Oman.
Tel: 24706265, Fax: 24797736, Website: www.oman-arabbank.com

Shatti Al Qurum
P.O. Box 715, P.C. 115
Madinat Al Sultan Qaboos
Tel: 24602111
Fax: 24697891

Wadi Kabir
P.O. Box 882
P.C.117, Wadi Kabir
Tel: 24817940
Fax: 24816931

AL BATINAH

Al Tharmad
P.O. Box 485
P.C. 315, Al Tharmad
Tel: 26815134
Fax: 26810616

Al Khabourah
P.O. Box 588, P.C. 326
Al Khabourah
Tel: 26805035
Fax: 26805075

Al Waqaiba
P.O. Box 215
P.C. 321
Tel: 26853111
Fax: 26853005

Barka
P.O. Box 811
P.C. 320, Barka
Tel: 26885153
Fax: 26882278

Falaj Al Qabail (Sohar)
P.O.Box 43, P.C. 327
Falaj Al Qabail
Tel: 26750047
Fax: 26750032

Falaj Al Shira (Al Rustaq)
P.O. Box 209, P.C. 329
Burj Al Raddah
Tel: 26878798
Fax: 26878668

Khasab
P.O. Box 212
P.C. 811
Tel: 26830161
Fax: 26830181

Nakhal
P.O. Box 301
P.C. 323, Nakhal
Tel: 26780301
Fax: 26781301

Saham
P.O. Box 91
P.C. 319, Saham
Tel: 26855561
Fax: 26854557

Sohar
P.O. Box 629
P.C. 311, Sohar
Tel: 26842378
Fax: 26842377

Suwaiq
P.O. Box 501
P.C. 315, Al Suwaiq
Tel: 26862020
Fax: 26862220

Shinas
P.O. Box 211, P.C. 324
Tel: 26748180
Fax: 26748188

AL DHAHIRAH

Ibri
P.O. Box 122, P.C. 516, Ibri
Tel: 25689223
Fax: 25692221

AL BURAIMI

Al Buraimi
P.O. Box 58
P.C. 512, Al Buraimi
Tel: 25654588
Fax: 25653588

AL DAKHILIYAH

Bahla
P.O. Box 112, P.C. 612, Bahla
Tel: 25363284
Fax: 25363039

Bid Bid
P.O. Box 330
P.C. 600, Bid Bid
Tel: 25368985
Fax: 25369172

Nizwa
P.O. Box 950
P.C. 611, Nizwa
Tel: 25411138
Fax: 25411344

Nizwa Hospital
P.O. Box 1115
P.C. 611, Nizwa
Tel: 25449215
Fax: 25449228

OUR NETWORK

General Management & Ruwi Branch Location: Muttrah Business District, P.O. Box 2010, Postal Code 112, Ruwi, Sultanate of Oman.
Tel: 24706265, Fax: 24797736, Website: www.oman-arabbank.com

Qala'at Al Awamer (Izki)
P.O. Box 48, P.C. 614, Izki
Tel: 25295038
Fax: 25395042

Sumail
P.O. Box 499
P.C. 620, Sumail
Tel: 25352205
Fax: 25352201

AL SHARQIYAH

Al Mintrib
P.O. Box 155
P.C. 421, Bidiyah
Tel: 25583228
Fax: 25583350

Al Kamil & Al Wafi
P.O. Box 311, P.C. 412
Tel: 25557202
Fax: 25558032

Ibra
P.O. Box 307, P.C. 400, Ibra
Tel: 25570644
Fax: 25570215

Jalan Bani Bu Ali
P.O. Box 13, P.C. 416, Jalan
Tel: 25553268
Fax: 25553966

Sinaw
P.O. Box 55, P.C. 418, Sinaw
Tel: 25524623
Fax: 25524200

Sur
P.O. Box 51, P.C. 411, Sur
Tel: 25544370
Fax: 25544010

Al Duqum
P.O. Box 55, P.C. 418,
Tel: 25415222
Fax: 25415200

DHOFAR

Al Saa'dah (Salalah)
P.O. Box 85
P.C. 215, Al Saa'dah
Tel: 23225976
Fax: 23225975

Salalah Port
P.O. Box 2979
P.C. 211, Salalah
Tel: 23219035
Fax: 23219470

Salalah
P.O. Box 981
P.C. 211, Salalah
Tel: 23298626
Fax: 23295005

OFFICES

Al Bustan Palace Hotel
P.O. Box 2010
P.C. 112, Ruwi
Tel: 24769444
Fax: 24769442

Al Waha Hotel, Shangri-La's Barr Al Jissah
P.O. Box 2010
P.C. 112
Tel: 24824007
Fax: 24824008

Directorate General of Commerce & Industry for Al Batinah Region
P.O. Box 629,
P.C. 311, Sohar
Tel: 26847078
Fax: 26847078

Grand Hyatt
P.O. Box 2010
P.C. 112, Ruwi
Tel: 24641174
Fax: 24602458

Mina Al Sultan Qaboos
P.O. Box 2010
P.C. 112, Ruwi
Tel/Fax: 24714097

Ministry of Commerce & Industry
P.O. Box 2010
P.C. 112, Ruwi
Tel/Fax: 24813665

On-Site Office at Muscat International Airport
P.O. Box 862
P.C. 133
Tel: 24121157
Fax: 24121147

Royal Arm of Oman The Sultan of Oman's Artillery, Izki
P.O. Box 950
P.C. 614
Tel: 25473270
Fax: 25473271

Sur Hospital
P.O. Box 51, P.C. 411, Sur
Tel: 25561512
Fax: 25561529

بنك عُمان العربي ش.م.ع.م
OMAN ARAB BANK S.A.O.C.

General Management & Ruwi Branch Location: Muttrah Business District, P.O. Box 2010, Postal Code 112, Ruwi, Sultanate of Oman.
Tel: 24706265, Fax: 24797736, Website: www.oman-arabbank.com