OMAN ARAB BANK

ANNUAL REPORT 2014

CONTENTS

FINANCIAL HIGHLIGHTS

Financial Highlights

	2014 RO '000	2013 RO '000	2012 RO '000	2011 RO '000	2010 RO '000	2009 RO '000
Total Assets	1,816,091	1,456,355	1,370,409	1,114,665	953,655	858,891
Deposits	1,468,313	1,149,153	1,031,144	909,660	769,761	696,072
Net Loans	1,259,836	1,076,291	934,814	829,845	660,346	565,557
Shareholders' Equity	198,939	187,152	172,511	148,956	125,831	111,481
Net Profit	28,400	25,023	25,270	23,205	23,170	23,081
Net interest income	43,843	42,452	40,967	36,480	33,357	30,778
Other operating income	27,973	21,376	19,861	18,895	18,175	17,768
Net operating income	71,816	63,828	60,828	55,375	51,532	48,546
Operating expenses	(37,416)	(33,798)	(28,542)	(25,347)	(21,970)	(20,541)
Provision for loan impairment	(8,885)	(6,351)	(5,727)	(6,173)	(4,562)	(4,325)
Release/recovery from provision for loan impairment	6,871	4,999	2,284	2,667	1,742	2,459
Taxation	(3,986)	(3,655)	(3,573)	(3,317)	(3,572)	(3,058)
Net Profit after taxation	28,400	25,023	25,270	23,205	23,170	23,081
Dividend	13,920	11,600	11,600	18,000	17,000	15,000
Total Assets	1,816,091	1,456,355	1,370,409	1,114,665	953,655	858,891
Gross Loans and advances	1,296,826	1,109,045	966,335	857,000	682,349	583,404
Provision for loan impairment	(36,990)	(34,315)	(31,521)	(27,155)	(22,003)	(17,847)
Net Loans and advances	1,259,836	1,074,730	934,814	829,845	660,346	565,557
Non-performing loans	38,185	36,613	26,087	24,446	20,953	15,787
Customer deposits	1,468,313	1,149,153	1,031,144	909,660	769,761	696,072
Shareholders' funds	201,259	187,152	172,511	148,956	125,831	111,481
Share Capital	116,000	116,000	116,000	100,000	85,000	75,000
Ratios						
1. Profitability						
Return on shareholders' funds	14.62%	13.91%	15.72%	16.89%	19.53%	22.86%
Return on Total Assets	1.74%	1.77%	2.03%	2.24%	2.56%	2.82%
Cost to income	52.10%	52.95%	46.92%	45.77%	42.63%	42.31%
2. Capital						
Capital Adequacy (BIS standard)	15.14%	16.52%	16.91%	13.69%	14.49%	13.44%
Shareholders' funds to Total Assets	11.08%	12.85%	12.59%	13.36%	13.19%	12.98%
3. Asset Quality						
Non-performing loans to Total loans	2.94%	3.30%	2.70%	2.85%	3.07%	2.71%
Provision coverage	96.87%	93.72%	120.83%	111.08%	105.01%	113.05%
4. Liquidity						
Net loans to customer deposits	85.80%	93.52%	90.66%	91.23%	85.79%	81.25%
Net loans to Total Assets	69.37%	73.80%	68.21%	74.45%	69.24%	65.85%
Liquid Assets to Customer Deposits	31.39%	26.19%	36.08%	25.92%	32.70%	36.80%
5. Others						
Dividend rate	12.00%	10.00%	10.00%	18.00%	20.00%	20.00%
Dividends per share in RO	0.012	0.010	0.010	0.180	0.200	0.200
Basic Earnings per share in RO	0.024	0.022	0.022	0.023	0.027	0.031

CORPORATE GOVERNANCE REPORT

Deloitte.

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TO THE SHAREHOLDERS OF
OMAN ARAB BANK SAOC

We have performed the procedures prescribed in Capital Market Authority (CMA) Circular No. 16/2003 dated 29 December 2003 with respect to the accompanying corporate governance report of **Oman Arab Bank SAOC** and its application of corporate governance practices in accordance with CMA Code and additional regulations and disclosures with except for the meeting intervals where the Bank follows its own meeting schedule. Our engagement was undertaken in accordance with the International Standards on Related Services applicable to agreed-upon procedures engagements. The procedures were performed solely to assist you in evaluating the Bank's compliance with the code as issued by the CMA.

We report our findings as 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 2014 and does not extend to any financial statements of **Oman Arab Bank SAOC**, taken as a whole.

Deloitte & Touche (M.E.) & Co. LLC
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Sultanate of Oman

Deloitte & Touche (M.E.) & Co. LLC
Muscat, Sultanate of Oman
20 January 2015

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 behaviors that governs the Bank's everyday activities - values and behaviors 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 2014.

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
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;
- 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.

(Corporate Governance - Part 1 (continued

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

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.

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.

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 2016.

Corporate Governance - Part 1 (continued)

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

The Board Committees' authorities and responsibilities are governed by the relevant Committee's terms of reference, as approved by the Board. Until 2013 there were three committees of the Board - Executive Committee, Audit and Risk Management Committee and Selection and Remuneration Committee. During 2014 the Board reviewed the composition of the committees after the appointment of new directors in order to enhance the role of the Board and also segregate certain functions to adopt best practice in corporate governance. Accordingly the Audit and Risk Management Committee has been reconstituted into two separate committees - Audit committee and Risk & Compliance Committee. The Executive committee has been replaced by Credit Committee. The Board may establish any other committee to consider matters of special importance as deemed necessary.

Operation of the Committees

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 , Risk & Compliance and Selection & Remuneration committees.

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.

Brief Terms of Reference of Board Committees

a) Credit Committee

The purpose of the BCC is to assist the Board in fulfilling its responsibilities in lending and credit activities within BCC's delegated authorities taking into consideration the Bank's credit policies, strategic and business plans. The Committee

- reviews and approves policies with regard to credit risk limits and controls
- reviews the Bank's credit portfolio on regular basis in coordination with the Board Risk Committee
- reviews and approves credit facilities above the executive management's approval limits
- review the Management Credit Committee recommendations with respect to debt write-off or write-down and take the appropriate decision within the BCC's delegated authorities or escalate to the Board for a decision
- considers matters of special importance as delegated by the Board.

Corporate Governance - Part 1 (continued)

b) Board Audit Committee

The Board Audit Commitee's primary responsibility is to assist the Board in fulfilling its responsibilities in relation to the external reporting of financial and non-financial information, the internal control, and the independence and effectiveness of external and internal audit activities, plus any other matters referred to it by the Board. The Board Audit Committee:

- approves the scope of internal audit work planned for the year.
- reviews and approves the scope of the external audit work planned for the year.
- reviews accounting policies to ensure compliance with relevant laws, regulations and accounting standards, and recommend any changes to the Board for approval.
- approves protocols governing the provision of non-audit services by the external auditor, that are outside of the scope of the external audit work to be undertaken, to ensure auditor independency.
- oversees and annually, reviews the performance of the Internal Audit Function
- ensures that the recommendations of the external and internal auditors are well addressed and implemented
- ensures the external and internal audit role in reviewing and auditing the IT systems/applications and the IT security
- ensures that the Back-up and Disaster Recovery Plans are in place
- ensures compliance with international accounting standards implemented in the Sultanate of Oman
- ensures that the Bank's financial statements were prepared according to the Central Bank of Oman regulations and other applicable standards

c) Compliance and Risk Management Committee

The Board Compliance and Risk Committee's primary responsibility is to assist the Board in fulfilling its responsibilities in relation to risk management strategy and frameworks (covering credit, liquidity, market, operational and other risks) in addition to compliance and regulatory issues. The Committee

- assists the Board with the formulation of the Bank's Risk Appetite Statement.
- establishes and reviews the framework for risk management throughout the Bank covering all risks including strategic, market, liquidity, credit, operational and reputation risks on an ongoing basis
- Ensure the, risk management frameworks, including policies, procedures and monitoring, accurately reflects the Bank's Strategy, Risk Appetite, accepted practices and legal and regulatory requirements.
- promotes and ensures a high level of awareness of risk management throughout the Bank
- reviews the strategy, plan and budget of risk management function
- reviews the assessment of the Bank's risk profile to understand the key risks affecting the Bank and recommend to the Board for approval.
- reviews and recommends the ICAAP for Board approval consistent with the Board determined risk appetite
- reviews regulators' reports on the adequacy of the Bank's Risk Management Frameworks
- reviews the adequacy of the Bank's general insurance policies established by management, and for Directors' and Officers' (D&O) insurance recommending to the Board D&O insurance for approval
- reviews the effectiveness of the process for monitoring compliance with all applicable laws and regulations.
- reviews the Bank's compliance arrangements to ensure they are in accordance with the Bank's objectives and strategies, as well as any regulatory or legislative requirements
- reviews any proposed legislative or regulatory changes, the impact such changes may have on the Bank's business and the internal policies and controls which will be introduced to address these changes
- approves the Compliance Department/ Function's Charter and review the same on annual basis to update as appropriate

Corporate Governance - Part 1 (continued)

d) Selection and Remuneration Committee

The purpose of the Board Selection and Remuneration Committee is to assist the Board in fulfilling its responsibilities relating to remuneration and people matters, and compliance with related employment laws and regulations. It does this by ensuring that the Bank has appropriate remuneration and people systems in place and by monitoring their effectiveness. The Committee

- recommends the appointment of Chief Executive Officer to the Board.
- Sets up the Key Performance Indicators of the Bank's Chief Executive Officer (CEO) and review the same on annual basis in order to review and recommend to the Board the CEO's total remuneration
- approves the appointment of the executive management team based on the Chief Executive Officer's nomination/recommendation except for the Head of Internal Audit, the Chief Compliance Officer, the Chief Risk Officer and the Bank's Legal Counsel whom appointment falls within the responsibility of other Board Committees and/or the Board of Directors'
- approves remuneration of executive management team include the salaries and other benefits.
- ensures that the Bank has a proper remuneration policy, reviews and recommends amendments in policy to the Board.
- reviews and monitors the human resource plan and aligns the plan to achieve the Bank's strategies.
- ensures that the Bank has proper training, career development and succession plans.
- reviews and monitors the "Omanisation" plan and identifies the positions that should be occupied by Omanis with the time table to achieve the plan.

Shari'a Supervisory Board

Oman Arab Bank has appointed a Shari'a Supervisory Board (SSB) to oversee the Shari'a compliance of its Islamic Banking window "Al Yusr". As per the requirements of Islamic Banking Framework (IBRF), each licensee must appoint a three member independent Board to oversee its Islamic banking operations from Shari'a perspective.

Composition of Shari'a Supervisory Board

Shari'a Supervisory Board of Al Yusr consists of three prominent Shari'a scholars in line with the requirements of IBRF.

Name of SSB Member	Board Membership	Date of Appointment
Dr. Esam Khalaf Al Enzi	Chairman	January 2013
Dr. Ahmed Sobhi Ahmed Al Ayadi	Member	January 2013
Dr. Abdulaziz Khalifa Al Qassar	Member	July 2014

During the financial year 2014, Dr. Abdulaziz Khalifa Al Qassar has replaced Dr. Khalid Salim Hamad Al Siyabi as Shari'a Board member.

Corporate Governance - Part 1 (continued)

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 Deloitte & Touché M.E. for the financial year ended at 31 December 2014. They were appointed by shareholders at the Annual General Meeting held on 20 March 2014.

Certification and Discussions with Auditors on Independence

The Board Audit Committee require the Bank's external auditors to confirm that they maintained their independence at the commencement and during the audit. Board Audit 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.

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.

(Corporate Governance - Part 1 (continued

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 2014 together with pay and rewards for the Bank's key management personnel are set out in Part 2.

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 honor 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.

Corporate Governance - Part 1 (continued)

Approach to Risk Management (continued)

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 Compliance and Risk Management Committee of the Board.

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.

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 composition of the Board and its committees changed during 2014 with the appointment of new directors and reconstitution of the committees. 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.

Amin Al-Husseini resigned from the Board of Directors and was appointed as the CEO of the Bank with effect from 1 February 2014. Said Zaki passed away on 5 December 2014.

Abdulaziz al Balushi and Walid Samhouri were appointed as directors with effect from 19 March 2014 while Omar Bouhadiba and Imad Sultan were appointed with effect from 16 June 2014.

2. 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**			
				Credit Committee	Audit Committee	Selection and Remuneration Committee	Risk Management and Compliance Committee
Rashad Bin Muhammed Al Zubair	Chairman Chairman of Credit Committee	October 1989	-	√	-	-	-
Riad Kamal	Deputy Chairman Chairman of Audit Committee	August 2012	Arab Bank Plc	-	√	-	-
Hani Bin Muhammed Al Zubair	Director Independent	June 1999	-	-	-	-	√
Randa Sadik	Director	June 2010	-	√	-	-	-
Mulham Bashir Al Jaraf	Director Chairman of Selection & Remuneration Committee Independent	September 2007	-	-	√	√	-
Abdulaziz Al Balushi	Director Chairman of Risk Management & Compliance Committee	19 March 2014	OMINVEST	√	-	√	√
Walid Samhouri	Director	19 March 2014	-	√	-	√	√
Omar Bouhadiba	Director	16 June 2014	-	-	√	-	-
Imad Sultan	Director Independent	16 June 2014	-	√			

Corporate Governance - Part 2 (continued

2. Board Committees (continued)

The members of the Committees together with the number of meetings held in 2014 and attended by each member are set out in the Table 2.

Table 2

Director	Board Meetings (Note 1)		Executive Committee (Note 2)		Credit Committee (Note 2)		Audit and Risk Committee (Note 3)		Audit Committee (Note 3)		Compliance and Risk Management Committee (Note 4)		Selection and Remuneration Committee (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	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	6	5	4	4	2	2	-	-	-	-	-	-	-	-
Riad Kamal	6	4	-	-	-	-	-	-	1	1	-	-	-	-
Hani Bin Muhammed Al Zubair	6	6	-	-	-	-	3	2	-	-	2	2	-	-
Abdul Aziz Al Balushi	6	4	4	2	2	2	3	3	-	-	2	2	5	4
Walid Samhouri	6	5	4	3	2	2	3	2	-	-	2	1	5	3
Randa Sadik	6	4	4	3	2	1	-	-	-	-	-	-	-	-
Omar Bouhadiba	6	4	-	-	-	-	-	-	1	1	-	-	-	-
Imad Sultan	6	4	-	-	2	2	-	-	-	-	-	-	-	-
Mulham Bashir Al Jaraf	6	2	4	2	-	-	-	-	1	0	-	-	5	2

Directors' attendance record:

Note 1 Board meetings were held on 23 January, 19 March, 16 June, 23 September, 14 December and 15 December during 2014
Note 2 Executive and Credit Committee meetings were held on 23 February, 20 March, 29 April, 14 July, 27 October and 8 December during 2014
Note 3 Audit Committee meetings were held on 29 April, 2 July, 14 July and 8 December during 2014
Note 4 Compliance and Risk Management Committee meetings were held on 27 October and 29 October during 2014
Note 5 Selection and Remuneration Committee meetings were held on 23 January, 29 April, 16 June, 20 August and 23 September during 2014

Corporate Governance - Part 2 (continued)

Composition of Shari'a Supervisory Board

Shari'a Supervisory Board of Al Yusr consists of three prominent Shari'a scholars in line with the requirements of IBRF.

Name of SSB Member	Board Membership	Date of Appointment
Dr. Esam Khalaf Al Enzi	Chairman	January 2013
Dr. Ahmed Sobhi Ahmed Al Ayadi	Member	January 2013
Dr. Abdulaziz Khalifa Al Qassar	Member	July 2014

During the financial year 2014, Dr. Abdulaziz Khalifa Al Qassar has replaced Dr. Khalid Salim Hamad Al Siyabi as Shari'a Board member.

Shari'a Supervisory Board Meetings

The members of the SSB together with the number of meetings held in 2014 and attended by each member are set out in the table below.

	2014 RO	2013 RO
Meetings held during the year / period	**2**	3
Meetings attended:		
Dr. Esam Khalaf Al Enzi	**2**	3
Dr. Khalid Salim Hamad Al Siyabi	**-**	2
Dr. Ahmed Sobhi Ahmed Al Ayadi	**2**	3
Dr. Abdulaziz Khalifa Al Qassar	**1**	-

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 2014 the shareholders approved the Directors' remuneration as well as the sitting fees of RO 500 per meeting for 2013. The remuneration and sitting fees for 2013 were paid during 2014. A resolution to approve the proposed remuneration of RO79,000 and sitting fees of RO 42,000 for 2014 will be presented in the upcoming Annual General Meeting of the shareholders. The remuneration and sitting fees paid to each Director for 2013 were as follows:

Table 3

Director's Name	Remuneration	Total Sitting Fees	RO
	RO	RO	Total
Rashad Bin Muhammed Al Zubair	14,500	4,000	18,500
Riad Kamal	8,000	2,000	10,000
Hani Bin Muhammed Al Zubair	8,000	4,500	12,500
Said Zaki	8,000	7,000	15,000
Amin Husseini	8,000	8,500	16,500
Randa Sadik	8,000	3,500	11,500
Mulham Bashir Al Jaraf	8,000	4,000	12,000
Total	**62,500**	**33,500**	**96,000**

The remuneration paid to the key management personnel of the Bank for 2014 is RO 1,507,157 (2013: RO 1,482,529)

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 key management personnel in the event of termination of employment.

Remuneration of Shari'a Supervisory Board

The remuneration and sitting fees for 2013 were paid during 2014. A resolution to approve the proposed remuneration of RO 30,800 and sitting fees of RO 2,695 for 2014 will be presented in the upcoming Annual General Meeting of the shareholders. The remuneration and sitting fees paid to each member for 2013 were as follows:

Name of SSB Member	Remuneration	Sitting Fees	Total Fees
	RO	RO	RO
Dr. Esam Khalaf Al Enzi	11,539	1,538	13,077
Dr. Ahmed Sobhi Ahmed Al Ayadi	9,616	1,538	11,154
Dr. Abdulaziz Khalifa Al Qassar	-	-	-
Dr. Khalid Salim Hamad Al Siyabi	9,616	1,154	10,770
Total	**30,771**	**4,230**	**35,001**

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. Dividend Policy

The Bank's 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.

Corporate Governance - Part 2 (continued)

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.

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

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

Deloitte & Touche (M.E.) is a member firm of Deloitte Touche Tohmatsu Limited (DTTL) and is the first Arab professional services firm established in the Middle East region with uninterrupted presence for over 85 years. Deloitte is among the region’s leading professional services firms, providing audit, tax, consulting, and financial advisory services through 26 offices in 15 countries with over 3,000 partners, directors and staff. The Oman Practice currently has three Partners and over 100 professionals.

11. Audit fees

The Bank paid RO 33,605 to the external auditors for their audit and related services for the year ended 2014.

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

None

MANAGEMENT DISCUSSION ANDD AANALYSIS

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 2014 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 11% from 2013 to reach RO 24.8 billion at 31 December 2014.
2. Loans and advances recorded a growth of 11% reaching RO 16.9 billion at 31 December 2014 from RO 15.2 billion at 31 December 2013.
3. Customer deposits increased by 11% to RO 17.3 billion at December 31 2014 from RO 15.6 billion at December 31 2013. The private sector deposits constituted 71% of the total customer deposits at December 2014 which is same as at December 2013.
4. Average deposit interest rate on Rial Omani deposits was 0.98% and the interest rate on foreign currency deposits was around 0.87% as at December 2014. During 2014 the average interest rate on Rial Omani term deposits decreased by 0.5%.
5. Average Rial Omani lending rates decreased to 5% at December 2014 from 5.4% at December 2013 due to the surplus liquidity and increased competition among the local banks while average US Dollar rates increased by 0.08% reaching 2.38% at December 2014.

Opportunities and threats

The Oman Government Budget for 2015 based on the oil price of around USD 75 per barrel provides for an expenditure of RO 14.1 Billion of which RO 2.1 Billion will be for investments in oil and gas industry and RO3.8 Billion will be for defense & security while RO 5.2 Billion is allocated for social requirements like education, health, housing and training. The Budget Deficit of RO 2.5 Billion will be mainly funded from previous year's surplus of RO 1 Billion and reserves of RO 0.7 Billion. Planned borrowings is RO 0.6 Billion. The infrastructure projects like the expansions at Duqum port with Special Economic Zone, Airports expansion at Muscat and Salalah, New airports at Sohar will continue as planned. The growth in GDP is estimated at 5% for 2015. The Sultanate of Oman is looking at being the logistical hub for entire GCC Region and the rail network will be a key factor. The Oman Rail Project which is expected to provide a boost to jobs and economic development is progressing on faster pace. The Preliminary Design Consultancy services contract has been tendered and the project is planned for completion by 2018. The Small and Medium Enterprise (SME) Development Fund (Al Namaa) established with a targeted capital of RO 100 Million of which the first tranche of RO 20 Million was raised in 2014. The target date for the minimum level of 5% of total loans for the SME sector for the commercial banks has been extended to December 2015. The planned government expenditure is expected to provide adequate business opportunities for the banks, especially in financing for working capital and equipment. The projects will also increase the business opportunities for sub-contractors. The increased employment of Omanis in the various projects and the companies under SME sector will provide a wider market for personal lending.

The Rial Omani lending rates reduced by 0.32% in 2014 while the foreign currency rates increased marginally by 0.08%. The Rial Omani time deposit rates also decreased marginally by 0.09% in 2014 due to the surplus liquidity. The interest margin is likely to be under pressure in 2015 due to competition. The interest rate on Central Bank CD is expected to remain at around 0.13% while the revival of Treasury Bills by the CBO will offer the banks additional option of investing the surplus funds at a better yield.

The Islamic Banks and the windows are growing in size though there is no significant impact expected on the conventional banks. There would be both opportunities and threats from the Islamic Banking as it matures and the customers understand better the products or services offered.

Analysis and performance of segments

Analysis and performance of segments Segmental performance analysis forms part of the financial statements and are provided in notes 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 real growth of around 4% in GDP for 2015. Inflation is expected to be low at around 2%. Oman's projected revenue for 2015 is at RO 11.6 billion compared to RO 11.7 billion for 2014. Non-oil revenues is budgeted at 21% of the total revenue. The budget for 2015 does not disclose the average crude oil price. However the assumption is estimated to be at around US 75 per barrel on an average for 2015. A deficit of RO 2.5 Billion has been budgeted for 2015.

The actual oil price during 2014 up to November was at an average of USD 104.5 per barrel compared to the budget of USD 85 per barrel for 2014. Oil production for 2014 up to November was 944,000 barrels per day, which has remained stable during 2013 and 2014.

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 Committee. The Audit Committee is composed entirely of independent non-executive directors. The Audit Committee meets periodically with management, 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 2014 is RO 28.4 million, which is 13.5% higher than the previous year. The operating profit at RO 34 million is 13% higher than previous year. The significant changes in income and expenses during 2014 are as follows:

- Growth in net interest from 2013 is 3% as the interest income increased by 8% while the interest expense increased by 26%. The growth in loans during the last during the year by 17% is higher than the growth of 11% for all banks in Oman. The interest rate ceiling on personal loans at 6% combined with high liquidity and competition from local banks has resulted in reduced yield on loans. On the other hand the interest expense has increased in 2014 due to 28% increase in customer deposits as the Bank maintained a high level of liquidity with loans to deposits ratio at 85-90% during the year.
- Other operating income increased by 29% during the year. The fee income from loans increased with the higher growth in loans, especially the personal loans. Income from the Bank's smart cards increased with higher collection volumes resulting in a higher commission income. The net realized and unrealized gains from the Bank's own investments increased by RO 138K. The gains were from shares in oil, power and services sectors. MSM-30 index also performed very well compared to previous year ending 18% higher than 2012. The dividend income in 2014 has been 64% higher than 2013 with increased dividends from telecom, power and oil companies. The fee income from the investment banking increased by 9% with the increased trading volumes and growth in the indices. The Investment Management Group contributed with an increased portfolio management fees and the fee income from managing the major IPO during the year including Al Suwadi and Al Batinah Power Companies.
- Operating expenses at RO 37 million increased by 11% mainly due to the increased salary costs as a result of promotions and increments combined with the increase in number of staff from 1137 at December 2013 to 1,182 at December 2014. The expenses relating to the 30th anniversary celebrations and the depreciation on the new Head office also contributed to the increase in costs.
- The Earnings per share is at 24 baizas at December 31 2014 compared to 22 baizas as at December 31 2013. The share capital remains at the same level of RO 116 million at 100 baizas per share.

2. Assets

The total assets of the Bank at 31 December 2014 have increased by 25% to RO 1.82 Billion from RO 1.46 Billion at 31 December 2013. The significant changes are as follows:

Certificates of Deposit
The investments in Central Bank Certificates of Deposit are at RO 200 million at December 2014 as the Bank maintained a higher level of liquidity.

Loans and advances
Gross loans increased by RO 186 million (17%) during 2014 from RO 1.11 Billion at December 31 2013 to RO 1.29 Billion at December 31 2014. The personal loans increased by 23% while the corporate loans increased by 13%.

Non-performing loans increased to RO 38.2 million, which is 2.94% of the total loans at December 31 2014 from 2.7% at December 31 2013. The non-performing loans include corporate loans of RO 8.3 million granted under the Government Soft Loan scheme, the principal amount of which are guaranteed and a part of the interest is paid by the Government of Oman. The total provision coverage is at December 31 2014 is 97% of the non-performing assets as compared to 94% at December 31 2013.

The specific provision is at 51% of the Non-performing loans as the provision requirement is lower after considering the collaterals available for these loans. The provision levels are 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 92% of the liabilities. The savings deposits grew by 22%, the current accounts increased by 16% and the term deposits increased by 44% from previous year contributing to the total increase of 28% in customer deposits. The Bank issued subordinated bonds of RO 50 million in April 2012 with a tenor of 61 months, which is part of the Tier-2 capital, to fund the Bank's growth. The loans are funded entirely from the customers' deposits.

4. **Shareholders' funds**

Shareholders' funds increased to RO 212.86 million from RO 198.75 million in the previous year. The paid-up share capital is at RO 116 million. During 2014 the capital assigned to the Bank's Islamic Banking window was increased by RO 1 million to make it RO 12 million in order to support the increase in the financing.

5. **Capital adequacy**

Capital adequacy ratio calculated in accordance with the guidelines issued by Bank for International Settlement (BIS) is 15.14% (2013: 16.52%) as a result of the growth in assets. 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 2014 was 93.28% (2013: 93.31%), 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	493	196	129	92	272	1,182

Events after end of financial year

We are not aware of any matter or circumstance that has arisen since 31 December 2014 which has significantly affected, or may significantly affect the operations of the Bank.

Date of the statement 15 February 2015

FINANCIAL STATEMENTS

OMAN ARAB BANK SAOC

Report and financial statements
for the year ended 31 December 2014

Deloitte.

Deloitte & Touche (M.E.) & Co. LLC
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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 of the statement of financial position as at 31 December 2014, and the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information as set out on pages 3 to 63.

Board of Director's responsibility for the financial statements

Board of Director's 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 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 from 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 Bank'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 Bank'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.

Deloitte.

Independent auditor's report to the shareholders of Oman Arab Bank SAOC (continued)

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of **Oman Arab Bank SAOC** as of 31 December 2014, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on other legal and regulatory requirements

Also, in our opinion, the financial statements comply, in all material respects, with the relevant disclosure requirements of the Commercial Companies Law of 1974, as amended.

Deloitte & Touche

Deloitte & Touche (M.E.) & Co. LLC
Muscat, Sultanate of Oman
20 January 2015

ديلويت آند توش (الشرق الأوسط) وشركاه ش.م.م
ص.ب: ٢٥٨ ر.ب: ١١٢
سلطنة عمان
P.O.Box 258, P.C. 112
Sultanate of Oman
Deloitte & Touche (M.E.) & Co. LLC

OMAN ARAB BANK SAOC

Statement of financial position at 31 December 2014

	Notes	2014 RO'000	2013 RO'000
ASSETS			
Cash and balances with Central Bank of Oman	7	**114,397**	116,939
Certificates of deposit	8	**200,000**	100,000
Due from banks	9	**95,758**	50,893
Loans and advances to customers	10	**1,259,836**	1,076,291
Investment securities	11	**74,891**	53,437
Other assets	12	**41,887**	31,985
Property and equipment	13	**29,322**	26,810
Total assets		**1,816,091**	1,456,355
LIABILITIES			
Due to banks	14	**5,891**	3,862
Deposits from customers	15	**1,468,313**	1,149,153
Other liabilities	16	**74,792**	50,896
Subordinated bonds	17	**50,000**	50,000
Taxation	18	**4,236**	3,692
Total liabilities		**1,603,232**	1,257,603
EQUITY			
Share capital	19	**116,000**	116,000
Legal reserve	20	**30,467**	27,627
General reserve	21	**23,659**	20,819
Subordinated debt reserve	22	**30,000**	20,000
Cumulative changes in fair value		**(1,329)**	1,364
Retained earnings		**14,062**	12,942
Total equity		**212,859**	198,752
Total equity and liabilities		**1,816,091**	1,456,355
Contingent liabilities and commitments	34	**915,014**	945,914

The financial statements were authorised for issue by the Board of Directors on 20 January 2015 and signed by:

Rashad Muhammed Al Zubair
Chairman

Amin Husseini
Chief Executive Officer

The accompanying notes form an integral part of these financial statements.

OMAN ARAB BANK SAOC

Statement of profit or loss and other comprehensive income for the year ended 31 December 2014

	Notes	2014 RO'000	2013 RO'000
Interest income	24	57,910	53,610
Interest expense	25	(14,067)	(11,158)
Net interest income		43,843	42,452
Fees, commission and commission income - net	26	19,475	14,417
Investment income	27	2,844	2,308
Other operating income	28	5,654	4,651
Total income		71,816	63,828
Operating expenses	29	(37,416)	(33,798)
Allowance for loan impairment	10(a)	(8,885)	(6,351)
Recoveries / release from allowance for loan important	10(a)	6,871	4,999
Profit before tax		32,386	28,678
Income tax expense	18	(3,986)	(3,655)
Profit for the year		28,400	25,023
Other comprehensive income,			
Items that may be reclassified subsequently to profit or loss:			
Net movement in unrealised (loss) / gain on available-for-sale investments		(2,693)	1,218
Total comprehensive income for the year		25,707	26,241
Basic earnings per share	30	RO 0.024	RO 0.022

The accompanying notes form an integral part of these financial statements.

OMAN ARAB BANK SAOC

Statement of changes in equity
for the year ended 31 December 2014

	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	Retained earnings RO'000	Total RO'000
At 1 January 2014		**116,000**	**27,627**	**20,819**	**20,000**	**1,364**	**12,942**	**198,752**
Profit for the year		**-**	**-**	**-**	**-**	**-**	**28,400**	**28,400**
Other comprehensive income		**-**	**-**	**-**	**-**	**(2,693)**	**-**	**(2,693)**
Total comprehensive income		**-**	**-**	**-**	**-**	**(2,693)**	**28,400**	**25,707**
Transfer to legal reserve	20	**-**	**2,840**	**-**	**-**	**-**	**(2,840)**	**-**
Transfer to general reserve	21	**-**	**-**	**2,840**		**-**	**(2,840)**	**-**
Transfer to subordinated debt reserve	22	**-**	**-**	**-**	**10,000**	**-**	**(10,000)**	**-**
Dividend paid relating to 2013	23	**-**	**-**	**-**	**-**	**-**	**(11,600)**	**(11,600)**
At 31 December 2014		**116,000**	**30,467**	**23,659**	**30,000**	**(1,329)**	**14,062**	**212,859**

The accompanying notes form an integral part of these financial statements.

OMAN ARAB BANK SAOC

Statement of changes in equity
for the year ended 31 December 2014 (continued)

	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	Retained earnings RO'000	Total RO'000
At 1 January 2013		116,000	25,125	19,568	10,000	146	13,272	184,111
Profit for the year		-	-	-	-	-	25,023	25,023
Other comprehensive income		-	-	-	-	1,218	-	1,218
Total comprehensive income		-	-	-	-	1,218	25,023	26,241
Transfer to legal reserve	20	-	2,502	-	-	-	(2,502)	-
Transfer to general reserve	21	-	-	1,251	-	-	(1,251)	-
Transfer to subordinated debt reserve	22	-	-	-	10,000	-	(10,000)	-
Dividend paid relating to 2012	23	-	-	-	-	-	(11,600)	(11,600)
At 31 December 2013		116,000	27,627	20,819	20,000	1,364	12,942	198,752

The accompanying notes form an integral part of these financial statements.

OMAN ARAB BANK SAOC

Statement of cash flows
for the year ended 31 December 2014

	Note	2014 RO'000	2013 RO'000
Operating activities			
Profit before tax		**32,386**	28,678
Adjustments:			
Depreciation		**2,536**	2,337
Allowance for loan impaired and reserved interest		**8,885**	6,351
Recoveries / release from allowance for loan impairment		**(6,871)**	(4,999)
Income from held-to-maturity investments		**(803)**	(745)
Profit on sale of property and equipment		**(22)**	(49)
Change in the fair value of available-for-sale investments		**2,693**	(966)
Change in the fair value of financial assets at fair value through profit or loss		**(50)**	(607)
Operating profit before changes in operating assets and liabilities		**38,754**	30,000
Changes in operating assets and liabilities:			
Loans and advances		**(185,559)**	(142,829)
Financial assets at fair value through profit or loss		**830**	864
Other assets		**(9,902)**	(1,758)
Deposits from customers		**319,160**	118,009
Other liabilities		**23,897**	9,301
Cash from operations		**187,180**	13,587
Tax paid		**(3,443)**	(3,813)
Net cash generated from operating activities		**183,737**	9,774
Investing activities			
Held-to-maturity investments matured		**204**	-
Purchase of held-to-maturity investments		**(18,533)**	(4,213)
Income from maturing of held-to-maturity investments		**803**	745
Purchase of investment available-for-sale		**(36,708)**	(20,727)
Proceeds from sale of investment available-for-sale		**27,417**	14,297
Purchase of property and equipment		**(5,079)**	(7,641)
Proceeds from sale of property and equipment		**52**	322
Net cash used in investing activities		**(31,844)**	(17,217)
Financing activities			
Dividends paid		**(11,600)**	(11,600)
Net cash used in investing activities		**(11,600)**	(11,600)
Net changes in cash and cash equivalents		**140,293**	(19,043)
Cash and cash equivalents at beginning of the year		**263,471**	282,513
Cash and cash equivalents at end of the year	**32**	**403,764**	263,471

The accompanying notes form an integral part of these financial statements.

OMAN ARAB BANK SAOC

Notes to the financial statements for the year ended 31 December 2014

1. Legal status and principal activities

Oman Arab Bank SAOC (“the Bank” or “OAB”) 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, and Sultanate of Oman. The Bank’s Islamic Banking window under the name – “Al Yusr”, commenced operations from 14 July 2013 and operates under the Islamic banking licence granted by the Central Bank of Oman. The principal activities of Al Yusr is providing shari’a compliant financing, accepting Shari’a compliant deposits and other activities permitted under the Islamic Banking Regulatory framework (IBRF).

2. Summary of significant accounting policies

2.1 Statement of compliance

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

The Islamic banking window of the Bank follows the financial Accounting Standards (FAS) issued by Accounting and Auditing organization for Islamic Financial Institutions (AAOIFI) in preparing its financial statements.

The financial information in those statements are included in the bank’s financial statements after adjusting them in accordance with IFRS.

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 judgment in the process of applying the Bank’s accounting policies. The areas involving a higher degree of judgment 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.

OMAN ARAB BANK SAOC

Notes to the financial statements for the year ended 31 December 2014

2. Summary of significant accounting policies (continued)

2.3 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, borrowing and due to banks.

2.3.1 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.

2.3.2 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.

2.3.3 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.

OMAN ARAB BANK SAOC

Notes to the financial statements
for the year ended 31 December 2014

2. Summary of significant accounting policies (continued)

2.3 Financial instruments – initial recognition and subsequent measurement (continued)

2.3.4 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.

2.3.4 Available-for-sale investments

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 effective interest rate. 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.

2.3.5 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.

2.3.6 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.

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Notes to the financial statements for the year ended 31 December 2014

2. Summary of significant accounting policies (continued)

2.3 Financial instruments – initial recognition and subsequent measurement (continued)

2.3.7 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.

2.3.8 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.

2.3.9 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:

OMAN ARAB BANK SAOC

Notes to the financial statements
for the year ended 31 December 2014

2. Summary of significant accounting policies (continued)

2.3 Financial instruments – initial recognition and subsequent measurement (continued)

2.3.9 Impairment of financial assets (continued)

- 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.

(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.

OMAN ARAB BANK SAOC

Notes to the financial statements for the year ended 31 December 2014

2. Summary of significant accounting policies (continued)

2.3 Financial instruments – initial recognition and subsequent measurement (continued)

2.3.9 Impairment of financial assets (continued)

(a) Assets carried at amortised cost (continued)

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.

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.

OMAN ARAB BANK SAOC

Notes to the financial statements for the year ended 31 December 2014

2. Summary of significant accounting policies (continued)

2.3 Financial instruments – initial recognition and subsequent measurement (continued)

2.3.10 Islamic banking

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

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

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

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

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

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

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

OMAN ARAB BANK SAOC

Notes to the financial statements
for the year ended 31 December 2014

2. Summary of significant accounting policies (continued)

2.4 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.

2.5 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.

2.6 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:

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

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.

2.7 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.

OMAN ARAB BANK SAOC

Notes to the financial statements for the year ended 31 December 2014

2. Summary of significant accounting policies (continued)

2.7 Impairment of non-financial assets (continued)

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.

2.8 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.

2.9 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.

2.10 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.

OMAN ARAB BANK SAOC

Notes to the financial statements for the year ended 31 December 2014

2. Summary of significant accounting policies (continued)

2.11 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.

2.12 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.

2.13 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. Summary of significant accounting policies (continued)

2.14 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.

2.15 Dividend income

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

2.16 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.

2.17 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.

2.18 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 judgment of management. Any increase in the liability relating to guarantees is taken to the statement of comprehensive income.

2.19 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.

OMAN ARAB BANK SAOC

Notes to the financial statements
for the year ended 31 December 2014

2. Summary of significant accounting policies (continued)

2.20 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.

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.

2.21 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.

2.22 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.

OMAN ARAB BANK SAOC

Notes to the financial statements
for the year ended 31 December 2014

3. Critical accounting estimates and judgments in applying accounting policies

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

3.1 Going concern

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

3.3 Held-to-maturity investments

The 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 judgment. 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.

OMAN ARAB BANK SAOC

Notes to the financial statements for the year ended 31 December 2014

3. Critical accounting estimates and judgments in applying accounting policies (continued)

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. Adoption of new and revised International Financial Reporting Standards (IFRSs)

For the year ended 31 December 2014, the Bank has adopted all the new and revised standards and interpretations issued by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB that are relevant to its operations and effective for the period beginning on 1 January 2014.

OMAN ARAB BANK SAOC

Notes to the financial statements
for the year ended 31 December 2014 (continued)

4. Adoption of new and revised International Financial Reporting Standards (IFRS)

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

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

Amendments to IFRS 10, IFRS 12 and IAS 27: Investment Entities	The amendments to IFRS 10 define an investment entity and require a reporting entity that meets the definition of an investment entity not to consolidate its subsidiaries but instead to measure its subsidiaries at fair value through profit or loss in its consolidated and separate financial statements. Consequential amendments have been made to IFRS 12 and IAS 27 to introduce new disclosure requirements for investment entities.
Amendments to IAS 32: Offsetting Financial Assets and Financial Liabilities	The amendments to IAS 32 clarify the requirements relating to the offset of financial assets and financial liabilities. Specifically, the amendments clarify the meaning of ‘currently has a legally enforceable right of set-off’ and ‘simultaneous realisation and settlement’.
Amendments to IAS 36: Recoverable Amount Disclosures for Non-Financial Assets	The amendment to IAS 36 remove the requirement to disclose the recoverable amount of a cash-generating unit (CGU) to which goodwill or other intangible assets with indefinite useful lives had been allocated when there has been no impairment or reversal of impairment of the related CGU. Furthermore, the amendments introduce additional disclosure requirements applicable to when the recoverable amount of an asset or a CGU is measured at fair value less cost of disposal.
Amendments to IAS 39: Novation of Derivatives and Continuation of Hedge Accounting	The amendments to IAS 39 provide relief from the requirement to discontinue hedge accounting when a derivative designated as a hedging instrument is novated under certain circumstances. The amendments also clarify that any change to the fair value of the derivative designated as hedging instrument arising from the novation should be included in the assessment and measurement of hedge effectiveness.
IFRIC 21: Levies	IFRIC 21 addresses the issue as to when to recognise a liability to pay a levy imposed by a government. The Interpretation provides guidance on how different levy arrangements should be accounted for, in particular, it clarifies neither economic compulsion nor the going concern basis financial statements preparation implies that an entity has a present obligation to pay a levy that will be triggered by operating in a future period.

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Notes to the financial statements for the year ended 31 December 2014 (continued)

4. Adoption of new and revised International Financial Reporting Standards (IFRS) (continued)

4.2 Standards and Interpretations in issue not yet effective

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

New IFRS and relevant amendments	Effective for annual periods beginning on or after
IFRS 9: Financial Instruments	1 January 2018
IFRS 15: Revenue from Contracts with Customers	1 January 2017
Amendment to IFRS 11: Accounting for Acquisition of Interest in Joint Operations	1 January 2016
Amendment to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation	1 January 2016
Amendment to IAS 16 and IAS 41: Agriculture – Bearer Plants.	1 January 2016
Amendment to IAS 19: Employee Benefit Plans – Employee Contributions	1 July 2014
Annual Improvements to IFRSs 2010 - 2012	1 July 2014
Annual Improvements to IFRSs 2011 - 2013	1 July 2014

The directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of the Bank's in the period of initial application. The adoption of these standards and interpretations has not resulted in changes to the Bank's accounting policies and has not affected the amounts reported for the current or prior periods except for IFRS 9: Financial Instruments. IFRS 9 introduces new requirements for the classification and measurement of financial instruments. The management is currently assessing this standard which may have an impact on the financial statements of the Bank as described above.

5. Financial risk management

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.

OMAN ARAB BANK SAOC

Notes to the financial statements for the year ended 31 December 2014 (continued)

5. Financial risk management (continued)

5.1 Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Credit exposures arise principally from lending activities, 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 & commercial loans**
Standard loans	0 - 60 days
Special mention loan	60 - 90 days
Substandard loan	90 - 180 days
Doubtful loans	180 - 365 days
Loss	365 days and over

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Notes to the financial statements for the year ended 31 December 2014 (continued)

5. Financial risk management (continued)

5.1 Credit risk (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.

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Notes to the financial statements
for the year ended 31 December 2014 (continued)

5. Financial risk management (continued)

5.1 Credit risk (continued)

5.1.2 Risk mitigation policies (continued)

(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.

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 for which collaterals or other credit enhancements are held is as follows:

	Performing loans (neither past due nor impaired) RO’000	Loans past due and not paid RO’000	Non – performing loans RO’000	Gross loans RO’000
Loans and advances with collateral available	**278,060**	**22,432**	**11,502**	**311,994**
Loans and advances with guarantees available	**96,787**	**-**	**8,567**	**105,354**
At December 2014	**374,847**	**22,432**	**20,069**	**417,348**
At December 2013	282,213	13,462	21,096	316,771

5.1.3 Impairment and provisioning policy

Impairment allowances 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 well as considering the guidelines issued by the Central Bank of Oman.

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Notes to the financial statements for the year ended 31 December 2014 (continued)

5. Financial risk management (continued)

5.1 Credit risk (continued)

5.1.3 Impairment and provisioning policy

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 judgment. The critical estimates used in determining the provision for impairment are explained in Note 3.2.

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

	2014 RO'000	2013 RO'000
Items on the statement of financial position		
Certificates of deposit (note (d))	**200,000**	100,000
Due from banks – Money market placements	**95,758**	50,885
Loans and advances		-
Corporate loans	**768,160**	682,179
Personal loans	**528,668**	428,427
Other assets	**41,887**	30,497
Investment in securities		
Government Development Bonds	**50,402**	32,073
	1,684,873	1,324,069
Off-Balance sheet items		
Financial guarantees	**96,862**	89,681
Undrawn loan commitments	**642**	770
	97,504	90,451

The above table represents the worst case scenario of credit risk exposure to the Bank at 31 December 2014 and 31 December 2013 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.

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Notes to the financial statements for the year ended 31 December 2014 (continued)

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 (continued)

a) 76.7% (2013 - 100%) 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 71% (2013 - 74%) of the total on-balance sheet items. Of the total loans and advances 95% (2013 - 95%) are neither past due nor impaired.
c) The impaired loans have decreased from 3.3% at 31 December 2013 to 2.75% at 31 December 2014. The impaired personal loans constitute 0.9% of the total loans at 31 December 2014 compared to 0.9% at 31 December 2013.
d) Certificates of deposit which represent 11% (2013 - 6.8%) of the total on-balance sheet items are placed with the Central Bank of Oman.

5.1.5 Loans and advances and due from banks

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

31 December 2014	**Loans and advances RO'000**	**Due from banks RO'000**	**Total RO'000**
Neither past due nor impaired	**1,141,748**	**95,758**	**1,237,506**
Special Mention loans	**94,461**	**-**	**94,461**
Past due but not impaired	**22,432**	**-**	**22,432**
Impaired	**38,185**	**-**	**38,185**
Gross loans and advances	**1,296,826**	**95,758**	**1,392,584**
Less: allowance for loan impairment and contractual interest not recognized	**(36,990)**	**-**	**(36,990)**
Net loans and advances	**1,259,836**	**95,758**	**1,355,594**
31 December 2013			
Neither past due nor impaired	1,053,174	50,893	1,104,067
Special Mention loans	7,357	-	7,357
Past due but not impaired	13,462	-	13,462
Impaired	36,613	-	36,613
Gross loans and advances	1,110,606	-	1,161,499
Less: allowance for loan impairment and contractual interest not recognized	(34,315)	-	(34,315)
Net loans and advances	1,076,291	50,893	1,127,184

a) The total impairment provision for loans and advances is RO 36,990 thousand (2013 - RO 34,315 thousand) of which RO 19,571 thousand (2013 - RO 19,674) represents the individually impaired loans and the remaining amount of RO 17,419 thousand (2013 - RO 14,641 thousand) represents the collective impairment provision made on a portfolio basis.

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Notes to the financial statements
for the year ended 31 December 2014 (continued)

5. Financial risk management (continued)

5.1 Credit risk (continued)

5.1.5 Loans and advances and due from banks

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

31 December 2014	**Retail loans 2014 RO'000**	**Corporate loans 2014 RO'000**	**Total 2014 RO'000**
Standard loans	**508,979**	**655,200**	**1,164,179**
Special mention loans	**8,332**	**86,130**	**94,462**
Substandard loans	**4,026**	**576**	**4,602**
Doubtful loans	**1,256**	**5,423**	**6,679**
Loss	**6,073**	**20,831**	**26,904**
	528,666	**768,160**	**1,296,826**
31 December 2013			
Standard loans	417,334	649,302	1,066,636
Special mention loans	1,077	6,280	7,357
Substandard loans	1,110	5,155	6,265
Doubtful loans	1,484	1,533	3,017
Loss	7,422	19,909	27,331
	428,427	682,179	1,110,606

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

	2014 RO'000	2013 RO'000
Past due up to 30 days	**3,348**	1,520
Past due 30 - 60 days	**9,941**	7,181
Past due 60 - 89 days	**9,143**	4,761
Total	**22,432**	13,462
Fair value of collateral	**27,831**	5,535

d) Loans and advances individually impaired

Individually impaired loans	**38,185**	36,613
Fair value of collateral	**19,326**	15,561

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Notes to the financial statements for the year ended 31 December 2014 (continued)

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 2014 amounted to RO 9,167thousand (2013 - RO 6,060 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 2014 is RO 310 thousand (2013 - RO 310 thousand).

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.

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Notes to the financial statements for the year ended 31 December 2014 (continued)

5. Financial risk management (continued)

5.2 Market risk (continued)

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.

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 2014 may change by 0.13% (2013 – 0.29%) 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 2014 is 2.26% (2013 – 1.57%).

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.

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Notes to the financial statements
for the year ended 31 December 2014 (continued)

5. Financial risk management (continued)

5.2 Market risk (continued)

5.2.3 Currency risk (continued)

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:

Foreign currency

	2014	2013
	RO'000	RO'000
Net assets denominated in US Dollars	**5,607**	2,572
Net assets denominated in other foreign currencies	**963**	1,550
	6,570	4,122

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.

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Notes to the financial statements for the year ended 31 December 2014 (continued)

5. Financial risk management (continued)

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.

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 2014. Whilst management has used its best judgment in estimating the fair value of the financial instruments, there are inherent weaknesses in any estimation technique. The estimates involve matters of judgment and cannot be determined with precision. The bases adopted in deriving the fair values are as follows:

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 or loss and available-for-sale

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

OMAN ARAB BANK SAOC

Notes to the financial statements
for the year ended 31 December 2014 (continued)

5. Financial risk management (continued)

5.4 Fair value estimation (continued)

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.

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:

Assets as per statement of financial position	Fair value through profit or loss RO'000	Held-to-maturity RO'000	Available-for-sale investments RO'000	Loans and receivables RO'000	Total RO'000
31 December 2014					
Bank balances and cash	-	**114,397**	-	-	**114,397**
Certificates of deposit	-	**200,000**	-	-	**200,000**
Due from banks	-	**95,758**	-	-	**95,758**
Loans and advances	-	-	-	**1,259,836**	**1,259,836**
Investment securities	**1,264**	**50,402**	**23,225**	-	**74,891**
Other assets	-	**97**	-	**41,791**	**41,888**
	1,264	**460,654**	**23,225**	**1,301,627**	**1,786,770**

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Notes to the financial statements for the year ended 31 December 2014 (continued)

5. Financial risk management (continued)

5.5 Financial instruments by category (continued)

Assets as per statement of financial position	Fair value through profit or loss RO'000	Held-to-maturity RO'000	Available-for-sale investments RO'000	Loans and receivables RO'000	Total RO'000
31 December 2013					
Bank balances and cash	-	116,939	-	-	116,939
Certificates of deposit	-	100,000	-	-	100,000
Due from banks	-	50,893	-	-	50,893
Loans and advances	-	-	-	1,076,291	1,076,291
Investment securities	2,044	32,073	19,320	-	53,437
Other assets	-	-	-	31,985	31,985
	2,044	299,905	19,320	1,108,276	1,429,545

	Other liabilities **2014** **RO'000**	2013 RO'000
Liabilities as per statement of position		
Due to banks	**5,891**	3,862
Deposits from customers	**1,468,313**	1,149,153
Other liabilities	**74,792**	50,896
Subordinated bonds	**50,000**	50,000
Taxation	**4,236**	3,692
	1,603,232	1,257,603

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).

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Notes to the financial statements
for the year ended 31 December 2014 (continued)

6. Capital management (continued)

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:

	2014	2013
	RO’000	RO’000
Capital		
Tier 1	**198,880**	185,788
Tier 2	**37,264**	45,255
Total capital base	**236,144**	231,043
Risk weighted assets		
Credit risk	**1,430,766**	1,279,113
Market risk	**5,975**	7,713
Operational risk	**122,800**	112,025
	1,559,541	1,398,851
	15.14%	16.52%

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.

7. Cash and balances with the Central Bank of Oman

	2014	2013
	RO’000	RO’000
Cash in hand	**25,572**	24,279
Balances with the Central Bank of Oman		
-Clearing account	**59,450**	92,160
-Placements	**28,875**	-
-Capital deposit	**500**	500
	114,397	116,939

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 (2013 - 1.5% p.a.).

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Notes to the financial statements
for the year ended 31 December 2014 (continued)

8. Certificates of deposit

Certificates of deposit are issued by the Central Bank of Oman for a periods of 28 days (2013: ranging from 28 days to 57 days) and carry interest at rates ranging from 0.12% to 0.13% (2013: 0.012% - 0.15%) per annum.

9. Due from banks

	2014 RO'000	2013 RO'000
Foreign currency:		
Money market placements	**68,979**	34,650
Current accounts	**26,779**	16,243
	95,758	50,893

At 31 December 2014, 76.7% of the Bank's placements were with eight banks rated by Moody's (2013– 100% of the Bank's placements were with three banks rated Aa3 to Ba3)

10. Loans and advances

	2014 RO'000	2013 RO'000
Corporate loans		
Term loans	**597,360**	546,682
Overdrafts	**141,439**	111,290
Bills discounted	**22,793**	21,319
Islamic finance (10-b)	**6,567**	2,888
	768,159	682,179
Personal loans		
Consumer loans	**372,777**	328,076
Mortgage loans	**100,822**	66,520
Overdrafts	**35,383**	27,237
Credit cards	**5,072**	5,759
Islamic finance (10-b)	**14,613**	835
	528,667	428,427
Gross loans and advances	**1,296,826**	1,110,606
Less: allowance for loan impairment and contractual interest not recognised (refer to note (a) below)	**(36,990)**	(34,315)
Net loan and advances	**1,259,836**	1,076,291

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Notes to the financial statements for the year ended 31 December 2014 (continued)

10. Loans and advances (continued)

(a) Allowance for loan impairment

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

2014	Allowance for loan impairment RO'000	Contractual interest not recognised RO'000	Total RO'000
At 1 January	**27,318**	**6,997**	**34,315**
Provided during the year	**8,577**	**2,408**	**10,985**
Provided during the year for Islamic financing	**308**	**-**	**308**
Amounts written off during the year	**(855)**	**(892)**	**(1,747)**
Amounts released / recovered during the year	**(4,697)**	**(2,174)**	**(6,871)**
At 31 December	**30,651**	**6,339**	**36,990**
2013			
At 1 January	24,777	6,744	31,521
Provided during the year	6,305	2,103	8,408
Provided during the year for Islamic financing	46	-	46
Amounts written off during the year	(276)	(385)	(661)
Amounts released / recovered during the year	(3,534)	(1,465)	(4,999)
At 31 December	27,318	6,997	34,315

At 31 December 2014, RO 17,419 thousand (2013 - RO 14,641 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 2014, loans and advances on which contractual interest was not recognised or has not been accrued amounted to RO 38,185 thousand (31 December 2013 - RO 36,613 thousand).

(b) Islamic financing

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

2014	Personal RO'000	Corporate RO'000	Total RO'000
Musharaka	**11,176**	**5,697**	**16,873**
Murabaha	**1,317**	**554**	**1,871**
Ijarah Muntahia Bittamleek	**2,120**	**316**	**2,436**
At 31 December	**14,613**	**6,567**	**21,180**

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Notes to the financial statements for the year ended 31 December 2014 (continued)

10. Loans and advances (continued)

(b) Islamic financing (continued)

2013	Personal RO'000	Corporate RO'000	Total RO'000
Musharaka	570	2,888	3,458
Murabaha	202	-	202
Ijarah Muntahia Bittamleek	63	-	63
At 31 December	835	2,888	3,723

2014	**RO'000**	**RO'000**
Within one year	**294**	**181**
Two to five years	**978**	**624**
More than five years	**2,269**	**1,631**
	3,541	**2,436**
Deferred profit	**(1,105)**	**-**
Net investment in lease finance	**2,436**	**2,436**

2013		
Within one year	10	7
Two to five years	29	21
More than five years	49	35
	88	63
Deferred profit	(25)	-
Net investment in lease finance	63	63

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Notes to the financial statements for the year ended 31 December 2014 (continued)

10. Loans and advances (continued)

(c) 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:

	2014	2013
	RO'000	RO'000
Personal loans	**528,667**	428,427
Manufacturing	**105,518**	110,532
Transportation	**133,275**	139,672
Construction	**136,135**	105,490
Services	**45,949**	34,007
Wholesale and retail trade	**43,567**	34,252
Mining and quarrying	**19,484**	15,064
Import trade	**37,238**	32,157
Financial institutions	**31,246**	28,952
Electricity , Water and Gas	**65,896**	44,249
Agriculture and allied activities	**6,383**	4,771
Government	**3,383**	-
Others	**140,085**	133,033
	1,296,826	1,110,606

Of the above, loans with variable interest rates amount to RO 584,097 thousand (2013 - RO 507,090 thousand), loans carrying fixed interest rates amount to RO 691,549 thousand (2013 - RO 599,793 thousand) and Islamic finance contracts RO 21,180 thousand (2013: 3,723).

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Notes to the financial statements
for the year ended 31 December 2014 (continued)

11. Investment securities

	Carrying value 2014 RO'000	**Cost 2014 RO'000**	Carrying value 2013 RO'000	Cost 2013 RO'000
Available-for-sale				
- quoted	**22,365**	**23,652**	18,949	17,561
- unquoted	**860**	**901**	371	395
	23,225	**24,553**	19,320	17,956
Designed as at fair value through profit or loss				
- quoted	**617**	**407**	716	517
- unquoted	**317**	**1,293**	286	1,287
	934	**1,700**	1,002	1,804
Held-for-trading				
- quoted	**330**	**392**	1,042	1,119
Held-to-maturity				
Oman Government Development Bonds	**50,402**	**50,402**	32,073	32,073
Total investment securities	**74,891**	**77,047**	53,437	52,952

Unquoted financial assets at fair value through profit or loss include investment in the Financial Settlement and Guaranteed Fund of RO 196,438 (2013 - RO 189,783) 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 year ended 31 December 2014, 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.

OMAN ARAB BANK SAOC

Notes to the financial statements
for the year ended 31 December 2014 (continued)

11. Investment securities (continued)

Fair value hierarchy (continued)

2014	**At 1 January 2014 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 2014 RO'000**
Available-for-sale						
Quoted – level 1	**18,949**	**36,203**	**(30,110)**	**-**	**(2,677)**	**22,365**
Unquoted – level 3	**371**	**505**	**-**	**-**	**(16)**	**860**
Designated as t fair value through profit or loss						
Quoted – level 1	**716**	**7**	**(110)**	**4**	**-**	**617**
Unquoted – level 3	**286**			**31**	**-**	**317**
Held for trading						
Quoted – level 1	**1,042**	**158**	**(885)**	**15**	**-**	**330**
Investments held-to-maturity	**32,073**	**18,533**	**(204)**	**-**	**-**	**50,402**
	53,437	**55,406**	**(31,309)**	**50**	**(2,693)**	**74,891**
2013						
Available-for-sale						
Quoted – level 1	10,357	20,727	(13,331)	-	1,196	18,949
Unquoted – level 3	349	-	-	-	22	371
Designated as t fair value through profit or loss						
Quoted – level 1	586	-	-	130	-	716
Unquoted – level 3	272	14	-	-	-	286
Held for trading						
Quoted – level 1	1,443	8,338	(9,216)	477	-	1,042
Investments held-to-maturity	27,860	4,213	-	-	-	32,073
	40,867	33,292	(22,547)	607	1,218	53,437

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Notes to the financial statements
for the year ended 31 December 2014 (continued)

11. Investment securities (continued)

Fair value hierarchy (continued)

Included under investments held to maturity are bonds issued by the Government of Oman amounting to RO 50,402 thousand (2013: RO 32,073 thousand). The bonds are denominated in Rial Omani and carry interest rates varying between 2.75% and 5.5% (2013 – 2.75% to 5.5%) per annum. The maturity profile of these bonds, based on the remaining maturity from the reporting date, is as follows:

	2014 RO'000	2013 RO'000
4 to 12 months	**-**	2,400
1 to 5 years	**50,402**	29,673
	50,402	32,073

12. Other assets

Customers' indebtedness against acceptances	**28,559**	16,748
Interest receivable	**3,999**	4,199
Prepayments	**1,391**	1,489
Receivable from investment customers	**1,788**	1,095
Positive fair value of derivatives (note 33)	**220**	251
Others	**5,930**	8,203
	41,887	31,985

OMAN ARAB BANK SAOC

Notes to the financial statements for the year ended 31 December 2014 (continued)

13. Property and equipment

	Land and buildings RO'000	Computer equipment RO'000	Equipment furniture and fixtures RO'000	Motor vehicles RO'000	Capital work-in-progress RO'000	Total RO'000
At 1 January 2013	7,757	12,558	6,640	583	11,730	39,268
Additions	-	1,473	623	20	5,525	7,641
Transfers	13,931	716	1,620	-	(16,267)	-
Disposals	(270)	-	(132)	(34)	-	(436)
At 1 January 2014	**21,418**	**14,747**	**8,751**	**569**	**988**	**46,473**
Additions	**2,722**	**743**	**510**	**133**	**971**	**5,079**
Transfers	**-**	**340**	**373**		**(713)**	
Disposals	**-**	**(9)**	**(7)**	**(137)**		**(153)**
At 31 December 2014	**24,140**	**15,821**	**9,627**	**565**	**1,246**	**51,399**
Depreciation						
At 1 January 2013	2,569	9,441	5,053	426	-	17,489
Charge for the year	371	1,050	850	66	-	2,337
Relating to disposals	-	-	(129)	(34)	-	(163)
At 1 January 2014	**2,940**	**10,491**	**5,774**	**458**	**-**	**19,663**
Charge for the year	**612**	**1,021**	**875**	**28**	**-**	**2,536**
Relating to disposals		**(9)**	**(4)**	**(109)**	**-**	**(122)**
At 31 December 2014	**3,552**	**11,503**	**6,645**	**377**	**-**	**22,077**
Carrying value						
At 31 December 2014	**20,588**	**4,318**	**2,982**	**188**	**1,246**	**29,322**
At 31 December 2013	18,478	4,256	2,977	111	988	26,810

14. Due to banks

	2014 RO'000	2013 RO'000
Current accounts	**5,891**	3,862

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Notes to the financial statements
for the year ended 31 December 2014 (continued)

15. Deposits from customers

	2014	2013
	RO'000	RO'000
Term deposits	**666,490**	464,283
Demand and call accounts	**586,856**	508,896
Saving accounts	**214,967**	175,974
	1,468,313	1,149,153

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

	2014	2013
	RO'000	RO'000
Private	**1,057,617**	825,718
Government	**410,696**	323,435
	1,468,313	1,149,153

Islamic customer's deposits

Included in the above customers' deposits are the following Islamic customer deposits:

	2014	2013
	RO'000	RO'000
Wakalah acceptances	**9,340**	-
Current accounts – Qard	**937**	13
Mudarabah accounts	**2,213**	42
	12,490	55

16. Other liabilities

Liabilities against acceptances	**28,559**	16,748
Payable to investment customers	**23,329**	12,206
Accrued expenses and other payables	**7,537**	9,436
Interest payable	**6,896**	4,721
Cheques and trade settlement payable	**4,249**	3,877
Staff terminal benefits (note 16 a)	**2,279**	2,283
Interest and commission received in advance	**1,741**	1,385
Negative fair value of derivatives (note 33)	**202**	240
	74,792	50,896

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Notes to the financial statements for the year ended 31 December 2014 (continued)

16. a Staff terminal benefits

	2014 RO'000	2013 RO'000
At 1 January	**2,283**	2,666
Charge for the year	**376**	362
Payment to employees during the year	**(380)**	(745)
At 31 December	**2,279**	2,283

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 of 5.5% per annum (2012: 5.5% per annum), payable semi-annually with the principal payable on maturity.

18. Taxation

	2014 RO'000	2013 RO'000
Statement of profit or loss		
Current year	**3,940**	3,659
Deferred tax	**46**	(4)
	3,986	3,655
Statement of financial position		
Current year	**3,917**	3,419
Deferred tax	**319**	273
	4,236	3,692
Deferred tax liability		
At 1 January	**273**	277
Movement for the year	**46**	(4)
	319	273

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 11.93 % (2013 – 11.89%).

The deferred tax liability has been recognised at the effective rate of 12% (2013 - 12%).

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Notes to the financial statements for the year ended 31 December 2014 (continued)

18. Taxation (continued)

	2014 RO'000	2013 RO'000
Profit before tax	**32,386**	28,678
Tax at the applicable rate of 12% after statutory deduction of RO 30,000 (2013 - 12%)	**3,883**	3,438
Tax effect of temporary differences	**46**	(4)
Tax effect of income that is not taxable and expenses that are not deductible in determining taxable profit	**11**	225
Add: Deferred tax liability created / reversed during the year	**46**	(4)
Tax expense for the current year	**3,986**	3,655

Status of tax assessments

The assessments for the years up to 2008 are complete. The assessments for 2009 to 2012 are not yet finalised by the Tax Authorities. Management believes that no significant further liabilities will be incurred by the Bank on completion of the pending tax assessments as compared to the existing provision established.

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.

	Country of incorporation	Shareholding %	2014 RO'000	2013 RO'000
Oman International Development and Investment Co. SAOG	**Oman**	**50.99**	**59,149**	59,148
Arab Bank Plc	**Jordan**	**49.00**	**56,840**	56,840
Oman Investment Services SAOC	**Oman**	**0.01**	**11**	12
		100.00	**116,000**	116,000

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Notes to the financial statements for the year ended 31 December 2014 (continued)

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 0.012 per share totalling to RO 13.92 million for the year ended 31 December 2014 (2013 - RO 0.010 per share totalling to RO 11.6 million). A resolution to approve the dividend will be presented to the shareholders at the Annual General Meeting.

24. Interest income

	2014	2013
	RO'000	RO'000
Loans and advances	**56,723**	52,694
Oman Government Development Bonds	**803**	745
Placements with banks and other money market placements	**169**	57
Certificates of deposits	**215**	114
	57,910	53,610

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Notes to the financial statements for the year ended 31 December 2014 (continued)

25. Interest expense

	2014 **RO'000**	2013 RO'000
Time deposits	**9,489**	6,699
Subordinated bonds	**2,758**	2,742
Call accounts	**766**	736
Borrowings	**632**	599
Savings accounts	**422**	382
	14,067	11,158

26. Fee and commission income – net

Fee and commission income	**21,629**	16,222
Fee and commission expense	**(2,154)**	(1,805)
	19,475	14,417

27. Investment income

From financial assets at fair value through profit or loss

Fair value changes	**50**	607
Profit on sale of investments	**1,751**	1,057
Dividend income	**1,043**	644
	2,844	2,308

28. Other operating income

Exchange income	**4,564**	4,453
Income from Islamic window	**869**	23
Other income	**221**	175
	5,654	4,651

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Notes to the financial statements
for the year ended 31 December 2014 (continued)

29. Operating expenses

	2014	2013
	RO'000	RO'000
Staff costs (refer below)	**22,669**	20,426
Other operating expenses	**10,890**	10,259
Depreciation	**2,536**	2,337
Operating expenses of the Islamic window	**1,190**	680
Directors' remuneration	**131**	96
	37,416	33,798

Details of staff costs are as follows:		
Salaries	**15,395**	14,092
Allowances	**3,319**	3,043
Social security costs	**1,320**	945
End of service benefits	**376**	362
Other costs	**2,259**	1,984
	22,669	20,426

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:

	2014	2013
Profit for the year (RO'000)	**28,400**	25,023
Weighted average number of shares outstanding during the year	**116,000,000**	116,000,000
Basic earnings per share (RO)	**0.024**	0.022

The basic earnings per share is the profit for the period divided by the weighted average number of shares outstanding.

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.

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Notes to the financial statements
for the year ended 31 December 2014 (continued)

31. Related party transactions

Management service agreement with a shareholder

The Bank has a management agreement with Arab Bank Plc Jordan, a shareholder. During the year ended 31 December 2014, the management fees as per the agreement amounted to RO 84 thousand (2013: RO 75 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:

2014	**Major shareholders RO'000**	**Others RO'000**	**Total RO'000**
Loans and advances	**19,500**	**30,368**	**49,868**
Customers' deposits	**2,187**	**6,713**	**8,900**
Payable to investment customers	**602**	**61**	**663**
Receivables from investment customers	**269**	**1,990**	**2,259**
Investments	**1,019**	**430**	**1,449**
Due from banks	**10,673**	**-**	**10,673**
Due to banks	**2,203**	**-**	**2,203**
Stand by line of credit	**48,125**	**-**	**48,125**
Letters of credit guarantees and acceptances	**200,218**	**4,031**	**204,249**
2013			
Loans and advances	5,000	30,817	35,817
Customers' deposits	472	7,099	7,571
Payable to investment customers	963	-	963
Receivables from investment customers	-	176	176
Investments	782	539	1,321
Due from banks	5,524	-	5,524
Due to banks	1,771	-	1,771
Stand by line of credit	48,125	-	48,125
Letters of credit guarantees and acceptances	158,233	3,285	161,518

Movement of loans and advances given to related parties:

	2014 RO'000	2013 RO'000
At 1 January 2013	**35,817**	44,415
Disbursed during the year	**70,435**	56,399
Paid during the year	**(56,384)**	(64,997)
	49,868	35,817

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Notes to the financial statements for the year ended 31 December 2014 (continued)

31. Related party transactions (continued)

Movement of loans and advances given to related parties: (continued)

None of the loans and advances given to related parties were identified as impaired and no provision for any impairment has been recognised (2013: none identified or recognised)

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

31 December 2014	**Major shareholders RO'000**	**Others RO'000**	**Total RO'000**
Interest and commission income	**160**	**7,248**	**7,408**
Interest expense	**419**	**34**	**453**
31 December 2013			
Interest and commission income	288	1,055	1,343
Interest expense	401	1	402

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:

	2014 RO'000	2013 RO'000
Salaries and other short-term benefits	**950**	1,390
End of service benefits	**81**	93
	1,031	1,483

32. Cash and cash equivalents

Cash and balances with the CBO	**114,397**	116,939
Certificates of deposit	**200,000**	100,000
Due from banks	**95,758**	50,893
Less: due to banks	**(5,891)**	(3,862)
Restricted deposits included under balances with the CBO	**(500)**	(500)
	403,764	263,470

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:

31 December 2014	**Positive fair value RO'000 (note 12)**	**Negative fair value RO'000 (note 16)**	**Notional amount RO'000**	**Within 3 months RO'000**	**3 – 12 months RO'000**
Purchase contracts	**220**	**-**	**23,501**	**19,800**	**3,701**
Sale contracts	**-**	**(202)**	**(23,483)**	**(19,786)**	**(3,697)**
	220	**(202)**	**18**	**14**	**4**
31 December 2013					
Purchase contracts	251	-	60,041	54,421	5,620
Sale contracts	-	(240)	(60,030)	(54,412)	(5,618)
	251	(240)	11	9	2

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.

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.

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Notes to the financial statements
for the year ended 31 December 2014 (continued)

34. Contingent liabilities and commitments (continued)

(a) Letters of credit and guarantees (continued)

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

	2014	2013
	RO'000	RO'000
Letters of credit	**396,893**	461,952
Guarantees	**421,259**	394,281
Financial guarantees	**96,862**	89,681
	915,014	945,914

Letters of credit and guarantees amounting to RO 644,109 thousand (2013 - RO 696,813 thousand) were counter guaranteed by other banks.

Letters of credit and guarantees include RO 165 thousand (2013: RO 392 thousand) relating to non-performing loans.

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

	2014	2013
	RO'000	RO'000
Export trade	**331,549**	399,213
Construction	**270,152**	264,317
Government	**74,500**	94,033
Transportation	**20,660**	49,323
Import trade	**64,982**	62,740
Utilities	**131,834**	46,941
Services	**10,745**	11,406
Wholesale and retail trade	**5,173**	10,764
Manufacturing	**5,419**	7,177
	915,014	945,914

(b) Capital commitments

At the reporting date, outstanding capital commitments in respect of premises and equipment purchases were RO 672 thousand (2013 - RO 1,384 thousand).

(c) Undrawn loan commitments

At the reporting date, outstanding undrawn loan commitments amounted to RO 642 thousand (2013- RO 770 thousand). Each undrawn loan commitment is included in the time band containing the earliest date it can be drawn down.

OMAN ARAB BANK SAOC

Notes to the financial statements for the year ended 31 December 2014 (continued)

34. Contingent liabilities and commitments (continued)

(c) Undrawn loan commitments (continued)

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

2014	Up to 1 year RO'000	1 to 5 years RO'000	Over 5 years RO'000	Total
Capital commitments	**861**	**-**	**-**	**861**
Undrawn loan commitments	**-**	**642**	**-**	**642**
2013				
Capital commitments	1,384	-	-	1,384
Undrawn loan commitments	-	770	-	770

(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 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.

2014	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	**72,212**	**16,994**	**14,115**	**11,076**	**114,397**
Certificates of deposit	**200,000**	**-**			**200,000**
Due from banks	**95,758**	**-**			**95,758**
Loans and advances	**253,712**	**148,369**	**318,882**	**538,873**	**1,259,836**
Investment securities	**23,983**	**-**	**28,908**	**22,000**	**74,891**
Other assets	**35,784**	**5,563**	**533**	**7**	**41,887**
Property and equipment	**-**	**-**	**-**	**29,322**	**29,322**
Total assets	**681,449**	**170,926**	**362,438**	**601,278**	**1,816,091**

OMAN ARAB BANK SAOC

Notes to the financial statements
for the year ended 31 December 2014 (continued)

35. Assets and liabilities maturity profile (continued)

2014	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
Liabilities					
Due to banks	**5,891**	**-**	**-**	**-**	**5,891**
Deposits from customers	**421,739**	**290,732**	**488,998**	**266,844**	**1,468,313**
Other liabilities	**64,667**	**2,674**	**7,332**	**119**	**74,792**
Subordinated bond	**-**	**-**	**50,000**	**-**	**50,000**
Taxation	**3,917**	**319**	**-**	**-**	**4,236**
Total liabilities	**496,214**	**293,725**	**546,330**	**266,963**	**1,603,232**
Net assets	**185,235**	**(122,799)**	**(183,892)**	**334,315**	**212,859**
Forward exchange contracts at notional amounts (note 33)					
Purchase contracts	**19,800**	**3,701**	**-**	**-**	**23,501**
Sale contracts	**(19,785)**	**(3,697)**	**-**	**-**	**(23,482)**
	15	**4**	**-**	**-**	**19**

2013					
Assets					
Cash and balances with the Central Bank of Oman	58,170	26,682	15,542	16,545	116,939
Certificates of deposit	100,000	-	-	-	100,000
Due from banks	50,893	-	-	-	50,893
Loans and advances	191,251	175,348	273,231	436,461	1,076,291
Investment securities	21,356	2,400	27,681	2,000	53,437
Other assets	27,347	4,061	577	-	31,985
Property and equipment	-	-	-	26,810	26,810
Total assets	449,017	208,491	317,031	481,816	1,456,355

OMAN ARAB BANK SAOC

Notes to the financial statements for the year ended 31 December 2014 (continued)

35. Assets and liabilities maturity profile (continued)

2013	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
Liabilities					
Due to banks	3,862	-	-	-	3,862
Deposits from customers	420,398	250,980	272,703	205,072	1,149,153
Other liabilities	42,847	1,358	6,691	-	50,896
Subordinated bond	-	-	50,000	-	50,000
Taxation	3,419	273	-	-	3,692
Total liabilities	470,526	252,611	329,394	205,072	1,257,603
Net assets	(21,509)	(44,120)	(12,363)	276,744	198,752
Forward exchange contracts at notional amounts (note 33)	-	-	-	-	-
Purchase contracts	54,421	5,620	-	-	60,041
Sale contracts	(54,412)	(5,618)	-	-	(60,030)
	9	2	-	-	11

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.

2014	**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**
Letters of guarantee	**173,537**	**160,585**	**182,762**	**1,237**	**518,121**
Letters of credit	**396,152**	**741**	**-**	**-**	**396,893**
Total commitments and contingencies	**569,689**	**161,326**	**182,762**	**1,237**	**915,014**
2013					
Letters of guarantee	138,253	141,119	204,531	59	483,962
Letters of credit	461,457	495	-	-	461,952
Total commitments and contingencies	599,710	141,614	204,531	59	945,914

OMAN ARAB BANK SAOC

Notes to the financial statements for the year ended 31 December 2014 (continued)

35. Assets and liabilities maturity profile (continued)

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.

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.

2014	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
Cash and balances with the Central Bank of Oman	**2.00**	**-**	**-**	**-**	**-**	**114,397**	**114,397**
Certificates of deposit	**0.13**	**200,000**	**-**	**-**	**-**	**-**	**200,000**
Due from banks	**0.11**	**68,979**	**-**	**-**	**-**	**26,779**	**95,758**
Loans and advances	**5.06**	**266,558**	**246,317**	**707,169**	**32,670**	**7,122**	**1,259,836**
Investment securities at fair value	**-**	**-**	**-**	**-**	**-**	**24,489**	**24,489**
Investment–held to maturity	**2.75**	**-**	**-**	**28,402**	**22,000**	**-**	**50,402**
Other assets		**3,999**	**-**	**-**	**-**	**37,888**	**41,887**
Property and equipment		**-**	**-**	**-**	**-**	**29,322**	**29,322**
Total assets		**539,536**	**246,317**	**735,571**	**54,670**	**239,997**	**1,816,091**
Liabilities							
Due to banks		**-**	**-**	**-**	**-**	**5,891**	**5,891**
Deposits from customers	**0.94**	**386,338**	**262,889**	**204,257**	**-**	**614,829**	**1,468,313**
Other liabilities		**6,896**	**-**	**-**	**-**	**67,896**	**74,792**
Subordinated bonds	**5.50**	**-**	**-**	**50,000**	**-**	**-**	**50,000**
Taxation		**-**	**-**	**-**	**-**	**4,236**	**4,236**
Total liabilities		**393,234**	**262,889**	**254,257**	**-**	**692,852**	**1,603,232**
Total interest sensitivity gap		**146,302**	**(16,572)**	**481,314**	**54,670**	**(452,855)**	**212,589**

OMAN ARAB BANK SAOC

Notes to the financial statements
for the year ended 31 December 2014 (continued)

36. Assets and liabilities re-pricing profile (continued)

2013	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	1.50	-	-	-	500	116,439	116,939
Certificates of deposit	0.13	100,000	-	-	-	-	100,000
Due from banks	0.11	34,650	-	-	-	16,243	50,893
Loans and advances	5.06	201,107	225,778	629,362	14,558	5,486	1,076,291
Investment securities at fair value	-	-	-	-	-	21,364	21,364
Investment–held to maturity	2.76	-	2,400	27,673	2,000	-	32,073
Other assets	-	-	-	-	-	31,985	31,985
Property and equipment	-	-	-	-	-	26,810	26,810
Total assets		335,757	228,178	657,035	17,058	218,327	1,456,355
Liabilities							
Due to banks	-	-	-	-	-	3,862	3,862
Deposits from customers	0.94	397,372	180,175	57,694	-	513,912	1,149,153
Other liabilities	-	4,721	-	-	-	46,175	50,896
Subordinated bonds	5.50	-	-	50,000	-	-	50,000
Taxation	-	-	-	-	-	3,692	3,692
Total liabilities	-	402,093	180,175	107,694	-	567,641	1,257,603
Total interest sensitivity gap		(66,336)	48,003	549,341	17,058	(349,301)	198,752

OMAN ARAB BANK SAOC

Notes to the financial statements
for the year ended 31 December 2014 (continued)

37. Geographical distribution of assets and liabilities

2014	**Sultanate of Oman RO'000**	**GCC countries RO'000**	**Europe RO'000**	**USA RO'000**	**Others RO'000**	**Total RO'000**
Assets						
Cash and balances with the Central Bank of Oman	**114,397**	**-**	**-**	**-**	**-**	**114,397**
Certificates of deposit	**200,000**	**-**	**-**	**-**	**-**	**200,000**
Due from banks	**43,586**	**35,150**	**8,007**	**8,028**	**987**	**95,758**
Loans and advances	**1,259,836**	**-**	**-**	**-**	**-**	**1,259,836**
Investment securities	**67,681**	**6,143**	**394**	**-**	**673**	**74,891**
Other assets	**41,887**	**-**	**-**	**-**	**-**	**41,887**
Property and equipment	**29,322**	**-**	**-**	**-**	**-**	**29,322**
Total assets	**1,756,709**	**41,293**	**8,401**	**8,028**	**1,660**	**1,816,091**
Liabilities						
Due to banks	**62**	**4,065**	**1,216**	**262**	**286**	**5,891**
Deposits from customers	**1,468,313**	**-**	**-**	**-**	**-**	**1,468,313**
Other liabilities	**74,792**	**-**	**-**	**-**	**-**	**74,792**
Subordinated bonds	**50,000**	**-**	**-**	**-**	**-**	**50,000**
Taxation	**4,236**	**-**	**-**	**-**	**-**	**4,236**
	1,597,403	**4,065**	**1,216**	**262**	**286**	**1,603,232**
2013						
Assets						
Cash and balances with the Central Bank of Oman	116,939	-	-	-	-	116,939
Certificates of deposit	100,000	-	-	-	-	100,000
Due from banks	34,658	4,923	6,427	4,346	539	50,893
Loans and advances	1,076,291	-	-	-	-	1,076,291
Investment securities	50,985	2,055	397	-	-	53,437
Other assets	31,985	-	-	-	-	31,985
Property and equipment	26,810	-	-	-	-	26,810
Total assets	1,437,668	6,978	6,824	4,346	539	1,456,355
Liabilities						
Due to banks	249	2,321	481	33	778	3,862
Deposits from customers	1,149,153	-	-	-	-	1,149,153
Other liabilities	50,896	-	-	-	-	50,896
Subordinated bonds	50,000	-	-	-	-	50,000
Taxation	3,692	-	-	-	-	3,692
	1,253,990	2,321	481	33	778	1,257,603

OMAN ARAB BANK SAOC

Notes to the financial statements for the year ended 31 December 2014 (continued)

38. Customer concentrations

2014	Due from banks RO'000	Assets gross loans and advances RO'000	Investment securities RO'000	Deposits from customers RO'000	Liabilities due to banks RO'000	Contingent liabilities RO'000
Personal	**-**	**528,666**	**-**	**395,717**	**-**	**35**
Corporate	**95,758**	**764,777**	**24,489**	**661,900**	**5,891**	**577,901**
Government	**-**	**3,383**	**50,402**	**410,696**	**-**	**337,078**
	95,758	**1,296,826**	**74,891**	**1,468,313**	**5,891**	**915,014**
2013						
Personal	-	428,428	-	356,769	-	72
Corporate	50,893	682,178	21,364	468,949	3,862	543,989
Government	-	-	32,073	323,435	-	401,853
	50,893	1,110,606	53,437	1,149,153	3,862	945,914

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 2014. The information regarding the bank's due from banks and due to banks based on the geographical locations for the years ended 31 December 2014 and 2013 is set out in note 37.

For management purposes, the conventional operations of the Bank is organised into five operating segments based on products and services. The Islamic banking services are offered under the brand name – "Al Yusr". The operating segments are 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.
Islamic Banking	Sharia' compliant Islamic banking products and services including Ijarah, Murabaha, Mudarbah and Diminishing Musharakah.

OMAN ARAB BANK SAOC

Notes to the financial statements
for the year ended 31 December 2014 (continued)

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 2014 or 2013.

2014	**Retail banking RO'000**	**Corporate banking RO'000**	**Investment banking RO'000**	**Support and unallocated functions RO'000**	**Al-Yusr RO'000**	**Total RO'000**
Interest income	**29,535**	**27,188**	**-**	**1,187**	**-**	**57,910**
Interest expense	**(1,614)**	**(9,063)**	**-**	**(3,390)**	**-**	**(14,067)**
Other operating income	**12,923**	**7,455**	**5,256**	**1,470**	**869**	**27,973**
Total operating income	**40,844**	**25,580**	**5,256**	**(733)**	**869**	**71,816**
Assets	**497,922**	**741,089**	**50,922**	**503,004**	**23,154**	**1,816,091**
Liabilities	**383,228**	**1,072,596**	**49,134**	**85,105**	**13,169**	**1,603,232**
Allowance for impairment	**16,132**	**20,503**			**355**	**36,990**
2013						
Interest income	28,146	24,548	-	916	-	53,610
Interest expense	(1,494)	(6,323)	-	(3,341)	-	(11,158)
Other operating income	7,716	4,443	4,607	4,587	23	21,376
Total operating income	34,368	22,668	4,607	2,162	23	63,828
Assets	413,243	659,388	35,273	338,992	9,459	1,456,355
Liabilities	356,713	792,384	35,273	71,466	1,767	1,257,603
Allowance for impairment	14,350	19,902	-	-	46	34,315

OMAN ARAB BANK SAOC

Notes to the financial statements
for the year ended 31 December 2014 (continued)

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:

	2014	2013
	RO '000	RO '000
Funds under management	**402,329**	324,163

41. Approval of financial statements

The financial statements were approved by the Board of Directors and authorised for issue on 20 January 2015.

DISCLOSURE UNDER BASEL-II-II

PPILLAR III & BASEL-III GUIDELINES-III

Deloitte.

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Report of factual findings to the Board of Directors of Oman Arab Bank SAOC in respect of Basel II - Pillar III Disclosures and Basel III related disclosures

We have performed the procedures agreed with you and as prescribed in the Central Bank of Oman ("CBO") Circular No BM 1027 dated December 4, 2007 with respect to the Basel II - Pillar III disclosures and Basel III related disclosures (the disclosures) of the **Oman Arab Bank SAOC** ("the bank") set out on the attached pages as at and for the year ended December 31, 2014. The disclosures were prepared by the management in accordance with the CBO's Circular No. BM 1009 dated September 13, 2006 and Circular No. BM 1027 dated December 4, 2007 and BM 1114 dated November 17, 2013. 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 No. BM 1027 dated December 4, 2007, were performed solely to assist you in evaluating the Bank's compliance with the disclosure requirements set out in CBO's Circular number BM 1009 dated September 13, 2006 and BM 1114 dated November 17, 2013.

We report our findings as follows:

Based on performance of the procedures detailed above, we found the disclosures 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 of Review Engagements, we do not express any assurance on the disclosers.

Had we performed additional procedures or had we performed an audit or review of the financial statements 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 or to be distributed to any other parties other than Central Bank of Oman. This report relates only to the Bank's disclosures and does not extend to any financial statements of the Bank taken as a whole or to any other reports of the Bank.

Deloitte & Touche

Deloitte & Touche (M.E.) & Co. LLC
Muscat, Sultanate of Oman
29 January 2015

OMAN ARAB BANK SAOC

DISCLOSURES UNDER PILLAR 3 OF BASEL II & III
FOR THE YEAR ENDED 31 DECEMBER 2014

CONTENTS

OMAN ARAB BANK SAOC
DISCLOSURES UNDER PILLAR 3 OF BASEL II & III
FOR THE YEAR ENDED 31 DECEMBER 2014(continued)

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	30,467
General reserves	23,659
Subordinated Debt reserve	30,000
Other disclosed reserves	(1,329)
Other intangibles	(0.059)
Retained earnings/(losses) of previous years	0.142
Tier 1 Capital	**198,880**
Collective impairment provisions for loan losses on portfolio basis	17,264
Cumulative fair value gains on investments available-for-sale	-
Subordinated term debt	20,000
Tier 2 Capital	**37,264**
Total Capital	**236,144**

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.

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.

B. CAPITAL STRUCTURE (continued)

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 ("the 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:

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.

OMAN ARAB BANK SAOC
DISCLOSURES UNDER PILLAR 3 OF BASEL II & III
FOR THE YEAR ENDED 31 DECEMBER 2014(continued)

Quantitative disclosure

Table-1
2014

Sl. No	Details	Gross Balance (Book Value) RO'000	Net Balance (Book Value) RO'000	Risk Weighted Assets RO'000
1	On -Balance sheet Item	1,852,888	1,835,410	1,159,160
2	Off -Balance sheet Item	914,762	364,860	267,512
3	Assets for Operations risk	122,800	122,800	122,800
4	Assets in Trading book	5,975	5,975	5,975
5	Derivatives	4,792	4,792	4,094
6	**Total**	**2,901,217**	**2,333,837**	**1,559,541**
7	Tier 1 Capital			198,880
8	Tier 2 Capital			37,264
9	Tier 3 Capital			-
10	**Total Regulatory Capital**			**236,144**
10.1	Capital requirement for credit risk			180,634
10.2	Capital requirement for market risk			754
10.3	Capital requirement for operational risk			15,504
11	**Total required capital**			**196,892**
12	**Tier 1 Ratio**			**12.75%**
13	**Total Capital Ratio**			**15.14%**

2013

Sl. No	Details	Gross Balance (Book Value) RO'000	Net Balance (Book Value) RO'000	Risk Weighted Assets RO'000
1	On -Balance sheet Item	1,491,670	1,468,211	1,028,486
2	Off -Balance sheet Item	946,684	355,939	242,569
3	Assets for Operational risk	112,025	112,025	112,025
4	Assets in Trading book	7,713	7,713	7,713
5	Derivatives	21,459	21,459	8,058
6	**Total**	**2,579,551**	**1,965,347**	**1,398,851**
7	Tier 1 Capital			185,789
8	Tier 2 Capital			45,255
9	Tier 3 Capital			-
10	**Total Regulatory Capital**			**231,044**
10.1	Capital requirement for credit risk			153,494
10.2	Capital requirement for market risk			926
10.3	Capital requirement for operational risk			13,443
11	**Total required capital**			**167,863**
12	**Tier 1 Ratio**			**13.28%**
13	**Total Capital Ratio**			**16.52%**

OMAN ARAB BANK SAOC
DISCLOSURES UNDER PILLAR 3 OF BASEL II & III
FOR THE YEAR ENDED 31 DECEMBER 2014(continued)

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.

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 Commercial / Retail**
Standard loans	0-60 days
Special mention loan	60-90 days
Substandard loan	90-180 days
Doubtful loans	180-365 days
Loss	365 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.

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DISCLOSURES UNDER PILLAR 3 OF BASEL II & III
FOR THE YEAR ENDED 31 DECEMBER 2014(continued)

Credit Risk Management and Control (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.

Impairment provisioning

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 such as delays in repayment of contracted amounts by counterparties as well as considering the guidelines issued by the CBO.

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, experienced judgment 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**	
		2014	**2013**	**31-Dec-14**	**31-Dec-13**
		RO'000	**RO'000**	**RO'000**	**RO'000**
1	Overdrafts	130,066	115,981	141,439	111,291
2	Personal Loans	466,913	416,967	528,667	428,427
3	Loans against Trust Receipts	37,276	28,057	44,446	28,252
4	Other Loans	493,565	499,683	559,481	521,317
5	Bills Purchased Discounted	109,179	4,130	22,793	21,319
	Total	**1,236,999**	**1,064,818**	**1,296,826**	**1,110,606**

OMAN ARAB BANK SAOC
DISCLOSURES UNDER PILLAR 3 OF BASEL II & III
FOR THE YEAR ENDED 31 DECEMBER 2014(continued)

iii. Geographic distribution of exposures

Table-3

2014

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	141,439	-	-	-	-	-	141,439
2	Personal Loans	528,667	-	-	-	-	-	528,667
3	Loans against Trust Receipts	44,446	-	-	-	-	-	44,446
4	Other Loans	559,481	-	-	-	-	-	559,481
5	Bills Purchased/Discounted	22,793	-	-	-	-	-	22,793
	Total	**1,296,826**	-	-	-	-	-	**1,296,826**

2013

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	111,291	-	-	-	-	-	111,291
2	Personal loans	428,427	-	-	-	-	-	428,427
3	Loans against trust receipts	28,252	-	-	-	-	-	28,252
4	Other loans	521,317	-	-	-	-	-	521,317
5	Bills purchased / Discounted	21,319	-	-	-	-	-	21,319
	Total	**1,110,606**	-	-	-	-	-	**1,110,606**

OMAN ARAB BANK SAOC
DISCLOSURES UNDER PILLAR 3 OF BASEL II & III
FOR THE YEAR ENDED 31 DECEMBER 2014(continued)

iv. Industry or counterparty type distribution of exposures

Table-4

2014

Sl. No	Economic Sector	Overdraft RO'000	Loans RO'000	Bills Purchased/discounted RO'000	Others RO'000	Total RO'000	Off-balance sheet exposure RO'000
1	Import trade	17,509	17,909	1,820	-	37,238	64,982
2	Export trade	381	464	147	-	992	331,549
3	Wholesale & retail trade	8,612	33,175	1,780	-	43,567	5,173
4	Mining & quarrying	784	18,490	210	-	19,484	-
5	Construction	59,166	64,239	12,730	-	136,135	270,152
6	Manufacturing	10,970	93,126	1,423	-	105,519	5,419
7	Electricity, gas and water	9,262	56,387	247	-	65,896	131,834
8	Transport and communication	794	132,211	270	-	133,275	20,660
9	Financial institutions	1,459	29,755	32	-	31,246	-
10	Services	9,328	34,255	2,366	-	45,949	10,745
11	Personal loans	-	528,667	-	-	528,667	-
12	Agriculture and allied activities	624	5,278	481	-	6,383	-
13	Government	-	3,383	-	-	3,383	74,500
14	Non-resident lending	-	-	-	-	-	-
15	All others	22,550	115,255	1,287	-	139,092	-
16	**Total (1 to 15)**	**141,439**	**1,132,594**	**22,793**	**-**	**1,296,826**	**915,014**

2013

Sl. No	Economic Sector	Overdraft RO'000	Loans RO'000	Bills Purchased/ discounted RO'000	Others RO'000	Total RO'000	Off-balance sheet exposure RO'000
1	Import trade	13,343	17,220	1,594	-	32,157	62,740
2	Export trade	189	272	23	-	484	399,213
3	Wholesale & retail trade	9,648	23,158	1,446	-	34,252	10,764
4	Mining & quarrying	707	14,328	29	-	15,064	-
5	Construction	50,653	46,312	8,525	-	105,490	264,317
6	Manufacturing	11,536	96,137	2,859	-	110,532	7,177
7	Electricity, gas and water	154	43,436	659	-	44,249	46,941
8	Transport and communication	656	138,948	68	-	139,672	49,323
9	Financial institutions	1,986	26,900	66	-	28,952	-
10	Services	8,759	22,630	2,618	-	34,007	11,406
11	Personal loans	-	428,427	-	-	428,427	-
12	Agriculture and allied activities	287	4,073	411	-	4,771	-
13	Government	-	-	-	-	-	94,033
14	Non-resident lending	-	47	-	-	47	-
15	All others	13,373	116,108	3,021	-	132,502	-
16	**Total (1 to 15)**	**111,291**	**977,996**	**21,319**	**-**	**1,110,606**	**945,914**

OMAN ARAB BANK SAOC
DISCLOSURES UNDER PILLAR 3 OF BASEL II & III
FOR THE YEAR ENDED 31 DECEMBER 2014(continued)

v. Residual contractual maturity of credit exposure

Table-5

2014

Sl. No	Time Band	Overdraft RO'000	Loans RO'000	Bills Purchased/ discounted RO'000	Others RO'000	Total RO'000	Off-balance sheet exposure RO'000
1	Up to 1 month	7,072	77,078	8,020	-	92,170	170,689
2	1-3 months	7,072	141,145	13,324	-	161,541	399,000
3	3-6 months	7,072	72,528	1,144	-	80,744	77,856
4	6-9 months	7,072	27,254	185	-	34,511	20,362
5	9-12 months	7,072	30,884	30	-	37,986	63,108
6	1-3 years	35,359	134,182	88	-	169,629	168,537
7	3-5 years	35,360	113,892	2	-	149,254	14,225
8	Over 5 years	35,360	535,631	-	-	570,991	1,237
9	**Total**	**141,439**	**1,132,594**	**22,793**	**-**	**1,296,826**	**915,014**

2013

Sl. No	Time Band	Overdraft RO'000	Loans RO'000	Bills Purchased/ discounted RO'000	Others RO'000	Total RO'000	Off-balance sheet exposure RO'000
1	Up to 1 month	5,565	62,765	8,188	-	76,518	122,436
2	1-3 months	5,565	97,538	11,629	-	114,732	477,274
3	3-6 months	5,565	43,407	838	-	49,810	79,040
4	6-9 months	5,565	40,426	272	-	46,263	35,696
5	9-12 months	5,565	78,575	53	-	84,193	26,879
6	1-3 years	27,822	147,358	339	-	175,519	203,613
7	3-5 years	27,822	69,889	-	-	97,711	918
8	Over 5 years	27,822	438,038	-	-	465,860	59
9	Total	**111,291**	**977,996**	**21,319**	**-**	**1,110,606**	**945,915**

OMAN ARAB BANK SAOC

DISCLOSURES UNDER PILLAR III OF BASEL II
FOR THE YEAR ENDED 31 DECEMBER 2014

vi. Loans and provisions by major industry or counterparty type

Table-6

2014

SI. No.	Economic Sector	Gross loans RO'000	Of which NPLs RO'000	Collective impairment provision held RO'000	Specific provision held RO'000	Unrecognized contractual interest RO'000	Provisions made during the year(*) RO'000	Advances written off during the year RO'000
1	Import trade	37,238	3,552	337	906	1,716	402	3
2	Export trade	992	58	9	15	13	5	-
3	Wholesale & retail trade	43,567	855	427	507	85	97	191
4	Mining & quarrying	19,484	-	195	-	-	37	-
5	Construction	136,135	4,229	1,319	1,637	601	1,035	172
6	Manufacturing	105,519	13,001	925	4,475	1,609	746	607
7	Electricity, gas and water	65,896	-	659	-	-	126	-
8	Transport and communication	133,275	150	1,331	43	28	295	-
9	Financial institutions	31,246	-	312	-	-	65	27
10	Services	45,949	4,349	416	776	909	734	124
11	Personal loans	528,667	11,033	10,106	4,476	1,259	4,517	616
12	Agriculture and allied activities	6,383	313	61	57	55	23	-
13	Government	3,383	-	34	-	-	7	-
14	Non-resident lending	-	-	-	-	-	-	-
15	All others	139,092	645	1,288	340	64	796	9
16	**Total**	**1,296,826**	**38,185**	**17,419**	**13,232**	**6,339**	**8,885**	**1,749**

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

DISCLOSURES UNDER PILLAR III OF BASEL II
FOR THE YEAR ENDED 31 DECEMBER 2014 (continued)

2013

SI. No.	Economic Sector	Gross loans RO'000	Of which NPLs RO'000	Collective impairment provision held RO'000	Specific provision held RO'000	Unrecognized contractual interest RO'000	Provisions made during the year(*) RO'000	Advances written off during the year RO'000
1	Import trade	32,157	3,361	288	955	1,528	312	2
2	Export trade	484	61	4	12	12	6	-
3	Wholesale & retail trade	34,252	670	336	212	422	90	-
4	Mining & quarrying	15,064	-	151	-	-	28	-
5	Construction	105,490	3,455	1,020	1,423	562	315	445
6	Manufacturing	110,532	13,289	686	4,472	1,524	524	-
7	Electricity, gas and water	44,249	-	443	-	-	83	-
8	Transport and communication	139,672	200	1,395	70	33	296	-
9	Financial institutions	28,952	302	287	110	63	69	-
10	Services	34,007	3,980	300	674	781	277	34
11	Personal loans	428,427	9,820	8,372	4,089	1,825	2,598	133
12	Agriculture and allied activities	4,771	252	45	46	43	22	-
13	Government	-	-	-	-	-	-	-
14	Non-resident lending	47	-	1	-	-	-	-
15	All others	132,502	1,223	1,314	614	204	1,731	48
16	**Total**	**1,110,606**	**36,613**	**14,641**	**12,677**	**6,997**	**6,351**	**662**

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

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DISCLOSURES UNDER PILLAR III OF BASEL II
FOR THE YEAR ENDED 31 DECEMBER 2014

vii. Geographic distribution of impaired loans

Table-7

2014

SI. No	Countries	Gross Loans RO'000	Of which NPLs RO'000	Collective impairment provision held RO'000	Specific Provision Held RO'000	Unrecognized contractual interest RO'000	Provisions made during the year (*) RO'000	Advances written off during the year RO'000
1	Oman	**1,296,826**	**38,185**	**17,419**	**13,232**	**6,339**	**8,885**	**1,747**
2	Other GCC countries	-	-	-	-	-	-	-
3	OECD countries	-	-	-	-	-	-	-
4	India	-	-	-	-	-	-	-
5	Pakistan	-	-	-	-	-	-	-
6	Others	-	-	-	-	-	-	-
7	**Total**	**1,296,826**	**38,185**	**17,419**	**13,232**	**6,339**	**8,885**	**1,747**

2013

SI. No	Countries	Gross Loans RO'000	Of which NPLs RO'000	Collective impairment provision held RO'000	Specific Provision Held RO'000	Unrecognized contractual interest RO'000	Provisions made during the year (*) RO'000	Advances written off during the year RO'000
1	Oman	1,110,606	36,613	14,641	12,677	6,997	6,351	661
2	Other GCC countries	-	-	-	-	-	-	-
3	OECD countries	-	-	-	-	-	-	-
4	India	-	-	-	-	-	-	-
5	Pakistan	-	-	-	-	-	-	-
6	Others	-	-	-	-	-	-	-
7	**Total**	1,110,606	36,613	14,641	12,677	6,997	6,351	661

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

DISCLOSURES UNDER PILLAR III OF BASEL II
FOR THE YEAR ENDED 31 DECEMBER 2014

viii. Movement in gross loans

Table-8

Movement of Gross Loans during the year - 2014

Sl. No	Details	Performing loans		Non-performing loans			
		Standard RO'000	Specially Mentioned RO'000	Sub-Standard RO'000	Doubtful RO'000	Loss RO'000	Total RO'000
1	Opening balance	1,066,635	7,358	6,266	3,017	27,330	1,110,606
2	Migration /changes (+/-)	(2,333)	(1,509)	(6,462)	3,948	6,356	-
3	New loans	1,304,575	85,518	5,550	3,844	1,308	1,400,795
4	Recovery of loans	(1,199,592)	(2,011)	(749)	(4,129)	(6,305)	(1,212,786)
5	Loans written off	-	-	(2)	(1)	(1,786)	(1,789)
6	Closing balance	1,169,285	89,356	4,603	6,679	26,903	1,296,826
7	Provisions held	17,403	-	544	1,521	11,183	30,651
8	Unrecognised contractual interest	-	-	42	137	6,160	6,339

Movement of Gross Loans during the year - 2013

Sl. No	Details	Performing loans		Non-performing loans			
		Standard RO'000	Specially Mentioned RO'000	Sub-Standard RO'000	Doubtful RO'000	Loss RO'000	Total RO'000
1	Opening balance	929,810	10,438	967	2,689	22,431	966,335
2	Migration /changes (+/-)	(20,050)	3,135	8,157	2,149	6,609	-
3	New loans	806,702	245	11	391	3,073	810,422
4	Recovery of loans	(649,823)	(6,461)	(2,869)	(2,201)	(4,089)	(665,443)
5	Loans written off	(1)	-	(1)	(11)	(693)	(708)
6	Closing balance	1,066,636	7,357	6,265	3,017	27,331	1,110,606
7	Provisions held	14,641	-	1,000	1,133	10,544	27,318
8	Unrecognised contractual interest	-	-	39	202	6,756	6,997

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 Moodys' 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, which meet the conditions of CBO, for which risk weight assigned is 35%.

DISCLOSURES UNDER PILLAR 3 OF BASEL II & III
FOR THE YEAR ENDED 31 DECEMBER 2014

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

Table-9

2014

Sl. No	Risk bucket	0% RO '000	20% RO' 000	35% RO' 000	50% RO' 000	100% RO' 000	Total RO' 000
1	Sovereigns(Rated)	326,126	-	-	-	-	326,126
2	Banks(Rated)	-	216,157	-	162,701	156,201	535,059
3	Corporate (Unrated)	-	48,662	-	-	600,023	648,685
4	Retail	-	-	-	-	402,544	402,544
5	Claims secured by residential property	-	-	68,876	-	45,191	114,067
6	Claims secured by commercial property	-	-	-	-	34,922	34,922
7	Past due loans	-	-	-	-	18,615	18,615
8	Other assets	25,572	-	-	-	93,931	119,503
9	Un drawn exposure	-	4,030	-	-	1,512	5,542
	Total	**351,698**	**268,849**	**68,876**	**162,701**	**1,352,939**	**2,205,063**

2013

Sl. No	Risk bucket	0% RO '000	20% RO' 000	35% RO' 000	50% RO' 000	100% RO' 000	Total RO' 000
1	Sovereigns(Rated)	242,210	-	-	-	-	242,210
2	Banks(Rated)	-	179,386	-	167,284	117,502	464,172
3	Corporate (Unrated)	-	41,212	-	-	527,508	568,720
4	Retail	-	-	-	-	351,279	351,279
5	Claims secured by residential property	-	-	37,537	-	29,595	67,132
6	Claims secured by commercial property	-	-	-	-	30,993	30,993
7	Past due loans	-	-	-	-	16,938	16,938
8	Other assets	24,279	-	-	-	79,116	103,395
9	Un drawn exposure	-	-	-	-	770	770
	Total	**266,489**	**220,598**	**37,537**	**167,284**	**1,153,701**	**1,845,609**

DISCLOSURES UNDER PILLAR 3 OF BASEL II & III
FOR THE YEAR ENDED 31 DECEMBER 2014

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.

(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

	2014	**2013**
	RO '000	**RO '000**
Total exposure covered by eligible financial collateral	**51,702**	**44,810**
Value of the eligible collateral	**49,586**	**42,568**

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 2014 is ±0.13% of the total income (2013 – ± 0.29%).

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 2014 is 2.26% (2013 – 1.57%).

DISCLOSURES UNDER PILLAR 3 OF BASEL II & III
FOR THE YEAR ENDED 31 DECEMBER 2014

H. INTEREST RATE RISK IN BANKING BOOK (continued)

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.

2014	*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	28,875	-	-	500	85,022	114,397
Certificates of deposit	0.13	200,000	-	-	-	-	200,000
Due from banks	0.11	68,979	-	-	-	26,779	95,758
Loans and advances	5.06	266,558	246,317	707,169	32,670	7,122	1,259,836
Investment securities at fair value	-	-	-	-	-	24,489	24,489
Investment – held to maturity	2.75	-	-	28,402	22,000	-	50,402
Other assets		3,999	-	-	-	37,888	41,887
Property and equipment		-	-	-	-	29,322	29,322
Total assets		**568,411**	**246,317**	**735,571**	**55,170**	**210,622**	**1,816,091**
Liabilities							
Due to banks	-	-	-	-	-	5,891	5,891
Deposits from customers	0.94	386,338	262,889	204,257	-	614,829	1,468,313
Other liabilities		6,896	-	-	-	67,896	74,792
Subordinated bond	5.50		-	50,000	-	-	50,000
Taxation		-	-	-	-	4,236	4,236
Total liabilities		**393,234**	**262,889**	**254,257**	**-**	**692,852**	**1,603,232**
Total interest sensitivity gap		**175,177**	**(16,572)**	**481,314**	**55,170**	**(482,230)**	**212,859**
Cumulative interest sensitivity gap		**175,177**	**158,605**	**639,919**	**695,089**	**212,859**	

2013	*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	1.50	-	-	-	500	116,439	116,939
Certificates of deposit	0.13	100,000	-	-	-	-	100,000
Due from banks	0.11	34,650	-	-	-	16,243	50,893
Loans and advances	5.06	201,107	225,778	631,161	4,558	3,687	1,076,291
Investment securities at fair value		-	-	-	-	21,364	21,364
Investment – held to maturity	2.76	-	2,400	27,673	2,000	-	32,073
Other assets		4,199	-	-	-	27,786	31,985
Property and equipment		-	-	-	-	26,810	26,810
Total assets		**339,956**	**228,178**	**658,834**	**17,058**	**212,329**	**1,456,355**
Liabilities							
Due to banks	-	-	-	-	-	3,862	3,862
Deposits from customers	0.94	397,372	180,175	57,694	-	513,912	1,149,153
Other liabilities		25,870	379	81	-	24,566	50,896
Subordinated bond	5.50		-	50,000	-	-	50,000
Taxation		-	-	-	-	3,692	3,692
Total liabilities		**423,242**	**180,554**	**107,775**	**-**	**546,032**	**1,257,603**
Total interest sensitivity gap		**(83,286)**	**47,624**	**551,059**	**17,058**	**(333,703)**	**198,752**
Cumulative interest sensitivity gap		**(83,286)**	**(35,662)**	**515,397**	**532,455**	**198,752**	

DISCLOSURES UNDER PILLAR 3 OF BASEL II & III
FOR THE YEAR ENDED 31 DECEMBER 2014

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.

2014	*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	72,212	16,994	14,115	11,076	114,397
Certificates of deposit	200,000	-	-	-	200,000
Due from banks	95,758	-	-	-	95,758
Loans and advances	253,712	148,369	318,882	538,873	1,259836
Investment securities	23,983	-	28,908	22,000	74,891
Other assets	35,784	5,563	533	7	41,887
Property and equipment	-	-	-	29,322	29,322
Total assets	**681,449**	**170,926**	**362,438**	**601,278**	**1,816,091**
Liabilities					
Due to banks	5,891	-	-	-	5,891
Deposits from customers	421,739	290,732	488,998	266,844	1,468,313
Other liabilities	64,667	2,674	7,332	119	74,792
Subordinated bond	-	-	50,000	-	50,000
Taxation	3,917	319	-	-	4,236
Total liabilities	**496,214**	**293,725**	**546,330**	**266,963**	**1,603,232**
Net assets	**185,235**	**(122,799)**	**(183,892)**	**334,315**	**212859**
Forward exchange contracts at notional amounts (note 33)	-	-	-	-	-
Purchase contracts	19,800	3,701	-	-	23,501
Sale contracts	(19,785)	(3,697)	-	-	(23,482)
	15	**4**	**-**	**-**	**19**

DISCLOSURES UNDER PILLAR 3 OF BASEL II & III
FOR THE YEAR ENDED 31 DECEMBER 2014

I. LIQUIDITY RISK (continued)

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.

2013	*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	58,170	26,682	15,542	16,545	116,939
Certificates of deposit	100,000	-	-	-	100,000
Due from banks	50,893	-	-	-	50,893
Loans and advances	191,251	175,348	273,231	436,461	1,076,291
Investment securities	21,356	2,400	27,681	2,000	53,437
Other assets	27,347	4,061	577	-	31,985
Property and equipment	-	-	-	26,810	26,810
Total assets	**449,017**	**208,491**	**317,031**	**481,816**	**1,456,355**
Liabilities					
Due to banks	3,862	-	-	-	3,862
Deposits from customers	420,398	250,980	272,703	205,072	1,149,153
Other liabilities	42,847	1,358	6,691	-	50,896
Subordinated bond	-	-	50,000	-	50,000
Taxation	3,419	273	-	-	3,692
Total liabilities	**470,526**	**252,611**	**329,394**	**205,072**	**1,257,603**
Net assets	**(21,509)**	**(44,120)**	**(12,363)**	**276,744**	**198,752**
Forward exchange contracts at notional amounts (note 32)	-	-	-	-	-
Purchase contracts	54,421	5,620	-	-	60,041
Sale contracts	(54,412)	(5,618)	-	-	(60,030)
	9	**2**	**-**	**-**	**11**

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 122.8 million at December 31 2014 (2013: RO 112.025 million).

DISCLOSURES UNDER PILLAR 3 OF BASEL II & III
FOR THE YEAR ENDED 31 DECEMBER 2014

K. COMPOSITION OF CAPITAL DISCLOSURE

The Basel III regulations adopted by the CBO aims at strengthening the capital and liquidity standards of the banks in Oman. The elements of the Basel III regulations consist of

- Enhancing the definition of capital and strengthening the eligibility criteria for inclusion of capital instruments
- Raising the minimum capital requirements and introducing capital buffers for conservation and dealing with systemic risks in the form of Capital Conservation Buffer and Countercyclical Buffer
- Enhancing coverage of risk arising from derivatives, repos and securities financing
- Implementing the leverage ratio to control the build-up of leverage and mitigating the impact of excessive deleveraging
- Higher capital requirements for large and systemically important banks
- Implementing the Liquidity Coverage Ratio to ensure that the banks hold higher quality of liquid assets
- Implementing Net Stable Funding Ratio to ensure financing of activities with more stable source of funding

The requirements of Basel III will be gradually implemented starting from 2013 and the higher capital requirements would be implemented by 2015. The banks in Oman have to comply with the related disclosure requirements issued by CBO in the circular BM-1114 dated 16 November 2013.The transition period of phasing-in of regulatory adjustments of capital under Basel III in Oman would be from December 31, 2013 to December 31, 2017. During the transition period of phasing-in of regulatory deductions under Basel III the banks in Oman will use a modified version of disclosure of the components of capital.

A reconciliation of the Bank’s Statement of Financial Position with the regulatory capital elements is provided as follows using the three step approach outlined by the Basel Committee:

Step 1: Disclosure of the reported statement of financial position under the regulatory scope of consolidation

This step involves disclosing how the balance sheet in the published financial statements changes when the regulatory scope of consolidation is applied. This disclosure is not made since there is no difference between the scope of regulatory and accounting consolidation.

Step 2: Expanding the lines of the regulatory statement of financial position to display all of the components used in the definition of capital disclosure template

The rows of the regulatory-scope statement of financial position have been expanded such that all of the components used in the composition of capital disclosure are displayed separately.

DISCLOSURES UNDER PILLAR 3 OF BASEL II & III
FOR THE YEAR ENDED 31 DECEMBER 2014

RECONCILIATION	**Financial Position as in published financial statements As at Dec-31-2014 RO '000**	**Under regulatory scope of consolidation As at Dec-31-2014 RO '000**	**Reference**
Assets			
Cash and balances with CBO	**114,397**	114,397	
Certificates of deposit	**200,000**	200,000	
Balance with banks and money at call and short notice	**95,758**	95,758	
Investments :	**74,892**	**74,892**	
Of which :			
Held to Maturity	50,403	50,403	
Available for Sale	22,720	22,720	
Held for Trading	1,769	1,769	
Loans and advances	**1,259,836**	**1,259,836**	
Of which :			
Loans and advances to domestic banks	-	-	
Loans and advances to non-resident banks	-	-	
Loans and advances to domestic customers	1,275,646	1,193,240	
Loans and advances to non-resident Customers for domestic operations	-	-	
Loans and advances to non-resident Customers for operations abroad	-	-	
Loans and advances to SMEs	-	82,406	
Financing from Islamic banking window	21,180	21,180	
Provision for loan impairment	(36,990)	(36,990)	
Of which :			
Specific provision	(19,571)	(19,571)	
Collective provision	(17,419)	(17,419)	a
Fixed assets	**29,321**	**29,321**	
Other assets	**41,887**	**41,887**	
Total Assets	**1,816,091**	**1,816,091**	

DISCLOSURES UNDER PILLAR 3 OF BASEL II & III
FOR THE YEAR ENDED 31 DECEMBER 2014

RECONCILIATION	**Financial Position as in published financial statements**	**Under regulatory scope of consolidation**	**Reference**
	As at Dec-31-2014	**As at Dec-31-2014**	
	RO '000	**RO '000**	
Capital & Liabilities			
Paid-up Capital	**116,000**	**116,000**	
Of which:			
Amount eligible for CET1	116,000	116,000	b
Amount eligible for AT1	-	-	
Reserves & Surplus	**96,859**	**96,859**	
Of which:			
Legal reserve	30,467	30,467	c
General reserve	23,659	23,659	d
Retained earnings	14,062	14,062	e
Proposed dividends	-	-	
Cumulative changes in fair value of investments	(1,329)	(1,329)	f
Of which:			
Amount eligible for Tier 2 capital	-	-	
Amount ineligible due to regulatory adjustment	(1,329)	(1,388)	
Subordinated debt reserve	30,000	30,000	g
Total Capital	**212,859**	**212,800**	

DISCLOSURES UNDER PILLAR 3 OF BASEL II & III
FOR THE YEAR ENDED 31 DECEMBER 2014

RECONCILIATION	**Financial Position as in published financial statements**	**Under regulatory scope of consolidation**	**Reference**
	As at Dec-31-2014	**As at Dec-31-2014**	
	RO '000	**RO '000**	
Deposits	**1,468,313**	**1,468,313**	
Of which:			
Deposits from banks	-	-	
Customer deposits	1,455,826	1,455,826	
Deposits of Islamic Banking window	12,487	12,487	
Borrowings	**55,891**	**55,891**	
Of which:			
From CBO	-	-	
From banks	5,891	5,891	
From other institutions & agencies	-	-	
Borrowings in the form of bonds,Debentures and sukuks	50,000	50,000	
Of which:			
Directly issued qualifying Tier 2 instruments	50,000	20,000	h
Amount de-recognised from Tier 2 capital	-	30,000	
Other liabilities & provisions	**79,028**	**79,028**	
Total Capital, Other liabilities & provisions	**1,816,091**	**1,816,032**	

DISCLOSURES UNDER PILLAR 3 OF BASEL II & III
FOR THE YEAR ENDED 31 DECEMBER 2014

Step 3: Mapping each of the components that are disclosed in Step 2 to the composition of capital disclosure

	Common Equity Tier 1 capital: instruments and reserves As at December 31 2014		**Under regulatory scope of consolidation**	**Reference**
			RO '000	
1	Directly issued qualifying common share capital		116,000	b
2	Retained earnings		142	e
3	Accumulated other comprehensive income (and other reserves)		82,738	c + d + g + f
4	Directly issued capital subject to phase out from CET1 (only applicable to non-joint stock companies)			
5	Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET1)			
6	**Common Equity Tier 1 capital (CET1)**		**198,880**	
7	**Additional Tier 1 capital (AT1)**		-	
8	**Tier 1 capital (T1 = CET1 + AT1)**		**198,880**	
	Tier 2 capital: instruments and provisions			
9	Directly issued qualifying Tier 2 instruments		20,000	h
10	Provisions		17,264	a
11	Amount of Cumulative changes in fair value of investments eligible for Tier 2 capital			
12	**Tier 2 capital (T2)**		**37,264**	
	Total capital (TC = T1 + T2)		**236,144**	

DISCLOSURES UNDER PILLAR 3 OF BASEL II & III
FOR THE YEAR ENDED 31 DECEMBER 2014

The Bank issued unsecured subordinated bonds for OMR 50 Million through private placement on 10 April 2012. . The bonds are eligible for inclusion in Tier 2 capital under the Basel III regulations. The full terms and conditions of the bonds are available in the bank's website. The main features of the bonds are as follows:

1	Issuer	OMAN ARAB BANK
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	-
3	Governing law(s) of the instrument *Regulatory treatment*	Oman Banking law
4	Transitional Basel III rules	Not Eligible for inclusion in Tier -2 Capital
5	Post-transitional Basel III rules	Not Eligible for inclusion in Tier -2 Capital
6	Eligible at solo/group/group & solo	Solo
7	Instrument type (types to be specified by each jurisdiction)	Bonds
8	Amount recognised in regulatory capital (Currency in mil, as of most recent reporting date)	OMR 30 Million
9	Par value of instrument	OMR 50 Million
10	Accounting classification	Subordinated Debt
11	Original date of issuance	10/04/2012
12	Perpetual or dated	Dated
13	Original maturity date	10/05/2017
14	Issuer call subject to prior supervisory approval	-
15	Optional call date, contingent call dates and redemption amount	-
16	Subsequent call dates, if applicable	-
	Coupons / dividends	
17	Fixed or floating dividend/coupon	Fixed coupon
18	Coupon rate and any related index	5.50%
19	Existence of a dividend stopper	-
20	Fully discretionary, partially discretionary or mandatory	-
21	Existence of step up or other incentive to redeem	-
22	Noncumulative or cumulative	Non-cumulative
23	Convertible or non-convertible	Non-convertible
24	If convertible, conversion trigger (s)	-
25	If convertible, fully or partially	-
26	If convertible, conversion rate	-
27	If convertible, mandatory or optional conversion	-
28	If convertible, specify instrument type convertible into	-
29	If convertible, specify issuer of instrument it converts into	-
30	Write-down feature	-
31	If write-down, write-down trigger(s)	-
32	If write-down, full or partial	-
33	If write-down, permanent or temporary	-
34	If temporary write-down, description of write-up mechanism	-
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Subordinate to depositors and general creditors
36	Non-compliant transitioned features	-

DISCLOSURES UNDER PILLAR 3 OF BASEL II & III
FOR THE YEAR ENDED 31 DECEMBER 2014

The following table shows the composition of capital under Basel III :

		AMOUNTS SUBJECT TO PRE-BASEL III TREATMENT
		RO '000
Common Equity Tier 1 capital: instruments and reserves		
1	Directly issued qualifying common share capital (and equivalent for non-joint stock companies) plus related stock surplus	116,000
2	Retained earnings	142
3	Accumulated other comprehensive income (and other reserves)	84,126
4	Directly issued capital subject to phase out from CET1 (only applicable to non-joint stock companies)	-
	Public sector capital injections grandfathered until 1 January 2018	-
5	Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET1)	-
6	**Common Equity Tier 1 capital before regulatory adjustments**	**200,268**

Common Equity Tier 1 capital: regulatory adjustments		
7	Prudential valuation adjustments	(1,329)
8	Goodwill (net of related tax liability)	-
9	Other intangibles other than mortgage-servicing rights (net of related tax liability)	(59)
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	-
11	Cash-flow hedge reserve	-
12	Shortfall of provisions to expected losses	-
13	Securitisation gain on sale (as set out in paragraph 14.9 of CP-1)	-
14	Gains and losses due to changes in own credit risk on fair valued liabilities.	-
15	Defined-benefit pension fund net assets	-
16	Investments in own shares (if not already netted off paid-in capital on reported balance sheet)	-
17	Reciprocal cross-holdings in common equity	-
18	Investments in the capital of banking, financial, insurance and takaful entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	-
19	Significant investments in the common stock of banking, financial, insurance and takaful entities that are outside the scope of regulatory consolidation, net of eligible short positions (amount above 10% threshold)	-

DISCLOSURES UNDER PILLAR 3 OF BASEL II & III
FOR THE YEAR ENDED 31 DECEMBER 2014

		AMOUNTS SUBJECT TO PRE-BASEL III TREATMENT
		RO '000
	Common Equity Tier 1 capital: instruments and reserves	
20	Mortgage Servicing rights (amount above 10% threshold)	-
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	-
22	Amount exceeding the 15% threshold	-
23	of which: significant investments in the common stock of financials	-
24	of which: mortgage servicing rights	-
25	of which: deferred tax assets arising from temporary differences	-
26	National specific regulatory adjustments	-
27	Regulatory adjustments applied to Common Equity Tier 1 in respect of amounts subject to Pre-Basel III Treatment	-
28	**Total regulatory adjustments to Common equity Tier 1**	**(1,388)**
29	**Common Equity Tier 1 capital (CET1)**	**198,880**
	Additional Tier 1 capital: instruments	
30	Directly issued qualifying Additional Tier 1 instruments plus related stock surplus	-
31	of which: classified as equity under applicable accounting standards	-
32	of which: classified as liabilities under applicable accounting standards	-
33	Directly issued capital instruments subject to phase out from Additional Tier 1	-
34	Additional Tier 1 instruments (and CET1 instruments not included in row 5) issued by subsidiaries and held by third parties (amount allowed in group AT1)	-
35	*of which: instruments issued by subsidiaries subject to phase out*	-
36	**Additional Tier 1 capital before regulatory adjustments**	**-**

DISCLOSURES UNDER PILLAR 3 OF BASEL II & III
FOR THE YEAR ENDED 31 DECEMBER 2014

		AMOUNTS SUBJECT TO PRE-BASEL III TREATMENT
		RO '000
Additional Tier 1 capital: regulatory adjustments		
37	Investments in own Additional Tier 1 instruments	-
38	Reciprocal cross-holdings in Additional Tier 1 instruments	-
39	Investments in the capital of banking, financial, insurance and takaful entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above 10% threshold)	-
40	Significant investments in the capital of banking, financial, insurance and takaful entities that are outside the scope of regulatory consolidation (net of eligible short positions)	-
41	National specific regulatory adjustments	-
	REGULATORY ADJUSTMENTS APPLIED TO ADDITIONAL TIER 1 IN RESPECT OF AMOUNTS SUBJECT TO PRE-BASEL III TREATMENT	-
42	Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions	-
43	**Total regulatory adjustments to Additional Tier 1 capital**	**-**
44	**Additional Tier 1 capital (AT1)**	**-**
45	**Tier 1 capital (T1 = CET1 + AT1)**	**198,880**
Tier 2 capital: instruments and provisions		
46	Directly issued qualifying Tier 2 instruments plus related stock surplus	20,000
47	*Directly issued capital instruments subject to phase out from Tier 2*	-
48	Tier 2 instruments (and CET1 and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties (amount allowed in group Tier 2)	-
49	*of which: instruments issued by subsidiaries subject to phase out*	-
50	Provisions	17,264
51	**Tier 2 capital before regulatory adjustments**	**37,264**

DISCLOSURES UNDER PILLAR 3 OF BASEL II & III
FOR THE YEAR ENDED 31 DECEMBER 2014

		AMOUNTS SUBJECT TO PRE-BASEL III TREATMENT
		RO '000
	Tier 2 capital: regulatory adjustments	
52	Investments in own Tier 2 instruments	-
53	Reciprocal cross-holdings in Tier 2 instruments	-
54	Investments in the capital of banking, financial, insurance and takaful entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above the 10% threshold)	-
55	Significant investments in the capital banking, financial, insurance and takaful entities that are outside the scope of regulatory consolidation (net of eligible short positions)	-
56	National specific regulatory adjustments	-
	REGULATORY ADJUSTMENTS APPLIED TO TIER 2 IN RESPECT OF AMOUNTS SUBJECT TO PRE-BASEL III TREATMENT.	-
	OF WHICH: Cumulative unrealised gains on available-for-sale financial instruments	-
57	**Total regulatory adjustments to Tier 2 capital**	**-**
58	**Tier 2 capital (T2)**	**37,264**
59	**Total capital (TC = T1 + T2)**	**236,144**

DISCLOSURES UNDER PILLAR 3 OF BASEL II & III
FOR THE YEAR ENDED 31 DECEMBER 2014

		AMOUNTS SUBJECT TO PRE-BASEL III TREATMENT
		RO '000
	RISK WEIGHTED ASSETS IN RESPECT OF AMOUNTS SUBJECT TO PRE-BASEL III TREATMENT	
60	**Total risk weighted assets (60a+60b+60c)**	**1,559,541**
60a	*Of which: Credit risk weighted assets*	1,430,766
60b	*Of which: Market risk weighted assets*	5,975
60c	*Of which: Operational risk weighted assets*	122,800
	Capital Ratios	
61	Common Equity Tier 1 (as a percentage of risk weighted assets)	12.75%
62	Tier 1 (as a percentage of risk weighted assets)	12.75%
63	Total capital (as a percentage of risk weighted assets)	15.14%
64	Institution specific buffer requirement (minimum CET1 requirement plus capital conservation buffer plus countercyclical buffer requirements plus G-SIB/D-SIB buffer requirement expressed as a percentage of risk weighted assets)	7.625%
65	*of which: capital conservation buffer requirement*	*0.625%*
66	*of which: bank specific countercyclical buffer requirement*	*0%*
67	*of which: D-SIB/G-SIB buffer requirement*	*0%*
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk weighted assets)	3.140%
National minima (if different from Basel III)		
69	National Common Equity Tier 1 minimum ratio (if different from Basel 3 minimum)	7.00%
70	National Tier 1 minimum ratio (if different from Basel 3 minimum)	9.00%
71	National total capital minimum ratio (if different from Basel 3 minimum)	12.625%
Amounts below the thresholds for deduction (before risk weighting)		
72	Non-significant investments in the capital of other financials	-
73	Significant investments in the common stock of financials	-
74	Mortgage servicing rights (net of related tax liability)	-
75	Deferred tax assets arising from temporary differences (net of related tax liability)	-
Applicable caps on the inclusion of provisions in Tier 2		
76	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardised approach (prior to application of cap)	17,264
77	Cap on inclusion of provisions in Tier 2 under standardised approach	1.25%
78	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to internal ratings-based approach (prior to application of cap)	-
79	Cap for inclusion of provisions in Tier 2 under internal ratings-based approach	-

DISCLOSURES UNDER PILLAR 3 OF BASEL II & III
FOR THE YEAR ENDED 31 DECEMBER 2014

		AMOUNTS SUBJECT TO PRE-BASEL III TREATMENT
Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2018 and 1 Jan 2022)		
80	*Current cap on CET1* instruments *subject to phase out arrangements*	-
81	*Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)*	-
82	*Current cap on AT1 instruments subject to phase out arrangements*	-
83	*Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)*	-
84	*Current cap on T2 instruments subject to phase out arrangements*	-
85	*Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)*	-