



**Oman Arab Bank SAOC**



**Oman Arab Bank (SAOC)**

**UN-AUDITED FINANCIAL STATEMENTS  
FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2010**



**UN-AUDITED FINANCIAL STATEMENTS  
FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2010**

**Contents**

	<b>Page</b>
<b>Summary of Results</b>	<b>2</b>
<b>Statement of Financial Position</b>	<b>3</b>
<b>Statement of Income</b>	<b>4</b>
<b>Statement of Changes in Equity</b>	<b>5</b>
<b>Statement of Cash Flows</b>	<b>6</b>
<b>Notes to the Financial Statements</b>	<b>7 – 26</b>



**SUMMARY OF UN-AUDITED RESULTS AT 30 SEPTEMBER 2010**

<b>Particulars</b>	<b>30-Sep-10 RO 000</b>	<b>30-Sep-09 RO 000</b>
Net Loans and advances	<b>630,801</b>	<b>561,588</b>
Customers' Deposits	<b>752,136</b>	<b>606,290</b>
Other assets	<b>24,154</b>	<b>27,658</b>
Net worth	<b>137,435</b>	<b>121,538</b>
Net interest income	<b>24,324</b>	<b>23,142</b>
Net profit for the period	<b>17,870</b>	<b>18,065</b>
Basic earnings per share annualized	<b>OMR 0.289</b>	<b>OMR 0.333</b>
Capital Adequacy Ratio	<b>13.81%</b>	<b>13.04%</b>



**UN-AUDITED STATEMENT OF FINANCIAL POSITION AT 30 SEPTEMBER 2010**

	Note	30-Sep-10 RO 000	30-Sep-09 RO 000
<b>Assets</b>			
Cash and balances with Central Bank of Oman	3	45,061	27,469
Certificates of deposit	4	165,000	80,000
Due from banks	5	44,688	28,774
Loans and advances	6	630,801	561,588
Investments in securities	7	32,181	40,630
Property and equipment	8	11,847	8,978
Other assets	9	24,154	27,658
<b>Total assets</b>		<b>953,732</b>	<b>775,097</b>
<b>Liabilities</b>			
Due to banks	10	22,718	7,562
Customers' deposits	11	752,136	606,290
Other liabilities	12	38,958	37,303
Taxation	13	2,485	2,404
<b>Total liabilities</b>		<b>816,297</b>	<b>653,559</b>
<b>Shareholders' funds</b>			
Share capital	14	85,000	75,000
Legal reserve	15	17,960	15,652
General reserve		13,666	11,358
Cumulative changes in fair value of investments		1,245	1,234
Retained earnings		19,564	18,294
<b>Total shareholders' funds</b>		<b>137,435</b>	<b>121,538</b>
<b>Total liabilities and shareholders' funds</b>		<b>953,732</b>	<b>775,097</b>
<b>Contingent liabilities</b>	21	<b>649,563</b>	<b>711,421</b>

The financial statements were approved by the board of directors on 20 October 2010 and were signed on their behalf by:

Rashad Muhammad Al Zubair  
**Chairman**

Abdul Kader Askalan  
**Chief Executive Officer**

The notes on pages 7 to 26 form part of these financial statements



**UN-AUDITED INCOME STATEMENT  
FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2010**

	Note	30-Sep-10 RO 000	30-Sep-09 RO 000
Interest income	16	30,294	29,058
Interest expense	17	<u>(5,970)</u>	<u>(5,916)</u>
<b>Net interest income</b>		<b>24,324</b>	<b>23,142</b>
Investment Income	18	(51)	689
Other operating income	19	<u>13,375</u>	<u>12,082</u>
<b>Total income</b>		<b>37,648</b>	<b>35,913</b>
Staff expenses		(9,649)	(9,063)
Other operating expenses		(5,246)	(4,491)
Depreciation	8	(1,343)	(1,227)
<b>Operating expenses</b>		<b><u>(16,238)</u></b>	<b><u>(14,781)</u></b>
<b>Operating profit</b>		<b><u>21,410</u></b>	<b><u>21,132</u></b>
Allowance for loan impairment	6	(2,120)	(1,957)
Recoveries from allowance for loan impairment		<u>1,063</u>	<u>1,281</u>
<b>Profit before tax</b>		<b><u>20,353</u></b>	<b><u>20,456</u></b>
Taxation	13	<u>(2,483)</u>	<u>(2,391)</u>
<b>Net profit for the period</b>		<b><u>17,870</u></b>	<b><u>18,065</u></b>
<b>Basic Earnings per share (Annualized)</b>	22	<b><u>OMR 0.289</u></b>	<b><u>OMR 0.333</u></b>

**UN-AUDITED STATEMENT OF COMPREHENSIVE INCOME  
FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2010**

	30-Sep-10 RO 000	30-Sep-09 RO 000
Net profit for the period	17,870	18,065
Changes in fair value of investments	<u>84</u>	<u>1,011</u>
<b>Total Comprehensive Income for the period</b>	<b><u>17,954</u></b>	<b><u>19,076</u></b>

The notes on pages 7 to 26 form part of these financial statements



**UNAUDITED STATEMENT OF CHANGES IN EQUITY  
FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2010**

	Share capital	Legal reserve	General reserve	Proposed dividend	Fair value reserve	Retained earnings	Total
Balance at 1-Jan-10	75,000	17,960	13,666	15,000	1,161	3,694	126,481
Dividends paid				(15,000)		-	(15,000)
Profit for the period						17,870	17,870
Changes in fair value of investment					84		84
Proceeds from issue of share capital	8,000						8,000
Issue of Bonus Shares	<u>2,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(2,000)</u>	<u>-</u>
Balance at 30-Sep-10	<u>85,000</u>	<u>17,960</u>	<u>13,666</u>	<u>-</u>	<u>1,245</u>	<u>19,564</u>	<u>137,435</u>
	Share capital	Legal reserve	General reserve	Proposed dividend	Fair value reserve	Retained earnings	Total
Balance at 1-Jan-09	60,000	15,652	11,358	20,000	223	3,229	110,462
Dividends paid				(20,000)		-	(20,000)
Profit for the period						20,895	20,895
Changes in fair value of investment					1,011		1,011
Proceeds from issue of share capital	12,000						12,000
Issue of Bonus Shares	<u>3,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(3,000)</u>	<u>-</u>
Balance at 30-Sep-09	<u>75,000</u>	<u>15,652</u>	<u>11,358</u>	<u>-</u>	<u>1,234</u>	<u>18,294</u>	<u>121,538</u>

The notes on pages 7 to 26 form part of these financial statements



**UN-AUDITED STATEMENT OF CASH FLOWS  
FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2010**

	30-Sep-10	30-Sep-09
	RO 000	RO 000
<b>Operating activities</b>		
Profit before taxation	20,353	20,456
Adjustments:		
Depreciation	1,343	1,227
Allowance for loan impairment	2,120	1,957
Recoveries /release from allowance for loan impairment	(1,063)	(1,281)
(Profit) / Loss on sale of fixed assets	1	7
Income from investments held-to-maturity	(498)	(339)
Changes in fair value of investments at fair value through profit or loss	<u>235</u>	<u>(399)</u>
<b>Cash flows from operating profit before changes in operating assets &amp; liabilities</b>		
	22,491	21,628
Net changes in:		
Loans and advances	(66,301)	(23,268)
Investments at fair value through profit or loss	(303)	(464)
Restricted Deposits	435	-
Other assets	(2,668)	1,364
Customers' deposits	56,064	(4,615)
Other liabilities	<u>7,621</u>	<u>2,308</u>
<b>Cash (used in)/from operating activities</b>	17,339	(3,047)
Tax paid	<u>(3,071)</u>	<u>(3,544)</u>
<b>Net cash (used in)/from operating activities</b>	<u>14,268</u>	<u>(6,591)</u>
<b>Investing activities</b>		
Purchase of property & equipment	(3,760)	(1,901)
Proceeds from sale of property & equipment	8	(1)
Purchase of investment available for sale	-	(4,023)
Purchase of investments held- to- maturity	-	(13,175)
Sale or maturities of investments held- to- maturity	167	7,376
Income from investments held- to- maturity	<u>498</u>	<u>339</u>
<b>Net cash (used in) /from investing activities</b>	<u>(3,087)</u>	<u>(11,385)</u>
<b>Financing activities</b>		
Proceeds from issue of share capital	8,000	12,000
Dividends paid	<u>(15,000)</u>	<u>(20,000)</u>
<b>Net cash (used in) financing activities</b>	<u>(7,000)</u>	<u>(8,000)</u>
<b>Net increase in cash and cash equivalents</b>	4,182	(25,976)
<b>Cash and cash equivalents at the beginning of the period</b>	<u>227,350</u>	<u>153,722</u>
<b>Cash and cash equivalents at the end of the period</b>	<u>231,531</u>	<u>127,746</u>
<b>Cash and cash equivalents comprise:</b>		
Cash and balances with Central Bank of Oman	45,061	27,469
Less: Restricted deposits	<u>(500)</u>	<u>(935)</u>
Net Cash and balances with Central Bank of Oman	44,561	26,534
Deposits with Banks	44,688	28,774
Less : Due to Banks	(22,718)	(7,562)
Certificates of deposit	<u>165,000</u>	<u>80,000</u>
<b>Cash and cash equivalents at the end of the period</b>	<u>231,531</u>	<u>127,746</u>

The notes on pages 7 to 26 form part of these financial statements



**NOTES TO THE UN-AUDITED FINANCIAL STATEMENTS  
FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2010**

**1 Legal status and principal activities**

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

The Bank has a management agreement with Arab Bank Plc Jordan, which owns 49% of the Bank's share capital. In accordance with the terms of the management agreement, Arab Bank Plc Jordan provides banking related technical assistance and other management services, including the secondment of managerial staff. The bank employed 862 staff as at 30 September 2010 (30 September 2009: 813)

**2 PRINCIPAL ACCOUNTING POLICIES**

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

***Basis of preparation***

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

***Financial assets***

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

***Financial assets at fair value through profit or loss***

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

***Loans and advances***

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

***Available for sale investments***

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



**NOTES TO THE UN-AUDITED FINANCIAL STATEMENTS  
FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2010**

**2 PRINCIPAL ACCOUNTING POLICIES (continued)**

***Held-to-maturity investments***

Held to maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Bank's management has the positive intention and ability to hold to maturity. Were the Bank to sell other than an insignificant amount of held-to-maturity assets, the entire category would be tainted and reclassified as available-for-sale. Held to maturity investments are carried at amortised cost using the effective interest method.

***Fair value measurement principles***

The fair value of financial instruments is based on their quoted market bid price at the balance sheet date without any deduction for transaction costs. If a quoted market price is not available, the fair value of the instrument is estimated based on discounted cash flow and other valuation techniques.

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

The fair value of derivatives that are not exchange-traded is estimated at the amount that the Bank would receive or pay to terminate the contract at the balance sheet date taking into account current market conditions and the current creditworthiness of the counter-parties.

***Derecognition***

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

***Impairment of financial assets***

**(a) Assets carried at amortised cost**

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

- significant financial difficulty of the issuer or obligor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- the Bank granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the lender would not otherwise consider;
- it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- the disappearance of an active market for that financial asset because of financial difficulties;
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including adverse changes in the payment status of borrowers in the Bank, or national or local economic conditions that correlate with defaults on the assets in the Bank; or
- Any other guidelines issued by the Central Bank of Oman.



**NOTES TO THE UN-AUDITED FINANCIAL STATEMENTS  
FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2010**

**2 PRINCIPAL ACCOUNTING POLICIES (continued)**

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

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

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

When a loan is uncollectible, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of the provision for loan impairment in the income statement.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the income statement.

**(b) Renegotiated loans**

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

***Fiduciary assets***

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

***Offsetting***

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

***Trade and settlement date accounting***

All regular way purchases and sales of financial assets are recognised on the trade date, i.e. the date that the entity commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.



**NOTES TO THE UN-AUDITED FINANCIAL STATEMENTS  
FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2010**

**2 PRINCIPAL ACCOUNTING POLICIES (continued)**

***Property and equipment***

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

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

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

***Borrowings***

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

***Employee Terminal Benefits***

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

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

***Taxation***

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

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

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

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



NOTES TO THE UN-AUDITED FINANCIAL STATEMENTS  
FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2010

**2 PRINCIPAL ACCOUNTING POLICIES (continued)**

***Foreign currencies***

**(a) Functional and presentation currency**

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

**(b) Transactions and balances**

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

***Interest income and expense***

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

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

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

***Fee and commission income***

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

***Provisions***

A provision is recognised in the balance sheet when the Bank has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and the amount has been reliably estimated. If the effect is material, provisions are determined by discounting the expected future cash flows at a rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.



**NOTES TO THE UN-AUDITED FINANCIAL STATEMENTS  
FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2010**

**2 PRINCIPAL ACCOUNTING POLICIES (continued)**

***Cash and cash equivalents***

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

***Derivative financial instruments***

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

***Financial guarantees contracts***

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

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

***Segment reporting***

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

**Risk management policies**

**Credit risk**

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Bank attempts to control credit risk by monitoring credit exposures, limiting transactions with specific counterparties, and continually assessing the creditworthiness of counterparties.

Concentrations of credit risk arise when a number of counterparties are engaged in similar business activities, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations of credit risk indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographic location.

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

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



**NOTES TO THE UN-AUDITED FINANCIAL STATEMENTS  
FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2010**

**2 PRINCIPAL ACCOUNTING POLICIES (continued)**

**Risk management policies (continued)**

**Credit risk (continued)**

Repossessed properties are sold as soon as practicable with the proceeds used to reduce the outstanding balance of the debt. Repossessed assets are classified as other assets in the balance sheet.

**Interest rate risk**

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

**Liquidity risk**

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

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

**Currency risk**

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

The Bank's foreign exchange exposure comprises of forward contracts, foreign currencies cash in hand, balances with banks abroad, foreign placements and foreign currencies assets and liabilities. The net open position is managed within the acceptable limits by buying and selling foreign currencies at spot rates when considered appropriate segregation of duties exist between the front and back office functions while compliance with the net open position is independently monitored on an ongoing basis.

**Fair value of financial assets and liabilities**

The estimate of fair values of the financial instruments is based on information available to management as at 30 September 2010. 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:

**Treasury bills, Certificate of Deposit and current account balances due to and from banks**

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



**NOTES TO THE UN-AUDITED FINANCIAL STATEMENTS  
FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2010**

**2 PRINCIPAL ACCOUNTING POLICIES (continued)**

**Risk management policies (continued)**

**Loans and advances**

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

**Investments**

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

**Customers' deposits**

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

**Directors' remuneration**

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

**Comparative figures**

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



NOTES TO THE UN-AUDITED FINANCIAL STATEMENTS  
FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2010

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

	<b>30-Sep-10</b>	<b>30-Sep-09</b>
	<b>RO 000</b>	<b>RO 000</b>
Cash	15,535	15,368
Balances with Central Bank of Oman		
-Clearing account and other balances	29,026	11,166
-Insurance deposit	-	435
-Statutory capital deposit	<u>500</u>	<u>500</u>
	<u><b>45,061</b></u>	<u><b>27,469</b></u>

The capital deposit and the insurance deposit cannot be withdrawn without the approval of the Central Bank of Oman. Balances with Central Bank of Oman are non-interest bearing. The Bank's contribution towards the Insurance scheme of the Central Bank of Oman is not "deposit" as per the CBO circular BM-1071 dated 15 September 2010. The Insurance deposit has been accounted for accordingly.

**4 Certificates of deposit**

Certificates of deposit are issued by the Government of Sultanate of Oman and carry interest at the average rate of 0.06% as at 30 September 2010 (30 September 2009 – 0.03%).

**5 Due from banks**

	<b>30-Sep-10</b>	<b>30-Sep-09</b>
	<b>RO 000</b>	<b>RO 000</b>
Money market placements	36,312	11,578
Current accounts	8,376	17,196
	<u><b>44,688</b></u>	<u><b>28,774</b></u>

**6 Loans and advances**

	<b>30-Sep-10</b>	<b>30-Sep-09</b>
	<b>RO 000</b>	<b>RO 000</b>
Commercial loans	296,150	308,811
Overdrafts	68,076	67,189
Personal loans	280,591	197,658
Credit cards	<u>5,654</u>	<u>4,240</u>
	<b>650,471</b>	<b>577,898</b>
Less: Allowance for loan impairment and reserved interest	<u><b>(19,670)</b></u>	<u><b>(16,310)</b></u>
	<u><b>630,801</b></u>	<u><b>561,588</b></u>



NOTES TO THE UN-AUDITED FINANCIAL STATEMENTS  
FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2010

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

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

30-Sep-10	Allowance for loan impairment	Reserved interest	Total
	RO 000	RO 000	RO 000
Balance at beginning of period	14,148	3,699	17,847
Provided during the period	2,120	911	3,031
Amounts written off during the period	(96)	(49)	(145)
Amounts recovered during the period	(706)	(357)	(1,063)
Balance at end of period	<u>15,466</u>	<u>4,204</u>	<u>19,670</u>

  

30-Sep-09	Allowance for loan impairment	Reserved interest	Total
	RO 000	RO 000	RO 000
Balance at beginning of period	11,988	2,995	14,983
Provided during the period	1,957	784	2,741
Amounts written off during the period	(89)	(44)	(133)
Amounts recovered during the period	(911)	(370)	(1,281)
Balance at end of period	<u>12,945</u>	<u>3,365</u>	<u>16,310</u>

Total allowance for the potential loss on the performing loans as at 30 September 2010 is RO 9,108,424 (30 September 2009 8,082,107). The Central Bank of Oman regulations require that the allowance for impaired loan account should be the higher of the provision determined in accordance with IAS 39 and Central Bank of Oman guidelines. Loans and advances on which interest has been reserved and/or has not been accrued amounted to RO 16,164,530 (30 September 2009: RO 9,435,240)

**Oman Arab Bank SAOC****NOTES TO THE UN-AUDITED FINANCIAL STATEMENTS  
FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2010****(b) Concentration of loans and advances**

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

	<b>30-Sep-10</b>	<b>30-Sep-09</b>
	<b>RO 000</b>	<b>RO 000</b>
Personal loans including credit cards	<b>286,245</b>	201,897
Construction	<b>78,041</b>	69,370
Manufacturing	<b>64,482</b>	62,089
Services	<b>54,598</b>	56,220
Wholesale and retail trade	<b>34,862</b>	56,524
Mining and quarrying	<b>33,380</b>	46,810
Transportation	<b>24,475</b>	10,834
Utilities	<b>17,917</b>	7,173
Financial Institutions	<b>15,776</b>	12,321
Import trade	<b>15,177</b>	13,370
Agriculture and allied activities	<b>7,192</b>	9,307
Government	<b>509</b>	1,423
Export trade	<b>442</b>	278
Others	<b>17,375</b>	30,282
	<b><u>650,471</u></b>	<b><u>577,898</u></b>



NOTES TO THE UN-AUDITED FINANCIAL STATEMENTS  
FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2010

7 Investment securities

	30-Sep-10 RO' 000	30-Sep-09 RO' 000
<b>Designated as at fair value through profit or loss</b>		
- quoted	130	137
- unquoted	<u>959</u>	<u>488</u>
-Total investment at fair value through profit or loss	<u>1,089</u>	<u>625</u>
<b>At fair value through profit or loss</b>		
- quoted	4,215	3,477
- unquoted	<u>140</u>	<u>217</u>
	<u>4,355</u>	<u>3,694</u>
<b>Available for sale</b>		
-quoted	5,248	294
-unquoted	<u>28</u>	<u>4,994</u>
	<u>5,276</u>	<u>5,288</u>
<b>Held to maturity</b>		
Certificates of Deposit	-	10,000
Oman Government Development Bonds	<u>21,461</u>	<u>21,023</u>
Total investments held to maturity	<u>21,461</u>	<u>31,023</u>
<b>Total investment securities</b>	<u>32,181</u>	<u>40,630</u>

	Designated as at fair value through profit or loss RO' 000	At fair value through profit or loss RO' 000	Available for sale RO' 000	Held to maturity RO' 000	Total RO' 000
At 1 January 2010	1,077	4,299	5,192	21,628	32,196
Additions	-	3,938	-	-	3,938
Disposals(sale and redemption)	-	(3,636)	-	(167)	(3,803)
Gain / (loss) from changes in fair value	12	(246)	84	-	(150)
At 30 September 2010	<u>1,089</u>	<u>4,355</u>	<u>5,276</u>	<u>21,461</u>	<u>32,181</u>



## Oman Arab Bank SAOC

### NOTES TO THE UN-AUDITED FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2010

#### 7 Investment securities (continued)

All the bonds are denominated in Rial Omani and are issued by the Government of Oman. They carry interest rates varying between 4% and 5.25% (2009– 4% to 5.25%) per annum. The maturity profile of the bonds, based on the remaining maturity from the balance sheet date, is as follows:

	30-Sep-10 RO'000	30-Sep-09 RO'000
Within one year	3,923	7,848
1 to 5 years	<u>17,538</u>	<u>13,175</u>
	<u>21,461</u>	<u>21,023</u>

#### 8 Property and equipment

	<i>Land and buildings</i>	<i>Computer equipment</i>	<i>Equipment, furniture &amp; fixtures</i>	<i>Motor Vehicles</i>	<i>Capital work in progress</i>	<i>Total</i>
	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>	<i>RO '000</i>	<i>RO'000</i>
<b>2010</b>						
<b>Cost</b>						
At 1 January 2010	6,521	8,853	5,467	568	798	22,207
Additions	-	340	284	35	3,101	3,760
Transfers	-	402	138	-	(540)	-
Disposals	-	(99)	(95)	(16)	-	(210)
At 30 September 2010	<u>6,521</u>	<u>9,496</u>	<u>5,794</u>	<u>587</u>	<u>3,359</u>	<u>25,757</u>
<b>Depreciation</b>						
At 1 January 2010	2,483	6,461	3,517	308	-	12,769
Charge for the year	86	665	524	67	-	1,342
Relating to disposals	-	(96)	(89)	(16)	-	(201)
At 30 September 2010	<u>2,569</u>	<u>7,030</u>	<u>3,952</u>	<u>359</u>	<u>-</u>	<u>13,910</u>
<b>Net book value</b>						
At 30 September 2010	<u>3,952</u>	<u>2,466</u>	<u>1,842</u>	<u>228</u>	<u>3,359</u>	<u>11,847</u>
<b>Net book value</b>						
At 30 September 2009	<u>4,083</u>	<u>3,416</u>	<u>954</u>	<u>401</u>	<u>124</u>	<u>8,978</u>



NOTES TO THE UN-AUDITED FINANCIAL STATEMENTS  
FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2010

**9 Other assets**

	<b>30-Sep-10</b>	<b>30-Sep-09</b>
	<b>RO 000</b>	<b>RO 000</b>
Acceptances	15,390	19,065
Interest receivable	4,199	3,861
Prepayments	1,905	1,946
Positive Fair Value Change - Forward contracts	637	-
Balances in investment customers accounts	559	-
Others	1,464	2,786
	<u>24,154</u>	<u>27,658</u>

Others as at September 30 2010 include the value of repossessed collateral property RO 250,000 (September 30 2009: 250,000)

**10 Due to banks**

	<b>30-Sep-10</b>	<b>30-Sep-09</b>
	<b>RO 000</b>	<b>RO 000</b>
Money at call and short term deposits	13,221	-
Current accounts	<u>9,497</u>	<u>7,562</u>
	<u>22,718</u>	<u>7,562</u>

**11 Customers' deposits**

	<b>30-Sep-10</b>	<b>30-Sep-09</b>
	<b>RO 000</b>	<b>RO 000</b>
Demand and call accounts	370,302	273,854
Term deposits	274,375	224,830
Savings accounts	<u>107,459</u>	<u>107,606</u>
	<u>752,136</u>	<u>606,290</u>

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

	<b>30-Sep-10</b>	<b>30-Sep-09</b>
	<b>RO 000</b>	<b>RO 000</b>
Private	617,799	498,889
Government	<u>134,337</u>	<u>107,401</u>
	<u>752,136</u>	<u>606,290</u>

**Oman Arab Bank SAOC****NOTES TO THE UN-AUDITED FINANCIAL STATEMENTS  
FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2010****12 Other liabilities**

	<b>30-Sep-10</b>	<b>30-Sep-09</b>
	<b>RO 000</b>	<b>RO 000</b>
Acceptances	<b>15,390</b>	19,065
Balances in investment customers accounts	<b>9,370</b>	3,892
Settlements and certified cheques	<b>4,649</b>	3,360
Staff related provisions	<b>3,397</b>	3,261
Interest payable	<b>1,830</b>	3,562
Accrued expenses and others	<b>1,491</b>	2,534
Interest and commission received in advance	<b>1,265</b>	1,629
Negative Fair Value Change - Forward contracts	<b>591</b>	
Others	<b>975</b>	-
	<b><u>38,958</u></b>	<b><u>37,303</u></b>

The charge and amounts paid in respect of employee terminal benefits were RO 167,830 (30 September 2009: RO 216,170) and RO NIL (30 September 2009: RO 119,684).

**13 Taxation**

The Bank is liable for income tax in accordance with the income tax laws of the Sultanate of Oman. The tax has been provided at 12%, the rate applicable to the Bank. The Bank is exempt from tax for the period from 16 April 1994 to 31 July 2000. The assessments for the years up to 2005 are complete. The bank has adequate provisions for the tax liability, if any.

**14 Share capital**

The authorised capital is R.O 120,000,000 and the issued share capital comprises 85,000,000 fully paid shares of RO 1 each. On 31<sup>st</sup> March 2010 the Bank has increased the share capital to RO 85 million by rights issue of RO 8 million shares of R.O 1 each and by transfer of RO 2 million from retained earnings to share capital in lieu of bonus shares. The shareholders at the balance sheet date were as follows:

		<b>30-Sep-10</b>		<b>30-Sep-09</b>	
	<b>Country Of in- corporation</b>	<b>Share holding %</b>	<b>RO 000</b>	<b>Share holding %</b>	<b>RO 000</b>
Oman International Development & Investment Co. SAOG					
	Oman	<b>50.99</b>	<b>43,342</b>	50.99	38,243
Arab Bank Plc	Jordan	<b>49.00</b>	<b>41,650</b>	49.00	36,750
Oman Investment Services SAOC					
	Oman	<b><u>0.01</u></b>	<b><u>8</u></b>	<b><u>0.01</u></b>	<b><u>7</u></b>
		<b><u>100.00</u></b>	<b><u>85,000</u></b>	<b><u>100.00</u></b>	<b><u>75,000</u></b>

**Oman Arab Bank SAOC****NOTES TO THE UN-AUDITED FINANCIAL STATEMENTS  
FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2010****15 Legal reserve**

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

**16 Interest income**

	<b>9 months ended</b>	
	<b>30-Sep-10</b>	<b>30-Sep-09</b>
	<b>RO 000</b>	<b>RO 000</b>
Loans and advances	29,626	28,043
Placements with banks	116	570
Interest from Certificate of Deposits	54	106
Interest from Government Development Bonds	<u>498</u>	<u>339</u>
	<b><u>30,294</u></b>	<b><u>29,058</u></b>

Interest bearing assets earned interest at an average rate of 5.07% for the nine months ended 30 September 2010 (30 September 2009: 5.48%)

**17 Interest expense**

	<b>9 months ended</b>	
	<b>30-Sep-10</b>	<b>30-Sep-09</b>
	<b>RO 000</b>	<b>RO 000</b>
Time deposits	5,224	4,834
Call accounts	458	579
Savings accounts	12	6
Bank borrowings	<u>276</u>	<u>497</u>
	<b><u>5,970</u></b>	<b><u>5,916</u></b>

For the nine months ended 30 September 2010, the average cost of funds was 1.01% (30 September 2009: 1.29%)

**18 Investment income**

	<b>9 months ended</b>	
	<b>30-Sep-10</b>	<b>30-Sep-09</b>
	<b>RO 000</b>	<b>RO 000</b>
<b>Income from investments at fair value through profit or loss</b>		
Profit / (Loss) on sale of investments	(3)	106
Dividend income	187	184
Changes in fair value	<u>(235)</u>	<u>399</u>
<b>Total investment income</b>	<b><u>(51)</u></b>	<b><u>689</u></b>

**Oman Arab Bank SAOC****NOTES TO THE UN-AUDITED FINANCIAL STATEMENTS  
FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2010****19 Other operating income**

	<b>9 months ended</b>	
	<b>30-Sep-10</b>	<b>30-Sep-09</b>
	<b>RO 000</b>	<b>RO 000</b>
Fees & Commissions	<b>10,075</b>	8,824
Exchange income	<b>2,592</b>	2,735
Other income	<b><u>708</u></b>	<u>523</u>
	<b><u>13,375</u></b>	<u>12,082</u>

**20 Related party transactions**

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

	<b>Sep-10</b>		<b>Sep-09</b>	
	<b>RO' 000</b>		<b>RO' 000</b>	
	<b>Major</b>	<b>Others</b>	<b>Major</b>	<b>Others</b>
	<b>Shareholders</b>		<b>Shareholders</b>	
Loans and advances	<b>2,600</b>	<b>28,974</b>	1,600	18,911
Customers' deposits	<b>1,203</b>	<b>5,983</b>	928	4,709
Due from banks	<b>39,261</b>	-	14,371	-
Due to banks	<b>330</b>	-	2,252	-
Letters of credit, guarantees and acceptances	<b>123,290</b>	<b>5,165</b>	140,898	2,780

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

Interest & commission income	<b>850</b>	<b>412</b>	330	360
Interest expense	<b>401</b>	<b>2</b>	284	4

**Key management compensation**

	<b>Sep-10</b>	<b>Sep-09</b>
	<b>RO'000</b>	<b>RO'000</b>
Salaries and other short-term benefits	<b>498</b>	480
End of service benefits	<b>52</b>	50



**21 (a) Commitments and Contingent Liabilities**

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

The risk involved is essentially the same as the credit risk involved in extending loan facilities and therefore these transactions are subject to the same credit organisation, portfolio maintenance and collateral requirements for customers applying for loans and advances. The outstanding contract value or the notional amount of these instruments at 30 September were as follows:

	<b>30-Sep-10</b>	<b>30-Sep-09</b>
	<b>RO 000</b>	<b>RO 000</b>
Letters of credit	<b>234,855</b>	255,647
Guarantees	<b>414,708</b>	455,774
	<b><u>649,563</u></b>	<u>711,421</u>

Letters of credit and guarantees amounting to RO 460,060,342 (30 September 2009: RO 553,489,865) were counter guaranteed by other banks.

**(b) Forward foreign exchange contracts**

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

	<b>30-Sep-10</b>	<b>30-Sep-09</b>
	<b>RO 000</b>	<b>RO 000</b>
Sales	<b>24,662</b>	41,423
Purchases	<b><u>(24,709)</u></b>	<u>(41,469)</u>
	<b><u>(47)</u></b>	<u>(46)</u>

**(c) Assets pledged as Security**

At the balance sheet date, the bank has not pledged any of its assets as security. (30 September 2009 no assets pledged).

**22 Basic Earnings per share**

	<b>30-Sep-10</b>	<b>30-Sep-09</b>
Profit for the period (RO 000)	<b><u>17,870</u></b>	18,065
Weighted average number of shares in issue	<b><u>82,534,247</u></b>	<u>72,468,493</u>
<b>Basic Earnings per share annualized</b>	<b><u>RO 0.289</u></b>	<u>RO 0.333</u>

**Oman Arab Bank SAOC****NOTES TO THE UN-AUDITED FINANCIAL STATEMENTS  
FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2010****Basic Earnings per share (Continue)**

The par value of each share is RO 1. The basic earnings per share is the profit for the period divided by the weighted average number of shares outstanding.

**23 Capital adequacy**

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

CBO requires the banks' registered in the Sultanate of Oman to maintain the capital adequacy a minimum of 10% based on guidelines of the Basel II accord from January 2007 onwards. The ratio calculated in accordance with the CBO and BIS capital adequacy guidelines as per Basle II accord is as follows. :

	<b>30-Sep-10</b>	30-Sep-09
<b>Capital</b>	<b>RO 000</b>	RO 000
Tier 1	<b>118,320</b>	102,239
Tier 2	<u><b>8,383</b></u>	<u>7,196</u>
Total capital base	<u><b>126,703</b></u>	<u>109,435</u>
<b>Risk weighted assets</b>		
Credit risk	<b>794,566</b>	733,266
Market risk	<b>40,149</b>	34,593
Operational risk	<u><b>82,927</b></u>	<u>71,431</u>
Total risk weighted assets	<u><b>917,643</b></u>	<u>839,290</u>
<b>Capital adequacy ratio</b>	<u><b>13.81%</b></u>	<u>13.04%</u>



## Oman Arab Bank SAOC

### NOTES TO THE UN-AUDITED FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2010

#### 24 Segmental Information

The bank operates in only one geographical location, the Sultanate of Oman. The bank's operating revenues arise primarily from three business segments-corporate, retail and treasury/investment banking.

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

	Corporate	Retail	Treasury/ Investment banking	Unallocated	Total
	RO 000	RO 000	RO 000	RO 000	RO 000
<b>At 30 September 2010</b>					
Net operating income	<u>11,259</u>	<u>21,745</u>	<u>4,644</u>	<u>-</u>	<u>37,648</u>
Segmental assets	<u>352,294</u>	<u>278,506</u>	<u>285,497</u>	<u>37,435</u>	<u>953,194</u>
<b>At 30 September 2009</b>					
Net operating income	<u>13,659</u>	<u>16,832</u>	<u>5,422</u>	<u>-</u>	<u>35,913</u>
Segmental assets	<u>364,830</u>	<u>196,758</u>	<u>175,900</u>	<u>37,609</u>	<u>775,097</u>