



Oman Arab Bank SAOC



Oman Arab Bank (SAOC)

**UN-AUDITED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED 31 MARCH 2009**



**UN-AUDITED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED 31 MARCH 2009**

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SUMMARY OF UNAUDITED RESULTS AT 31 MARCH 2009

Particulars	31-Mar-09	31-Mar-08
	RO 000	RO 000
Net Loans and advances	562,850	430,577
Customers' Deposits	580,105	623,530
Other assets	6,027	8,266
Net worth	108,576	92,900
Net interest income	7,628	6,566
Net profit for the period	6,053	7,220
Basic earnings per share in RO (Annualized)	OMR 0.342	OMR 0.488
Capital Adequacy Ratio	13.32%	14.25%



UNAUDITED STATEMENT OF FINANCIAL POSITION AT 31 MARCH 2009

	Note	31-Mar-09 RO 000	31-Mar-08 RO 000
Assets			
Cash and balances with Central Bank of Oman	3	34,546	67,421
Certificates of deposit	4	59,000	191,000
Due from banks	5	28,009	23,858
Loans and advances	6	562,850	430,577
Investment securities	7	26,837	32,192
Property and equipment	8	8,305	7,906
Other assets	9	6,027	8,266
Total assets		725,575	761,220
Liabilities			
Due to banks	10	11,744	16,626
Customers' deposits	11	580,105	623,530
Other liabilities	12	24,342	27,000
Taxation	13	807	1,164
Total liabilities		616,998	668,320
Shareholders' funds			
Share capital	14	75,000	60,000
Legal reserve	15	15,652	13,196
General reserve		11,358	9,254
Fair value reserve		286	
Retained earnings		6,282	10,450
Total shareholders' funds		108,578	92,900
Total liabilities and shareholders' funds		725,575	761,220
Contingent liabilities	21	657,133	667,117

The financial statements were approved by the board of directors on 28 April 2009 and were signed on their behalf by:

Rashad Muhammad Al Zubair
Chairman

Abdul Kader Askalan
Chief Executive Officer

The notes on pages 7 to 25 form part of the financial statements



**UNAUDITED INCOME STATEMENT
FOR THE THREE MONTHS ENDED 31 MARCH 2009**

	Note	31-Mar-09	31-Mar-08
		RO 000	RO 000
Interest income	16	9,573	8,880
Interest expense	17	<u>(1,945)</u>	<u>(2,314)</u>
Net interest income		7,628	6,566
Investment Income	18		377
		(165)	
Other operating income	19	<u>4,256</u>	<u>3,875</u>
Total income		11,719	10,818
Staff expenses		(3,028)	(2,724)
Other operating expenses		(1,391)	(1,179)
Depreciation	8	<u>(376)</u>	<u>(349)</u>
Operating expenses		(4,795)	(4,252)
Operating profit		6,924	6,566
Allowance for loan impairment	6	(330)	(502)
Recoveries/Release from allowance for loan		252	2,131
Profit before tax		6,846	8,195
Taxation	13	<u>(793)</u>	<u>(975)</u>
Net profit for the period		<u>6,053</u>	<u>7,220</u>
Basic Earnings per share (Annualized)	22	OMR 0.342	OMR 0.488

The notes on pages 7 to 25 form part of the financial statements



UNAUDITED STATEMENT OF CHANGES IN EQUITY

FOR THE THREE MONTHS ENDED 31 MARCH 2009

	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						6,053	6,053
Changes in fair value of investment					63		63
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 31-Mar-09	<u>75,000</u>	<u>15,652</u>	<u>11,358</u>	<u>-</u>	<u>286</u>	<u>6,282</u>	<u>108,578</u>
	Share capital	Legal reserve	General reserve	Proposed dividend	Fair value reserve	Retained earnings	Total
Balance at 1-Jan-08	48,000	13,196	9,254	9,600	-	8,230	88,280
Dividends paid				(9,600)		-	(9,600)
Profit for the period						7,220	7,220
Changes in fair value of investment					-		
Proceeds from issue of share capital	7,000						7,000
Issue of Bonus Shares	5,000	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(5,000)</u>	<u>-</u>
Balance at 31-Mar-08	<u>60,000</u>	<u>13,196</u>	<u>9,254</u>	<u>-</u>	<u>-</u>	<u>10,450</u>	<u>92,900</u>

The notes on pages 7 to 25 form part of the financial statement



**UNAUDITED STATEMENT OF CASH FLOWS
FOR THE THREE MONTHS ENDED 31 MARCH 2009**

	31-Mar-09	31-Mar-08
Operating activities	RO 000	RO 000
Profit before taxation	6,846	8,195
Adjustments:		
Depreciation	376	349
Allowance for loan impairment	330	502
Recoveries /release from allowance for loan impairment	(252)	(2,131)
Profit on sale of fixed assets	-	4
Income from investments held-to-maturity	(123)	(170)
Changes in fair value of investments at fair value through profit or loss	<u>90</u>	<u>536</u>
Cash flows from operating profit before changes in operating assets & liabilities	7,267	7,285
Net changes in:		
Loans and advances	(23,932)	(40,112)
Investments at fair value through profit or loss	(306)	-
Other assets	4,054	1,760
Customers' deposits	(30,800)	90,048
Other liabilities	<u>8,413</u>	<u>6,185</u>
Cash from operating activities	(35,304)	65,166
Tax paid	<u>(3,545)</u>	<u>(2,437)</u>
Net cash from operating activities	<u>(38,849)</u>	<u>62,729</u>
Investing activities		
Purchase of property & equipment	(495)	(566)
Proceeds from sale of property & equipment	-	10
Purchase of investment available for sale	(4,000)	-
Purchase of investments held- to- maturity	-	(6,379)
Sale or maturities of investments held- to- maturity	6,375	3,399
Income from investments held- to- maturity	<u>123</u>	<u>170</u>
Net cash (used in) investing activities	<u>2,003</u>	<u>(3,366)</u>
Financing activities		
Proceeds from issue of share capital	12,000	7,000
Dividends paid	<u>(20,000)</u>	<u>(9,600)</u>
Net cash (used in) financing activities	<u>(8,000)</u>	<u>(2,600)</u>
Net increase in cash and cash equivalents	(44,846)	56,763
Cash and cash equivalents at the beginning of the period	<u>153,722</u>	<u>207,955</u>
Cash and cash equivalents at the end of the period	<u>108,876</u>	<u>264,718</u>
Cash and cash equivalents comprise:		
Cash and balances with Central Bank of Oman	34,546	67,421
Less: Restricted deposits	(935)	(935)
Net Cash and balances with Central Bank of Oman	33,611	66,486
Deposits with Banks	28,009	23,858
Less : Due to Banks	(11,744)	(16,626)
Certificates of deposit	<u>59,000</u>	<u>191,000</u>
Cash and cash equivalents at the end of the period	<u>108,876</u>	<u>264,718</u>

The notes on pages 7 to 25 form part of the financial statements



Oman Arab Bank SAOC
NOTES TO THE FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED 31 MARCH 2009

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 788 staff as at 31 March 2009 (31 March 2008: 701)

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, held-to-maturity investments and loans and advances. 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. 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 investments

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

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.



**NOTES TO THE FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED 31 MARCH 2009**

2 PRINCIPAL ACCOUNTING POLICIES (continued)

Financial assets (continued)

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.

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 FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED 31 MARCH 2009

2 PRINCIPAL ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

(a) Assets carried at amortised cost (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 FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED 31 MARCH 2009**

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 FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED 31 MARCH 2009**

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-apportionate 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 FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED 31 MARCH 2009**

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

Derivative financial instruments

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at their fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

Financial guarantees contracts

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

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

Segment reporting

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 return 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 FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED 31 MARCH 2009**

2 PRINCIPAL ACCOUNTING POLICIES (continued)

Risk management policies (continued)

Interest rate risk

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

Liquidity risk

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

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

Currency risk

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

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

Fair value of financial assets and liabilities

The estimate of fair values of the financial instruments is based on information available to management as at 31 March 2008. 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 FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED 31 MARCH 2009**

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 FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED 31 MARCH 2009

3 Cash and balances with Central Bank of Oman

	31-Mar-09	31-Mar-08
	RO 000	RO 000
Cash	12,679	11,810
Balances with Central Bank of Oman		
-Clearing account and other balances	20,932	54,676
-Insurance deposit	435	435
-Capital deposit	500	500
	<u>34,546</u>	<u>67,421</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 except for the capital deposit, which earns interest at 1.5% per annum (2008 – 1.5% per annum).

4 Certificates of deposit

Certificates of deposit are issued by the Government of Sultanate of Oman and carry interest at the average rate of 0.13% as at 31 March 2009 (31 March 2008 – 0.99%).

5 Due from banks

	31-Mar-09	31-Mar-08
	RO 000	RO 000
Money market placements	23,943	20,775
Current accounts	4,066	3,083
	<u>28,009</u>	<u>23,858</u>

6 Loans and advances

	31-Mar-09	31-Mar-08
	RO 000	RO 000
Commercial loans	308,851	226,354
Overdrafts	90,979	83,749
Personal loans	174,824	134,988
Credit cards	3,636	3,366
	<u>578,290</u>	<u>448,457</u>
Less: Allowance for doubtful debts and reserved interest	(15,440)	(17,880)
	<u>562,850</u>	<u>430,577</u>



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(a) Allowance for loan impairment and reserved interest

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

	31-Mar-09		
	Allowance for loan impairment RO 000	Reserved interest RO 000	Total RO 000
Balance at beginning of the period	11,988	2,994	14,982
Provided during the period	330	418	748
Amounts written off during the period	(35)	(3)	(39)
Amounts recovered during the period	(152)	(100)	(253)
Balance at end of the period	12,131	3,309	15,440

	31-Mar-08		
	Allowance for loan impairment RO 000	Reserved interest RO 000	Total RO 000
Balance at beginning of the period	13,734	6,040	19,774
Provided during the period	502	117	619
Amounts written off during the period	(331)	(51)	(382)
Amounts recovered during the period	(1,755)	(376)	(2,131)
Balance at end of the period	12,150	5,730	17,880



Oman Arab Bank SAOC

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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 9,362,588 (31 March 2008: RO 14,121,915)
Total allowance for the potential loss on the performing loans as at 31 March 2009 is RO 7,145,700 (31 March 2008 5,555,185).

(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:

	31-Mar-09	31-Mar-08
	RO 000	RO 000
Personal loans including credit cards	178,460	138,354
Manufacturing	59,326	80,794
Construction	68,345	57,518
Services	65,804	36,013
Wholesale and retail trade	69,736	28,056
Mining and quarrying	38,901	23,182
Import trade	22,434	11,287
Transportation	11,372	5,720
Financial Institutions	13,639	8,249
Utilities	9,396	7,288
Agriculture and allied activities	9,083	6,728
Government	767	2,216
Export trade	209	594
Others	<u>30,818</u>	<u>42,458</u>
	<u>578,290</u>	<u>448,457</u>



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7 Investment securities

	31-Mar-09 RO' 000	31-Mar-08 RO' 000
Financial assets available for sale		
-quoted	237	-
-unquoted	<u>4,080</u>	-
	<u>4,317</u>	
Financial assets designated as at fair value through profit or loss		
- quoted	70	178
- unquoted	<u>465</u>	<u>482</u>
	<u>535</u>	<u>660</u>
Financial assets held for trading		
- quoted	3,033	4,913
- unquoted	<u>103</u>	<u>1,349</u>
	<u>3,137</u>	<u>6,262</u>
Investments held- to- maturity		
Certificates of Deposit	10,000	10,000
Oman Government Development Bonds	<u>8,848</u>	<u>15,270</u>
	<u>18,848</u>	<u>25,270</u>
Total investment securities	<u>26,837</u>	<u>32,192</u>

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% (2008– 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:

	31-Mar-09 RO'000	31-Mar-08 RO'000
Within one year	1,000	4,050
1 to 5 years	<u>7,845</u>	<u>11,220</u>
	<u>8,845</u>	<u>15,270</u>

	Financial assets available for sale	Financial assets designated as at fair value through profit or loss RO' 000	Financial assets held for trading RO' 000	Investments held to maturity RO' 000	Total RO' 000
At 1 January 2009	254	593	2,863	25,224	28,934
Additions	4,000	-	1,402	-	5,402
Disposals(sale and redemption)	-	-	(1,096)	(6,376)	(7,471)
Gain / (loss) from changes in fair value	<u>63</u>	<u>(58)</u>	<u>(32)</u>	-	<u>(27)</u>
At 31 March 2009	<u>4,317</u>	<u>535</u>	<u>3,137</u>	<u>18,848</u>	<u>26,837</u>

The sector-wise analysis of investments available for sale and investments at fair value through profit or loss is as follows:

	31-Mar-09 RO 000	31-Mar-08 RO 000
Services	2,105	3,331
Industrial	1,113	2,204
Financial services	215	1,150
Investment fund units	<u>4,556</u>	<u>237</u>
	<u>7,989</u>	<u>6,922</u>



NOTES TO THE FINANCIAL STATEMENTS
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8 Property and equipment

	Land and buildings RO 000	Computer equipment RO 000	Furniture and fixture RO 000	Motor Vehicles RO 000	Total RO 000
Cost					
At 1 January 2009	6,521	8,588	3,795	509	19,413
Additions	-	225	258	12	495
Disposals	-	-	(25)	-	(25)
At 31 Mar 2009	6,521	8,813	4,028	521	19,883
Depreciation					
At 1 January 2009	2,303	5,387	3,413	125	11,228
Charge for the period	45	214	103	13	375
Disposals	-	-	(25)	-	(25)
At 31 Mar 2009	2,348	5,601	3,491	138	11,578
Net book value					
At 31 Mar 2009	4,173	3,212	537	383	8,305
At 31 Mar 2008	4,353	3,122	120	311	7,906

9 Other assets

	31-Mar-09 RO 000	31-Mar-08 RO 000
Interest receivable	2,936	2,834
Clearing cheques	-	2,588
Prepayments	1,886	1,436
Others	1,205	1,408
	6,027	8,266

10 Due to banks

	31-Mar-09 RO 000	31-Mar-08 RO 000
Money market acceptances	-	4,928
Current accounts	11,744	11,698
	11,744	16,626



NOTES TO THE FINANCIAL STATEMENTS
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11 Customers' deposits

	31-Mar-09	31-Mar-08
	RO 000	RO 000
Demand and call accounts	261,873	302,418
Term deposits	221,125	224,304
Savings accounts	97,107	96,808
	580,105	623,530

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

	31-Mar-09	31-Mar-08
	RO 000	RO 000
Private	492,809	528,594
Government	87,296	94,936
	580,105	623,530

12 Other liabilities

	31-Mar-09	31-Mar-08
	RO 000	RO 000
Clearing cheques	10,260	-
Interest payable	3,282	2,503
Acceptances and certified cheques	3,059	5,764
Staff related provisions	2,655	2,467
Balances in investment customers accounts	1,545	2,524
Interest and commission received in advance	1,667	1,890
Accrued expenses and others	1,872	1,841
Subscriptions for IPO	2	10,011
	24,342	27,000

The charges and amounts paid in respect of employee terminal benefits were RO 110,303 (31 March 2008: RO 231,094) and RO Nil (31 March 2008: RO 1,475).

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.



**NOTES TO THE FINANCIAL STATEMENTS
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14 Share capital

The authorised and issued share capital comprises 75,000,000 fully paid shares of RO 1 each. On 18th March 2009 the Bank has increased the share capital to RO 75 million by rights issue of RO 12 million and by transfer of RO 3 million from retained earnings to share capital. The shareholders at the balance sheet date were as follows:

	Country Of in- corporation	31-Mar-09		31-Mar-08	
		Share holding %	RO 000	Share holding %	RO 000
Oman International Development & Investment Co. SAOG	Oman	50.99	38,242	50.99	19,376
Arab Bank Plc	Jordan	49.00	36,750	49.00	18,620
Oman Investment Services SAOC	Oman	0.01	8	0.01	4
		<u>100.00</u>	<u>75,000</u>	<u>100.00</u>	<u>38,000</u>

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

	3 months ended	
	31-Mar-09 RO 000	31-Mar-08 RO 000
Loans and advances	9,179	7,516
Placements with banks	193	503
Interest from Certificate of Deposits	78	691
Interest from Government Development Bonds	123	170
	<u>9,573</u>	<u>8,880</u>

Interest bearing assets earned interest at an average rate of 5.85% for the three months ended 31 March 2009 (31 March 2008: 5.35%)



NOTES TO THE FINANCIAL STATEMENTS
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17 Interest expense

	3 months ended	
	31-Mar-09	31-Mar-08
	RO 000	RO 000
Time deposits	1,586	1,997
Call accounts	213	222
Bank borrowings	3	16
Savings accounts	143	79
	<u>1,945</u>	<u>2,314</u>

For the three months ended 31 March 2009, the average cost of funds was 1.31% (31 March 2008: 1.56%)

18 Investment income

	3 months ended	
	31-Mar-09	31-Mar-08
	RO' 000	RO' 000
Income from investments at fair value through profit or loss		
(Loss)/Profit on sale of investments	(213)	693
Dividend income	138	220
Changes in fair value	(90)	(536)
Total investment income	<u>(165)</u>	<u>377</u>

19 Other operating income

	3 months ended	
	31-Mar-09	31-Mar-08
	RO 000	RO 000
Fees & Commissions	3,040	2,581
Exchange income	1,012	954
Other income	204	340
	<u>4,256</u>	<u>3,875</u>



**NOTES TO THE FINANCIAL STATEMENTS
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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 31 March, balances with directors and other related parties were as follows:

	Mar-09 RO' 000	Others	Mar-08 RO' 000	Others
	Major Shareholders		Major Shareholders	
Loans and advances	-	15,243	500	17,426
Customers' deposits	378	4,747	3,248	15,325
Due from banks	25,863	-	3,017	-
Due to banks	2,073	-	1,186	-
Letters of credit, guarantees and acceptances	195,630	4,284	172,988	1,915

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

Interest & commission income	116	68	93	125
Interest expense	46	-	3	32

Key management compensation

	Mar-09 RO'000	Mar-08 RO'000
Salaries and other short-term benefits	141	118
End of service benefits	31	33

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 31 March was as follows:



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21 (a) Commitments and Contingent Liabilities (continued)

	31-Mar-09	31-Mar-08
	RO 000	RO 000
Letters of credit	144,062	310,549
Guarantees	498,879	340,685
Acceptances	14,192	15,883
	<u>657,133</u>	<u>667,117</u>

Letters of credit and guarantees amounting to RO 490,107,043 (31 March 2008: RO 485,508,770) 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:

	31-Mar-09	31-Mar-08
	RO 000	RO 000
Sales	46,741	48,862
Purchases	<u>(46,808)</u>	<u>(48,916)</u>
	<u>(67)</u>	<u>(54)</u>

(c) Assets pledged as Security

At the balance sheet date, the bank has not pledged any of its assets as security. (31 March 2007 no assets pledged).

22 Basic Earnings per share

	31-Mar-09	31-Mar-08
Profit for the period (RO 000)	6,053	7,220
Weighted average number of shares in issue	<u>71,835,616</u>	<u>57,049,180</u>
Basic Earnings per share (Annualized)	<u>RO 0.342</u>	<u>RO 0.488</u>

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



**NOTES TO THE FINANCIAL STATEMENTS
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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. :

	31-Mar-09	31-Mar-08
Capital	RO 000	RO 000
Tier 1	102,239	85,680
Tier 2	<u>7,196</u>	<u>5,351</u>
Total capital base	<u>109,435</u>	<u>91,031</u>
Risk weighted assets		
Credit risk	722,542	551,600
Market risk	27,891	26,062
Operation risk	<u>71,431</u>	<u>61,027</u>
Total risk weighted assets	<u>821,864</u>	<u>638,689</u>
Capital adequacy ratio	<u>13.32%</u>	<u>14.25%</u>

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
At 31 Mar 2009					
Net operating income	<u>4,687</u>	<u>5,639</u>	<u>1,393</u>	-	<u>11,719</u>
Segmental assets	<u>389,062</u>	<u>173,789</u>	<u>148,392</u>	<u>14,332</u>	<u>725,575</u>
At 31 Mar 2008					
Net operating income	<u>3,530</u>	<u>4,040</u>	<u>3,248</u>	-	<u>10,818</u>
Segmental assets	<u>296,447</u>	<u>134,131</u>	<u>314,471</u>	<u>16,171</u>	<u>761,220</u>