



**Oman Arab Bank SAOC**



**Oman Arab Bank (SAOC)**

**UN-AUDITED FINANCIAL STATEMENTS  
FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2017**



**UN-AUDITED FINANCIAL STATEMENTS  
FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2017**

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**Oman Arab Bank SAOC**  
**SUMMARY OF UN-AUDITED RESULTS AT 30 SEPTEMBER 2017**

<b>Particulars</b>	<b>30-Sep-17 RO 000</b>	<b>30-Sep-16 RO 000</b>
Net Loans and advances	1,681,979	1,643,889
Customers' Deposits	1,803,292	1,684,029
Other assets	50,468	46,779
Net worth	268,451	238,225
Net interest income	41,892	37,621
Net profit for the period	19,009	13,522
Basic earnings per share for the period	OMR 0.019	OMR 0.015
Capital Adequacy Ratio	15.40%	13.78%



## UN-AUDITED STATEMENT OF FINANCIAL POSITION AT 30 SEPTEMBER 2017

	Note	30-Sep-17 RO 000	30-Sep-16 RO 000
<b>Assets</b>			
Cash and balances with Central Bank of Oman	3	187,143	157,352
Due from banks	4	119,645	83,141
Loans and advances	5	1,681,979	1,643,889
Investments in securities	6	119,626	117,354
Property and equipment	7	27,196	27,645
Other assets	8	50,468	46,779
<b>Total assets</b>		<b>2,186,057</b>	<b>2,076,160</b>
<b>Liabilities</b>			
Due to banks	9	4,610	10,710
Customers' deposits	10	1,803,292	1,684,029
Other liabilities	11	56,121	70,841
Subordinated Debt	12	20,000	70,000
Taxation	13	3,583	2,355
<b>Total liabilities</b>		<b>1,887,606</b>	<b>1,837,935</b>
<b>Shareholders' funds</b>			
Share capital	14	134,620	127,000
Legal reserve	15	35,821	33,368
General reserve		25,560	25,560
Special reserve	16	2,063	2,400
Cumulative changes in fair value of investments		(1,654)	(3,976)
Retained earnings		68,041	3,873
Subordinated debt reserve		4,000	50,000
<b>Total equity attributable to the equity holders of the Bank</b>		<b>268,451</b>	<b>238,225</b>
Perpetual Tier 1 Capital Bonds	17	30,000	-
<b>Total equity</b>		<b>298,451</b>	<b>238,225</b>
<b>Total liabilities and shareholders' funds</b>		<b>2,186,057</b>	<b>2,076,160</b>
<b>Contingent liabilities</b>	23	<b>807,073</b>	<b>848,447</b>

The financial statements were approved by the board of directors on 31 October 2017 and were signed on their behalf by:

Amin Al-Husseini  
Chief Executive Officer

Rashad Muhammad Al Zubair  
Chairman

The notes 1 to 28 form part of these financial statements

**Oman Arab Bank SAOC****UN-AUDITED STATEMENT OF COMPREHENSIVE INCOME  
FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2017**

	Note	30-Sep-17 RO 000	30-Sep-16 RO 000
Interest income	18	65,062	56,681
Interest expense	19	<u>(23,170)</u>	<u>(19,060)</u>
<b>Net interest income</b>		<b>41,892</b>	<b>37,621</b>
Investment Income	20	1,107	757
Other operating income	21	<u>15,370</u>	<u>15,827</u>
<b>Total income</b>		<b>58,369</b>	<b>54,205</b>
Staff expenses		(20,551)	(19,976)
Other operating expenses		(11,718)	(9,316)
Depreciation	7	<u>(2,728)</u>	<u>(2,798)</u>
<b>Operating expenses</b>		<b><u>(34,997)</u></b>	<b><u>(32,090)</u></b>
<b>Operating profit</b>		<b><u>23,372</u></b>	<b><u>22,115</u></b>
Allowance for loan impairment	5	(5,752)	(11,039)
Impairment Provisions AFS		(721)	-
Recoveries from allowance for loan impairment		<u>5,571</u>	<u>3,802</u>
<b>Profit before tax from continuing operations</b>		<b><u>22,470</u></b>	<b><u>14,878</u></b>
Taxation	13	<u>(3,461)</u>	<u>(2,011)</u>
<b>Profit for the year from continuing operations</b>		<b><u>19,009</u></b>	<b><u>12,867</u></b>
<b>Discontinued operations</b>			
Profit after tax for the year from discontinued operations	28	<u>-</u>	<u>655</u>
<b>Profit for the period</b>		<b><u>19,009</u></b>	<b><u>13,522</u></b>
<b>Other comprehensive income</b>			
Changes in fair value of investments		<u>(1,582)</u>	<u>(716)</u>
<b>Total Comprehensive Income for the period</b>		<b><u>17,427</u></b>	<b><u>12,806</u></b>
<b>Basic Earnings per share (annualised)</b>	24	<b><u>OMR 0.019</u></b>	<b><u>OMR 0.017</u></b>

The notes 1 to 28 form part of these financial statement



**UNAUDITED STATEMENT OF CHANGES IN EQUITY  
FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2017**

	Share capital	Legal reserve	General reserve	Special reserve	Subordinated Debt reserve	Proposed Cash dividends	Retained earnings	Cumulative changes in fair value	Perpetual Tier 1 Capital Bonds	Total
	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000
<b>Balance at 1-Jan-16</b>	<b>116,000</b>	<b>33,368</b>	<b>25,560</b>	<b>2,400</b>	<b>40,000</b>	<b>11,600</b>	<b>351</b>	<b>(3,260)</b>	<b>-</b>	<b>226,019</b>
Dividends paid	-	-	-	-	-	(11,600)	-	-	-	(11,600)
Change in fair value of investment available for sale (refer to note 6)	-	-	-	-	-	-	-	(716)	-	(716)
Net profit	-	-	-	-	-	-	13,522	-	-	13,522
Transfer to Subordinated Debt reserve	-	-	-	-	10,000	-	(10,000)	-	-	-
Proceeds from issue of share capital	11,000	-	-	-	-	-	-	-	-	11,000
<b>Balance at 30-SEP-2016</b>	<b><u>127,000</u></b>	<b><u>33,368</u></b>	<b><u>25,560</u></b>	<b><u>2,400</u></b>	<b><u>50,000</u></b>	<b>=</b>	<b><u>3,873</u></b>	<b><u>(3,976)</u></b>	<b>=</b>	<b><u>238,225</u></b>
<b>Balance at 1-Jan-17</b>	<b>127,000</b>	<b>35,821</b>	<b>25,560</b>	<b>2,400</b>	<b>54,000</b>	<b>-</b>	<b>8,390</b>	<b>(72)</b>	<b>30,000</b>	<b>283,099</b>
Dividends paid	-	-	-	-	-	-	-	-	-	-
Change in fair value of investment available for sale (refer to note 10)	-	-	-	-	-	-	-	(1,582)	-	(1,582)
Net profit	-	-	-	-	-	-	19,009	-	-	19,009
Transfer to Subordinated Debt reserve	-	-	-	-	(50,000)	-	50,000	-	-	-
Provision for restructure loans	-	-	-	(337)	-	-	-	-	-	(337)
Interest on Perpetual Tier 1 Bonds	-	-	-	-	-	-	(1,738)	-	-	(1,738)
Proposed stock dividends	7,620	-	-	-	-	-	(7,620)	-	-	-
<b>Balance at 30-SEP-17</b>	<b><u>134,620</u></b>	<b><u>35,821</u></b>	<b><u>25,560</u></b>	<b><u>2,063</u></b>	<b><u>4,000</u></b>	<b>=</b>	<b><u>68,041</u></b>	<b><u>(1,654)</u></b>	<b><u>30,000</u></b>	<b><u>298,451</u></b>

The notes 1 to 28 form part of these financial statements



**Oman Arab Bank SAOC**  
**UN-AUDITED STATEMENT OF CASH FLOWS**  
**FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2017**

	30-Sep-17	30-Sep-16
	RO 000	RO 000
<b>Operating activities</b>		
Profit before tax from continuing operation	22,471	14,878
Profit before tax from discontinued operation	-	744
Adjustments:		
Depreciation	2,728	2,840
Allowance for loan impairment	5,752	11,039
Recoveries /release from allowance for loan impairment	(5,571)	(3,802)
Allowance for impairment in AFS investment	721	-
Profit on sale of fixed assets	-	(2)
Loss on sale of fixed assets	-	1
Income from investments held-to-maturity	(1,424)	(1,047)
Changes in fair value of investments at fair value through profit or loss	<u>(18)</u>	<u>(393)</u>
<b>Cash flows from Operating profit before changes in operating assets &amp; liabilities</b>	<b>24,659</b>	<b>24,258</b>
Net changes in:		
Loans and advances	(87,698)	(131,555)
Financial assets at fair value through profit or loss	9	17
Other assets	(5,764)	(5,923)
Customers' deposits	166,140	82,871
Other liabilities	<u>(4,422)</u>	<u>(910)</u>
<b>Cash from (used in) operating activities</b>	<b><u>92,924</u></b>	<b><u>(31,242)</u></b>
Tax paid	<u>(4,040)</u>	<u>(4,108)</u>
<b>Net cash from (used in) operating activities</b>	<b><u><u>88,884</u></u></b>	<b><u><u>(35,350)</u></u></b>
<b>Investing activities</b>		
Purchase of property & equipment	(1,289)	(1,924)
Proceeds from sale of property & equipment	16	3
Purchase of held-to-maturity investments	(279,232)	(1,547)
Purchase of investments available-for-sale	(16,261)	(4,493)
Proceeds from sale of investments available-for-sale	15,947	6,701
Sale or maturities of investments held-to-maturity	271,560	-
Income from investments held- to- maturity	<u>1,424</u>	<u>1,047</u>
<b>Net cash (used in) investing activities</b>	<b><u><u>(7,835)</u></u></b>	<b><u><u>(213)</u></u></b>
<b>Financing activities</b>		
Proceeds from issue of share capital	-	11,000
Subordinated bonds paid	(50,000)	-
Dividends paid	-	(11,600)
<b>Net cash (used in) financing activities</b>	<b><u><u>(50,000)</u></u></b>	<b><u><u>(600)</u></u></b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>31,049</b>	<b>(36,163)</b>
<b>Cash and cash equivalents at beginning of period</b>	<b><u>270,630</u></b>	<b><u>265,446</u></b>
<b>Cash and cash equivalents at end of period</b>	<b><u><u>301,679</u></u></b>	<b><u><u>229,283</u></u></b>
<b>Cash and cash equivalents comprise:</b>		
Cash and balances with Central Bank of Oman	187,144	157,352
Less restricted deposits	(500)	(500)
Net Cash and balances with Central Bank of Oman	<u>186,644</u>	<u>156,852</u>
Deposits with Banks	112,223	82,853
Less: Due to banks	<u>2,812</u>	<u>(10,422)</u>
<b>Cash and cash equivalents at end of period</b>	<b><u><u>301,679</u></u></b>	<b><u><u>229,283</u></u></b>

The notes 1 to 28 form part of these financial statements



**NOTES TO THE UN-AUDITED FINANCIAL STATEMENTS  
FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2017**

**1 Legal status and principal activities**

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

The Bank has a management agreement with Arab Bank Plc Jordan, which owns 49% of the Bank's share capital. In accordance with the terms of the management agreement, Arab Bank Plc Jordan provides banking related technical assistance and other management services, including the secondment of managerial staff. The bank employed 1,172 staff as at 30 September 2017 (30 September 2016: 1,293)

**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 2017**

**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 2017

**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 2017**

**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
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 2017

**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 2017**

**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 SIX months' maturity from the date of acquisition, including: cash and non-restricted balances with the Central Bank of Oman, treasury bills and other eligible bills, loans and advances to banks, amounts due from other banks and short-term government securities.

***Derivative financial instruments***

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

***Financial guarantees contracts***

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

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

***Segment reporting***

The bank's segmental reporting is based on the following operating segments: Retail banking, corporate banking, Investment banking, and Group functions. The segment information is set out in note 25.

**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 5.



**NOTES TO THE UN-AUDITED FINANCIAL STATEMENTS  
FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2017**

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

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

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



**NOTES TO THE UN-AUDITED FINANCIAL STATEMENTS  
FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2017**

**2 PRINCIPAL ACCOUNTING POLICIES (continued)**

**Risk management policies (continued)**

**Loans and advances**

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

**Investments**

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

**Customers' deposits**

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

**Directors' remuneration**

The Directors' remuneration is governed as set out in the Articles of Association of the Bank, the Commercial Companies Law, regulations issued by the Capital Market Authority and regulations issued by the Central Bank of Oman.

The Annual General Meeting shall determine and approve the remuneration and the sitting fees for the Board of Directors and its sub-committees provided that such fees shall not exceed 5% of the annual net profit after deduction of the legal reserve and the optional reserve and the distribution of dividends to the shareholders provided that such fees shall not exceed RO 200,000. The sitting fees for each director shall not exceed RO 10,000 in one year.

**Comparative figures**

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



NOTES TO THE UN-AUDITED FINANCIAL STATEMENTS  
FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2017

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

	<b>30-Sep-17</b>	30-Sep-16
	<b>RO 000</b>	RO 000
Cash	<b>42,485</b>	38,408
Balances with Central Bank of Oman		
-Clearing account and other balances	<b>109,508</b>	87,644
-Placement with Central Bank	<b>34,650</b>	30,800
-Statutory capital deposit	<b>500</b>	500
	<u><b>187,143</b></u>	<u>157,352</u>

The capital deposit cannot be withdrawn without the approval of the Central Bank of Oman. Balances with Central Bank of Oman are non-interest bearing.

**4 Due from banks**

	<b>30-Sep-17</b>	30-Sep-16
	<b>RO 000</b>	RO 000
Money market placements	<b>98,110</b>	60,504
Current accounts	<b>21,535</b>	22,637
	<u><b>119,645</b></u>	<u>83,141</u>

**5 Loans and advances**

	<b>30-Sep-17</b>	30-Sep-16
	<b>RO 000</b>	RO 000
Commercial loans	<b>821,457</b>	797,432
Overdrafts	<b>154,410</b>	147,246
Personal loans	<b>680,993</b>	685,344
Credit cards	<b>4,489</b>	4,681
Al-Yusr Financing activities	<b>73,435</b>	63,023
	<u><b>1,734,784</b></u>	<u>1,697,726</u>
Less: Allowance for loan impairment and reserved interest	<b>(52,805)</b>	(53,837)
	<u><b>1,681,979</b></u>	<u>1,643,889</u>





NOTES TO THE UN-AUDITED FINANCIAL STATEMENTS  
FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2017

5 Loans and advances (continued)

(a) Allowance for loan impairment and reserved interest

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

	<b>30-Sep-17</b>		
	<b>Allowance for loan impairment</b>	<b>Contractual interest not recognised</b>	<b>Total</b>
	<b>RO 000</b>	<b>RO 000</b>	<b>RO 000</b>
Balance at beginning of period	43,788	6,275	50,063
Provided during the period	6,088	2,426	8,514
Amounts written off during the period	(176)	(25)	(201)
Amounts recovered during the period	(4,557)	(1,014)	(5,571)
Balance at end of period	<b>45,143</b>	<b>7,662</b>	<b>52,805</b>

  

	<b>30-Sep-16</b>		
	<b>Allowance for loan impairment</b>	<b>Contractual interest not recognised</b>	<b>Total</b>
	<b>RO 000</b>	<b>RO 000</b>	<b>RO 000</b>
Balance at beginning of period	37,432	7,381	44,813
Provided during the period	11,039	1,821	12,860
Amounts written off during the period	(16)	(18)	(34)
Amounts recovered during the period	(3,127)	(675)	(3,802)
Balance at end of period	<b>45,328</b>	<b>8,509</b>	<b>53,837</b>

Total allowance for the potential loss on the performing loans as at 30 September 2017 is RO 21,521,046 (30 September 2016: 23,119,046). 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 52,803,167 (30 September 2016: RO 49,603,959). The provision provided during the year includes provision for restructured loans appropriated to special reserve as per CBO circular BSD 2016 BKUP Banks & FLCs 467 dated 20 September 2017 is RO 336,539 as at 30 September 2017 (refer note 16).



NOTES TO THE UN-AUDITED FINANCIAL STATEMENTS  
FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2017

5 Loans and advances (continued)

(b) Concentration of loans and advances

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

	30-Sep-17	30-Sep-16
	RO 000	RO 000
Personal loans including credit cards	718,184	722,426
Construction	278,618	283,836
Manufacturing	116,395	114,085
Mining and quarrying	121,639	107,915
Services	83,822	73,365
Wholesale and retail trade	61,464	49,609
Transportation	74,701	97,325
Financial Institutions	73,484	55,926
Utilities	50,723	45,445
Import trade	58,445	61,599
Agriculture and allied activities	4,940	6,197
Lending to non-Residents	2,814	0
Export trade	758	757
Government	1	547
Others	88,796	78,694
	<u>1,734,784</u>	<u>1,697,726</u>

6 Investment securities

	30-Sep-17	30-Sep-16
	RO' 000	RO' 000
<b>Available for sale</b>		
- quoted	14,537	17,247
- unquoted	858	901
	<u>15,395</u>	<u>18,148</u>
<b>Designated at fair value through profit or loss</b>		
- quoted	452	418
- unquoted	131	330
	<u>583</u>	<u>748</u>
<b>Held for trading</b>		
- quoted	54	57
	<u>54</u>	<u>57</u>
<b>Held to maturity</b>		
Oman Government Development Bonds	88,594	58,401
Treasury Bills	15,000	40,000
	<u>103,594</u>	<u>98,401</u>
<b>Total investments in securities</b>	<u>119,626</u>	<u>117,354</u>



**NOTES TO THE UN-AUDITED FINANCIAL STATEMENTS  
FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2017**

**6 Investment securities (continued)**

Investment in the Financial Settlement Guarantee Fund (FSGF) has been sold as part of the sale of Investment Banking unit of the Bank as at 31 December 2016. The outstanding investment in FSGF as at 30 September 2017 is RO Nil.

The movement in the investment can be summarized as follow:

	At 1 January 2017 RO'000	Additions RO'000	Disposals (sale & redemption) RO'000	Changes in fair value recorded in statement of comprehensive income RO'000	Changes in fair value recorded in equity RO'000	At 30 September 2017 RO'000
<b>Available-for- sale</b>						
<b>Quoted – level 1</b>	16,536	16,251	(15,947)	(721)	(1,582)	14,537
<b>Unquoted – level 3</b>	848	10	-	-	-	858
<b>Designated as at fair value through profit or loss</b>						
<b>Quoted – level 1</b>	440	440	(449)	21	-	452
<b>Unquoted – level 3</b>	131	-	-	-	-	131
<b>Held for trading</b>						
<b>Quoted – level 1</b>	57	-	0	(3)	-	54
<b>Investments held to Maturity</b>						
	95,923	279,231	(271,560)	-	-	103,594
<b>At 30 September 2017</b>	<b>113,935</b>	<b>295,932</b>	<b>(287,956)</b>	<b>(703)</b>	<b>(1,582)</b>	<b>119,626</b>

All the bonds are denominated in Rial Omani and are issued by the Government of Oman. They carry interest rates varying between 2.75 % and 5.50% (2016– 2.75% to 5.5%) per annum. The maturity profile of the bonds, based on the remaining maturity from the balance sheet date, is as follows:

	30-Sep-17 RO 000	30-Sep-16 RO 000
Within One year	16,000	2,510
1 to 5 years	72,594	55,891
	<b>88,594</b>	<b>58,401</b>



NOTES TO THE UN-AUDITED FINANCIAL STATEMENTS  
FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2017

**7 Property and equipment**

	Land and buildings	Computer equipment	Furniture and fixture	Motor Vehicles	Capital WIP	Total
	RO 000	RO 000	RO 000	RO 000	RO 000	RO 000
<b>Cost</b>						
At 1 January 2017	21,571	19,713	11,406	657	1,340	54,687
Additions	-	819	470	-	-	1,289
Transfers	-	-	-	-	-	-
Disposals	-	(21)	(47)	-	-	(68)
At 30 Sep 2017	21,571	20,511	11,829	657	1,340	55,908
<b>Depreciation</b>						
At 1 January 2017	2,163	14,889	8,580	404	-	26,036
Charge for the period	443	1,320	909	56	-	2,728
Disposals	-	(5)	(47)	-	-	(52)
At 30 Sep 2017	2,606	16,204	9,442	460	-	28,712
<b>Net book value</b>						
At 30 Sep 2017	<b>18,965</b>	<b>4,307</b>	<b>2,387</b>	<b>197</b>	<b>1,340</b>	<b>27,196</b>
At 30 Sep 2016	<b>19,556</b>	<b>4,129</b>	<b>2,495</b>	<b>274</b>	<b>1,192</b>	<b>27,646</b>

**8 Other assets**

	30-Sep-17 RO 000	30-Sep-16 RO 000
Acceptances	27,436	22,856
Interest and commission receivable	12,833	12,386
Prepayments	2,650	2,563
Credit card settlement	3,748	1,720
Positive fair value change - Forward contracts	323	109
Receivable from Investment customers	-	513
Trade settlement	-	2,407
Others	3,478	4,225
	<b>50,468</b>	<b>46,779</b>

**9 Due to banks**

	30-Sep-17 RO 000	30-Sep-16 RO 000
Money market acceptances	0	4,622
Current accounts	4,610	6,088
	<b>4,610</b>	<b>10,710</b>



NOTES TO THE UN-AUDITED FINANCIAL STATEMENTS  
FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2017

**10 Customers' deposits**

	<b>30-Sep-17</b>	30-Sep-16
	<b>RO 000</b>	RO 000
Demand and call accounts	<b>729,628</b>	669,076
Term deposits	<b>822,961</b>	774,271
Savings accounts	<b>250,703</b>	240,682
	<u><b>1,803,292</b></u>	<u>1,684,029</u>

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

	<b>30-Sep-17</b>	30-Sep-16
	<b>RO 000</b>	RO 000
Private	<b>1,394,560</b>	488,927
Government	<b>408,732</b>	1,195,102
	<u><b>1,803,292</b></u>	<u>1,684,029</u>

**11 Other liabilities**

	<b>30-Sep-17</b>	30-Sep-16
	<b>RO 000</b>	RO 000
Interest Payable	16,516	15,529
Acceptances	27,436	22,856
Accrued expenses and other payables	6,237	6,800
Certified cheques and unpaid cheques	2,612	5,529
Interest and commission received in advance	1,156	1,465
Staff related provisions	1,126	2,476
Credit Card settlement	696	121
Negative fair value change - Forward contracts	283	83
Balances in investment customers' accounts	5	15,982
Subscriptions for IPO	55	-
	<u><b>56,122</b></u>	<u>70,841</u>

The charge and amounts paid in respect of employee terminal benefits were RO 163,702 (30 September 2016: RO 225,622) and RO 488,908 (30 September 2016: RO 76,024). The Bank sold its investment banking activities to a newly formed company, Ubhar Capital, in December 2016. The balances in investment customers' accounts has been transferred to Ubhar as part of the sale.

**12 Subordinated debt**

In order to enhance the capital adequacy and to meet the funding requirements, the Bank has raised capital in the form of subordinated bonds and loans.

	<b>30-Sep-17</b>	30-Sep-16
	<b>RO 000</b>	RO 000
Subordinated bonds (i)	<b>0</b>	50,000
Subordinated loans (ii)	<b>20,000</b>	20,000
	<u><b>20,000</b></u>	<u>70,000</u>



NOTES TO THE UN-AUDITED FINANCIAL STATEMENTS  
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**i) Subordinated bonds**

The Bank issued non-convertible unsecured subordinated bonds of RO 50 Million (50,000,000 units of RO 1 each) for a tenor of five years and one month in April 2012 through private placement. The bonds matured in May 2017.

**ii) Subordinated loans**

The Bank obtained subordinated loans of RO 20 Million, which comply with Basel III requirements for tier-2 capital, for a tenor of five years and six months in November 2015. The loans carry a fixed rate of 5.5 % per annum, payable semi-annually with the principal payable on maturity.

**13 Taxation**

The Bank is liable for income tax in accordance with the income tax laws of the Sultanate of Oman. The tax rate applicable to the Bank is 15%. The Corporate tax rate in Oman is expected to increase to 15% in accordance with expected amendments to the Income Tax Law of the Sultanate of Oman.

**Status of tax assessments**

The assessments for the years up to 2013 are complete. The assessments for 2014 to 2016 are not yet finalised by the Tax Authorities. Management believes that no significant further liabilities will be incurred by the Bank on completion of the pending tax assessments as compared to the existing provision established.

**14 Share capital**

The authorized capital is RO 200,000,000 and the issued share capital comprises 1,346,200,000 fully paid shares of RO 0.100 each. The paid up share capital of the Bank was increased during March 2017 by RO 7.62 Million through a stock dividend to the existing shareholders at RO 0.100 baizas per share. RO 14 million has been assigned as capital for the Islamic Banking services of the Bank:

	30-Sep-17			30-Sep-16	
	Country of in corporation	Share holding %	RO 000	Share holding %	RO 000
Oman International Development & Investment Company	Oman	<b>50.99</b>	<b>68,643</b>	50.99	64,757
Arab Bank Plc	Jordan	<b>49</b>	<b>65,964</b>	49	62,230
Oman Investment services	Oman	<u><b>0.01</b></u>	<u><b>13</b></u>	<u><b>0.01</b></u>	<u><b>13</b></u>
		<u><b>100</b></u>	<u><b>134,620</b></u>	<u><b>100</b></u>	<u><b>127,000</b></u>

**15 Legal reserve**

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



NOTES TO THE UN-AUDITED FINANCIAL STATEMENTS  
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**16 Special reserve**

During 2015 the Bank sold its old head office premises at Ruwi since the head office operations have moved to the new premises at Al Ghubrah. The profit on sale of the premises has been set aside as a special reserve, which requires prior approval of the Central Bank of Oman for any distribution. The provision for restructured loans appropriated as per CBO circular BSD 2016 BKUP Banks & FLCs 467 dated 20 September 2017 is RO 336,539 as at 30 September 2017.

**17 Perpetual Tier 1 Capital Bonds**

On 29 December 2016, the Bank issued unsecured perpetual Tier 1 bonds of RO 30 million (30,000,000 units of RO 1 each through private placement). The bonds are listed in the Muscat Securities Market and are transferable through trading. The bonds carry a fixed coupon rate of 7.75% per annum payable semi-annually in arrears and treated as deduction from equity. Interest is non-cumulative and payable at Bank's discretion. The bonds form part of Tier 1 Capital of the Bank and comply with Basel-3 and Central Bank of Oman regulation.

The Tier 1 bonds constitute direct, unconditional, subordinated and unsecured obligations of the Bank and are classified as equity in accordance with IAS 32: Financial Instruments – Classification. The Tier 1 bonds do not have a fixed or final maturity date and are redeemable by the Bank at its sole discretion on 29 January 2021 (the "First Call Date") or on any interest payment date thereafter subject to the prior consent of the regulatory authority.

**18 Interest income**

	<b>9 months ended</b>	
	<b>30-Sep-17</b>	<b>30-Sep-16</b>
	<b>RO 000</b>	<b>RO 000</b>
Loans and advances	62,581	55,103
Placements with banks	625	195
Interest from securities	1,856	1,383
	<u><b>65,062</b></u>	<u><b>56,681</b></u>

Interest bearing assets earned interest at an average rate of 4.63% for the nine months ended 30 Sep 2017 (30 Sep 2016: 4.21%)

**19 Interest expense**

	<b>9 months ended</b>	
	<b>30-Sep-17</b>	<b>30-Sep-16</b>
	<b>RO 000</b>	<b>RO 000</b>
Time deposits	17,465	12,930
Subordinated bonds	1,810	2,890
Saving, Call accounts & Others	3,895	3,240
	<u><b>23,170</b></u>	<u><b>19,060</b></u>

For the nine months ended 30 September 2017, the average cost of funds was 1.81% (30 September 2016: 1.52%)



NOTES TO THE UN-AUDITED FINANCIAL STATEMENTS  
FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2017

**20 Investment income**

Income from investments at fair value through profit or loss	30-Sep-17	30-Sep-16
	RO 000	RO 000
Profit/Loss on sale of investments	473	(260)
Dividend income	616	624
Unrealized gain/(loss) for investments	18	393
<b>Total investment income</b>	<b>1,107</b>	<b>757</b>

**21 Other operating income**

	9 months ended	
	30-Sep-17	30-Sep-16
	RO 000	RO 000
Fees & Commissions	10,853	12,403
Exchange income	3,985	3,933
Other income	532	1,521
	<b>15,370</b>	<b>17,857</b>

**22 Related party transactions**

Oman Arab Bank has a management agreement with Arab Bank Plc Jordan, which owns 49% of the bank's share capital. In accordance with the terms of that management agreement, Arab Bank Plc Jordan provides banking related technical assistance and other management services, including the secondment of managerial staff. The annual fee payable to Arab Bank is 0.3% of the Bank's net profit after tax.

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><u>Related party transactions</u></b>	Sep-17		Sep-16	
	RO' 000		RO' 000	
	Major Shareholders	Others	Major Shareholders	Others
Loans and advances	16,001	61,945	21,000	46,296
Customers' deposits	2,055	20,398	1,147	5,765
Investments	-	-	-	438
Due from banks	35,077	-	11,877	-
Due to banks	2,811	-	2,686	-
Stand by line of credit	48,125	-	57,750	-
Letters of credit, guarantees and acceptances	165,745	4,068	209,719	6,759

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

Interest & commission income	651	1,163	585	1,068
Interest & commission expense	522	16	434	10





NOTES TO THE UN-AUDITED FINANCIAL STATEMENTS  
FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2017

**Key management compensation**

	<b>30-Sep-17</b>	30-Sep-16
	<b>RO 000</b>	RO 000
Salaries and other short term benefits	<b>989</b>	898
End of service benefits	<b>163</b>	36

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

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

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

	<b>30-Sep-17</b>	30-Sep-16
	<b>RO 000</b>	RO 000
Letters of credit	<b>172,576</b>	171,298
Guarantees	<b>634,497</b>	677,149
	<b><u>807,073</u></b>	<u>848,447</u>

Letters of credit and guarantees amounting to RO 489,352,931 (30 September 2016: RO 522,688,968) 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-17</b>	30-Sep-16
	<b>RO 000</b>	RO 000
Sales	<b>23,088</b>	12,646
Purchases	<b><u>(23,107)</u></b>	<u>(12,672)</u>
Net	<b><u>(19)</u></b>	<u>(26)</u>

**(c) Assets pledged as Security**

At the balance sheet date, the bank has not pledged any of its assets as security. (30 September 2017 no assets pledged).



NOTES TO THE UN-AUDITED FINANCIAL STATEMENTS  
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**24 Basic Earnings per share**

	<b>2017</b>	2016
	<b>RO 000</b>	RO 000
Profit for the year	<b>19,009</b>	13,522
Weighted average number of shares outstanding during the year	<b>132,824,603</b>	127,000,000
Basic earnings per share (RO)	<b><u>0.019</u></b>	<u>0.015</u>

The par value of each share is 100 Baizas. The basic earnings per share is the profit for the period divided by the weighted average number of shares outstanding. During the year 2017, the bank issued stock dividend amounting to RO 7.62 million at RO 0.100 per share. As the issue was without any consideration, the number of ordinary shares outstanding before the event is adjusted for the proportionate change in the number of ordinary shares outstanding as if the event had occurred at the beginning of the earliest period presented.

**25 Capital adequacy**

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

CBO requires the banks' registered in the Sultanate of Oman to maintain the capital adequacy a minimum of 12% based on guidelines of the Basel II accord from December 2010 onwards..The transition period of phasing-in of regulatory adjustments of capital under Basel III in Oman would be from December 31, 2013 to December 31, 2017. CBO requires the banks in Oman to maintain a capital conservation buffer (CCB) of 0.625% in addition to the minimum capital of 12% from 1 January 2014 to 31 December 2016. Additional CCB of 0.625% must be maintained annually between 1 January 2017 and 31 December 2018.

The ratio calculated in accordance with the CBO and BIS capital adequacy guidelines as per Basle II accord is as follows. :

	<b>30-Sep-17</b>	30-Sep-16
	<b>RO 000</b>	RO 000
<b>Capital</b>		
Tier I	<b>283,019</b>	234,980
Tier II	<b>38,893</b>	40,925
Total capital base	<b><u>321,912</u></b>	<u>275,904</u>
<b>Risk Weighted Assets</b>		
Credit risk	<b>1,938,499</b>	1,864,141
Market risk	<b>10,575</b>	3,338
Operation risk	<b>141,500</b>	134,625
Total risk weighted assets	<b><u>2,090,574</u></b>	<u>2,002,104</u>
<b>BIS Capital Adequacy Ratio</b>	<b><u>15.40%</u></b>	<u>13.78%</u>
<b>Tier 1 Capital Adequacy Ratio</b>	<b><u>13.54%</u></b>	<u>11.74%</u>



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**26 Segmental information**

The Bank mainly operates in only one geographical location, the Sultanate of Oman. The Bank has however earned interest income and incurred interest expenses on account of money market placements and borrowings with banks outside the Sultanate of Oman as of 31 December 2016. The Bank sold its investment banking activities to a newly formed company, Ubhar Capital in December 2016.

For management purposes, the conventional operations of the Bank is organised into four operating segments based on products and services. The Islamic banking services are offered under the brand name – “Al Yusr”. The operating segments are as follows:

Retail banking	Individual personal loan, overdraft, credit card and funds transfer facilities.
Corporate banking	Loans and other credit facilities for corporate and institutional customers.
Support and unallocated functions	Treasury and other central functions.
Islamic Banking “Al-Yusr”	Sharia’ compliant Islamic banking products and services including Ijarah, Murabaha, Mudarbah and Diminishing Musharakah.

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

	Corporate	Retail	Unallocated and support functions	Al-Yusr	Sub total	Discontinued operations Investment banking	Total
	RO 000	RO 000	RO 000	RO 000	RO 000	RO 000	RO 000
<b>At 30 Sep 2017</b>							
Net operating income	<u>32,605</u>	<u>31,566</u>	<u>(7,209)</u>	<u>1,407</u>	<u>58,369</u>	-	<u>58,369</u>
Segmental assets	<u>943,027</u>	<u>666,483</u>	<u>472,257</u>	<u>104,290</u>	<u>2,186,057</u>	-	<u>2,186,057</u>
<b>At 30 Sep 2016</b>							
Net operating income	<u>23,820</u>	<u>30,799</u>	<u>(1,859)</u>	<u>1,445</u>	<u>54,205</u>	2,030	<u>56,235</u>
Segmental assets	<u>913,147</u>	<u>668,654</u>	<u>401,182</u>	<u>74,729</u>	<u>2,057,712</u>	18,448	<u>2,076,160</u>



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**27 Fiduciary activities**

The bank's fiduciary activities consist of investment management activities conducted as trustee and manager for investment funds and individuals. The aggregate amount of funds managed, which are not included in the bank's statement of financial position, are as follows:

	<b>30-Sep-17</b> <b>RO'000</b>	30-Sep-16 RO'000
Funds under management	<u><u>-</u></u>	<u><u>288,665</u></u>

The Bank sold its investment banking activities to a newly formed company, Ubhar Capital, in December 2016. The balances in fiduciary accounts has been transferred to Ubhar as part of the sale.

**28 Profit from discontinued operations**

	<b>30-Sep-16</b> <b>RO'000</b>
<b>Income</b>	
Brokerage and other investment income -net	<u>2,030</u>
<b>Total income</b>	<u>2,030</u>
<b>Expenses</b>	
Salaries and related costs	(941)
General and administrative expenses	(303)
Depreciation on equipment	(42)
<b>Total expenses</b>	<u>(1,286)</u>
<b>Profit before tax for the period from continuing operations</b>	<u>744</u>
Income tax expense	<u>(89)</u>
<b>Profit for the period from discontinued operations</b>	<u>655</u>