FINANCIAL STATEMENTS
31st December 2012

CONTENTS

ERNST & YOUNG

P.O. Box 1750, Ruwi 112
Ernst & Young Building
Qurum
Muscat, Sultanate of Oman
Tel: +968 2455 9559 · Fax: +968 2456 6043
muscat@om.ey.com
www.ey.com/me
C.R. No. 1/26809/5
P.R. No. MH/4

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

Report on the financial statements

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

Board of Directors' responsibility for the financial statements

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

Auditor's responsibility

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

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

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

Opinion

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

Report on Other Legal and Regulatory Requirements

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

Ernst & Young

24 February 2013
Muscat

STATEMENT OF COMPREHENSIVE INCOME
YEAR ENDED 31 DECEMBER 2012

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

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

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2012

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

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

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

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

1 LEGAL STATUS AND PRINCIPAL ACTIVITIES

Oman Arab Bank SAOC (the Bank) was incorporated in the Sultanate of Oman on 1 October 1984 as a closed joint stock company. It is principally engaged in commercial and investment banking activities through a network of branches in the Sultanate of Oman. The bank operates in Oman under a banking licence issued by the Central Bank of Oman and is covered by its deposit insurance scheme. The registered address of the bank is Muttrah Business District, P.O Box 2010, Ruwi, Postal Code 112, Muscat, Sultanate of Oman.

The bank has a management agreement with Arab Bank Plc Jordan, which owns 49% of the bank's share capital. In accordance with the terms of that management agreement, Arab Bank Plc Jordan provides banking related technical assistance and other management services, including the secondment of managerial staff.

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

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

2 SIGNIFICANT ACCOUNTING POLICIES

2.1 Statement of compliance

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

2.2 Basis of preparation

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

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

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

2.3 Changes in accounting policies and disclosures

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

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

IFRS 7 Financial Instruments: Disclosures (amendment)

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

2.4.4 Available-for-sale investments

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

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

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

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

2.4.5 Financial investments held to maturity

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

2.4.6 Loans and advances to customers and due from banks

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

2.4.7 Fair value measurement principles

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

2.4.9 Impairment of financial assets (continued)

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

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

(c) Renegotiated loans

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

2.5 Cash and cash equivalents

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

2.6 Offsetting of financial instruments

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

2.7 Property and equipment

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

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

The assets' residual values and useful lives are reviewed at each reporting date to assess whether they are recorded in excess of their recoverable amount, and where carrying values exceed this recoverable amount, assets are written down to their recoverable amount. Gains and losses on disposal of property and equipment are determined by reference to their carrying amount and are taken into account in determining operating profit. Repairs and renewals are charged to the statement of comprehensive income when the expense is incurred. Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the item of property and equipment. All other expenditure is recognised in the statement of comprehensive income as an expense as incurred.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.16 Dividend income

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

2.17 Fiduciary assets

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

2.18 Derivative financial instruments

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

2.19 Financial guarantees contracts

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

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

2.20 Dividends on shares

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

2.21 Foreign currencies

(a) Functional and presentation currency

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

(b) Transactions and balances

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.21 Foreign currencies (continued)

(b) Transactions and balances (continued)

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

2.22 Directors' remuneration

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

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

2.23 Segment reporting

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

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

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

3.1 Going concern

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

3.2 Impairment losses on loans and advances

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

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

3.3 Held-to-maturity investments

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

3.4 Fair value of financial instruments

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

3.5 Impairment of available-for-sale investments

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

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

3.6 Taxes

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

4 STANDARDS ISSUED BUT NOT YET EFFECTIVE

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

IFRS 1 Government Loans – Amendments to IFRS 1

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

4 STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)

IFRS 13 - Fair Value measurement

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

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

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

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

IAS 19 Employee Benefits - Amendments

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

IAS 27 Separate Financial Statements (as revised in 2011)

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

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

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

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

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

4 STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)

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

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

Annual Improvements May 2012

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

IFRS 1 First-time Adoption of International Financial Reporting Standards

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

IAS 1 Presentation of Financial Statements

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

IAS 16 Property Plant and Equipment

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

IAS 32 Financial Instruments, Presentation

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

IAS 34 Interim Financial Reporting

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

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

5 FINANCIAL RISK MANAGEMENT

5.1 Credit Risk

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

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

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

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

The bank attempts to control credit risk by monitoring credit exposures, limiting transactions with specific counterparties, and continually assessing the creditworthiness of counterparties. Concentrations of credit risk arise when a number of counterparties are engaged in similar business activities, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations of credit risk indicate the relative sensitivity of the bank's performance to developments affecting a particular industry or geographic location. The details of concentrations of credit risk based on counterparties by industry are disclosed in Note 10(b) and the geographical concentration is disclosed in Note 37.

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

The bank rates its customers into the following categories:

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

5 FINANCIAL RISK MANAGEMENT (continued)

5.1 Credit risk (continued)

5.1.6 Loans and advances renegotiated

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

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

5.1.7 Debt securities

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

5.1.8 Repossessed collateral

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

5.2 Market risk

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

5.2.1 Price risk

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

5 FINANCIAL RISK MANAGEMENT (continued)

5.4 Fair value estimation

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

5.4.1 Current account balances due to and from banks

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

5.4.2 Loans and advances

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

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

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

5.4.4 Customers' deposits

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

5.4.5 Derivatives

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

5 FINANCIAL RISK MANAGEMENT (continued)

6 CAPITAL MANAGEMENT

The bank's objectives of capital management are:

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

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

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

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

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

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

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

7 CASH AND BALANCES WITH THE CENTRAL BANK OF OMAN

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

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

8 CERTIFICATES OF DEPOSIT

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

9 DUE FROM BANKS

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

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

10 LOANS AND ADVANCES

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

10 LOANS AND ADVANCES (continued)

(a) Allowance for loan impairment

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

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

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

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

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

10 LOANS AND ADVANCES (continued)

(b) Concentration of loans and advances

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

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

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

11 INVESTMENT SECURITIES

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

11 INVESTMENT SECURITIES (continued)

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

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

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

12 OTHER ASSETS

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

13 PROPERTY AND EQUIPMENT

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

13 PROPERTY AND EQUIPMENT (continued)

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

14 DUE TO BANKS

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

15 DEPOSITS FROM CUSTOMERS

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

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

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

16 OTHER LIABILITIES

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

16 OTHER LIABILITIES (continued)

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

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

17 SUBORDINATED BONDS

In order to enhance the capital adequacy and to meet the funding requirements, the Bank issued non-convertible unsecured subordinated bonds of RO 50 Million (50,000,000 units of RO 1 each) for a tenor of five years and one month in April 2012 through private placement. The bonds are listed in the Muscat Securities Market and are transferable through trading. The bonds carry a fixed coupon rate payable semi-annually with the principal payable on maturity.

18 TAXATION

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

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

18 TAXATION (continued)

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

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

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

Status of tax assessments

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

19 SHARE CAPITAL

The authorized capital is RO 200,000,000 and the issued share capital comprises 1,160,000,000 fully paid shares of RO 0.100 each. In the extraordinary general meeting held on 17 April 2012 the shareholders approved the conversion of the nominal value of shares of the bank from RO 1.000 to 100 baizas each.

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

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

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

20 LEGAL RESERVE

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

21 GENERAL RESERVE

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

22 SUBORDINATED DEBT RESERVE

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

23 DIVIDEND PROPOSED AND PAID

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

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

24 INTEREST INCOME

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

25 INTEREST EXPENSE

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

26 FEE AND COMMISSION INCOME - NET

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

27 INVESTMENT INCOME

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

28 OTHER OPERATING INCOME

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

29 OPERATING EXPENSES

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

29 OPERATING EXPENSES (continued)

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

30 EARNINGS PER SHARE

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

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

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

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

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

31 RELATED PARTY TRANSACTIONS

Management service agreement with a shareholder

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

Other related parties transactions

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

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

Movement of loans and advances given to related parties:

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

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

31 RELATED PARTY TRANSACTIONS (continued)

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

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

Key management compensation

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

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

32 CASH AND CASH EQUIVALENTS

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

34 CONTINGENT LIABILITIES AND COMMITMENTS (continued)

The risk involved is essentially the same as the credit risk involved in extending loan facilities and therefore these transactions are subject to the same credit organisation, portfolio maintenance and collateral requirements as for customers applying for loans and advances.

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

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

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

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

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

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

(b) Capital commitments

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

(c) Undrawn loan commitments

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

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

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

(d) Legal claims

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

35 ASSETS AND LIABILITIES MATURITY PROFILE

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

35 ASSETS AND LIABILITIES MATURITY PROFILE (continued)

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

35 ASSETS AND LIABILITIES MATURITY PROFILE (continued)

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

35 ASSETS AND LIABILITIES MATURITY PROFILE (continued)

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

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

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

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

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

36 ASSETS AND LIABILITIES RE-PRICING PROFILE

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

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

36 ASSETS AND LIABILITIES RE-PRICING PROFILE (continued)

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

37 GEOGRAPHICAL DISTRIBUTION OF ASSETS AND LIABILITIES (continued)

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

38 CUSTOMER CONCENTRATIONS

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

39 SEGMENT INFORMATION

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

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

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

39 SEGMENT INFORMATION (continued)

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

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

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

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