Board of Directors Report 2009

It is an honor to present you the results achieved by the Bank during the year 2009.

We are happy to report that your Bank was successful in entering into a new phase of its strategy of profitable operation by achieving a Net Profit of OMR 8.022 million for the year 2009 as compared to a Net Loss of OMR 2.264 million for the year 2008.

ECONOMY

Oman's financial system was less exposed to the turbulences of 2009 and has weathered the global storm with remarkable stability and maturity. The proactive monetary and risk management policies pursued by the Central Bank of Oman insulated the banking industry from the perils of economic crisis faced by most of the economies around the world. The mood of the business community in Oman received a boost when Budget 2009 pegged Government Expenditure for the year at RO 6424 million – an 11 percent increase over 2008. A further boost to confidence was received when Standard & Poor affirmed its 'A' long term and 'A-1' short-term sovereign credit ratings on Oman signifying a stable outlook of the country's economy. The Government's prudent management of the revenue from sustained periods of high oil prices resulted in a cumulated fiscal surplus. This served as the crucial buffer to weather the negative impact of the expected sharp decrease in oil prices during 2009. Oman's foreign assets were more than adequate to finance the fiscal deficit for the year. The introduction of a Market Stabilization Fund initiated by the Government assisted substantially in managing the volatility of the market and improving investor's confidence in the financial market.

FINANCIAL OVERVIEW 2009

The bank achieved a Net Profit of RO 8.022 million for the year 2009 compared to a Net Loss of RO 2.264 million for the year 2008. This is a clear turning point and a shining milestone for the bank for achieving net profit for the whole year despite being in operation for less than three years. The operating profit for the year was RO 11.916 million which was 131.47 per cent higher than 2008. The net interest income during the year 2009 of RO 22.858 million was 111.47 per cent higher than 2008. The Operating Income for the year 2009 increased to RO 29.131 million which was 64.31% higher than 2008. The Cost to Income ratio has improved from 71% in 2008 to 59% in 2009.

Net loans and advances grew by 24% during this year to reach OMR 787 million at the end of the year, while customer deposits grew by 52% to reach OMR 832 Mio during the same period. The bank's market share of Private Sector Credit stood at 8.33% while the Private Sector Deposit share was 6.86% as at November 2009.

Despite the challenging economic environment that the global economies are facing as a result of the Global financial crisis, the bank was able to overcome many of the obstacles and achieve favorable results. The bank has taken a string of precautionary measures during this period to protect the shareholder and depositor interests and avoid any negative repercussions emanating from the continuing global financial crises. In addition to that, the bank has focused on improving the yield on assets, controlling the cost of funds and operating expenses and protecting the lending portfolio from impairment.

Thanks to a diversified business model, a clear and unchanged strategy and a focus on banking fundamentals, Bank Sohar was able to achieve profitable operations at this pivotal stage of the business cycle. At a time when economic conditions have remained challenging and public trust in banks has been seriously compromised, our bank was in a position to attract new customers in our target segments. We have maintained our strong deposit base and we continue to lend to and support customers through difficult times.
Due to its sustained focus on risk management the loan impairment charges have been substantially below industry standards.

FUTURE PLANS

After a year of deep global recession, economic activity is gradually recovering and turning positive. The year has seen the end of worries about an impending collapse but is yet to witness the return of total confidence. Some global economic uncertainties are being carried forward to 2010 - the future of major currencies, the fallout of rising deficits in leading countries and likely price rises for major commodities. Public intervention that supported demand and lowered uncertainty and systemic risk in financial markets during 2009 is likely to be gradually phased out. The recovery will be on the slow track till confidence returns to the economies of the world.

In 2009, banks operated with added care and diligence and with due deference to risk. The New Year will be a year of transition in the market from a period of reduced activity to the return of confidence. A business is expected to pursue growth of both their capacities and capabilities. The year will see an increase in demand for resources for business. The formal evaluation of risk will continue to be a part of the process of making credit available to the market. The resilience of the banking sector, the increased levels of government spending and the resurgent oil price in Oman will be factors that will augment the confidence of the market and make for a fruitful year.

In the coming year, the Bank will continue its pursuit of excellence in banking and implement its strategic goals with the dedicated and continuing support of its Human Resources team. The Bank will focus on achieving the national goals and while doing so continue to provide world class banking in Oman. It will pursue its strategy to leverage new technology and to raise the bar in the area of customer service. The Bank's objective of becoming a strong bank that the country can be proud of will be carried forward as work in progress.

COMMUNITY INVOLVEMENT

Our bank is committed to community involvement through its corporate citizenship program and has made generous donations to various local charities. The bank has made sustained effort to incorporate corporate social responsibility in every aspect of our business. During the year, the bank has sponsored the Muscat Festival, Salalah Khareef Festival and many other such events that bring together the community in the spirit of support to the society. The bank continues to be involved in several other areas such as community health, sports education, employment and business.

CORPORATE GOVERNANCE

In accordance with the directives of the Code of Corporate Governance promulgated by the Capital Market Authority, we continue to include a separate report on the Bank's Corporate Governance duly certified by the statutory auditors within the Annual Report.
The banks commitment to Corporate Governance was recognized and was shortlisted in the top five banks in Corporate Governance in the region for 2009 by the Institute of Corporate Governance (Hawkamah) and the Union of Arab Banks (UAB) amongst 33 banking peers across the region.

Changes to the composition of Board and changes in Senior Management during 2009 have been fully covered in the Corporate Governance report.

ON RECORD

We acknowledge that our progress during the year has been made possible by the spirit of enterprise ensured by the outlook and vision of His Majesty Sultan Qaboos bin Said. His presence at the helm of affairs has and is guiding the country through one of the most difficult periods in its economic history.

We appreciate the policies of the Central Bank of Oman, the Capital Markets Authority and the Muscat Securities Market, all of whom have joined to provide a stable and secure environment for businesses to operate. During the year, our management team and every one of the members of the staff have contributed in abundant measure to the goals set out for the Bank. The achievements of the Bank would not have been possible but for their dedication and cooperation. In this short span of time the bank has been able expand its customer base substantially and the customers have responded by reposing their faith and trust in the bank. We would like to express our profound gratitude to our customers in continuing to repose their trust in us.

Sheikh Salim Said Al Fannah Al Araimi
Chairman

BANK SOHAR SAOG

FINANCIAL STATEMENTS

For the year ended 31 December 2009

Subject to CBO Approval

Registered office and principal place of business:

Bank Sohar Building
Post Box 44, PC 114
Sultanate of Oman

STATEMENT OF FINANCIAL POSITION
As at 31 December 2009

31 December 2008 USD'000	**31December 2009 USD'000**		Notes	**31 December 2009 RO'000**	31 December 2008 RO'000
		ASSETS			
243,927	**343,558**	Cash and balances with Central Bank	*B1*	**132,270**	93,912
179,782	**52,675**	Due from Banks and other money market placements	*B2*	**20,280**	69,216
1,647,442	**2,043,595**	Loans and advances (net)	*B3*	**786,784**	634,265
66,982	**160,234**	Available-for-sale investments	*B4*	**61,690**	25,788
35,662	**37,247**	Property, equipment and fixtures	*B5*	**14,340**	13,730
15,584	**24,014**	Other assets	*B6*	**9,246**	6,000
2,189,379	**2,661,323**			**1,024,610**	842,911
		LIABILITIES			
234,374	**55,584**	Due to Banks and other money market deposits	*B7*	**21,400**	90,234
234,026	**101,397**	Certificates of deposit	*B8*	**39,038**	90,100
1,423,151	**2,162,205**	Customers' deposits	*B9*	**832,449**	547,913
18,182	**18,182**	Deferred income	*B10*	**7,000**	7,000
29,031	**48,182**	Other liabilities	*B11*	**18,550**	11,177
-	**1,932**	Income tax payable		**744**	-
1,938,764	**2,387,482**			**919,181**	746,424
		SHAREHOLDERS' EQUITY			
259,740	**259,740**	Share capital	*B12*	**100,000**	100,000
4,496	**6,579**	Legal reserve	*B13*	**2,533**	1,731
(1,283)	**1,106**	Fair value reserve	*B14*	**426**	(494)
(12,338)	**6,416**	Retained earnings		**2,470**	(4,750)
250,615	**273,841**			**105,429**	96,487
2,189,379	**2,661,323**			**1,024,610**	842,911
250.615	**273.841**	**Net assets per share (in baizas)**	*B15*	**105.429**	96.487
176,810	**277,732**	**CONTINGENT LIABILITIES**	*B16*	**106,927**	68,072
433,797	**69,366**	**COMMITTMENTS**	*B16*	**26,706**	167,012

The financial statements were approved and authorized for issue by the Board of Directors on 26 January 2010 and signed on their behalf by:

Chairman *Deputy Chairman*

The attached notes A1 to D6 form an integral part of these financial statements
The report of the auditors is set forth on page 1.

STATEMENT OF COMPREHENSIVE INCOME
Year ended 31 December 2009

31 December 2008 USD'000	**31December 2009 USD'000**		Notes	**31December 2009 RO'000**	31 December 2008 RO'000
85,740	**136,839**	Interest income	C1	**52,683**	33,010
(57,665)	**(77,468)**	Interest expense	C2	**(29,825)**	(22,201)
28,075	**59,371**	**Net interest income**		**22,858**	10,809
17,974	**16,294**	Other operating income	C3	**6,273**	6,920
46,049	**75,665**	**OPERATING INCOME**		**29,131**	17,729
		OPERATING EXPENSES			
(18,335)	**(26,501)**	Staff costs		**(10,203)**	(7,059)
(11,665)	**(14,062)**	Other operating expenses	C4	**(5,414)**	(4,491)
(2,678)	**(4,151)**	Depreciation	B5	**(1,598)**	(1,031)
(32,678)	**(44,714)**			**(17,215)**	(12,581)
13,371	**30,951**	**OPERATING PROFIT**		**11,916**	5,148
(6,203)	**(222)**	Impairment on investments		**(86)**	(2,388)
(13,400)	**(5,341)**	Impairment allowance on portfolio basis	B3	**(2,056)**	(5,159)
(618)	**(1,730)**	Impairment allowance on specific basis	B3	**(666)**	(238)
(6,850)	**23,658**	**PROFIT /(LOSS) BEFORE TAX**		**9,108**	(2,637)
969	**(2,821)**	**Income tax expense**	C5	**(1,086)**	373
(5,881)	**20,837**	**NET PROFIT/ (LOSS) FOR THE YEAR**		**8,022**	(2,264)
		Other comprehensive income			
(1,283)	**2,389**	Net changes in fair value of available for sale financial assets		**920**	(494)
(1,283)	**2,389**	**Other comprehensive income for the year, net of income tax**		**920**	(494)
(7,164)	**23,226**	**TOTAL COMPREHENSIVE INCOME FOR THE YEAR**		**8,942**	(2,758)
(5.881)	**20.837**	Basic earnings/ (loss) per share for the year - **in baizas**	C6	**8.022**	(2.264)

The attached notes A1 to D6 form an integral part of these financial statements
The report of the auditors is set forth on page 1.

STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2009

	Share capital (Note B12)	*Legal reserve (Note B13)*	*Fair value reserve (Note B14)*	*Retained earnings*	*Total*
	RO'000	*RO'000*	*RO'000*	*RO'000*	*RO'000*
Balance as at 1 January 2008	50,000	1,760	-	(2,486)	49,274
Total comprehensive income for the year					
Net loss for the year	-	-	-	(2,264)	(2,264)
Other comprehensive income					
Net change in fair value of available for sale financial assets	-	-	(494)	-	(494)
Total comprehensive income for the year	-	-	(494)	(2,264)	(2,758)
Transactions with owners, recorded directly in equity					
Issue expenses	-	(29)	-	-	(29)
Final call on issued shares	50,000	-	-	-	50,000
Balance as at 31 December 2008	100,000	1,731	(494)	(4,750)	96,487

	RO'000	***RO'000***	***RO'000***	***RO'000***	***RO'000***
Balance as at 1 January 2009	**100,000**	**1,731**	**(494)**	**(4,750)**	**96,487**
Total comprehensive income for the year					
Net profit for the year	**-**	**-**	**-**	**8,022**	**8,022**
Other comprehensive income					
Net change in fair value of available for sale financial assets	**-**	**-**	**920**	**-**	**920**
Total comprehensive income for the year	**-**	**-**	**920**	**8,022**	**8,942**
Transactions with owners, recorded directly in equity					
Transfer to legal reserve	**-**	**802**	**-**	**(802)**	**-**
Balance as at 31 December 2009	**100,000**	**2,533**	**426**	**2,470**	**105,429**

The attached notes A1 to D6 form an integral part of these financial statements
The report of the auditors is set forth on page 1.

STATEMENT OF CHANGES IN EQUITY (Continued)
Year ended 31 December 2009

	Share capital (Note B12)	*Legal reserve (Note B13)*	*Fair value reserve (Note B14)*	*Retained earnings*	*Total*
	USD'000	*USD'000*	*USD'000*	*USD'000*	*USD'000*
Balance as at 1 January 2008	129,870	4,571	-	(6,457)	127,984
Total comprehensive income for the year					
Net loss for the year	-	-	-	(5,881)	(5,881)
Other comprehensive income					
Net change in fair value of available for sale financial assets	-	-	(1,283)	-	(1,283)
Total comprehensive income for the year	-	-	(1,283)	(5,881)	(7,164)
Transactions with owners, recorded directly in equity					
Issue expenses	-	(75)	-	-	(75)
Final call on issued shares	129,870	-	-	-	129,870
Balance as at 31 December 2008	259,740	4,496	(1,283)	(12,388)	250,615

	USD'000	***USD'000***	***USD'000***	***USD'000***	***USD'000***
Balance as at 1 January 2009	**259,740**	**4,496**	**(1,283)**	**(12,338)**	**250,615**
Total comprehensive income for the year					
Net profit for the year	**-**	**-**	**-**	**20,837**	**20,837**
Other comprehensive income					
Net change in fair value of available for sale financial assets	**-**	**-**	**2,389**	**-**	**2,389**
Total comprehensive income for the year	**-**	**-**	**2,389**	**20,837**	**23,226**
Transactions with owners, recorded directly in equity					
Transfer to legal reserve	**-**	**2,083**	**-**	**(2,083)**	**-**
Balance as at 31 December 2009	**259,740**	**6,579**	**1,106**	**6,416**	**273,841**

The attached notes A1 to D6 form an integral part of these financial statements
The report of the auditors is set forth on page 1.

STATEMENT OF CASH FLOWS
Year ended 31 December 2009

2008 USD'000	2009 USD'000		2009 RO'000	2008 RO'000
		OPERATING ACTIVITIES		
(6,849)	**23,658**	Net profit/(loss) for the year before tax	**9,108**	(2,637)
		Adjustments for:		
2,678	**4,151**	Depreciation	**1,598**	1,031
14,018	**7,071**	Impairment for credit losses	**2,722**	5,397
94	**283**	Reserve interest on loans	**109**	36
(3)	**(29)**	Profit on sale of property, equipment and fixtures	**(11)**	(1)
-	**44**	Profit (loss) on sale of investment securities	**17**	-
(2,286)	**(1,844)**	Interest on investment	**(710)**	(880)
7,652	**33,334**	**Operating profit before changes in operating assets and liabilities**	**12,833**	2,946
(885,096)	**(403,507)**	Changes in loans and advances (gross)	**(155,350)**	(340,762)
(3,192)	**(8,430)**	Changes in other assets	**(3,246)**	(1,229)
(2,597)	**(132,629)**	Changes in certificates of deposit	**(51,062)**	(1,000)
792,445	**739,054**	Changes in customers' deposits	**284,536**	305,091
(32,987)	**(19,741)**	Changes in due to banks and other money market deposits	**(7,600)**	(12,700)
6,869	**18,262**	Changes in other liabilities	**7,031**	2,645
(116,906)	**226,343**	**Net cash from/(used in) operating activities**	**87,142**	(45,009)
		INVESTING ACTIVITIES		
(44,979)	**29,800**	Purchase of investments (net)	**11,473**	(17,317)
12,987	**(28,831)**	Proceeds from sale/ redemption of investments	**(11,100)**	5,000
(8,127)	**(5,753)**	Purchase of property, equipment and fixtures	**(2,215)**	(3,129)
2,286	**1,844**	Interest received on investments	**710**	880
16	**46**	Proceeds from sale of property, equipment and fixtures	**18**	6
(37,817)	**(2,894)**	**Net cash used in investing activities**	**(1,114)**	(14,560)
		FINANCING ACTIVITIES		
129,870	-	Receipts from final call on shares	**-**	50,000
(75)	-	Share issue expenses/paid	**-**	(29)
129,795	**-**	**Net cash from financing activities**	**-**	49,971
(24,930)	**223,449**	**NET CHANGE IN CASH AND CASH EQUIVALENTS**	**86,028**	(9,598)
257,213	**232,283**	**CASH AND CASH EQUIVALENT AT BEGINNING OF THE YEAR**	**89,429**	99,027
232,283	**455,732**	**CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR**	**175,457**	89,429
		REPRESENTING:		
243,927	**343,558**	Cash and balances with Central Banks	**132,270**	93,912
179,782	**52,675**	Due from Banks and other money market placements	**20,280**	69,216
23,208	**115,083**	Available-for-sale investments	**44,307**	8,935
(214,634)	**(55,584)**	Due to Banks and other money market deposits	**(21,400)**	(82,634)
232,283	**455,732**		**175,457**	89,429

NOTES TO FINANCIAL STATEMENTS
At 31 December 2009

A1 LEGAL STATUS AND PRINCIPAL ACTIVITIES

Bank Sohar SAOG ("the Bank") was established in the Sultanate of Oman on 4 March 2007 as a joint stock company and is primarily engaged in corporate and retail banking activities within 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 Bank started commercial operations from 9 April 2007. The registered address of the Bank is PO Box 44, Hai Al Mina, Postal Code 114, Muscat, Sultanate of Oman.

The Bank employed **448** employees as of 31 December 2009 (31 December 2008: 400).

A2 BASIS OF PREPARATION

A2.1 Statement of compliance

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

The financial statements were approved by the Board of Directors on **26 January 2010.**

A2.2 Basis of measurement

The financial statements have been prepared under the historical cost convention except for the following:

- derivative financial instruments are measured at fair value
- financial instruments at fair value through statement of comprehensive income are measured at fair value
- available for sale financial assets are measured at fair value

A2.3 Functional and presentation currency

These financial statements are presented in Rials Omani rounded, except as indicated, to the nearest thousand Rials Omani. The functional currency of the Bank's operations is Rial Omani.

A2.4 Use of estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that effect the application of accounting policies and reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

The estimates and associated assumptions are based on industry data and various other factors that are believed by the Bank to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources.

The estimates and underlying assumptions are reviewed on a regular basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods. Estimates considered by the Bank to have a significant risk of material adjustment in subsequent periods primarily consist of the provision for impairment of loans and advances.

A2 BASIS OF PREPARATION *(continued)*

A2.5 Changes in accounting policies

A2.5.a Overview

Effective 1 January 2009 the Bank has changes its accounting policies in the following areas:

- Determination and presentation of operating segments
- Presentation of financial statements

A2.5.b Determination and presentation of operating segments

As of 1 January 2009 the Bank determines and presents operating segments based on the information that internally is provided to the Bank's Chief Executive Officer ("CEO"), who is Bank's chief operating decision maker. The change in accounting policy is due to the adoption of IFRS 8 *Operating Segments.* Previously operating segments were determined and presented in accordance with IAS 14 *Segment Reporting.* The new accounting policy in respect of operating segment disclosure is as follows:

An operating segment is the component of the Bank that engages in business activities from which it may earn revenues and incur expenses, including revenue and expenses that relate to transaction with any of the Bank's other components, whose operating results are reviewed regularly by the Bank's CEO to make decisions about resources allocated to the segment and assess its performance, and for which discrete financial information is available. Segment results that are reported to the Bank's CEO include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets and income tax assets and liabilities.

Comparative segment information has been represented in conformity with the transitional requirement. Since the change in accounting policy impacts presentation and disclosure aspects, there is no impact in earnings per share.

A.2.5.c Presentation of financial statements

The Bank applies revised IAS 1 *Presentation of Financial Statements (2007),* which became effective as of 1 January 2009. As a result, the Bank presents in the statement of changes in equity all owner changes in equity, whereas all non-owner changes in the equity are presented in the statement of comprehensive income.

Comparative information has been represented in conformity with the revised standard. Since the change in accounting policy only impacts presentation aspects, there is no impact in earnings per share.

A3 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently by the Bank to all periods presented in these financial statements.

A3.1 Foreign currency translation

Transaction in foreign currencies are translated into respective functional currency of the operation at spot exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated into the functional currency at the spot exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for the effective interest and payments during the period, and the amortised cost in the foreign currency translated at the spot exchange rate at the end of the period. The non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated into the functional currency at the spot exchange rate at the date the fair value was determined. Foreign currency differences arising on retranslation are recognized in profit or loss. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

NOTES TO FINANCIAL STATEMENTS

At 31 December 2009

A3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

A3.2 Revenue & expense recognition

A3.2.a Interest income & expense

Interest income and expense is recognised in the statement of comprehensive income using the effective interest rate method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. The effective interest rate is established on initial recognition of the financial asset/liability and is not revised subsequently. Interest Income and expense presented in the statement of comprehensive income include:

- Interest on financial assets and liabilities at amortised cost on an effective interest rate basis.
- Interest on available for sale investment securities on an effective interest basis.
- Fair value changes in qualifying derivatives (including hedge ineffectiveness) and related hedged items when interest rate risk is the hedged risk.

A3.2.b Fair value gains and losses

Fair value changes on derivatives held for risk management purposes, and financial assets other than loans and advances are carried at fair value through profit or loss, are presented in 'net income on other financial instruments carried at fair value' in the statement of comprehensive income.

Net Income from financial instruments at fair value relates to non-qualifying derivatives held for risk management purposes and financial assets designated at fair value through profit or loss, and include all realised and unrealised fair value changes interest, dividend and foreign exchange differences.

A3.2.c Dividend income

Dividend income is recognized when the right to receive income is established.

A3.2.d Fees and commission

Fees and commission income and expenses that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Fees and Commission income include account servicing fees, credit related fees, advisory fees, administration fees and other management fees, sales commission, placement fees and syndication fees. These are recognised as the related services are performed.

A3.2.e Provisions

A provision is recognised if, as a result of a past event, the Bank has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are equivalent to the amortised value of the future liabilities.

A3.2.f Offsetting of income & expense

Income and expenses are presented on a net basis only when permitted by the accounting standards, or for gains and losses arising from a group of similar transactions such as in the Banks trading activity

A3.3 Financial Assets and Liabilities

A3.3.a Recognition

The Bank initially recognises loans and advances, deposits; debt securities issued and subordinated liabilities on the date that they are originated. All other financial assets and liabilities (including assets and liabilities designated at fair value through statement of comprehensive income) are initially recognised on the trade date at which the Bank becomes a party to the contractual provisions of the instrument.

Where assets are received without consideration these are accounted at 'fair value' in the statement of financial position under the appropriate classification and consequently 'deferred income' is created and disclosed as 'other liabilities'. Deferred income is recognized as 'other income' based on the encumbrance stipulated or usage of the asset.

A3.3.b Derecognition

The Bank derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or its transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. The Bank derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

NOTES TO FINANCIAL STATEMENTS
At 31 December 2009

A3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

A3.3 Financial Assets and Liabilities *(continued)*

A3.3.c Offsetting of assets and liabilities
Financial assets and liabilities are set off and the net amount presented in the statement of financial position when, and only when, the Bank has a legal right to set off the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.
.
A3.3.d Amortised cost measurement
The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

A3.3.e Fair value measurement
For investments traded in organized financial markets, fair value is determined by reference to quoted market prices at the close of business on the statement of financial position date.

The fair value of interest-bearing items is estimated based on discounted cash flows using interest rates for items with similar terms and risk characteristics. For investments where there is no quoted market price, a reasonable estimate of the fair value is determined by reference to the current market value of a similar investment, or is based on the expected discounted cash flows. Investments having short term maturities are not discounted.

A3.3.f Loans and advances
Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and the Bank does not intend to sell immediately or in the near term. Loans and advances are carried at amortized cost less specifically identified after collective allowance for impairment. Specific provisions are made against the carrying amount of loans and advances that are identified as being impaired based on regular reviews of outstanding balances to reduce the impaired loans and advances to their recoverable amounts.

A3.3.g Identification and measurement of impairment
Collective impairment provisions are maintained in respect of incurred losses, which have not yet been specifically identified within the portfolio of loans and advance. The recoverable amount of loans and advances is calculated at the present value of the expected future cash flows discounted at the original effective interest rate. Short-term balances are not discounted.

When a loan is known to be uncollectible, all the necessary legal procedures have been completed, and the final loss has been determined, the loan is written off directly to the profit or loss in statement of comprehensive income. Non specific provisions are established to meet the credit risks inherent within the loans and advances portfolio. This provision has been made to cover potential impairment which although not specifically identified, is to be present in the Bank's portfolio of financial assets based on industry data.

A3.3.h Cash and cash equivalents
Cash and cash equivalents consist of cash on hand, unrestricted balances held with central Banks and highly liquid financial assets with original maturities of less than three months, which are subject to insignificant risk of changes in their fair value, and are used by the Bank in management of its short term commitments. Cash and cash equivalents are carried at amortised cost in the statement of financial position.

A3.3.i Balances due from Banks and other money market placements
These are stated at amortized cost less any allowance for impairment.

A3.3.j Designation at fair value through profit or loss
This category includes those assets and liabilities, which are initially recognized at cost and re-measured at fair value. All related realized and unrealized gains or losses are included in the profit or loss in the period in which they arise.

A3.3.k Trading assets and liabilities
Trading assets and liabilities are those assets and liabilities that the Bank acquires or incurs principally for the purpose of selling or repurchasing in the near term, or holds as a portfolio that is managed together for short term profit or position taking.

Trading assets and liabilities are initially recognised and subsequently measured at fair value in the statement of financial position with transaction costs taken directly to profit or loss. All changes in fair value realised or unrealised are recognised as a part of net trading income in the profit or loss. Trading assets and liabilities are not reclassified subsequent to their initial recognition. Interest earned or dividends received are included in the interest and dividend income respectively.

NOTES TO FINANCIAL STATEMENTS
At 31 December 2009

A3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

A3.3 Financial Assets and Liabilities *(continued)*

A3.3.l Non-trading investments
These are classified as follows:
- Available for sale
- Held to maturity

All non –trading investments are initially recognised at cost, being the fair value of the consideration given including acquisition costs.

Available for sale
Available-for-sale financial investments are those which are designated as such or do not qualify to be classified as designated at fair value through profit or loss, held to maturity or loans and advances. They may be sold in response to liquidity needs or changes in market conditions. They include equity instruments, money market papers and other debt instruments.

After initial measurement, available for sale financial investments are subsequently measured at fair value. Unrealised gains and losses are recognised directly in other comprehensive income. When the security is disposed off, the cumulative gain or loss previously recognised in equity is recognised in the profit or loss. 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 are reported as interest income using the effective interest rate. Dividends earned whilst holding available for sale financial investments are recognised in the profit or loss when the right of income has been established. The losses arising from impairment of such investments are recognised in profit or loss.

Held to maturity
Held-to-maturity investments are non derivative assets with fixed or determinable payments and fixed maturity that the Bank has the positive intent and ability to hold financial assets to maturity; they are stated at amortized cost using the effective interest rate method less impairment losses. Any sale or re-classification of a significant amount of held-to-maturity investments not close to their maturity would result in the re-classification of all held-to-maturity investments as available-for-sale, and prevent the Bank from classifying investment securities as held-to-maturity for the current and following two financial years.

A3.3.m Repurchase and resale agreements
Assets sold with a commitment to repurchase (repos) at a specified future date are recognised in the statement of financial position and are measured in accordance with accounting policies for trading securities or investment securities. The counterparty liability for amounts received under these agreements is included in due to Banks and other financial institutions. The difference between sale and repurchase price is treated as interest expense and accrued over the life of the repo agreement. Assets purchased with a corresponding commitment to resell at a specified future date (reverse repos) are not recognised in the statement of financial position and the amounts paid under these agreements are included in deposits with Banks and other financial institutions. The difference between purchase and resale price is treated as interest income and accrued over the life of the reverse repo agreement.

A3.3.n Acceptances
Acceptances are disclosed on the statement of financial position under other assets with corresponding liability disclosed under other liabilities. Therefore, there is no off statement of financial position commitment for acceptances.

A3.3.o Derivatives held for risk management purposes
Derivatives held for risk management purposes include all derivative assets and liabilities that are not classified as trading assets and liabilities. Derivative held for risk management purposes are measured at fair value in the statement of financial position. The treatment of changes in their fair value depends on their classification into the following categories:

Fair value hedge
When a derivative is designated as a hedge of the change in fair value of a recognised asset or liability or a firm commitment, changes in the fair value of the derivative are recognised immediately in profit or loss together with changes in the fair value of the hedged item that are attributable to the hedged risk.

If the derivative expires or is sold, terminated, or exercised, no longer meets the criteria for fair value hedge accounting, or the designation is revoked, hedge accounting is discontinued. Any adjustment up to that point, to a hedged item for which the effective interest method is used, is amortised to profit or loss as part of the recalculated effective interest rate of the item over its remaining life.

NOTES TO FINANCIAL STATEMENTS
At 31 December 2009

A3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

A3.3 Financial Assets and Liabilities *(continued)*

A3.3.o Derivatives held for risk management purposes *(continued)*

Cash flow hedge
When a derivative is designated as the hedging instrument in a hedge of the variability in cash flows attributable to a particular risk associated with a recognised asset or a liability or a highly probable forecast transaction that could affect profit or loss, the effective portion of changes in the fair value of the derivative is recognised in other comprehensive income in hedging reserve. The amount recognised in other comprehensive income is reclassified to profit or loss as a reclassification adjustment in the same period as the hedged cash flows affect profit or loss, and in the same line item in the statement of comprehensive income. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in profit or loss.

If the hedging derivative expires or is sold, terminated, or exercised, or the hedge no longer meets the criteria for cash flow hedge accounting, or the hedge designation is revoked, then the hedge accounting is discontinued prospectively. In a discontinued hedge of a forecast transaction the cumulative amount recognized in other comprehensive income from the period when the hedge was effective is reclassified from the equity to profit or loss as a reclassification adjustment when the forecast transaction occurs and affects profit or loss. If the forecast transaction is no longer expected to occur, then the balance in other comprehensive income is reclassified immediately to profit or loss as a reclassification adjustment.

Other non-trading derivative
When a derivative is not held for trading, and is not designated in a qualifying hedge relationship, all changes in its fair value are recognised immediately in profit or loss as a component of net income on other financial instruments carried at fair value.

A3.3.p Property, equipment and fixtures
Items of property, equipment and fixtures are measured at cost less accumulated depreciation and impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset. Depreciation is provided on a straight-line basis over the estimated useful lives of property, equipment and fixtures. The estimated useful lives for the current period are as follows:

	Years
Motor vehicles	3
Furniture & fixtures	3
Office Equipment	6-7
Production Software	6-7

The assets' residual values, useful lives and depreciation methods are reviewed and adjusted if appropriate at each statement of financial position date.

A3.3.q Deposits, debt securities issued and subordinated liabilities
All money market and customer deposits are carried at amortised cost. Deposits, debt securities issued and subordinated liabilities are measured at their amortized cost using the effective interest method. The Bank classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instrument.

A3.3.r Impairment of financial assets and provisions
An assessment is made at each statement of financial position date to determine whether there is objective evidence that a specific financial asset may be impaired. If such evidence exists, the estimated recoverable amount of that asset is determined and any impairment loss, based on the net present value of future anticipated cash flows or fair value, recognised in profit or loss.

A provision for onerous contracts is recognised when the expected benefits to be derived by the Bank from the contract are lower than the unavoidable cost of meeting its obligation under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. The Bank also recognises any impairment loss on the asset associated with the contract before establishing a provision.

A3.4 Taxation

Taxation is provided for based on the tax laws of Sultanate of Oman. Income tax comprises current and deferred tax. Income tax expense is recognised in the profit or loss except to the extent that it relates to items recognised directly in equity or other comprehensive income.

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

NOTES TO FINANCIAL STATEMENTS
At 31 December 2009

A3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

A3.4 Taxation *(continued)*

Deferred tax is provided using the statement of financial position method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary difference when they reverse, based on the laws that have been enacted or substantively enacted by the statement of financial position 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 utilized. Deferred tax assets are reviewed at each statement of financial position date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

A3.5 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.

A3.6 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 or sell the asset. Regular way purchase 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.

A3.7 Leases

Operating lease payments are recognised as an expense in the profit or loss on a straight-line basis over the lease term.

A3.8 Financial Guarantees

Financial guarantees are contracts that require the Bank to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment, when due in accordance with the terms of a debt instrument.
Financial guarantee liabilities are initially recognised at their fair value, and the initial fair value is amortised over the life of the financial guarantee. The guarantee liability is subsequently carried at the higher of this amortised amount and the present value of any expected payment (when a payment under the guarantee has become probable). The unamortized value or present value of the expected payment arising from the financial guarantee as the case may be is included in the other liabilities.

A3.9 Employee benefits

A3.9.a Terminal benefits
The terminal benefits for Omani employees are provided in accordance with the Sultanate of Oman's Social Insurance Law of 1991, and are recognised as an expense in the profit or loss as incurred.

The Bank's obligation in respect of non Omani terminal benefits, which is an unfunded defined benefit retirement plan, is amount of future benefit that such employees have earned in return for their services in the current and prior periods. The obligation is calculated using the project unit credit methods and is discounted to its present value.

A3.9.b Short term benefits
Short term benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.
A provision is recognised for the amount expected to be paid if the Bank has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

A3.10 Earnings per share

The Bank presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the period. Annualised EPS is calculated by annualizing the basic EPS for the whole year. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise convertible notes or similar instruments.

A3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

A3.11 Segment reporting

An operating segment is the component of the Bank that engages in business activities from which it may earn revenues and incur expenses, including revenue and expenses that relate to transaction with any of the Bank's other components, whose operating results are reviewed regularly by the Bank's CEO (being the chief operating decision maker) to make decisions about resources allocated to each segment and assess its performance, and for which discrete financial information is available.

A3.12 Comparative figures

The corresponding figures included for comparative purposes have been reclassified to conform to the presentation in the current year.

A3.13 New standards and interpretations not yet adopted

A number of new standards, amendment to the standards and interpretations are not yet effective for the year ended 31 December 2009, and have not been applied in preparing these financial statements. None of this will have an effect on the financial statement of the Bank, with exception of:

- IFRS 9 *Financial Instruments*, published on 12 November 2009 as part of phase I of IASB's comprehensive project to replace IAS 39, deals with classification and measurement of financial assets. The requirements of this standard represents a significant change from the existing requirements in IAS 39 in respect of financial assets. This standard contains two primary measurement categories for financial assets: amortised cost and fair value. A financial asset would be measured at amortised cost if it is held within a business model whose objective is to hold assets in order to correct contractual cash flows, and the asset's contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding. All other financial assets would be measured at fair value. The standard eliminates the existing IAS 39 categories held to maturity, available for sale and loans and receivables. For an investment in equity instrument which is not held for trading, the standard permits irrevocable election, on initial recognition, on an individual share by share basis, to present all fair value changes from the investment in other comprehensive income. No amount recognized in other comprehensive income would ever be reclassified to profit or loss at later date. However, dividend on such investments are recognized in profit or loss, rather than other comprehensive income unless they clearly represent a partial recovery of cost of the investment. Investment in equity instruments in respect of which an entity does not elect to present fair value changes in other comprehensive income would be measured at fair value with changes in fair value recognized in profit or loss.

  The standard required that derivatives embedded in contracts with a host that a financial asset within the scope of the standard are not separated; instead the hybrid financial instrument is assessed in its entirety as to whether it should be measured at amortised cost or fair value.

  The standard is effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted.

  The Bank is currently in the process of evaluating the potential effect of this standard. Given the nature of the Bank's operations, this standard may have a significant impact on the Bank's financial statements.

- Amendments to IAS 39 *Financial Instruments: Recognition and measurement – eligible hedged items* clarifies that the application of existing principals that determines whether specific risks or portions of cash flows are eligible for designation in hedging relationship. The amendments will become mandatory for the Bank's 2010 financial statements, with retrospective application required. The amendments are not expected to have a significant impact on the financial statements.

NOTES TO FINANCIAL STATEMENTS

At 31 December 2009

B1 CASH AND BALANCES WITH CENTRAL BANK

31 December 2008 USD'000	31December 2009 USD'000		31December 2009 RO'000	31 December 2008 RO'000
10,403	**11,914**	Cash	**4,587**	4,005
13	**13**	Insurance deposit with Central Bank of Oman	**5**	5
1,091	**1,299**	Capital deposit with Central Bank of Oman	**500**	420
232,420	**330,332**	Unrestricted balances with Central Banks	**127,178**	89,482
243,927	**343,558**		**132,270**	93,912

The capital and insurance deposits with the Central Bank of Oman cannot be withdrawn without the approval of the Central Bank of Oman.

B2 DUE FROM BANKS AND OTHER MONEY MARKET PLACEMENTS

31 December 2008 USD'000	31December 2009 USD'000		31Decembr 2009 RO'000	31 December 2008 RO'000
		Local Currency:		
7,792	-	Due from other Banks	-	3,000
7,792	-		-	3,000
		Foreign Currency:		
165,419	**40,000**	Due from other Banks	**15,400**	63,686
6,571	**12,675**	Nostro balances abroad	**4,880**	2,530
171,990	**52,675**		**20,280**	66,216
179,782	**52,675**		**20,280**	69,216

B3 LOANS AND ADVANCES

31 December 2008 USD'000	31 December 2009 USD'000		31 December 2009 RO'000	31 December 2008 RO'000
858,919	**1,126,035**	Corporate loans	**433,523**	330,684
814,071	**950,462**	Personal loans	**365,928**	313,417
1,672,990	**2,076,497**	Gross loans and advances	**799,451**	644,101
(24,836)	**(30,177)**	Impairment allowance on portfolio basis	**(11,618)**	(9,562)
(712)	**(2,725)**	Impairment allowance on specific basis	**(1,049)**	(274)
1,647,442	**2,043,595**	Net loans and advances	**786,784**	634,265

Personal loans include RO 15,525,020 provided to staff on concessional terms (2008: RO 12,346,914).

NOTES TO FINANCIAL STATEMENTS
At 31 December 2009

B3 LOANS AND ADVANCES *(continued)*

Loans and advances comprise:

31 December 2008 USD'000	***31 December 2009 USD'000***		***31 December 2009 RO'000***	*31 December 2008 RO'000*
1,533,824	**1,938,772**	Loans	**746,427**	590,522
101,761	**101,099**	Overdrafts	**38,923**	39,178
29,940	**22,616**	Loan against trust receipts	**8,707**	11,527
7,465	**14,010**	Bills discounted	**5,394**	2,874
1,672,990	**2,076,497**	Gross loans and advances	**799,451**	644,101
(24,836)	**(30,177)**	Impairment allowance on portfolio basis	**(11,618)**	(9,562)
(712)	**(2,725)**	Impairment allowance on specific basis	**(1,049)**	(274)
1,647,442	**2,043,595**	Net loans and advances	**786,784**	634,265

As per the CBO requirements, the movement in the impairment allowance is as analysed below:

31 December 2008 USD'000	***31December 2009 USD'000***	**Loan Loss Provision**	***31 December 2009 RO'000***	*31 December 2008 RO'000*
		Impairment allowance on portfolio basis		
11,436	**24,836**	Balance at beginning of year	**9,562**	4,403
13,400	**5,341**	Provided during the year	**2,056**	5,159
24,836	**30,177**	Balance at the end of the year	**11,618**	9,562
		Impairment allowance on specific basis		
-	**618**	Balance at beginning of year	**238**	-
618	**1,961**	Provided during the year	**755**	238
-	**(231)**	Write back during the year	**(89)**	-
618	**2,348**	Balance at the end of the year	**904**	238
		Reserve Interest		
-	**94**	Balance at beginning of year	**36**	-
94	**309**	Reserved during the year	**119**	36
-	**(26)**	Interest released during the year	**(10)**	-
94	**377**	Balance at end of the year	**145**	36

Impairment allowance on portfolio basis is established to meet the credit risks inherent within the loans and advances on portfolio basis.

All loans and advances require payment of interest, some at fixed rates and others at rates that reprice prior to maturity. Interest reserve account is maintained by the Bank to comply with rules, regulations and guidelines issued by CBO against loans and advances which are impaired. As of 31 December 2009, loans and advances on which interest is not being accrued or where interest has been reserved amounted to RO 1,932,153 (2008: RO 772,436).

NOTES TO FINANCIAL STATEMENTS
At 31 December 2009

B3 LOANS AND ADVANCES *(continued)*

The table below analyses the concentration of loans and advances by economic sector:

31 December 2008 USD'000	31December 2009 USD'000		31Decembr 2009 RO'000	31 December 2008 RO'000
4,948	**-**	Agriculture	**-**	1,905
94,096	**1,351**	Government	**520**	36,227
167,712	**220,390**	Construction	**84,850**	64,569
53,491	**106,839**	Financial institutions	**41,133**	20,594
91,554	**248,262**	International trade	**95,581**	35,248
51,800	**86,491**	Manufacturing	**33,299**	19,943
814,071	**950,462**	Personal	**365,928**	313,417
36,784	**129,161**	Services	**49,727**	14,162
62,016	**47,392**	Non-resident	**18,246**	23,876
8,444	**22,847**	Mining and Quarrying	**8,796**	3,251
288,074	**263,302**	Others	**101,371**	110,909
1,672,990	**2,076,497**		**799,451**	644,101

B4 AVAILABLE-FOR-SALE INVESTMENTS

	Carrying/ Fair value 31December 2009 RO'000	Cost 31December 2009 RO'000	Carrying/ Fair value 31 December 2008 RO'000	Cost 31 December 2008 RO'000
Unquoted investments	**348**	**515**	20,629	20,889
Quoted investments	**61,342**	**61,551**	5,159	7,781
Balance at end of year	**61,690**	**62,066**	25,788	28,670
	USD'000	**USD'000**	USD'000	USD'000
Unquoted investments	**904**	**1,338**	53,582	54,257
Quoted investments	**159,330**	**159,873**	13,400	20,210
Balance at end of year	**160,234**	**161,211**	66,982	74,467

Treasury bills and Certificates of Deposit were earlier shown as held to maturity and valued at amortised cost. During the year 2007, a significant amount of treasury bills were sold before maturity and accordingly under IAS 39 these are classified as available-for-sale investments and valued at fair value.

During the year, the Bank has recorded in the profit or loss, impairment amounting to RO 86,000 (2008: RO 2,388,000) on its investments.

NOTES TO FINANCIAL STATEMENTS
At 31 December 2009

B5 PROPERTY, EQUIPMENT AND FIXTURES

	*Freehold Land** *RO'000*	*Production Software* *RO'000*	*Furniture & fixtures* *RO'000*	*Office Equipments* *RO'000*	*Motor Vehicles* *RO'000*	*Capital Work in progress* *RO'000*	*Total* *RO'000*
At cost:							
1 January 2009	**7,000**	**3,523**	**1,389**	**2,602**	**341**	**246**	**15,101**
Additions	**-**	**1,017**	**352**	**165**	**40**	**641**	**2,215**
Disposals/ reallocation	**-**	**-**	**-**	**-**	**(30)**	**-**	**(30)**
Carrying value at cost	**7,000**	**4,540**	**1,741**	**2,767**	**351**	**887**	**17,286**
Accumulated depreciation:							
1 January 2009	**-**	**(641)**	**(299)**	**(326)**	**(105)**	**-**	**(1,371)**
Depreciation	**-**	**(606)**	**(467)**	**(409)**	**(116)**	**-**	**(1,598)**
Disposals/ reallocation	**-**	**-**	**-**	**-**	**23**	**-**	**23**
Total depreciation	**-**	**(1,247)**	**(766)**	**(735)**	**(198)**	**-**	**(2,946)**
Net carrying value at 31 December 2009	**7,000**	**3,293**	**975**	**2,032**	**153**	**887**	**14,340**
Net carrying value at 31 December 2008	7,000	2,882	1,090	2,276	236	246	13,730
Net carrying value at 31 December 2009 – USD'000	**18,182**	**8,553**	**2,532**	**5,279**	**397**	**2,304**	**37,247**
Net carrying value at 31 December 2008 – USD'000	18,182	7,486	2,831	5,912	613	639	35,662

Free hold land represents three plots of land received by the Bank as grant from the Government of Sultanate of Oman during the year 2008, one plot is in Sohar and two plots are in Muscat region. The Bank has recorded the land based on the average valuation of the two professional valuators. The valuation was conducted on an estimated market value basis assuming a willing buyer and seller acting prudently, knowledgeably and assuming the price is not affected by extraneous circumstances. An amount equivalent to the value of the land has also been recorded as deferred income and disclosed as a separate liability.

B6 OTHER ASSETS

31 December 2008 *USD'000*	***31 December 2009*** ***USD'000***		***31December 2009*** ***RO'000***	*31 December 2008* *RO'000*
7,952	**5,659**	Interest receivable	**2,179**	3,062
1,322	**2,113**	Prepayments and deposits	**814**	509
1,956	**14,210**	Acceptances	**5,471**	753
1,795	**457**	Fair value receivables – forward exchange contracts	**176**	691
969	**81**	Deferred tax asset *(Note C5)*	**31**	373
1,590	**1,494**	Others	**575**	612
15,584	**24,014**		**9,246**	6,000

NOTES TO FINANCIAL STATEMENTS
At 31 December 2009

B7 DUE TO BANKS AND OTHER MONEY MARKET DEPOSITS

31 December 2008 USD'000	31December 2009 USD'000		31December 2009 RO'000	31 December 2008 RO'000
		Local Currency:		
25,974	**15,584**	Money market borrowings	**6,000**	10,000
25,974	**15,584**		**6,000**	10,000
		Foreign Currency:		
208,400	**40,000**	Money market borrowings	**15,400**	80,234
208,400	**40,000**		**15,400**	80,234
234,374	**55,584**		**21,400**	90,234

B8 CERTIFICATES OF DEPOSIT

The Bank had received approval from Central Bank of Oman to issue Certificates of Deposits (CDs) up to RO 100 million in 2007. Pursuant to the approval CD's amounting to RO 90,100,000 were issued with a maturity ranging from 2 – 5 years, at a fixed rate of interest and denominated in Riyal Omani. CDs amounting to RO 58.1 million were redeemed during the year. During the year, the Bank received approval from CBO to issue further CDs worth RO 100,000,000. The Bank has issued CDs amounting to RO 7,037,863 during the year with maturity ranging from 2-3 years at a fixed interest rate and denominated in Rial Omani.

B9 CUSTOMERS' DEPOSITS

31 December 2008 USD'000	30 December 2009 USD'000		31December 2009 RO'000	31 December 2008 RO'000
146,177	**541,325**	Demand deposits	**208,410**	56,278
191,351	**241,382**	Saving deposits	**92,932**	73,670
1,084,036	**1,378,036**	Term deposits	**530,544**	417,354
1,587	**1,462**	Margin accounts	**563**	611
1,423,151	**2,162,205**		**832,449**	547,913
		Retail customers:		
71,275	**95,000**	Term deposits	**36,575**	27,441
18,938	**11,683**	Demand deposits	**4,498**	7,291
191,351	**241,382**	Saving deposits	**92,932**	73,670
		Corporate customers:		
1,012,761	**1,283,036**	Term deposits	**493,969**	389,913
127,239	**529,642**	Demand deposits	**203,912**	48,987
1,587	**1,462**	Others	**563**	611
1,423,151	**2,162,205**		**832,449**	547,913

NOTES TO FINANCIAL STATEMENTS
At 31 December 2009

B10 DEFERRED INCOME

31 December 2008 USD'000	31December 2009 USD'000		31December 2009 RO'000	31 December 2008 RO'000
18,182	**18,182**	Deferred income on grants received from the Government in the form of freehold land	**7,000**	7,000
18,182	**18,182**		**7,000**	7,000

B11 OTHER LIABILITIES

31 December 2008 USD'000	31December 2009 USD'000		31December 2009 RO'000	31 December 2008 RO'000
15,722	**22,982**	Interest payable	**8,848**	6,053
2,400	**4,821**	Staff entitlements	**1,856**	924
1,956	**14,210**	Acceptances	**5,471**	753
3	**39**	Accounts payable in suspense	**15**	1
239	**569**	Fair value payables – forward exchange contracts	**219**	92
8,711	**5,561**	Other accruals and provisions	**2,141**	3,354
29,031	**48,182**		**18,550**	11,177
		Staff entitlements are as follows:		
210	**322**	End of service benefits	**124**	81
2,190	**4,499**	Other liabilities	**1,732**	843
2,400	**4,821**		**1,856**	924
		Movements in the end of service benefits liability are as follows:		
68	**210**	Liability as at 1 January	**81**	26
145	**169**	Expenses recognized in the profit or loss	**65**	56
(3)	**(57)**	End of service benefits paid	**(22)**	(1)
210	**322**	Liability as at end of the year	**124**	81

B12 SHARE CAPITAL

The authorised, issued and paid up share capital of the Bank is 1,000,000,000 shares of RO 0.100 each.

The Bank issued 100,000,000 shares of RO 1 each to the public in December 2006. An amount of RO 0.500 with the issue expenses of RO 0.020 was payable on application. Each RO 1 share was split into 10 shares of RO 0.100 each in an extraordinary general meeting held on 26 April 2008. Consequently the balance callable amount was reduced to RO 0.050 per share. The balance RO 0.050 per share was called upon to be paid by the shareholders on 10 May 2008. The Bank has received the call money on the issued shares.

As of 31 December 2009, the following shareholders held 10% or more of the Bank's capital, either individually or together with family members.

	Number of shares	*% Holding*
Al Ghadeer Investments	**160,000,000**	**16.00%**
The Royal Court of Affairs	**145,690,340**	**14.57%**

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B13 LEGAL RESERVE

In accordance with the Commercial Companies Law of Oman of 1974, an annual appropriation of 10% of the net profit for the year is required to be made to legal reserve until such time that the accumulated reserve is equal to at least one third of the Bank's issued share capital which has been complied with. The legal reserves also include issue expenses of RO 0.020 per share which were collected from the shareholders of the Bank net of issue expenses. The movement in the reserve has been disclosed in the statement of changes in equity.

B14 FAIR VALUE RESERVE

The fair value reserve includes the cumulative net change in the fair value of the available-for-sale investments until the investment is derecognised or impaired.

B15 NET ASSETS PER SHARE

The calculation of net assets per share is based on net assets of RO 105,429,000 as at 31 December 2009 attributable to ordinary shareholders on 1,000,000,000 ordinary shares, being the number of shares outstanding as at 31 December 2009 (RO 96,487,000 as at 31 December 2008).

B16 CONTINGENT LIABILITIES AND COMMITTMENTS

B16.1 Contingent liabilities

Standby letters of credit and guarantees commit the Bank to make payments on behalf of customers' contingent upon the failure of the customer to perform under the terms of the contract.

31 December 2008 USD'000	***31 December 2009 USD'000***		***31 December 2009 RO'000***	*31 December 2008 RO'000*
131,901	**204,049**	Guarantees	**78,559**	50,782
44,909	**73,683**	Documentary letters of credit	**28,368**	17,290
176,810	**277,732**		**106,927**	68,072

The table below analyses the concentration of contingent liabilities by economic sector:

31 December 2008 USD'000	***31December 2009 USD'000***		***31December 2009 RO'000***	*31 December 2008 RO'000*
19,958	**34,894**	Government	**13,434**	7,684
63,621	**73,818**	Construction	**28,420**	24,494
24,569	**39,881**	International trade	**15,354**	9,459
4,143	**4,475**	Manufacturing	**1,723**	1,595
-	**34,701**	Financial Institution	**13,360**	-
3,761	**4,208**	Transport and communication	**1,620**	1,448
52,491	**62,948**	Services	**24,235**	20,209
8,267	**22,807**	Others	**8,781**	3,183
176,810	**277,732**		**106,927**	68,072

NOTES TO FINANCIAL STATEMENTS
At 31 December 2009

B16 CONTINGENT LIABILITIES AND COMMITTMENTS *(continued)*

B16.2 Commitments

Contractual obligation including contracts for purchase and sale of foreign exchange are stated at fair value as commitments. Credit related commitments include commitments to extend credit, standby letters of credit and guarantees, which are designed to meet the requirements of the Bank's customers. Commitments to extend credit represent contractual commitments to make loans and revolving credits. Commitments generally have fixed expiry dates or other termination clauses and require the payment of a fee. Since commitments may expire without being drawn upon, the total contract amounts do not necessarily represent future cash requirements.

31 December 2008 USD'000	***31December 2009 USD'000***		***31 December 2009 RO'000***	*31 December 2008 RO'000*
2,273	**2,629**	Capital commitments	**1,012**	875
431,524	**66,737**	Credit related commitments	**25,694**	166,137
433,797	**69,366**		**26,706**	167,012

B17 RELATED PARTY TRANSACTIONS

In the ordinary course of business the Bank conducts transactions with certain of its directors, shareholders, senior management and companies in which they have a significant interest. These transactions are conducted on an arms length basis and are approved by the Bank's management.

No specific provision has been recognised in respect of the loans given to related parties.

The aggregate amount of balances and the income and expenses generated with such related parties are as follows:

31 December 2008 USD'000	***31December 2009 USD'000***		***31December 2009 RO'000***	*31 December 2008 RO'000*
		A) Loans and Advances		
17,426	**38,416**	Opening Balance	**14,790**	6,709
85,800	**127,597**	Loans disbursed during the year	**49,125**	33,033
(64,810)	**(129,109)**	Loans repayment during the year	**(49,707)**	(24,952)
38,416	**36,904**	Closing balances for the year	**14,208**	14,790
		B) Deposits		
42,564	**54,185**	Opening Balance	**20,861**	16,387
410,600	**92,413**	Deposits received during the year	**35,579**	158,081
(398,979)	**(96,236)**	Deposits repaid during the year	**(37,051)**	(153,607)
54,185	**50,362**	Closing balances for the year	**19,389**	20,861
		C) Statement of comprehensive income		
1,439	**2,509**	Interest income	**966**	554
(3,629)	**(6,397)**	Interest expense	**(2,463)**	(1,397)
		D) Senior Management compensation		
3,878	**4,917**	Salaries and other short term benefits	**1,893**	1,493
169	**153**	**E) Directors sitting fees**	**59**	65

NOTES TO FINANCIAL STATEMENTS

At 31 December 2009

B18 FAIR VALUE OF FINANCIAL INSTRUMENTS

It is the Bank's intention to hold loans and advances to customers to maturity. As a result the fair value of performing loans is arrived at using the discounted cash flow analysis based on a discount rate equal to the prevailing market rates of interest for loans having similar terms and conditions. The Bank considers that the fair value of financial instruments is not significantly different to their carrying value at each of those dates.

The table below sets out the classification of each class of financial assets and liabilities, and their fair values (excluding accrued interest) as at 31 December 2009:

As at 31 December 2009	***Cash***	***Loans and receivables***	***Amortised cost***	***Available for sale***	***Total carrying amount***	***Fair value***
	RO 000	***RO 000***	***RO 000***	***RO 000***	***RO 000***	***RO 000***
Cash and balances with Central Bank	**4,587**	**127,683**	**-**	**-**	**132,270**	**132,270**
Due from banks and other money market placements	**-**	**20,280**	**-**	**-**	**20,280**	**20,280**
Loans and advances	**-**	**786,784**	**-**	**-**	**786,784**	**786,784**
Available for sale investments	**-**	**-**	**-**	**61,690**	**61,690**	**61,690**
Total	**4,587**	**934,747**	**-**	**61,690**	**1,001,024**	**1,001,024**
Due to banks and other money market deposits	**-**	**-**	**21,400**	**-**	**21,400**	**21,400**
Certificates of deposit	**-**	**-**	**39,038**	**-**	**39,038**	**39,038**
Customers' deposits	**-**	**-**	**832,449**	**-**	**832,449**	**832,449**
Total	**-**	**-**	**892,887**	**-**	**892,887**	**892,887**

As at 31 December 2008	*Cash*	*Loans and receivables*	*Amortised cost*	*Available for sale*	*Total carrying amount*	*Fair value*
	RO 000	*RO 000*	*RO 000*	*RO 000*	*RO 000*	*RO 000*
Cash and balances with Central Bank	4,005	89,907	-	-	93,912	93,912
Due from banks and other money market placements	-	69,216	-	-	69,216	69,216
Loans and advances	-	634,265	-	-	634,265	634,265
Available for sale investments	-	-	-	25,788	25,788	25,788
Total	4,005	793,388	-	25,788	823,181	823,181
Due to banks and other money market deposits	-	-	90,234	-	90,234	90,234
Certificates of deposit	-	-	90,100	-	90,100	90,100
Customers' deposits	-	-	547,913	-	547,913	547,913
Total	-	-	728,247	-	728,247	728,247

NOTES TO FINANCIAL STATEMENTS
At 31 December 2009

B18 FAIR VALUE OF FINANCIAL INSTRUMENTS *(continued)*

As at 31 December 2009	***Cash***	***Loans and receivables***	***Amortised cost***	***Available for sale***	***Total carrying amount***	***Fair value***
	USD'000	***USD'000***	***USD'000***	***USD'000***	***USD'000***	***USD'000***
Cash and balances with Central Bank	**11,914**	**331,644**	**-**	**-**	**343,558**	**343,558**
Due from banks and other money market placements	**-**	**52,675**	**-**	**-**	**52,675**	**52,675**
Loans and advances	**-**	**2,043,595**	**-**	**-**	**2,043,595**	**2,043,595**
Available for sale investments	**-**	**-**	**-**	**160,234**	**160,234**	**160,234**
Total	**11,914**	**2,427,914**	**-**	**160,234**	**2,600,062**	**2,600,062**
Due to banks and other money market deposits	**-**	**-**	**55,584**	**-**	**55,584**	**55,584**
Certificates of deposit	**-**	**-**	**101,397**	**-**	**101,397**	**101,397**
Customers' deposits	**-**	**-**	**2,162,205**	**-**	**2,162,205**	**2,162,205**
Total	**-**	**-**	**2,319,186**	**-**	**2,319,186**	**2,319,186**

As at 31 December 2008	*Cash*	*Loans and receivables*	*Amortised cost*	*Available for sale*	*Total carrying amount*	*Fair value*
	USD'000	*USD'000*	*USD'000*	*USD'000*	*USD'000*	*USD'000*
Cash and balances with Central Bank	10,403	233,524	-	-	243,927	243,927
Due from banks and other money market placements	-	179,782	-	-	179,782	179,782
Loans and advances	-	1,647,442	-	-	1,647,442	1,647,442
Available for sale investments	-	-	-	66,982	66,982	66,982
Total	10,403	2,060,748	-	66,982	2,138,133	2,138,133
Due to banks and other money market deposits	-	-	234,374	-	234,374	234,374
Certificates of deposit	-	-	234,026	-	234,026	234,026
Customers' deposits	-	-	1,423,151	-	1,423,151	1,423,151
Total	-	-	1,891,551	-	1,891,551	1,891,551

NOTES TO FINANCIAL STATEMENTS
At 31 December 2009

B18 FAIR VALUE OF FINANCIAL INSTRUMENTS *(continued)*

Valuation of financial instruments:

The Bank measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

Level 1: Quoted market prices (unadjusted) in an active markets for an identical instrument.
Level 2: Valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in market that are considered less than active; or other valuation techniques where all significant inputs are or indirectly observable from market data.

Fair value of financial assets and liabilities that are traded in active market are based on quoted market prices.

The table below analyses financial instruments measured at fair value at the end of the reporting period, by the level in the fair value hierarchy into which the fair value measurement is categorized

	31 December 2009			*31 December 2008*		
	Level 1	**Level 2**	**Total**	Level 1	Level 2	Total
	RO 000	***RO 000***	***RO 000***	*RO 000*	*RO 000*	*RO 000*
Derivative assets held for risk management purpose	**176**	**-**	**176**	691	-	691
Available for sale investment	**61,342**	**348**	**61,690**	5,159	20,629	25,788
	61,518	**348**	**61,866**	5,850	20,629	26,479
Derivative liabilities held for risk management purpose	**219**	**-**	**219**	92	-	92

	31 December 2009			*31 December 2008*		
	Level 1	**Level 2**	**Total**	Level 1	Level 2	Total
	USD'000	***USD'000***	***USD'000***	*USD'000*	*USD'000*	*USD'000*
Derivative assets held for risk management purpose	**457**	**-**	**457**	1,795	-	1,795
Available for sale investment	**159,330**	**904**	**160,234**	13,400	53,582	66,982
	159,787	**904**	**160,691**	15,195	53,582	68,777
Derivative liabilities held for risk management purpose	**569**	**-**	**569**	239	-	239

B19 DERIVATIVES

In the ordinary course of business the Bank enters into various types of transactions that involve derivative financial instruments. A derivative financial instrument is a financial contract between two parties where payments are dependent upon movements in price in one or more underlying financial instrument, reference rate or index. The derivative financial instruments used by the Bank are described below:

B19.1 Derivative product types

Forwards are contractual agreements to either buy or sell a specified currency, commodity or financial instrument at a specific price and date in the future.

Swaps are contractual agreements between two parties to exchange interest or foreign currency differentials based on a specific notional amount. For interest rate swaps, counter parties generally exchange fixed and floating rate interest payments based on a notional value in a single currency.

Options are contractual agreements that convey the right, but not the obligation, to either buy or sell a specific amount of a commodity, foreign currency or financial instrument at a fixed price, either at a fixed future date or at any time within a specified period. The Bank transacts only in currency options and interest risk option for its customers. The Bank does not engage in the writing of options.

B19.2 Derivatives held or issued for hedging purposes

As part of its asset and liability management the Bank uses derivatives for hedging purposes in order to reduce its exposure to currency and interest rate risks. Hedging specific financial instruments and forecasted transactions as well as strategic hedging against overall statement of financial position exposures achieve this.

The Bank uses forward foreign exchange contracts, options and currency swaps to hedge against specifically identified currency risks. The Bank uses forward foreign exchange contracts to hedge against exposures in various currencies to meet the net open position limit of 40% as mandated by the Central Bank of Oman.

In addition, the Bank uses interest rate swaps to hedge against the cash flows risks arising from certain fixed interest rate loans and deposits.

For interest rate risk strategic hedging is carried out by monitoring the re-pricing of financial assets and liabilities and entering into interest rate swaps to hedge a proportion of the interest rate exposure. As strategic hedging does not qualify for special hedge accounting, the related derivatives are accounted for as trading instruments.

NOTES TO FINANCIAL STATEMENTS
At 31 December 2009

B19 DERIVATIVES *(continued)*

B19.2 Derivatives held or issued for hedging purposes *(continued)*

The table below shows the notional amounts of derivative financial instruments as on the reporting date, which are the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured.

As at 31 December 2009

		Notional amounts by term to maturity		
	Notional amount	***Within 3 months***	***3 - 12 months***	***1 - 5 years***
	RO'000	***RO'000***	***RO'000***	***RO'000***
Forward foreign exchange purchase contracts	**112,561**	**104,122**	**8,439**	**-**
Forward foreign exchange sales contracts	**112,459**	**104,037**	**8,422**	**-**
	USD'000	***USD'000***	***USD'000***	***USD'000***
Forward foreign exchange purchase contracts	**292,366**	**270,447**	**21,919**	**-**
Forward foreign exchange sales contracts	**292,101**	**270,226**	**21,875**	**-**

As at 31 December 2008

		Notional amounts by term to maturity		
	Notional amount	*Within 3 months*	*3 - 12 months*	*1 - 5 years*
	RO'000	*RO'000*	*RO'000*	*RO'000*
Forward foreign exchange purchase contracts	33,935	30,120	3,815	-
Forward foreign exchange sales contracts	56,446	29,526	26,920	-
	USD'000	*USD'000*	*USD'000*	*USD'000*
Forward foreign exchange purchase contracts	88,143	78,234	9,909	-
Forward foreign exchange sales contracts	146,613	76,691	69,922	-

NOTES TO FINANCIAL STATEMENTS

At 31 December 2009

C1 INTEREST INCOME

31 December 2008 USD'000	31December 2009 USD'000		31December 2009 RO'000	31 December 2008 RO'000
3,730	**561**	Due from Banks	**216**	1,436
79,724	**134,434**	Loans and advances to customers	**51,757**	30,694
2,286	**1,844**	Investment securities	**710**	880
85,740	**136,839**		**52,683**	33,010

C2 INTEREST EXPENSE

31 December 2008 USD'000	31December 2009 USD'000		31December 2009 RO'000	31 December 2008 RO'000
7,356	**7,296**	Deposits from Banks	**2,809**	2,832
50,309	**70,172**	Deposits from customers	**27,016**	19,369
57,665	**77,468**		**29,825**	22,201

C3 OTHER OPERATING INCOME

31 December 2008 USD'000	31December 2009 USD'000		31December 2009 RO'000	31 December 2008 RO'000
371	**1,151**	Net gain from foreign exchange dealings	**443**	143
17,351	**14,795**	Fees and commission	**5,696**	6,680
	392	Dividend income	**151**	-
252	**(44)**	Realised gains on financial investments through profit or loss	**(17)**	97
17,974	**16,294**		**6,273**	6,920

C4 OTHER OPERATING EXPENSES

31 December 2008 USD'000	31 December 2009 USD'000		31December 2009 RO'000	31 December 2008 RO'000
2,488	**2,839**	Establishment costs	**1,093**	958
9,008	**11,070**	Operating and administration costs	**4,262**	3,468
169	**153**	Directors sitting fees	**59**	65
11,665	**14,062**		**5,414**	4,491

NOTES TO FINANCIAL STATEMENTS
At 31 December 2009

C5 INCOME TAX

a) Recognised in the profit or loss

31 December 2008 USD'000	***31December 2009 USD'000***		***31December 2009 RO'000***	*31 December 2008 RO'000*
		Tax expenses/(income)		
-	**1,932**	Current tax	**744**	-
(969)	**889**	Deferred tax expenses/ (income)	**342**	(373)
(969)	**2,821**	Total tax expenses/ (income)	**1,086**	(373)

The Bank is liable to income tax for the year 2009 in accordance with the income tax laws of the Sultanate of Oman at the rate of 12% on taxable profits in excess of RO 30,000.

b) Reconciliation

(6,850)	**23,678**	Accounting profit (loss) for the year	**9,116**	(2,637)
-	**2,831**	Income tax	**1,090**	-
673	**39**	Non deductible expenses	**15**	259
(23)	**(52)**	Tax exempt revenue	**(20)**	(9)
(1,619)	**3**	Prior year deferred tax	**1**	(623)
(969)	**2,821**	Deferred tax expense	**1,086**	(373)

c) Deferred tax asset

31 December 2008 USD'000	***31December 2009 USD'000***		***31December 2009 RO'000***	*31 December 2008 RO'000*
891	**-**	Tax losses	**-**	343
78	**80**	Fair value adjustment on investments	**31**	30
969	**80**		**31**	373

d) Tax assessment

The assessments of the Bank for the years 2007 and 2008 have not yet been agreed with the Secretariat General for taxation at the Ministry of Finance. The Bank is of the opinion that additional taxes, if any, related to the open tax years would not be significant to the financial position of the Bank as at 31 December 2009.

NOTES TO FINANCIAL STATEMENTS
At 31 December 2009

C6 BASIC EARNINGS /(LOSS) PER SHARE

Earnings/ (loss) per share is calculated by dividing the net profit/(loss) for the year by the weighted average number of shares outstanding during the year.

31 December 2008 USD'000	***31December 2009 USD'000***		***31December 2009 RO'000***	*31 December 2008 RO'000*
(5,881)	**20,837**	Net profit/(loss) for the year	**8,022**	(2,264)
1,000,000	**1,000,000**	Weighted average number of shares of RO 0.100 each outstanding during the year (in thousands) **	**1,000,000**	1,000,000
(5.881)	**20.837**	Net earnings/(loss) per share for the year (in baizas)	**8.022**	(2.264)

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

** Weighted average number of shares for 2008 has been restated taking into effect the split and for comparability.

NOTES TO FINANCIAL STATEMENTS
At 31 December 2009

D FINANCIAL RISK MANAGEMENT

The primary objective of the risk management system is to safeguard the Bank's capital, its financial resources and from various risks. The Bank has exposure to the following risk from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk
- Operational risk

The Board of Directors has overall responsibility for the establishment and oversight of the Bank's risk management framework. The Board has established the Asset and Liability Committee (ALCO), Credit and Risk committee, which are responsible for developing and monitoring Bank's risk management policies in their specified areas. All Board committees report regularly to the Board of Directors on their activities.

The Bank's risk management policies are established to identify and analyse the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management polices and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Bank, through its training and management procedures, aims to develop a constructive control environment, in which all employees understand their roles and obligations.

The Bank Audit Committee is responsible for monitoring compliance with the Bank's risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Bank. The Bank Audit Committee is assisted in these functions by Internal Audit. Internal Audit undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

D1 CREDIT RISK

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Bank's loans and advances to customers and other Banks and investment securities. For risk management reporting purposes the Bank considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, country and sector risk)

D1.1 Management of credit risk

The Board of Directors has delegated responsibility for the monitoring of credit risk to its Credit & Risk Committee. A separate Risk Management Department, reporting to the CEO, is responsible for following:

- Formulating credit risk policies in consultation with business units, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements.
- Establishing the authorization structure for the approval and renewal of credit facilities.
- Reviewing and assessing credit risk. The Board Credit & Risk Committee assesses all credit exposures in excess of designated limits, prior to facilities being committed to customers by the business unit concerned. Renewals and reviews of facilities are subject to the same review process. The process also includes approval by Risk of borrower ratings arrived at by the business units.
- Limiting concentrations of exposure to counterparties, geographies and industries (for loans and advances), and by issuer, market liquidity and country (for investment securities).
- Developing and maintaining the Bank's risk grading in order to categorise exposures according to the degree of risk of financial loss faced and to focus management on the attendant risks.
- Reviewing compliance of business units with agreed exposure limits, including those for selected industries, country risk and product types. Ensuring always to be with in the single obligor limit and also within the concentration risk limit, for various sectors, which are continuously monitored.
- Providing advice, guidance and specialist skills to business units to promote best practice throughout the Bank in the management of credit risk.

Each business unit is required to implement Bank's credit risk policies and procedures, with credit approval authorities delegated from the Bank's Credit & Risk Committee. Business units have their counter parts in Risk Management, having specialised expertise in managing risks typical to these business units. Regular audits of business units and Bank's Credit processes are undertaken by Internal Audit.

NOTES TO FINANCIAL STATEMENTS
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D FINANCIAL RISK MANAGEMENT *(continued)*

D1 CREDIT RISK *(continued)*

D1.2 Exposure to credit

The credit exposure of the Bank as on the reporting date is as follows:

	31 December 2009			*31 December 2008*		
	Gross Loans and advances to Customers	***Placements with Banks***	***Investment securities***	*Gross Loans and advances to Customers*	*Placements with Banks*	*Investment securities*
	RO'000	***RO'000***	***RO'000***	*RO'000*	*RO'000*	*RO'000*
Carrying amount	**799,451**	**20,280**	**61,690**	644,101	69,216	25,788
Past due but not impaired						
0 -30 days	**343**	**-**	**-**	9,892	-	-
31-60 days	**928**	**-**	**-**	2,531	-	-
61-89 days	**715**	**-**	**-**	173	-	-
	1,986	**-**	**-**	12,596	-	-
Past due and impaired	**1,932**	**-**	**-**	772	-	-
Neither past due nor impaired	**795,533**	**20,280**	**61,690**	630,733	69,216	25,788

	31 December 2009			*31 December 2008*		
	Gross Loans and advances to Customers	***Placements with Banks***	***Investment securities***	*Gross Loans and advances to Customers*	*Placements with Banks*	*Investment securities*
	USD'000	***USD'000***	***USD'000***	*USD'000*	*USD'000*	*USD'000*
Carrying amount	**2,076,497**	**52,675**	**160,234**	1,672,990	179,782	66,982
Past due but not impaired						
0 -30 days	**891**	**-**	**-**	25,694	-	-
31-60 days	**2,410**	**-**	**-**	6,574	-	-
61-89 days	**1,857**	**-**	**-**	449	-	-
	5,158	**-**	**-**	32,717	-	-
Past due and impaired	**5,018**	**-**	**-**	2,005	-	-
Neither past due nor impaired	**2,066,321**	**52,675**	**160,234**	1,638,268	179,782	66,982

NOTES TO FINANCIAL STATEMENTS
At 31 December 2009

D FINANCIAL RISK MANAGEMENT *(continued)*

D1 CREDIT RISK *(continued)*

D1.3 Impaired loans and securities

Impaired loans and securities are loans and securities for which the Bank determines that it is probable that it will be unable to collect all the principal and interest due according to the contractual terms of the loan /securities agreement.

D1.3.a Past due but not impaired

Loans and securities where contractual interest or principal payments are past due but the Bank believes that impairment is not appropriate on the basis of the level of security /collateral available and /or the stage of collection of amounts owed by the Bank.

D1.3.b Loans with negotiated terms

Loans with negotiated terms are loans that have been restructured due to deterioration in the borrower's financial position and where the Bank has made concessions that it would not otherwise consider. Once the loan is restructured it remains in this category independent of satisfactory performance after restructuring.

D1.3.c Allowances for impairment

The Bank establishes an allowance for impairment losses that represents its estimate of incurred losses in its loan portfolio. The main components of this allowance are specific loss components that relates to individually significant exposures, and a collection loan loss allowance established for Banks of homogenous assets in respect of losses that have been incurred but have not been identified on loans subject to individual assessment for impairment.

D1.3.d Write off policy

The Bank writes off a loan /security balance (and any related allowances for impairment losses) when the Bank determines that the loans/securities are uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the borrower /issuer's financial position such that the borrower issuer can no longer pay the obligation, or that proceeds from the collateral will not be sufficient to pay back the entire exposure. For smaller balance standardized loans, charge off decisions generally are based on a product specific past due status.

Set out below is an analysis of gross and net (of allowances for impairment) amounts of individually impaired assets by risk classification.

	31 December 2009		*31 December 2008*	
	Loans and Advances		*Loans and Advances*	
Particulars	***Gross***	***Net***	*Gross*	*Net*
	RO'000	***RO'000***	*RO'000*	*RO'000*
Sub-standard	**469**	**342**	415	302
Doubtful	**929**	**442**	341	196
Loss	**534**	**99**	16	-
	1,932	**883**	772	498
	USD'000	***USD'000***	*USD'000*	*USD'000*
Sub-standard	**1,218**	**888**	1,078	785
Doubtful	**2,413**	**1,148**	886	509
Loss	**1,387**	**257**	42	-
	5,018	**2,293**	2,006	1,294

NOTES TO FINANCIAL STATEMENTS
At 31 December 2009

D FINANCIAL RISK MANAGEMENT *(continued)*

D1 CREDIT RISK *(continued)*

D 1.4 Collateral securities

The Bank holds collateral against the loans and advances to customers in the form of mortgage interests over property, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of the collateral assessed at the time of borrowing and updated once in three years, except when a loan is individually assessed as impaired. The shares of MSM listed companies which are taken as securities are valued on daily basis to manage the risks of extreme volatility.

An estimate of the fair value of collateral and other security enhancements held against financial assets is shown below:

31 December 2008 Gross loans and advances USD'000	***31December 2009 Gross loans and advances USD'000***		***31December 2009 Gross loans and advances RO'000***	*31 December 2008 Gross loans and advances RO'000*
		Against past due but not impaired		
22,234	**24,226**	Property	**9,327**	8,560
1,782	**-**	Fixed deposits	**-**	686
608	**31**	Equity	**12**	234
24,624	**24,257**		**9,339**	9,480
		Against past due and impaired		
423	**886**	Property	**341**	163
423	**886**		**341**	163
		Against neither past due nor impaired		
301,842	**411,416**	Property	**158,395**	116,209
14,974	**36,868**	Fixed deposits	**14,194**	5,765
56,574	**58,016**	Equity	**22,336**	21,781
36,026	**38,364**	Guarantees	**14,770**	13,870
409,416	**544,664**		**209,695**	157,625
434,463	**569,807**	**Total**	**219,375**	167,268

D1.5 Settlement Risk

Settlement risk is the risk of loss due to the failure of a party to honour its obligations to deliver cash, securities or other assets as contractually agreed on the day of settlement

In foreign exchange trades, though there is fulfilment of both the legs of the transaction on the settlement date as is common practice between trading partners (free settlement), there will be risk on account of different time zones. In these cases, the settlement risk is mitigated through the execution of bilateral payment netting agreements.

NOTES TO FINANCIAL STATEMENTS
At 31 December 2009

D FINANCIAL RISK MANAGEMENT *(continued)*

D1 CREDIT RISK *(continued)*

D1.6 Concentrations

The Bank monitors concentration of credit risk by sector and by geographic location. An analysis of concentration of credit risk at the reporting date is shown below:

	31 December 2009			*31 December 2008*		
	Gross loans and advances to customers	***Placements with Bank***	***Investment securities***	*Gross loans and advances to customers*	*Placements with Bank*	*Investment securities*
	RO'000	***RO'000***	***RO'000***	*RO'000*	*RO'000*	*RO'000*
Concentration by sector						
Corporate	**433,523**	**-**	**5,107**	330,684	-	3,134
Personal	**365,928**	**-**	**-**	313,417	-	-
Sovereign	**-**	**-**	**56,583**	-	-	22,654
Banks	**-**	**20,280**	**-**	-	69,216	-
	799,451	**20,280**	**61,690**	644,101	69,216	25,788
Concentration by location						
Middle east	**799,451**	**16,033**	**50,315**	639,866	63,137	16,632
Europe	**-**	**1,236**	**11,048**	-	569	8,414
North America	**-**	**2,842**	**327**	-	1,454	742
South Asia	**-**	**158**	**-**	2,310	4,022	-
Australia	**-**	**11**	**-**	-	33	-
Central Asia	**-**	**-**	**-**	1,925	1	-
	799,451	**20,280**	**61,690**	644,101	69,216	25,788
	USD'000	***USD'000***	***USD'000***	*USD'000*	*USD'000*	*USD'000*
Concentration by sector						
Corporate	**1,126,035**	**-**	**13,265**	858,919	-	8,140
Personal	**950,462**	**-**	**-**	814,071	-	-
Sovereign	**-**	**-**	**146,969**	-	-	58,842
Banks	**-**	**52,675**	**-**	-	179,782	-
	2,076,497	**52,675**	**160,234**	1,672,990	179,782	66,982
Concentration by location						
Middle east	**2,076,497**	**41,644**	**130,689**	1,661,990	163,991	43,200
Europe	**-**	**3,210**	**28,696**	-	1,478	21,855
North America	**-**	**7,382**	**849**	-	3,777	1,927
South Asia	**-**	**410**	**-**	6,000	10,447	-
Australia	**-**	**29**	**-**	-	86	-
Central Asia	**-**	**-**	**-**	5,000	3	-
	2,076,497	**52,675**	**160,234**	1,672,990	179,782	66,982

Concentration by location for loans and advances is measured based on the location of the Bank entity holding the asset, which has a high correlation with the location of the borrower. Concentration by location for investment securities is measured based on the location of the issuer of the security. The Bank seeks to manage its credit risk exposure through diversification of lending activities to avoid undue concentrations of risk with Banks or customers in specific currency. It also obtains security when appropriate.

D FINANCIAL RISK MANAGEMENT *(continued)*

D2 LIQUIDITY RISK

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations from its financial obligations.

D2.1 Management of liquidity risk

The Banks approach to managing liquidity is to ensure , as far as possible , that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions without incurring unacceptable losses or risking damage to the Banks reputation. Bank has put in place a Board approved Contingency Liquidity Plan/Policy to facilitate management of liquidity

Liquidity risk is managed by the bank through closely monitoring the liquidity gap against the limit fixed.

Adequate liquidity is ensured by Central Treasury, which receives information from other business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. Central Treasury then maintains a portfolio of short-term liquid assets, largely made up of short-term liquid investment securities, loans and advances to Banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Bank as a whole. In this process due care is taken to ensure that the Bank complies with all the Central Bank regulations.

All liquidity policies and procedures are subject to review and approved by ALCO.

D2.2 Exposure to liquidity risk

The lending ratio, which is the ratio of the total loans and advances to customer deposits and capital, is monitored on a daily basis in line with the regulatory guidelines. Internally the lending ratio is set at a more conservative basis than required by regulation. The Bank also manages its liquidity risk on a monthly basis monitoring the liquid ratio which is a ratio of net liquid assets to total assets. For this purpose net liquid assets are considered as including cash and cash equivalents and investment grade debt securities for which there is an active and liquid market.

Details of the reported lending and liquid ratio as at 31 December 2009 were as follows:

	31 December 2009		*31 December 2008*	
	Lending ratio	***Liquid ratio***	*Lending ratio*	*Liquid ratio*
Average for the year	**83.70%**	**17.56%**	81.67%	21.37%
Maximum for the year	**85.30%**	**21.73%**	85.20%	33.17%
Minimum for the year	**81.60%**	**14.46%**	73.00%	16.59%

Residual contractual maturities of financial liabilities

The table below summarises the maturity profile of the Bank's liabilities as on the reporting date based on contractual repayment arrangements. The contractual maturities of assets and liabilities have been determined on the basis of the remaining period at the statement of financial position date to the contractual maturity date and do not take account of the effective maturities as indicated by the Bank's deposit retention history and the availability of liquid funds.

NOTES TO FINANCIAL STATEMENTS
At 31 December 2009

D FINANCIAL RISK MANAGEMENT *(continued)*

D2 LIQUIDITY RISK *(continued)*

D2.2 Exposure to liquidity risk *(continued)*

As at 31 December 2009:

	Carrying amount	*Gross Nominal Outflow*	*Within 3 months*	*3 - 12 months*	*Over 1 year*
	RO'000	*RO'000*	*RO'000*	*RO'000*	*RO'000*
Non-derivative liabilities					
Due to banks and other money market deposits	**21,400**	**21,816**	**21,816**	**-**	**-**
Certificates of deposits	**39,038**	**41,572**	**185**	**33,795**	**7,592**
Customers' deposits	**832,449**	**866,131**	**456,188**	**210,563**	**199,380**
Deferred income	**7,000**	**7,000**	**-**	**-**	**7,000**
Other liabilities	**18,550**	**18,550**	**18,550**	**-**	**-**
Total	**918,437**	**955,069**	**496,739**	**244,358**	**213,972**
	USD'000	*USD'000*	*USD'000*	*USD'000*	*USD'000*
Non-derivative liabilities					
Due to banks and other money market deposits	**55,584**	**56,665**	**56,665**	**-**	**-**
Certificates of deposits	**101,397**	**107,979**	**481**	**87,779**	**19,719**
Customers' deposits	**2,162,205**	**2,249,691**	**1,184,904**	**546,917**	**517,870**
Deferred income	**18,182**	**18,182**	**-**	**-**	**18,182**
Other liabilities	**48,182**	**48,182**	**48,182**	**-**	**-**
Total	**2,385,550**	**2,480,699**	**1,290,232**	**634,696**	**555,771**

As at 31 December 2008:

	RO'000	*RO'000*	*RO'000*	*RO'000*	*RO'000*
Non-derivative liabilities					
Due to banks and other money market deposits	90,234	91,630	83,554	1,662	6,414
Certificates of deposits	90,100	96,829	144	59,076	37,609
Customers' deposits	547,913	568,121	341,362	139,313	87,446
Deferred income	7,000	7,000	-	-	7,000
Other liabilities	11,177	11,177	11,177	-	-
Total	746,424	774,757	436,237	200,051	138,469
	USD'000	*USD'000*	*USD'000*	*USD'000*	*USD'000*
Non-derivative liabilities					
Due to banks and other money market deposits	234,374	238,000	217,023	4,317	16,660
Certificates of deposits	234,026	251,504	374	153,444	97,686
Customers' deposits	1,423,151	1,475,639	886,655	361,852	227,132
Deferred income	18,182	18,182	-	-	18,182
Other liabilities	29,031	29,031	29,031	-	-
Total	1,938,764	2,012,356	1,133,083	519,613	359,660

The Bank prepares a liquidity gap report to monitor the Banks short term liquidity position on the Rial denominated assets and liabilities in a time horizon spanning one month. The gap is adjusted for availability of instruments for repo or refinance and also for unavailed committed lines of credit, if any. This Statement of short term liquidity is to be reported to the ALCO every month and onward reported to Credit & Risk Committee.

NOTES TO FINANCIAL STATEMENTS
At 31 December 2009

D FINANCIAL RISK MANAGEMENT *(continued)*

D3 MARKET RISK

Market risk is the exposure to loss resulting from the changes in the interest rates, foreign currency exchange rates, equity prices and commodity prices. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return to risk.

D3.1 Measurement of market risk

The Bank commenced its operations in April 2007 and is presently engaged mainly in simple treasury business involving Spots, Forwards and Currency swaps. Since the positions are taken mainly for customer transactions, the complexity is further reduced. In view of above, the Bank measures and controls the risk by using a limit framework. As and when the Bank enters into complex transactions like derivatives, it will have more sophisticated models and techniques to measure market risk, supported by suitable mechanism.

D3.2 Management of market risks

The Bank separates its exposure to market risk between trading and non trading portfolios. Trading portfolios include all positions arising from market making and proprietary position taking, together with financial assets and liabilities that are managed on a fair value basis.

All foreign exchange risk within the Bank is transferred by Central Treasury to the trading book. Accordingly, the foreign exchange position is treated as a part of the Banks trading portfolio for risk management purpose. Foreign Currency Risk is monitored and managed by the Bank by establishment of Mid Office to monitor the market risk, and the risk is managed by putting in place Market Risk Management Policy, and implementing limit framework, reporting tools like Currency Position Report , Risk Analysis of Currency Position, Breach Analysis Report, and Dealer Limit Breach report.

Overall authority for market risk is vested in ALCO. The Risk Management function is responsible for development of detailed risk management policies (subject to approval by ALCO and Credit & Risk Committee of the Board).The Market Risk Policy is periodically reviewed to keep it up to date with the market developments.

D3.3 Exposure to interest rate risk – non trading portfolios

Interest rate risk arises from the possibility that changes in interest rates will affect future profitability or the fair values of financial instruments. The Bank is exposed to interest rate risk as a result of mismatches of interest rate and re-pricing tenure of rate sensitive assets and liabilities.

The effective interest rate (effective yield) of a monetary financial instrument is the rate used in a present value calculation which results in the carrying amount of the instrument. The rate is a historical rate for a fixed rate instrument carried at amortised cost and a current rate for a floating rate instrument or an instrument carried at fair value.

The principal risk to which non-trading portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instrument because of a change in market interest rates. Interest rate risk is managed principally through monitoring interest rate gaps and by having pre-approved limits for re-pricing bands. The ALCO is the monitoring body for compliance with these limits and is assisted by Risk Management in its day-to-day monitoring activities. A summary of the Bank's interest rate gap position on non-trading portfolios is provided in this note. Bank also assesses interest rate risk by assessing the interest rate impact (both earnings perspective and economic value perspective) as per Basel-II guidelines communicated by Central Bank of Oman by applying interest rate shock of 200 bps and takes measures to reduce the impact. Bank also assesses impact on earnings of interest rate shock of 50,100,300,400 and 500 bps.

NOTES TO FINANCIAL STATEMENTS
At 31 December 2009

D FINANCIAL RISK MANAGEMENT *(continued)*

D3 MARKET RISK *(continued)*

D3.3 Exposure to interest rate risk – non trading portfolios *(continued)*

The Bank's interest sensitivity position based on contractual re-pricing arrangements at 31 December 2009 was as follows:

As at 31 December 2009	On demand within 3 months RO'000	3 to 12 months RO'000	Over 1 year RO'000	Non interest sensitive RO'000	Total RO'000
Cash and balances with Central Bank	-	-	-	132,270	132,270
Due from Banks and other money market placements	20,280	-	-	-	20,280
Loans and advances	247,335	77,813	473,254	-	798,402
Available-for-sale investments	44,307	12,276	-	5,107	61,690
Property and equipment	-	-	-	14,340	14,340
Other assets	-	-	-	9,246	9,246
Total assets	311,922	90,089	473,254	160,963	1,036,228
Due to Banks and other money market deposits	21,400	-	-	-	21,400
Certificates of deposit	-	32,000	7,038	-	39,038
Customers' deposits	151,308	200,907	180,110	300,124	832,449
Deferred Income	-	-	-	7,000	7,000
Other liabilities	-	-	-	18,550	18,550
Income tax payable	-	-	-	744	744
Impairment allowance on portfolio basis	-	-	-	11,618	11,618
Shareholders' equity	-	-	-	105,429	105,429
Total liabilities and shareholders' equity	172,708	232,907	187,148	443,465	1,036,228
Total interest rate sensitivity gap	139,214	(142,818)	286,106	(282,502)	-
Cumulative interest rate sensitivity gap	139,214	(3,604)	282,502	-	-
	USD'000	USD'000	USD'000	USD'000	USD'000
Cash and balances with Central Bank	-	-	-	343,558	343,558
Due from Banks and other money market placements	52,675	-	-	-	52,675
Loans and advances	642,429	202,112	1,229,231	-	2,073,772
Available-for-sale investments	115,083	31,886	-	13,265	160,234
Property and equipment	-	-	-	37,247	37,247
Other assets	-	-	-	24,014	24,014
Total assets	810,187	233,998	1,229,231	418,084	2,691,500
Due to Banks and other money market deposits	55,584	-	-	-	55,584
Certificates of deposit	-	83,116	18,281	-	101,397
Customers' deposits	393,008	521,836	467,818	779,543	2,162,205
Deferred Income	-	-	-	18,182	18,182
Other liabilities	-	-	-	48,182	48,182
Income tax payable	-	-	-	1,932	1,932
Impairment allowance on portfolio basis	-	-	-	30,177	30,177
Shareholders' equity	-	-	-	273,841	273,841
Total liabilities and shareholders' equity	448,592	604,952	486,099	1,151,857	2,691,500
Total interest rate sensitivity gap	361,595	(370,954)	743,132	(733,773)	-
Cumulative interest rate sensitivity gap	361,595	(9,359)	733,773	-	-

NOTES TO FINANCIAL STATEMENTS
At 31 December 2009

D FINANCIAL RISK MANAGEMENT *(continued)*

D3 MARKET RISK *(continued)*

D3.3 Exposure to interest rate risk – non trading portfolios *(continued)*

As at 31 December 2008	*On demand within 3 months*	*3 to 12 months*	*Over 1 year*	*Non interest sensitive*	*Total*
	RO'000	*RO'000*	*RO'000*	*RO'000*	*RO'000*
Cash and balances with Central Bank	-	-	-	93,912	93,912
Due from Banks and other money market placements	69,216	-	-	-	69,216
Loans and advances	168,505	33,062	441,762	498	643,827
Available-for-sale investments	8,935	-	16,853	-	25,788
Property, equipment and fixtures	-	-	-	13,730	13,730
Other assets	-	-	-	6,000	6,000
Total assets	246,656	33,062	458,615	114,140	852,473
Due to Banks and other money market deposits	82,634	7,600	-	-	90,234
Certificates of deposits	-	58,100	32,000	-	90,100
Customers' deposits	207,980	131,902	78,083	129,948	547,913
Deferred income	-	-	-	7,000	7,000
Other liabilities	-	-	-	11,177	11,177
Impairment allowance on portfolio basis	-	-	-	9,562	9,562
Shareholders' equity	-	-	-	96,487	96,487
Total liabilities and shareholders' equity	290,614	197,602	110,083	254,174	852,473
Total interest rate sensitivity gap	(43,958)	(164,540)	348,532	(140,034)	-
Cumulative interest rate sensitivity gap	(43,958)	(208,498)	140,034	-	-

	USD'000	*USD'000*	*USD'000*	*USD'000*	*USD'000*
Cash and balances with Central Bank	-	-	-	243,927	243,927
Due from Banks and other money market placements	179,782	-	-	-	179,782
Loans and advances	437,675	85,875	1,147,434	1,294	1,672,278
Available-for-sale investments	23,208	-	43,774	-	66,982
Property, equipment and fixtures	-	-	-	35,662	35,662
Other assets	-	-	-	15,584	15,584
Total assets	640,665	85,875	1,191,208	296,467	2,214,215
Due to Banks and other money market deposits	214,634	19,740	-	-	234,374
Certificates of deposits	-	150,909	83,117	-	234,026
Customers' deposits	540,208	342,603	202,813	337,527	1,423,151
Deferred income	-	-	-	18,182	18,182
Other liabilities	-	-	-	29,031	29,031
Impairment allowance on portfolio basis	-	-	-	24,836	24,836
Shareholders' equity	-	-	-	250,615	250,615
Total liabilities and shareholders' equity	754,842	513,252	285,930	660,191	2,214,215
Total interest rate sensitivity gap	(114,177)	(427,377)	905,278	(363,724)	-
Cumulative interest rate sensitivity gap	(114,177)	(541,554)	363,724	-	-

NOTES TO FINANCIAL STATEMENTS
At 31 December 2009

D FINANCIAL RISK MANAGEMENT *(continued)*

D3 MARKET RISK *(continued)*

D3.3 Exposure to interest rate risk – non trading portfolios *(continued)*

The Bank's present business is being done with basic products. The risk is managed by taking views on interest rate movements for the year and realigning the portfolios and covenants of lending, so as to be proactive and minimize any adverse effects. The benchmark presently available in Oman is the 28-day Central Bank of Oman CD rate. The statistics on movement of the rate in CDs and weighted average cost of deposits and the interest on loans are furnished below:

	Jan 2009	**Feb 2009**	**Mar 2009**	**Apr 2009**	**May 2009**	**Jun 2009**	**Jul 2009**	**Aug 2009**	**Sep 2009**	**Oct 2009**
CD Rate	**0.09%**	**0.09%**	**0.06%**	**0.07%**	**0.06%**	**0.07%**	**0.06%**	**0.04%**	**0.03%**	**0.04%**
Deposit Rate	**2.51%**	**2.44%**	**2.37%**	**2.27%**	**2.32%**	**2.18%**	**2.23%**	**2.25%**	**2.22%**	**2.17%**
Lending Rate	**6.36%**	**6.44%**	**6.36%**	**6.32%**	**6.31%**	**6.33%**	**6.44%**	**6.50%**	**6.49%**	**6.50%**

	Jan 2008	Feb 2008	Mar 2008	Apr 2008	May 2008	Jun 2008	Jul 2008	Aug 2008	Sep 2008	Oct 2008	Nov 2008	Dec 2008
CD Rate	1.49%	0.80%	0.75%	0.67%	0.76%	0.73%	0.76%	0.77%	0.79%	0.81%	0.85%	0.91%
Deposit Rate	2.22%	2.09%	1.86%	1.83%	1.82%	1.81%	1.89%	1.91%	2.05%	2.23%	2.38%	2.49%
Lending Rate	6.80%	6.51%	6.30%	6.16%	5.99%	5.83%	5.80%	5.77%	5.79%	6.01%	6.18%	6.27%

The management of interest rate risk is one of the critical components of market risk management in banks. Interest rate risk primarily arises on account of mismatch of the Bank's assets with its liabilities that fund the assets. There are basically two approaches to management of interest rate risk in banks, namely "Earnings Approach" and "Economic Value Approach". The interest rate risk is assessed based on the impact of interest rate shock on the bank's earnings and capital.

The focus of earnings approach is understanding the impact of interest rate changes (shock) of assets and liabilities on the Net Interest Income of the Bank. It measures the extent of capability of the bank to absorb decline in net interest income caused by interest rate changes.

Interest rate risk also influences the present value of bank's asset and liabilities. Economic value perspective considers the present value of banks assets and liabilities and assesses the potential longer term impact of interest rates on the bank. This perspective focuses on how the economic value of bank's assets, liabilities, change with movements in interest rates and it reflects the impact of fluctuation in the interest rates on the economic value of the institution.

NOTES TO FINANCIAL STATEMENTS
At 31 December 2009

D FINANCIAL RISK MANAGEMENT *(continued)*

D3 MARKET RISK *(continued)*

D3.3 Exposure to interest rate risk – non trading portfolios *(continued)*

Basel-II Accord has recommended for assessing the impact of interest rate risk by applying 200 bps interest rate sensitivity and accordingly the impact of 200 bps interest rate shock on bank's earnings and capital is provided.

31 December 2008 USD'000	***31 December 2009 USD'000***		***31 December 2009 RO'000***	*31 December 2008 RO'000*
28,075	**59,371**	**Net interest income**	**22,858**	10,809
28,075	**59,371**	**Annualized net interest income**	**22,858**	10,809
274,482	**303,126**	**Capital**	**116,703**	105,676
		Based on 50 bps interest rate shock		
764	**932**	Impact of 50 bps interest rate shock	**359**	294
2.71%	**1.57%**	Impact as % to net interest income	**1.57%**	2.71%
0.28%	**0.31%**	Impact as % to capital	**0.31%**	0.28%
		Based on 100 bps interest rate shock		
1,525	**1,868**	Impact of 100 bps interest rate shock	**719**	587
5.43%	**3.15%**	Impact as % to net interest income	**3.15%**	5.43%
0.55%	**0.62%**	Impact as % to capital	**0.62%**	0.55%
		Based on 200 bps interest rate shock		
3,050	**3,735**	Impact of 200 bps interest rate shock	**1,438**	1,174
10.86%	**6.29%**	Impact as % to net interest income	**6.29%**	10.86%
1.11%	**1.23%**	Impact as % to capital	**1.23%**	1.11%

D3.4 Exposure to other market risks – non-trading portfolios

Credit spread risk on debt securities held by Central Treasury and equity price risk is subject to review by the bank, but is not currently significant in relation to the overall results and financial position of the Bank.

D3.5 Exposure to currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Board has set limits on the overall open position and for open position for each currency. The open position limits include overnight open position and intraday open position. Open positions are monitored on a daily basis and hedging strategies used to ensure positions are maintained within established limits. The Bank had the following net exposures denominated in foreign currencies:

	31 December 2009			*31 December 2008*		
	Assets RO'000	***Liabilities RO'000***	***Net Assets RO'000***	*Assets RO'000*	*Liabilities RO'000*	*Net Assets RO'000*
US Dollar	**176,273**	**208,221**	**(31,948)**	163,533	186,160	(22,627)
Saudi Rial	**56**	**-**	**56**	12,356	-	12,356
EUR	**18,599**	**18,554**	**45**	3,242	3,233	9
UAE Dirhams	**6,695**	**5,513**	**1,182**	4,617	115	4,502
Qatari Rial	**47**	**-**	**47**	586	-	586
Kuwaiti Dinar	**11**	**-**	**11**	21	-	21
Japanese Yen	**3**	**-**	**3**	-	-	-
Pound Sterling	**136**	**160**	**(24)**	8,769	8,772	(3)
Indian Rupee	**12**	**-**	**12**	10	-	10
Others	**68**	**-**	**68**	78	-	78

NOTES TO FINANCIAL STATEMENTS
At 31 December 2009

D FINANCIAL RISK MANAGEMENT *(continued)*

D3 MARKET RISK *(continued)*

D3.5 Exposure to currency risk *(continued)*

	31 December 2009			*31 December 2008*		
	Assets USD'000	***Liabilities USD'000***	***Net Assets USD'000***	*Assets USD'000*	*Liabilities USD'000*	*Net Assets USD'000*
US Dollar	**457,852**	**540,834**	**(82,982)**	424,761	483,532	(58,771)
Saudi Rial	**145**	**-**	**145**	32,094	-	32,094
EUR	**48,309**	**48,192**	**117**	8,421	8,397	24
UAE Dirhams	**17,390**	**14,319**	**3,071**	11,992	299	11,693
Qatari Rial	**122**	**-**	**122**	1,522	-	1,522
Kuwaiti Dinar	**29**	**-**	**29**	55	-	55
Japanese Yen	**8**	**-**	**8**	-	-	-
Pound Sterling	**353**	**416**	**(63)**	22,777	22,784	(7)
Indian Rupee	**31**	**-**	**31**	26	-	26
Others	**177**	**-**	**177**	203	-	203

The Bank takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board sets limits on the level of exposure by currency and in aggregate for both overnight and intra-day positions, which are monitored daily.

	FCY'000	**% Max change**	**Apply rate shock**	**+ bp change FCY'000**	**RO'000**	**- bp change FCY'000**	**RO'000**
SAR	**549**	**-1.071%**	**+/- bp 100**	**554**	**57**	**544**	**56**
					57		**56**
Net open position (NOP)					**34.747%**		**34.745%**

NOP of 34. 746% as on 31 December 2009 is effected by the +/- bp change as shown above.

	FCY'000	% Max change	Apply rate shock	+ bp change FCY'000	RO'000	- bp change FCY'000	RO'000
SAR	120,346	2.725%	+/- bp 100	121,549	12,479	119,143	12,232
					12,479		12,232
Net open position (NOP)					38.89%		38.65%

NOP of 38.77% as on 31 December 2008 is effected by the +/- bp change as shown above.

The major currency exposure in the Bank book as on 31 December 2009 is SAR and USD. Based on the movement of the currencies for the past year we observe the maximum change in the SAR rates has been 100 bp. Applying the same rate shocks to our current position we observe that the net open position would still comply within Central Bank of Oman limit of 40%. Exposures in USD and AED have not been considered for sensitivity as the currencies have been pegged to USD and no changes have been observed in the past years. The exposure in other currencies are not material to cause major changes in NOP.

NOTES TO FINANCIAL STATEMENTS

At 31 December 2009

D FINANCIAL RISK MANAGEMENT *(continued)*

D4 OPERATIONAL RISK

Operational risk is defined as the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational risk arises due to variety of causes associated with the bank's processes, personnel, technology and infrastructure and from external events and to include risks other than credit, market and liquidity risks.

Bank's objective is to manage operational risk to avoid /reduce financial losses to the bank by establishment of necessary controls, systems and procedures. Bank recognises that over controlled environment will affect bank's business and earnings, besides adding to costs. Therefore bank aims at effective management of operational risk through control optimisation and well established systems, methods and governance framework.

The primary responsibility for development and implementation of controls to address operational risk is assigned to senior management within each business unit. This responsibility is supported by the development of overall bank standards in the following areas for management of operational risk:

- Clear reporting lines
- Proper delegation of powers
- Appropriate segregation of duties and authorisation of transactions through a maker checker system and authorisation matrix
- Ownership reconciliation and monitoring of accounts
- Documentation of controls and processes
- Compliance with regulatory and other legal requirements
- Periodic assessment of the operational risks faced and evaluating the adequacy of controls and procedures to address the risks identified
- Reporting of operational losses and incidents triggering operational losses and remedial action
- Development of contingency plans
- Training, skill up gradation and professional development
- Ethical and business standards
- Risk mitigation through insurance, wherever desirable

Compliance with Bank standards is supported by a programme of periodic reviews undertaken by Internal Audit. The results of Internal Audit reviews are discussed with the management of the business unit to which they relate, with summaries submitted to the Audit Committee and senior management of the Bank. Bank is also in the process of implementing a comprehensive Operational Risk Management Framework by which bank has put in place Operational Risk Management Policy, Risk and Control Self Assessment (RCSA) Policy , Operational Risk Loss Event Reporting Framework, Maintenance of Operational Risk Loss Data Base and RCSA Framework . Bank has developed an in-house RCSA model and has conducted during the current year Risk and Control Self Assessment for Retail Lending and Deposit business segments.

D5 CAPITAL MANAGEMENT

D5.1 Regulatory capital

The Bank's lead regulator, Central Bank of Oman (CBO), sets and monitors capital requirements for the Bank as a whole. In implementing current capital requirements Central Bank of Oman requires the Bank to maintain a prescribed ratio of total capital to total risk-weighted assets. The Bank calculates capital requirements for market risk and operational risk based upon the model prescribed by Central Bank of Oman as follows:

- Sovereign entities – NIL
- Banks – Risk weightage based upon ratings by Moody's.
- Retail and Corporate loans – In the absence of credit rating model 100% risk weightage is taken.
- Off balance sheet items – As per credit conversion factors and risk weightage prescribed by Central Bank of Oman.

NOTES TO FINANCIAL STATEMENTS
At 31 December 2009

D FINANCIAL RISK MANAGEMENT *(continued)*

D5 CAPITAL MANAGEMENT *(continued)*

D5.1 Regulatory capital *(continued)*

The Bank's regulatory capital is analysed into three tiers:

- Tier 1 capital, which includes ordinary share capital, share premium, perpetual bonds (which are classified as innovative Tier 1 securities), retained earnings, translation reserve and minority interests after deductions for goodwill and intangible assets, and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes.
- Tier 2 capital, which includes qualifying subordinated liabilities, collective impairment allowances and the element of the fair value reserve relating to unrealized gains or equity instruments classified as available-for-sale.
- Tier 3 capital, which includes short term subordinated debts which if circumstances demand would be capable of becoming the Bank's permanent capital.

Various limits are applied to elements of the capital base. The amount of innovative tier 1 securities cannot exceed 15 percent of total tier 1 capital; qualifying tier 2 capital cannot exceed tier 1 capital; and qualifying term subordinated loan capital may not exceed 50 percent of tier 1 capital. There are also restrictions on the amount of collective impairment allowances that may be included as part of tier 2 capital. Other deductions from capital include the carrying amounts of investments in subsidiaries that are not included in the regulatory consolidation, investments in the capital of Banks and certain other regulatory items.

Banking operations are categorized as either trading book or banking book, and risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and off-balance sheet exposures. To compute the capital charge for operational risk the Bank has considered the gross income for seven quarters, being the period since the commencement of operations, due to non-availability of data for previous three years as required under basic indicator approach for computation of capital for operational risk. The Bank's policy is to maintain a strong capital base as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognized and the Bank recognizes the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position. The Bank and its individually regulated operations have complied with all externally imposed capital requirements throughout the year. There have been no material changes in the Bank's management of capital during the year.

The international standard for measuring capital adequacy is the risk asset ratio, which relates capital to balance sheet assets and off balance sheet exposures weighted according to broad categories of risk.

NOTES TO FINANCIAL STATEMENTS
At 31 December 2009

D FINANCIAL RISK MANAGEMENT *(continued)*

D5 CAPITAL MANAGEMENT *(continued)*

D5.1 Regulatory capital *(continued)*

The risk asset ratio calculated in accordance with the capital adequacy guidelines of the Bank for International Settlement is as follows:

31 December 2008	***31 December 2009***		***31 December 2009***	*31 December 2008*
USD'000	***USD'000***		***RO'000***	*RO'000*
		Tier I capital		
259,740	**259,740**	Ordinary share capital	**100,000**	100,000
4,496	**6,579**	Legal reserve	**2,533**	1,731
(12,338)	**6,416**	Retained earnings	**2,470**	(4,750)
(1,283)	**(80)**	Fair value losses	**(31)**	(494)
(969)	**(80)**	Deferred tax asset	**(31)**	(373)
249,646	**272,575**	Total	**104,941**	96,114
		Tier 2 capital		
24,836	**29,439**	Impairment allowance on portfolio basis	**11,334**	9,562
-	**1,112**	Fair value gains	**428**	-
24,836	**30,551**	Total	**11,762**	9,562
274,482	**303,126**	**Total regulatory capital**	**116,703**	105,676
		Risk-weighted assets		
1,913,665	**2,213,182**	Retail Bank, corporate Bank and market risk	**852,075**	736,761
86,343	**141,873**	Operational risk	**54,621**	33,242
2,000,008	**2,355,055**	Total risk-weighted assets	**906,696**	770,003
		Capital adequacy ratio		
13.72%	**12.87%**	Total regulatory capital expressed as a percentage of total risk-weighted assets	**12.87%**	13.72%
12.48%	**11.57%**	Total tier I capital expressed as a percentage of total risk-weighted assets	**11.57%**	12.48%

The capital adequacy ratio is calculated in accordance with the Basel II norms as adopted by Central Bank of Oman.

D5.2 Capital allocation

The allocation of capital between specific operations and activities is, to a large extent, driven by optimization of the return achieved on the capital allocated. The amount of capital allocated to each operation or activity is based primarily upon the regulatory capital, but in some cases the regulatory requirements do not reflect fully the varying degree of risk associated with different activities. In such cases the capital requirements may be flexed to reflect differing risk profiles, subject to the overall level of capital to support a particular operation or activity not falling below the minimum required for regulatory purposes.

Although maximization of the return on risk-adjusted capital is the principal basis used in determining how capital is allocated within the Bank to particular operations or activities, it is not the sole basis used for decision making. Account also is taken of synergies with other operations and activities, the availability of management and other resources, and the fit of the activity with the Bank's longer term strategic objectives.

D FINANCIAL RISK MANAGEMENT *(continued)*

D6 SEGMENTAL INFORMATION

Segment information is presented in respect of the Bank's operating segments. For management purposes, the Bank is organised into two operating segments based on products and services as follows:

- Wholesale banking includes deposits including current accounts, term deposit etc. for corporate and institutional customers, Treasury and Trade finance.
- Retail banking includes customers' deposits, consumer loans, overdrafts, credit card and fund transfer facilities.
- Corporate banking includes the pool of resources considered for transfer pricing and absorbs the cost of impairment loss on portfolio basis and income tax expense.
- CEO 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. Income taxes are managed on group basis and are not allocated to operating segments.
- Interest income is reported net as CEO primarily relies on net interest income as a performance measure, not the gross income and expense
- Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties.
- No revenue from transactions with a single external customer or counterparty amounted to 10% or more of the Bank's total revenue in 2009 or 2008.

NOTES TO FINANCIAL STATEMENTS
At 31 December 2009

D FINANCIAL RISK MANAGEMENT *(continued)*

D6 SEGMENTAL INFORMATION

Segment information is as follows:

	31 December 2009				*31 December 2008*			
	Retail banking RO'000	***Wholesale banking RO'000***	***Corporate RO'000***	***Total RO'000***	*Retail banking RO'000*	*Wholesale banking RO'000*	*Corporate RO'000*	*Total RO'000*
Net interest income	**10,130**	**10,972**	**1,756**	**22,858**	7,619	3,190	-	10,809
Other operating income	**3,926**	**2,371**	**(24)**	**6,273**	5,861	1,059	-	6,920
Operating expenses								
Staff cost	**(6,513)**	**(3,690)**	**-**	**(10,203)**	(4,778)	(2,281)	-	(7,059)
Other operating expenses	**(4,854)**	**(560)**	**-**	**(5,414)**	(3,426)	(1,065)	-	(4,491)
Depreciation	**(1,354)**	**(244)**	**-**	**(1,598)**	(788)	(243)	-	(1,031)
Operating profit/ (loss)	**1,335**	**8,849**	**1,732**	**11,916**	4,488	660	-	5,148
Impairment on investments	**-**	**(86)**	**-**	**(86)**	-	-	(2,388)	(2,388)
Impairment allowance on portfolio basis	**-**	**-**	**(2,056)**	**(2,056)**	-	-	(5,159)	(5,159)
Specific Provisions	**(635)**	**(31)**	**-**	**(666)**	(186)	(52)	-	(238)
Segment profit/(loss) for the year	**700**	**8,732**	**(324)**	**9,108**	4,302	608	(7,547)	(2,637)
Income tax expense	**-**	**-**	**(1,086)**	**(1,086)**	-	-	373	373
	700	**8,732**	**(1,410)**	**8,022**	4,302	608	(7,174)	(2,264)
Segment assets	**357,711**	**490,763**	**176,136**	**1,024,610**	329,566	513,345	-	842,911
Segment liabilities	**134,005**	**698,444**	**192,161**	**1,024,610**	180,137	662,774	-	842,911

	31 December 2009				*31 December 2008*			
	Retail banking USD'000	***Wholesale banking USD'000***	***Corporate USD'000***	***Total USD'000***	*Retail banking USD'000*	*Wholesale banking USD'000*	*Corporate USD'000*	*Total USD'000*
Net interest income	**26,311**	**28,499**	**4,561**	**59,371**	19,790	8,285	-	28,075
Other operating income	**10,198**	**6,158**	**(62)**	**16,294**	15,223	2,751	-	17,974
Operating expenses								
Staff cost	**(16,917)**	**(9,584)**	**-**	**(26,501)**	(12,410)	(5,925)	-	(18,335)
Other operating expenses	**(12,607)**	**(1,455)**	**-**	**(14,062)**	(8,899)	(2,766)	-	(11,665)
Depreciation	**(3,517)**	**(634)**	**-**	**(4,151)**	(2,047)	(631)	-	(2,678)
Operating profit/ (loss)	**3,468**	**22,984**	**4,499**	**30,951**	11,657	1,714	-	13,371
Impairment on investments	**-**	**(222)**	**-**	**(222)**	-	-	(6,203)	(6,203)
Impairment allowance on portfolio basis	**-**	**-**	**(5,341)**	**(5,341)**	-	-	(13,400)	(13,400)
Specific Provisions	**(1,649)**	**(81)**	**-**	**(1,730)**	(483)	(135)	-	(618)
Segment profit/(loss) for the year	**1,819**	**22,681**	**(842)**	**23,658**	11,174	1,579	(19,603)	(6,850)
Income tax expense	**-**	**-**	**(2,821)**	**(2,821)**	-	-	969	969
	1,819	**22,681**	**(3,663)**	**20,837**	11,174	1,579	(18,634)	(5,881)
Segment assets	**929,119**	**1,274,709**	**457,495**	**2,661,323**	856,016	1,333,364	-	2,189,379
Segment liabilities	**348,065**	**1,814,140**	**499,118**	**2,661,323**	467,888	1,721,491	-	2,189,379