Bank Sohar SAOG

Board of Directors Report for the six months period ended 30th June 2012

On behalf of the Board of Directors, I am pleased to present the results of your bank as at 30th June 2012.

Your bank has achieved a Net Profit of OMR 10.361 million during the six months period ended 30th June 2012 as compared to a Net Profit of OMR 6.928 million during the same period of the previous year, registering an impressive growth of 49.55%. The bank is continuing with its efforts to achieve a sustainable and profitable growth.

The Net Interest Income witnessed a significant improvement of 19.51% increasing from OMR 16.742 million for the period ended 30th June 2011 to OMR 20.009 million for the period ended 30th June 2012. The operating income increased by 22.69% from OMR 20.727 million during the first half of last year to OMR 25.429 million during the first half of current year. The operating cost increased by 3.34% from OMR 11.636 million to OMR 12.025 million during the same period.

Gross loans have increased by 8.04% this year from OMR 1,041 million on 31st December 2011 to OMR 1,125 million as at 30th June 2012. The Net loans and advances grew by 7.98% from OMR 1,020 million on 31st December 2011 to reach OMR 1,101 million as at 30th June 2012. Customer deposits reached OMR 1,309 million as at 30th June 2012, an increase of 11.78% over OMR 1,171 million registered as at 31st December 2011. The bank's market share of Private Sector Credit was 8.34% while the Private Sector Deposit share was 8.64% as at end of June 2012.

Bank Sohar has been working to develop a unique Omani model of Islamic Banking, in consultation with Dar Al Sharia, a legal & Financial Consultancy of UAE. The Head of Islamic Banking has already joined the bank and the process of recruiting other staff is under way. The Bank has already signed an agreement with a leading IT vendor for the supply of Information Technology Systems for Isalmic Banking. Terms of appointment of the Sharia Board Members are being finalized.

Furthermore, the Bank has recently conducted a customer interaction programme to educate the customers on the Islamic Banking in general and to create awareness among them about the soon to be launched Islamic Banking Product of the Bank.

The bank continues to recruit fresh Omani graduates, develop their abilities and provide good opportunities at the workplace. The total staff headcount as at 30th June 2012 stood at 545 and the Omanisation ratio at end June 2012 is 90.46%.

The bank also offers a variety of other services through its various outlets such as branches, ATMs, the Call Centre as well as electronic banking outlets such as Internet and SMS banking. The bank presently has a network of 25 branches and 44 ATMs.

Guided by a philosophy that espouses a strong and effective engagement with the local community, Bank Sohar pressed ahead with its multi-faceted programme of Corporate Social Responsibility (CSR) activities during the second quarter. The principal beneficiaries of the Bank's CSR initiatives were primarily organizations working for the welfare of differently-abled children and adults. Generous contributions by Bank Sohar helped fund the purchase of sports wheelchairs for Oman Association for the Disabled – Sohar branch, and a passenger vehicle for the Association for the Welfare of the Handicapped – Sohar. A similar financial gesture by Bank Sohar was gratefully received by the Creative Centre for Rehabilitation, which assists children with special needs and those with learning difficulties. In the same vein, Bank Sohar sponsored the activities of children with hearing impairments as part of Deaf Children's Week. Furthermore, in a reflection of its commitment to supporting events of national significance, the Bank signed up as a sponsor of the Salalah Tourism Festival, an annual extravaganza that celebrates the unique khareef climate of Salalah.

Bank Sohar's continued thrust for excellence has paid rich dividends recently as it bagged two prestigious awards - one the 'Fastest Growing Bank in Oman' at the Banker Middle East 2012 Awards ceremony and the other - securing the second place in the large-cap segment of 'Best Performing Companies' at the Alam Al Iktisad Wal Amaal (AIWA) Awards ceremony catapulting the Bank into the elite category in the banking sector in the Sultanate.

On behalf of the Board of Directors, management and staff of the Bank, I would like to thank the Central Bank of Oman and the Capital Market Authority for their astute regulation and guidance. Above all, I would like to express my humble gratitude and pay tribute to His Majesty Sultan Qaboos Bin Said for his wise and discerning leadership that has firmly set Oman on the path of progress and sustainable development.

Salim Said Al Fannah Al Araimi
Chairman

STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2012

	Notes	30June 2012 RO'000	31 December 2011 RO'000
ASSETS			
Cash and balances with Central Bank	B1	**90,768**	61,513
Due from Banks and other money market lending	B2	**311,392**	231,560
Loans and advances (net)	B3	**1,100,923**	1,019,554
Investment securities	B4	**174,960**	85,659
Property, equipment and fixtures	B5	**13,742**	14,157
Other assets	B6	**18,836**	19,534
		1,710,621	1,431,977
LIABILITIES			
Due to Banks and other money market borrowings	B7	**187,520**	43,136
Customers' deposits	B8	**1,309,481**	1,171,437
Other liabilities	B9	**32,077**	38,718
Subordinated loans	B10	**50,000**	50,000
		1,579,078	1,303,291
SHAREHOLDERS' EQUITY			
Share capital	B11	**100,000**	100,000
Legal reserve	B12	**5,705**	5,705
General reserve	B12	**413**	413
Fair value reserve	B13	**(1,538)**	(2,034)
Retained earnings		**26,963**	24,602
		131,543	128,686
		1,710,621	1,431,977
Net assets per share (in baizas)	B14	**131.543**	128.69
CONTINGENT LIABILITIES	B15	**194,498**	183,660
COMMITMENTS	B15	**177,592**	277,678

The financial statements were approved and authorized for issue by the Board of Directors on **25th July 2012** and signed on their behalf by:

Chairman *Deputy Chairman*

STATEMENT OF COMPREHENSIVE INCOME
FOR THE PERIOD ENDED 30 JUNE 2012

	Notes	6 Months ended 30 June 2012 RO'000	6 Months ended 30 June 2011 RO'000	3 Months ended 30June 2012 RO'000	3 Months ended30 June 2011 RO'000
Interest income	C1	**34,481**	29,918	**17,865**	15,112
Interest expense	C2	**(14,472)**	(13,176)	**(7,416)**	(6,355)
Net interest income		**20,009**	16,742	**10,449**	8,757
Other operating income	C3	**5,420**	3,985	**2,416**	2,033
OPERATING INCOME		**25,429**	20,727	**12,865**	10,790
OPERATING EXPENSES					
Staff costs		**(7,240)**	(6,881)	**(3,659)**	(3,480)
Other operating expenses	C4	**(3,766)**	(3,679)	**(1,836)**	(1,751)
Depreciation	B5	**(1,019)**	(1,076)	**(515)**	(544)
		(12,025)	(11,636)	**(6,010)**	(5,775)
OPERATING PROFIT		**13,404**	9,091	**6,855**	5,015
Impairment on investments		**(17)**	-	**(17)**	-
Impairment allowance on portfolio basis	B3	**(925)**	(567)	**(587)**	(196)
Impairment allowance on specific basis	B3	**(755)**	(748)	**(538)**	(424)
NET PROFIT BEFORE TAX		**11,707**	7,776	**5,713**	4,395
Income tax expense	C5	**(1,346)**	(848)	**(682)**	(525)
NET PROFIT/ (LOSS) FOR THE PERIOD		**10,361**	6,928	**5,031**	(3,870)
Other comprehensive income					
Net changes in fair value of available for sale financial assets		**496**	(1,171)	**(668)**	(463)
Other comprehensive income for the period net of income tax		**496**	(1,171)	**(668)**	(463)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**10,857**	5,757	**4,363**	3,407
Basic earnings/ (loss) per share for the period – **in baizas**	C6	**10.361**	6.928	**5.031**	3.870
Basic earnings/ (loss) per share for the period (annualized) – **in baizas**	C6	**20.894**	13.971	**20.179**	15.523

STATEMENT OF CHANGES IN EQUITY
FOR THE PERIOD ENDED 30 JUNE 2012

	Share capital *RO'000*	*Legal reserve* *RO'000*	*General reserve* *RO'000*	*Fair value reserve* *RO'000*	*Retained earnings* *RO'000*	*Total* *RO'000*
Balance as at 1 January 2011	100,000	3,555	413	1,308	11,255	116,531
Total comprehensive income for the period						
Net profit for the period	-	-	-	-	6,928	6,928
Other comprehensive income						
Net change in fair value of available for sale financial assets	-	-	-	(1,171)	-	(1,171)
Release on sale of available for sale of financial assets	-	-	-	(131)	-	(131)
Total comprehensive income for the period	-	-	-	6	18,183	18,189
Dividends paid for the year 2010	-	-	-	-	(6,000)	(6,000)
Balance as at 30 June 2011	100,000	3,555	413	6	12,183	116,157
Balance as at 1 July 2011	100,000	3,555	413	6	12,183	116,157
Total Comprehensive income for the period						
Effect of correction of prior period error	-	-	-	-	7,000	7,000
Transfers	-	700	-	-	(700)	-
Balance restated	100,000	4,255	413	415	18,483	123,566
Net profit for the period	-	-	-	-	7,569	7,569
Other Comprehensive Income						
Net change in fair value of available for sale financial assets	-	-	-	(2,449)	-	(2,449)
Transfers	-	1,450	-	-	(1,450)	-
Balance as at 31 December 2011	100,000	5,705	413	(2,034)	24,602	128,686

	RO'000	***RO'000***	***RO'000***	***RO'000***	***RO'000***	***RO'000***
Balance as at 1 January 2012	**100,000**	**5,705**	**413**	**(2,034)**	**24,602**	**128,686**
Total comprehensive income for the period						
Net profit for the period	-	-	-	-	**10,361**	**10,361**
Other comprehensive income						
Net change in fair value of available for sale financial assets	-	-	-	**496**	-	**496**
Release on Sale of available for sale of financial assets	-	-	-	-	-	-
Total comprehensive income	-	-	-	**496**	**10,361**	**10,857**
Dividend paid for the year 2011	-	-	-	-	**(8,000)**	**(8,000)**
Balance as at 30 June 2012	**100,000**	**5,705**	**413**	**(1,538)**	**26,963**	**131,543**

STATEMENT OF CASH FLOWS
FOR THE PERIOD ENDED 30 JUNE 2012

	30June 2012 RO'000	*30June 2011 RO'000*
OPERATING ACTIVITIES		
Net profit/(loss) for the period before tax	**11,707**	7,776
Adjustments for:		
Depreciation	**1,019**	1,076
Impairment for credit losses and investment	**1,697**	1,198
Interest on investment	**(1,203)**	(454)
Operating profit before changes in operating assets and liabilities	**13,220**	9,596
Changes in loans and advances	**(83,049)**	(80,543)
Changes in other assets	**698**	(2,487)
Changes in customers' deposits	**138,044**	(10,938)
Change in due from banks and money market deposits	**(111,649)**	42,800
Changes in due to banks and other money market deposits	**30,770**	(12,731)
Changes in held for trading investments	**(27,440)**	-
Changes in other liabilities	**(6,147)**	3,772
Cash from (used in) operating activities	**(45,553)**	(50,531)
Income tax paid	**(1,840)**	(1,318)
Net cash (used in) / from operating activities	**(47,393)**	(51,849)
INVESTING ACTIVITIES		
Purchase of investments (net)	**(2,621)**	(7,420)
Proceeds from sale/redemption of investments	**-**	308
Purchase of property, equipment and fixtures	**(604)**	(1,000)
Proceeds from sale of property, equipment and fixtures	**13**	3
Interest received on investments	**1,203**	454
Net cash used in investing activities	**(2,009)**	(7,655)
FINANCING ACTIVITIES		
Dividends Paid	**(8,000)**	(6,000)
Net cash from financing activities	**(8,000)**	(6,000)
NET CHANGE IN CASH AND CASH EQUIVALENTS	**(57,402)**	(65,504)
CASH AND CASH EQUIVALENT AT BEGINNING OF THE PERIOD	**153,286**	171,313
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	**95,884**	105,809
REPRESENTING:		
Cash and balances with Central Banks	**90,768**	50,276
Due from Banks and other money market placements	**29,967**	22,817
Investments securities	**121,899**	64,493
Due to Banks and other money market deposits	**(146,750)**	(31,777)
	95,884	105,809

NOTES TO FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 JUNE 2012

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 through a network of twenty five branches within the Sultanate of Oman. The Bank operates 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 has its primary listing on the Muscat Securities Market.

The Bank employed 545 employees as of 30 June 2012 (31 December 2011: 549).

A2 Basis of preparation

Since these are interim condensed financial statements, they do not contain all information and disclosures for the full financial statements prepared in accordance with IFRS and should be read in conjunction with the Bank's annual financial statements as at 31 December 2011.

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.

A2.2 Basis of measurement

The financial statements have been prepared under the historical cost convention except for derivative financial instruments and available for sale financial assets which have been measured at fair value.

A2.3 Functional and presentation currency

These financial statements are presented in Rial Omani, which is the Bank's functional currency and also in US Dollars, for the convenience of the readers. The US Dollar amounts, which are presented in these financial statements have been translated from the Rial Omani amounts at an exchange rate of US Dollar 1 = RO 0.385. All financial information presented in Rial Omani and US Dollars has been rounded to the nearest thousands.

A2.4 Use of estimates and judgements

The preparation of financial statements in conformity with IFRS 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 are discussed in note A4.

A2.5 Standards, amendments and interpretations effective in 2011 and relevant for the Bank's operations

For the year ended 31 December 2011, the Bank has adopted all of the new and revised standards and interpretations issued by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB that are relevant to its operations and effective for periods beginning on 1 January 2011.

The adoption of those standards and interpretations has not resulted in changes to the Bank's accounting policies and has not affected the amounts reported for the current period.

A2 Basis of preparation (continued)

A2.6 Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Bank:

The following standards, amendments and interpretations to existing standards have been published and are mandatory for the Bank's accounting periods beginning on or after 1 January 2012 or later periods, but the Bank has not early adopted them and the impact of these standards and interpretations is not reasonably estimable as at 31 March 2012:

IFRS 9, 'Financial instruments part 1: Classification and measurement', (effective on or after 1 January 2013);
IFRS 10, 'Consolidated financial statements' (effective on or after 1 January 2013);
IFRS 12, 'Disclosures of interests in other entities' (effective on or after 1 January 2013); and
IFRS 13, 'Fair value measurement' (effective on or after 1 January 2012).

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, unless otherwise stated.

A3.1 Foreign currency translation

Transactions in foreign currencies are translated into functional currency at the 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 the statement of comprehensive income, except for non-monetary financial assets, such as equities classified as available-for-sale, which are included in other comprehensive income. 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.

A3.2 Revenue and expense recognition

A3.2.a Interest income and expense

Interest income and expense is recognised in the statement of comprehensive income using the effective interest 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 financial assets at fair value through profit or loss including financial assets held for trading on an effective interest rate basis;
- Interest on available for sale investment securities on an effective interest rate basis; and
- Fair value changes in qualifying derivatives (including hedge ineffectiveness) and related hedged items when interest rate risk is the hedged risk.

Interest income which is doubtful of recovery is included in impairment allowance and excluded from income until it is received in cash.

A3.2.b Fair value gains and losses

Fair value changes on derivatives held for risk management purposes and available for sale financial assets are presented 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 available for sale financial assets, including all realised and unrealised fair value changes interest, dividend and foreign exchange differences.

A3 Significant accounting policies (continued)

A3.2 Revenue and expense recognition (continued)

A3.2.c Dividend income

Dividend income is recognized when the right to receive dividend 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.

Other 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 which is determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risk specific to the liability.

A3.2.f Offsetting of income and expense

Income and expenses are presented on a net basis only when permitted by the IFRS, or for gains and losses arising from a group of similar transactions such as in the Bank's trading activity.

A3.3 Financial assets and liabilities

A3.3.a Classification

The Bank classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, held to maturity and available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term. Derivatives are also categorised as held for trading unless they are designated as hedging instruments.

Loans and receivables

Loans and receivables 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 receivables are initially recognised at fair value which is the cash consideration to originate or purchase the loan including any transaction costs - and measured subsequently at amortised cost using the effective interest method less specifically identified and collective allowance for impairment and recognised in the statement of comprehensive income as 'impairment allowance'. Specific provisions are made against the carrying amount of loans and receivables that are identified as being impaired based on regular reviews of outstanding balances to reduce the impaired loans and receivables to their recoverable amounts. Loans and receivables are reported in the statement of financial position as loans and advances to banks or customers. Interest on loans is included in the statement of comprehensive income and is reported as 'interest income'.

A3 Significant accounting policies (continued)

A3.3 Financial assets and liabilities (continued)

***A3.3.a Classification* (continued)**

Held to maturity financial assets

Held to maturity financial assets are non-derivative assets with fixed or determinable payments and fixed maturity that the Bank has the positive intent and ability to hold to maturity and which are not designated at fair value through profit or loss or available-for-sale.

These are initially recognised at fair value including direct and incremental transaction costs and measured subsequently at amortised cost, using the effective interest method.

Interest on held to maturity investments is included in the statement of comprehensive income and reported as 'interest income'. In the case of impairment, the impairment loss is been reported as a deduction from the carrying value of the investment and recognised in the statement of comprehensive income as 'impairment on investments'. Held to maturity investments include corporate bonds and other debt securities.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories.

Available-for-sale investments are financial assets that are intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices or that are not classified as loans and receivables, held to maturity investments or financial assets at fair value through profit or loss.

Available-for-sale financial assets are initially recognised at fair value, which is the cash consideration including any transaction costs, and measured subsequently at fair value with gains and losses being
recognised in the statement of other comprehensive income, except for impairment losses and foreign exchange gains and losses, until the financial asset is derecognised. If an available-for-sale financial asset is determined to be impaired, the cumulative gain or loss previously recognised in the statement of other comprehensive income is recognised in the statement of comprehensive income. However, interest is calculated using the effective interest method, and foreign currency gains and losses on monetary assets classified as available for sale are recognised in the statement of comprehensive income. Dividends on available-for-sale equity instruments are recognised in the statement of comprehensive income in 'other operating income' when the Bank's right to receive payment is established.

A3.3.b 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 are initially recognised on the trade date at which the Bank becomes a party to the contractual provisions of the instrument.

A3.3.c Derecognition

The Bank derecognises a financial asset when the contractual rights to receive the cash flows from the asset expire, or it 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 expired.

A3.3.d Offsetting of financial assets and financial liabilities

Financial assets and liabilities are offset 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 Significant accounting policies (continued)

A3.3 Financial assets and liabilities (continued)

A3.3.e 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.f Fair value measurement

A number of the Bank's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on a number of accounting policies and methods. Where applicable, information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

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.

The fair value of loans and advances is estimated at the present value of future cash flows, discounted at the market rate of interest at the reporting date.
The fair value of forward exchange contracts is based on their quoted price, if available. If a quoted price is not available, then fair value is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk-free interest rate (based on government bonds). The fair value of interest rate swaps is based on broker quotes. Those quotes are tested for reasonableness by discounting estimated future cash flows based on the terms and maturity of each contract and using market interest rates for a similar instrument at the measurement date. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Bank and counterparty when appropriate.

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

A3.3.g Identification and measurement of impairment of financial assets

(i) Assets carried at amortised cost

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

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

The Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the

A3 Significant accounting policies (continued)

A3.3 Financial assets and liabilities (continued)

A3.3.g Identification and measurement of impairment of financial assets (continued)

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

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

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

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the group and historical loss experience for assets with credit risk characteristics similar to those in the group.

The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Bank to reduce any differences between loss estimates and actual loss experience.

When a loan is uncollectible, it is written off against the related allowance for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined.

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

(ii) Assets classified as available-for-sale

The Bank assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. For debt securities, the Bank uses the criteria referred to in (i) above. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss - is removed from equity and recognised in the statement of comprehensive income. Impairment losses recognised in the statement of comprehensive income on equity instruments are not reversed through the statement of comprehensive income.

A3.3.h Cash and cash equivalents

Cash and cash equivalents consist of cash in hand, unrestricted balances held with central banks and highly liquid financial assets with original maturities of upto 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 Significant accounting policies (continued)

A3.3 Financial assets and liabilities (continued)

A3.3.i Repurchase and resale agreements

Securities 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 money market borrowings'. The difference between sale and repurchase price is treated as interest expense and accrued over the life of the repo agreement.

Securities 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 'due from banks and other money market lendings'. The difference between purchase and resale price is treated as interest income and accrued over the life of the reverse repo agreement.

A3.3.j 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-balance sheet commitment for acceptances.

A3.3.k 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. Derivatives 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 statement of comprehensive income 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.

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 comprehensive income 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 statement of comprehensive income.

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 statement of comprehensive income 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 statement of comprehensive income 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 statement of comprehensive income.

A3 Significant accounting policies (continued)

A3.4 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, except freehold land. The estimated useful lives for the current period are as follows:

	Years
Motor vehicles	5
Furniture & fixtures	5
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 reporting date. Based on the recent estimation, the Bank has changed the useful life of motor vehicles and furniture & fixtures from 3 to 5 years. The change of estimated useful live is accounted for as a change in estimate by adjusting the depreciation charge for the current year as the change affects the current year and by adjusting the charge for future years to the extent that it affects the future years.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within 'other operating income' in the statement of comprehensive income.

Repairs and renewals are charged to the statement of comprehensive income when the expense is incurred. Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the item of property, equipment and fixtures. All other expenditure is recognised in the statement of comprehensive income as an expense as incurred.

A3.5 Deposits, debt securities issued and subordinated liabilities

All money market and customer deposits are initially measured at fair value plus transaction cost and subsequently 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.

A3.6 Taxation

Taxation is provided in accordance with Omani fiscal regulations. Income tax comprises current and deferred tax. Income tax expense is recognised in the statement of comprehensive income 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 reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax assetss/liabilities are calculated using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. 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 reporting 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 reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

A3 Significant accounting policies (continued)

A3.7 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.

A3.8 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.

A3.9 Leases

Operating lease payments are recognised as an expense in the statement of comprehensive income on a straight-line basis over the lease term.

A3.10 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.

A3.11 Employee benefits

A3.11.a Terminal benefits

End of service benefits are accrued in accordance with the terms of employment of the company's employees at the reporting date, having regard to the requirements of the Oman Labour Law 2003, as amended.

Contributions to a defined contribution retirement plan and occupational hazard insurance for Omani employees in accordance with the Omani Social Insurances Law of 1991 are recognised as an expense in the statement of comprehensive income as incurred.

A3.11.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.

A3.12 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 year. 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

A3 Significant accounting policies (continued)

A3.12 Earnings per share (continued)

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.

A3.13 Corresponding figures

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

A3.14 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.

A4 Critical accounting estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. The resulting accounting estimates will, by definition, seldom equal the related actual results.

The estimates and underlying assumptions are reviewed on an ongoing 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. The Bank's significant accounting estimates are on:

A4.1 Impairment losses on loans and advances

The Bank reviews its loan portfolios to assess impairment on a monthly basis. In determining whether an impairment loss should be recorded in the statement of comprehensive income, the Bank makes judgements as to whether there is any observable data indicating an impairment followed by measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified within that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers and or national or local economic conditions that correlate with defaults on assets. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed periodically to reduce any difference between loss estimates and actual loss experience. For individually significant loans and advances which are impaired, the necessary impairment loss is considered based on the future cash flow estimates. Individually significant loans and advances which are not impaired and all individually insignificant loans and advances are then assessed collectively considering historical experience and observable data on a portfolio basis, in group of assets with similar risk characteristics to determine whether collective impairment loss to be made. In determining collective impairment loss, the Bank takes into account several factors including credit quality, concentration risk, levels of past due, sector performance, and available collateral and macro economic conditions.

A4 Critical accounting estimates and judgements (continued)

A4.2 Fair value of derivatives and other financial instruments

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. The Bank uses its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period. The Bank uses expected cash flow analysis for various available-for-sale financial assets that are not traded in active markets.

A4.3 Impairment of available-for-sale equity investments

The Bank determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost or objective evidence of impairment exists. This determination of what is considered to be significant or prolonged requires judgement. In applying judgement, the Bank evaluates among other factors, the volatility in share price. Objective evidence of impairment may be due to deterioration in the financial health of the investee, industry and sector performance.

NOTES TO FINANCIAL STATEMENTS

FOR THE PERIOD ENDED 30 JUNE 2012

B1 Cash and balances with central bank

	30June 2012 RO'000	*31 December 2011 RO'000*
Cash	**9,092**	7,966
Capital deposit with Central Bank of Oman	**500**	500
Balance with Central Bank	**81,176**	53,047
	90,768	61,513

The capital deposit 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 lending

	30June 2012 RO'000	*31 December 2011 RO'000*
Local currency:		
Money market lending	**2,300**	15,000
	2,300	15,000
Foreign currency:		
Money market lending	**302,995**	206,350
Nostro balances abroad	**6,097**	10,210
	309,092	216,560
	311,392	231,560

B3 Loans and advances - net

	30 June 2012 RO'000	*31 December 2011 RO'000*
Lending to Banks	**31,687**	30,103
Corporate loans	**712,510**	642,875
Personal loans	**380,374**	367,949
Gross loans and advances	**1,124,571**	1,040,927
Impairment allowance on portfolio basis	**(14,484)**	(13,559)
Impairment allowance on specific basis(including reserve interest)	**(9,164)**	(7,814)
Net loans and advances	**1,100,923**	1,019,554

Retail loans include RO 16,424,887 provided to staff on concessional terms (2011: RO 16,190,703).

B3 Loans and advances - net (*continued)*

Loans and advances comprise:

	30 June 2012 RO'000	*31 December 2011 RO'000*
Loans	**1,041,033**	945,767
Overdrafts	**49,997**	63,223
Loan against trust receipts	**25,842**	21,342
Bills discounted	**7,699**	10,595
Gross loans and advances	**1,124,571**	1,040,927
Impairment allowance on portfolio basis	**(14,484)**	(13,559)
Impairment allowance on specific basis(including reserve interest)	**(9,164)**	(7,814)
Net loans and advances	**1,100,923**	1,019,554

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

Loan Loss Provision	*30June 2012 RO'000*	*31 December 2011 RO'000*
Impairment allowance on portfolio basis		
Balance at beginning of period	**13,559**	12,678
Provided during the period	**925**	881
Balance at the end of the period	**14,484**	13,559
Impairment allowance on specific basis		
1) Loan loss provision		
Balance at beginning of period	**6,414**	3,828
Provided during the period	**1,097**	4,982
Write back during the period	**(342)**	(2,396)
Balance at the end of the period	**7,169**	6,414
2) Reserved interest		
Balance at beginning of period	**1,400**	600
Reserved during the period	**2,345**	1,108
Interest released during the period	**(1,750)**	(308)
Balance at end of the period	**1,995**	1,400
Total	**9,164**	7,814

Impairment allowance on portfolio basis is established to meet the credit risks inherent within the loans and advances on a 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 30 June 2012, loans and advances on which interest is not being accrued or where interest has been reserved amounted to RO17, 511,497 (2011: RO 15,998,677).

NOTES TO FINANCIAL STATEMENTS

FOR THE PERIOD ENDED 30 JUNE 2012

B4 INVESTMENT SECURITIES

	30 June 2012 RO'000	31 December 2011 RO'000
Available for sale investment	140,980	79,119
Held to maturity investment	6,540	6,540
Held for Trading investment	27,440	-
	174,960	85,659

B4.a Available for sale investment comprise:

	Carrying/ fair value 30 June 2012 RO'000	Cost 30 June 2012 RO'000	Carrying/ fair value 31 December 2011 RO'000	Cost 31 December 2011 RO'000
Unquoted securities	1,071	1,387	6,040	7,774
Quoted Securities	18,011	19,474	9,954	10,460
Treasury Bills	121,898	120,601	63,125	63,113
	140,980	141,462	79,119	81,347

B4.b Held-to-maturity investments comprise:

	30 June 2012 RO'000	31 December 2011 RO'000
Corporate bonds	1,540	1,540
Debt securities	5,000	5,000
	6,540	6,540

B4.c Held-for-Trading investments comprise:

	30 June 2012 RO'000	31 December 2011 RO'000
Government development bonds	27,440	-
	27,440	-

B5 PROPERTY, EQUIPMENT AND FIXTURES

	*Freehold Land**	*Production Software*	*Furniture & fixtures*	*Office Equipments*	*Motor Vehicles*	*Capital Work in progress*	*Total*
	RO'000	*RO'000*	*RO'000*	*RO'000*	*RO'000*	*RO'000*	*RO'000*
At cost:							
1 January 2012	**7,000**	**6,172**	**3,119**	**3,692**	**596**	**203**	**20,782**
Additions	**-**	**98**	**12**	**193**	**12**	**289**	**604**
Disposals/ reallocation	**-**	**-**	**-**	**-**	**(13)**	**-**	**(13)**
As at 30 June 2012	**7,000**	**6,270**	**3,131**	**3,885**	**595**	**492**	**21,373**
Accumulated depreciation:							
1 January 2012	**-**	**(2,908)**	**(1,656)**	**(1,694)**	**(367)**	**-**	**(6,625)**
Depreciation	**-**	**(473)**	**(221)**	**(292)**	**(33)**	**-**	**(1,019)**
Disposals	**-**	**-**	**-**	**-**	**13**	**-**	**13**
As at 30 June 2012 depreciation	**-**	**(3,381)**	**(1,877)**	**(1,986)**	**(387)**	**-**	**(7,631)**
Net book value at 30 June 2012	**7,000**	**2,889**	**1,254**	**1,899**	**208**	**492**	**13,742**

	Freehold land*	Production software	Furniture & fixtures	Office equipments	Motor vehicles	Capital work in progress	Total
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Cost:							
At 1 January 2011	7,000	5,684	2,229	3,109	525	25	18,572
Additions	-	488	891	586	71	178	2,214
Disposals	-	-	(1)	(3)	-	-	(4)
At 31 December 2011	7,000	6,172	3,119	3,692	596	203	20,782
Accumulated depreciation:							
At 1 January 2011	-	(2,003)	(1,321)	(1,173)	(310)	-	(4,807)
Depreciation	-	(905)	(335)	(522)	(57)	-	(1,819)
At 31 December 2011	-	-	-	1	-	-	1
	-	(2,908)	(1,656)	(1,694)	(367)	-	(6,625)
Net book value:							
At 31 December 2011	7,000	3,264	1,463	1,998	229	203	14,157

Freehold land represents three plots of land received by the Bank as grant from the Government of Sultanate of Oman during the year 2008. The Bank has recorded the land based on the average valuation of the two professional valuators carried out during 2008.

B6 OTHER ASSETS

	30June 2012 RO'000	*31 December 2011 RO'000*
Acceptances	**9,768**	13,303
Interest receivable	**4,980**	2,644
Prepayments and deposits	**1,320**	1,403
Deferred tax asset (note C5)	**117**	89
Other	**2,651**	2,095
	18,836	19,534

B7 Due to banks and other money market borrowings

	30 June 2012 RO'000	*31 December 2011 RO'000*
Local currency:		
Money market borrowings	**-**	-
Vostro balances	**322**	279
	322	279
Foreign currency:		
Money market borrowings	**187,198**	42,857
	187,198	42,857
	187,520	43,136

B8 Customers' deposits

	30 June 2012 RO'000	*31 December 2011 RO'000*
Term deposits	**887,286**	775,588
Demand deposits	**243,937**	235,583
Saving deposits	**176,210**	158,434
Margin accounts	**2,048**	1,832
	1,309,481	1,171,437

Retail customers:		
Saving deposits	**176,210**	158,434
Term deposits	**18,911**	22,207
Demand deposits	**13,707**	9,007
Corporate customers:		
Term deposits	**868,375**	753,381
Demand deposits	**230,230**	226,576
Others	**2,048**	1,832
	1,309,481	1,171,437

B9 Other liabilities

	30 June 2012 RO'000	*31 December 2011 RO'000*
Interest payable	**14,627**	13,737
Acceptances	**9,768**	13,303
Staff entitlements	**1,655**	2,681
Income tax payable	**1,510**	1,979
Other accruals and provisions	**4,517**	7,018
	32,077	38,718

B10 SUBORDINATED LOANS

The Bank raised an unsecured subordinated loan of RO 50 million in 2010 with a maturity of 7 years. The instrument is unlisted, non-transferable, non-negotiable and non-convertible with no early call option. The instrument carries a fixed rate of interest of 6.5%. According to the Regulations of Central Bank of Oman, the subordinated loan is considered as Tier II capital for Capital Adequacy purposes. Principal amount of the subordinated loan is repayable on maturity while interest is payable semi-annually. The Bank is required to create a subordinated loan reserve equal to 20% of the issue value annually from August 2012 up till the maturity of the subordinated loans. This reserve will be created from retained earnings.

B11 Share capital

The authorised, issued and paid up share capital of the Bank is 1,000,000,000 shares of RO 0.100 each (2011 - 1,000,000,000 shares of RO 0.100 each).

As of 30 June 2012, the following shareholders held 10% or more of the Bank's capital, either individually or together with family members:

	Number of shares	*% Holding*
The Royal Court of Affairs	**145,690,340**	**14.57**
Oman Investment & Finance Co. SAOG	**100,000,000**	**10.00**

B12 RESERVES

B12.1 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.

B12.2 General reserve

The Board of Directors has decided to create a non distributable general reserve with the amount of RO 412,500 during the year 2010.

B13 Fair value reserve

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

B14 Net assets per share

The calculation of net assets per share is based on net assets of RO131, 543,000 as at 30 June 2012.

(2011 - RO 128,686,000) attributable to ordinary shareholders on 1,000,000,000 ordinary shares, being the number of shares outstanding as at 30 June 2012.

B15 CONTINGENT LIABILITIES AND COMMITTMENTS

B15.1 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.

	30June 2012 RO'000	*31 December 2011 RO'000*
Guarantees	**140,410**	123,669
Documentary letters of credit	**54,088**	59,991
	194,498	183,660

B15.2 Commitments

Contractual obligations 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 obligations.

	30June 2012 RO'000	*31 December 2011 RO'000*
Capital commitments	**821**	1,056
Credit related commitments	**176,771**	276,622
	177,592	277,678

B16 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 and Board of Directors.

No specific provision has been established 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:

	30June 2012 RO'000	*31 December 2011 RO'000*
Loans and advances	**102,379**	84,364
Loans disbursed during the period	**228,852**	65,875
Loans repaid during the period	**(180,840)**	(48,315)
Deposits	**64,607**	85,738
Deposits received during the period	**73,431**	338,605
Deposits paid during the period	**(57,130)**	(294,045)
Interest income	**7,446**	2,159
Interest expense	**(3,170)**	(2,141)
Senior management compensation		
Salaries and other short term benefits	**2,155**	3,105
Directors' sitting fees and remuneration	**180**	195

B17 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. These derivatives are stated at fair value. The fair value of a derivative is the equivalent of the unrealised gain or loss from marking to market the derivative using prevailing market rates or internal pricing models. Unrealised gains or losses are included in the statement of comprehensive income. The derivative financial instruments used by the Bank are described below:

B17.1 Derivative product types

Forwards and futures 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.

B17.2 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. This is achieved by hedging specific financial instruments and forecasted transactions as well as strategic hedging against overall statement of financial position exposures.

The Bank uses forward foreign exchange contracts, 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 as specified by Central Bank of Oman.

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.

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.

		Notional amounts by term to maturity		
As at *30 June* 2012	***Notional amount***	***Within 3 months***	***3 - 12 months***	***1 - 5 years***
	RO'000	***RO'000***	***RO'000***	***RO'000***
Foreign exchange purchase contracts	**683,329**	**464,619**	**218,710**	**-**
Forward foreign exchange sales contracts	**382,374**	**464,043**	**218,331**	**-**

		Notional amounts by term to maturity		
As at 31 December 2011	*Notional amount*	*Within 3 months*	*3 - 12 months*	*1 - 5 years*
	RO'000	*RO'000*	*RO'000*	*RO'000*
Foreign exchange purchase contracts	381,474	330,125	51,349	-
Forward foreign exchange sales contracts	381,647	330,238	51,409	-

C1 Interest income

	6 Months ended 30 June 2012	*6 Months ended 30 June 2011*	***3 Months ended 30 June 2012***	*3 Months ended 30 June 2011*
	RO'000	*RO'000*	***RO'000***	*RO'000*
Loans and advances to customers	**29,690**	28,797	**15,043**	14,597
Due from Banks and other money market lendings	**3,588**	667	**2,066**	116
Investment securities	**1,203**	454	**756**	399
	34,481	29,918	**17,865**	15,112

C2 Interest expense

	6 Months ended 30 June 2012 RO'000	*6 Months ended 30 June 2011 RO'000*	***3 Months ended 30 June 2012 RO'000***	*3 Months ended 30 June 2011 RO'000*
Customers' deposits	**11,771**	10,494	**6,031**	4,989
Subordinated Debt	**1,621**	1,612	**811**	810
Due to Banks and other money market borrowings	**1,080**	887	**574**	464
Certificates of deposits	**-**	183	**-**	92
	14,472	13,176	**7,416**	6,355

C3 Other operating income

	6 Months ended 30 June 2012 RO'000	*6 Months ended 30 June 2011 RO'000*	***3 Months ended 30 June 2012 RO'000***	*3 Months ended 30 June 2011 RO'000*
Fees and commission	**4,257**	2,705	**2,043**	1,611
Net gain from foreign exchange dealings	**689**	477	**347**	281
Dividend income	**466**	686	**18**	24
Net gains from held-for-trading investments	**9**	-	**9**	-
Realised gains on financial investments through income statement	**(1)**	117	**(1)**	117
	5,420	3,985	**2,416**	2,033

C4 Other operating expense

	6 Months ended 30 June 2012 RO'000	*6 Months ended 30 June 2011 RO'000*	*3 Months ended 30 June 2012 RO'000*	*3 Months ended 30 June 2011 RO'000*
Operating and administration costs	**2,718**	2,759	**1,392**	1,372
Establishment Cost	**868**	738	**429**	355
Directors remuneration and sitting fees	**180**	182	**15**	24
	3,766	3,679	**1,836**	1,751

C5 Income tax

a) **Recognized in the statement of comprehensive income**

	6 Months ended 30 June 2012 RO'000	*6 Months ended 30 June 2011 RO'000*
Tax expenses		
Current tax	**1,373**	848
Deferred tax expense /(income)	**(27)**	-
Total tax expenses	**1,346**	848

The Bank is liable to income tax for the year 2011 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

Accounting profit for the year	**11,707**	7,776
Income tax	**1,405**	933
Tax exempt income	**(59)**	(85)
Income tax expense	**1,346**	848

c) Deferred tax liability

	6 Months ended 30 June 2012 RO'000	*6 Months ended 30 June 2011 RO'000*
On comprehensive income items	**(98)**	-
On other comprehensive income items	**215**	-
	117	-

d) Tax assessment

The assessments of the Bank for the years 2007 to 2011 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 30 June 2012.

C6 BASIC EARNINGS / (LOSS) PER SHARE

Earnings per share are calculated by dividing the net profit for the year by the weighted average number of shares outstanding during the year.

	6 months ended 30 June 2012 RO'000	*6 months ended 30 June 2011 RO'000*
Net profit for the period	**10,361**	6,928
Weighted average number of shares of RO 0.100 each outstanding during the year (in thousands) **	**1,000,000**	1,000,000
Net earnings per share for the period (in baizas)	**10.361**	6.928
Net earnings per share annualized (in baizas)	**20.894**	13.971

**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.

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) and Risk Management Committee, which are responsible for developing and monitoring the 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 the 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's 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's Audit Committee is assisted in these functions by Internal Audit department. Internal Audit department 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, 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 Risk Management Committee. A separate Risk Management Department, reporting to the chairman of the Risk Management Committee, is responsible for the 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's Risk Management 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 within 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.

D1 Credit risk (continued)

D1.1 Management of credit risk (continued)

Each business unit is required to implement Bank's credit risk policies and procedures, with credit approval authorities delegated from the Risk Management 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 the Bank's credit processes are undertaken by Internal Audit Department.

The Bank employs a range of policies and practices to mitigate credit risk. The Bank follows a risk mitigation practice of identifying business cash flows as the primary take out for the advances extended. These cash flows are then tested for sustainability over the tenor of the credit facility and a suitable mechanism is put in place to capture the same into the client account with the Bank. To cover unforeseen risk, which dry up the cash flows, additional tangible securities are taken such as real estate or equity shares. The Bank implements guidelines on the acceptability of specific classes of collateral credit risk mitigation. The principal types of collaterals for loans and advances are:

- mortgages over properties;
- charges over business assets such as premises inventory and accounts receivable;
- charges over financial instruments such as debt securities and equities.

Longer-term finance and lending to corporate entities are generally secured; revolving individual credit facilities are generally unsecured from a collateral perspective, whereas credit risk is primarily mitigated through capture of business cash flows. In addition, in order to minimise the credit loss, the Bank will seek additional collateral from the counterparty as soon as impairment indicators are noticed for the relevant individual loans and advances. Collateral held as security for financial assets other than loans and advances, is determined by the nature of the instrument. Debt securities, treasury and other eligible bills are generally unsecured.

All loans and advances of the Bank are regularly monitored to ensure compliance with the stipulated repayment terms. Those loans and advances are classified into one of the 5 risk classification categories: Standard, Special Mention, Substandard, Doubtful, and Loss – as stipulated by Central Bank of Oman regulations and guidelines. The responsibility for identifying problem accounts and classifying them rests with business line function.

D 2 Exposure to liquidity risk

	Within three months RO'000	Four months to 12 months RO'000	One to three years RO'000	More than three years RO'000	Total RO'000
30 June 2012					
Assets					
Cash and balances with Central Banks	41,163	21,869	13,184	14,552	90,768
Due from banks and other money market lendings	68,467	242,925	-	-	311,392
Loans and advances	255,059	145,736	144,552	555,576	1,100,923
Investment securities	140,191	9,147	17,471	8,151	174,960
Property and equipment and other assets	16,671	1,753	84	14,070	32,578
Total assets	521,551	421,430	175,291	592,349	1,710,621
Liabilities and equity					
Due to banks and other money market borrowings	149,045	38,475	-	-	187,520
Customers' deposits	356,730	424,304	255,805	272,642	1,309,481
Other liabilities	18,745	9,868	1,926	1,538	32,077
Subordinated loans	-	-	-	50,000	50,000
Shareholders' funds	-	-	-	131,543	131,543
Total liabilities and equity	524,520	472,647	257,731	455,723	1,710,621

	Within three months RO'000	Four months to 12 months RO'000	One to three years RO'000	More than three years RO'000	Total RO'000
31 December 2011					
Assets					
Cash and balances with Central Banks	23,423	20,566	6,883	10,641	61,513
Due from banks and other money market lendings	158,025	73,535	-	-	231,560
Loans and advances	254,441	109,096	142,167	513,850	1,019,554
Investment securities	63,126	-	14,289	8,244	85,659
Property and equipment and other assets	16,454	2,740	100	14,397	33,691
Total assets	515,469	205,937	163,439	547,132	1,431,977
Liabilities and equity					
Due to banks and other money market borrowings	43,136	-	-	-	43,136
Customers' deposits	342,622	453,452	151,761	223,602	1,171,437
Other liabilities	27,243	8,814	1,187	1,474	38,718
Subordinated loans	-	-	-	50,000	50,000
Shareholders' funds	-	-	-	128,686	128,686
Total liabilities and equity	413,003	462,266	152,948	403,762	1,431,977

D3 Exposure to interest rate risk – non trading portfolios

The Bank's interest sensitivity position based on contractual re-pricing arrangements at 31 December 2011 was as follows:

	Effective annual interest rate %	Within three months RO'000	Four months to 12 months RO'000	Over one year RO'000	Non-sensitive to interest rate RO'000	Total RO'000
30 June 2012						
Assets						
Cash and balances with Central Banks	**1.50**	**-**	**-**	**-**	**90,768**	**90,768**
Due from banks and other money market lendings	**2.31**	**68,467**	**242,925**	**-**	**-**	**311,392**
Loans and advances	**5.58**	**457,458**	**203,319**	**429,385**	**10,761**	**1,100,923**
Investment securities	**1.85**	**145,191**	**12,297**	**4,741**	**12,731**	**174,960**
Property, equipment and fixtures		**-**	**-**	**-**	**13,742**	**13,742**
Other assets		**-**	**-**	**-**	**18,836**	**18,836**
Total assets		**671,116**	**458,541**	**434,126**	**146,838**	**1,710,621**
Liabilities and equity						
Due to banks and other money market borrowings	**1.77**	**149,045**	**38,475**	**-**	**-**	**187,520**
Customers' deposits	**1.95**	**266,894**	**363,171**	**259,950**	**419,466**	**1,309,481**
Other liabilities	**-**	**-**	**-**	**-**	**32,077**	**32,077**
Subordinated debt	**6.50**	**-**	**-**	**50,000**	**-**	**50,000**
Shareholders' funds		**-**	**-**	**-**	**131,543**	**131,543**
Total liabilities and equity		**415,939**	**401,646**	**309,950**	**583,086**	**1,710,621**
Total interest rate sensitivity gap		**255,177**	**56,895**	**124,176**	**(436,248)**	**-**
Cumulative interest rate sensitivity gap		**255,177**	**312,072**	**436,248**	**-**	**-**

	Effective annual interest rate %	Within three months RO'000	Four months to 12 months RO'000	Over one year RO'000	Non-sensitive to interest rate RO'000	Total RO'000
31 December 2011						
Assets						
Cash and balances with Central Banks	2.00	-	-	-	61,513	61,513
Due from banks and other money market lendings	1.68	158,025	73,535	-	-	231,560
Loans and advances	5.92	435,059	169,453	428,601	(13,559)	1,019,554
Investment securities	1.27	68,126	3,244	4,197	10,092	85,659
Property, equipment and fixtures		-	-	-	14,157	14,157
Other assets		-	-	-	19,534	19,534
Total assets		661,210	246,232	432,798	91,737	1,431,977
Liabilities and equity						
Due to banks and other money market borrowings	0.91	43,136	-	-	-	43,136
Customers' deposits	2.14	240,968	390,275	147,375	392,819	1,171,437
Other liabilities	-	-	-	-	38,718	38,718
Subordinated loans	6.50	-	-	50,000	-	50,000
Shareholders' funds		-	-	-	128,686	128,686
Total liabilities and equity		284,104	390,275	197,375	560,223	1,431,977
Total interest rate sensitivity gap		377,106	(144,043)	235,423	(468,486)	-
Cumulative interest rate sensitivity gap		377,106	233,063	468,486	-	-

D4 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:

	2012			2011		
	Assets RO'000	**Liabilities RO'000**	**Net assets RO'000**	Assets RO'000	Liabilities RO'000	Net assets RO'000
US Dollar	**577,137**	**598,887**	**(21,750)**	399,918	435,884	(35,966)
Srilanka Rupee	**38,119**	**38,211**	**(92)**	-	-	-
Saudi Rial	**36,151**	**35,935**	**216**	64,162	64,170	(8)
Euro	**27,609**	**27,598**	**11**	15,807	15,815	(8)
UAE Dirhams	**10,912**	**6,263**	**4,649**	3,872	793	3,080
Qatari Rial	**39**	**8**	**31**	22	19	3
Kuwaiti Dinar	**66**	**23**	**43**	68	15	53
Japanese Yen	**8,315**	**8,309**	**6**	4	1	3
Pound Sterling	**4,389**	**4,401**	**(12)**	2,402	2,402	-
Indian Rupee	**50**	**-**	**50**	283	223	59
Others	**774**	**580**	**194**	461	270	191

D FINANCIAL RISK MANAGEMENT *(continued)*

D5 CAPITAL MANAGEMENT

D5.1 Regulatory capital

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.

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

	30 June 2012	*31 December 2011*
	RO'000	*RO'000*
Tier I capital		
Ordinary share capital	**100,000**	100,000
Legal reserve	**5,705**	5,705
General reserve	**413**	413
Retained earnings	**26,963**	16,602
Fair value losses	**(820)**	(2,179)
Deferred tax asset	**(216)**	(210)
Total	**132,045**	120,331
Tier 2 capital		
Impairment allowance on portfolio basis	**14,484**	13,559
Fair value gains	**323**	66
Subordinated loan	**50,000**	50,000
Total	**64,807**	63,625
Total regulatory capital	**196,852**	183,956
Risk-weighted assets		
Credit and market risks	**1,351,121**	1,229,491
Operational risk	**64,440**	64,440
Total risk-weighted assets	**1,415,561**	1,293,931
Capital adequacy ratio		
Total regulatory capital expressed as a percentage of total risk-weighted assets	**13.91%**	14.22%
Total tier I capital expressed as a percentage of total risk-weighted assets	**9.33%**	9.30%

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