BOARD OF DIRECTOR'S REPORT

It is my privilege to present the report of the performance of Bank Sohar on completion of its fourth year in business.

The Year 2010 was a special year for Oman. The country celebrated the 40th Anniversary of its National Day and the commencement of the new era under the leadership of His Majesty Sultan Qaboos bin Said. The year was also the final year of the country's Seventh Five Year Plan and served as the gateway to the Eighth Five Year Plan.

It was a special year for Bank Sohar as well. The Bank continued the momentum of profitable operations through every quarter. At the close of business for 2010, the Bank has achieved a Net Profit of OMR 10.220 million for the year as compared to a Net Profit of OMR 8.022 million for the year 2009.

ECONOMY

An environment of stability pervaded the business climate in the country. The tempered environment helped shake off the residues of the financial uncertainties of the previous two years. In all quarters, there was open acknowledgement for the monetary policies of the Central Bank of Oman and the timely and effective strategy with which the government took initiatives to keep the national economy on the rails during the global downturn of 2008-2009 and during 2010. The realisation that Oman was able to weather the stress test of the downturn and come out unscathed, has gone on record.

At the end of 2010, the total assets of commercial banks in the country increased by 10.2 per cent to OMR 15.6 billion from OMR 14.2 billion in 2009. Cash in hand and deposits of commercial banks with the Central Bank of Oman amounted to OMR 1.52 billion at the end of 2010 compared to OMR 779.4 million in 2009. The total outstanding credit stood at OMR 10.72 billion at the end of 2010 and accounted for 68.5 per cent of total assets. On a year-on-year basis, credit growth was 9 per cent at the end of 2010.

At the end of 2010, the aggregate deposits of commercial banks grew 14.6 per cent on a year-on-year basis to OMR 10.5 billion. Economic recovery during 2010 has been largely driven by public sector projects. The improved realisation of Oman's crude oil prices in the international market has given the government a revenue surplus. The growth of the Gross Domestic Product from the non-petroleum sector has remained modest. The liquidity condition in the banking system continued to remain stable. In its Banking System Outlook on Oman, Moody's Investor Service affirmed in July 2010 that the Omani banking system remains stable and will continue to enjoy strong capital levels and a high capacity for loss absorption. The rate of inflation has remained at reasonable levels and the average inflation in terms of variation in the Consumer Price Index for the country was 2.8 per cent at the end of July 2010 It is with these fundamentals that the country is moving into 2011 which is also the first year of the Eighth Five Year Plan.

FINANCIAL OVERVIEW 2010

We are happy to report that the Bank has made a net profit of OMR 10.220 million for the year as compared to a net profit of OMR 8.022 million for the year 2009. The operating profit for the year was OMR 15.645 as compared to OMR 11.916 million in 2009, an increase of 31.3%. The net interest income during the year was OMR 30.595 million as compared to OMR 22.858 million in 2009, recording an increase of 33.8%. The operating income for the year 2010 increased to OMR 35.231 million as compared to OMR 29.131million in 2009, an increase of 20.9%. The cost to income ratio has improved to 55.6% from 59% in 2009.

The Bank's net loans and advances grew by 14% during the year to touch OMR 897 million at the close of 2010 as compared to OMR 787 million at the end of the previous year. Customer deposits have grown by 20% to OMR 999 million during the same period as compared to OMR 832 million during 2009.The Bank's share of Private Sector Credit stood at 8.83 % in 2010 as compared to 8.32% in 2009 while the Bank's share of Private Sector Deposit was 6.62 %, marginally down from 6.84 % at the end of 2009.

The Bank's results have been achieved by leveraging the momentum reached during 2009 and by focusing on all aspects of growth and expansion required to sustain and build on it. In an environment devoid of surprises, the Bank was able to focus on improving its quality of assets. The Bank also persevered with its effort to improve the yield on assets, reduce the cost of funds and the operating expenses.

In April of this year, Fitch Ratings assigned a Long Term Issuer Default Rating of BBB+ to the Bank. The Fitch Ratings highlighted the Bank's rising market share and good commercial franchise as rating positives and also drew attention to the Bank's very low non-performing loan ratio and a good provisioning coverage ratio. This Rating is an indicator of both the excellent asset quality and the prudent approach adopted by the Bank. It is also an affirmation of the confidence reposed in Bank Sohar by both our retail and wholesale customers and by the correspondent banks. The BBB+ rating is enjoyed by some of the older banks in Oman. It is a creditable achievement for a bank at the completion of three years in business. Fitch Ratings has simultaneously assigned to Bank Sohar a Short-term Issuer default Rating of F2, Individual Rating of C/D and a Support Rating of 2, and a Support Rating Floor of BBB+.

In September 2010, the Bank successfully closed its OMR 50 million Tier II Subordinated Debt Issuance. This issuance significantly improves the bank's capital adequacy position and allows the Bank to support the requirements of the local economy more effectively. It also gives the Bank greater ability to provide finance for future projects. The Tier II Subordinated Debt Issuance is the third capital raising effort by Bank Sohar and ensures that it continues to meet and exceed the expectations of the Omani people and the market.

FUTURE PLANS

The thrust to establish and maintain a sustainable and diversified economy will remain the key to growth in 2011 and through the coming years. Vision 2020, the long term development strategy for the period 1996 to 2020 will continue to serve as the beacon for the long term future of our business. The Eighth Five Year Plan which commences this year is the fourth and penultimate plan and forms part of Vision 2020. The official evaluation of the performance of the Seventh Five Year Plan and the positive results achieved during the last five years serve as a spring board for the economy as a whole to perform better. The total public expenditure for the fiscal year 2011 is estimated to be OMR 8130 million, an increase of 13 per cent over the previous year. The projects to be implemented during the Eighth Five Year Plan envisage an investment of OMR 30 billion, an increase of 113 per cent over the previous Plan. These projects will cover all sectors of the economy from infrastructure to education and from health to vocational training. We envisage a major role for the Bank in all of these projects.

The Bank operates in an international arena and events that happen in different parts of the world have a far reaching impact on business even in our part of the world. As a bank, it is no longer possible or advisable to view the international business scene within the confines of just the banking industry or even in the context of just one country. Global economic resilience is at a low and both governments and societies are less able to cope with global challenges. Global recovery is moving into a slow but more mature phase spurred by an increase in demand and investment. However, concerns remain about fiscal positions of several high-income countries. The eurozone debt crisis and the repercussions of large amounts of capital flowing from low-interest developed economies to higher-interest emerging markets could create a new set of issues. Negative market sentiments concerning the fiscal position of many of these high-income countries pose another challenge for the global business environment. Vigilance and prudence will go hand in hand as we do our business in the coming year.

Bank Sohar has grown fairly quickly. It has achieved this in a responsible manner keeping in mind the needs of the Omani economy and the government. The non-performing loans of the bank are well below the local and international benchmarks. The bank is generating steady profits adding equity value to shareholders, borrowers, depositors as also to the Omani people.

Identifying new categories of growth in a market with prolific choices of banking products and services is not an easy task. It calls for re-inventing the approach to business, questioning time-worn assumptions, re-evaluating how value is added and focusing on what customers care about. Continuous engagement and co-creation of products and services with customers will provide the answers to differentiate. The analysis of information coupled with insight will also serve to develop a deep customer understanding. The preliminary results of the Oman 2010 Census alert us to the importance of focusing on a multi-generational business approach that will understand and incorporate the banking needs of a new generation of adults. We are operating in a complex environment. Bank Sohar plans to use complexity as an asset that it will leverage to spur innovation and new ways of delivering value to customers.

CORPORATE GOVERNANCE

The Bank has included a comprehensive report on Corporate Governance duly certified by the statutory auditors within the Annual Report for the year 2010. This Report has been made in line with the directives provided for the same under the Code of Corporate Governance promulgated by the Capital Market Authority. In the Bank's first Annual Report, we confirmed that the Bank will adhere to the best traditions of corporate governance and provide both disclosure and accountability. We have honoured that assurance during the current year and will continue to do so.

SOCIAL AUDIT

Our corporate social responsibility at the Bank includes both how we are doing our business in the community and what we are doing besides our business in the same community. The Bank participated in community events at the national level like the Salalah Tourism Festival and also in several community programs at the regional and local level. During the year, the Bank was able to reconfirm and sustain support to several NGO's and charitable organisations with whom it worked during 2009. This year the Bank has also added to the list of recipient organisations. Each of these organisations is dedicated to the care of citizens with special needs in the community. The areas of focus remained health, education, community welfare, employment, safety and the environment.

ON RECORD

In the 40th year of the leadership of His Majesty Sultan Qaboos bin Said, we re-dedicate ourselves to the nation and align ourselves with the national goals. We also record our appreciation for the free and fair environment in which we are able to conduct business.

Clear guidelines from the Central Bank of Oman, the Capital Markets Authority and the Muscat Securities Market, the robust policies of the Government and judicious supervision have enabled us to do business and improve on our performance of the previous years. We record our appreciation to all of them and thank them for all the guidance and support that they offered us during the year.

The staff of Bank Sohar have played a stellar role in our achievements for the year. We salute them and thank them for looking after the interests of our customers, our stakeholders, our suppliers and the public at large. We thank our customers for reposing their trust in Bank Sohar and for giving us an opportunity to service their financial needs.

Sheikh Salim Said Al Fannah Al Araimi
Chairman

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BANK SOHAR SAOG

FINANCIAL STATEMENTS

For the year ended 31 December 2010

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 2010

31 December 2009 USD'000	***31 December 2010 USD'000***		*Notes*	***31 December 2010 RO'000***	*31 December 2009 RO'000*
		ASSETS			
343,558	**270,852**	Cash and balances with Central Bank	*B1*	**104,278**	132,270
52,675	**325,291**	Due from Banks and other money market placements	*B2*	**125,237**	20,280
2,043,595	**2,330,543**	Loans and advances (net)	*B3*	**897,259**	786,784
160,234	**278,309**	Investment securities	*B4*	**107,149**	61,690
37,247	**35,753**	Property, equipment and fixtures	*B5*	**13,765**	14,340
24,014	**26,449**	Other assets	*B6*	**10,183**	9,246
2,661,323	**3,267,197**			**1,257,871**	1,024,610
		LIABILITIES			
55,584	**133,188**	Due to Banks and other money market deposits	*B7*	**51,277**	21,400
101,397	**18,280**	Certificates of deposit	*B8*	**7,038**	39,038
2,162,205	**2,595,156**	Customers' deposits	*B9*	**999,135**	832,449
18,182	**18,182**	Deferred income	*B10*	**7,000**	7,000
50,114	**69,844**	Other liabilities	*B11*	**26,890**	19,294
-	**129,870**	Subordinated loans	*B12*	**50,000**	-
2,387,482	**2,964,520**			**1,141,340**	919,181
		SHAREHOLDERS' EQUITY			
259,740	**259,740**	Share capital	*B13*	**100,000**	100,000
6,579	**9,234**	Legal reserve	*B14*	**3,555**	2,533
-	**1,073**	General reserve	*B14*	**413**	-
1,106	**3,397**	Fair value reserve	*B15*	**1,308**	426
6,416	**29,233**	Retained earnings		**11,255**	2,470
273,841	**302,677**			**116,531**	105,429
2,661,323	**3,267,197**			**1,257,871**	1,024,610
273.841	**302.677**	**Net assets per share (in baizas)**	*B16*	**116.531**	105.429
277,732	**467,244**	**CONTINGENT LIABILITIES**	*B17*	**179,889**	106,927
69,366	**544,875**	**COMMITTMENTS**	*B17*	**209,777**	26,706

The financial statements were approved and authorized for issue by the Board of Directors on **25 January 2011** 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 2010

31 December 2009 USD'000	31 December 2010 USD'000		Notes	31 December 2010 RO'000	31 December 2009 RO'000
136,839	**151,680**	Interest income	C1	**58,397**	52,683
(77,468)	**(72,213)**	Interest expense	C2	**(27,802)**	(29,825)
59,371	**79,467**	**Net interest income**		**30,595**	22,858
16,294	**12,042**	Other operating income	C3	**4,636**	6,273
75,665	**91,509**	**OPERATING INCOME**		**35,231**	29,131
		OPERATING EXPENSES			
(26,501)	**(30,400)**	Staff costs		**(11,704)**	(10,203)
(14,062)	**(15,639)**	Other operating expenses	C4	**(6,021)**	(5,414)
(4,151)	**(4,834)**	Depreciation	B5	**(1,861)**	(1,598)
(44,714)	**(50,873)**			**(19,586)**	(17,215)
30,951	**40,636**	**OPERATING PROFIT**		**15,645**	11,916
(222)	**(55)**	Impairment on investments		**(21)**	(86)
(5,341)	**(2,753)**	Impairment allowance on portfolio basis	B3	**(1,060)**	(2,056)
(1,730)	**(7,595)**	Impairment allowance on specific basis	B3	**(2,924)**	(666)
23,658	**30,233**	**NET PROFIT BEFORE TAX**		**11,640**	9,108
(2,821)	**(3,688)**	**Income tax expense**	C5	**(1,420)**	(1,086)
20,837	**26,545**	**NET PROFIT FOR THE YEAR**		**10,220**	8,022
		Other comprehensive income			
2,389	**2,291**	Net changes in fair value of available for sale financial assets		**882**	920
2,389	**2,291**	**Other comprehensive income for the year, net of income tax**		**882**	920
23,226	**28,836**	**TOTAL COMPREHENSIVE INCOME FOR THE YEAR**		**11,102**	8,942
20.837	**26.545**	Basic earnings per share for the year - **in baizas**	C6	**10.220**	8.022

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 2010

	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 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
Transfer to legal reserve	-	802	-	-	(802)	-
Balance as at 31 December 2009	100,000	2,533	-	426	2,470	105,429

	RO'000	***RO'000***	***RO'000***	***RO'000***	***RO'000***	***RO'000***
Balance as at 1 January 2010	**100,000**	**2,533**	**-**	**426**	**2,470**	**105,429**
Total comprehensive income for the year						
Net profit for the year	**-**	**-**	**-**	**-**	**10,220**	**10,220**
Other comprehensive income						
Net change in fair value of available for sale financial assets	**-**	**-**	**-**	**882**	**-**	**882**
Total comprehensive income for the year	**-**	**-**	**-**	**882**	**10,220**	**11,102**
Transfers	**-**	**1,022**	**413**	**-**	**(1,435)**	**-**
Balance as at 31 December 2010	**100,000**	**3,555**	**413**	**1,308**	**11,255**	**116,531**

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 2010

	Share capital	*Legal reserve*	*General reserve*	*Fair value reserve*	*Retained earnings*	*Total*
	USD'000	*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
Transfer to legal reserve	-	2,083	-	-	(2,083)	-
Balance as at 31 December 2009	259,740	6,579	-	1,106	6,416	273,841
	USD'000	***USD'000***	***USD'000***	***USD'000***	***USD'000***	***USD'000***
Balance as at 1 January 2010	**259,740**	**6,579**	**-**	**1,106**	**6,416**	**273,841**
Total comprehensive income for the year						
Net profit for the year	**-**	**-**	**-**	**-**	**26,545**	**26,545**
Other comprehensive income						
Net change in fair value of available for sale financial assets	**-**	**-**	**-**	**2,291**	**-**	**2,291**
Total comprehensive income for the year	**-**	**-**	**-**	**2,291**	**26,545**	**28,836**
Transfers	**-**	**2,655**	**1,073**	**-**	**(3,728)**	**-**
Balance as at 31 December 2010	**259,740**	**9,234**	**1,073**	**3,397**	**29,233**	**302,677**

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 2010

31 December 2009 USD'000	31 December 2010 USD'000		31 December 2010 RO'000	31 December 2009 RO'000
		OPERATING ACTIVITIES		
23,658	**30,233**	Net profit for the year before tax	**11,640**	9,108
		Adjustments for:		
4,151	**4,834**	Depreciation	**1,861**	1,598
7,071	**10,348**	Impairment for credit losses	**3,984**	2,722
283	**1,179**	Reserve interest on loans	**454**	109
(29)	**-**	Profit on sale of property, equipment and fixtures	**-**	(11)
44	**(5)**	(Loss) / profit on sale of investment securities	**(2)**	17
(1,844)	**(1,303)**	Interest on investment	**(502)**	(710)
33,334	**45,286**	**Operating profit before changes in operating assets and liabilities**	**17,435**	12,833
(403,507)	**(298,476)**	Changes in loans and advances	**(114,913)**	(155,350)
(8,430)	**(2,488)**	Changes in other assets	**(958)**	(3,246)
(132,629)	**(83,117)**	Changes in certificates of deposit	**(32,000)**	(51,062)
739,054	**432,951**	Changes in customers' deposits	**166,686**	284,536
(19,741)	**33,065**	Changes in due to banks and other money market deposits	**12,730**	(7,600)
-	**(296,299)**	Change in due from banks and money market deposits	**(114,075)**	-
18,262	**20,327**	Changes in other liabilities	**7,826**	7,031
226,343	**(148,751)**	**Cash from (used in) operating activities**	**(57,269)**	87,142
-	**(1,927)**	**Income tax paid**	**(742)**	-
226,343	**(150,678)**	**Net cash (used in) / from operating activities**	**(58,011)**	87,142
		INVESTING ACTIVITIES		
29,800	**(17,612)**	Purchase of investments	**(6,781)**	11,473
(28,831)	**31,996**	Proceeds from sale/ redemption of investments	**12,319**	(11,100)
(5,753)	**(5,643)**	Purchase of property, equipment and fixtures	**(2,173)**	(2,215)
1,844	**1,304**	Interest received on investments	**502**	710
46	**-**	Proceeds from sale of property, equipment and fixtures	**-**	18
(2,894)	**10,045**	**Net cash used in investing activities**	**3,867**	(1,114)
		FINANCING ACTIVITIES		
-	**129,870**	Subordinate loans received during the year	**50,000**	-
-	**129,870**	**Net cash from financing activities**	**50,000**	-
223,449	**(10,763)**	**NET CHANGE IN CASH AND CASH EQUIVALENTS**	**(4,144)**	86,028
232,283	**455,732**	**CASH AND CASH EQUIVALENT AT BEGINNING OF THE YEAR**	**175,457**	89,429
455,732	**444,969**	**CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR**	**171,313**	175,457
		REPRESENTING:		
343,558	**270,852**	Cash and balances with Central Banks	**104,278**	132,270
52,675	**28,992**	Due from Banks and other money market placements	**11,162**	20,280
115,083	**245,247**	Investments securities	**94,420**	44,307
(55,584)	**(100,122)**	Due to Banks and other money market deposits	**(38,547)**	(21,400)
455,732	**444,969**		**171,313**	175,457

NOTES TO FINANCIAL STATEMENTS
At 31 December 2010

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 513 employees as of 31 December 2010 (31 December 2009: 448).

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.

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 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 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 primarily consist of the provision for impairment of loans and advances.

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 the statement of 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 & expense recognition

A3.2.a Interest income & expense

Interest income and expense is recognised in the statement of 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 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 available for sale financial assets are presented as ‘net income from other financial instruments carried at fair value’ in the statement of 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 IFRS, or for gains and losses arising from a group of similar transactions such as in the Banks trading activity

A3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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 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 expired.

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.
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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 and 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 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 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 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 statement of income. 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.

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 statement of income. 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 statement of income when the right of income has been established. The losses arising from impairment of such investments are recognised the statement of income.

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 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

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.

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 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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 the statement of income.

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.

Deferred tax is provided using the financial position 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 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 statement of income 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 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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 statement of income on accrual basis.

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 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 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.

A3.11 Comparative figures

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

A3.12 New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2010, and have not been applied in preparing these financial statements. None of these is expected to have a significant effect on the financial statements of the Bank, except for IFRS 9 Financial Instruments, which becomes mandatory for the Bank's 2013 financial statements and could change the classification and measurement of financial assets. The Bank does not plan to adopt this standard early and the extent of the impact has not been determined

A3.13 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.

A3.14 Determination of fair values

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 the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

A3.14.a Equity and debt securities
The fair value of equity and debt securities is determined by reference to their quoted closing bid price at the reporting date, or if unquoted, determined using a valuation technique. Valuation techniques employed include market multiples and discounted cash flow analysis using expected future cash flows and a market-related discount rate. The fair value of held-to-maturity investments is determined for disclosure purposes only.

A3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

A3.14 Determination of fair values *(continued)*

A3.14.b Loans and advances
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.

A3.14.c Derivatives
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.

A3.15.d Non-derivative financial liabilities
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. For finance leases the market rate of interest is determined by reference to similar lease agreements.

NOTES TO FINANCIAL STATEMENTS
At 31 December 2010

B1 CASH AND BALANCES WITH CENTRAL BANK

31 December 2009 USD'000	31 December 2010 USD'000		31 December 2010 RO'000	31 December 2009 RO'000
11,914	**16,961**	Cash	**6,530**	4,587
13	**-**	Insurance deposit with Central Bank of Oman	**-**	5
1,299	**1,299**	Capital deposit with Central Bank of Oman	**500**	500
330,332	**252,592**	Unrestricted balances with Central Banks	**97,248**	127,178
343,558	**270,852**		**104,278**	132,270

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 PLACEMENTS

31 December 2009 USD'000	31 December 2010 USD'000		31 December 2010 RO'000	31 December 2009 RO'000
		Local currency:		
-	**2,597**	Due from other Banks	**1,000**	-
-	**2,597**		**1,000**	-
		Foreign currency:		
40,000	**295,000**	Due from other Banks	**113,575**	15,400
12,675	**27,694**	Nostro balances abroad	**10,662**	4,880
52,675	**322,694**		**124,237**	20,280
52,675	**325,291**		**125,237**	20,280

B3 LOANS AND ADVANCES

31 December 2009 USD'000	31 December 2010 USD'000		31 December 2010 RO'000	31 December 2009 RO'000
1,126,035	**1,428,070**	Corporate loans	**549,807**	433,523
950,462	**946,904**	Personal loans	**364,558**	365,928
2,076,497	**2,374,974**	Gross loans and advances	**914,365**	799,451
(30,177)	**(32,930)**	Impairment allowance on portfolio basis	**(12,678)**	(11,618)
(2,725)	**(11,501)**	Impairment allowance on specific basis	**(4,428)**	(1,049)
2,043,595	**2,330,543**	Net loans and advances	**897,259**	786,784

Personal loans include RO 15,124,351 provided to staff on concessional terms (2009: RO 15,525,020).

B3 LOANS AND ADVANCES *(continued)*

Loans and advances comprise:

31 December 2009 USD'000	***31 December 2010 USD'000***		***31 December 2010 RO'000***	*31 December 2009 RO'000*
1,938,772	**2,174,098**	Loans	**837,028**	746,427
101,099	**143,764**	Overdrafts	**55,349**	38,923
22,616	**39,042**	Loan against trust receipts	**15,031**	8,707
14,010	**18,070**	Bills discounted	**6,957**	5,394
2,076,497	**2,374,974**	Gross loans and advances	**914,365**	799,451
(30,177)	**(32,930)**	Impairment allowance on portfolio basis	**(12,678)**	(11,618)
(2,725)	**(11,501)**	Impairment allowance on specific basis	**(4,428)**	(1,049)
2,043,595	**2,330,543**	Net loans and advances	**897,259**	786,784

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

31 December 2009 USD'000	***31 December 2010 USD'000***	**Loan Loss Provision**	***31 December 2010 RO'000***	*31 December 2009 RO'000*
		Impairment allowance on portfolio basis		
24,836	**30,177**	Balance at beginning of year	**11,618**	9,562
5,341	**2,753**	Provided during the year	**1,060**	2,056
30,177	**32,930**	Balance at the end of the year	**12,678**	11,618
		Impairment allowance on specific basis		
		1) Loan loss provision		
618	**2,348**	Balance at beginning of year	**904**	238
1,961	**9,984**	Provided during the year	**3,844**	755
(231)	**(2,389)**	Write back during the year	**(920)**	(89)
2,348	**9,943**	Balance at the end of the year	**3,828**	904
		2) Reserved interest		
94	**377**	Balance at beginning of year	**145**	36
309	**1,495**	Reserved during the year	**576**	119
(26)	**(314)**	Interest released during the year	**(121)**	(10)
377	**1,558**	Balance at end of the year	**600**	145

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 2010, loans and advances on which interest is not being accrued or where interest has been reserved amounted to RO 8,051,521 (2009: RO 1,932,153).

NOTES TO FINANCIAL STATEMENTS
At 31 December 2010

B3 LOANS AND ADVANCES *(continued)*

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

31 December 2009 USD'000	***31 December 2010 USD'000***		***31 December 2010 RO'000***	*31 December 2009 RO'000*
1,351	**1,255**	Government	**483**	520
220,390	**327,369**	Construction	**126,037**	84,850
106,839	**115,470**	Financial institutions	**44,456**	41,133
248,262	**331,743**	International trade	**127,721**	95,581
86,491	**128,395**	Manufacturing	**49,432**	33,299
950,462	**946,904**	Personal	**364,558**	365,928
129,161	**229,088**	Services	**88,199**	49,727
47,392	**49,740**	Non-resident	**19,150**	18,246
22,847	**17,169**	Mining and quarrying	**6,610**	8,796
263,302	**227,841**	Others	**87,719**	101,371
2,076,497	**2,374,974**		**914,365**	799,451

B4 INVESTMENT SECURITIES

31 December 2009 USD'000	***31 December 2010 USD'000***		***31 December 2010 RO'000***	*31 December 2009 RO'000*
160,234	**267,815**	Available for sale investment	**103,109**	61,690
-	**10,494**	Held to maturity investment	**4,040**	-
160,234	**278,309**		**107,149**	61,690

Available for sale investment comprise:

	Carrying/ fair value 31 December 2010 RO'000	***Cost 31 December 2010 RO'000***	*Carrying/ fair value 31 December 2009 RO'000*	*Cost 31 December 2009 RO'000*
Unquoted equity securities	**427**	**515**	348	515
Equity securities with readily determinable fair value	**8,262**	**7,379**	4,759	4,807
Treasury Bills	**94,420**	**94,385**	44,307	44,285
Government development bonds	**-**	**-**	12,276	12,459
	103,109	**102,279**	61,690	62,066

NOTES TO FINANCIAL STATEMENTS

At 31 December 2010

B4 INVESTMENT SECURITIES

Available for sale investment comprise: *(continued)*

	Carrying/ Fair value 31 December 2010	***Cost 31 December 2010***	*Carrying/ Fair value 31 December 2009*	*Cost 31 December 2009*
	USD'000	***USD'000***	*USD'000*	*USD'000*
Unquoted equity securities	**1,109**	**1,337**	904	1,338
Equity securities with readily determinable fair value	**21,460**	**19,166**	12,361	12,486
Treasury bills	**245,246**	**245,156**	115,083	115,026
Government development bonds	**-**	**-**	31,886	32,361
	267,815	**265,659**	160,234	161,211

Held-to-maturity investments comprise:

31 December 2009	***31 December 2010***		***31 December 2010***	*31 December 2009*
USD'000	***USD'000***		***RO'000***	*RO'000*
-	**4,000**	Corporate bonds	**1,540**	-
-	**6,494**	Debt securities	**2,500**	-
-	**10,494**		**4,040**	-

NOTES TO FINANCIAL STATEMENTS
At 31 December 2010

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 2010	**7,000**	**4,540**	**1,741**	**2,767**	**351**	**887**	**17,286**
Additions	**-**	**1,144**	**488**	**342**	**174**	**25**	**2,173**
Disposals/ reallocation	**-**	**-**	**-**	**-**	**-**	**(887)**	**(887)**
Carrying value at cost	**7,000**	**5,684**	**2,229**	**3,109**	**525**	**25**	**18,572**
Accumulated depreciation:							
1 January 2010	**-**	**(1,247)**	**(766)**	**(735)**	**(198)**	**-**	**(2,946)**
Depreciation	**-**	**(756)**	**(555)**	**(438)**	**(112)**	**-**	**(1,861)**
Total depreciation	**-**	**(2,003)**	**(1,321)**	**(1,173)**	**(310)**	**-**	**(4,807)**
Net carrying value at 31 December 2010	**7,000**	**3,681**	**908**	**1,936**	**215**	**25**	**13,765**
Net carrying value at 31 December 2009	7,000	3,293	975	2,032	153	887	14,340
Net carrying value at 31 December 2010 – USD'000	**18,182**	**9,561**	**2,358**	**5,029**	**558**	**65**	**35,753**
Net carrying value at 31 December 2009 – USD'000	18,182	8,553	2,532	5,279	397	2,304	37,247

* Free hold land represents three plots of land received by the Bank as grant from the Government of Sultanate of Oman during the year 2009, 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 carried out during 2009. 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 2009 USD'000	***31 December 2010 USD'000***		***31 December 2010 RO'000***	*31 December 2009 RO'000*
5,659	**6,570**	Interest receivable	**2,530**	2,179
2,113	**2,901**	Prepayments and deposits	**1,117**	814
14,210	**13,856**	Acceptances	**5,334**	5,471
457	**204**	Fair value receivables – forward exchange contracts	**79**	176
81	**28**	Deferred tax asset *(Note C5)*	**11**	31
1,494	**2,890**	Others	**1,112**	575
24,014	**26,449**		**10,183**	9,246

NOTES TO FINANCIAL STATEMENTS

At 31 December 2010

B7 DUE TO BANKS AND OTHER MONEY MARKET DEPOSITS

31 December 2009 USD'000	***31 December 2010 USD'000***		***31 December 2010 RO'000***	*31 December 2009 RO'000*
		Local currency:		
15,584	**10,000**	Money market borrowings	**3,850**	6,000
-	**121**	Vostro balances	**46**	-
15,584	**10,121**		**3,896**	6,000
		Foreign currency:		
40,000	**123,067**	Money market borrowings	**47,381**	15,400
40,000	**123,067**		**47,381**	15,400
55,584	**133,188**		**51,277**	21,400

B8 CERTIFICATES OF DEPOSIT

31 December 2009 USD'000	***31 December 2010 USD'000***		***31 December 2010 RO'000***	*31 December 2009 RO'000*
234,026	**101,397**	Balance at beginning of year	**39,038**	90,100
18,280	**-**	Issued during the year	**-**	7,038
(150,909)	**(83,117)**	Redeemed during the year	**(32,000)**	(58,100)
101,397	**18,280**	Balance at end of year	**7,038**	39,038

B9 CUSTOMERS' DEPOSITS

31 December 2009 USD'000	**31 December 2010 USD'000**		**31 December 2010 RO'000**	31 December 2009 RO'000
541,325	**446,164**	Demand deposits	**171,773**	208,410
241,382	**302,951**	Saving deposits	**116,636**	92,932
1,378,036	**1,842,613**	Term deposits	**709,406**	530,544
1,462	**3,428**	Margin accounts	**1,320**	563
2,162,205	**2,595,156**		**999,135**	832,449
		Retail customers:		
11,683	**22,114**	Demand deposits	**8,514**	4,498
95,000	**78,379**	Term deposits	**30,176**	36,575
241,382	**302,951**	Saving deposits	**116,636**	92,932
		Corporate customers:		
529,642	**424,049**	Demand deposits	**163,259**	203,912
1,283,036	**1,764,234**	Term deposits	**679,230**	493,969
1,462	**3,429**	Others	**1,320**	563
2,162,205	**2,595,156**		**999,135**	832,449

B10 DEFERRED INCOME

31 December 2009 USD'000	**31 December 2010 USD'000**		**31 December 2010 RO'000**	31 December 2009 RO'000
18,182	**18,182**	Deferred income on grants received from the Government in the form of freehold land *(Note B5)*	**7,000**	7,000
18,182	**18,182**		**7,000**	7,000

B11 OTHER LIABILITIES

31 December 2009 USD'000	**31 December 2010 USD'000**		**31 December 2010 RO'000**	31 December 2009 RO'000
22,982	**40,878**	Interest payable	**15,738**	8,848
4,821	**4,883**	Staff entitlements	**1,880**	1,856
14,210	**13,854**	Acceptances	**5,334**	5,471
39	**86**	Accounts payable in suspense	**33**	15
569	**83**	Fair value payables – forward exchange contract	**32**	219
1,932	**3,636**	Income tax payable	**1,400**	744
5,561	**6,424**	Other accruals and provisions	**2,473**	2,141
50,114	**69,844**		**26,890**	19,294
		Staff entitlements are as follows:		
322	**579**	End of service benefits	**223**	124
4,499	**4,304**	Other liabilities	**1,657**	1,732
4,821	**4,883**		**1,880**	1,856
		Movements in the end of service benefits liability are as follows:		
210	**322**	Liability as at 1 January	**124**	81
169	**288**	Expenses recognized in the profit or loss	**111**	65
(57)	**(31)**	End of service benefits paid	**(12)**	(22)
322	**579**	Liability as at end of the year	**223**	124

B12 SUBORDINATED LOANS

During the year the Bank raised subordinated loan of RO 50 Million with a maturity of 7 years. The subordinated loan carries fixed rate of interest. 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 periodically. The bank is required to create a subordinated loan reserve equal to 20% of the issue value annually from 2012 up till the maturity of the subordinated loans.

B13 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 2009. 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 2009. The Bank has received the call money on the issued shares.

As of 31 December 2010, 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	**150,000,000**	**15.00**
The Royal Court of Affairs	**145,690,340**	**14.57**

B14 RESERVES

B14.1 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 which has been complied with. The legal reserves also include excess of issue fee 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.

B14.2 General reserve

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

B15 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.

B16 NET ASSETS PER SHARE

The calculation of net assets per share is based on net assets of RO116,531,000 as at 31 December 2010 (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 2010.

B17 CONTINGENT LIABILITIES AND COMMITTMENTS

B17.1 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 2009 USD'000	***31 December 2010 USD'000***		***31 December 2010 RO'000***	*31 December 2009 RO'000*
204,049	**307,283**	Guarantees	**118,304**	78,559
73,683	**159,961**	Documentary letters of credit	**61,585**	28,368
277,732	**467,244**		**179,889**	106,927

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

31 December 2009 USD'000	***31 December 2010 USD'000***		***31 December 2010 RO'000***	*31 December 2009 RO'000*
34,894	**118,649**	Government	**45,680**	13,434
73,818	**175,158**	Construction	**67,436**	28,420
39,881	**23,242**	International trade	**8,948**	15,354
4,475	**20,517**	Manufacturing	**7,899**	1,723
34,701	**66,286**	Financial Institution	**25,520**	13,360
4,208	**18**	Transport and communication	**7**	1,620
62,948	**53,473**	Services	**20,587**	24,235
22,807	**9,901**	Others	**3,812**	8,781
277,732	**467,244**		**179,889**	106,927

B17 CONTINGENT LIABILITIES AND COMMITTMENTS *(continued)*

B17.2 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 2009 USD'000	***31 December 2010 USD'000***		***31 December 2010 RO'000***	*31 December 2009 RO'000*
2,629	**3,440**	Capital commitments	**1,324**	1,012
66,737	**541,435**	Credit related commitments	**208,453**	25,694
69,366	**544,875**		**209,777**	26,706

B18 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 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:

31 December 2009 USD'000	***31 December 2010 USD'000***		***31 December 2010 RO'000***	*31 December 2009 RO'000*
36,904	**67,385**	**A) Loans and Advances**	**25,943**	14,208
50,362	**49,012**	**B) Deposits**	**18,869**	19,389
		C) Statement of comprehensive income		
2,509	**543**	Interest income	**209**	966
(6,397)	**(1,345)**	Interest expense	**(518)**	(2,463)
		D) Senior Management compensation		
4,917	**5,754**	Salaries and other short term benefits	**2,215**	1,893
153	**152**	**E) Directors sitting fees**	**58**	59

B19 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 2010:

As at 31 December 2010	***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	**6,530**	**97,748**	**-**	**-**	**104,278**	**104,278**
Due from banks and other money market placements	**-**	**125,237**	**-**	**-**	**125,237**	**125,237**
Loans and advances	**-**	**897,259**	**-**	**-**	**897,259**	**897,259**
Investments	**-**	**-**	**4,040**	**103,109**	**107,149**	**107,149**
Total	**6,530**	**1,120,244**	**4,040**	**103,109**	**1,233,923**	**1,233,923**
Due to banks and other money market deposits	**-**	**-**	**51,277**	**-**	**51,277**	**51,277**
Certificates of deposit	**-**	**-**	**7,038**	**-**	**7,038**	**7,038**
Customers' deposits	**-**	**-**	**999,135**	**-**	**999,135**	**999,135**
Subordinated loans	**-**	**50,000**	**-**	**-**	**50,000**	**50,000**
Total	**-**	**50,000**	**1,057,450**	**-**	**1,107,450**	**1,107,450**

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
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

B19 FAIR VALUE OF FINANCIAL INSTRUMENTS *(continued)*

As at 31 December 2010	***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	**16,961**	**253,891**	**-**	**-**	**270,852**	**270,852**
Due from banks and other money market placements	**-**	**325,291**	**-**	**-**	**325,291**	**325,291**
Loans and advances	**-**	**2,330,543**	**-**	**-**	**2,330,543**	**2,330,543**
Investments	**-**	**-**	**10,494**	**267,815**	**278,309**	**278,309**
Total	**16,961**	**2,909,725**	**10,494**	**267,815**	**3,204,995**	**3,204,995**
Due to banks and other money market deposits	**-**	**-**	**133,188**	**-**	**133,188**	**133,188**
Certificates of deposit	**-**	**-**	**18,280**	**-**	**18,280**	**18,280**
Customers' deposits	**-**	**-**	**2,595,156**	**-**	**2,595,156**	**2,595,156**
Subordinated loans	**-**	**129,870**	**-**	**-**	**129,870**	**129,870**
Total	**-**	**129,870**	**2,746,624**	**-**	**2,876,494**	**2,876,494**

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
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

B19 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.
Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect difference between the instruments.

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 2010			*31 December 2009*		
	Level 1	**Level 3**	**Total**	Level 1	Level 3	Total
	RO 000	***RO 000***	***RO 000***	*RO 000*	*RO 000*	*RO 000*
Derivative assets held for risk management purpose	**79**	**-**	**79**	176	-	176
Investments	**104,222**	**2,927**	**107,149**	61,342	348	61,690
	104,301	**2,927**	**107,228**	61,518	348	61,866
Derivative liabilities held for risk management purpose	**32**	**-**	**32**	219	-	219

	31 December 2010			*31 December 2009*		
	Level 1	**Level 3**	**Total**	Level 1	Level 3	Total
	USD'000	***USD'000***	***USD'000***	*USD'000*	*USD'000*	*USD'000*
Derivative assets held for risk management purpose	**205**	**-**	**205**	457	-	457
Investments	**270,707**	**7,602**	**278,309**	159,330	904	160,234
	270,912	**7,602**	**278,514**	159,787	904	160,691
Derivative liabilities held for risk management purpose	**83**	**-**	**83**	569	-	569

B20 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:

B20.1 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.

B20.2 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.

B20 DERIVATIVES *(continued)*

B20.2 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* 2010

	Notional amount	***Notional amounts by term to maturity***		
		Within 3 months	***3 - 12 months***	***1 - 5 years***
	RO'000	***RO'000***	***RO'000***	***RO'000***
Forward foreign exchange purchase contracts	**329,299**	**253,767**	**75,532**	**-**
Forward foreign exchange sales contracts	**329,883**	**254,302**	**75,581**	**-**
	USD'000	***USD'000***	***USD'000***	***USD'000***
Forward foreign exchange purchase contracts	**855,322**	**659,135**	**196,187**	**-**
Forward foreign exchange sales contracts	**856,839**	**660,525**	**196,314**	**-**

As at 31 December 2009

	Notional amount	*Notional amounts by term to maturity*		
		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	-

B21 PROPOSED DIVIDEND

For the year 2010, the Board of Directors have proposed a cash dividend of 6% of the share capital. The proposed cash dividend is subject to formal approval of the shareholders at the Annual General Meeting.

C1 INTEREST INCOME

31 December 2009 USD'000	31 December 2010 USD'000		31 December 2010 RO'000	31 December 2009 RO'000
561	**3,460**	Due from Banks	**1,332**	216
134,434	**146,917**	Loans and advances to customers	**56,563**	51,757
1,844	**1,303**	Investment securities	**502**	710
136,839	**151,680**		**58,397**	52,683

C2 INTEREST EXPENSE

31 December 2009 USD'000	31 December 2010 USD'000		31 December 2010 RO'000	31 December 2009 RO'000
7,296	**4,117**	Due to Banks and other money market deposits	**1,585**	2,809
57,782	**60,146**	Customers' deposits	**23,156**	22,246
12,392	**4,740**	Certificates of deposits	**1,825**	4,771
-	**3,210**	Subordinated Debt	**1,236**	-
77,468	**72,213**		**27,802**	29,825

C3 OTHER OPERATING INCOME

31 December 2009 USD'000	31 December 2010 USD'000		31 December 2010 RO'000	31 December 2009 RO'000
1,151	**1,798**	Net gain from foreign exchange dealings	**692**	443
14,795	**10,010**	Fees and commission	**3,854**	5,696
392	**229**	Dividend income	**88**	151
(44)	**5**	Realised gains on financial investments through profit or loss	**2**	(17)
16,294	**12,042**		**4,636**	6,273

C4 OTHER OPERATING EXPENSES

31 December 2009 USD'000	31 December 2010 USD'000		31 December 2010 RO'000	31 December 2009 RO'000
2,839	**3,512**	Establishment costs	**1,352**	1,093
11,070	**11,976**	Operating and administration costs	**4,611**	4,262
153	**151**	Directors sitting fees	**58**	59
14,062	**15,639**		**6,021**	5,414

C5 INCOME TAX

a) Recognised in the profit or loss

31 December 2009	***31 December 2010***		***31 December 2010***	*31 December 2009*
USD'000	***USD'000***		***RO'000***	*RO'000*
		Tax expenses		
2,821	**3,634**	Current tax	**1,399**	1,086
-	**54**	Deferred tax expense	**21**	-
2,821	**3,688**	Total tax expenses	**1,420**	1,086

The Bank is liable to income tax for the year 2010 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

23,658	**30,233**	Accounting profit for the year	**11,640**	9,108
2,831	**3,618**	Income tax	**1,393**	1,090
39	**38**	Non deductible expenses	**15**	15
(52)	**(23)**	Tax exempt income	**(9)**	(20)
3	**55**	Prior year deferred tax	**21**	1
2,821	**3,688**	Income tax expense	**1,420**	1,086

c) Deferred tax asset

31 December 2009	***31 December 2010***		***31 December 2010***	*31 December 2009*
USD'000	***USD'000***		***RO'000***	*RO'000*
80	**28**	Fair value adjustment on investments	**11**	31
80	**28**		**11**	31

d) Tax assessment

The assessments of the Bank for the years 2007, 2008 and 2009 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 2010.

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 2009 USD'000	***31 December 2010 USD'000***		***31 December 2010 RO'000***	*31 December 2009 RO'000*
20,837	**26,545**	Net profit for the year	**10,220**	8,022
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
20.837	**26.545**	Net earnings per share for the year (in baizas)	**10.220**	8.022

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), 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.

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 2010			*31 December 2009*		
	Gross Loans and advances to Customers RO'000	***Placements with Banks RO'000***	***Investment securities RO'000***	*Gross Loans and advances to Customers RO'000*	*Placements with Banks RO'000*	*Investment securities RO'000*
Carrying amount	**914,365**	**125,237**	**107,149**	799,451	20,280	61,690
Past due but not impaired						
1-30 days	**3,305**	**-**	**-**	7,131	-	-
31-60 days	**5,762**	**-**	**-**	928	-	-
61-89 days	**4,114**	**-**	**-**	715	-	-
	13,181	**-**	**-**	8,774	-	-
Past due and impaired	**8,052**	**-**	**-**	1,932	-	-
Neither past due nor impaired	**893,132**	**125,237**	**107,419**	788,745	20,280	61,690

	31 December 2010			*31 December 2009*		
	Gross Loans and advances to Customers USD'000	***Placements with Banks USD'000***	***Investment securities USD'000***	*Gross Loans and advances to Customers USD'000*	*Placements with Banks USD'000*	*Investment securities USD'000*
Carrying amount	**2,374,974**	**325,291**	**278,309**	2,076,497	52,675	160,234
Past due but not impaired						
1-30 days	**8,584**	**-**	**-**	18,522	-	-
31-60 days	**14,966**	**-**	**-**	2,410	-	-
61-89 days	**10,686**	**-**	**-**	1,857	-	-
	34,236	**-**	**-**	22,789	-	-
Past due and impaired	**20,914**	**-**	**-**	5,018	-	-
Neither past due nor impaired	**2,319,824**	**325,291**	**278,309**	2,048,690	52,675	160,234

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 2010		*31 December 2009*	
	Loans and Advances		*Loans and Advances*	
Particulars	***Gross***	***Net***	*Gross*	*Net*
	RO'000	***RO'000***	*RO'000*	*RO'000*
Sub-standard	**1,669**	**1,223**	469	342
Doubtful	**1,213**	**577**	929	442
Loss	**5,170**	**1,824**	534	99
	8,052	**3,624**	1,932	883
	USD'000	***USD'000***	*USD'000*	*USD'000*
Sub-standard	**4,334**	**3,177**	1,218	888
Doubtful	**3,151**	**1,499**	2,413	1,148
Loss	**13,429**	**4,737**	1,387	257
	20,914	**9,413**	5,018	2,293

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 2009 Gross loans and advances USD'000	***31 December 2010 Gross loans and advances USD'000***		***31 December 2010 Gross loans and advances RO'000***	*31 December 2009 Gross loans and advances RO'000*
		Against past due but not impaired		
24,226	**13,322**	Property	**5,129**	9,327
-	**1,338**	Fixed deposits	**515**	-
31	**-**	Equity	**-**	12
24,257	**14,660**		**5,644**	9,339
		Against past due and impaired		
886	**5,943**	Property	**2,288**	341
886	**5,943**		**2,288**	341
		Against neither past due nor impaired		
411,416	**330,494**	Property	**127,240**	158,395
36,868	**74,426**	Fixed deposits	**28,654**	14,194
58,016	**53,678**	Equity	**20,666**	22,336
38,364	**48,449**	Guarantees	**18,653**	14,770
544,664	**507,047**		**195,213**	209,695
569,807	**527,650**	**Total**	**203,145**	219,375

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.

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 2010			*31 December 2009*		
	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	**549,807**	**-**	**12,729**	433,523	-	5,107
Personal	**364,558**	**-**	**-**	365,928	-	-
Sovereign	**-**	**-**	**94,420**	-	-	56,583
Banks	**-**	**125,237**	**-**	-	20,280	-
	914,365	**125,237**	**107,149**	799,451	20,280	61,690
Concentration by location						
Middle east	**914,365**	**50,982**	**106,755**	799,451	16,033	50,315
Europe	**-**	**37,328**	**-**	-	1,236	11,048
North America	**-**	**4,090**	**394**	-	2,842	327
Asia	**-**	**32,822**	**-**	-	158	-
Australia	**-**	**15**	**-**	-	11	-
	914,365	**125,237**	**107,149**	799,451	20,280	61,690
	USD'000	***USD'000***	***USD'000***	*USD'000*	*USD'000*	*USD'000*
Concentration by sector						
Corporate	**1,428,070**	**-**	**33,063**	1,126,035	-	13,265
Personal	**946,904**	**-**	**-**	950,462	-	-
Sovereign	**-**	**-**	**245,246**	-	-	146,969
Banks	**-**	**325,291**	**-**	-	52,675	-
	2,374,974	**325,291**	**278,309**	2,076,497	52,675	160,234
Concentration by location						
Middle east	**2,374,974**	**132,421**	**277,286**	2,076,497	41,644	130,689
Europe	**-**	**96,956**	**-**	-	3,210	28,696
North America	**-**	**10,623**	**1,023**	-	7,382	849
Asia	**-**	**85,252**	**-**	-	410	-
Australia	**-**	**39**	**-**	-	29	-
	2,374,974	**325,291**	**278,309**	2,076,497	52,675	160,234

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 its obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

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 2010 were as follows:

	31 December 2010		*31 December 2009*	
	Lending ratio	***Liquid ratio***	*Lending ratio*	*Liquid ratio*
Average for the year	**84.40%**	**21.64%**	83.70%	17.56%
Maximum for the year	**87.04%**	**22.45%**	85.30%	21.73%
Minimum for the year	**80.91%**	**24.80%**	81.60%	14.46%

<u>Residual contractual maturities of financial liabilities</u>

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.

D FINANCIAL RISK MANAGEMENT *(continued)*

D2 LIQUIDITY RISK *(continued)*

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

As at 31 December 2010:

	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	**51,277**	**51,551**	**38,563**	**12,988**	**-**
Certificates of deposits	**7,038**	**7,407**	**185**	**7,222**	**-**
Customers' deposits	**999,135**	**1,042,886**	**499,879**	**245,176**	**297,831**
Deferred income	**7,000**	**7,000**	**-**	**-**	**7,000**
Subordinated loans	**50,000**	**72,781**	**1,603**	**1,603**	**69,575**
Other liabilities	**26,890**	**26,890**	**26,890**	**-**	**-**
Total	**1,141,340**	**1,208,515**	**567,120**	**266,989**	**374,406**
	USD'000	*USD'000*	*USD'000*	*USD'000*	*USD'000*
Non-derivative liabilities					
Due to banks and other money market deposits	**133,188**	**133,901**	**100,164**	**33,737**	**-**
Certificates of deposits	**18,280**	**19,239**	**481**	**18,758**	**-**
Customers' deposits	**2,595,156**	**2,708,795**	**1,298,387**	**636,821**	**773,587**
Deferred income	**18,182**	**18,182**	**-**	**-**	**18,182**
Subordinated debt	**129,870**	**189,042**	**4,164**	**4,164**	**180,714**
Other liabilities	**69,844**	**69,842**	**69,842**	**-**	**-**
Total	**2,964,520**	**3,139,001**	**1,473,038**	**693,480**	**972,483**

As at 31 December 2009:

	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

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.

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 2010

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 2010 was as follows:

As at 31 December 2010	*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	-	-	-	104,278	104,278
Due from Banks and other money market placements	107,411	17,826	-	-	125,237
Loans and advances	321,905	115,413	472,619	-	909,937
Investment securities	94,420	-	-	12,729	107,149
Property and equipment	-	-	-	13,765	13,765
Other assets	-	-	-	10,183	10,183
Total assets	523,736	133,239	472,619	140,955	1,270,549
Due to Banks and other money market deposits	51,277	-	-	-	51,277
Certificates of deposit	-	7,038	-	-	7,038
Customers' deposits	209,873	232,751	556,511	-	999,135
Deferred income	-	-	-	7,000	7,000
Other liabilities	-	-	-	25,490	25,490
Income tax payable	-	-	-	1,400	1,400
Impairment allowance on portfolio basis	-	-	-	12,678	12,678
Subordinated loan	-	-	50,000	-	50,000
Shareholders' equity	-	-	-	116,531	116,531
Total liabilities and shareholders' equity	261,150	239,789	606,511	163,099	1,270,549
Total interest rate sensitivity gap	262,586	(106,550)	(133,892)	(22,144)	-
Cumulative interest rate sensitivity gap	262,586	156,036	22,144	-	-
	USD'000	*USD'000*	*USD'000*	*USD'000*	*USD'000*
Cash and balances with Central Bank	-	-	-	270,852	270,852
Due from Banks and other money market placements	278,990	46,301	-	-	325,291
Loans and advances	836,117	299,774	1,227,582	-	2,363,473
Investment securities	245,247	-	-	33,062	278,309
Property and equipment	-	-	-	35,753	35,753
Other assets	-	-	-	26,449	26,449
Total assets	1,360,354	346,075	1,227,582	366,116	3,300,127
Due to Banks and other money market deposits	133,188	-	-	-	133,188
Certificates of deposit	-	18,280	-	-	18,280
Customers' deposits	545,125	604,548	1,445,483	-	2,595,156
Deferred income	-	-	-	18,182	18,182
Other liabilities	-	-	-	66,205	66,205
Income tax payable	-	-	-	3,639	3,639
Impairment allowance on portfolio basis	-	-	-	32,930	32,930
Subordinated loans	-	-	129,870	-	129,870
Shareholders' equity	-	-	-	302,677	302,677
Total liabilities and shareholders' equity	678,313	622,828	1,575,353	523,633	3,300,127
Total interest rate sensitivity gap	682,041	(276,753)	(347,771)	(57,517)	-
Cumulative interest rate sensitivity gap	682,041	405,288	57,517	-	-

NOTES TO FINANCIAL STATEMENTS

At 31 December 2010

D FINANCIAL RISK MANAGEMENT *(continued)*

D3 MARKET RISK *(continued)*

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

As at 31 December 2009	*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	-	-	-	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, equipment and fixtures	-	-	-	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 deposits	-	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, equipment and fixtures	-	-	-	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 deposits	-	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 2010

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 2010	**Feb 2010**	**Mar 2010**	**Apr 2010**	**May 2010**	**Jun 2010**	**Jul 2010**	**Aug 2010**	**Sep 2010**	**Oct 2010**
CD Rate	**0.05%**	**0.04%**	**0.04%**	**0.04%**	**0.05%**	**0.08%**	**0.11%**	**0.08%**	**0.07%**	**0.07%**
Deposit Rate	**2.01%**	**1.98%**	**1.94%**	**1.90%**	**1.89%**	**1.83%**	**1.82%**	**1.76%**	**1.70%**	**1.67%**
Lending Rate	**6.50%**	**6.46%**	**6.39%**	**6.38%**	**6.38%**	**6.21%**	**6.19%**	**6.15%**	**6.11%**	**6.07%**

	Jan 2009	Feb 2009	Mar 2009	Apr 2009	May 2009	Jun 2009	Jul 2009	Aug 2009	Sep 2009	Oct 2009	Nov 2009	Dec 2009
CD Rate	0.09%	0.09%	0.06%	0.07%	0.06%	0.07%	0.06%	0.04%	0.03%	0.04%	0.05%	0.05%
Deposit Rate	2.51%	2.44%	2.37%	2.27%	2.32%	2.18%	2.23%	2.25%	2.22%	2.17%	2.09%	2.05%
Lending Rate	6.36%	6.44%	6.36%	6.32%	6.31%	6.33%	6.44%	6.50%	6.49%	6.50%	6.53%	6.48%

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 2010

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 2009 USD'000	***31 December 2010 USD'000***		***31 December 2010 RO'000***	*31 December 2009 RO'000*
59,371	**79,467**	**Net interest income**	**30,595**	22,858
59,371	**79,467**	**Annualized net interest income**	**30,595**	22,858
303,126	**463,423**	**Capital**	**178,418**	116,703
		Based on 50 bps interest rate shock		
932	**2,813**	Impact of 50 bps interest rate shock	**1,083**	359
1.57%	**3.54%**	Impact as % to net interest income	**3.54%**	1.57%
0.31%	**0.61%**	Impact as % to capital	**0.61%**	0.31%
		Based on 100 bps interest rate shock		
1,868	**5,626**	Impact of 100 bps interest rate shock	**2,166**	719
3.15%	**7.08%**	Impact as % to net interest income	**7.08%**	3.15%
0.62%	**1.21%**	Impact as % to capital	**1.21%**	0.62%
		Based on 200 bps interest rate shock		
3,735	**11,252**	Impact of 200 bps interest rate shock	**4,332**	1,438
6.29%	**14.16%**	Impact as % to net interest income	**14.16%**	6.29%
1.23%	**2.43%**	Impact as % to capital	**2.43%**	1.23%

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 2010			*31 December 2009*		
	Assets RO'000	***Liabilities RO'000***	***Net assets RO'000***	*Assets RO'000*	*Liabilities RO'000*	*Net assets RO'000*
US Dollar	**360,222**	**373,120**	**(12,897)**	176,273	208,221	(31,948)
Saudi Rial	**94,746**	**1,08,056**	**(13,310)**	56	-	56
EUR	**18,185**	**18,184**	**1**	18,599	18,554	45
UAE Dirhams	**11,019**	**4,350**	**6,668**	6,695	5,513	1,182
Qatari Rial	**114**	**8**	**106**	47	-	47
Kuwaiti Dinar	**65**	**-**	**65**	11	-	11
Japanese Yen	**3**	**-**	**3**	3	-	3
Pound Sterling	**783**	**785**	**(2)**	136	160	(24)
Indian Rupee	**8**	**-**	**8**	12	-	12
Others	**897**	**788**	**109**	68	-	68

NOTES TO FINANCIAL STATEMENTS

At 31 December 2010

D FINANCIAL RISK MANAGEMENT *(continued)*

D3 MARKET RISK *(continued)*

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

	31 December 2010			*31 December 2009*		
	Assets USD'000	***Liabilities USD'000***	***Net Assets USD'000***	*Assets USD'000*	*Liabilities USD'000*	*Net Assets USD'000*
US Dollar	**935,642**	**969,143**	**(33,499)**	457,852	540,834	(82,982)
Saudi Rial	**246,094**	**280,665**	**(34,571)**	145	-	145
EUR	**47,234**	**47,231**	**3**	48,309	48,192	117
UAE Dirhams	**28,621**	**11,299**	**17,319**	17,390	14,319	3,071
Qatari Rial	**296**	**21**	**275**	122	-	122
Kuwaiti Dinar	**169**	**-**	**169**	29	-	29
Japanese Yen	**8**	**-**	**8**	8	-	8
Pound Sterling	**2,034**	**2,039**	**(5)**	353	416	(63)
Indian Rupee	**21**	**-**	**21**	31	-	31
Others	**2,330**	**2,047**	**283**	177	-	177

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.

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

D FINANCIAL RISK MANAGEMENT *(continued)*

D4 OPERATIONAL RISK *(continued)*

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.

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.

D FINANCIAL RISK MANAGEMENT *(continued)*

D5 CAPITAL MANAGEMENT *(continued)*

D5.1 Regulatory capital *(continued)*

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:

31 December 2009 USD'000	***31 December 2010 USD'000***		***31 December 2010 RO'000***	*31 December 2009 RO'000*
		Tier I capital		
259,740	**259,740**	Ordinary share capital	**100,000**	100,000
6,579	**9,234**	Legal reserve	**3,555**	2,533
-	**1,073**	General reserve	**413**	-
6,416	**13,649**	Retained earnings	**5,255**	2,470
(80)	**(290)**	Fair value losses	**(112)**	(31)
(80)	**(28)**	Deferred tax asset	**(11)**	(31)
272,575	**283,378**	Total	**109,100**	104,941
		Tier 2 capital		
29,439	**32,930**	Impairment allowance on portfolio basis	**12,678**	11,334
1,112	**1,661**	Fair value gains	**640**	428
-	**129,870**	Subordinated loan	**50,000**	-
30,551	**164,461**	Total	**63,318**	11,762
303,126	**463,423**	**Total regulatory capital**	**178,418**	116,703
		Risk-weighted assets		
2,213,182	**2,755,958**	Retail Bank, corporate Bank and market risk	**1,061,044**	852,075
141,873	**167,086**	Operational risk	**64,328**	54,621
2,355,055	**2,923,044**	Total risk-weighted assets	**1,125,372**	906,696
		Capital adequacy ratio		
12.87%	**15.32%**	Total regulatory capital expressed as a percentage of total risk-weighted assets	**15.32%**	12.87%
11.57%	**9.69%**	Total tier I capital expressed as a percentage of total risk-weighted assets	**9.69%**	11.57%

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.

D FINANCIAL RISK MANAGEMENT *(continued)*

D5 CAPITAL MANAGEMENT *(continued)*

D5.2 Capital allocation *(continued)*

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.

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 2010 or 2009.

NOTES TO FINANCIAL STATEMENTS
At 31 December 2010

D FINANCIAL RISK MANAGEMENT *(continued)*

D6 SEGMENTAL INFORMATION

Segment information is as follows:

	31 December 2010 Retail banking RO'000	Wholesale banking RO'000	Corporate RO'000	Total RO'000	*31 December 2009* Retail banking RO'000	Wholesale banking RO'000	Corporate RO'000	Total RO'000
Net interest income	**12,211**	**14,333**	**4,051**	**30,595**	10,130	10,972	1,756	22,858
Other operating income	**1,548**	**2,996**	**92**	**4,636**	3,926	2,371	(24)	6,273
Operating expenses								
Staff cost	**(8,252)**	**(3,452)**	**-**	**(11,704)**	(6,513)	(3,690)	-	(10,203)
Other operating expenses	**(4,665)**	**(1,356)**	**-**	**(6,021)**	(4,854)	(560)	-	(5,414)
Depreciation	**(1,438)**	**(423)**	**-**	**(1,861)**	(1,354)	(244)	-	(1,598)
Operating profit/ (loss)	**(596)**	**12,098**	**4,143**	**15,645**	1,335	8,849	1,732	11,916
Impairment on investments	**-**	**-**	**(21)**	**(21)**	-	(86)	-	(86)
Impairment allowance on portfolio basis	**-**	**-**	**(1,060)**	**(1,060)**	-	-	(2,056)	(2,056)
Specific provisions	**(2,176)**	**(748)**	**-**	**(2,924)**	(635)	(31)	-	(666)
Segment profit/(loss) for the year	**(2,772)**	**11,350**	**3,062**	**11,640**	700	8,732	(324)	9,108
Income tax expense	**-**	**-**	**(1,420)**	**(1,420)**	-	-	(1,086)	(1,086)
	(2,772)	**11,350**	**1,642**	**10,220**	700	8,732	(1,410)	8,022
Segment assets	**361,087**	**643,270**	**253,514**	**1,257,871**	357,711	490,763	176,136	1,024,610
Segment liabilities	**155,326**	**843,809**	**258,736**	**1,257,871**	134,005	698,444	192,161	1,024,610

	31 December 2010 Retail banking USD'000	Wholesale banking USD'000	Corporate USD'000	Total USD'000	*31 December 2009* Retail banking USD'000	Wholesale banking USD'000	Corporate USD'000	Total USD'000
Net interest income	**31,717**	**37,229**	**10,521**	**79,467**	26,311	28,499	4,561	59,371
Other operating income	**4,021**	**7,782**	**239**	**12,042**	10,198	6,158	(62)	16,294
Operating expenses								
Staff cost	**(21,434)**	**(8,966)**	**-**	**(30,400)**	(16,917)	(9,584)	-	(26,501)
Other operating expenses	**(12,117)**	**(3,522)**	**-**	**(15,639)**	(12,607)	(1,455)	-	(14,062)
Depreciation	**(3,735)**	**(1,099)**	**-**	**(4,834)**	(3,517)	(634)	-	(4,151)
Operating profit/ (loss)	**(1,548)**	**31,424**	**10,760**	**40,636**	3,468	22,984	4,499	30,951
Impairment on investments	**-**	**-**	**(55)**	**(55)**	-	(222)	-	(222)
Impairment allowance on portfolio basis	**-**	**-**	**(2,753)**	**(2,753)**	-	-	(5,341)	(5,341)
Specific provisions	**(5,652)**	**(1,943)**	**-**	**(7,595)**	(1,649)	(81)	-	(1,730)
Segment profit/(loss) for the year	**(7,200)**	**29,481**	**7,952**	**30,233**	1,819	22,681	(842)	23,658
Income tax expense	**-**	**-**	**(3,688)**	**(3,688)**	-	-	(2,821)	(2,821)
	(7,200)	**29,481**	**4,264**	**26,545**	1,819	22,681	(3,663)	20,837
Segment assets	**937,888**	**1,670,831**	**658,479**	**3,267,198**	929,119	1,274,709	457,495	2,661,323
Segment liabilities	**403,444**	**2,191,712**	**672,042**	**3,267,198**	348,065	1,814,140	499,118	2,661,323