BANK DHOFAR SAOG

Report and financial statements
for the year ended 31 December 2010

BANK DHOFAR SAOG

Report and financial statements
for the year ended 31 December 2010

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF BANK DHOFAR SAOG

Report on the financial statements

We have audited the accompanying financial statements of **Bank Dhofar SAOG** ("the Bank"), which comprise of the statement of financial position as at 31 December 2010, and statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes as set out in pages 3 to 61.

The financial statements of the Bank as of and for the year ended 31 December 2009 were audited by another auditor whose audit report dated 27 January 2010 was unmodified.

Management's responsibility for the financial statements

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

Auditor's responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects the financial position of **Bank Dhofar SAOG** as of 31 December 2010, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on Other Legal and Regulatory Requirements

In our opinion the financial statements of the Bank as at and for the year ended 31 December 2010, in all material respects, comply with

- the relevant disclosure requirements of the Capital Market Authority: and
- the Commercial Companies Law of 1974, as amended.

BANK DHOFAR SAOG

Statement of financial position
at 31 December 2010

	Notes	2010 RO'000	2009 RO'000
ASSETS			
Cash and Bank balances	**5**	**213,667**	182,248
Loans and advances to banks	**7**	**17,211**	32,948
Loans and advances to customers	**8**	**1,261,736**	1,194,243
Available-for-sale investments	**9**	**12,575**	12,338
Held-to-maturity investments	**10**	**107,361**	47,437
Intangible asset	**11**	**3,971**	3,971
Property and equipment	**12**	**8,817**	5,037
Other assets	**13**	**38,958**	31,043
Total assets		**1,664,296**	1,509,265
LIABILITIES			
Due to banks	**14**	**85,751**	100,057
Deposits from customers	**15**	**1,249,605**	1,101,267
Other liabilities	**16**	**63,940**	65,434
Subordinated loan	**17**	**38,500**	38,500
Total liabilities		**1,437,796**	1,305,258
SHAREHOLDERS' EQUITY			
Share capital	**18**	**81,355**	73,959
Share premium	**19**	**58,506**	58,506
Legal reserve	**20**	**20,479**	17,151
Subordinated loan reserve	**20**	**25,667**	17,967
Investment revaluation reserve	**20**	**1,697**	1,390
Retained earnings	**21**	**38,796**	35,034
Total shareholders' equity		**226,500**	204,007
Total liabilities and shareholders' equity		**1,664,296**	1,509,265
Contingent liabilities and commitments	**32**	**349,516**	258, 069
Net assets per share (Rials Omani)	**22**	**0.278**	0.276

The accompanying notes form an integral part of these financial statements.

The financial statements on pages 3 to 61 were approved by the Board of Directors on January 24, 2011 and were signed on their behalf by:

Eng. Abdul Hafidh Salim Rajab Al-Aujaili
Chairman

Kris Babicci
Chief Executive Officer

Report of the Auditors - page 2.

BANK DHOFAR SAOG

Statement of comprehensive income
for the year ended 31 December 2010

	Notes	**2010 RO'000**	2009 RO'000
Interest income		**81,948**	77,729
Interest expense		**(24,697)**	(28,502)
Net interest income	**23**	**57,251**	49,227
Fees and commission income		**5,768**	5,633
Fees and commission expenses		**(699)**	(653)
Net fees and commission income		**5,069**	4,980
Other income	**24**	**8,995**	10,822
Operating income		**71,315**	65,029
Staff and administrative costs	**25**	**(27,106)**	(21,871)
Depreciation	**12**	**(2,089)**	(1,787)
Operating expenses		**(29,195)**	(23,658)
Profit from operations		**42,120**	41,371
Provision for loan impairment	**8**	**(6,563)**	(11,706)
Recoveries from allowance for loan impairment	**8**	**2,820**	1,524
Bad debts written-off		**(36)**	(93)
Impairment of available-for-sale investments		**(370)**	(2,063)
Other Impairments		**(53)**	-
Financial instruments at fair value through profit or loss		**-**	(12)
Profit from operations after provision		**37,918**	29,021
Income tax expense	**27**	**(4,638)**	(3,628)
Profit for the year		**33,280**	25,393
Profit for the year		**33,280**	25,393
Other comprehensive income:			
Net changes in fair value of available-for-sale investments		**168**	(84)
Reclassification adjustment on sale of available-for-sale investments		**(231)**	(828)
Total comprehensive income for the year		**33,217**	24,481
Earnings per share basic and diluted (Rials Omani)	**28**	**0.041**	0.031

The accompanying notes form an integral part of these financial statements.

Report of the Auditors - page 2.

BANK DHOFAR SAOG

Statement of changes in equity
for the year ended 31 December 2010

	Notes	Share capital RO'000	Share premium RO'000	Legal reserve RO'000	Subordinated loan reserve RO'000	Investment revaluation reserve RO'000	Retained earnings RO'000	Total RO'000
1 January 2010		**73,959**	**58,506**	**17,151**	**17,967**	**1,390**	**35,034**	**204,007**
Total comprehensive income for the period								
Profit for the year		**-**	**-**	**-**	**-**	**-**	**33,280**	**33,280**
Other comprehensive income for the period								
Fair value increase (available for sale financial assets)		**-**	**-**	**-**	**-**	**168**	**-**	**168**
- Net change in fair value		**-**	**-**	**-**	**-**	**(231)**	**-**	**(231)**
-Net amount transferred to profit or loss		**-**	**-**	**-**	**-**	**370**	**-**	**370**
Total comprehensive income for 2010		**-**	**-**	**-**	**-**	**307**	**33,280**	**33,587**
Increase in legal reserve	**20**	**-**	**-**	**3,328**	**-**	**-**	**(3,328)**	**-**
Transactions with owners recorded directly in equity								
Dividend paid for 2009		**-**	**-**	**-**	**-**	**-**	**(11,094)**	**(11,094)**
Bonus shares issued for 2009		**7,396**	**-**	**-**	**-**	**-**	**(7,396)**	**-**
Transfer to subordinated loan reserve	**20**	**-**	**-**	**-**	**7,700**	**-**	**(7,700)**	**-**
31 December 2010		**81,355**	**58,506**	**20,479**	**25,667**	**1,697**	**38,796**	**226,500**

The accompanying notes form an integral part of these financial statements.

Report of the Auditors – page 2.

BANK DHOFAR SAOG

Statement of changes in equity
for the year ended 31 December 2010

	Notes	Share capital RO'000	Share premium RO'000	Legal reserve RO'000	Subordinated loan reserve RO'000	Investment revaluation reserve RO'000	Retained earnings RO'000	Total RO'000
1 January 2009		70,774	58,506	14,612	10,267	239	34,035	188,433
Total Comprehensive income for the period								
Profit for the year		-	-	-	-	-	25,393	25,393
Other Comprehensive income								
Fair value reserve on available for sale investments		-	-	-	-	(84)	-	(84)
- Net change in fair value		-	-	-	-	(828)	-	(828)
-Realised gain /loss transferred to profit or loss		-	-	-	-	2,063	-	2,063
Total comprehensive income for 2009		-	-	-	-	1,151	25,393	26,544
Increase in legal reserve	**20**	-	-	2,539	-	-	(2,539)	-
Transactions with owners recorded directly in equity								
Dividend paid to equity holders		-	-	-	-	-	(10,970)	(10,970)
Bonus shares issued for 2008		3,185	-	-	-	-	(3,185)	-
Transfer to subordinated loan reserve	**20**	-	-	-	7,700	-	(7,700)	-
31 December 2009		73,959	58,506	17,151	17,967	1,390	35,034	204,007

The accompanying notes form an integral part of these financial statements.

Report of the Auditors – page 2.

BANK DHOFAR SAOG

Statement of cash flows
for the year ended 31 December 2010

	2010	2009
	RO’000	RO’000
Cash flows from operating activities		
Interest, commission and other receipts	**95,111**	92,132
Interest payments	**(34,480)**	(24,171)
Cash payments to suppliers and employees	**(25,507)**	(22,055)
	35,124	45,906
Decrease in operating assets		
Loans and advances to customers	**(71,272)**	(186,077)
Loans and advances to banks	**2,593**	87
Purchase of treasury bills and certificates of deposits (net)	**(59,924)**	73,031
	(128,603)	(112,959)
Increase in operating liabilities		
Deposits from customers	**148,338**	129,671
Due to banks	**(14,064)**	10,357
	134,274	140,028
Net cash from / (used in) operating activities	**40,795**	72,975
Income tax paid	**(4,887)**	(3,331)
Net cash from / (used in) operating activities	**35,908**	69,644
Cash flows from investing activities		
Investment income	**685**	155
Purchase of investments	**(3,514)**	(3,800)
Proceeds from sale of investments	**3,446**	8,028
Dividend received	**487**	565
Purchase of property and equipment	**(5,885)**	(2,235)
Proceeds from sale of property and equipment	**69**	24
Net cash used in investing activities	**(4,712)**	2,737
Cash flow from financing activities		
Dividend paid	**(11,094)**	(10,970)
Net cash flow (used in) / from financing activities	**(11,094)**	(10,970)
Net change in cash and cash equivalents	**20,102**	61,411
Cash and cash equivalents at the beginning of the year	**206,540**	145,129
Cash and cash equivalents at the end of the year	**226,642**	206,540
Cash and balances with Central Bank of Oman (Note 5)	**213,667**	182,248
Capital deposit with Central Bank of Oman	**(500)**	(500)
Loans and advances to banks due within 90 days	**14,111**	25,670
Due to banks within 90 days	**(636)**	(878)
Cash and cash equivalents for the purpose of the cash flow statement	**226,642**	206,540

The accompanying notes form an integral part of these financial statements.
Report of the Auditors - page 2.

1. Legal status and principal activities

Bank Dhofar SAOG ("the Bank") is incorporated in the Sultanate of Oman as a public joint stock company and is principally engaged in corporate, retail and investment banking activities. The Bank has a primary listing on the Muscat Securities Market ("MSM") and its principal place of business is the Head Office, Capital Business District ("CBD"), Muscat, Sultanate of Oman.

2. Basis of Preparation

a) Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by International Accounting Standards Board (IASB), the requirements of the Commercial Companies Law of 1974, as amended and disclosure requirements of the Capital Market Authority.

b) Basis of measurement

The financial statements have been prepared on the historical cost basis except for derivative financial instruments, financial instruments at fair value through profit and loss and available for sale financial assets which are measured at fair value.

c) Functional and presentation currency

Items included in the Bank's financial statements are measured using Rials Omani which is the currency of the primary economic environment in which the Bank operates, rounded off to the nearest thousand.

d) 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 the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods. affected.

Information about significant areas of uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described in note 4.

e) Accounting policies

The accounting policies set below have been consistently applied in dealing with items that are considered material in relation to the Bank's financial statements to all the periods presented.

3. Principal accounting policies

3.1. *Foreign currency translations*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income. Translation differences on non-monetary items, such as equities held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation differences on non-monetary items, other than those held at cost, such as equities classified as available-for-sale financial assets, are included in the investment revaluation reserve in equity.

3.2. Financial instruments

3.2.1. *Recognition*

The Bank recognises loans and advances, deposits, debt securities and subordinated liabilities on the date at which they originated. Regular way purchases and sales of financial assets are recognised on the trade date at which the Bank commits to purchase and sell of the asset. All other financial assets and liabilities (including assets and liabilities at fair value through profit or loss) are initially recognised on the trade date at which the Bank becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is measured initially at fair value, plus for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue

3.2.2. *Classification*

The Bank classifies its financial assets in the following categories: financial assets at fair value through profit or loss; loans and receivables; held-to-maturity investments; and available-for-sale financial assets. Management determines the classification of its investments at initial recognition.

3.2.2.1. *Financial assets at fair value through profit or loss*

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is held in this category if acquired principally for the purpose of short-term profit taking or if so designated by management. Derivatives are also categorised as held for trading unless they are designated as hedges instruments.

Financial assets and financial liabilities are designated at fair value through profit or loss when:

- Doing so significantly reduces measurements inconsistencies that would arise if the related derivatives were treated as held for trading and the underlying financial instruments were carried at amortised costs;

3. Principal accounting policies

3.2. Financial instruments (continued)

3.2.2.1. *Financial assets at fair value through profit or loss (continued)*

- Certain investments, that are managed and evaluated on a fair value basis in accordance with documented risk management or investments strategy and reported to key management personnel on that basis are designated at fair value through profit or loss; and

- Financial instruments, containing one or more embedded derivatives significantly modify the cash flows, are designated at fair value through profit or loss.

Gains and losses arising from changes in the fair value of derivatives that are managed in conjunction with designated financial assets or financial liabilities are included in the statement of comprehensive income.

3.2.2.2. Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They can be originated or acquired by the bank with no intention of trading the receivable and comprise loans and advances to banks and customers other than bonds purchased at original issuance.

3.2.2.3. Available-for-sale investments

Available-for-sale investments are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

3.2.2.4. Held-to-maturity investments

Investments with fixed or determinable payments and fixed maturity dates that the Bank has the positive intention and ability to hold to maturity are classified as held-to-maturity investments. Held-to-maturity are recorded at amortised costs using the effective interest method less any impairment, with revenue recognised on an effective yield basis.

3.2.3. *Derecognition*

The Bank recognises financial assets at fair value through profit or loss and available-for-sale assets on the trade date, the date it commits to purchase or sell the asset. From this date any gains and losses arising from changes in fair value of the assets are recognised. Loans and receivables, deposits and subordinated liabilities are recognised on the date they are originated.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Bank has transferred substantially all risks and rewards of ownership. A financial liability is derecognised when it is extinguished.

3. Principal accounting policies (continued)

3.2. Financial instruments (continued)

3.2.4. *Measurement*

Financial assets are measured initially at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss.

Subsequent to initial recognition all financial assets at fair value through profit or loss and all available-for-sale assets are measured at fair value, except equity instrument that does not have a quoted market price in an active market and whose fair value cannot be reliably measured is stated at cost, including transaction costs, less impairment losses.

All non-trading financial liabilities and loans and receivables are measured at amortised cost less impairment losses. Amortised cost is calculated on the effective interest rate method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortised based on the effective interest rate of the instrument.

3.2.5. *Fair value measurement principles*

The fair values of quoted investments in active markets are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Bank establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis and other valuation techniques commonly used by market participants.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market related rate at the statement of financial position date for an instrument with similar terms and conditions.

The fair value of derivatives that are not exchange-traded is estimated at the amount that the Bank would receive or pay to terminate the contract at the statement of financial position date taking into account current market conditions and the current credit worthiness of the counter-parties.

3.2.6. *Gains and losses on subsequent measurement*

Gains and losses arising from changes in the fair value of the financial assets at fair value through profit or loss category are included in the statement of comprehensive income in the period in which they arise. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised directly in equity, until the financial asset is derecognised or impaired at which time the cumulative gain or loss previously recognised in equity is recognised in the statement of comprehensive income.

3. Principal accounting policies (continued)

3.3. ***Cash and cash equivalents***

For the purpose of the cash flow statement, cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, including: cash on hand, non-restricted cash deposited with the Central Bank of Oman, amounts due to / from other banks and eligible treasury bills and certificate of deposits.

3.4. ***Treasury bills and certificate of deposits***

Treasury bills and certificates of deposit issued for a term longer than three months are classified as available-for-sale or held-to-maturity at the date of acquisition.

3.5. ***Offsetting***

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only permitted under IFRS's or for gains and losses arising from a group of similar transaction such as in the Banks trading activity.

3.6. ***Impairment of financial assets***

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

(i) significant financial difficulty of the issuer or obligor;

(ii) a breach of contract, such as a default or delinquency in interest or principal payments;

(iii) the Bank granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the lender would not otherwise consider;

(iv) it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;

(v) the disappearance of an active market for that financial asset because of financial difficulties; or

(vi) (vi)observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:

–adverse changes in the payment status of borrowers in the group; or

–national or local economic conditions that correlate with defaults on the assets in the group.

3. Principal accounting policies (continued)

3.6. *Impairment of financial assets (continued)*

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

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the statement of comprehensive income. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Bank may measure impairment on the basis of an instrument's fair value using an observable market price.

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

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e. on the basis of the Bank's grading process that considers asset type, industry, geographical location, collateral type, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the Bank and historical loss experience for assets with credit risk characteristics similar to those in the Group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

3. Principal accounting policies (continued)

3.6. *Impairment of financial assets (continued)*

Estimates of changes in future cash flows for groups of assets should reflect and be directionally consistent with changes in related observable data from period to period (for example, changes in unemployment rates, property prices, payment status, or other factors indicative of changes in the probability of losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Bank to reduce any differences between loss estimates and actual loss experience.

When a loan is known to be uncollectible, all the necessary legal procedures have been completed, and the final loss has been determined, the loan is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are included in the statement of comprehensive income.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the statement of comprehensive income.

The Bank assesses at each statement of financial position date whether there is objective evidence that a financial asset or a group of financial assets, other than investments at fair value through profit and loss, is impaired. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the statement of comprehensive income. Impairment losses recognised in the statement of comprehensive income on equity instruments are not reversed through the statement of comprehensive income. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the statement of comprehensive income.

3.7. *Property and equipment*

Items of property and equipment are stated at cost less accumulated depreciation and impairment loss. Depreciation is calculated so as to write off the cost of property and equipment, other than freehold land and capital work-in-progress, by equal instalments over their estimated economic useful lives from the date the asset is brought into use, as follows :

	Years
Buildings	7 - 25
Furniture and fixtures	3 - 7
Motor vehicles	3 - 5
Computer equipment	4
Core Banking System	10

3. Principal accounting policies (continued)

3.7. *Property and equipment (continued)*

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each statement of financial position date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

Gains and losses on disposal of property and equipment are determined by reference to their carrying amount and are taken into account in determining operating profit. Repairs and renewals are charged to the statement of comprehensive income when the expense is incurred. Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the item of property and equipment. All other expenditure is recognised in the statement of comprehensive income as an expense when incurred.

3.8. *Intangible assets*

Goodwill represents the excess of the cost of an acquisition over the fair value of the net identifiable assets acquired at the date of acquisition. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses.

3.9. *Provisions*

A provision is recognised in the statement of financial position when the Bank has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and the amount has been reliably estimated. If the effect is material, provisions are determined by discounting the expected future cash flows at a rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

3.10. *Dividends*

Dividends are recognised as a liability in the year in which they are declared.

3.11. *Interest income and expense*

Interest income and expense are recognised in the statement of comprehensive income using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

3. Principal accounting policies (continued)

3.11. *Interest income and expense (continued)*

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

3.12. *Fees and commission income*

Fees and commissions are generally recognised on an accrual basis when the service has been provided. Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognised as an adjustment to the effective interest rate on the loan. Loan syndication fees are recognised as revenue when the syndication has been completed and the Bank retained no part of the loan package for itself or retained a part at the same effective interest rate for the other participants. Commission and fees arising from negotiating, or participating in the negotiation of, a transaction for a third party – such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses – are recognised on completion of the underlying transaction. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time-apportionment basis. Asset management fees related to investment funds are recognised rateably over the period the service is provided. The same principle is applied for wealth management, financial planning and custody services that are continuously provided over an extended period of time.

3.13. *Taxation*

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the statement of comprehensive income except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

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

Deferred income tax is provided in full, using the statement of financial position liability method, on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes (the tax base). The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the statement of financial position date. The principal temporary differences arise from depreciation of property and equipment and provisions.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

3. Principal accounting policies (continued)

3.14. *Employee benefits*

End of service benefits are accrued in accordance with the terms of employment of the Bank's employees at the statement of financial position date, having regard to the requirements of the Oman Labour Law. Employee entitlements to annual leave and leave passage are recognised when they accrue to employees and an accrual is made for the estimated liability arising as a result of services rendered by employees up to the statement of financial position date.

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

3.15. *Derivative financial instruments*

Derivatives are stated at fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and valuation techniques, including discounted cash flow models and options pricing models, as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

The best evidence of the fair value of a derivative at initial recognition is the transaction price (i.e., the fair value of the consideration given or received) unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. When such evidence exists, the Bank recognises profits on the day of the transaction.

The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. Although the Bank enters into derivative instruments for hedging purposes, certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in the statement of comprehensive income.

3.15.1 Embedded derivatives

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at fair value with changes in fair value recognised in profit or loss.

3. Principal accounting policies (continued)

3.15. *Derivative financial instruments (continued)*

3.15.2 Hedge accounting

The Bank designates certain hedging instruments, which include derivatives, embedded derivatives and non-derivatives in respect of foreign currency risk, as either fair value hedges, cash flow hedges, or hedges of net investments in foreign operations. Hedges of foreign exchange risk on firm commitments are accounted for as cash flow hedges.

At the inception of the hedge relationship, the entity documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the bank documents whether the hedging instrument that is used in a hedging relationship is highly effective in offsetting changes in fair values or cash flows of the hedged item.

3.15.3 Fair value hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in profit or loss immediately, together with any changes in the fair value of the hedged item that are attributable to the hedged risk. The change in the fair value of the hedging instrument and the change in the hedged item attributable to the hedged risk are recognised in the line of the statement of comprehensive incomes relating to the hedged item.

Hedge accounting is discontinued when the Bank revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. The adjustment to the carrying amount of the hedged item arising from the hedged risk is amortised to profit or loss from that date.

3.15.4 Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are deferred in equity. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss, and is included in the “other gains and losses” line of the statement of comprehensive income.

Amounts deferred in equity are recycled in profit or loss in the periods when the hedged item is recognised in profit or loss, in the same line of the statement of comprehensive income as the recognised hedged item. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability.

3. Principal accounting policies (continued)

3.15. *Derivative financial instruments (continued)*

3.15.4 Cash flow hedges (continued)

Hedge accounting is discontinued when the Bank revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. Any cumulative gain or loss deferred in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was deferred in equity is recognised immediately in profit or loss.

3.16. *Sale and repurchase agreements*

Securities sold subject to repurchase agreements (repos) are reclassified in the financial statements as pledged assets when the transferee has the right by contract or custom to sell or repledge the collateral; the counterparty liability is included in amounts due to other banks, deposits from banks, other deposits or deposits due to customers, as appropriate. Securities purchased under agreements to resell (reverse repos) are recorded as loans and advances to other banks or customers, as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest method. Securities lent to counterparties are also retained in the financial statements.

Securities borrowed are not recognised in the financial statements, unless these are sold to third parties, in which case the purchase and sale are recorded with the gain or loss included in trading income.

3.17. *Borrowings*

Borrowings are recognised initially at fair value, being their issue proceeds (fair value of consideration received) net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between proceeds net of transaction costs and the redemption value is recognised in the statement of comprehensive income over the period of the borrowings using the effective interest method.

3.18. *Segment reporting*

A segment is a distinguishable component of the Bank that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. The Bank currently operates only in the Sultanate of Oman. The Bank's primary format for reporting segmental information is business segments, based upon management and internal reporting structure. The Bank's main business segments are corporate and retail banking.

3.19. *Fiduciary assets*

Assets held in trust or in a fiduciary capacity are not treated as assets of the Bank in the statement of financial position.

3. Principal accounting policies (continued)

3.20. *Trade and settlement date accounting*

All “regular way” purchases and sales of financial assets are recognised on the trade date, i.e. that date the Bank commits to purchase the assets. 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.

3.21. *Directors’ remuneration*

Directors’ remuneration is calculated in accordance with the Commercial Companies Law of Sultanate of Oman.

3.22. *Standards not yet effective*

Management anticipates that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of the Company in the period of initial application except IFRS 9: Financial Instruments (effective from 1 January 2013) which deals with classification and measurement of financial assets. The requirements of this standard represent a significant change from the existing requirements in IAS 39 in respect of financial assets. The management are still in the process of determining the impacts, if any, on the Company’s financial position and financial performance.

New Standards and amendments to Standards	*Effective for annual periods beginning on or after*
IAS 32 (revised) Financial Instrument: Presentation - Amendments relating to classification of rights issue	1 February 2010
IAS 24 Related party disclosure - Amendment on disclosure requirements for entries that are controlled or significantly influenced by a Government.	1 January 2011
IFRS 9 Financial Instruments: Classification and Measurement (intended as complete replacement for IAS 39 and IFRS 7)	1 January 2013
IFRIC 19: Extinguishing Financial Liabilities with Equity Instruments	1 July 2010
Amendment to IFRIC 14: IAS 19: The limit on a defined benefit asset: Minimum	1 January 2011

4. Critical Accounting judgment and key sources of estimation uncertainty

(a) Classification of investments

Management decides on acquisition of an investment whether it should be classified as held for trading, carried at fair value through profit or loss, available-for-sale or held-to-maturity investments.

Available-for-sale investments

Management follows the guidance set out in International Accounting Standard (IAS) 39 Financial Instruments: Recognition and Measurement on classifying non-derivative financial assets as available-for-sale. This classification requires management's judgement based on its intentions to hold such investments.

Held-to-maturity investments

The Bank follows the guidance of IAS 39 on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires significant judgements. In making this judgement, the Bank evaluates its intention and ability to hold such investments to maturity. If the Bank fails to keep these investments to maturity other than for the specific circumstances-for example, selling an insignificant amount close to maturity – it will be required to classify the entire class as available-for-sale. The investments would, therefore, be measured at fair value.

(b) Fair value estimation

Fair value is based on quoted market prices at the statement of financial position date without any deduction for transaction costs. If a quoted market price is not available, fair value is estimated based on discounted cash flow and other valuation techniques.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market-related rate for a similar instrument at the statement of financial position date.

4. Critical Accounting judgment and key sources of estimation uncertainty (continued)

(c) Impairment

Impairment losses on loans and advances

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

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Bank to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value. The carrying amount of goodwill at the statement of financial position date in the financial statements was RO 3,971,000 (2009 – RO 3,971,000).

Impairment of available-for-sale investment

The Bank determines that available-for-sale investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgement. In making this judgement, management evaluates among other factors, the normal volatility in share price. In addition, impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology and operational and financing cash flows.

(d) Useful life of property and equipment

Depreciation is charged so as to write off the cost of assets over their estimated useful lives. The calculation of useful lives is based on management's assessment of various factors such as the operating cycles, the maintenance programs, and normal wear and tear using its best estimates

5. Cash and Bank balances

	2010 RO'000	2009 RO'000
Cash on hand	**16,348**	11,206
Balances with the Central Bank of Oman	**137,319**	11,042
Certificate of deposits with maturity of 90 days or less	**60,000**	160,000
	213,667	182,248

At 31 December 2010, cash and balances with Central bank of Oman included balances with the Central Bank of Oman amounting to RO 500,000 (2009 - RO 500,000) as minimum reserve requirements. These funds are not available for the Bank's daily business.

Outstanding certificate of deposits as of 31 December 2010 were issued by the Central Bank of Oman and carried an average interest rate of 0.06%.

6. Financial instruments at fair value through profit or loss

At 31 December 2010, there are no financial instruments at fair value through profit or loss.

7. Loans and advances to banks

Placements with other banks	**10,533**	27,246
Current clearing accounts and bills discounted	**6,678**	5,702
	17,211	32,948

At 31 December 2010, placements with one local bank represented 20% or more of the Bank's placements (2009 - One).

8. Loans and advances to customers

	2010 RO'000	2009 RO'000
Overdrafts	**100,308**	109,402
Loans	**1,140,637**	1,046,641
Loans against trust receipts	**67,577**	76,641
Bills discounted	**5,609**	3,675
Advance against credit cards	**9,556**	10,533
Others	**9,749**	10,940
Gross loans and advances	**1,333,436**	1,257,832
Less: Impairment allowance	**(71,700)**	(63,589)
Net loans and advances	**1,261,736**	**1,194,243**

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

	2010 RO'000	2009 RO'000
(a) Allowance for loan impairment		
1 January	**41,852**	31,684
Allowance made during the year	**6,563**	11,706
Released to the statement of comprehensive income during the year	**(2,820)**	(1,524)
Written off during the year	**(63)**	(14)
31 December	**45,532**	41,852
(b) Reserved interest		
1 January	**21,737**	18,642
Reserved during the year	**5,566**	3,957
Released to the statement of comprehensive income during the year	**(947)**	(588)
Written-off during the year	**(188)**	(274)
31 December	**26,168**	21,737
Total impairment allowance	**71,700**	63,589

As a matter of policy, the Bank considers waiver / write-off or settlement only in such cases where the Bank is satisfied that the recovery of the full outstanding liabilities from the borrower is not possible in the normal course of business or out of the securities realisation or through enforcement of the guarantee (wherever available) and that legal action will not yield higher recoveries after considering the time and costs involved.

Proposals for waivers/write-off are not formula driven and are decided on case by case basis after weighing all pros and cons. The rationale is invariably documented. In all cases, the Bank aims to recover the maximum value through enforcement of collaterals/guarantees of guarantors, etc.

8. Loans and advances to customers (continued)

Interest is reserved by the Bank against loans and advances which are impaired, to comply with the rules, regulations and guidelines issued by the Central Bank of Oman.

Under the Central Bank of Oman's guidelines for provision against classified loans and advances, at 31 December 2010, out of the total provisions of RO 71,700,008 (2009 – RO 63,588,526) a collective provision was made on a general portfolio basis amounting to RO 18,529,630 (2009 - RO 18,121,754).

At 31 December 2010, impaired loans and advances on which interest has been reserved amount to **RO 61,781,889** (2009 - RO 58,883,302) and loans and advances on which interest is not being accrued amount to **RO 1,541,148** (2009 - RO 1,564,659).

Loan and advances are summarised as follows

	2010		2009	
	Loans and advances to customers RO'000	**Loans and advances to banks RO'000**	Loans and advances to customers RO'000	Loans and advances to banks RO'000
Neither past due nor impaired	**1,229,168**	**17,211**	1,171,182	32,948
Past due but not impaired	**41,254**	**-**	26,481	-
Impaired	**63,014**	**-**	60,169	-
Gross loans and advances	**1,333,436**	**17,211**	1,257,832	32,948
Less: Impairment allowance	**(71,700)**	**-**	(63,589)	-
Total	**1,261,736**	**17,211**	1,194,243	32,948

Loans and advances neither past due nor impaired

The credit quality of the portfolio of loans and advances that were neither past due nor impaired can be assessed by reference to the internal rating system adopted by the Bank.

Loans and advances past due but not impaired

	2010 RO'000	2009 RO'000
Past due up to 30 days	**36,722**	22,654
Past due 30 – 60 days	**2,715**	2,289
Past due 60 – 89 days	**1,817**	1,538
Totals	**41,254**	26,481

8. Loans and advances to customers (continued)

Impaired

	2010 RO'000	2009 RO'000
Substandard	**10,071**	17,051
Doubtful	**2,549**	5,001
Loss	**50,394**	38,117
Total	**63,014**	60,169

Fair value of collaterals

Upon initial recognition of loans and advances, the fair value of collateral is based on valuation techniques commonly used for the corresponding assets. In subsequent periods, the fair value is updated by reference to market price or indexes of similar assets.

Loans and advances renegotiated

Restructuring activities include extended payment arrangements, approved external management plans, modification and deferral of payments. Restructuring policies and practices are based on indicators or criteria which, in the judgment of management, indicate that payment will most likely continue. These policies are kept under continuous review. Restructuring is most commonly applied to term loans, in particular customer finance loans. Renegotiated loans that are classified as standard amounted to RO 19,735,000 at 31 December 2010 (2009: RO 29,103,000).

9. Available-for-sale investments

		Fair value	
	Cost RO'000	2010 RO'000	2009 RO'000
Quoted on the Muscat Securities Market			
Banking and investments	**1,271**	**1,299**	1,094
Services	**3,680**	**4,195**	5,096
Industrial	**2,638**	**2,664**	2,072
	7,589	**8,158**	8,262
Unquoted			
Omani companies	**3,289**	**4,417**	4,076
	3,289	**4,417**	4,076
	10,878	**12,575**	12,338

10. Held-to-maturity investments

	2010	2009
	RO'000	RO'000
Treasury bills with maturity of above 90 days	**44,345**	31,704
Government Development Bonds	**63,016**	15,733
	107,361	47,437

Outstanding treasury bills were issued by central banks outside Sultanate of Oman for a term of 3 to 6 months and carry interest rates ranging from 0.28% to 0.31% (2009 - 0.30% to 0.36%).

Outstanding Government Development Bonds carry interest rate of 3.25% to 4% and mature from 2012 to 2015.

11. Intangible asset

Intangible asset represents goodwill which resulted from the acquisition of branches of the Commercial Bank of Oman in the year 2001 and merger with Majan International Bank in the year 2003. Goodwill is tested for impairment each year.

12. Property and equipment

	Freehold Land RO'000	Buildings RO'000	Furniture and fixtures RO'000	Motor vehicles RO'000	Computer equipment RO'000	Capital Work-in-progress RO'000	Total RO'000
Cost							
1 January 2009	140	1,573	5,994	950	7,014	-	15,671
Additions	-	-	1,112	71	793	259	2,235
Disposals	-	-	(100)	(71)	(79)	-	(250)
1 January 2010	140	1,573	7,006	950	7,728	259	17,656
Additions	**-**	**-**	**889**	**319**	**4,828**	**(151)**	**5,885**
Disposals	-	-	**(53)**	**(163)**	**(48)**	-	**(264)**
31 December 2010	**140**	**1,573**	**7,842**	**1,106**	**12,508**	**108**	**23,277**
Depreciation							
1 January 2009	-	706	4,066	617	5,685	-	11,074
Charge for the year	-	57	835	179	716	-	1,787
Disposals	-	-	(94)	(71)	(77)	-	(242)
1 January 2010	-	763	4,807	725	6,324	-	12,619
Charge for the year	**-**	**58**	**888**	**202**	**941**	**-**	**2,089**
Disposals	**-**	**-**	**(47)**	**(153)**	**(48)**	**-**	**(248)**
31 December 2010	**-**	**821**	**5,648**	**774**	**7,217**	**-**	**14,460**
Carrying value							
31 December 2010	**140**	**752**	**2,194**	**332**	**5,291**	**108**	**8,817**
31 December 2009	140	810	2,199	225	1,404	259	5,037

13. Other assets

	2010 **RO'000**	2009 RO'000
Acceptances	**32,889**	22,341
Interest receivable	**3,120**	1,722
Advance against new core banking system	**-**	2,828
Prepaid expenses	**1,603**	907
Dividends receivable	**67**	94
Deferred tax asset (note 27)	**-**	177
Positive fair value of derivatives (note 33)	**24**	27
Other receivables	**1,255**	2,947
	38,958	31,043

14. Due to banks

Syndicated borrowings	**-**	28,875
Other inter bank borrowings	**85,115**	69,343
Payable on demand	**636**	1,839
	85,751	100,057

In 2008, the Bank entered into a loan agreement for US $ 20,000,000 with a foreign bank having maturity of three years and carries a interest rate linked to three months LIBOR plus.

In 2010, the Bank successfully arranged various bilateral loans from various regional and international banks in the aggregate amount of US$ 110 million at three months LIBOR plus.

At 31 December 2010, no borrowing with banks individually represented 20% or more of the Bank's borrowings. The Bank has not had any defaults of principal, interest or other breaches during the year on its borrowed funds (2009 - One).

15. Deposits from customers

Current accounts	**299,923**	221,225
Savings accounts	**202,513**	182,392
Time deposits	**743,343**	693,662
Margin accounts	**3,826**	3,988
	1,249,605	1,101,267

Current accounts and time deposits include deposits from the Government of the Sultanate of Oman and its entities amounting to RO 342,771,000 (2009 - RO 331,344,000).

Notes to the financial statements for the year ended 31 December 2010

16. Other liabilities

	2010 RO'000	2009 RO'000
Acceptances	**32,889**	22,341
Interest payable	**1,309**	11,092
Creditors and accruals	**25,013**	27,461
Income tax provision	**3,881**	4,013
Deferred tax liability (note 27)	**294**	-
Employee terminal benefits	**554**	527
	63,940	65,434

Employee terminal benefits

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

	2010	2009
1 January	**527**	387
Expense recognised in the statement of comprehensive income	**139**	147
Cash paid to employees	**(112)**	(7)
	554	527

17. Subordinated loan

	2010	2009
Subordinated loan	**38,500**	38,500
	38,500	38,500

In August 2007, the Bank availed an unsecured subordinated loan of US $ 100 million with a tenor of 5 years and one month. The rate of interest is linked to 3 month LIBOR plus margin, payable quarterly, while principal is payable in lump sum at maturity.

18. Share capital

The authorised share capital consists of 1,000,000,000 shares of RO 0.100 each (2009 - 1,000,000,000 shares of RO 0.100 each).

On 28 March 2010 the Shareholders of the Bank in the annual general meeting approved the issuance of 10% bonus shares amounting to 73,958,653 shares of RO 0.100 each.

At 31 December 2010, the issued and paid up share capital comprise 813,545,183 shares of RO 0.100 each. (2009 – 739,586,530 shares of RO 0.100 each).

Shareholders

The following shareholders of the Bank own 10% or more of the Bank's share capital:

	2010		2009	
	No of shares	**%**	No of shares	%
Dhofar International Development and Investment Company SAOG	**223,724,925**	**27**	221,875,959	30
Eng. Abdul Hafidh Salim Rajab Al Aujali and his related Companies	**167,355,290**	**21**	123,153,695	17
Civil Service Employees' Pension Fund	**80,913,511**	**10**	73,958,636	10
Total	**471,993,726**	**58**	418,988,290	57
Others	**341,551,457**	**42**	320,598,240	43
	813,545,183	**100**	739,586,530	100

19. Share premium

In the year 2008, the Bank has issued share of 176,921,306 by way of rights issue at a premium of RO 0.300 resulting an increase in share premium by RO 53,076,392. Share premium account is not available for distribution.

20. Reserves

(a) Legal reserve	**2010**	2009
	RO'000	RO'000
1 January	**17,151**	14,612
Appropriation for the year	**3,328**	2,539
31 December	**20,479**	17,151

20. Reserves *(continued)*

(a) Legal reserve *(continued)*

In accordance with Article 106 of the Commercial Companies Law of 1974, annual appropriations of 10% of profit are made to the legal reserve until the accumulated balance of the reserve is equal to one-third of the Bank's paid up share capital. This reserve is not available for distribution.

(b) Subordinated loan reserves

	2010	2009
	RO'000	RO'000
1 January	**17,967**	10,267
Appropriation for the year		
Subordinated loan reserve	**7,700**	7,700
31 December	**25,667**	17,967

Subordinated loan reserve

Consistent with the Bank for International Settlement ("BIS") Guidelines on capital adequacy, the Bank transfers an amount equivalent to 20% of the value of the subordinated loan each year to the subordinated loan reserve until the maturity of the loan. The amount of the reserve will be transferred to retained earnings through the statement of changes in equity upon settlement of the subordinated loan.

(c) Investment revaluation reserve

The movements in the investments revaluation reserve is analysed below:

1 January	**1,390**	239
Increase/decrease in fair value	**168**	(84)
Impairment of available for sale investment taken to statement of comprehensive income	**370**	2,063
Net transfer to statement of comprehensive income on sale of available-for-sale investment	**(231)**	(828)
31 December	**1,697**	1,390

Notes to the financial statements for the year ended 31 December 2010

21. Retained earnings

Retained earnings represent the undistributed profits generated by the Bank since incorporation.

22. Net assets per share

Net assets per share is calculated by dividing the net assets at the year end by the number of shares outstanding at 31 December as follows:

	2010	2009
Net assets (RO)	**226,500,000**	204,007,000
Number of shares outstanding at 31 December (Nos.)	**813,545,183**	739,586,530
Net assets per share (RO)	**0.278**	0.276

23. Net interest income

	2010 **RO'000**	2009 RO'000
Loans and advances to customers	**81,677**	76,961
Debt investments	**181**	451
Money market placements	**78**	295
Others	**12**	22
Total interest income	**81,948**	77,729
Deposits from customers	**(23,032)**	(26,217)
Money market deposits	**(1,665)**	(2,285)
Total interest expense	**(24,697)**	(28,502)
Net interest income	**57,251**	49,227

Included in interest income from debt investments an amount of RO 167,970 (2009 : RO 397,855) being interest income from held-to-maturity investments.

24. Other income

Foreign exchange	**1,211**	1,125
Investment income (a)	**1,503**	1,868
Miscellaneous income	**6,281**	7,829
	8,995	10,822

24. Other income (continued)

	2010 **RO'000**	2009 RO'000
Investment income		
Dividend income- available-for-sale investments	**460**	541
Gain of disposal of available-for-sale investments	**358**	1,172
Interest income on Government Development Bonds / Bank Bonds (HTM)	**685**	106
Interest income on financial instruments at fair value through profit or loss	**-**	49
	1,503	1,868

25. Staff and administrative costs

(a) Staff costs

	2010	2009
Salaries and allowances	**16,489**	12,918
Other personnel costs	**1,175**	1,024
Scheme costs	**662**	560
Non-Omani employees terminal benefit	**139**	147
	18,465	14,649

(b) Administrative costs

	2010	2009
Occupancy costs	**2,158**	1,926
Advertising and promotion	**2,004**	1,806
Data processing	**1,323**	1,175
Fees and subscriptions	**711**	562
Professional charges	**253**	317
Printing and stationery	**339**	299
Communication costs	**365**	288
Vehicle expenses	**163**	131
Training costs	**180**	101
Postage and courier	**79**	79
Insurance	**86**	75
Donation	**11**	55
Travelling expenses	**92**	48
Correspondent charges	**36**	39
Others	**841**	321
	8,641	7,222
	27,106	21,871

At 31 December 2010, the Bank had 1,062 employees (2009 - 937).

26. Impairment of financial assets

	2010 RO'000	2009 RO'000
Impairment of available-for-sale investments	**370**	2,063
Provision for loan impairment	**6,563**	11,706
Other impairment	**53**	-
Loans written-off	**36**	93
	7,022	13,862
Recoveries from provision for loan impairment	**(2,820)**	(1,524)
Net impairment change of financial assets	**4,202**	12,338

27. Income tax

(a) Income tax expense:

	2010	2009
Current tax		
Current year	**3,750**	3,802
Prior years	**417**	141
	4,167	3,943
Deferred tax		
Current year	**750**	(315)
Prior years	**(279)**	-
	4,638	3,628

(b) Reconciliation:

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. The following is a reconciliation of income taxes calculated at the applicable tax rate with the income tax expense:

	2010	2009
Accounting profit for the year	**37,918**	29,021
Tax liability at the rates mentioned above	**4,546**	3,448
Tax exempt revenue	**(97)**	(218)
Non-deductible expenses	**51**	257
Prior years current tax	**417**	141
Prior years deferred tax	**(279)**	-
Tax expense	**4,638**	3,628

27. Income tax (continued)

(c) Temporary differences which give rise to deferred tax liability are as follows:

Particulars	**2009 RO'000**	**Recognised in income**	**2010 RO '000**
Property, plant and equipment	98	(231)	(133)
Intangible asset	(317)	(79)	(396)
Loan loss provision	396	(161)	235
Net deferred tax (liability) asset	177	(471)	(294)

(d) Status of previous year returns:

The tax returns of the Bank for the years 2006 to 2009 have not yet been agreed with the Secretariat General for Taxation at the Ministry of Finance.

The Management is of the opinion that additional taxes, if any, related to the open tax years would not be significant to the Bank's financial position as at 31 December 2010.

28. Earnings per share (basic and diluted)

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

	2010	2009
Profit for the year (RO)	**33,280,000**	25,393,000
Weighted average number of shares outstanding during the year	**813,545,183**	813,545,183
Earnings per share basic and diluted	**0.041**	0.031

Earnings per share (basic and diluted) has been derived by dividing the profit for the year attributable to the shareholders by the weighted average number of shares outstanding. As there are no dilutive potential shares, the diluted earnings per share is identical to the basic earnings per share.

During the year ended 31 December 2010, the Bank issued 73.959 million bonus shares of RO 0.100 each to the existing shareholders, since the bonus issue was without consideration; the issue is treated as if it had occurred prior to the beginning of year 2009.

29. Related parties transactions

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

	2010 RO'000	2009 RO'000
Loans and advances		
Directors and shareholders holding less than 10% interest in the Bank	**16,848**	17,128
Directors and shareholders holding 10% or more interest in the Bank	**10,120**	10,911
	26,968	28,039
Deposits and other accounts		
Directors and shareholders holding less than 10% interest in the Bank	**93,344**	66,426
Directors and shareholders holding 10% or more interest in the Bank	**159,420**	114,038
	252,764	180,464
Contingent liabilities and commitments		
Directors and shareholders holding less than 10% interest in the Bank	**1,557**	1,868
Directors and shareholders holding 10% or more interest in the Bank	**11,550**	281
	13,107	2,149
Remuneration paid to Directors		
Chairman		
– remuneration proposed	**16**	16
– sitting fees paid	**10**	10
Other Directors		
– remuneration proposed	**113**	115
– sitting fees paid	**61**	59
	200	200
Other transactions		
Rental payment to a related party	**288**	265
Other transactions	**48**	38

29. Related parties transactions (continued)

	2010 **RO'000**	2009 RO'000
Key management compensation		
Salaries and other benefits	**524**	565
Other related costs – performance bonus	**437**	465
End of service settlement	**-**	24
	961	1,054

30. Fiduciary assets

Funds under management	**-**	52

31. Single borrower and senior members

(a) Single borrower

Total direct exposure	**28,877**	29,295
Number of members	**1**	1

(b) Senior members

Total exposure:		
Direct	**27,963**	29,054
Indirect	**13,107**	1,719
	41,070	30,773
Number of members	**24**	23

32. Contingent liabilities and commitments

(a) Credit related contingent items

Letters of credit, guarantees and other commitments for which there are corresponding customer liabilities:

	2010	2009
	RO'000	RO'000
Letters of credit	**102,878**	74,467
Guarantees and performance bonds	**95,823**	89,016
Advance payment guarantees	**88,478**	60,294
Payment guarantees	**48,564**	29,003
Others	**13,773**	5,289
	349,516	258,069

At 31 December 2010, letters of credit, guarantees and other commitments amounting to RO Nil (2009 -RO 166,082) are counter guaranteed by other banks.

(b) Legal cases

During the previous years, a primary court decided a compensation of RO 5,000,000 to be paid by the Bank to two plaintiffs against their alleged commercial damages. The plaintiffs have appealed requesting increase in the judgment amount. The Bank had also appealed against the primary judgment and the Appeal Court had appointed a team of experts to report on technical issues in the dispute. During 2009, the team of experts has submitted their report on technical issues to the Court and based on that report, the Appeal court ruled in favour of the Bank and cancelled the previous judgment by the primary court, Further, during 2010 the Plaintiff has again appealed against the decision of the appeal court in the Supreme Court and the final decision is awaited

The Bank's lawyers firmly believe that ground of the Bank's case is strong and sustainable and anticipate that the Supreme Court will reject the appeal by the Plaintiff and dismiss the case, taking into consideration that a similar claim from the same plaintiffs against a local bank had been dismissed by a primary court.

Also, a plaintiff has filed a lawsuit against the Bank claiming a compensation of RO 1,037,550 for commercial and moral damages. The Bank's lawyers and management believe that the claim has no ground and will be dismissed by the court. Accordingly no provisions have been established in respect of the above claims.

(c) Capital and investment commitments

Contractual commitments for property and equipment	**2,230**	2,674

33. Derivative financial instruments

The Bank uses the following derivative instruments for both hedging and non-hedging purposes:

Currency forwards represent commitments to purchase foreign and domestic currency, including undelivered spot transactions. Currency swaps are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies. No exchange of principal takes place, except for certain currency swaps. The Bank's credit risk represents the potential cost to replace the swap contracts if counterparties fail to perform their obligation. This risk is monitored on an ongoing basis with reference to the current fair value, a proportion of the notional amount of the contracts and the liquidity of the market. To control the level of credit risk taken, the Bank assesses counterparties using the same techniques as for its lending activities.

The notional amounts of certain types of financial instruments provide a basis for comparison with instruments recognised on the statement of financial position but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Bank's exposure to credit or price risks. The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates or foreign exchange rates relative to their terms. The aggregate contractual or notional amount of derivative financial instruments on hand, the extent to which instruments are favourable or unfavourable, and thus the aggregate fair values of derivative financial assets and liabilities shown within other assets and other liabilities, can fluctuate significantly from time to time. The fair values of derivative instruments held are set out below:

At 31 December 2010		**Fair value increase / decrease**	
	Contract / notional amount RO'000	**Assets RO'000**	**Liabilities RO'000**
Foreign exchange derivatives			
Currency forwards - purchase Contracts	**60,838**	41	-
Currency forwards - sales contracts	**60,809**	-	17

At 31 December 2009		Fair value increase	
	Contract / notional amount RO'000	Assets RO'000	Liabilities RO'000
Foreign exchange derivatives			
Currency forwards - purchase contracts	53,073	-	55
Currency forwards - sales contracts	53,037	82	-

The following table indicates the year in which the cash flows associated with derivatives that are expected to impact profit or loss.

	Assets		**Liabilities**	
	2010 RO'000	2009 RO'000	**2010 RO'000**	2009 RO'000
Expected cash flow less than 6 months	**24**	27	-	-

34. Fair value information

Based on the valuation methodology outlined below, the fair values of all on and off-statement of financial position financial instruments at 31 December 2010 are considered by the Management not to be materially different to their book values.

Estimation of fair values

The following summarises the major methods and assumptions used in estimating the fair values of assets and liabilities:

Loans and advances

Fair value is calculated based on discounted expected future principal and interest cash flows. Loan repayments are assumed to occur at contractual repayment dates, where applicable. For loans that do not have fixed repayment dates or that are subject to prepayment risk, repayments are estimated based on experience in previous periods when interest rates were at levels similar to current levels, adjusted for any differences in interest rate outlook. Expected future cash flows are estimated considering credit risk and any indication of impairment. Expected future cash flows for homogeneous categories of loans are estimated on a portfolio basis and discounted at current rates offered for similar loans to new borrowers with similar credit profiles. The estimated fair values of loans reflect changes in credit status since the loans were made and changes in interest rates in the case of fixed rate loans.

Investments

Fair value is based on quoted market prices at the statement of financial position date without any deduction for transaction costs. If a quoted market price is not available, fair value is estimated based on discounted cash flow and other valuation techniques.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market-related rate for a similar instrument at the statement of financial position date.

Current account balances due to and due from banks

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

Bank and customer deposits

For demand deposits and deposits with no defined maturities, fair value is taken to be the amount payable on demand at the statement of financial position date. The estimated fair value of fixed-maturity deposits, including certificates of deposit, is based on discounted cash flows using rates currently offered for deposits of similar remaining maturities. The value of long-term relationships with depositors is not taken into account in estimating fair values.

34. Fair value information (continued)

Other on-balance sheet financial instruments

The fair values of all on-balance sheet financial instruments are considered to approximate their book values.

Off-balance sheet financial instruments

No fair value adjustment is made with respect to credit-related off-balance sheet financial instruments, which include commitments to extend credit, standby letters of credit and guarantees, as the related future income streams materially reflect contractual fees and commissions actually charged at the statement of financial position date for agreements of similar credit standing and maturity.

Foreign exchange contracts are valued based on market prices. The market value adjustments in respect of foreign exchange contracts are included in other assets and other liabilities.

Fair value versus carrying amounts

The fair value of the financial assets and liabilities approximates their carrying value as stated in the statement of financial position.

Fair value measurements recognised in the statement of financial position

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

At 31 December 2010	**Level 1 RO'000**	**Level 2 RO'000**	**Level 3 RO'000**	**Total RO'000**
Available-for-sale investments				
Available-for-sale investments	**8,157**	**-**	**4,418**	**12,575**
At 31 December 2009				
Available-for-sale investments				
Equity instruments	8,262	-	4,076	12,338

35. Risk Management

The important types of financial risks to which the Bank is exposed are credit risk, liquidity risk and market risk. The risk management division of the Bank is an independent and dedicated unit reporting directly to the Risk Management Committee ("RMC") of the Board. The division's primary responsibility is to assess, monitor and recommend strategies for control of credit, market and operational risk. The absence of any direct or indirect reporting lines and permanent membership in all the Bank's committees are among the factors which reflect the independence of the Risk Management Divisions working and the key role it plays within the Bank.

The risk management framework is pivoted on a host of committees involving the executive management and Board of Directors ("Board") for approval and reporting purposes. The Board has the overall authority for approval of strategies and policies, which it exercises through it's various sub-committees. The Risk Management Committee of the Board is responsible for reviewing and recommending to the full Board for approval all risk policies and procedures. RMC also reviews the risk profile of the Bank as presented to it by the RMD and appraises the full Board in its periodic meetings.

(i) Credit risk

The most important risk to which the Bank is exposed, is credit risk. To manage the level of credit risk, the Bank deals with counter-parties of good credit.

Executive Committee of the Board is the final credit approving authority of the Bank which is mainly responsible for approving all credit proposals beyond the authority level of the management and also for reviewing and approving credit policies. This committee is also the final authority for approving investments beyond the authority of the management. The Management Credit Committee ("MCC") is the management decision making body which is empowered to consider all credit related issues upto certain limits.

Credit risk is managed by the RMD through a system of independent risk assessment in credit proposals beyond a threshold limit of RO 100,000 before they are considered by the appropriate approving authorities. The Bank has in place a risk grading system for analyzing the risk associated with credit. This facilitates the approving authorities in making their credit decision. In addition RMD assists/ reviews grading of obligors, conducts regular macro analysis of the credit portfolio, and monitors credit concentration limits. Maximum counterparty/group exposures are limited to 15% of the bank's capital base as stipulated by CBO and where a higher limit is required for projects of national importance prior CBO approval is obtained. Individual country limits using Moody's, S & P and Fitch ratings have also been set up to ensure portfolio diversification in terms of sovereign risk ratings and geographical exposure. These limits are approved by the Board. Retail lending is strictly in accordance with the CBO guidelines. The analysis of credit is given below:

Notes to the financial statements for the year ended 31 December 2010

35. Risk Management (continued)

(i) Credit Risk (continued)

(a) Geographical concentrations

	Assets			Liabilities		
	Loans and advances to banks RO'000	**Gross loans and advances RO'000**	**Investment securities RO'000**	**Deposits from customers RO'000**	**Deposits from banks RO'000**	**Contingent liabilities RO'000**
31 December 2010						
Sultanate of Oman	**3,800**	**1,324,705**	**75,591**	**1,247,678**	**7,564**	**251,231**
Other GCC countries	**1,828**	**7,307**	**44,345**	**1,888**	**38,697**	**23,996**
Europe and North America	**11,110**	**1,424**	**-**	**-**	**39,490**	**42,195**
Africa and Asia	**473**	**-**	**-**	**39**	**-**	**32,094**
	17,211	**1,333,436**	**119,936**	**1,249,605**	**85,751**	**349,516**
31 December 2009						
Sultanate of Oman	16,800	1,240,830	28,071	1,099,335	39,460	176,265
Other GCC countries	8,662	15,431	31,704	1,932	16,263	23,329
Europe and North America	7,285	1,571	-	-	44,334	22,725
Africa and Asia	201	-	-	-	-	35,750
	32,948	1,257,832	59,775	1,101,267	100,057	258,069

Notes to the financial statements for the year ended 31 December 2010

35. Risk Management (continued)

(i) Credit Risk (continued)

(b) Customer concentrations

	Assets			Liabilities		
	Loans and advances to banks RO'000	**Gross loans and advances RO'000**	**Investment Securities RO'000**	**Deposits from customers RO'000**	**Deposits from banks RO'000**	**Contingent liabilities RO'000**
31 December 2010						
Personal	**-**	**575,090**	**-**	**346,716**	**-**	**12,270**
Corporate	**17,211**	**685,689**	**56,920**	**560,118**	**85,751**	**336,932**
Government	**-**	**72,657**	**63,016**	**342,771**	**-**	**314**
	17,211	**1,333,436**	**119,936**	**1,249,605**	**85,751**	**349,516**
31 December 2009						
Personal	-	542,282	-	318,369	-	474
Corporate	32,948	640,542	44,042	451,554	61,557	257,415
Government	-	75,008	15,733	331,344	38,500	180
	32,948	1,257,832	59,775	1,101,267	100,057	258,069

(c) Economic sector concentrations

	Assets	Liabilities	
	Gross loans and advances RO'000	**Deposits from customers RO'000**	**Contingent liabilities RO'000**
31 December 2010			
Personal	**575,090**	**346,716**	**12,270**
International trade	**84,407**	**18,848**	**24,004**
Construction	**144,602**	**46,292**	**173,972**
Manufacturing	**105,047**	**41,437**	**79,186**
Wholesale and retail trade	**50,307**	**4,831**	**7,934**
Communication and utilities	**76,927**	**8,699**	**6,700**
Financial services	**74,969**	**24,687**	**8,375**
Government	**72,657**	**342,771**	**314**
Other services	**58,628**	**118,291**	**31,355**
Others	**90,802**	**297,033**	**5,406**
	1,333,436	**1,249,605**	**349,516**

35. Risk Management (continued)

(i) Credit Risk (continued)

(c) Economic sector concentrations (continued)

	Assets	Liabilities	
	Gross loans and advances RO'000	Deposits from customers RO'000	Contingent liabilities RO'000
31 December 2009			
Personal	542,282	318,369	474
International trade	81,529	14,314	23,520
Construction	67,993	42,859	110,757
Manufacturing	83,909	22,842	36,498
Wholesale and retail trade	41,849	3,916	9,423
Communication and utilities	52,651	26,486	10,580
Financial services	80,238	21,810	7,877
Government	75,008	331,344	180
Other services	82,850	88,458	34,154
Others	149,523	230,869	24,606
	1,257,832	1,101,267	258,069

(d) Gross credit exposure

	Total gross exposure		**Monthly average gross exposure**	
	2010 RO'000	2009 RO'000	**2010 RO'000**	2009 RO'000
Overdrafts	**100,308**	109,402	**103,743**	105,472
Loans	**1,140,637**	1,046,641	**1,087,766**	976,219
Loans against trust receipts	**67,577**	76,641	**71,516**	72,696
Bills discounted	**5,609**	3,675	**3,841**	2,932
Advance against credit cards	**9,556**	10,533	**10,128**	9,456
Others	**9,749**	10,940	**10,325**	12,390
Total	**1,333,436**	1,257,832	**1,287,319**	1,179,165

Notes to the financial statements for the year ended 31 December 2010

35. Risk Management (continued)

(i) Credit Risk (continued)

(e) Geographical distribution of exposures:

	Sultanate of Oman RO'000	Other Countries RO'000	Total RO'000
31 December 2010			
Overdrafts	**100,308**	**-**	**100,308**
Loans	**1,132,094**	**8,543**	**1,140,637**
Loans against trust receipts	**67,389**	**188**	**67,577**
Bills discounted	**5,609**	**-**	**5,609**
Advance against credit cards	**9,556**	**-**	**9,556**
Others	**9,749**	**-**	**9,749**
	1,324,705	**8,731**	**1,333,436**
31 December 2009			
Overdrafts	109,402	-	109,402
Loans	1,029,639	17,002	1,046,641
Loans against trust receipts	76,641	-	76,641
Bills discounted	3,675	-	3,675
Advance against credit cards	10,533	-	10,533
Others	10,940	-	10,940
	1,240,830	17,002	1,257,832

35. Risk Management (continued)

(i) Credit Risk (continued)

(f) Industry type distribution of exposures by major types of credit exposures:

	Overdrafts RO'000	Loans RO'000	Bills discounted RO'000	Others RO'000	Total RO'000	Off balance sheet exposures RO'000
31 December 2010						
Import trade	**10,079**	**56,035**	**49**	**18,129**	**84,292**	**23,915**
Export trade	**69**	**46**	**-**	**-**	**115**	**89**
Wholesale/retail trade	**5,452**	**34,442**	**-**	**10,413**	**50,307**	**7,934**
Mining and quarrying	**1,831**	**25,041**	**-**	**21**	**26,893**	**1,331**
Construction	**20,567**	**107,952**	**2,149**	**13,934**	**144,602**	**173,972**
Manufacturing	**7,661**	**63,478**	**2,901**	**31,007**	**105,047**	**79,186**
Electricity, gas and water	**25**	**43,622**	**37**	**117**	**43,801**	**6,384**
Transport and communication	**1,525**	**31,601**	**-**	**-**	**33,126**	**316**
Financial institutions	**2,460**	**72,509**	**-**	**-**	**74,969**	**8,375**
Services	**16,216**	**39,428**	**56**	**2,928**	**58,628**	**31,355**
Personal loans	**15,998**	**549,653**	**-**	**9,439**	**575,090**	**12,270**
Agriculture and allied activities	**4,972**	**3,472**	**-**	**219**	**8,663**	**1,432**
Government	**-**	**72,656**	**-**	**1**	**72,657**	**314**
Non resident lending	**-**	**8,543**	**-**	**188**	**8,731**	**234**
Others	**13,453**	**32,159**	**417**	**486**	**46,515**	**2,409**
	100,308	**1,140,637**	**5,609**	**86,882**	**1,333,436**	**349,516**
31 December 2009						
Import trade	9,279	37,915	291	33,890	81,375	23,450
Export trade	66	88	-	-	154	70
Wholesale/retail trade	7,150	27,480	-	7,219	41,849	9,423
Mining and quarrying	1,593	12,221	380	587	14,781	639
Construction	11,536	43,601	-	12,856	67,993	110,757
Manufacturing	6,887	45,040	2,732	29,250	83,909	36,498
Electricity, gas and water	1	25,768	-	1	25,770	9,257
Transport and communication	1,300	25,578	-	3	26,881	1,323
Financial institutions	11,972	68,266	-	-	80,238	7,877
Services	13,676	66,527	118	2,529	82,850	34,154
Personal loans	18,400	513,280	150	10,452	542,282	474
Agriculture and allied activities	5,286	3,794	4	1,291	10,375	840
Government	804	74,204	-	-	75,008	180
Non resident lending	-	17,002	-	-	17,002	244
Others	21,452	85,877	-	36	107,365	22,883
	109,402	1,046,641	3,675	98,114	1,257,832	258,069

Notes to the financial statements for the year ended 31 December 2010

35. Risk Management (continued)

(i) Credit Risk (continued)

(g) Residual contractual maturities of the portfolio by major types of credit exposures:

	Overdrafts RO'000	Loans RO'000	Bills discounted RO'000	Others RO'000	Total RO'000	Off balance sheet exposures RO'000
31 December 2010						
Upto 1 month	**5,015**	**96,043**	**5,609**	**51,872**	**158,539**	**106,309**
1 - 3 months	**5,015**	**78,634**	**-**	**16,514**	**100,163**	**32,463**
3 - 6 months	**5,015**	**55,518**	**-**	**15,697**	**76,230**	**38,730**
6 - 9 months	**5,015**	**38,149**	**-**	**-**	**43,164**	**23,897**
9 - 12 months	**5,015**	**53,038**	**-**	**700**	**58,753**	**16,055**
1 - 3 years	**25,077**	**316,594**	**-**	**-**	**341,671**	**86,683**
3 – 5 years	**25,077**	**201,052**	**-**	**-**	**226,129**	**35,719**
Over 5 years	**25,079**	**301,609**	**-**	**2,099**	**328,787**	**9,660**
	100,308	**1,140,637**	**5,609**	**86,882**	**1,333,436**	**349,516**
31 December 2009						
Upto 1 month	5,470	82,541	3,675	93,924	185,610	52,681
1 - 3 months	5,470	71,038	-	728	77,236	51,419
3 - 6 months	5,470	43,031	-	90	48,591	18,100
6 - 9 months	5,470	32,550	-	63	38,083	15,215
9 - 12 months	5,470	32,104	-	72	37,646	21,805
1 - 3 years	27,351	243,606	-	908	271,865	36,045
3 – 5 years	27,351	174,924	-	391	202,666	4,080
Over 5 years	27,350	366,847	-	1,938	396,135	58,724
	109,402	1,046,641	3,675	98,114	1,257,832	258,069

35. Risk Management (continued)

(i) Credit Risk (continued)

(h) Distribution of impaired loans and past due loans by type of Industry:

	Performing loans	Non performing loans	General provisions held	Specific provisions held	Interest reserve	Specific provision made during the year	Advances written off during the year
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
31 December 2010							
Import trade	**71,745**	**12,547**	**717**	**4,325**	**7,848**	**35**	**-**
Export trade	**72**	**43**	**1**	**25**	**18**	**7**	**-**
Wholesale/retail trade	**38,323**	**11,984**	**383**	**4,929**	**7,129**	**47**	**-**
Mining and quarrying	**26,892**	**1**	**269**	**1**	**-**	**3**	**-**
Construction	**134,319**	**10,283**	**1,343**	**2,776**	**1,661**	**673**	**-**
Manufacturing	**104,034**	**1,013**	**1,040**	**472**	**214**	**211**	**-**
Electricity, gas and water	**43,801**	**-**	**438**	**-**	**-**	**-**	**-**
Transport and communication	**33,123**	**3**	**331**	**1**	**2**	**-**	**-**
Financial institutions	**74,969**	**-**	**750**	**1,462**	**2,682**	**-**	**-**
Services	**54,460**	**4,168**	**545**	**-**	**-**	**98**	**6**
Personal loans	**556,242**	**18,848**	**11,484**	**7,960**	**6,394**	**4,682**	**57**
Agriculture and allied activities	**8,663**	**-**	**87**	**-**	**-**	**-**	**-**
Government	**72,657**	**-**	**727**	**-**	**-**	**-**	**-**
Non resident lending	**4,701**	**4,030**	**47**	**3,850**	**186**	**-**	**-**
Others	**46,421**	**94**	**368**	**1,201**	**34**	**28**	**-**
	1,270,422	**63,014**	**18,530**	**27,002**	**26,168**	**5,784**	**63**
31 December 2009							
Import trade	70,152	11,223	702	4,283	6,568	16	-
Export trade	111	43	1	19	15	-	
Wholesale/retail trade	30,823	11,026	308	4,904	6,067	16	-
Mining and quarrying	14,779	2	148	2	-	2	-
Construction	64,476	3,517	645	1,197	1,200	1	-
Manufacturing	82,934	975	829	395	144	146	-
Electricity, gas and water	25,770	-	258	-	-	-	-
Transport and communication	26,879	2	269	1	1	-	-
Financial institutions	80,238	-	802	-	-	-	-
Services	78,575	4,275	786	1,976	2,272	2	-
Personal loans	530,924	11,358	11,366	4,029	5,365	1,463	13
Agriculture and allied activities	10,375	-	104	-	-	-	-
Government	75,008	-	700	-	-	-	-
Non resident lending	13,058	3,944	131	3,850	94	3,850	-
Others	93,561	13,804	1,073	3,074	11	3,078	1
	1,197,663	60,169	18,122	23,730	21,737	8,574	14

35. Risk Management (continued)

(i) Credit Risk (continued)

(i) Distribution of impaired loans and past due loans by geographical distribution:

	Gross loans RO'000	Non performing loans RO'000	General provisions held RO'000	Specific provisions held RO'000	Interest reserve RO'000	Provision made during the year RO'000	Advances written off during the year RO'000
31 December 2010							
Sultanate of Oman	**1,324,705**	**58,984**	**18,483**	**23,152**	**25,982**	**6,563**	**63**
Other Countries	**8,731**	**4,030**	**47**	**3,850**	**186**	**-**	**-**
	1,333,436	**63,014**	**18,530**	**27,002**	**26,168**	**6,563**	**63**
31 December 2009							
Sultanate of Oman	1,240,830	56,225	17,991	19,880	21,643	7,856	14
Other Countries	17,002	3,944	131	3,850	94	3,850	-
	1,257,832	60,169	18,122	23,730	21,737	11,706	14

(j) Maximum exposure to credit risk without consideration of collateral held:

	2010	2009
On-Balance sheet items	**RO' 000**	RO' 000
Treasury bills	**44,345**	31,704
Loans and advances to banks	**17,211**	32,948
Loans and advances to customers	**1,261,736**	1,194,243
Government Development Bonds	**63,016**	15,733
	1,386,308	1,274,628
Off-Balance sheet items		
Financial Guarantees	**232,865**	178,313
	1,619,173	1,452,941

35. Risk Management (continued)

(ii) Liquidity risk

Liquidity risk is the potential inability to meet the Bank's liabilities as they become due. It arises when the Banks are unable to generate cash to cope with a decline in deposits or increase in assets.

Bank's Liquidity Risk Management is governed by the Treasury Risk Policy document approved by the Board of Directors as well as the provisions of relevant CBO guidelines on liquidity risk management. The Treasury risk policy also incorporates contingency plans and measures Bank so as to be always in a position to meet all maturing liabilities as well as to fund asset growth and business operations. The contingency funding plan includes effective monitoring of the cash flows on a day to day basis, holding of tradable high quality liquid assets, which may be readily disposed off in sizeable amount etc. The Bank also has in place adequate lines of credit from both local and international Banks to meet any unforeseen liquidity requirements.

The Bank monitors its liquidity risk through cash flow approach and stock approach. Under cash flow approach Bank generates Maturity of Assets and Liabilities (MAL) report which captures all the maturing assets and liabilities into various pre-set time buckets ranging from one month to five years. The mismatches in various time buckets indicate liquidity gap and Bank strictly adheres to the CBO set limit of 15% of cumulative liabilities (outflows) on mismatches (liquidity gaps) in time buckets upto one year. In addition, the Bank has also set up internal limit on mismatches in time buckets beyond one year. Under stock approach, Bank monitors the liquidity risk through liquidity ratios, which portrays the liquidity stored in the balance sheet.

Treasury department of the Bank controls and monitors the liquidity risk and ensures that the Bank is not exposed to undue liquidity risk and at the same time make optimum use of its funds. Middle office in Risk Management Division also monitors the liquidity position of the Bank and provide the liquidity gap to Treasury Department to meet liquidity gaps.

Notes to the financial statements for the year ended 31 December 2010

35. Risk Management (continued)

(ii) Liquidity risk (continued)

Maturity profile of assets and liabilities

	Due on demand and up to 30 days RO’000	2 months to 6 months RO’000	7 months to 12 months RO’000	More than 1 year to 5 years RO’000	Over 5 years RO’000	Total RO’000
31 December 2010						
Cash and balances with Central Bank of Oman	213,167	-	-	-	500	213,667
Loans and advances to banks	14,111	3,100	-	-	-	17,211
Loans and advances to customers	190,118	142,917	83,434	567,969	277,298	1,261,736
Available-for-sale Investments	-	-	8,158	-	4,417	12,575
Held-to-maturity investments	9,238	35,107	-	63,016	-	107,361
Intangible asset	-	-	-	-	3,971	3,971
Property and equipment	-	-	-	-	8,817	8,817
Other assets	3,402	30,716	1,891	-	2,949	38,958
Total assets	430,036	211,840	93,483	630,985	297,952	1,664,296
Due to banks	35,701	-	25,025	25,025	-	85,751
Deposits from customers	159,378	436,512	249,597	278,459	125,659	1,249,605
Other liabilities	9,726	36,165	3,165	13,292	1,592	63,940
Subordinated loan	-	-	-	38,500	-	38,500
Shareholders’ equity	-	10,169	-	-	216,331	226,500
Total liabilities and shareholders’ equity	204,805	482,846	277,787	355,276	343,582	1,664,296

Notes to the financial statements for the year ended 31 December 2010

35. Risk Management (continued)

(ii) Liquidity risk (continued)

Maturity profile of assets and liabilities (continued)

	Due on demand and up to 30 days RO'000	2 months to 6 months RO'000	7 months to 12 months RO'000	More than 1 year to 5 years RO'000	Over 5 years RO'000	Total RO'000
31 December 2009						
Cash and balances with Central Bank of Oman	181,748	-	-	-	500	182,248
Loans and advances to banks	27,298	5,650	-	-	-	32,948
Loans and advances to customers	185,610	125,827	59,831	426,840	396,135	1,194,243
Available-for-sale Investments	-	-	8,262	-	4,076	12,338
Held-to-maturity investments	10,260	21,444	-	15,733	-	47,437
Intangible asset	-	-	-	-	3,971	3,971
Property and equipment	-	-	-	-	5,037	5,037
Other assets	10,891	12,773	-	92	7,287	31,043
Total assets	415,807	165,694	68,093	442,665	417,006	1,509,265
Due to banks	24,982	67,375	-	7,700	-	100,057
Deposits from customers	176,092	399,708	254,671	169,809	100,987	1,101,267
Other liabilities	20,514	21,844	4,275	17,046	1,755	65,434
Subordinated loan	-	-	-	38,500	-	38,500
Shareholders' equity	-	11,094	-	-	192,913	204,007
Total liabilities and shareholders' equity	221,588	500,021	258,946	233,055	295,655	1,509,265

35. Risk Management (continued)

(iii) Market risk

Market risk includes currency risk, interest rate risk and equity price risk.

(a) Currency risk

The Bank is exposed to currency risk through its transactions in foreign currencies. The major foreign currency to which the Bank is exposed is the US Dollar. The currency in which the Bank presents its financial statements is Rial Omani, the Bank's financial statements are affected by movements in the exchange rates between U.S Dollar and the Rial Omani. The Bank finances a significant portion of its financial assets in the same currencies as the relevant measurement currencies to mitigate its foreign currency risk.

The Bank's transactional exposures give rise to foreign currency gains and losses that are recognised in the statement of comprehensive income. The Bank ensures that its net exposure is kept to an acceptable level by buying and selling foreign currencies at spot rates when considered appropriate. Foreign exchange risk is computed on the average of the sum of net short positions or net long positions, whichever is higher of the foreign currency positions held by the bank. The foreign currency exposures are given below:

Foreign currency exposures

	2010	2009
	RO'000	RO'000
Net assets denominated in US Dollars	**52,664**	10,771
Net assets denominated in other foreign currencies	**1,516**	652
	54,180	11,423

(b) Interest rate risk

The Bank's operations are subject to the risk of interest rate fluctuations to the extent that interest-earning assets and interest-bearing liabilities reset at different times. Risk management activities are aimed at optimising net interest income, given market interest rate levels, consistent with the Bank's business strategies. The Bank manages mismatches by following policy guidelines and reduces risk by matching the repricing of assets and liabilities. Details relating to re-pricing mismatches and the interest rate risk thereon are placed to the ALCO in its regular meetings and also to the Risk Management Committee of the Board. Impact on earnings due to interest rate risk in the banking book is as follows:

Impact on earnings due to interest rate risk in the banking book

	+ or – 1%		**+ or – 2%**	
	2010	2009	**2010**	2009
	RO'000	RO'000	**RO'000**	RO'000
Omani Riyals	**3,250**	4,782	**6,501**	9,565
US Dollars	**913**	1,125	**1,826**	2,250
Others currencies	**103**	99	**205**	199

Notes to the financial statements for the year ended 31 December 2010

35. Risk Management (continued)

(iii) Market risk (continued)

(b) Interest rate risk (continued)

Interest rate sensitivity gap

Sensitivity to interest rates arises from mismatches in the period to repricing of assets and that of the corresponding liability. The Bank manages these mismatches by following policy guidelines and reduces risk by matching the repricing of assets and liabilities.

	Effective average interest rate %	Due on demand and within 30 days RO'000	Due within 1 to 6 months RO'000	Due within 7 to 12 months RO'000	Due within 1 to 5 years RO'000	Due after 5 years RO'000	Non-interest bearing RO'000	Total RO'000
31 December 2010								
Cash and balances with Central Bank of Oman	.06	60,000	-	-	-	500	153,167	213,667
Loans and advances to banks	.04	14,111	3,100	-	-	-	-	17,211
Loans and advances to customers	6.7	353,127	222,902	66,680	427,644	185,676	5,707	1,261,736
Available-for-sale investments	-	-	-	-	-	-	12,575	12,575
Held-to-maturity investments	1.1	9,238	35,107	-	-	63,016	-	107,361
Intangible asset		-	-	-	-	-	3,971	3,971
Property and equipment		-	-	-	-	-	8,817	8,817
Other assets		-	-	-	-	-	38,958	38,958
Total assets		436,476	261,109	66,680	427,644	249,192	223,195	1,664,296
Due to banks	1.1	35,506	40,425	9,625	-	-	195	85,751
Deposits from customers	2.1	274,740	311,287	169,361	177,203	50	316,964	1,249,605
Other liabilities		-	-	-	-	-	63,940	63,940
Subordinated loan	1.6	-	38,500	-	-	-	-	38,500
Shareholders' equity		-	10,169	-	-	-	216,331	226,500
Total liabilities and shareholders' equity		310,246	400,381	178,986	177,203	50	597,430	1,664,296
On-balance sheet gap		126,230	(139,272)	(112,306)	250,441	249,142	(374,235)	-
Cumulative interest sensitivity gap		126,230	(13,042)	(125,348)	125,093	374,235	-	

Notes to the financial statements for the year ended 31 December 2010

35. Risk Management (continued)

(iii) Market risk (continued)

(b) Interest rate risk (continued)

Interest rate sensitivity gap (continued)

	Effective average interest rate %	Due on demand and within 30 days RO'000	Due within 1 to 6 months RO'000	Due within 7 to 12 months RO'000	Due within 1 to 5 years RO'000	Due after 5 years RO'000	Non-interest bearing RO'000	Total RO'000
31 December 2009								
Cash and balances with Central Bank of Oman	0.3	160,000	-	-	-	500	21,748	182,248
Loans and advances to banks	1.2	27,298	5,650	-	-	-	-	32,948
Loans and advances to customers	6.9	283,354	114,887	61,434	435,419	292,961	6,188	1,194,243
Available-for-sale investments		-	-	-	-	-	12,338	12,338
Held-to-maturity investments	0.7	10,260	21,444	-	15,733	-	-	47,437
Intangible asset		-	-	-	-	-	3,971	3,971
Property and equipment		-	-	-	-	-	5,037	5,037
Other assets		-	-	-	-	-	31,043	31,043
Total assets		480,912	141,981	61,434	451,152	293,461	80,325	1,509,265
Due to banks	1.3	23,286	75,075	-	-	-	1,696	100,057
Deposits from customers	2.8	258,108	296,043	190,000	78,650	48	278,418	1,101,267
Other liabilities		-	-	-	-	-	65,434	65,434
Subordinated loan	2.2	-	38,500	-	-	-	-	38,500
Shareholders' equity		-	-	-	-	-	204,007	204,007
Total liabilities and shareholders' equity		281,394	409,618	190,000	78,650	48	549,555	1,509,265
On-balance sheet gap		199,518	(267,637)	(128,566)	372,502	293,413	(469,230)	
Cumulative interest sensitivity gap		199,518	(68,119)	(196,685)	175,817	469,230	-	

35. Risk Management (continued)

(iii) Market risk (continued)

(c) Equity risk

Bank is exposed to the volatility in the prices of the securities held under equity portfolio. Equity investments held are for strategic/long term rather than for trading purposes and hence, Bank does not hold trading positions in equity investments. However, Bank's portfolio is marked to market on regular basis and the difference in the book value and market value are adjusted against revaluation reserve in shareholder's equity and for impaired investments to statement of comprehensive income.

Further, Bank also conducts stress testing and sensitivity analysis to take an informed decision on equity risk exposure.

If equity price for listed shares had been 5% lower:

If there is adverse impact of 5% on equity portfolio, the value of the portfolio may decrease by RO 401,815 only. (2009: Decrease by RO 413,000)

If equity price for unlisted shares had been 5% lower:

The financial statements include holdings in unlisted shares which are measured at fair value. Fair value is estimated using either Net Asset Value (NAV) provided by the fund managers or book value per share of the investee company. If the estimation were 5% higher / lower while all other variables were held constant, the carrying amount of the shares would decrease / increase by RO 220,866 (2009: decrease / increase by RO 204,000).

(iv) Operational risk

The Bank has adopted the Basic Indicator Approach under Basel II for purposes of measuring the capital charge for Operational Risk. The approach requires the Bank to provide 15% of the average three years gross annual income as capital charge for operational risk.

36. Capital risk management

The Bank manages its capital to ensure that it will be able to continue as a going concern while maximising the return to shareholders within acceptable risk return framework. The Bank's overall strategy remains unchanged from 2009.

The capital base of the Bank consists of debt, which includes borrowings disclosed in note 17, and equity attributable to shareholders of the Bank comprising issued capital, share premium, reserves and retained earnings as disclosed in notes 18 to 21.

36. Capital risk management (continued)

Capital adequacy

The ratio of equity to risk weighted assets, as formulated by the Basel II, for the year ended 31 December 2010 is 14.02% (2009 – 14.81%).

Capital structure	**2010**	2009
	RO'000	RO'000
TIER I CAPITAL		
Paid up capital	**81,355**	73,959
Legal reserve	**20,479**	17,151
Share premium	**58,506**	58,506
Subordinated bonds and loan reserve	**25,667**	17,967
Retained earnings	**18,458**	16,544
Proposed bonus shares	**10,169**	7,396
Deferred tax assets	**-**	(177)
Less: goodwill	**(3,971)**	(3,971)
Less: negative investment revaluation reserve	**(144)**	(51)
Total Tier I capital	**210,519**	187,324
TIER II CAPITAL		
Investment revaluation reserve	**828**	648
General provision	**18,530**	18,122
Subordinated loan	**7,700**	15,400
Total Tier II capital	**27,058**	34,170
Total eligible capital	**237,577**	221,494

Risk weighted assets

Banking book	**1,525,437**	1,376,017
Trading book	**42,537**	13,762
Operational risk	**126,210**	105,596
Total	**1,694,184**	1,495,375
Tier I capital	**210,519**	187,324
Tier II capital	**27,058**	34,170
Tier III capital	**-**	-
Total regulatory capital	**237,577**	221,494
Tier I capital ratio	**12.43%**	12.53%
Total capital ratio	**14.02%**	14.81%

37. Segmental information

The Bank is organised into three main business segments:

1) Retail banking – incorporating, private customer current accounts, savings, deposits, investment savings products, custody, credit and debit cards, consumer loans and mortgages;

2) Corporate banking – incorporating direct debit facilities, current accounts, deposits, overdrafts, loan and other credit facilities, foreign currency and derivative products; and

3) Treasury and investments

Other operations comprise investment management and institutional finance neither of which constitutes a separately reportable segment.

Transactions between the business segments are on normal commercial terms and conditions. Funds are ordinarily allocated between segments, resulting in funding cost transfers disclosed in operating income. Interest charged for these funds is based on the Bank's cost of capital. There are no other material items of income or expense between the business segments.

Segment assets and liabilities comprise operating assets and liabilities, being the majority of the statement of financial position, but exclude items such as taxation and borrowings.

Internal charges and transfer pricing adjustments have been reflected in the performance of each business. Revenue sharing agreements are used to allocate external customer revenues to a business segment on a reasonable basis.

At 31 December 2010	**Retail banking RO'000**	**Corporate banking RO'000**	**Treasury and Investments RO'000**	**Total RO'000**
Interest revenues	**39,620**	**42,057**	**271**	**81,948**
Other revenues	**8,234**	**3,173**	**2,657**	**14,064**
Segment Operating Revenues	**47,854**	**45,230**	**2,928**	**96,012**
Segment assets	**576,645**	**756,791**	**137,147**	**1,470,583**
Less: Impairment allowance	**(25,838)**	**(45,862)**	**-**	**(71,700)**
				1,398,883
Unallocated assets				**265,413**
Total assets				**1,664,296**
Segment liabilities	**499,842**	**749,763**	**124,251**	**1,373,856**
Unallocated liabilities				**31,051**
Total liabilities				**1,404,907**

37. Segmental information (continued)

At 31 December 2009	Retail banking RO'000	Corporate banking RO'000	Treasury and investments RO'000	Total RO'000
Interest revenues	38,635	38,327	767	77,729
Other Revenues	9,973	2,881	2,948	15,802
Segment Operating Revenues	48,608	41,208	3,715	93,531
Segment assets	544,442	713,390	92,723	1,350,555
Less: Impairment allowance	(20,760)	(42,829)	-	(63,589)
				1,286,966
Unallocated assets				222,299
Total assets				1,509,265
Segment liabilities	440,507	660,760	138,557	1,239,824
Unallocated liabilities				43,093
Total liabilities				1,282,917

38. Proposed dividend

The Board of Directors in their meeting held on 24 January 2011 proposed a cash dividend of 12.5% for the year ended 31 December 2010 amounting to 10.17 million (2009 - RO 11.09 million) and a bonus share issue of 12.5% amounting to 101,693,148 shares (2009 – 73,958,653) of RO 0.100 each. A resolution to approve these dividends and the increase in share capital will be presented to the shareholders at the annual general meeting.

During the year, unclaimed dividend amounting to RO 2,149 (2009 - RO 3,258) was transferred to the Investor's Trust Fund account as per the guidelines issued by the Capital Market Authority of Oman.

39. Comparative figures

Certain amounts of the prior year financial statement have been reclassified to conform with the current year's presentation.