BANK DHOFAR SAOG

Report and financial statements
for the year ended 31 December 2009

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Independent auditor's 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 2009, 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 63.

Board of Directors’ responsibility for the financial statements

Board of Directors is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and the relevant disclosure requirements of the Commercial Companies Law of 1974, as amended and the Rules and Guidelines on disclosure issued by the Capital Market Authority, effective 1 October 2007. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

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 audit 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 2009, 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 comply, in all material respects, with the relevant disclosure requirements of the Commercial Companies Law of 1974, as amended and the Rules and Guidelines on disclosure issued by the Capital Market Authority, effective 1 October 2007.

Deloitte & Touche (M.E.) & Co. LLC
Muscat, Sultanate of Oman
27 January 2010

Signed by
Alfred Strolla
Partner

Statement of financial position
at 31 December 2009

	Notes	2009 RO'000	2008 RO'000
ASSETS			
Cash and balances with Central Bank of Oman	**5**	**182,248**	116,249
Financial instruments at fair value through profit or loss	**6**	**-**	2,519
Loans and advances to banks	**7**	**32,948**	37,586
Loans and advances to customers	**8**	**1,194,243**	1,018,441
Available-for-sale investments	**9**	**12,338**	13,787
Held-to-maturity investments	**10**	**47,437**	120,468
Intangible asset	**11**	**3,971**	3,971
Property and equipment	**12**	**5,037**	4,597
Other assets	**13**	**8,702**	6,202
Total assets		**1,486,924**	1,323,820
LIABILITIES			
Due to banks	**14**	**100,057**	89,663
Deposits from customers	**15**	**1,101,267**	971,596
Other liabilities	**16**	**43,093**	35,628
Subordinated loan	**17**	**38,500**	38,500
Total liabilities		**1,282,917**	1,135,387
SHAREHOLDERS' EQUITY			
Share capital	**18**	**73,959**	70,774
Share premium	**19**	**58,506**	58,506
Legal reserve	**20**	**17,151**	14,612
Subordinated bonds and loan reserve	**20**	**17,967**	10,267
Investment revaluation reserve	**20**	**1,390**	239
Retained earnings	**21**	**35,034**	34,035
Total shareholders' equity		**204,007**	188,433
Total liabilities and shareholders' equity		**1,486,924**	1,323,820
Contingent liabilities and commitments	**32**	**280,410**	240,125
Net assets per share (Rials Omani)	**22**	**0.276**	0.266

Eng. Abdul Hafidh Salim Rajab Al-Aujaili
Chairman

Kris Babicci
Chief Executive Officer

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

BANK DHOFAR SAOG

Statement of comprehensive income
for the year ended 31 December 2009

	Notes	2009 RO'000	2008 RO'000
Interest income		**77,729**	63,671
Interest expense		**(28,502)**	(23,772)
Net interest income	**23**	**49,227**	39,899
Fees and commission income		**5,633**	5,154
Fees and commission expenses		**(653)**	(638)
Net fees and commission income		**4,980**	4,516
Other income	**24**	**10,822**	11,749
Operating income		**65,029**	56,164
Staff and administrative costs	**25**	**(21,871)**	(19,494)
Depreciation	**12**	**(1,787)**	(1,611)
Operating expenses		**(23,658)**	(21,105)
Profit from operations		**41,371**	35,059
Provision for loan impairment	**8**	**(11,706)**	(5,470)
Recoveries from allowance for loan impairment	**8**	**1,524**	2,350
Bad debts written-off		**(93)**	(2)
Impairment of available-for-sale investments		**(2,063)**	(4,864)
Financial instruments at fair value through profit or loss		**(12)**	4
Profit from operations after provision		**29,021**	27,077
Income tax expense	**27**	**(3,628)**	(3,391)
Profit for the year		**25,393**	23,686
Profit for the year		**25,393**	23,686
Other comprehensive income:			
Net changes in fair value of available-for-sale investments		**(84)**	(7,108)
Reclassification adjustment on sale of available-for-sale investments		**(828)**	(1,099)
Total comprehensive income for the year		**24,481**	15,479
Earnings per share basic and diluted (Rials Omani)	**28**	**0.034**	0.042

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

BANK DHOFAR SAOG

Statement of changes in equity
for the year ended 31 December 2009

	Notes	Share capital RO'000	Share premium RO'000	Legal reserve RO'000	Subordinated bonds and 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**
Profit for the year		-	-	-	-	-	25,393	25,393
Fair value decrease		-	-	-	-	(84)	-	(84)
Net transfer to statement of comprehensive income on sale of available-for-sale investments		-	-	-	-	(828)	-	(828)
Impairment of available-for-sale investment taken to statement of comprehensive income		-	-	-	-	2,063	-	2,063
Total comprehensive income for 2009		-	-	-	-	1,151	25,393	26,544
Dividend paid for 2008		-	-	-	-	-	(10,970)	(10,970)
Bonus shares issued for 2008		3,185	-	-	-	-	(3,185)	-
Increase in legal reserve	20	-	-	2,539	-	-	(2,539)	-
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.

BANK DHOFAR SAOG

Statement of changes in equity
for the year ended 31 December 2009

	Notes	Share capital RO'000	Share premium RO'000	Legal reserve RO'000	Subordinated bonds and loan reserve RO'000	Investment revaluation reserve RO'000	Retained earnings RO'000	Total RO'000
1 January 2008		53,082	5,429	12,149	9,929	3,582	26,327	110,498
Profit for the year		-	-	-	-	-	23,686	23,686
Fair value decrease		-	-	-	-	(7,108)	-	(7,108)
Net transfer to statement of comprehensive income on sale of available-for-sale investments		-	-	-	-	(1,099)	-	(1,099)
Impairment of available-for-sale investment taken to statement of comprehensive income		-	-	-	-	4,864	-	4,864
Total comprehensive income for 2008		-	-	-	-	(3,343)	23,686	20,343
Dividend paid for 2007		-	-	-	-	-	(13,271)	(13,271)
Increase in share capital	18	17,692	-	-	-	-	-	17,692
Increase in share premium	19	-	53,077	-	-	-	-	53,077
Increase in legal reserve	20	-	-	94	-	-	-	94
Transfer to legal reserve	20	-	-	2,369	-	-	(2,369)	-
Transferred to retained earnings	20	-	-	-	(7,362)	-	7,362	-
Transfer to subordinated loan reserve	20	-	-	-	7,700	-	(7,700)	-
31 December 2008		70,774	58,506	14,612	10,267	239	34,035	188,433

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

BANK DHOFAR SAOG

Statement of cash flows
for the year ended 31 December 2009

	2009	2008
	RO’000	RO’000
Cash flows from operating activities		
Interest, commission and other receipts	**92,132**	78,053
Interest payments	**(24,171)**	(25,818)
Cash payments to suppliers and employees	**(22,055)**	(16,328)
	45,906	35,907
Decrease in operating assets		
Loans and advances to customers	**(186,077)**	(316,917)
Loans and advances to banks	**87**	(5,324)
Purchase of treasury bills and certificates of deposits (net)	**73,031**	(49,115)
	(112,959)	(371,356)
Increase in operating liabilities		
Deposits from customers	**129,671**	297,094
Due to banks	**10,357**	(4,294)
	140,028	292,800
Net cash from / (used in) operating activities	**72,975**	(42,649)
Income tax paid	**(3,331)**	(2,457)
Net cash from / (used in) operating activities	**69,644**	(45,106)
Cash flows from investing activities		
Investment income	**155**	116
Purchase of investments	**(3,800)**	(13,039)
Proceeds from sale of investments	**8,028**	7,813
Dividend received	**565**	1,565
Purchase of property and equipment	**(2,235)**	(1,838)
Proceeds from sale of property and equipment	**24**	192
Net cash used in investing activities	**2,737**	(5,191)
Cash flow from financing activities		
Proceeds from right issue of share capital	**-**	70,863
Payment of subordinated bonds	**-**	(7,362)
Dividend paid	**(10,970)**	(13,271)
Net cash flow (used in) / from financing activities	**(10,970)**	50,230
Net increase / (decrease) in cash and cash equivalents	**61,411**	(67)
Cash and cash equivalents at the beginning of the year	**145,129**	145,196
Cash and cash equivalents at the end of the year	**206,540**	145,129
Cash and balances with Central Bank of Oman (Note 5)	**182,248**	116,249
Capital deposit with Central Bank of Oman	**(500)**	(500)
Loans and advances to banks due within 90 days	**25,670**	30,221
Due to banks within 90 days	**(878)**	(841)
Cash and cash equivalents for the purpose of the cash flow statement	**206,540**	145,129

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

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. Adoption of new and revised International Financial Reporting Standards (IFRS)

For the year ended 31 December 2009, the Bank has adopted all of the new and revised standards and interpretations issued by the International Accounting Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB that are relevant to its operations and effective for periods beginning on 1 January 2009.

The adoption of these standards and interpretations has not resulted in changes to the Bank's accounting policies and has not affected the amounts reported for the current or prior periods

2. Adoption of new and revised International Financial Reporting Standards (IFRS) (continued)

At the date of authorization of these financial statements, the following standards and interpretations were in issue but not yet effective:

	Effective for annual period beginning on or after
IFRIC 17 : Distributions of Non-cash Assets to Owners	1 July 2009
IFRIC 18 : Transfers of Assets from Customers	1 July 2009
IFRS 2 : (Revised) Share-based Payments, amendments resulting from April 2009, annual improvements to IFRSs;	1 July 2009
IFRS 3 : (Revised) Business Combinations, comprehensive revision on applying the acquisition method;	1 July 2009
IFRS 5 : (Revised) Non-Current Assets held for Sale and Discontinued Operations, amendments resulting from May 2008 annual improvements to IFRSs;	1 July 2009
IAS 27 : (Revised) Consolidated and Separate Financial Statements, consequential amendments arising from amendments to IFRS 3;	1 July 2009
IAS 28 : (Revised) Investments in Associates, consequential amendments arising from amendments to IFRS 3;	1 July 2009
IAS 31 : (Revised) Interest in Joint Ventures, consequential amendments arising from amendments to IFRS 3;	1 July 2009
IAS 38 : Intangible Assets, amendments resulting from April 2009 annual improvements to IFRSs;	1 July 2009
IAS 39 : (Revised) Financial Instruments: Recognition and Measurement, amendments for eligible hedge items;	1 July 2009
IFRS 2 : (Revised) Share-based Payments, amendments relating to group cash-settled share-based payment transactions;	1 January 2010
IFRS 5 : (Revised) Non-Current Assets held for Sale and Discontinued Operations, amendments resulting from April 2009 annual improvements to IFRSs;	1 January 2010
IFRS 8 : Operating Segments- amendments resulting from April 2009 annual improvements to IFRSs;	1 January 2010
IAS 1 : Presentation of Financial Statements, amendments resulting from April 2009 annual improvements to IFRSs;	1 January 2010
IAS 7 : Statements of Cash Flows, amendments resulting from April 2009 annual improvements to IFRSs;	1 January 2010
IAS 17 : Leases, amendments resulting from April 2009 annual improvements to IFRSs;	1 January 2010
IAS 36 : Impairment of Assets, amendments resulting from April 2009, annual improvements to IFRSs;	1 January 2010
IAS 39 : (Revised) Financial Instruments: Recognition and Measurement, amendments resulting from April 2009, annual improvements to IFRSs;	1 January 2010
IAS 32 :Financial Instruments: Presentation, amendments relating to classification of rights issues;	1 February 2010
IFRIC 19: Extinguishing Financial Liabilities with Equity Instruments;	1 July 2010
IAS 24 :Related party Disclosures, revised definition of related parties;	1 January 2011
IFRIC 14: IAS 19 the limit on a defined Benefit Assets, Minimum Funding Requirements and their interaction amendments with respect to voluntary prepaid contributions;	1 January 2011
IFRS 9: Financial Instruments, Classification and measurement.	1 January 2013

2. Adoption of new and revised International Financial Reporting Standards (IFRS) (continued)

The management anticipate that the adoption of the above standards and interpretations in future periods will have no material impact on the financial statements of the Bank, except for IFRS 9: Financial Instruments. IFRS 9 introduces new requirements for the classification and measurement of financial assets, new criteria for amortised cost measurement, a new measurement category – fair value through other comprehensive income, impairment assessment only for amortised cost assets, eliminates the category available-for-sale assets, eliminates held-to-maturity assets and tainting rules, eliminates embedded derivatives in financial assets and eliminates unquoted equity investments measured at cost less impairment. The management is currently assessing this standard which may have an impact on the financial statements of the Bank as described above.

3. Principal accounting policies

3.1. *Basis of preparation*

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

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 in accordance with IFRS, and the requirements of the commercial companies law of 1974, as amended and disclosure requirements of the capital Market Authority.

These policies have been consistently applied in dealing with items that are considered material in relation to the Bank's financial statements to all the years presented.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Bank's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 4.

3.2. *Foreign currency translations*

3.2.1. *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.

3. Principal accounting policies (continued)

3.2. *Foreign currency translations (continued)*

3.2.2. *Transactions and balances*

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.

3.3. Financial instruments

3.3.1. *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.

3.3.1.1. *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;

- 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. Principal accounting policies (continued)

3.3. Financial instruments (continued)

3.3.1. *Classification (continued)*

3.3.1.2. 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.

3.3.1.3. 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.

3.3.1.4. 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.

3.3.2. *Recognition and 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)

3.3. Financial instruments (continued)

3.3.3. *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.

3.3.4. *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.

3.3.5. *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 profit or loss.

3. Principal accounting policies (continued)

3.4. *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.

3.5. *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.

3.6. *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.

3.7. *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;

3. Principal accounting policies (continued)

3.7. *Impairment of financial assets (continued)*

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

(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.

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)

3.7. *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.

3.8. *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

3. Principal accounting policies (continued)

3.8. *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.

3.9. *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.

3.10. *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.

3.11. *Dividends*

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

3.12. *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)

3.12. *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.

3.13. *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.

3.14. *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)

3.15. ***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.

3.16. ***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.

3.16.1 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)

3.16. *Derivative financial instruments (continued)*

3.16.2 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.

3.16.3 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.

3.16.4 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)

3.16. *Derivative financial instruments (continued)*

3.16.4 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.

3.17. *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.

3.18. *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.

3.19. *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.

3.20. *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)

3.21. ***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.

3.22. ***Directors' remuneration***

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

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 not amortised costs.

(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 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.

(d) 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 (2008 – RO 3,971,000).

(e) 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.

(f) 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 balances with Central Bank of Oman

	2009 RO'000	2008 RO'000
Cash on hand	**11,206**	13,114
Balances with the Central Bank of Oman	**11,042**	103,135
Certificate of deposits with maturity of 90 days or less	**160,000**	-
	182,248	116,249

At 31 December 2009, cash and balances with Central bank of Oman included balances with the Central Bank of Oman amounting to RO 500,000 (2008 - RO 500,000) as minimum reserve requirements. These funds are not available for the Bank's daily business.

Outstanding certificate of deposits as of 31st December 2009 were issued by the Central Bank of Oman and carried an average interest rate of 0.05%.

6. Financial instruments at fair value through profit or loss

	2009 RO'000	2008 RO'000
Government Development Bonds	**-**	2,519

7. Loans and advances to banks

	2009 RO'000	2008 RO'000
Placements with other banks	**27,246**	30,299
Current clearing accounts and bills discounted	**5,702**	7,287
	32,948	37,586

At 31 December 2009, placement with one local bank individually represented 20% or more of the Bank's placements (2008 - nil).

8. Loans and advances to customers

	2009 RO'000	2008 RO'000
Overdrafts	**109,402**	102,577
Loans	**1,046,641**	873,808
Loans against trust receipts	**76,641**	67,791
Bills discounted	**3,675**	3,466
Advance against credit cards	**10,533**	7,945
Others	**10,940**	13,180
Gross loans and advances	**1,257,832**	1,068,767
Less: Impairment allowance	**(63,589)**	(50,326)
Net loans and advances	**1,194,243**	1,018,441

The movements in the impairment allowance is analysed below:

	2009 RO'000	2008 RO'000
(a) Allowance for loan impairment		
1 January	**31,684**	28,824
Allowance made during the year	**11,706**	5,470
Released to the statement of comprehensive income during the year	**(1,524)**	(2,350)
Written off during the year	**(14)**	(260)
31 December	**41,852**	31,684
(b) Reserved interest		
1 January	**18,642**	16,573
Reserved during the year	**3,957**	3,544
Released to the statement of comprehensive income during the year	**(588)**	(1,102)
Written-off during the year	**(274)**	(373)
31 December	**21,737**	18,642
Total impairment allowance	**63,589**	50,326

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 2009, out of the total provisions of RO **63,588,526** (2008 – RO 50,326,142) a collective provision made on a general portfolio basis amounting to RO **18,121,754** (2008 - RO 14,989,548).

At 31 December 2009, impaired loans and advances on which interest has been reserved amount to **RO 58,883,302** (2008 - RO 36,379,850) and loans and advances on which interest is not being accrued amount to **RO 1,564,659** (2008 - RO 1,871,358).

Loan and advances are summarised as follows

	2009		2008	
	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	**1,171,182**	**32,948**	1,018,550	37,586
Past due but not impaired	**26,481**	**-**	12,267	-
Impaired	**60,169**	**-**	37,950	-
Gross loans and advances	**1,257,832**	**32,948**	1,068,767	37,586
Less: Impairment allowance	**(63,589)**	**-**	(50,326)	-
Total	**1,194,243**	**32,948**	1,018,441	37,586

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

	2009 RO'000	2008 RO'000
Past due up to 30 days	**22,654**	8,458
Past due 30 – 60 days	**2,289**	2,931
Past due 60 – 89 days	**1,538**	878
Totals	**26,481**	12,267

8. Loans and advances to customers (continued)

Loans and advances past due but not impaired (continued)

Impaired

	2009 RO'000	2008 RO'000
Substandard	**17,051**	2,058
Doubtful	**5,001**	366
Loss	**38,117**	35,526
Total	**60,169**	37,950

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 totalled RO 29,103,000 at 31 December 2009 (2008 : RO 1,504,000).

9. Available-for-sale investments

	2009 RO'000	2008 RO'000
Equity instruments		
- Quoted	**8,262**	10,546
- Unquoted	**4,076**	3,241
	12,338	13,787

9. Available-for-sale investments (continued)

		Fair value	
	Cost	**2009**	2008
	RO'000	**RO'000**	RO'000
Quoted on the Muscat Securities Market (by sector)			
Banking and investments	**1,065**	**1,094**	558
Services	**4,518**	**5,096**	7,308
Industrial	**2,067**	**2,072**	2,680
	7,650	**8,262**	10,546
Unquoted			
Unquoted Omani company	**3,298**	**4,076**	2,375
Unquoted foreign equities	**-**	**-**	866
	3,298	**4,076**	3,241
	10,948	**12,338**	13,787

At 31 December 2009, the investments are carried at their fair value.

10. Held-to-maturity investments

	2009	2008
	RO'000	RO'000
Treasury bills with maturity of above 90 days	**31,704**	20,468
Government Development Bonds	**15,733**	-
Certificates of deposits with maturity of above 90 days	**-**	100,000
	47,437	120,468

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 0.30% to 0.36% (2008 - 2.61% to 4.34%).

Outstanding Government Development Bonds carry interest rate of 4% and mature in 2012.

11. Intangible asset

	2009	2008
	RO'000	RO'000
Goodwill	**3,971**	3,971

The goodwill had 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.

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 2008	140	1,573	5,267	842	6,365	65	14,252
Additions	-	-	978	175	750	(65)	1,838
Disposals	-	-	(251)	(67)	(101)	-	(419)
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)**
31 December 2009	**140**	**1,573**	**7,006**	**950**	**7,728**	**259**	**17,656**
Depreciation							
1 January 2008	-	647	3,604	492	5,096	-	9,839
Charge for the year	-	59	676	192	684	-	1,611
Disposals	-	-	(214)	(67)	(95)	-	(376)
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)**
31 December 2009	**-**	**763**	**4,807**	**725**	**6,324**	**-**	**12,619**
Carrying value							
31 December 2009	**140**	**810**	**2,199**	**225**	**1,404**	**259**	**5,037**
31 December 2008	140	867	1,928	333	1,329	-	4,597

13. Other assets

	2009 RO'000	2008 RO'000
Interest receivable	**1,722**	2,207
Advance against new Core Banking system	**2,828**	518
Prepaid expenses	**907**	893
Dividends receivable	**94**	118
Deferred tax asset (note 27)	**177**	-
Positive fair value of derivatives (note 33)	**27**	-
Other receivables	**2,947**	2,466
	8,702	6,202

14. Due to banks

Syndicated borrowings	**28,875**	67,375
Other borrowings	**69,343**	19,250
Payable on demand	**1,839**	3,038
	100,057	89,663

In the years of 2006 and 2007, the Bank entered into two mid-term syndicated loans agreements with foreign banks for US $ 100,000,000 and US $ 75,000,000 with three years maturity. The rates of interest are linked to three month LIBOR subject to competitive margin. During the current year, syndicated loan for US $ 100,000,000 has been matured.

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 subject to competitive margin.

At 31 December 2009, one borrowing with one local bank 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 (2008 - Nil).

15. Deposits from customers

	2009 RO'000	2008 RO'000
Current accounts	**221,225**	197,496
Savings accounts	**182,392**	163,853
Time deposits	**693,662**	606,493
Margin accounts	**3,988**	3,754
	1,101,267	971,596

Current accounts and time deposits include deposits from the Government of the Sultanate of Oman and its entities amounting to RO 331,344,000 (2008 - RO 307,036,000).

16. Other liabilities

	2009	2008
	RO'000	RO'000
Interest payable	**11,092**	6,761
Creditors and accruals	**27,461**	24,937
Income tax provision	**4,013**	3,399
Deferred tax liability (note 27)	**-**	138
Negative fair value of derivatives (note 33)	**-**	6
Employee terminal benefits	**527**	387
	43,093	35,628

Employee terminal benefits

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

	2009	2008
	RO'000	RO'000
1 January	**387**	274
Expense recognised in the statement of comprehensive income	**147**	140
Cash paid to employees	**(7)**	(27)
	527	387

17. Subordinated loan

	2009	2008
	RO'000	RO'000
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 (2008 - 1,000,000,000 shares of RO 0.100 each).

On 14 October 2008 the Shareholders of the Bank in their Extraordinary General Meeting approved the increase of the share capital of the Bank way by of issuing a right issue from RO 53,081,700 to RO 70,773,831 As a result the share capital of the Bank increased to 707,738,306 shares of RO 0.100 each.

On 29 March 2009 the Shareholders of the Bank in the Annual General Meeting approved the issuance of 4.5% bonus shares amounting to 31,848,224 shares of RO.100 each.

At 31 December 2009, the issued and paid up share capital comprise 739,586,530 shares of RO 0.100 each. (2008 – 707,738,306 shares of RO 0.100 each).

Shareholders

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

	2009		2008	
	No of shares	**%**	No of shares	%
Dhofar International Development and Investment Company SAOG	**221,875,959**	**30**	218,665,824	31
Civil Service Employees' Pension Fund	**73,958,636**	**10**	70,773,815	10
Total	**295,834,595**	**40**	289,439,639	41
Others	**443,751,935**	**60**	418,298,667	59
	739,586,530	**100**	707,738,306	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	**2009 RO'000**	2008 RO'000
1 January	**14,612**	12,149
Increase due to excess of receipts against rights issue expenses	**-**	94
Appropriation for the year	**2,539**	2,369
31 December	**17,151**	14,612

In the year 2008, in accordance with Article 78 of the Commercial Companies Law of 1974, the excess of the receipt of the rights issue expenses transferred to legal reserve.

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 bonds and loan reserves

	2009 RO'000	2008 RO'000
1 January	**10,267**	9,929
Appropriation / (reversal) for the year		
Subordinated bonds reserve	**-**	(7,362)
Subordinated loan reserve	**7,700**	7,700
31 December	**17,967**	10,267

Subordinated bonds 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 bonds each year to the subordinated bond reserve until the bonds mature. The bonds matured in April 2008. The amount of the reserve had been transferred to retained earnings through the statement of changes in equity.

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.

20. Reserves (continued)

(c) Investment revaluation reserve

The movements in the investments revaluation reserve is analysed below:

	2009	2008
	RO'000	RO'000
1 January	**239**	3,582
Decrease in fair value	**(84)**	(7,108)
Impairment of available for sale investment taken to statement of comprehensive income	**2,063**	4,864
Net transfer to statement of comprehensive income on sale of available-for-sale investment	**(828)**	(1,099)
31 December	**1,390**	239

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:

	2009	2008
Net assets (RO)	**204,007,000**	188,433,000
Number of shares outstanding at 31 December (Nos.)	**739,586,530**	707,738,306
Net assets per share (RO)	**0.276**	0.266

23. Net interest income

	2009	2008
	RO'000	RO'000
Loans and advances to customers	**76,961**	60,627
Debt investments	**451**	2,358
Money market placements	**295**	579
Others	**22**	107
Total interest income	**77,729**	63,671
Deposits from customers	**(26,217)**	(18,162)
Money market deposits	**(2,285)**	(5,610)
Total interest expense	**(28,502)**	(23,772)
Net interest income	**49,227**	39,899

Included in interest income from debt investments an amount of RO 397,855 (2008 : RO 2,076,278) being interest income from held-to-maturity investments.

24. Other income

	2009	2008
	RO'000	RO'000
Foreign exchange	**1,125**	1,512
Investment income (a)	**1,868**	3,789
Miscellaneous income	**7,829**	6,448
	10,822	11,749

(a) Investment income

Dividend income- available-for-sale investments	**541**	1,565
Gain of disposal of available-for-sale investments	**1,172**	2,108
Interest income on Government Development Bonds (HTM)	**106**	-
Interest income on financial instruments at fair value through profit or loss	**49**	116
	1,868	3,789

25. Staff and administrative costs

(a) Staff costs

	2009	2008
	RO '000	RO'000
Salaries and allowances	**12,918**	11,030
Other personnel costs	**1,024**	927
Scheme costs - Note (c)	**560**	437
Non-Omani employees terminal benefit - Note (d)	**147**	140
	14,649	12,534

(b) Administrative costs

Occupancy costs	**1,926**	1,532
Advertising and promotion	**1,806**	2,116
Data processing	**1,175**	967
Fees and subscriptions	**562**	533
Professional charges	**317**	358
Printing and stationery	**299**	281
Communication costs	**288**	315
Vehicle expenses	**131**	148
Training costs	**101**	139
Postage and courier	**79**	69
Insurance	**75**	65
Donation	**55**	-
Travelling expenses	**48**	84
Correspondent charges	**39**	45
Others	**321**	308
	7,222	6,960
	21,871	19,494

At 31 December 2009, the Bank had 937 employees (2008 - 840).

(c) Oman Social Insurance Scheme ("the Scheme")

The Bank contributes to the Scheme for all Omani employees. The Scheme, which is a defined contributions retirement plan, is administered by the Government of Oman. The Bank and Omani employees are required to make monthly contributions to the Scheme based on fixed percentages of basic salaries.

(d) Non-Omani employee terminal benefits

The provision for end of service benefits for non-Omani employees is made in accordance with the requirements of the Omani Labour Law. Employees are entitled to benefits based on length of service and final remuneration. Accrued staff terminal benefits are payable on termination of employment.

26. Impairment of financial assets

	2009 **RO'000**	2008 RO'000
Impairment of available-for-sale investments	**2,063**	4,864
Provision for loan impairment	**11,706**	5,470
Bad debts written-off	**93**	2
	13,862	10,336
Recoveries from provision for loan impairment	**(1,524)**	(2,350)
Net impairment change of financial assets	**12,338**	7,986

27. Income tax

(a) Income tax expense:

	2009 **RO'000**	2008 RO'000
Current year tax charge		
Current year	**3,802**	3,333
Under provision of tax in prior year	**141**	-
	3,943	3,333
Deferred tax - Current year	**(315)**	58
	3,628	3,391

The Bank is liable to income tax for the year 2009 in accordance with the income tax laws of the Sultanate of Oman at the rate of 12% on taxable profits in excess of RO 30,000. The following is a reconciliation of income taxes calculated at the applicable tax rate with the income tax expense:

Current year	**2009** **RO'000**	2008 RO'000
Accounting profit for the year	**29,021**	27,077
Tax expense as provided at the rate above mentioned	**3,448**	3,246
Tax exempt revenue	**(218)**	(441)
Prior year tax	**141**	-
Non-deductible expenses	**257**	586
Tax expense	**3,628**	3,391

27. Income tax (continued)

(b) Temporary timing differences which give rise to deferred tax asset / (liabilities) are as follows:

	2009 RO'000	2008 RO'000
Depreciation of property and equipment	**98**	101
Intangible assets	**(317)**	(239)
Loan loss provision	**396**	-
	177	(138)

(c) Status of the tax assessments

The Bank's income tax assessments for the years 2006 to 2008 have not been finalised by the Secretariat General for Taxation.

For the assessment years 2003 to 2005, the tax authorities have disallowed a general provision on loans and advances calculated as per the requirements of CBO circular with a tax impact of RO 1,331,372. As a result the Bank is planning to file an objection against the disallowance with the Secretariat General for Taxation. Pending the finalisation of the above –referred matters, no provision has been made by the Bank in these financial statements.

The management is of opinion that the outcome of the objection will be in favour of the Bank. The management believe that additional taxes, if any, in respect of above referred matter and open tax assessments would not be material to the Bank's results and financial position.

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:

	2009	2008
Profit for the year (RO)	**25,393,000**	23,686,000
Weighted average number of shares outstanding during the year	**739,586,530**	566,058,235
Earnings per share basic and diluted	**0.034**	0.042

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.

For the purpose of earning per share calculation, the Bank has restated the previous year weighted average number of shares outstanding to include the 4.5% bonus Shares (31,848,224 shares with RO 0.100 par each) issued in the first quarter of 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:

	2009 RO'000	2008 RO'000
Loans and advances		
Directors and shareholders holding less than 10% interest in the Bank	**17,128**	29,096
Directors and shareholders holding 10% or more interest in the Bank	**10,911**	12,608
	28,039	41,704
Deposits and other accounts		
Directors and shareholders holding less than 10% interest in the Bank	**66,426**	62,063
Directors and shareholders holding 10% or more interest in the Bank	**114,038**	89,516
	180,464	151,579
Contingent liabilities and commitments		
Directors and shareholders holding less than 10% interest in the Bank	**1,868**	35
Directors and shareholders holding 10% or more interest in the Bank	**281**	-
	2,149	35
Remuneration paid to Directors		
Chairman		
– remuneration proposed	**16**	18
– sitting fees paid	**10**	10
Other Directors		
– remuneration proposed	**115**	110
– sitting fees paid	**59**	62
	200	200
Other transactions		
Rental payment to a related party	**265**	180
Other transactions	**38**	27

29. Related parties transactions (continued)

	2009	2008
	RO'000	RO'000
Key management compensation		
Salaries and other benefits	**565**	612
Other related costs – performance bonus	**465**	305
End of service settlement	**24**	432
	1,054	1,349

30. Fiduciary assets

Funds under management	**52**	604

31. Single borrower and senior members

(a) Single borrower

	2009	2008
	RO'000	RO'000
Total direct exposure	**29,295**	12,351
Number of members	**1**	1

(b) Senior members

Total exposure:		
Direct	**29,054**	42,725
Indirect	**1,719**	35
	30,773	42,760
Number of members	**23**	22

32. Contingent liabilities and commitments

(a) Credit related contingent items

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

	2009	2008
	RO'000	RO'000
Letters of credit	**74,467**	76,407
Acceptances	**22,341**	18,116
Guarantees and performance bonds	**89,016**	69,122
Advance payment guarantees	**60,294**	42,211
Payment guarantees	**29,003**	29,398
Others	**5,289**	4,871
	280,410	240,125

At 31 December 2009, letters of credit, guarantees and other commitments amounting to RO 166,082 (2008 -RO 2,649,000) 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 has also appealed the primary judgment and the Appeal Court has appointed a team of experts to report on technical issues in the dispute. In the current year, the team of experts has submitted their report on the dispute to the Court.

The Bank's lawyers believe that ground of the Bank's appeal are strong and sustainable and anticipated that the Appeal Court will be able to overrule the primary judgment 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.

(c) Capital and investment commitments

	2009	2008
	RO,000	RO'000
Contractual commitments for property and equipment	**2,674**	1,117

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 2009		**Fair value increase / decrease**	
	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**	**-**

At 31 December 2008		Fair value increase	
	Contract / notional amount RO'000	Assets RO'000	Liabilities RO'000
Foreign exchange derivatives			
Currency forwards - purchase contracts	37,814	-	60
Currency forwards - sales contracts	37,843	54	-

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

	Assets		**Liabilities**	
	2009 RO'000	2008 RO'000	**2009 RO'000**	2008 RO'000
Expected cash flow less than 6 months	**27**	-	**-**	6

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 2009 are considered by the Directors 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).

	Level 1 RO’000	Level 2 RO’000	Level 3 RO’000	Total RO’000
Available-for-sale investments				
Equity instruments	8,262	-	4,076	12,338

There were no transfers between the levels during the year.

35. Risk Management

The important types of financial risks to which the Bank is exposed are credit risk, liquidity 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 2009 (continued)

35. Risk Management (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 2009						
Sultanate of Oman	**16,800**	**1,240,830**	**28,071**	**1,099,335**	**39,460**	**185,782**
Other GCC countries	**8,662**	**15,431**	**31,704**	**1,932**	**16,263**	**29,341**
Europe and North America	**7,285**	**1,571**	**-**	**-**	**44,334**	**25,285**
Africa and Asia	**201**	**-**	**-**	**-**	**-**	**40,002**
	32,948	**1,257,832**	**59,775**	**1,101,267**	**100,057**	**280,410**
31 December 2008						
Sultanate of Oman	9,625	1,049,143	115,439	966,882	2,197	135,864
Other GCC countries	10,736	17,919	20,468	4,714	10,337	19,958
Europe and North America	17,077	1,705	570	-	75,204	26,182
Africa and Asia	148	-	297	-	1,925	58,121
	37,586	1,068,767	136,774	971,596	89,663	240,125

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 2009						
Personal	**-**	**542,282**	**-**	**318,369**	**-**	**474**
Corporate	**32,948**	**640,542**	**44,042**	**451,554**	**61,557**	**279,756**
Government	**-**	**75,008**	**15,733**	**331,344**	**38,500**	**180**
	32,948	**1,257,832**	**59,775**	**1,101,267**	**100,057**	**280,410**
31 December 2008						
Personal	-	420,765	-	318,569	-	503
Corporate	37,586	576,258	34,255	345,991	89,663	239,279
Government	-	71,744	102,519	307,036	-	343
	37,586	1,068,767	136,774	971,596	89,663	240,125

(c) Economic sector concentrations

	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**	**30,522**
Construction	**67,993**	**42,859**	**113,318**
Manufacturing	**83,909**	**22,842**	**44,925**
Wholesale and retail trade	**41,849**	**3,916**	**12,466**
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**	**35,163**
Others	**149,523**	**230,869**	**24,905**
	1,257,832	**1,101,267**	**280,410**

35. Risk Management (continued)

(i) Credit risk (continued)

(c) Economic sector concentrations (continued)

	Assets	Liabilities	
	Gross loans and advances	Deposits from customers	Contingent liabilities
	RO'000	RO'000	RO'000
31 December 2008			
Personal	420,765	318,569	503
International trade	81,824	17,940	40,402
Construction	60,809	21,892	89,058
Manufacturing	70,833	26,697	44,093
Wholesale and retail trade	20,209	5,044	2,949
Communication and utilities	45,329	11,957	10,236
Financial services	75,409	21,007	3,989
Government	71,744	307,036	343
Other services	70,145	79,009	23,316
Others	151,700	162,445	25,236
	1,068,767	971,596	240,125

(d) Gross credit exposure

	Total gross exposure		**Monthly average gross exposure**	
	2009	2008	**2009**	2008
	RO’000	RO’000	**RO’000**	RO’000
Overdrafts	**109,402**	102,577	**105,472**	88,351
Loans	**1,046,641**	873,808	**976,219**	763,481
Loans against trust receipts	**76,641**	67,791	**72,696**	57,226
Bills discounted	**3,675**	3,466	**2,932**	3,453
Advance against credit cards	**10,533**	7,945	**9,456**	6,244
Others	**10,940**	13,180	**12,390**	11,688
Total	**1,257,832**	1,068,767	**1,179,165**	930,443

Notes to the financial statements
for the year ended 31 December 2009 (continued)

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 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**
31 December 2008			
Overdrafts	102,577	-	102,577
Loans	854,720	19,088	873,808
Loans against trust receipts	67,255	536	67,791
Bills discounted	3,466	-	3,466
Advance against credit cards	7,945	-	7,945
Others	13,180	-	13,180
	1,049,143	19,624	1,068,767

Notes to the financial statements
for the year ended 31 December 2009 (continued)

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 2009						
Import trade	**9,279**	**37,915**	**291**	**33,890**	**81,375**	**30,446**
Export trade	**66**	**88**	**-**	**-**	**154**	**76**
Wholesale/retail trade	**7,150**	**27,480**	**-**	**7,219**	**41,849**	**12,466**
Mining and quarrying	**1,593**	**12,221**	**380**	**587**	**14,781**	**639**
Construction	**11,536**	**43,601**	**-**	**12,856**	**67,993**	**113,318**
Manufacturing	**6,887**	**45,040**	**2,732**	**29,250**	**83,909**	**44,925**
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**	**35,163**
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**	**23,182**
	109,402	**1,046,641**	**3,675**	**98,114**	**1,257,832**	**280,410**
31 December 2008						
Import trade	10,454	40,643	116	30,418	81,631	40,214
Export trade	69	124	-	-	193	188
Wholesale/retail trade	6,108	10,504	-	3,597	20,209	2,949
Mining and quarrying	930	34,195	-	329	35,454	664
Construction	11,219	29,800	-	19,790	60,809	89,058
Manufacturing	11,769	33,070	3,350	22,644	70,833	44,093
Electricity, gas and water	355	25,419	-	-	25,774	9,588
Transport and communication	343	19,212	-	-	19,555	648
Financial institutions	10,149	65,260	-	-	75,409	3,989
Services	12,731	53,843	-	3,571	70,145	23,316
Personal loans	14,530	398,349	-	7,886	420,765	503
Agriculture and allied activities	5	46	-	-	51	6
Government	1,358	70,386	-	-	71,744	343
Non resident lending	-	19,088	-	536	19,624	209
Others	22,557	73,869	-	145	96,571	24,357
	102,577	873,808	3,466	88,916	1,068,767	240,125

Notes to the financial statements
for the year ended 31 December 2009 (continued)

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 2009						
Upto 1 month	**5,470**	**82,541**	**3,675**	**93,924**	**185,610**	**62,272**
1 - 3 months	**5,470**	**71,038**	**-**	**728**	**77,236**	**61,974**
3 - 6 months	**5,470**	**43,031**	**-**	**90**	**48,591**	**20,295**
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**	**280,410**
31 December 2008						
Upto 1 month	5,129	57,888	3,420	84,722	151,159	58,776
1 - 3 months	5,129	60,891	46	1,534	67,600	56,347
3 - 6 months	5,129	37,891	-	73	43,093	36,087
6 - 9 months	5,129	37,112	-	29	42,270	20,978
9 - 12 months	5,129	39,483	-	33	44,645	13,110
1 - 3 years	25,644	198,881	-	397	224,922	51,760
3 – 5 years	25,644	146,367	-	18	172,029	1,349
Over 5 years	25,644	295,295	-	2,110	323,049	1,718
	102,577	873,808	3,466	88,916	1,068,767	240,125

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 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**
31 December 2008							
Import trade	71,433	10,198	715	4,301	5,533	4	214
Export trade	90	103	1	37	13	-	-
Wholesale/retail trade	10,111	10,098	102	4,931	5,088	51	-
Mining and quarrying	35,454	-	355	-	-	-	-
Construction	57,651	3,158	577	1,284	841	238	-
Manufacturing	69,989	844	700	582	287	9	1
Electricity, gas and water	25,774	-	258	-	-	-	-
Transport and communication	19,553	2	196	1	1	-	-
Financial institutions	75,409	-	754	-	-	-	-
Services	66,100	4,045	661	2,063	1,946	7	-
Personal loans	411,280	9,485	8,771	3,490	4,921	380	45
Agriculture and allied activities	51	-	1	-	-	-	-
Government	71,744	-	718	-	-	-	-
Non resident lending	19,624	-	196	-	-	-	-
Others	96,554	17	985	5	12	-	-
	1,030,817	37,950	14,990	16,694	18,642	689	260

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 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**
31 December 2008							
Sultanate of Oman	1,049,143	37,950	14,794	16,694	18,642	5,448	260
Other Countries	19,624	-	196	-	-	22	-
	1,068,767	37,950	14,990	16,694	18,642	5,470	260

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

On-Balance sheet items	**2009 RO' 000**	2008 RO' 000
Certificate of Deposit	**-**	100,000
Treasury bills	**31,704**	20,468
Loans and advances to banks	**32,948**	37,586
Loans and advances to customers	**1,194,243**	1,018,441
Government Development Bonds	**15,733**	2,519
	1,274,628	1,179,014
Off-Balance sheet items		
Financial Guarantees	**178,313**	140,731
	1,452,941	1,319,745

(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.

35. Risk Management (continued)

(ii) Liquidity risk (continued)

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 2009 (continued)

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 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	1,300	23	-	92	7,287	8,702
Total assets	406,216	152,944	68,093	442,665	417,006	1,486,924
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	10,923	9,094	4,275	17,046	1,755	43,093
Subordinate loan	-	-	-	38,500	-	38,500
Shareholders' equity	-	11,094	-	-	192,913	204,007
Total liabilities and shareholders' equity	211,997	487,271	258,946	233,055	295,655	1,486,924

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 2008						
Cash and balances with Central Bank of Oman	115,749	-	-	-	500	116,249
Financial instruments at fair value through profit or loss	-	1,554	965	-	-	2,519
Loans and advances to banks	30,448	3,288	-	3,850	-	37,586
Loans and advances to customers	151,159	110,693	74,333	396,951	285,305	1,018,441
Available-for-sale Investments	-	-	11,412	-	2,375	13,787
Held-to-maturity investments	20,234	100,234	-	-	-	120,468
Intangible asset	-	-	-	-	3,971	3,971
Property and equipment	-	-	-	-	4,597	4,597
Other assets	1,322	54	14	153	4,659	6,202
Total assets	318,912	215,823	86,724	400,954	301,407	1,323,820
Due to banks	12,663	38,500	1,925	36,575	-	89,663
Deposits from customers	215,000	332,151	179,739	154,322	90,384	971,596
Other liabilities	7,418	9,398	2,976	14,209	1,627	35,628
Subordinate loan	-	-	-	38,500	-	38,500
Shareholders' equity	-	10,970	-	-	177,463	188,433
Total liabilities and shareholders' equity	235,081	391,019	184,640	243,606	269,474	1,323,820

(iii) Market risk

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

35. Risk Management (continued)

(iii) Market risk (continued)

(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

	2009	2008
	RO'000	RO'000
Net assets denominated in US Dollars	**10,771**	26,511
Net assets denominated in other foreign currencies	**652**	2,498
	11,423	29,009

(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%**	
	2009	2008	**2009**	2008
	RO'000	RO'000	**RO'000**	RO'000
Omani Riyals	**4,782**	1,251	**9,565**	2,502
US Dollars	**1,125**	1,105	**2,250**	2,209
Others currencies	**99**	106	**199**	212
Total	**6,006**	2,462	**12,014**	4,923

Notes to the financial statements
for the year ended 31 December 2009 (continued)

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 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		-	-	-	-	-	8,702	8,702
Total assets		480,912	141,981	61,434	451,152	293,461	57,984	1,486,924
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		-	-	-	-	-	43,093	43,093
Subordinate 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	527,214	1,486,924
On-balance sheet gap		199,518	(267,637)	(128,566)	372,572	293,413	(469,230)	
Cumulative interest sensitivity gap		199,518	(68,119)	(196,685)	175,817	469,230	-	

Notes to the financial statements
for the year ended 31 December 2009 (continued)

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 2008								
Cash and balances with Central Bank of Oman	2.0	-	-	-	-	500	115,749	116,249
Financial assets at fair value through profit or loss	4.6	-	1,554	965	-	-	-	2,519
Loans and advances to banks	2.8	30,448	3,288	-	3,850	-	-	37,586
Loans and advances to customers	7.0	242,678	100,435	72,928	362,127	234,344	5,929	1,018,441
Available-for-sale investments		-	-	-	-	-	13,787	13,787
Held-to-maturity investments	2.0	20,234	100,234	-	-	-	-	120,468
Intangible asset		-	-	-	-	-	3,971	3,971
Property and equipment		-	-	-	-	-	4,597	4,597
Other assets		-	-	-	-	-	6,202	6,202
Total assets		293,360	205,511	73,893	365,977	234,844	150,235	1,323,820
Due to banks	3.3	12,211	75,075	1,925	-	-	452	89,663
Deposits from customers	2.3	267,807	246,642	123,853	72,396	48	260,850	971,596
Other liabilities	-	-	-	-	-	-	35,628	35,628
Subordinate loan	5.0	-	38,500	-	-	-	-	38,500
Shareholders' equity		-	-	-	-	-	188,433	188,433
Total liabilities and shareholders' equity		280,018	360,217	125,778	72,396	48	485,363	1,323,820
On-balance sheet gap		13,342	(154,706)	(51,885)	293,581	234,796	(335,128)	
Cumulative interest sensitivity gap		13,342	(141,364)	(193,249)	100,332	335,128	-	

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 413,000 only. (2008: Decrease by RO 527,000)

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 204,000 (2008: decrease / increase by RO 162,000).

(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 2008.

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 2009 is 14.81% (2008 – 16.63%).

Capital structure	**2009**	2008
	RO'000	RO'000
TIER I CAPITAL		
Paid up capital	**73,959**	70,774
Legal reserve	**17,151**	14,612
Share premium	**58,506**	58,506
Subordinated bonds and loan reserve	**17,967**	10,267
Retained earnings	**16,544**	19,880
Proposed bonus shares	**7,396**	3,185
Deferred tax assets	**(177)**	-
Less: goodwill	**(3,971)**	(3,971)
Less: negative investment revaluation reserve	**(51)**	(753)
Total Tier I capital	**187,324**	172,500
TIER II CAPITAL		
Investment revaluation reserve	**648**	442
General provision	**18,122**	14,990
Subordinated loan	**15,400**	23,100
Total Tier II capital	**34,170**	38,532
Total eligible capital	**221,494**	211,032
Risk weighted assets		
Banking book	**1,376,017**	1,167,316
Trading book	**13,762**	16,064
Operational risk	**105,596**	85,899
Total	**1,495,375**	1,269,279
Tier I capital	**187,324**	172,500
Tier II capital	**34,170**	38,532
Tier III capital	**-**	-
Total regulatory capital	**221,494**	211,032
Tier I capital ratio	**12.53%**	13.59%
Total capital ratio	**14.81%**	16.63%

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 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**
Segment Operating Income	**37,362**	**26,255**	**1,412**	**65,029**
Segment assets	**544,442**	**713,390**	**92,723**	**1,350,555**
Less: Impairment allowance				**(63,589)**
				1,286,966
Unallocated assets				**199,958**
Total assets				**1,486,924**
Segment liabilities	**440,507**	**660,760**	**138,557**	**1,239,824**
Unallocated liabilities				**43,093**
Total liabilities				**1,282,917**

37. Segmental information (continued)

At 31 December 2008	Retail banking RO'000	Corporate banking RO'000	Treasury and investments RO'000	Total RO'000
Interest revenues	28,528	32,099	3,044	63,671
Segment Operating Income	29,221	23,272	3,671	56,164
Segment assets	423,946	644,821	174,360	1,243,127
Less: Impairment allowance				(50,326)
				1,192,801
Unallocated assets				131,019
Total assets				1,323,820
Segment liabilities	388,638	582,958	128,163	1,099,759
Unallocated liabilities				35,628
Total liabilities				1,135,387

38. Proposed dividend

The Board of Directors in their meeting held on 27 January 2010 proposed a cash dividend of 15% for the year ended 31 December 2009 amounting to RO 11.09 million (2008 - RO 10.97 million) and a bonus share issue of 10% amounting to 73,958,653 shares (2008 – 31,848,224) 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 3,258 (2008 - RO 8,543) was transferred to the Investor's Trust Fund account as per the guidelines issued by the Capital Market Authority of Oman.

39. Approval of financial statements

The financial statements were approved by the Board of Directors and authorized for issue on 27 January 2010.

40. Comparative figures

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