BankDhofar بنك ظفار
Moving forward... with you معكم... نتقدم

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ANNUAL REPORT 2009

Moving forward... with you

بنك ظفار
BankDhofar
Moving forward... with you

Contents

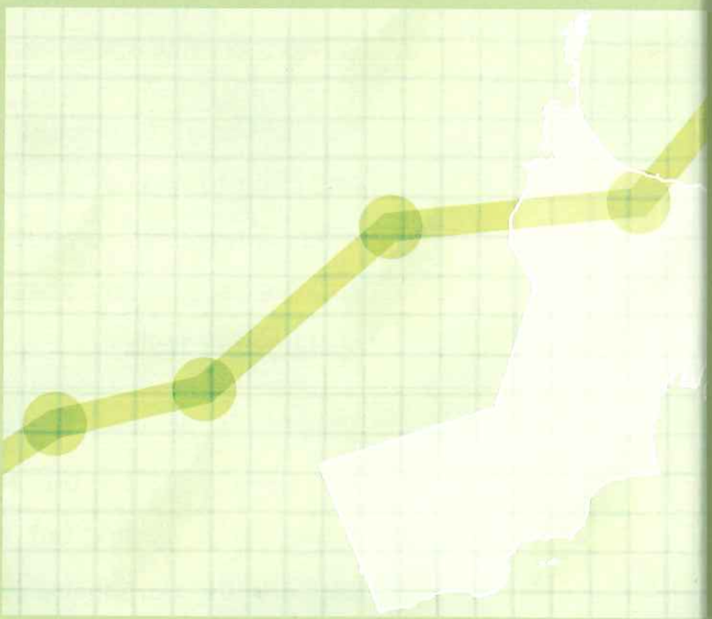
His Majesty Sultan Qaboos bin Said

Our Philosophy

Since the inception, BankDhofar with its philosophy of "Customer First" has developed a reputation for commitment, foresight and remarkable, yet solid, growth. BankDhofar believes in, and is committed to, maintaining relationships by offering personalised services to retail and corporate clients.

BankDhofar is committed to new ideas, innovation, revision and fine-tuning of its practices. The Bank continues to offer innovative products and services and implement creative strategies ahead of market trends to achieve sustained growth.

BankDhofar is well known for reliability as its foundation for service, based on advanced technology delivered by professional, competent and approachable staff. The Bank consistently demonstrates good faith and integrity in its dealings with all its stakeholders, providing acceptable returns to shareholders whilst maintaining a strong financial base.



BOARD OF DIRECTORS' REPORT

BANKDHOFAR S.A.O.G.

THE BOARD OF DIRECTORS' REPORT

For the year ended 31 December 2009

2009 Highlights

- *An increase in net income*
- *Contained cost to income ratio from 37.58% in 2008 to 36.38%*
- *Implementation of the new core banking solution*

Dear Shareholders,

On behalf of the Board of Directors of BankDhofar S.A.O.G., it gives me great pleasure to present our Bank's Financial Statements and the Auditors' Report for the financial year ended 31 December 2009.

The Bank's Financial Performance in 2009

The Bank has been prudent with a clear and focused business strategy that lays emphasis on development of the core activities coupled with cautious diversification and striking a healthy balance between risk and returns. This simple approach has enabled us to achieve better results in 2009 than the previous year in spite of regional and global economic turmoil faced since the last quarter of 2008.

The financial indicators recorded impressive growth in all key areas. The total assets showed sustained improvement from RO 1,323.8 million at the end of 2008 to reach RO 1,486.9 million in December 2009, accomplishing a 12.32% growth. The loan book was improved cautiously over last year with gross loans & advances extended to customers registering an admirable increase of 17.26% from RO 1,018.4 million at the end of December 2008 to reach RO 1,194.2 million at the end of 2009. Also, the customer deposits mobilized by the Bank augmented 13.35% from RO 971.6 million at the end of 2008 to RO 1,101.3 million at the end of 2009.

All the key profitability indicators have also achieved significant growth, as net interest income increased from RO 39.9 million during 2008 to reach RO 49.2 million signifying a robust growth of 23.31%. Non-Interest income such as fees and commissions, foreign exchange profit, investment and other income however declined 3.1% due to lower business volumes to reach RO 15.8 million during the year as compared with RO 16.3 million achieved in the previous year.

We have contained the cost to income ratio from 37.58% in 2008 to 36.38% in 2009, which indicates that our revenues grew at a better rate than our costs. The above factors have helped the Operating Profit of the Bank to grow 18.0% from RO 35.06 million generated in 2008 to RO 41.37 million in 2009.

The impairment due to prolonged and significant decline in the market value of investments for the year 2009 was RO 2.06 million and the same has been charged off to profit and loss in accordance with the International Financial Reporting Standards and other local directives.

The net profit for the year 2009 after the charge off and provisions for non-performing loans, grew appreciably by 7.18% to reach RO 25.39 million from RO 23.69 million achieved in 2008 resulting in an earnings per share (EPS) at the end of 2009 of RO 0.034.

Core Banking

In line with our strategic plan, the Bank made a significant investment in a new core banking solution, ATM and internet banking systems to further enrich services to our customers. The implementation of the new core banking solution by the third quarter of 2010, with advanced banking features would elevate our customer services to a new level and further enhance the Bank to be more competitive in the local market.

Corporate Governance

The Bank has fully complied with all directives of the Code of Corporate Governance issued by the Capital Market Authority. Also during 2009 the Bank assessed and reviewed the internal control procedures of the Bank.

In compliance with article (101) of the Commercial Companies Law No. 4/1974 and its amendments, the Board of Directors would like to disclose that the total amount received in 2009 as sitting fees was RO 68,700 and the proposed remuneration for the year is RO 131,300.

Proposed Dividends

The Board of Directors recommends cash dividends of 15% amounting to RO 11.09 million, and a bonus share issue of 10%, translating to 73,958,653 shares of RO 0.100 each, of the share capital of the Bank. An amount of RO 7.7 million would be transferred to subordinated loan reserve as per the requirements of the Bank for International Settlement (BIS) for the purpose of Capital Adequacy.

The amount of cash dividends and bonus shares distributed in the last five years is as follows:

Year	2004	2005	2006	2007	2008
Cash Dividends	15%	10%	15%	25%	15.5%
Bonus Shares	-	10%	15%	-	4.5%

The Board reviewed the Bank's policy on dividends distribution which is based on maintaining a balance between retaining and distributing the annual profit. The Bank retains part of the annual profit in the form of bonus shares issuance, reserves and retained earnings to build a solid capital base, taking into consideration the future growth of the Bank, the possible economic and financial markets fluctuations, the requirements of the capital adequacy ratio and the various risks involved.

Acknowledgement

On behalf of the Board, I would like to thank our valuable customers for their patronage and confidence they have reposed in the Bank. I thank the shareholders for your continuous support and the Bank's staff and management for their efforts in 2009 which translated into good results.

The Board of Directors also wishes to thank the Central Bank of Oman for its valuable guidance to the local banking sector.

Finally, on behalf of the Board of Directors, I would like to express our most sincere gratitude to His Majesty Sultan Qaboos bin Said for his wise leadership and generous support to the private sector.

Eng. Abdul Hafidh Salim Rajab Al-Aujaili
Chairman

BOARD OF DIRECTORS

Engineer Abdul Hafidh Salim Rajab Al Aujaili
Chairman

Sheikh Hamoud Bin Mustahail Ahmed Al Mashani
Vice Chairman

H.H. Sayed Taimoor Bin Asa'ad Al Said
Board Member

H.E. Ahmed Abdullah Sulaiman Moqaibel
Board Member

Mr. Ahmed Bin Said Mohammed Al Mahrezi
Board Member

Mr. Saleh Nasser Juma Al Araimi
Board Member

Mr. Ali Ahmed Al Mashani
Board Member

Mrs. Najah Musallim Sulaiman Al Kiyumi
Board Member

Mr. Mohammed Yousuf Alawi Al Ibrahim
Board Member

MANAGEMENT TEAM

Mr. Kris Babicci
Chief Executive Officer

Mr. Mohammed Redha Ahmed Jawad
General Manager
Wholesale Banking

Mr. Abdul Hakeem Omar Al Ojaili
Deputy General Manager
Support Services

Mr. Emad Khalid Al Zubi
Assistant General Manager & Chief Financial Officer

Mr. Ravi Khanna
Assistant General Manager
Information Technology

Mr. Faisal Hamed Sulaiman Al Wahaibi
Assistant General Manager
Retail Banking

Mr. Ahmed Said Al Ibrahim
Assistant General Manager
Government Relations

Mr. Bashir Said Al Subhi
Assistant General Manager
Treasury and International Banking

Mr. Hani Habib Macki
Assistant General Manager
Strategy & Planning

Mr. Mohammed Yar Mohammed Al Balushi
Assistant General Manager
Human Resources

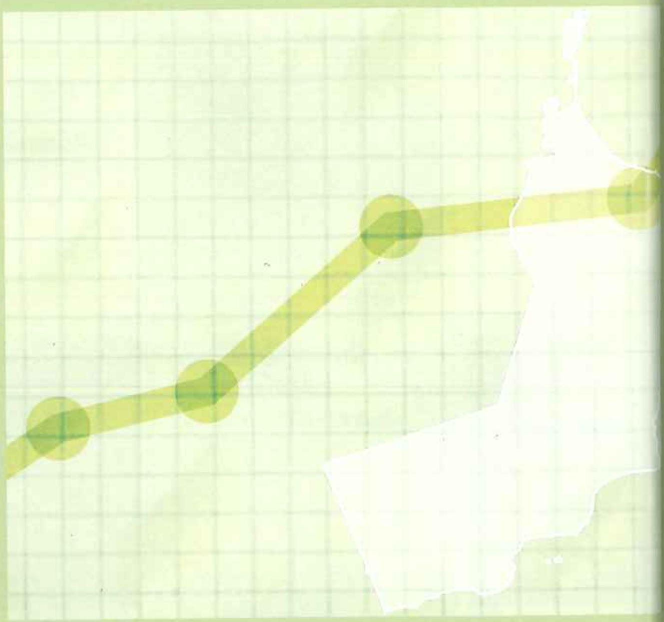
Mr. Rajesh Kusumwal
Head of Internal Audit

Mr. P.M. Ranganathan
Head of Risk Management

Ms. Huwayda Nasser Al Shahimi
Head of Corporate Communications & Marketing

Mrs. Deepti Rai
Head of Compliance

Mr. Kursan Kurian
Head of Investment



REPORT ON CORPORATE GOVERNANCE

Deloitte.

Deloitte & Touche (M.E.) & Co. LLC
Muscat International Centre
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Sultanate of Oman

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TO THE SHAREHOLDERS OF
BANKDHOFAR SAOG

We have performed the procedures prescribed in Capital Market Authority (CMA) Circular No. 16/2003 dated 29 December 2003 with respect to the accompanying corporate governance report of BankDhofar SAOG and its application of corporate governance practices in accordance with CMA code of corporate governance issued under Circular No. 11/2002 dated 3 June 2002 and CMA Rules and Guidelines on disclosure, issued under CMA administrative decision 5, dated 27 June 2007. Our engagement was undertaken in accordance with the International Standards on Related Services applicable to agreed-upon procedures engagements. The procedures were performed solely to assist you in evaluating the Bank's compliance with the code as issued by the CMA.

We report our findings as below:

We found that the Bank's corporate governance report fairly reflects the Bank's application of the provisions of the Code and is free from any material misrepresentation.

Because the above procedures do not constitute either an audit or a review made in accordance with International Standards on Auditing or International Standards on review Engagements, we do not express any assurance on the corporate governance report.

Had we performed additional procedures or had we performed an audit or review of the corporate governance report in accordance with International Standards on Auditing or International Standards on Review Engagements, other matters might have come to our attention that would have been reported to you.

Our report is solely for the purpose set forth in the first paragraph of this report and for your information and is not to be used for any other purpose, This report relates only to the accompanying corporate governance report of **BankDhofar SAOG** to be included in its annual report for the year ended 31 December 2009 and does not extend to any financial statements of **BankDhofar SAOG**, taken as a whole.

Deloitte & Touche

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

Corporate Governance Report

For the year ended 31 December 2009

Part One

1. Corporate Governance Philosophy

The Board of Directors of BankDhofar SAOG (the Bank) bears the principal responsibility of fashioning the Corporate Governance code as appropriate to the Bank within the broad framework enunciated by the Central Bank of Oman (CBO) and the Capital Market Authority (CMA). It is also charged with the responsibility of subjecting the code to periodic review to keep it refurbished and contemporary.

Decision-making within the Bank has been broadly divided into two levels. The Board of Directors (the Board) at the apex level, as trustees of the shareholders, bears the responsibility of strategic supervision of the Bank, apart from fulfilling statutory obligations. Some of the major responsibilities of the Board, namely audit, senior management succession, legal and regulatory compliance are discharged through four sub-committees, viz. the Executive Committee, the Audit Committee, the Risk Management Committee and the Human Resources Strategic Committee. These sub-committees which operate under the Board approved charters have been meeting regularly and have contributed significantly to the effective functioning of the code of corporate governance. The charters of these committees meet with all the requirements as laid down in the Code of Corporate Governance enunciated by the CBO and the CMA. In addition, the Board carries the responsibility of approving the strategic plans of the Bank. The executive management of the Bank comprises the Senior Managers headed by the Chief Executive Office.

Through this two-tiered interlinked governance process, a wholesome balance has been created between the need for focus and executive freedom, and the need for supervision, control and checks and balances.

The formal Code of Corporate Governance prescribes the highest ethical standards in the conduct of the Bank's business. The Senior Members of the Bank are fully cognisant of their responsibilities in setting personal examples so that the code is internalised within the Bank and becomes part of its culture. In the ultimate analysis, there can be no substitute for the enlightened self-regulation that is expected of every member of the Bank.

2. The Responsibilities of the Board of Directors

The Board has the full authority to perform all acts required for managing the Bank and protecting and growing the shareholders' interests pursuant to its objectives. Such authority shall not be limited or restricted except as provided by the law, the Articles of Association or resolutions of the General Meetings.

The responsibilities and functions of the Board include the following:

- Charting the overall strategic direction of the Bank and reviewing and approving the annual business and strategic plans.
- Monitoring the Bank's performance and evaluating whether the business is properly managed in accordance with the Bank's set plans.
- Approving the interim and annual financial statements and providing accurate information at the right time to the shareholders, in accordance with the instructions of the Capital Market Authority.
- Forming various Board sub-committees, approving their charters and reviewing the functions of these committees.
- Reviewing all audit reports submitted by internal and external auditors and statutory agencies.
- Ensuring that the Bank conducts its operations in an ethical and transparent manner.
- Assessing and approving the proper delegation of authorities to executive management.
- Evaluating the functions and the performance of the Chief Executive Officer and other key employees.

Size and Terms of the Board

The Board consists of nine (9) non-executive directors who are elected by the shareholders at the Annual General Meeting. The term of office of the Board of Directors is three years and each Director can be re-elected for a similar period. The term of the current Board expires in March 2010.

Composition and Selection of the Board

Members of the Board of Directors are elected from among the Bank's shareholders or non-shareholders provided that a shareholder candidate owns not less than 50,000 shares of the Bank. All members of the Board of Directors shall be non-executive Directors.

A minimum of one-third of the Board members shall be independent Directors, none of their immediate relatives having held a senior position in the Bank for the last two years, who shall have no relation with the Bank, its affiliated and sister companies that could result in financial transactions other than contracts and transactions entered through open tendering or done in the ordinary course of business.

The election process is through direct secret ballot whereby each shareholder shall have a number of votes equivalent to the number of shares he/she holds. Every shareholder shall have the right to vote for one candidate or more provided the total number of votes in the voting form is equivalent to the number of shares he/she holds.

At present all the Directors of the Board are non-executive and are independent within the scope of the definitions laid down in the Code of Corporate Governance by the CMA.

Board Committees

The Board has the following four permanent Board Committees, whose objectives, powers and procedures are governed by the terms of reference of the respective Committees as enshrined in their Charters, approved by the Board:

- Executive Committee
- Audit Committee
- Risk Management Committee
- Human Resources Strategic Committee

Additional committees may be established from time to time based on business needs. Each committee has access to the information and resources it requires, including direct access to staff and consultants. The Board has selected the committee members based on their professional backgrounds, skills and other qualities they bring to the committees.

Part Two

1. Members of the Board of Directors

The Board of Directors of BankDhofar (SAOG) consists of the following:

Sr. No.	Name of Director	Basis of Membership			No. of Other Director-ships Held
1	Eng. Abdul Hafidh Salim Rajab Al-Aujaili	Chairman Non-executive	Independent	Shareholder Director	-
2	Sheikh Hamoud Mustahail Ahmed Al Mashani	Vice-Chairman Non-executive	Independent	Non-shareholder Director	3
3	HH Sayed Taimoor Bin Assad Al Said	Member Non-executive	Independent	Non-shareholder Director	-
4	HE Ahmed Abdullah Sulaiman Moqaibel	Member Non-executive	Independent	Non-shareholder Director	3
5	Mr. Ali Ahmed Al Mashani	Member Non-executive	Independent	Non-shareholder Director	2
6	Mr. Mohammed Yousuf Alawi Al Ibrahim	Member Non-executive	Independent	Non-shareholder Director	2
7	Mr. Ahmed Said Mohammed Al Mahrezi	Member Non-executive	Independent	Non-shareholder Director	2
8	Mr. Saleh Nasser Juma Al Araimi	Member Non-executive	Independent	Non-shareholder Director	3
9	Mrs. Najah Musallim Al Kiyumi	Member Non-executive	Independent	Non-shareholder Director	-

The Board of Directors held 7 meetings during 2009 as follows:

- 6 January 2009
- 28 January 2009
- 26 April 2009
- 28 June 2009
- 9 August 2009
- 26 October 2009
- 29 December 2009

Sr. No.	Name of Director	Capacity of Membership	No. of Meetings Attended	Directors' Benefits (Amount in RO)	
				Fees Paid	Remuneration Proposed
1	Eng. Abdul Hafidh Salim Rajab Al Aujaili	In Personal Capacity	7	10,000	16,423
2	Sheikh Hamoud Mustahail Ahmed Al Mashani	In Personal Capacity	6	6,400	13,423
3	HH Sayed Taimoor Bin Assad Al Said	In Personal Capacity	4	2,400	13,422
4	HE Ahmed Abdullah Sulaiman Moqaibel	Representative of Dhofar International Development & Investment Holding Company (SAOG)	7	8,900	14,922
5	Mr. Ali Ahmed Al Mashani	In Personal Capacity	6	5,200	13,422
6	Mr. Mohammed Yousuf Alawi Al Ibrahim	In Personal Capacity	4	8,600	14,922
7	Mr. Ahmed Said Mohammed Al Mahrezi	In Personal Capacity	5	9,400	14,922
8	Mr. Saleh Nasser Juma Al Araimi	Representative of Public Authority for Social Insurance	6	7,800	14,922
9	Mrs. Najah Musalim Al Kiyumi	Representative of Ministry of Defence Pension Fund	6	10,000	14,922
			TOTAL	68,700	131,300

2. Executive Committee

The Committee consists of four members with proper experience, skills and initiative. The objectives of the Executive Committee is to discharge responsibilities on behalf of the Board in deciding on specific policy matters demanding in-depth study and analysis, deliberation and interactive consideration and decisions on micro matters of business beyond the powers delegated to the management, but considered less important to receive the full Board's attention and time.

The Board members of the Executive Committee are:

Name of Director	Designation	No. of Meetings Attended
Eng. Abdul Hafidh Salim Rajab Al Aujaili	Chairman of the Committee	6
Mr. Ali Ahmed Al Mashani	Member	4
Mr. Ahmed Said Mohammed Al Mahrezi	Member	4
Mrs. Najah Musalim Al Kiyumi	Member	6

The Executive Committee held 6 meetings during 2009.

3. Audit Committee

The Audit Committee was formed in 2001 by the Board of Directors with the following main objectives and responsibilities:

- To focus the attention of the Board and top management of the Bank on the importance of strong financial reporting and risk management.
- To monitor the adequacy of internal controls in the Bank and to take appropriate steps to improve them where required.
- To monitor the Bank's compliance with legal and regulatory provisions, its articles of association, charter, by-laws and rules established by the Board of Directors.
- To identify the risk areas of the Bank's operations to be covered in the scope of the internal and external audits during the year.
- To monitor the effectiveness of the internal audit function and approve the audit plan as well as the availability of adequate resources (personnel and tools).
- To recommend the appointment/change of the external auditors and determine and review their terms of engagement.
- To meet the External Auditors and hear their views before forwarding the annual financial statements to the Board for approval.
- To report and bring to the attention of the Board any matters of concern with regard to the foregoing and any material accounting or auditing concerns identified as a result of the external or internal audits, or examination by supervisory authorities.

The Members of the Audit Committee are:

Name of Director	Designation	No. of Meetings Attended
HE Ahmed Abdullah Sulaiman Moqaibel	Chairman of the Committee	5
HH. Sayed Taimoor Bin Assad Al Said	Member	-
Sheikh Hamoud Mustahail Ahmed Al Mashani	Member	3
Mr. Mohammed Yousuf Al Ibrahim	Member	4

The Audit Committee held 5 meetings in 2009.

Corporate Governance Report
For the year ended 31 December 2009

4. Risk Management Committee

The Risk Management Committee of the Board was formed in October 2004 by the Board of Directors to focus on issues relating to Risk Management policies and procedures on a bank-wide basis by arriving at a judicious policy decision collectively.

Roles and Responsibilities:

- To understand the risks undertaken by the Bank and ensure that they are appropriately managed.
- To develop risk policies, limits and procedures after assessment of the Bank's risk bearing capacity.
- To identify, monitor and measure the overall risk profile of the Bank.
- To verify models used for pricing complex products and transfer pricing.
- To review the risk models as development takes place in the markets and also identify new risks.
- To ensure that the risk policies developed clearly spell out the quantitative prudential limits on various segments of the Bank's operations.
- To build stress scenarios to measure the impact of unusual market conditions and monitor variance between the actual volatility in portfolio values and those predicted by the risk measures.
- To monitor compliance with various risk parameters by business lines.
- To hold the line management accountable for the risks under their control.
- To oversee and ensure the implementation of CBO's guidelines on risk management systems in banks.

The members of the Risk Management Committee are:

Name of Director	Designation	No. of Meetings Attended
Mr. Saleh Nasser Juma Al Araimi	Chairman of the Committee	4
HH. Sayed Taimoor Bin Assad Al Said	Member	-
Mr. Mohammed Yousuf Alwai Al Ibrahim	Member	2
Sheikh Hamoud Mustahail Ahmed Al Mashani	Member	3

The Risk Committee held 4 meetings in 2009.

5. Human Resources Strategic Committee

The Human Resources Strategic Committee of the Board of Directors was formed in March 2005 by the Board to ensure that the overall human resources developments at Bank level are as per the strategic direction of the Bank.

At a strategic level, the Committee is responsible for reviewing and monitoring the following:

- Ensure manpower plans take into account, the strategic and specific resources requirements at the Bank to achieve strategic plans.
- Review the Omanisation plans and ensure certain defined positions are ear-marked for prospective Omanis within a prescribed period of time.
- Review exit interviews and note any dismissals or resignations for middle management and top management.
- Review the recruitment policy adopted by the Human Resources Department.
- Review the qualifications and experience of specific candidates for the positions at the top management levels.

- Review and monitor compensation and reward policy and procedures.
- Review and monitor training and development policy and process.

The members of the Human Resources Committee are:

Name of Director	Designation	No. of Meetings Attended
Mr. Ahmed Said Mohammed Al Mahrezi	Chairman of the Committee	7
Mr. Mohammed Yousuf Alwai Al Ibrahim	Member	5
Mrs. Najah Musalim Al Kiyumi	Member	6

The Human Resources Strategic Committee held 7 meetings in 2009.

6. Directors' Remuneration and Executives Pay

As all members of the Board are non-executive directors, no fixed salary or performance-linked incentives are applicable. The non-executive directors are paid an annual remuneration and sitting fees for attending the Board/ Committee meetings. Directors' proposed remuneration and sitting fees paid during 2009 are as follows:

	Proposed Remuneration RO '000s	Sitting Fees Paid RO '000s	Total RO '000s
Chairman of the Board	16.4	10.0	**26.4**
Board Members	114.9	58.7	**173.6**
Total	**131.3**	**68.7**	**200.0**

The Bank's top five executives, namely the Chief Executive Officer, General Manager-Wholesale Banking, Deputy General Manager-Support Services, Assistant General Manager-Finance and Assistant General Manager-Information Technology have received the following in 2009:

	Salaries RO '000s	Performance Bonus and Others RO '000s	Total RO '000s
Top Five Executives	522.5	430.0	**952.5**

7. Compliance with Regulatory and Control Requirements

The Bank adhered to and complied with all relevant regulatory requirements in the last three years except one instance in 2007 when the Bank was penalised for RO 2,500 by one of its regulators. The Bank has taken all corrective and necessary measures to avoid similar instances in future.

Also the Bank complied with all provisions of the Code of Corporate Governance issued by the Capital Market Authority.

8. Communication with Shareholders and Investors

The Bank publishes its quarterly interim financial statements and also hosts these and other relevant information at its website (www.bankdhofar.com). The quarterly results are published in two local newspapers in Arabic and English. These results can be obtained by shareholders either from the Bank or Muscat Securities Market (MSM).

The management provides regular updates to the market on the Bank's performance and new developments. The Management Discussion and Analysis Report forms are part of the annual report.

9. Market Price Data

a. Share Price Movements

The high/low share price information of the Bank during the financial year ended 31 December 2009 compared with Muscat Securities Market Index is as follows:

2009	BankDhofar Share Price (RO)			MSM Index
Month	High	Low	Closing	Closing
January	0.420	0.360	0.420	4,813.51
February	0.400	0.337	0.346	4,853.61
March	0.399	0.330	0.379	4,628.64
April	0.391	0.345	0.375	5,128.88
May	0.500	0.370	0.483	5,500.32
June	0.560	0.475	0.557	5,612.21
July	0.615	0.550	0.588	5,846.22
August	0.680	0.588	0.628	6,345.06
September	0.630	0.602	0.610	6,572.25
October	0.625	0.594	0.605	6,354.92
November	0.665	0.600	0.660	6,357.23
December	0.738	0.660	0.731	6,368.80

b. Major Shareholders

The following are the major shareholders who own more than 5% of the outstanding shares as at 31 December 2009:

Shareholder	% of Ownership
Dhofar International Development and Investment Holding Company (SAOG)	30.00%
Abdul Hafidh Salim Rajab Al-Aujaili and his Companies	16.65%
Civil Service Pension Fund	10.00%
Ministry of Defence Pension Fund	8.57%
Public Authority for Social Insurance	8.20%
HE Yousif Alawi Abdullah and his Companies	6.86%
Qais Omani Establishment LLC	6.28%

10. Profile of the Statutory Auditors

Deloitte Touche Tohmatsu is an organisation of member firms around the world devoted to excellence in providing professional services and advice. Deloitte is focused on client service through a global strategy executed locally in over 140 countries. With access to the deep intellectual capital of approximately 168,000 people worldwide, Deloitte delivers services in four professional areas: audit, tax, consulting, and financial advisory services.

Deloitte & Touche in the Middle East is among the region's leading professional services firms, providing audit, tax, consulting, and financial advisory services through 25 offices in 14 countries with over 1700 partners, directors and staff. The Oman Practice currently has three Partners and over 65 professionals.

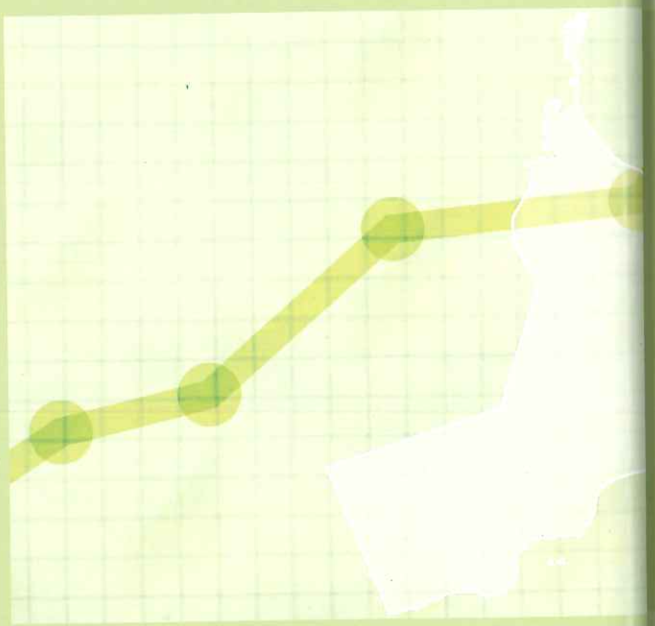
11. Acknowledgement

The Board of Directors acknowledges confirmation of:

- Its responsibility for the preparation of the financial statements in accordance with the applicable standards and rules.
- Review of the efficiency and adequacy of internal control systems of the Bank and that it complies with internal rules and regulations.
- There are no material matters that affect the continuation of the Bank and its ability to continue its operations during the next financial year.

12. Other Matters

- During 2009 the Bank has fully complied with all directives of the Code of Corporate Governance issued by the CMA.
- The Statutory Auditors of the Bank are Deloitte Touche Tohmatsu. The Audit fees paid or payable to auditors for 2009 is RO 34,750. This amount represents RO 29,500 paid for audit services and RO 5,250 paid for non-audit services.
- The last Annual General Meeting was held on 29 March 2009 and the last Extraordinary General Meeting was held on 14 October 2008.



THE MANAGEMENT DISCUSSION AND ANALYSIS REPORT

The Management Discussion and Analysis Report

For the year ended 31 December 2009

Oman's Economy and Outlook

The economy of Oman has remained highly dependent on crude oil and gas revenues contributing around 76% of total revenues. The average oil output as at Q3 2009 increased by 7% to around 810,000 barrels per day, up from 756,800 in 2008. At the end of Q4 2009 oil prices had peaked at USD 70 per barrel against the state budget oil price of USD 45 per barrel providing a surplus of USD 25 per barrel.

Oman's strategy for diversifying the economy away from oil, focuses on LNG exports, gas based industries, port services and tourism. Progress has been made in developing Oman's gas-based industries and a number of large projects are underway.

Oman is recovering from the global financial crisis faster than expected. The Omani economy remained resilient in 2009 due to the increased infrastructure spending and the government's favourable monetary policies. 2010 projected revenues are estimated at 6.38 billion rials, an increase of 14% over the 2009 budget.

Strategy & Planning

In 2009, the Bank entered its second year of implementation of the 5 year strategy laid down by the Bank with the assistance of Booze Allen Hamilton. While the strategy's broad outline is being implemented some adjustments were required to adapt with the new realities of the financial world. To this extent a special Strategy and Planning Board Committee was formed to follow up on the implementation of the strategy.

The department set up a Centralised Complaint Management System to enable customers to interact with the Bank and handle complaints in a systematic method; this is an important factor in the Bank's drive to increase customer satisfaction.

Corporate Communications & Marketing

With the continued support of the Corporate Communications & Marketing department, the Bank has increased the BankDhofar brand visibility throughout the Sultanate with consistent media coverage. The completion of the Corporate Brand Identity Manual has enabled the Bank to streamline the representation of BankDhofar, not only in the advertising channels but also the look and feel of the branch network and the ATMs. The department also has enhanced communication within the Bank keeping the staff members up to date with major ongoing projects through Tahawul, a monthly e-newsletter on Core Banking projects and Tawasul the bi-monthly Bank newsletter. The department also re-launched the Bank's website to become more user friendly, highlighting the Bank's products and services for easy navigation by customers.

Wholesale Banking Group (WBG)

In the backdrop of a rapidly changing economic profile of the country, and increased competition in the banking sector, the Wholesale Banking Group is spearheading the future growth for the Bank. It is our objective to be the 'Bank of first choice' for corporate customers in Oman and cater to all their banking requirements and services.

Wholesale Banking Group consists of following departments:

- Large Corporate Banking Department
- Project Finance & Syndications Department
- Mid segment (Corporate) Department
- Remedial & MIS
- Trade Finance Sales
- Corporate Advisory & Structured Finance

The rationale behind this set up is to focus on different segments of businesses and provide full range of Commercial and Corporate banking services under a single umbrella.

Large Corporate Banking Department

Large Corporate Banking plays a vital role in WBG by concentrating on top-end customers with large exposures. The customer base spans various industries which include Trading, Manufacturing, Services and Contracting. The needs of these high-end customers are varied and require constant interaction to understand their working capital requirements. Therefore the Bank has introduced customer segmentation based on their Balance Sheet turnover/quantum of Bank's credit exposure in order to provide focused customer service. The emphasis is on the development of individual financial solutions that are suited to the particular needs of the customers. We are continuously improving our processes to meet the ever-changing customer needs and to extend best customer service.

In the context of continuing uncertainties in global financial markets and prevailing macroeconomic environment, we continue to exercise prudence and caution in increasing the Bank's asset portfolio both in terms of quantity and quality.

Project Finance & Syndications Department

The global recession has impacted project financing in the region due to reduced availability of long term USD financing. Therefore several projects in Oman and the region were either put on hold or shelved indefinitely. The changing dynamics of the world economic crisis have emphasized the need to revisit the basic project assumptions in individual cases and ensure that the viability of the project holds good. In Oman, during the current year there have been only a few projects which have approached the Banks for financing such as Sohar Port Special Projects LLC and Salalah Power Project.

Over the years the Bank has participated in almost all major infrastructural projects including the projects of Oman India Fertiliser Company LLC, Sohar Aluminum, Oman LNG, Oman Gas, Salalah Port, Oman Refinery (expansion), Octal Petrochemicals and the six power and water projects. The Bank has in place the technical capability to independently lead-arrange funds for medium sized ventures and has a strategic tie-up with regional and international banks for the purpose of ensuring full participation.

The situation in 2010 does not appear to be markedly different as the recovery process is expected to be slow. The Bank is planning to meet the challenge of difficult USD conditions by devising innovative solutions for Rial Omani long-term financing. With the experience gained in the previous years and also the availability of specialised skill sets required for such business, the Bank is optimistic in achieving its goal of increased business in 2010.

Mid Sector Corporate Division & Business Banking Unit

Small & Medium Enterprises (SME) are catalysts for growth, in both a developed or a developing economy. In any economy, big businesses play the role of an anchor, while the SMEs play the supportive roles which are vital for these large corporations to maintain their competitive edge. Also, this segment plays a crucial role in enhancing productivity and creating employment opportunities.

To cater to this business segment, the Bank has a dedicated division; the Mid Sector Corporate Banking Department. The bank's products and services are designed to enable this segment to match the varying needs of the sector and enable them to meet the challenges in the marketplace.

The SMEs sector plays a vital role in enhancing productivity and creating employment opportunities. In an increasingly globalised world marked by competition and innovation, the SMEs have to be encouraged, supported and also guided to upgrade their capabilities.

Oman's budget for 2010 focuses on development and employment, with the emphasis on developing human resources growing stronger. Oman has slightly raised its allocation for the ministries of education and manpower in its budget for 2010. This, coupled with SMEs growth, will definitely provide employment to Omanis and in turn, increase the availability of skilled resources.

The SME sector in Oman is relatively young in terms of its life cycle as compared to other similar markets. Considering the opportunities available in this segment the Bank has initiated focused efforts to increase its share in funding of SMEs. The government's emphasis on employment generation is also a positive development for the SMEs in Oman.

The division aims to provide best services to the customers with faster turnaround time, while maintaining the quality of the assets of the Bank.

Remedial Management Department

This department has been created in 2009 within WBG group, to identify early warning signals and incipient sickness problems in accounts. This department will help the front office business units in initiating appropriate advisory and restructuring measures for the account, in a timely manner. This in turn will help the Bank to maintain a healthy portfolio.

Trade Finance Sales Department

A separate Trade Finance Sales Department was also created in 2009 to market and develop products in the Trade Finance area. A dedicated officer from the department assesses the needs of corporate clients specific to trade finance area and suggests suitable structured products to improve usage of fee based facilities from the Bank.

Corporate Advisory & Structured Finance

The department offers business advisory services to the Bank's corporate clients with the objective of improving their overall business performance. The activities include advisory on capital raising, underwriting, conducting business due diligence, business valuation, financial restructuring and refinancing.

Consumer Banking Group

Distribution Network

Consumer Banking Division (CBD) of BankDhofar continued its focus on providing value-added products and services to the customers. The Bank continued its growth and expansion strategy, strengthening its distribution channels with the addition of more branches, ATMs and Deposit & Bill Payment Machines (DBPMs).

There was an addition of 3 new branches at Quriyat, Jalan Bani Bu Hassan and Raysut, a relocation of 2 branches - Al Amirat and Al-Buraimi and renovation of 4 branches Sur, Seeb Airport, Saada and Salalah Main Branch. 12 ATMs were installed (10 offsite ATMs) and 8 Deposit & Bill Payment Machines. The year ended with 54 branches, 88 ATMs and 30 Deposit and Bill Payment Machines.

Products

Al Heson

Although we were amidst a global financial crisis, 2009 witnessed sensible growth of BankDhofar's flagship Al Heson savings scheme offering competitive prizes to its customers. The Al Heson savings scheme is one of the popular savings schemes in the market with a unique proposition; it gives customers the opportunity to open an account, save and get the chance to win every week.

Card Centre

The year saw a steady growth in the credit cards business, both in terms of new customers as well as outstanding amounts. The card services department finalised the implementation of a new ATM Switch System. This new system will allow the Bank to enhance its customer service and provide new services and products such as Chip Cards which have additional security features.

More value-added benefits have been introduced to cardholders. BankDhofar MasterCard Platinum cardholders now enjoy free unlimited access to the Marhaba lounge at Dubai International Airport. The Bank's Visa cardholders had a chance of winning 2 free packages to attend the final match of FIFA Club World Cup which took place in Abu Dhabi (UAE). The winners had a lifetime experience by attending the football event.

Housing Loans

There has been a consistent growth in the Housing Loans, both in terms of new customers as well as outstandings. The housing loan product was enhanced with more flexibility, hence qualification has not been limited to a monthly salary but other additional income is also taken into consideration. The customer can also mortgage more than one property to qualify for a housing loan. The product is very competitive in the market as it offers a low monthly installment and low insurance. Housing loans are available to customers to buy, build or renovate their homes. Loans are also available for buying plots of land or investing in residential projects.

SME Banking

Focus on the SME (Small & Medium Enterprise) Banking had intensified during the year. The Bank focused on this initiative to support growth of the segment as it not only impacts the economy in a large way but also creates employment opportunities for the nationals.

One of the main initiatives during 2009 was shifting a part of SME Banking from Wholesale Banking to Retail Banking. This included the corporate clients with credit facilities of RO 100K or below. The strategy was divided into two segments: Using branches as low cost delivery channels to reach the right prospects and servicing them in a more specialised manner.

The Bank has increased its portfolio in this segment during the year in net lending and number of customers. It also provides financing to this sector with products ranging from Funded to Non-Funded, from Short Term to Long Term and from Credit to Trade Services, ensuring that the customers get the best financing suited to their business needs. This includes a wide range of facilities such as working capital requirements, term loans and other banking facilities that assist contractors to participate in various tenders or continue with their contracts. Account Managers facilitate the customer's access to other products and services available at the Bank.

The SME segment shall witness growth commensurate with the growth of the economy of the country. The focused approach for this particular segment shall enable the Bank to reap the benefits arising out of the growth in the segment.

BankDhofar also facilitates the SMEs with e-banking facilities helping the business drivers with convenient banking through Internet. With such facilities the businessman spends less time interacting with the branches for checking balances, payments and receipts and more time on their business.

E-Banking Channels

In April 2009, all electronic channels were centralised under one unit, the eBanking unit. This new unit oversees the ATMs, Cash Deposit Machines, Phone Banking, SMS Banking, Internet Banking and the Call Centre. The Bank's 24-hour Call Centre, handles customer requests and enquiries for Internet Banking and other electronic channels.

Call Centre services were also improved through enhanced training and introduction of service monitoring tools, such as mystery shopping and call quality scoring. The Call Centre strength was increased to 14 call agents under a manager. The Call Centre also generated an increased amount of business through inbound and outbound campaigns. To ensure customer satisfaction, a strict quality control procedure has been implemented. In addition, the Call Centre staff is put through periodic training programmes on Products and Customer handling skills.

For the benefit of our customers the Call Centre continues to operate 24 hours a day, seven days a week. In the last 12 months, the Call Centre has witnessed a significant increase in the number of calls being handled by staff - about 150,000 calls.

The soft launch of Internet Banking for staff and selected customers was in June 2009 and was officially launched in October 2009. The unique selling proposition of BankDhofar's Internet Banking is its availability both in English and Arabic. It offers third party transfer capabilities, in addition to standing orders scheduled by the customer himself. Customers can also communicate and enquire with the Bank through a secure online interface.

Direct Sales

In 2009, BankDhofar formed its own Direct Sales Teams to provide banking services in Dhofar, Batinah and Sharqiah regions. The team strength was increased in the capital region to take advantage of the growing market. Training programmes on products and sales were conducted. As a result, new customers were brought into the bank, and the Direct Sales Team of BankDhofar is a name to be reckoned with in the market today.

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Treasury & International Banking Division

Treasury

The Treasury department offers a wide range of treasury-related services to corporate, retail and high net worth individual customers. The department manages the interest rate risk, exchange rate risk, and liquidity risk on a daily basis, with a view to enhance yield.

In today's sophisticated world, every business is exposed to complex financial challenges such as liquidity and cash flow management, as well as interest rates and foreign exchange exposures. Customer satisfaction is the key focus to the Treasury department's business. The department provides its customers up-to-date information about products and markets.

The BankDhofar Treasury department is one of the leading market contributors in USD/OMR spot and swaps, and offers attractive interest rates on foreign currency deposits in all major currencies to corporate, retail and high net worth individual clients.

The Bank offers highly competitive exchange rates against all currencies, specially, to the Indian, Pakistani and Bangladeshi currencies. Through Treasury, the Bank provides services of buying and selling Government securities such as Government Development Bonds.

In the wake of a global financial crisis the Treasury department performed well in 2009. The deposits grew significantly, whereas the cost of funds reduced considerably. During 2009, investment in international and regional T-Bills, currency swaps and corporate relationship played a major role in contributing towards a robust growth.

The Bank has successfully implemented a new stand-alone treasury system, which reduces the operational risk and enables the treasury team to monitor and handle the position more effectively and on real-time basis.

The division is planning to set up a dedicated structured product desk that will cater to the sophisticated business community's requirements. The desk will provide various hedging tools, structured in a combination of products such as Interest Rate Swap (IRS), Floating Rate Agreements (FRA) and Option.

International Banking

The International Banking Department supports the overall development of BankDhofar's international operations overseas. Through a network of correspondents worldwide, BankDhofar offers quality services to its retail, corporate and institutional clients. The Bank currently has arrangements with more than 300 overseas correspondents. The services cover the niche areas of foreign exchange, currency risk management and international payments. The department also manages the current and long term foreign currency funding requirements of the Bank.

The Bank's consistent credit ratings from the top three international rating agencies: Moody's, Fitch Ratings and Capital Intelligence, who rate the Bank, reflects its sound asset quality, strong capital adequacy and satisfactory financial performance. In 2009, the credit ratings were affirmed with the outlook being "Stable"- another testimony to the Bank's financial strength in prevailing market conditions.

The Bank's credit ratings for the year 2009, from the three international credit rating agencies are as follows:

Moody's Investor Service affirmed A3/P-2 local currency rating, A3/P-2 foreign currency deposit rating, and a D+ Bank Financial Strength Rating (BFSR) to the Bank. The outlook on all ratings are stable. Fitch Ratings affirmed the Bank's rating at long-term issuer debt (IDR) "BBB+" with a stable outlook and short-term IDR "F2", individual "C", support "2" and support rating floor 'BBB+". Cyprus-based "Capital Intelligence (CI) affirmed the Bank's foreign currency long-term and financial strength ratings at "BBB" and the foreign currency short-term rating at "A3". The support rating is unchanged at 3 and the outlook for all the ratings remains "Stable".

Government Relations and Investment Management

The Department continued to remain committed to exclusive services to the Government sector which in turn resulted in higher resource mobilisation and benefits to the Bank. Keeping in line with the cautious approach of the Bank in general, the Investment Management Department's priority was preservation of capital. This was achieved through a disciplined and value-based investment methodology followed by the Asset Management Division. In addition, greater emphasis was laid on better controls, compliance and risk management thereby laying a strong foundation for business growth in the coming years. With the strengthening of the systems and procedures it is proposed to expand on the existing team of investment professionals and private bankers who would anticipate and fulfill every need of the Bank's diverse client base.

In-house research and asset management capabilities have shown further improvement in its approach. The brokerage division continues to target institutional investors and high net worth individuals while a strategy is being formulated to target the retail investor base. In addition new growth areas are being identified so as to structure products to suit the needs of the Bank's customer base. A one stop total solution approach is going to be adopted to enable customers to achieve their goal. The Bank is confident that in the coming years this department will be able to build on its strengths and achieve significant growth.

Support Services

Central Operations Division

There are significant achievements made by Central Operations Department (COD) during the year. The volume of transactions processed at COD continued to grow steadily. The key reason for this was the continuous focus by the team to effectively utilise technological solutions to automate routine processes thereby increasing the productivity of the team.

Apart from routine operations, COD continued to be associated in implementing key projects, undertaken by the Bank.

Key Projects

The introduction of Cheque Imaging System (CIS) at COD, MBD and Muscat branches, as per the time-table of Central Bank of Oman. CIS will be extended to other branches in all the regions of the Sultanate during 2010.

1. E-banking project Phase-1 was successfully launched in 2009.
2. Core-banking project, scheduled for launch in Q2, 2010.
3. Business Process Re-engineering (BPR) – Phase-1.

COD continues to work on streamlining other work-flows aimed at reducing the operational burden at the branches and eliminating operational errors. Some of the major activities are as follows:

1. Introduction of a report for follow-up by branches on Stop-Payment Instructions.
2. Introduction of daily reports on cash differences at branches.
3. Automation of the register maintained by branches, to record customer relationships that have been terminated.
4. Automation of Recovery of Charges on Counter Cheque and Pay Orders.
5. Automation of BankDhofar Caution List through Bank Alert system.

Trade Finance

After the robust growth of business till the first half of 2008, the subsequent period had been in the clutches of global recession. The commodity prices, which touched an all-time high in July 2008, had crashed in the second half of 2008 which led to the decline of business volumes pertaining to imports and exports till the first half of 2009. The second half of 2009 had shown some relief to this trend mainly due to the ensuing new infrastructure projects coming up in the domestic economy.

Till the year 2008, the key income driver of the department was the business of issuance of Import Letter of Credit well ahead of the business of issuance of Guarantee. However during the year 2009, this trend was changed significantly as the income from Guarantees has shown a vibrant growth of 26% whereas the income from Import & Export business has declined by 22% in comparison with the corresponding income figures of the year 2008. Income contribution from Imports and Exports business declined due to lower volumes on account of lower commodity prices. The growth in guarantee issuance business had contributed corresponding growth in commission income on guarantees. Hence the overall commission income of Trade Finance Department (TFD) in the year 2009 is marginally higher than the corresponding figures of the year 2008 despite the recessionary constraints. However, there has been a steady growth in terms of a number of transactions across all product categories including communications. As a service provider, the Department's focus is on handling the increased volumes more accurately and efficiently to the customer's satisfaction and extending support to the Wholesale Banking Group and Retail Banking Group in business growth and development.

Credit Control

In compliance with the directives of Central Bank of Oman on best risk management practices, the Bank established the Credit Control Department (CCD) in 2007 under Support Services Group. This department was formed primarily with the objective of strengthening credit risk management processes through independent review of loan portfolio to bring about the qualitative improvement in loan administration and control on an ongoing basis.

The department is entrusted with the responsibility of implementation of Loan Review Mechanism (LRM), approved by the Bank's Board. LRM is a comprehensive and independent credit review process, distinct from Risk Management and Internal Audit functions. The scope of LRM includes evaluation of credit risk assessment and approval processes, adherence to loan policies and procedures, sufficiency of loan documentation, overall quality of post-disbursement follow up and loan administration, identification of early warning signals, independent review of risk grading and loan loss provisioning in respect of large, unsecured and critical borrower accounts handled by various departments under Wholesale Banking Division.

Reviews are conducted within three months of the grant of credit facilities. Findings of such reviews involving independent evaluation of various credit processes are presented to the Bank's Management Credit Committee at its weekly meetings on an ongoing basis. Such a review mechanism facilitates the concerned departments to undertake timely corrective measures and also to improve upon any weaknesses or irregularities observed in various processes.

All major findings and important observations are also reported to the Board. In terms of regulatory guidelines, at least 30% of the corporate loan portfolio has to be subjected to LRM in a year. However during the calendar year of 2009, CCD had conducted loan reviews of around 75% of the aggregate corporate credit facilities sanctioned by various authorities in the corresponding period of one year.

CCD also conducts various portfolio reviews to ensure compliance with various norms on advances as prescribed in the Bank's Credit Risk Policy approved by the Board including IAS-39 impairment provisioning and independent review of Risk classification of loans and advances. CCD has also actively participated in finalizing the requirements of the new Core Banking Solution for various loan modules and also assisted in resolving some of the critical issues. In line with the objectives, CCD would continue to play an important role in reviewing and strengthening various credit risk management processes and in supporting the implementation of the new Core Banking Solution by reviewing and developing various control returns.

Information Technology

To enhance its offering from electronic delivery channels and deploy latest state of the art technologies to service the customers, the Information Technology division initiated strategic projects during the 4th quarter of 2008 which continued into 2009, to replace the Core Banking system, introduce Internet Banking delivery channel, replace ATM Switch system, and implement new Treasury and Customer Relationship modules.

The Internet Banking channel was launched during the year 2009 for retail and corporate banking customers that found great success, several retail and Corporate banking customers subscribed to this facility. The range of services offered is rich and at par or even better in certain cases as compared to the services offered through this channel in the market. This channel was launched with robust infrastructure for network and application system security that was recommended, tested and verified by the multiple external consultants.

The Bank implemented the latest technology-based and feature-rich new ATM Switch system to replace the old switch software during 2009. This strategic project involved VISA certification for EMV Acquiring and EMV Issuance for the Bank's debit cards. The new switch will support various other business requirements such as Internet enabling of debit cards and enabling of Balance Enquiry on International VISA ATM machines. It would help the Bank to deliver better services to the cardholders through the Card Centre, Call Centre and branches in addition to strengthening fraud monitoring controls and compliance to most of the Payment Card Industry Data Security Standards (PCI-DSS).

The IT Division successfully achieved the ISO/IEC 27001:2005 Certification for its Information Security Management System (ISMS). ISMS is part of the overall management system, based on a business risk approach, to establish, implement, operate, monitor, review, maintain and improve information security. The ISMS includes organization structure, policies, planning activities, responsibilities, practices, procedures, processes and resources. The certification was awarded by an international accredited entity Ernst & Young Certify Point B.V. (Netherlands). ISO 27001 is the formal standard of certification that provides the assurance that the certified organisation fulfils the highest levels of security and has implemented a Security Management System that is at par with global standards. The benefit of the ISO certification to the Bank includes the implementation of best practices in information security, ensures business information security and offers a competitive edge in the market.

In order to revamp and improve the performance of its branch network, the IT division implemented Multi Protocol Label Switching (MPLS) technology based Wide Area Network. 46 of the Bank branches are already using this technology now with improved network bandwidth enabling the Bank to initiate the rollout of key initiative of Cheque Truncation (Cheque Imaging system) in coordination with Central Bank of Oman. The improved network bandwidth would enable the Bank to implement the new Core Banking system effectively in 2010 and further strengthen the Disaster Recovery plan of the Bank.

The division made significant progress in its major strategic initiative of the new Core Banking program. This program was branded as 'Tahawul' (Transformation) and involved implementation of the new Core Banking system (Finacle), Internet Banking, Customer Relationship Management System, Treasury System and Middleware solution for delivery channels integration. The programme team completed critical milestones under this programme including the introduction of Internet Banking, implementation of Treasury module and Middleware solutions during 2009.

The new Treasury module has improved front office operations in the dealing room. Middleware solution has enabled the Bank to integrate delivery channels such as Internet Banking, SMS Banking, Call Centre, Phone Banking and Smart Deposit Machines to an existing Core Banking system and would keep these systems in readiness for connecting to the new Core Banking system that is scheduled to go live during the year 2010. Several key milestones for implementation of the new Core Banking system including training of Bank's technical and business teams, business and technical requirements, setup of the new system in line with the Bank's requirements and development of data migration tools are completed. The new Core Banking system is under extensive user testing where the Bank has also engaged external consultants to ensure thorough testing of the new system. The staff at branches and the head office are undergoing modular training programs as part of their readiness to handle the new system.

The department upgraded the Call Centre and Phone Banking systems to provide better availability of services, and to enable the implementation of new services and features by integrating with the new Core Banking system.

Human Resources Division

The year 2009 has been a remarkable year for the Human Resources Division (HRD) of the Bank on account of the significant contribution made in promoting the image of the Bank in the banking industry.

The active participation of the HR Division in career fairs held at colleges and universities in Oman and the proactive approach to increase retention rates, is clearly reflected in the decrease in registered resignations from 11% in 2008 to only 4% in 2009. The total strength of the Bank in 2009 grew to an employee count of 956 in comparison to 848 in 2008.

The Strategic Plan initiatives for the year 2009 was achieved and the HR Division was successful in implementing a more effective goal setting process by having more clearly defined key performance indicators, which were used to indicate if targets were met, coupled to the initiation for the development of more appropriate performance measurement tracking tools by the Division in 2010. Performance Management Workshops were also conducted during the year to strengthen the process and to provide managers with knowledge-based information and feedback on the mid-year reviews to improve the overall process. The aim is to increase the effectiveness and efficiency of the Performance Management Programme year on year and not just to maintain it.

In 2009 the 'Internal Hiring' policy implemented in the Bank now offers more career opportunities to the employees of the Bank and creates an opportunity for them to apply for suitable vacancies that become available within the Bank.

Two other schemes that were introduced in the Bank, namely the 'Rewards and Recognition Scheme' to recognize employees who performed excellently in the achievement of task(s)/objective(s) within the Bank; and the active promotion of the 'Suggestion Scheme', both schemes have enabled and encouraged employees to perform with excellence and to share their valuable ideas respectively with the Bank.

As a training delivering initiative, the Bank has set up regional training centers at national level in all regions of Oman, to support and deliver need-based development and functional training programs, required to develop the skills and capabilities of employees in the Bank. A major cost saving initiative was the in-house content development and preparation of user-friendly training material for the ' Core Banking modules.

The HR Division will continue to focus on increasing its contribution in promoting the image of the Bank, focus on employee and organisational wellness and professional conduct in all its endeavours.

Risk Management

Risk Management structure

The primary responsibility of understanding the risks assumed by the Bank and ensuring that these risks are appropriately managed is vested with the Board of Directors of the Bank. The Board has set risk policies, limits and procedures by assessing the risk bearing capacity of the Bank.

The overall risk management has been delegated to an independent Risk Management Committee of the Board of Directors (RMC), which monitors and controls the overall risk profile of the Bank. The RMC reports to the full Board, on matters of significance and keeps the Board continuously updated with the Risk Management process in the Bank. In this task RMC relies on an independent Risk Management Division.

The Bank has a well established Risk Management Division (RMD) with a team of competent and experienced professionals. The primary responsibility of the RMD

is to ensure on a continuous basis that an effective risk management framework exists and the various divisions of the Bank function within this framework. RMD also functions as an interface between the Management and the Board in defining appropriate risk tolerance levels for various business lines and operating divisions of the Bank and in ensuring that policies and procedures are tailored to the defined tolerance levels.

Risk Management strategy

The Risk Management strategy of the Bank is pivoted on the following:

- Understand, measure and manage risk and aims at ensuring sustained growth of healthy asset portfolio.
- Well defined risk measurement processes and procedures by way of documented authority levels and limits.
- Continuous monitoring and control of these limits at business unit level and at portfolio level.
- Updating various authorities on risk profile of the Bank and suggesting ways for risk mitigation.

Management of various risks

A brief account on the various identifiable risks and their risk management process is given below:

1. Credit Risk

Credit risk is defined as the possibility that a borrower or counterparty will fail to meet its obligation in accordance with agreed terms in relation to lending, trading, hedging, settlement and other financial transactions. This risk is primarily managed by proper assessment of inherent risks in credit proposals and ensuring a balanced portfolio of customers meeting the risk appetite of the Bank. The Bank also ensures dealing with customers of good credit standing, a thorough and professional credit assessment process, obtaining collaterals to mitigate risks and continuous monitoring of the account. The Bank has taken the following measures to mitigate credit risk:

Credit Risk Policy addresses credit risk emanating from lending to corporate and individuals in a structured manner and is reviewed and updated on a regular basis. The policy of the Bank encompasses organisational responsibilities, prudential limits, credit risk rating standards, risk pricing standards, loan review mechanism, delinquent account management and portfolio management.

Counterparty Credit Risk Policy addresses credit risk from banks as counterparties. The maximum exposure that can be taken on counterparty is specified by an internally developed model.

The credit risk rating system of the Bank has been revised and a risk grade is assigned objectively to a borrower based on the single point score provided by the rating model. The grade is assigned to the Standard category of borrowers on a scale of 7.

The Bank uses an Indicative Benchmark Rate to facilitate the decision making process in fixing the price to facilities provided. The Bank conducts stress tests to assess the impact of credit risk on capital adequacy and profitability under stress situations.

All the corporate credit proposals above a threshold limit are reviewed by the RMD to assess the risk factors and suggest mitigants. The observations of RMD form an important input in credit decision.

The Bank employs experienced and competent staff in the areas of corporate banking and provides them with regular training to upgrade and hone their credit skills. Detailed credit policies and procedures, strict adherence to the segregation of principle duties, elaborate and well defined authority levels, periodical audit and examination by the internal auditors ensure that the culture of risk permeates through the business divisions supported by a rigorous environment of checks and balances.

2. Liquidity Risk

Liquidity Risk is the potential inability of the Bank to meet its maturing obligations to a counterparty. Liquidity planning and management are necessary to ensure that the Bank has the ability to fund its liquidity requirement effectively and to meet current and future potential obligations such as loan commitments, contingent liquidity commitments and unexpected deposit outflows.

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While the Bank's Asset-Liability Management Committee (ALCO) is responsible for setting the broad framework for managing the liquidity risk effectively, the responsibility of managing the liquidity risk of the Bank, within this framework, lies with the Treasury Department, which discharges this function with the assistance of other business divisions of the Bank.

The Bank has a Board-approved policy on liquidity management which encompasses assessment of liquidity gaps through cash flow and static approach, reserve against deposits, lending ratio, mitigation of liquidity risk and contingency measures. The Bank has a Middle office within RMD to ensure that the Treasury Department operates within these guidelines.

The Middle office implemented ALM software which regularly monitors the liquidity position of the Bank and helps in managing the liquidity gaps, well in time. The Middle office conducts liquidity risk stress tests periodically and Treasury Department ensures that sufficient liquid assets are available with the Bank to meet any business exigency.

3. Market Risk

Market risk is the risk of loss arising from unexpected changes in financial prices arising out of changes in interest rate, exchange rate, bond, equity and commodity prices. The Bank has major exposure in currency and interest rate risk.

Treasury Risk Policy and Investment Management Policy of the Bank address all the aspects of the market risks. The Treasury Risk Policy addresses foreign exchange risk and interest rate risk whereas the Investment Management Policy addresses the equity risk.

The major foreign currency in which the Bank deals on a regular basis is the US Dollar. The established parity between US Dollar and Rial Omani substantially reduces this risk. However, in order to control currency exposure risk, limits for intra day and overnight positions have been set up in addition to currency-wise stop loss limits. The Central Bank of Oman (CBO) has also set prudential norms for the net open position to restrict the banks from taking undue currency exposures.

The Bank manages the interest rate risk by matching the re-pricing of assets and liabilities and operating within the set gap limits. The Middle office in RMD regularly monitors the impact of adverse movement in interest rate on profitability and economic value of equity.

The office also monitors equity portfolio through daily reporting and assess the risk inherent in the quoted domestic equity portfolio through Value at Risk (VAR) approach. Various limits such as stop loss limit, transaction deal limit and realised loss limit are in place to manage the equity risk.

The Middle office conducts stress tests periodically and the impact of adverse movement of market variables on profitability and capital adequacy and places the same to the RMC.

All the investment proposals categorised under Available for Sale (AFS) or Held Till Maturity (HTM) are reviewed by RMD to provide an independent view on the risks associated with them.

4. Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal systems, processes and people or from external events. The Bank has detailed policies and procedures that are regularly updated to ensure that a sound internal control environment exists in the Bank. Trained and competent staff oversee the various operational functions of the Bank.

A tested and up-to-date business continuity plan exists to provide normal banking services in the event of any unforeseen disruption to business. The Bank has also issued detailed guidelines to the operating units and branches on identifying potential operational risks and to put in place appropriate key controls to mitigate such risks.

Risk Management Division (RMD) conducts regular training programmes for staff at various levels to inculcate 'risk awareness' and to spread the general 'risk management culture' in the Bank.

Implementation of Basel II

The Central Bank of Oman (CBO) has directed that the banks operating in the Sultanate of Oman are required to do computation of their capital adequacy under Basel II with effect from 01 January 2007. As per the CBO directives, the Bank has adopted the Standardised Approach for Credit Risk and the Basic Indicator Approach for Operational Risk. The Bank is confident that with the Risk Management Processes established within the Bank and their continued enhancement the Bank will move towards adopting more advanced approaches of Basel II to adopt best risk management practices and improve the quality of the assets on its books.

Financial Performance

Despite the global financial unrest during the last quarter of 2008 the Bank continued to achieve good results throughout 2009. The total assets of the Bank reached RO 1,486.9 million as compared to RO 1,323.8 million at the end of 2008 signifying a sustained growth of 12.32%. The net loans and advances to customers stood at RO 1,194.2 million as compared to RO 1,018.4 million at the end of 2008 reflecting a growth of 17.26%.

An analysis of our loans and advances portfolio as at December 31, 2009 along with the comparative figures for the prior period is as follows:

Particulars	RO Million	
	2009	2008
Overdrafts	109.4	102.5
Loans	1,046.7	873.8
Loans against trust receipts	76.6	67.8
Bills discounted	3.7	3.5
Advance against credit cards	10.5	7.9
Others	10.9	13.2
Gross loans and advances to customers	**1,257.8**	**1,068.7**
Less: Allowance for impairment	63.6	50.3
Net Loans and Advances	**1,194.2**	**1,018.4**

The ratio of total non-performing advances (NPA) to gross loans increased to 4.81% at the end of 2009 from 3.58% at the end of 2008.

There was a growth of 13.35% in customer deposits from RO 971.6 million at the end of 2008 to RO 1,101.3 million at the end of 2009. This reiterated the trust and confidence reposed by the customers in the Bank.

The composition of customer deposits at the end of 2009 along with the corresponding figures for the prior period is as follows:

Particulars	RO Million	
	2009	2008
Current accounts	221.2	197.5
Saving accounts	182.4	163.9
Time deposits	693.7	606.5
Margin accounts	4.0	3.7
Total customer accounts	**1,101.3**	**971.6**

Shareholders' Equity

The shareholders' equity at the end of 2009 increased to RO 204.0 million from RO 188.4 million at the end of 2008. At the end of 2009 an amount of RO 2.54 million was transferred to legal reserve being 10% of net profit. Further, an amount of RO 7.7 million was transferred to subordinated loan reserve.

The analysis of shareholders' funds at the end of 2009 along with the corresponding figures for the prior period is as follows:

Particulars	RO Million	
	2009	2008
Share capital	73.96	70.77
Share premium	58.51	58.51
Legal reserve	17.15	14.61
Subordinated loan reserve	17.97	10.27
Proposed distribution-cash	11.09	10.97
Proposed distribution-bonus shares	7.39	3.18
Investment reserve revaluation	1.39	0.24
Retained earnings	16.54	19.88
Total Shareholders' Equity	**204.00**	**188.43**

The Management Discussion and Analysis Report

For the year ended 31 December 2009

As a result of the increase in shareholders' equity the net assets per share reached RO 0.276 at the end of 2009 compared with RO 0.266 at the end of 2008.

Income Statement

Particulars	(RO '000)	
	2009	2008
Net Interest Income	49,227	39,899
Fees and Commissions	4,980	4,516
Other Income	10,822	11,749
Operating Income	**65,029**	**56,164**
Total Operating Costs	**(23,658)**	**(21,105)**
Operating Profit	41,371	35,059
Net Profit	**25,393**	**23,686**

The Bank achieved good results in all key areas. The net interest income earned until December 2009 improved significantly by 23.31% to reach RO 49.2 million from RO 39.9 million for the year ended 2008. Non-Interest income decreased by 3.1% and reached RO 15.80 million at the end of 2009, the investments were marked to market and the impairment was charged off to the income statement. The total impact in the income statement due to impairment of investments was RO 2.06 million.

Although the total operating expenses increased from RO 21.105 million in 2008 to RO 23.658 million in 2009, the cost to income ratio improved to 36.38% as compared to 37.58% last year, indicating better increase in revenue over costs.

The amount of additional provisions for impaired loans made in 2009 was RO 11.7 million and the recovery from provisions was RO 1.5 million.

The net profit in 2009 grew by 7.18% reaching RO 25.39 million compared with RO 23.69 million in 2008. The earning per share (EPS) reached RO 0.034 in 2009.

The Board of Directors proposed to pay 15% cash dividend amounting to RO 11.09 million and 10% bonus shares amounting to 73,958,653 shares of RO 0.100 par value each amounting to RO 7.39 million. Also the Bank will retain RO 7.70 million to be transferred to subordinated loan reserve.

The proposed profit appropriation for 2009 is provided in the following table:

Particulars	(RO '000)	
	2009	2008
Proposed dividends-cash	11,094	10,970
Proposed dividends-bonus shares	7,396	3,185
To legal reserve	2,539	2,369
To subordinated loan reserve	7,700	7,700
From retained earning	(3,336)	(538)
Net Profit for the year	**25,393**	**23,686**

Future Prospects

The past year witnessed a struggle in the financial world, and yet, reflecting on 2009, BankDhofar has seen accomplishments that represent resilience, determination and drive; and the Bank has emerged strong within the local financial market.

Focused business strategies laid out by the Bank for 2010, will enable BankDhofar to improve on products and services, ultimately expanding the Bank's customer base, and providing the customers the very best. The Bank not only intends to repeat its success, but to reach even further, in its vision to become the Bank to do business with.

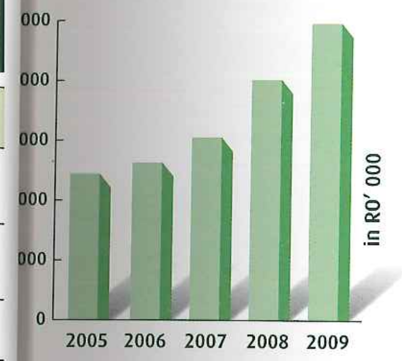
Financial Highlights of Last Five Years

(In RO '000) For the year	2009	2008	2007	2006	2005
Net Interest Income	**49,227**	39,899	30,356	26,245	24,396
Non-Interest Income	**15,802**	16,265	13,684	8,675	5,584
Operating Costs	**23,658**	21,105	16,964	13,614	13,170
Operating Profit (before impairment losses)	**41,371**	35,059	27,076	21,306	16,810
Profit From Operations	**29,021**	27,077	25,355	21,976	16,131
Net Profit for the year	**25,393**	23,686	22,790	20,130	14,199
At year-end					
Total Assets	**1,486,924**	1,323,820	955,127	694,799	618,225
Net Loan Portfolio	**1,194,243**	1,018,441	704,643	548,819	470,937
Customer Deposits	**1,101,267**	971,596	674,502	497,142	452,132
Shareholder's Equity	**204,007**	188,433	110,498	93,281	79,405
Share Capital	**73,959**	70,774	53,082	46,158	41,962
Full Service Branches	**54**	51	49	47	47
ATMs	**88**	91	85	79	79
Staff	**937**	840	720	636	598

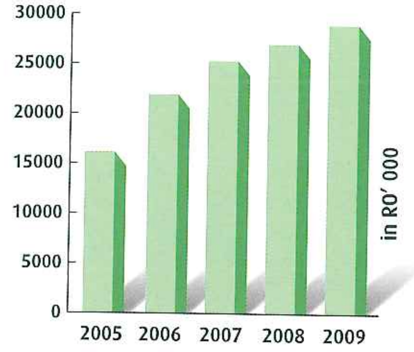
Financial Ratios of Last Five Years

	As at 31 December 2009	As at 31 December 2008	As at 31 December 2007	As at 31 December 2006	As at 31 December 2005
I - PROFITABILITY					
Return on Weighted Average Equity	**12.94%**	21.15%	22.37%	23.31%	19.30%
Return on Weighted Average Capital	**35.09%**	44.34%	45.93%	45.68%	33.80%
Return on Average Assets	**1.81%**	2.08%	2.76%	3.07%	2.40%
Non-Interest Income to Operating Income	**24.30%**	28.96%	31.07%	24.84%	18.60%
Operating Expenses to Operating Income	**36.38%**	37.58%	38.52%	38.99%	43.90%
II - LIQUIDITY					
Net Loans to Total Deposits	**99.41%**	95.97%	91.75%	96.61%	91.90%
Total Customer Deposits to Total Deposits	**91.67%**	91.55%	87.83%	87.52%	88.30%
III - ASSET QUALITY RATIOS					
Loan Loss Provisions to Total Loans	**5.06%**	4.71%	6.05%	7.71%	8.60%
Non-Performing Loans to Total Loans	**4.81%**	3.58%	4.88%	7.00%	7.70%
Loan Loss Provisions to Total Non-Performing Loans	**105.20%**	131.57%	123.96%	110%	112%
IV - CAPITAL ADEQUACY					
BIS Risk Asset Ratio	**14.81%**	16.63%	14.87%	13.10%	15.30%
BIS Risk Asset Ratio on Tier One Capital	**12.53%**	13.59%	10.08%	11.66%	13.10%
Shareholder's Equity/ Total Assets	**13.72%**	14.23%	11.57%	13.40%	12.80%

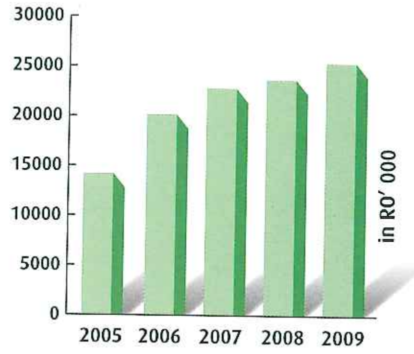
Financial Highlights of Last Five Years



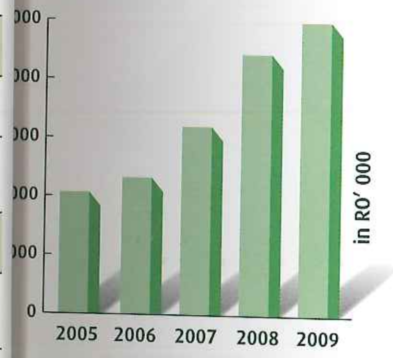
NET INTEREST INCOME



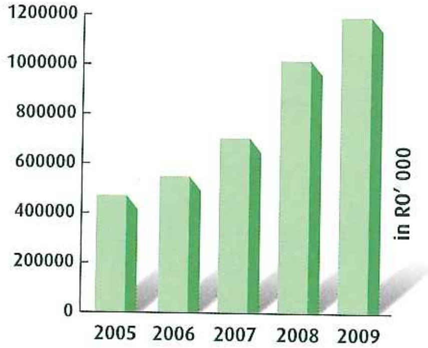
PROFIT FROM OPERATIONS



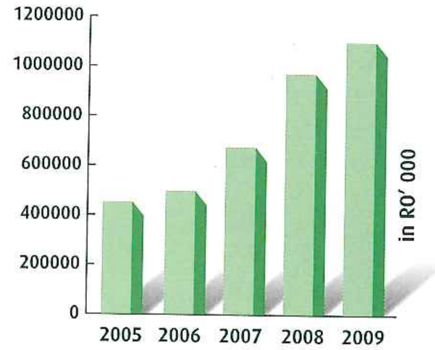
NET PROFIT FOR THE YEAR



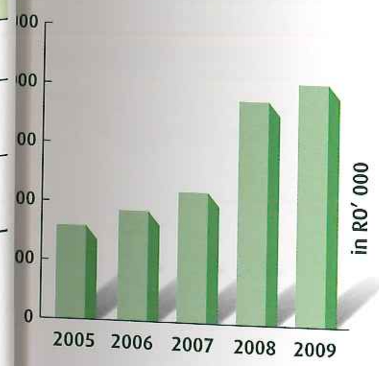
TOTAL ASSETS



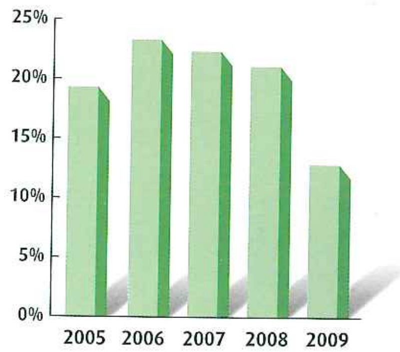
NET LOAN PORTFOLIO



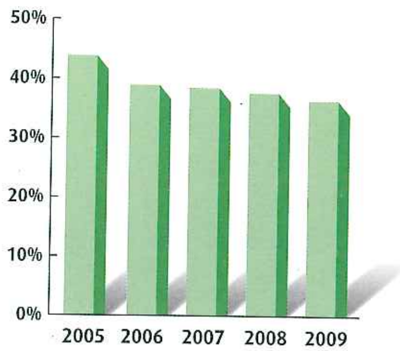
CUSTOMER DEPOSITS



SHAREHOLDER'S EQUITY



RETURN ON AVERAGE EQUITY



OPERATING EXPENSES TO OPERATING INCOME

Branches, ATMs & Cash Deposit & Bill Payment Machines

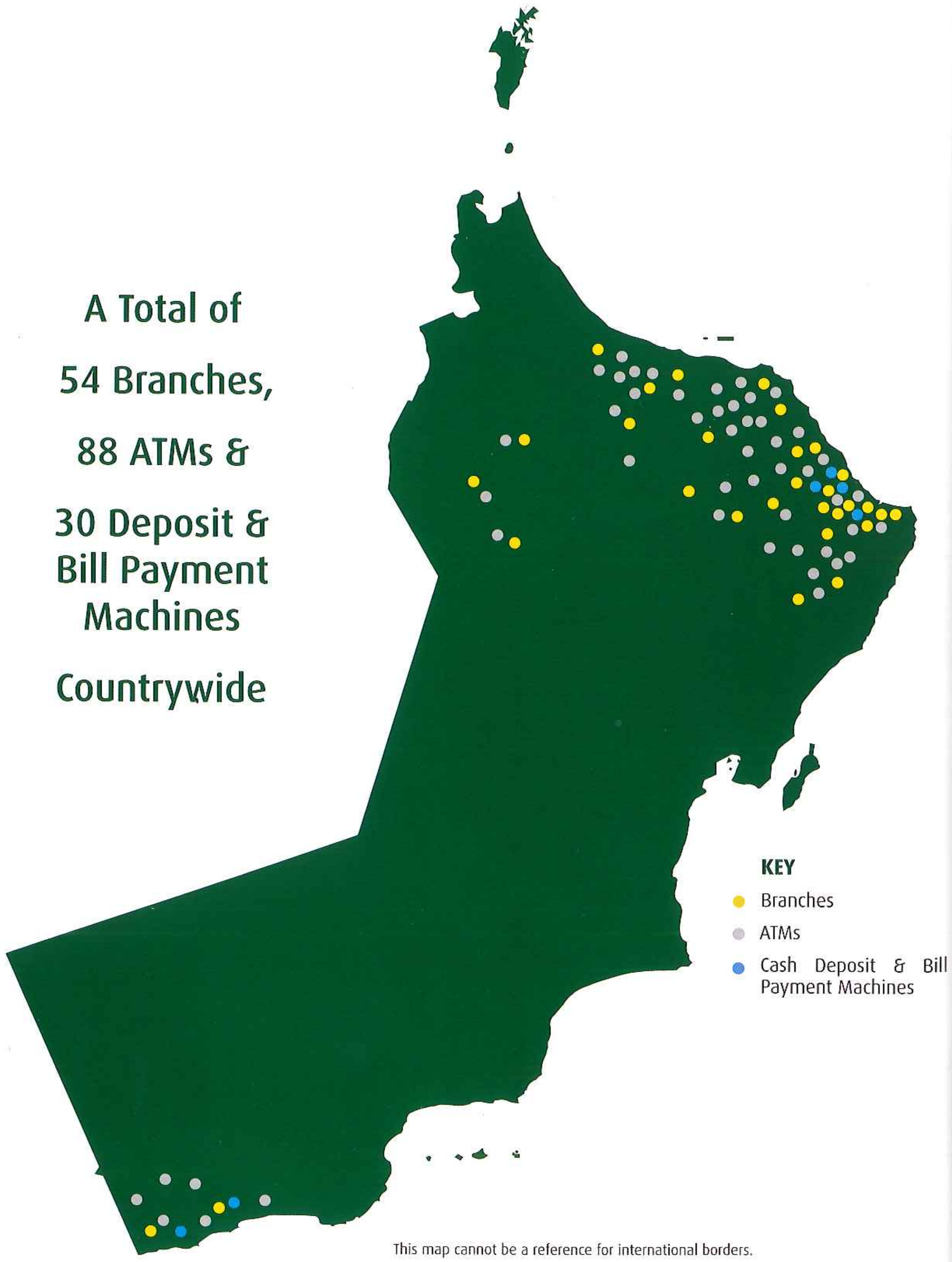
A Total of

54 Branches,

88 ATMs &

30 Deposit & Bill Payment Machines

Countrywide



BankDhofar Branch Network Contact Details

NO	BRANCH	TEL. NO.	FAX NO.	P.O. BOX
MUSCAT-NORTH				
1	Azaiba	24527295 - 24527291	24527296	468, PC 115 MSQ
2	Al Khuwar 2	24484880 - 24480008 - 24485554	24483366	2717, PC 112 Ruwi
3	Al Khuwair	24475090-24475701-24475702	24488574	1507, PC 112 Ruwi
4	Al Khuwair Ministry	24694710-24694725-24694715	24694730	1591, PC 130 Aziba
5	Bausher	24502606 - 24596994	24595323	568, PC 115 MSQ
6	Khoudh	24536132 -24545026 - 24542826	24545268	761, PC 132 Khoudh
7	Mabellah	24451520-24451540	24451542	1507, PC 112 Ruwi
8	Seeb Airport	24510537-24510101- 24 510102	24510468	56, PC 111 Al-Seeb
9	Seeb Town	24425851 - 24425852 - 24424434 - 24423373	24425627	347, PC 121 Al-Seeb
MUSCAT-SOUTH				
1	Amarat	24877838-24876580 - 24876120	24875829	346 PC 119 Amerat
2	G.Muttrah	24793297- 24707959 - 24706636	24706103	85, PC 114 Jibroo
3	Muscat	24 737865 - 24736614 - 24736606 -24 737066	24739166	1613, PC 114 Muttrah
4	Muttrah	24712970 -24714452 -24 714279	24713556	1441, PC 112 Ruwi
5	MBD	24750516 - 24790466	24798621	1507, PC 112 Ruwi
6	Qurum	24568351 - 24567671 - 24567673	24567679	994, PC 116 Mina Al Fahal
7	Quriyat	24845195-24845193-24845192	24845173	145, PC 120 Quriyat
8	Ruwi	24831090- 24835854	24831892	1442, PC 112 Ruwi
9	Wadi Kabir	24814127 - 24814126	24814128	1507, PC 112 Ruwi
10	Wattayah	24565137 - 24566731 - 24565208	24566732	1507, PC 112 Ruwi
BATINAH & BURAIMI				
1	Buraimi	25651696 - 25651989	25651115	278, PC 512 Buraimi
2	Barka	26884423 - 26884428	26884451	751, PC 320 Barka
3	Falaj Al Qabail	26750156-26750928-26751378	26750891	209,PC 322 Falaj Al Qabail
4	Hafeet	26817646 - 26817991 - 26817992	26817993	596 PC 319 Saham
5	Khadhra	26714164 - 26714162	26714163	505, PC 315 Al-Suwaiq
6	Khaboura	26801028	26805130	423, PC 326 Khaboura
7	Suwaiq	26862001- 26862010	26862102	585, PC 315 Suwaiq
8	Saham	26854400 - 26856699	26855277	92, PC 319 Saham
9	Sohar	26840794 - 26840228	26841229	21, PC 311 Sohar
10	Shinas	26748302-26748306-26748308	26748304	434,PC 324 Shinas
11	Al Ghashab(Rustaq)	26875759 - 26878737	26878797	216, PC 329 Burj Redh
12	Muladdah	26868544 - 26868553	26868549	106 PC 341 Muladdah
13	Rustaq	26876039 - 26875117	26875591	25, PC 318 Rustaq
DHAKHLIYA & DHAHIRA				
1	Iraqi	25695071 - 25694126	25695047	90, PC 515 Iraqi
2	Barkat Al-Mauz	25443466 - 25443460	25443462	97, PC 616 Barkat Al-Mawz
3	Bahla	25420021 - 25420292 -	25420387	661, PC 612 Bahla
4	Bid Bid	25369254 - 25369044 - 25369033	25369055	307, PC 613 Bid Bid
5	Izki	25340393 - 25340089-25341016	25340204	412, PC 614 Izki
6	Ibri	25692283-25689341 - 25689685	25690341	28, PC 511 Ibri
7	Nizwa	25410234 - 25411370	25411234	83, PC 611 Nizwa
8	Sumail	25351283 - 25351188	25350094	199, PC 620 Samail
SHARQIYA				
1	Al Ees Sur	25545867-25544350 - 25541912	25543710	323, PC 411 Sur
2	Ibra	25571632 - 25571631-25571658	25570646	514, PC 413 Ibra
3	Jalan Bani Bu Ali	25553414 - 25553440	25553446	10 PC416 Jalan Bani Bu Ali
4	Jalan Bani Bu Hassan	25551020 - 25551025	25551181	222, PC 415 JBBH
5	Al Kamil and Al Wafi	25557134 - 25557501	25557962	294, PC 412 Al-Kamil
6	Mintrib	25583853- 25584049	25583510	154, PC 421 Mintrib
7	Sinaw	25524663 - 25524367	25524823	296, PC 418 Sinaw
8	Sur	25546677- 25541255 - 25540256	25540615	75, PC 411 Sur
9	Samad A'Shan	25526736 - 25526529	25526574	123, PC 423 Samad
DHOFAR				
1	Al Wadi	23211130 - 23212185 - 23212180	23210085	2334, PC 211 Salalah
2	Saada	23227177 - 23 225463 - 23225409	23225179	2334, PC 211 Salalah
3	Salalah	23290644 - 23292299 - 23294863 - 23291631	23295291	2334, PC 211 Salalah
4	Salalah-Al Gharbiah	23298046-23297526-23297536	23295084	2334, PC 211 Salalah
5	Raysut	23219219-23219262-23219216	23219197	2334, PC 211 Salalah,

Locations - ATMs, Cash Deposit & Bill Payment Machines

Location
MUSCAT
Muscat Branch ★
Muttrah Branch ★ ■
MBD Branch ★ ■
Greater Muttrah ★
Wadi Kabir Branch ★ ■
Ruwi Branch ★ ■
Al Amerat Branch ★ ■
Al Wattaya Branch ★
Al Qurum Branch ★ ■
Al Khuwair Branch ★ ■
Al Mabellah Branch ★
Al Khuwair Centre Branch ★
Al Khuwair Ministry Branch ★
Quriyat Branch ★ ■
Shell Filling Station Sarooj ●
Oman Oil Filling Station-Al Khuwair ●
Al Khuwair - Pick & Save ●
Bausher Branch ★
Al Azaiba Branch ★ ■
As Seeb Airport Branch ★ ■
As Seeb International Exhibition ●
Markaz Al Bahja ● ◎
Al Khoudh Branch ★ ■
Al Khoudh - OmanOil Filling Station ●
Al Mawaleh South-Shell Filling Station ●
As Seeb Town Branch ★ ■
Al Azaiba, Shell Filling Station ●
City Center Lobby, As Seeb ●
Armed Forces Hospital, Al Khoudh ●
Sultan Center, Al Amerat ●
MOD Gate 5 ● ■
Al Maha Al Hail South ●
Muscat International Airport ●
Al Maha Fuel Station - Al Mawaleh (Near Wave Project) ●
City Center Lobby, Al Qurum ●
BATINAH
Barka Branch ★ ■
Rustaq Branch ★
Al Ghashab Branch ★
Al Muladah Branch ★
Suwaiq Branch ★
Al Khadhra Branch ★
Al Khaboura Branch ★ ■
Hafeet Branch ★
Saham Branch ★
Sohar Branch ★ ■
Shinas Branch ★
Falaj Al Qabail Branch ★
Falaj Al Qabail OmanOil filling station ●
Sohar University ●

Location
Atybat HyperMarket, Al Musna ●
Omantel Sohar ◎
DHAHIRAH
Ibri Branch ★
Al Iraqi Branch ★
Al Buraimi Branch ★ ■
Al Buraimi New Saara ●
Omantel Ibri ◎
DAKHILIYA
Bid Bid Branch ★
Samail Branch ★
Izki Branch ★
Barkat Al Mauz Branch ★
Sultan Center Nizwa ●
Nizwa Branch ★
Bahla Branch ★
Nizwa University ●
SHARQIYA
Sinaw Branch ★
Samad A'Shan ★
Ibra Branch ★ ■
Al Mintrib Branch ★
Al Kamil & Al Wafi ★
J.B.B.Ali Branch ★ ■
Al Ees - Sur Branch ★
Sur Branch ★ ■
JBBH Branch ★ ■
Saffala Ibra ●
DHOFAR
Salalah Branch ★ ■
Salalah Shell Filling Station ●
New Salalah - Al Najaf Street ●
Al Qoaf - Salaam Store ●
Al Haffa - Sultan Qaboos Street ●
Saada Branch ★ ■
Al Dahareez ●
Al Wadi Branch ★ ■
Shell Filling Station, Al Salam Street ●
Al Awqadain ●
Al Isteqrar Hypermarket ●
Al Maha Fuel Station, Al Saadah ●
Salalah Al Gharbiah Branch ★ ■
Omantel Al Awqadeen, Salalah ◎
SQH R/A Salalah ●
Raysut Branch ★ ■

LEGENDS

★ BRANCH ATM — ● OFF-SITE ATM

■ CASH DEPOSIT MACHINE — ◎ BILL PAYMENT MACHINE

REPORT ON BASEL II - PILLAR III DISCLOSURE REQUIREMENTS

Deloitte.

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Sultanate of Oman

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www.deloitte.com

Report of factual findings to the Board of Directors of BankDhofar SAOG in respect of Basel II - Pillar III Disclosures

We have performed the procedures agreed with you and as prescribed in the Central Bank of Oman ("CBO") Circular No BM 1027 dated December 4, 2007 with respect to the Basel II - Pillar III disclosures (the disclosures) of the **BankDhofar SAOG** (the Bank) set out on the attached pages as at and for the year ended December 31, 2009. The disclosures were prepared by the management in accordance with the CBO's Circular No. BM 1009 dated September 13, 2006 and Circular No. BM 1027 dated December 4, 2007. Our engagement was undertaken in accordance with the International Standard on Related Services applicable to agreed-upon procedures engagements. The procedures, as set out in Circular No. BM 1027 dated December 4, 2007, were performed solely to assist you in evaluating the Bank's compliance with the disclosure requirements set out in CBO's Circular number BM 1009 dated September 13, 2006.

We report our findings as follows:

Based on performance of the procedures detailed above, we found the disclosures free from any material misrepresentation.

Because the above procedures do not constitute either an audit or a review made in accordance with International Standards on Auditing or International Standards of Review Engagements, we do not express any assurance on the disclosers.

Had we performed additional procedures or had we performed an audit or review of the financial statements in accordance with International Standards on Auditing or International Standards on Review Engagements, other matters might have come to our attention that would have been reported to you.

Our report is solely for the purpose set forth in the first paragraph of this report and for your information and is not to be used for any other purpose or to be distributed to any other parties other than Central Bank of Oman. This report relates only to the Bank's disclosures and does not extend to any financial statements of the Bank taken as a whole or to any other reports of the Bank.

Deloitte & Touche

Deloitte & Touche (M.E.)
Muscat, Sultanate of Oman
30 January 2010

BASEL II - PILLAR III DISCLOSURE

For the year ended 31 December 2009

DISCLOSURE REQUIREMENTS UNDER PILLAR – III OF BASEL II

1. Disclosure Policy

The following detailed qualitative and quantitative public disclosures are provided in accordance with Central Bank of Oman (CBO) rules and regulations on capital adequacy standard Basel II issued through circular BM 1009 on September 13, 2006. The purpose of these requirements is to complement the capital adequacy requirements and the Pillar II – Supervisory review process. These disclosures are intended for market participants to assess key information about the Bank's exposure to various risks and to provide a consistent and understandable disclosure framework for easy comparison among banks operating in the market. The Bank has an approved disclosure policy to comply with the disclosure requirements set out by the Central Bank of Oman, other regulatory authorities, International Financial Reporting Standards (IFRS) and International Accounting Standards (IAS).

The major highlights of the Central Bank of Oman (CBO) regulations on capital adequacy are:

a. To maintain capital adequacy ratio (CAR) at a minimum of 10%;
b. To adopt the standardised approach for credit risk for implementing Basel II, using national discretion for:
   - Adopting the credit rating agencies as external credit assessment institutions (ECAI) for claims on sovereigns and banks;
   - Adopting simple/comprehensive approach for Credit Risk Mitigants (CRM)
   - Treating all corporate exposures as unrated and assign 100% risk weight.
c. To adopt Standardised Approach for market risk and basic indicator approach for operational risk.
d. Capital Adequacy returns must be submitted to CBO on a quarterly basis; and
e. The Bank's external auditors must review capital adequacy returns.

2. Scope of Application

The Bank has no subsidiaries or significant investments and Basel II is applied at the Bank level only.

3. Range of Disclosures

3.1 Capital Structure

The capital base for complying with capital standards is quite distinct from accounting capital. The regulatory capital is broadly classified into three categories – Tier I, Tier II and Tier III. BankDhofar's capital structure consists of Tier I capital and Tier II capital.

Tier I capital includes paid up capital, share premium, legal and general reserves and other disclosed free reserves, including subordinated loan reserves, non-cumulative perpetual preferred stocks and retained earnings (available on a long-term basis).

Tier II (Supplementary capital) consists of undisclosed reserves, revaluation reserves/cumulative fair gains or losses on available for sale instruments, general loan loss provision/ general loan loss reserve in capital, hybrid debt capital instruments and subordinated term debt subject to certain conditions. Tier II capital of the Bank also includes 45% of Investment revaluation reserve and general provisions to the extent of 1.25% of total risk weighted assets.

The use of Tier III (short term subordinated debt) is limited only for part of the requirements of the explicit capital charge for market risks.

The Bank does not have any Tier III capital and there are no innovative or complex capital instruments in the capital structure.

The details of capital structure are provided as under:

TIER I CAPITAL	RO'000 Amount
Paid-up capital	73,959
Legal reserve	17,151
Share premium	58,506
Subordinated loan reserve	17,967
Retained earnings	16,544
Proposed bonus shares	7,396
Deferred tax assets	(177)
Less goodwill	(3,971)
Cumulative unrealised losses recognised directly in equity	(51)
TOTAL TIER I CAPITAL	**187,324**
TIER II CAPITAL	
Investment revaluation reserve (45% only)	648
General Provision (Max of 1.25% of total risk weighted assets)	18,122
Subordinated Loan	15,400
TOTAL TIER II CAPITAL	**34,170**
TOTAL ELIGIBLE CAPITAL	**221,494**

3.2 Capital Adequacy

The Bank has adopted Standardised Approach (SA) for computation of capital charge for credit risk and market risk, and Basic Indicator Approach (BIA) for operational risk. Under Standardised Approach for credit risk, the Bank has adopted simple approach for recognising collaterals in the Banking Book and for risk weighting the claims on Sovereigns and Banks, credit ratings of Moody's, S & P, or Fitch is used. Assessment of capital adequacy is carried out in conjunction with the capital adequacy reporting to the CBO.

The Bank's capital adequacy ratio is 14.81% as against the CBO requirement of 10%. The Bank's policy is to manage and maintain its capital with the objective of maintaining strong capital ratio and high rating. The Bank maintains capital levels that are sufficient to absorb all material risks the Bank is exposed to and provides market return to the shareholders. The Bank also ensures that the capital levels comply with regulatory requirements and satisfy the external rating agencies and other stakeholders including depositors and senior creditors. The whole objective of the capital management process in the Bank is to ensure that the Bank remains adequately capitalised at all times.

The Bank has in place a capital adequacy framework by which the Bank's annual budget projections and the capital required to achieve the business objectives are linked in a cohesive way. Capital requirements are assessed for credit, market and operational risks. The Bank's capital adequacy ratio is periodically assessed and reported to the Risk Management Committee (RMC) of the Board of Directors. The Bank also conducts various stress tests and observes its impact on capital, to ensure capital adequacy. The composition of capital in terms of Tier I, II and III are also analysed to ensure capital stability and to reduce volatility in the capital structure.

i) Position of various Risk Weighted Assets is presented below:

Sr. No.	Details	Gross Balances (Book Value) RO'000	Net Balances (Book Value)* RO'000	Risk Weighted Assets RO'000
1	On balance sheet items	1,583,825	1,509,698	1,232,487
2	Off balance sheet items	169,640	142,176	142,137
3	Derivatives	5,307	5,307	1,393
4	**Total Credit Risk**	**1,758,772**	**1,657,181**	**1,376,017**
5	Market Risk			**13,762**
6	Operational Risk			**105,596**
7	**Total Risk Weighted Assets**			**1,495,375**

* Net of provisions, reserve interest and eligible collaterals

ii) Details of Capital Adequacy:

Sr. No	Details	RO'000
1	Tier 1 Capital	187,324
2	Tier 2 Capital	34,170
3	Tier 3 Capital	-
4	**Total Regulatory Capital**	**221,494**
5	Capital Requirement for Credit Risk	137,602
6	Capital Requirement for Market Risk	1,376
7	Capital Requirement for Operational Risk	10,560
8	**Total Required Capital**	**149,538**
9	Tier 1 Capital Ratio	12.53%
10	Total Capital Ratio	14.81%

3.3 Risk Exposure and Assessment

The risks to which banks are exposed and the techniques that banks use to identify, measure, monitor and control those risks are important factors market participants consider in their assessment of an institution. In this section, several key banking risks are considered: credit risk, market risk, interest rate risk in the banking book and operational risk. For each separate risk area (e.g., credit, market, operational, banking book interest rate risk) the Bank describes its risk management objectives and policies, including scope and nature of risk reporting and/ or measurement systems and risk mitigation strategies.

3.3.1 Credit Risk

Credit risk is defined as the possibility that a borrower or counterparty will fail to meet its obligations in accordance with agreed terms. Credit risk, therefore, arises from the Bank's dealings with or lending to a corporate, individual, another bank, financial institution or a country. The objective of credit risk management is to minimise the probable losses and maintaining credit risk exposure within acceptable parameters.

The Bank has well established credit risk policy duly approved by the Board which establishes prudent standards, practices in managing credit risk and setting up prudent benchmarks, limits for management of credit risk. Continuous review of the credit risk policy is done to adapt to the business environment and regulatory requirements at all times.

The Board of Directors delegate credit approval powers for Wholesale Banking and Consumer Banking functional areas, which are clearly defined in Authorities Matrix contained in the Manual on Delegation of Authority. All concerned executives are responsible to ensure that they exercise their delegated powers in terms of the approved Authorities Matrix and seek appropriate special approvals wherever required.

Executive Committee of the Board is the topmost credit approving authority of the Bank which is mainly responsible for approving all credit proposals beyond the authority level of the management. This committee is also the final authority for approving investments beyond the authority of the management. The senior management executives are also empowered with certain loan approving limits beyond which the credit proposals shall be considered by the Management Credit Committee (MCC) which is empowered to consider all credit related issues up to certain limits.

Credit risk is managed by the Risk Management Division (RMD) through a system of independent risk assessment of credit proposals beyond a threshold limit of RO 100,000 before they are considered by the appropriate approving authorities. The borrowers in the Standard Category are assigned a risk rating on a scale of 7 grades based on quantitative as well as qualitative parameters. All accounts reflecting weakness in financials or operations as defined by CBO are assigned the grade 8 (Special Mention category) for closer monitoring. RMD approves the risk grade of the borrower and also identifies the risk factors in the credit proposal and suggests suitable mitigation. This facilitates the approving authorities in making informed credit decision. In addition RMD reviews grading of obligors, and conducts regular analysis of the credit portfolio. Every corporate account is reviewed annually and in case of accounts graded as 6, 7 and 8 (Special Mentioned category accounts), reviews are conducted at higher frequency.

The Bank also has established a Credit Control department which looks after Loan Review Mechanism (LRM). LRM helps in ensuring credit compliance with the post-sanction processes/procedures laid down by the Bank from time to time. It involves taking up independent account-specific reviews of individual credit exposures as per the Board approved LRM Policy. Credit Control department also monitors various credit concentration limits. 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 approval of CBO is obtained.

Retail lending is strictly in accordance with the CBO guidelines. In addition to these, the Bank also undertakes business with other banks. The maximum exposures to these banks are defined through internally developed model and the total exposure to such counterparty banks is restricted at 200% of the net worth of the Bank. The Bank has also implemented country limits approved by the Board to ensure portfolio diversification in terms of sovereign and geographical exposure. Specific country risk limits have been set up based on the external ratings of the countries.

In the absence of acceptable external credit rating agency in the Sultanate of Oman, the Bank has obtained the approval of the CBO to treat all corporate exposures as unrated and accordingly assign risk weight of 100% for computing capital requirements under Basel II.

Past dues and impaired exposures are defined in accordance with the relevant CBO regulations. Specific and general provisions are computed periodically in accordance with the CBO regulations as well as other applicable accounting standards. General loan loss provisions equivalent to 1% of the loans categorised as Standard and Special Mention for meeting the latent loan losses are provided for. However, a general loss provision of 2% of the Standard and Special Mention personal loans is created considering the heightened risk inherent in personal loans.

All lending decisions are made after giving due consideration to credit policy requirements.

i) **Analysis of gross credit exposures, plus average gross exposure over the period broken down by major types of credit exposure:**

Sr. No.	Type of Credit Exposure	Average Gross Exposure		Total Gross Exposures	
		RO'000	RO'000	RO'000	RO'000
		As at 31 December 2009	As at 31 December 2008	As at 31 December 2009	As at 31 December 2008
1	Overdrafts	**105,472**	88,351	**109,402**	102,577
2	Loans	**976,219**	763,481	**1,046,641**	873,808
3	Loans against trust receipts	**72,696**	57,226	**76,641**	67,791
4	Other	**12,390**	11,688	**10,940**	13,180
5	Bills purchased/discounted	**2,932**	3,453	**3,675**	3,466
6	Advance against credit cards	**9,456**	6,244	**10,533**	7,945
7	TOTAL	1,179,165	930,443	1,257,832	1,068,767

ii) Geographic distribution of exposures, broken down in significant areas by major types of credit exposure:

Sr. No.	Type of Credit Exposure	Oman	Other GCC Countries	*OECD-Countries	India	Pakistan	Other	Total
		RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
		1	2	3	4	5	6	7
1	Overdrafts	109,402	-	-	-	-	-	109,402
2	Personal loans	513,280	-	-	-	-	-	513,280
3	Loans against trust receipts	76,641		-	-	-	-	76,641
4	Other loans	516,359	15,431	1,571	-	-	-	533,361
5	Bills purchased /negotiated	3,675	-	-	-	-	-	3,675
6	Any other	21,473	-	-	-	-	-	21,473
7	Total	1,240,830	15,431	1,571	-	-	-	1,257,832

Overdraft and others included Personal overdraft and others
*excluding countries included in column 2

iii) Industry or counterparty type distribution of exposures broken down by major types of credit exposures:

Sr. No.	Economic Sector	Overdraft	Loans	Bills purchased & Discounted	Others	Total	Off balance sheet exposures
		RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
1	Import Trade	9,279	37,915	291	33,890	81,375	30,446
2	Export Trade	66	88	-	-	154	76
3	Wholesale & Retail trade	7,150	27,480	-	7,219	41,849	12,466
4	Mining & Quarrying	1,593	12,221	380	587	14,781	639
5	Construction	11,536	43,601	-	12,856	67,993	113,318
6	Manufacturing	6,887	45,040	2,732	29,250	83,909	44,925
7	Electricity, Gas & Water	1	25,768	-	1	25,770	9,257
8	Transport & Comm.	1,300	25,578	-	3	26,881	1,323
9	Financial Institutions	11,972	68,266	-	-	80,238	7,877
10	Services	13,676	66,527	118	2,529	82,850	35,163
11	Personal	18,400	513,280	150	10,452	542,282	474
12	Agriculture & Allied activities	5,286	3,794	4	1,291	10,375	840
13	Government	804	74,204	-	-	75,008	180
14	Non-resident Lending	-	17,002	-	-	17,002	244
15	All Others	21,452	85,877	-	36	107,365	23,182
16	Total (1 to 15)	109,402	1,046,641	3,675	98,114	1,257,832	280,410

iv) Residual contractual maturity breakdown of the whole portfolio, broken down by major types of credit exposure:

Sr. No.	Time Band	Overdrafts	Loans	Bills purchased/ discounted	Others	Total	Off balance sheet exp.
		RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
1	Upto 1 month	5,470	82,541	3,675	93,924	185,610	62,272
2	1-3 months	5,470	71,038	-	728	77,236	61,974
3	3-6 months	5,470	43,031	-	90	48,591	20,295
4	6-9 months	5,470	32,550	-	63	38,083	15,215
5	9-12 months	5,470	32,104	-	72	37,646	21,805
6	1-3 years	27,351	243,606	-	908	271,865	36,045
7	3-5 years	27,351	174,924	-	391	202,666	4,080
8	Over 5 years	27,350	366,847	-	1,938	396,135	58,724
9	**TOTAL**	**109,402**	**1,046,641**	**3,675**	**98,114**	**1,257,832**	**280,410**

v) Analysis of loan book by major Industry or counterparty type:

Sr. No.	Economic Sector	Gross loans	Of which NPLs *	General provision held	Specific provision held	Reserve Interest	Provision made during the year	Adv. written-off during year
		RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
1	Import Trade	81,375	11,223	702	4,283	6,568	16	-
2	Export Trade	154	43	1	19	15	-	-
3	Wholesale & Retail	41,849	11,026	308	4,904	6,067	16	-
4	Mining & Quarrying	14,781	2	148	2	-	2	-
5	Construction	67,993	3,517	645	1,197	1,200	1	-
6	Manufacturing	83,909	975	829	395	144	146	-
7	Electricity, Gas & Water	25,770	-	258	-	-	-	-
8	Transport & Communications	26,881	2	269	1	1	-	-
9	Financial Institutions	80,238	-	802	-	-	-	-
10	Services	82,850	4,275	786	1,976	2,272	2	-
11	Personal	542,282	11,358	11,366	4,029	5,365	1,463	13
12	Agriculture & Allied	10,375	-	104	-	-	-	-
13	Government	75,008	-	700	-	-	-	-
14	Non-resident Lending	17,002	3,944	131	3,850	94	3,850	-
15	All Others	107,365	13,804	1,073	3,074	11	3,078	1
16	**TOTAL (1 to 15)**	**1,257,832**	**60,169**	**18,122**	**23,730**	**21,737**	**8,574**	**14**

* Represents only on balance sheet NPLs.

vi) Geographical distribution of amount of impaired loans:

Sr. No.	Countries	Gross loans	Of which NPLs	General provisions held	Specific provisions held	Reserve interest	Provisions made during the year	Advances written- off during year
		RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
1	Oman	1,240,830	56,225	17,991	19,880	21,643	4,724	14
2	Other GCC countries	15,431	3,944	115	3,850	94	3,850	-
3	OECD countries*	1,571	-	16	-	-	-	-
4	India	-	-	-	-	-	-	-
5	Pakistan	-	-	-	-	-	-	-
6	Others	-	-	-	-	-	-	-
7	**TOTAL**	**1,257,832**	**60,169**	**18,122**	**23,730**	**21,737**	**8,574**	**14**

*excluding countries included in row 2

vii) Movement of Gross Loans :

Sr. No.	Details	Movement of Gross Loans during the year					
		Performing Loans		Non-performing Loans			
		Standard	S.M.	Sub-standard	Doubtful	Loss	Total
		RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
1	Opening Balance	1,006,396	24,421	2,058	366	35,526	1,068,767
2	Migration/changes (+/-)	(8,654)	6,111	(2,426)	4,641	328	-
3	New Loans	473,934	12,526	119	70	3,533	490,182
4	Recovery Loans	(287,877)	(11,446)	(351)	(76)	(986)	(300,736)
5	Loans written-off	(93)	-	(4)	-	(284)	(381)
6	Transfer	(6,609)	(11,046)	17,655	-	-	-
7	**Closing Balance**	**1,177,097**	**20,566**	**17,051**	**5,001**	**38,117**	**1,257,832**
8	Provisions held*	18,122	-	3,763	4,241	15,726	41,852
9	Reserve Interest	-	-	466	340	20,931	21,737

* Indicate the general provisions held under performing loans and specific provisions under non performing loans

3.3.2 Credit Risk: Disclosures for portfolios subject to the Standardised Approach:

i) The Bank has obtained CBO approval vide its letter dated December 11, 2006 to use the ratings of Moody's, Standard & Poor (S&P) or Fitch for risk weighting claims on sovereigns and Banks. However, as mentioned earlier, the Bank has obtained CBO approval to treat all corporate exposures as unrated and assign 100% risk weight on all of them.

ii) The Bank is adopting the simplified approach for collateral recognition under the Standardised Approach, where 0% risk weight is assigned for the exposures covered by cash collateral. The total exposure covered by cash collateral, which attracts 0% risk weight is RO 56.13 million All other credit exposures of Corporate and Retail (except mortgage loans which are assigned 35% risk weight) are assigned 100% risk weight.

iii) Bank also conducts stress tests on portfolio basis at regular intervals to assess the impact of credit risk on its profitability and capital adequacy. The same is placed before the Risk Management Committee of Board of Directors.

3.3.3 Credit Risk Mitigation (CRM): Disclosures for Standardised approaches:

The Bank has adopted the simple approach for credit risk mitigation and no off-setting of the collaterals is done to calculate the capital requirement. However, the CRM techniques followed by the Bank are based on collaterals which the Bank endeavours to obtain for its exposures, as far as commercially practicable. The collaterals mainly consist of real estate properties, shares listed on the Muscat Securities Market (MSM), government bonds, unlisted shares and Bank fixed deposits. However, the Bank's predominant form of eligible collateral as defined by CBO in its guidelines and for capital adequacy computation purposes is in the form of cash, acceptable Bank guarantees and shares listed on the MSM main index.

Bank has revised the credit risk rating framework during the year and has introduced 11 risk grades for borrowers (including the Non Performing Loans) to further strengthen credit risk management. The revised credit risk rating framework includes more objectivity and granularity in the rating grades, mapping the single point score provided by the rating model to a scale of 1 to 7 for standard category assets. The rating grade indicates the default probability of the borrower of his obligations. The Bank shall endeavour to introduce the facility rating system next year which will consider the collateral support, seniority and other structural aspects of the facilities provided.

Bank shall also develop required systems for estimation of Probability of Default (PD), Loss Given Default (LGD) and Exposure at Default (EAD) in order to adopt the advanced approaches under Basel II gradually. A road map to put in place risk management systems to prepare the Bank to adopt advanced approaches of Basel II has been laid down. The necessary data requirement has been identified and incorporated in the new Core Banking system to be implemented. With the availability of the data, a suitable risk based information system shall also be developed. Bank has already started conducting training programmes on risk management practices for the staff and such trainings shall be intensified further to ensure percolation of risk culture across the Bank.

The Bank expects to refine the existing risk management systems and practices on an ongoing basis and with that experience, approach the CBO with a framework and a road map to move to Foundation Internal Rating Based approach (FIRB), for its approval.

3.3.4 Market Risk

Market Risk is the risk to the Bank's earnings and capital due to changes in the interest rates or prices of securities, foreign exchange and equities, as well as the volatilities of those changes. The Bank for International Settlements (BIS) defines market risk as " the risk that the value of 'on' or 'off' balance sheet positions will be adversely affected by movements in equity and interest rate markets, currency exchange rates and commodity prices". Market Risk has been categorised into interest rate risk, foreign exchange risk, commodity price risk and equity price risk.

Bank has a comprehensive Treasury Risk Policy and Investment Management Policy which encompasses assessment, monitoring and management of all the above market risks. Bank has defined various internal limits to monitor market risk and is computing the capital requirement as per Standardised Approach of Basel II.

Details of various market risks faced by the Bank are set out below:

i) Interest Rate Risk (IRR)

Interest rate risk is the risk where changes in market interest rates might adversely affect a Bank's financial condition. The immediate impact (up to one year) of changes in interest rates is on the Net Interest Income (NII) and a long term impact (more than one year) of changing interest rates is on the Bank's net worth.

The responsibility of interest rate risk management rests with the Bank's Asset and Liability Management Committee (ALCO). Bank periodically computes the IRR on the Banking book that arises due to re-pricing mismatches in interest rate sensitive assets and liabilities. The impact of IRR on the earnings of the Bank is computed and placed to ALCO on a monthly basis. An internal limit of 8% for the impact on projected NII has been set and is monitored. During the year, the Bank has developed a model to assess the impact of IRR on the Equity value based on duration gap analysis method.

In addition, scenario analysis assuming a 200 basis point parallel shift in interest rates in RO, USD and other currencies and their impact on the interest income and net profit of the Bank are assessed on a quarterly basis and placed to Risk Management Committee with proposals for corrective action if necessary.

Impact on earnings and economic value of equity due to adverse movement of 100 bps and 200 bps in interest rate is provided as under:

Positions as at 31.12.2009 **(RO in 000s)**

Impact on	+ or - 1%	+ or - 2%
Earnings	5,308	10,615
Economic Value of Equity	16,957	33,915

ii) Foreign Exchange Risk

Foreign Exchange Risk may be defined as the risk that a Bank may suffer losses as a result of adverse exchange rate movements during a period in which it has an open position, either spot or forward, or a combination of the two, in an individual foreign currency.

The responsibility of management of foreign exchange risk rests with the Treasury department. The Bank has set up internal limit of 40% of Tier I capital to monitor foreign exchange open positions. Most of the foreign exchange transactions are conducted for corporate customers and mostly are on a back-to-back basis. The Bank has also defined various limits for foreign currency borrowing and lending.

The Bank also conducts stress tests to assess the impact of foreign exchange risk on its profitability and capital adequacy and the same is placed to Risk Management Committee of Board of Directors on regular basis.

iii) Commodity Risk

Commodity Risk occurs due to volatility in the prices of the commodities. Presently, the Bank has no exposure to the commodity market.

iv) Equity Position Risk

Equity Position risk occurs due to change in the market value of the Bank's portfolio as a result of diminution in the market value of the equity securities. The responsibility of management of equity position risk rests with the Investment Management Department of the Bank. The Bank does not hold trading position in equities. The 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. The Bank also conducts regular stress test on equity position risk and assesses its impact on profitability and capital adequacy.

During the year, the Bank has introduced the Value at Risk method for the domestic quoted equity portfolio. Assuming a holding horizon of one month, VaR for domestic quoted equity portfolio of OMR 8.031 Mn works out to OMR 705K at 95% confidence level, which is 8.78% of the portfolio as on 31.12.2009.

v) The capital charge

The capital charge for the entire market risk exposure is computed under the Standardised Approach using the duration method and in accordance with the guidelines issued by CBO in its circular BM 1009. The Bank does not hold any trading position in debt securities, in equities and in commodities necessitating capital charge to cover the market risk. 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 capital charge for various components of market risk is presented below:

Type of risk	RO'000 Amount
Interest Rate Risk	-
Equity Position risk	-
Commodities Position Risk	-
Foreign Exchange Position Risk	1,101
TOTAL	**1,101**

For assessing the Market risk, the Bank shall, with the approval of CBO, graduate to more advanced measurement techniques from the present Standardised method.

3.3.5 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.

The 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, so as to always be 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 the 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 the Bank strictly adheres to the CBO set limit of 15% of cumulative liabilities (outflows) on mismatches (liquidity gaps) in time buckets up to one year. In addition, the Bank has also set up internal limit on mismatches in time buckets beyond one year. Under stock approach, the 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 provides the liquidity gap to Treasury Department to enable them to take steps to meet liquidity gaps.

Middle office also undertakes regular stress test using simulation technique that provides the requirement of liquidity over a given horizon at a certain confidence level.

The Bank has reconciled the statement of Maturity of Assets and Liabilities with the discussions under IFRS (Refer item no. 35 of the Notes to financial statements).

3.3.6 Operational Risk

Basel Committee on Banking Supervision has defined operational risk as "the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events." This definition includes legal risk, but excludes strategic and reputational risk. Legal risk includes, but is not limited to, exposure to fines, penalties, punitive damages resulting from supervisory actions, as well as private settlements.

Bank has a well defined Operational Risk Management (ORM) policy which inter-alia includes Operational Risk Events, Operational Risk loss and ORM process. Business and Functional units are primarily responsible for taking and managing Operational Risk on a day-to-day basis. Risk Management Division provides guidance and assistance in the identification of risk and in the ongoing operational risk management process.

Basel II has provided three different methods viz., Basic Indicator Approach, Standardised Approach and Advanced Measurement Approach to compute the capital charge of Operational Risk. The Bank has adopted the Basic Indicator Approach for computing the capital charge for Operational Risk as per CBO guidelines. The approach requires the Bank to provide 15% of the average gross income for the last three years as capital charge for operational risk.

While the Bank has adopted this approach for capital adequacy calculation purposes, the Bank has taken initiatives to move towards adopting the Standardised Approach by identifying the Bank's business into eight business lines and assessing the operational risk in each of them. The requirements for the same shall be incorporated in the new core Banking solution. The Bank has reviewed the system of collecting and collating data on operational risk events in the Bank to build a strong loss database and to move over to the advanced measurement system for operational risk as required by the CBO guidelines. The Bank has also initiated the process of implementing best practices for controlling operational risks in various units of the Bank with tools such as Key Risk Indicators and Risk Control Self Assessment (RCSA).

AUDITED FINANCIAL STATEMENTS

Deloitte.

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Independent auditor's report to the shareholders of BankDhofar SAOG

Report on the financial statements

We have audited the accompanying financial statements of **BankDhofar 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 62 to 109.

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 **BankDhofar 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

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

2009 USD'000	2008 USD'000		Notes	2009 RO'000	2008 RO'000
		ASSETS			
473,371	301,946	Cash and cash equivalents	5	**182,248**	116,249
-	6,543	Financial instruments at fair value through profit or loss	6	**-**	2,519
85,579	97,626	Loans and advances to banks	7	**32,948**	37,586
3,101,930	2,645,301	Loans and advances to customers	8	**1,194,243**	1,018,441
32,047	35,810	Available-for-sale investments	9	**12,338**	13,787
123,213	312,904	Held-to-maturity investments	10	**47,437**	120,468
10,314	10,314	Intangible asset	11	**3,971**	3,971
13,083	11,940	Property and equipment	12	**5,037**	4,597
22,603	16,109	Other assets	13	**8,702**	6,202
3,862,140	3,438,493	**Total assets**		**1,486,924**	1,323,820
		LIABILITIES			
259,888	232,891	Due to banks	14	**100,057**	89,663
2,860,434	2,523,626	Deposits from customers	15	**1,101,267**	971,596
111,930	92,540	Other liabilities	16	**43,093**	35,628
100,000	100,000	Subordinated loan	17	**38,500**	38,500
3,332,252	2,949,057	**Total liabilities**		**1,282,917**	1,135,387
		SHAREHOLDERS' EQUITY			
192,101	183,828	Share capital	18	**73,959**	70,774
151,963	151,963	Share premium	19	**58,506**	58,506
44,548	37,953	Legal reserve	20	**17,151**	14,612
46,668	26,668	Subordinated bonds and loan reserve	20	**17,967**	10,267
3,610	621	Investment revaluation reserve	20	**1,390**	239
90,998	88,403	Retained earnings	21	**35,034**	34,035
529,888	489,436	**Total shareholders' equity**		**204,007**	188,433
3,862,140	3,438,493	**Total liabilities and shareholders' equity**		**1,486,924**	1,323,820
728,338	623,701	**Contingent liabilities and commitments**	32	**280,410**	240,125
0.72	0.69	**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.

Statement of comprehensive income

for the year ended 31 December 2009

2009 USD'000	2008 USD'000		Notes	2009 RO'000	2008 RO'000
201,893	165,379	Interest income		**77,729**	63,671
(74,031)	(61,745)	Interest expense		**(28,502)**	(23,772)
127,862	103,634	**Net interest income**	23	**49,227**	39,899
14,631	13,387	Fees and commission income		**5,633**	5,154
(1,696)	(1,657)	Fees and commission expenses		**(653)**	(638)
12,935	11,730	**Net fees and commission income**		**4,980**	4,516
28,109	30,517	Other income	24	**10,822**	11,749
168,906	145,881	**Operating income**		**65,029**	56,164
(56,808)	(50,634)	Staff and administrative costs	25	**(21,871)**	(19,494)
(4,641)	(4,184)	Depreciation	12	**(1,787)**	(1,611)
(61,449)	(54,818)	**Operating expenses**		**(23,658)**	(21,105)
107,457	91,063	**Profit from operations**		**41,371**	35,059
(30,405)	(14,208)	Provision for loan impairment	8	**(11,706)**	(5,470)
3,958	6,104	Recoveries from allowance for loan impairment	8	**1,524**	2,350
(242)	(5)	Bad debts written-off		**(93)**	(2)
(5,358)	(12,634)	Impairment of available-for-sale investments		**(2,063)**	(4,864)
(31)	10	Financial instruments at fair value through profit or loss		**(12)**	4
75,379	70,330	**Profit from operations after provision**		**29,021**	27,077
(9,423)	(8,808)	Income tax expense	27	**(3,628)**	(3,391)
65,956	61,522	**Profit for the year**		**25,393**	23,686
65,956	61,522	**Profit for the year**		**25,393**	23,686
		Other comprehensive income:			
(218)	(18,462)	Net changes in fair value of available-for-sale investments		**(84)**	(7,108)
(2,151)	(2,855)	Reclassification adjustment on sale of available-for-sale investments		**(828)**	(1,099)
63,587	40,205	**Total comprehensive income for the year**		**24,481**	15,479
0.088	0.109	**Earnings per share basic and diluted (Rials Omani)**	28	**0.034**	0.042

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

Statement of changes in equity

for the year ended 31 December 2009

	Notes	Share capital	Share premium	Legal reserve	Subordinated bonds and loan reserve	Investment revaluation reserve	Retained earnings	Total
		RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	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
		USD'000	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000
1 January 2008		137,875	14,101	31,556	25,790	9,304	68,382	287,008
Profit for the year		-	-	-	-	-	61,522	61,522
Fair value decrease		-	-	-	-	(18,462)	-	(18,462)
Net transfer to statement of comprehensive income on sale of available-for-sale investments		-	-	-	-	(2,855)	-	(2,855)
Impairment of available-for-sale investment taken to statement of comprehensive income		-	-	-	-	12,634	-	12,634
Total comprehensive income for 2008		-	-	-	-	(8,683)	61,522	52,839
Dividend paid for 2007		-	-	-	-	-	(34,470)	(34,470)
Increase in share capital	18	45,953	-	-	-	-	-	45,953
Increase in share premium	19	-	137,862	-	-	-	-	137,862
Increase in legal reserve	20	-	-	244	-	-	-	244
Transfer to legal reserve	20	-	-	6,153	-	-	(6,153)	
Transferred to retained earnings	20	-	-	-	(19,122)	-	19,122	
Transfer to subordinated loan reserve	20	-	-	-	20,000	-	(20,000)	
31 December 2008		183,828	151,963	37,953	26,668	621	88,403	489,436

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

Statement of changes in equity (Continued)

for the year ended 31 December 2009

	Notes	Share capital	Share premium	Legal reserve	Subordinated bonds and loan reserve	Investment revaluation reserve	Retained earnings	Total
		RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	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
		USD'000	USD'000	USD'000	USD'000	USD'000	USD'000	RO'000
1 January 2009		183,828	151,963	37,953	26,668	621	88,403	489,436
Profit for the year		-	-	-	-	-	65,956	65,956
Fair value decrease		-	-	-	-	(218)	-	(218)
Net transfer to statement of comprehensive income on sale of available-for-sale investments		-	-	-	-	(2,151)	-	(2,151)
Impairment of available-for-sale investment taken to statement of comprehensive income		-	-	-	-	5,358	-	5,358
Total comprehensive income for 2009		-	-	-	-	2,989	65,956	68,945
Dividend paid for 2008		-	-	-	-	-	(28,493)	(28,493)
Bonus shares issued for 2008		8,273	-	-	-	-	(8,273)	-
Increase in legal reserve	20	-	-	6,595	-	-	(6,595)	-
Transfer to subordinated loan reserve	20	-	-	-	20,000	-	(20,000)	-
31 December 2009		192,101	151,963	44,548	46,668	3,610	90,998	529,888

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

Statement of cash flows

for the year ended 31 December 2009

2009 USD'000	2008 USD'000		2009 RO'000	2008 RO'000
		Cash flows from operating activities		
239,304	202,735	Interest, commission and other receipts	**92,132**	78,053
(62,782)	(67,060)	Interest payments	**(24,171)**	(25,818)
(57,286)	(42,410)	Cash payments to suppliers and employees	**(22,055)**	(16,328)
119,236	93,265		**45,906**	35,907
		Decrease in operating assets		
(483,317)	(823,161)	Loans and advances to customers	**(186,077)**	(316,917)
226	(13,829)	Loans and advances to banks	**87**	(5,324)
189,691	(127,571)	Purchase of treasury bills and certificates of deposits (net)	**73,031**	(49,115)
(293,400)	(964,561)		**(112,959)**	(371,356)
		Increase in operating liabilities		
336,808	771,673	Deposits from customers	**129,671**	297,094
26,901	(11,153)	Due to banks	**10,357**	(4,294)
363,709	760,520		**140,028**	292,800
189,545	(110,776)	**Net cash (used in)/from operating activities**	**72,975**	(42,649)
(8,652)	(6,382)	Income tax paid	**(3,331)**	(2,457)
180,893	(117,158)	**Net cash (used in)/from operating activities**	**69,644**	(45,106)
		Cash flows from investing activities		
403	301	Investment income	**155**	116
(9,870)	(33,868)	Purchase of investments	**(3,800)**	(13,039)
20,852	20,294	Proceeds from sale of investments	**8,028**	7,813
1,467	4,065	Dividend received	**565**	1,565
(5,805)	(4,775)	Purchase of property and equipment	**(2,235)**	(1,838)
62	499	Proceeds from sale of property and equipment	**24**	192
7,109	(13,483)	**Net cash used in investing activities**	**2,737**	(5,191)
		Cash flow from financing activities		
-	184,060	Proceeds from rights issue of share capital	**-**	70,863
-	(19,122)	Payment of Subordinated bonds	**-**	(7,362)
(28,493)	(34,470)	Dividend paid	**(10,970)**	(13,271)
(28,493)	130,468	**Net cash flow (used in) / from financing activities**	**(10,970)**	50,230
159,509	(174)	**Net increase /(decrease) in cash and cash equivalents**	**61,411**	(67)
376,958	377,132	Cash and cash equivalents at the beginning of the year	**145,129**	145,19
536,467	376,958	**Cash and cash equivalents at the end of the year**	**206,540**	145,12
473,372	301,945	**Cash and balances with Central Bank of Oman (Note 5)**	**182,248**	116,24
(1,299)	(1,299)	Capital deposit with Central Bank of Oman	**(500)**	(500
66,675	78,496	Loans and advances to banks due within 90 days	**25,670**	30,22
(2,281)	(2,184)	Due to banks within 90 days	**(878)**	(841
536,467	376,958	**Cash and cash equivalents for the purpose of the cash flow statement**	**206,540**	145,12

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

Notes to the financial statements

for the year ended 31 December 2009

1. Legal status and principal activities

BankDhofar 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

At the date of authorisation 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.

3.2.2. *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. Principal accounting policies (continued)

3.3. Financial instruments (continued)

3.3.1. *Classification (continued)*

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.

3.3.1.2. 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 fai value through profit or loss.

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

All non-trading financial liabilities and loans and receivables are measured at amortised cost less impairmen losses. Amortised cost is calculated on the effective interest rate method. Premiums and discounts, includin initial transaction costs, are included in the carrying amount of the related instrument and amortised based on th 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 financia asset is not active (and for unlisted securities), the Bank establishes fair value by using valuation techniques. Thes include the use of recent arm's length transactions, discounted cash flow analysis and other valuation technique commonly used by market participants.

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

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

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

3.4. Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents comprise balances with less than thr months' maturity from the date of acquisition, including: cash on hand, non-restricted cash deposited with t 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-f sale or held-to-maturity at the date of acquisition.

3. Principal accounting policies (continued)

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;

(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.

3. Principal accounting policies (continued)

3.7. Impairment of financial assets (continued)

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.

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. Principal accounting policies (continued)

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

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 impairmen loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpos 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. Loa commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) an recognised as an adjustment to the effective interest rate on the loan. Loan syndication fees are recognised a revenue when the syndication has been completed and the Bank retained no part of the loan package for itsel or retained a part at the same effective interest rate for the other participants. Commission and fees arising fro negotiating, or participating in the negotiation of, a transaction for a third party – such as the arrangement o the acquisition of shares or other securities or the purchase or sale of businesses – are recognised on completio of the underlying transaction. Portfolio and other management advisory and service fees are recognised base on the applicable service contracts, usually on a time-apportionment basis. Asset management fees related t investment funds are recognised rateably over the period the service is provided. The same principle is applie for wealth management, financial planning and custody services that are continuously provided over an extende 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 th statement of comprehensive income except to the extent that it relates to items recognised directly in equity, i 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 substantiall enacted at the statement of financial position date, and any adjustment to tax payable in respect of previo years.

Deferred income tax is provided in full, using the statement of financial position liability method, on tempora differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amoun used for taxation purposes (the tax base). The amount of deferred tax provided is based on the expected mann of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantial enacted at the statement of financial position date. The principal temporary differences arise from depreciation o 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 availab against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probab that the related tax benefit will be realised.

3.15. Employee benefits

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

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

3. Principal accounting policies (continued)

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.

3.16.2 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. Principal accounting policies (continued)

3.16. *Derivative financial instruments (continued)*

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 hedge are deferred in equity. The gain or loss relating to the ineffective portion is recognised immediately in profit or los 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 recognise 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 th initial measurement of the cost of the asset or liability.

Hedge accounting is discontinued when the Bank revokes the hedging relationship, the hedging instrume expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. Any cumulative gain o loss deferred in equity at that time remains in equity and is recognised when the forecast transaction is ultimatel recognised in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or lo 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 pledge assets when the transferee has the right by contract or custom to sell or repledge the collateral; the counterpar liability is included in amounts due to other banks, deposits from banks, other deposits or deposits due t customers, as appropriate. Securities purchased under agreements to resell (reverse repos) are recorded as loa and advances to other banks or customers, as appropriate. The difference between sale and repurchase price treated as interest and accrued over the life of the agreements using the effective interest method. Securities le 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 whi 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 receive net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference betwe proceeds net of transaction costs and the redemption value is recognised in the statement of comprehensi 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 servic (business segment), or in providing products or services within a particular economic environment (geographi segment), which is subject to risks and rewards that are different from those of other segments. The Bank curren operates only in the Sultanate of Oman. The Bank's primary format for reporting segmental information is busin segments, based upon management and internal reporting structure. The Bank's main business segments a 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 finan 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 Judgement 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.

(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.

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

(d) Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating unit to which goodwill has been allocated. The value in use calculation requires the Bank to estimate the future cas flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate preser value. The carrying amount of goodwill at the statement of financial position date in the financial statements wa 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 prolonged decline in the fair value below its cost. This determination of what is significant or prolonged require judgement. In making this judgement, management evaluates among other factors, the normal volatility in sha price. In addition, impairment may be appropriate when there is evidence of deterioration in the financial health 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 useful lives is based on management's assessment of various factors such as the operating cycles, the maintenan programs, and normal wear and tear using its best estimates

5. **Cash and balances with Central Bank of Oman**

	2009 RO'000	20 RO'0
Cash on hand	11,206	13,1
Balances with the Central Bank of Oman	11,042	103,1
Certificate of deposits with maturity of 90 days or less	160,000	
	182,248	116,2

At 31 December 2009, cash and balances with Central bank of Oman included balances with the Central Bank Oman amounting to RO 500,000 (2008 - RO 500,000) as minimum reserve requirements. These funds are 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 carr an average interest rate of 0.05%.

6. **Financial instruments at fair value through profit or loss**

	2009 RO'000	2 RO'(
Government Development Bonds	-	2,

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:		
(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 rule[s] 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 Decemb[er] 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 58,883,3[..]** (2008 - RO 36,379,850) and loans and advances on which interest is not being accrued amount to **RO 1,564,6[..]** (2008 - RO 1,871,358).

Loan and advances are summarised as follows

	2009 Loans and advances to customers RO'000	2009 Loans and advances to banks RO'000	2008 Loans and advances to customers RO'000	2008 Loans and advances to banks RO'000
Neither past due nor impaired	**1,171,182**	**32,948**	1,018,550	37,5[..]
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	37,5[..]
Less: Impairment allowance	**(63,589)**	**-**	(50,326)	
Total	**1,194,243**	**32,948**	1,018,441	37,5[..]

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 assess[ed] by reference to the internal rating system adopted by the Bank.

Loans and advances past due but not impaired

	2009 RO'000	20[08] RO'0[00]
Past due up to 30 days	**22,654**	8,4[..]
Past due 30 – 60 days	**2,289**	2,9[..]
Past due 60 – 89 days	**1,538**	8[..]
Totals	**26,481**	12,2[..]

Impaired

	2009 RO'000	2[008] RO'[000]
Substandard	**17,051**	2,[..]
Doubtful	**5,001**	[..]
Loss	**38,117**	35,[..]
Total	**60,169**	37,[..]

8. Loans and advances to customers (continued)

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

	Cost RO'000	Fair value 2009 RO'000	Fair value 2008 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 RO'000	200 RO'00
Treasury bills with maturity of above 90 days	31,704	20,46
Government Development Bonds	15,733	
Certificates of deposits with maturity of above 90 days	-	100,00
	47,437	120,46

Outstanding treasury bills were issued by central banks outside Sultanate of Oman for a term of 3 to 6 months an 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 RO'000	200 RO'00
Goodwill	3,971	3,97

The goodwill had resulted from the acquisition of branches of the Commercial Bank of Oman in the year 2001 ar 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	Tot RO'0
Cost							
1 January 2008	140	1,573	5,267	842	6,365	65	14,2
Additions	-	-	978	175	750	(65)	1,8
Disposals	-	-	(251)	(67)	(101)	-	(41
1 January 2009	**140**	**1,573**	**5,994**	**950**	**7,014**	**-**	**15,6**
Additions	**-**	**-**	**1,112**	**71**	**793**	**259**	**2,2**
Disposals	**-**	**-**	**(100)**	**(71)**	**(79)**	**-**	**(25**
31 December 2009	**140**	**1,573**	**7,006**	**950**	**7,728**	**259**	**17,6**
Depreciation							
1 January 2008	-	647	3,604	492	5,096	-	9,8
Charge for the year	-	59	676	192	684	-	1,6
Disposals	-	-	(214)	(67)	(95)	-	(37
1 January 2009	**-**	**706**	**4,066**	**617**	**5,685**	**-**	**11,0**
Charge for the year	**-**	**57**	**835**	**179**	**716**	**-**	**1,7**
Disposals	**-**	**-**	**(94)**	**(71)**	**(77)**	**-**	**(24**
31 December 2009	**-**	**763**	**4,807**	**725**	**6,324**	**-**	**12,6**
Carrying value							
31 December 2009	**140**	**810**	**2,199**	**225**	**1,404**	**259**	**5,0**
31 December 2008	140	867	1,928	333	1,329	-	4,5

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 RO'000	2008 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 RO'000	2008 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 RO'000	2008 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 by way 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).

18. **Share capital (continued)**

Shareholders

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

	2009 No of shares	%	2008 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

20. Reserves (continued)

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.

(c) Investment revaluation reserve

The movements in the investments revaluation reserve is analysed below:

	2009 RO'000	2008 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

Notes to the financial statements (Continued)

for the year ended 31 December 2009

23. Net interest income

	2009 RO'000	2008 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 RO'000	2008 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 RO '000	2008 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

25. Staff and administrative costs (continued)

(b) Administrative costs

	2009 RO '000	2008 RO'000
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

(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
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

	2009 RO'000	2008 RO'000
Funds under management	52	604

31. Single borrower and senior members

(a) Single borrower

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

(b) Senior members

	2009 RO'000	2008 RO'000
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 RO'000	2008 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.

32. Contingent liabilities and commitments (continued)

(b) Legal cases (continued)

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 RO,000	2008 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			
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.

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.

34. Fair value information (continued)

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.

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

35. Risk Management (continued)

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 analysing 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:

(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

	Assets	Liabilities	
	Gross loans and advances RO'000	Deposits from customers RO'000	Contingent liabilities 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

35. Risk Management (continued)

(i) Credit risk (continued)

(d) Gross credit exposure

	Total gross exposure		Monthly average gross exposure	
	2009 RO'000	2008 RO'000	2009 RO'000	2008 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

(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

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

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

for the year ended 31 December 2009

35. Risk Management (continued)

(i) Credit risk (continued)

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

	Performing loans RO'000	Non performing loans RO'000	General provisions held RO'000	Specific provisions held RO'000	Interest reserve RO'000	Specific provision made during the year RO'000	Advances written off during the year 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

for the year ended 31 December 2009

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:

	2009 RO' 000	2008 RO' 000
On-Balance sheet items		
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.

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.

35. Risk Management (continued)

(ii) Liquid risk (continued)

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.

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 30days 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.

(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 RO'000	2008 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

35. Risk Management (continued)

(iii) Market risk (continued)

(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 RO'000	2008 RO'000	**2009 RO'000**	2008 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

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.

31 December 2009	**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**
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)**	**372,502**	**293,413**	**(469,230)**	
Cumulative interest sensitivity gap		**199,518**	**(68,119)**	**(196,685)**	**175,817**	**469,230**	**-**	

35. Risk Management (continued)

(iii) Market risk (continued)

(b) Interest rate risk (continued)

Interest rate sensitivity gap (continued)

31 December 2008	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
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	-	

(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)

35. Risk Management (continued)

(iii) Market risk (continued)

(c) Equity risk (continued)

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.

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 RO'000**	2008 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

36. Capital risk management (continued)

Risk weighted assets

	2009 RO'000	2008 RO'000
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.

37. Segmental information (continued)

At 31 December 2009	Retail banking RO'000	Corporate banking RO'000	Treasury and Investments RO'000	Total RO'000
Interest revenues	38,635	38,327	767	77,729
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

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 authorised 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.