BANK DHOFAR SAOG

Report and financial statements

31 December 2011

Registered and principal place of business:

Bank Dhofar SAOG
Central Business District
P O Box 1507
Ruwi 112
Sultanate of Oman

BANK DHOFAR SAOG

Report and financial statements

for the year ended 31 December 2011

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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF BANK DHOFAR SAOG

Report on the financial statements

We have audited the financial statements of Bank Dhofar SAOG ("the Bank"), set out on pages 3 to 61, which comprise of the statement of financial position as at 31 December 2011, and statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements

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

Auditors' 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 relevant ethical requirements and plan and perform the audit to obtain reasonable assurance about 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 our 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, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity'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 the Bank as at 31 December 2011, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on other legal and regulatory requirements

In our opinion the financial statements of the Bank as at and for the year ended 31 December 2011, in all material respects, comply with:

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

BANK DHOFAR SAOG

Statement of financial position

as at 31 December 2011

	Notes	**2011 RO'000**	2010 RO'000
Assets			
Cash and balances with Central Bank of Oman	*5*	**249,305**	213,667
Loans and advances to banks	*7*	**54,318**	17,211
Loans and advances to customers	*8*	**1,495,661**	1,261,736
Available-for-sale investments	*9*	**11,175**	12,575
Held-to-maturity investments	*10*	**106,256**	107,361
Intangible asset	*11*	**3,574**	3,971
Property and equipment	*12*	**8,505**	8,817
Other assets	*13*	**31,797**	38,958
Total assets		**1,960,591**	1,664,296
Liabilities			
Due to banks	*14*	**59,038**	85,751
Deposits from customers	*15*	**1,519,318**	1,249,605
Other liabilities	*16*	**64,498**	63,940
Subordinated loans	*17*	**88,500**	38,500
Total liabilities		**1,731,354**	1,437,796
Shareholder's equity			
Share capital	*18*	**91,524**	81,355
Share premium	*19*	**58,506**	58,506
Legal reserve	*20*	**21,877**	20,479
Subordinated loan reserve	*20*	**34,617**	25,667
Investment revaluation reserve	*20*	**627**	1,697
Retained earnings	*21*	**22,086**	38,796
Total shareholders' equity		**229,237**	226,500
Total liabilities and shareholders' equity		**1,960,591**	1,664,296
Contingent liabilities and commitments	*32*	**333,935**	349,516
Net assets per share (Rial Omani)	*22*	**0.250**	0.278

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

Eng. Abdul Hafidh Salim Rajab Al-Aujaili	**Tony Mahoney**
Chairman	**Chief Executive Officer**

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

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BANK DHOFAR SAOG

Statement of comprehensive income

for the year ended 31 December 2011

	Notes	**2011 RO'000**	2010 RO'000
Interest income		**83,189**	81,948
Interest expense		**(22,871)**	(24,697)
Net interest income	*23*	**60,318**	57,251
Fees and commission income		**6,546**	5,768
Fees and commission expenses		**(670)**	(699)
Net fees and commission income		**5,876**	5,069
Other income	*24*	**12,397**	8,995
Operating income		**78,591**	71,315
Staff and administrative costs	*25*	**(30,646)**	(27,106)
Depreciation	*12*	**(2,798)**	(2,089)
Operating expenses		**(33,444)**	(29,195)
Profit from operations		**45,147**	42,120
Provision for loan impairment	*8*	**(6,735)**	(6,563)
Recoveries from allowance for loan impairment	*8*	**4,631**	2,820
Bad debts written-off		**(2)**	(36)
Impairment of available-for-sale investments		**(852)**	(370)
Other operational losses		**(201)**	(53)
Loss from a legal case	*6*	**(26,129)**	-
Profit from operations after provision		**15,859**	37,918
Income tax expense	*27*	**(1,883)**	(4,638)
Profit for the year		**13,976**	33,280
Profit for the year		**13,976**	33,280
Other comprehensive income:			
Net changes in fair value of available-for-sale investments	*9*	**(1,431)**	168
Reclassification adjustment on sale of available-for-sale investments	*9*	**(491)**	(231)
Total comprehensive income for the year		**12,054**	33,217
Earnings per share basic and diluted (Rials Omani)	*28*	**0.015**	0.036

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

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BANK DHOFAR SAOG

Statement of changes in equity

for the year ended 31 December 2011

	Notes	Share capital RO'000	Share premium RO'000	Legal reserve RO'000	Subordinated loans reserve RO'000	Investment revaluation reserve RO'000	Retained earnings RO'000	Total RO'000
1 January 2011		**81,355**	**58,506**	**20,479**	**25,667**	**1,697**	**38,796**	**226,500**
Total comprehensive income for the period								
Net profit for the year		**-**	**-**	**-**	**-**	**-**	**13,976**	**13,976**
Other comprehensive income for the period								
Net change in fair value of available-for-sale investments		**-**	**-**	**-**	**-**	**(1,431)**	**-**	**(1,431)**
Transfer to statement of income on sale of available-for -sale of investments		**-**	**-**	**-**	**-**	**(491)**	**-**	**(491)**
Impairment of available-for-sale investments		**-**	**-**	**-**	**-**	**852**	**-**	**852**
Total comprehensive income for the year		**-**	**-**	**-**	**-**	**(1,070)**	**13,976**	**12,906**
Transfer to legal reserve	***20***	**-**	**-**	**1,398**	**-**	**-**	**(1,398)**	**-**
Transactions with owners recorded directly in equity								
Dividend paid for 2010		**-**	**-**	**-**	**-**	**-**	**(10,169)**	**(10,169)**
Bonus shares issued for 2010		**10,169**	**-**	**-**	**-**	**-**	**(10,169)**	**-**
Transfer to subordinated loan reserve	***20***	**-**	**-**		**8,950**	**-**	**(8,950)**	**-**
31 December 2011		**91,524**	**58,506**	**21,877**	**34,617**	**627**	**22,086**	**229,237**

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

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BANK DHOFAR SAOG

Statement of changes in equity
for the year ended 31 December 2011

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

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

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BANK DHOFAR SAOG

Statement of cash flows
for the year ended 31 December 2011

	2011	2010
	RO'000	RO'000
Cash flows from operating activities		
Interest, commission and other receipts	**94,958**	95,111
Interest payments	**(21,087)**	(34,480)
Cash payments to suppliers and employees	**(48,390)**	(25,507)
	25,481	35,124
Decrease in operating assets		
Loans and advances to customers	**(236,031)**	(71,272)
Loans and advances to banks	**(365)**	2,593
Receipts from (purchase of) treasury bills and certificates of deposits (net)	**1,105**	(59,924)
	(235,291)	(128,603)
Increase in operating liabilities		
Deposits from customers	**269,713**	148,338
Due to banks	**(26,408)**	(14,064)
	243,305	134,274
Net cash from operating activities	**33,495**	40,795
Income tax paid	**(3,562)**	(4,887)
Net cash from operating activities	**29,933**	35,908
Cash flows from investing activities		
Investment income	**1,404**	685
Purchase of investments	**(404)**	(3,514)
Proceeds from sale of investments	**3,717**	3,446
Dividend received	**653**	487
Purchase of property and equipment	**(2,492)**	(5,885)
Proceeds from sale of property and equipment	**43**	69
Net cash from (used in) investing activities	**2,921**	(4,712)
Cash flow from financing activities		
Subordinate loan	**50,000**	-
Dividend paid	**(10,169)**	(11,094)
Net cash flow from (used in) financing activities	**39,831**	(11,094)
Net change in cash and cash equivalents	**72,685**	20,102
Cash and cash equivalents at the beginning of the year	**226,642**	206,540
Cash and cash equivalents at the end of the year	**299,327**	226,642
Cash and balances with Central Bank of Oman (Note 5)	**249,305**	213,667
Capital deposit with Central Bank of Oman	**(500)**	(500)
Loans and advances to banks due within 90 days	**50,853**	14,111
Due to banks within 90 days	**(331)**	(636)
Cash and cash equivalents for the purpose of the cash flow statement	**299,327**	226,642

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

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Notes

1. Legal status and principal activities

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

2. Basis of preparation

a) Statement of compliance

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

b) Basis of measurement

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

c) Functional and presentation currency

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

d) Use of estimates and judgements

The preparation of financial statements in conformity with IFRS requires management to make judgements estimates and assumptions that effect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

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

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

e) Accounting policies

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

3. Principal accounting policies

3.1. *Foreign currency translations*

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

3.2. *Financial instruments*

3.2.1. *Recognition*

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

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

3.2.2. *Classification*

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

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

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

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

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

3. Principal accounting policies *(continued)*

3.2. Financial instruments *(continued)*

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

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

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

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

3.2.2.2. Loans and receivables

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

3.2.2.3. Available-for-sale investments

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

3.2.2.4. Held-to-maturity investments

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

3.2.3. *Derecognition*

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

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

3. Principal accounting policies *(continued)*

3.2. Financial instruments *(continued)*

3.2.4. *Measurement*

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

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

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

3.2.5. *Fair value measurement principles*

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

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

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

3.2.6. *Gains and losses on subsequent measurement*

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

3. Principal accounting policies *(continued)*

3.3. *Cash and cash equivalents*

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

3.4. *Treasury bills and certificate of deposits*

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

3.5. *Offsetting*

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

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

3.6. *Impairment of financial assets*

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

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

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

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

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

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

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

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

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

3. Principal accounting policies *(continued)*

3.6. *Impairment of financial assets* *(continued)*

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

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

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

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

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

3. Principal accounting policies *(continued)*

3.6. *Impairment of financial assets* (continued)

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

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

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

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

3.7. *Property and equipment*

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

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

3. Principal accounting policies *(continued)*

3.7. *Property and equipment* (continued)

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

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

3.8. *Intangible assets*

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

3.9. *Provisions*

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

3.10. *Dividends*

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

3.11. *Interest income and expense*

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

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

3. Principal accounting policies *(continued)*

3.11. *Interest income and expense* (continued)

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

3.12. *Fees and commission income*

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

3.13. *Taxation*

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

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

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

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

3. Principal accounting policies *(continued)*

3.14. *Employee benefits*

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

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

3.15. *Derivative financial instruments*

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

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

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

3.15.1 Embedded derivatives

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

3. Principal accounting policies *(continued)*

3.15. *Derivative financial instruments* *(continued)*

3.15.2 Hedge accounting

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

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

3.15.3 Fair value hedges

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

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

3.15.4 Cash flow hedges

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

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

3. Principal accounting policies *(continued)*

3.15. *Derivative financial instruments* *(continued)*

3.15.4 Cash flow hedges (continued)

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

3.16. *Sale and repurchase agreements*

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

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

3.17. *Borrowings*

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

3.18. *Segment reporting*

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

3.19. *Fiduciary assets*

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

3. Principal accounting policies *(continued)*

3.20. *Trade and settlement date accounting*

All “regular way” purchases and sales of financial assets are recognised on the trade date, i.e. that date the Bank commits to purchase the assets. Regular way purchase or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

3.21. *Directors’ remuneration*

Directors’ remuneration is calculated in accordance with the Commercial Companies Law of 1974.

3.22. *Standards not yet effective*

Management anticipates that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of the Company in the period of initial application except IFRS 9: Financial Instruments : Classification and Measurement and IFRS 13: Fair Value measurement.

IFRS 9 Financial Instruments: Classification and Measurement (effective from 1 January 2015) deals with classification and measurement of financial assets. The requirements of this standard represent a significant change from the existing requirements in IAS 39 in respect of financial assets. IFRS 13 Fair value measurement (effective from 1 January 2013) deals with the fair value measurements and disclosures about fair value measurements.

The management are in the process of determining the impacts, if any, on the Bank’s financial position and financial performance.

4. Critical accounting judgment and key sources of estimation uncertainty

(a) Classification of investments

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

Available-for-sale investments

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

Held-to-maturity investments

Management 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 Management evaluates its intention and ability to hold such investments to maturity. If the Management fails to keep these investments to maturity other than for the specific circumstances-for example, selling an insignificant amount close to maturity – it will be required to classify the entire class as available-for-sale. The investments would, therefore, be measured at fair value.

(b) Fair value estimation

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

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

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

(c) Impairment

Impairment losses on loans and advances

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

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Bank to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value. The carrying amount of goodwill at the statement of financial position date in the financial statements was RO 3,573,899 (2010 – RO 3,971,000).

Impairment of available-for-sale investment

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

(d) Useful life of property and equipment

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

Notes

5. Cash and balances with Central Bank of Oman

	2011	2010
	RO'000	RO'000
Cash in hand	**12,512**	16,348
Balances with the Central Bank of Oman	**96,793**	137,319
Certificate of deposits with maturity of 90 days or less	**140,000**	60,000
	249,305	213,667

At 31 December 2011, cash and balances with Central bank of Oman included balances with the Central Bank of Oman amounting to RO 500,000 (2010 - RO 500,000) as minimum reserve requirements. These funds are not available for the Bank's daily business.

Outstanding certificate of deposits as of 31 December 2011 were issued by the Central Bank of Oman and carried an average interest rate of 0.06% (2010: 0.06%).

6. Loss from a legal case

The Enforcement court vide its order ref 1959/2006/10484 dated 25th June 2011 has ordered Bank Dhofar to transfer an amount of RO 26.1 million to its account (which has been paid) in connection with the legal case filed by Oman International Bank against Ali Redha Al-Lawati and his companies (Ali Redha Trading and Muttrah Holding) and Bank Dhofar wherein Ali Redha Al-Lawati and his companies had claimed to own 1.925 million shares of Bank Dhofar and Oman International Bank had claimed that these shares were pledged in their favour. This was categorically disputed by Bank Dhofar from the outset and clearly clarified that the pledge was invalid and baseless due to lack of clear supporting documentation.

The Primary court in Muscat has issued on 24 July 2011 a judgment overruling the previous judgment of the Enforcement court that imposed the attachment on RO 26.1 million. The Primary court has considered the attachment as null and void. This judgment has been appealed by OIB, Ali Redha and his group companies on 3rd August 2011. The Bank is taking all necessary legal action to return the RO 26.1 million.

It is note worthy to mention that the disputed shares were Majan International Bank (MIB) shares and the case primarily filed against MIB in 2001. The relationship of Bank Dhofar to this case established in 2003 wherein MIB was taken over by Bank

7. Loans and advances to banks

Placements with other banks	**44,883**	10,533
Current clearing accounts	**9,435**	6,678
	54,318	17,211

At 31 December 2011, placements with two banks represented 20% or more of the Bank's placements (2010: one bank).

Notes

8. Loans and advances to customers

	2011 RO'000	2010 RO'000
Overdrafts	**108,851**	100,308
Loans	**1,373,295**	1,140,637
Loans against trust receipts	**69,372**	67,577
Bills discounted	**2,208**	5,609
Advance against credit cards	**7,701**	9,556
Others	**11,788**	9,749
Gross loans and advances	**1,573,215**	1,333,436
Less: Impairment allowance	**(77,554)**	(71,700)
Net loans and advances	**1,495,661**	1,261,736

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

(a) Allowance for loan impairment

1 January	**45,532**	41,852
Allowance during the year	**6,735**	6,563
Released to the statement of income during the year	**(4,631)**	(2,820)
Written off during the year	**(88)**	(63)
31 December	**47,548**	45,532

(b) Reserved interest

1 January	**26,168**	21,737
Reserved during the year	**6,324**	5,566
Released to the statement of income during the year	**(1,065)**	(947)
Written off during the year	**(1,421)**	(188)
31 December	**30,006**	26,168
Total impairment allowance	**77,554**	71,700

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 etc.

8. Loans and advances to customers *(continued)*

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

Under the Central Bank of Oman's guidelines for provision against classified loans and advances, at 31 December 2011, out of the total provisions of RO 77,553,780 (2010 - RO 71,700,008) a collective provision was made on a general portfolio basis amounting to RO 21,779,644 (2010 - RO 18,529,630).

At 31 December 2011, impaired loans and advances on which interest has been reserved amount to RO 58,509,415 (2010 - RO 61,781,889) and loans and advances on which interest is not being accrued amount to RO 1,457,863 (2010 - RO 1,541,148).

Loan and advances are summarised as follows

	2011		2010	
	Loans and advances to customers RO'000	**Loans and advances to banks RO'000**	Loans and advances to customers RO'000	Loans and advances to banks RO'000
Neither past due nor impaired	**1,477,217**	**54,318**	1,229,168	17,211
Past due but not impaired	**36,343**	**-**	41,254	-
Impaired	**59,655**	**-**	63,014	**-**
Gross loans and advances	**1,573,215**	**54,318**	1,333,436	17,211
Less: Impairment allowance	**(77,554)**	**-**	(71,700)	-
Total	**1,495,661**	**54,318**	1,261,736	17,211

Loans and advances neither past due nor impaired

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

Loans and advances past due but not impaired

	2011 RO'000	2010 RO'000
Past due up to 30 days	**29,772**	36,722
Past due 30 – 60 days	**3,042**	2,715
Past due 60 – 89 days	**3,529**	1,817
Total	**36,343**	41,254

8. Loans and advances to customers *(continued)*

Impaired

	2011 RO'000	2010 RO'000
Substandard	**2,054**	10,071
Doubtful	**1,976**	2,549
Loss	**55,625**	50,394
Total	**59,655**	63,014

Fair value of collaterals

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

Loans and advances renegotiated

Restructuring activities include extended payment arrangements, approved external management plans, modification and deferral of payments. Restructuring policies and practices are based on indicators or criteria which, in the judgment of management, indicate that payment will most likely continue. These policies are kept under continuous review. Restructuring is most commonly applied to term loans, in particular customer finance loans. Renegotiated loans that are classified as standard amounted to RO 3,009,000 at 31 December 2011 (2010: RO 19,735,000).

9. Available-for-sale investments

		Fair value	
	Cost RO'000	2011 RO'000	2010 RO'000
Quoted on the Muscat Securities Market			
Banking and investments	**1,347**	**1,418**	1,299
Services	**3,142**	**3,477**	4,195
Industrial	**3,530**	**3,394**	2,664
	8,019	**8,289**	8,158
Unquoted			
Omani companies	**2,529**	**2,886**	4,417
	2,529	**2,886**	4,417
	10,548	**11,175**	12,575

10. Held-to-maturity investments

	2011 RO'000	2010 RO'000
Treasury bills with maturity of above 90 days	**36,658**	44,345
Government Development Bonds	**69,598**	63,016
	106,256	107,361

Outstanding treasury bills were issued by central banks outside Sultanate of Oman for a term of 3 to 6 months and carry interest rates ranging from 0.14% to.0.20% (2010 - 0.28% to 0.31%).

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

11. Intangible asset

The movement in goodwill account is as follows:

1 January	**3,971**	3,971
Impaired during the year	**(397)**	-
31 December	**3,574**	3,971

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

Notes

12. Property and equipment

	Freehold land RO'000	Buildings RO'000	Furniture and fixtures RO'000	Motor vehicles RO'000	Computer equipment RO'000	Capital work-in-progress RO'000	Total RO'000
Cost							
1 January 2010	140	1,573	7,006	950	7,728	259	17,656
Additions	-	-	889	319	4,828	(151)	5,885
Disposals	-	-	(53)	(163)	(48)	-	(264)
1 January 2011	140	1,573	7,842	1,106	12,508	108	23,277
Additions	**-**	**-**	**717**	**451**	**1,266**	**58**	**2,492**
Disposals	**-**	**-**	**(88)**	**(117)**	**(18)**	**-**	**(223)**
31 December 2011	**140**	**1,573**	**8,471**	**1,440**	**13,756**	**166**	**25,546**
Depreciation							
1 January 2010	**-**	763	4,807	725	6,324	-	12,619
Charge for the year	**-**	58	888	202	941	-	2,089
Disposals	**-**	-	(47)	(153)	(48)	-	(248)
1 January 2011	**-**	821	5,648	774	7,217	-	14,460
Charge for the year	**-**	**58**	**900**	**292**	**1,548**	**-**	**2,798**
Disposals	**-**	**-**	**(83)**	**(116)**	**(18)**	**-**	**(217)**
31 December 2011	**-**	**879**	**6,465**	**950**	**8,747**	**-**	**17,041**
Carrying value							
31 December 2011	**140**	**694**	**2,006**	**490**	**5,009**	**166**	**8,505**
31 December 2010	140	752	2,194	332	5,291	108	8,817

Notes

13. Other assets

	2011 RO'000	2010 RO'000
Acceptances	**25,142**	32,889
Interest receivable	**3,321**	3,120
Prepaid expenses	**1,920**	1,603
Dividends receivable	**49**	67
Positive fair value of derivatives (note 33)	**130**	24
Other receivables	**1,235**	1,255
	31,797	38,958

14. Due to banks

Other inter bank borrowings	**58,707**	85,115
Payable on demand	**331**	636
	59,038	85,751

In 2011, the Bank availed bilateral loans amounting to US Dollar 75,000,000 from various regional banks.

At 31 December 2011, borrowing with one bank represented 20% or more of the Bank's borrowings (2010 - Nil). The Bank has not had any defaults of principal, interest or other breaches during the year on its borrowed funds.

15. Deposits from customers

Current accounts	**282,133**	299,923
Savings accounts	**242,524**	202,513
Time deposits	**991,462**	743,343
Margin accounts	**3,199**	3,826
	1,519,318	1,249,605

Current accounts and time deposits include deposits from the Government of the Sultanate of Oman and its entities amounting to RO 498,002,000 as at 31 December 2011 (2010 - RO 342,771,000).

Notes

16. Other liabilities

	2011 RO'000	2010 RO'000
Acceptances	**25,142**	32,889
Interest Payable	**3,093**	1,309
Creditors and accruals	**33,084**	25,013
Income tax provision	**2,052**	3,881
Deferred tax liability (note 27)	**444**	294
Employee terminal benefits	**683**	554
	64,498	63,940

Employee terminal benefits

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

1 January	**554**	527
Expense recognised in the statement of income	**184**	139
Cash paid to employees	**(55)**	(112)
	683	554

17. Subordinated loans

Subordinated loan - US Dollar	**38,500**	38,500
Subordinated loan - RO	**50,000**	-
	88,500	38,500

In August 2007, the Bank availed an unsecured subordinated loan of US Dollar 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 on maturity.

In November 2011, the Bank availed RO 50 million unsecured subordinated loan from the major shareholders for a tenor of 5 years and one month. This facility carries a fixed rate of interest payable half yearly, with principal being repaid on maturity.

18. Share capital

The authorised share capital consists of 1,000,000,000 shares of RO 0.100 each (2010 - 1,000,000,000 shares of RO 0.100 each).

On 28 March 2011 the Shareholders of the Bank in the annual general meeting approved the issuance of 10% bonus shares amounting to 101,693,148 shares of RO 0.100 each.

At 31 December 2011, the issued and paid up share capital comprise 915,238,331 shares of RO 0.100 each. (2010 – 813,545,183 shares of RO 0.100 each).

Shareholders

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

	2011 No of shares	**%**	2010 No of shares	%
Dhofar International Development and Investment Company SAOG	**251,697,133**	**27.5**	223,724,925	27.5
Eng. Abdul Hafidh Salim Rajab Al Aujali and his related Companies	**188,891,756**	**20.6**	167,355,290	20.6
Civil Service Employees' Pension Fund	**92,516,601**	**10.1**	80,913,511	10.0
Total	**533,105,490**	**58.2**	471,993,726	58.1
Others	**382,132,841**	**41.8**	341,551,457	41.9
	915,238,331	**100.0**	813,545,183	100.0

19. Share premium

In the year 2008, the Bank has issued 176,921,306 shares 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

	2011 RO'000	2010 RO'000
1 January	**20,479**	17,151
Appropriation for the year	**1,398**	3,328
31 December	**21,877**	20,479

20. Reserves *(continued)*

(a) Legal reserve *(continued)*

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

(b) Subordinated loans reserves

	2011	2010
	RO'000	RO'000
1 January	**25,667**	17,967
Appropriation for the year		
Subordinated loan reserve - US Dollar	**7,700**	7,700
Subordinated loan reserve - RO	**1,250**	-
31 December	**34,617**	25,667

Subordinated loan reserve

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

(c) Investment revaluation reserve

The movements in the investments revaluation reserve is analysed below:

1 January	**1,697**	1,390
(Decrease) increase in fair value	**(1,431)**	168
Impairment of available-for-sale investment taken to statement of income	**852**	370
Net transfer to statement of income on sale of available-for-sale investment	**(491)**	(231)
31 December	**627**	1,697

Notes

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:

	2011	2010
Net assets (RO)	**229,237,000**	226,500,000
Number of shares outstanding at 31 December (Nos.)	**915,238,331**	813,545,183
Net assets per share (RO)	**0.250**	0.278

23. Net interest income

Loans and advances to customers	**82,966**	81,677
Debt investments	**138**	181
Money market placements	**75**	78
Others	**10**	12
Total interest income	**83,189**	81,948
Deposits from customers	**(20,864)**	(23,032)
Money market deposits	**(2,007)**	(1,665)
Total interest expense	**(22,871)**	(24,697)
Net interest income	**60,318**	57,251

Included in interest income from debt investments is an amount of RO 54,082 (2010: RO 167,970) being interest income from held-to-maturity investments.

24. Other income

Foreign exchange	**1,195**	1,211
Investment income (see below)	**2,739**	1,503
Miscellaneous income	**8,463**	6,281
	12,397	8,995

Investment income

Dividend income- available-for-sale investments	**604**	460
Gain on disposal of available-for-sale investments	**731**	358
Interest income on Government Development Bonds/Bank Bonds	**1,404**	685
	2,739	1,503

25. Staff and administrative costs

	2011 RO'000	2010 RO'000
(a) Staff costs		
Salaries and allowances	**17,823**	16,489
Other personnel costs	**1,518**	1,175
Scheme costs	**850**	662
Non-Omani employees terminal benefit	**184**	139
	20,375	18,465
(b) Administrative costs		
Occupancy costs	**2,450**	2,158
Advertising and promotion	**2,702**	2,004
Data processing	**1,381**	1,323
Fees and subscriptions	**811**	711
Professional charges	**480**	253
Printing and stationery	**371**	339
Communication costs	**335**	365
Vehicle expenses	**160**	163
Training costs	**241**	180
Postage and courier	**78**	79
Insurance	**107**	86
Donation	**50**	11
Travelling expenses	**79**	92
Correspondent charges	**39**	36
Impairment of goodwill	**397**	-
Others	**590**	841
	10,271	8,641
	30,646	27,106

At 31 December 2011, the Bank had 1,202 employees (2010 - 1,062).

26. Impairment of financial assets

	2011	2010
	RO'000	RO'000
Impairment of available-for-sale investments	**852**	370
Provision for loan impairment	**6,735**	6,563
Other operating losses	**201**	53
Loans written-off	**2**	36
	7,790	7,022
Recoveries from provision for loan impairment	**(4,631)**	(2,820)
Net impairment change of financial assets	**3,159**	4,202

27. Income tax

(a) Income tax expense:

Current tax		
Current year	**1,729**	3,750
Prior years	**4**	417
	1,733	4,167
Deferred tax		
Current year	**179**	750
Prior years	**(29)**	(279)
	1,883	4,638

(b) Reconciliation:

The Bank is liable to income tax 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:

Accounting profit for the year	**15,859**	37,918
Tax liability at the rates mentioned above	**1,900**	4,546
Tax exempt revenue	**(138)**	(97)
Non-deductible expenses	**146**	51
Prior years current tax	**4**	417
Prior years deferred tax	**(29)**	(279)
Tax expense	**1,883**	4,638

Notes

27. Income tax *(continued)*

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

Particulars	**2010 RO'000**	**Recognised in statement of income**	**2011 RO'000**
Property, plant and equipment	(133)	(23)	(156)
Intangible asset	(396)	12	(384)
Provisions	235	(139)	96
Net deferred tax liability	**(294)**	**(150)**	**(444)**

(d) Status of previous year returns:

The tax returns of the Bank for the years 2006 to 2010 have not yet been agreed with the Secretariat General for Taxation at the Ministry of Finance.

Management are of the opinion that additional taxes, if any, related to the open tax years would not be significant to the Company's financial position as at 31 December 2011.

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:

	2011	2010
Profit for the year (RO)	**13,976,000**	33,280,000
Weighted average number of shares outstanding during the year	**915,238,331**	915,238,331
Earnings per share basic and diluted	**0.015**	0.036

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

During the year ended 31 December 2011, the Bank issued 101.693 million bonus shares of RO 0.100 each to the existing shareholders, since the bonus issue was without consideration; the issue is treated as if it had occurred prior to the beginning of year 2010.

Notes

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:

	2011 RO'000	2010 RO'000
Loans and advances		
Directors and shareholders holding less than 10% interest in the Bank	**19,005**	16,848
Directors and shareholders holding 10% or more interest in the Bank	**28,734**	10,120
	47,739	26,968
Subordinated Loans		
Directors and shareholders holding less than 10% interest in the Bank	**23,000**	-
Directors and shareholders holding 10% or more interest in the Bank	**27,000**	**-**
	50,000	**-**
Deposits and other accounts		
Directors and shareholders holding less than 10% interest in the Bank	**97,315**	93,344
Directors and shareholders holding 10% or more interest in the Bank	**205,484**	159,420
	302,799	252,764
Contingent liabilities and commitments		
Directors and shareholders holding less than 10% interest in the Bank	**1,453**	1,557
Directors and shareholders holding 10% or more interest in the Bank	**16,050**	11,550
	17,503	13,107
Remuneration paid to Directors		
Chairman		
– remuneration proposed	**15**	16
– sitting fees paid	**10**	10
Other Directors		
– remuneration proposed	**101**	113
– sitting fees paid	**74**	61
	200	200
Other transactions		
Rental payment to a related party	**331**	288
Other transactions	**52**	48

Notes

29. Related parties transactions *(continued)*

	2011 RO'000	2010 RO'000
Key management compensation		
Salaries and other benefits	**549**	524
Other related costs – performance bonus	**425**	437
End of service benefits	**93**	-
	1,067	961

30. Fiduciary assets

At 31 December 2011 and 2010, there were no funds under management with the Bank.

31. Single borrower and senior members

(a) Single borrower

Total direct exposure	**28,653**	28,877
Number of members	**1**	1

(b) Senior members

Total exposure:		
Direct	**49,939**	27,963
Indirect	**17,503**	13,107
	67,442	41,070
Number of members	**24**	24

32. Contingent liabilities and commitments

(a) Credit related contingent items

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

	2011 RO'000	2010 RO'000
Letters of credit	**62,117**	102,878
Guarantees and performance bonds	**124,555**	95,823
Advance payment guarantees	**79,274**	88,478
Payment guarantees	**67,047**	48,564
Others	**942**	13,773
	333,935	349,516

At 31 December 2011, letters of credit, guarantees and other commitments amounting to RO 7,266,000 (2010 – RO 8,157,000) are counter guaranteed by other banks.

(b) Legal cases

i) During the previous years, the Primary Court decided a compensation of RO 5,000,000 to be paid by the Bank to the plaintiff Mr. Ali Redha Darwish Al Lawati against his alleged commercial damages. The plaintiff appealed requesting increase in the judgment amount. The Bank had also appealed against the primary judgment and the Appeal Court appointed a team of experts to report on technical issues in the dispute. During 2009, the team of experts had submitted their report on technical issues to the Appeal Court and based on that report, the Appeal Court ruled in favour of the Bank and revoked the previous judgment issued by the Primary Court. Further, during 2010 the Plaintiff has again appealed to the Supreme Court against the decision of the Appeal Court and the final decision is awaited.

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

It may also be noted that Bank Dhofar has earlier received in its favour judgments ref 365/2002, 364/2002 and 598/2002 dated 03/06/2007, 6/01/2004 and 14/01/2004 respectively from the Primary Court ordering Ali Redha Al-Lawati and his companies (Ali Redha Trading and Muttrah Holding) to pay off the dues amounting to RO 11.9 million to Bank Dhofar.

ii) Another plaintiff has filed a lawsuit against the Bank claiming a compensation of RO 1,037,550 for commercial and moral damages. A judgment was issued obliging the Bank to pay to the plaintiff an amount of RO 400,000. The Bank challenged the judgment and the same is pending review by the Supreme Court. It should be noted that the Bank has earlier received in its favour a final judgement obliging the same plaintiff to pay to the Bank an amount of RO 381,203 in addition to 10.5% interest counts up to the date of final payment.

(c) Capital and investment commitments

Contractual commitments for property and equipment	**1,740**	2,230

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 2011		**Fair value increase / decrease**	
	Contract / notional amount RO'000	**Assets RO'000**	**Liabilities RO'000**
Foreign exchange derivatives			
Currency forward - purchase contracts	**73,234**	**354**	**-**
Currency forward - sales contracts	**73,112**	**-**	**224**

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

The following table indicates the year in which the cash flows associated with derivatives that are expected to impact statement of income.

	Assets		**Liabilities**	
	2011 RO'000	2010 RO'000	**2011 RO'000**	2010 RO'000
Expected cash flow less than 6 months	**130**	24	**-**	-

34. Fair value information

Based on the valuation methodology outlined below, the fair values of all financial instruments at 31 December 2011 are considered by the Management not to be materially different to their book values.

Estimation of fair values

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

Loans and advances

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

Investments

Fair value is based on quoted market prices at the reporting 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 reporting 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 reporting date. The estimated fair value of fixed-maturity deposits, including certificates of deposit, is based on discounted cash flows using rates currently offered for deposits of similar remaining maturities. The value of long-term relationships with depositors is not taken into account in estimating fair values.

34. Fair value information *(continued)*

Other 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 reporting date for agreements of similar credit standing and maturity.

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

Fair value versus carrying amounts

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

Fair value measurements recognised in the statement of financial position

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

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;

- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

At 31 December 2011	**Level 1 RO'000**	**Level 2 RO'000**	**Level 3 RO'000**	**Total RO'000**
Available-for-sale investments				
Equity instruments	**8,289**	**-**	**2,886**	**11,175**
At 31 December 2010				
Available-for-sale investments				
Equity instruments	8,158	-	4,417	12,575

35. Financial risk management

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

Credit risk

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

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

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

35. Financial risk management *(continued)*

Credit risk *(continued)*

(a) Geographical concentrations

	Assets			**Liabilities**		
	Loans and advances to banks RO'000	**Gross loans and advances RO'000**	**Investment securities RO'000**	**Deposits from customers RO'000**	**Due to banks RO'000**	**Contingent liabilities RO'000**
31 December 2011						
Sultanate of Oman	**10,000**	**1,565,848**	**80,773**	**1,517,105**	**266**	**271,467**
Other GCC countries	**23,118**	**6,156**	**36,658**	**2,070**	**45,297**	**22,485**
Europe and North America	**17,610**	**1,211**	**-**	**-**	**13,475**	**31,248**
Africa and Asia	**3,590**	**-**	**-**	**143**	**-**	**8,735**
	54,318	**1,573,215**	**117,431**	**1,519,318**	**59,038**	**333,935**
31 December 2010						
Sultanate of Oman	3,800	1,324,705	75,591	1,247,678	7,564	251,231
Other GCC countries	1,828	7,307	44,345	1,888	38,697	23,996
Europe and North America	11,110	1,424	-	-	39,490	42,195
Africa and Asia	473	-	-	39	-	32,094
	17,211	1,333,436	119,936	1,249,605	85,751	349,516

Notes

35. Financial risk management *(continued)*

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**	**Due to banks RO'000**	**Contingent liabilities RO'000**
31 December 2011						
Personal	**-**	**690,953**	**-**	**373,924**	**-**	**268**
Corporate	**54,318**	**740,112**	**47,833**	**647,392**	**59,038**	**332,030**
Government	**-**	**142,150**	**69,598**	**498,002**	**-**	**1,637**
	54,318	**1,573,215**	**117,431**	**1,519,318**	**59,038**	**333,935**
31 December 2010						
Personal	-	575,090	-	346,716	-	12,270
Corporate	17,211	685,689	56,920	560,118	85,751	336,932
Government	-	72,657	63,016	342,771	-	314
	17,211	1,333,436	119,936	1,249,605	85,751	349,516

(c) Economic sector concentrations

	Assets	Liabilities	
	Gross loans and advances RO'000	**Deposits from customers RO'000**	**Contingent liabilities RO'000**
31 December 2011			
Personal	**690,953**	**373,924**	**268**
International trade	**102,162**	**15,510**	**23,703**
Construction	**166,700**	**62,161**	**180,617**
Manufacturing	**110,791**	**31,096**	**39,350**
Wholesale and retail trade	**54,371**	**6,511**	**12,300**
Communication and utilities	**70,787**	**11,277**	**12,316**
Financial services	**86,330**	**36,489**	**13,227**
Government	**142,150**	**498,002**	**1,637**
Other services	**68,563**	**122,336**	**31,443**
Others	**80,408**	**362,012**	**19,074**
	1,573,215	**1,519,318**	**333,935**

Notes

35. Financial risk management *(continued)*

Credit risk *(continued)*

(c) Economic sector concentrations *(continued)*

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

(d) Gross credit exposure

	Total gross exposure		**Monthly average gross exposure**	
	2011 RO'000	2010 RO'000	**2011 RO'000**	2010 RO'000
Overdrafts	**108,851**	100,308	**107,806**	103,743
Loans	**1,373,295**	1,140,637	**1,228,455**	1,087,766
Loans against trust receipts	**69,372**	67,577	**77,842**	71,516
Bills discounted	**2,208**	5,609	**3,495**	3,841
Advance against credit cards	**7,701**	9,556	**8,405**	10,128
Advance against receivable	**11,788**	9,749	**11,292**	10,325
Total	**1,573,215**	1,333,436	**1,437,295**	1,287,319

Notes

35. Financial risk management *(continued)*

Credit risk *(continued)*

(e) Geographical distribution of exposures:

	Sultanate of Oman RO'000	Other countries RO'000	Total RO'000
31 December 2011			
Overdrafts	**108,851**	**-**	**108,851**
Loans	**1,366,278**	**7,017**	**1,373,295**
Loans against trust receipts	**69,022**	**350**	**69,372**
Bills discounted	**2,208**	**-**	**2,208**
Advance against credit cards	**7,701**	**-**	**7,701**
Others	**11,788**	**-**	**11,788**
	1,565,848	**7,367**	**1,573,215**
31 December 2010			
Overdrafts	100,308	-	100,308
Loans	1,132,094	8,543	1,140,637
Loans against trust receipts	67,389	188	67,577
Bills discounted	5,609	-	5,609
Advance against credit cards	9,556	-	9,556
Others	9,749	-	9,749
	1,324,705	8,731	1,333,436

Notes

35. Financial risk management *(continued)*

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 2011						
Import trade	**9,017**	**78,064**	**128**	**14,573**	**101,782**	**23,592**
Export trade	**102**	**16**	**-**	**262**	**380**	**111**
Wholesale/retail trade	**6,608**	**35,929**	**-**	**11,834**	**54,371**	**12,300**
Mining and quarrying	**1,993**	**50,705**	**262**	**5**	**52,965**	**1,233**
Construction	**35,104**	**115,833**	**227**	**15,536**	**166,700**	**180,617**
Manufacturing	**9,622**	**63,365**	**1,569**	**36,235**	**110,791**	**39,190**
Electricity, gas and water	**35**	**43,015**	**22**	**12**	**43,084**	**8,617**
Transport and communication	**1,551**	**26,152**	**-**	**-**	**27,703**	**3,699**
Financial institutions	**5,966**	**80,354**	**-**	**10**	**86,330**	**13,227**
Services	**20,150**	**47,534**	**-**	**879**	**68,563**	**31,443**
Personal loans	**11,279**	**672,118**	**-**	**7,556**	**690,953**	**268**
Agriculture and allied activities	**1,788**	**3,146**	**-**	**797**	**5,731**	**2,111**
Government	**-**	**142,149**	**-**	**1**	**142,150**	**1,637**
Non resident lending	**-**	**7,017**	**-**	**350**	**7,367**	**160**
Others	**5,636**	**7,898**	**-**	**811**	**14,345**	**15,730**
	108,851	**1,373,295**	**2,208**	**88,861**	**1,573,215**	**333,935**
31 December 2010						
Import trade	10,079	56,035	49	18,129	84,292	23,915
Export trade	69	46	-	-	115	89
Wholesale/retail trade	5,452	34,442	-	10,413	50,307	7,934
Mining and quarrying	1,831	25,041	-	21	26,893	1,331
Construction	20,567	107,952	2,149	13,934	144,602	173,972
Manufacturing	7,661	63,478	2,901	31,007	105,047	79,186
Electricity, gas and water	25	43,622	37	117	43,801	6,384
Transport and communication	1,525	31,601	-	-	33,126	316
Financial institutions	2,460	72,509	-	-	74,969	8,375
Services	16,216	39,428	56	2,928	58,628	31,355
Personal loans	15,998	549,653	-	9,439	575,090	12,270
Agriculture and allied activities	4,972	3,472	-	219	8,663	1,432
Government	-	72,656	-	1	72,657	314
Non resident lending	-	8,543	-	188	8,731	234
Others	13,453	32,159	417	486	46,515	2,409
	100,308	1,140,637	5,609	86,882	1,333,436	349,516

Notes

35. Financial risk management *(continued)*

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 2011						
Upto 1 month	**5,443**	**86,725**	**77**	**3,517**	**95,762**	**29,224**
1 - 3 months	**5,443**	**170,842**	**-**	**2,695**	**178,980**	**76,821**
3 - 6 months	**5,443**	**49,765**	**66**	**8,028**	**63,302**	**33,545**
6 - 9 months	**5,443**	**41,662**	**22**	**5,565**	**52,692**	**19,763**
9 - 12 months	**5,443**	**64,639**	**-**	**3,055**	**73,137**	**35,113**
1 - 3 years	**27,212**	**354,641**	**624**	**10,155**	**392,632**	**46,816**
3 – 5 years	**27,212**	**229,841**	**262**	**16,124**	**273,439**	**9,321**
Over 5 years	**27,212**	**375,180**	**1,157**	**39,722**	**443,271**	**83,332**
	108,851	**1,373,295**	**2,208**	**88,861**	**1,573,215**	**333,935**
31 December 2010						
Upto 1 month	5,015	96,043	5,609	51,872	158,539	106,309
1 - 3 months	5,015	78,634	-	16,514	100,163	32,463
3 - 6 months	5,015	55,518	-	15,697	76,230	38,730
6 - 9 months	5,015	38,149	-	-	43,164	23,897
9 - 12 months	5,015	53,038	-	700	58,753	16,055
1 - 3 years	25,077	316,594	-	-	341,671	86,683
3 – 5 years	25,077	201,052	-	-	226,129	35,719
Over 5 years	25,079	301,609	-	2,099	328,787	9,660
	100,308	1,140,637	5,609	86,882	1,333,436	349,516

Notes

35. Financial risk management *(continued)*

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 2011							
Import trade	**87,690**	**14,092**	**877**	**4,325**	**9,425**	**32**	**-**
Export trade	**304**	**76**	**3**	**38**	**23**	**17**	**-**
Wholesale/retail trade	**40,804**	**13,567**	**408**	**4,961**	**8,656**	**55**	**-**
Mining and quarrying	**52,963**	**2**	**530**	**2**	**-**	**1**	**-**
Construction	**161,195**	**5,505**	**1,612**	**2,208**	**2,224**	**427**	**-**
Manufacturing	**110,262**	**529**	**1,103**	**222**	**176**	**114**	**-**
Electricity, gas and water	**43,062**	**22**	**431**	**6**	**1**	**6**	**-**
Transport and communication	**27,700**	**3**	**277**	**1**	**2**	**-**	**-**
Financial institutions	**86,330**	**-**	**863**	**-**	**-**	**-**	**-**
Services	**65,579**	**2,984**	**656**	**1,347**	**1,602**	**94**	**4**
Personal loans	**672,617**	**18,336**	**13,370**	**8,650**	**7,569**	**2,657**	**47**
Agriculture and allied activities	**5,724**	**7**	**57**	**6**	**-**	**6**	**-**
Government	**142,150**	**-**	**1,422**	**-**	**-**	**-**	**-**
Non resident lending	**3,243**	**4,124**	**32**	**3,850**	**275**	**-**	**-**
Others	**13,937**	**408**	**139**	**152**	**53**	**39**	**-**
	1,513,560	**59,655**	**21,780**	**25,768**	**30,006**	**3,448**	**51**
31 December 2010							
Import trade	71,745	12,547	717	4,325	7,848	35	-
Export trade	72	43	1	25	18	7	-
Wholesale/retail trade	38,323	11,984	383	4,929	7,129	47	-
Mining and quarrying	26,892	1	269	1	-	3	-
Construction	134,319	10,283	1,343	2,776	1,661	673	-
Manufacturing	104,034	1,013	1,040	472	214	211	-
Electricity, gas and water	43,801	-	438	-	-	-	-
Transport and communication	33,123	3	331	1	2	-	-
Financial institutions	74,969	-	750	-	-	-	-
Services	54,460	4,168	545	1,462	2,682	98	6
Personal loans	556,242	18,848	11,484	7,960	6,394	4,682	57
Agriculture and allied activities	8,663	-	87	-	-	-	-
Government	72,657	-	727	-	-	-	-
Non resident lending	4,701	4,030	47	3,850	186	-	-
Others	46,421	94	368	1,201	34	28	-
	1,270,422	63,014	18,530	27,002	26,168	5,784	63

35. Financial risk management *(continued)*

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 2011							
Sultanate of Oman	**1,565,848**	**55,531**	**21,748**	**21,918**	**29,731**	**3,448**	**51**
Other countries	**7,367**	**4,124**	**32**	**3,850**	**275**	**-**	-
	1,573,215	**59,655**	**21,780**	**25,768**	**30,006**	**3,448**	**51**
31 December 2010							
Sultanate of Oman	1,324,705	58,984	18,483	23,152	25,982	5,784	63
Other countries	8,731	4,030	47	3,850	186	-	-
	1,333,436	63,014	18,530	27,002	26,168	5,784	63

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

	2011 RO' 000	2010 RO' 000
Treasury bills	**36,658**	44,345
Loans and advances to banks	**54,318**	17,211
Loans and advances to customers	**1,495,661**	1,261,736
Government development bonds	**69,598**	63,016
	1,656,235	1,386,308
Off-balance sheet items		
Financial guarantees	**270,876**	232,865
	1,927,111	1,619,173

At 31 December 2011, impairment losses would have increased by RO 2,198,438 (2010: RO 2,646,252) had collateral not been obtained by the Bank for the impaired loans and advances.

Notes

35. Financial risk management *(continued)*

Liquidity risk

Liquidity risk is the potential inability to meet the Bank's liabilities as they become due. It arises when the Banks is 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 so as the Bank is always in a position to meet all maturing liabilities as well as to fund asset growth and business operations. The contingency funding plan includes effective monitoring of the cash flows on a day to day basis, holding of tradable high quality liquid assets, which may be readily disposed off in sizeable amount etc. The Bank also has in place adequate lines of credit from both local and international Banks to meet any unforeseen liquidity requirements.

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

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

Notes

35. Financial risk management *(continued)*

Liquidity risk *(continued)*

Maturity profile of assets and liabilities

	Due on demand and up to 30 days RO'000	2 months to 6 months RO'000	7 months to 12 months RO'000	More than 1 year to 5 years RO'000	Over 5 years RO'000	Total RO'000
31 December 2011						
Cash and balances with Central Bank of Oman	248,805	-	-	-	500	249,305
Loans and advances to banks	35,078	15,775	3,465	-	-	54,318
Loans and advances to customers	176,465	230,205	100,904	632,469	355,618	1,495,661
Available-for-sale Investments	-	-	11,175	-	-	11,175
Held-to-maturity investments	19,715	16,943	15,559	20,844	33,195	106,256
Intangible asset	-	-	-	-	3,574	3,574
Property and equipment	-	-	-	-	8,505	8,505
Other assets	3,502	24,922	38	-	3,335	31,797
Total assets	483,565	287,845	131,141	653,313	404,727	1,960,591
Due to banks	14,763	15,400	-	28,875	-	59,038
Deposits from customers	192,059	375,925	386,026	434,143	131,165	1,519,318
Other liabilities	13,535	30,779	1,808	18,376	-	64,498
Subordinated loans	-	-	38,500	50,000	-	88,500
Shareholders' equity	-	13,976	-	-	215,261	229,237
Total liabilities and shareholders' equity	220,357	436,080	426,334	531,394	346,426	1,960,591

35. Financial risk management *(continued)*

Liquidity risk *(continued)*

Maturity profile of assets and liabilities *(continued)*

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

Notes

35. Financial risk management *(continued)*

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 US 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

	2011	2010
	RO'000	RO'000
Net assets denominated in US Dollars	**17,386**	52,664
Net assets denominated in other foreign currencies	**553**	1,516
	17,939	54,180

(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%**	
	2011	2010	**2011**	2010
	RO'000	RO'000	**RO'000**	RO'000
Omani Rials	**5,337**	3,250	**10,674**	6,501
US Dollars	**1,734**	913	**3,468**	1,826
Others currencies	**85**	103	**170**	205

Notes

35. Financial risk management *(continued)*

Market risk *(continued)*

(b) Interest rate risk *(continued)*

Interest rate sensitivity gap

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

	Effective average interest rate %	Due on demand and within 30 days RO'000	Due within 1 to 6 months RO'000	Due within 7 to 12 months RO'000	Due within 1 to 5 years RO'000	Due after 5 years RO'000	Non-interest bearing RO'000	Total RO'000
31 December 2011								
Cash and balances with Central Bank of Oman	.06%	140,000	-	-	-	500	108,805	249,305
Loans and advances to banks	.05%	35,078	15,775	3,465	-	-	-	54,318
Loans and advances to customers	6.1%	176,465	230,205	100,904	632,469	355,618	-	1,495,661
Available-for-sale investments		-	-	-	-	-	11,175	11,175
Held-to-maturity investments	1.4%	19,715	16,943	15,000	20,000	32,000	2,598	106,256
Intangible asset		-	-	-	-	-	3,574	3,574
Property and equipment		-	-	-	-	-	8,505	8,505
Other assets		-	-	-	-	-	31,797	31,797
Total assets		371,258	262,923	119,369	652,469	388,118	166,454	1,960,591
Due to banks	1.6%	14,432	44,275	-	-	-	331	59,038
Deposits from customers	1.7%	273,173	252,926	305,348	312,881	-	374,990	1,519,318
Other liabilities		-	-	-	-	-	64,498	64,498
Subordinated loans	2.2%	-	38,500	-	50,000	-	-	88,500
Shareholders' equity		-	13,976	-	-	-	215,261	229,237
Total liabilities and shareholders' equity		287,605	349,677	305,348	362,881	-	655,080	1,960,591
On-balance sheet gap		83,653	(86,754)	(185,979)	289,588	388,319	(488,626)	-
Cumulative interest sensitivity gap		83,653	(3,101)	(189,080)	100,508	488,626	-	-

Notes

35. Financial risk management *(continued)*

Market risk *(continued)*

(b) Interest rate risk *(continued)*

Interest rate sensitivity gap *(continued)*

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

35. Financial risk management *(continued)*

Market risk *(continued)*

(c) Equity risk

Bank is exposed to the volatility in the prices of the securities held under equity portfolio. Equity investments held are for strategic/long term rather than for trading purposes and hence, Bank does not hold trading positions in equity investments. However, Bank's portfolio is marked to market on regular basis and the difference in the book value and market value are adjusted against investment revaluation reserve in shareholder's equity and for impaired investments to statement of 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 396,927 only. (2010: Decrease by RO 401,815)

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 144,300 (2010: decrease / increase by RO 220,866).

Operational risk

The Bank has adopted the Basic Indicator Approach under Basel II for the purpose of measuring 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 prior year.

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 share capital, share premium, reserves and retained earnings as disclosed in notes 18 to 21.

36. Capital risk management *(continued)*

Capital adequacy

The ratio of equity to risk weighted assets, as formulated by the Basel II, for the year ended 31 December 2011 is 14.79% (2010 – 14.02%).

Capital structure	**2011**	2010
	RO'000	RO'000
TIER I CAPITAL		
Paid up capital	**91,524**	81,355
Legal reserve	**21,877**	20,479
Share premium	**40,018**	58,506
Proposed bonus shares issued from share premium	**18,488**	-
Subordinated bonds and loan reserve	**34,617**	25,667
Retained earnings	**15,679**	18,458
Proposed bonus shares	**-**	10,169
Less: goodwill	**(3,574)**	(3,971)
Less: negative investment revaluation reserve	**(381)**	(144)
Total Tier I capital	**218,248**	210,519
TIER II CAPITAL		
Investment revaluation reserve	**454**	828
General provision	**21,780**	18,530
Subordinated loan	**48,750**	7,700
Total Tier II capital	**70,984**	27,058
Total eligible capital	**289,232**	237,577
Risk weighted assets		
Banking book	**1,774,750**	1,525,437
Trading book	**38,093**	42,537
Operational risk	**142,830**	126,210
Total	**1,955,673**	1,694,184
Tier I capital	**218,248**	210,519
Tier II capital	**70,984**	27,058
Tier III capital	**-**	-
Total regulatory capital	**289,232**	237,577
Tier I capital ratio	**11.16%**	12.43%
Total capital ratio	**14.79%**	14.02%

Notes

37. Segmental information

The Bank is organised into three main business segments:

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

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

3) Treasury and investments

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

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

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

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

At 31 December 2011	**Retail banking RO'000**	**Corporate banking RO'000**	**Treasury and investments RO'000**	**Total RO'000**
Segment operating revenues	**49,045**	**33,921**	**223**	**83,189**
Other revenues	**10,064**	**4,333**	**3,876**	**18,273**
Segment operating revenues	**59,109**	**38,254**	**4,099**	**101,462**
Interest expenses	**(8,619)**	**(11,041)**	**(3,211)**	**(22,871)**
Net operating income	**50,490**	**27,213**	**888**	**78,591**
Segment cost				
Operating expenses including depreciation	**(18,368)**	**(14,338)**	**(738)**	**(33,444)**
Impairment for loans and investment net recoveries from allowance for loans impairment	**(1,455)**	**(852)**	**(852)**	**(3,159)**
Loss from a legal case	**(10,355)**	**(13,264)**	**(2,510)**	**(26,129)**
Profit from operations after provision	**20,312**	**(1,241)**	**(3,212)**	**15,859**
Tax expenses	**(746)**	**(956)**	**(181)**	**(1,883)**
Net profit (loss) for the year	**19,566**	**(2,197)**	**(3,393)**	**13,976**
Segment assets	**753,766**	**972,630**	**311,749**	**2,038,145**
Less: Impairment allowance	**(29,589)**	**(47,965)**	**-**	**(77,554)**
Total Segment assets	**724,177**	**924,665**	**311,749**	**1,960,591**
Segment liabilities	**1,178,982**	**404,834**	**147,538**	**1,731,354**

37. Segmental information *(continued)*

At 31 December 2010	Retail banking RO'000	Corporate banking RO'000	Treasury and investments RO'000	Total RO'000
Segment operating revenues	39,620	42,057	271	81,948
Other revenues	8,234	3,173	2,657	14,064
Segment operating revenues	47,854	45,230	2,928	96,012
Interest expenses	(9,911)	(12,998)	(1,788)	(24,697)
Net operating income	37,943	32,232	1,140	71,315
Segment cost				
Operating expenses including depreciation	(12,347)	(16,191)	(657)	(29,195)
Impairment for loans and investment net recoveries from allowance for loans impairment	(2,769)	(1,010)	(423)	(4,202)
Profit from operations after provision	22,827	15,031	60	37,918
Tax expenses	(2,792)	(1,839)	(7)	(4,638)
Net profit for the year	20,035	13,192	53	33,280
Segment assets	651,286	887,563	197,147	1,735,996
Less: Impairment allowance	(25,838)	(45,862)	-	(71,700)
Total Segment assets	625,448	841,701	197,147	1,664,296
Segment liabilities	790,332	523,213	124,251	1,437,796

38. Proposed dividend

The Board of Directors in their meeting held on 25 January 2012 proposed a cash dividend of 7% for the year ended 31 December 2011 amounting to RO 6.41 million (2010 - RO 10.17 million) and a bonus share issue of 20.20% amounting to 184,878,143 shares (2010 – 101,693,148) 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 1,986 (2010 - RO 2,149) was transferred to the Investor's Trust Fund account as per the guidelines issued by the Capital Market Authority of Oman.

39. Comparative figures

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