



**Board of Directors' Report and financial statements (Unaudited)  
For three - month's period ended 31<sup>st</sup> March 2011**

**Registered office and principal place of business:**

Bank Dhofar Building  
Bank Al Markazi street  
Post Box 1507,Ruwi  
Postal Code 112  
Sultanate of Oman

# **BANK DHOFAR SAOG**

## **Board of Directors' Report and financial statements (Unaudited) for three - months period ended 31 March 2011**

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# **BANK DHOFAR S.A.O.G.**

## **THE BOARD OF DIRECTORS' REPORT FOR THE -THREE MONTHS PERIOD ENDED 31<sup>ST</sup> MARCH 2011**

### **Dear Shareholders,**

On behalf of the Board of Directors of Bank Dhofar S.A.O.G., I am pleased to present to you the Bank's Financial Statements and the Auditors' Report for the quarter ended 31 March 2011.

### **The Bank's Financial Performance**

The Bank continued to sustain momentum during the first quarter of 2011 with all the key indicators recording growths. The total assets improved from RO 1570.2 million at the end of March 2010 to reach RO 1695.8 million at the end of March 2011, signifying a growth of 7.99% year on year. The loan book growth was also prudent with Loans & Advances to Customers improving by a healthy 11.22% from RO 1200.1 million at end of March 2010 to reach RO 1334.7 million at the end of the current quarter. Also, the customer deposits mobilized by the bank increased by 7.1% from RO 1,177.3 million at the end of March 2010 to RO 1,260.9 million at the end of March 2011.

Further, the key profitability indicators achieved significant growths, with interest income during the first quarter of 2011 remaining at RO 20.2 million as compared to RO 20.32 million earned during the corresponding period of 2010. However the corresponding interest expense was 15.0% lower during the current quarter, at RO 5.39 million, as compared to RO 6.34 million incurred in the first quarter of 2010. The other income which includes Non-Interest income such as fees and commissions, foreign exchange profit, investment in securities and other income improved by 12.0% to record RO 2.98 million during the current quarter ended 31<sup>st</sup> March 2011 as compared to RO 2.66 million achieved during the corresponding period of last year. The operating profit of the Bank as a result of the above contributing factors grew by 10.0% from RO 10.76 million achieved in the first quarter of 2010 to reach RO 11.84 million during the current quarter ended March 2011.

The net profit for the first quarter ended 31<sup>st</sup> March 2011 after provisions for non-performing loans and recoveries, improved by 6.1% to RO 9.38 million from RO 8.84 million achieved in the corresponding period of 2010. The earnings per share (EPS) at the end of March 2011 correspondingly improved to RO 0.042 as compared to RO 0.039 in March 2010.

### **Acknowledgment**

On behalf of the Board, I would like to thank our valuable customers for their patronage and confidence they have reposed in the Bank. I thank the shareholders for your continuous support and the Bank's staff and management for the good performance in the first quarter of 2011.

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

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

Eng. Abdul Hafidh Salim Rajab Al-Aujali  
**Chairman**

**Statement of financial position (Unaudited)  
at 31 March 2011**

	Notes	March 2011 RO'000	March 2010 RO'000	Audited Dec 2010 RO'000
<b>ASSETS</b>				
Cash and balances with Central Bank of Oman	5	182,265	230,168	213,667
Loans and advances to banks	6	15,345	15,790	17,211
Loans and advances to customers	7	1,334,763	1,200,107	1,261,736
Available-for-sale investments	8	11,036	13,315	12,575
Held-to-maturity investments	9	85,903	68,676	107,361
Intangible asset	10	3,971	3,971	3,971
Property and equipment		9,274	5,160	8,817
Other assets		53,300	33,060	38,958
<b>Total assets</b>		<b>1,695,857</b>	<b>1,570,247</b>	<b>1,664,296</b>
<b>LIABILITIES</b>				
Due to banks	11	93,845	87,866	85,751
Deposits from customers	12	1,260,935	1,177,342	1,249,605
Other liabilities		77,803	64,505	63,940
Subordinated loan	13	38,500	38,500	38,500
<b>Total liabilities</b>		<b>1,471,083</b>	<b>1,368,213</b>	<b>1,437,796</b>
<b>SHAREHOLDERS' EQUITY</b>				
Share capital	14	91,524	81,355	81,355
Share premium		58,506	58,506	58,506
Legal reserve	15	20,479	17,151	20,479
Subordinated loan reserve	15	25,667	17,967	25,667
Investment revaluation reserve	15	755	1,671	1,697
Retained earnings		27,843	25,384	38,796
<b>Total shareholders' equity</b>		<b>224,774</b>	<b>202,034</b>	<b>226,500</b>
<b>Total liabilities and shareholders' equity</b>		<b>1,695,857</b>	<b>1,570,247</b>	<b>1,664,296</b>
<b>Contingent liabilities and commitments</b>	23	<b>303,273</b>	<b>288,111</b>	<b>349,516</b>
<b>Net assets per share (Rials Omani)</b>		<b>0.246</b>	<b>0.248</b>	<b>0.278</b>

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

**BANK DHOFAR SAOG**

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**Statement of comprehensive income (Unaudited)  
for three - months period ended 31 March 2011**

	Notes	2011 RO'000	2010 RO'000
Interest income		20,200	20,326
Interest expense		(5,392)	(6,348)
<b>Net interest income</b>	<b>18</b>	<b>14,808</b>	13,978
Fees and commission income		2,101	1,438
Fees and commission expenses		(162)	(177)
<b>Net fees and commission income</b>		<b>1,939</b>	1,261
Other income	<b>19</b>	<b>2,978</b>	2,657
<b>Operating income</b>		<b>19,725</b>	17,896
Staff and administrative costs		(7,216)	(6,664)
Depreciation		(669)	(467)
<b>Operating expenses</b>		<b>(7,885)</b>	(7,131)
<b>Profit from operations</b>		<b>11,840</b>	10,765
Provision for loan impairment	<b>7&amp;20</b>	(1,991)	(1,067)
Recoveries from allowance for loan impairment	<b>7&amp;20</b>	754	352
Bad debts written-off		(1)	-
Impairment of available-for-sale investments		-	(9)
<b>Profit from operations after provision</b>		<b>10,602</b>	10,041
Income tax expense		(1,217)	(1,201)
<b>Profit for the period</b>		<b>9,385</b>	8,840
<b>Profit for the period</b>		<b>9,385</b>	8,840
<b>Other comprehensive income:</b>			
Net changes in fair value of available-for-sale investments		(603)	302
Reclassification adjustment on sale of available-for-sale investments		(339)	(30)
<b>Total comprehensive income for the period</b>		<b>8,443</b>	9,112
<b>Earnings per share basic and diluted annualised</b>	<b>16</b>	<b>0.042</b>	<b>0.039</b>
<b>(Rials Omani)</b>			

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

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### Statement of changes in equity (Unaudited) for three - months period ended 31 March 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
<b>1 January 2011</b>		<b>81,355</b>	<b>58,506</b>	<b>20,479</b>	<b>25,667</b>	<b>1,697</b>	<b>38,796</b>	<b>226,500</b>
<b>Total comprehensive income for the period</b>								
Profit for the period		-	-	-	-	-	9,385	9,385
<b>Other comprehensive income for the period</b>								
Fair value decrease (available for sale financial assets)	15	-	-	-	-	(603)	-	(603)
-Net amount transferred to profit or loss		-	-	-	-	(339)	-	(339)
Total comprehensive income for 2011		-	-	-	-	(942)	9,385	8,443
<b>Transactions with owners recorded directly in equity</b>								
Dividend paid for 2010		-	-	-	-	-	(10,169)	(10,169)
Bonus shares issued for 2010	14	10,169	-	-	-	-	(10,169)	-
<b>31 March 2011</b>		<b>91,524</b>	<b>58,506</b>	<b>20,479</b>	<b>25,667</b>	<b>755</b>	<b>27,843</b>	<b>224,774</b>

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

**BANK DHOFAR SAOG**

**Statement of changes in equity (Unaudited)  
for three - months period ended 31 March 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
<b>1 January 2010</b>		73,959	58,506	17,151	17,967	1,390	35,034	204,007
<b>Total Comprehensive income for the period</b>								
Profit for the period		-	-	-	-	-	8,840	8,840
Fair value increase (available for sale financial assets)	15	-	-	-	-	302	-	302
-Net amount transferred to profit or loss	15	-	-	-	-	(30)	-	(30)
Impairment of available-for-sale investment taken to statement of comprehensive income		-	-	-	-	9	-	9
<b>Total comprehensive income for 2010</b>		-	-	-	-	281	8,840	9,121
<b>Transactions with owners recorded directly in equity</b>								
Dividend paid for 2009		-	-	-	-	-	(11,094)	(11,094)
Bonus shares issued for 2009	14	7,396	-	-	-	-	(7,396)	-
<b>31 March 2010</b>		81,355	58,506	17,151	17,967	1,671	25,384	202,034

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



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**Statement of cash flows (Unaudited)  
for three - months period ended 31 March 2011**

	<b>2011</b>	2010
	<b>RO'000</b>	RO'000
<b>Cash flows from operating activities</b>		
Interest and commission receipts	<b>24,936</b>	24,409
Interest payments	<b>(5,159)</b>	(5,308)
Cash payments to suppliers and employees	<b>(5,376)</b>	(8,862)
	<b><u>14,401</u></b>	<u>10,239</u>
<b>Decrease / (Increase) in operating assets</b>	<b>(53,707)</b>	(17,471)
<b>Increase in operating liabilities</b>	<b><u>19,193</u></b>	<u>61,824</u>
<b>Net cash from operating activities</b>	<b>(20,113)</b>	54,592
Income tax paid	<b>(3,562)</b>	(3,444)
<b>Net cash from operating activities</b>	<b><u>(23,675)</u></b>	<u>51,148</u>
<b>Net cash (used in) / from investing activities</b>	<b><u>(555)</u></b>	<u>(2,855)</u>
<b>Net cash (used in) / financing activities</b>	<b><u>(10,169)</u></b>	<u>(11,094)</u>
<b>Net increase in cash and cash equivalents</b>	<b><u>(34,399)</u></b>	<u>37,199</u>
Cash and cash equivalents at 1 <sup>st</sup> January	<b><u>226,642</u></b>	<u>206,540</u>
<b>Cash and cash equivalents at 31 March</b>	<b><u>192,243</u></b>	<u>243,739</u>
<b>Cash and cash equivalents (Note 5)</b>	<b>182,265</b>	230,168
Capital deposit with Central Bank of Oman	<b>(500)</b>	(500)
Loans and advances to banks due within 90 days	<b>11,345</b>	15,790
Due to banks within 90 days	<b>(867)</b>	(1,719)
<b>Cash and cash equivalents for the purpose of the cash flow statement</b>	<b><u>192,243</u></b>	<u>243,739</u>

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

**Notes to the financial statements (Unaudited)  
for the three - months period ended 31 March 2011****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.

**Notes to the financial statements (Unaudited)  
for the three - months period ended 31 March 2011****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;

**Notes to the financial statements (Unaudited)  
for the three - months period ended 31 March 2011**

**3. Principal accounting policies**

**3.2. Financial instruments (continued)**

3.2.2.2. Classification (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.

**Notes to the financial statements (Unaudited)  
for the three - months period ended 31 March 2011****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.

**Notes to the financial statements (Unaudited)  
for the three - months period ended 31 March 2011****3. Principal accounting policies (continued)****3.3. Cash and cash equivalents**

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

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

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

**3.5. Offsetting**

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

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

**3.6. Impairment of financial assets**

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

- (i) significant financial difficulty of the issuer or obligor;
- (ii) a breach of contract, such as a default or delinquency in interest or principal payments;
- (iii) the Bank granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the lender would not otherwise consider;
- (iv) it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- (v) the disappearance of an active market for that financial asset because of financial difficulties;  
or
- (vi) (vi) observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:
  - adverse changes in the payment status of borrowers in the group; or
  - national or local economic conditions that correlate with defaults on the assets in the group.

**Notes to the financial statements (Unaudited)  
for the three - months period ended 31 March 2011****3. Principal accounting policies (continued)****3.6. Impairment of financial assets (continued)**

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

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

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

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

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

**Notes to the financial statements (Unaudited)  
for the three - months period ended 31 March 2011**

**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



**Notes to the financial statements (Unaudited)  
for the three - months period ended 31 March 2011****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.

**Notes to the financial statements (Unaudited)  
for the three - months period ended 31 March 2011****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.

**Notes to the financial statements (Unaudited)  
for the three - months period ended 31 March 2011****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.

**Notes to the financial statements (Unaudited)  
for the three - months period ended 31 March 2011****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.

**Notes to the financial statements (Unaudited)  
for the three - months period ended 31 March 2011****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.

**Notes to the financial statements (Unaudited)  
for the three - months period ended 31 March 2011****3. Principal accounting policies (continued)****3.20. Trade and settlement date accounting**

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

**3.21. Directors' remuneration**

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

**4. Critical Accounting judgment and key sources of estimation uncertainty****(a) Classification of investments**

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

***Available-for-sale investments***

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

***Held-to-maturity investments***

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

**(b) Fair value estimation**

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

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

**Notes to the financial statements (Unaudited)  
for the three - months period ended 31 March 2011****4. Critical Accounting judgment and key sources of estimation uncertainty  
(continued)****(c) Impairment***Impairment losses on loans and advances*

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

*Impairment of goodwill*

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Bank to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value.

*Impairment of available-for-sale investment*

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

**(d) Useful life of property and equipment**

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

**Notes to the financial statements (Unaudited)  
for the three - months period ended 31 March 2011**

**5. Cash and Bank balances**

	<b>2011</b>	2010
	<b>RO'000</b>	RO'000
Cash on hand	<b>14,170</b>	12,121
Balances with the Central Bank of Oman	<b>128,095</b>	68,047
Certificate of deposits with maturity of 90 days or less	<b>40,000</b>	150,000
	<hr/> <b>182,265</b> <hr/>	<hr/> 230,168 <hr/>

At 31 March 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 March 2011 were issued by the Central Bank of Oman and carried an average interest rate of 0.07%.

**6. Loans and advances to banks**

	<b>2011</b>	2010
	<b>RO'000</b>	RO'000
Placements with other banks	<b>9,968</b>	9,709
Current clearing accounts	<b>5,377</b>	6,081
	<hr/> <b>15,345</b> <hr/>	<hr/> 15,790 <hr/>

At 31 March 2011, placements with one local bank represented 20% or more of the Bank's placements (2010 - two).



**Notes to the financial statements (Unaudited)  
for the three - months period ended 31 March 2011**

**7. Loans and advances to customers**

	<b>2011</b>	2010
	<b>RO'000</b>	RO'000
Overdrafts	<b>101,095</b>	103,003
Loans	<b>1,191,893</b>	1,072,683
Loans against trust receipts	<b>89,834</b>	63,127
Bills discounted	<b>6,319</b>	3,440
Advance against credit cards	<b>8,925</b>	10,491
Others	<b>10,911</b>	12,783
	<hr/>	<hr/>
<b>Gross loans and advances</b>	<b>1,408,977</b>	1,265,527
Less: Impairment allowance	<b>(74,214)</b>	(65,420)
	<hr/>	<hr/>
<b>Net loans and advances</b>	<b>1,334,763</b>	1,200,107
	<hr/> <hr/>	<hr/> <hr/>

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

**(a) Allowance for loan impairment**

1 January	<b>45,532</b>	41,852
Allowance made during the period	<b>1,991</b>	1,067
Released to the statement of comprehensive income during the period	<b>(754)</b>	(352)
Written off during the period	<b>(15)</b>	(9)
	<hr/>	<hr/>
31 March	<b>46,754</b>	42,558

**(b) Reserved interest**

1 January	<b>26,168</b>	21,737
Reserved during the period	<b>1,514</b>	1,351
Released to the statement of comprehensive income during the period	<b>(206)</b>	(159)
Written-off during the period	<b>(16)</b>	(67)
	<hr/>	<hr/>
31 March	<b>27,460</b>	22,862

**Total impairment allowance**

	<hr/> <hr/>	<hr/> <hr/>
	<b>74,214</b>	65,420

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

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

**Notes to the financial statements (Unaudited)  
for the three - months period ended 31 March 2011**

**7. 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 March 2011, out of the total provisions of RO 74,214,000 (2010 – RO 65,420,000) a collective provision was made on a general portfolio basis amounting to RO 19,517,000 (2010 - RO 17,906,000).

At 31 March 2011, impaired loans and advances on which interest has been reserved amount to **RO 62,379,420** (2010 - RO 61,332,000) and loans and advances on which interest is not being accrued amount to **RO 1,451,431** (2010 - RO 1,589,000).

**8. Available-for-sale investments**

	2011 RO'000	2010 RO'000
<b>Equity instruments</b>		
- Quoted	7,714	8,972
- Unquoted	3,322	4,343
	<u>11,036</u>	<u>13,315</u>
	<u><u>11,036</u></u>	<u><u>13,315</u></u>
		<u>Fair value</u>
	Cost	2011
	RO'000	RO'000
		2010
		RO'000
<b>Quoted on the Muscat Securities Market</b>		
Banking and investments	1,114	1,166
Services	3,253	3,472
Industrial	3,373	3,076
	<u>7,740</u>	<u>7,714</u>
	<u>7,740</u>	8,972
<b>Unquoted</b>		
Omani companies	2,541	3,322
	<u>2,541</u>	<u>4,343</u>
	<u>2,541</u>	4,343
	<u>10,281</u>	<u>13,315</u>
	<u><u>10,281</u></u>	<u><u>13,315</u></u>

**Notes to the financial statements (Unaudited)  
for the three - months period ended 31 March 2011**

**9. Held-to-maturity investments**

	<b>2011</b>	2010
	<b>RO'000</b>	RO'000
Treasury bills with maturity of above 90 days	<b>23,102</b>	53,011
Government Development Bonds	<b>62,801</b>	15,665
	<u><b>85,903</b></u>	<u>68,676</u>

**10. Intangible asset**

	<b>2011</b>	2010
	<b>RO'000</b>	RO'000
Goodwill	<b>3,971</b>	3,971
	<u><b>3,971</b></u>	<u>3,971</u>

**11. Due to banks**

	<b>2011</b>	2010
	<b>RO'000</b>	RO'000
Syndicated borrowings	-	28,875
Other borrowings	<b>92,978</b>	18,772
Borrowing from Central Bank of Oman	-	38,500
Payable on demand	<b>867</b>	1,719
	<u><b>93,845</b></u>	<u>87,866</u>

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

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

At 31 March 2011, no borrowing with banks individually represented 20% or more of the Bank's borrowings. The Bank has not had any defaults of principal, interest or other breaches during the year on its borrowed funds (2010 - One).

**Notes to the financial statements (Unaudited)  
for the three - months period ended 31 March 2011**

**12. Deposits from customers**

	<b>2011</b>	2010
	<b>RO'000</b>	RO'000
Current accounts	<b>320,945</b>	274,279
Savings accounts	<b>207,195</b>	186,785
Time deposits/Certificate of deposits	<b>729,266</b>	712,673
Margin accounts	<b>3,529</b>	3,605
	<hr/>	<hr/>
	<b>1,260,935</b>	1,177,342
	<hr/> <hr/>	<hr/> <hr/>

Current accounts and time deposits include deposits from the Government of the Sultanate of Oman and its entities amounting to RO 340,035,000 (2010 - RO 367,166,000).

**13. Subordinated loan**

	<b>2011</b>	2010
	<b>RO'000</b>	RO'000
Subordinated loan	<b>38,500</b>	38,500
	<hr/>	<hr/>
	<b>38,500</b>	38,500
	<hr/> <hr/>	<hr/> <hr/>

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

**Notes to the financial statements (Unaudited)  
for the three - months period ended 31 March 2011**

**14. 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 12.5% bonus shares amounting to 101,693,148 shares of RO 0.100 each.

At 31 March 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:

	<b>2011</b>		<b>2010</b>	
	<b>No of shares</b>	<b>%</b>	No of shares	%
Dhofar International Development and Investment Company SAOG	<b>251,697,133</b>	<b>27.50</b>	244,063,554	30.00
Eng. Abdul Hafidh Salim Rajab	<b>188,274,699</b>	<b>20.57</b>	146,433,693	18.00
Al Aujali and his related Companies	<b>91,523,811</b>	<b>10.00</b>	81,354,499	10.00
Civil Service Employees' Pension Fund				
Total	<b>531,495,643</b>	<b>58.07</b>	471,851,746	58.00
Others	<b>383,742,688</b>	<b>41.93</b>	341,693,437	42.00
	<b>915,238,331</b>	<b>100.00</b>	813,545,183	100.00

**15. Reserves**

**(a) Legal reserve**

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

**(b) Subordinated loan reserves**

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.

**Notes to the financial statements (Unaudited)  
for the three - months period ended 31 March 2011**

**15. Legal reserve (continued)**

**(c) Investment revaluation reserve**

The movements in the investments revaluation reserve is analysed below:

	<b>2011</b>	2010
	<b>RO'000</b>	RO'000
1 January	<b>1,697</b>	1,390
Decrease/increase in fair value	<b>(603)</b>	302
Impairment of available for sale investment taken to statement of comprehensive income	-	9
Net transfer to statement of comprehensive income on sale of available-for-sale investment	<b>(339)</b>	(30)
	<u><b>755</b></u>	<u>1,671</u>
31 March	<u><b>755</b></u>	<u>1,671</u>

**16. Earnings per share (basic and diluted)**

The calculation of basic and diluted earnings per share is based on profit for the three – months period ended 31<sup>st</sup> March as follows:

	<b>2011</b>	2010
Profit for the period (RO)	<b>9,385,000</b>	8,840,000
Weighted average number of shares outstanding during of the period	<b>915,238,331</b>	915,238,331
Earnings per share basic and diluted - annualized	<b>0.042</b>	0.039

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

For the purpose of earning per share calculation, the Bank has restated the previous year weighted average number of shares outstanding to include the 12.5% bonus Shares ( 101,693,148 shares with RO 0.100 par each) issued in the first quarter of 2011.

**Notes to the financial statements (Unaudited)  
for the three - months period ended 31 March 2011**

**17. Capital adequacy**

The ratio of equity to risk weighted assets, as formulated by the Basel II, for three - months period ended 31 March 2011 is 13.55% (2010 – 14.68%).

<b>Capital structure</b>	<b>2011 RO'000</b>	<b>2010 RO'000</b>
<b>TIER I CAPITAL</b>		
Paid up capital	<b>91,524</b>	81,355
Legal reserve	<b>20,479</b>	17,151
Share premium	<b>58,506</b>	58,506
Subordinated bonds and loan reserve	<b>25,667</b>	17,967
Retained earnings	<b>18,458</b>	16,544
Deferred tax assets	-	(177)
Less: goodwill	<b>(3,971)</b>	(3,971)
Less: negative investment revaluation reserve	<b>(580)</b>	(75)
<b>Total Tier I capital</b>	<b>210,083</b>	187,300
<b>TIER II CAPITAL</b>		
Investment revaluation reserve	<b>601</b>	786
General provision	<b>19,517</b>	17,906
Subordinated loan	<b>7,700</b>	15,400
<b>Total Tier II capital</b>	<b>27,818</b>	34,092
<b>Total eligible capital</b>	<b>237,901</b>	221,392
<b>Risk weighted assets</b>		
Banking book	<b>1,573,643</b>	1,383,645
Trading book	<b>56,193</b>	18,533
Operational risk	<b>126,210</b>	105,596
<b>Total</b>	<b>1,756,046</b>	1,507,774
Tier I capital	<b>210,083</b>	187,300
Tier II capital	<b>27,818</b>	34,092
Tier III capital	-	-
<b>Total regulatory capital</b>	<b>237,901</b>	221,392
<b>Tier I capital ratio</b>	<b>11.96%</b>	12.42%
<b>Total capital ratio</b>	<b>13.55%</b>	14.68%

**Notes to the financial statements (Unaudited)  
for the three - months period ended 31 March 2011**

**18. Net interest income**

	2011 RO'000	2010 RO'000
Loans and advances to customers	20,136	20,246
Debt investments	44	39
Money market placements	16	38
Others	4	3
<b>Total interest income</b>	<b>20,200</b>	<b>20,326</b>
Deposits from customers	(4,923)	(5,982)
Money market deposits	(469)	(366)
<b>Total interest expense</b>	<b>(5,392)</b>	<b>(6,348)</b>
<b>Net interest income</b>	<b>14,808</b>	<b>13,978</b>

**19. Other income**

	2011 RO'000	2010 RO'000
Foreign exchange	318	284
Investment income (a)	1,109	555
Miscellaneous income	1,551	1,818
	<b>2,978</b>	<b>2,657</b>

**(a) Investment income**

	2011 RO'000	2010 RO'000
<b>Investment income</b>		
Dividend income- available-for-sale investments	432	447
Gain of disposal of available-for-sale investments	337	29
Interest income on Government Development Bonds (HTM)	340	79
	<b>1,109</b>	<b>555</b>

**20. Impairment of financial assets**

	2011 RO'000	2010 RO'000
Impairment of available-for-sale investments	-	9
Provision for loan impairment	1,991	1,067
Other impairment	-	-
Loans written-off	1	-
	<b>1,992</b>	<b>1,076</b>
Recoveries from provision for loan impairment	(754)	(352)
<b>Net impairment change of financial assets</b>	<b>1,238</b>	<b>724</b>



**Notes to the financial statements (Unaudited)  
for the three - months period ended 31 March 2011**

**21. 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:

	<b>2011</b>	2010
	<b>RO'000</b>	RO'000
<b>Loans and advances</b>		
Directors and shareholders holding less than 10% interest in the Bank	<b>18,581</b>	18,331
Directors and shareholders holding 10% or more interest in the Bank	<u><b>25,429</b></u>	<u>17,750</u>
	<u><b>44,010</b></u>	<u>36,081</u>
<b>Deposits and other accounts</b>		
Directors and shareholders holding less than 10% interest in the Bank	<b>95,134</b>	67,089
Directors and shareholders holding 10% or more interest in the Bank	<u><b>156,806</b></u>	<u>122,038</u>
	<u><b>251,940</b></u>	<u>189,127</u>
<b>Contingent liabilities and commitments</b>		
Directors and shareholders holding less than 10% interest in the Bank	<b>258</b>	1,257
Directors and shareholders holding 10% or more interest in the Bank	<u><b>11,550</b></u>	<u>281</u>
	<u><b>11,808</b></u>	<u>1,538</u>
<b>Remuneration paid to Directors</b>		
Chairman		
– remuneration proposed	<b>16</b>	16
– sitting fees paid	<b>7</b>	4
Other Directors		
– remuneration proposed	<b>113</b>	115
	<b>29</b>	13
– sitting fees paid		
	<u><b>165</b></u>	<u>148</u>
<b>Other transactions</b>		
Rental payment to a related party	<u><b>85</b></u>	<u>65</u>
Other transactions	<u><b>24</b></u>	<u>19</u>

**Notes to the financial statements (Unaudited)  
for the three - months period ended 31 March 2011**

**22. Senior member borrowing**

**Senior member**

	<b>2011</b>	2010
	<b>RO'000</b>	RO'000
Total exposure:		
Direct	<b>45,141</b>	37,058
Indirect	<b>11,808</b>	1,538
	<b>56,949</b>	38,596
	<b>24</b>	23

**23. Contingent liabilities and commitments**

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

	<b>2011</b>	2010
	<b>RO'000</b>	RO'000
Letters of credit	<b>72,558</b>	88,962
Guarantees and performance bonds	<b>91,354</b>	94,863
Advance payment guarantees	<b>86,688</b>	70,139
Payment guarantees	<b>50,283</b>	29,374
Others	<b>2,390</b>	4,773
	<b>303,273</b>	288,111

**24. Amount due to brokerage customers**

The amount due to brokerage customers as at 31<sup>st</sup> March 2011 RO 76,082  
(2010: RO 325,308.)

**Notes to the financial statements (Unaudited)  
for the three - months period ended 31 March 2011**

**25. Risk Management**

**(i) Liquidity risk**

**Maturity profile of assets and liabilities**

	<b>Due on demand and up to 30 days RO'000</b>	<b>2 months to 6 months RO'000</b>	<b>7 months to 12 months RO'000</b>	<b>More than 1 year to 5 years RO'000</b>	<b>Over 5 years RO'000</b>	<b>Total RO'000</b>
<b>31 March 2011</b>						
Cash and balances with Central Bank of Oman	181,765	-	-	-	500	182,265
Loans and advances to banks	12,345	2,700	300	-	-	15,345
Loans and advances to customers	190,741	166,788	99,874	593,635	283,725	1,334,763
Available-for-sale Investments	-	-	11,036	-	-	11,036
Held-to-maturity investments	8,728	14,374	-	62,801	-	85,903
Intangible asset	-	-	-	-	3,971	3,971
Property and equipment	-	-	-	-	9,274	9,274
Other assets	37,424	11,699	324	-	3,853	53,300
<b>Total assets</b>	<b>431,003</b>	<b>195,561</b>	<b>111,534</b>	<b>656,436</b>	<b>301,323</b>	<b>1,695,857</b>
Due to banks	43,795	13,475	21,175	15,400	-	93,845
Deposits from customers	178,367	383,254	268,214	299,065	132,035	1,260,935
Other liabilities	45,318	12,993	3,139	9,878	6,475	77,803
Subordinated loan	-	-	-	38,500	-	38,500
Shareholders' equity	-	-	-	9,385	215,389	224,774
<b>Total liabilities and shareholders' equity</b>	<b>267,480</b>	<b>409,722</b>	<b>292,528</b>	<b>372,228</b>	<b>353,899</b>	<b>1,695,857</b>

**Notes to the financial statements (Unaudited)  
for the three - months period ended 31 March 2011**

**25. Risk Management (continued)**

**(i) Liquidity risk (continued)**

**Maturity profile of assets and liabilities (continued)**

	<b>Due on demand and up to 30 days RO'000</b>	<b>2 months to 6 months RO'000</b>	<b>7 months to 12 months RO'000</b>	<b>More than 1 year to 5 years RO'000</b>	<b>Over 5 years RO'000</b>	<b>Total RO'000</b>
31 March 2010						
Cash and balances with Central Bank of Oman	229,668	-	-	-	500	230,168
Loans and advances to banks	14,940	850	-	-	-	15,790
Loans and advances to customers	181,450	112,380	60,428	462,080	383,769	1,200,107
Available-for-sale Investments	-	-	13,315	-	-	13,315
Held-to-maturity investments	5,440	47,571	-	15,665	-	68,676
Intangible asset	-	-	-	-	3,971	3,971
Property and equipment	-	-	-	-	5,160	5,160
Other assets	5,553	18,088	1,171	78	8,170	33,060
<b>Total assets</b>	<b>437,051</b>	<b>178,889</b>	<b>74,914</b>	<b>477,823</b>	<b>401,570</b>	<b>1,570,247</b>
Due to banks	5,569	68,822	-	13,475	-	87,866
Deposits from customers	206,650	437,533	251,294	166,549	115,316	1,177,342
Other liabilities	13,818	24,008	8,369	16,615	1,695	64,505
Subordinated loan	-	-	-	38,500	-	38,500
Shareholders' equity	-	-	-	8,840	193,194	202,034
<b>Total liabilities and shareholders' equity</b>	<b>226,037</b>	<b>530,363</b>	<b>259,663</b>	<b>243,979</b>	<b>310,205</b>	<b>1,570,247</b>

**Notes to the financial statements (Unaudited)  
for the three - months period ended 31 March 2011**

**25. Risk Management (continued)**

(ii) Market

(a) Interest rate risk

**Interest rate sensitivity gap**

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

	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
<b>31 March 2011</b>							
Cash and balances with Central Bank of Oman	40,000	-	-	-	500	141,765	182,265
Loans and advances to banks	12,345	2,700	300	-	-	-	15,345
Loans and advances to customers	345,409	288,770	79,309	416,010	198,743	6,522	1,334,763
Available-for-sale investments	-	-	-	-	-	11,036	11,036
Held-to-maturity investments	8,728	14,374	-	62,801	-	-	85,903
Intangible asset	-	-	-	-	-	3,971	3,971
Property and equipment	-	-	-	-	-	9,274	9,274
Other assets	-	-	-	-	-	53,300	53,300
<b>Total assets</b>	<b>406,482</b>	<b>305,844</b>	<b>79,609</b>	<b>478,811</b>	<b>199,243</b>	<b>225,868</b>	<b>1,695,857</b>
Due to banks	43,095	13,475	21,175	15,400	-	700	93,845
Deposits from customers	309,287	250,205	183,306	195,467	-	322,670	1,260,935
Other liabilities	-	-	-	-	-	77,803	77,803
Subordinated loan	-	38,500	-	-	-	-	38,500
Shareholders' equity	-	-	-	-	-	224,774	224,774
<b>Total liabilities and shareholders' equity</b>	<b>352,382</b>	<b>302,180</b>	<b>204,481</b>	<b>210,867</b>	<b>-</b>	<b>625,947</b>	<b>1,695,857</b>
<b>On-balance sheet gap</b>	<b>54,100</b>	<b>3,664</b>	<b>(124,872)</b>	<b>267,944</b>	<b>199,243</b>	<b>(400,079)</b>	<b>-</b>
<b>Cumulative interest sensitivity gap</b>	<b>54,100</b>	<b>57,764</b>	<b>(67,108)</b>	<b>200,836</b>	<b>400,079</b>	<b>-</b>	<b>-</b>

**Notes to the financial statements (Unaudited)  
for the three – months period ended 31 March 2011**

**25. Risk Management (continued)**

**(ii) Market risk (continued)**

**(a) Interest rate risk (continued)**

**Interest rate sensitivity gap (continued)**

	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 March 2010							
Cash and balances with Central Bank of Oman	150,000	-	-	-	500	79,668	230,168
Loans and advances to banks	14,940	850	-	-	-	-	15,790
Loans and advances to customers	272,111	102,080	63,409	477,506	277,809	7,192	1,200,107
Available-for-sale investments	-	-	-	-	-	13,315	13,315
Held-to-maturity investments	5,440	47,571	-	15,665	-	-	68,676
Intangible asset	-	-	-	-	-	3,971	3,971
Property and equipment	-	-	-	-	-	5,160	5,160
Other assets	-	-	-	-	-	33,060	33,060
<b>Total assets</b>	<b>442,491</b>	<b>150,501</b>	<b>63,409</b>	<b>493,171</b>	<b>278,309</b>	<b>142,366</b>	<b>1,570,247</b>
Due to banks	5,015	82,297	-	-	-	554	87,866
Deposits from customers	313,060	322,855	177,760	73,157	50	290,460	1,177,342
Other liabilities	-	-	-	-	-	64,505	64,505
Subordinated loan	-	38,500	-	-	-	-	38,500
Shareholders' equity	-	-	-	-	-	202,034	202,034
<b>Total liabilities and shareholders' equity</b>	<b>318,075</b>	<b>443,652</b>	<b>177,760</b>	<b>73,157</b>	<b>50</b>	<b>557,553</b>	<b>1,570,247</b>
<b>On-balance sheet gap</b>	<b>124,416</b>	<b>(293,151)</b>	<b>(114,351)</b>	<b>420,014</b>	<b>278,259</b>	<b>(415,187)</b>	
<b>Cumulative interest sensitivity gap</b>	<b>124,416</b>	<b>(168,735)</b>	<b>(283,086)</b>	<b>136,928</b>	<b>415,187</b>	<b>-</b>	

**(b) Foreign currency exposures**

	<b>2011 RO'000</b>	2010 RO'000
Net assets denominated in US Dollars	<b>48,019</b>	30,319
Net assets denominated in other foreign currencies	<b>1,236</b>	1,443
	<b>49,255</b>	31,762

**Notes to the financial statements (Unaudited)  
for the three – months period ended 31 March 2011**

**25. Risk Management (continued)**

**(iii) Credit Risk**

	Customer concentrations			Liabilities		
	Loans and advances to banks RO'000	Assets Gross loans and advances RO'000	Investment Securities RO'000	Deposits from customers RO'000	Deposits from banks RO'000	Contingent liabilities RO'000
<b>31 March 2011</b>						
Personal	-	591,046	-	365,557	-	105
Corporate	15,345	727,455	34,138	555,343	93,845	300,328
Government	-	90,476	62,801	340,035	-	2,840
	<b>15,345</b>	<b>1,408,977</b>	<b>96,939</b>	<b>1,260,935</b>	<b>93,845</b>	<b>303,273</b>
<b>31 March 2010</b>						
Personal	-	554,325	-	320,160	-	513
Corporate	15,790	637,524	66,326	490,016	49,366	287,466
Government	-	73,778	15,665	367,166	38,500	132
	<b>15,790</b>	<b>1,265,627</b>	<b>81,991</b>	<b>1,177,342</b>	<b>87,866</b>	<b>288,111</b>