FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011

CONTENTS

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INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF OMAN ARAB BANK SAOC

Report on the financial statements

We have audited the accompanying financial statements of Oman Arab Bank SAOC ('the bank'), which comprise the statement of financial position as at 31 December 2011, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Board of Directors' responsibility for the financial statements

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

Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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 cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on Other Legal and Regulatory Requirements

In our opinion the financial statements comply, in all material respects, with the relevant disclosure requirements of the Commercial Companies Law of 1974, as amended and the Rules and Guidelines on disclosure issued by the Capital Market Authority.

Ernst & Young

30 January 2012
Muscat

STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER 2011

	Notes	**2011 RO'000**	2010 RO'000
ASSETS			
Cash and balances with the Central Bank of Oman	7	**32,895**	100,730
Certificates of deposit	8	**100,000**	100,000
Due from banks	9	**75,887**	26,019
Loans and advances to customers	10	**829,845**	660,346
Investment securities	11	**36,389**	31,810
Other assets	12	**24,632**	22,267
Property and equipment	13	**15,017**	12,483
Total assets		**1,114,665**	953,655
LIABILITIES			
Due to banks	14	**7,678**	5,771
Deposits from customers	15	**909,660**	769,761
Other liabilities	16	**32,812**	31,720
Taxation	18	**3,559**	3,572
Total liabilities		**953,709**	810,824
EQUITY			
Share capital	19	**100,000**	85,000
Legal reserve	20	**22,598**	20,277
General reserve	21	**18,304**	15,983
Cumulative changes in fair value		**261**	1,341
Cash dividend	22	**12,000**	17,000
Stock dividend	22	**6,000**	-
Retained earnings		**1,793**	3,230
Total equity		**160,956**	142,831
Total equity and liabilities		**1,114,665**	953,655
Contingent liabilities and commitments	33(a)	**776,177**	687,772

The financial statements were authorised for issue by the Board of Directors on 30 January 2012 and signed by:

Rashad Muhammed Al Zubair
Chairman

Abdul Kader Askalan
Chief Executive Officer

The attached notes 1 to 40 form part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME
YEAR ENDED 31 DECEMBER 2011

	Notes	**2011** **RO'000**	2010 RO'000
Interest income	23	**43,373**	41,043
Interest expense	24	**(6,893)**	(7,686)
Net interest income		**36,480**	33,357
Fee and commission income - net	25	**13,635**	13,516
Investment income	26	**625**	306
Other operating income	27	**4,635**	4,353
Total income		**55,375**	51,532
Operating expenses	28	**(25,347)**	(21,970)
Allowance for loan impairment	10(a)	**(6,173)**	(4,562)
Recoveries/release from allowance for loan impairment	10(a)	**2,667**	1,742
Profit before tax		**26,522**	26,742
Income tax expense	18	**(3,317)**	(3,572)
Profit for the year		**23,205**	23,170
Other comprehensive income			
Net movement in unrealized (loss) gain on available-for-sale financial investments	11	**(1,080)**	180
Total comprehensive income for the year		**22,125**	23,350
Earnings per share:			
Basic and diluted, profit for the year attributable to equity holders	29	**RO 0.241**	RO 0.272

The attached notes 1 to 40 form part of these financial statements.

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2011

	Notes	*2011* RO'000	*2010* RO'000
Operating activities			
Profit before tax		**26,522**	26,742
Adjustments:			
Depreciation	13	**1,865**	1,771
Allowance for loan impairment and reserved interest	10(a)	**6,173**	4,562
Recoveries/release from allowance for loan impairment	10(a)	**(2,667)**	(1,742)
Income from held-to-maturity investments	23	**(517)**	(639)
Profit on sale of property and equipment		**(1)**	(17)
Loss on sale of availabe-for-sale investments		**46**	-
Change in the fair value of financial assets at fair value through profit or loss	26	**570**	11
Operating profit before changes in operating assets and liabilities		**31,991**	30,688
Changes in operating assets and liabilities			
Loans and advances to customers		**(173,005)**	(97,609)
Financial assets at fair value through profit or loss		**(236)**	(630)
Decrease in restricted deposit		**-**	435
Other assets		**(2,365)**	(781)
Deposits from customers		**139,899**	73,689
Other liabilities		**1,092**	383
Cash (used in) from operations		**(2,624)**	6,175
Tax paid		**(3,330)**	(3,072)
Net cash (used in) generated from operating activities		**(5,954)**	3,103
Investing activities			
Held-to-maturity investments matured	11	**-**	3,951
Purchase of held-to-maturity investments	11	**(2,335)**	(2,400)
Purchase of investment available for sale	11	**(4,349)**	(366)
Proceeds from sale of investment available for sale		**645**	-
Income from maturing of held-to-maturity investments		**517**	639
Purchase of property and equipment	13	**(4,652)**	(4,820)
Proceeds from sale of property and equipment		**254**	21
Net cash used in investing activities		**(9,920)**	(2,975)
Financing activities			
Proceeds from issue of share capital		**13,000**	8,000
Dividends paid		**(17,000)**	(15,000)
Net cash used in financing activities		**(4,000)**	(7,000)
Net decrease in cash and cash equivalents		**(19,874)**	(6,872)
Cash and cash equivalents at the beginning of the year		**220,478**	227,350
Cash and cash equivalents at the end of the year	31	**200,604**	220,478

The attached notes 1 to 40 form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2011

	Notes	Share capital	Legal reserve	General reserve	Cumulative changes in fair value	Proposed cash dividend	Proposed stock dividend	Retained earnings	Total
		RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
At 1 January 2010		75,000	17,960	13,666	1,161	15,000	-	3,694	126,481
Profit for the year		-	-	-	-	-	-	23,170	23,170
Other comprehensive income for the year		-	-	-	180	-	-	-	180
Total comprehensive income for the year		-	-	-	180	-	-	23,170	23,350
Issue of share capital	19	8,000	-	-	-	-	-	-	8,000
Bonus issue of shares	19	2,000	-	-	-	-	-	(2,000)	-
Transfer to legal reserve	20	-	2,317	-	-	-	-	(2,317)	-
Transfer to general reserve	21	-	-	2,317	-	-	-	(2,317)	-
Dividend paid relating to 2009	22	-	-	-	-	(15,000)	-	-	(15,000)
Proposed dividend	22	-	-	-	-	17,000	-	(17,000)	-
At 31 December 2010		85,000	20,277	15,983	1,341	17,000	-	3,230	142,831
At 1 January 2011		**85,000**	**20,277**	**15,983**	**1,341**	**17,000**	**-**	**3,230**	**142,831**
Profit for the year		**-**	**-**	**-**	**-**	**-**	**-**	**23,205**	**23,205**
Other comprehensive income		**-**	**-**	**-**	**(1,080)**	**-**	**-**	**-**	**(1,080)**
Total comprehensive income	11	**-**	**-**	**-**	**(1,080)**	**-**	**-**	**23,205**	**22,125**
Issue of share capital	19	**13,000**	**-**	**-**	**-**	**-**	**-**	**-**	**13,000**
Bonus issue of shares	19	**2,000**	**-**	**-**	**-**	**-**	**-**	**(2,000)**	**-**
Transfer to legal reserve	20	**-**	**2,321**	**-**	**-**	**-**	**-**	**(2,321)**	**-**
Transfer to general reserve	21	**-**	**-**	**2,321**	**-**	**-**	**-**	**(2,321)**	**-**
Dividend paid relating to 2010	22	**-**	**-**	**-**	**-**	**(17,000)**	**-**	**-**	**(17,000)**
Proposed cash dividend	22	**-**	**-**	**-**	**-**	**12,000**	**-**	**(12,000)**	**-**
Proposed stock dividend	22	**-**	**-**	**-**	**-**	**-**	**6,000**	**(6,000)**	**-**
At 31 December 2011		**100,000**	**22,598**	**18,304**	**261**	**12,000**	**6,000**	**1,793**	**160,956**

The attached notes 1 to 40 form part of these financial statements.

1 LEGAL STATUS AND PRINCIPAL ACTIVITIES

Oman Arab Bank SAOC (the Bank) was incorporated in the Sultanate of Oman on 1 October 1984 as a closed joint stock company. It is principally engaged in commercial and investment banking activities through a network of branches in the Sultanate of Oman. The Bank operates in Oman under a banking licence issued by the Central Bank of Oman and is covered by its deposit insurance scheme. The registered address of the Bank is Muttrah Business District, P.O. Box 2010, Ruwi, Postal Code 112, Muscat, Sultanate of Oman.

The Bank has a management agreement with Arab Bank Plc Jordan, which owns 49% of the bank's share capital. In accordance with the terms of that management agreement, Arab Bank Plc Jordan provides banking related technical assistance and other management services, including the secondment of managerial staff.

During 2011, the Bank approached the Capital Market Authority regarding its plan to go for an initial public offering. Thereafter the Bank has received a letter from the Capital Market Authority advising that the esteemed Council of Ministers have agreed to exempt OAB from Article (61) of the Commercial Companies Law for offering 25% of its shares for public subscription instead of 40%. The Bank is in the process of commencing the process leading to initial public offering. Subsequent to approval of the promoting shareholders the Bank will be converted from a Closed Joint Stock Company (SAOC) to a Public Joint Stock Company (SAOG) by offering its shares for public subscription.

2 SIGNIFICANT ACCOUNTING POLICIES

2.1 Statement of compliance

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

The Bank presents its statement of financial position broadly in order of liquidity.

2.2 Basis of preparation

The financial statements are prepared under the historical cost convention, modified to include the measurement at fair value of the financial assets classified as available for sale and fair value through profit or loss and the derivative contracts.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the bank's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 3.

2.3 Changes in accounting policies and disclosures

The accounting policies are consistent with those used in the previous financial year except for where the Bank has adopted certain new standards of, amendments and interpretations to IFRS.

New standards of, amendments and interpretations to IFRS relevant to the Bank

The Bank has adopted the following new and amended IFRS and IFRIC interpretations as of 1 January 2011:
- IAS 24 Related Party Transactions (Amendment)
- IAS 32 Financial Instruments: Presentation (Amendment)
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments
- Improvements to IFRSs (May 2010)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Changes in accounting policies and disclosures (continued)

The adoption of the standards or interpretations applicable to the Bank is described below:

IAS 24 Related Party Transactions (Amendment)
The IASB issued an amendment to IAS 24 that clarifies the definitions of a related party. The new definitions emphasise a symmetrical view of related party relationships and clarifies the circumstances in which persons and key management personnel affect related party relationships of an entity. In addition, the amendment introduces an exemption from the general related party disclosure requirements for transactions with government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity. The adoption of the amendment did not have any impact on the financial position or performance of the Bank.

IAS 32 Financial Instruments: Presentation (Amendment)
The IASB issued an amendment to IAS 32 that clarifies definition of a financial liability in order to classify rights issues (and certain options or warrants) as equity instruments in cases where such rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, or to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. The adoption of the amendment did not have any impact on the financial position or performance of the Bank.

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments
In November 2009, the IASB issued IFRIC 19 Extinguishing Financial Liabilities with Equity. The interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability qualify as consideration paid. The equity instruments issued are measured at their fair value. In case that this cannot be reliably measured, the instruments are measured at the fair value of the liability extinguished. Any gain or loss is recognised immediately in profit or loss. The adoption of this interpretation has had no effect on the financial statements of the Bank.

Improvements to IFRSs
In May 2010, the IASB issued its third omnibus of amendments to its standards, primarily with a view to removing the inconsistencies and clarifying the wordings. There are separate transitional provisions for each standard. The amendments resulting from improvements to IFRSs did not have any significant impact on the accounting policies, financial positions or performance of the Bank.

2.4 Financial instruments – initial recognition and subsequent measurement

The Bank classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and advances, due from banks, held-to-maturity investments and available-for-sale investments. The management determines the classification of its investments at initial recognition.

The Bank classifies its financial liabilities into deposits and due to banks.

2.4.1 Date of recognition

All financial assets and liabilities are initially recognised on the trade date, i.e., the date that the Bank becomes a party to the contractual provisions of the instrument. This includes "regular way trades": 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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Financial instruments – initial recognition and subsequent measurement (continued)

2.4.2 Initial measurement of financial instruments

The classification of financial instruments at initial recognition depends on the purpose and the management's intention for which the financial instruments were acquired and their characteristics. All financial instruments are measured initially at their fair value plus transaction costs, except in the case of financial assets and financial liabilities recorded at fair value through profit or loss.

2.4.3 Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss comprise financial securities held-for-trading which are acquired principally for the purpose of selling in the short-term and instruments so designated by management upon inception. Financial assets at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the statement of comprehensive income. Unrealised gains or losses arising from changes in fair value are included in the statement of comprehensive income in the period in which they arise. Derivatives are also categorised as held for trading unless they are designated as hedging instruments.

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

- doing so significantly reduces measurement inconsistencies that would arise if the related derivatives were treated as held-for-trading and the underlying financial instruments were carried at amortised cost;
- certain investments, that are managed and evaluated on a fair value basis in accordance with a documented risk management or investment strategy and reported to key management personnel on that basis are designated at fair value through profit or loss; and
- financial instruments, such as debt securities held, containing one or more embedded derivatives significantly modify the cash flows, are designated at fair value through profit and loss.

2.4.4 Available-for-sale investments

Available for sale investments are non-derivative financial assets that are either designated in this category or not classified in any other categories of investment. Available for sale financial assets are initially recognised at fair value including transaction costs. Subsequently these assets are carried at fair value. The changes in fair value are recognised in equity. When assets classified as available for sale are sold or impaired, the accumulated fair value changes recognised in equity are included in the statement of comprehensive income as gains and losses from investments.

2.4.5 Financial investments held to maturity

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Bank's management has the positive intention and ability to hold to maturity. In the case where the Bank sells more than an insignificant amount of held-to-maturity assets, the entire category would be tainted and reclassified as available-for-sale. Held-to-maturity investments are initially recognised at fair value plus transaction costs. These are subsequently carried at amortised cost using the effective interest method.

2.4.6 Loans and advances to customers and due from banks

Loans and receivables to customers and due from banks are non-derivative financial assets with fixed or determinable repayments that are not quoted in an active market. They arise when the Bank provides money directly to a debtor with no intention of trading the receivable. Loans and receivables are recognised when cash is advanced to customers and are carried at amortised cost using the effective interest method.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Financial instruments – initial recognition and subsequent measurement (continued)

2.4.7 Fair value measurement principles

Regular purchases and sales of financial assets are recognised on the trade-date – the date on which the Bank commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or losses are initially recognised at fair value, and transaction costs are expensed in the statement of comprehensive income. The fair value of financial instruments is based on their quoted market bid price at the reporting date without any deduction for transaction costs. If a quoted market price is not available, the fair value of the instrument is estimated based on discounted cash flow and other valuation techniques. 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 reporting date taking into account current market conditions and the current creditworthiness of the counter-parties.

2.4.8 Derecognition of financial assets and liabilities

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- The rights to receive cash flows from the asset have expired; or
- The Bank has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either:
- the Bank has transferred substantially all the risks and rewards of the asset, or
- the Bank has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

2.4.9 Impairment of financial assets

The Bank assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired and an impairment loss is 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 as well as considering the guidelines issued by the Central Bank of Oman:

- significant financial difficulty of the issuer or obligor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- 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;
- it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- the disappearance of an active market for that financial asset because of financial difficulties; or

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Financial instruments – initial recognition and subsequent measurement (continued)

- 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 Bank, or national or local economic conditions that correlate with defaults on the assets in the Bank.

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.

(a) Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments 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 or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

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.

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 Bank. 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.

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 uncollectible, it is written off against the related allowance 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. 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, 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.

(b) Available-for-sale financial investments

For available-for-sale financial investments, the Bank assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Financial instruments – initial recognition and subsequent measurement (continued)

In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. The determination of what is 'significant' or 'prolonged' requires judgement. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of comprehensive income – is removed from equity and recognised in the statement of comprehensive income. Impairment losses on equity investments are not reversed through the statement of comprehensive income; increases in their fair value after impairment are recognised directly in equity.

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. Interest continues to be accrued at the original effective interest rate on the reduced carrying amount of the asset and is recorded as part of 'Interest income'. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the statement of comprehensive income, the impairment loss is reversed through the statement of comprehensive income.

(c) Renegotiated loans

Loans that are either subject to collective impairment assessment or individually significant and whose terms have been renegotiated are no longer considered to be past due but are treated as new loans. In subsequent years, the asset is considered to be past due and disclosed only if renegotiated.

2.4.10 Trade and settlement date accounting

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

2.5 Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, including: cash and non-restricted balances with the Central Bank of Oman, treasury bills and other eligible bills, loans and advances to banks, amounts due from other banks, amounts due to other banks and short-term government securities.

2.6 Offsetting of financial instruments

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

2.7 Property and equipment

Property and equipment are initially recorded at cost and are subsequently carried at cost less accumulated depreciation and accumulated impairment losses, if any. Depreciation on the assets except land is calculated using the straight-line basis to allocate their cost over the estimated useful lives, as follows:

Building	25 years
Equipment, furniture and fixtures	5 years
Motor vehicles	5 years

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7 Property and equipment (continued)

The assets' residual values and useful lives are reviewed at each reporting date to assess whether they are recorded in excess of their recoverable amount, and where carrying values exceed this recoverable amount, assets are written down to their recoverable amount. 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 as incurred.

2.8 Impairment of non-financial assets

The Bank assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Bank estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Bank estimates the asset's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceeds the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the statement of comprehensive income.

2.9 Collateral pending sale

The Bank occasionally acquires real estate in settlement of certain loans and advances. Real estate is stated at the lower of the net realisable value of the related loans and advances and the current fair value of such assets. Gains or losses on disposal, and unrealised losses on revaluation, are recognised in the statement of comprehensive income.

2.10 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 the 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.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.11 Employee terminal benefits

End of service benefits are accrued in accordance with the terms of employment of the Bank's employees at the reporting date, having regard to the requirements of the Oman Labour Law 2003 as amended. 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 reporting date. These accruals are included in other liabilities.

Contributions to a defined contribution retirement plan for Omani employees in accordance with the Omani Social Insurance Law 1991 are recognised as an expense in the statement of comprehensive income as incurred.

2.12 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; 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.

2.13 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 to 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 reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is calculated using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. 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 reporting date.

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.

2.14 Interest income and expense

Interest income and expense are recognised in the statement of comprehensive income for all instruments measured at amortised cost using the effective interest method, unless collectability is in doubt. 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 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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.15 Fee 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. 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 pro-rata over the period the service is provided. The same revenue recognition criteria are applied for custody services that are continuously provided over an extended period of time.

2.16 Dividend income

Dividend income is recognised when the right to receive payment is established.

2.17 Fiduciary assets

Assets held in trust or in a fiduciary capacity are not treated as assets of the Bank and, accordingly, are not included in these financial statements.

2.18 Derivative financial instruments

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at their fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

2.19 Financial guarantees contracts

Financial guarantees are contracts that require the issuer to make specified payments to reimburse the beneficiary for a loss incurred because the debtor fails to make payments when due, in accordance with the terms of the debt. Such guarantees are given to banks, financial institutions or other entities on behalf of the customers.

Financial guarantees are initially recognised in the financial statements at fair value on the date the guarantee was issued. Subsequent to initial recognition, the Bank's liabilities under such guarantees are measured at the higher of initial measurement, less amortisation calculated to recognise in the statement of comprehensive income the fee income earned on the straight line basis over the life of the guarantee and the best estimate of the expenditure required to settle any financial obligation arising at the reporting date. These estimates are determined based on experience of similar transactions and history of past losses, supplemented by the judgment of management. Any increase in the liability relating to guarantees is taken to the statement of comprehensive income.

2.20 Dividends on shares

Dividends on shares are recognised as a liability and deducted from equity when they are approved by the Bank's shareholders. Dividends for the year that are approved after the reporting date are disclosed as an event after the reporting date.

2.21 Foreign currencies

(a) Functional and presentation currency

Items included in the financial statements of the Bank are measured and presented in Rial Omani being the currency of the primary economic environment in which the Bank operates.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.21 Foreign currencies (continued)

(b) Transactions and balances

Transactions in foreign currencies are translated into Rial Omani and recorded at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated into Rial Omani at the foreign exchange rate ruling at the reporting date. Foreign exchange differences arising on translation are recognised in the statement of comprehensive income. Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated into Rial Omani at the foreign exchange rate ruling at the date of the transaction.

Changes in the fair value of monetary securities denominated in foreign currency classified as available-for-sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in amortised cost are recognised in profit or loss, and other changes in carrying amount are recognised in equity. Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets such as equities classified as available-for-sale are included in the fair value reserve in equity.

2.22 Directors' remuneration

The Directors' remuneration is governed as set out in the Memorandum of Association of the Bank, the Commercial Companies Law, regulations issued by the Capital Market Authority and regulations issued by the Central Bank of Oman.

The Annual General Meeting shall determine and approve the remuneration and the sitting fees for the Board of Directors and its sub-committees provided that such fees shall not exceed 5% of the annual net profit after deduction of the legal reserve and the optional reserve and the distribution of dividends to the shareholders provided that such fees shall not exceed RO 200,000. The sitting fees for each director shall not exceed RO 10,000 in one year.

2.23 Segment reporting

The Bank's segmental reporting is based on the following operating segments: Retail banking, Corporate banking, Investment banking, and support and unallocated functions. The segment information is set out in note 38.

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS IN APPLYING ACCOUNTING POLICIES

The key assumptions concerning the future and other key sources of estimating uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

3.1 Going concern

The Bank's management has made an assessment of the Bank's ability to continue as a going concern and is satisfied that the Bank has the resources to continue in business for the foreseeable future. Furthermore, the management is not aware of any material uncertainties that may cast significant doubt upon the Bank's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS IN APPLYING ACCOUNTING POLICIES (continued)

3.2 Impairment losses on loans and advances

The Bank reviews its loan portfolios to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in the statement of comprehensive income, the bank makes judgments 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 before the decrease can be identified with an individual loan 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, or national or local economic conditions 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 and in line with the Central Bank of Oman guidelines in this respect. 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.

3.3 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 judgment. In making this judgment, 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 reclassify the entire class as available-for-sale. In such situations, the investments would therefore be measured at fair value and not at amortised cost.

3.4 Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded on the statement of financial position cannot be derived from active markets, they are determined using a certain valuation techniques, derived from observable market data where possible. Where observable market data are not available, judgment is used to establish fair values.

3.5 Impairment of available-for-sale investments

The Bank reviews its debt securities classified as available-for-sale investments at each reporting date to assess whether they are impaired. This requires similar judgment as applied to the individual assessment of loans and advances.

The Bank also records impairment charges on available-for-sale equity investments when there has been a significant or prolonged decline in the fair value below their cost. The determination of what is ‘significant’ or ‘prolonged’ requires judgment. In making this judgment, the Bank evaluates, among other factors, historical share price movements and duration and extent to which the fair value of an investment is less than its cost.

3.6 Taxes

The Bank establishes provisions, based on reasonable estimates, for possible consequences of finalisation of tax assessments. The amount of such provisions is based on factors such as experience of previous tax assessments and interpretations of tax regulations by the Bank and the responsible tax authority.

4 STANDARDS ISSUED BUT NOT YET EFFECTIVE

Standards issued but not yet effective up to the date of issuance of the Bank's financial statements are listed below. This listing of standards and interpretations issued are those that the Bank reasonably expects to have an impact on disclosures, financial position or performance when applied at a future date. The Bank intends to adopt these standards when they become effective.

IAS 1 Financial Statement Presentation – Presentation of Items of Other Comprehensive Income (OCI)
The amendments to IAS 1 change the grouping of items presented in OCI. Items that could be reclassified (or recycled') to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. The amendment affects presentation only and has no impact on the Bank's financial position.

IFRS 7 Financial Instruments: Disclosures — Enhanced Derecognition Disclosure Requirements
The amendment requires additional disclosure about financial assets that have been transferred but not derecognised to enable the user of the Bank's financial statements to understand the relationship with those assets that have not been derecognised and their associated liabilities. In addition, the amendment requires disclosures about continuing involvement in derecognised assets to enable the user to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognised assets. The amendment becomes effective for annual periods beginning on or after 1 July 2011. The amendment affects disclosure only and will have no impact on the Bank's financial position or performance.

IFRS 9 Financial Instruments: Classification and Measurement
IFRS 9 as issued reflects the first phase of the IASBs work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. The standard is effective for annual periods beginning on or after 1 January 2015. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The completion of this project is expected over the first half of 2012. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Bank's financial assets and liabilities. The Bank will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

IFRS 13 Fair Value Measurement
IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The Bank is currently assessing the impact that this standard will have on the financial position and performance. This standard becomes effective for annual periods beginning on or after 1 January 2013.

5 FINANCIAL RISK MANAGEMENT

The Bank's activities expose it to a variety of financial risks and those activities involve the evaluation, analysis, acceptance and management of risk or combination of risks. As taking risk is core to the financial business and operational risks are an inevitable consequence of any business, the Bank's aim is to achieve an appropriate balance between risk and return while minimising the potential adverse effects on the financial performance.

The Board of Directors defines risk limits and sets suitable policies in this regard for management of credit risk, liquidity risk as well as market risk in both the trading and the banking book of the Bank. Risk Management is carried out by the Risk Management Department in accordance with documented policies approved by the Board of Directors.

The principal types of risks that the Bank faces are credit risk, liquidity risk, market risk (price risk, interest rate risk and currency risk) and operational risk.

5 FINANCIAL RISK MANAGEMENT (continued)

5.1 Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Credit exposures arise principally from lending activities, investment activities and other assets in the Bank's asset portfolio. There is also credit risk in off-balance sheet financial instruments, such as loan commitments and financial guarantees.

5.1.1 Credit risk management

The Bank attempts to control credit risk by monitoring credit exposures, limiting transactions with specific counterparties, and continually assessing the creditworthiness of counterparties. Concentrations of credit risk arise when a number of counterparties are engaged in similar business activities, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations of credit risk indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographic location. The details of concentrations of credit risk based on counterparties by industry are disclosed in Note 10(b) and the geographical concentration is disclosed in Note 36.

The credit risk management and control are centralised in the credit risk management team which is divided into corporate, financial institutions and retail groups. The credit risk in corporate and financial institutions portfolio is primarily managed by the Credit Department while the Retail Banking Department manages the credit risk in the retail portfolio. The Risk Management Department reviews the credit risk independently and directly reports to the Audit and Risk Management Committee of the Board of Directors. The Bank's assessment of probability of default of individual counterparties is mainly linked with the number of days the borrower was in default as defined by the Central Bank of Oman (CBO) circular number BM 977 dated 25 September 2004. In addition, the Bank assesses the adequacy of the security and financial performance of the borrowers in further downgrading the classification.

The Bank rates its customers into the following categories:

Bank's Rating	Past due days	
	Retail loans	Commercial loans
Standard loans	0-60 days	0-60 days
Special mention loan	60-90 days	60-90 days
Substandard loan	90-180 days	90-270 days
Doubtful loans	180-365 days	270-630 days
Loss	365 days and over	630 days and over

5.1.2 Risk mitigation policies

The Bank manages, limits and controls concentrations of credit risk – in particular, to individual counterparties and groups, and to industries and countries.

The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Such risks are monitored and reviewed periodically by the Management Credit Committee, Audit and Risk Management Committee of the Board of Directors and the Executive Committee of the Board of Directors.

5 FINANCIAL RISK MANAGEMENT (continued)

5.1.2 Risk mitigation policies (continued)

The exposure to any one borrower including banks and brokers is further restricted by sub-limits covering on- and off-balance sheet exposures. Exposure to credit risk is also managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate.

Some other specific control and mitigation measures are outlined below.

(a) Collateral

The Bank employs a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of security for funds advanced, which is common practice. The Bank implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation. The principal collateral types for loans and advances are:

- charges over business assets such as premises, inventory and accounts receivable
- lien on fixed deposits
- cash margins
- mortgages over residential and commercial properties
- pledge of marketable shares and securities

Longer-term finance and lending to corporate entities are generally secured. The housing loans are secured by mortgage over the residential property. Credit cards and similar revolving credit facilities are unsecured. Additionally, in order to minimise the credit loss the Bank seeks additional collateral from the counterparty as soon as impairment indicators are noticed for the relevant individual loans and advances.

(b) Assessment of the financial capabilities of the borrowers

The borrowers with balances above the limit specified are subject to the review of their audited financial statements. The Bank assesses the financial performance of the borrowers by reviewing key performance ratios, including solvency and liquidity ratios. The annual reviews are performed by the relationship managers and are also reviewed by the Risk Management Department.

(c) Credit-related commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit carry the same credit risk as loans. Documentary and commercial letters of credit – which are written undertakings by the Bank on behalf of a customer authorising a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions – are collateralised by the underlying shipments of goods to which they relate and therefore carry less risk than a direct loan.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards.

5 FINANCIAL RISK MANAGEMENT (continued)

The Bank monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments. The concentration of credit related commitments by industry sector at the year end is set out in Note 10(b).

An analysis of the loans and advances other than government soft loans for which collaterals or other credit enhancements are held is as follows:

	Performing loans (neither past due nor impaired)	*Loans past due but not impaired*	*Non performing loans*	*Gross Loans*
	RO'000	*RO'000*	*RO'000*	*RO'000*
Loans and advances with collateral available	**172,037**	**7,023**	**15,182**	**194,242**
Loans and advances with guarantees available	**78,119**	**-**	**-**	**78,119**
Balance as at 31 December 2011	**250,156**	**7,023**	**15,182**	**272,361**
Balance as at 31 December 2010	**214,680**	**30,053**	**11,985**	**256,718**

5.1.3 Impairment and Provisioning Policy

Impairment provisions are recognised for financial reporting purposes only for losses that have been incurred at the reporting date based on objective evidence of impairment. 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 loss events as set out in Note 2.4.9 (a) as well as considering the guidelines issued by the Central Bank of Oman.

The Bank's credit policy requires the review of individual financial assets on a quarterly basis or earlier when individual circumstances require. Impairment allowances on individually assessed accounts are determined by an evaluation of the incurred loss at the reporting date on a case-by-case basis, and are applied to all individually significant accounts. The assessment normally encompasses collateral held (including re-confirmation of its enforceability) and the anticipated receipts for that individual account.

Collectively assessed impairment allowances are provided for: (i) portfolios of homogenous assets that are individually not significant; and (ii) losses that have been incurred but have not yet been identified, by using the available historical experience and experienced judgment. The critical estimates used in determining the provision for impairment are explained in Note 3.2.

5 FINANCIAL RISK MANAGEMENT (continued)

5.1.4 Maximum exposure to credit risk before collateral held or other credit enhancements

Items on the statement of financial position	***2011*** ***RO'000***	*2010* *RO'000*
Certificates of deposit (note (d))	**100,000**	100,000
Due from banks – Money market placements	**75,887**	26,019
Loans and advances		
Corporate loans	**508,124**	384,058
Personal loans	**348,876**	298,291
Other assets	**24,632**	22,267
Investment – held to maturity:		
Government Development Bonds	**22,412**	20,077
	1,079,931	850,712
Off-Balance sheet items		
Financial guarantees	**78,119**	58,043
Undrawn loan commitments	**50,856**	4,539
	128,975	62,582

The above table represents the worst case scenario of credit risk exposure to the bank at 31 December 2011 and 31 December 2010 without taking into account the collateral held or other credit enhancements. Management is confident that the Bank has suitable policies to measure and control the credit risk. In addition credit risk is mitigated through collaterals in the form of mortgages and guarantees wherever required.

a) 68% (2010 – 94%) of the inter-bank money market placements are with banks rated investment grade and above based on the ratings assigned by External Credit Rating Agencies.

b) Loans and advances represent 74% (2010 – 72%) of the total on-balance sheet items. Of the total loans and advances 95.2% (2010 – 90.5%) are neither past due nor impaired.

c) The impaired loans have decreased from 3.1% at 31 December 2010 to 2.8% at 31 December 2011. The impaired personal loans constitute 0.9% of the total loans at 31 December 2011 compared to 1.3% at 31 December 2010.

d) Certificates of deposit which represent 9% (2010 – 10.5%) of the total on-balance sheet items are placed with the Central Bank of Oman.

5 FINANCIAL RISK MANAGEMENT (continued)

5.1.5 Loans and advances and due from banks

Loans and advances and due from banks are summarised as follows:

	2011 Loans and advances to customers RO'000	**2011 Due from banks RO'000**	**2011 Total RO'000**	*2010 Loans and advances to customers RO'000*	*2010 Due from banks RO'000*	*2010 Total RO'000*
Neither past due nor impaired	**816,056**	**75,887**	**891,943**	617,430	26,019	643,449
Special Mention loans	**9,475**	**-**	**9,475**	29,442	-	29,442
Past due but not impaired	**7,023**	**-**	**7,023**	14,524	-	14,524
Impaired	**24,446**	**-**	**24,446**	20,953	-	20,953
Gross loans and advances	**857,000**	**75,887**	**932,887**	682,349	26,019	708,368
Less: allowance for loan impairment and contractual interest not recognized						
(Refer to note (a))	**(27,155)**	**-**	**(27,155)**	(22,003)	-	(22,003)
Net loans and advances	**829,845**	**75,887**	**905,732**	660,346	26,019	686,365

a) The total impairment provision for loans and advances is RO 27,155 thousand (2010 - RO 22,003 thousand) of which RO 15,421 thousand (2010 - RO 12,496) represents the individually impaired loans and the remaining amount of RO 11,734 thousand (2010 – 9,507 thousand) represents the collective impairment provision made on a portfolio basis.

b) The break-up of the loans and advances to customers in respect of the risk ratings adopted by the Bank are:

	2011 Retail loans RO'000	**2011 Corporate loans RO'000**	**2011 Total RO'000**	*2010 Retail loans RO'000*	*2010 Corporate loans RO'000*	*2010 Total RO'000*
Standard loans	**340,227**	**482,852**	**823,079**	288,660	343,294	631,954
Special mention loans	**656**	**8,819**	**9,475**	637	28,805	29,442
Substandard loans	**560**	**828**	**1,388**	3,437	787	4,224
Doubtful loans	**562**	**3,907**	**4,469**	663	3,788	4,451
Loss	**6,871**	**11,718**	**18,589**	4,894	7,384	12,278
	348,876	**508,124**	**857,000**	298,291	384,058	682,349

5 FINANCIAL RISK MANAGEMENT (continued)

5.1.5 Loans and advances and due from banks (continued)

c) Age analysis of loans and advances past due but not impaired:

	2011 RO'000	2010 RO'000
Past due up to 30 days	**1,956**	6,665
Past due 30-60 days	**523**	4,260
Past due 60-90 days	**4,544**	3,599
Total	**7,023**	14,524
Fair value of collateral	**6,477**	17,886

d) Loans and advances individually impaired

	2011 RO'000	2010 RO'000
Individually impaired loans	**24,446**	20,953
Fair value of collateral	**12,255**	10,030

5.1.6 Loans and advances renegotiated

These arrangements include extended payment arrangements, deferral of payments and modification of interest rates. Following restructuring, a previously past due loan account is reclassified as a normal loan and managed with other similar loans which are neither past due nor impaired. The restructuring arrangements are based on the criteria and indicators which in the judgment of the management will indicate that the payment will most likely continue.

The total restructured loans at 31 December 2011 amounted to RO 5,824 thousand (2010 - RO 15,566 thousand).

5.1.7 Debt securities

The Bank's investments in debt securities are mainly in Government Development Bonds or Certificates of Deposit denominated in Rial Omani issued by the Government of Oman. The Bank also invests in debt securities issued by other banks based on their individual external credit rating. These investments are made to deploy the surplus liquid funds with maximum return.

5.1.8 Repossessed collateral

Repossessed properties are sold as soon as practicable with the proceeds used to reduce the outstanding balance of the debt. Repossessed assets are classified as other assets in the statement of financial position. The value of assets obtained by the Bank by taking possession held as collateral as security at 31 December 2011 is NIL (2010 - RO 250,000).

5 FINANCIAL RISK MANAGEMENT (continued)

5.2 Market risk

The Bank takes on exposures to market risk which is the risk that the fair value or the future cash flows of the financial assets carried at fair value will fluctuate because of changes in market prices. Market risks arise from the open positions in interest rate, currency and equity products, all of which are exposed to changes in interest rates, credit spreads, equity prices and foreign exchange rates. The market risks are monitored by the Treasury Division and the Risk Management Department. Management is confident that the Bank has proper risk management policies in place to ensure that interest risk, liquidity risk and foreign exchange risk are mitigated considering the macro economic indicators affecting the banking business.

5.2.1 Price risk

The Bank holds listed securities classified as held-for-trading to take advantage of short-term and capital market movements. All investment securities present a risk of loss of capital. The Bank controls this risk through a careful selection of securities in accordance with Investment Management Policy approved by the Board. The maximum risk resulting from financial instruments is determined by the carrying amount of the financial instruments. The Bank's market positions are managed on a daily basis by the Head of Investment Management Department and are reviewed periodically by the Investment Committee.

A significant portion of the Bank's investments include equity securities which are publicly traded on the Muscat Securities Market (MSM). The bank's profits at 31 December 2011 may change by $\pm$ 1.02% (2010 - $\pm$1.07%) due to increase/decrease by 10% in the MSM - 30 Index and the GCC market indices, with all the other variables held constant. The Bank's investments have historically performed in line with the MSM - 30 Index.

5.2.2 Interest rate risk

Interest rate risk is the risk that the value of a financial instrument carried at fair value will fluctuate due to changes in the market interest rates. The Bank is exposed to interest rate risk as a result of mismatches or gaps in the amount of interest based assets and liabilities that mature or re-price in a given period. The bank manages this risk by matching/re-pricing of assets and liabilities. The Bank is not excessively exposed to interest rate risk as its assets and liabilities are re-priced frequently. The Bank's Assets and Liabilities Committee (ALCO) monitors and manages the interest rate with the objective of limiting the potential adverse effects on the Bank's profitability. The table in Note 34 summarises the Bank's exposure to the interest rate risks. It includes the Bank's financial instruments at the carrying amount, categorised by the earlier of the contractual re-pricing and maturity dates.

For managing its interest rate risk in the banking book the Bank stipulates limits on open interest rate sensitive gaps for maturities up to 1 year and also periodically calculates Earnings at Risk (EaR) impact on its Net Interest Income (NII) from 100bps change in interest rates on open interest rate gaps for maturities up to 1 year. The EaR limit is stipulated as a certain percentage of the NII of the Bank for the previous year. The EaR at 31 December 2011 is 13.78% (2010 - 12.50%).

5.2.3 Currency risk

Currency risk arises when the value of a financial instrument changes due to changes in foreign exchange rates. In order to manage currency risk exposure the Bank enters into ready, spot and forward transactions in the inter-bank market as per documented policies approved by the Board of Directors.

The Bank's foreign exchange exposure comprises of forward contracts, foreign currencies cash in hand, balances with banks abroad, foreign placements and other assets and liabilities denominated in foreign currency. The management manages the risk by monitoring net open position in line with limits set by the management and approved by the Executive Committee of the Board and entering into forward contracts based on the underlying commercial transactions with the customers.

5 FINANCIAL RISK MANAGEMENT (continued)

5.2.3 Currency risk (continued)

Additionally, appropriate segregation of duties exist between the front and back office functions while compliance with the net open position is independently monitored on an ongoing basis by the management and the Assets and Liabilities Committee (ALCO). The net open position of the Bank in foreign currency exposures at the year end is set out below:

Foreign currency exposures

	2011 ***RO›000***	*2010* *RO›000*
Net assets denominated in US Dollars	**849**	12,231
Net assets denominated in other foreign currencies	**1,189**	1,118

Oman operates with a fixed exchange rate, and the Omani Rial is pegged to the US Dollar at $2.6008 per Omani Rial.

5.2.4 Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at close to its fair value. It includes the risk of being unable to fund assets at appropriate maturities and rates and the risk of being unable to liquidate an asset at a reasonable price and in an appropriate time frame.

The Bank's funding activities are based on a range of instruments including deposits, other liabilities and assigned capital. Consequently, funding flexibility is increased and dependence on any one source of funds is reduced. The Bank maintains liquidity by continually assessing, identifying and monitoring changes in funding needs required to meet strategic goals set in terms of the overall strategy. In addition the Bank holds certain liquid assets as part of its liquidity risk management strategy.

The Bank manages the liquidity risk based on estimated maturities using the guidelines provided by the Central Bank of Oman for the estimates. The table in Note 34 represents cash flows receivable to and payable by the Bank under derivative and non derivative assets and liabilities by estimated remaining maturities at the reporting date.

5.3 Operational risk

Operational risk is the risk of direct or indirect loss resulting from inadequate or failed internal processes, people, and systems or from external events.

Losses from external events such as a natural disaster that has a potential to damage the Bank's physical assets or electrical or telecommunication failures that disrupt business are relatively easier to define than losses from internal problems such as employee fraud and product flaws. The risks from internal problems are more closely tied to the Bank's specific products and business lines; they are more specific to the Bank's operations than the risks due to external events. Operational risks faced by the Bank include IT Security, telecom failure, frauds, and operational errors.

Operational risk is controlled through a series of strong internal controls and audits, well-defined segregation of duties and reporting lines, operational manuals and standards. Internal audit independently reviews the effectiveness of the Bank's internal controls and its ability to minimize the impact of operational risks.

5 FINANCIAL RISK MANAGEMENT (continued)

5.4 Fair value estimation

The estimate of fair values of the financial instruments is based on information available to management as at 31 December 2011. Whilst management has used its best judgment in estimating the fair value of the financial instruments, there are inherent weaknesses in any estimation technique. The estimates involve matters of judgment and cannot be determined with precision. The bases adopted in deriving the fair values are as follows:

5.4.1 Current account balances due to and 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.

5.4.2 Loans and advances

The fair value of non-performing loans approximates to the book value adjusted for allowance for loan impairment. For the performing loans, the fair value is taken as being equivalent to its carrying amount as the prevailing interest rates offered on similar loans are not materially different from the actual loan rates.

5.4.3 Investments at fair value through profit and loss and available for sale

Quoted market prices, when available, are used as the measure for fair value. However, when the quoted market prices do not exist, fair value presented is estimated using discounted cash flow models or other valuation techniques. Changes in fair value resulting from these calculations are not material to the financial statements.

5.4.4 Customers' deposits

The fair value of demand, call, and savings deposits is the amount payable on demand at the reporting date, which equal to the carrying value of those liabilities. The estimated fair value of fixed rate deposits whose interest rates are materially different from the prevailing market interest rates are determined by discounting the contractual cash flows using the market interest rates currently offered for similar deposits.

5.4.5 Derivatives

The Bank usually enters into short term forward foreign exchange contracts, on behalf of its customers for the sale and purchase of foreign currencies. For forward foreign exchange contracts, it uses a valuation model with readily available market observable inputs. The model incorporates various inputs including the credit quality of counterparties, foreign exchange spot and forward rates and interest rate curves.

5 FINANCIAL RISK MANAGEMENT (continued)

5.5 Financial instruments by category

The accounting policies for financial instruments have been applied to the line items below:

Assets as per statement of financial position	*Fair value through profit or loss RO'000*	*Held to maturity RO'000*	*Available-for-sale investments RO'000*	*Loans and receivables RO'000*	*Total RO'000*
31-Dec-11					
Bank balances and cash	**-**	**32,895**	**-**	**-**	**32,895**
Certificates of deposit	**-**	**100,000**	**-**	**-**	**100,000**
Due from banks	**-**	**75,887**	**-**	**-**	**75,887**
Loans and advances	**-**	**-**	**-**	**829,845**	**829,845**
Investment securities	**5,661**	**22,412**	**8,316**	**-**	**36,389**
Other assets	**-**	**-**	**-**	**24,632**	**24,632**
	5,661	**231,194**	**8,316**	**854,477**	**1,099,648**
31-Dec-10					
Bank balances and cash	-	100,730	-	-	100,730
Certificates of deposit	-	100,000	-	-	100,000
Due from banks	-	26,019	-	-	26,019
Loans and advances	-	-	-	660,346	660,346
Investment securities	5,995	20,077	5,738	-	31,810
Other assets	-	-	-	22,267	22,267
	5,995	246,826	5,738	682,613	941,172

Liabilities as per statement of financial position				*Other Liabilities RO'000*	*Total RO'000*
31-Dec-11					
Due to banks	**-**	**-**	**-**	**7,678**	**7,678**
Deposits from customers	**-**	**-**	**-**	**909,660**	**909,660**
Other liabilities	**-**	**-**	**-**	**32,812**	**32,812**
Taxation	**-**	**-**	**-**	**3,559**	**3,559**
	-	**-**	**-**	**953,709**	**953,709**
31-Dec-10					
Due to banks	-	-	-	5,771	5,771
Deposits from customers	-	-	-	769,761	769,761
Other liabilities	-	-	-	31,720	31,720
Taxation	-	-	-	3,572	3,572
	-	-	-	810,824	810,824

6 CAPITAL MANAGEMENT

The Bank's objectives of capital management are:

- to comply with the capital requirements set by the regulator i.e. the Central Bank of Oman;
- to safeguard the Bank's ability to continue as a going concern while providing adequate returns to the shareholders; and
- to maintain a strong capital base to support the development of its business.

The principal objective of the Central Bank of Oman's (CBO) capital adequacy requirements is to ensure that an adequate level of capital is maintained to withstand any losses which may result from the risks in a Bank's statement of financial position, in particular credit risk. The CBO's risk-based capital adequacy framework is consistent with the international standards of the Bank for International Settlements (BIS).

The CBO required the banks registered in the Sultanate of Oman to maintain a minimum capital adequacy ratio of 10% based on guidelines of the Basel II Accord from January 2007. The minimum capital adequacy ratio has been increased to 12% from 31 December 2010 onwards.

The ratio calculated in accordance with the CBO and BIS capital adequacy guidelines as per the Basel II Accord is as follows:

	2011	*2010*
	RO'000	*RO'000*
Capital		
Tier 1	**148,695**	124,490
Tier 2	**11,851**	10,111
Total capital base	**160,546**	134,601
Risk weighted assets		
Credit risk	**1,059,532**	807,093
Market risk	**16,363**	31,425
Operational risk	**97,163**	90,475
Total risk weighted assets	**1,173,058**	928,993
Capital adequacy ratio %	**13.69**	14.49

The Tier 1 capital consists of paid-up capital and reserves. The Tier 2 capital consists of the collective provision made for the loan impairment on the performing portion of the loans and advances against the losses incurred but not identified.

7 CASH AND BALANCES WITH THE CENTRAL BANK OF OMAN

	2011	*2010*
	RO'000	*RO'000*
Cash in hand	**19,459**	19,270
Balances with the Central Bank of Oman:		
- Clearing account and other balances	**12,936**	80,960
- Capital deposit	**500**	500
	32,895	100,730

The capital deposit cannot be withdrawn without the approval of the Central Bank of Oman. The capital deposit earns interest at 2% per annum (2010 – 2% p.a.).

8 CERTIFICATES OF DEPOSIT

Certificates of Deposit are issued by the Central Bank of Oman for periods ranging from 28 days to 6 months and carry interest at the rate of 0.09% (2010 – 0.05%) per annum.

9 DUE FROM BANKS

	2011	2010
	RO'000	RO'000
Money market placements	**57,548**	8,615
Current accounts	**18,339**	17,404
	75,887	26,019

At 31 December 2011, 76% of the Bank's placements were with five banks rated between A2 to Ba1 by Moody's (2010 – 81% of the Bank's placements were with five banks rated Aaa to A1).

10 LOANS AND ADVANCES

	2011	2010
	RO'000	RO'000
Corporate loans		
Term loans	**399,466**	295,457
Overdrafts	**89,837**	78,163
Bills discounted	**18,821**	10,438
	508,124	384,058
Personal loans		
Consumer loans	**275,023**	228,661
Mortgage loans	**45,191**	29,595
Overdrafts	**22,660**	34,698
Credit cards	**6,002**	5,337
	348,876	298,291
Gross loans and advances	**857,000**	682,349
Less: allowance for loan impairment and contractual interest not recognised (refer to note (a) below)	**(27,155)**	(22,003)
Net loans and advances	**829,845**	660,346

(a) Allowance for loan impairment

The movements in the allowance for loan impairment are as follows:

	Allowance for loan impairment RO' 000	***Contractual interest not recognised RO' 000***	***Total RO' 000***
Balance at 1 January 2011	**17,401**	**4,602**	**22,003**
Provided during the year	**6,173**	**1,968**	**8,141**
Amounts written off during the year	**(266)**	**(56)**	**(322)**
Amounts released/recovered during the year	**(1,980)**	**(687)**	**(2,667)**
Balance at 31 December 2011	**21,328**	**5,827**	**27,155**

10 LOANS AND ADVANCES (continued)

	Allowance for loan impairment RO'000	*Contractual interest not recognised* RO'000	*Total* RO'000
Balance at 1 January 2010	14,151	3,696	17,847
Provided during the year	4,562	1,556	6,118
Amounts written off during the year	(154)	(66)	(220)
Amounts released/recovered during the year	(1,158)	(584)	(1,742)
Balance at 31 December 2010	17,401	4,602	22,003

At 31 December 2011, RO 11,734 thousand (2010 - RO 9,507 thousand) out of the total loan impairment provisions has been made on a portfolio basis against the losses incurred but not identified on the performing portion of the loans and advances.

At 31 December 2011, loans and advances on which contractual interest was not recognised or has not been accrued amounted to RO 24,446 thousand (31 December 2010 – RO 20,953 thousand).

(b) Concentration of loans and advances

All loans and advances were granted to customers within the Sultanate of Oman. The concentration of gross loans and advances by economic sector is as follows:

	2011 ***RO'000***	*2010* *RO'000*
Personal loans	**348,876**	298,291
Manufacturing	**92,025**	61,695
Transportation	**83,995**	37,219
Construction	**75,325**	69,414
Services	**63,282**	65,674
Wholesale and retail trade	**52,486**	39,256
Mining and quarrying	**30,742**	32,645
Import trade	**26,061**	13,657
Financial institutions	**20,201**	18,325
Agriculture and allied activities	**6,449**	6,879
Government	**-**	2,389
Others	**57,558**	36,905
	857,000	682,349

Of the above, loans with variable interest rates amount to RO 331,783 thousand (2010 - RO 258,956 thousand) and loans carrying fixed interest rates amount to RO 525,217 thousand (2010 - RO 423,393 thousand).

11 INVESTMENT SECURITIES

	2011 Carrying value RO'000	2011 Cost RO'000	2010 Carrying value RO'000	2010 Cost RO'000
Available-for-sale				
- quoted	**7,980**	**7,659**	5,392	4,000
- unquoted	**336**	**396**	346	396
	8,316	**8,055**	5,738	4,396
Designated as at fair value through profit or loss				
- quoted	**573**	**517**	618	517
- unquoted	**506**	**1,263**	503	1,263
	1,079	**1,780**	1,121	1,780
Held-for-trading				
- quoted	**4,582**	**5,516**	4,874	5,280
- unquoted	-	-	-	-
Held-to-maturity				
Oman Government Development Bonds	**22,412**	**22,412**	20,077	20,077
Total investment securities	**36,389**	**37,763**	31,810	31,533

Unquoted financial assets at fair value through profit or loss include investment in the Financial Settlement and Guaranteed Fund of RO 166,130 (2010 – RO 166,130) which is not recoverable until the date the Bank ceases its brokerage activities or the fund is liquidated, whichever is earlier.

Refer note 34 for the maturity profile of the investment securities.

Fair value hierarchy

The Bank uses the following hierarchy for determining and disclosing the fair value of financial investments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

Transfers between levels

During the reporting period ended 31 December 2011, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

11 INVESTMENT SECURITIES (continued)

The movements in investment securities may be summarised as follows:

	At 1 January 2011 RO'000	Additions RO'000	Disposals (sale & redemption) RO'000	Changes in fair value recorded in statement of comprehensive income RO'000	Changes in fair value recorded in equity RO'000	At 31 December 2011 RO'000
Available-for- sale						
Quoted – level 1	5,392	4,349	(691)	-	(1,070)	**7,980**
Unquoted – level 3	346	-	-	-	(10)	**336**
Designated as at fair value through profit or loss						
Quoted – level 1	618	-	-	(45)	-	**573**
Unquoted – level 3	503	-	-	3	-	**506**
Held for trading						
Quoted – level 1	4,874	9,006	(8,770)	(528)	-	**4,582**
Investments held to maturity	20,077	2,335	-	-	-	**22,412**
At 31 December 2011	**31,810**	**15,690**	**(9,461)**	**(570)**	**(1,080)**	**36,389**

	At 1 January 2010 RO'000	Additions RO'000	Disposals (sale & redemption) RO'000	Changes in fair value recorded in statement of comprehensive income RO'000	Changes in fair value recorded in equity RO'000	At 31 December 2010 RO'000
Available-for- sale						
Quoted – level 1	5,161	-	-	-	231	5,392
Unquoted – level 3	31	366	-	-	(51)	346
Designated as at fair value through profit or loss						
Quoted – level 1	132	450	-	36	-	618
Unquoted – level 3	945	9	(450)	(1)	-	503
Held for trading						
Quoted – level 1	4,157	5,782	(5,019)	(46)	-	4,874
Unquoted – level 2	142	-	(142)	-	-	-
Investments held to maturity	21,628	2,400	(3,951)	-	-	20,077
At 31 December 2010	32,196	9,007	(9,562)	(11)	180	31,810

11 INVESTMENT SECURITIES (continued)

Included under investments held to maturity are bonds issued by the Government of Oman amounting to RO 22,412 thousand (2010: RO 20,077 thousand). The bonds are denominated in Rial Omani and carry interest rates varying between 3.25% and 4% (2010 – 3.25% to 4%) per annum. The maturity profile of these bonds, based on the remaining maturity from the reporting date, is as follows:

	2011	*2010*
	RO'000	*RO'000*
Within 3 months	**-**	-
4 to 12 months	**13,191**	-
1 to 5 years	**9,221**	20,077
	22,412	20,077

12 OTHER ASSETS

	2011	*2010*
	RO'000	*RO'000*
Customers' indebtedness against acceptances	**14,924**	14,420
Interest receivable	**3,132**	2,699
Prepayments	**1,299**	1,456
Receivable from investment customers	**1,183**	405
Positive fair value of derivatives (note 32)	**321**	444
Clearing cheques	**-**	608
Others	**3,773**	2,235
	24,632	22,267

13 PROPERTY AND EQUIPMENT

	Land and buildings RO'000	***Computer equipment RO'000***	***Equipment, furniture and fixtures RO'000***	***Motor vehicles RO'000***	***Capital work in progess RO'000***	***Total RO'000***
2011						
Cost						
At 1 January 2011	**6,521**	**9,939**	**6,042**	**587**	**3,660**	**26,749**
Additions	**-**	**549**	**718**	**15**	**3,370**	**4,652**
Transfers	**-**	**852**	**17**	**-**	**(869)**	**-**
Disposals	**-**	**(14)**	**(493)**	**(27)**	**(228)**	**(762)**
At 31 December 2011	**6,521**	**11,326**	**6,284**	**575**	**5,933**	**30,639**
Depreciation						
At 1 January 2011	**2,569**	**7,258**	**4,116**	**323**	**-**	**14,266**
Charge for the year	**-**	**1,032**	**739**	**94**	**-**	**1,865**
Relating to disposals	**-**	**(14)**	**(468)**	**(27)**	**-**	**(509)**
At 31 December 2011	**2,569**	**8,276**	**4,387**	**390**	**-**	**15,622**
Net book value						
At 31 December 2011	**3,952**	**3,050**	**1,897**	**185**	**5,933**	**15,017**

13 PROPERTY AND EQUIPMENT (continued)

	Land and buildings RO'000	*Computer equipment RO'000*	*Equipment, furniture and fixtures RO'000*	*Motor vehicles RO'000*	*Capital work in progess RO'000*	*Total RO'000*
2010						
Cost						
At 1 January 2010	6,521	8,853	5,467	568	798	22,207
Additions	-	591	454	95	3,680	4,820
Transfers	-	595	223	-	(818)	-
Disposals	-	(100)	(102)	(76)	-	(278)
At 31 December 2010	6,521	9,939	6,042	587	3,660	26,749
Depreciation						
At 1 January 2010	2,483	6,461	3,517	308	-	12,769
Charge for the year	86	895	700	90	-	1,771
Relating to disposals	-	(98)	(101)	(75)	-	(274)
At 31 December 2010	2,569	7,258	4,116	323	-	14,266
Net book value						
At 31 December 2010	3,952	2,681	1,926	264	3,660	12,483

14 DUE TO BANKS

	2011 RO'000	*2010 RO'000*
Current accounts	**7,678**	3,109
Money market acceptances	**-**	2,662
	7,678	5,771

15 DEPOSITS FROM CUSTOMERS

	2011 RO'000	*2010 RO'000*
Term deposits	**391,725**	290,971
Demand and call accounts	**381,038**	368,083
Saving accounts	**136,897**	110,707
	909,660	769,761

The concentration of customers' deposits by Private and Government sector is as follows:

	2011 RO'000	*2010 RO'000*
Private	**603,529**	581,899
Government	**306,131**	187,862
	909,660	769,761

16 OTHER LIABILITIES

	2011 RO'000	2010 RO'000
Liabilities against acceptances	**14,924**	14,420
Payable to investment customers	**7,084**	3,504
Accrued expenses and other payables	**3,002**	2,781
Acceptances and certified cheques	**2,462**	6,101
Staff terminal benefits (note 17)	**2,352**	2,079
Interest payable	**1,789**	1,307
Interest and commission received in advance	**898**	1,041
Negative fair value of derivatives (note 32)	**301**	385
Deposits for shares pending allotment	**-**	102
	32,812	31,720

17 STAFF TERMINAL BENEFITS

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

	2011 RO'000	2010 RO'000
At 1 January	**2,079**	1,914
Charge for the year	**288**	223
Payment to employees during the year	**(15)**	(58)
At 31 December	**2,352**	2,079

18 TAXATION

	2011 RO'000	2010 RO'000
Statement of comprehensive income:		
Current year	**3,276**	3,327
Prior year	**3**	-
Deferred taxation	**38**	245
	3,317	3,572
Statement of financial position:		
Current year tax payable	**3,276**	3,327
Deferred tax liability	**283**	245
Total tax liability	**3,559**	3,572
Deferred tax liability:		
At 1 January	**245**	-
Movement for the year	**38**	245
At 31 Decmber	**283**	245

18 TAXATION (continued)

The Bank is liable for income tax in accordance with the income tax laws of the Sultanate of Oman. The tax rate applicable to the Bank is 12%. For determining the tax expense for the year, the accounting profit for the year has been adjusted for tax purposes. Adjustments for tax purposes include items relating to both income and expense. After giving effect to these adjustments, the average effective tax rate is estimated to be 12.36% (2010 – 12.44%).

The deferred tax liability has been recognised at the effective rate of 12% (2010 – 12%).

The reconciliation between the profit before taxation and the tax expense is as follows:

	2011	*2010*
	RO'000	*RO'000*
Profit before tax	**26,522**	26,742
Tax at the applicable rate of 12% after statutory deduction of RO 30 thousand (2010 - 12%)	**3,179**	3,205
Tax effect of temporary differences	**38**	32
Tax effect of income that is not taxable and expenses that are not deductible in determining taxable profit	**59**	90
Tax expense for the current year	**3,276**	3,327
Add: deferred tax liability created during the year	**38**	245
Tax expense for the year	**3,314**	3,572

Status of tax assessments

The assessments for the years up to 2005 are complete. The assessments for 2006 to 2010 are not yet finalised by the Tax Authorities. Management believes that no significant further liabilities will be incurred by the Bank on completion of the pending tax assessment.

19 SHARE CAPITAL

The authorised capital of the Bank is RO 120,000,000 and issued share capital comprises 100,000,000 fully paid shares (2010: 85,000,000) of RO 1 each. The shareholders at the year end were as follows:

	Country of incorporation	**Share holding %**	***2011***	*2010*
			RO'000	*RO'000*
Oman International Development & Investment Co. SAOG	Oman	**50.99**	**50,990**	43,341
Arab Bank Plc	Jordan	**49.00**	**49,000**	41,650
Oman Investment Services SAOC	Oman	**0.01**	**10**	9
			100,000	85,000

During the year ended 31 December 2011, the Bank has increased its paid up capital through a rights issue of RO 13 million (2010 : RO 8 million) and RO 2 million (2010 : RO 2 million) in the form of bonus issue. The shareholders duly approved this issue in the Annual General Meeting held on 8 March 2011 (2010 : 7 March 2010).

20 LEGAL RESERVE

In accordance with Article 106 of the Omani Commercial Companies Law of 1974, the Bank is required to transfer 10% of its profit after tax for the year to legal reserve until the accumulated balance of the reserve equals at least one third of the Bank's paid up share capital. This reserve is not available for distribution.

21 GENERAL RESERVE

The Bank has established a policy to set aside a portion of the profit each year to a 'General reserve' in order to meet any unforeseen contingencies.

22 DIVIDEND PROPOSED AND PAID

The Board of Directors proposed a cash dividend of RO 0.120 per share totalling to RO 12 million and a stock dividend of RO 0.060 totalling to RO 6 million for the year ended 31 December 2011 (2010 - RO 0.200 per share totalling to RO 17 million). A resolution to approve the dividend will be presented to the shareholders at the Annual General Meeting.

At the Annual General Meeting held on 8 March 2011, a cash dividend of RO 0.200 per share totalling to RO 17 million (2010 : RO 0.200 per share totalling to RO 15 milion) for the year ended 31 December 2010 was approved and subsequently paid.

23 INTEREST INCOME

	2011	*2010*
	RO'000	*RO'000*
Loans and advances	**42,691**	40,185
Placements with banks and other money market placements	**80**	139
Certificates of deposits	**85**	80
Oman Government Development Bonds	**517**	639
	43,373	41,043

24 INTEREST EXPENSE

	2011	*2010*
	RO'000	*RO'000*
Time deposits	**5,608**	6,362
Call accounts	**470**	565
Bank borrowings	**457**	394
Savings accounts	**358**	365
	6,893	7,686

25 FEE AND COMMISSION INCOME – NET

	2011 RO'000	2010 RO'000
Fee and commission income	**15,247**	14,475
Fee and commission expense	**(1,612)**	(959)
	13,635	13,516

26 INVESTMENT INCOME

	2011 RO'000	2010 RO'000
Fair value changes from financial assets at fair value through profit or loss	**(570)**	(11)
Profit on sale of investments	**314**	79
Dividend income	**881**	238
	625	306

27 OTHER OPERATING INCOME

	2011 RO'000	2010 RO'000
Exchange income	**3,967**	3,946
Other income	**668**	407
	4,635	4,353

28 OPERATING EXPENSES

	2011 RO'000	2010 RO'000
Staff costs (refer below)	**15,452**	12,949
Other operating expenses	**7,926**	7,150
Depreciation	**1,865**	1,771
Directors' remuneration	**104**	100
	25,347	21,970
Details of staff costs are as follows:		
Salaries	**10,801**	9,049
Allowances	**2,240**	2,051
Social security costs	**717**	612
End of service benefits	**286**	223
Other costs	**1,408**	1,014
	15,452	12,949

29 EARNINGS PER SHARE

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

	2011	2010
Profit for the year (RO'000)	**23,204**	23,170
Weighted average number of shares outstanding during the year	**96,301,370**	85,049,315
Basic earning per share (RO)	**0.241**	0.272

During the year ended 31 December 2011, the Bank issued 2,000,000 bonus shares of RO 1 each to the existing shareholders. As the bonus issue was without consideration, the number of ordinary shares outstanding before the event is adjusted for the proportionate change in the number of ordinary shares outstanding as if the event had occurred at the beginning of the earliest period presented. The weighted average number of shares outstanding during the year have been adjusted for rights issue.

No figure for diluted earnings per share has been presented, as the Bank has not issued any instruments, which would have an impact on earnings per share when exercised.

30 RELATED PARTY TRANSACTIONS

Management service agreement with a shareholder

The Bank has a management agreement with Arab Bank Plc Jordan, a shareholder. The details of the agreement are set out in note 1. During the year ended 31 December 2011, the management fees as per the agreement amounted to RO 29 thousand (2010: RO 29 thousand).

Other related parties transactions

In the ordinary course of business, the Bank conducts transactions with certain of its Directors and/or 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			*2010*		
	Major shareholders RO'000	***Others RO'000***	***Total RO'000***	*Major shareholders RO'000*	*Others RO'000*	*Total RO'000*
Loans and advances	**3,900**	**39,020**	**42,920**	2,600	13,667	16,267
Customers' deposits	**218**	**7,103**	**7,321**	836	4,919	5,755
Investments	**582**	**432**	**1,014**	271	481	752
Due from banks	**41,014**	**-**	**41,014**	13,736	-	13,736
Due to banks	**2,395**	**-**	**2,395**	348	-	348
Letters of credit, guarantees and acceptances	**220,268**	**1,866**	**222,134**	118,811	4,046	122,857

30 RELATED PARTY TRANSACTIONS (continued)

Movement of loans and advances given to related parties:

	2011 RO'000	2010 RO'000
At 1 January	**16,267**	24,293
Disbursed during the year	**56,724**	51,244
Paid during the year	**(30,071)**	(59,270)
At 31 December	**42,920**	16,267

None of the loans and advances given to related parties were identified as impaired.

The statement of comprehensive income includes the following amounts in relation to the transactions with related parties:

	2011 Major shareholders RO'000	2011 Others RO'000	2011 Total RO'000	2010 Major shareholders RO'000	2010 Others RO'000	2010 Total RO'000
Interest and commission income	**605**	**1,113**	**1,718**	186	435	621
Interest expense	**301**	**14**	**315**	668	2	670

Key management compensation

The Directors' remuneration is set out in Note 28. The remuneration of other members of key management during the year was as follows:

	2011 RO'000	2010 RO'000
Salaries and other short-term benefits	**1,132**	1,112
End of service benefits	**67**	59
	1,199	1,171

31 CASH AND CASH EQUIVALENTS

	2011 RO'000	2010 RO'000
Cash and balances with the Central Bank of Oman (CBO)	**32,895**	100,730
Certificates of deposit	**100,000**	100,000
Due from banks	**75,887**	26,019
Less: due to banks	**(7,678)**	(5,771)
Restricted deposits included under balances with the CBO	**(500)**	(500)
	200,604	220,478

32 DERIVATIVE FINANCIAL INSTRUMENTS

At the reporting date, there were outstanding forward foreign exchange contracts, all maturing within one year, entered into on behalf of customers for the sale and purchase of foreign currencies. These financial instruments have been recognised at prices in active markets for identical assets or liabilities. These fair values and the notional contracted amounts are summarised below:

				Notional amounts by term to maturity		
	Positive fair value RO'000 (note 12)	*Negative fair value RO'000 (note 16)*	*Notional amount RO'000*	*Within 3 months RO'000*	*3 – 12 Months RO'000*	*1 – 5 Years RO'000*
31-Dec-11						
Purchase contracts	**321**	**-**	**30,348**	**25,420**	**4,928**	-
Sale contracts	**-**	**(301)**	**30,327**	**25,411**	**4,916**	-
31-Dec-10						
Purchase contracts	444	-	37,130	26,945	10,185	-
Sale contracts	-	(385)	37,071	26,921	10,150	-

33 CONTINGENT LIABILITIES AND COMMITMENTS

(a) Letters of credit and guarantees

The Bank is a party to financial instruments with off-balance sheet credit risk in the normal course of business to meet the financing needs of its customers. These financial instruments include standby letters of credit, financial guarantees to third parties, commitments to extend credit and acceptances.

The Bank's exposure to credit loss in the event of non-performance by the other party to such financial instruments is represented by the contract value or the notional amount of the instrument. However, generally the credit risk on these transactions is lower than the contract value or the notional amount. In addition, some commitments to extend credit can be cancelled or revoked at any time at the Bank's option.

The risk involved is essentially the same as the credit risk involved in extending loan facilities and therefore these transactions are subject to the same credit organisation, portfolio maintenance and collateral requirements as for customers applying for loans and advances.

The outstanding contract value or the notional amounts of these instruments at 31 December were as follows:

	2011	*2010*
	RO'000	*RO'000*
Letters of credit	**259,731**	285,623
Guarantees	**438,327**	344,106
Financial Guarantees	**78,119**	58,043
	776,177	687,772

Letters of credit and guarantees amounting to RO 570,844 thousand (2010 - RO 506,123 thousand) were counter guaranteed by other banks.

Letters of credit and guarantees include RO 619 thousand (2010: RO 342 thousand) relating to non-performing loans.

33 CONTINGENT LIABILITIES AND COMMITMENTS (continued)

(a) Letters of credit and guarantees (continued)

The concentration of letters of credit and guarantees by industry sector is as follows:

	2011 RO'000	*2010 RO'000*
Export trade	**208,636**	213,966
Construction	**217,284**	192,847
Import trade	**51,095**	71,659
Utilities	**36,815**	18,403
Government	**171,685**	127,319
Transportation	**53,342**	25,375
Wholesale and retail trade	**16,384**	11,763
Manufacturing	**12,161**	15,118
Services	**8,775**	11,322
	776,177	687,772

(b) Capital commitments

At the reporting date, outstanding capital commitments in respect of premises and equipment purchases were RO 4,892 thousand (2010 - RO 219 thousand). During the year, the Bank has entered into a contract for the construction of an additional Head Office Building. The capital commitments for 2011 include RO 4,875 thousand payable for the construction of the Bank's new Head Office building.

(c) Undrawn loan commitments

At the reporting date, outstanding undrawn loan commitments amounted to RO 50,856 thousand (2010- RO 4,539 thousand). Each undrawn loan commitment is included in the time band containing the earliest date it can be drawn down.

The commitments set out in (b) to (c) above are expected to crystallise in the following periods:

	Up to 1 year RO'000	**1 to 5 years RO'000**	**Over 5 years RO'000**	**Total RO'000**
2011				
Capital commitments	**4,892**	**-**	**-**	**4,892**
Undrawn loan commitments	**39,856**	**11,000**	**-**	**50,856**
2010				
Capital commitments	219	-	-	219
Undrawn loan commitments	3,715	413	411	4,539

(d) Legal claims

Litigation is a common occurrence in the banking industry due to the nature of the business. The Bank has an established protocol for dealing with such legal claims. Once professional advice has been obtained and the amount of damages reasonably estimated, the Bank makes adjustments to account for any adverse effects which the claims may have on its financial standing. At year end, the Bank had certain unresolved legal claims which are not expected to have any significant implication on the Bank's financial statements.

34 ASSETS AND LIABILITIES MATURITY PROFILE

The Bank has established policies to manage the liquidity risk arising from the mismatch in the final maturity of the assets and liabilities on the statement of financial position as explained in Note 5.2.4. The table below represents cash flows receivable to and payable by the Bank under derivative and non derivative assets and liabilities by estimated remaining maturities at the reporting date.

2011	*On demand or within 3 months RO'000*	*3 to 12 months RO'000*	*1 to 5 years RO'000*	*Over 5 years RO'000*	*Total RO'000*
Assets					
Cash and balances with the Central Bank of Oman	**25,278**	**3,529**	**1,476**	**2,612**	**32,895**
Certificates of deposit	**100,000**	**-**	**-**	**-**	**100,000**
Due from banks	**75,887**	**-**	**-**	**-**	**75,887**
Loans and advances	**237,875**	**57,863**	**146,270**	**387,837**	**829,845**
Investment securities	**13,977**	**13,191**	**9,221**	**-**	**36,389**
Other assets	**17,122**	**6,477**	**1,033**	**-**	**24,632**
Property and equipment	**-**	**-**	**-**	**15,017**	**15,017**
Total assets	**472,662**	**81,060**	**158,000**	**402,943**	**1,114,665**
Liabilities					
Due to banks	**7,678**	**-**	**-**	**-**	**7,678**
Deposits from customers	**409,186**	**248,178**	**103,818**	**148,478**	**909,660**
Other liabilities	**26,880**	**2,548**	**3,384**	**-**	**32,812**
Taxation	**3,276**	**283**	**-**	**-**	**3,559**
Total liabilities	**447,020**	**251,009**	**107,202**	**148,478**	**953,709**
Net assets	**25,642**	**(169,949)**	**50,798**	**254,465**	**160,956**
Forward exchange contracts at notional amounts (note 32)					
Purchase contracts	**25,420**	**4,928**	**-**	**-**	**30,348**
Sale contracts	**(25,411)**	**(4,916)**	**-**	**-**	**(30,327)**

34 ASSETS AND LIABILITIES MATURITY PROFILE (continued)

2010	*On demand or within 3 months* RO'000	*3 to 12 months* RO'000	*1 to 5 years* RO'000	*Over 5 years* RO'000	*Total* RO'000
Assets					
Cash and balances with the Central Bank of Oman	55,096	22,910	7,565	15,159	100,730
Certificates of deposit	100,000	-	-	-	100,000
Due from banks	26,019	-	-	-	26,019
Loans and advances	187,783	89,667	110,320	272,576	660,346
Investment securities	11,733	-	17,677	2,400	31,810
Other assets	15,093	6,253	921	-	22,267
Property and equipment	-	-	-	12,483	12,483
Total assets	395,724	118,830	136,483	302,618	953,655
Liabilities					
Due to banks	5,771	-	-	-	5,771
Deposits from customers	340,637	217,823	71,927	139,374	769,761
Other liabilities	25,794	2,869	3,057	-	31,720
Taxation	-	3,572	-	-	3,572
Total liabilities	372,202	224,264	74,984	139,374	810,824
Net assets	23,522	(105,434)	61,499	163,244	142,831
Forward exchange contracts at notional amounts (note 32)					
Purchase contracts	26,945	10,185	-	-	37,130
Sale contracts	(26,921)	(10,150)	-	-	(37,071)

The following table below shows the contractual expiry by maturity of the Bank's contingent liabilities and commitments. For issued guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called.

2011	*On demand or within 3 months* RO'000	*3 to 12 months* RO'000	*1 to 5 years* RO'000	*Over 5 years* RO'000	*Total* RO'000
Letters of guarantee	**160,619**	**120,163**	**235,613**	**51**	**516,446**
Letters of credit	**243,231**	**10,050**	**6,450**	**-**	**259,731**
Total commitments and contingencies	**403,850**	**130,213**	**242,063**	**51**	**776,177**

34 ASSETS AND LIABILITIES MATURITY PROFILE (continued)

2010	*On demand or within 3 months RO'000*	*3 to 12 months RO'000*	*1 to 5 years RO'000*	*Over 5 years RO'000*	*Total RO'000*
Letters of guarantee	136,671	138,211	121,932	5,335	402,149
Letters of credit	276,517	9,082	24	-	285,623
Total commitments and contingencies (as restated)	413,188	147,293	121,956	5,335	687,772

The Bank expects that not all of the contingent liabilities or commitments will be drawn before expiry of the commitments.

The details of Bank's capital commitments, operating lease commitments and undrawn loan commitments are disclosed in note 33.

35 ASSETS AND LIABILITIES RE-PRICING PROFILE

The re-pricing profile is based on contractual re-pricing or maturity dates, whichever dates are earlier. The bank's assets and liabilities are included at carrying amounts.

2011	***Average effective interest rate %***	***Within 3 months RO'000***	***4 to 12 months RO'000***	***1 to 5 years RO'000***	***Over 5 years RO'000***	***Non-interest bearing RO'000***	***Total RO'000***
Assets							
Cash and balances with the Central Bank of Oman	**2.00**	**-**	**-**	**-**	**500**	**32,395**	**32,895**
Certificates of deposit	**0.08**	**100,000**	**-**	**-**	**-**	**-**	**100,000**
Due from banks	**0.22**	**57,548**	**-**	**-**	**-**	**18,339**	**75,887**
Loans and advances	**5.96**	**265,729**	**162,494**	**395,196**	**6,426**	**-**	**829,845**
Investment securities at fair value		**-**	**-**	**-**	**-**	**13,977**	**13,977**
Investment–held to maturity	**3.83**	**-**	**13,191**	**9,221**	**-**	**-**	**22,412**
Other assets		**8,667**	**-**	**-**	**-**	**15,965**	**24,632**
Property and equipment		**-**	**-**	**-**	**-**	**15,017**	**15,017**
Total assets		**431,944**	**175,685**	**404,417**	**6,926**	**95,693**	**1,114,665**
Liabilities							
Due to banks	**-**	**-**	**-**	**-**	**-**	**7,678**	**7,678**
Deposits from customers	**0.81**	**384,431**	**118,308**	**16,149**	**-**	**390,772**	**909,660**
Other liabilities		**16,892**	**548**	**309**	**-**	**15,063**	**32,812**
Taxation		**-**	**-**	**-**	**-**	**3,559**	**3,559**
Total liabilities		**401,323**	**118,856**	**16,458**	**-**	**417,072**	**953,709**
Cumulative interest sensitivity gap		**30,621**	**56,829**	**387,959**	**6,926**	**(321,379)**	**160,956**

35 ASSETS AND LIABILITIES RE-PRICING PROFILE (continued)

The total balance of loans and advances on which interest recognition is reserved, amounting to RO 24,446 thousand (2010 - RO 20 ,953 thousand) is disclosed as a non-interest sensitive item and the allowance for loan impairment and reserved interest, amounting to RO 15,421 thousand (2010 - RO 12,496 thousand) has been deducted from this amount. Collective loan impairment provision has been deducted proportionally from the non-classified loan balances.

The Bank has an Asset and Liability Committee, which establishes appropriate guidelines to manage the interest rate risks with an objective to maximise the net interest income.

2010	*Average effective interest rate %*	*Within 3 months RO'000*	*4 to 12 months RO'000*	*1 to 5 years RO'000*	*Over 5 years RO'000*	*Non-interest bearing RO'000*	*Total RO'000*
Assets							
Cash and balances with the Central Bank of Oman	2	-	-	-	500	100,230	100,730
Certificates of deposit	0.07	100,000	-	-	-	-	100,000
Due from banks	0.33	23,836	-	-	-	2,183	26,019
Loans and advances	6.39	204,967	117,525	335,891	1,963	-	660,346
Investment securities at fair value		-	-	-	-	11,733	11,733
Investment–held to maturity	3.06	-	-	17,677	2,400	-	20,077
Other assets		10,223	-	-	-	12,044	22,267
Property and equipment		-	-	-	-	12,483	12,483
Total assets		339,026	117,525	353,568	4,863	138,673	953,655
Liabilities							
Due to banks	0.03	348	-	-	-	5,771	5,771
Deposits from customers	1.02	296,119	74,360	11,618	-	387,664	769,761
Other liabilities		14,273	406	1,264	-	15,777	31,720
Taxation		-	-	-	-	3,572	3,572
Total liabilities		310,740	74,766	12,882	-	412,784	810,824
Total interest sensitivity gap		28,286	42,759	340,686	4,863	(273,763)	142,831
Cumulative interest sensitivity gap		28,286	71,045	411,731	416,594	142,831	-

36 GEOGRAPHICAL DISTRIBUTION OF ASSETS AND LIABILITIES

2011	***Sultanate of Oman RO'000***	***Other GCC countries RO'000***	***Europe RO'000***	***United States of America RO'000***	***Others RO'000***	***Total RO'000***
Assets						
Cash and balances with the Central Bank of Oman	**32,895**	**-**	**-**	**-**	**-**	**32,895**
Certificates of deposit	**100,000**	**-**	**-**	**-**	**-**	**100,000**
Due from banks	**-**	**33,904**	**28,918**	**11,810**	**1,255**	**75,887**
Loans and advances	**829,723**	**122**	**-**	**-**	**-**	**829,845**
Investment securities	**34,994**	**962**	**-**	**433**	**-**	**36,389**
Other assets	**24,632**	**-**	**-**	**-**	**-**	**24,632**
Property and equipment	**15,017**	**-**	**-**	**-**	**-**	**15,017**
Total assets	**1,037,261**	**34,988**	**28,918**	**12,243**	**1,255**	**1,114,665**
Liabilities						
Due to banks	**-**	**6,365**	**921**	**277**	**115**	**7,678**
Deposits from customers	**909,660**	**-**	**-**	**-**	**-**	**909,660**
Other liabilities	**32,812**	**-**	**-**	**-**	**-**	**32,812**
Taxation	**3,559**	**-**	**-**	**-**	**-**	**3,559**
Total liabilities	**946,031**	**6,365**	**921**	**277**	**115**	**953,709**

2010	*Sultanate of Oman RO'000*	*Other GCC countries RO'000*	*Europe RO'000*	*United States of America RO'000*	*Others RO'000*	*Total RO'000*
Assets						
Cash and balances with the Central Bank of Oman	100,730	-	-	-	-	100,730
Certificates of deposit	100,000	-	-	-	-	100,000
Due from banks	207	4,086	10,071	10,435	1,220	26,019
Loans and advances	660,346	-	-	-	-	660,346
Investment securities	30,843	592	38	300	37	31,810
Other assets	22,267	-	-	-	-	22,267
Property and equipment	12,483	-	-	-	-	12,483
Total assets	926,876	4,678	10,109	10,735	1,257	953,655
Liabilities						
Due to banks	3,518	908	861	274	210	5,771
Deposits from customers	769,761	-	-	-	-	769,761
Other liabilities	31,720	-	-	-	-	31,720
Taxation	3,572	-	-	-	-	3,572
Total liabilities	808,571	908	861	274	210	810,824

37 CUSTOMER CONCENTRATIONS

	Assets			Liabilities		
	Due from 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-Dec-11						
Personal	**-**	**348,876**	**-**	**283,549**	**-**	**259**
Corporate	**75,887**	**408,265**	**13,977**	**319,980**	**7,678**	**604,233**
Government	**-**	**99,859**	**22,412**	**306,131**	**-**	**171,685**
	75,887	**857,000**	**36,389**	**909,660**	**7,678**	**776,177**
31-Dec-10						
Personal	-	298,291	-	253,397	-	69
Corporate	26,019	370,282	11,733	328,502	5,771	560,384
Government	-	13,776	20,077	187,862	-	127,319
	26,019	682,349	31,810	769,761	5,771	687,772

38 SEGMENT INFORMATION

The Bank mainly operates in only one geographical location, the Sultanate of Oman. The Bank has however earned interest income and incurred interest expenses on account of money market placements and borrowings with banks outside the Sultanate of Oman as of 31 December 2011. The information regarding the Bank's due from banks and due to banks based on the geographical locations for the years ended 31 December 2011 and 2010 is set out in note 36.

For management purposes, the Bank is organised into four operating segments based on products and services as follows:

Retail banking -	Individual personal loan, overdraft, credit card and funds transfer facilities.
Corporate banking -	Loans and other credit facilities for corporate and institutional customers.
Investment banking -	Asset management services involving investment products and services to institutional investors and intermediaries and other investment banking services including corporate finance, merger and acquisitions advice, specialised financial advice and trading.
Support and unallocated functions -	Treasury and other central functions.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss which in certain respects is measured differently from operating profit or loss in the financial statements. The costs incurred by the central functions are managed on a group basis and are not allocated to operating segments.

Cash and balances with Central Bank of Oman, Certificate of deposits, due from banks, property and equipment and other assets are unallocated assets.

No revenue from transactions with a single external customer or counterparty amounted to 10% or more of the Bank's total revenue in 2011 or 2010.

38 SEGMENT INFORMATION (continued)

2011	***Retail banking RO'000***	***Corporate banking RO'000***	***Investment banking RO'000***	***Support and unallocated functions RO'000***	***Total RO'000***
Interest income	**23,618**	**19,073**	**-**	**682**	**43,373**
Interest expense	**(1,591)**	**(4,845)**	**-**	**(457)**	**(6,893)**
Other operating income	**8,649**	**4,497**	**1,771**	**3,978**	**18,895**
Total operating income	**30,676**	**18,725**	**1,771**	**4,203**	**55,375**
Assets	**337,628**	**492,217**	**21,326**	**263,494**	**1,114,665**
Liabilities	**283,549**	**626,111**	**21,325**	**22,724**	**953,709**
Allowance for impairment	**11,248**	**15,907**	**-**	**-**	**27,155**

2010	*Retail banking RO'000*	*Corporate banking RO'000*	*Investment banking RO'000*	*Support and unallocated functions RO'000*	*Total RO'000*
Interest income	19,983	20,201	-	859	41,043
Interest expense	(2,086)	(5,206)	-	(394)	(7,686)
Other operating income	8,587	3,566	2,068	3,954	18,175
Total operating income	26,484	18,561	2,068	4,419	51,532
Assets	288,263	372,083	15,355	277,954	953,655
Liabilities	183,131	586,630	15,355	25,708	810,824
Allowance for impairment	10,028	11,975	-	-	22,003

39 FIDUCIARY ACTIVITIES

The Bank's fiduciary activities consist of investment management activities conducted as trustee and manager for investment funds and individuals. The aggregate amount of funds managed, which are not included in the Bank's statement of financial position, are as follows:

	2011 RO'000	*2010 RO'000*
Funds under management	**215,673**	233,113

40 COMPARATIVE AMOUNTS

Certain corresponding figures for 2010 have been reclassified in order to conform with the presentation for the current period. Such reclassifications were made within the same notes to the financial statements and do not affect previously reported profit or shareholder's equity.