ANNUAL REPORT **2010**

بنك عُمان العربي
OMAN ARAB BANK

The year 2010 has been a most remarkable year for the Sultanate of Oman.

This year saw the Sultanate celebrate its 40th Anniversary of the Blessed Renaissance, since His Majesty ascended the throne. And it is under the wise and able leadership of His Majesty that Oman has emerged to become one of the region's most advanced and well developed nations.

On this truly momentous and remarkable year, Oman Arab Bank takes immense pride and privilege in contributing towards helping the nation achieve this exceptional growth and development.

Oman Arab Bank expresses its patriotism by reaching out to its customers with commitment and loyalty.

This year's annual report details the successes that Oman Arab Bank realised in the year 2010, irrespective of the financially turbulent times which overwhelmed the global economies.

His Majesty Sultan Qaboos bin Said

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MR. RASHAD BIN MUHAMMED AL ZUBAIR
CHAIRMAN

MR. ABDUL KADER ASKALAN
CHIEF EXECUTIVE OFFICER

BOARD OF DIRECTORS

LEADING THE WAY...

MR. ABDEL HAMID SHOMAN
DEPUTY CHAIRMAN

MS. RANDA SADIK
DIRECTOR

MR. AMIN HUSSEINI
DIRECTOR

MR. SAID ZAKI
DIRECTOR

MR. HANI BIN MUHAMMED AL ZUBAIR
DIRECTOR

MR. MULHAM AL JARF
DIRECTOR

MR. RASHAD BIN MUHAMMED AL ZUBAIR
CHAIRMAN

Appointed Chairman in June 1999, Mr. Rashad Al Zubair has more than 21 years of business experience. He is the Deputy Chairman & President of The Zubair Corporation and Vice Chairman of Ominvest since 1996.

Mr. Rashad Al Zubair was a Director of Capital Market Authority for more than six years until 2008. He is also the Deputy Chairman of Barr Al Jissah Resorts. Over the years, he has held various other directorships in companies such as Oman Refreshments, Port Services Corporation and United Power Company.

MR. ABDUL KADER ASKALAN
CHIEF EXECUTIVE OFFICER

Mr. Askalan commenced his career as a banker in January 1957 with Arab Bank Plc., Jordan. He was appointed the Regional Executive Manager in charge of the Oman operations in 1973 when Arab Bank established its branch in Oman.

In October 1984, Mr. Askalan was appointed the Managing Director of Oman Arab Bank when the Arab Bank branches in Oman were reconstituted as a closed joint stock company. In December 1998, in compliance with CBO regulations, he was appointed as the Chief Executive Officer.

He is a member of the Board of Directors of Ominvest and Gulf Investment Corporation, Kuwait. He is the Deputy Chairman of the Banking & Investment Committee of the Chamber of Commerce. He is a member of the Board of Directors of the College of Banking & Financial Studies. He is also a member of the Managing Committee of the Deposit Insurance Scheme at the Central Bank of Oman and Deputy Chairman of Omantel.

MR. ABDEL HAMID SHOMAN
DEPUTY CHAIRMAN

The Deputy Chairman of Oman Arab Bank since May 2001, Mr. Shoman has more than 38 years of banking experience. He is also the Chairman / CEO of Arab Bank Plc.

Mr. Shoman presently chairs the Board of Directors of Arab Bank (Switzerland) Ltd, Europe Arab Bank, A.H. Shoman Foundation, Jordan and Al Arabi Capital Ltd., Dubai. He is also Chairman of the Supervisory Board of Al Arabi Investment Group, Jordan and Member of the Board of Directors of Arab National Bank, Saudi Arabia.

Mr. Shoman has been a member of the Upper House of Parliament in Jordan since 2005.

MS. RANDA SADIK
DIRECTOR

A Board Member of Oman Arab Bank and a Deputy Chief Executive Officer of Arab Bank since July 2010, Ms. Sadik has broad international banking experience built over 25 years .

Before joining Arab Bank, Ms. Sadik served as Group General Manager for National Bank of Kuwait, responsible for the bank's international and regional network of branches and subsidiaries.

Ms. Sadik is also a board member of Arab Tunisian Bank in Tunis.

MR. AMIN HUSSEINI
DIRECTOR

Mr. Amin Husseini joined Arab Bank Plc in 1994 and was appointed Executive Vice President / Head of Financial Institutions & Transaction Services Group at the Arab Bank Head Office in Amman.

He was relocated to Manama to hold the position of Executive Vice President / Bahrain Country Manager in March 2009 and is currently managing the retail bank in Bahrain as well as the Offshore Banking Unit which has regional responsibilities and client coverage.

At the Head Office, he was a member of the Asset and Liability Management Committee, Senior Management Committee, Strategic Planning Committee and the Senior Joint Credit Committee.

Mr. Husseini is a Deputy Chairman of T-Bank (a 50% owned subsidiary of Arab Bank in Turkey), and is also a member of Oman Arab Bank's Board of Directors. Oman Arab Bank is a 49% owned subsidiary of Arab Bank Plc.

Born in 1967, Mr. Husseini has a Bachelor's Degree in Physics and a Master's Degree in Business Administration.

MR. SAID ZAKI
DIRECTOR

A Director since February 1997, member of the Audit Committee since January 2003 and member of the Executive Committee since December 2005. He is also a Director on the Board of National Finance Company SAOG.

Mr. Said Zaki holds a Bachelor's Degree in Commerce and a Diploma in Management. He has more than 34 years of experience in banking, finance and investment.

Since 1995, Mr. Said Zaki has been with Ominvest where he currently holds the position of Chief Compliance Officer. Previously, he worked for The Zubair Corporation LLC ('TZC') for 11 years in senior management positions and represented TZC as a Director on the Board of several public and private companies in Oman.

MR. HANI BIN MUHAMMED AL ZUBAIR
DIRECTOR

Mr. Hani Muhammed Al Zubair, a graduate of Richmond University, UK with Bachelor's Degrees in Mathematical Science and Computer Science, is a board member of The Zubair Corporation, one of the leading private sector groups in the Sultanate of Oman with diverse business interests. He has extensive knowledge and experience in financial, investment and business management areas.

Mr. Hani Al Zubair is presently holding the Directorship in the following Joint Stock Companies:

- Oman International Development & Investment Co SAOG (Chairman)
- National Finance Company SAOG (Vice Chairman)
- Fund for Development of Youth Projects SAOC (Chairman)

MR. MULHAM AL JARF
DIRECTOR

As Deputy Chief Executive Officer, Mr. Mulham supports the Company leadership in managing and pursuing investment opportunities in energy and energy related sectors both inside and outside Oman.

He currently serves as Chairman of Takamul Investment Company SAOC, Deputy Chairman of Oman Oil Marketing Company SAOC, Director in Sohar Aluminium LLC, and Director in MOL Plc. and Director of Oman Arab Bank.

He is a graduate of International Business & Finance from Marymount University and a registered Barrister at the Bar of England & Wales.

FINANCIAL HIGHLIGHTS 2010

RO'000

Total Assets	953,655
Deposits	769,761
Loans	660,346
Shareholders' Equity	125,831
Net Profit	23,170

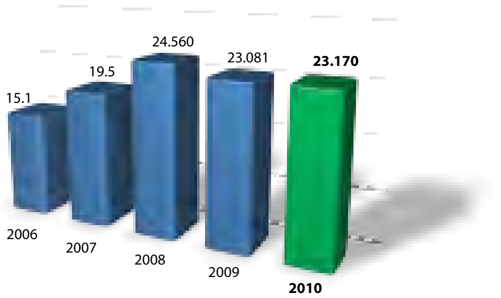
SUMMARY

RO'000 (UNLESS OTHERWISE INDICATED)

	2010	2009	2008 (Restated)	2007	2006
Financial Highlights					
Net interest income	33,357	30,778	28,880	25,295	21,800
Other operating income	18,175	17,768	15,798	14,164	8,353
Net operating income	**51,532**	**48,546**	**44,678**	**39,459**	**30,153**
Operating expenses	(21,970)	(20,541)	(18,223)	(16,554)	(13,014)
Provision for loan impairment	(4,562)	(4,325)	(3,961)	(3,063)	(3,754)
Release/recovery from provision for loan impairment	1,742	2,459	5,435	2,149	3,213
Taxation	(3,572)	(3,058)	(3,369)	(2,514)	(1,488)
Net profit after taxation	**23,170**	**23,081**	**24,560**	**19,477**	**15,110**
Dividend	17,000	15,000	20,000	9,600	7,600
Total assets	953,655	858,891	779,106	650,731	540,394
Gross loans and advances	682,349	583,404	553,978	408,611	350,298
Provision for loan impairment	(22,003)	(17,847)	(14,982)	(19,744)	(18,631)
Net loans and advances	660,346	565,557	538,996	388,837	331,667
Non-performing loans	20,953	15,787	8,856	17,029	17,133
Customer deposits	769,761	696,072	610,905	533,482	393,985
Shareholders' funds	125,831	111,481	90,462	78,679	65,802
Share Capital	85,000	75,000	60,000	48,000	38,000
Analysis					
1. Profitability					
Return on shareholders' funds	19.53%	22.86%	29.04%	26.96%	25.59%
Return on total assets	2.56%	2.82%	3.72%	3.27%	3.15%
Cost to income	42.63%	42.31%	40.79%	41.95%	43.2%
2. Capital					
Capital adequacy (BIS standard)	14.49%	13.44%	11.75%	13.46%	13.39%
Shareholders' funds/Total assets	13.19%	12.98%	11.61%	12.09%	12.18%
3. Asset quality					
Non performing loans to total loans	3.07%	2.71%	1.60%	4.17%	4.89%
Provision coverage	105.01%	113.05%	169.17%	115.94%	108.74%
4. Liquidity					
Net loans to customer deposits	85.79%	81.25%	88.23%	72.89%	84.18%
Net loans to total assets	69.24%	65.85%	69.18%	59.76%	61.38%
Liquid assets to customer deposits	32.70%	36.80%	31.92%	45.65%	48.59%
5. Others					
Dividend rate	20.00%	20.00%	33.33%	20.00%	20.00%
Dividends per share in RO	0.200	0.200	0.333	0.200	0.200
Basic earnings per share in RO	0.279	0.310	0.400	0.403	0.349

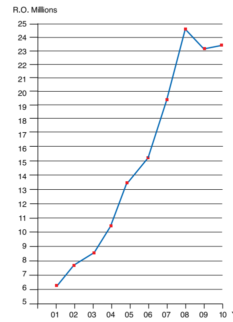
Financial Trends

Ten Year Trends

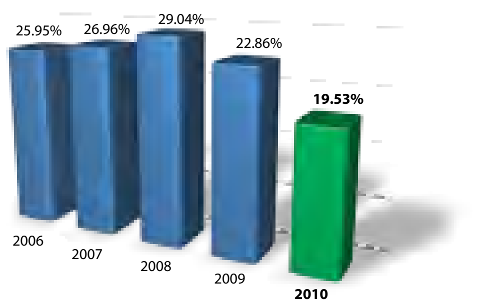


Profit

The net profit for the year is same as previous year as the economy is still recovering from the effects of the global financial crisis.

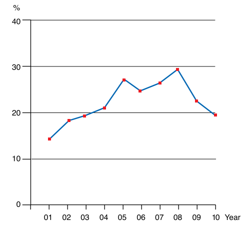


Net Profit After tax
Profit tax exempt until 31 July, 2000

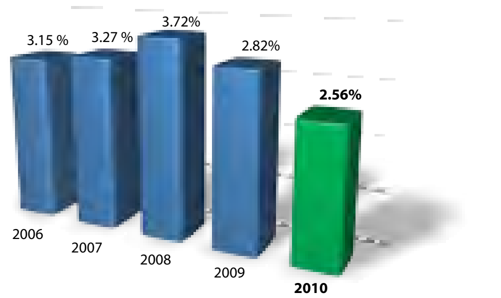


Equity

The return on equity continues to be high in spite of the reduction from the previous year.

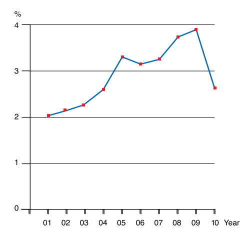


Return on average shareholders' equity

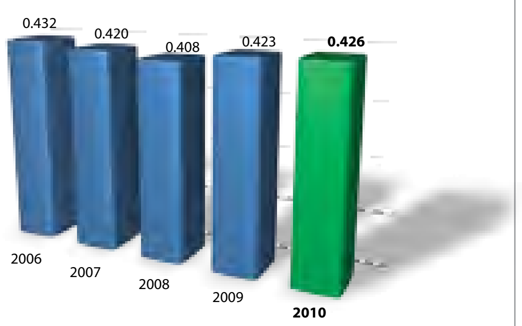


Assets

The reduction in the return on assets is due to the same level of profits as previous year while there is an increase in assets as a result of surplus liquidity in the market.

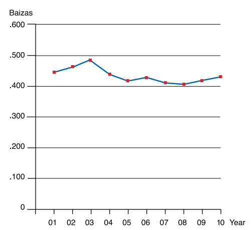


Return on Total Assets



Cost to income

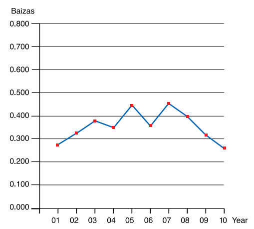
A marginal increase in cost to income is due to the additional branches and the resultant operating costs. This is still within the industry standards.



Cost to income

Ten Year Trends

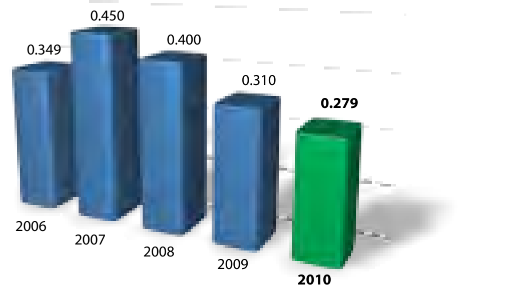
Financial Trends

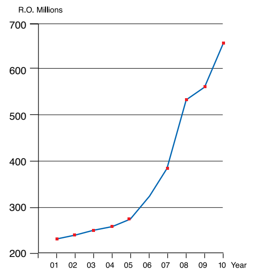


Earnings per share in RO

Earnings

Earnings Per Share reduced by 10% from previous year due to the lower net profit and increased share capital.

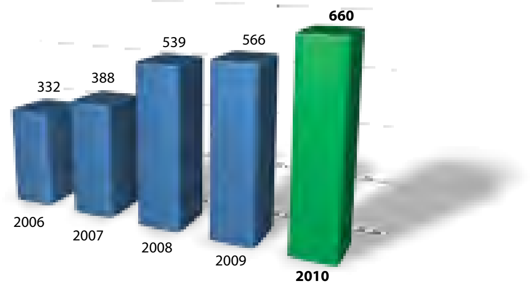


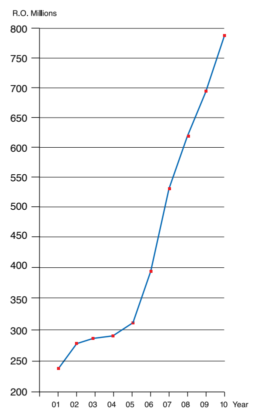


Loans & advances net of provision

Loans

Growth in loans at 17% with a significant increase in personal loans is above the market growth.

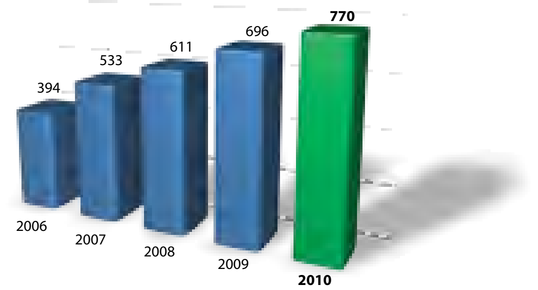


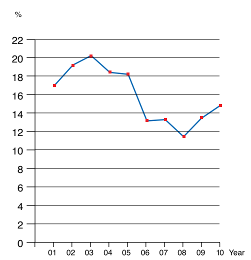


Customer deposits

Deposits

Deposit growth of 14% is at the same level as the market due to the high liquidity.

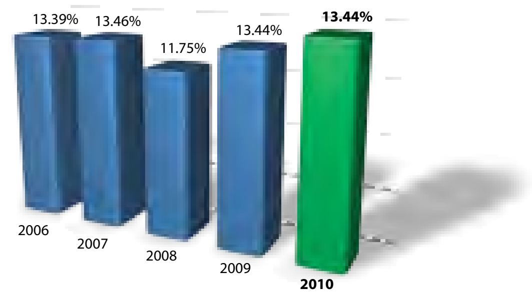




Capital Adequacy ratio

Capital

Increase in share capital to RO 85 million during the year and a moderate growth in assets has resulted in a positive Capital Adequacy Ratio.



CHAIRMAN'S REPORT

Dear Shareholders,

It is with pleasure that the esteemed Directors of the Board and I submit to your kind attention the Annual Report on Oman Arab Bank (OAB) performance for the financial year 2010 in addition to the financial statements which reflect OAB results and achievements.

The industrial and tourism sectors have moved forward at a rapid pace, which led to their positive contribution to the GDP. The Sultanate is striving to attract foreign investments through the promotion of tourism, the preservation of its beautiful natural resources and its authentic heritage as well as the optimization of its strategic coastline. During the first five months of 2010, the number of incoming tourists has risen by 17.5% on an annual basis. On the other hand, the rise in oil production and prices and the substantial state budget have helped boost the economy and consolidate the position of the Sultanate placing it on the right path as regards the achievement of its strategic objectives. It is expected that the coming years will be crucial to the development of tourism as well as the current and proposed projects, which will continue to enhance the image of the Sultanate and strengthen its position in the international arena.

As regards OAB, it has recorded a higher income in 2010 with a total income of to RO 51.5 Million against RO 48.5 Million in 2009. The net profit for 2010 is RO 23.17 Million against RO 23.08 Million in 2009.

Key Performance Indicators show that the return on equity is 19.5% whereas the return on assets is 2.6%. It is noteworthy that OAB has increased its capital to RO 85 Million in the beginning of 2010 and the total assets are at RO 975 Million against RO 876 Million in 2009. Furthermore, the deposits increased by 11% and the total loans grew by 17%. The capital adequacy ratio (CAR) at December 31 2010 is 14.5% compared to 13.4% at December 31 2009 while the non-performing loan to the total loans ratio is 3.1%. The provision coverage ratio is 105%.

In order to augment the shareholders' equity, we have increased the capital in the beginning of 2010 by RO 10 Million through the issue of rights shares for RO 8 Million and bonus shares for RO 2 Million. With this the paid-up capital reached RO 85 Million. The Board has also resolved to increase the paid-up capital by RO 15 Million through the issue of RO 13 Million rights shares and RO 2 Million bonus shares to reach RO 100 Million in early 2011. We are planning as well to increase the paid-up capital to RO 120 Million over the coming years.

These financial results confirm that the management of OAB is making headway in reinforcing OAB's financial position to enable the Bank to expand its business and its contribution to finance the major projects.

Based on the aforementioned results, the Board of Directors has recommended a cash dividend of 20% of the paid-up capital for 2010.

These results undoubtedly confirm the efficacy of the Board of Directors and its committees in their support to the executive management, which enable the latter to achieve the Bank's objectives.

The Board of Directors would like to extend its utmost gratitude to the prudent government, which constantly endeavours to support the banking industry. We would like to extend our heartfelt acknowledgment as well to the Central Bank of Oman for their guidance of the banking sector and the management of Muscat Securities Market for all the support it lends to companies to ensure the stability of the market and encourage investors.

We furthermore would like to thank the Arab Bank management for their efforts to support the Bank, which positively reflects on our business results. We thank the executive management and all the staff for their efforts to enable the Bank in achieving these results. Finally, we would like to express our deepest appreciation to our dearest customers for the trust they have placed in us and their continuous support.

May Allah bestow us success in our undertakings to continue to support our country in its march towards development under the wise leadership of His Majesty Sultan Qaboos bin Said, the architect of Oman's present-day renaissance.

Rashad Muhammed Al Zubair
Chairman

KEY HIGHLIGHTS OF 2010

Sohar Industrial Port – *Construction of a new Jetty (VALE). We participated in project syndication facility of US$ 200 million and have been selected by the EPC – contractors (Saipem and Afcons JV) as their local bank and have issued the project guarantees.*

Salalah Methanol Company – *We provided a working capital facility, besides our participation as one of the MLAs in financing of the project.*

KEY HIGHLIGHTS OF 2010

Oman Shipping Company – *We provided US$ 50 million as a bridge facility for buying three very large crude oil carriers for the VLCC project costing around US$ 500 million.*

Muscat International new Airport – *We have been selected as local bank for:*

- *The JV of Bechtel – USA, Enka – Turkey and BEC – Oman. They were awarded the development of contract No. 3 – construction of the airport Passenger Terminal Building. Jointly with Arab Bank group and European Arab Bank we issued the project guarantees and facilities (project cost around US$ 1.8 billion).*
- *Indra Sistimas (Spain). They have been awarded contract No. 9 - Air Traffic Management with a project cost of around US$ 120 million. We issued the project guarantees.*

KEY HIGHLIGHTS OF 2010

Duqum Port – *We have been selected as a banker for the Duqum Port Company, a Joint Venture of the Government of Oman and the Port of Antwerp - Belgium. The company will manage and operate the port.*

Oman Dry Dock Company – *The company will manage and operate the Dry Dock facility in the port.*

- *Duqum Development Company - The company will develop the housing project costing around US$ 100 million.*
- *Duqum Economic Zone Authority - They will develop the Economic Zone at the port.*

CHIEF EXECUTIVE OFFICER'S REPORT

Banking in Oman is becoming increasingly challenging due to the tough competition among the banks. The success of the banks depends on the improved services, diversification of customized banking products and security of transactions. It also depends on the ability to keep abreast of the latest technological developments and enhancing the staff efficiency. This has been the major focus of OAB since its inception in the Sultanate. The commitment to these principles has positioned OAB as the leading bank in terms of asset quality, responsiveness to ICT developments and effective participation in major infrastructural and industrial developments. OAB tops the list of banks, which finance major infrastructural projects, and offers exceptional banking services to all its corporate customers which execute such projects including the employees of these companies.

OAB has continually increased the Bank's capital in order to enhance its capability to finance the government initiated development and construction projects. The Board of Directors adopted a resolution during this year to increase the Bank's paid-up capital to Rial Omani 100 Million in 2011. A further increase to Rial Omani 120 Million has been planned in the following years. OAB also continued to expand its network with the opening of three branches and offices in 2010, to reach a total of 55 branches and offices.

The Government of the Sultanate is moving steadily towards privatization with a view to incentivize foreign direct investments, boost funding for local projects and improve knowledge of international techniques. Nearly 85% of the total power sector in Oman was privatized, where the investments amounted to approximately USD 2.4 Billion. In addition, the Government of Oman announced that it would continue to privatize the existing power plants and to invest OMR 3 Billion in new power plant projects so as to support economic growth. Such projects allow banks to provide finance and support the companies involved in the projects. They also attract more industrial activities and foreign investments and help create job opportunities. The Government has expanded the port facilities at Sohar and is developing the dry docks at Duqum. The expansion of Muscat Airport and Salalah Airport to increase their capacity is also in progress. Further six local airports will be constructed in the near future.

OAB has participated in most of these projects as we believe that the central role of banks is to contribute to the development of our country and the growth of its potentials in all areas. As mentioned in the Chairman's Report OAB has achieved growth in all areas of its activities.

Investment Management Group, the Bank's the investment banking arm, has developed its business to become a one-stop investment shop. The Group was awarded the Best Investment Bank in Oman for 2010 by the World Finance Magazine and has been named the Best Brokerage House for 5 consecutive years. The Group provides the following financial services:

- Asset Management, where assets managed by the Group amounted to more than USD 750 Million.
- Issue Management (IPOs, preferential rights, private issue).
- Advisory services to corporate and project finance.
- Research services including preparation of financial reports and analyses.

In the field of e-banking services, OAB continued to develop the e-payment systems at ministries as well as Government departments and institutions. The system for PoS machines was enhanced to accept all types of electronic cards in addition to the smart cards. OAB also provides Internet banking and SMS banking services. OAB has started to implement the program in SANAD Centres enabling them to collect the dues for Government establishments through these centres electronically. The machines will be installed in all designated centers. During the year the IT Department implemented the Cheque Imaging System (CIS) efficiently for which the Bank received the appreciation from the Central Bank commending its efforts. In addition, a consulting firm was appointed to assess the work of the IT Department to enable the management to evaluate the scope of the Bank's electronic banking and IT services.

As regards human resources, OAB achieved an Omanisation rate of 92.54%. The total employees as at 31 December 2010 are 885 of which 82.11% of middle and senior positions were held by Omanis. 184 employees were promoted in 2010. The Bank continued its training program for employees through several training courses with a view to raising the employees' level of proficiency and expertise. 1756 employees attended 187 training courses covering various banking, administrative and supervisory areas. The Bank also sponsored 5 employees to pursue their academic studies after high school in different disciplines to obtain diplomas and bachelor degrees. It is notable that 7 employees had already completed their studies during the academic year 2010.

We have achieved these results and continued to develop our services with an expanding branch network without compromising the principles of banking practices and in compliance with the rules and regulations of the Central Bank of Oman and Muscat Securities Market. We continue with our effective implementation of regulations to monitor and audit the Bank's functions while following a sound lending policy. But for the diligence, commitment and devotion of our staff, the Bank's achievements wouldn't have materialized. I extend my sincere and wholehearted thanks and appreciation to the staff for all their efforts.

Our Bank owes its achievement as the leading bank, especially in project and trade finance, to the continuous support of the Board of Directors and our shareholders - Arab Bank and OMINVEST.

Annual Report 2010

May God Almighty bestow upon us the ability to achieve even greater achievements to continue to serve our country and our government, under the leadership of His Majesty Sultan Qaboos bin Said, the creator of modern day Renaissance in Oman.

Abdul Kader Askalan
Chief Executive Officer

OMAN ARAB BANK SAOC

CORPORATE GOVERNANCE REPORT
AND
MANAGEMENT DISCUSSION & ANALYSIS

For the Year Ended 31st December 2010

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C.R. No. 1/36809/5
P. R. No. MH/4

Report of Factual Findings on the corporate governance reporting of Oman Arab Bank SAOC and its application of the corporate governance practices in accordance with the CMA Code of Corporate Governance

TO THE SHAREHOLDERS OF OMAN ARAB BANK SAOC

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

We report our findings below:

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

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

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

Our report is solely for the purpose set forth in the first paragraph of this report and for your information and is not to be used for any other purpose. This report relates only to the accompanying corporate governance report of Oman Arab Bank SAOC to be included in its annual report for the year ended 31 December 2010 and does not extend to any financial statements of Oman Arab Bank SAOC, taken as a whole.

Ernst & Young

15 February 2011
Muscat

CORPORATE GOVERNANCE REPORT

OAB's approach to corporate governance

Framework and Approach to corporate governance and responsibility

The Board is committed to maintaining the highest standards of corporate governance.

The Board believes that corporate governance is about having a set of values and behaviors that governs the Bank's everyday activities - values and behaviours that ensure transparency, fair dealing and protection of the interest of the Bank's stakeholders namely customers, shareholders, employees and the community. In line with this belief, the Board's approach is to consider corporate governance within the broader framework of corporate responsibility and regulatory oversight.

The business case for good governance is compelling. A bank's level of governance and responsibility has emerged as a significant indicator of its overall health as a business. The genuine commitment to good governance is fundamental to the sustainability of the Bank's business and its performance.

In pursuing its commitment to best practice governance standards, the Board will continue to:

- review and improve our governance practices;
- monitor global developments in best corporate governance practice, in particular developments from the United States Sarbanes - Oxley Act 2002; and
- contribute wherever we can to local debates on what represents best corporate governance practice.

Our Governance Standards – Principles and Processes

We believe that the best approach is to be guided by the principles and practices that are in our stakeholders' interests. However, as a minimum we ensure full compliance with legal requirements, in particular to the letter and sprit of the local governance practices issued by the Capital Market Authority (CMA), guidelines issued by the Central Bank of Oman and the Corporate Governance regulations issued by the Ministry of Commerce and Industry for closed joint stock companies.

What is in this statement?

This corporate governance statement is divided in two Parts. Part 1 discusses the broad principles of corporate governance adopted by the Bank. Part 2 provides specific disclosures.

In the directors opinion, Part 1 and Part 2 together as a minimum complies with the disclosure requirements of the Code of Corporate Governance issued by the CMA.

Date of this statement

This statement reflects the Bank's corporate governance policies and procedures as at 31 December 2010.

Corporate Governance - Part 1

In this part we set out the following contents as required under the Code of Corporate Governance issued by CMA:

1. The Board – putting governance into practice
2. Board Committees and their role
3. Audit governance and independence
4. Executive pay and reward scheme
5. Controlling and managing risk
6. Communication with Shareholders, regulators and wider market

1. The Board – putting governance into practice

Role of the Board

The Board of Directors is accountable to shareholders. The Board's specific responsibilities include:

- ensuring our business is conducted ethically and transparently;
- providing strategic direction and approving corporate strategies;
- ensuring that maintenance adequate risk management controls and reporting mechanisms;
- monitoring management and financial performance;
- reviewing and approving the Bank's quarterly and annual financial reports;
- approving the business plan and budgets;
- selecting and evaluating the Chief Executive Officer (CEO) and senior management;
- planning for executive succession; and
- setting Chief Executive Officer's remuneration and recommending the Director's remuneration to shareholders for approval in the Annual General Meeting.

Board Size and Composition

The directors of the Bank are nominated by the two major shareholders namely OMINVEST and Arab Bank Plc Jordan subject to the limits imposed by our constitution. The Bank's constitution requires a minimum of seven and a maximum of nine directors. In accordance with the Central Bank of Oman's regulations, we do not have an executive director in the board.

Currently, there are seven independent non-executive directors, four of them represent OMINVEST and the remaining three represent Arab Bank Plc. The nomination for the new director is under process.

The current composition of the Board and Board Committees is set out in Part 2.

Selection and Role of the Chairman

- The Chairman is a non-executive director, appointed by the Board. The Chairman's role includes:
- ensuring that, when all Board members take office, they are fully briefed on the terms of their appointment, their duties and responsibilities;
- providing effective leadership on formulating the Board's strategy;
- representing the views of the Board to the public;
- ensuring that the Board meets at regular intervals throughout the year, and that minutes of meetings accurately record decisions taken and, where appropriate, the views of individual directors; and
- reviewing the contributions made by Board members.

Board Independence

Having an independent Board is a key to good corporate governance. The Bank has structures and procedures in place to ensure that the Board operates independently of executive management. These include appointing an independent, non-executive director as chairman and ensuring that there are non-executive directors who can bring special professional expertise to the Board. It is the Board's view that each of its directors meet the criteria of 'independent director' as defined by Article 1 of the CMA code of corporate governance.

Meetings of the Board and their Conduct

The Board meets formally at least four times a year. In addition, it meets whenever necessary to deal with specific matters needing attention between the scheduled meetings. Meeting agendas are established by the Chairman in consultation with the CEO to ensure adequate coverage of financial, strategic and major risk areas throughout the year. Copies of Board papers are circulated in advance of meetings.

Meetings attended by directors for the past financial year are reported in Part 2.

Attendance at Annual General Meeting

The Directors attend, and are available to answer questions at, the Annual General Meeting.

Avoidance of Conflicts of Interest of Directors

In accordance with the constitution of the Bank, any director with a material personal interest in a matter being considered by the Board must not be present when the matter is being considered, and may not vote on the matter.

Expertise of our Board

The Board has a broad range of expertise and experience to meet its objectives. The current Board composition is set out in Part 2, with details of each member's expertise and experience and other current directorships, set out in the annual report.

Succession Planning

The Board is responsible for CEO succession planning taking into account the skills and experience required.

Nomination and Appointment of New Directors

Recommendations for nominations of new directors are made by the shareholders. When directors are nominated, the shareholders assess them against a range of criteria including background, experience, professional skills, personal qualities, whether their skills and experience will augment the existing Board, and their availability to commit themselves to the Board's activities. If these criteria are met then shareholders appoint a new director.

When appointed to the Board, all new directors receive an induction appropriate to their experience to familiarize them with matters relating to the Bank's business, strategy and current issues before the Board.

The Board is appointed for a period of three years. The term of the current board expires in March 2013.

Review of Board Performance

The Board regularly reviews its overall performance, as well as the performance of individual directors.

Board Access to Independent Information

The Board needs high quality, unfiltered information on which to base decisions. All directors have unrestricted access to the Bank's records and information, and receive regular detailed financial and operational reports from senior management to enable them to carry out their duties.

2. Board Committees

We currently have two Board Committees whose powers are governed by the relevant committee's terms of reference, as approved by the Board. The three Board Committees are: Executive committee, Audit and Risk Management Committee and Selection and Remuneration Committee. Other committees may be established from time to time to consider matters of special importance.

Operation of the Committees

The Board Committees meet at least quarterly and at any other times as necessary. Each committee is entitled to the resources and information it requires, including direct access to employees and advisers. Senior managers and other employees are invited to attend committee meetings as necessary. All directors receive minutes of the committee meetings and can attend all committee meetings.

Composition and Independence of the Committees

Committee members are chosen for the skills, experience and other qualities they bring to the committees. All committees are currently composed of only non-executive directors. In addition, the Chief Executive Officer is a member of the Executive Committee and the Chief Internal Auditor is the secretary of the Audit and Risk Management Committee.

How the Committees report to the Board

Minutes of every meeting of the Board Committees are included in the agenda for the first full board meeting scheduled to be held after the committee meeting. When necessary the chairman of the respective committee may also provide a verbal report.

Brief Terms of Reference of Board Committees

a) Board Executive Committee

The Board Executive Committee:

- reviews and approves policies with regard to credit risk limits and controls reviews and approves credit facilities above the executive management's approval limits, reviews and approves expenses or capital expenditures above executive managements approval limits,
- considers matters of special importance as delegated by the Board.

b) Board Audit and Risk Management Committee

The Board Audit and Risk Management Committee oversee all matters concerning:

- Integrity of the financial statements.
- Compliance with legal and regulatory requirement.
- Ensuring that Bank has an effective risk management system and clear policies and procedures for reporting, taking action and documenting breaches of laws including fraud and theft.
- Reviewing and recommending risk management policies and controls to Board.
- Reviewing and recommending to the Board the terms of engagement of our external auditors.
- Performance of the internal audit function.

c) Board Selection and Remuneration Committee

The Board Selection & Remuneration Committee oversees all matters concerning:

- Recommending the appointment of the Chief Executive Officer to the Board.
- Ensuring independence of the Board members and avoidance of conflict of interest.
- Approving the appointment of executive management team based on recommendation by the Chief Executive Officer except the appointment of Chief Audit Executive, Head of Compliance, Head of Risk Management, and Legal Counsel who will be appointed directly by the Board or its committees.
- Recommending remuneration of the Chief Executive Officer to the Board including the salary and other benefits.
- Approving remuneration of executive management team including the salaries and other benefits.
- Ensuring that the Bank has a proper compensation policy, reviewing and recommending amendments in policy to the Board.

- Reviewing and monitoring the human resource plan and align the plan to achieve the Bank's strategies.
- Ensuring that the Bank has proper training, career development and succession plans.
- Reviewing and monitoring the "Omanisation" plan and identifying the positions that should be occupied by Omanis with the time table to achieve the plan.

Integrity of the Financial Statements

The Committee considers whether the accounting methods applied by the management are consistent and comply with accounting standards and concepts. The committee reviews and assesses any significant estimates and judgments in the financial reports and monitors the methods used to account for unusual transactions. In addition it assesses the processes used to monitor and ensure compliance with laws, regulations and other requirements relating to external reporting of financial and non-financial information.

Internal Audit Function

The committee supervises the Internal Audit function. It reviews the Internal Audit responsibilities, budget, plan and staffing. The committee also reviews significant reports prepared by Internal Audit and management responses and the committee meets separately with the Head of Internal Audit.

Composition of the Committee and Meetings

The current committee memberships together with dates of meetings held are set out in Part 2.

3. Audit Governance and Independence

The Board is committed to three basic principles:

- the Bank must produce true and fair financial reports;
- the Bank must have independent auditors who serve shareholder interests by ensuring shareholders know the Bank's true financial position; and
- the accounting and auditing standards are comprehensive and relevant and comply with applicable accounting standards and policies.

Engagement of Auditors

The Bank's independent external auditors are M/s Ernst & Young for the financial year ended at 31 December 2010. They were appointed by shareholders at the Annual General Meeting held on 7 March 2010.

Certification and Discussions with Auditors on Independence

The Board Audit and Risk Management Committee require the Bank's external auditors to confirm that they maintained their independence at the commencement and during the audit. Board Audit and Risk Management Committee also meets with the external auditors to discuss their audit and any concerns they may have.

Rotation of External Auditors

Subject to applicable regulatory requirements, the Bank will require rotation of the external auditor every four years and a minimum two years' 'cooling off' period before an auditor is reappointed.

Restrictions on Non-Audit Work by the Audit Firm

The Bank's external auditors will not be able to carry out the following types of non-audit work for the Bank:

- preparation of accounting records and financial statements;
- IT systems design and implementation;
- valuation services and other corporate finance activities;
- internal audit services;
- temporary senior staff assignments, management functions;

- broker or dealer, investment adviser or investment banking;
- legal services; and
- litigation services.

For all other non-audit related services that are required, if our external audit firm were selected then the need for that will be assessed and approved by the Audit and Risk Management Committee.

Attendance at Annual General Meeting

The Bank's auditors attend, and are available to answer questions at, the Annual General Meeting.

4. Executive Pay and Reward Schemes

Overview

The Bank's goal in rewarding the CEO and other executives is to provide base pay plus performance-linked rewards and other benefits that will attract and retain key executives. The Bank's policy is to provide individual performers with a level of income that:

- recognizes the market value of each position in a competitive market;
- rewards the individual's capabilities and experience;
- recognizes the performance of individuals; and
- assists in executive retention.

To do this, the Bank has designed a fair and transparent structure for rewarding the Bank's executives that matches comparable remuneration in the marketplace.

Who decides how individuals should be paid and rewarded?

The Board recommends the remuneration and the sitting fee for individual directors to be approved in the Annual General Meeting. The remuneration of the CEO is recommended by the Board Selection and Remuneration Committee and approved by the Board of Directors.

The CEO recommends the pay and reward packages for key senior management staff consistent with the market practice and this is approved by the Board Selection and Remuneration Committee.

Fees paid to each director during the 12 month period ended 31 December 2010 together with pay and rewards for the Bank's top five executives are set out in Part 2.

5. Controlling and Managing Risk

Approach to Risk Management

Risk is inherent in banking business. Risk management is a strategic issue in today's competitive environment. Taking and managing risk are central to the Bank's business and to building shareholder value. To do this effectively the Bank needs to optimize its level of risk. The Bank's risk approach links its vision and values, objectives and strategies, and procedures and training.

The Bank recognizes three main types of risk:

- Credit risk, being the risk of financial loss from the failure of customers to honour fully the terms of their contract with us;
- Market risk, being the risk to earnings from changes in market factors such as interest and foreign exchange rates, or liquidity and funding profiles; and
- Operational risk, being the risk of unexpected financial, reputation or other damage arising from the way our organization pursues its business objectives.

We recognize that these risk categories are interlinked and therefore we take an integrated approach to managing them. We have comprehensive risk principles that apply to each category of risk.

The risk management function aims at ensuring that

(a) the Bank operates its key risk activities within acceptable risk/reward parameters through establishment as well as maintenance of policies and procedures

(b) the trend and quality of risk is adequately monitored and controlled; and

(c) all the attendant risks are adequately monitored.

Risk Management Roles and Responsibilities

The Board is responsible for approving and reviewing the Bank's risk management strategy and policy. Executive management is responsible for implementing the Board-approved risk management strategy and developing policies, controls, processes and procedures to identify and manage risks in all of our activities.

In order to effectively manage various risks in the business, the Bank has set up a Risk Management department. The head of this department is responsible for independently evaluating and managing the risks. He reports directly to the CEO and also reports to the Board Audit & Risk Management Committee.

Internal Review and Risk Evaluation

Based on Board approved policies the Bank has established appropriate procedures to manage and monitor the risks. Broadly the Asset and Liability Committee is responsible for monitoring market risks arising from the Bank's core lending and deposit-taking activities. Similarly, the Investment Management Committee is responsible for monitoring market risk and related credit and operational risk exposures arising from trading activity. Internal Audit is responsible for independently evaluating the adequacy and effectiveness of management's control of operational risk.

6. Communication with Shareholders, Regulators and Wider Market

The Bank is committed to giving all shareholders comprehensive and equal access to information about the Bank's activities, and to fulfilling our continuous disclosure obligations to the broader market including the regulatory authorities namely Central Bank of Oman, Capital Market Authority and Muscat Securities Market.

The Bank's website includes annual reports, briefings and presentations given by the CEO and other executives, public announcements and economic updates. Further details on means of communications, including website address, are set out in Part 2.

Corporate Governance - Part 2

In this part, we set out the disclosures specifically required under Annexure 4 of the Code of Corporate Governance issued by CMA. The contents are as follows:

1. Board of Directors
2. Audit and Risk Management and other committees
3. Process of nomination of directors
4. Remuneration matters
5. Details of non-compliance by the Bank
6. Means of communication with the shareholders and investors
7. Cash dividend policy
8. Market price data
9. Profile of the statutory auditors
10. Areas of non-compliance with the provisions of Corporate Governance

1. Board of Directors

The current composition of the Board and Board Committees are set out in table 1, with further details on each director provided in the annual report.

2. Audit and other Committees

There are three board committees. The terms of references of the committees are set out in Part 1.

Table 1

Director	Board Membership	Appointed Director	Shareholder Representation	Committee Membership		
				Executive Committee	Audit and Risk Management Committee	Selection and Remuneration Committee
Rashad Bin Muhammed Al Zubair	Chairman Non executive independent	October 1989	Ominvest	√		
Abdel Hamid Shoman	Deputy Chairman Non executive independent	October 1984	Arab Bank Plc	√		
Hani Fadayel	Director Non executive independent	June 2001	Arab Bank Plc	√	√	
Amin R Husseini	Director Non executive independent	May 2010	Arab Bank Plc	√	√	√
Mohammed Sa'ed Jarallah	Director Non executive independent	November 2006	Arab Bank Plc			
Randa Sadik	Director Non executive independent	June 2010	Arab Bank Plc			
Hani Bin Muhammed Al Zubair	Director Chairman of Audit & Risk Management Committee Non executive independent	June 1999	Ominvest		√	√
Said Zaki	Director Non executive independent	February 1997	Ominvest	√	√	√
Mulham Bashir Al Jaraf	Director Non executive independent	September 2007	Ominvest	√		√
Abdul Kader Askalan	Chief Executive Officer			√		

Mr. Hani Fadayel and Mr. Mohammed Sa'ed Jarallah were replaced by Mr. Amin R Husseini and Ms. Randa Sadik as directors representing Arab Bank Plc respectively during 2010. The members of the committees together with the number of meetings held and attended by each member are set out in the Table 2.

Table 2

Each director attended the following meetings of the Board of Directors and Committees of the Board during the financial year, which ended on 31 December 2010.

Director	Board Meetings		Executive Committee		Audit and Risk Management Committee		Selection and Remuneration Committee	
	(Note 1)		(Note 2)		(Note 3)		(Note 5)	
	No. of meetings held	No. of meetings attended	No. of meetings held	No. of meetings attended	No. of meetings held	No. of meetings attended	No. of meetings held	No. of meetings attended
Rashad Bin Muhammed Al Zubair	4	4	4	4	-	-	-	-
Abdel Hamid Shoman	4	3	-	-	-	-	-	-
Hani Bin Muhammed Al Zubair	4	2	-	-	5	3	1	1
Said Zaki	4	4	4	4	5	5	1	1
Hani Fadayel	4	1	4	2	5	2	-	-
Amin R Husseini	4	3	4	1	5	3	1	1
Mohammed Sa'ed Jarallah	4	2	-	-	-	-	-	-
Randa Sadik	4	2	-	-	-	-	-	-
Mulham Bashir Al Jaraf	4	4	4	4	-	-	1	1
Abdul Kader Askalan	-	-	4	4	-	-	-	-

Note 1 Board Meetings were held on 21 February, 18 May, 12 October and 21 December during the year 2010

Note 2 Executive Committee Meetings were held on 4 January, 7 March, 18 April and 6 June during the year 2010

Note 3 Audit and Risk Management Committee Meetings were held on 24 January, 18 April, 19 May, 13 July and 18 October during the year 2010

Note 4 Abdel Hamid Shoman is a resident of Jordan. The Executive Committee agendas are circulated to him before every meeting. Following the meeting, the minutes are signed by him as evidence/concurrence of his approval/agreement of the discussions/decisions.

Note 5 Selection and Remuneration Committee was constituted in November 2010 and the first meeting was held on 8 November 2010.

3. Process of nomination of Directors

The nomination process is explained in Part 1 paragraph 1.

4. Remuneration Matters

The processes and procedures of the Bank to reward and remunerate the directors and senior executives are set out in Part 1, paragraph 4. Total remuneration and sitting fees of each director is as follows:

Table 3

2010

Director's Name	Remuneration RO	Sitting fees RO	Total RO
Rashad Bin Muhammed Al Zubair	12,500	10,000	22,500
Abdel Hamid Shoman	7,500	7,500	15,000
Hani Bin Muhammed Al Zubair	5,000	7,500	12,500
Said Zaki	7,500	10,000	17,500
Hani Fadayel	2,500	3,750	6,250
Amin R Husseini	2,500	3,750	6,250
Mohammed Sa'ed Jarallah	2,000	1,750	3,750
Randa Sadik	2,000	1,750	3,750
Mulham Bashir Al Jaraf	7,500	5,000	12,500
Total	49,000	51,000	100,000

2009

Director's Name	Remuneration RO	Sitting fees RO	Total RO
Rashad Bin Muhammed Al Zubair	12,500	10,000	22,500
Abdel Hamid Shoman	7,500	7,500	15,000
Hani Bin Muhammed Al Zubair	5,000	7,500	12,500
Said Zaki	7,500	10,000	17,500
Hani Fadayel	5,000	7,500	12,500
Mohammed Sa'ed Jarallah	5,000	2,500	7,500
Mulham Bashir Al Jaraf	5,000	2,500	7,500
Total	47,500	47,500	95,000

The remuneration paid to the top five key executives of the Bank was RO 1,170,849 (2009: RO 1,160,924)

No stock options are available to directors or the executives of the bank. The Executives are required to provide 30-60 days notice should they wish to resign. No severance fees are payable to the top five executives in the event of termination of employment.

5. Non Compliance of Corporate Governance and Penalties

During the year, the Bank complied with all requirements of the regulatory authorities, CMA and Muscat Securities Market including Central Bank of Oman. There were no penalties or strictures imposed by any statutory/regulatory authority on the Bank for non compliance for this year.

6. Means of Communicating with the Shareholders

We confirm the following:

a) Half-yearly results were sent to the shareholders.
b) Half yearly results and the annual report are posted on the Bank website www.oman-arabbank.com.
c) The website displays all official Bank information releases.
d) Management Discussion and Analysis (MD&A) forms part of the annual report.

Our policy with regard to communication with shareholders, regulators and wider market is set out in Part 1, paragraph 6.

7. Acknowledgment by the Board

The Board of Directors acknowledges its responsibilities and confirms that:

i. The audited financial statements of the Bank have been prepared in accordance with the International Financial Reporting Standards ("IFRS"), the requirements of the Commercial Companies Law of 1974, as amended and the disclosure requirements of the Central Bank of Oman.
ii. The Bank will be able to carry on its operations successfully in the foreseeable future.
iii. The Bank has adequate internal controls and procedures which are reviewed regularly through internal audit and overseen by the Audit Committee of the Board.

8. Cash Dividend Policy

The Bank's Cash Dividend Policy complies with CBO's guidance and adopted to achieve:

1. Establish provisions that support the Bank's financial position.
2. Pay cash dividend to the shareholders appropriate to their investment.
3. Retain sufficient provisions that support the future growth of the Bank operations and strengthen its position in case of any unexpected crisis.
4. Strike a balance between the retention of some earnings appropriate to the economic conditions and the understandable desire of shareholders for immediate and high returns.

9. Market Price Data

The Bank is a closed joint stock company and its shares therefore are not listed for trading on the Muscat Securities Market.

The two single largest shareholders of Oman Arab Bank are OMINVEST and Arab Bank Plc Jordan who hold 50.99 % and 49 % of the share capital respectively. OMINVEST is a public joint stock company listed at the Muscat Securities Market with approximately 1,400 shareholders. Arab Bank Plc is a publicly held company and is listed at the Amman Stock Exchange, Jordan with approximately 21,400 shareholders.

10. Profile of the Statutory Auditors

Ernst & Young are the statutory auditors of the Company. Ernst & Young is one of Oman's oldest established accounting firms, having had a permanent office in the country since 1974. The practice comprises one hundred and eighty professionals, and is working under the direction of four partners. The Oman office forms part of Ernst & Young's MENA practice, with 120 partners and over 4,100 other professionals in 20 offices in 15 countries throughout the region. The MENA practice is member firm of Ernst & Young Global, operating in more than 140 countries with approximately 141,000 personnel worldwide.

11. Audit Fees

The Bank paid RO 22,000 to the external auditors for their audit and related services for the year ended 2010.

12. Areas of Non-Compliance with the Provisions of Corporate Governance

None

MANAGEMENT DISCUSSION & ANALYSIS

Industry Structure and Development

The banking industry in Oman is governed by the Banking Law issued by Royal Decree 114/2000, and the regulations issued by the banking regulatory authority, the Central Bank of Oman (CBO). In addition the banks must also comply with the requirements of the Commercial Companies Law of 1974, as amended, and the Capital Market Authority.

A summary of the banking sector performance for the year 2010 based on the latest publications and statistics issued by the Central Bank of Oman is as follows:

1. The total assets of the commercial banks increased by 10% from 2009 to reach RO 15.6 billion at December 2010.
2. Loans and advances recorded a growth of 9% reaching RO 10.7 billion at December 31 2010 from RO 9.8 billion at December 31 2009.
3. Customer deposits increased by 16% to RO 10.5 billion at December 31 2010 from RO 9.1 billion at December 31 2009. The private sector deposits constituted 78% of the total customer deposits.
4. Average deposit interest rate on deposits was around 1.5% as at December 2010 mainly due to the decrease in Rial Omani interest rates. The Rial Omani interest rates decreased during the year from 2% to around 1.7% due to surplus liquidity while the USD rates fell marginally to 0.8% as at December 2010 from 0.9% as at December 2009.
5. Average Rial Omani lending rates decreased to 6.8% as at December 2010 compared to 7.5% at December 2009 due to lower credit uptake and the surplus liquidity while US Dollar rates reduced from 2.9% as at December 2009 to 2.4% as at December 2010.

Opportunities and threats

Oman's economy was relatively immune to the global financial crisis but the recovery from the slowdown has been gradual during 2010. The strict regulation by the Central Bank of Oman and low overseas exposure will continue. Growth rate of Oman's economy has been aided by the high oil price, which has remained above USD 70 and at times above USD 100 per barrel during 2010. It is expected to remain high due to the conditions prevailing in the region as well as the global demand. The higher oil price compared to the budgeted USD 56 per barrel has provided the Government with surplus which is being deployed in projects relating to infrastructure and non-oil sector. Oman's GDP is forecasted to grow by 4% in 2011.

The lending rates have shown a trend of decline with reduction in Rial Omani and US Dollar rates during 2010. The interest margins are likely to tighten in 2011. The interest rates on Central Bank CD have remained at around 0.06% during 2010 indicating the surplus liquidity in the market. The activity in the private sector has been on recovery mode during 2010, but with the major infrastructure projects underway this is expected to improve during 2011.

The Duqum dry docks and port project is progressing well as per the seventh five year plan. As part of the eighth five year plan the Government has initiated the expansion of Seeb airport and the Salalah airport along with 6 other airports at Duqum, Sohar, Adam and Ras Al Hadd. The total outlay for these airports is estimated at RO 2 billion. The Government has also planned for the construction, development and expansion of the ports at an estimated cost of RO 500 million. In addition to this the construction and expansion of roads worth RO 1.2 billion has also been planned. The Housing and Water related projects have been allocated RO 500 million. Therefore the eighth five year plan presents a lot of opportunities for the banks with increase in infrastructure projects and the related economic activity.

However the ongoing unrest in the MENA region and its repercussions would pose quite a few challenges to the economies in the region during the coming years. The impact of the changes which are expected is unknown at present.

Analysis and performance of segments

Analysis and performance of segments Segmental performance analysis forms part of the financial statements and are provided in note 38 to the financial statements.

Economic Outlook

OAB operates only in Oman and changes in the Oman economy have a direct impact on OAB's performance. Oman has recorded a growth of 4.7% in GDP at constant prices for 2010. Inflation has remained around 3% in 2010 which reduced from 2009. This is expected to increase marginally in 2011. Oman's projected revenue for 2011 is at RO 7.3 billion which is 14% higher than the projection for fiscal year 2010. The government expenditure budgeted for 2011 is at RO 8.1 billion, a 13% increase from 2010 with an increase of 19% in allocation for investment expenditure.

Oman has assumed an average crude oil price of $58 per barrel for 2011 budget on a conservative basis which is lower than the actual average price during 2010. The oil production in 2010 has reached 896 barrels per day which is above the budgeted level of 860 barrels per day. As per Government estimates, the overall deficit for 2011 is expected to be about RO 850 million, forming about 3.6% of estimated of the nominal GDP. The deficit is expected to be financed from the existing reserves to an extent of RO 700 million and also by raising additional domestic borrowings to an extent of RO 150 million. The debt to GDP ratio is expected to continue at around 4%.

In the Eighth Five Year plan a total investment expenditure worth RO 6.6 billion has been planned of which about RO 3.2 billion will be for oil production and RO 3.4 billion for gas production. RO 566 million has been planned for financing the tourism development projects of Oman Company for tourism development and RO 800 million to finance the energy companies engaged in electricity transport and water distribution and supply.

The regional equity markets experienced an uneven year. Low volumes and a lack of a sustained momentum on stock exchanges held back IPOs. MSM 30 index has recovered well during 2010 ending the year at 6,755 points with positive performance in banking, industry and service sectors. However the regional unrest after the balance sheet date is expected to affect the other regional markets negatively. The uncertainty may continue during the first quarter of 2011 in spite of the good performance of the corporate sector. The performance of other regional markets would affect MSM greatly.

Oman's banking sector remains fundamentally stable and the ongoing improvement in asset growth and profitability is to gather momentum over the coming years. The outlook for Oman's banking industry in 2011 looks bright, as a combination of higher oil prices and a more fundamental recovery in the non-oil sector of the economy helps boost aggregate asset growth and profitability throughout the sector. While 2011 will prove to be a better year for banks than 2010 and 2009, the level of growth prior to the global financial crisis is unlikely before the end of another five year period. The competition between Omani banks will remain strong and continue to exert pressure on their interest-rate margins, but overall the earnings power of Omani banks is expected to remain good and would be supported by higher business volumes with a low cost base.

Internal control systems and their adequacy

The Management of OAB has established and maintains internal controls supplemented by a program of internal audits. The internal controls are designed to provide reasonable assurance that assets are safeguarded and transactions are executed, recorded and reported in accordance with management's intentions and authorizations and to comply with applicable laws and regulations. The internal control system includes an organizational structure that provides appropriate delegation of authority and segregation of duties, established policies and procedures, and comprehensive internal audit and loan review programs.

To enhance the reliability of internal controls, management recruits and trains qualified personnel, and maintains sound risk management practices. There are inherent limitations in any internal control, including the possibility of human error and the circumvention or overriding of controls. Accordingly, even effective internal controls can provide only reasonable assurance with respect to financial statement preparation. Further, because of changes in conditions, the effectiveness of internal controls may vary over time. The Internal Audit Department of OAB reviews, evaluates, monitors and makes recommendations on policies and procedures, which serves as an integral, but independent component of internal control.

OAB's financial reporting and internal controls are under the general oversight of the Board of Directors, acting through the Audit and Risk Management Committee. The Audit and Risk Management Committee is composed entirely of independent non-executive directors. The Audit Committee meets periodically with management, internal auditors and external auditors to determine that each is fulfilling its responsibilities and to support actions to identify measure and control risks and augment internal controls.

Discussion on financial and operational performance

1. Net profit

Net profit for the year ended 31 December 2010 is RO 23.2 million. This is at the same level as the previous year. The operating profit at RO 29.5 million is higher than RO 28 million in previous years by 6%. The lower net profit is mainly due to the following:

- Growth in net interest was 8% compared to 2009 with the interest income increasing by 6% while the interest expense reducing by 4%. The growth in personal loans has been the main reason for increase in interest income. The decline in the interest rates combined with local competition contributed to the reduction in the interest rate on loans. The interest costs remained low due to the high percentage of low cost funds in the form of demand and savings deposits.

- Other operating income increased by 2% contributed by the higher exchange income and fees from investment banking. The low level of realized gains and unrealized loss for the year was due to low trading volumes combined with a slow recovery in MSM. The lack of growth in corporate lending and decrease in fees from the e-banking services resulted in a marginal growth in total operating income.

- Operating expenses at RO 22 million increased by 7% mainly due to the increased salary costs on account of increments and increased number of staff. The administration costs are higher compared to 2009 as a result of higher rentals and maintenance costs in addition to the new branches and a new telecommunications network for the branches.

- The Earnings per share of RO 0.279 at December 31 2010 compared with RO 0.310 (restated for bonus shares) at December 31 2009 on the increased capital of RO 85 million.

2. Assets

The total assets of the Bank at 31 December 2010 have increased by 11% to RO 954 million from RO 859 million at 31 December 2009. The significant changes are as follows:

Certificates of Deposit

The investments in Central Bank Certificates of Deposit are at RO 100 million at December 2010 compared to RO 110 million at December 2009 reflecting the surplus liquidity and lower credit growth in the market.

Loans and advances

Gross loans increased by RO 99 million (17%) during 2010 to RO 682 million at December 31 2010 from RO 583 million at December 31 2009. The personal loans increased by 35% while the corporate loans increased by 6%.

Non-performing loans increased to 3.1% of the total loans from 2.7% at December 2009 due to the classification of certain personal loans. The total provision coverage at December 31 2010 is 105% of the non performing assets as compared to 110% at December 31 2009.

The specific provision is at 60% of the Non-performing loans as the provision requirement is lower after considering the collaterals available for these loans. The provision levels were considered adequate and have been determined in accordance with the Central Bank of Oman and International Financial Reporting Standards.

3. Liabilities

Total Liabilities at 31 December 2010 are RO 811 million, compared to RO 732 million at 31 December 2009. The customer deposits, which constitute 95% of the liabilities, increased by 11% to reach RO 770 million at 31 December 2010

4. Shareholders' funds

Shareholders funds increased to RO 125.8 million from RO 111.5 million from the previous year. The paid-up share capital was increased to RO 85 million in March 2010. The Board has proposed to increase the paid-up share capital further to RO 100 million during early 2011 in order to enhance the Bank's net worth and meet the regulatory requirement. The proposed increase is subject to approvals from regulatory authorities.

5. Capital adequacy

Capital adequacy ratio calculated in accordance with the guidelines issued by Bank for International Settlement (BIS) was 14.49% (2009: 13.44%). The details of the calculation and the Bank's policy for capital management are provided in note 6 to the financial statements.

6. Human Resources

Omanisation at 31 December 2010 was 92.54% (2009: 92.66%), which is higher than the minimum regulatory requirement of 90%. We provide the following as additional information regarding the number of years completed by staff.

	Below 3 Years	4 to 6 Years	7 to 9 Years	10 to 14 Years	15 Years and above	Total
Staff Numbers	399	93	76	100	217	885

Events after end of financial year

We are not aware of any matter or circumstance that has arisen since 31 December 2010 which has significantly affected, or may significantly affect the operations of the Bank.

Date of the statement 15 February 2011

FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010

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P. R. No. MH/4

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 2010 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 2010, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on Other Legal and Regulatory Requirements
In our opinion the financial statements 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

26 January 2011
Muscat

Philip Stanton
Partner

STATEMENT OF FINANCIAL POSITION

At 31st December 2010

	Notes	2010 RO'000	2009 RO'000
ASSETS			
Cash and balances with the Central Bank of Oman	7	**100,730**	64,954
Certificates of deposit	8	**100,000**	110,000
Due from banks	9	**26,019**	55,260
Loans and advances to customers	10	**660,346**	565,557
Investment securities	11	**31,810**	32,196
Other assets	12	**22,267**	21,486
Property and equipment	13	**12,483**	9,438
Total assets		**953,655**	858,891
LIABILITIES			
Due to banks	14	**5,771**	1,929
Deposits from customers	15	**769,761**	696,072
Other liabilities	16	**31,720**	31,337
Taxation	18	**3,572**	3,072
Total liabilities		**810,824**	732,410
EQUITY			
Share capital	19	**85,000**	75,000
Legal reserve	20	**20,277**	17,960
General reserve	21	**15,983**	13,666
Cumulative changes in fair value		**1,341**	1,161
Proposed dividend	22	**17,000**	15,000
Retained earnings		**3,230**	3,694
Total equity		**142,831**	126,481
Total equity and liabilities		**953,655**	858,891
Contingent liabilities and commitments	33(a)	**687,772**	724,663

The financial statements were authorised for issue by the Board of Directors on 26 January 2011 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

For the Year Ended 31st December 2010

	Notes	2010 RO'000	2009 RO'000
Interest income	23	**41,043**	38,779
Interest expense	24	**(7,686)**	(8,001)
Net interest income		**33,357**	30,778
Fee and commission income - net	25	**13,015**	12,752
Investment income	26	**306**	652
Other operating income	27	**4,854**	4,364
Total income		**51,532**	48,546
Operating expenses	28	**(21,970)**	(20,541)
Allowance for loan impairment	10(a)	**(4,562)**	(4,325)
Recoveries/release from allowance for loan impairment	10(a)	**1,742**	2,459
Profit before tax		**26,742**	26,139
Income tax expense	18	**(3,572)**	(3,058)
Profit for the year		**23,170**	23,081
Other comprehensive income			
Net movement in unrealised gain on available-for-sale financial investments		**180**	938
Total comprehensive income for the year		**23,350**	24,019
Earnings per share:			
Basic and diluted earnings per share attributable to equity holders	29	**OMR 0.279**	OMR 0.310

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

STATEMENT OF CASH FLOWS
For the Year Ended 31st December 2010

	Notes	2010 RO'000	2009 RO'000
Operating activities			
Profit before tax		**26,742**	26,139
Adjustments:			
Depreciation	13	**1,771**	1,695
Allowance for loan impairment	10(a)	**4,562**	4,325
Recoveries/release from allowance for loan impairment	10(a)	**(1,742)**	(2,459)
Income from held-to-maturity investments	23	**(639)**	(507)
Profit on sale of property and equipment		**(17)**	(13)
Change in the fair value of financial assets at fair value through profit or loss	26	**11**	(317)
Operating profit before changes in operating assets and liabilities		**30,688**	28,863
Changes in operating assets and liabilities			
Loans and advances to customers		**(97,609)**	(28,427)
Financial assets at fair value through profit or loss		**(630)**	(1,604)
Decrease in restricted deposit		**435**	-
Other assets		**(781)**	4,605
Deposits from customers		**73,689**	85,167
Other liabilities		**383**	(602)
Cash from operations		**6,175**	88,002
Tax paid		**(3,072)**	(3,543)
Net cash generated from operating activities		**3,103**	84,459
Investing activities			
Held-to-maturity investments matured	11	**3,951**	16,771
Purchase of held-to-maturity investments	11	**(2,400)**	(13,175)
Purchase of investment available for sale	11	**(366)**	(3,999)
Income from maturing of held-to-maturity investments	23	**639**	507
Purchase of property and equipment	13	**(4,820)**	(2,954)
Proceeds from sale of property and equipment		**21**	19
Net cash used in investing activities		**(2,975)**	(2,831)
Financing activities			
Proceeds from issue of share capital	19	**8,000**	12,000
Dividends paid	22	**(15,000)**	(20,000)
Net cash used in financing activities		**(7,000)**	(8,000)
Net (decrease) increase in cash and cash equivalents		**(6,872)**	73,628
Cash and cash equivalents at the beginning of the year		**227,350**	153,722
Cash and cash equivalents at the end of the year	31	**220,478**	227,350

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

STATEMENT OF CHANGES IN EQUITY
For the Year Ended 31st December 2010

	Notes	Share capital RO'000	Legal reserve RO'000	General reserve RO'000	Cumulative changes in fair value RO'000	Proposed dividend RO'000	Retained earnings RO'000	Total RO'000
At 1 January 2009		60,000	15,652	11,358	223	20,000	3,229	110,462
Profit for the year		-	-	-	-	-	23,081	23,081
Other comprehensive income for the year	11	-	-	-	938	-	-	938
Total comprehensive income for the year		-	-	-	938	-	23,081	24,019
Issue of share capital	19	12,000	-	-	-	-	-	12,000
Bonus issue of shares	19	3,000	-	-	-	-	(3,000)	-
Transfer to legal reserve	20	-	2,308	-	-	-	(2,308)	-
Transfer to general reserve	21	-	-	2,308	-	-	(2,308)	-
Dividend paid relating to 2008	22	-	-	-	-	(20,000)	-	(20,000)
Proposed dividend	22	-	-	-	-	15,000	(15,000)	-
At 31 December 2009		75,000	17,960	13,666	1,161	15,000	3,694	126,481
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	11	-	-	-	**180**	-	-	**180**
Total comprehensive income		-	-	-	**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**

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

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31st December 2010

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.

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 judgement in the process of applying the Bank's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 3.

2.3 Changes in accounting policies and disclosures

The accounting policies are consistent with those used in the previous 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 effective as of 1 January 2010:

- IFRS 2 Share-based Payment: Group Cash-settled Share-based Payment Transactions effective 1 January 2010
- IFRIC 17 Distributions of Non-cash Assets to Owners effective 1 July 2009
- Improvements to IFRSs (May 2008)
- Improvements to IFRSs (April 2009)

These amendments resulting from improvements to IFRSs did not have any impact on the accounting policies, financial position or performance of the Bank.

Other IASB Standards and Interpretations that have been issued but are not yet mandatory, and have not been adopted by the Bank, are not expected to have a material impact on the Bank's financial statements. These standards are set out in note 4.

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31st December 2010

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Changes in accounting policies and disclosures (continued)

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.

2.4.2 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.

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31st December 2010

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

2.4.7 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;

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31st December 2010

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4.9 Impairment of financial assets (continued)

- 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
- 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.

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31st December 2010

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4.9 Impairment of financial assets (continued)

(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.

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 judgment. 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

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31st December 2010

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7 Property and equipment (continued)

The assets' residual values and useful lives 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.

Borrowings are classified as current liabilities unless the Bank has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31st December 2010

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.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31st December 2010

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.

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31st December 2010

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 thousand. The sitting fees for each director shall not exceed RO 10 thousand 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 Group 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.

3.2 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

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31st December 2010

3.2 Impairment losses on loans and advances (continued)

conditions that correlate with defaults on assets in the group. The 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.

IAS 24 Related Party Disclosures (Amendment)
The amended standard is effective for annual periods beginning on or after 1 January 2011. It clarified the definition of a related party to simplify the identification of such relationships and to eliminate inconsistencies in its application. The revised standard introduces a partial exemption of disclosure requirements for government related entities. The Bank does not expect any impact on its financial position or performance. Early adoption is permitted for either the partial exemption for government-related entities or for the entire standard.

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31st December 2010

4 STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)

IAS 32 Financial Instruments: Presentation – Classification of Rights Issues (Amendment)
The amendment to IAS 32 is effective for annual periods beginning on or after 1 February 2010 and amended the 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. This amendment will have no impact on the Bank after initial application.

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 as defined in IAS 39. The standard is effective for annual periods beginning on or after 1 January 2013. In subsequent phases, the IASB will address classification and measurement of financial liabilities, hedge accounting and derecognition. The completion of this project is expected in early 2011. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Bank's financial assets. The Bank will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

IFRIC 14 Prepayments of a minimum funding requirement (Amendment)
The amendment to IFRIC 14 is effective for annual periods beginning on or after 1 January 2011 with retrospective application. The amendment provides guidance on assessing the recoverable amount of a net pension asset. The amendment permits an entity to treat the prepayment of a minimum funding requirement as an asset. The amendment is expected to have no impact on the financial statements of the Bank.

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments
IFRIC 19 is effective for annual periods beginning on or after 1 July 2010. 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 will have no effect on the financial statements of the Bank.

Improvements to IFRSs (issued in May 2010)
The IASB issued Improvements to IFRSs, an omnibus of amendments to its IFRS standards. The amendments have not been adopted as they become effective for annual periods on or after either 1 July 2010 or 1 January 2011. The amendments listed below, are considered to be relevant for the Bank:

- IFRS 7 Financial Instruments: Disclosures
- IAS 1 Presentation of Financial Statements
- IFRIC 13 Customer Loyalty Programmes

The Bank, however, expects no impact from the adoption of the amendments on its financial position or performance.

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.

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31st December 2010

5 FINANCIAL RISK MANAGEMENT (continued)

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.

5.1 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.

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.

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31st December 2010

5 FINANCIAL RISK MANAGEMENT (continued)

5.1.2 Risk mitigation policies (continued)

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.

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 for which collaterals or other credit enhancements are held is as follows:

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31st December 2010

5 FINANCIAL RISK MANAGEMENT (continued)

5.1.2 Risk mitigation policies (continued)

(c) Credit-related commitments (continued)

	Performing loans (neither past due nor impaired) RO'000	*Loans past due and not paid RO'000*	*Non performing loans RO'000*	*Gross Loans RO'000*
Loans and advances with collateral available	**156,667**	**30,053**	**11,985**	**198,705**
Loans and advances with guarantees available	**58,013**	**-**	**-**	**58,013**
Government soft loans *	**30,423**	**-**	**-**	**30,423**
Balance as at 31 December 2010	**245,103**	**30,053**	**11,985**	**287,141**
Balance as at 31 December 2009	**195,777**	**42,636**	**7,936**	**246,349**

* Government Soft Loans are guaranteed by the Government to the extent of the outstanding principal.

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 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.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31st December 2010

5 FINANCIAL RISK MANAGEMENT (continued)

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

	2010	2009
Financial assets on the statement of financial position	RO'000	RO'000
Certificates of deposit (refer (d))	**100,000**	110,000
Due from Banks	**26,019**	55,260
Loans and advances:		
Corporate loans	**384,058**	361,723
Personal loans	**298,291**	221,681
Other assets	**22,267**	21,486
Investments – held to maturity:		
Government Development Bonds	**20,077**	21,628
	850,712	791,778
Off-Balance sheet items		
Financial guarantees	**58,043**	48,929
Undrawn loan commitments	**4,539**	11,600
	62,582	60,529

The above table represents the worst case scenario of credit risk exposure to the Bank at 31 December 2010 and 31 December 2009 without taking into account the collateral held or other credit enhancements. The 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) 94% (2009 – 88%) 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 72% (2009 – 68%) of the total on-balance sheet items shown above. Of the total loans and advances 92.5% (2009 – 89.9%) are neither past due nor impaired.

c) The impaired loans have increased from 2.7% at 31 December 2009 to 3.1% at 31 December 2010. The impaired personal loans constitute 1.3% of the total loans at 31December 2010 compared to 0.8% at 31 December 2009.

d) Certificates of deposit which represent 10.5% (2009 – 13%) of the total on-balance sheet items are placed with the Central Bank of Oman.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31st December 2010

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:

	2010			2009		
	Loans and advances to customers	**Due from Banks**	**Total**	Loans and advances to customers	Due from Banks	Total
	RO'000	**RO'000**	**RO'000**	RO'000	RO'000	RO'000
Neither past due nor impaired	**617,430**	**26,019**	**643,449**	506,898	55,260	562,158
Special mention loans	**29,422**	-	**29,422**	18,083	-	18,083
Past due but not impaired	**14,524**	**-**	**14,524**	42,636	-	42,636
Impaired	**20,953**	**-**	**20,953**	15,787	-	15,787
Gross loans and advances	**682,349**	**26,019**	**708,368**	583,404	55,260	638,664
Less: allowance for loan impairment and contractual interest not recognized (Refer to note (a) below)	**(22,003)**	**-**	**(22,003)**	(17,847)	-	(17,847)
Net loans and advances	**660,346**	**26,019**	**686,365**	565,557	55,260	620,817

a) The total impairment provision for loans and advances is RO 22,003 thousand (2009 - RO 17,847 thousand) of which RO 12,496 thousand (2009 - RO 9,986 thousand) represents the individually impaired loans and the remaining amount of RO 9,507 thousand (2009 - 7,861 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:

	2010			2009		
	Retail loans	**Corporate loans**	**Total**	Retail loans	Corporate loans	Total
	RO'000	**RO'000**	**RO'000**	RO'000	RO'000	RO'000
Standard loans	**288,660**	**343,294**	**631,954**	216,731	332,803	549,534
Special mention loans	**637**	**28,805**	**29,442**	312	17,771	18,083
Substandard loans	**3,437**	**787**	**4,224**	1,981	3,846	5,827
Doubtful loans	**663**	**3,788**	**4,451**	884	440	1,324
Loss	**4894**	**7,384**	**12,278**	1,773	6,863	8,636
	298,291	**384,058**	**682,349**	221,681	361,723	583,404

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31st December 2010

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:

	2010 RO'000	2009 RO'000
Past due up to 30 days	**6,665**	22,823
Past due 30-60 days	**4,260**	282
Past due 60-90 days	**3,599**	19,531
	14,524	42,636
Fair value of collateral	**17,886**	7,019

d) Loans and advances individually impaired:

	2010 RO'000	2009 RO'000
Individually impaired loans	**20,953**	15,787
Fair value of collateral	**10,030**	8,794

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 2010 amounted to RO 15,566 thousand (2009 - RO 7,495 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 2010 is RO 250 thousand (2009 - RO 250 thousand).

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31st December 2010

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. The 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.

The Bank's investments include equity securities which are publicly traded on the Muscat Securities Market (MSM). The Bank's profits at 31 December 2010 may change by $\pm$ 0.95% (2009 - $\pm$0.9%) due to increase/decrease by 10% in the MSM - 30 Index, 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 2010 is 12.50% (2009 - 12.13%).

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.

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 as follows:

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31st December 2010

5 FINANCIAL RISK MANAGEMENT (continued)

5.2.3 Currency risk (continued)

Foreign currency exposures

	2010	*2009*
	RO'000	*RO'000*
Net assets denominated in US Dollars	**12,231**	5,658
Net assets denominated in other foreign currencies	**1,118**	6,093

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.

5.4 Fair value estimation
The estimate of fair values of the financial instruments is based on information available to management as at 31 December 2010. 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:

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31st December 2010

5 FINANCIAL RISK MANAGEMENT (continued)

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 is 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.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31st December 2010

5.5 Financial instruments by category

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-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**
31-Dec-09					
Bank balances and cash	-	64,954	-	-	64,954
Certificates of deposit	-	110,000	-	-	110,000
Due from Banks	-	55,260	-	-	55,260
Loans and advances	-	-	-	565,557	565,557
Investment securities	5,376	21,628	5,192	-	32,196
Other assets	-	-	-	21,486	21,486
	5,376	251,842	5,192	587,043	849,453

Liabilities as per statement of financial position				*Other liabilities RO'000*	*Total RO'000*
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**
31-Dec-09					
Due to Banks	-	-	-	1,929	1,929
Deposits from customers	-	-	-	696,072	696,072
Other liabilities	-	-	-	31,337	31,337
Taxation	-	-	-	3,072	3,072
	-	**-**	**-**	732,410	732,410

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31st December 2010

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:

	2010 RO'000	*2009 RO'000*
Capital		
Tier 1	**124,490**	110,320
Tier 2	**10,111**	8,383
Total capital base	**134,601**	118,703
Risk weighted assets		
Credit risk	**807,093**	772,031
Market risk	**31,425**	28,519
Operational risk	**90,475**	82,928
Total risk weighted assets	**928,993**	883,478
Capital adequacy ratio %	**14.49**	13.44

The Tier 1 capital consists of paid-up capital and reserves. The Tier 2 capital consists of the provisions 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

	2010 RO'000	*2009 RO'000*
Cash in hand	**19,270**	13,415
Balances with the Central Bank of Oman:		
- Clearing account and other balances	**80,960**	50,604
- Capital deposit	**500**	500
- Insurance deposit	**-**	435
	100,730	64,954

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31st December 2010

7 CASH AND BALANCES WITH THE CENTRAL BANK OF OMAN (continued)

The capital deposit cannot be withdrawn without the approval of the Central Bank of Oman. The capital deposit earns interest at 2% per annum (2009 – 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 0.07%% (2009 – 0.05%) per annum.

9 DUE FROM BANKS

	2010 RO'000	2009 RO'000
Current accounts	**17,404**	16,790
Money market placements	**8,615**	38,470
	26,019	55,260

At 31 December 2010, 81% of the Bank's placements were with five banks rated between Aaa to A1 by Moody's (2009 – 79% of the Bank's placements were with five Banks rated Aaa to A2).

10 LOANS AND ADVANCES TO CUSTOMERS

	2010 RO'000	2009 RO'000
Corporate loans		
Term loans	**295,457**	273,715
Overdrafts	**78,163**	71,863
Bills Discounted	**10,438**	16,145
	384,058	361,723
Personal loans		
Consumer loans	**228,661**	176,662
Mortgage loans	**29,595**	16,945
Overdrafts	**34,698**	23,727
Credit cards	**5,337**	4,347
	298,291	221,681
Gross loans and advances	**682,349**	583,404
Less: allowance for loan impairment and contractual interest not recognised (refer to note (a) below)	**(22,003)**	(17,847)
Net loans and advances	**660,346**	565,557

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31st December 2010

10 LOANS AND ADVANCES TO CUSTOMERS (continued)

(a) Allowance for loan impairment and contractual interest not recognised

The movements in the allowance for loan impairment and contractual interest not recognised are as follows:

	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**
Balance at 1 January 2009	11,988	2,994	14,982
Provided during the year	4,325	1,219	5,544
Amounts written off during the year	(160)	(60)	(220)
Amounts released/recovered during the year	(2,002)	(457)	(2,459)
Balance at 31 December 2009	14,151	3,696	17,847

At 31 December 2010, RO 9,507 thousand (2009 - RO 7,861 thousand) out of the total loan impairment provisions has been made on a portfolio basis against the losses which might have been incurred on the loans and advances, not specifically identified as impaired.

At 31 December 2010 loans and advances on which contractual interest was not recognised or has not been accrued amounted to RO 20,953 thousand (31 December 2009 – RO 15,787 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:

	2010 RO'000	2009 RO'000
Personal loans	**298,291**	221,681
Construction	**69,414**	79,378
Services	**65,674**	51,847
Manufacturing	**61,695**	58,387
Wholesale and retail trade	**39,256**	53,991
Transportation	**37,219**	10,867
Mining and quarrying	**32,645**	33,961
Financial institutions	**18,325**	14,306
Import trade	**13,657**	15,842
Agriculture and allied activities	**6,879**	8,281
Government	**2,389**	2,582
Others	**36,905**	32,281
	682,349	583,404

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31st December 2010

10 LOANS AND ADVANCES TO CUSTOMERS (continued)

(b) Concentration of loans and advances (continued)

Of the above, loans with variable interest rates amounted to RO 423,393 thousand (2009 - RO 248,355 thousand) and loans carrying fixed interest rates amounted to RO 258,956 thousand (2009 - RO 335,049 thousand).

11 INVESTMENT SECURITIES

	2010 Carrying value RO'000	*2010* Cost RO'000	*2009* Carrying value RO'000	*2009* Cost RO'000
Available-for-sale				
- quoted	**5,392**	**4,000**	5,161	4,000
- unquoted	**346**	**396**	31	31
	5,738	**4,396**	5,192	4,031
Designated as at fair value through profit or loss				
- quoted	**618**	**517**	132	517
- unquoted	**503**	**1,263**	945	1,254
	1,121	**1,780**	1,077	1,771
Held-for-trading				
- quoted	**4,874**	**5,280**	4,157	4,371
- unquoted	**-**	**-**	142	288
	4,874	**5,280**	4,299	4,659
Held-to-maturity				
Oman Government Development Bonds	**20,077**	**20,077**	21,628	21,628
Total investment securities	**31,810**	**31,533**	32,196	32,089

Unquoted financial assets at fair value through profit or loss include investment in the Financial Settlement and Guaranteed Fund of RO 166 thousand (2009 – RO 158 thousand) 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

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31st December 2010

11 INVESTMENT SECURITIES (continued)

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 2010, 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.

The movements in investment securities may be summarised as follows:

	At 1 January 2010 RO'000	Additions RO'000	Disposals (sale & redemption) / Amortisation RO'000	Changes in fair value recorded in the profit for the year RO'000	Changes in fair value recorded in other comprehensive income 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**

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31st December 2010

11 INVESTMENT SECURITIES (continued)

	At 1 January 2009 RO'000	Additions RO'000	Disposals (sale & redemption) / Amortisation RO'000	Changes in fair value recorded in the profit for the year RO'000	Changes in fair value recorded in other comprehensive income RO'000	At 31 December 2009 RO'000
Available-for- sale						
Quoted – level 1	224	3,999	-	-	938	5,161
Unquoted – level 3	31	-	-	-	-	31
Designated as at fair value through profit or loss						
Quoted – level 1	106	-	-	26	-	132
Unquoted – level 3	487	455	-	3	-	945
Held for trading						-
Quoted – level 1	2,648	9,772	(8,533)	270	-	4,157
Unquoted – level 2	214	-	(90)	18	-	142
Investments held to Maturity	25,224	13,175	(16,771)	-	-	21,628
At 31 December 2009	28,934	27,401	(25,394)	317	938	32,196

Investments held to maturity comprise of bonds issued by the Government of Oman amounting to RO 20,077 thousand (2009: RO 21,628 thousand). The bonds are denominated in Rial Omani and carry interest rates varying between 3.25% and 4% (2009 - 4% to 5.25%) per annum. The maturity profile of these bonds, based on the remaining maturity from the reporting date, is as follows:

	2010 RO'000	2009 RO'000
Within 3 months	**-**	-
4 to 12 months	**-**	3,847
1 to 5 years	**20,077**	17,781
	20,077	21,628

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31st December 2010

12 OTHER ASSETS

	2010 RO'000	2009 RO'000
Customers' indebtedness against acceptances	**14,420**	15,192
Interest receivable	**2,699**	1,942
Prepayments	**1,456**	1,211
Clearing cheques	**608**	372
Receivable from investment customers	**405**	863
Positive fair value of derivatives (note 32)	**444**	349
Others	**2,235**	1,557
	22,267	21,486

13 PROPERTY AND EQUIPMENT

	Land and buildings RO'000	Computer equipment RO'000	Equipment, furniture & 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**

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31st December 2010

13 PROPERTY AND EQUIPMENT (continued)

	Land and buildings RO'000	Computer equipment RO'000	Equipment, furniture & fixtures RO'000	Motor vehicles RO'000	Capital work in progess RO'000	Total RO'000
2009						
Cost						
At 1 January 2009	6,521	8,588	3,795	509	-	19,413
Additions	-	271	1,813	72	798	2,954
Disposals		(6)	(141)	(13)	-	(160)
At 31 December 2009	6,521	8,853	5,467	568	798	22,207
Depreciation						
At 1 January 2009	2,303	5,387	3,413	125	-	11,228
Charge for the year	180	1,080	239	196	-	1,695
Relating to disposals	-	(6)	(135)	(13)	-	(154)
At 31 December 2009	2,483	6,461	3,517	308	-	12,769
Net book value						
At 31 December 2009	4,038	2,392	1,950	260	798	9,438

14 DUE TO BANKS

	2010 RO'000	2009 RO'000
Current accounts	**3,109**	1,929
Money market acceptances	**2,662**	-
	5,771	1,929

15 DEPOSITS FROM CUSTOMERS

	2010 RO'000	2009 RO'000
Term deposits	**290,971**	307,944
Demand and call accounts	**368,083**	290,667
Saving accounts	**110,707**	97,461
	769,761	696,072

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31st December 2010

15 DEPOSITS FROM CUSTOMERS (continued)

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

	2010 RO'000	2009 RO'000
Private	**581,899**	539,554
Government	**187,862**	156,518
	769,761	696,072

16 OTHER LIABILITIES

	2010 RO'000	2009 RO'000
Liabilities against acceptances	**14,420**	15,192
Acceptances and certified cheques	**6,101**	1,403
Payable to investment customers	**3,504**	3,996
Interest payable	**1,307**	3,809
Accrued expenses and other payables	**2,781**	3,328
Staff terminal benefits (note 17)	**2,079**	1,914
Interest and commission received in advance	**1,041**	1,417
Negative fair value of derivatives (note 32)	**385**	278
Deposits for shares pending allotment	**102**	-
	31,720	31,337

17 STAFF TERMINAL BENEFITS

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

	2010 RO'000	2009 RO'000
At 1 January	**1,914**	1,734
Charge for the year	**223**	213
Payment to employees during the year	**(58)**	(33)
At 31 December	**2,079**	1,914

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31st December 2010

18 TAXATION

	2010	*2009*
	RO'000	*RO'000*
Statement of comprehensive income:		
Current year	**3,327**	3,058
Deferred taxation	**245**	-
	3,572	3,058
Statement of financial position:		
Current liability		
Current year	**3,327**	3,058
Prior years	**-**	14
	3,327	3,072
Deferred tax liability		
On account of difference between the tax base of property and equipment and its written down value in the books	**245**	-
Total tax liability	**3,572**	3,072

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 12.44% (2009 – 11.70%).

The deferred tax liability has been recognized at the effective rate of 12%.

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

	2010	*2009*
	RO'000	*RO'000*
Profit before tax	**26,742**	26,139
Tax at the applicable rate of 12% after statutory deduction of RO 30,000 (2009 - 12%)	**3,205**	3,133
Tax effect of temporary differences	**32**	(71)
Tax effect of income that is not taxable and expenses that are not deductible in determining taxable profit	**90**	9
Reversal of excess provision brought forward	**-**	(13)
Tax expense for the current year	**3,327**	3,058
Add: deferred tax liability created during the year	**245**	-
Tax expense for the year	**3,572**	3,058

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31st December 2010

18 TAXATION (continued)

Status of tax assessments

The assessments for the years up to 2005 are complete. The assessments for 2006 to 2009 are not yet finalised by the Tax Authorities. The Management believes that no significant further liabilities will be incurred by the Bank on completion of the pending tax assessments.

19 SHARE CAPITAL

The authorised capital is RO 120,000 thousand and issued share capital comprises 85,000 thousand fully paid shares of RO 1 each (2009: 75,000 thousand of RO 1 each). The shareholders at the year end were as follows:

	Country of incorporation	Share holding %	*2010* ***RO'000***	*2009* *RO'000*
Oman International Development & Investment Co. SAOG	Oman	**50.99**	**43,341**	38,243
Arab Bank Plc	Jordan	**49.00**	**41,650**	36,750
Oman Investment Services SAOC	Oman	**0.01**	**9**	7
			85,000	75,000

During the year ended 31 December 2010, the Bank has increased its paid up capital through a rights issue of RO 8,000 thousand (2009 : RO 12,000 thousand) and RO 2,000 thousand (2009 : RO 3,000 thousand) in the form of bonus issue. The shareholders duly approved this issue in the Annual General Meeting held on 7 March 2010 (2009 : 22 February 2009).

In the meeting held on 21 December 2010, the Board of Directors proposed an increase in the paid up capital of the Bank by RO 15,000 thousand through a rights issue of RO 13,000 thousand and a bonus issue of RO 2,000 thousand which is subject to approvals from the Central Bank of Oman and the shareholders.

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 net profit each year to a 'General reserve' in order to meet any unforeseen contingencies.

22 DIVIDEND PROPOSED AND PAID

At the Annual General Meeting held on 7 March 2010, a cash dividend of RO 0.200 per share totalling to RO 15,000 thousand (2009 : RO 0.333 per share totalling to RO 20,000 thousand) for the year ended 31 December 2009 was declared and paid.

In the meeting held on 21 December 2010, the Board of Directors proposed a cash dividend of 0.200 per share totalling to RO 17,000 thousand for the year ended 31 December 2010 (2009 - RO 0.200 per share totalling to RO 15,000 thousand). A resolution to approve the dividend will be presented to the shareholders at the Annual General Meeting.

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31st December 2010

23 INTEREST INCOME

	2010	*2009*
	RO'000	*RO'000*
Loans and advances	**40,185**	37,493
Placements with Banks and other money market placements	**139**	662
Certificates of deposits	**80**	117
Oman Government Development Bonds	**639**	507
	41,043	38,779

24 INTEREST EXPENSE

	2010	*2009*
	RO'000	*RO'000*
Time deposits	**6,362**	6,261
Call accounts	**565**	737
Bank borrowings	**394**	384
Savings accounts	**365**	619
	7,686	8,001

25 FEE AND COMMISSION INCOME – NET

	2010	*2009*
	RO'000	RO'000
Fee and commission income	**13,974**	13,052
Fee and commission expense	**(959)**	(300)
	13,015	12,752

26 INVESTMENT INCOME

From financial assets at fair value through profit or loss	*2010*	*2009*
	RO'000	*RO'000*
Dividend income	**238**	215
Profit (loss) on sale of investments	**79**	120
Fair value changes	**(11)**	317
	306	652

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31st December 2010

27 OTHER OPERATING INCOME

	2010	*2009*
	RO'000	*RO'000*
Exchange income	**3,946**	3,636
Other income	**908**	728
	4,854	4,364

28 OPERATING EXPENSE

	2010	*2009*
	RO'000	*RO'000*
Staff costs (refer below)	**12,949**	12,107
Other operating expenses	**7,150**	6,644
Depreciation	**1,771**	1,695
Directors' remuneration	**100**	95
	21,970	20,541

Details of staff costs are as follows:

Salaries	**9,049**	8,334
Allowances	**2,051**	1,858
Social security costs	**612**	564
End of service benefits	**223**	213
Other costs	**1,014**	1,138
	12,949	12,107

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:

	2010	*2009*
Profit for the year (RO'000)	**23,170**	23,081
Weighted average number of shares outstanding during the year	**83,049,315**	74,468,493
Basic earning per share (RO)	**0.279**	0.310

During the year ended 31 December 2010, 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.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31st December 2010

29 EARNINGS PER SHARE (continued)

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 2010, the management fees as per the agreement amounted to RO 29 thousand (2009: 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:

	2010			2009		
	Major shareholders RO'000	**Others RO'000**	**Total RO'000**	Major shareholders RO'000	Others RO'000	Total RO'000
Loans and advances	**2,600**	**13,667**	**16,267**	1,600	38,472	40,072
Customers' deposits	**836**	**4,919**	**5,755**	2,119	4,309	6,428
Investments	**271**	**481**	**752**	376	450	826
Due from Banks	**13,736**	**-**	**13,736**	35,982	-	35,982
Due to Banks	**348**	**-**	**348**	460	-	460
Letters of credit, guarantees and acceptances	**118,811**	**4,046**	**122,857**	141,506	1,280	142,786

Movement of loans and advances given to related parties:

	2010 RO'000	2009 RO'000
At 1 January 2010	**24,293**	17,018
Disbursed during the year	**51,244**	138,624
Paid during the year	**(59,270)**	(131,349)
At 31 December 2010	**16,267**	24,293

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:

	2010			2009		
	Major shareholders RO'000	**Others RO'000**	**Total RO'000**	Major shareholders RO'000	Others RO'000	Total RO'000
Interest and commission income	**186**	**435**	**621**	447	803	1,250
Interest expense	**668**	**2**	**670**	379	7	386

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31st December 2010

30 RELATED PARTY TRANSACTIONS (continued)

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:

	2010 RO'000	2009 RO'000
Salaries and other short-term benefits	**1,112**	1,101
End of service benefits	**59**	60
	1,171	1,161

31 CASH AND CASH EQUIVALENTS

	2010 RO'000	2009 RO'000
Cash and balances with the Central Bank of Oman (CBO)	**100,730**	64,954
Certificates of deposit	**100,000**	110,000
Due from Banks	**26,019**	55,260
Less: due to Banks	**(5,771)**	(1,929)
Restricted deposits included under balances with the CBO	**(500)**	(935)
	220,478	227,350

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-10						
Purchase contracts	**444**	**-**	**37,130**	**26,945**	**10,185**	-
Sale contracts	**-**	**(385)**	**(37,071)**	**(26,921)**	**(10,150)**	-
	444	**(385)**	**59**	**24**	**35**	**-**

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31st December 2010

32 DERIVATIVE FINANCIAL INSTRUMENTS (continued)

	Positive fair value RO'000 (note 12)	Negative fair value RO'000 (note 16)	Notional amount RO'000	Notional amounts by term to maturity: Within 3 months RO'000	3 - 12 months RO'000	1 - 5 years RO'000
31-Dec-09						
Purchase contracts	349	-	61,249	39,717	21,532	-
Sale contracts	-	(278)	(61,178)	(39,677)	(21,501)	-
	349	(278)	71	40	31	-

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:

	2010 RO'000	2009 RO'000
Letters of credit	**285,623**	246,959
Guarantees	**344,106**	428,775
Financial Guarantees	**58,043**	48,929
	687,772	724,663

Letters of credit and guarantees amounting to RO 506,123 thousand (2009 - RO 557,437 thousand) were counter guaranteed by other Banks.

Letters of credit and guarantees include RO 342 thousand (2009: RO 364 thousand) relating to non-performing loans.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31st December 2010

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:

	2010 RO'000	2009 RO'000
Export trade	**213,966**	190,240
Construction	**192,847**	216,360
Government	**127,319**	139,601
Import trade	**71,659**	56,719
Transportation	**25,375**	32,710
Utilities	**18,403**	46,775
Manufacturing	**15,118**	21,673
Wholesale and retail trade	**11,763**	11,487
Services	**11,322**	9,098
	687,772	724,663

(b) Capital commitments

At the reporting date, outstanding capital commitments in respect of premises and equipment purchases were RO 219 thousand (2009 - RO 645 thousand).

(c) Undrawn loan commitments

At the reporting date, outstanding undrawn loan commitments amounted to RO 4,539 thousand (2009 - RO 11,600 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) and (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
2010				
Capital commitments	**219**	**-**	**-**	**219**
Undrawn loan commitments	**3,715**	**413**	**411**	**4,539**
2009				
Capital commitments	645	-	-	645
Undrawn loan commitments	9,833	1,300	467	11,600

(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 Banks financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31st December 2010

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.

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 to customers	**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)**
	24	**35**	**-**	**-**	**59**

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31st December 2010

34 ASSETS AND LIABILITIES MATURITY PROFILE (continued)

2009	*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	35,814	15,708	4,265	9,167	64,954
Certificates of deposit	110,000	-	-	-	110,000
Due from Banks	55,260	-	-	-	55,260
Loans and advances	127,125	115,072	114,338	209,022	565,557
Investment securities	10,568	3,845	17,783	-	32,196
Other assets	15,470	4,304	1,712	-	21,486
Property and equipment	-	-	-	9,438	9,438
Total assets	354,237	138,929	138,098	227,627	858,891
Liabilities					
Due to Banks	1,929	-	-	-	1,929
Deposits from customers	305,084	213,957	58,099	118,932	696,072
Other liabilities	25,478	2,233	3,626	-	31,337
Taxation	-	-	3,072	-	3,072
Total liabilities	332,491	216,190	64,797	118,932	732,410
Net assets	21,746	(77,261)	73,301	108,695	126,481
Forward exchange contracts at notional amounts (note 32)					
Purchase contracts	39,717	21,532	-	-	61,249
Sale contracts	(39,677)	(21,501)	-	-	(61,178)
	40	31	-	-	71

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31st December 2010

34 ASSETS AND LIABILITIES MATURITY PROFILE (continued)

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.

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	413,188	147,293	121,956	5,335	687,772

2009	*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	149,257	155,583	144,057	28,807	477,704
Letters of credit	236,257	10,702	-	-	246,959
Total commitments and contingencies	385,514	166,285	144,057	28,807	724,663

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 and undrawn loan commitments are disclosed in note 33.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31st December 2010

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.

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	2.00	-	-	-	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	-	-	-	5,423	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	-	412,436	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	

The total balance of loans and advances on which interest recognition is reserved, amounting to RO 20,953 thousand (2009 - RO 15,787 thousand) is disclosed as a non-interest sensitive item and the allowance for loan impairment and reserved interest, amounting to RO 12,496 thousand (2009 - RO 9,986 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.

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31st December 2010

35 ASSETS AND LIABILITIES RE-PRICING PROFILE

2009	*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	-	-	-	935	64,019	64,954
Certificates of deposit	0.05	110,000	-	-	-	-	110,000
Due from Banks	1.88	27,387	-	-	-	27,873	55,260
Loans and advances	6.4	171,321	131,332	261,188	1,716	-	565,557
Investment securities at fair value		-	-	-	-	10,568	10,568
Investment – held to maturity	4.22	-	3,845	17,783	-	-	21,628
Other assets		14,234	1,896	1,712	-	3,644	21,486
Property and equipment		-	-	-	-	9,438	9,438
Total assets		322,942	137,073	280,683	2,651	115,542	858,891
Liabilities							
Due to Banks	0.09	460	-	-	-	1,469	1,929
Deposits from customers	1.36	280,484	68,842	42,748	-	303,998	696,072
Other liabilities		19,592	1,896	1,712	-	8,137	31,337
Taxation		-	-	-	-	3,072	3,072
Total liabilities		300,536	70,738	44,460	-	316,676	732,410
Total interest sensitivity gap		22,406	66,335	236,223	2,651	(201,134)	126,481
Cumulative interest sensitivity gap		22,406	88,741	324,964	327,615	126,481	

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31st December 2010

36 GEOGRAPHICAL DISTRIBUTION OF ASSETS AND LIABILITIES

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**
Equity	**72,844**	**-**	**-**	**-**	**69,987**	**142,831**
Total liabilities and equity	**881,416**	**908**	**861**	**274**	**70,197**	**953,655**

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31st December 2010

36 GEOGRAPHICAL DISTRIBUTION OF ASSETS AND LIABILITIES (continued)

2009	*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	64,954	-	-	-	-	64,954
Certificates of deposit	110,000	-	-	-	-	110,000
Due from Banks	336	2,139	35,631	10,911	6,243	55,260
Loans and advances	565,557	-	-	-	-	565,557
Investment securities	31,591	90	-	373	142	32,196
Other assets	21,486	-	-	-	-	21,486
Property and equipment	9,438	-	-	-	-	9,438
Total assets	803,362	2,229	35,631	11,284	6,385	858,891
Liabilities						
Due to Banks	83	962	426	26	432	1,929
Deposits from customers	696,072	-	-	-	-	696,072
Other liabilities	31,337	-	-	-	-	31,337
Taxation	3,072	-	-	-	-	3,072
Total liabilities	730,564	962	426	26	432	732,410
Equity	64,505	-	-	-	61,976	126,481
Total liabilities and equity	795,069	962	426	26	62,408	858,891

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-10						
Personal	**-**	**298,291**	**-**	**253,397**	**-**	**69**
Corporate	**26,019**	**370,282**	**11,733**	**328,502**	**5,771**	**443,704**
Government	**-**	**13,776**	**20,077**	**187,862**	**-**	**243,999**
	26,019	**682,349**	**31,810**	**769,761**	**5,771**	**687,772**
31-Dec-09						
Personal	-	221,681	-	232,856	-	80
Corporate	55,260	321,441	10,568	306,698	1,929	572,872
Government	-	40,282	21,628	156,518	-	151,711
	55,260	583,404	32,196	696,072	1,929	724,663

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31st December 2010

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 2010. The information regarding the Bank's due from Banks and due to Banks based on the geographical locations for the years ended 31 December 2010 and 2009 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.

The 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. All liabilities are unallocated liabilities.

No revenue from transactions with a single external customer or counterparty amounted to 10% or more of the Bank's total revenue in 2010 or 2009.

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31st December 2010

38 SEGMENT INFORMATION (continued)

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**

2009	*Retail Banking RO'000*	*Corporate Banking RO'000*	*Investment Banking RO'000*	*Support and unallocated functions RO'000*	*Total RO'000*
Interest income	11,728	25,765	-	1,286	38,779
Interest expense	(2,392)	(5,225)	-	(384)	(8,001)
Other operating income	8,186	3,707	2,207	3,668	17,768
Total operating income	17,522	24,247	2,207	4,570	48,546
Assets	215,424	350,133	15,102	278,232	858,891
Liabilities	232,856	463,216	15,102	21,236	732,410
Allowance for impairment	6,257	11,590	-	-	17,847

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31st December 2010

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:

	2010 RO'000	*2009 RO'000*
Funds under management	**222,420**	182,983

40 COMPARATIVE INFORMATION

Certain corresponding figures for previous year have been reclassified in order to conform with the presentation for the current year. Such reclassifications do not affect previously reported profit or shareholders' equity.

OMAN ARAB BANK SAOC

DISCLOSURES UNDER PILLAR III OF BASEL II

For the Year Ended 31st December 2010

In Terms of Central Bank of Oman Circular RM 1027

Dated 4 December 2007

ERNST & YOUNG

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P. R. No. MH/4

Report on factual findings to the Board of Directors of Oman Arab Bank SAOC in respect of Basel II – Pillar III Disclosures

We have performed the procedures agreed with you and as prescribed in the Central Bank of Oman (CBO) circular no. BM 1027 dated 4 December 2007 with respect to the Basel II – Pillar III disclosures (the disclosures) of Oman Arab Bank SAOC (the bank) as at, and for the year ended 31 December 2010. The disclosures were prepared by the management in accordance with the related requirements set out in CBO circular number BM 1009 dated 13 September 2006 and circular number BM 1027 dated 4 December 2007 (the circulars). Our engagement was undertaken in accordance with the International Standard on Related Services applicable to agreed-upon procedures engagements. The procedures, as set out in Circular number BM 1027, were performed solely to assist you in evaluating the bank's compliance with the related disclosure requirements as set out in CBO Circular number BM 1009.

We report our findings as follows:

We found that the bank's disclosures are free from any material misrepresentation.

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

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

Our report is solely for the purpose set forth in the first paragraph of this report and for your information and is not to be used for any other purpose. This report relates only to the accompanying disclosures to be included in the bank's annual report for the year ended 31 December 2010 and does not extend to any financial statements of the bank taken as a whole or to any other reports of the bank.

Ernst & Young

26 January 2011
Muscat

DISCLOSURES UNDER PILLAR III OF BASEL II

For the Year Ended 31st December 2010

A. SCOPE OF APPLICATION

Oman Arab Bank SAOC (the Bank) was incorporated in the Sultanate of Oman on 1 October 1984 as a closed joint stock company. The Bank is a subsidiary of Oman International Investment and Development Company SAOG (OMINVEST) which owns 51% of the shares and the remaining 49% is owned by Arab Bank Plc, Jordan.

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 (CBO) ;
- 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 Bank complies with CBO's requirements for the capital adequacy as specified in the Circular provided for the implementation of the Basel II accord.

Basel II (the New Accord) consists of three mutually reinforcing Pillars - Minimum Capital Requirements (First Pillar), Supervisory Review Process (Second Pillar) and Market Discipline (Third Pillar). Under the First Pillar, the new framework offers three distinct options, for computing capital requirements for credit and operational risks, respectively. The approaches for credit risk (Standardized, Internal Ratings-Based –Foundation and Advanced) and operational risk (Basic Indicator, Standardized and Advanced measurement) are based on increasing risk sensitivity and allow banks to choose any of the approaches that are most appropriate to their risk management practices.

B. CAPITAL STRUCTURE

The Bank's Tier 1 and Tier 2 capital are as follows:

	RO'000
Paid up share capital	85,000
Legal reserves	20,277
General reserves	15,983
Retained earnings/(losses) of previous years	3,230
Tier 1 Capital	**124,490**
Collective impairment provisions for loan losses on portfolio basis	9,507
Cumulative fair value gains on investments available-for-sale	604
Tier 2 Capital	**10,111**
Total Capital	**134,601**

Tier 1 Capital

The Bank's authorised and issued share capital comprises 85,000,000 fully paid shares of RO 1 each. 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 the legal reserve until the accumulated balance of the reserve equals at least one third of the Bank's paid up share capital. General reserves have been created out of the Bank's retained earnings to meet any unforeseen contingency.

DISCLOSURES UNDER PILLAR III OF BASEL II

For the Year Ended 31st December 2010

B. CAPITAL STRUCTURE (continued)

Tier 2 Capital

Tier 2 Capital consists of the provision for loan impairment on collective portfolio basis as required by the CBO and cumulative fair value gains on investments available for sale as allowed under the guidelines for Basel II by CBO. The provisions are made for the loan impairment on the performing portion of the loans and advances against the losses incurred but not identified.

C. CAPITAL ADEQUACY

Qualitative disclosures

Basel II provides a range of options for determining the regulatory capital requirements for credit and operational risks. It allows the banks and the supervisors to select approaches that seem most appropriate for the level of sophistication of the banks' activities, financial market infrastructure and risk management practices.

The Bank has chosen the following approaches for determining the regulatory capital with the approval of Central Bank of Oman:

i. Standardized Approach for the credit risk with a simplified approach for the risk weighting of collaterals under the credit risk mitigation and

ii. Basic Indicator approach for the operational risk.

The Bank's Board of Directors reviews the capital requirements based on the strategic plan of the Bank. This is reviewed periodically based on the current market and economic conditions. While formulating the Bank's strategic plans, the Bank's management takes into account forward-looking factors such as changes in the economic conditions, market and liquidity conditions. The Bank's current and future capital requirements are calculated in relation to its strategic business objectives. The strategic plan delineates the Bank's short-term and long-term capital needs, capital expenditures required for the foreseeable future, target capital levels, and capital sources. The Bank prepares its capital planning and operational budgeting on an annual basis.

The Management considers that the Bank has adequate systems for monitoring and reporting risk exposures. The capital needs are assessed based on changes in the Bank's risk profile. The Board of Directors and the senior management receive regular reports or updates on the Bank's risk profile and capital needs through the Assets and Liabilities Committee (ALCO), Management Credit Committee (MCC) and directly from the Risk Management Department. This information is used to:

a. evaluate the level and trend of material risks and their effect on capital requirements;

b. evaluate the sensitivity and reasonableness of the main assumptions used in the capital measurement system;

c. determine that the Bank holds sufficient capital against various risks;

d. determine that the Bank meets its internal capital adequacy goals; and

e. assess its future capital requirements based on the Bank's reported risk profile and in turn make necessary adjustments to the Bank's strategic plan.

The Management is in the process of setting the policies and procedures to progressively move to the advanced approaches set out in Basel II for the capital measurement.

DISCLOSURES UNDER PILLAR III OF BASEL II

For the Year Ended 31st December 2010

C. CAPITAL ADEQUACY (continued)

Quantitative disclosure

Table-1

2010

Sl. No.	Details	Gross Balance (Book Value)	Net Balance (Book Value)	Risk Weighted Assets
		RO'000	**RO'000**	**RO'000**
1	On-Balance sheet Item	975,658	955,414	571,699
2	Off-Balance sheet Item	692,311	279,634	202,096
3	Assets for Operational risk	90,475	90,475	90,475
4	Assets in Trading book	31,425	31,425	31,425
5	Derivatives	17,962	17,962	33,298
6	**Total**	**1,807,831**	**1,374,910**	**928,993**
7	Tier 1 Capital			124,490
8	Tier 2 Capital			10,111
9	Tier 3 Capital			-
10	**Total Regulatory Capital**			**134,601**
10.1	Capital requirement for credit risk			96,851
10.2	Capital requirement for market risk			3,771
10.3	Capital requirement for operational risk			10,857
11	**Total required capital**			**111,479**
12	**Tier 1 Ratio**			**13.40%**
13	**Total Capital Ratio**			**14.49%**

2009

Sl. No.	Details	Gross Balance (Book Value)	Net Balance (Book Value)	Risk Weighted Assets
		RO'000	**RO'000**	**RO'000**
1	On-Balance sheet Item	876,738	866,822	533,107
2	Off-Balance sheet Item	736,263	329,409	205,626
3	Assets for Operational risk	82,928	82,928	82,928
4	Assets in Trading book	28,519	28,519	28,519
5	Derivatives	24,948	24,948	33,298
6	**Total**	**1,749,396**	**1,332,626**	**883,478**
7	Tier 1 Capital			110,320
8	Tier 2 Capital			8,383
9	Tier 3 Capital			-
10	**Total Regulatory Capital**			**118,703**
10.1	Capital requirement for credit risk			77,203
10.2	Capital requirement for market risk			2,852
10.3	Capital requirement for operational risk			8,293
11	**Total required capital**			**88,348**
12	**Tier 1 Ratio**			**12.49%**
13	**Total Capital Ratio**			**13.44%**

DISCLOSURES UNDER PILLAR III OF BASEL II

For the Year Ended 31st December 2010

D. CREDIT RISK EXPOSURE AND ASSESSMENT

i. General disclosure

Qualitative disclosures

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.

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.

Credit Risk Management and Control

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 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's clients are segmented into the following five rating classes:

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

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.

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.

DISCLOSURES UNDER PILLAR III OF BASEL II

For the Year Ended 31st December 2010

Credit Risk Management and Control (continued)

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. 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.

Impairment provisioning

Impairment provisions are recognised for financial reporting purposes only for losses that have been incurred at the balance sheet 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 such as delays in repayment of contracted amounts by counterparties as well as considering the guidelines issued by the CBO.

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 balance sheet 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, experienced judgment and peer statistics.

Quantitative disclosure

ii. Gross credit risk exposures

Table-2

Sl. No.	Type of Credit Exposure	Average Gross Exposure		Total Gross Exposure as at	
		2010	2009	31 Dec 10	31 Dec 09
		RO'000	RO'000	RO'000	RO'000
1	Overdrafts	87,535	82,820	78,163	71,863
2	Personal loans	271,428	191,372	298,291	221,681
3	Loans against trust receipts	42,489	39,229	44,899	33,683
4	Other loans	219,325	243,661	250,558	240,032
5	Bills purchased discounted	14,764	16,195	10,438	16,145
	Total	**635,541**	**573,277**	**682,349**	**583,404**

DISCLOSURES UNDER PILLAR III OF BASEL II

For the Year Ended 31st December 2010

iii. Geographic distribution of exposures

Table-3

2010

Sl. No.	Type of credit exposure	Oman RO'000	Other GCC countries RO'000	OECD countries RO'000	India RO'000	Pakistan RO'000	Others RO'000	Total RO'000
1	Overdrafts	78,163	-	-	-	-	-	78,163
2	Personal loans	298,291	-	-	-	-	-	298,291
3	Loans against trust receipts	44,899	-	-	-	-	-	44,899
4	Other loans	250,558	-	-	-	-	-	250,558
5	Bills purchased discounted	10,438	-	-	-	-	-	10,439
	Total	**682,349**	-	-	-	-	-	**682,349**

2009

Sl. No	Type of credit exposure	Oman RO'000	Other GCC countries RO'000	OECD countries RO'000	India RO'000	Pakistan RO'000	Others RO'000	Total RO'000
1	Overdrafts	71,863	-	-	-	-	-	71,863
2	Personal loans	221,681	-	-	-	-	-	221,681
3	Loans against trust receipts	33,683	-	-	-	-	-	33,683
4	Other loans	240,032	-	-	-	-	-	240,032
5	Bills purchased discounted	16,145	-	-	-	-	-	16,145
	Total	**583,404**	-	-	-	-	-	**583,404**

iv. Industry or counterparty type distribution of exposures

Table-4

2010

Sl. No.	Economic Sector	Overdraft RO'000	Loans RO'000	Bills Purchased/ discounted RO'000	Others RO'000	Total RO'000	Off-balance sheet exposure RO'000
1	Import trade	5,864	7,094	699	-	13,657	71,659
2	Export trade	104	206	100	-	410	213,966
3	Wholesale & retail trade	12,028	26,853	375	-	39,256	11,763
4	Mining & quarrying	1,074	30,967	604	-	32,645	-
5	Construction	22,098	42,589	4,726	-	69,414	192,847
6	Manufacturing	7,913	52,765	1,017	-	61,695	15,118
7	Electricity, gas and water	762	17,028	-	-	17,790	18,403
8	Transport and communication	388	36,546	285	-	37,219	25,375
9	Financial institutions	2,074	16,251	-	-	18,325	-
10	Services	18,022	46,580	1,072	-	65,674	11,322
11	Personal loans		298,291		-	298,291	-
12	Agriculture and allied activities	322	6,450	107	-	6,879	-
13	Government	2,389	-	-	-	2,389	127,319
14	Non-resident lending	-	-	-	-	-	-
15	All others	5,125	12,128	1,453	-	18,705	-
16	**Total (1 to 15)**	**78,163**	**593,748**	**10,438**	**-**	**682,349**	**687,772**

DISCLOSURES UNDER PILLAR III OF BASEL II

For the Year Ended 31st December 2010

Table-4 (continued)

2009

Sl. No.	Economic Sector	Overdraft RO'000	Loans RO'000	Bills Purchased/ discounted RO'000	Others RO'000	Total RO'000	Off-balance sheet exposure RO'000
1	Import trade	4,414	10,784	644	-	15,842	56,719
2	Export trade	123	129	47	-	299	190,240
3	Wholesale & retail trade	16,357	37,574	60	-	53,991	11,487
4	Mining & quarrying	938	31,801	1,222	-	33,961	-
5	Construction	25,229	43,291	10,858	-	79,378	216,360
6	Manufacturing	9,138	47,874	1,375	-	58,387	21,673
7	Electricity, gas and water	113	15,911	-	-	16,024	46,775
8	Transport and communication	195	10,672	-	-	10,867	32,710
9	Financial institutions	2,917	11,389	-	-	14,306	-
10	Services	6,177	44,741	929	-	51,847	9,098
11	Personal loans		221,681		-	221,681	-
12	Agriculture and allied activities	1,128	7,153	-	-	8,281	-
13	Government	2,582	-	-	-	2,582	139,601
14	Non-resident lending	-	-	-	-	-	-
15	All others	2,552	12,396	1,010	-	15,958	-
16	**Total (1 to 15)**	**71,863**	**495,396**	**16,145**	**-**	**583,404**	**724,663**

v. Residual contractual maturity of credit exposure

Table-5

2010

Sl. No.	Time Band	Overdraft RO'000	Loans RO'000	Bills Purchased/ discounted RO'000	Others RO'000	Total RO'000	Off-balance sheet exposure RO'000
1	Up to 1 month	3,908	125,758	16,122	-	145,788	151,794
2	1-3 months	3,908	33,558	5,299	-	42,765	261,409
3	3-6 months	3,908	45,507	1,895	-	51,310	105,089
4	6-9 months	3,908	9,602	1,611	-	15,121	17,093
5	9-12 months	3,908	20,055	428	-	24,391	25,096
6	1-3 years	19,541	49,998	-	-	69,539	70,596
7	3-5 years	19,541	25,094	-	-	44,635	51,360
8	Over 5 years	19,541	256,763	-	-	276,304	5,335
9	**Total**	**78,163**	**566,335**	**25,355**	**-**	**669,853**	**687,772**

2009

Sl. No.	Time Band	Overdraft RO'000	Loans RO'000	Bills Purchased/ discounted RO'000	Others RO'000	Total RO'000	Off-balance sheet exposure RO'000
1	Up to 1 month	3,593	64,545	11,846	-	79,984	159,337
2	1-3 months	3,593	34,257	9,678	-	47,528	226,176
3	3-6 months	3,593	29,188	4,399	-	37,180	52,364
4	6-9 months	3,593	32,580	2,547	-	38,720	69,998
5	9-12 months	3,593	33,315	2,843	-	39,751	43,924
6	1-3 years	17,966	53,605	355	-	71,926	111,903
7	3-5 years	17,966	26,379	-	-	44,345	32,134
8	Over 5 years	17,966	196,016	-	-	213,982	28,807
9	**Total**	**71,863**	**469,885**	**31,668**	**-**	**573,416**	**724,643**

DISCLOSURES UNDER PILLAR III OF BASEL II

For the Year Ended 31st December 2010

VI. Loans and provisions by major industry or counterparty type

Table-6

2010

Sl. No.	Economic Sector	Gross loans RO'000	Of which NPLs RO'000	Collective impairment provision held RO'000	Specific provision held RO'000	Unrecognised contractual interest RO'000	Provisions made during the year(*) RO'000	Advances written off during the year RO'000
1	Import trade	13,657	1,757	119	870	866	48	80
2	Export trade	410	130	3	40	15	-	-
3	Wholesale & retail trade	39,256	589	387	181	351	2	2
4	Mining & quarrying	32,645	-	326	-	-	-	-
5	Construction	69,414	3,877	655	1,615	1,284	321	5
6	Manufacturing	61,695	4,762	569	1,615	755	2	-
7	Electricity, gas and water	17,790	-	179	-	-	-	-
8	Transport and communication	37,219	85	371	46	40	1	-
9	Financial institutions	18,325	-	183	-	-	-	-
10	Services	65,674	180	655	66	59	67	32
11	Personal loans	298,291	8,994	5,786	3,160	1,083	2,356	103
12	Agriculture and allied activities	6,879	236	66	72	37	-	-
13	Government	2,389	-	24	-	-	-	-
14	Non-resident lending	-	-	-	-	-	-	-
15	All others	18,705	343	184	229	112	1	-
16	**Total**	**682,349**	**20,953**	**9,507**	**7,894**	**4,602**	**2,798**	**222**

* - The provision shown under this column represents the specific provision made during the year. The general provisions are made on a portfolio basis.

DISCLOSURES UNDER PILLAR III OF BASEL II

For the Year Ended 31st December 2010

vi. Loans and provisions by major industry or counterparty type (continued)

Table-6

2009

Sl. No.	Economic Sector	Gross loans RO'000	Of which NPLs RO'000	Collective impairment provision held RO'000	Specific provision held RO'000	Unrecognised contractual interest RO'000	Provisions made during the year(*) RO'000	Advances written off during the year RO'000
1	Import trade	15,842	1,692	142	879	785	129	18
2	Export trade	299	17	3	14	3	-	-
3	Wholesale & retail trade	53,991	529	535	167	333	7	1
4	Mining & quarrying	33,961	-	340	-	-	-	-
5	Construction	79,378	3,472	759	1,351	1,175	118	13
6	Manufacturing	58,387	4,573	551	1,646	522	1,119	-
7	Electricity, gas and water	16,024	-	160	-	-	-	-
8	Transport and communication	10,867	73	108	41	32	1	-
9	Financial institutions	14,306	-	143	-	-	-	-
10	Services	51,847	268	516	139	62	18	-
11	Personal loans	221,681	4,637	4,341	1,751	682	1,358	186
12	Agriculture and allied activities	8,281	210	81	69	21	41	-
13	Government	2,582	-	26	-	-	-	-
14	Non-resident lending	-	-	-	-	-	-	-
15	All others	15,958	316	156	230	84	6	2
16	**Total**	**583,404**	**15,787**	**7,861**	**6,287**	**3,699**	**2,797**	**220**

* - The provision shown under this column represents the specific provision made during the year. The general provisions are made on a portfolio basis.

DISCLOSURES UNDER PILLAR III OF BASEL II

For the Year Ended 31st December 2010

vii. Geographic distribution of impaired loans

Table-7

2010

Sl. No.	Countries	Gross Loans RO'000	Of which NPLs RO'000	Collective impairment provision held RO'000	Specific provision held RO'000	Unrecognized contractual interest RO'000	Provisions made during the year (*) RO'000	Advances written off during the year RO'000
1	Oman	682,349	20,953	9,507	7,894	4,602	4,563	222
2	Other GCC countries	-	-	-	-	-	-	-
3	OECD countries	-	-	-	-	-	-	-
4	India	-	-	-	-	-	-	-
5	Pakistan	-	-	-	-	-	-	-
6	Others	-	-	-	-	-	-	-
7	**Total**	**682,349**	**20,953**	**9,507**	**7,894**	**4,602**	**4,563**	**222**

2009

Sl. No	Countries	Gross Loans RO'000	Of which NPLs RO'000	Collective impairment provision held RO'000	Specific provision held RO'000	Unrecognized contractual interest RO'000	Provisions made during the year (*) RO'000	Advances written off during the year RO'000
1	Oman	583,404	15,787	7,861	6,287	3,699	4,325	220
2	Other GCC countries	-	-	-	-	-	-	-
3	OECD countries	-	-	-	-	-	-	-
4	India	-	-	-	-	-	-	-
5	Pakistan	-	-	-	-	-	-	-
6	Others	-	-	-	-	-	-	-
7	**Total**	**583,404**	**15,787**	**7,861**	**6,287**	**3,699**	**4,325**	**220**

* - includes the specific and general provisions net of recoveries

DISCLOSURES UNDER PILLAR III OF BASEL II
For the Year Ended 31st December 2010

viii. Movement in gross loans

Table-8

Movement of Gross Loans during the year - 2010

Sl. No.	Details	Performing loans		Non-performing loans			
		Standard RO'000	Specially Mentioned RO'000	Sub-Standard RO'000	Doubtful RO'000	Loss RO'000	Total RO'000
1	Opening balance	**549,535**	**18,082**	**5,827**	**1,325**	**8,635**	**583,404**
2	Migration /changes (+/-)	(17,788)	11,359	(635)	3,517	3,547	**-**
3	New loans	306,797	-	218	401	569	**307,985**
4	Recovery of loans	206,586	-	1,187	794	251	**208,818**
5	Loans written off	-	-	-	-	222	**222**
6	Closing balance	**631,958**	**29,441**	**4,223**	**4,449**	**12,278**	**682,349**
7	Provisions held	9,507	-	1,218	1,757	4,919	**17,401**
8	Unrecognised contractual interest	-	-	133	500	3,969	**4,602**

Movement of Gross Loans during the year - 2009

Sl. No.	Details	Performing loans		Non-performing loans			
		Standard RO'000	Specially Mentioned RO'000	Sub-Standard RO'000	Doubtful RO'000	Loss RO'000	Total RO'000
1	Opening balance	544,815	307	478	789	7,589	**553,978**
2	Migration /changes (+/-)	(25,555)	17,775	5,405	631	1,744	**-**
3	New loans	200,071	-	-	-	-	**200,071**
4	Recovery of loans	(169,762)	-	(56)	(94)	(513)	**(170,425)**
5	Loans written off	-	-	-	(1)	(219)	**(220)**
6	Closing balance	549,569	18,082	5,827	1,325	8,601	**583,404**
7	Provisions held	7,861	-	1,564	436	4,287	**14,148**
8	Unrecognized contractual interest	-	-	178	116	3,405	**3,699**

E. DISCLOSURE FOR PORTFOLIO SUBJECT TO STANDARDISED APPROACH

Qualitative disclosures

The Bank uses the ratings by Moody's Investor Services for the credit ratings for the purpose of determining the risk weight to be assigned to the exposure for on-balance sheet assets such as loans and advances and inter-bank exposure as well as off-balance sheet items such as Letters of Credit, Guarantees and forward contracts. In the absence of a rating by the Moodys' Investor Service, the Bank uses the ratings, if any, by Standard & Poors, Fitch Ratings or Capital Intelligence which are recognized by the Central Bank of Oman.

The claims on corporate are assigned 100% risk weight except for the claims with eligible financial collaterals and the Bank uses the simple approach for recognizing the collaterals in banking book with the approval of Central Bank of Oman. The Bank's retail loan portfolio is assigned a 100% risk weight except the loans secured by residential mortgage for which risk weight assigned is 35%.

DISCLOSURES UNDER PILLAR III OF BASEL II
For the Year Ended 31st December 2010

Quantitative Disclosure

The net exposure after risk mitigation subject to Standardized Approach is as follows:

2010

Sl. No.	Risk bucket	0% RO'000	20% RO' 000	35% RO' 000	50% RO' 000	100% RO' 000	Total RO' 000
1	Sovereigns (Rated)	234,384	-	-	-	-	234,384
2	Banks (Rated)	-	120,817	-	98,037	56,850	275,704
3	Corporate (Unrated)	-	31,359	-	-	323,543	354,902
4	Retail	-	-	-	-	259,702	259,702
5	Claims secured by residential property	-	-	29,595	-	-	29,595
6	Claims secured by commercial property	-	-	-	-	25,991	25,991
7	Past due loans	-	-	-	-	8,434	8,434
8	Other assets	19,270	1	-	-	40,487	59,758
9	Undrawn exposure	-	-	-	4,539	-	4,539
	Total	**253,654**	**152,177**	**29,595**	**102,576**	**715,007**	**1,253,009**

2009

Sl. No.	Risk bucket	0% RO'000	20% RO' 000	35% RO' 000	50% RO' 000	100% RO' 000	Total RO' 000
1	Sovereigns (Rated)	219,909	-	-	528	-	220,437
2	Banks (Rated)	-	137,591	-	131,936	78,906	348,433
3	Corporate (Unrated)	-	28,008	-	-	314,991	342,999
4	Retail	-	-	-	-	200,099	200,099
5	Claims secured by residential property	-	-	16,945	-	-	16,945
6	Claims secured by commercial property	-	-	-	-	25,334	25,334
7	Past due loans	-	-	-	-	5,801	5,801
8	Other assets	13,415	372	-	-	35,743	49,530
9	Undrawn exposure	-	-	-	11,600	-	11,600
	Total	**233,324**	**165,971**	**16,945**	**144,064**	**660,874**	**1,221,178**

F. CREDIT RISK MITIGATION UNDER STANDARDISED APPROACH

Qualitative disclosures

Following are some of the specific credit risk mitigation measures employed by the Bank:

(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:

DISCLOSURES UNDER PILLAR III OF BASEL II

For the Year Ended 31st December 2010

F. CREDIT RISK MITIGATION UNDER STANDARDISED APPROACH (continued)

- charges over business assets such as premises, inventory and accounts receivable;
- lien on fixed deposits;
- cash margins;
- mortgages over residential and commercial properties and
- 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.

Quantitative disclosure

	2010	2009
	RO'000	RO'000
Total exposure covered by eligible financial collateral	33,039	31,671
Value of the eligible collateral	32,522	29,903

G. MARKET RISK IN TRADING BOOK

Qualitative disclosures

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. The 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.

The Bank manages its market risk in the trading book using tools such as position limits and stop loss limits.

Currency risk arises where 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.

DISCLOSURES UNDER PILLAR III OF BASEL II

For the Year Ended 31st December 2010

G. MARKET RISK IN TRADING BOOK (continued)

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 entering into forward contracts based on the underlying commercial transactions with the customers. 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).

Quantitative disclosure

The impact of 10% change in the market price of the quoted equities which are part of the investments held for trading at 31 December 2010 is ± 0.95% of the total income (2009 – ± 0.9%).

H. INTEREST RATE RISK IN BANKING BOOK

Qualitative disclosures

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 substantial portion of its assets and liabilities are re-priced frequently. The Bank's Assets and Liabilities Committee (ALCO) monitors and manages the interest rate risk with the objective of limiting the potential adverse effects on the Bank's profitability.

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.

Qualitative disclosure

The EaR at 31 December 2010 is 12.49% (2009 - 12.13%).

The following table 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.

DISCLOSURES UNDER PILLAR III OF BASEL II

For the Year Ended 31st December 2010

H. INTEREST RATE RISK IN BANKING BOOK (continued)

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	2.00	-	-	-	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	-	-	-	15,454	25,677
Property and equipment		-	-	-	-	9,073	9,073
Total assets		339,026	117,525	353,568	4,863	138,673	953,655
Liabilities							
Due to banks	0.03	348	-	-	-	5,423	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	-	412,436	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	

DISCLOSURES UNDER PILLAR III OF BASEL II

For the Year Ended 31st December 2010

H. INTEREST RATE RISK IN BANKING BOOK (continued)

2009	*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	-	-	-	935	64,019	64,954
Certificates of deposit	0.05	110,000	-	-	-	-	110,000
Due from banks	1.88	27,387	-	-	-	27,873	55,260
Loans and advances	6.40	171,321	131,332	261,188	1,716	-	565,557
Investment securities at fair value		-	-	-	-	10,568	10,568
Investment – held to maturity	4.22	-	3,845	17,783	-	-	21,628
Other assets (as restated)		14,234	1,896	1,712	-	3,644	21,486
Property and equipment		-	-	-	-	9,438	9,438
Total assets (as restated)		322,942	137,073	280,683	2,651	115,542	858,891
Liabilities							
Due to banks	0.09	460	-	-	-	1,469	1,929
Deposits from customers	1.36	280,484	68,842	42,748	-	303,998	696,072
Other liabilities (as restated)		19,592	1,896	1,712	-	8,137	31,337
Taxation		-	-	-	-	3,072	3,072
Total liabilities (as restated)		300,536	70,738	44,460	-	316,676	732,410
Total interest sensitivity gap		22,406	66,335	236,223	2,651	(201,134)	126,481
Cumulative interest sensitivity gap		22,406	88,741	324,964	327,615	126,481	

I. LIQUIDITY RISK

Qualitative Disclosures

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.

DISCLOSURES UNDER PILLAR III OF BASEL II

For the Year Ended 31st December 2010

I. LIQUIDITY RISK (continued)

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 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 balance sheet date.

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	9,663	921	-	25,677
Property and equipment	-	-	-	9,073	9,073
Total assets	395,724	122,240	136,483	299,208	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	(102,024)	61,499	159,834	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)
	24	35	-	-	59

DISCLOSURES UNDER PILLAR III OF BASEL II

For the Year Ended 31st December 2010

I. LIQUIDITY RISK (continued)

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 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 balance sheet date.

2009	*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	35,814	15,708	4,265	9,167	64,954
Certificates of deposit	110,000	-	-	-	110,000
Due from banks	55,260	-	-	-	55,260
Loans and advances	127,125	115,072	114,338	209,022	565,557
Investment securities	10,568	3,845	17,783	-	32,196
Other assets (as restated)	15,470	4,304	1,712	-	21,486
Property and equipment	-	-	-	9,438	9,438
Total assets (as restated)	354,237	138,929	138,098	227,627	858,891
Liabilities	1,929	-	-	-	1,929
Due to banks	305,084	213,957	58,099	118,932	696,072
Deposits from customers	25,478	2,233	3,626	-	31,337
Other liabilities (as restated)	-	-	3,072	-	3,072
Taxation					
	332,491	216,190	64,797	118,932	732,410
Total liabilities (as restated)					
	21,746	(77,261)	73,301	108,695	126,481
Net assets					
Forward exchange contracts at notional amounts (note 32)					
Purchase contracts	39,717	21,532	-	-	61,249
Sale contracts	(39,677)	(21,501)	-	-	(61,178)
	40	31	-	-	71

J. OPERATIONAL RISK

Qualitative Disclosures

The Bank is in the process of setting up the systems for collecting the data relating to operational risk. The measurement of the operational risk requires historical data for at least 3 years in order to perform the calculations.

Quantitative Disclosures

The Risk Weighted Assets for the operational risk using the Basic Indicator Approach is RO 90.47 million at December 31 2010 (2009: RO 82.93 million).

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