FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010

ERNST & YOUNG

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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.

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.

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.

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;

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.

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

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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.11 Employee terminal benefits

End of service benefits are accrued in accordance with the terms of employment of the Bank's employees at the reporting date, having regard to the requirements of the Oman Labour Law 2003 as amended. Employee entitlements to annual leave and leave passage are recognised when they accrue to employees and an accrual is made for the estimated liability arising as a result of services rendered by employees up to the reporting date. These accruals are included in other liabilities.

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

2.12 Provisions

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

2.13 Taxation

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

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

Deferred tax is calculated using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the reporting date.

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

2.14 Interest income and expense

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.15 Fee and commission income

Fees and commissions are generally recognised on an accrual basis when the service has been provided. Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognised as an adjustment to the effective interest rate on the loan. Loan syndication fees are recognised as revenue when the syndication has been completed and the Bank retained no part of the loan package for itself or retained a part at the same effective interest rate for the other participants. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time-apportionment basis. Asset management fees related to investment funds are recognised pro-rata over the period the service is provided. The same revenue recognition criteria are applied for custody services that are continuously provided over an extended period of time.

2.16 Dividend income

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

2.17 Fiduciary assets

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

2.18 Derivative financial instruments

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

2.19 Financial guarantees contracts

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

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

2.20 Dividends on shares

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

2.21 Foreign currencies

(a) Functional and presentation currency

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.21 Foreign currencies (continued)

(b) Transactions and balances

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

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

2.22 Directors' remuneration

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

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

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.

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.

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.

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.

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

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).

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:

5 FINANCIAL RISK MANAGEMENT (continued)

5.2.3 Currency risk (continued)

Foreign currency exposures

	2010 RO'000	2009 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:

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.

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

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

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

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

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**

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

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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**

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

18 TAXATION

	2010 RO'000	2009 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 RO'000	2009 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.

23 INTEREST INCOME

	2010 RO'000	2009 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 RO'000	2009 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 RO'000	2009 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 RO'000	2009 RO'000
Dividend income	**238**	215
Profit (loss) on sale of investments	**79**	120
Fair value changes	**(11)**	317
	306	652

27 OTHER OPERATING INCOME

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

28 OPERATING EXPENSE

	2010 RO'000	2009 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:

	2010	2009
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.

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

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	-

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.

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.

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

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

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.

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.

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	

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**

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

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.

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

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.