

National Bank of Oman SAOG

FINANCIAL STATEMENTS

31 December 2010



PO Box 751 PC 112 Ruwi Sultanate of Oman.

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF NATIONAL BANK OF OMAN SAOG

Report on the Financial Statements

We have audited the accompanying financial statements of National Bank of Oman SAOG ('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 Director's 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 disclosure 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, 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 for 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.

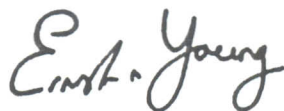
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

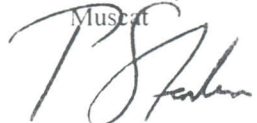
In our opinion, the financial statements present fairly, in all material respects, the financial position of the bank as at 31 December 2010 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

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.



31 January 2011
Muscat



Philip Stanton
Partner

National Bank of Oman SAOG

STATEMENT OF FINANCIAL POSITION

As at 31 December 2010

2009 USD '000	2010 USD '000		Notes	2010 RO '000	2009 RO '000
ASSETS					
478,849	591,010	Cash and balances with Central Banks	3	227,539	184,357
45,153	-	Financial assets designated at fair value through profit or loss	4	-	17,384
433,548	218,584	Due from banks and other money market placements (net)	5	84,155	166,916
3,535,057	3,541,200	Loans and advances to customers (net)	6	1,363,362	1,360,997
78,078	163,982	Non-trading financial investments	7	63,133	30,060
33,151	58,060	Premises and equipment	8	22,353	12,763
-	18	Deferred tax asset	13	7	-
66,847	115,208	Other assets	9	44,355	25,736
<u>4,670,683</u>	<u>4,688,062</u>	TOTAL ASSETS		<u>1,804,904</u>	<u>1,798,213</u>
LIABILITIES, SUBORDINATED FUNDS AND EQUITY					
LIABILITIES					
570,551	343,753	Due to banks and other money market deposits	10	132,345	219,662
3,274,722	3,441,273	Customers' deposits	11	1,324,890	1,260,768
90,130	122,297	Other liabilities	12	47,084	34,700
13,200	10,844	Taxation	13	4,175	5,082
26	-	Deferred tax liability		-	10
<u>3,948,629</u>	<u>3,918,167</u>	TOTAL LIABILITIES		<u>1,508,494</u>	<u>1,520,222</u>
SUBORDINATED FUNDS					
71,688	79,481	Subordinated private placements	14	30,600	27,600
EQUITY					
280,779	280,779	Share capital	15	108,100	108,100
89,519	89,519	Share premium reserve	16	34,465	34,465
84,870	91,927	Legal reserve	17	35,392	32,675
11,478	11,478	General reserve	18	4,419	4,419
20,800	38,306	Other non-distributable reserves	19	14,748	8,008
33,694	42,117	Proposed cash dividend	20	16,215	12,972
129,226	136,288	Retained earnings		52,471	49,752
<u>650,366</u>	<u>690,414</u>	TOTAL EQUITY		<u>265,810</u>	<u>250,391</u>
<u>4,670,683</u>	<u>4,688,062</u>	TOTAL LIABILITIES, SUBORDINATED FUNDS AND EQUITY		<u>1,804,904</u>	<u>1,798,213</u>

The financial statements were authorised for issue on 31.01.2011 in accordance with a resolution of the Board of Directors.

The attached notes 1 to 33 form part of these financial statements.

National Bank of Oman SAOG

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2010

2009 USD '000	2010 USD '000		Notes	2010 RO '000	2009 RO '000
265,873 (118,283)	247,205 (102,722)	Interest income	22	95,174	102,361
		Interest expense	23	(39,548)	(45,539)
147,590	144,483	Net interest income		55,626	56,822
65,052	58,416	Other operating income	24	22,490	25,045
212,642	202,899	OPERATING INCOME		78,116	81,867
		OPERATING EXPENSES			
(53,260)	(60,330)	Staff costs		(23,227)	(20,505)
(29,711)	(33,512)	Other operating expenses	25	(12,902)	(11,439)
(7,377)	(9,922)	Depreciation	8	(3,820)	(2,840)
(90,348)	(103,764)			(39,949)	(34,784)
122,294	99,135	PROFIT FROM OPERATIONS BEFORE IMPAIRMENT LOSSES AND TAX		38,167	47,083
(20,691)	-	Credit loss expense - bank loans	5	-	(7,966)
(53,203)	(41,249)	Credit loss expense – customers' loan	6	(15,881)	(20,483)
18,276	11,026	Recoveries and releases from provision for credit losses	6	4,245	7,036
9,000	10,455	Recoveries and from loans and advances written off		4,025	3,465
-	800	Recoveries/releases from provision for credit losses on banks		308	-
(10,704)	(1,631)	Impairment losses on available for sale investments	7	(628)	(4,121)
(57,322)	(20,599)	TOTAL IMPAIRMENT LOSSES (NET)		(7,931)	(22,069)
64,972	78,536	PROFIT BEFORE TAX		30,236	25,014
(10,153)	(7,961)	Taxation	13	(3,065)	(3,909)
54,819	70,575	PROFIT FOR THE YEAR		27,171	21,105
		OTHER COMPREHENSIVE INCOME			
8,949	306	Net movement on available for sale investments		118	3,445
-	2,481	Surplus on revaluation of buildings		955	-
(1,442)	338	Net movement on cash flow hedge		130	(555)
(184)	44	Tax effect of net results on available for sale financial investments		17	(71)
7,323	3,169	OTHER COMPREHENSIVE INCOME FOR THE YEAR		1,220	2,819
62,142	73,744	TOTAL COMPREHENSIVE INCOME FOR THE YEAR		28,391	23,924
		Earnings per share:			
0.05	0.06	Basic and diluted, profit for the year attributable to equity holders	27	0.025	0.019

The attached notes 1 to 33 form part of these financial statements.

National Bank of Oman SAOG

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2010

<i>(RO'000)</i>	<i>Share capital</i>	<i>Share premium</i>	<i>Legal reserve</i>	<i>General reserve</i>	<i>Other non-distributable reserves (note 19)</i>	<i>Proposed cash dividend (note 20)</i>	<i>Retained earnings</i>	<i>Total</i>
Balance at 1 January 2009	108,100	34,465	30,564	4,419	14,469	18,918	34,450	245,385
Total comprehensive income	-	-	-	-	2,819	-	21,105	23,924
Transfer to retained earnings	-	-	-	-	(12,500)	-	12,500	-
Transfer to subordinated reserve	-	-	-	-	3,220	-	(3,220)	-
Dividend paid	-	-	-	-	-	(18,918)	-	(18,918)
Transfer to legal reserve	-	-	2,111	-	-	-	(2,111)	-
Proposed cash dividend	-	-	-	-	-	12,972	(12,972)	-
Balance at 31 December 2009	108,100	34,465	32,675	4,419	8,008	12,972	49,752	250,391
Balance at 1 January 2010	108,100	34,465	32,675	4,419	8,008	12,972	49,752	250,391
Total comprehensive income	-	-	-	-	1,220	-	27,171	28,391
Transfer to subordinated reserve	-	-	-	-	5,520	-	(5,520)	-
Dividend paid	-	-	-	-	-	(12,972)	-	(12,972)
Transfer to legal reserve	-	-	2,717	-	-	-	(2,717)	-
Proposed cash dividend	-	-	-	-	-	16,215	(16,215)	-
Balance at 31 December 2010	108,100	34,465	35,392	4,419	14,748	16,215	52,471	265,810
Balance at 1 January 2010 – In USD'000	280,779	89,519	84,870	11,478	20,800	33,694	129,226	650,366
Balance at 31 December 2010 – In USD'000	280,779	89,519	91,927	11,478	38,306	42,117	136,288	690,414

The attached notes 1 to 33 form part of these financial statements.

National Bank of Oman SAOG

STATEMENT OF CASH FLOWS

For the year ended 31 December 2010

2009 USD '000	2010 USD '000		Notes	2010 RO'000	2009 RO'000
OPERATING ACTIVITIES					
64,972	78,536	Profit before taxation		30,236	25,014
Adjustments for:					
7,377	9,922	Depreciation	8	3,820	2,840
10,062	2,304	Provision for credit losses (net)		887	3,874
10,704	1,631	Impairment losses on available for sale investments		628	4,121
20,896	(3,779)	Impairment losses and interest reserve on bank loans		(1,455)	8,045
(66)	-	Profit on sale of equipment (net)		-	(25)
(6,519)	(2,997)	Profit on sale of investments		(1,154)	(2,510)
(3,838)	(4,237)	Investment income		(1,631)	(1,477)
103,588	81,380	Operating profit before changes in operating assets and liabilities		31,331	39,882
100,371	80,675	Due from banks and other money market placements		31,060	38,643
6,268	(154,912)	Due to banks and other money market deposits		(59,641)	2,413
94,408	(8,447)	Loans and advances to customers		(3,252)	36,347
(45,099)	45,153	Financial assets at fair value through profit or loss		17,384	(17,363)
135,140	(48,361)	Other assets		(18,619)	52,029
(210,356)	166,551	Customers' deposits		64,122	(80,987)
(130,379)	32,166	Other liabilities		12,384	(50,196)
-	1,984	Deposit with Central Bank of Oman		764	-
53,941	196,189	Cash from operations		75,533	20,768
(15,979)	(10,151)	Taxes paid		(3,908)	(6,152)
37,962	186,038	Net cash from operating activities		71,625	14,616
INVESTING ACTIVITIES					
(26,904)	(109,861)	Purchase of non-trading investments		(42,296)	(10,358)
33,649	25,639	Proceeds from sale of non-trading investments		9,871	12,955
(15,883)	(32,537)	Purchase of premises and equipment	8	(12,527)	(6,115)
281	107	Disposal of premises and equipment		41	108
1,873	3,156	Income from bond and other investments		1,215	721
1,965	1,081	Dividend income		416	756
88	(96)	Translation differences on premises and equipment and tax		(37)	34
(4,931)	(112,511)	Net cash used in investing activities		(43,317)	(1,899)
FINANCING ACTIVITIES					
(49,138)	(33,694)	Payment of dividend		(12,972)	(18,918)
(2,597)	7,792	Net movement in subordinated private placements		3,000	(1,000)
(51,735)	(25,902)	Net cash used in financing activities		(9,972)	(19,918)
(18,704)	47,625	INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		18,336	(7,201)
721,330	702,626	Cash and cash equivalents at the beginning of the year		270,511	277,712
702,626	750,251	CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		288,847	270,511
REPRESENTING:					
475,566	589,711	Cash and balances with Central Banks (note 3)		227,039	183,093
227,060	160,540	Deposits and balances with other banks and financial institutions (net)		61,808	87,418
702,626	750,251			288,847	270,511

The attached notes 1 to 33 form part of these financial statements.

1 LEGAL STATUS AND PRINCIPAL ACTIVITIES

National Bank of Oman SAOG ("NBO", "the bank") was established in the Sultanate of Oman in 1973 as a joint stock company and is engaged in retail, corporate banking, and investment banking services within the Sultanate of Oman with overseas branches in the United Arab Emirates and Egypt. 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 PO Box 751, Ruwi, Postal Code 112, Muscat, Sultanate of Oman. The bank has a primary listing on Muscat Stock Exchange.

The bank employed 1,306 employees as at 31 December 2010 (2009: 1,329).

2 ACCOUNTING POLICIES

2.1 Basis of preparation

The financial statements are prepared under the historical cost convention as modified to include the revaluation of freehold land and buildings and the measurement at fair value of derivatives, investments classified as available for sale and fair value through profit and loss.

These financial statements are presented in Rial Omani rounded to the nearest thousand Rial Omani, except when otherwise indicated. The functional currencies of the bank's operations are as follows:

- Sultanate of Oman: Rial Omani
- United Arab Emirates: UAE Dirham
- Egypt: US Dollar

The United States Dollar amounts shown in the financial statements have been translated from Rial Omani at an exchange rate of RO 0.385 to each US Dollar, and are shown for the convenience of the reader only.

2.2 Statement of compliance

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

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

2.3 Significant accounting judgments and estimates

In the process of applying the bank's accounting policies, management has used its judgments and made estimates in determining the amounts recognised in the financial statements. The most significant use of judgments and estimates are as follows:

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.

Impairment losses on loans and advances

The bank reviews its individually significant loans and advances at each statement of financial position date to assess whether an impairment loss should be recorded in the statement of comprehensive income. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. In estimating these cash flows, the bank makes judgments about the borrower's financial situation and the net realisable value of collateral. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

2 ACCOUNTING POLICIES (continued)

2.3 Significant accounting judgments and estimates (continued)

Loans and advances that have been assessed individually and found not to be impaired and all individually insignificant loans and advances are then assessed collectively, in groups of assets with similar risk characteristics, to determine whether provision should be made due to incurred loss events for which there is objective evidence but whose effects are not yet evident. The collective assessment takes account of data from the loan portfolio (such as credit quality, levels of arrears, credit utilisation, loan to collateral ratios etc.), concentrations of risks and economic data (including levels of unemployment, real estate prices indices and the performance of different individual groups).

Impairment of equity investments

The bank treats available-for-sale equity investments as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is 'significant' or 'prolonged' requires judgment.

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 variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data are not available, judgment is required to establish fair values.

Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

2.4 Change 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 adoption of these standards, amendments and interpretations did not have any effect on the financial performance or position of the bank. They did, however, in certain cases give rise to additional disclosures.

The bank has adopted the following new and amended IFRS and IFRIC interpretations as of 1 January 2010:

- IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items effective 1 July 2009
- IFRIC 17 Distributions of Non-cash Assets to Owners effective 1 July 2009
- Improvements to IFRSs (May 2008)
- IFRS 5 Non-current assets held for sale and discontinued operations effective 1 January 2010
- Improvements to IFRSs (April 2009)
 - IFRS 2 – Share-based payment
 - IAS 1 – Presentation of financial statements
 - IAS 17 – Leases
 - IAS 38 – Intangible assets
 - IAS 39 – Financial instruments : Recognition and Measurement
 - IFRIC 9–Reassessment of Embedded derivatives

2 ACCOUNTING POLICIES (continued)

2.4 Change in accounting policies (continued)

The following standards, amendments and interpretations are not yet effective:

Other IASB Standards and Interpretations that have been issued but are not yet mandatory, and have not been adopted by the bank.

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.

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.

2 ACCOUNTING POLICIES (continued)

2.5 Summary of significant accounting policies

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.

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.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, balances with banks and other financial institutions, treasury bills and money market placements, deposits and certificates of deposit maturing within three months of the date of acquisition. Cash and cash equivalents are carried at amortised cost in the statement of financial position.

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

Financial assets and financial liabilities classified in this category are designated by management on initial recognition when the following criteria are met:

- the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognizing gains or losses on them on a different basis; or
- the assets and liabilities are part of a group of financial assets, financial liabilities or both which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or
- the financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

Financial assets and financial liabilities at fair value through profit or loss are recorded in the statement of financial position at fair value. Changes in fair value are recorded in ‘other operating income’. Interest earned or incurred is accrued in ‘Interest income’ or ‘Interest expense’, respectively, using the effective interest rate (EIR), while dividend income is recorded in ‘Other operating income’ when the right to the payment has been established.

Held to maturity

Held-to-maturity financial investments are those which carry fixed or determinable payments and have fixed maturities and which the bank has the intention and ability to hold to maturity. After initial measurement, held-to-maturity financial investments are subsequently measured at amortised cost using the effective interest rate method, less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The amortisation is included in ‘Interest income’ in the statement of comprehensive income. The losses arising from impairment of such investments are recognised in the statement of comprehensive income.

If the bank were to sell or reclassify more than an insignificant amount of held-to-maturity investments before maturity (other than in certain specific circumstances), the entire category would be tainted and would have to be reclassified as available-for-sale. Furthermore, the bank would be prohibited from classifying any financial asset as held to maturity during the following two years.

Available for sale

Available-for-sale investments include equity and debt securities. Equity investments classified as available-for-sale are those which are neither classified as held-for-trading nor designated at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions.

The bank has not designated any loans or receivables as available-for-sale.

2 ACCOUNTING POLICIES (continued)

Available for sale (continued)

After initial measurement, available-for-sale financial investments are subsequently measured at fair value, unless fair value cannot be reliably determined in which case they are measured at cost less impairment. Fair value changes are reported as a separate component of equity until the investment is derecognised or the investment is determined to be impaired. On derecognition or impairment, the cumulative gain or loss previously reported as “cumulative changes in fair value” within equity, is included in the profit or loss for the year. Interest earned whilst holding available-for-sale financial investments is reported as interest income using the EIR. Dividends earned whilst holding available-for-sale financial investments are recognised in the statement of comprehensive income as ‘Other operating income’ when the right of the payment has been established. The losses arising from impairment of such investments are recognised in the profit or loss for the year in ‘Impairment losses on financial investments’ and removed from the ‘Available-for-sale reserve’.

Due from banks and loans and advances to customers

Due from banks and loans and advances to customers are financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale. After initial measurement, amounts due from banks and loans and advances to customers are subsequently measured at amortised cost using the effective interest rate method, less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the effective interest rate. The amortisation is included in ‘Interest income’ in the profit or loss for the year. The losses arising from impairment are recognised in the profit or loss for the year in ‘Credit loss expense’.

Determination of fair values

The fair value for financial instruments traded in active markets at the statement of financial position date is based on their quoted market price or dealer price quotations, without any deduction for transaction costs.

For all other financial instruments not traded in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include the discounted cash flow method, comparison to similar instruments for which market observable prices exist, options pricing models, credit models and other relevant valuation models.

Certain financial instruments are recorded at fair value using valuation techniques in which current market transactions or observable market data are not available. Their fair value is determined using a valuation model.

Premises and equipment

Premises and equipment are initially recorded at cost or deemed cost. Revaluations of buildings are carried out every five years on an open market value for existing use basis by an independent valuer. Net surpluses arising on revaluation are credited to a capital reserve, except that a revaluation increase is recognised as income to the extent that it reverses a revaluation decrease of the same asset previously recognised as an expense.

A decrease as a result of a revaluation is recognised as an expense, except that it is charged directly against any related revaluation surplus to the extent that the decrease does not exceed the amount held in the revaluation surplus in respect of that same asset. On disposal the related revaluation surplus is credited to retained earnings.

Depreciation is provided on a straight-line basis over the estimated useful lives of all premises and equipment other than freehold land, which is deemed to have an indefinite life, and capital work in progress. The rates of depreciation are based upon the following estimated useful lives:

Buildings on freehold land	25 years
Buildings on leasehold land	10 years
Leasehold improvements	3 to 5 years
Motor vehicles	4 years
Furniture	10 years
Equipment	5 years

The assets’ residual values, useful lives and depreciation methods are reviewed and adjusted if appropriate at each statement of financial position date.

2 ACCOUNTING POLICIES (continued)

Derecognition of financial assets and financial liabilities

Financial assets:

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

- 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 (a) the bank has transferred substantially all the risks and rewards of the asset, or (b) the bank has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the bank has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the bank's continuing involvement in the asset. In that case, the bank also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the bank has retained. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the bank could be required to repay.

Financial liabilities:

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 for the year.

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 profit or loss for the year.

Deposits

All money market and customer deposits are carried at amortised cost using EIR.

Other borrowed funds

Other borrowings including subordinate private placements are recognised initially at their issue proceeds. Borrowings are subsequently stated at amortised cost; any difference between proceeds, net of transaction costs, and the redemption value is recognised in the profit or loss over the period of the borrowings using EIR.

Taxation

Taxation is provided for based on the relevant tax laws of the respective countries, in which the bank operates.

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the profit or loss for the year except to the extent that it relates to items recognised directly to other comprehensive income, 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 balance sheet 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 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.

2 ACCOUNTING POLICIES (continued)

Taxation (continued)

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.

Derivatives and hedge accounting

The bank makes use of derivative instruments to manage exposures to interest rate, foreign currency and credit risks, including exposures arising from forecast transactions. In order to manage particular risks, the bank applies hedge accounting for transactions which meet the specified criteria.

At inception of the hedge relationship, the bank formally documents the relationship between the hedged item and the hedging instrument, including the nature of the risk, the objective and strategy for undertaking the hedge and the method that will be used to assess the effectiveness of the hedging relationship.

Also at the inception of the hedge relationship, a formal assessment is undertaken to ensure the hedging instrument is expected to be highly effective in offsetting the designated risk in the hedged item. A hedge is regarded as highly effective if the changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated are expected to offset in a range of 80% to 125%. For situations where that hedged item is a forecast transaction, the bank assesses whether the transaction is highly probable and presents an exposure to variations in cash flows that could ultimately affect the profit or loss for the year.

Cash flow hedges

For designated and qualifying cash flow hedges, the effective portion of the gain or loss on the hedging instrument is initially recognised directly in equity in the cash flow hedge reserve. The ineffective portion of the gain or loss on the hedging instrument is recognised immediately in profit or loss for the the year.

When the hedged cash flow affects the profit or loss, the gain or loss on the hedging instrument is ‘recycled’ in the corresponding income or expense line of the profit or loss for the year . When a hedging instrument expires, or is sold, terminated, exercised, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the hedged forecast transaction is ultimately recognised in the profit or loss for the year. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the profit or loss for the year.

Derivative financial instruments including credit default swaps, which are not designated and qualified as hedges are recorded at fair value and unrealised gains or losses are included in the profit or loss for the year.

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.

Financial guarantees

In the ordinary course of business, the bank gives financial guarantees. Financial guarantees are initially recognised in the financial statements at fair value, in “other liabilities”. Subsequent to initial recognition, the bank measures such guarantees at the higher of the initial fair value less, when appropriate, cumulative amortisation calculated to recognise the fee in the profit or loss for the year in “Net fees and commission income” over the term of the guarantee, and the best estimate of the expenditure required to settle any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is taken to the profit or loss for the year. Any financial guarantee liability remaining is recognised in profit or loss when the guarantee is discharged, cancelled or expires.

Provisions

Provisions are recognised when the bank has a present obligation (legal or constructive) arising from a past event and the costs to settle the obligation are both probable and able to be reliably measured.

2 ACCOUNTING POLICIES (continued)

Impairment of financial assets

The bank assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults. If such evidence exists, the impairment loss is recognized in the profit or loss for the year.

Due from banks and loans and advances to customers

For amounts due from banks and loans and advances to customers carried at amortised cost, the bank first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). 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 profit or loss for the year. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the bank. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the 'Recoveries from loans and advances written off'.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the bank's internal credit grading system that considers credit risk characteristics such as asset type, industry, geographical location, collateral type, past-due status and other relevant factors.

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the years on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year (such as changes in unemployment rates, property prices, payment status, or other factors that are indicative of incurred losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Held-to-maturity financial investments

For held-to-maturity investments the bank assesses individually whether there is objective evidence of impairment. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows. The carrying amount of the asset is reduced and the amount of the loss is recognised in the profit or loss for the year.

2 ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognised, any amounts formerly charged are credited to the 'Impairment losses on financial investments'.

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. 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 profit or loss – is removed from equity and recognised in the profit or loss for the year. Impairment losses on equity investments are not reversed through the profit or loss; 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 profit or loss, the impairment loss is reversed through the profit or loss.

Renegotiated loans

Where possible, the bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective interest rate.

Offsetting

Financial assets and financial liabilities are offset and the net amount reported in the balance sheet if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the bank and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised.

Interest and similar income and expense

For all financial instruments measured at amortised cost, interest bearing financial assets classified as available for-sale and financial instruments designated at fair value through profit or loss, interest income or expense is recorded using the EIR, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the EIR, but not future credit losses.

The carrying amount of the financial asset or financial liability is adjusted if the bank revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original EIR and the change in carrying amount is recorded as 'Other operating income'

2 ACCOUNTING POLICIES (continued)

Fee and commission income

The bank earns fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided into the following two categories:

Fee income earned from services that are provided over a certain period of time

Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income and asset management, custody and other management and advisory fees.

Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognised as an adjustment to the EIR on the loan. When it is unlikely that a loan will be drawn down, the loan commitment fees are recognised over the commitment period on a straight line basis.

Fee income from providing transaction services

Fees arising from negotiating or participating in the negotiation of a transaction for a third party, such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses, sale of insurance products are recognised on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognised after fulfilling the corresponding criteria.

Dividend income

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

Foreign currencies

- (i) Transactions denominated in foreign currencies are translated into Rial Omani and recorded at rates of exchange ruling at the value dates of the transactions.
- (ii) Monetary assets and liabilities denominated in foreign currencies are translated into Rial Omani at exchange rates ruling at the reporting date. Realised and unrealised gains and losses are dealt with in profit or loss for the year.
- (iii) As at the reporting date, the assets and liabilities of overseas branches are translated into the bank's presentation currency at the rate of exchange as at the statement of financial position date, and their statements of comprehensive income are translated at the weighted average exchange rates for the year. Exchange differences arising on translation are taken directly to a separate component of equity. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the profit or loss in 'Other operating expenses' or 'Other operating income'. As the functional currencies of the bank's overseas branches are pegged to Rial Omani, there are no major exchange differences arising on translation.

Repurchase and resale agreements

Assets sold with a commitment to repurchase (repos) at a specified future date are recognised in the statement of financial position and are measured in accordance with accounting policies for trading securities or investment securities. The counter party liability for amounts received under these agreements is included in due to banks and other financial institutions. The difference between sale and repurchase price is treated as interest expense and accrued over the life of the repo agreement. Assets purchased with a corresponding commitment to resell at a specified future date (reverse repos) are not recognised in the statement of financial position and the amounts paid under these agreements are included in deposits with banks and other financial institutions. The difference between purchase and resale price is treated as interest income and accrued over the life of the reverse repo agreement.

Leases

Operating lease payments are recognised as an expense in the statement of comprehensive income on a straight-line basis over the lease term.

2 ACCOUNTING POLICIES (continued)**Staff terminal benefits**

The terminal benefits for Omani employees are provided in accordance with the Sultanate of Oman's Social Insurance Law of 1991. For Egyptian employees the terminal benefits are provided in accordance with the Egyptian social security law. Provision for staff terminal benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods, discounted to its present value.

Segment reporting

The bank's segmental reporting is based on the following operating segments: Consumer banking, corporate banking, investment banking, treasury and international banking and head office functions.

Dividend on ordinary shares

Dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the bank's shareholders. Interim dividends are deducted from equity when they are paid.

Dividends for the year that are approved after the balance sheet date are dealt with as an event after the balance sheet date.

Directors' remuneration

The board of directors' remuneration is accrued within the limits specified by the Capital Market Authority and the requirements of the Commercial Companies Law of the Sultanate of Oman.

3 CASH AND BALANCES WITH CENTRAL BANKS

<i>2009</i>	<i>2010</i>		<i>2010</i>	<i>2009</i>
<i>USD'000</i>	<i>USD'000</i>		<i>RO'000</i>	<i>RO'000</i>
60,190	91,104	Cash	35,075	23,173
7,475	6,029	Treasury bills with Central Banks	2,321	2,878
246,753	116,883	Certificates of deposit with the Central Banks	45,000	95,000
161,148	375,695	Other balances with the Central Banks	144,643	62,042
<u>475,566</u>	<u>589,711</u>	Cash and cash equivalents	<u>227,039</u>	<u>183,093</u>
1,984	-	Insurance deposit with the Central Bank of Oman	-	764
1,299	1,299	Capital deposit with the Central Bank of Oman	500	500
<u>478,849</u>	<u>591,010</u>	Cash and balances with Central Banks	<u>227,539</u>	<u>184,357</u>

The capital deposits with the Central Bank of Oman cannot be withdrawn without the approval of the Central Bank of Oman.

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At 31 December 2010

4 FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

2009 USD'000	2010 USD'000		2010 RO'000	2009 RO'000
44,958	-	Oman Government Development Bonds	-	17,309
195	-	Oman Government Development Bonds(OTC)	-	75
<u>45,153</u>	<u>-</u>		<u>-</u>	<u>17,384</u>

5 DUE FROM BANKS AND OTHER MONEY MARKET PLACEMENTS (NET)

2009 USD'000	2010 USD'000		2010 RO'000	2009 RO'000
99,548	58,343	Loans and advances to banks	22,462	38,326
337,688	150,260	Placement with banks	57,850	130,010
17,208	27,098	Demand balances	10,433	6,625
<u>454,444</u>	<u>235,701</u>	Due from banks and other money market placement	<u>90,745</u>	<u>174,961</u>
(20,691)	(16,940)	Less: allowance for credit losses (refer note below)	(6,522)	(7,966)
(205)	(177)	Less: reserved interest	(68)	(79)
<u>433,548</u>	<u>218,584</u>	Net due from banks and other money market placement	<u>84,155</u>	<u>166,916</u>

During the second quarter of 2009, two large regional groups were reported to have defaulted on their payment obligations. As at 31 December 2010, the bank has a limited inter-bank exposure of RO 6.6 million against these groups. The bank recorded a provision of 100% against the two large regional groups.

The bank has an exposure of RO 1.9 million to a bank in Kazakhstan against which it carried a provision of RO 1.4 million. During the third quarter of 2010, the bank recovered RO 0.79 million in full and final settlement against this exposure resulting in a provision release of RO 0.3 million and a write off of RO 1.1 million.

6 LOANS AND ADVANCES TO CUSTOMERS

2009 USD'000	2010 USD'000		2010 RO'000	2009 RO'000
172,008	154,223	Overdrafts	59,376	66,223
1,667,442	1,675,447	Personal loans	645,047	641,965
1,746,804	1,771,626	Other loans	682,076	672,520
103,694	97,426	Loans against trust receipts	37,509	39,922
22,044	21,717	Bills discounted	8,361	8,487
<u>3,711,992</u>	<u>3,720,439</u>	Gross loans and advances	<u>1,432,369</u>	<u>1,429,117</u>
(149,561)	(149,257)	Allowance for credit losses	(57,464)	(57,581)
(27,374)	(29,982)	Reserved interest	(11,543)	(10,539)
<u>3,535,057</u>	<u>3,541,200</u>	Net loans and advances	<u>1,363,362</u>	<u>1,360,997</u>

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6 LOANS AND ADVANCES TO CUSTOMERS (continued)

The movement in the allowance for credit losses and reserved interest accounts is set out below:

2009 USD'000	2010 USD'000		2010 RO'000	2009 RO'000
		Allowance for credit losses		
133,569	149,561	Balance at beginning of year	57,581	51,424
53,203	41,249	Provided during the year	15,881	20,483
(17,362)	(10,374)	Released/recovered during the year	(3,994)	(6,684)
(20,008)	(29,855)	Written off during the year	(11,494)	(7,703)
159	(1,324)	Translation difference	(510)	61
149,561	149,257	Balance at end of year	57,464	57,581
		Reserved interest		
33,304	27,374	Balance at beginning of year	10,539	12,822
8,735	9,984	Reserved during the year	3,844	3,363
(914)	(652)	Released/recovered during the year	(251)	(352)
(1,475)	(1,810)	Released/recovered during the year to	(697)	(568)
(12,276)	(4,896)	interest income	(1,885)	(4,726)
-	(18)	Written off during the year	(7)	-
		Translation difference		
27,374	29,982	Balance at end of year	11,543	10,539

A further analysis of allowances for credit losses is set out below:

2009 USD'000	2010 USD'000		2010 RO'000	2009 RO'000
97,390	97,195	Specific impairment	37,420	37,495
52,171	52,062	Collective impairment	20,044	20,086
149,561	149,257	Balance at end of year	57,464	57,581

All loans and advances require payment of interest based on agreed tenors, some at fixed rates and others at rates that re-price prior to maturity. As of 31 December 2010 loans and advances on which interest is not being accrued or where interest has been reserved amounted to RO 61.3 million – USD 159.2 million (2009 – RO 71.7 million – USD 186.2 million).

During the year, the bank has written-off fully provided loans and advances amounting to RO 13.4 million – USD 34.8 million (2009: RO 12.4 million – USD 32.2 million) against impairment provisions where the bank believes the possibility of a recovery is low. The bank will continue to pursue the recovery of these loans through all possible means and any future recovery from these written-off loans will be recognised in the profit or loss for the year.

Concentrations of credit risk arise when a number of counter parties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be affected similarly 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.

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6 LOANS AND ADVANCES TO CUSTOMERS (continued)

The table below analyses the concentration of gross loans and advances by various sectors.

<i>Total</i> 2009 <i>USD '000</i>	<i>Total</i> 2010 <i>USD '000</i>		<i>Total</i> 2010 <i>RO'000</i>	<i>Total</i> 2009 <i>RO'000</i>
28,761	30,917	Agriculture	11,903	11,073
385,008	356,644	Construction	137,308	148,228
1,748	1,242	Export trade	478	673
228,623	228,639	Financial institutions	88,026	88,020
77,956	101	Government	39	30,013
99,081	92,262	Import trade	35,521	38,146
407,940	457,681	Manufacturing	176,207	157,057
1,667,442	1,675,447	Personal	645,047	641,965
146,787	190,447	Service	73,322	56,513
26,119	16,964	Transport and communication	6,531	10,056
204,896	194,870	Wholesale and retail trade	75,025	78,885
437,631	475,225	Others	182,962	168,488
3,711,992	3,720,439	Total	1,432,369	1,429,117

The geographic distribution of loans and advances to customers, based on the location of the borrower and industry sector, is as follows:

	<i>Consumer and personal loans RO'000</i>	<i>Business and Government RO'000</i>	<i>Real estate and others RO'000</i>	<i>2010 Total RO'000</i>	<i>2009 Total RO'000</i>
Sultanate of Oman	641,275	526,289	168,265	1,335,829	1,321,412
United Arab Emirates	2,782	42,703	19,166	64,651	71,753
Egypt	990	10,021	-	11,011	13,738
Others	-	13,816	7,062	20,878	22,214
Total – 31 December 2010	645,047	592,829	194,493	1,432,369	1,429,117
Total – 31 December 2009	641,965	594,649	192,503	-	1,429,117

	<i>Consumer and personal loans USD'000</i>	<i>Business and Government USD'000</i>	<i>Real estate and others USD'000</i>	<i>2010 Total USD'000</i>	<i>2009 Total USD'000</i>
Sultanate of Oman	1,665,650	1,366,984	437,052	3,469,686	3,432,239
United Arab Emirates	7,226	110,917	49,782	167,925	186,371
Egypt	2,571	26,029	-	28,600	35,683
Others	-	35,886	18,342	54,228	57,699
Total – 31 December 2010	1,675,447	1,539,816	505,176	3,720,439	3,711,992
Total – 31 December 2009	1,667,442	1,544,542	500,008	-	3,711,992

7 NON-TRADING FINANCIAL INVESTMENTS

	<i>Carrying value</i> 31/12/2010	<i>Cost</i> 31/12/2010	<i>Carrying value</i> 31/12/2009	<i>Cost</i> 31/12/2009
	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>
Available for sale investments				
Quoted investments - Oman				
Banking and investment sector	185	190	249	254
Industry sector	1,723	1,763	761	707
Service sector	7,998	8,706	6,940	8,451
Government development bonds	44,096	44,096	10,009	10,009
	<u>54,002</u>	<u>54,755</u>	<u>17,959</u>	<u>19,421</u>
Quoted investments - Foreign				
Banking and investment sector	1,422	1,363	395	-
	<u>1,422</u>	<u>1,363</u>	<u>395</u>	<u>-</u>
Unquoted investments				
Banking and investment sector	7,643	6,636	7,060	6,402
Service sector	66	66	66	66
	<u>7,709</u>	<u>6,702</u>	<u>7,126</u>	<u>6,468</u>
Total available for sale investments	<u>63,133</u>	<u>62,820</u>	<u>25,480</u>	<u>25,889</u>
Held to maturity investments				
Other bonds	-	-	4,580	4,580
Total non-trading investments	<u>63,133</u>	<u>62,820</u>	<u>30,060</u>	<u>30,469</u>
Total non-trading investments – USD'000	<u>163,982</u>	<u>163,169</u>	<u>78,078</u>	<u>79,140</u>

Included under unquoted available for sale investments are investments with a value of RO 0.18 million – USD 0.46 million (2009 – RO 0.59 million – USD 1.53 million), which are carried at cost, less any impairment losses, due to the unpredictable nature of future cash flows and the lack of other suitable methods for arriving at a reliable fair value. All other available for sale investments are carried at fair value.

During the year, the bank has recorded RO 0.63 million - USD 1.63 million (2009 – RO 4.1 million – USD 10.7 million) as impairment losses against its available for sale investments. The impairment loss on available for sale investments is recognised in view of either a significant or prolonged decline in the fair value of the investment below cost.

During the year the bank has sold its entire held to maturity investments.

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7 NON-TRADING FINANCIAL INVESTMENTS (Continued)

Details of significant investments

Details of investments exceeding 10% of the carrying value of the bank's investment available for sale portfolio are as follows:

<u>31 December 2010</u>	<i>Bank's portfolio %</i>	<i>Carrying value RO'000</i>	<i>Cost RO'000</i>
Government Development Bonds	69.85	44,096	44,096
Investment Stabilization Fund	10.08	6,365	5,000

<u>31 December 2009</u>			
Government Development Bonds	39.28	10,009	10,009
Investment Stabilization Fund	23.43	5,970	5,000

8 PREMISES AND EQUIPMENT

	<i>Freehold land and buildings and leasehold improvements RO'000</i>	<i>Motor vehicles, furniture and equipment RO'000</i>	<i>Capital work in progress RO'000</i>	<i>Total RO'000</i>
Reconciliation of carrying amount:				
Balance as at 1 January 2010, net of accumulated depreciation	4,778	5,078	2,907	12,763
Additions	8,527	1,027	2,973	12,527
Revaluation	955	-	-	955
Disposals	-	(14)	(27)	(41)
Transfers	1,877	1,856	(3,733)	-
Translation difference	(26)	(5)	-	(31)
Depreciation	(1,598)	(2,222)	-	(3,820)
Balance as at 31 December 2010, net of accumulated depreciation	14,513	5,720	2,120	22,353
At cost	21,581	21,595	2,120	45,296
At revaluation	3,766	-	-	3,766
Accumulated depreciation	(10,834)	(15,875)	-	(26,709)
Net carrying value at 31 December 2010	14,513	5,720	2,120	22,353
Net carrying value at 31 December 2010 – USD'000	37,696	14,857	5,507	58,060
Net carrying value at 31 December 2009	4,778	5,078	2,907	12,763
Net carrying value at 31 December 2009 – USD'000	12,410	13,190	7,551	33,151

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At 31 December 2010

8 PREMISES AND EQUIPMENT (Continued)

Freehold land stated at cost of RO 8.56 million – USD 22.22 million (2009 - RO 0.06 million – USD 0.16 million) is not depreciated. Land and buildings include three buildings on freehold land, which were re-valued at their open market value for existing use by an independent professional valuer as of 31 October 2010, at RO 3.77 million (USD 9.79 million) from existing value of RO 2.81 million (USD 7.30 million). On revaluation, the gross carrying amount of each building revalued was restated so that the net carrying amount of the asset after revaluation equals its re-valued amount. Should the buildings be carried at cost less depreciation, the net carrying amount would have been RO 1.39 million – USD 3.61 million (2009 - RO 1.59 million – USD 4.13 million).

9 OTHER ASSETS

<i>2009</i>	<i>2010</i>		<i>2010</i>	<i>2009</i>
<i>USD '000</i>	<i>USD '000</i>		<i>RO '000</i>	<i>RO '000</i>
19,087	23,208	Interest receivable	8,935	7,349
3,707	5,888	Prepayments and deposits	2,267	1,427
5,286	4,995	Collateral pending sale	1,923	2,035
2,184	12,145	Positive fair value of derivatives (note 33)	4,676	841
27,422	50,948	Customers' indebtedness for acceptances	19,615	10,557
9,161	18,024	Others	6,939	3,527
<u>66,847</u>	<u>115,208</u>		<u>44,355</u>	<u>25,736</u>
8,982	8,982	Amount receivable from BCCI	3,458	3,458
(8,982)	(8,982)	Less: provision for amount due from BCCI	(3,458)	(3,458)
<u>-</u>	<u>-</u>		<u>-</u>	<u>-</u>

The Government of the Sultanate of Oman has agreed, unconditionally, to guarantee payments of all and any sums, which are due to the bank by Bank of Credit and Commerce International (BCCI) up to a maximum of RO 38.9 million (USD 101.0 million). BCCI is in liquidation.

On 7 July 2008, the bank has cancelled and returned the guarantee to the Government discharging it of all related liabilities. Full impairment provision has been recorded by the bank against the remaining amounts due from BCCI.

10 DUE TO BANKS AND OTHER MONEY MARKET DEPOSITS

<i>2009</i>	<i>2010</i>		<i>2010</i>	<i>2009</i>
<i>USD '000</i>	<i>USD '000</i>		<i>RO '000</i>	<i>RO '000</i>
561,151	325,000	Acceptances and borrowings	125,125	216,043
9,400	18,753	Other balances	7,220	3,619
<u>570,551</u>	<u>343,753</u>		<u>132,345</u>	<u>219,662</u>

None of the above balances were past due as of 31 December 2010 or 2009.

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At 31 December 2010

11 CUSTOMERS' DEPOSITS

2009 USD'000	2010 USD'000		2010 RO'000	2009 RO'000
565,849	774,538	Current accounts	298,197	217,852
724,353	777,441	Savings accounts	299,315	278,876
1,819,533	1,726,904	Term deposits	664,858	700,520
164,987	162,390	Certificates of deposit	62,520	63,520
<u>3,274,722</u>	<u>3,441,273</u>		<u>1,324,890</u>	<u>1,260,768</u>

12 OTHER LIABILITIES

2009 USD'000	2010 USD'000		2010 RO'000	2009 RO'000
25,992	21,234	Interest payable	8,175	10,007
2,493	2,790	Staff entitlements	1,074	960
27,422	50,948	Liabilities under acceptances	19,615	10,557
1,387	12,366	Negative fair value of derivatives (note 33)	4,761	534
32,836	34,959	Other accruals and provisions	13,459	12,642
<u>90,130</u>	<u>122,297</u>		<u>47,084</u>	<u>34,700</u>

Staff entitlements are as follows:

2,158	2,416	End of service benefits	930	831
335	374	Other liabilities	144	129
<u>2,493</u>	<u>2,790</u>		<u>1,074</u>	<u>960</u>

Movements in the end of service benefits liability are as follows:

2,109	2,158	Liability as at 1 January	831	812
361	538	Expense recognised in the statement of comprehensive income	207	139
(312)	(280)	End of service benefits paid	(108)	(120)
<u>2,158</u>	<u>2,416</u>	Liability as at 31 December	<u>930</u>	<u>831</u>

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At 31 December 2010

13 TAXATION

<i>2009</i>	<i>2010</i>		<i>2010</i>	<i>2009</i>
<i>USD'000</i>	<i>USD'000</i>		<i>RO'000</i>	<i>RO'000</i>
		Current tax expense		
10,153	7,961	Current year	3,065	3,909

The bank is liable to income tax at the following rates:

- Sultanate of Oman: 12% of consolidated taxable income in excess of RO 30,000
- United Arab Emirates: 20% of taxable income
- Egypt: 20% of taxable income

Set out below is reconciliation between income taxes calculated on accounting profits and income tax expense for the year:

<i>2009</i>	<i>2010</i>		<i>2010</i>	<i>2009</i>
<i>USD'000</i>	<i>USD'000</i>		<i>RO'000</i>	<i>RO'000</i>
64,972	78,536	Accounting profit	30,236	25,014
7,797	9,423	Tax at applicable rate	3,628	3,002
1,395	470	Non-deductible expenses	181	537
(1,270)	(1,215)	Tax exempt revenues	(468)	(489)
2,231	(717)	Others	(276)	859
10,153	7,961		3,065	3,909

The bank's liabilities for taxation in the Sultanate of Oman has been assessed up to the year ended 31 December 2004.

The tax assessments of the Egypt operations in respect of the different taxes applicable are at different stages of completion with the respective tax authorities. The bank's liability in respect of its branch in Abu Dhabi has been agreed with the tax authorities up to 31 December 2009.

13 TAXATION (continued)

<i>2009</i> <i>USD'000</i>	<i>2010</i> <i>USD'000</i>		<i>2010</i> <i>RO'000</i>	<i>2009</i> <i>RO'000</i>
		Tax liability		
		<i>Current year</i>		
10,153	7,961	Income tax and other taxes	3,065	3,909
		<i>Prior year</i>		
3,047	2,883	Income tax and other taxes	1,110	1,173
<u>13,200</u>	<u>10,844</u>		<u>4,175</u>	<u>5,082</u>

Recognised deferred tax assets and liabilities:

<i>2009</i> <i>USD'000</i>	<i>2010</i> <i>USD'000</i>		<i>2010</i> <i>RO'000</i>	<i>2009</i> <i>RO'000</i>
		Deferred tax assets and liabilities are attributable to the following:		
		Available for sale investments - overseas		
<u>(26)</u>	<u>18</u>		<u>7</u>	<u>(10)</u>

Deferred tax is calculated at 12% (2009 – 12%).

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NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2010

14 SUBORDINATED PRIVATE PLACEMENT

<i>2009</i>	<i>2010</i>		<i>2010</i>	<i>2009</i>
<i>USD'000</i>	<i>USD'000</i>		<i>RO'000</i>	<i>RO'000</i>
74,286	71,688	At 1 January	27,600	28,600
29,870	7,793	Received during the year	3,000	11,500
(32,468)	-	Matured during the year	-	(12,500)
<u>71,688</u>	<u>79,481</u>		<u>30,600</u>	<u>27,600</u>

- (i) Placements received in 2010 are repayable in January 2016.
- (ii) Placements received in 2009 include RO 1.5 million with a call option to renew the facility after six years, repayable at the end of March 2019 and RO 10 million for a period of 6 years repayable at the end of December 2015.

15 SHARE CAPITAL

<i>2009</i>	<i>2010</i>		<i>2010</i>	<i>2009</i>
<i>USD'000</i>	<i>USD'000</i>		<i>RO'000</i>	<i>RO'000</i>
<u>415,584</u>	<u>415,584</u>	Authorised - ordinary shares of RO 0.100 each	<u>160,000</u>	<u>160,000</u>
<u>280,779</u>	<u>280,779</u>	Issued and fully paid - ordinary shares of RO 0.100 each	<u>108,100</u>	<u>108,100</u>

As of 31 December 2010, the following shareholders held 10% or more of the bank's capital:

	<i>Number of shares '000</i>	<i>% Holding</i>
The Commercial Bank of Qatar	377,267	34.90%
Suhail Bahwan Group (Holdings) L.L.C	159,385	14.74%

The percentage shareholding is calculated based on the total shares of the bank outstanding at the reporting date.

16 SHARE PREMIUM RESERVE

The share premium of RO 34.5 million (USD 89.6 million) represents the premium collected on issue of 10 million shares by the bank through a private placement for RO 4.45 (USD 11.56) per share. This was approved by the bank's shareholders at the bank's Extraordinary General Meeting held on 25 June 2005 at which time the face value of the bank's share was RO 1.

17 LEGAL RESERVE

The legal reserve, which is not available for distribution, is accumulated in accordance with the requirements of the Commercial Companies Law of Oman and the Union Law No. 10 of Abu Dhabi. The annual appropriations must not be less than 10% of the profit for the year until such time that the respective reserve account balance amounts to at least one third of the share capital in Oman and half of the branch capital in Abu Dhabi.

18 GENERAL RESERVE

The general reserve was created on 9 May 2006 by way of a transfer from the subordinated fund reserve to a general reserve. The transfer was made on account of prepayment of certain subordinated private placement during 2006 resulting in surplus in subordinated fund reserve. This reserve is available for distribution.

19 OTHER NON-DISTRIBUTABLE RESERVES

	<i>Available for sale reserve RO '000'</i>	<i>Cash flow hedge reserve RO '000'</i> <i>(note 33)</i>	<i>Revaluation reserve RO '000'</i>	<i>Subordinated loan reserve RO '000'</i>	<i>Total RO '000'</i>
At 1 January 2010	2,107	(130)	2,811	3,220	8,008
Net movement on available for sale investments	118	-	-	-	118
Tax effect of net losses on available-for-sale financial investments	17	-	-	-	17
Net movement on cash flow hedges	-	130	-	-	130
Transfer to subordinated loan reserve	-	-	-	5,520	5,520
Surplus on revaluation of buildings	-	-	955	-	955
At 31 December 2010	2,242	-	3,766	8,740	14,748
At 31 December 2010 – In USD'000	5,823	-	9,782	22,701	38,306

- (i) The revaluation reserve represents the surplus on revaluation of building and is not available for distribution until the related assets have been disposed off or used.
- (ii) The subordinated loan reserve represents an annual transfer towards subordinated private placements which are due to mature within the next five years period (note 14). The reserve is available for transfer back to retained earning upon maturity of the private placement.

20 DIVIDENDS PAID AND PROPOSED

The Board of Directors have proposed a cash dividend of RO 0.015 per share totalling RO 16.2 million (USD 0.039 per share totalling USD 42.1 million) for the year ended 31 December 2010, which is subject to the approval of the shareholders at the Annual General Meeting to be held in March 2011.

At the Annual General Meeting held in March 2010, a cash dividend of RO 0.012 per share totalling RO 12.9 million (USD 0.031 per share totalling USD 33.7 million) for the year ended 31 December 2009 was approved and subsequently paid.

21 CONTINGENT LIABILITIES AND COMMITMENTS

To meet the financial needs of customers, the bank enters into various irrevocable commitments and contingent liabilities. Even though these obligations may not be recognized on the statement of financial position, they do contain credit risk and are therefore part of the overall risk of the bank.

Credit related commitments include commitments to extend credit, standby letters of credit and guarantees, which are designed to meet the requirements of the bank's customers.

Commitments to extend credit represent contractual commitments to make loans and revolving credits. Commitments generally have fixed expiration dates or other termination clauses and require the payment of a fee. Since commitments may expire without being drawn upon, the total contract amounts do not necessarily represent future cash requirements.

Standby letters of credit and guarantees commit the bank to make payments on behalf of customers' contingent upon the failure of the customer to perform under the terms of the contract.

Contingent liabilities

As of the reporting date, commitments on behalf of customers for which there were corresponding customer liabilities consisted of the following:

<i>2009</i>	<i>2010</i>		<i>2010</i>	<i>2009</i>
<i>USD'000</i>	<i>USD'000</i>		<i>RO'000</i>	<i>RO'000</i>
1,008,132	1,015,678	Guarantees	391,036	388,131
191,790	212,745	Documentary letters of credit	81,907	73,839
<u>1,199,922</u>	<u>1,228,423</u>		<u>472,943</u>	<u>461,970</u>

The table below analyses the concentration of contingent liabilities by economic sector:

<i>2009</i>	<i>2010</i>		<i>2010</i>	<i>2009</i>
<i>USD'000</i>	<i>USD'000</i>		<i>RO'000</i>	<i>RO'000</i>
995	1,078	Agriculture	415	383
319,645	318,805	Construction	122,740	123,063
492,925	544,434	Financial institutions	209,607	189,776
195	65	Import trade	25	75
121,134	103,966	Manufacturing	40,027	46,636
570	475	Personal	183	219
43,555	43,249	Service	16,651	16,769
737	7,639	Transport and communication	2,941	284
65,897	76,109	Wholesale and retail trade	29,302	25,370
154,269	132,603	Others	51,052	59,395
<u>1,199,922</u>	<u>1,228,423</u>		<u>472,943</u>	<u>461,970</u>

Guarantees include RO 0.1 million – USD 0.3 million (Dec 2009: RO 0.1 million – USD 0.3 million) relating to non-performing loans.

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21 CONTINGENT LIABILITIES (continued)

Commitments

2009 USD '000	2010 USD '000		2010 RO '000	2009 RO '000
161,696	268,616	Undrawn commitment	103,417	62,253
6,184	3,400	Capital expenditure	1,309	2,381
7,415	7,566	Operating lease commitments	2,913	2,855
		Future minimum lease payments:		
3,452	3,008	Not later than one year at the reporting date	1,158	1,329
3,535	4,301	Later than one year and not later than five years at the reporting date	1,656	1,361
428	257	Later than five years	99	165
7,415	7,566	Aggregate operating lease expenditure contracted for at the reporting date	2,913	2,855

Branches

The bank has deposited in the countries concerned, the following amounts of capital as support for its overseas branches. These amounts cannot be withdrawn without the approval of the Central Banks of the countries concerned.

2009 USD '000	2010 USD '000		2010 RO '000	2009 RO '000
14,294	14,294	Abu Dhabi branch	5,503	5,503
50,000	50,000	Egypt branches	19,250	19,250
64,294	64,294		24,753	24,753

Legal claims

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

Fiduciary assets

The fair value of securities as of 31 December 2010 held on trust for customers amounts to RO 53.95 million – USD 140.13 million (2009 – RO 50.48 million – USD 131.11 million).

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NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2010

22 INTEREST INCOME

2009	2010		2010	2009
USD'000	USD'000		RO'000	RO'000
257,470	242,374	Interest from customers	93,314	99,126
8,403	4,831	Interest from banks	1,860	3,235
<u>265,873</u>	<u>247,205</u>		<u>95,174</u>	<u>102,361</u>

Interest bearing assets other than investments earned interest at an overall effective annual rate of 5.92% for the year ended 31 December 2010 (31 December 2009 – 6.19%).

23 INTEREST EXPENSE

2009	2010		2010	2009
USD'000	USD'000		RO'000	RO'000
108,826	97,179	Interest to customers	37,414	41,898
9,457	5,543	Interest to banks	2,134	3,641
<u>118,283</u>	<u>102,722</u>		<u>39,548</u>	<u>45,539</u>

For the year ended 31 December 2010, the average overall effective annual cost of bank's funds was 2.64% (31 December 2009 – 2.95%).

24 OTHER OPERATING INCOME

2009	2010		2010	2009
USD'000	USD'000		RO'000	RO'000
23,681	24,774	Fees and commission income	9,538	9,117
(45)	(47)	Fees and commission expense	(18)	(17)
<u>23,636</u>	<u>24,727</u>	Net fees and commissions	<u>9,520</u>	<u>9,100</u>
22,501	18,065	Service charges	6,955	8,663
6,519	2,997	Profit on sale of investments	1,154	2,510
5,843	6,369	Net gains from foreign exchange dealings	2,452	2,250
2,715	2,021	Miscellaneous income	778	1,045
1,873	3,156	Income from bonds and others	1,215	721
1,965	1,081	Dividend income	416	756
<u>65,052</u>	<u>58,416</u>		<u>22,490</u>	<u>25,045</u>

25 OTHER OPERATING EXPENSES

2009	2010		2010	2009
USD'000	USD'000		RO'000	RO'000
9,338	11,397	Establishment costs	4,388	3,595
20,025	21,751	Operating and administration costs	8,374	7,710
348	364	Directors' remuneration	140	134
<u>29,711</u>	<u>33,512</u>		<u>12,902</u>	<u>11,439</u>

26 RELATED PARTY TRANSACTIONS***Management service agreement with a shareholder***

The Board of Directors of the National Bank of Oman (SAOG) had entered into a Management Services Agreement with its strategic partner The Commercial Bank of Qatar in 2005 to provide NBO with management services. As the management and processes of the Bank have been substantially strengthened during the past 6 years, the Commercial Bank of Qatar advised NBO that they do not wish to extend the term of the agreement on its expiry in March 2011.

For the services provided for the year 2010, based on the agreement, the bank pays management fees as follows:

- For profit up to RO 15 million, no management fees is payable
- For profits between RO 15 million to RO 30 million the higher of management costs or 1% of the bank's profit
- For profits in excess of RO 30 million, in addition to the above, 3% of the profits in excess of RO 30 million

Proportionate fees will be paid where the agreement is not in effect for the full year. In addition, with the approval of the Board reasonable out of pocket expenses incurred in connection with the provision of the Management Services such as travel, boarding and lodging will be reimbursed.

For the year ended 31 December 2010, management fees of RO 0.3 million – USD 0.8 million (31 December 2009: RO 0.2 million – USD 0.5 million) are accrued for.

Other related party transactions:

In the ordinary course of business, the bank conducts transactions with certain of its directors and/or shareholders and companies over which they have significant interest. The aggregate amounts of balances with such related parties are as follows:

	2010			2009		
	<i>Principal shareholder</i> RO'000	<i>Others</i> RO'000	<i>Total</i> RO'000	<i>Principal shareholder</i> RO'000	<i>Others</i> RO'000	<i>Total</i> RO'000
Loans and advances	-	28,695	28,695	-	18,191	18,191
Customer's deposits	-	13,899	13,899	-	13,167	13,167
Due from banks	11,615	-	11,615	40	-	40
Due to banks	86	-	86	72	-	72
Subordinated private placement	-	1,500	1,500	-	3,100	3,100
Letter of credit, guarantees and acceptance	-	13,287	13,287	107	6,236	6,343
Standby revolving credit facility	26,950	11,550	38,500	26,950	11,550	38,500
Risk indemnities received	4,284	-	4,284	9,647	-	9,647

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

	2010			2009		
	<i>Principal shareholder</i> RO'000	<i>Others</i> RO'000	<i>Total</i> RO'000	<i>Principal shareholder</i> RO'000	<i>Others</i> RO'000	<i>Total</i> RO'000
Interest income	46	1,094	1,140	-	1,100	1,100
Commission income	-	120	120	-	168	168
Interest expense	96	597	693	561	339	900
Other expenses	345	672	1,017	396	481	877
Director's remuneration and sitting fees	-	200	200	-	200	200

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NOTES TO THE FINANCIAL STATEMENTS

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26 RELATED PARTY TRANSACTIONS (Continued)

	2010			2009		
	<i>Principal shareholder</i> USD'000	<i>Others</i> USD'000	<i>Total</i> USD'000	<i>Principal shareholder</i> USD'000	<i>Others</i> USD'000	<i>Total</i> USD'000
Loans and advances	-	74,532	74,532	-	47,249	47,249
Customer's deposits	-	36,101	36,101	-	34,200	34,200
Due from banks	30,169	-	30,169	104	-	104
Due to banks	223	-	223	187	-	187
Subordinated private placement	-	3,896	3,896	-	8,052	8,052
Letter of credit, guarantees and acceptance	-	34,512	34,512	278	16,197	16,475
Standby revolving credit facility	70,000	30,000	100,000	70,000	30,000	100,000
Risk indemnities received	11,127	-	11,127	25,057	-	25,057

The statement of comprehensive income includes following amounts as relation to the transaction with related party.

	2010			2009		
	<i>Principal shareholder</i> USD'000	<i>Others</i> USD'000	<i>Total</i> USD'000	<i>Principal shareholder</i> USD'000	<i>Others</i> USD'000	<i>Total</i> USD'000
Interest income	119	2,842	2,961	-	2,857	2,857
Commission income	-	312	312	-	436	436
Interest expense	249	1,551	1,800	1,457	881	2,338
Other expenses	896	1,745	2,641	1,029	1,249	2,278
Directors remuneration and sitting fees	-	519	519	-	519	519

Details regarding senior management compensation are set out below:

2009 USD'000	2010 USD'000		2010 RO'000	2009 RO'000
		Salaries and other short term benefits		
4,722	6,338	- Fixed	2,440	1,818
1,788	3,457	- Discretionary	1,331	688
<u>6,510</u>	<u>9,795</u>		<u>3,771</u>	<u>2,506</u>

27 BASIC AND DILUTED EARNING PER SHARE

Earning per share is calculated by dividing the profit for the year by the weighted average number of shares outstanding during the year as follows:

2009 USD'000	2010 USD'000		2010 RO'000	2009 RO'000
54,819	70,575	Profit for the year	27,171	21,105
1,081,000	1,081,000	Weighted average number of shares outstanding during the year (in '000s)	1,081,000	1,081,000
<u>USD 0.05</u>	<u>USD 0.06</u>	Earnings per share	<u>RO 0.025</u>	<u>RO 0.019</u>

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.

28 CAPITAL ADEQUACY

The bank maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the bank's capital is monitored using, among other measures, the rules and ratios established by the Basel Committee on Banking Supervision and adopted by the Central Bank of Oman in supervising the bank.

During the past year, the bank had complied in full with all its externally imposed capital requirements.

Capital management

The primary objectives of the bank's capital management are to ensure that the bank complies with externally imposed capital requirements and that the bank maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise shareholders' value.

The bank manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the bank may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities. No changes were made in the objectives, policies and processes from the previous years.

The international standard for measuring capital adequacy is the risk asset ratio, which relates capital to balance sheet assets and off balance sheet exposures weighted according to broad categories of risk.

The risk asset ratio calculated in accordance with the capital adequacy guidelines of the Bank for International Settlement is as follows:

<i>2009</i>	<i>2010</i>		<i>2010</i>	<i>2009</i>
<i>USD'000</i>	<i>USD'000</i>		<i>RO'000</i>	<i>RO'000</i>
		Capital base		
604,236	632,675	Tier 1 - shareholders' funds	243,580	232,631
117,971	111,462	Tier 2 - subordinated private placement and collective impairment provisions	42,913	45,419
<u>722,207</u>	<u>744,137</u>	Total capital base	<u>286,493</u>	<u>278,050</u>
		Risk weighted assets		
3,945,569	4,263,234	Credit risk	1,641,345	1,519,044
358,997	380,403	Operational risk	146,455	138,214
52,481	150,026	Market risk	57,760	20,205
<u>4,357,047</u>	<u>4,793,663</u>	Total risk weighted assets	<u>1,845,560</u>	<u>1,677,463</u>
<u>16.6%</u>	<u>15.5%</u>	Risk asset ratio (Basel II norms)	<u>15.5%</u>	<u>16.6%</u>

29 RISK MANAGEMENT

The primary objective of risk management is to safeguard the bank's resources from the various risks which the bank faces. The Risk Group comprises of Corporate Credit Risk, Consumer Credit Risk, Market Risk, Operational Risk, Information Security and Business Continuity Risk and Remedial Management. All risk management functions report to Chief Risk Officer and are independent from Business Units. The bank has exposure to the following risks:-

29.1 CREDIT RISK

Credit risk is the risk that the bank will incur a loss because its customers, clients or counterparties failed to discharge their contractual obligations to the bank. The bank manages and controls credit risk by setting internal limits on the amount of risk it is willing to accept for individual counterparties and groups (single obligors) and industry sectors in line with the guidelines of Central Bank of Oman. The bank computes expected losses on credit exposure on the basis of risk classification of both corporate and retail loans in the delinquent category based on the guidelines of Central Bank of Oman.

Credit risk management

Credit Risk is managed within the regulatory requirements of Central Bank of Oman, risk framework provided in the Board approved Risk Charter and the Board approved Credit Policies and Procedures. The policies and procedures are periodically reviewed by the Management and the Board Risk Committee to ensure alignment to the current best practices. Credit exposures are approved by delegated authorities based on delegation by the Board and Board Risk Committee. The delegation of authorities is based on the size of the single obligor exposure, the credit quality (internal, external rating) as well as level of credit risk mitigation (collateral, guarantees, etc.) for the proposed exposures. Control, monitoring and management of credit exposures are done in coordination with respective Business Units as per established procedures.

Corporate Credit

Corporate Credit Risk Division is responsible for independent assessment and control of the risks related to all Corporate, SME and Financial Institutions exposures. The Division reviews and assesses credit risk for proposed exposures prior to facilities being committed to customers by the concerned business units. Renewals and reviews of facilities are subject to the same process. Each proposal is also assessed with respect to established concentration limits for various economic sectors, countries, risk grades, etc. and deviations, if any are highlighted. The bank has introduced risk based pricing and each credit proposal is also assessed based on internal benchmarks of required risk adjusted returns. The bank has also during the year customized the Moody's Risk Analyst model and migrated to this model for risk grading corporate borrowers. Corporate Credit Risk Division also provides advice and guidance to business units with a view to promoting best practices throughout the bank in the management of credit risk.

In addition to formal annual credit risk reviews of each corporate facility, more frequent reviews are also undertaken for watch list accounts, public companies and large exposures.

A comprehensive review of the Corporate Credit Portfolio is conducted on a quarterly basis and provided to the Senior Management and the Board Risk Committee. Salient areas covered in the review include:-

- Exposures downgraded/negatively migrated
- Weighted average credit grade profile
- Portfolio concentration/ performance
- Position of restructured exposures
- Position of past due exposures
- Exposures secured by equity
- Exposures to real estate and leasing sectors
- Syndicated exposures
- New relationships
- Exposures to senior members and non-resident borrowers
- Exposures to countries / financial institutions
- Clean Lending and name lending exposures

Summary of portfolio trends is prepared on a monthly basis highlighting the significant changes in the exposure levels, utilizations, credit quality, portfolio mix, concentrations, etc. The report is provided to Senior Management and the Board Risk Committee.

29 RISK MANAGEMENT (Continued)**29.1 CREDIT RISK (Continued)***Consumer Credit*

Consumer Credit Division manages the credit risk in the retail portfolio. Credit facilities are offered to retail customers primarily based on Product Programs approved by Risk Committee of the Board. The lending criteria for these programs are regularly reviewed and revised, if required, based on an on-going analysis of product performance and portfolio credit quality and perceived risk. Credit facilities outside the Product Programs are individually assessed by the Consumer Credit Risk Division and approved as per the delegated authorities.

A review of the Consumer Credit Portfolio is conducted on a monthly basis and provided to the Management Risk Committee, and every quarter the preceding month's report is presented to the Board Risk Committee. Salient areas covered in the review include:

- Portfolio review
- Management Summary of Delinquency and NPA trends (which includes product-wise delinquency analysis, vintage analysis, and delinquencies across various credit criteria, etc.)
- Projects undertaken / fulfilled during the month
- Recoveries

The bank has also implemented the recently introduced Bank Credit Statistical Bureau System (BCSB system) as mandated by the Central Bank and has furthermore, effectively modified its delinquency reporting module (from the erstwhile monthly basis to the current daily basis). Several system enhancements and new processes have been introduced across critical activities to improve processing quality and efficiency, and to enhance the recovery methodologies of the retail portfolio. The Bank has reworked its strategy of lending through adoption of stricter lending criteria and continuous monitoring of the portfolio and is in the process of implementing a Loan origination system, Credit Scoring Module and Collections solution to enhance its Consumer Credit Risk framework.

Risk mitigation policies

The bank manages, limits and controls concentrations of credit risk – in particular, with respect to individual counterparties and groups, and 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, Internal Audit, Board Risk Committee and the Credit Committee of the Board.

Maximum exposure to credit risk

<i>Gross maximum exposure 2009 USD '000</i>	<i>Gross maximum exposure 2010 USD '000</i>		<i>Gross maximum exposure 2010 RO '000</i>	<i>Gross maximum exposure 2009 RO '000</i>
418,659	499,906	Balances with Central Banks	192,464	161,184
45,153	-	Financial assets designated at fair value through profit or loss	-	17,384
433,548	218,584	Due from banks and other money market placements	84,155	166,916
3,535,057	3,541,200	Loans and advances to customers (net)	1,363,362	1,360,997
78,078	163,982	Non-trading financial investments	63,133	30,060
66,847	115,208	Other assets	44,355	25,736
4,577,342	4,538,880	Total on balance sheet exposure	1,747,469	1,762,277
1,008,132	1,015,678	Letter of guarantee	391,036	388,131
191,790	212,745	Letter of credit	81,907	73,839
161,696	268,616	Undrawn commitment	103,417	62,253
873,997	732,195	Derivative financial instruments	281,895	336,489
2,235,615	2,229,234	Total off balance sheet exposure	858,255	860,712

29 RISK MANAGEMENT (Continued)**29.1 CREDIT RISK (Continued)**

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. 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.

An analysis of the credit quality of the bank's loan and advances is set out below:

	<i>Performing loans (neither past due nor impaired) RO'000</i>	<i>Loans past due and not impaired RO'000</i>	<i>Non performing loans RO'000</i>	<i>Gross loans RO'000</i>
Balance as at 1 January 2010	1,339,442	17,993	71,682	1,429,117
Additions during the year	394,502	67,356	20,155	482,013
Attrition during the year	(392,862)	(55,369)	(17,151)	(465,382)
Written-off during the year	-	-	(13,379)	(13,379)
Balance as at 31 December 2010	1,341,082	29,980	61,307	1,432,369
Balance as at 31 December 2010 – USD'000s	3,483,330	77,870	159,239	3,720,439
Balance as at 31 December 2009	1,339,442	17,993	71,682	1,429,117
Balance as at 31 December 2009 – USD'000s	3,479,070	46,735	186,187	3,711,992

An ageing analysis of the bank's loans which are past due but not impaired is set out below:

	<i>Loans in arrears 1-30 days RO'000</i>	<i>Loans in arrears 31-60 days RO'000</i>	<i>Loans in arrears 61-89 days RO'000</i>	<i>Total RO'000</i>
Loans and advances to customers (net) at 31 December 2010	10,665	14,715	4,600	29,980
31 December 2009	5,413	6,323	6,257	17,993

Collateral and other credit enhancements

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 the 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

The housing loans are secured by mortgage over the residential property.

29 RISK MANAGEMENT (Continued)

The Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for impairment losses.

It is the bank's policy to dispose of repossessed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim. In general, the bank does not occupy repossessed properties for business use.

An analysis of the collateral held and other credit enhancement held against loan and advances granted is as follows:

	<i>Performing loans (neither past due nor impaired) RO'000</i>	<i>Loans past due and not paid RO'000</i>	<i>Non performing loans RO'000</i>	<i>Total RO'000</i>
Collateral available	819,808	2,567	28,155	850,530
Guarantees available	4,284	-	4,400	8,684
Government soft loans*	7,928	-	5,594	13,522
Balance as at 31 December 2010	832,020	2,567	38,149	872,736
Balance as at 31 December 2010– USD'000s	2,161,091	6,668	99,088	2,266,847
Balance as at 31 December 2009	678,110	6,549	9,893	694,552
Balance as at 31 December 2009 – USD'000s	1,761,325	17,010	25,696	1,804,031

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

Impairment and provisioning policy

An assessment is made at each reporting date to determine whether there is objective evidence that a specific financial asset may be impaired. If such evidence exists, the estimated recoverable amount of that asset is determined and any impairment loss, based on the net present value of future anticipated cash flows, recognised in the statement of comprehensive income. In addition the bank creates collective provision.

A further analysis of the bank's non-performing loans in accordance with the classification requirements of Central Bank of Oman is as follows:

	<i>Substandard RO'000</i>	<i>Doubtful RO'000</i>	<i>Loss RO'000</i>	<i>Total RO'000</i>
Balance as at 1 January 2010	24,517	7,523	39,642	71,682
Additions during the year	(12,831)	17,520	15,466	20,155
Attrition during the year	(4,171)	(6,700)	(6,280)	(17,151)
Written-off during the year	-	(1,500)	(11,879)	(13,379)
Balance as at 31 December 2010	7,515	16,843	36,949	61,307
Balance as at 31 December 2010– USD'000s	19,519	43,748	95,972	159,239
Balance as at 31 December 2009	24,517	7,523	39,642	71,682
Balance as at 31 December 2009 – USD'000s	63,680	19,540	102,967	186,187

29 RISK MANAGEMENT (Continued)**Movement of rescheduled loans:**

	<i>2010</i>	<i>2009</i>
	<i>RO'000</i>	<i>RO'000</i>
Balance as at 1 January	71,402	39,804
Additions during the year	27,575	62,487
Attrition during the year	(10,282)	(30,889)
Written-off during the year	-	-
	<u><u>88,695</u></u>	<u><u>71,402</u></u>
Balance as at 31December	88,695	71,402
	<u><u>230,377</u></u>	<u><u>185,460</u></u>
Balance as at 31December – USD'000s	230,377	185,460

29.2 LIQUIDITY RISK

Liquidity risk is the risk that the bank will be unable to meet its payment obligations when they fall due under normal and stressed circumstances. To limit this risk, the Management continuously looks for opportunities to diversify its funding sources in addition to its core deposit base, manages assets with liquidity in mind, and monitors future cash flows and liquidity on a daily basis. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required.

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 the Central bank of Oman guidelines and the Liquidity and Liquidity Contingency Policies, which are approved and periodically reviewed by the Board Risk Committee. Liquidity Risk position is monitored regularly thorough analysis of various reports, such as, Maturity of Assets and Liabilities, Liquidity Lines, Early Warning Indicators and Stock Ratios. Further, the bank also periodically conducts stress tests on liquidity based on market and bank specific events in line with Basel Committee recommendations. The liquidity position of the bank and stress test scenarios are regularly reviewed by the Management and also discussed at the Board Risk Committee.

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At 31 December 2010

29 RISK MANAGEMENT (Continued)

The maturity profile of the assets, liabilities and equity at **31 December 2010** was as follows:

	<i>On demand within 3 months RO'000</i>	<i>3 to 12 months RO'000</i>	<i>Subtotal less than 12 months RO'000</i>	<i>1 to 5 years RO'000</i>	<i>Over 5 years RO'000</i>	<i>Subtotal over 12 months RO'000</i>	<i>Total RO'000</i>
Cash and balances with Central Banks	161,535	20,447	181,982	28,990	16,567	45,557	227,539
Financial assets designated at fair value through profit and loss	-	-	-	-	-	-	-
Due from banks and other money market placements (net)	69,028	3,577	72,605	11,550	-	11,550	84,155
Loans and advances (net)	235,857	122,652	358,509	243,971	760,882	1,004,853	1,363,362
Non-trading financial investments	44,096	-	44,096	19,037	-	19,037	63,133
Premises and equipment	-	-	-	-	22,353	22,353	22,353
Deferred tax assets	-	-	-	7	-	7	7
Other assets	41,956	1,984	43,940	415	-	415	44,355
Total assets	552,472	148,660	701,132	303,970	799,802	1,103,772	1,804,904
Due to banks and other money market deposits	7,220	-	7,220	125,125	-	125,125	132,345
Customers' deposits	318,045	309,005	627,050	456,996	240,844	697,840	1,324,890
Other liabilities	38,727	3,690	42,417	4,667	-	4,667	47,084
Taxation	4,175	-	4,175	-	-	-	4,175
Deferred tax liability	-	-	-	-	-	-	-
Subordinated funds	-	-	-	27,600	3,000	30,600	30,600
Shareholders' equity	-	-	-	-	265,810	265,810	265,810
Total liabilities and shareholders' equity	368,167	312,695	680,862	614,388	509,654	1,124,042	1,804,904
	<i>On demand within 3 months USD'000</i>	<i>3 to 12 months USD'000</i>	<i>Subtotal less than 12 months USD'000</i>	<i>1 to 5 years USD'000</i>	<i>Over 5 years USD'000</i>	<i>Subtotal over 12 months USD'000</i>	<i>Total USD'000</i>
Cash and balances with Central Banks	419,571	53,109	472,680	75,299	43,031	118,330	591,010
Financial assets designated at fair value through profit and loss	-	-	-	-	-	-	-
Due from banks and other money market placement (net)	179,293	9,291	188,584	30,000	-	30,000	218,584
Loans and advances (net)	612,615	318,577	931,192	633,691	1,976,317	2,610,008	3,541,200
Non-trading financial investments	114,535	-	114,535	49,447	-	49,447	163,982
Premises and equipment	-	-	-	-	58,060	58,060	58,060
Deferred tax assets	-	-	-	18	-	18	18
Other assets	108,977	5,153	114,130	1,078	-	1,078	115,208
Total assets	1,434,991	386,130	1,821,121	789,533	2,077,408	2,866,941	4,688,062
Due to banks and other money market deposits	18,753	-	18,753	325,000	-	325,000	343,753
Customers' deposits	826,091	802,610	1,628,701	1,187,003	625,569	1,812,572	3,441,273
Other liabilities	100,591	9,584	110,175	12,122	-	12,122	122,297
Taxation	10,844	-	10,844	-	-	-	10,844
Deferred tax liability	-	-	-	-	-	-	-
Subordinated funds	-	-	-	71,689	7,792	79,481	79,481
Shareholders' equity	-	-	-	-	690,414	690,414	690,414
Total liabilities and shareholders' equity	956,279	812,194	1,768,473	1,595,814	1,323,775	2,919,589	4,688,062

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29 RISK MANAGEMENT (Continued)

The maturity profile of the assets, liabilities and equity at 31 December 2009 was as follows:

	<i>On demand within 3 months RO '000</i>	<i>3 to 12 months RO '000</i>	<i>Subtotal less than 12 months RO '000</i>	<i>1 to 5 years RO '000</i>	<i>Over 5 years RO '000</i>	<i>Subtotal over 12 months RO '000</i>	<i>Total RO '000</i>
Cash and balances with Central Banks	133,014	18,305	151,319	20,315	12,723	33,038	184,357
Financial assets designated at fair value through profit and loss	17,384	-	17,384	-	-	-	17,384
Due from banks and other money market placements (net)	122,314	30,829	153,143	13,413	360	13,773	166,916
Loans and advances (net)	179,996	205,703	385,699	257,720	717,578	975,298	1,360,997
Non-trading financial investments	10,162	-	10,162	15,311	4,587	19,898	30,060
Premises and equipment	-	-	-	-	12,763	12,763	12,763
Deferred tax assets	-	-	-	-	-	-	-
Other assets	24,042	1,075	25,117	619	-	619	25,736
Total assets	486,912	255,912	742,824	307,378	748,011	1,055,389	1,798,213
Due to banks and other money market deposits	34,896	59,641	94,537	125,125	-	125,125	219,662
Customers' deposits	286,216	345,083	631,299	413,584	215,885	629,469	1,260,768
Other liabilities	23,723	5,774	29,497	5,203	-	5,203	34,700
Taxation	5,082	-	5,082	-	-	-	5,082
Deferred tax liability	-	-	-	10	-	10	10
Subordinated funds	-	-	-	-	27,600	27,600	27,600
Shareholders' equity	-	-	-	-	250,391	250,391	250,391
Total liabilities and shareholders' equity	349,917	410,498	760,415	543,922	493,876	1,037,798	1,798,213

	<i>On demand within 3 months USD '000</i>	<i>3 to 12 months USD '000</i>	<i>Subtotal less than 12 month USD '000</i>	<i>1 to 5 years USD '000</i>	<i>Over 5 years USD '000</i>	<i>Subtotal over 12 month USD '000</i>	<i>Total USD '000</i>
Cash and balances with Central Banks	345,491	47,545	393,036	52,766	33,047	85,813	478,849
Financial assets designated at fair value through profit and loss	45,153	-	45,153	-	-	-	45,153
Due from banks and other money market placement (net)	317,699	80,075	397,774	34,839	935	35,774	433,548
Loans and advances (net)	467,522	534,293	1,001,815	669,403	1,863,839	2,533,242	3,535,057
Non-trading financial investments	26,395	-	26,395	39,769	11,914	51,683	78,078
Premises and equipment	-	-	-	-	33,151	33,151	33,151
Deferred tax assets	-	-	-	-	-	-	-
Other assets	62,447	2,792	65,239	1,608	-	1,608	66,847
Total assets	1,264,707	664,705	1,929,412	798,385	1,942,886	2,741,271	4,670,683
Due to banks and other money market deposits	90,639	154,912	245,551	325,000	-	325,000	570,551
Customers' deposits	743,418	896,319	1,639,737	1,074,244	560,741	1,634,985	3,274,722
Other liabilities	61,619	14,997	76,616	13,514	-	13,514	90,130
Taxation	13,200	-	13,200	-	-	-	13,200
Deferred tax liability	-	-	-	26	-	26	26
Subordinated funds	-	-	-	-	71,688	71,688	71,688
Shareholders' equity	-	-	-	-	650,366	650,366	650,366
Total liabilities and shareholders' equity	908,876	1,066,228	1,975,104	1,412,784	1,282,795	2,695,579	4,670,683

29 RISK MANAGEMENT (Continued)**29.3 MARKET RISK**

The bank is exposed to market risk, which is the risk that the fair value of the financial assets held by the bank will fluctuate because of changes in market prices. Market risk arises from changes in the fair value of open positions held in foreign exchange, interest rate, currency, equity, credit spreads, etc. Market Risk is managed based on the Central Bank of Oman guidelines and the Market Risk Policy, which is approved and periodically reviewed by the Board Risk Committee. Stress tests incorporating adverse movements in equity value, foreign exchange, etc. are also periodically conducted and reviewed by the Management and Board Risk Committee.

The bank offers hedging products to its customers to hedge their genuine exposures, related to interest rate risk, foreign exchange risk and commodity risk. The counterparty credit risk exposures for such transactions (interest rate swaps, commodities contracts, currency forwards and options, etc.) are assessed based on the positive marked-to-market values of the contracts and the potential future exposures. The bank has introduced new risk weightings in line with best practices being followed by other banks to capture the credit risk related to these off-balance exposures.

- *Equity Risk*

The proprietary equity positions are held in the 'Available for Sale' category. The market risk is monitored through daily mark-to-market reports which are circulated to the management and required actions, if any, are promptly taken. The bank does not hold equity investments in the 'Held for Trading' category and therefore VaR is not calculated. The portfolio is also monitored and managed as per the Investment Policy approved by the Board Risk Committee.

- *Interest Rate Risk*

The principal market risk to which non-trading portfolio is exposed is the risk of loss from fluctuation in the future cash flows or fair values of financial instruments because of changes in market interest rates.

Interest rate risk arises from the possibility that changes in interest rates will affect future profitability or the fair values of financial instruments. The bank is exposed to interest rate risk as a result of mismatches of interest rate re-pricing of assets and liabilities.

Methods and assumptions used in preparing the sensitivity analysis: The methods for interest rate sensitivity analysis are Maturity Gap Analysis (which measures the interest rate sensitivity of earnings) and Duration (which measures the interest rate sensitivity of capital). These are in line with the BIS in its paper on 'Principles for the Management and Supervision of Interest Rate Risk' issued in July 2004.

Interest rate risk is managed by monitoring the sensitivity of the bank's financial assets and liabilities to various standardized interest rate shocks. Standardised shocks include a 100 basis point and a 200 basis point parallel shifts in yield curves. The impact of these shocks is analysed in the context of its impact on Earnings and Economic Value. The impact is compared against internal limits which have been formulated in line with the Central Bank of Oman and Basel Committees guidelines. The analysis is regularly reviewed by the Management and Board Risk Committee.

Earning impact of 200 basis points parallel shift in interest rate is provided below:

As at December 2010	200 bps increase	200 bps decrease
Earnings impact - RO'000s	6,793	(6,793)
Earnings impact - USD'000s	17,644	(17,644)

In addition, stress scenarios based on specific events or market disruptions are also analysed and presented at monthly ALCO meetings to estimate the impact on liquidity and earnings.

The bank has been consistently using the above methods/assumptions to conduct interest rate sensitivity analysis. The above sensitivity analyses are carried out at monthly rests and results thereof monitored against the in-house limits and the results are also actively deliberated at the ALCO meetings.

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29 RISK MANAGEMENT (Continued)

There have not been any significant changes in Interest Rate Risk management process in the bank during the year.

The bank's interest sensitivity position based on contractual re-pricing arrangements at **31 December 2010** was as follows:

	<i>Average effective interest rate</i>	<i>On demand within 3 months RO'000</i>	<i>3 to 12 months RO'000</i>	<i>1 to 5 years RO'000</i>	<i>Over 5 years RO'000</i>	<i>Non interest sensitive RO'000</i>	<i>Total RO'000</i>
Cash and balances with Central Banks	0.05%	45,000	2,322	-	-	180,217	227,539
Financial assets designated at fair value through profit and loss	N/A	-	-	-	-	-	-
Due from banks and other money market placements (net)	1.45%	83,658	497	-	-	-	84,155
Loans and advances (net)	6.63%	575,794	182,259	216,123	376,690	12,496	1,363,362
Non-trading financial investments	3.89%	44,096	-	-	-	19,037	63,133
Premises and equipment	N/A	-	-	-	-	22,353	22,353
Deferred tax assets	N/A	-	-	-	-	7	7
Other assets	N/A	-	-	-	-	44,355	44,355
Total assets		748,548	185,078	216,123	376,690	278,465	1,804,904
Due to banks and other money market deposits	1.05%	132,345	-	-	-	-	132,345
Customers' deposits	2.78%	182,775	288,657	351,508	8,000	493,950	1,324,890
Other liabilities	N/A	-	-	-	-	47,084	47,084
Taxation	N/A	-	-	-	-	4,175	4,175
Deferred tax liability	N/A	-	-	-	-	-	-
Subordinated funds	7.51%	-	-	27,600	3,000	-	30,600
Shareholders' equity	N/A	-	-	-	-	265,810	265,810
Total liabilities and shareholders' equity		315,120	288,657	379,108	11,000	811,019	1,804,904
Total interest rate sensitivity gap		433,428	(103,579)	(162,985)	365,690	(532,554)	-
Cumulative interest rate sensitivity gap		433,428	329,849	166,864	532,554	-	-

National Bank of Oman SAOG

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At 31 December 2010

29 RISK MANAGEMENT (Continued)

The bank's interest sensitivity position based on contractual re-pricing arrangements at **31 December 2010** was as follows:

	<i>Average effective interest rate</i>	<i>On demand within 3 months USD'000</i>	<i>3 to 12 months USD'000</i>	<i>1 to 5 years USD'000</i>	<i>Over 5 years USD'000</i>	<i>Non interest sensitive USD'000</i>	<i>Total USD'000</i>
Cash and balances with Central Banks	0.05%	116,883	6,031	-	-	468,096	591,010
Financial assets designated at fair value through profit and loss	N/A	-	-	-	-	-	-
Due from banks and other money market placements (net)	1.45%	217,293	1,291	-	-	-	218,584
Loans and advances (net)	6.63%	1,495,569	473,400	561,358	978,416	32,457	3,541,200
Non-trading financial investments	3.89%	114,535	-	-	-	49,447	163,982
Premises and equipment	N/A	-	-	-	-	58,060	58,060
Deferred tax assets	N/A	-	-	-	-	18	18
Other assets	N/A	-	-	-	-	115,208	115,208
Total assets		1,944,280	480,722	561,358	978,416	723,286	4,688,062
Due to banks and other money market deposits	1.05%	343,753	-	-	-	-	343,753
Customers' deposits	2.78%	474,740	749,758	913,008	20,779	1,282,988	3,441,273
Other liabilities	N/A	-	-	-	-	122,297	122,297
Taxation	N/A	-	-	-	-	10,844	10,844
Deferred tax liability	N/A	-	-	-	-	-	-
Subordinated private placement	7.51%	-	-	71,689	7,792	-	79,481
Shareholders' equity	N/A	-	-	-	-	690,414	690,414
Total liabilities and shareholders' equity		818,493	749,758	984,697	28,571	2,106,543	4,688,062
Total interest rate sensitivity gap		1,125,787	(269,036)	(423,339)	949,845	(1,383,257)	-
Cumulative interest rate sensitivity gap		1,125,787	856,751	433,412	1,383,257	-	-

National Bank of Oman SAOG

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2010

29 RISK MANAGEMENT (Continued)

The bank's interest sensitivity position based on contractual re-pricing arrangements at 31 December 2009 was as follows:

	<i>Average effective interest rate</i>	<i>On demand within 3 months RO'000</i>	<i>3 to 12 months RO'000</i>	<i>1 to 5 year RO'000</i>	<i>Over 5 year RO'000</i>	<i>Non interest sensitive RO'000</i>	<i>Total RO'000</i>
Cash and balances with Central Banks	0.12%	95,421	2,457	-	-	86,479	184,357
Financial assets designated at fair value through profit and loss	4.00%	17,384	-	-	-	-	17,384
Due from banks and other money market placements (net)	2.14%	162,481	3,954	-	481	-	166,916
Loans and advances (net)	7.07%	584,049	160,261	223,678	393,009	-	1,360,997
Non-trading financial investments	4.84%	10,162	-	-	4,587	15,311	30,060
Premises and equipment	N/A	-	-	-	-	12,763	12,763
Deferred tax assets	N/A	-	-	-	-	-	-
Other assets	N/A	-	-	-	-	25,736	25,736
Total assets		869,497	166,672	223,678	398,077	140,289	1,798,213
Due to banks and other money market deposits	1.52%	211,962	7,700	-	-	-	219,662
Customers' deposits	3.16%	193,171	328,676	332,705	-	406,216	1,260,768
Other liabilities	N/A	-	-	-	-	34,700	34,700
Taxation	N/A	-	-	-	-	5,082	5,082
Deferred tax liability	N/A	-	-	-	-	10	10
Subordinated funds	7.02%	-	-	-	27,600	-	27,600
Shareholders' equity	N/A	-	-	-	-	250,391	250,391
Total liabilities and shareholders' equity		405,133	336,376	332,705	27,600	696,399	1,798,213
Total interest rate sensitivity gap		464,364	(169,704)	(109,027)	370,477	(556,110)	-
Cumulative interest rate sensitivity gap		464,364	294,660	185,633	556,110	-	-

National Bank of Oman SAOG

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2010

29 RISK MANAGEMENT (Continued)

The bank's interest sensitivity position based on contractual re-pricing arrangements at 31 December 2009 was as follows:

	<i>Average effective interest rate</i>	<i>On demand within 3 months USD '000</i>	<i>3 to 12 months USD '000</i>	<i>1 to 5 year USD '000</i>	<i>Over 5 year USD '000</i>	<i>Non interest sensitive USD '000</i>	<i>Total USD '000</i>
Cash and balances with Central Banks	0.12%	247,847	6,382	-	-	224,620	478,849
Financial assets designated at fair value through profit and loss	4.00%	45,153	-	-	-	-	45,153
Due from banks and other money market placements (net)	2.14%	422,029	10,270	-	1,249	-	433,548
Loans and advances (net)	7.07%	1,517,010	416,262	580,982	1,020,803	-	3,535,057
Non-trading financial investments	4.84%	26,395	-	-	11,914	39,769	78,078
Premises and equipment	N/A	-	-	-	-	33,151	33,151
Deferred tax assets	N/A	-	-	-	-	-	-
Other assets	N/A	-	-	-	-	66,847	66,847
Total assets		2,258,434	432,914	580,982	1,033,966	364,387	4,670,683
Due to banks and other money market deposits	1.52%	550,551	20,000	-	-	-	570,551
Customers' deposits	3.16%	501,743	853,704	864,169	-	1,055,106	3,274,722
Other liabilities	N/A	-	-	-	-	90,130	90,130
Taxation	N/A	-	-	-	-	13,200	13,200
Deferred tax liability	N/A	-	-	-	-	26	26
Subordinated funds	7.02%	-	-	-	71,688	-	71,688
Shareholders' equity	N/A	-	-	-	-	650,366	650,366
Total liabilities and shareholders' equity		1,052,294	873,704	864,169	71,688	1,808,828	4,670,683
Total interest rate sensitivity gap		1,206,140	(440,790)	(283,187)	962,278	(1,444,441)	-
Cumulative interest rate sensitivity gap		1,206,140	765,350	482,163	1,444,441	-	-

○ *Currency risk*

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The bank has set limits on open positions by currency. Positions are monitored on a daily basis and hedging strategies used to ensure positions are maintained within established limits.

The foreign exchange positions in the books of the bank are largely held on account of customers and any variations in the exchange rates are absorbed by the customers.

Foreign exchange VAR is computed monthly for all non-pegged currencies at 99% confidence level and a holding period of 10 days. Additionally earnings impact of a 15% adverse movement in exchange rates for all open positions is factored in the monthly stress tests.

The bank had the following significant net exposures denominated in foreign currencies:

<i>2009 USD '000</i>	<i>2010 USD '000</i>		<i>2010 RO '000</i>	<i>2009 RO '000</i>
63,257	150,229	US Dollar	57,838	24,354
29,522	38,870	UAE Dirham	14,965	11,366
1,130	5,301	Others	2,041	435

29 RISK MANAGEMENT (Continued)**OPERATIONAL RISK**

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The bank cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the bank is able to manage the risks. Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff training and assessment processes, including the use of internal audit.

30 CONCENTRATIONS

The bank seeks to manage its credit risk exposure through diversification of lending activities to avoid undue concentrations of risk with individuals or groups of customers in specific locations or businesses. It also obtains security when appropriate.

The distribution of assets, liabilities and contingent items by geographical regions as of **31 December 2010** was as follows:

	<i>Sultanate of Oman RO'000</i>	<i>UAE RO'000</i>	<i>Egypt RO'000</i>	<i>Others RO'000</i>	<i>Total RO'000</i>
Cash and balances with Central Banks	208,257	3,663	15,619	-	227,539
Financial assets designated at fair value through profit and loss	-	-	-	-	-
Due from banks and other money market placements (net)	612	4,181	8,900	70,462	84,155
Loans and advances (net)	1,283,669	58,814	-	20,879	1,363,362
Non-trading financial investments	59,786	-	995	2,352	63,133
Premises and equipment	21,535	65	753	-	22,353
Deferred tax assets	7	-	-	-	7
Other assets	38,884	1,204	2,150	2,117	44,355
Total assets	1,612,750	67,927	28,417	95,810	1,804,904
Due to banks and other money market deposits	1,175	17	-	131,153	132,345
Customers' deposits	1,240,890	28,130	29,569	26,301	1,324,890
Other liabilities	43,134	1,419	414	2,117	47,084
Taxation	3,150	134	891	-	4,175
Deferred tax liability	-	-	-	-	-
Subordinated funds	30,600	-	-	-	30,600
Shareholders' equity	247,180	3,589	15,041	-	265,810
Liabilities and shareholders' equity	1,566,129	33,289	45,915	159,571	1,804,904
Contingent liabilities	259,813	55,592	721	156,817	472,943

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At 31 December 2010

30 CONCENTRATIONS (continued)

	<i>Sultanate of Oman USD'000</i>	<i>UAE USD'000</i>	<i>Egypt USD'000</i>	<i>Others USD'000</i>	<i>Total USD'000</i>
Cash and balances with Central Banks	540,927	9,514	40,569	-	591,010
Financial assets designated at fair value through profit and loss	-	-	-	-	-
Due from banks and other money market placements (net)	1,590	10,860	23,117	183,017	218,584
Loans and advances (net)	3,334,205	152,764	-	54,231	3,541,200
Non-trading financial investments	155,289	-	2,584	6,109	163,982
Premises and equipment	55,935	169	1,956	-	58,060
Deferred tax assets	18	-	-	-	18
Other assets	100,998	3,127	5,584	5,499	115,208
Total assets	4,188,962	176,434	73,810	248,856	4,688,062
Due to banks and other money market deposits	3,052	44	-	340,657	343,753
Customers' deposits	3,223,091	73,065	76,803	68,314	3,441,273
Other liabilities	112,037	3,686	1,075	5,499	122,297
Taxation	8,182	348	2,314	-	10,844
Deferred tax liability	-	-	-	-	-
Subordinated funds	79,481	-	-	-	79,481
Shareholders' equity	642,024	9,322	39,068	-	690,414
Liabilities and shareholders' equity	4,067,867	86,465	119,260	414,470	4,688,062
Contingent liabilities	674,838	144,395	1,873	407,317	1,228,423

The distribution of assets, liabilities and off balance sheet items by geographical regions as of 31 December 2009 was as follows:

	<i>Sultanate of Oman RO'000</i>	<i>UAE RO'000</i>	<i>Egypt RO'000</i>	<i>Others RO'000</i>	<i>Total RO'000</i>
Cash and balances with Central Banks	166,546	2,172	15,639	-	184,357
Financial assets designated at fair value through profit and loss	17,384	-	-	-	17,384
Due from banks and other money market placements (net)	30,863	14,153	209	121,691	166,916
Loans and advances (net)	1,271,502	67,281	-	22,214	1,360,997
Non-trading financial investments	24,585	2,731	-	2,744	30,060
Premises and equipment	11,830	77	856	-	12,763
Deferred tax assets	-	-	-	-	-
Other assets	20,620	515	2,484	2,117	25,736
Total assets	1,543,330	86,929	19,188	148,766	1,798,213
Due to banks and other money market deposits	8,484	19,507	3,850	187,821	219,662
Customers' deposits	1,156,890	49,104	31,518	23,256	1,260,768
Other liabilities	31,134	1,156	293	2,117	34,700
Taxation	3,306	494	1,282	-	5,082
Deferred tax liability	10	-	-	-	10
Subordinated funds	27,600	-	-	-	27,600
Shareholders' equity	232,842	3,226	14,323	-	250,391
Liabilities and shareholders' equity	1,460,266	73,487	51,266	213,194	1,798,213
Contingent liabilities	262,793	52,966	1,134	145,077	461,970

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NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2010

30 CONCENTRATIONS (continued)

The distribution of assets, liabilities and off balance sheet items by geographical regions as of 31 December 2009 was as follows:

	<i>Sultanate of Oman</i>	<i>UAE</i>	<i>Egypt</i>	<i>Others</i>	<i>Total</i>
	<i>USD '000</i>	<i>USD '000</i>	<i>USD '000</i>	<i>USD '000</i>	<i>USD '000</i>
Cash and balances with Central Banks	432,586	5,642	40,621	-	478,849
Financial assets designated at fair value through profit and loss	45,153	-	-	-	45,153
Due from banks and other money market placements (net)	80,165	36,760	543	316,080	433,548
Loans and advances (net)	3,302,602	174,756	-	57,699	3,535,057
Non-trading financial investments	63,855	7,095	-	7,128	78,078
Premises and equipment	30,728	200	2,223	-	33,151
Deferred tax assets	-	-	-	-	-
Other assets	53,558	1,338	6,452	5,499	66,847
Total assets	4,008,647	225,791	49,839	386,406	4,670,683
Due to banks and other money market deposits	22,037	50,668	10,000	487,846	570,551
Customers' deposits	3,004,908	127,543	81,865	60,406	3,274,722
Other liabilities	80,867	3,003	761	5,499	90,130
Taxation	8,587	1,283	3,330	-	13,200
Deferred tax liability	26	-	-	-	26
Subordinated funds	71,688	-	-	-	71,688
Shareholders' equity	604,784	8,379	37,203	-	650,366
Liabilities and shareholders' equity	3,792,897	190,876	133,159	553,751	4,670,683
Contingent liabilities	682,578	137,575	2,944	376,825	1,199,922

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NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2010

31 SEGMENTAL INFORMATION

For management purposes, the bank is organised into four operating segments based on business units and are as follows:

- Consumer banking offers banking and credit facilities to individual customers to meet everyday banking needs.
- Corporate banking delivers a variety of products and services to corporate customers that include lending, accepting deposits, trade finance and foreign exchange.
- Investment banking offers investment products such as asset management, corporate advisory and brokerage services to retail customers as well as high net worth individuals and institutional clients.
- Treasury provides a full range of treasury products and services including money market and foreign exchange to the clients in addition to managing liquidity and market risk.
- International Banking offers services such as issuance of guarantee, risk participation, syndications, etc.

Management monitors the operating results of the operating segments 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.

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.

Segment information is as follows:

<i>Year ended</i> <i>31 December 2010</i>	<i>Consumer banking RO'000</i>	<i>Corporate banking RO'000</i>	<i>Investment banking RO'000</i>	<i>Treasury and international banking RO'000</i>	<i>Head office RO'000</i>	<i>Total RO'000</i>
Net interest income	24,037	27,622	1	358	3,608	55,626
Other income	11,733	4,444	2,536	2,702	1,075	22,490
Operating profit	18,670	28,867	1,764	2,368	(13,502)	38,167
Impairment provisions (net)	(5,347)	(2,264)	(628)	308	-	(7,931)
Profit	13,323	26,603	1,136	2,676	(16,567)	27,171
Total assets	619,745	741,868	19,037	19,369	404,885	1,804,904
Total liabilities	519,151	661,619	35,841	-	588,293	1,804,904

31 SEGMENTAL INFORMATION (Continued)

<i>Year ended</i> <i>31 December 2010</i>	<i>Consumer banking USD'000</i>	<i>Corporate banking USD'000</i>	<i>Investment banking USD'000</i>	<i>Treasury and international banking USD'000</i>	<i>Head office USD'000</i>	<i>Total USD'000</i>
Net interest income	62,434	71,745	3	930	9,371	144,483
Other income	30,475	11,543	6,587	7,018	2,793	58,416
Operating profit	48,494	74,979	4,582	6,151	(35,071)	99,135
Impairment provisions (net)	(13,887)	(5,881)	(1,631)	800	-	(20,599)
Profit	34,605	69,099	2,951	6,951	(43,031)	70,575
Total assets	1,609,727	1,926,930	49,447	50,309	1,051,649	4,688,062
Total liabilities	1,348,444	1,718,491	93,094	-	1,528,033	4,688,062

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NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2010

31 SEGMENTAL INFORMATION (Continued)

For management purposes the bank also reports the segment information of its operations by the following geographical locations:

- i) Oman
- ii) United Arab Emirates (UAE)
- iii) Egypt

Transactions between the above segments are conducted at estimated market rates on an arm's length basis.

Segment information by geography is as follows:

For the year ended 31 December 2010	<i>Oman</i> <i>RO'000</i>	<i>UAE</i> <i>RO'000</i>	<i>Egypt</i> <i>RO'000</i>	<i>Total</i> <i>RO'000</i>
Segment revenue				
Interest income - external	90,797	3,280	1,097	95,174
Interest income - internal	38	1	2,156	2,195
Operating income - external	21,747	585	158	22,490
Operating income - internal	173	-	-	173
Total	112,755	3,866	3,411	120,032
Segment costs				
Interest costs - external	37,595	923	1,030	39,548
Interest costs - internal	589	7	1,599	2,195
Operating expenses - external	33,695	1,260	1,174	36,129
Operating expenses - internal	-	97	76	173
Depreciation	3,694	29	97	3,820
Credit loss expense - customer loan	14,339	1,533	9	15,881
Credit loss expense - bank loans	-	-	-	-
Impairment losses on available for sale investments	628	-	-	628
Recoveries	(6,756)	(437)	(1,385)	(8,578)
Taxation	2,882	91	92	3,065
Total	86,666	3,503	2,692	92,861
Segment profit for the year	26,089	363	719	27,171
Other information				
Segment assets	1,720,472	47,486	36,946	1,804,904
Segment capital expenses	13,440	26	16	13,482

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NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2010

31 SEGMENTAL INFORMATION (Continued)

For the year ended 31 December 2010	<i>Oman</i> <i>USD'000</i>	<i>UAE</i> <i>USD'000</i>	<i>Egypt</i> <i>USD'000</i>	<i>Total</i> <i>USD'000</i>
Segment revenue				
Interest income - external	235,837	8,519	2,849	247,205
Interest income - internal	98	3	5,600	5,701
Operating income - external	56,487	1,519	410	58,416
Operating income - internal	449	-	-	449
Total	292,871	10,041	8,859	311,771
Segment costs				
Interest costs - external	97,650	2,397	2,675	102,722
Interest costs - internal	1,530	18	4,153	5,701
Operating expenses - external	87,520	3,273	3,049	93,842
Operating expenses - internal	0	252	197	449
Depreciation	9,595	75	252	9,922
Credit loss expense - customer loan	37,244	3,982	23	41,249
Credit loss expense - bank loans	-	-	-	-
Impairment losses on available for sale investments	1,631	-	-	1,631
Recoveries	(17,549)	(1,135)	(3,597)	(22,281)
Taxation	7,486	236	239	7,961
Total	225,107	9,098	6,991	241,196
Segment profit for the year	67,764	943	1,868	70,575
Other information				
Segment assets	4,468,758	123,340	95,964	4,688,062
Segment capital expenses	34,909	68	42	35,019

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NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2010

31 SEGMENTAL INFORMATION (Continued)

Segment information is as follows:

<i>Year ended</i> <i>31 December 2009</i>	<i>Consumer banking RO'000</i>	<i>Corporate banking RO'000</i>	<i>Investment banking RO'000</i>	<i>Treasury and international banking RO'000</i>	<i>Head Office RO'000</i>	<i>Total RO'000</i>
Net interest income	26,022	23,026	420	288	7,066	56,822
Other income	12,935	4,470	4,131	2,832	677	25,045
Operating profit	24,091	24,877	4,061	3,251	(9,197)	47,083
Impairment provisions (net)	(8,376)	(1,606)	(4,121)	(7,966)	-	(22,069)
Profit	15,715	23,271	(60)	(4,715)	(13,106)	21,105
Total assets	600,960	694,297	20,051	59,800	423,105	1,798,213
Total liabilities	489,978	651,232	16,773	-	640,230	1,798,213

31 SEGMENTAL INFORMATION (Continued)

<i>Year ended</i> <i>31 December 2009</i>	<i>Consumer</i> <i>banking</i> <i>USD'000</i>	<i>Corporate</i> <i>banking</i> <i>USD'000</i>	<i>Investment</i> <i>banking</i> <i>USD'000</i>	<i>Treasury and</i> <i>international</i> <i>banking</i> <i>USD'000</i>	<i>Head Office</i> <i>USD'000</i>	<i>Total</i> <i>USD'000</i>
Net interest income	67,590	59,808	1,091	748	18,353	147,590
Other income	33,597	11,610	10,730	7,356	1,759	65,052
Operating profit	62,574	64,616	10,548	8,444	(23,888)	122,294
Impairment provisions (net)	(21,755)	(4,172)	(10,704)	(20,691)	-	(57,322)
Profit	40,819	60,444	(156)	(12,247)	(34,041)	54,819
Total assets	1,560,935	1,803,368	52,081	155,325	1,098,974	4,670,683
Total liabilities	1,272,668	1,691,512	43,566	-	1,662,937	4,670,683

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31 SEGMENTAL INFORMATION (Continued)

Segment information by geography is as follows:

For the year ended 31 December 2009	<i>Oman</i> <i>RO'000</i>	<i>UAE</i> <i>RO'000</i>	<i>Egypt</i> <i>RO'000</i>	<i>Total</i> <i>RO'000</i>
Segment revenue				
Interest income - external	96,864	4,374	1,123	102,361
Interest income - internal	2	4	2,407	2,413
Operating income - external	24,174	731	140	25,045
Operating income - internal	204	-	-	204
Total	121,244	5,109	3,670	130,023
Segment costs				
Interest costs - external	42,389	2,047	1,103	45,539
Interest costs - internal	870	-	1,543	2,413
Operating expenses - external	29,651	1,258	1,035	31,944
Operating expenses - internal	-	128	76	204
Depreciation	2,718	31	91	2,840
Credit loss expense - customer loan	19,213	206	1,064	20,483
Credit loss expense - bank loans	7,966	-	-	7,966
Impairment losses on available for sale investments	4,121	-	-	4,121
Recoveries	(9,188)	(814)	(499)	(10,501)
Taxation	3,344	451	114	3,909
Total	101,084	3,307	4,527	108,918
Segment net profit for the year	20,160	1,802	(857)	21,105
Other information				
Segment assets	1,719,681	59,377	19,155	1,798,213
Segment capital expenses	6,008	10	97	6,115

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NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2010

31 SEGMENTAL INFORMATION (Continued)

For the year ended 31 December 2009	<i>Oman</i> <i>USD '000</i>	<i>UAE</i> <i>USD '000</i>	<i>Egypt</i> <i>USD '000</i>	<i>Total</i> <i>USD '000</i>
Segment revenue				
Interest income - external	251,595	11,361	2,917	265,873
Interest income - internal	5	10	6,253	6,268
Operating income - external	62,789	1,899	364	65,052
Operating income - internal	530	-	-	530
Total	314,919	13,270	9,534	337,723
Segment costs				
Interest costs - external	110,101	5,317	2,865	118,283
Interest costs - internal	2,260	-	4,008	6,268
Operating expenses - external	77,015	3,268	2,688	82,971
Operating expenses - internal	-	333	197	530
Depreciation	7,060	81	236	7,377
Credit loss expense - customer loan	49,904	535	2,764	53,203
Credit loss expense - bank loans	20,691	-	-	20,691
Impairment losses on available for sale investments	10,704	-	-	10,704
Recoveries	(23,866)	(2,114)	(1,296)	(27,276)
Taxation	8,685	1,170	298	10,153
Total	262,554	8,590	11,760	282,904
Segment net profit for the year	52,365	4,680	(2,226)	54,819
Other information				
Segment assets	4,466,707	154,223	49,753	4,670,683
Segment capital expenses	15,604	26	252	15,882

32 FAIR VALUE OF FINANCIAL INSTRUMENTS

It is the bank's intention to hold loans and advances to customers to maturity. As a result the fair value of performing loans is arrived at using the discounted cash flow analysis based on a discount rate equal to the prevailing market rates of interest for loans having similar terms and conditions. The bank considers that the fair value of financial instruments at 31 December 2010 and 2009 are not significantly different to their carrying value at each of those dates.

Fair value of financial instruments

The bank uses the following hierarchy for determining and disclosing the fair value of financial instruments 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; and

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

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At 31 December 2010

32 FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

<i>31 December 2010</i>	<i>Level 1 RO'000</i>	<i>Level 2 RO'000</i>	<i>Level 3 RO'000</i>	<i>Total RO'000</i>
Financial assets				
Investments - available for sale:				
Government development bonds	44,096	-	-	44,096
Quoted equities	11,328	-	-	11,328
Other unquoted equities	-	7,709	-	7,709
Total	55,424	7,709	-	63,133
Derivative financial instruments:				
Purchase contracts	-	41,890	-	41,890
Sale contracts	-	41,890	-	41,890
Interest rate swaps	-	160,720	-	160,720
Interest rate caps	-	383	-	383
Credit default swaps	-	7,700	-	7,700
Currency options	-	27,080	-	27,080
Commodity hedging	-	2,232	-	2,232
Total	-	281,895	-	281,895
Total financial assets	55,424	289,604	-	345,028
Total financial assets – In USD'000s	143,959	752,218	-	896,177
<i>31 December 2009</i>	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>
Financial assets				
Financial assets designated at fair value through profit or loss				
OTC	75	-	-	75
GDB	17,309	-	-	17,309
Total	17,384	-	-	17,384
Investments - available for sale:				
Government development bonds	10,009	-	-	10,009
Quoted equities	8,345	-	-	8,345
Other unquoted equities	-	7,126	-	7,126
Total	18,354	7,126	-	25,480
Derivative financial instruments:				
Purchase contracts	-	137,243	-	137,243
Sale contracts	-	137,243	-	137,243
Interest rate swaps	-	53,660	-	53,660
Interest rate caps	-	643	-	643
Credit default swaps	-	7,700	-	7,700
Total	-	336,489	-	336,489
Total financial assets	35,738	343,615	-	379,353
Total financial assets – In USD'000s	92,826	892,506	-	985,332

32 FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

During the reporting period ended 31 December 2010 and 31 December 2009, 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.

33 DERIVATIVES

In the ordinary course of business the bank enters into various types of transactions that involve derivative financial instruments. A derivative financial instrument is a financial contract between two parties where payments are dependent upon movements in price in one or more underlying financial instrument, reference rate or index. The bank uses the following derivative financial instruments:

Derivative product types

Forwards are contractual agreements to either buy or sell a specified currency, commodity or financial instrument at a specific price and date in the future. Forwards are customised contracts transacted in the over-the-counter market.

Swaps are contractual agreements between two parties to exchange movements in interest or foreign currency rates and equity indices, and (in the case of credit default swaps) to make payments with respect to defined credit events based on specified notional amounts.

Options are contractual agreements that convey the right, but not the obligation, to either buy or sell a specific amount of a commodity, foreign currency or financial instrument at a fixed price, either at a fixed future date or at any time within a specified period. The bank transacts only in currency options for its customers.

Derivatives held or issued for hedging purposes

As part of its asset and liability management the bank uses derivatives for hedging purposes in order to reduce its exposure to currency and interest rate risks. Hedging specific financial instruments and forecasted transactions as well as strategic hedging against overall balance sheet exposures achieve this.

The bank uses forward foreign exchange contracts, options and currency swaps to hedge against specifically identified currency risks. In addition, the bank uses interest rate swaps to hedge against the cash flow risks arising from certain fixed interest rate loans and deposits.

For interest rate risk strategic hedging is carried out by monitoring the re-pricing of financial assets and liabilities and entering into interest rate swaps to hedge a proportion of the interest rate exposure. As strategic hedging does not qualify for special hedge accounting, the related derivatives are accounted for as trading instruments.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2010

33 DERIVATIVES (continued)

The table below shows the positive and negative fair values of derivative financial instruments, which are equivalent to the market values, together with the notional amounts analysed by the term to maturity. The notional amount is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured.

31 December 2010

	<i>Positive fair value</i> <i>RO'000</i> <i>(note 9)</i>	<i>Negative fair value</i> <i>RO'000</i> <i>(note 12)</i>	<i>Notional amount</i> <i>RO'000</i>	<i>Notional amounts by term to maturity</i>		
				<i>Within 3 months</i> <i>RO'000</i>	<i>3 - 12 months</i> <i>RO'000</i>	<i>1 - 5 years</i> <i>RO'000</i>
Interest rate swaps	4,212	(4,212)	160,720	1,500	7,144	152,076
Credit default swaps	-	(45)	7,700	-	1,925	5,775
Forward foreign exchange purchase contracts	40	(55)	41,890	41,268	622	-
Forward foreign exchange sales contracts	55	(80)	41,890	41,269	621	-
Interest rate caps	-	-	383	80	181	122
Currency options	187	(187)	27,080	19,037	8,043	-
Commodity hedging	182	(182)	2,232	2,232	-	-
Total	4,676	(4,761)	281,895	105,386	18,536	157,973
Total – USD'000	12,145	(12,366)	732,195	273,730	48,145	410,320

31 December 2009

	<i>Positive fair value</i> <i>RO'000</i> <i>(note 9)</i>	<i>Negative fair value</i> <i>RO'000</i> <i>(note 12)</i>	<i>Notional amount</i> <i>RO'000</i>	<i>Notional amounts by term to maturity</i>		
				<i>Within 3 months</i> <i>RO'000</i>	<i>3 - 12 months</i> <i>RO'000</i>	<i>1 - 5 years</i> <i>RO'000</i>
Interest rate swaps	319	(319)	53,660	1,500	46,160	6,000
Credit default swaps	-	(84)	7,700	-	-	7,700
Forward foreign exchange purchase contracts	250	(117)	137,243	40,635	96,608	-
Forward foreign exchange sales contracts	272	(14)	137,243	40,959	96,284	-
Interest rate caps	-	-	643	80	181	382
Total	841	(534)	336,489	83,174	239,233	14,082
Total – USD'000	2,184	(1,387)	873,997	216,036	621,384	36,577

Cash flow hedge

During the year 2010, the bank renewed funded cross currency interest rate swaps, which was entered in 2009, amounting to RO 21.04 million in order to hedge an equivalent amount due to a bank. As of the 31 December 2009, the mark to market adjustments for these cross currency interest rate swaps amounted to RO 0.13 million (note 19) which were recorded in equity with a corresponding adjustment made to amounts due from banks. These cross currency interest rate swaps matured on 31 December 2010.