25th Anniversary

2009
Annual Report

Celebrating
our Silver Jubilee

OMAN ARAB BANK

25
Years of
commitment

At Oman Arab Bank, we have partnered with the nation in infrastructural development, industrialisation and community service for over 25 years. Backed by the 78-year expertise of the Arab Bank Group, we are solid in our performance, stable even during unstable times due to our sound banking policies and committed towards nation-building.

Today, as we celebrate our Silver Jubilee, we thank our customers and our team for being a part of our success. On this occasion, we reaffirm our commitment to partner further in the growth and development of the nation.

HIS MAJESTY SULTAN QABOOS BIN SAID

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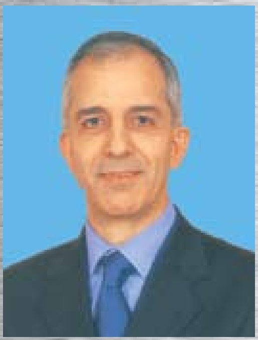
MR. RASHAD BIN MUHAMMED AL ZUBAIR
CHAIRMAN

MR. ABDUL KADER ASKALAN
CHIEF EXECUTIVE OFFICER

BOARD OF DIRECTORS

LEADING THE WAY...

MR. ABDEL HAMID SHOMAN
DEPUTY CHAIRMAN



MR. HANI FADAYEL
DIRECTOR

MR. MOHAMMED SA'ED JARALLAH
DIRECTOR

MR. SAID ZAKI
DIRECTOR

MR. HANI BIN MUHAMMED AL ZUBAIR
DIRECTOR

MULHAM AL JARF
DIRECTOR

BOARD OF DIRECTORS LEADING THE WAY...

MR. RASHAD BIN MUHAMMED AL ZUBAIR
CHAIRMAN

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

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

MR. ABDUL KADER ASKALAN
CHIEF EXECUTIVE OFFICER

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

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

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

MR. ABDEL HAMID SHOMAN
DEPUTY CHAIRMAN

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

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

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

MR. HANI FADAYEL
DIRECTOR

Mr. Hani Fadayel has over 35 years of banking experience mainly in the Gulf and the Middle East. His experience covers areas of corporate and project finance, treasury, consumer banking and other banking activities. In March 2009, he was appointed the Assistant Chief Executive Officer of Arab Bank Plc, based at the Bank's headquarters in Amman. Previously, he held the position of Executive Vice President and Regional Manager of Arab Bank Plc in Bahrain for over 20 years. He is the Chairman and/or a member in various committees in the Bank including Investment Committee, High ALCO, Credit Committee, EXCO and Human Resources Committee. Mr. Fadayel is the Chairman of Arab National Leasing Co., member of the Board of Directors of Oman Arab Bank, Deputy Chairman of its Audit/Risk & Compliance Committee, as well as a member of its Executive Committee.

MR. MOHAMMED SA'ED JARALLAH
DIRECTOR

Mr. Sa'ed Jarallah is currently the Country Business Manager for all Arab Bank Plc branches in the UAE.

He has diversified experience in the banking industry acquired through working in senior positions with international and regional banks.

Throughout his career, he implemented various systems and programmes that contributed effectively to the growth and profitability of the business.

MR. SAID ZAKI
DIRECTOR

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

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

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

MR. HANI BIN MUHAMMED AL ZUBAIR
DIRECTOR

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

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

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

MR. MULHAM AL JARF
DIRECTOR

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

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

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

FINANCIAL HIGHLIGHTS 2009

	RO'000
Total Assets	858,891
Deposits	696,072
Loans	565,557
Shareholders' Equity	111,481
Net Profit	23,081

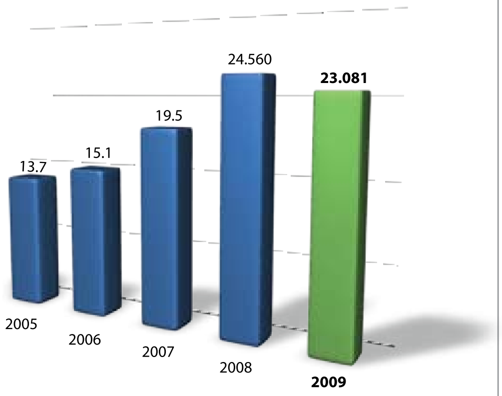
SUMMARY
RO'000 (UNLESS OTHERWISE INDICATED)

	2009	2008 (Restated)	2007	2006	2005
Financial Highlights					
Net interest income	30,778	28,880	25,295	21,800	18,886
Other operating income	17,768	15,798	14,164	8,353	9,145
Net operating income	**48,546**	**44,678**	**39,459**	**30,153**	**28,031**
Operating expenses	(20,541)	(18,223)	(16,554)	(13,014)	(11,910)
Provision for loan impairment	(4,325)	(3,961)	(3,063)	(3,754)	(1,498)
Release/recovery from provision for loan impairment	2,459	5,435	2,149	3,213	1,469
Taxation	(3,058)	(3,369)	(2,514)	(1,488)	(2,407)
Net profit after taxation	**23,081**	**24,560**	**19,477**	**15,110**	**13,685**
Dividend	15,000	20,000	9,600	7,600	10,000
Total assets	858,891	779,106	650,731	540,394	420,038
Gross loans and advances	583,404	553,978	408,611	350,298	288,313
Provision for loan impairment	(17,847)	(14,982)	(19,744)	(18,631)	(18,530)
Net loans and advances	565,557	538,996	388,837	331,667	269,783
Non-performing loans	15,787	8,856	17,029	17,133	19,055
Customer deposits	696,072	610,905	533,482	393,985	337,913
Shareholders' funds	111,481	90,462	78,679	65,802	52,292
Share Capital	75,000	60,000	48,000	38,000	30,000
Analysis					
1. Profitability					
Return on shareholders' funds	22.86%	29.04%	26.96%	25.59%	27.13%
Return on total assets	2.82%	3.72%	3.27%	3.15%	3.29%
Cost to income	42.31%	40.79%	41.95%	43.2%	42.5%
2. Capital					
Capital adequacy (BIS standard)	13.44%	11.75%	13.46%	13.39%	18.29%
Shareholders' funds/Total assets	12.98%	11.61%	12.09%	12.18%	12.44%
3. Asset quality					
Non performing loans to total loans	2.71%	1.60%	4.17%	4.89%	6.61%
Provision coverage	113.05%	169.17%	115.94%	108.74%	97.24%
4. Liquidity					
Net loans to customer deposits	81.25%	88.23%	72.89%	84.18%	79.84%
Net loans to total assets	65.85%	69.18%	59.76%	61.38%	64.19%
Liquid assets to customer deposits	36.80%	31.92%	45.65%	48.59%	39.24%
5. Others					
Dividend rate	20.00%	33.33%	20.00%	20.00%	33.33%
Dividends per share in RO	0.200	0.333	0.200	0.200	0.333
Basic earnings per share in RO	0.318	0.400	0.403	0.349	0.428

FINANCIAL TRENDS

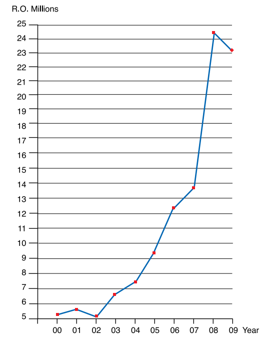
Financial Trends

Ten Year Trends

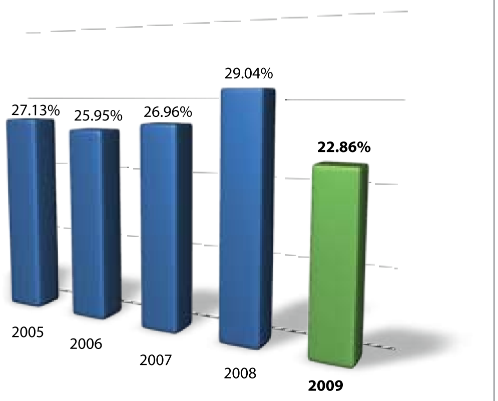


Profit

The net profit for the year is lower by 6% only which is commendable under the prevailing economic conditions.

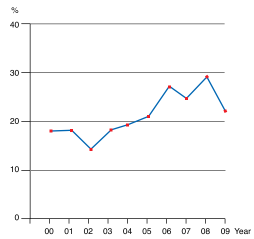


Net profit after taxation
Profit tax exempt until 31 July, 2000

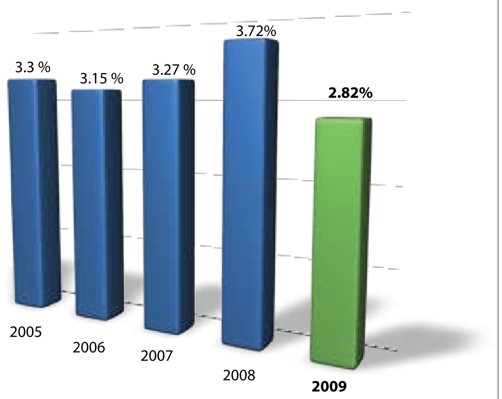


Equity

The return on equity is the best in the market despite the reduction from the previous year.

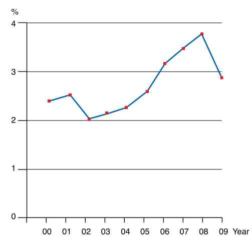


Return on shareholders' funds

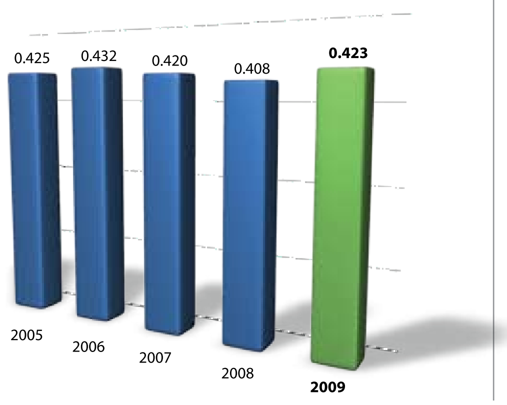


Assets

The Bank continues to provide high return on assets.

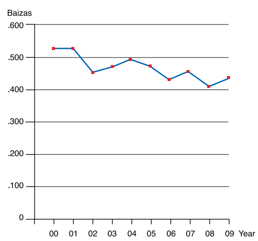


Return on total assets



Cost to income

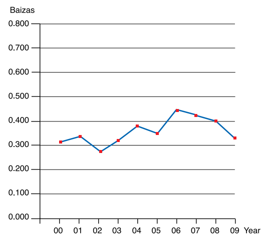
A marginal increase in cost to income is due to the additional branches and the resultant operating costs. This is still within the industry standards.



Cost to income

Ten Year Trends

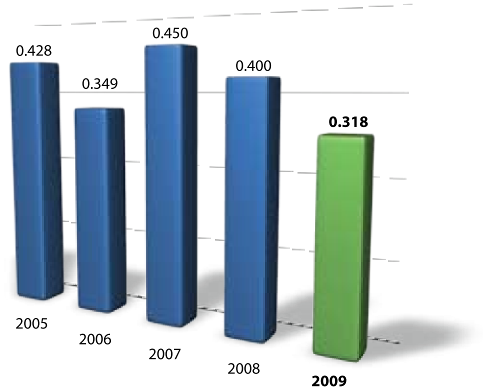
Financial Trends

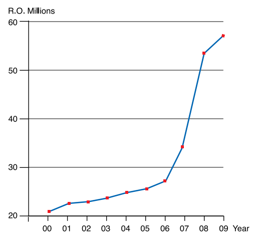


Earnings per share in RO

Earnings

Earnings Per Share reduced by 20% from previous year due to the lower net profit and increased share capital.

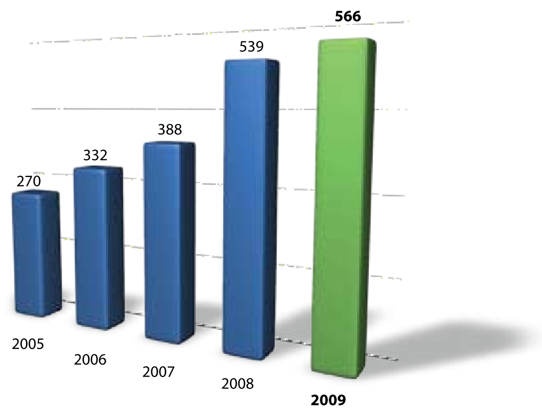


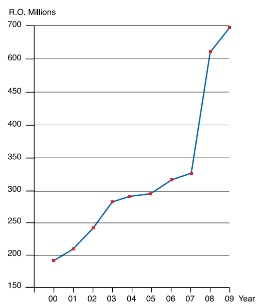


Loans & advances net of provision

Loans

Growth in loans at 5% with a significant increase in personal loans is on par with the market growth.

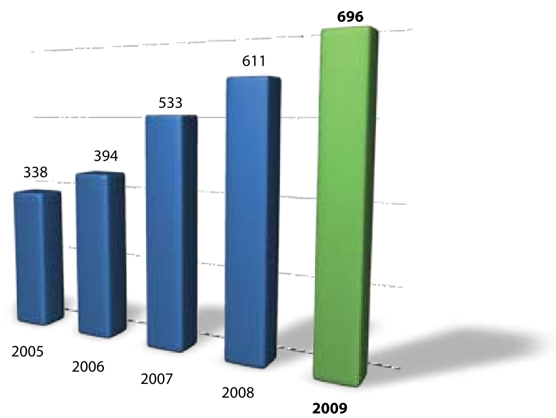


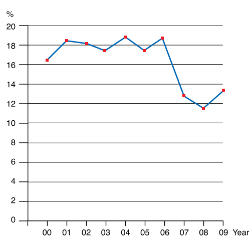


Customer deposits

Deposits

Deposit growth of 14% is well above the market growth and has contributed to the higher level of liquidity.

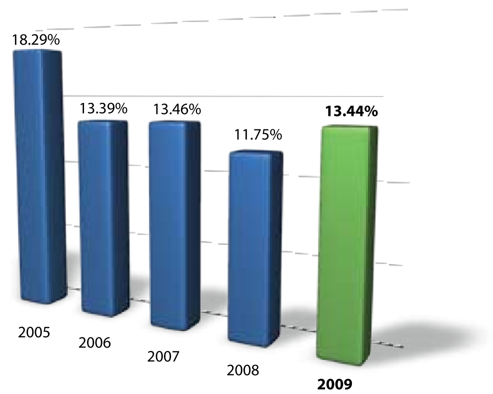




Capital adequacy

Capital

Increase in share capital to RO 75 million during the year and a moderate growth in assets has resulted in a positive Capital Adequacy Ratio.



CHAIRMAN'S REPORT

Dear Shareholders,

On behalf of the Board of Directors, I am pleased to present to you the Bank's annual financial results and achievements of the Bank during 2009.

2009 was a difficult year for financial and investment institutions. It was also a challenging year for all countries around the world as they undertook major efforts to overcome the financial crisis that besieged the world during the last two years. By the grace of God and the wise planning of our Government ensured that Oman was among the least affected countries by this financial crisis. The budget for 2010 announced by the Government reflects the financial strength and stability of the Sultanate. The budget aims at several developmental projects in industrial and tourism sectors providing for incentives that encourage the flow of foreign capital into such projects. The Government has provided for increased expenditure in order to boost the economy with greater emphasis on human resources development and healthcare. According to the latest report of the International Monetary Fund, the Sultanate's Public Debt vs. GDP ratio is 4% in 2009. This is among the lowest ratios in the Middle East and North Africa region.

Our Bank achieved a record profit in 2009 with Operating profits at OMR 28 million against OMR 26 million in 2008. The Bank achieved a Net profit of OMR 23 million against OMR 24.6 million in 2008 as the recoveries from non-performing loans of OMR 4 million during the last year contributed to the higher net profit.

The Key Performance Indicators show that the Return on Shareholders' equity is 23% and the Return on Assets is 2.8%. In the beginning of 2009, the Bank increased its capital to OMR 75 million and the value of the assets was OMR 859 million against OMR 779 million in 2008. The increase in the deposits was 14% and the increase of the Gross loans was 5%. The capital adequacy is at 13.44% against 11.75% of last year. The ratio of non-performing loans in comparison with the total debts reached 2.7% and the provision coverage ratio is at 113%.

In order to strengthen the net worth of the Bank, we increased the paid-up share capital by OMR 15 million in 2009 through a rights issue of OMR 12 million and bonus issue of OMR 3 million. The Board of Directors decided to further increase the share capital by OMR 10 million at the beginning of 2010, through a rights issue of OMR 8 million and a bonus issue of OMR 2 million. As a result the paid-up share capital of the Bank will increase to OMR 85 million. We will increase it to OMR 100 million at the beginning of the next year to meet the requirements of the Central Bank of Oman.

These financial results demonstrate the strength of management of the Bank in maintaining the financial stability of the Bank. The Board of Directors affirms the Bank's adherence to laws and regulations issued by the Central Bank of Oman and Muscat Securities Market. The Corporate Governance report included in the Annual Report of the Bank, which we are not required to do being a closed company, shows our commitment towards better governance. The Board of Directors and its committees provide effective support of the executive management to achieve the objectives of the Bank. The Board of Directors has recommended a dividend of 20% of the capital for the shareholders in the light of the above results.

The Board of Directors would like to express its sincere thanks to the Government, which proved its readiness to support the Banking sector during the crisis along with its great efforts to sustain the stride of development in our beloved country. We would also like to extend our sincere thanks to the Central Bank of Oman for its support and guidance. We also thank the administration of Muscat Securities Market and Capital Market Authority for the support provided to all corporations while maintaining a stable and attractive market for investors.

We would like to thank the administration of the Arab Bank for the support it provides to our institution which is reflected positively in our performance.

We would also like to extend our sincere thanks to our dear clients for their confidence and continuous support. We would like to thank the executive management and staff of the Bank for their efforts to support the institution to achieve the good results.

We pray to God the Almighty to always grant us success and strength to support the development of Oman under the wise leadership of His Majesty Sultan Qaboos Bin Said.

Rashad Muhammed Al Zubair
Chairman

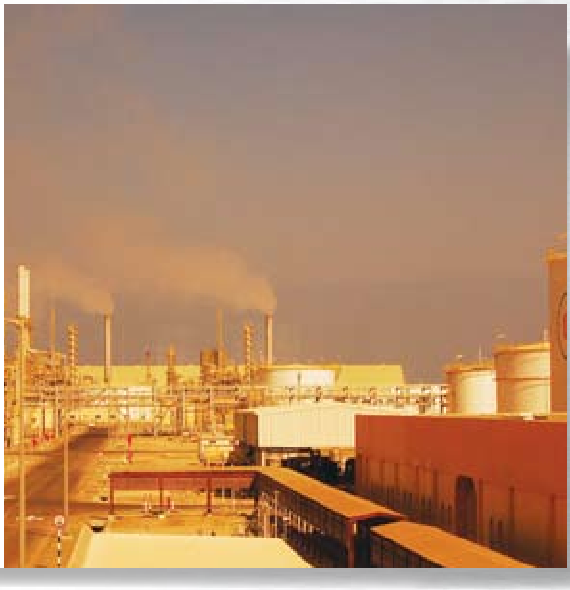
OUR COMMITMENT CONTINUES

Duqum Port & Dry Dock
(US$ 1.9 billion) – 2006/2007

The consortium of CCC - Oman, STFA - Turkey and Jan De Nul - Belgium selected OAB as their local bank account for the port. Also, the consortium of Galfar and Daewoo Engineering and Contracting from Korea has chosen OAB as their local bank account for the Dry Dock.

Aromatics Oman (US$ 1.4 billion) - 2006

OAB, together with Arab Bank, underwrote US$ 55 million in the US$ 455 million commercial term loan facility. Banker to main contractor GS (Korea).



Oman Shipping Company - Sohar LNG Vessel Re-financing (US$ 145 million) - 2006

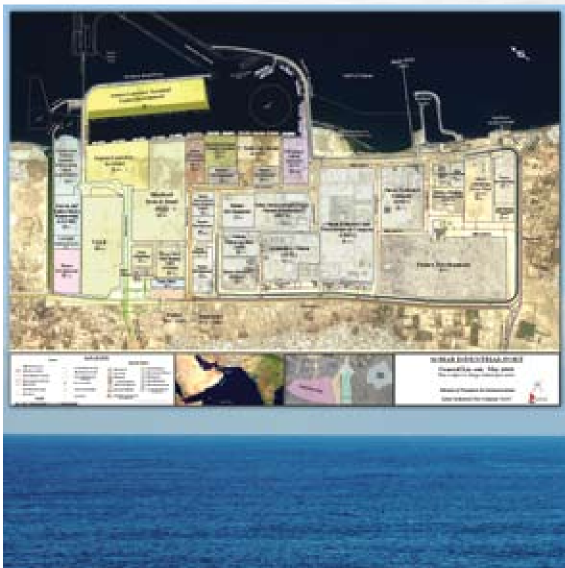
OAB, together with Arab Bank, underwrote US$ 25 million in the 16 years re-financing deal.

OUR COMMITMENT CONTINUES

Oman Refinery (US$ 150 million) - 2006

OAB participated in the club deal arranged for ORC to finance Sohar Refinery Project.

Sohar Port Development Project – 2000



SILVER JUBILEE CELEBRATION

CHIEF EXECUTIVE OFFICER'S REPORT

During the year 2009, Oman Arab Bank completed its 25th year of impeccable performance since its inception in 1984. On this momentous occasion, we reviewed the Bank's achievements and reflected on its policies adopted throughout these years. The achievements were underscored by the political stability of the Sultanate along with the Government's efforts to invigorate the Oman economy to diversify the Gross Domestic Produce and reduce dependence on fossil fuel.

OAB commenced its operations with a capital of RO 6 million, which has steadily grown to reach RO 85 million during the first quarter of 2010. We are committed to increasing this amount to RO 100 million at the beginning of 2011. Consequent to the increase in capital and reserves, the shareholders' equity during 2010 will be RO 126 million.

Despite the global economic turmoil, OAB is one of the few banks that remained unaffected thanks to its sound policy resulting in stability, asset quality and liquidity. The Bank continued to grow in all areas of activities as described in the Chairman's Report. The branch network expanded to 53 branches and offices including the four new branches and one office opened in 2009. Achieving such results and maintaining the strength of the Bank's financial position confirms the management's capability to operate under varied and fluctuating economic circumstances. It is indeed a challenge for any institution to grow as we did while continuing to maintain the asset quality and the profitability.

The financial crisis had a limited impact on the economy in the Sultanate and on its financial and banking institutions. This is the result of the wise planning, far-sightedness and prudent policies of the Government, which continued to carry out the projects, increased expenditure, and ensured that adequate liquidity needed was always available to the banks. Consequently, all the financial institutions managed to survive the crisis. Meanwhile, we remained focused on playing our role in development. Our Bank was a pioneer in financing projects throughout the Sultanate. We participated in financing all the projects established around Sohar Port, as well as projects in other regions. It is our firm belief that the main role of banks is to participate in national development. All our investments as well as loans are within our country with a view to dedicating all our support to the national development.

Our Investment Management Group was awarded best brokerage company in Muscat Securities Market for five consecutive years, in terms of services and administrative organization. The Group website has ranked second among investment companies and banks' websites in the Oman Web Awards. The managed assets of the Group, including assets under custody, amounted to more than USD 525 million as at the end of 2009. The Group also took over the management of "Investment Stabilization Fund", along with another asset manager. Furthermore, the Oman Al Arabi Fund was launched within the Sultanate and other Gulf states. The portfolios managed by the Group in Muscat Securities Markets registered a financial return of 29.2% against the market return of 17% as at the end of 2009.

In the area of e-services, we introduced improvements to the e-payment system, which was pioneered by OAB to enable electronic settlement of bills by the public. We also introduced online and mobile bill payment systems, and enhanced our systems to perform additional banking services such as payment, cashing and settlement of utility bills. We are also working on producing a card for receipt of government payments in collaboration with government entities.

As for human resources, we were the first Bank to achieve the Omanisation rate of over 93%, and approximately 80% for senior positions. We are keen in raising staff's proficiency level through several training courses covering all the banking activities. A total of 198 courses have been attended by 1837 employees, in addition to special scholarships granted to our employees. In order to raise the level of Omani staff in the Bank, a number of Omani employees were promoted to different senior positions within the Bank with a view to develop their leadership skills.

Our achievements are made possible without compromising the principles of best banking practices or the rules and regulations of the Central Bank, Capital Market Authority and Muscat Securities Market. We have an effective and integrated control system monitored by the Bank's Internal Audit, Compliance and Risk Management departments. The Bank was adjudged the "Number 1 Bank in Oman" in 2009 by Business Today Magazine and Ernst and Young. We will be committed to the path of development while adopting a conservative policy and taking wise decisions in our business and dealings. We will continue with our efforts to increase our shareholders' equity to maintain a sound capital base. We will keep on improving our services to better satisfy our existing customers and to bring in new customers.

The Bank's successful management and achievements wouldn't have materialized without the diligence, commitment and devotion of our staff. We sincerely and wholeheartedly thank and appreciate them for their contribution.

We are greatly indebted to the Board of Directors, Arab Bank Plc and Oman International Development and Investment Company for their continuous support, which ensures that our Bank plays a pioneer role in regional growth and development and to become the best in financing development projects.

May Allah bestow us success in our undertakings to continue to serve our country and support our prudent Government, under the leadership of His Majesty Sultan Qaboos bin Said, the architect of Oman's renaissance.

Abdul Kader Askalan
Chief Executive Officer

OMAN ARAB Bank SAOC

CORPORATE GOVERNANCE REPORT
AND
MANAGEMENT DISCUSSION & ANALYSIS

For the Year Ended 31st December 2009

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

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

TO THE SHAREHOLDERS OF OMAN ARAB BANK SAOC

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

We report our findings below:

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

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

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

Our report is solely for the purpose set forth in the first paragraph of this report and for your information and is not to be used for any other purpose. This report relates only to the accompanying corporate governance report of Oman Arab Bank SAOC to be included in its annual report for the year ended 31 December 2009 and does not extend to any financial statements of Oman Arab Bank SAOC, taken as a whole.

Ernst & Young

15 February 2010
Muscat

CORPORATE GOVERNANCE REPORT

OAB's approach to corporate governance

Framework and Approach to corporate governance and responsibility

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

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

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

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

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

Our Governance Standards – Principles and Processes

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

What is in this statement?

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

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

Date of this statement

This statement reflects the Bank's corporate governance policies and procedures as at 31 December 2009.

CORPORATE GOVERNANCE REPORT

Corporate Governance - Part 1

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

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

1. The Board – putting governance into practice

Role of the Board

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

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

Board Size and Composition

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

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

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

CORPORATE GOVERNANCE REPORT

Selection and Role of the Chairman

The Chairman is a non-executive director, appointed by the Board.

The Chairman's role includes:

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

Board Independence

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

Meetings of the Board and their Conduct

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

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

Attendance at Annual General Meeting

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

Avoidance of Conflicts of Interest of Directors

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

Expertise of our Board

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

Succession Planning

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

CORPORATE GOVERNANCE REPORT

Nomination and Appointment of New Directors

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

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

The Board is appointed for a period of three years. The term of the current Board expires in March 2010.

Review of Board Performance

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

Board Access to Independent Information

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

2. Board Committees

We currently have two Board Committees whose powers are governed by the relevant committee's terms of reference, as approved by the Board. The two Board Committees are: 1. Executive Committee and 2. Audit and Risk Management Committee.

Other committees may be established from time to time to consider matters of special importance.

Operation of the Committees

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

Composition and Independence of the Committees

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

How the Committees report to the Board

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

CORPORATE GOVERNANCE REPORT

Brief Terms of Reference of Board Committees

a) Board Executive Committee

The Board Executive Committee:

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

b) Board Audit and Risk Management Committee

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

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

Integrity of the Financial Statements

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

Internal Audit Function

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

Composition of the Committee and Meetings

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

3. Audit Governance and Independence

The Board is committed to three basic principles:

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

CORPORATE GOVERNANCE REPORT

Engagement of Auditors

The Bank's independent external auditors are M/s Ernst & Young for the financial year ended at 31 December 2009. They were appointed by shareholders at the Annual General Meeting on February 22, 2009.

Certification and Discussions with Auditors on Independence

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

Rotation of External Auditors

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

Restrictions on Non-Audit Work by the Audit Firm

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

- preparation of accounting records and financial statements;
- IT systems design and implementation;
- valuation services and other corporate finance activities;
- internal audit services;
- temporary senior staff assignments, management functions;
- broker or dealer, investment adviser or investment Banking;
- legal services; and
- litigation services.

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

Attendance at Annual General Meeting

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

4. Executive Pay and Reward Schemes

Overview

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

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

CORPORATE GOVERNANCE REPORT

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

Who decides how individuals should be paid and rewarded?

The full Board sets the CEO's pay and reward package. The Board recommends the remuneration and the sitting fee for individual directors to be approved in the Annual General Meeting.

The CEO approves the pay and reward packages for key senior management staff consistent with the market practice.

Fees paid to each director during the 12 month period 31 December 2009 together with pay and rewards for the Bank's top five executives are set out in Part 2.

5. Controlling and Managing Risk

Approach to Risk Management

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

The Bank recognizes three main types of risk:

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

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

The risk management function aims at ensuring that

- the Bank operates its key risk activities within acceptable risk/reward parameters through establishment as well as maintenance of policies and procedures
- the trend and quality of risk is adequately monitored and controlled; and
- all the attendant risks are adequately monitored.

Risk Management Roles and Responsibilities

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

CORPORATE GOVERNANCE REPORT

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

Internal Review and Risk Evaluation

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

6. Communication with Shareholders, Regulators and Wider Market

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

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

CORPORATE GOVERNANCE REPORT

Corporate Governance - Part 2

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

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

1. Board of Directors

The current composition of the Board and Board Committees are set out in table 1, with further details on each director provided on pages 8 and 9 of this report.

2. Audit and other Committees

There are only two board committees. The terms of references of the committees, Executive and Audit and Risk Management Committees, are set out in Part 1.

Table 1

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

The members of the committees together with the number of meetings held and attended by each member are set out in the Table 3.

CORPORATE GOVERNANCE REPORT

3. Process of nomination of Directors

The nomination process is explained in Part 1 paragraph 1.

4. Remuneration Matters

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

Table 2

2009

Director's Name	Remuneration RO	Sitting fees RO	Total RO
Rashad Bin Muhammed Al Zubair	10,000	12,500	22,500
Abdel Hamid Shoman	7,500	7,500	15,000
Hani Bin Muhammed Al Zubair	5,000	7,500	12,500
Said Zaki	5,000	12,500	17,500
Hani Fadayel	5,000	7,500	12,500
Mohammed Sa'ed Jarallah	5,000	2,500	7,500
Mulham Bashir Al Jarf	5,000	2,500	7,500
Total	**42,500**	**52,500**	**95,000**

2008

Director's Name	Remuneration RO	Sitting fees RO	Total RO
Rashad Bin Muhammed Al Zubair	10,000	12,500	22,500
Abdel Hamid Shoman	7,500	7,500	15,000
Hani Bin Muhammed Al Zubair	5,000	7,500	12,500
Said Zaki	5,000	12,500	17,500
Hani Fadayel	5,000	7,500	12,500
Mohammed Sa'ed Jarallah	5,000	2,500	7,500
Mulham Bashir Al Jarf	5,000	2,500	7,500
Total	**42,500**	**52,500**	**95,000**

The remuneration paid to the top five key executives of the Bank was RO 1,160,924 (2008: RO 1,201,100)

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

CORPORATE GOVERNANCE REPORT

5. Non Compliance of Corporate Governance and Penalties

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

6. Means of Communicating with the Shareholders

We confirm the following:

a) Half-yearly results were sent to the shareholders.

b) Half yearly results and the annual report are posted on the Bank website www.oman-arabBank.com.

c) The website displays all official Bank information releases.

d) Management Discussion and Analysis (MD&A) forms part of the annual report.

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

7. Acknowledgment by the Board

The Board of Directors acknowledges its responsibilities and confirms that:

i) The audited financial statements of the Bank have been prepared in accordance with the International Financial Reporting Standards ("IFRS"), the requirements of the Commercial Companies Law of 1974, as amended and the disclosure requirements of the Central Bank of Oman.

ii) The Bank will be able to carry on its operations successfully in the foreseeable future.

iii) The Bank has adequate internal controls and procedures which are reviewed regularly through internal audit and overseen by the Audit Committee of the Board.

Table 3

Each director attended the following meetings of the Board of Directors and Committees of the Board during the financial year, which ended on 31 December 2009.

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

CORPORATE GOVERNANCE REPORT

Note 1 Board Meetings were held on 7 March, 11 May, 26 October and 13 December during the year 2009

Note 2 Executive Committee Meetings were held on 23 February, 15 April, 22 June and 13 September during the year 2009

Note 3 Audit and Risk Management Committee Meetings were held on 17 January, 26 April, 8 July, 18 October and 12 December during the year 2009

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

8. Cash Dividend Policy

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

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

9. Market Price Data

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

The two single largest shareholders of Oman Arab Bank are OMINVEST and Arab Bank Plc Jordan who hold 50.99% and 49% of the share capital respectively. OMINVEST is a public joint stock company listed at the Muscat Securities Market with approximately 1,200 shareholders. Arab Bank Plc is publicly held company and is listed at the Amman Stock Exchange, Jordan with approximately 24,000 shareholders.

10. Profile of the Statutory Auditors

Ernst & Young are the statutory auditors of the Bank. Ernst & Young is one of Oman's oldest established accounting firms, having had a permanent office in the country since 1974. The practice comprises one hundred and eighty professionals, and is working under the direction of three partners. The Oman office forms part of Ernst & Young's Middle East practice, with over 135 partners and nearly 5,700 other professionals in 23 offices in 17 countries throughout the region. The Middle East practice is member firm of Ernst & Young Global, operating in more than 140 countries with approximately 144,000 personnel worldwide.

11. Audit Fees

The Bank paid RO 22,000 to the external auditors for their audit and related services for the year ended 2009.

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

None

MANAGEMENT DISCUSSION & ANALYSIS

Industry Structure and Development

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

A summary of the Banking sector performance for the year 2009 based on the latest publications and statistics issued by the Central Bank of Oman is as follows:

1. The total assets of the commercial banks increased by 3% from 2008 to reach RO 14.2 billion at December 2009.
2. The combined net profit of the banks has increased by 10% to RO 261 million for 2009 from RO 237 million for 2008.
3. Loans and advances recorded a growth of 6% reaching RO 9.8 billion at December 31 2009 from RO 9.3 billion at December 31 2008.
4. Customer deposit comprising government deposits, deposits from public enterprises, private sector deposits and commercial prepayments increased by 6% to RO 9.1 billion at December 31 2009 from RO 8.6 billion at December 31 2008. The private sector deposits constituted 80% of the total customer deposits.
5. Average deposit interest rate on deposits was around 2% as at December 2009 mainly due to the decrease in US Dollar rates. The Rial Omani interest rates decreased marginally during the year from 2.5% to around 2% due to liquidity needs of the local banks while the USD rates fell to 0.9% from 2.5% as at December 2008.
6. Average Rial Omani lending rates increased marginally to 7.5% as at December 2009 compared to 7% at December 2008 while US Dollar rates reduced from 3.2% as at December 2008 to 2.9% as at December 2009.

Opportunities and Threats

The effect of the global financial crisis was felt in the Oman economy too but the impact was not very significant. Due to limited overseas exposure of Omani banks and their effective regulation by the Central Bank of Oman the impact of the crisis has been relatively low. The oil price remained above the budgeted USD 45 per barrel providing adequate surplus to keep the growth rate of Oman's economy up.

The Government will continue with the projects in the non-oil sector, especially relating to tourism. The infrastructural projects initiated by the Government are being carried on and this is likely to continue in 2010. This will provide the banks opportunities to increase their business as the economic activity revives.

The lending rates have remained high as the majority of lending is in Rial Omani while there has been a reduction in deposits rates during 2009 following the drop in the Central Bank CD rates. The surplus liquidity in the market due to reduced lending in 2009 may cause a decline in the lending rates during 2010 reducing the net interest margin.

Analysis and Performance of Segments

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

MANAGEMENT DISCUSSION & ANALYSIS

Economic Outlook

OAB operates only in Oman and changes in the Oman economy have a direct impact on OAB's performance. Oman has recorded a GDP growth of 3.7% for 2009 Oman at constant prices. Inflation is under 4% and is much lower than the 12% in 2008. Oman's projected revenue for 2010 is at RO 6.4 billion which is 14% higher than the projection for fiscal year 2009. The government expenditure budgeted for 2010 is at RO 7.2 billion, a 12% increase from 2009, indicating that the government's intention to provide a stimulus to the economic activity. The Government has planned to allocate RO 950 million towards development budget, an increase of 19% over the last year budget.

Oman had assumed an average crude oil price of US$45 per barrel for 2009 budget and the actual average price for 2009 was around US$56 per barrel. For 2010 the oil price has been budgeted at about US$50 per barrel.

There are plans to construct six new airports and expand existing airports at Muscat and Salalah. The first stage of the Muscat International Airport is underway and is expected to be completed by 2011. This will increase the capacity to 48 million passengers a year. Bidding is also underway for the US$200mn Duqm Airport project, with a number of international majors having shown interest. Projects at Oman's ports, both in operation and under construction, have been centered on catering for industrial users and the transport of freight, in response to the country's attempts to diversify its economy.

The construction industry, which has been the sector hit worst by the downturn across the Middle East, continues to post activity in Oman. A drive in tourism has seen a number of hotels built over recent years, and preparations for the 2010 Asian Beach Games to be held in Muscat are further fuelling construction projects. Oman will not escape the slowdown in the commercial and residential construction sectors, which is a trend across the region.

Business Environment is driven mainly by the government tenders. The Oman Tender Board has allocated tenders for contracts worth US$139.8mn in the areas of transport and energy. The largest single tender includes construction of a power plant worth US$29.4mn, which will serve the Yitti region in the Muscat governorate. Other tenders include designing and construction of internal roads in the Al Sharqiya region at the cost of US$23.3mn.

Muscat Securities Market has shown a positive trend with the MSM-30 Index growing by 16% to reach 6,298 points as at December 31 2009. MSM rallied during Q2 2009 to regain the losses incurred in Q1 2009 and the performance in the last quarter was strong. The trend is expected to be positive in 2010 with the interest rates continue to be low and the real estate market is not very active. The corporate sector especially banks have posted good profits overall which will add to the investor confidence.

Internal control systems and their adequacy

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

To enhance the reliability of internal controls, management recruits and trains qualified personnel, and maintains sound risk management practices. There are inherent limitations in any internal control, including

MANAGEMENT DISCUSSION & ANALYSIS

the possibility of human error and the circumvention or overriding of controls. Accordingly, even effective internal controls can provide only reasonable assurance with respect to financial statement preparation. Further, because of changes in conditions, the effectiveness of internal controls may vary over time. The Internal Audit Department of OAB reviews, evaluates, monitors and makes recommendations on policies and procedures, which serves as an integral, but independent component of internal control.

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

Discussion on financial and operational performance

1. Net profit

Net profit for the year ended 31 December 2009 was RO 23.1 million. This was 6% lower than previous year's net profit of RO 24.6 million. The operating profit at RO 28 million was higher than RO 26.5 million in previous year by 6%. The decline in net profit is mainly due to the following:

- The net recoveries of RO 1.5 million in 2008 against a net provision of RO 1.9 million in 2009. The Bank had recovered certain old non-performing loans in 2008 resulting in the recoveries of RO 5 million.
- Growth in net interest was 7% compared to 2008 with the interest income increasing by 4% while the interest expense reducing by 3%. The decline in the USD interest rates combined with local competition contributed to the reduction in the interest rate on loans. The interest costs remained low due to the high percentage of low cost funds in the form of demand and savings deposits.
- Other operating income increased by 12% contributed by the realized and unrealized gains on investment of RO 0.5 million in 2009 compared to a loss of RO 1.5 million in 2008. The fee and commission income increase by 10% despite the downturn in the economic activities during the first half of the year. Commission from Trade Finance operations recovered during the last quarter with the increased trading activities. Foreign exchange gains were at the same level as 2008 a result of the lower economic growth. Fees from the e-Banking services continued to contribute significantly to the operating income though this was lower than 2008.
- Operating expenses at RO 20.5 million increased by 13% mainly due to the increased salary costs on account of revision of staff salaries and number of staff. The publicity costs are higher compared to 2008 as a result of increased advertisement of the new products and services.
- The Earnings per share of RO 0.318 at December 31 2009 compared with RO 0.400 (restated for bonus shares) at December 31 2008 on the increased capital of RO 75 million.

2. Assets

The total assets of the Bank at 31 December 2009 have increased by 10% to RO 859 million from RO 779 million at 31 December 2008. The significant changes are as follows:

Certificates of Deposit

The investments in Central Bank Certificates of Deposit were at RO 110 million at December 2009 compared to RO 33 million at December 2008 reflecting the surplus liquidity and lower credit growth in the market.

MANAGEMENT DISCUSSION & ANALYSIS

Loans and Advances

Gross loans increased by RO 29 million (5%) during 2009 to RO 583 million at December 31 2009 from RO 554 million at December 31 2008. The personal loans increased by 36% while the corporate loans decreased by 7%.

Non-performing loans increased to 2.7% of the total loans from 1.6% at December 2008 due to the classification of certain corporate accounts. The total provision coverage at December 31 2009 is 113% of the non performing assets as compared to 169% at December 31 2008.

The specific provision is lower than 2008 at 63% of the Non-performing loans as loans after considering the collaterals available for these loans mainly because the accounts classified during 2009 required only 25% provisions. The provision levels were considered adequate and have been determined in accordance with the Central Bank of Oman and International Accounting Standards.

3. Liabilities

Total Liabilities at 31 December 2009 are RO 732 million, compared to RO 669 million at 31 December 2008. The customer deposits, which constitute 95% of the liabilities, increased by 14% to reach RO 696 million at 31 December 2009.

4. Shareholders' Funds

Shareholder's Funds increased to RO 111.5 million from RO 90.5 million from the previous year. The paid-up share capital was increased to RO 75 million in 2009. The Board has proposed to increase the paid-up share capital further to RO 85 million during early 2009 in order to enhance the Bank's net worth. This is subject to approvals from regulatory authorities.

5. Capital Adequacy

Capital adequacy ratio calculated in accordance with the guidelines issued by Bank for International Settlement (BIS) was 13.44% (2008: 11.75%). The details of the calculation and the Bank's policy for capital management are provided in note 6 to the financial statements.

6. Human Resources

Omanisation at 31 December 2009 was 92.66% (2008: 92.19%), which is higher than the minimum regulatory requirement of 90%. We provide the following as additional information regarding the number of years completed by staff.

	Below 3 Years	4 to 6 Years	7 to 9 Years	10 to 14 Years	15 Years and above	Total
Staff Numbers	386	99	48	108	204	845

Events after end of Financial Year

We are not aware of any matter or circumstance that has arisen since 31 December 2009 which has significantly affected, or may significantly affect the operations of the Bank.

Date of the statement: 26 January 2010

FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2009

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P. R. No. MH/4

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

Report on the financial statements

We have audited the accompanying financial statements of Oman Arab Bank SAOC ('the bank'), which comprise the statement of financial position as at 31 December 2009 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 notes. The financial statements of the bank as at 31 December 2008 were audited by another auditor, whose report dated 28 January 2009, expressed an unqualified audit opinion.

Board of Directors' responsibility for the financial statements

The Board of Directors is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and the relevant disclosure requirements of the Commercial Companies Law of 1974, as amended, and the Rules and Guidelines on disclosures issued by the Capital Market Authority. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the bank as of 31 December 2009, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on Other Legal and Regulatory Requirements

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

Ernst & Young

26 January 2010
Muscat

Philip Stanton
Partner

FINANCIAL STATEMENTS

For the Year Ended 31st December 2009

STATEMENT OF FINANCIAL POSITION

	Notes	2009 RO'000	2008 RO'000 (Restated)*	As at 1 January 2008 RO'000 (Restated)*
ASSETS				
Cash and balances with the Central Bank of Oman	7	**64,954**	96,231	27,788
Certificates of deposit	8	**110,000**	33,000	144,000
Due from banks	9	**55,260**	47,669	42,639
Loans and advances to customers	10	**565,557**	538,996	388,837
Investment securities	11	**32,196**	28,934	29,739
Other assets	12	**21,486**	26,091	26,706
Property and equipment	13	**9,438**	8,185	7,702
Total assets		**858,891**	779,106	667,411
LIABILITIES				
Due to banks	14	**1,929**	22,243	5,527
Deposits from customers	15	**696,072**	610,905	533,482
Other liabilities	16	**31,337**	31,939	37,497
Taxation	18	**3,072**	3,557	2,626
Total liabilities		**732,410**	668,644	579,132
EQUITY				
Share capital	19	**75,000**	60,000	48,000
Legal reserve	20	**17,960**	15,652	13,196
General reserve	21	**13,666**	11,358	9,254
Cumulative changes in fair value		**1,161**	223	-
Proposed dividend	22	**15,000**	20,000	9,600
Retained earnings		**3,694**	3,229	8,229
Total equity		**126,481**	110,462	88,279
Total equity and liabilities		**858,891**	779,106	667,411
Contingent liabilities and commitments	33(a)	**724,663**	743,302	725,513

* Prior year "Other assets", "Other liabilities" and "Contingent liabilities and commitments" do not correspond to the 2008 financial statements and reflect adjustments made as detailed in Notes 2.3 and 16.

The financial statements were authorised for issue by the Board of Directors on 26 January 2010 and signed by:

Rashad Muhammed Al Zubair
Chairman

Abdul Kader Askalan
Chief Executive Officer

The attached notes 1 to 39 form an integral part of these financial statements.

Report of the Auditors - page 43.

FINANCIAL STATEMENTS

For the Year Ended 31st December 2009

STATEMENT OF COMPREHENSIVE INCOME

	Notes	2009	2008
		RO'000	RO'000
Interest income	23	38,779	37,171
Interest expense	24	(8,001)	(8,291)
Net interest income		30,778	28,880
Fee and commission income - net	25	12,540	11,422
Investment income (loss)	26	652	(1,343)
Other operating income	27	4,576	5,719
Total income		48,546	44,678
Operating expenses	28	(20,541)	(18,223)
Allowance for loan impairment	10(a)	(4,325)	(3,961)
Recoveries/release from allowance for loan impairment	10(a)	2,459	5,435
Profit before tax		26,139	27,929
Income tax expense	18	(3,058)	(3,369)
Profit for the year		23,081	24,560
Other comprehensive income			
Net movement in unrealised gain on available-for-sale financial investments		938	223
Total comprehensive income for the year		24,019	24,783
Earnings per share:			
Basic and diluted, profit for the year attributable to equity holders	29	RO 0.318	RO 0.400

The attached notes 1 to 39 form an integral part of these financial statements.

Report of the Auditors - page 43.

FINANCIAL STATEMENTS

For the Year Ended 31st December 2009

STATEMENT OF CASH FLOWS

	Notes	2009 RO'000	2008 RO'000 (Restated)*
Operating activities			
Profit before tax		**26,139**	27,929
Adjustments:			
Depreciation		**1,695**	1,442
Allowance for loan impairment and reserved interest		**4,325**	3,961
Recoveries/release from allowance for loan impairment		**(2,459)**	(5,435)
Income from held-to-maturity investments		**(507)**	(694)
Profit on sale of property and equipment		**(13)**	(39)
Change in the fair value of financial assets at fair value through profit or loss		**(317)**	1,331
Operating profit before changes in operating assets and liabilities		**28,863**	28,495
Changes in operating assets and liabilities			
Loans and advances		**(28,427)**	(148,685)
Financial assets at fair value through profit or loss		**(1,604)**	(308)
Other assets		**4,605**	615
Deposits from customers		**85,167**	77,423
Other liabilities		**(602)**	(5,558)
Cash from (used in) operations		**88,002**	(48,018)
Tax paid		**(3,543)**	(2,438)
Net cash generated from (used in) operating activities		**84,459**	(50,456)
Investing activities			
Held-to-maturity investments matured		**16,771**	4,050
Purchase of held-to-maturity investments		**(13,175)**	(4,012)
Purchase of investment available for sale		**(3,999)**	(32)
Income from maturing of held-to-maturity investments		**507**	694
Purchase of property and equipment		**(2,954)**	(1,939)
Proceeds from sale of property and equipment		**19**	52
Net cash used in investing activities		**(2,831)**	(1,187)
Financing activities			
Proceeds from issue of share capital		**12,000**	7,000
Dividends paid		**(20,000)**	(9,600)
Net cash used in financing activities		**(8,000)**	(2,600)
Net increase (decrease) in cash and cash equivalents		**73,628**	(54,243)
Cash and cash equivalents at the beginning of the year		**153,722**	207,965
Cash and cash equivalents at the end of the year	31	**227,350**	153,722

* Prior year "Other assets" and "Other liabilities" do not correspond to the 2008 financial statements and reflect adjustments made as detailed in Notes 2.3 and 16.

The attached notes 1 to 39 form an integral part of these financial statements.

Report of the Auditors - page 43.

STATEMENT OF CHANGES IN EQUITY

	Notes	Share capital RO'000	Legal reserve RO'000	General reserve RO'000	Cumulative changes in fair value RO'000	Proposed dividend RO'000	Retained earnings RO'000	Total RO'000
At 1 January 2008		48,000	13,196	9,254	-	9,600	8,229	88,279
Profit for the year		-	-	-	-	-	24,560	24,560
Other comprehensive income for the year		-	-	-	223	-	-	223
Total comprehensive income for the year		-	-	-	223	-	24,560	24,783
Issue of share capital	19	7,000	-	-	-	-	-	7,000
Bonus issue of shares	19	5,000	-	-	-	-	(5,000)	-
Transfer to legal reserve	20	-	2,456	-	-	-	(2,456)	-
Transfer to general reserve	21	-	-	2,104	-	-	(2,104)	-
Dividend paid relating to 2007	22	-	-	-	-	(9,600)	-	(9,600)
Proposed dividend	22	-	-	-	-	20,000	(20,000)	-
At 31 December 2008		60,000	15,652	11,358	223	20,000	3,229	110,462
At 1 January 2009		**60,000**	**15,652**	**11,358**	**223**	**20,000**	**3,229**	**110,462**
Profit for the year		-	-	-	-	-	**23,081**	**23,081**
Other comprehensive income		-	-	-	**938**	-	-	**938**
Total comprehensive income	11	-	-	-	**938**	-	**23,081**	**24,019**
Issue of share capital	19	**12,000**	-	-	-	-	-	**12,000**
Bonus issue of shares	19	**3,000**	-	-	-	-	**(3,000)**	-
Transfer to legal reserve	20	-	**2,308**	-	-	-	**(2,308)**	-
Transfer to general reserve	21	-	-	**2,308**	-	-	**(2,308)**	-
Dividend paid relating to 2008	22	-	-	-	-	**(20,000)**	-	**(20,000)**
Proposed dividend	22	-	-	-	-	**15,000**	**(15,000)**	-
At 31 December 2009		**75,000**	**17,960**	**13,666**	**1,161**	**15,000**	**3,694**	**126,481**

The attached notes 1 to 39 form an integral part of these financial statements.

Report of the Auditors - page 43.

Notes to the FINANCIAL STATEMENTS
For the Year Ended 31st December 2009

1 LEGAL STATUS AND PRINCIPAL ACTIVITIES

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

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

2 SIGNIFICANT ACCOUNTING POLICIES

2.1 Statement of compliance

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

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

2.2 Basis of preparation

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

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

2.3 Changes in accounting policies and disclosures

The accounting policies are consistent with those used in the previous year, except for where the Bank has adopted certain new standards of, amendments and interpretations to IFRS and a change in the accounting policy applied for liabilities against acceptances and related customer receivables described below.

Change in accounting policy

Liabilities against acceptances and related customer receivables

In compliance with Central Bank of Oman circular BM 1058, dated 14 September 2009 the Bank now includes its liabilities against acceptances and the related indebtedness of its customers in other liabilities and other assets in the statement of financial position. For this purpose, the Bank has followed IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors, applying the changes retrospectively. This change does not impact the retained earnings position of the Bank for prior years, as the related income and expenses had already been included in the relevant income statements of prior years as fees and commission income - net.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Changes in accounting policies and disclosures (continued)

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

The Bank has adopted the following new and amended IFRS as of 1 January 2009:

- IAS 1 Presentation of Financial Statements effective 1 January 2009
- IFRS 7 Financial Instruments: Disclosures effective 1 January 2009
- IFRS 8 Operating Segments effective 1 January 2009
- Improvements to IFRSs (May 2008)

When the adoption of the standard or interpretation is deemed to have an impact on the financial statements or performance of the Bank, its impact is described below:

IAS 1 Presentation of Financial Statements effective 1 January 2009

This standard requires an entity to present all owner changes in equity and all non-owner changes to be presented in either one statement of comprehensive income or in two separate statements of income and comprehensive income. The revised standard also requires that the income tax effect of each component of comprehensive income be disclosed. In addition, it requires entities to present a comparative statement of financial position as at the beginning of the earliest comparative period when the entity has applied an accounting policy retrospectively, makes a retrospective restatement, or reclassifies items in the financial statements.

The Bank has elected to present comprehensive income in one statement of comprehensive income.

Amendments to IFRS 7 Financial Instruments: Disclosures - Improving Disclosures about Financial Instruments

The amendments to IFRS 7 were issued in March 2009 to enhance fair value and liquidity disclosures. With respect to fair value, the amendments require disclosure of a three-level fair value hierarchy, by class, for all financial instruments recognised at fair value and specific disclosures related to the transfers between levels in the hierarchy and detailed disclosures related to level 3 of the fair value hierarchy. In addition, the amendments modify the required liquidity disclosures with respect to derivative transactions and assets used for liquidity management. Comparative information has not been restated as permitted by the transition provisions of the amendment.

IFRS 8 Operating Segments effective 1 January 2009

IFRS 8 replaced IAS 14 Segment Reporting upon its effective date. This standard requires disclosure of information about the Bank's operating segments and replaced the requirement to determine primary (business) and secondary (geographical) reporting segments of the Bank. The Bank concluded that the operating segments determined in accordance with IFRS 8 are the same as the business segments previously identified under IAS 14. IFRS 8 disclosures are shown in Note 38.

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Financial instruments – initial recognition and subsequent measurement

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

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

2.4.1 Date of recognition

All financial assets and liabilities are initially recognised on the trade date, i.e., the date that the Bank becomes a party to the contractual provisions of the instrument. This includes "regular way trades": purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

2.4.2 Initial measurement of financial instruments

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

2.4.3 Financial assets at fair value through profit or loss

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

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

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

2.4.4 Available-for-sale investments

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4.5 Financial investments held to maturity

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

2.4.6 Loans and advances to customers and due from banks

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

2.4.7 Fair value measurement principles

Regular purchases and sales of financial assets are recognised on the trade-date – the date on which the Bank commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or losses are initially recognised at fair value, and transaction costs are expensed in the statement of comprehensive income.

The fair value of financial instruments is based on their quoted market price at the balance sheet date without any deduction for transaction costs. If a quoted market price is not available, the fair value of the instrument is estimated based on discounted cash flow and other valuation techniques.

The fair value of derivatives that are not exchange-traded is estimated at the amount that the Bank would receive or pay to terminate the contract at the balance sheet date taking into account current market conditions and the current creditworthiness of the counter-parties.

2.4.8 Derecognition of financial assets and liabilities

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

- The rights to receive cash flows from the asset have expired; or
- The Bank has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement;

  and either:

  - the Bank has transferred substantially all the risks and rewards of the asset, or
  - the Bank has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

2.4.9 Impairment of financial assets

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

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

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

(a) Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

2.4.9 Impairment of financial assets (continued)

(a) Assets carried at amortised cost (continued)

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

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

The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Bank to reduce any differences between loss estimates and actual loss experience. When a loan is uncollectible, it is written off against the related allowance for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the income statement.

(b) Available-for-sale financial investments

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

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

(c) Renegotiated loans

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

2.4.10 Trade and settlement date accounting

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

2.5 Cash and cash equivalents

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

2.6 Offsetting of financial instruments

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

2.7 Property and equipment

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

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

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

Gains and losses on disposal of property and equipment are determined by reference to their carrying amount and are taken into account in determining operating profit. Repairs and renewals are charged to the income statement when the expense is incurred. Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the item of property and equipment. All other expenditure is recognised in the income statement as an expense as incurred.

2.8 Impairment of non-financial assets

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8 Impairment of non-financial assets (continued)

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

2.9 Collateral pending sale

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

2.10 Borrowings

Borrowings are recognised initially at fair value, being their issue proceeds (fair value of consideration received) net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds, net of transaction costs, and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

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

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

2.11 Employee terminal benefits

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

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

2.12 Provisions

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

2.13 Taxation

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.13 Taxation (continued)

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet 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 the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date.

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

2.14 Interest income and expense

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

2.15 Fee and commission income

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

2.16 Dividend income

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

2.17 Fiduciary assets

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

2.18 Derivative financial instruments

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.19 Financial guarantees contracts

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

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

2.20 Dividends on shares

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

2.21 Foreign currencies

(a) Functional and presentation currency

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

(b) Transactions and balances

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

Changes in the fair value of monetary securities denominated in foreign currency classified as available-for-sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in amortised cost are recognised in profit or loss, and other changes in carrying amount are recognised in equity.

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets such as equities classified as available-for-sale are included in the fair value reserve in equity.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.22 Directors' remuneration

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

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

2.23 Segment reporting

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

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS IN APPLYING ACCOUNTING POLICIES

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

3.1 Going concern

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

3.2 Impairment losses on loans and advances

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

3.3 Held-to-maturity investments

The Bank follows the guidance of IAS 39 on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires significant judgment. In making this judgment, the Bank evaluates its intention and ability to hold such investments to maturity. If the Bank fails to keep these investments to maturity other than for the specific circumstances – for example, selling an insignificant amount close to maturity – it will be required to reclassify the entire class as available-for-sale. In such situations, the investments would therefore be measured at fair value and not at amortised cost.

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

3.4 Fair value of financial instruments

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

3.5 Impairment of available-for-sale investments

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

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

3.6 Taxes

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

4 STANDARDS ISSUED BUT NOT YET EFFECTIVE

Standards issued but not yet effective up to the date of issuance of the Bank's financial statements are listed below.

Phase 1 of IFRS 9

On 12 November 2009, the International Accounting Standard Board (IASB) published phase 1 of IFRS 9 Financial Instruments, the accounting standard that will eventually replace IAS 39: Financial Instruments: Recognition and Measurement. Whilst IFRS 9 is not mandatory until 1 January 2013, entities may adopt for reporting periods ending on or after 31 December 2009. The standard when adopted will have an impact on the Bank's financial statements, which is currently being evaluated by the management.

IFRIC 17 Distributions of Non-cash Assets to Owners

This interpretation is effective for annual periods beginning on or after 1 July 2009 with early application permitted. It provides guidance on how to account for non-cash distributions to owners. The interpretation clarifies when to recognise a liability, how to measure it and the associated assets, and when to derecognise the asset and liability. The Bank does not expect IFRIC 17 to have an impact on the financial statements.

5 FINANCIAL RISK MANAGEMENT

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

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

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

5.1 Credit risk

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

5.1.1 Credit risk management

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

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

The Bank rates its customers into the following categories:

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

5 FINANCIAL RISK MANAGEMENT (continued)

5.1.2 Risk mitigation policies

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

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

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

Some other specific control and mitigation measures are outlined below.

(a) Collateral

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

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

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

(b) Assessment of the financial capabilities of the borrowers

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

(c) Credit-related commitments

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

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

5 FINANCIAL RISK MANAGEMENT (continued)

5.1.2 Risk mitigation policies (continued)

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

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

	Performing loans (neither past due nor impaired) RO'000	Loans past due and not paid RO'000	Non performing loans RO'000	Gross Loans RO'000
Loans and advances with collateral available	**113,661**	**42,636**	**7,936**	**164,233**
Loans and advances with guarantees available	**48,901**	**-**	**-**	**48,901**
Government soft loans*	**33,215**	**-**	**-**	**33,215**
Balance as at 31 December 2009	**195,777**	**42,636**	**7,936**	**246,349**
Balance as at 31 December 2008	162,447	19,045	1,716	183,208

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

5.1.3 Impairment and provisioning policy

Impairment provisions are recognised for financial reporting purposes only for losses that have been incurred at the balance sheet date based on objective evidence of impairment. Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Bank about the loss events set out in Note 2.4.9 (a) as well as considering the guidelines issued by the Central Bank of Oman.

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

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

5 FINANCIAL RISK MANAGEMENT (continued)

5.1 Credit risk (continued)

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

	2009	2008
On-Balance Sheet items	**RO'000**	RO'000
Certificates of deposit (note (d))	**110,000**	33,000
Due from banks – Money market placements	**55,260**	47,669
Loans and advances		
Corporate loans	**361,723**	391,013
Personal loans	**221,681**	162,965
Other assets	**21,486**	26,091
Investment in securities		
Certificates of deposits	**-**	10,000
Government Development Bonds	**21,628**	15,224
	791,778	685,962
Off-Balance sheet items		
Financial guarantees	**48,929**	60,583
Undrawn loan commitments	**11,600**	23,585
	60,529	84,168

The above table represents the worst case scenario of credit risk exposure to the Bank at 31 December 2009 and 31 December 2008 without taking into account the collateral held or other credit enhancements. The Management is confident that the Bank has suitable policies to measure and control the credit risk. In addition credit risk is mitigated through collaterals in the form of mortgages and guarantees wherever required.

a) 88% (2008 – 98%) of the inter-Bank money market placements are with banks rated investment grade and above based on the ratings assigned by External Credit Rating Agencies.

b) Loans and advances represent 68% (2008 – 71%) of the total on-balance sheet items shown above. Of the total loans and advances 89.98% (2008 – 98.36%) are neither past due nor impaired.

c) The impaired loans have increased from 1.64% at 31 December 2008 to 2.71% at 31 December 2009. The impaired personal loans constitute less than 1% of the total loans.

d) Certificates of deposit which represent 13% (2008 – 5%) of the total on-balance sheet items are placed with the Central Bank of Oman.

5 FINANCIAL RISK MANAGEMENT (continued)

5.1 Credit risk (continued)

5.1.5 Loans and advances and due from banks

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

	2009			2008		
	Loans and advances to customers RO'000	Due from banks RO'000	Total RO'000	Loans and advances to customers RO'000	Due from banks RO'000	Total RO'000
Neither past due nor impaired	524,981	55,260	580,241	526,077	47,669	573,746
Past due but not impaired	42,636	-	42,636	19,045	-	19,045
Impaired	15,787	-	15,787	8,856	-	8,856
Gross loans and advances	583,404	55,260	638,664	553,978	47,669	601,647
Less: allowance for loan impairment and contractual interest not recognised (Refer to note (a) below)	(17,847)	-	(17,847)	(14,982)	-	(14,982)
Net loans and advances	565,557	55,260	620,817	538,996	47,669	586,665

a) The total impairment provision for loans and advances is RO 17,847,000 (2008 - RO 14,982,000) of which RO 9,986,000 (2008 - RO 7,886,000) represents the individually impaired loans and the remaining amount of RO 7,861,000 (2008 - RO 7,096,000) represents the collective impairment provision made on a portfolio basis.

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

	2009			2008		
	Retail loans RO'000	Corporate loans RO'000	Total RO'000	Retail loans RO'000	Corporate loans RO'000	Total RO'000
Standard loans	216,731	332,803	549,534	160,805	384,010	544,815
Special mention loans	312	17,771	18,083	307	-	307
Substandard loans	1,981	3,846	5,827	205	273	478
Doubtful loans	884	440	1,324	211	579	790
Loss	1,773	6,863	8,636	1,437	6,151	7,588
	221,681	361,723	583,404	162,965	391,013	553,978

5 FINANCIAL RISK MANAGEMENT (continued)

5.1 Credit risk (continued)

5.1.5 Loans and advances (continued)

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

	2009 RO'000	2008 RO'000
Past due up to 30 days	**22,823**	14,932
Past due 30-60 days	**282**	2,729
Past due 60-90 days	**19,531**	1,384
Total	**42,636**	19,045
Fair value of collateral	**7,019**	-

d) Loans and advances individually impaired

	2009 RO'000	2008 RO'000
Individually impaired loans	**15,787**	8,856
Fair value of collateral	**8,794**	1,294

5.1.6 Loans and advances renegotiated

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

The total restructured loans at 31 December 2009 amounted to RO 7,495,000 (2008 - RO 697,000).

5.1.7 Debt securities

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

5.1.8 Repossessed collateral

Repossessed properties are sold as soon as practicable with the proceeds used to reduce the outstanding balance of the debt. Repossessed assets are classified as other assets in the balance sheet. The value of assets obtained by the Bank by taking possession held as collateral as security at 31 December 2009 is RO 250,000 (2008 - RO 250,000).

5 FINANCIAL RISK MANAGEMENT (continued)

5.2 Market risk

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

5.2.1 Price risk

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

The Bank's investments include equity securities which are publicly traded on the Muscat Securities Market (MSM). The Bank's profits at 31 December 2009 may change by ±0.9% (2008 - ±0.6%) due to increase/decrease by 10% in the MSM - 30 Index, with all the other variables held constant. The Bank's investments have historically performed in line with the MSM - 30 Index.

5.2.2 Interest rate risk

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

For managing its interest rate risk in the Banking book the Bank stipulates limits on open interest rate sensitive gaps for maturities up to 1 year and also periodically calculates Earnings at Risk (EaR) impact on its Net Interest Income (NII) from 100bps change in interest rates on open interest rate gaps for maturities up to 1 year. The EaR limit is stipulated as a certain percentage of the NII of the Bank for the previous year. The EaR at 31 December 2009 is 12.13% (2008 - 12.68%).

5.2.3 Currency risk

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

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

5 FINANCIAL RISK MANAGEMENT (continued)

5.2 Market risk (continued)

5.2.3 Currency risk (continued)

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

Foreign currency exposures

	2009 RO'000	2008 RO'000
Net assets denominated in US Dollars	**5,658**	947
Net assets denominated in other foreign currencies	**6,093**	561

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

5.2.4 Liquidity risk

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

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

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

5.3 Operational risk

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

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

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

5 FINANCIAL RISK MANAGEMENT (continued)

5.4 Fair value estimation

The estimate of fair values of the financial instruments is based on information available to management as at 31 December 2009. Whilst management has used its best judgment in estimating the fair value of the financial instruments, there are inherent weaknesses in any estimation technique. The estimates involve matters of judgment and cannot be determined with precision. The bases adopted in deriving the fair values are as follows:

5.4.1 Current account balances due to and from banks

The carrying amount of current account balances due to and from banks was considered to be a reasonable estimate of fair value due to their short-term nature.

5.4.2 Loans and advances

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

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

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

5.4.4 Customers' deposits

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

5.4.5 Derivatives

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

5 FINANCIAL RISK MANAGEMENT (continued)

5.5 Financial instruments by category

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

Assets as per balance sheet	Fair value through profit or loss RO'000	Held to maturity RO'000	Available-for-sale investments RO'000	Loans and receivables RO'000	Total RO'000
31 December 2009					
Bank balances and cash	-	64,954	-	-	64,954
Certificates of deposit	-	110,000	-	-	110,000
Due from banks	-	55,260	-	-	55,260
Loans and advances	-	-	-	565,557	565,557
Investment securities	5,376	21,628	5,192	-	32,196
Other assets	-	-	-	21,486	21,486
	5,376	251,842	5,192	587,043	849,453
31 December 2008					
Bank balances and cash	-	96,231	-	-	96,231
Certificates of deposit	-	33,000	-	-	33,000
Due from banks	-	47,669	-	-	47,669
Loans and advances	-	-	-	538,996	538,996
Investment securities	3,455	25,224	255	-	28,934
Other assets	-	-	-	26,091	26,091
	3,455	202,124	255	565,087	770,921

Liabilities as per balance sheet				Other liabilities RO'000	Total RO'000
31 December 2009					
Due to banks	-	-	-	1,929	1,929
Deposits from customers	-	-	-	696,072	696,072
Other liabilities	-	-	-	31,337	31,337
Taxation	-	-	-	3,072	3,072
	-	-	-	732,410	732,410
31 December 2008					
Due to banks	-	-	-	22,243	22,243
Deposits from customers	-	-	-	610,905	610,905
Other liabilities	-	-	-	31,939	31,939
Taxation	-	-	-	3,557	3,557
	-	-	-	668,644	668,644

6 CAPITAL MANAGEMENT

The Bank's objectives of capital management are:

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

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

The CBO requires the banks registered in the Sultanate of Oman to maintain a minimum capital adequacy ratio of 10% based on guidelines of the Basel II Accord from January 2007 onwards.

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

	2009	2008
	RO'000	RO'000
Capital		
Tier 1	**110,320**	90,239
Tier 2	**8,383**	7,196
Total capital base	**118,703**	97,435
Risk weighted assets		
Credit risk	**772,031**	733,975
Market risk	**28,519**	23,572
Operational risk	**82,928**	71,431
Total risk weighted assets	**883,478**	828,978
Capital adequacy ratio %	**13.44**	11.75

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

7 CASH AND BALANCES WITH THE CENTRAL Bank OF OMAN

	2009 RO'000	2008 RO'000
Cash in hand	13,415	12,384
Balances with the Central Bank of Oman:		
- Clearing account and other balances	50,604	82,912
- Capital deposit	500	500
- Insurance deposit	435	435
	64,954	96,231

The capital deposit and the insurance deposit cannot be withdrawn without the approval of the Central Bank of Oman. Balances with the Central Bank of Oman are non-interest bearing except for the capital deposit and insurance deposit, which earn interest at 2% (2008 – 2%) per annum.

8 CERTIFICATES OF DEPOSIT

Certificates of deposit are issued by the Central Bank of Oman for periods ranging from 28 days to 6 months and carry interest at the rate of 0.05% (2008 – 1.63%) per annum.

9 DUE FROM BANKS

	2009 RO'000	2008 RO'000
Money market placements	38,470	36,026
Current accounts	16,790	11,643
	55,260	47,669

At 31 December 2009, 79% of the Bank's placements were with five banks rated between Aaa to A2 by Moody's (2008 – 99% of the Bank's placements were with five banks rated Aa1 to A3).

Notes to the FINANCIAL STATEMENTS
For the Year Ended 31st December 2009

10 LOANS AND ADVANCES

	2009 RO'000	2008 RO'000
Corporate loans		
Term loans	273,715	284,856
Overdrafts	71,863	88,931
Bills Discounted	16,145	17,226
	361,723	391,013
Personal loans		
Consumer loans	176,662	120,922
Mortgage loans	16,945	9,114
Overdrafts	23,727	29,310
Credit cards	4,347	3,619
	221,681	162,965
Gross loans and advances	583,404	553,978
Less: allowance for loan impairment and contractual interest not recognised (refer to note (a) below)	(17,847)	(14,982)
Net loans and advances	565,557	538,996

(a) Allowance for loan impairment

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

	Allowance for loan impairment RO'000	Contractual interest not recognised RO'000	Total RO'000
Balance at 1 January 2009	11,988	2,994	14,982
Provided during the year	4,325	1,219	5,544
Amounts written off during the year	(160)	(60)	(220)
Amounts released/recovered during the year	(2,002)	(457)	(2,459)
Balance at 31 December 2009	14,151	3,696	17,847

10 LOANS AND ADVANCES (continued)

	Allowance for loan impairment RO'000	Contractual interest not recognised RO'000	Total RO'000
Balance at 1 January 2008	13,734	6,040	19,774
Provided during the year	3,961	537	4,498
Amounts written off during the year	(1,665)	(2,190)	(3,855)
Amounts released/recovered during the year	(4,042)	(1,393)	(5,435)
Balance at 31 December 2008	11,988	2,994	14,982

At 31 December 2009, RO 7,860,967 (2008 - RO 7,095,700) out of the total loan impairment provisions has been made on a portfolio basis against the losses incurred but not identified on the performing portion of the loans and advances.

At 31 December 2009, loans and advances on which contractual interest was not recognised or has not been accrued amounted to RO 15,787,469 (31 December 2008 – RO 8,855,881).

(b) Concentration of loans and advances

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

	2009 RO'000	2008 RO'000
Personal loans	**221,681**	162,965
Manufacturing	**58,387**	87,686
Construction	**79,378**	74,075
Services	**51,847**	64,407
Wholesale and retail trade	**53,991**	43,906
Mining and quarrying	**33,961**	29,322
Import trade	**15,842**	19,866
Financial institutions	**14,306**	8,566
Transportation	**10,867**	11,765
Agriculture and allied activities	**8,281**	7,812
Government	**2,582**	1,916
Others	**32,281**	41,692
	583,404	553,978

Loans with variable interest rates amount to RO 248,355,000 (2008 - RO 245,296,000) and loans carrying fixed interest rates amount to RO 335,049,000 (2008 - RO 308,682,000).

11 INVESTMENT SECURITIES

	2009		2008	
	Carrying value	Cost	Carrying value	Cost
	RO'000	RO'000	RO'000	RO'000
Available-for-sale				
- quoted	5,161	4,000	224	-
- unquoted	31	31	31	31
	5,192	4,031	255	31
Designated as at fair value through profit or loss				
- quoted	132	517	106	67
- unquoted	945	1,254	487	1,249
	1,077	1,771	593	1,316
Held-for-trading				
- quoted	4,157	4,371	2,648	3,220
- unquoted	142	288	214	290
	4,299	4,659	2,862	3,510
Held-to-maturity				
Certificates of deposit	-	-	10,000	10,000
Oman Government Development Bonds	21,628	21,628	15,224	15,224
	21,628	21,628	25,224	25,224
Total investment securities	32,196	32,089	28,934	30,081

Unquoted financial assets at fair value through profit or loss include investment in the Financial Settlement and Guaranteed Fund of RO 157,621 (2008 – RO 152,742) which is not recoverable until the date the Bank ceases its brokerage activities or the fund is liquidated, whichever is earlier.

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

Fair value hierarchy

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

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

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

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

Transfers between levels

During the reporting period ended 31 December 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.

11 INVESTMENT SECURITIES (continued)

The movements in investment securities may be summarised as follows:

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

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FINANCIAL STATEMENTS
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11 INVESTMENT SECURITIES (continued)

	As at 1 January 2008 RO'000	Additions RO'000	Disposals (sale & redemption) RO'000	Changes in fair value recorded in income statement RO'000	Changes in fair value recorded in equity RO'000	At 31 December 2008 RO'000
Available-for- sale						
Quoted – level 1	-	1	-	-	223	224
Unquoted – level 3	-	31	-	-	-	31
Designated as at fair value through profit or loss						
Quoted – level 1	141	-	-	(35)	-	106
Unquoted level 3	482	5	-	-	-	487
Held for trading						
Quoted – level 1	3,546	12,093	(12,248)	(743)		2,648
Unquoted – level 2	309	-	-	(95)	-	214
Investments held to maturity	25,261	4,013	(4,050)	-	-	25,224
At 31 December 2009	29,739	16,143	(16,298)	(873)	223	28,934

Included under Investments held to maturity are bonds issued by the Government of Oman amounting to RO 21,628,000 (2008: RO 15,224,000). The bonds are denominated in Rial Omani and carry interest rates varying between 4% and 5.25% (2008 - 4% to 5.25%) per annum. The maturity profile of these bonds, based on the remaining maturity from the balance sheet date, is as follows:

	2009 RO'000	2008 RO'000
Within 3 months	**-**	6,375
4 to 12 months	**3,847**	1,000
1 to 5 years	**17,781**	7,849
	21,628	15,224

12 OTHER ASSETS

	2009 RO'000	2008 RO'000 (Restated)	As at 1 January 2008 RO'000 (Restated)
Customers' indebtedness against acceptances	**15,192**	16,010*	16,680*
Interest receivable	**2,471**	2,530	2,855
Prepayments	**1,211**	1,203	647
Clearing cheques	**372**	2,929	2,396
Receivable from investment customers	**863**	712	1,681
Positive fair value of derivatives (note 32)	**349**	1,553	366
Others	**1,028**	1,154	2,081
	21,486	26,091	26,706

*After changing its accounting policy for Liabilities against acceptances and related customer receivables (refer note 2.3 and note 16) the Bank has included its liabilities against acceptances and the related indebtedness of its customers in other liabilities and other assets respectively, and restated the relevant prior year amounts.

13 PROPERTY AND EQUIPMENT

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

Notes to the FINANCIAL STATEMENTS
For the Year Ended 31st December 2009

13 PROPERTY AND EQUIPMENT (continued)

	Land and buildings RO'000	Computer equipment RO'000	Equipment, furniture & fixtures RO'000	Motor vehicles RO'000	Total RO'000
2008					
Cost					
At 1 January 2008	6,521	7,449	3,241	403	17,614
Additions	-	1,139	613	187	1,939
Disposals	-	-	(59)	(81)	(140)
At 31 December 2008	6,521	8,588	3,795	509	19,413
Depreciation					
At 1 January 2008	2,123	4,553	3,080	156	9,912
Charge for the year	180	834	384	45	1,443
Relating to disposals	-	-	(56)	(71)	(127)
At 31 December 2008	2,303	5,387	3,408	130	11,228
Net book value					
At 31 December 2008	4,218	3,201	387	379	8,185

14 DUE TO BANKS

	2009 RO'000	2008 RO'000
Current accounts	**1,929**	2,243
Money market acceptances	**-**	20,000
	1,929	22,243

15 DEPOSITS FROM CUSTOMERS

	2009 RO'000	2008 RO'000
Term deposits	**307,944**	252,381
Demand and call accounts	**284,034**	262,191
Saving accounts	**104,094**	96,333
	696,072	610,905

15 DEPOSITS FROM CUSTOMERS (continued)

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

	2009 RO'000	2008 RO'000
Private	**539,554**	500,323
Government	**156,518**	110,582
	696,072	610,905

16 OTHER LIABILITIES

	2009 RO'000	2008 RO'000 (Restated)	As at 1 January 2008 RO'000 (Restated)
Liabilities against acceptances	**15,192**	16,010	16,680
Payable to investment customers	**3,996**	2,634	9,697
Interest payable	**3,809**	2,985	2,562
Accrued expenses and other payables	**3,328**	3,479	3,102
Staff terminal benefits (note 17)	**1,914**	1,734	1,408
Acceptances and certified cheques	**1,403**	1,842	2,177
Interest and commission received in advance	**1,417**	1,734	1,267
Negative fair value of derivatives (note 16)	**278**	1,507	343
Deposits for shares pending allotment	**-**	14	261
	31,337	31,939	37,497

Restatement of liabilities against acceptances and the related indebtedness of the Bank's customers against acceptances:

During the year the Bank has changed its accounting policy for Liabilities against acceptances and related customer receivables (refer note 2.3). The Bank now includes its liabilities against acceptances and the related indebtedness of its customers in "Other liabilities" and "Other assets". Previously, the Bank recognised liabilities against acceptances and the related customers' indebtedness against acceptances as an off-balance sheet exposure.

The change in accounting policy has been applied retrospectively and has resulted in an increase in other assets and other liabilities by RO 15.19 million (2008: RO 16.01 million) respectively. Relevant prior year disclosures have been restated. The change does not impact the opening retained earnings of the Bank, as related income and expenses have been appropriately included in the income statement of the prior years under fees and commission income – net.

17 STAFF TERMINAL BENEFITS

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

	2009	2008
	RO'000	RO'000
At 1 January	1,734	1,408
Charge for the year	213	352
Payment to employees during the year	(33)	(26)
At 31 December	1,914	1,734

18 TAXATION

	2009	2008
	RO'000	RO'000
Liabilities:		
Current year	3,058	3,545
Prior years	14	12
	3,072	3,557
Income statement:		
Current year	3,058	3,369
Prior years	-	-
	3,058	3,369

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

	2009	2008
	RO'000	RO'000
Profit before tax	26,139	27,929
Tax at the applicable rate of 12% after statutory deduction of RO 30,000 (2008 - 12%)	3,133	3,348
Tax effect of temporary differences	(71)	(37)
Tax effect of income that is not taxable and expenses that are not deductible in determining taxable profit	9	234
Reversal of excess provision brought forward	(13)	(176)
Tax expense	3,058	3,369

18 TAXATION (continued)

The Bank is liable for income tax in accordance with the income tax laws of the Sultanate of Oman. The tax rate applicable to the Bank is 12%. For determining the tax expense for the year, the accounting profit for the year has been adjusted for tax purposes. Adjustments for tax purposes include items relating to both income and expense. After giving effect to these adjustments, the average effective tax rate is estimated to be 11.75% (2008 – 12.06%). The Bank has not recognised deferred tax on temporary differences as the amount is not material within the context of these financial statements.

Status of tax assessments

The assessments for the years up to 2005 are complete. The assessments for 2006 to 2008 are not yet finalised by the Tax Authorities. The Management believes that no significant further liabilities will be incurred by the Bank on completion of the pending tax assessment.

19 SHARE CAPITAL

The authorised capital is RO 120,000,000 and issued share capital comprises 75,000,000 fully paid shares (2008: 60,000,000) of RO 1 each. The shareholders at the year end were as follows:

	Country of incorporation	Share holding %	2009 RO'000	2008 RO'000
Oman International Development & Investment Co. SAOG	Oman	**50.99**	**38,243**	30,594
Arab Bank Plc	Jordan	**49.00**	**36,750**	29,400
Oman Investment Services SAOC	Oman	**0.01**	**7**	6
			75,000	60,000

During the year ended 31 December 2009, the Bank has increased its paid up capital through a rights issue of RO 12 million (2008 : RO 7 milion) and RO 3 million (2008 : RO 5 million) in the form of bonus issue. The shareholders duly approved this issue in the Annual General Meeting held on 22 February 2009 (2008 : 10 March 2008).

20 LEGAL RESERVE

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

21 GENERAL RESERVE

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

Notes to the FINANCIAL STATEMENTS
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22 DIVIDEND PROPOSED AND PAID

At the Annual General Meeting held on 22 February 2009, a cash dividend of RO 0.333 per share totalling to RO 20 million (2008 : RO 0.200 per share totalling to RO 9.6 million) for the year ended 31 December 2008 was declared and paid.

In the meeting held on 13 December 2009, the Board of Directors proposed a cash dividend of 0.200 per share totalling to RO 15 million for the year ended 31 December 2009 (2008 - RO 0.333 per share totalling to RO 20 million). A resolution to approve the dividend will be presented to the shareholders at the Annual General Meeting.

23 INTEREST INCOME

	2009	2008
	RO'000	RO'000
Loans and advances	**37,493**	33,156
Placements with banks and other money market placements	**662**	1,454
Certificates of deposits	**117**	1,867
Oman Government Development Bonds	**507**	694
	38,779	37,171

24 INTEREST EXPENSE

	2009	2008
	RO'000	RO'000
Time deposits	**6,638**	7,044
Call accounts	**737**	828
Bank borrowings	**7**	139
Savings accounts	**619**	280
	8,001	8,291

25 FEE AND COMMISSION INCOME – NET

	2009	2008
	RO'000	RO'000
Fee and commission income	**12,840**	11,437
Fee and commission expense	**(300)**	(15)
	12,540	11,422

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FINANCIAL STATEMENTS
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26 INVESTMENT INCOME (LOSS)

	2009 RO'000	2008 RO'000
From financial assets at fair value through profit or loss		
Fair value changes	**317**	(1,331)
Profit (loss) on sale of investments	**120**	(274)
Dividend income	**215**	262
	652	(1,343)

27 OTHER OPERATING INCOME

	2009 RO'000	2008 RO'000
Exchange income	**3,636**	3,959
Other income	**940**	1,760
	4,576	5,719

28 OPERATING EXPENSE

	2009 RO'000	2008 RO'000
Staff costs (refer below)	**12,107**	11,200
Other operating expenses	**6,644**	5,485
Depreciation	**1,695**	1,443
Directors' remuneration	**95**	95
	20,541	18,223
Details of staff costs are as follows:		
Salaries	**8,334**	7,963
Allowances	**1,858**	1,604
Social security costs	**564**	463
End of service benefits	**213**	411
Other costs	**1,138**	759
	12,107	11,200

Notes to the FINANCIAL STATEMENTS

For the Year Ended 31st December 2009

29 EARNINGS PER SHARE

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

	2009	2008
Profit for the year (RO'000)	**23,081**	24,560
Weighted average number of shares outstanding during the year	**72,468,493**	61,389,041
Basic earning per share (RO)	**0.318**	0.400

During the year ended 31 December 2009, the Bank issued 3,000,000 bonus shares of RO 1 each to the existing shareholders. As the bonus issue was without consideration, the number of ordinary shares outstanding before the event is adjusted for the proportionate change in the number of ordinary shares outstanding as if the event had occurred at the beginning of the earliest period presented.

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

30 RELATED PARTY TRANSACTIONS

Management service agreement with a shareholder

The Bank has a management agreement with Arab Bank Plc Jordan, a shareholder. The details of the agreement are set out in note 1. During the year ended 31 December 2009, the management fees as per the agreement amounted to RO 28,875 (2008: RO 28,875).

Other related parties transactions

In the ordinary course of business, the Bank conducts transactions with certain of its Directors and/or shareholders and companies over which they are able to exert significant influence. The aggregate amounts of balances with such related parties are as follows:

	2009			2008		
	Major shareholders RO'000	**Others RO'000**	**Total RO'000**	Major shareholders RO'000	Others RO'000	Total RO'000
Loans and advances	**1,600**	**38,472**	**40,072**	2,505	14,513	17,018
Customers' deposits	**2,119**	**4,309**	**6,428**	537	7,108	7,645
Due from banks	**35,982**	**-**	**35,982**	25,251	-	25,251
Due to banks	**460**	**-**	**460**	20,726	-	20,726
Letters of credit, guarantees and acceptances	**141,506**	**1,280**	**142,786**	190,239	5,764	196,003

30 RELATED PARTY TRANSACTIONS (continued)

Movement of loans and advances given to related parties:

	2009 RO'000	2008 RO'000
At 1 January 2009	**17,018**	14,438
Disbursed during the year	**138,624**	96,150
Paid during the year	**(131,349)**	(93,570)
At 31 December 2009	**24,293**	17,018

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

	2009			2008		
	Major shareholders RO'000	Others RO'000	Total RO'000	Major shareholders RO'000	Others RO'000	Total RO'000
Interest and commission income	**447**	**804**	**1,250**	405	103	508
Interest expense	**379**	**7**	**386**	13	32	45

Key management compensation

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

	2009 RO'000	2008 RO'000
Salaries and other short-term benefits	**1,101**	1,065
End of service benefits	**60**	136
	1,161	1,201

31 CASH AND CASH EQUIVALENTS

	2009 RO'000	2008 RO'000
Cash and balances with the Central Bank of Oman (CBO)	**64,954**	96,231
Certificates of deposit	**110,000**	33,000
Due from banks	**55,260**	47,669
Less: due to banks	**(1,929)**	(22,243)
Restricted deposits included under balances with the CBO	**(935)**	(935)
	227,350	153,722

32 DERIVATIVE FINANCIAL INSTRUMENTS

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

				Notional amounts by term to maturity		
	Positive fair value	Negative fair value	Notional amount	Within 3 months	3 - 12 months	1-5 years
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
	(note 12)	(note 16)				
31 December 2009						
Purchase contracts	**349**	**-**	**61,249**	**39,717**	**21,532**	**-**
Sale contracts	**-**	**(278)**	**(61,178)**	**(39,677)**	**(21,501)**	**-**
	349	**(278)**	**71**	**40**	**31**	**-**
31 December 2008						
Purchase contracts	1,553	-	46,581	40,637	5,944	-
Sale contracts	-	(1,507)	(46,535)	(40,593)	(5,942)	-
	1,553	(1,507)	46	44	2	-

33 CONTINGENT LIABILITIES AND COMMITMENTS

(a) Letters of credit and guarantees

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

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

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

33 CONTINGENT LIABILITIES AND COMMITMENTS (continued)

(a) Letters of credit and guarantees (continued)

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

	2009 RO'000	2008 RO'000 (Restated)	As at 1 January 2008 RO'000 (Restated)
Letters of credit	**246,959**	249,970	377,601
Guarantees	**428,775**	432,749	287,902
Financial Guarantees	**48,929**	60,583	60,010
	724,663	743,302	725,513

Letters of credit and guarantees amounting to RO 557,437,295 (2008 - RO 567,313,751) were counter guaranteed by other banks.

Letters of credit and guarantees include RO 363,648 (2008: RO 338,062) relating to non-performing loans.

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

	2009 RO'000	2008 RO'000 (Restated)	As at 1 January 2008 RO'000 (Restated)
Export trade	**190,240**	203,804	318,889
Construction	**216,360**	220,461	237,532
Import trade	**56,719**	46,165	58,712
Utilities	**46,775**	44,232	40,778
Government	**139,601**	121,374	41,288
Transportation	**32,710**	28,527	12,959
Wholesale and retail trade	**11,487**	13,227	5,767
Manufacturing	**21,673**	54,387	4,431
Services	**9,098**	11,125	5,157
	724,663	743,302	725,513

Details of the restatement of liabilities against acceptances and the related customers' indebtedness against acceptances under other liabilities and other assets are discussed in note 16.

(b) Capital commitments

At the balance sheet date, outstanding capital commitments in respect of premises and equipment purchases were RO 644,505 (2008 - RO 758,460).

(c) Operating lease commitments

At the balance sheet date, outstanding lease commitments were RO 772,676 (2008 - RO 587,102).

33 CONTINGENT LIABILITIES AND COMMITMENTS (continued)

(d) Undrawn loan commitments

At the balance sheet date, outstanding undrawn loan commitments amounted to RO 11,600,000 (2008 - RO 23,585,000). Each undrawn loan commitment is included in the time band containing the earliest date it can be drawn down.

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

	Up to 1 year	1 to 5 years	Over 5 years	Total
	RO'000	RO'000	RO'000	RO'000
2009				
Capital commitments	**645**	**-**	**-**	**645**
Operating lease commitments	**773**	**-**	**-**	**773**
Undrawn loan commitments	**9,833**	**1,300**	**467**	**11,600**
2008				
Capital commitments	758	-	-	758
Operating lease commitments	490	97	-	587
Undrawn loan commitments	8,390	7,882	7,313	23,585

(e) Legal claims

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

34 ASSETS AND LIABILITIES MATURITY PROFILE

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

2009	**On demand or within 3 months**	**3 to 12 months**	**1 to 5 years**	**Over 5 years**	**Total**
	RO'000	**RO'000**	**RO'000**	**RO'000**	**RO'000**
Assets					
Cash and balances with the Central Bank of Oman	35,814	15,708	4,265	9,167	64,954
Certificates of deposit	110,000	-	-	-	110,000
Due from banks	55,260	-	-	-	55,260
Loans and advances	127,125	115,072	114,338	209,022	565,557
Investment securities	10,568	3,845	17,783	-	32,196
Other assets	15,470	4,304	1,712	-	21,486
Property and equipment	-	-	-	9,438	9,438
Total assets	354,237	138,929	138,098	227,627	858,891
Liabilities					
Due to banks	1,929	-	-	-	1,929
Deposits from customers	305,084	213,957	58,099	118,932	696,072
Other liabilities	25,478	2,233	3,626	-	31,337
Taxation	-	-	3,072	-	3,072
Total liabilities	332,491	216,190	64,797	118,932	732,410
Net assets	21,746	(77,261)	73,301	108,695	126,481
Forward exchange contracts at notional amounts (note 32)					
Purchase contracts	39,717	21,532	-	-	61,249
Sale contracts	(39,677)	(21,501)	-	-	(61,178)
	40	31	-	-	71

34 ASSETS AND LIABILITIES MATURITY PROFILE (continued)

2008	On demand or within 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
	RO'000	RO'000	RO'000	RO'000	RO'000
Assets					
Cash and balances with the Central Bank of Oman	48,055	23,697	8,487	15,992	96,231
Certificates of deposit	30,000	3,000	-	-	33,000
Due from banks	46,094	1,575	-	-	47,669
Loans and advances	184,962	84,575	93,793	175,666	538,996
Investment securities	11,085	10,000	7,849	-	28,934
Other assets (as restated)	21,747	3,962	382	-	26,091
Property and equipment	-	-	-	8,185	8,185
Total assets (as restated)	341,943	126,809	110,511	199,843	779,106
Liabilities					
Due to banks	22,243	-	-	-	22,243
Deposits from customers	261,247	173,556	62,161	113,941	610,905
Other liabilities (as restated)	22,551	7,272	2,116	-	31,939
Taxation	3,557	-	-	-	3,557
Total liabilities (as restated)	309,598	180,828	64,277	113,941	668,644
Net assets	32,345	(54,019)	46,234	85,902	110,462
Forward exchange contracts at notional amounts (note 32)					
Purchase contracts	40,637	5,944	-	-	46,581
Sale contracts	(40,593)	(5,942)	-	-	(46,535)
	44	2	-	-	46

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

2009	**On demand or within 3 months**	**3 to 12 months**	**1 to 5 years**	**Over 5 years**	**Total**
	RO'000	**RO'000**	**RO'000**	**RO'000**	**RO'000**
Letters of guarantee	**149,257**	**155,583**	**144,057**	**28,807**	**477,704**
Letters of credit	**236,257**	**10,702**	**-**	**-**	**246,959**
Total commitments and contingencies	**385,514**	**166,285**	**144,057**	**28,807**	**724,663**

34 ASSETS AND LIABILITIES MATURITY PROFILE (continued)

2008	On demand or within 3 months RO'000	3 to 12 months RO'000	1 to 5 years RO'000	Over 5 years RO'000	Total RO'000
Letters of guarantee	238,870	67,450	153,191	33,821	493,332
Letters of credit	239,855	9,729	386	-	249,970
Total commitments and contingencies (as restated)	478,725	77,179	153,577	33,821	743,302

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

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

35 ASSETS AND LIABILITIES RE-PRICING PROFILE

2009	**Average effective interest rate %**	**Within 3 months RO'000**	**4 to 12 months RO'000**	**1 to 5 years RO'000**	**Over 5 years RO'000**	**Non-interest bearing RO'000**	**Total RO'000**
Assets							
Cash and balances with the Central Bank of Oman	**2.00**	**-**	**-**	**-**	**935**	**64,019**	**64,954**
Certificates of deposit	**0.05**	**110,000**	**-**	**-**	**-**	**-**	**110,000**
Due from banks	**1.88**	**27,387**	**-**	**-**	**-**	**27,873**	**55,260**
Loans and advances	**6.40**	**171,321**	**131,332**	**261,188**	**1,716**	**-**	**565,557**
Investment securities at fair value		**-**	**-**	**-**	**-**	**10,568**	**10,568**
Investment – held to maturity	**4.22**	**-**	**3,845**	**17,783**	**-**	**-**	**21,628**
Other assets		**14,234**	**1,896**	**1,712**	**-**	**3,644**	**21,486**
Property and equipment		**-**	**-**	**-**	**-**	**9,438**	**9,438**
Total assets		**322,942**	**137,073**	**280,683**	**2,651**	**115,542**	**858,891**
Liabilities							
Due to banks	**0.09**	**460**	**-**	**-**	**-**	**1,469**	**1,929**
Deposits from customers	**1.36**	**280,484**	**68,842**	**42,748**	**-**	**303,998**	**696,072**
Other liabilities		**19,592**	**1,896**	**1,712**	**-**	**8,137**	**31,337**
Taxation		**-**	**-**	**-**	**-**	**3,072**	**3,072**
Total liabilities		**300,536**	**70,738**	**44,460**	**-**	**316,676**	**732,410**
Total interest sensitivity gap		**22,406**	**66,335**	**236,223**	**2,651**	**(201,134)**	**126,481**
Cumulative interest sensitivity gap		**22,406**	**88,741**	**324,964**	**327,615**	**126,481**	

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FINANCIAL STATEMENTS
For the Year Ended 31st December 2009

35 ASSETS AND LIABILITIES RE-PRICING PROFILE (continued)

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

The total balance of loans and advances on which interest recognition is reserved, amounting to RO 15,787,469 (2008 - RO 8,855,881) is disclosed as a non-interest sensitive item and the allowance for loan impairment and reserved interest, amounting to RO 9,986,365 (2008 - RO 7,886,583) has been deducted from this amount. Collective loan impairment provision has been deducted proportionally from the non-classified loan balances.

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

2008	Average effective interest rate %	Within 3 months RO'000	4 to 12 months RO'000	1 to 5 years RO'000	Over 5 years RO'000	Non-interest bearing RO'000	Total RO'000
Assets							
Cash and balances with the Central Bank of Oman	2.00	-	-	-	935	95,296	96,231
Certificates of deposit	1.63	30,000	3,000	-	-	-	33,000
Due from banks	0.83	36,026	-	-	-	11,643	47,669
Loans and advances	6.64	214,778	143,537	179,709	-	972	538,996
Investment securities at fair value		-	-	-	-	3,710	3,710
Investment – held to maturity	4.79	7,375	10,000	7,849	-	-	25,224
Other assets (as restated)		17,143	2,522	382	-	6,044	26,091
Property and equipment		-	-	-	-	8,185	8,185
Total assets (as restated)		305,322	159,059	187,940	935	125,850	779,106
Liabilities							
Due to banks	0.25	-	20,000	-	-	2,243	22,243
Deposits from customers	1.49	210,879	55,829	48,926	-	295,271	610,905
Other liabilities (as restated)		17,597	2,522	382	-	11,438	31,939
Taxation		-	-	-	-	3,557	3,557
Total liabilities (as restated)		228,476	78,351	49,308	-	312,509	668,644
Total interest sensitivity gap		76,846	80,708	138,632	935	(186,659)	110,462
Cumulative interest sensitivity gap		76,846	157,554	296,186	297,121	110,462	

36 GEOGRAPHICAL DISTRIBUTION OF ASSETS AND LIABILITIES

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

2008	Sultanate of Oman RO'000	Other GCC countries RO'000	Europe RO'000	United States of America RO'000	Others RO'000	Total RO'000
Assets						
Cash and balances wth the Central Bank of Oman	96,231	-	-	-	-	96,231
Certificates of deposit	33,000	-	-	-	-	33,000
Due from banks	273	11,392	28,410	6,909	685	47,669
Loans and advances	538,996	-	-	-	-	538,996
Investment securities	28,497	-	-	223	214	28,934
Other assets (as restated)	26,091	-	-	-	-	26,091
Property and equipment	8,185	-	-	-	-	8,185
Total assets (as restated)	731,273	11,392	28,410	7,132	899	779,106
Liabilities						
Due to banks	119	21,309	98	602	115	22,243
Deposits from customers	610,905	-	-	-	-	610,905
Other liabilities (as restated)	31,939	-	-	-	-	31,939
Taxation	3,557	-	-	-	-	3,557
Total liabilities (as restated)	646,520	21,309	98	602	115	668,644
Equity	56,336	-	-	-	54,126	110,462
Total liabilities and equity	702,856	21,309	98	602	54,241	779,106

Notes to the FINANCIAL STATEMENTS
For the Year Ended 31st December 2009

37 CUSTOMER CONCENTRATIONS

	Assets			Liabilities		
	Due from banks RO'000	Gross loans and advances RO'000	Investment securities RO'000	Deposits from customers RO'000	Due to banks RO'000	Contingent liabilities RO'000
31 December 2009						
Personal	-	221,681	-	232,856	-	80
Corporate	55,260	321,441	10,568	306,698	1,929	572,872
Government	-	40,282	21,628	156,518	-	151,711
	55,260	583,404	32,196	696,072	1,929	724,663
31 December 2008						
Personal	-	162,965	-	229,727	-	160
Corporate	47,669	349,040	13,710	270,596	22,243	537,778
Government	-	41,973	15,224	110,582	-	205,364
	47,669	553,978	28,934	610,905	22,243	743,302

38 SEGMENT INFORMATION

The Bank mainly operates in only one geographical location, the Sultanate of Oman. The Bank has however earned interest income and incurred interest expenses on account of money market placements and borrowings with banks outside the Sultanate of Oman as of 31 December 2009. The information regarding the Bank's due from banks and due to banks based on the geographical locations for the years ended 31 December 2009 and 2008 is set out in note 36.

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

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

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

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

No revenue from transactions with a single external customer or counterparty amounted to 10% or more of the Bank's total revenue in 2009 or 2008.

38 SEGMENT INFORMATION (continued)

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

2008	Retail Banking RO'000	Corporate Banking RO'000	Investment Banking RO'000	Support and unallocated functions RO'000	Total RO'000
Interest income	9,609	23,547	-	4,015	37,171
Interest expense	(2,506)	(5,297)	-	(488)	(8,291)
Other operating income	8,268	2,802	1,266	3,462	15,798
Total operating income	15,371	21,052	1,266	6,989	44,678
Assets	158,474	380,522	7,062	233,048	779,106
Liabilities	229,727	381,178	7,062	50,677	668,644
Allowance for impairment	4,491	10,491	-	-	14,982

39 FIDUCIARY ACTIVITIES

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

	2009 RO'000	2008 RO'000
Funds under management	**182,983**	82,540

OMAN ARAB Bank SAOC

DISCLOSURES UNDER PILLAR III OF BASEL II FOR THE YEAR ENDED 31ST DECEMBER 2009

In Terms of Central Bank of Oman Circular BM 1027

Dated 4 December 2007

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P. R. No. MH/4

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

We have performed the procedures agreed with you and as prescribed in the Central Bank of Oman (CBO) circular no. BM 1027 dated 4 December 2007 with respect to the Basel II – Pillar III disclosures (the disclosures) of Oman Arab Bank SAOC (the bank) as at, and for the year ended 31 December 2009. The disclosures were prepared by the management in accordance with the related requirements set out in CBO circular number BM 1009 dated 13 September 2006 and circular number BM 1027 dated 4 December 2007 (the circulars). Our engagement was undertaken in accordance with the International Standard on Related Services applicable to agreed-upon procedures engagements. The procedures, as set out in Circular number BM 1027, were performed solely to assist you in evaluating the bank's compliance with the related disclosure requirements as set out in CBO Circular number BM 1009.

We report our findings as follows:

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

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

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

Our report is solely for the purpose set forth in the first paragraph of this report and for your information and is not to be used for any other purpose. This report relates only to the accompanying disclosures to be included in the bank's annual report for the year ended 31 December 2009 and does not extend to any financial statements of the bank taken as a whole or to any other reports of the bank.

Ernst & Young

31 January 2010
Muscat

DISCLOSURES UNDER PILLAR III OF BASEL II

For the Year Ended 31st December 2009

A. SCOPE OF APPLICATION

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

The Bank's objectives of capital management are:

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

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

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

B. CAPITAL STRUCTURE

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

	RO'000
Paid up share capital	75,000
Legal reserves	17,960
General reserves	13,666
Retained earnings/(losses) of previous years	3,694
Tier 1 Capital	**110,320**
Collective impairment provisions for loan losses on portfolio basis	7,861
Cumulative fair value gains on investments available-for-sale	522
Tier 2 Capital	**8,383**
Total Capital	**118,703**

Tier 1 Capital

The Bank's authorised and issued share capital comprises 75,000,000 fully paid shares of RO 1 each. In accordance with Article 106 of the Omani Commercial Companies Law of 1974, the Bank is required to transfer 10% of its profit after tax for the year to the legal reserve until the accumulated balance of the reserve equals at least one third of the Bank's paid up share capital. General reserves have been created out of the Bank's retained earnings to meet any unforeseen contingency.

B. CAPITAL STRUCTURE (continued)

Tier 2 Capital

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

C. CAPITAL ADEQUACY

Qualitative disclosures

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

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

- Standardized Approach for the credit risk with a simplified approach for the risk weighting of collaterals under the credit risk mitigation and
- Basic Indicator approach for the operational risk.

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

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

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

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

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

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

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

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

DISCLOSURES UNDER PILLAR III OF BASEL II

For the Year Ended 31st December 2009

Quantitative disclosure

Table-1

2009

Details	**Gross Balance (Book Value) RO'000**	**Net Balance (Book Value) RO'000**	**Risk Weighted Assets RO'000**
On-Balance sheet Item	876,738	866,822	533,107
Off-Balance sheet Item	736,263	329,409	205,626
Assets for Operational risk	82,928	82,928	82,928
Assets in Trading book	28,519	28,519	28,519
Derivatives	24,948	24,948	33,298
Total	**1,749,396**	**1,332,626**	**883,478**
Tier 1 Capital			110,320
Tier 2 Capital			8,383
Tier 3 Capital			-
Total Regulatory Capital			**118,703**
Capital requirement for credit risk			77,203
Capital requirement for market risk			2,852
Capital requirement for operational risk			8,293
Total required capital			**88,348**
Tier 1 Ratio			**12.49%**
Total Capital Ratio			**13.44%**

2008

Details	Gross Balance (Book value) RO'000	Net Balance (Book value) RO'000	Risk Weighted Assets RO'000
On-Balance sheet Item	778,078	764,641	482,318
Off-Balance sheet Item	782,897	352,014	237,531
Assets for Operational risk	71,431	71,431	71,431
Assets in Trading book	23,572	23,572	23,572
Derivatives	15,599	15,599	14,126
Total	1,671,577	1,227,257	828,978
Tier 1 Capital			90,239
Tier 2 Capital			7,196
Tier 3 Capital			-
Total Regulatory Capital			97,435
Capital requirement for credit risk			73,398
Capital requirement for market risk			2,357
Capital requirement for operational risk			7,143
Total required capital			82,898
Tier 1 Ratio			10.89%
Total Capital Ratio			11.75%

D. CREDIT RISK EXPOSURE AND ASSESSMENT

i. General disclosure

Qualitative disclosures

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

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

Credit Risk Management and Control

The credit risk management and control are centralised in the credit risk management team which is divided into corporate, financial institutions and retail groups. The credit risk in corporate and financial institutions portfolio is primarily managed by the Credit Department while the Retail Banking Department manages the credit risk in the retail portfolio. The Risk Management Department reviews the credit risk independently and directly reports to the Audit and Risk Management Committee of the Board of Directors. The Bank's assessment of probability of default of individual counterparties is mainly linked with the number of days the borrower was in default as defined by the CBO circular number BM 977 dated 25 September 2004. The Bank's clients are segmented into the following five rating classes:

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

In addition, the Bank's performing loans and advances are monitored on regular basis, applying qualitative factors, such as key financial ratios, profitability & performance of the business or slowdown in business leading to financial weakness, inter company debts, cash flow or liquidity problems, credit standing with other banks, current valuation and loan to asset coverage of the collateral, legal disputes, economic downturn etc. in determining the classification of loans. The Bank manages, limits and controls concentrations of credit risk in particular, to individual counterparties and groups, and to industries and countries.

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

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

DISCLOSURES UNDER PILLAR III OF BASEL II

For the Year Ended 31st December 2009

D. CREDIT RISK EXPOSURE AND ASSESSMENT (continued)

Credit Risk Management and Control (continued)

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Bank monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

Impairment provisioning

Impairment provisions are recognised for financial reporting purposes only for losses that have been incurred at the balance sheet date based on objective evidence of impairment. Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Bank about the loss events such as delays in repayment of contracted amounts by counterparties as well as considering the guidelines issued by the CBO.

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

Collectively assessed impairment allowances are provided for: (i) portfolios of homogenous assets that are individually not significant; and (ii) losses that have been incurred but have not yet been identified, by using the available historical experience, experienced judgment and peer statistics.

Quantitative disclosure

ii. Gross credit risk exposures

Table-2

Type of Credit Exposure	Average Gross Exposure		Total Gross Exposure as at	
	2009 RO'000	2008 RO'000	31 Dec 09 RO'000	31 Dec 08 RO'000
Overdrafts	82,820	84,785	71,863	88,931
Personal loans	191,372	153,236	221,681	162,965
Loans against trust receipts	39,229	30,809	33,683	46,377
Other loans	243,661	201,266	240,032	238,479
Bills purchased discounted	16,195	18,265	16,145	17,226
Total	**573,277**	**488,361**	**583,404**	**553,978**

DISCLOSURES UNDER PILLAR III OF BASEL II

For the Year Ended 31st December 2009

iii. Geographic distribution of exposures

Table-3

2009

Type of credit exposure	Oman	Other GCC countries	OECD countries	India	Pakistan	Others	Total
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Overdrafts	71,863	-	-	-	-	-	71,863
Personal loans	221,681	-	-	-	-	-	221,681
Loans against trust receipts	33,683	-	-	-	-	-	33,683
Other loans	240,032	-	-	-	-	-	240,032
Bills purchased discounted	16,145	-	-	-	-	-	16,145
Total	**583,404**	**-**	**-**	**-**	**-**	**-**	**583,404**

2008

Type of credit exposure	Oman	Other GCC countries	OECD countries	India	Pakistan	Others	Total
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Overdrafts	88,931	-	-	-	-	-	88,931
Personal loans	162,965	-	-	-	-	-	162,965
Loans against trust receipts	46,377	-	-	-	-	-	46,377
Other loans	238,479	-	-	-	-	-	238,479
Bills purchased discounted	17,226	-	-	-	-	-	17,226
Total	553,978	-	-	-	-	-	553,978

DISCLOSURES UNDER PILLAR III OF BASEL II

For the Year Ended 31st December 2009

iv. Industry or counterparty type distribution of exposures

Table-4

2009

Economic Sector	**Overdraft RO'000**	**Loans RO'000**	**Bills Purchased/ discounted RO'000**	**Others RO'000**	**Total RO'000**	**Off-balance sheet exposure RO'000**
Import trade	4,414	10,784	644	-	15,842	56,719
Export trade	123	129	47	-	299	190,240
Wholesale & retail trade	16,357	37,574	60	-	53,991	11,487
Mining & quarrying	938	31,801	1,222	-	33,961	-
Construction	25,229	43,291	10,858	-	79,378	216,360
Manufacturing	9,138	47,874	1,375	-	58,387	21,673
Electricity, gas and water	113	15,911	-	-	16,024	46,775
Transport and communication	195	10,672	-	-	10,867	32,710
Financial institutions	2,917	11,389	-	-	14,306	-
Services	6,177	44,741	929	-	51,847	9,098
Personal loans		221,681		-	221,681	-
Agriculture and allied activities	1,128	7,153	-	-	8,281	-
Government	2,582	-	-	-	2,582	139,601
Non-resident lending	-	-	-	-	-	-
All others	2,552	12,396	1,010	-	15,958	-
Total	**71,863**	**495,396**	**16,145**	**-**	**583,404**	**724,663**

2008

Economic Sector	Overdraft RO'000	Loans RO'000	Bills Purchased/ discounted RO'000	Others RO'000	Total RO'000	Off-balance sheet exposure RO'000
Import trade	6,837	12,286	743	-	19,866	46,165
Export trade	-	106	74	-	180	203,804
Wholesale & retail trade	18,415	24,702	789	-	43,906	13,227
Mining & quarrying	1,154	26,376	1,792	-	29,322	-
Construction	24,657	40,342	9,076	-	74,075	220,461
Manufacturing	13,660	70,111	823	-	84,594	54,387
Electricity, gas and water	165	4,540	-	-	4,705	44,232
Transport and communication	424	10,680	661	-	11,765	28,527
Financial institutions	307	8,259	-	-	8,566	-
Services	8,249	53,393	1,595	-	63,237	11,125
Personal loans	-	160,086	-	-	160,086	-
Agriculture and allied activities	446	7,233	133	-	7,812	-
Government	1,916	-	-	-	1,916	121,374
Non-resident lending	-	2,536	-	-	2,536	-
All others	12,701	27,171	1,540	-	41,412	-
Total	88,931	447,821	17,226	-	553,978	743,302

DISCLOSURES UNDER PILLAR III OF BASEL II
For the Year Ended 31st December 2009

v. Residual contractual maturity of credit exposure

Table-5
2009

Time Band	**Overdraft**	**Loans**	**Bills Purchased/ discounted**	**Others**	**Total**	**Off-balance sheet exposure**
	RO'000	**RO'000**	**RO'000**	**RO'000**	**RO'000**	**RO'000**
Up to 1 month	3,593	64,545	11,846	-	79,984	159,337
1-3 months	3,593	34,257	9,678	-	47,528	226,176
3-6 months	3,593	29,188	4,399	-	37,180	52,364
6-9 months	3,593	32,580	2,547	-	38,720	69,998
9-12 months	3,593	33,315	2,843	-	39,751	43,924
1-3 years	17,966	53,605	355	-	71,926	111,903
3-5 years	17,966	26,379	-	-	44,345	32,134
Over 5 years	17,966	196,016	-	-	213,982	28,807
Total	**71,863**	**469,885**	**31,668**	**-**	**573,416**	**724,643**

2008

Time Band	Overdraft	Loans	Bills Purchased/ discounted	Others	Total	Off-balance sheet exposure
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Up to 1 month	4,446	76,857	4,834	-	86,137	108,224
1-3 months	4,446	84,597	9,783	-	98,826	370,502
3-6 months	4,446	52,741	868	-	58,055	28,123
6-9 months	4,447	3,000	599	-	8,046	25,164
9-12 months	4,447	12,961	1,066	-	18,474	23,892
1-3 years	22,233	25,742	76	-	48,051	103,886
3-5 years	22,233	23,508	-	-	45,741	49,691
Over 5 years	22,233	160,529	-	-	182,762	33,820
Total	88,931	439,935	17,226	-	546,092	743,302

DISCLOSURES UNDER PILLAR III OF BASEL II

For the Year Ended 31st December 2009

vi. Loans and provisions by major industry or counterparty type

Table-6
2009

Economic Sector	Gross loans RO'000	Of which NPLs RO'000	Collective impairment provision held RO'000	Specific provision held RO'000	Unrecognised contractual interest RO'000	Provisions made during the year(*) RO'000	Advances written off during the year RO'000
Import trade	15,842	1,692	142	879	785	129	18
Export trade	299	17	3	14	3	-	-
Wholesale & retail trade	53,991	529	535	167	333	7	1
Mining & quarrying	33,961	-	340	-	-	-	-
Construction	79,378	3,472	759	1,351	1,175	118	13
Manufacturing	58,387	4,573	551	1,646	522	1,119	-
Electricity, gas and water	16,024	-	160	-	-	-	-
Transport and communication	10,867	73	108	41	32	1	-
Financial institutions	14,306	-	143	-	-	-	-
Services	51,847	268	516	139	62	18	-
Personal loans	221,681	4,637	4,341	1,751	682	1,358	186
Agriculture and allied activities	8,281	210	81	69	21	41	-
Government	2,582	-	26	-	-	-	-
Non-resident lending	-	-	-	-	-	-	-
All others	15,958	316	156	230	84	6	2
Total	**583,404**	**15,787**	**7,861**	**6,287**	**3,699**	**2,797**	**220**

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

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

Table-6 (continued)

2008

Economic Sector	Gross loans RO'000	Of which NPLs RO'000	Collective impairment provision held RO'000	Specific provision held RO'000	Unrecognised contractual interest RO'000	Provisions made during the year(*) RO'000	Advances written off during the year RO'000
Import trade	19,866	1,555	183	861	656	26	-
Export trade	180	15	2	14	1	-	-
Wholesale & retail trade	43,906	441	435	121	308	304	-
Mining & quarrying	29,322	-	293	-	-	-	-
Construction	74,075	3,216	709	1,559	1,012	35	2,824
Manufacturing	84,594	1,009	893	691	309	352	431
Electricity, gas and water	4,705	-	47	-	-	-	-
Transport and communication	11,765	176	116	40	38	-	-
Financial institutions	8,566	-	86	-	-	-	-
Services	63,237	284	630	162	79	26	32
Personal loans	160,086	1,853	3,172	1,165	564	489	489
Agriculture and allied activities	7,812	38	78	30	8	6	-
Government	6,178	-	62	-	-	-	-
Non-resident lending	2,536	-	25	-	-	-	-
All others	37,150	269	365	249	19	8	79
Total	553,978	8,856	7,096	4,892	2,994	1,246	3,855

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

DISCLOSURES UNDER PILLAR III OF BASEL II
For the Year Ended 31st December 2009

vii. Geographic distribution of impaired loans

Table-7
2009

Countries	**Gross Loans RO'000**	**Of which NPLs RO'000**	**Collective impairment provision held RO'000**	**Specific provision held RO'000**	**Unrecognised contractual interest RO'000**	**Provisions made during the year (*) RO'000**	**Advances written off during the year RO'000**
Oman	583,404	15,787	7,861	6,287	3,699	4,325	220
Other GCC countries	-	-	-	-	-	-	-
OECD countries	-	-	-	-	-	-	-
India	-	-	-	-	-	-	-
Pakistan	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-
Total	**583,404**	**15,787**	**7,861**	**6,287**	**3,699**	**4,325**	**220**

2008

Countries	Gross Loans RO'000	Of which NPLs RO'000	Collective impairment provision held RO'000	Specific provision held RO'000	Unrecognised contractual interest RO'000	Provisions made during the year (*) RO'000	Advances written off during the year RO'000
Oman	553,978	8,856	7,096	4,893	2,994	3,961	3,775
Other GCC countries	-	-	-	-	-	-	-
OECD countries	-	-	-	-	-	-	-
India	-	-	-	-	-	-	-
Pakistan	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-
Total	553,978	8,856	7,096	4,893	2,994	3,961	3,775

* - includes the specific and general provisions net of recoveries

DISCLOSURES UNDER PILLAR III OF BASEL II

For the Year Ended 31st December 2009

viii. Movement in gross loans

Table-8

Movement of Gross Loans during the year – 2009

Details	Performing loans		Non-performing loans			
	Standard	Special Mention	Sub-Standard	Doubtful	Loss	Total
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Opening balance	544,815	307	478	789	7,589	**553,978**
Migration /changes (+/-)	(25,555)	17,775	5,405	631	1,744	**-**
New loans	200,071	-	-	-	-	**200,071**
Recovery of loans	(169,796)	-	(56)	(94)	(479)	**(170,425)**
Loans written off	-	-	-	(1)	(219)	**(220)**
Closing balance	549,535	18,082	5,827	1,325	8,635	**583,404**
Provisions held	7,861	-	1,564	436	4,287	**14,148**
Unrecognised contractual interest	-	-	178	116	3,405	**3,699**

Movement of Gross Loans during the year – 2008

Details	Performing loans		Non-performing loans			
	Standard	Special Mention	Sub-Standard	Doubtful	Loss	Total
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Opening balance	390,990	592	569	3,538	12,922	408,611
Migration /changes (+/-)	11	(235)	(96)	(1,036)	1,356	-
New loans	231,823	-	205	303	289	232,620
Recovery of loans	(78,009)	(22)	(101)	(1,721)	(3,644)	(83,497)
Loans written off	-	(28)	(99)	(295)	(3,334)	(3,756)
Closing balance	544,815	307	478	789	7,589	553,978
Provisions held	7,096	-	243	350	4,299	11,988
Unrecognised contractual interest	-	-	65	336	2,593	2,994

DISCLOSURES UNDER PILLAR III OF BASEL II

For the Year Ended 31st December 2009

E. DISCLOSURE FOR PORTFOLIO SUBJECT TO STANDARDISED APPROACH

Qualitative disclosures

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

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

Quantitative Disclosure

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

	2009					
Risk bucket	**0%**	**20%**	**35%**	**50%**	**100%**	**Total**
	RO'000	**RO'000**	**RO'000**	**RO'000**	**RO'000**	**RO'000**
Sovereigns (Rated)	219,909	-	-	528	-	220,437
Banks (Rated)	-	137,591	-	131,936	78,906	348,433
Corporate (Unrated)	-	28,008	-	-	314,991	342,999
Retail	-	-	-	-	200,099	200,099
Claims secured by residential property	-	-	16,945	-	-	16,945
Claims secured by commercial property	-	-	-	-	25,334	25,334
Past due loans	-	-	-	-	5,801	5,801
Other assets	13,415	372	-	-	35,743	49,530
Undrawn exposure	-	-	-	-	11,600	11,600
Total	**233,324**	**165,971**	**16,945**	**132,464**	**672,474**	**1,221,178**

DISCLOSURES UNDER PILLAR III OF BASEL II

For the Year Ended 31st December 2009

Qualitative disclosures (continued)

2008

Risk bucket	0% RO'000	20% RO'000	35% RO'000	50% RO'000	100% RO'000	Total RO'000
Sovereigns (Rated)	171,900	-	-	129	-	172,029
Banks (Rated)	-	164,586	-	71,033	79,733	315,352
Corporate (Unrated)	-	32,671	-	-	380,247	412,918
Retail	-	-	-	-	151,998	151,998
Claims secured by residential property	-	-	9,114	-	-	9,114
Claims secured by commercial property	-	-	-	-	15,385	15,385
Past due loans	-	-	-	-	969	969
Other assets	12,384	2,934	-	-	15,586	30,904
Undrawn exposure	-	-	-	-	23,585	23,585
Total	184,284	200,191	9,114	71,162	667,503	1,132,254

F. CREDIT RISK MITIGATION UNDER STANDARDISED APPROACH

Qualitative disclosures

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

(a) Collateral

The Bank employs a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of security for funds advanced, which is a 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 and
- pledge of marketable shares and securities;

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

DISCLOSURES UNDER PILLAR III OF BASEL II
For the Year Ended 31st December 2009

F. CREDIT RISK MITIGATION UNDER STANDARDISED APPROACH (continued)

Qualitative disclosures (continued)

(b) Assessment of the financial capabilities of the borrowers

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

(c) Credit-related commitments

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

Quantitative disclosure

	2009 RO'000	2008 RO'000
Total exposure covered by eligible financial collateral	32,671	39,739
Value of the eligible collateral	29,903	34,765

G. MARKET RISK IN TRADING BOOK

Qualitative disclosures

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

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

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

DISCLOSURES UNDER PILLAR III OF BASEL II

For the Year Ended 31st December 2009

The Bank's foreign exchange exposure comprises forward contracts, foreign currencies cash in hand, balances with banks abroad, foreign placements and other assets and liabilities denominated in foreign currency. The management manages the risk by monitoring net open position in line with limits set by the management and entering into forward contracts based on the underlying commercial transactions with the customers. Additionally, appropriate segregation of duties exist between the front and back office functions while compliance with the net open position is independently monitored on an ongoing basis by the management and the Assets and Liabilities Committee (ALCO).

Quantitative disclosure

The impact of 10% change in the market price of the quoted equities which are part of the investments held for trading at 31 December 2009 is ±0.9% of the total income (2008 – ±0.6%).

H. INTEREST RATE RISK IN BANKING BOOK

Qualitative disclosures

Interest rate risk is the risk that the value of a financial instrument carried at fair value will fluctuate due to changes in the market interest rates. The Bank is exposed to interest rate risk as a result of mismatches or gaps in the amount of interest based assets and liabilities that mature or re-price in a given period. The Bank manages this risk by matching/re-pricing of assets and liabilities. The Bank is not excessively exposed to interest rate risk as substantial portion of its assets and liabilities are re-priced frequently. The Bank's Assets and Liabilities Committee (ALCO) monitors and manages the interest rate risk with the objective of limiting the potential adverse effects on the Bank's profitability.

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

Quantitative disclosure

The EaR at 31 December 2009 is 12.13% (2008 - 12.68%).

The following table summarises the Bank's exposure to the interest rate risks. It includes the Bank's financial instruments at the carrying amount, categorised by the earlier of the contractual re-pricing and maturity dates.

DISCLOSURES UNDER PILLAR III OF BASEL II

For the Year Ended 31st December 2009

H. INTEREST RATE RISK IN BANKING BOOK (continued)

2009

	Average effective interest rate %	Within 3 months RO'000	4 to 12 months RO'000	1 to 5 years RO'000	Over 5 years RO'000	Non-interest bearing RO'000	Total RO'000
Assets							
Cash and balances with the Central Bank of Oman	2.00	-	-	-	935	64,019	**64,954**
Certificates of deposit	0.05	110,000	-	-	-	-	**110,000**
Due from banks	1.88	27,387	-	-	-	27,873	**55,260**
Loans and advances	6.40	171,321	131,332	261,188	1,716	-	**565,557**
Investment securities at fair value	-	-	-	-	-	10,568	**10,568**
Investment – held to maturity	4.22	-	3,845	17,783	-	-	**21,628**
Other assets	-	14,234	1,896	1,712	-	3,644	**21,486**
Property and equipment	-	-	-	-	-	9,438	**9,438**
Total assets		**322,942**	**137,073**	**280,683**	**2,651**	**115,542**	**858,891**
Liabilities							
Due to banks	0.09	460	-	-	-	1,469	**1,929**
Deposits from customers	1.36	280,484	68,842	42,748	-	303,998	**696,072**
Other liabilities	-	19,592	1,896	1,712	-	8,137	**31,337**
Taxation	-	-	-	-	-	3,072	**3,072**
Total liabilities		300,536	70,738	44,460	-	316,676	**732,410**
Total interest sensitivity gap		22,406	66,335	236,223	2,651	(201,134)	**126,481**
Cumulative interest sensitivity gap		**22,406**	**88,741**	**324,964**	**327,615**	**126,481**	

DISCLOSURES UNDER PILLAR III OF BASEL II

For the Year Ended 31st December 2009

H. INTEREST RATE RISK IN BANKING BOOK (continued)

2008

	Average effective interest rate	Within 3 months	4 to 12 months	1 to 5 years	Over 5 years	Non-interest bearing	Total
	%	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Assets							
Cash and balances with the Central Bank of Oman	2.00	-	-	-	935	95,296	96,231
Certificates of deposit	1.63	30,000	3,000	-	-	-	33,000
Due from banks	0.83	36,026	-	-	-	11,643	47,669
Loans and advances	6.64	214,778	143,537	179,709	-	972	538,996
Investment securities at fair value	-	-	-	-	-	3,710	3,710
Investment – held to maturity	4.79	7,375	10,000	7,849	-	-	25,224
Other assets (as restated)	-	17,143	2,522	382	-	6,044	26,091
Property and equipment	-	-	-	-	-	8,185	8,185
Total assets (as restated)		305,322	159,059	187,940	935	125,850	779,106
Liabilities							
Due to banks	0.25	-	20,000	-	-	2,243	22,243
Deposits from customers	1.49	210,879	55,829	48,926	-	295,271	610,905
Other liabilities (as restated)		17,597	2,522	382	-	11,438	31,939
Taxation		-	-	-	-	3,557	3,557
Total liabilities (as restated)		228,476	78,351	49,308	-	312,509	668,644
Total interest sensitivity gap		76,846	80,708	138,632	935	(186,659)	110,462
Cumulative interest sensitivity gap		76,846	157,554	296,186	297,121	110,462	

I. LIQUIDITY RISK

Qualitative Disclosures

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

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

DISCLOSURES UNDER PILLAR III OF BASEL II
For the Year Ended 31st December 2009

I. LIQUIDITY RISK (continued)

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

2009

	On demand or within 3 months RO'000	3 to 12 months RO'000	1 to 5 years RO'000	Over 5 years RO'000	Total RO'000
Assets					
Cash and balances with the Central Bank of Oman	35,814	15,708	4,265	9,167	**64,954**
Certificates of deposit	110,000	-	-	-	**110,000**
Due from banks	55,260	-	-	-	**55,260**
Loans and advances	127,125	115,072	114,338	209,022	**565,557**
Investment securities	10,568	3,845	17,783	-	**32,196**
Other assets	15,470	4,304	1,712	-	**21,486**
Property and equipment	-	-	-	9,438	**9,438**
Total assets	**354,237**	**138,929**	**138,098**	**227,627**	**858,891**
Liabilities					
Due to banks	1,929	-	-	-	**1,929**
Deposits from customers	305,084	213,957	58,099	118,932	**696,072**
Other liabilities	25,478	2,233	3,626	-	**31,337**
Taxation	-	-	3,072	-	**3,072**
Total liabilities	**332,491**	**216,190**	**64,797**	**118,932**	**732,410**
Net assets	**21,746**	**(77,261)**	**73,301**	**108,695**	**126,481**
Forward exchange contracts at notional amounts (note 32)					
Purchase contracts	39,717	21,532	-	-	**61,249**
Sale contracts	(39,677)	(21,501)	-	-	**(61,178)**
	40	**31**	**-**	**-**	**71**

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

DISCLOSURES UNDER PILLAR III OF BASEL II

For the Year Ended 31st December 2009

I. LIQUIDITY RISK (continued)

2008

	On demand or within 3 months RO'000	3 to 12 months RO'000	1 to 5 years RO'000	Over 5 years RO'000	Total RO'000
Assets					
Cash and balances with the Central Bank of Oman	48,055	23,697	8,487	15,992	96,231
Certificates of deposit	30,000	3,000	-	-	33,000
Due from banks	46,094	1,575	-	-	47,669
Loans and advances	184,962	84,575	93,793	175,666	538,996
Investment securities	11,085	10,000	7,849	-	28,934
Other assets (as restated)	21,747	3,962	382	-	26,091
Property and equipment	-	-	-	8,185	8,185
Total assets (as restated)	341,943	126,809	110,511	199,843	779,106
Liabilities					
Due to banks	22,243	-	-	-	22,243
Deposits from customers	261,247	173,556	62,161	113,941	610,905
Other liabilities (as restated)	22,551	7,272	2,116	-	31,939
Taxation	3,557	-	-	-	3,557
Total liabilities (as restated)	309,598	180,828	64,277	113,941	668,644
Net assets	32,345	(54,019)	46,234	85,902	110,462
Forward exchange contracts at notional amounts (note 32)					
Purchase contracts	40,637	5,944	-	-	46,581
Sale contracts	(40,593)	(5,942)	-	-	(46,535)
	44	2	-	-	46

J. OPERATIONAL RISK

Qualitative Disclosures

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

Quantitative Disclosures

The Risk Weighted Assets for the operational risk using the Basic Indicator Approach is RO 82.93 million at December 31 2009 (2008: RO 71.43 million).

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