ANNUAL REPORT 2011

Keeping Pace with Development

بنك عُمان العربي ش.م.ع.م

OMAN ARAB BANK S.A.O.C.

At Oman Arab Bank, our relentless
pursuit of excellence takes us forward.
We lead the way in bringing our customers
an innovative range of products and services.
Over the years, we have also been financing
major projects and contribute to national development.

We draw inspiration from the visionary leadership
of His Majesty Sultan Qaboos Bin Said.
While the Sultanate continues to make
rapid strides forward, we are committed to being
a partner in progress.

In this Annual Report, we look at our
sterling performance in 2011 and strive towards
further growth for the benefit of
our customers and the nation.

His Majesty Sultan Qaboos Bin Said

CONTENTS

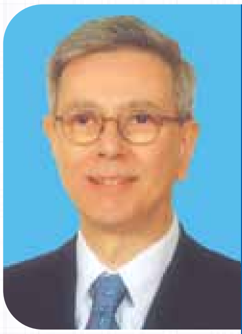
MR. RASHAD BIN MUHAMMED AL ZUBAIR
CHAIRMAN

Appointed Chairman in June 1999, Mr. Rashad Al Zubair has more than 21 years of business experience. He has been the Chairman of The Zubair Corporation from 1996 till 2010. Mr. Rashad Al Zubair was a member of the Board of Directors of the Capital Market Authority for more than six years until 2008.

He is also the Deputy Chairman of Barr Al Jissah Resort & Spa. Over the years, he has held various other directorships in Omani joint stock companies such as Oman Refreshments, Port Services Corporation and United Power Company.

BOARD OF DIRECTORS

LEADING THE WAY...



MR. ABDEL HAMID SHOMAN
DEPUTY CHAIRMAN

The Deputy Chairman of Oman Arab Bank since 2001, Mr. Shoman has more than 39 years of banking experience. He is also the Chairman of Arab Bank Plc.

Mr. Shoman presently chairs the Board of Directors of Arab Bank (Switzerland) Ltd., Europe Arab Bank, Abdul Hameed Shoman Foundation, Jordan and Al Arabi Capital Ltd., Dubai. He is also the Chairman of the Supervisory Board of Al Arabi Investment Group, Jordan.

He is a 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. 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 Oman 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. 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 Company SAOG – Chairman
- National Finance Company SAOG – Vice Chairman
- Fund for Development of Youth Projects SAOC – Chairman

MR. SAID ZAKI
DIRECTOR

A Director since February 1997, member of the Board Audit Committee since January 2003 and member of the Board 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.

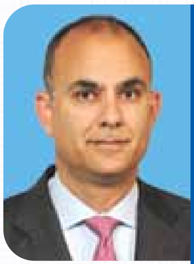
Since 1995, Mr. Said Zaki has been with Ominvest where he currently holds the position of Chief Compliance Officer. Previously, he worked for The Zubair Corporation LLC ('TZC') for 11 years in senior management positions and represented TZC as a Director on the Board of several public and private companies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

MR. MULHAM AL JARF
DIRECTOR

As Deputy Chief Executive Officer, Mr. Mulham supports the Oman Oil Company's 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, Chairman of Sohar Aluminium LLC, Vice Chairman of Gulf Energy Maritime PSC, Deputy Chairman of Oman Oil Marketing Company SAOC, Director in MOL Plc., Director in China Gas Holdings Limited and Director in Oman Arab Bank SAOC.

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



MR. AMIN HUSSEINI
DIRECTOR

Mr. Amin Husseini joined Arab Bank Plc in 1994 and was later promoted to Executive Vice President/Head of Financial Institutions & Transaction Services Group at Arab Bank Head Office in Amman. Born in 1967, Mr. Husseini has a Bachelor's Degree in Physics and a Master's Degree in Business Administration.

He was relocated to Manama to hold the position of Executive Vice President / Bahrain Country Manager in March 2009 and is currently managing the retail bank in Bahrain as well as the Offshore Banking Unit which has regional responsibilities and client coverage. At the Head Office, he was a member of the Asset and Liability Management Committee, Strategic Planning Committee and the Senior Joint Credit Committee. Mr. Husseini is the Deputy Chairman of T-Bank, a subsidiary of Arab Bank in Turkey, and a member of the Board of Directors of Oman Arab Bank.

MS. RANDA SADIK
DIRECTOR

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

Before joining Arab Bank, Ms. Sadik served as Group General Manager for National Bank of Kuwait, responsible for the bank's international and regional network of branches and subsidiaries. Ms. Sadik is also a board member of Arab Tunisian Bank in Tunis, a board member of Arab Investment Bank S.A.L. - Lebanon, Chairman of Al-Arabi for Finance (Holding co.) S.A.L. - Lebanon, Chairman of the Supervisory Board of Al-Arabi investment group and the Vice Chairman of Arab Bank Australia Ltd.

FINANCIAL HIGHLIGHTS 2011

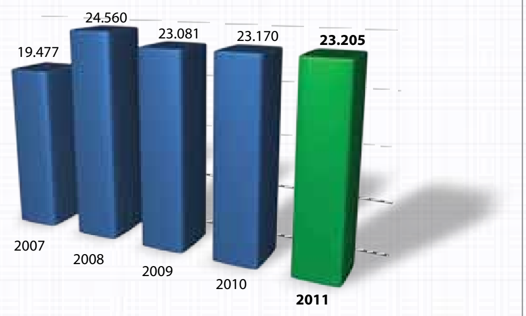
	RO'000
Total Assets	1,114,665
Deposits	909,660
Loans	829,845
Shareholders' Equity	148,956
Net Profit	23,205

SUMMARY
RO'000 (UNLESS OTHERWISE INDICATED)

	2011	2010	2009	2008 (Restated)	2007
Financial Highlights					
Net interest income	36,480	33,357	30,778	28,880	25,295
Other operating income	18,895	18,175	17,768	15,798	14,164
Net operating income	**55,375**	**51,532**	**48,546**	**44,678**	**39,459**
Operating expenses	(25,347)	(21,970)	(20,541)	(18,223)	(16,554)
Provision for loan impairment	(6,173)	(4,562)	(4,325)	(3,961)	(3,063)
Release/recovery from provision for loan impairment	2,667	1,742	2,459	5,435	2,149
Taxation	(3,317)	(3,572)	(3,058)	(3,369)	(2,514)
Net profit after taxation	**23,205**	**23,170**	**23,081**	**24,560**	**19,477**
Dividend	18,000	17,000	15,000	20,000	9,600
Total assets	1,114,665	953,655	858,891	779,106	650,731
Gross loans and advances	857,000	682,349	583,404	553,978	408,611
Provision for loan impairment	(27,155)	(22,003)	(17,847)	(14,982)	(19,744)
Net loans and advances	829,845	660,346	565,557	538,996	388,867
Non-performing loans	24,446	20,953	15,787	8,856	17,029
Customer deposits	909,660	769,761	696,072	610,905	533,482
Shareholders' funds	148,956	125,831	111,481	90,462	78,679
Share Capital	100,000	85,000	75,000	60,000	48,000
Analysis					
1. Profitability					
Return on shareholders' funds	16.89%	19.53%	22.86%	29.04%	26.96%
Return on Total Assets	2.24%	2.56%	2.82%	3.72%	3.27%
Cost to income	45.77%	42.63%	42.31%	40.79%	41.95%
2. Capital					
Capital Adequacy (BIS standard)	13.69%	14.49%	13.44%	11.75%	13.46%
Shareholders' funds to Total Assets	13.36%	13.19%	12.98%	11.61%	12.09%
3. Asset quality					
Non-performing loans to total loans	2.85%	3.07%	2.71%	1.60%	4.17%
Provision coverage	111.08%	105.01%	113.05%	169.17%	115.94%
4. Liquidity					
Net loans to customer deposits	91.23%	85.79%	81.25%	88.23%	72.89%
Net loans to total assets	74.45%	69.24%	65.85%	69.18%	59.76%
Liquid assets to customer deposits	25.92%	32.70%	36.80%	31.92%	45.65%
5. Others					
Dividend rate	18.00%	20.00%	20.00%	33.33%	20.00%
Dividends per share in RO	0.180	0.200	0.200	0.333	0.200
Basic earnings per share in RO	0.241	0.272	0.310	0.400	0.403

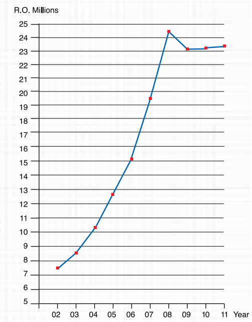
Financial Trends

Ten Year Trends

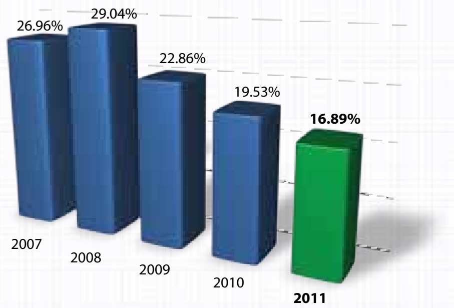


Profit

The Net Profit After Tax for the year is same as previous year mainly due to the impact of increased staff costs while the growth in the Bank's assets happened during the last quarter of 2011.

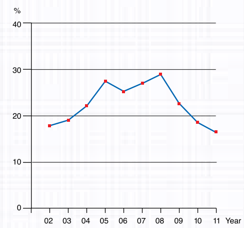


Net Profit After tax
Profit tax exempt until 31 July, 2002

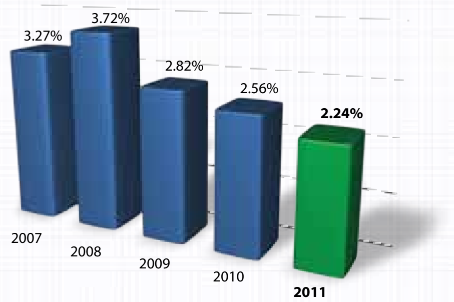


Equity

The Return on Equity reduced from the previous year mainly due to the increased equity and the lack of growth in the Net Profit After Tax.

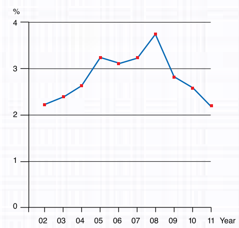


Return on average shareholders' equity

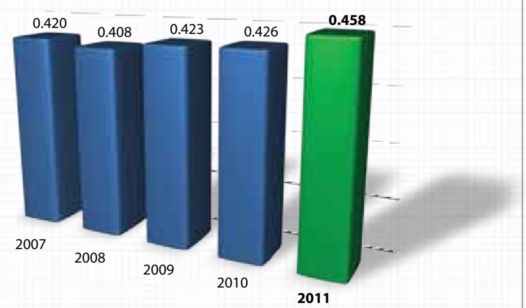


Assets

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

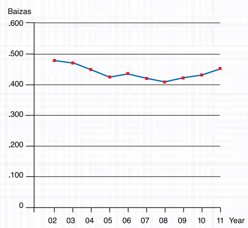


Return on Total Assets



Cost to income

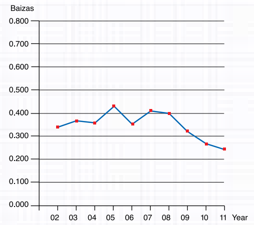
The increase in cost to income is due to the additional staff costs as well as the increase in branches and the resultant operating costs. The ratio is within average level in the market.



Cost to income

Ten Year Trends

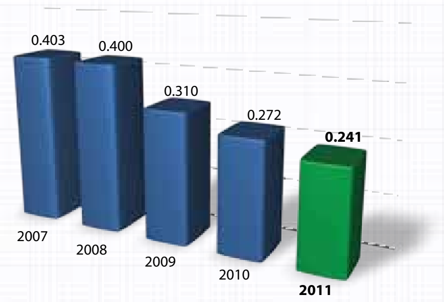
Financial Trends

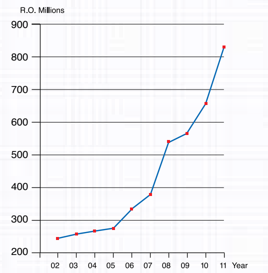


Earnings per share in RO

Earnings

Earnings Per Share reduced by 13% from previous year due to the same level of net profit while the share capital increased.

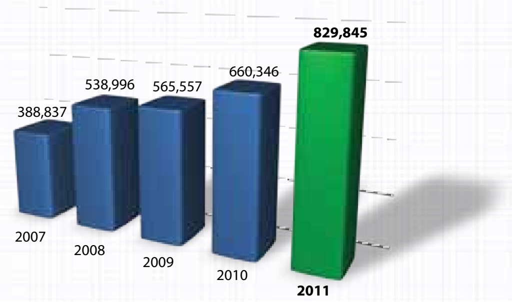


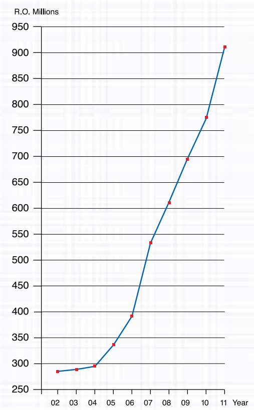


Loans & advances net of provision

Loans

Growth in loans at 26% with a 32% increase in corporate loans and 17% increase in personal loans is above the average market growth.

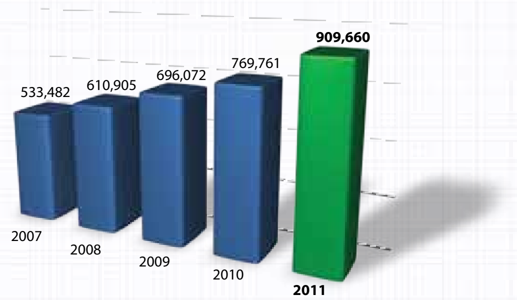


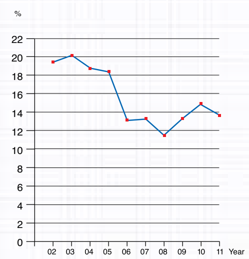


Customer deposits

Deposits

Deposit growth of 18% in order to support the growth in loans is at the same level as the market.

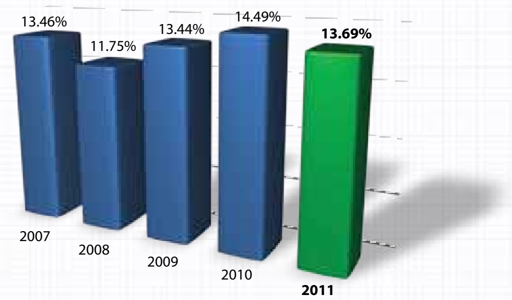




Capital Adequacy ratio

Capital

Increase in share capital to RO 100 million during the year and a significant growth in assets has resulted in a lower Capital Adequacy Ratio. However this is higher than the minimum ratio of 12% required by the Central Bank of Oman.



CHAIRMAN'S REPORT

Dear Shareholders,

On behalf of the Bank's Board of Directors, I am pleased to present to you the Bank's Annual Report for 2011, which reflects the Bank's results and achievements for the year.

The Board of Directors have ensured that the Bank maintains its financial strength and asset quality through its stringent policies while contributing to the economic progress in the Sultanate by participating in the financing of infrastructural and developmental projects. The Bank managed to maintain its financial strength and profitability despite the challenges that the banking industry faced during the year.

The Bank's financial statements for the year ended 31st December 2011 show the positive results in key items as compared to the previous year's figures. The total assets amounted to RO 1.1 Billion against RO 953 Million in 2010 with an increase of RO 161 Million. There has been an increase in the net loans and advances from RO 660 Million in 2010 to RO 829 Million as well as an increase in customer deposits which reached RO 909 Million from RO 769 Million in 2010.

The net profit after tax is RO 23.205 Million this year compared to RO 23.170 Million in 2010. The Bank has maintained its profit level in spite of the significant increase in staff costs. After providing for the required loan loss allowance, the Bank continues to maintain provision coverage of 111% of the Non-Performing Loans while the ratio of Gross Non-Performing Loans reduced to 2.8%.

In addition, the Bank continued to increase the paid-up share capital and the equity with the statutory and general reserves. Total shareholders' equity increased to RO 149 Million from RO 125 Million in 2010.

Based on these results, the Board of Directors recommended the distribution of dividends of 18% of the capital to shareholders with 12% as cash dividends and 6% as stock dividend to be added to the capital resulting in the retained earnings of RO 1.793 Million.

The Bank's financial statements reflect the emphasis on its compliance with banking law and disclosure policy issued by the Central Bank of Oman and Capital Market Authority. The Bank publishes the corporate governance report although it is not required to do so as a closed company. The Bank received a recognition certificate from Capital Market Authority in appreciation of the Bank's compliance with governance and disclosure regulations.

The Bank continued to create and develop means that would enhance the services provided to our clients. Reserve funds have been allocated for developing systems that meet our clientele's needs. Furthermore, the Bank continued to open new branches where 3 branches were opened this year. We strive to continue opening new branches covering all areas in which we don't have presence. It is noteworthy that our branch and office network throughout the Sultanate is 60 branches and offices.

The Bank continued to maintain its policy on increasing Omanization percentage in the Bank which reached 93.5% and Omanization percentage in middle and senior positions reached 85%, which is the highest among banks.

The Bank is in the process of conversion into a public joint stock company (SAOG). After the completion of legal and regulatory procedures and the necessary approval by shareholders, 25% of its paid-up capital will be offered to the public. The Bank is also planning to provide Islamic banking services after the regulatory authorities publish the relevant laws and regulations.

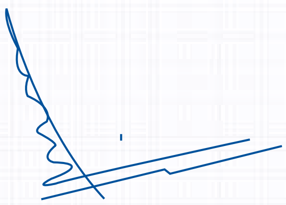
The Board of Directors extends its sincere thanks and appreciation to all the Bank's customers for their continuous support and trust in the Bank. We promise to continue our efforts to develop our services towards meeting their needs and serving their interests. The Board also expresses its thanks to the executive management and all the staff members of the Bank for their efforts and dedication, which had a valuable impact on achieving the results and providing excellent level of services.

The Board of Directors also extends its sincere thanks and appreciation to all ministries and government authorities for their support and assistance. The Board expresses its gratitude to the Governors' Council of the Central Bank of Oman for its effort in supporting the banking industry.

The Board of Directors highly appreciates the continuous support and effective guidance provided by Arab Bank Plc in Jordan to the Bank, whose support constitutes the foundation for strengthening the Bank and enabling it to enhance its potentials.

We pray to Allah Almighty to grant us success in continuing our support of our homeland Oman under the wise leadership of His Majesty Sultan Qaboos Bin Said. May Allah protect him.

Thank you



Rashad Bin Muhammed Al Zubair
Chairman

KEY HIGHLIGHTS OF 2011

KEY HIGHLIGHTS OF 2011

Development of Gas Plant in Musandam

Crude Oil Tank of Oman Shipping Co. SAOC

KEY HIGHLIGHTS OF 2011

Development of Muscat International Airport

Construction of Sur - Bid Bid Road Project

CHIEF EXECUTIVE OFFICER'S REPORT

Our Achievements

We, at Oman Arab Bank, continue to stress on the importance of the values of consistency, commitment and continuity while actively contributing to the country's economic development. We have intensified our marketing efforts during this year, with an aim to contribute to all vital projects launched by the government in order to support development in the country, since we believe this to be the role of the financial institutions in a nation. During this year we have participated in financing the purchase of ships for Oman Shipping Company, building of the dock at the Port of Sohar and have provided necessary credit facilities to the companies involved in the construction of the Muscat International Airport. We have provided credit facilities to the companies involved in the construction of the Bid Bid-Sur Road as well as the Musandam Gas Project. We have also participated in the syndicated loan of the aluminum rolling mills and granted a loan to Oman Air in order to finance the purchase of an aircraft. In addition, we have continued to support and finance the companies working on the construction of Al Duqm Port and dry docks. We have been able to attract the companies implementing the major infrastructural projects as we strive to provide the best banking services to meet their requirements.

Results

The financial results mentioned in the Chairman's Report indicate the strength and consistency of the Bank's performance. Despite the unforeseen circumstances and events faced by the Bank during the past two years, which caused a significant increase in staff costs, we managed to maintain the level of profits at the same level as the previous year. Achieving this under such events confirms our ability and efficiency to maintain our achievements.

Services

The Bank has been following the developments in the business with a view to providing its clients with better services, especially in the field of electronics and the means by which the Bank can provide its customers with better banking experience. During the last year, we continued to develop our capabilities in order to support the government's efforts in electronic payment systems as part of the e-government initiative. The following are the achievements of the Bank during the year:

- We are the only Bank to link the government payment services with OAB payment gateway.
- We are also the only bank to acquire the domestic payments of Government and Sanad offices, through Oman National Switch network.
- Acquiring Omantel and Nawras payments from their payment channels through OAB payment gateway.
- Conducting planned and unplanned testing of disaster recovery and business continuity plan during working hours to ensure the uninterrupted banking services to our customers.
- Upgrading the Bank's internet banking services and developing the security system against threats like phishing.
- Enhancing and upgrading the Bank's trade finance system.

Human Resources

With the aim to provide superior service to our customers, the Bank focused on the improvement of employees' effectiveness by having well trained staff based on proper knowledge and professionalism which enhance the standard of services rendered to our customers. In order to achieve this objective the Bank has organized 211 courses in different banking fields, such as IT, leadership and supervision, Islamic banking transactions and specialized banking courses in the areas of auditing, credit and investment. These courses were attended by almost 1,686 employees. In addition, employees have been delegated to attend banking seminars and programs in the Sultanate and abroad. Furthermore, we sent 26 employees to study in different colleges and universities in the Sultanate and abroad, in order to allow them to pursue further education and to create leading staff members capable of performing their jobs effectively. This year, 478 employees were promoted to higher positions. As a result, Omanization in leading positions reached 83%. In fact, the Bank's Management believes that the only means to deal with the severe competition is to have staff capable of establishing good communication between the Bank and its customers.

Branch network

The Bank continued to expand its presence in the internal regions of the Sultanate with the aim to render its services throughout Oman. This year, the Bank opened four branches in Omantel Office at Mawaleh, Duqm, Suwaiq and Bahla and is planning to open two to three branches annually, in order to enhance its presence across the Sultanate and to provide our customers with services in their region.

Investment Banking Services

The Management continues to focus on developing the Investment Banking business to enable it to provide investment services efficiently and effectively. We are striving to develop our corporate advisory services provided to our customers in order to enable them to develop their investments. During this year, the Bank's Investment Management Group (IMG) managed IPOs and right issues for public joint stock companies and closed joint stock companies as well. Furthermore, the Bank has been nominated to manage the IPO and underwriting of the first Islamic bank in the Sultanate of Oman. IMG is the first in Oman to develop a set of standard KPIs to measure the performance of the Omani and GCC capital market through launching the Al Arabi Oman 20 Index and Al Arabi Khaliji 50 Index. The Bank is the first in Oman to launch such kind of indices. Oman Al Arabi Fund continued to realize a better performance than that of the MSM Index and other similar funds in the market.

The Bank has been committed to its social responsibility through its support and assistance to various social, economic, sports, educational, cultural and humanitarian activities. The Bank will be publishing a report highlighting its efforts on corporate social responsibility.

During 2012, the Bank's General Management along with several departments will relocate to the Bank's new building in Athaiba. The Bank has ensured that the design of the new building would enhance its efficiency in achieving the Bank's vision of solidity, stability and commitment. We hope that the inauguration of the new building, which is expected during the third quarter of the year, will enable us to provide our services more efficiently in serving the customers.

May Allah guide us all to strive more for the prosperity of our nation, and we pray God to safeguard the beloved builder of our renaissance, Sultan Qaboos Bin Said. May Allah protect him.

Abdul Kader Askalan

Chief Executive Officer

OMAN ARAB BANK SAOC

CORPORATE GOVERNANCE REPORT AND MANAGEMENT DISCUSSION & ANALYSIS

For the Year Ended 31st December 2011

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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 2011 and does not extend to any financial statements of Oman Arab Bank SAOC, taken as a whole.

Ernst & Young

15 February 2012
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 governs the Bank's everyday activities - values and behaviours that ensure transparency, fair dealing and protection of the interest of the Bank's stakeholders namely customers, shareholders, employees and the community. In line with this belief, the Board's approach is to consider corporate governance within the broader framework of corporate responsibility and regulatory oversight.

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

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

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

Our Governance Standards – Principles and Processes

We believe that the best approach is to be guided by the principles and practices that are in our stakeholders' interests. However, as a minimum we ensure full compliance with legal requirements, in particular to the letter and spirit 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 2011.

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 the shareholders. The Board's specific responsibilities include:

- ensuring our business is conducted ethically and transparently;
- providing strategic direction and approving corporate strategies;
- ensuring 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 current composition of the Board and Board Committees is set out in Part 2.

Selection and Role of the Chairman

The Chairman is a non-executive director, appointed by the Board. The Chairman's role includes:

- ensuring that, when all Board members take office, they are fully briefed on the terms of their appointment, their duties and responsibilities;
- providing effective leadership on formulating the Board's strategy;
- representing the views of the Board to the public;
- ensuring that the Board meets at regular intervals throughout the year, and that minutes of meetings accurately record decisions taken and, where appropriate, the views of individual directors; and
- reviewing the contributions made by the 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 meets the criteria of 'independent director' as defined by Article 1 of the CMA code of corporate governance.

Meetings of the Board and their Conduct

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

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

Attendance at Annual General Meeting

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

Avoidance of Conflicts of Interest of Directors

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

Expertise of our Board

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

Succession Planning

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

Nomination and Appointment of New Directors

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

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

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

Review of Board Performance

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

Board Access to Independent Information

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

2. Board Committees

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

Operation of the Committees

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

Composition and Independence of the Committees

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

How the Committees report to the Board

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

Brief Terms of Reference of Board Committees

a) Board Executive Committee

The Board Executive Committee:

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

b) Board Audit and Risk Management Committee

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

- Integrity of the financial statements.
- Compliance with legal and regulatory requirement.
- Ensuring that 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.
- Reviewing and recommending risk management policies and controls to the Board.
- Review and recommendation to the Board the terms of engagement of our external auditors.
- Performance of the internal audit function.

c) Board Selection and Remuneration Committee

The Board Selection & Remuneration Committee oversees all matters concerning:

- Recommending the appointment of Chief Executive Officer to the Board.
- Ensuring independence of the Board members and avoidance of conflict of interest.
- Approving the appointment of executive management team based on the recommendation by the Chief Executive Officer except the appointment of Chief Audit Executive, Head of Compliance, Head of Risk Management, and Legal Counsel who will be appointed directly by the Board or its committees.
- Recommending remuneration of the Chief Executive Officer to the Board including the salary and other benefits.
- Approving remuneration of executive management team include the salaries and other benefits.
- Ensuring that the Bank has a proper compensation policy, reviewing and recommending amendments in policy to the Board.
- Reviewing and monitoring the human resource plan and align the plan to achieve the Bank's strategies.
- Ensuring that the Bank has proper training, career development and succession plans.
- Reviewing and monitoring the "Omanisation" plan and identifying the positions that should be occupied by Omanis with the time table to achieve the plan.

Integrity of the Financial Statements

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

Internal Audit Function

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

Composition of the Committee and Meetings

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

3. Audit Governance and Independence

The Board is committed to three basic principles:

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

Engagement of Auditors

The Bank's independent external auditors are Ernst & Young for the financial year ended at 31 December 2011. They were appointed by shareholders at the Annual General Meeting held on 8 March 2011.

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. The Board Audit and Risk Management Committee also meets with the external auditors to discuss their audit and any concerns they may have.

Rotation of External Auditors

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

Restrictions on Non-Audit Work by the Audit Firm

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

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

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

Attendance at Annual General Meeting

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

4. Executive Pay and Reward Schemes

Overview

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

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

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

Who decides how individuals should be paid and rewarded?

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

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

Fees paid to each director during the 12 month period ended 31 December 2011 together with pay and rewards for the Bank's top five executives are set out in Part 2.

5. Controlling and Managing Risk

Approach to Risk Management

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

The Bank recognizes three main types of risk:

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

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

The risk management function aims at ensuring that

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

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

(c) all the attendant risks are adequately monitored.

Risk Management Roles and Responsibilities

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

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

Internal Review and Risk Evaluation

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

6. Communication with Shareholders, Regulators and Wider Market

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

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

Corporate Governance - Part 2

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

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

1. Board of Directors

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

2. Audit and other Committees

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

Table 1

Director	Board Membership	Appointed Director	Shareholder Representation	Committee Membership		
				Executive Committee	Audit and Risk Management Committee	Selection and Remuneration Committee
Rashad Bin Muhammed Al Zubair	Chairman Non executive independent	October 1989	Ominvest	√		
Abdel Hamid Shoman	Deputy Chairman. Non executive independent	October 1984	Arab Bank Plc	√		
Amin R Husseini	Director Non executive independent	May 2010	Arab Bank Plc	√	√	√
Randa Sadik	Director Non executive independent	June 2010	Arab Bank Plc			
Hani Bin Muhammed Al Zubair	Director Chairman of Audit & Risk Management Committee Non executive independent	June 1999	Ominvest		√	
Said Zaki	Director Non executive independent	February 1997	Ominvest	√	√	√
Mulham Bashir Al Jaraf	Director Non executive independent	September 2007	Ominvest	√		√

The members of the committees together with the number of meetings held and attended by each member are set out in Table 2.

Table 2

Each director attended the following meetings of the Board of Directors and Committees of the Board during the financial year, which ended on 31 December 2011.

Director	Board Meetings		Executive Committee		Audit and Risk Management Committee		Selection and Remuneration Committee	
	(Note 1)		(Note 2)		(Note 3)		(Note 5)	
	No. of meetings held	No. of meetings attended	No. of meetings held	No. of meetings attended	No. of meetings held	No. of meetings attended	No. of meetings held	No. of meetings attended
Rashad Bin Muhammed Al Zubair	4	4	5	5	-	-	-	-
Abdel Hamid Shoman	4	3	-	-	-	-	-	-
Hani Bin Muhammed Al Zubair	4	2	-	-	6	4	-	-
Said Zaki	4	4	5	4	6	6	1	1
Amin R Husseini	4	4	5	3	6	6	1	1
Randa Sadik	4	4	-	-	-	-	-	-
Mulham Bashir Al Jaraf	4	4	5	5	-	-	1	1

Note 1 Board Meetings were held on 19 February, 24 April, 23 October and 25 December during the year 2011

Note 2 Executive Committee Meetings were held on 4 January, 15 March, 25 May, 25 August and 14 November during the year 2011

Note 3 Audit and Risk Management Committee Meetings were held on 23 January, 24 April, 24 May, 3 August, 17 October and 7 December during the year 2011

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

Note 5 Selection and Remuneration Committee Meeting was held on 29 December 2011.

3. Process of Nomination of Directors

The nomination process is explained in Part 1 paragraph 1.

4. Remuneration Matters

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

Table 3

2011

Director's Name	Remuneration RO	Sitting Fees RO	Total RO
Rashad Bin Muhammed Al Zubair	12,500	10,000	22,500
Abdel Hamid Shoman	7,500	7,500	15,000
Hani Bin Muhammed Al Zubair	7,500	7,500	15,000
Said Zaki	7,000	10,000	17,000
Amin R Husseini	5,000	8,500	13,500
Randa Sadik	5,000	2,500	7,500
Mulham Bashir Al Jaraf	7,500	6,000	13,500
Total	**52,000**	**52,000**	**104,000**

2010

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

The remuneration paid to the top five key executives of the Bank for 2011 is RO 1,198,883 (2010: RO 1,170,849)

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

5. Non-Compliance of Corporate Governance and Penalties

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

6. Means of Communicating with the Shareholders

We confirm the following:

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

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

7. Acknowledgment by the Board

The Board of Directors acknowledges its responsibilities and confirms that:

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

8. Cash Dividend Policy

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

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

9. Market Price Data

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

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

10. Profile of the Statutory Auditors

Ernst & Young are the statutory auditor's 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 200 professionals, and is working under the direction of six partners.The Oman office forms part of Ernst & Young's MENA practice, with 113 partners and over 5,079 other professionals in 18 offices in 13 countries throughout the region. The MENA practice is member firm of Ernst & Young Global, operating in more than 140 countries with approximately 152,000 personnel worldwide.

11. Audit Fees

The Bank paid RO 23,110 to the external auditors for their audit and related services for the year ended 2011.

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 2011 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 17.5% from 2010 to reach RO 18.3 billion at December 2011.
2. Loans and advances recorded a growth of 16.7% reaching RO 12.5 billion at 31 December 2011 from RO 10.7 billion at 31 December 2010.
3. Customer deposits increased by 19.6% to RO 12.6 billion at 31 December 2011 from RO 10.5 billion at December 31 2010. The private sector deposits constituted 78% of the total customer deposits.
4. Average deposit interest rate on Rial Omani deposits was around 1.4% and the interest rate on foreign currency deposits was around 0.9% as at December 2011. During 2011 the average interest rate on Rial Omani term deposits decreased by 0.6% due to surplus liquidity while the average interest rate on foreign currency term deposits increased marginally by 0.3% as at December 2011 from 0.9% as at December 2010.
5. Average Rial Omani lending rates decreased to 6.2% at December 2011 from 6.8% at December 2010 due to the surplus liquidity and while US Dollar rates remained at around 2.3% at December 2011.

Opportunities and threats

Oman's economy has performed well in 2011 in spite of the events around the globe which affected the economy and the social unrest experienced during the first quarter of 2011. The high oil price which has contributed to the growth in 2011 is likely to continue in 2012 due to the conditions prevailing in the region as well as the global demand. The Government will continue with the current and future infrastructure projects – roads, airports and ports as planned. Al Batinah expressway, Expansions at Duqum, Salalah and Sohar ports, Airports expansion at Muscat and Salalah, New airports at Sohar, Ras Al Hadd, Adam and Duqum are the major infrastructure projects planned under the Eight Five-Year Plan. The total outlay for these airports is estimated at RO 2 billion. The planned government expenditure presents adequate business opportunities for the banks.

The Rial Omani lending rates reduced by 0.5% in 2011 while the US Dollar rates remained the same during 2011. The time deposit rates also decreased during 2011 by around 0.6% due to the surplus liquidity. There is no major change expected in the interest rates during 2012. The interest margins are likely to tighten in 2012 with the increased competition. The interest rate on Central Bank CD is expected to remain under 1%.

The operating costs of companies in Oman have increased substantially during 2011 mainly due to the increase in salary costs as a result of the protests during 2011. The banks have to increase the operating income to cover the increased costs.

The launch of Islamic Banking and the entry of new banks in the market will present a new challenge to the existing banks. Most of the existing banks have announced their plans to offer the Islamic Banking services. The CBO is likely to finalize the law and regulations governing the Islamic Banking by end of February 2012 and based on this the Bank will plan for the additional capital for Islamic Banking.

Analysis and performance of segments

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

Economic Outlook

OAB operates only in Oman and changes in the Oman economy have a direct impact on OAB's performance. Despite the upheavals in the global economy and geopolitical changes and unrest in the region, the Omani economy put up a good show in 2011 and will continue to expand in 2012, in part due to targeted government spending. Oman is expected to record a growth of 3% in GDP for 2011. Inflation is expected to be around 3.4% in 2012. Oman's projected revenue for 2012 is at RO 8.8 billion which is 20% higher than the projection for fiscal year 2011. The government expenditure budgeted for 2012 is at RO 10 billion, a 23% increase from 2011 with an increase of 7% in allocation for investment expenditure. Average crude oil price of USD 75 per barrel has been assumed for 2012 budget against USD 58 per barrel for the 2011 budget. The actual oil price during 2011 was at an average of USD 102 per barrel which resulted in the surplus of RO 830 Million which has been used for funding the budget for 2012. The oil production estimated for 2012 at 915,000 barrels per day compared to the 896,000 barrels per day budgeted for 2011. As per Government estimates, the overall deficit for 2012 is budgeted at RO 1.2 Billion, forming about 5% of estimated of the nominal GDP. The finance ministry has revised its five-year fiscal plan, with government spending now planned to rise by some 7% p.a. in the four years to 2015. The aim is not only to diversify the economy and improve infrastructure, but also to defuse social tensions by boosting jobs and increasing spending on education and social infrastructure.

The crises during 2011 starting from unrest in Oman following the regional unrest during end of February 2011 to the effect of the downgrade of US credit rating followed by the Euro zone crisis in July-August 2011 have resulted in the severe decline in the market. There has been some recovery in MSM based on the good performance of the corporate sector in Oman and the positive economic conditions. But the trading volumes in MSM have dropped by 22% as compared to 2010 with 25% reduction in value of trades. The MSM 30 Index closed at 5,695 points, which is 16% down from 6,747 point at 31 December 2010. There was a recovery in the market towards the end of the year. The IPOs of the new banks and OAB along with the rights issue for Islamic Banking planned by other banks during the first half of 2012 will provide the required momentum to the activities in MSM.

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 the management's intentions and authorizations and to comply with applicable laws and regulations.The internal control system includes an organizational structure that provides appropriate delegation of authority and segregation of duties, established policies and procedures, and comprehensive internal audit and loan review programs.

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

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

Discussion on financial and operational performance

1. Net profit

Net profit for the year ended 31 December 2011 is RO 23.2 million. This is at the same level as the previous year. The operating profit at RO 30 million is higher than the previous year by 2%. The significant changes in income and expenses during 2011 are as follows:

- Growth in net interest from 2010 is 9% as the interest income increased by 6% while the interest expense reduced by 10%. The growth in corporate loans during the last quarter and the growth in personal loans during the full year contributed to the growth in interest income. The low level of interest rates combined with local competition contributed to the reduction in the interest rate on loans. The interest rate on term deposits reduced during the year as the market rates dropped. The growth in savings and demand deposits combined with the lower cost of term deposits has resulted in the reduction of interest expense.
- Other operating income increased by 4% during the year. The commission income from trade finance activities as well as the fee income from E-Banking services did not increase as expected due to lower volume of LCs and the smart card transactions. The unrealized loss for the year was due to the downturn in MSM due to various factors like regional social unrest, US credit rating downgrade, Euro zone sovereign debt crisis which has kept the confidence level of investors low. This also had an impact on the fee income from investment banking services for the year.
- Operating expenses at RO 25 million increased by 15% mainly due to the increased salary costs on account of revisions due to the events relating to social unrest in the country. The administration costs are higher compared to 2010 as a result of higher rentals and maintenance costs in addition to the new branches and a new telecommunications network for the branches.
- The Earnings per share of RO 0.241 at 31 December 2011 compared with RO 0.272 (restated for bonus shares) at 31 December 2010 on the increased capital of RO 100 million.

2. Assets

The total assets of the Bank at 31 December 2011 have increased by 17% to RO 1.15 billion from RO 954 million at 31 December 2010. The significant changes are as follows:

Certificates of Deposit

The investments in Central Bank Certificates of Deposit are at RO 100 million at December 2011 reflecting the surplus liquidity despite the significant growth in assets.

Loans and advances

Gross loans increased by RO 175 million (26%) during 2011 to RO 857 million at 31 December 2011 from RO 682 million at 31 December 2010. The personal loans increased by 17% while the corporate loans increased by 32%.

Non-performing loans decreased to 2.85% of the total loans from 3.07% at December 2010 as there was no significant increase in non-performing loans during 2011. The total provision coverage at 31 December 2011 is 111% of the non performing assets as compared to 105% at 31 December 2010.

The specific provision is at 63% of the Non-performing loans as the provision requirement is lower after considering the collaterals available for these loans. The provision levels were considered adequate and have been determined in accordance with the Central Bank of Oman and International Financial Reporting Standards.

3. Liabilities

Total Liabilities at 31 December 2011 are RO 954 million, compared to RO 811 million at 31 December 2010. The customer deposits, which constitute 95% of the liabilities, increased by 18% to reach RO 910 million at 31 December 2011.

4. Shareholders' funds

Shareholders funds increased to RO 148.96 million from RO 125.8 million from the previous year. The paid-up share capital was increased to RO 100 million in March 2011. The increase in the paid-up share capital to RO 100 million during early 2011 was done to enhance the Bank's net worth and also to meet the regulatory requirement.

5. Capital adequacy

Capital adequacy ratio calculated in accordance with the guidelines issued by Bank for International Settlement (BIS) was 13.69% (2010: 14.49%). 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 2011 was 93.01% (2010: 92.54%), 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	403	137	80	88	236	944

Events after end of financial year

We are not aware of any matter or circumstance that has arisen since 31 December 2011 which has significantly affected, or may significantly affect the operations of the Bank.

Date of the statement 15 February 2012

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

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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 2011, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Board of Directors' responsibility for the financial statements

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

Auditor's responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the bank as at 31 December 2011, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on Other Legal and Regulatory Requirements

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

Ernst & Young

30 January 2012
Muscat

STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER 2011

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

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

Rashad Muhammed Al Zubair
Chairman

Abdul Kader Askalan
Chief Executive Officer

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

STATEMENT OF COMPREHENSIVE INCOME
YEAR ENDED 31 DECEMBER 2011

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

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

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2011

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER 2011

1 LEGAL STATUS AND PRINCIPAL ACTIVITIES

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES

2.1 Statement of compliance

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

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

2.2 Basis of preparation

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

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

2.3 Changes in accounting policies and disclosures

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

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

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER 2011

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Changes in accounting policies and disclosures (continued)

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

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

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

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

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

2.4.2 Initial measurement of financial instruments

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

2.4.3 Financial assets at fair value through profit or loss

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

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

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

2.4.4 Available-for-sale investments

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

2.4.5 Financial investments held to maturity

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

2.4.6 Loans and advances to customers and due from banks

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER 2011

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

2.4.7 Fair value measurement principles

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

2.4.8 Derecognition of financial assets and liabilities

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

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

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

2.4.9 Impairment of financial assets

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

- significant financial difficulty of the issuer or obligor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- the Bank granting to the borrower, for economic or legal reasons relating to the borrower’s financial difficulty, a concession that the lender would not otherwise consider;
- it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- the disappearance of an active market for that financial asset because of financial difficulties; or

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

- observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including adverse changes in the payment status of borrowers in the Bank, or national or local economic conditions that correlate with defaults on the assets in the Bank.

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

(a) Assets carried at amortised cost

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

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

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

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

(b) Available-for-sale financial investments

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER 2011

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

(c) Renegotiated loans

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

2.4.10 Trade and settlement date accounting

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

2.5 Cash and cash equivalents

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

2.6 Offsetting of financial instruments

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

2.7 Property and equipment

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

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER 2011

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7 Property and equipment (continued)

The assets' residual values and useful lives are reviewed at each reporting date to assess whether they are recorded in excess of their recoverable amount, and where carrying values exceed this recoverable amount, assets are written down to their recoverable amount. Gains and losses on disposal of property and equipment are determined by reference to their carrying amount and are taken into account in determining operating profit. Repairs and renewals are charged to the statement of comprehensive income when the expense is incurred. Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the item of property and equipment. All other expenditure is recognised in the statement of comprehensive income as an expense as incurred.

2.8 Impairment of non-financial assets

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

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

2.9 Collateral pending sale

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

2.10 Borrowings

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

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER 2011

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.11 Employee terminal benefits

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

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

2.12 Provisions

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

2.13 Taxation

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

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

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

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

2.14 Interest income and expense

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER 2011

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.15 Fee and commission income

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

2.16 Dividend income

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

2.17 Fiduciary assets

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

2.18 Derivative financial instruments

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

2.19 Financial guarantees contracts

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

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

2.20 Dividends on shares

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

2.21 Foreign currencies

(a) Functional and presentation currency

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER 2011

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.21 Foreign currencies (continued)

(b) Transactions and balances

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

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

2.22 Directors' remuneration

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

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

2.23 Segment reporting

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

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS IN APPLYING ACCOUNTING POLICIES

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

3.1 Going concern

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER 2011

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

3.2 Impairment losses on loans and advances

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

3.3 Held-to-maturity investments

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

3.4 Fair value of financial instruments

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

3.5 Impairment of available-for-sale investments

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

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

3.6 Taxes

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER 2011

4 STANDARDS ISSUED BUT NOT YET EFFECTIVE

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

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

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

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

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

5 FINANCIAL RISK MANAGEMENT

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

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

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

5 FINANCIAL RISK MANAGEMENT (continued)

5.1 Credit risk

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

5.1.1 Credit risk management

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

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

The Bank rates its customers into the following categories:

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

5.1.2 Risk mitigation policies

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

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER 2011

5 FINANCIAL RISK MANAGEMENT (continued)

5.1.2 Risk mitigation policies (continued)

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

Some other specific control and mitigation measures are outlined below.

(a) Collateral

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

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

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

(b) Assessment of the financial capabilities of the borrowers

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

(c) Credit-related commitments

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

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

5 FINANCIAL RISK MANAGEMENT (continued)

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

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

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

5.1.3 Impairment and Provisioning Policy

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

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

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER 2011

5 FINANCIAL RISK MANAGEMENT (continued)

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

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER 2011

5 FINANCIAL RISK MANAGEMENT (continued)

5.1.5 Loans and advances and due from banks

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER 2011

5 FINANCIAL RISK MANAGEMENT (continued)

5.1.5 Loans and advances and due from banks (continued)

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

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

d) Loans and advances individually impaired

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

5.1.6 Loans and advances renegotiated

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

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

5.1.7 Debt securities

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

5.1.8 Repossessed collateral

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

5 FINANCIAL RISK MANAGEMENT (continued)

5.2 Market risk

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

5.2.1 Price risk

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

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

5.2.2 Interest rate risk

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

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

5.2.3 Currency risk

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

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER 2011

5 FINANCIAL RISK MANAGEMENT (continued)

5.2.3 Currency risk (continued)

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

Foreign currency exposures

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

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

5.2.4 Liquidity risk

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

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

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

5.3 Operational risk

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

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

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

5 FINANCIAL RISK MANAGEMENT (continued)

5.4 Fair value estimation

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

5.4.1 Current account balances due to and from banks

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

5.4.2 Loans and advances

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

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

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

5.4.4 Customers' deposits

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

5.4.5 Derivatives

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER 2011

5 FINANCIAL RISK MANAGEMENT (continued)

5.5 Financial instruments by category

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

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

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER 2011

6 CAPITAL MANAGEMENT

The Bank's objectives of capital management are:

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

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

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

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

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

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

7 CASH AND BALANCES WITH THE CENTRAL BANK OF OMAN

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

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER 2011

8 CERTIFICATES OF DEPOSIT

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

9 DUE FROM BANKS

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

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

10 LOANS AND ADVANCES

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

(a) Allowance for loan impairment

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

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

10 LOANS AND ADVANCES (continued)

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

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

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

(b) Concentration of loans and advances

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

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

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER 2011

11 INVESTMENT SECURITIES

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

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

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

Fair value hierarchy

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

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

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

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

Transfers between levels

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER 2011

11 INVESTMENT SECURITIES (continued)

The movements in investment securities may be summarised as follows:

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

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER 2011

11 INVESTMENT SECURITIES (continued)

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

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

12 OTHER ASSETS

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

13 PROPERTY AND EQUIPMENT

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER 2011

13 PROPERTY AND EQUIPMENT (continued)

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

14 DUE TO BANKS

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

15 DEPOSITS FROM CUSTOMERS

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

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

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER 2011

16 OTHER LIABILITIES

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

17 STAFF TERMINAL BENEFITS

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

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

18 TAXATION

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

18 TAXATION (continued)

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

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

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

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

Status of tax assessments

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

19 SHARE CAPITAL

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

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

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER 2011

20 LEGAL RESERVE

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

21 GENERAL RESERVE

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

22 DIVIDEND PROPOSED AND PAID

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

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

23 INTEREST INCOME

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

24 INTEREST EXPENSE

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER 2011

25 FEE AND COMMISSION INCOME – NET

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

26 INVESTMENT INCOME

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

27 OTHER OPERATING INCOME

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

28 OPERATING EXPENSES

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER 2011

29 EARNINGS PER SHARE

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

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

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

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

30 RELATED PARTY TRANSACTIONS

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

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

	2011			*2010*		
	Major shareholders RO'000	***Others RO'000***	***Total RO'000***	*Major shareholders RO'000*	*Others RO'000*	*Total RO'000*
Loans and advances	**3,900**	**39,020**	**42,920**	2,600	13,667	16,267
Customers' deposits	**218**	**7,103**	**7,321**	836	4,919	5,755
Investments	**582**	**432**	**1,014**	271	481	752
Due from banks	**41,014**	**-**	**41,014**	13,736	-	13,736
Due to banks	**2,395**	**-**	**2,395**	348	-	348
Letters of credit, guarantees and acceptances	**220,268**	**1,866**	**222,134**	118,811	4,046	122,857

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER 2011

30 RELATED PARTY TRANSACTIONS (continued)

Movement of loans and advances given to related parties:

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

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

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

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

Key management compensation

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

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

31 CASH AND CASH EQUIVALENTS

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER 2011

32 DERIVATIVE FINANCIAL INSTRUMENTS

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

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

33 CONTINGENT LIABILITIES AND COMMITMENTS

(a) Letters of credit and guarantees

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

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER 2011

33 CONTINGENT LIABILITIES AND COMMITMENTS (continued)

(a) Letters of credit and guarantees (continued)

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

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

(b) Capital commitments

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

(c) Undrawn loan commitments

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

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

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

(d) Legal claims

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER 2011

34 ASSETS AND LIABILITIES MATURITY PROFILE

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

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

34 ASSETS AND LIABILITIES MATURITY PROFILE (continued)

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

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

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

NOTES TO THE FINANCIAL STATEMENTS
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34 ASSETS AND LIABILITIES MATURITY PROFILE (continued)

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

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

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

35 ASSETS AND LIABILITIES RE-PRICING PROFILE

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

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

35 ASSETS AND LIABILITIES RE-PRICING PROFILE (continued)

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

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

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER 2011

36 GEOGRAPHICAL DISTRIBUTION OF ASSETS AND LIABILITIES

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

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

37 CUSTOMER CONCENTRATIONS

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

38 SEGMENT INFORMATION

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

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

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

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

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

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

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38 SEGMENT INFORMATION (continued)

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

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

39 FIDUCIARY ACTIVITIES

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

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

40 COMPARATIVE AMOUNTS

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

OMAN ARAB BANK SAOC

DISCLOSURES UNDER PILLAR III OF BASEL II

For the Year Ended 31st December 2011

IN TERMS OF CENTRAL BANK OF OMAN CIRCULAR BM 1027
DATED 4 DECEMBER 2007

ERNST & YOUNG

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P. R. No. MH/4

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

We have performed the procedures agreed with you and as prescribed in the Central Bank of Oman (CBO) circular no. BM 1027 dated 4 December 2007 with respect to the Basel II – Pillar III disclosures (the disclosures) of Oman Arab Bank SAOC (the bank) as at and for the year ended 31 December 2011. The disclosures were prepared by the bank's 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 2011 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

30 January 2012
Muscat

DISCLOSURES UNDER PILLAR III OF BASEL II
FOR THE YEAR ENDED 31ST DECEMBER 2011

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	100,000
Legal reserves	22,598
General reserves	18,304
Retained earnings/(losses) of previous years	7,793
Tier 1 Capital	**148,695**
Collective impairment provisions for loan losses on portfolio basis	11,734
Cumulative fair value gains on investments available-for-sale	117
Tier 2 Capital	**11,851**
Total Capital	**160,546**

Tier 1 Capital

The Bank's authorised capital is RO 120,000,000 and issued share capital comprises 100,000,000 fully paid shares of RO 1 each. In accordance with Article 106 of the Omani Commercial Companies Law of 1974, the Bank is required to transfer 10% of its profit after tax for the year to the legal reserve until the accumulated balance of the reserve equals at least one third of the Bank's paid up share capital. General reserves have been created out of the Bank's retained earnings to meet any unforeseen contingency.

DISCLOSURES UNDER PILLAR III OF BASEL II
FOR THE YEAR ENDED 31ST DECEMBER 2011

B. CAPITAL STRUCTURE (continued)

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

C. CAPITAL ADEQUACY

Qualitative disclosures

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

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

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

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

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

a. evaluate the level and trend of material risks and their effect on capital requirements;
b. evaluate the sensitivity and reasonableness of the main assumptions used in the capital measurement system;
c. determine that the Bank holds sufficient capital against various risks;
d. determine that the Bank meets its internal capital adequacy goals; and
e. assess its future capital requirements based on the Bank's reported risk profile and in turn make necessary adjustments to the Bank's strategic plan.

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

DISCLOSURES UNDER PILLAR III OF BASEL II
FOR THE YEAR ENDED 31ST DECEMBER 2011

B. CAPITAL STRUCTURE (continued)

Quantitative disclosure

Table-1

2011

Sl.No.	Details	Gross Balance (Book Value) RO'000	Net Balance (Book Value) RO'000	Risk Weighted Assets RO'000
1	On-Balance sheet Item	1,141,821	1,115,304	835,282
2	Off-Balance sheet Item	827,033	411,236	206,729
3	Assets for Operations risk	97,163	97,163	97,163
4	Assets in Trading book	16,363	16,363	16,363
5	Derivatives	3,816	3,816	17,521
6	**Total**	**2,086,196**	**1,643,882**	**1,173,058**
7	Tier 1 Capital			148,695
8	Tier 2 Capital			11,851
9	Tier 3 Capital			-
10	**Total Regulatory Capital**			**160,546**
10.1	Capital requirement for credit risk			127,144
10.2	Capital requirement for market risk			1,964
10.3	Capital requirement for operational risk			11,660
11	**Total required capital**			**140,768**
12	**Tier 1 Ratio**			**12.16%**
13	**Total Capital Ratio**			**13.69%**

2010

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

D. CREDIT RISK EXPOSURE AND ASSESSMENT

i. General disclosure

Qualitative disclosures

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

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

Credit Risk Management and Control

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

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

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

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

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

DISCLOSURES UNDER PILLAR III OF BASEL II

FOR THE YEAR ENDED 31ST DECEMBER 2011

Credit Risk Management and Control (continued)

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

Impairment provisioning

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

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

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

Quantitative disclosure

ii. Gross credit risk exposures

Table-2

Sl.No.	Type of credit exposure	Average Gross Exposure		Total Gross Exposure as at	
		2011	2010	31-Dec-11	31-Dec-10
		RO'000	RO'000	RO'000	RO'000
1	Overdrafts	**83,003**	87,535	**89,837**	78,163
2	Personal Loans	**326,413**	271,428	**348,876**	298,291
3	Loans against Trust Receipts	**30,395**	42,489	**29,558**	44,899
4	Other Loans	**290,320**	219,325	**369,909**	250,558
5	Bills Purchased Discounted	**14,524**	14,764	**18,820**	10,438
	Total	**744,655**	635,541	**857,000**	682,349

DISCLOSURES UNDER PILLAR III OF BASEL II

FOR THE YEAR ENDED 31ST DECEMBER 2011

iii. Geographic distribution of exposures

Table-3

2011

Sl.No.	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
1	Overdrafts	**89,837**	-	-	-	-	-	**89,837**
2	Personal Loans	**348,876**	-	-	-	-	-	**348,876**
3	Loans against Trust Receipts	**29,558**	-	-	-	-	-	**29,558**
4	Other Loans	**369,909**	-	-	-	-	-	**369,909**
5	Bills Purchased/Discounted	**18,820**	-	-	-	-	-	**18,820**
	Total	**857,000**	-	-	-	-	-	**857,000**

2010

Sl. No.	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
1	Overdrafts	78,163	-	-	-	-	-	78,163
2	Personal loans	298,291	-	-	-	-	-	298,291
3	Loans against trust receipts	44,899	-	-	-	-	-	44,899
4	Other loans	250,558	-	-	-	-	-	250,558
5	Bills purchased discounted	10,438	-	-	-	-	-	10,438
	Total	682,349	-	-	-	-	-	682,349

DISCLOSURES UNDER PILLAR III OF BASEL II

FOR THE YEAR ENDED 31ST DECEMBER 2011

iv. Industry or counterparty type distribution of exposures

Table-4

2011

Sl. No.	Economic Sector	Overdraft	Loans	Bills Purchased/ discounted	Others	Total	Off-balance sheet exposure
		RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
1	Import trade	12,581	12,470	1,010	-	26,061	51,095
2	Export trade	126	4,160	-	-	4,286	208,636
3	Wholesale & retail trade	6,985	44,926	575	-	52,486	16,384
4	Mining & quarrying	1,543	28,844	355	-	30,742	-
5	Construction	28,635	36,085	10,605	-	75,325	217,284
6	Manufacturing	9,754	79,267	3,004	-	92,025	12,161
7	Electricity, gas and water	736	10,338	-	-	11,074	36,815
8	Transport and communication	4,615	79,370	10	-	83,995	53,342
9	Financial institutions	1,448	18,753	-	-	20,201	-
10	Services	13,607	48,136	1,539	-	63,282	8,775
11	Personal loans	-	348,798	-	-	348,798	-
12	Agriculture and allied activities	1,191	5,109	149	-	6,449	-
13	Government	-	-	-	-	-	171,685
14	Non-resident lending	-	122	-	-	122	-
15	All others	8,616	31,965	1,573	-	42,154	-
16	**Total (1 to 15)**	**89,837**	**748,343**	**18,820**	**-**	**857,000**	**776,177**

2010

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

DISCLOSURES UNDER PILLAR III OF BASEL II
FOR THE YEAR ENDED 31ST DECEMBER 2011

v. Residual contractual maturity of credit exposure

Table-5

2011

Sl. No.	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
1	Up to 1 month	4,492	62,500	3,613	-	70,605	103,390
2	1-3 months	4,492	144,476	18,978	-	167,946	300,460
3	3-6 months	4,492	19,733	4,491	-	28,716	65,569
4	6-9 months	4,492	8,951	2,713	-	16,156	22,493
5	9-12 months	4,492	7,580	2,838	-	14,910	42,150
6	1-3 years	22,459	68,716	103	-	91,278	196,275
7	3-5 years	22,459	35,914	2	-	58,375	45,789
8	Over 5 years	22,459	376,962	-	-	399,421	51
9	**Total**	**89,837**	**724,832**	**32,738**	**-**	**847,407**	**776,177**

2010

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

DISCLOSURES UNDER PILLAR III OF BASEL II

FOR THE YEAR ENDED 31ST DECEMBER 2011

vi. Loans and provisions by major industry or counterparty type

Table-6

2011

Sl. No.	Economic Sector	Gross loans	Of which NPLs	Collective impairment provision held	Specific provision held	Unrecognised contractual interest	Provisions made during the year(*)	Advances written off during the year
		RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
1	Import trade	26,061	1,971	241	857	1,066	17	12
2	Export trade	4,286	146	41	45	27	4	-
3	Wholesale & retail trade	52,486	655	518	225	376	69	3
4	Mining & quarrying	30,742	-	307	-	-	-	-
5	Construction	75,325	4,247	711	1,751	1,253	474	22
6	Manufacturing	92,025	5,040	870	2,312	1,024	702	13
7	Electricity, gas and water	11,074	-	112	-	-	-	-
8	Transport and communication	83,995	129	839	60	50	25	-
9	Financial institutions	20,201	272	199	108	32	108	-
10	Services	63,282	3,346	599	842	462	787	-
11	Personal loans	348,798	7,994	6,816	3,079	1,352	1,661	264
12	Agriculture and allied activities	6,449	275	62	77	55	48	6
13	Government	-	-	-	-	-	-	-
14	Non-resident lending	122	-	1	-	-	-	-
15	All others	42,154	371	418	238	130	11	2
16	**Total**	**857,000**	**24,446**	**11,734**	**9,594**	**5,827**	**3,906**	**322**

*** -** 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 2011

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

Table-6

2010

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

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

DISCLOSURES UNDER PILLAR III OF BASEL II
FOR THE YEAR ENDED 31ST DECEMBER 2011

vii. Geographic distribution of impaired loans

Table-7

2011

Sl. No.	Economic Sector	Gross loans	Of which NPLs	Collective impairment provision held	Specific provision held	Unrecognised contractual interest	Provisions made during the year(*)	Advances written off during the year
		RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
1	Oman	856,878	24,446	11,734	9,594	5,827	6,173	322
2	Other GCC countries	122	-	-	-	-	-	-
3	OECD countries	-	-	-	-	-	-	-
4	India	-	-	-	-	-	-	-
5	Pakistan	-	-	-	-	-	-	-
6	Others	-	-	-	-	-	-	-
7	**Total**	**857,000**	**24,446**	**11,734**	**9,594**	**5,827**	**6,173**	**322**

2010

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

* - includes the specific and general provisions net of recoveries

DISCLOSURES UNDER PILLAR III OF BASEL II
FOR THE YEAR ENDED 31ST DECEMBER 2011

viii. Movement in gross loans

Table-8

Movement of Gross Loans during the year - 2011

Sl. No.	Details	Performing loans		Non-performing loans			
		Standard	Specially Mentioned	Sub-Standard	Doubtful	Loss	Total
		RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
1	Opening balance	**631,958**	**29,441**	**4,223**	**4,449**	**12,278**	**682,349**
2	Migration /changes (+/-)	9,554	(13,394)	(3,263)	(137)	6,966	**-**
3	New loans	576,129	-	1,395	300	741	**578,565**
4	Recovery of loans	394,560	6,572	964	402	1,094	**403,592**
5	Loans written off	2	-	3	15	302	**322**
6	Closing balance	**823,079**	**9,475**	**1,388**	**4,469**	**18,589**	**857,000**
7	Provisions held	11,734	-	549	1,257	7,788	**21,328**
8	Unrecognised contractual interest	-	-	32	521	5,274	**5,827**

Movement of Gross Loans during the year - 2010

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

E. DISCLOSURE FOR PORTFOLIO SUBJECT TO STANDARDISED APPROACH

Qualitative disclosures

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

DISCLOSURES UNDER PILLAR III OF BASEL II

FOR THE YEAR ENDED 31ST DECEMBER 2011

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 Standardized Approach is as follows:

2011

Sl. No.	Risk bucket	0% RO'000	20% RO'000	35% RO'000	50% RO'000	100% RO'000	Total RO'000
1	Sovereigns (Rated)	188,572	-	-	-	-	188,572
2	Banks (Rated)	-	135,994	-	153,513	68,669	358,176
3	Corporate (Unrated)	-	28,092	-	-	461,998	490,090
4	Retail	-	-	-	-	295,692	295,692
5	Claims secured by residential property	-	-	45,191	-	-	45,191
6	Claims secured by commercial property	-	-	-	-	25,265	25,265
7	Past due loans	-	-	-	-	9,024	9,024
8	Other assets	19,459	-	-	-	47,962	67,421
9	Undrawn exposure	-	-	-	-	50,856	50,856
	Total	**208,031**	**164,086**	**45,191**	**153,513**	**959,466**	**1,530,287**

2010

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

DISCLOSURES UNDER PILLAR III OF BASEL II
FOR THE YEAR ENDED 31ST DECEMBER 2011

F. CREDIT RISK MITIGATION UNDER STANDARDISED APPROACH

Qualitative disclosures

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

(a) Collateral

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

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

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

(b) Assessment of the financial capabilities of the borrowers

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

(c) Credit-related commitments

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

Quantitative disclosure

	2011	2010
	RO‘000	RO‘000
Total exposure covered by eligible financial collateral	**28,702**	33,039
Value of the eligible collateral	**28,615**	32,522

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.

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 2011 is ± 1.02% of the total income (2010 ± 1.07%).

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 2011 is 13.78% (2010 – 12.50%).

DISCLOSURES UNDER PILLAR III OF BASEL II
FOR THE YEAR ENDED 31ST DECEMBER 2011

H. INTEREST RATE RISK IN BANKING BOOK (continued)

The table below 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.

2011	*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	-	-	-	500	32,395	32,895
Certificates of deposit	0.08	100,000	-	-	-	-	100,000
Due from banks	0.22	57,548	-	-	-	18,339	75,887
Loans and advances	5.96	265,729	162,494	395,196	6,426	-	829,845
Investment securities at fair value	-	-	-	-	-	13,977	13,977
Investment – held to maturity	3.83	-	13,191	9,221	-	-	22,412
Other assets	-	8,667	-	-	-	18,488	27,155
Property and equipment	-	-	-	-	-	12,494	12,494
Total assets		**431,944**	**175,685**	**404,417**	**6,926**	**95,693**	**1,114,665**
Liabilities							
Due to banks	-	-	-	-	-	7,678	7,678
Deposits from customers	0.81	384,431	118,308	16,149	-	390,772	909,660
Other liabilities		16,892	548	309	-	15,063	32,812
Taxation		-	-	-	-	3,559	3,559
Total liabilities		**401,323**	**118,856**	**16,458**	**-**	**417,072**	**953,709**
Total interest sensitivity gap		**30,621**	**56,829**	**387,959**	**6,926**	**(321,379)**	**160,956**
Cumulative interest sensitivity gap		**30,621**	**87,450**	**475,409**	**482,335**	**160,956**	**-**

DISCLOSURES UNDER PILLAR III OF BASEL II

FOR THE YEAR ENDED 31ST DECEMBER 2011

H. INTEREST RATE RISK IN BANKING BOOK (continued)

2010	*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	-	-	-	500	100,230	100,730
Certificates of deposit	0.07	100,000	-	-	-	-	100,000
Due from banks	0.33	23,836	-	-	-	2,183	26,019
Loans and advances	6.39	204,967	117,525	335,891	1,963	-	660,346
Investment securities at fair value		-	-	-	-	11,733	11,733
Investment – held to maturity	3.06	-	-	17,677	2,400	-	20,077
Other assets		10,223	-	-	-	15,454	25,677
Property and equipment		-	-	-	-	9,073	9,073
Total assets		339,026	117,525	353,568	4,863	138,673	953,655
Liabilities							
Due to banks	0.03	348	-	-	-	5,423	5,771
Deposits from customers	1.02	296,119	74,360	11,618	-	387,664	769,761
Other liabilities		14,273	406	1,264	-	15,777	31,720
Taxation		-	-	-	-	3,572	3,572
Total liabilities		310,740	74,766	12,882	-	412,436	810,824
Total interest sensitivity gap		28,286	42,759	340,686	4,863	(273,763)	142,831
Cumulative interest sensitivity gap		28,286	71,045	411,731	416,594	142,831	

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 2011

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.

2011	***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	25,278	3,529	1,476	2,612	32,895
Certificates of deposit	100,000				100,000
Due from banks	75,887				75,887
Loans and advances	237,875	57,863	146,270	387,837	829,845
Investment securities	13,977	13,191	9,221	-	36,389
Other assets	19,645	6,477	1,033	-	27,155
Property and equipment	-	-	-	12,494	12,494
Total assets	**472,662**	**81,060**	**158,000**	**402,943**	**1,114,665**
Liabilities					
Due to banks	7,678	-	-	-	7,678
Deposits from customers	409,186	248,178	103,818	148,478	909,660
Other liabilities	26,880	2,548	3,384	-	32,812
Taxation	3,276	283	-	-	3,559
Total liabilities	**447,020**	**251,009**	**107,202**	**148,478**	**953,709**
Net assets	**25,642**	**(169,949)**	**50,798**	**254,465**	**160,956**
Forward exchange contracts at notional amounts (note 32)					
Purchase contracts	25,420	4,928	-	-	30,348
Sale contracts	(25,411)	(4,916)	-	-	(30,327)
	9	**12**	**-**	**-**	**21**

DISCLOSURES UNDER PILLAR III OF BASEL II
FOR THE YEAR ENDED 31ST DECEMBER 2011

I. LIQUIDITY RISK (continued)

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

2010	***On demand or within 3 months***	***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	55,096	22,910	7,565	15,159	100,730
Certificates of deposit	100,000	-	-	-	100,000
Due from banks	26,019	-	-	-	26,019
Loans and advances	187,783	89,667	110,320	272,576	660,346
Investment securities	11,733	-	17,677	2,400	31,810
Other assets	15,093	9,663	921	-	25,677
Property and equipment	-	-	-	9,073	9,073
Total assets	395,724	122,240	136,483	299,208	953,655
Liabilities					
Due to banks	5,771	-	-	-	5,771
Deposits from customers	340,637	217,823	71,927	139,374	769,761
Other liabilities	25,794	2,869	3,057	-	31,720
Taxation	-	3,572	-	-	3,572
Total liabilities	372,202	224,264	74,984	139,374	810,824
Net assets	23,522	(102,024)	61,499	159,834	142,831
Forward exchange contracts at notional amounts (note 32)					
Purchase contracts	26,945	10,185	-	-	37,130
Sale contracts	(26,921)	(10,150)	-	-	(37,071)
	24	35	-	-	59

DISCLOSURES UNDER PILLAR III OF BASEL II

FOR THE YEAR ENDED 31ST DECEMBER 2011

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 97.16 million at December 31 2011 (2010: RO 90.47 million).

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