




Annual Report 2010

On the threshold of
tomorrow



A low-angle photograph of the BankMuscat Head Office building. The building is a modern structure with a light-colored, possibly white or cream, facade. It features three prominent vertical sections of the facade covered in a complex, white, geometric lattice pattern. These sections are set against a clear blue sky. In the foreground, a dark metal railing with horizontal bars is visible, partially obscuring the lower part of the building. The ground in front of the building appears to be a green lawn or grassy area. The overall composition emphasizes the height and architectural detail of the building.

As a tribute to the nation,
BankMuscat's striking new
Head Office reflects the
progressive growth of Oman
and the global vision of the
Bank. This signature building is
a harmonious blend of
traditional design and modern
services, redefining banking
excellence in Oman – a
milestone in the Bank's growth.



His Majesty Sultan Qaboos bin Said





بنك مسقط
BankMuscat

ANNUAL REPORT '10



“The human element
is the maker of a
Renaissance and the
builder of a civilization”

His Majesty Sultan Qaboos bin Said







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Our Quality Policy

Our Quality Policy is to achieve and sustain a reputation for quality in the national and international markets by offering products and services that exceed the requirements of our customers. We strive to remain the bank of choice in all our products and services. Towards this policy, our objectives are establishing and maintaining a quality system based on the most recent ISO quality standards. Continually reviewing our products and services, feedback from employees (internal customers) and our customers to ensure that there is continual improvement. Offering our clients excellent service, innovative products and value-added banking while developing with them a mutually beneficial association. Demonstrating vision, professionalism, transparency and integrity in the conduct of our business and service. Achieving disciplined growth and reasonable profitability while operating on a sound financial base. Creating value for our shareholders. Encouraging, motivating and developing our human resources - our most valuable asset and the cornerstone of the Bank. Working towards the successful implementation of the Government objectives applicable to us. Striving towards and maintaining a pre-eminent position in the banking community in the Sultanate of Oman.



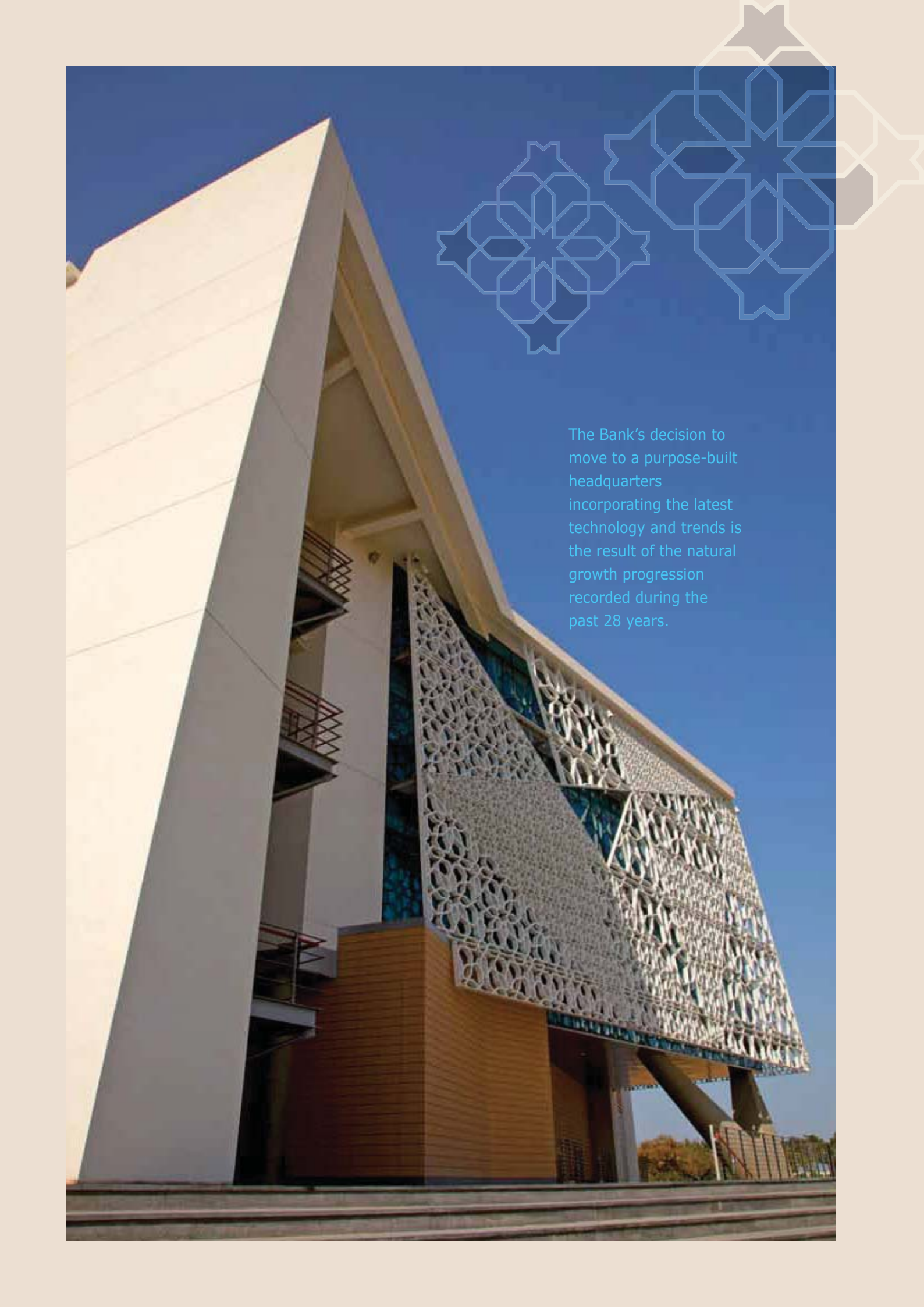


بنك مسقط
BankMuscat

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The Bank's decision to move to a purpose-built headquarters incorporating the latest technology and trends is the result of the natural growth progression recorded during the past 28 years.

Chairman's Report 2010



Dear Shareholders,

I am glad to share with you the encouraging results achieved by the Bank during 2010. Amid the challenging global economic and financial situation, the key business lines of the Bank recorded healthy performance on expected lines.

Oman's Economy

The Sultanate's focus on diversifying the economy away from its reliance on the hydrocarbons sector and creating employment for the young and fast-expanding population was much in evidence in line with the 3.8% real GDP growth forecast for 2010. The expansionary financial, economic and monetary policies were on track, providing a sustained catalyst for development in Oman. In view of higher oil production and prices, the current account recorded surpluses. The banking and financial sector witnessed healthy performance in tandem with the economic recovery led by sustained consumer demand and public sector activities.

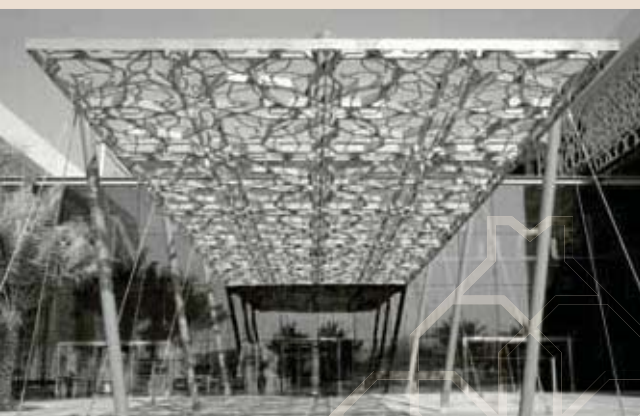
Financial Overview

The Bank achieved a net profit of RO 101.6 million for the year ended 31 December 2010 as against a net profit of RO 73.7 million reported in 2009, an increase of 37.8%. The net profit for the year ended 31 December 2009 included RO 53.2 million of post-tax gain on sale of HDFC Bank investment, RO 10 million losses on available-for-sale investment portfolio and around RO 60 million of provision for credit losses towards Saudi branch exposures. Excluding these one-off items, the adjusted net profit for the year 2009 was RO 90.5 million. Thus, on a like-to-like comparison, the net profit for the year ended 31 December 2010 showed an increase of 12.3% over the year 2009.

Net interest income increased by 7.3% from RO 174.4 million in 2009 to RO 187.2 million in 2010 supported by combination of improvement in net interest margin and asset growth. Non-interest income was RO 78.3 million in 2010 as against RO 116.7 million (including gain on sale of HDFC investment) in 2009. Non-interest income was higher by 22% compared to the year 2009, excluding the gain on HDFC Bank investment and realised losses on Available-for-Sale investment.

Operating expenses for the year ended 31 December 2010 was at RO 102.9 million, an increase of 25.3% as compared to 2009. The increase in operating expense is attributable to the long-term vision and strategy to develop the banking infrastructure by way of technology investments, expansion of business and delivery channel network to provide better service and maintain the leadership position. The Cost to Income ratio for the year 2010 was 38.7% as compared to 35.6% for the year 2009 excluding the gain on HDFC Bank investment.

Impairment for credit losses for the year ended 31 December 2010 was RO 46.6 million as against RO 98.2 million in 2009. During the year 2010, the Bank recovered RO 13.6 million from impairment for credit losses compared to RO 10.6 million in 2009. The Bank holds a non-specific loan loss provision of RO 56.1 million as at 31 December 2010 as per the requirements of Central Bank of Oman. Share of loss from associates was RO 12.6 million in 2010 as against RO 10.5 million in 2009. Higher share of loss from associates was driven by net loss from BMI Bank due to higher credit losses.



Chairman's Report 2010

The Bank's net loans and advances portfolio grew by RO 169 million or 4.4% to RO 4,008 million as at 31 December 2010 compared to RO 3,838 million as at 31 December 2009. Customer deposits as at 31 December 2010 was RO 3,527 million as compared to RO 3,068 million as at 31 December 2009, higher by RO 14.9% mainly due to increase in demand deposits and savings deposits as the Bank continued its efforts to mobilize low cost deposits. The Bank's savings deposits grew by 12.8% from RO 817 million as at 31 December 2009 to RO 922 million as at 31 December 2010 and demand deposits grew by 28.1% from RO 964 million in 2009 to RO 1,235 million as at 31 December 2010.

The return on average assets improved from 1.2% in 2009 to 1.74% in 2010. The return on average equity was 14.6% in 2010 as compared to 10.9% in 2009. The basic earnings per share was RO 0.075 in 2010 as against RO 0.068 in 2009. The Bank's capital adequacy ratio stood at 15.4% as on 31 December 2010 before the appropriation for dividend for the year 2010 against the minimum required level of 12% by the Central Bank of Oman.

For the year 2010, the Board of Directors has proposed a dividend of 40%, 25% in the form of cash and 15% in the form of bonus shares. Thus shareholders would receive cash dividend of RO 0.025 per ordinary share of RO 0.100 each aggregating to RO 33.66 million on the Group's existing share capital. In addition, they would receive bonus shares in the proportion of one share for every 6.666 ordinary shares aggregating to 201,962,571 shares of RO 0.100 each amounting to RO 20.196 million. The proposed cash dividend and issuance of bonus shares are subject to formal approval of the shareholders at the Annual General Meeting.

Strategic Initiatives

Commemorating 40 years of the glorious Renaissance march under the leadership of His Majesty Sultan Qaboos, BankMuscat launched a major national campaign envisaging year-long celebratory initiatives, programmes and activities in 2010. Titled 'Oman Celebrates', the objective of the campaign was to initiate programmes that celebrate and mark the country's achievements during the last 40 years.

The Kuwait operations of BankMuscat were launched with a state-of-the-art branch. The new branch marked the Bank's extension of footprint in the GCC region, covering all six countries through direct and indirect network entities. The branch currently offers corporate banking, trade and treasury services. The focus is to support the growth of the Kuwait economy, particularly investment and trade flows between Kuwait and Oman.

Muscat Capital, the investment banking subsidiary of BankMuscat was launched in Saudi Arabia. Licensed to offer full securities service in Saudi Arabia, Muscat Capital aims to recreate the Bank's success story in the areas of investment banking, brokerage and wealth management in Saudi Arabia.

BankMuscat launched and raised RO 105 million of commitments from local and regional investors for the Oman Fixed Income Fund (OMFI). OMFI is the largest fund of its kind and the first such fund dedicated for investing in subordinated debt issuances.

BankMuscat introduced, for the first time in Oman, the book-building route for the initial public offering (IPO) of leading Omani-Qatari telecom company Nawras. This was the largest IPO that was successfully closed in the GCC region in 2010 and also the first IPO in nearly two years in Oman.

Oman came under the spotlight as a model for sustainable development as BankMuscat hosted the advisory board meeting of Vale Columbia Centre on Sustainable International Investment, a global think-tank on sustainable foreign direct investment. The meeting on the theme 'Partnering for Progress', hosted at the landmark new headquarters of BankMuscat, marked a new beginning for Oman in attracting sustainable foreign direct investment (FDI).

The landmark new headquarters of BankMuscat was dedicated to the nation at a grand celebration coinciding with the 40th National Day celebrations. The occasion marked a milestone, highlighting the 28-year progress and achievements of the leading financial services provider in the Sultanate. The state-of-the-art headquarters ushers in a new beginning for the Bank and establishes its position among the premier banking establishments across the world.

Awards and Accolades

The Bank won prestigious global, regional and local awards in 2010. The notable accolades included the Asian Banker Leadership Achievement Award conferred on Sheikh AbdulMalik bin Abdullah Al Khalili, Chairman of BankMuscat, and the

Chairman's Report 2010

Strongest Bank in Oman Award. The Bank achieved a rare distinction, becoming the first and only corporate entity from Oman to be listed in The Forbes Global 2000 featuring the biggest and most powerful listed companies of the world. The Bank won for the eighth consecutive year the Bank of Year – Oman Award by The Banker (Financial Times, London), besides the prestigious Hawkamah-UAB Corporate Governance Award. Further raising the bar as the employer of choice, the Bank won Asia's Best Employer Brand Award and Asia's Best Brand Award. The Bank also won the JP Morgan Quality Recognition Award for Operational Excellence for the 10th consecutive year. In 2010, the Bank was ranked 16th in the global league tables published by Project Finance International (PFI) for global advisory mandates closed in 2010, continuing its run as a top 20 Global Advisor.

The Year Ahead

The overall economic outlook for 2011 remains positive with the real GDP growth expected to gain momentum due to sustained oil demand and accommodative government policies. Oman's real GDP growth is forecast to accelerate further to 4.1% in 2011.

The Bank has a strong reputation and is confident of retaining its leading position in the country. With robust policies and procedures on cross-border country/bank exposures to effectively mitigate future challenges, the Bank pursues global best practices in the field of risk management. Key lessons learnt from the global financial crisis will ensure in making risk management practices followed by the Bank more relevant and up to date.

In Conclusion

On behalf of the Board of Directors, I take this opportunity to thank the banking community, both in Oman and overseas, for the confidence reposed in the Bank. I would also like to thank the Management Team and all our employees for their dedication and commitment to press ahead amid the challenging situation to reach higher levels of excellence.

The Board of Directors welcomes and supports the measures taken by the Central Bank of Oman and the Capital Market Authority to strengthen the financial market in the Sultanate. The foresight and market-friendly policies adopted by His Majesty's Government have helped the Bank to record encouraging results.

The Board of Directors is deeply grateful to His Majesty Sultan Qaboos Bin Said for his vision and guidance, which has helped the country along its path of growth and prosperity during the last 40 years.



AbdulMalik bin Abdullah Al Khalili

Members of the Board



**Sheikh AbdulMalik bin
Abdullah Al-Khalili**
Chairman



**Sheikh Khalid bin
Mustahail Al Mashani**
Deputy Chairman



بنك مسقط
BankMuscat

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AbdulRazak Al Jasim
Director



**Brig. Nasser bin Mohamed
Al Harthy**
Director



**Hamoud bin Ibrahim
Soomar Al Zadjali**
Director



K.K. Abdul Razak
Director



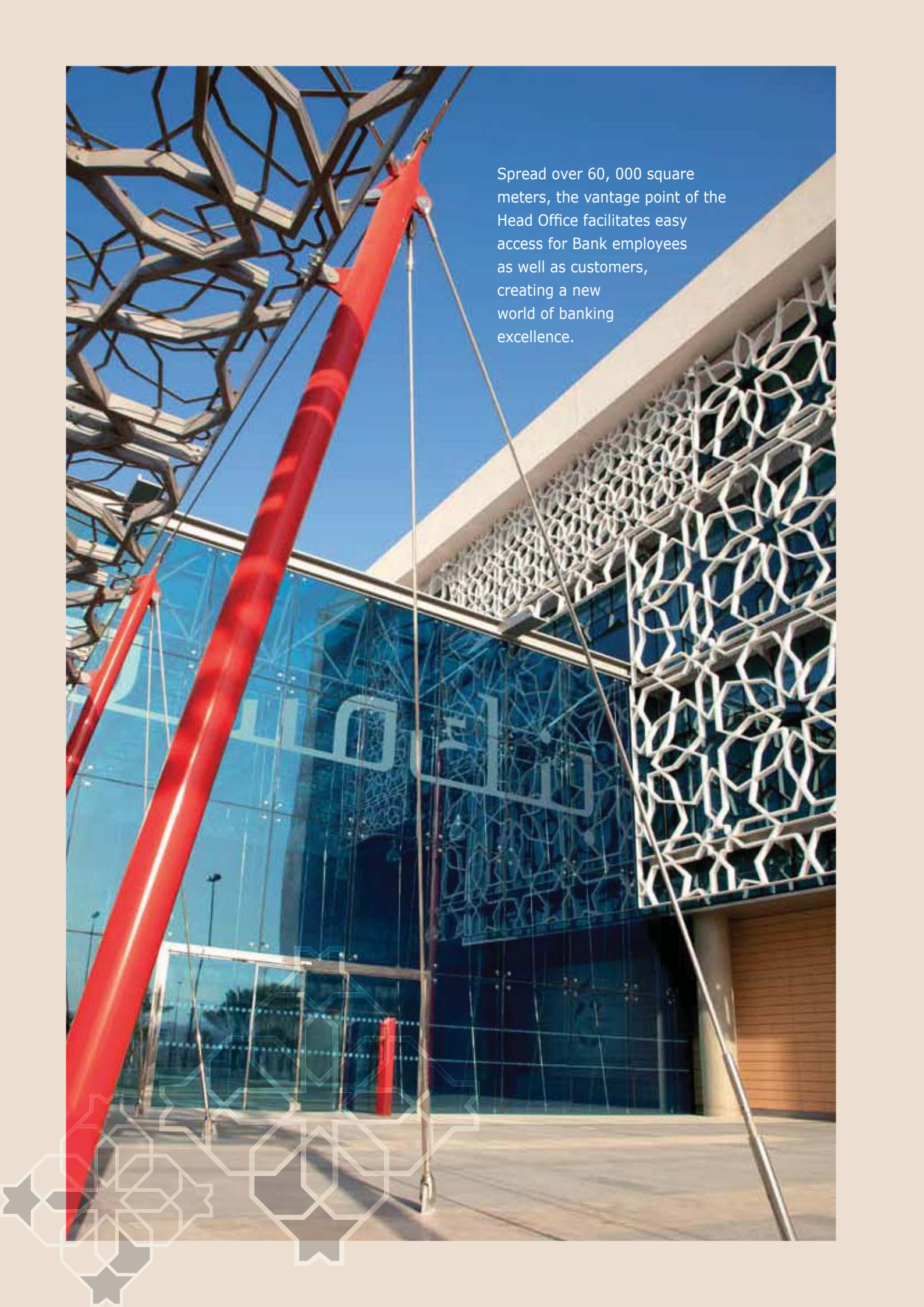
**Salim bin Taman Musallam
Al Mashani**
Director



**Sulaiman bin Mohamed bin
Hamed Al Yahyai**
Director



**Abdul Salam bin Mohamed
Al Murshidi**
Director



Spread over 60, 000 square meters, the vantage point of the Head Office facilitates easy access for Bank employees as well as customers, creating a new world of banking excellence.

**REPORT OF FACTUAL FINDINGS
TO THE SHAREHOLDERS OF BANK MUSCAT SAOG**

We have performed the procedures prescribed in Capital Market Authority (CMA) circular no. 16/2003, dated 29 December 2003, with respect to the Board of Directors' Corporate Governance report of **Bank Muscat SAOG** (the Bank) as at and for the year ended 31 December 2010 and application of the Corporate Governance practices in accordance with CMA Code of Corporate Governance issued under circular no. 11/2002 dated 3 June 2002 as supplemented by the Rules and Guidelines on Disclosure by Issuers of Securities and Insider Trading approved by Administrative Decisions no. 5/2007 dated 27 June 2007 and the Executive Regulation of the Capital Market Law issued under the Decision no. 1/2009 dated 18 March 2009 (collectively the Code and additional regulations and disclosures). Our engagement was undertaken in accordance with the International Standard on Related Services applicable to agreed-upon-procedures engagements. The procedures, as stated in circular no. 16/2003, were performed solely to assist you in evaluating the Bank's compliance with the Code and its amendments as issued by the CMA.

We report our findings on the procedures performed in the following paragraph.

We found the Board of Directors' Corporate Governance report reflects the Bank's application of the provisions of the Code and additional regulations and disclosures 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 accompanying Corporate Governance report.

Had we performed additional procedures or had we performed an audit in accordance with International Standards on Auditing or a review in accordance with 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 Board of Directors' Corporate Governance report included in its annual report for the year ended 31 December 2010 and does not extend to any financial statements of Bank Muscat SAOG taken as a whole.



27 February 2011
Muscat, Sultanate of Oman

The car park can accommodate over 1,600 cars. Access to the premises is facilitated through four clearly marked main entry and exit points.



Corporate Governance Report

Corporate Governance

Corporate Governance is the system by which business corporations are directed and controlled. The Corporate Governance structure specifies the roles of different participants in the corporation, such as the Board, managers, shareholders and other stakeholders, and spells out the rules and procedures for making decisions on corporate affairs. By doing this, it also provides the structure through which the entity's objectives are set, measured and monitored.

The Board of Directors of BankMuscat SAOG (BankMuscat or the Bank) is committed to the highest standards of Corporate Governance. The Bank is committed to raising the bar even further so as to set a shining example of the letter and spirit of the Code of Corporate Governance laid out by the Capital Market Authority (CMA) and the regulations for Corporate Governance of Banking and Financial Institutions issued by the Central Bank of Oman. This commitment was reflected in the Bank being awarded second prize in the Middle East North Africa (MENA) region for Corporate Governance excellence by the Hawkamah Institute.

The CMA Code of Corporate Governance and Central Bank of Oman (CBO) circular BM 932, Corporate Governance in Banks are the principal codes and drivers of Corporate Governance practices in the Sultanate. The CMA Code of Corporate Governance can be found at the following website: www.cma.gov.om BankMuscat fully complies with all of their provisions.

In addition, due to its listing on the London Stock Exchange through its Global Depository Receipts, the Bank is required to comply with section 7.2 of the FSA Handbook on Disclosure and Transparency Rules and has done so in this report.

Corporate Governance has also been defined more narrowly as the relationship of an entity to its shareholders or more broadly as its relationship to society. That is why, in 2008, a department dedicated to Corporate Social Responsibility was established with the vision of adapting a new approach of addressing society's needs through inspiring new forms of true partnership among all sectors of society to serve the community in the best way. There is a separate Corporate Social Responsibility section in this year's Annual Report.

Board of Directors

The roles of the Chairman of the Board of Directors (the Board) and Chief Executive Officer (CEO) are separated with a clear division of responsibilities at the head of the Bank between the running of the Board and the executive responsibility for running BankMuscat's business. The Board of Directors is responsible for overseeing how management serves the long-term interests of shareholders and other key stakeholders.

The principal responsibilities of the Bank's Board of Directors are as follows:

- Policy formulation, supervision of major initiatives, overseeing policy implementation, ensuring compliance with laws and regulations, nurturing proper and ethical behavior, transparency and integrity in stakeholders' reporting;
- Approval of commercial and financial policies and the budget, so as to achieve its objectives and preserve and enhance the interest of its shareholders;
- Preparation, review and updating of the plans necessary for the accomplishment of the Bank's aims and the performance of its activities, in light of the objectives for which it was incorporated;
- Adoption of the Bank's disclosure procedures, and monitoring their application in accordance with the rules and conditions of the CMA;
- Supervision of the performance of the Executive Management, and ensuring that work is properly attended to, so as to achieve the Bank's aims, in the light of the objectives for which it was incorporated;
- Appointment of the CEO, the Deputy Chief Executive and the Chief Operating Officer, as well as appointment of the officers answering to either of them pursuant to the organizational structure of the Bank;
- Appraisal of the performance of the Executive Management mentioned and appraisal of the work carried out by the committees affiliated to the Board; and
- Approval of the financial statements pertaining to the Bank's business and the results of its activities which are submitted to the Board by the Executive Management every three months, so as to disclose its true financial position.

Corporate Governance Report

Performance Review

In 2010, the Board conducted a self evaluation process through the completion of questionnaires for the Board of Directors and the Board Audit Committee. These were completed as part of a wider Central Bank of Oman exercise for all banks in the Sultanate. Each member of the Board was invited to measure the performance of Board activities in the areas of:

- Strategy and Planning
- Risk Management
- Tone at the Top
- Measure and Monitoring Performance
- Transformational Transactions
- Management Evaluation, Compensation and Planning
- Disclosures
- Board Dynamics

The results were independently furnished to the Central Bank of Oman.



Process of Nomination of the Directors

The Board reviews the required skills of directors to ensure they meet the 'fit and proper' criteria prescribed by the CMA and the Central Bank of Oman. Approvals are then obtained from the CMA before the director is approved by the shareholders at a general meeting. Once this has been completed, the Central Bank of Oman formally approves the appointment. Shareholders retain the power to elect any candidate to the Board irrespective of whether the candidate is recommended by the Board or not. Whilst, the Bank does not have a nomination committee in place which is a specific requirement of the Code, the process of nominating Directors and new members of the Executive Management team is the responsibility of the full Board and this is clearly outlined in the Bank's Articles of Association. The Bank's current process is in line with the spirit of the Code.

Election Process and Functioning of the Board

The Board of Directors is elected by the shareholders of the Bank at an Annual/Ordinary General Meeting. The Board is elected for a three-year term. The Board reports to the shareholders at the Annual General Meeting (AGM) or specially convened general meetings of the shareholders. The meetings of the shareholders are convened after giving adequate notice and with detailed agenda notes being sent to them. The Annual General Meetings are well attended by shareholders (the attendance at the AGM held on 20 March, 2010 was 83%) and there is healthy discussion and interaction between members of the Board, shareholders and functionaries of the Bank to achieve objectives and to be transparent about all items of information and disclosure. All members of the Board of Directors attend the Annual General Meeting. Any absence necessitated by urgent circumstances by any member of the Board, is conveyed to the Chairman and shareholders.

The Board comprised nine members, elected by the shareholders at the Bank's AGM on 20 March 2010 for a period of 3 years. All members of the Board attended the AGM. The current term of the Board of Directors will expire on 30 March 2013 as per the Commercial Companies Law, where an election will take place at the AGM.

Changes in the Board Structure, Constitution and Membership

The constitution of the Board, election process for Board members and shareholders' interests are areas of prime concern for the good governance commitment of the Bank. At the AGM, dated 20 March 2010, Mr. Abdulrazaq M. Aljassim was appointed and elected as the new director representing Dubai Financial Group. The incoming director, Mr. Abdulrazaq M. Aljassim has met the 'fit and proper' criteria prescribed by the CMA and CBO.

No Director is a member of the Board of more than four public joint stock companies or banks whose principal place of business is in the Sultanate of Oman, or is a Chairperson of more than two such companies.

Details of Board members are outlined in Table 2.

Corporate Governance Report

Independence of Board Members

There are no executives of the Bank who are members of the Board. Five members of the Board are independent in terms of the parameters prescribed by the Code of Corporate Governance for Muscat Securities Market listed companies and its amendments.

Remuneration to the Board and Top Management

The total remuneration and sitting fees paid/accrued to members of the Board of Directors for the year 2010 met the maximum total limit of RO 200,000 prescribed by the Commercial Companies Law No. (4/1974) as amended by the Royal Decree No. (99/2005). The sitting fees paid/accrued to the directors amounted to RO 63,550 with the total remuneration paid/accrued being RO 136,450. As all members of the Board are Non-Executive Directors; no fixed remuneration or performance linked incentives are applicable.

The total remuneration paid/accrued to the top five executives of the Bank for the year 2010 was RO 2,910,000. This includes salary, allowances and performance related incentives. This remuneration was approved by the Chairman and Deputy Chairman. Whilst the Bank does not have a formalised Board Compensation Committee, the process is in line with the spirit of the Code and is consistent with the principles mentioned therein.

Committees of the Board and their Functioning

During the year 2010, there were two committees of the Board which provided able and effective support to the full Board in carrying out its responsibilities. The two committees and their primary responsibilities were as follows:

1) Board Risk Committee

The Board Risk Committee (BRC) at BankMuscat oversees the risk management function and provides recommendations to the Board of Directors on the risk-reward strategy, risk appetite and policies and framework for managing all applicable risks. The Board reviews and approves the risk management strategy and defines its risk appetite. The BRC supervises the risks the Bank operates in to ensure compliance with the risk appetite set by the Board of Directors in the achievement of its business plans. Its key responsibilities are as follows:

- Formulates risk policy including credit, market and operational risks with a view to achieving the strategic objectives of the Bank;
- Ensures that the Bank maintains a good quality risk portfolio;
- Oversees risk policy implementation to ensure these policies are in compliance with the relevant laws and regulations; and
- Fosters transparency and integrity in stakeholder reporting relating to risk assets.

The following matters were discussed at the Board Risk Committee meetings during 2010 and the following recommendations were presented to the Board of Directors for their approval:

- BRC discussed and recommended the Risk Appetite statement to the Board for approval. A risk appetite statement defines the risk levels the Bank is willing to accept in order to pursue its business growth;
- The Bank had set up an Internal Capital Adequacy Assessment Process (ICAAP) to internally assess its capital requirements. The BRC reviewed the ICAAP document and recommended the same to the Board for approval. ICAAP provides an assessment of the Bank's capital adequacy based on an advanced economic capital measure and also provides a forward looking capital adequacy position resulting from its business plans for the next 5 years which helps evaluate whether the Bank's capital endowment is sufficient to support the level of risk and any plausible adverse scenario;
- The BRC received and reviewed the Risk Policy Compliance Report at quarterly intervals. The Quarterly Risk Compliance Report provides a status of compliance to the risk levels set by the Board. The key issues from the report were discussed in detail and appropriate feedback / guidance were provided on same;
- The BRC assessed credit risk concentration to get assurance that the concentration risk was within acceptable levels;

Corporate Governance Report

- BRC reviewed the liquidity stress test and evaluated the Contingency Funding Plan (CFP) put in place by the Bank to address possible liquidity crisis scenarios;
- BRC reviewed the risk management strategy of Consumer Banking and SME finance and based on the review gave guidance to the business units on their business plans.

2) Board Audit Committee

The primary responsibilities and functions of the Audit Committee are to provide assistance to the Board of Directors in fulfilling its responsibilities of monitoring/overseeing the financial reporting process, the adequacy and effectiveness of the systems of internal control, the effectiveness of the audit process and the Bank's process of complying with the relevant laws and regulations. The Audit Committee meets to review the work of the Internal Audit Department, challenge the Bank's management and to assess the overall control environment prevailing in the organisation. It regularly reviews the reports presented by Internal Audit and other bodies in its deliberations and offers guidance and direction on a number of risk management areas.

The Audit Committee reviews on an annual basis the Audit Committee Charter, Management Control Policy, Internal Audit activity Charter and has approved a Code of Ethics policy for all internal auditors within the department. These are key to reinforce the organisation's independence of internal audit and to establish their rules of engagement throughout the Bank.

The Audit Committee views a robust fraud management framework as a priority and has sponsored a number of initiatives in this area. Additionally, BankMuscat is only one of a few entities in the Sultanate to have approved a Whistle Blower Protection Policy and encourages all employees to report wrongdoing wherever they see it.

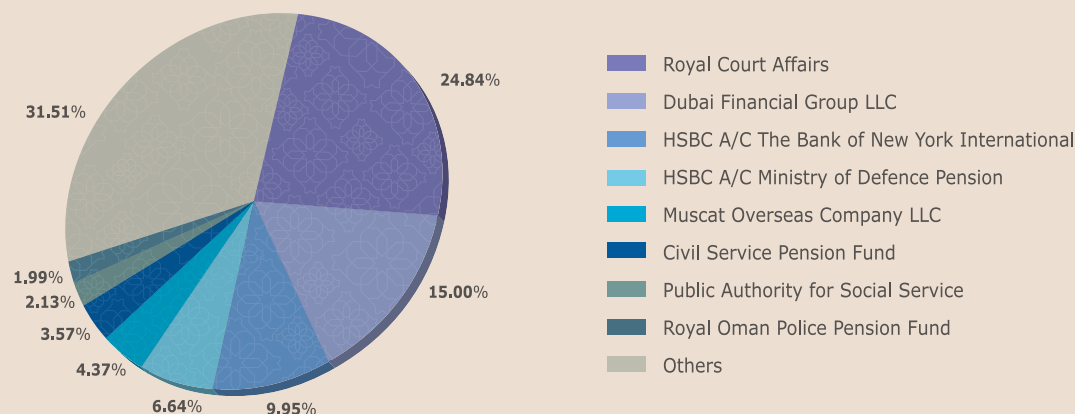
In 2010, the Audit Committee commissioned Ernst & Young to perform an external quality review of Internal Audit department as is required under best practices. This review will be performed at least once every 5 years. In line with the International Professional Practices framework promulgated by the Institute of Internal Auditors, it was assessed as being compliant with these standards and rated as an advanced internal audit function. It is permitted to use the words "conducted in accordance with international standards" in its reports.

The Chairman of the Board is also the Chairman of the Audit Committee. Whilst this is not consistent with the principles of the Code, it does not breach any Corporate Governance laws of the Sultanate.

Both the Board Risk Committee and the Audit Committee met as per schedule during the year 2010 and completed in good measure the responsibilities delegated to them.

Major Shareholders

The shareholding structure of the Bank is as follows:



Out of 1,346,417,144 fully paid-up shares, 424,304,803 shares are held by around 7,365 MDSRC registered shareholders.

Corporate Governance Report

Rights of Shareholders

All the Bank's shares shall carry equal rights which are inherent in the ownership thereof, namely the right to receive dividends declared and approved at the general meeting, the preferential right of subscription for new shares, the right to a share in the distribution of the Bank's assets upon liquidation, the right to transfer shares in accordance with the law, the right to inspect the Bank's statement of financial position, statement of comprehensive income and register of shareholders, the right to receive notice of and the right to participate and vote at general meetings in person or by proxy, the right to apply for annulment of any decision by the general meeting or the Board of Directors which is contrary to the law or the Articles of the Bank or regulations, and the right to institute actions against the directors and auditors of the Bank on behalf of the shareholders or on behalf of the Bank pursuant to the provisions of Article (110) of the Commercial Companies Law No. (4/1974) and its amendments. The issuance of new shares requires approval by the shareholders at an Extraordinary meeting after approval by the Board of Directors. The regulatory framework in the Sultanate of Oman does not facilitate a buyback of its own shares by the Bank.

To this end, BankMuscat gives minority shareholders prime importance in terms of safeguarding their interests and ensuring that their views are reflected in shareholders meetings. The "one share one vote" principle applies to all shareholders so that minority shareholders can nominate members of the Board and can take action against the Board or the management if the actions of the Board or management are in any way prejudicial to their interests.

Related Party Transactions, Dealings and Policy

There is a comprehensive policy on related party dealings, and processes and procedures laid down which are followed in the matter of all loans and advances given to directors and their related parties and also any transactions with companies in which directors have a significant/ controlling interest.

Details of loans and advances, if any, given to any director or their related parties are furnished with full details in the notes to the financial statements given in the annual report. These are public disclosures which are disclosed to the shareholders along with the agenda notes for the Annual General Meeting.

Affirmations

1. The Board of Directors and management affirm that the Bank is in strong financial health and is expected to meet current growth and expansion plans.
2. The Board conducts a review of the effectiveness of the Bank's system of internal controls at least once every year and finds the systems effective.
3. There is a well-laid-down procedure for write-off of loan dues and write-off is resorted to only after all other means of retrieval have been exhausted.
4. All financial statements are prepared after proper scrutiny of the books of accounts and the Bank follows the International Financial Reporting Standards (IFRS) in the preparation and presentation of its accounts.
5. The Bank has implemented a robust internal check and control environment to ensure accurate and timely financial reporting and financial consolidation. The Bank's financial performance and business performance are reported to the Board of Directors regularly after a detailed review and analysis by the Financial Control Department. Financial statements are prepared using appropriate accounting policies which are consistently applied. The Bank has established necessary operational procedures and controls to ensure accurate and timely processing of transactions and accounting. The interim financials are reviewed by the Internal Audit department before presenting to the Audit Committee.
6. There are well designed policies and procedures in place for all Bank operations as is expected of a large Bank with international presence.
7. For insurable matters, the Bank has taken adequate cover to ensure insurance protection for properties and assets.
8. The Bank complies fully with the Code of Corporate Governance for Muscat Securities Market listed companies and its amendments.
9. The Bank has completed all the necessary preparation for meeting Basel II - Pillar III standards.

Corporate Governance Report

10. The Bank meets the Capital Adequacy Standards (Capital Adequacy Ratio – CAR) prescribed by the Basel Committee and the Central Bank of Oman.
11. For the year 2010, the Board of Directors has proposed a dividend of 40%, 25% in the form of cash and 15% in the form of bonus shares. Thus shareholders would receive cash dividend of RO 0.025 per ordinary share of RO 0.100 each aggregating to RO 33.66 million on the Group's existing share capital. In addition, they would receive bonus shares in the proportion of one share for every 6.666 ordinary shares aggregating to 201,962,571 shares of RO 0.100 each amounting to RO 20.196 million. The proposed cash dividend and issuance of bonus shares are subject to formal approval of the shareholders at the Annual General Meeting.
12. During the year 2009, the Group issued 32,313,995 mandatory-convertible bonds of RO 1 each aggregating to RO 32.31 million as part of dividend for the year 2008. The mandatory-convertible bonds carry a coupon rate of 7% per annum. On maturity, the bonds will be converted to ordinary shares of the Bank by using a "conversion price" which will be calculated by applying 20% discount to three month average share price of the Bank on the Muscat Securities Market prior to the conversion. Fifty percent of the bond amount will mature after a period of three years and the remaining after a period of five years from the date of issuance. The bonds are listed on the Muscat Securities Market.
13. The Bank prepares a Management Discussion and Analysis report which is included as a separate section in the Annual Report.

Dividend Policy

The Board follows a conservative dividend policy so as to provide adequate reserves and provisions to meet any circumstances that may arise due to internal or external contingencies. The policy seeks to reward shareholders yet looks at future growth in terms of capital adequacy.

Disclosures, Disclosure Policy and Investor Information

1. BankMuscat attaches the utmost priority to shareholder rights and disclosure of information. All the Bank's news and developments, including the financial statements, are available to any shareholder who seeks this information. Any shareholder seeking any information about the Bank may approach the Bank for the same.
2. The latest news and information about the Bank is also available on its website, www.bankmuscat.com.
3. There is a comprehensive Disclosure Policy, a Disclosure Committee and nominated spokespersons for disclosure of information news and data relating to the Bank to shareholders, stakeholders and the public. All material information is disclosed in a timely and systematic manner to shareholders and stakeholders.
4. Items of investor information are posted simultaneously on the Bank's website www.bankmuscat.com and all interested are encouraged to access this information at convenience.
5. During the last three years a total of RO 25,450 was imposed on the Bank by the CMA for regulatory penalties.
6. During the year 2010, RO 168,183 was accrued/paid to the Group's external auditors against the audit and assurance related work.
7. The Bank presented to a number of analysts and investors from local, regional and international jurisdictions during the year.

BankMuscat's Equity Share Price and Price Band in the Muscat Securities Market

Kindly see table 3 given at the end of this report for a month wise listing of share prices of BankMuscat's shares on the Muscat Securities Market.

PricewaterhouseCoopers (PwC) – Our External Auditors

PwC firms provide industry-focused assurance, tax and advisory services to enhance value for their clients. More than

Corporate Governance Report

161,000 people in 154 countries in firms across the PwC network share their thinking, experience and solutions to develop fresh perspectives and practical advice. See pwc.com for more information.

Established in the region for over 30 years, PwC's Middle East network has offices in 12 countries: Bahrain, Egypt, Iraq, Jordan, Kuwait, Lebanon, Libya, Oman, Palestine, Qatar, Saudi Arabia and the United Arab Emirates, with around 2,500 people. Complementing depth of industry expertise and breadth of skills is sound knowledge of local business environments across the Middle East.

PricewaterhouseCoopers LLP is one of the leading accredited accounting firms in Oman with 4 partners and over 150 employees. They have a reputation for providing quality professional services to a well-diversified client portfolio, both in the public and private sectors.

Board of Directors and Executive Management Profiles

Sheikh AbdulMalik bin Abdullah bin Ali Al Khalili

Sheikh AbdulMalik bin Abdullah bin Ali Al Khalili is the Chairman of the Board of Directors of BankMuscat SAOG since January 2001. The Bank is a joint stock company and the largest financial institution in the Sultanate of Oman. During Sheikh AbdulMalik's tenor as Chairman, the Bank has achieved consistent progress, maintained a predominant position in the country, increased its market share to over 40% and won several international, regional and national awards.

Sheikh AbdulMalik is also the Chairman of BMI Bank in the Kingdom of Bahrain. BMI Bank is a relatively new entrant in Bahrain and has a pan Arab shareholding structure of four major shareholders from the Kingdom of Bahrain, the Sultanate of Oman, State of Kuwait and the United Arab Emirates (UAE).

The other prominent positions which Sheikh AbdulMalik holds include: Membership of the Advisory board of the World Union of Arab Bankers, Governing Body Membership of International Institute of Finance, Membership of the World Economic Forum, Membership of Advisory Board of Rasmala Investment Holding Dubai (UAE), the Chairmanship of Rasmala Oman Company SAOC. Sheikh AbdulMalik is a regular invitee/attendee/delegate to various International Forums including the IMF and World Bank Meetings.

The Vale Columbia Centre for Sustainable Energy instituted by Columbia University of New York and Vale of Brazil, has co-opted Sheikh AbdulMalik as the sole Arab Member of the Board. The Vale Columbia Centre focuses on Corporate Social Responsibilities and Foreign Direct Investments into Third World countries in line with the Copenhagen Summit.

Sheikh AbdulMalik holds a degree in Business Administration from the University of Central Florida, Orlando. He has held several positions in the Diwan of Royal Court of the Sultanate of Oman, including the Executive President and Board Member of the Pension Fund.

Sheikh Khalid bin Mustahail Al Mashani

Sheikh Khalid bin Mustahail Al Mashani is the Deputy Chairman since March 1999 and the Chairman of the Board Risk Committee. Sheikh Khalid has a BSc. in Economics from the UK and a Master's Degree in International Boundary Studies from the School of Oriental and African Studies (SOAS) from the University of London, U.K.

Brigadier General Nasser Mohammed Salim Al Harthy

Brig. Nasser Al Harthy is currently the Head of Internal Audit in the Ministry of Defence. His prior experiences cover areas of Human Resources, Planning, Operations and Organisation. He holds a Master's Degree in Military Science from Egypt and a Master's in Business Administration from the UK, where he is a member of the MBA Association and an Alumnus of the Oxford University Business Economics Programme.

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Mr. Hamoud bin Ibrahim Soomar Al Zadjali

Mr. Hamoud bin Ibrahim Soomar Al Zadjali is a Director of the Bank since January 2001 who is employed by the Royal Oman Police Pension Fund in the capacity of General Manager.

Mr. K.K. Abdul Razak

Mr. K.K. Abdul Razak, a holder of Master's Degree in Economics from the University of Kerala, India has been on the Board of Directors of the Bank since 1996. He is the Group Finance Manager of Muscat Overseas Group of Companies. He also sits on the boards of the following companies: Al Omaniya Financial Services Co. SAOG, Gulf Investment Services Co. SAOG, Muscat Gases Co. SAOG, Gulf Baader Capital Market SAOC and Oman Porcelain Co. SAOC.

Mr. Salim bin Taman Musallam Al Mashani

Mr. Salim bin Taman Musallam Al Mashani is a Director of the Bank since 1997. Mr. Salim is the Vice Chairman and Managing Director of Omani Vegetable Oils and Derivatives Co. LLC. He is also a Director of Gulf Investment Services Holding Co. SAOG, Dhofar International Development and Investment Holding Co. SAOG and the Chairman of Dhofar Poultry Co. SAOG.

Mr. Sulaiman bin Mohamed bin Hamed Al Yahyai

Mr. Sulaiman bin Mohamed bin Hamed Al Yahyai has been on the Board since March 1996. Mr. Al Yahyai holds a certificate in Asset Management from Lausanne University, Switzerland (2002), an MBA from the Institute of Financial Management, University of Wales, UK (2000) and a Certificate on Financial Crisis from Harvard University, USA (1999).

He is an Investment Advisor at the Royal Court Affairs, Chairman of Oman Chlorine Co. SAOG, a Director of Al Madina Real Estate Co. SAOC, a Director of Falcon Insurance Co. SAOC, Chairman of Oman Fixed Income Fund, Chairman of Integrated Tourism Projects Fund and a Director and Chairman of the Audit Committee of BMI Bank, Kingdom of Bahrain.

Mr. Abdul Salam bin Mohamed bin Abdullah Al Murshidi

Mr. Al Murshidi is the Chairman of Rawasi Oman Investments, and manages diversified investments in the industrial, infrastructure, general services and mining sectors. He has held other significant positions as CEO of Oman Investment Corporation, Corporate Affairs Manager of Oman LNG, Managing Director in Al Amjad Trading and Vice Chairman at Muscat College. He also founded various industrial, commercial and investment companies in the region. Currently he chairs and is a Board Member of many companies in Oman and the GCC. Mr. Al Murshidi is a qualified geologist and an expert in petroleum exploration. He holds a Master's degree in Petroleum Geology and a Bachelor's degree in Geophysics.

Mr. Abdulrazaq M. Aljassim

Mr. Abdulrazaq M. Aljassim is an Engineer and Total Quality Management professional who has extensive hands-on senior management, consultancy and entrepreneurial exposure across a broad range of industries including Industrials, Banking & Financial services, Real Estate and Information Technology. An industry veteran, Mr. Aljassim was an Executive Director of First Gulf Bank, overseeing Operations, Administration and Technology. Prior to this, he worked with Citibank in his capacity as the Resident Vice President, Banking Operations, where he managed the Central Operations divisions and was also responsible for Business Planning and Analysis (Sales and Distribution). Mr. Aljassim has a B.Sc. certification in Electrical Engineering and Digital Communication Engineering from Northrop University in the USA. He enjoys the distinction of being the only licensed Master instructor of PDCA (Plan-Do-Check-Act) for the Middle East region. He is an Executive Director with Emaar Properties, the Dubai-based Public Joint Stock Company and sits on the boards of the following Omani companies; National Life & General Insurance Company SAOG, Oman National Investment Corporation Holding SAOG and Al Ahlia Insurance Company SAOC.

Top (5) Management Profiles

Mr. AbdulRazak Ali Issa (CEO)

Mr. AbdulRazak Ali Issa is the Chief Executive Officer of the Bank. He currently holds the following directorships representing BankMuscat:

- Muscat Fund (Member of Investors' Committee)
- Oryx Fund (Member of Investors' Committee)
- Bank Deposits Insurance Scheme Fund – Central Bank of Oman (Member)
- Oman Chamber of Commerce and Industry (Banking Committee –Member)
- World Union of Arab Banks (Member of the Advisory Council)
- Muscat Capital KSA (Chairman of the Board)
- Oman Integrated Tourism Project Fund (Member of the Advisory Board)
- Mr. Abdul Razak holds an MBA from the University of Wales. He has also attended the Management Development Programme at Harvard University

Mr. Sunder George (DCE)

Mr. George is the Deputy Chief Executive of BankMuscat as well as a Director of Renaissance Services Co. SAOG, and BMI Bank, Bahrain. He is also a member of the Audit Committee of BMI Bank.

Mr. George holds an MBA from IMD Switzerland, and is a fellow of the Chartered Institute of Bankers F.C.I.B, London and a Certified Associate of the Indian Institute of Bankers C.A.I.I.B. India.

Mr. Ahmed Al Abri (COO)

Mr. Ahmed Al Abri is the Chief Operating Officer of BankMuscat, Oman. He is also a Director in BMI Bank B.S.C® Bahrain; Gul African Bank, Kenya; BMI Offshore Bank, Seychelles; and the Muscat Fund.

Mr. Al Abri holds an MBA. He has also attended the Advanced Management Program at INSEAD in France and a General Managers' Program from Harvard Business School.

Mr. Ganesan Sridhar (GM-CB)

Mr. Ganesan Sridhar is the General Manager responsible for the Commercial Banking business of the Bank. He has over 31 years of banking experience, of which 19 years have been with BankMuscat and its predecessor banks. He holds a Master's Degree in Financial Management from Bajaj Institute of Management Studies, Bombay University and a Master's in Arts Degree. He is a Certified Associate of the Indian Institute of Bankers and has completed the Advanced Management Program at the Harvard Business School in the year 2009. He sits on the Board of Abraj Energy Services LLC, a wholly owned subsidiary of Oman Oil Co. SAOC.

Mr. K. Gopakumar (GM-WB)

Mr. K. Gopakumar is General Manager, Wholesale Banking of BankMuscat. He represents BankMuscat on the board of Mangal Keshav Holdings Ltd, India. He is a Chartered Accountant, Cost Accountant and Company Secretary from India, a member of the Chartered Institute of Management Accountants, London, Member of the ACI – The Financial Markets Association, London and a Member of the Corporate Treasurers, London. He also holds an MBA from IMD Lausanne, Switzerland.

Corporate Governance Report

TABLES:

Table 1:

The total number of meetings of the full Board during the year 1 January 2010 to 31 December 2010 was eight. The maximum interval between two meetings was eighty eight days. This is in compliance with Article 4 of the Code of Corporate Governance, which requires meetings to be held within a maximum time gap of four months. The dates of the meetings of the Board of Directors, the Board Risk Committee and the Board Audit Committee during the year were as follows:

Sr. No.	Dates of Meetings of the Board of Directors	Dates of Meetings of the Board Risk Committee	Dates of Meetings of the Board Audit Committee
1	25 January 2010	14 April 2010	25 January 2010
2	20 March 2010	20 June 2010	26 April 2010
3	14 April 2010	25 October 2010	29 July 2010
4	26 April 2010	20 December 2010	25 October 2010
5	20 June 2010		7 November 2010
6	29 July 2010		
7	25 October 2010		
8	21 December 2010		

Table 2:

Details of Board of Directors and meetings held during 2010 and attendance of the Directors at same were as follows:

Name of the Director	Board Position and Membership of Committees	Board of Directors Meetings Attended	Committee Meetings Attended	Bases and Capacity of Membership	Sitting Fees R0
Sheikh AbdulMalik bin Abdullah Al Khalili, Chairman	Chairman of the Board and Chairman of the Audit Committee	8	5	Non-executive/ independent/ representative of a juristic person	9,000
*Sheikh Khalid bin Mustahail Al Mashani, Deputy Chairman	Deputy Chairman of the Board and Chairman of the Board Risk Committee	4	2	Non-executive/ shareholder in personal capacity	3,850
**Dubai Financial Group	Member of the Board and member of the Board Audit Committee	7	2	Non-executive/ representative of a juristic person	6,350
Brig. General Nasser bin Mohamed Al Harthy	Member of the Board and member of the Board Audit Committee	7	4	Non-executive/ independent/ representative of a juristic person	7,150
***Mr. Hamoud bin Ibrahim Soomar Al Zadjali	Member of the Board and member of the Board Risk Committee	6	4	Non-executive/ representative of a juristic person	6,225
*Mr. K.K. Abdul Razak	Member of the Board and member of the Board Audit Committee	8	5	Non-executive/ shareholder in personal capacity	8,075

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Mr. Salim bin Taman Al Mashani	Member of the Board and member of the Board Risk Committee	8	4	Non-executive/ independent/ shareholder in personal capacity	8,075
Mr. Sulaiman bin Mohamed Al Yahyai	Member of the Board and member of Board Risk Committee	8	4	Non-executive/ independent/ shareholder in personal capacity	8,075
Mr. Abdul Sallam bin Mohamed Al Murshidi	Member of the Board and member of Board Risk Committee	7	3	Non-executive/ independent/ shareholder in personal capacity	6,750
Total amount paid as sitting fees					63,550

The Annual General Meeting of the shareholders of the Bank approved at its meeting held on 20 March 2010 an amount of RO 82,600 as sitting fees for 2010. Total amount paid to the members of the Board of Directors as sitting fees during 2010 was RO 63,550 less than the shareholders' approved amount.

- * Sheikh Khalid bin Mustahail Al Mashani and Mr. K.K. Abdul Razak were non-independent as per the nomination forms they signed before their election to the Board of Directors.
- ** Dubai Financial Group was represented by Mr. Abdulrazaq M. Aljassim who was also non-independent.
- *** The Royal Oman Police Pension Fund is represented by Mr. Hamoud bin Ibrahim Soomar Al Zadjali who is a non-independent director.

Table 3

Monthly share prices of BankMuscat's shares quoted at the Muscat Securities Market (MSM) and the bands for the banking sector stocks on the MSM.

(This information is available from news agencies and is published information. This is given here as part of the requirements of the Code of Corporate Governance for MSM listed companies. This is not a solicitation in any manner to subscribe to the Bank's shares.)

BankMuscat Share Price

Date	Closing	High	Low
Jan-10	0.935	0.945	0.810
Feb-10	0.990	1.030	0.930
Mar-10	0.846	1.025	0.790
Apr-10	0.902	0.909	0.840
May-10	0.774	0.910	0.742
June-10	0.791	0.824	0.750
July-10	0.822	0.830	0.780
Aug-10	0.843	0.875	0.822
Sep-10	0.851	0.884	0.839
Oct-10	0.875	0.885	0.852
Nov-10	0.937	0.950	0.860
Dec-10	0.962	0.979	0.930

Source: MSM website

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Banking and Investment Index Movement during 2010			
Date	Closing	High	Low
Jan-10	9,437	9,910	9,147
Feb-10	9,566	9,864	9,295
Mar-10	9,608	9,753	9,324
Apr-10	10,112	10,284	9,614
May-10	8,925	10,166	8,566
Jun-10	8,549	9,009	8,415
Jul-10	8,788	8,946	8,537
Aug-10	8,455	8,981	8,452
Sep-10	8,816	8,991	8,446
Oct-10	8,795	8,999	8,795
Nov-10	8,474	8,808	8,409
Dec-10	8,320	8,663	8,307

Source: Bloomberg

The Board Acknowledges:

- Its liability for the preparation of the financial statements in accordance with the International Financial Reporting Standards.
- That it reviewed the efficiency and adequacy of internal control systems of the Bank and that it complied with the internal rules and regulations in 2010.
- That there are no material events that affect its ability to continue its operations during the next financial year.

Report of factual findings to the Board of Directors Bank Muscat SAOG 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 Bank Muscat SAOG (the bank) set out on pages 2 to 21 as at and for the year ended 31 December 2010. The disclosures were prepared by the management in accordance with the CBO's Circular No. BM 1009 dated 13 September 2006 and Circular No. BM 1027 dated 4 December 2007. 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 No. BM 1027 dated 4 December 2007, were performed solely to assist you in evaluating the bank's compliance with the disclosure requirements set out in CBO's Circular No. BM 1009 dated 13 September 2006.

We report our findings as follows:

Based on performance of the procedures detailed above, we found the disclosures 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 financial statements 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 or to be distributed to any other parties other than Central Bank of Oman. This report relates only to the bank's disclosures and does not extend to any financial statements of the bank taken as a whole or to any other reports of the bank.



26 January 2011
Muscat, Sultanate of Oman



The hallmark of the work culture is collective innovation. Infusing energy, the open office concept is aimed at improving efficiency wherein employees can share ideas and collaborate more easily.

Basel II - Pillar III Disclosures

A. Introduction and Overview

Risk management is the process by which BankMuscat SAOG (the Bank) identifies key risks, obtains consistent, understandable risk measures, and chooses which risks to reduce and which to increase and by what means and establishes procedures to monitor the resulting risk position. The objective of risk management is to ensure that the Bank operates within the risk levels set by the Bank's Board of Directors while the various business functions pursue their objective of maximizing the risk adjusted returns.

Risk management is the overall responsibility of the Bank's Board of Directors and managed through the Board Risk Committee (BRC). BRC provides recommendations to the Board of Directors on the risk-reward strategy, risk appetite and policies and framework for managing different types of risks. The Board reviews and approves the risk management strategy of the Bank and defines the risk appetite of the Bank. The Board approved strategy is implemented at management level through management committees and executive management. For the purpose of day-to-day management of risks, the Bank has created an independent Risk Management department. Risk Management department objectively reviews and ensures that the various functions of the Bank operate in compliance with the risk parameters set by the Board of Directors. Risk Management has a direct reporting line to the Board of Directors of the Bank and for operational convenience a dotted line reporting to the Deputy Chief Executive Officer independent of business lines.

A Board approved risk appetite statement which formally defines and expresses the willingness and ability of the Bank to take on certain amounts of risk in order to pursue its strategic objectives is in place. Within its risk appetite statement, the Bank has articulated target capital adequacy ratios – Tier 1 ratio, Pillar 1 ratio and Pillar 2 ratio giving it desired capacity to absorb unexpected losses under varying conditions. These target ratios have been consistently met during the year.

The risk appetite of the Bank in various business areas is defined and communicated through an enterprise-wide risk policy. The Bank's risk policy, approved by the Board of Directors, analyses and sets risk limits for core risks - Credit risk, Liquidity risk, Market risk and Operational risk. The risk levels of each of these categories is measured and monitored on a continuous basis and compliance to prescribed risk levels reported on a quarterly basis. This ensures prudent management of the risks assumed by the Bank in its normal course of business. The risk policy is updated regularly, based on an analysis of the economic trends and the operating environment in the countries where the Bank operates.

Bank's risk management processes have proven effective throughout the review year. The Bank's Board of Directors have remained closely involved with key risk management initiatives, in ensuring the Bank's risks are effectively managed, appropriate levels of liquidity are maintained and adequate capital is held in line with the requirements.

The Bank recognises that an effective risk management process is key to its objective of enhancing shareholder value and is committed to developing risk management as an area of core competence. It continues in building its risk management capabilities so as to ensure that it is able to deliver on its growth plans while managing the underlying risks in an effective manner.

Risk Management Strategies

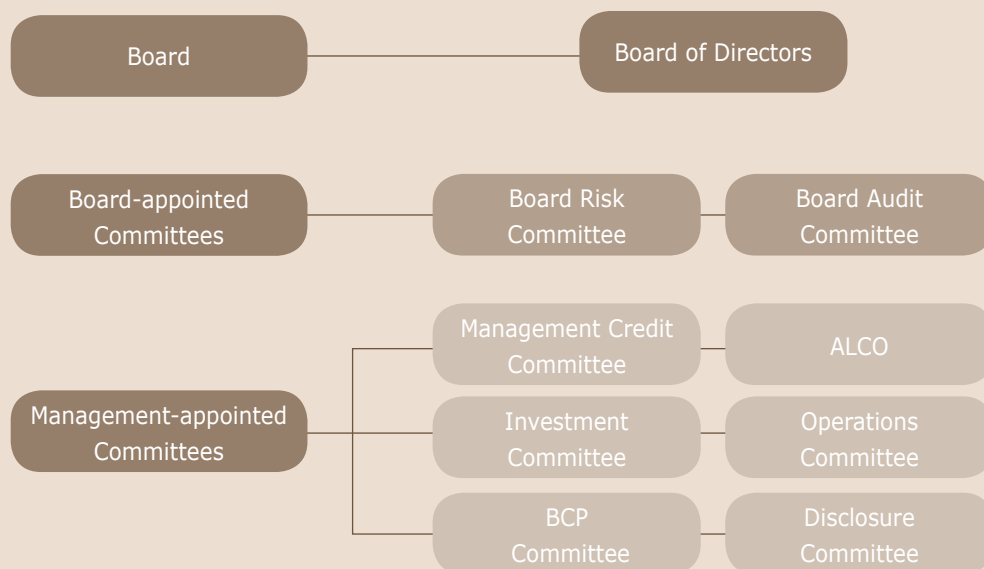
Apart from the Risk policy various other policies including Credit policy, Treasury policy, Investment policy and ALM policy have been established on a comprehensive basis duly approved by the Board enabling prudential risk management. These policies lay down the process for managing risks across business lines. Although risk management is primarily the responsibility of the Board of Directors of the Bank, practically the responsibility of risk management resides at all levels of the organisation. The risk management matrix lays down the risk ownership within the Bank.

Risk Governance Structure

The approach to risk management is communicated throughout the organisation and supported by explicit ownership of risks and a clear allocation of responsibilities. The management of risk is guided by a number of committees in the Bank. Board committees and key management committees, which are part of the risk governance structure, are as follows:

Basel II - Pillar III Disclosures

BankMuscat Risk Governance Structure



A.1 Basel II Developments

The Bank's regulator, the Central Bank of Oman (CBO) sets and monitors capital requirements for the Bank as a whole. In implementing Basel II capital requirements, CBO requires the Bank to maintain a minimum ratio of 12% of total capital to total risk-weighted assets with effect from 31 December 2010.

The Bank determines regulatory capital as recommended by the new Basel II Capital Accord, in line with the guidelines of Central Bank of Oman with effect from 2007. The Bank has adopted Standardised (comprehensive) approach for Credit Risk, Standardised approach for Market Risk and Basic Indicator Approach for Operational Risk. The Bank has a clear roadmap and endeavours to adopt the advanced approaches for Credit Risk, Market Risk and Operational Risk in a phased manner.

A.2 Scope of Application

With effect from 1st January 2007, Basel II capital accord framework is applied to the Bank. The Bank has investment in associates namely BMI Bank B.S.C. (c), Kingdom of Bahrain; Mangal Keshav Holding Limited, India and subsidiary - Muscat Capital LLC, Kingdom of Saudi Arabia. Investments in associates are deducted from the capital in arriving at the Tier I and Tier II capital and the financials of subsidiary is consolidated with the Bank's financial statement. The associates referred meet its respective regulatory capital requirements. The disclosures made in this section pertain to the Bank alone.

Name of Entity	Country of Operation	Percentage Interest held by BM	Status	Regulator
BankMuscat SAOG	Oman, KSA, Kuwait and UAE	100.00	Parent Company with foreign branches	Central Bank of Oman, SAMA, Central Bank of Kuwait and Central Bank of UAE, respectively.
Muscat Capital LLC	KSA	95.00	Subsidiary	Saudi Capital Market Authority
BMI Bank B.S.C. (c)	Bahrain and Qatar	49.00	Associate	Central Bank of Bahrain and Qatar Central Bank
Mangal Keshav Holdings Ltd	India	42.96	Associate	SEBI

Basel II - Pillar III Disclosures

B. Capital Management

B.1 Capital Structure

The Bank's regulatory capital is grouped into three tiers:

- Tier I capital, which includes ordinary share capital, share premium, distributable and non-distributable reserves and retained earnings after deductions for goodwill and 50 per cent of carrying value of investment in associates as per the regulatory adjustments that are included in equity but are treated differently for capital adequacy purposes.
- Tier II capital, which includes qualifying subordinated liabilities (net of reserves), collective impairment allowances and the element of the fair value reserve relating to unrealised gains on equity instruments classified as available-for-sale to the extent permitted after deductions for 50 per cent of carrying value of investments in associates.
- Tier III capital includes qualifying subordinated liabilities (net of reserves).

Various limits are applied to elements of the capital base. The qualifying tier II and tier III capital cannot exceed tier I capital; qualifying subordinated liabilities may not exceed 50 per cent of tier I capital; and amount of collective impairment allowances that may be included as part of tier II capital is limited to 1.25 per cent of the total risk-weighted assets.

Tier I Capital	2010	2009
	RO'000	RO'000
Share Capital	134,641	107,713
Share Premium	301,505	301,505
Legal Reserve	44,881	35,905
General Reserve	61,308	56,308
Subordinated Loan Reserve	80,100	48,400
Retained Profit *	94,925	99,520
	717,360	649,351
Less:		
Goodwill	(2,408)	(2,319)
Deferred Tax Asset	(11,096)	(11,096)
Foreign Currency Translation Reserve	(504)	(884)
Non-Strategic Investment in Banks (50%)	(1,896)	-
Investments in Associates (50%)	(26,255)	(32,427)
Tier I Capital	675,201	602,625
Tier II Capital		
Cumulative Change in Fair Value (45%)	3,027	1,921
General Loan Loss Impairment	56,105	53,575
Subordinated Liabilities (net of reserves)	103,400	140,100
Mandatory Convertible Bonds	32,314	32,314
	194,846	227,910
Less:		
Non-Strategic Investment in Banks (50%)	(1,896)	
Investments in Associates (50%)	(26,255)	(32,427)
Tier II Capital	166,695	195,483
Tier III Capital (Net of Reserve)	-	-
Total Capital Available	841,896	798,108

Note: * Retained Profit for the year 2010 excludes proposed cash dividend of RO 33.66 million (2009: RO 21.54 million)

Basel II - Pillar III Disclosures

B.2 Capital Adequacy

Capital adequacy indicates the ability of the Bank in meeting any contingency without compromising the interest of the depositors and to provide credit across the business cycles. Sufficient capital in relation to the risk profile of the Bank's assets helps promote financial stability and confidence of the stakeholders. The Bank aims to maximise the shareholder's value through an optimal capital structure that protects the stakeholders interests under most extreme stress situations, provides sufficient room for growth while meeting the regulatory requirements and at the same time gives a reasonable return to the shareholders.

While risk coverage is the prime factor influencing capital retention, the Bank is conscious of the fact that as a business entity, its capital needs to be serviced and a comfortable rate of return needs to be provided to the shareholders. Excessive capital will dilute the return on capital and this in turn can exert pressure for profitability propelling business asset growth resulting in the Bank assuming higher levels of risk. With regards to the retention of capital, the Bank's policy is governed by the need for adequately providing for associated risks and the needs for servicing the capital retained. The Bank makes good use of subordinated loans as Tier II Capital and raises share capital as and when the need arises. The Bank's strong and diverse shareholder profile gives the Bank the necessary confidence in its ability to raise capital when it is needed.

The management of the Bank is well aware of the need to move to more advanced approaches for measuring credit risk, market risk and operational risk. In this regard Bank has a 'building block' approach and has made progress in certain areas. Gaps have been identified and a road map has been laid down for each area and progress measured at regular intervals.

	Gross Bal. (Book Value)	Net Balances (Book Value) *	Risk Weighted Assets
	RO'000	RO'000	RO'000
On-Balance Sheet Items	5,846,377	5,255,655	4,203,130
Off-Balance Sheet Items	1,637,870	1,637,870	741,315
Derivatives			57,865
Total Credit Risk			5,002,310
Total Market Risk			239,898
Total Operational Risk			454,012
			5,696,220
Capital Structure			
Tier I Capital			675,201
Tier II Capital			166,695
Tier III Capital (Net of Reserves)			-
Total Regulatory Capital #			841,896
Capital Requirement for Credit Risk			600,277
Capital Requirement for Market Risk			28,788
Capital Requirement for Operational Risk			54,481
Total Required Capital			683,546
Tier I Ratio			11.85%
Total Capital Ratio			14.78%

* Net of provisions & reserved interest & eligible collaterals

Total regulatory capital is after excluding proposed cash dividend of RO 33.66 million for the year 2010.

The comparative difference between the gross book value of on-balance sheet and off-balance sheet items and the financial statements is due to treatment of investment in associates, non-strategic investment in banks, acceptances and commitments in capital adequacy calculation.

Basel II - Pillar III Disclosures

B.3 Capital Raised

During the year 2010, Capital adequacy of the Bank was well above the regulatory minimum level of 12%. The Bank did not raise additional capital in 2010 as the internally generated capital was sufficient to meet the growth and operate well above the minimum regulatory CAR level. The Bank generated internal capital of RO 52.2 million after payment of dividends for the year 2009.

B.4 Capital Allocation

The allocation of capital between specific business units and activities is, to large extent, driven by optimisation of the return on capital allocated. Although maximisation of the return on risk-adjusted capital is the principal basis used in determining how capital is allocated within the Bank to particular business units or activities, it is not the sole basis used for decision making. Other factors such as synergies between the units or activities, the availability of management and other resources, and the fit of the activity with the Bank's longer term strategic objectives are taken into account while allocating capital.

B.5 Target Capital Adequacy

Target capital level for the Bank is set in relation to the minimum regulatory requirements set by the Central Bank of Oman. Based on the expected return on capital and future growth prospects together with an intention of optimising the shareholders return, the Bank sets a target capital level. The Bank has a target capital level as per the Board-approved risk appetite statement above the minimum regulatory requirement of 12% which is comfortably met.

B.6 Internal Capital Adequacy Assessment Process (ICAAP)

Bank prepared an Internal Capital Adequacy Assessment Process (ICAAP) which provides an assessment of the Bank's actual capital adequacy on an advanced Economic Capital measure. ICAAP incorporates the impact of residual risk including business risk, concentration risk, correlation risk, interest rate risk on banking book. The purpose of the Bank's ICAAP is not only to provide a detailed assessment of its current capital adequacy, but also to project future capital adequacy ratios in line with approved business plans in order to evaluate their validity from a risk perspective. The process covers a forward looking plan for the next 5 years. The overall framework has introduced a structured methodology for a comprehensive forward-looking assessment of the Bank's risk profile. It is also expected that the establishment of the ICAAP in the Bank will facilitate the awareness for risk sensitive topics when it comes to strategic decisions like acquisitions, launch of new products or organic growth targets. It will scrutinize the current business model of the Bank and may lead to corresponding adjustments if the inherent risk goes beyond the Bank's risk appetite. ICAAP was approved by the Board of Directors through Board Risk Committee and the same has been submitted to the regulators. The Bank believes that its current and foreseen capital endowment is suitable to support its business strategy in a soothing market environment. The present plan will be updated at least annually for a rolling, forward-looking planning period of 5 years.

In order to determine the Bank's capability to withstand adverse conditions, in addition to the base case, a stress scenario has also been examined. This scenario assumes a prolonged recession and specifically incorporates a deterioration of credit quality, increased IRRBB and Market Risk as well as a decrease in retained profits.

C. Risk Exposure and Assessment

At the macro level, the Bank has exposure to the following risks.

- Credit risk
- Market risk
- Liquidity risk
- Operational risk
- Other risks

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C.1 Credit Risk Management

Credit risk is the potential loss resulting from the failure of a borrower or counter party to honour its financial or contractual obligations in accordance with the agreed terms. The function of credit risk management is to maximise the Bank's risk-adjusted rate of return by maintaining credit risk exposure within acceptable parameters. Credit risk makes up the largest part of the Bank's risk exposure. Credit risk management process of the Bank begins with the risk policy, updated regularly, which clearly defines parameters for each type of risk assumed by the Bank.

The Bank has set for itself clear and well defined limits to address different dimensions of credit risk including credit concentration risk. Compliance, with the various parameters set in the risk policy, is reviewed on a regular basis and exceptions are reported to enable remedial actions.

The Bank addresses credit risk through the following process:

- All credit processes – Approval, disbursal, administration, classification, recoveries and write-off, all are governed by the Bank's credit manual which is reviewed by Risk Management and approved by appropriate approval authorities. The credit policy stipulates clear guidelines for each of these functions and the lending authority at various levels as stipulated in appropriate 'Lending Authority Limits'.
- All Corporate lending proposals, where the proposed credit limit for a borrower or related group exceeds a threshold, are submitted for approval/renewal to the appropriate authority after an independent review by the Risk Management Department whose comments are incorporated into the proposal.
- All Corporate lending accounts are reviewed at least once a year. The consumer-lending portfolio, including credit cards, is reviewed on a portfolio basis at a product level at least once a year.
- Concentration of exposure to counterparties, geographies and sector are governed and monitored according to regulatory norms and limits prescribed in the Bank's risk policy.
- The corporate borrowers are risk rated to provide support for credit decisions. The portfolio is analyzed based on risk grades and risk grade migration to focus on management of prevalent credit risk.

Cross-border Risk

Cross-border transfer risk, is the uncertainty that a client or counterparty, including the relevant sovereign, may not be able to fulfil its obligations to the Bank outside the host country because of political or economic conditions in the host country.

The Bank uses the Moody's country rating, wherever available, and for the countries that are not rated by Moody's, ECA ratings are used as substitute and the Bank extensively uses its network, country visits and external sources of information before allocating limits. The limits are continuously updated to factor economic and political changes in respective countries.

Cross-border risk in the Bank is managed in the same manner as Credit Risk, i.e. an assessment is made as to the level of exposure in a country with which the Bank is comfortable with, taking into account all relevant risk factors. The country limits are approved by the Board of Directors. Where the country rating is below a specified threshold, country limits are based on an independent risk assessment by the Bank. The country risk assessment is based on various factors including economic and fiscal policy framework, political stability and growth prospects, social factors, banking and financial system in the country and relationship outlook.

The following table gives the distribution of risk exposure by Country by rating (Moody's rating):

Country Rating Distribution	% of total	Country Summary	% of total
Aaa to Aa3	50.69%	Investment Grade	91.87%
A1 to A3	12.31%	Sub Investment Grade	1.69%
Baa1 to Baa3	28.87%	Unrated	6.44%
Ba1 to Ba3	1.49%		
B1 to B3	0.20%		
Below B3	-		
Unrated	6.44%		
Total	100.00%	Total	100.00%

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Bank Counterparty Risk

Counterparty risk is the risk arising from the failure of the Bank's counterparty to honour commitments made. Exposures to banks are guided by risk assessment based on latest ratings assigned by external rating agencies. Where a Bank is unrated, an independent assessment of the Bank is carried out based on quantitative and qualitative factors. The Bank has embarked on an internal rating methodology for unrated banks using globally renowned risk rating software. BankMuscat extensively uses information from its own group network, visits to banks and external sources for crucial information. The Bank proactively monitors market developments and takes necessary actions.

Country and Bank limits are reviewed annually and credit lines are adjusted to suitably reflect latest market developments.

The following table gives distribution of exposures among banks by rating (Moody's ratings):

Bank Rating Distribution	% of total	Bank Summary	% of total
Aaa to Aa3	23.70%	Investment Grade	55.46%
A1 to A3	17.37%	Sub Investment Grade	22.90%
Baa1 to Baa3	14.39%	Unrated	21.64%
Ba1 to Ba3	22.67%		
B1 to B3	0.23%		
Below B3	-		
Unrated	21.64%		
Total	100.00%	Total	100.00%

Loans and Advances

Loans and advances form approximately 68.5% of the Bank's total assets. The Bank's credit risk in loans and advances are measured, monitored and managed against various criteria like economic sector concentration, single borrower concentration, substantial exposure limit, frequency of credit review, portfolio review for rating migration, lending in foreign currencies, and cross border exposures.

Corporate Loans

Corporate lending accounts for approximately 60.5% of the total loan book of the Bank. While the day-to-day management of corporate credit and the asset quality is the responsibility of the business line management, all medium and large corporate proposals/renewals are independently reviewed by the Risk Management Department, whose recommendations form an important input to the decision making process. Every account is reviewed individually once a year or more frequently if the situation so warrants.

The risk policy ensures that the Bank's lending is targeted and distributed over various economic sectors. The sectoral exposures, which include both funded and non-funded, for the year 2010 were within the prescribed limits. Detailed sector analysis is done every year and reports submitted to the Board/Management on emerging trends to aid the lending decisions.

Using a globally renowned risk rating software, the Bank does an objective risk rating of its corporate borrowers based on their financial position as reflected in their latest audited financial statements and other relevant subjective matters as evaluated by the concerned relationship managers. Risk rating is centralised at risk management department to provide objectivity and ensure uniformity of the rating process. In forming an opinion on the corporate proposals/renewals the borrower's risk rating, collaterals, pricing and other relationship are considered. The risk rating of the borrowers are back tested to ensure robustness of the rating model. The risk rating grades are reviewed regularly and corrective action initiated wherever necessary.

Consumer Banking

The Consumer Banking is guided and administered by the retail lending policy. Personal loans and residential housing loans account for 33% and 6.5% of the loan book. Personal loans in the Bank are largely granted against confirmed assignment of salaries from employers approved by the Bank. Residential housing loans are granted against mortgage of

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the underlying properties and confirmed assignment of salaries from approved employers. The approved employers list is regularly reviewed and updated based on the financial profile of the company and other relevant factors.

Risk management in Retail business is achieved through product-wise portfolio review. Portfolio review analyzes the risk prevalent in the retail consumer loans post approval and disbursement. A combination of robust lending policy, loan application process and retail credit control enables mitigation of risk at the pre-approval stage. The loan application process mitigates credit risk by evaluating the applicant's ability and the intention to repay the loan.

Collateral Management

The Bank employs a range of policies and procedures to mitigate credit risk. The credit risk mitigants include collaterals like

- Lien on deposits
- Securities
- Real estate
- Inventories
- Assignment of receivables
- Guarantees

A robust collateral management system is in place to mitigate any operational risk. The Bank has a strong credit administration process that ensures compliance with terms of approval, documentation and continuous review to ensure quality of credit and collaterals. While securities like listed equities are valued regularly, credit policy mandates securities obtained by way of legal mortgage over real estate to be valued at least once in 3 years or more frequently if the situation warrants.

Impairment Policy

All loans and advances of the Bank are regularly monitored to ensure compliance with the stipulated repayment terms. These loans and advances are classified into one of the 5 risk classification categories: Standard, Special Mention, Substandard, Doubtful, and Loss – as stipulated by Central Bank of Oman regulations and guidelines. The Bank adopts a rigorous standard for identification, provisioning and monitoring of the non-performing loans towards an eventual recovery. Every problem account is reviewed to evaluate compliance to laid down lending norms, arrive at an appropriate grade commensurate with the risk and incorporate the lessons, if any, into Bank's lending guidelines. Primary responsibility for identifying problem accounts and classifying those rests with business lines. Supervisory responsibility to ensure that the accounts are reviewed and classified in line with the Bank's credit policy rests with Risk Management Department. Line management shall ensure that the downgrading of accounts is gradual and appropriate measures have been initiated at each level of classification. Counterparties which on the basis of the risk rating system demonstrate the likelihood of problems are identified well in advance to effectively manage the credit exposure and optimize the recovery. The motive of this early warning system is to address potential problems while adequate options for action are still available. All possible help is extended to those customers in the watch list, which will enable them to stay in the 'Standard' category. The Bank has a specialist remedial credit unit for Corporate, SME and Retail Banking to manage problem loans. This unit provides assistance and advice to customers to recover from problem situations and aid recoveries.

The following table provides the criteria for categorising of exposure into various categories:

Category	Retail Loans	Commercial Loans (*)
Standard	Meeting all the payment obligations or remain past due for less than 60 days	Loans having no financial weaknesses and are not classified in any of the other four categories
Special Mention	Remain past due for 60 days or more but less than 90 days	Remain past due for 60 days or more but less than 90 days
Substandard	Remain past due for 90 days or more but less than 180 days	Remain past due for 90 days or more but less than 270 days
Doubtful	Remain past due for 180 days or more but less than 365 days	Remain past due for 270 days or more but less than 630 days
Loss	Remain past due for 365 days or over	Remain past due for 630 days or over

(*) Commercial loans are classified into various risk categories on the basis of quantitative and qualitative parameters.

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The quantitative parameter i.e. payments past due for a specified number of days, are considered only as a threshold and loans which exhibit early signs of defaults are appropriately classified, notwithstanding the fact that the loans are not past due for the period specified under different categories of risk classification.

The Bank makes provision for bad and doubtful debts promptly when required in line with the conservative provisioning norms it has set for itself. The Bank arrives at the provisioning requirement both under IFRS and CBO guidelines and maintains whichever provision is higher.

The Bank makes adequate provision against non-performing credit exposures. In addition to the above the Bank also makes a non-specific loan loss provision on the standard portfolio equivalent to 2% of retail lending portfolio and 1% of corporate banking portfolio.

The remedial action in case of classified advances is aimed at recovering maximum salvage value through enforcement of collateral/ guarantees, etc. The decisions to compromise the Banks' claims are pursued only when all available remedies including legal actions against the borrowers and guarantors have been fully exhausted.

No outstanding facilities may be written off until it has already been classified as doubtful or loss. This is to prevent rapid downgrading and writing off of overdue accounts without the benefit of any appropriate remedial measures. All write-offs, subject to a threshold limit, are approved by the Board of Directors.

The gross credit risk exposures, plus average gross exposure over the period broken down by major types of credit exposure are given in the table below:

Types of Credit Exposure	Average Gross Exposure		Total Gross Exposure as at	
	2010	2009	Dec-10	Dec-09
	RO'000	RO'000	RO'000	RO'000
Overdrafts & Credit Cards	168,580	162,736	225,810	248,175
Personal & Housing Loans	1,600,552	1,521,974	1,629,816	1,539,096
Loans against Trust Receipts	142,238	173,323	157,873	154,776
Corporate & other Loans	1,913,514	1,828,750	2,075,185	2,030,494
Bills Purchased / Discounted & other adv.	91,019	74,988	105,508	79,515
Total	3,915,903	3,761,771	4,194,192	4,052,056

Geographic distribution of gross exposures, broken down into significant areas by major types of credit exposure is given in the table below:

Types of Credit Exposure	Oman	Other GCC Countries	OECD Countries	India	Others	TOTAL
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Overdrafts	224,588	1,216	-	-	6	225,810
Personal & Housing Loans	1,614,578	14,640	48	-	550	1,629,816
Loans against Trust Receipts	157,642	231	-	-	-	157,873
Corporate & other Loans	1,901,256	166,952	116	3,863	2,998	2,075,185
Bills purchased / discounted	62,215	548	1,329	3,254	38,162	105,508
Total	3,960,279	183,587	1,493	7,117	41,716	4,194,192

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Industry or counter party type distribution of gross exposures, broken down by major types of credit exposure is given in the table below:

Economic Sector	Overdrafts	Loans	Bills / LTR & other advances	Total	Off-Balance Sheet Exposure
	RO'000	RO'000	RO'000	RO'000	RO'000
Agriculture/Allied Activity	3,097	4,556	3,790	11,443	19,189
Construction	11,980	36,489	43,126	91,595	287,230
Export Trade	532	377	1,101	2,010	1,990
Financial Institutions	8,333	154,239	9,530	172,102	311,530
Government	1,924	34,519	-	36,443	65,436
Import Trade	22,281	93,153	103,109	218,543	113,453
Manufacturing	14,432	187,932	34,514	236,878	49,652
Mining & Quarrying	6,030	311,350	6,495	323,875	57,878
Personal & Housing Loans	53,895	1,598,902	5,013	1,657,810	19,523
Real Estate	4,786	297,451	-	302,237	25,980
Services	70,211	417,073	31,146	518,430	130,357
Transport	1,715	162,579	1,539	165,833	10,353
Utilities	14,680	104,313	331	119,324	74,833
Wholesale & Retail	9,317	144,477	23,145	176,939	27,352
Others	2,597	157,591	542	160,730	46,759
Total	225,810	3,705,001	263,381	4,194,192	1,241,515

Residual contractual maturity breakdown of the whole portfolio, broken down by major types of credit exposure are given below in the table:

Time Band	Overdrafts & Credit Cards	Loans	Loan against trust receipts	Bills Purchased / Discounted & others	Total
	RO'000	RO'000	RO'000	RO'000	RO'000
Up to 1 month	38,130	453,712	51,142	15,264	558,248
1 - 3 months	10,323	129,733	69,060	18,656	227,772
3 - 6 months	9,853	138,753	32,658	26,510	207,774
6 - 9 months	9,853	80,152	-	-	90,005
9 - 12 months	9,853	66,277	-	6,330	82,460
1 - 3 years	49,266	621,438	5,013	26,265	701,982
3 - 5 years	49,266	368,142	-	6,199	423,607
Over 5 years	49,266	1,846,794	-	6,284	1,902,344
Total	225,810	3,705,001	157,873	105,508	4,194,192

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An analysis of the loan book by economic sector or counter party type is given below:

Economic Sector	Gross Loans	Of which, NPLs	Non-Specific Prov.	Specific Prov.	Reserve Interest	Provisions during the year	Adv w/ off during the year
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Agriculture/Allied Activity	11,443	1,295	-	389	131	72	254
Construction	91,595	18,339	-	5,909	2,627	983	1,106
Export Trade	2,010	236	-	61	24	50	121
Financial Institutions	172,102	11,316	-	10,271	1,044	5,136	51,117
Government	36,443	-	-	-	-	-	-
Import Trade	218,543	369	-	162	133	109	417
Manufacturing	236,878	9,725	-	7,147	2,401	116	605
Mining & Quarrying	323,875	332	-	-	344	-	-
Personal & Housing Loans	1,657,810	89,747	-	54,696	11,481	24,405	9,722
Real Estate	302,237	-	-	-	-	3,435	4
Services	518,430	2,314	-	1,437	164	744	1,602
Transport	165,833	1,454	-	624	200	475	79
Utilities	119,324	621	-	330	30	242	-
Wholesale & Retail Trade	176,939	14,399	-	5,047	3,825	2,661	406
Others	160,730	25,739	-	15,172	6,512	5,631	3,189
Non Specific	-	-	56,105	-	-	2,530	-
Total	4,194,192	175,886	56,105	101,245	28,916	46,589	68,622

An analysis of Gross loans broken down by significant geographic areas is given below:

Countries	Gross Loans	Of which, NPLs	Non-Specific Prov.	Specific Prov.	Reserve Interest	Provisions during the year	Advances w/off during the year
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Oman	3,960,279	155,595	56,035	84,832	27,277	46,589	68,622
Other GCC Countries	183,587	20,291	70	16,413	1,639	-	-
OECD Countries	1,493	-	-	-	-	-	-
India	7,117	-	-	-	-	-	-
Others	41,716	-	-	-	-	-	-
Total	4,194,192	175,886	56,105	101,245	28,916	46,589	68,622

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Movement of gross loans is given in the table below:

Movement of Gross Loans during the year

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
Opening Balance	3,610,680	230,590	30,953	39,920	139,913	4,052,056
Migration / Changes	61,108	79,175	5,593	(8,255)	54,304	191,925
New Loans	209,194	68,560	1,685	1,041	6,236	286,716
Recovery of Loans	180,821	60,180	6,959	1,830	18,092	267,882
Loans written off	-	-	-	-	68,622	68,622
Closing Balance	3,700,161	318,144	31,272	30,876	113,739	4,194,192
Provisions held	57,341	5,319	7,743	14,777	72,170	157,350
Reserve Interest	-	202	537	1,383	26,794	28,916

Substantial Exposure

The aggregate substantial exposure (i.e. credit exposure individually of 10% or more of the total capital of the Bank, on a gross basis without adjusting for the credit risk mitigants) to all the connected counterparties and all the related parties account for 54.3% of the total capital of the Bank and 10.3% of the total loan book.

C.2 Credit Risk: Disclosures for Portfolio Subject to the Standardized Approach

Bank uses Moody's ratings for risk weight of Country and Bank exposures.

Type of Exposure	Rated	Unrated
	RO'000	RO'000
Country	1,110,215	76,397
Bank	870,075	240,279

C.3 Credit Risk Mitigation: Disclosures for Standardized Approach

On and off-balance sheet netting agreements are entered into with the counterparties wherever possible, and contractual agreements are made accordingly.

Main types of applicable collaterals under Standardized comprehensive approach are:

- Cash on deposit with the Bank
- Certificates of deposits, issued by Central Bank of Oman
- Sultanate of Oman Government Development Bonds
- Bank Guarantees
- Equities listed in Muscat Securities Market included in the Main Index
- Equities listed in Muscat Securities Market that are not included in the Main Index but are listed in the Exchange

Apart from the above mentioned collateral, Guarantees of the Government of Sultanate of Oman are considered for credit risk mitigation purpose.

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Systems and processes are in place to mitigate any operational risk, which may manifest in the process of obtaining securities to mitigate credit risk. Continuous review and valuation of securities taken are done to ensure their quality. Appropriate haircuts, as provided by the Central Bank of Oman, to mitigate the risks within the securities are applied.

Break-up of total exposure covered by eligible collaterals under the Standardized approach are given below:

	Gross loans & advances
	RO'000
Loans fully secured by Cash	
Commercial loans secured by Cash	56,205
Loans secured by shares	
Commercial loans secured by shares	127,851
TOTAL	184,056

D. Market risk

Market risk is the risk of a change in the actual or effective market value and earnings of a portfolio due to the adverse movements in market variables. The market variables inter-alia includes equity prices, bond price, commodity price, Foreign Exchange rates and Interest Rates. The objective of Market Risk management is to facilitate business growth operating at the optimal risk levels. The Bank manages market risk through proper identification, control, measurement, monitoring and reporting of market risk to facilitate appropriate action as and when needed. The Bank's middle office monitors and reports compliance to established risk threshold limits.

The principal categories of market risk faced by the Bank are set out below:

- Foreign Exchange Risk
- Investment Price Risk
- Interest Rate Risk
- Commodity Price Risk

The broad framework for market risk management at the Bank is governed by the following Risk Tolerance Thresholds.

- Position Limits
- Exposure Limits
- Sectoral Limits
- Stop Loss Limit
- Net Interest Income Impact Limit
- Economic Value of Equity Impact Limit
- Gap Limits
- Other Market Risk Measures

D.1 Foreign Exchange Risk

Foreign exchange risk is the risk of loss due to volatility in the exchange rates. Foreign exchange risk management in the Bank is ensured through regular measurement and monitoring of open foreign exchange positions against approved limits. Majority of the foreign exchange transactions carried out by the division are on behalf of corporate customers and are on a back-to-back basis. The treasury ensures that positions with customers are covered in the interbank market.

The Bank conservatively restricts its open currency position at below 35% of net worth as against the regulatory limit of 40%. The Bank does not have significant trading positions in forex and the exposures arise mainly from client transactions with a limited amount of trading for own book.

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USD'000	Currencies	RO'000
173,509	UAE Dirham	66,801
138,540	U S Dollar	53,338
58,886	Saudi Riyal	22,671
15,179	Qatari Riyal	5,844
10,231	Pakistani Rupee	3,939
2,577	Indian Rupee	992
400	Kuwaiti Dinar	154
268	Bahraini Dinar	103
13,270	Others	5,109
412,860	Total	158,951

The net exposure in foreign currencies includes foreign currency exposure on investment in overseas associates and branches of equivalent RO 110 million which are exempted from regulatory limit on foreign exchange exposure.

D.2 Investment Price Risk

Investment price risk is the risk of decline in the market value of the Bank's portfolio as a result of diminishment in the market value of individual investments. The Bank's investments are governed by the Investment Policy and Risk Policy approved by the Board of Directors and are subject to rigorous due diligence. Investment limits such as position limits, exposure limits, stop loss limits, sectoral limits are defined in relevant policies enabling proper risk management of the Bank's investments. The Bank's Investment Committee monitors the investments. The rating and cost vis-a-vis the market price of the instruments are monitored on daily basis and necessary actions taken to reduce exposure, if needed. Traded portfolio is revalued on daily basis and the rest at regular interval to ensure that unrealized losses, if any, on account of reduction in the market value of the investments over its cost remain within the acceptable parameters defined in the Bank's investment policy.

D.3 Interest Rate Risk

Interest rate risk is the risk of adverse impact on the Bank's financial position due to change in market interest rates. While the impact on the trading book is by way of change in the value of the portfolio, the banking book leads to impact on the Net Interest Income (NII) and/or Economic Value of Equity (EVE).

The short-term impact of interest rate risk is measured by studying the impact on the NII of the Bank while the long term impact is measured through the study of the impact on the Economic Value of Equity.

The responsibility for interest rate risk management rests with the Bank's Treasury under the supervision of the Asset Liability Management Committee (ALCO).

The Bank's interest rate sensitivity position of assets and liabilities is outlined in note 42.4.4 to the financial statements.

Re-pricing gap is the difference between interest rate sensitive assets and liabilities spread over distinct maturity bands based on residual maturity or re-pricing dates. The Bank uses currency-wise and consolidated re-pricing gaps to quantify interest rate risk exposure over distinct maturities and analyze the magnitude of portfolio changes necessary to alter existing risk profile. The distribution of assets and liabilities over these time bands is done based on the actual repricing schedules. The schedules are used as a guideline to assess interest rate risk sensitivity and to focus the efforts towards reducing the mismatch in the repricing pattern of assets and liabilities.

The Bank uses simulation reports as an effective tool for estimating risk exposure under various interest rate scenarios. These reports help the ALCO to understand the direction of interest rate risk in the Bank and decide on the appropriate strategy and hedging mechanism for managing it. The Bank's current on and off balance sheet exposures are evaluated

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under static environment to quantify potential effect of external interest rate shocks on the earnings and economic value of equity, using assumptions about future course of interest rates and changes in Bank's business profile. The impact of interest rate changes on EVE is monitored by recognising the changes in the value of assets and liabilities for a given change in the market interest rate. The interest rate risk management is facilitated by limits of 5% NII impact and 20% impact on EVE for a 200 basis points shock.

The effect of different rate shock under Earnings perspective and Economic value perspective is given below:

Impact on net interest income	+200 bps	-200 bps	+100 bps	-100 bps	+50 bps	-50 bps
At 31st December	(5,402)	2,769	(3,848)	1,170	(3,071)	476
Average for the period	(1,991)	4,207	(2,054)	1,488	(2,086)	(63)
Maximum for the period	(5,402)	11,268	(3,848)	6,157	(3,071)	1,053
Minimum for the period	3,855	(853)	853	(1,540)	(648)	(1,259)
Impact on economic value						
At 31st December	(105,799)	127,051	(55,116)	57,272	(28,365)	28,472
Average for the period	(91,323)	111,470	(47,595)	50,745	(24,527)	24,934
Maximum for the period	(105,799)	127,051	(55,116)	57,272	(28,365)	28,472
Minimum for the period	(83,519)	100,650	(43,273)	47,647	(22,029)	23,257

D.4 Commodity Price Risk

As part of its treasury operations, the Bank offers commodities hedging facility to its clients. Customers of the Bank who are exposed to commodities like Copper, Aluminium and also Jewellers with exposure to gold prices cover their commodity exposures through the Bank. The Bank operates in the commodities market purely as a provider of hedging facilities and does not either trade in commodities / bullion or maintain positions in commodities. Customers of the Bank are sanctioned a transaction volume limit and a variation margin limit as risk management measures. The transaction volume limit is to restrict the total outstanding contracts value to the business requirement of the customer and the variation margin limit is to protect the Bank from excessive credit risk due to adverse price movement in the commodities prices. The customers' positions in commodities are monitored on a daily basis with frequent market to market valuations done independently and margin calls are made thereon based on such valuations.

E. Liquidity Risk

Liquidity risk arises when the Bank, although solvent, cannot maintain or generate sufficient cash resources to meet obligations as they fall due or can do so only at materially disadvantageous terms. Liquidity stress may be caused by counterparties withdrawing credit lines or not rolling over existing funding or as a result of general disruption in the markets.

In order to ensure that the Bank meets its financial obligations as and when they fall due, there is a close monitoring of the assets/liabilities cash flows position. Liquidity risk management ensures that the Bank has the ability under varying stress scenarios to efficiently and economically meet liquidity needs. Asset - Liability Committee (ALCO) of the Bank monitors the liquidity position of the Bank.

The Bank's treasury division is responsible for the day-to-day liquidity management under the guidance and supervision of Asset and Liability Management Committee (ALCO). The Bank's risk policy stipulates broad guidelines in respect of liquidity risk management such as gap limits, minimum liquidity ratio and limit on illiquid assets.

The Bank manages its liquidity to ensure payment obligations are met in time both under normal conditions as well as stressed conditions.

Basel II - Pillar III Disclosures

A diversified funding base has evolved to include deposits raised from interbank placements, certificates of deposits, customer deposits, bonds and medium term funds raised through floating rate notes and subordinated liabilities. These together with the strength of the Bank's equity and asset quality ensure that funds are made available at competitive rates.

The sources and maturities of assets and liabilities are closely monitored to avoid any undue concentration and ensure a robust management of liquidity risks. The deposits source is widespread, has maintained a stable profile during the year and is within the limits prescribed by the risk policy to manage concentration of deposits. A substantial portion of the Bank's deposits is made up of retail current, savings and fixed deposit accounts, which, though payable on demand or at short notice, have traditionally formed part of a stable deposit base and a key source of funds for the Bank.

The Bank undertakes structural profiling based on the actual behavioural patterns of customers to study the structural liquidity position and initiate measures to fund gaps. The structural profiling helps the Bank in understanding the behaviour pattern in the current and savings accounts where though the balances are payable on demand, they exhibit stable behaviour.

Concentration of deposits from the Government, Ministries and other Governmental organizations as a percentage of total deposit remained at 30%. Deposits from any one single individual / corporate is less than 5% of the total deposits and is in compliance with the risk policy. The key measure used by the Bank for managing liquidity risk is the ratio of liquid assets to total deposits and liquid assets to total assets. For this purpose the liquid assets include cash and balances with Central Banks, government securities, treasury bills and placements with Banks. The Bank enjoys a very comfortable liquidity ratio and is well within the prescribed limits. Throughout the year the liquidity ratio - liquid asset to total assets was maintained in excess of 24%. At the year-end 2010, the liquidity ratio - liquid asset to total assets was 24.22% as against the risk policy standard.

E.1 Liquidity Stress Test and Contingency Funding Plan

Liquidity Stress Testing forms an integral part of the Bank's liquidity risk management process. Anticipated on and off-balance sheet cash flows are subjected to a variety of bank specific and systemic stresses to evaluate the impact of unlikely but plausible events.

The Bank conducts liquidity stress tests to study the impact of various plausible events on the Bank's liquidity position. Both bank specific scenarios like run on customer deposits, drying up of the wholesale funding sources and systemic scenarios like general market tightness are considered for stress testing. The Contingency Funding Plan (CFP) of the Bank is then prepared to address the worst case scenario and reviewed by ALCO. The Treasury maintains highly liquid unencumbered assets to the extent of the CFP to remain liquid under stress conditions. The Bank also maintains robust relationship with global and domestic counterparty banks which may help in resource mobilisation at times of stress.

As part of a robust liquidity management, the Bank:

- Maintains a sufficiently large liquidity buffer
- Maintains liquidity ratios - Liquid Assets to Total Assets and Liquid Deposits to Total Deposits
- Manages Foreign Currency liquidity
- Preserves diversified funding sources
- Maintains Loans to Deposits Ratio - both domestic currency as well as foreign currency
- Conducts regular Liquidity Stress Tests
- Maintains adequate Contingency Funding plans

Additional information on liquidity ratios and asset and liability mismatches are outlined in note 4.d to the financial statements.

F. Operational Risk Management

Operational risk is the deficiencies in information systems/internal controls or uncontrollable external events which will result in loss. The risk is associated with human error, systems failure and inadequate procedures or controls and external causes. As per the Basel Committee on Banking Supervision (BCBS), operational risk is the risk of monetary losses resulting from inadequate or failed internal processes, people and systems or from external events.

Basel II outlines three methods for calculating operational risk capital charge - the Basic Indicator Approach, the Standardised Approach and the Advanced Measurement Approach. The Bank adopts Basic Indicator Approach for calculating operational risk capital charge.

Basel II - Pillar III Disclosures

Losses from external events such as a natural disaster that has a potential to damage the Bank's physical assets or electrical or telecommunications 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.

As a part of continuous improvement in the risk management process within the Bank, the Bank has developed its own Operational Risk Management Software, 'FORTE' OpRisk Monitor'. The Software aids assessment of operational risks as well as collection and analysis of operational losses.

The Bank's risk policy provides the framework to identify, assess, monitor, control and report operational risks in a consistent and comprehensive manner across the Bank. A distinct Operational Risk Management function is in place since 2003 to independently support business units in the management of operational risks. Operational risk management in the Bank is driven by the objective to increase the efficiency and effectiveness of the available resources, minimise losses and utilise opportunities. The main objectives of Operational Risk Management are as follows:

- To achieve strong risk control by harnessing the latest risk management technologies and techniques, resulting in a distinctive risk management capability, enabling business units to meet their performance and growth objectives.
- To enable adequate capital allocation in respect of potential impact of operational risks.
- To minimize the impact of operational risks through means like a fully functional Business Continuity Plan, up-to-date documentation and by developing general operational risk awareness within the Bank.

Executive management defines the operational risk appetite at a business unit and Bank's level. This operational risk appetite supports effective decision making and is central to embedding risk management in business decisions and reporting. Business units have the primary responsibility for identifying, measuring and managing the operational risks that are inherent in their respective operations. Operational risk is controlled through a series of strong internal controls and audits, well-defined segregation of duties and reporting lines, detailed operational manuals and standards. The Operational Risk Unit oversees the range of operational risks across the Bank in accordance with the Operational Risk Management Framework. Internal Audit independently reviews effectiveness of the Bank's internal controls and its ability to minimize the impact of operational risks.

Operations committee is the primary oversight body for operational risk. Operations committee is well represented by business and control functions. The Operations committee is responsible for ensuring that the Bank has an adequate risk management process that covers identification, evaluation and management of operational risks and the formulation of adequate policies pertaining to operational risk management.

The Operational Risk Management Framework of the Bank is based on 3 pillars:

1. An internal assessment of operational risks done by the departments through Controls and Risk Self Assessment exercise;
2. An independent assessment of operational risks & controls of various departments conducted by the Internal Audit Department; and
3. Operational loss data collected from actual and potential loss events and Key Risk Indicators

The operational loss reporting procedure provides for operational losses to be reported and captured in a database for classification into operational risk categories. This database provides a reliable quantitative measure and assist in managing operational risks.

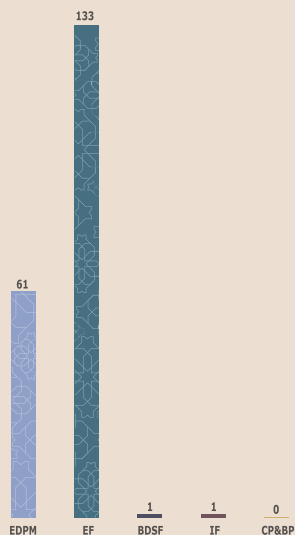
Operational Losses are reported through the Bank's operational risk management tool, 'FORTE' OpRisk Monitor'. The operational loss data collected is categorized by business line and loss type and reported to senior management and Board of Directors on a periodic basis. Aggregate operational risk losses are recorded and details of incidents above a materiality threshold are reported to the Senior Management and the Bank's Operations Committee. The Bank also does a periodic analysis of the operational losses to identify the reasons for the losses and take appropriate actions to reduce their incidence.

A total of 196 (2009: 84) potential operational loss events occurred and were reported across the Bank during the year, representing a net potential loss of OMR 817k (2009: OMR 772k).

Basel II - Pillar III Disclosures

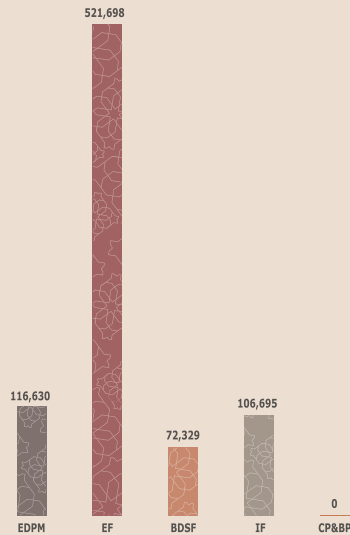
Operational Loss Summary - Risk Event Type

Number of events occurred



Total number of events = 196

Net Potential Loss (OMR)



Aggregate net potential loss = OMR 817,352

EDPM: Execution, Delivery and Process Management

EF: External Fraud

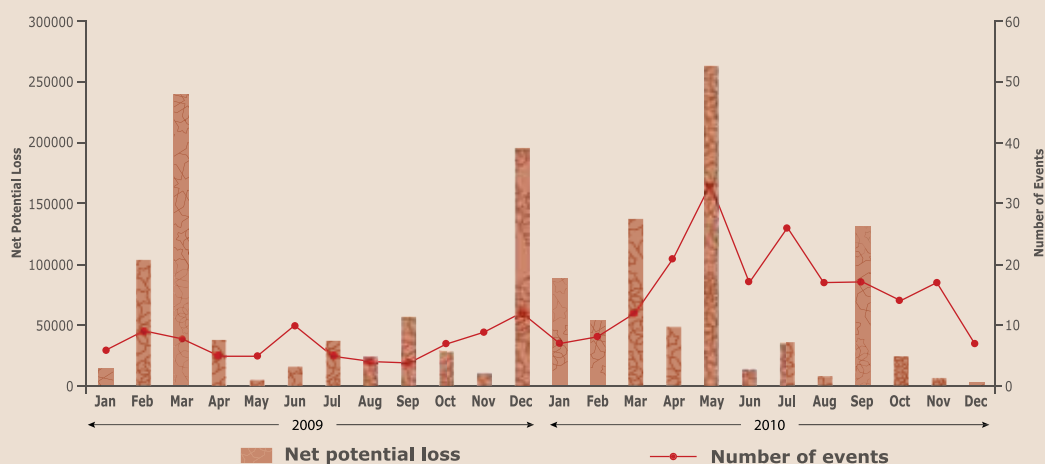
DFA: Damage to Physical Assets

IF: Internal Fraud

BDSF: Business Disruption and System Failures

CP&BP: Clients products and business practices

Operational Loss Reporting Trend for 24 months



Total number of events occurring in 2010=196

Aggregate net potential loss occurring in 2010=OMR 817,352

Towards assessing the operational risk profile of the Bank, improving the operational risk management process at the Bank and keeping in line with the industry best practices, the Bank has implemented the Controls and Risk Self Assessment (CRSA) framework across the Bank. The CRSA exercise is conducted through structured workshops across the business units on an annual basis.

CRSA are used to monitor and assess the internal risk management processes and controls across the organisation. By enabling management to understand the risks inherent in key business processes and business objectives, CRSAs are used as a resource to facilitate early identification of emerging or changing risks.

Basel II - Pillar III Disclosures

Key Risk Indicators (KRIs) act as early warning signals by providing the capability to indicate changes in the Bank's risk profile. KRIs are a core component of a bank's risk and control framework and helps proactively deal with the risk situation before the event actually occurs.

Insurance is used as a tool to hedge against operational risks at the Bank. The Bank has obtained insurance against operational risks which comes in a variety of forms, such as Bankers' Blanket Bond, Electronic & Computer Crimes, Professional Indemnity, etc. While insurance cannot alter the probability of risks, it allows transfer of the financial impact of risks. The Insurance is primarily aimed at protecting the Bank from high-severity low-frequency risks.

F.1 Business Continuity Planning (BCP)

The Bank ensures that its systems and procedures are resilient to ensure business continuity through potential situations of failure. The Bank has put in place contingency plans to ensure that its business runs effectively in the event of most unforeseen disasters. The Bank continuously strengthens its existing plans by implementing a robust business continuity plan to ensure that its systems and procedures are resilient and ready to meet 'emergency preparedness'. The BCP committee is entrusted with the responsibility of formulating, adopting, implementing, testing and maintaining a robust BCP for the Bank. BCP Committee continuously reviews and agrees the strategic Business Continuity assessment and planning information to ensure Business Continuity Management, planning and maintenance responsibilities are assigned and understood across the business areas.

The Bank has made significant strides in enhancing its business continuity framework. The existing Business Continuity Management (BCM) was reviewed in view of relocating of operations to the new Head Office and to bring the Bank's recovery capabilities in line with the current requirements.

Some of the major developments in line with the objective of the continuous evolution of the Bank's BCM framework were:

- Fresh Business Impact Analysis (BIA) conducted, new BCM policy, revised Crisis Management Structure, Crisis Management Plan and gap analysis were established.
- State-of-the-art BCP software was implemented and trainings conducted.
- Training & awareness sessions and workshops were conducted for Crisis Management Team and regions.
- Conduct of Fire evacuation drill.
- The IT department has taken initiatives and is confident that the Bank can operate successfully out of DRS for core banking system in case of a major disaster.

Tropical cyclone 'Phet' barrelled toward the coast of Oman in June 2010. The BCP function was activated in time before the cyclone could cross the land and the BCP committee took all the required precautions and preparation to manage the Cyclone Phet incident and many steps were taken to mitigate its effects on the Bank network & services. The BCP Committee has also taken a number of steps to educate the staff and increase awareness on the importance of BCP across the Bank.

Additional Information not Required under Basel II – Pillar III

Apart from the core risk areas discussed above, the Bank also monitors other risks as discussed below:

Other Risks

- Financial Crime Risk
- Financial Reporting Risk
- Information Risk
- People Risk
- Compliance Risk
- Technology Risk
- Reputation Risk

Basel II - Pillar III Disclosures

Financial Crime Risk

The failure to identify, report and act on matters related to financial crime and money laundering are referred to as financial crime risk. This risk may lead to financial losses, penalties and loss of reputation.

Fraud and money laundering are the two most common crimes seen within the financial services sector. Accordingly the Bank has placed combating financial crime and associated Compliance requirements very high on its corporate agenda. This has led to policies, procedures and systems that proactively identify, alert, assess and monitor the risk of such events.

Financial Reporting Risk

Risk of failing to detect any material misstatement or omission within the Bank's external financial reporting is termed as financial reporting risk. The Bank has a robust and established financial reporting process with adequate internal checks and controls to minimise such risks. Bank's internal audit division independently reviews the internal controls and procedures to mitigate such risks. The key agenda of the Audit committee of the Bank is to ensure best industry practices and high standards of corporate governance with regard to financial reporting.

Information Risk

Information risk is defined as the risk of accidental or intentional unauthorised use, modification, disclosure or destruction of information resources, resulting in compromised confidentiality, integrity or availability of information. Information risk management deals with all aspects of information in its physical and electronic forms and is focussed on the creation, use, transmission, storage, disposal and destruction of information.

Information risk management initiatives in the Bank include the following:

- Information Security Management System comprising security policy, procedures, standards and guidelines in line with the business and technical environment;
- Data Loss Prevention (DLP) Solution across the Bank to minimize the risk of data theft/loss;
- Information Security initiatives including anti-phishing, anti-pharming and protection against identity theft.

The Bank was the first organization in Oman to receive BS7799 Certification in January 2006. The Bank subsequently upgraded from BS7799 Certification to ISO/IEC 27001:2005 in February 2007 and has successfully retained the certificate during the surveillance assessments during years 2008 to 2010.

People Risk

People risk is a risk to which every employer is exposed to. Without people we have less risk but at the cost of business. People risk includes lack of appropriate work force, failure to manage performance and rewards, lack of continuing training, failure to comply with labour laws and legislations etc.

The Bank has taken several steps over the years to continue being an employer of choice. It has an active learning and development centre that ensures staff are adequately trained not only for their current jobs but for their responsibilities in line with their career plans. The Bank takes steps to adopt best practices in human resources management on a continuous basis. The Bank conducts periodic employee satisfaction surveys to enable it to get employee feedback and calibrate its responses to keep up the motivation levels of its workforce.

The Bank has achieved the rare distinction of having qualified for Level III of the People Capability Maturity Model (People CMM), the first Bank in the world to be certified across the entire organization. The People CMM® is a model that helps organizations characterize the maturity of their workforce practices, establish a program of continuous workforce development, set priorities for improvement actions, integrate workforce development with process improvement and establish a culture of excellence. The structure of the P-CMM demonstrates how an organization can progress sequentially from lower to higher maturity. Level III of the People CMM focuses on 13 process areas and nearly 300 specific practices that will have to be institutionalized through a couple of implementation cycles that are verifiable.

The Bank has also been the first Middle East bank to meet the Investor in People (IIP) standard of improving business

Basel II - Pillar III Disclosures

performance by committing itself to the development of staff. HR initiatives of the Bank are integral to the business strategies and provide them a competitive edge.

Compliance Risk

Compliance risk is the failure to comply with applicable laws and regulations imposed by the various governing authorities and regulators where the Bank operates. Failure to comply with regulations may lead not only to penalties and financial losses but are also detrimental to the reputation and long term prosperity of any organisation.

The Bank's management is primarily responsible to manage the Compliance risks that the Bank is exposed to and is supported by the Compliance department in discharging this duty within the various business units. The Bank has a strong Compliance department and its Compliance Officer has a direct reporting line to the Bank's Board of Directors and has a dotted reporting line to the Deputy Chief Executive. The Bank is aware of the challenges of operating under multiple regulatory regimes and the increasingly demanding regulatory environment in the financial services industry, and has geared up its process to meet the challenges. Apart from training and developing of the workforce on the regulatory requirements, the Compliance department is also involved in the approval process of products and services to ensure the Bank always operates in Compliance of regulatory norms across all of its operations.

Technology Risk

Technology risk is one of the biggest risks faced by banks and financial institutions. Technology effectively permeates the operations of the entire organisation and therefore defies compartmentalization. Technology enables key processes that the Bank uses to develop, deliver, and manage its products, services, and support operations. Technology risks are woven throughout the business and must be addressed holistically.

The Bank's Chief Information Officer manages information technology and operations and enables smooth business growth adapting to the fast changing technological environment. Additionally, the Bank has three management level committees:

- Information Technology Committee to oversee the strategic direction of information technology within the Bank,
- Information Security Committee that oversees and supervises the information security across the Bank and BCP Committee that supervises the robustness of the Bank's BCP plans including the IT – Disaster Recovery Systems.

Reputation Risk

Strong corporate reputation is an invaluable asset to any organisation and if ever diminished, it's the most difficult to restore among all the other assets of the organisation. Reputation has a vital impact on the long term prosperity of the organisation. A deteriorating reputation can have a very adverse impact on business growth, earnings, capital raising and day-to-day management. This risk often exposes the organisation to litigation and financial losses. Exposure to reputation risk is present throughout the organization and necessitates the responsibility to exercise an abundance of caution in dealing with customers and the community at large.

The Bank aspires to highest standards in safeguarding its reputation and maintains the highest ethical standards in all its business dealings. The Bank recognizes that the responsibility for reputation risk must permeate across all levels of the Bank. The Bank takes steps to continuously reinforce this message across its network. The Bank has a Disclosure Committee that ensures that all key developments at the Bank that have a bearing on investor confidence are promptly reported to the regulatory agencies and the public at large. It has framed and adopted for itself a framework in line with the highest standards of corporate governance. The Bank's communication department has been entrusted with the responsibility to measure, monitor and continuously improve the Bank's brand image.

The Bank has an active Corporate Social Responsibility (CSR) department that plays an active role in creating awareness for environment protection within the Bank. It has been involved in several social service projects during the year demonstrating the Bank's commitment to the community it serves.

Management Team



AbdulRazak Ali Issa
Chief Executive



J Sunder George
Deputy Chief Executive



Ahmed Al Abri
Chief Operating Officer



Ganesan Sridhar
General Manager,
Commercial Banking



K Gopakumar
General Manager,
Wholesale Banking



Sulaiman Al Harthy
Group Deputy General Manager,
Consumer Banking



John Alan Cooper
Deputy General Manager,
IT & Operations



Abdul Kader Darwish
Al Balushi
Group Deputy General
Manager, Credit



Thomas Gerard Totton
Deputy General Manager,
Internal Audit



Leen Kumar
Deputy General Manager,
Risk Management



Waleed K Al Hashar
Deputy General Manager,
Corporate Credit & Marketing



Abdullah Al Hinai
Assistant General Manager,
Investment Banking



بنك مسقط
BankMuscat

ANNUAL REPORT '10



Salim Mohammed Al Kaabi
Assistant General Manager,
Human Resources



Yaseen Hassan Abdullatif
Assistant General Manager,
Finance & Strategy



Said Salim Al Aufi
Assistant General Manager,
Special Projects



Ali Said Ali
Assistant General Manager,
Asset Management & Private
Banking



Said Ahmed Al Badai
Assistant General Manager,
Branches



Naresh Chandwani
Assistant General Manager,
Operations



Shamsa Al Seefi
Assistant General Manager,
Information Technology



Rajshekar Singh
Assistant General Manager,
Project & Structured Finance



Yousuf Abbaker
Chief Legal Advisor & Secretary
to the Board of Directors



Ganesh T
Financial Controller



Manas Das
Head, International
Operations & Strategy



The Head Office is designed to provide the best work environment and improve employee performance, thereby creating an environment that fosters openness and transparency.

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Global Economy

With the global economic recovery on track, the World Trade Organisation (WTO) estimates that global trade is growing at an impressive 25% and is already back to pre-crisis (January 2008) levels. As far as foreign direct investment, the UNCTAD indicates that the decline in flows have bottomed out (at 2005-06 levels approx.) and is picking up momentum as well. The world economic growth is projected at 4¼% in 2011.

The International Monetary Fund (IMF) is cautiously optimistic about the pace of recovery as it sees clear dangers and policy challenges ahead. How Europe deals with fiscal and financial problems, how advanced countries proceed with fiscal consolidation, and how emerging countries rebalance their economies will determine the outcome.

The UN cites tensions over currency and trade, a weakening dollar and exchange rate volatility contributing to an uncertain forecast for 2011. The UN says the global economy will need to generate around 22 million new jobs in order to get to pre-crisis employment levels.

Oman's Economy

Oman embarks on the 8th Five-Year-Plan in 2011 with its economic trajectory looking good with an average 6% real GDP growth forecast during the Five-Year-Plan period. Serving as the engine of growth, the government spending is set to rise by 13% at RO 8130 million in 2011. The government anticipates a real GDP growth of 5% in 2011 on the back of strong oil revenue. Budgeted oil revenue is based on an average \$58 per barrel and production of 896,000 barrels per day. Revenue projection at RO 7280 million is higher by RO 900 million or 14% over the 2010 revenue estimate.

The economic growth during the Seventh Five-Year-Plan exceeded the original target and the annual average GDP touched 13.1% at current prices and 6.3% at constant prices.

The Muscat Securities Market (MSM) index closed the year at 6754.92 points, recording a 6.06% rise over the previous year. In terms of trade volume and value of traded shares, MSM recorded a decline of 67.16% and 18.05% respectively.

Financial Sector

The well-regulated banking and financial sector recorded a healthy performance in 2010. Total assets of commercial banks in Oman increased by 10.2% in November 2010 to RO 15,679.3 million compared to RO 14,234.4 million in November 2009. For the first 11 months of the year, net profits (provisional) stood at RO 227.9 million in 2010 compared to RO 249.6 million a year ago. Provisions and reserve interest at the end of November 2010 amounted to RO 457.6 million compared to RO 407.2 million in November 2009.

One more commercial bank is under formation in the Sultanate and is expected to commence operation in the first quarter of 2011. The number of licensed banks operating in the Sultanate as on 31 December 2010 stood at 19, of which 7 are registered local commercial banks, 10 foreign banks and 2 specialised banks.

BankMuscat enjoys a market share of 38.60% in terms of total assets, 37.90% in terms of total credit, 33.51% in terms of total customer deposits and 43.42% in terms of total savings deposit as at 30 November 2010.

Opportunities and Threats

As the leading Omani bank, BankMuscat accounted for 38.60% market share by total assets at the end of November 2010. The opportunities identified by the Bank include significant infrastructure development expected to contribute to banking sector growth. The Bank envisages substantial product cross-sell opportunities and sizeable "unbanked market" as over 50% of the population is below 19 years old. Expansion in the Gulf Co-operation Council (GCC) countries is among the priorities in view of the Bank's direct and indirect presence in all the six states.

With investment grade credit ratings, BankMuscat enjoys the largest shareholding by the Omani government while members of the senior Management Team are in place for over 10 years. The Bank has proven track record of successful organic

Management Discussion & Analysis 2010

growth and acquisitions and is poised to capitalise on growth opportunities in Oman, especially infrastructure development projects and government focus on economic diversification and tourism development.

The Bank is well positioned to leverage the large network of branches and other delivery channels to target the growth potential and cross-sell opportunities. The focus will be on fee-based income by scaling up businesses such as bancassurance, investment banking, asset management, private banking and cards. The Bank is also set to leverage on investments in new technology and state-of-the-art head office building to further increase efficiency, improve customer service and support growth plan.

Over a quarter century, BankMuscat's presence has strengthened in all parts of Oman through the widest network of 129 branches, 371 ATMs, 116 CDMs and 4500 PoS terminals.

The Bank is renowned for adopting innovative strategies to raise capital and enhance stakeholder value. The Bank views the industrial development of Oman as a strategic opportunity, especially in Sohar, Salalah and Duqum. On the retail front, the Bank achieved its vision of reaching every household in the country and exceeded the 1-million satisfied customer base in 2010. The Bank's products and services enjoy high acceptance levels.

The year 2011 will be a period of increasing competition for the banking sector with emphasis on competitive channels and new products to cater to the various new and growing sectors. BankMuscat enjoys an edge in hi-tech products and services, including electronic payment and web-based services, in tune with Oman moving towards a cashless society and meeting the banking requirements of a young, tech-savvy generation.

Segment-wise performance

The key business lines of the Bank recorded healthy performance during 2010. The Bank's core business activities are divided into three broad areas: Commercial Banking (Corporate Banking and Consumer Banking): Wholesale Banking (Investment Banking, Treasury, Financial Institution, Private Banking and Asset Management) and International Operations. Key support functions include Information Technology, Operations, Human Resources, Finance and Risk Management.

Commemorating 40 years of the glorious Renaissance march under the leadership of His Majesty Sultan Qaboos, BankMuscat launched the 'Oman Celebrates' campaign, focusing on this running theme to distinguish all its branding and communication campaigns during 2010. The objective was to highlight the celebration theme over the year, utilising every available opportunity to commemorate the country's achievements during the last 40 years. BankMuscat is reckoned as a proud Renaissance achievement and the year-long campaign culminated with the grand inauguration of its landmark headquarters.

Commercial Banking

The Commercial Banking group comprises Corporate Banking and Consumer Banking divisions.

Consumer Banking

The Consumer Banking department consolidated its operations with a number of initiatives, notably the all-new al Mazyona Savings Scheme and 'Double Your Salary' scheme with high-value daily cash prizes. The al Mazyona Savings Scheme offering exciting daily, monthly and jackpot prizes every 4 months marked the first in the series of grand celebratory initiatives unveiled as part of the 'Oman Celebrates' campaign.

The Cards division treated customers with the best value propositions, launching a range of ePayment cards. The series of ePayment cards were aimed at motivating a change in consumer behaviour towards 'payment by cards', both a habit and a preference.

The launch of Priority Banking services marked another milestone, offering special privileges and benefits to an important segment of customers. With the widest reach in serving customers through a network of 129 branches in the Sultanate, BankMuscat meets the expectations of customers, ensuring banking convenience at their doorstep.

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Corporate Banking

Although 2010 posed several challenges, Corporate Banking consolidated its position in the market at the back of strong corporate relationships and providing value added services to leading corporates in the Sultanate. The Bank was specifically involved with tailored financing solutions for transactions in the oil and gas, petrochemicals and contracting sectors which witnessed positive growth. The Bank expects normalisation in the economic environment to continue with growth in the contracting and trade sectors. Several government projects, particularly in the infrastructure and construction, are expected to get off the ground. The trading sector is also expected to grow this year. With improvements in core technology already having been put in place and a moderate growth outlook, Corporate Banking is in a good position to take advantage of emerging opportunities in 2011.

Moreover, with the largest underwriting capacity amongst the local banks and strong corporate relationships in the region, BankMuscat has the ability to add considerable value to projects in the form of long-term project financing underwritten at a senior capacity. Apart from commercial term loans, the Bank also provides working capital facilities, which are needed for post-commercial operations. This multi-layered participation in projects has provided the Bank with a pre-eminent position in project financing in the Sultanate, which is market-acknowledged. In the current circumstances, project financing in local currency is likely to be more and more preferable and as the leading Bank in the country, we have already made a mark in long-term RO project financing.

Wholesale Banking

The Wholesale Banking group comprises Investment Banking, Treasury, Financial Institution, Private Banking and Asset Management.

Investment Banking

The Investment Banking business activities include Corporate Finance and Advisory, Brokerage and Research.

The Bank hosted the first international investor conference with country specific focus on Oman and Saudi Arabia which attracted prominent foreign, regional and local institutional investors focused on secondary equity market. About 15 leading companies from Oman and Saudi Arabia were showcased at the conference.

The Public Establishment for Industrial Estates (PEIE) and BankMuscat in its capacity as the investment manager of Oman Integrated Tourism Projects Fund LP (OITPF) signed a Memorandum of Understanding (MoU) for development of real estate projects in Oman.

Continuing with the tradition of capital market innovation, BankMuscat successfully raised the largest fixed income fund in the country. The \$273 million Oman Fixed Income Fund (OMFI) is the first-of-its-kind fund in Oman.

BankMuscat achieved a record of sorts, introducing for the first time in Oman the book-building route for the initial public offering (IPO) of leading Omani-Qatari telecom company Nawras. Among the several highlights, the Nawras IPO was also the first IPO in nearly two years as well as the largest IPO in Oman since 2005 and the largest IPO in the GCC region in 2010. The Bank extended full support to retail and institutional investors participating in the Nawras IPO.

BankMuscat Brokerage department is the broker of first choice among foreign institutions investing in Oman. The division, which services a geographically diverse base of emerging market institutional investors, has consistently won accolades for promoting trading on the MSM.

Treasury

BankMuscat is the only bank in the Sultanate that offers the full suite of Treasury products and services. The premier services encompass East Asian Time as well as early New York Time zones spanning all international and GCC working days.

In recognition of consistent performance, the Bank was conferred the Best Foreign Exchange Bank in Oman Award for the eighth time in a row in 2010 by Global Finance. The Treasury & Capital Markets division serves not only the Bank's clients but also provides hedging solutions to clients of other banks both in Oman and abroad. The division contributes significant income both from funded and non-funded sources and manages around 24% of the Bank's assets. During the year, the

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Bank launched hedging of precious metals business for customers, thereby boosting revenue out of Commodity Hedging business.

In 2010, Oman's economy witnessed ample liquidity and the Treasury tapped the excess liquidity remarkably well. The Bank persisted with the continuation of CD issuance with an intention of guiding the local debt markets for anchoring interest rates. The Bank auctioned 14 tranches of CDs totaling RO 222.50 million against the subscription of RO 444.90 million. The benchmark instrument played a major role in the Omani money market in providing direction to the interest rate environment. The Treasury also managed interest rate risk through various products, adding value to clients as well as to the Bank.

Financial Institutions Group

As the designated national agency of Arab Trade Finance Programme (ATFP), the Bank signed a \$35 million line credit agreement with ATFP to be utilised in financing Oman's foreign trade. With this, the number of line credit provided by ATFP to national agencies in Oman rose to 21 totalling \$581 million.

Tapping into the huge investment and trade flows between China, Oman and the GCC, BankMuscat and Bank of China signed an agreement to establish the first-of-its-kind 'China Desk' in the region at BankMuscat. The China Desk is aimed at facilitating investment and trade flows between Oman and China as well as China and the GCC, Middle East and Africa regions. The agreement marked a pioneering bilateral initiative in the region.

BankMuscat and Invitalia, Italy's national agency for inward investment promotion and enterprise development, signed a Memorandum of Understanding (MoU) aimed at boosting bilateral trade and investment flows.

Oman came under the spotlight as a model for sustainable development as BankMuscat hosted the advisory board meeting of Vale Columbia Centre on Sustainable International Investment, a global think-tank on the environment and sustainable foreign direct investment. Sheikh AbdulMalik Bin Abdullah Al Khalili, Chairman of BankMuscat, is a founding member and the only Arab member on the Vale Columbia Centre Advisory Board.

Asset Management and Private Banking

BankMuscat's Muscat Fund was upgraded to 'AA' rating by Standard and Poor's (S&P) while Oryx Fund successfully maintained its 'AA' rating by the world's leading independent credit rating agency. The high ratings reinforced the superlative performance of the funds in challenging situations.

BankMuscat, through its investment banking subsidiary in Saudi Arabia, Muscat Capital, launched a new fund targeted at Saudi investors interested in investing in companies listed on Muscat Securities Market (MSM). The Oman Premier Fund (OPF) functions as an open-ended feeder fund for the Bank's popular Muscat Fund which invests in MSM-listed companies.

International Operations

The residual impact of the financial crisis saw additional provisioning in BMI Bank, the associate in Bahrain, and in the Saudi Arabia branch. However, the Bank continued on its long-term course of being a significant regional player with the opening of its Kuwait branch as also Muscat Capital LLC (previously Muscat Securities House LLC), its investment banking subsidiary in Saudi Arabia, offering brokerage, corporate advisory, asset management and custodial services. With this, BankMuscat is in a unique position of having direct or indirect (through associate) presence in all the GCC countries.

With the completion of its GCC network, the focus for the Bank now is to strengthen its position in the individual markets, by scaling up businesses and increasing efficiencies. To increase scale, the Bank continues to evaluate opportunities for inorganic growth as well as operating licences. The Bank also continues to drive revenue-side synergies across the network through client referrals and benefiting from intra-GCC trade and investment flows. To increase efficiencies, cost-side synergies in terms of common procurement and support infrastructure across the network are also being pursued.

With pan-GCC coverage, cleaned-up overseas portfolio and increased collaboration and synergies across the network, the Bank is well positioned to derive benefits from its international expansion as the regional markets recover.

Management Discussion & Analysis 2010

Performance Summary of Overseas Entities

1) Overseas Branches

a) Riyadh (Saudi Arabia) Branch

For the year ended 31 December 2010, Riyadh branch posted an operating loss before provision of SAR 1.0 million. Due to net provisions of SAR 74.9 million, the Branch recorded a net loss of SAR 75.9 million. A significant portion of the provisions for the year 2010 was contributed by two accounts.

The total assets as on 31 December 2010 stood at SAR 1,592 million, while the Net Loans and Advances stood at SAR 1,049 million and Customer Deposits at SAR 1,970 million. The total off-balance sheet (non-fund) position of the Branch was SAR 314.6 million.

b) Kuwait Branch

The Kuwait Branch is the latest addition to the international network, and the Branch went live on April 2010.

For the approximately 9 months when the Branch was operational during the year, a net loss of KD 916 Thousand was registered. The losses were primarily in the nature of operating losses, since the branch is in its initial stages of operations.

The total assets for Kuwait Branch as on 31 December, 2010 stood at KD 29.9 million, while the Net Loans and Advances stood at KD 3.59 million and Customer Deposits at KD 10.66 million. Since the Branch has just commenced operations, most of the assets are in the form of liquid assets (like placement with Central Bank investments in T Bills), which amounted to KD 25.7 million. In addition, the Branch had an off-balance sheet (non-fund) position of KD 25.54 million.

2) Subsidiaries and Associates

a) BMI Bank (Bahrain)

BMI earned a nominal operating profit of BHD 635 Thousand for the year. However, the Bank recorded a net loss of BHD 26.49 mn for the year, primarily owing to loan loss provisions on its impaired assets (BHD 25.47 mn). The Bank took an approach of ensuring adequate provisions on impaired assets and cleaned up the balance sheet in 2010.

The Bank is comfortable on the capital adequacy and liquidity front. Capital adequacy as on 31 December 2010 was 19.73%, and at this level it is comfortably above the current regulatory requirements. In addition, the liquidity position is comfortable and the Bank maintains a high level of liquid assets. The Bank repaid the medium-term borrowing of USD 120 million successfully on the due date, and a 3-year borrowing program amounting to USD 80 million has been finalised.

b) Mangal Keshav Holding Limited (India)

Mangal Keshav Holding Ltd. (MKHL), the India-based wealth management company, recorded a net profit after tax of INR 84.2 million for the 6 months ended September 30, 2010 as against INR 85.4 million for the same period last year.

c) Muscat Capital (Saudi Arabia)

Muscat Capital, the Saudi-based subsidiary, has a primary focus on 3 activities – brokerage, investment banking and wealth management.

The Company recorded a net loss of SAR 14.44 million in 2010; the losses are in the nature of operating losses, since the Company is in a start-up stage, and operating activities are yet to reach optimum levels.

The networth of the Company was SAR 51.78 million as on 31 December, 2010. The capital of the Company is in the process of being increased, in line with the guidelines for minimum net capital position as stipulated by the Capital Market Authority, Saudi Arabia.

eBanking, Technology, Operation, Procedures and Systems (eTOPS)

The year 2010 for eBanking, Technology, Operation, Procedures & Systems (eTOPS) has been very strong. Throughout the year, the group has been driving changes to enhance customer satisfaction through better service delivery in a more efficient and effective way.

Management Discussion & Analysis 2010

The Bank has seen significant growth in the use of its electronic channels – its virtual branches, with higher usage of Internet Banking, mobile services, ATM/CDM network and 24x7 Call Center.

The group increased operational resilience with further proving of its sustainable disaster recovery capability and major improvement in its risk and fraud management, with constant testing and rolling out such features as verified by Visa, MasterCard Secure code and launching of EMV chip credit cards.

The delivery of projects through strong Corporate Governance, led by the Project Management Office, witnessed a majority of projects delivered on time and to budget. All projects reflected strong active sponsorship and clear communication. The projects were a testament to the breadth and depth of the teams in BankMuscat that such an array of projects can be successfully delivered, throughout the year, culminating in the grand opening of the new BankMuscat head office building, which has encompassed many new technologies and sustainable practices.

eTOPS received many awards in 2010

- Euro STP Excellence award for error free transmissions – Deutsche Bank (10th consecutive year)
- Prestigious USD STP Quality OPS Excellence Recognition Award – J P Morgan Chase Bank.
- Performance Excellence Award for achieving MT202 STP rate over 98% - City Bank.
- Middle East Best Technical Award - PAN ARAB web award Academy.

Human Resources

The Human Resources division supports the growth of the Bank internationally and within the Sultanate.

BankMuscat achieved a spectacular global first, winning the prestigious Level 3 People Capability Maturity Model (PCMM) certification by Carnegie Mellon University, USA. The achievement is remarkable as among all big global banking institutions, BankMuscat is the first bank ever to achieve the PCMM Level 3 accreditation. The PCMM certification groups BankMuscat with an elite group of organizations which have adopted benchmark human resources process improvements.

Raising the bar as the employer of choice, BankMuscat won the prestigious Asia's Best Employer Brand Award hosted by the Employer Branding Institute, CMO Asia. BankMuscat was cited as a best employer brand with a distinct identity visible through HR strategy. The Bank was honoured by the Ministry of Manpower for outstanding achievement in Omanisation, which presently stands at 92%.

BankMuscat is the only organisation sponsoring students to programmes offered by the College of Banking & Financial Studies (CBFS). The initiative demonstrates the Bank's tangible commitment to contribute to the noble cause of helping young Omanis acquire employable skills.

Finance

The Finance department aids the Executive Management and the Board in strategic planning and decision-making processes by providing vital information and critical in-depth analyses of the Bank's performance. The Bank uses state-of-the-art profitability systems for in-depth analyses of profit contribution from business lines, products and customers. The profitability systems enable the Bank to make sound business decisions based on a thorough understanding of the Bank's profitability dynamics and focus on key business lines in a challenging and competitive environment.

Cost Management is one of the key focus areas of the Bank and the department plays an active role in cost management initiatives with a view to maximising the Bank's profits and deriving optimum benefits of synergies arising out of various mergers and acquisitions. The department plays a key role in capital management and capital supply.

Risk Management

The Bank considers risk management as an area of core competence and continued to strengthen its risk management capabilities during the year. The Board approved the enterprise-wide risk policy, setting forth risk levels for different business units and established systems and process to ensure compliance to risk limits set on a continual basis.

Management Discussion & Analysis 2010

During the year, the Bank finalised the Internal Capital Adequacy Assessment Process (ICAAP) and submitted the same to regulators. ICAAP provides an assessment of the Bank's capital adequacy on an advanced economic capital measure and incorporates the impact of residual risk not covered in Pillar 1 of Basel II. The purpose of the Bank's ICAAP is not only to provide a detailed assessment of its current capital adequacy, but also assist its capital planning exercise by providing capital requirement projections for the next five years in line with approved business plans and anticipated changes to the risk profile of assets.

The Bank, having adopted an internal rating model for corporate and bank exposures, implemented a scoring model for its retail portfolio. The Bank enhanced control around treasury operations during the year. The liquidity stress test and contingency funding plan was further strengthened in light of the recent financial turmoil witnessed by the banking industry.

The coast of the Sultanate of Oman was hit by tropical cyclone 'Phet' in mid 2010. The Bank's Business Continuity Plan was activated and that helped manage the impact of the cyclone with minimal disruptions to customer services.

New Headquarters

Reflecting a spectacular new beginning, the Bank's landmark new headquarters was dedicated to the nation on 15 December 2010 under the auspices of H.E. Lt.Gen. Sultan Bin Mohammed Al Numaani, Secretary General of the Royal Court Affairs. A fine example of corporate excellence unmatched in facilities and aesthetics, the new facility is a masterpiece of form and function, set to make a remarkable difference in the banking experience.

The Bank's decision to move to the landmark headquarters incorporating the latest technology and trends is the result of the natural growth progression during the past 28 years. The new headquarters meets all key requisites in terms of functionality, security and Business Continuity Planning (BCP) in line with the Bank's long-term plans and strategies.

Awards and Recognition

All our strategic efforts have been noticed and commended with BankMuscat receiving most of the prestigious foreign, regional and local awards.

The Bank achieved the rare distinction of becoming the first and only corporate entity from Oman to be listed in 'The Forbes Global 2000' featuring the biggest and most powerful listed companies of the world.

Sheikh AbdulMalik bin Abdullah Al Khalili, Chairman of BankMuscat, won the prestigious Asian Banker Leadership Achievement Award. The Asian Banker also adjudged BankMuscat as the Strongest Bank in Oman.

The notable accolades included the 'Bank of the Year – Oman 2010' award by The Banker (Financial Times, London); Asia's Best Brand Award; Hawkamah-UAB Corporate Governance Award; and 'Best Investment Bank in Oman 2010' award by Global Finance.

The Year Ahead

The 8th Five-Year-Plan beginning in 2011 augurs well for Oman with an estimated outlay of RO 30 billion, including RO 6 billion for the oil industry. The spending envisages an increase of 113% compared to the previous Five-Year Plan. The average oil output is expected to touch 897,000 barrels per day (bpd) during the Plan period.

The economic diversification programme is expected to sustain growth in 2011. In view of the government commitment to infrastructure development and industrialisation, the Bank anticipates considerable growth opportunities. The good macro-economic growth will create beneficial operating conditions for the Bank as the government accelerates financial support, primarily for infrastructure projects. The interest rate margins could remain pressured by intense and concentrated competition. The Bank anticipates strong capital levels and a high loss-absorption capacity.

Domestic liquidity is expected to remain adequate as well as access to foreign currency funding at lower costs in line with the improved conditions in the international capital markets. A high concentration on the local market, which remains vulnerable to the performance of the hydrocarbon sector, has associated risks. However, the outlook on Oman is positive due to relatively healthy and sustained economic growth.



The ground floor houses an array of retail outlets which include a convenience store, ATM, travel agent, salon, restaurants and cafes to meet everyday needs of customers and employees.

Corporate Social Responsibility Report

Corporate Social Responsibility

The goal of Corporate Social Responsibility (CSR) is to embrace responsibility for a company's actions and encourage a positive impact through its activities on the environment, consumers, employees, communities, stakeholders and all other members of the public sphere. This is one of the Bank's core objectives and in 2008 the Bank set up a Corporate Social Responsibility department with the vision of adopting a new approach of addressing society's needs through inspiring new forms of partnership among all sectors of society. The Bank's view is that its social responsibility is not merely participation in charitable works and the organisation of voluntary campaigns but rather a responsibility towards the all-round development of society. The Bank considers CSR in all of its operations and this culture is reflected in the way we do business.

The tone for CSR is set from the top of the organisation and this is reflected in the Chairman, Sheikh Abdul Malik's involvement with the Vale Columbia Centre for Sustainable Energy. This programme was established by Columbia University of New York and Vale of Brazil and they co-opted Sheikh AbdulMalik as the sole Arab Member of its Board in 2009. The Vale Columbia Centre focuses on Corporate Social Responsibilities and Foreign Direct Investments into third world countries in line with the Copenhagen Summit. On December 8, 2010, BankMuscat hosted the Vale Columbia Advisory Board meeting on Sustainable International Investment. The meeting on the theme 'Partnering for Progress', was hosted at the new headquarters of BankMuscat and marks a new beginning for Oman in attracting sustainable Foreign Direct Investment (FDI) into the Sultanate.

The BankMuscat CSR Vision

Through the vision and support of the Board of Directors and Executive Management, the Bank has sought to ensure its commitment to social responsibility through the following means:

- Supporting social and humanitarian activities, events and charitable causes aimed at serving local communities. In order to achieve this, BankMuscat works in close co-operation with social and voluntary associations and Government establishments;
- Adopting policies aimed at sustainable development. BankMuscat acknowledges that its activities should help in achieving sustainable development through continuous efforts in order to directly and indirectly benefit society and the environment;
- Encouraging its employees to undertake voluntary tasks that benefit society;
- Developing a 'world class' work environment with Human Resource policies that create a healthy and thriving work environment and culture.

CSR Steering Committee

The supervision and execution of BankMuscat CSR activities is managed through the CSR Steering Committee which has focused on the following areas to deliver its vision:

- 1. Education and Training:** by providing Omanis with the education and skills required to increase their potential and opportunities for employment;
- 2. Health:** by playing a fundamental role in health related initiatives by providing medical equipment to hospitals and by organizing awareness talks and presentations by recognised speakers;
- 3. Economy:** Encouraging small businesses so that local people benefit through the creation of employment which in turn increases people's skills and injects money directly into the local economy.
- 4. Community:** The Bank initiated a number of projects to assist people from low income families by providing essential commodities and clothing.
- 5. Environment:** Promoting environmentally responsible practices is one of the focus areas of BankMuscat. This has been reflected in the design and construction of the new Head Office building and also through a number of initiatives the Bank has undertaken.
- 6. People:** The Bank employs 2,650 staff. We are committed to Omanisation and to ensuring all of our colleagues are

empowered to develop both internally and externally during their time with the Bank. There is significant investment in Learning and Development by the Bank.

Delivering the BankMuscat CSR vision

People

In 2010 the Bank received a world's first, by winning the prestigious Level III People Capability Maturity Model (PCMM) Certification by Carnegie Mellon University, USA. BankMuscat is the first bank in the world to be certified across the entire organization for PCMM Level 3 certification which defines benchmark Human Resources process improvements.

Environmental Protection

BankMuscat's concern for the environment and the pristine beauty that Oman is blessed with is reflected by its adoption in letter and spirit of the 'Equator Principles'. BankMuscat was the first Bank from the AGCC to adopt this 'environment-friendly' standard. The 'Equator Principles', are a set of globally recognized, voluntary guidelines established to assess and manage social and environmental risk in project financing, especially in the emerging markets. The Bank ensures that the projects it finances are developed in a socially responsible manner and reflect sound environmental management practices as per the Equator Principle guidelines.

New Head Office Building

The new Head Office building is designed in accordance with the highest environmental standards. When designing the eastern and western elevations of the building, the construction team gave due consideration to the installation of simple windows for protection from the heat. The Oriel windows reflect the Omani architectural style blended with traditional Islamic architecture. Pilkington glass imported from the US was used for the project, which is one of the most advanced and environment friendly types available. Two key air handling units have been strategically placed to minimize green house effects and the building is fitted with sensor-based lighting devices to reduce or increase lighting in order to conserve energy. When sunshine is at its peak, the lighting system automatically remains dim. All timber products on the project have been taken from a sustainable source and the building meets the requirements of individuals with special needs.

Diploma in Banking Services

In 2001, BankMuscat introduced a Diploma programme in Banking Studies with the aim of grooming young Omanis for employment in the banking sector. More than 169 students, both male and female, have benefited from this programme, and now some 105 students are pursuing studies at college level. So far, 69 students have graduated, with 58 working with BankMuscat. The Bank, in collaboration with the Ministry of Manpower, also sponsored 20 students to pursue a Diploma in Accounting and Customer Service from the College of Banking and Financial Studies.

Development of Children with Special Needs

BankMuscat donated more than 150 movement assistance machines to the Association for Disabled Children in Muscat which were distributed to families of physically and mentally challenged children. The initiative is aimed at strengthening relationships between the Association and families of children with special needs to complement their medical treatment.

'Borrow Wisely and Drive Safely' Campaign

Aimed at educating the general public about the adverse effects of excessive and unwise borrowing and also spreading awareness on the importance of complying with safe driving on roads, BankMuscat launched the 'Borrow Wisely and Drive Safely' campaign in collaboration with the Royal Oman Police. The media campaign included 81 advertisements in newspapers and publications including the distribution of 100,000 booklets through various branches of the Bank and ROP Directorates.

Corporate Social Responsibility Report

Business Incubator Project

The initiative is the first of its kind in the private sector, aimed at helping women by providing support to enhance their economic, social and cultural status within society. The BankMuscat Incubator Project facilitates the successful development of new commercial projects by creating new job opportunities. The programme is targeted at housewives and mothers of low income and provides training workshops on how to set up and manage small business ventures in the fields of services and handcrafts. In May 2010, an exhibition held at Bait al Baranda titled, 'Now The Door is Open' gave the beneficiaries the chance to sell / present their products / skills in the field of photography, beauty, sewing Omani Kummas and card design. The second stage of the programme targeted 300 women from social insurance families in Muscat, Batinah, Sharqiyah and Dhofar. These women are being trained in the areas of beauty and photography and the project aims to assist them to start up their business from home, or by using the business incubator venue that has been created by the Bank as part of the project.

'Let's Go Green' Campaign

This is an internal campaign, targeting the Bank employees and their families to reuse paper and to conserve water and electricity. It is principally aimed at spreading awareness on the importance of protecting the environment.

Mooring Buoys to Protect Coral Reefs

This initiative, in association with the Environment Society of Oman (ESO) and under the supervision of the Ministry of Environment and Climate Affairs, is aimed at protecting coral reefs through the use of mooring buoys by boats, which otherwise cause damage to fragile reefs with their anchors. Coral reefs last for thousands of years and the initiative is aimed at spreading awareness among the general public who frequent the sea on the need to use mooring buoys for their vessels.

BankMuscat Hearts

BankMuscat Hearts with its distinct logo stands for support from a highly respected institution in the Sultanate of Oman for all social causes. It started with the 'Bank walk' which was organised by staff and management to raise awareness for social health issues. This has now become a recognised symbol in Oman and is welcomed by people as a gesture of goodwill. BankMuscat Hearts continues to be run by a voluntary group of BankMuscat staff.



Sustainable Development

BankMuscat, in partnership with the Ministry of Agriculture initiated a number of projects which have contributed towards the development of the agriculture sector in Oman. These projects which commenced in 2009 and were implemented in 2010 included the following:

- Protected Agriculture using Green Houses;
- Implementation of Modern Irrigation Systems; and
- Promoting High Quality Omani Bee Honey.



Keeping employees' physical and emotional well-being in mind, themed breakout areas are designed where employees can interact with fellow colleagues and take a break, away from the office area.

Financial Review 2010

The Bank achieved a net profit of RO 101.6 million for the year ended 31 December 2010 as against a net profit of RO 73.7 million reported in 2009, an increase of 37.8%. The net profit for the year ended 31 December 2009 included RO 53.2 million of post-tax gain on sale of HDFC Bank investment, RO 10 million losses on available-for-sale investment portfolio and around RO 60 million of provision for credit losses towards Saudi branch exposures. Excluding these one-off items, the adjusted net profit for the year 2009 was RO 90.5 million. Thus, on a like to like comparison, the net profit for the year ended 31 December 2010 showed an increase of 12.3% over the year 2009.

Net interest income increased by 7.3% from RO 174.4 million in 2009 to RO 187.2 million in 2010 supported by combination of improvement in net interest margin and asset growth. Non-interest income was RO 78.3 million in 2010 as against RO 116.7 million (including gain on sale of HDFC investment) in 2009. Non-interest income was higher by 22% compared to the year 2009, excluding the gain on HDFC Bank investment and realised losses on Available-for-Sale investment.

Operating expenses for the year ended 31 December 2010 was at RO 102.9 million, an increase of 25.3% as compared to 2009. The increase in operating expense is attributable to the long-term vision and strategy to develop the banking infrastructure by way of technology investments, expansion of business and delivery channel network to provide better service and maintain the leadership position.

Impairment for credit losses for the year ended 31 December 2010 was RO 46.6 million as against RO 98.2 million in 2009. During the year 2010, the Bank recovered RO 13.6 million from impairment for credit losses compared to RO 10.6 million in 2009. The Bank holds a non-specific loan loss provision of RO 56.1 million as at 31 December 2010 as per the requirements of Central Bank of Oman. Share of loss from associates was RO 12.6 million in 2010 as against RO 10.5 million in 2009. Higher share of loss from associates was driven by net loss from BMI Bank due to higher credit losses.

The Bank's net loans and advances portfolio grew by RO 169 million or 4.4% to RO 4,008 million as at 31 December 2010 compared to RO 3,838 million as at 31 December 2009. Customer deposits as at 31 December 2010 was RO 3,527 million as compared to RO 3,068 million as at 31 December 2009, higher by RO 14.9% mainly due to increase in demand deposits and savings deposits as the Bank continued its efforts to mobilize low cost deposits. The Bank's savings deposits grew by 12.8% from RO 816 million as at 31 December 2009 to RO 922 million as at 31 December 2010 and demand deposits grew by 28.1% from RO 964 million in 2009 to RO 1,235 million as at 31 December 2010.

The return on average assets improved from 1.2% in 2009 to 1.74% in 2010. The return on average equity was 14.6% in 2010 as compared to 10.9% in 2009. The basic earnings per share was RO 0.075 in 2010 as against RO 0.068 in 2009. The Bank's capital adequacy ratio stood at 15.4% as on 31 December 2010 before the appropriation for dividend for the year 2010 against the minimum required level of 12% by the Central Bank of Oman.

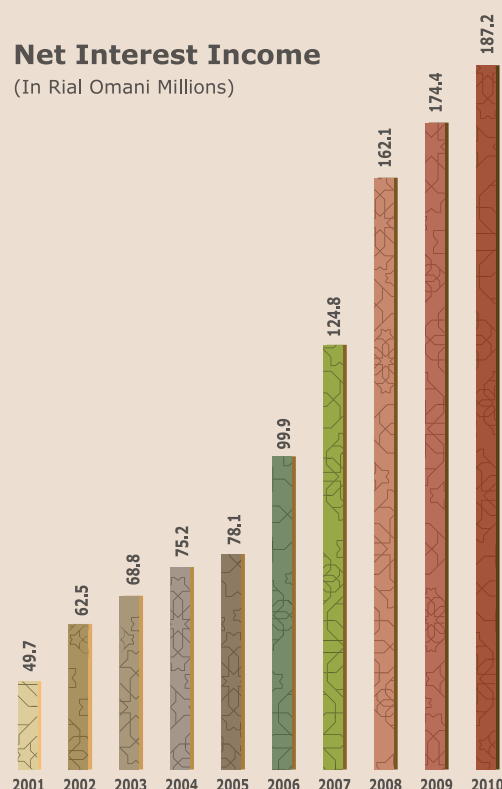
Net Interest Income

Net interest income increased by RO 12.8 million, or 7.3%, to RO 187.2 million. The increase in net interest income was supported by combination of asset growth and improvement in net interest margin.

Average gross loans increased from RO 3,953 million in 2009 to RO 4,123 million in 2010, i.e by RO 170 million or 4.3%.

Average total assets decreased by RO 88.6 million or 1.5% to RO 5,851 million. The

Net Interest Income (In Rial Omani Millions)



As part of the Bank's Corporate Social Responsibility objective, the Head Office encourages recycling and energy saving to conserve the environment. This includes litter and recycling bins, centrally controlled air-conditioning and sensors in washrooms.



Financial Review 2010

decrease in average assets was mainly due to decreases in placements, investment securities, investments in associates and other assets. This was partially offset by increase in Cash and Balances with Central Banks, Loans and advances and Tangible assets.

The return on average assets was at 1.74% in 2010 as compared to 1.24% in 2009. The higher return on average assets was due to higher net interest income, lower credit and investment losses, no impact from impairment of associate in 2010 and higher recoveries.

Non-interest Income

Non-interest income decreased by RO 38 million, or 32.9%, to RO 78.3 million. Non-interest income in 2009 included one-time gain on sale of HDFC bank shares of RO 60.5 million and realized investment losses of RO 7.1 mn against realized gain of RO 1.2 million in 2010. Adjusting the impacts from one-time items, non interest income increased by 13.9 million or 22%.

Operating Expenses

Operating expenses increased by RO 20.8 million or 25.3% to RO 102.9 million in 2010. The increase in operating expense is attributable to the long-term vision and strategy to develop the banking infrastructure by way of technology investments, expansion of business and delivery channel network to provide better service and maintain the leadership position. Staff strength as at 31 December 2010 was 2,709 as against the staff strength of 2,579 as at 31 December 2009.

The Bank's cost to income ratio was 38.7% in 2010 against 35.6% in 2009 excluding gain on sale of HDFC Bank Investments.

Provisions for Possible Credit Losses

The Bank made a net provision of RO 32.9 million for possible credit losses in 2010 compared to a net provision of RO 87.7 million the previous year. The impairment charge in 2009 included around RO 60 million related to certain large exposures in overseas branch and due to that the impairment charge in 2010 was significantly lower.

During the year 2010, the Bank recovered RO 13.6 million from impairment for credit losses compared to RO 10.6 million in 2009.

The Bank holds a non-specific loan loss provision of RO 56.1 million as at 31 December 2010 as per the requirements of Central Bank of Oman.

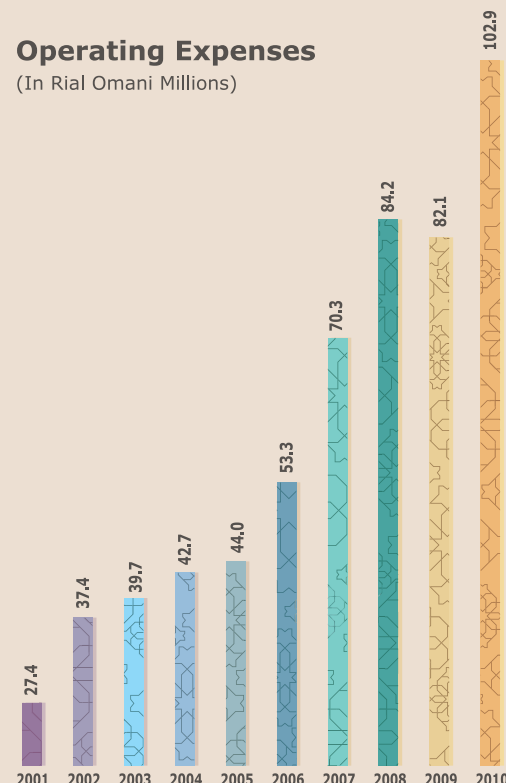
As at 31 December 2010, the total amount of provisions including reserved interest was RO 186.3 million. This represented 4.4% of gross lending to customers. The total provisions and reserved interest as at 31 December 2009 represented 5.3% of gross lending. The uncovered portion of the impaired loans and advances consists of operative accounts, which are adequately provided, and other accounts for which securities are held by the Bank and valued on a conservative basis. The provisions held are adequate as per the requirement of IAS 39.

Shareholders' Funds

Shareholders' funds increased by RO 85 million, or 12%, to RO 796 million in 2010.

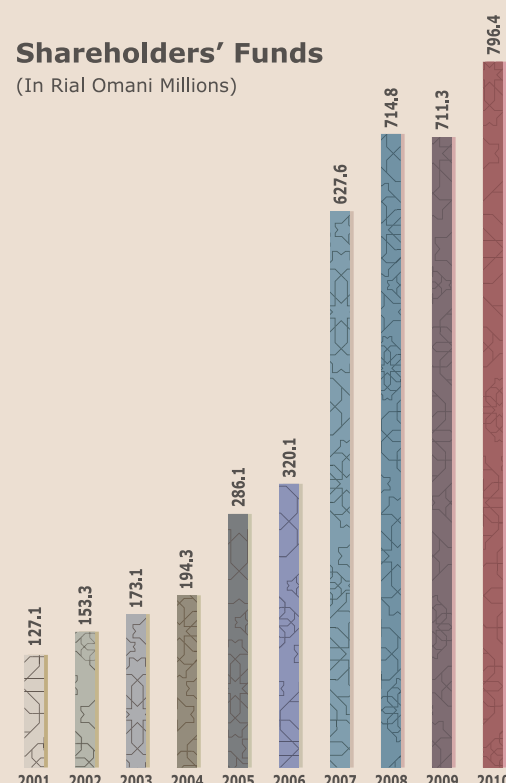
Operating Expenses

(In Rial Omani Millions)

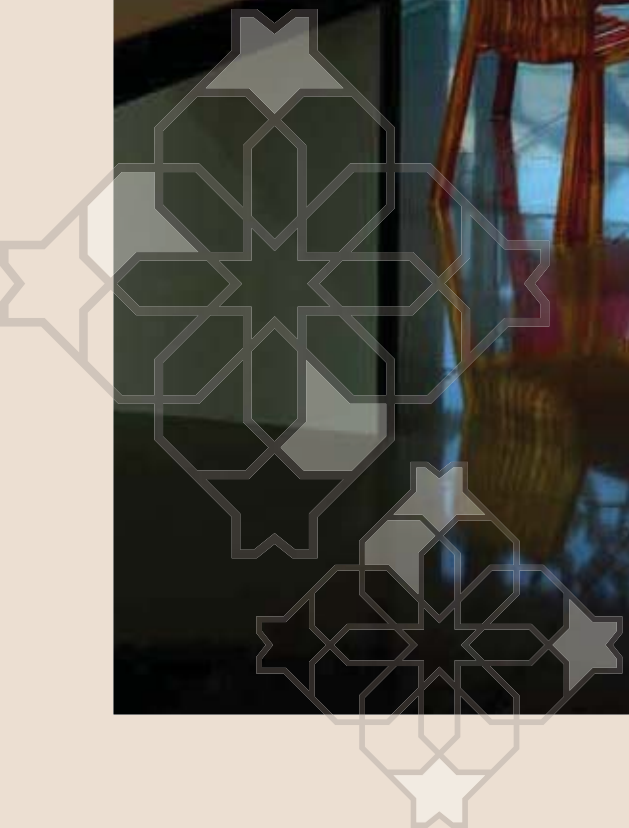


Shareholders' Funds

(In Rial Omani Millions)



Doing business is a pleasure, with a multi-purpose auditorium which accommodates over 250 people, a meeting suite with 18 rooms, some with video conferencing facilities, and department meeting rooms as well.



Financial Review 2010

After a dividend payout of RO 33.66 million, the Bank has retained RO 66.9 million or 66.9% of the profits generated in the year 2010. The return on average shareholders' funds was at 14.64% in 2010 as compared to 10.9% in 2009. The increase was mainly due to improved operating performance, lower impairment losses on associate investment, lower losses on investment securities, lower impairment on credit losses and higher recoveries during 2010 as compared to 2009.

For the year 2010, the Board of Directors have proposed a dividend of 40%, 25% in the form of cash and 15% in the form of bonus shares. Thus shareholders would receive cash dividend of RO 0.025 per ordinary share of RO 0.100 each aggregating to RO 33.66 million on the Group's existing share capital. In addition, they would receive bonus shares in the proportion of one share for every 6.666 ordinary shares aggregating to 201,962,571 shares of RO 0.100 each amounting to RO 20.196 million. The proposed cash dividend and issuance of bonus shares are subject to formal approval of the shareholders at the Annual General Meeting.

Assets

Average total assets decreased by RO 88.6 million or 1.5% to RO 5,851 million. The decrease in average assets was mainly due to decreases in placements, investment securities, investments in associates and other assets. This was partially offset by increase in Cash and Balances with Central Banks, Loans and advances and Tangible assets.

The Bank's net loans and advances portfolio grew by RO 169 million or 4.4% to RO 4,008 million as at 31 December 2010 compared to RO 3,838 million as at 31 December 2009. Corporate and other loans increased by 3.8% and personal/housing loans increased by 5.4% during the year 2010. The Bank's non-performing advances were at 4.19% of gross loans and advances as of 31 December 2010 as compared to 4.98% in the previous year. The non-performing advances reduced from RO 201.7 million in 2009 to RO 175.9 million in 2010. This reduction included a write-off of loans and advances amounting to RO 66 million on which the Bank had created 100% provision coverage. The loans and advances so written-off were transferred along with its respective provision coverage to memorandum books. Excluding the transfer to memorandum books, the increase in non-performing loans and advances was largely related due to Consumer and SME loan portfolio of the Bank.

Capital Adequacy

The Bank's capital adequacy ratio, calculated according to guidelines set by the Bank for International Settlements (BIS) was 15.37% as at 31 December 2010, compared to 15.2% as at 31 December 2009 before appropriation of dividend for the respective years. While the international requirement as per BIS is 8%, the Central Bank of Oman's regulations stipulate that local banks maintain a BIS ratio of 12%.

Tier 1 capital increased by RO 85 million in 2010 due to increase in share capital, subordinated loan reserve, General reserve, legal reserve and retained profits.

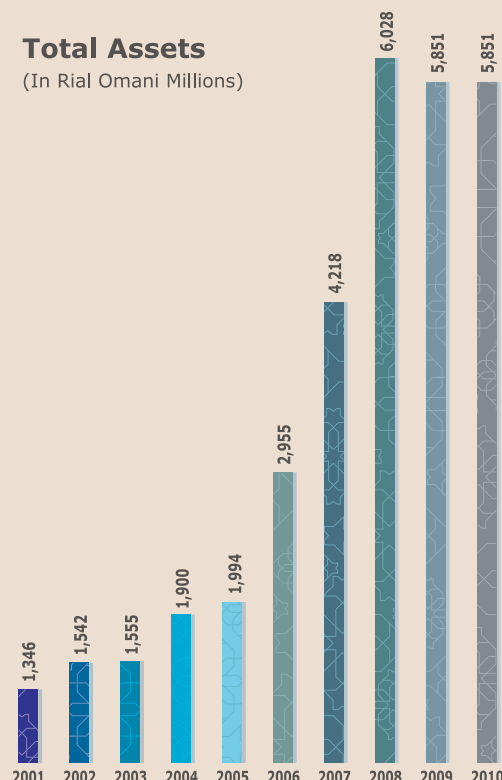
Tier 2/3 capital decreased by RO 29 million mainly due to movement in subordinated liabilities (net of reserves).

Liquidity Management

Liquidity policy is aimed at ensuring that the Bank can meet its financial obligations when they fall due. Sufficient volumes of high quality liquid instruments are held to meet bank

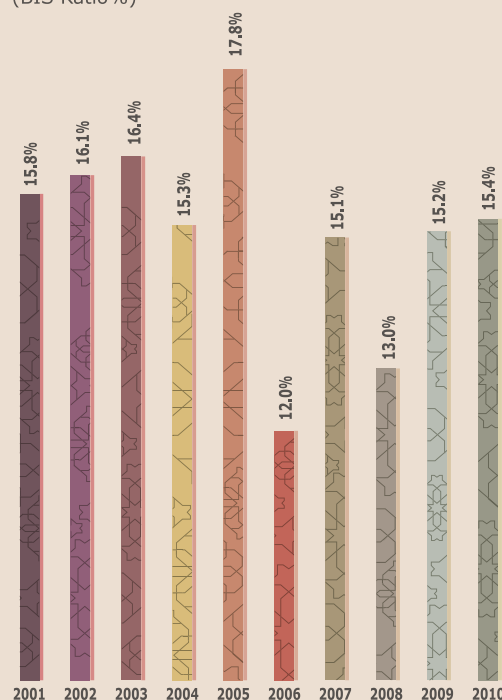
Total Assets

(In Rial Omani Millions)




Capital Adequacy

(BIS Ratio%)



* Capital adequacy ratios given in the graph are before appropriation of dividends for the respective years



The Head Office Learning and Development Centre has 8 rooms with a library, computer and language laboratories, classrooms and examination rooms to develop the skills of employees.

Financial Review 2010

deposit maturities and undrawn facilities, and to satisfy customer demands for deposit withdrawal.

The source and maturity of assets and liabilities are diversified to avoid any undue concentration of funding requirements at any one time or from any one source. A significant portion of deposits is made up of retail current and savings accounts, which although repayable on demand or at short notice, have traditionally, formed a stable deposit base. Where possible, the Bank prefers to grow its balance sheet by increasing core retail deposits.

Cash and balances with Central Banks, treasury bills, government securities and placements with banks accounted for 24.19% of total assets and 31.37% of total deposits at 31 December 2010, compared with 29% and 36.3% respectively at 31 December 2009.

Interest Rate Risk Management

The Asset and Liability Management Committee (ALCO) manages the Bank's interest rate risk exposure. The major interest rate risk to the Bank originates from the short term funding sources and the medium to long-term loans particularly on the fixed rate retail portfolio. The Bank manages this risk by broadening the maturity of its funding sources and by the use of medium term funding products.

The Bank focuses on long-term funding base and reduces its interest rate gaps. Since derivative products are not available in the local currency the Bank has limited options to use local currency hedging instruments.

Credit Rating

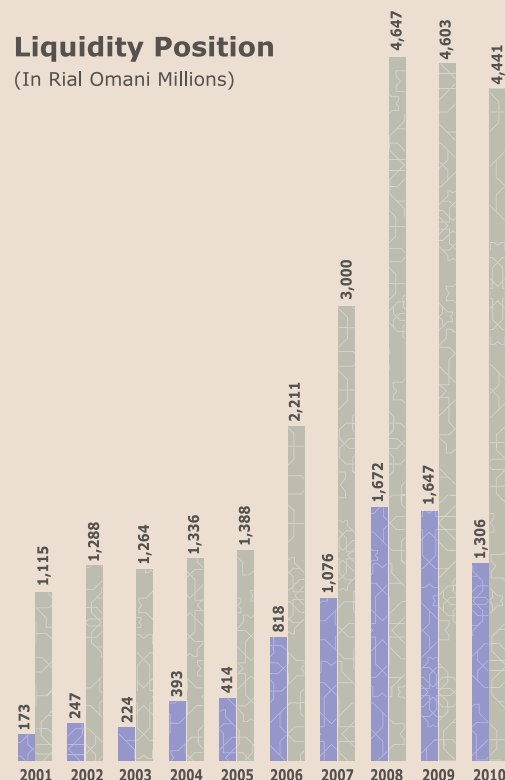
It is the Bank's philosophy to provide transparent and meaningful disclosures in its financial statements. The rating agencies and industry analysts appreciate the Bank's disclosures in its financial statements. The Bank values the comments and concerns of the rating agencies, and it is one of the Bank's objectives to maintain and enhance the credit ratings assigned by them.

Four leading international rating agencies, Standard and Poor's, Moody's, Fitch and Capital Intelligence rated the Bank during the year.

Agency	L/Term	S/Term	Individual	Support	Outlook/ Financial Strength
Standard & Poor's	BBB +	A-2	-	-	Stable / -
Moody's Investors Service	A1	Prime-1	-	-	Stable / C-
Fitch Ratings	A-	F2	C	1	Stable / -
Capital Intelligence	A	A1	-	2	Stable / A-

Liquidity Position

(In Rial Omani Millions)



Blue bar: Cash and balances with Central Banks, Placements with banks, and Treasury bills.

Green bar: Customer Deposits, Deposits with banks and certificates of deposits.

Balance Sheet

Ten Years' Summary of Results

	Amounts in RO '000									
	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Assets										
Cash and balances with Central Bank	726,055	608,099	452,761	487,912	116,217	32,936	32,092	76,642	149,532	22,254
Treasury Bills	29,922	23,009	141,332	-	177,379	63,594	89,711	55,347	31,863	57,038
Government Securities	109,033	47,258	73,533	48,450	56,211	44,723	52,446	37,825	28,303	39,410
Placements with banks	550,349	1,015,691	1,077,557	587,802	524,741	316,735	271,481	91,520	65,409	93,767
Loans and advances	4,007,926	3,838,211	3,727,700	2,686,863	1,834,678	1,371,930	1,329,378	1,243,810	1,225,830	1,098,067
Investment securities	128,072	74,099	163,781	69,947	35,026	30,346	28,091	15,923	14,015	11,967
Investment in Associates	54,917	67,172	92,903	99,701	32,549	28,194	4,962	-	-	-
Tangible fixed assets	74,788	26,276	21,948	19,090	11,438	10,636	11,902	12,029	9,757	7,507
Other assets	170,066	150,921	276,721	217,960	166,619	94,723	80,211	21,682	17,726	16,446
Total Assets	5,851,128	5,850,736	6,028,236	4,217,725	2,954,858	1,993,817	1,900,274	1,554,778	1,542,435	1,346,456
Liabilities and Shareholders' Funds										
Liabilities										
Deposits from banks	759,886	1,395,747	1,412,576	663,236	363,207	55,169	173,870	184,567	229,546	225,461
Customers' deposits	3,526,953	3,068,425	3,173,032	2,322,089	1,817,107	1,291,205	1,110,603	1,005,624	963,322	816,303
Certificates of deposit	154,600	139,200	61,675	14,270	30,745	41,745	51,517	73,593	95,471	73,748
Unsecured bonds	54,803	54,803	54,803	54,803	54,803	54,803	54,803	25,000	-	-
Floating rate notes	15,400	15,400	111,650	111,650	105,875	96,250	96,250	-	-	-
Other liabilities	327,450	245,767	360,138	295,120	209,485	116,126	162,890	39,328	40,380	33,536
Taxation	32,142	31,578	26,112	20,487	15,051	12,791	10,376	7,933	6,353	3,366
Subordinated liabilities	183,500	188,500	113,500	108,500	38,500	39,621	45,621	45,621	54,010	66,910
	5,054,734	5,139,420	5,313,486	3,590,155	2,634,773	1,707,710	1,705,930	1,381,666	1,389,082	1,219,324
Shareholders' Funds										
Share capital	134,641	107,713	107,713	107,713	83,233	75,666	59,815	51,489	49,037	45,538
Share premium	301,505	301,505	301,505	301,505	79,490	79,490	26,104	4,482	4,482	177
Mandatory Convertible bonds	32,314	32,314	-	-	-	-	-	27,100	27,100	27,098
Proposed issue of bonus shares	-	-	-	-	-	-	-	2,848	2,452	-
General reserve	61,308	56,308	56,308	56,308	56,308	24,612	19,812	19,812	15,500	11,382
Non-distributable reserves	128,938	88,262	64,062	42,429	28,960	58,133	51,409	42,286	37,473	37,200
Proposed dividends	-	-	-	-	-	-	-	12,872	7,356	4,904
Cumulative changes in fair value	9,340	4,823	69,276	10,258	1,052	1,233	-	-	-	-
Foreign currency translation reserve	(503)	(884)	(9,471)	-	-	-	-	-	-	-
Retained profit	128,585	121,063	125,357	109,357	71,042	46,973	37,204	12,223	9,953	833
	796,128	711,104	714,750	627,570	320,085	286,107	194,344	173,112	153,353	127,132
Non-controlling interest in equity	266	212	-	-	-	-	-	-	-	-
Total Equity	796,394	711,316	714,750	627,570	320,085	286,107	194,344	173,112	153,353	127,132
Total Liabilities and Shareholders' Funds	5,851,128	5,850,736	6,028,236	4,217,725	2,954,858	1,993,817	1,900,274	1,554,778	1,542,435	1,346,456
Letters of credit, acceptances, guarantees and other obligations* on behalf of customers	1,241,515	961,387	1,048,978	1,015,838	592,927	418,708	338,411	329,809	325,703	344,168
Operating cost to income	38.76%	28.22%	35.57%	40.67%	40.82%	43.45%	44.02%	44.84%	47.02%	44.25%
Return on average assets	1.74%	1.24%	1.83%	2.35%	2.44%	2.33%	1.97%	1.75%	1.59%	0.58%
Return on average shareholders' funds	14.64%	10.92%	14.80%	25.83%	21.95%	20.18%	20.04%	19.89%	20.25%	7.43%
Basic Earnings Per Share(RO)*	0.075	0.068	0.087	0.090	0.066	0.058	0.493	0.526	0.476	0.170
Share price (RO)**	0.962	0.825	0.797	1.92	1.148	0.892	6.400	4.970	3.840	1.800
BIS capital adequacy ratio***	15.37%	15.20%	13.02%	15.14%	11.97%	17.82%	15.31%	16.39%	16.05%	15.80%

*Does not include acceptances from 2004 onwards. **Reflects the impact of stock split if 10:1 from 2006 onwards. ***BIS capital adequacy ratio mentioned above is before appropriation of proposed dividend for the relevant years.



Income Statement

Ten Years' Summary of Results

	Amounts in RO '000									
	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Statement of Income										
Interest income	275,195	279,530	263,463	218,272	159,234	116,017	104,678	101,117	104,469	108,766
Interest expense	(88,000)	(105,164)	(101,356)	(93,450)	(59,361)	(37,956)	(29,440)	(32,296)	(41,925)	(59,075)
Net interest income	187,195	174,366	162,107	124,822	99,873	78,061	75,238	68,821	62,544	49,691
Other operating income	78,301	116,679	74,694	48,107	30,780	23,271	21,843	19,619	16,958	12,190
Net Operating Income	265,496	291,045	236,801	172,929	130,653	101,332	97,081	88,440	79,502	61,881
Operating Expenses										
Other operating expenses	(94,149)	(75,503)	(78,487)	(66,240)	(49,964)	(40,778)	(39,124)	(36,463)	(34,487)	(24,990)
Depreciation and amortisation/impairment	(8,754)	(6,622)	(5,737)	(4,086)	(3,366)	(3,252)	(3,613)	(3,190)	(2,893)	(2,390)
	(102,903)	(82,125)	(84,224)	(70,326)	(53,330)	(44,030)	(42,737)	(39,653)	(37,380)	(27,380)
Unrealised gain (loss) on investment securities	-	-	-	-	-	-	955	207	260	(318)
Release of (provision for) capital guarantee	-	-	-	-	-	-	-	-	303	(339)
Provision for placements with banks	(2,100)	-	(4,813)	-	-	-	-	(2,310)	-	-
Recoveries (provision) for collateral pending sale and acquired assets	-	-	13	107	198	(496)	(102)	(175)	(144)	(1,129)
Recoveries from provision for credit losses	13,648	10,589	12,603	-	-	-	-	-	-	-
Recoveries from impairment for investment	137	425	583	-	-	-	-	-	-	-
Impairment for investments	(657)	(2,940)	(10,929)	-	(583)	-	-	-	-	-
Impairment for credit losses (net)	(46,589)	(98,242)	(24,625)	(10,502)	(11,126)	(8,463)	(14,120)	(15,693)	(15,919)	(23,536)
Impairment for associates	-	(20,315)	(13,750)	-	-	-	-	-	-	-
Share of profit (loss) from associates	(12,637)	(10,455)	(3,248)	5,499	4,145	3,664	(1,417)	-	-	-
Share of trading loss of an associate	-	-	-	-	-	(3,945)	-	-	-	-
Recoveries from provision for placements	3,405	-	-	-	-	1,939	-	-	-	-
Net gain on disposal of a foreign branch	-	-	-	-	-	2,826	-	-	-	-
Profit Before Discontinuing Operations	117,800	87,982	108,411	97,707	69,957	52,827	39,660	30,816	26,622	9,179
Net (loss) gain from discontinuing operations	-	-	-	-	-	-	-	(56)	-	-
Net Profit Before Taxation	117,800	87,982	108,411	97,707	69,957	52,827	39,660	30,760	26,622	9,179
Tax expense	(16,205)	(14,264)	(14,680)	(13,450)	(9,525)	(7,383)	(5,555)	(3,679)	(3,709)	(1,424)
Net Profit for the year	101,595	73,718	93,731	84,257	60,432	45,444	34,105	27,081	22,913	7,755

Balance Sheet

Ten Years' Summary of Results

	Amounts in USD '000									
	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Assets										
Cash and balances with Central Bank	1,885,857	1,579,478	1,176,003	1,267,304	301,862	85,549	83,357	199,069	388,395	57,803
Treasury Bills	77,719	59,764	367,096	-	460,725	165,179	233,015	143,759	82,761	148,151
Government Securities	283,203	122,747	190,995	125,844	146,003	116,163	136,222	98,246	73,514	102,364
Placements with banks	1,429,478	2,638,158	2,798,850	1,526,758	1,362,964	822,687	705,145	237,715	169,895	243,551
Loans and advances	10,410,197	9,969,379	9,682,337	6,978,865	4,765,397	3,563,455	3,452,931	3,230,676	3,183,974	2,852,121
Investment securities	332,654	192,465	425,405	181,680	90,976	78,820	72,966	41,359	36,402	31,083
Investment in Associates	142,641	174,473	241,306	258,964	84,544	73,231	12,887	-	-	-
Tangible fixed assets	194,255	68,249	57,008	49,584	29,709	27,626	30,913	31,245	25,343	19,498
Other assets	441,730	392,003	718,756	566,131	432,776	246,034	208,340	56,316	46,042	42,718
Total Assets	15,197,734	15,196,716	15,657,756	10,955,130	7,674,956	5,178,744	4,935,776	4,038,385	4,006,326	3,497,289
Liabilities and Shareholders' Fund										
Liabilities										
Deposits from banks	1,973,730	3,625,317	3,669,028	1,722,691	943,395	143,296	451,611	479,394	596,223	585,614
Customers' deposits	9,160,917	7,969,935	8,241,641	6,031,400	4,719,758	3,353,779	2,884,682	2,612,010	2,502,135	2,120,267
Certificates of deposit	401,558	361,557	160,195	37,065	79,857	108,429	133,810	191,150	247,977	191,552
Unsecured bonds	142,345	142,345	142,345	142,345	142,345	142,345	142,345	64,935	-	-
Floating rate notes	40,000	40,000	290,000	290,000	275,000	250,000	250,000	-	-	-
Other liabilities	850,518	638,356	935,423	766,545	544,117	301,628	423,091	102,152	104,883	87,105
Taxation	83,486	82,021	67,823	53,213	39,094	33,223	26,950	20,606	16,501	8,744
Subordinated liabilities	476,623	489,610	294,805	281,818	100,000	102,911	118,495	118,495	140,286	173,794
	13,129,177	13,349,141	13,801,260	9,325,077	6,843,566	4,435,611	4,430,984	3,588,742	3,608,005	3,167,076
Shareholders' Funds										
Share capital	349,717	279,774	279,774	279,774	216,190	196,536	155,365	133,739	127,369	118,279
Share premium	783,130	783,130	783,130	783,130	206,469	206,469	67,804	11,642	11,642	460
Mandatory convertible bonds	83,932	83,933	-	-	-	-	-	70,390	70,390	70,384
Proposed issue of bonus shares	-	-	-	-	-	-	-	7,398	6,369	-
General reserve	159,242	146,255	146,255	146,255	146,255	63,927	51,460	51,459	40,260	29,564
Non-distributable reserves	334,904	229,252	166,395	110,206	75,219	150,994	133,530	109,833	97,332	96,624
Proposed dividends	-	-	-	-	-	-	-	33,434	19,106	12,738
Cumulative changes in fair value	24,260	12,527	179,939	26,644	2,732	3,202	-	-	-	-
Foreign currency translation reserve	(1,306)	(2,296)	(24,600)	-	-	-	-	-	-	-
Retained profit	333,987	314,450	325,603	284,044	184,525	122,005	96,633	31,748	25,853	2,164
	2,067,866	1,847,025	1,856,496	1,630,053	831,390	743,133	504,792	449,643	398,321	330,213
Non-controlling interest in equity	691	550	-	-	-	-	-	-	-	-
Total Equity	2,068,557	1,847,575	1,856,496	1,630,053	831,390	743,133	504,792	449,643	398,321	330,213
Total Liabilities and Shareholders' Funds	15,197,734	15,196,716	15,657,756	10,955,130	7,674,956	5,178,744	4,935,776	4,038,385	4,006,326	3,497,289
Letters of credit, acceptances, guarantees and other obligations* on behalf of customers	3,224,714	961,387	2,724,618	2,638,540	1,540,071	1,087,553	878,990	856,647	845,982	893,944
Operating cost to income	38.76%	28.22%	35.57%	40.67%	40.82%	43.45%	44.02%	44.84%	47.02%	44.24%
Return on average assets	1.74%	1.24%	1.83%	2.35%	2.44%	2.33%	1.97%	1.75%	1.59%	0.58%
Return on average shareholders' funds	14.64%	10.92%	14.80%	25.83%	21.95%	20.18%	20.04%	19.89%	20.25%	7.43%
Basic Earnings Per Share (\$)*	0.195	0.178	0.226	0.234	0.171	0.151	1.28	1.366	1.236	0.442
Share price (\$)***	2.50	2.14	2.07	4.99	2.98	2.32	16.62	12.91	9.97	4.68
BIS capital adequacy ratio***	15.37%	15.20%	13.02%	15.14%	11.97%	17.82%	15.31%	16.39%	16.05%	15.80%

*Does not include acceptances from 2004 onwards. **Reflects the impact of stock split if 10:1 from 2006 onwards. ***BIS capital adequacy ratio mentioned above is before appropriation of proposed dividend for the relevant years.



Income Statement

Ten Years' Summary of Results

	Amounts in USD '000									
	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Statement of Income										
Interest income	714,792	726,052	684,319	566,940	413,596	301,343	271,892	262,641	271,348	282,510
Interest expense	(228,571)	(273,153)	(263,263)	(242,727)	(154,186)	(98,587)	(76,469)	(83,885)	(108,896)	(153,441)
Net interest income	486,221	452,899	421,056	324,213	259,410	202,756	195,423	178,756	162,452	129,069
Other operating income	203,380	303,062	194,011	124,953	79,948	60,446	56,739	50,960	44,047	31,661
Net Operating Income	689,601	755,961	615,067	449,166	339,358	263,202	252,162	229,716	206,499	160,730
Operating Expenses										
Other operating expenses	(244,543)	(196,112)	(203,862)	(172,052)	(129,777)	(105,917)	(101,621)	(94,710)	(89,577)	(64,908)
Depreciation and amortisation/impairment	(22,738)	(17,200)	(14,900)	(10,613)	(8,743)	(8,450)	(9,387)	(8,284)	(7,514)	(6,207)
	(267,281)	(213,312)	(218,762)	(182,665)	(138,520)	(114,367)	(111,008)	(102,994)	(97,091)	(71,115)
Unrealised gain (loss) on investment securities	-	-	-	-	-	-	2,480	537	676	(826)
Release of (provision for) capital guarantee	-	-	-	-	-	-	-	-	787	(880)
Provision for placements with banks	(5,455)	-	(12,501)	-	-	-	-	(6,000)	-	-
Recoveries (provision) for collateral pending sale and acquired assets	-	-	34	278	515	(1,289)	(264)	(456)	(374)	(2,932)
Recoveries from provision for credit losses	35,449	27,504	32,735	-	-	-	-	-	-	-
Recoveries from impairment for investments	356	1,104	1,514	-	-	-	-	-	-	-
Impairment for investments	(1,706)	(7,636)	(28,387)	-	(1,514)	-	-	-	-	-
Impairment for credit losses (net)	(121,010)	(255,174)	(63,961)	(27,277)	(28,899)	(21,980)	(36,676)	(40,761)	(41,348)	(61,134)
Impairment for associates	-	(52,766)	(35,714)	-	-	-	-	-	-	-
Share of profit (loss) from associates	(32,823)	(27,156)	(8,436)	14,283	10,766	9,516	(3,680)	-	-	-
Share of trading loss of an associate	-	-	-	-	-	(10,245)	-	-	-	-
Recoveries from provision for placements	8,844	-	-	-	-	5,036	-	-	-	-
Net gain on disposal of a foreign branch	-	-	-	-	-	7,340	-	-	-	-
Profit Before Discontinuing Operations	305,975	228,525	281,589	253,785	181,706	137,213	103,014	80,042	69,148	23,843
Net (loss) gain from discontinuing operations	-	-	-	-	-	-	-	(145)	-	-
Net Profit Before Taxation	305,975	228,525	281,589	253,785	181,706	137,213	103,014	79,897	69,148	23,843
Tax expense	(42,091)	(37,049)	(38,130)	(34,935)	(24,740)	(19,178)	(14,430)	(9,557)	(9,635)	(3,700)
Net Profit for the year	263,884	191,476	243,459	218,850	156,966	118,035	88,584	70,340	59,513	20,143

The Retail Branch at the Head Office reflects the Bank's vision in design and decor, and offers customers a whole new banking experience.



Independent auditor's report to the shareholders of Bank Muscat SAOG

We have audited the accompanying consolidated financial statements of **Bank Muscat SAOG** (the bank) and its subsidiary (together, the Group) which comprise the consolidated statement of financial position as at 31 December 2010 and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The Directors are responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards and the disclosure requirements of the Capital Market Authority and the Commercial Companies Law of 1974, as amended and for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's 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 accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2010, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Other legal and regulatory requirements

Further, as required by the Rules and Guidelines on Disclosure by Issuers of Securities and Insider Trading (R&G) issued by the Capital Market Authority (CMA) of the Sultanate of Oman, we report that the accompanying consolidated financial statements have been properly prepared, in all material respects, in accordance with the R&G, with the Rules for Disclosure and Proformas issued by the CMA and with the Commercial Companies Law of 1974, as amended.



2 March 2011
Muscat, Sultanate of Oman

Consolidated Statement of Financial Position

For the year ended 31 December 2010

2009 USD'000	2010 USD'000		Notes	2010 RO'000	2009 RO'000
		ASSETS			
1,579,478	1,885,857	Cash and balances with Central Banks	5	726,055	608,099
2,638,158	1,429,478	Placements with banks	6	550,349	1,015,691
9,969,379	10,410,197	Loans and advances	7	4,007,926	3,838,211
392,003	441,730	Other assets	8	170,066	150,921
		Investment securities:			
311,831	615,857	- Available-for-sale	9	237,105	120,055
63,145	77,719	- Held to maturity	9	29,922	24,311
174,473	142,641	Investment in associates	11	54,917	67,172
68,249	194,255	Property and equipment	12	74,788	26,276
<u>15,196,716</u>	<u>15,197,734</u>			<u>5,851,128</u>	<u>5,850,736</u>
		LIABILITIES AND EQUITY			
		LIABILITIES			
3,625,317	1,973,730	Deposits from banks	14	759,886	1,395,747
7,969,935	9,160,917	Customers' deposits	15	3,526,953	3,068,425
361,557	401,558	Certificates of deposit	16	154,600	139,200
142,345	142,345	Unsecured bonds	17	54,803	54,803
40,000	40,000	Floating rate notes	18	15,400	15,400
638,356	850,518	Other liabilities	13,20	327,450	245,767
82,021	83,486	Taxation	21	32,142	31,578
489,610	476,623	Subordinated liabilities	22	183,500	188,500
<u>13,349,141</u>	<u>13,129,177</u>			<u>5,054,734</u>	<u>5,139,420</u>
		EQUITY			
		Capital and reserves attributable to equity holders of the parent company			
279,774	349,717	Share capital	23	134,641	107,713
783,130	783,130	Share premium		301,505	301,505
83,933	83,933	Mandatory convertible bonds	19	32,314	32,314
146,255	159,242	General reserve	24	61,308	56,308
93,260	116,574	Legal reserve	24	44,881	35,905
10,278	10,278	Revaluation reserve	12	3,957	3,957
125,714	208,052	Subordinated loan reserve	25	80,100	48,400
12,527	24,260	Cumulative changes in fair value		9,340	4,823
(2,296)	(1,307)	Foreign currency translation reserve		(503)	(884)
314,450	333,987	Retained profit		128,585	121,063
<u>1,847,025</u>	<u>2,067,866</u>			<u>796,128</u>	<u>711,104</u>
550	691	Non-controlling interests in equity	10	266	212
<u>1,847,575</u>	<u>2,068,557</u>	TOTAL EQUITY		<u>796,394</u>	<u>711,316</u>
<u>15,196,716</u>	<u>15,197,734</u>	TOTAL LIABILITIES AND EQUITY		<u>5,851,128</u>	<u>5,850,736</u>
<u>USD 1.715</u>	<u>USD 1.536</u>	Net assets per share	27	<u>RO 0.591</u>	<u>RO 0.660</u>
<u>2,497,109</u>	<u>3,224,714</u>	Contingent liabilities and commitments	28	<u>1,241,515</u>	<u>961,387</u>

The consolidated financial statements on pages 80 to 142 were approved and authorised for issue by the Board of Directors on 26th January 2011 and signed on their behalf by:

Chairman ABDULMALIK BIN ABDULLAH AL KHALILI
 Director K.K. ABDUL RAZAK
 Chief Executive ABDULRAZAK BIN ALI BIN ISSA

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Consolidated Statement of Comprehensive Income

For the year ended 31 December 2010

2009 USD'000	2010 USD'000		Notes	2010 RO'000	2009 RO'000
726,052	714,792	Interest income	29	275,195	279,530
(273,153)	(228,571)	Interest expense	30	(88,000)	(105,164)
452,899	486,221	Net interest income		187,195	174,366
129,379	135,416	Commission and fees income (net)	31	52,135	49,811
173,683	67,964	Other operating income	32	26,166	66,868
755,961	689,601	OPERATING INCOME		265,496	291,045
		OPERATING EXPENSES			
(196,112)	(244,543)	Other operating expenses	33	(94,149)	(75,503)
(17,200)	(22,738)	Depreciation	12	(8,754)	(6,622)
(213,312)	(267,281)			(102,903)	(82,125)
-	(5,455)	Provision for impairment of placements	6	(2,100)	-
(255,174)	(121,010)	Impairment for credit losses	7	(46,589)	(98,242)
27,504	35,449	Recoveries from provision for credit losses	7	13,648	10,589
(7,636)	(1,706)	Impairment for investments	9	(657)	(2,940)
1,104	356	Recoveries from impairment for investments	9	137	425
-	8,844	Recoveries from impairment for placements	6	3,405	-
(52,766)	-	Impairment for associate	11	-	(20,315)
(27,156)	(32,823)	Share of loss from associates	11	(12,637)	(10,455)
(527,436)	(383,626)	OPERATING EXPENSES		(147,696)	(203,063)
228,525	305,975	PROFIT BEFORE TAXATION		117,800	87,982
(37,049)	(42,091)	Tax expense	21	(16,205)	(14,264)
191,476	263,884	PROFIT FOR THE YEAR		101,595	73,718
		OTHER COMPREHENSIVE INCOME			
(2,701)	990	Gain/(loss) from foreign currency translation of investments in associates	11	381	(1,040)
25,005	-	Transfer from foreign currency reserve on derecognition of associate	11	-	9,627
(167,410)	11,732	Change in fair value of investments available-for-sale	21	4,517	(64,453)
(145,106)	12,722	OTHER COMPREHENSIVE INCOME FOR THE YEAR	21	4,898	(55,866)
46,370	276,606	TOTAL COMPREHENSIVE INCOME FOR THE YEAR		106,493	17,852
		Total comprehensive income attributable to:			
46,487	276,798	Equity holders of the parent company		106,567	17,897
(117)	(192)	Non-controlling interests	10	(74)	(45)
46,370	276,606			106,493	17,852
		Profit attributable to:			
191,593	264,076	Equity holders of the parent company		101,669	73,763
(117)	(192)	Non-controlling interests	10	(74)	(45)
191,476	263,884			101,595	73,718
		Earnings per share:			
USD 0.178	USD 0.195	- Basic	35	RO 0.075	RO 0.068
USD 0.174	USD 0.195	- Diluted	35	RO 0.075	RO 0.067

Items in the statement above are disclosed net of tax. The income tax relating to each component of other comprehensive income is disclosed in note 21.

The notes on pages 85 to 142 form an integral part of these consolidated financial statements.
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Consolidated Statement of Changes in Equity

For the year ended 31 December 2010

	Notes	Share capital RO'000	Share premium RO'000	Mandatory convertible bonds RO'000	General reserve RO'000
2010					
Balance at 31 December 2009		107,713	301,505	32,314	56,308
Comprehensive income					
Profit for the year		-	-	-	-
Other comprehensive income					
Profit on translation of net investment in associate	11	-	-	-	-
Change in fair value of investments available-for-sale	9 & 21	-	-	-	-
Total comprehensive income		-	-	-	-
Transactions with owners					
Dividends paid - 2009	26	-	-	-	-
Issue of bonus shares 2009	26	26,928	-	-	-
Transfer to legal reserve	24	-	-	-	-
Transfer from subordinated loan reserve	25	-	-	-	5,000
Transfer to subordinated loan reserve	25	-	-	-	-
Total contributions by and distributions to owners		26,928	-	-	5,000
Non-controlling interest		-	-	-	-
Total transactions with owners		26,928	-	-	5,000
Balance at 31 December 2010		134,641	301,505	32,314	61,308
Balance at 31 December 2010 (USD'000)		349,717	783,130	83,933	159,242

The notes on pages 85 to 142 form an integral part of these consolidated financial statements.
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	Notes	Share capital RO'000	Share premium RO'000	Mandatory convertible bonds RO'000	General reserve RO'000
2009					
Balance at 31 December 2008		107,713	301,505	-	56,308
Comprehensive income					
Profit for the year		-	-	-	-
Other comprehensive income					
Loss on translation of net investment in associates	11	-	-	-	-
Transfer to comprehensive income statement on derecognition of associate		-	-	-	-
Change in fair value of investments available-for-sale	9 & 21	-	-	-	-
Total comprehensive income		-	-	-	-
Transactions with owners					
Dividends paid - 2008		-	-	-	-
Issue of convertible bonds	19	-	-	32,314	-
Transfer to subordinated loan reserve	25	-	-	-	-
Total contributions by and distributions to owners		-	-	32,314	-
Non-controlling interest		-	-	-	-
Total transactions with owners		-	-	32,314	-
Balance at 31 December 2009		107,713	301,505	32,314	56,308
Balance at 31 December 2009 (USD'000)		279,774	783,130	83,933	146,255

The notes on pages 85 to 142 form an integral part of these consolidated financial statements.
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Consolidated Statement of Changes in Equity

For the year ended 31 December 2010

Legal reserve RO'000	Revaluation reserve RO'000	Subordinated loan reserve RO'000	Cumulative changes in fair value RO'000	Foreign exchange translation reserve RO'000	Retained profit RO'000	Total before NCI RO'000	Non-Controlling Interest RO'000	Total RO'000
35,905	3,957	48,400	4,823	(884)	121,063	711,104	212	711,316
-	-	-	-	-	101,669	101,669	(74)	101,595
-	-	-	-	381	-	381	-	381
-	-	-	4,517	-	-	4,517	-	4,517
-	-	-	4,517	381	101,669	106,567	(74)	106,493
-	-	-	-	-	(21,543)	(21,543)	-	(21,543)
-	-	-	-	-	(26,928)	-	-	-
8,976	-	-	-	-	(8,976)	-	-	-
-	-	(5,000)	-	-	-	-	-	-
-	-	36,700	-	-	(36,700)	-	-	-
8,976	-	31,700	-	-	(94,147)	(21,543)	-	(21,543)
-	-	-	-	-	-	-	128	128
8,976	-	31,700	-	-	(94,147)	(21,543)	128	(21,415)
44,881	3,957	80,100	9,340	(503)	128,585	796,128	266	796,394
116,574	10,278	208,052	24,260	(1,307)	333,987	2,067,866	691	2,068,557

Legal Reserve RO'000	Revaluation reserve RO'000	Sub-ordinated loan reserve RO'000	Cumulative changes in fair value RO'000	Foreign exchange translation reserve RO'000	Retained earnings RO'000	Total Before NCI RO'000	Non-Controlling Interest RO'000	Total RO'000
35,905	3,957	24,200	69,276	(9,471)	125,357	714,750	-	714,750
-	-	-	-	-	73,763	73,763	(45)	73,718
-	-	-	-	(1,040)	-	(1,040)	-	(1,040)
-	-	-	-	9,627	-	9,627	-	9,627
-	-	-	(64,453)	-	-	(64,453)	-	(64,453)
-	-	-	(64,453)	8,587	73,763	17,897	(45)	17,852
-	-	-	-	-	(21,543)	(21,543)	-	(21,543)
-	-	-	-	-	(32,314)	-	-	-
-	-	24,200	-	-	(24,200)	-	-	-
-	-	24,200	-	-	(78,057)	(21,543)	-	(21,543)
-	-	-	-	-	-	-	257	257
-	-	24,200	-	-	(78,057)	(21,543)	257	(21,286)
35,905	3,957	48,400	4,823	(884)	121,063	711,104	212	711,316
93,260	10,278	125,714	12,527	(2,296)	314,450	1,847,025	550	1,847,575

Consolidated Statement of Cash Flows

For the year ended 31 December 2010

2009 USD'000	2010 USD'000	Notes	2010 RO'000	2009 RO'000
		CASH FLOWS FROM/(USED IN) OPERATING ACTIVITIES		
228,525	305,974	Profit for the year before taxation	117,800	87,982
		Adjustments for:		
27,156	32,823	Share of net loss from associates	12,637	10,455
17,200	22,738	Depreciation	8,754	6,622
7,636	1,706	Impairment for investments	657	2,940
255,174	121,010	Impairment for credit losses	46,589	98,242
-	5,455	Impairment for placements	2,100	-
52,766	-	Impairment for associate	-	20,315
(27,504)	(35,449)	Recoveries from impairment for credit losses	(13,648)	(10,589)
(1,104)	(356)	Recoveries from impairment for investments	(137)	(425)
-	(8,844)	Recoveries from impairment for placement	(3,405)	-
-	(94)	Profit on sale of property and equipment	(36)	-
(138,912)	(3,088)	Profit on sale of investments	(1,189)	(53,481)
(2,714)	(2,784)	Dividends received	(1,072)	(1,045)
418,223	439,091		169,050	161,016
264,184	279,182	Placements with banks	107,485	101,711
(514,712)	(526,379)	Loans and advances	(202,656)	(198,164)
345,148	(45,608)	Other assets	(17,559)	132,882
(351,055)	(272,875)	Deposits from banks	(105,057)	(135,156)
(271,706)	1,190,982	Customers' deposits	458,528	(104,607)
201,364	40,000	Certificates of deposit	15,400	77,525
(250,000)	-	Floating rate notes	-	(96,250)
(297,073)	212,010	Other liabilities	81,624	(114,373)
(455,627)	1,316,403	Cash from/(used in) operations	506,815	(175,416)
(45,473)	(40,626)	Income taxes paid	(15,641)	(17,507)
(501,100)	1,275,777	Net cash from/(used in) operating activities	491,174	(192,923)
		CASH FLOWS (USED IN)/FROM INVESTING ACTIVITIES		
2,714	2,784	Dividends received	1,072	1,045
265,319	(287,023)	Net (payments)/proceeds in non-trading investments	(110,504)	102,148
10,052	-	Investment in associates	-	3,870
(28,483)	(148,875)	Purchase of property and equipment	(57,317)	(10,966)
42	226	Proceeds from sale of property and equipment	87	16
249,644	(432,888)	Net cash (used in)/from investing activities	(166,662)	96,113
		CASH FLOWS (USED IN)/FROM FINANCING ACTIVITIES		
(55,956)	(55,956)	Dividends paid	(21,543)	(21,543)
668	332	Non controlling interest	128	257
194,805	(12,987)	Subordinated loan (repaid)/received	(5,000)	75,000
139,517	(68,611)	Net cash (used in)/from financing activities	(26,415)	53,714
(111,939)	774,278	NET CHANGE IN CASH AND CASH EQUIVALENTS	298,097	(43,096)
1,065,935	953,996	Cash and cash equivalents at 1 January	367,289	410,385
953,996	1,728,274	CASH AND CASH EQUIVALENTS AT 31 DECEMBER 34	665,386	367,289

The notes on pages 85 to 142 form an integral part of these consolidated financial statements.
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Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

1 LEGAL STATUS AND PRINCIPAL ACTIVITIES

BankMuscat SAOG (the Bank or the Parent Company) is a joint stock company incorporated in the Sultanate of Oman and is engaged in commercial and investment banking activities through a network of 127 branches within the Sultanate of Oman and one branch in Riyadh, Kingdom of Saudi Arabia and one in Kuwait. The Bank has a representative office in Dubai, United Arab Emirates. The Bank (Parent Company) has a 95% owned subsidiary in Riyadh, Kingdom of Saudi Arabia. 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 Bank has its primary listing on the Muscat Securities Market.

The Bank and its subsidiary (together, the Group) operate in three countries (2009 – three countries) and employed 2,709 employees as of 31 December 2010 (2009: 2,579).

2 BASIS OF PREPARATION

2.1 Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), the requirements of the Commercial Companies Law of 1974, as amended and disclosure requirements of the Capital Market Authority of the Sultanate of Oman.

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements as disclosed in note 4.

These consolidated financial statements were approved by the Board of Directors on 26 January 2011.

2.2 Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis, modified to include the revaluation of freehold land and buildings and the measurement at fair value of derivative financial instruments and available-for-sale investment securities.

The consolidated statement of financial position is presented in descending order of liquidity as this presentation is more appropriate to the Group's operations.

2.3 Functional and presentation currency

These consolidated financial statements are presented in Rial Omani, which is the Group's functional currency and also in US Dollars, for the convenience of the readers. The US Dollar amounts, which are presented in these consolidated financial statements have been translated from the Rial Omani amounts at an exchange rate of US Dollar 1 = RO 0.385. All financial information presented in Rial Omani and US Dollars has been rounded to the nearest thousands.

2.4 (a) Standards, amendments and interpretations effective in 2010 and relevant for the Group's operations

For the year ended 31 December 2010, the Group has adopted all of the new and revised standards and interpretations issued by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB that are relevant to its operations and effective for periods beginning on 1 January 2010.

The adoption of these standards and interpretations has not resulted in changes to the Group's accounting policies and has not affected the amounts reported for the current or prior periods.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

2 BASIS OF PREPARATION (continued)

2.4 (b) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group:

The following standards and amendments to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2011 or later periods, but the Group has not early adopted them:

IFRS 7, 'Financial Instruments' (effective from 1 January 2011);

IFRS 9, 'Financial instruments part 1: Classification and measurement' (effective on or after 1 January 2013);

IAS 1 (amendment), 'Presentation of financial statements' (effective from 1 January 2011);

IAS 24 (revised), 'Related party disclosures' (effective from on or after 1 January 2011);

IAS 32 (Amendment), 'Classification of rights issues' (effective from 1 February 2010);

IFRIC 14 (Amendment), 'Prepayments of a minimum funding requirement' (effective from 1 January 2011); and

IFRIC 19, 'Extinguishing financial liabilities with equity instruments' (effective from 1 July 2011).

2.5 Consolidation

(a) Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases. The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the statement of comprehensive income.

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(b) Transactions with non-controlling interests

The Group treats transactions with non-controlling interests as transactions with equity owners of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

When the Group ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

(c) Associates

Associates are those entities in which the Parent Company has significant influence, but not control, over the financial and operating policies. Associates are accounted for using the equity method (equity accounted investees). Under the equity method, the investment in the associate is carried in the statement of financial position at cost plus post acquisition changes in the Parent Company's share of net assets of the associate. Goodwill relating to the associate is included in the carrying amount of the investment and is not amortised or separately tested for impairment.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

2 BASIS OF PREPARATION (continued)

(c) Associates (continued)

The financial statements include the Parent Company's share of the net profit or loss of equity accounted investees, after adjustments to align the accounting policies with those of the Parent Company, from the date that significant influence commences until the date that significant influence ceases. When the Parent Company's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest (including any long-term investment) is reduced to nil and recognition of further losses is discontinued except to the extent that the Parent Company has an obligation or has made payments on behalf of the associate.

After application of equity method, the Parent Company determines whether it is necessary to recognise an additional impairment loss on the Parent Company's investment in its associates. The Parent Company determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Parent Company calculates the amount of impairment as the difference between the recoverable amount of the investment in associate and its carrying value and charges the amount in the statement of comprehensive income.

3 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently by the Group to all periods presented in these financial statements.

3.1 Foreign currency translation

- (i) Transactions in foreign currencies are translated into Rial Omani at exchange rates ruling at the value dates of the transactions.
- (ii) Monetary assets and liabilities denominated in foreign currencies are translated into Rial Omani at exchange rates ruling at the reporting date. The foreign currency gain or loss on monetary items is the difference between amortised costs in the Rial Omani at the beginning of the period, adjusted for effective interest and payments during the period and the amortised costs in foreign currency translated at the exchange rate at the end of the period. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in other comprehensive income as qualifying cash flow hedges and qualifying net investment hedges.
- (iii) Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to Rial Omani at the exchange rate at the date that the fair value was determined. 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 other comprehensive income.
- (iv) The financial statements of the overseas branches are translated into Rial Omani for aggregation purposes at the exchange rates ruling at the reporting date. Any translation differences arising from the application of exchange rates ruling at the reporting date to the opening net assets of the overseas branches are taken directly to equity.
- (v) Net investment in associates, are translated into Rial Omani at the exchange rates ruling at the reporting date. Any translation differences arising from the application of exchange rates ruling at the reporting date are taken directly to equity.

3.2 Revenue and expense recognition

3.2.1 Interest

Interest income and expense are recognised in the statement of comprehensive income using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash receipts and payments through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. The effective interest rate is established on initial recognition of the financial asset or liability and is not revised subsequently.

Interest income and expense presented in the statement of comprehensive income include:

- Interest on financial assets and liabilities at amortised cost on an effective interest rate basis;
- Interest on available-for-sale investment securities on an effective interest basis;

Interest which is doubtful of recovery is included in impairment allowance and excluded from income until it is received in cash.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2.2 Fees and commission

Fees and commission income and expenses that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate. Other fees and commission income, including service charges, advisory fees, processing fees, syndication fees and others are recognised when they are due.

3.2.3 Dividends

Dividend income is recognised in the consolidated statement of comprehensive income in 'Other operating income', when the Group's right to receive income is established.

3.2.4 Provisions

A provision is recognised if, as a result of past event, the Group has a present legal or constructive obligation that can be estimated reliably and it is probable that an outflow of economic benefits will be required to settle the obligations. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risk specific to the liability.

3.3 Financial assets and liabilities

3.3.1 Classification

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, held to maturity and available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(a) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term. Derivatives are also categorised as held for trading unless they are designated as hedging instruments.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

When the Group is the lessor in a lease agreement that transfers substantially all of the risks and rewards incidental to ownership of an asset to the lessee, the arrangement is presented within loans and advances.

Loans and receivables are initially recognised at fair value – which is the cash consideration to originate or purchase the loan including any transaction costs – and measured subsequently at amortised cost using the effective interest rate method. Loans and receivables are reported in the consolidated statement of financial position as loans and advances to banks or customers. Interest on loans is included in the consolidated income statement and is reported as 'Interest income'. In the case of an impairment, the impairment loss is reported as a deduction from the carrying value of the loan and recognised in the consolidated income statement as 'Impairment for credit losses'.

(c) Held to maturity

Held to maturity financial assets are non-derivative assets with fixed or determinable payments and fixed maturity that the Group has the positive intent and ability to hold to maturity and which are not designated at fair value through profit or loss or available-for-sale.

These are initially recognised at fair value including direct and incremental transaction costs and measured subsequently at amortised cost, using the effective interest method.

Interest on held to maturity investments is included in the consolidated income statement and reported as 'Interest income'. In the case of impairment, the impairment loss is been reported as a deduction from the carrying value of the investment and recognised in the consolidated income statement as 'Impairment for investments'.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories.

Available-for-sale investments are financial assets that are intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices or that are not classified as loans and receivables, held to maturity investments or financial assets at fair value through profit or loss.

Available-for-sale financial assets are initially recognised at fair value, which is the cash consideration including any transaction costs, and measured subsequently at fair value with gains and losses being recognised in the consolidated statement of comprehensive income, except for impairment losses and foreign exchange gains and losses, until the financial asset is derecognised. If an available-for-sale financial asset is determined to be impaired, the cumulative gain or loss previously recognised in the consolidated statement of comprehensive income is recognised in the consolidated income statement. However, interest is calculated using the effective interest method, and foreign currency gains and losses on monetary assets classified as available for sale are recognised in the consolidated income statement. Dividends on available-for-sale equity instruments are recognised in the consolidated income statement in 'Other operating income' when the Group's right to receive payment is established.

3.3.2 Derivative financial instruments and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either:

- (i) hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge);
- (ii) hedges of a particular risk associated with a recognised asset or liability or a highly probable forecast transaction (cash flow hedge); or
- (iii) hedges of a net investment in a foreign operation (net investment hedge).

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

3.3.3 Recognition

The Group initially recognises loans and advances, deposits, debt securities issued and subordinated liabilities on the date that they are originated. All other financial assets and liabilities are initially recognised on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

3.3.4 Derecognition

The Group derecognises a financial asset when the contractual rights to receive the cash flows from the asset expire or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

3.3.5 Offsetting

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

Income and expenses are presented on a net basis only when permitted by the accounting standards or for gains and losses arising from a group of similar transactions.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3.6 Amortised cost measurement

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

3.3.7 Fair value measurement

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on a number of accounting policies and methods. Where applicable, information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability. Refer also to note 43.

3.3.8 Investment in equity and debt securities

For investments traded in organised financial markets, fair value is determined by reference to Stock Exchange quoted market prices at the close of business on the reporting date.

The fair value of interest-bearing items is estimated based on discounted cash flows using interest rates for items with similar terms and risk characteristics.

For unquoted equity investments fair value is determined by reference to the market value of a similar investment or is based on the expected discounted cash flows.

3.3.9 Fair value measurement of financial assets

The fair value of forward contracts is estimated based on observable market inputs for such contracts as on the reporting date.

The fair value of interest rate swaps is arrived at by discounting estimated future cash flows based on the terms and maturity of each contract and using market interest rates for a similar instrument at the measurement date.

3.3.10 Derivatives at fair value through profit or loss

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any these derivative instruments are recognised immediately in the statement of comprehensive income within 'other operating income'.

3.4 Identification and measurement of impairment of financial assets

(a) Assets carried at amortised cost

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) Assets carried at amortised cost (continued)

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

If there is objective evidence that an impairment loss 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.

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. Also refer to notes 2.5 associates, 3.3.1 (b) loans and receivables and 3.3.1(c) held-to-maturity investments.

(b) Assets classified as available-for-sale

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. For debt securities, the Group uses the criteria refer to (a) above. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the separate consolidated income statement. Impairment losses recognised in the separate consolidated income statement on equity instruments are not reversed through the separate consolidated income statement. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the separate consolidated income statement.

3.5 Cash and cash equivalents

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

3.6 Placements with banks

These are stated at cost, less any amounts written off and provisions for impairment.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.7 Property and equipment

Items of property and equipment are measured at cost less accumulated depreciation and impairment loss. Cost includes expenditures that are directly attributable to the acquisition of the asset.

When parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

Revaluations of freehold land and buildings are carried out every 5 years on an open market value for existing use basis, by an independent valuer. Increases in the carrying amount arising on revaluation are credited to other comprehensive income and shown as other reserves in shareholders' equity. Decreases that offset previous increases of the same asset are charged in other comprehensive income and debited against other reserves directly in equity; all other decreases are charged to the statement of comprehensive income. On disposal the related revaluation surplus is transferred directly to retained earnings. Transfers from revaluation surplus to retained earnings are not made through statement of comprehensive income.

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives, as follows:

	Years
Freehold and leasehold buildings	20 - 50
Leased hold improvements	5 - 10
Furniture, fixtures and equipment	5 - 10
Motor vehicles	3 - 5

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within 'other operating income' in the statement of comprehensive income.

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.

3.8 Collateral pending sale

The Group 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.

3.9 Goodwill

Goodwill represents the excess of the cost of the acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree. Goodwill is measured at cost less any accumulated impairment losses. In respect of equity accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold. Goodwill is allocated to cash-generating units for the purpose of impairment testing. Each of those cash-generating units is represented by each operating segment.

3.10 Deposits

Deposits from banks and customers, debt securities and subordinated liabilities are the Group's sources of funding. These are initially measured at fair value plus transaction costs and subsequently measured at their amortised cost using the effective interest method.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.11 Income tax

Income tax expense comprises current and deferred tax. Taxation is provided in accordance with Omani fiscal regulations.

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

Income tax is recognised in the statement of comprehensive income except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Deferred tax assets/liabilities are calculated using the balance sheet 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 substantively enacted at the reporting date.

The carrying amount of deferred income tax assets/liabilities is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

3.12 Fiduciary assets

The Group provides trustee, corporate administration, investment management and advisory services to third parties, which involve the Group making allocation and purchase and sale decisions in relation to a wide range of financial instruments. Those assets that are held in a fiduciary capacity are not included in these consolidated financial statements.

3.13 Acceptances

Acceptances are disclosed on the consolidated statement of financial position under other assets with corresponding liability disclosed under other liabilities. Therefore, there is no off-balance sheet commitment for acceptances.

3.14 Repurchase and resale agreements

Securities sold subject to repurchase agreements ('repos') are reclassified in the financial statements as pledged assets when the transferee has the right by contract or custom to sell or repledge the collateral; the counterparty liability is included in deposits from banks or deposits from customers, as appropriate. Securities purchased under agreements to resell ('reverse repos') are recorded as loans and advances to other banks or customers, as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest method. Securities lent to counterparties are also retained in the consolidated financial statements.

3.15 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 entity commits to purchase the asset. Regular way purchase or sales are purchases or sales of financial assets that require delivery of assets within the timeframe generally established by regulation or convention in the market place.

3.16 Leases

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term.

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense in the statement of comprehensive income on a straight-line basis over the lease term.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.17 Employee terminal benefits

Contributions to a defined contribution retirement plan, for Omani employees, in accordance with the Oman Social Insurance Scheme, are recognised as expense in the statement of comprehensive income when accrued.

The Group's obligation in respect of non-Omani terminal benefits, which is an unfunded defined benefit retirement plan, is the amount of future benefit that such employees have earned in return for their service in current and prior periods. The obligation is calculated using the projected unit credit method and is discounted to its present value.

3.18 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the executive management team that makes strategic decisions.

3.19 Earnings per share

The Group presents basic and diluted Earnings Per Share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Group by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprises convertible notes.

4 Critical accounting estimates and judgements

The preparation of consolidated financial statements requires the Management to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. The resulting accounting estimates will, by definition, seldom equal the related actual results. Specific fair value estimates are disclosed in note 43.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods. The Group's significant accounting estimates were on:

(a) Impairment on placements

The Group reviews its portfolio of Placements with banks on a yearly basis to assess impairment. In determining whether an impairment loss should be recorded in the consolidated statement of comprehensive income, the Group makes judgements as to whether there is any observable data indicating an impairment. For individually impaired placements, the Group considers the necessary impairment loss based on the expected cash flows and borrower's financial position. In addition, the Group assesses the portfolio on a collective basis and estimates the collective impairment loss if any. The judgements and estimates used for impairment assessment depend on a number of parameters which include the borrower's financial condition, local and international economic conditions and economic outlook.

(b) Impairment losses on loans and advances

The Group reviews its loan portfolios to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in the consolidated statement of comprehensive income, the Group makes judgements as to whether there is any observable data indicating an impairment followed by measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified within that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers and 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. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed periodically to reduce any difference between loss estimates and actual loss experience. For individually significant loans and advances which are impaired, the necessary impairment loss is considered based on the future cash flow estimates. Individually significant loans and advances which are not impaired and all individually insignificant loans and advances are then assessed collectively considering historical experience and observable data on a portfolio basis, in groups of assets with similar risk characteristics to determine whether collective impairment loss to be made. In determining collective impairment loss, the Group takes into account several factors including credit quality, concentration risk, levels of past due, sector performance, available collateral and macro economic conditions.



Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

4 Critical accounting estimates and judgements (continued)

(c) Fair value of derivatives and other financial instruments

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. The Group uses its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period. The Group uses expected cash flow analysis for various available-for-sale financial assets that are not traded in active markets.

(d) Impairment of available-for-sale equity investments

The Group determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost or objective evidence of impairment exists. This determination of what is considered to be significant or prolonged requires judgement. In applying judgement, the Group evaluates among other factors, the volatility in share price. Objective evidence of impairment may be due to deterioration in the financial health of the investee, industry and sector performance.

(e) Impairment loss on investments in associates

The Group reviews its investments in associates periodically and evaluates the objective evidence of impairment. Objective evidence includes the performance of associate, the future business model, local economic conditions and other relevant factors. Based on the objective evidences, the Group determines the need for impairment loss on investments in associates.

5 CASH AND BALANCES WITH CENTRAL BANKS

2009 USD '000	2010 USD'000		2010 RO'000	2009 RO'000
202,426	285,444	Cash	109,896	77,934
5,530	1,299	Capital deposit with Central Banks	500	2,129
4,231	2,821	Insurance deposit with Central Banks	1,086	1,629
1,367,291	1,596,293	Other balances with Central Banks	614,573	526,407
<u>1,579,478</u>	<u>1,885,857</u>		<u>726,055</u>	<u>608,099</u>

The capital deposit with the Central Banks cannot be withdrawn without the approval of the Central Banks. Insurance deposit with Central Bank of Oman is non-refundable and the Bank is amortising the same over a period of 3 years ending 31 December 2012.

6 PLACEMENTS WITH BANKS

2009 USD'000	2010 USD'000		2010 RO'000	2009 RO'000
2,325,306	1,022,790	Inter-bank placements	393,774	895,243
325,353	413,182	Nostro balances	159,075	125,261
2,650,659	1,435,972		552,849	1,020,504
(12,501)	(6,494)	Provision for impairment	(2,500)	(4,813)
<u>2,638,158</u>	<u>1,429,478</u>		<u>550,349</u>	<u>1,015,691</u>

The movement in provision for impairment is analysed below:

Provision for placements with Banks

2009 USD'000	2010 USD'000		2010 RO'000	2009 RO'000
12,501	12,501	1 January	4,813	4,813
-	5,455	Provided during the year	2,100	-
-	(8,844)	Released during the year	(3,405)	-
-	(3,657)	Written off during the year	(1,408)	-
-	1,039	Transfer during the year from impairment for credit loss	400	-
<u>12,501</u>	<u>6,494</u>	31 December	<u>2,500</u>	<u>4,813</u>

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

7 LOANS AND ADVANCES

2009 USD'000	2010 USD'000		2010 RO'000	2009 RO'000
9,271,663	9,623,379	Loans	3,705,001	3,569,590
644,610	586,520	Overdrafts and Credit cards	225,810	248,175
402,016	410,060	Loans against trust receipts	157,873	154,776
80,966	127,810	Bills purchased and discounted	49,207	31,172
125,566	146,236	Other advances	56,301	48,343
10,524,821	10,894,005		4,194,192	4,052,056
(555,442)	(483,808)	Provision for impairment	(186,266)	(213,845)
9,969,379	10,410,197		4,007,926	3,838,211

The movement in provision for impairment is analysed below:

Provision for loan losses

2009 USD'000	2010 USD'000		2010 RO'000	2009 RO'000
258,694	478,416	1 January	184,190	99,597
255,174	121,010	Provided during the year	46,589	98,242
(23,938)	(32,029)	Released during the year	(12,331)	(9,216)
(11,514)	(157,657)	Written off during the year	(60,698)	(4,433)
-	(1,039)	Transfer during the year to placements provision	(400)	-
478,416	408,701	31 December (a)	157,350	184,190

Recoveries during the year of RO 13.648 million (2009: RO 10.589 million) include RO 1.317 million (2009: RO 1.373 million) recovered from loans written off earlier. The loans written off during the year include an amount of RO 65.515 million (2009: RO 5.746 million) transferred to memorandum portfolio, which were fully provided by the Group.

Contractual interest not recognised

2009 USD'000	2010 USD'000		2010 RO'000	2009 RO'000
67,473	77,026	1 January	29,655	25,977
(13,792)	(21,587)	Written off during the year	(8,311)	(5,310)
33,800	37,177	Contractual interest not recognised	14,313	13,013
(10,455)	(17,509)	Contractual interest recovered	(6,741)	(4,025)
77,026	75,107	31 December (b)	28,916	29,655
555,442	483,808	Total impairment (a+b)	186,266	213,845

As of 31 December 2010, loans and advances on which contractual interest is not being accrued or has not been recognised amounted to RO 175.88 million (2009: RO 201.67 million).

8 OTHER ASSETS

2009 USD'000	2010 USD'000		2010 RO'000	2009 RO'000
100,026	103,527	Positive fair value of derivatives (Note 38)	39,858	38,510
164,657	240,096	Acceptances	92,437	63,393
33,579	29,426	Accrued interest	11,329	12,928
39,200	27,223	Other debtors and prepaid expenses	10,481	15,092
28,821	28,821	Deferred tax asset (Note 21)	11,096	11,096
3,104	3,104	Collateral pending sale (net of provisions)	1,195	1,195
22,616	9,533	Others	3,670	8,707
392,003	441,730		170,066	150,921

Collateral pending sale includes properties acquired from borrowers as part of settlement agreement of loans and advances.



Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

9 INVESTMENT SECURITIES

	Available- for-sale RO'000	Held to maturity RO'000	2010 Total RO'000	2009 Total RO'000
2010				
Quoted investments	218,286	-	218,286	105,782
Unquoted investments				
Treasury bills	-	29,922	29,922	23,009
Bonds/securities	24,195	-	24,195	21,241
Total unquoted	24,195	29,922	54,117	44,250
Total investments	242,481	29,922	272,403	150,032
Impairment losses on investments	(5,376)	-	(5,376)	(5,666)
Net investments	237,105	29,922	267,027	144,366
2009	120,055	24,311	144,366	

	Available- for-sale USD'000	Held to maturity USD'000	2010 Total USD'000	2009 Total USD'000
2010				
Quoted investments	566,977	-	566,977	274,758
Unquoted investments				
Treasury bills	-	77,719	77,719	59,764
Bonds/securities	62,844	-	62,844	55,171
Total unquoted	62,844	77,719	140,563	114,935
Total investments	629,821	77,719	707,540	389,693
Impairment losses on investments	(13,964)	-	(13,964)	(14,717)
Net investments	615,857	77,719	693,576	374,976
2009	311,831	63,145	374,976	

An analysis of available-for-sale investments is set out below:

2009 USD'000	2010 USD'000		2010 RO'000	2009 RO'000
119,366	283,203	Quoted investments		
40,917	42,421	Government bonds	109,033	45,956
35,927	92,753	Foreign bonds	16,332	15,753
24,042	26,691	Other services sector	35,710	13,832
21,823	53,364	Investment fund units	10,276	9,256
11,335	11,545	Foreign securities	20,545	8,402
10,434	16,509	Industrial sector	4,445	4,364
7,533	40,491	Financial services sector	6,356	4,017
		Corporate bonds	15,589	2,900
271,377	566,977	Total	218,286	104,480
28,296	27,553	Unquoted investments		
26,745	35,161	Local securities and bonds	10,608	10,894
130	130	Foreign securities and bonds	13,537	10,297
55,171	62,844	Investment fund units	50	50
326,548	629,821	Total	24,195	21,241
(14,717)	(13,964)	Total investments	242,481	125,721
311,831	615,857	Impairment losses on investments	(5,376)	(5,666)
		Total available-for-sale	237,105	120,055

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9 INVESTMENT SECURITIES (continued)

The movement in impairment of investment securities may be summarised as follows:

2009 USD'000	2010 USD'000		2010 RO'000	2009 RO'000
34,197	14,717	At 1 January	5,666	13,166
7,636	1,706	Provision made during the year	657	2,940
(26,012)	(2,103)	Release during the year for sales	(810)	(10,015)
(1,104)	(356)	Release during the year for recoveries	(137)	(425)
<u>14,717</u>	<u>13,964</u>	At 31 December	<u>5,376</u>	<u>5,666</u>

The movement in investment securities may be summarised as follows:

	Available- for-sale RO'000	Held to maturity RO'000	Total RO'000
At 1 January 2010	120,055	24,311	144,366
Exchange differences on monetary assets	(378)	-	(378)
Additions	129,249	29,922	159,171
Disposals (sale and redemption)	(16,585)	(24,309)	(40,894)
Gain from changes in fair value	4,575	-	4,575
Recoveries from impairment for investments	137	-	137
Impairment losses	(657)	-	(657)
Amortisation	(480)	(2)	(482)
Realised gains on sale	1,189	-	1,189
At 31 December 2010	<u>237,105</u>	<u>29,922</u>	<u>267,027</u>
USD'000	<u>615,857</u>	<u>77,719</u>	<u>693,576</u>

	Available- for-sale RO'000	Held to maturity RO'000	Total RO'000
At 1 January 2009	216,948	161,698	378,646
Exchange differences on monetary assets	157	-	157
Additions	39,244	23,009	62,253
Disposals (sale and redemption)	(123,197)	(160,394)	(283,591)
Losses from changes in fair value	(63,932)	-	(63,932)
Recoveries from impairment for investments	425	-	425
Impairment losses	(2,940)	-	(2,940)
Amortisation	(131)	(2)	(133)
Realised gains on sale	53,481	-	53,481
At 31 December 2009	<u>120,055</u>	<u>24,311</u>	<u>144,366</u>
USD'000	<u>311,831</u>	<u>63,145</u>	<u>374,976</u>



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10 INVESTMENT IN SUBSIDIARY

Details regarding the Parent Company's subsidiary are set out below.

Company name	Country of incorporation	Year end	Proportion held	Carrying value RO'000
Muscat Capital LLC	Kingdom of Saudi Arabia	31 December 2010	95%	5,053
Muscat Capital LLC (formerly Muscat Securities House LLC)	Kingdom of Saudi Arabia	31 December 2009	95%	4,022

During the year 2009, the Parent Company incorporated Muscat Securities House LLC with its registered office in Riyadh – Kingdom of Saudi Arabia. During July 2010 the name of the company was changed from Muscat Securities House LLC to Muscat Capital LLC. As at 31 December 2010, the Authorised and issued share capital of the subsidiary is SAR 75 million (2009: SAR 50 million).

Financial information relating to subsidiary is summarised as follows:

31 December 2010

	Total RO'000	Share of parent company RO'000	Share of non controlling interest RO'000
Total share capital	7,704	7,319	385
Reserves	(2,385)	(2,266)	(119)
Total net worth	5,319	5,053	266

	Total US'000	Share of parent company US'000	Share of non controlling interest US'000
Total share capital	20,010	19,010	1,000
Reserves	(6,195)	(5,886)	(309)
Total net worth	13,815	13,124	691

31 December 2009

	Total RO'000	Share of parent company RO'000	Share of non controlling interest RO'000
Total share capital	5,136	4,879	257
Reserves	(902)	(857)	(45)
Total net worth	4,234	4,022	212

	Total US'000	Share of parent company US'000	Share of non controlling interest US'000
Total share capital	13,340	12,673	667
Reserves	(2,343)	(2,226)	(117)
Total net worth	10,997	10,447	550

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11 INVESTMENTS IN ASSOCIATES

2009 USD'000	2010 USD'000		2010 RO'000	2009 RO'000
148,904	114,325	BMI Bank B.S.C. (c) Kingdom of Bahrain	44,016	57,328
25,569	28,316	Mangal Keshav Holding Ltd (MKHL), India	10,901	9,844
<u>174,473</u>	<u>142,641</u>	Carrying value of investments in associates at 31 December	<u>54,917</u>	<u>67,172</u>

During 2010, share of losses from associates amounted to RO 12.637 million (2009: losses of RO 10.455 million) and translation gains on associate investments amounted to RO 0.381 million (2009: loss of RO 0.72 million). In 2009 translation gain on associate investments of RO 0.320 million was transferred from equity to the consolidated statement of comprehensive income.

Details of investments in associates are given below.

11.1 Investment in BMI Bank B.S.C. (c), Kingdom of Bahrain (BMI)

As at 31 December 2010, the Parent Company held 49% (2009 – 49%) shareholding in BMI, a closely held bank. The carrying value of the investment in BMI as on 31 December 2010 was as follows:

2009 USD'000	2010 USD'000		2010 RO'000	2009 RO'000
170,566	148,904	Carrying value at 1 January	57,328	65,668
(21,662)	(34,579)	Add: Share of loss for the year	(13,312)	(8,340)
<u>148,904</u>	<u>114,325</u>	Carrying value at 31 December	<u>44,016</u>	<u>57,328</u>

11.2 Investment in Mangal Keshav Holdings Limited, India (MKHL)

As at 31 December 2010, the Bank held 42.96% shareholding in MKHL. The carrying value of the investment in MKHL as on 31 December 2010 was as follows:

2009 USD'000	2010 USD'000		2010 RO'000	2009 RO'000
24,298	25,569	Carrying value of investments at 1 January	9,844	9,355
263	1,756	Add: share of profit for the period 1 October 2009 to 30 September 2010 (2009 – 1 October 2008 to 30 September 2009)	676	101
<u>1,008</u>	<u>991</u>	Add/less: Translation of foreign currency profit	<u>381</u>	<u>388</u>
<u>25,569</u>	<u>28,316</u>	Carrying value of investments at 31 December	<u>10,901</u>	<u>9,844</u>

The carrying value of investments as reflected above includes an amount of RO 2.408 million (2009: RO 2.319 million) on account of goodwill related to acquisition.

The Parent Company's share of the total recognised gains and losses of associate are reflected on the basis of reviewed results of MKHL for the period ended 30 September 2010. The financial statements of MKHL for the quarter ended 31 December 2010 were not available at the time of the preparation of these financial statements.

The financial statements of MKHL are prepared as per generally accepted accounting practices prevailing in India (Indian GAAP). The Management of the Parent Company believe that it is not practicable to restate the financial statements of MKHL in order to reflect the position as per International Financial Reporting Standards, as MKHL does not operate under similar circumstances and management considers the impact not to be material to the Group.



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11 INVESTMENTS IN ASSOCIATES (continued)

11.3 Investment in Silk Bank Limited (SBL) (formerly Saudi Pak Commercial Bank Limited)

In March 2008, the Parent Company acquired 200,899,633 shares representing 40.17% of the issued and paid up share capital of SBL, a public limited company engaged in banking services in Pakistan. The Parent Company invested in SBL along with consortium members comprising of International Finance Corporation, Nomura Group and Sinthos Capital. In June 2008, SBL announced a rights issue where the Bank acquired 114,313,228 shares. The number of shares acquired by the Parent Company was lower than its share of rights issue and as a result the Parent Company's holding diluted to 35.07% at 31 December 2009.

The Parent Company's share of the total recognised losses of associate are reflected on the basis of reviewed results of SBL for the period 1 January 2009 to 30 September 2009.

In December 2009, SBL announced a rights issue of Pakistani Rupee (PKR) 7 billion through issuance of 2.8 billion right shares at the rate of PKR 2.5 per share for every one share held in order to meet the minimum capital requirement of the local regulator.

The Parent Company decided not to participate in this rights issue and its stake in SBL is diluted to around 8.5% and as a result effectively lost significant influence. The SBL investment has been marked-to-market in the Parent Company's books as at 31 December 2010. An impairment loss of RO 20.3 million was recognised in the statement of comprehensive income in 2009 including the loss on depreciation of the Pakistan Rupee amounting to RO 9.6 million which was earlier recognised in equity. The rights issue has been subscribed to the extent of continuing shareholders holding and the remaining is expected to be completed by 31 March 2011. As of the reporting date, the Group's holding SBL is 11.8%.

The financial statements of Silk Bank are prepared as per International Financial Reporting Standards.

The carrying value of the investment in SBL as on 31 December 2009 was as follows:

2009 USD'000	2010 USD'000		2010 RO'000	2009 RO'000
46,442	-	Carrying value of investments at 1 January	-	17,880
(5,756)	-	Less: share of loss for the period 1 April 2009 to 30 September 2009	-	(2,216)
(27,761)	-	Less: Impairment loss	-	(10,688)
(2,873)	-	Less: Translation of foreign currency loss	-	(1,106)
(10,052)	-	Less: Transferred to available for sale investments	-	(3,870)
-	-	Carrying value of investments at 31 December	-	-

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11 INVESTMENTS IN ASSOCIATES (continued)

11.4 Financial information relating to associates

Financial information relating to associates is summarised as follows:

BMI	MKHL	SILK BANK		MKHL	BMI
January 2009 to December 2009	April 2009 to September 2009	January 2009 to September 2009		April 2010 to September 2010	January 2010 to December 2010
RO'000	RO'000	RO'000		RO'000	RO'000
20,923	2,871	(4,568)	Total revenue	3,109	18,281
(17,210)	494	(10,705)	Net profit/(loss)	721	(27,156)
At 31 December 2009	At 30 September 2009	At 30 September 2009		At 30 September 2010	At 31 December 2010
689,037	25,055	264,375	Total assets	25,359	603,989
573,847	9,830	245,050	Total liability	7,994	515,870
115,190	15,225	19,325	Net worth	17,365	88,119
BMI	MKHL	SILK BANK		MKHI	BMI
January 2009 to December 2009	April 2009 to September 2009	January 2009 to September 2009		April 2010 to September 2010	January 2010 to December 2010
USD'000	USD'000	USD'000		USD'000	USD'000
54,344	7,458	(11,865)	Total revenue	8,075	47,483
(44,700)	1,284	(27,805)	Net profit/(loss)	1,873	(70,535)
At 31 December 2009	At 30 September 2009	At 30 September 2009		At 30 September 2010	At 31 December 2010
1,789,707	65,078	686,688	Total assets	65,868	1,568,803
1,490,512	25,533	636,493	Total liability	20,764	1,339,922
299,195	39,545	50,195	Net worth	45,104	228,881

12 PROPERTY AND EQUIPMENT

	Leasehold buildings RO'000	Freehold land and buildings RO'000	Furniture, fixtures and equipment RO'000	Motor vehicles RO'000	Total RO'000
Cost or valuation					
At 1 January 2010	-	8,048	64,485	949	73,482
Additions during the year	38,000	1,206	17,991	120	57,317
Disposals	-	-	(28)	(263)	(291)
Transfer	-	1,046	(1,046)	-	-
At 31 December 2010	38,000	10,300	81,402	806	130,508
Depreciation					
At 1 January 2010	-	4,228	42,456	522	47,206
Charge for the year	190	540	7,872	152	8,754
Relating to disposals	-	-	(28)	(212)	(240)
Transfer	-	36	(36)	-	-
At 31 December 2010	190	4,804	50,264	462	55,720
Net book value					
At 31 December 2010	37,810	5,496	31,138	344	74,788
At 31 December 2010 (USD'000)	98,208	14,275	80,878	894	194,255



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12 PROPERTY AND EQUIPMENT (continued)

	Freehold land and buildings RO'000	Furniture, fixtures and equipment RO'000	Motor vehicles RO'000	Total RO'000
Cost or valuation				
At 1 January 2009	8,028	53,640	902	62,570
Additions during the year	20	10,854	91	10,965
Disposals	-	(9)	(44)	(53)
At 31 December 2009	8,048	64,485	949	73,482
Depreciation				
At 1 January 2009	3,529	36,695	398	40,622
Charge for the year	445	6,015	162	6,622
Relating to disposals	-	-	(38)	(38)
Transfer	254	(254)	-	-
At 31 December 2009	4,228	42,456	522	47,206
Net book value				
At 31 December 2009	3,820	22,029	427	26,276
At 31 December 2009 (USD'000)	9,922	57,218	1,109	68,249

The freehold land and buildings owned by the Parent Company were revalued during the year 2007 by independent professional valuers on an open market basis. The gross carrying amount of the land and buildings was restated so that the net carrying amount of the asset after its revaluation equals its revalued amount; surplus on revaluation was credited to revaluation reserve.

If freehold land and buildings had been carried at cost less depreciation, the carrying amount would have been RO 1,050,680 (2009: RO 1,137,687).

13 FINANCE LEASE LIABILITIES

The Group entered into a lease agreement with a third party (a quasi government entity) to lease a purpose built head office which was constructed for exclusive use of the Group. The construction of building was completed in 2010 and the Group is currently in the process of occupying the building. Total cost of the project was estimated to be around RO 48 million. However, cost split between leased asset (RO 38 million) and own assets (RO 10 million) of the building is based on an initial estimate. Based on the detailed breakup of the project cost, the split between leased assets and own assets will be reviewed and adjusted accordingly in 2011. The lease is for a period of 50 years. On the estimated cost of leased assets, the annual lease payment of building for the initial 25 years is RO 2.9 million. Subsequently, for the subsequent 10 years, the annual rent will increase by 25% to RO 3.7 million. From 36th year onwards, the annual rent will further increase by 10% to RO 4.1 million.

Due to the above lease payment schedule, the minimum lease payments in the first 25 years of the lease period are less than the finance charges payable.

The minimum lease payments and total liability in respect of these leases relating to future periods are as follows:

2009 USD'000	2010 USD'000		2010 RO'000	2009 RO'000
-	(122)	Current	(47)	-
-	98,823	Non-current	38,047	-
-	98,701		38,000	-
-	448,790	Represented by:		
-	(350,089)	Gross finance lease payments due	172,784	-
-	98,701	Less: Future finance charges	(134,784)	-
-		Net lease liability/present value recognised as property	38,000	-

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13 FINANCE LEASE LIABILITIES (continued)

The following table shows the maturity analysis of finance lease payable:

	Less than 1 year RO'000	Between 1 and 2 years RO'000	Between 2 and 5 years RO'000	More than 5 years RO'000	Total RO'000
At 31 December 2010					
Gross finance lease payable	2,973	2,973	8,918	157,920	172,784
Less: Future finance charges	(3,020)	(3,022)	(9,092)	(119,650)	(134,784)
Net lease liability	<u>(47)</u>	<u>(49)</u>	<u>(174)</u>	<u>38,270</u>	<u>38,000</u>
	Less than 1 year USD'000	Between 1 and 2 years USD'000	Between 2 and 5 years USD'000	More than 5 years USD'000	Total USD'000
At 31 December 2010					
Gross finance lease payable	7,722	7,722	23,164	410,182	448,790
Less: Future finance charges	(7,844)	(7,849)	(23,616)	(310,780)	(350,089)
Net lease liability	<u>(122)</u>	<u>(127)</u>	<u>(452)</u>	<u>99,402</u>	<u>98,701</u>

14 DEPOSITS FROM BANKS

2009 USD'000	2010 USD'000		2010 RO'000	2009 RO'000
2,272,884	1,063,790	Inter-bank borrowings	409,559	875,060
802,449	433,013	Vostro balances	166,710	308,943
549,984	476,927	Other money market deposits	183,617	211,744
<u>3,625,317</u>	<u>1,973,730</u>		<u>759,886</u>	<u>1,395,747</u>

15 CUSTOMERS' DEPOSITS

2009 USD'000	2010 USD'000		2010 RO'000	2009 RO'000
3,300,187	3,511,740	Deposit accounts	1,352,020	1,270,572
2,118,468	2,394,595	Savings accounts	921,919	815,610
1,942,203	2,613,403	Current accounts	1,006,160	747,748
561,171	594,029	Call accounts	228,701	216,051
47,906	47,150	Margin accounts	18,153	18,444
<u>7,969,935</u>	<u>9,160,917</u>		<u>3,526,953</u>	<u>3,068,425</u>

As on the reporting date, Deposits from Ministries and other Government organizations represent 27% of the total customer deposits; (2009: 22%).

16 CERTIFICATES OF DEPOSIT

During the year the Parent company issued certificates of deposit of RO 70.1 million (2009: RO 102.3 million) and RO 53.9 million (2009: RO 24.775 million) of certificates of deposits were matured. The certificates of deposits issued by the Parent Company are unsecured and are denominated in Rial Omani. The maturity profile and interest rate of certificates of deposit are disclosed in notes 42.3.2 and 42.4, respectively.

17 UNSECURED BONDS

Unsecured bonds are non-convertible, unsecured and listed on the Muscat Securities Market. The bonds have a maturity of 10 years. The maturity profile and interest rate of unsecured bonds are disclosed in notes 42.3.2 and 42.4.4, respectively.



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18 FLOATING RATE NOTES

Floating rate notes are issued by the Parent Company under its Euro Medium Term Note Programme and are denominated in US Dollars. The notes carry a floating interest rate. These are non-convertible, unsecured and listed on the Luxembourg stock exchange. During the year 2010, notes amounting to RO Nil matured (2009: RO 96.25 million). The maturity profile and interest rates of floating rate notes are disclosed in notes 42.3.2 and 42.4.4, respectively.

19 MANDATORY CONVERTIBLE BONDS

During the year 2009, the Parent Company issued 32,313,995 mandatory convertible bonds of RO 1 each aggregating to RO 32.31 million as part of dividend for the year 2008. The mandatory convertible bonds carry a coupon rate of 7% per annum. On maturity, the bonds will be converted to ordinary shares of the Parent Company by using a "Conversion price" which will be calculated by applying 20% discount to 3 month average share price of the Parent Company on the Muscat Securities market prior to the conversion. 50% of the bonds issued will be matured after a period of 3 years and the remaining after a period of 5 years from the date of issuance. The bonds are listed on the Muscat Securities Market.

20 OTHER LIABILITIES

2009 USD'000	2010 USD'000		2010 RO'000	2009 RO'000
131,831	139,506	Negative fair value of derivatives (Note 38)	53,710	50,755
164,660	240,096	Acceptances	92,437	63,394
83,652	91,000	Accrued interest	35,035	32,206
9,101	10,197	Unearned discount and interest	3,926	3,504
6,938	8,743	Employee terminal benefits	3,366	2,671
1,353	1,504	Deferred tax liability	579	521
-	98,701	Finance lease liability (note 13)	38,000	-
240,821	260,771	Other liabilities and accrued expenses	100,397	92,716
<u>638,356</u>	<u>850,518</u>		<u>327,450</u>	<u>245,767</u>

The charge for the year and amounts paid in respect of employee terminal benefits were RO 515,004 (2009: RO 427,900) and RO 824,944 (2009: RO 191,072), respectively.

21 TAXATION

2009 USD'000	2010 USD'000		2010 RO'000	2009 RO'000
59,675	42,091	Current liability:	16,205	22,975
22,346	41,395	Current year	15,937	8,603
<u>82,021</u>	<u>83,486</u>	Prior years	<u>32,142</u>	<u>31,578</u>
59,675	42,091	Statement of comprehensive income	16,205	22,975
(22,626)	-	Current year	-	(8,711)
<u>37,049</u>	<u>42,091</u>	Deferred tax liability relating to temporary differences	<u>16,205</u>	<u>14,264</u>

- (a) The tax rate applicable to the Parent Company is 12% (2009: 12%). For the purpose of determining the tax expense for the year, the accounting profit has been adjusted for tax purposes. Adjustments for tax purpose include items relating to both income and expense. After giving effect to these adjustments, the average effective tax rate approximates to 13.76% (2009: 16.21%).

The difference between the applicable tax rate of 12% (2009 : 12%) and effective tax rate of 13.76% (2009: 16.21%) arises due to tax effect of income not considered to be taxable and expenses not considered to be deductible. The adjustments are based on the current understanding of the existing tax laws, regulations and practices.

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21 TAXATION (continued)

- (b) The reconciliation of taxation on the accounting profit before tax for the year at RO 117.8 million (2009: RO 87.982 million) after the basic exemption limit of RO 30,000 and the taxation charge in the financial statements is as follows:

	2010 RO'000	2009 RO'000
Tax charge at 12% on accounting profit before tax	14,136	10,558
Add/(less) tax effect of:		
Income not taxable	(166)	(107)
Expenses not deductible or deferred	2,084	2,300
Foreign taxes on foreign-sourced income	1	1,533
Tax relating to subsidiary	92	75
Others	58	(95)
Tax charge as per statement of comprehensive income	16,205	14,264

- (c) The deferred tax asset/liability has been recognised at the effective tax rate of 12%.

Deferred tax asset/(liability) in the statement of financial position and the deferred tax credit/(charge) in the statement of comprehensive income relate to the tax effect of provisions.

	1 January 2010 RO'000	Charged/ (Credited) to Statement of comprehensive income RO'000	31 December 2010 RO'000
Asset			
Tax effect of provisions	10,888	-	10,888
Liability			
Tax effect of accelerated tax depreciation	208	-	208
	11,096	-	11,096

	1 January 2009 RO'000	Charged/ (Credited) to Statement of comprehensive income RO'000	31 December 2009 RO'000
Asset			
Tax effect of provisions	2,717	8,171	10,888
Liability			
Undistributed profits of associates	(540)	540	-
Tax effect of accelerated tax depreciation	208	-	208
	2,385	8,711	11,096

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21 TAXATION (continued)

The tax (charge)/credit relating to components of other comprehensive income is as follows:

31 December 2010

	Before tax RO'000	Tax (charge)/ Credit RO'000	After Tax RO'000	Before tax RO'000	Tax (charge)/ Credit RO'000	After Tax RO'000
Loss on translation of net investments in associates	381	-	381	(1,040)	-	(1,040)
Loss on translation of net investments in associates reversed to profit and loss	-	-	-	9,627	-	9,627
Change in fair value of investments available for sale (note 9)	4,575	(58)	4,517	(63,932)	(521)	(64,453)
Other comprehensive income	<u>4,956</u>	<u>(58)</u>	<u>4,898</u>	<u>(55,345)</u>	<u>(521)</u>	<u>(55,866)</u>
Current tax	-	-	-	-	-	-
Deferred tax	-	(58)	-	-	(521)	-

From the year 2010, the Group started recognising deferred tax on other comprehensive income. During the year 2010, the Group has recognised a deferred tax liability of RO 58K (2009: RO 521K) relating to fair value changes of investments available for sale, which may be taxable in the future. The deferred tax liability is disclosed under other comprehensive income in the statement of consolidated comprehensive income.

31 December 2010

	Before tax USD'000	Tax (charge)/ Credit USD'000	After Tax USD'000	Before tax USD'000	Tax (charge)/ Credit USD'000	After Tax USD'000
Loss on translation of net investments in associates	990	-	990	(2,701)	-	(2,701)
Loss on translation of net investments in associates reversed to profit and loss	-	-	-	25,005	-	25,005
Change in fair value of investments available-for-sale (note 9)	11,883	(151)	11,732	(166,057)	(1,353)	(167,410)
Other comprehensive income	<u>12,873</u>	<u>(151)</u>	<u>12,722</u>	<u>(143,753)</u>	<u>(1,353)</u>	<u>(145,106)</u>
Current tax	-	-	-	-	-	-
Deferred tax	-	(151)	-	-	(1,353)	-

The Bank's tax assessments have been completed by the tax authorities up to tax year 2004.

In respect of the assessments of tax years 2000 and 2002, the tax department had made certain adjustments which were not acceptable to the Bank. The Bank has filed an appeal against certain adjustments made in the assessments. The appeals are pending with various appellate institutions.

The assessments of the former banks that have merged with the Bank are completed.

22 SUBORDINATED LIABILITIES

In accordance with the Central Bank of Oman's regulations, subordinated loans are included in the calculation of supplementary capital as defined by the Bank for International Settlements (BIS) for capital adequacy purposes. During the year the Bank obtained Tier II capital of RO Nil (2009: RO 75 million). The Parent Company has subordinated liabilities as follows:

2009 USD'000	2010 USD'000		2010 RO'000	2009 RO'000
389,610	376,623	Fixed rate Rial Omani subordinated loans	145,000	150,000
100,000	100,000	Floating rate USD subordinated loans	38,500	38,500
<u>489,610</u>	<u>476,623</u>		<u>183,500</u>	<u>188,500</u>

The maturity profile and interest rate of subordinated liabilities are disclosed in notes 42.3.2 and 42.4.4 respectively.

Notes to the Consolidated Financial Statements

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23 SHARE CAPITAL

Share capital

The authorised share capital of the Parent Company is 2,500,000,000 shares of RO 0.100 each (2009: 1,250,000,000 of RO 0.100 each). At 31 December 2010, 1,346,417,144 shares of RO 0.100 each (2009: 1,077,133,715 shares of RO 0.100 each) have been issued and fully paid. The Bank's shares are listed on Muscat Securities Market, Bahrain Stock Exchange and London Stock Exchange. The Bank has secondary listing on London Stock Exchange. The Listing in London Stock Exchange is through Global depository receipts issued by the Bank.

Significant shareholders

The following shareholders held 10% or more of the Parent Company's capital:

	2010		2009	
	No. of shares	% holding	No. of shares	% holding
Royal Court Affairs	334,422,151	24.84	267,537,721	24.84
Dubai Financial Group	201,962,500	15.00	161,570,000	15.00

24 LEGAL AND GENERAL RESERVES

(i) In accordance with the Omani Commercial Companies Law of 1974, the Parent Company is required to transfer 10% of its profit for the year to legal reserve until the accumulated balance of the reserve equals one-third of the Parent Company's paid up share capital. During the year RO 8,976K (2009: RO Nil) was transferred from profits to legal reserve. After this transfer the Parent Company's legal reserve are equal to one-third of the paid up share capital.

(ii) The general reserve is established to support the operations and the capital structure of the Group.

25 SUBORDINATED LOAN RESERVE

The subordinated loan reserve is created as per the guidelines given by the Bank for International Settlements and the Central Bank of Oman. During the year 2010, the Parent Company transferred RO 36.7 million (2009: 24.2 million) to subordinated loan reserve from retained earnings.

A subordinated loan of RO 5 million was repaid during the year 2010 (2009: RO Nil). On maturity, the reserve of RO 5 million related to this loan was thus transferred to General Reserve.

26 PROPOSED DIVIDENDS

For the year 2010, the Board of Directors have proposed a dividend of 40%, 25% in the form of cash and 15% in the form of bonus shares. Thus shareholders would receive cash dividend of RO 0.025 per ordinary share of RO 0.100 each aggregating to RO 33.66 million on the Group's existing share capital. In addition, they would receive bonus shares in the proportion of one share for every 6.666 ordinary shares aggregating to 201,962,571 shares of RO 0.100 each amounting to RO 20.196 million. The proposed cash dividend and issuance of bonus shares are subject to formal approval of the shareholders at the Annual General Meeting.

For 2009, a dividend of 45% comprising, 20% in the form of cash and 25% in the form of bonus shares was approved at the Annual General Meeting on 21 March 2010. Thus shareholders received cash dividend of RO 0.020 per ordinary share of RO 0.100 each aggregating to RO 21.543 million on the Parent company's existing share capital. In addition, they received bonus shares in the proportion of one share for every 4 ordinary shares aggregating to 269,283,429 shares of RO 0.100 each amounting to RO 26.93 million.

27 NET ASSETS PER SHARE

The calculation of net assets per share is based on net assets as at 31 December 2010 attributable to ordinary shareholders of RO 796.39 million (2009: RO 711.32 million) and on 1,346,417,144 ordinary shares (2009: 1,077,133,715 ordinary shares) being the number of shares outstanding as at 31 December 2010.



Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

28 CONTINGENT LIABILITIES AND COMMITMENTS

(a) Legal proceedings

There were a number of legal proceedings outstanding against the Parent Company at 31 December 2010. No provision has been made, as professional advice indicates that it is unlikely that any significant loss will arise.

(b) Credit related commitments

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

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

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

Irrevocable commitments to extend credit at the reporting date amounted to RO 289,440,000 (2009: RO 320,247,000).

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

2009 USD'000	2010 USD'000		2010 RO'000	2009 RO'000
686,990	844,914	Letters of credit	325,292	264,491
1,810,119	2,379,800	Guarantees	916,223	696,896
<u>2,497,109</u>	<u>3,224,714</u>		<u>1,241,515</u>	<u>961,387</u>

(c) Capital commitments

As of the reporting date, capital commitments were as follows:

2009 USD'000	2010 USD'000		2010 RO'000	2009 RO'000
3,873	5,507	Purchase of property and equipment	2,120	1,491

(d) As of the reporting date, the Group has not pledged any of its assets as security (2009 – no assets pledged).

(e) As of the reporting date, the amount payable on partly paid shares held by the Group was RO 12,165,435 (2009: RO 9,179,503).

28.1 Concentration of contingent liabilities and commitments

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

2009 USD'000	2010 USD'000		2010 RO'000	2009 RO'000
31,062	49,842	Agriculture and allied activities	19,189	11,959
505,314	746,052	Construction	287,230	194,546
7,283	5,168	Export trade	1,990	2,804
650,501	809,169	Financial institutions	311,530	250,443
241,997	169,964	Government	65,436	93,169
180,499	294,683	Import trade	113,453	69,492
150,696	128,966	Manufacturing	49,652	58,018
105,221	150,332	Mining and quarrying	57,878	40,510
36,883	50,709	Personal and housing loans	19,523	14,200
38,990	67,481	Real estate	25,980	15,011
295,262	338,590	Services	130,357	113,676
13,416	26,891	Transport	10,353	5,165
35,052	194,371	Utilities	74,833	13,495
80,553	71,044	Wholesale and retail trade	27,352	31,013
124,380	121,452	Others	46,759	47,886
<u>2,497,109</u>	<u>3,224,714</u>		<u>1,241,515</u>	<u>961,387</u>

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

29 INTEREST INCOME

2009 USD'000	2010 USD'000		2010 RO'000	2009 RO'000
663,296	675,847	Interest income on loans and advances	260,201	255,369
53,862	30,722	Interest income on bank placements	11,828	20,737
8,894	8,223	Interest income on investments	3,166	3,424
<u>726,052</u>	<u>714,792</u>		<u>275,195</u>	<u>279,530</u>

Effective annual rates on yielding assets are provided in note 42.4.4.

30 INTEREST EXPENSE

2009 USD'000	2010 USD'000		2010 RO'000	2009 RO'000
179,579	147,306	Interest expense on customers deposits	56,713	69,138
30,369	35,761	Interest expense on subordinated liabilities	13,768	11,692
14,145	20,953	Interest expense on certificates of deposits	8,067	5,446
36,855	14,899	Interest expense on bank borrowings	5,736	14,189
9,218	9,384	Interest expense on unsecured bonds	3,613	3,549
2,987	268	Interest expense on floating rate notes	103	1,150
<u>273,153</u>	<u>228,571</u>		<u>88,000</u>	<u>105,164</u>

Effective annual rates on interest bearing liabilities are provided in note 42.4.4

31 COMMISSION AND FEES INCOME (NET)

The commission and fee income shown in the statement of consolidated comprehensive income is net of commission and fees paid of RO 693,944 (2009: RO 727,617).

32 OTHER OPERATING INCOME

2009 USD'000	2010 USD'000		2010 RO'000	2009 RO'000
23,940	56,492	Foreign exchange	21,749	9,217
138,912	3,088	Profit on sale of non-trading investments	1,189	53,481
2,714	2,784	Dividend income	1,072	1,045
8,117	5,600	Other income	2,156	3,125
<u>173,683</u>	<u>67,964</u>		<u>26,166</u>	<u>66,868</u>

33 OTHER OPERATING EXPENSES

2009 USD'000	2010 USD'000		2010 RO'000	2009 RO'000
84,128	97,939	Employees' salaries	37,707	32,389
59,769	77,338	Administrative expenses	29,775	23,011
29,992	43,273	Other staff costs	16,660	11,547
16,855	19,351	Occupancy costs	7,450	6,489
3,722	4,125	Contribution to Social Insurance schemes	1,588	1,433
1,335	2,164	Employees' end-of-service benefits	833	514
311	353	Directors' remuneration (note 36)	136	120
<u>196,112</u>	<u>244,543</u>		<u>94,149</u>	<u>75,503</u>



Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

34 CASH AND CASH EQUIVALENTS

Cash and cash equivalents included in the statement of cash flows comprise the following amounts:

2009 USD'000	2010 USD'000		2010 RO'000	2009 RO'000
1,931,468	998,579	Placements with banks	384,453	743,615
1,569,717	1,880,215	Cash and balances with Central Banks	723,883	604,341
59,762	77,719	Treasury bills	29,922	23,009
(2,606,951)	(1,228,239)	Deposits from banks	(472,872)	(1,003,676)
<u>953,996</u>	<u>1,728,274</u>		<u>665,386</u>	<u>367,289</u>

35 EARNINGS PER SHARE

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

	2010	2009
Net profit attributable to ordinary shareholders for basic earnings per share (RO'000)	<u>101,595</u>	<u>73,718</u>
Weighted average number of shares outstanding during the year (in '000)	<u>1,346,417</u>	<u>1,077,134</u>
Basic earnings per share (RO)	<u>0.075</u>	<u>0.068</u>
Basic earnings per share (USD)	<u>0.195</u>	<u>0.178</u>

Diluted earnings per share is calculated by dividing the net profit attributable to ordinary shareholders for the period by the weighted average number of ordinary shares including dilutive potential ordinary shares issued on the conversion of convertible bonds.

	2010	2009
Net profit for the year (RO'000)	<u>101,595</u>	<u>73,718</u>
Interest on convertible bonds, net of taxation (RO'000)	<u>1,991</u>	<u>1,563</u>
	<u>103,586</u>	<u>75,281</u>
Weighted average number of shares in issue during the year ('000)	<u>1,388,405</u>	<u>1,126,095</u>
Diluted earnings per share (RO)	<u>0.075</u>	<u>0.067</u>
Diluted earnings per share (USD)	<u>0.195</u>	<u>0.174</u>

36 RELATED PARTY TRANSACTIONS

In the ordinary course of business, the Group conducts transactions with certain of its directors, shareholders, senior management and companies in which they have a significant interest. The terms of these transactions are approved by the Bank's Board and Management. As of the reporting date balances and transactions with directors and their related concerns during the year were as follows:

2009 USD'000	2010 USD'000		2010 RO'000	2009 RO'000
156,842	100,933	Loans and advances		
18,671	103,104	1 January	38,859	60,384
(74,580)	(4,603)	Disbursed during the year	39,695	7,188
<u>100,933</u>	<u>199,434</u>	Repaid during the year	(1,772)	(28,713)
		31 December	<u>76,782</u>	<u>38,859</u>
61,729	88,599	Current, deposit and other accounts		
41,487	73,249	1 January	34,110	23,766
(14,617)	(7,364)	Received during the year	28,201	15,972
-	(135)	Repaid during the year	(2,835)	(5,628)
<u>88,599</u>	<u>154,349</u>	Other decreases	(52)	-
		31 December	<u>59,424</u>	<u>34,110</u>
11,408	16,621	Customers' liabilities under documentary credits, guarantees and other liabilities	<u>6,399</u>	<u>4,392</u>

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36 RELATED PARTY TRANSACTIONS (continued)

At 31 December 2010 the placements and other receivable balances due from the associates amount to RO 46.95 million (2009: RO 85.5 million) and the deposits due to the associates amount to RO 12.69 million (2009 - RO 47.2 million). For the year ending 31 December 2010, the interest income received from and interest expense paid to the associates amount to RO 1.15 million and RO 6,000 respectively.

Loans, advances or receivables due from related parties or holders of 10% or more of the Bank shares, or their family members, less all provisions and write-offs, is further analysed as follows:

2009 USD'000	2010 USD'000		2010 RO'000	2009 RO'000
10,779	58,886	Royal Court Affairs	22,671	4,150
20,000	20,000	Dubai Financial Group	7,700	7,700
61,990	111,912	HE Sheikh Mustahil Ahmed Al Mashani and Group Companies	43,086	23,866
8,164	8,636	Others	3,325	3,143
<u>100,933</u>	<u>199,434</u>		<u>76,782</u>	<u>38,859</u>

The income and expenses in respect of related parties included in the financial statements are as follows:

2009 USD'000	2010 USD'000		2010 RO'000	2009 RO'000
2,459	2,745	Interest income	1,057	947
2,432	982	Interest expense	378	936
33	55	Commission and other income	21	13
311	353	Directors' remuneration (note 33)	136	120
208	166	Directors' sitting fees	64	80

Interest expense incurred on deposits:

Items of expense which were paid to related parties or holders of 10% or more of the Bank's shares, or their family members, during the year can be further analysed as follows:

2009 USD'000	2010 USD'000		2010 RO'000	2009 RO'000
312	36	Royal Court Affairs	14	120
2,044	930	HE Sheikh Mustahil Ahmed Al Mashani and Group Companies	358	787
76	16	Others	6	29
<u>2,432</u>	<u>982</u>		<u>378</u>	<u>936</u>

Key management compensation

2009 USD'000	2010 USD'000		2010 RO'000	2009 RO'000
5,288	6,857	Salaries and other short-term benefits	2,640	2,036
616	704	Post-employment benefits	271	237
<u>5,904</u>	<u>7,561</u>		<u>2,911</u>	<u>2,273</u>

Certain components of key management compensation are on accrual basis. Hence, the previous years amounts are revised considering the actual payment.



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37 FIDUCIARY ACTIVITIES

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

2009 USD'000	2010 USD'000		2010 RO'000	2009 RO'000
<u>717,681</u>	<u>963,153</u>	Funds under management	<u>370,814</u>	<u>276,307</u>

38 DERIVATIVES

In the ordinary course of business, the Group enters into various types of transactions that involve derivative financial instruments. A derivative financial instrument is a financial contract between two parties where payments are dependent upon movements in price in one or more underlying financial instrument, reference rate or index. These derivatives are stated at fair value. The fair value of a derivative is the equivalent of the unrealised gain or loss from marking to market the derivative using prevailing market rates or internal pricing models. Unrealised gains or losses are included in the statement of comprehensive income. The Group uses the following derivative financial instruments:

Derivative product types

Forwards and futures are contractual agreements to either buy or sell a specified currency, commodity or financial instrument at a specific price and date in the future. Forwards are customised contracts transacted in the over-the-counter market. Forward rate agreements are effectively tailor-made interest rate futures which fix a forward rate of interest on a notional loan, for an agreed period of time starting on a specified future date.

Interest rate swaps are contractual agreements between two parties to exchange interest differentials based on a specific notional amount. Counter parties generally exchange fixed and floating rate interest payments based on a notional value in a single currency.

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

Derivatives held or issued for hedging purposes

As part of its asset and liability management, the Group uses derivatives for hedging purposes in order to reduce its exposure to currency and interest rate risks. This is achieved by hedging specific financial instruments and forecasted transactions as well as strategic hedging against overall financial position exposures.

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

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

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

Notes to the Consolidated Financial Statements

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38 DERIVATIVES

31 December 2010

	Positive fair value RO'000 (Note 8)	Negative fair value RO'000 (Note 20)	Notional amount total RO'000	Notional amounts by term to maturity		
				Within 3 months RO'000	3 - 12 months RO'000	More than 1 year RO'000
Derivatives held for trading:						
Interest rate swaps	33,313	33,313	676,302	23,100	5,228	647,974
Interest rate cap	55	55	36,489	-	-	36,489
Cross currency swap	-	7,796	89,712	-	-	89,712
Forward rate agreement	7	-	19,250	-	19,250	-
Credit derivative swaps	32	-	26,950	19,250	-	7,700
Currency options – bought	405	-	110,533	68,543	41,990	-
Currency options – sold	-	405	110,533	68,543	41,990	-
Commodity derivatives bought	964	-	11,999	5,999	6,000	-
Commodity derivatives sold	-	964	11,999	5,999	6,000	-
Commodities purchase contracts	2,192	204	43,611	39,359	3,669	583
Commodities sale contracts	224	2,165	43,659	39,403	3,672	584
Forward purchase contracts	744	5,924	775,776	694,587	81,189	-
Forward sales contracts	1,922	2,884	775,726	694,215	81,511	-
Total	39,858	53,710	2,732,539	1,658,998	290,499	783,042
USD'000	103,527	139,506	7,097,504	4,309,086	754,543	2,033,875

31 December 2009

	Positive fair value RO'000 (Note 8)	Negative fair value RO'000 (Note 20)	Notional amount Total RO'000	Notional amounts by term to maturity		
				Within 3 months RO'000	3 - 12 months RO'000	More than 1 year RO'000
Derivatives held for trading:						
Interest rate swaps	29,117	29,117	817,567	2,884	63,005	751,678
Interest rate cap	187	187	39,663	-	-	39,663
Cross currency swap	389	5,083	110,849	-	-	110,849
Forward rate agreement	43	-	38,500	38,500	-	-
Credit derivative swaps	167	-	26,950	-	-	26,950
Currency options bought	-	-	74,728	43,447	31,281	-
Currency options sold	-	-	74,728	43,447	31,281	-
Commodities purchase	1,286	32	9,628	6,199	1,070	2,359
Commodities sales contracts	33	1,279	9,637	6,204	1,071	2,362
Forward purchase contracts	3,698	13,667	1,520,877	1,171,257	349,307	313
Forward sales contracts	3,590	1,390	1,520,857	1,170,546	349,998	313
Total	38,510	50,755	4,243,984	2,482,484	827,013	934,487
Total USD'000	100,026	131,831	11,023,336	6,448,011	2,148,086	2,427,239

The terms of the currency options entered on behalf of customers have been negotiated with the counter party banks to match the terms of commitments. The aggregate fair value of the respective rights and obligations in respect of the currency options at 31 December 2010 was not significant and has not been recorded in the financial statements (2009 – not significant and not recorded).

39 REPURCHASE AGREEMENTS

The Group did not have any repurchase transactions outstanding as of the reporting date (2009: RO nil).



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40 GEOGRAPHICAL DISTRIBUTION OF ASSETS AND LIABILITIES

The geographical distribution of assets and liabilities was as follows:

	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
31 December 2010						
Cash and balances with Central Banks	671,160	54,895	-	-	-	726,055
Placements with banks	11,701	150,017	106,496	44,208	237,927	550,349
Loans and advances	3,792,135	165,465	2,668	-	47,658	4,007,926
Investments	199,155	82,716	9,652	5,500	24,921	321,944
Property, equipment and other assets	240,651	4,203	-	-	-	244,854
Total assets	4,914,802	457,296	118,816	49,708	310,506	5,851,128
Deposits from banks	29,286	108,049	185,606	6	436,939	759,886
Customers' deposits and certificates of deposit	3,426,448	239,918	4,272	126	10,789	3,681,553
Unsecured bonds and floating rate notes	54,803	-	15,400	-	-	70,203
Other liabilities and taxation	356,532	2,552	508	-	-	359,592
Subordinated liabilities	145,000	-	-	38,500	-	183,500
Shareholders' funds	796,394	-	-	-	-	796,394
Total liabilities and equity	4,808,463	350,519	205,786	38,632	447,728	5,851,128

	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
31 December 2009						
Cash and balances with Central Banks	598,295	9,804	-	-	-	608,099
Placements with banks	61,523	480,493	203,657	32,937	237,081	1,015,691
Loans and advances	3,621,646	185,978	4,628	-	25,959	3,838,211
Investments	89,306	91,222	4,134	6,032	20,844	211,538
Property, equipment and other assets	173,067	4,130	-	-	-	177,197
Total assets	4,543,837	771,627	212,419	38,969	283,884	5,850,736
Deposits from banks	29,900	193,657	214,765	-	957,425	1,395,747
Customers' deposits and certificates of deposit	2,997,575	199,606	3,039	759	6,646	3,207,625
Unsecured bonds and floating rate notes	54,803	-	15,400	-	-	70,203
Other liabilities and taxation	275,271	2,074	-	-	-	277,345
Subordinated liabilities	150,000	-	-	38,500	-	188,500
Shareholders' funds	711,316	-	-	-	-	711,316
Total liabilities and equity	4,218,865	395,337	233,204	39,259	964,071	5,850,736

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

40 GEOGRAPHICAL DISTRIBUTION OF ASSETS AND LIABILITIES (continued)

	Sultanate of Oman USD'000	Other GCC countries USD'000	Europe USD'000	United States of America USD'000	Others USD'000	Total USD'000
31 December 2010						
Cash and balances with Central Banks	1,743,273	142,584	-	-	-	1,885,857
Placements with banks	30,392	389,655	276,613	114,826	617,992	1,429,478
Loans and advances	9,849,701	429,779	6,930	-	123,787	10,410,197
Investments	517,284	214,847	25,070	14,286	64,730	836,217
Property, equipment and other assets	625,068	10,917	-	-	-	635,985
Total assets	<u>12,765,718</u>	<u>1,187,782</u>	<u>308,613</u>	<u>129,112</u>	<u>806,509</u>	<u>15,197,734</u>
Deposits from banks	76,067	280,647	482,094	16	1,134,906	1,973,730
Customers' deposits and certificates of deposit	8,899,865	623,164	11,096	327	28,023	9,562,475
Unsecured bonds and floating rate notes	142,345	-	40,000	-	-	182,345
Other liabilities and taxation	926,056	6,629	1,319	-	-	934,004
Subordinated liabilities	376,623	-	-	100,000	-	476,623
Shareholders' funds	2,068,557	-	-	-	-	2,068,557
Total liabilities and equity	<u>12,489,513</u>	<u>910,440</u>	<u>534,509</u>	<u>100,343</u>	<u>1,162,929</u>	<u>15,197,734</u>

	Sultanate of Oman USD'000	Other GCC countries USD'000	Europe USD'000	United States of America USD'000	Others USD'000	Total USD'000
31 December 2009						
Cash and balances with Central Banks	1,554,013	25,465	-	-	-	1,579,478
Placements with banks	159,799	1,248,034	528,979	85,551	615,795	2,638,158
Loans and advances	9,406,873	483,060	12,021	-	67,425	9,969,379
Investments	231,963	236,940	10,738	15,668	54,140	549,449
Property, equipment and other assets	449,523	10,729	-	-	-	460,252
Total assets	<u>11,802,171</u>	<u>2,004,228</u>	<u>551,738</u>	<u>101,219</u>	<u>737,360</u>	<u>15,196,716</u>
Deposits from banks	77,663	503,005	557,831	-	2,486,818	3,625,317
Customers' deposits and certificates of deposit	7,785,908	518,457	7,894	1,971	17,262	8,331,492
Unsecured bonds and floating rate notes	142,345	-	40,000	-	-	182,345
Other liabilities and taxation	714,990	5,387	-	-	-	720,377
Subordinated liabilities	389,610	-	-	100,000	-	489,610
Shareholders' funds	1,847,575	-	-	-	-	1,847,575
Total liabilities and equity	<u>10,958,091</u>	<u>1,026,849</u>	<u>605,725</u>	<u>101,971</u>	<u>2,504,080</u>	<u>15,196,716</u>



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41 SEGMENTAL INFORMATION

Management has determined the operating segments based on the reports reviewed by the executive committee that are used to make strategic decisions. The committee considers the business from both a geographic and product perspective. Geographically, management considers the performance of whole bank in Oman and International markets. The Oman market is further segregated into corporate, consumer and wholesale, as all of these business lines are located in Oman.

Segment information in respect of geographical locations is as follows:

For the year ended 31 December 2010

Total USD'000	International USD'000	Oman USD'000		Oman RO'000	International RO'000	Total RO'000
714,792	14,867	699,925	Segment revenue			
(228,571)	(4,989)	(223,582)	Interest income	269,471	5,724	275,195
135,416	2,876	132,540	Interest expense	(86,079)	(1,921)	(88,000)
67,964	273	67,691	Commission and fees income (net)	51,028	1,107	52,135
689,601	13,027	676,574	Other operating income	26,061	105	26,166
			Operating income	260,481	5,015	265,496
			Segment costs			
(244,543)	(18,013)	(226,530)	Other operating expenses	(87,214)	(6,935)	(94,149)
(22,738)	(2,706)	(20,032)	Depreciation	(7,712)	(1,042)	(8,754)
(121,010)	(20,634)	(100,376)	Impairment for credit losses	(38,645)	(7,944)	(46,589)
35,449	467	34,982	Recoveries from provision for credit losses	13,468	180	13,648
(1,706)	-	(1,706)	Impairment for investments	(657)	-	(657)
356	-	356	Recoveries from impairment for investments	137	-	137
(5,455)	-	(5,455)	Impairment of placements	(2,100)	-	(2,100)
8,844	-	8,844	Recoveries from placements	3,405	-	3,405
(32,823)	(32,823)	-	Share of losses from associates	-	(12,637)	(12,637)
(42,091)	(242)	(41,849)	Tax expense	(16,112)	(93)	(16,205)
(425,717)	(73,951)	(351,766)	Total costs	(135,430)	(28,471)	(163,901)
263,884	(60,924)	324,808	Segment net profit/(loss) for the year	125,051	(23,456)	101,595
			Other information			
15,197,734	644,410	14,553,324	Segment assets and liabilities	5,603,030	248,098	5,851,128
148,875	3,187	145,688	Segment capital expenses	56,090	1,227	57,317

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41 SEGMENTAL INFORMATION (continued)

For the year ended 31 December 2009

Total USD'000	International USD'000	Oman USD'000		Oman RO'000	International RO'000	Total RO'000
			Segment revenue			
726,052	15,047	711,005	Interest income	273,737	5,793	279,530
(273,154)	(7,894)	(265,260)	Interest expense	(102,125)	(3,039)	(105,164)
129,379	2,683	126,696	Commission and fees income (net)	48,778	1,033	49,811
173,683	157,662	16,021	Other operating income	6,168	60,700	66,868
<u>755,960</u>	<u>167,498</u>	<u>588,462</u>	Operating income	<u>226,558</u>	<u>64,487</u>	<u>291,045</u>
			Segment costs			
(196,112)	(11,184)	(184,928)	Other operating expenses	(71,197)	(4,306)	(75,503)
(17,200)	(2,153)	(15,047)	Depreciation	(5,793)	(829)	(6,622)
(255,174)	(155,340)	(99,834)	Impairment for credit losses	(38,436)	(59,806)	(98,242)
27,504	-	27,504	Recoveries from provision for credit losses	10,589	-	10,589
(7,636)	-	(7,636)	Impairment for investments	(2,940)	-	(2,940)
1,104	-	1,104	Recoveries from impairment for investments	425	-	425
(52,766)	(52,766)	-	Impairment for associates	-	(20,315)	(20,315)
(27,156)	(27,156)	-	Share of losses from associates	-	(10,455)	(10,455)
(37,049)	(19,249)	(17,800)	Tax expense	(6,853)	(7,411)	(14,264)
<u>(564,485)</u>	<u>(267,848)</u>	<u>(296,637)</u>	Total costs	<u>(114,205)</u>	<u>(103,122)</u>	<u>(217,327)</u>
<u>191,476</u>	<u>(100,350)</u>	<u>291,826</u>	Segment net profit/(loss) for the year	<u>112,353</u>	<u>(38,635)</u>	<u>73,718</u>
			Other information			
15,196,716	774,434	14,422,282	Segment assets and liabilities	5,552,579	298,157	5,850,736
28,483	3,093	25,389	Segment capital expenses	9,775	1,191	10,966



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For the year ended 31 December 2010

41 SEGMENTAL INFORMATION (continued)

The Group reports the segment information by the following business segments corporate, consumer, wholesale and international. The following table shows the distribution of the Group's operating income, net profit and total assets by business segments:

31 December 2010

	Corporate banking RO'000	Consumer banking RO'000	Wholesale banking RO'000	International RO'000	Total RO'000
Net interest income	66,025	80,876	35,950	4,344	187,195
Commission, fees and other income (net)	13,451	33,770	29,928	1,152	78,301
Operating income	79,476	114,646	65,878	5,496	265,496
Segment costs					
Operating expense (including depreciation)	(17,656)	(63,532)	(10,743)	(10,972)	(102,903)
Impairment for credit losses (net)	(8,086)	(17,084)	-	(7,771)	(32,941)
Reversal of impairments for placements/investments (net)	-	-	785	-	785
Share of loss from associates (net)	-	-	-	(12,637)	(12,637)
Tax expenses	(6,024)	(3,814)	(6,274)	(93)	(16,205)
	(31,766)	(84,430)	(16,232)	(31,473)	(163,901)
Segment net profit/(loss) for the year	47,710	30,216	49,646	(25,977)	101,595
Segment assets	2,324,686	1,997,400	1,280,944	248,098	5,851,128
Operating income (USD'000)	206,432	297,782	171,112	14,275	689,601
Net profit (USD'000)	123,922	78,484	128,951	(67,473)	263,884
Segment assets (US '000)	6,038,144	5,188,052	3,327,128	644,410	15,197,734

31 December 2009

	Corporate banking RO'000	Consumer banking RO'000	Wholesale banking RO'000	International RO'000	Total RO'000
Net interest income	55,103	83,993	32,264	3,006	174,366
Commission, fees and other income (net)	12,880	31,427	10,375	61,997	116,679
Operating income	67,983	115,420	42,639	65,003	291,045
Segment costs					
Operating expense (including depreciation)	(14,106)	(51,420)	(9,708)	(6,891)	(82,125)
Impairment for credit losses (net)	(5,003)	(22,441)	(400)	(59,809)	(87,653)
Other impairments (net)	-	-	(2,515)	(20,315)	(22,830)
Share of profit/(loss) from associates	-	-	-	(10,455)	(10,455)
Tax expenses	(2,781)	(2,364)	(1,708)	(7,411)	(14,264)
	(21,890)	(76,225)	(14,331)	(104,881)	(217,327)
Segment net profit/(loss) for the year	46,093	39,195	28,308	(39,878)	73,718
Segment assets and liabilities	2,192,791	1,907,286	1,452,502	298,157	5,850,736
Operating income (USD'000)	176,579	299,792	110,751	168,839	755,961
Net profit (USD'000)	119,722	101,805	73,528	(103,579)	191,476
Segment assets (US'000)	5,695,561	4,953,991	3,772,730	774,434	15,196,716

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42 FINANCIAL RISK MANAGEMENT

42.1 Introduction and overview

Risk Management is the process by which the Group identifies key risks, obtains consistent, understandable risk measures and chooses which risks to reduce and which to increase and by what means and establishes procedures to monitor the resulting risk position. The objective of risk management is to ensure that the Group operates within the risk levels set by the Group's Board of Directors while the various business functions pursue their objective of maximizing the risk adjusted returns. The Group has exposure to the following core risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk
- Operational risk

Risk management is the overall responsibility of the Group's Board of Directors and is managed by the Board Risk Committee (BRC). The Board reviews and approves the risk management strategy of the Group and defines its risk appetite. The Board approved strategy is implemented at management level through management committees and executive management. For the purpose of day-to-day management of risks, the Group has created an independent Risk Management department. Risk Management department objectively reviews and ensures that the various functions of the Group operate in compliance with the risk parameters as set by the Board of Directors. Risk Management has a direct reporting line to the Board of Directors of the Group and for operational convenience a dotted line reporting to the Deputy Chief Executive independent of business lines.

The risk appetite of the Group in various business areas is defined and communicated through an enterprise-wide risk policy. The Group's risk policy, approved by its Board of Directors, analyses and sets risk limits for core risks – Credit risk, Liquidity risk, Market risk and Operational risk. The risk levels of each of these categories is measured and monitored on a continuous basis and compliance to prescribed risk levels reported to Board of Directors on a quarterly basis. It ensures prudent management of the risks assumed by the Group in its normal course of business. The risk policy is updated regularly, based on an analysis of the economic trends and the operating environment in the countries where the Group operates.

42.2 Credit risk

42.2.1 Management of credit risk

Credit risk is the potential loss resulting from the failure of a borrower or counter party to honour its financial or contractual obligations in accordance with the agreed terms. The function of credit risk management is to maximise the Group's risk-adjusted rate of return by maintaining credit risk exposure within acceptable parameters. Credit risk makes up the largest part of the Group's risk exposure. Credit Risk Management process of the Group begins with the risk policy, updated regularly, which clearly defines parameters for each type of risks assumed by the Group.

The Group has set for itself clear and well defined limits to address different dimensions of credit risk including concentration risk. Compliance with the various parameters set in the risk policy is reviewed on a quarterly basis and variances from the norms are reported to the Board of Directors and Management to enable remedial actions.

Risk limit control and mitigation policies

The Group addresses credit risk through the following process:

- All credit processes – Approval, disbursal, administration, classification, recoveries and write-offs – are governed by the Group's Credit manual which is reviewed by Risk Management. The credit policy stipulates clear guidelines for each of these functions and the lending authority at various levels as stipulated in appropriate 'Lending Authority Limits'.
- All Corporate lending proposals, where the proposed credit limit for a borrower or related group exceeds a threshold, are submitted for approval/renewal to the appropriate authority after an independent review by the Risk Management Department whose comments are incorporated into the proposal.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

42 FINANCIAL RISK MANAGEMENT (continued)

Risk limit control and mitigation policies (continued)

- All corporate lending accounts are reviewed at least once a year. The consumer-lending portfolio, including credit cards, is reviewed on a portfolio basis at least once a year.
- Concentration of exposure to counterparties, geographies and sector are governed and monitored according to regulatory norms and limits prescribed in the Group's risk policy.
- The corporate borrowers are risk rated to provide support for credit decisions. The portfolio is analyzed based on risk grades and risk grade migration to focus on management of prevalent credit risk.

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

- Mortgages over residential properties;
- Charges over business assets such as premises, inventory and accounts receivable;
- Charges over financial instruments such as debt securities and equities.

Longer term finance and lending to corporate entities are generally secured; revolving individual credit facilities are generally unsecured. In addition, in order to minimise the credit loss, the Group will seek additional collateral from the counterparty as soon as impairment indicators are noticed for the relevant individual loans and advances. Collateral held as security for financial assets other than loans and advances, is determined by the nature of the instrument. Debt securities, treasury and other eligible bills are generally unsecured.

All loans and advances of the Group are regularly monitored to ensure compliance with the stipulated repayment terms. Those loans and advances are classified into one of the five risk classification categories: Standard, Special Mention, Substandard, Doubtful, and Loss – as stipulated by Central Bank of Oman regulations and guidelines. The responsibility for identifying problem accounts and classifying them rests with business line function.

Notes to the Consolidated Financial Statements

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42 FINANCIAL RISK MANAGEMENT (continued)

42.2.2 Exposure to credit risk – Statement of financial position items

	Loans and advances to customers		Placements with banks		Investment securities	
	2010 RO'000	2009 RO'000	2010 RO'000	2009 RO'000	2010 RO'000	2009 RO'000
Individually impaired						
Sub-Standard	17,312	15,614	-	-	-	-
Doubtful	11,610	20,768	-	9,626	13,575	13,897
Loss	74,269	117,234	-	-	1,891	1,891
Gross amount	103,191	153,616	-	9,626	15,466	15,788
Allowance for impairment	(68,700)	(115,701)	-	(4,813)	(5,376)	(5,666)
Carrying amount	34,491	37,915	-	4,813	10,090	10,122
Collectively impaired						
Sub-Standard	13,960	15,339	-	-	-	-
Doubtful	19,266	19,152	-	-	-	-
Loss	39,469	22,679	-	-	-	-
Gross amount	72,695	57,170	-	-	-	-
Allowance for impairment	(54,704)	(41,900)	-	-	-	-
Carrying amount	17,991	15,270	-	-	-	-
Past due but not impaired						
Standard	227,494	111,908	-	-	-	-
Carrying amount	227,494	111,908	-	-	-	-
Past due but not impaired comprises:						
1-30 days	92,063	56,549	-	-	-	-
30-60 days	88,531	38,397	-	-	-	-
60-90 days	46,900	16,962	-	-	-	-
	227,494	111,908	-	-	-	-
Neither past due nor impaired						
Standard	3,472,668	3,499,226	552,849	1,010,878	256,937	134,244
Special mention	318,144	230,136	-	-	-	-
Gross amount	3,790,812	3,729,362	552,849	1,010,878	256,937	134,244
Allowance for impairment	(62,862)	(56,244)	(2,500)	-	-	-
Carrying amount	3,727,950	3,673,118	550,349	1,010,878	256,937	134,244
Total carrying amount	4,007,926	3,838,211	550,349	1,015,691	267,027	144,366
Carrying amount in USD'000	10,410,197	9,969,379	1,429,478	2,638,158	693,577	374,977
Total allowances for impairment	(186,266)	(213,845)	(2,500)	(4,813)	(5,376)	(5,666)
IN USD'000	(483,808)	(555,442)	(6,494)	(12,501)	(13,964)	(14,717)

Total impairment above includes impairment for off-balance sheet exposures as well.

Restructured and rescheduled loans during the year on standard portfolio amounted to RO 106 million (2009: RO 98 million) and on classified portfolio it amounted to RO 25 million (2009: RO 18 million).

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42 FINANCIAL RISK MANAGEMENT (continued)

42.2.2 Exposure to credit risk – Statement of financial position items (continued)

Maximum exposure to credit risk before collateral held or other credit enhancements for all on-balance sheet assets are based on net carrying amounts as reported in the statement of financial position.

The maximum credit risk exposures relating to off-balance sheet items calculated as per Basel II guidelines are as follows:

2009 USD'000	2010 USD'000		2010 RO'000	2009 RO'000
397,722	561,888	Financial guarantees	216,327	153,123
741,174	980,372	Other credit related liabilities	377,443	285,352
388,042	383,234	Loan commitments	147,545	149,396
<u>1,526,938</u>	<u>1,925,494</u>		<u>741,315</u>	<u>587,871</u>

The above table represents a worse case scenario of credit risk exposure as of 31 December 2009 and 2010, without taking into account of any collateral held or other credit enhancements attached.

Management is confident in its ability to continue to control and sustain minimal exposure of credit risk resulting from the Group's loan and advances portfolio based on the following:

- Regular review of the loans and advances portfolio to identify any potential risk;
- 93% of the loans and advances portfolio are considered to be neither past due nor impaired (2009: 92%);
- Of the RO 2,536 million (2009: RO 2,489 million) loans and advances assessed on an individual basis, less than 4.1% (2009: 6.2%) is impaired;
- Personal and housing loans represent 39.5% (2009: 39%) of total loans and advances which are backed by salary assignment and/or by collaterals;
- Well diversified loans and advances portfolio to avoid concentration risk in segment, sector, geographies and counterparty.

42.2.3 Impaired loans and securities

Impaired loans and securities are loans and securities for which the Group determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan and security agreements. Those loans are categorised either as Sub-standard, Doubtful or Loss in the internal credit risk system.

42.2.4 Past due but not impaired loans

Loans and securities where contractual interest or principal payments are past due but the Group believes that impairment is not appropriate on the basis of the stage of collection of amounts owed to the Group.

42.2.5 Allowances for impairment

The Group establishes an allowance for impairment losses that represents its estimate of incurred losses in its loan portfolio. The main components of this allowance are a specific loss component that relates to individually significant exposures. A collective loan loss allowance is established for groups of homogeneous assets in respect of losses that have been incurred but have not been identified on loans subject to individual assessment for impairment. The Group makes provision for bad and doubtful debts promptly when required in line with the conservative provisioning norms it has set for itself.

42.2.6 Write off policy

The Group writes off a loan or security and any related allowances for impairment when the Group determines that the loan or security is uncollectible. This determination is reached after considering factors such as the occurrence of significant changes in the borrower's financial position such that the borrower can no longer pay the obligation or that proceeds from collateral will not be sufficient to pay back the entire exposure or legal measures to recover the dues. For smaller balance standardised loans, charge off decisions generally based on a product specific past due status and borrower's capacity to repay the loan.

Notes to the Consolidated Financial Statements

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42 FINANCIAL RISK MANAGEMENT (continued)

42.2.6 Write off policy (continued)

Set out below is an analysis of the gross and net (of allowances for impairment) amounts of individually impaired assets by risk classification.

	Loans and Advances to customers		Placements with banks		Investment Securities	
	Gross RO'000	Net RO'000	Gross RO'000	Net RO'000	Gross RO'000	Net RO'000
2010						
Sub-Standard	17,312	12,686	-	-	-	-
Doubtful	11,610	5,474	-	-	13,575	10,090
Loss	74,269	16,331	-	-	1,891	-
Total amount	<u>103,191</u>	<u>34,491</u>	<u>-</u>	<u>-</u>	<u>15,466</u>	<u>10,090</u>
Total in USD'000	<u>268,029</u>	<u>89,587</u>	<u>-</u>	<u>-</u>	<u>40,171</u>	<u>26,208</u>
2009						
Sub-Standard	15,614	11,389	-	-	-	-
Doubtful	20,768	11,173	9,626	4,813	13,897	10,122
Loss	117,234	15,353	-	-	1,891	-
Total amount	<u>153,616</u>	<u>37,915</u>	<u>9,626</u>	<u>4,813</u>	<u>15,788</u>	<u>10,122</u>
Total in USD'000	<u>399,003</u>	<u>98,481</u>	<u>25,003</u>	<u>12,501</u>	<u>41,008</u>	<u>26,291</u>

The Group holds collateral against credit exposures to customers in the form of cash on deposits, bank guarantees, quoted securities, mortgage interest over property, other registered securities over assets and other guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing and are updated regularly.

42.2.7 Analysis of impairment and collaterals

(a) An estimate of the fair value of collateral and other security enhancements held against financial assets is shown below:

Loans and Advances			Loans and Advances	
2009	2010		2010	2009
USD'000	USD'000		RO'000	RO'000
		Against individually impaired		
134,797	96,891	Property	37,303	51,897
1,060	1,153	Equities	444	408
59,844	28,525	Others	10,982	23,040
<u>195,701</u>	<u>126,569</u>		<u>48,729</u>	<u>75,345</u>
		Against past due but not impaired		
39,353	100,203	Property	38,578	15,151
19,203	148,478	Equities	57,164	7,393
37,535	6,210	Others	2,391	14,451
<u>96,091</u>	<u>254,891</u>		<u>98,133</u>	<u>36,995</u>
		Against neither past due nor impaired		
1,181,390	1,283,374	Property	494,099	454,835
988,356	881,060	Equities	339,208	380,517
317,602	279,174	Others	107,482	122,277
<u>2,487,348</u>	<u>2,443,608</u>		<u>940,789</u>	<u>957,629</u>
<u>—2,779,140</u>	<u>—2,825,068</u>	Total	<u>—1,087,651</u>	<u>—1,069,969</u>



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42 FINANCIAL RISK MANAGEMENT (continued)

(b) Repossessed collateral

The Group obtains assets by taking possession of collateral held as security. The carrying value of collateral held for sale as at 31 December 2010 is as follows:

Nature of assets	Carrying amount	
	2010 RO'000	2009 RO'000
Residential/commercial property	1,195	1,195
USD'000	3,104	3,104

Reposessed properties are sold as soon as practicable, with the proceeds used to reduce the outstanding indebtedness. Reposessed property is classified in the statement of financial position within other assets.

42.2.8 Credit rating analysis

The table below presents an analysis of debt securities, treasury bills and other eligible bills by rating agency designation at 31 December 2010, based on Moody's ratings or their equivalent:

31 December 2010

	2010 RO'000	2009 RO'000
Banks rated:		
Aaa to Aa3	142,137	72,714
A1 to A3	6,044	5,324
Baa1 to Baa3	6,203	5,208
Banks unrated	4,016	3,144
	158,400	86,390
Equity	114,003	63,642
Total investment securities	272,403	150,032

The following table shows the gross placements held with counterparties at the reporting date:

	2010 RO'000	2009 RO'000
Banks rated:		
Aaa to Aa3	99,452	134,016
A1 to A3	69,275	278,979
Baa1 to Baa3	47,099	85,611
Ba1 to Ba3	201,904	247,487
B1 to B3	9	2,772
Banks unrated	135,110	266,826
Total	552,849	1,015,691

The Group performs an independent assessment based on quantitative and qualitative factors where in case a Bank is unrated.

42.2.9 Concentration of credit risk

Concentrations of credit risk arise when a number of counter parties are engaged in similar business activities or activities in the same geographic region or have similar economic features that would cause their ability to meet contractual obligations to be affected similarly by changes in economic, political or other conditions. Concentrations of credit risk indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographic location.

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

Concentration by location for loans and advances is measured based on the location of the Group holding the asset, which has a high co-relation with the location of the borrower. Concentration by location for investment securities is measured based on the location of the issuer of the security.

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42 FINANCIAL RISK MANAGEMENT (continued)

42.2.9 Concentration of credit risk (continued)

An analysis of concentrations of credit risk as the reporting date is shown below.

	Gross loans and advances to customers		Gross loans and advances to banks		Gross investment in securities	
Carrying amount	2010 RO'000	2009 RO'000	2010 RO'000	2009 RO'000	2010 RO'000	2009 RO'000
Concentration by Sector						
Corporate	2,327,837	2,330,291	-	-	127,092	75,748
Sovereign	36,443	17,973	-	-	138,955	70,267
Financial institution	172,102	140,613	552,849	1,020,504	6,356	4,017
Retail	1,657,810	1,563,179	-	-	-	-
Total	4,194,192	4,052,056	552,849	1,020,504	272,403	150,032
USD'000	10,894,005	10,524,821	1,435,971	2,650,660	707,540	389,694

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

2009 USD'000	2010 USD'000		2010 RO'000	2009 RO'000
		Corporate and other loans		
1,243,730	1,346,571	Services	518,430	478,836
906,865	841,234	Mining and quarrying	323,875	349,143
685,205	615,268	Manufacture	236,878	263,804
667,335	785,031	Real estate	302,237	256,924
593,008	459,582	Wholesale and retail trade	176,939	228,308
487,255	567,644	Import trade	218,543	187,593
365,229	447,018	Financial institutions	172,102	140,613
362,130	309,932	Utilities	119,324	139,420
292,340	430,735	Transport	165,833	112,551
256,060	237,909	Construction	91,595	98,583
46,683	94,657	Government	36,443	17,973
26,525	29,722	Agriculture and allied activities	11,443	10,212
4,885	5,221	Export trade	2,010	1,881
527,366	417,481	Others	160,730	203,036
6,464,616	6,588,005		2,536,382	2,488,877
4,060,205	4,306,000	Personal and Housing loans	1,657,810	1,563,179
10,524,821	10,894,005		4,194,192	4,052,056

The Group monitors concentrations of credit risk by sector and by geographic location.

An analysis of concentrations of credit risk by location at the reporting date is shown below.

	Gross loans and advances to customers		Gross loans and advances to banks		Investment securities	
	2010 RO'000	2009 RO'000	2010 RO'000	2009 RO'000	2010 RO'000	2009 RO'000
Concentration by location						
Sultanate of Oman	3,960,279	3,774,148	14,201	61,523	149,614	92,574
Other GCC countries	183,587	247,321	150,017	480,493	82,716	34,040
Europe	2,668	4,628	106,496	208,470	9,652	4,258
United States of America	-	-	44,208	32,937	5,500	6,469
Others	47,658	25,959	237,927	237,081	24,921	12,691
	4,194,192	4,052,056	552,849	1,020,504	272,403	150,032
USD'000	10,894,005	10,524,821	1,435,971	2,650,659	707,540	389,693

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For the year ended 31 December 2010

42 FINANCIAL RISK MANAGEMENT (continued)

42.2.10 Settlement risk

The Group's activities may give rise to risk at the time of settlement of transactions and trades. Settlement risk is the risk of loss due to the failure of counterparty to honour its obligation to deliver cash, securities or other assets as contractually agreed.

The Group mitigates settlement risk by conducting settlements through a settlement/clearing agent or having bilateral payment netting agreements. Settlement limits form part of the credit approval or limit monitoring process of the risk management system.

42.3 Liquidity risk

Liquidity risk is the potential inability of the Group to meet its maturing obligations to a counter party.

42.3.1 Management of liquidity risk

In order to ensure that the Group can meet its financial obligations as and when they fall due, there is close monitoring of the assets/liabilities position. Liquidity risk management ensures that the Group has the ability under varying scenarios to fund increase in assets and meet maturing obligations as they arise. Parent Company Asset – Liability Committee (ALCO) monitors its liquidity position. In addition, it is also responsible for funding strategy and foreign exchange risk review.

The Parent Company's treasury division is responsible for the day-to-day liquidity management under the guidance and supervision of Asset and Liability Management Committee (ALCO). Its risk policy stipulates broad guidelines in respect of liquidity risk management such as gap limits, minimum liquidity ratio and limit on illiquid assets.

The Group manages its liquidity to ensure payment obligations are met in time both under normal conditions as well as stressed conditions.

A diversified funding base has evolved to include deposits raised from interbank placements, certificates of deposits, customer deposits, bonds and medium term funds raised through floating rate notes and subordinated liabilities. These together with the strength of the Group's equity and asset quality ensure that funds are made available at competitive rates.

The sources and maturities of assets and liabilities are closely monitored to avoid any undue concentration and ensure a robust management of liquidity risks. The deposits source is widespread, has maintained a stable profile during the year and is within the limits prescribed by the risk policy to manage concentration of deposits. A substantial portion of the Group's deposits is made up of retail current, savings and fixed deposit accounts, which, though payable on demand or at short notice, have traditionally formed part of a stable deposit base and a key source of funds for the Group.

The Group undertakes structural profiling based on the actual behavioural patterns of customers to study the structural liquidity position and initiate measures to fund gaps. The structural profiling helps the Bank in understanding the behaviour pattern in the current and savings accounts where though the balances are payable on demand, they exhibit stable behaviour.

42.3.2 Exposure to liquidity risk

The key measure used by the Group for managing liquidity risk is the ratio of liquid assets to total deposits and liquid assets to total assets. For this purpose the liquid assets include cash and balances with Central Banks, government securities, treasury bills and placements with banks. The table below provides the ratio of liquid assets to deposits from customers and liquid assets to total assets at the reporting date and during the reporting period.

	Liquid assets to total assets ratio		Liquid assets to total deposits ratio	
	2010	2009	2010	2009
As at 31 December	24.22%	29.13%	31.41%	36.24%
Average for the period	30.41%	28.86%	38.41%	36.17%
Maximum for the period	31.92%	32.57%	41.30%	40.64%
Minimum for the period	24.22%	25.73%	31.41%	32.54%

The table below analyses the Group's non-derivative financial liabilities and net-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. Derivative financial liabilities are included in the analysis if their contractual maturities are essential for an understanding of the timing of the cash flows. The amounts disclosed in the table are the contractual undiscounted cash flows.

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For the year ended 31 December 2010

42 FINANCIAL RISK MANAGEMENT (continued)

42.3.2 Exposure to liquidity risk

The asset and liability maturity profile was as follows:

	On demand or within 3 months RO'000	4 months to 12 months RO'000	1 to 5 years RO'000	More than 5 years RO'000	Total RO'000
31 December 2010					
Assets					
Cash and balances with Central Banks	551,212	48,168	78,085	48,590	726,055
Placements with banks	384,453	93,316	32,651	39,929	550,349
Loans and advances	599,754	380,239	1,125,589	1,902,344	4,007,926
Investments	204,316	12,781	40,042	64,805	321,944
Property and equipment and other assets	87,297	70,901	13,583	73,073	244,854
Total assets	1,827,032	605,405	1,289,950	2,128,741	5,851,128
Liabilities and equity					
Deposits from banks	472,872	204,539	40,877	41,598	759,886
Customers' deposits and certificates of deposit	1,005,489	764,936	1,191,481	719,647	3,681,553
Unsecured bonds and floating rate notes	-	9,625	60,578	-	70,203
Other liabilities and taxation	119,456	135,585	40,798	63,753	359,592
Subordinated liabilities	-	-	108,500	75,000	183,500
Shareholders' funds	-	-	-	796,394	796,394
Total liabilities and equity	1,597,817	1,114,685	1,442,234	1,696,392	5,851,128
Assets off balance sheet					
Future interest cash flows	57,339	159,063	561,611	361,374	1,139,387
Liabilities off balance sheet					
Future interest cash flows	13,396	43,702	169,641	142,079	368,818
31 December 2009					
Assets					
Cash and balances with Central Banks	567,230	12,427	16,447	11,995	608,099
Placements with banks	743,615	208,574	32,261	31,241	1,015,691
Loans and advances	371,237	417,489	1,227,153	1,822,332	3,838,211
Investments	83,488	7,768	32,538	87,744	211,538
Property and equipment and other assets	77,931	69,419	633	29,214	177,197
Total assets	1,843,501	715,677	1,309,032	1,982,526	5,850,736
Liabilities and equity					
Deposits from banks	1,003,676	130,215	186,719	75,137	1,395,747
Customers' deposits and certificates of deposit	809,541	812,574	991,347	594,163	3,207,625
Unsecured bonds and floating rate notes	-	-	70,203	-	70,203
Other liabilities and taxation	72,038	133,824	34,636	36,847	277,345
Subordinated liabilities	-	5,000	108,500	75,000	188,500
Shareholders' funds	-	-	-	711,316	711,316
Total liabilities and equity	1,885,255	1,081,613	1,391,405	1,492,463	5,850,736
Assets off balance sheet					
Future interest cash flows	58,580	156,664	536,979	325,396	1,077,619
Liabilities off balance sheet					
Future interest cash flows	15,266	42,494	146,284	23,174	227,218



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For the year ended 31 December 2010

42 FINANCIAL RISK MANAGEMENT (continued)

42.3.2 Exposure to liquidity risk

31 December 2010

Assets

Cash and balances with Central Banks

Placements with banks

Loans and advances

Investments

Property and equipment and other assets

Total assets

Liabilities and equity

Deposits from banks

Customers' deposits and certificates of deposit

Unsecured bonds and floating rate notes

Other liabilities and taxation

Subordinated liabilities

Shareholders' funds

Total liabilities and equity

Assets off balance sheet

Future interest cash flows

Liabilities off balance sheet

Future interest cash flows

	On demand or within 3 months USD'000	4 months to 12 months USD'000	1 to 5 years USD'000	More than 5 years USD'000	Total USD'000
Cash and balances with Central Banks	1,431,720	125,112	202,818	126,207	1,885,857
Placements with banks	998,579	242,379	84,808	103,712	1,429,478
Loans and advances	1,557,803	987,634	2,923,608	4,941,152	10,410,197
Investments	530,691	33,197	104,005	168,324	836,217
Property and equipment and other assets	226,745	184,158	35,281	189,801	635,985
Total assets	4,745,538	1,572,480	3,350,520	5,529,196	15,197,734
Liabilities and equity					
Deposits from banks	1,228,239	531,270	106,174	108,047	1,973,730
Customers' deposits and certificates of deposit	2,611,660	1,986,847	3,094,756	1,869,212	9,562,475
Unsecured bonds and floating rate notes	-	25,000	157,345	-	182,345
Other liabilities and taxation	310,275	352,169	105,969	165,591	934,004
Subordinated liabilities	-	-	281,818	194,805	476,623
Shareholders' funds	-	-	-	2,068,557	2,068,557
Total liabilities and equity	4,150,174	2,895,286	3,746,062	4,406,212	15,197,734
Assets off balance sheet					
Future interest cash flows	148,932	413,151	1,458,730	938,634	2,959,447
Liabilities off balance sheet					
Future interest cash flows	34,795	113,512	440,626	369,036	957,969

31 December 2009

Assets

Cash and balances with Central Banks

Placements with banks

Loans and advances

Investments

Property and equipment and other assets

Total assets

Liabilities and equity

Deposits from banks

Customers' deposits and certificates of deposit

Unsecured bonds and floating rate notes

Other liabilities and taxation

Subordinated liabilities

Shareholders' funds

Total liabilities and equity

Assets off balance sheet

Future interest cash flows

Liabilities off balance sheet

Future interest cash flows

	On demand or within 3 months USD'000	4 months to 12 months USD'000	1 to 5 years USD'000	More than 5 years USD'000	Total USD'000
Cash and balances with Central Banks	1,473,325	32,278	42,719	31,156	1,579,478
Placements with banks	1,931,468	541,751	83,795	81,144	2,638,158
Loans and advances	964,252	1,084,387	3,187,410	4,733,330	9,969,379
Investments	216,852	20,177	84,514	227,906	549,449
Property and equipment and other assets	202,418	180,309	1,644	75,881	460,252
Total assets	4,788,315	1,858,902	3,400,082	5,149,417	15,196,716
Liabilities and equity					
Deposits from banks	2,606,951	338,221	484,984	195,161	3,625,317
Customers' deposits and certificates of deposit	2,102,703	2,110,582	2,574,927	1,543,280	8,331,492
Unsecured bonds and floating rate notes	-	-	182,345	-	182,345
Other liabilities and taxation	187,112	347,595	89,964	95,706	720,377
Subordinated liabilities	-	12,987	281,818	194,805	489,610
Shareholders' funds	-	-	-	1,847,575	1,847,575
Total liabilities and equity	4,896,766	2,809,385	3,614,038	3,876,527	15,196,716
Assets off balance sheet					
Future interest cash flows	152,156	406,919	1,394,751	845,184	2,799,010
Liabilities off balance sheet					
Future interest cash flows	39,652	110,374	379,958	60,192	590,176

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

42 FINANCIAL RISK MANAGEMENT (continued)

42.3.2 Exposure to liquidity risk (continued)

Interest cash flows shown in the above table represent inflows and outflows up to the contractual maturity of financial assets and liabilities. Mismatch in interest cash flows arise as contractual maturity of financial assets is longer than contractual maturity of financial liabilities. Historically, financial liabilities are rolled over on contractual maturity which is not considered in the future interest cash flow calculations. Furthermore, the interest cash flows do not factor in the stable nature of unambiguous maturity financial liabilities such as demand and savings accounts.

42.4 Market risk

Market risk is the risk of a change in the actual or effective market value and earnings of a portfolio due to the adverse movements in market variables. The market variables inter-alia include Equity prices, Bond price, Commodity price, Foreign Exchange rates, Interest Rates. The objective of Market risk management is to facilitate business growth operating at the optimal risk levels.

Market risk measurement techniques

Market risk measurement at the Group involves both statistical and non-statistical measures. As one single measure could not reflect various aspects of market risk, Group uses various methods to measure market risk. State of the art systems are used to measure Net interest income at risk, Economic value of equity at risk, Re-pricing risk. Non-statistical measures include net open position, market values, position concentration, stop-loss limits for investments price risk etc.

42.4.1 Management of market risks

The Group sets limits for each product and risk type in order to ensure that the Group's market risk is managed well within the overall regulatory requirements set by the Central Bank of Oman and internal regulations contained in the Risk Policy. The Group does not trade in commodities. Limits and all internal/external guidelines are strictly adhered to, deviations, if any, are immediately escalated and action taken wherever necessary.

The principal categories of market risk faced by BankMuscat are set out below:

- Foreign exchange risk
- Investment price risk
- Interest rate risk
- Commodity price risk

42.4.2 Foreign Exchange Risk

Foreign exchange risk is the risk of loss due to volatility in the exchange rates. Foreign exchange risk management in the Bank is ensured through regular measurement and monitoring of open foreign exchange positions against approved limits. Majority of the foreign exchange transactions carried out by the division are on behalf of corporate customers and are on a back-to-back basis. The treasury ensures that positions with customers are covered in the interbank market.

The Group conservatively restricts its open currency position at below 35% of its net worth as against the regulatory limit of 40% of net worth.



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For the year ended 31 December 2010

42 FINANCIAL RISK MANAGEMENT (continued)

42.4.2 Foreign Exchange Risk (continued)

It also stipulates that exposure on any single non parity currency should be restricted to the extent of 3% of Parent Company's net worth and restricted to the extent of 10% of the Parent Company's net worth for all non parity currencies taken together. As at the reporting date, the Group had the following net exposures denominated in foreign currencies:

2009 USD'000	2010 USD'000		2010 RO'000	2009 RO'000
188,371	173,509	UAE Dirhams	66,801	72,523
82,062	138,540	US Dollar	53,338	31,594
71,951	125,587	Saudi Riyal	48,351	27,701
76,338	15,179	Qatari Riyal	5,844	29,390
36,218	10,231	Pakistani Rupee	3,939	13,944
28,319	30,890	Indian Rupee	11,893	10,903
2,221	56,691	Kuwait Dinar	21,826	855
166,486	125,076	Bahraini Dinar	48,154	64,097
9,535	13,270	Others	5,109	3,671
<u>661,501</u>	<u>688,973</u>		<u>265,255</u>	<u>254,678</u>

Positions are monitored on a monthly basis to ensure positions are maintained within the limits approved by the Central Bank of Oman.

Exposure and sensitivity analysis:

The net exposure in foreign currencies includes foreign currency exposure on investment in overseas associates and branches of equivalent RO 110 million (2009: RO 113 million) which are exempted from regulatory limit on foreign exchange exposure.

The Group's significant portion of foreign exchange exposure is in USD and other GCC currencies which have fixed parity with Omani Rial.

The table below indicates the sensitivity analysis of foreign exchange exposure of the Group to changes in the non parity foreign currency prices as at 31 December 2010 with all other variables held constant:

Non parity foreign currency assets	At 31 December 2010		At 31 December 2009	
	% of change in the currency price (+/-)	Change in the fair value (+/-) RO'000	% of change in the currency price (+/-)	Change in the fair value (+/-) RO'000
Indian Rupee	10%	1,189	10%	1,090
Pakistani Rupee	10%	394	10%	1,394
Others	10%	511	10%	367

42.4.3 Investment Price Risk

Investment price risk is the risk of reduction in the market value of the Group's portfolio as a result of diminishment in the market value of individual investment. The responsibility for management of investment price risk rests with the Investment Banking division under the supervision and guidance from the Investment Committee of the Parent Company. The Group's investments are governed by an investment policy and risk policy approved by the Board of Directors and are subject to rigorous due diligence. All the investments are subject to a stop loss limits. If this limit is triggered then investments are disposed off immediately or exceptionally retained only with the approval of the Investment Committee based on due justification. The rating and price of the instruments are monitored on a regular basis and necessary actions are taken to reduce exposure if needed. The entire portfolio is regularly revalued at closing market price to ensure that unrealised losses, if any, on account of reduction in the market value of the investments over its cost remains within the acceptable parameters defined in the Group's investment policy.

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42 FINANCIAL RISK MANAGEMENT (continued)

Exposure and sensitivity analysis

The Group analyses price sensitivity of the equity portfolio as follows:

- a) For the local quoted equity portfolio, based on the beta factor of the portfolio performance to the MSM30 Index performance.
- b) For the international quoted equity portfolio, based on the individual security market price movement.

The Group's market risk is affected mainly by changes to the actual market price of financial assets. Actual performance of the Group's local equity portfolio has a correlation to the performance of MSM30 Index.

The beta of the Group's quoted local equity portfolio against the MSM30 Index for 2010 was 1.63. Thus, a +/- 5% change in the value of MSM30 index may result in 8.15% change in the value of Group's quoted local equity portfolio, amounting to RO 4.83 million increase or decrease in the unrealised gain recognised in the statement of other comprehensive income for the year.

Since the beta of the Group's quoted local equity portfolio against the MSM30 Index for 2009 was negative at 1.14, sensitivity analysis of investment portfolio to MSM Index was not relevant for the year 2009. However, a +/- 5% change in the market price of the respective securities held as at 31 December 2009 would have resulted in change in value of the portfolio of +/- RO 1.44 million and increased or decreased in the unrealised gain recognised in the statement of other comprehensive income for the year 2009.

International quoted equity portfolio of the Group comprises of shares listed in GCC stock markets, Indian Stock markets and other international markets. A +/-5% change in the market price of the respective securities, have resulted in change in value of the portfolio of +/- RO 1.3 million (2009: +/-RO 400,000) and consequently increased or decreased in the unrealised gain recognised in the statement of other comprehensive income.

42.4.4 Interest Rate Risk

Group's Interest Rate Risk arises from the re-pricing gap between the Group's interest sensitive assets and liabilities. Managing the market risk exposure of the banking book involves managing the potential adverse effects of rate movements on Net Interest Income (NII) and the Economic Value of Equity (EVE). The short-term impact of interest rate risk is measured by studying the impact on the NII of the Bank while the long-term impact is measured through the study of the impact on the Economic Value of Equity.

The responsibility for interest rate risk management rests with the Parent Company's Treasury under the supervision of the Asset Liability Management Committee (ALCO).



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For the year ended 31 December 2010

42 FINANCIAL RISK MANAGEMENT (continued)

42.4.4 Interest rate risk (continued)

The Group's interest rate sensitivity position of assets and liabilities, based on the contractual repricing or maturity dates, whichever dates are earlier, is as follows:

31 December 2010	Effective annual interest rate %	Floating rate or within 3 months RO'000	Months 4 to 12 RO'000	Years 1 to 5 RO'000	Over 5 years RO'000	Non interest sensitive RO'000	Total RO'000
Cash and balances with Central Banks	0 to 2	245,045	-	-	-	481,010	726,055
Placements with banks	0.85	430,562	76,408	1,694	39,929	1,756	550,349
Loans and advances	6.44	1,104,660	708,691	1,350,295	842,040	2,240	4,007,926
Investments	3.61	16,334	25,265	125,572	5,853	148,920	321,944
Property and equipment and other assets	None	-	-	-	-	244,854	244,854
Total assets		1,796,601	810,364	1,477,561	887,822	878,780	5,851,128
Deposits from banks	0.53	546,066	3,849	40,877	-	169,094	759,886
Customers' deposits and Certificates of deposit	1.98	631,318	1,755,365	492,311	208,219	594,340	3,681,553
Unsecured bonds and floating rate notes	5.3	15,400	-	54,803	-	-	70,203
Other liabilities and taxation	None	(12)	(35)	(223)	38,270	321,592	359,592
Subordinated liabilities	6.32	38,500	-	70,000	75,000	-	183,500
Shareholders' funds	None	-	-	-	-	796,394	796,394
Total Liabilities and Shareholders funds		1,231,272	1,759,179	657,768	321,489	1,881,420	5,851,128
Total interest rate sensitivity gap		565,329	(948,815)	819,793	566,333	(1,002,640)	-
Cumulative interest rate sensitivity gap		565,329	(383,486)	436,307	1,002,640	-	-
In USD'000		1,468,387	(996,068)	1,133,265	2,604,260	-	-

31 December 2009	Effective annual Interest rate %	Floating rate or within 3 months RO'000	Months 4 to 12 RO'000	Years 1 to 5 RO'000	Over 5 years RO'000	Non interest sensitive RO'000	Total RO'000
Cash and balances with Central Banks	0 to 2	475,000	45	-	-	133,054	608,099
Placements with banks	2.03	814,108	170,046	-	31,241	296	1,015,691
Loans and advances	6.64	1,148,218	627,946	1,326,227	735,820	-	3,838,211
Investments	0.42 to 4.02	39,616	4,184	61,418	931	105,389	211,538
Property and equipment and other assets	None	-	-	-	33,384	143,813	177,197
Total assets		2,476,942	802,221	1,387,645	801,376	382,552	5,850,736
Deposits from banks	1.70	1,162,754	105,190	44,269	75,137	8,397	1,395,747
Customers' deposits and certificates of deposit	2.4	505,175	1,639,847	396,094	181,222	485,287	3,207,625
Unsecured bonds and floating rate notes	6.2	15,400	-	54,803	-	-	70,203
Other liabilities and taxation	None	-	-	-	-	277,345	277,345
Subordinated liabilities	6.28	38,500	5,000	70,000	75,000	-	188,500
Shareholders' funds	None	-	-	-	-	711,316	711,316
Total liabilities and shareholders' funds		1,721,829	1,750,037	565,166	331,359	1,482,345	5,850,736
Total interest rate sensitivity gap		755,113	(947,816)	822,479	470,017	(1,099,793)	-
Cumulative interest rate sensitivity gap		755,113	(192,703)	629,776	1,099,793	-	-
In USD'000		1,961,332	(500,527)	1,635,782	2,856,605	-	-

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42 FINANCIAL RISK MANAGEMENT (continued)

42.4.4 Interest rate risk (continued)

- (i) The off-balance sheet gap represents the net notional amount of off-balance sheet financial instruments, including interest rate swaps which are used to manage interest rate risk.
- (ii) The repricing profile is based on the remaining period to the next interest repricing date.
- (iii) An asset (or positive) gap position exists when assets reprice more quickly or in greater proportion than liabilities during a given period and tends to benefit net interest income in a rising interest rate environment. A liability (or negative) gap position exists when liabilities reprice more quickly or in greater proportion than assets during a given period and tends to benefit net interest income in a declining interest rate environment.

Re-pricing gap is the difference between interest rate sensitive assets and liabilities spread over distinct maturity bands based on residual maturity or re-pricing dates. The Parent Company uses currency-wise and consolidated re-pricing gaps to quantify interest rate risk exposure over distinct maturities and analyze the magnitude of portfolio changes necessary to alter existing risk profile. The distribution of assets and liabilities over these time bands is done based on the actual repricing schedules. The schedules are used as a guideline to assess interest rate risk sensitivity and to focus the efforts towards reducing the mismatch in the repricing pattern of assets and liabilities.

The Parent Company uses simulation reports as an effective tool for understanding risk exposure under variety of interest rate scenarios. These reports help ALCO to understand the direction of interest rate risk in the Parent Company and decide on the appropriate strategy and hedging mechanism for managing it. The Parent Company's current on and off-balance sheet exposures are evaluated under static environment to quantify potential effect of external interest rate shocks on the earnings and Economic Value of Equity (EVE) at risk, using assumptions about future course of interest rates and changes in Parent Company's business profile. The impact of interest rate changes on EVE is monitored by recognising the changes in the value of assets and liabilities for a given change in the market interest rate. The maximum impact on the EVE for a 200 basis points shift in yield curve is to be contained to 20% of the Group's Capital and Reserves. The simulation report analyses seven possible different scenarios.

An analysis of the Group's sensitivity to an increase or decrease in market interest rates is as follows:

Impact on Net Interest income	+200 bps RO'000	-200 bps RO'000	+100 bps RO'000	-100 bps RO'000	+50 bps RO'000	-50 bps RO'000
2010						
As at 31 December	(5,402)	2,769	(3,848)	1,170	(3,071)	476
Average for the period	(1,991)	4,207	(2,054)	1,488	(2,086)	(63)
Maximum for the period	(5,402)	11,268	(3,848)	6,157	(3,071)	1,053
Minimum for the period	3,855	(853)	853	(1,540)	(648)	(1,259)
2009						
As at 31 December	(6,581)	11,619	(4,260)	6,341	(3,100)	1,436
Average for the period	(4,106)	5,746	(2,733)	2,857	(2,044)	867
Maximum for the period	(6,581)	11,619	(4,260)	6,341	(3,100)	2,711
Minimum for the period	(951)	1,602	183	922	744	190
Impact on Economic value						
2010						
As at 31 December	(105,799)	127,051	(55,116)	57,272	(28,365)	28,472
Average for the period	(91,323)	111,470	(47,595)	50,745	(24,527)	24,934
Maximum for the period	(105,799)	127,051	(55,116)	57,272	(28,365)	28,472
Minimum for the period	(83,519)	100,650	(43,273)	47,647	(22,029)	23,257
2009						
As at 31 December	(93,655)	116,574	(48,803)	50,599	(25,237)	24,998
Average for the period	(105,931)	125,252	(55,238)	57,796	(28,590)	28,482
Maximum for the period	(119,138)	136,134	(62,164)	65,498	(32,201)	32,172
Minimum for the period	(93,063)	116,574	(48,641)	50,599	(25,237)	24,998



Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

42 FINANCIAL RISK MANAGEMENT (continued)

42.4.4 Interest rate risk (continued)

Impact on Net Interest income	+200 bps USD'000	-200 bps USD'000	+100 bps USD'000	-100 bps USD'000	+50 bps USD'000	-50 bps USD'000
2010						
As at 31 December	(14,030)	7,193	(9,995)	3,040	(7,977)	1,235
Average for the period	(5,173)	10,927	(5,336)	3,864	(5,417)	(164)
Maximum for the period	(14,030)	29,268	(9,995)	15,992	(7,977)	2,735
Minimum for the period	10,012	(2,216)	2,216	(4,000)	(1,682)	(3,270)
2009						
As at 31 December	(17,093)	30,179	(11,066)	16,469	(8,052)	3,731
Average for the period	(10,664)	14,924	(7,098)	7,420	(5,309)	2,253
Maximum for the period	(17,093)	30,179	(11,066)	16,470	(8,052)	7,042
Minimum for the period	(2,470)	4,161	474	2,395	1,933	494
Impact on Economic value						
2010						
As at 31 December	(274,803)	330,004	(143,158)	148,759	(73,675)	73,954
Average for the period	(237,203)	289,532	(123,624)	131,806	(63,707)	64,763
Maximum for the period	(274,803)	330,004	(143,158)	148,759	(73,675)	73,954
Minimum for the period	(216,932)	261,428	(112,397)	123,758	(57,219)	60,409
2009						
As at 31 December	(243,260)	302,790	(126,761)	131,426	(65,551)	64,930
Average for the period	(275,146)	325,329	(143,475)	150,120	(74,260)	73,978
Maximum for the period	(309,450)	353,595	(161,465)	170,124	(83,639)	83,563
Minimum for the period	(241,723)	302,790	(126,339)	131,426	(65,551)	64,930

42.5 Commodity Price Risk

As part of its Treasury operations, the Group offers commodities hedging facility to its clients. Customers of the Bank who are exposed to commodities like Copper, Aluminium and also jewellers with exposure to gold prices cover their commodity exposures through Parent Company. The Group operates in the commodities market purely as a provider of hedging facilities. It does not trade in commodities/bullion or maintain positions in commodities. Customers of the Bank are sanctioned a transaction volume limit and a variation margin limit as risk management measures. The transaction volume limit is to restrict the total outstanding contracts value to the business requirement of the customer and the Variation margin limit is to protect the Group from excessive credit risk due to adverse price movement in the commodities prices. The customers' positions in commodities are monitored on a daily basis with frequent MTM valuations done independently and margin calls are made thereon based on such valuations.

42.6 Operational risks

Operational risk is the deficiencies in information systems/internal controls or uncontrollable external events will result in loss. The risk is associated with human error, systems failure and inadequate procedures or control and external causes.

Losses from external events such as a natural disaster that has a potential to damage the Group's physical assets or electrical or telecommunications 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 Group's specific products and business lines; they are more specific to the Group's operations than the risks due to external events. Operational risks faced by the Group include IT Security, telecom failure, fraud, and operational errors.

As a part of continuous improvement in the risk management process, the Group has developed its own Operational Risk Management Software, "FORTE" OpRisk Monitor". The Software aids assessment of operational risks as well as collection and analysis of operational losses.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

42 FINANCIAL RISK MANAGEMENT (continued)

42.6 Operational risks (continued)

The Group's risk policy provides the framework to identify, assess, monitor, control and report operational risks in a consistent and comprehensive manner across the Group. A distinct Operational Risk Management function is in place since 2003 to independently support business units in the management of operational risks. The objectives of Operational Risk Management are as follows:

- To achieve strong risk control by harnessing the latest risk management technologies and techniques, resulting in a distinctive risk management capability, enabling business units to meet their performance and growth objectives.
- To enable adequate capital allocation in respect of potential impact of operational risks.
- To minimize the impact of operational risks through means like a fully functional Business Continuity Plans, up-to-date documentation and by developing general operational risk awareness within the Group.

Executive management defines the operational risk appetite at the business unit and Group's level. This operational risk appetite supports effective decision making and is central to embedding risk management in business decisions and reporting. Business units have the primary responsibility for identifying, measuring and managing the operational risks that are inherent in their respective operations. Operational risk is controlled through a series of strong internal controls and audits, well-defined segregation of duties and reporting lines, detailed operational manuals and standards. The Operational Risk Unit oversees the range of operational risk across the Group in accordance with the Operational Risk Management Framework. Internal Audit independently reviews effectiveness of the Group's internal control and its ability to minimize the impact of operational risks.

Insurance is used as a tool to hedge against operational risks at the Group. The Group has obtained insurance against operational risks which comes in a variety of forms, such as Bankers' Blanket Bond, Electronic and Computer Crimes, Professional Indemnity, etc. While insurance cannot alter the probability of risks, it allows partial transfer of the financial impact of risks. The insurance is primarily aimed at protecting the Group from high-severity low-frequency risks.

Business Continuity Planning (BCP)

The Group ensures that its systems and procedures are resilient to ensure business continuity through potential situations of failure. The Group has put in place contingency plans to ensure that its business runs effectively in the event of most unforeseen disasters. The Group continuously strengthens its existing plans by implementing a robust business continuity plan to ensure that its systems and procedures are resilient and ready to meet 'emergency preparedness'. The BCP committee is entrusted with the responsibility of formulating, adopting, implementing, testing and maintaining a robust BCP for the Group. BCP Committee continuously review and agree the strategic Business Continuity assessment and planning information to ensure Business Continuity Management, planning and maintenance responsibilities are assigned and understood across the business areas.

The Bank has made significant strides in enhancing its business continuity framework. The existing Business Continuity Management (BCM) was reviewed in view of relocating of operations to the new Parent Company's Head Office and to bring the Group's recovery capabilities in line with the current requirements.

Some of the major developments in line with the objective of the continuous evolution of the Group's BCM framework were:

- Fresh Business Impact Analysis (BIA) conducted, new BCM policy, revised Crisis Management Structure, Crisis Management Plan and gap analysis were established;
- State-of-the-art BCP software was implemented and trainings conducted;
- Training and awareness sessions and workshops were conducted for Crisis Management Team and regions;
- Conduct of Fire evacuation drill; and
- Disaster Recovery Strategy (DRS) solution tested successfully at low load levels. IT department has taken initiatives and is confident that the Group can operate successfully out of DRS for core banking system in case of a major disaster.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

42 FINANCIAL RISK MANAGEMENT (continued)

42.7 Capital management

42.7.1 Regulatory capital

The Parent Company's regulator, Central Bank of Oman (CBO), sets and monitors capital requirements for the Parent Company as a whole. In implementing Basel II's capital requirement, the CBO requires the Parent Company to maintain a minimum of 12% ratio of total capital to total risk-weighted assets.

The Bank's regulatory capital is analysed into three tiers:

- Tier I capital, which includes ordinary share capital, share premium, distributable and non-distributable reserves and retained earnings (net of proposed dividend) after deductions for goodwill and 50 per cent of carrying value of investment in associates as per the regulatory adjustments that are included in equity but are treated differently for capital adequacy purposes;
- Tier II capital, which includes qualifying subordinated liabilities, collective impairment allowances and the element of the fair value reserve relating to unrealised gains on equity instruments classified as available-for-sale after deductions for 50 per cent of carrying value of investments in associates;
- Tier III capital which includes qualifying subordinated liabilities (net of reserves).

Various limits are applied to elements of the capital base. The qualifying Tier II and Tier III capital cannot exceed Tier I capital; qualifying subordinated liabilities may not exceed 50 per cent of Tier I capital; and amount of collective impairment allowances that may be included as part of Tier II capital is limited to 1.25 per cent of the total risk-weighted assets.

42.7.2 Capital Adequacy

Capital adequacy indicates the ability of the Group in meeting any contingency without compromising the interest of the depositors and to provide credit across the business cycles. Sufficient capital in relation to the risk profile of the Group's assets helps promote financial stability and the confidence of the stakeholders. The Group aims to maximise the shareholder's value through an optimal capital structure that protects the stakeholders interests under most extreme stress situations, provides sufficient room for growth while meeting the regulatory requirements and at the same time gives a reasonable return to the shareholders.

While risk coverage is the prime factor influencing capital retention, the Group is conscious of the fact that as a business entity, its capital needs to be serviced and a comfortable rate of return needs to be provided to the shareholders. Excessive capital will dilute the return on capital and this in turn can exert pressure for profitability propelling business asset growth resulting in the Group assuming higher levels of risk. With regard to the retention of capital, the Group's policy is governed by the need for adequately providing for associated risk and the needs for servicing the capital retained. The Group makes good use of subordinated loans as Tier II Capital and raises share capital as and when the need arises. The Group's strong and diverse shareholder profile gives the Group the necessary confidence in its ability to raise capital when it is needed.

Management of the Group is well aware of the need to move to more advanced approaches for measuring credit risk and operational risk. In this regard the Group has a 'building block' approach and has made progress in certain areas. Gaps have been identified and road map has been laid down for each area and progress measured at regular intervals.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

42 FINANCIAL RISK MANAGEMENT (continued)

42.7.2 Capital Adequacy (continued)

The following table sets out the capital adequacy position of the Group.

2009 USD'000	2010 USD'000		2010 RO'000	2009 RO'000
279,774	349,717	Share Capital	134,641	107,713
783,130	783,129	Share Premium	301,505	301,505
93,260	116,574	Legal reserve	44,881	35,905
146,255	159,242	General reserve	61,308	56,308
125,714	208,052	Subordinated loan reserve	80,100	48,400
258,494	246,558	Retained Profit *	94,925	99,520
<u>1,686,627</u>	<u>1,863,272</u>	Total	<u>717,360</u>	<u>649,351</u>
		Less:		
(6,023)	(6,255)	Goodwill	(2,408)	(2,319)
(28,821)	(28,821)	Deferred tax assets	(11,096)	(11,096)
(2,296)	(1,309)	Foreign currency translation reserve	(504)	(884)
-	(4,925)	Non strategic investment in banks (50%)	(1,896)	-
(84,226)	(68,195)	Investment in associates (50%)	(26,255)	(32,427)
<u>1,565,261</u>	<u>1,753,767</u>	Tier I Capital	<u>675,201</u>	<u>602,625</u>
4,990	7,862	Cumulative change in fair value (45%)	3,027	1,921
139,156	145,727	General loan loss impairment	56,105	53,575
363,896	268,572	Subordinated liabilities (net of reserves)	103,400	140,100
83,933	83,933	Mandatory convertible bonds	32,314	32,314
<u>591,975</u>	<u>506,094</u>	Total	<u>194,846</u>	<u>227,910</u>
		Less:		
-	(4,925)	Non strategic investment in banks (50%)	(1,896)	-
(84,226)	(68,195)	Investment in associates (50%)	(26,255)	(32,427)
<u>507,749</u>	<u>432,974</u>	Tier II Capital	<u>166,695</u>	<u>195,483</u>
<u>-</u>	<u>-</u>	Tier III Capital (Net of Reserve)	<u>-</u>	<u>-</u>
<u>2,073,010</u>	<u>2,186,741</u>	Total Regulatory Capital	<u>841,896</u>	<u>798,108</u>
		Risk weighted assets		
12,429,883	12,993,013	Credit risk	5,002,310	4,785,505
551,413	623,112	Market risk	239,898	212,294
1,028,605	1,179,252	Operational risk	454,012	396,013
<u>14,009,901</u>	<u>14,795,377</u>	Total risk weighted assets	<u>5,696,220</u>	<u>5,393,812</u>
		Capital Ratios		
14.80%	14.78%	Total regulatory capital expressed as a % of total risk weighted assets	14.78%	14.80%
11.17%	11.85%	Total Tier I capital expressed as a % of total risk weighted assets	11.85%	11.17%

* Retained profit excludes proposed cash dividend of RO 33.66 million for the year 2010 (2009: RO 21.54 million) in line with the local regulatory disclosure requirement. Proposed cash dividend for the year 2010 is subject to approval by the shareholders in Annual General Meeting scheduled on 21 March 2011.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

42 FINANCIAL RISK MANAGEMENT (continued)

42.7.3 Internal Capital Adequacy Assessment Process (ICAAP):

The Parent Company prepared an Internal Capital Adequacy Assessment Process (ICAAP) which provides an assessment of the Bank's actual capital adequacy on an advanced Economic Capital measure. ICAAP incorporates the impact of residual risk including business risk, concentration risk, correlation risk, Interest rate risk on banking book. The purpose of the ICAAP is not only to provide a detailed assessment of its current capital adequacy, but also to project future capital adequacy ratios in line with approved business plans in order to evaluate their validity from a risk perspective. The process covers a forward looking plan for the next 5 years. The overall framework has introduced a structured methodology for a comprehensive forward-looking assessment of the Bank's risk profile. It is also expected that the establishment of the ICAAP will facilitate the awareness for risk sensitive topics when it comes to strategic decisions like acquisitions, launch of new products or organic growth targets. It will scrutinise the current business model of the Bank and may lead to corresponding adjustments if the inherent risk goes beyond its risk appetite. ICAAP was approved by the Board of Directors through Board Risk Committee and the same has been submitted to the regulators. The Bank believes that its current and foreseen capital endowment is suitable to support its business strategy in a soothing market environment. The present plan will be updated at least annually for a rolling, forward-looking planning period of 5 years.

In order to determine the Bank's capability to withstand adverse conditions, in addition to the base case, a stress scenario has also been examined. This scenario assumes a prolonged recession and specifically incorporates a deterioration of credit quality, increased IRRBB and Market Risk as well as a decrease in retained profits.

42.7.4 Capital allocation

The allocation of capital between specific business units and activities is, to large extent, driven by optimisation of the return on capital allocated. Although maximisation of the return on risk-adjusted capital is the principal basis used in determining how capital is allocated within the Group to particular business units or activities, it is not the sole basis used for decision making. Other factors such as synergies between the units or activities, the availability of management and other resources, and the fit of the activity with the Group's longer term strategic objectives are taken in to account while allocating capital.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

43 FAIR VALUE INFORMATION

Based on the valuation methodology outlined below, the fair values of all on and off-balance sheet financial instruments at 31 December 2010 are considered by the Board and Management not to be materially different to their book values:

31 December 2010	Notes	Loans and advances RO'000	Available-for-sale RO'000	Held-to-maturity RO'000	Other amortised cost RO'000	Total carrying value RO'000	Fair value RO'000
Cash and balances with Central Bank	5	726,055	-	-	-	726,055	726,055
Placements with banks	6	550,349	-	-	-	550,349	550,349
Loans and advances	7	4,007,926	-	-	-	4,007,926	4,007,926
Investment securities	9	-	237,105	29,922	-	267,027	267,027
		<u>5,284,330</u>	<u>237,105</u>	<u>29,922</u>	<u>-</u>	<u>5,551,357</u>	<u>5,551,357</u>
Deposits from banks	12	-	-	-	759,886	759,886	759,886
Customers' deposits	13	-	-	-	3,526,953	3,526,953	3,526,953
Certificates of deposit	14	-	-	-	154,600	154,600	154,600
Unsecured bonds	15	-	-	-	54,803	54,803	54,803
Floating rate notes	16	-	-	-	15,400	15,400	15,400
Subordinated liabilities	19	-	-	-	183,500	183,500	183,500
		<u>-</u>	<u>-</u>	<u>-</u>	<u>4,695,142</u>	<u>4,695,142</u>	<u>4,695,142</u>
31 December 2009							
Cash and balances with Central Bank	5	608,099	-	-	-	608,099	608,099
Placements with banks	6	1,015,691	-	-	-	1,015,691	1,015,691
Loans and advances	7	3,838,211	-	-	-	3,838,211	3,838,211
Investment securities	9	-	120,055	24,311	-	144,366	144,366
		<u>5,462,001</u>	<u>120,055</u>	<u>24,311</u>	<u>-</u>	<u>5,606,367</u>	<u>5,606,367</u>
Deposits from banks	12	-	-	-	1,395,747	1,395,747	1,395,747
Customers' deposits	13	-	-	-	3,068,425	3,068,425	3,068,425
Certificates of deposit	14	-	-	-	139,200	139,200	139,200
Unsecured bonds	15	-	-	-	54,803	54,803	54,803
Floating rate notes	16	-	-	-	15,400	15,400	15,400
Subordinated liability	19	-	-	-	188,500	188,500	188,500
		<u>-</u>	<u>-</u>	<u>-</u>	<u>4,862,075</u>	<u>4,862,075</u>	<u>4,862,075</u>

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

43 FAIR VALUE INFORMATION (continued)

Effective 1 January 2010, the Group adopted the amendment to IFRS 7 for financial instruments that are measured in the statement of financial position at fair value; this requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2– Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).

Level 3 – Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

The following table presents the Group's assets and liabilities that are measured at fair value at 31 December 2010.

2010	Level 1 RO'000	Level 2 RO'000	Level 3 RO'000	Total RO'000
Assets				
Trading derivatives	39,858	-	-	39,858
Available-for-sale financial assets:				
Equity securities	71,956	-	21,714	93,670
Debt investments	140,954	-	2,481	143,435
Total	252,768	-	24,195	276,963
Liabilities				
Trading derivatives	53,710	-	-	53,710
2009				
Assets				
Trading derivatives	38,510	-	-	38,510
Available-for-sale financial assets:				
Equity securities	34,205	-	16,339	50,544
Debt investments	64,609	-	4,902	69,511
Total	137,324	-	21,241	158,565
Liabilities				
Trading derivatives	50,755	-	-	50,755

43.1 Estimation of fair values

The following summarises the major methods and assumptions used in estimating the fair values of assets and liabilities.

43.1.1 Loans and advances

Fair value is calculated based on discounted expected future principal and interest cash flows. Loan repayments are assumed to occur at contractual repayment dates, where applicable. For loans that do not have fixed repayment dates or that are subject to prepayment risk, repayments are estimated based on experience in previous periods when interest rates were at levels similar to current levels, adjusted for any differences in interest rate outlook. Expected future cash flows are estimated considering credit risk and any indication of impairment. Expected future cash flows for homogeneous categories of loans are estimated on a portfolio basis and discounted at current rates offered for similar loans to new borrowers with similar credit profiles. The estimated fair values of loans reflect changes in credit status since the loans were made and changes in interest rates in the case of fixed rate loans.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

43 FAIR VALUE INFORMATION (continued)

43.1.2 Investments carried at cost and derivatives

Fair value is based on quoted market prices at the reporting date without any deduction for transaction costs. If a quoted market price is not available, fair value is estimated based on discounted cash flow and other valuation techniques.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market related rate for a similar instrument at the reporting date.

43.1.3 Bank and customer deposits

For demand deposits and deposits with no defined maturities, fair value is taken to be the amount payable on demand at the reporting date. The estimated fair value of fixed-maturity deposits, including certificates of deposit, is based on discounted cash flows using rates currently offered for deposits of similar remaining maturities. The value of long-term relationships with depositors is not taken into account in estimating fair values.

43.1.4 Other on-balance sheet financial instruments

The fair values of all on-balance sheet financial instruments are considered to approximate their book values.

43.1.5 Off-balance sheet financial instruments

No fair value adjustment is made with respect to credit-related off-balance sheet financial instruments, which include commitments to extend credit, standby letters of credit and guarantees, as the related future income streams materially reflect contractual fees and commissions actually charged at the reporting date for agreements of similar credit standing and maturity.

Foreign exchange contracts are valued based on market prices. The market value adjustments in respect of foreign exchange contracts are included in the book values of other assets and other liabilities.

44 COMPARATIVE FIGURES

The corresponding figures for 2009 included for comparative purposes have been reclassified to conform with the presentation in the current year.

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Branch Network

Name of Branch	Telephone	Fax	Address
CAPITAL NORTH			
Al Khoudh	24538917	24538842	PO Box 310, PC 121, Seeb
A'Seeb	24421989	24421486	PO Box 1684, PC 111, Muscat Airport
Burj A'Sahwa	24510167	24510187	PO Box 1684, PC 111, Muscat Airport
Sultan Qaboos University	24413172	24413171	PO Box 6, PC 123, Al Khoudh
Maabela	24452729	24452794	PO Box 284, PC 122, Maabela
Markaz Al Bahja	24535063	24537327	PO Box 233, PC 132, Al Khoudh
Rusayl	24446313	24446739	PO Box 187, PC 124, Rusayl
RGO	24422967	24422455	PO Box 807, PC 132, Al Khoudh
Maabela (South)	24456993	24456009	PO Box 210, PC 122, South Maabela
Mawaleh	24538756	24539189	PO Box 134, PC 112, Ruwi
City Centre Branch	24558153	24558965	PO Box 134, PC 112, Ruwi
KOM	24153021	24153023	PO Box 134, PC 112, Ruwi
Maabela Industrial	24451404	24452505	PO Box 284, PC 122, Maabela
H.O. Branch	24767463	24767060	PO Box 134, PC 112, Ruwi
CENTRAL CAPITAL			
Madinat Al Sultan Qaboos	24605468	24600829	PO Box 134, PC 112, Ruwi
Al Qurum	24562837	24562850	PO Box 303, PC 118, A H Complex
Al Khuwair	24479362	24489038	PO Box 908, PC 133, Al Khuwair
Ghala	24595913	24595914	PO Box 418, PC 130, Azaiba
Mina Al Fahal	24571806	24571809	PO Box 319, PC 116, Mina Al Fahal
Shaati Al Qurum	24604153	24605107	PO Box 108, PC 134, Shaati Al Qurum
Al Sarooj Commercial Complex	24699109	24698039	PO Box 134, PC 112, Ruwi
Muscat Intercon Hotel	24601784	24603838	PO Box 134, PC 112, Ruwi
Al Khuwair (Ministry)	24602488	24604626	PO Box 93, PC 115, MSQ
Al Ghubrah	24496827	24490419	PO Box 329, PC 130, Azaiba
Royal Hospital	24596809	24590106	PO Box 758, PC 130, Azaiba
Al Khuwair-33	24487204	24487182	PO Box 856, PC 133, Al Khuwair
Ghala Industrial Area	24595013	24595016	PO Box 134, PC 112, Ruwi
Athaiba	24498533	24492588	PO Box 134, PC 112, Ruwi
Bausher	24591688	24592688	PO Box 134, PC 112, Ruwi
Azaiba Roundabout	24527040	24527030	PO Box 134, PC 112, Ruwi

SOUTH CAPITAL

MBD	24768416	24782330	PO Box 550, PC 112, Ruwi
Wadi Al Kabir	24816747	24814536	PO Box 134, PC 112, Ruwi
Ruwi	24701769	24796488	PO Box 3326, PC 112, Ruwi
Muscat	24736565	24736187	PO Box 109, PC 113, Muscat
Hattat House	24564861	24564860	PO Box 1077, PC 112, Ruwi
Jibroo	24711353	24713239	PO Box 1881, PC 114, Jibroo
Ruwi High Street	24835749	24836091	PO Box 134, PC 112, Ruwi
Al Amerat	24875423	24875425	PO Box 66, PC 119, Al Amerat
Corniche	24713400	24712114	PO Box 1265, PC 114, Muttrah
Quriyat	24845120	24845643	PO Box 288, PC 120, Quriyat
MBD South	24815804	24812458	PO Box 1265, PC 114, Muttrah
Al Mahaj (Al Amerat)	24874233	24874262	PO Box 66, PC 119, Al Amerat
Wattaya	24565689	24565681	PO Box 134, PC 112, Ruwi
Corporate Branch	24707948	24707680	PO Box 134, PC 112, Ruwi
Private Banking	24768603	24795155	PO Box 134, PC 112, Ruwi

AL BATINAH REGION (NORTH)

Sohar	26841785	26841786	PO Box 631 PC 311, Sohar
Liwa	26762924	26762424	PO Box 131, PC 325, Liwa
Saham	26855280	26855268	PO Box 453, PC 319, Saham
Khaboura	26801352	26801526	PO Box 247, PC 326, Al Khaboura
Falaj Al Qabail	26751464	26751678	PO Box 464, PC 322, FAQ, Sohar
Bidaya	26708016	26709609	PO Box 50, PC 316, Bidaya
Sohar Souk	26840072	26842072	PO Box 79, PC 311, Sohar
Shinas	26747070	26748072	PO Box 121, PC 324, Shinas
Al Khadra	26712975	26712976	PO Box 495, PC 315, Suwaiq
Al Tareef	26843925	26843128	PO Box 497, PC 321, Al Tareef
Saham Corniche	26857820	26857821	PO Box 453, PC 319, Sohar
Al Hejari	26816188	26817474	PO Box 164, PC 112, Ruwi

AL BATINAH REGION (SOUTH)			
Al Rustaq	26875120	26875506	PO Box 5, PC 318, Rustaq
Al Ghashab	26875960	26875962	PO Box 310, PC 318, Rustaq
Barka	26885406	26885408	PO Box 372, PC 320, Barka
Al Muladdah	26868454	26868455	PO Box 75, PC 314, Al Muladdah
Bataha Hilal (Suwaiq)	26860177	26861877	PO Box 481, PC 315, Al Suwaiq
Tharmad	26811321	26810859	PO Box 24, PC 315, Suwaiq
Barka Souq	26884895	26882113	PO Box 509, PC 320, Barka
Suwaiq	26860225	26860125	PO Box 311, PC 315, Suwaiq
Musanna	26869949	26870945	PO Box 330, PC 312, Musanna
Al Awabi	26767267	26767388	PO Box 96, PC 317, Al Awabi
Nakhal	26781603	26781604	PO Box 372, PC .320, Nakhal
Al Washil, Rustaq	26878238	26878414	PO Box 134, PC 112, Ruwi

DHAKILIYA REGION			
Samail	25350030	25350511	PO Box 340, PC 620, Samail
Firq	25411088	25410887	PO Box 794, PC 611, Nizwa
Izki	25340122	25340056	PO Box 166, PC 614, Izki
Al Hamra	25422870	25422871	PO Box 44, PC 617, Al Hamra
Bahla	25420028	25420095	PO Box 541, PC 612, Bahla
Lizough	25359492	25359727	PO Box 144, PC 615, Lizough
Haima (Al Wusta Region)	23436252	23436066	PO Box 46, PC 711, Haima
Izki, Al Manzaleah	25341236	25340008	PO Box 55, PC 614, Izki
Nizwa	25410545	25410949	PO Box 92, PC 611, Nizwa
Adam	25434045	25434042	PO Box 90, PC 618, Adam
Firq Industrial Area	25431796	25431857	PO Box 801, PC 611, Nizwa
Manah	25457567	25458245	PO Box 70, PC 619, Manah
Birkat Al Mawz	25443567	25443757	PO Box 116, PC 616, Birkat Al Mawz
Marfa Daris	25425902	25425903	PO Box 134, PC 112, Ruwi
Bahla Souq	25363185	25363146	PO Box 134, PC 112, Ruwi
Fanja	25360826	25360377	PO Box 71, PC 613, Bidbid
Qarn Alam	24388302	24388303	PO Box 55, PC 614, Izki

Shaafa, Izki	25470709	25470305	PO Box 81, PC 113, Muscat
Qalat Al Awamir	25395324	25395326	PO Box 444, PC 614, Izki

DHAHIRAH REGION

Al Buraimi	25652911	25652901	PO Box 243, PC 512, Buraimi
Yanqul	25672574	25672576	PO Box 61, PC 513, Yanqul
Khasab (Musandam Region)	26731128	26731129	PO Box 303, PC 811, Khasab
Dibba Al Beya (Musandam Region)	26836694	26836378	PO Box 4, PC 813, Dibba Al Beya
Buraimi, Main Road	25652571	25650571	PO Box 227, PC 512, Buraimi
Mahda	25667081	25667071	PO Box 7, PC 518, Mahda
Ibri (Jubail)	25689526	25689291	PO Box 493, PC 511, Ibri
Dareez	25631379	25631377	PO Box 842, PC 511, Ibri
Ibri Souq	25689190	25689177	PO Box 561, PC 511, Ibri
Al Hayal	25601159	25601151	PO Box 336, PC 515, Ibri Al Araqi
Murtafat Ibri	25688593	25688462	PO Box 195, PC 511, Ibri
Dhank	25676502	25676503	PO Box 114, PC 514, Dhank
Ibri Al Iraqi	25694661	25694866	PO Box 57, PC 515, Ibri Al Iraqi

DHOFAR REGION

Salalah Port Branch	23219335	23219383	PO Box 242, PC 217, Al Awqadain
Salalah, 23rd July Street	23290248	23294458	PO Box 544, PC 211, Salalah
Taqa	23258023	23258479	PO Box 7, PC 218, Taqa
Salalah Industrial	23212458	23212486	PO Box 176, PC 211, Salalah
Al Saada	23226092	23226094	PO Box 136, PC 215, Al Saada
New Salalah	23298440	23296220	PO Box 848, PC 211, Salalah
Thumrait	23279306	23279307	PO Box 202, PC 222, Thumrait
Mirbat	23268573	23268576	PO Box 155, PC 220, Mirbat
Haffa	23299509	23299396	PO Box 76, PC 216, Haffa
Awqadain	23211186	23214994	PO Box 1094, PC 211, Salalah
Marmul	24386455	24386457	PO Box 544, PC 211, Salalah
Sadah	23277161	23277027	PO Box 134, PC 112, Ruwi
Dahariz	23235463	23235638	PO Box 134, PC 112, Ruwi



AL SHARQIYA REGION

Samad A' Shaan	25526499	25526159	PO Box 17, PC 423, Samad A' Shan
Al Mudhairib	25581605	25581114	PO Box 3, PC 419, Mudhairib
Bidiya	25583860	25583870	PO Box 229, PC 421, Bidiya
Sur	25543350	25543503	PO Box 503, PC 411, Sur
Jaalan Bani Bu Ali	25554154	25554156	PO Box 234, PC 416, Jaalan Bani Bu Ali
Ibra	25570267	25570457	PO Box 284, PC 413, Ibra
Sur, Al Sharia	25543440	25540442	PO Box 142, PC 411, Sur
Bani Bu Hassan	25550690	25550246	PO Box 242, PC 415, Bani Bu Hassan
Al Kamil	25557914	25557795	PO Box 195, PC 412, Al Kamil
Al Ashkara	25566249	25566077	PO Box 77, PC 422, Al Ashkara
Sinaw	25524773	25524768	PO Box 136, PC 418, Sinaw
Masirah	25504331	25504229	PO Box 134, PC 112, Ruwi
Safalat Ibra	25572446	25572441	PO Box 284, PC 413, Ibra
Wadi Tayeen	25560014	25560021	PO Box 134, PC 112, Ruwi
Sur Al Afiah	25543994	25544965	PO Box 142, PC 411, Sur

Notes

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