بنك مسقط
BankMuscat

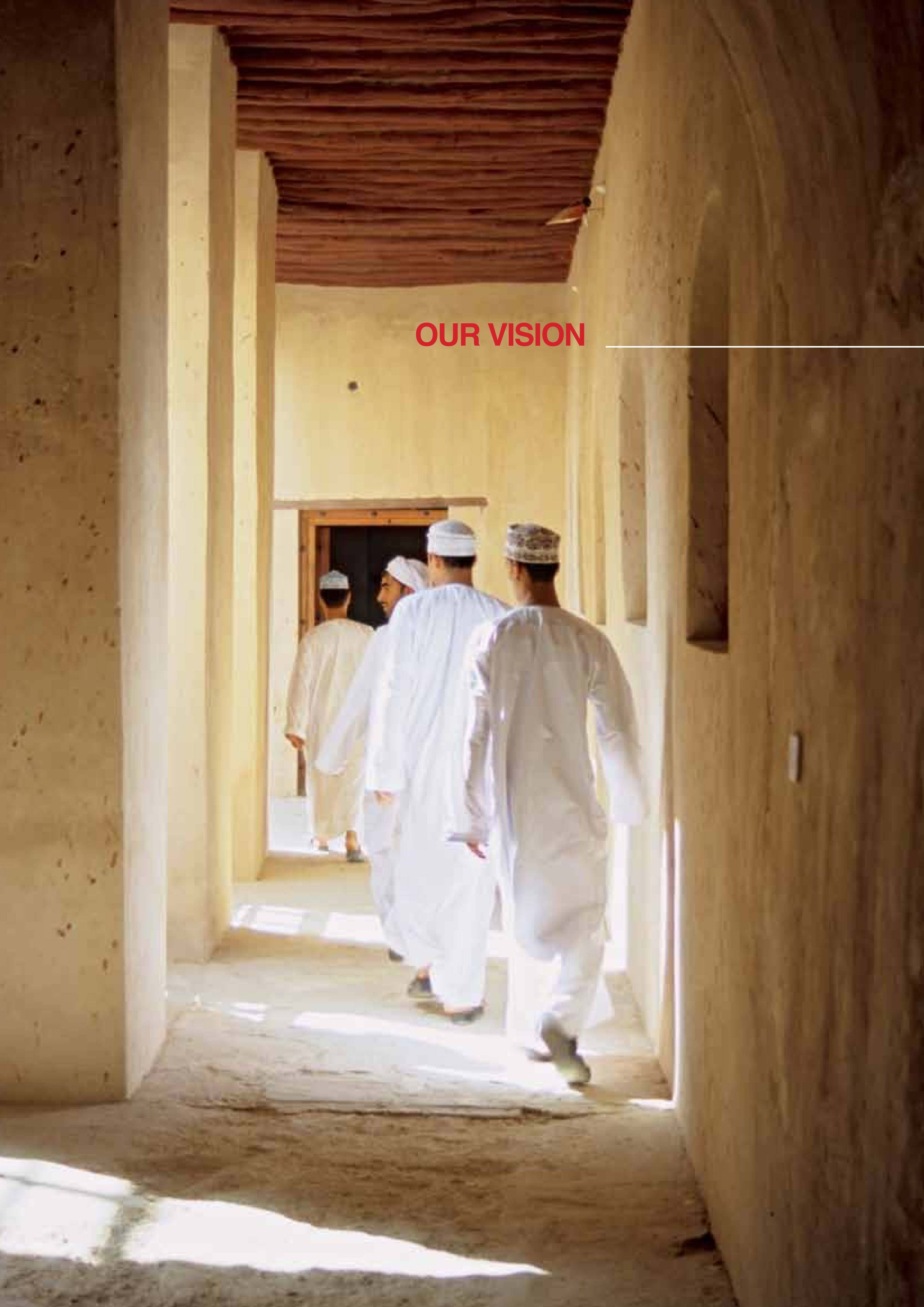
STRENGTH IN NUMBERS.
STRENGTH IN PEOPLE.

ANNUAL REPORT
2011

"THE HUMAN ELEMENT IS THE MAKER OF A RENAISSANCE AND THE BUILDER OF A CIVILIZATION"

HIS MAJESTY SULTAN QABOOS BIN SAID

OUR VISION



“WE CAN DO MORE.”

Leadership means challenging everything we do, continuously. To listen, to improve, and to look for positive change. Because, only through questioning convention, can we truly deliver sustainable value.

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 discipline, 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.

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CHAIRMAN'S REPORT 2011

Sheikh Khalid bin Mustahail Al Mashani
Chairman

Dear Shareholders,

I am glad to share with you the encouraging results achieved by the Bank during 2011. 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 expansionary financial, economic and monetary policies pursued by the Sultanate provided a sustained catalyst for development as the economy recorded a 7 per cent growth in 2011. The

117.5 million for the year ended 31 December 2011 as against a net profit of RO 101.6 million reported in 2010, an increase of 15.6 per cent. Net interest income increased by 13.3 per cent to RO 212.1 million in 2011 from RO 187.2 million reported during the year 2010. Increase in net interest income is attributable to improvement in net interest margin and asset growth. Non-interest income at RO 82.1 million was higher by 5 per cent compared to the year 2010.

Operating expenses for the year ended 31 December 2011 was at RO 120.9

STRATEGIC INITIATIVES: STAKEHOLDERS REAP RICH DIVIDENDS

2011 budget was based on oil revenue of $58 per barrel whereas the average price of Oman oil touched $102 per barrel leading to an anticipated budget surplus above RO 900 million. Oman's economy was largely unaffected by the recent turmoil in global financial markets and the eurozone debt crisis as the oil exports were mainly directed to Asian countries. Omani banks also had little exposure to the eurozone crisis. Credit to the private sector continued to pick up and the growth was estimated at 11 per cent in 2011. The banking and financial sector witnessed healthy performance in tandem with the economic recovery led by sustained consumer demand and public sector activities. Inflation also remained moderate at about 4 per cent, and the fiscal and external surpluses were high at about 8 per cent and 10 per cent of the GDP respectively.

Financial Overview

The Bank achieved a net profit of RO

million, an increase of 17.5 per cent as compared to 2010. Increase in operating expenses is attributable to higher manpower cost and operating expenses related to investment in technology and facilities. The cost to income ratio for the year 2011 was at 41.1 per cent as compared to 38.8 per cent in 2010. Impairment for credit losses for the year ended 31 December 2011 was RO 56.2 million as against RO 46.6 million in 2010. Increase in impairment for credit losses was mainly due to creation of general provision in line with the loan growth. During the year 2011, the Bank was able to recover RO 25.6 million from impairment for credit losses as against RO 13.6 million recovered in 2010. Share of loss from associates was RO 3.5 million in 2011 as against RO 12.6 million in 2010. The reduction in share of loss from associates was due to lower losses from BMI Bank in 2011 as compared to 2010.

Net loans and advances increased by 20.2 per cent to RO 4,819 million as against RO 4,008 million as at 31 December 2010. Customer deposits, including CDs, increased by 31.8 per cent to RO 4,850 million as against RO 3,682 million as at 31 December 2010. During the year 2011, demand deposits increased by 29.5 per cent, savings deposits increased by 19.8 per cent and term deposits increased by 49.6 per cent.

The return on average assets marginally improved from 1.7 per cent in 2010 to 1.8 per cent in 2011. The return on average equity improved to 15.4 per cent in 2011 as compared to 14.6 per cent in 2010. The basic earnings per share was RO 0.076 in 2011 as against RO 0.075 in 2010. The Bank's capital adequacy ratio stood at 15.9 per cent as on 31 December 2011 after appropriation for dividend for the year 2011 against the minimum required level of 12 per cent by the Central Bank of Oman.

For the year 2011, the Board of Directors has proposed a dividend of 40 per cent, 25 per cent in the form of cash and 15 per cent 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 38.71 million on the Bank'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 232,256,957 shares of RO 0.100 each amounting to RO 23.22 million.

Strategic Initiatives

- The Board of Directors approved a rights issue of RO 100 million. Subject to regulatory approval, the rights issue is expected to be open during the second quarter of 2012 at a 20 per cent discount to the market price.
- The Bank signed a $170 million subordinated loan agreement with the IFC Capitalization Fund to strengthen the capital base. IFC is the investment arm of the World Bank.
- The Bank successfully closed the issue of subordinate loan notes amounting to RO 100 million as part of its capital raising plan to strengthen the capital adequacy ratio.
- The Bank facilitated the successful closure of financing for the $562 million PET and APET sheet project of OCTAL Petrochemicals.
- As part of the run-up to the launch of Islamic banking operations, subject to approval from the Central Bank of Oman, the Board of Directors appointed a 3-member Shariah board comprising Sheikh Dr. Ali Qaradaghi, Chairman, Sheikh Essam Muhammad Ishaq and Sheikh Majid Al Kindi. The Bank also unveiled the logo of its Islamic banking window under the brand name 'Meethaq'.
- The Bank marked its foray into Southeast Asia with a Representative Office in Singapore, aimed at supporting the increasing trade and investment flows between Oman, the wider GCC and Asia.
- al Mazyona, the Sultanate's premier savings scheme, recorded a milestone crossing RO 1 billion in deposits.
- The Bank was appointed as the Financial Advisor and Issue Manager of SMN's initial public offering, which was the only IPO to be launched in Oman in 2011.
- The Bank launched the BM S&P GCC

Large Cap Index Fund (BankMuscat Standard & Poor's Large Cap Index Fund), directed at institutional investors seeking to tap into the attractive growth potential of the GCC markets.

- In association with Bank of China, the Bank opened a Yuan account, becoming the first Omani bank to enable payments in Chinese currency to facilitate trade and investment flows between China, Oman and the GCC region.
- The Bank launched a major Health, Safety and Environmental (HSE) initiative in association with the International Organisation for Safety and Health (IOSH), becoming the first to create a safety management system in place in the banking sector in Oman.
- The Bank launched business incubators as part of a Corporate Social Responsibility (CSR) initiative to train 300 women under the social security umbrella to help start their own businesses.
- Aimed at charting a glorious new beginning for Oman football, the Bank announced financial support to Oman national teams playing in the Asian qualifier for 2014 FIFA World Cup in Brazil and 2012 Olympics in London.

Awards and Accolades

- With a brand value of $300 million, the Bank was ranked among the top 500 global banking brands by The Banker magazine.
- For adopting benchmark human resources process improvements, the Bank achieved a global first, winning the prestigious Level 3 People Capability Maturity Model (PCMM) certification.
- The Bank achieved a remarkable ranking, being the only bank from Oman to make it to the first-ever ranking of the 50 Safest Banks in Emerging Markets by Global Finance.
- The Bank won top honours as the overall winner and the first place in the financial segment, in the Corporate Governance Excellence Awards hosted by Capital Market Authority (CMA).
- Standard & Poor's raised the long-term rating on BankMuscat to A- from BBB+ and affirmed the A-2 short-term rating. The long-term rating is one notch higher than the Bank's stand-alone credit profile as S&P views the Bank as having high systemic importance in Oman.

The Year Ahead

The outlook for Oman's economy in 2012 is positive as the government has announced a 12 per cent increase in spending, based on oil price pegged at $75 a barrel and a daily production of 920,000 barrels. Fiscal surplus is also anticipated in 2012 on the back of supportive oil prices. Indications are that infrastructure projects will continue to give a fillip to the economy in 2012 as part of the 8th Five-Year Plan strategy. The banking sector will benefit from the government's policy aimed at balancing the economic and social development as some 45,000 new positions will be created for Omanis each year. The proposed launch of Islamic banking operations on the directive of His Majesty Sultan Qaboos will also contribute to the socio-economic development of Oman, heralding a new era of Islamic financial intelligence in the growing field of alternative banking and finance.

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 41 years.

Khalid bin Mustahail Al Mashani

MEMBERS OF THE BOARD

1) **Sheikh Khalid bin Mustahail Al Mashani**
Chairman

2) **Sulaiman bin Mohammed bin Hamed Al Yahyai**
Vice Chairman

3) **Brigadier General Nasser bin Mohamed Al Harthy**
Director

4) **Hamoud bin Ibrahim Soomar Al Zadjali**
Director

5) **K.K. Abdul Razak**
Director

6) **Salim bin Taman Musallam Al Mashani**
Director

7) **Abdul Salam bin Mohamed Al Murshidi**
Director

8) **Sheikh Said bin Mohamed Al Harthy**
Director

AUDITOR'S REPORT

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Sultanate of Oman
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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 2011 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 2011 and does not extend to any financial statements of Bank Muscat SAOG taken as a whole.

PricewaterhouseCoopers LLP

15 February 2012
Muscat, Sultanate of Oman

CORPORATE GOVERNANCE STATEMENT

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 (CBO). This commitment was reflected in the Bank being awarded first place in the CMA Corporate Governance Excellence Awards in the Financial Sector for the year 2011. In addition, the Bank won the overall CMA award which included participation from listed companies across Financial, Industrial and Services sectors. These two prestigious accolades were a follow on from being awarded second prize in the Middle East North Africa (MENA) region for Corporate Governance Excellence by the Hawkamah Institute in 2010.

The CMA Code of Corporate Governance and the Central Bank of Oman circular BM 932, Corporate Governance in Banks are the principal codes and drivers of Corporate Governance practices in the Sultanate of Oman. BankMuscat fully complies with all of their provisions. The CMA Code of Corporate Governance can be found at the following website, www.cma.gov.om. 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 CSR Report in this year's Annual Report.

RESPONSIBLE BANKING: SHINING EXAMPLE FOR PEOPLE, NATION

BOARD OF DIRECTORS

The roles of the Chairman of the Board of Directors (the Board) and Chief Executive Officer (CE) are separated with a clear division of responsibilities at the head of the Bank between the running of the Board and the executive management 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 Bank's Board of Directors' principal responsibilities 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 and other stakeholders;

- 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 CE, the Deputy Chief Executive and the Chief Operating Officer, as well as appointment of the officers answering to either of them pursuant to the organisational 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 and performance.

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 CBO 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 CBO. In 2011, the Bank also engaged with Ernst and Young to perform an independent evaluation of Board performance. This exercise has commenced and will be completed in Quarter 1, 2012. This is seen as a further step in enhancing the already robust Corporate Governance practices and culture in the Bank.

Process of nomination of the directors

The Board, with the Nomination and Compensation Committee reviews the required skills of directors to ensure they meet the "fit and proper" criteria prescribed by the CMA and the CBO. 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 CBO 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.

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 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 of nine members, elected by the shareholders at the Bank's AGM on 20 March 2010 for a period of three 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. During the year 2011, the previous Chairman, Sheikh AbdulMalik bin Abdullah bin Ali Al Khalili stepped down as Chairman on account of his appointment as Minister of Tourism. Sheikh Khalid bin Mustahail Al Mashani was appointed as the new Chairman on 27 April 2011 and is also Chairman of the Board Risk Committee and Nomination and Compensation Committee. Mr. Sulaiman bin Mohamed bin Hamed Al Yahyai was appointed as Deputy Chairman to the Board of Directors on 4 July 2011. In addition, Sheikh Said bin Mohammed Al Harthy joined the Board of Directors on 27 July 2011 and is also a member of the Audit Committee.

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".

Independence of Board members

There are no executives of the Bank who are members of the Board. Six 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 2011, 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 72,250 with the total remuneration paid/accrued being RO 127,750. 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 2011 was RO 2.858 million. This includes salary, allowances and performance related incentives. This remuneration was approved by the Board of Directors.

Committees of the Board and their functioning

During the year 2011, there were three committees of the Board which provided able and effective support to the full Board in carrying out its responsibilities. The three 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 2011 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 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;

- 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 measurement and management of interest rate risk in the Bank. 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.

- BRC reviewed the operational risk framework of the Bank and key risk areas. They reviewed the Bank's business recovery plans and preparedness to handle unforeseen adverse events.

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.

Brigadier Nasser Al Harthy was appointed Chairman of the Audit Committee during the year, replacing Sheikh Abdul Malik Al Khalili who was appointed as Minister of Tourism. 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 organization'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 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 Chief Internal Audit Officer and the Audit Committee commissioned Ernst & Young to perform an external quality review of the Internal Audit department as is required by International Standard for the Professional Practice of Internal Auditing. This review must be performed at least once every five years. In line with the International Professional Practices framework promulgated by the Institute of Internal Auditors, the Internal Audit activity was assessed as being compliant with these standards and rated as an advanced internal audit function. Therefore, the Internal Audit function is permitted to use the words "conducted in accordance with international standards" in its reports.

Both the Board Risk Committee and the Audit Committee met as per schedule during the year 2011 and have performed the responsibilities delegated to them.

3) Nomination and Compensation Committee

The Board Nomination and Compensation Committee are responsible for:

- Leading the process for Board and Management appointments, through the identification and nomination of relevant candidates for Board approval; and
- Setting the principles, parameters and governance framework of the Bank's Compensation policy.

The Nomination and Compensation Committee was established on 4 April 2011 to ensure the Bank is equipped to meet standards of international best practice in this area. The Committee met on three occasions during the year 2011 and its main focus was to oversee the Bank's new organisational structure plans and new appointments to the Management team. Their work was completed in Quarter 4, 2011 and the new management team structure is outlined in this year's Annual Report. The focus for 2012 will be on the completion of the independent Board Evaluation exercise which was performed by Ernst & Young.

Major shareholders

The shareholding structure of the Bank is as follows:

Major Shareholders	%
Royal Court Affairs	24.83
Dubai Financial Group LLC	14.99
HSBC A/C The Bank of New York International	7.08
HSBC A/C Ministry of Defence Pension	6.63
Muscat Overseas Company LLC	4.36
Civil Service Pension Fund	4.06
Public Authority for Social Service	2.36
Royal Oman Police Pension Fund	1.97
Others	33.72

Out of 1,548,379,715 fully paid-up shares 521,156,481 shares are held by around 7,444 (MDSRC) Muscat Depository and Securities Registration Company registered shareholders

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 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.

10. The Bank meets the Capital Adequacy Standards (Capital Adequacy Ratio – CAR) prescribed by the Basel Committee and the CBO.

11. For the year, 2011, 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 will receive a cash dividend of RO 0.025 per ordinary share of RO 0.100 each aggregating to RO 38.71 million of the Bank existing share capital. In addition they will receive shares in the proportion of one share for every 6.666 ordinary shares aggregating to 232,280,185 shares of RO 0.100 each amounting to RO 23.22 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 Bank 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 Banks' 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 5,450 was imposed on the Bank by the CMA for regulatory penalties.

6. During the year 2011, RO213,667 was accrued/paid to the Bank'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 is a global network of firms operating in 158 countries with 169,000 people committed to providing quality in assurance, tax and advisory services.

PwC is the fastest growing professional services firm in the Middle East region and has offices in Bahrain, Egypt, Iraq, Jordan, Kuwait, Lebanon, Libya, Oman, the Palestinian territories, Qatar, Saudi Arabia and the United Arab Emirates, employing around 2,500 people.

PwC has been established in Oman for over 40 years and the Firm comprises four partners, including one Omani national, and over 140 professionals and support staff. Expert assurance, tax and advisory professionals are able to combine specialist internationally acquired consulting and technical skills with relevant local experience.

You can find more information about PwC at: www.pwc.com/middle-east.

Board of Directors and Executive Management profiles

Sheikh Khalid bin Mustahail Al Mashani

Sheikh Khalid bin Mustahail Al Mashani is the Chairman of the Board of Directors since April 2011 and Chairman of both the Board Risk Committee and Nomination and Compensation Committee. Sheikh Khalid has a BSc. in Economics from the UK and a Masters Degree in International Boundary Studies from the School of Oriental and African Studies (SOAS), the University of London, U.K.

Mr. Sulaiman bin Mohamed bin Hamed Al Yahyai

Mr. Sulaiman bin Mohamed bin Hamed Al Yahyai is the Deputy Chairman of the Board of Directors since June 2011, a member of the Audit Committee and a member of the Nomination and Compensation Committee. 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). Mr. Al Yahyai 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 the Integrated Tourism Projects Fund and a Director and Chairman of the Audit Committee of BMI Bank, Kingdom of Bahrain.

Brigadier General Nasser bin Mohammed Salim Al Harthy

Brig. General Nasser Al Harthy is a Director of the Bank, Chairman of the Audit Committee and a member of the Nomination and Compensation Committee. He is currently Head of Internal Audit in the Ministry of Defence. He holds a Masters Degree in Military Science from Egypt and a Master in Business Administration from the UK, where he is a member of the MBA's association and the Oxford University Business Economics Programme. (OUBEP).

Mr. Hamoud bin Ibrahim Soomar Al Zadjali

Mr. Hamoud bin Ibrahim Soomar Al Zadjali is a Director of the Bank since January 2001 and a member of the Board Risk Committee. Mr. Al Zadjali is the General Manager of the Royal Oman Police Pension Fund LLC.

Mr. K.K. Abdul Razak

Mr. K.K. Abdul Razak is on the Board of Directors of the Bank since March 1996 and a member of the Audit Committee. He is the Group Finance Manager of Muscat Overseas LLC. He holds a Masters Degree in Economics from the University of Kerala. Mr. Abdul Razak also sits on the boards of Muscat Gases SAOG, Al Omania Financial Services Co. SAOG and Gulf Investment Services Holding SAOG.

Mr. Salim bin Taman Musallam Al Mashani

Mr. Salim bin Taman Musallam Al Mashani is a Director of the Bank since March 1999, a member of the Board Risk Committee and a member of the Board Nomination and Compensation Committee. Mr. Salim is the Chairman of Dhofar Poultry Co, SAOG the Managing Director of the Omani Vegetable Oils and Derivatives Co. LLC, a Director of Dhofar International Development and Investment Holding Co. SAOG and a Director in Gulf Investment Holding Services SAOG.

Mr. Abdul Salam bin Mohamed bin Abdullah Al Murshidi

Mr. Abdul Sallam Al Murshidi is a Director of the Bank, a member of the Board Risk Management Committee and the member of the Board Nomination and Compensation Committee. He is the Chairman and the Chief Executive Officer of Rawasi Oman Investments. He has held other significant positions such as CEO of Oman Investment Corporation, Corporate Affairs Manger of Oman LNG, Managing Director of Al Amjad Trading and Vice Chairman of Muscat College. Also, he founded various industrial, commercial and investment companies in the region. Currently, he chairs and is a member of the Board of Directors of many companies in Oman and the GCC. Mr. Al Murshidi is a member of the Economic Committee of Oman Chamber Commerce & Industry, a member of the Omani-Qatari Business Forum, a member of the Omani-Indian Business Forum and he is the Honorary Consul for the Republic of Mongolia in Oman. Mr. Murshidi is a qualified geologist and an expert in petroleum exploration. He holds a Masters degree in Petroleum Geology and Bachelor degree in Geophysics.

Sheikh Said bin Mohamed Al Harthy

Sheikh Said bin Mohamed Al Harthy is a Director on the Board of Directors of BankMuscat since July 2011 and a member of the Audit Committee. Sheikh Said has a Masters in Business

Administration from Victoria University, Melbourne, Australia and a Bachelor Degree in Business Administration (Management), Minor in Computer Information (CIS) from California State University Stanislaus, California, and USA.

Mr. Abdulrazaq M. Aljassim

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 Division 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 of the Bank. He currently holds the following directorships representing BankMuscat:

Capital Market Authority – (member)
Muscat Fund (member of the Investors' Committee)
Oryx Fund (Member of the Investors' Committee)
Bank Deposit 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. 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. He is also a member of the Investors Committee of Muscat Fund. He is a Member of the Board of Directors and Board Credit Committee of BMI Bank, Bahrain and Gulf African Bank, Kenya whilst he is a

Member of the Board of BMI Offshore Bank, Seychelles. Mr. Al Abri holds an MBA. He has also attended the Advanced Management Program at INSEAD and a General Managers' Program from Harvard Business School.

Mr. Ganesan Sridhar (GM-CB)

Mr. Ganesan Sridhar is the General Manager Commercial Banking, responsible for the Commercial Banking business of the Bank. He has over 34 years of banking experience, of which 21 years have been with BankMuscat and its predecessor banks. He holds a Masters Degree in Financial Management from Bajaj Institute of Management Studies, Bombay University and a Masters 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 is currently a Board member in Abraj Energy Services LLC.

Mr. K. Gopakumar (GM-WB)

Mr. K. Gopakumar is the General Manager of the Wholesale Banking of BankMuscat. He represents BankMuscat in 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.

TABLES:

Table 1:

The total number of meetings of the full Board during the year 1 January 2011 to 31 December 2011 was eight. The maximum interval between two meetings was 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, Board Audit Committee and Nomination and Compensation Committee during the year were as follows:

Sr. No.	Dates of the Board of Directors Meetings	Dates of the Audit Committee Meetings	Dates of the Board Risk Committee Meetings	Dates of the Board Nomination and Compensation Committee Meetings
1	26 January 2011	26 January 2011	26 January 2011	3 July 2011
2	27 March 2011	27 April 2011	27 March 2011	26 July 2011
3	4 April 2011	27 July 2011	26 July 2011	12 October 2011
4	27 April 2011	5 October 2011	12 October 2011	
5	27 July 2011	23 October 2011		
6	23 October 2011	21 December 2011		
7	15 November 2011			
8	21 December 2011			

Table 2:

Details of Board of Directors and meetings held during the year 2011 and attendance of the Directors 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 RO
Sheikh AbdulMalik bin Abdullah Al Khalili	Ex-Chairman of the Board and the Audit Committee	1	1	Non-executive/ independent/ representative of a juristic person	1,500
*Sheikh Khalid bin Mustahail Al Mashani	Chairman of the Board, Chairman of the Board Risk Committee and Board Nomination and Compensation Committee	8	4	Non-executive/ shareholder in personal capacity	9,600
Mr. Sulaiman bin Mohamed Al Yahyai	Member of the Board and member of the Board Risk Committee and Board Nomination and Compensation Committee.	8	6	Non-executive/ independent/ shareholder in personal capacity	9,100
Brig. General Nasser bin Mohamed Al Harthy	Member of the Board, Chairman of the Audit Committee and a member of the Board Nomination and Compensation Committee.	8	6	Non-executive/ independent/ representative of a juristic person	9,350
***Mr. Hamoud bin Ibrahim Soomar Al Zadjali	Member of the Board and Board Risk Committee	8	4	Non-executive/ representative of a juristic person	9,000

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 RO
*Mr. K.K. Abdul Razak	Member of the Board and member of the Audit Committee	8	6	Non-executive/ shareholder in personal capacity	9,000
Mr. Salim bin Taman Al Mashani	Member of the Board, Board Risk Committee and Board Nomination and Compensation Committee.	8	4	Non-executive/ independent/ shareholder in personal capacity	9,000
Mr. Abdul Sallam bin Mohamed Al Murshidi	Member of the Board, Board Risk Committee and Board Nomination and Compensation Committee.	8	4	Non-executive/ independent/ shareholder in personal capacity	9,000
Sheikh Said bin Mohamed Al Harthy	Member of the Board and Member of the Audit Committee.	2	1	Non-executive/ independent/ shareholder in personal capacity	2,250
**Dubai Financial Group	Member of the Board and member of the Audit Committee	4	2	Non-executive/ representative of a juristic person	4,500

Total amount paid as sitting fees	**RO. 72,250**

The Annual General Meeting of the shareholders of the Bank approved at its meeting held on March 21 2011 an amount of RO 82,600 as sitting fees for 2011. Total amount paid to the members of the Board of Directors as sitting fees during 2011 was RO 72,250.

* 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.

It should be noted that the Nomination and Compensation Committee has held 3 meetings but no sitting fees were paid to the members because it was established after the shareholders approved sitting fees for the year 2011.

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

Month	Closing	Low	High
Jan-11	0.960	0.900	1.038
Feb-11	0.791	0.781	0.980
Mar-11	0.686	0.680	0.884
Apr-11	0.772	0.690	0.793
May-11	0.721	0.691	0.789
June-11	0.742	0.730	0.760
July-11	0.724	0.720	0.760
Aug-11	0.701	0.645	0.731
Sep-11	0.671	0.665	0.717
Oct-11	0.717	0.656	0.720
Nov-11	0.692	0.670	0.720
Dec-11	0.766	0.696	0.771

Source: MSM Monthly Bulletins

Banking and investment index movement during 2011

Month	Closing	Low	High
Jan - 11	8,369.55	8,164.90	8,926.70
Feb -11	6,811.42	6,804.87	8,408.03
Mar - 11	6,921.31	6,898.24	7,416.38
Apr - 11	7,194.83	6,921.31	7,576.77
May - 11	6,518.73	6,402.48	7,231.11
Jun - 11	6,442.55	6,405.15	6,683.57
Jul - 11	6,368.58	6,367.77	6,557.06
Aug - 11	6,443.10	5,827.67	6,461.61
Sept - 11	6,317.20	6,305.60	6,536.10
Oct - 11	6,222.16	6,197.77	6,328.97
Nov - 11	6,021.75	6,019.03	6,228.66
Dec -11	6,385.67	6,026.88	6,410.81

Source: MSM Annual Statistics Report 2011

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 2011.
- That there are no material events that affect its ability to continue its operations during the next financial year.

AUDITOR’S REPORT

PRICEWATERHOUSECOOPERS

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Wadi Adai, Muscat
Sultanate of Oman
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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 2011. 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.

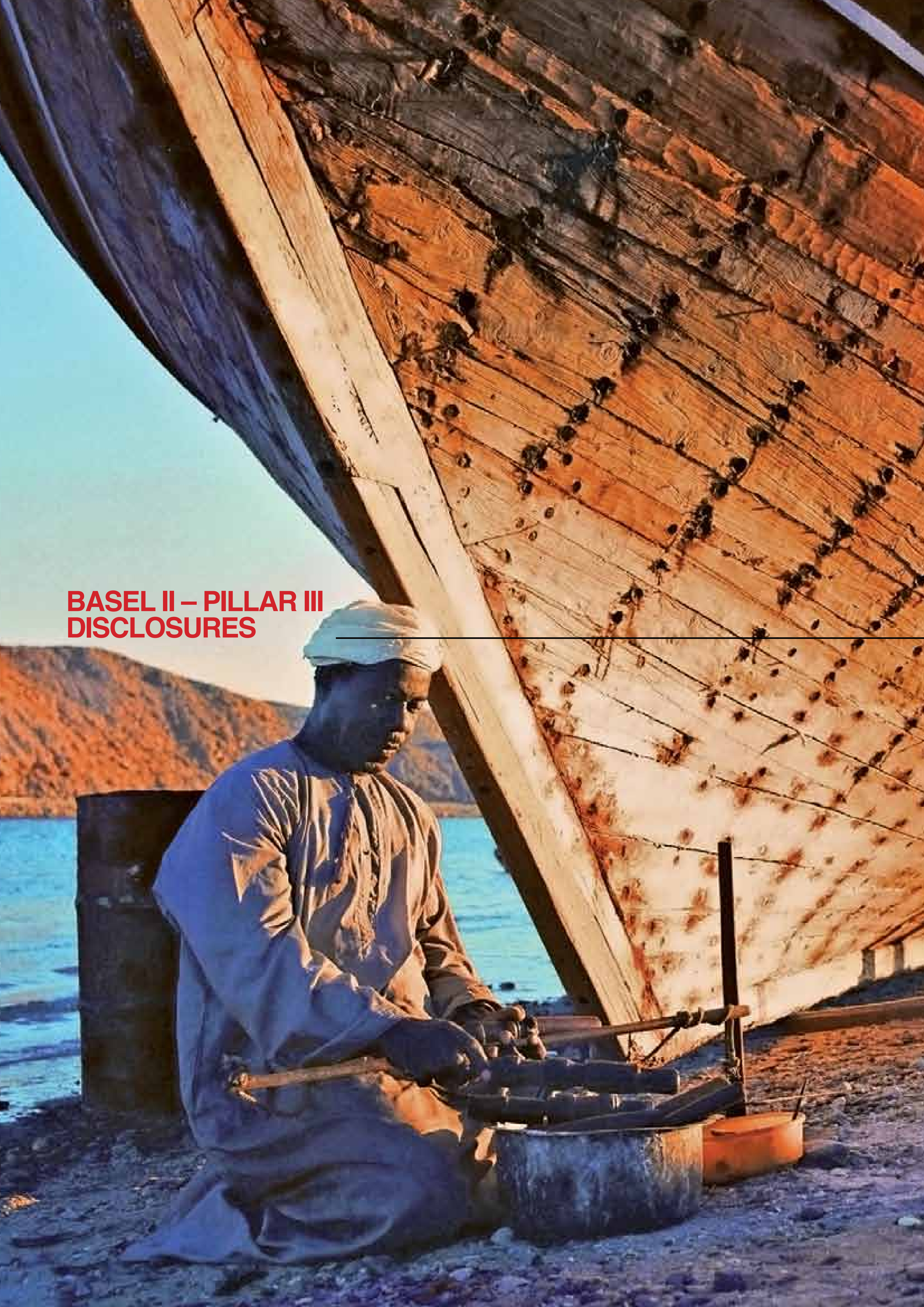
Had we performed additional procedures or had we performed an audit or review of the financial statements in accordance with International Standards on Auditing or International Standards on Review Engagements, other matters might have come to our attention that would have been reported to you.

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.

PricewaterhouseCoopers LLP

24 January 2012
Muscat, Sultanate of Oman

BASEL II – PILLAR III DISCLOSURES



A. Introduction and overview

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

RISK MANAGEMENT: BENCHMARK IN TRANSPARENCY

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 administrative convenience a dotted line reporting to the Deputy Chief Executive 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.

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. 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. 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 given below:

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.

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.

During the year the Bank undertook a quantitative impact study based on Liquidity Coverage Ratio and Net stable Funding Ratio in line with the recommendations of Basel III to assess position of liquidity and dependence on core source of funding rather than wholesale funding. The Bank was liquid to meet exigencies and had a well diversified source of funding.

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. The Bank has two international branches in Riyadh, Saudi Arabia and Kuwait and two representative offices in Dubai and Singapore. 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.

1) Details of Banks Foreign branches, Associates and Subsidiary is as below:

Name of Entity	Country of operation	Percentage interest held by BM	Status	Regulator
BankMuscat SAOG	Oman, KSA, Kuwait, UAE and Singapore	100.00	Parent Company with foreign branches	Central Bank of Oman, SAMA, Central Bank of Kuwait, Central Bank of UAE and Monetary Authority of Singapore respectively.
Muscat Capital LLC	KSA	96.25	Subsidiary	Saudi Capital Market Authority
BMI Bank B.S.C.(c)	Bahrain & Qatar	49.00	Associate	Central Bank of Bahrain and Qatar Central Bank
Mangal Keshav Holdings Ltd	India	42.96	Associate	SEBI

B. Capital management

B.1 Capital structure

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

- Tier I capital, which includes ordinary share capital, share premium, distributable and non-distributable reserves and retained earnings after deductions for goodwill and fifty percent 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 fifty percent of carrying value of investments in associates.

Various limits are applied to elements of the capital base. The qualifying tier II capital cannot exceed tier I capital; qualifying subordinated liabilities may not exceed fifty percent 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 percent of the total risk-weighted assets.

2) The banks regulatory capital is as below:

Tier I Capital	2011 RO'000	2010 RO'000
Share capital	154,838	134,641
Share Premium	301,505	301,505
Legal reserve	51,613	44,881
General reserve	67,725	61,308
Subordinated Loan reserve	106,533	80,100
Retained Profit *	114,076	94,925
	796,290	717,360
Less:		
Cumulative loss on fair value	(4.502)	(2,575)
Goodwill	(2,023)	(2,409)
Deferred tax Asset	(12,132)	(11,096)
Foreign currency translation reserve	(2,106)	(503)
Non Strategic Investment in Banks (50%)	(1,196)	(1,896)
Investments in associates (50%)	(23,786)	(26,255)
Tier I Capital	750,545	672,626
Tier II Capital		
Cumulative change in fair value (45%)	2,586	5,362
General Loan loss impairment	69,353	56,105
Subordinated liabilities (net of reserves)	228,000	103,400
Mandatory convertible Bonds	32,314	32,314
	332,253	197,181
Less:		
Non Strategic Investment in Banks (50%)	(1,196)	(1,896)
Investments in associates (50%)	(23,786)	(26,255)
Tier II Capital	307,271	169,030
Total Capital available	1,057,816	841,656

Note: *Retained Profit for the year 2011 excludes proposed cash dividend of RO 38.71 million (2010: RO 33.66 million)

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. Hence, 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.

3) The summary of capital adequacy ratio of the Bank is as below:

	Gross Bal. (Book Value)	Net Balances (Book Value) *	Risk Weighted Assets
	RO'000	RO'000	RO'000
On-balance sheet items	7,201,971	6,626,768	5,063,013
Off -balance sheet items	1,792,039	1,792,039	811,721
Derivatives			73,280
Total Credit risk			5,948,014
Total Market Risk			200,627
Total Operational Risk			491,763
			6,640,404
Capital Structure			
Tier I Capital			750,545
Tier II Capital			307,271
Tier III Capital			-
Total Regulatory Capital			1,057,816
Capital Requirement for Credit Risk			713,762
Capital Requirement for Market Risk			24,075
Capital Requirement for Operational Risk			59,012
Total Required Capital			796,849
Tier I Ratio			11.30%
Total Capital Ratio			15.93%

* Net of provisions & reserved interest & eligible collaterals

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.

B.3 Capital raised

During the year 2011, Bank operated above the minimum regulatory capital adequacy level of 12%. The details of additional capital raised in 2011 are as below:

- The Bank raised Tier II capital of RO 157.45 million in the form of subordinated loans during the year 2011. It comprised of
  - i. OMR 92 million denominated in OMR for a tenor of 7 years and
  - ii. OMR 65.45 million denominated in USD for a tenor of 10 years with amortization starting after 5 years.
- The Bank generated internal capital of RO 83.89 million after payment of RO 33.66 million dividends for the year 2010.

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 in to 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 has in place 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 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. On a quarterly basis reporting is done to the Board on the adequacy of internal capital. 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.

The assessment of Capital Adequacy on quarterly basis helped the Bank to identify the need for increasing the capital of the Bank. Aggressive asset growth in the third quarter of the year led to the Bank identifying different measures for increase of capital supply by taking all relevant perspectives and consequences into consideration. This prompt action, as a result of a robust ICAAP, helped the Bank in having a healthy capital adequacy ratio of 15.93% at the end of year.

C. Risk exposure and assessment

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

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

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 risks 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 and mortgage portfolio, 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.

- Retail portfolio is rated using an application score card.

Cross-border risk:

Country 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 also extensively uses its network, country visits and external sources of information before allocating limits. The limits and exposures are continuously monitored to factor economic and political changes in respective countries.

The year under consideration witnessed a substantial level of Credit events in the developed markets as well as geo-political tensions arising out of sanctions by US and other European countries along with the popular uprisings in the Arab world. The Bank continuously monitored its exposures, funding, liquidity based on evolving market conditions and was well equipped to handle any exigency. Limits and exposures to stressed countries were drastically toned down or suspended to protect bank's interests. The Bank's Board of Directors were fully informed about the impact of these events and the bank's preparedness to meet exigencies.

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 & financial system in the country and relationship outlook.

4) The following table gives the distribution of risk exposure by Country by Moody's rating as at 31st December 2011:

Country rating distribution	% of total	Country Exposure Summary	% of total
Aaa to Aa3	43.20%	Investment Grade	94.96%
A1 to A3	7.65%	Sub Investment Grade	2.69%
Baa1 to Baa3	44.11%	Unrated	2.35%
Ba1 to Ba3	2.65%		
B1 to B3	0.05%		
Below B3			
Unrated	2.35%		
Total	100.00%	Total	100.00%

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. The Bank uses the Moody's rating, wherever available. Where a Bank is unrated an independent assessment of the Bank is carried out based on quantitative and qualitative factors. The bank uses internal rating model for banks that are not rated by Moody's. Bank Muscat 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 including suspension of lines, reduction of limits etc. The sovereign debt crisis in the Euro Zone, the US rating downgrade, geo-political tensions arising out of sanctions and the Arab spring caused stress in certain banks. The Bank monitored its counterparty exposures continuously, pared certain exposures and reduced/suspended limits for banks under stress.

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

5) The following table gives distribution of exposures among banks by Moody's ratings as at 31st December 2011:

Bank rating distribution	% of total	Bank summary	% of total
Aaa to Aa3	12.92%	Investment Grade	78.15%
A1 to A3	24.21%	Sub Investment Grade	6.13%
Baa1 to Baa3	41.02%	Unrated	15.73%
Ba1 to Ba3	5.97%		
B1 to B3	0.16%		
Below B3	-		
Unrated	15.73%		
Total	100.00%	Total	100.00%

Loans and advances:

Loans and advances form approximately 66.7% of the Bank's total assets. Bank's credit risk in loans and advances are measured, monitored and managed against various criteria including economic sector concentration, single borrower concentration, substantial exposure limit, lending in foreign currencies, cross border exposures, loan to deposit ratio, frequency of credit review and portfolio review for rating migration.

Corporate loans:

Corporate lending accounts for approximately 60.9% 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 situation so warrants.

The risk policy ensures that the Bank's lending is targeted and distributed over various economic sectors. The sector-wise exposure, which include both funded and non-funded, for the year 2011 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 globally renowned risk rating software, the Bank does 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 in the 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. These risk rating grades are then reviewed regularly and corrective action initiated wherever necessary.

Consumer Banking:
Consumer banking is guided and administered by the retail lending policy. Personal loans and residential mortgage loans account for 33.5% and 5.8% 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 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 including their profile as stable employers.

Risk management review of Retail business is achieved through a 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 such as 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 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 and SME portfolio to manage problem loans. This unit provides assistance and advice to customers to recover from problem situations and aid recoveries. The Bank has a robust collection system with dedicated resources to follow-up on overdue of consumer loans so that they don't fall under the NPA category. To handle the NPA of the consumer loan portfolio, the Bank has a dedicated recovery unit.

6) The following table details the criteria used for categorising of exposure into various categories:

SR. No.	Category	Retail loans	Commercial loans (*)
1	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
2	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
3	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
4	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
5	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. 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.

7) The Gross Loans & Advances by category is given in the below table:

Category	Retail	Corporate	Total
		As on 31 Dec 2011	
	RO'000	RO'000	RO'000
Standard	1,901,816	2,628,184	4,530,000
Special Mention	5,535	311,332	316,867
Sub-standard	8,785	23,236	32,021
Doubtful	11,412	28,128	39,540
Loss	26,950	50,548	77,498
Total	1,954,498	3,041,428	4,995,926

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

Types of Credit Exposure	Average Gross Exposure		Total Gross Exposure as at	
	2011	2010	Dec-11	Dec-10
	RO'000	RO'000	RO'000	RO'000
Overdraft & Credit Cards	179,311	168,580	207,823	225,810
Personal & Housing Loans	1,949,143	1,600,552	1,926,270	1,629,816
Loans against Trust Receipts	166,780	142,238	210,800	157,873
Corporate & other Loans	2,253,273	1,913,514	2,509,460	2,075,185
Bills purchased / discounted & other advances	106,402	91,019	141,573	105,508
Total	4,654,909	3,915,903	4,995,926	4,194,192

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

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
Overdraft & Credit Cards	205,041	2,776	-	-	6	**207,823**
Personal & Housing Loans	1,910,639	15,347	7	132	145	**1,926,270**
Loans against Trust Receipts	206,853	3,947	-	-		**210,800**
Corporate & other Loans	2,293,166	205,438	2	3,857	6,997	**2,509,460**
Bills purchased / discounted & other advances	73,278	4,434	-	4,854	59,007	**141,573**
Total	4,688,977	231,942	9	8,843	66,155	4,995,926

10) Industry wise distribution of gross exposures, broken down by major types of credit exposure is given in the below table

Economic Sector	Overdraft & Credit Cards	Loans	Bills / LTR & other advances	Total	Off-Balance Sheet Exposure
	RO'000	RO'000	RO'000	RO'000	RO'000
Agriculture/Allied Activity	2,449	3,084	3,011	**8,544**	18,619
Construction	16,739	43,053	48,610	**108,402**	284,220
Export Trade	501	245	2,127	**2,873**	2,258
Financial Institutions	5,763	153,221	57,555	**216,539**	331,910
Government	14	26,275	30	**26,319**	63,307
Import Trade	21,948	73,945	98,013	**193,906**	128,730
Manufacturing	11,429	220,859	44,319	**276,607**	73,425
Mining & Quarrying	5,743	385,442	13,800	**404,985**	55,892
Personal & Housing Loans	55,200	1,880,425	18,873	**1,954,498**	25,740
Real Estate	5,078	303,132	-	**308,210**	28,816
Services	33,915	487,496	35,201	**556,612**	171,976
Transport	2,233	281,825	1,428	**285,486**	15,543
Utilities	11,074	263,894	492	**275,460**	72,043
Wholesale & Retail	32,888	123,610	25,628	**182,126**	30,028
Others	2,849	189,224	3,286	**195,359**	38,359
Total	207,823	4,435,730	352,373	4,995,926	1,340,866

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

Time Band	Overdraft & 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	39,400	588,900	63,168	23,569	**715,037**
1 - 3 months	9,044	248,527	86,702	79,499	**423,772**
3 - 6 months	8,844	177,279	51,508	16,677	**254,308**
6 - 9 months	8,843	69,146	365	6,993	**85,347**
9 - 12 months	8,844	46,673	-	4,015	**59,532**
1 - 3 years	44,412	682,671	9,045	10,820	**746,948**
3 - 5 years	44,218	407,258	-	-	**451,476**
Over 5 years	44,218	2,215,276	12	-	**2,259,506**
Total	207,823	4,435,730	210,800	141,573	4,995,926

12) 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	8,544	641	-	182	31	50	198
Construction	108,402	17,973	-	7,180	3,176	2,872	1,142
Export Trade	2,873	240	-	67	35	17	-
Financial Institutions	216,539	11,618	-	10,272	1,346	-	-
Government	26,319	-	-	-	-	-	-
Import Trade	193,906	603	-	222	40	2	146
Manufacturing	276,607	17,879	-	8,785	2,520	1,700	3,466
Mining & Quarrying	404,985	323	-	10	285	15	201
Personal & Housing Loans	1,954,498	53,078	-	35,292	5,518	28,568	27,899
Real Estate	308,210	6,630	-	2,371	628	2,794	751
Services	556,612	11,449	-	3,575	436	3,002	252
Transport	285,486	1,074	-	530	75	429	529
Utilities	275,460	341	-	273	13	24	-
Wholesale & Retail Trade	182,126	7,961	-	3,381	1,428	564	5,330
Others	195,359	19,249	-	17,564	1,906	2,870	6,562
Non Specific	-	-	69,353	-	-	13,248	-
Total	4,995,926	149,059	69,353	89,704	17,437	56,155	46,476

13) 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	4,688,977	127,734	69,353	73,050	14,961	53,985	46,476
Other GCC Countries	231,942	21,325	-	16,654	2,476	2,170	-
OECD Countries	9	-	-	-	-	-	-
India	8,843	-	-	-	-	-	-
Others	66,155	-	-	-	-	-	-
Total	4,995,926	149,059	69,353	89,704	17,437	56,155	46,476

14) Movement of gross loans is given in the below table:

Movement of Gross Loans during the year						
	Performing Loans		Non Performing Loans			
Details	Standard	Specially Mentioned	Sub Standard	Doubtful	Loss	Total
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Opening Balance	3,700,161	318,144	31,272	30,876	113,739	**4,194,192**
Migration / Changes	62,189	(237)	5,042	9,266	47,045	**123,304**
New Loans	926,078	26,868	3,670	2,021	6,357	**964,994**
Recovery of Loans	158,428	27,908	7,963	2,598	43,192	**240,089**
Loans written off	-	-	-	25	46,451	**46,476**
Closing Balance	4,530,000	316,867	32,021	39,540	77,498	**4,995,926**
Provisions held	75,145	5,017	8,292	16,224	54,379	**159,057**
Reserve Interest	-	235	762	2,066	14,374	**17,437**

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 49.9% of the total capital of the Bank and 8.7% 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,

15) The exposure-wise summary is as below:

Type of exposure	Rated	Unrated
	RO'000	RO'000
Country	1,345,178	32,336
Bank	1,106,897	206,562

C.3 Credit risk mitigation: Disclosures for Standardized Approach

On and off-balance sheet netting agreements are entered into with the counterparties wherever possible. Whenever entered into 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 and Certificate of Deposits
- 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.

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.

16) 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	53,325
Loans secured by shares	
Commercial loans secured by shares	148,168
TOTAL	201,493

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.

17) Net foreign currency exposure of the bank is as below:

USD,000	Currencies	RO,000
41,494	UAE Dirham	15,975
18,475	US Dollar	7,113
32,010	Saudi Riyal	12,324
3,821	Qatari Riyal	1,471
9,813	Pakistani Rupee	3,778
4,117	Indian Rupee	1,585
8,101	Kuwaiti Dinar	3,119
590	Bahraini Dinar	227
7,340	Others	2,826
125,761	Total	48,418

The net exposure in foreign currencies includes foreign currency exposure on investment in overseas associates and branches of equivalent RO 100 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 various 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 intervals 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 under a static environment to quantify the 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.

18) 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 2011	1,314	2,594	(691)	(471)	(1,694)	(614)
Average for the period	(816)	1,658	(1,691)	(203)	(2,128)	(236)
Maximum for the period	(8,364)	(118)	(5,482)	(1,341)	(4,040)	(1,268)
Minimum for the period	3,432	3,564	490	1,245	(980)	1,382
Impact on economic value						
At 31st December 2011	(143,398)	182,451	(74,899)	83,535	(38,480)	40,402
Average for the period	(128,471)	159,333	(66,984)	73,704	(34,413)	35,808
Maximum for the period	(143,398)	182,451	(74,899)	83,535	(38,480)	40,402
Minimum for the period	(101,681)	127,992	(53,003)	57,323	(27,280)	28,025

Interest Rate Risk in Banking Book (IRRBB):

IRRBB arises from the variance in the repricing characteristics of the Bank's Assets & Liabilities. As part of its Internal Capital Adequacy Assessment process the bank measures IRRBB by quantifying its impact on the economic value of equity. The Bank uses the IPS Sendero system to measure such impact for a given change in the interest rates. An internal model is used to arrive at the stress level for measuring the impact taking into account historical interest rate movements both domestic as well as that of the USD since the Bank has sizeable exposures in both these currencies. The stress level so measured by the Bank is more conservative than the Basel recommended Interest Rate stress for conducting the EVE impact study. The result of the IRRBB simulation is presented to the ALCO on monthly basis for necessary action. ICAAP enables maintenance of appropriate level of Economic Capital to absorb any unexpected decline in earnings.

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 (MTM) 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 of not rolling over existing funding or as a result of general disruption in the markets / run on bank deposits.

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 manages 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 that payment obligations are met in time both under normal conditions as well as stressed conditions.

The Bank consciously diversifies its funding base to include deposits raised from interbank, issue of Certificate of deposits, retail 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 Bank also has conservatively set a Loans-to-deposits ratio to ensure appropriate loan growth in consonance with its deposit base.

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. Concentration of deposits from the Government, Ministries and other Governmental organizations as a percentage of total deposits remained at 33.5% of total deposits. Deposits from any one single individual / corporate is less than 5% 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. Throughout the year the liquidity ratio - liquid asset to total assets was maintained in excess of 26%.

During the year under consideration various events like US rating downgrade, Sovereign debt crisis in the Euro zone, geo-political tensions arising out of sanctions against Iran and the Arab Spring hit the markets resulting in the drying up of Interbank liquidity. The Bank proactively conducted various stress tests to study its preparedness to meet any exigency. The bank's own periodic liquidity stress test was fine-tuned to factor evolving market conditions and the Contingency Fund maintained to meet any unforeseen but plausible liquidity tightness.

E.1 Liquidity Adequacy Assessment Process (LAAP)

LAAP involves a comprehensive liquidity Stress Testing under various stress scenarios and this 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 regularly 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 core committee for Liquidity management meets regularly to take stock of ensuing market conditions and decide upon the scenarios to be considered for the stress tests. The two scenarios that result in the high stress levels are considered for the tests. The Bank maintains a Contingency Funding based on the results of the stress tests and the same is reported to the ALCO on monthly basis. The Bank 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 could be leveraged for 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
- 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 risk that 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 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. Operational risk includes legal risk but excludes strategic and reputational risk.

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 the Basic Indicator Approach for calculating its internal operational risk capital requirements.

Losses from external events such as a natural disaster that has the potential to damage the Bank's physical assets or from 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 the 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 has been 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 such as a fully functional IT Disaster Recovery facility, Business Continuity Plans, 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 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 a 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.

The Operations committee is the primary oversight body for operational risk. The Operations committee is represented by business and control functions and 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:

an internal assessment of operational risks performed by the departments through a Controls and Risk Self Assessment (CRSA) exercise;
an independent assessment of operational risks & controls of various departments conducted by the Internal Audit Department; and
operational loss data collected from

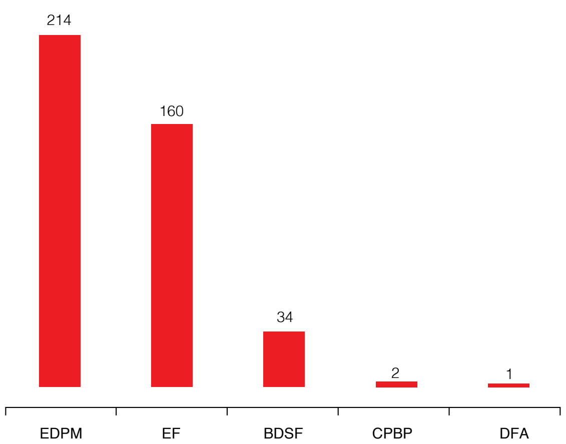
actual and potential loss events and Key Risk Indicators;

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

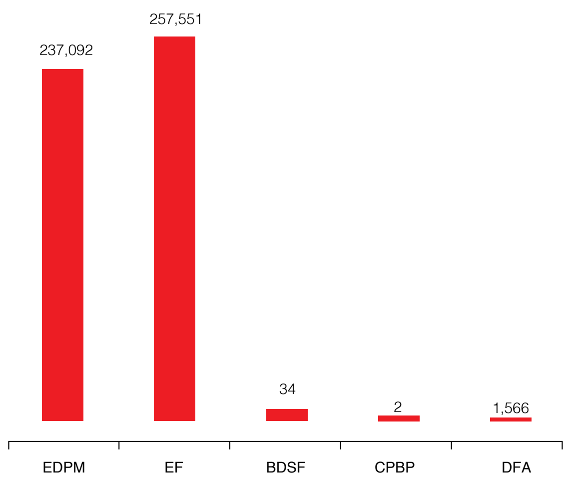
Operational Losses are reported through the Bank's operational risk management tool, "FORTE' OpRisk Monitor". And all the business units are required to report their potential operational losses. The operational loss data collected is categorized by business line and risk type and reported to Senior Management on a periodic basis. Aggregate operational risk losses are recorded and details of incidents above a materiality threshold are reported to the Senior Management, the Bank's Operations Committee and the Board. The Bank also undertakes 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 411 (2010: 196) potential operational loss events occurred and were reported across the Bank during the year, representing a net potential loss of OMR 496K (2010: OMR 817k).

Operational Loss Summary - Risk Event Type

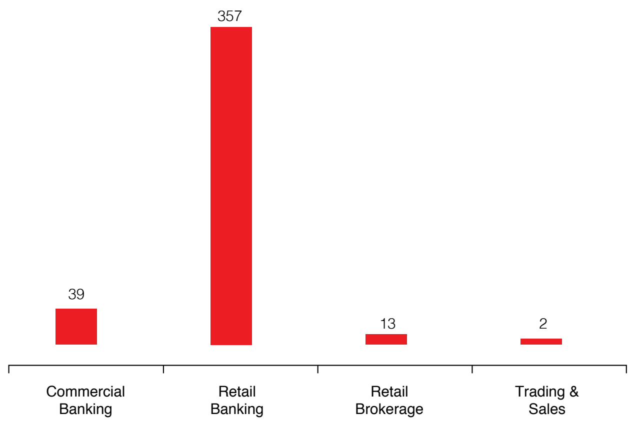


Total number of events = 411

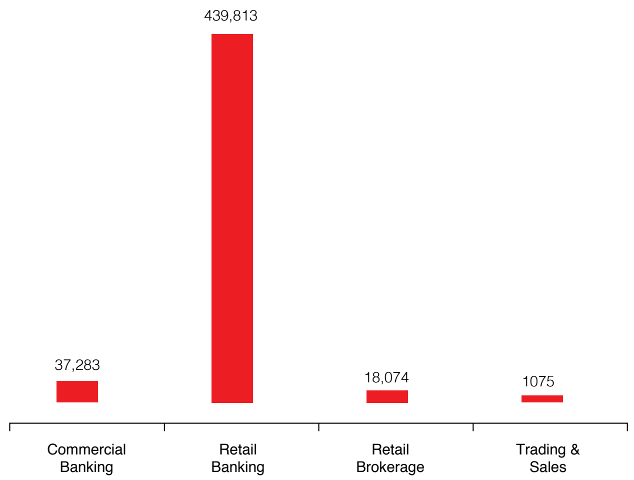


Aggregate net potential loss = OMR 496,245

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



Total number of events = 411



Aggregate net potential loss = OMR 496,245

EDPM: Execution, Delivery and Process Management

EF: External Fraud

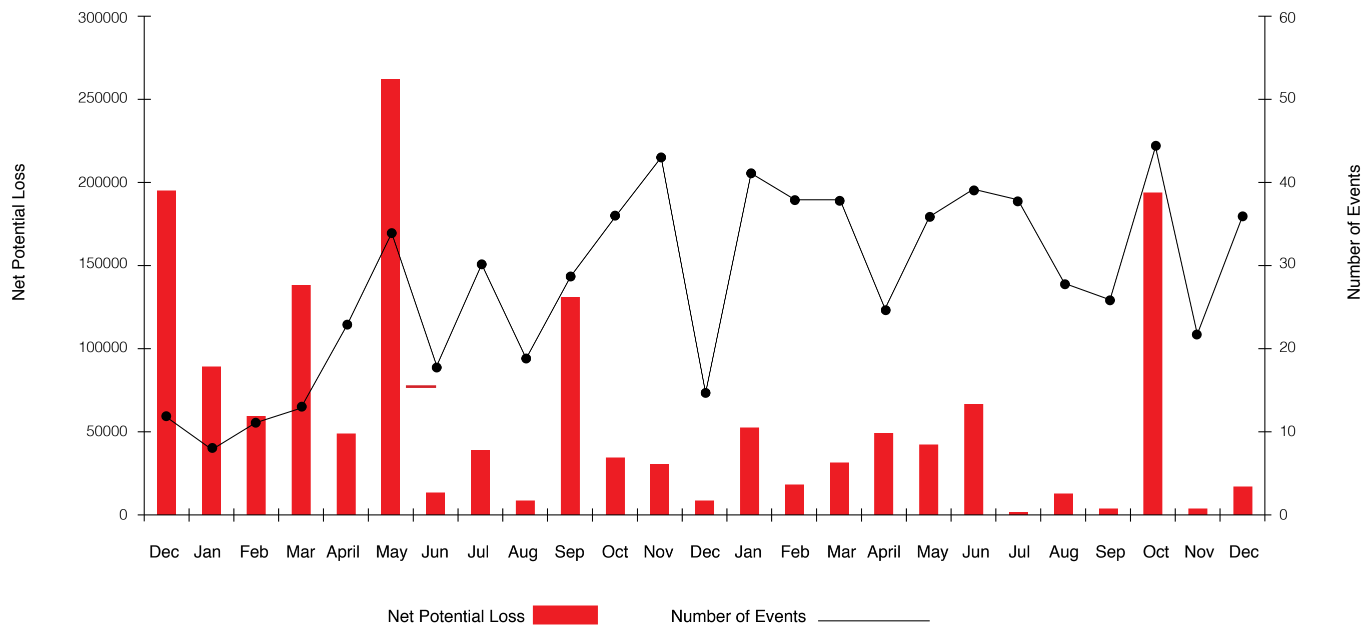
DFA: Damage to Physical Assets

IF: Internal Fraud

BDSF: Business Disruption and System Failures

CP&BP: Clients products and business practices

Operational Loss Reporting Trend for 24 months since December 2009 (Occurred)



Total number of events occuring in 2011 = 411

Total number of events occuring in 2010 = 279

Aggregate net potential loss occuring in 2011 = OMR 496,245

Aggregate net potential loss occuring in 2010 = OMR 871,779

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 a Controls and Risk Self Assessment (CRSA) framework across the Bank. A CRSA exercise is conducted through structured workshops across all the business units on an annual basis.

CRSAs 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.

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

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)

Business Continuity Planning within the Bank is the implementation and management of preventative measures, planning and preparation to ensure the Bank can continue to operate following an incident, significant unplanned event or major operational disruption.

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 as required by the CBO Business Continuity Guidelines, the Basel Committee Joint Forum High-level principles for business continuity and international business continuity standards.

The Bank continuously strengthens and enhances its existing plans by implementing a robust business continuity framework 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. The 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, understood and implemented across the business areas.

The Bank has made significant strides in enhancing its business continuity framework. Some of the major developments in line with the objective of the continuous evolution of the Bank's BCM framework were:

- The BCP Committee met on a number of occasions throughout the year to discharge its responsibilities and a BCP working group was established to ensure Business Continuity continues to be closely aligned and integrated with business initiatives and developments.
- State-of-the-art BCP software was upgraded to provide a closer integration of information between Business Impact Analysis and Business Continuity Plan maintenance and management.
- The existing Business Continuity Management (BCM) was reviewed in view of relocating operations to the new Head Office and to bring the Bank's recovery capabilities in line with the current requirements. Fire evacuation response leaders were appointed and trained.
- Fire evacuation drills were conducted for each section of the Seeb Head Office and a collective, fully fledged surprise fire drill and evacuation was conducted in conjunction with the Royal Oman Police.
- The Bank's fully fledged Business Recovery centre was relocated and expanded extensively to provide an enhanced capability to meet future demands and ensure the continual operational capability in the event of a major operational disruption.
- The IT department undertook initiatives to enhance the speed and recovery capability of the Bank's key systems and applications.
- Comprehensive testing of the recovery of the Bank's key systems and applications was conducted in conjunction with the Business areas.
- Business continuity is becoming more integrated with other risk management activities to provide better understanding of risk and enable better risk based decisions within 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

1. Financial reporting risk
2. Information risk
3. People risk
4. Compliance risk
5. Technology risk
6. Reputation risk

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 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. The Bank has an Anti Fraud programme in place and has developed a methodology for undertaking a fraud risk assessment and has a Fraud Monitoring team in place. All the officers of the Bank undergo continuous training on AML and have to take a computer based test on AML.

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. During the year the Bank won the award for overall winner and 1st place in the financial sector category for Corporate Governance Excellence Awards hosted by Capital Market Authority.

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.

The Bank has an established and mature information risk management function which, during the year, has further enhanced the level of controls on the security of information across the Bank. Key information risk management initiatives completed this year include:

- Development of an Information Security Risk Governance and Assessment Framework;
- Updates to the Bank's minimum security baseline standards;
- An extension to the scope of the Bank's Information Security certification programme;
- Further development and enhancement to the Bank's Information Security Management System;
- Implementation of a Data Loss Prevention infrastructure;
- Enhanced technical controls for the protect of Information Security;
- The implementation of a Security Information & Event Monitoring Solution.

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 now successfully completed its annual surveillance audit for the ISO/IEC 27001:2005 Certificate. The Bank has also now completed the pre-certification audit for the extended scope of its ISO/IEC 27001:2005 Certificate program. The final certification Audit is scheduled in the month of January 2012.

People risk:
People risk is a risk to which every employer is exposed to. 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 its 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 focus on 13 process area 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 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 for managing 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 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.

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:

- An Information Technology Committee to oversee the strategic direction of information technology within the Bank;
- An Information Security Committee that oversees and supervises the information security across the Bank; and
- A 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
Group General Manager - Corporate Banking & International Operations

K. Gopakumar
Group General Manager - Retail Banking, Investment Banking & Global Markets

Sulaiman Al Harthy
Group General Manager - Islamic Banking

Waleed K. Al Hashar
Group General Manager - Corporate Services

Abdul Kader Darwish Al-Balushi
General Manager - Credit

Leen Kumar
Chief Risk Officer

Marco Wolters
General Manager, Information Technology, Operations & Infrastructure

Thomas Gerard Totton
Chief Internal Auditor

Abdullah Al Hinai
Deputy General Manager - Investment Banking & Financial Institutions

Ali Said Ali
Deputy General Manager - Asset Management & Private Banking

Naresh Chandwani
Deputy General Manager - Operations

Rajshekar Singh
Deputy General Manager - Project & Structured Finance, Syndications & Overseas Credit

Said Ahmed Al-Badai
Deputy General Manager - Branches

Said Salim Al Aufi
Deputy General Manager - Special Projects

Salim Mohammed Al-Kaabi
Deputy General Manager - Human Resources

Shamsa Al-Seefi
Deputy General Manager - Information Technology

Yaseen Hassan Abdul Latif
Deputy General Manager - Support Services

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

Abdul Nasser Al-Raisi
Assistant General Manager - Corporate Credit & Marketing

Abdul Wahid Mohammed Al-Murshidi
Assistant General Manager - CEO Muscat Capital LLC

Abdullah Tamman Al Maashani
Assistant General Manager - Direct & Institutional Sales

Ahmed Faqir Al-Bulushi
Assistant General Manager - CEO Riyadh Main Branch

Ahmed Musallam Al Barami
Assistant General Manager - Chairman's Office

Ahmed Omar Al-Ojaily
Assistant General Manager - COO Riyadh Main Branch

Ali Mohammed Amin Moosa
Assistant General Manager - Central Operation

Damian John O'Riordan
Assistant General Manager - Compliance

Ilham Murtadha Al Hamaid
Assistant General Manager - SME Credit & Marketing

Isaac Varghese
Assistant General Manager - Human Resources

Mallikarjuna Korisepati
Assistant General Manager - Treasury

Manas Das
Assistant General Manager - International Operations

Mathilakath Krishnadas
Assistant General Manager -Credit & Recovery

Mohammed Mubarak Al-Hassani
Assistant General Manager - Corporate Communications & Corporate Social Responsibility

Nilesh Gavankar
Assistant General Manager - Investment Banking

Shaikha Yousuf Al Farsi
Assistant General Manager - Financial Control, Planning & Strategy

T. Ganesh
Chief Financial Officer

Tariq Atiq Khan
Assistant General Manager - Cards & eBanking

MANAGEMENT DISCUSSION & ANALYSIS 2011

AbdulRazak Ali Issa
Chief Executive

Global Economy

The global economy started 2011 in a recovery mode, but with some key economies seeing poor if not contracting growth by year end. According to IMF data, the world growth slowed down with the global real GDP growth as a whole at 3.8 per cent. Real GDP growth in advanced economies was estimated to be just 1.6% in 2011 as against the forecast 2.2% and 6.2% in emerging and developing countries as against the forecast 6.4%.

Global unemployment was a key issue facing the global economy in 2011, particularly in advanced economies. However, the outlook for developing countries is not risk-free as countries with open economies and dependence on demand in developed markets could struggle.

Oman's Economy

Oman embarked on the 8th Five-Year-Plan in 2011 with its economic trajectory looking positive with an average 6% real GDP growth forecast during the Five-Year-Plan period. The Sultanate exceeded the anticipated real GDP growth of 5% in 2011 and recorded 7% growth on the back of strong oil revenue, according to the Ministry of Finance. The

PASSION TO PERFORM: BUSINESS LINES OVERCOME CHALLENGES

Sovereign debt and government budget deficits dominated the news, particularly in the eurozone. The state of government finances in advanced economies continues to pose a challenge for the global economy. OECD figures for the first three quarters of 2011 show growth of 6.8% in world trade over the same period in 2010.

The world economy is forecast to grow by 3.3% in real terms in 2012, down from 3.8% in 2011 and 5.2% in 2010. The slowdown is a consequence of financial instability and fears of sovereign risk, which threaten to spread beyond a few European economies. As a result, stimulus programmes launched in 2010-2011 are being replaced by austerity measures. The outlook is brighter for developing countries. External demand is weakening but in most emerging economies domestic demand should support growth until the world economy becomes healthier.

budgeted oil revenue was based on $58 per barrel and production of 896,000 barrels per day whereas the average price stood at $102 per barrel, leading to a budget surplus above RO 900 million. In the Global Competitiveness Report, the World Economic Forum (WEF) ranked Oman 32nd among 142 countries, an improvement of two places from 2010 and nine places from 2009. The report highlighted Oman's excellent macroeconomic environment, high quality infrastructure and liberal tax regime as the main reasons for the rapid growth of economic potential. With initiatives from the government to increase the private sector's role in the country's economic development, Oman is on the right track to improve its competitiveness even further.

Financial sector

The well-regulated banking and financial sector recorded a healthy performance in 2011. The banking system in Oman witnessed steady growth, consistent with recovery of the real economy. The combined balance sheet of commercial banks indicated modest growth in all major banking aggregates. Total assets of Commercial banks increased by 17.5% to RO18,388 million in 2011 compared to RO15,647.7 million in 2010. Total credit grew by 16.7% to RO12,514.9 million in 2011 and accounted for 68.1% of total assets. While credit to government declined by 31.2% in 2011, credit to public enterprises and the private sector increased by 58.4% and 13%, respectively.

On the liabilities side of the balance sheet, total deposits in Riyal Omani plus foreign currency deposits witnessed a year-on-year growth of 19.6% to RO12,573.3 million in 2011 from RO10,516.8 million in 2010.

The low interest-rate regime in the banking sector in Oman is likely to continue in 2012, in line with the historically low rates in the US. With a strong project pipeline and continued government spending, the credit demand will continue to grow in 2012. The equity market reflected global trends as the MSM 30 index recorded a 15.69% decline in 2011.

The number of licensed banks operating in the Sultanate stands at 19, of which 7 are registered local commercial banks, 10 foreign banks and 2 specialised banks. The proposed launching of Islamic banking operations on the directive of His Majesty Sultan Qaboos will contribute to the socio-economic development of Oman, heralding the new era of Islamic financial intelligence in the growing field of alternative banking and finance.

Opportunities and Threats

As the leading Omani bank, BankMuscat enjoys a 40 per cent market share in Oman, with over $16 billion of assets, capital of over $2 billion and a customer base of over 1.2 million. The Bank is rated 'A1' by Moody's and 'A-' by Standard & Poor's. The bank has an extensive network of branches in Oman, direct and indirect presence in all six GCC states as well as an office in Singapore which focuses on financial institutions and trade business.

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 per cent 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 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 on the large network of branches and other delivery channels to target the growth potential and cross-sell opportunities. BankMuscat's presence has strengthened in all parts of Oman through the widest network of 130 branches, 520 ATM/CDMs and 5300 PoS terminals. 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.

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. The year 2012 will be a period of increasing competition for the banking sector with emphasis on Islamic banking, 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 2011. The Bank's core business activities are divided into these broad areas: Corporate Banking, Consumer 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.

Consumer Banking

Saving Accounts: As the nation's leading bank, BankMuscat continued to play an active leadership role in promoting the savings culture in the Sultanate through innovations throughout the year. The Bank's flagship al Mazyona Savings Scheme achieved the historic milestone of 20 years in the Sultanate. On this occasion, the Bank re-launched the popular al Mazyona by introducing a 'loyalty factor' for the first time in the country. Accordingly, customers who have been saving money with the Bank for a longer period got preferential chances to win prizes. Customers responded very positively to this and the Bank increased the savings deposits portfolio to achieve a historic milestone of RO 1 billion.

Continuing to strengthen the savings habit, the Bank launched Themaar Retirement Savings Plan to encourage customers to start systematic savings for securing their future through a fixed pension. The Themaar Higher Education Savings Plan benefited close to 15,000 customers within one year of its launch.

Cards and ePayments: The Card Business and Acquiring Services department was renamed in 2011 as Cards and ePayments department in view of the strategic importance of promoting the electronic payment business in the country. The department has always been at the forefront in facilitating electronic payments at government departments as well as all major retail outlets in the country. The department considers itself an important partner in promoting His Majesty's vision of a cashless society by 2020. In 2011, the department supported the government in many initiatives, including the distribution of grants to unemployed youth across the country. This was done in record time at a very sensitive time and well appreciated by the government. As part of its plan to improve the electronic payment infrastructure in the country, the department successfully launched its solution for accepting electronic payments at unattended terminals. This solution is presently being used by a major utilities provider and a theatre chain in the Sultanate.

The department organised many campaigns during the year with the objective of making electronic payments a habit and preference. The biggest of these was the BankMuscat Shopping Festival for the second year in running.

The 40-day campaign was a big success as retail participation was expanded across the country. As part of its focus to launch customised products, the Zeinah debit card was launched exclusively for women as part of the Zeinah suite of products.

The department has exciting plans for the future and is now expanding its footprint across all electronic channels such as ATMs, CDMs, Internet and Mobile Banking. There are many exciting services planned for the future with the objective to move customers away from traditional brick and mortar branches to modern virtual branches which could offer services to customers 24*7.

- **Sales Department:** Driven by the motto 'Being Close to you', the initiatives by the department included facilitating BankMuscat counters at select Ministries and Corporates to serve them better at their doorstep; providing alternative channels such as Mobile ATM, Internet Banking, SMS Banking; 24/7 Money Transfer facility through CDM, mobile phone and Internet Banking.

  The department provided customised schemes during special occasions like Muscat Festival, Ramadan; participated in national events such as Asian Beach Games; organized 'baituna souq' in line with the national objective of providing a 'home for every family'. Supporting e-governance initiatives, the department participated in the National PC Initiative.

- **Sayyarati:** The Bank's auto loan product witnessed a substantial 70 per cent increase in disbursement in terms of value and the portfolio growth was estimated at 47 per cent YoY. The growth has been phenomenal since its launch in 2008 making Sayyarati the most preferred auto loan product in the Sultanate. The portfolio of Sayyarati stood at RO 71.4 million in November 2011.

- **Expat Services:** In 2011, the Expat Services department offered top class products and services to both Asian and European customers. The entire range of products, including third party products, was carefully selected to meet the key short-term and long-term financial requirements of expatriate customers.

- **Islamic Banking**

  In line with the Royal directive of His Majesty Sultan Qaboos bin Said on Islamic banking which marked a milestone in the modern history of banking and finance in the Sultanate of Oman, BankMuscat decided to set up an independent Islamic banking window at the Bank and launch Islamic banking operations in accordance with the injunctions of Sharia, subject to approval from the Central Bank of Oman. The Bank aims at introducing the most trusted and innovative Islamic banking products in the Sultanate. For this purpose, the Bank announced the brand name 'Meethaq' for the Islamic banking window and formed a 3-member Sharia board to ensure the Meethaq operations are in compliance with Sharia. The BankMuscat Sharia board members are Sheikh Dr. Ali Quradaghi, Chairman, Sheikh Essam Muhammad Ishaq and Sheikh Majid Al Kindi.

  The Meethaq window will hold aloft BankMuscat's legacy in terms of standard of excellence, customer-centric service and transparency while delivering Islamic financial services. A Sharia review and monitoring unit has been established under the direct supervision of the Sharia board in order to oversee the Islamic banking operations. The importance of a clear segregation of funds policy and process is at the heart of establishing the Sharia authenticity of Meethaq window and will ensure full compliance when Meethaq is subjected to Sharia audit. The purpose of the segregation of funds is to assure the proper utilisation of funds as per the Meethaq mandate, expectations of depositors, and CBO circulars governing Islamic windows. The Bank has built a very strong system to ensure the segregation of funds between Meethaq window and its conventional counterpart.

Corporate Banking

As the leading Corporate Bank in Oman, strong customer relationship remains fundamental to the growth of corporate business with focus on quality of loan assets and building customer confidence. Although global financial markets continued to witness turbulence, corporates in the Sultanate continued to express confidence in the Bank. The Bank maintains its emphasis in supporting feasible projects in core areas such as oil and gas, petrochemicals, large-scale industry, shipping and contracting. The Bank successfully completed, inter alia, financing of Sohar Free Zone, a specialty steel project, expansion of the cement sector and a syndicated facility for the integrated tourism project Wave. Alongside involvement with large-scale projects, the Bank took cognisance of the importance of a robust small and medium enterprise sector as a key driver in the economic development of Oman. These projects are expected to have several spin-off benefits, including economic diversification and increasing employment.

The SME department partnered with the Ministry of Commerce & Industry to launch the government guaranteed loan programme in support of SMEs. The Bank also signed a $170 million subordinated loan agreement with the IFC Capitalization Fund to strengthen the capital base and help increase access to finance for small and medium enterprises (SMEs) and middle-income home buyers.

Investment Banking

The Investment Banking business activities include Corporate Finance and Advisory, Brokerage and Research. For the fourth year in a row, BankMuscat figured in the global list of financial advisors for mandates won in the advisory league tables published by Infrastructure Journal and was ranked 22nd globally. BankMuscat won the Best Investment Bank in Oman award by Global Finance. The Renaissance Services subordinated debt financing transaction earned the Bank the Banker's Middle East Deal of the year 2011 award. The Bank also won the Best IPO in the Middle East award for Nawras IPO while the Barka III, Sohar II IPP deal were awarded the best Power Deal award by EMEA Finance.

Oman Fixed Income Fund (OMFI) announced the final dividend distribution of 4.36% of its paid-up capital for 2011. With this, OMFI investors realised annualised dividend yield of 7.66%. The Bank was appointed as the Financial Advisor and Issue Manager of SMN Power's initial public offering, which was the only IPO to be launched in Oman in 2011. The Bank hosted the second international investor conference with country specific focus on Oman and Saudi Arabia which attracted prominent foreign, regional and local institutional investors focus. About 15 leading companies from Oman and Saudi Arabia were showcased at the conference.

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 MSM.

Treasury

BankMuscat is the only bank in the Sultanate that offers the full suite of Treasury products and services. The premier service encompasses East Asian time as well as early New York time zones spanning all international and GCC working days. For the eighth consecutive year, the Bank received the Best Foreign Exchange Bank in Oman award for 2011 from Global Finance.

The department facilitated the first steel hedging transaction in Oman. In these challenging times, the department raised more than $1 billion of foreign currency funds through overseas branches and by using RO to USD swaps. The Bank won the Euro STP Excellence Award from Deutsche Bank for exceptional quality of forex transactions. The department also facilitated a Yuan account with Bank of China, becoming the first Omani bank to enable payments in Chinese currency to facilitate trade and investment flows between China and Oman as well the larger GCC region.

Financial Institutions Group

The Financial Institutions Group (FIG) coordinated raising about US$ 550 million by way of syndication / club loans, including US$ 300 million of 3-year funds and US$ 250 million of part rollover of an earlier syndicated loan facility. The success of the issues symbolised BankMuscat's relationship-based approach and confidence of international banks.

Standard & Poor's upgraded BankMuscat's Long Term Rating to 'A-' from 'BBB+'. This was a significant development in the current economic environment signifying the trust reposed in BankMuscat by the analytical and investor community. The Issuer Default Ratings / Long Term Ratings were also affirmed by the other rating agencies.

China Desk, the strategic tie-up between BankMuscat and Bank of China completed its second year in operation and lived up to expectations. The trade finance volumes generated out of this arrangement were consistent and grew multi-fold. FIG and BankMuscat's Saudi Arabia branch hosted a client event in Riyadh for Chinese corporates. This was in continuation of a similar event organised in Kuwait. FIG, in a joint initiative with the Learning & Development department, collaborated with reputed global banks to organise a customised 'on-the-job' training programme for Omani staff. The staff members were sent to international locations to understand the products, processes and best practices pursued by global banks. The knowledge sharing was aimed at continuous improvisation of the Bank's systems and delivery standards.

Partnering with select international banks, BankMuscat was the mandated lead arrangers to the successful syndications for BMI Bank Bahrain and People's Bank Sri Lanka. These transactions further cemented FIG's capabilities in raising funds for international banks.

Asset Management and Private Banking

The department raised $100 million and offered fixed income portfolio to clients. The Oman Premier Fund was launched through Muscat Capital, a subsidiary of BankMuscat in Saudi Arabia. The open-ended feeder fund is targeted at Saudi investors interested in investing in companies listed on MSM through BankMuscat Muscat Fund.

The BM S&P GCC Large Cap Index Fund was launched, directed at institutional investors seeking to tap into the attractive growth potential of the regional markets. The open-ended specialised investment fund is domiciled in Luxembourg and tracks the S&P GCC Large Cap Composite Index.

BankMuscat Muscat Fund and Oryx Fund retained their 'AA' rating by Standard & Poor's. The high ratings by the world's leading independent credit rating agency reinforced the superlative performance of the funds in challenging situations.

Human Resources Management

The Human Resources Management division supports the growth of the Bank internationally and within the Sultanate. Scripting benchmark human resources development processes, the HRM role primarily revolves around as a planner and change agent. The Bank adopted innovative strategies to equip Omani staff to take up leadership positions in tandem with future challenges.
The Bank implemented a comprehensive Learning & Development strategy for skill and knowledge enhancement vis-à-vis the requirement of various departments. The multi-skill development programmes benefited a large number of staff. The Bank continuously invests

to build human capacity and create career opportunities for highly-qualified Omani nationals. The Bank was able to derive maximum mileage out of its HR processes as most of its middle and senior management cadres are drawn from within the Bank.

BankMuscat has the distinction of outstanding Omani leadership at all levels. The Bank achieved qualitative advance in the human resources sector as it attracted the best Omani cadres for employment at all levels. The Bank has succeeded tremendously in this respect as in 2001 there were only six Omani graduates and 150 diploma holders, compared to the 2011 figures of 1,296 Omanis with Master's Degree, 464 with Bachelor's Degree and 1,131 with diploma certificates, in addition to others with post-graduate certificates.

Women empowerment strategy

The Bank's women empowerment strategy is notable as 42 per cent of staff are women holding various positions, including senior management positions. In 2011, 15 young women leaders underwent the Results Centred Leadership Development and Coaching Programme run by the Achievement Centre, Canada. The 15 managers were selected for the programme on the basis of their leadership potential and the Bank's desire to develop its future leadership pipeline. BankMuscat is keen to develop its leadership pool from among the young Omanis, thereby contributing to Oman's future by investing in talent which is the real wealth of the nation.

Learning and Development Strategy

The people learning and development strategies of the Bank are integrated with its overall strategies. HR and Learning and Development Departments draw up plans and initiatives based on the business plan of the Bank.

BankMuscat is reckoned a competency-based organisation. In execution of the Royal directives of His Majesty Sultan Qaboos which emphasise the need to pay attention to training and development needs of human resources, the Bank achieved a series of successes in the human resources sector, all of which reflect positively on the performance and development of the Bank's operations not only in the Sultanate but also at the regional level. This has been the result of the prudent strategy and philosophy adopted by the Bank's Board of Directors and Executive Management focusing on the development of employees as a fundamental requirement for achieving success.

During 2011, BankMuscat organised 495 training courses in different banking specialisations which provided more than 11,500 training days. Besides in-house training programmes, co-operation with international training institutes resulted in providing first-grade training for employees, which in turn reflected positively on their performance, skills and capabilities, which essentially forms the basic objective of training and development. The number of employees at BankMuscat is constantly growing as per the Bank's requirements and approved plans in this respect. At the end of October 2011, the number of employees reached 2,904, including male and female staff working in all departments as well as branches across the Sultanate. The Bank has achieved 92.98 per cent Omanisation, giving priority to young Omanis for important positions.

Information Technology

The Information Technology department runs all its projects and programs through a strong portfolio governance framework. This is done to attain maximum benefit delivery by addressing risks of dependency at the very early stage and plan accordingly. This helped in continuously aligning projects/programs to changing priorities of the business as per market demands. Projects and programs that focused on high business benefits, risk mitigation, compliance or service improvement were delivered throughout the year. Based on recommendations of the BCP committee, IT implemented a state-of-the-art Disaster Recovery Solution with 52 applications using VMware solution. The solution reduced the infrastructure requirements of production servers by 20 per cent through server consolidation. A complete failover of 50 applications, including T24 Core banking system, was conducted with the Disaster Recovery site operational for a full day without any loss of data. The Disaster Recovery project provides the Bank with its business continuity, thereby reducing risk.

Risk Management

The Bank considers risk management as an area of core competence and continuously strives to strengthen its capabilities in this area. The enterprise-wide risk policy approved by the Board sets forth the risk appetite for the Bank

against the backdrop of its business strategy and operating environment. The risk appetite is then cascaded down to different risk types across business units. The Bank has robust systems and processes to monitor compliance to risk limits on a continuing basis and initiate corrective action where necessary.
The Bank has in place a well tested rating model for corporate and bank exposures. During 2011, it adopted rating models for Project Finance and SME lending. In line with the requirements of operating environment, enhanced controls were established around treasury and investment operations to ensure desired level of management of market risk. The Bank's prudent approach to risk is reflected in the results which show an improved performance despite the challenging operating environment.
With the Bank's operations moving to a new Head Office building, the Business Continuity Plan was completely revised and a Business Recovery Centre with around 350 seats created and tested. The Bank's IT disaster recovery capability was also significantly upgraded and all core applications successfully tested for a failover. The enhanced capability has given the Bank the confidence that it would be able to continue to function and provide services to customers in case of an unforeseen adverse event.

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 operations. The department plays a key role in capital management and capital supply.

International Operations

The year 2011 was a challenging year for the banking sector in the GCC region, reflecting the uncertainties in the global economic environment. Growth in private sector credit has been weak ever since the crisis in 2008 and GCC banks continued to remain risk averse.

Growth momentum is being reflected in Qatar and Saudi Arabia, aided by generous government spending programmes and continuing high oil prices. However, credit growth in Kuwait has been virtually stagnant since 2009, primarily due to slow implementation of announced projects. The social unrest in early 2011 affected Bahrain the most, with its consequent impact on key sectors of the economy.

Despite the challenging external environment, the performance of the Bank's international entities reflects an improving operating trend. While there has been some additional provisioning in BMI Bank, this has been significantly lower than witnessed in the last two years.

During 2011, the Bank marked its presence in Southeast Asia with the opening of its Representative Office in Singapore. With this expansion, the Bank is well positioned to benefit from the trade flows between Asia and the GCC, which have witnessed rapid growth in recent years.

The focus for the Bank now is to strengthen its position in the individual markets, by scaling up businesses and improving operating performances with the aim of deriving the benefits of its international network. In its endeavor to increase scale and operating efficiencies, the Bank continues to evaluate opportunities for inorganic growth as well as operating licences.

Performance Summary of Overseas Entities

1) Overseas Branches

a) Riyadh (Saudi Arabia) Branch

For the year ended December 31, 2011, Riyadh branch posted an operating profit before provision of SAR 13.9 million. Due to net provisions of SAR 17.5 million, the Branch recorded a net loss of SAR 3.5 million. Of the provisions taken in 2011 amounting to SAR 17.5 million, SAR 15.1 million were on account of general provisions.

The total assets as on 31 December 2011 stood at SAR 5,452 million, while the Net Loans and Advances stood at SAR 1,418 million and Customer Deposits at SAR 4,854 million. The total off-balance sheet (non-fund) position of the branch was SAR 352 million.

b) Kuwait Branch

Kuwait branch recorded a net loss of KD 0.71 million for the year ended December 31, 2011. 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 2011 stood at KD 73.5 million, while the Net Loans and Advances stood at KD 12.5 million and Customer Deposits at KD 47.5 million. The branch had an off-balance sheet (non-fund) position of KD 33.9 million.

2) Subsidiaries and Associates

a) BMI Bank (Bahrain)

Despite the challenging local environment in Bahrain, BMI earned a modest operating profit of BHD 2.3 million for the year ended December 31, 2011, witnessing an improved performance particularly during the second half of the year. The bank recorded a net loss of BHD 3.4 million for the year, primarily owing to losses reported during the first half of the year. The bank continued to be comfortable on the capital adequacy and liquidity front. Capital adequacy as on 31 December 2011 was 19.4%, which is well above the current regulatory requirements.

b) Mangal Keshav Holding Limited (India)

Mangal Keshav Holding Ltd. (MKHL), the India based securities, brokerage and wealth management company, recorded a net profit after tax of INR 75.5 million for the 9 months ended December 31, 2011. Despite a profitable bottom-line, the Company's profits are relatively lower than that in the corresponding period in 2010 owing to uncertain local capital markets. The Indian stock market declined significantly during 2011, resulting in a slowdown in MKHL's brokerage activity. Further, the significant depreciation of the local currency has impacted the Bank's carrying value of the investment.

c) Muscat Capital (Saudi Arabia)

Muscat Capital, the Saudi based subsidiary, recorded a net loss of SAR 16.1 million for the year ended December 31, 2011, primarily in the nature of operating losses. The company's operating income at year end stood at SAR 3.8 million, which pertains to the brokerage and wealth management business as well as interest from fixed deposits. The net worth of the Company stood at SAR 61 million as on 31 December 2011. The capital of the Company was increased by SAR 25 million in line with the guidelines for minimum net capital position as stipulated by the Capital Market Authority, Saudi Arabia.

Awards and Recognition

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

- Standard & Poor's raised the long-term rating on BankMuscat to A- from BBB+ and affirmed the A-2 short-term rating. The long-term rating is one notch higher than the Bank's stand-alone credit profile as S&P views the Bank as having high systemic importance in Oman.

- With a brand value of $300 million, the Bank was ranked among the top 500 global banking brands by The Banker magazine.

- For adopting benchmark human resources process improvements, the Bank achieved a global first, winning the prestigious Level 3 People Capability Maturity Model (PCMM) certification.

- The Bank achieved a remarkable ranking, being the only bank from Oman to make it to the first-ever ranking of the 50 Safest Banks in Emerging Markets by Global Finance.

- The Bank won top honours as the overall winner and the first place in the financial segment, in the Corporate Governance Excellence Awards hosted by Capital Market Authority (CMA).

- Reckoned the most prestigious global banking award, the Bank won for the ninth time the 'Bank of the Year – Oman 2011' award by The Banker.

- For the second year in running, Muscat Fund and Oryx Fund, the leading investment funds to tap high performance companies in Oman and the GCC region, retained their 'AA' rating by Standard and Poor's.

- The landmark headquarters of BankMuscat won the first MEED Quality Award for projects.

- The Bank achieved double honours at the Asian Banker Awards 2011, winning the Asian Banker Talent and Leadership Development Award while Abdullah Al Hinai, AGM – Investment Banking, won the Promising Young Banker Award. Both the awards highlighted the Bank's achievements in human capital development.

- Global Finance conferred the Best Bank, Best Foreign Exchange Bank, Best Emerging Market Bank and Best Trade Finance Bank in Oman awards on the Bank.

- The Bank won the prestigious Asia's Best Employer Brand and Asia's Best Brand awards in recognition of building a successful global brand.

- The Bank won the Asian Banking and Finance Best Retail Bank of the Year award.

- The Bank won the Middle East Investor Relations Award as the Best Company for Investor Relations in Oman.

- The Bank's Meethaq Islamic Banking operations, subject to approval from the Central Bank of Oman, won the Pioneer of Islamic Banking in the Sultanate Award from Global Islamic Finance.

- The Bank won the Best Bank in Oman, for the third year running, and the Best Asset Manager and Broker in Oman awards, for the second year running, by Emeafinance.

- The Bank won the Best Broker in Oman and the Best Asset Manager in Oman awards by Global Investor.

The Year Ahead

The outlook for Oman's economy in 2012 is positive as the government has announced a 12% increase in spending, based on oil price pegged at $75 a barrel and a daily production of 920,000 barrels. Fiscal surplus is also anticipated in 2012 on the back of supportive oil prices. Indications are that infrastructure projects will continue to give a fillip to the economy in 2012 as part of the 8th Five-Year Plan strategy.

The social sectors will also witness sustained focus with increased allocation for education, health and social security, leading to a balanced and healthy growth. The diversification of the economy is proving beneficial in tackling risks emanating from reliance on the oil and gas sector. Boosting exports, encouraging investment and devising a strategy to expand productivity, as well as controlling inflation, will be critical to sustaining growth in 2012. The government is also committed to giving priority to creating jobs for Omanis, developing agriculture and other non-oil sectors, especially small and medium enterprises (SME) by encouraging the private sector to invest in such projects. The government is also committed to attracting foreign investment in order to sustain growth in infrastructure, industry and tourism sectors. Domestic liquidity is expected to remain adequate as well as access to foreign currency funding at lower costs. The outlook on Oman is positive due to relatively healthy and sustained economic growth.

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. The opportunity arising from Islamic banking is also expected to help the Bank further consolidate operations.

CORPORATE SOCIAL RESPONSIBILITY

While endowed with a global outlook, BankMuscat remains Omani at heart - a truly classic case of services without boundaries. BankMuscat is the first Omani bank to establish a full-fledged Corporate Social Responsibility (CSR) department in Oman. Considered among core values, the CSR policy stems from the Bank's strong belief in the importance of social responsibility. The Bank is of the view that its social responsibility is not merely participation in charitable works and organisation of voluntary campaigns, but responsibility towards all-round development of society.
BankMuscat is committed to the development of Omani citizens and progress of society. The Bank strongly believes in the need for bringing about a positive change in the lives of different segments of society and focuses on all types of projects that fall within the framework of social responsibility and their importance and overall benefit both to society and individuals. The prime consideration includes the benefit reaching the largest number of individuals; the youth and job-seekers and provision of opportunities for the development of skills/human capital. Efforts are also targeted at individuals with special needs to enhance their capabilities with the aim of integrating them into mainstream society. The strong CSR message emanating from BankMuscat is the result of a unique team work contributing to its success.

In August 2008, BankMuscat established the dedicated department assigned with the task of carrying out social responsibility or as some call it, "social investment". The initiative was on the basis of a new approach adopted by the Bank, aimed at serving important social and humanitarian requirements with the purpose of bringing about positive changes in society through effective partnership between all sectors.

BANKING CULTURE: STAFF COMMITTED TO CREATE POSITIVE SOCIAL IMPACT

The BankMuscat CSR Vision

Through the vision and support of the Board of Directors and Executive Management, the Bank ensures 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 the Bank employees to undertake voluntary social activities benefiting society
- Developing a world class work environment with Human Resources policies that create a healthy work environment and culture.

CORPORATE SOCIAL RESPONSIBILITY (CSR)

The supervision and execution of BankMuscat CSR activities is managed through the CSR Committee which focuses on the following areas to deliver its vision.

- **Education and training:** By providing Omanis with education and skills required to increase their potential and opportunities for employment.
- **Health:** Active involvement in health related initiatives by donating medical equipment to hospitals and organising health awareness programmes.
- **Economy:** Encouraging small businesses so that local communities benefit from creation of employment which in turn injects money into the local economy.
- **Community:** The Bank supports projects to assist people from low-income families.
- **Environment:** The Bank is committed to pursuing environmentally responsible practices. This is reflected in the design and construction of the Head Office building and all other initiatives of the Bank.

- **People:** The Bank employs 2904 staff members and has achieved 92 per cent Omanisation, empowering all to contribute to the growth and success of the organisation. The Bank is committed to significant investment in Learning and Development programmes as part of benchmark Human Resources process improvements.

During 2011, the Bank launched a number of initiatives benefiting various sections of society.

Job Training for Hearing Impaired: The Bank considers the strategy of equipping Omanis with education and employable skills as the most effective and valuable means to fulfill the CSR objectives of sustainability and empowerment. As part of efforts in empowering the physically challenged, the Bank in partnership with Carrefour hypermarket selected a group of 15 young Omanis suffering from hearing and speech impediments for a job training programme. On completion of training imparted through sign language, the 15 hearing impaired youth were absorbed by Carrefour as cashiers.

Addressing the educational, social and economic needs of the physically challenged, the Bank facilitates employment opportunities and secured income for the physically challenged, thereby empowering them to actively participate in the nation-building process.

Mobility Aid Equipment Donated
The Bank donated 200 mobility aid equipment, including wheelchairs, to physically challenged citizens through the Oman Association for the Disabled (OAD). The gesture benefiting citizens with special needs was aimed at helping them overcome challenges and integrate themselves with the mainstream society.

The Bank's support to the physically challenged people is aimed at helping them lead normal lives and thereby contribute to society. The Bank is very sensitive to the needs of people with special needs. The Bank also distributed 30 wheel chairs to physically challenged family members of staff.

Business Incubator
Aimed at revitalising neighborhoods and strengthening the national economy, BankMuscat Business Incubator is envisaged to transform local communities and benefit Omani women from low-income and middle class families. The business incubator facilitates a work environment conducive to projects which are difficult to start elsewhere. During the year, new business incubators were launched in Al Mudhaibi in Sharqiyah region and Mirbat in Dhofar governorate. In all, 300 women have benefited from the business incubator initiative.

The business incubator creates job opportunities and provides supplementary income for low-income women. The training workshops focus on how to set up and manage small business ventures in the fields of services and handicrafts. The beneficiaries are spread across the governorate of Muscat, Batinah, Sharqiyah and Dhofar regions.

Al Thuraya BankMuscat
The Bank extended support to the Omani women's sailing programme organised in response to the Royal directive of His Majesty Sultan Qaboos bin Said to empower women by encouraging them to develop sailing skills for recreation and competitive sport. The association with the Oman Sail project stems from the CSR focus to channelise the country's heritage to future generations. As part of the programme, young Omani women are supported to develop their sailing skills and create a sustainable sailing future for the country. Al Thuraya BankMuscat sail vessel steered by an all-women crew participated in the prestigious Sailing Arabia The Tour (SATT) competition. The four Omani women sailors who participated in the event along with the international captain Dee Caffari are Raya Al Habsi, Tahira Al Yahyaee, Intisar Al Toubi and Khlood Al Kindi.

Cheese Production
The Bank organised a training programme in cheese production for rural women in Salalah, aimed at enhancing their role in society and enabling them to increase family income and limit migration from rural areas. The programme benefited 10 women who were trained to set up small projects to be run from homes, utilising animal wealth for production of cheese. The 4-month training programme covered technical aspects of milk collection stages, processes related to production of cheese and other by-products, packaging and marketing of these products.

Higher Education Opportunities for Omanis
In association with Oman Charitable Organisation, the Bank offers scholarships for 26 students from low-income families to pursue higher studies at different colleges and universities in the Sultanate. The 5-year scholarship programme commenced in 2009. The Bank hosts an annual gathering to obtain feedback and encourage these students.

Development of Agriculture Sector
The Bank believes in creating significant economic impact among communities where it operates. As part of measures aimed at supporting the efforts of government in implementing the recommendations made by the Seminar on Sustainable Development in the Agriculture Sector, the Bank, in co-operation with the Ministry of Agriculture, is engaged in projects covering Greenhouse farming, modern irrigation systems, quality control and packaging of Omani honey.

BankMuscat Hearts
BankMuscat Hearts, an informal society of Bank employees, conducts voluntary social work benefiting disadvantaged sections of society. Reflecting the corporate ethos, the Bank staff seizes every available opportunity to channel resources for creating sustainable, positive changes in communities by investing in their welfare to equip them for a better future.

Charity Fashion Show
A charity fashion show was organised to raise funds for a playground for orphans and physically challenged children at the Child Care Centre and help in their rehabilitation to lead normal lives.

Tadhamun
As part of the Layali Al Khair Ramadhan initiative by the Bank, BankMuscat Hearts launched the Tadhamun campaign benefiting Al Noor Association for the Blind. The proceeds of the campaign was utilised to equip the association with a 'talking' computer system which helps the vision impaired to read e-books and develop skills.

During the year, BankMuscat Hearts also organised blood donation campaigns and autism awareness programme.

FINANCIAL REVIEW 2011

The Bank achieved a net profit of RO 117.5 million for the year ended 31 December 2011 as against a net profit of RO 101.6 million reported in 2010, an increase of 15.6%.

Net interest income increased by 13.3% from RO 187.2 million in 2010 to RO 212.1 million in 2011 supported by combination of improvement in net interest margin and asset growth. Non-interest income was RO 82.1 million in 2011 as against RO 78.3 million in 2010. Non-interest income was higher by 5% compared to the year 2010.

of Oman. Share of loss from associates was RO 3.5 million in 2011 as against RO 12.6 million in 2010. This reduction was mainly due to lower losses from BMI bank in 2011.

The Bank's net loans and advances portfolio grew by RO 812 million or 20.2% to RO 4,819 million as at 31 December 2011 compared to RO 4,008 million as at 31 December 2010. Customer deposits as at 31 December 2011 was RO 4,749 million as compared to RO 3,527 million as at 31 December 2010, higher by 34.7% mainly due to increase in all viz - term deposits, demand deposits and savings deposits as the Bank continued its efforts to mobilize low cost deposits. The Bank's term deposits grew by 49.6% from RO 1,352 million as at 31 December 2010 to RO 2023 million as at 31 December 2011, savings deposits grew by 19.8% from RO 922 million as at 31 December 2010 to RO 1,104 million as at 31 December 2011 and demand deposits grew by 29.6% from RO 1,253 million as at 31 December 2010 to RO 1,622 million as at 31 December 2011.

COMPETENT PEOPLE: SOUND BUSINESS DECISIONS DRIVE TO PROFITABILITY DYNAMICS

Operating expenses for the year ended 31 December 2011 was at RO 120.9 million, an increase of 17.5% as compared to 2010. The increase in operating expense is attributable to higher manpower cost and operating expenses related to investment in technology and facilities. The cost to income ratio for the year 2011 was at 41.1% as compared to 38.8% in 2010.

Impairment for credit losses for the year ended 31 December 2011 was RO 56.2 million as against RO 46.6 million in 2010. Increase in credit losses was mainly due to creation of general provision in line with the loan growth. During the year 2011, the Bank recovered RO 25.6 million from impairment for credit losses compared to RO 13.6 million in 2010. The Bank holds a non-specific loan loss provision of RO 69.3 million as at 31 December 2011 as per the requirements of Central Bank

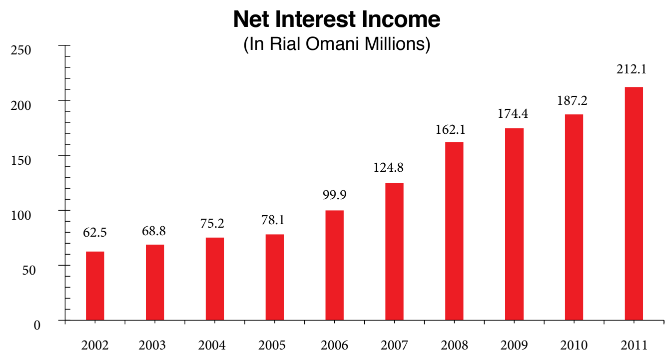
The return on average assets improved from 1.74% in 2010 to 1.8% in 2011. The return on average equity also improved to 15.37% in 2011 as compared to 14.64% in 2010. The basic earnings per share was RO 0.076 in 2011 as against RO 0.066 in 2010. The Bank's capital adequacy ratio stood at 15.93% as on 31 December 2011 against the minimum required level of 12% by the Central Bank of Oman.

Net Interest Income

Net interest income increased by RO 24.9 million, or 13.3%, to RO 212.1 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 4,123 million in 2010 to RO 4,595 million in 2011, i.e RO 472 million or 11.4%. Net interest margin increased from 3.4% in 2010 to 3.7% in 2011, i.e. by 30 basis points as a result of lower cost of funding.

Average total assets increased by RO 68.9 million or 11.8% to RO 6,540 million. The increase in average assets was mainly due to increase in loans and advances, cash and balances with central bank, investments, fixed assets and other assets. This was partially offset by decrease in placements and investments in associates.

The return on average assets was at 1.8% in 2011 as compared to 1.74% in 2010. The higher return on average assets was due to higher operating profit and lower losses from associates in 2011.



Non-interest income

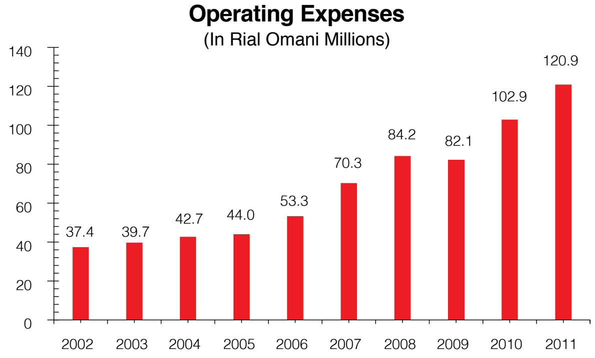
Non-interest income increased by RO 3.8 million, or 4.9%, to RO 82.1 million. Non -interest income in 2011 increased mainly due to increase in commission and fees income by RO 9.1 million, investment income by RO 4.9 million and other income by RO 1 million. This was largely reduced by lower foreign exchange income of RO 11 million in 2011. Non-interest income contributed 28% of the total income of the Bank in 2011. Strengthening the non interest income and increasing its proportionate contribution to the total income is one of the key focus areas of the bank.

Operating Expenses

Operating expenses increased by RO 17.9 million or 17.5% to RO 120.9 million in 2011. The increase in operating expense is attributable to higher manpower cost and operating expenses related to investment in technology and facilities to provide better service and maintain the leadership position. Staff strength as at 31 December 2011 was 3,024 as against the staff strength of 2,709 as at 31 December

2010, an increase of 12%.

The Bank's cost to income ratio was 41.1% in 2011 against 38.8% in 2010.



Provisions for Possible Credit Losses

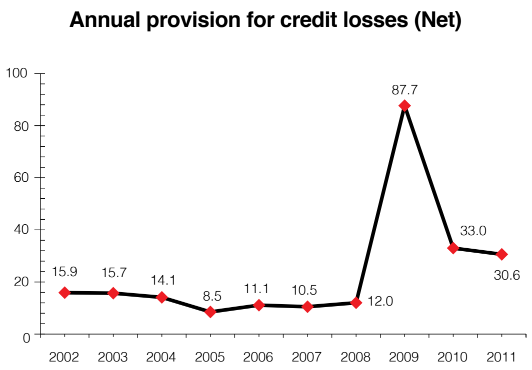
During the year, the Bank made a provision for credit losses of RO 56.2 million as against RO 46.6 million in 2010. Increase in provision was mainly attributable to the creation of non specific provision which was necessitated by the loan growth during the year.

During the year 2011, the Bank recovered RO 25.5 million from impairment for credit losses compared to RO 13.6 million in 2010.

Due to higher recoveries, the net provision charged to the income statement reduced during the year to RO 30.6 million in 2011 compared to RO 32.9 million in the previous year.

The Bank holds a non-specific loan loss provision of RO 69.3 million as at 31 December 2011 as per the requirements of Central Bank of Oman.

As at 31 December 2011, the total amount of provisions including reserved interest was RO 176.5 million. This represented 3.5% of gross lending to customers. The total provisions and reserved interest as at 31 December 2010 represented 4.4% of



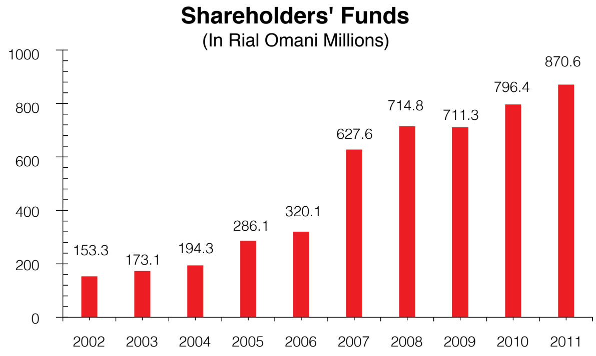
gross lending. Reduction in cumulative provision was due to a transfer of RO 38.7 million of provision and reserved interest held on loans which were fully provided for and were technically written off during the year to a memorandum portfolio. The uncovered portion of the impaired loans and advances 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 74.2 million, or 9.3%, to RO 870.6 million in 2011.

After a dividend payout of RO 38.71 million, the Bank has retained RO 78.8 million or 67% of the profits generated in the year 2011. The return on average shareholders' funds was at 15.37% in 2011 as compared to 14.64% in 2010. The increase was mainly due to improved operating performance and lower losses from associates during 2011 as compared to 2010.

For the year 2011, 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 38.71 million on the Parent company'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 232,280,185 shares of RO 0.100 each amounting to RO 23.22 million. The proposed cash dividend and issuance of bonus shares are subject to formal approval of the shareholders at the Annual General Meeting.



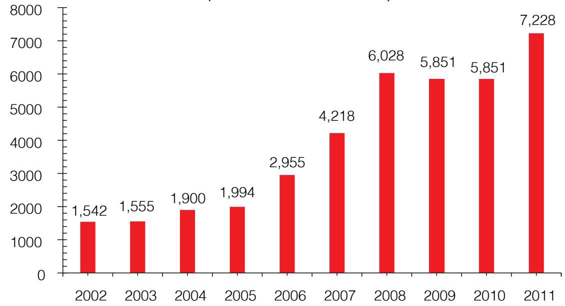
Assets

Average total assets increased by RO 68.9 million or 11.8% to RO 6,540 million. The increase in average assets was mainly due to increase in loans and advances, cash and balances with central bank, investments, fixed assets and other assets. This was partially offset by decrease in placements and investments in associates.

The Bank's net loans and advances portfolio grew by RO 812 million or 20.2% to RO 4,819 million as at 31 December 2011 compared to RO 4,008 million as at 31

December 2010. Corporate and other loans increased by 19.9% and personal/ housing loans increased by 17.9% during the year 2011. The Bank's non-performing advances were at 2.98% of gross loans and advances as of 31 December 2011 as compared to 4.19% in the previous year. The non-performing advances reduced from RO 175.9 million in 2010 to RO 148.9 million in 2011. This reduction included a write-off of loans and advances amounting to RO 38.67 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.

Total Assets
(In Rial Omani Millions)



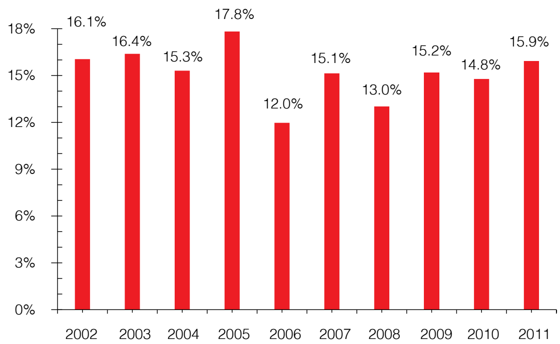
Capital Adequacy

The Bank's capital adequacy ratio, calculated according to guidelines of Basel II set by the Bank for International Settlements (BIS) was 15.93% as at 31 December 2011, compared to 14.78% as at 31 December 2010. 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 78 million in 2011 due to increase in profits for the year and appropriations.

Tier 2 capital increased by RO 138 million mainly due to movement in subordinated liabilities (net of reserves) and general loan loss provisions. During the year the bank raised subordinated loans amounting to RO 157.5 million in order to strengthen the capital base and the capital adequacy ratio.

Capital Adequacy
(In Rial Omani Millions)

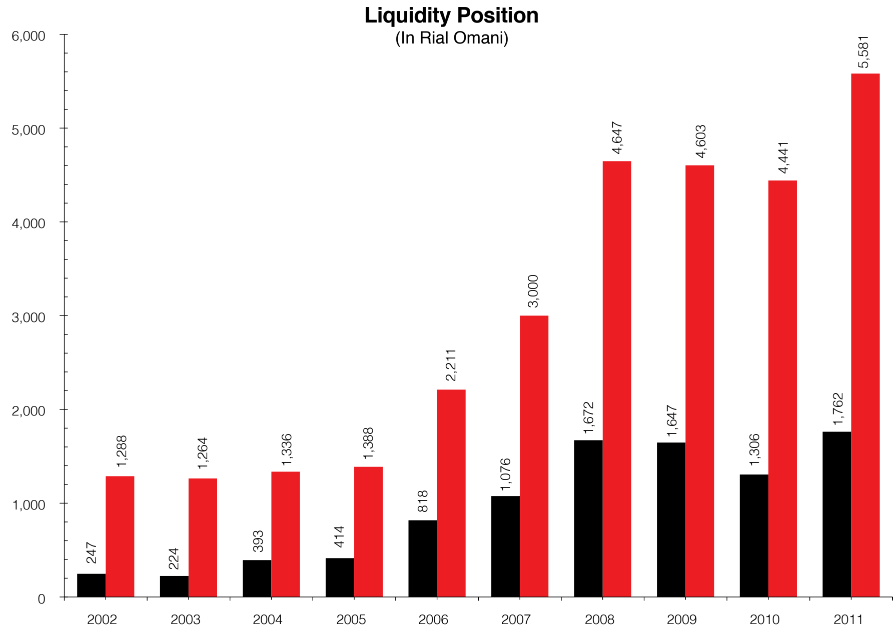


Liquidity Management

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 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 25.89% of total assets and 33,16% of total deposits at 31 December 2011, compared with 24,19% and 31.37% respectively at 31 December 2010.



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. The recent ratings of the Bank are as follows:

Agency	L/Term	S/Term	Outlook
Standard & Poor's	A-	A-2	Stable
Moody's Investors Service	A1	Prime-1	Stable
Fitch Ratings	A-	F2	Stable
Capital Intelligence	A	A1	Stable

BALANCE SHEET

TEN YEARS' SUMMARY

Amounts in RO '000

	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
Assets										
Cash and balances with Central Bank	825,863	726,055	608,099	452,761	487,912	116,217	32,936	32,092	76,642	149,532
Placements with banks	869,101	550,349	1,015,691	1,077,557	587,802	524,741	316,735	271,481	91,520	65,409
Loans and advances	4,819,432	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
Investment Securities	342,853	267,027	144,366	378,646	118,397	268,616	138,663	170,248	109,095	74,181
Investment in Associates	49,595	54,917	67,172	92,903	99,701	32,549	28,194	4,962	-	-
Tangible fixed assets	71,792	74,788	26,276	21,948	19,090	11,438	10,636	11,902	12,029	9,757
Other assets	249,365	170,066	150,921	276,721	217,960	166,619	94,723	80,211	21,682	17,726
Total Assets	7,228,001	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
Liabilities and Shareholders' Funds										
Liabilities										
Deposits from banks	730,927	759,886	1,395,747	1,412,576	663,236	363,207	55,169	173,870	184,567	229,546
Customers' deposits	4,749,489	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
Certificates of deposit	101,000	154,600	139,200	61,675	14,270	30,745	41,745	51,517	73,593	95,471
Unsecured bonds	54,803	54,803	54,803	54,803	54,803	54,803	54,803	54,803	25,000	-
Floating rate notes	5,775	15,400	15,400	111,650	111,650	105,875	96,250	96,250	-	-
Other liabilities	344,177	327,450	245,767	360,138	295,120	209,485	116,126	162,890	39,328	40,380
Taxation	36,715	32,142	31,578	26,112	20,487	15,051	12,791	10,376	7,933	6,353
Subordinated liabilities	334,533	183,500	188,500	113,500	108,500	38,500	39,621	45,621	45,621	54,010
	6,357,419	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
Shareholders' Funds										
Share capital	154,838	134,641	107,713	107,713	107,713	83,233	75,666	59,815	51,489	49,037
Share premium	301,505	301,505	301,505	301,505	301,505	79,490	79,490	26,104	4,482	4,482
Mandatory Convertible bonds	32,314	32,314	32,314	-	-	-	-	-	27,100	27,100
General reserve	67,725	61,308	56,308	56,308	56,308	56,308	24,612	19,812	19,812	15,500
Non-distributable reserves	162,041	128,938	88,262	64,062	42,429	28,960	58,133	51,409	42,286	37,473
Cumulative changes in fair value	1,245	9,340	4,823	69,276	10,258	1,052	1,233	-	-	-
Foreign currency translation reserve	(2,106)	(503)	(884)	(9,471)	-	-	-	-	-	-
Retained profit	152,786	128,585	121,063	125,357	109,357	71,042	46,973	37,204	27,943	19,761
	870,348	796,128	711,104	714,750	627,570	320,085	286,107	194,344	173,112	153,353
Non-controlling interest in equity	234	266	212	-	-	-	-	-	-	-
Total Equity	870,582	796,394	711,316	714,750	627,570	320,085	286,107	194,344	173,112	153,353
Total Liabilities and Shareholders' Funds	7,228,001	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
Letters of credit, acceptances, guarantees and other obligations* on behalf of customers	1,340,866	1,241,515	961,387	1,048,978	1,015,838	592,927	418,708	338,411	329,809	325,703
Operating cost to income	41.08%	38.76%	28.22%	35.57%	40.67%	40.82%	43.45%	44.02%	44.84%	47.02%
Return on average assets	1.80%	1.74%	1.24%	1.83%	2.35%	2.44%	2.33%	1.97%	1.75%	1.59%
Return on average shareholders' funds	15.37%	14.71%	10.92%	14.80%	25.83%	21.95%	20.18%	20.04%	19.89%	20.25%
Basic Earnings Per Share(RO)**	0.076	0.066	0.068	0.087	0.090	0.066	0.580	0.493	0.526	0.476
Share price (RO)**	0.766	0.962	0.825	0.797	1.920	1.148	8.920	6.400	4.970	3.840
BIS capital adequacy ratio	15.93%	14.78%	15.20%	13.02%	15.14%	11.97%	17.82%	15.31%	16.39%	16.05%

* Does not include acceptances from 2004 onwards. **Reflects the impact of stock split of 10:1 from 2006 onwards.

Amounts in RO '000

	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
Interest income	286,958	275,195	279,530	263,463	218,272	159,234	116,017	104,678	101,117	104,469
Interest expense	(74,839)	(88,000)	(105,164)	(101,356)	(93,450)	(59,361)	(37,956)	(29,440)	(32,296)	(41,925)
Net interest income	212,119	187,195	174,366	162,107	124,822	99,873	78,061	75,238	68,821	62,544
Other operating income	82,125	78,301	116,679	74,694	48,107	30,780	23,271	21,843	19,619	16,958
Operating Income	294,244	265,496	291,045	236,801	172,929	130,653	101,332	97,081	88,440	79,502
Operating Expenses										
Other operating expenses	(109,734)	(94,149)	(75,503)	(78,487)	(66,240)	(49,964)	(40,778)	(39,124)	(36,463)	(34,487)
Depreciation / amortisation	(11,156)	(8,754)	(6,622)	(5,737)	(4,086)	(3,366)	(3,252)	(3,613)	(3,190)	(2,893)
	(120,890)	(102,903)	(82,125)	(84,224)	(70,326)	(53,330)	(44,030)	(42,737)	(39,653)	(37,380)
Unrealised gain (loss) on investment securities	-	-	-	-	-	-	-	955	207	260
Release of (provision for) capital guarantee	-	-	-	-	-	-	-	-	-	303
Recoveries (provision) for placements with banks	(650)	1,305	-	(4,813)	-	-	1,939	-	(2,310)	-
Recoveries (provision) for collateral pending sale and acquired assets	366	-	-	13	107	198	(496)	(102)	(175)	(144)
Recoveries (provision) for impairment for investments	(2,731)	(520)	(2,515)	(10,346)	-	(583)	-	-	-	-
Impairment for credit losses (net)	(30,601)	(32,941)	(87,653)	(12,022)	(10,502)	(11,126)	(8,463)	(14,120)	(15,693)	(15,919)
Impairment for associates	-	-	(20,315)	(13,750)	-	-	-	-	-	-
Share of profit (loss) from associates	(3,529)	(12,637)	(10,455)	(3,248)	5,499	4,145	3,664	(1,417)	-	-
Share of trading loss of an associate	-	-	-	-	-	-	(3,945)	-	-	-
Net gain on disposal of a foreign branch	-	-	-	-	-	-	2,826	-	-	-
Net (loss) from discontinuing operations	-	-	-	-	-	-	-	-	(56)	-
Profit Before Taxation	136,209	117,800	87,982	108,411	97,707	69,957	52,827	39,660	30,760	26,622
Tax expense	(18,663)	(16,205)	(14,264)	(14,680)	(13,450)	(9,525)	(7,383)	(5,555)	(3,679)	(3,709)
Profit for the year	117,546	101,595	73,718	93,731	84,257	60,432	45,444	34,105	27,081	22,913

BALANCE SHEET

TEN YEARS' SUMMARY

Amounts in USD '000

	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
Assets										
Cash and balances with Central Bank	2,145,099	1,885,857	1,579,478	1,176,003	1,267,304	301,862	85,549	83,357	199,069	388,395
Placements with banks	2,257,405	1,429,478	2,638,158	2,798,850	1,526,758	1,362,964	822,687	705,145	237,715	169,895
Loans and advances	12,518,005	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
Investment Securities	890,528	693,576	374,976	983,496	307,524	697,704	360,162	442,203	283,364	192,677
Investment in Associates	128,818	142,641	174,473	241,306	258,964	84,544	73,231	12,887	-	-
Tangible fixed assets	186,473	194,255	68,249	57,008	49,584	29,709	27,626	30,913	31,245	25,343
Other assets	647,701	441,730	392,003	718,756	566,131	432,776	246,034	208,340	56,316	46,042
Total Assets	18,774,029	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
Liabilities and Shareholders' Fund										
Liabilities										
Deposits from banks	1,898,512	1,973,730	3,625,317	3,669,028	1,722,691	943,395	143,296	451,611	479,394	596,223
Customers' deposits	12,336,335	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
Certificates of deposit	262,338	401,558	361,557	160,195	37,065	79,857	108,429	133,810	191,150	247,977
Unsecured bonds	142,345	142,345	142,345	142,345	142,345	142,345	142,345	142,345	64,935	-
Floating rate notes	15,000	40,000	40,000	290,000	290,000	275,000	250,000	250,000	-	-
Other liabilities	893,966	850,518	638,356	935,423	766,545	544,117	301,628	423,091	102,152	104,883
Taxation	95,364	83,486	82,021	67,823	53,213	39,094	33,223	26,950	20,606	16,501
Subordinated liabilities	868,916	476,623	489,610	294,805	281,818	100,000	102,911	118,495	118,495	140,286
	16,512,776	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
Shareholders' Funds										
Share capital	402,177	349,717	279,774	279,774	279,774	216,190	196,536	155,365	133,739	127,369
Share premium	783,130	783,130	783,130	783,130	783,130	206,469	206,469	67,804	11,642	11,642
Mandatory convertible bonds	83,933	83,933	83,933	-	-	-	-	-	70,390	70,390
General reserve	175,909	159,242	146,255	146,255	146,255	146,255	63,927	51,460	51,459	40,260
Non-distributable reserves	420,886	334,904	229,252	166,395	110,206	75,219	150,994	133,530	109,833	97,332
Cumulative changes in fair value	3,234	24,260	12,527	179,939	26,644	2,732	3,202	-	-	-
Foreign currency translation reserve	(5,470)	(1,307)	(2,296)	(24,600)	-	-	-	-	-	-
Retained profit	396,847	333,987	314,450	325,603	284,044	184,525	122,005	96,633	72,580	51,328
	2,260,646	2,067,866	1,847,025	1,856,496	1,630,053	831,390	743,133	504,792	449,643	398,321
Non-controlling interest in equity	607	691	550	-	-	-	-	-	-	-
Total Equity	2,261,253	2,068,557	1,847,575	1,856,496	1,630,053	831,390	743,133	504,792	449,643	398,321
Total Liabilities and Shareholders' Funds	18,774,029	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
Letters of credit, acceptances, guarantees and other obligations* on behalf of customers	3,482,769	3,224,714	961,387	2,724,618	2,638,540	1,540,071	1,087,553	878,990	856,647	845,982
Operating cost to income	41.08%	38.76%	28.22%	35.57%	40.67%	40.82%	43.45%	44.02%	44.84%	47.02%
Return on average assets	1.80%	1.74%	1.24%	1.83%	2.35%	2.44%	2.33%	1.97%	1.75%	1.59%
Return on average shareholders' funds	15.37%	14.71%	10.92%	14.80%	25.83%	21.95%	20.18%	20.04%	19.89%	20.25%
Basic Earnings Per Share ($)**	0.197	0.170	0.178	0.226	0.234	0.171	1.510	1.280	1.366	1.236
Share price ($)**	1.99	2.50	2.14	2.07	4.99	2.98	23.2	16.62	12.91	9.97
BIS capital adequacy ratio	15.93%	14.78%	15.20%	13.02%	15.14%	11.97%	17.82%	15.31%	16.39%	16.05%

* Does not include acceptances from 2004 onwards. **Reflects the impact of stock split of 10:1 from 2006 onwards.

Amounts in USD '000

	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
Interest income	745,345	714,792	726,052	684,319	566,940	413,596	301,343	271,892	262,641	271,348
Interest expense	(194,387)	(228,571)	(273,153)	(263,263)	(242,727)	(154,186)	(98,587)	(76,469)	(83,885)	(108,896)
Net interest income	550,958	486,221	452,899	421,056	324,213	259,410	202,756	195,423	178,756	162,452
Other operating income	213,312	203,380	303,062	194,011	124,953	79,948	60,446	56,739	50,960	44,047
Operating Income	764,270	689,601	755,961	615,067	449,166	339,358	263,202	252,162	229,716	206,499
Operating Expenses										
Other operating expenses	(285,023)	(244,543)	(196,112)	(203,862)	(172,052)	(129,777)	(105,917)	(101,621)	(94,710)	(89,577)
Depreciation / impairment	(28,977)	(22,738)	(17,200)	(14,900)	(10,613)	(8,743)	(8,450)	(9,387)	(8,284)	(7,514)
	(314,000)	(267,281)	(213,312)	(218,762)	(182,665)	(138,520)	(114,367)	(111,008)	(102,994)	(97,091)
Unrealised gain (loss) on investment securities	-	-	-	-	-	-	-	2,480	537	676
Release of (provision for) capital guarantee	-	-	-	-	-	-	-	-	-	787
Recoveries (provision) for placements with banks	(1,688)	3,389	-	(12,501)	-	-	5,036	-	(6,000)	-
Recoveries (provision) for collateral pending sale and acquired assets	951	-	-	34	278	515	(1,289)	(264)	(456)	(374)
Recoveries (provision) for impairment for investments	(7,094)	(1,350)	(6,532)	(26,873)	-	(1,514)	-	-	-	-
Impairment for credit losses (net)	(79,483)	(85,561)	(227,670)	(31,226)	(27,277)	(28,899)	(21,980)	(36,676)	(40,761)	(41,348)
Impairment for associates	-	-	(52,766)	(35,714)	-	-	-	-	-	-
Share of profit (loss) from associates	(9,166)	(32,823)	(27,156)	(8,436)	14,283	10,766	9,516	(3,680)	-	-
Share of trading loss of an associate	-	-	-	-	-	-	(10,245)	-	-	-
Net gain on disposal of a foreign branch	-	-	-	-	-	-	7,340	-	-	-
Net (loss) from discontinuing operations	-	-	-	-	-	-	-	-	(145)	-
Profit Before Taxation	353,790	305,975	228,525	281,589	253,785	181,706	137,213	103,014	79,897	69,148
Tax expense	(48,475)	(42,091)	(37,049)	(38,130)	(34,935)	(24,740)	(19,178)	(14,430)	(9,557)	(9,635)
Profit for the year	305,315	263,884	191,476	243,459	218,850	156,966	118,035	88,584	70,340	59,513

AUDITOR'S REPORT

PRICEWATERHOUSECOOPERS

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

Report on the financial statements

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 2011 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 about 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 2011, 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.

PricewaterhouseCoopers LLP

27 February 2012
Muscat, Sultanate of Oman

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2011

2010 USD'000	2011 USD'000		Notes	2011 RO'000	2010 RO'000
		ASSETS			
1,885,857	2,145,099	Cash and balances with Central Banks	5	825,863	726,055
1,429,478	2,257,405	Placements with banks	6	869,101	550,349
10,410,197	12,518,005	Loans and advances	7	4,819,432	4,007,926
441,730	647,701	Other assets	8	249,365	170,066
		Investment securities:			
615,857	716,396	- Available-for-sale	9	275,812	237,105
77,719	174,132	- Held to maturity	9	67,041	29,922
142,641	128,818	Investment in associates	11	49,595	54,917
194,255	186,473	Property and equipment	12	71,792	74,788
15,197,734	18,774,029			7,228,001	5,851,128
		LIABILITIES AND EQUITY			
		LIABILITIES			
1,973,730	1,898,512	Deposits from banks	14	730,927	759,886
9,160,917	12,336,335	Customers' deposits	15	4,749,489	3,526,953
401,558	262,338	Certificates of deposit	16	101,000	154,600
142,345	142,345	Unsecured bonds	17	54,803	54,803
40,000	15,000	Floating rate notes	18	5,775	15,400
850,518	893,966	Other liabilities	20	344,177	327,450
83,486	95,364	Taxation	21	36,715	32,142
476,623	868,916	Subordinated liabilities	22	334,533	183,500
13,129,177	16,512,776			6,357,419	5,054,734
		EQUITY Capital and reserves attributable to equity holders of the parent company			
349,717	402,177	Share capital	23	154,838	134,641
783,130	783,130	Share premium		301,505	301,505
83,933	83,933	Mandatory convertible bonds	19	32,314	32,314
159,242	175,909	General reserve	24	67,725	61,308
116,574	134,060	Legal reserve	24	51,613	44,881
10,278	10,117	Revaluation reserve	12	3,895	3,957
208,052	276,709	Subordinated loan reserve	25	106,533	80,100
24,260	3,234	Cumulative changes in fair value		1,245	9,340
(1,307)	(5,470)	Foreign currency translation reserve		(2,106)	(503)
333,987	396,847	Retained profit		152,786	128,585
2,067,866	2,260,646			870,348	796,128
691	607	Non-controlling interests in equity	10	234	266
2,068,557	2,261,253	TOTAL EQUITY		870,582	796,394
15,197,734	18,774,029	TOTAL LIABILITIES AND EQUITY		7,228,001	5,851,128
USD 1.536	USD 1.460	Net assets per share	27	RO 0.562	RO 0.591
3,224,714	3,482,769	Contingent liabilities and commitments	28	1,340,866	1,241,515

The consolidated financial statements on pages 96 to 177 were approved and authorised for issue by the Board of Directors on 24 January 2012 and signed on their behalf by:

Chairman KHALID BIN MUSTAHAIL AL MASHANI
Director SULAIMAN AL YAHYAI
Chief Executive ABDULRAZAK ALI ISSA

Report of the Auditors - page 95

2010 USD'000	2011 USD'000		Notes	2011 RO'000	2010 RO'000
714,792	745,345	Interest income	29	286,958	275,195
(228,571)	(194,387)	Interest expense	30	(74,839)	(88,000)
486,221	550,958	Net interest income		212,119	187,195
135,416	159,005	Commission and fees income (net)	31	61,217	52,135
67,964	54,307	Other operating income	32	20,908	26,166
689,601	764,270	OPERATING INCOME		294,244	265,496
		OPERATING EXPENSES			
(244,543)	(285,023)	Other operating expenses	33	(109,734)	(94,149)
(22,738)	(28,977)	Depreciation	12	(11,156)	(8,754)
(267,281)	(314,000)			(120,890)	(102,903)
(5,455)	(1,688)	Provision for impairment of placements	6	(650)	(2,100)
(121,010)	(145,857)	Impairment for credit losses	7	(56,155)	(46,589)
35,449	66,374	Recoveries from provision for credit losses	7	25,554	13,648
(1,706)	(7,094)	Impairment for investments	9	(2,731)	(657)
356	-	Recoveries from impairment for investments	9	-	137
8,844	-	Recoveries from impairment for placements	6	-	3,405
-	951	Recoveries from impairment of collateral pending sale	8	366	-
(32,823)	(9,166)	Share of loss from associates	11	(3,529)	(12,637)
(383,626)	(410,480)	OPERATING EXPENSES		(158,035)	(147,696)
305,975	353,790	PROFIT BEFORE TAXATION		136,209	117,800
(42,091)	(48,475)	Tax expense	21	(18,663)	(16,205)
263,884	305,315	PROFIT FOR THE YEAR		117,546	101,595
		OTHER COMPREHENSIVE INCOME			
990	(4,657)	Gain/(loss) from foreign currency translation of investments in associates	11, 21	(1,793)	381
-	493	Gain/(loss) on translation of net investment in foreign operations	21	190	-
11,732	(21,026)	Change in fair value of investments available-for-sale	9, 21	(8,095)	4,517
12,722	(25,190)	OTHER COMPREHENSIVE INCOME FOR THE YEAR		(9,698)	4,898
276,606	280,125	TOTAL COMPREHENSIVE INCOME FOR THE YEAR		107,848	106,493
		Total comprehensive income attributable to:			
276,798	280,286	Equity holders of the parent company		107,910	106,567
(192)	(161)	Non-controlling interests	10	(62)	(74)
276,606	280,125			107,848	106,493
		Profit attributable to:			
264,076	305,476	Equity holders of the parent company		117,608	101,669
(192)	(161)	Non-controlling interests	10	(62)	(74)
263,884	305,315			117,546	101,595
		Earnings per share:			
USD 0.170	0.197	- Basic	35	0.076	RO 0.066
USD 0.169	0.194	- Diluted	35	0.075	RO 0.065

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 101 to 177 form an integral part of these consolidated financial statements.
Report of the Auditors - page 95

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
As at 31 December 2011

	Notes	Share capital RO'000	Share premium RO'000
2011			
Balance at 31 December 2010		134,641	301,505
Comprehensive income			
Profit for the year		-	-
Other comprehensive income			
Loss on translation of net investment in associates	11	-	-
Gain on translation of net investments in foreign operations		-	-
Change in fair value of investments available-for-sale	9,21	-	-
Total comprehensive income		-	-
Transactions with owners			
Dividends paid - 2010		-	-
Issue of bonus shares 2010		20,197	-
Transfer from revaluation reserve on sale of fixed assets		-	-
Transfer to legal reserve	24	-	-
Transfer from subordinated loan reserve	25	-	-
Transfer to subordinated loan reserve	25	-	-
Total contributions by and distributions to owners		20,197	-
Non-controlling interest		-	-
Total transactions with owners		20,197	-
Balance at 31 December 2011		154,838	301,505
Balance at 31 December 2011 (USD'000)		402,177	783,130

The notes on pages 101 to 177 form an integral part of these consolidated financial statements.
Report of the Auditors - page 95

	Notes	Share capital RO'000	Share premium RO'000
2010			
Balance at 31 December 2009		107,713	301,505
Comprehensive income			
Profit for the year		-	-
Other comprehensive income			
Loss on translation of net investment in associates	11	-	-
Change in fair value of investments available-for-sale	9	-	-
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	-	-
Transfer to subordinated loan reserve	25	-	-
Total contributions by and distributions to owners		26,928	-
Non-controlling interest		-	-
Total transactions with owners		26,928	-
Balance at 31 December 2010		134,641	301,505
Balance at 31 December 2010 (USD'000)		349,717	783,130

The notes on pages 101 to 177 form an integral part of these consolidated financial statements
Report of the Auditors - page 95

Mandatory convertible bonds	General reserve	Legal reserve	Revaluation reserve	Subordinated loan reserve	Cumulative changes in fair value	Foreign exchange translation reserve	Retained profit	Total before NCI	Non-controlling interest	Total
RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
32,314	61,308	44,881	3,957	80,100	9,340	(503)	128,585	796,128	266	796,394
-	-	-	-	-	-	-	117,608	117,608	(62)	117,546
-	-	-	-	-	-	(1,793)	-	(1,793)	-	(1,793)
-	-	-	-	-	-	190	-	190	-	190
-	-	-	-	-	(8,095)	-	-	(8,095)	-	(8,095)
-	-	-	-	-	(8,095)	(1,603)	117,608	107,910	(62)	107,848
-	-	-	-	-	-	-	(33,660)	(33,660)	-	(33,660)
-	-	-	-	-	-		(20,197)	-	-	-
-	-	-	(62)	-	-	-	62	-	-	-
-	-	6,732	-	-	-	-	(6,732)	-	-	-
-	6,417	-	-	(6,417)	-	-	-	-	-	-
-	-	-	-	32,850	-	-	(32,850)	-	-	-
-	6,417	6,732	(62)	26,433	-	-	(93,377)	(33,660)	-	(33,660)
-	-	-	-	-	-	-	(30)	(30)	30	-
-	6,417	6,732	(62)	26,433	-	-	(93,407)	(33,690)	30	(33,660)
32,314	67,725	51,613	3,895	106,533	1,245	(2,106)	152,786	870,348	234	870,582
83,933	175,909	134,060	10,117	276,709	3,234	(5,470)	396,847	2,260,646	607	2,261,253

Mandatory convertible bonds	General reserve	Legal reserve	Revaluation reserve	Subordinated loan reserve	Cumulative changes in fair value	Foreign exchange translation reserve	Retained profit	Total before NCI	Non-controlling interest	Total
RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
32,314	56,308	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	-	-	(5,000)	-	-	-	-	-	-
-	-	-	-	36,700	-	-	(36,700)	-	-	-
-	5,000	8,976	-	31,700	-	-	(94,147)	(21,543)	-	(21,543)
-	-	-	-	-	-	-	-	-	128	128
-	5,000	8,976	-	31,700	-	-	(94,147)	(21,543)	128	(21,415)
32,314	61,308	44,881	3,957	80,100	9,340	(503)	128,585	796,128	266	796,394
83,933	159,242	116,574	10,278	208,052	24,260	(1,307)	333,987	2,067,866	691	2,068,557

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2011

2010 USD'000	2011 USD'000		Notes	2011 RO'000	2010 RO'000
		CASH FLOWS FROM/(USED IN) OPERATING ACTIVITIES			
305,975	353,790	Profit for the year before taxation Adjustments for:		136,209	117,800
32,823	9,166	Share of net loss from associates		3,529	12,637
22,738	28,977	Depreciation		11,156	8,754
1,706	7,094	Impairment for investments		2,731	657
121,010	145,857	Impairment for credit losses		56,155	46,589
5,455	1,688	Impairment for placements		650	2,100
(35,449)	(66,374)	Recoveries from impairment for credit losses		(25,554)	(13,648)
(356)	-	Recoveries from impairment for investments		-	(137)
(8,844)	-	Recoveries from impairment for placement		-	(3,405)
-	(951)	Recoveries from impairment for collateral pending sale		(366)	-
(95)	(203)	Profit on sale of property and equipment		(78)	(36)
(3,088)	(11,148)	Profit on sale of investments		(4,292)	(1,189)
(2,784)	(7,496)	Dividends received		(2,886)	(1,072)
439,091	460,400	Operating profit before working capital changes		177,254	169,050
279,182	(710,561)	Placements with banks		(273,566)	107,485
(526,379)	(2,187,291)	Loans and advances		(842,107)	(202,656)
(45,608)	(198,906)	Other assets		(76,579)	(17,559)
(272,875)	292,816	Deposits from banks		112,734	(105,057)
1,190,982	3,175,418	Customers' deposits		1,222,536	458,528
40,000	(139,221)	Certificates of deposit		(53,600)	15,400
-	(25,000)	Floating rate notes		(9,625)	-
212,010	44,016	Other liabilities		16,946	81,624
1,316,403	711,671	Cash from/(used in) operations		273,993	506,815
(40,626)	(39,288)	Income taxes paid		(15,126)	(15,641)
1,275,777	672,383	Net cash from operating activities		258,867	491,174
		CASH FLOWS (USED IN)/FROM INVESTING ACTIVITIES			
2,784	7,496	Dividends received		2,886	1,072
(287,023)	(118,078)	Net (payments)/proceeds in non-trading investments		(45,460)	(110,504)
(148,875)	(23,351)	Purchase of property and equipment		(8,990)	(57,317)
226	2,358	Proceeds from sale of property and equipment		908	87
(432,888)	(131,575)	Net cash (used in) investing activities		(50,656)	(166,662)
		CASH FLOWS (USED IN)/FROM FINANCING ACTIVITIES			
(55,956)	(87,429)	Dividends paid		(33,660)	(21,543)
332	-	Non controlling interest		-	128
(12,987)	(16,668)	Subordinated loan paid		(6,417)	(5,000)
-	408,961	Subordinated loan received		157,450	-
(68,611)	304,864	Net cash from/(used in) financing activities		117,373	(26,415)
774,278	845,672	NET CHANGE IN CASH AND CASH EQUIVALENTS		325,584	298,097
953,996	1,728,274	Cash and cash equivalents at 1 January		665,386	367,289
1,728,274	2,573,946	CASH AND CASH EQUIVALENTS AT 31 DECEMBER	34	990,970	665,386

The notes on pages 101 to 177 form an integral part of these consolidated financial statements.
Report of the Auditors - page 95

1 LEGAL STATUS AND PRINCIPAL ACTIVITIES

Bank Muscat 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 a hundred and thirty branches within the Sultanate of Oman and one branch in Riyadh, Kingdom of Saudi Arabia and one in Kuwait. The Bank has representative offices in Dubai, United Arab Emirates and in Singapore. The Bank (Parent Company) has a 96.25% 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 four countries (2010 - three countries) and employed 3,024 employees as of 31 December 2011 (2010: 2,709).

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 are disclosed in note 4.

These consolidated financial statements were approved by the Board of Directors on 24 January 2012.

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 2011 and relevant for the Group's operations

For the year ended 31 December 2011, 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 2011.

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.

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 2012 or later periods, but the Group has not early adopted them:

IFRS 9, 'Financial instruments part 1: Classification and measurement' (effective on or after 1 January 2015);
IFRS 10, 'Consolidated financial statements' (effective on or after 1 January 2013);
IFRS 12, 'Disclosure of interests in other entities' (effective on or after 1 January 2013);
IFRS 11, 'Joint arrangements' (effective on or after 1 January 2013);

IFRS 13, 'Fair value measurement' (effective on or after 1 January 2013); 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 and 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.

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 statement of comprehensive income, 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.

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 statement of comprehensive income 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 statement of comprehensive income 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 statement of comprehensive income 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 statement of comprehensive income as 'Impairment for investments'. Held to maturity investments are corporate bonds.

(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 statement of comprehensive income. 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 statement of comprehensive income. Dividends on available-for-sale equity instruments are recognised in the consolidated statement of comprehensive income 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.

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.

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 referred to at (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 statement of comprehensive income. Impairment losses recognised in the separate consolidated statement of comprehensive income on equity instruments are not reversed through the separate consolidated statement of comprehensive income. 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 statement of comprehensive income.

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.

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 five 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.

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 substantially 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.

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.

(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

2010	2011		2011	2010
USD'000	USD'000		RO'000	RO'000
285,444	272,977	Cash	105,096	109,896
1,299	1,299	Capital deposit with Central Banks	500	500
2,821	1,413	Insurance deposit with Central Banks	544	1,086
1,596,293	1,869,410	Other balances with Central Banks	719,723	614,573
1,885,857	2,145,099		825,863	726,055

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

2010	2011		2011	2010
USD'000	USD'000		RO'000	RO'000
1,022,790	1,979,540	Inter-bank placements	762,123	393,774
413,182	286,047	Nostro balances	110,128	159,075
1,435,972	2,265,587		872,251	552,849
(6,494)	(8,182)	Provision for impairment	(3,150)	(2,500)
1,429,478	2,257,405		869,101	550,349

The movement in provision for impairment is analysed below:

Provision for placements with Banks

2010	2011		2011	2010
USD'000	USD'000		RO'000	RO'000
12,501	6,494	1 January	2,500	4,813
5,455	1,688	Provided during the year	650	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
6,494	8,182	31 December	3,150	2,500

7 LOANS AND ADVANCES

2010	2011		2011	2010
USD'000	USD'000		RO'000	RO'000
9,623,379	11,521,377	Loans	4,435,730	3,705,001
586,520	539,800	Overdrafts and Credit cards	207,823	225,810
410,060	547,532	Loans against trust receipts	210,800	157,873
127,810	185,758	Bills purchased and discounted	71,517	49,207
146,236	181,964	Other advances	70,056	56,301
10,894,005	12,976,431		4,995,926	4,194,192
(483,808)	(458,426)	Provision for impairment	(176,494)	(186,266)
10,410,197	12,518,005		4,819,432	4,007,926

The movement in provision for impairment is analysed below:

Provision for loan losses

2010	2011		2011	2010
USD'000	USD'000		RO'000	RO'000
478,416	408,701	1 January	157,350	184,190
121,010	145,857	Provided during the year	56,155	46,589
(32,029)	(64,886)	Released during the year	(24,981)	(12,331)
(157,657)	(76,538)	Written off during the year	(29,467)	(60,698)
(1,039)	-	Transfer during the year to placements provision	-	(400)
408,701	413,134	31 December (a)	159,057	157,350

Recoveries during the year of RO 25.555 million (2010: RO 13.648 million) include RO 0.573 million (2010 - RO 1.317 million) recovered from loans written off earlier. The loans written off during the year include an amount of RO 38.67 million (2010: RO 65.515 million) transferred to memorandum portfolio, which were fully provided by the Group.

Contractual interest not recognised

2010	2011		2011	2010
USD'000	USD'000		RO'000	RO'000
77,026	75,107	1 January	28,916	29,655
(21,587)	(44,179)	Written off during the year	(17,009)	(8,311)
37,177	38,333	Contractual interest not recognised	14,758	14,313
(17,509)	(23,969)	Contractual interest recovered	(9,228)	(6,741)
75,107	45,292	31 December (b)	17,437	28,916
483,808	458,426	Total provision for impairment (a+b)	176,494	186,266

As of 31 December 2011, loans and advances on which contractual interest is not being accrued or has not been recognised amounted to RO 149.1 million (2010: RO 175.88 million).

8 OTHER ASSETS

2010	2011		2011	2010
USD'000	USD'000		RO'000	RO'000
103,527	125,036	Positive fair value of derivatives (Note 38)	48,139	39,858
240,096	233,945	Acceptances	90,069	92,437
29,426	38,904	Accrued interest	14,978	11,329
28,821	31,512	Deferred tax asset (Note 21)	12,132	11,096
3,104	260	Collateral pending sale (net of provisions)	100	1,195
36,756	218,044	Other assets and prepayments	83,947	14,151
441,730	647,701		249,365	170,066

Recoveries from impairment of collateral pending sale comprises of:

2010	2011		2011	2010
USD'000	USD'000		RO'000	RO'000
1,036	1,036	Opening balance	399	399
-	(951)	Write back during the year	(366)	-
1,036	85		33	399

9 INVESTMENT SECURITIES

2011	Available - for-sale RO'000	Held to maturity RO'000	2011 Total RO'000	2010 Total RO'000
Quoted investments	237,869	-	237,869	207,115
Unquoted investments				
Treasury bills	-	67,041	67,041	29,922
Bonds/securities	44,092	-	44,092	35,366
Total unquoted	44,092	67,041	111,133	65,288
Total investments	281,961	67,041	349,002	272,403
Impairment losses on investments	(6,149)	-	(6,149)	(5,376)
Net investments	275,812	67,041	342,853	267,027
2010	237,105	29,922	267,027	

2011	Available - for-sale USD'000	Held to maturity USD'000	2011 Total USD'000	2010 Total USD'000
Quoted investments	617,842	-	617,842	537,961
Unquoted investments				
Treasury bills	-	174,132	174,132	77,719
Bonds/securities	114,525	-	114,525	91,860
Total unquoted	114,525	174,132	288,657	169,579
Total investments	732,367	174,132	906,499	707,540
Impairment losses on investments	(15,971)	-	(15,971)	(13,964)
Net investments	716,396	174,132	890,528	693,576
2010	615,857	77,719	693,576	

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

2010 USD'000	2011 USD'000		2011 RO'000	2010 RO'000
		Quoted investments		
		Equity		
53,364	65,481	Foreign securities	25,210	20,545
92,753	49,655	Other services sector	19,117	35,710
26,691	22,501	Unit funds	8,663	10,276
16,509	19,595	Financial services sector	7,544	6,356
11,545	18,930	Industrial sector	7,288	4,445
		Debt		
283,203	388,062	Government bonds	149,404	109,033
42,421	48,444	Foreign bonds	18,651	16,332
11,475	5,174	Local bonds	1,992	4,418
537,961	617,842	Total quoted investments	237,869	207,115
		Unquoted investments		
		Equity		
33,912	37,686	Foreign securities	14,509	13,056
22,358	20,332	Local securities	7,828	8,608
130	130	Unit funds	50	50
		Debt		
1,249	1,249	Foreign bonds	481	481
34,211	55,128	Local bonds	21,224	13,171
91,860	114,525	Total unquoted investments	44,092	35,366
629,821	732,367	Total available for sale investments	281,961	242,481
(13,964)	(15,971)	Impairment losses on investments	(6,149)	(5,376)
615,857	716,396	Carrying value at 31 December	275,812	237,105

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

2010 USD'000	2011 USD'000		2011 RO'000	2010 RO'000
14,717	13,964	At 1 January	5,376	5,666
1,706	7,094	Provision made during the year	2,731	657
(2,103)	(5,087)	Decrease during the year for sales	(1,958)	(810)
(356)	-	Decrease during the year for recoveries	-	(137)
13,964	15,971	At 31 December	6,149	5,376

The movement in investment securities may be summarised as follows:

	Available - for-sale	Held to maturity	Total
	RO'000	RO'000	RO'000
At 1 January 2011	237,105	29,922	267,027
Exchange differences on monetary assets	(382)	-	(382)
Additions	95,845	67,041	162,886
Disposals (sale and redemption)	(48,738)	(29,922)	(78,660)
Gain from changes in fair value	(8,314)	-	(8,314)
Impairment losses	(2,731)	-	(2,731)
Amortisation	(1,265)	-	(1,265)
Realised gains on sale	4,292	-	4,292
At 31 December 2011	275,812	67,041	342,853
USD'000	716,396	174,132	890,528

	Available- for-sale	Held to maturity	Total
	RO'000	RO'000	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)
Losses 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	237,105	29,922	267,027
USD'000	615,857	77,719	693,576

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 2011	96.25%	6,004
Muscat Capital LLC (formerly Muscat Securities House LLC)	Kingdom of Saudi Arabia	31 December 2010	95.00%	5,053

During July 2010 the name of the company was changed from Muscat Securities House LLC to Muscat Capital LLC. As at 31 December 2011, the authorised and issued share capital of the subsidiary is SAR 100 million (2010: SAR 75 million).

Financial information relating to subsidiary is summarised as follows:

31 December 2011	Total	Share of parent company	Share of non controlling interest
	RO'000	RO'000	RO'000
Total share capital	10,272	9,887	385
Reserves	(4,034)	(3,883)	(151)
Total net worth	6,238	6,004	234

	Total	Share of parent company	Share of non controlling interest
	US'000	US'000	US'000
Total share capital	26,681	25,681	1,000
Reserves	(10,478)	(10,085)	(393)
Total net worth	16,203	15,596	607

31 December 2010	Total	Share of parent company	Share of non controlling interest
	RO'000	RO'000	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	Share of parent company	Share of non controlling interest
	US'000	US'000	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

11 INVESTMENTS IN ASSOCIATES

2010	2011		2011	2010
USD'000	USD'000		RO'000	RO'000
114,325	104,068	BMI Bank B.S.C. (c) Kingdom of Bahrain	40,067	44,016
28,316	24,750	Mangal Keshav Holding Ltd (MKHL), India	9,528	10,901
142,641	128,818	Carrying value at 31 December	49,595	54,917

During 2011, share of losses from associates amounted to RO 3.529 million (2010: losses of RO 12.637 million) and translation losses on associate investments amounted to RO 1.793 million (2010: gains of RO 0.381 million).

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 2011, the Parent Company held 49% (2010 - 49%) shareholding in BMI, a closely held bank. The carrying value of the investment in BMI as on 31 December 2011 was as follows:

2010	2011		2011	2010
USD'000	USD'000		RO'000	RO'000
148,904	114,325	Carrying value at 1 January	44,016	57,328
(34,579)	(10,257)	Add: Share of loss for the year	(3,949)	(13,312)
114,325	104,068	Carrying value at 31 December	40,067	44,016

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

As at 31 December 2011, the Bank held 42.96% (2010 - 42.96%) shareholding in MKHL. The carrying value of the investment in MKHL as on 31 December 2011 was as follows:

2010	2011		2011	2010
USD'000	USD'000		RO'000	RO'000
25,570	28,316	Carrying value of investments at 1 January	10,901	9,844
1,756	1,091	Add: share of profit for the period 1 October 2010 to 30 September 2011 (2010 - 1 October 2009 to 30 September 2010)	420	676
990	(4,657)	Add/less: Translation of foreign currency profit/(loss)	(1,793)	381
28,316	24,750	Carrying value of investments at 31 December	9,528	10,901

The carrying value of investments as reflected above includes an amount of RO 2.023 million (2010: RO - 2.408 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 2011. The reviewed financial statements of MKHL for the quarter ended 31 December 2011 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.

11.4 Financial information relating to associates

Financial information relating to associates is summarised as follows:

BMI	MKHL		MKHL	BMI
January 2010 to December 2010	April 2010 to September 2010		April 2011 to September 2011	January 2011 to December 2011
RO'000	RO'000		RO'000	RO'000
18,281	3,109	Total revenue	1,510	8,651
(27,156)	721	Net profit/(loss)	279	(3,510)
At 31 December 2010	At 30 September 2010		At 30 September 2011	At 31 December 2011
603,989	25,359	Total assets	20,760	639,075
515,870	7,994	Total liability	5,250	554,382
88,119	17,365	Net worth	15,510	84,693

BMI	MKHL		MKHL	BMI
January 2010 to December 2010	April 2010 to September 2010		April 2011 to September 2011	January 2011 to December 2011
USD'000	USD'000		USD'000	USD'000
47,483	8,075	Total revenue	3,921	22,470
(70,535)	1,873	Net profit/(loss)	724	(9,117)
At 31 December 2010	At 30 September 2010		At 30 September 2011	At 31 December 2011
1,568,803	65,868	Total assets	53,921	1,659,935
1,339,922	20,764	Total liability	13,635	1,439,954
228,881	45,104	Net worth	40,285	219,981

12 PROPERTY AND EQUIPMENT

	Leasehold buildings	Freehold land and buildings	Furniture, fixtures and equipment	Motor vehicles	Total
	RO'000	RO'000	RO'000	RO'000	RO'000
Cost or valuation					
At 1 January 2011	38,000	10,300	81,402	806	130,508
Additions during the year	177	8	8,739	66	8,990
Disposals	-	(1,312)	(384)	(104)	(1,800)
Retirement	-	-	(16,551)	-	(16,551)
Transfer	-	(872)	872	-	-
At 31 December 2011	38,177	8,124	74,078	768	121,147
Depreciation					
At 1 January 2011	190	4,804	50,264	462	55,720
Charge for the year	743	533	9,752	128	11,156
Relating to disposals	-	(571)	(344)	(55)	(970)
Relating to retirements	-	-	(16,551)	-	(16,551)
At 31 December 2011	933	4,766	43,121	535	49,355
Net book value					
At 31 December 2011	37,244	3,358	30,957	233	71,792
At 31 December 2011 (USD'000)	96,738	8,722	80,408	605	186,473

	Leasehold buildings	Freehold land and buildings	Furniture, fixtures and equipment	Motor vehicles	Total
	RO'000	RO'000	RO'000	RO'000	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

The freehold land and buildings owned by the Parent Company were revalued during the year 2007 by an independent professional valuer 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' in other comprehensive income.

During the year the Parent company disposed one of its revalued properties which forms part of the disposals in the freehold land and building above.

Had the freehold land and buildings been carried at cost less depreciation, the carrying amount would have been RO 417,811 (2010: RO 1,050,680).

13 FINANCE LEASE LIABILITIES

The Group has 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 the building was completed in 2009. The lease is for a period of 50 years. The annual lease payment of the building for the initial 25 years is RO 2.7 million. Subsequently, for the next 10 years, the annual rent will increase by 25% to RO 3.4 million. From 36th year onwards, the annual rent will further increase by 10% to RO 3.7 million. Due to which the minimum lease payments in the first 25 years of the lease period are less than the finance charges payable every year.

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

2010 USD'000	2011 USD'000		2011 RO'000	2010 RO'000
(122)	(91)	Current	(35)	(47)
98,823	99,353	Non current	38,251	38,047
98,701	99,262		38,216	38,000
		Represented by:		
448,790	399,000	Gross finance lease payments due	153,615	172,784
(350,089)	(299,739)	Less: Future finance charges	(115,399)	(134,784)
98,701	99,262	Net lease liability/present value recognised as property	38,216	38,000

In December 2010, the total cost of the building was estimated around RO 48 million (assets under lease of RO 38 million and owned of RO 10 million). However, based on the completion of the head office building during the year, the split between the leased and owned asset was reviewed and adjusted.

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

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	More than 5 years	Total
At 31 December 2011	RO'000	RO'000	RO'000	RO'000	RO'000
Gross finance lease payable	2,697	2,697	8,091	140,130	153,615
Less: Future finance charges	(2,732)	(2,735)	(8,222)	(101,710)	(115,399)
Net lease liability	(35)	(38)	(131)	38,420	38,216

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	More than 5 years	Total
At 31 December 2011	USD'000	USD'000	USD'000	USD'000	USD'000
Gross finance lease payable	7,005	7,005	21,016	363,974	399,000
Less: Future finance charges	(7,096)	(7,104)	(21,356)	(264,182)	(299,738)
Net lease liability	(91)	(99)	(340)	99,792	99,262

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	More than 5 years	Total
At 31 December 2010	RO'000	RO'000	RO'000	RO'000	RO'000
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	(47)	(49)	(174)	38,270	38,000

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	More than 5 years	Total
At 31 December 2010	USD'000	USD'000	USD'000	USD'000	USD'000
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	(122)	(127)	(452)	99,402	98,701

14 DEPOSITS FROM BANKS

2010	2011		2011	2010
USD'000	USD'000		RO'000	RO'000
1,063,790	725,338	Inter-bank borrowings	279,255	409,559
433,013	518,195	Vostro balances	199,505	166,710
476,927	654,979	Other money market deposits	252,167	183,617
1,973,730	1,898,512		730,927	759,886

15 CUSTOMERS' DEPOSITS

2010	2011		2011	2010
USD'000	USD'000		RO'000	RO'000
3,511,740	5,254,429	Deposit accounts	2,022,955	1,352,020
2,394,595	2,867,932	Savings accounts	1,104,154	921,919
2,613,403	3,434,366	Current accounts	1,322,231	1,006,160
594,029	725,974	Call accounts	279,500	228,701
47,150	53,634	Margin accounts	20,649	18,153
9,160,917	12,336,335		4,749,489	3,526,953

As on the reporting date, Deposits from Ministries and other Government organizations represent 32% of the total customer deposits; (2010: 27%).

16 CERTIFICATES OF DEPOSIT

During the year the Parent company issued certificates of deposit of RO Nil (2010: RO 69.3 million) and RO 53.6 million (2010: RO 53.9 million) of certificates of deposits were matured. The certificates of deposit 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 42.4.4 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.

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 Luxemburg stock exchange. During the year 2011, notes amounting to RO 9.625 million matured (2010: RO Nil). 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

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

2010	2011		2011	2010
USD'000	USD'000		RO'000	RO'000
139,506	144,595	Negative fair value of derivatives (Note 38)	55,669	53,710
240,096	233,945	Acceptances	90,069	92,437
91,000	100,740	Accrued interest	38,785	35,035
10,197	11,603	Unearned discount and interest	4,467	3,926
8,743	10,031	Employee terminal benefits	3,862	3,366
1,504	935	Deferred tax liability	360	579
98,701	99,262	Finance lease liability (note 13)	38,216	38,000
260,771	292,855	Other liabilities and accrued expenses	112,749	100,397
850,518	893,966		344,177	327,450

The charge for the year and amounts paid in respect of employee terminal benefits were RO 965,092 (2010: RO 515,004) and RO 395,485 (2010: RO 824,944), respectively.

21 TAXATION

2010	2011		2011	2010
USD'000	USD'000		RO'000	RO'000
		Current liability:		
42,091	48,475	Current year	18,663	16,205
41,395	46,889	Prior years	18,052	15,937
83,486	95,364		36,715	32,142
		Statement of comprehensive income		
42,091	51,166	Current year	19,699	16,205
-	(2,691)	Relating to origination and reversal of temporary differences	(1,036)	-
42,091	48,475		18,663	16,205

(a) The tax rate applicable to the Bank is 12% (2010: 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 is estimated to be 14.46% (2010: 13.76%).

The difference between the applicable tax rate of 12% (2010: 12%) and effective tax rate of 14.46% (2010: 13.76%) arises due to the 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.

(b) The reconciliation of taxation on the accounting profit before tax for the year at RO 136.2 million (2010: RO 117.8 million) after the basic exemption limit of RO 30,000 and the taxation charge in the financial statements is as follows:

	2011	2010
	RO'000	RO'000
Tax charge at 12% on accounting profit before tax	16,345	14,136
Add/(less) tax effect of:		
Income not taxable	(594)	(166)
Expenses not deductible or deferred	2,789	2,084
Foreign taxes on foreign-sourced income	-	1
Tax relating to subsidiary	123	92
Others	-	58
Tax charge as per statement of comprehensive income	18,663	16,205

(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 2011	Charged to statement of comprehensive income	31 December 2011
	RO'000	RO'000	RO'000
Asset			
Tax effect of provisions	10,888	714	11,602
Liability			
Tax effect of accelerated tax depreciation	208	322	530
	11,096	1,036	12,132

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

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

	31 December 2011			31 December 2010		
	Before tax	Tax (charge)/ credit	After tax	Before tax	Tax (charge)/ credit	After tax
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Loss on translation of net investments in associates	(1,793)	-	(1,793)	381	-	381
Loss on translation of net investments in associates reversed to profit and loss	190	-	190	-	-	-
Change in fair value of investments available for sale (note 9)	(8,314)	219	(8,095)	4,575	(58)	4,517
Other comprehensive income	(9,917)	219	(9,698)	4,956	(58)	4,898
Current tax	-	-	-	-	-	-
Deferred tax	-	219	-	-	(58)	-

From the year 2010, the Group started recognising deferred tax on other comprehensive income. During the year, the Group reversed deferred tax liability of RO 219K (2010: RO 58K charge) relating to fair value changes of investments available for sale, which may be taxable in the future. The deferred tax credit/charge is disclosed under other comprehensive income.

	31 December 2011			31 December 2010		
	Before tax	Tax (charge)/ credit	After tax	Before tax	Tax (charge)/ credit	After tax
	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000
Loss on translation of net investments in associates	(4,657)	-	(4,657)	990	-	990
Loss on translation of net investments in associates reversed to profit and loss	493	-	493	-	-	-
Change in fair value of investments available for sale (note 9)	(21,595)	569	(21,026)	11,883	(151)	11,732
Other comprehensive income	(25,759)	569	(25,190)	12,873	(151)	12,722
Current tax	-	-	-	-	-	-
Deferred tax	-	569	-	-	(151)	-

The Bank's tax assessments have been completed by the tax authorities up to tax year 2006.

In respect of the assessments of the Bank for 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 Bank has already paid tax attributable to these adjustments and hence there is no further tax liability on the same.

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 157.45 million (2010: Nil) and repaid RO 6.417 million (2010 - RO 5 million). The Parent Company has subordinated liabilities as follows:

2010	2011		2011	2010
USD'000	USD'000		RO'000	RO'000
376,623	615,584	Fixed rate Rial Omani subordinated loans	237,000	145,000
100,000	253,332	Floating rate USD subordinated loans	97,533	38,500
476,623	868,916		334,533	183,500

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

23 SHARE CAPITAL

Share capital

The authorised share capital of the Parent Company is 2,500,000,000 shares of RO 0.100 each (2010: 2,500,000,000 of RO 0.100 each). At 31 December 2011, 1,548,379,715 shares of RO 0.100 each (2010: 1,346,417,144 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 a secondary listing on London Stock Exchange. The listing on 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:

	2011		2010	
	No. of shares	% holding	No. of shares	% holding
Royal Court Affairs	384,535,473	24.83	334,422,151	24.84
Dubai Financial Group	232,256,875	15.00	201,962,500	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 6,732K (2010: RO 8,976K) was transferred from profits to legal reserve. After this transfer the Parent Company's legal reserves 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 2011, the Parent Company transferred RO 32.85 million (2010 - RO 36.7 million) to subordinated loan reserve from retained earnings.

A subordinated loan of RO 6.4 million was repaid during the year 2011 (2010: RO 5 million). On maturity, the reserve of RO 6.4 million (2010: RO 5 million) related to this loan was thus transferred to General Reserve.

26 PROPOSED DIVIDENDS

For the year 2011, 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 38.71 million on the Parent company'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 232,280,185 shares of RO 0.100 each amounting to RO 23.22 million. The proposed cash dividend and issuance of bonus shares are subject to formal approval of the shareholders at the Annual General Meeting.

For 2010, a dividend of 40% comprising, 25% in the form of cash and 15% in the form of bonus shares was approved at the Annual General Meeting on 21 March 2011. Thus shareholders received cash dividend of RO 0.025 per ordinary share of RO 0.100 each aggregating to RO 33.66 million on the Parent company's existing share capital. In addition, they received 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 20.197 million.

27 NET ASSETS PER SHARE

The calculation of net assets per share is based on net assets as at 31 December 2011 attributable to ordinary shareholders of RO 870.58 million (2010: RO 796.39 million) and on 1,548,379,715 (2010: 1,346,417,144 ordinary shares) being the number of shares outstanding as at 31 December 2011.

28 CONTINGENT LIABILITIES AND COMMITMENTS

(a) Legal proceedings

There were a number of legal proceedings outstanding against the Parent Company at 31 December 2011. 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 348,539,000 (2010: RO 270,758,000).

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

2010	2011		2011	2010
USD'000	USD'000		RO'000	RO'000
844,914	831,431	Letters of credit	320,101	325,292
2,379,800	2,651,338	Guarantees	1,020,765	916,223
3,224,714	3,482,769		1,340,866	1,241,515

(c) Capital commitments

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

2010	2011		2011	2010
USD'000	USD'000		RO'000	RO'000
5,507	7,464	Purchase of property and equipment	2,874	2,120

(d) As of the reporting date, the Group has not pledged any of its assets as security (2010 - no assets pledged).

(e) As of the reporting date, the amount payable on partly paid shares held by the Group was RO 10,307,722 (2010: RO 12,165,435).

28.1 Concentration of contingent liabilities and commitments

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

2010 USD'000	2011 USD'000		2011 RO'000	2010 RO'000
49,842	48,361	Agriculture and allied activities	18,619	19,189
746,052	738,234	Construction	284,220	287,230
5,168	5,864	Export trade	2,258	1,990
809,169	862,104	Financial institutions	331,910	311,530
169,964	164,434	Government	63,307	65,436
294,683	334,364	Import trade	128,730	113,453
128,966	190,714	Manufacturing	73,425	49,652
150,332	145,174	Mining and quarrying	55,892	57,878
50,709	66,857	Personal and housing loans	25,740	19,523
67,481	74,847	Real estate	28,816	25,980
338,590	446,691	Services	171,976	130,357
26,891	40,371	Transport	15,543	10,353
194,371	187,125	Utilities	72,043	74,833
71,044	77,995	Wholesale and retail trade	30,028	27,352
121,452	99,634	Others	38,359	46,759
3,224,714	3,482,769		1,340,866	1,241,515

29 INTEREST INCOME

2010 USD'000	2011 USD'000		2011 RO'000	2010 RO'000
675,847	702,644	Interest income on loans and advances	270,518	260,201
30,722	27,717	Interest income on bank placements	10,671	11,828
8,223	14,984	Interest income on investments	5,769	3,166
714,792	745,345		286,958	275,195

Effective annual rates on yielding assets are provided in note 42.4.4

30 INTEREST EXPENSE

2010 USD'000	2011 USD'000		2011 RO'000	2010 RO'000
147,306	118,901	Interest expense on customers deposits	45,777	56,713
35,761	35,842	Interest expense on subordinated liabilities	13,799	13,768
20,953	17,917	Interest expense on certificates of deposits	6,898	8,067
14,899	12,101	Interest expense on bank borrowings	4,659	5,736
9,384	9,384	Interest expense on unsecured bonds	3,613	3,613
268	242	Interest expense on floating rate notes	93	103
228,571	194,387		74,839	88,000

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 1,087,878 (2010: RO 693,944).

32 OTHER OPERATING INCOME

2010	2011		2011	2010
USD'000	USD'000		RO'000	RO'000
56,492	27,460	Foreign exchange	10,572	21,749
3,088	11,148	Profit on sale of investments	4,292	1,189
2,784	7,496	Dividend income	2,886	1,072
5,600	8,203	Other income	3,158	2,156
67,964	54,307		20,908	26,166

33 OTHER OPERATING EXPENSES

2010	2011		2011	2010
USD'000	USD'000		RO'000	RO'000
97,939	112,830	Employees' salaries	43,440	37,707
77,338	82,156	Administrative expenses	31,630	29,775
43,273	50,621	Other staff costs	19,489	16,660
19,351	31,390	Occupancy costs	12,085	7,450
4,125	5,179	Contribution to Social Insurance schemes	1,994	1,588
2,164	2,509	Employees' end of service benefits	966	833
353	338	Directors' remuneration (note 36)	130	136
244,543	285,023		109,734	94,149

34 CASH AND CASH EQUIVALENTS

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

2010	2011		2011	2010
USD'000	USD'000		RO'000	RO'000
998,579	1,117,632	Placements with banks	430,289	384,453
1,880,215	2,142,387	Cash and balances with Central Banks	824,819	723,883
77,719	174,132	Treasury bills	67,041	29,922
(1,228,239)	(860,205)	Deposits from banks	(331,179)	(472,872)
1,728,274	2,573,946		990,970	665,386

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:

	2011	2010
Net profit attributable to ordinary shareholders for basic earnings per share (RO'000)	117,546	101,595
Weighted average number of shares outstanding during the year (in '000)	1,548,380	1,548,380
Basic earnings per share (RO)	0.076	0.066
Basic earnings per share (USD)	0.197	0.170

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.

	2011	2010
Net profit for the year (RO'000)	117,546	101,595
Interest on convertible bonds, net of taxation (RO'000)	1,991	1,991
	119,537	103,586
Weighted average number of shares in issue during the year ('000)	1,601,112	1,590,368
Diluted earnings per share (RO)	0.075	0.065
Diluted earnings per share (USD)	0.194	0.169

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:

2010	2011		2011	2010
USD'000	USD'000		RO'000	RO'000
		Loans and advances		
100,933	199,434	1 January	76,782	38,859
103,104	15,590	Disbursed during the year	6,002	39,695
(4,603)	(58,332)	Repaid during the year	(22,458)	(1,772)
-	(11,073)	Less: Provision	(4,263)	-
199,434	145,619	31 December	56,063	76,782
		Current, deposit and other accounts		
88,599	154,349	1 January	59,424	34,110
73,249	3,610	Received during the year	1,390	28,201
(7,364)	(37,701)	Repaid during the year	(14,515)	(2,835)
(135)	(673)	Other decreases	(259)	(52)
154,349	119,585	31 December	46,040	59,424
16,621	16,177	Customers' liabilities under documentary credits, guarantees and other liabilities	6,228	6,399

At 31 December 2011 the placements and other receivable balances due from the associates amount to RO 9.6 million (2010: RO 46.95 million) and the deposits due to the associates amount to RO 0.8 million (2010 - RO 12.69 million). For the year ending 31 December 2011, the interest income received from and interest expense paid to the associates amount to RO 470K (2010: RO 1,152K) and RO 2K (2010 - RO 6K) 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:

2010	2011		2011	2010
USD'000	USD'000		RO'000	RO'000
58,886	36,184	Royal Court Affairs	13,931	22,671
20,000	21,260	Dubai Financial Group - Gross	8,185	7,700
-	(11,073)	Less: Provision	(4,263)	-
111,912	85,270	HE Sheikh Mustahil Ahmed Al Mashani and Group Companies	32,829	43,086
8,636	13,978	Others	5,381	3,325
199,434	145,619		56,063	76,782

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

2010	2011		2011	2010
USD'000	USD'000		RO'000	RO'000
2,745	6,610	Interest income	2,545	1,057
982	1,081	Interest expense	416	378
55	8	Commission and other income	3	21
353	338	Directors' remuneration (note 33)	130	136
166	182	Directors' sitting fees	70	64

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:

2010	2011		2011	2010
USD'000	USD'000		RO'000	RO'000
36	304	Royal Court Affairs	117	14
930	738	H.E Sheikh Mustahil Ahmed Al Mashani and Group Companies	284	358
16	39	Others	15	6
982	1,081		416	378

Key management compensation

2010	2011		2011	2010
USD'000	USD'000		RO'000	RO'000
6,792	6,657	Salaries and other short-term benefits	2,563	2,615
704	766	Post-employment benefits	295	271
7,496	7,423		2,858	2,886

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:

2010	2011		2011	2010
USD'000	USD'000		RO'000	RO'000
619,362	582,327	Funds under management	224,196	238,455

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. Counterparties 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.

31 December 2011				Notional amounts by term to maturity		
	Positive fair value	Negative fair value	Notional amount total	Within 3 months	3 - 12 months	More than 1 year
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
	(Note 8)	(Note 20)				
Derivatives held for trading:						
Interest rate swaps	36,699	36,699	577,020	-	42,350	534,670
Interest rate cap	1,893	1,893	32,757	-	-	32,757
Cross currency swap	80	8,624	98,738	-	-	98,738
Credit derivative swaps	-	108	7,700	-	7,700	-
Currency options - bought	1,141	-	432,104	226,546	203,706	1,852
Currency options - sold	-	1,141	432,104	226,546	203,706	1,852
Commodity derivatives bought	456	-	30,607	22,691	7,916	-
Commodity derivatives sold	-	456	30,607	22,691	7,916	-
Commodities purchase contracts	1,501	1,862	68,446	60,375	7,327	744
Commodities sale contracts	1,928	1,464	68,549	60,464	7,337	748
Forward purchase contracts	451	2,877	860,984	591,142	256,680	13,162
Forward sales contracts	3,990	545	860,691	590,932	256,615	13,144
Total	48,139	55,669	3,500,307	1,801,387	1,001,253	697,667
USD'000	125,036	144,595	9,091,706	4,678,927	2,600,657	1,812,122

31 December 2010				Notional amounts by term to maturity		
	Positive fair value	Negative fair value	Notional amount total	Within 3 months	3 - 12 months	More than 1 year
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
	(Note 8)	(Note 20)				
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

39 REPURCHASE AGREEMENTS

The Group did not have any repurchase transactions outstanding as of the reporting date (2010: RO nil).

40 GEOGRAPHICAL DISTRIBUTION OF ASSETS AND LIABILITIES

The geographical distribution of assets and liabilities was as follows:

	Sultanate of Oman	Other GCC countries	Europe	United States of America	Others	Total
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
31 December 2011						
Cash and balances with Central Banks	749,315	76,548	-	-	-	825,863
Placements with banks	1,118	216,455	161,634	4,115	485,779	869,101
Loans and advances	4,543,559	200,866	-	-	75,007	4,819,432
Investments	220,437	126,338	12,289	6,345	27,039	392,448
Property, equipment and other assets	318,763	2,394	-	-	-	321,157
Total assets	5,833,192	622,601	173,923	10,460	587,825	7,228,001
Deposits from banks	48,199	121,517	299, 167	27,113	234,931	730,927
Customers' deposits and certificates of deposit	4,226,068	561,541	60,525	-	2,355	4,850,489
Unsecured bonds and floating rate notes	54,803	-	5,775	-	-	60,578
Other liabilities and taxation	376,479	4,413	-	-	-	380,892
Subordinated liabilities	237,000	-	-	97,533	-	334,533
Shareholders' funds	870,582	-	-	-	-	870,582
Total liabilities and equity	5,813,131	687,471	365,467	124,646	237,286	7,228,001

	Sultanate of Oman	Other GCC countries	Europe	United States of America	Others	Total
	RO'000	RO'000	RO'000	RO'000	RO'000	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	Other GCC countries	Europe	United States of America	Others	Total
	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000
31 December 2011						
Cash and balances with Central Banks	1,946,273	198,826	-	-	-	2,145,099
Placements with banks	2,903	562,221	419,829	10,688	1,261,764	2,257,405
Loans and advances	11,801,452	521,730	-	-	194,823	12,518,005
Investments	572,564	328,151	31,919	16,481	70,231	1,019,346
Property, equipment and other assets	827,956	6,218	-	-	-	834,174
Total assets	15,151,148	1,617,146	451,748	27,169	1,526,818	18,774,029
Deposits from banks	125,193	315,629	777,057	70,423	610,210	1,898,512
Customers' deposits and certificates of deposit	10,976,800	1,458,548	157,208	-	6,117	12,598,673
Unsecured bonds and floating rate notes	142,345	-	15,000	-	-	157,345
Other liabilities and taxation	977,868	11,462	-	-	-	989,330
Subordinated liabilities	615,584	-	-	253,332	-	868,916
Shareholders' funds	2,261,253	-	-	-	-	2,261,253
Total liabilities and equity	15,099,043	1,785,639	949,265	323,755	616,327	18,774,029

	Sultanate of Oman	Other GCC countries	Europe	United States of America	Others	Total
	USD'000	USD'000	USD'000	USD'000	USD'000	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	12,765,718	1,187,782	308,613	129,112	806,509	15,197,734
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	12,489,513	910,440	534,509	100,343	1,162,929	15,197,734

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 2011

Total	International	Oman		Oman	International	Total
USD'000	USD'000	USD'000		RO'000	RO'000	RO'000
			Segment revenue			
745,345	17,703	727,642	Interest income	280,142	6,816	286,958
(194,387)	(11,636)	(182,751)	Interest expense	(70,359)	(4,480)	(74,839)
159,005	5,096	153,909	Commission and fees income (net)	59,255	1,962	61,217
54,307	969	53,338	Other operating income	20,535	373	20,908
764,270	12,132	752,138	Operating income	289,573	4,671	294,244
			Segment costs			
(285,023)	(20,233)	(264,790)	Other operating expenses	(101,944)	(7,790)	(109,734)
(28,977)	(3,003)	(25,974)	Depreciation	(10,000)	(1,156)	(11,156)
(145,857)	(5,636)	(140,221)	Impairment for credit losses	(53,985)	(2,170)	(56,155)
66,374	561	65,813	Recoveries from provision for credit losses	25,338	216	25,554
(7,094)	-	(7,094)	Impairment for investments	(2,731)	-	(2,731)
(1,688)	-	(1,688)	Impairment for placements	(650)	-	(650)
951	-	951	Recoveries from impairment for investments	366	-	366
(9,166)	(9,166)	-	Share of losses from associates	-	(3,529)	(3,529)
(48,475)	(319)	(48,156)	Tax expense	(18,540)	(123)	(18,663)
(458,955)	(37,796)	(421,159)	Total costs	(162,146)	(14,552)	(176,698)
305,315	(25,664)	330,979	Segment net profit/(loss) for the year	127,427	(9,881)	117,546
			Other information			
18,774,029	931,849	17,842,179	Segment assets and liabilities	6,869,239	358,762	7,228,001
23,350	431	22,919	Segment capital expenses	8,824	166	8,990

Total	International	Oman		Oman	International	Total
USD'000	USD'000	USD'000		RO'000	RO'000	RO'000
			Segment revenue			
714,792	14,867	699,925	Interest income	269,471	5,724	275,195
(228,571)	(4,989)	(223,582)	Interest expense	(86,079)	(1,921)	(88,000)
135,416	2,876	132,540	Commission and fees income (net)	51,028	1,107	52,135
67,964	273	67,691	Other operating income	26,061	105	26,166
689,601	13,027	676,574	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

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 2011	Corporate banking	Consumer banking	Wholesale banking	International	Total
	RO'000	RO'000	RO'000	RO'000	RO'000
Net interest income	67,376	94,726	43,794	6,223	212,119
Commission, fees and other income (net)	14,542	42,747	22,534	2,302	82,125
Operating income	81,918	137,473	66,328	8,525	294,244
Segment costs					
Operating expense (including depreciation)	(21,024)	(75,691)	(12,637)	(11,538)	(120,890)
Impairment for credit losses (net)	(15,868)	(12,415)	-	(1,952)	(30,235)
Reversal of impairments for placements/Investments (net)	-	-	(2,150)	(1,231)	(3,381)
Share of loss from associates (net)	-	-	-	(3,529)	(3,529)
Tax expenses	(5,720)	(6,272)	(6,548)	(123)	(18,663)
	(42,612)	(94,378)	(21,335)	(18,373)	(176,698)
Segment net profit/(loss) for the year	39,306	43,095	44,993	(9,848)	117,546
Segment assets	2,736,016	2,347,533	1,782,901	361,551	7,228,001
Operating income (USD'000)	212,773	357,073	172,281	22,143	764,270
Net profit (USD'000)	102,094	111,935	116,865	(25,579)	305,315
Segment assets (USD'000)	7,106,535	6,097,488	4,630,912	939,094	18,774,029

31 December 2010	Corporate banking	Consumer banking	Wholesale banking	International	Total
	RO'000	RO'000	RO'000	RO'000	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 (USD'000)	6,038,144	5,188,052	3,327,128	644,410	15,197,734

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). 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 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 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 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 regular basis and exceptions are reported 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 Department. 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 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; and
- Retail portfolio is rated using an application score card.
  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 5 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.

42.2.2 Exposure to credit risk – Statement of financial position items

	Loans and advances to customers		Placements with banks		Investment securities	
	2011	2010	2011	2010	2011	2010
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Individually impaired						
Sub-Standard	23,236	17,312	-	-	-	-
Doubtful	28,128	11,610	-	-	20,099	13,575
Loss	50,548	74,269	-	-	472	1,891
Gross amount	101,912	103,191	-	-	20,571	15,466
Allowance for impairment	(60,367)	(68,700)	-	-	(6,149)	(5,376)
Carrying amount	41,545	34,491	-	-	14,422	10,090
Collectively impaired						
Sub-Standard	8,785	13,960	-	-	-	-
Doubtful	11,412	19,266	-	-	-	-
Loss	26,950	39,469	-	-	-	-
Gross amount	47,147	72,695	-	-	-	-
Allowance for impairment	(35,731)	(54,704)	-	-	-	-
Carrying amount	11,416	17,991	-	-	-	-
Past due but not impaired						
Standard	173,727	227,494	-	-	-	-
Carrying amount	173,727	227,494	-	-	-	-
Past due but not impaired comprises:						
1-30 days	117,719	92,063	-	-	-	-
30-60 days	35,758	88,531	-	-	-	-
60-90 days	20,250	46,900	-	-	-	-
	173,727	227,494	-	-	-	-
Neither past due nor impaired						
Standard	4,356,273	3,472,668	872,251	552,849	328,431	256,937
Special mention	316,867	318,144	-	-	-	-
Gross amount	4,673,140	3,790,812	872,251	552,849	328,431	256,937
Allowance for impairment	(80,396)	(62,862)	(3,150)	(2,500)	-	-
Carrying amount	4,592,744	3,727,950	869,101	550,349	328,431	256,937
Total carrying amount	4,819,432	4,007,926	869,101	550,349	342,853	267,027
Carrying amount in USD'000	12,518,005	10,410,197	2,257,405	1,429,478	890,527	693,577
Total allowances for impairment	(176,494)	(186,266)	(3,150)	(2,500)	(6,149)	(5,376)
USD'000	(458,426)	(483,808)	(8,182)	(6,494)	(15,972)	(13,964)

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 85 million (2010: RO 106 million) and on classified portfolio it amounted to RO 49 million (2010: RO 25 million).

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:

2010	2011		2011	2010
USD'000	USD'000		RO'000	RO'000
561,888	577,660	Financial guarantees	222,399	216,327
980,372	1,061,499	Other credit related liabilities	408,677	377,443
383,234	469,208	Loan commitments	180,645	147,545
1,925,494	2,108,367		811,721	741,315

The above table represents a worst case scenario of credit risk exposure as of 31 December 2011 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;
- 95% of the loans and advances portfolio are considered to be neither past due nor impaired (2010: 93%);
- Of the RO 3,041 million (2010: RO 2,536 million) loans and advances assessed on an individual basis, less than 3.4% (2010: 4.1%) is impaired;
- Personal and housing loans represent 39.1% (2010: 39.5%) 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.

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	Net	Gross	Net	Gross	Net
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
2011						
Sub-Standard	23,236	16,478	-	-	-	-
Doubtful	28,128	15,793	-	-	20,099	14,422
Loss	50,548	9,274	-	-	472	-
Total amount	101,912	41,545	-	-	20,571	14,422
Total in USD'000	264,706	107,909	-	-	53,433	37,461
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	103,191	34,491	-	-	15,466	10,090
Total in USD'000	268,029	89,587	-	-	40,171	26,208

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	
2010	2011		2011	2010
USD'000	USD'000		RO'000	RO'000
		Against individually impaired		
96,891	113,382	Property	43,652	37,303
1,153	771	Equities	297	444
28,525	28,709	Others	11,053	10,982
126,569	142,862		55,002	48,729
		Against past due but not impaired		
100,203	105,475	Property	40,608	38,578
148,478	202,314	Equities	77,891	57,164
6,210	-	Others	-	2,391
254,891	307,789		118,499	98,133
		Against neither past due nor impaired		
1,913,919	2,199,556	Property	846,829	736,859
881,060	835,304	Equities	321,592	339,208
279,174	253,387	Others	97,554	107,482
3,074,153	3,288,247		1,265,975	1,183,549
3,455,613	3,738,898	Total	1,439,476	1,330,411

(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 2011 is as follows:

	Carrying amount	
	2011	2010
Nature of assets	RO'000	RO'000
Residential/commercial property	100	1,195
USD'000	260	3,104

Repossessed properties are sold as soon as practicable, with the proceeds used to reduce the outstanding indebtedness. Repossessed 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 2011, based on Moody's ratings or their equivalent:

31 December 2011

	2011	2010
Banks rated:	RO'000	RO'000
Aaa to Aa3	193,236	142,137
A1 to A3	6,187	6,044
Baa1 to Baa3	8,713	6,203
Banks unrated	4,360	4,016
	212,496	158,400
Equity	136,506	114,003
Total investment securities	349,002	272,403

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

	2011	2010
Banks rated:	RO'000	RO'000
Aaa to Aa3	46,625	99,452
A1 to A3	169,287	69,275
Baa1 to Baa3	517,417	47,099
Ba1 to Ba3	24,597	201,904
B1 to B3	95	9
Banks unrated	114,230	135,110
Total	872,251	552,849

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.

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	2011	2010	2011	2010	2011	2010
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Concentration by Sector						
Corporate	2,798,570	2,327,837	-	-	125,013	127,092
Sovereign	26,319	36,443	-	-	216,445	138,955
Financial institution	216,539	172,102	872,251	552,849	7,544	6,356
Retail	1,954,498	1,657,810	-	-	-	-
Total	4,995,926	4,194,192	872,251	552,849	349,002	272,403
USD'000	12,976,431	10,894,005	2,265,587	1,435,971	906,499	707,540

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

2010	2011		2011	2010
USD'000	USD'000		RO'000	RO'000
		Corporate and other loans		
1,346,572	1,445,746	Services	556,612	518,430
841,234	1,051,909	Mining and quarrying	404,985	323,875
615,269	718,459	Manufacture	276,607	236,878
785,031	800,545	Real estate	308,210	302,237
459,581	473,055	Wholesale and retail trade	182,126	176,939
567,644	503,652	Import trade	193,906	218,543
447,018	562,439	Financial institutions	216,539	172,102
309,932	715,481	Utilities	275,460	119,324
430,736	741,522	Transport	285,486	165,833
237,908	281,565	Construction	108,402	91,595
94,656	68,473	Government	26,319	36,443
29,722	22,192	Agriculture and allied activities	8,544	11,443
5,221	7,462	Export trade	2,873	2,010
417,481	507,313	Others	195,359	160,730
6,588,005	7,899,813		3,041,428	2,536,382
4,306,000	5,076,618	Personal and Housing loans	1,954,498	1,657,810
10,894,005	12,976,431		4,995,926	4,194,192

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	
	2011	2010	2011	2010	2011	2010
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Concentration by location						
Sultanate of Oman	4,688,977	3,960,279	4,268	14,201	176,991	149,614
Other GCC countries	231,942	183,587	216,455	150,017	126,338	82,716
Europe	-	2,668	161,634	106,496	12,289	9,652
United States of America	-	-	4,115	44,208	6,345	5,500
Others	75,007	47,658	485,779	237,927	27,039	24,921
	4,995,926	4,194,192	872,251	552,849	349,002	272,403
USD'000	12,976,431	10,894,005	2,265,587	1,435,971	906,499	707,540

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 counterparty.

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. Asset – Liability Committee (ALCO) of the Parent Company manages the liquidity position of the Group.

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.

The Group consciously diversifies its funding base to include deposits raised from interbank, issue of Certificates of deposit, retail 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 Group also has conservatively set a Loans-to-deposits ratio to ensure appropriate loan growth in consonance with its deposit base.

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.

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	
	2011	2010	2011	2010
As at 31 December	26.45%	24.22%	33.88%	31.41%
Average for the period	25.67%	30.41%	32.27%	38.41%
Maximum for the period	28.07%	31.92%	35.31%	41.30%
Minimum for the period	23.25%	24.22%	28.07%	31.41%

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.

The asset and liability maturity profile was as follows:

	On demand or within three months	Four months to 12 months	One to five years	More than five years	Total
	RO'000	RO'000	RO'000	RO'000	RO'000
31 December 2011					
Assets					
Cash and balances with Central Banks	714,490	35,655	49,214	26,504	825,863
Placements with banks	430,289	301,127	110,240	27,445	869,101
Loans and advances	962,316	399,186	1,198,425	2,259,505	4,819,432
Investments	274,546	10,727	51,325	55,850	392,448
Property and equipment and other assets	135,358	96,597	18,554	70,648	321,157
Total assets	2,516,999	843,292	1,427,758	2,439,952	7,228,001
Liabilities and equity					
Deposits from banks	331,179	143,783	186,508	69,457	730,927
Customers' deposits and certificates of deposit	1,339,965	1,243,073	1,510,636	756,815	4,850,489
Unsecured bonds and floating rate notes	-	5,775	54,803	-	60,578
Other liabilities and taxation	94,345	111,791	136,338	38,418	380,892
Subordinated liabilities	-	70,000	32,083	232,450	334,533
Shareholders' funds	-	-	-	870,582	870,582
Total liabilities and equity	1,765,489	1,574,422	1,920,368	1,967,722	7,228,001
Assets off balance sheet					
Future interest cash flows	63,854	186,672	645,616	470,523	1,366,665
Liabilities off balance sheet					
Future interest cash flows	15,559	55,293	168,213	133,652	372,717

	On demand or within three months	Four months to 12 months	One to five years	More than five years	Total
	RO'000	RO'000	RO'000	RO'000	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

	On demand or within three months	Four months to 12 months	One to five years	More than five years	Total
	USD'000	USD'000	USD'000	USD'000	USD'000
31 December 2011					
Assets					
Cash and balances with Central Banks	1,855,818	92,610	127,829	68,842	2,145,099
Placements with banks	1,117,633	782,148	286,338	71,286	2,257,405
Loans and advances	2,499,522	1,036,847	3,112,792	5,868,844	12,518,005
Investments	713,107	27,862	133,312	145,065	1,019,346
Property and equipment and other assets	351,580	250,901	48,192	183,501	834,174
Total assets	6,537,660	2,190,368	3,708,463	6,337,538	18,774,029
Liabilities and equity					
Deposits from banks	860,206	373,462	484,436	180,408	1,898,512
Customers' deposits and certificates of deposit	3,480,429	3,228,761	3,923,730	1,965,753	12,598,673
Unsecured bonds and floating rate notes	-	15,000	142,345	-	157,345
Other liabilities and taxation	245,052	290,366	354,125	99,787	989,330
Subordinated liabilities	-	181,818	83,332	603,766	868,916
Shareholders' funds	-	-	-	2,261,253	2,261,253
Total liabilities and equity	4,585,687	4,089,407	4,987,968	5,110,967	18,774,029
Assets off balance sheet					
Future interest cash flows	165,854	484,862	1,676,925	1,222,138	3,549,779
Liabilities off balance sheet					
Future interest cash flows	40,414	143,618	436,918	347,149	968,099

	On demand or within three months	Four months to 12 months	One to five years	More than five years	Total
	USD'000	USD'000	USD'000	USD'000	USD'000
31 December 2010					
Assets					
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	530,690	33,197	104,005	168,325	836,217
Property and equipment and other assets	226,745	184,158	35,281	189,801	635,985
Total assets	4,745,537	1,572,480	3,350,520	5,529,197	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

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. The Group manages market risk through proper identification, control, measurement, monitoring and reporting of market risk to facilitate appropriate action as and when needed. The Groups' middle office monitors and reports compliance to established risk threshold limits.

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 Bank Muscat 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.

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:

2010	2011		2011	2010
USD'000	USD'000		RO'000	RO'000
173,509	41,493	UAE Dirhams	15,975	66,801
138,540	18,477	US Dollar	7,113	53,338
125,587	98,710	Saudi Riyal	38,004	48,351
15,179	3,820	Qatari Riyal	1,471	5,844
10,231	34,563	Pakistani Rupee	13,307	3,939
30,890	4,117	Indian Rupee	1,585	11,893
56,691	72,384	Kuwait Dinar	27,868	21,826
125,076	104,661	Bahraini Dinar	40,295	48,154
13,270	7,342	Others	2,826	5,109
688,973	385,567		148,444	265,255

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 100 million (2010: RO 110 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.

42.4.2 Foreign Exchange Risk

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 2011 with all other variables held constant:

	At 31 December 2011		At 31 December 2010	
Non parity foreign currency assets	% of change in the currency price (+/-)	Change in the fair value (+/-)	% of change in the currency price (+/-)	Change in the fair value (+/-)
		RO'000		RO'000
Indian Rupee	10%	2,787	10%	1,189
Pakistani Rupee	10%	158	10%	394
Others	10%	283	10%	511

42.4.3 Investment Price Risk

Investment price risk is the risk of decline in the market value of the Group's portfolio as a result of diminishment in the market value of individual investments. The Group'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 various policies enabling proper risk management of the Group's investments. The Group'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 intervals 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 group's Investment Policy.

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 2011 was 0.58. Thus, a +/- 5% change in the value of MSM30 index may result in 2.91% change in the value of Group's quoted local equity portfolio, amounting to RO 1.33 million increase or decrease in the unrealised gain recognised in the statement of other comprehensive income for the year.

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 8.17% 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 2010.

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 1.57 million (2010: +/-RO 1.3 million) and consequently increased or decreased in the unrealised gain recognised in the statement of other comprehensive income.

42.4.4 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 Parent Company's Treasury under the supervision of the Asset Liability Management Committee (ALCO).

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 2011	Effective annual interest rate %	Floating rate or within 3 months	Months 4 to 12	Years 1 to 5	Over 5 years	Non interest sensitive	Total
		RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Cash and balances with							
Central Banks	0 – 2	541,620	-	-	-	284,243	825,863
Placements with banks	1.09	517,341	321,311	502	27,945	2,002	869,101
Loans and advances	6.07	1,441,867	770,429	1,462,657	1,143,707	772	4,819,432
Investments	3.46	78,452	7,678	172,152	6,255	127,911	392,448
Property and equipment and other assets	None	-	-	-	-	321,157	321,157
Total assets		2,579,280	1,099,418	1,635,311	1,177,907	736,085	7,228,001
Deposits from banks	1.08	420,956	47,532	186,508	69,457	6,474	730,927
Customers› deposits and							
Certificates of deposit	1.46	829,967	2,683,748	578,863	87,914	669,997	4,850,489
Unsecured bonds and floating rate notes	5.33	5,775	-	54,803	-	-	60,578
Other liabilities and taxation	None	(2)	(29)	(169)	38,421	342,671	380,892
Subordinated liabilities	6.39	59,183	108,350	-	167,000	-	334,533
Shareholders› funds	None	-	-	-	-	870,582	870,582
		1,315,879	2,839,601	820,005	362,792	1,889,724	7,228,001
Total interest rate sensitivity gap		1,263,401	(1,740,183)	815,306	815,115	(1,153,639)	-
Cumulative interest rate sensitivity gap		1,263,401	(476,782)	338,524	1,153,639	-	
In USD'000		3,281,561	(1,238,395)	879,283	2,996,465	-	

31 December 2010	Effective annual interest rate %	Floating rate or within 3 months	Months 4 to 12	Years 1 to 5	Over 5 years	Non interest sensitive	Total
		RO'000	RO'000	RO'000	RO'000	RO'000	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
		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	-	

(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 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 interest rate risk management is facilitated by limits of 5% NII impact and 20% impact on EVE for a 200 basis points shock.

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	-200 bps	+100 bps	-100 bps	+50 bps	-50 bps
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
2011						
As at 31 December	1,314	2,594	(691)	(471)	(1,694)	(614)
Average for the period	(816)	1,658	(1,691)	(203)	(2,128)	(236)
Maximum for the period	(8,364)	(118)	(5,482)	(1,341)	(4,040)	(1,268)
Minimum for the period	3,432	3,564	490	1,245	(980)	1,382
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)
Impact on Economic value						
2011						
As at 31 December	(143,398)	182,451	(74,899)	83,535	(38,480)	40,402
Average for the period	(128,471)	159,333	(66,984)	73,704	(34,413)	35,808
Maximum for the period	(143,398)	182,451	(74,899)	83,535	(38,480)	40,402
Minimum for the period	(101,681)	127,992	(53,003)	57,323	(27,280)	28,025
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

	+200 bps	-200 bps	+100 bps	-100 bps	+50 bps	-50 bps
Impact on Net Interest income	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000
2011						
As at 31 December	3,412	6,738	(1,796)	(1,224)	(4,399)	(1,595)
Average for the period	(2,120)	4,308	(4,392)	(527)	(5,528)	(612)
Maximum for the period	(21,724)	(307)	(14,238)	(3,483)	(10,494)	(3,293)
Minimum for the period	8,914	9,257	1,274	3,233	(2,546)	3,589
2010						
As at 31 December	(14,031)	7,192	(9,995)	3,039	(7,977)	1,235
Average for the period	(5,171)	10,927	(5,335)	3,865	(5,418)	(164)
Maximum for the period	(14,031)	29,268	(9,995)	15,992	(7,977)	2,735
Minimum for the period	10,013	(2,216)	2,216	(4,000)	(1,683)	(3,270)

Impact on Economic value						
2011						
As at 31 December	(372,464)	473,898	(194,542)	216,973	(99,948)	104,939
Average for the period	(333,692)	413,852	(173,983)	191,439	(89,385)	93,008
Maximum for the period	(372,464)	473,898	(194,542)	216,973	(99,948)	104,939
Minimum for the period	(264,108)	332,447	(137,671)	148,891	(70,856)	72,793
2010						
As at 31 December	(274,803)	330,003	(143,158)	148,758	(73,675)	73,953
Average for the period	(237,203)	289,532	(123,623)	131,805	(63,706)	64,764
Maximum for the period	(274,803)	330,003	(143,158)	148,758	(73,675)	73,953
Minimum for the period	(216,932)	261,429	(112,397)	123,758	(57,218)	60,408

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 and 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. 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. Operational risk Includes legal risk but excludes strategic and reputational risk.

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.

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 as required by the CBO Business Continuity Guidelines, the Basel Committee Joint Forum High-level principles for business continuity and international business continuity standards. The Group continuously strengthens and enhances its existing plans by implementing a robust business continuity framework 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. The 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, understood and implemented 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:

- The BCP Committee met on a number of occasions throughout the year to discharge its responsibilities and a BCP working group was established to ensure Business continuity continues to be closely aligned and integrated with business initiatives and developments.
- State-of-the-art BCP software was upgraded to provide a closer integration of information between Business Impact Analysis and Business Continuity Plan maintenance and management.
- The existing Business Continuity Management (BCM) was reviewed in view of relocating operations to the new Head Office and to bring the Bank's recovery capabilities in line with the current requirements. Fire evacuation response leaders were appointed and trained.
- Fire evacuation drills were conducted for each section of the Seeb Head Office and a collective, fully fledged surprise fire drill and evacuation was conducted in conjunction with the Royal Oman Police.
- The Bank's fully fledged Business Recovery centre was relocated and expanded extensively to provide an enhanced capability to meet future demands and ensure the continual operational capability in the event of an major operational disruption.
- The IT department undertook initiatives to enhance the speed and recovery capability of the Bank's key systems and applications.
- Comprehensive testing of the recovery of the Bank's key systems and applications was conducted in conjunction with the Business areas.
- Business continuity is becoming more integrated with other risk management activities to provide better understanding of risk and enable better risk based decisions within the Bank.

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 fifty percent 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 fifty percent 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 fifty percent 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 percent 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.

The following table sets out the capital adequacy position of the Group.

2010	2011		2011	2010
USD'000	USD'000		RO'000	RO'000
349,717	402,177	Share Capital	154,838	134,641
783,130	783,130	Share Premium	301,505	301,505
116,574	134,060	Legal reserve	51,613	44,881
159,242	175,909	General reserve	67,725	61,308
208,052	276,709	Subordinated loan reserve	106,533	80,100
246,557	296,301	Retained Profit *	114,076	94,925
1,863,272	2,068,286	Total	796,290	717,360
		Less:		
(6,688)	(11,694)	Cumulative loss on fair value	(4,502)	(2,575)
(6,257)	(5,255)	Goodwill	(2,023)	(2,409)
(28,821)	(31,512)	Deferred tax assets	(12,132)	(11,096)
(1,307)	(5,470)	Foreign currency translation reserve	(2,106)	(503)
(4,925)	(3,106)	Non strategic investment in Banks (50%)	(1,196)	(1,896)
(68,195)	(61,782)	Investment in associates (50%)	(23,786)	(26,255)
1,747,079	1,949,467	Tier I Capital	750,545	672,626
13,927	6,716	Cumulative gain on fair value (45%)	2,586	5,362
145,727	180,138	General loan loss impairment	69,353	56,105
268,572	592,208	Subordinated liabilities (net of reserves)	228,000	103,400
83,933	83,933	Mandatory convertible bonds	32,314	32,314
512,159	862,995	Total	332,253	197,181
		Less:		
(4,925)	(3,106)	Non strategic investment in Banks (50%)	(1,196)	(1,896)
(68,195)	(61,782)	Investment in associates (50%)	(23,786)	(26,255)
439,039	798,107	Tier II Capital	307,271	169,030
2,186,118	2,747,574	Total Regulatory Capital	1,057,816	841,656
		Risk weighted assets		
12,993,013	15,449,388	Credit risk	5,948,014	5,002,310
623,112	521,109	Market risk	200,627	239,898
1,179,252	1,277,305	Operational risk	491,763	454,012
14,795,377	17,247,802	Total risk weighted assets	6,640,404	5,696,220
		Capital Ratios		
		Total regulatory capital expressed as		
14.78%	15.93%	a % of total risk weighted assets	15.93%	14.78%
		Total Tier I capital expressed as		
11.81%	11.30%	a % of total risk weighted assets	11.30%	11.81%

* Retained profit excludes proposed cash dividend of RO 38.71 million for the year 2011 (2010: RO 33.66 million) in line with the local regulatory disclosure requirement. Proposed cash dividend for the year 2011 is subject to approval by the shareholders in Annual General Meeting scheduled on 18th March 2012.

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.

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 2011 are considered by the Board and Management not to be materially different to their book values:

31 December 2011	Notes	Loans and advances	Available-for-sale	Held-to-maturity	Other amortised cost	Total carrying value	Fair value
		RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Cash and balances with Central Bank	5	825,863	-	-	-	825,863	825,863
Placements with banks	6	869,101	-	-	-	869,101	869,101
Loans and advances	7	4,819,432	-	-	-	4,819,432	4,819,432
Investment securities	9	-	275,812	67,041	-	342,853	342,853
		6,514,396	275,812	67,041	-	6,857,249	6,857,249
Deposits from banks	12	-	-	-	730,927	730,927	730,927
Customers' deposits	13	-	-	-	4,749,489	4,749,489	4,749,489
Certificates of deposit	14	-	-	-	101,000	101,000	101,000
Unsecured bonds	15	-	-	-	54,803	54,803	54,803
Floating rate notes	16	-	-	-	5,775	5,775	5,775
Subordinated liabilities	19	-	-	-	334,533	334,533	334,533
		-	-	-	5,976,527	5,976,527	5,976,527

31 December 2010	Notes	Loans and advances	Available-for-sale	Held-to-maturity	Other amortised cost	Total carrying value	Fair value
		RO'000	RO'000	RO'000	RO'000	RO'000	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
		5,284,330	237,105	29,922	-	5,551,357	5,551,357
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 liability	19	-	-	-	183,500	183,500	183,500
		-	-	-	4,695,142	4,695,142	4,695,142

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 2011.

2011	Level 1	Level 2	Level 3	Total
	RO'000	RO'000	RO'000	RO'000
Assets				
Trading derivatives	48,139	-	-	48,139
Available-for-sale financial assets:				
Equity securities	61,673	-	22,387	84,060
Debt investments	170,047	-	21,705	191,752
Total Assets	279,859	-	44,092	323,951
Liabilities				
Trading derivatives	55,669	-	-	55,669

2010				
	Level 1	Level 2	Level 3	Total
Assets	RO'000	RO'000	RO'000	RO'000
Trading derivatives	39,858	-	-	39,858
Available-for-sale financial assets:				
Equity securities	71,956	-	21,714	93,670
Debt investments	129,783	-	13,652	143,435
Total Assets	241,597	-	35,366	276,963
Liabilities				
Trading derivatives	53,710	-	-	53,710

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.

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 2010 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
NORTH MUSCAT			
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 MUSCAT			
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
Bait Al Reem	24692425	24692018	PO Box 134, PC 112, Ruwi
SOUTH MUSCAT			
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

BRANCH NETWORK

Name of Branch	Telephone	Fax	Address
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 (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 (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

BRANCH NETWORK

Name of Branch	Telephone	Fax	Address
DHAKILIYA			
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, Berkat 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			
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

BRANCH NETWORK

Name of Branch	Telephone	Fax	Address
DHOFAR			
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			
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
Al Mudhaibi	25578788	25578767	PO Box 134, PC 112, Ruwi

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