BANK DHOFAR SAOG

Report and financial statements
for the year ended 31 December 2008

BANK DHOFAR SAOG

Report and financial statements
for the year ended 31 December 2008

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

Report on the financial statements

We have audited the accompanying financial statements of **Bank Dhofar SAOG**, which comprise of the balance sheet as at 31 December 2008, and the income statement, statement of changes in equity and cash flows statement for the year then ended, and a summary of significant accounting policies and other explanatory notes as set out in pages 3 to 62.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and the relevant disclosure requirements of the Commercial Companies Law of 1974, as amended and the Rules and Guidelines on disclosure issued by the Capital Market Authority, effective 1 October 2007. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free 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 Bank's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate for the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank'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.

Independent auditor's report
to the shareholders of
Bank Dhofar SAOG (continued)

Opinion

In our opinion, the financial statements present fairly, in all material respects the financial position of **Bank Dhofar SAOG** as of 31 December 2008, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on Other Legal and Regulatory Requirements

In our opinion the financial statements comply, in all material respects, with the relevant disclosure requirements of the Commercial Companies Law of 1974, as amended and the Rules and Guidelines on disclosure issued by the Capital Market Authority, effective 1 October 2007.

Deloitte & Touche (M.E.)
Muscat, Sultanate of Oman
28 January 2009

BANK DHOFAR SAOG

Balance sheet
at 31 December 2008

	Notes	2008 RO'000	2007 RO'000
ASSETS			
Cash and cash equivalents	5	116,249	119,428
Financial instruments at fair value through profit or loss	6	2,519	2,515
Loans and advances to banks	7	37,586	29,187
Loans and advances to customers	8	1,018,441	704,643
Available-for-sale investments	9	13,787	14,660
Held-to-maturity investments	10	120,468	71,353
Intangible asset	11	3,971	3,971
Property and equipment	12	4,597	4,413
Other assets	13	6,202	4,957
Total assets		**1,323,820**	955,127
LIABILITIES			
Due to banks	14	89,663	93,494
Deposits from customers	15	971,596	674,502
Other liabilities	16	35,628	30,771
Subordinated bonds and loan	17	38,500	45,862
Total liabilities		**1,135,387**	844,629
SHAREHOLDERS' EQUITY			
Share capital	18	70,774	53,082
Share premium	19	58,506	5,429
Legal reserve	20	14,612	12,149
Subordinated bonds and loan reserve	20	10,267	9,929
Investment revaluation reserve	20	239	3,582
Retained earnings	21	34,035	26,327
Total shareholders' equity		**188,433**	110,498
Total liabilities and shareholders' equity		**1,323,820**	955,127
Contingent liabilities and commitments	32	**240,125**	167,560
Net assets per share (Rials Omani)	22	**0.266**	0.208

Eng. Abdul Hafidh Salim Rajab Al-Aujaili
Chairman

Kris Babicci
Chief Executive Officer

The accompanying notes form an integral part of these financial statements.

BANK DHOFAR SAOG

Income statement
for the year ended 31 December 2008

	Notes	2008 RO'000	2007 RO'000
Interest income		**63,671**	51,610
Interest expense		**(23,772)**	(21,254)
Net interest income	**23**	**39,899**	30,356
Fees and commission income		**5,154**	3,415
Fees and commission expenses		**(638)**	(463)
Net fees and commission income		**4,516**	2,952
Other income	**24**	**11,749**	10,732
Operating income		**56,164**	44,040
Staff and administrative costs	**25**	**(19,494)**	(15,583)
Depreciation	**12**	**(1,611)**	(1,381)
Operating expenses		**(21,105)**	(16,964)
Profit from operations		**35,059**	27,076
Provision for loan impairment	**8**	**(5,470)**	(3,263)
Recoveries from allowance for loan impairment	**8**	**2,350**	1,515
Bad debts written-off		**(2)**	(24)
Impairment of available-for-sale investments		**(4,864)**	-
Financial instruments at fair value through profit or loss		**4**	51
Profit from operations after provision		**27,077**	25,355
Income tax expense	**27**	**(3,391)**	(2,565)
Profit for the year		**23,686**	22,790
Earnings per share basic and diluted (Rials Omani)	**28**	**0.044**	0.043

The accompanying notes form an integral part of these financial statements.

BANK DHOFAR SAOG

Statement of changes in equity
for the year ended 31 December 2008

	Notes	Share capital RO'000	Share premium RO'000	Legal reserve RO'000	Subordinated bonds and loan reserve RO'000	Investment revaluation reserve RO'000	Retained earnings RO'000	Total RO'000
1 January 2007		46,158	5,429	9,870	5,888	2,231	23,705	93,281
Profit for the year		-	-	-	-	-	22,790	22,790
Fair value increase		-	-	-	-	3,932	-	3,932
Net transfer to income statement on sale of available-for-sale investments		-	-	-	-	(2,581)	-	(2,581)
Total recognised income for 2007		-	-	-	-	1,351	22,790	24,141
Dividend paid for 2006		-	-	-	-	-	(6,924)	(6,924)
Bonus issue for 2006		6,924	-	-	-	-	(6,924)	-
Transfer to legal reserve	**20**	-	-	2,279	-	-	(2,279)	-
Transfer to subordinated bond reserve	**20**	-	-	-	1,474	-	(1,474)	-
Transfer to subordinated loan reserve	**20**	-	-	-	2,567	-	(2,567)	-
31 December 2007		53,082	5,429	12,149	9,929	3,582	26,327	110,498

The accompanying notes form an integral part of these financial statements.

Statement of changes in equity
for the year ended 31 December 2008

	Notes	Share capital RO'000	Share premium RO'000	Legal reserve RO'000	Subordinated bonds and loan reserve RO'000	Investment revaluation reserve RO'000	Retained earnings RO'000	Total RO'000
1 January 2008		**53,082**	**5,429**	**12,149**	**9,929**	**3,582**	**26,327**	**110,498**
Profit for the year							**23,686**	**23,686**
Fair value decrease		-	-	-	-	**(7,108)**	-	**(7,108)**
Net transfer to income statement on sale of available-for-sale investments		-	-	-	-	**(1,099)**	-	**(1,099)**
Impairment of available-for-sale investment taken to income statement		-	-	-	-	**4,864**	-	**4,864**
Total recognised income for 2008		-	-	-	-	**(3,343)**	**23,686**	**20,343**
Dividend paid for 2007		-	-	-	-	-	**(13,271)**	**(13,271)**
Increase in share capital	**18**	**17,692**	-	-	-	-	-	**17,692**
Increase in share premium	**19**	-	**53,077**	-	-	-	-	**53,077**
Increase in legal reserve	**20**	-	-	**94**	-	-	-	**94**
Transfer to legal reserve	**20**	-	-	**2,369**	-	-	**(2,369)**	-
Transferred to retained earnings	**20**	-	-	-	**(7,362)**	-	**7,362**	-
Transfer to subordinated loan reserve	**20**	-	-	-	**7,700**	-	**(7,700)**	-
31 December 2008		**70,774**	**58,506**	**14,612**	**10,267**	**239**	**34,035**	**188,433**

The accompanying notes form an integral part of these financial statements.

BANK DHOFAR SAOG

Cash flows statement
for the year ended 31 December 2008

	2008 RO'000	2007 RO'000
Cash flows from operating activities		
Interest and commission receipts	**79,618**	64,634
Interest payments	**(25,818)**	(18,242)
Cash payments to suppliers and employees	**(16,328)**	(16,168)
	37,472	30,224
Decrease in operating assets		
Loans and advances to customers	**(316,917)**	(154,076)
Loans and advances to banks	**(5,324)**	2,079
Purchase of treasury bills and certificates of deposits (net)	**(49,115)**	(71,353)
	(371,356)	(223,350)
Increase in operating liabilities		
Deposits from customers	**297,094**	177,360
Due to banks	**(4,294)**	22,818
	292,800	200,178
Net cash (used in) / from operating activities	**(41,084)**	7,052
Income tax paid	**(2,457)**	(1,716)
Net cash (used in) / from operating activities	**(43,541)**	5,336
Cash flows from investing activities		
Investment income	**116**	317
Purchase of investments	**(13,039)**	(8,538)
Proceeds from sale of investments	**7,813**	9,980
Purchase of property and equipment	**(1,838)**	(1,826)
Proceeds from sale of property and equipment	**192**	224
Net cash (used in) / from investing activities	**(6,756)**	157
Cash flow from financing activities		
Proceeds from right issue of share capital	**70,863**	**-**
Subordinated bonds and loan	**(7,362)**	38,500
Dividend paid	**(13,271)**	(6,924)
Net cash flow from financing activities	**50,230**	31,576
Net (decrease) / increase in cash and cash equivalents	**(67)**	37,069
Cash and cash equivalents at the beginning of the year	**145,196**	108,127
Cash and cash equivalents at the end of the year	**145,129**	145,196
Cash and cash equivalents (Note 5)	**116,249**	119,428
Capital deposit with Central Bank of Oman	**(500)**	(500)
Loans and advances to banks due within 90 days	**30,221**	26,646
Due to banks within 90 days	**(841)**	(378)
Cash and cash equivalents for the purpose of the cash flow statement	**145,129**	145,196

The accompanying notes form an integral part of these financial statements.

Notes to the financial statements
for the year ended 31 December 2008

1. Legal status and principal activities

Bank Dhofar SAOG (the Bank) is incorporated in the Sultanate of Oman as a public joint stock company and is principally engaged in corporate, retail and investment banking activities. The Bank has a primary listing on the Muscat Securities Market (MSM) and its principal place of business is the Head Office, Capital Business District (CBD), Muscat, Sultanate of Oman.

2. Adoption of new and revised International Financial Reporting Standards (IFRS)

For the year ended 31 December 2008, the Bank has adopted all of the new and revised standards and interpretations issued by the International Accounting 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 2008.

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

At the date of authorization of these financial statements, the following standards and interpretations were in issue but not yet effective:

	Effective for annual periods beginning or after
IFRIC 13 : Customer Loyalty Programmes	1 July 2008
IFRIC 16 : Hedges of a Net Investment in a Foreign Operation	1 October 2008
IFRIC 15 : Agreements for the Construction of Real Estate	1 January 2009
IFRS 1 : (Revised) First-time adoption of International Financial Reporting Standards	1 January 2009
IFRS 2 : (Revised) Share-based Payment	1 January 2009
IFRS 8 : Operating Segments	1 January 2009
IAS 1 : (Revised) Presentation of Financial Statements	1 January 2009
IAS 16 : (Revised) Property, Plant and Equipment	1 January 2009
IAS 19 : (Revised) Employee Benefits	1 January 2009
IAS 20 : (Revised) Government Grants and Disclosure of Government Assistance	1 January 2009
IAS 23 : (Revised) Borrowing Costs	1 January 2009
IAS 29 : (Revised) Financial Reporting in Hyperinflationary Economies	1 January 2009
IAS 32 : (Revised) Financial Instruments : Presentation	1 January 2009
IAS 36 : (Revised) Impairment of Assets	1 January 2009
IAS 38 : (Revised) Intangible Assets	1 January 2009
IAS 40 : (Revised) Investment Property	1 January 2009
IAS 41 : (Revised) Agriculture	1 January 2009
IFRS 3 : (Revised) Business Combinations	1 July 2009
IFRS 5 : (Revised) Non-Current Assets held for Sale and Discontinued Operations	1 July 2009
IAS 27 : (Revised) Consolidated and Separate Financial Statements	1 July 2009
IAS 28 : (Revised) Investment in Associates	1 July 2009
IAS 31 : (Revised) Interests in Joint Ventures	1 July 2009
IAS 39 : (Revised) Financial Instruments: Recognition and Measurement	1 July 2009

The management anticipates that the adoption of the standards will have no material impact on the financial statements of the Bank.

3. Principal accounting policies

3.1. *Basis of preparation*

These 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.

The financial statements have been prepared on the historical cost basis except for derivative financial instruments, financial instruments at fair value through profit and loss and available for sale financial assets which are measured at fair value in accordance with IFRS, and the requirements of the commercial companies law of 1974, as amended and disclosure requirements of the capital Market Authority.

These policies have been consistently applied in dealing with items that are considered material in relation to the Bank's financial statements to all the years presented.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Bank’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 4.

3.2. *Foreign currency translations*

3.2.1. *Functional and presentation currency*

Items included in the Bank’s financial statements are measured using Rials Omani which is the currency of the primary economic environment in which the Bank operates, rounded off to the nearest thousand.

3.2.2. *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement. Translation differences on non-monetary items, such as equities held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation differences on non-monetary items, other than those held at cost, such as equities classified as available-for-sale financial assets, are included in the investment revaluation reserve in equity.

3.3. *Financial instruments*

3.3.1. *Classification*

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

3. Principal accounting policies (continued)

3.3. *Financial instruments (continued)*

3.3.1.1. *Financial assets at fair value through profit or loss*

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is held in this category if acquired principally for the purpose of short-term profit taking or if so designated by management. Derivatives are also categorised as held for trading unless they are designated as hedges instruments.

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

- Doing so significantly reduces measurements inconsistencies that would arise if the related derivatives were treated as held for trading and the underlying financial instruments were carried at amortised costs;

- Certain investments, that are managed and evaluated on a fair value basis in accordance with documented risk management or investments strategy and reported to key management personnel on that basis are designated at fair value through profit or loss; and

- Financial instruments, containing one or more embedded derivatives significantly modify the cash flows, are designated at fair value through profit or loss.

Gains and losses arising from changes in the fair value of derivatives that are managed in conjunction with designated financial assets or financial liabilities are included in the income statement.

3.3.1.2. *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They can be originated or acquired by the bank with no intention of trading the receivable and comprise loans and advances to banks and customers other than bonds purchased at original issuance.

3.3.1.3. *Available-for-sale*

Available-for-sale investments are those 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.

3.3.1.4. *Held-to-maturity investments*

Investments with fixed or determinable payments and fixed maturity dates that the Bank has the positive and ability to hold to maturity are classified as held-to-maturity investments. Held-to-maturity are recorded at amortised costs using the effective interest method less any impairment, with revenue recognised on an effective yield basis..

3. Principal accounting policies (continued)

3.3. *Financial instruments (continued)*

3.3.2. *Recognition and derecognition*

The Bank recognises financial assets at fair value through profit or loss and available-for-sale assets on the trade date, the date it commits to purchase or sell the asset. From this date any gains and losses arising from changes in fair value of the assets are recognised. Loans and receivables, deposits and subordinated liabilities are recognised on the date they are originated.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Bank has transferred substantially all risks and rewards of ownership. A financial liability is derecognised when it is extinguished.

3.3.3. *Measurement*

Financial assets are measured initially at cost plus transaction costs for all financial assets not carried at fair value through profit or loss.

Subsequent to initial recognition all financial assets at fair value through profit or loss and all available-for-sale assets are measured at fair value, except equity instrument that does not have a quoted market price in an active market and whose fair value cannot be reliably measured is stated at cost, including transaction costs, less impairment losses.

All non-trading financial liabilities and loans and receivables are measured at amortised cost less impairment losses. Amortised cost is calculated on the effective interest rate method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortised based on the effective interest rate of the instrument.

3.3.4. *Fair value measurement principles*

The fair values of quoted investments in active markets are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Bank establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis and other valuation techniques commonly used by market participants.

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 at the balance sheet date for an instrument with similar terms and conditions.

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

3. Principal accounting policies (continued)

3.3. *Financial instruments (continued)*

3.3.5. *Gains and losses on subsequent measurement*

Gains and losses arising from changes in the fair value of the financial assets at fair value through profit or loss category are included in the income statement in the period in which they arise. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised directly in equity, until the financial asset is derecognised or impaired at which time the cumulative gain or loss previously recognised in equity is recognised in profit or loss.

3.4. *Cash and cash equivalents*

For the purpose of the cash flow statement, cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, including: cash on hand, non-restricted cash deposited with the Central Bank of Oman, amounts due from other banks and eligible treasury bills and certificate of deposits.

3.5. *Treasury bills and certificate of deposits*

Treasury bills and certificates of deposit issued for a term longer than three months are classified as available-for-sale or held-to-maturity at the date of acquisition..

3.6. *Offsetting*

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

3.7. *Impairment of financial assets*

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

(i) significant financial difficulty of the issuer or obligor;

(ii) a breach of contract, such as a default or delinquency in interest or principal payments;

(iii) the Bank granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the lender would not otherwise consider;

(iv) it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;

3. Principal accounting policies (continued)

3.7. *Impairment of financial assets (continued)*

(v) the disappearance of an active market for that financial asset because of financial difficulties; or

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

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Bank may measure impairment on the basis of an instrument's fair value using an observable market price.

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

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e. on the basis of the Bank's grading process that considers asset type, industry, geographical location, collateral type, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

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 Group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

3. Principal accounting policies (continued)

3.7. *Impairment of financial assets (continued)*

Estimates of changes in future cash flows for groups of assets should reflect and be directionally consistent with changes in related observable data from period to period (for example, changes in unemployment rates, property prices, payment status, or other factors indicative of changes in the probability of losses in the group and their magnitude). 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 known to be uncollectible, all the necessary legal procedures have been completed, and the final loss has been determined, the loan is written off against the related provision 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. Subsequent recoveries of amounts previously written off are included in the income statement.

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 (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the income statement.

The Bank assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets, other than investments at fair value through profit and loss, is impaired. 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 considered in determining whether 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 income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the income statement.

3.8. *Property and equipment*

Items of property and equipment are stated at cost less accumulated depreciation and impairment loss. Depreciation is calculated so as to write off the cost of property and equipment, other than freehold land and capital work-in-progress, by equal instalments over their estimated economic useful lives from the date the asset is brought into use, as follows :

	Years
Buildings	7 - 25
Furniture and fixtures	3 - 7
Motor vehicles	3 - 5
Computer equipment	4

3. Principal accounting policies (continued)

3.8. *Property and equipment (continued)*

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. 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. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

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

3.9. *Intangible assets*

Goodwill represents the excess of the cost of an acquisition over the fair value of the net identifiable assets acquired at the date of acquisition. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses.

3.10. *Provisions*

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

3.11. *Dividends*

Dividends are recognised as a liability in the year in which they are declared.

3.12. *Interest income and expense*

Interest income and expense are recognised in the income statement using the effective interest method.

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

3. Principal accounting policies (continued)

3.12. ***Interest income and expense (continued)***

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

3.13. ***Fees and commission income***

Fees and commissions are generally recognised on an accrual basis when the service has been provided. Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognised as an adjustment to the effective interest rate on the loan. Loan syndication fees are recognised as revenue when the syndication has been completed and the Bank retained no part of the loan package for itself or retained a part at the same effective interest rate for the other participants. Commission and fees arising from negotiating, or participating in the negotiation of, a transaction for a third party – such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses – are recognised on completion of the underlying transaction. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time-apportionment basis. Asset management fees related to investment funds are recognised rateably over the period the service is provided. The same principle is applied for wealth management, financial planning and custody services that are continuously provided over an extended period of time.

3.14. ***Taxation***

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

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

Deferred income tax is provided in full, using the balance sheet liability method, on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes (the tax base). The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date. The principal temporary differences arise from depreciation of property and equipment and provisions.

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

3. Principal accounting policies (continued)

3.15. *Employee benefits*

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

Contributions to a defined contribution retirement plan and occupational hazard insurance for Omani employees in accordance with the Omani Social Insurances Law of 1991 and its subsequent amendments are recognised as an expense in the income statement as incurred.

3.16. *Derivative financial instruments*

Derivatives are stated at fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and valuation techniques, including discounted cash flow models and options pricing models, as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

The best evidence of the fair value of a derivative at initial recognition is the transaction price (i.e., the fair value of the consideration given or received) unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. When such evidence exists, the Bank recognises profits on the day of the transaction.

The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. Although the Bank enters into derivative instruments for hedging purposes, certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in the income statement.

3.16.1 Embedded derivatives

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at fair value with changes in fair value recognised in profit or loss.

3. Principal accounting policies (continued)

3.16. *Derivative financial instruments (continued)*

3.16.2 Hedge accounting

The bank designates certain hedging instruments, which include derivatives, embedded derivatives and non-derivatives in respect of foreign currency risk, as either fair value hedges, cash flow hedges, or hedges of net investments in foreign operations. Hedges of foreign exchange risk on firm commitments are accounted for as cash flow hedges.

At the inception of the hedge relationship, the entity documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the bank documents whether the hedging instrument that is used in a hedging relationship is highly effective in offsetting changes in fair values or cash flows of the hedged item.

3.16.3 Fair value hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in profit or loss immediately, together with any changes in the fair value of the hedged item that are attributable to the hedged risk. The change in the fair value of the hedging instrument and the change in the hedged item attributable to the hedged risk are recognised in the line of the income statement relating to the hedged item.

Hedge accounting is discontinued when the bank revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. The adjustment to the carrying amount of the hedged item arising from the hedged risk is amortised to profit or loss from that date.

3.16.4 Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are deferred in equity. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss, and is included in the "other gains and losses" line of the income statement.

Amounts deferred in equity are recycled in profit or loss in the periods when the hedged item is recognised in profit or loss, in the same line of the income statement as the recognised hedged item. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability.

3. Principal accounting policies (continued)

3.16.4 Cash flow hedges (continued)

Hedge accounting is discontinued when the bank revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. Any cumulative gain or loss deferred in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was deferred in equity is recognised immediately in profit or loss.

3.17. ***Sale and repurchase 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 amounts due to other banks, deposits from banks, other deposits or deposits due to 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 financial statements.

Securities borrowed are not recognised in the financial statements, unless these are sold to third parties, in which case the purchase and sale are recorded with the gain or loss included in trading income.

3.18. ***Borrowings***

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

3.19. ***Segment reporting***

A segment is a distinguishable component of the Bank that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. The Bank currently operates only in the Sultanate of Oman. The Bank's primary format for reporting segmental information is business segments, based upon management and internal reporting structure. The Bank's main business segments are corporate and retail banking.

3.20. ***Fiduciary assets***

Assets held in trust or in a fiduciary capacity are not treated as assets of the Bank in the balance sheet.

3. Principal accounting policies (continued)

3.21. *Trade and settlement date accounting*

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

3.22. *Directors' remuneration*

Directors' remuneration is calculated in accordance with the Commercial Companies Law of Sultanate of Oman.

4. Critical Accounting Judgment and key sources of estimation uncertainty

(a) Classification of investments

Management decides on acquisition of an investment whether it should be classified as held for trading, carried at fair value through profit or loss account, or available-for-sale or held-to-maturity investments.

Available-for-sale investments

Management follows the guidance set out in International Accounting Standard (IAS) 39 Financial Instruments: Recognition and Measurement on classifying non-derivative financial assets as available-for-sale. This classification requires management's judgement based on its intentions to hold such investments.

Held-to-maturity investments

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

(b) Fair value estimation

Fair value is based on quoted market prices at the balance sheet 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 balance sheet date.

4. Critical Accounting Judgment and key sources of estimation uncertainty (continued)

(c) Impairment losses on loans and advances

The Bank reviews its loan portfolio to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in the income statement, management makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans and advances before the decrease can be identified with an individual receivable in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group 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 regularly to reduce any differences between loss estimates and actual loss experience.

(d) Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Bank to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value. The carrying amount of goodwill at the balance sheet date in the financial statements was RO 3,971 (2007 – RO 3,971).

(e) Impairment of available-for-sale investment

The Bank determines that available-for-sale investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgement. In making this judgement, management evaluates among other factors, the normal volatility in share price. In addition, impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology and operational and financing cash flows.

(f) Depreciation

Depreciation is charged so as to write off the cost of assets over their estimated useful lives. The calculation of useful lives is based on management's assessment of various factors such as the operating cycles, the maintenance programs, and normal wear and tear using its best estimates

.

5. Cash and cash equivalents

	2008 RO'000	2007 RO'000
Cash on hand	**13,114**	8,635
Balances with the Central Bank of Oman	**103,135**	45,793
Certificate of deposits with maturity of 90 days or less	**-**	65,000
	116,249	119,428

At 31 December 2008, cash and cash equivalents included balances with the Central Bank of Oman approximately RO 500,000 (2007 - RO 500,000) as minimum reserve requirements. These funds are not available for the Bank's daily business.

Outstanding certificate of deposits as of 31st December 2007 were issued by the Central Bank of Oman and carried interest rate ranging from 1.90% to 1.98%.

6. Financial instruments at fair value through profit or loss

	2008 RO'000	2007 RO'000
Debts and other fixed income instruments held for trading		
Government Development bonds	**2,519**	2,515

7. Loans and advances to banks

	2008 RO'000	2007 RO'000
Placements with other banks	**30,299**	22,859
Current clearing accounts and bills discounted	**7,287**	6,328
	37,586	29,187

At 31 December 2008, placement with one local bank individually represented 20% or more of the Bank's placements.

At 31 December 2007, no placement with any bank individually represented 20% or more of the Bank's placements.

8. Loans and advances to customers

	2008 RO'000	2007 RO'000
Overdrafts	**102,577**	73,052
Loans	**873,808**	621,846
Loans against trust receipts	**67,791**	38,203
Bills discounted	**3,466**	3,224
Advance against credit cards	**7,945**	4,717
Others	**13,180**	8,998
Gross loans and advances	**1,068,767**	750,040
Less: Impairment allowance	**(50,326)**	(45,397)
Net loans and advances	**1,018,441**	704,643

The movements in the impairment allowance is analysed below:

	2008 RO'000	2007 RO'000
(a) Allowance for loan impairment		
1 January	**28,824**	29,170
Allowance made during the year	**5,470**	3,263
Released to the income statement during the year	**(2,350)**	(1,515)
Written off during the year	**(260)**	(2,094)
31 December	**31,684**	28,824
(b) Reserved interest		
1 January	**16,573**	16,727
Reserved during the year	**3,544**	3,438
Released to the income statement during the year	**(1,102)**	(824)
Written-off during the year	**(373)**	(2,768)
31 December	**18,642**	16,573
Total impairment allowance	**50,326**	45,397

8. Loans and advances to customers (continued)

As a matter of policy, the Bank considers waiver / write-off or settlement only in such cases where the Bank is satisfied that the recovery of the full outstanding liabilities from the borrower is not possible in the normal course of business or out of the securities realisation or through enforcement of the guarantee (wherever available) and that legal action will not yield higher recoveries after considering the time and costs involved.

Proposals for waivers/write-off are not formula driven and are decided on case by case basis after weighing all pros and cons. The rationale is invariably documented. In all cases, the Bank aims to recover the maximum value through enforcement of collaterals/guarantees of guarantors, etc.

Interest is reserved by the Bank against loans and advances which are impaired, to comply with the rules, regulations and guidelines issued by the Central Bank of Oman.

Under the Central Bank of Oman’s guidelines for provision against classified loans and advances, at 31 December 2008, out of the total provisions of RO 50,326,142 (2007 – RO 45,397,195) a collective provision made on a general portfolio basis amounting to RO 14,989,548 (2007 - RO 10,208,545).

At 31 December 2008, impaired loans and advances on which interest has been reserved amount to **RO 36,379,850** (2007 - RO 34,893,000) and loans and advances on which interest is not being accrued amount to **RO 1,871,358** (2007 **-** RO 1,729,189).

Loan and advances are summarised as follows

	2008		2007	
	Loans and advances to customers RO’000	**Loans and advances to banks RO’000**	Loans and advances to customers RO’000	Loans and advances to banks RO’000
Neither past due nor impaired	**1,018,550**	**37,586**	700,585	29,187
Past due but not impaired	**12,267**	**-**	13,046	-
Impaired	**37,950**	**-**	36,409	-
Gross loans and advances	**1,068,767**	**37,586**	750,040	29,187
Less: Impairment allowance	**(50,326)**	**-**	(45,397)	-
Total	**1,018,441**	**37,586**	704,643	29,187

8. Loans and advances to customers (continued)

Loans and advances neither past due nor impaired

The credit quality of the portfolio of loans and advances that were neither past due nor impaired can be assessed by reference to the internal rating system adopted by the Bank.

Loans and advances past due but not impaired

	2008	2007
	RO'000	RO'000
Past due up to 30 days	**8,458**	8,871
Past due 30 – 60 days	**2,931**	974
Past due 60 – 89 days	**878**	3,201
Totals	**12,267**	13,046

Impaired

Substandard	**2,058**	573
Doubtful	**366**	345
Loss	**35,526**	35,491
Total	**37,950**	36,409

Fair value of collaterals

Upon initial recognition of loans and advances, the fair value of collateral is based on valuation techniques commonly used for the corresponding assets. In subsequent periods, the fair value is updated by reference to market price or indexes of similar assets.

Loans and advances renegotiated

Restructuring activities include extended payment arrangements, approved external management plans, modification and deferral of payments. Restructuring policies and practices are based on indicators or criteria which, in the judgment of management, indicate that payment will most likely continue. These policies are kept under continuous review. Restructuring is most commonly applied to term loans, in particular customer finance loans. Renegotiated loans that would otherwise be past due or impaired totalled RO 1,153,000 at 31 December 2008 (2007: RO 1,664,000).

9. Available-for-sale investments

	2008 RO'000	2007 RO'000
Equity instruments		
- Quoted	**10,546**	7,552
- Unquoted	**3,241**	7,108
	13,787	14,660

	Cost RO'000	Fair value 2008 RO'000	Fair value 2007 RO'000
Quoted on the Muscat Securities Market (by sector)			
Banking and investments	**565**	**558**	1,670
Services	**7,436**	**7,308**	4,640
Industrial	**2,823**	**2,680**	1,242
	10,824	**10,546**	7,552
Unquoted			
Unquoted Omani company	**1,857**	**2,375**	3,937
Unquoted foreign equities	**867**	**866**	3,171
	2,724	**3,241**	7,108
	13,548	**13,787**	14,660

At 31 December 2008, the investments are carried at their fair value. The market value in certain cases is higher than the carrying amount. However, the Board of Directors believe that due to the non-liquidity of certain shares, the market value of the quoted securities is not representative of the fair value and hence appropriate adjustments have been made to the market value to reflect the fair value.

10. Held-to-maturity investments

	2008 RO'000	2007 RO'000
Treasury bills above 90 days	**20,468**	36,353
Certificates of deposits above 90 days	**100,000**	35,000
	120,468	71,353

Treasury bills are issued by the commercial banks outside Sultanate of Oman for a term of 3 to 6 months and carry interest rates ranging from 2.61% to 4.34% (2007 -3.95% to 4.45%).

Outstanding certificate of deposits are issued by the Central Bank of Oman and carry interest rates ranging from 1.25% to 2.2% (2007 – 2.45% to 3.60%).

11. Intangible asset

	2008 RO	2007 RO'000
Goodwill	**3,971**	3,971

The goodwill had resulted from the acquisition of branches of the Commercial Bank of Oman in the year 2001 and merger with Majan International Bank in the year 2003.

Notes to the financial statements
for the year ended 31 December 2008 (continued)

12. Property and equipment

	Freehold Land RO'000	Buildings RO'000	Furniture and fixtures RO'000	Motor vehicles RO'000	Computer equipment RO'000	Capital Work-in-progress RO'000	Total RO'000
Cost							
1 January 2007	140	1,573	4,538	760	5,809	73	12,893
Additions	-	-	871	265	588	102	1,826
Disposals	-	-	(142)	(183)	(32)	(110)	(467)
1 January 2008	140	1,573	5,267	842	6,365	65	14,252
Additions	-	**-**	**978**	**175**	**750**	**(65)**	**1,838**
Disposals	-	-	**(251)**	**(67)**	**(101)**	**-**	**(419)**
31 December 2008	**140**	**1,573**	**5,994**	**950**	**7,014**	**-**	**15,671**
Depreciation							
1 January 2007	-	587	3,188	453	4,513	-	8,741
Charge for the year	-	60	534	173	614	-	1,381
Disposals	-	-	(118)	(134)	(31)	-	(283)
1 January 2008	-	647	3,604	492	5,096	-	9,839
Charge for the year	**-**	**59**	**676**	**192**	**684**	**-**	**1,611**
Disposals	-	-	**(214)**	**(67)**	**(95)**	-	**(376)**
31 December 2008	**-**	**706**	**4,066**	**617**	**5,685**	**-**	**11,074**
Carrying amount							
31 December 2008	**140**	**867**	**1,928**	**333**	**1,329**	**-**	**4,597**
31 December 2007	140	926	1,663	350	1,269	65	4,413

13. Other assets

	2008 RO'000	2007 RO'000
Interest receivable	**2,207**	2,154
Prepaid expenses	**893**	583
Dividends receivable	**118**	527
Positive fair value of derivatives (note 33)	**-**	197
Other receivables	**2,984**	1,496
	6,202	4,957

14. Due to banks

	2008 RO'000	2007 RO'000
Syndicated borrowings	**67,375**	67,375
Other borrowings	**19,250**	14,437
Payable on demand	**3,038**	11,682
	89,663	93,494

During previous years, the Bank entered into two mid-term syndicated loans agreements with foreign banks for US $ 175,000,000 with three years maturity. The rates of interest are linked to three month LIBOR subject to competitive margin.

During the current year, the Bank entered into a loan agreement for US $ 20,000,000 with a foreign bank having maturity of three years and carries a interest rate linked to three months LIBOR subject to competitive margin.

At 31 December 2007 and 2008 no borrowing from a bank individually represented 20% or more of the Bank's borrowings. The Bank has not had any defaults of principal, interest or other breaches during the year on its borrowed funds (2007 - Nil).

15. Deposits from customers

	2008 RO'000	2007 RO'000
Current accounts	**197,496**	178,137
Savings accounts	**163,853**	142,907
Time deposits	**606,493**	351,393
Margin accounts	**3,754**	2,065
	971,596	674,502

Current accounts and time deposits include deposits from the Government of the Sultanate of Oman and its entities amounting to RO 307,000,000 (2007 - RO 125,797,000).

16. Other liabilities

	2008 RO'000	2007 RO'000
Interest payable	**6,761**	8,807
Creditors and accruals	**24,937**	19,087
Income tax provision	**3,399**	2,523
Deferred tax liability (note 27)	**138**	80
Negative fair value of derivatives (note 33)	**6**	-
Staff terminal benefits	**387**	274
	35,628	30,771

Employee terminal benefits

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

	2008 RO'000	2007 RO'000
1 January	**274**	270
Expense recognised in the income statement	**140**	88
Cash paid to employees	**(27)**	(84)
	387	274

17. Subordinated bonds and loan

	2008 RO'000	2007 RO'000
Subordinated bonds (a)	**-**	7,362
Subordinated loan (b)	**38,500**	38,500
	38,500	45,862

(a) Subordinated bonds

Pursuant to a 'merger agreement' between the Bank and Majan International Bank SAOC (MIB) dated 28 December 2002, on 31 March 2003 the Bank issued 7,361,767 subordinated bonds of RO 1 each with a tenure of 5 years and 1 day to the former shareholders of MIB. These bonds carried a coupon rate of 7% per annum payable annually and were listed at Muscat Security Market. The bonds were matured and repaid in April 2008.

(b) Subordinated Loan

In August 2007, the Bank availed an unsecured subordinated loan of USD 100 million with a tenor of 5 years and one month. The rate of interest is linked to 3 month LIBOR plus margin, payable quarterly, while principal is payable in lumpsum at maturity.

18. Share capital

The authorised share capital consists of 1,000,000,000 shares of RO 0.100 each (2007 - 1,000,000,000 shares of RO 0.100 each).

On 14 October 2008 the Shareholders of the Bank in their Extraordinary General Meeting approved the increase of the share capital of the Bank way by of issuing a right issue from RO 53,081,700 to RO 70,773,831 As a result the share capital of the Bank increased to 707,738,306 shares of RO 0.100 each.

At 31 December 2008, the issued and paid up share capital comprise 707,738,306 shares of RO 0.100 each. (2007 - 530,817,000 shares of RO 0.100 each).

Shareholders

The following shareholders of the Bank own 10% or more of the Bank's share capital:

	2008		2007	
	No of shares	**%**	No of shares	%
Dhofar International Development and Investment Company SAOG	**218,665,824**	**31**	159,245,096	30
Civil Service Employees' Pension Fund	**70,773,815**	**10**	53,081,689	10
Total	**289,439,639**	**41**	212,326,785	40
Others	**418,298,667**	**59**	318,490,215	60
	707,738,306	**100**	530,817,000	100

19. Share premium

During the current year, the Bank has issued share of 176,921,306 by way of rights issue at a premium of RO 0.300 representing an increase in share premium by RO 53,076,392. Share premium account is not available for distribution.

20. Reserves

(a) Legal reserve

	2008	2007
	RO'000	RO'000
1 January	**12,149**	9,870
Increase due to excess of receipts against rights issue expenses	**94**	-
Appropriation for the year	**2,369**	2,279
31 December	**14,612**	12,149

In accordance with Article 78 of the Commercial Companies Law of 1974, the excess of the receipt of the rights issue expenses transferred to legal reserve.

In accordance with Article 106 of the Commercial Companies Law of 1974, annual appropriations of 10% of profit are made to the legal reserve until the accumulated balance of the reserve is equal to one-third of the Bank's paid up share capital. This reserve is not available for distribution.

(b) Subordinated bonds and loan reserves

	2008	2007
	RO'000	RO'000
1 January	**9,929**	5,888
Appropriation for the year		
Subordinated bonds reserve	**(7,362)**	1,474
Subordinated loan reserve	**7,700**	2,567
31 December	**10,267**	9,929

Subordinated bonds reserve

Consistent with Bank for International Settlement (BIS) Guidelines on capital adequacy, the Bank transfers an amount equivalent to 20% of the value of the subordinated bonds each year to the subordinated bond reserve until the bonds mature. The bonds matured in April 2008. The amount of the reserve had been transferred to retained earnings through statement of changes in equity upon settlement of the subordinated bonds.

Subordinated loan reserve

Consistent with Bank for International Settlement (BIS) Guidelines on capital adequacy, the Bank transfers an amount equivalent to 20% of the value of the subordinated loan each year to the subordinated loan reserve until the maturity of the loan. Since the loan was obtained at the end of August 2007, the bank transferred 6.67% of the value of the subordinated loan being the period the loan was outstanding in 2007 and 20% in 2008. The amount of the reserve will be transferred to retained earnings through statement of changes in equity upon settlement of the subordinated loan.

20. Reserves

(c) Investment revaluation reserve

The movements in the investments revaluation reserve is analysed below:

	2008 RO'000	2007 RO'000
1 January	**3,582**	2,231
(Decrease) / increase in fair value	**(7,108)**	3,932
Impairment of available for sale investment taken to income statement	**4,864**	-
Net transfer to income statement on sale of available-for-sale investment	**(1,099)**	(2,581)
	239	3,582

21. Retained earnings

Retained earnings represent the undistributed profits generated by the Bank since incorporation.

22. Net assets per share

Net assets per share is calculated by dividing the net assets at the year end by the number of shares outstanding at 31 December as follows :

	2008	2007
Net assets (RO)	**188,433,000**	110,498,000
Number of shares outstanding at 31 December (Nos.)	**707,738,306**	530,817,000
Net assets per share (RO)	**0.266**	0.208

23. Net interest income

	2008	2007
	RO'000	RO'000
Loans and advances to customers	**60,627**	46,772
Debt investments	**2,358**	3,472
Money market placements	**579**	1,209
Others	**107**	157
Total interest income	**63,671**	51,610
Deposits from customers	**(18,162)**	(15,962)
Money market deposits	**(5,610)**	(5,292)
Total interest expense	**(23,772)**	(21,254)
Net interest income	**39,899**	30,356

Included in interest income from debt investments an amount of RO 2,076,278 (2007 : RO 1,913,962) being interest income from held-to-maturity investments.

24. Other income

	2008	2007
	RO'000	RO'000
Foreign exchange	**1,512**	1,128
Investment income (a)	**3,789**	4,662
Miscellaneous income	**6,448**	4,942
	11,749	10,732

(a) Investment income

Dividend income- available-for-sale investments	**1,565**	406
Gain of disposal of available-for-sale investments	**2,108**	3,939
Interest income on financial instruments at fair value through profit or loss	**116**	317
	3,789	4,662

25. Staff and administrative costs

(a) Staff costs

	2008 RO '000	2007 RO'000
Salaries and allowances	**11,030**	7,422
Other personnel costs	**927**	625
Scheme costs - Note (c)	**437**	353
Non-Omani employees terminal benefit - Note (d)	**140**	88
	12,534	8,488
(b) Administrative costs		
Advertising and promotion	**2,116**	2,092
Occupancy costs	**1,532**	1,175
Donation	**-**	1,004
Data processing	**967**	779
Fees and subscriptions	**533**	446
Correspondent charges	**45**	50
Communication costs	**315**	298
Printing and stationery	**281**	219
Professional charges	**358**	373
Insurance	**65**	88
Postage and courier	**69**	61
Vehicle expenses	**148**	104
Travelling expenses	**84**	62
Traning costs	**139**	158
Others	**308**	186
	6,960	7,095
	19,494	15,583

At 31 December 2008, the Bank had 840 employees (2007 - 720).

(c) Oman Social Insurance Scheme (the Scheme)

The Bank contributes to the Scheme for all Omani employees. The Scheme, which is a defined contributions retirement plan, is administered by the Government of Oman. The Bank and Omani employees are required to make monthly contributions to the Scheme based on fixed percentages of basic salaries.

(d) Non-Omani employee terminal benefits

The provision for end of service benefits for non-Omani employees is made in accordance with the requirements of the Omani Labour Law. Employees are entitled to benefits based on length of service and final remuneration. Accrued staff terminal benefits are payable on termination of employment.

26. Impairment of financial assets

	2008 RO'000	2007 RO'000
Impairment of available-for-sale investments	**4,864**	-
Provision for loan impairment	**5,470**	3,263
Bad debts written-off	**2**	24
	10,336	3,287
Recoveries from provision for loan impairment	**(2,350)**	(1,515)
Net impairment change of financial assets	**7,986**	1,772

27. Income tax

(a)Income tax expense:

	2008 RO'000	2007 RO'000
Current year tax charge		
Current year	**3,333**	2,517
Under provision of tax in prior year	**-**	96
	3,333	2,613
Deferred tax - Current year	**58**	(48)
	3,391	2,565

The Bank is liable to income tax for the year 2008 in accordance with the income tax laws of the Sultanate of Oman at the rate of 12% on taxable profits in excess of RO 30,000. The following is a reconciliation of income taxes calculated at the applicable tax rate with the income tax expense:

Current year	2008 RO'000	2007 RO'000
Accounting profit for the year	**27,077**	25,355
Tax expense as provided at the rate above mentioned	**3,246**	3,039
Tax exempt revenue	**(441)**	(468)
Prior year tax	**-**	96
Non-deductible expenses	**586**	(105)
Others	**-**	3
Tax expense	**3,391**	2,565

27. Income tax (continued)

(b) Temporary timing differences which give rise to deferred tax liabilities are as follows:

	2008	2007
	RO'000	RO'000
Depreciation of property and equipment	**101**	82
Intangible assets	**(239)**	(162)
	(138)	(80)

(c) Status of the tax assessments

The Bank's tax assessments for the years 2003 to 2008 have not yet been finalised with the Department of Taxation Affairs at the Ministry of Finance. The Board of Directors believe that additional taxes, if any, in respect of open tax assessments would not be material to the Bank's results and financial position.

28. Earnings per share (basic and diluted)

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

	2008	2007
Profit for the year (RO)	**23,686,000**	22,790,000
Weighted average number of shares outstanding during the year	**534,210,011**	530,817,000
Earnings per share basic and diluted	**0.044**	0.043

Earnings per share (basic and diluted) has been derived by dividing the profit for the year attributable to the shareholders by the weighted average number of shares outstanding. As there are no dilutive potential shares, the diluted earnings per share is identical to the basic earnings per share.

29. Related parties transactions

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

	2008 RO'000	2007 RO'000
Loans and advances		
Directors and shareholders holding less than 10% interest in the Bank	**29,096**	21,938
Directors and shareholders holding 10% or more interest in the Bank	**12,608**	13,186
	41,704	35,124
Deposits and other accounts		
Directors and shareholders holding less than 10% interest in the Bank	**62,063**	38,586
Directors and shareholders holding 10% or more interest in the Bank	**89,516**	28,940
	151,579	67,526

29. Related parties transactions (continued)

	2008 RO'000	2007 RO'000
Contingent liabilities and commitments		
Directors and shareholders holding less than 10% interest in the Bank	**35**	1,308
Directors and shareholders holding 10% or more interest in the Bank	**-**	83
	35	1,391
Remuneration paid to Directors		
Chairman		
– remuneration proposed	**18**	11
– sitting fees paid	**10**	10
Other Directors		
– remuneration proposed	**110**	127
– sitting fees paid	**62**	52
	200	200
Other transactions		
Rental payment to a related party	**180**	59
Other transactions	**27**	22
Key management compensation		
Salaries and other benefits	**612**	373
Other related costs – performance bonus	**305**	185
End of service settlement	**432**	-
	1,349	558

30. Fiduciary assets

	2008 RO'000	2007 RO'000
Funds under management	**604**	86

31. Single borrower and senior members

(a) Single borrower

	2008 RO'000	2007 RO'000
Total exposure:		
Direct	**12,351**	7,883
Indirect (off-balance sheet items)	**-**	-
	12,351	7,883
Number of members	**1**	2

(b) Senior member

	2008 RO'000	2007 RO'000
Total exposure:		
Direct	**42,725**	35,775
Indirect	**35**	1,391
	42,760	37,166
Number of members	**22**	23

32. Contingent liabilities and commitments

(a) Credit related contingent items

Letters of credit, guarantees and other commitments for which there are corresponding customer liabilities:

	2008 RO'000	2007 RO'000
Letters of credit	**76,407**	47,222
Acceptances	**18,116**	14,748
Guarantees and performance bonds	**69,122**	51,955
Advance payment guarantees	**42,211**	28,476
Payment guarantees	**29,398**	23,118
Others	**4,871**	2,041
	240,125	167,560

At 31 December 2008, letters of credit, guarantees and other commitments amounting to RO 2,649,000 (2007 -RO 1,180,000) are counter guaranteed by other banks.

32. Contingent liabilities and commitments (continued)

(b) Legal cases

During the year 2008, a primary court decided a compensation of RO 5,000,000 to be paid by the Bank to two plaintiffs against their alleged commercial damages. The plaintiffs have appealed requesting increase in the judgment amount. The Bank has also appealed the primary judgment and the Appeal Court has appointed an expert to report on technical issues in the dispute.

The Bank's lawyers believe that ground of the Bank's appeal are strong and sustainable and anticipated that the Appeal Court would be able to overrule the primary judgment and dismiss the case, taking into consideration that a similar claim from the same plaintiffs against a local bank had been dismissed by a primary court. At this stage of the proceedings, the Bank's lawyers and management believe that it is very difficult to predict the outcome of this litigation.

Also, a plaintiff has filed a lawsuit against the Bank claiming a compensation of RO 1,037,550 for commercial and moral damages. The Bank's lawyers and management believe that the claim has no ground and will be dismissed by the court.

(c) Capital and investment commitments

	2008	2007
	RO,000	RO'000
Contractual commitments for property and equipment	**1,117**	860

33. Derivative financial instruments

The Bank uses the following derivative instruments for both hedging and non-hedging purposes:

Currency forwards represent commitments to purchase foreign and domestic currency, including undelivered spot transactions. **Currency swaps** are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies. No exchange of principal takes place, except for certain currency swaps. The Bank's credit risk represents the potential cost to replace the swap contracts if counterparties fail to perform their obligation. This risk is monitored on an ongoing basis with reference to the current fair value, a proportion of the notional amount of the contracts and the liquidity of the market. To control the level of credit risk taken, the Bank assesses counterparties using the same techniques as for its lending activities.

33. Derivative financial instruments (continued)

The notional amounts of certain types of financial instruments provide a basis for comparison with instruments recognised on the balance sheet but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Bank's exposure to credit or price risks. The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates or foreign exchange rates relative to their terms. The aggregate contractual or notional amount of derivative financial instruments on hand, the extent to which instruments are favourable or unfavourable, and thus the aggregate fair values of derivative financial assets and liabilities shown within other assets and other liabilities, can fluctuate significantly from time to time. The fair values of derivative instruments held are set out below:

At 31 December 2008		**Fair value increase / decrease**	
	Contract / notional amount RO'000	**Assets RO'000**	**Liabilities RO'000**
Foreign exchange derivatives			
Currency forwards - purchase Contracts	**37,814**	**-**	**60**
Currency forwards - sales contracts	**37,843**	**54**	**-**

At 31 December 2007		Fair value increase	
	Contract / notional amount RO'000	Assets RO'000	Liabilities RO'000
Foreign exchange derivatives			
Currency forwards - purchase contracts	62,747	173	-
Currency forwards - sales contracts	62,483	24	-

The following table indicates the periods in which the cash flows associated with derivatives that are expected to impact profit or loss.

	Assets		**Liabilities**	
	2008 RO'000	2007 RO'000	**2008 RO'000**	2007 RO'000
Expected cash flow less than 6 months	**-**	197	**6**	-

34. 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 2008 are considered by the Directors not to be materially different to their book values.

Estimation of fair values

The following summarises the major methods and assumptions used in estimating the fair values of assets and liabilities:

34. Fair value information (continued)

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.

Investments

Fair value is based on quoted market prices at the balance sheet 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 balance sheet date.

Current account balances due to and due from banks

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

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 balance sheet 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.

Other on-balance sheet financial instruments

The fair values of all on-balance sheet financial instruments are considered to approximate their book values.

34. Fair value information (continued)

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 balance sheet 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 other assets and other liabilities.

Fair value versus carrying amounts

The fair value of the financial assets and liabilities approximates their carrying value as stated in the balance sheet

35. Risk Management

The important types of financial risks to which the Bank is exposed are credit risk, liquidity and market risk. The risk management division of the bank is an independent and dedicated unit reporting directly to the Risk Committee (RC) of the Board. The division's primary responsibility is to assess, monitor and recommend strategies for control of credit, market and operational risk. The absence of any direct or indirect reporting lines and permanent membership in all the bank's committees are among the factors which reflect the independence of the Risk Management Divisions working and the key role it plays within the bank.

The risk management framework is pivoted on a host of committees involving the executive management and board of directors for approval and reporting purposes. The Board has the overall authority for approval of strategies and policies, which it exercises through it's various sub-committees. The Risk Committee of the Board is responsible for reviewing and recommending to the full Board for approval all risk policies and procedures. RC also reviews the risk profile of the bank as presented to it by the RMD and appraises the full Board in its periodic meetings.

35. Risk Management (continued)

(i) Credit risk

The most important risk to which the Bank is exposed to is credit risk. To manage the level of credit risk, the Bank deals with counter-parties of good credit standing and when appropriate, obtain collateral.

Executive Committee of the Board is the final credit approving authority of the bank which is mainly responsible for approving all credit proposals beyond the authority level of the management and also for reviewing and approving credit policies. This committee is also the final authority for approving investments beyond the authority of the management. The Management Credit Committee (MCC) is the management decision making body which is empowered to consider all credit related issues upto certain limits.

Credit risk is managed by the Risk Management Division through a system of independent risk assessment in credit proposals beyond a threshold limit of RO 100,000 before they are considered by the appropriate approving authorities. The bank has in place a risk grading system for analyzing the risk associated with credit. This facilitates the approving authorities in making their credit decision. In addition RMD assists/ reviews grading of obligors, conducts regular macro analysis of the credit portfolio, and monitors credit concentration limits. Maximum counterparty/group exposures are limited to 15% of the bank's capital base as stipulated by CBO and where a higher limit is required for projects of national importance prior CBO approval is obtained. Individual country limits using Moody's, S & P and Fitch ratings have also been set up to ensure portfolio diversification in terms of sovereign risk ratings and geographical exposure. These limits are approved by the Board. Retail lending is strictly in accordance with the CBO guidelines. The analysis of credit is given below:

(a) Geographical concentrations

	Assets			**Liabilities**		
	Loans and Advances to banks RO'000	**Gross loans and advances RO'000**	**Investment Securities RO'000**	**Deposits from customers RO'000**	**Deposits from banks RO'000**	**Contingent liabilities RO'000**
31 December 2008						
Sultanate of Oman	**9,625**	**1,049,143**	**115,439**	**966,882**	**2,197**	**135,864**
Other GCC countries	**10,736**	**17,919**	**20,468**	**4,714**	**10,337**	**19,958**
Europe and North America	**17,077**	**1,705**	**570**	**-**	**75,204**	**26,182**
Africa and Asia	**148**	**-**	**297**	**-**	**1,925**	**58,121**
	37,586	**1,068,767**	**136,774**	**971,596**	**89,663**	**240,125**
31 December 2007						
Sultanate of Oman	-	732,599	49,004	669,765	22,854	88,735
Other GCC countries	12,959	17,441	30,589	4,737	1,317	38,190
Europe and North America	14,622	-	8,180	-	67,687	11,478
Africa and Asia	1,606	-	755	-	1,636	29,157
	29,187	750,040	88,528	674,502	93,494	167,560

35. Risk Management (continued)

(i) Credit Risk (continued)

(b) Customer concentrations

	Assets			Liabilities		
	Loans and Advances to banks RO'000	Gross loans and advances RO'000	Investment Securities RO'000	Deposits from customers RO'000	Deposits from banks RO'000	Contingent liabilities RO'000
31 December 2008						
Personal	**-**	**420,765**	**-**	**318,569**	**-**	**503**
Corporate	**37,586**	**576,258**	**34,255**	**345,991**	**89,663**	**239,279**
Government	**-**	**71,744**	**102,519**	**307,036**	**-**	**343**
	37,586	**1,068,767**	**136,774**	**971,596**	**89,663**	**240,125**
31 December 2007						
Personal	-	275,822	-	267,551	-	1,128
Corporate	29,187	438,241	51,013	281,154	93,494	166,424
Government	-	35,977	37,515	125,797	-	8
	29,187	750,040	88,528	674,502	93,494	167,560

(c) Economic sector concentrations

	Assets	Liabilities	
	Gross loans and advances RO'000	Deposits from customers RO'000	Contingent liabilities RO'000
31 December 2008			
Personal	**420,765**	**318,569**	**503**
International trade	**81,824**	**17,940**	**40,402**
Construction	**60,809**	**21,892**	**89,058**
Manufacturing	**70,833**	**26,697**	**44,093**
Wholesale and retail trade	**20,209**	**5,044**	**2,949**
Communication and utilities	**45,329**	**11,957**	**10,236**
Financial services	**75,409**	**21,007**	**3,989**
Government	**71,744**	**307,036**	**343**
Other services	**70,145**	**79,009**	**23,316**
Others	**151,700**	**162,445**	**25,236**
	1,068,767	**971,596**	**240,125**

35. Risk Management (continued)

(i) Credit Risk (continued)

(c) Economic sector concentrations (continued)

	Assets	Liabilities	
	Gross loans and advances	Deposits from customers	Contingent liabilities
	RO'000	RO'000	RO'000
31 December 2007			
Personal	275,822	267,551	1,128
International trade	103,699	24,107	35,990
Construction	46,594	12,891	58,257
Manufacturing	52,319	12,577	22,251
Wholesale and retail trade	15,565	2,983	2,793
Communication and utilities	35,217	1,323	5,909
Financial services	39,461	15,561	455
Government	35,977	125,797	8
Other services	46,537	58,058	13,417
Others	98,849	153,654	27,352
	750,040	674,502	167,560

(d) Gross credit exposure

	Total Gross Exposure		**Monthly average Gross Exposure**	
	2008	2007	**2008**	2007
	RO'000	RO'000	**RO'000**	RO'000
Overdrafts	**102,577**	73,052	**88,351**	68,968
Loans	**873,808**	621,846	**763,481**	549,138
Loans against trust receipts	**67,791**	38,203	**57,226**	36,583
Bills discounted	**3,466**	3,224	**3,453**	2,068
Advance against credit cards	**7,945**	4,717	**6,244**	4,268
Others	**13,180**	8,998	**11,688**	10,029
Total	**1,068,767**	750,040	**930,443**	671,054

35. Risk Management (continued)

(i) Credit Risk (continued)

(e) Geographical distribution of exposures:

	Sultanate of Oman RO'000	Other Countries RO'000	Total RO'000
31 December 2008			
Overdrafts	**102,577**	**-**	**102,577**
Loans	**854,720**	**19,088**	**873,808**
Loans against trust receipts	**67,255**	**536**	**67,791**
Bills discounted	**3,466**	**-**	**3,466**
Advance against credit cards	**7,945**	**-**	**7,945**
Others	**13,180**	**-**	**13,180**
	1,049,143	**19,624**	**1,068,767**
31 December 2007			
Overdrafts	73,052	-	73,052
Loans	604,471	17,375	621,846
Loans against trust receipts	38,137	66	38,203
Bills discounted	3,224	-	3,224
Advance against credit cards	4,717	-	4,717
Others	8,998	-	8,998
	732,599	17,441	750,040

35. Risk Management (continued)

(i) Credit Risk (continued)

(f) Industry type distribution of exposures by major types of credit exposures:

	Overdrafts RO'000	Loans RO'000	Bills discounted RO'000	Others RO'000	Total RO'000	Off balance sheet exposures RO'000
31 December 2008						
Import trade	**10,454**	**40,643**	**116**	**30,418**	**81,631**	**40,214**
Export trade	**69**	**124**	**-**	**-**	**193**	**188**
Wholesale/retail trade	**6,108**	**10,504**	**-**	**3,597**	**20,209**	**2,949**
Mining and quarrying	**930**	**34,195**	**-**	**329**	**35,454**	**664**
Construction	**11,219**	**29,800**	**-**	**19,790**	**60,809**	**89,058**
Manufacturing	**11,769**	**33,070**	**3,350**	**22,644**	**70,833**	**44,093**
Electricity, gas and water	**355**	**25,419**	**-**	**-**	**25,774**	**9,588**
Transport and communication	**343**	**19,212**	**-**	**-**	**19,555**	**648**
Financial institutions	**10,149**	**65,260**	**-**	**-**	**75,409**	**3,989**
Services	**12,731**	**53,843**	**-**	**3,571**	**70,145**	**23,316**
Personal loans	**14,530**	**398,349**	**-**	**7,886**	**420,765**	**503**
Agriculture and allied activities	**5**	**46**	**-**	**-**	**51**	**6**
Government	**1,358**	**70,386**	**-**	**-**	**71,744**	**343**
Non resident lending	**-**	**19,088**	**-**	**536**	**19,624**	**209**
Others	**22,557**	**73,869**	**-**	**145**	**96,571**	**24,357**
	102,577	**873,808**	**3,466**	**88,916**	**1,068,767**	**240,125**
31 December 2007						
Import trade	8,228	72,168	323	15,862	96,581	27,745
Export trade	406	6,688	-	24	7,118	8,245
Wholesale/retail trade	4,185	9,507	10	1,863	15,565	2,793
Mining and quarrying	418	14,173	91	200	14,882	1,954
Construction	10,469	22,411	-	13,714	46,594	58,257
Manufacturing	5,613	30,526	2,660	13,520	52,319	22,251
Electricity, gas and water	462	22,227	-	309	22,998	5,097
Transport and communication	1,239	10,980	-	-	12,219	812
Financial institutions	4,821	34,640	-	-	39,461	455
Services	8,836	35,827	140	1,734	46,537	13,417
Personal loans	12,154	258,976	-	4,692	275,822	1,128
Agriculture and allied activities	-	50	-	-	50	12
Government	1,656	34,321	-	-	35,977	8
Non resident lending	-	17,441	-	-	17,441	94
Others	14,565	51,911	-	-	66,476	25,292
	73,052	621,846	3,224	51,918	750,040	167,560

35. Risk Management (continued)

(i) Credit Risk (continued)

(g) Residual contractual maturities of the portfolio by major types of credit exposures:

	Overdrafts RO'000	Loans RO'000	Bills discounted RO'000	Others RO'000	Total RO'000	Off balance sheet exposures RO'000
31 December 2008						
Upto 1 month	**5,129**	**57,888**	**3,420**	**84,722**	**151,159**	**58,776**
1 - 3 months	**5,129**	**60,891**	**46**	**1,534**	**67,600**	**56,347**
3 - 6 months	**5,129**	**37,891**	**-**	**73**	**43,093**	**36,087**
6 - 9 months	**5,129**	**37,112**	**-**	**29**	**42,270**	**20,978**
9 - 12 months	**5,129**	**39,483**	**-**	**33**	**44,645**	**13,110**
1 - 3 years	**25,644**	**198,881**	**-**	**397**	**224,922**	**51,760**
3 – 5 years	**25,644**	**146,367**	**-**	**18**	**172,029**	**1,349**
Over 5 years	**25,644**	**295,295**	**-**	**2,110**	**323,049**	**1,718**
	102,577	**873,808**	**3,466**	**88,916**	**1,068,767**	**240,125**
31 December 2007						
Upto 1 month	3,653	84,210	3,115	47,871	138,849	636
1 - 3 months	3,653	34,208	-	1,047	38,908	34,842
3 - 6 months	3,653	50,151	-	216	54,020	30,540
6 - 9 months	3,653	22,763	-	7	26,423	11,975
9 - 12 months	3,653	19,915	-	99	23,667	13,563
1 - 3 years	18,262	143,485	109	383	162,239	52,566
3 – 5 years	18,262	107,534	-	73	125,869	13,724
Over 5 years	18,263	159,580	-	2,222	180,065	9,714
	73,052	621,846	3,224	51,918	750,040	167,560

Notes to the financial statements for the year ended 31 December 2008 (continued)

35. Risk Management (continued)

(i) Credit Risk (continued)

(h) Distribution of impaired loans and past due loans by type of Industry:

	Performing loans RO'000	Non performing loans RO'000	General provisions held RO'000	Specific provisions held RO'000	Interest reserve RO'000	Provision made during the year RO'000	Advances written off during the year RO'000
31 December 2008							
Import trade	**71,433**	**10,198**	**715**	**4,301**	**5,533**	**4**	**214**
Export trade	**90**	**103**	**1**	**37**	**13**	**-**	**-**
Wholesale/retail trade	**10,111**	**10,098**	**102**	**4,931**	**5,088**	**51**	**-**
Mining and quarrying	**35,454**	**-**	**355**	**-**	**-**	**-**	**-**
Construction	**57,651**	**3,158**	**577**	**1,284**	**841**	**238**	**-**
Manufacturing	**69,989**	**844**	**700**	**582**	**287**	**9**	**1**
Electricity, gas and water	**25,774**	**-**	**258**	**-**	**-**	**-**	**-**
Transport and communication	**19,553**	**2**	**196**	**1**	**1**	**-**	**-**
Financial institutions	**75,409**	**-**	**754**	**-**	**-**	**-**	**-**
Services	**66,100**	**4,045**	**661**	**2,063**	**1,946**	**7**	**-**
Personal loans	**411,280**	**9,485**	**8,771**	**3,490**	**4,921**	**380**	**45**
Agriculture and allied activities	**51**	**-**	**1**	**-**	**-**	**-**	**-**
Government	**71,744**	**-**	**718**	**-**	**-**	**-**	**-**
Non resident lending	**19,624**	**-**	**196**	**-**	**-**	**-**	**-**
Others	**96,554**	**17**	**985**	**5**	**12**	**-**	**-**
	1,030,817	**37,950**	**14,990**	**16,694**	**18,642**	**689**	**260**
31 December 2007							
Import trade	85,756	10,824	858	5,124	5,074	283	1,231
Export trade	7,077	42	71	33	9	22	-
Wholesale/retail trade	6,469	9,096	65	4,919	4,178	40	5
Mining and quarrying	14,882	-	149	-	-	47	-
Construction	44,352	2,242	444	1,415	718	142	342
Manufacturing	51,274	1,045	513	722	312	252	290
Electricity, gas and water	22,998	-	230	-	-	72	-
Transport and communication	12,193	26	122	7	2	38	-
Financial institutions	39,461	-	303	-	-	123	-
Services	42,670	3,867	427	2,126	1,671	179	147
Personal loans	266,572	9,250	5,741	4,264	4,597	1,801	79
Agriculture and allied activities	50	-	1	-	-	1	-
Government	35,977	-	360	-	-	-	-
Non resident lending	17,441	-	174	-	-	54	-
Others	66,459	17	751	5	12	209	-
	713,631	36,409	10,209	18,615	16,573	3,263	2,094

Notes to the financial statements
for the year ended 31 December 2008 (continued)

35. Risk Management (continued)

(i) Credit Risk (continued)

(i) Distribution of impaired loans and past due loans by geographical distribution:

	Gross loans RO'000	Non performing loans RO'000	General provisions held RO'000	Specific provisions held RO'000	Interest reserve RO'000	Provision made during the year RO'000	Advances written off during the year RO'000
31 December 2008							
Sultanate of Oman	**1,049,143**	**37,950**	**14,794**	**16,694**	**18,642**	**5,448**	**260**
Other Countries	**19,624**	-	**196**	**-**	-	**22**	-
	1,068,767	**37,950**	**14,990**	**16,694**	**18,642**	**5,470**	**260**
31 December 2007							
Sultanate of Oman	732,599	36,409	10,035	18,615	16,573	3,089	2,094
Other Countries	17,441	-	174	-	-	174	-
	750,040	36,409	10,209	18,615	16,573	3,263	2,094

(j) Maximum exposure to credit risk without consideration of collateral held:

	2008	2007
On-Balance sheet items	**RO' 000**	RO' 000
Certificate of Deposit	**100,000**	100,000
Treasury bills	**20,468**	36,353
Loans and advances to banks	**37,586**	29,187
Loans and advances to customers	**1,018,441**	704,643
Government Development Bonds	**2,519**	2,515
	1,179,014	872,698
Off-Balance sheet items		
Financial Guarantees	**140,731**	103,549
	1,319,745	976,247

(ii) Liquidity risk

Liquidity risk arises in the general funding of the Bank's activities and in the management of its positions. It includes both the risk of being unable to fund assets at appropriate maturities and rates and the risk of being unable to liquidate an asset at a reasonable price and in an appropriate time frame.

35. Risk Management (continued)

(ii) Liquidity risk (continued)

The Bank's Liquidity Risk Management is governed by the Treasury Risk Policy document approved by the Board of Directors as well as the provisions of relevant CBO guidelines on liquidity risk management. The Treasury policy also incorporates contingency plans and measures for the Bank so as to be always in a position to meet all its maturing liabilities as well as to fund asset growth and business operations. The contingency plan includes effective monitoring of the cash flows on a day-to-day basis, holding of tradable high quality liquid assets, which may be readily disposed off in sizeable amount etc.

The Bank monitors it's liquidity risk through internally generated Maturities of Assets and Liabilities (MAL) report which captures all the maturing assets and liabilities into various pre-set time buckets ranging from overnight to five years. The Treasury department of the Bank controls and monitors the liquidity risk and ensures that the Bank is not exposed to undue liquidity risk and at the same time makes optimum use of its funds. In this, the Bank strictly adheres to the CBO set limit of 15% of cumulative liabilities (outflows) on mismatches in time buckets upto one year. In addition, the Bank sets internal limit on mismatches in time buckets beyond one year which are approved by ALCO. The Bank has in place adequate lines of credit from both local and international banks to meet any unforeseen liquidity requirements.

Notes to the financial statements
for the year ended 31 December 2008 (continued)

35. Risk Management (continued)

(ii) Liquidity risk (continued)

Maturity profile of assets and liabilities

	Due on demand and up to 30 days RO'000	2 months to 6 months RO'000	7 months to 12 months RO'000	More than 1 year to 5 years RO'000	Over 5 years RO'000	Total RO'000
31 December 2008						
Cash and cash Equivalents	115,749	-	-	-	500	116,249
Financial instruments at fair value through profit or loss	-	1,554	965	-	-	2,519
Loans and advances to banks	30,448	3,288	-	3,850	-	37,586
Loans and advances to customers	151,159	110,693	74,333	396,951	285,305	1,018,441
Available-for-sale Investments	-	-	11,412	-	2,375	13,787
Held-to-maturity investments	20,234	100,234	-	-	-	120,468
Intangible asset	-	-	-	-	3,971	3,971
Property and equipment	-	-	-	-	4,597	4,597
Other assets	1,322	54	14	153	4,659	6,202
Total assets	318,912	215,823	86,724	400,954	301,407	1,323,820
Due to banks	12,663	38,500	1,925	36,575	-	89,663
Deposits from customers	215,000	332,151	179,739	154,322	90,384	971,596
Other liabilities	7,418	9,398	2,976	14,209	1,627	35,628
Subordinate loan	-	-	-	38,500	-	38,500
Shareholders' equity	-	10,970	-	-	177,474	188,433
Total liabilities and shareholders' equity	235,081	391,019	184,640	243,606	269,474	1,323,820

35. Risk Management (continued)

(ii) Liquidity risk (continued)

Maturity profile of assets and liabilities (continued)

	Due on demand and up to 30 days RO'000	2 months to 6 months RO'000	7 months to 12 months RO'000	More than 1 year to 5 years RO'000	Over 5 years RO'000	Total RO'000
31 December 2007						
Cash and cash Equivalents	118,928	-	-	-	500	119,428
Financial instruments at fair value through profit or loss	-	-	-	2,515	-	2,515
Loans and advances to banks	24,664	4,523	-	-	-	29,187
Loans and advances to customers	138,849	92,929	38,741	288,108	146,016	704,643
Available-for-sale Investments	-	-	11,638	-	3,022	14,660
Held-to-maturity investments	5,764	65,589	-	-	-	71,353
Intangible asset	-	-	-	-	3,971	3,971
Property and equipment	-	-	-	-	4,413	4,413
Other assets	1,443	15	77	137	3,285	4,957
Total assets	289,648	163,056	50,456	290,760	161,207	955,127
Due to banks	26,119	-	-	67,375	-	93,494
Deposits from customers	106,377	244,640	145,421	97,757	80,307	674,502
Other liabilities	13,025	5,299	6,090	6,357	-	30,771
Subordinate bonds and loan	-	7,362	-	38,500	-	45,862
Shareholders' equity	-	13,271	-	-	97,227	110,498
Total liabilities and shareholders' equity	145,521	270,572	151,511	209,989	177,534	955,127

(iii) Market risk

Market risk includes currency risk, interest rate risk and equity price risk.

35. Risk Management (continued)

(iii) Market risk (continued)

(a) Currency risk

The Bank is exposed to currency risk through its transactions in foreign currencies. The major foreign currency to which the Bank is exposed is the US Dollar. The currency in which the Bank presents its financial statements is Rial Omani, the Bank's financial statements are affected by movements in the exchange rates between U.S Dollar and the Rial Omani. The Bank finances a significant portion of its financial assets in the same currencies as the relevant measurement currencies to mitigate its foreign currency risk.

The Bank's transactional exposures give rise to foreign currency gains and losses that are recognised in the income statement. The Bank ensures that its net exposure is kept to an acceptable level by buying and selling foreign currencies at spot rates when considered appropriate. Foreign exchange risk is computed on the average of the sum of net short positions or net long positions, whichever is higher of the foreign currency positions held by the bank. The foreign currency exposures are given below:

Foreign currency exposures

	2008	2007
	RO'000	RO'000
Net assets denominated in US Dollars	**26,511**	20,558
Net assets denominated in other foreign currencies	**2,498**	3,146
	29,009	23,704

(b) Interest rate risk

The Bank's operations are subject to the risk of interest rate fluctuations to the extent that interest-earning assets and interest-bearing liabilities reset at different times. Risk management activities are aimed at optimising net interest income, given market interest rate levels, consistent with the Bank's business strategies. The Bank manages mismatches by following policy guidelines and reduces risk by matching the repricing of assets and liabilities. Details relating to re-pricing mismatches and the interest rate risk thereon are placed to the ALCO in its regular meetings and also to the Risk Committee of the Board. Impact on earnings of interest rate risk in the banking book is as follows:

35. Risk Management (continued)

(iii) Market risk (continued)

(b) Interest rate risk (continued)

Interest rate sensitivity gap

Sensitivity to interest rates arises from mismatches in the period to repricing of assets and that of the corresponding liability. The Bank manages these mismatches by following policy guidelines and reduces risk by matching the repricing of assets and liabilities through various means including monitoring by the Asset Liability Management Committee. Significant changes in gap positions can be made to adjust the profile as market outlooks change.

	Effective average interest rate %	Due on demand and within 30 days RO'000	Due within 1 to 6 months RO'000	Due within 7 to 12 months RO'000	Due within 1 to 5 years RO'000	Due after 5 years RO'000	Non-interest bearing RO'000	Total RO'000
31 December 2008								
Cash and cash Equivalents	2.0	-	-	-	-	500	115,749	116,249
Financial assets at fair value through profit or loss	4.6	-	1,554	965	-	-	-	2,519
Loans and advances to banks	2.8	30,448	3,288	-	3,850	-	-	37,586
Loans and advances to Customers	7.0	242,678	100,435	72,928	362,127	234,344	5,929	1,018,441
Available-for-sale Investments		-	-	-	2,375	-	11,412	13,787
Held-to-maturity investments	2.0	20,234	100,234	-	-	-	-	120,468
Intangible asset		-	-	-	-	-	3,971	3,971
Property and equipment		-	-	-	-	-	4,597	4,597
Other assets		-	-	-	-	-	6,202	6,202
Total assets		293,360	205,511	73,893	368,352	234,844	147,860	1,323,820
Due to banks	3.3	12,211	75,075	1,925	-	-	452	89,663
Deposits from customers	2.3	267,807	246,642	123,853	72,396	48	260,850	971,596
Other liabilities	-	-	-	-	-	-	35,628	35,628
Subordinate bonds and loan	5.0	-	38,500	-	-	-	-	38,500
Shareholders' equity		-	-	-	-	-	188,433	188,433
Total liabilities and shareholders' equity		280,018	360,217	125,778	72,396	48	485,363	1,323,820
On-balance sheet gap		13,342	(154,706)	(51,885)	295,956	234,796	(337,503)	
Cumulative interest sensitivity gap		13,342	(141,364)	(193,249)	102,707	337,503	-	

35. Risk Management (continued)

(iii) Market risk (continued)

(b) Interest rate risk (continued)

Interest rate sensitivity gap (continued)

	Effective average interest rate %	Due on demand and within 30 days RO'000	Due within 1 to 6 months RO'000	Due within 7 to 12 months RO'000	Due within 1 to 5 years RO'000	Due after 5 years RO'000	Non-interest bearing RO'000	Total RO'000
31 December 2007								
Cash and cash Equivalents	3.4	65,000	-	-	-	500	53,928	119,428
Financial assets at fair value through profit or loss		-	-	-	2,515	-	-	2,515
Loans and advances to banks	5.4	24,664	4,523	-	-	-	-	29,187
Loans and advances to Customers	7.6	202,671	85,623	31,435	251,584	127,754	5,576	704,643
Available-for-sale Investments		-	-	-	3,022	-	11,638	14,660
Held-to-maturity investments	4.7	5,764	65,589	-	-	-	-	71,353
Intangible asset		-	-	-	-	-	3,971	3,971
Property and equipment		-	-	-	-	-	4,413	4,413
Other assets		-	-	-	-	-	4,957	4,957
Total assets		298,099	155,735	31,435	257,121	128,254	84,483	955,127
Due to banks	5.4	25,783	67,375				336	93,494
Deposits from customers	2.7	157,456	168,003	95,503	26,302	48	227,190	674,502
Other liabilities		-	-	-	-	-	30,771	30,771
Subordinate bonds and loan	7.0	-	45,862	-	-	-	-	45,862
Shareholders' equity		-	-	-	-	-	110,498	110,498
Total liabilities and shareholders' equity		183,239	281,240	95,503	26,302	48	368,795	955,127
On-balance sheet gap		114,860	(125,505)	(64,068)	230,819	128,206	(284,312)	
Cumulative interest sensitivity gap		114,860	(10,645)	(74,713)	156,106	284,312	-	

Impact on earnings due to interest rate risk in the banking book

	+ or – 1%		+ or – 2%	
	2008	2007	**2008**	2007
	RO'000	RO'000	**RO'000**	RO'000
Omani Riyals	**1,251**	2,342	**2,502**	4,685
US Dollars	**1,105**	1,169	**2,209**	2,339
Others currencies	**106**	90	**212**	180
Total	**2,462**	3,601	**4,923**	7,204

35. Risk Management (continued)

(iii) Market risk (continued)

(c) Equity Risk

Bank is exposed to the volatility in the prices of the securities held under equity portfolio. Equity investments held are for strategic/long term rather than for trading purposes and hence Bank does not hold trading positions in equity investments. However, Bank's portfolio is marked to market on regular basis and the difference in the book value and market value are adjusted against revaluation reserve in shareholder's equity. During the year 2008, equity portfolio eroded in value by RO 7.11 million which has been appropriated against income statement and Revaluation Reserve.

Further, Bank also conducts stress testing and sensitivity analysis to take an informed decision on equity risk exposure.

If equity price had been 5% lower:

If there is adverse impact of 5% on equity portfolio, the value of the portfolio may decrease by RO 674,198/- only. (2007: Decrease by RO 732,983/-)

(iv) Operational Risk

The Bank has adopted the Basic Indicator Approach under Basel II for purposes of measuring the capital charge for Operational Risk. The approach requires the Bank to provide 15% of the average three years gross annual income as capital charge for operational risk.

36. Capital risk management

The Bank manages its capital to ensure that it will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Bank's overall strategy remains unchanged from 2008.

The capital base of the Bank consists of debt, which includes borrowings disclosed in note 17, and equity attributable to shareholders of the Bank comprising issued capital, share premium, reserves and retained earnings as disclosed in notes 18 to 21.

36. Capital risk management (continued)

Capital adequacy

The ratio of equity to risk weighted assets, as formulated by the Basel II, for the year ended 31 December 2008 is 16.63% (2007 – 14.87%).

Capital structure	2008 RO'000	2007 RO'000
TIER I CAPITAL		
Paid up capital	**70,774**	53,082
Legal reserve	**14,612**	12,149
Share premium	**58,506**	5,429
Subordinated bonds and loan reserve	**10,267**	9,929
Retained earnings	**19,880**	13,056
Proposed bonus shares	**3,185**	-
Less: Goodwill	**(3,971)**	(3,971)
Less: negative investment revaluation reserve	**(753)**	-
Total Tier I capital	**172,500**	89,674
TIER II CAPITAL		
Investment revaluation reserve	**442**	1,612
General provision	**14,990**	10,209
Subordinated loan	**23,100**	30,800
Total Tier II capital	**38,532**	42,621
Total eligible capital	**211,032**	132,295
Risk weighted assets		
Banking book	**1,167,316**	791,739
Trading book	**16,064**	27,149
Operational risk	**85,899**	70,552
Total	**1,269,279**	889,440
Tier I capital	**172,500**	89,674
Tier II capital	**38,532**	42,621
Tier III capital	-	-
Total regulatory capital	**211,032**	132,295
Tier I capital ratio	**13.59%**	10.08%
Total capital ratio	**16.63%**	14.87%

37. Segmental information

The Bank is organised into three main business segments:

1) Retail banking – incorporating, private customer current accounts, savings, deposits, investment savings products, custody, credit and debit cards, consumer loans and mortgages;

2) Corporate banking – incorporating direct debit facilities, current accounts, deposits, overdrafts, loan and other credit facilities, foreign currency and derivative products; and

3) Treasury and investments

Other operations comprise investment management and institutional finance neither of which constitutes a separately reportable segment.

Transactions between the business segments are on normal commercial terms and conditions. Funds are ordinarily allocated between segments, resulting in funding cost transfers disclosed in operating income. Interest charged for these funds is based on the Bank's cost of capital. There are no other material items of income or expense between the business segments.

Segment assets and liabilities comprise operating assets and liabilities, being the majority of the balance sheet, but exclude items such as taxation and borrowings.

Internal charges and transfer pricing adjustments have been reflected in the performance of each business. Revenue sharing agreements are used to allocate external customer revenues to a business segment on a reasonable basis.

At 31 December 2008	**Retail banking RO'000**	**Corporate banking RO'000**	**Treasury and Investments RO'000**	**Total RO'000**
Interest revenues	**28,528**	**32,099**	**3,044**	**63,671**
Segment Operating Income	**29,221**	**23,272**	**3,671**	**56,164**
Segment assets	**423,946**	**644,821**	**174,360**	**1,243,127**
Less: Impairment allowance				**(50,326)**
				1,192,801
Unallocated assets				**131,019**
Total assets				**1,323,820**
Segment liabilities	**388,638**	**582,958**	**128,163**	**1,099,759**
Unallocated liabilities				**35,628**
Total liabilities				**1,135,387**

37. Segmental information (continued)

At 31 December 2007	Retail banking RO'000	Corporate banking RO'000	Treasury and Investments RO'000	Total RO'000
Interest revenues	21,080	25,692	4,838	51,610
Segment Operating Income	20,458	17,020	6,562	44,040
Segment assets	280,827	469,213	182,715	932,755
Less: Impairment allowance				(45,397)
				887,358
Unallocated assets				67,769
Total assets				955,127
Segment liabilities	277,730	396,772	131,994	806,496
Unallocated liabilities				38,133
Total liabilities				844,629

38. Proposed dividend

The Board of Directors in their meeting held on 28 January 2009 proposed a cash dividend of 15.5% for the year ended 31 December 2008 amounting to RO 10.97 million (2007 - RO 13.27 million) and a bonus share issue of 4.5% amounting to 31,848,224 shares (2007 - none) of RO 0.100 each. A resolution to approve these dividends and the increase in share capital will be presented to the shareholders at the Annual General Meeting.

During the year, unclaimed dividend amounting to RO 8,543.225 (2007 - RO 7,170) was transferred to the Investor's Trust Fund account as per the guidelines issued by the Capital Market Authority of Oman.

39. Approval of financial statements

The financial statements were approved by the Board of Directors and authorized for issue on 28 January 2009.

40. Comparative figures

Certain amounts of the prior year financial statement have been reclassified to conform with the current year's presentation.