Board of Directors' Report and financial statements (Unaudited) for nine - months period ended 30 September 2010

Registered office and principal place of business:

Bank Dhofar Building
Bank Al Markazi street
Post Box 1507,Ruwi
Postal Code 112
Sultanate of Oman

BANK DHOFAR SAOG

Board of Directors' Report and financial statements (Unaudited)
for nine - months period ended 30 September 2010

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BANK DHOFAR S.A.O.G.

THE BOARD OF DIRECTORS' REPORT FOR NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2010

Dear Shareholders,

On behalf of the Board of Directors of Bank Dhofar S.A.O.G., I am pleased to present you the Bank's Financial Statements for the nine-month period ended 30 September 2010.

The Bank's Financial Performance

The total assets showed improvement from RO 1,462.4 million at the end of September 2009 to reach RO 1,565.8 million at the end of September 2010 signifying as 7.1% growth. The loans book improved gradually over last year with net loans & advances to customers registering a growth of 6.2% from RO 1,166.7 million at the end of September 2009 to reach RO 1,238.5 million at the end of September 2010. Besides the above two key asset indicators, the customer deposits mobilized have also grown by 12.3% from RO 1,048.4 million recorded at end September 2009 to RO 1,177.4 million at the end of September 2010.

Furthermore, all the key profitability indicators showed significant growth, with net interest income improving 18% from RO 35.99 million achieved during the first nine months of 2009 to reach RO 42.47 million during the same period in the current year. Non-Interest income such as fees and commission, foreign exchange profit, investment and other income declined 9.3%, reaching RO 10.65 million during the nine months ended September 2010 as against RO 11.74 million achieved in the corresponding period of the previous year.

The above factors have collectively contributed to boost the Operating Income of the Bank by 11.3% from RO 47.72 million generated during the 9-month period ended September 2009 to RO 53.13 million during similar period in the current year of 2010.

The impairment charge off due to prolonged and significant decline in market value of the banks' investments reduced substantially to RO 171K during year-to-date September 2010 as against RO 1,237K made during the corresponding period of 2009, in accordance with the International Financial Reporting Standards and other local directives.

The net profit for the nine months ended September 2010, after provisions for non-performing loans and taxes, appreciably grew by 17.9% to reach RO 25.40 million from RO 21.54 million achieved during the same nine months of 2009. This has improved the annualized earnings per share (EPS) at the end of September 2010 to RO 0.042 as compared to RO 0.035 recorded at the end of September 2009.

Acknowledgment

On behalf of the Board, I would like to thank our valuable customers for their patronage and confidence they have reposed in the Bank. I thank the shareholders for your continuous support and the Bank's staff and management for the good performance during the first nine months of the year 2010.

The Board of Directors also wishes to thank the Central Bank of Oman for its valuable guidance to the local banking sector.

Finally, on behalf of the Board of Directors, I would like to express our most sincere gratitude to His Majesty Sultan Qaboos Bin Said for his wise leadership and generous support to the private sector.

Eng. Abdul Hafidh Salim Rajab Al-Aujaili
Chairman

Statement of financial position (Unaudited)
at 30 September 2010

	Notes	September 2010 RO'000	September 2009 RO'000	Audited Dec 2009 RO'000
ASSETS				
Cash and balances with Central Bank of Oman	3	**195,069**	178,109	182,248
Loans and advances to banks	4	**14,959**	31,901	32,948
Loans and advances to customers	5	**1,238,468**	1,166,668	1,194,243
Available-for-sale investments	6	**12,846**	12,723	12,338
Held-to-maturity investments	7	**86,274**	56,860	47,437
Intangible asset	8	**3,971**	3,971	3,971
Property and equipment		**7,901**	4,991	5,037
Other assets		**6,277**	7,149	8,702
Total assets		**1,565,765**	1,462,372	1,486,924
LIABILITIES				
Due to banks	9	**99,908**	135,932	100,057
Deposits from customers	10	**1,177,428**	1,048,358	1,101,267
Other liabilities		**31,909**	39,641	43,093
Subordinated loan	11	**38,500**	38,500	38,500
Total liabilities		**1,347,745**	1,262,431	1,282,917
SHAREHOLDERS' EQUITY				
Share capital	12	**81,355**	73,959	73,959
Share premium		**58,506**	58,506	58,506
Legal reserve	13	**17,151**	14,612	17,151
Subordinated loan reserve	13	**17,967**	10,267	17,967
Investment revaluation reserve	13	**1,097**	1,179	1,390
Retained earnings		**41,944**	41,418	35,034
Total shareholders' equity		**218,020**	199,941	204,007
Total liabilities and shareholders' equity		**1,565,765**	1,462,372	1,486,924
Contingent liabilities and commitments	21	**347,164**	267,648	280,410
Net assets per share (Rials Omani)		**0.268**	0.270	0.276

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

BANK DHOFAR SAOG

Statement of comprehensive income (Unaudited)

for nine - months period ended 30 September 2010

	Notes	**9Months ended September 2010**	9 Months ended September 2009	**3 Months ended September 2010**	3 Months ended September 2009
		RO'000	RO'000	**RO'000**	RO'000
Interest income		**61,292**	57,380	**20,625**	19,759
Interest expense		**(18,819)**	(21,390)	**(6,200)**	(7,070)
Net interest income	**16**	**42,473**	35,990	**14,425**	12,689
Fees and commission income		**4,270**	4,051	**1,480**	1,218
Fees and commission expenses		**(533)**	(497)	**(183)**	(145)
Net fees and commission income		**3,737**	3,554	**1,297**	1,073
Other income	**17**	**6,915**	8,181	**1,909**	1,912
Operating income		**53,125**	47,725	**17,631**	15,674
Staff and administrative costs		**(20,168)**	(16,475)	**(6,957)**	(5,435)
Depreciation		**(1,480)**	(1,331)	**(546)**	(453)
Operating expenses		**(21,648)**	(17,806)	**(7,503)**	(5,888)
Profit from operations		**31,477**	29,919	**10,128**	9,786
Provision for loan impairment	**5&18**	**(4,012)**	(5,576)	**(1,801)**	(1,936)
Recoveries from allowance for loan impairment	**5&18**	**2,201**	1,198	**941**	458
Bad debts written-off		**(28)**	(92)	**-**	(3)
Impairment of available-for-sale investments	**18**	**(171)**	(1,237)	**(142)**	(73)
Other Impairments		**(53)**	-	**-**	-
Financial instruments at fair value through profit or loss		**-**	(12)	**-**	(3)
Profit from operations after provision		**29,414**	24,200	**9,126**	8,229
Income tax expense		**(4,014)**	(2,662)	**(1,461)**	(905)
Profit for the period		**25,400**	21,538	**7,665**	7,324
Profit for the period		**25,400**	21,538	**7,665**	7,324
Other comprehensive income:					
Net changes in fair value of available-for-sale investments		**(312)**	170	**347**	968
Reclassification adjustment on sale of available-for-sale investments		**(152)**	(467)	**(98)**	(85)
Total comprehensive income for the period		**24,936**	21,241	**7,914**	8,207
Earnings per share (basic and diluted) – annualized (Rials Omani)	**14**	**0.042**	0.035	**0.037**	0.036

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

BANK DHOFAR SAOG

Statement of changes in equity (Unaudited)
for nine - months period ended 30 September 2010

	Notes	Share capital RO'000	Share premium RO'000	Legal reserve RO'000	Subordinated loan reserve RO'000	Investment revaluation reserve RO'000	Retained earnings RO'000	Total RO'000
1 January 2010		**73,959**	**58,506**	**17,151**	**17,967**	**1,390**	**35,034**	**204,007**
Profit for the period		-	-	-	-	-	25,400	25,400
Fair value decrease	13	-	-	-	-	(312)	-	(312)
Net transfer to statement of comprehensive Income on sale of available-for-sale investments	13	-	-	-	-	(152)	-	(152)
Impairment of available-for-sale investment taken to statement of comprehensive income		-	-	-	-	171	-	171
Total comprehensive income for 2010		-	-	-	-	(293)	25,400	25,107
Dividend paid for 2009		-	-	-	-	-	(11,094)	(11,094)
Bonus shares issued for 2009	12	7,396	-	-	-	-	(7,396)	-
30 September 2010		**81,355**	**58,506**	**17,151**	**17,967**	**1,097**	**41,944**	**218,020**

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

BANK DHOFAR SAOG

Statement of changes in equity (Unaudited)
for nine - months period ended 30 September 2010

	Notes	Share capital RO'000	Share premium RO'000	Legal reserve RO'000	Subordinated loan reserve RO'000	Investment revaluation reserve RO'000	Retained earnings RO'000	Total RO'000
1 January 2009		70,774	58,506	14,612	10,267	239	34,035	188,433
Profit for the period		-	-	-	-	-	21,538	21,538
Fair value decrease	13	-	-	-	-	170	-	170
Net transfer to statement of comprehensive income on sale of available-for-sale investments	13	-	-	-	-	(467)	-	(467)
Impairment of available-for-sale investment taken to statement of comprehensive income		-	-	-	-	1,237	-	1,237
Total comprehensive income for 2009		-	-	-	-	940	21,538	22,478
Dividend paid for 2008		-	-	-	-	-	(10,970)	(10,970)
Bonus shares issued for 2008	**12**	3,185	-	-	-	-	(3,185)	-
30 September 2009		73,959	58,506	14,612	10,267	1,179	41,418	199,941

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

BANK DHOFAR SAOG

Statement of cash flows (Unaudited)
for nine - months period ended 30 September 2010

	2010 RO'000	2009 RO'000
Cash flows from operating activities		
Interest and commission receipts	**70,763**	69,778
Interest payments	**(28,877)**	(17,668)
Cash payments to suppliers and employees	**(20,215)**	(16,986)
	21,671	35,124
Decrease / (Increase) in operating assets	**(75,055)**	(75,109)
Increase in operating liabilities	**75,950**	122,690
Net cash from operating activities	**22,566**	82,705
Income tax paid	**(4,299)**	(3,331)
Net cash from operating activities	**18,267**	79,374
Net cash (used in) / from investing activities	**(5,725)**	(14,092)
Net cash (used in) / financing activities	**(11,094)**	(10,970)
Net increase in cash and cash equivalents	**1,448**	54,312
Cash and cash equivalents at 1st January 2010	**206,540**	145,129
Cash and cash equivalents at 30 September	**207,988**	199,441
Cash and cash equivalents (Note 3)	**195,069**	178,109
Capital deposit with Central Bank of Oman	**(500)**	(500)
Loans and advances to banks due within 90 days	**14,459**	23,014
Due to banks within 90 days	**(1,040)**	(1,182)
Cash and cash equivalents for the purpose of the cash flow statement	**207,988**	199,441

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

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. Principal accounting policies

2.1. *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.

2.2. *Foreign currency translations*

2.2.1. *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.

2.2.2. *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 statement of comprehensive income. 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.

2. Principal accounting policies (continued)

2.3. Financial instruments

2.3.1. *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.

2.3.1.1. *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 statement of comprehensive income.

2.3.1.2. 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.

2.3.1.3. Available-for-sale investments

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.

2. Principal accounting policies (continued)

2.3. Financial Instruments (continued)

2.3.1. *Classification (continued)*

2.3.1.4. Held-to-maturity investments

Investments with fixed or determinable payments and fixed maturity dates that the Bank has the positive intention 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.

2.3.2. *Recognition and derecognising*

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.

2.3.3. *Measurement*

Financial assets are measured initially at fair value 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.

2.3.4. *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 statement of financial position date for an instrument with similar terms and conditions.

2. Principal accounting policies (continued)

2.3. Financial Instruments (continued)

2.3.4. *Fair value measurement principles (continued)*

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 statement of financial position date taking into account current market conditions and the current credit worthiness of the counter-parties.

2.3.5. *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 statement of comprehensive income 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.

2.4. 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 to / from other banks and eligible treasury bills and certificate of deposits.

2.5. 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.

2.6. Offsetting

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position 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.

2.7. Impairment of financial assets

The Bank assesses at each statement of financial position 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;

2. Principal accounting policies (continued)

2.7. Financial instruments (continued)

(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;

(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 statement of comprehensive income. 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

2. Principal accounting policies (continued)

2.7. *Impairment of financial assets (continued)*

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.

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 statement of comprehensive income.

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 statement of comprehensive income.

The Bank assesses at each statement of financial position 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 statement of comprehensive income. Impairment losses recognised in the statement of comprehensive income on equity instruments are not reversed through the statement of comprehensive income. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the statement of comprehensive income.

2.8. *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*

* The Bank implemented new core banking system in the second half of 2010 and the software and implementation costs pertaining to the new system will be depreciated over 10 years.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each statement of financial position date. An asset's carrying amount is written down immediately to

2. Principal accounting policies (continued)

2.8. *Property & equipments (continued)*

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 statement of comprehensive income when the expense is incurred. Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the item of property and equipment. All other expenditure is recognised in the statement of comprehensive income as an expense when incurred.

2.9. *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.

2.10. *Provisions*

A provision is recognised in the statement of financial position when the Bank has a legal or constructive obligation as a result of a past event, 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.

2.11. *Dividends*

Dividends are recognised as a liability in three - months period in which they are declared.

2.12. *Interest income and expense*

Interest income and expense are recognised in the statement of comprehensive income 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.

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.

2. Principal accounting policies (continued)

2.13. *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.

2.14. *Taxation*

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

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

Deferred income tax is provided in full, using the statement of financial position 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 statement of financial position 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.

2.15. *Employee benefits*

End of service benefits are accrued in accordance with the terms of employment of the Bank's employees at the statement of financial position 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 statement of financial position date.

2. Principal accounting policies (continued)

2.15. Employee benefits (continued)

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 statement of comprehensive income as incurred.

2.16. *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 statement of comprehensive income.

2.16.1 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.

2.16.2 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.

2. Principal accounting policies (continued)

2.16. ***Derivative financial instruments*** **(continued)**

2.16.3 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 statement of comprehensive incomes relating to the hedged item.

2.16.4 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 statement of comprehensive income.

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 statement of comprehensive income 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.

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.

2.17. ***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.

2. Principal accounting policies (continued)

2.18. *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 statement of comprehensive income over the period of the borrowings using the effective interest method.

3. Cash and balances with Central Bank of Oman

	2010 RO'000	2009 RO'000
Cash on hand	**12,300**	14,395
Balances with the Central Bank of Oman	**62,769**	53,714
Certificate of deposits with maturity of 90 days or less	**120,000**	110,000
	195,069	178,109

At 30 September 2010, cash and balances with Central bank of Oman included balances with the Central Bank of Oman amounting to RO 500,000 (2009 - RO 500,000) as minimum reserve requirements. These funds are not available for the Bank's daily business.

Outstanding certificate of deposits as of 30th September 2010 were issued by the Central Bank of Oman and carried an average interest rate of 0.07%.

4. Loans and advances to banks

	2010 RO'000	2009 RO'000
Placements with other banks	**8,868**	25,964
Current clearing accounts and bills discounted	**6,091**	5,937
	14,959	31,901

At 30 September 2010, five placements with a two foreign bank's individually represented 20% or more of the Bank's placements (2009 : one placement).

5. Loans and advances to customers

	2010 RO'000	2009 RO'000
Overdrafts	**116,853**	104,091
Loans	**1,100,983**	1,024,673
Loans against trust receipts	**67,329**	67,633
Bills discounted	**3,377**	3,202
Advance against credit cards	**10,134**	10,114
Others	**8,480**	13,850
Gross loans and advances	**1,307,156**	1,223,563
Less: Impairment allowance	**(68,688)**	(56,895)
Net loans and advances	**1,238,468**	1,166,668

The movements in the impairment allowance is analysed below:

	2010	2009
(a) Allowance for loan impairment		
1 January	**41,852**	31,684
Allowance made during the period	**4,012**	5,576
Released to the statement of comprehensive income during the period	**(2,201)**	(1,198)
Written off during the period	**(34)**	(13)
30 September	**43,629**	36,049
(b) Reserved interest		
1 January	**21,737**	18,642
Reserved during the period	**4,127**	2,906
Released to the statement of comprehensive income during the period	**(670)**	(479)
Written-off during the period	**(135)**	(223)
30 September	**25,059**	20,846
Total impairment allowance	**68,688**	56,895

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.

Notes to the financial statements (Unaudited)
for nine - months period ended 30 September 2010 (continued)

5 .Loans and advances to customers (continued)

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 30 September 2010, out of the total provisions of **RO 68,688,000** (2009 – RO 56,895,000) a collective provision made on a general portfolio basis amounting to **RO 18,270,000** (2009 - RO 17,404,000).

At 30 September 2010, impaired loans and advances on which interest has been reserved amount to **RO 60,019,000** (2009 - RO 44,624,000) and these loans include loans and advances on which interest is not being accrued amount to **RO 1,528,000** (2009 - RO 1,563,000).

6. Available-for-sale investments

	2010	2009
	RO'000	RO'000
Equity instruments		
- Quoted	**8,598**	8,484
- Unquoted	**4,248**	4,239
	12,846	12,723

		Fair value	
	Cost	**2010**	2009
	RO'000	**RO'000**	RO'000
Quoted on the Muscat Securities Market (by sector)			
Banking and investments	**1,159**	**1,145**	569
Services	**4,365**	**4,692**	7,018
Industrial	**2,936**	**2,761**	897
	8,460	**8,598**	8,484
Unquoted			
Unquoted Omani company	**3,289**	**4,248**	4,239
	11,749	**12,846**	12,723

At 30 September 2010, the investments are carried at their fair value.

7. Held-to-maturity investments

	2010	2009
	RO'000	RO'000
Treasury bills with maturity of above 90 days	**44,042**	41,058
Certificates of deposits above 90 days	-	15,802
Government Development Bonds (HTM)	**42,232**	-
	86,274	56,860

8. Intangible asset

	2010	2009
	RO'000	RO'000
Goodwill	**3,971**	3,971

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

9. Due to banks

	2010	2009
	RO'000	RO'000
Syndicated borrowings	-	28,875
Other borrowings	**98,868**	67,375
Borrowing from Central Bank of Oman	-	38,500
Payable on demand	**1,040**	1,182
	99,908	135,932

In the year 2007, the Bank entered into a mid-term syndicated loans agreement with foreign banks for US $ 75,000,000 with three years maturity. The rates of interest are linked to three month LIBOR subject to competitive margin.

In 2009, 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 30 September 2010, no borrowing with any banks individually represented 20% or more of the Bank's borrowings.

At 30 September 2009 two borrowing with two banks individually represented 20% or more of the of the Bank's borrowings.

The Bank has not had any defaults of principal, interest or other breaches during nine - months period on its borrowed funds (2009 - Nil).

10. Deposits from customers

	2010 RO'000	2009 RO'000
Current accounts	**240,866**	190,405
Savings accounts	**186,785**	175,469
Time deposits	**746,528**	678,539
Margin accounts	**3,249**	3,945
	1,177,428	1,048,358

Current accounts and time deposits include deposits from the Government of the Sultanate of Oman and its entities amounting to RO 299,709,000 (2009 - RO 319,341,000).

11. Subordinated loan

	2010 RO'000	2009 RO'000
Subordinated loan	**38,500**	38,500
	38,500	38,500

In August 2007, the Bank availed an unsecured subordinated loan of US $ 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 lump sum at maturity.

12. Share capital

The authorised share capital consists of 1,000,000,000 shares of RO 0.100 each (2009 - 1,000,000,000 shares of RO 0.100 each).

On 28 March 2010 the Shareholders of the Bank in the Annual General Meeting approved the issuance of 10% bonus shares amounting to 73,958,653 shares of RO 0.100 each.

At 30 September 2010, the issued and paid up share capital comprise of 813,545,183 shares of RO 0.100 each. (2009 – 739,586,530 shares of RO 0.100 each).

12.Share capital (continued)

Shareholders

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

	2010		2009	
	No of shares	**%**	No of shares	%
Dhofar International Development and Investment Company SAOG	**223,724,925**	**27**	222,225,959	30
Eng. Abdul Hafidh Salim Rajab Al Aujali and his related Companies	**167,355,290**	**20**	118,709,609	16
Civil Service Employees' Pension Fund	**81,354,499**	**10**	73,958,636	10
Total	**472,434,714**	**57**	414,894,204	56
Others	**341,110,469**	**43**	324,692,326	44
	813,545,183	**100**	739,586,530	100

13. Reserves

(a) 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 loan reserves

Consistent with the 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. The amount of the reserve will be transferred to retained earnings through the statement of changes in equity upon settlement of the subordinated loan.

(c) Investment revaluation reserve

The movements in the investments revaluation reserve is analysed below:

	2010	2009
	RO'000	RO'000
1 January	**1,390**	239
Increase (Decrease) in fair value	**(312)**	170
Impairment of available for sale investment taken to statement of comprehensive income	**171**	1,237
Net transfer to statement of comprehensive income on sale of available-for-sale investment	**(152)**	(467)
30 September	**1,097**	1,179

14. Earnings per share (basic and diluted)

Earnings per share is calculated by dividing the net profit for the nine - months period ended 30 September by the number of shares outstanding at 30 September as follows:

	2010	2009
Net profit (RO)	**25,400,000**	21,538,000
Number of shares outstanding at 30 September (Nos.)	**813,545,183**	813,545,183
Earnings per share (RO)	**0.042**	0.035

Earnings per share (basic and diluted) has been derived by dividing the profit for the period 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.

For the purpose of earning per share calculation, the Bank has restated the previous year weighted average number of shares outstanding to include the10% bonus Shares (73,958,653) shares with RO 0.100 par each) issued in the first quarter of 2010.

15. Capital risk management

Capital adequacy

The ratio of equity to risk weighted assets, as formulated by the Basel II, for nine - months period ended 30 September 2010 is 13.97% (2009 – 14.86%).

Capital structure	**2010**	2009
	RO'000	RO'000
TIER I CAPITAL		
Paid up capital	**81,355**	73,959
Legal reserve	**17,151**	14,612
Share premium	**58,506**	58,506
Subordinated bonds and loan reserve	**17,967**	10,267
Retained earnings	**16,544**	19,880
Deferred tax assets	**(177)**	-
Less: goodwill	**(3,971)**	(3,971)
Less: negative investment revaluation reserve	**(313)**	(636)
Total Tier I capital	**187,062**	172,617
TIER II CAPITAL		
Investment revaluation reserve	**634**	817
General provision	**18,270**	17,404
Subordinated loan	**15,400**	23,100
Total Tier II capital	**34,304**	41,321
Total eligible capital	**221,366**	213,938
Risk weighted assets		
Banking book	**1,444,256**	1,338,220
Trading book	**34,171**	16,029
Operational risk	**105,596**	85,899
Total	**1,584,023**	1,440,148
Tier I capital	**187,062**	172,617
Tier II capital	**34,304**	41,321
Tier III capital	-	-
Total regulatory capital	**221,366**	213,938
Tier I capital ratio	**11.81%**	11.99%
Total capital ratio	**13.97%**	14.86%

16. Net interest income

	2010 RO'000	2009 RO'000
Loans and advances to customers	**61,089**	56,697
Debt investments	**131**	416
Money market placements	**63**	248
Others	**9**	19
Total interest income	**61,292**	57,380
Deposits from customers	**(17,556)**	(19,512)
Money market deposits	**(1,263)**	(1,878)
Total interest expense	**(18,819)**	(21,390)
Net interest income	**42,473**	35,990

17. Other income

Foreign exchange	**921**	807
Investment income (a)	**1,059**	1,375
Miscellaneous income	**4,935**	5,999
	6,915	8,181

(a) Investment income

Dividend income- available-for-sale investments	**459**	541
Gain on disposal of available-for-sale investments	**225**	777
Interest income on Government Development Bonds (HTM)	**375**	57
	1,059	1,375

18. Impairment of financial assets

Impairment of available-for-sale investments	**171**	1,237
Financial instrument at fair value through profit or loss	**-**	12
Provision for loan impairment	**4,012**	5,576
Impairment Others	**53**	-
Bad debts written-off	**28**	92
	4,264	6,917
Recoveries from provision for loan impairment	**(2,201)**	(1,198)
Net impairment change of financial assets	**2,063**	5,719

Notes to the financial statements (Unaudited)
for nine - months period ended 30 September 2010 (continued)
19. 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:

	2010	2009
	RO'000	RO'000
Loans and advances		
Directors and shareholders holding less than 10% interest in the Bank	**18,532**	14,307
Directors and shareholders holding 10% or more interest in the Bank	**23,064**	11,000
	41,596	25,307
Deposits and other accounts		
Directors and shareholders holding less than 10% interest in the Bank	**77,606**	73,773
Directors and shareholders holding 10% or more interest in the Bank	**146,084**	104,655
	223,690	178,428
Contingent liabilities and commitments		
Directors and shareholders holding less than 10% interest in the Bank	**1,463**	376
Directors and shareholders holding 10% or more interest in the Bank	**11,550**	-
	13,013	376
Remuneration paid to Directors		
Chairman		
– remuneration paid	**16**	18
– sitting fees paid	**10**	7
Other Directors		
– remuneration paid	**115**	110
– sitting fees paid	**48**	40
	189	175
Other transactions		
Rental payment to a related party	**212**	206
Other transactions	**38**	31

Notes to the financial statements (Unaudited)
for nine - months period ended 30 September 2010 (continued)

20. Senior members borrowing

Senior members

Total exposure:	**2010** **RO’000**	2009 RO'000
Direct	**42,598**	26,220
Indirect	**13,003**	376
	55,601	26,596
Number of members	**24**	23

21. Contingent liabilities and commitments

(a) Credit related contingent items

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

	2010 **RO’000**	2009 RO'000
Letters of credit	**93,744**	77,319
Acceptances	**32,091**	17,341
Guarantees and performance bonds	**98,437**	88,786
Advance payment guarantees	**76,150**	52,634
Payment guarantees	**41,834**	27,849
Others	**4,908**	3,719
	347,164	267,648

22. Amount due to brokerage customers

The amount due to brokerage customers as at 30th September 2010 was RO 103,677 (2009: RO 102,788)

Notes to the financial statements (Unaudited)
for nine - months period ended 30 September 2010 (continued)

23. Risk Management

(i) Liquidity risk

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
30 September 2010						
Cash and balances with Central Bank of Oman	**194,569**	**-**	**-**	**-**	**500**	**195,069**
Loans and advances to banks	**14,459**	**500**	**-**	**-**	**-**	**14,959**
Loans and advances to customers	**151,075**	**166,573**	**87,209**	**534,092**	**299,519**	**1,238,468**
Available-for-sale Investments	**-**	**-**	**12,846**	**-**	**-**	**12,846**
Held-to-maturity Investments	**8,214**	**35,828**	**-**	**42,232**	**-**	**86,274**
Intangible asset	**-**	**-**	**-**	**-**	**3,971**	**3,971**
Property and equipment	**-**	**-**	**-**	**-**	**7,901**	**7,901**
Other assets	**2,476**	**-**	**-**	**-**	**3,801**	**6,277**
Total assets	**370,793**	**202,901**	**100,055**	**576,324**	**315,692**	**1,565,765**
Due to banks	**65,258**	**-**	**13,475**	**21,175**	**-**	**99,908**
Deposits from customers	**125,534**	**454,183**	**293,946**	**196,879**	**106,886**	**1,177,428**
Other liabilities	**8,653**	**3,445**	**4,800**	**13,402**	**1,609**	**31,909**
Subordinated loan	**-**	**-**	**-**	**38,500**	**-**	**38,500**
Shareholders' equity	**-**	**-**	**25,400**	**-**	**192,620**	**218,020**
Total liabilities and shareholders' equity	**199,445**	**457,628**	**337,621**	**269,956**	**301,115**	**1,565,765**

Notes to the financial statements (Unaudited)
for nine - months period ended 30 September 2010 (continued)
23. Risk Management (continued)

(i) 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
30 September 2009						
Cash and balances with Central Bank of Oman	177,609	-	-	-	500	178,109
Loans and advances to banks	25,546	6,355	-	-	-	31,901
Loans and advances to customers	203,380	113,641	69,332	440,971	339,344	1,166,668
Available-for-sale Investments	-	-	12,723	-	-	12,723
Held-to-maturity investments	10,264	30,794	-	15,802	-	56,860
Intangible asset	-	-	-	-	3,971	3,971
Property and equipment	-	-	-	-	4,991	4,991
Other assets	903	16	5	37	6,188	7,149
Total assets	417,702	150,806	82,060	456,810	354,994	1,462,372
Due to banks	58,932	40,425	28,875	7,700	-	135,932
Deposits from customers	175,656	400,150	226,873	154,163	91,516	1,048,358
Other liabilities	6,622	8,182	5,920	17,142	1,775	39,641
Subordinated loan	-	-	-	38,500	-	38,500
Shareholders' equity	-	-	21,538	-	178,403	199,941
Total liabilities and shareholders' equity	241,210	448,757	283,206	217,505	271,694	1,462,372

23. Risk Management (continued)

(ii) Market risk

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

(a) Interest rate risk

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.

	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
30 September 2010							
Cash and balances with Central Bank of Oman	120,000	-	-	-	500	74,569	195,069
Loans and advances to banks	14,459	500	-	-	-	-	14,959
Loans and advances to customers	144,056	166,573	87,209	534,092	299,519	7,019	1,238,468
Available-for-sale investments	-	-	-	-	-	12,846	12,846
Held-to-maturity investments	8,214	35,828	-	42,232	-	-	86,274
Intangible asset	-	-	-	-	-	3,971	3,971
Property and equipment	-	-	-	-	-	6,277	6,277
Other assets	-	-	-	-	-	7,901	7.901
Total assets	286,729	202,901	87,209	576,324	300,019	112,583	1,565,765
Due to banks	64,844	34,650	-	-	-	414	99,908
Deposits from customers	115,236	351,295	227,149	196,879	50	286,819	1,177,428
Other liabilities	-	-	-	-	-	31,909	31,909
Subordinated loan	-	38,500	-	-	-	-	38,500
Shareholders' equity	-	-	25,400	-	-	192,620	218,020
Total liabilities and shareholders' equity	180,080	424,445	252,549	196,879	50	511,762	1,565,765
On-balance sheet gap	106,649	(221,544)	(165,340)	379,445	299,969	(399,179)	
Cumulative interest sensitivity gap	106,649	(114,895)	(280,235)	99,210	399,179	-	

23 Risk Management (continued)

(ii) Market risk (continued)

(a) Interest rate risk (continued)

Interest rate sensitivity gap (continued)

	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
30 September 2009							
Cash and balances with Central Bank of Oman	110,000	-	-	-	500	67,609	178,109
Loans and advances to banks	25,546	6,355	-	-	-	-	31,901
Loans and advances to customers	295,233	103,231	69,001	405,717	286,453	7,033	1,166,668
Available-for-sale investments	-	-	-	-	-	12,723	12,723
Held-to-maturity investments	10,264	30,794	-	15,802	-	-	56,860
Intangible asset	-	-	-	-	-	3,971	3,971
Property and equipment	-	-	-	-	-	4,991	4,991
Other assets	-	-	-	-	-	7,149	7,149
Total assets	441,043	140,380	69,001	421,519	286,953	103,476	1,462,372
Due to banks	57,914	77,000	-	-	-	1,018	135,932
Deposits from customers	221,756	315,962	171,244	66,430	48	272,918	1,048,358
Other liabilities	-	-	-	-	-	39,641	39,641
Subordinated loan	-	38,500	-	-	-	-	38,500
Shareholders' equity	-	-	21,538	-	-	178,403	199,941
Total liabilities and shareholders' equity	279,670	431,462	192,782	66,430	48	491,980	1,462,372
On-balance sheet gap	161,373	(291,082)	(123,781)	355,089	286,905	(388,504)	
Cumulative interest sensitivity gap	161,373	(129,709)	(253,490)	101,599	388,504	-	

(b) Foreign currency exposures

	2010 RO'000	2009 RO'000
Net assets denominated in US Dollars	**24,944**	9,547
Net assets denominated in other foreign currencies	**1,681**	1,333
	26,625	10,880

23. Risk Management (continued)

(iii) Credit Risk

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
30 September 2010						
Personal	**-**	**562,228**	**-**	**338,061**	**-**	**219**
Corporate	**14,959**	**672,016**	**56,888**	**539,658**	**99,908**	**346,724**
Government	**-**	**72,912**	**42,232**	**299,709**	**-**	**221**
	14,959	**1,307,156**	**99,120**	**1,177,428**	**99,908**	**347,164**
30 September 2009						
Personal	-	521,879	-	319,782	-	466
Corporate	31,901	609,843	53,781	409,235	97,432	267,167
Government	-	91,841	15,802	319,341	38,500	15
	31,901	1,223,563	69,583	1,048,358	135,932	267,648