Board of Directors Report for the first quarter ended 31st March 2010

On behalf of the Board of Directors, I am pleased to present the results of your bank as at 31st March 2010.

The bank continued with its focus on profitable growth achieving a Net Profit of OMR 2.831 million during the quarter ended 31st March'10 as compared to a Net Loss of OMR 0.776 million during the quarter ended 31st March'09. The bank continued with its effort for sustainable and profitable growth.

The Net Interest Income witnessed a significant improvement of 74.9% from OMR 4.275 million for the period ended 31st March'09 to OMR 7.478 million for the period ended 31st March'10. The operating income has increased by 79.7% from OMR 4.659 million in the first three months of last year to OMR 8.370 million in the first three months of the current year. Further, the Cost to Income ratio has improved from 87.6% in the first three months of last year to 52.3% in the first three months of the current year even after considering the increase in operating cost by 7.2% from OMR 4.084 million to OMR 4.379 million during the same period as a result of the up-gradation of the bank's infrastructure.

Net loans and advances grew by 4.3% from 787 million in March'09 to reach OMR 821 million as at 31st March'2010, while customer deposits declined by 2.2% from 832 million in March'09 to reach OMR 814 Million in the same period. The bank's market share of Private Sector Credit was 8.52% while the Private Sector Deposit share was 6.44% as at end of March'2010.

The negative repercussions emanating from the ongoing uncertainties in the region continued to haunt the economy during the quarter. Despite the slowdown in growth in loans and deposits in the market, your bank continued its path of profitable growth. The bank continued its focus on improving its quality of assets despite a challenging environment. The bank continued with its effort on improving the yield on assets, reducing the cost of funds and operating expenses.

Customer satisfaction on the service level standards of the bank and their reliance and confidence in the products and services provided by the bank are key values for the bank. The bank offers its services through a variety of outlets such as branches, ATMs, the Call Center as well as electronic banking outlets such as Internet and SMS banking. The bank presently has a network of 14 branches and 15 offsite ATM's. The bank re-launched its newly improved Al Mumayaz Savings Scheme during February'10. The scheme has been made attractive and is expected to provide an incentive for its customers to increase saving deposits.

The bank continues to recruit fresh Omani graduates and developing their abilities and providing good opportunities in the workplace. The bank total staff count as at 31st March'2010 stood at 450 and the Omanisation ratio is at 85.8%.

The bank continues to get involved in many social and educational programs and supports social activities and events. During the quarter, the Bank sponsored Oman Today's Restaurant Awards 2009, Oman Web Awards 2009, The Oman Ophthalmic Conference and the event which was organized by the Directorate General of Education in Muscat which brought together parents, teachers, students. Also, the Bank supported the Oman Association for the Disabled – Sohar Center, National Association for Cancer Awareness, Al Khuwair Orphanage Center, and Association for Welfare of Handicapped Children & Dar Al Atta to raise funds for their ongoing charity programs.

On behalf of the Board of Directors, management and staff of the Bank, I would like to thank the Central Bank of Oman and the Capital Market Authority for their astute regulation and guidance. Above all, I would like to express my humble gratitude and pay tribute to His Majesty Sultan Qaboos Bin Said for his wise and discerning leadership that has firmly set Oman on the path of progress and sustainable development.

Sheikh Salim Said Al Fannah Al Araimi
Chairman

BANK SOHAR SAOG

UNAUDITED FINANCIAL STATEMENTS

For the period ended 31 March 2010

Registered office and principal place of business:

Bank Sohar Building
Post Box 44, PC 114
Sultanate of Oman

UN AUDITED STATEMENT OF FINANCIAL POSITION
As at 31 March 2010

	Notes	*31 March 2010 RO'000*	*31 December 2009 RO'000*
ASSETS			
Cash and balances with Central Bank	*B1*	**75,519**	132,270
Due from Banks and other money market placements	*B2*	**19,662**	20,280
Loans and advances (net)	*B3*	**820,994**	786,784
Available-for-sale investments	*B4*	**74,906**	61,690
Property, equipment and fixtures	*B5*	**14,192**	14,340
Other assets	*B6*	**12,633**	9,246
		1,017,906	1,024,610
LIABILITIES			
Due to Banks and other money market deposits	*B7*	**25,990**	21,400
Certificates of deposit	*B8*	**39,038**	39,038
Customers' deposits	*B9*	**814,453**	832,449
Deferred income	*B10*	**7,000**	7,000
Other liabilities	*B11*	**22,479**	18,550
Income tax payable		**379**	744
		909,338	919,181
SHAREHOLDERS' EQUITY			
Share capital	*B12*	**100,000**	100,000
Legal reserve	*B13*	**2,533**	2,533
Fair value reserve	*B14*	**733**	426
Retained earnings		**5,301**	2,470
		108,567	105,429
		1,017,906	1,024,610
Net assets per share (in baizas)	*B15*	**108.567**	105.429
CONTINGENT LIABILITIES	*B16*	**144,523**	106,927
COMMITTMENTS	*B16*	**38,763**	26,706

The financial statements were approved and authorized for issue by the Board of Directors on 27 April 2010 and signed on their behalf by:

Chairman *Deputy Chairman*

The attached notes A1 to D5 form an integral part of these financial statements

UN AUDITED STATEMENT OF COMPREHENSIVE INCOME
Period ended 31 March 2010

	Notes	31 March 2010 RO'000	31 March 2009 RO'000
Interest income	C1	**13,883**	11,774
Interest expense	C2	**(6,405)**	(7,499)
Net interest income		**7,478**	4,275
Other operating income	C3	**892**	384
OPERATING INCOME		**8,370**	4,659
OPERATING EXPENSES			
Staff costs		**(2,604)**	(2,535)
Other operating expenses	C4	**(1,323)**	(1,178)
Depreciation	B5	**(452)**	(371)
		(4,379)	(4,084)
OPERATING PROFIT		**3,991**	575
Impairment on investments		**-**	(251)
Impairment allowance on portfolio basis	B3	**(331)**	(617)
Impairment allowance on specific basis	B3	**(452)**	(590)
PROFIT /(LOSS) BEFORE TAX		**3,208**	(883)
Income tax expense	C5	**(377)**	107
NET PROFIT/ (LOSS) FOR THE PERIOD		**2,831**	(776)
Basic earnings/ (loss) per share for the period - **in baizas**	C6	**2.831**	(0.776)
Basic earnings/ (loss) per share for the period (annualised) - **in baizas**	C6	**11.481**	(3.147)
Other comprehensive income			
Net changes in fair value of available for sale financial assets		**307**	673
Other comprehensive income for the period, net of income tax		**307**	673
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**3,138**	(103)

The attached notes A1 to D5 form an integral part of these financial statements

UN AUDITED STATEMENT OF CHANGES IN EQUITY
Period ended 31 March 2010

	Share capital (Note B12) RO'000	*Legal reserve (Note B13) RO'000*	*Fair value reserve (Note B14) RO'000*	*Retained earnings RO'000*	*Total RO'000*
Balance as at 1 January 2009	100,000	1,731	(494)	(4,750)	96,487
Total comprehensive income for the period					
Net loss for the period	-	-	-	(776)	(776)
Other comprehensive income					
Net change in fair value of available for sale financial assets	-	-	673	-	673
Total comprehensive income for the period	-	-	673	(776)	(103)
Transactions with owners, recorded directly in equity	-	-	-	-	-
Balance as at 31 March 2009	100,000	1,731	179	(5,526)	96,384
Balance as at 1 April 2009	100,000	1,731	179	(5,526)	96,384
Total comprehensive income for the period					
Net profit for the period	-	-	-	8,798	8,798
Other comprehensive income					
Net change in fair value of available for sale financial assets	-	-	247	-	247
Total comprehensive income for the period	-	-	247	3,272	9,045
Transactions with owners, recorded directly in equity	-	802	-	(802)	-
Balance as at 31 December 2009	100,000	2,533	426	2,470	105,429
Balance as at 1 January 2010	**100,000**	**2,533**	**426**	**2,470**	**105,429**
Total comprehensive income for the period					
Net profit for the period	**-**	**-**	**-**	**2,831**	**2,831**
Other comprehensive income					
Net change in fair value of available for sale financial assets	**-**	**-**	**307**	**-**	**307**
Total comprehensive income for the period	**-**	**-**	**733**	**5,301**	**108,567**
Transactions with owners, recorded directly in equity					
Transfer to legal reserve	-	-	-	-	-
Balance as at 31 March 2010	**100,000**	**2,533**	**733**	**5,301**	**108,567**

The attached notes A1 to D6 form an integral part of these financial statements

UN AUDITED STATEMENT OF CASH FLOWS

Period ended 31 March 2010

	31 March 2010 RO'000	31 March 2009 RO'000
OPERATING ACTIVITIES		
Net profit/(loss) for the period before tax	**3,208**	(883)
Adjustments for:		
Depreciation	**452**	371
Impairment for credit losses	**783**	1,207
Reserve interest on loans	**52**	60
Profit (loss) on sale of investment securities	**1**	-
Interest on investment	**(144)**	(236)
Operating profit before changes in operating assets and liabilities	**4,352**	519
Changes in loans and advances (gross)	**(35,045)**	(47,710)
Changes in other assets	**(3,387)**	(1,749)
Changes in customers' deposits	**(17,996)**	12,830
Changes in due to banks and other money market deposits	**12,900**	9,400
Changes in other liabilities	**3,188**	4,452
Net cash from/(used in) operating activities	**(35,988)**	(22,258)
INVESTING ACTIVITIES		
Purchase of investments (net)	**-**	(450)
Proceeds from sale/ redemption of investments	**47**	-
Purchase of property, equipment and fixtures	**(304)**	(273)
Interest received on investments	**144**	236
Net cash used in investing activities	**(113)**	(487)
FINANCING ACTIVITIES		
Receipts from final call on shares	**-**	-
Share issue expenses/paid	**-**	-
Net cash from financing activities	**-**	-
NET CHANGE IN CASH AND CASH EQUIVALENTS	**(36,101)**	(22,745)
CASH AND CASH EQUIVALENT AT BEGINNING OF THE PERIOD	**175,457**	89,429
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	**139,356**	66,684
REPRESENTING:		
Cash and balances with Central Banks	**75,519**	92,122
Due from Banks and other money market placements	**19,662**	32,177
Available-for-sale investments	**57,265**	8,374
Due to Banks and other money market deposits	**(13,090)**	(65,989)
	139,356	66,684

UN AUDITED NOTES TO FINANCIAL STATEMENTS
As At 31 March 2010

A1 LEGAL STATUS AND PRINCIPAL ACTIVITIES

Bank Sohar SAOG ("the Bank") was established in the Sultanate of Oman on 4 March 2007 as a joint stock company and is primarily engaged in corporate and retail banking activities within the Sultanate of Oman. The Bank operates in Oman under a banking licence issued by the Central Bank of Oman and is covered by its deposit insurance scheme. The Bank started commercial operations from 9 April 2007. The registered address of the Bank is PO Box 44, Hai Al Mina, Postal Code 114, Muscat, Sultanate of Oman.

The Bank employed **450** employees as of 31 March 2010 (31 Dec 2009: 448, 31 March 2009: 416).

A2 BASIS OF PREPARATION

A2.1 Statement of compliance

The condensed interim financial statements have been prepared in accordance with International Accounting Standards 34, Interim Financial Reporting and the requirements of the Oman Commercial Companies Law of 1974, as amended and the disclosure requirements of the Capital Market Authority and the applicable regulations of the Central Bank of Oman. The accounting policies used in the preparation of the condensed interim financial statements are consistent with those used in the preparation of the annual financial statements for the year ended 31 December 2009.

The condensed interim financial statements do not contain all information and disclosures for full financial statements prepared in accordance with International Financial Reporting Standards. In addition, results for the three months ended 31 March 2010 are not necessarily indicative of the results that may be expected for the financial year ended.

The financial statements were approved by the Board of Directors on **27 April 2010.**

A2.2 Basis of measurement

The financial statements have been prepared under the historical cost convention except for the following:

- derivative financial instruments are measured at fair value
- financial instruments at fair value through statement of comprehensive income are measured at fair value
- available for sale financial assets are measured at fair value

A2.3 Functional and presentation currency

These financial statements are presented in Rials Omani rounded, except as indicated, to the nearest thousand Rials Omani. The functional currency of the Bank's operations is Rial Omani.

A2.4 Use of estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that effect the application of accounting policies and reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

The estimates and associated assumptions are based on industry data and various other factors that are believed by the Bank to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources.

The estimates and underlying assumptions are reviewed on a regular basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods. Estimates considered by the Bank to have a significant risk of material adjustment in subsequent periods primarily consist of the provision for impairment of loans and advances.

A3 SIGNIFICANT ACCOUNTING POLICIES

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

A3.1 Foreign currency translation

Transaction in foreign currencies are translated into respective functional currency of the operation at spot exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated into the functional currency at the spot exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for the effective interest and payments during the period, and the amortised cost in the foreign currency translated at the spot exchange rate at the end of the period. The non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated into the functional currency at the spot exchange rate at the date the fair value was determined. Foreign currency differences arising on retranslation are recognized in profit or loss. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

A3.2 Revenue & expense recognition

A3.2.a Interest income & expense

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

- Interest on financial assets and liabilities at amortised cost on an effective interest rate basis.
- Interest on available for sale investment securities on an effective interest basis.
- Fair value changes in qualifying derivatives (including hedge ineffectiveness) and related hedged items when interest rate risk is the hedged risk.

A3.2.b Fair value gains and losses

Fair value changes on derivatives held for risk management purposes, and financial assets other than loans and advances are carried at fair value through profit or loss, are presented in ‘net income on other financial instruments carried at fair value’ in the statement of comprehensive income.

Net Income from financial instruments at fair value relates to non-qualifying derivatives held for risk management purposes and financial assets designated at fair value through profit or loss, and include all realised and unrealised fair value changes interest, dividend and foreign exchange differences.

A3.2.c Dividend income

Dividend income is recognized when the right to receive income is established.

A3.2.d Fees and commission

Fees and commission income and expenses that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Fees and Commission income include account servicing fees, credit related fees, advisory fees, administration fees and other management fees, sales commission, placement fees and syndication fees. These are recognised as the related services are performed.

A3.2.e Provisions

A provision is recognised if, as a result of a past event, the Bank has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are equivalent to the amortised value of the future liabilities.

A3.2.f Offsetting of income & expense

Income and expenses are presented on a net basis only when permitted by the accounting standards, or for gains and losses arising from a group of similar transactions such as in the Banks trading activity

A3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

A3.3 Financial Assets and Liabilities

A3.3.a Recognition

The Bank initially recognises loans and advances, deposits; debt securities issued and subordinated liabilities on the date that they are originated. All other financial assets and liabilities (including assets and liabilities designated at fair value through statement of comprehensive income) are initially recognised on the trade date at which the Bank becomes a party to the contractual provisions of the instrument.

Where assets are received without consideration these are accounted at ‘fair value’ in the statement of financial position under the appropriate classification and consequently ‘deferred income’ is created and disclosed as ‘other liabilities’. Deferred income is recognized as ‘other income’ based on the encumbrance stipulated or usage of the asset.

A3.3.b Derecognition

The Bank derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or its transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. The Bank derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

A3.3.c Offsetting of assets and liabilities

Financial assets and liabilities are set off and the net amount presented in the statement of financial position when, and only when, the Bank has a legal right to set off the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

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A3.3.d Amortised cost measurement

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

A3.3.e Fair value measurement

For investments traded in organized financial markets, fair value is determined by reference to quoted market prices at the close of business on the statement of financial position date.

The fair value of interest-bearing items is estimated based on discounted cash flows using interest rates for items with similar terms and risk characteristics. For investments where there is no quoted market price, a reasonable estimate of the fair value is determined by reference to the current market value of a similar investment, or is based on the expected discounted cash flows. Investments having short term maturities are not discounted.

A3.3.f Loans and advances

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and the Bank does not intend to sell immediately or in the near term. Loans and advances are carried at amortized cost less specifically identified after collective allowance for impairment. Specific provisions are made against the carrying amount of loans and advances that are identified as being impaired based on regular reviews of outstanding balances to reduce the impaired loans and advances to their recoverable amounts.

A3.3.g Identification and measurement of impairment

Collective impairment provisions are maintained in respect of incurred losses, which have not yet been specifically identified within the portfolio of loans and advance. The recoverable amount of loans and advances is calculated at the present value of the expected future cash flows discounted at the original effective interest rate. Short-term balances are not discounted.

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 directly to the profit or loss in statement of comprehensive income. Non specific provisions are established to meet the credit risks inherent within the loans and advances portfolio. This provision has been made to cover potential impairment which although not specifically identified, is to be present in the Bank’s portfolio of financial assets based on industry data.

A3.3.h Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, unrestricted balances held with central Banks and highly liquid financial assets with original maturities of less than three months, which are subject to insignificant risk of changes in their fair value, and are used by the Bank in management of its short term commitments. Cash and cash equivalents are carried at amortised cost in the statement of financial position.

A3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

A3.3.i Balances due from Banks and other money market placements

These are stated at amortized cost less any allowance for impairment.

A3.3.j Designation at fair value through profit or loss

This category includes those assets and liabilities, which are initially recognized at cost and re-measured at fair value. All related realized and unrealized gains or losses are included in the profit or loss in the period in which they arise.

A3.3.k Trading assets and liabilities

Trading assets and liabilities are those assets and liabilities that the Bank acquires or incurs principally for the purpose of selling or repurchasing in the near term, or holds as a portfolio that is managed together for short term profit or position taking.

Trading assets and liabilities are initially recognised and subsequently measured at fair value in the statement of financial position with transaction costs taken directly to profit or loss. All changes in fair value realised or unrealised are recognised as a part of net trading income in the profit or loss. Trading assets and liabilities are not reclassified subsequent to their initial recognition. Interest earned or dividends received are included in the interest and dividend income respectively.

A3.3.l Non-trading investments

These are classified as follows:

- Available for sale
- Held to maturity

All non –trading investments are initially recognised at cost, being the fair value of the consideration given including acquisition costs.

Available for sale

Available-for-sale financial investments are those which are designated as such or do not qualify to be classified as designated at fair value through profit or loss, held to maturity or loans and advances. They may be sold in response to liquidity needs or changes in market conditions. They include equity instruments, money market papers and other debt instruments.

After initial measurement, available for sale financial investments are subsequently measured at fair value. Unrealised gains and losses are recognised directly in other comprehensive income. When the security is disposed off, the cumulative gain or loss previously recognised in equity is recognised in the profit or loss. Where the Bank holds more than one investment in the same security they are deemed to be disposed of on a first-in-first-out basis. Interest earned whilst holding available for sale financial investments are reported as interest income using the effective interest rate. Dividends earned whilst holding available for sale financial investments are recognised in the profit or loss when the right of income has been established. The losses arising from impairment of such investments are recognised in profit or loss.

Held to maturity

Held-to-maturity investments are non derivative assets with fixed or determinable payments and fixed maturity that the Bank has the positive intent and ability to hold financial assets to maturity; they are stated at amortized cost using the effective interest rate method less impairment losses. Any sale or re-classification of a significant amount of held-to-maturity investments not close to their maturity would result in the re-classification of all held-to-maturity investments as available-for-sale, and prevent the Bank from classifying investment securities as held-to-maturity for the current and following two financial years.

A3.3.m Repurchase and resale agreements

Assets sold with a commitment to repurchase (repos) at a specified future date are recognised in the statement of financial position and are measured in accordance with accounting policies for trading securities or investment securities. The counterparty liability for amounts received under these agreements is included in due to Banks and other financial institutions. The difference between sale and repurchase price is treated as interest expense and accrued over the life of the repo agreement. Assets purchased with a corresponding commitment to resell at a specified future date (reverse repos) are not recognised in the statement of financial position and the amounts paid under these agreements are included in deposits with Banks and other financial institutions. The difference between purchase and resale price is treated as interest income and accrued over the life of the reverse repo agreement.

A3.3.n Acceptances

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

A3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

A3.3.o Derivatives held for risk management purposes

Derivatives held for risk management purposes include all derivative assets and liabilities that are not classified as trading assets and liabilities. Derivative held for risk management purposes are measured at fair value in the statement of financial position. The treatment of changes in their fair value depends on their classification into the following categories:

Fair value hedge

When a derivative is designated as a hedge of the change in fair value of a recognised asset or liability or a firm commitment, changes in the fair value of the derivative are recognised immediately in profit or loss together with changes in the fair value of the hedged item that are attributable to the hedged risk.

If the derivative expires or is sold, terminated, or exercised, no longer meets the criteria for fair value hedge accounting, or the designation is revoked, hedge accounting is discontinued. Any adjustment up to that point, to a hedged item for which the effective interest method is used, is amortised to profit or loss as part of the recalculated effective interest rate of the item over its remaining life.

Cash flow hedge

When a derivative is designated as the hedging instrument in a hedge of the variability in cash flows attributable to a particular risk associated with a recognised asset or a liability or a highly probable forecast transaction that could affect profit or loss, the effective portion of changes in the fair value of the derivative is recognised in other comprehensive income in hedging reserve. The amount recognised in other comprehensive income is reclassified to profit or loss as a reclassification adjustment in the same period as the hedged cash flows affect profit or loss, and in the same line item in the statement of comprehensive income. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in profit or loss.

If the hedging derivative expires or is sold, terminated, or exercised, or the hedge no longer meets the criteria for cash flow hedge accounting, or the hedge designation is revoked, then the hedge accounting is discontinued prospectively. In a discontinued hedge of a forecast transaction the cumulative amount recognized in other comprehensive income from the period when the hedge was effective is reclassified from the equity to profit or loss as a reclassification adjustment when the forecast transaction occurs and affects profit or loss. If the forecast transaction is no longer expected to occur, then the balance in other comprehensive income is reclassified immediately to profit or loss as a reclassification adjustment.

Other non-trading derivative

When a derivative is not held for trading, and is not designated in a qualifying hedge relationship, all changes in its fair value are recognised immediately in profit or loss as a component of net income on other financial instruments carried at fair value.

A3.3.p Property, equipment and fixtures

Items of property, equipment and fixtures are measured at cost less accumulated depreciation and impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset. Depreciation is provided on a straight-line basis over the estimated useful lives of property, equipment and fixtures. The estimated useful lives for the current period are as follows:

	Years
Motor vehicles	3
Furniture & fixtures	3
Office Equipment	6-7
Production Software	6-7

The assets' residual values, useful lives and depreciation methods are reviewed and adjusted if appropriate at each statement of financial position date.

A3.3.q Deposits, debt securities issued and subordinated liabilities

All money market and customer deposits are carried at amortised cost. Deposits, debt securities issued and subordinated liabilities are measured at their amortized cost using the effective interest method. The Bank classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instrument.

A3.3.r Impairment of financial assets and provisions

An assessment is made at each statement of financial position date to determine whether there is objective evidence that a specific financial asset may be impaired. If such evidence exists, the estimated recoverable amount of that asset is determined and any impairment loss, based on the net present value of future anticipated cash flows or fair value, recognised in profit or loss.

A provision for onerous contracts is recognised when the expected benefits to be derived by the Bank from the contract are lower than the unavoidable cost of meeting its obligation under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. The Bank also recognises any impairment loss on the asset associated with the contract before establishing a provision.

A3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

A3.4 Taxation

Taxation is provided for based on the tax laws of Sultanate of Oman. Income tax comprises current and deferred tax. Income tax expense is recognised in the profit or loss except to the extent that it relates to items recognised directly in equity or other comprehensive income.

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

Deferred tax is provided using the statement of financial position method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary difference when they reverse, based on the laws that have been enacted or substantively enacted by the statement of financial position date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax assets are reviewed at each statement of financial position date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

A3.5 Fiduciary assets

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

A3.6 Trade and settlement date accounting

All "regular way" purchases and sales of financial assets are recognised on the trade date, i.e. the date that the entity commits to purchase or sell the asset. 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.

A3.7 Leases

Operating lease payments are recognised as an expense in the profit or loss on a straight-line basis over the lease term.

A3.8 Financial Guarantees

Financial guarantees are contracts that require the Bank to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment, when due in accordance with the terms of a debt instrument.
Financial guarantee liabilities are initially recognised at their fair value, and the initial fair value is amortised over the life of the financial guarantee. The guarantee liability is subsequently carried at the higher of this amortised amount and the present value of any expected payment (when a payment under the guarantee has become probable). The unamortized value or present value of the expected payment arising from the financial guarantee as the case may be is included in the other liabilities.

A3.9 Employee benefits

A3.9.a Terminal benefits
The terminal benefits for Omani employees are provided in accordance with the Sultanate of Oman's Social Insurance Law of 1991, and are recognised as an expense in the profit or loss as incurred.

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

A3.9.b Short term benefits
Short term benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.
A provision is recognised for the amount expected to be paid if the Bank has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

A3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

A3.10 Earnings per share

The Bank presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the period. Annualised EPS is calculated by annualizing the basic EPS for the whole year. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise convertible notes or similar instruments.

A3.11 Segment reporting

An operating segment is the component of the Bank that engages in business activities from which it may earn revenues and incur expenses, including revenue and expenses that relate to transaction with any of the Bank's other components, whose operating results are reviewed regularly by the Bank's CEO (being the chief operating decision maker) to make decisions about resources allocated to each segment and assess its performance, and for which discrete financial information is available.

A3.12 Comparative figures

The corresponding figures included for comparative purposes have been reclassified to conform to the presentation in the current year.

A3.13 New standards and interpretations not yet adopted

A number of new standards, amendment to the standards and interpretations are not yet effective for the year ended 31 December 2009, and have not been applied in preparing these financial statements. None of this will have an effect on the financial statement of the Bank, with exception of:

- IFRS 9 *Financial Instruments*, published on 12 November 2009 as part of phase I of IASB's comprehensive project to replace IAS 39, deals with classification and measurement of financial assets. The requirements of this standard represents a significant change from the existing requirements in IAS 39 in respect of financial assets. This standard contains two primary measurement categories for financial assets: amortised cost and fair value. A financial asset would be measured at amortised cost if it is held within a business model whose objective is to hold assets in order to correct contractual cash flows, and the asset's contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding. All other financial assets would be measured at fair value. The standard eliminates the existing IAS 39 categories held to maturity, available for sale and loans and receivables. For an investment in equity instrument which is not held for trading, the standard permits irrevocable election, on initial recognition, on an individual share by share basis, to present all fair value changes from the investment in other comprehensive income. No amount recognized in other comprehensive income would ever be reclassified to profit or loss at later date. However, dividend on such investments are recognized in profit or loss, rather than other comprehensive income unless they clearly represent a partial recovery of cost of the investment. Investment in equity instruments in respect of which an entity does not elect to present fair value changes in other comprehensive income would be measured at fair value with changes in fair value recognized in profit or loss.

  The standard required that derivatives embedded in contracts with a host that a financial asset within the scope of the standard are not separated; instead the hybrid financial instrument is assessed in its entirety as to whether it should be measured at amortised cost or fair value.

  The standard is effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted.

  The Bank is currently in the process of evaluating the potential effect of this standard. Given the nature of the Bank's operations, this standard may have a significant impact on the Bank's financial statements.

- Amendments to IAS 39 *Financial Instruments: Recognition and measurement – eligible hedged items* clarifies that the application of existing principals that determines whether specific risks or portions of cash flows are eligible for designation in hedging relationship. The amendments will become mandatory for the Bank's 2010 financial statements, with retrospective application required. The amendments are not expected to have a significant impact on the financial statements.

UN AUDITED NOTES TO FINANCIAL STATEMENTS
As At 31 March 2010

B1 CASH AND BALANCES WITH CENTRAL BANK

	31 March 2010 RO'000	31 December 2009 RO'000
Cash	**4,544**	4,587
Insurance deposit with Central Bank of Oman	**5**	5
Capital deposit with Central Bank of Oman	**500**	500
Unrestricted balances with Central Banks	**70,470**	127,178
	75,519	132,270

The capital and insurance deposits with the Central Bank of Oman cannot be withdrawn without the approval of the Central Bank of Oman.

B2 DUE FROM BANKS AND OTHER MONEY MARKET PLACEMENTS

	31 March 2010 RO'000	31December 2009 RO'000
Local Currency:		
Due from other Banks	**1,400**	-
	1,400	-
Foreign Currency:		
Due from other Banks	**14,438**	15,400
Nostro balances abroad	**3,824**	4,880
	18,262	20,280
	19,662	20,280

B3 LOANS AND ADVANCES

	31 March 2010 RO'000	31 December 2009 RO'000
Corporate loans	**467,898**	433,523
Personal loans	**366,598**	365,928
Gross loans and advances	**834,496**	799,451
Impairment allowance on portfolio basis	**(11,949)**	(11,618)
Impairment allowance on specific basis	**(1,553)**	(1,049)
Net loans and advances	**820,994**	786,784

Personal loans include RO 15,472,551 provided to staff on concessional terms (December 2009: RO 15,525,020).

B3 LOANS AND ADVANCES *(continued)*

Loans and advances comprise:

	31 March 2010 RO'000	*31 December 2009 RO'000*
Loans	**794,486**	746,427
Overdrafts	**22,786**	38,923
Loan against trust receipts	**9,190**	8,707
Bills discounted	**8,034**	5,394
Gross loans and advances	**834,496**	799,451
Impairment allowance on portfolio basis	**(11,949)**	(11,618)
Impairment allowance on specific basis	**(1,553)**	(1,049)
Net loans and advances	**820,994**	786,784

As per the CBO requirements, the movement in the impairment allowance is as analysed below:

Loan Loss Provision	*31 March 2010 RO'000*	*31 December 2009 RO'000*
Impairment allowance on portfolio basis		
Balance at beginning of period	**11,618**	9,562
Provided during the period	**331**	2,056
Balance at the end of the period	**11,949**	11,618
Impairment allowance on specific basis		
Balance at beginning of period	**904**	238
Provided during the period	**641**	755
Write back during the period	**(189)**	(89)
Balance at the end of the period	**1,356**	904
Reserve Interest		
Balance at beginning of period	**145**	36
Reserved during the period	**98**	119
Interest released during the period	**(46)**	(10)
Balance at end of the period	**197**	145

Impairment allowance on portfolio basis is established to meet the credit risks inherent within the loans and advances on portfolio basis.

All loans and advances require payment of interest, some at fixed rates and others at rates that reprice prior to maturity. Interest reserve account is maintained by the Bank to comply with rules, regulations and guidelines issued by CBO against loans and advances which are impaired. As of 31 March 2010, loans and advances on which interest is not being accrued or where interest has been reserved amounted to RO 2,892,400 (Dec 2009: RO 1,932,153).

UN AUDITED NOTES TO FINANCIAL STATEMENTS

As At 31 March 2010

B4 AVAILABLE-FOR-SALE INVESTMENTS

	Carrying/ Fair value 31 March 2010 RO'000	Cost 31 March 2010 RO'000	Carrying/ Fair value 31 December 2009 RO'000	Cost 31 December 2009 RO'000
Unquoted investments	**356**	**515**	348	515
Quoted investments	**74,550**	**74,537**	61,342	61,551
Balance at end of period	**74,906**	**75,052**	61,690	62,066

Treasury bills and Certificates of Deposit were earlier shown as held to maturity and valued at amortised cost. During the year 2007, a significant amount of treasury bills were sold before maturity and accordingly under IAS 39 these are classified as available-for-sale investments and valued at fair value.

B5 PROPERTY, EQUIPMENT AND FIXTURES

	Freehold Land* RO'000	Production Software RO'000	Furniture & fixtures RO'000	Office Equipments RO'000	Motor Vehicles RO'000	Capital Work in progress RO'000	Total RO'000
At cost:							
1 January 2010	**7,000**	**4,540**	**1,741**	**2,767**	**351**	**887**	**17,286**
Additions	**-**	**113**	**128**	**36**	**-**	**27**	**304**
Disposals/ reallocation	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Carrying value at cost	**7,000**	**4,653**	**1,869**	**2,803**	**351**	**914**	**17,590**
Accumulated depreciation:							
1 January 2010	**-**	**(1,247)**	**(766)**	**(735)**	**(198)**	**-**	**(2,946)**
Depreciation	**-**	**(176)**	**(141)**	**(106)**	**(29)**	**-**	**(452)**
Disposals/ reallocation	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total depreciation	**-**	**(1,423)**	**(907)**	**(841)**	**(227)**	**-**	**(3,398)**
Net carrying value at 31 March 2010	**7,000**	**3,230**	**962**	**1,962**	**124**	**914**	**14,192**
Net carrying value at 31 December 2009	7,000	3,293	975	2,032	153	887	14,340

Free hold land represents three plots of land received by the Bank as grant from the Government of Sultanate of Oman during the year 2008, one plot is in Sohar and two plots are in Muscat region. The Bank has recorded the land based on the average valuation of the two professional valuators. The valuation was conducted on an estimated market value basis assuming a willing buyer and seller acting prudently, knowledgeably and assuming the price is not affected by extraneous circumstances. An amount equivalent to the value of the land has also been recorded as deferred income and disclosed as a separate liability.

B6 OTHER ASSETS

	31 March 2010 RO'000	*31 December 2009 RO'000*
Interest receivable	**2,569**	2,179
Prepayments and deposits	**1,353**	814
Acceptances	**7,341**	5,471
Fair value receivables – forward exchange contracts	**526**	176
Deferred tax asset *(Note C5)*	**31**	31
Others	**813**	575
	12,633	9,246

B7 DUE TO BANKS AND OTHER MONEY MARKET DEPOSITS

	31 March 2010 RO'000	*31 December 2009 RO'000*
Local Currency:		
Money market borrowings	**-**	6,000
	-	6,000
Foreign Currency:		
Money market borrowings	**25,990**	15,400
	25,990	15,400
	25,990	21,400

B8 CERTIFICATES OF DEPOSIT

The Bank had received approval from Central Bank of Oman to issue Certificates of Deposits (CDs) up to RO 100 million in 2007. Pursuant to the approval CD's amounting to RO 90,100,000 were issued with a maturity ranging from 2 – 5 years, at a fixed rate of interest and denominated in Riyal Omani. CDs amounting to RO 58.1 million were redeemed in 2009. During the year 2009, the Bank received approval from CBO to issue further CDs worth RO 100,000,000. The Bank had issued CDs amounting to RO 7,037,863 during the year 2009 with maturity ranging from 2-3 years at a fixed interest rate and denominated in Rial Omani.

B9 CUSTOMERS' DEPOSITS

	31 March 2010 RO'000	*31 December 2009 RO'000*
Demand deposits	**165,042**	208,410
Saving deposits	**97,343**	92,932
Term deposits	**551,710**	530,544
Margin accounts	**358**	563
	814,453	832,449
Retail customers:		
Term deposits	**30,333**	36,575
Demand deposits	**9,789**	4,498
Saving deposits	**97,343**	92,932
Corporate customers:		
Term deposits	**521,377**	493,969
Demand deposits	**155,253**	203,912
Others	**358**	563
	814,453	832,449

B10 DEFERRED INCOME

	31 March 2010 RO'000	*31 December 2009 RO'000*
Deferred income on grants received from the Government in the form of freehold land	**7,000**	7,000
	7,000	7,000

B11 OTHER LIABILITIES

	31 March 2010 RO'000	*31 December 2009 RO'000*
Interest payable	**11,237**	8,848
Staff entitlements	**1,054**	1,856
Acceptances	**7,341**	5,471
Accounts payable in suspense	**36**	15
Fair value payables – forward exchange contracts	**176**	219
Other accruals and provisions	**2,635**	2,141
	22,479	18,550

B12 SHARE CAPITAL

The authorised, issued and paid up share capital of the Bank is 1,000,000,000 shares of RO 0.100 each.

The Bank issued 100,000,000 shares of RO 1 each to the public in December 2006. An amount of RO 0.500 with the issue expenses of RO 0.020 was payable on application. Each RO 1 share was split into 10 shares of RO 0.100 each in an extraordinary general meeting held on 26 April 2008. Consequently the balance callable amount was reduced to RO 0.050 per share. The balance RO 0.050 per share was called upon to be paid by the shareholders on 10 May 2008. The Bank has received the call money on the issued shares.

As of 31 March 2010, the following shareholders held 10% or more of the Bank's capital, either individually or together with family members.

	Number of shares	*% Holding*
Al Ghadeer Investments	**160,000,000**	**16.00%**
The Royal Court of Affairs	**145,690,340**	**14.57%**

B13 LEGAL RESERVE

In accordance with the Commercial Companies Law of Oman of 1974, an annual appropriation of 10% of the net profit for the year is required to be made to legal reserve until such time that the accumulated reserve is equal to at least one third of the Bank's issued share capital which has been complied with. The legal reserves also include issue expenses of RO 0.020 per share which were collected from the shareholders of the Bank net of issue expenses. The movement in the reserve has been disclosed in the statement of changes in equity.

B14 FAIR VALUE RESERVE

The fair value reserve includes the cumulative net change in the fair value of the available-for-sale investments until the investment is derecognised or impaired.

B15 NET ASSETS PER SHARE

The calculation of net assets per share is based on net assets of RO 108,567,000 as at 31 March 2010 attributable to ordinary shareholders on 1,000,000,000 ordinary shares, being the number of shares outstanding as at 31 March 2010 (RO 105,429,000 as at 31 December 2009).

B16 CONTINGENT LIABILITIES AND COMMITTMENTS

B16.1 Contingent liabilities

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

	31 March 2010	*31 December 2009*
	RO'000	*RO'000*
Guarantees	**80,906**	78,559
Documentary letters of credit	**63,617**	28,368
	144,523	106,927

B16.2 Commitments

Contractual obligation including contracts for purchase and sale of foreign exchange are stated at fair value as commitments. Credit related commitments include commitments to extend credit, standby letters of credit and guarantees, which are designed to meet the requirements of the Bank's customers. Commitments to extend credit represent contractual commitments to make loans and revolving credits. Commitments generally have fixed expiry dates or other termination clauses and require the payment of a fee. Since commitments may expire without being drawn upon, the total contract amounts do not necessarily represent future cash requirements.

	31 March 2010 RO'000	*31 December 2009 RO'000*
Capital commitments	**-**	1,012
Credit related commitments	**38,763**	25,694
	38,763	26,706

B17 RELATED PARTY TRANSACTIONS

In the ordinary course of business the Bank conducts transactions with certain of its directors, shareholders, senior management and companies in which they have a significant interest. These transactions are conducted on an arms length basis and are approved by the Bank's management.

No specific provision has been recognised in respect of the loans given to related parties.

The aggregate amount of balances and the income and expenses generated with such related parties are as follows:

	31 March 2010 RO'000	*31 December 2009 RO'000*
A) Loans and Advances		
Opening Balance	**14,208**	14,790
Loans disbursed during the period	**1,680**	49,125
Loans repayment during the period	**(1,818)**	(49,707)
Closing balances for the period	**14,070**	14,208
B) Deposits		
Opening Balance	**19,389**	20,861
Deposits received during the period	**11,258**	35,579
Deposits repaid during the period	**(13,791)**	(37,051)
Closing balances for the period	**16,856**	19,389
C) Statement of comprehensive income		
Interest income	**111**	966
Interest expense	**(255)**	(2,463)
D) Senior Management compensation		
Salaries and other short term benefits	**440**	1,893
E) Directors sitting fees	**17**	59

B18 DERIVATIVES

In the ordinary course of business the Bank enters into various types of transactions that involve derivative financial instruments. A derivative financial instrument is a financial contract between two parties where payments are dependent upon movements in price in one or more underlying financial instrument, reference rate or index. The derivative financial instruments used by the Bank are described below:

B18.1 Derivative product types

Forwards are contractual agreements to either buy or sell a specified currency, commodity or financial instrument at a specific price and date in the future.

Swaps are contractual agreements between two parties to exchange interest or foreign currency differentials based on a specific notional amount. For interest rate swaps, counter parties generally exchange fixed and floating rate interest payments based on a notional value in a single currency.

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

B18.2 Derivatives held or issued for hedging purposes

As part of its asset and liability management the Bank uses derivatives for hedging purposes in order to reduce its exposure to currency and interest rate risks. Hedging specific financial instruments and forecasted transactions as well as strategic hedging against overall statement of financial position exposures achieve this.

The Bank uses forward foreign exchange contracts, options and currency swaps to hedge against specifically identified currency risks. The Bank uses forward foreign exchange contracts to hedge against exposures in various currencies to meet the net open position limit of 40% as mandated by the Central Bank of Oman.

In addition, the Bank uses interest rate swaps to hedge against the cash flows risks arising from certain fixed interest rate loans and deposits.

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

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As At 31 March 2010

B18 DERIVATIVES *(continued)*

B18.2 Derivatives held or issued for hedging purposes *(continued)*

The table below shows the notional amounts of derivative financial instruments as on the reporting date, which are the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured.

As at 31 March 2010

		Notional amounts by term to maturity		
	Notional amount	***Within 3 months***	***3 - 12 months***	***1 - 5 years***
	RO'000	***RO'000***	***RO'000***	***RO'000***
Forward foreign exchange purchase contracts	**84,742**	**69,576**	**15,166**	
Forward foreign exchange sales contracts	**85,258**	**70,038**	**15,220**	

As at 31 December 2009

		Notional amounts by term to maturity		
	Notional amount	*Within 3 months*	*3 - 12 months*	*1 - 5 years*
	RO'000	*RO'000*	*RO'000*	*RO'000*
Forward foreign exchange purchase contracts	112,561	104,122	8,439	-
Forward foreign exchange sales contracts	112,459	104,037	8,422	-

UN AUDITED NOTES TO FINANCIAL STATEMENTS

As At 31 March 2010

C1 INTEREST INCOME

	3 Months ended 31 March 2010 RO'000	*3 Months ended 31 March 2009 RO'000*
Due from Banks	**32**	88
Loans and advances to customers	**13,707**	11,450
Investment securities	**144**	236
	13,883	11,774

C2 INTEREST EXPENSE

	3 Months ended 31 March 2010 RO'000	*3 Months ended 31 March 2009 RO'000*
Deposits from Banks	**333**	955
Deposits from customers	**6,072**	6,544
	6,405	7,499

C3 OTHER OPERATING INCOME

	3 Months ended 31 March 2010 RO'000	*3 Months ended 31 March 2009 RO'000*
Net gain from foreign exchange dealings	**184**	97
Fees and commission	**679**	775
Dividend income	**28**	36
Realised gains on financial investments through profit or loss	**1**	(524)
	892	384

C4 OTHER OPERATING EXPENSES

	3 Months ended 31 March 2010 RO'000	*3 Months ended 31 March 2009 RO'000*
Establishment costs	**296**	256
Operating and administration costs	**1,010**	904
Directors sitting fees	**17**	18
	1,323	1,178

UN AUDITED NOTES TO FINANCIAL STATEMENTS

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C5 INCOME TAX

a) Recognized in the profit or loss

	3 Months ended 31 March 2010	*12 Months ended 31 December 2009*
	RO'000	*RO'000*
Tax expenses/(income)		
Current tax	**379**	744
Deferred tax expenses/ (income)	**(2)**	342
Total tax expenses/ (income)	**377**	1,086

The Bank is liable to income tax for the year 2010 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.

b) Reconciliation

	3 Months ended 31 March 2010	*12 Months ended 31 December 2009*
	RO'000	*RO'000*
Accounting profit (loss) for the year	**3,208**	9,116
Income tax	-	1,090
Non deductible expenses	-	15
Tax exempt revenue	-	(20)
Prior year deferred tax	-	1
Current year tax losses	**377**	-
Deferred tax expense	**377**	1,086

c) Deferred tax asset

	3 Months ended 31 March 2010	*12 Months ended 31December 2009*
	RO'000	*RO'000*
Tax losses	**-**	-
Fair value adjustment on investments	**31**	31
	31	31

d) Tax assessment

The assessments of the Bank for the years 2007 and 2008 have not yet been agreed with the Secretariat General for taxation at the Ministry of Finance. The Bank is of the opinion that additional taxes, if any, related to the open tax years would not be significant to the financial position of the Bank as at 31 March 2010.

C6 BASIC EARNINGS / (LOSS) PER SHARE

Earnings/ (loss) per share is calculated by dividing the net profit/ (loss) for the period by the weighted average number of shares outstanding during the period.

	3 months ended 31 March 2010 RO'000	*3 months ended 31 March 2009 RO'000*
Net profit/(loss) for the period	**2,831**	(776)
Weighted average number of shares of RO 0.100 each outstanding during the year (in thousands)	**1,000,000**	1,000,000
Basic earnings/(loss) per share for the period (in baizas)	**2.831**	(0.776)
Basic earnings/ (loss) per share for the period (annualised – in baizas)	**11.481**	(3.147)

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

D FINANCIAL RISK MANAGEMENT

The primary objective of the risk management system is to safeguard the Bank's capital, its financial resources and from various risks. The Bank has exposure to the following risk from its use of financial instruments:

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

The Board of Directors has overall responsibility for the establishment and oversight of the Bank's risk management framework. The Board has established the Asset and Liability Committee (ALCO), Credit and Risk committee, which are responsible for developing and monitoring Bank's risk management policies in their specified areas. All Board committees report regularly to the Board of Directors on their activities.

The Bank's risk management policies are established to identify and analyse the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management polices and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Bank, through its training and management procedures, aims to develop a constructive control environment, in which all employees understand their roles and obligations.

The Bank Audit Committee is responsible for monitoring compliance with the Bank's risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Bank. The Bank Audit Committee is assisted in these functions by Internal Audit. Internal Audit undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

D1 CREDIT RISK

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Bank's loans and advances to customers and other Banks and investment securities. For risk management reporting purposes the Bank considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, country and sector risk)

D1.1 Management of credit risk

The Board of Directors has delegated responsibility for the monitoring of credit risk to its Credit & Risk Committee. A separate Risk Management Department, reporting to the CEO, is responsible for following:

- Formulating credit risk policies in consultation with business units, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements.
- Establishing the authorization structure for the approval and renewal of credit facilities.
- Reviewing and assessing credit risk. The Board Credit & Risk Committee assesses all credit exposures in excess of designated limits, prior to facilities being committed to customers by the business unit concerned. Renewals and reviews of facilities are subject to the same review process. The process also includes approval by Risk of borrower ratings arrived at by the business units.
- Limiting concentrations of exposure to counterparties, geographies and industries (for loans and advances), and by issuer, market liquidity and country (for investment securities).
- Developing and maintaining the Bank's risk grading in order to categorise exposures according to the degree of risk of financial loss faced and to focus management on the attendant risks.
- Reviewing compliance of business units with agreed exposure limits, including those for selected industries, country risk and product types. Ensuring always to be with in the single obligor limit and also within the concentration risk limit, for various sectors, which are continuously monitored.
- Providing advice, guidance and specialist skills to business units to promote best practice throughout the Bank in the management of credit risk.

Each business unit is required to implement Bank's credit risk policies and procedures, with credit approval authorities delegated from the Bank's Credit & Risk Committee. Business units have their counter parts in Risk Management, having specialised expertise in managing risks typical to these business units. Regular audits of business units and Bank's Credit processes are undertaken by Internal Audit.

D FINANCIAL RISK MANAGEMENT

D2 LIQUIDITY RISK

D2.1 Exposure to liquidity risk

As at 31 March 2010:

	Carrying amount	*Gross Nominal Outflow*	*Within 3 months*	*3 - 12 months*	*Over 1 year*
	RO'000	***RO'000***	***RO'000***	***RO'000***	***RO'000***
Non-derivative liabilities					
Due to banks and other money market deposits	**25,990**	**26,250**	**13,091**	**13,159**	**-**
Certificates of deposits	**39,038**	**41,516**	**188**	**28,825**	**12,503**
Customers' deposits	**814,453**	**852,171**	**311,876**	**301,157**	**239,138**
Deferred income	**7,000**	**7,000**	**-**	**-**	**7,000**
Other liabilities	**22,858**	**22,858**	**22,858**	**-**	**-**
Total	**909,339**	**949,795**	**348,013**	**343,141**	**258,641**

As at 31 December 2009:

	RO'000	*RO'000*	*RO'000*	*RO'000*	*RO'000*
Non-derivative liabilities					
Due to banks and other money market deposits	21,400	21,816	21,816	-	-
Certificates of deposits	39,038	41,572	185	33,795	7,592
Customers' deposits	832,449	866,131	456,188	210,563	199,380
Deferred income	7,000	7,000	-	-	7,000
Other liabilities	18,550	18,550	18,550	-	-
Total	918,437	955,069	496,739	244,358	213,972

The Bank prepares a liquidity gap report to monitor the Banks short term liquidity position on the Rial denominated assets and liabilities in a time horizon spanning one month. The gap is adjusted for availability of instruments for repo or refinance and also for unavailed committed lines of credit, if any. This Statement of short term liquidity is to be reported to the ALCO every month and onward reported to Credit & Risk Committee.

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D3 Exposure to interest rate risk – non trading portfolios

The Bank's interest sensitivity position based on contractual re-pricing arrangements at 31 March 2010 was as follows:

As at 31 March 2010	***On demand within 3 months RO'000***	***3 to 12 months RO'000***	***Over 1 year RO'000***	***Non interest sensitive RO'000***	***Total RO'000***
Cash and balances with Central Bank	**-**	**-**	**-**	**75,519**	**75,519**
Due from Banks and other money market placements	**19,662**	**-**	**-**	**-**	**19,662**
Loans and advances	**241,645**	**117,620**	**473,678**	**-**	**832,943**
Available-for-sale investments	**57,265**	**12,229**	**-**	**5,412**	**74,906**
Property and equipment	**-**	**-**	**-**	**14,192**	**14,192**
Other assets	**-**	**-**	**-**	**12,633**	**12,633**
Total assets	**318,572**	**129,849**	**473,678**	**107,756**	**1,029,855**
Due to Banks and other money market deposits	**13,090**	**12,900**	**-**	**-**	**25,990**
Certificates of deposit	**-**	**27,038**	**12,000**	**-**	**39,038**
Customers' deposits	**152,578**	**185,092**	**214,530**	**262,253**	**814,453**
Deferred Income	**-**	**-**	**-**	**7,000**	**7,000**
Other liabilities	**-**	**-**	**-**	**22,479**	**22,479**
Income tax payable	**-**	**-**	**-**	**379**	**379**
Impairment allowance on portfolio basis	**-**	**-**	**-**	**11,949**	**11,949**
Shareholders' equity	**-**	**-**	**-**	**108,567**	**108,567**
Total liabilities and shareholders' equity	**165,668**	**225,030**	**226,530**	**412,627**	**1,029,855**
Total interest rate sensitivity gap	**152,903**	**(95,181)**	**247,148**	**(304,870)**	**-**
Cumulative interest rate sensitivity gap	**152,903**	**57,722**	**304,870**	**-**	**-**

As at 31 December 2009	*On demand within 3 months RO'000*	*3 to 12 months RO'000*	*Over 1 year RO'000*	*Non interest sensitive RO'000*	*Total RO'000*
Cash and balances with Central Bank	-	-	-	132,270	132,270
Due from Banks and other money market placements	20,280	-	-	-	20,280
Loans and advances	247,335	77,813	473,254	-	798,402
Available-for-sale investments	44,307	12,276	-	5,107	61,690
Property, equipment and fixtures	-	-	-	14,340	14,340
Other assets	-	-	-	9,246	9,246
Total assets	311,922	90,089	473,254	160,963	1,036,228
Due to Banks and other money market deposits	21,400	-	-	-	21,400
Certificates of deposits	-	32,000	7,038	-	39,038
Customers' deposits	151,308	200,907	180,110	300,124	832,449
Deferred income	-	-	-	7,000	7,000
Other liabilities	-	-	-	18,550	18,550
Income tax payable	-	-	-	744	744
Impairment allowance on portfolio basis	-	-	-	11,618	11,618
Shareholders' equity	-	-	-	105,429	105,429
Total liabilities and shareholders' equity	172,708	232,907	187,148	443,465	1,036,228
Total interest rate sensitivity gap	139,214	(142,818)	286,106	(282,502)	-
Cumulative interest rate sensitivity gap	139,214	(3,604)	282,502	-	-

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As At 31 March 2010

D FINANCIAL RISK MANAGEMENT *(continued)*

D4 MARKET RISK *(continued)*

D4.1 Exposure to currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Board has set limits on the overall open position and for open position for each currency. The open position limits include overnight open position and intraday open position. Open positions are monitored on a daily basis and hedging strategies used to ensure positions are maintained within established limits. The Bank had the following net exposures denominated in foreign currencies:

	31 March 2010			*31 December 2009*		
	Assets RO'000	***Liabilities RO'000***	***Net Assets RO'000***	*Assets RO'000*	*Liabilities RO'000*	*Net Assets RO'000*
US Dollar	**150,742**	**175,031**	**(24,289)**	176,273	208,221	(31,948)
Saudi Rial	**1,139**	**-**	**1,139**	56	-	56
EUR	**27,958**	**27,998**	**(40)**	18,599	18,554	45
UAE Dirhams	**5,929**	**317**	**5,612**	6,695	5,513	1,182
Qatari Rial	**26**	**-**	**26**	47	-	47
Kuwaiti Dinar	**84**	**-**	**84**	11	-	11
Japanese Yen	**158**	**-**	**158**	3	-	3
Pound Sterling	**376**	**494**	**(118)**	136	160	(24)
Indian Rupee	**3**	**-**	**3**	12	-	12
Others	**118**	**-**	**118**	68	-	68

The Bank takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board sets limits on the level of exposure by currency and in aggregate for both overnight and intra-day positions, which are monitored daily.

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As At 31 March 2010

D FINANCIAL RISK MANAGEMENT *(continued)*

D5 CAPITAL MANAGEMENT

The risk asset ratio calculated in accordance with the capital adequacy guidelines of the Bank for International Settlement is as follows:

	31 March 2010	*31 December 2009*
	RO'000	*RO'000*
Tier I capital		
Ordinary share capital	**100,000**	100,000
Legal reserve	**2,533**	2,533
Retained earnings	**5,301**	2,470
Fair value losses	**(181)**	(31)
Deferred tax asset	**(31)**	(31)
Total	**107,622**	104,941
Tier 2 capital		
Impairment allowance on portfolio basis	**11,504**	11,334
Fair value gains	**412**	428
Total	**11,916**	11,762
Total regulatory capital	**119,538**	116,703
Risk-weighted assets		
Retail Bank, corporate Bank and market risk	**870,147**	852,075
Operational risk	**50,212**	54,621
Total risk-weighted assets	**920,359**	906,696
Capital adequacy ratio		
Total regulatory capital expressed as a percentage of total risk-weighted assets	**12.99%**	12.87%
Total tier I capital expressed as a percentage of total risk-weighted assets	**11.69%**	11.57%

The capital adequacy ratio is calculated in accordance with the Basel II norms as adopted by Central Bank of Oman.