

Corporate Governance Report
For the Year Ended 31 December 2010



KPMG
4th Floor, HSBC Bank Building
MBD
P.O. Box 641
P.C. 112
Sultanate of Oman

Tel 968 24709181
Fax 968 24700839

Report to the Shareholders of Bank Dhofar SAOG (“the Bank”) of Factual Findings in connection with the Corporate Governance Report of the Bank and application of the Corporate Governance practices in accordance with Capital Market Authority Code of Corporate Governance

We have performed the procedures prescribed in the Capital Market Authority (“CMA”) Circular No. 16/2003 dated 29 December 2003 with respect to the Corporate Governance Report of the Bank (“the Report”) and its application of the Corporate Governance practices in accordance with the CMA Code of Corporate Governance (“the Code”) issued under Circular No. 11/2002 dated 3 June 2002, and the CMA Rules and Guidelines on disclosure, issued under CMA Administrative Decision 5/2007, dated 27 June 2007. The Report is set out on pages 1 to 12.

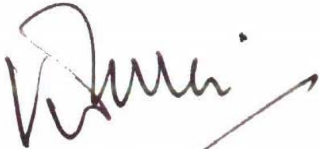
Our engagement was undertaken in accordance with the International Standards on Auditing applicable to agreed-upon procedures engagements. The procedures were performed solely to assist you in evaluating the Report.

We found the Report reflects, in all material respects, the Bank’s application of the provisions of the Code and is free from any material misrepresentation.

Because the above procedures do not constitute either an audit or a review made in accordance with International Standards on Auditing, we do not express any assurance on the Bank’s Corporate Governance Report. Had we performed additional procedures or had we performed an audit or review of this Report in accordance with International Standards on Auditing, other matters might have come to our attention that would have been reported to you.

This report is solely for the purpose set forth in the second paragraph above, and for inclusion, with the Report, in the Bank’s annual report, and is not to be used for any other purpose. This report relates only to the Report included in the Bank’s annual report for the year ended 31 December 2010 and does not extend to the financial statements or any other reports of Bank Dhofar SAOG, taken as a whole.

26 January 2011



Khalid Masud Ansari

Report on Corporate Governance

Part One

1 - Corporate Governance Philosophy:

Corporate governance is an essential element in attaining, enhancing and retaining confidence of the bank's stakeholders. Corporate governance lays down the relationship and responsibilities between shareholders, board of directors and senior management of the bank through the structure of setting objectives, formulating strategies, controlling and monitoring performance while ensuring compliance with regulations in letter and spirit and promoting a culture of transparency through disclosures and commitment to highest ethical standards.

The Board of Directors of Bank Dhofar SAOG (the Bank) bears the principal responsibility of fashioning the Corporate Governance code as appropriate to the Bank within the broad framework enunciated by the Central Bank of Oman (CBO) and the Capital Market Authority (CMA). It is also charged with the responsibility of subjecting the code to periodic review to keep it refurbished and contemporary.

Decision-making within the Bank has been broadly divided into two levels. The Board of Directors (the Board) at the apex level, as trustees of the shareholders, bears the responsibility of strategic supervision of the Bank, apart from fulfilling statutory obligations. Some of the major responsibilities of the Board, namely audit, senior management succession, legal and regulatory compliance are discharged through four sub-committees, viz. the Executive Committee, the Audit Committee, the Risk Management Committee and the Human Resources Strategic Committee. These sub-committees which operate under the Board approved charters have been meeting regularly and have contributed significantly to the effective functioning of the code of corporate governance. The charters of these committees meet with all the requirements as laid down in the Code of Corporate Governance enunciated by the CBO and the CMA. In addition, the Board carries the responsibility of approving the strategic plans and internal policies to institute adequate controls for achievement of the set objectives and compliance with rules and regulations. The executive management of the Bank comprises the Senior Managers headed by the Chief Executive Office.

Through this two-tiered interlinked governance process, a wholesome balance has been created between the need for focus and executive freedom, and the need for supervision, control and checks and balances of all activities and transactions.

The formal Code of Corporate Governance prescribes the highest ethical standards in the conduct of the Bank's business. The Senior Members of the Bank are fully cognisant of their responsibilities in setting personal examples so that the code is internalized within the Bank and becomes part of its culture.

2 - The Responsibilities of the Board of Directors

The Board has the full authority to perform all acts required for managing the Bank and protecting and growing the shareholders' interests pursuant to its objectives besides securing the interests of other stakeholders. Such authority is not limited or restricted except as provided by the law, the Articles of Association or resolutions of the General Meetings. However, such authority is not extended to the operational matters and day-to-day affairs of the bank which remains a responsibility of the Senior Management.

The responsibilities and functions of the Board include the following:

- Charting the overall strategic direction of the Bank and reviewing and approving the annual business and strategic plans.
- Monitoring the Bank's performance and evaluating whether the business is properly managed in accordance with the Bank's set plans.
- Approving the interim and annual financial statements and providing accurate information at the right time to the shareholders, in accordance with the instructions of the Capital Market Authority.
- Forming various Board sub-committees, approving their charters and reviewing the functions of these committees.
- Reviewing all audit reports submitted by internal and external auditors and statutory agencies.
- Ensuring that the Bank conducts its operations in an ethical and transparent manner.
- Assessing and approving the proper delegation of authorities to executive management.
- Evaluating the functions and the performance of the Chief Executive Officer and other key employees.

Further, the Board exercises objective independent judgment on corporate affairs after having access to accurate, relevant and timely information.

Size and Terms of the Board

The Board consists of nine (9) non-executive directors who are elected by the shareholders at the Annual General Meeting. The term of office of the Board of Directors is three years and each Director can be re-elected for a similar period. The term of the current Board expires in March 2013.

Composition and Selection of the Board

Members of the Board of Directors are elected from among the Bank's shareholders or non-shareholders provided that a shareholder candidate owns not less than 50,000 shares of the Bank. All members of the Board of Directors shall be non-executive Directors.

A minimum of one-third of the Board members shall be independent Directors, none of their immediate relatives having held a senior position in the Bank for the last two years, who shall have no relation with the Bank, its affiliated and sister companies that could result in financial transactions other than contracts and transactions entered through open tendering or done in the ordinary course of business.

The nomination of Board members is within rules and condition of the election of directors as issued by CMA. The election process is through direct secret ballot whereby each shareholder shall have a number of votes equivalent to the number of shares he/she holds. Every shareholder shall have the right to vote for one candidate or more provided the total number of votes in the voting form is equivalent to the number of shares he/she holds.

At present all the directors of the Board are non-executive and are independent within the scope of the definitions laid down in the Code of Corporate Governance by the CMA.

Board Committees

The Board has the following four permanent Board Committees, whose objectives, powers and procedures are governed by the terms of reference of the respective Committees as enshrined in their Charters, approved by the Board:

- Executive Committee
- Audit Committee
- Risk Management Committee
- Human Resources Strategic Committee

Additional committees may be established from time to time based on business needs. Each committee has access to the information and resources it requires, including direct access to staff and consultants. The Board has selected the committee members based on their professional backgrounds, skills and other qualities they bring to the committees.

Part Two

1. Members of the Board of Directors

The Board of Directors of Bank Dhofar (SAOG) consists of the following:

S. No.	Name of Director	Basis of Membership			No. of Other Directorships Held
1	Eng. Abdul Hafidh Salim Rajab Al-Aujaili	Chairman Non-executive	Independent	Shareholder Director	-
2	Sheikh Hamoud Mustahail Ahmed Al Mashani	Vice-Chairman Non-executive	Independent	Non-shareholder Director	3
3	HH. Sayed Taimoor Bin Assad Al Said	Member Non-executive	Independent	Non-shareholder Director	-
4	HE Ahmed Abdullah Sulaiman Moqaibel	Member Non-executive	Independent	Non-shareholder Director	3
5	Mr. Ali Ahmed Al Mashani	Member Non-executive	Independent	Non-shareholder Director	2
6	Mr. Mohammed Yousuf Alawi Al Ibrahim	Member Non-executive	Independent	Non-shareholder Director	2
7	Mr. Ahmed Said Mohammed Al Mahrezi	Member Non-executive	Independent	Non-shareholder Director	2
8	Mr. Saleh Nasser Juma Al Araimi	Member Non-executive	Independent	Non-shareholder Director	3
9	Mrs. Najah Musallim Al Kiyumi	Member Non-executive	Independent	Non-shareholder Director	-

The Board of Directors held 8 meetings during 2010 as follows:

- 27 January 2010
- 29 March 2010
- 27 April 2010
- 13 June 2010
- 27 July 2010
- 26 October 2010
- 10 November 2010
- 22 December 2010

S. No.	Name of Director	Capacity of Membership	No. of Meetings Attended	Directors' Benefits (Amount in RO)	
				Fees Paid	Remuneration Proposed
1	Eng. Abdul Hafidh Salim Rajab Al-Aujali	In Personal Capacity	8	10,000	16,167
2	Sheikh Hamoud Mustahail Ahmed Al Mashani	In Personal Capacity	6	5,400	13,166
3	HH. Sayed Taimoor Bin Assad Al Said	In Personal Capacity	6	4,200	13,166
4	HE Ahmed Abdullah Sulaiman Moqaibel	Representative of Dhofar International Development & Investment Holding Company (SAOG)	8	10,000	14,667
5	Mr. Ali Ahmed Al Mashani	In Personal Capacity	5	4,400	13,166
6	Mr. Mohammed Yousuf Alawi Al Ibrahim	In Personal Capacity	5	9,200	14,667
7	Mr. Ahmed Said Mohammed Al Mahrezi	In Personal Capacity	7	10,000	14,667
8	Mr. Saleh Nasser Juma Al Araimi	Representative of Public Authority for Social Insurance	6	7,800	14,667
9	Mrs. Najah Musalim Al Kiyumi	Representative of Ministry of Defense Pension Fund	7	10,000	14,667
TOTAL				71,000	129,000

2. Executive Committee

The Committee consists of five members with proper experience, skills and initiative. The objectives of the Executive Committee is to discharge responsibilities on behalf of the Board in deciding on specific policy matters demanding in-depth study and analysis, deliberation and interactive consideration and decisions on micro matters of business beyond the powers delegated to the management, but considered less important to receive the full Board's attention and time.

The Board members of the Executive Committee are:

Name of Director	Designation	No. of Meetings Attended
1. Eng. Abdul Hafidh Salim Rajab Al-Aujaili	Chairman of the Committee	14
2. Mr. Ali Ahmed Al Mashani	Member	6
3. Mr. Ahmed Said Mohammed Al Mahrezi	Member	12
4. Mr. Mohammed Yousuf Alawi Al Ibrahim	Member	7
5. Mrs. Najah Musalim Al Kiyumi	Member	13

The Executive Committee held 14 meetings during 2010.

3. Audit Committee

The Audit Committee was formed in 2001 by the Board of Directors with the following main objectives and responsibilities:

- To focus the attention of the Board and top management of the Bank on the importance of strong financial reporting and risk management.
- To monitor the adequacy of internal controls in the Bank and to take appropriate steps to improve them where required.
- To monitor the Bank's compliance with legal and regulatory provisions, its articles of association, charter, by-laws and rules established by the Board of Directors.
- To identify the risk areas of the Bank's operations to be covered in the scope of the internal and external audits during the year.
- To monitor the effectiveness of the internal audit function and approve the audit plan as well as the availability of adequate resources (personnel and tools) and information access.
- To recommend the appointment / change of the external auditors and determine and review their terms of engagement.
- To meet the External Auditors and hear their views of their before forwarding the annual financial statements to the Board for approval.
- To report and bring to the attention of the Board any matters of concern with regard to the fore-going and any material accounting or auditing concerns identified as a result of the external or internal audits, or examination by supervisory authorities.

The Members of the Audit Committee are:

Name of Director	Designation	No. of Meetings Attended
1. HE Ahmed Abdullah Sulaiman Moqaiabel	Chairman of the Committee	4
2. HH. Sayed Taimoor Bin Assad Al Said	Member	2
3. Sheikh Hamoud Mustahail Ahmed Al Mashani	Member	3
4. Mr. Saleh Nasser Juma Al Araimi	Member	3

The Audit Committee held 4 meetings in 2010.

4. Risk Management Committee:

The Risk Management Committee of the Board was formed in October 2004 by the Board of Directors to focus on issues relating to Risk Management policies and procedures on a Bank-wide basis by arriving at a judicious policy decision collectively.

Roles and Responsibilities:

- To understand the risks undertaken by the Bank and ensure that they are appropriately managed.
- To develop risk policies, limits and procedures after assessment of the Bank's risk bearing capacity.
- To identify, monitor and measure the overall risk profile of the Bank.
- To verify models used for pricing complex products and transfer pricing.
- To review the risk models as development takes place in the markets and also identify new risks.
- To ensure that the risk policies developed clearly spell out the quantitative prudential limits on various segments of Bank's operations.
- To build stress scenarios to measure the impact of unusual market conditions and monitor variance between the actual volatility in portfolio values and those predicted by the risk measures.
- To monitor compliance with various risk parameters by business lines.
- To hold the line management accountable for the risks under their control.
- To oversee and ensure the implementation of CBO's guidelines on risk management systems in Banks.

The members of the Risk Management Committee are:

Name of Director	Designation	No. of Meetings Attended
1. Mr. Saleh Nasser Juma Al Araimi	Chairman of the Committee	4
2. HH. Sayed Taimoor Bin Assad Al Said	Member	1
3. Sheikh Hamoud Mustahail Ahmed Al Mashani	Member	1
4. Mr. Mohammed Yousuf Alwai Al Ibrahim	Member	3
5. Mrs. Najah Musalim Al Kiyumi	Member	2

The Risk Committee held 4 meetings in 2010.

5. Human Resources Strategic Committee:

The Human Resources Strategic Committee of the Board of Directors was formed in March 2005 by the Board to ensure that the overall human resources developments at Bank level are as per the strategic direction of the Bank.

At a strategic level, the Committee is responsible for reviewing and monitoring the following:

- Ensure manpower plans take into account, the strategic and specific resources requirements at the Bank to achieve strategic plans.
- Review the Omanisation plans and ensure certain defined positions are ear-marked for prospective Omanis within a prescribed period of time.
- Review exit interviews and note any dismissals or resignations for middle management and top management.
- Review the recruitment policy adopted by the Human Resources Department.
- Review the qualifications and experience of specific candidates for the positions at the top management levels.
- Review and monitor compensation and reward policy and procedures.
- Review and monitor training and development policy and process.

The members of the Human Resources Committee are:

Name of Director	Designation	No. of Meetings Attended
1. Mr. Ahmed Said Mohammed Al Mahrezi	Chairman of the Committee	3
2. Sheikh Hamoud Mustahail Ahmed Al Mashani	Member	1
3. HE Ahmed Abdullah Sulaiman Moqaibel	Member	2
4. Mr. Mohammed Yousuf Alwai Al Ibrahim	Member	2
5. Mrs. Najah Musalim Al Kiyumi	Member	3

The Human Resources Strategic Committee held 3 meetings in 2010.

6. Directors' Remuneration and Executives Pay

As all members of the Board are non-executive directors, no fixed salary or performance-linked incentives are applicable. The non-executive directors are paid an annual remuneration and sitting fees for attending the Board / Committee meetings. Directors' proposed remuneration and sitting fees paid during 2010 are as follows:

	Proposed Remuneration RO '000s	Sitting Fees Paid RO '000s	Total RO '000s
Chairman of the Board	16.2	10.0	26.2
Board Members	112.8	61.0	173.8
Total	129.0	71.0	200.0

The Bank's top five executives, namely the Chief Executive Officer, General Manager – Wholesale Banking, General Manager- Support Services, Deputy General Manager- Support Services and Assistant General Manager – Finance have received the following in 2010:

	Salaries RO '000s	Performance Bonus & Others RO '000s	Total RO '000s
Top five Executives	479.0	545.0	1,024.0

Incentives other than the fixed payments are linked to the performance. Performance is measured against the preset objective for contribution towards achievement of bank's overall goals. The period of services contract for expatriate executives is two years while the notice period for the executives is three months.

7. Compliance with Regulatory and Control Requirements

The Bank adhered to and complied with all relevant regulatory requirements in the last three years except two instances in 2010 when the bank penalized for RO 7,500 by two of its regulator. The bank has taken all corrective and necessary measures to avoid similar instance in future.

Also the Bank complied with all provisions of the Code of Corporate Governance issued by the Capital Market Authority.

8. Communication with Shareholders and Investors

All financial and non financial information are disseminated in a timely manner and a cost efficient access is provided to the users. The management provides regular updates to the market on the Bank's performance and new developments. The management discussion and Analysis Report form part of the annual report besides detailed disclosures in accordance with regulatory requirements and international standards.

The Bank publishes its quarterly interim financial statements and also hosts these and other relevant information at its website (www.bankdhofar.com) and Muscat Securities Market (MSM) website (www.msm.gov.om). The quarterly results are also published in two local newspapers in Arabic and English. These results remain available for the shareholders from the Bank. Bank's all official news releases are displayed on the bank's website.

9. Market Price Data

a. Share Price Movements

The high/low share price information of the Bank during the financial year ended 31 December 2010 compared with Muscat Securities Market Index is as follows:

2010	Bank Dhofar Share Price (RO)			MSM Index
Month	High	Low	Closing	Closing
January	0.835	0.700	0.802	6532.16
February	0.815	0.753	0.775	6689.31
March	0.830	0.730	0.770	6697.51
April	0.880	0.780	0.800	6830.37
May	0.829	0.740	0.760	6294.43
June	0.740	0.600	0.610	6058.11
July	0.715	0.610	0.701	6294.55
August	0.730	0.690	0.727	6256.81
September	0.770	0.701	0.751	6472.76
October	0.797	0.730	0.771	6553.33
November	0.783	0.740	0.740	6592.00
December	0.775	0.740	0.740	6754.00

b. Major Shareholders

The following are the major shareholders who own more than 5% of the outstanding shares as at 31 December 2010:

Shareholder	% of Ownership
Dhofar International Development and Investment Holding Company (SAOG)	27.50%
Abdul Hafidh Salim Rajab Al-Aujaili and his Companies	20.57%
Civil Service Pension Fund	10.00%
Ministry of Defense Pension Fund	8.58%
Public Authority for Social Insurance	8.20%
HE Yousif Alawi Abdullah and his Companies	6.85%
Qais Omani Establishment LLC	6.28%
Others	12.02%
Total	100%

10. Profile of the Statutory Auditors

The shareholders of the bank have appointed KPMG as the auditors for the year 2010. KPMG is one of the leading accounting firms in Oman. Oman practice of KPMG, which forms parts of KPMG Lower Gulf, was established in 1974 and currently has a staff compliment of professional staff in excess of 130, including 3 partners, 6 directors and 21 managers.

KPMG Lower Gulf (UAE and Oman), is a member of the KPMG network of independent firms affiliated with KPMG International Co-operative .The KPMG network operates in 144 countries and employs 137,000 people worldwide, KPMG in Oman is accredited by the Capital Market Authority (CMA) to audit joint stock companies (SAOG's).

11. Acknowledgment

The Board of Directors acknowledges confirmation of:

- Its responsibility for the preparation of the financial statements in accordance with the applicable standards and rules.
- Review of the efficiency and adequacy of internal control systems of the bank and that it complies with rules and regulations and internal policies.
- There are no material matters that affect the continuation of the bank and its ability to continue its operations during the next financial year.

12. Other Matters

- During 2010 the bank has fully complied with all directives of the Code of Corporate Governance issued by the CMA.
- The Statutory Auditors of the Bank are KPMG Lower Gulf (UAE and Oman). The Audit fees paid or payable to auditors for 2010 is RO 45,457. This amount represents RO 35,000 paid for audit services and RO 10,457 paid for non-audit services.
- The last Annual General Meeting was held on 29 March 2010 and the last Extraordinary General Meeting was held on 14 October 2008.
- Majority of Board members attended last Annual General Meeting held on 29 March 2010.