



**Board of Directors' Report and financial statements (Unaudited)
for nine - months period ended
30 September 2009**

Registered office and principal place of business:

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

BANK DHOFAR SAOG

Board of Directors' Report and financial statements for the nine months period ended 30 September 2009

	Page
The Board of Director's Report	1-2
Balance sheet	3
Income statement	4
Statement of comprehensive income	5
Statement of changes in equity	6 -7
Cash flows statement	8
Notes to the financial statements	9 - 35

BANK DHOFAR SAOG**BANK DHOFAR S.A.O.G.****THE BOARD OF DIRECTORS' REPORT FOR NINE-MONTH PERIOD ENDED
30TH SEPTEMBER 2009****Dear Shareholders,**

On behalf of the Board of Directors of Bank Dhofar S.A.O.G., I am pleased to present to you the Bank's Financial Statements for the nine-month period ended 30th September 2009.

The Bank's Performance

The Bank continued to demonstrate quality growth, despite the global economic slow down, during the first nine months of year 2009 in all the key financial indicators, over the corresponding period of year 2008. The total assets strengthened from RO 1,189 million at the end of September 2008 to reach RO 1,462 million at the end of September 2009, reflecting a 22.96% year-on-year growth. The net loans and advances extended to customers also improved, though cautiously, by 23.23% from RO 947 million achieved at end September 2008 to reach RO 1,167 million at end September 2009.

On the deposits front, the customer deposits mobilized by the Bank increased from RO 868 million at the end of September 2008 to record RO 1,048 million at the end of September 2009, reflecting a sustained growth of 20.73%.

The Bank continued to maintain the same level of adequate provisions for bad loans as bad debt coverage ratio stood at 127.5% at the end of September 2009. Also the capital adequacy ratio at the end of the current quarter reached comfortable level of 14.86% as compared to the regulatory requirement of 10%.

Further, the key profitability indicators also achieved significant growths, as net interest income earned during the first three quarters of 2009 increased to RO 35.99 million from RO 29.61 million achieved during the corresponding period of 2008, signifying a growth of 21.54%. In the non-interest segment, although fees & commissions, foreign exchange gains, investment & other income declined by 5.6% to RO 11.7 million during the first nine months of 2009 from RO 12.4 million achieved during the same period of last year,.

The operating profit improved by 11.85% to reach RO 29.92 million in the first nine months of the current year from RO 26.75 million, earned in the corresponding period of year 2008. The impairment impact due to decline in market value of local investments during the nine months up to September 2009 is RO 1,237K and the same has been charged off to profit and loss in accordance with the International Financial Reporting Standards.

BANK DHOFAR SAOG

The net profit year-to-date, after investment impairment and provisions for non-performing loans, declined marginally by 2.88% to reach RO 21.53 million as compared to RO 22.17 million achieved in the corresponding period of 2008. The earnings per share (EPS) at the end of September 2009 stood at RO 0.039 as compared to RO 0.053 at end September 2008

Acknowledgment

On behalf of the Board, I would like to thank our valuable customers for their patronage and confidence they have reposed in the Bank. I thank the shareholders for your continuous support and the Bank's staff and management for the remarkable performance in of 2009.

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

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

Eng. Abdul Hafidh Salim Rajab Al-Aujali
Chairman

BANK DHOFAR SAOG

Balance sheet at 30 September 2009

	Notes	2009 RO'000	2008 RO'000
ASSETS			
Cash and cash equivalents	3	178,109	83,243
Financial instruments at fair value through profit or loss	4	-	2,511
Loans and advances to banks	5	31,901	33,242
Loans and advances to customers	6	1,166,668	947,176
Available-for-sale investments	7	12,723	17,007
Held-to-maturity investments	8	56,860	90,814
Intangible asset	9	3,971	3,971
Property and equipment		4,991	4,553
Other assets		7,149	6,354
Total assets		1,462,372	1,188,871
LIABILITIES			
Due to banks	10	135,932	128,874
Deposits from customers	11	1,048,358	868,271
Other liabilities		39,641	36,604
Subordinated loan	12	38,500	38,500
Total liabilities		1,262,431	1,072,249
SHAREHOLDERS' EQUITY			
Share capital	13	73,959	53,082
Share premium		58,506	5,429
Legal reserve	14	14,612	12,149
Subordinated loan reserve	14	10,267	2,567
Investment revaluation reserve	14	1,179	804
Retained earnings		41,418	42,591
Total shareholders' equity		199,941	116,622
Total liabilities and shareholders' equity		1,462,372	1,188,871
Contingent liabilities and commitments	22	267,648	261,259
Net assets per share (Rials Omani)		0.270	0.220

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

BANK DHOFAR SAOG

Income statement for the nine months period ended 30 September 2009

	Notes	2009 RO'000	2008 RO'000
Interest income		57,380	45,802
Interest expense		(21,390)	(16,189)
Net interest income	17	35,990	29,613
Fees and commission income		4,051	3,919
Fees and commission expenses		(497)	(426)
Net fees and commission income		3,554	3,493
Other income	18	8,181	8,928
Operating income		47,725	42,034
Staff and administrative costs		(16,475)	(14,089)
Depreciation		(1,331)	(1,194)
Operating expenses		(17,806)	(15,283)
Profit from operations		29,919	26,751
Provision for loan impairment	6	(5,576)	(4,106)
Recoveries from allowance for loan impairment	6	1,198	2,246
Bad debts written-off		(92)	(2)
Impairment of available-for-sale investments		(1,237)	-
Financial instruments at fair value through profit or loss		(12)	24
Profit from operations after provision		24,200	24,913
Income tax expense		(2,662)	(2,740)
Profit for the period		21,538	22,173
Earnings per share (basic and diluted) - annualized	15	0.039	0.053
(Rials Omani)			

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

BANK DHOFAR SAOG**Unaudited Statement of Comprehensive Income
for the nine months period ended 30 September 2009**

	2009	2008
	RO'000	RO'000
Profit for the period	21,538	22,173
Other comprehensive income		
Net Changes in fair value of available-for-sale investments	170	(1,680)
Net changes in fair value of available- for - sale investments transferred to profit and loss	770	(1,098)
Other Comprehensive Income for the period	<u>940</u>	<u>(2,778)</u>
Total Comprehensive Income for the period	<u>22,478</u>	<u>19,395</u>

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

BANK DHOFAR SAOG

Statement of changes in equity for the nine months period ended 30 September 2009

	Notes	Share capital RO'000	Share premium RO'000	Legal reserve RO'000	Subordinated bonds and loan reserve RO'000	Investment revaluation reserve RO'000	Retained earnings RO'000	Total RO'000
1 January 2008		53,082	5,429	12,149	9,929	3,582	26,327	110,498
Profit for the period ended 30th Sept 2008		-	-	-	-	-	22,173	22,173
Fair value decrease	14	-	-	-	-	(1,680)	-	(1,680)
Net transfer to income statement on sale of available-for-sale investments	14	-	-	-	-	(1,098)	-	(1,098)
Total recognised income		-	-	-	-	(2,778)	22,173	19,395
Cash Dividend paid for 2007		-	-	-	-	-	(13,271)	(13,271)
Transfer to Retained earnings Reserve	14	-	-	-	(7,362)	-	7,362	-
30 September 2008		53,082	5,429	12,149	2,567	804	42,591	116,622

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

BANK DHOFAR SAOG

Statement of changes in equity for the nine months period ended 30 September 2009

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

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

**Cash flows statement
for the nine months period ended 30 September 2009**

	2009	2008
	RO'000	RO'000
Cash flows from operating activities		
Interest and commission receipts	69,778	57,983
Interest payments	(17,668)	(16,875)
Cash payments to suppliers and employees	<u>(16,986)</u>	<u>(9,501)</u>
	<u>35,124</u>	<u>31,607</u>
(Increase) in operating assets	(75,109)	(215,799)
Increase in operating liabilities	122,690	225,313
Net cash from operating activities	82,705	41,121
Income tax paid	<u>(3,331)</u>	<u>(2,457)</u>
Net cash from operating activities	<u>79,374</u>	<u>38,664</u>
Net cash from / (used) in investing activities	<u>(14,092)</u>	<u>(55,025)</u>
Net cash (used in) financing activities	<u>(10,970)</u>	<u>(23,410)</u>
Net increase / (decrease) in cash and cash equivalents	<u>54,312</u>	<u>(39,771)</u>
Cash and cash equivalents at 1 st January	<u>145,129</u>	<u>145,196</u>
Cash and cash equivalents at 30 September	<u>199,441</u>	<u>105,425</u>
Cash and cash equivalents (Note 3)	178,109	83,243
Capital deposit with Central Bank of Oman	(500)	(500)
Loans and advances to banks due within 90 days	23,014	26,896
Due to banks within 90 days	<u>(1,182)</u>	<u>(4,214)</u>
Cash and cash equivalents for the purpose of the cash flow statement	<u><u>199,441</u></u>	<u><u>105,425</u></u>

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

**Notes to the financial statements
for the nine months period ended 30 September 2009 (continued)****1. Legal status and principal activities**

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

2. Principal accounting policies**2.1. Basis of preparation**

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), the requirements of the Commercial Companies Law of 1974, as amended and disclosure requirements of the Capital Market Authority.

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

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

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

2.2. Foreign currency translations**2.2.1. Functional and presentation currency**

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

2.2.2. Transactions and balances

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

**Notes to the financial statements
for the nine months period ended 30 September 2009 (continued)**

2. Principal accounting policies (continued)

2.3. Financial instruments

2.3.1. Classification

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

2.3.1.1. Financial assets at fair value through profit or loss

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

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

- Doing so significantly reduces measurements inconsistencies that would arise if the related derivatives were treated as held for trading and the underlying financial instruments were carried at amortised costs;
- Certain investments, that are managed and evaluated on a fair value basis in accordance with documented risk management or investments strategy and reported to key management personnel on that basis are designated at fair value through profit or loss; and
- Financial instruments, containing one or more embedded derivatives significantly modify the cash flows, are designated at fair value through profit or loss.

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

2.3.1.2. Loans and receivables

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

2.3.1.3. Available-for-sale

Available-for-sale investments are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

**Notes to the financial statements
for the nine months period ended 30 September 2009 (continued)**

2. Principal accounting policies (continued)

2.3. Financial instruments (continued)

2.3.1.4. Held-to-maturity investments

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

2.3.2. Recognition and derecognition

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

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

2.3.3. Measurement

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

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

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

2.3.4. Fair value measurement principles

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

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market related rate at the balance sheet date for an instrument with similar terms and conditions.

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

**Notes to the financial statements
for the nine months period ended 30 September 2009 (continued)**

2. Principal accounting policies (continued)

2.3. Financial instruments (continued)

2.3.5. Gains and losses on subsequent measurement

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

2.4. Cash and cash equivalents

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

2.5. Treasury bills and certificate of deposits

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

2.6. Offsetting

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

2.7. Impairment of financial assets

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

- (i) significant financial difficulty of the issuer or obligor;
- (ii) a breach of contract, such as a default or delinquency in interest or principal payments;
- (iii) the Bank granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the lender would not otherwise consider;
- (iv) it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- (v) the disappearance of an active market for that financial asset because of financial difficulties;
or

**Notes to the financial statements
for the nine months period ended 30 September 2009 (continued)**

2. Principal accounting policies (continued)

2.7. Impairment of financial assets (continued)

- (vi) observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:
- adverse changes in the payment status of borrowers in the group; or
 - national or local economic conditions that correlate with defaults on the assets in the group.

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

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

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

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

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the Bank and historical loss experience for assets with credit risk characteristics similar to those in the Group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

Estimates of changes in future cash flows for groups of assets should reflect and be directionally consistent with changes in related observable data from period to period (for example, changes in unemployment rates, property prices, payment status, or other factors indicative of changes in the probability of losses in the group and their magnitude). The methodology and assumptions used

**Notes to the financial statements
for the nine months period ended 30 September 2009 (continued)**

2. Principal accounting policies (continued)

2.7. Impairment of financial assets (continued)

for estimating future cash flows are reviewed regularly by the Bank to reduce any differences between loss estimates and actual loss experience.

When a loan is known to be uncollectible, all the necessary legal procedures have been completed, and the final loss has been determined, the loan is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are included in the income statement.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the income statement.

The Bank assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets, other than investments at fair value through profit and loss, is impaired. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the income statement.

2.8. Property and equipment

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

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

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

**Notes to the financial statements
for the nine months period ended 30 September 2009 (continued)**

2. Principal accounting policies (continued)

2.8. *Property & equipments (continued)*

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

2.9. *Intangible assets*

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

2.10. *Provisions*

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

2.11. *Dividends*

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

2.12. *Interest income and expense*

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

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

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

**Notes to the financial statements
for the nine months period ended 30 September 2009 (continued)****2. Principal accounting policies (continued)****2.13. Fees and commission income**

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

2.14. Taxation

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

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

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

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

2.15. Employee benefits

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

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

**Notes to the financial statements
for the nine months period ended 30 September 2009 (continued)**

2. Principal accounting policies (continued)

2.16. Derivative financial instruments

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

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

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

2.16.1 Embedded derivatives

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

2.16.2 Hedge accounting

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

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

2.16.3 Fair value hedges

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

**Notes to the financial statements
for the nine months period ended 30 September 2009 (continued)****2. Principal accounting policies (continued)****2.16.4 Cash flow hedges**

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

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

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

2.17. Sale and repurchase agreements

Securities sold subject to repurchase agreements (repos) are reclassified in the financial statements as pledged assets when the transferee has the right by contract or custom to sell or repledge the collateral; the counterparty liability is included in amounts due to other banks, deposits from banks, other deposits or deposits due to customers, as appropriate. Securities purchased under agreements to resell (reverse repos) are recorded as loans and advances to other banks or customers, as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest method. Securities lent to counterparties are also retained in the financial statements.

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

2.18. Borrowings

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

**Notes to the financial statements
for the nine months period ended 30 September 2009 (continued)**

3. Cash and cash equivalents

	2009	2008
	RO'000	RO'000
Cash on hand	14,395	14,430
Balances with the Central Bank of Oman	53,714	68,813
Certificate of deposits with maturity of 90 days or less	110,000	-
	<hr/> 178,109 <hr/>	<hr/> 83,243 <hr/>

At 30 September 2009, cash and cash equivalents included balances with the Central Bank of Oman approximately RO 500,000 (2008 - RO 500,000) as minimum reserve requirements. These funds are not available for the Bank's daily business.

4. Financial instruments at fair value through profit or loss

	2009	2008
	RO'000	RO'000
Debts and other fixed income instruments held for trading		
Government Development bonds	-	2,511
	<hr/> <hr/>	<hr/> <hr/>

5. Loans and advances to banks

	2009	2008
	RO'000	RO'000
Placements with other banks	25,964	28,473
Current clearing accounts and bills discounted	5,937	4,769
	<hr/> 31,901 <hr/>	<hr/> 33,242 <hr/>

At 30 September 2009, one placement with one local bank individually represented 20% or more of the Bank's placements.

At 30 September 2008, two placements with two banks individually represented 20% or more of the Bank's placements.

**Notes to the financial statements
for the nine months period ended 30 September 2009 (continued)**

6. Loans and advances to customers

	2009	2008
	RO'000	RO'000
Overdrafts	104,091	94,864
Loans	1,024,673	818,324
Loans against trust receipts	67,633	57,771
Bills discounted	3,202	2,825
Advance against credit cards	10,114	7,100
Others	13,850	14,490
	<hr/>	<hr/>
Gross loans and advances	1,223,563	995,374
Less: Impairment allowance	(56,895)	(48,198)
	<hr/>	<hr/>
Net loans and advances	1,166,668	947,176
	<hr/> <hr/>	<hr/> <hr/>

The movements in the impairment allowance is analysed below:

(a) Allowance for loan impairment

1 January	31,684	28,824
Allowance made during the period	5,576	4,106
Released to the income statement during the period	(1,198)	(2,246)
Written off during the period	(13)	(260)
	<hr/>	<hr/>
30 September	36,049	30,424
	<hr/>	<hr/>

(b) Reserved interest

1 January	18,642	16,573
Reserved during the period	2,906	2,628
Released to the income statement during the period	(479)	(1,062)
Written-off during the period	(223)	(365)
	<hr/>	<hr/>
30 September	20,846	17,774
	<hr/>	<hr/>

Total impairment allowance

	56,895	48,198
	<hr/> <hr/>	<hr/> <hr/>

**Notes to the financial statements
for the nine months period ended 30 September 2009 (continued)**

6. Loans and advances to customers (continued)

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

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

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

Under the Central Bank of Oman's guidelines for provision against classified loans and advances, at 30 September 2009, out of the total provisions of **RO 56,895,000** (2008 – RO 48,198,000) a collective provision made on a general portfolio basis amounting to **RO 17,404,000** (2008 - RO 13,757,000).

At 30 September 2009, impaired loans and advances on which interest has been reserved amount to **RO 44,624,000** (2008 - RO 37,428,000) of which loans and advances on which interest is not being accrued amount to **RO 1,563,000** (2008 - RO 1,881,000).

7. Available-for-sale investments

		2009	2008
		RO'000	RO'000
Equity instruments			
- Quoted		8,484	12,900
- Unquoted		4,239	4,107
		<hr/> 12,723 <hr/>	<hr/> 17,007 <hr/>
		<u>Fair value</u>	
	Cost	2009	2008
	RO'000	RO'000	RO'000
Quoted on the Muscat Securities Market (by sector)			
Banking and investments	562	569	658
Services	6,605	7,018	9,344
Industrial	1,064	897	2,898
	<hr/> 8,231 <hr/>	<hr/> 8,484 <hr/>	<hr/> 12,900 <hr/>
Unquoted			
Unquoted Omani company	3,313	4,239	2,916
Unquoted foreign equities	-	-	1,191
	<hr/> 3,313 <hr/>	<hr/> 4,239 <hr/>	<hr/> 4,107 <hr/>
	<hr/> 11,544 <hr/>	<hr/> 12,723 <hr/>	<hr/> 17,007 <hr/>

**Notes to the financial statements
for the nine months period ended 30 September 2009 (continued)**

7. Available-for-sale investments (continued)

At 30 September 2009, the investments are carried at their fair value. The market value in certain cases is higher than the carrying amount. However, the Board of Directors believe that due to the non-liquidity of certain shares, the market value of the quoted securities is not representative of the fair value and hence appropriate adjustments have been made to the market value to reflect the fair value.

8. Held-to-maturity investments

	2009	2008
	RO'000	RO'000
Treasury bills above 90 days	41,058	40,814
Certificates of deposits above 90 days	-	50,000
Government Development bonds	15,802	-
	<u>56,860</u>	<u>90,814</u>

9. Intangible asset

	2009	2008
	RO'000	RO'000
Goodwill	3,971	3,971
	<u>3,971</u>	<u>3,971</u>

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

10. Due to banks

	2009	2008
	RO'000	RO'000
Syndicated borrowings	28,875	75,075
Other borrowings	67,375	49,585
Borrowing from Central Bank of Oman	38,500	-
Payable on demand	1,182	4,214
	<u>135,932</u>	<u>128,874</u>

During previous years, the Bank entered into a mid-term syndicated loan agreement with foreign banks for US \$ 75,000,000 with three years maturity. The rates of interest are linked to three month LIBOR subject to competitive margin. Also the Bank entered into a loan agreement for US \$ 20,000,000 with a foreign bank having maturity of three years and carries a interest rate linked to three months LIBOR subject to competitive margin.

At 30 September 2009 two borrowing with two banks individually represented 20% or more of the Bank's borrowings. (2008 – Nil) The Bank has not had any defaults of principal, interest or other breaches during the year on its borrowed funds (2008 - Nil).

**Notes to the financial statements
for the nine months period ended 30 September 2009 (continued)**

11. Deposits from customers

	2009	2008
	RO'000	RO'000
Current accounts	190,405	198,302
Savings accounts	175,469	172,299
Time deposits	678,539	493,957
Margin accounts	3,945	3,713
	1,048,358	868,271

Current accounts and time deposits include deposits from the Government of the Sultanate of Oman and its entities amounting to RO 319,341,000 (2008 - RO 224,955,000).

12. Subordinated loan

	2009	2008
	RO'000	RO'000
Subordinated loan	38,500	38,500
	38,500	38,500

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

13. Share capital

The authorised share capital consists of 1,000,000,000 shares of RO 0.100 each (2008 - 1,000,000,000 shares of RO 0.100 each).

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

On 29 March 2009 the Shareholders at the Annual General meeting approved the issuance of 4.5% bonus share amounting to 31,848,224 shares of RO 0.100 par each.

At 30 September 2009, the issued and paid up share capital comprise 739,586,530 shares of RO 0.100 each. (2008 – 530,817,000 shares of RO 0.100 each).

**Notes to the financial statements
for the nine months period ended 30 September 2009 (continued)**

13. Share capital (continued)

Shareholders

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

	2009		2008	
	No of shares	(%)	No of shares	(%)
Dhofar International Development and Investment Company SAOG	222,225,959	30	159,245,096	30
Civil Service Employees' Pension Fund	73,958,636	10	53,081,689	10
Total	296,184,595	40	212,326,785	40
Others	443,401,935	60	318,490,215	60
	739,586,530	100	530,817,000	100

14. Reserves

(a) Legal reserve

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

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

(b) Subordinated loan reserve

	2009	2008
	RO'000	RO'000
1 January	10,267	9,929
Transferred to retained earnings	-	(7,362)
30 September	10,267	2,567

Consistent with Bank for International Settlement (BIS) Guidelines on capital adequacy, the Bank transfers an amount equivalent to 20% of the value of the subordinated loan each year to the subordinated loan reserve until the maturity of the loan. The amount of the reserve will be transferred to retained earnings through statement of changes in equity upon settlement of the subordinated loan.

**Notes to the financial statements
for the nine months period ended 30 September 2009 (continued)**

14. Reserves (continued)

(c) Investment revaluation reserve

The movements in the investments revaluation reserve is analysed below:

	2009	2008
	RO'000	RO'000
1 January	239	3,582
(Decrease) / increase in fair value	170	(1,680)
Impairment of available for sale investment taken to income statement	1,237	-
Net transfer to income statement on sale of available-for-sale investment	(467)	(1,098)
	<hr/>	<hr/>
30 September	1,179	804
	<hr/> <hr/>	<hr/> <hr/>

15. Earnings per share (basic and diluted)

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

	2009	2008
Profit for the period (RO)	21,538,000	22,173,000
	<hr/>	<hr/>
Weighted average number of shares outstanding during the period *	739,586,530	562,665,224
	<hr/>	<hr/>
Earnings per share basic and diluted - annualized	0.039	0.053
	<hr/> <hr/>	<hr/> <hr/>

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

* The weighted average number of shares for 2008 has been restated to reflect the effect of the issuance of 4.5% bonus shares (31,848,224 shares with RO 0.100 par each) issued in the first quarter 2009.

**Notes to the financial statements
for the nine months period ended 30 September 2009 (continued)**

16. Capital risk management

Capital adequacy

The ratio of equity to risk weighted assets, as formulated by the Basel II, for the year ended 30 September 2009 is 14.86 % (2008 – 11.29%).

Capital structure	2009 RO'000	2008 RO'000
TIER I CAPITAL		
Paid up capital	73,959	53,082
Legal reserve	14,612	12,149
Share premium	58,506	5,429
Subordinated loan reserve	10,267	2,567
Retained earnings	19,880	20,418
Less: Goodwill	(3,971)	(3,971)
Less: negative investment revaluation reserve	(636)	-
Total Tier I capital	172,617	89,674
TIER II CAPITAL		
Investment revaluation reserve	817	362
General provision	17,404	13,757
Subordinated loan	23,100	30,800
Total Tier II capital	41,321	44,919
Total eligible capital	213,938	134,593
Risk weighted assets		
Banking book	1,338,220	1,102,136
Trading book	16,029	19,157
Operational risk	85,899	70,552
Total	1,440,148	1,191,845
Tier I capital	172,617	89,674
Tier II capital	41,321	44,919
Tier III capital	-	-
Total regulatory capital	213,938	134,593
Tier I capital ratio	11.99%	7.52%
Total capital ratio	14.86%	11.29%

**Notes to the financial statements
for the nine months period ended 30 September 2009 (continued)**

17. Net interest income

	2009	2008
	RO'000	RO'000
Loans and advances to customers	56,697	43,528
Debt investments	416	1,722
Money market placements	248	463
Others	19	89
	<hr/>	<hr/>
Total interest income	57,380	45,802
	<hr/> <hr/>	<hr/> <hr/>
Deposits from customers	(19,512)	(11,861)
Money market deposits	(1,878)	(4,328)
	<hr/>	<hr/>
Total interest expense	(21,390)	(16,189)
	<hr/>	<hr/>
Net interest income	35,990	29,613
	<hr/> <hr/>	<hr/> <hr/>

18. Other income

	2009	2008
	RO'000	RO'000
Foreign exchange	807	1,254
Investment income (a)	1,375	3,719
Miscellaneous income	5,999	3,955
	<hr/>	<hr/>
	8,181	8,928
	<hr/> <hr/>	<hr/> <hr/>
(a) Investment income		
Dividend income- available-for-sale investments	541	1,526
Gain of disposal of available-for-sale investments	777	2,108
Interest Income on Government Development bonds	8	-
Interest income on financial instruments at fair value through profit or loss	49	85
	<hr/>	<hr/>
	1,375	3,719
	<hr/> <hr/>	<hr/> <hr/>

**Notes to the financial statements
for the nine months period ended 30 September 2009 (continued)**

19. Impairment of financial assets

	2009	2008
	RO'000	RO'000
Impairment of available-for-sale investments	1,237	-
Financial instrument at fair value through profit or loss	12	(24)
Provision for loan impairment	5,576	4,106
Bad debts and dues written-off	92	2
	<hr/> 6,917	<hr/> 4,084
Recoveries from provision for loan impairment	(1,198)	(2,246)
Net impairment change of financial assets	<hr/> 5,719 <hr/>	<hr/> 1,838 <hr/>

20. Related parties transactions

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

	2009	2008
	RO'000	RO'000
Loans and advances		
Directors and shareholders holding less than 10% interest in the Bank	14,307	6,739
Directors and shareholders holding 10% or more interest in the Bank	11,000	13,551
	<hr/> 25,307 <hr/>	<hr/> 20,290 <hr/>
Deposits and other accounts		
Directors and shareholders holding less than 10% interest in the Bank	73,773	61,991
Directors and shareholders holding 10% or more interest in the Bank	104,655	60,133
	<hr/> 178,428 <hr/>	<hr/> 122,124 <hr/>

**Notes to the financial statements
for the nine months period ended 30 September 2009 (continued)**

20. Related parties transactions (continued)

	2009	2008
	RO'000	RO'000
Contingent liabilities and commitments		
Directors and shareholders holding less than 10% interest in the Bank	376	-
Directors and shareholders holding 10% or more interest in the Bank	-	45
	<u>376</u>	<u>45</u>
Remuneration paid to Directors		
Chairman		
– remuneration paid	18	11
– sitting fees paid	7	8
Other Directors		
– remuneration paid	110	127
– sitting fees paid	40	45
	<u>175</u>	<u>191</u>
Other transactions		
Rental payment to a related party	206	121
	<u>31</u>	<u>21</u>

**Notes to the financial statements
for the nine months period ended 30 September 2009 (continued)**

21. Senior members borrowing

	2009	2008
	RO'000	RO'000
Total exposure:		
Direct	26,220	21,316
Indirect	376	45
	<hr/> 26,596 <hr/>	<hr/> 21,361 <hr/>
Number of members	<hr/> 23 <hr/>	<hr/> 24 <hr/>

22. Contingent liabilities and commitments

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

	2009	2008
	RO'000	RO'000
Letters of credit	77,319	95,595
Acceptances	17,341	17,912
Guarantees and performance bonds	88,786	73,622
Advance payment guarantees	52,634	41,735
Payment guarantees	27,849	22,826
Others	3,719	9,569
	<hr/> 267,648 <hr/>	<hr/> 261,259 <hr/>

**Notes to the financial statements
for the nine months period ended 30 September 2009 (continued)**

23. Risk Management

(i) Liquidity risk

Maturity profile of assets and liabilities

	Due on demand and up to 30 days RO'000	2 months to 6 months RO'000	7 months to 12 months RO'000	More than 1 year to 5 years RO'000	Over 5 years RO'000	Total RO'000
30 September 2009						
Cash and cash Equivalents	177,609	-	-	-	500	178,109
Loans and advances to banks	25,546	6,355	-	-	-	31,901
Loans and advances to customers	203,380	113,641	69,332	440,971	339,344	1,166,668
Available-for-sale Investments	-	-	8,484	-	4,239	12,723
Held-to-maturity investments	10,264	30,794	-	15,802	-	56,860
Intangible asset	-	-	-	-	3,971	3,971
Property and equipment	-	-	-	-	4,991	4,991
Other assets	903	16	5	37	6,188	7,149
Total assets	417,702	150,806	77,821	456,810	359,233	1,462,372
Due to banks	58,932	40,425	28,875	7,700	-	135,932
Deposits from customers	175,656	400,150	226,873	154,163	91,516	1,048,358
Other liabilities	6,622	8,182	5,920	17,142	1,775	39,641
Subordinate loan	-	-	-	38,500	-	38,500
Shareholders' equity	-	-	21,538	-	178,403	199,941
Total liabilities and shareholders' equity	241,210	448,757	283,206	217,505	271,694	1,462,372

**Notes to the financial statements
for the nine months period ended 30 September 2009 (continued)**

23. Risk Management (continued)

(i) Liquidity risk (continued)

Maturity profile of assets and liabilities (continued)

	Due on demand and up to 30 days RO'000	2 months to 6 months RO'000	7 months to 12 months RO'000	More than 1 year to 5 years RO'000	Over 5 years RO'000	Total RO'000
30 September 2008						
Cash and cash Equivalents	82,743	-	-	-	500	83,243
Financial instruments at fair value through profit or loss	-	1,549	962	-	-	2,511
Loans and advances to banks	27,450	1,942	-	3,850	-	33,242
Loans and advances to customers	154,852	108,776	79,165	367,033	237,350	947,176
Available-for-sale Investments	-	-	14,356	-	2,651	17,007
Held-to-maturity investments	30,203	60,611	-	-	-	90,814
Intangible asset	-	-	-	-	3,971	3,971
Property and equipment	-	-	-	-	4,553	4,553
Other assets	1,176	47	10	83	5,038	6,354
Total assets	296,424	172,925	94,493	370,966	254,063	1,188,871
Due to banks	53,799	38,500	36,575	-	-	128,874
Deposits from customers	212,762	245,560	194,389	122,864	92,696	868,271
Other liabilities	9,180	4,166	7,789	13,849	1,620	36,604
Subordinate loan	-	-	-	38,500	-	38,500
Shareholders' equity	-	-	22,173	-	94,449	116,622
Total liabilities and shareholders' equity	275,741	288,226	260,926	175,213	188,765	1,188,871

**Notes to the financial statements
for the nine months period ended 30 September 2009 (continued)**

23. Risk Management (continued)

(ii) Market risk

(a) Interest rate risk

Interest rate sensitivity gap

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

	Due on demand and within 30 days RO'000	Due within 1 to 6 months RO'000	Due within 7 to 12 months RO'000	Due within 1 to 5 years RO'000	Due after 5 years RO'000	Non- interest bearing RO'000	Total RO'000
30 September 2009							
Cash and cash Equivalents	110,000	-	-	-	500	67,609	178,109
Loans and advances to banks	25,546	6,355	-	-	-	-	31,901
Loans and advances to Customers	295,233	103,231	69,001	405,717	286,453	7,033	1,166,668
Available-for-sale Investments	-	-	-	4,239	-	8,484	12,723
Held-to-maturity investments	10,264	30,794	-	15,802	-	-	56,860
Intangible asset	-	-	-	-	-	3,971	3,971
Property and equipment	-	-	-	-	-	4,991	4,991
Other assets	-	-	-	-	-	7,149	7,149
Total assets	441,043	140,380	69,001	425,758	286,953	99,237	1,462,372
Due to banks	57,914	77,000	-	-	-	1,018	135,932
Deposits from customers	221,756	315,962	171,244	66,430	48	272,918	1,048,358
Other liabilities	-	-	-	-	-	39,641	39,641
Subordinate bonds and loan	-	38,500	-	-	-	-	38,500
Shareholders' equity	-	-	21,538	-	-	178,403	199,941
Total liabilities and shareholders' equity	279,670	431,462	192,782	66,430	48	491,980	1,462,372
On-balance sheet gap	161,373	(291,082)	(123,781)	359,328	286,905	(392,743)	
Cumulative interest sensitivity gap	161,373	(129,709)	(253,490)	105,838	392,743	-	

**Notes to the financial statements
for the nine months period ended 30 September 2009 (continued)**

23. Risk Management (continued)

(ii) Market risk (continued)

(a) Interest rate risk (continued)

Interest rate sensitivity gap (continued)

	Due on demand and within 30 days RO'000	Due within 1 to 6 months RO'000	Due within 7 to 12 months RO'000	Due within 1 to 5 years RO'000	Due after 5 years RO'000	Non- interest bearing RO'000	Total RO'000
30 September 2008							
Cash and cash Equivalents	-	-	-	-	500	82,743	83,243
Financial assets at fair value through profit or loss	-	1,549	962	-	-	-	2,511
Loans and advances to banks	27,450	1,942	-	3,850	-	-	33,242
Loans and advances to Customers	149,406	108,776	79,165	367,033	237,350	5,446	947,176
Available-for-sale Investments	-	-	-	2,651	-	14,356	17,007
Held-to-maturity investments	30,203	60,611	-	-	-	-	90,814
Intangible asset	-	-	-	-	-	3,971	3,971
Property and equipment	-	-	-	-	-	4,553	4,553
Other assets	-	-	-	-	-	6,354	6,354
Total assets	207,059	172,878	80,127	373,534	237,850	117,423	1,188,871
Due to banks	53,518	38,500	36,575	-	-	281	128,874
Deposits from customers	259,173	158,924	137,497	36,716	48	275,913	868,271
Other liabilities	-	-	-	-	-	36,604	36,604
Subordinate bonds and loan	-	38,500	-	-	-	-	38,500
Shareholders' equity	-	-	22,173	-	-	94,449	116,622
Total liabilities and shareholders' equity	312,691	235,924	196,245	36,716	48	407,247	1,188,871
On-balance sheet gap	(105,632)	(63,046)	(116,118)	336,818	237,802	(289,824)	
Cumulative interest sensitivity gap	(105,632)	(168,678)	(284,796)	52,022	289,824	-	

(b) Foreign currency exposures risk

	2009 RO'000	2008 RO'000
Net assets denominated in US Dollars	9,547	26,600
Net assets denominated in other foreign currencies	1,333	2,034
	10,880	28,634

**Notes to the financial statements
for the nine months period ended 30 September 2009 (continued)**

23. Risk Management (continued)

(iii) Credit Risk

Customer concentrations

	Loans and Advances to banks RO'000	<u>Assets</u> Gross loans and advances RO'000	Investment Securities RO'000	Deposits from customers RO'000	<u>Liabilities</u> Deposits from banks RO'000	Contingent liabilities RO'000
30 September 2009						
Personal	-	521,879	-	319,782	-	466
Corporate	31,901	609,843	53,781	409,235	97,432	267,167
Government	-	91,841	15,802	319,341	38,500	15
	<u>31,901</u>	<u>1,223,563</u>	<u>69,583</u>	<u>1,048,358</u>	<u>135,932</u>	<u>267,648</u>
30 September 2008						
Personal	-	392,761	-	314,879	-	16
Corporate	33,242	530,054	57,821	328,437	128,874	261,243
Government	-	72,559	52,511	224,955	-	-
	<u>33,242</u>	<u>995,374</u>	<u>110,332</u>	<u>868,271</u>	<u>128,874</u>	<u>261,259</u>