Oman International Bank S.A.O.G

Quarterly return to MSM as at 31 March 2011

I N D E X

Board of Directors' Report on the Three months results (unaudited) for the period ended March 31, 2011

Dear Shareholders,

On behalf of the Board of Directors of Oman International Bank SAOG, it gives me pleasure to present a brief summary of the activities of the Bank and its performance for the three months ended 31st March, 2011.

The net interest income for the three months was RO 7.517 Mio compared to RO 7.491 Mio for the corresponding period last year. The other operating income was RO 3.383 Mio as against RO 2.730 Mio for the comparative period. The operating expenditure increased by 15.78% to RO 5.434 Mio as compared to RO 4.693 Mio for the corresponding three months last year. Thus the bank's operating profit before provision for the three months was RO 5.466 Mio compared with RO 5.528 Mio for the corresponding period last year.

The amount provided for loan impairment is RO 1.351 Mio compared to RO 477 K for the last year 2010. The impact of recoveries amounted to RO 793 K compared to RO 1.355 Mio for the corresponding period of last year and the bank continues to pursue further recoveries.

Accordingly the bank achieved a net profit of RO 4.436 Mio for the three months ended 31st March, 2011 compared with RO 5.656 Mio for the corresponding period last year.

The gross loans and advances stood at RO 706.344 Mio with further RO 62.669 Mio of acceptances as at 31st March, 2011 as compared to loans and advances of RO 683.133 Mio and acceptances of RO 94.408 Mio as at 31st March, 2010. Non-funded business in terms of outstanding letters of credit and guarantees are at RO 302.735 Mio as compared to RO 269.422 Mio at the same day of last year.

Total deposits stood at RO. 842.009 Mio as at 31st March, 2011 compared to RO. 723.619 Mio as at 31st March, 2010.

The bank maintains one of the strongest liquidity positions in the banking sector in the Sultanate of Oman.

The net asset per share is 173 baiza, same as at the corresponding day of last year. The Capital Adequacy Ratio is at 15.21 % compared to 15.36% a year ago.

As regards our international operations, there has been consistent improvement. The India operations have reported a profit while the Pakistan operations are being closely monitored to improve results.

In closing this address, on behalf of the Board of Directors, I would like to express our appreciation and thanks to all our customers, correspondent banks, staff and management whose commitment to the Bank is appreciated, as well as to the Central Bank of Oman and their counterparts overseas for their support and guidance.

On behalf of the Board, I wish to express our most humble gratitude and loyalty to His Majesty Sultan Qaboos Bin Said for the peace, stability, and growth which his reign has brought us. We pray that the Almighty grant His Majesty good health to allow him to lead us on an enlightened path to further prosperity and development for Oman and its people.

Dr. Juma Ali Juma Al Juma
Chairman of the Board

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REPORT ON REVIEW OF INTERIM CONDENSED FINANCIAL STATEMENTS TO THE BOARD OF DIRECTORS OF OMAN INTERNATIONAL BANK SAOG

Introduction

We have reviewed the accompanying interim condensed financial statements of Oman International Bank SAOG ("the Bank") as at 31 March 2011 comprising of the interim condensed statement of financial position as of 31 March 2011 and the related interim condensed statement of comprehensive income, interim condensed statement of cash flows and interim condensed statement of changes in equity for the three months period then ended and explanatory information. Management is responsible for the preparation and presentation of these interim condensed financial statements in accordance with International Accounting Standard IAS 34 Interim Financial Reporting ("IAS 34") and the requirements set out in the Rules for Disclosure and Proforma issued by the Capital Market Authority of the Sultanate of Oman. Our responsibility is to express a conclusion on these condensed interim financial statements based on our review. The Bank's interim condensed financial statements for the three months period ended 31 March 2010, and the financial statements as of 31 December 2010 were reviewed / audited by another auditor, whose reports dated 24 April 2010 and 30 January 2011 respectively expressed unmodified conclusion/ opinion.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed financial statements are not prepared, in all material respects, in accordance with IAS 34 and the minimum disclosure requirements of the Capital Market Authority of the Sultanate of Oman.

Ernst & Young

28 April 2011
Muscat

Benjamin Wareing
Partner

Summary of unaudited results

	31 March 2011 RO'000	31 March 2010 RO'000
Loans and advances net of provision and reserved interest	**626, 305**	611,326
Deposits	**842,009**	723,619
Networth	**158,175**	157,610
Net assets per share	**RO 0.173**	RO 0.173

	Three months ended 31 March 2011 RO'000	Three months ended 31 March 2010 RO'000
Net interest income	**7,517**	7,491
Net profit for the period	**4,436**	5,656
Basic earnings per share for the period	**RO 0.005**	RO 0.006
Basic earnings per share (annualised)	**RO 0.020**	RO 0.024
Capital adequacy ratio %	**15.21**	15.36

Unaudited interim condensed statement of comprehensive income for the three months period ended 31 March 2011

	Notes	**Three months ended 31 March 2011 RO'000**	Three months ended 31 March 2010 RO'000
Interest income	3	**8,998**	9,052
Interest expense	4	**(1,481)**	(1,561)
Net interest income		**7,517**	7,491
Other operating income	5	**3,383**	2,730
Total income		**10,900**	10,221
Other operating expenditure	5	**(5,434)**	(4,693)
Operating profit before provisions and recoveries		**5,466**	5,528
Provision for loan impairment		**(1,351)**	(477)
Impact of recoveries / write back	6	**793**	1,355
Profit before tax		**4,908**	6,406
Taxation		**(472)**	(750)
Net profit for the period		**4,436**	5,656
Other comprehensive income (expense)			
Net movement in fair value of available-for-sale investments		**(1,669)**	801
Effect of currency translation		**4**	66
Other comprehensive income (expense) for the period		**(1,665)**	867
Total comprehensive income for the period		**2,771**	6,523

The notes set out on pages 10 to 35 form an integral part of these unaudited interim condensed financial statements.

Unaudited interim condensed statement of financial position at 31 March 2011

	Notes	31 March 2011 RO'000	31 March 2010 RO'000	Audited 31 December 2010 RO'000
Assets				
Cash and balances with central banks		**179,982**	64,671	127,458
Treasury bills and Certificates of deposits		**69,197**	214,949	139,192
Due from other banks		**113,836**	41,254	82,052
Loans and advances:				
Due from related parties	15	**43,290**	40,913	44,391
Other loans and advances		**663,054**	642,220	672,445
Loans and advances (gross)	8	**706,344**	683,133	716,836
Provision for impairment and reserved interest	9	**(80,039)**	(71,807)	(77,730)
Loans and advances (net)		**626,305**	611,326	639,106
Investments	13	**31,015**	31,860	31,730
Other assets		**69,021**	58,948	105,322
Property and equipment	14	**30,874**	30,022	30,747
Total assets		**1,120,230**	1,053,030	1,155,607
Liabilities				
Deposits from customers:				
Due to related parties	15	**38,553**	19,468	48,653
Deposits from others		**803,456**	704,151	748,305
Total deposits	10	**842,009**	723,619	796,958
Due to banks		**33,451**	87,616	83,995
Other liabilities		**86,595**	84,185	105,551
Total liabilities		**962,055**	895,420	986,504
Shareholders' funds				
Share capital		**91,325**	91,325	91,325
Non-distributable reserves		**56,624**	58,601	58,291
Retained earnings		**10,226**	7,684	19,487
Total shareholders' funds		**158,175**	157,610	169,103
Total liabilities and shareholders' funds		**1,120,230**	1,053,030	1,155,607
Letters of credit and guarantees	18 (a)	**302,735**	269,422	310,489

The notes set out on pages 10 to 35 form an integral part of these unaudited interim condensed financial statements.

The unaudited interim condensed financial statements were authorised for issue in accordance with a resolution of the Board of Directors on 28th April 2011.

Dr. Juma Ali Juma Al Juma
CHAIRMAN

Unaudited interim condensed statement of changes in equity for the three months period ended 31 March 2011

	Share capital RO'000	Legal reserve RO'000	Statutory reserve RO'000	Investment revaluation reserve RO'000	Asset revaluation reserve RO'000	Retained profits RO'000	Total RO'000
At 1 January 2010	91,325	30,442	694	4,544	22,109	22,065	171,179
Total comprehensive income for the period							
Net profit for the period	-	-	-	-	-	5,656	5,656
Other comprehensive income for the period							
Effect of currency translation	-	-	26	(15)	-	55	66
Net movement in fair values	-	-	-	801	-	-	801
Total other comprehensive income	-	-	26	786	-	55	867
Total comprehensive income for the period	-	-	26	786	-	5,711	6,523
Transactions with shareholders, recorded directly in equity							
Dividend paid for 2009	-	-	-	-	-	(20,092)	(20,092)
At 31 March 2010	91,325	30,442	720	5,330	22,109	7,684	157,610
At 1 January 2011	**91,325**	**30,442**	**912**	**4,723**	**22,214**	**19,487**	**169,103**
Total comprehensive income for the period							
Net profit for the period	**-**	**-**	**-**	**-**	**-**	**4,436**	**4,436**
Other comprehensive income for the period							
Effect of currency translation	**-**	**-**	**5**	**(3)**	**-**	**2**	**4**
Net movement in fair values	**-**	**-**	**-**	**(1,669)**	**-**	**-**	**(1,669)**
Total other comprehensive income	**-**	**-**	**5**	**(1,672)**	**-**	**2**	**(1,665)**
Total comprehensive income for the period	**-**	**-**	**5**	**(1,672)**	**-**	**4,438**	**2,771**
Transactions with shareholders, recorded directly in equity							
Dividend paid for 2010	**-**	**-**	**-**	**-**	**-**	**(13,699)**	**(13,699)**
At 31 March 2011	**91,325**	**30,442**	**917**	**3,051**	**22,214**	**10,226**	**158,175**

The notes set out on pages 10 to 35 form an integral part of these unaudited interim condensed financial statements.

Unaudited interim condensed statement of cash flows for the three months period ended 31 March 2011

	Three months ended 31 March 2011 RO'000	Three months ended 31 March 2010 RO'000
Operating activities		
Profit before taxation	**4,908**	6,406
Adjustments for:		
Depreciation	**251**	261
Provision for loan impairment (net of recoveries/write back)	**558**	(878)
Interest/dividend on investments	**(1,144)**	(341)
Unrealised forward foreign currency loss (gains)	**53**	(163)
Profit on disposal of property and equipment	**-**	(4)
Operating profit before changes in operating assets and liabilities	**4,626**	5,281
Changes in operating assets	**47,392**	12,756
Changes in operating liabilities	**(26,949)**	24,518
Cash generated from operations	**25,069**	42,555
Income taxes paid	**(2,335)**	(2,970)
Net cash from operating activities	**22,734**	39,585
Investing activities		
Purchase of property and equipment	**(369)**	(158)
Proceeds from sale of property and equipment	**-**	4
Purchase of investments	**(875)**	-
Interest and dividend received from investments	**1,177**	971
Effect of currency translation	**(56)**	(251)
Net cash (used in) from investing activities	**(123)**	566
Financing activity		
Dividend paid	**(13,699)**	(20,092)
Net cash used in financing activity	**(13,699)**	(20,092)
Net change in cash and cash equivalents	**8,912**	20,059
Cash and cash equivalents at beginning of period	**242,704**	211,728
Cash and cash equivalents at end of period (Refer note 19)	**251,616**	231,787

The notes set out on pages 10 to 35 form an integral part of these unaudited interim condensed financial statements.

NOTES TO THE UNAUDITED INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2011

1 Legal status and principal activities

Oman International Bank SAOG (the Bank) is an Omani joint stock company, which was incorporated on 1 January 1979, operating as a commercial bank through a network of branches in the Sultanate of Oman, India and Pakistan. The registered address of the head office of the Bank is P.O. Box 1727, CPO Seeb, Postal Code 111, Sultanate of Oman. The Bank has its shares listed on Muscat Securities Market.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these interim condensed financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

2.1 Basis of preparation

The interim condensed unaudited financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) and the disclosure requirements set out in the Rules for Disclosure and Proformas issued by the Capital Market Authority, the Commercial Company Law of the Sultanate of Oman and the applicable regulations of the Central Bank of Oman. The accounting policies used in the preparation of interim condensed financial statements are consistent with those used in the preparation of the annual financial statements for the year ended 31 December 2010, the prior year. The annual financial statements are prepared under the historical cost convention as modified to include the revaluation of land, available-for-sale investment securities and all derivative instruments.

Since these are interim condensed financial statements, they do not contained all information and disclosures for the full financial statement prepared in accordance with IFRS and should be read in conjunction with the Bank's annual financial statement as at 31 December 2010.

Functional and presentation currency

The interim condensed financial statements have been prepared in Rials Omani which is the functional currency of the primary economic environment in which the Bank operates.

2.2 Foreign currencies

2.2.1 Functional and presentation currency

Items included in the interim condensed financial statements of the Bank are measured using the currency of the primary economic environment in which the Bank operates (the functional currency). The financial statements are presented in Rial Omani, which is the functional currency of the primary economic environment in which the Bank operates.

2.2.2 Transactions and balances

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

2. Summary of significant accounting policies (continued)

2.2 Foreign currencies (continued)

2.2.3 Translation of financial statements of overseas branches

The assets and liabilities of the overseas branches that have a functional currency other than the Rial Omani are translated into Rial Omani at the period-end rates of exchange. The income and expenses of these overseas branches are translated into Rial Omani at average exchange rates for the period. Differences resulting from the translation of the opening net investment in these overseas branches are taken to other comprehensive income.

2.3 Financial assets

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 financial assets at initial recognition.

2.3.1 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 classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Derivatives are also categorised as financial assets at fair value through profit or loss unless they are designated as hedging instruments.

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

- doing so significantly reduces measurement inconsistencies that would arise if the related derivatives were treated as financial assets at fair value through profit or loss and the underlying financial instruments were carried at amortised cost;

- certain investments, that are managed and evaluated on a fair value basis in accordance with a documented risk management or investment 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 ‘other operating income’.

2.3.2 Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than: (a) those that the Bank intends to sell immediately or in the short-term, which are classified as held for trading, and those that the Bank upon initial recognition designates as at fair value through profit or loss; (b) those that the Bank upon initial recognition designates as available-for-sale; or (c) those for which the Bank may not recover substantially all of its initial investment, other than because of credit deterioration.

2. Summary of significant accounting policies (continued)

2.3 Financial assets (continued)

2.3.3 Held-to-maturity financial assets

Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Bank's management has the positive intention and ability to hold to maturity.

2.3.4 Available-for-sale financial assets

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

2.3.5 Initial and subsequent measurement

Regular-way purchases and sales of financial assets at fair value through profit or loss, held-to-maturity and available- for-sale are recognised on trade-date, the date on which the Bank commits to purchase or sell the asset.

Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the statement of income. 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. Financial liabilities are derecognised when they are extinguished – that is, when the obligation is discharged, cancelled or expires.

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method. Gains and losses arising from changes in the fair value of the financial assets at fair value through profit or loss category are included in the statement of income in the period in which they arise. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised in other comprehensive income, until the financial asset is derecognised or impaired. At this time, the cumulative gain or loss previously recognised in other comprehensive income is recognised in profit or loss.

The fair values of quoted investments in active markets are based on current bid prices. If there is no active market for a financial asset, the Bank establishes fair value using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.

2.3.6 Fair value hierarchy

The Bank measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

Level 1: Quoted market price (unadjusted) in an active market for an identical instrument. Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations.

2. Summary of significant accounting policies (continued)

2.3 Financial assets (continued)

Level 2: Valuation techniques based on observable inputs, either directly (i.e., as prices) or indirectly (i.e., derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

Level 3: Valuation techniques using significant unobservable inputs. This category included all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instrument that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The Bank uses widely recognized valuation models for determining the fair value of common and more simple financial instruments, like interest rate swaps and forward foreign exchange contract that use only observable market data and require little management judgment and estimation. Observable prices and model inputs are usually available in the market for listed debt and equity securities, exchange traded derivatives and simple over the counter derivatives like interest rate swaps.

2.4 Derivative financial instruments

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at their 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.

2.5 Offsetting

Financial assets and liabilities are offset and the net amount reported in the interim condensed statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

2.6 Cash and cash equivalents

For the purposes of the interim condensed cash flow statement, cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, including cash and non-restricted balances with central banks, treasury bills and other eligible bills, amounts due from other banks and short-term government securities, net of amounts due to other banks.

2.7 Treasury bills

Treasury bills are classified as held for trading or as loans and receivables. Treasury bills acquired for generating a profit from short-term fluctuations in price or dealer's margin are classified as held for trading and other treasury bills are classified as loans and receivables. Treasury bills held for trading are stated at their fair value based on quoted market prices or amounts derived from cash flow models. Unrealised gains and losses arising from changes in the fair value of treasury bills classified as held for trading are recognised in the statement of comprehensive income as they arise. Treasury bills classified as loans and receivables are stated at their amortised cost.

2. Summary of significant accounting policies (continued)

2.8 Due from banks and money market placements

These are stated at amortised cost using the effective interest method, less any amounts written off and provision for impairment.

2.9 Property and equipment

All property and equipment except freehold land are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Revaluation of freehold land is carried out every three years on an open market value basis by an independent professional valuer. Net surpluses arising on revaluation are credited to a revaluation reserve, except that a revaluation increase is recognized as income to the extent that it reverses a revaluation decrease of the same asset previously recognized as an expense. A decrease as a result of a revaluation is recognized as an expense, except that it is charged directly against any related revaluation surplus to the extent that the decrease does not exceed the amount held in the revaluation surplus in respect of that asset. On disposal the related revaluation surplus is transferred directly to retained earnings. Transfers from revaluation surplus to retained earnings are not made through statement of comprehensive income.

Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. All other repairs and maintenance are charged to other operating expenses during the financial period in which they are incurred.

Land is not depreciated. Depreciation is calculated so as to write off the cost of property and equipment, other than freehold land, less their estimated residual values, on a straight-line basis over the estimated useful lives of the assets concerned. Capital work-in-progress is not depreciated until the assets are ready for use. The principal lives adopted for this purpose are:

Freehold buildings	25 years
Equipment, furniture and fixtures	5 years
Motor vehicles	3 - 5 years
Computer software and equipment	3 - 5 years

Leased property is amortised over 20 years or, if shorter, the period of the lease. Improvements to leased property are amortised over five years.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the statement of comprehensive income.

2. Summary of significant accounting policies (continued)

2.10 Sale and purchase agreement

Securities sold subject to linked repurchase agreements ('repos') are retained in the financial statements as investment securities and the counter party liability is included in amounts due to banks. Securities purchased under agreements to resell ('reverse repos') are recorded as due from other banks. The difference between sale and repurchase price is treated as interest and accrued over the life of the repo agreement using the effective yield method.

2.11 Impairment of assets

2.11.1 Assets carried at amortised cost

The Bank assesses at each reporting 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.

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.

2.11.2 Assets carried at fair value

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

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

2. Summary of significant accounting policies (continued)

2.12 Borrowings

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

2.13 Deposits

All money market and customer deposits are recognised initially at fair value being consideration received and subsequently stated at amortised cost.

2.14 End of service benefits and leave entitlement

End of service benefits are accrued in accordance with the terms of employment of the Bank's employees at the reporting date, having regard to the requirements of the relevant labour laws of the countries in which the Bank operates. Employee entitlements to annual leave are recognised when they accrue to employees and an accrual is made for the estimated liability for annual leave as a result of services rendered by employees up to the reporting date.

Contributions to a defined contribution retirement plan for Omani employees in accordance with the Omani Social Insurance Scheme are recognised as an expense in the statement of comprehensive income.

2.15 Provisions

Provisions for legal claims are recognised when: the Bank has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

2.16 Interest income and interest expense

Interest income and expense for all interest-bearing financial instruments, except for those classified as held for trading or designated at fair value through profit or loss, are recognised within 'interest income' and 'interest expense' in the statement of comprehensive income using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees 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.

Contractual interest is recognised unless collectability is in doubt. Interest on interest bearing financial assets classified as held for trading or at fair value through profit or loss is recognised on an accrual basis.

2. Summary of significant accounting policies (continued)

2.17 Fee 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.

2.18 Dividend income

Dividends are recognised in the statement of comprehensive income once notice of entitlement is received.

2.19 Taxation

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

Provision for Oman taxation has been made on the basis of the rates applicable to an Omani Public Joint Stock company. Taxation on the overseas operations is provided on the basis of the relevant taxation laws of the countries in which the Bank operates.

Deferred income tax is provided in full, 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 substantively enacted at the statement of financial position date. The principal temporary differences arise from depreciation of property and equipment, provisions, tax losses carried forward and unrealised gains or losses on investments.

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.

2.20 Operating segment reporting

An operating segment is a component of the Bank that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Bank's other components, whose operating results are reviewed regularly by the Business Committee to make decisions about resources allocated to the segment and assess its performance, and for which discrete financial information is available. Segment results that are reported to the Business Committee include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets (primarily the Bank's headquarters), head office expenses, and income tax assets and liabilities.

Segment capital expenditure is the total cost incurred during the period to acquire property and equipment, and intangible assets other than goodwill.

2.21 Fiduciary activities

Assets and income arising thereon together with related undertakings to return such assets to customers are excluded from these interim condensed financial statements where the Bank acts in a fiduciary capacity such as nominee, trustee or agent.

2. Summary of significant accounting policies (continued)

2.22 Critical accounting estimates and judgments

The key assumptions concerning the future and other key sources of estimating uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial reporting period are discussed below:

2.22.1 Impairment losses on loans and advances

The Bank reviews its non performing loans and advances at each statement of financial position date to assess whether a provision for impairment should be recorded in the statement of income. In particular, considerable judgement by management is required in the estimation of the amount and timing of future cash flows when determining the level of provisions required. Such estimates are necessarily based on assumptions about several factors involving varying degrees of judgment and uncertainty and actual results may differ resulting in future changes to such provisions.

2.22.2 Collective impairment provisions on loans and advances

In addition to specific provisions against individually significant loans and advances, the Bank also makes a collective impairment provision against loans and advances which, although not specifically identified as requiring a specific provision, have a greater risk of default than when originally granted. This collective provision is based on any deterioration in the internal grade of the loan since it was granted. The amount of the provision is based on the historical loss pattern for loans within each grade and is adjusted to reflect current economic changes.

2.23 Acceptance

Acceptances are disclosed on the interim condensed statement of financial position under other assets with corresponding liability disclosed under other liabilities.

2.24 Director’s remuneration

The Directors’ remuneration is governed as set out in the Memorandum of Association of the Bank, the Commercial Companies Law and the Capital Market Authority.

The Annual General Meeting approve the remuneration and the sitting fees for the Board Directors and its sub-committees provided that such fees shall not exceed 5% of the annual net profit after deduction of the legal reserve and the optional reserve and the distribution of dividends to the shareholders provided that such fees shall not exceed RO 200,000. The sitting fee for each director does not exceed RO 10,000 in one year.

2.25 Dividend distribution

The Board adopts a prudent dividend policy, which complies with regulatory and prudential requirements applicable in the Sultanate of Oman. Net profit of the Bank is distributed in accordance with the Bank’s Memorandum of Association and subject to the approval of the CBO and the shareholders.

2. Summary of significant accounting policies (continued)

2.26 New standard and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective for the period ended 31 March 2011, and have not been applied in preparing these financial statements. None of these will have an effect on the financial statements of the Bank, with the exception of IFRS 9 Financial Instruments, published on 12 November 2010 as part of phase I of the IASB's comprehensive project to replace IAS 39, deals with classification and measurement of financial assets. The requirements of this standard represent a significant change from the existing requirements in IAS 39 in respect of financial assets. The standard contains two primary measurement categories for financial assets: amortised cost and fair value. The standard eliminates the existing IAS 39 categories of held to maturity, available for sale and loans and receivables.

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

3. Interest income

Interest bearing assets earned interest at an overall annualised rate of **3.75 %** for the three months period ended 31 March 2011 (March 2010: 3.99 %).

4. Interest expense

For the three months period ended 31 March 2011, the average overall annualised cost of funds was **0.70 %** (March 2010: 0.79 %).

5. Analysis of other operating income and expenditure

	Three months ended 31 March 2011 RO'000	Three months ended 31 March 2010 RO'000
Other operating income		
Fee and commission income	**1,663**	1,492
Exchange gain	**439**	419
Dividend	**951**	124
Profit on sale of property and equipment	**-**	4
Other income	**330**	691
	3,383	2,730
Other operating expenditure		
Staff costs	**2,811**	2,602
Occupancy costs	**543**	441
Depreciation	**251**	261
Other operating costs:		
Advertisement and publicity	**513**	317
Communication	**269**	165
Repairs and maintenance	**319**	344
Others	**728**	563
	5,434	4,693

6. Loans recoveries and write back

	Three months ended 31 March 2011 RO'000	Three months ended 31 March 2010 RO'000
Impairment written back	**625**	612
Reserved interest released	**139**	676
Written-off loans recovered	**29**	67
	793	1,355

7 Basic earnings per share

Basic earnings per share are calculated by dividing the profit attributable to the shareholders, being profit for the period, by the weighted average number of shares in issue, as follows:

	31 March 2011	31 March 2010	31 December 2010
Weighted average number of shares in issue ('000)	**913,257**	913,257	913,257
Net profit for the period (RO'000)	**4,436**	5,656	17,585
Basic earnings per share – annualised (RO)	**0.020**	0.024	0.019

8. Loans and advances

Loans and advances can be analysed as follows:

	31 March 2011 RO'000	31 March 2010 RO'000	31 December 2010 RO'000
Overdrafts	**77,429**	73,125	74,719
Loans	**623,587**	603,444	636,578
Bills discounted / purchased	**5,328**	6,564	5,539
Gross loans and advances	**706,344**	683,133	716,836
Provision for loan impairment	**(33,699)**	(31,309)	(33,063)
Reserved interest	**(46,340)**	(40,498)	(44,667)
Net loans and advances	**626,305**	611,326	639,106

The concentration of gross loans and advances by economic sector are as follows:

	31 March 2011 RO'000	31 March 2010 RO'000	31 December 2010 RO'000
Personal and consumer loans	**278,607**	265,939	271,139
Import trade	**32,842**	23,081	33,849
Construction	**18,422**	27,189	31,875
Financial institutions	**33,432**	24,974	33,557
Manufacturing	**91,850**	96,192	94,624
Wholesale and retail trade	**16,392**	18,178	21,518
Export trade	**1,099**	973	1,090
Electricity, gas, water, transportation and communication	**61,787**	58,271	57,225
Services	**18,528**	18,857	23,829
Mining and quarrying	**106,294**	113,366	109,162
Others	**47,091**	36,113	38,968
	706,344	683,133	716,836

The interest rate bands of gross loans and advances are as follows:

	31 March 2011 RO'000	31 March 2010 RO'000	31 December 2010 RO'000
0-5%	**320,090**	295,538	338,791
5-7%	**24,192**	42,116	23,726
7-10%	**311,350**	301,670	306,334
10-13%	**44,405**	38,217	42,175
more than 13%	**6,307**	5,592	5,810
	706,344	683,133	716,836

8. Loans and advances (continued)

The contractual maturity of net loans and advances based on period remaining to maturity are as follows:

	31 March 2011 RO'000	31 March 2010 RO'000	31 December 2010 RO'000
0-6 months	**154,710**	135,360	164,366
6-12 months	**44,671**	24,958	27,095
1-3 years	**96,840**	128,285	121,863
3-5 years	**79,195**	74,245	77,333
More than 5 years	**250,889**	248,478	248,449
	626,305	611,326	639,106

9. Provision for loan impairment and reserved interest

The Central Bank of Oman (CBO) requires provision for loan impairment to be made on the basis of the higher of provision as per International Accounting Standards (IAS) 39 - Financial Instruments: Recognition and Measurement and as per CBO norms on a portfolio basis on the non-performing loans.

CBO also requires as per circular BM 977 a general loan loss provision to cover expected losses, whereas IFRS requires collective impairment based on incurred losses. As per BM 977, the financial statements include a general provision of RO 5.6 million which is based on an expected loan loss provisioning model developed by the Bank. The collective impairment provision as required under IAS 39 based on an incurred loss model developed by the Bank amounts to RO 2.6 million.

The movement on provision for loan impairment for the three months period ended 31 March 2011 is analysed in the table below:

	Specific Provision RO'000	**General Provision RO'000**	**Total Provision RO'000**
Balance at 1 January 2011	**27,319**	**5,744**	**33,063**
Currency translation effect on opening balance	**1**	**-**	**1**
Provided during the period	**1,351**	**-**	**1,351**
Released during the period:			
Due to recoveries	**(363)**	**-**	**(363)**
Due to write back	**(110)**	**(152)**	**(262)**
Written off during the period	**(91)**	**-**	**(91)**
Balance at 31 March 2011	**28,107**	**5,592**	**33,699**

The movement on provision for loan impairment for the three months period ended 31 March 2010 is analysed in the table below:

	Specific Provision RO'000	General Provision RO'000	Total Provision RO'000
Balance at 1 January 2010	25,651	5,795	31,446
Currency translation effect on opening balance	(2)	-	(2)
Provided during the period	475	2	477
Released during the period:			
Due to recoveries	(444)	-	(444)
Due to write back	(70)	(98)	(168)
Balance at 31 March 2010	25,610	5,699	31,309

9. Provision for loan impairment and reserved interest (continued)

The movement on reserved interest for the period is analysed as below:

	31 March 2011 RO'000	31 March 2010 RO'000
Balance at the beginning of the period	**44,667**	39,736
Reserved during the period	**1,880**	1,438
Transfer to the statement of income	**(139)**	(676)
Written off during the period	**(68)**	-
Balance at end of the period	**46,340**	40,498

Provision for loan impairment and reserved interest represent **101.06%** of gross non-performing loans and advances less government soft loans at 31 March 2011 (March 2010: 97.67 %).

At 31 March 2011, loans and advances on which interest has been reserved and/or has not been accrued amounted to RO 79.2 million (March 2010- RO 73.5 million). In addition, Government soft loans, amounting to RO 3.4 million, on which the principal is guaranteed and part of interest serviced by the Government of the Sultanate of Oman, are past due. Adequate provision for impairment is established for the portion of interest not serviced by the customers.

The estimated fair value of loans and advances is not materially different from the book value of loans and advances.

10. Deposits

Deposits can be analysed as follows:

	31 March 2011 RO'000	31 March 2010 RO'000	31 December 2010 RO'000
Current	**313,494**	196,206	244,986
Savings	**317,452**	315,497	324,324
Time deposits	**116,556**	103,198	103,912
Others	**94,507**	108,718	123,736
	842,009	723,619	796,958

The contractual maturities of deposits based on the period remaining to maturity are as follows:

	31 March 2011 RO'000	31 March 2010 RO'000	31 December 2010 RO'000
0-6 months	**820,704**	691,337	770,798
6-12 months	**12,972**	24,318	17,005
1-3 years	**8,242**	7,649	9,037
3-5 years	**91**	315	118
	842,009	723,619	796,958

10. Deposits (continued)

The interest rate bands of deposits are as follows:

	31 March 2011 RO'000	31 March 2010 RO'000	31December 2010 RO'000
0-2%	**827,455**	707,261	781,868
2-4%	**11,601**	13,045	12,033
4-6%	**1,186**	1,965	1,394
6-8%	**85**	57	16
8-10 %	**83**	170	156
more than 10%	**1,599**	1,121	1,491
	842,009	723,619	796,958

11. Asset liability mismatch

The asset liability mismatch based on the remaining period to maturity is as follows:

	31 March 2011			31 March 2010		
Maturities	**Assets**	**Liabilities and equity**	**Mismatch**	Assets	Liabilities and equity	Mismatch
	RO'000	**RO'000**	**RO'000**	RO'000	RO'000	RO'000
0-6 months	**572,682**	**941,217**	**(368,535)**	497,827	805,392	(307,565)
6-12 months	**51,785**	**12,504**	**39,281**	34,047	82,063	(48,016)
1-3 years	**109,124**	**8,243**	**100,881**	135,278	7,650	127,628
3-5 years	**80,111**	**91**	**80,020**	81,887	315	81,572
more than 5 years	**306,528**	**158,175**	**148,353**	303,991	157,610	146,381
	1,120,230	**1,120,230**	**-**	1,053,030	1,053,030	-

12. Investment income

Investment income can be analysed as follows:

	Three months ended 31 March 2011 RO'000	Three months ended 31 March 2010 RO'000
Dividend	**951**	124
Interest	**193**	206
	1,144	330

13. Investments

Investments can be analysed as follows:

	Market Value 31 March 2011 RO'000	Market Value 31 March 2010 RO'000	Market Value 31 December 2010 RO'000	**Book Value 31 March 2011 RO'000**	Book Value 31 March 2010 RO'000	Book Value 31 December 2010 RO'000	**Cost 31 March 2011 RO'000**	Cost 31 March 2010 RO'000	Cost 31December 2010 RO'000
Marketable securities – MSM									
Finance	**1,806**	2,068	2,028	**1,806**	2,068	2,028	**733**	617	733
Insurance	**339**	478	396	**339**	478	396	**422**	422	422
Services	**276**	240	271	**276**	240	271	**64**	64	64
Industrial	**80**	44	64	**80**	44	64	**48**	48	48
Government bonds	**5,137**	5,119	5,169	**4,885**	4,923	4,885	**4,775**	4,832	4,775
Other bonds	**247**	251	247	**226**	226	222	**221**	221	221
	7,885	8,200	8,175	**7,612**	7,979	7,866	**6,263**	6,204	6,263
Marketable securities – Foreign by Sector									
Government securities	**7,948**	7,934	7,895	**8,236**	8,154	8,166	**8,236**	9,269	9,249
Unquoted and other investments									
Unquoted Omani shares				**760**	510	760	**760**	510	760
Investment fund units				**12,841**	13,347	13,453	**11,474**	10,624	10,600
Unquoted foreign shares				**1,566**	1,870	1,485	**77**	77	77
				15,167	15,727	15,698	**12,311**	11,211	11,437
				31,015	31,860	31,730	**26,810**	26,684	26,949

13. Investments (continued)

13. a. Details of significant investments

	Market Value 31 March 2011 RO'000	Book Value 31 March 2011 RO'000	Cost 31 March 2011 RO'000
MSM quoted securities			
Government bonds	**5,137**	**4,885**	**4,775**
Others	**2,748**	**2,727**	**1,488**
	7,885	**7,612**	**6,263**
Foreign listed securities			
Government securities	**7,948**	**8,236**	**8,236**
Total quoted securities	**15,833**	**15,848**	**14,499**
Unquoted securities			
Oman		**13,601**	**12,234**
Others		**1,566**	**77**
		15,167	**12,311**
		31,015	**26,810**

Details of the Bank's investments for which the Bank's holding exceeds 10% of the market value of its investments portfolio are :

	% of Overall Portfolio	Number of securities	Market Value 31 March 2011 RO'000	Cost 31 March 2011 RO'000
Investment Stabilisation Fund – Oman	**27.83**	**8,023,163**	**8,633**	**8,367**

13.b. Details of classification of investments are given below:

	31 March 2011 RO'000	31 March 2010 RO'000	31 December 2010 RO'000
Held-to-maturity	**10,228**	10,122	10,173
Available-for-sale	**20,787**	21,738	21,557
	31,015	31,860	31,730

At 31 March 2011, available-for-sale investments in the amount of RO 19.25 million (March 2010– RO 20.4 million) are measured using Level I of fair value hierarchy, RO 0.70 million (March 2010– RO 0.78 million) are measured using Level II of fair value hierarchy and RO 0.84 million (March 2010– RO 0.59 million) are stated at cost.

13. Investments (continued)

13.c. Details of investments classified as held-to-maturity are as follows:

	31 March 2011 RO'000	31 March 2010 RO'000	31 December 2010 RO'000
Quoted - Oman Government securities	**4,885**	4,923	4,885
Quoted - Foreign Government securities	**5,122**	4,978	5,070
Quoted - Other securities, Oman	**221**	221	218
	10,228	10,122	10,173

13. d. Details of available-for-sale investments are as follows:

	31 March 2011 RO'000	31 March 2010 RO'000	31 December 2010 RO'000
Cost of:			
Quoted - Foreign Government securities	**3,641**	3,608	3,615
Quoted - Equity and other securities:-Oman	**1,272**	1,155	1,271
Unquoted investments	**12,312**	11,212	11,437
	17,225	15,975	16,323
Revaluation gain (loss) of:			
Quoted - Foreign Government securities	**(527)**	(431)	(519)
Quoted - Equity and other securities:-Oman	**1,234**	1,678	1,492
Unquoted investments	**2,855**	4,516	4,261
	20,787	21,738	21,557

14. Property and equipment

The movement in property and equipment during the period is as follows

	Freehold land and buildings RO'000	Leasehold property and improvements RO'000	Equipment, furniture and fixtures RO'000	Motor vehicles RO'000	Computer equipment RO'000	Capital work in progress RO'000	Total RO'000
Cost / Valuation							
1 January 2011	**32,750**	**2,737**	**7,597**	**912**	**13,389**	**1,192**	**58,577**
Currency translation effect on opening balances	**15**	**-**	**3**	**-**	**3**	**-**	**21**
Reclassification			**160**		**164**	**(324)**	**-**
Additions	**-**	**5**	**118**	**45**	**27**	**174**	**369**
Disposals	**-**	**-**	**(2)**	**(24)**	**-**	**-**	**(26)**
31 March 2011	**32,765**	**2,742**	**7,876**	**933**	**13,583**	**1,042**	**58,941**
Depreciation							
1 January 2011	**4,938**	**2,609**	**6,931**	**851**	**12,501**	**-**	**27,830**
Currency translation effect on opening balances	**7**	**1**	**1**	**-**	**3**	**-**	**12**
Charge for the period	**71**	**9**	**71**	**10**	**90**	**-**	**251**
Disposals	**-**	**-**	**(2)**	**(24)**	**-**	**-**	**(26)**
31 March 2011	**5,016**	**2,619**	**7,001**	**837**	**12,594**	**-**	**28,067**
Net book value							
31 March 2011	**27,749**	**123**	**875**	**96**	**989**	**1,042**	**30,874**
31 December 2010	27,812	128	666	61	888	1,192	30,747

15. Related Parties and Holders of 10 % of the Bank's shares

	31 March 2011 RO'000	31 March 2010 RO'000	31 December 2010 RO'000
Loans and advances	**43,290**	40,913	44,391
Current, deposit and other accounts	**38,553**	19,468	48,653
Letters of credit and guarantees	**3,387**	3,910	3,509
Provision for loans and advances	**730**	888	888

Loans and advances amounting to RO 17,670,000 (March 2010: RO 17,510,000; December 2010: RO 17,510,000) included above are secured by cash collaterals and bank guarantees.

	31 March 2011 RO'000	31 March 2010 RO'000
Interest income	**619**	495
Interest expense	**34**	22
Other operating income	**5**	2
Other operating expenditure:		
Advertisement and publicity	**23**	20
Insurance	**64**	67
Printing and stationery	**14**	18
Repairs and maintenance	**14**	30
Others	**79**	75
	194	210
Purchase of property and equipment	**12**	57

Analysis of the related party transactions with related parties or holders of 10% or more of the Bank's shares, ("Significant shareholders") or their family members during the period is as follows:

As at 31 March 2011	**Director RO'000**	**Other directors RO'000**	**Significant shareholder RO'000**	**Others RO'000**	**Total RO'000**
Loans and advances	**12,352**	**15**	**21,628**	**9,295**	**43,290**
Deposits	**206**	**33**	**22,122**	**16,192**	**38,553**
Letters of credit, acceptances and guarantees	**28**	**-**	**972**	**2,387**	**3,387**
Provision for loans and advances	**-**	**-**	**-**	**730**	**730**
For the period ended 31 March 2011					
Interest income	**64**	**-**	**299**	**256**	**619**
Interest expense	**-**	**-**	**18**	**16**	**34**
Other operating income	**-**	**-**	**1**	**4**	**5**
Other operating expenditure:					
Advertisement and publicity	**-**	**-**	**23**	**-**	**23**
Insurance	**-**	**-**	**-**	**64**	**64**
Printing and stationery	**-**	**-**	**11**	**3**	**14**
Repairs and maintenance	**-**	**-**	**6**	**8**	**14**
Others	**2**	**8**	**35**	**34**	**79**
Purchase of property and equipment	**-**	**-**	**11**	**1**	**12**

15. Related Parties and Holders of 10 % of the Bank's shares (continued)

	Director RO'000	Other directors RO'000	Significant shareholder RO'000	Others RO'000	Total RO'000
As at 31 March 2010					
Loans and advances	12,400	17	18,184	10,312	40,913
Deposits	168	22	4,086	15,192	19,468
Letters of credit, acceptances and guarantees	28	-	1,058	2,824	3,910
Provision for loans and advances	-	-	-	888	888
For the period ended 31 March 2010					
Interest income	132	-	283	80	495
Interest expense	-	-	1	21	22
Other operating income	-	-	-	2	2
Other operating expenditure:					
Advertisement and publicity	-	-	20	-	20
Insurance	-	-	-	67	67
Printing and stationery	-	-	17	1	18
Repairs and maintenance	-	-	25	5	30
Others	3	8	32	32	75
Purchase of property and equipment	-	-	29	28	57

	Director RO'000	Other directors RO'000	Significant shareholder RO'000	Others RO'000	Total RO'000
As at 31 December 2010					
Loans and advances	12,500	9	21,492	10,390	44,391
Deposits from customers	12,575	23	21,174	14,881	48,653
Letters of credit, guarantees and other acceptances	28	-	1,065	2,416	3,509
Provision for loans and advances	-	-	-	888	888
During the year 2010					
Interest income	587	1	1,124	878	2,590
Interest expense	1	-	11	86	98
Other operating income	-	-	8	16	24
Other operating expenditure:					
Advertisement and publicity	-	-	29	-	29
Insurance	-	-	-	260	260
Repairs and maintenance	-	-	203	53	256
Others	8	26	232	152	418
Purchase of property and equipment	-	-	370	79	449

Details are provided separately above where amounts relating to an individual director and/or significant shareholder and his/her related parties are greater than 5% of the total of related party loans and advances. Others represent transactions with parties related to more than one director and/or significant shareholders.

16. Shareholders

All those shareholders of the Bank who own 10% or more of the Bank's shares, whether in their name, or through a nominee account, and the number of shares they hold are as follows:

	31 March 2011	31 March 2010	31 December 2010
H.E. Dr. Omar Bin Abdul Muniem Al Zawawi	**91,965,660**	91,965,660	91,965,660

17. Operating segments

The Bank has two reportable segments as described below, which are the Banks strategic business units. The strategic business units offer different products and services, and are managed separately based on the Bank's management and internal reporting structure for each of the strategic business units, the Bank's Business Committee reviews internal management reports on at least monthly basis. The following summary describes the operations in each of the Bank's reportable segments.

Wholesale Banking: includes loans, deposits and other transactions, balances with the corporate customers, treasury and trade finance.

Retail Banking: includes loans, deposits and other transactions.

Information regarding the results of each reportable segment is included below. The performance is measured based on segment profit before income tax, as included in the management information report that are reviewed by the Business Committee. Segment profit is used to measure the performance as management believes that such information is most relevant in evaluating the results of certain segments relative to other entities that operate within these industries.

Information about operating segments:

	31 March 2011			31 March 2010		
	Wholesale Banking RO' 000	**Retail Banking RO' 000**	**Total RO' 000**	Wholesale Banking RO' 000	Retail Banking RO' 000	Total RO' 000
External income						
Net interest income	**2,700**	**4,817**	**7,517**	3,257	4,234	7,491
Other operating income	**1,723**	**1,660**	**3,383**	768	1,962	2,730
Total segment income	**4,423**	**6,477**	**10,900**	4,025	6,196	10,221
Other material non-cash items:						
Impairment losses on financial assets	**1,163**	**188**	**1,351**	250	227	477
Reportable segment profit before income tax	**2,297**	**2,611**	**4,908**	3,472	2,934	6,406
Reportable segment assets	**819,717**	**263,726**	**1,083,443**	763,700	251,144	1,014,844
Reportable segment liabilities	**490,931**	**446,483**	**937,414**	419,860	447,274	867,134

17. Operating segments (continued)

Reconciliation of reportable segment assets and liabilities

	31 March 2011 RO'000	31 March 2010 RO'000
Assets		
Total assets for reportable segments	**1,083,443**	1,014,844
Other unallocated amounts	**36,787**	38,186
Total assets	**1,120,230**	1,053,030
Liabilities		
Total liabilities for reportable segments	**937,414**	867,134
Other unallocated amounts	**24,641**	28,286
Total liabilities	**962,055**	895,420

Operating segments geographical areas

A geographical analysis of key financial data by location of primary assets as at 31 March 2011 is set out below:

	Oman RO'000	**Others RO'000**	**Adjustments RO'000**	**Total RO'000**
Income from customers and other income	**11,902**	**479**	**-**	**12,381**
Internal income	**12**	**-**	**(12)**	**-**
Net segment result	**4,481**	**(45)**	**-**	**4,436**
Assets	**1,110,601**	**41,907**	**(32,278)**	**1,120,230**
Liabilities	**952,771**	**25,104**	**(15,820)**	**962,055**
Capital expenditure	**346**	**23**	**-**	**369**
Depreciation	**217**	**34**	**-**	**251**
Provision for loan impairment	**1,326**	**25**	**-**	**1,351**

A geographical analysis of key financial data by location of primary assets as at 31 March 2010 is set out below:

	Oman RO'000	Others RO'000	Adjustments RO'000	Total RO'000
Income from customers and other income	11,374	408	-	11,782
Internal income	7	-	(7)	-
Net segment result	5,643	13	-	5,656
Assets	1,044,963	39,281	(31,214)	1,053,030
Liabilities	887,654	24,047	(16,281)	895,420
Capital expenditure	153	5	-	158
Depreciation	229	32	-	261
Provision for loan impairment	475	2	-	477

18. Contingent liabilities, commitments and derivatives

(a) Letters of credit, guarantees and other commitments

	31 March 2011 RO'000	31 March 2010 RO'000	31 December 2010 RO'000
Letters of credit	**133,173**	76,235	138,242
Guarantees and performance bonds	**169,562**	193,187	172,247
	302,735	269,422	310,489
Derivatives:			
Forward forex contracts – sales	**242,934**	101,677	105,075
Forward forex contracts – purchases	**104,657**	80,104	10,040
Interest rate caps	**185**	924	370
Interest rate swaps		20,041	-

(b) Currency risk

Currency risk is the risk that the Bank is exposed to as a result of any exchange rate movements. The Bank's main functional currency is the Rial Omani. The treasury manual of the Bank sets out the details of the intra day and overnight exposures that are continuously monitored.

The Bank had the following significant net exposures denominated in foreign currencies as at 31 March:

	Assets	**Liabilities**	**Forward Purchases**	**Forward Sales**	**Net exposure 31 March 2011**	**Net exposure 31 March 2011**	Net exposure 31 March 2010
	FCY'000	**FCY'000**	**FCY'000**	**FCY'000**	**FCY'000**	**RO'000**	RO'000
US Dollars	**804,505**	**330,305**	**172,691**	**531,698**	**115,193**	**44,349**	44,392
Indian Rupees	**1,279,401**	**1,278,933**	**-**	**80**	**388**	**3**	2
Others	**-**	**-**	**-**	**-**	**-**	**628**	1,053
						44,980	45,447

(c) Contingencies

As at 31 March 2011, there were certain legal suits pending against the Bank, aggregating to RO 3.7 million (March 2010: RO 5.9 million, December 2010: RO 3.7 million). Based on the opinion of the Bank's legal counsel, the Bank's management believes that no liability is expected to arise from these cases and it therefore does not consider it necessary to make any provision in this regard.

19. Cash and cash equivalents

	31 March 2011 RO'000	31 March 2010 RO'000
Statement of financial position items comprise:		
Cash and balances with central banks	**179,982**	64,671
Treasury bills and certificates of deposit	**69,197**	214,949
Due from other banks	**113,836**	41,254
Due to banks	**(33,451)**	(87,616)
	329,564	233,258
Adjustment for items maturing after three months from date of acquisition and restricted balances	**(77,948)**	(1,471)
	251,616	231,787
Cash and cash equivalents comprise:		
Cash and balances with central banks	**121,101**	17,590
Treasury bills and certificates of deposit	**103,966**	210,000
Due from other banks	**60,000**	33,252
Due to banks	**(33,451)**	(29,055)
	251,616	231,787

20. Exposure to credit risk

	Loans and advances		**Due from other banks**		**Investments**	
	31 March 2011 RO'000	31December 2010 RO'000	**31 March 2011 RO'000**	31December 2010 RO'000	**31 March 2011 RO'000**	31December 2010 RO'000
Individually impaired	**79,192**	77,488	**-**	-	**-**	79
Allowance for impairment	**(74,447)**	(71,986)	**-**	-	**-**	(31)
Carrying amount	**4,745**	5,502	**-**	-	**-**	48
Past due and not impaired	**12,775**	11,370	**-**	-	**-**	-
Neither past due nor impaired	**608,785**	622,234	**113,836**	82,052	**31,015**	31,682
Total carrying amount	**626,305**	639,106	**113,836**	82,052	**31,015**	31,730

21. Dividend per share

The Shareholders at the Annual General meeting held on 31 March, 2011 approved a cash dividend of RO 0.015 per share amounting to RO 13.699 million for the year 2010 (2010: cash dividend of RO 0.022 per share amounting to RO 20.092 million). These financial statements reflect the cash dividends, which have been accounted for in shareholders' equity as an appropriation of retained earnings for the period ended 31 March 2011.

The Board of Directors at the forthcoming Ordinary General meeting schedule for 28th April 2011 will propose a stock dividend of 6% equal to 54,795,431 shares for the year 2010. These financial statements do not reflect this stock dividend, which will be accounted for in shareholders' equity as an appropriation of retained earnings in the year ending 31 December 2011, subject to the approval of the shareholders.

22. Capital adequacy ratio

Details of capital adequacy, calculated in accordance with the norms prescribed by the Bank for International Settlements, are given below:

	31 March 2011 RO'000	31 March 2010 RO'000	31 December 2010 RO'000
Tier I and tier II capital	**135,158**	132,389	136,095
Risk-weighted assets	**888,390**	862,099	901,349
Capital adequacy ratio %	**15.21**	15.36	15.10