

# Annual Report 2010



**OMINVEST**

Oinvest aims to provide its shareholders with a consistent annual return on their capital, and the opportunity to participate in long-term gains from sound local and international investments.

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# BOARD OF DIRECTORS



**Hani bin Muhammad Al Zubair**  
Chairman (E) (P)



**Rashad bin Muhammad Al Zubair**  
Deputy Chairman (E)



**Abdul Kader Askalan**  
(E)



**Taya bin Jandal bin Ali**  
(E) (P)



**Abdullah bin Said bin Abdullah  
Al Balushi**



**Jamal bin Shamis  
Al Hooti (A) (P)**



**Majid bin Salim bin Saeed  
Al Fannah Al Araimi (A)**



**Khalil bin Abdullah Al Khonji**



**Saif bin Said Al Yazidi (A)**



**Ahmed bin Said Al Mahrezi (P)**

(E) Executive Committee, (A) Audit Committee, (P) Projects Committee (Until November 2010)

# DIRECTORS' REPORT

On behalf of the Board of Directors, I am pleased to welcome you to the twenty-sixth Annual General Meeting and to present the Annual Report and the audited Group and Parent Company financial statements for the year ended 31 December 2010.

## 26 Successful years

Ominvest has an enviable track record of 26 years of uninterrupted profits and dividends. Established in 1983 with a paid-up share capital of RO 8m, the Company's paid-up share capital currently stands at RO 23m while a total of RO 55.6m has been distributed in cash dividends over the last 25 financial years. Considering the market value of 230 million shares as at 31 December 2010, the Company has achieved an IRR of 16.33% since inception. Market capitalization as of 31 December 2010 was RO 103m.

## Economic Environment in 2010

The performance of the global economy in 2010, while not uniformly so, was broadly encouraging, with growth seen in several important economic regions in industrial output, recovering consumption levels, and a general improvement in business and consumer sentiment. Emerging markets, particularly China, India and Brazil have experienced strong domestic demand growth supported by broadly accommodative monetary policy and an improving external environment. Global GDP growth is estimated at about 4.6%, substantially from a resurgence in global trade which was seen returning to pre-2009 patterns.

The US dollar appreciated against the euro and sterling and US equity markets performed well in 2010. However, US unemployment rate remained high at around 10% for most of the year which is likely to continue to be a major challenge facing the US economy in 2011.

The euro zone, led by Germany, recorded positive growth of around 1.7% while the condition of public sector finances remained a major concern in respect of some euro zone countries. Accounting for more than 30% of the world's oil supply, the MENA region plays a critical role in the global economy. The region's real GDP grew by an estimated 3% during 2010. Countries comprising the GCC are expected to report average GDP growth of about 4.5% for the year. With continued strength in the price of oil, growth of some 6% is forecast for the region in 2011.

The Sultanate of Oman recorded strong performance in 2010. After slowing to 1.1% in 2009, GDP growth in 2010 is estimated to be about 6%, supported by substantial public sector investment, accommodative monetary conditions and a rebounding private sector.

## Performance for the year

The Group recorded a consolidated profit of RO 23.31m for 2010 versus RO 22.72m in 2009. Profit attributable to the equity holders of the Parent Company increased to RO 11.96m from RO 11.41m in 2009.

In accordance with the directives of the Capital Market Authority (CMA), we also present Parent Company financial statements along with Group financial statements. The Parent Company recorded a profit of RO 7.07m for 2010 as compared with RO 9.47m in 2009.

Our banking subsidiary, Oman Arab Bank SAOC, which constitutes 51% of the Parent Company's total assets, reported a profit of RO 23.17m for 2010 compared with RO 23.08m in 2009. The banking subsidiary's gross loans and advances portfolio grew to RO 682m from RO 583m at 31 December 2009, and customer deposits recorded an increase of 10.71% to RO 768m. The share of profit attributable to the equity holders of the Parent Company for the year was RO 11.82m. Cash dividend from 2009 profits received during 2010 year by the Parent Company was RO 7.65m.

In a meeting held on 21st December 2010, the banking subsidiary's Board has recommended an increase in its paid-up share capital to RO 100m (from current RO 85m) through the issuance of 13m rights shares at RO 1,000 nominal value per share and a stock dividend of RO 2m. Cash dividend of RO 17m (20%) has also been recommended for shareholders' approval.

Our portfolio of investments in the capital markets outperformed benchmark indices, recording a return of 26.34% for the year as compared to a 6.06% gain recorded by the MSM General Index.

## Dividend for the year

The Company follows a policy of providing its shareholders with a consistent annual return on their capital, together with an opportunity to participate in long term gains from sound local and international investments. In line with this stated policy, but also taking into account the capital required to fund fresh investments and projects, the Board is recommending a cash dividend of RO 2,300,000 representing 10% of the paid-up share capital (for 2009, cash dividend was RO 2m representing 10% of the paid-up share capital) and a stock dividend of RO 2,300,000 representing 10% of the paid-up share capital (for 2009, the stock dividend was RO 3m representing 15% of the paid-up share capital). Ominvest's dividend history is detailed under Management Discussion and Analysis.

## Real Estate Development Projects

### *Project Salalah*

Salalah Resorts SAOC, a wholly owned special purpose subsidiary of Ominvest, was established in 2010 to develop an upscale Integrated Tourism Complex (ITC) on a ca. 4 km<sup>2</sup> coastal site near the city of Salalah in Oman's Dhofar governorate. This subsidiary has an initial authorised capital of RO 50 million and paid-up capital of RO 0.5 million. The first phase of the development is planned to consist of up to three 5-star and 4-star hotels, a village centre and souk, various resort amenities and a small residential villa and apartment component.

The project has been granted ITC status by the Ministry of Tourism, which permits special treatment in respect of ownership rights, taxation and other matters. The project's financial feasibility was established based on in-depth analyses conducted in 2010 by some of the world's leading cost consultants and market research advisors, among others, and the planning process for the project's financing is presently underway. Numerous studies were conducted over the course of the year on the project's technical aspects, market analysis, environmental impact, infrastructure, and other related factors. The project's concept Master Plan was concluded and work by three of the world's leading architectural design firms on the detailed design of plots of development was initiated. We are now at an advanced pre-development stage and preliminary infrastructure works are expected to commence towards the end of 2011, all subject to a Development Agreement being executed between the project company and the relevant ministry, which is expected during the first half of 2011.

### **Project Budva**

During 2010, the Parent Company acquired land for development in Budva, Montenegro. Located by the Adriatic seashore in one of Europe's most picturesque up-and-coming tourist destinations, the development will consist of a mid-sized apartment-hotel with a retail component. A renowned international architectural firm was appointed and is currently engaged in finalizing the concept design for the development. Enabling works on the project are expected to commence towards the end of 2011.

### **Outlook for 2011**

The global economy in general is expected to continue on a growth trajectory in 2011, albeit with marked exceptions if viewed by region or country. The US and the euro zone should maintain similar levels of growth as in 2010. Key emerging market countries are also expected to report another year of positive performance. However, increased concerns about inflationary pressures may moderate public sector stimulus measures, which in turn could impede growth rate to some extent.

At a fundamental level, the outlook for the GCC economies remains positive. With oil prices expected to stay above \$85 per barrel in 2011 and strong public sector spending, GCC economies should continue to perform well.

For the Sultanate of Oman, we believe the outlook for 2011 is stable with a likely increase in GDP growth over 2010. Activity within the commercial sector as well as banking and finance is expected to remain strong drivers for growth.

The Eighth Five Year Plan released by the government reflects an intention to continue investing in the country's infrastructure and to increase focus on tourism and critical human development aspects such as education and healthcare.

Ominvest is currently pursuing a business strategy to identify and invest in quality assets with an objective of generating increased sustainable earnings over the medium and long term. In this direction, the Company has made certain investments during 2010 and will further build on these during 2011, both domestically and globally.

Overall, the Sultanate under the wise leadership of His Majesty Sultan Qaboos Bin Said stands today as an enviable model for sound economic policies aimed at spurring growth while ensuring stability. The standards of corporate governance prevalent among commercial enterprises operating in the country are second to none in the world. The sound legal and regulatory framework governing commercial activity in the country ensures due process and an environment conducive for business to be conducted in conditions of security and fairness.

Finally, I would like to thank the Directors, management, staff and shareholders for their support in 2010 and look forward to the Company's continued progress in 2011 and beyond.



**HANI BIN MUHAMMAD AL ZUBAIR**  
Chairman

February 27, 2011





**Report of Factual Findings on the corporate governance reporting of Oman International Development and Investment Company SAOG and its application of the corporate governance practices in accordance with the CMA code of corporate governance**

**TO THE SHAREHOLDERS OF OMAN INTERNATIONAL DEVELOPMENT AND INVESTMENT COMPANY SAOG**

We have performed the procedures prescribed in Capital Market Authority (CMA) circular no 16/2003, dated 29 December 2003 with respect to the accompanying corporate governance report of Oman International Development and Investment Company SAOG and its application of corporate governance practices in accordance with the CMA Code of Corporate Governance issued under circular no. 11/2002 dated 3 June 2002 and the CMA Rules and Guidelines on disclosure, issued under CMA administrative decision 5, dated 27 June 2007. Our engagement was undertaken in accordance with the International Standard on Related Services applicable to agreed-upon procedures engagements. The procedures were performed solely to assist you in evaluating the extent of the company's compliance with the code as issued by the CMA.

We report our findings below:

We found that the company's corporate governance report fairly reflects the company's application of the provisions of the code and is free from any material misrepresentation.

Because the above procedures do not constitute either an audit or a review made in accordance with International Standards on Auditing or International standards on Review Engagements, we do not express any assurance on the corporate governance report.

Had we performed additional procedures or had we performed an audit or review of the corporate governance report in accordance with International Standards on Auditing or International Standards on Review Engagements, other matters might have come to our attention that would have been reported to you.

Our report is solely for the purpose set forth in the first paragraph of this report and for your information and is not to be used for any other purpose. This report relates only to the accompanying corporate governance report of Oman International Development and Investment Company SAOG to be included in its annual report for the year ended 31 December 2010 and does not extend to any financial statements of Oman International Development and Investment Company SAOG, taken as a whole.



27 February 2011  
Muscat



Philip Stanton  
Partner

# CORPORATE GOVERNANCE REPORT

Corporate Governance deals with the way companies are led and managed, the role of the Board of Directors and a framework of internal controls. The Board supports the highest standards in Corporate Governance. The Board of Directors is responsible for monitoring the Company's management, the Company's overall strategy and policies, including risk management policies and control systems of the Group. The Board confirms that Ominvest (the Company) applies the principles set out in the Capital Market Authority's (CMA) Code of Corporate Governance (Code) for Muscat Securities Market (MSM) listed companies published on 3 June 2002 (Circular no. 11/2002) as amended on 11th January 2003 (Circular no. 1/2003) and Rules and Guidelines on disclosure by issuer of securities and insider trading (Administrative Decision No. 5/2007 dated 27 June 2007) effective 1st October 2007.

## BOARD OF DIRECTORS

The Board of Directors is responsible for the overall policy direction, supervision and control system of the Group. The directors are given appropriate and timely information by the management so that they can maintain effective control over strategic, financial, operational and compliance issues.

## APPOINTMENT OF DIRECTORS

The Articles of Association of the Company provide for ten (10) directors. Each director on the Board is required to own/represent at least two hundred thousand (200,000) shares in the Company as qualification shares. Election to the Board is subject to approval by the regulatory authorities based on nomination papers filed by the candidate who meets the minimum qualification requirements as per CMA guidelines. The directors of Ominvest were elected by the shareholders at the Annual General Meeting (AGM) held on 29 March 2008 for a term of three years, which expires at the Annual General Meeting to be held on 31 March 2011. An election for the Board of Directors from eligible candidates will be held at the AGM.

## COMPOSITION OF THE BOARD

During the year 2010, the Board consisted of ten directors who have varied backgrounds and experience and who individually and collectively exercise independent and objective judgement. The composition of the board of directors is in accordance with the Article 3 of the Code.

- (i) All Directors, including the Chairman, are non-executive. All Directors are independent with the exception of one Director who is the Chief Executive Officer of a subsidiary.
- (ii) All Directors were elected in their individual capacities.

## NUMBER OF BOARD MEETINGS

Ominvest held six Board meetings during the year ended 31 December 2010. They were on 8 January, 23 February, 10 May, 9 August, 16 August and 13 November. The maximum interval between any two meetings was 90 days. This is in compliance with Article 4 of the Code which requires meetings to be held within a maximum time gap of four months.

## DIRECTORS' ATTENDANCE RECORD

Director	No. of meetings attended	Whether attended last AGM
Hani bin Muhammad Al Zubair	6	Yes
Rashad bin Muhammad Al Zubair	4	No
Abdul Kader Askalan	3	Yes
Taya bin Jandal bin Ali	5	Yes
Abdullah bin Said Al Balushi	6	No
Jamal bin Shamis Al Hooti	5	No
Majid bin Salim Al Arami	4	Yes
Khalil bin Abdulla Al Khonji	6	No
Saif bin Said Al Yazidi	3	Yes
Ahmed bin Said Al Mahrezi	5	No

No Director is a member of the board of more than four public joint stock companies whose principal place of business is in the Sultanate of Oman, or is a chairman of more than two such companies. Particulars of Directorships of other joint stock

companies and memberships of other Board Committees is set out in Appendix I of this Report. None of the directors is a member of the board of directors of a joint stock company which has similar objectives to the Company and whose principal place of business is in the Sultanate of Oman.

## **DIRECTORS WITH MATERIALLY SIGNIFICANT RELATED PARTY TRANSACTIONS, PECUNIARY OR BUSINESS RELATIONSHIP WITH THE COMPANY**

All details relating to financial and commercial transactions where Directors may have a potential interest are provided to the Board, and the interested Directors neither participate in the discussion, nor do they vote on such matters. All such matters are also discussed in detail by the Audit Committee.

During the year, there were no material related party transactions or pecuniary transactions between the Company and its directors that may have potential conflict with the interests of the Company at large.

The following shareholders are deemed to be related parties by virtue of their shareholding (10% or more of the voting power) in the Company:

	<b>(% Holding)</b>
• Al Hilal Investment Company llc	20.09%
• Civil Service Employees Pension Fund	12.43%

## **COMMITTEES OF THE BOARD**

### **Audit Committee**

The Committee consists of three non-executive and independent directors. All members of the Committee are knowledgeable in finance, industry and laws and regulations governing SAOG companies.

The Audit Committee met four times during the year on 21 February, 5 May, 8 August and 3 November and the attendance record is tabled below.

Attendance record of Audit Committee Members:

<b>Name of Committee Member</b>	<b>Position</b>	<b>Meetings attended during the year</b>
Saif bin Said Al Yazidi	Chairman	4
Jamal bin Shamis Al Hooti	Member	4
Majid bin Salim Al Aarimi	Member	4

The Committee receives reports on the findings of internal and external audits and on actions taken in response to these. It meets with the external auditors at least once every year and reviews the scope, findings and cost effectiveness of the Company's audit and the independence and objectivity of the external auditors. It also reviews changes to the accounting policies and reviews the annual and quarterly financial statements and recommends for Board approval. In addition, the Committee regularly reviews and reports to the Board on the effectiveness of the Company's system of internal control and risk management processes.

The Committee members were each paid sitting fees of RO 500 for each meeting attended by them during the year.

### **Executive Committee**

The Executive Committee is delegated powers and authority to facilitate the smooth running of the operations of the Company and exercise all of the responsibilities of the Board between its meetings within the limits set out in the Manual of Internal Regulations approved by the Board. The exceptions to the delegated powers are:

- (i) Approval of the Company's annual budget and business plan;
- (ii) Approval of the Group's and Company's quarterly unaudited financial statements and the annual audited financial statements; and
- (iii) Sale of the major strategic local investment which comprises the 51% shareholding in Oman Arab Bank SAOC.

The Executive Committee consists of four non-executive Directors; all independent, with the exception of one Director, who is the Chief Executive Officer of the banking subsidiary.

The Committee met three times during the year on 9 February, 20 June and 13 October and the attendance record of the members is tabled below:

Name of Committee Member	Position	Meetings attended during the year
Hani bin Muhammad Al Zubair	Chairman	3
Rashad bin Muhammad Al Zubair	Member	1
Abdul Kader Askalan	Member	3
Taya bin Jandal bin Ali	Member	3

The Committee members were each paid sitting fees of RO 500 for each meeting attended by them during the year.

### Projects Committee

The Projects Committee consists of four non-executive and independent directors. The Committee met four times during the year on 6 April, 20 June, 9 August and 17 October.

The Projects Committee is mandated to review, advise and assist the management on project related assignments, especially matters relating to liaison with government and regulatory authorities and selection and appointment of external consultants, including their terms of reference; and, to report recommendations to the Board.

Attendance record of Projects Committee Members:

Name of Committee Member	Position	Meetings attended during the year
Hani bin Muhammad Al Zubair	Chairman	4
Taya bin Jandal bin Ali	Member	4
Jamal bin Shamis Al Hooti	Member	4
Ahmed bin Said Al Mahrezi	Member	2

The Committee members were each paid sitting fees of RO 500 for each meeting attended by them during the year.

Following the establishment of Salalah Resorts SAOC and a dedicated Board for the Salalah Resorts project, the Projects Committee was dissolved in November 2010.

In addition, certain Committee members, together with the management of the Company, attended various meetings with Government authorities and consultants in Muscat and Salalah. No specific compensation to members has been made by the Company for the time spent on Company business.

### REMUNERATION OF DIRECTORS

The Directors were paid a remuneration of RO 152,500 for 2009 as approved by the shareholders in the AGM held on 31st March 2010.

Each Director was paid RO 500 as sitting fees for each Board/Committee meeting attended during the year. In 2010, sitting fees of RO 42,500 was recorded as follows:

	(RO)
Board	23,500
Executive Committee	5,000
Audit Committee	6,000
Projects Committee	8,000

There was no other remuneration paid by Ominvest to any of the Directors.

Remuneration and sitting fees paid to individual Directors during the year (in RO) was:

Director	Sitting Fees					Remuneration (2009)	Total Paid
	Board	Executive Committee	Audit Committee	Projects Committee	Total		
Hani Muhammad Al Zubair	3,000	1,500	-	2,000	6,500	20,500	<b>27,000</b>
Rashad Muhammad Al Zubair	2,000	500	-	-	2,500	17,000	<b>19,500</b>
Abdul Kader Askalan	1,500	1,500	-	500*	3,500	14,000	<b>17,500</b>
Taya Jandal Ali	2,500	1,500	-	2,000	6,000	17,000	<b>23,000</b>
Abdullah Said Al Balushi	3,000	-	-	-	3,000	14,000	<b>17,000</b>
Jamal Shamis Al Hooti	2,500	-	2,000	2,000	6,500	14,000	<b>20,500</b>
Majid Salim Al Arami	2,000	-	2,000	-	4,000	14,000	<b>18,000</b>
Khalil Abdulla Al Khonji	3,000	-	-	-	3,000	14,000	<b>17,000</b>
Saif Said Al Yazidi	1,500	-	2,000	500*	4,000	14,000	<b>18,000</b>
Ahmed Said Al Mahrezi	2,500	-	-	1,000	3,500	14,000	<b>17,500</b>
<b>Total</b>	<b>23,500</b>	<b>5,000</b>	<b>6,000</b>	<b>8,000</b>	<b>42,500</b>	<b>152,500</b>	<b>195,000</b>

\* These directors were invited to attend the Projects Committee meetings and each was paid a sitting fee of RO 500 for attendance.

Travel and incidental expenses relating to Company's business for certain Board members during the year was RO 10,225.

Directors' Remuneration proposed for 2010 is RO 152,500 and this is subject to shareholders' approval at the AGM scheduled to be held on Thursday, 31st March 2011. As per Royal Decree 99/2005 of 5th December 2005, the maximum permissible limit on Board remuneration, including sitting fees, is 5% of net profit (subject to specified deductions), subject to an overall limit of RO 200,000. Each Director's sitting fees per annum is limited to RO 10,000.

A Director represent Ominvest on the Board of the banking subsidiary. Remuneration and fees payable by the Bank are paid directly to the Director and amounted to RO 22,500 in 2010.

## INTERNAL CONTROL REVIEW

The Code introduced a requirement that the directors should, at least annually, review the effectiveness of the Group's system of internal controls and report to the shareholders that they have done so. The Board attaches great importance to maintaining a strong control environment and confirms that their review has covered the financial statements, all controls, including financial, operational, compliance and risk management. The Board has reviewed the Parent Company's internal control policies and procedures and is satisfied that appropriate procedures are in place to implement the Code's requirement.

## MANAGEMENT

### MANAGEMENT DISCUSSION AND ANALYSIS

A copy of the Management Discussion and Analysis is included in the annual report.

### MANAGEMENT REMUNERATION

The Company presently does not have stock option plan for any of its employees. However, full time employees of the Company are paid bonuses, at the discretion of the Board.

At 31 December 2010, the Company employed thirty (30) full-time employees. The expense (salaries and allowances and other statutory payments) incurred for 2010 relating to the following 7 full-time executive management team of the Company was RO 757,525. In addition, some of the full-time members of the executive management team who represent the Group on the Board and committees of investee companies and funds received an amount of RO 59,850 as sitting fees and remuneration directly from the investee companies and funds. In addition, travel and incidental expenses for Group's business incurred by some of the above executives for 2010 amounted to RO 40,390.

All employees are employed on two year employment contracts renewable on mutually acceptable terms on expiry. Notice period is 3 months for all positions or salary in lieu thereof.

## PROFILE OF EXECUTIVE MANAGEMENT



### **Shariq Azhar**

Chief Executive Officer

Shariq Azhar joined Ominvest in August 2008 with over 25 years' experience in the financial services industry spanning the US, Middle East and Europe. Most recently he was Director General of an Abu Dhabi based investment bank. Previously he has served as Executive Vice President and Head of the Corporate Banking Group of Abu Dhabi Commercial Bank, as General Manager of Mashreq Bank in New York, as Vice President of Chase Manhattan Bank in New York and as Senior Research Analyst at the Federal Reserve Bank of New York. He holds an MBA in Finance from the Stern School of Business, New York University.



### **Mark Richard Allchin**

Executive Vice President, Real Estate Investments

Mark Allchin has worked at all levels in property and construction since leaving the British Armed Forces in 1985. His long experience in real estate covers a wide range of major development and regeneration projects, both in the UK and more recently in the Gulf region. In the UK, Mark worked for Land Securities, the UK's largest developer at the time. Prior to joining Ominvest, he was the International Developments Director for four years at one of Abu Dhabi's leading Master Developers. Mark graduated from the University of Greenwich with a double First Honors degree in Design and Construction Management; subsequent to which he obtained two Masters degrees in Project Management (Edinburgh), and Property Development and Planning Law (London).



### **Tariq Ibrahim Al Asfoor**

Executive Vice President, Capital Markets

Tariq Al Asfoor joined Ominvest in January 1995, prior to which he was involved in project appraisal and feasibility studies for a public sector bank. Thereafter he served as Research Analyst at a sovereign fund in Oman where he was involved in undertaking economic analysis for investment decisions. Tariq graduated from the US International University, UK in 1987 and obtained his MBA from Wolverhampton Business School, UK in 1994.



### **Taimur Hasan**

Senior Vice President, Private Equity & Corporate Finance

Taimur Hasan has more than 15 years of international experience and an extensive Investment Banking background with a focus on Mergers & Acquisitions, Private Equity, and Equity Capital Markets. Prior to joining Ominvest, he worked for large financial institutions in the GCC, Pakistan and USA, where he concluded several landmark transactions globally. Taimur graduated from Coe College in Cedar Rapids, Iowa, USA, where he earned his Bachelor's degree in Business Administration with a concentration in Finance. He is National Association of Securities Dealers (NASD) Series 7 and Series 63 certified.



**Satrajit Choudhury**

Senior Vice President, Strategic & Industrial Investments

Satrajit Choudhury has over 34 years' experience in consultancy, project management, industrial marketing, group administration and corporate planning. Over his career, he has also managed a diverse range of industrial plants. Prior to joining Ominvest in February 1986, he worked with a large engineering and technology company in France and the Tata Group in India. At Ominvest he has initiated, developed and commissioned projects in a range of industries including steel, aluminum, industrial salts and plastics. Satrajit is a chemical engineer with an MBA from the Indian Institute of Management, Ahmedabad.



**K P Karnik**

Chief Financial Officer

K P Karnik started his audit career in Mumbai and moved to Oman in 1979 to join a leading international firm of public accountants. Since joining Ominvest in November 1984, he has been a member of the executive management team. Karnik graduated from the University of Mysore, India and qualified as a Chartered Accountant in 1976.



**Ahmed Said Zaki**

Chief Compliance Officer

Said Zaki joined Ominvest in August 1995 and has more than 35 years of experience in banking, finance and investment in Egypt and the Sultanate of Oman. Said represents Ominvest on the Board of a number of companies, including the banking subsidiary, Oman Arab Bank and serves as Secretary to the Ominvest Board. He graduated from the University of Cairo in 1973 and holds a professional Diploma in Management from the American University in Cairo.

## SHAREHOLDERS

### Communication to shareholders and investors

Information relating to the Company and its quarterly and annual financial statements are posted on the Company's website - [www.ominvest.net](http://www.ominvest.net). Financial statements, in Arabic and English, are also available at the Company's offices during the Company's business hours.

The quarterly and annual results of the Group and Parent Company are published in leading Arabic and English newspapers in the Sultanate of Oman.

Audited financial statements, in Arabic, together with the Notice and Agenda for the AGM are sent by post to all shareholders to their registered addresses provided by the Muscat Clearing and Depository Company SAOC. Financial statements are also published at least in an Arabic and an English newspaper within five days of filing it through electronic transmission system of MSM.

Presentations were made to institutional investors who had approached the Company during the year.

### Distribution of shareholding

The shareholding pattern as on 31 December 2010 was:

Number of Shares	% Held	Number of shareholders	Total Shares	% Share Capital
Above 23,000,000	Above 10%	2	74,798,988	32.52%
11,500,001 to 22,999,999	5% - 10%	-	-	-
2,300,000 to 11,499,999	1% - 5%	15	75,761,788	32.94%
Below 2,300,000	Below 1%	1,331	79,439,224	34.54%
<b>GRAND TOTAL</b>		<b>1,348</b>	<b>230,000,000</b>	<b>100.00%</b>

## PROFESSIONAL PROFILE OF THE STATUTORY AUDITORS

The shareholders of the Company have appointed M/s Ernst & Young as the auditors for the year 2010.

### Ernst & Young – Statutory Auditors

Ernst & Young are the statutory auditors of the Company. Ernst & Young is one of Oman's oldest established accounting firms, having had a permanent office in the country since 1974. The Oman practice comprises one hundred and eighty professionals, and is working under the direction of four partners. The Oman office forms part of Ernst & Young's MENA practice, with 120 partners and over 4100 other professionals in 20 offices in 15 countries throughout the region. The MENA practice is member firm of Ernst & Young Global, operating in more than 140 countries with approximately 141,000 personnel world-wide.

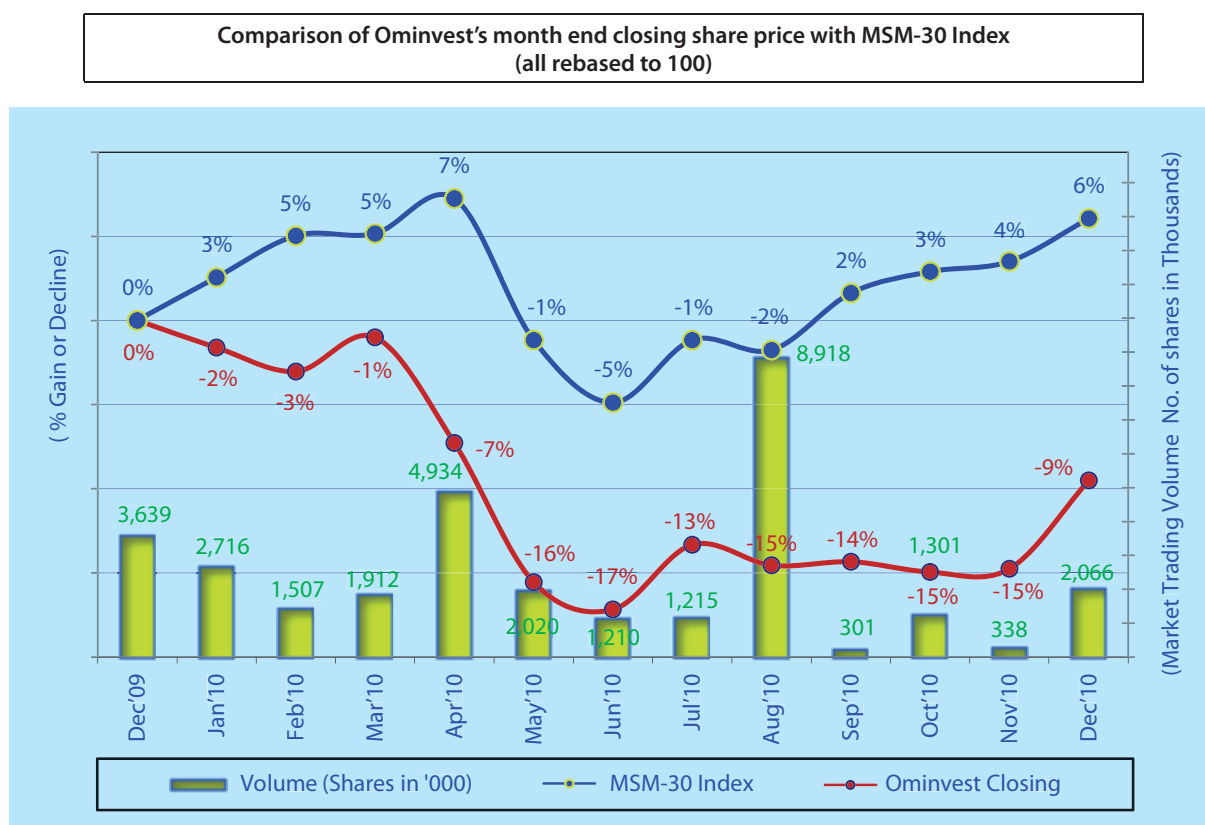
Remuneration to statutory auditors:		(RO)
Audit fees for 2010	Parent Company	9,500
	Subsidiaries	27,000
	<b>Total</b>	<b>36,500</b>

## LEGAL ADVISOR

M/s Al Busaidy, Mansoor Jamal & Co. continued to serve the Company as the Legal Advisor during the year.

## MARKET PRICE DATA

The performance of the Company's share price in 2010 versus MSM-30 Index is shown below:



Details of Ominvest's high and low share prices during each month are as follows:

	Dec'09	Jan'10	Feb'10	Mar'10	Apr'10	May'10	Jun'10	Jul'10	Aug'10	Sep'10	Oct'10	Nov'10	Dec'10
High	0.510	0.511	0.500	0.499	0.478	0.464	0.430	0.441	0.440	0.433	0.430	0.425	0.457
Low	0.410	0.480	0.460	0.460	0.432	0.370	0.390	0.402	0.410	0.413	0.420	0.410	0.420
Close	0.495	0.487	0.480	0.490	0.459	0.418	0.410	0.429	0.423	0.424	0.421	0.422	0.448

Source : MSM Monthly Investors' Guide

## DETAILS OF NON-COMPLIANCE

There have been no instances of non-compliance on any matter relating to the Commercial Companies Law No. 4/1974 (as amended), CMA's code of corporate governance for MSM listed companies, CMA regulations or the MSM listing agreements.

## ACKNOWLEDGEMENT BY THE BOARD

The Board acknowledges its responsibilities and confirm that:

- the audited Group and Parent Company financial statements have been prepared in accordance with the IFRS, the minimum requirements of the Commercial Companies Laws, No. 4/1974, as amended, and the disclosure requirements of the Capital Market Authority;
- the internal controls and procedures have been reviewed through an established process of regular internal audit, review by the Audit Committee and the final clearance by the Board;
- the Parent Company and the Group have a strong financial standing to carry on their successful operations in the foreseeable future.

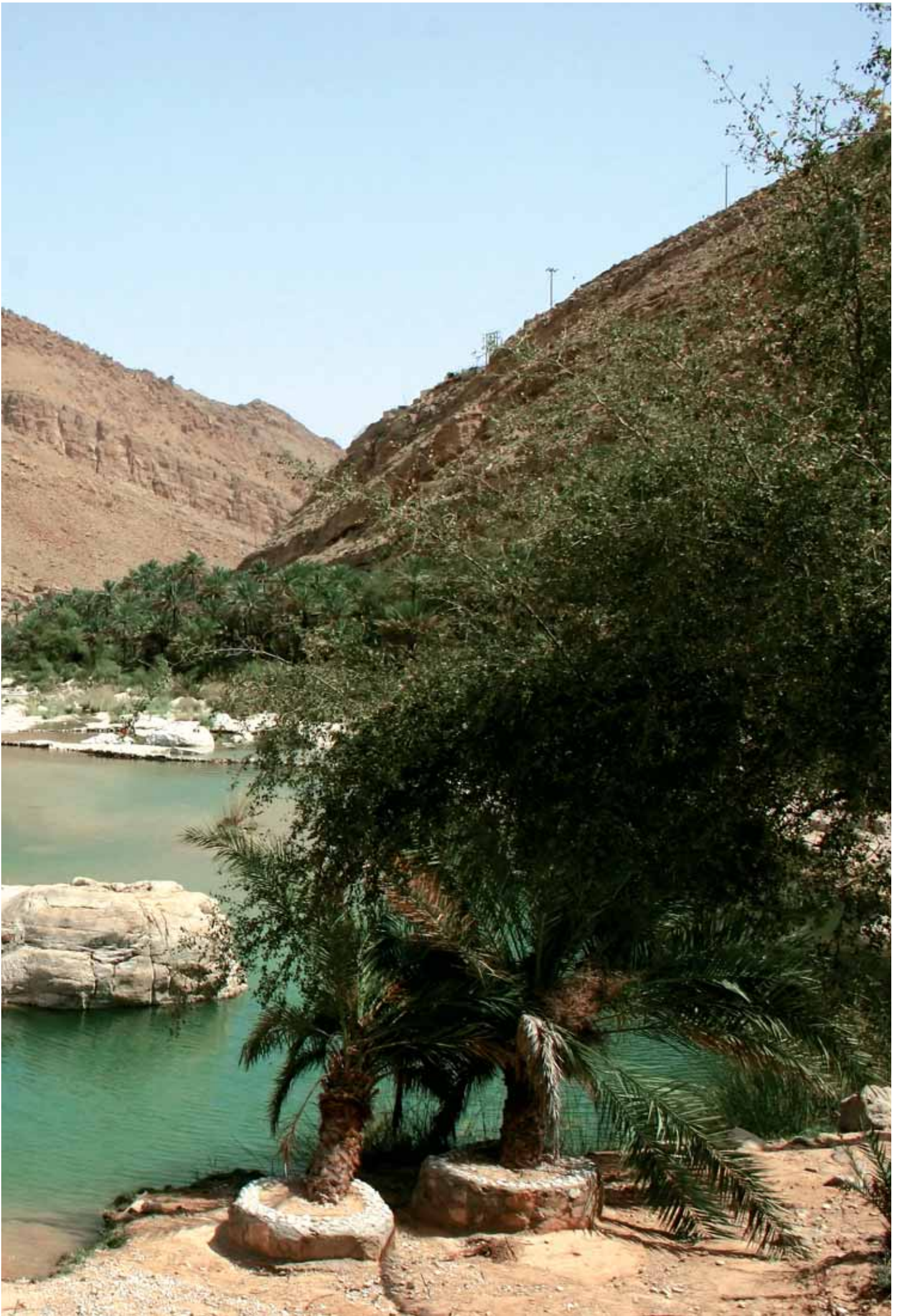
Date: February 27, 2011

## APPENDIX 1

PARTICULARS OF DIRECTORSHIPS OF OTHER PUBLIC JOINT STOCK COMPANIES  
AND MEMBERSHIPS OF THEIR COMMITTEES

Director	OTHER DIRECTORSHIPS			
	Company	Position	Committee	Position
Hani bin Muhammad Al Zubair	National Finance Co. SAOG	Dy. Chairman	-	-
Abdul Kader Askalan	Oman Telecommunications Co. SAOG	Dy. Chairman	AC	Member
Taya bin Jandal bin Ali	National Finance Co. SAOG	Chairman	EC	Chairman
Majid bin Salim bin Saeed Al Arami	Oman Packaging Co. SAOG	Dy. Chairman	AC	Dy.Chairman
Saif bin Said Al Yazidi	National Bank of Oman SAOG	Director	AC RC DC	Member Member Member
	Muscat Gases Co. SAOG	Director	EC	Member
Ahmed bin Said Al Mahrezi	Bank Dhofar SAOG	Director	EC HRC	Member Chairman
	Hotel Management Int'l Co. SAOG	Director	EC	Chairman
			EC = Executive Committee AC = Audit Committee RC = Risk Committee DC = Donations Committee HRC = Human Resources Committee	





# MANAGEMENT DISCUSSION AND ANALYSIS REPORT

## OVERVIEW

Oman International Development and Investment Company SAOG (Ominvest or the Company), an Omani General Joint Stock Company, was established by a Ministerial Decree in 1983. The Company's stated objectives are to provide its shareholders a consistent annual return on their capital, together with an opportunity to participate in the long-term gains from its sound investments in and outside the Sultanate of Oman. The objective is to enhance shareholder value by generating above market returns on the share capital with sustainable long term growth.

To achieve these objectives, the Company's current strategy consists of the following three major categories of business:

- Investment in private equity (direct and via funds) and projects
- Real estate investments
- Capital markets (listed securities) investments

Within the above strategy, Ominvest is constantly exploring opportunities to increase and diversify its investment portfolio within and outside the Sultanate with an objective of growth in earnings and to mitigate volatility in its portfolio of investments.

The Company's shares are listed on the Muscat Securities Market (MSM) and it is a constituent of the MSM Index which comprises a basket of 30 listed companies.

The Capital Market Authority (CMA) is the government body responsible for regulating the exchange, the central depository (Muscat Depository and Securities Registration Company) and the capital markets and their participants. The Muscat Securities Market (MSM) is divided into the regular, parallel and third markets. The three markets differ in regard to listing requirements. There are a number of listed investment entities and these include public joint stock companies, holding companies and closed and open-ended investment mutual funds.

Summary of MSM performance:

	2010		2009		Growth (%)	
	No. of Listed Cos.	(RO billion)	No. of Listed Cos.	(RO billion)	2010	2009
Market capitalisation by sector:						
Banking & Investment	30	3.60	30	3.15	14.30	24.51
Services	38	3.02	38	2.33	29.20	(6.80)
Industry	52	1.18	52	1.22	(3.10)	52.50
<b>Total market capitalisation</b>	<b>120</b>	<b>7.80</b>	<b>120</b>	<b>6.70</b>	<b>19.90</b>	<b>14.92</b>

MSM Index for the last five years at 31 December is as follows:

YEAR-END	GENERAL INDEX	INDUSTRY	BANKING & INVESTMENT	SERVICE	% CHANGE IN GENERAL INDEX
2010	6,754.92	7,306.48	8,319.73	2,705.72	6.06
2009	6,368.80	7,446.79	9,374.73	2,701.95	17.05
2008	5,441.12	4,321.64	6,620.92	2,527.87	(39.78)
2007	9,035.48	8,137.06	12,312.80	3,533.14	61.88
2006	5,581.57	5,072.80	7,179.27	2,323.92	14.49
No. of stocks included in the Indices	30	10	10	10	

(Source: MSM Investors Guide: December 2009 & December 2010)

The total value of securities traded on the secondary market (shares, bonds and OTC) decreased to RO 1.32 billion from RO 2.28 billion in 2009. The Market was open for 247 days in 2010. The Company shares were traded on 210 days with 4,690 contracts amounting to a total volume of 28.44 million shares with an aggregate traded value of RO 12.79m.

Foreign institutions and individuals are eligible to invest in listed Omani companies. It is an MSM prerequisite that all companies seeking listing must be open to foreign investors, at least up to 49% of equity. Foreign investors buy and sell equities on the MSM via MSM licensed brokerage companies. There are no taxes on dividends received and capital gains from shares listed on the MSM and no limits on repatriation.

(Source: MSM Annual Bulletin 2010)

## GROUP AUDITED CONSOLIDATED FINANCIAL STATEMENTS

The Group Audited Consolidated Financial Statements include the audited financial statements of the following for the financial year ended 31 December 2010:

Company	Activity	Country	Staff	Status
Oman International Development & Investment Company SAOG	Investment	Oman	30	Parent Company
Oman Arab Bank SAOC	Banking	Oman	885	Subsidiary (51%)
Oman Investment Services SAOC	Investment	Oman	3	Subsidiary (99.98%)

Also included are the separate Parent Company audited financial statements presented in accordance with the Capital Market Authority's Circular E/2/2007 issued on 14th January 2007.

The financial highlights based on the audited financial statements for the financial year ended 31 December 2010 are:

	GROUP		PARENT COMPANY	
	2010 (RO '000)	2009 (RO '000)	2010 (RO '000)	2009 (RO '000)
Profit for the year attributable to the shareholders of the Parent Company	11,959	11,408	7,076	9,475
Share capital	23,000	20,000	23,000	20,000
Shareholders funds	92,625	82,844	45,065	40,259
Proposed cash dividend	2,300	2,000	2,300	2,000
Proposed stock dividend	2,300	3,000	2,300	3,000
Basic earnings per share (RO)	0.052	0.057	0.031	0.047
Net assets per share (RO)	0.403	0.414	0.196	0.201
Cash dividend per share (RO)	0.010	0.010	0.010	0.010
Stock dividend per share (RO)	0.010	0.015	0.010	0.015

## PERFORMANCE FOR THE YEAR

The Group consolidated profit for the year was RO 23.31 m (2009: RO 22.72m) and is attributable to:

	2010 (RO'000)	2009 (RO'000)
Shareholders of the Parent Company	11,959	11,408
Non-Controlling interests	11,355	11,312
	<b>23,314</b>	<b>22,720</b>

Non-controlling interest represents 49% of the banking subsidiary's equity owned by the minority shareholders, Arab Bank, Jordan. Accordingly, 49% of Oman Arab Bank's profit for the year is attributable to non-controlling interests.

The Group and Parent Company performance for the year is summarised below:

	GROUP		PARENT COMPANY	
	2010 (RO '000)	2009 (RO '000)	2010 (RO '000)	2009 (RO '000)
<b>Subsidiary profits/(losses):</b>				
- Oman Arab Bank	23,170	23,081	-	-
- Oman Investment Services	105	(104)	-	-
- Salalah Resorts SAOC	(99)	-	-	-
- Budva Beach Properties	(39)	-	-	-
<b>Parent Company:</b>				
Investment income:				
- Cash dividends	538	649	8,329	11,190
Gains/(losses) on capital market investments	1,200	815	1,200	815
Income from private equity investments	218	53	218	53
Other income	84	130	84	130
Share of profits from associates	892	810	-	-
	<u>26,069</u>	<u>25,434</u>	<u>9,831</u>	<u>12,188</u>
Parent Company expenses:				
- Finance costs (net)	(530)	(403)	(530)	(403)
- Staff costs	(1,370)	(1,269)	(1,370)	(1,269)
- Other operating expenses	(741)	(699)	(741)	(699)
- Provisions for investments	(114)	(163)	(114)	(163)
- Income tax expense	-	(179)	-	(179)
Total expenses	<u>(2,755)</u>	<u>(2,713)</u>	<u>2,755</u>	<u>(2,713)</u>
<b>Group Profit for the year</b>	<b><u>23,314</u></b>	<b><u>22,720</u></b>	<b><u>7,076</u></b>	<b><u>9,475</u></b>

- In the Parent Company, cash dividend from subsidiaries and associates is recognised as income.
- In the Group, subsidiaries' statements of income are consolidated and share of profits from associates are recognised as income on equity basis.

## PARENT COMPANY

### Statement of Income

#### **Investment Income: RO 9.75m (2009: RO 12.05m)**

Investment income comprise dividend income, income from capital market investments and income from private equity investments. Investment income details are presented in Note 17 to the financial statements.

(i) **Dividend income** – RO 8.32m (2009: RO 11.19m)

Ominvest's main income was from its single largest investment (at cost) of RO 29.57m (50.65% of total assets) in its banking subsidiary, Oman Arab Bank SAOC (OAB). During 2010, cash dividend of RO 7.65m was received from OAB and this constitutes 77.82% of Ominvest's total income.

Cash dividends received from National Detergent Company SAOG, an associate was RO 0.14m.

Cash dividend received from capital market investments in Oman and other GCC markets amounted to RO 0.15m and cash dividend received from other investments in Oman was RO 0.38m.

(ii) **Income from capital market** activities as detailed under investment securities amounted to RO 1.20m (2009: RO 0.82m) representing realized and unrealized gains. Capital Market Division outperformed the MSM index recording 26.34% returns for the year compared to 6.06% gains recorded by the MSM.

(iii) **Profit realized from private equity funds** was RO 0.22m (2009: RO 0.05m). Most private equity funds are in their final stages and represent residual balances.

**Staff costs: RO 1.42 m (2009: RO 1.27m)**

Staff costs for the year has gone up by RO 0.10m (+8%) as number of staff has gone up to 30 from 27 at the end of 31 December 2009, and salary revisions in January 2010. Number of Omani employees at 31 December went up to 16 (53% Omanisation) from 14 at 31 December 2009.

**STATEMENT OF FINANCIAL POSITION**

**Total assets** were RO 58.35m vs. RO 51.86m at 31 December 2009 recording a growth of 12.55%. Main contributors to this increase in total assets were:

Investments in dues from the following subsidiaries:

– Oman Arab Bank	: RO 4.08m
– Budva Beach Properties	: RO 4.74m
– Salalah Resorts SAOC	: RO 1.20m
– Increase in due from subsidiaries	: RO 0.85m

Concentration of total assets by geography is, Sultanate of Oman: RO 44.46m (76.2%) and outside the Sultanate RO 13.89m (23.80%).

**Shareholders' total equity** at RO 45.06m has grown by 11.92% compared to RO 40.26m at 31 December 2009. Share Capital increased to RO 23m (from RO 20m), the increase represent stock dividend of RO 3m approved at the Annual General Meeting held on 31 March 2010. Retained Earnings of RO 14.74m compared to RO 13.37m at 31 December 2009 resulted mainly from cash dividend of RO 7.65m received from Oman Arab Bank considering the cash and dividend of RO 5m for 2009 from retained profits at 31 December 2009.

**INVESTMENT IN SECURITIES****Capital Market Investments**

Capital market activities were mainly focused on the GCC markets as 75% of the total portfolio of RO 7.22m at 31 December 2010 was exposed to GCC markets. Income from capital market investments amounted to RO 1.35m including cash dividends of RO 0.15m. Assets directly managed by the Capital Market Division returned 26.34% for the year compared to MSM General Index gains of 6.06%.

Managed Hedge funds and Mutual funds included under Capital Market investments earned RO 0.35m returning gains of 11.21% compared to HFR Global Hedge Fund Index gain of 4.7% and S&P GCC Composite Price Index of 12.8% for the year ended 31 December 2010.

Movement in capital market investments and capital gains for the year was as follows:

	MSM	Other GCC Portfolio*	Others Markets	Hedge Funds	Total
	(RO'000)	(RO'000)	(RO'000)	(RO'000)	(RO'000)
At 1 January 2010	3,261	4,556	833	1,173	9,823
Market gains	401	270	340	190	1,201
Net outflows	(1,803)	(1,287)	(378)	(336)	(3,804)
At 31 December 2010	1,859	3,539	795	1,027	7,220

\* Include Managed GCC focused mutual funds.

Movement in the index of selected GCC markets was as follows:

PERIOD	MSM General Index	DFM General Index	ADSM
31 December 2009	6368.80	1803.58	2473.61
31 December 2010	6754.92	1630.52	2719.87
<b>Change for the year</b>	<b>↑+6.06%</b>	<b>↓- 9.60%</b>	<b>↑+9.96%</b>



## Available for Sale investments

Available for sale investments (foreign) included under 'investment securities' comprise Ominvest's investments in private equity (direct) investments and managed funds. Fair values of these investments are estimated based on periodic reports received from the fund managers and these positions are generally held for longer periods, at least over three years. Based on the periodic reports received, following a review of each position, the management estimates impairment charges, if any, and such charge is recognized as an expense in the statement of comprehensive income. Estimated positive fair value changes are recognized in shareholders total equity and as 'other comprehensive income' in the statement of comprehensive income.

Movement for the year in available for sale investments (foreign), changes in the impairment provision, write-off of closed positions and changes in the fair values is as follows:

Particulars	Investments	Provisions for Impairment	Fair value Reserve
	(RO'000)	(RO'000)	(RO'000)
At 1 January 2010	5,643	2,587	624
Additions	1,484	114	-
Disposals /Reduction	(195)	-	(271)
Investments written off	(381)	(381)	-
<b>At 31 December 2010</b>	<b>6,551</b>	<b>2,320</b>	<b>353</b>

## Investments in associates (Group)

2010	2009
(RO'000)	(RO'000)
8,146	7,396

There are three (2009: three) SAOG companies in which the Group and the Parent Company hold over 20%, but under 50%, and exercise significant control by representation on the investee company Board and Board committees. The market value of investments in associate companies quoted on the Muscat Securities Market held by the Group amounted to RO 9.05m (2009: RO 7.73m). The major exposure is to one leasing associate which accounted for a carrying value of RO 5.04m (market value: RO 4.49m). The Group will continue to hold these investments subject to returns meeting internal benchmarks.

Associates generally performed well and contributed positively. Share of profits from associates recognised in the Group's statement of comprehensive income amounted to RO 0.89m for 2010 (2009: RO 0.81m). Cash dividend from associates recognised in the parent company amounted to RO 0.14m (2009: RO 0.34m)

## FAIR VALUE DISCLOSURES

As per International Accounting Standard 27: Consolidated and Separate Financial Statements, the parent company is only required to present the consolidated financial statements which incorporate its results and financial position as well as those of the subsidiary companies. IAS 27 also prescribes the accounting treatment for investments in subsidiaries and associates when the parent company is required to prepare separate financial statements by the local regulators.

In accordance with the Capital Market Authority's Circular E/2/2007 issued on 14th January 2007, the Parent Company's detailed financial statements are presented along with the Group financial statements. These financial statements are prepared by adopting accounting policies which are in compliance with the International Financial Reporting Standards (IFRS).

We would like to draw readers' attention to the following important disclosures relating to the Fair Value of investments in subsidiaries and investments in associated companies in the Parent Company's separate financial statements.

## Investments in Subsidiaries

The Parent Company's investments in subsidiaries, which are unquoted, are stated "at cost" and comprise the following:

	2010		2009	
	%held	(RO'000)	%held	(RO'000)
Oman Arab Bank SAOC	50.99	29,574	50.99	25,495
Oman Investment Services SAOC	99.98	903	99.98	903
Budva Beach Properties	100.00	4,615	-	-
Salalah Resorts SAOC	99.98	500	-	-

While the investment in the banking subsidiary is reported at cost (RO 29.57m) under IAS 27, the fair value of the Parent Company's investment in Oman Arab Bank SAOC's equity (50.99%) could be significantly higher. IFRS set out valuation techniques such as using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and options pricing models for determining the fair value of unquoted investments. Fair value of Parent Company's investment in Oman Arab Bank could vary depending on the valuation technique that may be applied.

Budva Beach Properties and Salalah Resorts SAOC were established during the year focused on developing property and Integrated Tourism Complex projects.

## Investments in Associates

In accordance with International Accounting Standard 28: Investments in Associates (revised) effective for annual periods beginning on or after 1 January 2005, investments in associates are stated "at cost". Income from such investments is recognised in the Parent Company's separate financial statements as the cash dividend received from associate companies.

Investments in associates are in companies which are listed on the Muscat Securities Market. At the balance sheet date, the market value of these investments at closing prices was RO 8.97m (2009: RO 7.73m) compared with the balance sheet carrying value (at cost) in the Parent Company's separate financial statements of RO 3.48m (2009: RO 3.48m) reflecting a value difference of RO 4.79m (2009: RO 4.25m).

Therefore, to conclude, the value of net assets held by the Parent Company as shown in its separate financial statements, would be significantly higher as compared to the reported net asset value of RO 39.07m (2009: RO 29.88m) ascribed to subsidiaries and associates at the balance sheet date under IFRS.

All other assets and liabilities of the Parent Company are reported at fair values, as per IFRS.

In adopting these policies, the Group applies prudence and consistency in methodology used as this involves certain judgements and estimates. It is the Group's policy to report any material issues relating to its results and financial position immediately on notification.

## Due from Subsidiaries: RO 2.34m (2009: NIL)

An amount of RO 1.51m included in other assets relating to the Salalah Resorts project in 2009 has been transferred to 'due from subsidiaries' following the establishment of Salalah Resorts SAOC in 2010. During the year additional development costs included on the project was RO 0.67m and the amount due from Salalah Resorts SAOC was RO 2.18m.

## Property & Equipment: RO 3.27m (2009: RO 3.32m)

Property and equipment include freehold hold land at RO 2.43m on which the construction is expected to commence in the second half of 2011.

## Bank borrowings

Increase in 2010	2010	2009
(RO'000)	(RO'000)	(RO'000)
1,575	12,025	10,450

This comprises the Parent Company borrowings net of short-term borrowings from the banking subsidiary of RO 2.6m (2009: RO 1.6m) which has been set off on consolidation. The borrowings are mainly to fund Parent Company's investment activities.

Interest on outstanding borrowings range between 3% p.a. – 5% p.a. (2009: 2.78% p.a. - 6% p.a.). In line with the increased total bank borrowings, net finance costs are higher at RO 530,000 compared to RO 403,000 in 2009. All borrowings are due for settlement within one year. All borrowings are clean facilities without any tangible securities.

Ominvest's debt/equity ratio at the balance sheet date is comfortably positioned at 0.27:1 as equity is RO 45.06m in the parent company and on Group basis the ratio is 0.10:1.

## OMAN ARAB BANK SAOC

Oman Arab Bank (the "Bank") is participating and contributing to Oman's economic growth while benefiting from it. The Bank's main activities are project financing, commercial banking, investment banking and consumer financing.

### Profit for the Year

Oman Arab Bank SAOC, Ominvest's banking subsidiary in which the Group owns 51% of the equity, has reported good performance for the year. The summarised results are stated below:

	2010 (RO'000)	2009 (RO'000)
Interest income	41,044	38,779
Interest expense	(7,687)	(8,001)
<b>Net interest income</b>	<b>33,357</b>	<b>30,778</b>
Fee and commission income	13,015	12,540
Investment (loss)/income	306	652
Other operating income	4,854	4,576
<b>Total income</b>	<b>51,532</b>	<b>48,546</b>
Operating expenses	(21,970)	(20,541)
Allowance for loan impairment	(4,562)	(4,325)
Recoveries/release from allowance for loan impairment	1,742	2,459
<b>Profit before taxation</b>	<b>26,742</b>	<b>26,139</b>
Taxation	(3,572)	(3,058)
<b>Profit for the year (RO)</b>	<b>23,170</b>	<b>23,081</b>
<b>Basic earnings per share</b>	<b>0.279</b>	<b>0.310</b>

- Interest on loans and advances increased by RO 2.70m as loan book grew by 17% at RO 682.35m compared to RO 583.40m at 31 December 2009. Personal loans grew by 35% (RO 77m) while corporate loans grew by 6% (RO 22m). However, decline in interest rates on personal and short term loans impacted growth in interest income.
- Interest income from other interest earning assets was lower at RO 0.86m (2009: RO 1.29m) mainly due to lower yields and placements.
- Interest expenses were lower by RO 0.31m despite an increase in deposits at RO 770m compared to RO 696m in 2009. This is mainly from lower interest rates and the improved composition in deposits.
- Provisions for loan impairment and contractual interest not recognised was RO 22.00m (2009: RO 17.85m) of which RO 9.50m (2009: RO 7.86m) as general provision was against the performing loans and advances on a portfolio basis. Net allowance for loan impairment was RO 2.82m compared to RO 1.87m in 2009.
- At 31 December 2010, loans and advances on which contractual interest is not recognised, amounted to RO 20.93m (2009: RO 15.79m).
- Oman Arab Bank's paid up share capital increased to RO 85m (2009: RO 75m) and total equity stood at RO 142.83m (2009: RO 126.48m), a net asset value per share of RO 1.720 (2009: RO 1.686).

## INTERNAL CONTROLS

The Board has a collective responsibility for the establishment and maintenance of a system of internal controls that provides reasonable assurance of effective and efficient operations, internal financial control and compliance with laws and regulations. However, it recognises that any system of internal control can provide only reasonable, and not absolute, assurance against material misstatement or loss.

The system of internal controls is monitored regularly by the Board, its Committees, Management and Internal Audit. The Group's business is conducted with a developed control framework, underpinned by policy statements, written procedures and control manuals. The Board has established a management structure which clearly defines roles, responsibilities and reporting lines. Delegated authorities are documented and communicated.

The business performance of the Group is reported regularly to its management and the Board. Performance trends, forecasts as well as actual performance against budgets and prior periods are closely monitored. Financial information is prepared using appropriate accounting policies fully in compliance with the IFRS which are applied consistently. Operational procedures and

controls have been established to facilitate complete, accurate and timely processing of transactions and the safeguarding of assets. These controls also include the segregation of duties, the regular reconciliation of accounts and the valuation of assets and positions.

## Critical Accounting Policies

The Group's accounting policies have been adopted in conformity with the International Financial Reporting Standards (IFRS) and have been consistently applied.

In applying certain accounting policies, the management of the Parent Company and of investee companies is required to make estimates and judgements regarding certain assets which are expected to be generating income and cash flows over a longer period, say up to ten years. Carrying values of assets recognised in the financial statements from such estimates are necessarily based on assumptions about numerous factors involving varying, and possibly significant, degrees of judgement and uncertainty. Accordingly, the carrying values reported in the financial statements may prove, with the benefit of hindsight, to be inaccurate. The balance sheet items which may most significantly be affected by these estimates are unquoted investments held by the Group and loans and advances to customers by the banking subsidiary.

Considering the Group's principal activities, the following accounting policies fully detailed in the consolidated financial statements could be considered critical as their application could have a significant bearing on the reported results and the financial position of the Group:

- **Impairment and uncollectability of financial assets**

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

Loans and advances to customers are presented net of specific and general allowances for uncollectibility.

- **Fair Values**

Fair values relating to valuation of unquoted investments and measurement of estimated change in values is by reference to external reports received. Fair values of unquoted investments cannot be determined without extensive, subjective, judgmental and possibly speculative estimates by the Company. Such investments are initially stated at cost, re-measured to estimated values at periodic intervals and changes in values on re-measurement is treated in equity.

Unrealised gains and losses on re-measurement of fair values of financial assets at fair value through profit or loss are included in the statement of comprehensive income and positive changes in fair values on available for sale financial assets are included under shareholders equity.

## Dividends and Share Capital

The Parent Company's objective is to provide its shareholders with a reasonable and consistent annual cash return on their investment in the share capital of the Company.

Since inception, the Parent Company has an uninterrupted record of dividend payments. Cash dividends of RO 55.6m have been declared. In addition, stock dividends totalling RO 11m were distributed during 1998 to 2010.

Share capital paid in by the shareholders to date amounted to RO 12m, of which RO 8 m was paid in November 1983 when the Company was incorporated and RO 4m in April 1994, following an increase in paid up share capital. The market capitalisation of the Parent Company at end 2010 was RO 103m.

## RISKS AND CONCERNS

We discuss below risks associated with our operations. However, these risks and uncertainties may not be the only ones facing our Company. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also affect us. If any of these risks actually occur, our business, financial condition or results of operations could be impacted.

### **A substantial part of our balance sheet is exposed to the banking industry:**

- The banking subsidiary, Oman Arab Bank SAOC, is the largest investment of the Parent Company. The Bank operates within the confines of the Omani economy which is substantially dependent on income derived from oil and gas which is dependent on the crude reserves, annual production and international demand and supply. The growth in the Bank's loan book and resultant earnings is dependent on the continuous growth in Oman's economic activities.



- The banking industry is licensed and regulated by the Central Bank of Oman. Changes in regulations could impact the earnings and operational ability of the Bank.

#### **Exposure to Real Estate industry:**

The Real Estate investments by the Company include the development of properties over time. This exposes the Company to the risk of deterioration in property market conditions and thereby potential decrease in the value of its real estate holdings.

#### **The Company is exposed to the leasing industry:**

- The leasing associate, National Finance Company SAOG, is carried on an equity basis at a value of RO 5.04 million in the Parent Company's books. Any deterioration in the fundamentals of these businesses could impact the financial statements of the associate thus reducing earnings recorded by the Group.
- The leasing industry is regulated by the Central Bank of Oman and any changes in regulations may impact the earnings ability of these companies.

#### **The Company is exposed to investments in global equities:**

- Investing in global equities poses country, industry and company specific risk. Valuations can be impacted by changes in macro-economic landscape as well as by financial market instability.

#### **The Company has invested in private equity:**

- The investment in private equity is illiquid and the timing and size of distributions is not under the control of the Company's management. Furthermore, exits are dependent on the market conditions prevalent in the global economies.
- Provisions for impairments, which are considered other than temporary, have been estimated by management and are mainly based on external reports issued by the Fund Managers and investee companies. Continued economic weakness in developed markets and the lack of availability of funding could affect the viability of some of these investments.

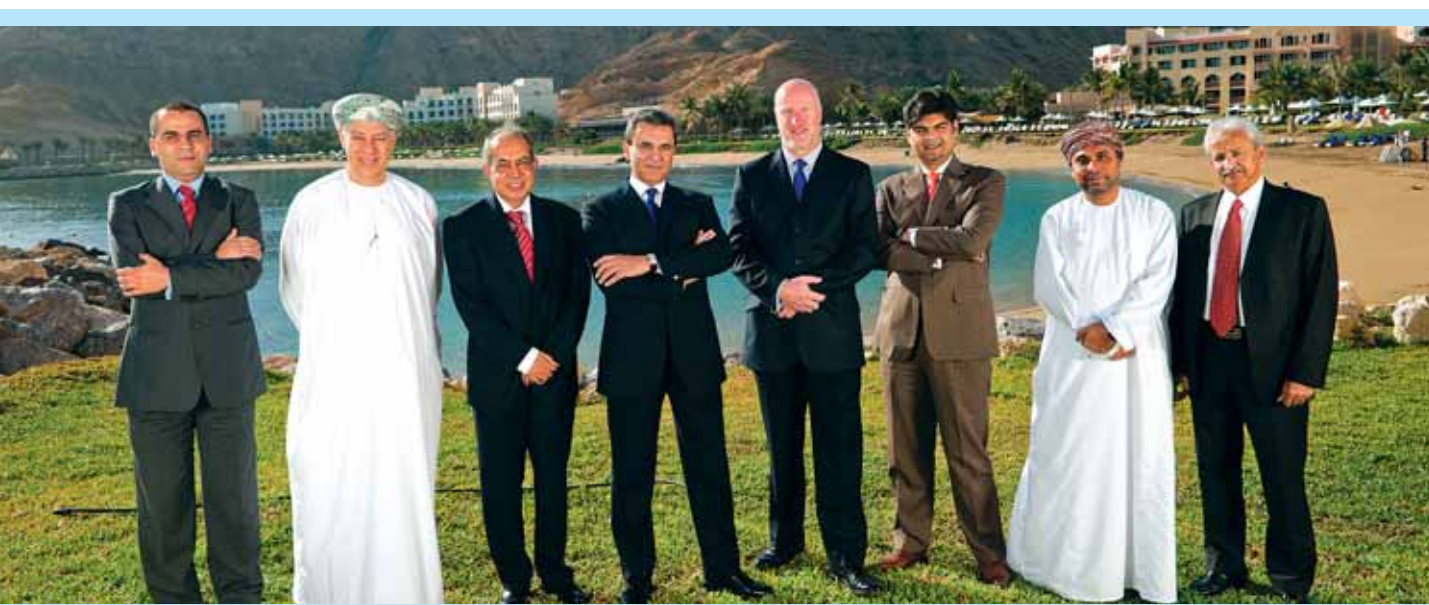
#### **The overseas marketable portfolio has invested in hedge funds:**

- The portfolio has substantial exposure to hedge funds, which are normally unregulated and which employ leveraged and relatively risky strategies. Loss of entire capital invested with a manager has occurred previously and could occur in the future.

#### **The Company has exposure to investments quoted on the Muscat Securities Market:**

- While the Group's exposure to the companies listed on the Muscat Securities Market is primarily in leading index stocks, any volatility in the local/regional markets could impact the returns from this segment of the Group's assets. As the portfolio is fairly well diversified, relatively small compared to Group's total assets, and is regularly monitored by the management, timely response would minimise the impact.

Date: February 27, 2011



## FINANCIAL OVERVIEW (GROUP)

Period* →	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997	1996	1995	1994	1993	1992	1991	1990	1989	1988	1987	1986	1985	
<b>Earnings, Assets and Shareholders' Funds</b>																											
<b>Consolidated Profit (RO '000)</b>	11,959	11,408	8,341	17,351	8,591	10,704	7,637	7,007	4,539	1,319	4,941	4,157	1,551	11,382	3,621	3,326	2,319	2,199	1,014	1,159	1,161	3,478	1,479	1,240	1,882	1,520	
<b>Total Shareholders' Funds (RO '000)</b>	92,625	82,844	72,535	67,580	51,522	48,734	44,030	40,893	36,886	33,847	37,136	35,196	32,645	34,176	24,730	23,019	21,003	15,970	14,657	14,508	14,338	11,783	11,175	10,807	9,797	9,797	
Paid-up Capital (RO '000) **	23,000	20,000	18,000	15,000	15,000	15,000	15,000	15,000	15,000	15,000	15,000	15,000	15,000	15,000	12,000	12,000	12,000	8,000	8,000	8,000	8,000	8,000	8,000	8,000	8,000	8,000	8,000
Reserves (RO '000)	42,195	38,272	32,740	26,432	19,843	17,082	14,139	12,808	11,677	10,837	12,396	11,566	10,830	9,853	7,850	6,978	6,047	5,528	2,507	2,266	2,147	2,000	1,391	1,136	902	463	
Retained Profits (RO '000)	27,430	24,573	21,795	26,148	16,679	10,652	8,891	8,585	7,209	6,510	5,990	5,630	5,315	6,323	3,080	2,241	1,756	1,242	3,350	3,442	3,278	3,138	1,592	1,239	1,105	534	
<b>Financial Ratios</b>																											
<b>Return on Paid-up Capital (%)</b>	52.0	57.0	46.3	115.7	57.3	71.4	50.9	46.7	30.3	8.8	32.9	27.7	10.3	75.9	30.2	27.7	19.3	27.5	12.7	14.5	14.5	43.5	18.5	15.5	23.5	19.0	
<b>Dividend/Paid-up Capital (%) **</b>	20	25	21	50	15	40	40	30	20	10	25	20	10	50	15	15	10	15	10	10	10	15	10	10	10	10	
<b>Dividend Payout Ratio (%)</b>	38	44	46	43	26	56	79	64	66	114	76	72	97	53	50	54	52	55	79	69	69	35	54	65	43	53	
<b>Return on Average Shareholders' Funds (%)</b>	13.6	14.7	11.9	29.1	17.1	23.1	18.0	18.0	12.8	3.7	13.7	12.3	4.6	38.6	15.2	15.1	12.5	14.4	7.0	8.1	8.1	26.6	12.9	11.3	18.3	17.1	
<b>Book Value per Share (RO) **</b>	0.403	0.414	0.403	0.375	0.343	0.3249	0.2935	0.2726	0.2459	0.2256	0.2476	0.2346	0.2176	0.2278	0.2061	0.1918	0.1750	0.998	0.916	0.907	0.889	0.896	0.736	0.698	0.675	0.612	

\* Period : 1985 - 19 months to 30 June 1985; 1986 to 1988 - Year ended 30 June; 1989 - 18 months to 31 December 1989; 1990 to 2010 - Year ended 31 December.

\*\* Share Capital : 1985 to 1993 - 16 million shares of RO 1 each, 50% paid; 1994 to 1996 - 12 million shares of RO 1 each fully paid; 1997 includes RO 3 million bonus shares; 1998 to 2005 - 15 million shares of RO 1 each fully paid; 2006 & 2007 - 150 million shares of RO 0.100 each fully paid, following a share split of 10:1 in April 2006; 2007 dividend includes RO 3 million bonus shares; 2008 - 180 million shares; following the issue of bonus shares approved by the shareholders in March 2008; 2009 - 200 million shares; following the issue of 2m bonus shares approved by the shareholders in March 2009; 2010 - 230 million shares; following the issue of 3m bonus shares approved by the shareholders in March 2010.

**INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF  
OMAN INTERNATIONAL DEVELOPMENT AND INVESTMENT COMPANY SAOG AND ITS SUBSIDIARIES**

**Report on the Consolidated Financial Statements**

We have audited the accompanying consolidated financial statements of Oman International Development and Investment Company SAOG ('the Parent') and its subsidiaries ('the Group'), which comprise the consolidated statement of financial position as at 31 December 2010 and the consolidated statement of comprehensive income, consolidated statement of cash flows and consolidated statement of changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory information.

**Board of Director's Responsibility for the Consolidated Financial Statements**

The Board of Directors is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards and the relevant disclosure requirements of the Commercial Companies Law of 1974, as amended and the Rules and Guidelines on disclosure issued by the Capital Market Authority and for such internal control as management determines is necessary to enable the presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor's Responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate for the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2010 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

**Report on Other legal and Regulatory Requirements**

In our opinion the consolidated financial statements comply, in all material respects, with the relevant disclosure requirements of the Commercial Companies Law of 1974, as amended and the Rules and Guidelines on disclosure issued by the Capital Market Authority.



27 February 2011  
Muscat

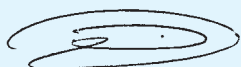


Philip Stanton  
Partner

## GROUP AND PARENT COMPANY STATEMENTS OF FINANCIAL POSITION AT 31 DECEMBER 2010

	Note	Group		Parent Company	
		2010 (RO'000)	2009 (RO'000)	2010 (RO'000)	2009 (RO'000)
<b>ASSETS</b>					
Balances with banks and money at call	21	117,863	81,564	1,057	2,746
Certificates of deposit	5	100,000	110,000	-	-
Deposits with banks	6	9,115	39,406	-	-
Investment securities	7	44,597	46,485	12,504	14,203
Investments in associates	7(e)	8,146	7,396	3,482	3,482
Investments in subsidiaries	7(f)	-	-	35,592	26,398
Loans and advances to customers	8	657,746	563,957	-	-
Due from subsidiaries		-	-	2,343	1,502
Other assets		21,790	23,662	95	267
Projects work in progress	9(a)	6,820	-	-	-
Property and equipment	9(b)	15,758	12,704	3,274	3,265
<b>TOTAL ASSETS</b>		<b>981,835</b>	<b>885,174</b>	<b>58,347</b>	<b>51,863</b>
<b>EQUITY AND LIABILITIES</b>					
<b>EQUITY</b>					
Share capital	11	23,000	20,000	23,000	20,000
Legal reserve	12(a)	17,487	15,587	6,974	6,266
Capital reserve	12(b)	13,767	12,747	-	-
General reserve	12(c)	8,150	6,968	-	-
Revaluation reserve	12(d)	1,754	1,754	-	-
Cumulative changes in fair value		1,037	1,215	353	624
Retained earnings		27,430	24,573	14,738	13,370
Equity attributable to equity holders of the parent Company		92,625	82,844	45,065	40,260
Non-controlling interests		70,003	61,990	-	-
<b>TOTAL EQUITY</b>		<b>162,628</b>	<b>144,834</b>	<b>45,065</b>	<b>40,260</b>
<b>LIABILITIES</b>					
Due to banks	10	15,197	10,779	12,025	10,450
Deposits from customers		768,291	693,967	-	-
Other liabilities		32,147	32,522	1,257	1,153
Taxation	14(c)	3,572	3,072	-	-
<b>TOTAL LIABILITIES</b>		<b>819,207</b>	<b>740,340</b>	<b>13,282</b>	<b>11,603</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>981,835</b>	<b>885,174</b>	<b>58,347</b>	<b>51,863</b>
Net assets per share (Rial Omani)	34	0.403	0.414	0.196	0.201

These financial statements were approved and authorised for release by the Board of Directors on February 27, 2011 and were signed by:



**Hani bin Muhammad Al Zubair**  
Chairman



**Shariq Azhar**  
Chief Executive Officer

The accompanying notes on pages 38 to 77 form an integral part of these Group and Parent Company financial statements.  
The report of the Auditors – page 30.

## GROUP AND PARENT COMPANY STATEMENTS OF COMPREHENSIVE INCOME YEAR ENDED 31 DECEMBER 2010

	Note	Group		Parent Company	
		2010	2009	2010	2009
		(RO '000)	(RO '000)	(RO '000)	(RO '000)
Interest income	15	40,932	38,738	2	53
Interest expense	16	(8,105)	(8,364)	(532)	(456)
<b>Net interest income</b>		<b>32,827</b>	<b>30,374</b>	<b>(530)</b>	<b>(403)</b>
Investment income	17	2,450	2,106	9,747	12,058
Fee and commission income (net)	18	13,015	12,576	-	44
Other operating income	19	4,938	4,664	84	86
<b>Total income</b>		<b>53,230</b>	<b>49,720</b>	<b>9,301</b>	<b>11,785</b>
Operating expenses	20	(24,301)	(22,544)	(2,111)	(1,968)
Allowance for loan impairment	8(b)	(4,563)	(4,325)	-	-
Recoveries/release from allowance for loan impairment	8(b)	1,742	2,459	-	-
Provision for impairment of investments	7(c)	(114)	(163)	(114)	(163)
<b>OPERATING PROFIT</b>		<b>25,994</b>	<b>25,147</b>	<b>7,076</b>	<b>9,654</b>
Share of profit from associates	7(e)	892	810	-	-
<b>PROFIT BEFORE TAXATION</b>		<b>26,886</b>	<b>25,957</b>	<b>7,076</b>	<b>9,654</b>
Income tax expense	14(a)	(3,572)	(3,237)	-	(179)
<b>PROFIT FOR THE YEAR</b>		<b>23,314</b>	<b>22,720</b>	<b>7,076</b>	<b>9,475</b>
<b>Other comprehensive income</b>					
Changes in the fair value of available for sale investments		(89)	1,161	(271)	224
Other comprehensive income for the year		(89)	1,161	(271)	224
<b>Total comprehensive income for the year</b>		<b>23,225</b>	<b>23,881</b>	<b>6,805</b>	<b>9,699</b>
<b>Profit attributable to:</b>					
Shareholders of the Parent Company		11,959	11,408	7,076	9,475
Non-controlling interests		11,355	11,312	-	-
		<b>23,314</b>	<b>22,720</b>	<b>7,076</b>	<b>9,475</b>
<b>Total comprehensive income attributable to:</b>					
Shareholders of the Parent Company		11,781	12,109	6,805	9,699
Non-controlling interests		11,444	11,772	-	-
		<b>23,225</b>	<b>23,881</b>	<b>6,805</b>	<b>9,699</b>
<b>Basic earnings per share on profit attributable to the shareholders of the Parent Company (Rial Omani)</b>	33	0.052	0.057	0.031	0.047

The accompanying notes on pages 38 to 77 form an integral part of these Group and Parent Company financial statements.

The report of the Auditors – page 30.

## GROUP AND PARENT COMPANY STATEMENTS OF CASH FLOW YEAR ENDED 31 DECEMBER 2010

	Note	Group		Parent Company	
		2010 (RO'000)	2009 (RO'000)	2010 (RO'000)	2009 (RO'000)
<b>Cash flow from operating activities</b>					
Profit before tax		26,886	25,957	7,076	9,654
Adjustments :					
End of service benefits		264	297	35	81
Depreciation		1,901	1,759	130	64
Allowance for loan impairment		4,563	4,325	-	-
Recoveries/release from allowance for loan impairment		(1,742)	(2,459)	-	-
Provision for impairment of investments		114	163	114	163
Change in the fair value of financial assets at fair value through profit or loss		(367)	(1,102)	(340)	(779)
Income from held-to-maturity investments		(639)	(507)	-	-
Profit on sale of property and equipment		(17)	(13)	-	-
Non-controlling interests		(3,342)	(3,461)	-	-
<b>Operating profit before changes in operating assets and liabilities</b>		<b>27,621</b>	<b>24,959</b>	<b>7,015</b>	<b>9,183</b>
<b>Changes in operating assets and liabilities</b>					
Investment securities		2,602	(734)	1,654	854
Loans and advances to customers		(96,610)	(29,329)	-	-
Due from subsidiaries		-	-	(841)	148
Decrease in restricted deposit		435	-	-	-
Other assets		1,872	3,801	172	(789)
Deposits from customers		74,324	83,565	-	-
Other liabilities		(639)	(388)	69	428
<b>Cash from operations</b>		<b>9,605</b>	<b>81,874</b>	<b>8,069</b>	<b>9,824</b>
Tax paid		(3,072)	(4,151)	-	(609)
<b>Net cash from operating activities</b>		<b>6,533</b>	<b>77,723</b>	<b>8,069</b>	<b>9,215</b>
<b>Cash flow from investing activities</b>					
Investments in subsidiaries		-	-	(9,194)	(6,118)
Investments in associates		(750)	(466)	-	-
Projects work in progress		(6,820)	-	-	-
Investment in property and equipment		(4,959)	(5,597)	(139)	(2,644)
Proceeds from sale of property and equipment		21	18	-	-
<b>Net cash used in investing activities</b>		<b>(12,508)</b>	<b>(6,045)</b>	<b>(9,333)</b>	<b>(8,762)</b>
<b>Cash flow from financing activities</b>					
Dividends paid		(2,000)	(1,800)	(2,000)	(1,800)
<b>Net cash used in financing activities</b>		<b>(2,000)</b>	<b>(1,800)</b>	<b>(2,000)</b>	<b>(1,800)</b>
<b>Net (decrease) increase in cash and cash equivalents</b>		<b>(7,975)</b>	<b>69,878</b>	<b>(3,264)</b>	<b>(1,347)</b>
Cash and cash equivalents at the beginning of the year		219,256	149,378	(7,704)	(6,357)
<b>Cash and cash equivalents at the end of the year</b>	<b>21</b>	<b>211,281</b>	<b>219,256</b>	<b>(10,968)</b>	<b>(7,704)</b>

The accompanying notes on pages 38 to 77 form an integral part of these Group and Parent Company financial statements.

The report of the Auditors – page 30.

**GROUP AND PARENT COMPANY STATEMENTS OF CHANGES IN EQUITY  
YEAR ENDED 31 DECEMBER 2010**

	Share capital (RO'000)	Legal reserve (RO'000)	Capital reserve (RO'000)	General reserve (RO'000)	Revaluation reserve (RO'000)	Cumulative changes in fair value (RO'000)	Retained earnings (RO'000)	Attributable to equity holders of the Parent Company (RO'000)	Non-controlling interests (RO'000)	Total (RO'000)
<b>GROUP</b>										
<b>Balance at 1 January 2009</b>	18,000	13,463	11,218	5,791	1,754	514	21,795	72,535	54,139	126,674
Profit for the year	-	-	-	-	-	-	11,408	11,408	11,312	22,720
Other comprehensive income for the year	-	-	-	-	-	701	-	701	460	1,161
Total comprehensive income for the year	-	-	-	-	-	701	11,408	12,109	11,772	23,881
Transfer to legal reserve (note 12a)	-	2,124	-	-	-	-	(2,124)	-	-	-
Transfer to general reserve (note 12c)	-	-	-	1,177	-	-	(1,177)	-	-	-
Increase in share capital through capitalisation of retained earnings (note 13)	2,000	-	-	-	-	-	(2,000)	-	-	-
Increase in share capital of banking subsidiary through capitalisation of retained earnings	-	-	1,529	-	-	-	(1,529)	-	-	-
Dividend relating to 2008 (note 13)	-	-	-	-	-	-	(1,800)	(1,800)	(9,802)	(11,602)
Subscription to rights issue of the banking subsidiary	-	-	-	-	-	-	-	-	5,881	5,881
<b>Balance at 31 December 2009</b>	<b>20,000</b>	<b>15,587</b>	<b>12,747</b>	<b>6,968</b>	<b>1,754</b>	<b>1,215</b>	<b>24,573</b>	<b>82,844</b>	<b>61,990</b>	<b>144,834</b>
Profit for the year	-	-	-	-	-	-	11,959	11,959	11,355	23,314
Other comprehensive income for the year	-	-	-	-	-	(178)	-	(178)	89	(89)
Total comprehensive income for the year	-	-	-	-	-	(178)	11,959	11,781	11,444	23,225
Transfer to legal reserve (note 12a)	-	1,900	-	-	-	-	(1,900)	-	-	-
Transfer to general reserve (note 12c)	-	-	-	1,182	-	-	(1,182)	-	-	-
Increase in share capital through capitalisation of retained earnings	3,000	-	-	-	-	-	(3,000)	-	-	-
Increase in share capital of banking subsidiary through capitalisation of retained earnings	-	-	1,020	-	-	-	(1,020)	-	-	-
Dividend relating to 2009 (note 13)	-	-	-	-	-	-	(2,000)	(2,000)	(7,352)	(9,352)
Subscription to rights issue of the banking subsidiary	-	-	-	-	-	-	-	-	3,921	3,921
<b>Balance at 31 December 2010</b>	<b>23,000</b>	<b>17,487</b>	<b>13,767</b>	<b>8,150</b>	<b>1,754</b>	<b>1,037</b>	<b>27,430</b>	<b>92,625</b>	<b>70,003</b>	<b>162,628</b>

The accompanying notes on pages 38 to 77 form an integral part of these Group and Parent Company financial statements. The report of the Auditors – page 30.

## GROUP AND PARENT COMPANY STATEMENTS OF CHANGES IN EQUITY YEAR ENDED 31 DECEMBER 2010

Note	Share capital (RO'000)	Legal reserve (RO'000)	Cumulative changes in fair value (RO'000)	Retained earnings (RO'000)	Total (RO'000)
<b>PARENT COMPANY</b>					
<b>Balance at 1 January 2009</b>	<b>18,000</b>	<b>5,319</b>	<b>400</b>	<b>8,642</b>	<b>32,361</b>
Profit for the year	-	-	-	9,475	9,475
Other comprehensive income for the year	-	-	224	-	224
Total comprehensive income for the year	-	-	224	9,475	9,699
Transfer to legal reserve	-	947	-	(947)	-
Increase in share capital through capitalisation of retained earnings	2,000	-	-	(2,000)	-
Dividend relating to 2008 paid	-	-	-	(1,800)	(1,800)
<b>Balance at 31 December 2009</b>	<b>20,000</b>	<b>6,266</b>	<b>624</b>	<b>13,370</b>	<b>40,260</b>
Profit for the year	-	-	-	7,076	7,076
Other comprehensive income for the year	-	-	(271)	-	(271)
Total comprehensive income for the year	-	-	(271)	7,076	6,805
Transfer to legal reserve	-	708	-	(708)	-
Increase in share capital through capitalisation of retained earnings	3,000	-	-	(3,000)	-
Dividend relating to 2009 paid	-	-	-	(2,000)	(2,000)
<b>Balance at 31 December 2010</b>	<b>23,000</b>	<b>6,974</b>	<b>353</b>	<b>14,738</b>	<b>45,065</b>

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The accompanying notes on pages 38 to 77 form an integral part of these Group and Parent Company financial statements.  
The report of the Auditors – page 30.





# NOTES TO THE GROUP AND PARENT COMPANY FINANCIAL STATEMENTS

## 31 DECEMBER 2010

### 1. GENERAL INFORMATION

Oman International Development and Investment Company SAOG (the Parent Company) is incorporated in the Sultanate of Oman as a public joint stock company and is principally engaged in investment related activities. The Parent Company has its listing on the Muscat Securities Market.

The Parent Company's principal place of business and registered address is Ominvest Building, Central Business District, Greater Muttrah, P.O. Box 3886, Ruwi, Postal Code 112, Sultanate of Oman.

These consolidated financial statements for the year ended 31 December 2010 comprise the Parent Company and its subsidiaries (together referred to as the Group) and the Group's interest in associates. The separate financial statements represent the financial statements of the Parent Company on a stand alone basis. The consolidated and separate financial statements are collectively referred to as "the financial statements".

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### 2.1 Statement of compliance

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

#### 2.2 Basis of preparation

These financial statements are prepared under the historical cost convention, as modified by remeasurement of fair value of financial assets at fair value through profit

or loss and available-for-sale financial assets. The basis of consolidation is set out in note 2.4.

The balance sheet is presented in descending order of liquidity as this presentation is more appropriate to the Group's operations.

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 Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to these financial statements are disclosed in note 4.

#### 2.3 Changes in accounting policies and disclosures

The accounting policies are consistent with those used in the previous year, except for where the Group has adopted certain new standards of, amendments and interpretations to IFRS as described below:

#### **New standards of, amendments and interpretations to IFRS relevant to the Group**

The Group has adopted the following new and amended IFRS and IFRIC interpretations as of 1 January 2010:

- IFRS 2 Share-based Payment: Group Cash-settled Share-based Payment Transactions effective 1 January 2010
- IFRS 3 Business Combinations (Revised) and IAS 27 Consolidated and Separate Financial Statements (Amended) effective 1 July 2009, including consequential amendments to IFRS 2, IFRS 5, IFRS 7, IAS 7, IAS 21, IAS 28, IAS 31 and IAS 39
- IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items effective 1 July 2009



- IFRIC 17 Distributions of Non-cash Assets to Owners effective 1 July 2009
- Improvements to IFRSs (May 2008)
- Improvements to IFRSs (April 2009)

These amendments did not have any impact on the accounting policies, financial position or performance of the Group.

**The following standards, amendments and interpretations are not yet effective:**

Other IASB Standards and Interpretations that have been issued but are not yet mandatory, and have not been adopted by the group, are not expected to have a material impact on the Group's financial statements.

*IAS 24 Related Party Disclosures (Amendment)*

The amended standard is effective for annual periods beginning on or after 1 January 2011. It clarified the definition of a related party to simplify the identification of such relationships and to eliminate inconsistencies in its application. The revised standard introduces a partial exemption of disclosure requirements for government related entities. The Group does not expect any impact on its financial position or performance. Early adoption is permitted for either the partial exemption for government-related entities or for the entire standard.

*IAS 32 Financial Instruments: Presentation – Classification of Rights Issues (Amendment)*

The amendment to IAS 32 is effective for annual periods beginning on or after 1 February 2010 and amended the definition of a financial liability in order to classify rights issues (and certain options or warrants) as equity instruments in cases where such rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, or to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. This amendment will have no impact on the Group after initial application.

*IFRS 9 Financial Instruments: Classification and Measurement*

IFRS 9 as issued reflects the first phase of the IASBs work on the replacement of IAS 39 and applies to classification and measurement of financial assets as defined in IAS 39. The standard is effective for annual periods beginning on or after 1 January 2013. In subsequent phases, the IASB will address classification and measurement of financial liabilities, hedge accounting and derecognition. The completion of this project is expected in early 2011. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets. The Group will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

*IFRIC 14 Prepayments of a minimum funding requirement (Amendment)*

The amendment to IFRIC 14 is effective for annual periods beginning on or after 1 January 2011 with retrospective application. The amendment provides guidance on assessing the recoverable amount of a net pension asset. The amendment permits an entity to treat the prepayment of a minimum funding requirement as an asset. The amendment is expected to have no impact on the financial statements of the Group.

*IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments*

IFRIC 19 is effective for annual periods beginning on or after 1 July 2010. The interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability qualify as consideration paid. The equity instruments issued are measured at their fair value. In case that this cannot be reliably measured, the instruments are measured at the fair value of the liability extinguished. Any gain or loss is recognised immediately in profit or loss. The adoption of this interpretation will have no effect on the financial statements of the Group.

**Improvements to IFRSs (issued in May 2010)**

The IASB issued Improvements to IFRSs, an omnibus of amendments to its IFRS standards. The amendments have not been adopted as they become effective for annual periods on or after either 1 July 2010 or 1 January 2011. The amendments listed below, are considered to be relevant for the Group:

- IFRS 3 Business Combinations
- IFRS 7 Financial Instruments: Disclosures
- IAS 1 Presentation of Financial Statements
- IAS 27 Consolidated and Separate Financial Statements
- IFRIC 13 Customer Loyalty Programmes

The Group, however, expects no impact from the adoption of the amendments on its financial position or performance.

**2.4 Basis of consolidation**

*2.4.1 Subsidiaries*

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases. The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a Business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any non-controlling interests. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the statement of comprehensive income.

The financial statements of the subsidiaries are prepared for the same reporting period as the Parent

company, using consistent accounting policies. Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated but considered an impairment indicator of the asset transferred.

In the Parent Company's separate financial statements investments in subsidiaries are stated at cost, less provision for impairment in value of any individual investment. Dividend income is recognised in the statement of comprehensive income in the period in which entitlement is established.

#### 2.4.2 Transactions and non-controlling interests

For consolidated financial statements, the Group applies a policy of treating transactions with non-controlling interests as transactions with parties external to the Group. Disposals to non-controlling interests result in gains and losses for the Group that are recorded in the statement of comprehensive income. Purchases from non-controlling interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary.

#### 2.4.3 Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. In the consolidated financial statements, investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. The Group's investments in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition.

The Group's share of its associates' post-acquisition profits or losses and movements in reserves are recognised in the statement of comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate. Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

In the Parent Company's separate financial statements investments in associates are stated at cost, less provision for impairment in value of any individual investment. Dividend income is recognised in the statement of comprehensive income in the period in which entitlement is established.

### 2.5 Segment reporting

The Group's segmental reporting is based on the following operating segment:

Investment for the Parent Company and retail banking, corporate banking, investment banking and support and unallocated functions for the banking subsidiary. The segment information is set out in note 23.

### 2.6 Foreign currency translation

#### 2.6.1 Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using Rial Omani which is the currency of the primary economic environment in which the entity operates (the functional currency). These financial statements are presented in Rial Omani, which is the Group's functional and presentation currency.

#### 2.6.2 Transactions and balances

Transactions in foreign currencies are translated into Rial Omani and recorded at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated into Rial Omani at the foreign exchange rate ruling at the balance sheet date. Foreign exchange differences arising on translation are recognised in the comprehensive statement of income. Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated into Rial Omani at the foreign exchange rate ruling at the date of the transaction.

Changes in the fair value of monetary securities denominated in foreign currency classified as available-for-sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in amortised cost are recognised in profit or loss, and other changes in carrying amount are recognised in equity.

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets such as equities classified as available-for-sale are included in the fair value reserve in equity.

### 2.7 Property and equipment

Property and equipment are stated at historical cost, less accumulated depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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

Land is not depreciated. Depreciation of other assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

Freehold building	- 25 years
Leasehold buildings	- lower of 25 years and unexpired lease period
Furniture, fixtures and equipment	- up to 5 years
Motor vehicles	- up to 5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting 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 (note 2.8).

Freehold land and land with factory buildings are considered as a separate class of assets by the Group associate companies. These are revalued on a regular basis.

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

## 2.8 Impairment of non-financial assets

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 recognised 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 purpose 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 an impairment are reviewed for possible reversal of the impairment at each balance sheet date.

## 2.9 Financial assets

The Group classifies its financial assets in the following categories: at fair value through profit or loss, available for sale, loans and advances and held-to-maturity. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition and re-evaluates this designation at every balance sheet date.

### 2.9.1 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 in this category if acquired principally for the purpose of selling in the short-term or if so designated by management. Derivatives are also categorised as 'held-for-trading' unless they are designated as hedges.

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 held for trading 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, such as debt securities held, containing one or more embedded derivatives that significantly modify the cash flows, are designated at fair value through profit or loss.

Financial assets at fair value through profit or loss are initially recognised at fair value. Transaction costs relating to financial assets carried at fair value through profit or loss are expensed in the statements of comprehensive income. Financial assets at fair value through profit or loss are subsequently carried at fair value.

Gains or losses arising from changes in the fair value of financial assets at fair value through profit or loss category are presented in the statements of comprehensive income in the period in which they arise.

The fair value of quoted investments is based on current market prices.



### 2.9.2 Available for sale investments

Available for sale financial assets are non derivatives that are either designated in this category or not classified in any of other categories. Available for sale financial assets are initially recognised at fair value including transaction costs. Available for sale financial assets are subsequently carried at fair value. Changes in the fair value of available for sale financial assets are recognised in equity. When securities classified as available for sale are sold or impaired, the accumulated fair value changes recognised in equity are included in the statements of comprehensive income as 'investment income'.

Fair value of certain unquoted investments cannot be determined without extensive, subjective, judgemental and possibly speculative estimates by the Group. Such investments are measured at cost less estimated impairment losses.

### 2.9.3 Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that management has the positive intention and ability to hold to maturity. Where the Group to sell other than an insignificant amount of held-to-maturity assets, the entire category would be tainted and reclassified as available-for-sale. Held to



maturity investments are initially recognised at fair value plus transaction cost. These are subsequently carried at amortised cost using the effective interest method.

#### 2.9.4 Loans and advances

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money directly to a debtor with no intention of trading the receivable. Loans and receivables are initially recognised at fair value when cash is advanced to customers and are subsequently carried at amortised cost using the effective interest method.

#### 2.9.5 Derecognition

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- The rights to receive cash flows from the asset have expired; or
- The group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either:
  - the group has transferred substantially all the risks and rewards of the asset, or
  - the group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the

recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

#### 2.10 Impairment and uncollectability of financial assets, loans and receivables

The group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired and an impairment loss is 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 Group about the following loss events as well as considering the guidelines issued by the Central Bank of Oman:

- significant financial difficulty of the issuer or obligor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- the Group 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;
- it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- the disappearance of an active market for that financial asset because of financial difficulties; or
- 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 group 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 group 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.

#### (a) Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments 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 or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

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.

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 group 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.

The methodology and assumptions used for estimating future cash flows are reviewed regularly by the group to reduce any differences between loss estimates and actual loss experience. When a loan is uncollectible, it is written off against the related allowance 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. 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, the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the income statement.

#### **(b) Available-for-sale financial investments**

For available-for-sale financial investments, the group assesses at each balance sheet date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. The determination of what is 'significant' or 'prolonged' requires judgement. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the profit or loss – is removed from equity and recognised in the profit or loss. Impairment losses on equity investments are not reversed through the income statement; increases in their fair value after impairment are recognised directly in equity.

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. Interest continues to be accrued at the original effective interest rate on the reduced carrying amount of the asset and is recorded as part of 'Interest income'. If, in a subsequent

year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the profit or loss, the impairment loss is reversed through the profit or loss.

#### **(c) Renegotiated loans**

Loans that are either subject to collective impairment assessment or individually significant and whose terms have been renegotiated are no longer considered to be past due but are treated as new loans. In subsequent years, the asset is considered to be past due and disclosed only if renegotiated.

#### **2.11 Cash and cash equivalents**

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities up to three months or less and bank overdrafts. Bank overdrafts are shown within borrowings in the balance sheet.





### **2.12 Borrowings**

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

### **2.13 Other liabilities**

Other liabilities are stated at amortised cost using the effective interest method.

### **2.14 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 to 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 tax is calculated using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. 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 reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available

against which the asset can be 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 Employees' end of service benefits**

End of service benefits are accrued in accordance with the terms of employment of the Group's employees at the balance sheet date, having regard to the requirements of the Oman Labour Law 2003, as amended. 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 the Omani Government Social Security Scheme under Royal Decree No. 72/91 for Omani employees in accordance with the Omani Social Insurance Law 1991, are recognised as an expense in the statements of comprehensive income as incurred.

### **2.16 Provisions**

Provisions are recognised when the Group 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. 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.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of

an outflow with respect to any one item included in the same class of obligations may be small.

### 2.17 Revenue recognition

- Interest income and expense

Interest income and expense are recognised in the statement of comprehensive income for all instruments measured at amortised cost using the effective interest method, unless collectability is in doubt. 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 group estimates cash flows considering all contractual terms of the financial instrument 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.

- 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. Loan syndication fees are recognised as revenue when the syndication has been completed and the group retained no part of the loan package for itself or retained a part at the same effective interest rate for the other participants. 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 pro-rata over the period the service is provided. The same revenue recognition criteria are applied for custody services that are continuously provided over an extended period of time.

- Dividend income

Dividend income is recognised when the right to receive payment is established.

### 2.18 Fiduciary assets

Assets held in trust or in a fiduciary capacity are not treated as assets of the Group and accordingly are shown as off-balance sheet items in these financial statements.

### 2.19 Derivative financial instruments

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at their fair value. Fair value adjustments are recorded in the statement of comprehensive income. Fair values are obtained from quoted market prices in active markets, including recent market transactions. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

### 2.20 Trade and settlement date accounting

All regular way purchases and sales of financial assets

are recognised on the trade date, i.e., the date that the entity commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

### 2.21 Offsetting

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

### 2.22 Dividends

Dividend distribution to the Parent Company's shareholders is recognised as a liability in these financial statements in the period in which the dividends are approved by the Parent Company's shareholders.

### 2.23 Directors' remuneration

Directors' remuneration is calculated by the Parent Company and each of its subsidiaries based on the profit for the year (before Directors' remuneration), applying the overall limits set out by the current regulations governing the determination of Directors' remuneration including sitting fees.

### 2.24 Earnings per share

The Group and the Parent Company presents basic earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Group and the Parent Company by the weighted average number of ordinary shares outstanding during the period.

## 3. FINANCIAL RISK MANAGEMENT POLICIES

### 3.1 Financial risk management

The Group's activities expose it to a variety of financial risks and those activities involve the evaluation, analysis, acceptance and management of risk or combination of risks. As taking risk is core to the financial business and operational risks are an inevitable consequence of any business, the Group's aim is to achieve an appropriate balance between risk and return while minimising the potential adverse effects on the Group's financial performance of the respective group companies.

The Board of Directors defines risk limits and sets suitable policies in this regard for management of credit risk, liquidity risk as well as market risk in both the trading and the banking book of the respective group company. Risk Management is carried out by the Risk Management team in accordance with documented policies approved by the Board of Directors of the respective group company.

The principal types of risks at the Group and Parent Company are credit risk, liquidity risk, market risk (market price risk, interest rate risk and currency risk) and operational risk.

### 3.2 Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause

the other party to incur a financial loss. Credit exposures arise principally from lending activities at the banking subsidiary and investment activities and other assets in the Group's asset portfolio. There is also credit risk in off-balance sheet financial instruments, such as loan commitments and financial guarantees given by the banking subsidiary.

### 3.2.1 Credit risk management

The Group attempts to control credit risk by monitoring credit exposures, limiting transactions with specific counterparties, and continually assessing the creditworthiness of counterparties. Concentrations of credit risk arise when a number of counterparties are engaged in similar business activities, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations of credit risk indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographic location. The details of concentrations of credit risk based on counterparties by industry are disclosed in Note 8(d) and the geographical concentration is disclosed in Note 29.

### 3.2.2 Risk mitigation policies

The Group manages, limits and controls concentrations of credit risk – in particular, to individual counterparties and groups, and to industries and countries.

The banking subsidiary structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Such risks are monitored and reviewed periodically by the Management Credit Committee, Audit & Risk Management committee of the Board of Directors and the Executive Committee of the Board of Directors of the banking subsidiary.

The exposure to any one borrower including banks and brokers is further restricted by sub-limits covering on and off-balance sheet exposures. Exposure to credit risk is also managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate.

Some other specific control and mitigation measures are outlined below.

#### (a) Collateral

The banking subsidiary employs a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of security for funds advanced, which is common practice. The bank implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation. The principal collateral types for loans and advances are:

- charges over business assets such as premises, inventory and accounts receivable
- lien on fixed deposits
- cash margins
- mortgages over residential and commercial properties
- pledge of marketable shares and securities

Longer-term finance and lending to corporate entities are generally secured. The housing loans are secured by mortgage over the residential property. Credit cards and similar revolving credit facilities are unsecured. Additionally, in order to minimise the credit loss the bank seeks additional collateral from the counterparty as soon as impairment indicators are noticed for the relevant individual loans and advances.

#### (b) Assessment of the financial capabilities of the borrowers



The borrowers with balances above the limit specified are subject to the review of their audited financial statements. The banking subsidiary assesses the financial performance of the borrowers by reviewing key performance ratios, including solvency and liquidity ratios. The annual reviews are performed by the relationship managers and are also reviewed by the Risk Management team.

(c) Credit-related commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit carry the same credit risk as loans. Documentary and commercial letters of credit – which are written undertakings by the banking subsidiary on behalf of a customer authorising a third party to draw drafts on the banking subsidiary up to a stipulated amount under specific terms and conditions – are collateralised by the underlying shipments of goods to which they relate and therefore carry less risk than a direct loan.

An analysis of the loans and advances for which collaterals or other credit enhancements are held is as follows:

	<b>Performing loans (neither past due nor impaired)</b> (RO'000)	<b>Loans past due and not paid</b> (RO'000)	<b>Non performing loans</b> (RO'000)	<b>Gross loans</b> (RO'000)
Loans and advances with collateral available	156,667	30,053	11,985	198,705
Loans and advances with guarantees available	58,013	-	-	58,013
Government soft loans *	30,423	-	-	30,423
Balance as at 31 December 2010	<u>245,103</u>	<u>30,053</u>	<u>11,985</u>	<u>287,141</u>
Balance as at 31 December 2009	<u>195,777</u>	<u>42,636</u>	<u>7,936</u>	<u>246,349</u>

\* Government soft loans are guaranteed by the Government to the extent of the outstanding principal.

### 3.2.3 Impairment and provisioning policy

Impairment provisions are recognised for financial reporting purposes only for losses that have been incurred at the balance sheet date based on objective evidence of impairment. Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the banking subsidiary about the loss events set out in Note 2.9 as well as considering the guidelines issued by the Central Bank of Oman.

The banking subsidiary's credit policy requires the review of individual financial assets on a quarterly basis or earlier when individual circumstances require. Impairment allowances on individually assessed accounts are determined by an evaluation of the incurred loss at the balance sheet date on a case-by-case basis, and are applied to all individually significant accounts. The assessment normally encompasses collateral held (including re-confirmation of its enforceability) and the anticipated receipts for that individual account.

Collectively assessed impairment allowances are provided for: (i) portfolios of homogenous assets that are individually not significant; and (ii) losses that have been incurred but have not yet been identified, by using the available historical experience and experienced judgment. The critical estimates used in determining the provision for impairment are explained in Note 4(b).

### 3.2.4 Maximum exposure to credit risk before collateral held or other credit enhancements

	<b>Group</b>		<b>Parent Company</b>	
	<b>2010</b> (RO'000)	<b>2009</b> (RO'000)	<b>2010</b> (RO'000)	<b>2009</b> (RO'000)
<b>On-Balance Sheet items</b>				
Certificates of deposit - CBO	100,000	110,000	-	-
Deposit with banks	26,019	55,260	-	-
Corporate loans	381,458	360,123	-	-
Personal loans	298,291	221,681	-	-
Other assets	21,794	23,662	-	-
Investment in securities				
Government development bonds	20,077	21,628	-	-
	<u>847,639</u>	<u>792,354</u>	<u>-</u>	<u>-</u>
<b>Off-Balance sheet items</b>				
Financial guarantees	58,043	48,929	218	218
Undrawn loan commitments	4,539	11,600	-	-
	<u>62,582</u>	<u>60,529</u>	<u>218</u>	<u>218</u>

The above table represents the worst case scenario of credit risk exposure to the Group at 31 December 2010 and 31 December 2009 without taking into account the collateral held or other credit enhancements. Management is confident that the Group has suitable policies to measure and control the credit risk. In addition credit risk is mitigated through collaterals in the form of mortgages and guarantees wherever required.

a) 94% (2009 – 88%) of the inter-bank money market placements are with banks rated investment grade and above based on the ratings assigned by External Credit Rating Agencies.

b) Loans and advances represent 72% (2009 – 68%) of the total on-balance sheet items shown above. Of the total loans and advances 92.5% (2009 – 89.9%) are neither past due nor impaired.

c) The impaired loans have increased from 2.7% at 31 December 2009 to 3.1% at 31 December 2010. The impaired personal loans constitute 1.3% of the total loans at 31 December 2010 compared to 0.8% at 31 December 2009.

d) Certificates of deposit which represent 10.5% (2009 – 13%) of the total on-balance sheet items are placed with the Central Bank of Oman.

### 3.2.5 Loans and advances to customers and due from banks

a) Loans and advances to customers and due from banks held by the Group are summarised as follows:

	2010			2009		
	Loans and advances to customers	Due from banks	Total	Loans and advances to customers	Due from banks	Total
	(RO'000)	(RO'000)	(RO'000)	(RO'000)	(RO'000)	(RO'000)
Neither past due nor impaired	628,743	26,019	654,762	523,381	55,260	578,641
Past due but not impaired	30,053	-	30,053	42,636	-	42,636
Impaired	20,953	-	20,953	15,787	-	15,787
Gross loans and advances	679,749	26,019	705,768	581,804	55,260	637,064
Less: allowance for loan impairment and contractual interest not recognised (Refer to note (b) below)	(22,003)	-	(22,003)	(17,847)	-	(17,847)
Net loans and advances	657,746	26,019	683,765	563,957	55,260	619,217

i) The total impairment provision for loans and advances is RO 22,003,000 (2009 - RO 17,847,000) of which RO 12,496,000 (2009 - RO 9,986,000) represents the individually impaired loans and the remaining amount of RO 9,507,000 (2009 – RO 7,861,000) represents the collective impairment provision made on a portfolio basis.

ii) The break-up of the loans and advances to customers in respect of the risk ratings adopted by the bank are:

	2010			2009		
	Retail loans	Corporate loans	Total	Retail loans	Corporate loans	Total
	(RO'000)	(RO'000)	(RO'000)	(RO'000)	(RO'000)	(RO'000)
Standard loans	288,660	340,695	629,355	216,731	331,203	547,934
Special mention loans	637	28,804	29,441	312	17,771	18,083
Substandard loans	3,437	787	4,224	1,981	3,846	5,827
Doubtful loans	2,213	3,788	6,001	884	440	1,324
Loss	3,344	7,384	10,728	1,773	6,863	8,636
	298,291	381,458	679,749	221,681	360,123	581,804

## b) Age analysis of the Group's loans and advances past due but not impaired

	2010 (RO'000)	2009 (RO'000)
Past due up to 30 days	6,665	22,823
Past due 30-60 days	4,260	282
Past due 60-90 days	3,599	19,531
Total	14,524	42,636
Fair value of related collateral available	17,886	7,019

## c) Loans and advances individually impaired

	2010 (RO'000)	2009 (RO'000)
Individually impaired loans	20,953	15,787
Fair value of related collateral available	10,030	8,794

## 3.2.6 Loans and advances renegotiated

These arrangements include extended payment arrangements, deferral of payments and modification of interest rates. Following restructuring, a previously past due loan account is reclassified as a normal loan and managed with other similar loans which are neither past due nor impaired. The restructuring arrangements are based on the criteria and indicators which in the judgement of the management will indicate that the payment will most likely continue.

The Group's total restructured loans at 31 December 2010 amounted to RO 15,566,000 (2009 – RO 7,495,000).

## 3.2.7 Debt securities

The Group's investments in debt securities are mainly in Government Development Bonds or Certificates of Deposit denominated in Rial Omani issued mainly by the Government of Oman. The Group also invests in debt securities issued by other banks based on their individual external credit rating. These investments are made to deploy the surplus liquid funds with maximum return.

## 3.2.8 Repossessed collateral

Repossessed properties are sold as soon as practicable with the proceeds used to reduce the outstanding balance of the debt. Repossessed assets are classified as other assets in the balance sheet. The value of assets obtained by the Group by taking possession held as collateral as security at 31 December 2010 is RO 250,000 (2009 – RO 250,000).

## 3.3 Market risk

The Group and the Parent Company take on exposures to market risk which is the risk that the fair value or the future cash flows of the financial assets carried at fair value will fluctuate because of changes in market prices. Market risks arise from the open positions in interest rate, currency and equity products, all are which are exposed to changes in interest rates, credit spreads, equity prices and foreign exchange rates for the banking subsidiary.

The market risks on investments listed in the securities markets for the Parent Company are monitored by the Board and Management committees. The Management committee monitor the risks, allocations and returns

from local and foreign investments through regular meetings. The Management of the Parent Company has proper risk management policies in place to ensure that interest risk, liquidity risk and foreign exchange risk are mitigated considering the macro economic indicators affecting the investment activities.

## 3.3.1 Market price risk measurement techniques

The Group and Parent Company manages its market risk in the trading book using various techniques such as position limits, stop loss limits and regular monitoring of risk statistical data.

The impact of 10% change in the market price of the quoted equities and funds which are part of the financial assets at fair value through profit or loss at 31 December 2010 is 2.66% of the Group's total income (2009 – 3.43%).

The Parent Company is exposed to equity securities price risk because of investments held and classified in the balance sheet as investments at fair value through profit or loss and available for sale financial assets. The Parent Company manages its market risk from its investing activities by diversification based on extensive research on equity or fund positions. Market risks are measured against management targets, past trends in world indices and market specific indices, before taking positions and subsequently monitored regularly.

The impact of 10% change in the market price of the quoted equities which are classified as financial assets at fair value through profit or loss at 31 December 2010 is 7.34% of the Parent Company's total income (2009 – 7.23%).

## 3.3.2 Interest rate risk

Interest rate risk is the risk that the value of a financial instrument carried at fair value will fluctuate due to changes in the market interest rates. The Group is exposed to interest rate risk as a result of mismatches or gaps in the amount of interest based assets and liabilities that mature or re-price in a given period. The Group manages this risk by matching/re-pricing of assets and liabilities. The Group is not excessively exposed to interest rate risk as its assets and liabilities are re-priced frequently. The banking subsidiary's Assets and Liabilities Committee (ALCO) monitors and manages the interest

rate risk with the objective of limiting the potential adverse effects on the banking subsidiary's profitability. The table in Note 30 summarises the Group's exposure to the interest rate risks. It includes the Group's financial instruments at the carrying amount, categorised by the earlier of the contractual re-pricing and maturity dates.

For managing its interest rate risk in the banking book the Group stipulates limits on open interest rate sensitive gaps for maturities up to 1 year and also periodically calculates Earnings at Risk (EaR) impact on its Net Interest Income (NII) from 100bps change in interest rates on open interest rate gaps for maturities up to 1 year. The EaR limit is stipulated as a certain percentage of the NII of the Group for the previous year. The EaR at 31 December 2010 is 12.50% (2009 – 12.13%).

The Parent Company's interest rate risk is limited since all of its financial assets are non-interest bearing and all of its borrowings are due within 6 months of the balance sheet date and are bearing a fixed interest rate for the period. The table in Note 30 summarises the Parent Company's exposure to the interest rate risk.

### 3.3.3 Currency risk

Currency risk arises where the value of a financial instrument changes due to changes in foreign exchange rates. In order to manage currency risk exposure the Group enters into ready, spot and forward transactions in the inter-bank market as per documented policies approved by the Board of Directors of the respective Group Company.

### Foreign currency exposures

Assets denominated in US Dollars  
(included assets dominate in GCC currency pegged with US Dollars)

Percentage of total assets

Assets denominated in other foreign currencies

Percentage of total assets

The Group's foreign exchange exposure comprises of forward contracts, foreign currencies cash in hand, balances with banks abroad, foreign placements and other assets and liabilities denominated in foreign currency. The individual Group company's management manages the risk by monitoring net open position in line with limits set by the management and entering into forward contracts based on the underlying commercial transactions with the customers. Additionally, appropriate segregation of duties exist between the front and back office functions while compliance with the net open position is independently monitored on an ongoing basis by the management and in the case of the banking subsidiary, the Assets and Liabilities Committee (ALCO).

Oman operates with a fixed exchange rate and the Omani Rial is pegged to the US Dollar at US\$ 2.6008 per Omani Rial. Accordingly, currency risk arises on assets not denominated in Rial Omani or currencies linked to the US Dollar.

The Parent Company's exposure to assets denominated in foreign currencies (excluding US Dollars which the Omani Rial is pegged to) was 14.63% (2009 - 10.52%) of the total assets at the balance sheet date. Management regularly monitors the currency risk by reviewing the positions and within the overall context of its investment guidelines.

The net open position of the Group and Parent Company at the year end is set out below:

	Group		Parent Company	
	2010	2009	2010	2009
	(RO'000)	(RO'000)	(RO'000)	(RO'000)
Assets denominated in US Dollars (included assets dominate in GCC currency pegged with US Dollars)	17,643	6,908	5,412	1,250
Percentage of total assets	1.80%	0.78%	9.28%	2.41%
Assets denominated in other foreign currencies	9,655	11,551	8,537	5,458
Percentage of total assets	0.98%	1.30%	14.63%	10.52%

### 3.4 Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at close to its fair value. It includes the risk of being unable to fund assets at appropriate maturities and rates and the risk of being unable to liquidate an asset at a reasonable price and in an appropriate time frame.

The Group's funding activities are based on a range of instruments including deposits, other liabilities and assigned capital. Consequently, funding flexibility is increased and dependence on any one source of funds is reduced. The Group maintains liquidity by continually assessing, identifying and monitoring changes in funding needs required to meet strategic goals set in terms of the overall strategy. In addition the Group holds certain

liquid assets as part of its liquidity risk management strategy.

The Group and the Parent Company hold investment securities listed on the securities markets and other quoted investments. Those investments are liquid in nature and can be sold in response to need for liquidity. As at 31 December 2010, the quoted investments for the Group were 30% of the total investment securities and 58% for the Parent Company (2009: 33% and 69% respectively).

### 3.5 Fair value estimation

The estimate of fair values of the financial instruments is based on information available to the individual Group company's management at the balance sheet date. Whilst management has used its best judgment in estimating the fair value of the financial instruments, there are inherent weaknesses in any estimation

technique. The estimates involve matters of judgment and cannot be determined with precision. The bases adopted by the Group and Parent Company in deriving the fair values are as follows:

### 3.5.1 Current account balances due to and from banks

The carrying amount of current account balances due to and from banks was considered to be a reasonable estimate of fair value due to their short-term nature.

### 3.5.2 Loans and advances

The estimated fair value of loans whose interest rates are materially different from the prevailing market interest rates is determined by discounting the contracted cash flows using market interest rates currently charged on similar loans. The fair value of non-performing loans approximates to the book value as adjusted for allowance for loan impairment. For the remainder, the fair value is taken as being equivalent to the carrying amount as the prevailing interest rates offered on similar loans are not materially different from the actual loan rates.

### 3.5.3 Investments at fair value through profit or loss and available for sale

Quoted market prices, when available, are used as the measure for fair value. However, when the quoted market prices do not exist, fair value presented is estimated using discounted cash flow models or other valuation techniques. The total amount of changes in value estimated using valuation techniques that was recognised in the statement comprehensive income during the year was not material to the Group's profit for the year within the context of the consolidated financial statements.

Where quoted market price do not exist and when investments are in closely held entities, the management of the Parent Company presents such investments at cost less impairment losses, by factoring all known elements which could influence the unrealisation for each investment individually. These elements would include both internal and external factors.

### 3.5.4 Customers' deposits

The fair value of demand, call, and savings deposits is the amount payable on demand at the reporting date, which is equal to the carrying value of those liabilities.

The estimated fair value of fixed rate deposits whose interest rates are materially different from the prevailing market interest rates are determined by discounting the contractual cash flows using the market interest rates currently offered for similar deposits.

### 3.5.5 Derivatives

The banking subsidiary usually enters into short term forward foreign exchange contracts, on behalf of its customers for the sale and purchase of foreign currencies. For forward foreign exchange contracts, it uses a valuation model with readily available market observable inputs. The model incorporates various inputs including the credit quality of counterparties, foreign exchange spot and forward rates and interest rate curves.

The related fair value details are set out in note 28.

## 3.6 Capital management

The Group's objectives of capital management are:

- to comply with the capital requirements set by the regulator for the banking subsidiary i.e. the Central Bank of Oman;
- to safeguard the Group's ability to continue as a going concern while providing adequate returns to the shareholders; and
- to maintain a strong capital base to support the development of its business.

The principal objective of the Central Bank of Oman's (CBO) capital adequacy requirements is to ensure that an adequate level of capital is maintained to withstand any losses which may result from the risks in a bank's balance sheet, in particular credit risk. The CBO's risk-based capital adequacy framework is consistent with the international standards of the Bank for International Settlements (BIS).

The CBO requires the banks registered in the Sultanate of Oman to maintain a minimum capital adequacy ratio of 12% based on guidelines of the Basel II Accord from January 2007 onwards.

The ratio for the banking subsidiary calculated in accordance with the CBO and BIS capital adequacy guidelines as per the Basel II Accord is as follows:

	2010 (RO'000)	2009 (RO'000)
<b>Capital</b>		
Tier 1	124,490	110,320
Tier 2	10,111	8,383
Total capital base	<u>134,601</u>	<u>118,703</u>
<b>Risk weighted assets</b>		
Credit risk	807,093	772,481
Market risk	31,411	27,619
Operational risk	90,473	82,928
Total risk weighted assets	<u>928,977</u>	<u>883,028</u>
<b>Capital adequacy ratio %</b>	<u>14.49</u>	<u>13.44</u>

The Tier 1 capital consists of paid-up capital and reserves. The Tier 2 capital consists of the provisions made for the loan impairment on the performing portion of the loans and advances against the losses incurred but not identified.

The Parent Company's objectives when managing capital are to safeguard the group's ability to continue as a going concern in order to provide returns to shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

During 2010, the Parent Company's strategy, which was unchanged from 2009, was to maintain the gearing ratio at an acceptable level. The gearing ratio at 31 December 2010 and 2009 for the Parent Company was 19.57% and 16.06% respectively.

	2010 (RO'000)	2009 (RO'000)
Total borrowings	(12,025)	(10,450)
Less: bank balances and cash	<u>1,057</u>	<u>2,746</u>
Cash and cash equivalents	(10,968)	(7,704)
Total equity	<u>(45,065)</u>	<u>(40,260)</u>
	<u>(56,033)</u>	<u>(47,964)</u>
<b>Gearing ratio</b>	<b><u>19.57%</u></b>	<b><u>16.06%</u></b>

#### 4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group and the Parent Company make estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

##### (a) Going concern

The Group's management has made an assessment of the Group's ability to continue as a going concern and is satisfied that the Group has the resources to continue in business for the foreseeable future. Furthermore, the management is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

##### (b) Impairment losses on loans and advances

The Group reviews its loan portfolios to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in the statements of comprehensive income, the Group makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of

future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

##### (c) Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded on the statement of financial position cannot be derived from active markets, they are determined using a certain valuation techniques, derived from observable market data where possible. Where observable market data are not available, judgment is used to establish fair values.

##### (d) Impairment of available for sale investments

The Group and Parent Company also records impairment charges on available-for-sale equity investments when there has been a significant or prolonged decline in the fair value below their cost. The determination of what is 'significant' or 'prolonged' requires judgment. In making this judgment, the Group evaluates, among other factors, historical share price movements and duration and extent to which the fair value of an investment is less than its cost.

The Group and the Parent Company follow the guidance of International Accounting Standards 39 (IAS 39) on determining when an investment is impaired.

The Group assesses fair values of unquoted investments and estimates impairment by reference to external reports received from external sources. Fair values of unquoted investments cannot be determined without extensive, subjective, judgemental and possibly speculative estimates by the Group and the Parent Company. Such investments are measured at cost less estimated impairment losses or fair value change.

##### (e) Income tax

There are a number of transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group and the Parent Company recognise liabilities for anticipated tax issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

*(f) Held-to-maturity investments*

The Group follows the guidance in IAS 39: Financial Instruments – Recognition and Measurement, on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires significant judgement. In making this judgement, the Group evaluates its intention and ability to hold such investments to maturity.

If the Group fails to keep these investments to maturity other than for specific circumstances explained in IAS 39, it will be required to reclassify the whole class as available-for-sale. The investments would therefore be measured at fair value and not at amortised cost.

**7. INVESTMENT SECURITIES**

As at the balance sheet date, investment securities comprised the following:

	Group		Parent Company	
	2010 (RO'000)	2009 (RO'000)	2010 (RO'000)	2009 (RO'000)
Financial assets at fair value through profit or loss	13,498	15,286	7,220	9,823
Available for sale investments	11,022	9,571	5,284	4,380
Held-to-maturity investments	20,077	21,628	-	-
	<u>44,597</u>	<u>46,485</u>	<u>12,504</u>	<u>14,203</u>

**(a) Financial assets at fair value through profit or loss***(i) Financial assets designated at fair value through profit or loss*

As at the balance sheet date, financial assets designated at fair value through profit or loss comprised the following:

	Group		Parent Company	
	2010 (RO'000)	2009 (RO'000)	2010 (RO'000)	2009 (RO'000)
<b>Quoted investments</b>				
Local investments by sector				
Banking	201	913	65	468
Investment	298	408	264	408
Services	1,159	1,621	895	1,603
Industrial	<u>758</u>	<u>782</u>	<u>636</u>	<u>782</u>
	2,416	3,724	1,860	3,261
Oman Al Arabi Fund	1,550	1,460	1,069	1,010
Vision Real Economy GCC Fund	<u>1,668</u>	<u>-</u>	<u>1,668</u>	<u>-</u>
	<u>5,634</u>	<u>5,184</u>	<u>4,597</u>	<u>4,271</u>
Foreign investments				
Equity and equity related	2,274	5,172	2,274	5,172
Currency and commodity related	<u>349</u>	<u>380</u>	<u>349</u>	<u>380</u>
	<u>2,623</u>	<u>5,552</u>	<u>2,623</u>	<u>5,552</u>
<b>Unquoted investments</b>	502	495	-	-
Total financial assets designated at fair value through profit or loss	<u>8,759</u>	<u>11,231</u>	<u>7,220</u>	<u>9,823</u>

Unquoted local investments held by the Group include investment in the Financial Settlement and Guarantee Fund of RO 166,131 (2009 – RO 152,742) which is not realisable until the date the banking subsidiary ceases its brokerage activities or the fund is liquidated, whichever is earlier.

(ii) *Financial assets held for trading*

	Group		Parent Company	
	2010 (RO'000)	2009 (RO'000)	2010 (RO'000)	2009 (RO'000)
Total financial assets held for trading	4,739	4,055	-	-
Total financial assets at fair value through profit or loss	13,498	15,286	7,220	9,823

(b) *Available for sale investments*

	Group		Parent Company	
	2010 (RO'000)	2009 (RO'000)	2010 (RO'000)	2009 (RO'000)
<b>Local investments</b>				
Quoted investments	4,535	4,386	-	-
Fair value reserve	557	402	-	-
	5,092	4,788	-	-
Unquoted investments	995	700	700	700
Total local investments	6,087	5,488	700	700
<b>Foreign investments</b>				
Quoted investments	147	183	-	-
Fair value reserve	153	190	-	-
	300	373	-	-
Unquoted investments	6,602	5,673	6,551	5,643
Less: Provision for impairment [note 7(c)]	(2,320)	(2,587)	(2,320)	(2,587)
	4,282	3,086	4,231	3,056
Fair value reserve	353	624	353	624
Total foreign investments	4,635	3,710	4,584	3,680
Total available for sale investments	11,022	9,571	5,284	4,380

Fair value reserve changes in available for sale investments are recognised in total equity under "cumulative changes in fair value". Impairment losses on available for sale investments are charged to statements of comprehensive income.

(c) *Movement in provision for impairment of available for investments*

	Group and Parent Company	
	2010 (RO'000)	2009 (RO'000)
Balance at 1 January	2,587	2,841
Provided during the year	114	163
Written off during the year	(381)	(417)
Balance at 31 December	2,320	2,587

(d) *Held-to-maturity investments*

	Group		Parent Company	
	2010 (RO'000)	2009 (RO'000)	2010 (RO'000)	2009 (RO'000)
Oman Government Development Bonds - held by the banking subsidiary	20,077	21,628	-	-
	20,077	21,628	-	-

All the bonds are denominated in Rial Omani and are issued by the Government of Oman. They carry interest rates varying between 3.25% to 4% (2009 - 4% to 5.25%) per annum. The maturity profile of the bonds based on the remaining period to maturity from the reporting date, is as follows:

	2010 (RO'000)	2009 (RO'000)
Within one year	-	3,847
Between one and five years	20,077	17,781
	<u>20,077</u>	<u>21,628</u>

**(e) Investments in associates**

As at the balance sheet date, investments in associates represented holdings in the following companies registered in the Sultanate of Oman:

	2010			2009		
	Holding (%)	Carrying value (RO'000)	Cost (RO'000)	Holding (%)	Carrying value (RO'000)	Cost (RO'000)
National Finance Co. SAOG	24.02	5,038	2,334	24.02	4,485	2,334
National Biscuit Industries SAOG	21.30	463	435	21.30	424	435
National Detergent Co. SAOG	20.94	2,645	713	20.94	2,487	713
		<u>8,146</u>	<u>3,482</u>		<u>7,396</u>	<u>3,482</u>

All the Group's associated companies' shares are listed on the Muscat Securities Market (MSM). The market value of investments in associated companies as of the reporting date amounted to RO 9,052 thousand (2009 - RO 7,726 thousand).

Total assets, liabilities and revenues of the Group's principal associates, all of which are registered in the Sultanate of Oman are shown below, along with the Group's share of the results of these associates:

Name of the associate	Assets (RO'000)	Liabilities (RO'000)	Revenues (RO'000)	Share of profit (RO'000)
<b>2010</b>				
National Finance Company SAOG	85,068	63,953	8,580	553
National Biscuit Industries SAOG	6,579	4,409	9,362	39
National Detergent Company SAOG	18,076	5,531	18,029	300
				<u>892</u>
<b>2009</b>				
National Finance Company SAOG	72,150	53,366	8,539	551
National Biscuit Industries SAOG	7,096	5,094	8,459	37
National Detergent Company SAOG	16,254	4,481	15,658	222
				<u>810</u>

**(f) Investments in subsidiaries**

As at the balance sheet date, investments held by the Parent Company in subsidiaries are:

	Country of Incorporation	2010		2009	
		Holding (%)	Cost (RO'000)	Holding (%)	Cost (RO'000)
Oman Arab Bank SAOC (Principal activity: Banking)	Oman	50.99	29,574	50.99	25,495
Oman Investment Services SAOC (Principal activity: Investments)	Oman	99.98	903	99.98	903
Salalah Resorts SAOC (Principal activity: Integrated Tourism Project) (i)	Oman	99.98	500	-	-
Budva Beach Properties (Principal activity: Tourism Project)(ii)	Montenegro	100.00	4,615	-	-
			<u>35,592</u>		<u>26,398</u>

**(g) Details of significant investments**

As at balance sheet date, the Group's investments for which either, the Group's holding represents 10% or more of the issuer's share capital, or, the Group's holding exceeds 10% of the market value of the Group's investment portfolio, are detailed as follows:

*Quoted securities*

	<b>Holding (%)</b>	<b>Number of shares</b>	<b>Fair value (RO'000)</b>	<b>Carrying value (RO'000)</b>
<u>Group</u>				
National Biscuit Industries Ltd SAOG	29.22	292,197	1,227	795
National Finance Co. SAOG	24.02	35,389,132	5,131	5,038
National Detergent Co. SAOG	20.94	3,561,700	3,027	2,645
Oman National Dairy Products Co. Ltd SAOC	19.65	482,726	-	-
Oman Al Arabi Fund	16.03	1,450,000	1,560	1,560
Vision Real Economy GCC Fund	14.63	1,500,000	1,668	1,668
			<u>12,613</u>	<u>11,706</u>

As at balance sheet date, the Parent Company's investments for which either, the Parent Company's holding represents 10% or more of the issuer's share capital, or, the Parent Company's holding exceeds 10% of the market value of the Parent Company's investment portfolio, are detailed as follows:

	<b>Holding (%)</b>	<b>Number of shares</b>	<b>Fair value (RO'000)</b>	<b>Carrying value (RO'000)</b>
<u>Parent Company</u>				
National Biscuit Industries Ltd SAOG	28.92	289,197	1,215	767
National Finance Co. SAOG	23.74	35,923,141	5,065	2,335
National Detergent Co. SAOG	20.94	3,561,700	3,027	713
Oman National Dairy Products Co. Ltd SAOC	19.65	482,726	-	-
Oman Al Arabi Fund	11.05	1,000,000	1,069	1,069
Vision Real Economy GCC Fund	14.63	1,500,000	1,668	1,668
			<u>12,044</u>	<u>6,552</u>

**(g) Details of significant investments (continued)***Unquoted securities*

	<b>Holding (%)</b>	<b>Number of shares</b>	<b>Carrying value (RO'000)</b>
<u>Group</u>			
<u>Subsidiaries</u>			
Oman Arab Bank SAOC	51.00	43,350,000	72,846
Oman Investment Services SAOC	99.98	999,800	736
Salalah Resorts SAOC	99.98	499,800	401
Budva Beach Properties	100.00	-	4,615
<u>Others</u>			
Al Shamal Plastics LLC	21.44	200,000	37
Modern Steel Mills LLC	19.49	1,169,104	251
Gulf Acrylic Industries LLC	17.64	100,000	125
			<u>79,011</u>
<u>Parent Company</u>			
<u>Subsidiaries</u>			
Oman Arab Bank SAOC	50.99	43,341,500	29,574
Oman Investment Services SAOC	99.98	999,800	903
Salalah Resorts SAOC	99.98	499,800	500
Budva Beach Properties	100.00	-	4,615
<u>Others</u>			
Al Shamal Plastics LLC	16.08	150,000	-
Modern Steel Mills LLC	19.49	584,552	251
Gulf Acrylic Industries LLC	13.23	75,000	75
			<u>35,918</u>

## 8. LOANS AND ADVANCES TO CUSTOMERS

(a) *Loans and advances to customers extended by the banking subsidiary were as follows:*

	2010 (RO'000)	2009 (RO'000)
Corporate loans		
Term loans	292,857	272,115
Overdrafts	78,163	71,863
Bills discounted	10,438	16,145
	<u>381,458</u>	<u>360,123</u>
Personal loans		
Consumer loans	228,661	176,662
Mortgage loans	29,595	16,945
Overdrafts	34,698	23,727
Credit cards	5,337	4,347
	<u>298,291</u>	<u>221,681</u>
Gross loans and advances	679,749	581,804
Less: allowances for loan impairment and unrecognised contractual interest (refer to note (b) below)	<u>(22,003)</u>	<u>(17,847)</u>
Net loans and advances	<u>657,746</u>	<u>563,957</u>

(b) *Allowance for loan impairment and unrecognised contractual interest*

The movement in the allowance for loan impairment and unrecognised contractual interest was as follows:

	Allowance for loan impairment (RO'000)	Unrecog- nised contractual interest (RO'000)	Total (RO'000)
<b>2010</b>			
Balance at 1 January	14,151	3,696	17,847
Provided during the year	4,563	1,555	6,118
Amounts written off during the year	(154)	(66)	(220)
Amounts released/recovered	<u>(1,158)</u>	<u>(584)</u>	<u>(1,742)</u>
Balance at 31 December	<u>17,402</u>	<u>4,601</u>	<u>22,003</u>
<b>2009</b>			
Balance at 1 January	11,988	2,994	14,982
Provided during the year	4,325	1,219	5,544
Amounts written off during the year	(160)	(60)	(220)
Amounts released/recovered	<u>(2,002)</u>	<u>(457)</u>	<u>(2,459)</u>
Balance at 31 December	<u>14,151</u>	<u>3,696</u>	<u>17,847</u>

(c) *At 31 December 2010 loans and advances on which contractual interest was not recognised or has not been accrued amounted to RO 20,929,691 (2009 - RO 15,787,469).*

At 31 December 2010, RO 9,507,154 (2009 - RO 7,860,967) out of the total loan impairment provision, has been made against the losses incurred but not identified on performing portion of the loans and advances on a portfolio basis.

- (d) All loans and advances were made to customers within the Sultanate of Oman. The concentration of loans and advances by sector is as follows:

	2010 (RO'000)	2009 (RO'000)
Personal and consumer loans	298,291	221,681
Construction	69,414	79,378
Services	65,674	51,847
Manufacturing	61,695	58,387
Wholesale and retail trade	39,256	53,991
Transportation	37,219	10,867
Mining and quarrying	32,645	33,961
Financial institutions	15,725	12,706
Import trade	13,657	15,842
Agriculture and allied activities	6,879	8,281
Government	2,389	2,582
Others	36,905	32,281
	<u>679,749</u>	<u>581,804</u>

### 9(a). PROJECTS WORK IN PROGRESS

At 31 December 2010, projects work in progress are as follows:

	Group (RO'000)	Parent Company (RO'000)
<b>Salalah Resorts SAOC :</b>		
Initial stage	289	-
Development stage	652	-
Consultancy charges	1,138	-
	<u>2,079</u>	<u>-</u>
<b>Budva Beach Properties:</b>		
Cost of land	4,615	-
Consultancy and other costs	126	-
	<u>4,741</u>	<u>-</u>
	<u>6,820</u>	<u>-</u>

### 9(b). PROPERTY AND EQUIPMENT

	Land and buildings (RO'000)	Furniture, fixtures and equipment (RO'000)	Motor vehicles (RO'000)	Total (RO'000)
<b>Group</b>				
<b>2010</b>				
<b>Cost:</b>				
At 1 January 2010	10,718	14,611	604	25,933
Additions	3,680	1,184	95	4,959
Transfers	818	(818)	-	-
Disposals	-	(202)	(76)	(278)
At 31 December 2010	<u>15,216</u>	<u>14,775</u>	<u>623</u>	<u>30,614</u>
<b>Depreciation:</b>				
At 1 January 2010	2,759	10,121	349	13,229
Charge for the year	145	1,666	90	1,901
Disposals	-	(194)	(80)	(274)
At 31 December 2010	<u>2,904</u>	<u>11,593</u>	<u>359</u>	<u>14,856</u>
Net book value at 31 December 2010	<u>12,312</u>	<u>3,182</u>	<u>264</u>	<u>15,758</u>

Land and building include capital work in progress of the banking subsidiary amounting to RO 3,660,000 (2009: RO 798,000)

	Land and buildings (RO'000)	Furniture, fixtures and equipment (RO'000)	Motor vehicles (RO'000)	Total (RO'000)
<b>2009</b>				
<b>Cost:</b>				
At 1 January 2009	7,436	12,647	575	20,658
Additions	3,282	2,243	72	5,597
Disposals	-	(279)	(43)	(322)
At 31 December 2009	10,718	14,611	604	25,933
<b>Depreciation:</b>				
At 1 January 2009	2,533	9,058	196	11,787
Charge for the year	226	1,337	196	1,759
Disposals	-	(274)	(43)	(317)
At 31 December 2009	2,759	10,121	349	13,229
Net book value at 31 December 2009	7,959	4,490	255	12,704

	Land and building (RO'000)	Furniture, fixtures and equipment (RO'000)	Motor vehicles (RO'000)	Total (RO'000)
<b>Parent Company</b>				
<b>2010</b>				
<b>Cost:</b>				
At 1 January 2010	3,400	288	36	3,724
Additions	-	139	-	139
At 31 December 2010	3,400	427	36	3,863
<b>Depreciation:</b>				
At 1 January 2010	277	146	36	459
Charge for the year	59	71	-	130
At 31 December 2010	336	217	36	589
Net book value at 31 December 2010	3,064	210	-	3,274

<b>2009</b>				
<b>Cost:</b>				
At 1 January 2009	915	261	66	1,242
Additions	2,485	159	-	2,644
Disposals	-	(132)	(30)	(162)
At 31 December 2009	3,400	288	36	3,724
<b>Depreciation:</b>				
At 1 January 2009	230	261	66	557
Charge for the year	47	17	-	64
Disposals	-	(132)	(30)	(162)
At 31 December 2009	277	146	36	459
Net book value at 31 December 2009	3,123	142	-	3,265

## 10. DUE TO BANKS

As at the balance sheet date, due to banks are as follows:

	Group		Parent Company	
	2010 (RO'000)	2009 (RO'000)	2010 (RO'000)	2009 (RO'000)
Due of banks	5,772	1,929	-	-
Loans and overdrafts	9,425	8,850	12,025	10,450
	<u>15,197</u>	<u>10,779</u>	<u>12,025</u>	<u>10,450</u>

## 11. SHARE CAPITAL

- (a) The Parent Company's authorised share capital is 300,000,000 (2009 – 300,000,000) shares of 100 baisa (2009 – 100 baisa) each. 230,000,000 (2009 – 200,000,000) shares of 100 baisa (2009- 100 baisa) each have been issued and are fully paid.
- (b) Shareholders of the Parent Company who own 10% or more of the Parent Company's shares, whether in their name or through nominee accounts, and the number of shares they hold at the reporting date are as follows:

	2010		2009	
	Holding (%)	Shares	Holding (%)	Shares
Al Hilal Investment Co. LLC	20.09	46,201,581	20.09	40,175,290
Civil Service Employees' Pension Fund	12.43	28,597,407	12.40	24,806,443
	<u>32.52</u>	<u>74,798,988</u>	<u>32.49</u>	<u>64,981,733</u>

## 12. RESERVES

### (a) Legal reserve

As required by Article 106 of the Commercial Companies Law of Oman, the Parent Company and each of its Omani subsidiaries are required to transfer 10% of their profit for the year to this reserve until such time as the legal reserve amounts to at least one third of the respective company's paid-up share capital. The reserve is not available for distribution. The balance at the end of the year represents amounts relating to the Parent Company and its share of the legal reserve of its Omani subsidiaries.

	2010	2009
	(RO'000)	(RO'000)
Parent company	6,974	6,266
Share of subsidiaries' legal reserve	10,513	9,321
Group	<u>17,487</u>	<u>15,587</u>

### (b) Capital reserve

Oman Arab Bank SAOC, the banking subsidiary, has increased its paid up share capital during the year through capitalisation of retained profits, free reserves and issue of rights. The Parent Company's share of the increased paid up share capital (50.99%) through capitalisation of reserves and retained profits has been transferred to a non distributable capital reserve in the Group financial statements.

	2010	2009
	(RO'000)	(RO'000)
Balance at 1 January	12,747	11,218
Transferred during the year	1,020	1,529
Balance at 31 December	<u>13,767</u>	<u>12,747</u>

### (c) General reserve

This discretionary reserve held by the banking subsidiary is available for distribution.

### (d) Revaluation reserve

The revaluation reserve represents the Parent Company's share of the revaluation reserve arising from the revaluation of land in associated companies.

### 13. DIVIDEND PROPOSED AND PAID

#### Parent Company

Final dividends are not accounted for until they have been approved at the Annual General Meeting. At the forthcoming Annual General Meeting, to be held on 31 March 2011, a cash dividend of RO 0.010 per share (2009 - RO 0.010 per share) amounting to RO 2,300,000 (2009 - RO 2,000,000) and a stock dividend of RO 0.010 (2009 - RO 0.015) per share amounting to RO 2,300,000 (2009 - RO 3,000,000) in respect of year ended 31 December 2010 is to be proposed by the Board of Directors. The financial statements for the year ended 31 December 2010 do not reflect proposed dividend, which will be accounted for in shareholders' equity as an appropriation of retained profits in the year ending 31 December 2011.

### 14. TAXATION

	Group		Parent Company	
	2010	2009	2010	2009
	(RO'000)	(RO'000)	(RO'000)	(RO'000)
<b>(a) Recognised in the Statements of comprehensive income</b>				
Income tax expense				
Current year	3,572	3,058	-	-
Prior years	-	179	-	179
Current year	<u>3,572</u>	<u>3,237</u>	<u>-</u>	<u>179</u>

The Parent Company and each of its subsidiaries are subject to income tax at the rate of 12% of taxable income in excess of RO 30,000, respectively. There is no concept of Group taxation in Oman.

#### (b) Reconciliation of income tax expense

The following is a reconciliation of income tax calculated at the applicable tax rate with the income tax expense:

	Group		Parent Company	
	2010	2009	2010	2009
	(RO'000)	(RO'000)	(RO'000)	(RO'000)
Profit before tax	26,886	25,957	7,076	9,654
Income tax as per rates mentioned above	3,215	3,104	849	1,155
Tax-exempt revenues	(347)	(184)	(1,065)	(1,349)
Non-deductible expenses	507	251	291	226
Deferred tax not recognised during the year	(58)	(106)	(41)	(32)
Taxation impact of prior years	-	179	(34)	179
Prior years unrecognised deferred tax liability now recognised	248	-	-	-
Reversal of excess provision brought forward	-	(13)	-	-
Effect of minimum exemption limit	7	6	-	-
Income tax expense	<u>3,572</u>	<u>3,237</u>	<u>-</u>	<u>179</u>

#### (c) Current liability

	Group		Parent Company	
	2010	2009	2010	2009
	(RO'000)	(RO'000)	(RO'000)	(RO'000)
Current year	3,572	3,058	-	179
Prior years	3,072	4,165	-	429
Paid in current year (net of tax refund for prior years)	<u>(3,072)</u>	<u>(4,151)</u>	<u>-</u>	<u>(609)</u>
	<u>3,572</u>	<u>3,072</u>	<u>-</u>	<u>-</u>

**(d) Status of tax assessments**

The consolidated tax liability comprises the tax liability of the Parent Company and its subsidiaries Oman Arab Bank SAOC, Oman Investment Services SAOC, Salalah Resorts SAOC and Budva Beach Properties

*Oman International Development and Investment Company SAOG (Ominvest)*

The assessments of Ominvest have been completed by the Tax Department up to 2007. Assessment of the tax return filed for the year 2008 and 2009 have not yet been finalised by the Secretariat General for Taxation at the Ministry of Finance. Management believes that any additional taxes that may arise on completion of the tax assessments for the open tax years will not be significant to the Ominvest's financial position at 31 December 2010.

*Oman Arab Bank SAOC (OAB)*

OAB was exempt from tax for the period from 16 April 1994 to 31 July 2000. The assessments for the years up to 2005 are complete. The assessment for the years 2006 to 2009 is not yet completed by the tax authorities. Management believes that no significant further

liabilities will be incurred by OAB on completion of the pending tax assessments.

*Oman Investment Services SAOC (OIS)*

The assessments of OIS have been completed by the Tax Department up to 2004. Assessment of the tax returns filed for the years 2005 to 2009 have not yet been finalised by the Secretariat General for Taxation at the Ministry of Finance. Management believes that any additional taxes that may arise on completion of the tax assessments for the open tax years will not be significant to OIS' financial position at 31 December 2010.

*Salalah Resorts SAOC*

The Company is registered as a closed joint stock company in the Sultanate of Oman in April 2010. The Annual Return of Income for the 9 months period ended 31 December 2010 is yet to be filed by the Company.

*Budva Beach Properties*

Budva Beach Properties is registered in Montenegro in September 2010. The Company is yet to commence its commercial operations

**15. INTEREST INCOME**

Loans and advances to customers	40,074	37,399	-	-
Placements with banks and other money market placements	139	662	2	-
Certificates of deposit	80	170	-	53
Oman Government Development Bonds	639	507	-	-
	<u>40,932</u>	<u>38,738</u>	<u>2</u>	<u>53</u>

Group		Parent Company	
2010	2009	2010	2009
(RO'000)	(RO'000)	(RO'000)	(RO'000)
40,074	37,399	-	-
139	662	2	-
80	170	-	53
639	507	-	-
<u>40,932</u>	<u>38,738</u>	<u>2</u>	<u>53</u>

**16. INTEREST EXPENSE**

Time deposits	6,362	6,638	-	-
Call accounts	565	737	-	-
Savings accounts	365	619	-	-
Bank borrowings	813	370	532	456
	<u>8,105</u>	<u>8,364</u>	<u>532</u>	<u>456</u>

Group		Parent Company	
2010	2009	2010	2009
(RO'000)	(RO'000)	(RO'000)	(RO'000)
6,362	6,638	-	-
565	737	-	-
365	619	-	-
813	370	532	456
<u>8,105</u>	<u>8,364</u>	<u>532</u>	<u>456</u>

**17. INVESTMENT INCOME**

Dividend from investments	788	878	8,329	11,190
Profit on sale of local investments	802	73	559	36
Change in fair value of local investments	40	465	39	142
Change in fair value of foreign investments	603	637	603	637
Profit on sale of unquoted foreign investments	217	53	217	53
	<u>2,450</u>	<u>2,106</u>	<u>9,747</u>	<u>12,058</u>

Group		Parent Company	
2010	2009	2010	2009
(RO'000)	(RO'000)	(RO'000)	(RO'000)
788	878	8,329	11,190
802	73	559	36
40	465	39	142
603	637	603	637
217	53	217	53
<u>2,450</u>	<u>2,106</u>	<u>9,747</u>	<u>12,058</u>

**18. FEE AND COMMISSION INCOME - NET**

	Group		Parent Company	
	2010	2009	2010	2009
	(RO'000)	(RO'000)	(RO'000)	(RO'000)
Fee and commission income	13,974	12,876	-	44
Fee and commission expense	(959)	(300)	-	-
	<u>13,015</u>	<u>12,576</u>	<u>-</u>	<u>44</u>

**19. OTHER OPERATING INCOME**

	Group		Parent Company	
	2010	2009	2010	2009
	(RO'000)	(RO'000)	(RO'000)	(RO'000)
Foreign exchange (net)	3,946	3,638	-	-
Other income	992	1,026	84	86
	<u>4,938</u>	<u>4,664</u>	<u>84</u>	<u>86</u>

**20. OPERATING EXPENSES**

	Group		Parent Company	
	2010	2009	2010	2009
	(RO'000)	(RO'000)	(RO'000)	(RO'000)
Staff costs (refer below)	14,376	13,420	1,375	1,269
Other operating expenses	7,728	7,086	411	435
Depreciation	1,901	1,759	130	64
Directors' sitting fees and remuneration:				
Parent Company	195	200	195	200
Banking subsidiary	101	79	-	-
	<u>24,301</u>	<u>22,544</u>	<u>2,111</u>	<u>1,968</u>
Staff costs:				
Salaries	11,875	11,179	968	959
End of service benefits	264	297	35	81
Social security costs	633	581	21	17
Other costs	1,604	1,363	351	212
	<u>14,376</u>	<u>13,420</u>	<u>1,375</u>	<u>1,269</u>

## 21. CASH AND CASH EQUIVALENTS

Cash and cash equivalents included in statements of cash flows comprise the following:

	Group		Parent Company	
	2010 (RO'000)	2009 (RO'000)	2010 (RO'000)	2009 (RO'000)
Balances with banks and money at call	117,863	81,564	1,057	2,746
Deposits with banks (note 6)	8,615	38,471	-	-
Certificates of deposit (note 5)	100,000	110,000	-	-
Bank borrowings	(9,425)	(8,850)	(12,025)	(10,450)
Due to banks	(5,772)	(1,929)	-	-
	<u>211,281</u>	<u>219,256</u>	<u>(10,968)</u>	<u>(7,704)</u>

## 22. END OF SERVICE BENEFITS

In accordance with the Labour Law of Oman, the Group and Parent Company accrues for employees' end of service benefits for its non Omani employees. Movements in the liability recognised in the balance sheet are as follows:

	Group		Parent Company	
	2010 (RO'000)	2009 (RO'000)	2010 (RO'000)	2009 (RO'000)
Balance as at 1 January	2,216	1,952	281	200
Expense recognised in the statements of comprehensive income	264	297	35	81
Employees' end of service benefits paid	(90)	(33)	(31)	-
Balance as at 31 December	<u>2,390</u>	<u>2,216</u>	<u>285</u>	<u>281</u>

The above balance is recorded under other liabilities in the statement of financial position.

## 23. SEGMENTAL INFORMATION

The Group is organised into two main business segments:

- 1) Banking Segment – incorporating corporate, retail, treasury and investment banking activities carried out by the Group's banking subsidiary; and
- 2) Investment Segment – incorporating investment activities with both short-term and long-term objectives.

Transactions between the business segments are on normal commercial terms and conditions and are entered into between the banking subsidiary and the rest of the Group. Such transactions are eliminated on consolidation.

	Banking Sector					Adjustments (RO'000)	Total (RO'000)
	Investments (RO'000)	Retail banking (RO'000)	Corporate banking (RO'000)	Investment banking (RO'000)	Support and unallocated function (RO'000)		
<b>2010</b>							
Interest income	2	19,983	20,201	-	858	(112)	40,932
Interest expenses	(532)	(2,086)	(5,206)	-	(393)	112	(8,105)
	(530)	17,897	14,995	-	465	-	32,827
Other operating income	9,127	8,587	3,566	2,068	3,954	(6,899)	20,403
Share of profit from associates	892	-	-	-	-	-	892
<b>Total operating income</b>	<b>9,489</b>	<b>26,484</b>	<b>18,561</b>	<b>2,068</b>	<b>4,419</b>	<b>(6,899)</b>	<b>54,122</b>
Allowance for loan impairment	-	10,028	11,975	-	-	-	22,003
Allowance for impairment of investments	114	-	-	-	-	-	114
<b>Assets</b>	<b>66,439</b>	<b>288,263</b>	<b>372,083</b>	<b>15,355</b>	<b>277,091</b>	<b>(37,396)</b>	<b>981,835</b>
<b>Liabilities</b>	<b>15,661</b>	<b>183,131</b>	<b>586,630</b>	<b>15,355</b>	<b>24,842</b>	<b>(6,412)</b>	<b>819,207</b>
<b>2009</b>							
Interest income	53	11,728	25,765	-	1,286	(94)	38,738
Interest expenses	(456)	(2,392)	(5,225)	-	(385)	94	(8,364)
	(403)	9,336	20,540	-	901	-	30,374
Other operating income	11,326	8,186	3,707	2,207	3,668	(9,748)	19,346
Share of profit from associates	810	-	-	-	-	-	810
<b>Total operating income</b>	<b>11,733</b>	<b>17,522</b>	<b>24,247</b>	<b>2,207</b>	<b>4,569</b>	<b>(9,748)</b>	<b>50,530</b>
Allowance for loan impairment	-	6,257	11,590	-	-	-	17,847
Allowance for impairment of investments	163	-	-	-	-	-	163
<b>Assets</b>	<b>52,525</b>	<b>215,424</b>	<b>350,133</b>	<b>15,102</b>	<b>278,232</b>	<b>(26,242)</b>	<b>885,174</b>
<b>Liabilities</b>	<b>11,635</b>	<b>232,856</b>	<b>463,216</b>	<b>15,102</b>	<b>21,236</b>	<b>(3,705)</b>	<b>740,340</b>

## 24. RELATED PARTY TRANSACTIONS

- (a) These represent transactions with related parties defined in International Accounting Standard 24 – Related Party Disclosures. Pricing policies and the terms of the transactions are approved by the Parent Company's and subsidiaries' respective Boards of Directors.
- (b) Transactions and balances with related parties of the Parent Company or holders of 10% or more of the Parent Company's shares or their family members, included in the statements of comprehensive income, balance sheet and off-balance sheet are as follows:

	<b>Total</b>	<b>Major share-holders</b>	<b>Directors</b>	<b>Associates</b>	<b>Key management</b>	<b>Non-controlling interests</b>
	<b>(RO'000)</b>	<b>(RO'000)</b>	<b>(RO'000)</b>	<b>(RO'000)</b>	<b>(RO'000)</b>	<b>(RO'000)</b>
<b>Group – 2010</b>						
<b>Statements of comprehensive income</b>						
Interest and commission income	1,109	15	178	6	-	910
Interest expense	668	-	-	-	-	668
Directors' sitting fees and remuneration	296	-	247	-	-	49
Staff costs	1,835	-	-	-	1,835	-
Terminal benefits	94	-	-	-	94	-
Operating expenses	51	43	8	-	-	-
<b>Statements of financial position</b>						
Loans and advances	20,706	-	1,970	5,000	-	13,736
Deposits from customers	1,083	-	389	346	-	348
Other assets	2	-	2	-	-	-
<b>Off balance sheet</b>						
Letters of credit and guarantees	118,811	-	-	-	-	118,811
<b>Group – 2009</b>						
<b>Statements of comprehensive income</b>						
Interest and commission income	606	10	123	37	-	436
Interest expense	379	-	-	-	-	379
Directors' sitting fees and remuneration	279	-	237	-	-	42
Staff costs	1,806	-	-	-	1,806	-
Terminal benefits	130	-	-	-	130	-
Operating expenses	20	19	1	-	-	-
<b>Statements of financial position</b>						
Loans and advances	31,372	302	384	5,435	-	25,251
Deposits from customers	21,533	-	213	89	-	21,231
Property and equipment	6	6	-	-	-	-
<b>Off balance sheet</b>						
Letters of credit and guarantees	141,001	-	-	-	-	141,001

	2010			2009		
	Subsidiary (RO'000)	Directors (RO'000)	Key management (RO'000)	Subsidiary (RO'000)	Directors (RO'000)	Key management (RO'000)
<b>Parent Company</b>						
<b>Statement of comprehensive income</b>						
Directors' sitting fees and remuneration	-	195	-	-	200	-
Staff costs	-	-	723	-	-	705
Terminal benefits	-	-	35	-	-	70
Operating expenses	-	51	-	-	20	-
<b>Statements of financial position</b>						
Other assets	-	2	-	-	6	-
Bank borrowings	2,600	-	-	1,600	-	-
Bank balances	834	-	-	2,105	-	-

- (c) The banking subsidiary has a management agreement with Arab Bank plc, Jordan, which owns 49% of the banking subsidiary's share capital. In accordance with the terms of the management agreement, Arab Bank plc provides banking related technical assistance and other management services, including secondment of managerial staff. The annual management fee is US\$ 75,000 (2009 - US\$ 75,000), equivalent to RO 28,850 (2009 - RO 28,850).
- (d) Due from subsidiaries in the Parent Company include an amount of RO 2,178,509 (2008 - RO 1,502,455) related to the tourist resort project in Salalah. Management believes that the project is financially viable and a specific entity Salalah Resorts SAOC has been set up for this purpose and accordingly judges the amount to be fully recoverable on implementation of the project.

## 25. FIDUCIARY ACTIVITIES

As at 31 December 2010, balances stated at cost arising from fiduciary activities are as follows:

	Group		Parent Company	
	2010 (RO'000)	2009 (RO'000)	2010 (RO'000)	2009 (RO'000)
Investments syndicated by the Group and registered in its name:				
Parent Company	1,722	2,243	1,722	2,243
Funds under management:				
Banking subsidiary	147,195	182,983	-	-
	<u>148,917</u>	<u>185,226</u>	<u>1,722</u>	<u>2,243</u>

These investments are held beneficially for and on behalf of investors and, accordingly, are not treated as assets of the Group and the Parent Company. These are included in the Group's and Parent Company's financial statements as off balance sheet items.

The banking subsidiary's fiduciary activities consist of investment management activities conducted as trustee and manager for investment funds and individuals. The aggregate amounts of funds managed are not included in the Group's balance sheet.

## 26. COMMITMENTS

As of the balance sheet date, the Group and the Parent Company had the following outstanding commitments which are expected to crystallise within one year:

	Group	Parent Company
	(RO'000)	(RO'000)
<b>2010</b>		
Unquoted foreign investments	114	114
Contractual interest charge to maturity	37	46
	151	160
<b>2009</b>		
Unquoted foreign investments	142	142
Contractual interest charge to maturity	51	56
	193	198

Uncalled contributions to unquoted foreign investments syndicated by the Parent Company included commitments from investors amounting to RO 68,538 (2009– RO 68,538).

### Banking Subsidiary

	Up to 1 year	1 to 5 years	Over 5 years	Total
	(RO'000)	(RO'000)	(RO'000)	(RO'000)
<b>2010</b>				
Capital commitments	219	-	-	219
Operating lease commitments	857	-	-	857
Loan commitments	3,715	413	411	4,539
	4,791	413	411	5,615
<b>2009</b>				
Capital commitments	645	-	-	645
Operating lease commitments	773	-	-	773
Loan commitments	9,833	1,300	467	11,600
	11,251	1,300	467	13,018

## 27. CONTINGENT LIABILITIES

The outstanding contract values or the notional amounts of these instruments at 31 December were as follows:

	2010	2009
	(RO'000)	(RO'000)
Letters of credit	285,623	246,959
Guarantees	344,106	428,993
Financial guarantees	58,261	48,929
	687,990	724,881

The concentration of letters of credit, guarantees and financial guarantees by industry sector is as follows:

	Group		Parent Company	
	2010	2009	2010	2009
	(RO'000)	(RO'000)	(RO'000)	(RO'000)
Construction	192,847	216,360	-	-
Export trade	213,966	190,240	-	-
Government	127,319	139,601	-	-
Import trade	71,659	56,719	-	-
Utilities	18,403	46,775	-	-
Transportation	25,375	32,710	-	-
Manufacturing	15,336	21,891	218	218
Wholesale and retail trade	11,763	11,487	-	-
Services	11,322	9,098	-	-
	<u>687,990</u>	<u>724,881</u>	<u>218</u>	<u>218</u>

Group's letters of credit and guarantees amounting to RO 506,123,093 (2009 - RO 557,437,295) were counter guaranteed by other banks.

Contingent liabilities of the Parent Company represent guarantees given by the Parent Company. These represent proportionate guarantees given to financial institutions for facilities extended to investee companies.

#### Legal claims

Litigation is a common occurrence in the banking industry due to the nature of the business. The Group has an established protocol for dealing with such legal claims. Once professional advice has been obtained and the amount of damages reasonably estimated, the Group makes adjustments to account for any adverse effects which the claims may have on its financial standing. At year end, the Group had certain unresolved legal claims which are not expected to have any significant implication on the Groups financial statements.

## 28. DERIVATIVES

A derivative financial instrument is a financial contract between two parties when payments are dependent upon movement in price in one or more underlying financial instrument, reference rate or index.

#### Group

At the financial position date, there were outstanding forward foreign exchange contracts held by the banking subsidiary, all maturing within one year, entered into on behalf of customers for the sale and purchase of foreign currencies. These financial instruments have been recognised at prices in active markets for identical assets or liabilities. These fair values and the notional contracted amounts are summarised below:

	Positive fair value (RO'000)	Negative fair value (RO'000)	Notional amount (RO'000)	Notional amounts by term to maturity		
				Within 3 months (RO'000)	3 - 12 months (RO'000)	1-5 years (RO'000)
<b>31 December 2010</b>						
Purchase contracts	444	-	37,130	26,945	10,185	-
Sale contracts	-	(385)	(37,071)	(26,921)	(10,150)	-
	<u>444</u>	<u>(385)</u>	<u>59</u>	<u>24</u>	<u>35</u>	<u>-</u>
<b>31 December 2009</b>						
Purchase contracts	349	-	61,249	39,717	21,532	-
Sale contracts	-	(278)	(61,178)	(39,677)	(21,501)	-
	<u>349</u>	<u>(278)</u>	<u>71</u>	<u>40</u>	<u>31</u>	<u>-</u>

**29. GEOGRAPHICAL CONCENTRATION OF ASSETS AND LIABILITIES**

	<b>Sultanate of Oman</b>	<b>North America</b>	<b>UK and Europe</b>	<b>Other Countries</b>	<b>Total</b>
	<b>(RO'000)</b>	<b>(RO'000)</b>	<b>(RO'000)</b>	<b>(RO'000)</b>	<b>(RO'000)</b>
<b>Group - 2010</b>					
<b>Assets</b>					
Balances with banks and money at call	100,467	-	44	17,352	117,863
Certificates of deposit	100,000	-	-	-	100,000
Investment securities	34,721	1,027	3,028	5,821	44,597
Investments in associates	8,146	-	-	-	8,146
Loans and advances to customers	657,746	-	-	-	657,746
Other assets	21,790	-	-	-	21,790
Projects work in progress	2,079	-	4,741	-	6,820
Property and equipment	15,758	-	-	-	15,758
<b>Total assets</b>	<b>949,822</b>	<b>1,027</b>	<b>7,813</b>	<b>23,173</b>	<b>981,835</b>
<b>Liabilities</b>					
Due to banks	12,944	274	861	1,118	15,197
Deposits from customers	768,291	-	-	-	768,291
Other liabilities	29,593	-	164	-	29,757
End of service benefits	2,390	-	-	-	2,390
Taxation	3,572	-	-	-	3,572
<b>Total liabilities</b>	<b>816,790</b>	<b>274</b>	<b>1,025</b>	<b>1,118</b>	<b>819,207</b>
<b>Group - 2009</b>					
<b>Assets</b>					
Balances with banks and money at call	80,923	-	96	545	81,564
Certificates of deposit	110,000	-	-	-	110,000
Deposits with banks	39,406	-	-	-	39,406
Investment securities	36,648	1,830	2,357	5,650	46,485
Investments in associates	7,396	-	-	-	7,396
Loans and advances to customers	563,957	-	-	-	563,957
Other assets	23,662	-	-	-	23,662
Property and equipment	12,704	-	-	-	12,704
<b>Total assets</b>	<b>874,696</b>	<b>1,830</b>	<b>2,453</b>	<b>6,195</b>	<b>885,174</b>
<b>Liabilities</b>					
Due to banks	8,854	-	-	1,925	10,779
Deposits from customers	692,104	26	426	1,411	693,967
Other liabilities	30,306	-	-	-	30,306
End of service benefits	2,216	-	-	-	2,216
Taxation	3,072	-	-	-	3,072
<b>Total liabilities</b>	<b>736,552</b>	<b>26</b>	<b>426</b>	<b>3,336</b>	<b>740,340</b>

**29. GEOGRAPHICAL CONCENTRATION OF ASSETS AND LIABILITIES (continued)**

	Sultanate of Oman (RO'000)	North America (RO'000)	UK and Europe (RO'000)	Other Countries (RO'000)	Total (RO'000)
<b>Parent Company - 2010</b>					
<b>Assets</b>					
Balances with banks and money at call	858	-	44	155	1,057
Investment securities	3,594	727	2,990	5,193	12,504
Investments in associates	3,482	-	-	-	3,482
Investments in subsidiaries	30,977	-	4,615	-	35,592
Due From Subsidiaries	2,179	-	164	-	2,343
Other assets	95	-	-	-	95
Property and equipment	3,274	-	-	-	3,274
<b>Total assets</b>	<b>44,459</b>	<b>727</b>	<b>7,813</b>	<b>5,348</b>	<b>58,347</b>
<b>Liabilities</b>					
Due to banks	12,025	-	-	-	12,025
Other liabilities	972	-	-	-	972
End of service benefits	285	-	-	-	285
<b>Total liabilities</b>	<b>13,282</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>13,282</b>
<b>Parent Company - 2009</b>					
<b>Assets</b>					
Balances with banks and money at call	2,106	-	96	544	2,746
Investment securities	4,971	1,457	2,357	5,418	14,203
Investments in associates	3,482	-	-	-	3,482
Investments in subsidiaries	26,398	-	-	-	26,398
Other assets	1,769	-	-	-	1,769
Property and equipment	3,265	-	-	-	3,265
<b>Total assets</b>	<b>41,991</b>	<b>1,457</b>	<b>2,453</b>	<b>5,962</b>	<b>51,863</b>
<b>Liabilities</b>					
Due to banks	8,525	-	-	1,925	10,450
Other liabilities	872	-	-	-	872
End of service benefits	281	-	-	-	281
<b>Total liabilities</b>	<b>9,678</b>	<b>-</b>	<b>-</b>	<b>1,925</b>	<b>11,603</b>

### 30. INTEREST RATE SENSITIVITY ANALYSIS

The Group's and the Parent Company's interest rate sensitivity position, based on the contractual repricing or maturity dates, whichever dates are earlier, are as follows:

	Average effective interest rate	Within 6 months (RO'000)	6 to 12 months (RO'000)	Over 1 year (RO'000)	Not exposed to interest rate risk (RO'000)	Total (RO'000)
<b>Group - 2010</b>						
<b>Assets</b>						
Balances with banks and money at call	2.00%	-	-	500	117,363	117,863
Certificates of deposit	0.07%	100,000	-	-	-	100,000
Deposits with banks	0.33%	9,115	-	-	-	9,115
Investment securities:						
- Govt. development bonds	3.06%	-	-	20,077	-	20,077
- Investments	NIL	-	-	-	24,520	24,520
Investments in associates	NIL	-	-	-	8,146	8,146
Loans and advances to customers	6.39%	202,367	117,525	337,854	-	657,746
Other assets	NIL	10,223	-	-	11,567	21,790
Projects work in progress	NIL	-	-	-	6,820	6,820
Property and equipment	NIL	-	-	-	15,758	15,758
<b>Total assets</b>		<b>321,705</b>	<b>117,525</b>	<b>358,431</b>	<b>184,174</b>	<b>981,835</b>
<b>Liabilities</b>						
Due to banks	3.00%	9,774	-	-	5,423	15,197
Deposits from customers	1.02%	296,118	74,360	11,618	386,195	768,291
Other liabilities	NIL	14,273	406	1,264	13,814	29,757
End of service benefits	NIL	-	-	-	2,390	2,390
Taxation	NIL	-	-	-	3,572	3,572
<b>Total liabilities</b>		<b>320,165</b>	<b>74,766</b>	<b>12,882</b>	<b>411,394</b>	<b>819,207</b>

Bank borrowings by the Parent Company bear interest at rates between 3.00% and 5.00% per annum. There are no other assets or liabilities of Parent Company which are exposed to interest rate risk.

**30. INTEREST RATE SENSITIVITY ANALYSIS (continued)**

	Average effective interest rate	Within 6 months (RO'000)	6 to 12 months (RO'000)	Over 1 year (RO'000)	Not exposed to interest rate risk (RO'000)	Total (RO'000)
<b>Group - 2009</b>						
<b>Assets</b>						
Balances with banks and money at call	2.00%	-	-	935	80,629	81,564
Certificates of deposit	0.05%	110,000	-	-	-	110,000
Deposits with banks	1.88%	27,387	-	-	12,019	39,406
Investment securities:						
- Govt. development bonds	4.22%	-	3,845	17,783	-	21,628
- Investments	NIL	-	-	-	24,857	24,857
Investments in associates	NIL	-	-	-	7,396	7,396
Loans and advances to customers	6.40%	169,721	131,332	262,904	-	563,957
Other assets	NIL	14,234	1,896	1,712	5,820	23,662
Property and equipment	NIL	-	-	-	12,704	12,704
<b>Total assets</b>		<b>321,342</b>	<b>137,073</b>	<b>283,334</b>	<b>143,425</b>	<b>885,174</b>
<b>Liabilities</b>						
Due to banks	5.00%	10,779	-	-	-	10,779
Deposits from customers	1.36%	276,910	68,842	42,748	305,467	693,967
Other liabilities	NIL	19,876	1,896	1,712	6,822	30,306
End of service benefits	NIL	-	-	-	2,216	2,216
Taxation	NIL	-	-	-	3,072	3,072
<b>Total liabilities</b>		<b>307,565</b>	<b>70,738</b>	<b>44,460</b>	<b>317,577</b>	<b>740,340</b>

Bank borrowings by the Parent Company bear interest at rates between 2.78% and 6.00% per annum. There are no other assets or liabilities of Parent Company which are exposed to interest rate risk.

**31. ASSETS AND LIABILITIES MATURITY PROFILE**

	<b>Within 3 months (RO'000)</b>	<b>3 to 12 months (RO'000)</b>	<b>1 to 5 years (RO'000)</b>	<b>Over 5 years (RO'000)</b>	<b>Total (RO'000)</b>
<b>Group - 2010</b>					
<b>Assets</b>					
Balances with banks and money at call	71,729	22,910	7,565	15,659	117,863
Certificates of deposit	100,000	-	-	-	100,000
Deposits with banks	8,615	-	-	500	9,115
Investment securities	19,236	-	22,961	2,400	44,597
Investments in associates	-	-	-	8,146	8,146
Loans and advances to customers	185,183	89,667	110,320	272,576	657,746
Other assets	10,907	9,663	920	300	21,790
Projects work in progress	-	-	-	6,820	6,820
Property and equipment	-	-	-	15,758	15,758
<b>Total assets</b>	<b>395,670</b>	<b>122,240</b>	<b>141,766</b>	<b>322,159</b>	<b>981,835</b>
<b>Equity</b>					
Capital and reserves attributable to the shareholders of the Parent Company	-	-	-	92,625	92,625
Non-controlling interests	-	-	-	70,003	70,003
Total equity	-	-	-	162,628	162,628
<b>Liabilities</b>					
Due to banks	15,197	-	-	-	15,197
Deposits from customers	478,541	217,823	71,927	-	768,291
Other liabilities	23,831	2,869	3,057	-	29,757
End of service benefits	-	-	-	2,390	2,390
Taxation	3,572	-	-	-	3,572
<b>Total equity and liabilities</b>	<b>521,141</b>	<b>220,692</b>	<b>74,984</b>	<b>165,018</b>	<b>981,835</b>
<b>Group - 2009</b>					
<b>Assets</b>					
Balances with banks and money at call	52,424	15,708	4,265	9,167	81,564
Certificates of deposit	110,000	-	-	-	110,000
Deposits with banks	38,471	-	-	935	39,406
Investment securities	21,101	3,845	21,539	-	46,485
Investments in associates	-	-	-	7,396	7,396
Loans and advances to customers	125,525	115,072	114,338	209,022	563,957
Other assets	15,740	4,304	3,215	403	23,662
Property and equipment	-	-	-	12,704	12,704
<b>Total assets</b>	<b>363,261</b>	<b>138,929</b>	<b>143,357</b>	<b>239,627</b>	<b>885,174</b>
<b>Equity</b>					
Capital and reserves attributable to the shareholders of the Parent Company	-	-	-	82,844	82,844
Non-controlling interests	-	-	-	61,990	61,990
Total equity	-	-	-	144,834	144,834
<b>Liabilities</b>					
Due to banks	10,779	-	-	-	10,779
Deposits from customers	302,979	213,957	58,099	118,932	693,967
Other liabilities	24,447	2,233	3,626	-	30,306
End of service benefits	-	-	-	2,216	2,216
Taxation	3,072	-	-	-	3,072
<b>Total equity and liabilities</b>	<b>341,277</b>	<b>216,190</b>	<b>61,725</b>	<b>265,982</b>	<b>885,174</b>

**31. ASSETS AND LIABILITIES MATURITY PROFILE (continued)**

	Within 3 months (RO'000)	3 to 12 months (RO'000)	1 to 5 years (RO'000)	Over 5 years (RO'000)	Total (RO'000)
<b>Parent Company – 2010</b>					
<b>Assets</b>					
Balances with banks and money at call	1,057	-	-	-	1,057
Investment securities	7,220	-	5,284	-	12,504
Investments in associates	-	-	-	3,482	3,482
Investments in subsidiaries	-	-	-	35,592	35,592
Due from subsidiaries	-	-	2,343	-	2,343
Other assets	95	-	-	-	95
Property and equipment	-	-	-	3,274	3,274
<b>Total assets</b>	<b>8,372</b>	<b>-</b>	<b>7,627</b>	<b>42,348</b>	<b>58,347</b>
<b>Equity</b>					
Capital and reserves	-	-	-	45,065	45,065
Total equity	-	-	-	45,065	45,065
<b>Liabilities</b>					
Due to banks	12,025	-	-	-	12,025
Other liabilities	972	-	-	-	972
End of service benefits	-	-	285	-	285
<b>Total equity and liabilities</b>	<b>12,997</b>	<b>-</b>	<b>285</b>	<b>45,065</b>	<b>58,347</b>
<b>Parent Company – 2009</b>					
<b>Assets</b>					
Balances with banks and money at call	2,746	-	-	-	2,746
Investment securities	10,447	-	3,756	-	14,203
Investments in associates	-	-	-	3,482	3,482
Investments in subsidiaries	-	-	-	26,398	26,398
Other assets	266	-	1,503	-	1,769
Property and equipment	-	-	-	3,265	3,265
<b>Total assets</b>	<b>13,459</b>	<b>-</b>	<b>5,259</b>	<b>33,145</b>	<b>51,863</b>
<b>Equity</b>					
Capital and reserves	-	-	-	40,260	40,260
Total equity	-	-	-	40,260	40,260
<b>Liabilities</b>					
Due to banks	10,450	-	-	-	10,450
Other liabilities	872	-	-	-	872
End of service benefits	-	-	281	-	281
<b>Total equity and liabilities</b>	<b>11,322</b>	<b>-</b>	<b>281</b>	<b>40,260</b>	<b>51,863</b>

## 32. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is the amount for which an asset could be exchanged or a liability settled between known parties in an arm's length transaction. Consequently, differences can arise between carrying values and fair value estimates.

### Group

The fair values of on balance sheet financial instruments, except for the following, are not significantly different from the carrying values included in the Group financial statements. The carrying value and estimated fair value of the following financial instruments are set out below:

	Carrying value ( RO'000)	Fair value ( RO'000)	Difference (RO'000)
Investments in associates (note 7(d))			
<b>2010</b>	8,146	9,053	907
<b>2009</b>	7,396	7,726	330

The fair value of the investments in associates is based on the closing bid prices on the Muscat Securities Market at the balance sheet date. Certain available for sale investments amounting to RO 949,520 are stated at cost in the absence of fair value information.

### Parent Company

The fair values of on balance sheet financial instruments, except for investments in subsidiaries and associates, are not significantly different from the carrying values included in the financial statements. The fair value of investments in associates based on the closing bid prices on the Muscat Securities Market at the balance sheet date is set out below:

	Carrying value ( RO'000)	Fair value ( RO'000)	Difference (RO'000)
Investments in associates (note 7(d))			
<b>2010</b>	3,482	8,975	5,493
<b>2009</b>	3,482	7,659	4,177

Investments in subsidiaries amounting to RO 35.6 million (2009 – RO 26.4 million) are stated at cost. The fair value of Parent Company's investments in subsidiaries could vary depending on the valuation technique (IAS 39) that may be applied. Certain available for sale investments amounting to RO 699,520 are stated at cost in the absence of fair value information.

### Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial investments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

#### Transfers between levels

During the reporting period ended 31 December 2010, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

As at 31 December 2010	Level 1 (RO'000)	Level 2 (RO'000)	Level 3 (RO'000)	Total (RO'000)
Financial assets at fair value through profit or loss	8,240	-	502	8,742
Financial assets held for trading	4,739	-	-	4,739
Available for sale investments	5,392	5,630	-	11,022
<b>Derivative financial instruments</b>				
Purchase contracts	-	444	-	444
Sale contracts	-	(385)	-	(385)

**As at 31 December 2009**

	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
	<b>(RO'000)</b>	<b>(RO'000)</b>	<b>(RO'000)</b>	<b>(RO'000)</b>
Financial assets at fair value through profit or loss	10,736	-	495	11,231
Financial assets held for trading	3,913	142	-	4,055
Available for sale investments	5,161	4,380	30	9,571
<b>Derivative financial instruments</b>				
Purchase contracts	-	349	-	349
Sale contracts	-	(278)	-	(278)

**33. BASIC EARNINGS PER SHARE**

Basic earnings per share is calculated by dividing the profit for the year by the number of shares outstanding during the year.

	<b>Group</b>		<b>Parent Company</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
	<b>(RO'000)</b>	<b>(RO'000)</b>	<b>(RO'000)</b>	<b>(RO'000)</b>
Profit for the year attributable to share holders profit (RO'000)	<u>11,959</u>	<u>11,408</u>	<u>7,076</u>	<u>9,475</u>
Weighted average number of shares outstanding during the year	<u>230,000,000</u>	<u>200,000,000</u>	<u>230,000,000</u>	<u>200,000,000</u>
Basic earnings per share (RO)	<u>0.052</u>	<u>0.057</u>	<u>0.031</u>	<u>0.047</u>

During the year, the Parent Company issued stock dividend of 20,000,000 shares (2009 – 20,000,000) without consideration related to the year 2009. According to IAS 33 - Earnings per share, paragraph 26, the weighted average number of ordinary shares outstanding during the period and for all periods presented shall be adjusted. In the present financial statement, the issue has been treated as if it had occurred at the beginning of 2009 and the 2009 basic earnings per share was recalculated accordingly. As there was no dilutive potential shares, the diluted earnings per share is identical to the basic earnings per share.

**34. NET ASSETS PER SHARE**

The calculation of net assets per share is as follows:

	<b>Group</b>		<b>Parent Company</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
	<b>(RO'000)</b>	<b>(RO'000)</b>	<b>(RO'000)</b>	<b>(RO'000)</b>
Net assets value attributable to shareholders profit (RO'000)	<u>92,625</u>	<u>82,844</u>	<u>45,065</u>	<u>40,260</u>
Weighted average number of shares outstanding during the year	<u>230,000,000</u>	<u>200,000,000</u>	<u>230,000,000</u>	<u>200,000,000</u>
Net assets per share (RO)	<u>0.403</u>	<u>0.414</u>	<u>0.196</u>	<u>0.201</u>

**35. COMPARATIVE AMOUNTS**

Certain of the corresponding figures for 2009 have been reclassified in order to conform with the presentation for the current year.

The report of the auditors – page 30.

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