



OMINVEST

الشركة العمانية للتنمية والاستثمار
Oman International Development and Investment Company SAOG

Ominvest 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 (1)



Taya bin Jandal bin Ali
Deputy Chairman (1)



Abdul Kader Askalan
Director



Abdullah bin Said bin Abdullah Al Balushi
Director



Jamal bin Shamis Al Hooti
Director (2)



Majid bin Salim bin Saeed Al Fannah Al Araimi
Director (2)



Khalil bin Abdulla Al Khonji
Director (2)



Saif bin Said Al Yazidi
Director (1)



Ziyad bin Muhammad Al Zubair
Director



Imad bin Kamal Sultan
Director (1)

(1) Member of the Executive Committee (2) Member of the Audit Committee.

On behalf of the Board of Directors, I am pleased to welcome you to the twenty-seventh Annual General Meeting and to present the Annual Report and the audited Group and Parent Company financial statements for the year ended 31 December 2011.

27 SUCCESSFUL YEARS

Ominvest has an enviable track record of 27 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 25.3m while a total of RO 57.9m has been distributed in cash dividends over the last 26 financial years. Considering the market value of 253 million shares as at 31 December 2011, the Company has achieved an IRR of 16% since inception. Market capitalization as of 31 December 2011 was RO 106m.

ECONOMIC ENVIRONMENT IN 2011

The global economy in 2011 experienced a slowdown as compared to 2010. The anaemic performance reflects the compounding effect of a number of factors, most notably increasing fiscal belt-tightening in many advanced nations with an adverse effect on international trade, credit and financial conditions associated with the Eurozone's lingering sovereign debt crisis and the high unemployment rates. The activity in the US also slowed, with GDP growth of 1.8% as compared to 3% in 2010. Emerging markets which led the global recovery in 2010, continued to record good growth rates, though also decelerating in 2011 as compared to 2010.

Overall growth in MENA region was adversely affected by social unrest in some of the major countries in this region. As a whole, MENA recorded a 3.1% growth in 2011 led by a surge in oil prices and the strong performance of some economies in the GCC.

The Sultanate of Oman recorded fair economic performance through 2011. GDP growth in 2011 is estimated to be about 4.4%, supported by higher oil prices, substantial public sector investment and accommodative monetary conditions.

PERFORMANCE FOR THE YEAR

The Group recorded a consolidated profit of RO 19.99m for 2011 versus RO 23.31 m in 2010. Profit attributable to the equity holders of the Parent Company decreased to RO 8.62m from RO 11.96m in 2010.

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 5.02m for 2011 as compared with RO 7.07m in 2010.

Our banking subsidiary, Oman Arab Bank SAOC, which constitutes 54% of the Parent Company's total assets, reported a profit of RO 23.2 m for 2011 compared with RO 23.17m in 2010. The banking subsidiary's gross loans and advances portfolio grew to RO 857 m from RO 682m at 31 December 2010, and customer deposits recorded an increase of 18 % to RO 910 m. The share of profit attributable to the equity holders of the Parent Company for the year was RO 11.84m. Cash dividend from 2010 profits received during 2011 year by the Parent Company was RO 8.67 m.

During 2011, the Capital Market Authority indicated to the bank that it can open its shares for public subscription in an initial public offering whereby the Bank would offer 25% of its shares for public subscription. The bank is in the process of commencing the procedures leading to initial public offering, which will be subject to the fulfilment of all requirements and conditions of the shareholders and of the concerned regulatory authorities.

Our project development subsidiary, Salalah Resorts SAOC, continued its progress towards the start of development of an Integrated Tourism Complex in Salalah. With substantial pre-development activities now nearing completion, the first phase of the project consisting of three upscale 5-star and 4-star hotels and light residential/commercial components is expected to commence during 2012. This is, however, subject to formal execution of a Development Agreement with the concerned ministry for which we await the ministry's final approval, now expected during the first half of 2012.

Ominvest's performance for the year was impacted mainly from its capital market investments and a pre-IPO investment by the Parent Company which was listed in the New York Stock Exchange (NYSE) in November 2011. Losses from the Capital Market activities by the Parent Company were RO 0.89m compared to a profit of RO 1.2m in 2010. Valuation loss which is unrealised on the investment listed in NYSE was RO 1.13m. Management is of the view that this investment has strong fundamentals which would, in its assessment, benefit the Parent Company in realising gains.

Considering current global market conditions, Parent Company's investment activities were relatively slow as we assess suitable opportunities for investments.

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, and taking into account the capital required to fund fresh investments and large projects, the Board is recommending a cash dividend of RO 2.53m representing 10% of the paid-up share capital (for 2010, cash dividend was RO 2.3m representing 10% of the paid-up share capital) and a stock dividend of RO 2.53m, representing 10% of the paid-up share capital (for 2010, the stock dividend was RO 2.30m representing 10% of the paid-up share capital). Ominvest's dividend history is detailed under Management Discussion and Analysis.

OUTLOOK FOR 2012

The global economy in general is expected to continue to experience slow growth in 2012. Recent data released by the International Monetary Fund (IMF) indicates the likelihood that global output will expand by only 3.2% in 2012 as compared to 3.8% in 2011 and 5.2% in 2010. This is largely because the Eurozone is expected to go into a mild recession in 2012 as a result of the continuing sovereign debt problems in several major countries, adverse effects of bank deleveraging on credit availability and the real economy, and additional fiscal constraints. Growth in emerging and developing economies is also expected to reduce somewhat because of slowing exports and other factors.

GCC economies are forecast to record 3.7% growth as compared to 7% growth in 2011. The weaker global outlook means a more challenging economic environment for the GCC and presents considerable downside risk to oil prices. Capital flows to the GCC may also suffer and valuations and earnings on GCC external assets may also decline. That said, the structural strengths of GCC economies are expected to allow member states to weather the storm and sustain growth, albeit at a slower rate.

For the Sultanate of Oman, we believe the outlook for 2012 is stable. Oman's 2012 budget released recently by the Ministry of Finance forecasts GDP growth of 7% for 2012 compared to 4.4% growth achieved in 2011. Activity within the commercial sector as well as banking and finance, expected increase in oil production and overall increase in government spending are expected to remain strong drivers for growth.

Ominvest will continue to pursue its 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 investment commitments during 2011 and expects to build on these during 2012, 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 comparable to the best 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 2011 and look forward to the Company's continued progress in 2012 and beyond.



HANI BIN MUHAMMAD AL ZUBAIR

Chairman

February 27, 2012





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 ("the company") 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.

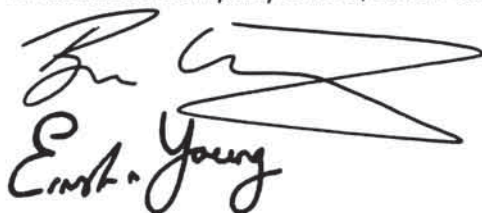
We report our findings below:

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 2011 and does not extend to any financial statements of Oman International Development and Investment Company SAOG, taken as a whole.



27 February 2012
Muscat

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 forms 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 31 March 2011 for a term of three years.

Composition of the Board

During the year 2011, 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 seven Board meetings during the year ended 31 December 2011. These were held on 23rd February, 31st March, 9th May, 6th June, 8th August, 2nd October and 11th November. The maximum interval between any two meetings was 62 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	7	Yes
Taya bin Jandal bin Ali	7	Yes
Abdul Kader Askalan	5	Yes
Abdullah bin Said Al Balushi	6	Yes
Jamal bin Shamis Al Hooti	7	Yes
Majid bin Salim Al Araithi	5	Yes
Khalil bin Abdulla Al Khonji	5	Yes
Saif bin Said Al Yazidi	6	Yes
Ziyad bin Muhammad Al Zubair	4	No
Imad bin Kamal Sultan	5	No
Rashad bin Muhammad Al Zubair	1	Yes
Ahmed bin Said Al Mahrezi	-	No

* The number of Board meetings shown here includes one meeting that was convened immediately after the election of the new Board at the AGM held on 31st March 2011 to select Chairman, Deputy Chairman and members to the Board's committees. No sitting fee was paid to any director for attending this meeting.

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.

At the shareholders Annual General Meeting held on 31st March 2011, the new Board was elected.

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:

	(% Holding)
• Al Hilal Investment Company llc	20.22%
• Civil Service Employees Pension Fund	12.86%

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 20th February, 8th May, 7th August and 31st October and the attendance record is tabled below.

Attendance record of Audit Committee Members:

Name of Committee Member	Position	Meetings attended during the year
Majid bin Salim Al Araimi	Chairman	3
Jamal bin Shamis Al Hooti	Member	3
Khalil bin Abdulla Al Khonji	Member	3
Saif bin Said Al Yazidi	Outgoing Chairman	1

Following the election of the Board on 31st March 2011, the Audit Committee was reconstituted. Saif bin Said Al Yazidi, then Chairman of the Audit Committee who moved to the Board Executive Committee was replaced by Khalil Abdulla Al Khonji. Majid Al Araimi is the Chairman of the reconstituted Audit Committee.

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 process.

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 are independent.

The Committee met seven times during the year on 8th February, 18th April, 8th August, 12th September, 25th September, 2nd October and 30th 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	6
Taya bin Jandal bin Ali	Member	6
Saif bin Said al Yazidi	Member	4
Imad bin Kamal Sultan	Member	3
Rashad bin Muhammad Al Zubair *	Member	1
Abdul Kader Askalan *	Member	-

* Member until 31 March 2011.

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

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 2010 as approved by the shareholders in the AGM held on 31st March 2011.

Each Director was paid RO 500 as sitting fees for each Board/Committee meeting attended during the year. In 2011, sitting fees of RO 39,000 was recorded as follows:

	(RO)
Board	24,000
Executive Committee	10,000
Audit Committee	5,000

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

Travel and incidental expenses relating to Group's business paid by the Parent Company to certain Board members during the year was RO 22,504.

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

Director	Sitting Fees				Remuneration (2010)	Total Paid
	Board	Executive Committee	Audit Committee	Total		
Hani bin Muhammad Al Zubair	3,000	3,000	-	6,000	20,500	26,500
Taya bin Jandal bin Ali	3,000	3,000	-	6,000	17,000	23,000
Abdul Kader Askalan	2,000	-	-	2,000	14,000	16,000
Abdullah bin Said Al Balushi	2,500	-	-	2,500	14,000	16,500
Jamal bin Shamis Al Hooti	3,000	-	1,500	4,500	14,000	18,500
Majid bin Salim Al Araimi	2,000	-	1,500	3,500	14,000	17,500
Khalil bin Abdulla Al Khonji	2,000	-	1,500	3,500	14,000	17,500
Saif bin Said Al Yazidi	2,500	2,000	500	5,000	14,000	19,000
Ziyad bin Muhammad Al Zubair	1,500	-	-	1,500	-	1,500
Imad bin Kamal Sultan	2,000	1,500	-	3,500	-	3,500
Rashad bin Muhammad Al Zubair *	500	500	-	1,000	17,000	18,000
Ahmed bin Said Al Mahrezi *	-	-	-	-	14,000	14,000
Total	24,000	10,000	5,000	39,000	152,500	191,500

* Director until 31 March 2011.

Directors' Remuneration proposed for 2011 is RO 149,500 and this is subject to shareholders' approval at the AGM scheduled to be held on Saturday, 31st March 2012. 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 who was a member of the Board until March 2011 represents 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 2011.

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 attach great importance to maintaining a strong control environment and confirm that its 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 2011, the Company employed thirty (32) full-time employees. The expense (salaries and allowances and other statutory payments) incurred for 2011 relating to the following 7 full-time executive management team of the Company was RO 698,414. 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 65,466 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 2011 amounted to RO 61,496.

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.



AHMAD H. KASEM
Executive Vice President, Real Estate Investments

Ahmad H. Kasem joined Ominvest in July 2011 with over 27 years' experience in real estate development including project and construction management, engineering design and supervision, contract administration and risk management, spanning the USA, Europe, and MENA region. He has held various senior positions through the years including Chief Development Officer of Cayan Investment and Development in the UAE, Saudi Arabia, and Egypt; Regional Vice President of TRC Engineering, a US engineering firm; Head of Technical and Contracts at Nakheel; and Director of Engineering at CDDI, a development company based in Maryland, USA. He holds a Bachelor's Degree in Civil Engineering from University of Maryland, and an MBA from Averett University in Virginia, USA.



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 professional 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 and has represented the company on the Board of number of listed companies. 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. 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 2011 was:

Number of Shares	% Held	Number of shareholders	Total Shares	% of Share Capital
Above 25,300,000	Above 10%	2	83,686,044	33.08%
12,650,000 to 25,299,999	5% - 10%	-	-	-
2,530,000 to 12,649,999	1% - 5%	17	81,239,402	32.11%
Below 2,530,000	Below 1%	1,389	88,074,554	34.81%
GRAND TOTAL		<u>1,408</u>	<u>253,000,000</u>	<u>100.00%</u>

PROFESSIONAL PROFILE OF THE STATUTORY AUDITORS

The shareholders of the Company have appointed M/s Ernst & Young as the auditors for the year 2011.

Ernst & Young – Statutory Auditor

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 practice comprises 200 professionals, and is working under the direction of six partners. The Oman office forms part of Ernst & Young's MENA practice, with 113 partners and over 5,079 other professionals in 18 offices in 13 countries throughout the region. The MENA practice is member firm of Ernst & Young Global, operating in more than 140 countries with approximately 152,000 personnel world-wide.

Remuneration to statutory auditors:		(RO)
Audit fees for 2011:	Parent Company	9,500
	Subsidiaries	30,610
		<u>40,110</u>

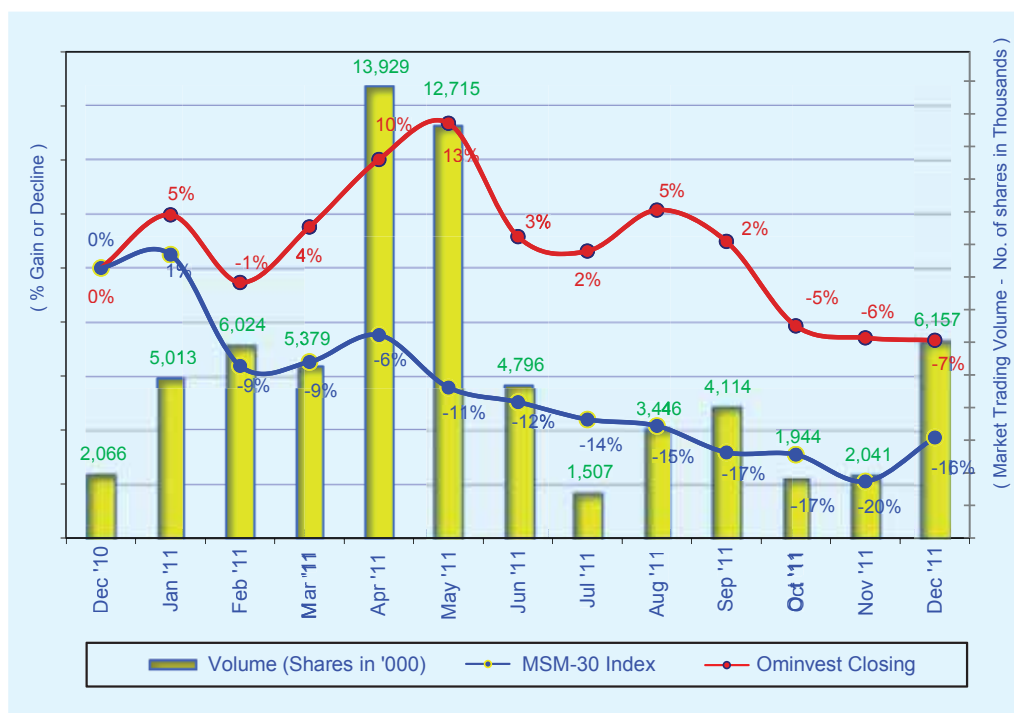
LEGAL ADVISOR

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 2011 versus MSM-30 Index is shown below:

Comparison of Ominvest's month end closing share price with MSM-30 Index (all rebased to 100)



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

	Dec'10	Jan'11	Feb'11	Mar'11	Apr'11	May'11	Jun'11	Jul'11	Aug'11	Sep'11	Oct'11	Nov'11	Dec'11
High	0.457	0.478	0.535	0.509	0.500	0.525	0.515	0.474	0.485	0.499	0.458	0.435	0.434
Low	0.420	0.448	0.414	0.442	0.449	0.483	0.460	0.455	0.375	0.451	0.418	0.408	0.406
Close	0.418	0.470	0.442	0.465	0.493	0.508	0.461	0.455	0.472	0.459	0.424	0.419	0.418

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: 27 February 2012

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 Company SAOG	Dy. Chairman	-	-
Taya bin Jandal bin Ali	National Finance Company SAOG	Chairman	EC	Chairman
Abdul Kader Askalan	Oman Telecommunications Co. SAOG	Dy. Chairman	-	-
Majid bin Salim bin Saeed Al Araimi	Oman Packaging Co. SAOG	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
Ziyad bin Muhammad Al Zubair	National Finance Company SAOG	Director	-	-
Imad bin Kamal Sultan	National Hospitality Institute SAOG	Director	EC	Member
			EC = Executive Committee AC = Audit Committee RC = Risk Committee DC = Donations Committee	





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 major categories of business:

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

Within the above strategy, Ominvest is constantly exploring opportunities to increase and diversify its portfolio of investments within and outside the Sultanate with an objective of growth in sustainable 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 Muscat Securities Market (MSM), the central depository (Muscat Depository and Securities Registration Company) and their participants. MSM is divided into regular, parallel and third markets. The three markets differ with 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:

	<u>2011</u>		<u>2010</u>		<u>Growth (%)</u>	
	<u>No. of Listed Cos.</u>	<u>(RO billion)</u>	<u>No. of Listed Cos.</u>	<u>(RO billion)</u>	<u>2011</u>	<u>2010</u>
Market capitalisation by sector:						
Financial	31	3.29	30	3.60	(8.61)	14.30
Services	34	2.62	38	3.02	(13.25)	29.20
Industry	51	1.11	52	1.18	(5.93)	(3.10)
Total market capitalisation	116	7.02	120	7.80	(10.00)	19.90

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

<u>Year-end</u>	<u>General Index</u>	<u>Industry</u>	<u>Financial</u>	<u>Service</u>	<u>% Change in General Index</u>
2011	5,695.12	5,958.75	6,385.67	2,567.28	(15.69)
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
No. of stocks included in the Indices	30	10	10	10	

(Source: MSM Annual Bulletin 2011)

The total value of securities traded on the secondary market (shares, bonds and OTC) decreased to RO 0.99 billion from RO 1.32 billion in 2011. The Market was open for 246 days in 2011. The Company shares were traded on 234 days with 10,926 contracts amounting to a total volume of 67.06 million shares with an aggregate traded value of RO 31.96m.

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 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 2011)

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 2011:

<u>Company</u>	<u>Activity</u>	<u>Country</u>	<u>Staff</u>	<u>Status</u>
Oman International Development & Investment Company SAOG	Investment	Oman	32	Parent Company
Oman Arab Bank SAOC	Banking	Oman	944	Subsidiary (51%)
Oman Investment Services SAOC	Investment	Oman	3	Subsidiary (99.98%)
Salalah Resorts SAOC	Integrated Tourism	Oman	-	Subsidiary (99.98%)
Al Jabal Al Aswad Investment LLC	Tourism	Oman	-	Subsidiary (99.98%)
Budva Beach Properties d.o.o.	Tourism	Montenegro	-	Subsidiary (100%)
Cuddalore Petroleum Investments Limited	Investment	Mauritius	-	Subsidiary (100%)

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 2011 are:

	<u>Group</u>		<u>Parent Company</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
	(RO '000)	(RO '000)	(RO '000)	(RO '000)
Profit for the year attributable to the shareholders of the Parent Company	8,620	11,959	5,021	7,076
Share capital	25,300	23,000	25,300	23,000
Shareholders funds	98,266	92,625	47,657	45,065
Proposed cash dividend	2,530	2,300	2,530	2,300
Proposed stock dividend	2,530	2,300	2,530	2,300
Basic earnings per share (RO)	0.034	0.052	0.020	0.031
Net assets per share (RO)	0.388	0.403	0.188	0.196
Cash dividend per share (RO)	0.010	0.010	0.010	0.010
Stock dividend per share (RO)	0.010	0.010	0.010	0.010

PERFORMANCE FOR THE YEAR

The Group consolidated profit for the year was RO 19.99m (2010: RO 23.31m) and is attributable to:

	<u>2011</u>	<u>2010</u>
	(RO'000)	(RO'000)
Shareholders of the Parent Company	8,620	11,959
Non-Controlling interests	11,373	11,355
	<u>19,993</u>	<u>23,314</u>

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.

Parent Company

Income Statement

Investment Income: RO 7.41m (2010: RO 9.75m)

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 9.51m (2010: RO 8.32m)

Oinvest's main income was from its single largest investment (at cost) of RO 36.20m (54% of total assets) in its banking subsidiary, Oman Arab Bank SAOC (OAB). During 2011, cash dividend of RO 8.67m was received from OAB.

Cash dividend received from associate investments in National Finance Company and National Detergent Company was RO 0.37m.

Cash dividend received from capital market investments in Oman and other GCC markets amounted to RO 0.17m and cash dividend received from other investments in Oman was RO 0.30m.

ii) **Loss from Capital Market** activities as detailed under investment securities amounted to RO 1.06m (2010 gain: RO 1.20m) representing realized and unrealized losses. Capital Market Division reported loss for the year but outperformed the MSM index recording 8.4% loss for the year compared to 15.69% loss recorded by the MSM.

Managed Hedge funds and Mutual funds included under Capital Market investments were down by 11.9% compared to loss of 8.9% and 8.2% in HFR Global Hedge Fund Index and S&P GCC Composite Price Index respectively for the year ended 31 December 2011.

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

	<u>MSM</u>	<u>Other GCC</u>	<u>Others</u>	<u>Hedge</u>	<u>Total</u>
	(RO'000)	* <u>Portfolio</u>	<u>Markets</u>	<u>Funds</u>	(RO'000)
	(RO'000)	(RO'000)	(RO'000)	(RO'000)	(RO'000)
At 1 January 2011	1,859	3,539	799	1,023	7,220
Market losses	(222)	(321)	(295)	(221)	(1,059)
Net flows	463	(733)	567	-	297
At 31 December 2011	<u>2,100</u>	<u>2,485</u>	<u>1,071</u>	<u>802</u>	<u>6,458</u>

* 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 2011	5,695.12	1,353.39	2,402.28
31 December 2010	6,754.92	1,630.52	2,719.87
Change for the year	↓ -15.69%	↓ - 17.00%	↓ -11.68%

MSM = Muscat Securities Market DFM = Dubai Financial Market ADSM = Abu Dhabi Stock Market

- iii) **Profit realized from private equity funds** was RO 0.09m (2010: RO 0.22m). While this was earned from those private equity funds which represent residual balances, some of the other recent investments in direct private equity are expected to return income in the medium term.
- iv) **Impairment in Digital Domain:** Ominvest invested US\$ 8m (830,737 shares) in Digital Domain Media Group (DDMG) in April 2011 at a pre-IPO price of US\$ 9.63 per share. IPO was listed on 18th November 2011 at a lower issue price of US\$ 8.50/share due to adverse market conditions. At the closing price of US\$ 6.08/share on Friday, 30th December 2011, unrealized loss is RO 1.13m in the value of this quoted investment.

Based on our assessment of the Company's fundamental strengths and upcoming developments, we expect significant improvement in the share price over the course of 2012.

Staff costs: RO 1.36m (2010: RO 1.38m)

Staff costs for the year were in line with 2010. Number of staff has gone up to 32 from 30 at the end of 31 December 2010, of which number of Omani employees at 31 December went up to 17 (53% Omanisation) from 16 at 31 December 2010.

STATEMENT OF FINANCIAL POSITION

Total Assets were RO 66.96m vs. RO 58.35m at 31 December 2010 recording a growth of 14.76%. Main contributors to this increase in total assets were:

Dues from the following subsidiaries:

- Oman Arab Bank : RO 6.63m
- Budva Beach Properties : RO 0.62m
- Increase in due from subsidiaries : RO 1.28m

Concentration of total assets by geography is, Sultanate of Oman: RO 51.72m (77.24%) and outside the Sultanate RO 15.24m (22.76%).

Shareholders' Total Equity at RO 47.66m has grown by 5.77% compared to RO 45.06m at 31 December 2010. Share Capital increased to RO 25.3m (from RO 23m), the increase represent stock dividend of RO 2.3m approved at the Annual General Meeting held on 31 March 2011. Retained Earnings was RO 14.66m compared to RO 14.74m at 31 December 2010.

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 long 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 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, and changes in the fair values is as follows:

<u>Particulars</u>	<u>Investments</u>	<u>Provisions for Impairment</u>	<u>Fair value Reserve</u>
	(RO'000)	(RO'000)	(RO'000)
At 1 January 2011	6,551	2,320	353
Additions	216	69	(129)
Disposals/Reduction	(391)	-	-
At 31 December 2011	<u>6,376</u>	<u>2,389</u>	<u>224</u>

Investments in Associates (Group)

<u>2011</u>	<u>2010</u>
(RO'000)	(RO'000)
<u>8,851</u>	<u>8,146</u>

There are three (2010: 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 9.14m (2010: RO 9.05m). The major exposure is to one leasing associate which accounted for a carrying value of RO 5.72m (market value: RO 5.04m). 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 1.07m for 2011 (2010: RO 0.89m). Cash dividend from associates recognised in the parent company amounted to RO 0.37m (2010: RO 0.14m)

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:

	<u>2011</u>		<u>2010</u>	
	% held	(RO'000)	% held	(RO'000)
Oman Arab Bank SAOC	50.99	36,203	50.99	29,574
Oman Investment Services SAOC	99.98	903	99.98	903
Budva Beach Properties	100.00	5,231	100.00	4,615
Salalah Resorts SAOC	99.98	500	99.98	500
Al Jabal Al Aswad Investment LLC	99.98	-	-	-
Cuddalore Petroleum Investments Limited	100.00	-	-	-

While the investment in the banking subsidiary is reported at cost (RO 36.20m) 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, Al Jabal Al Aswad Investment LLC and Salalah Resorts SAOC focus on developing property and Integrated Tourism Complex projects in Budva, Montenegro and Salalah, Oman respectively.

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 9.06m (2010: RO 8.97m) compared with the balance sheet carrying value (at cost) in the Parent Company's separate financial statements of RO 3.48m (2010: RO 3.48m) reflecting a value difference of RO 5.58m (2010: RO 4.79m).

Therefore, to conclude, the fair 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 46.32m (2010: RO 39.07m) ascribed to subsidiaries and associates at the balance sheet date under IFRS.

All other financial 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 3.62m (2010: RO 2.34m)

This represents the development costs and expenses due from Parent Company's directly managed and fully owned by two subsidiaries in the real estate sector.

Property & Equipment: RO 3.22m (2010: RO 3.27m)

Property and equipment include freehold hold land at RO 2.43m on which the construction of commercial property is expected to commence in the second half of 2012.

Bank Borrowings

Increase in	2011	2011	2010
(RO'000)	(RO'000)	(RO'000)	(RO'000)
<u>6,500</u>	<u>18,525</u>	<u>12,025</u>	

This comprises the Parent Company borrowings including short-term borrowings from the banking subsidiary of RO 3.9m (2010: RO 2.6m) which has been set off on consolidation. The borrowings are mainly to fund Parent Company's investment activities. All outstanding borrowings are clean facilities without any tangible securities and are due for settlement within one year.

Ominvest's debt/equity ratio at the balance sheet date is comfortably positioned at 0.39:1 on shareholders' total equity of RO 47.66m in the Parent Company.

Oman Arab Bank SAOC

Oman Arab Bank's main activities include commercial banking, project financing, 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:

	<u>2011</u>	<u>2010</u>
	(RO'000)	(RO'000)
Interest income	43,373	41,044
Interest expense	(6,893)	(7,687)
Net interest income	36,480	33,357
Fee and commission income	13,635	13,015
Investment income	625	306
Other operating income	4,635	4,854
Total income	55,375	51,532
Operating expenses	(25,347)	(21,970)
Allowance for loan impairment	(6,173)	(4,562)
Recoveries/release from allowance for loan impairment	2,667	1,742
Profit before taxation	26,522	26,742
Taxation	(3,317)	(3,572)
Profit for the year (RO)	23,205	23,170
Basic earnings per share	0.241	0.272

- Interest on loans and advances increased by RO 2.70m as loan book grew by healthy 25.60% at RO 857m compared to RO 682.35m at 31 December 2010. Personal loans grew by 17% (RO 51m) while corporate loans grew by 32% (RO 124m). Interest income grew by 6% to RO 42.69m.
- Interest income from other interest earning assets was lower at RO 0.68m (2010: RO 0.86m) mainly due to lower yields.
- Interest expenses were lower by RO 0.79m despite an increase in deposits at RO 910m compared to RO 770m in 2010. This is mainly from lower interest rates and the improved composition in customer deposits.
- Total provisions for loan impairment and contractual interest not recognised was RO 27.15m (2010: RO 22m), of this RO 11.73m (2010: RO 9.50m) is general provision against the performing loans and advances on a portfolio basis.
- Net allowance for loan impairment was RO 3.51m compared to RO 2.82m in 2010.
- At 31 December 2011, loans and advances on which contractual interest is not recognised, amounted to RO 24.45m (2010: RO 20.95m).
- Oman Arab Bank's paid up share capital increased to RO 100m (2010: RO 85m) and total equity stood at RO 160.96m (2010: RO 142.83m), reflecting a net asset value per share of RO 1.610 (2010: RO 1.680).

INTERNAL CONTROL

The Board has a collective responsibility for the establishment and maintenance of a system of internal control 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 control 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 57.9m have been declared. In addition, stock dividends totalling RO 13.3m were distributed during 1998 to 2011.

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 2011 was RO 106m.

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 5.72 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 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, 2012

FINANCIAL OVERVIEW (GROUP)

Period* →	2011	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	
Earnings, Assets and Shareholders' Funds																												
Consolidated Profit (RO '000)	8,620	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	
Total Shareholders' Funds (RO '000)	98,266	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	14,225	14,338	11,783	11,175	10,807	9,797	
Paid-up Capital (RO '000) **	25,300	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)	45,405	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)	27,561	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	
Financial Ratios																												
Return on Paid-up Capital (%)	34.1	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	
Dividend/Paid-up Capital (%) **	20	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	
Dividend Payout Ratio (%)	53	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	
Return on Average Shareholders' Funds (%)	9.0	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	
Book Value per Share (RO) **	0.388	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	0.1988	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 2011 - Year ended 31 December. : 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; 2011 - 253 million shares, following the issue of 2.3 million bonus shares approved by the shareholders in March 2011.																												
** Share Capital																												

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

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 2011 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 Directors' 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 2011 and its financial performance and 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.



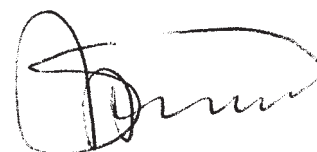
**GROUP AND PARENT COMPANY STATEMENTS OF
FINANCIAL POSITION AT 31 DECEMBER 2011**

	Note	<u>Group</u>		<u>Parent Company</u>	
		<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
		(RO'000)	(RO'000)	(RO'000)	(RO'000)
ASSETS					
Balances with banks and money at call	21	50,863	117,863	301	1,057
Certificates of deposit	5	100,000	100,000	-	-
Deposits with banks	6	58,049	9,115	-	-
Investment securities	7	49,723	44,597	13,311	12,504
Investments in associates	7(e)	8,851	8,146	3,482	3,482
Investments in subsidiaries	7(f)	-	-	42,837	35,592
Loans and advances to customers	8	825,945	657,746	-	-
Due from subsidiaries		-	-	3,625	2,343
Other assets		25,430	21,790	185	95
Projects work in progress	9(a)	8,606	6,820	-	-
Property and equipment	9(b)	18,236	15,758	3,218	3,274
TOTAL ASSETS		<u>1,145,703</u>	<u>981,835</u>	<u>66,959</u>	<u>58,347</u>
EQUITY AND LIABILITIES					
EQUITY					
Share capital	11	25,300	23,000	25,300	23,000
Legal reserve	12(a)	19,173	17,487	7,476	6,974
Capital reserve	12(b)	14,787	13,767	-	-
General reserve	12(c)	9,333	8,150	-	-
Revaluation reserve	12(d)	1,754	1,754	-	-
Cumulative changes in fair value		358	1,037	224	353
Retained earnings		27,561	27,430	14,657	14,738
Equity attributable to equity holders of the Parent Company		98,266	92,625	47,657	45,065
Non-controlling interests		78,886	70,003	-	-
TOTAL EQUITY		<u>177,152</u>	<u>162,628</u>	<u>47,657</u>	<u>45,065</u>
LIABILITIES					
Due to banks	10	22,303	15,197	18,525	12,025
Deposits from customers		908,901	768,291	-	-
Other liabilities		33,788	32,147	777	1,257
Taxation	14(c)	3,559	3,572	-	-
TOTAL LIABILITIES		<u>968,551</u>	<u>819,207</u>	<u>19,302</u>	<u>13,282</u>
TOTAL EQUITY AND LIABILITIES		<u>1,145,703</u>	<u>981,835</u>	<u>66,959</u>	<u>58,347</u>
Net assets per share (Rial Omani)	34	0.388	0.403	0.188	0.196

These financial statements were approved and authorised for release by the Board of Directors on February 27, 2012 and were signed by:



Hani Bin Muhammad Al Zubair
Chairman



Shariq Azhar
Chief Executive Officer

The accompanying notes on pages 38 to 88 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 2011**

	Note	<u>Group</u>		<u>Parent Company</u>	
		<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
		(RO'000)	(RO'000)	(RO'000)	(RO'000)
Interest income	15	43,274	40,932	-	2
Interest expense	16	(7,105)	(8,105)	(266)	(532)
Net interest income		36,169	32,827	(266)	(530)
Investment (loss)/income	17	(1,015)	2,450	7,407	9,747
Fee and commission income - net	18	13,635	13,015	-	-
Other operating income	19	4,676	4,938	40	84
Total income		53,465	53,230	7,181	9,301
Operating expenses	20	(27,653)	(24,301)	(2,091)	(2,111)
Allowance for loan impairment	8(b)	(6,173)	(4,563)	-	-
Recoveries/release from allowance for loan impairment	8(b)	2,667	1,742	-	-
Impairment loss on investments	7(c)	(69)	(114)	(69)	(114)
OPERATING PROFIT		22,237	25,994	5,021	7,076
Share of profit from associates	7(e)	1,073	892	-	-
PROFIT BEFORE TAX		23,310	26,886	5,021	7,076
Income tax expense	14(a)	(3,317)	(3,572)	-	-
PROFIT FOR THE YEAR		19,993	23,314	5,021	7,076
Other comprehensive expense					
Changes in the fair value of available for sale investments		(1,208)	(89)	(129)	(271)
Other comprehensive expense for the year		(1,208)	(89)	(129)	(271)
Total comprehensive income for the year		18,785	23,225	4,892	6,805
Profit attributable to:					
Shareholders of the Parent Company		8,620	11,959	5,021	7,076
Non-controlling interests		11,373	11,355	-	-
		19,993	23,314	5,021	7,076
Total comprehensive income attributable to:					
Shareholders of the Parent Company		7,941	11,781	4,892	6,805
Non-controlling interests		10,844	11,444	-	-
		18,785	23,225	4,892	6,805
Basic earnings per share on profit attributable to the shareholders of the Parent Company (Rial Omani)	33	0.034	0.052	0.020	0.031

The accompanying notes on pages 38 to 88 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 FLOWS
YEAR ENDED 31 DECEMBER 2011

	Note	<u>Group</u>		<u>Parent Company</u>	
		<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
		(RO'000)	(RO'000)	(RO'000)	(RO'000)
Cash flows from operating activities					
Profit before tax		23,310	26,886	5,021	7,076
Adjustments:					
End of service benefits		335	264	47	35
Depreciation	9 (b)	2,029	1,901	164	130
Allowance for loan impairment	8 (b)	6,173	4,563	-	-
Recoveries / release from allowance for loan impairment	8 (b)	(2,667)	(1,742)	-	-
Impairment loss on investments	7 (c)	69	114	69	114
Change in the fair value of financial assets at fair value through profit or loss		2,646	(367)	2,028	(340)
Income from held-to-maturity investments		(517)	(639)	-	-
Profit on sale of property and equipment		-	(17)	-	-
Non-controlling interests		(2,490)	(3,342)	-	-
Operating profit before changes in operating assets and liabilities		28,888	27,621	7,329	7,015
Changes in operating assets and liabilities					
Investment securities		(8,003)	2,602	(3,033)	1,654
Loans and advances to customers		(171,706)	(96,610)	-	-
Due from subsidiaries		-	-	(1,282)	(841)
Decrease in restricted deposit		-	435	-	-
Other assets		(3,641)	1,872	(90)	172
Deposits from customers		140,610	74,324	-	-
Other liabilities		1,217	(639)	(527)	69
Cash (used in) from operations		(12,671)	9,605	2,397	8,069
Tax paid		(3,330)	(3,072)	-	-
Net cash (used in) from operating activities		(16,001)	6,533	2,397	8,069
Cash flows from investing activities					
Investments in subsidiaries		-	-	(7,245)	(9,194)
Investments in associates		(705)	(750)	-	-
Projects work in progress		(1,660)	(6,820)	-	-
Additions to property and equipment		(4,760)	(4,959)	(108)	(139)
Proceeds from sale of property and equipment		254	21	-	-
Net cash used in investing activities		(6,871)	(12,508)	(7,353)	(9,333)
Cash flows from financing activities					
Dividends paid		(2,300)	(2,000)	(2,300)	(2,000)
Net cash used in financing activities		(2,300)	(2,000)	(2,300)	(2,000)
Net decrease in cash and cash equivalents		(25,172)	(7,975)	(7,256)	(3,264)
Cash and cash equivalents at the beginning of the year		211,281	219,256	(10,968)	(7,704)
Cash and cash equivalents at the end of the year	21	186,109	211,281	(18,224)	(10,968)

The accompanying notes on pages 38 to 88 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 FOR THE YEAR ENDED 31 DECEMBER 2011

	Share capital (R'O'000)	Legal reserve (R'O'000)	Capital reserve (R'O'000)	General reserve (R'O'000)	Revaluation reserve (R'O'000)	Cumulative changes in fair value (R'O'000)	Retained earnings (R'O'000)	Attributable to equity holders of the Parent Company				
								Company (R'O'000)	Non-controlling interests (R'O'000)	Total (R'O'000)		
GROUP												
Balance at 1 January 2010	20,000	15,587	12,747	6,968	1,754	1,215	24,573	82,844	61,990	144,834		
Profit for the year	-	-	-	-	-	-	11,959	11,959	11,355	23,314		
Other comprehensive expense 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 (note 13)	3,000	-	-	-	-	-	(3,000)	-	-	-		
Increase in share capital of banking subsidiary through capitalisation of retained earnings	-	-	1,020	-	-	-	(1,020)	-	-	-		
Dividends 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		
Balance at 31 December 2010	23,000	17,487	13,767	8,150	1,754	1,037	27,430	92,625	70,003	162,628		
Profit for the year	-	-	-	-	-	-	8,620	8,620	11,373	19,993		
Other comprehensive expense for the year	-	-	-	-	-	(679)	-	(679)	(529)	(1,208)		
Total comprehensive income for the year	-	-	-	-	-	(679)	8,620	7,941	10,844	18,785		
Transfer to legal reserve (note 12a)	-	1,686	-	-	-	-	(1,686)	-	-	-		
Transfer to general reserve (note 12c)	-	-	-	1,183	-	-	(1,183)	-	-	-		
Increase in share capital through capitalisation of retained earnings	2,300	-	-	-	-	-	(2,300)	-	-	-		
Increase in share capital of banking subsidiary through capitalisation of retained earnings	-	-	1,020	-	-	-	(1,020)	-	-	-		
Dividend relating to 2010 (note 13)	-	-	-	-	-	-	(2,300)	(2,300)	(8,332)	(10,632)		
Subscription to rights issue of the banking subsidiary	-	-	-	-	-	-	-	-	6,371	6,371		
Balance at 31 December 2011	25,300	19,173	14,787	9,333	1,754	358	27,561	98,266	78,886	177,152		

The accompanying notes on pages 38 to 88 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 2011

	Share capital (R0'000)	Legal reserve (R0'000)	changes in fair value (R0'000)	Cumulative Retained earnings (R0'000)	Total (R0'000)
PARENT COMPANY					
Balance at 1 January 2010	20,000	6,266	624	13,370	40,260
Profit for the year	-	-	-	7,076	7,076
Other comprehensive expense 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)
Balance at 31 December 2010	23,000	6,974	353	14,738	45,065
Profit for the year	-	-	-	5,021	5,021
Other comprehensive expense for the year	-	-	(129)	-	(129)
Total comprehensive income for the year	-	-	(129)	5,021	4,892
Transfer to legal reserve	-	502	-	(502)	-
Increase in share capital through capitalisation of retained earnings	2,300	-	-	(2,300)	-
Dividend relating to 2010 paid	-	-	-	(2,300)	(2,300)
Balance at 31 December 2011	25,300	7,476	224	14,657	47,657

The accompanying notes on pages 38 to 88 form an integral part of these Group and Parent Company financial statements.

The report of the Auditors – page 30.





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 2011 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 of the Sultanate of Oman.

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 statement of financial position 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 financial year except for where the Group has adopted certain new standards of, amendments and interpretations to IFRS.

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 2011:
- IAS 24 Related Party Transactions (Amendment)
- IAS 32 Financial Instruments: Presentation – Classification of Rights Issues (Amendment)
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments
- Improvements to IFRSs (May 2010)

The adoption of the above amendments and improvements is described below:

IAS 24 Related Party Transactions (Amendment)

The IASB issued an amendment to IAS 24 that clarifies the definitions of a related party. The new definitions emphasise a symmetrical view of related party relationships and clarifies the circumstances in which persons and key management personnel affect related party relationships of an entity. In addition, the amendment introduces an exemption from the general related party disclosure requirements for transactions with government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity. The adoption of the amendment did not have any impact on the financial position or performance of the Group.

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

The IASB issued an amendment to IAS 32 that clarifies 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. The adoption of the amendment did not have any impact on the financial position or performance of the Group.

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments

In November 2009, the IASB issued IFRIC 19 Extinguishing Financial Liabilities with Equity. 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 has had no effect on the financial statements of the Group.

Improvements to IFRSs

In May 2010, the IASB issued its third omnibus of amendments to its standards, primarily with a view to removing the inconsistencies and clarifying the wordings. There are separate transitional provisions for each standard. The amendments resulting from improvements to IFRSs did not have any significant impact on the accounting policies, financial positions or performance of the Group.

Standards issued but not yet effective:

Standards issued but not yet effective up to the date of issuance of the Group's financial statements are listed below. This listing of standards and interpretations issued are those the Group reasonably expects to have an impact on disclosures, financial position or performance when applied at a future date. The Group intends to adopt these standards when they become effective.

IAS 1 Financial Statement Presentation – Presentation of Items of Other Comprehensive Income (OCI)

The amendments to IAS 1 change the grouping of items presented in OCI. Items that could be reclassified (or recycled) to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. The amendment affects presentation only and has no impact on the Group's financial position or performance. The amendment becomes effective for annual periods beginning on or after 1 July 2012

IFRS 7 Financial Instruments: Disclosures — Enhanced Derecognition Disclosure Requirements

The amendment requires additional disclosure about financial assets that have been transferred but not derecognised to enable the user of the Group's financial statements to understand the relationship with those assets that have not been derecognised and their associated liabilities. In addition, the amendment requires disclosures about continuing involvement in derecognised assets to enable the user to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognised assets. The amendment becomes effective for annual periods beginning on or after 1 July 2011. The amendment affects disclosure only and has no impact on the Group's financial position or performance.

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 and financial liabilities as defined in IAS 39. The standard is effective for annual periods beginning on or after 1 January 2015. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The completion of this project is



expected over the first half of 2012. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but will potentially have no impact on classification and measurement of financial liabilities. The Group will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

IFRS 13 Fair Value Measurement

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The Group is currently assessing the impact that this standard will have on the financial position and performance. This standard becomes effective for annual periods beginning on or after 1 January 2013.

IAS 27 Separate Financial Statements (as revised in 2011)

As a consequence of the new IFRS 10 and IFRS 12, what remains of IAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. The amendment becomes effective for annual periods beginning on or after 1 January 2013.

IAS 28 Investments in Associates and Joint Ventures (as revised in 2011)

As a consequence of the new IFRS 11 and IFRS 12, IAS 28 has been renamed IAS 28 Investments in Associates and Joint Ventures, and describes the application of the equity method to investments in joint ventures in addition to associates. The amendment becomes effective for annual periods beginning on or after 1 January 2013.

IFRS 10 Consolidated Financial Statements

IFRS 10 replaces the portion of IAS 27 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC-12 Consolidation — Special Purpose Entities. IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgement to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in IAS 27. This standard becomes effective for annual periods beginning on or after 1 January 2013.

IFRS 11 Joint Arrangements

IFRS 11 replaces IAS 31 Interests in Joint Ventures and SIC-13 Jointly-controlled Entities — Non-monetary Contributions by Venturers. IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. The application of this new standard will not have any impact the financial position of the Group. This standard becomes effective for annual periods beginning on or after 1 January 2013.

IFRS 12 Disclosure of Involvement with Other Entities

IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. This standard becomes effective for annual periods beginning on or after 1 January 2013.

2.4 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 31 December 2011.



Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date when such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated in full.

Total comprehensive income within a subsidiary is attributed to the non-controlling interest even if that results in a deficit balance.



A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary
- Derecognises the carrying amount of any non-controlling interest
- Derecognises the cumulative translation differences recorded in equity
- Recognises the fair value of the consideration received
- Recognises the fair value of any investment retained
- Recognises any surplus or deficit in profit or loss
- Reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss or retained earnings, as appropriate.

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 profit or loss in the period in which entitlement is established.

2.4.1 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 profit or loss. 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 profit or loss 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

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.

Transactions and balances

Each entity in the group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Transactions in foreign currencies are initially recorded in the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. All differences are taken to the profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

As at the reporting date, the assets and liabilities of the group entities are translated into the functional currency of the consolidated financial statements (the Rial Omani) at the rate of exchange ruling at the reporting date and its profit or loss is translated at the weighted average exchange rates for the year. The exchange differences arising on the translation are taken directly to a foreign currency translation reserve in other comprehensive income.

On disposal of foreign operations, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the profit or loss.

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 profit or loss 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 impairment are reviewed for possible reversal of the impairment at each reporting 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 reporting 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:

- the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognizing gains or losses on them on a different basis; or
- the assets and liabilities are part of a group of financial assets, financial liabilities or both which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or
- the financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

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 other comprehensive income. When securities classified as available for sale are sold or impaired, the accumulated fair



value changes recognised in other comprehensive income are included in the profit or loss 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 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 where:

- 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 (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

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 for the year.



2.10 Impairment and uncollectability of financial assets, loans and receivables

The Group assesses at each reporting 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 profit or loss. 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 profit or loss.

(b) Available-for-sale financial investments

For available-for-sale financial investments, the Group assesses at each reporting 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 other comprehensive income and recognised in the profit or loss. Impairment losses on equity investments are not reversed through the profit or loss; increases in their fair value after impairment are recognised directly in other comprehensive income.

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 statement of financial position.

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.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

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 profit or loss 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 reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is calculated using the 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 reporting 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 reporting 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 profit or loss 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 profit or loss. 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, other than government soft loans, for which collaterals or other credit enhancements are held is as follows:

	Performing loans (neither past due nor impaired)	Loans past due but not impaired	Non performing loans	Gross loans
	(RO'000)	(RO'000)	(RO'000)	(RO'000)
Loans and advances with available collateral	172,037	7,023	15,182	194,242
Loans and advances with available guarantees	78,119	-	-	78,119
Balance as at 31 December 2011	<u>250,156</u>	<u>7,023</u>	<u>15,182</u>	<u>272,361</u>
Balance as at 31 December 2010	<u>214,680</u>	<u>30,053</u>	<u>11,985</u>	<u>256,718</u>

3.2.3 Impairment and provisioning policy

Impairment provisions are recognised for financial reporting purposes only for losses that have been incurred at the reporting 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 reporting 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

	<u>Group</u>		<u>Parent Company</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
	(RO'000)	(RO'000)	(RO'000)	(RO'000)
Items on the statement of financial position				
Certificates of deposit (note d)	100,000	100,000	-	-
Deposit with banks	58,049	26,019	-	-
Corporate loans	504,224	381,458	-	-
Personal loans	348,876	298,291	-	-
Other assets	25,430	21,790	184	85
Investment – held to maturity				
Government development bonds	22,412	20,077	-	-
	<u>1,058,991</u>	<u>847,639</u>	<u>184</u>	<u>85</u>
Off - balance sheet items				
Financial guarantees	78,119	58,043	218	218
Undrawn loan commitments	50,856	4,539	-	-
	<u>128,975</u>	<u>62,582</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 2011 and 31 December 2010 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.

- 68% (2010 – 94%) 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.
- Loans and advances represent 74% (2010 – 72%) of the total on-balance sheet items. Of the total loans and advances, excluding Government soft loans, 97.40% (2010 – 93.82%) are neither past due nor impaired.
- The impaired loans (note 8 (c)) have decreased from 3.1% at 31 December 2010 to 2.8% at 31 December 2011. The impaired personal loans constitute 0.9% of the total loans at 31 December 2011 compared to 1.3% at 31 December 2010.
- Certificates of deposit which represent 9% (2010 – 10.50%) 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:

	<u>2011</u>			<u>2010</u>		
	<u>Loans and advances to customers</u>	<u>Due from banks</u>	<u>Total</u>	<u>Loans and advances to customers</u>	<u>Due from banks</u>	<u>Total</u>
	(RO'000)	(RO'000)	(RO'000)	(RO'000)	(RO'000)	(RO'000)
Neither past due nor impaired	812,156	75,887	888,043	614,830	26,019	640,849
Special mentioned loans	9,475	-	9,475	29,442	-	29,442
Past due but not impaired	7,023	-	7,023	14,524	-	30,053
Impaired	24,446	-	24,446	20,953	-	20,953
Gross loans and advances	853,100	75,887	928,987	679,749	26,019	705,768
Less: Allowance for loan impairment and contractual interest not recognised (Refer to note (a) below)	(27,155)	-	(27,155)	(22,003)	-	(22,003)
Net loans and advances	<u>825,945</u>	<u>75,887</u>	<u>901,832</u>	<u>657,746</u>	<u>26,019</u>	<u>683,765</u>

- a) The total impairment provision for loans and advances is RO 27,155,000 (2010 - RO 22,003,000) of which RO 15,421,000 (2010 - RO 12,496,000) represents the individually impaired loans and the remaining amount of RO 11,734,000 (2010 - RO 9,507,000) represents the collective impairment provision made on a portfolio basis.
- b) The break-up of the loans and advances to customers in respect of the risk ratings adopted by the bank are:

	<u>2011</u>			<u>2010</u>		
	<u>Retail loans</u>	<u>Corporate loans</u>	<u>Total</u>	<u>Retail loans</u>	<u>Corporate loans</u>	<u>Total</u>
	(RO'000)	(RO'000)	(RO'000)	(RO'000)	(RO'000)	(RO'000)
Standard loans	340,227	478,952	819,179	288,660	340,695	629,355
Special mention loans	656	8,819	9,475	637	28,804	29,441
Substandard loans	560	828	1,388	3,437	787	4,224
Doubtful loans	562	3,907	4,469	663	3,788	4,451
Loss	6,871	11,718	18,589	4,894	7,384	12,278
	<u>348,876</u>	<u>504,224</u>	<u>853,100</u>	<u>298,291</u>	<u>381,458</u>	<u>679,749</u>

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

	2011	2010
	(RO'000)	(RO'000)
Past due up to 30 days	1,956	6,665
Past due 30-60 days	523	4,260
Past due 60-90 days	4,544	3,599
Total	<u>7,023</u>	<u>14,524</u>
Fair value of related collateral	<u>6,477</u>	<u>17,886</u>

d) Loans and advances individually impaired

	2011	2010
	(RO'000)	(RO'000)
Individually impaired loans	24,446	20,953
Fair value of related collateral available	12,255	10,030

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 2011 amounted to RO 15,224,000 (2010 – RO 15,566,000).

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 2011 is NIL (2010 – 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 2011 is 2.77% of the Group's total income (2010 – 2.66%).

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 2011 is 11.28% of the Parent Company's total income (2010 – 7.34%).

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 2011 is 13.78% (2010 – 12.50%).

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 reporting 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.

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 14.30% (2010 - 14.63%) of the total assets at the reporting 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:

Foreign currency exposures

	<u>Group</u>		<u>Parent Company</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
	(RO'000)	(RO'000)	(RO'000)	(RO'000)
Assets denominated in US Dollars (included assets dominate in GCC currency pegged with US Dollars)	6,352	17,643	5,503	5,412
Percentage of total assets	0.55%	1.80%	8.22%	9.28%
Assets denominated in other foreign currencies	10,763	9,655	9,574	8,537
Percentage of total assets	0.94%	0.98%	14.30%	14.63%

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 2011, the quoted investments for the Group were 34% of the total investment securities and 63% for the Parent Company (2010: 30% and 58% 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 reporting 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 required the banks registered in the Sultanate of Oman to maintain a minimum capital adequacy ratio of 10% based on guidelines of the Basel II Accord from January 2007. The minimum capital adequacy ratio has been increased to 12% from 31 December 2010 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:

	2011	2010
	(RO'000)	(RO'000)
Capital		
Tier 1	142,695	124,490
Tier 2	11,851	10,111
Total capital base	<u>154,546</u>	<u>134,601</u>
Risk weighted assets		
Credit risk	1,059,532	807,093
Market risk	16,363	31,411
Operational risk	97,163	90,473
Total risk weighted assets	<u>1,173,058</u>	<u>928,977</u>
Capital adequacy ratio %	<u>13.17</u>	<u>14.49</u>

The Tier 1 capital consists of paid-up capital and reserves. The Tier 2 capital consists of the collective 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 2011, the Parent Company's strategy, which was unchanged from 2010, was to maintain the gearing ratio at an acceptable level. The gearing ratio at 31 December 2011 and 2010 for the Parent Company was 27.63% and 19.57% respectively.

	2011	2010
	(RO'000)	(RO'000)
Total borrowings	(18,525)	(12,025)
Less: bank balances and cash	301	1,057
Cash and cash equivalents	(18,224)	(10,968)
Total equity	<u>(47,745)</u>	<u>(45,065)</u>
	<u>(65,969)</u>	<u>(56,033)</u>
Gearing ratio	27.63%	19.57%

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.

5. CERTIFICATES OF DEPOSIT

Certificates of deposit are issued by the Central Bank of Oman for periods ranging from 28 days to 6 months and carry interest at the rate of 0.09%% (2010 – 0.07%) per annum.

6. DEPOSITS WITH BANKS

Deposits with banks include RO 500,000 (2010 - RO 500,000) being a capital deposit with the Central Bank of Oman in terms of regulations applicable to the banking subsidiary which earn interest at 2% (2010 - 2%) respectively per annum. This deposit cannot be withdrawn without prior approval of the Central Bank of Oman. The remaining RO 57.54 million (2010 - RO 8.62 million) was placed with international and local banks.

7. INVESTMENT SECURITIES

As at the reporting date, investment securities comprised the following:

	<u>Group</u>		<u>Parent Company</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
	(RO'000)	(RO'000)	(RO'000)	(RO'000)
Financial assets at fair value through profit or loss	14,525	13,498	8,400	7,220
Available for sale investments	12,786	11,022	4,911	5,284
Held-to-maturity investments	22,412	20,077	-	-
	<u>49,723</u>	<u>44,597</u>	<u>13,311</u>	<u>12,504</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 reporting date, financial assets designated at fair value through profit or loss comprised the following:

	<u>Group</u>		<u>Parent Company</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
	(RO'000)	(RO'000)	(RO'000)	(RO'000)
Quoted investments				
Local investments by sector:				
Banking	609	201	409	65
Investment	359	298	329	264
Services	1,149	1,159	855	895
Industrial	587	758	507	636
	<u>2,704</u>	<u>2,416</u>	<u>2,100</u>	<u>1,860</u>
Oman Al Arabi Fund	1,391	1,550	959	1,069
Vision Real Economy GCC Fund	806	1,668	806	1,668
	<u>4,901</u>	<u>5,634</u>	<u>3,865</u>	<u>4,597</u>

	<u>Group</u>		<u>Parent Company</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
	(RO'000)	(RO'000)	(RO'000)	(RO'000)
Foreign investments:				
Equity and equity related	4,253	2,274	4,253	2,274
Currency and commodity related	282	349	282	349
	<u>4,535</u>	<u>2,623</u>	<u>4,535</u>	<u>2,623</u>
Unquoted local investments	506	502	-	-
Total financial assets designated at fair value through profit or loss	<u>9,942</u>	<u>8,759</u>	<u>8,400</u>	<u>7,220</u>

(ii) Financial assets held for trading

	<u>Group</u>		<u>Parent Company</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
	(RO'000)	(RO'000)	(RO'000)	(RO'000)
Total financial assets held for trading	4,583	4,739	-	-
Total financial assets at fair value through profit or loss	<u>14,525</u>	<u>13,498</u>	<u>8,400</u>	<u>7,220</u>

Unquoted local investments held by the Group include investment in the Financial Settlement and Guarantee Fund of RO 166,130 (2010 – RO 166,130) which is not realisable until the date the banking subsidiary ceases its brokerage activities or the fund is liquidated, whichever is earlier.

(b) Available for sale investments

	<u>Group</u>		<u>Parent Company</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
	(RO'000)	(RO'000)	(RO'000)	(RO'000)
Local investments				
Quoted investments	7,179	4,535	-	-
Fair value reserve	(73)	557	-	-
	<u>7,106</u>	<u>5,092</u>	<u>-</u>	<u>-</u>
Unquoted investments	986	995	700	700
Total local investments	<u>8,092</u>	<u>6,087</u>	<u>700</u>	<u>700</u>
Foreign investments				
Quoted investments	212	147	-	-
Fair value reserve	221	153	-	-
	<u>433</u>	<u>300</u>	<u>-</u>	<u>-</u>
Unquoted investments	6,426	6,602	6,376	6,551
Less: Provision for impairment [note 7(c)]	(2,389)	(2,320)	(2,389)	(2,320)
	<u>4,037</u>	<u>4,282</u>	<u>3,987</u>	<u>4,231</u>
Fair value reserve	224	353	224	353
Total foreign investments	<u>4,261</u>	<u>4,635</u>	<u>4,211</u>	<u>4,584</u>
Total available for sale investments	<u>12,786</u>	<u>11,022</u>	<u>4,911</u>	<u>5,284</u>

Fair value reserve changes in available for sale investments are recognised in other comprehensive income under "cumulative changes in fair value". Impairment losses on available for sale investments are charged to profit or loss.

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

	Group and Parent Company Unquoted foreign investments	
	2011	2010
	(RO'000)	(RO'000)
Balance at 1 January	2,320	2,587
Provided during the year	69	114
Written off during the year	-	(381)
Balance at 31 December	<u>2,389</u>	<u>2,320</u>

(d) Held-to-maturity investments

	Group		Parent Company	
	2011	2010	2011	2010
	(RO'000)	(RO'000)	(RO'000)	(RO'000)
Oman Government Development Bonds held by the banking subsidiary	22,412	20,077	-	-
	<u>22,412</u>	<u>20,077</u>	<u>-</u>	<u>-</u>

All the bonds are denominated in Rial Omani and are issued by the Government of Oman. They carry interest rates varying between 3.25% and 4% (2010-3.25% and 4%) per annum. The maturity profile of the bonds based on the remaining period to maturity from the reporting date, is as follows:

	2011	2010
	(RO'000)	(RO'000)
Within one year	13,191	-
Between one and five years	9,221	20,077
	<u>22,412</u>	<u>20,077</u>

(e) Investments in associates

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

	2011			2010		
	Holding	Carrying value	Cost	Holding	Carrying value	Cost
	(%)	(RO'000)	(RO'000)	(%)	(RO'000)	(RO'000)
National Finance Co. SAOG	24.05	5,723	2,334	24.05	5,038	2,334
National Biscuit Industries SAOG	21.30	473	435	21.30	463	435
National Detergent Co. SAOG	20.94	2,655	713	20.94	2,645	713
		<u>8,851</u>	<u>3,482</u>		<u>8,146</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 9,137,526 (2010 - RO 9,052,913).

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	<u>Assets</u>	<u>Liabilities</u>	<u>Revenues</u>	<u>Share of profit</u>
	(RO'000)	(RO'000)	(RO'000)	(RO'000)
2011				
National Finance Company SAOG	111,956	88,053	11,116	864
National Biscuit Industries SAOG	7,359	5,105	11,960	21
National Detergent Company SAOG	21,712	9,042	20,532	188
				<u>1,073</u>
2010				
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>

(f) Investments in subsidiaries

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

	<u>Country of Incorporation</u>	<u>2011</u>		<u>2010</u>	
		<u>Holding</u>	<u>Cost</u>	<u>Holding</u>	<u>Cost</u>
		%	(RO'000)	%	(RO'000)
Oman Arab Bank SAOC (Principal activity: Banking)	Oman	50.99	36,203	50.99	29,574
Oman Investment Services SAOC (Principal activity: Investments)	Oman	99.98	903	99.98	903
Salalah Resorts SAOC (Principal activity: Integrated Tourism Project)	Oman	99.98	500	99.98	500
Al Jabal Al Aswad Investment LLC (Principal activity: Real Estate)	Oman	100.00	-	-	-
Budva Beach Properties d.o.o. (Principal activity: Tourism project)	Montenegro	100.00	5,231	100.00	4,615
Cuddalore Petroleum Investments Limited (Principal activity: Investments)	Mauritius	100.00	-	-	-
			<u>42,837</u>		<u>35,592</u>

(g) Details of significant investments

As at reporting 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

	<u>Holding</u>	<u>Number of shares</u>	<u>Fair value</u>	<u>Carrying value</u>
	%		(RO'000)	(RO'000)
Group				
National Biscuit Industries Ltd SAOG	29.22	292,197	731	671
National Finance Co. SAOG	24.05	42,211,392	5,403	5,723
National Detergent Co. SAOG	20.94	3,561,700	3,202	2,655
Oman National Dairy Products Co. Ltd SAOC	19.65	482,726	-	-
Oman Al Arabi Fund	17.18	1,537,000	1,391	1,391
			<u>10,727</u>	<u>10,440</u>

As at reporting 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:

	<u>Holding</u>	<u>Number of shares</u>	<u>Fair value</u>	<u>Carrying value</u>
	%		(RO'000)	(RO'000)
Parent Company				
National Biscuit Industries Ltd SAOG	28.92	289,197	723	633
National Finance Co. SAOG	23.74	41,670,843	5,334	2,335
National Detergent Co. SAOG	20.94	3,561,700	3,202	713
Oman National Dairy Products Co. Ltd SAOC	19.65	482,726	-	-
Oman Al Arabi Fund	11.05	1,060,000	959	959
			<u>10,218</u>	<u>4,640</u>

Unquoted securities

	<u>Holding</u>	<u>Number of shares</u>	<u>Carrying value</u>
	%		(RO'000)
Group			
<i>Subsidiaries</i>			
Oman Arab Bank SAOC	51.00	51,000,000	82,089
Oman Investment Services SAOC	99.98	999,800	663
Salalah Resorts SAOC	99.98	499,800	117
Budva Beach Properties d.o.o.	100.00	-	5,156
<i>Others</i>			
Al Shamal Plastics LLC (i)	21.44	200,000	35
Modern Steel Mills LLC (i)	19.49	1,169,104	251
Gulf Acrylic Industries LLC (i)	17.64	100,000	129
			<u>88,440</u>
Parent Company			
<i>Subsidiaries</i>			
Oman Arab Bank SAOC	50.99	59,990,000	36,203
Oman Investment Services SAOC	99.98	999,800	903
Salalah Resorts SAOC	99.98	499,800	500
Budva Beach Properties d.o.o.	100.00	-	5,231
<i>Others</i>			
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>43,163</u>

(i) These are not recognised as investment in associates since the Group does not have significant influence.

8. LOANS AND ADVANCES TO CUSTOMERS

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

	2011	2010
	(RO'000)	(RO'000)
Corporate loans		
Term loans	395,566	292,857
Overdrafts	89,837	78,163
Bills discounted	18,821	10,438
	<u>504,224</u>	<u>381,458</u>
Personal loans		
Consumer loans	275,023	228,661
Mortgage loans	45,191	29,595
Overdrafts	22,660	34,698
Credit cards	6,002	5,337
	<u>348,876</u>	<u>298,291</u>
Gross loans and advances	853,100	679,749
Less: allowances for loan impairment and unrecognised contractual interest (refer to note (b) below)	(27,155)	(22,003)
Net loans and advances	<u>825,945</u>	<u>657,746</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	Unrecognised contractual interest	Total
	(RO 000)	(RO 000)	(RO 000)
2011			
Balance at 1 January	17,401	4,602	22,003
Provided during the year	6,173	1,968	8,141
Amounts written off during the year	(266)	(56)	(322)
Amounts released/recovered	(1,980)	(687)	(2,667)
Balance at 31 December	<u>21,328</u>	<u>5,827</u>	<u>27,155</u>
2010			
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	(1,158)	(584)	(1,742)
Balance at 31 December	<u>17,401</u>	<u>4,601</u>	<u>22,003</u>

(c) At 31 December 2011 loans and advances on which contractual interest was not recognised or has not been accrued amounted to RO 24,446,000 (2010 - RO 20,953,000).

At 31 December 2011, RO 11,734,000 (2010 - RO 9,507,154) 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:

	2011	2010
	(RO'000)	(RO'000)
Personal and consumer loans	348,876	298,291
Manufacturing	92,025	61,695
Transportation	83,995	37,219
Construction	75,325	69,414
Services	63,282	65,674
Wholesale and retail trade	52,486	39,256
Mining and quarrying	30,742	32,645
Import trade	26,061	13,657
Financial institutions	16,301	15,725
Agriculture and allied activities	6,449	6,879
Government	-	2,389
Others	57,558	36,905
	<u>853,100</u>	<u>679,749</u>

9(A). PROJECTS WORK IN PROGRESS

At 31 December 2011, projects work in progress include:

	2011	2010
	(RO'000)	(RO'000)
Salalah Resorts SAOC:		
Initial stage	289	289
Development stage	778	652
Consultancy charges	2,126	1,138
	<u>3,193</u>	<u>2,079</u>
Budva Beach Properties:		
Cost of land	5,231	4,615
Consultancy and other costs	182	126
	<u>5,413</u>	<u>4,741</u>
	<u>8,606</u>	<u>6,820</u>

9(B). PROPERTY AND EQUIPMENT

Group	Land and buildings	Furniture, fixtures and equipment	Motor vehicles	Capital Work in Progress	Total
	(RO'000)	(RO'000)	(RO'000)	(RO'000)	(RO'000)
2011					
Cost:					
At 1 January 2011	9,921	16,410	623	3,660	30,614
Additions	-	1,286	15	3,459	4,760
Transfers	-	869	-	(869)	-
Disposals	-	(507)	(27)	(228)	(762)
At 31 December 2011	<u>9,921</u>	<u>18,058</u>	<u>611</u>	<u>6,022</u>	<u>34,612</u>
Depreciation:					
At 1 January 2011	2,905	11,592	359	-	14,856
Charge for the year	59	1,876	94	-	2,029
Disposals	-	(482)	(27)	-	(509)
At 31 December 2011	<u>2,964</u>	<u>12,986</u>	<u>426</u>	<u>-</u>	<u>16,376</u>
Net book value					
At 31 December 2011	<u>6,957</u>	<u>5,072</u>	<u>185</u>	<u>6,022</u>	<u>18,236</u>
2010					
Cost:					
At 1 January 2010	9,921	14,610	604	798	25,933
Additions	-	1,184	95	3,680	4,959
Transfers	-	818	-	(818)	-
Disposals	-	(202)	(76)	-	(278)
At 31 December 2010	<u>9,921</u>	<u>16,410</u>	<u>623</u>	<u>3,660</u>	<u>30,614</u>
Depreciation:					
At 1 January 2010	2,760	10,120	349	-	13,229
Charge for the year	145	1,666	90	-	1,901
Disposals	-	(194)	(80)	-	(274)
At 31 December 2010	<u>2,905</u>	<u>11,592</u>	<u>359</u>	<u>-</u>	<u>14,856</u>
Net book value					
At 31 December 2010	<u>7,016</u>	<u>4,818</u>	<u>264</u>	<u>3,660</u>	<u>15,758</u>

	<u>Land and buildings</u>	<u>Furniture, fixtures and equipment</u>	<u>Motor vehicles</u>	<u>Capital Work in Progress</u>	<u>Total</u>
	(RO'000)	(RO'000)	(RO'000)	(RO'000)	(RO'000)
Parent Company					
2011					
Cost:					
At 1 January 2011	3,400	427	36	-	3,863
Additions	-	19	-	89	108
At 31 December 2011	3,400	446	36	89	3,971
Depreciation:					
At 1 January 2011	336	217	36	-	589
Charge for the year	59	105	-	-	164
At 31 December 2011	395	322	36	-	753
Net book value					
At 31 December 2011	3,005	124	-	89	3,218
2010					
Cost:					
At 1 January 2010	3,400	288	36	-	3,724
Additions	-	139	-	-	139
At 31 December 2010	3,400	427	36	-	3,863
Depreciation:					
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

10. DUE TO BANKS

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

	<u>Group</u>		<u>Parent Company</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
	(RO'000)	(RO'000)	(RO'000)	(RO'000)
Due to banks	7,678	5,772	-	-
Loans and overdrafts	14,625	9,425	18,525	12,025
	22,303	15,197	18,525	12,025

11. SHARE CAPITAL

- (a) The Parent Company's authorised share capital is 300,000,000 (2010 – 300,000,000) shares of 100 baisa (2010 – 100 baisa) each. 253,000,000 (2010 – 230,000,000) shares of 100 baisa (2010 - 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:

	<u>2011</u>		<u>2010</u>	
	<u>Holding %</u>	<u>Shares</u>	<u>Holding %</u>	<u>Shares</u>
Al Hilal Investment Co. LLC	20.22	51,159,130	20.09	46,201,581
Civil Service Employees' Pension Fund	12.86	32,526,914	12.43	28,597,407
	<u>33.08</u>	<u>83,686,044</u>	<u>32.52</u>	<u>74,798,988</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.

	<u>2011</u>	<u>2010</u>
	(RO'000)	(RO'000)
Parent company	7,476	6,974
Share of subsidiaries' legal reserve	<u>11,697</u>	<u>10,513</u>
Group	<u>19,173</u>	<u>17,487</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 and issue of rights. The Parent Company's share of the increased paid up share capital (50.99%) through capitalisation of retained profits has been transferred to a non-distributable capital reserve in the Group financial statements.

	<u>2011</u>	<u>2010</u>
	(RO'000)	(RO'000)
Balance at 1 January	13,767	12,747
Transferred during the year	<u>1,020</u>	<u>1,020</u>
Balance at 31 December	<u>14,787</u>	<u>13,767</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 2012, a cash dividend of RO 0.010 per share (2010 - RO 0.010 per share) amounting to RO 2,530,000 (2010 - RO 2,300,000) and a stock dividend of RO 0.010 per share (2010 - RO 0.010) amounting to RO 2,530,000 (2010 - RO 2,300,000) in respect of year ended 31 December 2011 is to be proposed by the Board of Directors. The financial statements for the year ended 31 December 2011 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 2012.

14. TAXATION

(a) *Recognised in the Statements of comprehensive income*

	<u>Group</u>		<u>Parent Company</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
	(RO'000)	(RO'000)	(RO'000)	(RO'000)
Current tax expense				
Current year	3,276	3,327	-	-
Prior years	3	-	-	-
Deferred tax expense	38	245	-	-
Tax Expense	<u>3,317</u>	<u>3,572</u>	<u>-</u>	<u>-</u>

The Parent Company and each of its Omani 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:

	<u>Group</u>		<u>Parent Company</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
	(RO'000)	(RO'000)	(RO'000)	(RO'000)
Profit before tax	23,310	26,886	5,021	7,076
Income tax at the rates mentioned above	2,790	3,215	603	849
Tax-exempt revenues	(339)	(347)	(1,137)	(1,065)
Non-deductible expenses	500	507	280	291
Deferred tax expense not recognised during the year	14	(34)	13	(34)
Deferred tax on losses not recognised during the year	264	(24)	241	(41)
Current tax-prior year	3	-	-	-
Prior years unrecognised deferred tax liability now recognised	-	248	-	-
Reversal of excess provision brought forward	-	-	-	-
Effect of minimum exemption limit	4	7	-	-
Others	81	-	-	-
Income tax expense	<u>3,317</u>	<u>3,572</u>	<u>-</u>	<u>-</u>

(c) Current liability

	<u>Group</u>		<u>Parent Company</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
	(RO'000)	(RO'000)	(RO'000)	(RO'000)
Opening balance as at 1 January	3,572	3,072	-	-
Provided during the year	3,317	3,572	-	-
Paid in current year (net of tax refund for prior years)	(3,330)	(3,072)	-	-
Closing balance as at 31 December	<u>3,559</u>	<u>3,572</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 (Oinvest)

The assessments of Oinvest have been completed by the Tax Department up to and including 2007. The assessment of the tax returns filed for the years 2008 to 2010 respectively have not yet been finalised by the Secretariat General for Taxation at the Ministry of Finance. Management believes however that any additional taxes that may arise on the completion of the tax assessments for the open tax years will not be significant to Oinvest's financial position as at 31 December 2011.

Oman Investment Services SAOC (OIS)

The assessments of OIS have been completed by the Tax Department up to and including 2009. The assessment of the tax return filed for 2010 has not yet been finalised by the Secretariat General for Taxation at the Ministry of Finance. Management believes however that any additional taxes that may arise on completion of the tax assessments for the open tax year will not be significant to OIS' financial position at 31 December 2011.

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 and including 2005 are complete. The assessment of the years 2006 to 2010 is not yet completed by the tax authorities. Management believes however that no significant further liabilities will be incurred by OAB on completion of the pending tax assessments.

Salalah Resorts SAOC

The Company was registered as a closed joint stock company in the Sultanate of Oman in April 2010. The assessment of the tax return filed for the nine month period ended 31 December 2010 has not yet been finalised by the Secretariat General for Taxation at the Ministry of Finance. Management believes however that any additional taxes that may arise on completion of the tax assessment for the open tax year will not be significant to Salalah Resorts SAOC's financial position at 31 December 2011.

Budva Beach Properties d.o.o.

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

15. INTEREST INCOME

	<u>Group</u>		<u>Parent Company</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
	(RO'000)	(RO'000)	(RO'000)	(RO'000)
Loans and advances to customers	42,592	40,074	-	-
Placements with banks and other money market placements	80	139	-	2
Certificates of deposit	85	80	-	-
Oman Government Development Bonds	517	639	-	-
	<u>43,274</u>	<u>40,932</u>	<u>-</u>	<u>2</u>

16. INTEREST EXPENSE

	<u>Group</u>		<u>Parent Company</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
	(RO'000)	(RO'000)	(RO'000)	(RO'000)
Time deposits	5,608	6,362	-	-
Call accounts	470	565	-	-
Savings accounts	358	365	-	-
Bank borrowings	669	813	266	532
	<u>7,105</u>	<u>8,105</u>	<u>266</u>	<u>532</u>

17. INVESTMENT INCOME

	<u>Group</u>		<u>Parent Company</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
	(RO'000)	(RO'000)	(RO'000)	(RO'000)
Dividend from investments	1,387	788	9,507	8,329
Profit/(loss) on sale of local investments	205	802	(111)	559
Change in fair value of local investments	(729)	40	(111)	39
Profit/(loss) on sale of quoted foreign investments	(54)	275	(54)	275
Change in fair value of foreign investments	(1,917)	328	(1,917)	328
Profit on sale of unquoted foreign investments	93	217	93	217
	<u>(1,015)</u>	<u>2,450</u>	<u>7,407</u>	<u>9,747</u>

18. FEE AND COMMISSION INCOME - NET

	<u>Group</u>		<u>Parent Company</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
	(RO'000)	(RO'000)	(RO'000)	(RO'000)
Fee and commission income	15,247	13,974	-	-
Fee and commission expense	(1,612)	(959)	-	-
	<u>13,635</u>	<u>13,015</u>	<u>-</u>	<u>-</u>

19. OTHER OPERATING INCOME

	<u>Group</u>		<u>Parent Company</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
	(RO'000)	(RO'000)	(RO'000)	(RO'000)
Foreign exchange (net)	3,967	3,946	-	-
Other income	709	992	40	84
	<u>4,676</u>	<u>4,938</u>	<u>40</u>	<u>84</u>

20. OPERATING EXPENSES

	<u>Group</u>		<u>Parent Company</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
	(RO'000)	(RO'000)	(RO'000)	(RO'000)
Staff costs (refer below)	16,864	14,376	1,357	1,375
Other operating expenses	8,468	7,728	382	411
Depreciation	2,029	1,901	164	130
Directors' sitting fees and remuneration:				
Parent Company	188	195	188	195
Banking subsidiary	104	101	-	-
	<u>27,653</u>	<u>24,301</u>	<u>2,091</u>	<u>2,111</u>
<i>Staff costs:</i>				
Salaries	14,106	11,875	1,034	968
End of service benefits	335	264	47	35
Social security costs	742	633	24	21
Other costs	1,681	1,604	252	351
	<u>16,864</u>	<u>14,376</u>	<u>1,357</u>	<u>1,375</u>

21. CASH AND CASH EQUIVALENTS

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

	<u>Group</u>		<u>Parent Company</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
	(RO'000)	(RO'000)	(RO'000)	(RO'000)
Balances with banks and money at call	50,863	117,863	301	1,057
Deposits with banks (note 6)	57,549	8,615	-	-
Certificates of deposit (note 5)	100,000	100,000	-	-
Bank borrowings (note 10)	(14,625)	(9,425)	(18,525)	(12,025)
Due to banks (note 10)	(7,678)	(5,772)	-	-
	<u>186,109</u>	<u>211,281</u>	<u>(18,224)</u>	<u>(10,968)</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:

	<u>Group</u>		<u>Parent Company</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
	(RO'000)	(RO'000)	(RO'000)	(RO'000)
Balance as at 1 January	2,390	2,216	285	281
Expense recognised in the statements of comprehensive income	335	264	47	35
Employees' end of service benefits paid	(36)	(90)	(22)	(31)
Balance as at 31 December	<u>2,689</u>	<u>2,390</u>	<u>310</u>	<u>285</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						Total
	Invest- ments	Retail banking	Corporate banking	Investment banking	Support and un- allocated function	Adjust- ments	
	(RO'000)	(RO'000)	(RO'000)	(RO'000)	(RO'000)	(RO'000)	
2011							
Interest income	-	23,618	19,073	-	681	(98)	43,274
Interest expenses	(311)	(1,591)	(4,845)	-	(456)	98	(7,105)
	(311)	22,027	14,228	-	225	-	36,169
Other operating income	6,364	8,649	4,497	1,771	3,978	(7,963)	17,296
Share of profit from associates	1,073	-	-	-	-	-	1,073
Total operating income	7,126	30,676	18,725	1,771	4,203	(7,963)	54,538
Allowance for loan impairment	-	11,248	15,907	-	-	-	27,155
Allowance for impairment of investments	69	-	-	-	-	-	69
Assets	76,842	337,628	492,217	21,326	263,494	(45,804)	1,145,703
Liabilities	23,126	283,549	626,111	21,325	22,724	(8,284)	968,551
2010							
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
Total operating income	9,489	26,484	18,561	2,068	4,419	(6,899)	54,122
Allowance for loan impairment	-	10,028	11,975	-	-	-	22,003
Allowance for impairment of investments	114	-	-	-	-	-	114
Assets	66,439	288,263	372,083	15,355	277,091	(37,396)	981,835
Liabilities	15,661	183,131	586,630	15,355	24,842	(6,412)	819,207

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:

	<u>Total</u>	<u>Major share-holders</u>	<u>Directors</u>	<u>Asso-ciates</u>	<u>Key manage-ment</u>	<u>Non-controlling interests</u>
	(RO'000)	(RO'000)	(RO'000)	(RO'000)	(RO'000)	(RO'000)
Group – 2011						
Statements of comprehensive income						
Interest and commission income	831	4	113	245	-	469
Interest expense	302	-	-	6	-	296
Directors' sitting fees and remuneration	292	-	242	-	-	50
Staff costs	1,842	-	-	-	1,842	-
Terminal benefits	110	-	-	-	110	-
Operating expenses	15	-	15	-	-	-
Statements of financial position						
Loans and advances	52,879	515	2,401	8,948	-	41,015
Deposits from customers	3,313	1	727	190	-	2,395
Other assets	8	-	8	-	-	-
Off balance sheet						
Letters of credit and guarantees	196,520	-	-	-	-	196,520
Group – 2010						
Statements of comprehensive income						
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	-	-	-
Statements of financial position						
Loans and advances	20,706	-	1,970	5,000	-	13,736
Deposits from customers	1,083	-	389	346	-	348
Property and equipment	2	2	-	-	-	-
Off balance sheet						
Letters of credit and guarantees	118,811	-	-	-	-	118,811

	<u>2011</u>			<u>2010</u>		
	<u>Subsidiary</u>	<u>Directors</u>	<u>Key management</u>	<u>Subsidiary</u>	<u>Directors</u>	<u>Key management</u>
	(RO'000)	(RO'000)	(RO'000)	(RO'000)	(RO'000)	(RO'000)
Parent Company						
Statement of comprehensive income						
Directors' sitting fees and remuneration	-	188	-	-	195	-
Staff costs	-	-	655	-	-	723
Terminal benefits	-	-	43	-	-	35
Operating expenses	-	15	-	-	51	-
Statements of financial position						
Other assets	-	8	-	-	2	-
Due from subsidiary	3,625	-	-	2,343	-	-
Bank borrowings	3,900	-	-	2,600	-	-
Bank balances	172	-	-	834	-	-

- (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 (2010 - US\$ 75,000), equivalent to RO 28,850 (2010 - RO 28,850).
- (d) Due from subsidiaries in the Parent Company include an amount of RO 3,364,773 (2010 - RO 2,178,509) 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 2011, balances stated at cost arising from fiduciary activities are as follows:

	<u>Group</u>		<u>Parent Company</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
	(RO'000)	(RO'000)	(RO'000)	(RO'000)
Investments syndicated by the Group and registered in its name:				
Parent Company	1,523	1,722	1,523	1,722
Funds under management:				
Banking subsidiary	215,673	233,113	-	-
	<u>217,196</u>	<u>234,835</u>	<u>1,523</u>	<u>1,722</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 statement of financial position.

26. COMMITMENTS

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

	<u>Group</u>	<u>Parent Company</u>
	(RO'000)	(RO'000)
2011		
Unquoted foreign investments	151	151
Contractual interest charge to maturity	33	39
	<u>184</u>	<u>190</u>
2010		
Unquoted foreign investments	114	114
Contractual interest charge to maturity	37	46
	<u>151</u>	<u>160</u>

Uncalled contributions to unquoted foreign investments syndicated by the Parent Company included commitments from investors amounting to RO 68,538 (2010– RO 68,538).

Banking Subsidiary

	<u>Up to 1 year</u>	<u>1 to 5 years</u>	<u>Over 5 years</u>	<u>Total</u>
	(RO'000)	(RO'000)	(RO'000)	(RO'000)
2011				
Capital commitments	4,892	-	-	4,892
Loan commitments	39,856	11,000	-	50,856
	<u>44,748</u>	<u>11,000</u>	<u>-</u>	<u>55,748</u>
2010				
Capital commitments	219	-	-	219
Loan commitments	3,715	413	411	4,539
	<u>3,934</u>	<u>413</u>	<u>411</u>	<u>4,758</u>

27. CONTINGENT LIABILITIES

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

	<u>2011</u>	<u>2010</u>
	(RO'000)	(RO'000)
Letters of credit	259,731	285,623
Guarantees	438,327	344,106
Financial guarantees	78,119	58,043
	<u>776,177</u>	<u>687,772</u>

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

	Group		Parent Company	
	2011	2010	2011	2010
	(RO'000)	(RO'000)	(RO'000)	(RO'000)
Construction	217,284	192,847	-	-
Export trade	208,636	213,966	-	-
Government	171,685	127,319	-	-
Import trade	51,095	71,656	-	-
Utilities	36,815	18,403	-	-
Transportation	53,342	25,375	-	-
Manufacturing	12,161	15,118	251	218
Wholesale and retail trade	16,384	11,763	-	-
Services	8,775	11,322	-	-
	<u>776,177</u>	<u>687,772</u>	<u>251</u>	<u>218</u>

Group's letters of credit and guarantees amounting to RO 570,844,000 (2010 - RO 506,123,093) 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 Group's 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	Negative fair value	Notional amount	Notional amounts by term to maturity		
				Within 3 months	3 - 12 months	1-5 years
				(RO'000)	(RO'000)	(RO'000)
31 December 2011						
Purchase contracts	321	-	30,348	25,420	4,928	-
Sale contracts	-	(301)	(30,327)	(25,411)	(4,916)	-
	<u>321</u>	<u>(301)</u>	<u>21</u>	<u>9</u>	<u>12</u>	<u>-</u>
31 December 2010						
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>

29. GEOGRAPHICAL CONCENTRATION OF ASSETS AND LIABILITIES

	<u>Sultanate of Oman</u>	<u>North America</u>	<u>UK and Europe</u>	<u>Other Countries</u>	<u>Total</u>
	(RO'000)	(RO'000)	(RO'000)	(RO'000)	(RO'000)
Group- 2011					
Assets					
Balances with banks and money at call	32,931	-	65	17,867	50,863
Certificates of deposit	100,000	-	-	-	100,000
Deposits with banks	-	11,810	28,918	17,321	58,049
Investment securities	38,667	2,973	2,994	5,089	49,723
Investments in associates	8,851	-	-	-	8,851
Loans and advances to customers	825,945	-	-	-	825,945
Other assets	25,430	-	-	-	25,430
Projects work in progress	3,193	-	5,413	-	8,606
Property and equipment	18,236	-	-	-	18,236
Total assets	1,053,253	14,783	37,390	40,277	1,145,703
Liabilities					
Due to banks	14,625	277	921	6,480	22,303
Deposits from customers	908,901	-	-	-	908,901
Other liabilities	31,099	-	-	-	31,099
End of service benefits	2,689	-	-	-	2,689
Taxation	3,559	-	-	-	3,559
Total liabilities	960,873	277	921	6,480	968,551
Group - 2010					
Assets					
Balances with banks and money at call	100,467	-	44	17,352	117,863
Certificates of deposit	100,000	-	-	-	100,000
Deposits with banks	9,115	-	-	-	9,115
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
Total assets	949,822	1,027	7,813	23,173	981,835
Liabilities					
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
Total liabilities	816,790	274	1,025	1,118	819,207

29. GEOGRAPHICAL CONCENTRATION OF ASSETS AND LIABILITIES (CONT.)

	<u>Sultanate of Oman</u>	<u>North America</u>	<u>UK and Europe</u>	<u>Other Countries</u>	<u>Total</u>
	(RO'000)	(RO'000)	(RO'000)	(RO'000)	(RO'000)
Parent Company - 2011					
Assets					
Balances with banks and money at call	207	-	65	29	301
Investment securities	3,651	2,539	2,994	4,127	13,311
Investments in associates	3,482	-	-	-	3,482
Investments in subsidiaries	37,606	-	5,231	-	42,837
Due from subsidiaries	3,370	-	255	-	3,625
Other assets	185	-	-	-	185
Property and equipment	3,218	-	-	-	3,218
Total assets	51,719	2,539	8,545	4,156	66,959
Liabilities					
Due to banks	18,525	-	-	-	18,525
Other liabilities	467	-	-	-	467
End of service benefits	310	-	-	-	310
Total liabilities	19,302	-	-	-	19,302
Parent Company - 2010					
Assets					
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
Total assets	44,459	727	7,813	5,348	58,347
Liabilities					
Due to banks	12,025	-	-	-	12,025
Other liabilities	972	-	-	-	972
End of service benefits	285	-	-	-	285
Total liabilities	13,282	-	-	-	13,282

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	6 to 12 months	Over 1 year	Not exposed to interest rate risk	Total
		(R0'000)	(R0'000)	(R0'000)	(R0'000)	(R0'000)
Group - 2011						
Assets						
Balances with banks and money at call	2%	-	-	-	50,863	50,863
Certificates of deposit	0.08%	100,000	-	-	-	100,000
Deposits with banks	0.22%	57,549	-	500	-	58,049
Investment securities:						
-Govt. development bonds	3.83%	-	13,191	9,221	-	22,412
-Investments	NIL	-	-	-	27,311	27,311
Investments in associates	NIL	-	-	-	8,851	8,851
Loans and advances to customers	5.96%	261,829	162,494	401,622	-	825,945
Other assets	NIL	8,667	-	-	16,763	25,430
Projects work in progress	NIL	-	-	-	8,606	8,606
Property and equipment	NIL	-	-	-	18,236	18,236
Total assets		428,045	175,685	411,343	130,630	1,145,703
Liabilities						
Due to banks	2.27%	14,625	-	-	7,678	22,303
Deposits from customers	0.81%	384,431	118,308	16,149	390,013	908,901
Other liabilities	NIL	16,982	548	309	13,260	31,099
End of service benefits	NIL	-	-	-	2,689	2,689
Taxation	NIL	-	-	-	3,559	3,559
Total liabilities		416,038	118,856	16,458	417,199	968,551

Bank borrowings by the Parent Company bear interest at rates between 2.125% and 2.500% per annum. There are no other assets or liabilities of Parent Company which are exposed to interest rate risk.

	Average effective interest rate	Within 6 months	6 to 12 months	Over 1 year	Not exposed to interest rate risk	Total
		(R0'000)	(R0'000)	(R0'000)	(R0'000)	(R0'000)
Group - 2010						
Assets						
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
Total assets		321,705	117,525	358,431	184,174	981,835
Liabilities						
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
Total liabilities		320,165	74,766	12,882	411,394	819,207

Bank borrowings by the Parent Company bear interest at rates between 3% and 5% 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

	<u>Within 3 months</u>	<u>3 to 12 months</u>	<u>1 to 5 years</u>	<u>Over 5 years</u>	<u>Total</u>
	(R0'000)	(R0'000)	(R0'000)	(R0'000)	(R0'000)
Group -2011					
Assets					
Balances with banks and money at call	42,746	3,529	1,476	3,112	50,863
Certificates of deposit	100,000	-	-	-	100,000
Deposits with banks	57,549	-	-	500	58,049
Investment securities	20,457	13,191	16,075	-	49,723
Investments in associates	-	-	-	8,851	8,851
Loans and advances to customers	233,975	57,863	146,270	387,837	825,945
Other assets	17,309	6,477	1,033	611	25,430
Projects work in progress	-	-	5,539	3,067	8,606
Property and equipment	-	-	-	18,236	18,236
Total assets	472,036	81,060	170,393	422,214	1,145,703
Equity					
Capital and reserves attributable to the shareholders of the Parent Company	-	-	-	98,266	98,266
Non-controlling interests	-	-	-	78,886	78,886
Total equity	-	-	-	177,152	177,152
Liabilities					
Due to banks	22,303	-	-	-	22,303
Deposits from customers	408,427	248,178	103,818	148,478	908,901
Other liabilities	25,167	2,548	3,384	-	31,099
End of service benefits	-	-	2,689	-	2,689
Taxation	3,276	283	-	-	3,559
Total equity and liabilities	459,173	251,009	109,891	325,594	1,145,703

	<u>Within 3 months</u>	<u>3 to 12 months</u>	<u>1 to 5 years</u>	<u>Over 5 years</u>	<u>Total</u>
	(RO'000)	(RO'000)	(RO'000)	(RO'000)	(RO'000)
Group - 2010					
Assets					
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	-	-	4,741	2,079	6,820
Property and equipment	-	-	-	15,758	15,758
Total assets	395,670	122,240	146,507	317,418	981,835
Equity					
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
Liabilities					
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
Total equity and liabilities	521,141	220,692	77,374	162,628	981,835

	Within 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
	(RO'000)	(RO'000)	(RO'000)	(RO'000)	(RO'000)
Parent Company – 2011					
Assets					
Balances with banks and money at call	301	-	-	-	301
Investment securities	6,458	-	6,853	-	13,311
Investments in associates	-	-	-	3,482	3,482
Investments in subsidiaries	-	-	-	42,837	42,837
Due from subsidiaries	-	-	3,625	-	3,625
Other assets	185	-	-	-	185
Property and equipment	-	-	-	3,218	3,218
Total assets	6,944	-	10,478	49,537	66,959
Equity					
Capital and reserves	-	-	-	47,657	47,657
Total equity	-	-	-	47,657	47,657
Liabilities					
Due to banks	18,525	-	-	-	18,525
Other liabilities	467	-	-	-	467
End of service benefits	-	-	310	-	310
Total equity and liabilities	18,992	-	310	47,745	66,959

	<u>Within 3 months</u>	<u>3 to 12 months</u>	<u>1 to 5 years</u>	<u>Over 5 years</u>	<u>Total</u>
	(RO'000)	(RO'000)	(RO'000)	(RO'000)	(RO'000)
Parent Company – 2010					
Assets					
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
Total assets	8,372	-	7,627	42,348	58,347
Equity					
Capital and reserves	-	-	-	45,065	45,065
Total equity	-	-	-	45,065	45,065
Liabilities					
Due to banks	12,025	-	-	-	12,025
Other liabilities	972	-	-	-	972
End of service benefits	-	-	285	-	285
Total equity and liabilities	12,997	-	285	45,065	58,347

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:

	<u>Carrying value</u>	<u>Fair value</u>	<u>Difference</u>
	(RO'000)	(RO'000)	(RO'000)
Investments in associates (note 7(d))			
2011	8,851	9,138	287
2010	8,146	9,053	907

The fair value of the investments in associates is based on the closing bid prices on the Muscat Securities Market at the reporting 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	Fair value	Difference
	(RO'000)	(RO'000)	(RO'000)
Investments in associates (note 7(d))			
2011	3,482	9,061	5,579
2010	3,482	8,975	5,493

Investments in subsidiaries amounting to RO 42.8 million (2010 – RO 35.6 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 2011, 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:

	Level 1	Level 2	Level 3	Total
	(RO'000)	(RO'000)	(RO'000)	(RO'000)
As at 31 December 2011				
Financial assets at fair value through profit or loss	9,436	-	506	9,942
Financial assets held for trading	4,583	-	-	4,583
Available for sale investments	7,539	5,247	-	12,786
Derivative financial instruments				
Purchase contracts	-	321	-	321
Sale contracts	-	(301)	-	(301)
	Level 1	Level 2	Level 3	Total
	(RO'000)	(RO'000)	(RO'000)	(RO'000)
As at 31 December 2010				
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
Derivative financial instruments				
Purchase contracts	-	444	-	444
Sale contracts	-	(385)	-	(385)

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.

	<u>Group</u>		<u>Parent Company</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
	(R'O'000)	(R'O'000)	(R'O'000)	(R'O'000)
Profit for the year attributable to shareholders profit (R'O'000)	8,620	11,959	5,021	7,076
Weighted average number of shares outstanding during the year	253,000,000	230,000,000	253,000,000	230,000,000
Basic earnings per share(R0)	0.034	0.052	0.020	0.031

During the year, the Parent Company issued stock dividend of 23,000,000 shares (2010 – 20,000,000) without consideration related to the year 2010. 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 2010 and the 2010 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:

	<u>Group</u>		<u>Parent Company</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
	(R'O'000)	(R'O'000)	(R'O'000)	(R'O'000)
Net assets value attributable to shareholders profit (R'O'000)	98,266	92,625	47,657	45,065
Weighted average number of shares outstanding during the year	253,000,000	230,000,000	253,000,000	230,000,000
Net assets per share (R0)	0.388	0.403	0.188	0.196

35. COMPARATIVE AMOUNTS

Certain of the corresponding figures for 2010 have been reclassified in order to conform with the presentation for the current year.

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