البنك الوطني العماني
National Bank of Oman

ANNUAL REPORT 2010

At National Bank of Oman, we have embraced dynamic change across our operations while still remaining rooted in tradition. Our 2010 Annual Report reflects this approach to doing things differently and arriving at refreshing solutions for our customers.





2,000,000
Still to be won!!!
376
171
7

OMAN
OMAN
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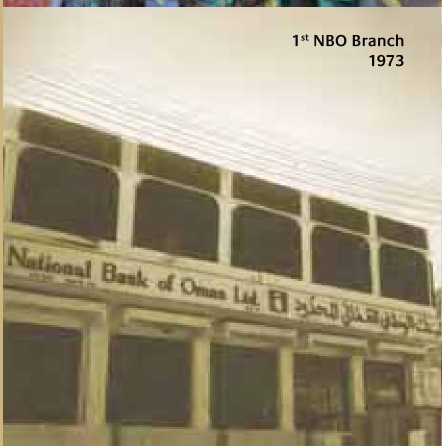
1st NBO Branch
1973
National Bank of Oman Ltd.







“Honourable members of the Council of Oman and dear citizens, our gathering in the city of Salalah today as we prepare to celebrate the 40th anniversary of the Renaissance has undeniable symbolic significance because it was from the Governorate of Dhofar that Oman’s modern Renaissance began and it was there that the first steps were taken towards the achievement of its hopes.

And here we are today, in this splendid land, celebrating the 40th anniversary of its progress, during the course of which its achievements in many fields are plain for all to see and have changed the face of life in Oman, enabling it to assume a position of eminence at both regional and international levels.

It was from here that we gave our first speech, during which we expressed our determination to work towards the creation of a modern state and to take the country forward in many different fields to the best of our ability. Since then we have embraced every means to enable us to achieve what we had promised.

Praise and thanks should be offered to God, the Most Sublime, the Almighty, for the fact that Oman has been able to realise much of what we had aspired towards. Everything that has been achieved within a precise balance between preserving the best elements of our heritage, in which we take pride, and the demands of the present day which require us to adapt to the spirit of the modern age — while at the same time corresponding to its civilization, modern science and technology and benefiting from the latest developments in the various spheres of public and private life.

Although the building of this modern state to which we aspired was achieved with God’s assistance, the road to achieving it — as you all know — was not easy and accessible. There were tremendous difficulties and many obstacles. However, thanks to God’s blessings, along with the diligent hard work and dedication by all sections of society — men and women — and for their absolute faith in God’s assistance and guidance, we overcame all the difficulties and obstacles.”

Excerpts from the Speech of **His Majesty Sultan Qaboos bin Said**
at The Opening of the Annual Session of The Majlis Oman,
4th October 2010.

His Majesty Sultan Qaboos bin Said

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Chairman's Report

To Our Esteemed Shareholders

Oman Economy

Oman experienced strong economic growth in 2010 with estimated nominal GDP increasing by around 5.1% supported by strong fiscal spending and the global recovery. The unprecedented volatility in global and regional financial markets has largely stabilized in 2010. Oman was one of the best performing economies in the region through this crisis. The high governance standards and the proactive measures taken by the Central Bank of Oman and the Capital Markets Authority ensured the stability and robustness of the banking sector and the stock markets.

Net spreads improved to 3.28% in 2010, up from 3.24% in 2009.

Recently the Government has announced the Eighth Five Year Plan (2011-2015), in which the total projected fiscal expenditure for the five year period is estimated at RO 42.71 billion. This expenditure will be directed towards developing infrastructure projects such as roads, airports, sea ports, dams and water supply facilities. The budget focuses on sustainable and broad based economic development which should act as an enabler for financial services. Development expenditure remains vital in ensuring continued credit flow to the economy and the local banking sector. Oil revenue, which is based on an average price of $59 per barrel during the Plan period, is reasonable in the current circumstances.

Financial Performance

The Bank achieved a net profit after tax of RO 27.2 million for the twelve months ended 31st December 2010 compared to RO 21.1 million for the same period in 2009, an increase of 29% over last year.

Net spreads improved to 3.28% in 2010, up from 3.24% in 2009 reflecting the Bank's strategy in mobilizing low cost funds which more than offset the effect of the drop in asset yields. Net interest income declined slightly by 2% to RO 55.6 million compared with the previous year.

Trade related activities and investment banking are key areas of growth in 2011, which will enable the Bank to significantly improve its non-interest income to total income ratio from the current level of 29%. The Bank continued to invest in its systems and customer delivery capability and as such, operating expenses increased by 14.7% to RO 39.9 million. The full benefit of these costs will be seen in 2011.

The net cost of credit during the period is lower than the same period last year by RO 14 million mainly due to the improving portfolio quality and consequently, lower provisioning requirements. Non-performing loans decreased to 3.5% at the end of December 2010 from 4.3% in 2009.

During the twelve months ended 31st December 2010, total net advances grew by only RO 2 million in view of certain major loan repayments, during the last quarter. Customer deposits grew by 5.1% during the year. The Bank successfully increased its low cost current and savings deposit base by RO 100 million, while reducing high cost term deposit by RO 36 million during the year.

The Board has recommended a cash dividend of RO 0.015 per share this year based on the dividend policy approved by the Board of Directors. The dividend payout of the Bank during the last five years is covered under the Corporate Governance report.

Capital

The regulatory capital of the Bank now stands at RO 286 million providing a Capital Adequacy Ratio of 15.5%, well above the Central Bank's minimum requirement of 12%.

Corporate Governance

In accordance with the directives of the Code of Corporate Governance promulgated by the Capital Market Authority, the Bank continues to include a separate report on its Corporate Governance duly certified by the statutory auditors within the Annual Report.

The Bank's commitment to Corporate Governance was recognized by receiving an award for the third year running by the Institute of Corporate Governance (Hawkamah) and the Union of Arab Banks (UAB). In winning this acclaimed award, the Bank was placed ahead of competition from 30 banking peers in 11 countries across the region.

At the Annual General Meeting, the Board of Directors will recommend for the Shareholders' approval, the re-appointment of Ernst & Young as the Statutory Auditors for the year 2011, in line with the directives of the Capital Market Authority. Changes to the composition of the Board and the changes in Senior Management during 2010, have been fully covered in the Corporate Governance report.

Corporate Social Responsibility (CSR)

Investing in the community is an integral part of the Bank's CSR strategy. This emanates from the strong belief that the Bank's business has to give back to the community in which it operates. The Bank's approach to corporate responsibility management over the recent years has helped raise its profile.

The Bank's CSR in the marketplace includes the DANA Ladies Credit Card which is committed to supporting the community. DANA is the first ladies' credit card in Oman. The Bank is committed to associating its product with corporate responsibility activities and donated 0.5% of all retail card-spend on this product, to charity in 2010.

The Bank signed an agreement with the Oman Football Association (OFA) Academy to sponsor its talent academy for a period of one year. The talent academy helps to train and groom Omani Youth into potential professional footballers.

The Bank has awarded funds to support the Ministry of Education summer "Saifi Alfdhal" program reaching out to 7,000 students from 8th to 11th Grade.

The Year Ahead

The Bank approaches 2011 with a degree of optimism that the global financial stability in the markets will be sustained, resulting in reasonable economic growth in the years ahead. The Bank believes that the planned government spending in 2011 will provide it with further business opportunities.

The Bank will continue to focus on leveraging its investment in its Retail Banking franchise, the Credit Cards business and the SME sector. The Wholesale and Investment Banking franchise of the Bank will continue to support domestic project financing and all related activity. A number of projects continue to be undertaken in conjunction with its strategic alliance partner, Commercial Bank, with the aim of driving efficiencies by sharing global best practices.

Appreciation

The members of the Board of Directors join me in acknowledging and thanking our valued customers, correspondent banks and shareholders, for the confidence they continue to maintain in the Bank.

We thank and express our appreciation to the Central Bank of Oman and the Capital Market Authority for their prudent supervision and guidance to our endeavors.

We thank the Bank's management and staff for their dedication and commitment.

Above all, we pay tribute to His Majesty, Sultan Qaboos bin Said, for his inspiring leadership and vision under whose wise guidance all of us in Oman, will assuredly remain on the path towards continued successful development.

Omar Al Fardan
Chairman

"For You. For Our Nation"

Board of Directors

Omar Hussain Al Fardan, Chairman

Chairman of the Board of Directors, National Bank of Oman and Chairman of the Executive Committee of the Board. Board Member of The Commercial Bank of Qatar (Q.S.C.) and Vice Chairman of United Arab Bank, Sharjah. He is also the Chairman of Qatar District Cooling Co. Q.C.S.C., Qatar; Vice Chairman of Middle East Dredging Co. Q.S.C., Qatar; President of Resorts Development Company, Qatar; President of Al Fardan Group Holding Co. S.O.C., Qatar and Director of its subsidiaries; Director of United Development Company P.S.C., Qatar; Director of Qatar Red Crescent Society and Trustee of the American University Beirut.

Omar Al Fardan holds a B.A. in Business Administration and a Masters in Finance from Webster University, Geneva.

Sayyidah Rawan Al Said, Deputy Chairperson

Director since April 2005. Chairperson of the Audit Committee and Member of the Executive Committee of the Board. Board Member in Oman Oil Marketing Co. SAOG and National Investment Funds Company (NIFCO)SOAC, Oman Orix Leasing Company SAOG, Royal & Sun Alliance & Oman Investment Corporation. Managing Director & Group CE of Oman National Investment Corporation Holding (ONICH) SAOG. Sayyidah Rawan has a Masters Degree in Economics and Finance, Loughborough University UK.

Post Graduate Diploma in Investment Analysis & B.A. – Major Economics & Minor Political Science, American University, Cairo.

Sheikh Abdullah bin Ali bin Jabor Al Thani, Director

Director since July 2005. Member of the Risk, Credit and Donation Committees of the Board. Deputy Chairman of The Commercial Bank of Qatar (Q.S.C.) and Director of United Arab Bank, Sharjah.

Sheikh Adullah Bin Ali Bin Jabor Al Thani holds a BA in Social Science from Qatar University.

Anil Kumar Nahar, Director

Director since November 2003. Member of the Audit Committee of the Board. Director of AES Barka SAOG., Oman Dental College (SAOG), Al Suwadi Power Co. SAOC and Sharqiyah Desalination Co. SAOC. Chief Financial Officer, Bahwan Engineering Company, which is part of the Suhail Bahwan Group (Holding) LLC.

Anil holds a Bachelor of Commerce from Vikram University, India.

Imad Kamal Sultan, Director

Director since June 2004. Chairman of the Credit Committee, and Member of the Risk Committee of the Board. Director of W.J. Towell & CO (L.L.C.), Matrah Cold Stores L.L.C., Towell Auto Centre LLC, Nestle Oman Trading LLC; Agility Logistics (Global Logistics) LLC., GENETCO, Director - Oman India Joint Committee, Director – National Hospitality Institute.

Imad holds a Bachelor of Science in Business Administration & Degree in Marketing from American University, Washington DC, USA.

Andrew Charles Stevens, Director

Director since July 2005. Member of the Executive and Credit Committees of the Board. Group Chief Executive Officer, The Commercial Bank of Qatar (Q.S.C.); Director of United Arab Bank, Sharjah; Chairman of Orient 1 Limited and Director of Q.I.C.I. Limited.

Andrew Stevens graduated from Birmingham University, England with a B.Com (Hons) in Banking and Finance.

Hugh Edward Thompson, Director

Director since July 2005. Member of the Audit and Risk Committees of the Board. EGM and Group Chief Legal and Corporate Affairs Officer, The Commercial Bank of Qatar (Q.S.C.); Director of United Arab Bank, Sharjah; Orient 1 Limited and CBQ Finance Limited and Deputy Chairman of Diners Club Services, Egypt.

Hugh Thompson graduated from Oxford University (M.A. Hons) with a degree in Law and is a qualified English Solicitor.

Dr. Younis Khalfan Al Akhzami, Director

Director since April 2006. Member of the Executive Committee, Audit Committee and Donation Committee of the Board. Director General, Planning and Development in the Ministry of Manpower. Dr. Younis holds a Ph.D in Geographical Information system from University of Leicester, UK M. Sc in Information System Management from University of North Carolina, USA.

He also has a B.Sc degree in Fisheries Technology from Sultan Qaboos University, Oman.

Saleh Nasser Abood Al Habsi, Director

Director since March 2008. Chairman of Risk Committee and Member of the Credit Committee of the Board. Chairman of Muscat Fund JIA, Deputy Chairman of Al Jazeera Steel Products SAOG. Director of Al Omaniya Financial Services SAOG.

Al Habsi holds a Bachelors Degree in Arts, as well as a Bachelors Degree in Science. He also holds a double Masters Degree in Science and in Business Administration. Currently, he is the General Manager of the Ministry of Defence Pension Fund.

Saif Said Salim Al Yazidi, Director

Director since March 2008. Member of the Audit Committee, Risk Committee and Donation Committee of the Board. Member of the Board of Oman International Development and Investment Company, Muscat Gases Company, Oryx Investment Fund, and Investment Stabilization Fund.

Al Yazidi holds a Bachelors Degree in Management Sciences, Accounting and a Masters in Business Administration (MBA). He is the Director of Investment at The Civil Service Employees Pension Fund.

Suresh M. Shivdasani, Director

Director since June 2010. Member of the Risk Committee and Donation Committee of the Board. Mr. Shivdasani is the Managing Director, Sohar International Urea and Chemical Industries S.A.O.C. and Advisor to the Chairman, Suhail Bahwan Group.

Suresh Shivdasani holds a B.Tech degree in Electrical Engineering from the Indian Institute of Technology (IIT) Delhi- India, and an MBA degree from McMaster University Canada.

Salaam Said Al Shaksy
Chief Executive Officer

Khalfan Abdullah Al Aufi
Chief Operating Officer

David Power
Chief Retail Banking Officer

Nasser Said Al Bahantah
Chief Human Resources Officer

Nasser Salim Al Rashdi
Chief Internal Auditor

Management Team

Taqi Ali Sultan
Chief Corporate Affairs and Communication Officer

Humayun Kabir
Chief Wholesale Banking Officer

Simon Gibbons
Chief Financial Officer

Stephen Clayton
Chief Risk Officer

Hassan Abdul Amir Shaban
Chief Marketing Officer

Senior Management

- **Baqer Taqi Al Lawati**
  Deputy General Manager
  Head of Financial Institutions
- **Sayyid Wasfi Jamshid Al Said**
  Deputy General Manager
  Head of Investment Banking
- **Mansoor Darwish Al Raisi**
  Deputy General Manager
  Head of Compliance
- **Asif Redha Sabar Hussein**
  Assistant General Manager
  Head of Shared Services Project
- **Manjit Wadhwa**
  Assistant General Manager
  Head of Global Treasury
- **Abdul Karim Zahran Al Hinai**
  Assistant General Manager
  Head of Information Technology
- **Nasser Masoud Al Jahadhmy**
  Assistant General Manager
  Head of Mid Corporates and SME
- **Salma Salim Said Al Jaaidi**
  Assistant General Manager
  Head of Corporate Credit Risk
- **Nasser Al Hajri**
  Assistant General Manager
  Head of Projects, Procurement & Facility Management
- **Abdul Qadir Al Sumali**
  Assistant General Manager
  Head of Branch Sales
- **Thiagarajan Nachiappan**
  Assistant General Manager
  Head – Corporate Banking, IT and Operations Audit
- **Mustafa Ali Al Hemeid**
  Head – Legal
- **Masoud Khalfan Al Ghazi**
  Head – E-Channels, Call Center & Service Quality
- **Moosa Masoud Al Jadidi**
  Head of Wealth Management
- **Jamal Salim Al Waily**
  Head – Remedial Management
- **Balasubramaniam Venkateshwaran**
  Financial Controller
- **Fadellalah Sulaiman Hamed**
  Company Secretary
- **Ehab Hashish**
  Country Manager – Egypt
- **Santanu Kumar Das**
  Country Manager – UAE

Achievements





1. First Woman AGM in NBO
2. First Omani CEO in NBO
3. NBO is the only Omani Bank to win at Banker M. E. Product Awards 2010
4. NBO announces appointment of Al Harthy as Brand Ambassador
5. Dana – Oman's first Credit Card for Women
6. NBO awarded 2010 Distinguished Corporate Governance Award from Hawkamah for 3rd consecutive year!
7. NBO 'Sadara' Wealth Management awarded ISO 9001:2008 certification
8. NBO 'Young High Potential' Program
9. NBO Al Kanz Mega Prize Draw for RO 1 Million! Four Lucky winners of RO 250,000 announced!

First Woman AGM in NBO

The Bank appointed Ms. Salma Salim Said Al Jaadi as the 'First Woman Assistant General Manager' (AGM) in the history of the Bank, in January 2010.

Salma Salim Said Al Jaaidi, NBO's Head of Corporate Risk, was promoted to the position of Assistant General Manager – Corporate Credit Risk, reporting to NBO's Chief Risk Officer. Her promotion was a result of her talent, leadership skills, knowledge and experience she acquired.

Salma joined the Bank in September 2003, prior to which she was the Deputy Chief Credit Officer at Majan International Bank from May 2000 to August 2003. She also served in Standard Chartered Bank for 15 years, in several senior positions in Corporate Banking.

Salma has over 24 years of experience in the banking industry and is an extremely competent, hard working and dedicated employee of National Bank of Oman.

Her all-round professional skills were further enhanced by her recent completion of her Masters in Business Administration, from Hull University, U.K., where she obtained a distinction for her dissertation.

NBO is indeed very proud to have Salma Al Jaadi as the Bank's first woman AGM. Salma is a professional in the true sense and an ideal role model for NBO employees and Omani women. She showed that hard work and perseverance always holds one in good stead.

The Bank believes in acknowledging talented Omani staff and Salma's promotion was yet another example of the Bank's commitment to recognising and rewarding leaders.

First Omani CEO in the history of NBO!

The Board of Directors announced the appointment of Salaam Said Al Shaksy as its first Omani Chief Executive Officer, on 17 March 2010.

It is indeed a matter of pride and privilege for NBO senior management and employees, after 37 years of inception, to have on board, the first Omani to head the Bank as CEO.

Salaam Al Shaksy, returned to NBO after initially joining in 1994 as Assistant General Manager and has since been involved in the banking industry, in various leadership positions.

Salaam Said Al Shaksy
First Omani CEO of the Bank

Al Shaksy's career within the banking industry began in 1992 when he joined Citibank Global Consumer Business, Dubai. As his career progressed, he moved to NBO. In NBO, he continued to expand his experience and knowledge of the industry whilst working in senior positions as Assistant General Manager - Retail Banking, and prior to his departure, as Deputy General Manager covering Retail Banking, Investment Banking and Correspondent Banking.

In 2000, Al Shaksy joined Majan International Bank as General Manager. He successfully managed the merger between Majan International Bank and Bank Dhofar which consequently led to his new position as Deputy Chief Executive Officer, Bank Dhofar.

Prior to rejoining NBO, Salaam worked in Dubai, as Chief Executive Officer of Dubai Islamic Investment Group and later between June 2008 and March 2010 as Chief Executive Officer, Dubai Banking Group and Dubai Bank.

His significant credentials include a B. A. Degree, Cum Laude from Boston University, a Master of Science, Honours in Management Information Systems, and an MBA, High Honours. He was named 'Best Banker of the Year' by The Islamic Business & Finance Award 2008, Dubai.

In his capacity as NBO's Chief Executive Officer, Al Shaksy leads, directs and manages NBO's strategic directions to grow and transform the Bank while focusing on innovative business goals.

NBO the only Omani Bank to win at Banker M. E. Product Awards 2010

National Bank of Oman was awarded the Banker Middle East – Products Award 2010 in the "Best Current Account" category. NBO's "Current Account" was selected as the best from among several nominees shortlisted by Banker Middle East, from entries received from financial institutions across the Middle East region.

The Banker Middle East Product Awards recognized banking products and services within the Arab region that are either exceptionally innovative or have generated excellent financial results and/or transference of market share, particularly during times of economic hardship.

This is the second Banker Middle East Products Award that NBO won, having also won the " Best Mortgage Product Award 2008 ", for Al Manzel – NBO's Housing Loan.

NBO's Current Account facility provides customers with the facilities to transact promptly and efficiently. From multiple currency accounts to anywhere banking, NBO's current account makes banking easy, efficient and effective. Customer needs are a priority in order to develop services that are specifically made to meet their financial requirements, and this award is an important acknowledgment of the Bank's excellence in the area.

Ahmad Al Harthy appointed as the Bank's Brand Ambassador!

The Bank appointed Ahmad Said Al Harthy, as the Bank's Brand Ambassador in May 2010.

The Bank believes it is very important to promote, support and encourage talented young Omani nationals, including those who are responsible for placing Oman on the international map.

Not only is NBO providing vital support for a true homegrown talent, the confirmation of Ahmad's ambassadorial role for the Bank also helped to promote two very vital and shared key focus areas – responsible banking and road safety.

Racing in the highly professional Porsche Carrera Cup GB Championship, Ahmad is flying the Omani flag superbly for his nation, as the first Arab to ever compete in the globally renowned UK-based category. Since debuting in the Championship since March 2010, the young Omani sportsman has achieved two podium results and in 2010 was fourth in the Pro-Am 1 Class driver standings.

The Bank is very pleased to be supporting such a strong national talent. NBO always strives to provide its customers with the very best products and services in the market. NBO's Brand Ambassador continues this trend and adds significant support and value to the Bank's ongoing initiatives, which keep customers at the center of everything the Bank does, ensuring at all times that they remain delighted at every interaction they have with the Bank.

He also helps promote corporate activities in a unique and exciting manner.

‘DANA’ – Oman’s first Credit Card for Women

National Bank of Oman (NBO) was proud to be the first Bank in the Sultanate, to launch a credit card programme specifically designed for women, in May 2010.

In keeping with His Majesty Sultan Qaboos bin Said’s vision of encouraging and supporting Omani Women and in celebration of International Womens’ Day on 8th March 2010, NBO was delighted to announce the launch of the exclusive Card.

After a significant amount of research the product was named 'DANA', as a tribute to all the women of Oman. Women account for just over fifty percent of the population of Oman and are a significant contributor to society. Pearls have always been viewed as extremely precious due to their luster, deep colour and innate beauty, which for us at NBO symbolises the true essence of a woman, hence the reason for us adopting the name DANA.

Research showed that there was a growing need within this segment of the population to further enhance their identities. It is for this and many other reasons, that the Bank chose to support women, in a far more aggressive way than ever before.

Additionally, for the first time, in keeping with the Bank's corporate citizenship initiatives, the Bank also committed to associating the product with social responsibility activities.

The DANA Card is available in two variants - Classic and Platinum. Both variants come with a number of unique features such as exclusive privileges at key retail establishments in Oman which will include spas, beauty salons, exciting lifestyle offers together with a number of exclusive dining offers. The key difference between the two variants is that a Platinum Card member will earn 2 'Pearl Points' on all spends while a Classic Cardmember will earn 1 'Pearl Point' on all spends. The Card will be Free for Life and can be applied for by all women who have a salary account with NBO. For those women who do not have a salary account with NBO, they too can apply for the Card by opening an Al Kanz savings account.

NBO at all times, ensures that it lends responsibly and at the same time encourages all clients to use all its lending products in a prudent and responsible manner. This point is further supported in the fact that the cash advance facility on the DANA Card is limited to a maximum of 20% of the total agreed limit.

A further exciting development was that for every Rial, the Cardmember spent on their DANA Card, NBO contributed a specific percentage agreed, to the charity identified by the Bank for that year. For the year 2010, NBO supported the National Association for Cancer Awareness (NACA).

Additionally, the Bank also continues to support other charities in Oman, as an integral part of its corporate citizenship strategy. DANA's social responsibility feature is an example of the Banks' commitment to society.

NBO awarded “2010 Distinguished Corporate Governance Award”

2010 Distinguished Corporate Governance Award

National Bank of Oman (NBO) was delighted to be awarded, the 2010 Distinguished Corporate Governance Award, for the 3rd year in a row, from the Institute of Corporate Governance (Hawkamah) and the Union of Arab Banks (UAB), in November 2010.

Launched in 2007 by Hawkamah and UAB, the Regional Bank Corporate Governance Awards, seek to identify and honour banks across the Middle East and North Africa that show leadership and initiative in enhancing good corporate governance.

The Awards, have today, become a prestigious, competitive and highly-coveted bank award that highlights the industry's strong commitment to good corporate governance.

National Bank of Oman (NBO) was delighted to be awarded, the 2010 Distinguished Corporate Governance Award, for the 3rd year in a row, from the Institute of Corporate Governance (Hawkamah) and the Union of Arab Banks (UAB), in November 2010.

Salaam Said Al Shaksy, NBO's Chief Executive Officer, received the award on behalf of the Bank, at the awards ceremony that was held in Muscat.

NBO's governance practices continue to be regularly upgraded to meet Shareholder requirements and current industry trends. NBO's Board of Directors and Executive Management are committed to a long term strategy that focuses on continuous improvement at all levels, showing great commitment to creating lasting value for the Bank's Stakeholders. This award for the Bank's top ranking in governance further validated the Bank's efforts.

NBO 'Sadara' Wealth Management awarded ISO 9001:2008 certification

National Bank of Oman (NBO) achieved a major milestone in November 2010. NBO 'Sadara' Wealth Management attained the Quality Management Accreditation ISO 9001:2008 certificate.

NBO is proud to be the first Bank in the Gulf Region to get this accreditation for its Priority Banking Service – ' Sadara'. The ISO Certificate reflects NBO's aim to excel in customer satisfaction and reach out in a more professional manner benchmarking to international standards.

The process commenced with NBO appointing URS representative in Oman - Al Jadarah Business Consultants L.L.C, a team of committed and experienced professionals in management consultancy and training services.

Post implementation and compliance with the process, NBO 'Sadara' was formally audited by an external auditor with a Bank Specialist from United Registrar of Systems Ltd (URS) who is a member of Registrar of Standards (Holdings) Ltd. (ROS).

URS is an Independent UK based, third party certification body offering services in the field of management system certifications, inspection, compliance auditing and trainings. They have a presence across the globe in more than 50 countries.

The Quality Management Accreditation ISO 9001:2008 certificate was awarded to Mr David Power, NBO's General Manager – Retail Banking, by Mr Aqeel Hashmani, Director, Al Jadarah Business Consultants L.L.C.

With a number of firsts to its credit, NBO has clearly established itself as the leader in Oman's technology sector. The Bank is proud to have taken the lead once again by becoming the first bank in the Gulf Region to get this accreditation for its Priority Banking Services. Yet another initiative from NBO fulfilling its commitment to provide value-added offerings for the convenience of its customers.

NBO 'Young High Potential' Program

National Bank of Oman (NBO) is committed to staff development, an ongoing process, which ensures that staff are continuously trained to hone their skills and take up challenges.

In keeping with the Bank's strategy to develop talented staff, the 'NBO Young High Potential' (YHP) Program was launched in December 2010, by NBO's CEO Mr Salaam Said Al Shaksy, as part of the NBO Talent Management strategy, whereby young high potential staff are selected and placed on a fast track path. This is to enable them to develop the required competencies to prepare them for future potential leadership positions in the Bank.

The selection process consisted of setting up an Assessment Center followed by a Development Center.

The Assessment Center is designed to minimise as many forms of subjectivity and bias as possible, to ensure that each participant is given equal opportunity to demonstrate ability across a range of competencies.

The Development Center helps YHP Staff to acquire necessary behavioral, managerial and functional competencies that can prepare them to take up the leadership positions in the Bank.

Speaking on the occasion, CEO Al Shaksy congratulated the selected staff and said: "I encourage and urge each of you to seriously take full advantage of this privilege, enhance your knowledge and thereby contribute to the growth and development of the Bank". He also assured his complete support to the program.

The Bank is committed to ensuring that the highest levels of growth are achieved and also intends on running the assessment on an annual basis, to ensure the pipeline of young high potentials is always full.

NBO Al Kanz Mega Prize Draw for RO 1 Million!

NBO Al Kanz Mega Prize Draw for RO 1 Million!

4 Lucky winners of RO 250,000 announced!

National Bank of Oman (NBO) held its December 2010 Al Kanz Mega Prize Draw for RO 1 Million, at the Palm Gardens, InterContinental Hotel Muscat.

The exciting and interesting evening was well attended by over 200 hundred guests including NBO customers, NBO Board of Directors, CEO Salaam Said Al Shaksy, along with other Senior Management Members and Staff.

Guests enjoyed the unique evening organised in traditional Omani style. On arrival, young girls dressed in beautiful Omani outfits, welcomed guests with Bukhoor and Rosewater.

The highlight of the evening was the Al Kanz Mega Draw for RO 1 Million. All guests eagerly waited to witness the draw proceedings, which declared the four lucky winners of RO 250,000 each.

The Mega Draw, as always, was electronically conducted, with a 'click-of-the-mouse', which then flashed the name of the winners on the screen, in the presence of global audit firm - Price Waterhouse Coopers.

The lucky winners of NBO's Al Kanz Mega Prize Draw for RO 1 million (four winners of RO 250,000 each) include Nasser Ali Mohammed, from NBO's Al Kamil Branch, Mohammed Saleh Abdullah, from Sohar Industrial Area Branch, Sheikha Mubarak Musabah, from Ibri Branch and customer (name withheld on request) from CBD Branch.

The evening also included an Omani Fashion Show, in which local Omani models showcased traditional Omani dresses representing the different regions in the Sultanate. In addition, the highlights of the NBO Al Kanz 2011 Scheme were also unveiled in a unique manner, during the fashion show.

The NBO Al Kanz Scheme 2009 and 2010 was an astounding success and it created a buzz all over the Sultanate. Customers are enthused beyond belief and this encouraged the Bank to continue to offer customers opportunities to win big prizes in a very short period.

ERNST & YOUNG

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C.R. No. 1/36809/5
P. R. No. MH/4

Report of Factual Findings on the corporate governance reporting of National Bank of Oman SAOG and its application of the corporate governance practices in accordance with the CMA code of corporate governance

TO THE SHAREHOLDERS OF NATIONAL BANK OF OMAN 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 National Bank of Oman SAOG (the bank) 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 bank's compliance with the code as issued by the CMA.

We report our findings below:

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

Because the above procedures do not constitute either an audit or a review made in accordance with International Standards on Auditing 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 National Bank of Oman SAOG to be included in its annual report for the year ended 31 December 2010 and does not extend to any financial statements of National Bank of Oman SAOG, taken as a whole.

Ernst & Young

31 January 2011
Muscat

Philip Stanton
Partner

Corporate Governance Report

Corporate Governance deals with the way companies are managed and led, defines the roles of the Directors and formalizes the internal control process within the institution.

The Board of Directors of National Bank of Oman (the Bank) supports the fostering of a healthy governance culture at the Bank. Accordingly, the Board and its Committees continuously evaluate and improve their governance practices, policies and procedures and confirm that the Bank applies the principles set out in the Capital Market Authority (the CMA) Code of Corporate Governance (the Code) as amended for MSM Listed Companies and the regulations for Corporate Governance of Banking and Financial Institutions issued by the Central Bank of Oman.

There are no penalties or strictures imposed on the Bank by MSM/CMA/CBO or any statutory authority, on any matter related to capital markets during the last three years.

In recognition of the best practices and corporate governance measures applied by it, the National Bank of Oman has crowned its achievements in 2010 by winning the highly acclaimed award, the "Regional 2010 Bank Corporate Governance Award" during a competition recently organized by the Institute of Corporate Governance (Hawkama) and the Union of

National Bank of Oman has crowned its achievements in 2010 by winning the highly acclaimed award, the "Regional 2010 Bank Corporate Governance Award" during a competition recently organized by the Institute of Corporate Governance (Hawkamah) and the Union of Arab Banks (UAB) in Muscat,

Arab Banks (UAB) in Muscat, Sultanate of Oman. In winning this acclaimed award, NBO was placed ahead of competition from 30 banking peers in 11 countries across the region.

In accordance with the directives of the Code of Corporate Governance promulgated by the Capital Market Authority, we continue to include a separate report on the Bank's Corporate Governance duly certified by the statutory auditors within the Annual Report.

Board of Directors

The Board of Directors is responsible for the overall direction, supervision and control of the Bank. Specific responsibilities of the Board include laying down and approving the business objectives of the Bank, approving strategies and policies which need to be pursued in order to achieve these objectives, and reviewing on an on-going basis the performance of the Bank in relation to its stated objectives as well as adherence to policies.

Appointment of Directors

The Board is comprised of 11 members; 9 of them were elected by the shareholders at the Bank's Annual General Meeting held on 23rd March 2008 for a period of three years. In addition a Board Member was also elected by the shareholders at the Bank's Annual General Meeting held on 28th March 2010. However consequent to a juristic person decision to replace his representative in the Board, the members of the Board appointed a temporary director to complete the term of his predecessor. The current term of all the Directors expires in March 2011.

Process of Nomination of the Directors

The nomination of the Directors is as per Articles 29 to 34 of the Bank's Article of Association.

The Board reviews the appropriate skills and characters required of the Board Members and recommends suitable names for the shareholders for election. Shareholders retain the power to elect any candidate to the Board irrespective of whether this candidate is recommended by the Board or otherwise.

Characteristics and Core Competency of the Board

Members of the Board and its committees bring appropriate knowledge and experience as well as independent judgment to Board meetings and resolutions. The Board collectively possesses professional knowledge, business expertise, industry knowledge and financial awareness to carry out its oversight responsibilities over the executive and senior management of the Bank.

Information given to the Board

The Directors are given appropriate and timely information so that they can maintain full and effective control over strategic, financial, operation, compliance and governance issues. The information provided to the Board is as per the guidelines provided in the Code.

On appointment, each Director receives information about the Bank and is advised of the legal, regulatory and other obligations devolving upon a Director of listed companies.

Composition of the Board

No Director is a member of the Board of more than four public joint stock companies or banks whose principal place of business is in the Sultanate of Oman, or is a Chairman of more than two such companies.

The following tables show the position of each of the current Board Members in line with the Code's requirements:

Table 1

Name of the Directors	Representing	Category of the Director*
Mr. Omar Hussain Al Fardan – Chairman	Himself	NEX-NIND
Sayyidah Rawan Ahmed Al Said – Deputy Chairperson	Herself	NEX-IND
Mr. Anil Kumar Nahar	Himself	NEX-IND
Mr. Imad Kamal Sultan	Abna Sultan Trading & Co. L.L.C Equity Investor	NEX-IND
Sheikh Abdullah Ali Al Thani	The Commercial Bank of Qatar Equity Investor	NEX-NIND
Mr. Andrew Charles Stevens	Himself	NEX-NIND
Mr. Hugh Edward Thompson	Himself	NEX-NIND
Dr. Younis Khalfan Al Akhzami	Public Authority for Social Insurance Equity Investor	NEX–IND
Mr. Saleh Nasser Al Habsi	Ministry of Defense Pension Fund Equity Investor	NEX-IND
Mr. Saif Said Al Yazidi	Himself	NEX-IND
Mr. Suresh M Shivdasani	Suhail Bahwan Group (Holding)	NEX- IND

*NEX: Non-Executive Director, IND: Independent, NIND: Non Independent

Table 2

Name of the Directors	Other Board Committees Membership*	No. of other S.A.O.G. Boards	No. of Board Meetings attended	Attended last AGM on 28th March 2010 (Yes/ No/NA)
Mr. Omar Hussain Al Fardan – Chairman	EXCOB	Nil	5	Yes
Sayyidah Rawan Ahmed Al Said- Deputy Chairperson	EXCOB, BAC	3	5	Yes
Mr. Anil Kumar Nahar	BAC	1	5	Yes
Mr. Imad Kamal Sultan	CCB, BRC	1	4	Yes
Sheikh Abdullah Ali Al Thani	CCB, BRC, DCB	Nil	3	Yes
Mr. Andrew Charles Stevens	EXCOB, CCB	Nil	4	Yes
Mr. Hugh Edward Thompson	BAC, BRC	Nil	5	Yes
Dr Younis Khalfan Al Akhzami	BAC, EXCOB, DCB	Nil	4	Yes
Mr. Saleh Nasser Al Habsi	BRC, CCB	2	5	Yes
Mr. Saif Said Al Yazidi	BAC, BRC, DCB	3	5	Yes
Mr. Suresh M Shivdasani	BRC, DCB	Nil	2	NA
Sheikh Ahmed Suhail Salim Bahwan	EXCOB, BRC, DCB	1	3	Yes

*BAC: Board Audit Committee, CCB: Credit Committee of the Board, BRC: Board Risk Committee, EXCOB: Executive Committee of the Board, DCB: Donation Committee of the Board.

Number and Dates of Board Meetings

National Bank of Oman held 5 Board meetings during 2010. They were on 26th January, 28th March, 26th May, 26th August and 14th December 2010. The maximum interval between two meetings was 108 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.

Remuneration to Board and Top Management

The sum of the benefits (e.g. salaries, perquisites, bonuses, gratuity, pension, etc.) paid to the top senior managers of the Bank in 2010 is RO 883,287.

Staff service contracts are 2 years for expatriate officers and determined by the prevailing labour laws for Omanis. The notice period is between 2 and 4 months.

As all members of the Board are Non-executive Directors, accordingly no fixed remuneration or performance linked incentive are applicable. The Non-executive Directors are paid sitting fees and reimbursement of expense for attending the Board and committee meetings. In addition to the sitting fees paid, the total remuneration for 2010 of the Directors is RO 139,833.335 subject to the Annual General Meeting approval proposed to be held on 22nd March 2011.

The details of the sitting fees paid or accrued for payment during 2010 are as follows:

Table 3

Name of the Directors	Total fees (RO)	Remarks
Mr. Omar Hussain Al Fardan- Chairman	3,700.000	
Sayyidah Rawan Ahmed Al Said – Deputy Chairperson	6,783.333	
Mr. Anil Kumar Nahar	5,383.333	
Mr. Imad Kamal Sultan	7,400.000	
Sheikh Abdullah Ali Al Thani	5,016.666	
Mr. Andrew Charles Stevens	8,200.000	
Mr. Hugh Edward Thompson	5,383.333	
Dr Younis Khalfan Al Akhzami	3,800.000	
Mr. Saleh Nasser Al Habsi	7,700.000	
Mr. Saif Said Al Yazidi	3,500.000	
Sheikh Ahmed Suhail Salim Bahwan – Ex Deputy Chairman	2,100.000	Resigned on 26th May 2010
Mr. Suresh M Shivdasani	1,200.000	Appointed on 26th May 2010
Total	**60,166.665**	

The total hotel and travel expenses related to the Board Members during 2010 is RO 32,537.

Board Committees

As at December 2010, The Board of Directors has five standing committees, the Credit Committee, the Audit Committee, the Risk Committee, the Executive Committee and the Donation Committee.

Audit Committee of the Board:

The Audit Committee comprises four independent members and 1 non-independent member. The Committee has met six times in 2010.

The composition of the Audit Committee and particulars of meetings attended by the members of the Audit Committee are given in the table below:

Table 4

		Number of Meetings in the year 2009	
Name	Position	Held	Attended
Sayyidah Rawan Al Said	Chairperson – Independent	6	6
Mr. Anil Kumar Nahar	Member - Independent	6	6
Mr. Hugh Edward Thompson	Member - Non Independent	6	4
Dr. Younis Al Akhzami	Member - Independent	6	4
Mr. Saif Said Al Yazidi	Member - Independent	6	3

The Audit Committee Charter which specifies the responsibility and authority of the Board Audit Committee is approved by the Board, annually.

The responsibilities of the Committee as specified in this Audit Committee Charter include:

- Assisting the Board in discharging its statutory/oversight responsibilities on financial and accounting matters.
- Overseeing the financial reporting process on behalf of the Board including review of the annual and quarterly financial statements and to recommend such statements for approval of the Board. To review qualifications if any, in the draft financial statements and discussion of the accounting principles;
- Reviewing the audit plans and reports of the external auditors and internal auditors and considering the effectiveness of the actions taken by management on the auditors' recommendations;
- Appraising and reporting to the Board on the audits undertaken by the external auditors and internal auditors, the adequacy of disclosure of information, and the appropriateness and quality of the system of management and internal controls;
- Reviewing the independence (particularly with reference to any other non-audit services), fee and terms of engagement of the Bank's external auditor and recommending their selection to the Board for putting before Annual General Meeting for appointment.
- Reviewing and approving the Audit Division Charter annually, which describes the independence, authority, scope, responsibility and standards of the Internal Audit function. Directing and supervising the activities of the Internal Audit function.

Credit Committee of the Board (CCB):

The Credit Committee comprises of 4 members and met 7 times during 2010. The names of the members, their positions and their meetings and attendance appear in the table below:

Table 5

Name	Position	Meetings attended	Remarks
Mr. Imad Kamal Sultan	Chairman	7	
Sayyidah Rawan Ahmed Al Said	Member	2	Resigned on 26th May 2010
Mr. Anil Kumar Nahar	Member	2	Resigned on 26th May 2010
Mr. Andrew Charles Stevens	Member	6	
Mr. Saleh Nasser Al Habsi	Member	5	
Mr. Hugh Edward Thompson	Member	2	Resigned on 26th May 2010
Sh. Abdullah Bin Ali Bin Jabor Al Thani	Member	3	Appointed on 26th May 2010

The CCB's main responsibilities are:

- To approve transactions up to the maximum legal limits of the Bank including underwriting exposures and sell down targets.
- Review reports of risk assets covering bank wide portfolio trends including higher risk assets, exposures as well as the other reports at least every quarter.
- Review management of recovery strategies of problem loans and adequacy of provisioning.

Risk Committee of the Board:

The Risk Committee of the Board comprises of six members and met four times during the year 2010. The major responsibilities of the Committee include risk identification and review, risk policy, risk limits and risk management and monitoring. The names of the members appear in the table below:

Table 6

Name	Position	Meetings Attended	Remarks
Mr. Saleh Nasser Al Habsi	Chairman	3	
Mr. Hugh Edward Thompson	Member	4	
Mr. Imad Kamal Sultan	Member	4	
Mr. Saif Said Al Yazidi	Member	4	
Sh. Abdullah Ali Al Thani	Member	3	
Mr. Suresh M Shivdasani	Member	1	Appointed on 26th May 2010
Sh. Ahmed Suhail Bahwan	Member	1	Resigned on 26th May 2010

Executive Committee of the Board (EXCOB)

The Executive Committee of the Board comprises of four members and met five times during the year. The names of the members and their positions are as set out in the table below:

Table 7

Name	Position	Meetings Attended	Remarks
Mr. Omar Hussain Al Fardan	Chairman	5	
Sayyidah Rawan Ahmed Al Said	Member	5	
Mr. Andrew Charles Stevens	Member	5	
Dr. Younis Khalfan Al Akhzami	Member	3	
Sh. Ahmed Suhail Bahwan	Member	1	Resigned on 26th May 2010

The main responsibilities of the EXCOB are stated below:

- To recommend for Board approval strategies and policies to be pursued by the Bank.
- To review and recommend to the Board, all policies relating to the Bank's organization and operations including all necessary authorities required by Executive Management in the execution of their responsibilities.
- Appointment and movement of key executives in the Bank.
- To review and approve major changes in the Bank's organizational structure at the level of Divisional Heads and above.
- Shall oversee the performance and implementation of any property-related projects.

Donation Committee of the Board

The Board of Directors, in order to enhance the activities related to the social responsibility, resolved to establish a Donation Committee to handle functions stated in its terms of reference. The Committee comprises of four members and met once in the year 2010.

The names of the members and their positions are as set out in the table below:

Table (8)

Name	Position	Meetings Attended	Remarks
Sh. Abdullah Ali Al Thani	Member	1	
Mr. Saif Said Al Yazidi	Member	0	
Dr. Younis Khalfan Al Akhzami	Member	1	
Mr. Suresh M Shivdasani	Member	0	Appointed on 26th May 2010
Sh. Ahmed Suhail Bahwan	Chairman	1	Resigned on 26th May 2010

The main responsibilities of the Donation Committee are stated below:

- Propose the annual amount of donations to the Board, which shall submit the annual donation amount to the shareholders in their Annual General Meetings for approval.
- Identify methods of payment of donations.
- Ensure that donations are given to the approved persons and organizations.

Board Members Profile

Omar Hussain Alfardan, Chairman

Chairman of the Board of Directors, National Bank of Oman and Chairman of the Executive Committee of the Board. Board Member of The Commercial Bank of Qatar (Q.S.C.) and Vice Chairman of United Arab Bank, Sharjah. He is also the Chairman of Qatar District Cooling Co. Q.C.S.C., Qatar; Vice Chairman of Middle East Dredging Co. Q.S.C., Qatar; President of Resorts Development Company, Qatar; President of Al Fardan Group Holding Co. S.O.C., Qatar and Director of its subsidiaries; Director of United Development Company P.S.C., Qatar; Director of Qatar Red Crescent Society and Trustee of the American University Beirut. Omar Alfardan holds a BA in Business Administration and a Masters in Finance from Webster University, Geneva.

Sayyidah Rawan Al Said , Deputy Chairperson

Director since April 2005. Chairperson of the Audit Committee and member of the Executive Committee of the Board . Board Member in Oman Oil Marketing Co. SAOG and National Investment Funds Company (NIFCO)SOAC, Oman Orix Leasing Company SAOG, Royal & Sun Alliance & Oman Investment Corporation. Managing Director & Group CE of Oman National Investment Corporation Holding (ONICH) SAOG. Sayyidah Rawan has a Masters Degree in Economics and Finance, Loughborough University UK. Post Graduate Diploma in Investment Analysis & BA – Major Economics & Minor Political Science , American University, Cairo.

Sheikh Abdullah bin Ali bin Jabor Al Thani, Director

Director since July 2005. Member of the Risk, Credit and Donation Committees of the Board. Deputy Chairman of The Commercial Bank of Qatar (Q.S.C.) and Director of United Arab Bank, Sharjah. Sheikh Adullah Bin Ali Bin Jabor Al Thani holds a BA in Social Science from Qatar University.

Anil Kumar Nahar, Director

Director since November 2003. Member of the Audit Committee of the Board. Director of AES Barka SAOG., Oman Dental College (SAOG), Al Suwadi Power Co. SAOC and Sharqiyah Desalination Co. SAOC. Chief Financial Officer, Bahwan Engineering Company, which is part of the Suhail Bahwan Group (Holding) LLC. Anil holds a Bachelor of Commerce from Vikram University, India.

Imad Kamal Sultan , Director

Director since June 2004. Chairman of the Credit Committee, and Member of the Risk Committee of the Board. Director of W.J. Towell & CO (L.L.C.), Matrah Cold Stores L.L.C., Towell Auto Centre LLC, Nestle Oman Trading LLC; Agility Logistics (Global Logistics) LLC., GENETCO, Director - Oman India Joint Committee, Director – National Hospitality Institute.
Imad holds a Bachelor of Science in Business Administration & Degree in Marketing from American University Washington DC, USA.

Andrew Charles Stevens, Director

Director since July 2005. Member of the Executive and Credit Committees of the Board. Group Chief Executive Officer, The Commercial Bank of Qatar (Q.S.C.); Director of United Arab Bank, Sharjah; Chairman of Orient 1 Limited and Director of Q.I.C.I. Limited. Andrew Stevens graduated from Birmingham University, England with a B.Com (Hons) in Banking and Finance.

Hugh Edward Thompson, Director

Director since July 2005. Member of the Audit and Risk Committees of the Board. EGM and Group Chief Legal and Corporate Affairs Officer, The Commercial Bank of Qatar (Q.S.C.); Director of United Arab Bank, Sharjah; Orient 1 Limited and CBQ Finance Limited and Deputy Chairman of Diners Club Services, Egypt. Hugh Thompson graduated from Oxford University (M.A. Hons) with a degree in Law and is a qualified English solicitor.

Dr. Younis Khalfan Al Akhzami , Director

Director since April 2006. Member of the Executive Committee, Audit Committee and Donation Committee of the Board.
Director General, Planning and Development in the Ministry of Manpower. Dr. Younis holds Ph.D in Geographical Information system from University of Leicester, UK M. Sc in Information System Management from University of North Carolina, USA
He also has a B.Sc degree in Fisheries Technology from Sultan Qaboos University, Oman.

Saleh Nasser Abood Al Habsi , Director

Director since March 2008. Chairman of Risk Committee and Member of the Credit Committee of the Board. Chairman of Muscat Fund JIA, Deputy Chairman of Al Jazeera Steel Products SAOG. Director of Al Omaniya Financial Services SAOG.

Al Habsi holds a Bachelors Degree in Arts, as well as a Bachelors Degree in Science. He also holds a double Masters Degree in Science and in Business Administration. Currently, he is the General Manager of the Ministry of Defence Pension Fund.

Saif Said Salim Al Yazidi , Director

Director since March 2008. Member of the Audit Committee, Risk Committee and Donation Committee of the Board. Member of the Board of Oman International Development and Investment Company, Muscat Gases Company, Oryx Investment Fund, and Investment Stabilization Fund. Al Yazidi holds a Bachelors Degree in Management Sciences, Accounting and a Masters in Business Administration (MBA). He is the Director of Investment at The Civil Service Employees Pension Fund.

Suresh M. Shivdasani , Director

Director since June 2010. Member of the Risk Committee and Donation Committee of the Board. Shivdasani is the Managing Director, Sohar International Urea and Chemical Industries S.A.O.C. and Advisor to the Chairman, Suhail Bahwan Group.

Suresh Shivdasani holds a B.Tech degree in Electrical Engineering from the Indian Institute of Technology (IIT) Delhi- India, and an MBA degree from McMaster University Canada.

Composition of the Management:

The organization chart of the Bank's management includes a Chief Executive Officer as the leader of the organization whose appointment, functions and package are determined by the Board. General Managers are also appointed by the Board to assist the CEO and to lead functional groups in the Bank. The organization chart also includes Deputy General Managers and Assistant General Managers besides the Divisional Heads. During the year 2010 the Chief Executive Officer; GM, organizational Effectiveness and Chief Financial Officer left the Bank services and have adequately been replaced. The following table gives details of the top five management officers along with their positions:

Table (9)

Name	Position
Salaam Said Al Shaksy	Chief Executive Officer
Taqi Ali Sultan	Chief Corporate Affairs and Communications
Humayun Kabir	Chief Wholesale Banking Officer
David Power	Chief Retail Banking Officer
Khalfan Abdullah Al Aufi	Chief Operating Officer

Market Price Data:

The following table shows the high, low, and average prices of the Bank's shares and compares the Bank's performance against the broad index of banks and investment companies during 2010.

Table (10)

NBO AND MSM BANK & INVESTMENT INDEX - FY 2010							
Banks & Investment index				NBO price			
Month	High	Low	Closing	Month	High	Low	Closing
Jan-10	9,909.620	9,147.090	9,437.100	Jan-10	0.311	0.335	0.332
Feb-10	9,863.930	9,294.530	9,566.450	Feb-10	0.339	0.325	0.327
Mar-10	9,753.140	9,324.330	9,607.970	Mar-10	0.340	0.310	0.320
Apr-10	10,284.450	9,614.110	10,111.960	Apr-10	0.354	0.318	0.346
May-10	10,165.610	8,565.750	8,924.940	May-10	0.350	0.320	0.338
Jun-10	9,009.330	8,414.860	8,549.390	Jun-10	0.338	0.319	0.322
Jul-10	8,946.110	8,537.250	8,788.120	Jul-10	0.340	0.321	0.331
Aug-10	8,980.950	8,451.860	8,455.080	Aug-10	0.340	0.325	0.329
Sep-10	8,991.230	8,446.000	8,815.660	Sep-10	0.344	0.329	0.340
Oct-10	8,999.010	8,794.500	8,794.500	Oct-10	0.361	0.331	0.359
Nov-10	8,808.440	8,409.330	8,474.300	Nov-10	0.355	0.385	0.364
Dec-10	8,663.350	8,306.730	8,319.730	Dec-10	0.365	0.350	0.354

Related Party transactions

Details of all transactions where a Director and/or other related parties might have a potential interest are provided to the Board for their review and approval, and the interested Director neither participates in the discussions, nor do they vote on such matters.

Based on the approval received from the shareholders in the Annual General Meeting held on 28th March 2010 the management services agreement with The Commercial Bank of Qatar (CBQ) was renewed for a period of one year. The agreement which commenced from March 2008 is for an initial period of three years extendable for a further period of 3 years. The Commercial Bank of Qatar advised the Board of Directors of the National Bank of Oman that they do not propose to extend the term of the Management Services Agreement on its expiry date in March 2011. Accordingly the Management Services Agreement will not be renewed for another period.

Every quarter the details of the related party transactions are produced and submitted to the Board for review and approval as part of approving the Bank's quarterly financial statements.

Details of all the related party transactions are provided to the shareholders as part of the financial statements submitted for approval at the Annual General Meeting along with the statement that transactions are on an arms length and independent basis, and reasonable.

Internal Control Review

The Board attaches great importance to maintaining a strong control environment and their review has covered all controls, including financial, operational, compliance and risk management.

The Board has a collective responsibility for the establishment, maintenance and review of a system of internal controls that provides reasonable assurance of effective and efficient operations, internal financial control, and compliance with the relevant laws and regulations.

The Board has established a management structure that clearly defines roles and responsibility and reporting lines and has approved the updated policies including credit, expenditure, disclosure, corporate governance, etc.

The Bank's financial position, results of operations and business performance is regularly reported to the Board. The actual performance achieved against budgets and prior period is reported and closely monitored.

Financial information is prepared using appropriate accounting policies that are consistently applied. Operational procedures and controls have been established to facilitate complete, accurate and timely processing of transactions and the safeguarding of assets through policies and procedures manuals, desk performance instructions and other circulars.

The Bank's internal disclosure policy includes the close season period definition. This is notified to all the insiders on quarterly basis or when required.

Shareholders

Communication with shareholders and investors

The Board is committed to ensure that all material information relating to the Bank's business operations is regularly communicated to its stakeholders and members of the investment community.

The Bank has its own web site, where relevant information relating to the Bank, its products, its operations and annual and quarterly financial statements are posted. The Bank's web-site address is www.nbo.co.om.

The quarterly, half-yearly, and annual results of operations of the Bank are published in leading Arabic and English newspapers in the Sultanate of Oman. After completion of the statutory audit, the Annual Report and summary financial statements are sent by post to all shareholders along with the notice of the forthcoming Annual General Meeting of the Bank. Further, the shareholders are advised to contact the Bank whenever they require any updated information regarding the Bank or its operations.

The distribution of dividend to the shareholders by the Bank during the last five years appears in the table below:

Table (11)

Year	Cash dividend	Bonus shares
2006	17.5%	15%
2007	17.5%	17.5%
2008	17.5%	Nil
2009	12 %	Nil
2010 (proposed subject to shareholders approval)	15 %	Nil

Donations:

During the year 2010, the Bank distributed donations to the charitable organizations and other non-profitable organizations totaling RO. 101,850.000 as approved by the Annual General Meeting held on 28th March 2010.

Details of NBO main donations during the year 2010:

Table (12)

Amount OMR	Details
30,000,000	Oman Football Association
10,000.000	Oman Association for Disabled
10,000.000	Association of Early Intervention
6,000.000	Oman Heart Association
10,000.000	Al Noor Association for the Blind
5,000.000	Association for the Welfare of the Handicapped Children
4,000.000	AIESEC
3,850.000	Injaz Oman
10,000.000	Oman Herediatary
5,000.000	Oman Women Association
8,000.000	Green Sapphire Charity Ball
101,850.000	PAID FROM 2010 BUDGET

Distribution of Shareholding:

Major shareholders (5% and above)

Table (13)

Shareholder name	No. of shares as on 31st December 2010	% of Capital
Commercial Bank of Qatar	377,267,410	34.90
Suhail Bahwan Group Holding LLC	159,385,410	14.74
HSBC A/C Ministry Of Defence Pension Fund	82,777,900	7.66
Civil Service Employees Pension Fund	73,687,436	6.82
Public Authority for Social Insurance	64,805,315	5.99

The shareholding pattern as on 31 December 2010 was:

Table (14)

Number of Shares	Number of Shareholders	Total Shares	% of Capital
7,000,000 and above	15	945,080,762	87
3,000,000 to 6,999,999	7	35,487,847	3
1,500,000 to 2,999,999	13	27,261,273	3
500,000 to 1,499,999	30	26,341,324	2
100,000 to 499,999	146	31,085,778	3
Below 100,000	1570	15,743,016	2
Total		**1,081,000,000**	**100%**

A copy of the Management Discussion and Analysis is circulated as part of the Annual Report.
There are no Global Depository Receipts/Warrants or any Convertible instruments outstanding.

Auditors:

During the Annual General Meeting, the Board of Directors is recommending for Shareholders' approval the re-appointment of Ernst and Young as the Statutory Auditors for the year 2011, in line with the directives of the Capital Market Authority. Changes to the composition of Board and changes in Senior Management during 2010 have been fully covered in the Corporate Governance Report.

Having strong internal and external auditors is recognized by the Board as part of sound corporate governance, and as important agents providing an independent and continuous assessment of the adequacy of, and compliance with, the Bank's established policies and procedures.

Ernst & Young – Statutory Auditors

Ernst & Young are the statutory auditor's 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 one hundred and eighty professionals, and is working under the direction of four partners. The Oman office forms part of Ernst & Young's MENA practice, with 120 partners and over 4,100 other professionals in 20 offices in 15 countries throughout the region. The MENA practice is member firm of Ernst & Young Global, operating in more than 140 countries with approximately 141,000 personnel world-wide.

During the year 2010, RO. 65,000.000 was accrued / paid to the external auditors against the audit and related assurance services.

Declaration

The Board of Directors declares its liability for preparation of the financial statements in accordance with the applicable standards and rules.

For the year under review, the Board has conducted a review of the effectiveness of the Bank's internal control policies and procedures and is satisfied that the Bank's internal control are effective and that appropriate procedures are in place to implement the code's requirements.

The Board of Directors confirms that there are no material issues that affect the continuation of the Company and its ability to continue its operations during the next financial year.

Omar Al Fardan
Chairman

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C.R. No. 1/36809/5
P. R. No. MH/4

Report on factual findings to the Board of Directors of National Bank of Oman SAOG in respect of Basel II – Pillar III Disclosures

We have performed the procedures agreed with you and as prescribed in the Central Bank of Oman (CBO) circular no. BM 1027 dated 4 December 2007 with respect to the Basel II – Pillar III disclosures (the disclosures) of National Bank of Oman SAOG (the bank) as at and for the year ended 31 December 2010. The disclosures were prepared by the bank's management in accordance with the related requirements set out in CBO circular number BM 1009 dated 13 September 2006 and circular number BM 1027 dated 4 December 2007 (the circulars). Our engagement was undertaken in accordance with the International Standard on Related Services applicable to agreed-upon procedures engagements. The procedures, as set out in Circular number BM 1027, were performed solely to assist you in evaluating the bank's compliance with the related disclosure requirements set out in the CBO Circular number BM 1009.

We report our findings as follows:

We found that the bank's disclosures are 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 disclosures.

Had we performed additional procedures or had we performed an audit or review of the disclosures in accordance with the 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 disclosures to be included in the bank's annual report for the year ended 31 December 2010 and does not extend to any financial statements of the bank taken as a whole or to any other reports of the bank.

Ernst & Young

31 January 2011
Muscat

Name: - NATIONAL BANK OF OMAN S.A.O.G.

This is a stand alone entity.

CAPITAL STRUCTURE

The authorised share capital of the Bank as at 31st December 2010 is 1,600,000,000 shares of RO 0.100 each.
The issued and paid up capital of the Bank as at 31st December 2010 is 1,081,000,000 shares of RO 0.100 each.

The Bank in the prior years, has deposited in UAE and Egypt, an amount of RO 5.5 million and RO 19.25 million respectively, of capital as support for its overseas branches. These amounts cannot be withdrawn without the approval of the Central Banks of the countries concerned.

The Bank's capital structure as at close of 31st December 2010, based on Central Bank of Oman's (CBO) guidelines issued on the matter is as follows:

Sr. No	Elements of Capital	Amount in RO 000's
	Tier I Capital	
	Local Banks	
1	Paid-up capital	108,100
2	Share premium	34,465
3	Legal reserves	35,392
4	General reserves	4,419
5	Sub-ordinated loan reserve	8,740
6	Stock dividend	-
7	Retained earnings	52,471
8	Non-cumulative perpetual preferred stock	-
9	Other non-distributable reserve	-
	Foreign Banks	
10	Assigned capital	-
11	Capital deposits	-
12	Retained earnings	-
13	Interest free funds from HO	-
	Total Gross Tier I Capital	243,587
	Deductions	
14	Goodwill	-
15	Deferred tax asset	(7)
16	Intangible Assets, including cumulative unrealised losses recognised directly in equity	-
17	Reciprocal crossholding of bank capital, artificially designed to inflate the capital position of banks	-
	Sub-total	**(7)**
18	**Tier I Capital after the above deductions**	**243,580**

CAPITAL STRUCTURE (continued)

Sr. No	Elements of Capital	Amount in RO 000's
19	50% of investments in the capital of banks and other financial entities, other than reciprocal cross holdings of bank capital	-
20	50% of Significant minority and majority investments in commercial entities, which exceed 5% of the bank's net worth for individual significant investments and 20% of the banks' net worth for aggregate of such investments	-
21	50% of shortfall in the regulatory capital requirements in the unconsolidated entities	-
22	50% of investments in unconsolidated banking and financial subsidiary companies associates or affiliates, etc	-
	Sub-total	-
23	**Tier I capital after all deductions**	**243,580**
	Tier II Capital	-
24	Undisclosed reserves	-
25	Revaluation reserves / Cumulative fair value gains or losses on available fo sale instruments	1,009
26	General loan loss provision/General loan loss reserve	20,044
27	Sub-ordinated debt	21,860
28	Hybrid debt capital instruments	-
29	**Total Tier II Capital**	**42,913**
	Deductions	
30	50% of investments in the capital of banks and other financial entities, other than reciprocal cross holdings of bank capital	-
31	50% of Significant minority and majority investments in commercial entities, which exceed 5% of the bank's net worth for individual significant investments and 20% of the banks' net worth for aggregate of such investments	-
32	50% of shortfall in the regulatory capital requirements in the un-consolidated entities	-
33	50% of investments in unconsolidated banking and financial subsidiary companies associates or affiliates, etc	-
	Total deductions from Tier II	-
	Tier II Capital (Net)	**42,913**
34	**Tier III Capital (eligible)**	-
35	**Total Regulatory Capital**	**286,493**

Note: Retained earnings are after deduction of RO 16.2 million towards proposed cash dividend.

CAPITAL ADEQUACY

Qualitative Disclosures:

The ultimate objectives of capital management are three fold:

- Ensure stability of the Bank by holding enough capital to cover unexpected loss.

- Enhance the efficiency of the Bank, by increasing the risk adjusted return at various levels of aggregation (and there-by ensuring that too much "excess" capital is not held unnecessarily).

- Incentive informed decision making and pro-active risk management through an efficient and effective allocation of capital across the business.

The capital management plan envisaged for the Bank is based on the regulatory risk capital framework of Basel II and using standardised approach for calculating the credit as well as market risk and the basic indicator approach for operational risk as prescribed by CBO.

The capital management policy of the Bank aims to ensure that on a risk-adjusted return-on-capital basis (RAROC), individual lines of business are allocated an appropriate amount of capital. During 2009, the RAROC model was implemented for the entire portfolio except for consumer banking where the Central Bank of Oman has defined caps on interest rates which are followed. In most cases capital is allocated to achieve the most efficient use of capital. However, instances exist for which the Bank will allocate capital to a business line for strategic reasons.

The Asset Liability Committee (ALCO) currently reviews and monitors capital adequacy and requirement on an ongoing basis. Capital adequacy calculation is prepared and submitted for ALCO's review every month. Various stress scenarios, taking into account the earning volatility, credit and market risk impact along with capital allocation by line of business is reviewed in this forum.

A set of triggers is proposed as a part of the capital management so as to provide the Bank with an early warning system in terms of its level of capital, to enable it to take suitable measures at an early stage to prevent capital falling below acceptable limits.

CAPITAL ADEQUACY (continued)

Quantitative Disclosures:

Position as at 31.12.10

Sr. No	Elements of Capital	Amount in RO 000's
1	**Tier I Capital (after supervisory deductions)**	**243,580**
2	**Tier II Capital (after supervisory deductions & upto eligible limits)**	**42,913**
3	Tier III Capital (upto a limit where Tier II & Tier III does not exceed Tier I)	-
4	Of which, total Eligible Tier III Capital	-
5	**Risk Weighted Assets (RWAs) – Banking Book**	**1,641,345**
6	**Risk Weighted Assets (RWAs) – Operational Risk**	**146,455**
7	**Total Risk Weighted Assets (RWAs) – Banking Book + Operational Risk**	**1,787,800**
8	Minimum required capital to support RWAs of banking book and operational risk	214,536
	i) Minimum required Tier I Capital for banking book and operational risk	171,623
	ii) Tier II Capital required for banking book and operational risk	42,913
9	Tier I Capital available for supporting Trading Book	71,957
10	Tier II Capital available for supporting Trading book	-
11	**Risk Weighted Assets (RWAs) – Trading Book**	**57,760**
12	Total capital required to support Trading Book	6,931
13	Minimum Tier I Capital required for supporting Trading Book	1,975
14	Used Eligible Tier III Capital	-
15	**Total Regulatory Capital**	**286,493**
16	**Total Risk Weighted Assets – whole bank**	**1,845,560**
17	**BIS Capital Adequacy Ratio**	**15.52**
18	Unused but eligible Tier III Capital	-

Certain additional capital adequacy disclosures are as follows:

Position as at 31.12.10

(RO'000)

Sr. No.	Details.	Gross balance (Book value)	Net balance (Book value)	Risk Weighted Assets
1	On balance sheet item	1,860,886	1,746,887	1,333,397
2	Off balance sheet item	372,989	372,989	290,238
3	Derivatives	17,710	17,710	17,710
4	Operational Risk	-	-	146,455
5	Market Risk	-	-	57,760
	Total	2,251,585	2,137,586	1,845,560
6	Tier I Capital	243,580	-	-
7	Tier 2 Capital	42,913	-	-
8	Tier 3 Capital	-	-	-
9	Total Regulatory Capital	286,493	-	-
9.1	Capital requirement for credit risk	196,961	-	-
9.2	Capital requirement for market risk	6,931	-	-
9.3	Capital requirement for operational risk.	17,575	-	-
10	Total required Capital	221,467	-	-
11	Tier I Ratio	13.20	-	-
12	Total Capital Ratio	15.52	-	-

RISK EXPOSURE AND ASSESSMENT:

Risk Management

The primary objective of Risk Management is to safeguard the Bank's resources from the various risks which the Bank faces. The Risk Group comprises of Corporate Credit Risk, Consumer Credit Risk, Market Risk, Operational Risk, Information Security and Business Continuity Risk and Remedial Management. All Risk Management functions report to the Chief Risk Officer and are independent from Business Units.

The Bank is in the process of developing an ICAAP (Internal Capital Adequacy Assessment Process) document in line with Basel II guidelines in consultation with a leading consultancy firm to evaluate all Enterprise-wide Risks that are not fully captured in the Pillar I Risks. The exercise is aimed at a thorough - objective and subjective - evaluation of the available vis-à-vis required capital after considering the impact of the additional risks (Residual Credit Risk, Residual Credit Risk Mitigation (CRM) Risk, Residual Credit Risk - Equity, Residual Market Risk - Currency, Credit Concentration Risk, Liquidity Risk, Interest Rate Risk in Banking Book, Settlement Risk, Reputation Risk, Strategic Risk and Compliance Risk) as well as the results of the stress tests.

The Bank's Credit Risk Strategy is aimed at adopting a structured approach to credit growth and de-emphasizing areas that are considered relatively high risk based on the prevailing and expected market conditions.

The administrative framework and the policies and procedures in place for the management of risks are based on international best practices, the recommendations of the Basel Committee and the guidelines of the Central Bank of Oman.

The Bank has exposure to the following risks:

Credit Risk

Qualitative Disclosures:

Credit Risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Bank's loans and advances to customers and other banks and investment securities. For risk management reporting purposes, the Bank considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, country and sector risk).

The Bank manages and controls credit risk by setting internal limits on the amount of risk it is willing to accept for individual counterparties and groups (single obligors) and industry sectors in line with the guidelines of Central Bank of Oman. The Bank computes expected losses on credit exposure on the basis of risk classification of both corporate and retail loans in the delinquent category based on the guidelines of Central Bank of Oman. The objective of the Bank in management of credit risk is to protect the credit quality of its credit exposures. Credit Risk is managed within the regulatory requirement of Central Bank of Oman, risk framework provided in the Risk Charter and Credit Policies and Procedures.

The policies and procedures are periodically reviewed by the Management and the Board Risk Committee to ensure alignment to the current best practices. Credit exposures are approved by delegated authorities based on delegation by the Board and Board Risk Committee. The delegation of authorities is based on the size of the single obligor exposure, the credit quality (internal, external rating) as well as level of credit risk mitigation (collateral, guarantees, etc.), for the proposed exposures. Control, monitoring and management of credit exposures are done in coordination with respective business units as per established procedures.

The Bank has in place, a robust credit risk management structure comprising of Corporate Credit Risk, Retail Credit Risk, Remedial Management and Credit Administration and Control Divisions.

Corporate Credit Risk:

Corporate Credit Risk Division is responsible for managing all Corporate, SME and Financial Institutions exposures. The Division reviews and assesses credit risk for proposed exposures prior to facilities being committed to customers by the concerned business units. Renewals and reviews of facilities are subject to the same process. Each proposal is also assessed with respect to established concentration limits for various economic sectors, countries, risk grades, etc. and deviations, if any are highlighted. All Corporate and SME customers are internally risk rated as per Moody's Risk Advisor and approved credit policy and procedures. Moody's ratings are used for risk rating financial institutions and country exposures. The Bank uses a RAROC model for risk based pricing and each credit proposal is assessed based on internal benchmarks of required risk adjusted returns. Each proposal is also assessed with respect to established concentrations limits for various economic sectors, countries, etc., in line with regulatory guidelines.

Proposals are approved by the delegated authorities based on total amount of facilities to a Single Obligor or Group (with common shareholding or management control as per internal and regulatory guidelines), obligor risk rating and collateral.

Credit Risk at the Bank is managed in two dimensions, portfolio level and obligor level. In order to manage concentration risks, sector wise limits have been prescribed in the Credit Risk Policy. Limits have been put in place for Cross-border Risk and Sovereign Risk.

Consumer Credit Risk:

Consumer Credit Division manages the Credit Risk in the retail portfolio. Credit facilities are offered to retail customers primarily based on product programs. A programmed lending approach contains standard risk acceptance criteria and loan processing practices in order to optimize the efficiency and risk/ reward of those portfolios. Product programs are approved by Board Risk Committee and their performance is monitored on a regular basis and reviewed.

In 2010, based on the prevailing market conditions, the competitive landscape and signs of weaknesses in portfolio performance in various segments, geographies, demographics, etc., the Bank introduced continuous monitoring of the portfolio and revised the lending criteria for these programs with a thorough review of the Credit Policy. Credit facilities outside the Product Programs are individually assessed by the Consumer Credit Risk Division and approved as per the delegated authorities.

The Bank has also implemented the recently introduced Bank Credit Statistical Bureau System (BCSB system) as mandated by the Central Bank and has, furthermore, effectively modified its delinquency reporting module (from the erstwhile monthly basis to the current daily basis). Several system enhancements and new processes have been introduced across critical activities to improve processing quality and efficiency, and to enhance the recovery methodologies of the retail portfolio. The Bank is in the process of implementing a Loan Origination System, Credit Scoring Module and Collections Solution to enhance its Consumer Credit Risk framework.

Remedial Management:

Remedial Management is responsible for relentlessly pursuing each delinquent account, by using all available measures, to reduce exposure to high risk groups, to maximize recoveries and rehabilitating these relationships, so that they can be returned to the business lines as fully performing accounts and progressively improve the status of the portfolio.

Credit Administration and Control:

The Credit Administration and Control section ensures:

- Documentation for all loans is properly completed, executed and maintained.
- The correct approving authority approves credit lines and details are accurately recorded.
- The production of adequate and accurate reports covering various credit risk exposures.
- Irregularities are reported and corrective action taken.
- Review of and participation in any new/existing product offerings of the Bank.
- Various internal reporting and external reporting is prepared on a periodical basis.
- That all approved limits are fed into the system under a “maker and checker” concept.
- That various Credit Policies and Tolerance Authority are judiciously exercised.
- Disbursement of funds for all approved credit exposures are appropriately authorized.

Risk Reporting and Measurement Systems

The scope and nature of the risk reporting and/or measurement system are as follows:

Risk Reporting

A comprehensive review of the Corporate Credit Portfolio is conducted on a quarterly basis and provided to the Senior Management and the Risk Committee of the Board. Salient areas covered in the review include:

- Exposures downgraded/negatively migrated
- Weighted average credit grade profile
- Portfolio concentration/ performance
- Position of restructured exposures
- Position of past due exposures
- Exposures secured by equity
- Exposures to real estate and leasing sectors
- Syndicated exposures
- New relationships
- Exposures to senior members and non-resident borrowers
- Exposures to countries / financial institutions

Summary Portfolio Trends is prepared on a monthly basis highlighting the significant changes in the exposure levels, utilizations, credit quality, portfolio mix, concentrations, etc. The report is provided to Senior Management and the Risk Committee of the Board.

A review of the Consumer Credit Portfolio is conducted on a monthly basis and provided to the Management Risk Committee, and every quarter the latest report is presented to the Board Risk Committee. Salient areas covered in the review include:

- Portfolio review
- Management summary, delinquency and NPA trends (including product-wise delinquency analysis, vintage analysis, delinquencies across various credit criteria, etc.)
- Projects undertaken / fulfilled during the month
- Recoveries

Measurement:

Currently the Bank computes the expected losses on its credit exposure on the basis of risk classification of both corporate and retail loans to delinquent category based on extant guidelines of the Central Bank.

Policies for hedging and/or mitigating risk and strategies are in place for monitoring the continuing effectiveness of hedges/ mitigants. The Bank obtains collateral/ credit mitigants against loans and advances in the form of mortgage over property, pledges over cash/ securities, guarantees, etc. Estimates of fair value are based on the value of the collateral assessed at the time of borrowing and at regular intervals as per internally approved procedures - every three years for properties, daily for equities, etc. Collateral generally is not held against credit exposures to banks.

Definition of past due and impaired (for accounting purposes):

A loan, where repayments of principal and interest are pre-determined, shall be considered as past due, when it has not been paid on the due date fixed by the Bank, as per terms of sanction.

Credit facilities like overdrafts, lines of credit, etc. where no definite repayments are pre-determined shall be treated past due, if:

- The outstanding balance remains continuously in excess of 10% of the sanctioned/authorized limit, or
- In cases where the outstanding balance in the principal operating account is less than the sanctioned/authorized limit, but there are not enough credits in the account to cover the interest charged, or
- In cases where unauthorized drawings have frequently been allowed.
- Bills, which remain unpaid on due dates, shall be considered as past due.

All loans and advances, which are classified as substandard, doubtful and loss, are categorized as Non-Performing Loans ("NPL") i.e. impaired assets.

An evaluation is made on an ongoing basis, at least quarterly, to determine whether there is objective evidence that a specific financial asset may be impaired. If such evidence 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, recognized in the income statement.

Credit Risk Management Policy:

A comprehensive set of corporate credit risk policy and procedures manuals, provides detailed policy guidelines and embedded in which are the regulatory/ in-house limits. Further, procedures manuals provide detailed process guidelines about the credit process and the templates to be used to process the individual credit applications. Consumer Credit Policy outlines the policy guidelines related to retail banking and covers product programs and parameters relating to Salary Related Loans, Mortgages, Credit Cards and other retail product offerings. Credit policies and procedures are periodically reviewed to ensure that they are aligned to the market and regulatory guidelines.

Quantitative Disclosure:

(i) Total gross credit exposures, plus daily average of gross exposure over the period broken down by major types of credit exposure as at 31st December 2010:

(RO'000)

Sr. No.	Type of Credit Exposure	Average Gross Exposure		Total Gross Exposure as at	
		Current Year	Previous Year	31st December 10	31st December 09
1	Overdrafts	47,007	61,116	59,376	66,223
2	Personal Loans	638,514	596,128	645,047	641,965
3	Loans against Trust Receipts	36,833	43,799	37,509	39,922
4	Other Loans	737,471	754,672	682,076	672,520
5	Bills Purchased / Discounted	10,272	8,936	8,361	8,487
6	Any Other	-	-	-	-
	Total	**1,470,097**	**1,464,651**	**1,432,369**	**1,429,117**

(ii) Geographic distribution of exposures, broken down to in significant areas by major types of credit exposure as at 31st December 2010:

(RO'000)

Sr. No.	Type of Credit Exposure	Oman	Other CC countries	OECD countries	India	Pakistan	Others	Total
1	Overdrafts	42,443	10,951	-	-	-	5,982	59,376
2	Personal Loans	641,275	2,782	-	-	-	990	645,047
3	Loans against Trust Receipts	34,138	3,371	-	-	-	-	37,509
4	Other Loans	609,612	62,200	6,225	-	-	4,039	682,076
5	Bills Purchased / Discounted	8,361	-	-	-	-	-	8,361
6	Any Other	-	-	-	-	-	-	-
	Total	1,335,829	79,304	6,225	-	-	11,011	1,432,369

Credit Risk (continued)

(iii) Industry or counter-party type distribution of exposures, broken down by major types of credit exposure as at 31st December 2010:

(RO'000)

Sr. No.	Economic Sector	Overdraft	Loans	Bills Purchased / Discounted	Others	Total	Off Balance Sheet Exposure
1	Import trade	1,349	33	-	34,139	35,521	25
2	Export trade	-	478	-	-	478	-
3	Wholesale and retail trade	14,366	57,486	266	2,907	75,025	29,302
4	Mining and quarrying	1,007	19,371	-	-	20,378	3,824
5	Construction	6,359	124,346	6,603	-	137,308	122,740
6	Manufacturing	7,172	168,144	428	463	176,207	40,027
7	Electricity, gas and water	-	80,474	-	-	80,474	6,701
8	Transport and Communication	1,236	5,265	30	-	6,531	2,941
9	Financial institutions	14,675	73,351	-	-	88,026	209,607
10	Services	3,339	69,237	746	-	73,322	16,651
11	Personal loans	4,380	640,667	-	-	645,047	183
12	Agriculture and allied activities	716	11,178	9	-	11,903	415
13	Government	20	19	-	-	39	37,526
14	Non-Resident lending	-	46,199	-	-	46,199	-
15	All Others	4,757	30,875	279	-	35,911	3,001
	Total	**59,376**	**1,327,123**	**8,361**	**37,509**	**1,432,369**	**472,943**

(iv) Residual contractual maturity as at 31st December 2010, in line with guidelines issued by CBO, breakdown of the whole portfolio, broken down by major types of credit exposure is as follows:

(RO'000)

Sr. No.	Time Band	Overdraft	Loans	Bills Purchased / Discounted	Others	Total	Off Balance Sheet Exposure
1	Up to 1 month	2,969	96,661	4,307	4,829	108,766	157,352
2	1-3 months	2,969	104,422	3,450	16,250	127,091	121,563
3	3-6 months	2,969	37,525	604	15,213	56,311	51,671
4	6-9 months	2,969	26,673	-	673	30,315	37,485
5	9-12 months	2,969	84,268	-	544	87,781	20,712
6	1-3 years	14,843	146,211	-	-	161,054	83,267
7	3-5 years	14,844	68,073	-	-	82,917	859
8	Over 5 years	14,844	763,290	-	-	778,134	34
	Total	59,376	1,327,123	8,361	37,509	1,432,369	472,943

Credit Risk (continued)

(v) Total loan broken down by major industry or counter party type as at 31st December 2010:

(RO'000)

Sr. No.	Economic Sector	Gross Loans	Of which, NPLs	General Provisions held	Specific Provisions held	Reserve Interest	Provisions made during the year	Advances written off during the year
1	Import Trade	35,521	1,383	341	1,383	-	-	465
2	Export Trade	478	478	-	478	-	-	-
3	Wholesale & Retail Trade	75,025	7,921	671	3,496	4,383	54	329
4	Mining & Quarrying	20,378	24	204	4	-	-	-
5	Construction	137,308	10,932	1,264	4,261	1,506	3,319	1,137
6	Manufacturing	176,207	12,679	1,635	8,572	2,115	-	632
7	Electricity, gas and water	80,474	-	805	-	-	-	-
8	Transport and Communication	6,531	296	62	73	186	-	-
9	Financial Institutions	88,026	-	880	-	-	200	708
10	Services	73,322	1,240	721	457	499	2	-
11	Personal Loans	645,047	20,513	12,491	9,871	2,056	8,537	8,574
12	Agriculture and Allied Activities	11,903	5,382	65	581	610	28	-
13	Government	39	-	-	-	-	-	-
14	Non-Resident Lending	46,199	-	462	2,165	-	-	-
15	All Others	35,911	459	443	6,079	188	3,741	1,534
	Total	**1,432,369**	**61,307**	**20,044**	**37,420**	**11,543**	**15,881**	**13,379**

(vi) Amount of impaired loans as at 31st December 2010, broken down by significant geographical areas including, with the amounts of specific and general allowances related to each geographical area:

(RO'000)

Sr. No.	Country	Gross Loans	Of which NPLs	General Provisions Held	Specific Provisions Held	Reserve Interest	Provisions made during the year	Advances written off during the year
1	Oman	1,335,829	46,473	19,119	22,356	9,372	14,339	12,527
2	Other GCC Countries	79,304	3,894	860	3,317	2,060	1,533	387
3	OECD Countries	6,225	-	62	-	-	-	-
4	India	-	-	-	-	-	-	-
5	Pakistan	-	-	-	-	-	-	-
6	Others	11,011	10,940	3	11,747	111	9	465
	Total	**1,432,369**	**61,307**	**20,044**	**37,420**	**11,543**	**15,881**	**13,379**

Credit Risk (continued)

(vii) Movements of Gross Loans

(RO'000)

Movement of Gross Loans during the year ended 31st December 2010							
Sr. No.	Details	Performing Loans		Non performing Loans			
		Standard	Special Mention	Sub-Standard	Doubtful	Loss	Total
1	Opening balance	1,207,132	150,303	24,517	7,523	39,642	1,429,117
2	Migration / changes (+/-)	14,683	(30,994)	(13,520)	17,152	12,679	-
3	New loans	478,152	17	689	368	2,787	482,013
4	Recovery of loans	(415,855)	(32,376)	(4,171)	(6,700)	(6,280)	(465,382)
5	Loans written off	-	-	-	(1,500)	(11,879)	(13,379)
6	Closing balance	1,284,112	86,950	7,515	16,843	36,949	1,432,369
7	Provisions held	21,053	5,275	1,610	5,789	23,737	57,464
8	Reserve interest	-	-	599	1,070	9,874	11,543

Credit Risk – Disclosures for portfolios subject to the standardized approach.

Qualitative Disclosures:

The Bank is following Moody's rating for both sovereign and inter-bank transaction (exposure) and the balance exposure is treated as unrated at 100% risk.

With the approval of the CBO, the Bank uses the discretion to treat loans and advances as unrated at risk weight of 100%, except housing loans which are risk weighted at 35% based on the requirements as stipulated in the guidelines issued by CBO.

Similarly, with the approval of CBO, the Bank uses the discretion of the simple approach for recognising collaterals.

Quantitative Disclosures:

Exposure amount after risk mitigation as at 31st December 2010, subject to the standardized approach is as below:

(RO'000)

Sr. No.	Product / Rating	Carrying 0%	Carrying 20%	Carrying 35%	Carrying 50%	Carrying 100%	Carrying 150%	Total
	Rated							
1	Sovereign	248,567	-	-	1,553	-	-	250,120
2	Banks	-	53,746	-	27,401	12,919	6,590	100,656
	Unrated							
1	Corporate	-	54,152	-	-	475,048	-	529,200
2	Retail	-	-	-	-	549,356	-	549,356
3	Claims secured by residential property	-	-	43,899	-	31,278	-	75,177
4	Claims secured by commercial property	-	-	-	-	199,816	-	199,816
5	Past due loans	-	-	-	-	55,348	-	55,348
6	Other assets	35,075	646	-	-	65,492	-	101,213
7	Off-balance Sheet Items	19,142	44,117	-	56,630	270,810	-	390,699
	Total Banking Book	**302,784**	**152,661**	**43,899**	**85,584**	**1,660,067**	**6,590**	**2,251,585**

Credit Risk Mitigation

Qualitative Disclosures:

The Bank holds collateral against loans and advances to customers in the form of cash, government development bonds, acceptable financial securities, mortgage interest over property, other registered charge over assets, and guarantees. Estimates of fair value are based on the value of the collateral assessed on an on-going basis.

The Bank has adopted the simple approach for collaterals. The collaterals considered are cash and provisions against impaired loans.

Quantitative Disclosures:

Eligible financial collateral

Sr No	Details	Amount
1	Corporate 100% Cash	58,446
2	Past due loans(provisions)	55,553
3	Total	113,999

The capital requirement on Credit Risk as at 31st December 2010 is RO ('000) 196,961.

Market Risk

Market Risk arises from fluctuations in interest rates, foreign exchange rates and equity prices. The Board has set limits for acceptable levels of Market Risk. The Assets and Liabilities Committee (ALCO) monitors this on a regular basis. Market Risk is managed based on Central Bank of Oman guidelines and the Market Risk Policy, which is approved and periodically reviewed by the Risk Committee of the Board. Separate market risk policies exist for the Bank's operations in Egypt and UAE to make them compatible with the local regulatory and operational environments. Stress tests are also conducted periodically to analyze the impact of bank and market specific crises on the earnings and capital of the Bank. Variables include movements in equity value, foreign exchange, etc. The results are reviewed by ALCO, Management and Board Committees.

Market Risk Division provides risk-weightings for treasury products in line with best practices based on potential future exposure. The middle-office along with Treasury and Investment Banking Operations monitoring the Market Risk positions of the Bank.

Trading Book

The exposure under the trading book of the Bank includes a small foreign exchange exposure primarily arising from the holding of day-end positions in currencies overnight, and exposure towards interest rate related instruments. Value-at-risk (VaR) is computed every month for all non-pegged currencies in which the Bank's end-of-the-day position is above a minimum threshold. The VaR is reviewed by ALCO, Management Risk Committee and Board Risk Committee.

Procedure: For the purpose of capital charge, the three month average of the sum of the net short positions or net long positions, whichever is higher, is taken. The average is worked out on the basis of the actual positions as obtained on all the working days during the three month period immediately preceding the reporting date. The capital charge is computed at 12% to reflect the general market risk.

Capital required for trading book as at 31st December 2010:
- Foreign Exchange Risk - RO ('000) 6,931

Banking Book

Equity Price Risk

The proprietary equity positions are held in the 'Available for Sale' category and not in the 'Held for Trading' category. As such, no VaR is calculated on the equity investments of the Bank as in the entire equity portfolio is held in the "Available for Sale" category for medium to long term income and capital appreciation. The market risk is monitored though daily Mark to Market reports which are circulated to the management and required actions, if any, are promptly taken as per the Investment Policy.

Interest Rate Risk

The principal market risk to which non-trading portfolio is exposed is the risk of loss from fluctuation in the future cash flows or fair values of financial instruments because of changes in market interest rates. Interest rate risk arises from the possibility that changes in interest rates will affect future profitability or the fair values of financial instruments. The Bank is exposed to interest rate risk as a result of mismatches of interest rate re-pricing of assets and liabilities.

Interest rate risk is managed by monitoring the sensitivity of the Bank's financial assets and liabilities to various standard interest rate scenarios. Standard scenarios that are considered on a monthly basis include a 200 basis point (bp) parallel fall or rise in yield curves to review the impact on the economic value of the assets and liabilities and the equity of the Bank, a 200 basis points (bp) parallel fall or rise in yield curve for the time period up to one year to review its impact on the earnings of the Bank.

In respect of monitoring the impact of interest rate changes on the earnings of the Bank, the Bank has set internal limits. Positions are monitored on a monthly basis and hedging strategies used to ensure positions are maintained within established limits.

Methods and assumptions used in preparing the sensitivity analysis: The methods for interest rate sensitivity analysis are: traditional Maturity Gap Analysis (to measure the interest rate sensitivity of earnings), and Duration (to measure interest rate sensitivity of capital): methodology provided by BIS in its paper on 'Principles for the Management and Supervision of Interest Rate Risk' issued in July 2004.

Quantitative Disclosures:

The assumptions used to measure the sensitivity is parallel shift in interest rate by 200 basis points (bps) to measure the interest sensitivity of earnings and interest rate sensitivity of capital.

As at 31st December 2010	200 bps increase	200 bps decrease
Earnings impact - RO'000s	6,793	(6,793)
Earnings impact - USD'000s	17,644	(17,644)

The Bank has been consistently using the above methods/assumptions to conduct interest rate sensitivity analysis. The analysis is carried out at monthly rests and results thereof monitored against the in-house prescribed limits; the results are also actively deliberated at the ALCO meetings. There have not been any significant changes in interest rate risk management process in the Bank during the year.

Interest Rate Risk (continued)

The Bank's interest sensitivity position, in line with guidelines issued by Central Bank of Oman, based on contractual re-pricing arrangements at 31st December 2010 was as follows:

	Average effective interest rate	On demand within 3 months RO'000	3 to 12 months RO'000	1 to 5 years RO'000	Over 5 years RO'000	Non interest sensitive RO'000	Total RO'000
Cash and balances with Central Banks	0.05%	45,000	2,322	-	-	180,217	227,539
Financial assets designated at fair value through profit and loss	N/A	-	-	-	-	-	-
Due from banks and other money market placements	1.45%	83,658	497	-	-	-	84,155
Loans and advances (net)	6.63%	575,794	182,259	216,123	376,690	12,496	1,363,362
Non-trading financial investments	3.89%	44,096	-	-	-	19,037	63,133
Premises and equipment	N/A	-	-	-	-	22,353	22,353
Deferred tax assets	N/A	-	-	-	-	7	7
Other assets	N/A	-	-	-	-	44,355	44,355
Total assets		**748,548**	**185,078**	**216,123**	**376,690**	**278,465**	**1,804,904**
Due to banks and other money market deposits	1.05%	132,345	-	-	-	-	132,345
Customers' deposits	2.78%	182,775	288,657	351,508	8,000	493,950	1,324,890
Other liabilities	N/A	-	-	-	-	47,084	47,084
Taxation	N/A	-	-	-	-	4,175	4,175
Deferred Tax liability	N/A	-	-	-	-	-	-
Subordinated funds	7.51%	-	-	27,600	3,000	-	30,600
Shareholders' equity	N/A	-	-	-	-	265,810	265,810
Total liabilities and shareholders' equity		**315,120**	**288,657**	**379,108**	**11,000**	**811,019**	**1,804,904**
Total interest rate sensitivity gap		**433,428**	**(103,579)**	**(162,985)**	**365,690**	**(532,554)**	**-**
Cumulative interest rate sensitivity gap		**433,428**	**329,849**	**166,864**	**532,554**	**-**	**-**

Liquidity Risk

Qualitative Disclosures:

Liquidity may be defined as a Bank's ability to ensure the availability of funds to meet all on-balance sheet and off-balance sheet commitments at a reasonable price. Liquidity Risk can in turn be defined as the risk to earnings and capital arising from a bank's potential inability to meet its liabilities when they become due. Conversely, Liquidity Risk also manifests itself in the form of opportunity losses due to holding excess liquidity relative to liabilities.

The strategy of the Bank in management of Liquidity Risk is to minimize the resultant impact on the earnings of the Bank. The Bank's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Bank's reputation.

The Bank manages the liquidity risk based on Central Bank of Oman guidelines and approved policies. Further, the Bank also periodically conducts stress tests on liquidity based on market and bank specific events. The liquidity position of the Bank and stress test scenarios are regularly reviewed by the Management and also discussed at the Risk Committee of the Board.

Process: NBO takes a two-tiered approach to Liquidity Risk Management

Going concern Liquidity Management - management of the liquidity position within specified parameters to ensure all liabilities can be met on a timely basis.

Event Risk Liquidity Management - ensuring that in the event of either a firm-specific or general market event, the Bank is able to generate sufficient liquidity to withstand a short term liquidity crisis. Event Risk Liquidity Management includes the following tools:

- Stress test: a quantitative analysis of liquidity impact of several (market and bank specific) liquidity crises.
- Liquidity buffer: mitigation of an event risk is achieved through the provision of standby liquidity in the form of unencumbered, Central Bank eligible collateral and stand-by lines.
- Contingency Funding Plan: A comprehensive Liquidity Contingency Plan is in place at the Bank.

The overall Liquidity Risk is kept at such a level that NBO is able to resume its business after a specified crisis.

Treasury division of the Bank receives information from other business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. Treasury division maintains a portfolio of short-term liquid assets, largely made up of short-term liquid investment securities and inter-bank facilities, to ensure that sufficient liquidity is maintained within the Bank as a whole.

The Bank is subject to liquidity limits prescribed by the CBO and for areas where discretion was provided to the Bank, the Bank has set limits.

The monthly liquidity position is monitored through the Statement of Maturities of Assets and Liabilities to ensure that the gaps are within the limits prescribed by the regulator and those set in-house. Stress testing is conducted under a variety of scenarios covering both bank specific and market events, and presented to the ALCO for detailed deliberation.

ALCO reviews the strategy and policies related to management of liquidity and ensure that the senior management takes steps necessary to monitor and control liquidity risk. ALCO is kept informed regularly of the liquidity situation of the Bank and immediately if there are any material changes in the Bank's current or prospective liquidity position.

The Bank has in place an effective and efficient liquidity risk management structure comprising an active ALCO which meets at monthly intervals and more frequently, if required.

Liquidity Risk (continued)

The scope and nature of the risk reporting and/or measurement system:

Scope and Nature of Risk Reporting:

A statement: Maturities of Assets and Liabilities is prepared on a monthly basis and more frequently, as required, by the Financial Control Division which contains the maturity profile of the various assets and liabilities and off-balance sheet items. The statement contains the cumulative gaps vis-à-vis cumulative liabilities for each prescribed time band and the position of these gaps vis-à-vis the Regulatory and in-house limits is also reported therein. This statement is placed before the ALCO at its meetings and in case any of the gap limits is exceeded the same is escalated immediately to the ALCO along with analysis and further action planned to bring the position within the limits.

A Liquidity Lines statement is also prepared based on assumptions set out in the Liquidity Policy to evaluate the Bank's ability to meet its liabilities maturing in one month time band. Further, the liquidity of the Bank is estimated under bank specific and market specific stress scenarios. The Liquidity Lines and Stress Tests are also reviewed by the ALCO, Management and Board Risk Committees on a regular basis.

Measurement:

The monitoring and control of Liquidity Risk is done on an ongoing basis. The Bank uses the maturity ladder approach, which calculates the cumulative surplus or deficit of funds at selected time bands. The cash flows are placed in different time bands based on future behavior of assets, liabilities and off-balance sheet positions. In order to ensure uniformity in the treatment of behavioral patterns of assets, liabilities and off-balance sheet positions, the Central Bank has evolved a broad framework, which has been subscribed to by the Bank. In addition, the Bank regularly evaluates its liquidity position with respect to the liquidity ratios prescribed in the Liquidity Risk Policy.

Policies for hedging and/or mitigating risk and strategies and processes for monitoring the continuing effectiveness of hedges/mitigants:

The Bank has put in place "Liquidity Risk Policy" and "Liquidity Contingency Plan"- duly approved by the Board Risk Committee, which provides detailed guidelines for mitigating the risk. In case of a contingency, the policy provides a blue-print for asset sales, market access and restructuring the maturity and composition of assets and liabilities.

As an on-going mitigant, the Bank has in place the availability of liquidity support in the form of committed lines of credit and reciprocal arrangements. The continuing availability of the CBO liquidity window, which was introduced in the wake of the global financial crisis, is also one of the mitigants of the liquidity risk. Besides, the Bank ensures the liquidity of certain assets as per the Liquidity Contingency Plan as a buffer against liquidity events.

The Bank has also put in place Country and Transfer Risk Policies to primarily control and monitor cross border exposures.

Liquidity Risk (continued)

Quantitative Disclosures:

The maturity profile of the assets and liabilities in line with guidelines issued by Central Bank of Oman, at 31st December 2010 was as follows:

	On demand within 3 months RO'000	3 to 12 months RO'000	Subtotal less than 12 months RO'000	1 to 5 years RO'000	Over 5 years RO'000	Subtotal over 12 months RO'000	Total RO'000
Cash and balances with Central Banks	161,535	20,447	181,982	28,990	16,567	45,557	227,539
Financial assets designated at fair value through profit and loss	-	-	-	-	-	-	-
Due from banks and other money market placements	69,028	3,577	72,605	11,550	-	11,550	84,155
Loans and advances (net)	235,857	122,652	358,509	243,971	760,882	1,004,853	1,363,362
Non-trading financial investments	44,096	-	44,096	19,037	-	19,037	63,133
Premises and equipment	-	-	-	-	22,353	22,353	22,353
Deferred tax assets	-	-	-	7	-	7	7
Other assets	41,956	1,984	43,940	415	-	415	44,355
Total assets	**552,472**	**148,660**	**701,132**	**303,970**	**799,802**	**1,103,772**	**1,804,904**
Due to banks and other money market deposits	7,220	-	7,220	125,125	-	125,125	132,345
Customers' deposits	318,045	309,005	627,050	456,996	240,844	697,840	1,324,890
Other liabilities	38,727	3,690	42,417	4,667	-	4,667	47,084
Taxation	4,175		4,175	-	-	-	4,175
Deferred tax liability	-	-	-	-	-	-	-
Subordinated funds	-	-	-	27,600	3,000	30,600	30,600
Shareholders' equity	-	-	-	-	265,810	265,810	265,810
Total liabilities and shareholders' equity	**368,167**	**312,695**	**680,862**	**614,388**	**509,654**	**1,124,042**	**1,804,904**

Operational Risk

Operational Risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Bank cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Bank is able to manage the risks. Controls include effective segregation of duties, access, authorization and reconciliation procedures, staff training and assessment processes, including the use of internal audit.

Information Security and Business Continuity Management

The growing technology and easy to access of the hacking tools has thrown new challenges to the banking industry which have been effectively met through enhancements to the information security framework of the Bank and through development and implementation of appropriate policies and procedures.

The initiatives undertaken to improve Corporate Governance include; a comprehensive security assessment review of the business application including Symphony the new branch front end system. The information security architecture of the Bank was enhanced through implementation of a minimum security baseline for all systems.

Business continuity readiness was successfully tested and proved with effective management of the natural crisis situation during tropical cyclone PHET. The Bank successfully tested the disaster recovery infrastructure for all critical systems with expected recovery time objectives of the supported business services.

The key initiatives on the business continuity readiness included detailed study on the technology gap analysis of the Bank's information technology infrastructure from recovery perspective, review of business impact analysis and upgrade of the branch disaster recovery communication infrastructure to GPRS technology. A focused drive for business continuity awareness was undertaken covering all branches and other operating offices.

Insurance is another tool used by the Bank as an operational risk mitigant. Insurance such as Bankers' Blanket Bond, Electronic and Computer Crimes, Professional Indemnity, incomplete transactions, etc as obtained by the Bank aim at protecting the Bank from high severity risks by reducing the financial impact of the same.

The Bank follows basic indicator approach for determining Operational Risk.

The Capital charge for Operational Risk under Basic Indicator approach is calculated by taking the average of gross income multiplied by 15%, for each of the last three financial years, excluding years of negative or zero gross income. The gross income is Net interest income (+) Non interest income (+) Provisions for unpaid interest (-) realized profit on sale of Held to Maturity (HTM) and Available for Sale (AFS) investments (-) extraordinary / irregular items of income.

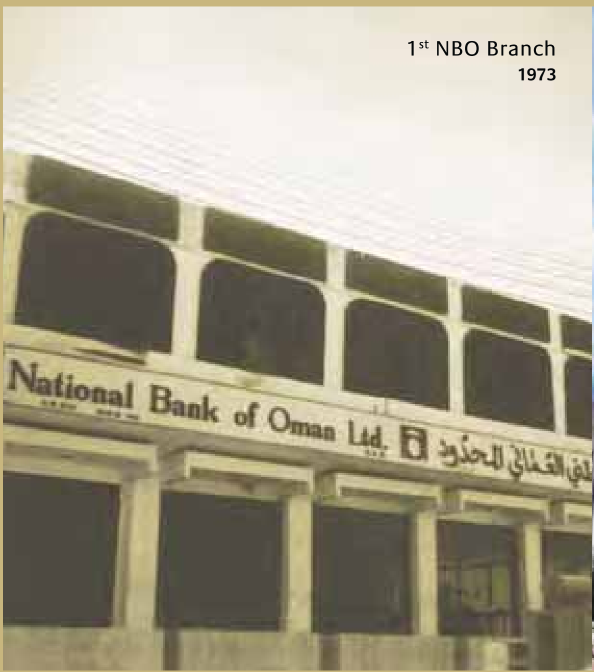
Capital requirement for operational risk as per Basel II is RO (000s) 17,575.

This report on Basel II disclosures set out from pages no 42 to 60 was authorized for issue by the Board of Directors on 31.01.2011.

Omar Al Fardan

Chairman

Management Discussion and Analysis Report – 2010



Economic Development

Oman experienced robust economic growth in 2010 with estimated nominal GDP increasing by around 5.1% supported by strong fiscal spending and the global recovery. The unprecedented volatility in global and regional financial markets has stabilized to a large extent during 2010. Oman has been one of the best performing economies in the region through this crisis and the proactive measures taken by the Central Bank of Oman ensured the stability and robustness of the banking sector.

Recently the Government has announced the Eighth Five Year Plan (2011-2015), wherein the total projected fiscal expenditure for the five year period is estimated at RO 42.71 billion, for developing various infrastructure projects like roads, airport, sea ports, dams, and water supply networks. The budget focuses on sustainable and broad based economic development which should act as an enabler for financial services. Development expenditure is vital in ensuring continued credit flow in the economy and the local banking sector. Oil revenue based on an assumed average price of $58 per barrel during the plan period looks achievable in current circumstances.

In summary, we expect that operating conditions will remain favorable in view of the various government initiatives and economic policies and the Bank is well positioned to take advantage of the anticipated upturn in 2011.

Industry Structure and Development

The financial sector in Oman is broadly classified into the following categories:

- Central Bank of Oman
- Commercial and specialized banks
- Non-banking financial institutions
- Brokerage and finance houses
- Exchange companies

The Central Bank of Oman provides oversight and regulatory supervision to the banking and non-banking finance Companies.

Commercial banks in Oman provide a full range of banking services in both domestic and foreign currencies for both corporations and individuals; some of these banks also provide investment services including brokerage for the Muscat Securities Market. Non-banking Financial Institutions play a traditional retail role in small ticket consumer financing as well as hire purchase, auto finance and leasing.

Other institutions including government sponsored and civil service pension funds, insurance companies and mutual funds also play a part in the overall provision of capital and liquidity in Oman. Corporate Governance standards are set by the Capital Markets Authority, which together with the Muscat Securities Market, facilitate the smooth running of the local bourse as well as the issue of new securities.

2011 will continue to pose challenges in global, regional and local markets. It is possible that the global economy has avoided a prolonged recession but recovery is likely to remain weak and prone to further sharp corrections. However, given the significant progress that has been made globally to avoid a prolonged recession, we remain cautiously optimistic about prospects for 2011.

Synergies with Strategic Partner, Commercial Bank of Qatar (CBQ)

NBO continues to work closely with its strategic alliance partner, Commercial Bank of Qatar, in many areas including cross-border business and the sharing of global best practice in terms of products, processes and systems.

A number of projects are being planned in conjunction with the Commercial Bank of Qatar. These projects are focused on sharing best practice in the fields of information technology, programme management, process re-engineering and strategic policy alignment.

Financial Performance Including Segmental Analysis

The Bank achieved a net profit after tax of RO 27.1 million for the twelve months ended 31st December 2010 compared to RO 21.1 million for the same period in 2009, an increase of 29% over last year.

Net spreads improved to 3.28% in 2010, up from 3.24% in 2009 reflecting the Bank's strategy in mobilizing low cost funds which more than offset the effect of the drop in asset yields. Net interest income declined slightly by 2% to RO 55.6 million compared with the previous year.

Trade related activities and investment banking are key areas of growth in 2011 which will enable the Bank to significantly improve its non-interest income to total income ratio from the current level

The Bank achieved a net profit after tax of RO 27.1 million for the twelve months ended 31 December 2010 compared to RO 21.1 million for the same period in 2009, an increase of 29% over last year.

of 29%. The Bank continued to invest in its systems and customer delivery capability and as such, operating expenses increased by 14.7% to RO 39.9 million. The full benefit of these costs will be seen in 2011.

The net cost of credit during the period is lower than the same period last year by RO 14 million mainly due to the improving portfolio quality and consequently lower provisioning requirements. Non-performing loans decreased to 3.5% at the end of December 2010 from 4.3% in 2009.

During the twelve months ended 31st December 2010, total net advances grew by only RO 2 million in view of certain major loan repayments, during the last quarter. Customer deposits grew by 5.1% during the year. The Bank successfully increased its low cost current and savings deposit base by RO 100 million, while reducing high cost term deposit by RO 36 million during the year.

The performance of various segments is covered in detail in the financial statements under segmental information (note 31).

We are confident that the Bank will continue to grow in a prudent and profitable manner by targeting quality assets with a prime focus on Oman.

Risk Management

In 2010, risk management processes were further enhanced. Policies and procedures were reviewed and approved along with the status of ongoing initiatives related to Credit Risk, Market Risk, Operational Risk, Information Security and Business Continuity Risk and Recoveries.

As part of the initiatives undertaken to move to advanced Basel II approaches, the Bank had engaged a leading consultancy firm to evaluate all enterprise-wide risks that were not fully captured in the Pillar I risks, as part of preparation of the ICAAP (Internal Capital Adequacy Assessment Process) document. The process is in progress and is expected to be completed during the year 2011.

The Division was involved in developing a Credit Risk Strategy for 2010 adopting a structured approach to credit growth and de-emphasizing areas that were considered relatively high risk based on the prevailing and expected market conditions.

The administrative framework and the policies and procedures in place for the management of risks in the Bank compares well with international best practices, the recommendations of the Basel Committee and the guidelines of the Central Bank of Oman.

Corporate Credit Risk

In 2010, the Bank customized and migrated to the Moody's Risk Analyst rating model for rating corporate customers. The model has been working satisfactorily.

To manage Corporate Credit Risk, the Division also conducted an exercise to validate and fine-tune the Probability of Defaults (PDs) assigned to the different risk grades based on the historical data, well-accepted analytical techniques as well as benchmarking.

Considering the continuing stressed situation of certain exposures and adverse market conditions, mainly in the real estate sector, the Bank took proactive measures for monitoring of these exposures in Oman and UAE, to aggressively pursue strategies for reducing such exposures or adequately collateralizing them. The Bank also continued with aggressive recovery efforts for the Egypt exposures.

Apart from monitoring credit exposures on a regular basis, the Bank also tracks portfolio credit quality, concentration risks, exposures to sensitive sectors and conducts stress tests on weak credits.

Retail Credit Risk

Credit facilities are offered to retail customers primarily based on Product Programs approved by the Board Risk Committee. In 2010, based on the prevailing market conditions, the competitive landscape and signs of weaknesses in portfolio performance in various segments, geographies, demographics, etc., the lending criteria for these programs were revised through a thorough review of the Credit Policy. Credit facilities outside the Product Programs were individually assessed by the Consumer Credit Risk Division and approved as per the delegated authorities.

The Bank is in the process of implementing a Loan Origination System, Credit Scoring Module and Collections solution to enhance its Consumer Credit Risk framework.

A review of the Consumer Credit Portfolio was conducted at regular intervals. Salient areas covered include deliquency analysis, NPA trends and recoveries.

The Bank has also implemented the recently introduced Bank Credit Statistical Bureau System (BCSB system) as mandated by the Central Bank and has, furthermore, effectively modified its delinquency reporting module (from the erstwhile monthly basis to the current daily basis). Several system enhancements and new processes have been introduced across critical activities to improve processing quality and efficiency, and to enhance the recovery methodologies of the retail portfolio. The Bank is in the process of implementing a Loan Origination System, Credit Scoring Module and Collections solution to enhance its Consumer Credit Risk framework.

Liquidity Risk Management

The Bank continued to face the challenge of managing its liquidity position in view of the restricted availability of long term funding at reasonable rates in both Omani Rials and USD. At the same time, there was a glut of short tenor Omani Rials in the banking system leading to close-to-nil yields on Central Bank of Oman CDs.

There was increased focus on the frequent projection of gaps for both Omani Rials and USD, and based on this, the ALCO (Asset Liability Committee) was able to formulate action plans in a timely manner. The Bank was successfully able to manage its liquidity position through a combination of available measures.

Liquidity Risk position continues to be monitored regularly through the analysis of various reports, such as Maturity of Assets and Liabilities, Liquidity Lines, Early Warning Indicators, Stock Ratios, Simulation of Currency Gaps and Stress Tests.

Market Risk Management

During 2010, the Treasury focused on expanding its product offerings to customers for hedging their loan, foreign exchange and commodity exposures. In the review of the Market Risk Policies, a new and more conservative methodology for risk-weighting treasury products was introduced in line with best practices being used by other banks. The investment policy was also reviewed and new limits on non-conventional hybrid investments were introduced.

The middle-office along with Treasury and Investment banking Operations continued the daily monitoring of Market Risk positions in foreign exchange and investments for the Bank. A more sophisticated real-time monitoring mechanism will be introduced over time, as and when warranted.

Interest Rate Risk in the Banking Book was analyzed at regular frequencies, and presented at ALCO based on the impact on the Economic Value as well as the Earnings at Risk on account of parallel shifts in the interest rates. The analysis was done based on Basel Committee and CBO guidelines. Monthly stress tests were conducted to study the adverse movements in the currency rates, as well as impairment in investment exposures.

Remedial Management

The Bank's focus on reducing and containing the level of non-performing loans continued with greater vigor. Due to sustained and aggressive follow up, the non performing loans have gone down from RO 71.7 million in 2009 to RO 61 million in 2010. This declining trend of the non performing loans is expected to continue in 2011. As a result of relentless pursuit of delinquent borrowers by the Division, the Bank was able to achieve recoveries and releases aggregating to RO 8.5 million in 2010.

Information Security and Business Continuity Management

This Division has delivered substantial enhancements to the Information Security rating of the Bank through development and implementation of appropriate policies and procedures and improvements to Business Continuity Management.

The Information Security architecture of the Bank was enhanced through implementation of a minimum security baseline for all systems.

Business continuity readiness was successfully tested and proved with effective management of the natural crisis situation during tropical cyclone PHET. The Bank successfully tested the disaster recovery infrastructure for all critical systems with expected recovery time objectives of the supported business services.

The key initiatives on the business continuity readiness included detailed study on the technology gap analysis of the Bank's information technology infrastructure from recovery perspective, review of business impact analysis and upgrade of the branch disaster recovery communication infrastructure to GPRS technology. A focused drive for business continuity awareness was undertaken covering all branches and other operating offices.

Compliance

The Bank's approach to managing compliance has been proactive and is premised on specific regulatory requirements in the markets in which it operates, as well as internationally accepted principles of Corporate Governance. The Bank fosters a culture of compliance which is seen not only as a requirement of law but also as a good business practice.

The Compliance Division is involved in reviewing the Bank's policies and procedures, services and products, to ensure compliance with various laws and regulations and internationally accepted best practices.

The Bank remains persistent in its commitment to combating money laundering and terrorism financing by improving control measures as the regulatory environment becomes more demanding. To this end, the Bank has in place a new state-of-the-art Anti Money Laundering system which has enhanced the Bank's ability to effectively monitor and detect suspicious transactions.

Corporate Communications

The Corporate Communications Division is responsible for the supervision and execution of all the activities undertaken by the Bank with regard to both internal and external communication.

The Bank's Corporate Communications Division continues to promote a sense of corporate identity by presenting a consistent and coherent corporate image.

Internal Communications – The Division engages in various mediums in supporting the internal communications of the Bank. The Division engages employees through the internal website, internal newsletter and annual staff get together. This has led to a significant improvement in the level of employee engagement.

External Communications – The Division has ensured the participation of the Bank in a number of major local events such the 'Tawasul First Civil Society Awards', 'Accident Free Oman' Campaign, 'ROP Civil Defence Day', 'Traffic and Safety Expo', 'Khareef Festival' in Salalah, 'CBFS Day', MOE's 'Saifi Afdhal Program', and numerous 40th National Day Celebrations, etc.

Additionally, a number of sports events including sponsorship of the 'Oman Football Association (OFA) Academy', 'Oman Cricket Club', were also supported, by the Bank.

Retail Banking

The main focus areas of the Retail Banking Division during the year have been on booking quality assets, increasing the market share of low cost deposits through the famous "Al Kanz" Savings Product and improving the quality of the distribution channels of the Bank.

The Bank, through its Retail Banking Division has also continued to invest substantially in customer facing initiatives, which included increasing the Bank's network in terms of both intensity and spread, to 67 branches in December 2010. Additionally the ATM and CCDM network grew to 177 machines during the same period with enhanced features to improve percentage uptime and customer experience.

The Bank's Wealth Management proposition, Sadara, is the only private banking product in Oman to obtain ISO certification in 2010 and has also expanded its footprint and is now able to serve the Bank's customers from a dedicated center in Salalah as well.

The Al Kanz savings account scheme continues to set new records with continued growth in market share during 2010. It is currently the highest paying total prize money scheme on offer in the market.

> The Bank's Wealth Management proposition, 'Sadara', is the only private banking product in Oman to obtain ISO certification in 2010 and has also expanded its footprint and is now able to serve the Bank's customers from a dedicated center in Salalah as well.

Several other retail products and initiatives were launched during the year such as the launching of the first women's credit card (DANA Card) early in the year. This Card has been shortlisted for the Best Credit Card in the Middle East for 2010. The "Winner of a Lifetime Award" was presented to a customer to watch the soccer Finals. Himayati – the bank's first insurance plan for the life protection needs of customers has displayed good growth in 2010 and is expected to continue into 2011.

In keeping with its progress on Omanisation, the Bank has continuously promoted selected local talent to take on more senior positions within the Division. All branch staff continue to be Omani nationals and ongoing training programmes are in place to develop their product knowledge and sales skills.

In 2011, the Bank will continue its focus on delivering superior customer service, while on the product side, Al Kanz will remain a key focus area, followed by the Mortgage Business, Cards, Wealth Management and Insurance.

Corporate Banking and Capital Markets

Corporate Banking

The Bank in 2010 identified and converted new business opportunities in the local market selectively.

During the year, the Bank also continued to focus on the protection of its existing asset values especially in the real estate sector in which the bank continues to exercise utmost caution. Thanks to the prudent and cautious restructuring and reschedulement program which was put in place in 2009 for some of the large players in this sector, the Bank was successful in minimizing the impact of the continued slow down in the real estate sector. The Bank did this through constant dialogue with the borrowers in this sector and by capping the exposure to this sector at run down levels during the year and by continuous credit enhancements on these exposures. As a result of these proactive measures, the Special Asset Management Unit set up by the bank in 2008 to identify and nurse the assets in real estate and construction sectors, showing signs of difficulties, was wound down following the successful resolution of credit issues in these large accounts during 2010.

> The Bank has played a significant role in the development of Sohar Industrial Port by being the principal banker to many of the large industries and businesses set up in Sohar. Similarly the Bank is looking to play an active role in the development of Duqm as an industrial hub.

The Bank continued to focus on the infrastructure, oil and gas and contracting businesses which are the driving forces of the Omani economy and proved to be sectors which spearheaded the sharp recovery in economic activities in 2010. The large infrastructure projects and the expected spending on these projects by the government provided further fillip to the recovery and the Bank has played its rightful role by providing credit to its customers who were part of these sectors. The Bank has also identified potential businesses arising out of the Government's spending plan on the infrastructure sectors and has positioned itself with various leading domestic and international business houses to play a significant role in these projects. These are expected to yield dividends in 2011.

The Bank has played a significant role in the development of Sohar Industrial Port by being the principal banker to many of the large industries and businesses set up in Sohar. Similarly the Bank is looking to play an active role in the development of Duqm as an industrial hub.

The Transaction Banking Unit which was established last year to enhance the services to corporate customers of the Bank by providing dedicated operational service has received positive and favorable response from the customers and has helped the Bank in competing effectively. The Unit now functions as the focal point for providing corporate customers with quality service for their banking transactions through a dedicated Corporate Branch, Specialized Trade Services, Internet Banking, and Corporate Cash Collection, in addition to the Corporate Call Centre.

Trade Services, bulk remittances and Corporate Internet Banking services have proved to be a success with most of the corporate customers of the Bank actively using it for their banking requirements. Development and implementation of Phase II of Corporate Internet Banking to further enhance the scope and functionality of the existing offering is already underway and is expected to be fully deliverable in 2011.

The Bank believes that in a dynamic and competitive market, the key to retaining a corporate customer base and attracting new customers is by offering quality personalized and customized services backed by state-of-the-art technology. The Bank will continue its initiatives in this regard in 2011 and add more dedicated services for corporate customers.

To maintain and enhance the quality of credit appraisal process, staff were trained on credit approval processes and additional relationship managers with considerable experience in the local and regional markets were recruited. Looking at the opportunities in the market and the Banks' determination to be a leading and focused player, the Bank is committed to strengthen the Corporate Banking Division with people and technology.

Investment Banking

The Muscat Securities Market turned in a modest performance but better than some of its more celebrated peers in the GCC. Regional markets witnessed varying degrees of positive and negative events which was visible in the performance gap in their respective markets. Irrespective, cautious but positive investor sentiment was seen sweeping the markets across the region and the globe.

In this backdrop, the Investment Banking Division performed well during the year. Despite moderate growth in the local bourse, the Division managed to realize profits as well as book significant dividend income during the year. The Division built further on its strengths and obtained a number of mandates to emerge as one of the leading players in the Fund Custody and Administration business in the Sultanate.

The Asset Management Unit added new assets under management as it continued to provide stellar service to its clients through first class portfolio management and investment advisory services. The Bank is a key player in this space and expects to further strengthen its position in the coming year through the launch of new products and an increase in distribution channels. The Corporate Finance & Advisory unit expanded its product portfolio and won a number of new mandates which bode well for its continued growth in the coming year. The Brokerage Unit turned in a commendable performance, increasing its overall market share over the previous year.

The Division is targeting continued growth in the coming year and is well positioned to take advantage of emerging business opportunities driven by a healthy economic outlook and increasing confidence.

Treasury

In its continued pursuit to provide the best possible value added services to its corporate clients, the Treasury Division, in 2010 expanded the alternative products suite for corporate clients to Currency and Commodity Derivative hedging solutions to assist them to manage related risks in their operations. Year 2010 has been a landmark year as the Bank has been seen as a strategic partner extending service to high value corporate clients in providing Treasury Services through Interest Rate Swaps, Commodity and currency derivatives.

During the year the Division assiduously worked on improving the Asset Liability Management process and policies that assisted the Bank in optimally steering its balance sheet through tough market conditions. This resulted in a significant reduction in the cost of funds of the Bank. In addition, during the year, the Division, in coordination with the Financial Institutions Group worked upon strengthening the Bank's foreign exchange and money market relationships within and outside the GCC with Banks and Financial Institutions.

Sustained global financial stability in markets, resulting in reasonable economic growth in the years ahead will allow the Division to build on opportunities generated by the Bank.

International Banking – Financial Institutions Group (FIG)

The Bank's corporate and institutional customers have access to International Trade and payment products, owing to the strong alliances that Financial Institutions Group Division has established with a large global network of local and international banks. The Bank's global banking partnerships ensure that customers of the Bank can avail a broad spectrum of products and services in line with their requirements.

The Division provides seamless global relationship management and a broad range of products and services to meet the needs of the customers of the Bank, with the help of the Bank's global partners and a dedicated experienced team.

The Division and the Bank values its relationships and owe its continued growth to correspondents from over 45 countries.

Finance

Financial Control

The Bank continues to follow international best practice in terms of disclosure requirements of International Financial Reporting Standards (IFRS) as well as the Regulators in the reporting of the financial statements so as to increase the transparency of financial information provided externally.

The Division was actively involved in cost management, balance sheet management and various bank wide strategic projects.

During the year the Division was closely engaged in the preparation of the ICAAP (Internal Capital Adequacy Assessment process) document.

The Division also made a significant progress in closing pending tax assessment of prior years.

Performance Management

This Division continues to play a key role in providing MIS reports and analytics to the executive management, business managers and line managers through a variety of operational, tactical and strategic reports. It also ensures that structured and adequate information is available at all times so that informed business decisions are possible.

Operations

2010 has been a successful and eventful year for the Operations Division. The year began with consolidation of Operations Division with all operational services/activities with the focus on continuous improvement in its processes to deliver value to the customers.

Highlights and achievements of the Division included;

- Successful implementation of a new front end branch system (Symphony) across all branches in the Sultanate of Oman.

- The launch of new software for Trade Services Operations and a trade portal for e-trade services, as a part of corporate Internet banking, which is expected to streamline the trade business processes with better service delivery and control. The implementation is expected to go live during 2011.

- The Bank was the first in Oman to complete a full integration of the Electronic Clearing system (ECC) with the Bank's core banking system.

- On implementation of the Electronic Cheque Clearing system, full integration of the system with the Core Banking System, the system was also rolled out across all branches in the Sultanate of Oman.

The Division has also introduced quality control initiatives within Investment Banking Operations to maintain the high quality capability of the Bank to execute local and international stocks traded by the customers of the Bank through the Bank's brokerage team, whilst also enhancing levels of customer satisfaction.

Information Technology

The Information Technology (IT) Division is a catalyst for business change in the Bank and an enabler for fulfilling business and customer requirements. The Division partners closely with the business and builds cost effective IT solutions and aligns IT strategy with business strategy. The Division consistently uses diverse technologies to meet the complex and rising expectations of the business as well as the customers of the Bank.

By aligning the IT initiatives with the bank's overall business objectives, the IT Division ensures seamless service delivery. The Division is paying the much required attention to protect its assets by employing latest preventive mechanisms and continuous monitoring tools. The Division provides a highly secure environment for maintaining and protecting confidentiality, integrity and availability of information about the Bank's customers.

The Bank has a disaster recovery site that can be activated in case of any unforeseen circumstances to ensure availability and continuity of critical systems and provide essential services to the Bank's customers. Disaster recovery facilities are periodically tested to ensure fallback if required in case of any eventualities.

Following major system changes were delivered in 2010.

- The Division successfully completed the development of a new branch front end system which was implemented in all Oman branches. This new system would enable the branches to provide efficient customer service besides giving opportunities to up sell or cross sell other products and services. Implementation of the system in UAE and Egypt, is proposed for 2011.

- The Bank was the first in Oman to complete online integration of Electronic Cheque Clearing System with our Core Banking System and implement it across all branches of the Bank in Oman.

- The Division successfully completed the migration and became a member of the new OmanNet ATM/POS Switch implemented by Central Bank of Oman.

- The Division has also implemented a number of direct-to-customer technology solutions during the year.

Human Resources

The year 2010 has been a significant year with several key initiatives undertaken by the Human Resources Division and it continues to remain closely aligned with business functions.

The Division has invested in re-engineering the Human Resources Management System to ease the process of hiring, payroll, benefit administration, reduce paper work and improve accuracy.

The Bank also continued in its quest to develop Omani skills both internally and externally and maintained the Omanisation ratio well above the regulatory requirement as at close of the year.

Talent Mapping: The Division started with staff planning documents to facilitate a way where Divisional heads can focus on staff and assess them critically using a series of parameters. This was followed by a mapping exercise to draw out the top and bottom employees (in terms of potential and performance).

Succession planning: The Bank formulated a succession policy for its key staff to ensure continuity and seamless transfer of responsibility should a change in personnel take place.

Young High potential Program: In keeping with the Bank's strategy to develop talented staff, the "NBO Young High Potential (YHP) Program" was launched whereby young high potential staff are selected and placed on a fast track path to enable them to develop the required competencies in preparation of future leadership positions in the Bank.

Management Trainee Program: The Bank recruited a further batch of management trainees during the year as part of the drive to improve quality of staff over time.

Internal Audit Function

Structure and mandate-The Internal Audit Division is an independent function reporting to the Board Audit Committee. The Division covers the review of all Divisions and branches of the Bank as also the overseas branches as well as the conduct of investigations.

The Division uses a structured risk assessment approach that examines all of the banks activities and entities. The progress of corrective actions on outstanding issues is monitored at fixed frequencies through a centralized bank-wide Issues Management system that is maintained by the Division.

The Division also works in co-ordination with the regulators and the statutory auditors as and when required.

Quality Assurance Reviews on Internal Audit

The Division has developed and maintains a quality assurance and improvement program that covers all aspects of the internal audit activity.

Further, to ensure that Internal audit activities itself are subject to independent review, a Quality Assessment Review was carried out in 2008 and repeated in 2009 by PricewaterhouseCoopers (PwC). For 2009, NBO's Internal Audit Division (IAD) has again been rated with the highest level of conformance to the Standards of the Institute of Internal Auditors.

Internal Control Systems and Their Adequacy

The management is aware of its responsibilities to the various stakeholders of the Bank. As part of fulfilling its responsibilities and ensuring that all areas of the Bank's operations are managed effectively and efficiently, progressive enhancements to the internal control systems of the Bank were introduced during the year, which include new policies and procedures, quality control reviews, and related enhanced controls.

The Management continues to take steps to enhance the internal control systems to support the achievement of the corporate objectives and to ensure that stakeholders' interests are protected.

Finally, the Management takes cognizance of the role played by the Compliance Division and the Internal Audit Division and their recommendations.

Outlook

Both the challenges and achievements of 2010 have been considerable. The Bank has focused on building a sustainable, scalable platform for future growth. The Bank was also awarded the Best Current Account Product Award for 2010 by Bankers Middle East. The Bank has continued to work with its strategic partner Commercial Bank of Qatar in identifying areas of common ground and benefit.

The country's budget for the year 2011, which is based on conservative pricing of oil at US $ 58 per barrel has estimated sizeable expenditure on expansion of educational and health services. Further, under the Eighth five-year plan the government has projected a spending of RO 12 billion in a phased manner, which includes new projects worth RO 5.6 billion and carried forward projects of RO 6.4 billion from the Seventh five year plan. The majority of the spending is in the infrastructure sector to the tune of RO 8.1 billion. This will ensure that growth opportunities continue to be available to banks.

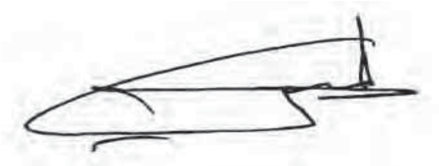
The Bank has hired the services of McKinsey & Company to establish a clear strategy for sustainable growth in 2011 and beyond, wherein, the Bank will clearly define strategy with respect to financial performance, customers and products, process and service improvement and development of its employees.

Oman is the primary focus and market for the Bank and the Bank will continue to build the UAE franchise as an additional service point for our Omani customers. The Egypt operations will continue on a care and maintain basis.

Whilst the focus will be on diversified revenue growth and strategic cost management, strong risk management is a central theme to the Bank's strategy to mitigate the potential risks that would be encountered by the Bank during its normal course of business.

The Bank will continue to work closely with its strategic alliance partner Commercial Bank of Qatar, to capitalize on regional business opportunities and transfer best practices across both organizations.

The Bank approaches 2011 with a degree of optimism that both, the economic recovery and the stability in markets, can be sustained, pointing to less volatile conditions in the year ahead.



Salaam Said Al Shaksy
Chief Executive Officer

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P.R. No. MH/4

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF NATIONAL BANK OF OMAN SAOG

Report on the Financial Statements

We have audited the accompanying financial statements of National Bank of Oman SAOG ('the bank'), which comprise the statement of financial position as at 31 December 2010 and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Board of Director's Responsibility for the Financial Statements

The Board of Directors is responsible for the preparation and fair presentation of these 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 preparation of 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 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the 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 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 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 financial statements present fairly, in all material respects, the financial position of the bank as at 31 December 2010 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on Other Legal and Regulatory Requirements

In our opinion the 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.

Ernst & Young

31 January 2011
Muscat

Philip Stanton
Partner

Statement of Financial Position

As at 31st December 2010

2009 USD'000	2010 USD'000		Notes	2010 RO'000	2009 RO'000
		ASSETS			
478,849	**591,010**	Cash and balances with Central Banks	3	**227,539**	184,357
45,153	-	Financial assets designated at fair value through profit or loss	4	-	17,384
433,548	**218,584**	Due from banks and other money market placements (net)	5	**84,155**	166,916
3,535,057	**3,541,200**	Loans and advances to customers (net)	6	**1,363,362**	1,360,997
78,078	**163,982**	Non-trading financial investments	7	**63,133**	30,060
33,151	**58,060**	Premises and equipment	8	**22,353**	12,763
-	**18**	Deferred tax asset	13	**7**	-
66,847	**115,208**	Other assets	9	**44,355**	25,736
4,670,683	**4,688,062**	**TOTAL ASSETS**		**1,804,904**	1,798,213
		LIABILITIES, SUBORDINATED FUNDS AND EQUITY			
		LIABILITIES			
570,551	**343,753**	Due to banks and other money market deposits	10	**132,345**	219,662
3,274,722	**3,441,273**	Customers' deposits	11	**1,324,890**	1,260,768
90,130	**122,297**	Other liabilities	12	**47,084**	34,700
13,200	**10,844**	Taxation	13	**4,175**	5,082
26	-	Deferred tax liability		-	10
3,948,629	**3,918,167**	**TOTAL LIABILITIES**		**1,508,494**	1,520,222
		SUBORDINATED FUNDS			
71,688	**79,481**	Subordinated private placements	14	**30,600**	27,600
		EQUITY			
280,779	**280,779**	Share capital	15	**108,100**	108,100
89,519	**89,519**	Share premium reserve	16	**34,465**	34,465
84,870	**91,927**	Legal reserve	17	**35,392**	32,675
11,478	**11,478**	General reserve	18	**4,419**	4,419
20,800	**38,306**	Other non-distributable reserves	19	**14,748**	8,008
33,694	**42,117**	Proposed cash dividend	20	**16,215**	12,972
129,226	**136,288**	Retained earnings		**52,471**	49,752
650,366	**690,414**	**TOTAL EQUITY**		**265,810**	250,391
4,670,683	**4,688,062**	**TOTAL LIABILITIES, SUBORDINATED FUNDS AND EQUITY**		**1,804,904**	1,798,213

The financial statements were authorised for issue on 31.01.2011 in accordance with a resolution of the Board of Directors.

Chairman

Chief Executive Officer

The attached notes 1 to 33 form part of these financial statements.

Statement of Comprehensive Income
For the Year Ended 31st December 2010

2009 USD'000	2010 USD'000		Notes	2010 RO'000	2009 RO'000
265,873	**247,205**	Interest income	22	**95,174**	102,361
(118,283)	**(102,722)**	Interest expense	23	**(39,548)**	(45,539)
147,590	**144,483**	Net interest income		**55,626**	56,822
65,052	**58,416**	Other operating income	24	**22,490**	25,045
212,642	**202,899**	**OPERATING INCOME**		**78,116**	81,867
		OPERATING EXPENSES			
(53,260)	**(60,330)**	Staff costs		**(23,227)**	(20,505)
(29,711)	**(33,512)**	Other operating expenses	25	**(12,902)**	(11,439)
(7,377)	**(9,922)**	Depreciation	8	**(3,820)**	(2,840)
(90,348)	**(103,764)**			**(39,949)**	(34,784)
122,294	**99,135**	**PROFIT FROM OPERATIONS BEFORE IMPAIRMENT LOSSES AND TAX**		**38,167**	47,083
(20,691)	**-**	Credit loss expense - bank loans	5	**-**	(7,966)
(53,203)	**(41,249)**	Credit loss expense – customers' loan	6	**(15,881)**	(20,483)
18,276	**11,026**	Recoveries and releases from provision for credit losses	6	**4,245**	7,036
9,000	**10,455**	Recoveries from loans and advances written off		**4,025**	3,465
-	**800**	Recoveries/releases from provision for credit losses on banks		**308**	-
(10,704)	**(1,631)**	Impairment losses on available for sale investments	7	**(628)**	(4,121)
(57,322)	**(20,599)**	TOTAL IMPAIRMENT LOSSES (NET)		**(7,931)**	(22,069)
64,972	**78,536**	**PROFIT BEFORE TAX**		**30,236**	25,014
(10,153)	**(7,961)**	Taxation	13	**(3,065)**	(3,909)
54,819	**70,575**	**PROFIT FOR THE YEAR**		**27,171**	21,105
		OTHER COMPREHENSIVE INCOME			
8,949	**306**	Net movement on available for sale investments		**118**	3,445
-	**2,481**	Surplus on revaluation of buildings		**955**	-
(1,442)	**338**	Net movement on cash flow hedge		**130**	(555)
(184)	**44**	Tax effect of net results on available for sale financial investments		**17**	(71)
7,323	**3,169**	**OTHER COMPREHENSIVE INCOME FOR THE YEAR**		**1,220**	2,819
62,142	**73,744**	**TOTAL COMPREHENSIVE INCOME FOR THE YEAR**		**28,391**	23,924
0.05	**0.06**	Earnings per share: Basic and diluted, profit for the year attributable to equity holders	27	**0.025**	0.019

The attached notes 1 to 33 form part of these financial statements.

Statement of Changes in Equity

For the Year Ended 31st December 2010

(RO'000)	Share capital	Share premium	Legal reserve	General reserve	Other non-distributable reserves (note 19)	Proposed cash dividend (note 20)	Retained earnings	Total
Balance at 1st January 2009	108,100	34,465	30,564	4,419	14,469	18,918	34,450	245,385
Total comprehensive income	-	-	-	-	2,819	-	21,105	23,924
Transfer to retained earnings	-	-	-	-	(12,500)	-	12,500	-
Transfer to subordinated reserve	-	-	-	-	3,220	-	(3,220)	-
Dividend paid	-	-	-	-	-	(18,918)	-	(18,918)
Transfer to legal reserve	-	-	2,111	-	-	-	(2,111)	-
Proposed cash dividend	-	-	-	-		12,972	(12,972)	-
Balance at 31st December 2009	108,100	34,465	32,675	4,419	8,008	12,972	49,752	250,391
Balance at 1st January 2010	**108,100**	**34,465**	**32,675**	**4,419**	**8,008**	**12,972**	**49,752**	**250,391**
Total comprehensive income	**-**	**-**	**-**	**-**	**1,220**	**-**	**27,171**	**28,391**
Transfer to subordinated reserve	**-**	**-**	**-**	**-**	**5,520**	**-**	**(5,520)**	**-**
Dividend paid	**-**	**-**	**-**	**-**	**-**	**(12,972)**	**-**	**(12,972)**
Transfer to legal reserve	**-**	**-**	**2,717**	**-**	**-**	**-**	**(2,717)**	**-**
Proposed cash dividend	**-**	**-**	**-**	**-**	**-**	**16,215**	**(16,215)**	**-**
Balance at 31st December 2010	**108,100**	**34,465**	**35,392**	**4,419**	**14,748**	**16,215**	**52,471**	**265,810**
Balance at 1st January 2010 – In USD'000	280,779	89,519	84,870	11,478	20,800	33,694	129,226	650,366
Balance at 31st December 2010 – In USD'000	**280,779**	**89,519**	**91,927**	**11,478**	**38,306**	**42,117**	**136,288**	**690,414**

The attached notes 1 to 33 form part of these financial statements.

Statement of Cash Flows

For the Year Ended 31st December 2010

2009 USD'000	**2010 USD'000**		Notes	**2010 RO'000**	2009 RO'000
		OPERATING ACTIVITIES			
64,972	**78,536**	Profit before taxation		**30,236**	25,014
		Adjustments for:			
7,377	**9,922**	Depreciation	8	**3,820**	2,840
10,062	**2,304**	Provision for credit losses (net)		**887**	3,874
10,704	**1,631**	Impairment losses on available for sale investments		**628**	4,121
20,896	**(3,779)**	Impairment losses and interest reserve on bank loans		**(1,455)**	8,045
(66)	**-**	Profit on sale of equipment (net)		**-**	(25)
(6,519)	**(2,997)**	Profit on sale of investments		**(1,154)**	(2,510)
(3,838)	**(4,237)**	Investment income		**(1,631)**	(1,477)
103,588	**81,380**	Operating profit before changes in operating assets and liabilities		**31,331**	39,882
100,371	**80,675**	Due from banks and other money market placements		**31,060**	38,643
6,268	**(154,912)**	Due to banks and other money market deposits		**(59,641)**	2,413
94,408	**(8,447)**	Loans and advances to customers		**(3,252)**	36,347
(45,099)	**45,153**	Financial assets at fair value through profit or loss		**17,384**	(17,363)
135,140	**(48,361)**	Other assets		**(18,619)**	52,029
(210,356)	**166,551**	Customers' deposits		**64,122**	(80,987)
(130,379)	**32,166**	Other liabilities		**12,384**	(50,196)
-	**1,984**	Deposit with Central Bank of Oman		**764**	-
53,941	**196,189**	**Cash from operations**		**75,533**	20,768
(15,979)	**(10,151)**	Taxes paid		**(3,908)**	(6,152)
37,962	**186,038**	**Net cash from operating activities**		**71,625**	14,616
		INVESTING ACTIVITIES			
(26,904)	**(109,861)**	Purchase of non-trading investments		**(42,296)**	(10,358)
33,649	**25,639**	Proceeds from sale of non-trading investments		**9,871**	12,955
(15,883)	**(32,537)**	Purchase of premises and equipment	8	**(12,527)**	(6,115)
281	**107**	Disposal of premises and equipment		**41**	108
1,873	**3,156**	Income from bond and other investments		**1,215**	721
1,965	**1,081**	Dividend income		**416**	756
88	**(96)**	Translation differences on premises and equipment and tax		**(37)**	34
(4,931)	**(112,511)**	Net cash used in investing activities		**(43,317)**	(1,899)
		FINANCING ACTIVITIES			
(49,138)	**(33,694)**	Payment of dividend		**(12,972)**	(18,918)
(2,597)	**7,792**	Net movement in subordinated private placements		**3,000**	(1,000)
(51,735)	**(25,902)**	Net cash used in financing activities		**(9,972)**	(19,918)
(18,704)	**47,625**	**INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS**		**18,336**	(7,201)
721,330	**702,626**	Cash and cash equivalents at the beginning of the year		**270,511**	277,712
702,626	**750,251**	**CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR**		**288,847**	270,511
		REPRESENTING:			
475,566	**589,711**	Cash and balances with Central Banks (note 3)		**227,039**	183,093
227,060	**160,540**	Deposits and balances with other banks and financial institutions (net)		**61,808**	87,418
702,626	**750,251**			**288,847**	270,511

The attached notes 1 to 33 form part of these financial statements.

1 LEGAL STATUS AND PRINCIPAL ACTIVITIES

National Bank of Oman SAOG ("NBO", "the bank") was established in the Sultanate of Oman in 1973 as a joint stock company and is engaged in retail, corporate banking, and investment banking services within the Sultanate of Oman with overseas branches in the United Arab Emirates and Egypt. The Bank operates in Oman under a banking licence issued by the Central Bank of Oman and is covered by its deposit insurance scheme. The registered address of the bank is: PO Box 751, Ruwi, Postal Code 112, Muscat, Sultanate of Oman. The bank has a primary listing on Muscat Stock Exchange.

The Bank employed 1,306 employees as at 31st December 2010 (2009: 1,329).

2 ACCOUNTING POLICIES

2.1 Basis of preparation

The financial statements are prepared under the historical cost convention as modified to include the revaluation of freehold land and buildings and the measurement at fair value of derivatives, investments classified as available for sale and fair value through profit and loss.

These financial statements are presented in Rial Omani rounded to the nearest thousand Rial Omani, except when otherwise indicated. The functional currencies of the Bank's operations are as follows:

Sultanate of Oman	:	Rial Omani
United Arab Emirates	:	UAE Dirham
Egypt	:	US Dollar

The United States Dollar amounts shown in the financial statements have been translated from Rial Omani at an exchange rate of RO 0.385 to each US Dollar, and are shown for the convenience of the reader only.

2.2 Statement of compliance

The financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards (IFRS), applicable regulations of the Central Bank of Oman and applicable requirements of the Commercial Companies Law and the Capital Market Authority of the Sultanate of Oman.

The Bank presents its statement of financial position broadly in order of liquidity.

2.3 Significant accounting judgments and estimates

In the process of applying the Bank's accounting policies, management has used its judgments and made estimates in determining the amounts recognised in the financial statements. The most significant use of judgments and estimates are as follows:

Going concern

The Bank's management has made an assessment of the Bank's ability to continue as a going concern and is satisfied that the Bank 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 Bank's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

Impairment losses on loans and advances

The Bank reviews its individually significant loans and advances at each statement of financial position date to assess whether an impairment loss should be recorded in the statement of comprehensive income. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. In estimating these cash flows, the Bank makes judgments about the borrower's financial situation and the net realisable value of collateral. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

2 ACCOUNTING POLICIES (continued)

2.3 Significant accounting judgments and estimates (continued)

Loans and advances that have been assessed individually and found not to be impaired and all individually insignificant loans and advances are then assessed collectively, in groups of assets with similar risk characteristics, to determine whether provision should be made due to incurred loss events for which there is objective evidence but whose effects are not yet evident. The collective assessment takes account of data from the loan portfolio (such as credit quality, levels of arrears, credit utilisation, loan to collateral ratios etc.), concentrations of risks and economic data (including levels of unemployment, real estate prices indices and the performance of different individual groups).

Impairment of equity investments

The Bank treats available-for-sale equity investments as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is 'significant' or 'prolonged' requires judgment.

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 variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data are not available, judgment is required to establish fair values.

Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

2.4 Change in accounting policies and disclosures

The accounting policies are consistent with those used in the previous year, except for where the Bank has adopted certain new standards of, amendments and interpretations to IFRS.

New standards of, amendments and interpretations to IFRS relevant to the bank

The adoption of these standards, amendments and interpretations did not have any effect on the financial performance or position of the Bank. They did, however, in certain cases give rise to additional disclosures.

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

IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items effective 1 July 2009
IFRIC 17 Distributions of Non-cash Assets to Owners effective 1st July 2009
Improvements to IFRSs (May 2008)
IFRS 5 Non-current assets held for sale and discontinued operations effective 1st January 2010

Improvements to IFRSs (April 2009):
IFRS 2 – Share-based payment
IAS 1 – Presentation of financial statements
IAS 17 – Leases
IAS 38 – Intangible assets
IAS 39 – Financial instruments : Recognition and Measurement
IFRIC 9–Reassement of Embedded derivatives

2 ACCOUNTING POLICIES (continued)

2.4 Change in accounting policies (continued)

The following standards, amendments and interpretations are not yet effective:
Other IASB Standards and Interpretations that have been issued but are not yet mandatory, and have not been adopted by the Bank:

IAS 24 Related Party Disclosures (Amendment)

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

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

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

IFRS 9 Financial Instruments: Classification and Measurement

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

IFRIC 14 Prepayments of a minimum funding requirement (Amendment)

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

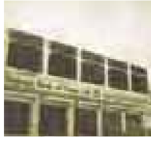
IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments

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

Improvements to IFRSs (issued in May 2010)

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

IFRS 7 Financial Instruments: Disclosures
IAS 1 Presentation of Financial Statements
IFRIC 13 Customer Loyalty Programmes
The Bank, however, expects no impact from the adoption of the amendments on its financial position or performance.



2 ACCOUNTING POLICIES (continued)

2.5 Summary of significant accounting polices

Date of recognition

All financial assets and liabilities are initially recognised on the trade date, i.e., the date that the Bank becomes a party to the contractual provisions of the instrument. This includes "regular way trades": 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.

Initial measurement of financial instruments

The classification of financial instruments at initial recognition depends on the purpose and the management's intention for which the financial instruments were acquired and their characteristics. All financial instruments are measured initially at their fair value plus transaction costs, except in the case of financial assets and financial liabilities recorded at fair value through profit or loss.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, balances with banks and other financial institutions, treasury bills and money market placements, deposits and certificates of deposit maturing within three months of the date of acquisition. Cash and cash equivalents are carried at amortised cost in the statement of financial position.

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

Financial assets and financial liabilities classified in this category are designated by management on initial recognition when the following criteria are met:

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 and financial liabilities at fair value through profit or loss are recorded in the statement of financial position at fair value. Changes in fair value are recorded in 'other operating income'. Interest earned or incurred is accrued in 'Interest income' or 'Interest expense', respectively, using the Effective Interest Rate (EIR), while dividend income is recorded in 'Other operating income' when the right to the payment has been established.

Held-to-maturity

Held-to-maturity financial investments are those which carry fixed or determinable payments and have fixed maturities and which the Bank has the intention and ability to hold to maturity. After initial measurement, held-to-maturity financial investments are subsequently measured at amortised cost using the effective interest rate method, less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The amortisation is included in 'Interest income' in the statement of comprehensive income. The losses arising from impairment of such investments are recognised in the statement of comprehensive income.

If the Bank were to sell or reclassify more than an insignificant amount of held-to-maturity investments before maturity (other than in certain specific circumstances), the entire category would be tainted and would have to be reclassified as available-for-sale. Furthermore, the Bank would be prohibited from classifying any financial asset as held to maturity during the following two years.

Available-for-sale

Available-for-sale investments include equity and debt securities. Equity investments classified as available-for-sale are those which are neither classified as held-for-trading nor designated at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions.

The Bank has not designated any loans or receivables as available-for-sale.

2 ACCOUNTING POLICIES (continued)

Available for sale (continued)

After initial measurement, available-for-sale financial investments are subsequently measured at fair value, unless fair value cannot be reliably determined in which case they are measured at cost less impairment. Fair value changes are reported as a separate component of equity until the investment is derecognised or the investment is determined to be impaired. On derecognition or impairment, the cumulative gain or loss previously reported as "cumulative changes in fair value" within equity, is included in the profit or loss for the year. Interest earned whilst holding available-for-sale financial investments is reported as interest income using the EIR. Dividends earned whilst holding available-for-sale financial investments are recognised in the statement of comprehensive income as 'Other operating income' when the right of the payment has been established. The losses arising from impairment of such investments are recognised in the profit or loss for the year in 'Impairment losses on financial investments' and removed from the 'Available-for-sale reserve'.

Due from banks and loans and advances to customers

Due from banks and loans and advances to customers are financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale. After initial measurement, amounts due from banks and loans and advances to customers are subsequently measured at amortised cost using the effective interest rate method, less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the effective interest rate. The amortisation is included in 'Interest income' in the profit or loss for the year. The losses arising from impairment are recognised in the profit or loss for the year in 'Credit loss expense'**.**

Determination of fair values

The fair value for financial instruments traded in active markets at the statement of financial position date is based on their quoted market price or dealer price quotations, without any deduction for transaction costs.

For all other financial instruments not traded in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include the discounted cash flow method, comparison to similar instruments for which market observable prices exist, options pricing models, credit models and other relevant valuation models.

Certain financial instruments are recorded at fair value using valuation techniques in which current market transactions or observable market data are not available. Their fair value is determined using a valuation model.

Premises and equipment

Premises and equipment are initially recorded at cost or deemed cost. Revaluations of buildings are carried out every five years on an open market value for existing use basis by an independent valuer. Net surpluses arising on revaluation are credited to a capital reserve, except that a revaluation increase is recognised as income to the extent that it reverses a revaluation decrease of the same asset previously recognised as an expense.

A decrease as a result of a revaluation is recognised as an expense, except that it is charged directly against any related revaluation surplus to the extent that the decrease does not exceed the amount held in the revaluation surplus in respect of that same asset. On disposal the related revaluation surplus is credited to retained earnings.

Depreciation is provided on a straight-line basis over the estimated useful lives of all premises and equipment other than freehold land, which is deemed to have an indefinite life, and capital work in progress. The rates of depreciation are based upon the following estimated useful lives:

Buildings on freehold land	25 years
Buildings on leasehold land	10 years
Leasehold improvements	3 to 5 years
Motor vehicles	4 years
Furniture	10 years
Equipment	5 years

The assets' residual values, useful lives and depreciation methods are reviewed and adjusted if appropriate at each statement of financial position date.

2 ACCOUNTING POLICIES (continued)

Derecognition of financial assets and financial liabilities

Financial assets:

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

When the Bank 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 Bank's continuing involvement in the asset. In that case, the bank 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 Bank 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 Bank could be required to repay.

Financial liabilities:

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.

Collateral pending sale

The Bank occasionally acquires real estate in settlement of certain loans and advances. Real estate is stated at the lower of the net realisable value of the related loans and advances and the current fair value of such assets. Gains or losses on disposal, and unrealised losses on revaluation, are recognised in the profit or loss for the year.

Deposits

All money market and customer deposits are carried at amortised cost using EIR.

Other borrowed funds

Other borrowings including subordinate private placements are recognised initially at their issue proceeds. Borrowings are subsequently stated at amortised cost; any difference between proceeds, net of transaction costs, and the redemption value is recognised in the profit or loss over the period of the borrowings using EIR.

Taxation

Taxation is provided for based on the relevant tax laws of the respective countries, in which the Bank operates.

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the profit or loss for the year except to the extent that it relates to items recognised directly to other comprehensive income, 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 balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on 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.

2 ACCOUNTING POLICIES (continued)

Taxation (continued)

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.

Derivatives and hedge accounting

The Bank makes use of derivative instruments to manage exposures to interest rate, foreign currency and credit risks, including exposures arising from forecast transactions. In order to manage particular risks, the Bank applies hedge accounting for transactions which meet the specified criteria.

At inception of the hedge relationship, the Bank formally documents the relationship between the hedged item and the hedging instrument, including the nature of the risk, the objective and strategy for undertaking the hedge and the method that will be used to assess the effectiveness of the hedging relationship.

Also at the inception of the hedge relationship, a formal assessment is undertaken to ensure the hedging instrument is expected to be highly effective in offsetting the designated risk in the hedged item. A hedge is regarded as highly effective if the changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated are expected to offset in a range of 80% to 125%. For situations where that hedged item is a forecast transaction, the Bank assesses whether the transaction is highly probable and presents an exposure to variations in cash flows that could ultimately affect the profit or loss for the year.

Cash flow hedges

For designated and qualifying cash flow hedges, the effective portion of the gain or loss on the hedging instrument is initially recognised directly in equity in the cash flow hedge reserve. The ineffective portion of the gain or loss on the hedging instrument is recognised immediately in profit or loss for the the year.

When the hedged cash flow affects the profit or loss, the gain or loss on the hedging instrument is 'recycled' in the corresponding income or expense line of the profit or loss for the year . When a hedging instrument expires, or is sold, terminated, exercised, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the hedged forecast transaction is ultimately recognised in the profit or loss for the year. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the profit or loss for the year.

Derivative financial instruments including credit default swaps, which are not designated and qualified as hedges are recorded at fair value and unrealised gains or losses are included in the profit or loss for the year.

Fiduciary assets

Assets held in trust or in a fiduciary capacity are not treated as assets of the Bank and accordingly are not included in these financial statements.

Financial guarantees

In the ordinary course of business, the Bank gives financial guarantees. Financial guarantees are initially recognised in the financial statements at fair value, in "other liabilities". Subsequent to initial recognition, the Bank measures such guarantees at the higher of the initial fair value less, when appropriate, cumulative amortisation calculated to recognise the fee in the profit or loss for the year in "Net fees and commission income" over the term of the guarantee, and the best estimate of the expenditure required to settle any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is taken to the profit or loss for the year. Any financial guarantee liability remaining is recognised in profit or loss when the guarantee is discharged, cancelled or expires.

Provisions

Provisions are recognised when the Bank has a present obligation (legal or constructive) arising from a past event and the costs to settle the obligation are both probable and able to be reliably measured.

2 ACCOUNTING POLICIES (continued)

Impairment of financial assets

The Bank assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults. If such evidence exists, the impairment loss is recognized in the profit or loss for the year.

Due from banks and loans and advances to customers

For amounts due from banks and loans and advances to customers carried at amortised cost, the Bank first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). 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 for the year. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Bank. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the 'Recoveries from loans and advances written off'.

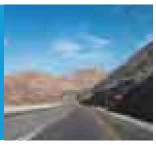
The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Bank's internal credit grading system that considers credit risk characteristics such as asset type, industry, geographical location, collateral type, past-due status and other relevant factors.

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of 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 years on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year (such as changes in unemployment rates, property prices, payment status, or other factors that are indicative of incurred losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Held-to-maturity financial investments

For held-to-maturity investments the Bank assesses individually whether there is objective evidence of impairment. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows. The carrying amount of the asset is reduced and the amount of the loss is recognised in the profit or loss for the year.



2 ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognised, any amounts formerly charged are credited to the 'Impairment losses on financial investments'.

Available-for-sale financial investments

For available-for-sale financial investments, the Bank 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. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the profit or loss – is removed from equity and recognised in the profit or loss for the year. Impairment losses on equity investments are not reversed through the profit or loss; increases in their fair value after impairment are recognised directly in equity.

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. Interest continues to be accrued at the original effective interest rate on the reduced carrying amount of the asset and is recorded as part of 'Interest income'. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the profit or loss, the impairment loss is reversed through the profit or loss.

Renegotiated loans

Where possible, the Bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective interest rate.

Offsetting

Financial assets and financial liabilities are offset and the net amount reported in the balance sheet if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised.

Interest and similar income and expense

For all financial instruments measured at amortised cost, interest bearing financial assets classified as available for-sale and financial instruments designated at fair value through profit or loss, interest income or expense is recorded using the EIR, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the EIR, but not future credit losses.

The carrying amount of the financial asset or financial liability is adjusted if the Bank revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original EIR and the change in carrying amount is recorded as 'Other operating income'.

2 ACCOUNTING POLICIES (continued)

Fee and commission income

The Bank earns fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided into the following two categories:

Fee income earned from services that are provided over a certain period of time.
Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income and asset management, custody and other management and advisory fees.

Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognised as an adjustment to the EIR on the loan. When it is unlikely that a loan will be drawn down, the loan commitment fees are recognised over the commitment period on a straight line basis.

Fee income from providing transaction services

Fees arising from negotiating or participating in the negotiation of a transaction for a third party, such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses, sale of insurance products are recognised on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognised after fulfilling the corresponding criteria.

Dividend income

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

Foreign currencies:

(i) Transactions denominated in foreign currencies are translated into Rial Omani and recorded at rates of exchange ruling at the value dates of the transactions.

(ii) Monetary assets and liabilities denominated in foreign currencies are translated into Rial Omani at exchange rates ruling at the reporting date. Realised and unrealised gains and losses are dealt with in profit or loss for the year.

(iii) As at the reporting date, the assets and liabilities of overseas branches are translated into the Bank's presentation currency at the rate of exchange as at the statement of financial position date, and their statements of comprehensive income are translated at the weighted average exchange rates for the year. Exchange differences arising on translation are taken directly to a separate component of equity. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the profit or loss in 'Other operating expenses' or 'Other operating income'. As the functional currencies of the Bank's overseas branches are pegged to Rial Omani, there are no major exchange differences arising on translation.

Repurchase and resale agreements

Assets sold with a commitment to repurchase (repos) at a specified future date are recognised in the statement of financial position and are measured in accordance with accounting policies for trading securities or investment securities. The counter party liability for amounts received under these agreements is included in due to banks and other financial institutions. The difference between sale and repurchase price is treated as interest expense and accrued over the life of the repo agreement. Assets purchased with a corresponding commitment to resell at a specified future date (reverse repos) are not recognised in the statement of financial position and the amounts paid under these agreements are included in deposits with banks and other financial institutions. The difference between purchase and resale price is treated as interest income and accrued over the life of the reverse repo agreement.

Leases

Operating lease payments are recognised as an expense in the statement of comprehensive income on a straight-line basis over the lease term.

2 ACCOUNTING POLICIES (continued)

Staff terminal benefits

The terminal benefits for Omani employees are provided in accordance with the Sultanate of Oman's Social Insurance Law of 1991. For Egyptian employees the terminal benefits are provided in accordance with the Egyptian social security law. Provision for staff terminal benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods, discounted to its present value.

Segment reporting

The Bank's segmental reporting is based on the following operating segments: Consumer banking, corporate banking, investment banking, treasury and international banking and head office functions.

Dividend on ordinary shares

Dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the Bank's shareholders. Interim dividends are deducted from equity when they are paid.

Dividends for the year that are approved after the balance sheet date are dealt with as an event after the balance sheet date.

Directors' remuneration

The Board of Directors' remuneration is accrued within the limits specified by the Capital Market Authority and the requirements of the Commercial Companies Law of the Sultanate of Oman.

3 CASH AND BALANCES WITH CENTRAL BANKS

2009 USD'000	**2010 USD'000**		**2010 RO'000**	2009 RO'000
60,190	**91,104**	Cash	**35,075**	23,173
7,475	**6,029**	Treasury bills with Central Banks	**2,321**	2,878
246,753	**116,883**	Certificates of deposit with the Central Banks	**45,000**	95,000
161,148	**375,695**	Other balances with the Central Banks	**144,643**	62,042
475,566	**589,711**	**Cash and cash equivalents**	**227,039**	183,093
1,984	**-**	Insurance deposit with the Central Bank of Oman	**-**	764
1,299	**1,299**	Capital deposit with the Central Bank of Oman	**500**	500
478,849	**591,010**	**Cash and balances with Central Banks**	**227,539**	184,357

The capital deposits with the Central Bank of Oman cannot be withdrawn without the approval of the Central Bank of Oman.

4 FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

2009 USD'000	2010 USD'000		2010 RO'000	2009 RO'000
44,958	-	Oman Government Development Bonds	-	17,309
195	-	Oman Government Development Bonds(OTC)	-	75
45,153	-		-	17,384

5 DUE FROM BANKS AND OTHER MONEY MARKET PLACEMENTS (NET)

2009 USD'000	2010 USD'000		2010 RO'000	2009 RO'000
99,548	**58,343**	Loans and advances to banks	**22,462**	38,326
337,688	**150,260**	Placement with banks	**57,850**	130,010
17,208	**27,098**	Demand balances	**10,433**	6,625
454,444	**235,701**	Due from banks and other money market placement	**90,745**	174,961
(20,691)	**(16,940)**	Less: allowance for credit losses (refer note below)	**(6,522)**	(7,966)
(205)	**(177)**	Less: reserved interest	**(68)**	(79)
433,548	**218,584**	Net due from banks and other money market placement	**84,155**	166,916

During the second quarter of 2009, two large regional groups were reported to have defaulted on their payment obligations. As at 31st December 2010, the Bank has a limited inter-bank exposure of RO 6.6 million against these groups. The Bank recorded a provision of 100% against the two large regional groups.

The Bank has an exposure of RO 1.9 million to a bank in Kazakhstan against which it carried a provision of RO 1.4 million. During the third quarter of 2010, the Bank recovered RO 0.79 million in full and final settlement against this exposure resulting in a provision release of RO 0.3 million and a write off of RO 1.1 million.

6 LOANS AND ADVANCES TO CUSTOMERS

2009 USD'000	2010 USD'000		2010 RO'000	2009 RO'000
172,008	**154,223**	Overdrafts	**59,376**	66,223
1,667,442	**1,675,447**	Personal loans	**645,047**	641,965
1,746,804	**1,771,626**	Other loans	**682,076**	672,520
103,694	**97,426**	Loans against trust receipts	**37,509**	39,922
22,044	**21,717**	Bills discounted	**8,361**	8,487
3,711,992	**3,720,439**	Gross loans and advances	**1,432,369**	1,429,117
(149,561)	**(149,257)**	Allowance for credit losses	**(57,464)**	(57,581)
(27,374)	**(29,982)**	Reserved interest	**(11,543)**	(10,539)
3,535,057	**3,541,200**	Net loans and advances	**1,363,362**	1,360,997

6 LOANS AND ADVANCES TO CUSTOMERS (continued)

The movement in the allowance for credit losses and reserved interest accounts is set out below:

2009 USD'000	**2010 USD'000**		**2010 RO'000**	2009 RO'000
		Allowance for credit losses		
133,569	**149,561**	Balance at beginning of year	**57,581**	51,424
53,203	**41,249**	Provided during the year	**15,881**	20,483
(17,362)	**(10,374)**	Released/recovered during the year	**(3,994)**	(6,684)
(20,008)	**(29,855)**	Written off during the year	**(11,494)**	(7,703)
159	**(1,324)**	Translation difference	**(510)**	61
149,561	**149,257**	Balance at end of year	**57,464**	57,581
		Reserved interest		
33,304	**27,374**	Balance at beginning of year	**10,539**	12,822
8,735	**9,984**	Reserved during the year	**3,844**	3,363
(914)	**(652)**	Released/recovered during the year	**(251)**	(352)
(1,475)	**(1,810)**	Released/recovered during the year to interest income	**(697)**	(568)
(12,276)	**(4,896)**	Written off during the year	**(1,885)**	(4,726)
-	**(18)**	Translation difference	**(7)**	-
27,374	**29,982**	Balance at end of year	**11,543**	10,539

A further analysis of allowances for credit losses is set out below:

2009 USD'000	**2010 USD'000**		**2010 RO'000**	2009 RO'000
97,390	**97,195**	Specific impairment	**37,420**	37,495
52,171	**52,062**	Collective impairment	**20,044**	20,086
149,561	**149,257**	Balance at end of year	**57,464**	57,581

All loans and advances require payment of interest based on agreed tenors, some at fixed rates and others at rates that re-price prior to maturity. As of 31st December 2010, loans and advances on which interest is not being accrued or where interest has been reserved amounted to RO 61.3 million – USD 159.2 million (2009 – RO 71.7 million – USD 186.2 million).

During the year, the Bank has written-off fully provided loans and advances amounting to RO 13.4 million – USD 34.8 million (2009: RO 12.4 million – USD 32.2 million) against impairment provisions where the Bank believes the possibility of a recovery is low. The bank will continue to pursue the recovery of these loans through all possible means and any future recovery from these written-off loans will be recognised in the profit or loss for the year.

Concentrations of credit risk arise when a number of counter parties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be affected similarly by changes in economic, political or other conditions. Concentrations of credit risk indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographic location.

6 LOANS AND ADVANCES TO CUSTOMERS (continued)

The table below analyses the concentration of gross loans and advances by various sectors.

Total 2009 USD'000	**Total 2010 USD'000**		**Total 2010 RO'000**	Total 2009 RO'000
28,761	**30,917**	Agriculture	**11,903**	11,073
385,008	**356,644**	Construction	**137,308**	148,228
1,748	**1,242**	Export trade	**478**	673
228,623	**228,639**	Financial institutions	**88,026**	88,020
77,956	**101**	Government	**39**	30,013
99,081	**92,262**	Import trade	**35,521**	38,146
407,940	**457,681**	Manufacturing	**176,207**	157,057
1,667,442	**1,675,447**	Personal	**645,047**	641,965
146,787	**190,447**	Service	**73,322**	56,513
26,119	**16,964**	Transport and communication	**6,531**	10,056
204,896	**194,870**	Wholesale and retail trade	**75,025**	78,885
437,631	**475,225**	Others	**182,962**	168,488
3,711,992	**3,720,439**	Total	**1,432,369**	1,429,117

The geographic distribution of loans and advances to customers, based on the location of the borrower and industry sector, is as follows:

	Consumer and personal loans RO'000	**Business and Government RO'000**	**Real estate and others RO'000**	**2010 Total RO'000**	2009 Total RO'000
Sultanate of Oman	**641,275**	**526,289**	**168,265**	**1,335,829**	1,321,412
United Arab Emirates	**2,782**	**42,703**	**19,166**	**64,651**	71,753
Egypt	**990**	**10,021**	**-**	**11,011**	13,738
Others	**-**	**13,816**	**7,062**	**20,878**	22,214
Total – 31st December 2010	**645,047**	**592,829**	**194,493**	**1,432,369**	1,429,117
Total – 31st December 2009	641,965	594,649	192,503	-	1,429,117

	Consumer and personal loans USD'000	**Business and Government USD'000**	**Real estate and others USD'000**	**2010 Total USD'000**	2009 Total USD'000
Sultanate of Oman	**1,665,650**	**1,366,984**	**437,052**	**3,469,686**	3,432,239
United Arab Emirates	**7,226**	**110,917**	**49,782**	**167,925**	186,371
Egypt	**2,571**	**26,029**	**-**	**28,600**	35,683
Others	**-**	**35,886**	**18,342**	**54,228**	57,699
Total – 31st December 2010	**1,675,447**	**1,539,816**	**505,176**	**3,720,439**	3,711,992
Total – 31st December 2009	1,667,442	1,544,542	500,008	-	3,711,992

7 NON-TRADING FINANCIAL INVESTMENTS

	Carrying value 31/12/2010 RO'000	Cost 31/12/2010 RO'000	Carrying value 31/12/2009 RO'000	Cost 31/12/2009 RO'000
Available for sale investments				
Quoted investments - Oman				
Banking and investment sector	**185**	**190**	249	254
Industry sector	**1,723**	**1,763**	761	707
Service sector	**7,998**	**8,706**	6,940	8,451
Government development bonds	**44,096**	**44,096**	10,009	10,009
	54,002	**54,755**	17,959	19,421
Quoted investments - Foreign				
Banking and investment sector	**1,422**	**1,363**	395	-
	1,422	**1,363**	395	-
Unquoted investments				
Banking and investment sector	**7,643**	**6,636**	7,060	6,402
Service sector	**66**	**66**	66	66
	7,709	**6,702**	7,126	6,468
Total available for sale investments	**63,133**	**62,820**	25,480	25,889
Held to maturity investments				
Other bonds	**-**	**-**	4,580	4,580
Total non-trading investments	**63,133**	**62,820**	30,060	30,469
Total non-trading investments – USD'000	**163,982**	**163,169**	78,078	79,140

Included under unquoted available for sale investments are investments with a value of RO 0.18 million – USD 0.46 million (2009 – RO 0.59 million – USD 1.53 million), which are carried at cost, less any impairment losses, due to the unpredictable nature of future cash flows and the lack of other suitable methods for arriving at a reliable fair value. All other available for sale investments are carried at fair value.

During the year, the Bank has recorded RO 0.63 million - USD 1.63 million (2009 – RO 4.1 million – USD 10.7 million) as impairment losses against its available for sale investments. The impairment loss on available for sale investments is recognised in view of either a significant or prolonged decline in the fair value of the investment below cost.

During the year the Bank has sold its entire held to maturity investments.

7 NON-TRADING FINANCIAL INVESTMENTS (Continued)

Details of significant investments

Details of investments exceeding 10% of the carrying value of the Bank's investment available for sale portfolio are as follows:

31st December 2010	Bank's portfolio %	Carrying value RO'000	Cost RO'000
Government Development Bonds	**69.85**	**44,096**	**44,096**
Investment Stabilization Fund	**10.08**	**6,365**	**5,000**
31 December 2009			
Government Development Bonds	39.28	10,009	10,009
Investment Stabilization Fund	23.43	5,970	5,000

8 PREMISES AND EQUIPMENT

	Freehold land and buildings and leasehold improvements RO'000	Motor vehicles, furniture and equipment RO'000	Capital work in progress RO'000	Total RO'000
Reconciliation of carrying amount:				
Balance as at 1st January 2010, net of accumulated depreciation	4,778	5,078	2,907	12,763
Additions	8,527	1,027	2,973	12,527
Revaluation	955	-	-	955
Disposals	-	(14)	(27)	(41)
Transfers	1,877	1,856	(3,733)	-
Translation difference	(26)	(5)	-	(31)
Depreciation	(1,598)	(2,222)	-	(3,820)
Balance as at 31st December 2010, net of accumulated depreciation	**14,513**	**5,720**	**2,120**	**22,353**
At cost	21,581	21,595	2,120	45,296
At revaluation	3,766	-	-	3,766
Accumulated depreciation	(10,834)	(15,875)	-	(26,709)
Net carrying value at 31st December 2010	**14,513**	**5,720**	**2,120**	**22,353**
Net carrying value at 31st December 2010 – USD'000	**37,696**	**14,857**	**5,507**	**58,060**
Net carrying value at 31st December 2009	4,778	5,078	2,907	12,763
Net carrying value at 31st December 2009 – USD'000	12,410	13,190	7,551	33,151

8 PREMISES AND EQUIPMENT (Continued)

Freehold land stated at cost of RO 8.56 million – USD 22.22 million (2009 - RO 0.06 million – USD 0.16 million) is not depreciated. Land and buildings include three buildings on freehold land, which were re-valued at their open market value for existing use by an independent professional valuer as of 31st October 2010, at RO 3.77 million (USD 9.79 million) from existing value of RO 2.81 million (USD 7.30 million). On revaluation, the gross carrying amount of each building revalued was restated so that the net carrying amount of the asset after revaluation equals its re-valued amount. Should the buildings be carried at cost less depreciation, the net carrying amount would have been RO 1.39 million – USD 3.61 million (2009 - RO 1.59 million – USD 4.13million).

9 OTHER ASSETS

2009 USD'000	**2010 USD'000**		**2010 RO'000**	2009 RO'000
19,087	**23,208**	Interest receivable	**8,935**	7,349
3,707	**5,888**	Prepayments and deposits	**2,267**	1,427
5,286	**4,995**	Collateral pending sale	**1,923**	2,035
2,184	**12,145**	Positive fair value of derivatives (note 33)	**4,676**	841
27,422	**50,948**	Customers' indebtedness for acceptances	**19,615**	10,557
9,161	**18,024**	Others	**6,939**	3,527
66,847	**115,208**		**44,355**	25,736
8,982	**8,982**	Amount receivable from BCCI	**3,458**	3,458
(8,982)	**(8,982)**	Less: provision for amount due from BCCI	**(3,458)**	(3,458)
-	**-**		**-**	-

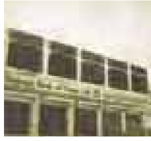
The Government of the Sultanate of Oman has agreed, unconditionally, to guarantee payments of all and any sums, which are due to the Bank by Bank of Credit and Commerce International (BCCI) up to a maximum of RO 38.9 million (USD 101.0 million). BCCI is in liquidation.

On 7th July 2008, the Bank has cancelled and returned the guarantee to the Government discharging it of all related liabilities. Full impairment provision has been recorded by the Bank against the remaining amounts due from BCCI.

10 DUE TO BANKS AND OTHER MONEY MARKET DEPOSITS

2009 USD'000	**2010 USD'000**		**2010 RO'000**	2009 RO'000
561,151	**325,000**	Acceptances and borrowings	**125,125**	216,043
9,400	**18,753**	Other balances	**7,220**	3,619
570,551	**343,753**		**132,345**	219,662

None of the above balances were past due as of 31st December 2010 or 2009.



11 CUSTOMERS' DEPOSITS

2009 USD'000	2010 USD'000		2010 RO'000	2009 RO'000
565,849	**774,538**	Current accounts	**298,197**	217,852
724,353	**777,441**	Savings accounts	**299,315**	278,876
1,819,533	**1,726,904**	Term deposits	**664,858**	700,520
164,987	**162,390**	Certificates of deposit	**62,520**	63,520
3,274,722	**3,441,273**		**1,324,890**	1,260,768

12 OTHER LIABILITIES

2009 USD'000	2010 USD'000		2010 RO'000	2009 RO'000
25,992	**21,234**	Interest payable	**8,175**	10,007
2,493	**2,790**	Staff entitlements	**1,074**	960
27,422	**50,948**	Liabilities under acceptances	**19,615**	10,557
1,387	**12,366**	Negative fair value of derivatives (note 33)	**4,761**	534
32,836	**34,959**	Other accruals and provisions	**13,459**	12,642
90,130	**122,297**		**47,084**	34,700
		Staff entitlements are as follows:		
2,158	**2,416**	End of service benefits	**930**	831
335	**374**	Other liabilities	**144**	129
2,493	**2,790**		**1,074**	960

		Movements in the end of service benefits liability are as follows:		
2,109	**2,158**	Liability as at 1st January	**831**	812
361	**538**	Expense recognised in the statement of comprehensive income	**207**	139
(312)	**(280)**	End of service benefits paid	**(108)**	(120)
2,158	**2,416**	Liability as at 31st December	**930**	831

13 TAXATION

2009 USD'000	2010 USD'000		2010 RO'000	2009 RO'000
		Current tax expense		
10,153	**7,961**	Current year	**3,065**	3,909

The Bank is liable to income tax at the following rates:

Sultanate of Oman	:	12% of consolidated taxable income in excess of RO 30,000
United Arab Emirates	:	20% of taxable income
Egypt	:	20% of taxable income

Set out below is reconciliation between income taxes calculated on accounting profits and income tax expense for the year:

2009 USD'000	2010 USD'000		2010 RO'000	2009 RO'000
64,972	**78,536**	Accounting profit	**30,236**	25,014
7,797	**9,423**	Tax at applicable rate	**3,628**	3,002
1,395	**470**	Non-deductible expenses	**181**	537
(1,270)	**(1,215)**	Tax exempt revenues	**(468)**	(489)
2,231	**(717)**	Others	**(276)**	859
10,153	**7,961**		**3,065**	3,909

The Bank's liabilities for taxation in the Sultanate of Oman has been assessed up to the year ended 31 December 2004.

The tax assessments of the Egypt operations in respect of the different taxes applicable are at different stages of completion with the respective tax authorities. The Bank's liability in respect of its branch in Abu Dhabi has been agreed with the tax authorities up to 31st December 2009.

13 TAXATION (continued)

2009 USD'000	2010 USD'000		2010 RO'000	2009 RO'000
		Tax liability		
		Current year		
10,153	**7,961**	Income tax and other taxes	**3,065**	3,909
		Prior year		
3,047	**2,883**	Income tax and other taxes	**1,110**	1,173
13,200	**10,844**		**4,175**	5,082

Recognised deferred tax assets and liabilities:

2009 USD'000	2010 USD'000		2010 RO'000	2009 RO'000
		Deferred tax assets and liabilities are attributable to the following:		
(26)	**18**	Available for sale investments - overseas	**7**	(10)

Deferred tax is calculated at 12% (2009 – 12%).

14 SUBORDINATED PRIVATE PLACEMENT

2009 USD'000	2010 USD'000		2010 RO'000	2009 RO'000
74,286	**71,688**	At Ist January	**27,600**	28,600
29,870	**7,793**	Received during the year	**3,000**	11,500
(32,468)	**-**	Matured during the year	**-**	(12,500)
71,688	**79,481**		**30,600**	27,600

(i) Placements received in 2010 are repayable in January 2016.

(ii) Placements received in 2009 include RO 1.5 million with a call option to renew the facility after six years, repayable at the end of March 2019 and RO 10 million for a period of 6 years repayable at the end of December 2015.

15 SHARE CAPITAL

2009 USD'000	**2010 USD'000**		**2010 RO'000**	2009 RO'000
415,584	**415,584**	Authorised - ordinary shares of RO 0.100 each	**160,000**	160,000
280,779	**280,779**	Issued and fully paid - ordinary shares of RO 0.100 each	**108,100**	108,100

As of 31st December 2010, the following shareholders held 10% or more of the Bank's capital:

	Number of shares '000	**% Holding**
The Commercial Bank of Qatar	**377,267**	**34.90%**
Suhail Bahwan Group (Holdings) L.L.C	**159,385**	**14.74%**

The percentage shareholding is calculated based on the total shares of the Bank outstanding at the reporting date.

16 SHARE PREMIUM RESERVE

The Share Premium of RO 34.5 million (USD 89.6 million) represents the premium collected on issue of 10 million shares by the Bank through a private placement for RO 4.45 (USD 11.56) per share. This was approved by the Bank's shareholders at the Bank's Extraordinary General Meeting held on 25th June 2005 at which time the face value of the Bank's share was RO 1.

17 LEGAL RESERVE

The Legal Reserve, which is not available for distribution, is accumulated in accordance with the requirements of the Commercial Companies Law of Oman and the Union Law No. 10 of Abu Dhabi. The annual appropriations must not be less than 10% of the profit for the year until such time that the respective reserve account balance amounts to at least one third of the share capital in Oman and half of the branch capital in Abu Dhabi.

18 GENERAL RESERVE

The General Reserve was created on 9th May 2006 by way of a transfer from the subordinated fund reserve to a general reserve. The transfer was made on account of prepayment of certain subordinated private placement during 2006 resulting in surplus in subordinated fund reserve. This reserve is available for distribution.

19 OTHER NON-DISTRIBUTABLE RESERVES

	Available for sale reserve RO '000'	Cash flow hedge reserve RO '000' (note 33)	Revaluation reserve RO '000'	Subordinated loan reserve RO '000'	Total RO '000'
At 1st January 2010	2,107	(130)	2,811	3,220	8,008
Net movement on available for sale investments	118	-	-	-	118
Tax effect of net losses on available-for-sale financial investments	17	-	-	-	17
Net movement on cash flow hedges	-	130	-	-	130
Transfer to subordinated loan reserve	-	-	-	5,520	5,520
Surplus on revaluation of buildings	-	-	955	-	955
At 31st December 2010	**2,242**	**-**	**3,766**	**8,740**	**14,748**
At 31st December 2010 – In USD'000	**5,823**	**-**	**9,782**	**22,701**	**38,306**

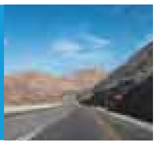
(i) The revaluation reserve represents the surplus on revaluation of building and is not available for distribution until the related assets have been disposed off or used.

(ii) The subordinated loan reserve represents an annual transfer towards subordinated private placements which are due to mature within the next five years period (note 14). The reserve is available for transfer back to retained earning upon maturity of the private placement.

20 DIVIDENDS PAID AND PROPOSED

The Board of Directors have proposed a cash dividend of RO 0.015 per share totalling RO 16.2 million (USD 0.039 per share totalling USD 42.1 million) for the year ended 31st December 2010, which is subject to the approval of the shareholders at the Annual General Meeting to be held in March 2011.

At the Annual General Meeting held in March 2010, a cash dividend of RO 0.012 per share totalling RO 12.9 million (USD 0.031 per share totalling USD 33.7 million) for the year ended 31st December 2009 was approved and subsequently paid.



21 CONTINGENT LIABILITIES AND COMMITMENTS

To meet the financial needs of customers, the Bank enters into various irrevocable commitments and contingent liabilities. Even though these obligations may not be recognized on the statement of financial position, they do contain credit risk and are therefore part of the overall risk of the Bank.

Credit related commitments include commitments to extend credit, standby letters of credit and guarantees, which are designed to meet the requirements of the Bank's customers.

Commitments to extend credit represent contractual commitments to make loans and revolving credits. Commitments generally have fixed expiration dates or other termination clauses and require the payment of a fee. Since commitments may expire without being drawn upon, the total contract amounts do not necessarily represent future cash requirements.

Standby letters of credit and guarantees commit the Bank to make payments on behalf of customers' contingent upon the failure of the customer to perform under the terms of the contract.

Contingent liabilities

As of the reporting date, commitments on behalf of customers for which there were corresponding customer liabilities consisted of the following:

2009 USD'000	**2010 USD'000**		**2010 RO'000**	2009 RO'000
1,008,132	**1,015,678**	Guarantees	**391,036**	388,131
191,790	**212,745**	Documentary letters of credit	**81,907**	73,839
1,199,922	**1,228,423**		**472,943**	461,970

The table below analyses the concentration of contingent liabilities by economic sector:

2009 USD'000	**2010 USD'000**		**2010 RO'000**	2009 RO'000
995	**1,078**	Agriculture	**415**	383
319,645	**318,805**	Construction	**122,740**	123,063
492,925	**544,434**	Financial institutions	**209,607**	189,776
195	**65**	Import trade	**25**	75
121,134	**103,966**	Manufacturing	**40,027**	46,636
570	**475**	Personal	**183**	219
43,555	**43,249**	Service	**16,651**	16,769
737	**7,639**	Transport and communication	**2,941**	284
65,897	**76,109**	Wholesale and retail trade	**29,302**	25,370
154,269	**132,603**	Others	**51,052**	59,395
1,199,922	**1,228,423**		**472,943**	461,970

Guarantees include RO 0.1 million – USD 0.3 million (Dec 2009: RO 0.1 million – USD 0.3 million) relating to non-performing loans.

21 CONTINGENT LIABILITIES (continued)

Commitments

2009 USD'000	2010 USD'000		2010 RO'000	2009 RO'000
161,696	**268,616**	Undrawn commitment	**103,417**	62,253
6,184	**3,400**	Capital expenditure	**1,309**	2,381
7,415	**7,566**	Operating lease commitments	**2,913**	2,855
		Future minimum lease payments:		
3,452	**3,008**	Not later than one year at the reporting date	**1,158**	1,329
3,535	**4,301**	Later than one year and not later than five years at the reporting date	**1,656**	1,361
428	**257**	Later than five years	**99**	165
7,415	**7,566**	Aggregate operating lease expenditure contracted for at the reporting date	**2,913**	2,855

Branches

The Bank has deposited in the countries concerned, the following amounts of capital as support for its overseas branches. These amounts cannot be withdrawn without the approval of the Central Banks of the countries concerned.

2009 USD'000	2010 USD'000		2010 RO'000	2009 RO'000
14,294	**14,294**	Abu Dhabi branch	**5,503**	5,503
50,000	**50,000**	Egypt branches	**19,250**	19,250
64,294	**64,294**		**24,753**	24,753

Legal claims

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

Fiduciary assets

The fair value of securities as of 31st December 2010 held on trust for customers amounts to RO 53.95 million – USD 140.13 million (2009 – RO 50.48 million – USD 131.11 million).

22 INTEREST INCOME

2009 USD'000	**2010 USD'000**		**2010 RO'000**	2009 RO'000
257,470	**242,374**	Interest from customers	**93,314**	99,126
8,403	**4,831**	Interest from banks	**1,860**	3,235
265,873	**247,205**		**95,174**	102,361

Interest bearing assets other than investments earned interest at an overall effective annual rate of 5.92% for the year ended 31st December 2010 (31st December 2009 – 6.19%).

23 INTEREST EXPENSE

2009 USD'000	**2010 USD'000**		**2010 RO'000**	2009 RO'000
108,826	**97,179**	Interest to customers	**37,414**	41,898
9,457	**5,543**	Interest to banks	**2,134**	3,641
118,283	**102,722**		**39,548**	45,539

For the year ended 31st December 2010, the average overall effective annual cost of bank's funds was 2.64% (31 December 2009 – 2.95%).

24 OTHER OPERATING INCOME

2009 USD'000	**2010 USD'000**		**2010 RO'000**	2009 RO'000
23,681	**24,774**	Fees and commission income	**9,538**	9,117
(45)	**(47)**	Fees and commission expense	**(18)**	(17)
23,636	**24,727**	Net fees and commissions	**9,520**	9,100
22,501	**18,065**	Service charges	**6,955**	8,663
6,519	**2,997**	Profit on sale of investments	**1,154**	2,510
5,843	**6,369**	Net gains from foreign exchange dealings	**2,452**	2,250
2,715	**2,021**	Miscellaneous income	**778**	1,045
1,873	**3,156**	Income from bonds and others	**1,215**	721
1,965	**1,081**	Dividend income	**416**	756
65,052	**58,416**		**22,490**	25,045

25 OTHER OPERATING EXPENSES

2009 USD'000	**2010 USD'000**		**2010 RO'000**	2009 RO'000
9,338	**11,397**	Establishment costs	**4,388**	3,595
20,025	**21,751**	Operating and administration costs	**8,374**	7,710
348	**364**	Directors' remuneration	**140**	134
29,711	**33,512**		**12,902**	11,439

26 RELATED PARTY TRANSACTIONS

Management Service Agreement with a shareholder

The Board of Directors of the National Bank of Oman (SAOG) had entered into a Management Services Agreement with its strategic partner, The Commercial Bank of Qatar in 2005 to provide NBO with management services. As the management and processes of the Bank have been substantially strengthened during the past 6 years, the Commercial Bank of Qatar advised NBO that they do not wish to extend the term of the agreement on its expiry in March 2011.

For the services provided for the year 2010, based on the agreement, the bank pays management fees as follows:
For profit up to RO 15 million, no management fees is payable.
For profits between RO 15 million to RO 30 million the higher of management costs or 1% of the Bank's profit.
For profits in excess of RO 30 million, in addition to the above, 3% of the profits in excess of RO 30 million.

Proportionate fees will be paid where the agreement is not in effect for the full year. In addition, with the approval of the Board reasonable out of pocket expenses incurred in connection with the provision of the Management Services such as travel, boarding and lodging will be reimbursed.

For the year ended 31st December 2010, management fees of RO 0.3 million – USD 0.8 million (31st December 2009: RO 0.2 million – USD 0.5 million) are accrued for.

Other related party transactions:

In the ordinary course of business, the Bank conducts transactions with certain of its directors and/or shareholders and companies over which they have significant interest. The aggregate amounts of balances with such related parties are as follows:

	2010			2009		
	Principal shareholder RO'000	**Others RO'000**	**Total RO'000**	Principal shareholder RO'000	Others RO'000	Total RO'000
Loans and advances	**-**	**28,695**	**28,695**	-	18,191	18,191
Customer's deposits	**-**	**13,899**	**13,899**	-	13,167	13,167
Due from banks	**11,615**	**-**	**11,615**	40	-	40
Due to banks	**86**	**-**	**86**	72	-	72
Subordinated private placement	**-**	**1,500**	**1,500**	-	3,100	3,100
Letter of credit, guarantees and acceptance	**-**	**13,287**	**13,287**	107	6,236	6,343
Standby revolving credit facility	**26,950**	**11,550**	**38,500**	26,950	11,550	38,500
Risk indemnities received	**4,284**	**-**	**4,284**	9,647	-	9,647

The statement of comprehensive income includes the following amounts in relation to transactions with related parties:

	2010			2009		
	Principal shareholder RO'000	**Others RO'000**	**Total RO'000**	Principal shareholder RO'000	Others RO'000	Total RO'000
Interest income	**46**	**1,094**	**1,140**	-	1,100	1,100
Commission income	**-**	**120**	**120**	-	168	168
Interest expense	**96**	**597**	**693**	561	339	900
Other expenses	**345**	**672**	**1,017**	396	481	877
Director's remuneration and sitting fees	**-**	**200**	**200**	-	200	200

26 RELATED PARTY TRANSACTIONS (Continued)

	2010			2009		
	Principal shareholder USD'000	Others USD'000	Total USD'000	Principal shareholder USD'000	Others USD'000	Total USD'000
Loans and advances	-	74,532	74,532	-	47,249	47,249
Customer's deposits	-	36,101	36,101	-	34,200	34,200
Due from banks	30,169	-	30,169	104	-	104
Due to banks	223	-	223	187	-	187
Subordinated private placement	-	3,896	3,896	-	8,052	8,052
Letter of credit, guarantees and acceptance	-	34,512	34,512	278	16,197	16,475
Standby revolving credit facility	70,000	30,000	100,000	70,000	30,000	100,000
Risk indemnities received	11,127	-	11,127	25,057	-	25,057

The statement of comprehensive income includes following amounts in relation to the transaction with related party.

	2010			2009		
	Principal shareholder USD'000	Others USD'000	Total USD'000	Principal shareholder USD'000	Others USD'000	Total USD'000
Interest income	119	2,842	2,961	-	2,857	2,857
Commission income	-	312	312	-	436	436
Interest expense	249	1,551	1,800	1,457	881	2,338
Other expenses	896	1,745	2,641	1,029	1,249	2,278
Directors remuneration and sitting fees	-	519	519	-	519	519

Details regarding senior management compensation are set out below:

2009 USD'000	2010 USD'000		2010 RO'000	2009 RO'000
		Salaries and other short term benefits		
4,722	6,338	- Fixed	2,440	1,818
1,788	3,457	- Discretionary	1,331	688
6,510	9,795		3,771	2,506

27 BASIC AND DILUTED EARNING PER SHARE

Earning per share is calculated by dividing the profit for the year by the weighted average number of shares outstanding during the year as follows:

2009 USD'000	2010 USD'000		2010 RO'000	2009 RO'000
54,819	70,575	Profit for the year	27,171	21,105
1,081,000	1,081,000	Weighted average number of shares outstanding during the year (in '000s)	1,081,000	1,081,000
USD 0.05	USD 0.06	Earnings per share	RO 0.025	RO 0.019

No figure for diluted earnings per share has been presented, as the Bank has not issued any instruments, which would have an impact on earnings per share when exercised.

28 CAPITAL ADEQUACY

The Bank maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Bank's capital is monitored using, among other measures, the rules and ratios established by the Basel Committee on Banking Supervision and adopted by the Central Bank of Oman in supervising the Bank.

During the past year, the Bank had complied in full with all its externally imposed capital requirements.

Capital Management

The primary objectives of the Bank's Capital Management are to ensure that the Bank complies with externally imposed capital requirements and that the Bank maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise shareholders' value.

The Bank manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities. No changes were made in the objectives, policies and processes from the previous years.

The international standard for measuring capital adequacy is the risk asset ratio, which relates capital to balance sheet assets and off balance sheet exposures weighted according to broad categories of risk.

The risk asset ratio calculated in accordance with the capital adequacy guidelines of the Bank for International Settlement is as follows:

2009 USD'000	**2010 USD'000**		**2010 RO'000**	2009 RO'000
		Capital base		
604,236	**632,675**	Tier 1 - shareholders' funds	**243,580**	232,631
117,971	**111,462**	Tier 2 - subordinated private placement and collective impairment provisions	**42,913**	45,419
722,207	**744,137**	Total capital base	**286,493**	278,050
		Risk weighted assets		
3,945,569	**4,263,234**	Credit risk	**1,641,345**	1,519,044
358,997	**380,403**	Operational risk	**146,455**	138,214
52,481	**150,026**	Market risk	**57,760**	20,205
4,357,047	**4,793,663**	Total risk weighted assets	**1,845,560**	1,677,463
16.6%	**15.5%**	Risk asset ratio (Basel II norms)	**15.5%**	16.6%

29 RISK MANAGEMENT

The primary objective of Risk Management is to safeguard the Bank's resources from the various risks which the Bank faces. The Risk Group comprises of Corporate Credit Risk, Consumer Credit Risk, Market Risk, Operational Risk, Information Security and Business Continuity Risk and Remedial Management. All risk management functions report to Chief Risk Officer and are independent from Business Units. The Bank has exposure to the following risks:-

29.1 CREDIT RISK

Credit Risk is the risk that the Bank will incur a loss because its customers, clients or counterparties failed to discharge their contractual obligations to the Bank. The Bank manages and controls credit risk by setting internal limits on the amount of risk it is willing to accept for individual counterparties and groups (single obligors) and industry sectors in line with the guidelines of Central Bank of Oman. The Bank computes expected losses on credit exposure on the basis of risk classification of both corporate and retail loans in the delinquent category based on the guidelines of Central Bank of Oman.

Credit risk management

Credit Risk is managed within the regulatory requirements of Central Bank of Oman, risk framework provided in the Board approved Risk Charter and the Board approved Credit Policies and Procedures. The policies and procedures are periodically reviewed by the Management and the Board Risk Committee to ensure alignment to the current best practices. Credit exposures are approved by delegated authorities based on delegation by the Board and Board Risk Committee. The delegation of authorities is based on the size of the single obligor exposure, the credit quality (internal, external rating) as well as level of credit risk mitigation (collateral, guarantees, etc.) for the proposed exposures. Control, monitoring and management of credit exposures are done in coordination with respective Business Units as per established procedures.

Corporate Credit

Corporate Credit Risk Division is responsible for independent assessment and control of the risks related to all Corporate, SME and Financial Institutions exposures. The Division reviews and assesses credit risk for proposed exposures prior to facilities being committed to customers by the concerned business units. Renewals and reviews of facilities are subject to the same process. Each proposal is also assessed with respect to established concentration limits for various economic sectors, countries, risk grades, etc. and deviations, if any are highlighted. The Bank has introduced risk based pricing and each credit proposal is also assessed based on internal benchmarks of required risk adjusted returns. The Bank has also during the year customized the Moody's Risk Analyst model and migrated to this model for risk grading corporate borrowers. Corporate Credit Risk Division also provides advice and guidance to business units with a view to promoting best practices throughout the Bank in the management of credit risk.

In addition to formal annual credit risk reviews of each corporate facility, more frequent reviews are also undertaken for watch list accounts, public companies and large exposures.

A comprehensive review of the Corporate Credit Portfolio is conducted on a quarterly basis and provided to the Senior Management and the Board Risk Committee. Salient areas covered in the review include:-

- Exposures downgraded/negatively migrated
- Weighted average credit grade profile
- Portfolio concentration/ performance
- Position of restructured exposures
- Position of past due exposures
- Exposures secured by equity
- Exposures to real estate and leasing sectors
- Syndicated exposures
- New relationships
- Exposures to senior members and non-resident borrowers
- Exposures to countries / financial institutions
- Clean Lending and name lending exposures

Summary of portfolio trends is prepared on a monthly basis highlighting the significant changes in the exposure levels, utilizations, credit quality, portfolio mix, concentrations, etc. The report is provided to Senior Management and the Board Risk Committee.

29 RISK MANAGEMENT (Continued)

29.1 CREDIT RISK (Continued)

Consumer Credit

Consumer Credit Division manages the credit risk in the retail portfolio. Credit facilities are offered to retail customers primarily based on Product Programs approved by Risk Committee of the Board. The lending criteria for these programs are regularly reviewed and revised, if required, based on an on-going analysis of product performance and portfolio credit quality and perceived risk. Credit facilities outside the Product Programs are individually assessed by the Consumer Credit Risk Division and approved as per the delegated authorities.

A review of the Consumer Credit Portfolio is conducted on a monthly basis and provided to the Management Risk Committee, and every quarter the preceding month's report is presented to the Board Risk Committee. Salient areas covered in the review include:

Portfolio review

Management Summary of Delinquency and NPA trends (which includes product-wise delinquency analysis, vintage analysis, and delinquencies across various credit criteria, etc.) Projects undertaken / fulfilled during the month Recoveries

The Bank has also implemented the recently introduced Bank Credit Statistical Bureau System (BCSB system) as mandated by the Central Bank and has furthermore, effectively modified its delinquency reporting module (from the erstwhile monthly basis to the current daily basis). Several system enhancements and new processes have been introduced across critical activities to improve processing quality and efficiency, and to enhance the recovery methodologies of the retail portfolio. The Bank has reworked its strategy of lending through adoption of stricter lending criteria and continuous monitoring of the portfolio and is in the process of implementing a Loan origination system, Credit Scoring Module and Collections solution to enhance its Consumer Credit Risk framework.

Risk mitigation policies

The Bank manages, limits and controls concentrations of credit risk – in particular, with respect to individual counterparties and groups, and industries and countries. The Bank 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, Internal Audit, Board Risk Committee and the Credit Committee of the Board.

Maximum exposure to credit risk

Gross maximum exposure 2009 USD'000	**Gross maximum exposure 2010 USD'000**		**Gross maximum exposure 2010 RO '000**	Gross maximum exposure 2009 RO '000
418,659	**499,906**	Balances with Central Banks	**192,464**	161,184
45,153	-	Financial assets designated at fair value through profit or loss	-	17,384
433,548	**218,584**	Due from banks and other money market placements	**84,155**	166,916
3,535,057	**3,541,200**	Loans and advances to customers (net)	**1,363,362**	1,360,997
78,078	**163,982**	Non-trading financial investments	**63,133**	30,060
66,847	**115,208**	Other assets	**44,355**	25,736
4,577,342	**4,538,880**	Total on balance sheet exposure	**1,747,469**	1,762,277
1,008,132	**1,015,678**	Letter of guarantee	**391,036**	388,131
191,790	**212,745**	Letter of credit	**81,907**	73,839
161,696	**268,616**	Undrawn commitment	**103,417**	62,253
873,997	**732,195**	Derivative financial instruments	**281,895**	336,489
2,235,615	**2,229,234**	Total off balance sheet exposure	**858,255**	860,712

29 RISK MANAGEMENT (Continued)

29.1 CREDIT RISK (Continued)

The above table represents the worst case scenario of credit risk exposure to the bank at 31st December 2010 and 31st December 2009 without taking into account the collateral held or other credit enhancements. Management is confident that the Bank 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.

An analysis of the credit quality of the Bank's loan and advances is set out below:

	Performing loans (neither past due nor impaired) RO'000	Loans past due and not impaired RO'000	Non performing loans RO'000	Gross loans RO'000
Balance as at 1st January 2010	**1,339,442**	**17,993**	**71,682**	**1,429,117**
Additions during the year	**394,502**	**67,356**	**20,155**	**482,013**
Attrition during the year	**(392,862)**	**(55,369)**	**(17,151)**	**(465,382)**
Written-off during the year	**-**	**-**	**(13,379)**	**(13,379)**
Balance as at 31st December 2010	**1,341,082**	**29,980**	**61,307**	**1,432,369**
Balance as at 31st December 2010 – USD'000s	**3,483,330**	**77,870**	**159,239**	**3,720,439**
Balance as at 31st December 2009	1,339,442	17,993	71,682	1,429,117
Balance as at 31st December 2009 – USD'000s	3,479,070	46,735	186,187	3,711,992

An ageing analysis of the bank's loans which are past due but not impaired is set out below:

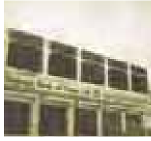
	Loans in arrears 1-30 days RO'000	Loans in arrears 31-60 days RO'000	Loans in arrears 61-89 days RO'000	Total RO'000
Loans and advances to customers (net) at 31st December 2010	**10,665**	**14,715**	**4,600**	**29,980**
31st December 2009	5,413	6,323	6,257	17,993

Collateral and other credit enhancements

The Bank 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 the 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

The housing loans are secured by mortgage over the residential property.



29 RISK MANAGEMENT (Continued)

The Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for impairment losses.

It is the Bank's policy to dispose of repossessed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim. In general, the bank does not occupy repossessed properties for business use.

An analysis of the collateral held and other credit enhancement held against loan and advances granted is as follows:

	Performing loans (neither past due nor impaired) RO'000	Loans past due and not paid RO'000	Non performing loans RO'000	Total RO'000
Collateral available	**819,808**	**2,567**	**28,155**	**850,530**
Guarantees available	**4,284**	**-**	**4,400**	**8,684**
Government soft loans*	**7,928**	**-**	**5,594**	**13,522**
Balance as at 31st December 2010	**832,020**	**2,567**	**38,149**	**872,736**
Balance as at 31st December 2010– USD'000s	**2,161,091**	**6,668**	**99,088**	**2,266,847**
Balance as at 31st December 2009	678,110	6,549	9,893	694,552
Balance as at 31st December 2009 – USD'000s	1,761,325	17,010	25,696	1,804,031

* Government Soft Loans are guaranteed by the Government to the extent of the outstanding principal.

Impairment and provisioning policy

An assessment is made at each reporting date to determine whether there is objective evidence that a specific financial asset may be impaired. If such evidence 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, recognised in the statement of comprehensive income. In addition the Bank creates collective provision.

A further analysis of the Bank's non-performing loans in accordance with the classification requirements of Central Bank of Oman is as follows:

	Substandard RO'000	Doubtful RO'000	Loss RO'000	Total RO'000
Balance as at 1st January 2010	**24,517**	**7,523**	**39,642**	**71,682**
Additions during the year	**(12,831)**	**17,520**	**15,466**	**20,155**
Attrition during the year	**(4,171)**	**(6,700)**	**(6,280)**	**(17,151)**
Written-off during the year	**-**	**(1,500)**	**(11,879)**	**(13,379)**
Balance as at 31st December 2010	**7,515**	**16,843**	**36,949**	**61,307**
Balance as at 31st December 2010– USD'000s	**19,519**	**43,748**	**95,972**	**159,239**
Balance as at 31st December 2009	24,517	7,523	39,642	71,682
Balance as at 31st December 2009 – USD'000s	63,680	19,540	102,967	186,187

29 RISK MANAGEMENT (Continued)

Movement of rescheduled loans:

	2010	2009
	RO'000	RO'000
Balance as at 1st January	**71,402**	39,804
Additions during the year	**27,575**	62,487
Attrition during the year	**(10,282)**	(30,889)
Written-off during the year	**-**	-
Balance as at 31st December	**88,695**	71,402
Balance as at 31st December – USD'000s	**230,377**	185,460

29.2 LIQUIDITY RISK

Liquidity Risk is the Risk that the Bank will be unable to meet its payment obligations when they fall due under normal and stressed circumstances. To limit this risk, the Management continuously looks for opportunities to diversify its funding sources in addition to its core deposit base, manages assets with liquidity in mind, and monitors future cash flows and liquidity on a daily basis. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required.

The Bank 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 Bank holds certain liquid assets as part of its liquidity risk management strategy.

The Bank manages the liquidity risk based on the Central bank of Oman guidelines and the Liquidity and Liquidity Contingency Policies, which are approved and periodically reviewed by the Board Risk Committee. Liquidity Risk position is monitored regularly thorough analysis of various reports, such as, Maturity of Assets and Liabilities, Liquidity Lines, Early Warning Indicators and Stock Ratios. Further, the Bank also periodically conducts stress tests on liquidity based on market and bank specific events in line with Basel Committee recommendations. The liquidity position of the Bank and stress test scenarios are regularly reviewed by the Management and also discussed at the Board Risk Committee.

29 RISK MANAGEMENT (Continued)

The maturity profile of the assets, liabilities and equity at 31st December 2010 was as follows:

	On demand within 3 months RO'000	3 to 12 months RO'000	Subtotal less than 12 months RO'000	1 to 5 years RO'000	Over 5 years RO'000	Subtotal over 12 months RO'000	Total RO'000
Cash and balances with Central Banks	161,535	20,447	181,982	28,990	16,567	45,557	227,539
Financial assets designated at fair value through profit and loss	-	-	-	-	-	-	-
Due from banks and other money market placements (net)	69,028	3,577	72,605	11,550	-	11,550	84,155
Loans and advances (net)	235,857	122,652	358,509	243,971	760,882	1,004,853	1,363,362
Non-trading financial investments	44,096	-	44,096	19,037	-	19,037	63,133
Premises and equipment	-	-	-	-	22,353	22,353	22,353
Deferred tax assets	-	-	-	7	-	7	7
Other assets	41,956	1,984	43,940	415	-	415	44,355
Total assets	552,472	148,660	701,132	303,970	799,802	1,103,772	1,804,904
Due to banks and other money market deposits	7,220	-	7,220	125,125		125,125	132,345
Customers' deposits	318,045	309,005	627,050	456,996	240,844	697,840	1,324,890
Other liabilities	38,727	3,690	42,417	4,667	-	4,667	47,084
Taxation	4,175		4,175	-	-	-	4,175
Deferred tax liability	-	-	-	-	-	-	-
Subordinated funds	-	-	-	27,600	3,000	30,600	30,600
Shareholders' equity	-	-	-	-	265,810	265,810	265,810
Total liabilities and shareholders' equity	368,167	312,695	680,862	614,388	509,654	1,124,042	1,804,904

	On demand within 3 months USD'000	3 to 12 months USD'000	Subtotal less than 12 months USD'000	1 to 5 years USD'000	Over 5 years USD'000	Subtotal over 12 months USD'000	Total USD'000
Cash and balances with Central Banks	419,571	53,109	472,680	75,299	43,031	118,330	591,010
Financial assets designated at fair value through profit and loss	-	-	-	-	-	-	-
Due from banks and other money market placement (net)	179,293	9,291	188,584	30,000	-	30,000	218,584
Loans and advances (net)	612,615	318,577	931,192	633,691	1,976,317	2,610,008	3,541,200
Non-trading financial investments	114,535	-	114,535	49,447	-	49,447	163,982
Premises and equipment	-	-	-	-	58,060	58,060	58,060
Deferred tax assets	-	-	-	18	-	18	18
Other assets	108,977	5,153	114,130	1,078	-	1,078	115,208
Total assets	1,434,991	386,130	1,821,121	789,533	2,077,408	2,866,941	4,688,062
Due to banks and other money market deposits	18,753	-	18,753	325,000	-	325,000	343,753
Customers' deposits	826,091	802,610	1,628,701	1,187,003	625,569	1,812,572	3,441,273
Other liabilities	100,591	9,584	110,175	12,122	-	12,122	122,297
Taxation	10,844	-	10,844	-	-	-	10,844
Deferred tax liability	-	-	-	-	-	-	-
Subordinated funds	-	-	-	71,689	7,792	79,481	79,481
Shareholders' equity	-	-	-	-	690,414	690,414	690,414
Total liabilities and shareholders' equity	956,279	812,194	1,768,473	1,595,814	1,323,775	2,919,589	4,688,062

29 RISK MANAGEMENT (Continued)

The maturity profile of the assets, liabilities and equity at 31st December 2009 was as follows:

	On demand within 3 months RO'000	3 to 12 months RO'000	Subtotal less than 12 months RO'000	1 to 5 years RO'000	Over 5 years RO'000	Subtotal over 12 months RO'000	Total RO'000
Cash and balances with Central Banks	133,014	18,305	151,319	20,315	12,723	33,038	184,357
Financial assets designated at fair value through profit and loss	17,384	-	17,384	-	-	-	17,384
Due from banks and other money market placements (net)	122,314	30,829	153,143	13,413	360	13,773	166,916
Loans and advances (net)	179,996	205,703	385,699	257,720	717,578	975,298	1,360,997
Non-trading financial investments	10,162	-	10,162	15,311	4,587	19,898	30,060
Premises and equipment	-	-	-	-	12,763	12,763	12,763
Deferred tax assets	-	-	-	-	-	-	-
Other assets	24,042	1,075	25,117	619	-	619	25,736
Total assets	486,912	255,912	742,824	307,378	748,011	1,055,389	1,798,213
Due to banks and other money market deposits	34,896	59,641	94,537	125,125	-	125,125	219,662
Customers' deposits	286,216	345,083	631,299	413,584	215,885	629,469	1,260,768
Other liabilities	23,723	5,774	29,497	5,203	-	5,203	34,700
Taxation	5,082	-	5,082	-	-	-	5,082
Deferred tax liability	-	-	-	10	-	10	10
Subordinated funds	-	-	-	-	27,600	27,600	27,600
Shareholders' equity	-	-	-	-	250,391	250,391	250,391
Total liabilities and shareholders' equity	349,917	410,498	760,415	543,922	493,876	1,037,798	1,798,213

	On demand within 3 months USD'000	3 to 12 months USD'000	Subtotal less than 12 month USD'000	1 to 5 years USD'000	Over 5 years USD'000	Subtotal over 12 month USD'000	Total USD'000
Cash and balances with Central Banks	345,491	47,545	393,036	52,766	33,047	85,813	478,849
Financial assets designated at fair value through profit and loss	45,153	-	45,153	-	-	-	45,153
Due from banks and other money market placement (net)	317,699	80,075	397,774	34,839	935	35,774	433,548
Loans and advances (net)	467,522	534,293	1,001,815	669,403	1,863,839	2,533,242	3,535,057
Non-trading financial investments	26,395	-	26,395	39,769	11,914	51,683	78,078
Premises and equipment	-	-	-	-	33,151	33,151	33,151
Deferred tax assets	-	-	-	-	-	-	-
Other assets	62,447	2,792	65,239	1,608	-	1,608	66,847
Total assets	1,264,707	664,705	1,929,412	798,385	1,942,886	2,741,271	4,670,683
Due to banks and other money market deposits	90,639	154,912	245,551	325,000	-	325,000	570,551
Customers' deposits	743,418	896,319	1,639,737	1,074,244	560,741	1,634,985	3,274,722
Other liabilities	61,619	14,997	76,616	13,514	-	13,514	90,130
Taxation	13,200	-	13,200	-	-	-	13,200
Deferred tax liability	-	-	-	26	-	26	26
Subordinated funds	-	-	-	-	71,688	71,688	71,688
Shareholders' equity	-	-	-	-	650,366	650,366	650,366
Total liabilities and shareholders' equity	908,876	1,066,228	1,975,104	1,412,784	1,282,795	2,695,579	4,670,683

29 RISK MANAGEMENT (Continued)

29.3 MARKET RISK

The Bank is exposed to Market Risk, which is the risk that the fair value of the financial assets held by the bank will fluctuate because of changes in market prices. Market Risk arises from changes in the fair value of open positions held in foreign exchange, interest rate, currency, equity, credit spreads, etc. Market Risk is managed based on the Central Bank of Oman guidelines and the Market Risk Policy, which is approved and periodically reviewed by the Board Risk Committee. Stress tests incorporating adverse movements in equity value, foreign exchange, etc. are also periodically conducted and reviewed by the Management and Board Risk Committee.

The Bank offers hedging products to its customers to hedge their genuine exposures, related to interest rate risk, foreign exchange risk and commodity risk. The counterparty credit risk exposures for such transactions (interest rate swaps, commodities contracts, currency forwards and options, etc.) are assessed based on the positive marked-to-market values of the contracts and the potential future exposures. The Bank has introduced new risk weightings in line with best practices being followed by other banks to capture the credit risk related to these off-balance exposures.

Equity Risk

The proprietary equity positions are held in the 'Available for Sale' category. The market risk is monitored through daily mark-to-market reports which are circulated to the management and required actions, if any, are promptly taken. The Bank does not hold equity investments in the 'Held for Trading' category and therefore VaR is not calculated. The portfolio is also monitored and managed as per the Investment Policy approved by the Board Risk Committee.

Interest Rate Risk

The principal market risk to which non-trading portfolio is exposed is the risk of loss from fluctuation in the future cash flows or fair values of financial instruments because of changes in market interest rates.

Interest Rate Risk arises from the possibility that changes in interest rates will affect future profitability or the fair values of financial instruments. The Bank is exposed to interest rate risk as a result of mismatches of interest rate re-pricing of assets and liabilities.

Methods and assumptions used in preparing the sensitivity analysis: The methods for interest rate sensitivity analysis are Maturity Gap Analysis (which measures the interest rate sensitivity of earnings) and Duration (which measures the interest rate sensitivity of capital). These are in line with the BIS in its paper on 'Principles for the Management and Supervision of Interest Rate Risk' issued in July 2004.

Interest Rate Risk is managed by monitoring the sensitivity of the Bank's financial assets and liabilities to various standardized interest rate shocks. Standardised shocks include a 100 basis point and a 200 basis point parallel shifts in yield curves. The impact of these shocks is analysed in the context of its impact on Earnings and Economic Value. The impact is compared against internal limits which have been formulated in line with the Central Bank of Oman and Basel Committees guidelines. The analysis is regularly reviewed by the Management and Board Risk Committee.

Earning impact of 200 basis points parallel shift in interest rate is provided below:

As at December 2010	200 bps increase	200 bps decrease
Earnings impact - RO'000s	**6,793**	**(6,793)**
Earnings impact - USD'000s	**17,644**	**(17,644)**

In addition, stress scenarios based on specific events or market disruptions are also analysed and presented at monthly ALCO meetings to estimate the impact on liquidity and earnings.

The Bank has been consistently using the above methods/assumptions to conduct interest rate sensitivity analysis. The above sensitivity analysis are carried out at monthly rests and results thereof monitored against the in-house limits and the results are also actively deliberated at the ALCO meetings.

29 RISK MANAGEMENT (Continued)

There have not been any significant changes in Interest Rate Risk management process in the Bank during the year.

The Bank's interest sensitivity position based on contractual re-pricing arrangements at 31st December 2010 was as follows:

	Average effective interest rate	On demand within 3 months RO'000	3 to 12 months RO'000	1 to 5 years RO'000	Over 5 years RO'000	Non interest sensitive RO'000	Total RO'000
Cash and balances with Central Banks	**0.05%**	**45,000**	**2,322**	-	-	**180,217**	**227,539**
Financial assets designated at fair value through profit and loss	**N/A**	-	-	-	-	-	-
Due from banks and other money market placements (net)	**1.45%**	**83,658**	**497**	-	-	-	**84,155**
Loans and advances (net)	**6.63%**	**575,794**	**182,259**	**216,123**	**376,690**	**12,496**	**1,363,362**
Non-trading financial investments	**3.89%**	**44,096**	-	-	-	**19,037**	**63,133**
Premises and equipment	**N/A**	-	-	-	-	**22,353**	**22,353**
Deferred tax assets	**N/A**	-	-	-	-	**7**	**7**
Other assets	**N/A**	-	-	-	-	**44,355**	**44,355**
Total assets		**748,548**	**185,078**	**216,123**	**376,690**	**278,465**	**1,804,904**
Due to banks and other money market deposits	**1.05%**	**132,345**	-	-	-	-	**132,345**
Customers' deposits	**2.78%**	**182,775**	**288,657**	**351,508**	**8,000**	**493,950**	**1,324,890**
Other liabilities	**N/A**	-	-	-	-	**47,084**	**47,084**
Taxation	**N/A**	-	-	-	-	**4,175**	**4,175**
Deferred tax liability	**N/A**	-	-	-	-	-	-
Subordinated funds	**7.51%**	-	-	**27,600**	**3,000**	-	**30,600**
Shareholders' equity	**N/A**	-	-	-	-	**265,810**	**265,810**
Total liabilities and shareholders' equity		**315,120**	**288,657**	**379,108**	**11,000**	**811,019**	**1,804,904**
Total interest rate sensitivity gap		**433,428**	**(103,579)**	**(162,985)**	**365,690**	**(532,554)**	-
Cumulative interest rate sensitivity gap		**433,428**	**329,849**	**166,864**	**532,554**	-	

29 RISK MANAGEMENT (Continued)

The bank's interest sensitivity position based on contractual re-pricing arrangements at 31st December 2010 was as follows:

	Average effective interest rate	On demand within 3 months USD'000	3 to 12 months USD'000	1 to 5 years USD'000	Over 5 years USD'000	Non interest sensitive USD'000	Total USD'000
Cash and balances with Central Banks	**0.05%**	**116,883**	**6,031**	**-**	**-**	**468,096**	**591,010**
Financial assets designated at fair value through profit and loss	**N/A**	**-**	**-**	**-**	**-**	**-**	**-**
Due from banks and other money market placements (net)	**1.45%**	**217,293**	**1,291**	**-**	**-**	**-**	**218,584**
Loans and advances (net)	**6.63%**	**1,495,569**	**473,400**	**561,358**	**978,416**	**32,457**	**3,541,200**
Non-trading financial investments	**3.89%**	**114,535**	**-**	**-**	**-**	**49,447**	**163,982**
Premises and equipment	**N/A**	**-**	**-**	**-**	**-**	**58,060**	**58,060**
Deferred tax assets	**N/A**	**-**	**-**	**-**	**-**	**18**	**18**
Other assets	**N/A**	**-**	**-**	**-**	**-**	**115,208**	**115,208**
Total assets		**1,944,280**	**480,722**	**561,358**	**978,416**	**723,286**	**4,688,062**
Due to banks and other money market deposits	**1.05%**	**343,753**	**-**	**-**	**-**	**-**	**343,753**
Customers' deposits	**2.78%**	**474,740**	**749,758**	**913,008**	**20,779**	**1,282,988**	**3,441,273**
Other liabilities	**N/A**	**-**	**-**	**-**	**-**	**122,297**	**122,297**
Taxation	**N/A**	**-**	**-**	**-**	**-**	**10,844**	**10,844**
Deferred tax liability	**N/A**	**-**	**-**	**-**	**-**	**-**	**-**
Subordinated private placement	**7.51%**	**-**	**-**	**71,689**	**7,792**	**-**	**79,481**
Shareholders' equity	**N/A**	**-**	**-**	**-**	**-**	**690,414**	**690,414**
Total liabilities and shareholders' equity		**818,493**	**749,758**	**984,697**	**28,571**	**2,106,543**	**4,688,062**
Total interest rate sensitivity gap		**1,125,787**	**(269,036)**	**(423,339)**	**949,845**	**(1,383,257)**	**-**
Cumulative interest rate sensitivity gap		**1,125,787**	**856,751**	**433,412**	**1,383,257**	**-**	

29 RISK MANAGEMENT (Continued)

The Bank's interest sensitivity position based on contractual re-pricing arrangements at 31st December 2009 was as follows:

	Average effective interest rate	On demand within 3 months RO'000	3 to 12 months RO'000	1 to 5 year RO'000	Over 5 year RO'000	Non interest sensitive RO'000	Total RO'000
Cash and balances with Central Banks	0.12%	95,421	2,457	-	-	86,479	184,357
Financial assets designated at fair value through profit and loss	4.00%	17,384	-	-	-	-	17,384
Due from banks and other money market placements (net)	2.14%	162,481	3,954	-	481	-	166,916
Loans and advances (net)	7.07%	584,049	160,261	223,678	393,009	-	1,360,997
Non-trading financial investments	4.84%	10,162	-	-	4,587	15,311	30,060
Premises and equipment	N/A	-	-	-	-	12,763	12,763
Deferred tax assets	N/A	-	-	-	-	-	-
Other assets	N/A	-	-	-	-	25,736	25,736
Total assets		869,497	166,672	223,678	398,077	140,289	1,798,213
Due to banks and other money market deposits	1.52%	211,962	7,700	-	-	-	219,662
Customers' deposits	3.16%	193,171	328,676	332,705	-	406,216	1,260,768
Other liabilities	N/A	-	-	-	-	34,700	34,700
Taxation	N/A	-	-	-	-	5,082	5,082
Deferred tax liability	N/A	-	-	-	-	10	10
Subordinated funds	7.02%	-	-	-	27,600	-	27,600
Shareholders' equity	N/A	-	-	-	-	250,391	250,391
Total liabilities and shareholders' equity		405,133	336,376	332,705	27,600	696,399	1,798,213
Total interest rate sensitivity gap		464,364	(169,704)	(109,027)	370,477	(556,110)	-
Cumulative interest rate sensitivity gap		464,364	294,660	185,633	556,110	-	-

29 RISK MANAGEMENT (Continued)

The Bank's interest sensitivity position based on contractual re-pricing arrangements at 31st December 2009 was as follows:

	Average effective interest rate	On demand within 3 months USD'000	3 to 12 months USD'000	1 to 5 year USD'000	Over 5 year USD'000	Non interest sensitive USD'000	Total USD'000
Cash and balances with Central Banks	0.12%	247,847	6,382	-	-	224,620	478,849
Financial assets designated at fair value through profit and loss	4.00%	45,153	-	-	-	-	45,153
Due from banks and other money market placements (net)	2.14%	422,029	10,270	-	1,249	-	433,548
Loans and advances (net)	7.07%	1,517,010	416,262	580,982	1,020,803	-	3,535,057
Non-trading financial investments	4.84%	26,395	-	-	11,914	39,769	78,078
Premises and equipment	N/A	-	-	-	-	33,151	33,151
Deferred tax assets	N/A	-	-	-	-	-	-
Other assets	N/A	-	-	-	-	66,847	66,847
Total assets		2,258,434	432,914	580,982	1,033,966	364,387	4,670,683
Due to banks and other money market deposits	1.52%	550,551	20,000	-	-	-	570,551
Customers' deposits	3.16%	501,743	853,704	864,169	-	1,055,106	3,274,722
Other liabilities	N/A	-	-	-	-	90,130	90,130
Taxation	N/A	-	-	-	-	13,200	13,200
Deferred tax liability	N/A	-	-	-	-	26	26
Subordinated funds	7.02%	-	-	-	71,688	-	71,688
Shareholders' equity	N/A	-	-	-	-	650,366	650,366
Total liabilities and shareholders' equity		1,052,294	873,704	864,169	71,688	1,808,828	4,670,683
Total interest rate sensitivity gap		1,206,140	(440,790)	(283,187)	962,278	(1,444,441)	-
Cumulative interest rate sensitivity gap		1,206,140	765,350	482,163	1,444,441	-	-

Currency Risk

Currency Risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Bank has set limits on open positions by currency. Positions are monitored on a daily basis and hedging strategies used to ensure positions are maintained within established limits.

The foreign exchange positions in the books of the Bank are largely held on account of customers and any variations in the exchange rates are absorbed by the customers.

Foreign exchange VAR is computed monthly for all non-pegged currencies at 99% confidence level and a holding period of 10 days. Additionally earnings impact of a 15% adverse movement in exchange rates for all open positions is factored in the monthly stress tests.

The Bank had the following significant net exposures denominated in foreign currencies:

2009 USD'000	**2010 USD'000**		**2010 RO'000**	2009 RO'000
63,257	**150,229**	US Dollar	**57,838**	24,354
29,522	**38,870**	UAE Dirham	**14,965**	11,366
1,130	**5,301**	Others	**2,041**	435

29 RISK MANAGEMENT (Continued)

OPERATIONAL RISK

Operational Risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Bank cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the bank is able to manage the risks. Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff training and assessment processes, including the use of internal audit.

30 CONCENTRATIONS

The Bank seeks to manage its credit risk exposure through diversification of lending activities to avoid undue concentrations of risk with individuals or groups of customers in specific locations or businesses. It also obtains security when appropriate.

The distribution of assets, liabilities and contingent items by geographical regions as of 31st December 2010 was as follows:

	Sultanate of Oman RO'000	UAE RO'000	Egypt RO'000	Others RO'000	Total RO'000
Cash and balances with Central Banks	**208,257**	**3,663**	**15,619**	-	**227,539**
Financial assets designated at fair value through profit and loss	-	-	-	-	-
Due from banks and other money market placements (net)	**612**	**4,181**	**8,900**	**70,462**	**84,155**
Loans and advances (net)	**1,283,669**	**58,814**	-	**20,879**	**1,363,362**
Non-trading financial investments	**59,786**	-	**995**	**2,352**	**63,133**
Premises and equipment	**21,535**	**65**	**753**	-	**22,353**
Deferred tax assets	**7**	-	-	-	**7**
Other assets	**38,884**	**1,204**	**2,150**	**2,117**	**44,355**
Total assets	**1,612,750**	**67,927**	**28,417**	**95,810**	**1,804,904**
Due to banks and other money market deposits	**1,175**	**17**	-	**131,153**	**132,345**
Customers' deposits	**1,240,890**	**28,130**	**29,569**	**26,301**	**1,324,890**
Other liabilities	**43,134**	**1,419**	**414**	**2,117**	**47,084**
Taxation	**3,150**	**134**	**891**	-	**4,175**
Deferred tax liability	-	-	-	-	-
Subordinated funds	**30,600**	-	-	-	**30,600**
Shareholders' equity	**247,180**	**3,589**	**15,041**	-	**265,810**
Liabilities and shareholders' equity	**1,566,129**	**33,289**	**45,915**	**159,571**	**1,804,904**
Contingent liabilities	**259,813**	**55,592**	**721**	**156,817**	**472,943**

30 CONCENTRATIONS (continued)

	Sultanate of Oman USD'000	UAE USD'000	Egypt USD'000	Others USD'000	Total USD'000
Cash and balances with Central Banks	540,927	9,514	40,569	-	591,010
Financial assets designated at fair value through profit and loss	-	-	-	-	-
Due from banks and other money market placements (net)	1,590	10,860	23,117	183,017	218,584
Loans and advances (net)	3,334,205	152,764	-	54,231	3,541,200
Non-trading financial investments	155,289	-	2,584	6,109	163,982
Premises and equipment	55,935	169	1,956	-	58,060
Deferred tax assets	18	-	-	-	18
Other assets	100,998	3,127	5,584	5,499	115,208
Total assets	4,188,962	176,434	73,810	248,856	4,688,062
Due to banks and other money market deposits	3,052	44	-	340,657	343,753
Customers' deposits	3,223,091	73,065	76,803	68,314	3,441,273
Other liabilities	112,037	3,686	1,075	5,499	122,297
Taxation	8,182	348	2,314	-	10,844
Deferred tax liability	-	-	-	-	-
Subordinated funds	79,481	-	-	-	79,481
Shareholders' equity	642,024	9,322	39,068	-	690,414
Liabilities and shareholders' equity	4,067,867	86,465	119,260	414,470	4,688,062
Contingent liabilities	674,838	144,395	1,873	407,317	1,228,423

30 CONCENTRATIONS (continued)

The distribution of assets, liabilities and off balance sheet items by geographical regions as of 31st December 2009 was as follows:

	Sultanate of Oman RO'000	UAE RO'000	Egypt RO'000	Others RO'000	Total RO'000
Cash and balances with Central Banks	166,546	2,172	15,639	-	184,357
Financial assets designated at fair value through profit and loss	17,384	-	-	-	17,384
Due from banks and other money market placements (net)	30,863	14,153	209	121,691	166,916
Loans and advances (net)	1,271,502	67,281	-	22,214	1,360,997
Non-trading financial investments	24,585	2,731	-	2,744	30,060
Premises and equipment	11,830	77	856	-	12,763
Deferred tax assets	-	-	-	-	-
Other assets	20,620	515	2,484	2,117	25,736
Total assets	1,543,330	86,929	19,188	148,766	1,798,213
Due to banks and other money market deposits	8,484	19,507	3,850	187,821	219,662
Customers' deposits	1,156,890	49,104	31,518	23,256	1,260,768
Other liabilities	31,134	1,156	293	2,117	34,700
Taxation	3,306	494	1,282	-	5,082
Deferred tax liability	10	-	-	-	10
Subordinated funds	27,600	-	-	-	27,600
Shareholders' equity	232,842	3,226	14,323	-	250,391
Liabilities and shareholders' equity	1,460,266	73,487	51,266	213,194	1,798,213
Contingent liabilities	262,793	52,966	1,134	145,077	461,970

The distribution of assets, liabilities and off balance sheet items by geographical regions as of 31st December 2009 was as follows:

	Sultanate of Oman USD'000	UAE USD'000	Egypt USD'000	Others USD'000	Total USD'000
Cash and balances with Central Banks	432,586	5,642	40,621	-	478,849
Financial assets designated at fair value through profit and loss	45,153	-	-	-	45,153
Due from banks and other money market placements (net)	80,165	36,760	543	316,080	433,548
Loans and advances (net)	3,302,602	174,756	-	57,699	3,535,057
Non-trading financial investments	63,855	7,095	-	7,128	78,078
Premises and equipment	30,728	200	2,223	-	33,151
Deferred tax assets	-	-	-	-	-
Other assets	53,558	1,338	6,452	5,499	66,847
Total assets	4,008,647	225,791	49,839	386,406	4,670,683
Due to banks and other money market deposits	22,037	50,668	10,000	487,846	570,551
Customers' deposits	3,004,908	127,543	81,865	60,406	3,274,722
Other liabilities	80,867	3,003	761	5,499	90,130
Taxation	8,587	1,283	3,330	-	13,200
Deferred tax liability	26	-	-	-	26
Subordinated funds	71,688	-	-	-	71,688
Shareholders' equity	604,784	8,379	37,203	-	650,366
Liabilities and shareholders' equity	3,792,897	190,876	133,159	553,751	4,670,683
Contingent liabilities	682,578	137,575	2,944	376,825	1,199,922

31 SEGMENTAL INFROMATION

For management purposes, the Bank is organised into four operating segments based on business units and are as follows:

- Consumer banking offers banking and credit facilities to individual customers to meet everyday banking needs.
- Corporate banking delivers a variety of products and services to corporate customers that include lending, accepting deposits, trade finance and foreign exchange.
- Investment banking offers investment products such as asset management, corporate advisory and brokerage services to retail customers as well as high net worth individuals and institutional clients.
- Treasury provides a full range of treasury products and services including money market and foreign exchange to the clients in addition to managing liquidity and market risk.
- International Banking offers services such as issuance of guarantee, risk participation, syndications, etc.

Management monitors the operating results of the operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss which in certain respects is measured differently from operating profit or loss in the financial statements. The costs incurred by the central functions are managed on a group basis and are not allocated to operating segments.

No revenue from transactions with a single external customer or counterparty amounted to 10% or more of the Bank's total revenue in 2010 or 2009.

Segment information is as follows:

Year ended 31st December 2010	Consumer banking RO'000	Corporate banking RO'000	Investment banking RO'000	Treasury and international banking RO'000	Head office RO'000	Total RO'000
Net interest income	**24,037**	**27,622**	**1**	**358**	**3,608**	**55,626**
Other income	**11,733**	**4,444**	**2,536**	**2,702**	**1,075**	**22,490**
Operating profit	**18,670**	**28,867**	**1,764**	**2,368**	**(13,502)**	**38,167**
Impairment provisions (net)	**(5,347)**	**(2,264)**	**(628)**	**308**	**-**	**(7,931)**
Profit	**13,323**	**26,603**	**1,136**	**2,676**	**(16,567)**	**27,171**
Total assets	**619,745**	**741,868**	**19,037**	**19,369**	**404,885**	**1,804,904**
Total liabilities	**519,151**	**661,619**	**35,841**	**-**	**588,293**	**1,804,904**

Year ended 31st December 2010	Consumer banking USD'000	Corporate banking USD'000	Investment banking USD'000	Treasury and international banking USD'000	Head office USD'000	Total USD'000
Net interest income	**62,434**	**71,745**	**3**	**930**	**9,371**	**144,483**
Other income	**30,475**	**11,543**	**6,587**	**7,018**	**2,793**	**58,416**
Operating profit	**48,494**	**74,979**	**4,582**	**6,151**	**(35,071)**	**99,135**
Impairment provisions (net)	**(13,887)**	**(5,881)**	**(1,631)**	**800**	**-**	**(20,599)**
Profit	**34,605**	**69,099**	**2,951**	**6,951**	**(43,031)**	**70,575**
Total assets	**1,609,727**	**1,926,930**	**49,447**	**50,309**	**1,051,649**	**4,688,062**
Total liabilities	**1,348,444**	**1,718,491**	**93,094**	**-**	**1,528,033**	**4,688,062**

31 SEGMENTAL INFROMATION (Continued)

For management purposes the Bank also reports the segment information of its operations by the following geographical locations:

i) Oman
ii) United Arab Emirates (UAE)
iii) Egypt

Transactions between the above segments are conducted at estimated market rates on an arm's length basis.

Segment information by geography is as follows:

For the year ended 31st December 2010	Oman RO'000	UAE RO'000	Egypt RO'000	Total RO'000
Segment revenue				
Interest income - external	**90,797**	**3,280**	**1,097**	**95,174**
Interest income - internal	**38**	**1**	**2,156**	**2,195**
Operating income - external	**21,747**	**585**	**158**	**22,490**
Operating income - internal	**173**	**-**	**-**	**173**
Total	**112,755**	**3,866**	**3,411**	**120,032**
Segment costs				
Interest costs - external	**37,595**	**923**	**1,030**	**39,548**
Interest costs - internal	**589**	**7**	**1,599**	**2,195**
Operating expenses - external	**33,695**	**1,260**	**1,174**	**36,129**
Operating expenses – internal	**-**	**97**	**76**	**173**
Depreciation	**3,694**	**29**	**97**	**3,820**
Credit loss expense - customer loan	**14,339**	**1,533**	**9**	**15,881**
Credit loss expense - bank loans	**-**	**-**	**-**	**-**
Impairment losses on available for sale investments	**628**	**-**	**-**	**628**
Recoveries	**(6,756)**	**(437)**	**(1,385)**	**(8,578)**
Taxation	**2,882**	**91**	**92**	**3,065**
Total	**86,666**	**3,503**	**2,692**	**92,861**
Segment profit for the year	**26,089**	**363**	**719**	**27,171**
Other information				
Segment assets	**1,720,472**	**47,486**	**36,946**	**1,804,904**
Segment capital expenses	**13,440**	**26**	**16**	**13,482**

31 SEGMENTAL INFORMATION (Continued)

For the year ended 31st December 2010	Oman USD'000	UAE USD'000	Egypt USD'000	Total USD'000
Segment revenue				
Interest income - external	**235,837**	**8,519**	**2,849**	**247,205**
Interest income - internal	**98**	**3**	**5,600**	**5,701**
Operating income - external	**56,487**	**1,519**	**410**	**58,416**
Operating income - internal	**449**	**-**	**-**	**449**
Total	**292,871**	**10,041**	**8,859**	**311,771**
Segment costs				
Interest costs - external	**97,650**	**2,397**	**2,675**	**102,722**
Interest costs - internal	**1,530**	**18**	**4,153**	**5,701**
Operating expenses - external	**87,520**	**3,273**	**3,049**	**93,842**
Operating expenses – internal	**-**	**252**	**197**	**449**
Depreciation	**9,595**	**75**	**252**	**9,922**
Credit loss expense - customer loan	**37,244**	**3,982**	**23**	**41,249**
Credit loss expense - bank loans	**-**	**-**	**-**	**-**
Impairment losses on available for sale investments	**1,631**	**-**	**-**	**1,631**
Recoveries	**(17,549)**	**(1,135)**	**(3,597)**	**(22,281)**
Taxation	**7,486**	**236**	**239**	**7,961**
Total	**225,107**	**9,098**	**6,991**	**241,196**
Segment profit for the year	**67,764**	**943**	**1,868**	**70,575**
Other information				
Segment assets	**4,468,758**	**123,340**	**95,964**	**4,688,062**
Segment capital expenses	**34,909**	**68**	**42**	**35,019**

Segment information is as follows:

Year ended 31st December 2009	Consumer banking RO'000	Corporate banking RO'000	Investment banking RO'000	Treasury and international banking RO'000	Head Office RO'000	Total RO'000
Net interest income	26,022	23,026	420	288	7,066	56,822
Other income	12,935	4,470	4,131	2,832	677	25,045
Operating profit	24,091	24,877	4,061	3,251	(9,197)	47,083
Impairment provisions (net)	(8,376)	(1,606)	(4,121)	(7,966)	-	(22,069)
Profit	15,715	23,271	(60)	(4,715)	(13,106)	21,105
Total assets	600,960	694,297	20,051	59,800	423,105	1,798,213
Total liabilities	489,978	651,232	16,773	-	640,230	1,798,213

31 SEGMENTAL INFORMATION (Continued)

Year ended 31st December 2009	Consumer banking USD'000	Corporate banking USD'000	Investment banking USD'000	Treasury and international banking USD'000	Head Office USD'000	Total USD'000
Net interest income	67,590	59,808	1,091	748	18,353	147,590
Other income	33,597	11,610	10,730	7,356	1,759	65,052
Operating profit	62,574	64,616	10,548	8,444	(23,888)	122,294
Impairment provisions (net)	(21,755)	(4,172)	(10,704)	(20,691)	-	(57,322)
Profit	40,819	60,444	(156)	(12,247)	(34,041)	54,819
Total assets	1,560,935	1,803,368	52,081	155,325	1,098,974	4,670,683
Total liabilities	1,272,668	1,691,512	43,566	-	1,662,937	4,670,683

Segment information by geography is as follows:

For the year ended 31st December 2009	Oman RO'000	UAE RO'000	Egypt RO'000	Total RO'000
Segment revenue				
Interest income - external	96,864	4,374	1,123	102,361
Interest income - internal	2	4	2,407	2,413
Operating income - external	24,174	731	140	25,045
Operating income - internal	204	-	-	204
Total	121,244	5,109	3,670	130,023
Segment costs				
Interest costs - external	42,389	2,047	1,103	45,539
Interest costs - internal	870	-	1,543	2,413
Operating expenses - external	29,651	1,258	1,035	31,944
Operating expenses – internal	-	128	76	204
Depreciation	2,718	31	91	2,840
Credit loss expense - customer loan	19,213	206	1,064	20,483
Credit loss expense - bank loans	7,966	-	-	7,966
Impairment losses on available for sale investments	4,121	-	-	4,121
Recoveries	(9,188)	(814)	(499)	(10,501)
Taxation	3,344	451	114	3,909
Total	101,084	3,307	4,527	108,918
Segment net profit for the year	20,160	1,802	(857)	21,105
Other information				
Segment assets	1,719,681	59,377	19,155	1,798,213
Segment capital expenses	6,008	10	97	6,115

31 SEGMENTAL INFORMATION (Continued)

For the year ended 31st December 2009	Oman USD'000	UAE USD'000	Egypt USD'000	Total USD'000
Segment revenue				
Interest income - external	251,595	11,361	2,917	265,873
Interest income - internal	5	10	6,253	6,268
Operating income - external	62,789	1,899	364	65,052
Operating income - internal	530	-	-	530
Total	314,919	13,270	9,534	337,723
Segment costs				
Interest costs - external	110,101	5,317	2,865	118,283
Interest costs - internal	2,260	-	4,008	6,268
Operating expenses - external	77,015	3,268	2,688	82,971
Operating expenses – internal	-	333	197	530
Depreciation	7,060	81	236	7,377
Credit loss expense - customer loan	49,904	535	2,764	53,203
Credit loss expense - bank loans	20,691	-	-	20,691
Impairment losses on available for sale investments	10,704	-	-	10,704
Recoveries	(23,866)	(2,114)	(1,296)	(27,276)
Taxation	8,685	1,170	298	10,153
Total	262,554	8,590	11,760	282,904
Segment net profit for the year	52,365	4,680	(2,226)	54,819
Other information				
Segment assets	4,466,707	154,223	49,753	4,670,683
Segment capital expenses	15,604	26	252	15,882

32 FAIR VALUE OF FINANCIAL INSTRUMENTS

It is the Bank's intention to hold loans and advances to customers to maturity. As a result the fair value of performing loans is arrived at using the discounted cash flow analysis based on a discount rate equal to the prevailing market rates of interest for loans having similar terms and conditions. The Bank considers that the fair value of financial instruments at 31st December 2010 and 2009 are not significantly different to their carrying value at each of those dates.

The Bank uses the following hierarchy for determining and disclosing the fair value of financial instruments 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; and

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

32 FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

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

31st December 2010	Level 1 RO'000	Level 2 RO'000	Level 3 RO'000	Total RO'000
Financial assets				
Investments - available for sale:				
Government development bonds	44,096	-	-	44,096
Quoted equities	11,328	-	-	11,328
Other unquoted equities	-	7,709	-	7,709
Total	**55,424**	**7,709**	**-**	**63,133**
Derivative financial instruments:				
Purchase contracts	-	41,890	-	41,890
Sale contracts	-	41,890	-	41,890
Interest rate swaps	-	160,720	-	160,720
Interest rate caps	-	383	-	383
Credit default swaps	-	7,700	-	7,700
Currency options	-	27,080	-	27,080
Commodity hedging	-	2,232	-	2,232
Total	**-**	**281,895**	**-**	**281,895**
Total financial assets	**55,424**	**289,604**	**-**	**345,028**
Total financial assets – In USD'000s	**143,959**	**752,218**	**-**	**896,177**

31st December 2009	RO'000	RO'000	RO'000	RO'000
Financial assets				
Financial assets designated at fair value through profit or loss				
OTC	75	-	-	75
GDB	17,309	-	-	17,309
Total	17,384	-	-	17,384
Investments - available for sale:				
Government development bonds	10,009	-	-	10,009
Quoted equities	8,345	-	-	8,345
Other unquoted equities	-	7,126	-	7,126
Total	18,354	7,126	-	25,480
Derivative financial instruments:				
Purchase contracts	-	137,243	-	137,243
Sale contracts	-	137,243	-	137,243
Interest rate swaps	-	53,660	-	53,660
Interest rate caps	-	643	-	643
Credit default swaps	-	7,700	-	7,700
Total	-	336,489	-	336,489
Total financial assets	35,738	343,615	-	379,353
Total financial assets – In USD'000s	92,826	892,506	-	985,332

32 FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

During the reporting period ended 31st December 2010 and 31st December 2009, 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.

33 DERIVATIVES

In the ordinary course of business, the Bank enters into various types of transactions that involve derivative financial instruments. A derivative financial instrument is a financial contract between two parties where payments are dependent upon movements in price in one or more underlying financial instrument, reference rate or index. The Bank uses the following derivative financial instruments:

Derivative product types

Forwards are contractual agreements to either buy or sell a specified currency, commodity or financial instrument at a specific price and date in the future. Forwards are customised contracts transacted in the over-the-counter market.

Swaps are contractual agreements between two parties to exchange movements in interest or foreign currency rates and equity indices, and (in the case of credit default swaps) to make payments with respect to defined credit events based on specified notional amounts.

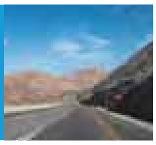
Options are contractual agreements that convey the right, but not the obligation, to either buy or sell a specific amount of a commodity, foreign currency or financial instrument at a fixed price, either at a fixed future date or at any time within a specified period. The Bank transacts only in currency options for its customers.

Derivatives held or issued for hedging purposes

As part of its asset and liability management the Bank uses derivatives for hedging purposes in order to reduce its exposure to currency and interest rate risks. Hedging specific financial instruments and forecasted transactions as well as strategic hedging against overall balance sheet exposures achieve this.

The Bank uses forward foreign exchange contracts, options and currency swaps to hedge against specifically identified currency risks. In addition, the Bank uses interest rate swaps to hedge against the cash flow risks arising from certain fixed interest rate loans and deposits.

For interest rate risk, strategic hedging is carried out by monitoring the re-pricing of financial assets and liabilities and entering into interest rate swaps to hedge a proportion of the interest rate exposure. As strategic hedging does not qualify for special hedge accounting, the related derivatives are accounted for as trading instruments.



33 DERIVATIVES (continued)

The table below shows the positive and negative fair values of derivative financial instruments, which are equivalent to the market values, together with the notional amounts analysed by the term to maturity. The notional amount is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured.

31st December 2010	Positive fair value RO'000 (note 9)	Negative fair value RO'000 (note 12)	Notional amount RO'000	Notional amounts by term to maturity: Within 3 months RO'000	3 - 12 months RO'000	1 - 5 years RO'000
Interest rate swaps	4,212	(4,212)	160,720	1,500	7,144	152,076
Credit default swaps	-	(45)	7,700	-	1,925	5,775
Forward foreign exchange purchase contracts	40	(55)	41,890	41,268	622	-
Forward foreign exchange sales contracts	55	(80)	41,890	41,269	621	-
Interest rate caps	-	-	383	80	181	122
Currency options	187	(187)	27,080	19,037	8,043	-
Commodity hedging	182	(182)	2,232	2,232	-	-
Total	**4,676**	**(4,761)**	**281,895**	**105,386**	**18,536**	**157,973**
Total – USD'000	**12,145**	**(12,366)**	**732,195**	**273,730**	**48,145**	**410,320**

31st December 2009	Positive fair value RO'000 (note 9)	Negative fair value RO'000 (note 12)	Notional amount RO'000	Notional amounts by term to maturity: Within 3 months RO'000	3 - 12 months RO'000	1 - 5 years RO'000
Interest rate swaps	319	(319)	53,660	1,500	46,160	6,000
Credit default swaps	-	(84)	7,700	-	-	7,700
Forward foreign exchange purchase contracts	250	(117)	137,243	40,635	96,608	-
Forward foreign exchange sales contracts	272	(14)	137,243	40,959	96,284	-
Interest rate caps	-	-	643	80	181	382
Total	841	(534)	336,489	83,174	239,233	14,082
Total – USD'000	2,184	(1,387)	873,997	216,036	621,384	36,577

Cash flow hedge

During the year 2010, the Bank renewed funded cross currency interest rate swaps, which was entered in 2009, amounting to RO 21.04 million in order to hedge an equivalent amount due to a bank. As of the 31st December 2009, the mark to market adjustments for these cross currency interest rate swaps amounted to RO 0.13 million (note 19) which were recorded in equity with a corresponding adjustment made to amounts due from banks. These cross currency interest rate swaps matured on 31st December 2010.

NBO Branches

68 Branches in Oman

(including 2 booths)

3 Branches in Egypt

1 Branch in UAE (Abu Dhabi)

NBO Branches

Muscat Region (South)

Main Branch C.B.D. Area

P.O. Box 752, Ruwi,
Postal Code 112
Tel: 24 778 350, 24 778 352
Fax: 24 778 395, 24 778 394, 24 778 391

MBD

P.O. Box 801, Muttrah,
Postal Code 114
Tel: 24 778 556, 24 778 550,
24 778 553
Fax: 24 810 123

Corporate Branch (HO)

GETCO Building CBD
P.O. Box 751,
Postal Code 112, Ruwi
Tel: 24 778 060, 24 778 055,
24 778 056, 24 778 059
Fax: 24 778 046

Muscat

P.O. Box 916, Muscat,
Postal Code 100
Tel : 24 737 837, 24 740 595
Fax : 24 737 836

Hamriya

P.O. Box 1586, Ruwi,
Postal Code 112
Tel: 24 835 221, 24 835 223,
24 833 792, 24 831 520
Fax: 24 835 220, 24 833 147

Bait Al Falaj

P.O. Box 334, Muttrah,
Postal Code 114
Tel: 24 700 166, 24 702 130
Fax: 24 708 980

Corniche

P.O. Box 272, Muttrah,
Postal Code 114
Tel: 24 715 103, 24 714 245
Fax: 24 713 131

Mina Al-Fahal

P.O. Box 123, Mina Al-Fahal,
Postal Code 116
Tel: 24 677 020, 24 565 561
Fax: 24 563 647, 24 567 033 (Sadara)

Wattaya

P.O. Box 1647, Ruwi,
Postal Code 112
Tel : 24 563 830, 24 560 585
Fax : 24 561 334

Qurum

P.O. Box 2928, Ruwi,
Postal Code 112
Tel : 24 562 615, 24 560 050
Fax : 24 562 616

Qurum City Center

P.O. Box 638, Madinat Qaboos,
Postal Code 115
Tel : 24 470 514, 244 70 516
Fax : 24 470 517

Shatti Al Qurum

P.O. Box 1861, Al Khuwair,
Postal Code 133
Tel : 24 607 161
Fax : 24 607 023

Al Amerat (Muscat South Branch)

P.O. Box 276, Al Amerat,
Postal Code 119
Tel: 24 875 766, 24 877 379
Fax: 24 875 366

Muscat Region (North and Musandam)

Muscat International Airport

P. O. Box 11, Airport,
Postal Code 111
Tel: 24 510 007, 24 510 543,
24 521 448
Fax: 24 521 483

Bowsher

P. O. Box 1238,
Postal Code 111
Tel: 24 587 291, 24 587 94
Fax: 24 587 295, 24 587 29

Corporate Branch Booth

P.O. Box 751, Airport,
Postal Code 112
Tel: 24 510 049 , 24 510 137,
Fax: 24 510 156

Seeb Town

P.O. Box 574, Seeb,
Postal Code 121
Tel: 24 423 511, 24 423 512,
24 421 773
Fax: 24 423 513

Al Khuwair

P.O. Box 393, Al Khuwair,
Postal Code 113
Tel: 24 486 481, 24 486 441
Fax: 24 486 480

Azaiba R/A

P.O. Box 52, Mina Al-Fahal,
Postal Code 116
Tel: 24 591 341, 24 597 855
Fax: 24 591 340

Azaiba North

P.O. Box 1751, Al Khuwair,
Postal Code 133
Tel: 24 527 262, 24 527 272
Fax: 24 527 247

Ma'abella

P.O. Box 828, Seeb,
Postal Code 121
Tel: 24 453 314, 24 455 957
Fax: 24 450 120

Ma'abella Suq

P.O. Box 1350, Seeb,
Postal Code 121
Tel: 24 4 52 304, 24 452 387
Fax: 24 4 52 351

Mawaleh

P.O. Box 2758,
Postal Code 111
Tel: 24 511 164, 24 511 165
Fax: 24 511 173

Ghoubrah R/A

P.O. Box 3909, Ruwi,
Postal Code 112
Tel: 24 491 062, 24 497 229
Fax: 24 491 583

Al Khuwair North

Ministry of Health Building
P.O. Box 393, Ghoubrah,
Postal Code 113
Tel: 24 602 763, 24 692 310
24 692 309
Fax: 24 697 076

Quriyat

P.O. Box 55, Quriyat,
Postal Code 120
Tel: 24 846 100, 24 846 415
Fax: 24 845 899

Al Khoudh

P.O. Box 690, Al Khoudh,
Postal Code 132
Tel: 24 537 950, 24 537 951
Fax: 24 537 952

Khasab

P.O. Box 30, Khasab,
Postal Code 811
Tel: 26 730 467, 26 731 442
Fax: 26 730 266

Bukha

P.O. Box 42, Bukha,
Postal Code 812
Tel: 26 828 014, 26 828 278
Fax: 26 828 466

Dakhiliyah & Dhahira Region

Nizwa

P.O. Box 100, Nizwa,
Postal Code 611
Tel: 25 410 072, 25 410 043,
25 413 169
Fax: 25 410 048

Nizwa Firq

P.O. Box 983, Nizwa,
Postal Code 611
Tel: 25 431 140, 25 432 149
Fax: 25 432 008

Ibri

P.O. Box 30, Ibri,
Postal Code 511
Tel: 25 691 161, 25 690 782
Fax: 25 689 391

Al Araqi

P.O. Box 203, Ibri,
Postal Code 515
Tel: 25 694 342, 25 694 141
Fax: 25 694 340

NBO Branches

Buraimi
P.O. Box 9, Buraimi,
Postal Code 512
Tel: 25 653 037, 25 655 226
Fax: 25 650 346

Bahla
P.O. Box 72, Bahla,
Postal Code 612
Tel: 25 419 673, 25 420 772
Fax: 25 419 167

Sumail
P.O. Box 35, Samail,
Postal Code 620
Tel: 25 351 483, 25 350 355
Fax: 25 350 234

Fanja
P.O. Box 88, Bid Bid,
Postal Code 600
Tel: 25 360 444, 25 361 190
Fax: 25 360 011

Al Hamra
P.O. Box 19, Al Hamra,
Postal Code 617
Tel: 25 422 008, 25 423 121
Fax: 25 422 766

Dhank
P.O. Box 33, Dhank,
Postal Code 514
Tel: 25 676 603
Fax: 25 676 191

Batinah Region

Safeer Sohar
P.O. Box 48, Sohar,
Postal Code 321, Safeer Mall
Tel: 26 841 967, 26 844 372
Fax: 26 842 690

Saham
P.O. Box 33, Saham,
Postal Code 319
Tel: 26 855 146, 26 855 299
Fax: 26 854 006

Al Khaboura
P.O. Box 4, Al-Khaboura,
Postal Code 326
Tel: 268 05 155, 262 02 970
Fax: 268 05 204

Barka
P.O. Box 7, Barka,
Postal Code 320
Tel: 26 882 368, 26 882 007
Fax: 26 884 332

Bidaya
P.O. Box 92, Bidaya,
Postal Code 316
Tel: 26 709 240, 26 709 340
Fax: 26 709 350

Musn’a
P. O. Box 38, Musna,
Postal Code 312
Tel: 26 868 145, 268 68 136
Fax: 26 868 885

Mullada
P. O. Box 265, Musna,
Postal Code 314
Tel: 26 871 118, 26 870 182
Fax: 26 869 635

Shinas
P.O. Box 3, Shinas,
Postal Code 324
Tel: 26 747 663, 26 748 394
Fax: 26 747 134

Rustaq
P.O.Box 189, Rustaq,
Postal Code 318
Tel: 26 878 332, 26 878 334
Fax: 26 878 335

Rustaq
P.O. Box 480, Rustaq,
Postal Code 329
Burig Al Raddah
Tel: 26 875 241, 26 875 254
Fax: 26 875 156

Liwa
P.O. Box 118,
Postal Code 325
Tel: 26 762 073, 26 762 075
Fax: 26 762 021

Afi
P.O. Box 197, Nakhal,
Postal Code 323
Tel: 26 780 972
Fax: 26 780 967

Sohar Hambar
P.O. Box 65, Sohar,
Postal Code 311, Sohar Mall
Tel: 26 859 104, 26 859 106
Fax: 26 859 109

Sohar Industrial Branch
P.O. Box 497, Sohar,
Postal Code 311
Tel: 26 751 925, 26 751 309
Fax: 26 751 705

Suwaiq
P.O. Box 594
Postal Code 315, Suwaiq,
Tel: 26 860 518, 26 862 764
Fax: 26 860 517

Dhofar Region

Salalah Main Branch
P.O. Box 197, Salalah,
Postal Code 211
Tel: 23 291 604, 23 290 170,
23 290 710
Fax: 23 295 695, 23 293 069
22 184 584

Salalah 23rd July Street Branch
P.O. Box 1317, Salalah,
Postal Code 211
Tel: 23 298 019, 23 298 027
Fax: 23 297 135

Hafa
P.O. Box 824, Salalah,
Postal Code 211
Tel: 23 291 952, 23 291 940
Fax: 23 290 066

Sultan Qaboos Hospital
P.O. Box 944, Salalah,
Postal Code 211
Tel: 23 211 042, 23 211 092
Fax: 23 211 040

Salalah Port
P.O. Box 1183, Salalah,
Postal Code 211
Tel: 23 219 024, 23 219 373
Fax: 23 219 032

Mirbat
P.O. Box 92, Mirbat,
Postal Code 220
Tel: 23 268 346, 23 268 345
Fax: 23 268 010

Sadah
P.O. Box 428, Sadah,
Postal Code 215
Tel: 23 226 031, 23 225 283
Fax: 23 225 374

Sharqiyah Region

Sur
P.O. Box 55, Sur,
Postal Code 411
Tel: 25 540 246, 25 545 158
Fax: 25 542 046

Ibra
P.O. Box 161, Ibra,
Postal Code 413
Tel: 25 570 015, 2 5570 144
Fax: 25 570 155

Bilad Bani Bu Ali
P.O. Box 11, Bilad Bani Bu Ali,
Postal Code 416
Tel: 25 5 54 015, 25 5 54 138
Fax: 25 5 53 211

Ja’alan
P.O. Box 77, BBB-Hassan,
Postal Code 415
Tel: 25 550 950, 25 550 110
Fax: 25 550 020

NBO Branches

Masira
P.O. Box 24, Masira Island,
Postal Code 414
Tel: 25 504 026, 25 504 516
Fax: 25 504 494

Al Kamil
P.O. Box 20, Al Kamil,
Postal Code 412
Tel: 25 557 524, 25 557 770
Fax: 25 557 020

Al Mudaibi
P.O. Box 215, Al Mudaibi,
Postal Code 420
Tel: 25 578 014, 25 578 484
Fax: 25 578 015

Sinaw
P.O. Box 8,
Postal Code 418
Tel: 25 524 212, 25 524 223
Fax: 25 524 227

Overseas Branches

Egypt

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(C.H.O. Annexe)
68 El Merghani Street,
Abu Ghali Building
Tel: +(202) Switchboard 241 44 184,
PPFM 269 03 597
Fax: +(202) PPFM 229 09 522

Country Manager Office
Tel: +(202) 229 00413
Fax: +(202) 229 07076
Telex: 93309 NBOUN
Swift: NBOMEGCX

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Heliopolis Masr El Gedida, Cairo
Tel: +(202) 220 0158, 220 0157
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34, El Batal Ahmed Abdul Aziz Street
Mohandessin Giza
Tel: +(202) 376 17 041-2 333 59 684
Fax: +(202) 376 17 044
Telex: 93309 NBOUN
Swift: NBOMEGCX

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49, El Horeya Avenue
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Telex: 54185 NBOUN
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United Arab Emirates

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