



At your doorstep
Annual Report 2009

Your local bank with regional presence

البنك الأهلي 
ahlibank



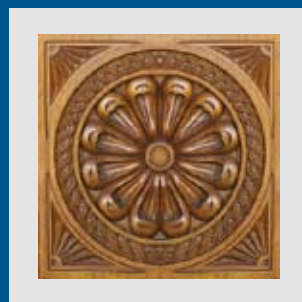
His Majesty Sultan Qaboos Bin Said

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At Your Doorstep

After two years in Oman we continue to expand and grow our network to reach out to every community and business hub across the Sultanate. We are striving to bring our business to your doorstep and deliver the best possible customer service at your maximum convenience.





Board of Directors

Sayyid Khalid Hamad Hamood Al Busaidi – Chairman

Chairman:

- Sabco LLC • Oman Expo LLC • Amouage LLC • Oman Perfumery LLC
- Sabco Catering • Al Hail Investments LLC • Sabco Arts LLC
- Faisal Mo`ad Trading and Contracting LLC • Sabco Media SAOC
- Horizon Technologies FZE • Horizon Technologies SAOC
- Oman Shapoorji Construction Company LLC

Director: National Mineral Water Co. SAOG



Hamdan Ali Nasser Al Hinai – First Deputy Chairman

Director:

- Contracts and Legal Affairs, Ministry of Defence

Former Director:

- Planning, Ministry of Regional Municipalities and Environment



Hamad Abdulmohsen H.D. Al Marzouq - Second Deputy Chairman

Chairman and Managing Director: • Bank of Kuwait and the Middle East, Kuwait
Deputy Chairman:

- Ahli United Bank, Bahrain • Ahli United Bank (UK) PLC
- Ahli United Bank, Egypt • Ahli Bank, Qatar

Board Member:

- Commercial Bank of Iraq • Kuwait Banking Association
- Kuwait & Middle East Financial Investment Co, Kuwait
- Union of Arab Banks
- Institute of Banking Studies, Kuwait
- The Public Authority for Applied Education & Training, Kuwait

Member of the Board of Trustees • The Arab Academy of Banking & Financial Sciences, Kuwait



Munir Abdulnabi Yousef Makki - Director

Managing Director and President: • The Financial Corporation (FINCORP) SAOG
Director:

- Al Maha Petroleum Marketing Co. SAOG
- Qatar Oman Investment Company – Qatar

Chairman:

- Advent United LLC
- Member of the Council of Higher Education
- Member of Omani Moroccan Businessmen Council – OCCI
- Member of Omani Indian Businessmen Council – OCCI
- Member of Economic Committee – OCCI

Former Ambassador of Oman to France



Hassan Ehsan Naseeb – Director

Vice Chairman:

- Global Financial Investments
- Oman Hotels and Tourism

Director:

- Oman Holdings International Co. SAOG



Usama Mohammed Al Barwani - Director

Chairman:

- Flexible Industrial Packages Co. SAOG

Director:

- Taageer Finance Co. SAOG
- Oman Medical Projects Company SAOG



Adel Mohamed Abdelshafe El-Labban - Director

Group CEO and Managing Director: • Ahli United Bank, Bahrain

Board Member:

- Ahli United Bank (UK) PLC
- Bank of Kuwait and the Middle East, Kuwait
- Ahli Bank, Qatar • Bahrain Stock Exchange
- Kuwait & Middle East Financial Investment Co, Kuwait
- Ahli United Bank, Egypt

Director: • Board of Trustees – Bankers Society of Bahrain, Bahrain



Sanjeev Baijal - Director

Deputy Group CEO: • Finance and Strategic Development, Ahli United Bank, Bahrain.

Deputy Chairman:

- Legal and General Gulf BSC (C)
- Legal and General Gulf Takaful BSC (C)

Director:

- Bank of Kuwait and the Middle East, Kuwait
- AUB Investments (Cyprus) Ltd.



Keith Henry Gale - Director

Deputy Group CEO:

- Risk, Legal and Compliance, Ahli United Bank, Bahrain

Director:

- AUB Investments (Cyprus) Ltd



Syed Gulrez Hoda - Director

Associate Director:

- International Finance Corporation (Middle East and North Africa)



Dr. Salem ben Nasser Al Ismaily - Director

Director:

- Al Shariqiya Investment



All Directors have declared themselves independent and are non-executive members.



Chairman's Report - 2009

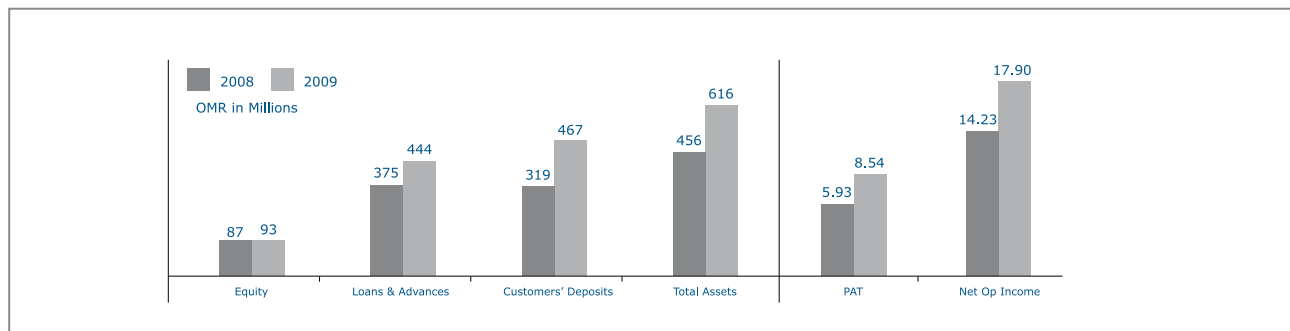
On behalf of the Board of Directors of Ahli Bank S.A.O.G, it gives me great pleasure to present the 2009 annual report and financial statements of Ahli Bank. In a very challenging year, the bank has through prudence, foresight and proactive financial management, shown remarkable progress following 2008, the year of transition to a full commercial banking model.

Macroeconomic Overview

Oman has been very successful in its efforts to diversify its economic activities to create employment opportunities and limit its dependence on oil and natural gas. Like many other countries of the region, the Omani economy has been impacted by the international financial crisis, albeit to a lesser extent. This is, to a large extent, attributable to the prudent policies of the government, under the wise leadership of His Majesty Sultan Qaboos Bin Said.

The Omani banking sector likewise continues to experience a challenging business environment. As an active participant, Ahli Bank has continued on its growth trajectory in a steady manner and has had a very satisfactory business and performance oriented Financial Year 2009. Despite the challenges, the Bank has been able to demonstrate its ability to manage and effectively respond to the requirements of business, giving it further confidence to grow on a sustainable basis in future.

Financial Highlights



Ahli Bank has evolved year over year in an effective manner and the same is reflected in its strong performance in Fiscal 2009. Ahli Bank's business and financial model promotes leveraging established relationships, developing new ones with a sustainable revenue generation capacity and at the same time ensuring very high Credit Quality and Service Standards.

The Bank's customer deposits have grown year over year by 46% in line with our strategy to build a stable low cost deposit base. Asset growth, under the new business model, has been managed with a prudent risk management approach undertaken in view of the prevailing global financial crisis and its implication. The loan book continues to be of a very high quality as reflected in our NPL ratio of 0.32% in 2009 (2008: 0.19%).

Net Operating Income has increased year over year by over 26% to OMR 17.90 Million and Operating Expenses (excluding loan impairment charge/recoveries) were controlled at OMR 7.92 Million resulting in a lower cost to income ratio of 44.3 % (2008: 54.0%). Overall, the Net Profit after Tax rose by 44% to OMR 8.54 Million (2008: OMR 5.93 Million).

Capital & Reserves

The Bank seeks to continually enhance shareholder value through proactive and prudent capital management framework to optimize the use of capital by ensuring the most favorable allocation of capital through an appropriate mix of products and services. The Tier I Capital as at year end 2009 amounted to OMR 83.50 Million up from OMR 81.21 Million in 2008 and the Capital Adequacy Ratio is at 17.62 % (2008: 23.36%), well above the mandatory 10% minimum requirement of Central Bank of Oman.

Outlook

The Omani economy is expected to remain in positive territory in 2010, with the government's commitment through budgetary allocations for various industrial, infrastructure project & human capital expenditures.

At Ahli Bank we see potential banking opportunities arising for which, a clear and wide-ranging strategy is being developed with our team of high-calibre professionals to leverage on these emerging opportunities with the singular purpose of maximising shareholder value. Our expectation therefore would be to grow in a prudent way and emerge as a strong participant in the banking sector in Oman.

Dividend

The Bank's Earning Per Share (EPS) for 2009 has risen to Baizas 12.6 from Baizas 8.7 during 2008. Keeping in view the current market condition and the early stage of our development, it is prudent to conserve the Bank's internally generated resources and as a consequence, the Board of Directors recommends 7% cash dividend and 5% bonus shares. The Bank's commitment towards its shareholders and the confidence it has in its ability to grow and enhance shareholders' value remains strong.

Thanks

We remain eternally grateful to His Majesty Sultan Qaboos Bin Said and his Government for creating the environment that allows the bank to participate effectively through his visionary leadership of Oman over the past four decades, whose fortieth anniversary is being commemorated during 2010. The Board of Directors places on record its gratitude to the Central Bank of Oman, Capital Market Authority and other regulatory authorities for their strong support and guidance.

Without the continued support of our shareholders, the Bank could not progress as successfully as it has over the years. My sincere thanks to them and to our most valued customers who place their trust in our management of their financial affairs. We will continue to provide the very best in banking services, broadening both our services and distribution channels.

It is with a great deal of positive anticipation; I look forward to the year ahead. I am confident that the skills and expertise of Ahli Bank's experienced and dedicated staff will, once again, endeavor to deliver a robust performance during 2010. This current growth and unparalleled success is a direct outcome of the efforts of all Ahli Bankers, and I thank them for their hard work, solidarity, cooperation and support.

I am confident of Ahli Bank emerging even stronger in the future and becoming the "Preferred Bank" of Oman for all types of banking products and services.



Khalid Hamad Hamood Al Busaidi
Chairman
Dated 26 January 2010



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PC. 112
Sultanate of Oman

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Report to the Shareholders of Ahli Bank SAOG (the "Bank") of Factual Findings in connection with the Corporate Governance Report of the Bank and application of the Corporate Governance practices in accordance with Capital Market Authority Code of Corporate Governance

We have performed the procedures prescribed in the Capital Market Authority ("CMA") Circular No. 16/2003 dated 29 December 2003 with respect to the Corporate Governance Report of the Bank (the "Report") and its application of the Corporate Governance practices in accordance with the CMA Code of Corporate Governance (the "Code") issued under Circular No. 11/2002 dated 3 June 2002, and the CMA Rules and Guidelines on disclosure, issued under CMA Administrative Decision 5/2007, dated 27 June 2007. The Report is set out on pages 11 to 19.

Our engagement was undertaken in accordance with the International Standards on Auditing applicable to agreed-upon procedures engagements. The procedures were performed solely to assist you in evaluating the Report.

We found the Report reflects, in all material respects, 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, we do not express any assurance on the Bank's Corporate Governance Report. Had we performed additional procedures or had we performed an audit or review of this Report in accordance with International Standards on Auditing, other matters might have come to our attention that would have been reported to you.

This report is solely for the purpose set forth in the second paragraph above, and for inclusion, with the Report, in the Bank's annual report, and is not to be used for any other purpose. This report relates only to the Report included in the Bank's annual report for the year ended 31 December 2009 and does not extend to the financial statements or any other reports of Ahli Bank SAOG, taken as a whole.

28 January 2010

Michael G.W. Armstrong



Corporate Governance Report - 2009

Introduction

Corporate Governance is about commitment to values and ethical business conduct. It is about how an organization is managed. This includes its corporate and other structures, its culture, policies and the manner in which it deals with various stakeholders. Accordingly, timely and accurate disclosure of information regarding the financial situation, performance, ownership and governance of the bank is an important part of corporate governance. This improves the public understanding of the structure, activities and policies of the bank.

Corporate governance practice embodies the dual goals of protecting the interests of all stakeholders while respecting the duty of the board and senior management to oversee the affairs of a bank, ensure accountability, inculcate integrity and promote long-term growth and profitability. With an excellent Board of Directors and the institution of all recommended sub-committees, the bank is already compliant with all statutory requirements. We believe that sound corporate governance is critical to enhance and retain investor trust. Accordingly, we always seek to ensure that we attain our performance rules with integrity. Our Board exercises its fiduciary responsibilities in the widest sense of the term. We also endeavor to enhance long-term shareholder value and respect minority rights in all our business decisions.

Our corporate governance philosophy is based on the following principles:

1. Satisfy the spirit of the law and not just the letter of the law.
2. Be transparent and maintain a high degree of disclosure levels.
3. Communicate externally, in a truthful manner, about how the bank is run internally.
4. Have a simple and transparent corporate structure driven solely by business needs.
5. Management is the trustee of the shareholders' capital and not the owner.

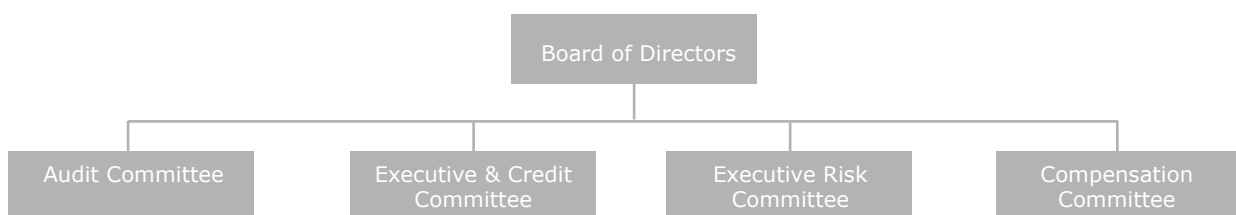
At the core of corporate governance practice is the Board, which oversees how the management serves and protects the long-term interests of all the stakeholders of the bank. We believe that an active, well-informed and independent board is necessary to ensure the highest standards of corporate governance.

Corporate Governance implementation initiatives at Ahli Bank SAOG

Over the years, the board has developed corporate governance culture to help fulfill our corporate responsibility to various stakeholders. This ensures that the board will have the necessary authority and practice in place to review and evaluate our operations when required.

In compliance with the regulatory requirements and as per the best industrial practices, four board level sub-committees have been set up to ensure effective functioning of the Board.

The Corporate Governance Structure of the Ahli Bank SAOG is depicted below:



Board of Directors and Subcommittees of Ahli Bank SAOG

Board of Directors:

The profile of the board members is included in the annual report.

Executive powers of the board are:

1. Power of approving financial objectives, the business and financial policies of the bank.
2. Power of approving internal regulations as well as specifying the powers, responsibilities and authorities of the executive management.
3. Power of reviewing and monitoring the disclosures and the compliance with regulatory requirements.
4. Power of nominating the members of the Sub-Committees, CEO and the key employees.

Details of number of board meetings held during the year 2009

Sl. No.	Board Meeting	Sl. No.	Board Meeting	Sl. No.	Board Meeting
1.	26-Jan-09	3.	27-Apr-09	5.	26-Oct-09
2.	23-Mar-09	4.	27-Jul-09	6.	24-Dec-09

Directors attendance record in the board meetings:

Name of Director	Position	Type of Directorship	Board Meeting Attended	Other sub-committees memberships #	Whether attended last AGM (Yes/No/NA)
H.E. Sayyid Khalid Hamad Hamood Al Busaidi	Chairman	Independent	4	CC	Yes
Hamdan Ali Nasser Al Hinaï	First Deputy Chairman	Independent/Representing MOD Pension Fund	6	ECC, ERC	Yes
Hamad Abdulmohsen H.D. Al Marzouq	Second Deputy Chairman	Independent/Representing Ahli United Bank	3	ECC, CC	Yes
Munir Abdulnabi Yousef Makki	Director	Independent	6	AC	Yes
Hassan Ehsan Naseeb	Director	Independent	6	ERC	Yes
Usama Mohammed Al Barwani	Director	Independent/Representing MB Holding	4	ECC	Yes
Adel Mohamed Abdelshafe El-Labban	Director	Independent	6	ECC, ERC,CC	Yes
Sanjeev Baijal	Director	Independent	6	AC	Yes

Keith Henry Gale	Director	Independent	6	ECC,ERC	Yes
Syed Gulrez Hoda	Director	Independent	3	AC	No
Dr. Salem ben Nasser Al Ismaily	Director	Independent/ Representing Al Murjan Investment and Services Co	5	ERC	Yes

Audit Committee- AC, Executive and Credit Committee- ECC, Executive Risk Committee- ERC, Compensation Committee- CC.

Note: All the directors on Board are non-executive directors.

Audit and other sub-committees

Following the conversion into full service commercial banks, the existing board committees were restructured considering the regulatory requirements and expanded business needs of the bank. Ahli Bank set up four board level committees to ensure the smooth functioning of the bank; these are:

- A. Audit committee
- B. Executive and Credit Committee (formed in December 2007)
- C. Executive Risk Committee (formed in December 2007)
- D. Compensation Committee. (formed in December 2007)

A. Audit committee:

The role of the Audit Committee includes:

- Reviewing the scope of external and internal audits and over-see of the adequacy of the bank's internal control systems through the reports of the internal and external auditors.
- Reviewing the quarterly and annual financial reports before submission to the Board for approval.
- Over-see the compliance with Corporate Governance and monitoring of Risk Management activity within the bank.

Composition of Audit Committee and details of meetings held and attendance record of members during the year 2009:

Composition of Audit Committee		Meetings Dates			
Director's Name	Position	25-Jan-09	26-Apr-09	26-Jul-09	26-Oct-09
Munir Abdulnabi Yousef Makki	Chairman	Yes	Yes	Yes	Yes
Sanjeev Baijal	Member	Yes	Yes	Yes	Yes
Syed Gulrez Hoda	Member	No	Yes	Yes	Yes
Attendance		2	3	3	3

B. Executive and Credit Committee:

The role of the Executive and Credit Committee includes:

- To provide the Board with a mechanism for considering in depth, any issue that the Board consider requires detailed attention
- To allow management to obtain input for the development of proposals prior to Board submission
- To approve matters beyond the management's delegated authority but which do not need full Board approval.
- To focus on strategic reviews and proposals, investments, treasury and liquidity management, business plans and such other matters.

Composition of Executive and Credit Committee and details of meetings held and attendance record of members during the year 2009:

Composition of Executive & Credit Committee		Meetings Dates			
Director's Name	Position	26-Jan-09	27-Apr-09	27-Jul-09	26-Oct-09
Hamad Abdulmohsen H.D. Al Marzouq	Chairman	No	No	No	Yes
Hamdan Ali Nasser Al Hinai	Member	Yes	Yes	Yes	Yes
Usama Mohammed Al Barwani	Member	No	Yes	No	Yes
Adel Mohamed Abdelshafe El-Labban	Member	Yes	Yes	Yes	Yes
Keith Henry Gale	Member	Yes	Yes	Yes	Yes
Attendance		3	4	3	5

C. Executive Risk Committee

The role of the Executive Risk Committee includes:

- Integrated approach to managing the risks inherent in various aspects of our business.
- Board of directors are responsible for monitoring risk levels according to various parameters and management is responsible for ensuring mitigation measures.
- To focus on review of all policies governing bank's risk and funding exposure.
- To ensure the consistent adherence and implementation of the board approved policies and treasury strategies in monitoring market and other risks.

Composition of Executive Risk Committee and details of meetings held and attendance record of members during the year 2009:

Composition of Executive Risk Committee		Meetings Dates			
Director's Name	Position	26-Jan-09	27-Apr-09	27-Jul-09	26-Oct-09
Hamdan Ali Nasser Al Hinaï	Chairman	Yes	Yes	Yes	Yes
Hassan Ehsan Naseeb	Member	Yes	Yes	Yes	Yes
Adel Mohamed Abdelshafe El-Labban	Member	Yes	Yes	Yes	Yes
Keith Henry Gale	Member	Yes	Yes	Yes	Yes
Dr. Salem ben Nasser Al Ismaily	Member	No	Yes	Yes	Yes
Attendance		4	5	5	5

D. Compensation Committee:

The role of the Compensation Committee includes:

- The committee reviews the performance of all executive directors and management.
- The committee believes that compensation and benefits are adequate to motivate and retain the senior members of management of the bank.
- To advise the banks Board and Chairman on the remuneration of Board Members, appointment of senior management personnel and remuneration of senior management personnel.

Composition of Compensation Committee and details of meetings held and attendance record of members during the year 2009:

Composition of Compensation Committee		Meetings Dates
Director's Name	Position	23-Mar-09
H.E. Sayyid Khalid Hamad Hamood Al Busaidi	Chairman	Yes
Hamad Abdulmohsen H.D. Al Marzouq	Member	Yes
Adel Mohamed Abdelshafe El-Labban	Member	Yes
Attendance		3

Procedure for standing as a candidate for the Board:

Anyone who wishes to stand as a candidate for the Board and is eligible for the same as per the regulations as well as the Articles of association, is required to submit an application form (as prescribed by the Capital Market Authority) not later than 10 days before date fixed for the General Meeting for election of the Board members. The application shall be reviewed by the Board of the Ahli Bank to ensure eligibility of the candidate. The Bank shall lodge the application form with the Capital Market Authority at least four days before the date of general meeting.

The director shall be elected by direct secret ballot by the shareholders. Each shareholder shall have number of votes equal to that of the shares held by him.

Executive Management of Ahli Bank

Abdul Aziz Mohammed Al Balushi: CEO

Former Deputy Chief Executive Officer – National Bank of Oman.

10 years of banking experience in various positions in National Bank of Oman

12 years of Banking experience in various positions in Oman International Bank.

Former Board Member and Chairman of the audit Committee in Oman National Investment Corporation Holding S.A.O.G (ONIC)

Former Member of the Board and Chairman of the Audit Committee of Al Ahli Insurance

Former Member of the Board and Chairman of the Audit Committee of National Life Insurance

Former Director, Oman Investment and Finance Co. Ltd. S.A.O.G (OIFC)

Former Director, Gulf Hotel (Oman) Co. Ltd.

Former Advisory Member in College of Agricultural and Marine Sciences at Sultan Qaboos University

Advisory Board Member "The British Scholarships of Oman" A local organization that sponsors outstanding Omanis for Post Graduate Studies in the UK

Chandrashekhar Chetty: DCEO – Support Services

Former COO, Global Retail & Commercial Bank Barclays Bank PLC –Mumbai, India

Former COO, Calyon Bank –Mumbai, India

Former COO, Dresdner Bank Group, India

CB Ganesh: DCEO- Commercial Banking and Treasury

Former Head of Trade Finance – ICICI Bank Ltd, India

Former Dy. Chief Executive & Head of Wholesale Banking – North Asia, ICICI Bank Ltd

Former Regional Head, Corporate Banking, South India

Non-Compliance

There has neither been any non-compliance of legal requirements nor have been any strictures imposed by the regulators on any matters relating to the capital market over the last three years.

Remuneration matters

An amount of RO 75,000 is proposed as Board Remuneration in addition to the sitting fees paid to the Board members for year 2009. The details of sitting fees paid are below:

Name of Director	Sitting Fees Paid
H.E. Sayyid Khalid Hamad Hamood Al Busaidi	2,350
Hamdan Ali Nasser Al Hinai	6,820
Hamad Abdulmohsen H.D. Al Marzouq	2,000
Munir Abdulnabi Yousef Makki	4,880
Hassan Ehsan Naseeb	4,060
Usama Mohammed Al Barwani	2,600
Adel Mohamed Abdelshafe El-Labban	5,180
Sanjeev Bajjal	4,060
Keith Henry Gale	5,180
Syed Gulrez Hoda	2,400
Dr. Salem ben Nasser Al Ismaily	3,400
Total	42,930

Total remuneration paid to the executives of the bank amounted to RO 490,673 during the year 2009 which included salary, benefits, perquisites, bonuses, share based payment and gratuities.

The duration of the standard service contract for expatriate executives is two years. The notice period for executives ranges from one to three months depending on the executive's contract. No severance fees are payable to the top five executive officers other than compensation for short notice of termination of services.

Communication with shareholders and investors

Ahli Bank SAOG publishes quarterly accounts and the same are uploaded on the Muscat Securities Market (MSM) website, and when published also makes these available on its website www.ahlibank-oman.com.

All annual reports include a comprehensive management report. Management makes regular presentations to analysts, the press and investors. These briefings outline the bank's performance, and strategy on future prospects.

Market price data:

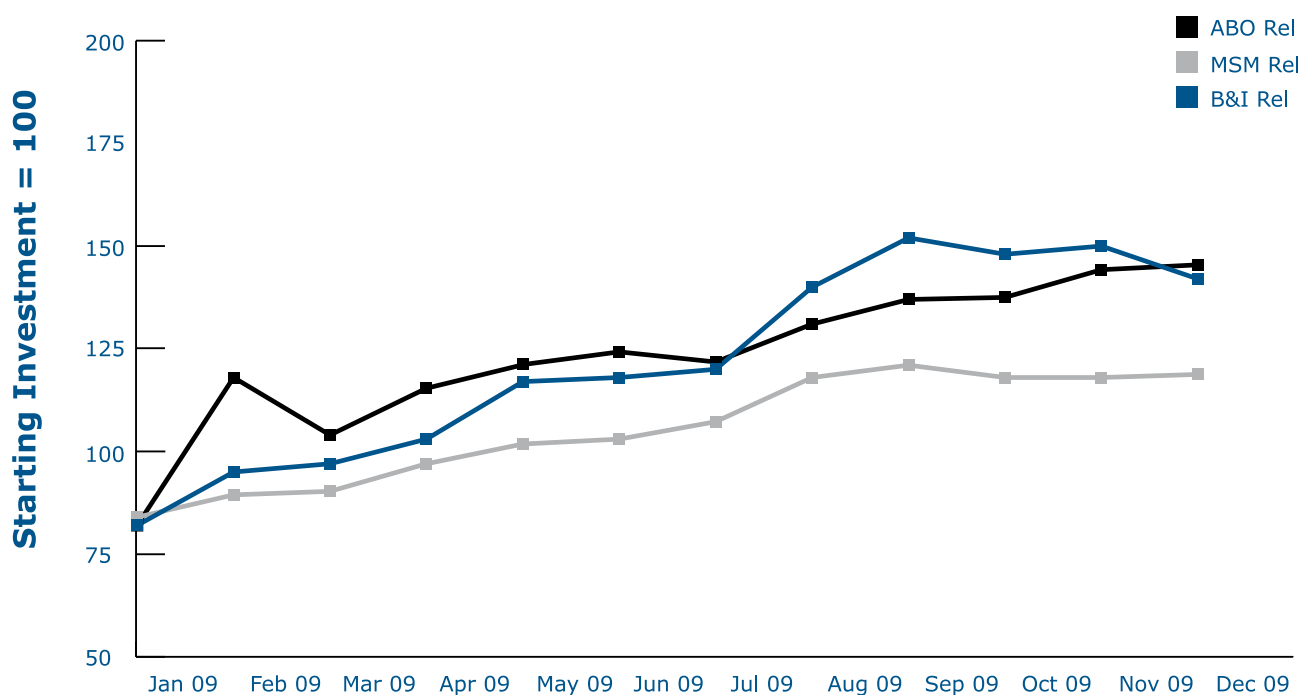
High / Low share prices in 2009

Table below shows the high/ low prices of the bank's shares in Rial during the months in the year 2009.

Month	High	Low
Jan-2009	0.163	0.117
Feb-2009	0.176	0.125
Mar-2009	0.174	0.134
Apr-2009	0.175	0.156
May-2009	0.180	0.165
Jun-2009	0.200	0.165
Jul-2009	0.193	0.163
Aug-2009	0.197	0.184
Sep-2009	0.209	0.189
Oct-2009	0.212	0.195
Nov-2009	0.214	0.190
Dec-2009	0.219	0.192

Performance of Ahli Bank SAOG (ABO) Vs MSM and Banking indices

Relative performance of ABO Vs. Indices



Distribution of share ownership between shareholders holding 5% or more as of 31 December 2009:

Name	Country of incorporation	Number of shares	%
Ahli United Bank	Bahrain	237,461,538	35.0
MB Holding & Subsidiaries Oman	Oman	103,206,110	15.2
International Finance Corporation	USA	67,200,000	9.9
Ministry of Defence – Pension Fund	Oman	44,100,000	6.5

Donations

The bank paid a donation of RO 6,700 to the Oman Charitable Organization and RO 20,000 towards MyHassad Special Ramadhan Charity offer to various organizations

External Auditor's profile – KPMG

The shareholders of the company have appointed KPMG as the auditors for the year 2009. KPMG is one of the leading accounting firms in Oman. Oman practice of KPMG, which forms parts of KPMG Lower Gulf, was established in 1974 and currently has a staff compliment of professional staff in excess of 130, including 3 partners, 4 directors and 21 managers.

KPMG Lower Gulf (UAE and Oman), is a member of the KPMG network of independent firms affiliated with KPMG International Co-operative. The KPMG network operates in 144 countries and employs 137,000 people worldwide, KPMG in Oman is accredited by the Capital Market Authority (CMA) to audit joint stock companies (SAOG's).

During the year 2009, RO 33,600 was charged by external auditors against the services rendered by them to the organization (RO 31,600 for audit and RO 2,000 for tax services).

Acknowledgment by the Board of Directors:

- The Board is responsible for the preparation of the financial statements in accordance with the applicable standards and rules.
- The Board is responsible for the review of the efficiency and adequacy of internal control systems of the issuer and that it comply with internal rules and regulations.
- There is no material thing that affects the continuation of the bank and its ability to continue its operations during the next financial year.

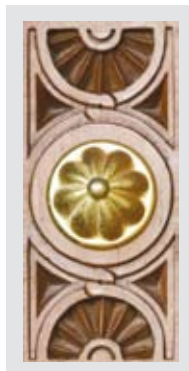


Munir Abdulnabi Yousef Makki
Chairman
Audit Committee



Khalid Hamad Hamood Al Busaidi
Chairman
Board of Directors

Dated 28 January 2010





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Report to the Board of Directors of Ahli Bank SAOG in respect of the 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 (“the Procedures”) with respect to the Basel II – Pillar III disclosures (“the Disclosures”) of Ahli Bank SAOG (the “Bank”) set out on pages 21 to 41 as at and for the year ended 31 December 2009. The Disclosures were prepared by the Management in accordance with CBO Circular No. BM 1009 dated 13 September 2006 and Circular No. BM 1027 dated 4 December 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 Bank’s compliance with the disclosure requirements set out in CBO Circular No. BM 1009 dated 13 September 2006.

We report our findings as follows:

Based solely on performance of the Procedures, we found no exceptions which require to be reported herein.

Because the 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 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 or to be distributed to any other parties other than Central Bank of Oman; and we accept no liability to any third party. This report relates only to the Bank’s Disclosures and does not extend to the financial statements of the Bank taken as a whole or to any other reports of the Bank.

Michael G.W. Armstrong

26 January 2010



Basel II - Pillar III Report

1. Introduction

The Basel Committee on Banking Supervision recommended revised international capital adequacy standards in 2004, referred as the Basel II capital framework or the revised capital framework. The framework consists of three pillars.

- Pillar 1 makes recommendations for calculation of minimum capital requirements.
- Pillar 2 discusses the key principles of supervisory review and risk management guidance.
- Pillar 3 complements the first two pillars of Basel II by requiring a range of disclosures on capital and risk assessment processes, aimed at encouraging and reinforcing market discipline.

2. Scope

Ahli Bank SAOG (The Bank) prepares this report in accordance with the Basel II Accord in conjunction with and as per the directive of the Central Bank of Oman (CBO). The major highlights of the regulations are:

- Banks are required to maintain a minimum capital adequacy ratio of 10%
- There are three core risk disciplines under the Basel II Banking Accord for which capital is reserved for:
 - **Market Risk:** Market risk is defined as the risk of losses in, on and off balance sheet positions arising from movements in market prices. Main factors contributing to market risk are equity, interest rate, foreign exchange and commodity risk.
 - **Credit Risk:** Credit risk is defined as the risk that a counter party will not settle an obligation for full value, either when due or at any time thereafter.
 - **Operational Risk:** Operational risk is defined as the risk of direct or indirect loss resulting from inadequate or failed internal processes, people, and systems or from external events. Operational risk is new to the Basel Accord.
- Under the Framework of Capital Adequacy, the Bank is required to provide timely, accurate, relevant and adequate disclosures of qualitative and quantitative information that enables users to assess its activities and risk profile. The capital adequacy returns are required to be submitted to the CBO on a quarterly basis, not later than 21 days from the end of each quarter.
- The Bank has a formal policy on "**Disclosure Policy**" for disclosure of information that it makes available to the general public as well as to the regulatory bodies. This policy is framed to enhance transparency about its activities and promote good governance. Ahli Bank SAOG makes information publicly available in accordance with its policy on disclosure of information and applicable regulations.

3. Capital Management

Capital adequacy

The Bank uses a prudential building-block approach as the measurement technique to assess capital adequacy for current and future activities, which is compared with the consolidated eligible capital.

The Bank's capital management framework sets out to define, measure, raise and deploy capital in a coordinated and consistent manner. Its objective is to maximize its return on capital and, at the same time, provide an adequate cushion to cover any unexpected losses. The Bank manages its capital in an integrated manner with the aim of maintaining strong capital ratios and high ratings. This calls for a balanced approach: maintaining capital levels that are sufficient to provide a high return to shareholders; meeting the requirements of regulators, rating agencies and other stakeholders (including deposit holders and senior creditors), and supporting future business growth. The cost of capital and its composition in terms of its quality and stability is also considered.

The Bank follows a capital adequacy framework to link the Bank's annual budget projections and the capital required to achieve business objectives. It is determined by the Bank's strategic planning objectives and capital planning framework. Capital requirements are assessed for credit, operational, market, liquidity and interest rate risks. The Bank follows the standardized approach for implementing Basel II and adopts rating from CBO's recognized four External Credit Assessment Institutions (ECAI), namely Moody's, Standard & Poors, Fitch and Capital Intelligence, for calculating the risk on its sovereign and bank exposures.

Capital Management / Structure

The primary objectives of the Bank's capital management is to ensure that the Bank complies with externally imposed capital requirements and that the Bank maintains strong credit ratings and a healthy capital ratio in order to support its business and to maximize shareholders value.

The Bank's has following credit ratings at present

Capital Intelligence – Long Term Rating: A
Short Term Rating: A1
Outlook: Stable

Moody's Bank Deposits: Baa1/P-2
Bank Financial Strength: D
Outlook: Stable

The process of assessing the capital requirements of the Bank commences with the compilation of the annual business plan by individual business units which are then consolidated into the annual budget plan of the Bank. The annual budget plan provides an estimate of the overall growth in assets, its impact on capital and targeted profitability.

Strategic business objectives and future capital needs are assessed within this framework. Normally, the Bank employs capital rationing techniques to allocate capital for each of the Bank's business risk departments in order to optimize returns.

Sources of future capital are identified and plans put in place to raise and retain capital, under the terms of the framework. The Bank also 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 carefully corridor the amount of dividend payment to shareholders or issue, return capital to shareholders or issue capital securities.

The Bank's Risk Management department monitors and reports the planned versus actual position on a quarterly basis, to ensure that the Bank is always adequately capitalized. Risk weighted assets and capital are monitored periodically to assess the quantum of capital available to support assets growth and optimally deploy capital to achieve targeted return.

The Bank's capital structure consists of Tier I capital (paid-up equity capital and reserves) and Tier II capital, which includes collective provision for credit risk. There is no innovative or complex capital instrument in the capital structure of the Bank.

Tier I capital	83,500 (OMR '000)
Tier II capital	6,478 (OMR '000)

4. Risk management of the Bank

Risk Management Principles

The Bank has a separate Risk Management Department which was established in end 2007 to support the new business model of commercial banking. The Risk Management Department closely monitors the Bank's core risk areas and reports to the senior management.

The primary goal of risk management is to ensure that the Bank's asset and liability profile, its trading positions, and its credit and operational activities do not expose it to losses that could threaten its survival. Risk Management assists in ensuring that risk exposures do not become excessive, relative to the Bank's capital and financial positions.

The Bank manages the risks effectively and efficiently by making risk management an integral part of commercial banking business. This emphasizes a clear understanding of business requirements in terms of products, clients, delivery capabilities, competition, regulatory environment, shareholder values and the global economic environment leading us to identifying the various associated risks.

Having identified the risks, our next steps would be to formulate policies and procedures taking into account regulatory requirements and best international practices, so as to monitor and control the risks within pre-determined acceptable limits.

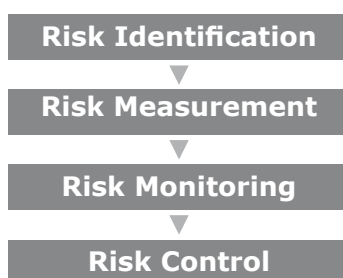
The key to this approach is the creation of a responsive organization structure around each of these risk categories with appropriate delegated authority to deliver in line with the business objectives approved by the Board of Directors.

Primary responsibility for the management of risk lies with the business and operational areas responsible for the generation of risk exposure. Risk management provides an indepth check against risk decisions and an ongoing platform to evaluate, monitor and sanction risk at the individual transaction and overall portfolio level.

Risk Management Structure

To ensure its independence, the Bank's risk management department reports directly to the Bank's Deputy CEO – Finance, Risk, IT & Operations.

The Bank's Risk Management includes the following four elements:



Risk framework

The Bank has set up policies and measures to assess capital adequacy in terms of CBO regulations, which have been approved by the Board of Directors. Under these, the Bank assesses its capital against its risk profile, to ensure its capital is sufficient to support all material risks to which it is exposed.

The Board of Directors ensures that the senior management establishes a framework that identifies, measures, monitors and reports all relevant significant risks. Risks covered include credit, market, operational, interest rate and liquidity risk. The risk management department has identified material risks that the Bank is exposed to, and has defined the framework necessary to measure, monitor, and report these risks on timely basis.

The following Board and Management committees manage and control material risks to the Bank:

- Board of Directors
- Audit Committee
- Executive & Credit Committee
- Executive Risk Committee
- Credit & Investment Committee
- Compensation Committee
- Management Committee
- Special Assets Committee
- Assets and Liabilities Committee
- Operational Risk Committee
- Support Service Committee

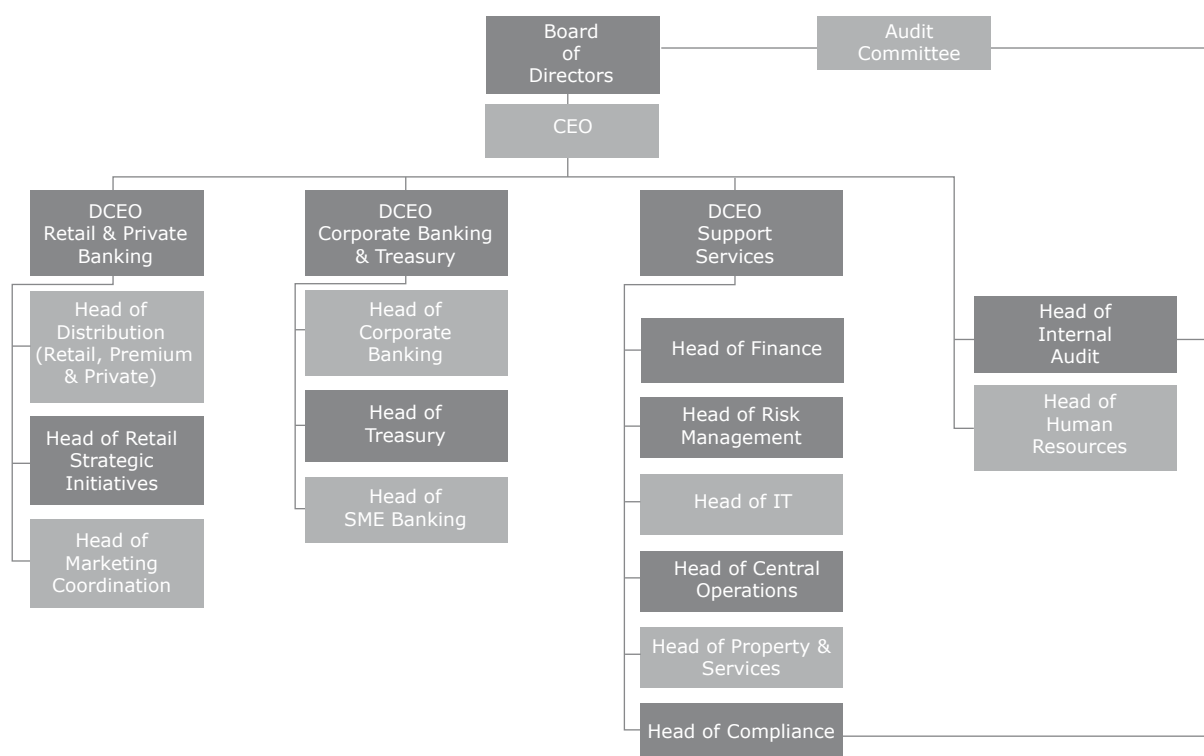
Policies and Procedures:

The Board of Directors under its terms of reference, controls and directs the Bank on behalf of the shareholders, its conduct of business, setting objectives and strategy by establishing policies under which the Bank operates. The Board of Directors approve the Bank's risk appetite, risk management strategies, policies and their framework for their effective implementation and control, including delegated authorities to the Executive Committee and Management to approve all risk exposures. In this context, the Board of Directors has approved the following policies:

1. Communications Policy
2. Credit & Investment Policy
3. Expenses Policy
4. Liquidity Policy
5. Trading Book Policy
6. IT Security Policy
7. Operational Risk Policy
8. Disclosure Policy
9. Anti-Fraud Policy
10. Anti-Money Laundering Policy
11. Business Continuity Plan
12. Code of Business Conduct
13. Compliance Manual
14. Dividend Policy
15. Capital Policy
16. Human Resources Policy
17. Personal Account Dealing Policy
18. Outsourcing Policy
19. Voice Recording Policy
20. Board Remuneration Policy

All policies are subject to periodical reviews. Any change in law or regulation is deemed to be automatically adopted and implemented immediately upon its issuance (i.e. prior to the final amendment of the underlying policy or procedure).

Organizational structure of the Bank



5. Credit risk

Credit risk principles

Credit risk arises from the potential financial loss resulting from customers / counterparties failing to honor the terms of their contracts. It also includes the risk of loss in portfolio value as a result of migration from lower risk to higher risk categories. The Bank evaluates both settlement and pre-settlement credit risk at the customer level, across all products of the Bank.

Credit risk is the most significant risk incurred by the Bank, and proactive management is critical to the Bank's long-term success.

The Bank has a comprehensive due diligence system for approving credit facilities, and well-defined policies on controlling credit risk at the counter-party, group, economic sector, and country levels.

All corporate, Bank and sovereign credit requires independent credit risk review to be approved by Credit & Investment Committee. Wherever group exposure exceeds a certain limit, it requires Executive & Credit Committee approval. Any Board of Directors' related credit is approved strictly in accordance with Central Bank of Oman requirements. Retail credit exposure in excess of a stipulated limit is approved by Risk Management Department.

Risk Management quantifies the Bank's credit risk appetite in line with the Bank's strategic direction. A well-established process exists to ensure the allocation of capital for the total credit risk to be assumed by the Bank; sub-allocation of credit risk capital among risk departments at portfolio level; and in measuring the actual use of capital at portfolio level.

With regard to credit culture, Risk Management ensures that the appropriate policies, guidelines, processes and procedures exist to cover all business areas of credit risk. It also ensures the consistent application of credit standards and the periodic review and updating of credit policies, guidelines and procedures.

The Bank also has a robust system of borrowers' risk ratings that assesses the risk of corporate borrowers and monitors ratings changes periodically.

Transaction risk is concerned with the credit risk of a single counter-party. Risk Management ensures that credit is underwritten according to approved standards and that all risks are highlighted in the credit risk review, including policy exceptions.

Portfolio risk arises because of high positive correlation between individual credit facilities.

This may include:

- concentration of exposure in geographies, sectors, groups, counter-parties or rating categories;
- interaction with other risk such as interest rate, FX rate and economy;
- trend analysis in volume, sectors and concentration;
- trends in portfolio quality (borrowers' risk migration, weighted average portfolio risk, non-performing loan).

Credit exposures

The Bank defines past due and impaired exposure and provides specific and collective provisions in line with the Circular 977 "Master Circular on Risk Classification and Provisioning" issued by the Central Bank of Oman dated September 25, 2004.

Specific provisions are required to cover non-performing loans. To ensure that the credit risk is effectively managed, the Bank has a well established and comprehensive credit risk management policy framework covering the entire credit spectrum, to ensure the incidence of non-performing loans is minimized.

Credit Risk Management

Credit risk management maximizes the Bank's risk-adjusted rate of return by maintaining credit risk exposure within acceptable parameters. Credit risk makes up the largest part of the Bank's risk exposure. The Bank has set clear and well defined limits to address different dimensions of credit risk including concentration risk. Credit risk is addressed by the Bank by performing the following procedures:

- Establishing a sound credit granting process
- Maintaining an appropriate credit administration, monitoring and reporting process
- Ensuring adequate controls over credit risk.
- Lending limits

Credit facility risk is a part of portfolio credit risk management. It includes analyzing and reporting on the nature of on- and off-balance sheet counter-party exposure (size, tenor, complexity and liquidity), including secured and unsecured credit facilities.

Structure



Country limits

The exposure is allocated according to the residence of the borrower/ operations of the unit. In cases where there are legally binding guarantees from a resident of a country other than the borrower / or there is eligible collateral available in a country other than that of the borrower, the exposures could be moved to the country of the guarantor and the location of the collateral. Country limits are sanctioned by the Credit and Investment Committee according to the delegated discretion as highlighted in the following table:

Category	Country / Credit Rating	Country Ceilings (Excluding Banks)	Aggregate Country Ceiling by Category	Aggregate Bank Limits in Single Country
		As % of Large Exposure Capital Base (LECB)		
I	GCC countries	Unlimited	N.A	Unlimited
II	G7 countries rated AAA	40%	N.A	200%
III	Other AAA	40%	N.A	200%
IV	AA+ / AA / AA-	40%	N.A	200%
V	A+ / A / A-	40%	N.A	200%
VI	BBB+ / BBB	30%	50%	150%
VII	BBB- / BB+ / BB / BB-	10%	25%	25%
VIII	Other (including unrated)	5%	10%	10%

A total country exposure in excess of the approved country ceiling requires a higher country limit sanctioned by the Executive Committee on the recommendation of the Credit and Investment Committee within CBO regulations. For investment grade countries, temporary excesses of up to 5% over the approved country limit are permitted for a maximum period of one month subject to being within individual and aggregate ceiling for each category as mandated by the CBO. This tolerance limit requires the authorization of the Credit and Investment Committee.

As part of the process for establishing a country limit, it is necessary for a country strategy paper to be submitted. The strategy paper covers target counterparties, maximum tenors by product type (i.e. Commercial Banking & Trade Finance, Treasury, Securities, Bonds), minimum pricing, and is supplemented by the country risk report. Specific transaction needs shall be through credit application on a case by case basis.

The Credit and Investment Committee determines the appropriate rating. In the case of a 'split rating' from approved external rating agencies such as S&P, Fitch or Moody's the lower rating normally applies.

Total exposure to category VII and VIII countries is controlled by Risk Management within 25% of LECB (Large Exposure Capital Base).

Banks and Financial institutions limits

Maximum Exposure Thresholds per single obligor (Banks)		
	Risk Rating	
	Moody's Rating A (or equivalent S&P rating) or above for non-GCC banks or banks located in the GCC with inshore license with a Moody's rating that is equal or higher than Baa3.	Unrated or rated lower than mentioned in the other column
Committee or Approving Officers	As a % of Large Exposure Capital Base (LECB)	
Board of Directors	Up to allowed legal lending limit & when applicable by CBO regulations and circulars	
Executive Committee	25%	10%
Credit and Investment Committee	15%	5%
Level 1	2%	1%

Annual reviews are to be renewed at one level down if there is no material change or increase in the exposure.

Commercial Banking limits

LEVELS / SIGNATURES	RISK RATING As a % of Large Exposure Capital Base (LECB)		
	1 & 2	3 & 4	5 & 6
Executive Committee	15%	12.5%	10%
Credit and Investment Committee	10%	7%	3%
Level 1	1%	0.25%	
Level 2	0.25%		

Authority tenor

	Maximum Average Life of Exposure	
	RR1-2	RR3-6
Executive Committee	30	15
Credit and Investment Committee	10	5
Level 1	2	1
Level 2	1	Zero

Credit risk mitigation:

The Credit & Investment Policy sets limit criteria for individual exposure, group exposure, house limits for different grades of risk, country limits, economic sector limits, and collateral concentration limits. Business with any counter-party does not commence until a credit line has been approved. A strict credit approval process also exists with authority levels delegated to ensure the efficient conduct of business.

Credit risk mitigation (CRM) encompasses collateral management and credit guarantee arrangements. The policies and processes for on- and off-balance sheet netting (and the extent to which the Bank makes use of them); policies and processes for collateral valuation and management; and a description of the main types of collateral taken are described below;

In respect of real estate collateral, two valuations are obtained if the value of collateral exceeds a particular level: the lowest valuation is used. The Bank also has a mandatory requirement to obtain an insurance policy on real estate collateral (other than land) where the policy is assigned in the Bank's favor. Real estate collateral is valued on regular intervals on need basis based on the assessment of risk and economic scenario prevailing.

The Bank normally accepts the following types of collateral:

- Cash margins and fixed deposits
- Real estate comprising income-producing and non income-producing assets.
- Shares listed on recognized stock exchanges located in GCC
- Irrevocable and unconditional guarantees / standby LC issued by acceptable Banks
- Debt securities subject to meeting approved criteria.
- Funds subject to meeting approved criteria

The Bank also accepts guarantees of individuals and corporate to mitigate risks, wherever applicable and has a system of assessment of their creditworthiness.

Gross Total loans & advances 446,563 (OMR '000)

Type of Security	Gross Loans & Advances outstanding OMR '000
Cash & fixed deposits	20,953
Properties	65,245
Shares	10,605
Residential mortgages	160,946
Bank Guarantees	120

Due to historical reasons (a mortgage bank), there has been collateral concentration in terms of residential properties.

6. Operational risk

Operational risk framework

Operational risk is the risk of direct or indirect loss resulting from inadequate or failed internal processes, people, and systems or from external events.

Losses from external events such as a natural disaster that has a potential to damage the Bank's physical assets or electrical or telecommunication failures that disrupt business are relatively easier to define than losses from internal problems such as employee fraud and product flaws. The risks from internal problems are more closely tied to the Bank's specific products and business lines; they are more specific to the Bank's operations than the risks due to external events. Operational risks faced by the Bank include IT Security, telecom failure, frauds, and operational errors.

Operational risk is controlled through a series of strong internal controls and audits, well-defined segregation of duties and reporting lines, operational manuals and standards. Internal audit independently reviews the effectiveness of the Bank's internal controls and its ability to minimize the impact of operational risks. Moreover, an Operational Risk Framework and unit were established during 2009. There is an Operational Risk Committee that is the owner of this Framework and holds responsibility.

Due to recent change in the Bank's strategic direction and new business model, the Bank is exposed to operational risk in the areas of IT, new resources and new set up of business. The Bank identifies and assesses the operational risk inherent in its key material products, activities, processes and systems. It also ensures that before any new products or services, activities,

processes or systems are introduced; the associated operational risks are properly assessed and mitigated.

Risk identification is vital to the development of viable operational risk monitoring and control systems. Risk identification considers internal factors such as the Bank's structure, the nature of its activities, the quality of its human resources, organizational changes, and employee turnover. It also examines external factors such as changes in the industry, major political and economic changes, and technological advances.

The Bank has identified the following operational risks and has been implementing an effective framework to manage them:

- Process Risk
- Transaction Risk
- People Risk
- IT Risk
- Money-Laundering Risk
- Legal Risk
- Regulatory Risk
- Compliance Risk
- Pricing Risk
- Physical Security Risk

Control and mitigation of operational risk

The Bank has established policies, processes and procedures to control and mitigate material operational risks. It periodically reviews risk limitation and control strategies and adjusts the operational risk profile accordingly, using appropriate strategies in light of its overall risk appetite and profile.

Towards this, the Bank has implemented Operation Risk Self Assessment (ORSA) procedure for each of its business segment, where operating risk related to each business area is identified; documented and corresponding control processes are defined and documented. The action points arising from ORSA are reviewed on a regular basis and reported at the Operational Risk Committee on a quarterly basis.

The Bank ensures that there is appropriate segregation of duties and personnel are not assigned responsibilities that may create a conflict of interest or enable them to conceal losses, errors or inappropriate actions.

The Bank ensures adequate internal audit coverage to verify that operating policies and procedures have been implemented effectively.

The Bank takes insurance cover to mitigate operational risk, wherever applicable.

It also ensures that internal practices exist to control operational risk such as:

- Maintaining safeguards for access to, and use of, the Bank's assets and records;
- Ensuring staff have appropriate expertise and training;
- Regularly verifying and reconciling transactions and accounts.

Reputation risk

Reputation Risk is the exposure incurred from unanticipated incidents or from unanticipated responses to the Bank's initiatives, actions, or day-to-day activities. In other words, it is negative public opinion/reaction out which could cause serious damage to the Bank's profitability or even survival. Reputation risk is one of the most complex risks to manage in view of unpredictability, constant change in the operating environment, personnel turnover and multi-cultural environment that the Bank operates in.

The Bank identifies, measures, monitors and controls reputation risk arising in the following areas:

- Customer service
- Perception of stakeholders regarding Bank's commitment to their interests
- Quality of products, services and sales practices

- Reporting to stakeholders and external agencies
- Accuracy of information in communications to the public

There are policies, guidelines and procedures in place to manage and monitor reputation risk.

Business continuity

The Bank has documented the Business Continuity Plan (BCP) which outlines the Business Continuity process to be followed in a disaster scenario. The BCP aims to minimize the severity and impact of a disaster while continuing to serve both the business and customers with a lowest achievable detriment in service. The plan considers the following:

- Disaster scenarios and magnitude
- Various steps to mitigate the risk
- Impact on the Bank's business and operations
- The resources required for resuming the operations at the earliest possible time following the disaster
- Operating processes and available systems at the Disaster Recover (DR) site

7. Market risk

Substantially all of the Bank's businesses are subject to the risk that market prices and rates will move and result in profits or losses for the Bank. The Bank distinguishes among the following types of market risk:

- Interest rate risk
- Foreign exchange risk

Market Risk Management framework

The Bank uses a combination of risk sensitivities, value-at-risk, stress testing, etc. to manage market risks and establish limits.

8. Interest rate risk

Interest rate risk principles and framework

Interest rate risk arises from the possibility that changes in interest rates will affect the value of underlying financial instruments. The Bank is exposed to interest rate risk as a result of mismatches or gaps in the amounts of assets and liabilities and off balance sheet instruments that mature or re-price in a given period. The Bank's overall goal is to manage interest rate sensitivity so that movements in interest rates do not adversely affect the Bank's net interest income. Interest rate risk is measured as the potential volatility in net interest income caused by changes in market interest rates. The Bank manages this risk by matching or hedging the re-pricing profile of assets and liabilities through various risk management strategies.

Interest Rate Risk in Banking Book (IRRBB)

The nature of IRRBB and key assumptions, including assumptions regarding loan prepayments and behavior of non-maturity deposits, and frequency of IRRBB measurement, are given below;

Interest rate risk is limited as a majority of OMR loans are re-priced with any change in the Central Bank of Oman's interest rate. The other elements in the balance sheet carrying interest rate risk are Government Development bonds, CBO bonds and debt securities in the investment portfolio.

Deposits are re-priced based on their final maturity, or if linked to a floating rate index, on the re-pricing date. Deposits that are insensitive to interest rate movements are categorized separately. The earnings at risk are calculated based on interest rate re-pricing gaps. The Bank is confident of sourcing the cheaper source of funds by way of customers' deposits.

ALCO along with the risk management department identifies interest rate risk and these are monitored and reported periodically. Rate sensitive exposures are quantified using interest rate re-pricing gaps. Earnings at risk are monitored to estimate the impact of various interest rate scenarios on the Bank's net interest income.

Interest rate risk in trading book

Interest rate risk in the trading book arises from the sensitivity of interest bearing instruments to interest rate volatility. Interest rate risk in the trading book is monitored through notional exposure limits, stop loss limits, and maximum maturity limits, and is marked to market.

Prepayment risk

Prepayment risk is the risk that the Bank will incur a financial loss because its customers and counterparties repay or request repayment earlier or later than expected, such as fixed rate mortgages when interest rates fall.

The Bank estimates that the prepayments of its loans will not exceed 10% of its total portfolio on the basis of past experience. Accordingly, the effect on profit before tax for one year and on equity, assuming 10% of repayable financial assets were to prepay at the beginning of the year, with all other variables held constant, is as follows:

	<i>OMR '000s</i>	<i>OMR '000s</i>
	2009	2008
Effect on net interest income	(1,016)	(784)
Effect on equity	(1,016)	(784)

9. Foreign exchange risk

Foreign exchange risk is the risk that the foreign currency positions taken by the Bank may be adversely affected due to volatility in foreign exchange rates. The responsibility for management of foreign exchange risk rests with the treasury department of the Bank. Foreign exchange risk management is ensured through regular measurement and monitoring of open foreign exchange positions. Treasury takes every possible measure to cover open positions created by customer transactions.

Instruments used to mitigate this risk are foreign exchange spot, forwards, deposits, etc. These instruments help to insulate the Bank against losses that may arise due to significant movements in foreign exchange rates. All foreign exchange exposures are centrally managed by the Bank's Treasury and are now daily marked to market. Limits have been assigned with respect to overnight open exposures, stop loss and authorized currencies to monitor and control foreign exchange exposures.

Investments in the Banking book

All investments require the approval of the ALCO or the Board Committee, depending on the amount of exposure.

The relevant risk is monitored by specifying the maximum asset allocation as a percentage of loans and advances. The Bank has also put in place sector wise limits.

Each month comprehensive reports are presented to the ALCO on the performance of the investment portfolio and its compliance with the various limits laid down in the Bank's investment policy.

The Bank has been cautious in making investments due to adverse economic environment and does not have significant investments in volatile stock market and commodity sectors.

10. Liquidity risk

The Bank defines liquidity risk as its ability to meet all present and future financial obligations in a timely manner and without undue effort and cost through unconstrained access to funding at reasonable market rates and without affecting asset growth and business operations.

The following key factors are taken into consideration while assessing and managing the liquidity risk of the Bank:

- The need to have a well diversified base for funding sources comprising a portfolio of retail customers, large corporate and institutions, small & medium enterprises, high net worth individuals, without significant concentrations or correlations thereby diversifying the funding base and mitigating concentration risks.
- Based upon the past behavioral pattern analysis of our main liabilities, management expects large portion of customer deposits to be rolled over at contractual maturity.
- As per the Central Bank of Oman (CBO) directives, the Bank keeps at least 5% of its deposits liabilities with CBO in form of clearing balances.
- Commitments for loans and advances are approved after taking into account the Bank's overall liquidity position.

The Bank's projected liquidity needs are analyzed, and optimum alternatives to manage the liquidity risk are discussed and approved in ALCO. The risk management department also independently reviews and evaluates the Bank's ability to access liquidity from different sources.

The Treasury and Risk management departments identify liquidity at risk, which is monitored daily and reported periodically to ALCO. Liquidity management policies and a contingency liquidity plan have been established by the Bank.

Liquidity Management policy

The liquidity management policy of the Bank is intended to ensure that liquidity requirements are prudently and effectively managed such that anticipated and unanticipated funding needs are met on an ongoing basis in a controlled manner at the least possible cost.

The Bank's Asset Liability Committee (ALCO) reviews the Liquidity Policy bi-annually and submits recommendations for changes, if any, to the Bank's Chief Executive Officer (CEO) for review and submission to the Executive Committee and Board as applicable.

There are a number of techniques which the Bank uses to manage its Liquidity position. The key facets include:

- Placing limits on maturity mismatches
- Maintaining a stock of liquid assets
- Diversification of liabilities
- Access to wholesale markets
- Multi currency liquidity management

Maturity mismatch limits

The cash flow profiles are constructed under the following assumptions:

It is assumed that the portfolio of Investment Grade Bonds can be liquidated along the profile noted below:

Investment Grade Bonds Only

<i>Maturity Bucket Categories</i>	<i>Bond Book Investment %</i>
1D	5%
2D	7.5%
3D	10%
4D	10%
5D	20%
1W	20%
2W	25%
3W	30%
1M	40%

Stock of liquid assets

An adequate stock of high quality liquid assets provides the Bank with the capacity to meet its obligations while any underlying problems affecting liquidity are addressed.

Such assets are clearly identified, their role defined and minimum holding levels are established and agreed by the ALCO. Compliance with ALCO defined holding limits are reviewed daily.

The degree of diversification of the Liquid Assets portfolio is reviewed by the ALCO on a monthly basis.

Diversification of liabilities

The Bank seeks to maintain a diversified funding base, and monitors the degree of diversification in its liability base on a monthly basis.

The liquidity policy recognizes the inherent value of the Bank's longer term depositors. The policy makes an allowance to apply an expected degree of notional benefit from the renewal of deposits from predefined investors.

The Bank seeks to avoid an excessive reliance on any one counterparty (including related entities) or any one product or funding market. Depositor concentration is reviewed by the ALCO on a monthly basis.

The Bank seeks to establish strong and lasting relationships with depositors and other liability holders so as to foster a stable funding base. Trends in liability balances by category are reviewed by the ALCO on a monthly basis.

The Bank recognises that an over reliance on short dated inter-bank deposits can lead to difficulties in extreme market conditions. The Bank's exposure to such deposits is reviewed by the ALCO on a monthly basis.

Access to wholesale markets

The ability to obtain funds in the inter bank and other wholesale markets e.g. through Repo facilities is an important source of liquidity.

Unusual demands on the wholesale markets may lead to difficulties due to the exposure limits set by counterparties. ALCO estimates the "normal" borrowing capacity in wholesale markets and establishes a policy regarding dealing in markets against that capacity.

Multi currency liquidity

Where positions in specific foreign currencies are significant to its business, the Bank addresses the measurement and management of liquidity in these individual currencies.

The Bank also monitors liquidity in each major foreign currency individually. It is considered appropriate to consolidate several (usually minor) currencies and monitor the aggregate exposure expressed in base currency.

When monitoring exposure in aggregate, the Bank assesses the convertibility of individual currencies, the timing of access to funds, the impact of potential disruptions to foreign exchange markets, and exchange risks before presuming that surplus liquidity in one currency can be used to meet a shortfall in another currency.

Performance against limits is monitored daily by Treasury with any exceptions being immediately reported to ALCO members.

The periodical review of all liquidity positions against limits is performed by Head of Risk Management based on figures produced by the Treasury Middle Office / Finance Department.

The Treasurer derives and documents the Maturity Profile behavioral adjustments as necessary. These are communicated to the ALCO for approval and subsequently communicated to the Head of Risk Management and Head of Finance.

Limit breaches

All liquidity limit breaches are notified to the Treasurer, the Head of Finance, Head of Risk Management and ALCO members at the earliest possible opportunity. The notification includes:

- The cause of the breach
- The remedial action taken
- The expected duration of the breach if still current.

Immediate action is taken to remedy the breach. Should such action not be possible, the ALCO and the CEO are notified.

The variability of net interest income in different scenarios is monitored, aiming to maximize net interest income according to an acceptable risk appetite. The Senior Management ensures that the proper fund transfer pricing model is in place, centralizing the interest rate risk in the banking book and ensuring risk departmental performance evaluation.

11. Maturity profile of assets and liabilities

The maturity profile of the assets and liabilities at the year end are based on contractual repayment arrangements. The details of the same were provided in note 28 of financial statements.

12. Sensitivity analysis of Interest Rate Risk

The Bank computes interest rate sensitivity, based on the contractual re-pricing or maturity dates, whichever dates are earlier. The details of the same were provided in note 29 of financial statements.

13. Subsidiaries and significant investments

The Bank does not have any subsidiary or other significant equity investments as on 31 December 2009.

14. Disclosure tables

1. Capital adequacy disclosures (Amounts in OMR '000s)

As on December 31, 2009

SI No	Details	Gross balances (book value)	Net balances (book value)	Risk weighted assets
1	On-balance sheet items	619,059	616,058	495,690
2	Off-balance sheet items	28,874	28,874	14,380
3	Derivatives	69,027	69,027	630
4	Total	716,960	713,959	510,700
5	Tier 1 Capital			83,500
6	Tier 2 Capital			6,478
7	Tier 3 Capital			-
8	Total Regulatory			89,978
8.1	Capital requirement for credit risk			47,414
8.2	Capital requirement for market risk			1,825
8.3	Capital requirement for operational risk			1,831
9	Total required capital			51,070
10	Tier 1 Ratio			16.35%
11	Total Capital Ratio			17.62%

2. Capital break-up (Amounts in OMR '000)

As on December 31, 2009

SR NO	Elements of capital	Amount
	Tier I Capital	
1	Paid-up capital	67,846
2	Share premium	-
3	Legal reserves	7,034
4	General reserves	1,559
5	Subordinated loan reserve	-
6	Stock dividend **	3,392
7	Retained earnings *	4,013
8	Non-cumulative perpetual preferred stock	-
9	Other nondistributable Reserve	-
	Total Gross Tier I Capital	83,844
	Deductions	
10	Goodwill	-
11	Deferred Tax Asset	(344)
12	Intangible Assets, including losses, cumulative unrealised losses recognised directly in equity	-
13	Reciprocal crossholding of bank capital, artificially designed to inflate the capital position of banks	-
	sub-total	(344)
14	Tier I capital after the above deductions	83,500
15	50% of investments in the capital of banks and other financial entities, other than reciprocal cross holdings of bank capital	-
16	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	-
17	50% of shortfall in the regulatory capital requirements in the unconsolidated entities	-
18	50% of Investments in unconsolidated banking and financial subsidiary companies associates or affiliates, etc	-
	sub-total	-
19	Tier I capital after all deductions	83,500

SR NO	Elements of capital	Amount
Tier II Capital		
20	Undisclosed reserves	-
21	Revaluation reserves / cumulative fair value gains or losses on available for sale instruments	94
22	General loan loss provisions / Collective provision	6,384
23	Subordinated debt	-
24	Hybrid debt capital instruments	-
25	Total Tier II capital	-
Deductions		
26	50% of investments in the capital of banks and other financial entities, other than reciprocal cross holdings of bank capital	-
27	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	-
28	50% of shortfall in the regulatory capital requirements in the un-consolidated entities	-
29	50% of Investments in unconsolidated banking and financial subsidiary companies associates or affiliates, etc	-
Total deductions from Tier II		-
Tier II Capital (Net)		6,478
30	Tier III Capital (eligible)	-
31	Total Regulatory Capital	89,978

** The Board of Directors has proposed cash dividends of 7% & stock dividends amounting to 5%

* Payout of cash dividend of OMR 4,749K had been reduced from retained profit.

3. Computation of Capital Adequacy Ratio (Amounts in OMR '000s)

As on December 31, 2009

Simple Approach

Sl. No.	Details	
1	Tier I Capital (after supervisory deductions)	83,500
2	Tier II capital (after supervisory deductions and upto eligible limits)	6,478
3	Tier III Capital (upto a limit where Tier II and Tier III does not exceed Tier I)	-
4	Of which, total eligible tier III capital	-
5	Risk weighted assets – banking book	474,134
6	Risk weighted assets – operational risk	18,316
7	Total Risk Weighted Assets – Banking Book + Operational Risk	492,450
8	Minimum required capital to support RWAs of banking book and operational risk	49,245
	i) Minimum required Tier I Capital for banking book and operational risk	42,767
	ii) Tier II Capital required for banking book and operational risk	6,478
9	Tier I capital available for supporting trading book	40,733
10	Tier II capital available for supporting trading book	-
11	Risk Weighted Assets – trading book	18,250
12	Total capital required to support trading book	1,825
13	Minimum Tier I capital required for supporting trading book	520
14	Used Eligible Tier III Capital	-
15	Total Regulatory Capital	89,978
16	Total Risk Weighted Assets – Whole bank	510,700
17	BIS Capital Adequacy Ratio	17.62%
18	Unused but eligible Tier III Capital	-

4. Gross and average credit risk exposure (Amounts in OMR '000s)

Sl	Type of credit exposure	Average Gross Exposure		Total Gross Exposure	
		31-Dec-09	31-Dec-08	31-Dec-09	31-Dec-08
1	Overdrafts	6,886	3,578	10,134	7,526
2	Personal loans	247,699	225,848	260,795	238,378
3	Other loans	130,915	89,107	175,634	132,139
		<u>385,500</u>	<u>318,533</u>	<u>446,563</u>	<u>378,043</u>

5. Credit risk exposure: Industry-wise (Amounts in OMR `000s)

As on December 31, 2009

<i>SI no.</i>	<i>Economic sector</i>	<i>Overdraft</i>	<i>Loans</i>	<i>Total</i>	<i>Off-balance sheet exposures *</i>
1	Wholesale & Retail Trade	1,755	37,242	38,997	1,148
2	Mining and quarrying	1,647	19,344	20,991	-
3	Construction	1,531	46,161	47,692	23,039
4	Manufacturing	165	28,725	28,890	1,443
5	Financial Institutions	-	2,549	2,549	1,782
6	Services	1,075	18,185	19,260	697
7	Personal loans	3,961	260,795	264,756	-
8	Non-resident lending	-	299	299	-
9	All Others	-	23,129	23,129	69,792
	Total	10,134	436,429	446,563	97,901

* Off balance sheet exposures pertain to Letters of credit, financial guarantees, foreign currency exposures on spot deals and interest rate swaps.

6. Credit risk maturity exposure (Amounts in OMR `000s)

As on December 31, 2009

<i>SI no.</i>	<i>Time Band</i>	<i>Overdraft</i>	<i>Loans</i>	<i>Total</i>	<i>Off-balance sheet exposures</i>
1	Upto 1 month	3,635	48,525	52,160	5,534
2	1- 3months	342	44,740	45,082	22,036
3	3-6 months	342	26,418	26,760	3,792
4	6-9months	342	3,475	3,817	2,976
5	9-12 months	342	6,340	6,682	4,959
6	1-3 years	1,710	26,741	28,451	49,735
7	3-5 years	1,710	10,237	11,947	8,869
8	Over 5 years	1,711	269,953	271,664	-
	Total	10,134	436,429	446,563	97,901

7. Gross exposure: Provisioning distribution (Amounts in OMR '000s)

As on December 31, 2009

SI	Economic sector	Gross Loans	Of which, NPLs	Portfolio - based provision / reserves*	Specific provision held	Reserve interest	Provision/ reserve made during the year	Advances written off during the year
1	Wholesale & Retail Trade	38,997	-	390	-	-	151	-
2	Mining & Quarrying	20,991	-	210	-	-	172	-
3	Construction	47,692	-	477	-	-	47	-
4	Manufacturing	28,890	-	289	-	-	(128)	-
5	Electricity, Gas & Water	17,067	-	171	-	-	171	-
6	Financial Institution	2,549	-	25	-	-	(18)	-
7	Services	19,260	-	193	-	-	105	-
8	Personal Loans	264,756	1,411	4,616	400	99	1,458	11
9	Non-Resident Lending	299	-	3	-	-	(11)	-
10	All Others	6,062	-	61	-	-	(42)	-
	Total	446,563	1,411	6,435	400	99	1,905	11

* The bank has set aside an amount of OMR 3,933K as a non-distributable loan loss reserve towards the CBO non-specific position requirements at 31 December 2009.

8. Loans and advances: Geographical impairment distribution (Amount in OMR '000s)

As on December 31, 2009

SI	Countries	Gross Loans	Of which, NPLs	Portfolio - based provision / reserves	Specific provisions held	Reserve Interest	Provisions made during the year
1	Oman	446,264	1,411	6,432	400	99	1,916
2	Other GCC Countries	299	-	3	-	-	(11)
	Total	446,563	1,411	6,435	400	99	1,905

9. Movements in gross loans during the year (Amounts in OMR '000s)

As on December 31, 2009

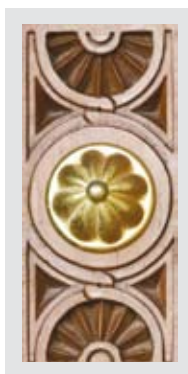
<i>SI</i>	<i>Details</i>	<i>Performing Loans</i>	<i>Sub- Standard</i>	<i>Doubtful</i>	<i>Loss</i>	<i>Total</i>
1	Opening Balance	377,333	350	45	315	378,043
2	Migration I changes (+/-)	(805)	401	258	146	-
3	New Loans	1,251,765	-	-	-	1,251,765
4	Recovery of Loans	(1,183,141)	(9)	(16)	(68)	(1,183,234)
5	Loans written off	-	-	-	(11)	(11)
6	Closing Balance	<u>445,152</u>	<u>742</u>	<u>287</u>	<u>382</u>	<u>446,563</u>
7	Provisions/ reserves	6,435	181	91	128	6,835
8	Reserve Interest	-	19	11	69	99

This report is prepared in accordance with the requirements of Basel II - Pillar III disclosures as set out in the CBO circulates BM1009 and BM1027.

For Ahli Bank SAOG



Khalid Hamad Hamood Al Busaidi
Chairman
Dated 26 January 2010





Management Report - 2009

1. Introduction

Two years after converting into a commercial bank on 5 January 2008, Ahli Bank continues to maintain its leading position in providing the most convenient housing mortgage facilities to customers in Oman.

More importantly, the bank has made significant progress in building the commercial bank, diversifying its portfolio through catering to the demands of the corporate businesses in Oman while carefully differentiating the needs of the premium, private banking segments, as well as the Small & Medium Enterprise (SME) segments.

The bank has successfully launched new deposit products and loan products which are competing with the best products in the market.

In addition, the bank has continued to expand its network of branches and ATMs, introduced new services and increased its contribution back to the Omani society.

2. The Business Environment

During 2009, appropriate government support and regulatory measures moderated to a great extent the impact of the global financial crisis but there were challenges experienced by the Omani banking sector. Despite these challenges, Ahli Bank was able to demonstrate its ability to manage and effectively respond to the requirements of business giving it further confidence to grow on a sustainable basis in future. The Bank continues to be on its growth trajectory and has had a very satisfactory business and performance oriented fiscal 2009.

Despite the slowdown in the global economy, the national economy is expected to post a positive growth in 2010 and the government is making appropriate investment to achieve the same. This will be the right opportunity for all stakeholders in business to seize and Ahli Bank will continue to participate with its prudent risk based approach.

3. Retail

In 2009, Ahli Bank's Retail division has focused on aggressive expansion plans with new branches being opened, new ATMs, the relocation of one branch as well as the introduction of a growing portfolio of products.

3.1 Branches

Ahli Bank opened five new branches in 2009 – taking its network of branches to a total of twelve.

Continuing with the infrastructure improvements, the Sur and Sohar branches were renovated in January 2009 and the Ibri branch was relocated in March 2009.

Five off-site Automatic Teller Machines (ATM's) were added to the bank's network in 2009 as part of the customer-focused strategic expansion across the Sultanate. The new ATMs are located in Qurum City Centre, Muscat City Center, Al Khoud , Al Seeb Souq and Safer Mall bringing the total number of Ahli Bank ATMs to 17.

3.2 New Services

Ahli Bank introduced the first ATM-chip debit card, equipped with the smart card technology also known as Chip and PIN in July 2009. The new debit cards offer customers a much higher level of security against fraud as well as quicker transaction times.

In March 2009, Ahli Bank announced the enhanced MyHassad Savings Scheme was offering bigger

rewards to customers. The enhanced scheme offers customers the chance to win RO 250,000 in the Salary for Life Draw (250 months of RO 1,000 per month) at the end of September, as well as monthly prize draws of RO 10,000. The daily prize draws of RO 1,000 have been maintained making this the first savings account in Oman to have a winner announced every working day.

A new scheme was introduced in the summer of 2009 whereby customers transferring their loan to Ahli Bank received a guaranteed free bonus of up to six months' salary in addition to the approved loan amount and free credit cards.

Ahli Bank launched its enhanced limited loan schemes for the summer offering a guaranteed upfront bonus with MyHome loans and MyLoan, a consumer loan for personal needs; MyHadeya fixed deposit with upfront interest payment; MySmart short-term deposit with a check book facility and MySaver savings accounts.

Ahli Bank will shortly launch MyE-Bank, an internet banking service which can be accessed from anywhere in the world, at any time and at no extra cost to customers. Simultaneously the SMS banking service will be launched making 'Push' and 'Pull' transactions even easier for customers.

In October, 2009, Ahli Bank implemented Fast Track, The Retail Lending Tracking System in an effort to improve the bank's efficiency in processing and sanctioning loans to its customers.

4. Corporate

Ahli Bank divides its Corporate Banking into two units – Corporate Banking and the Small & Medium Enterprise (SME) Unit.

4.1 Small and Medium Enterprises (SMEs)

The bank plans to build its portfolio of SME clients over 2010 with an enhanced range of products and is targeting SMEs that comply with the proposed Business Banking Criteria across nearly all industry sectors.

SME Working capital

Ahli Bank has introduced a new credit approval process to streamline working capital finance for SMEs. The product will form part of the Bank's 'Business Banking' basket of SME features, designed to simplify credit application preparations and risk management approval with three specific product propositions.

Aimed at companies with a turnover of up to RO 2million (US\$5million) the product aims to provide SMEs with competitive financial products with features including competitive pricing, new product structures tailored specifically to SMEs, a faster turnaround on credit applications and high quality of service.

Ahli Bank is also introducing industry best practices in lending to SMEs and incentivizing customers to move their banking relationship to Ahli Bank.

SME Conference 2009

Ahli Bank exhibited at the SME Conference in 2009. This enabled the bank to showcase its competitive financial products and services that enable the development and growth of SMEs.

4.2 Corporate

Ahli Bank's Corporate Banking division has the benefit of access to a Group Balance Sheet for large deals and can provide a direct connection to the markets of Ahli United Bank.

The bank is equipped to provide industry specific advice via Relationship Managers with expertise based upon years of specialist work across team industry sectors.

4.3 Trade Finance

Ahli Bank's Foreign Trade Department with Trade Finance specialized staff members, is able to service corporate clients with a full range of Imports, Exports, Collections and Bank Guarantee products and services which can process customer transactions from start to finish within a 24-hour time frame.

4.4 Treasury

Ahli Bank's Treasury offers a comprehensive range of foreign exchange, money market and derivative products such as:

- Deposits and placements in all major international and Gulf currencies
- Spot and forward foreign exchange transactions in all major international and Gulf currencies
- Foreign exchange and interest rate derivatives including:
 - Over-the-counter and exchange-traded currency options
 - Financial futures and options on futures traded on the major international exchanges
 - Interest rate swaps, swaptions, caps, collars and floors
 - Forward rate agreements

5. Risk Management and Internal Controls

The Bank has a separate risk management department which was established in end 2007 to support the new business model of commercial banking. The risk department closely monitors the bank's core risk areas and reports to the senior management.

The primary goal of risk management is to ensure that the bank's asset and liability profile, its trading positions, and its credit and operational activities do not expose it to losses that could threaten its survival. Risk Management assists in ensuring that risk exposures do not become excessive, relative to the bank's capital and financial positions.

To ensure its independence, the bank's risk management department reports directly to the bank's Deputy CEO – Finance, Risk, IT & Operations.

The bank's risk management includes the following four elements:



Risk framework

The Bank has set up policies and measures to assess capital adequacy in terms of CBO regulations, which have been approved by the Board of Directors. Under these policies the Bank assesses its capital against its risk profile, to ensure its capital is sufficient to support all material risks to which it is exposed.

The Board of Directors ensures that the senior management establishes a framework that identifies, measures, monitors and reports all relevant significant risks. Risks covered include credit, market, operational, interest rate and liquidity risk. The risk management department has identified material risks that the bank is exposed to, and has defined the framework necessary to measure, monitor, and report these risks on timely basis.

The following Board and Management Committees manage and control material risks to the bank:

- Board of Directors
- Audit Committee
- Executive Risk Committee
- Credit & Investment Committee
- Operational Risk Committee
- Assets and Liabilities Committee

- Special Assets Committee
- Human Resource Committee
- Management Committee
- Support Service Committee

Internal control

The management of the bank realises that sound internal controls are required not only to mitigate but for effective risk management of the Bank. The Bank had developed adequate internal controls and system to monitor its day to day operations, adherence of local laws and regulations and preparation of reliable financial statements & other financial information.

6. Financial Performance

In the second year of commercial operations the bank has shown a growth in its balance sheet. Conforming to our strategy, our deposits have grown more than our advances. Net Operating Income for the year has grown by 24% to OMR 17.9 Mio and the net profit has increased by 43.96% to OMR 8.5 Mio from the previous year profit of OMR 5.9 Mio.

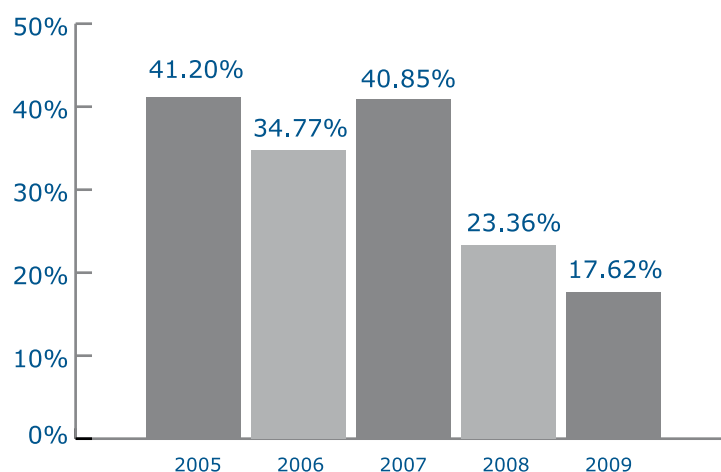
6.1 Financial highlights

	2009 (OMR'000)	2008 (OMR'000)	Growth
Total Assets	616,058	456,405	34.98%
Loans and Advances	446,563	378,043	18.12%
Customer Deposit	466,710	319,256	46.19%
Operating Income	32,315	25,873	24.90%
Net profit after tax	8,541	5,933	43.96%
Capital & Reserves	92,618	87,055	6.39%

6.2 Capital and reserves

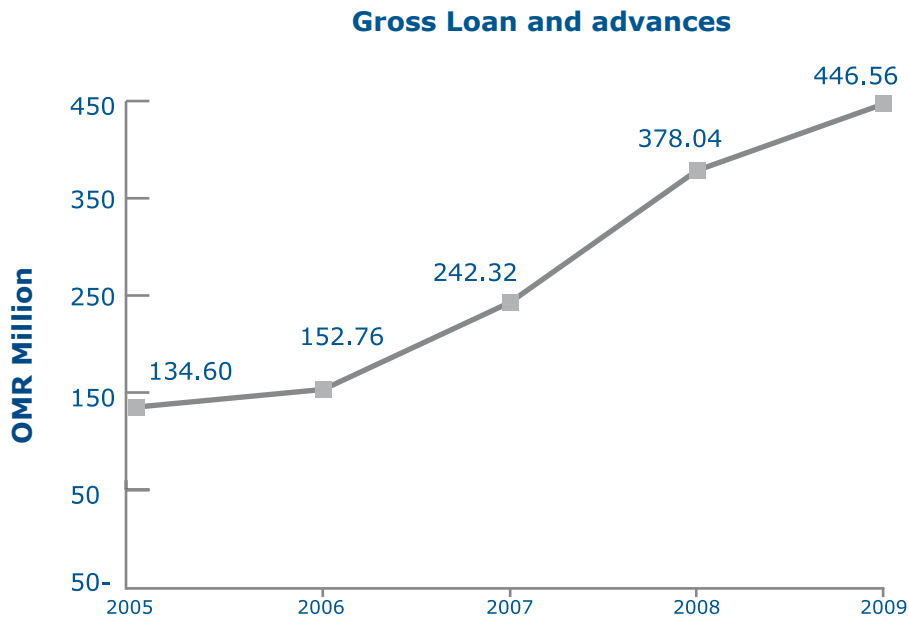
Capital and reserves of the bank, as at 31 December 2009 stood at OMR 92.62 Mio as compared to OMR 87.1 Mio. as at 31 December 2008 and the Capital Adequacy Ratio of the bank was at 17.62% well above the minimum ratio of 10% required by CBO.

Capital Adequacy Ratio



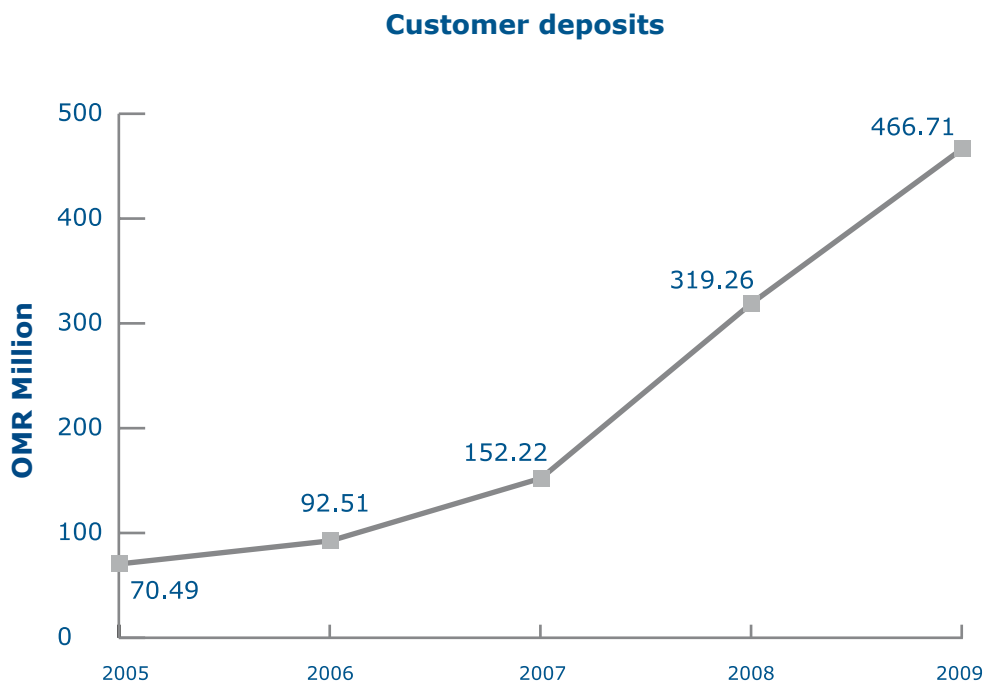
6.3 Loan and advances

The gross loan book grew modestly by 18.12% to reach OMR 446.56 Mio as at 31st December 2009 as compared to OMR 378.04 Mio as at 31st December 2008. The increase has been mainly in the corporate book. The bank has adopted a prudent risk management approach in view of the prevailing global financial crisis and its implication.



6.4 Customer deposits

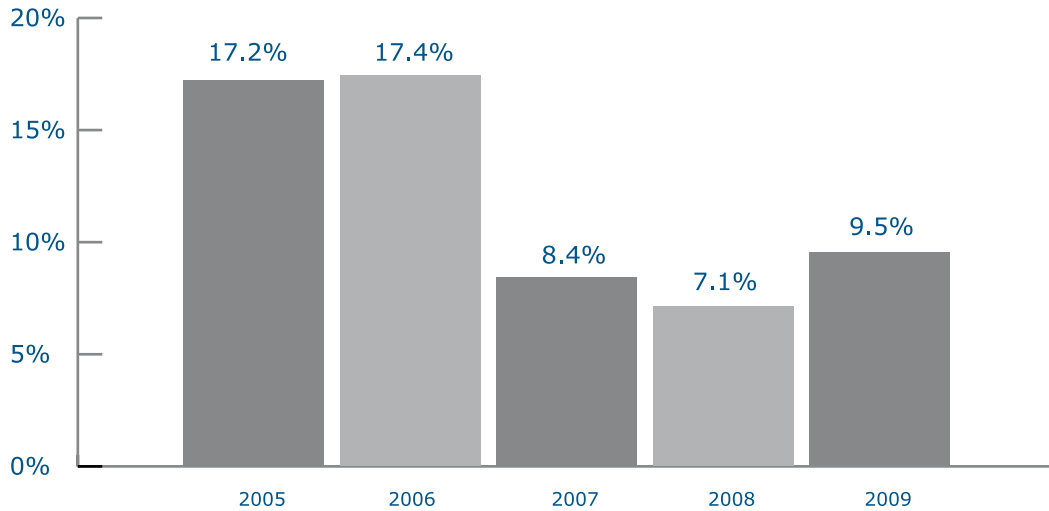
The customer deposits increased to OMR 466.71Mio in 2009, an increase of over 46.19% from 2008. This is mainly due to the bank offering new products and increase in the number of new customers. The growth is in line with the bank's strategy to create a diversified stable low cost funding base.



6.5 Profitability

The Net Profit of the bank has increased by 43.96% to OMR 8.54 Mio in the year 2009.

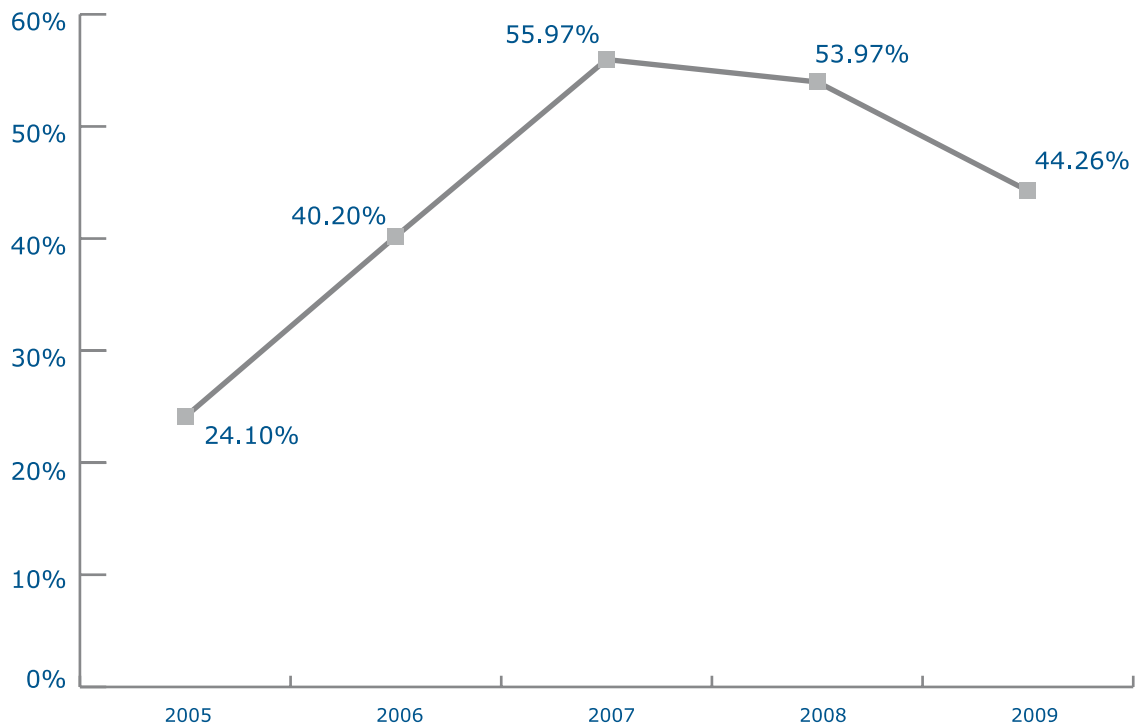
Return on Average Equity



6.6 Cost to Income Ratio

There has been significant improvement in this ratio in 2009. Operating costs year over year has increased. The increase in the expenditure is essentially due to the investment in human resources, IT development and branch network expansion, commensurate to business requirements and the bank's business plans.

Cost to Income Ratio



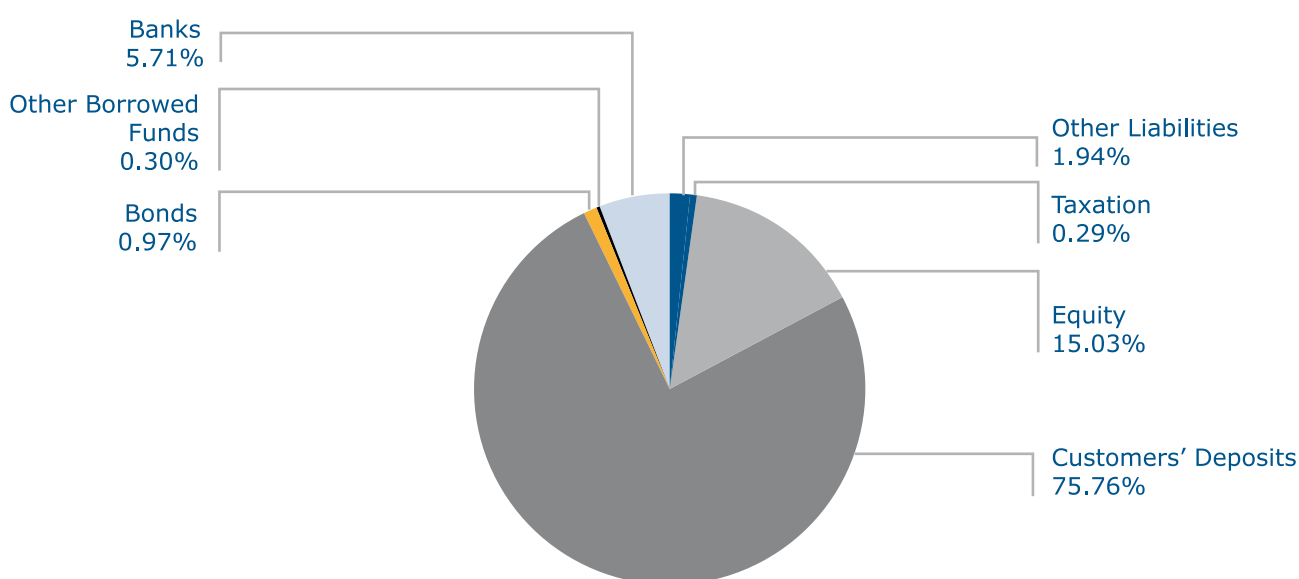
6.7 Credit Quality

The loan book continues to be of a very high quality and this is reflected in our low NPL ratio of 0.32% as of 31st December 2009. The bank has adopted a prudent risk based approach to lending and ensures good quality control both in assessment and follow-up.

6.8 Funding

Over the last few months, the downturn in the global economy has had its consequences on all players in the financial sectors even domestically and this has put a dampener on our efforts to mobilize more low cost long term deposits. Liquidity not being as issue, the cost of deposits is certainly a cause for concern. It is due to this very reason that we have moderated our growth by introducing stringent risk policies.

Source of Funding



7. Corporate Social Responsibility and Sponsorships

In 2009 Ahli Bank continued its charity campaign to benefit as many sectors of the community and local charities as possible.

7.1 MyHassad gives back campaign – Daily Ramadan Donations

Ahli Bank contributed a total value of RO 20,000 to more than eight charities across Oman during the month of Ramadan 2009, including:

- Six batches of 200 school bags filled with stationery to the Omani Women's Association in Salalah and Al Wafa Social Centres in Nizwa, Ibra, Sohar, Sur and Ibri.
- Eleven cheques of RO 1,000 to the Downs Syndrome Parents Group in Muscat; the National Association for Cancer Awareness (NACA) in Ibra, Salalah and Muscat; Omani Women's Association in Sur, Barka, Suwaiq, Ibri, Nizwa and Al Khoud and Al Noor Association for the Blind in Muscat.
- Disability support equipment including wheelchairs, walkers and toys to the Association of Welfare of the Handicapped in Barka and Saham.
- Desktop PCs and swimming suits to the Association of Welfare of the Handicapped in Azaiba, Muscat.
- Laptops to the Al Noor Association for the Blind in Salalah.
- Desktop PCs with the Nattiq Programme (Hall), which is specially designed for the blind to the Al Noor Association for the Blind in Nizwa.

7.2 National Association for Cancer Awareness (NACA)

Ahli Bank employees took part in the annual Muscat NACA Walkathon which aims to raise awareness of the disease and the importance of early diagnosis. The bank was also a Diamond sponsor of the Crystal Ball in December 2009, which raised funds for the charity.

7.3 Oman versus Egypt friendly match

To renew the bank's long term commitment to promoting and supporting Arab sports, Ahli Bank SAOG and Ahli United Bank (Egypt) SAE were Title Sponsors of the friendly football match between the GCC Cup Champions, Oman and the African Champions, Egypt in May 2009.

The partnership also honoured Essam Al Hadri from the Egyptian football team and Ahmed Mubarak Kanu from the Omani team as the "Best Players of the Match" at an after-match ceremony.

A raffle draw was held at the match to win one of five MyHassad Accounts with RO100 deposits.

7.4 Oman Media Awards

For the second year, the bank sponsored the Oman Media Awards in December 2009. The Awards seek to encourage new talents in journalism and to improve local communities through better press coverage and awareness.

8. Events

8.1 Annual General Meeting (AGM) March 2009

At the 2009 AGM in March shareholders duly considered and approved the bank's audited financial results for the year ended 31 December 2008.

8.2 Sultan Qaboos University (SQU) career fair

Ahli Bank participated in the SQU Career & Training Opportunities Fair 2009 in April 2009, enabling the bank to communicate directly with graduates, job seekers and trainees.

8.3 Road Show

Ahli Bank conducted its nationwide road show in Sur, Ibra, Salalah, Ibri, Sohar, Barka and Nizwa, consumers were presented the opportunity to receive personalized advice on the benefits of 'My Hassad Saving Scheme'.

8.4 Iftar staff event

In honor and celebration of the holy month of Ramadan and to bolster staff relations, Ahli Bank gathered its board and staff members from all the divisions for an Iftar celebration at the Intercontinental Hotel in Muscat.

8.5 Staff day/ Second anniversary

To thank employees for their contribution since its establishment in Oman, AhliBank celebrated its second anniversary with a family fun day at the Diplomatic Club in Muscat.

9. Conclusion

Encouraged by our past performance, Ahli Bank will continue to grow in a pendent manner by focusing on clients and meeting their requirements, by improving the quality of our customer service and optimising the use of our resources to improve productivity and build in cost efficiency.



Contacts

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INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF AHLI BANK SAOG

Report on the financial statements

We have audited the financial statements of Ahli Bank SAOG (the "Bank") which comprise the statement of financial position as at 31 December 2009, and the related 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 notes set out on pages 57 to 91.

The financial statements of the Bank as of and for the year ended 31 December 2008 were audited by another independent auditor whose audit report dated 26 January 2009 was unmodified.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, the disclosure requirements of the Capital Market Authority and the Commercial Companies Law of 1974, as amended. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' 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 relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of 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 our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Bank's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by the Bank's 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 opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2009 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 of the Bank as at and for the year ended 31 December 2009, in all material respects, comply with:

- the relevant disclosure requirements of the Capital Market Authority; and
- the Commercial Companies Law of 1974, as amended.

26 January 2010

Michael G.W. Armstrong



Statement of Financial Position

Year ended 31 December

2008 US\$	2009 US\$	Note	2009 OMR	2008 OMR
ASSETS				
38,351,366	282,648,741	4	108,819,765	14,765,276
26,276,028	18,724,476	5	7,208,923	10,116,271
-	16,099,270	7	6,198,219	-
974,799,380	1,152,109,722	6	443,562,243	375,297,761
2,985,646	90,781,106	7	34,950,726	1,149,474
116,506,249	3,287,532	7	1,265,700	44,854,906
21,515,486	23,870,470	8	9,190,131	8,283,462
884,002	894,689	9	344,455	340,341
4,148,172	11,734,726	10	4,517,870	1,597,046
<u>1,185,466,329</u>	<u>1,600,150,732</u>		<u>616,058,032</u>	<u>456,404,537</u>
LIABILITIES				
47,860,932	91,298,509		35,149,926	18,426,459
829,237,129	1,212,234,639	11	466,710,336	319,256,295
62,174,786	20,424,569	12	7,863,459	23,937,292
2,794,306	4,563,275	9	1,756,861	1,075,808
17,281,948	31,062,233	13	11,958,960	6,653,550
<u>959,349,101</u>	<u>1,359,583,225</u>		<u>523,439,542</u>	<u>369,349,404</u>
EQUITY				
167,832,166	176,223,777	14	67,846,154	64,615,384
16,338,805	-		-	6,290,440
8,103,623	18,269,301	15	7,033,681	3,119,895
2,938,951	4,048,192	16	1,558,554	1,131,496
5,903,296	10,215,239	6	3,932,867	2,272,769
(414,039)	243,008		93,558	(159,405)
25,414,426	31,567,990		12,153,676	9,784,554
<u>226,117,228</u>	<u>240,567,507</u>		<u>92,618,490</u>	<u>87,055,133</u>
<u>1,185,466,329</u>	<u>1,600,150,732</u>		<u>616,058,032</u>	<u>456,404,537</u>
<u>63,920,567</u>	<u>79,664,249</u>	26	<u>30,670,736</u>	<u>24,609,418</u>

The financial statements were approved by the Board of Directors on 26 January 2010 and were signed on their behalf by:

Khalid Hamad Hamood Al Busaidi
Chairman

Abdul Aziz Al Balushi
Chief Executive Officer

The accounting policies on pages 57 to 64 and notes on pages 64 to 91 form an integral part of these financial statements.

Independent auditors' report is on Page 51



Statement of Comprehensive Income

For the year ended 31 December

2008 US\$	2009 US\$	Note	2009 OMR	2008 OMR
59,655,161	72,956,338	Interest income	28,088,190	22,967,237
(30,230,171)	(37,448,307)	Interest expense	(14,417,598)	(11,638,616)
29,424,990	35,508,031	Net interest income	13,670,592	11,328,621
7,548,652	10,977,637	Other operating income	4,226,390	2,906,232
36,973,642	46,485,668	Net operating income	17,896,982	14,234,853
(10,499,766)	(11,327,754)	Staff expenses	(4,361,185)	(4,042,410)
(995,305)	(2,262,823)	Depreciation	(871,187)	(383,192)
(8,458,064)	(6,984,089)	Other operating expenses	(2,688,874)	(3,256,355)
361,868	(691,190)	Loan impairment, net of recoveries	(266,108)	139,319
(19,591,267)	(21,265,856)	Operating expense	(8,187,354)	(7,542,638)
17,382,375	25,219,812	Profit before taxation	9,709,628	6,692,215
(1,970,748)	(3,034,970)	Income tax expense	(1,168,464)	(758,738)
15,411,627	22,184,842	Net profit for the year	8,541,164	5,933,477
		Other comprehensive income - net of tax		
383,169	657,047	Gains arising during the period on available for sale investments	252,963	147,520
(36,862)	-	Movement in cash flow hedges	-	(14,192)
346,307	657,047	Other comprehensive income for the year	252,963	133,328
15,757,934	22,841,889	Total comprehensive income for the year	8,794,127	6,066,805
22.60	32.73	Basic earnings per share (baizas/cents)	12.60	8.70

The accounting policies on pages 57 to 64 and notes on pages 64 to 91 form an integral part of these financial statements.

Independent auditors' report is on Page 51



Statement of changes in Equity Year ended 31 December 2009

Note	Ordinary Share Capital OMR	Share Premium OMR	Legal Reserve OMR	General Banking Reserve OMR	General Loan Loss Reserve OMR	Cumulative Changes in Fair Values OMR	Retained Earnings OMR	Total OMR
	64,615,384	6,290,440	3,119,895	1,131,496	2,272,769	(159,405)	9,784,554	87,055,133
	-	-	-	-	-	252,963	-	252,963
	-	-	-	-	-	252,963	-	252,963
	-	-	-	-	-	-	8,541,164	8,541,164
	3,230,770	(3,230,770)	-	-	-	252,963	8,541,164	8,794,127
	-	(3,059,670)	3,913,786	-	-	-	(854,116)	-
	-	-	-	427,058	-	-	(427,058)	-
	-	-	-	-	1,660,098	-	(1,660,098)	-
	-	-	-	-	-	-	(3,230,770)	(3,230,770)
	67,846,154	-	7,033,681	1,558,554	3,932,867	93,558	12,153,676	92,618,490
	176,223,777	-	18,269,301	4,048,192	10,215,239	243,008	31,567,990	240,567,507

The accounting policies on pages 57 to 64 and notes on pages 64 to 91 form an integral part of these financial statements.
Independent auditors' report is on Page 51



Statement of changes in Equity Year ended 31 December 2009

Note	Ordinary Share Capital OMR	Share Premium OMR	Legal Reserve OMR	General Banking Reserve OMR	General Loan Loss Reserve OMR	Cumulative Changes in Fair Values OMR	Retained Earnings OMR	Total OMR
Balance as at 1 January 2008	64,615,384	6,290,440	2,526,547	834,822	-	(292,733)	7,013,868	80,988,328
Net movement in the fair value of cash flow hedges	-	-	-	-	-	(14,192)	-	(14,192)
Net unrealised gains on available for sale investments	-	-	-	-	-	147,520	-	147,520
Total income and expense recognised directly in equity	-	-	-	-	-	133,328	-	133,328
Net profit for the year	-	-	-	-	-	-	5,933,477	5,933,477
Total income and expense for the year	-	-	-	-	-	133,328	5,933,477	6,066,805
Transfer to legal reserve	15	-	593,348	-	-	-	(593,348)	-
Transfer to general banking reserve	16	-	-	296,674	-	-	(296,674)	-
Transfer to loan loss reserve	6	-	-	-	2,272,769	-	(2,272,769)	-
Balance at 31 December 2008 (OMR)	64,615,384	6,290,440	3,119,895	1,131,496	2,272,769	(159,405)	9,784,554	87,055,133
Balance at 31 December 2008 (US\$)	167,832,166	16,338,805	8,103,623	2,938,951	5,903,296	(414,039)	25,414,426	226,117,228

The accounting policies on pages 57 to 64 and notes on pages 64 to 91 form an integral part of these financial statements. Independent auditors' report is on Page 51



Notes to the Financial Statements

Year ended 31 December 2009

1 Activities

Ahli Bank SAOG (the «Bank») is a general joint stock company incorporated in the Sultanate of Oman and is engaged in commercial banking activities through a network of twelve branches. The registered address of the bank is PO Box 545, Mina Al Fahal, 116, Sultanate of Oman.

The Bank employed 237 employees as at 31st December 2009 compared to 226 as at 31st December 2008.

2 Basis Of Preparation

Statement of compliance

The financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB), applicable regulations of the Central Bank of Oman (CBO), the Commercial Companies Law of 1974, as amended and the disclosure requirement of the Capital Market Authority (CMA) of the Sultanate of Oman.

Basis of measurement

The financial statements are prepared under the historical cost convention except for the following:

- (i) Derivative financial instruments are measured at fair value
- (ii) Financial instruments at fair value through profit or loss are measured at fair value
- (iii) Available for sale instruments are measured at fair value

Functional and presentation currency

The accounting records are maintained in Rial Omani (OMR) which is the functional and reporting currency for these financial statements. The United States Dollar (US\$) amounts shown in the financial statements have been translated from Rial Omani at an exchange rate of OMR 0.385 to each US\$, and are shown for the convenience of the reader only. Except as otherwise indicated, financial information presented has not been rounded off.

Adoption of new standards

The accounting policies adopted are consistent with those used in the previous financial year except that the Bank has adopted the following standards, amendments and interpretations.

- Revised IAS 1 - Presentation of financial Statements (2007) - This standard requires presentation of all owner changes in equity and all non-owner changes to be presented in either one statement of comprehensive income or in two separate statements, statement of income and statement of comprehensive income. The revised standard also requires that the income tax effect of each component of comprehensive income be disclosed. The Bank has elected to present comprehensive income in a single statement.

The Bank has applied Improving Disclosures about Financial Instruments (Amendments to IFRS 7), issued in March 2009, that require enhanced disclosure about fair value measurement and liquidity risk in respect of financial instruments.

The amendment requires that fair value measurement disclosures use a three-level fair value hierarchy that reflects the significance of the inputs used in measuring fair values of financial instruments. Specific disclosures are required when fair value measurements are categorized as level 3 (significant unobservable inputs) in the fair value hierarchy. The amendments require that any significant transfer from level 1 and level 2 of the fair value hierarchy be disclosed separately, distinguishing between transfers into and out of each level. Furthermore, changes in valuation techniques from one period to another, including the reasons for such change, are required to be disclosed for each class of financial instruments. Revised disclosures in respect of fair values of financial instruments are included in note 30.



Notes to the Financial Statements

Year ended 31 December 2009 (Continued)

Further, the definition of liquidity risk has been amended and it is now defined as the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

The amendment requires disclosure of maturity analysis for non-derivative and derivative financial liabilities, but contractual maturities are required to be disclosed for derivative financial liabilities only when contractual maturities are essential for an understanding of the timing of cash flows. For issued financial guarantee contracts, the amendment requires the maximum amount of guarantee to be disclosed in the earliest period in which the guarantee could be called. Revised disclosures in respect of liquidity risk are included in notes 25 and 28.

- IFRS 8 - Operating segments - This standard requires disclosure of the Bank's operating segments based on information available for its decision making purposes. The Bank concluded that the segments determined in accordance with IFRS 8 are the same as the business segments previously identified under IAS 14.

Estimates and judgements

In the process of applying the Bank's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect in the amounts recognised in the financial statements:

Classification of investments

Management decides on acquisition of an investment whether it should be classified as held-to-maturity, held-for-trading, carried at fair value through profit and loss account, or available for sale.

For those deemed to be held-to-maturity management ensures that the requirements of IAS 39 are met and in particular the Bank has the intention and ability to hold these to maturity.

The Bank classifies investments as trading if they are acquired primarily for the purpose of making a short term profit by the dealers.

Classification of investments as fair value through profit and loss account depends on how management monitor the performance of these investments. When they are not classified as held-for-trading but have readily available reliable fair values and the changes in fair values are reported as part of profit or loss in the management accounts, they are classified as fair value through profit and loss.

All other investments are classified as available for sale.

Estimation uncertainty

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

Specific impairment losses on loans and advances

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

Collective impairment provisions on loan accounts

In addition to specific provisions against individually significant loans and advances accounts the Bank also makes a collective impairment provision against loans and advances accounts which, although not specifically identified as requiring a specific provision, historical experience and other relevant data suggests losses will have occurred. For the purpose of collective evaluation of impairment, financial assets are grouped on the basis of credit risk characteristics such as collateral type, past due status and other relevant factors.



Notes to the Financial Statements

Year ended 31 December 2009 (Continued)

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 these 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.

3 Significant Accounting Policies

Financial investments - held for trading

These are initially recognised at cost and subsequently remeasured at fair value. All related realised and unrealised gains or losses are included in gains less losses arising from trading investments in the profit or loss. Interest earned or dividends received are included in interest and similar income and dividend income respectively.

Financial investments - held to maturity

Held-to-maturity financial investments are those which carry fixed or determinable payments, 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 and similar income' in the profit or loss. Any losses arising from impairment of such investments are recognised in the profit or loss.

Financial investments - available for sale

After initial recognition, investments which are classified as available for sale are normally remeasured 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.

Financial Investments carried 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 recognising 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.

Due from banks and other money market placements

These are stated at cost, less any amounts written off and provision for impairment.

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



Notes to the Financial Statements

Year ended 31 December 2009 (Continued)

asset, but has transferred control of the asset.

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.

Fair values

For investments and derivatives traded in an active market, fair value is determined by reference to quoted market bid prices. The fair value of interest-bearing items is estimated based on discounted cash flows using interest rates for items with similar terms and risk characteristics.

For unquoted equity investments, fair value is determined by reference to the market value of a similar investment or is based on the expected discounted cash flows. The fair value of forward foreign exchange contracts is calculated by reference to current forward exchange rates with the same maturity.

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 and are not classified as Financial assets held for trading, designated as Financial assets – available-for-sale or Financial assets designated at fair value through profit or loss. 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 and similar income' in the profit or loss. The losses arising from impairment are recognised in the profit or loss.

Property and equipment

Property and equipment is recorded at historical cost less accumulated depreciation. Cost represents the purchase price, together with any incidental costs of acquisition. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down to its recoverable amount. Gains and losses on disposal of tangible fixed assets are determined by reference to their carrying amount and are recognised in the profit or loss. Capital work-in-progress is not depreciated until the asset is put to use.

Depreciation

Depreciation is provided on all property and equipment on the straight line method at rates calculated to write off the cost less residual value of each asset over its expected useful life.

Operating leases

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense in the profit or loss on a straight-line basis over the lease term.

Other borrowed funds

Other borrowings 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 the effective interest method.

Derivative financial instruments

Derivatives are stated at fair value. For those derivatives that do not qualify for hedge accounting, any gains or losses arising from changes in the fair value are taken directly to the profit or loss for the period.

In relation to cash flow hedges, the gain or loss on hedging instruments is recognised initially in equity to the extent that the hedge is effective and is transferred to the profit or loss in the



Notes to the Financial Statements

Year ended 31 December 2009 (Continued)

period in which the hedged transaction impacts the profit or loss. If the hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to the profit or loss.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised or no longer qualifies for hedge accounting.

End of service benefits and leave entitlements

End of service benefits are accrued in accordance with the terms of employment of the Bank's employees at the statement of financial position date, having regard to the requirements of the Oman Labour Law 2003. Payment is made to the Omani Government Social Security Scheme under the Royal Decree 71/91 for Omani employees. Employee entitlements to annual leave are recognised when they accrue to employees and an accrual is made for the estimated liability for annual leave as a result of services rendered by employees up to the statement of financial position date.

Taxation

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the statement of comprehensive income except to the extent it relates to items recognised directly in equity, in which case it is recognised in equity. Current tax comprises tax payable calculated on the basis of the expected taxable income, using the tax rates enacted or substantially enacted at the statement of financial position date, and any adjustment to tax payable in respect of previous years.

Deferred income tax is provided using the liability method for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Currently enacted tax rates are used to determine deferred tax. The carrying amount of deferred income tax assets is reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Cash and cash equivalents

Cash and cash equivalents comprise balances maturing at three months or less from the date of acquisition, including cash and balances with the Central Bank of Oman, treasury bills and other eligible Government securities and amounts due from and due to other banks.

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.

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, such guarantees are each measured at the higher of the initial fair value less, when appropriate, cumulative amortisation calculated to recognise the fee in the profit or loss 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. Any financial guarantee liability remaining is recognised in the profit or loss when the guarantee is discharged, cancelled or expires.

Impairment of financial assets

The Bank assesses at each statement of financial position 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



Notes to the Financial Statements

Year ended 31 December 2009 (Continued)

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.

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 specifically 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 the 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. 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 'loan impairment expense, net of recoveries'.

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.



Notes to the Financial Statements

Year ended 31 December 2009 (Continued)

Due from banks and loans and advances to customers

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 'Impairment losses on financial investments' in arriving at profit or loss for the period.

Available-for-sale financial investments

For available-for-sale financial investments, the Bank assesses at each statement of financial position 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 profit or loss – is removed from equity and recognised in profit or loss. Impairment losses on equity investments are not reversed through profit or loss; increases in their fair value after impairment are recognised directly in statement of changes 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 and similar 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 profit or loss, the impairment loss is reversed through 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 individual or collective impairment assessment, calculated using the loan's original effective interest rate.

Foreign currencies

Foreign currency transactions are recorded at rates of exchange ruling at the value dates of the transactions. Monetary assets and liabilities in foreign currencies are translated into OMR at the rates of exchange ruling at the statement of financial position date. Any resultant gains or losses are recognised in profit or loss.

Trade and settlement date accounting

Purchases and sales of financial assets are recognised on the trade date, i.e. the date that the Bank commits to purchase or sell the asset.

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 statement of financial position date are dealt with as an event after the statement of financial position 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.

Offsetting financial instruments

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



Notes to the Financial Statements

Year ended 31 December 2009 (Continued)

Revenue recognition

Interest receivable and payable, and credit related fee income is recognised on an accrual basis using the effective yield method on the principal outstanding or the actual purchase price, as applicable. Interest which is doubtful of recovery is reserved and excluded from income until it is received in cash. Other Fees and commission are recognised on an accrual basis.

4. Cash and balances with Central Bank of Oman

2008	2009		2009	2008
US\$	US\$		OMR	OMR
4,282,390	5,249,356	Cash on hand	2,021,002	1,648,720
12,987	12,987	Insurance deposit with the CBO	5,000	5,000
794,719	1,182,657	Capital deposit with the CBO	455,323	305,967
62,338	62,338	ATM deposit with the CBO	24,000	24,000
<u>33,198,932</u>	<u>276,141,403</u>	Clearing account with the CBO	<u>106,314,440</u>	<u>12,781,589</u>
<u>38,351,366</u>	<u>282,648,741</u>		<u>108,819,765</u>	<u>14,765,276</u>

The Insurance, capital and ATM deposits with the CBO are mandatory deposits and hence are not available for use in day to day operations.

5. Due from other Banks

2008	2009		2009	2008
US\$	US\$		OMR	OMR
23,848,571	6,558,442	Placements	2,525,000	9,181,700
<u>2,427,457</u>	<u>12,166,034</u>	Nostro Account balances	<u>4,683,923</u>	<u>934,571</u>
<u>26,276,028</u>	<u>18,724,476</u>		<u>7,208,923</u>	<u>10,116,271</u>

6. Loans and advances to customers

2008	2009		2009	2008
US\$	US\$		OMR	OMR
358,308,878	472,224,556	Corporate lending	181,806,454	137,948,918
623,621,281	687,679,818	Mortgage and consumer lending	264,756,730	240,094,193
981,930,159	1,159,904,374	Gross loans and advances	446,563,184	378,043,111
<u>(7,130,779)</u>	<u>(7,794,652)</u>	Less: Allowance for impairment losses	<u>(3,000,941)</u>	<u>(2,745,350)</u>
<u>974,799,380</u>	<u>1,152,109,722</u>		<u>443,562,243</u>	<u>375,297,761</u>



Notes to the Financial Statements

Year ended 31 December 2009 (Continued)

An age analysis of the Bank's gross loans and advances is set out below:

	Loans not in arrears	Loans in arrears 1-30 days	Loans in arrears 31-60 days	Loans in arrears 61-89 days	Loans in arrears for 90 days or more	Total
	OMR	OMR	OMR	OMR	OMR	OMR
31 December 2009	425,417,683	8,683,610	5,174,786	5,875,833	1,411,272	446,563,184
31 December 2008	363,317,709	9,830,612	2,360,864	1,824,078	709,848	378,043,111

Loan and advances within 1 to 89 days category are considered by the Bank as past due but not impaired.

The fair value of collateral that the Bank held as at 31 December 2009 towards loans and advances not impaired amounted to OMR 328,105,000 (31 December 2008 OMR 282,505,611)

An economic sector-wise distribution of loans and advances before and after taking into account collateral held:

Economic Sector	Gross Exposure	Net Exposure	Gross Exposure	Net Exposure
	(OMR '000)	(OMR '000)	(OMR '000)	(OMR '000)
	2009	2009	2008	2008
Wholesale & Retail	38,997	33,156	24,056	12,976
Mining and quarrying	20,991	-	3,823	3,803
Construction	47,692	-	43,242	-
Manufacturing	28,890	25,890	41,909	37,695
Electricity, gas and water	17,067	17,067	-	-
Transport & Communication	6,062	6,062	-	-
Financial Institutions	2,549	-	4,314	4,292
Services	19,260	-	8,894	-
Personal Loans	264,756	34,403	240,096	33,238
Non-resident lending	299	299	1,389	1,382
Others	-	-	10,320	16
	446,563	116,877	378,043	93,402



Notes to the Financial Statements

Year ended 31 December 2009 (Continued)

Impairment allowance for loans and advances to customers

A reconciliation of the allowance for impairment losses for loans and advances by class is as follows:

Corporate lending	Mortgage & consumer lending		Total		Corporate lending	Mortgage & consumer lending		Total
	2009	2009				2009	2009	
US\$	US\$	US\$	US\$		OMR	OMR	OMR	OMR
925,709	6,015,792	6,941,501	At 1 Jan 2009		356,398	2,316,080	2,672,478	
-	763,449	763,449	Charge for the year		-	293,928	293,928	
-	(167,826)	(167,826)	Recoveries		-	(64,613)	(64,613)	
925,709	6,611,415	7,537,124	At 31 Dec 2009		356,398	2,545,395	2,901,793	

A reconciliation of the reserved interest for loans and advances by class is as follows:

Corporate lending	Mortgage & consumer lending		Total		Corporate lending	Mortgage & consumer lending		Total
	2009	2009				2009	2009	
US\$	US\$	US\$	US\$		OMR	OMR	OMR	OMR
-	189,278	189,278	At 1 Jan 2009		-	72,872	72,872	
-	123,923	123,923	Interest reserved during the year		-	47,710	47,710	
-	(55,673)	(55,673)	Interest released during theyear		-	(21,434)	(21,434)	
-	257,528	257,528	At 31 Dec 2009		-	99,148	99,148	

A further analysis of above is set out below:

-	1,295,735	1,295,735	Individual impairment	-	498,858	498,858
925,709	5,573,208	6,498,917	Collective impairment	356,398	2,145,685	2,502,083
925,709	6,868,943	7,794,652		356,398	2,644,543	3,000,941

Loan impairment expense, net of recoveries include a loan write off of OMR 10,517, equivalent to US\$ 27,317 (31 December 2008: OMR 18,473, equivalent to US\$ 47,982).



Notes to the Financial Statements

Year ended 31 December 2009 (Continued)

Interest is reserved for all non-performing loans and advances where recovery is considered doubtful. As at 31 December 2009, the total balance of loans and advances on which interest is not being accrued, or where interest is suspended, amounted to OMR 1,411,272 equivalent to US\$ 3,665,642 (31 December 2008: OMR 709,848 equivalent to US\$ 1,843,764). The fair value of collateral that the Bank holds relating to loans individually determined to be impaired as at 31 December 2009 amounts to OMR 1,580,500 (31 December 2008: OMR 2,135,500). The collateral consists of cash, securities and properties.

In accordance with the requirements of the CBO's circular referenced BM 977, the Bank is required to create a portfolio-based provision (general loan loss provision) by debiting the income statement. On 29th December 2007, the CBO has permitted the Bank to create a general loan loss reserve in lieu of such general loan loss provisions, for a temporary period of three years from 1 January 2008 to 31 December 2010. Accordingly, the Bank has set aside an amount of OMR 3.9 million (31 December 2008: OMR 2.273 million) as a non-distributable loan loss reserve in its statement of equity.

A reconciliation of the allowance for impairment losses for loans and advances by class for 2008 is as follows:

Corporate Lending 2008	Mortgage & consumer Lending 2008	Total 2008		Corporate Lending 2008	Mortgage & consumer Lending 2008	Total 2008
US\$	US\$	US\$		OMR	OMR	OMR
925,709	6,359,610	7,285,319	At 1 Jan 2008	356,398	2,448,450	2,804,848
-	260,148	260,148	Charge for the year	-	100,157	100,157
-	(603,966)	(603,966)	Recoveries	-	(232,527)	(232,527)
<u>925,709</u>	<u>6,015,792</u>	<u>6,941,501</u>	At 31 Dec 2008	<u>356,398</u>	<u>2,316,080</u>	<u>2,672,478</u>

A reconciliation of the reserved interest for loans and advances by class for 2008 is as follows:

Corporate Lending 2008	Mortgage & consumer Lending 2008	Total 2008		Corporate Lending 2008	Mortgage & consumer Lending 2008	Total 2008
US\$	US\$	US\$		OMR	OMR	OMR
-	255,309	255,309	At 1 Jan 2008	-	98,294	98,294
-	59,031	59,031	Interest reserved during the year	-	22,727	22,727
-	(125,062)	(125,062)	Interest released during the year	-	(48,149)	(48,149)
<u>-</u>	<u>189,278</u>	<u>189,278</u>	At 31 Dec 2008	<u>-</u>	<u>72,872</u>	<u>72,872</u>



Notes to the Financial Statements

Year ended 31 December 2009 (Continued)

7. Financial Investments

	Available for Sale OMR	Held to Maturity OMR	Held For Trading OMR	Total OMR	Cost OMR
31 December 2009					
Government development bonds- Oman	-	1,135,000	6,198,219	7,333,219	7,367,863
Certificates of Deposit	30,000,000	-	-	30,000,000	30,000,000
Listed debt securities	2,453,603	130,700	-	2,584,303	2,552,218
Listed funds	2,497,123	-	-	2,497,123	2,447,584
Total (OMR)	34,950,726	1,265,700	6,198,219	42,414,645	42,367,665
Total (US\$)	90,781,106	3,287,532	16,099,270	110,167,908	110,045,883

	Available for Sale OMR	Held to Maturity OMR	Held For Trading OMR	Total OMR	Cost OMR
31 December 2008					
Government development bonds- Oman	-	1,535,000	-	1,535,000	1,535,000
Government treasury bills	-	41,907,726	-	41,907,726	41,802,353
Listed debt securities	1,120,177	1,412,180	-	2,532,357	2,697,040
Listed funds	29,297	-	-	29,297	22,585
Total (OMR)	1,149,474	44,854,906	-	46,004,380	46,056,978
Total (US\$)	2,985,646	116,506,249	-	119,491,895	119,628,514



Notes to the Financial Statements Year ended 31 December 2009 (Continued)

8. Property and Equipment

	Freehold Land OMR	Leasehold Modifications OMR	Computer and Other Equipment OMR	Vehicles OMR	Furniture OMR	Capital Work in Progress OMR	Total OMR
Cost							
At 1 Jan 2009	5,776,528	575,788	2,662,629	92,649	334,128	769,596	10,211,318
Additions	88,838	-	537,312	11,000	139,888	1,000,818	1,777,856
Transfers	-	1,345,996	321,154	-	-	(1,667,150)	-
Disposals	-	-	-	(9,600)	(142,758)	-	(152,358)
At 31 Dec 2009	5,865,366	1,921,784	3,521,095	94,049	331,258	103,264	11,836,816
Depreciation							
At 1 Jan 2009	-	440,057	1,245,813	39,392	202,594	-	1,927,856
Charge	-	372,487	426,081	20,450	52,169	-	871,187
Disposals	-	-	-	(9,600)	(142,758)	-	(152,358)
At 31 Dec 2009	-	812,544	1,671,894	50,242	112,005	-	2,646,685
Net Book Value							
At 31 Dec 2009 (OMR)	5,865,366	1,109,240	1,849,201	43,807	219,253	103,264	9,190,131
At 31 Dec 2009 (US\$)	15,234,717	2,881,143	4,803,119	113,784	569,488	268,219	23,870,470



Notes to the Financial Statements Year ended 31 December 2009 (Continued)

	Freehold Land OMR	Leasehold Modifications OMR	Computer and Other Equipment OMR	Vehicles OMR	Furniture OMR	Capital Work in Progress OMR	Total OMR
Cost							
At 1 Jan 2008	-	415,434	1,475,660	79,149	242,852	60,477	2,273,572
Additions	5,776,528	38,556	1,167,314	28,500	50,244	893,304	7,954,446
Transfers	-	121,798	19,655	-	42,732	(184,185)	-
Disposals	-	-	-	(15,000)	(1,700)	-	(16,700)
At 31 Dec 2008	5,776,528	575,788	2,662,629	92,649	334,128	769,596	10,211,318
Depreciation							
At 1 Jan 2008	-	397,924	947,661	36,014	178,434	-	1,560,033
Charge	-	42,133	298,152	18,378	24,529	-	383,192
Disposals	-	-	-	(15,000)	(369)	-	(15,369)
At 31 Dec 2008	-	440,057	1,245,813	39,392	202,594	-	1,927,856
Net Book Value							
At 31 Dec 2008 (OMR)	5,776,528	135,731	1,416,816	53,257	131,534	769,596	8,283,462
At 31 Dec 2008 (US\$)	15,003,969	352,548	3,680,042	138,330	341,647	1,998,951	21,515,486

The rates of depreciation are based upon the following estimated useful lives:

Leasehold Modifications	3 years
Computer and other equipment	5 years
Vehicles	4 years
Furniture	5 years



Notes to the Financial Statements

Year ended 31 December 2009 (Continued)

9. Income Tax

2008 US\$	2009 US\$		2009 OMR	2008 OMR
		Current Liability:		
1,970,748	3,034,970	Current Year	1,168,464	758,738
823,558	1,528,305	Prior Years	588,397	317,070
<u>2,794,306</u>	<u>4,563,275</u>		<u>1,756,861</u>	<u>1,075,808</u>
		Deferred tax:		
848,384	884,002	At 1 January	340,341	326,628
35,618	10,687	Movement for the year relating to profit or loss	4,114	13,713
<u>884,002</u>	<u>894,689</u>	At 31 December	<u>344,455</u>	<u>340,341</u>
		The deferred asset comprises the following types of temporary differences:		
779,870	779,870	Loan loss disallowed for tax purposes	300,250	300,250
104,132	114,819	Accelerated tax depreciation	44,205	40,091
<u>884,002</u>	<u>894,689</u>		<u>344,455</u>	<u>340,341</u>
		Income statement		
2,006,366	3,045,657	Current year	1,172,578	772,451
-	-	- Deferred tax income relating to the origination and reversal of temporary differences	(4,114)	(13,713)
<u>1,970,748</u>	<u>3,034,970</u>		<u>1,168,464</u>	<u>758,738</u>

The relationship between the tax expense and the accounting profit can be explained as follows:

2008 US\$	2009 US\$		2009 OMR	2008 OMR
17,382,377	25,219,812	Accounting profit	9,709,628	6,692,215
		Expense that are not deductible in determining taxable profit:		
345,364	698,629	Depreciation	268,972	132,965
569	-	- Gain on sale of asset	-	219
(842,010)	-	- Gain on listed investments	-	(324,174)
<u>16,886,300</u>	<u>25,918,441</u>	Taxable profit	<u>9,978,600</u>	<u>6,501,225</u>
		Effective rate of income tax	12.08%	11.54%

The deferred tax asset has been recognized at the effective rate of 12%. The tax rate applicable to the Bank is 12% of taxable income in excess of RO 30,000.

The Bank's tax assessments have been completed by the tax authorities up to the year 2005.



Notes to the Financial Statements

Year ended 31 December 2009 (Continued)

10. Other assets

2008	2009		2009	2008
US\$	US\$		OMR	OMR
112,512	462,475	Interest receivable	178,053	43,317
1,095,018	1,747,688	Prepayments	672,860	421,582
132,252	38,314	Others	14,751	50,917
2,808,390	9,486,249	Acceptances	3,652,206	1,081,230
<u>4,148,172</u>	<u>11,734,726</u>		<u>4,517,870</u>	<u>1,597,046</u>

11. Customers deposits

2008	2009		2009	2008
US\$	US\$		OMR	OMR
770,260,197	947,991,171	Time deposits	364,976,601	296,550,176
58,976,932	264,243,468	Demand and saving deposits	101,733,735	22,706,119
<u>829,237,129</u>	<u>1,212,234,639</u>		<u>466,710,336</u>	<u>319,256,295</u>

The related maturity profile and interest rate risk is given in note 28 and 29 respectively.

12. Other borrowed funds

2008	2009		2009	2008
US\$	US\$		OMR	OMR
15,584,416	15,584,416	Fixed rate bonds	6,000,000	6,000,000
40,000,000	-	Syndicated loan	-	15,400,000
6,590,370	4,840,153	NBO Loan	1,863,459	2,537,292
<u>62,174,786</u>	<u>20,424,569</u>		<u>7,863,459</u>	<u>23,937,292</u>

The related maturity profile and interest rate risk is given in note 28 and 29 respectively.

13. Other liabilities

2008	2009		2009	2008
US\$	US\$		OMR	OMR
8,083,434	12,932,060	Interest payable	4,978,843	3,112,122
938,491	1,518,275	Staff related liabilities	584,536	361,319
5,451,633	7,125,649	Accrual for expenses	2,743,375	2,098,879
2,808,390	9,486,249	Acceptances	3,652,206	1,081,230
<u>17,281,948</u>	<u>31,062,233</u>		<u>11,958,960</u>	<u>6,653,550</u>



Notes to the Financial Statements

Year ended 31 December 2009 (Continued)

13. Other liabilities (Continued)

Staff related liabilities includes employee end of service benefits liabilities. Movement in the employees end of service benefits liability is as follows:

2008	2009		2009	2008
US\$	US\$		OMR	OMR
28,312	81,348	Liability as at 1 January	31,319	10,900
58,896	87,868	Expense recognized	33,829	22,675
(5,860)	(41,665)	End of service benefits paid	(16,041)	(2,256)
<u>81,348</u>	<u>127,551</u>	Liability as at 31 st December	<u>49,107</u>	<u>31,319</u>

As per the directives of the CMA the amount of unpaid dividends which are outstanding for more than seven months are required to be transferred to the "Investors' Trust Fund" established by CMA. Unpaid dividends for 2008 have been transferred to the CMA Fund in October 2009.

14. Share capital

The authorised share capital of the Bank is 1,000,000,000 shares of 100 baizas each, out of which 678,461,539 shares (2008: 646,153,846) are issued and fully paid up. 32,307,693 shares were issued during the year as bonus shares out of share premium.

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

	Number of Shares 2009	Number of Shares 2008
Ahli United Bank BSC	237,461,538	226,153,846
MB Holding and subsidiaries	103,206,110	98,279,851
	<u>340,667,648</u>	<u>324,433,697</u>

15. Legal reserve

As required by the Commercial Companies Law of the Sultanate of Oman 1974, 10% of the net profit for the year has been transferred to legal reserve. The Bank may resolve to discontinue such annual transfers when the reserve totals one third of the paid up share capital. The reserve is not available for distribution to the shareholders. During the year, RO 3,059,670 was transferred from share premium to legal reserve.

16. General banking reserve

The Bank has established a policy to set aside 5% of the net profit each year to a 'General banking reserve'. The Bank will review this policy and may resolve to discontinue such annual transfers when the reserve totals 25% of its paid-up share capital. A transfer of OMR 427,058 (2008: OMR 296,674) was made to this reserve during the year.



Notes to the Financial Statements

Year ended 31 December 2009 (Continued)

17. Dividend paid and proposed

The Board of Directors has recommended a cash dividend of 7% and 5% bonus shares which is subject to approval of the shareholders at the Annual General Meeting and the regulatory authorities (2008: 5% Cash dividend and 5% Bonus shares).

18. Interest income

2008	2009		2009	2008
US\$	US\$		OMR	OMR
56,331,353	71,916,943	Loans and advances	27,688,023	21,687,571
2,616,177	717,790	Financial investments	276,349	1,007,228
707,631	321,605	Banks	123,818	272,438
<u>59,655,161</u>	<u>72,956,338</u>		<u>28,088,190</u>	<u>22,967,237</u>

19. Interest expense

2008	2009		2009	2008
US\$	US\$		OMR	OMR
24,660,886	32,714,904	Time deposits	12,595,238	9,494,441
3,190,818	1,435,190	Borrowings	552,548	1,228,465
1,542,483	236,608	Placements	91,094	593,856
835,984	3,061,605	Demand and saving deposits	1,178,718	321,854
<u>30,230,171</u>	<u>37,448,307</u>		<u>14,417,598</u>	<u>11,638,616</u>

20. Other operating income

2008	2009		2009	2008
US\$	US\$		OMR	OMR
6,519,136	10,590,239	Fees & commission (net)	4,077,242	2,509,868
625,561	-	- Gain on sale of investments	-	240,841
216,449	-	- Write back of realised impairment loss on investment	-	83,333
166,950	374,281	Foreign exchange	144,098	64,276
20,556	13,117	Miscellaneous income	5,050	7,914
<u>7,548,652</u>	<u>10,977,637</u>		<u>4,226,390</u>	<u>2,906,232</u>

The commission and fee income shown above is net of commission and fees paid of OMR 259,998 (2008: Nil).



Notes to the Financial Statements

Year ended 31 December 2009 (Continued)

21. Staff expenses

2008	2009		2009	2008
US\$	US\$		OMR	OMR
5,612,909	5,687,268	Salaries	2,189,598	2,160,970
2,326,587	3,214,044	Allowances	1,237,407	895,736
2,560,270	2,426,442	Others	934,180	985,704
<u>10,499,766</u>	<u>11,327,754</u>		<u>4,361,185</u>	<u>4,042,410</u>

22. Other operating expenses

2008	2009		2009	2008
US\$	US\$		OMR	OMR
212,987	306,312	Board related expenses	117,930	82,000
1,294,184	1,979,247	Occupancy costs	762,010	498,261
6,950,893	4,698,530	Other administrative expenses	1,808,934	2,676,094
<u>8,458,064</u>	<u>6,984,089</u>		<u>2,688,874</u>	<u>3,256,355</u>

23. Earning per share

Basic earnings per share is calculated by dividing the net profit for the year attributable to the ordinary equity shareholders by the weighted average number of shares outstanding during the year, calculated as follows:

	2009	2008
Net profit for the year (OMR)	8,541,164	5,933,477
Weighted average number of shares	678,461,539	678,461,539
Basic earnings per share (baizas)	12.6	8.7

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.

Earning per share was 9.2 Baizas for the year ended 31 December 08 before retrospective adjustment to the number of shares following the bonus issue (Refer note 17).



Notes to the Financial Statements

Year ended 31 December 2009 (Continued)

24. Cash and cash equivalents

Cash and cash equivalents in the cash flow statement comprise the following statement of financial position amounts:

2008	2009		2009	2008
US\$	US\$		OMR	OMR
		Cash and current balances with		
37,481,323	281,390,759	Central Bank of Oman	108,335,442	14,430,309
26,276,028	18,724,476	Due from other Banks	7,208,923	10,116,271
-	77,922,075	Government certificates of deposit	30,000,000	-
108,851,236		- Treasury bills maturing within 3 months	-	41,907,726
(47,860,932)	(91,298,509)	Due to other banks	(35,149,926)	(18,426,459)
<u>124,747,655</u>	<u>286,738,801</u>		<u>110,394,439</u>	<u>48,027,847</u>

25. Derivatives

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

The notional amounts indicate the volume of transactions outstanding at the year end and are not indicative of either market or credit risk.

31 December 2009

Notional amounts by term to maturity

	Assets	Liabilities	Notional Amount Total	Within 3 months	3 - 12 months	1 - 5 years	Over 5 years
	OMR	OMR	OMR	OMR	OMR	OMR	OMR
Derivatives:							
Interest rate swaps	129,413	-	28,663,250	-	444,675	28,218,575	-
Interest rate swaps	-	165,766	28,663,250	-	444,675	28,218,575	-
Forward Purchase contracts	-	206,085	40,158,237	20,338,417	-	19,819,820	-
Forward Sales contracts	195,230	-	40,364,218	20,364,218	-	20,000,000	-

31 December 2008

Notional amounts by term to maturity

	Assets	Liabilities	Notional Amount Total	Within 3 months	3 - 12 months	1 - 5 years	Over 5 years
	OMR	OMR	OMR	OMR	OMR	OMR	OMR
Derivatives:							
Interest rate swaps	64,339	-	4,440,975	-	444,675	3,996,300	-
Interest rate swaps	-	64,339	4,440,975	-	444,675	3,996,300	-

Fair values are included under other assets where positive and other liabilities where negative.



Notes to the Financial Statements

Year ended 31 December 2009 (Continued)

Derivative product types

Swaps are contractual agreements between two parties to exchange interest based on a specific notional amount. For interest rate swaps, counterparties generally exchange fixed and floating rate interest payments based on a notional value in a single currency.

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.

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 interest rate risks. This is achieved by hedging specific financial instruments and fixed rate financial instruments on a general basis.

The Bank uses interest rate swaps to hedge against the changes in fair value arising from certain fixed interest rate assets (loans). The Bank also uses interest rate swaps as cash flow hedges against the interest rate risks arising on certain floating rate liabilities.

The Bank uses forward exchange contracts to hedge against currency risks.

Derivatives held for trading purposes

Interest rate swaps are used for interest rate risk management to hedge interest rate exposure.

For interest rate risk strategic hedging is carried out by monitoring the repricing 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 hedge accounting, such derivatives are accounted for as trading instruments.

26. Contingent liabilities and commitments

(a) The Bank has issued financial guarantees amounting to OMR 19,837,273 equivalent to US\$ 51,525,384 (2008: OMR 18,402,298 equivalents to US\$ 47,798,177).

(b) The Bank has issued letters of credit amounting to OMR 9,036,432, equivalent to US\$ 23,471,252 (2008: OMR 4,909,953 equivalent to US\$ 12,753,125).

(c) The Bank has entered into certain capital commitments totalling to OMR 415,645 equivalent to US\$ 1,079,597 (2008: OMR 693,514 equivalent to US\$ 1,801,335).



Notes to the Financial Statements

Year ended 31 December 2009 (Continued)

(d) The Bank has entered into certain long term operating leases. Under the terms of the leases the future minimum rental payments are as follows:

2008	2009		2009	2008
US\$	US\$		OMR	OMR
		Future Minimum lease payments due:		
565,592	1,477,579	- not later than one year	568,868	217,753
1,002,338	2,110,437	- more than one year and upto five years	812,518	385,900
<u>1,567,930</u>	<u>3,588,016</u>		<u>1,381,386</u>	<u>603,653</u>

27. Related party transactions

The Bank enters into transactions with major shareholders, directors, senior management and their related concerns in the ordinary course of business at commercial interest and commission rates. Pricing policies and terms of other transactions are approved by the Bank's management and Board of Directors.

The year end balances in respect of related parties included in the statement of financial position are as follows:

2008	2009		2009	2008
US\$	US\$		OMR	OMR
		Directors and Senior Management		
1,342,805	1,644,158	Loans and advances	633,001	516,980
771,930	677,049	Customers deposits	260,664	297,193
		Major shareholders		
9,955,648	38,649,208	Loans and advances	14,879,945	3,832,924
37,359,134	10,186,668	Due to banks and customer deposits	3,921,867	14,383,267
-	5,000,000	Investments	1,925,000	-
1,797,296	944,543	Other liabilities	363,649	691,959
-	159,780,132	Derivatives	61,515,351	-
-	29,244,618	Contingent Liabilities and Commitments	11,259,178	-

The related maturity profile and interest rate risk is given in note 28 and 29 respectively.

The Bank has entered into a master risk participation agreement dated 27 December 2007 with a shareholder. Under this agreement, the Bank participated in loans and advances amounting to nil as of 31 December 2009 (31 December 2008: OMR 9 million equivalent to US\$ 23 million).



Notes to the Financial Statements

Year ended 31 December 2009 (Continued)

The income and expenses in respect of related parties included in the financial statements are as follows:

2008	2009		2009	2008
US\$	US\$		OMR	OMR
		Directors and Senior Management		
144,161	94,203	Interest Income	36,268	55,502
1,966	5,912	Interest Expense	2,276	757
115,844	194,805	Board Remuneration proposed	75,000	44,600
97,143	111,506	Board Sitting fees	42,930	37,400
		Major shareholders		
432,774	1,570,023	Interest Income	604,459	166,618
284,047	352,810	Interest Expense	135,832	109,358
-	179,195	Fees and Other income	68,990	-
1,797,296	2,250,805	Other operating expenses	866,560	691,959

The Bank has also entered into a technical and support agreement (TMSA) with a major shareholder. Under the terms of this agreement, the Bank will pay 2% of the net profit before tax and Management fee to the shareholder for services provided. An amount of OMR 219,654 equivalent to US\$570,530 was included in the operating expenses during 2009 (2008: OMR 138,688 equivalent to US\$ 360,229).

Compensation of the key management personnel is as follows:

2008	2009		2009	2008
US\$	US\$		OMR	OMR
1,096,647	1,250,795	Salaries and allowances	481,556	422,209
17,691	23,681	End of service benefits	9,117	6,811
<u>1,114,338</u>	<u>1,274,476</u>	Total compensation paid to key personnel	<u>490,673</u>	<u>429,020</u>

No provision is required in respect of loans given to related parties (2008: nil).



Notes to the Financial Statements

Year ended 31 December 2009 (Continued)

28. Liquidity risk

The maturity profile of the assets and liabilities at 31 December 2009 given below reflects managements best estimates of the maturities of assets and liabilities .
The asset and liability maturity profile is as follows:

	On Demand or within 3 Months OMR	3 to 12 months OMR	1 to 5 years OMR	5 to 10 years OMR	More than 10 years OMR	Total OMR
As of 31 December 2009						
Cash and balances with Central Bank of Oman	95,531,298	7,606,143	2,144,372	3,053,629	484,323	108,819,765
Due from other banks	7,208,923	-	-	-	-	7,208,923
Financial investments	32,463,979	7,333,219	2,617,447	-	-	42,414,645
Loans and advances	97,142,607	37,260,155	40,398,970	9,259,887	259,500,624	443,562,243
Property and equipment	-	-	-	-	9,190,131	9,190,131
Deferred tax asset	-	-	344,455	-	-	344,455
Other assets	4,517,870	-	-	-	-	4,517,870
Total Assets (OMR)	236,864,677	52,199,517	45,505,244	12,313,516	269,175,078	616,058,032
Total Assets (US\$)	615,232,927	135,583,161	118,195,439	31,983,158	699,156,047	1,600,150,732
Customers deposits	134,414,531	197,034,184	55,876,960	79,384,661	-	466,710,336
Other borrowed funds	625,000	625,000	6,613,459	-	-	7,863,459
Due to other banks	35,149,926	-	-	-	-	35,149,926
Taxation	1,756,861	-	-	-	-	1,756,861
Other liabilities	7,480,333	3,297,503	1,178,188	2,936	-	11,958,960
Total liabilities (OMR)	179,426,651	200,956,687	63,668,607	79,387,597	-	523,439,542
Total liabilities (US\$)	466,043,249	521,965,421	165,373,005	206,201,550	-	1,359,583,225
Net liquidity gap (OMR)	57,438,026	(148,757,170)	(18,163,363)	(67,074,081)	269,175,078	92,618,490
Net liquidity gap (US\$)	149,189,678	(386,382,260)	(47,177,566)	(174,218,392)	699,156,047	240,567,507



Notes to the Financial Statements

Year ended 31 December 2009 (Continued)

	On Demand or within 3 Months OMR	3 to 12 months OMR	1 to 5 years OMR	5 to 10 years OMR	More than 10 years OMR	Total OMR
As of 31 December 2008						
Cash and balances with Central Bank of Oman	14,430,309	-	-	-	334,967	14,765,276
Due from other banks	10,116,271	-	-	-	-	10,116,271
Financial investments	43,589,205	591,938	1,823,237	-	-	46,004,380
Loans and advances	95,454,414	14,017,949	25,274,113	15,319,644	225,231,641	375,297,761
Property and equipment	-	-	-	-	8,283,462	8,283,462
Deferred tax asset	-	-	340,341	-	-	340,341
Other assets	1,597,046	-	-	-	-	1,597,046
Total Assets (OMR)	<u>165,187,245</u>	<u>14,609,887</u>	<u>27,437,691</u>	<u>15,319,644</u>	<u>233,850,070</u>	<u>456,404,537</u>
Total Assets (US\$)	<u>429,057,779</u>	<u>37,947,758</u>	<u>71,266,730</u>	<u>39,791,283</u>	<u>607,402,779</u>	<u>1,185,466,329</u>
Customers deposits	105,649,181	112,920,823	39,358,061	61,328,230	-	319,256,295
Other borrowed funds	7,750,000	7,750,000	8,437,292	-	-	23,937,292
Due to other banks	18,426,459	-	-	-	-	18,426,459
Taxation	1,075,808	-	-	-	-	1,075,808
Other liabilities	6,653,550	-	-	-	-	6,653,550
Total liabilities (OMR)	<u>139,554,998</u>	<u>120,670,823</u>	<u>47,795,353</u>	<u>61,328,230</u>	<u>-</u>	<u>369,349,404</u>
Total liabilities (US\$)	<u>362,480,514</u>	<u>313,430,709</u>	<u>124,143,774</u>	<u>159,294,104</u>	<u>-</u>	<u>959,349,101</u>
Net liquidity gap (OMR)	25,632,247	(106,060,936)	(20,357,662)	(46,008,586)	233,850,070	87,055,133
Net liquidity gap (US\$)	66,577,265	(275,482,951)	(52,877,044)	(119,502,821)	607,402,779	226,117,228



Notes to the Financial Statements

Year ended 31 December 2009 (Continued)

29. Interest risk

Interest rate sensitivity position

The Bank's interest rate sensitivity position, based on the contractual repricing or maturity dates, whichever dates are earlier, is as follows:

	Average effective interest rate%	Floating rate or within 3 months OMR	Months 3 to 12 OMR	Year 1 to 5 OMR	Year 5 to 10 OMR	Over 10 years OMR	Non interest sensitive OMR	Total OMR
As of 31 December 2009								
Cash and balances with Central Bank of Oman		-	-	-	-	-	108,364,442	108,364,442
Deposits with Central Bank of Oman	2.00%	-	-	-	-	455,323	-	455,323
Due from other banks	0.15%	7,208,923	-	-	-	-	-	7,208,923
Financial investments	1.36%	32,463,979	7,333,219	2,617,447	-	-	-	42,414,645
Loans and advances	6.89%	443,562,243	-	-	-	-	-	443,562,243
Property and equipment		-	-	-	-	-	9,190,131	9,190,131
Deferred tax asset		-	-	-	-	-	344,455	344,455
Other assets		-	-	-	-	-	4,517,870	4,517,870
Total Assets		483,235,145	7,333,219	2,617,447	-	455,323	122,416,898	616,058,032
Customers deposits	3.17%	232,583,582	177,336,057	56,682,597	108,100	-	-	466,710,336
Other borrowed funds	5.84%	1,863,459	-	6,000,000	-	-	-	7,863,459
Due to other banks	0.07%	35,149,926	-	-	-	-	-	35,149,926
Taxation		-	-	-	-	-	1,756,861	1,756,861
Other liabilities		-	-	-	-	-	11,958,960	11,958,960
Equity		-	-	-	-	-	92,618,490	92,618,490
Total liabilities and equity		269,596,967	177,336,057	62,682,597	108,100	-	106,334,311	616,058,032
Total interest rate sensitivity gap		213,638,178	(170,002,838)	(60,065,150)	(108,100)	455,323	16,082,587	-
Cumulative interest rate sensitivity gap (OMR)		213,638,178	43,635,340	(16,429,810)	(16,537,910)	(16,082,587)	-	-
Cumulative interest rate sensitivity gap (US\$)		554,904,358	113,338,545	(42,674,831)	(42,955,610)	(41,772,953)	-	-



Notes to the Financial Statements Year ended 31 December 2009 (Continued)

	Average effective interest rate%	Floating rate or within 3 months OMR	Months 3 to 12 OMR	Year 1 to 5 OMR	Year 5 to 10 OMR	Over 10 years OMR	Non interest sensitive OMR	Total OMR
As of 31 December 2008								
Cash and balances with Central Bank of Oman		-	-	-	-	-	14,459,309	14,459,309
Deposits with Central Bank of Oman	2.00%	-	-	-	-	305,967	-	305,967
Due from other banks	1.00%	10,116,271	-	-	-	-	-	10,116,271
Financial investments	3.32%	43,618,502	591,938	1,793,940	-	-	-	46,004,380
Loans and advances	6.80%	375,297,761	-	-	-	-	-	375,297,761
Property and equipment		-	-	-	-	-	8,283,462	8,283,462
Deferred tax asset		-	-	-	-	-	340,341	340,341
Other assets		-	-	-	-	-	1,597,046	1,597,046
Total Assets		429,032,534	591,938	1,793,940	-	305,967	24,680,158	456,404,537
Customers deposits	3.91%	128,425,500	146,883,241	43,839,454	108,100	-	-	319,256,295
Other borrowed funds	4.43%	17,937,292	-	6,000,000	-	-	-	23,937,292
Due to other banks	3.28%	18,426,459	-	-	-	-	-	18,426,459
Taxation		-	-	-	-	-	1,075,808	1,075,808
Other liabilities		-	-	-	-	-	6,653,550	6,653,550
Equity		-	-	-	-	-	87,055,133	87,055,133
Total liabilities and equity		164,789,251	146,883,241	49,839,454	108,100	-	94,784,491	456,404,537
Total interest rate sensitivity gap		264,243,283	(146,291,303)	(48,045,514)	(108,100)	305,967	(70,104,333)	-
Cumulative interest rate sensitivity gap (OMR)		264,243,283	117,951,980	69,906,466	69,798,366	70,104,333	-	-
Cumulative interest rate sensitivity gap (US\$)		686,346,190	306,368,779	181,575,236	181,294,457	182,089,177	-	-



Notes to the Financial Statements

Year ended 31 December 2009 (Continued)

30. Fair Value Of Financial Instruments

The Bank's accounting policy on fair value measurements is discussed in note 3.

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

Level 3: Other techniques for which all inputs which have a significant effect on the recorded fair value are not observable.

	2009	2009	2009
	Level 1	Level 2	Total
	OMR	OMR	OMR
Financial Assets			
Investments held for trading (note 7)	6,198,219	-	6,198,219
Investments available for sale (note 7)	34,950,726	-	34,950,726
Derivative financial Instruments			
Interest rate swaps (note 25)	-	129,413	129,413
Forward Foreign Exchange contracts (note 25)	-	195,230	195,230
	<u>41,148,945</u>	<u>324,643</u>	<u>41,473,588</u>
Financial Liabilities			
Derivative financial Instruments			
Interest rate swaps (note 25)	-	165,766	165,766
Forward Foreign Exchange contracts (note 25)	-	206,085	206,085
	<u>-</u>	<u>371,851</u>	<u>371,851</u>

No financial instrument is carried at Level 3 fair value as of 31 December 2009.

31. Geographical distribution of assets and liabilities

Financial investments include OMR 3,592,598 equivalent to US\$ 9,331,423 (2008: OMR 43,810,440 equivalent to US\$ 113,793,351) which are denominated in Saudi Rials, US\$ and Euro and issued by institutions located outside the Sultanate of Oman. In addition loans advances to Customers/Banks and certain borrowings amounting to OMR 2,223,358 (2008: OMR 28,788,753) and nil (2008: OMR 15,400,000) are located outside the Sultanate of Oman. Apart from these, all other assets and liabilities are located in the Sultanate of Oman.

32. Risk Management

Overview

The Bank manages risk through various committees of the Board and Management, each with defined authority and responsibility. The internal audit department and regulators make an independent assessment of risk management process.



Notes to the Financial Statements

Year ended 31 December 2009 (Continued)

The nature and extent of the Bank's activities carry a variety of risks. The main risks together with an outline of the way they are mitigated are covered below:

Credit risk

Credit risk is the risk that counter party to a financial instrument will fail to perform according to the terms and conditions of the contract thus causing the Bank to incur a financial loss.

On loans, the Bank controls credit risk through an analysis of borrowers' ability to meet repayment obligations, and by limiting total exposure to any single borrower. In addition, the Bank obtains mortgage security for each mortgage loan. The Bank sets limits on the amount of risk it is willing to accept for individual counterparties and for geographical and industry concentrations, and monitors exposures in relation to such limits. To ensure consistency, the Bank appraises and approves loans centrally, and follows documented policies and procedures as set out in its Credit and Investment Policy.

The Bank makes available to its customers guarantees which may require that the Bank makes payments on their behalf. Such payments are collected from customers based on the terms of the letter of credit. They expose the Bank to similar risks to loans and these are mitigated by the same control processes and policies.

The Bank has established a credit review process to provide early identification of possible changes in the creditworthiness of counterparties. While establishing counterparty limits, the Bank also assigns each counterparty a risk rating. These risk ratings are subject to periodical revision. The periodical credit review process allows the Bank to assess the potential loss as a result of the risks to which it is exposed and take corrective action.

Derivative financial instruments

Credit risk arising from derivative financial instruments is, at any time, limited to those with positive fair values, as recorded in the statement of financial position. In the case of credit derivatives, the Bank is also exposed to or protected from the risk of default of the underlying entity referenced by the derivative (Refer note 25).

Gross maximum exposure

The table below shows the maximum exposure to credit risk for the components of the statement of financial position, including derivatives. The maximum exposure is shown gross, before the effect of mitigation through the use of master netting and collateral agreements.

	Notes	2009 (OMR '000)	2008 (OMR '000)
Balance with Central Bank of Oman	4	106,799	13,117
Due from other banks	5	7,209	10,116
Loans and advances	6	446,563	378,043
Financial investments	7	42,415	46,004
Derivative financial instruments	25	325	64
		603,311	447,344
Commitments	26	1,797	1,297
Contingent liabilities	26	28,874	23,312
		30,671	24,609
Total credit risk exposure		633,982	471,953

Note:

Where financial instruments are recorded at fair value the amounts shown above represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.



Notes to the Financial Statements

Year ended 31 December 2009 (Continued)

For more detail on the maximum exposure to credit risk for each class of financial instrument, references shall be made to the specific notes. The effect of collateral and other risk mitigation techniques is shown below.

Risk concentrations of the maximum exposure to credit risk

An industry sector analysis of the Bank's financial assets, before and after taking into account collateral held or other credit enhancements, is as follows:

	Gross	Net	<i>Gross</i>	<i>Net</i>
	maximum	maximum	<i>maximum</i>	<i>maximum</i>
	exposure	exposure	<i>exposure</i>	<i>exposure</i>
	2009	2009	<i>2008</i>	<i>2008</i>
	(OMR '000)	(OMR '000)	<i>(OMR '000)</i>	<i>(OMR '000)</i>
Loans and advances (Note 6)	446,563	116,877	378,043	93,402
Bank and financial institutions	156,748	156,748	69,301	69,301
Commitments (Note 26)	1,797	1,797	1,297	1,297
Contingent liabilities (Note 26)	28,874	28,874	23,312	23,312
	<u>633,982</u>	<u>304,296</u>	<u>471,953</u>	<u>187,312</u>

Collateral and other credit enhancements:

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. The Bank has guidelines regarding the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained are as follows:

- For commercial lending, charges over inventory and trade receivables, mortgages over real estate properties, bank guarantees, fixed deposits and listed shares
- For retail lending, mortgages over real estate properties in the case of mortgage loans

In addition, the bank obtains other credit support such as salary assignments, personal guarantees of owners or directors and guarantees from parent companies for loans to their subsidiaries.

The Bank also obtains guarantees from parent companies for loans to their subsidiaries, but the benefits are not included in the above table.

Management monitors the market value of collateral at periodic intervals and requests additional collateral in accordance with the underlying agreement. The bank also periodically reviews the collateral cover for determining the adequacy of the allowance for impairment losses. For details of collaterals refer note 6.

It is the Bank's policy to dispose of repossessed properties in the best possible manner. The proceeds are used to reduce or repay the outstanding claim.

Investments

Investments and other placements are made in accordance with Board's approved policies. Investments are primarily in debt instruments issued by Governments and reputed banks. All such exposures are periodically reviewed and reported to Senior Management and appropriate Committees.

Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.



Notes to the Financial Statements

Year ended 31 December 2009 (Continued)

The Bank's policies are designed to ensure that even under severely adverse conditions, the bank will be in a position to meet its obligations. The bank's Asset Liability Committee (ALCO) meets periodically to review and monitor various relevant measures against target positions.

The Bank also maintains significant investments in liquid instruments issued by Governments and banks principally for liquidity reasons. The bank also has standby lines of credit to meet its obligations at any given time, if the need arises.

The bank is also required to maintain a cash reserve with the CBO of 5% of customer deposits.

The CBO also restricts the limits on lending by the commercial banks. The maximum lending ratio permissible as at 31 December 2009 was 87.5% (31 December 2008: 85%). The Bank had maintained the lending ratio at the below levels:

	2009	2008
Year end	79.08%	84.08%
Maximum	87.44%	107.52%
Minimum	77.50%	78.05%
Average	83.55%	87.45%

Concentration risk

Concentrations arise when a number of counterparties 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 similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographic location.

In respect of concentrations related to counterparties under loans and advances, the bank has complied with CBO's stipulated limits in this regard. Where it has exceeded such limits, the bank holds specific approvals.

The Bank's ten largest depositors accounted for 76% (2008: 79%) of its customers' deposits as of 31 December 2008, with no single maturity representing more than 6.6% of the customer deposits base (2008: 7.5%).

Interest rate risk and currency risk

Interest rate risk arises from the possibility that changes in interest rates will affect the value of underlying financial instruments. The Bank is exposed to interest rate risk as a result of mismatches or gaps in the amounts of assets and liabilities and off statement of financial position instruments that mature or re-price in a given period. The Bank's overall goal is to manage interest rate sensitivity so that movements in interest rates do not adversely affect the Bank's net interest income. Interest rate risk is measured as the potential volatility in net interest income caused by changes in market interest rates. The Bank manages this risk by matching or hedging the re-pricing profile of assets and liabilities through various risk management strategies.

The impact of interest rate risk sensitivity on the bank's net interest income:

	2009	2008
	OMR '000	OMR '000
Net Interest Income	13,671	11,329
Impact of 50 bps	405	428
Impact of 100 bps	811	856
Impact of 200bps	1,621	1,712



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Year ended 31 December 2009 (Continued)

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

The banks instruments are mainly in OMR except for syndicated loans and bilateral borrowings which are in US\$ which is effectively pegged to the OMR. Accordingly, the exposure in US\$ is not considered as a major currency risk.

Total assets include OMR 114,779,712 equivalent to US\$ 298,129,122 (2008: OMR 59,874,398 equivalent to US\$ 155,517,917) which are denominated in US\$. Total liabilities include OMR 119,061,395 equivalent to US\$ 309,250,377 (2008: OMR 61,798,959 equivalent to US\$ 160,516,777) denominated in US Dollars. Apart from these, all other significant assets and liabilities are denominated in OMR.

The Bank has entered into derivative contracts in order to manage the currency risk and interest rate risk arising in connection with the US Dollar syndicated loan and the fixed interest rate bonds, respectively.

Operational risk

Operational risk is the risk of direct or indirect loss resulting from inadequate or failed internal processes, people, and systems or from external events.

Losses from external events such as a natural disaster that has a potential to damage the Bank's physical assets or electrical or telecommunication failures that disrupt business are relatively easier to define than losses from internal problems such as employee fraud and product flaws. The risks from internal problems are more closely tied to the Bank's specific products and business lines; they are more specific to the Bank's operations than the risks due to external events. Operational risks faced by the Bank include IT Security, telecom failure, frauds, and operational errors.

Operational risk is controlled through a series of strong internal controls and audits, well-defined segregation of duties and reporting lines, operational manuals and standards. Internal audit independently reviews the effectiveness of the Bank's internal controls and its ability to minimize the impact of operational risks. The Bank already has plans to set up a separate Unit for managing the Operational Risk which is expected to be in place during the next year.

Market risk

Market risk arises from fluctuations in interest rates, foreign exchange rates and equity prices. The Board has set limits on the value of risk that may be accepted. This is monitored on a weekly basis by the Asset and Liability Committee.

Prepayment risk:

Prepayment risk is the risk that the Bank will incur a financial loss because its customers and counterparties repay or request repayment earlier or later than expected, such as fixed rate mortgages when interest rates fall.

The Bank estimates that the prepayments of its loans which will not exceed 10% of its total portfolio on the basis of past experience. Accordingly, the effect on profit before tax for one year and on equity, assuming 10% of repayable financial instruments were to prepay at the beginning of the year, with all other variables held constant, is as follows:

	OMR '000	US\$ '000
2009		
Effect on net interest income	(1,016)	(2,639)
Effect on equity	(1,016)	(2,639)
2008		
Effect on net interest income	(784)	(2,037)
Effect on equity	(784)	(2,037)



Notes to the Financial Statements

Year ended 31 December 2009 (Continued)

33. Capital adequacy

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 ratio in order to support its business and to maximize 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 or issue, return capital to shareholders or issue capital securities. However, no changes were made in the objectives, policies and processes from the previous years as far as management of capital is concerned.

The risk asset ratio, calculated in accordance with the capital adequacy guidelines of the Bank for international settlements and CBO, is as follows:

2008	2009		2009	2008
US\$ '000	US\$ '000		OMR '000	OMR '000
		Capital		
210,938	216,883	Tier 1	83,500	81,211
11,927	16,825	Tier 2	6,478	4,592
<u>222,865</u>	<u>233,708</u>		<u>89,978</u>	<u>85,803</u>
		Risk weighted assets		
813,696	1,192,530	Statement of financial position items	459,124	313,273
47,966	47,574	Operational risk	18,316	18,467
52,291	47,403	Market risk	18,250	20,132
40,192	38,987	Off statement of financial position items	15,010	15,474
<u>954,145</u>	<u>1,326,494</u>	Total	<u>510,700</u>	<u>367,346</u>
<u>23.36%</u>	<u>17.62%</u>	Risk Asset ratio (%)	<u>17.62%</u>	<u>23.36%</u>
10.00%	10.00%	Regulatory requirement	10.00%	10.00%

Effective 1 January 2007 the Bank has to report capital adequacy ratio as per the Basel II Accord. Capital Tier 1 capital comprises mainly shareholders' funds.

34. Segment reporting

For management purposes the Bank is organised into two major business segments:

- Retail, Premium and Private banking
- Corporate banking and treasury

Transactions between segments are conducted at estimated market rates on an arm's length basis. Interest is charged/credited to business segments based on a pool rate, which approximates the cost of funds.

Segmental information for the period was as follows:



Notes to the Financial Statements

Year ended 31 December 2009 (Continued)

Year ended 31 December 2009

Retail Premium & Private banking	Corporate banking, and Treasury	Total		Retail Premium & Private banking	Corporate banking, and Treasury	Total
US\$ '000	US\$ '000	US\$ '000		OMR '000	OMR '000	OMR '000
14,535	20,974	35,509	Net interest income	5,596	8,075	13,671
8,138	2,839	10,977	Other operating income	3,133	1,093	4,226
22,673	23,813	46,486	TOTAL OPERATING INCOME	8,729	9,168	17,897
(691)	-	(691)	Provision for loan losses and contingencies - net	(266)	-	(266)
21,982	23,813	45,795	NET OPERATING INCOME	8,463	9,168	17,631
(12,229)	(8,345)	(20,574)	Operating expenses	(4,708)	(3,213)	(7,921)
9,753	15,468	25,221	PROFIT BEFORE TAX	3,755	5,955	9,710
(1,200)	(1,836)	(3,036)	Income tax expense	(462)	(707)	(1,169)
8,553	13,632	22,185	NET PROFIT FOR THE YEAR	3,293	5,248	8,541
686,014	914,136	1,600,150	Segmental Assets	264,115	351,943	616,058
156,370	1,203,216	1,359,586	Segmental Liabilities	60,202	463,238	523,440



Notes to the Financial Statements

Year ended 31 December 2009 (Continued)

Year ended 31 December 2008

Retail Premium & Private banking	Corporate banking, and Treasury	Total		Retail Premium & Private banking	Corporate banking, and Treasury	Total
US\$ '000	US\$ '000	US\$ '000		OMR '000	OMR '000	OMR '000
15,301	14,125	29,426	Net interest income	5,891	5,438	11,329
4,421	3,127	7,548	Other operating income	1,702	1,204	2,906
<u>19,722</u>	<u>17,252</u>	<u>36,974</u>	TOTAL OPERATING INCOME	<u>7,593</u>	<u>6,642</u>	<u>14,235</u>
361	-	361	Provision for loan losses and contingencies - net	139	-	139
<u>20,083</u>	<u>17,252</u>	<u>37,335</u>	NET OPERATING INCOME	<u>7,732</u>	<u>6,642</u>	<u>14,374</u>
(11,641)	(8,312)	(19,953)	Operating expenses	(4,482)	(3,200)	(7,682)
<u>8,442</u>	<u>8,940</u>	<u>17,382</u>	PROFIT BEFORE TAX	<u>3,250</u>	<u>3,442</u>	<u>6,692</u>
(1,062)	(909)	(1,971)	Income tax expense	(409)	(350)	(759)
<u>7,380</u>	<u>8,031</u>	<u>15,411</u>	NET PROFIT FOR THE YEAR	<u>2,841</u>	<u>3,092</u>	<u>5,933</u>
<u>621,626</u>	<u>563,842</u>	<u>1,185,468</u>	Segmental Assets	<u>239,326</u>	<u>217,079</u>	<u>456,405</u>
<u>84,161</u>	<u>876,943</u>	<u>961,104</u>	Segmental Liabilities	<u>32,402</u>	<u>336,948</u>	<u>369,350</u>

35. Comparative figures

Certain corresponding figures for 2008 have been reclassified in order to conform to the presentation for the current year. Such reclassifications do not affect previously reported net profit or shareholders' equity.



Executive Management of Ahli Bank

Abdul Aziz Mohammed Al Balushi : CEO

Former Deputy Chief Executive Officer – National Bank of Oman.
10 years of banking experience in various positions in National Bank of Oman.
12 years of banking experience in various positions in Oman International Bank.
Former Board Member and Chairman of the Audit Committee in Oman National Investment Corporation Holding S.A.O.G (ONIC).
Former Board Member and Chairman of the Audit Committee of Al Ahli Insurance.
Former Member of the Board and Chairman of the Audit Committee of National Life Insurance.
Former Director, Oman Investment and Finance Co. Ltd. S.A.O.G (OIFC)
Former Director, Gulf Hotel (Oman) Co. Ltd.
Former Advisory Member in College of Agricultural and Marine Sciences at Sultan Qaboos University.
Advisor Board Member "The British Scholarships of Oman" A local organization that sponsors outstanding Omanis for post Graduate Studies in the UK.



Chandrashekhar Chetty : DCEO – Support Services

Former COO, Global Retail & Commercial Bank Barclays Bank PLC – Mumbai, India.
Former COO, Calyon Bank – Mumbai, India.
Former COO, Dresdner Bank Group, India.



CB Ganesh : DCEO – Commercial Banking and Treasury

Former Head of Trade Finance – ICICI Bank Ltd, India.
Former Dy. Chief Executive & Head of Wholesale Banking – North Asia, ICICI Bank Ltd.
Former Regional Head, Corporate Banking, South India.

