Scaling new heights

MyHassad
Savings account

Twin Offer
Housing loan + Personal loan

MySmart
Short-term deposit

BusinessBanking
Small & Medium Enterprises

MyCredit Cards
Gold, Classic & Platinum cards

MySaver
Savings account

Your local bank with regional presence

البنك الاهلي
ahlibank

Annual Report 2010

His Majesty Sultan Qaboos Bin Said

Contents

Mission

To create an unrivalled ability to meet customer needs, provide fulfillment and development for our staff and deliver outstanding shareholder value.

Vision

To be a vibrant and innovative centre of banking by developing a cadre of responsive managers and professionals who will be committed to fulfill the needs of our customers.

Belief

...is in our value added approach where knowledge and expertise of individuals from various disciplines and diverse back grounds is shared.

We believe that innovation is the key to progress and in our pursuit of excellence; we constantly upgrade and add newer products and services.

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: • Ahli United Bank, Kuwait
Chairman: Kuwait Banking Association, Kuwait
Deputy Chairman:
• Ahli United Bank, Bahrain • Ahli United Bank, UK
• Ahli United Bank, Egypt • Ahli Bank, Qatar
• Commercial Bank of Iraq, Iraq • United bank for Commerce & Investment, Libya
• Kuwait & Middle East Financial Investment Co, Kuwait
Board Member:
• Middle East Financial Investment Co, Kingdom of Saudia Arabia
• Institute of Banking Studies, Kuwait
• Public Authority for Applied Education & Training, 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
• Ahli United Bank, Kuwait
• Ahli Bank, Qatar
• Ahli United Bank, Egypt
• Commercial Bank of Iraq, Iraq
• United Bank for Commerce & Investment, Libya
• Middle East Financial Investment Co, Kingdom of Saudi Arabia
Director:
• Board of Trustees – Bahrain Association of Banks, 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:
• Ahli United Bank, Kuwait
• AUB Investments (Cyprus) Ltd.
• Kuwait & Middle East Financial Investment Co., Kuwait

Keith Henry Gale – Director

Deputy Group CEO: Risk, Legal and Compliance
• Ahli United Bank, Bahrain
Director:
• AUB Investments (Cyprus) Ltd

Mustafa Shafqat Anwar- Director

Deputy Group CEO: Operations and Technology
• Ahli United Bank, Bahrain
Director:
• Ahli United Finance Company, Egypt

Safana Mohamed Al Barwani- Director

Director:
• MB Holding Company
• MB Petroleum Services LLC
• Crest Petroleum
• Musstir LLC

Chairman's Report for 2010

On behalf of the Board of Directors of Ahli Bank S.A.O.G, it gives me great pleasure to present the 2010 annual report and financial statements of ahlibank. The reported growth achieved in this year is well planned and a direct consequence of ahlibank's business strategies and the adoption of a long-term view of business and its commitment to a sustainable business model in the interests of all stakeholders. The highlight of the year was that the Bank being conferred with the Corporate Governance Excellence Award for 2010 sponsored by the Capital Market Authority.

Business Overview

The banking sector in Oman continued to experience a challenging environment. Businesses continued to grow in the midst of ample liquidity bringing pressure on the margins and therefore earnings. ahlibank continued to grow in a prudent manner and has had a very satisfactory business and performance oriented fiscal 2010. 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.

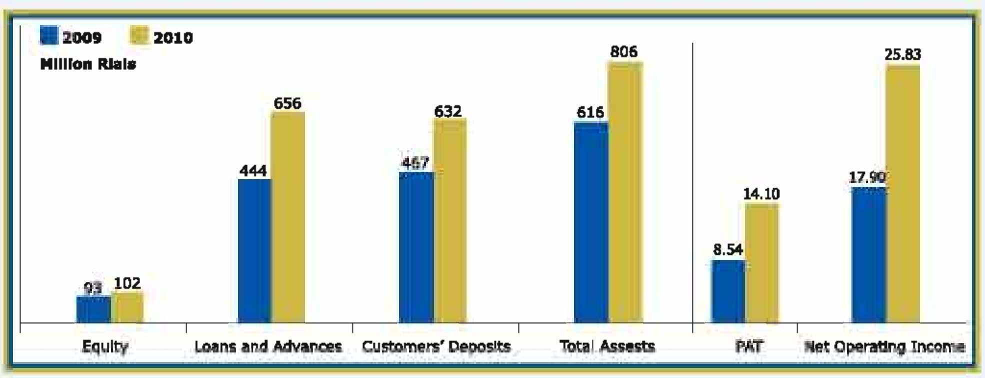
Credit Ratings

In July 2010, the international credit rating agency Capital Intelligence has upgraded the Foreign Currency rating of Ahli Bank S.A.O.G for Short-term and Long-term ratings to A2 and BBB+ with stable Outlook. This is a result of the significant improvements in various performance indicators achieved by the bank since its conversion to full-fledged commercial bank. Similarly in August 2010, Fitch Ratings has assigned the Bank Short-term foreign and local currency ratings of F2. Fitch simultaneously assigned the Bank Long-term foreign and local currency rating of BBB+.

ahlibanking Values

During 2010, the Bank introduced the concept of ahlibanking, a value based approach in Banking. ahlibanking is a part of the Bank's culture and reflects the Bank's commitment of providing customers the best products and services; it sums up the Bank's efforts to redefine banking habits with its convenient and efficient offerings and underscores its goal of being the bank of choice for customers.

Financial Highlights



	Million Rials		
	31-Dec-09	31-Dec-10	Growth %
Equity	93	102	10%
Loans and Advances	444	656	48%
Customers' Deposits	467	632	35%
Total Assets	616	806	31%
Profit after Tax	8.54	14.10	65%
Net Operating Income	17.90	25.83	44%

ahlibank continued its impressive growth year over year in all key areas. Ahlibank'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 35% in line with our strategy to build a stable low cost deposit base. Loan growth of over 48% has been managed with a prudent risk management approach. The loan book continues to be of a very high quality as reflected in our NPL ratio of 0.31% in 2010 (2009: 0.32%).

Net Operating Income has increased by over 44% to Rial 25.83 Million and Operating Expenses (excluding loan impairment charge/recoveries) were controlled at Rial 9.27 Million resulting in a lower cost to income ratio of 36 %(2009:44%). Overall, the Net Profit after Tax rose by 65% to Rial 14.10 Million (2009: Rial 8.54 Million).

Capital & Reserves

The Bank seeks to continually enhance shareholder value through pro-active 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 Bank in the last quarter of 2010 came out with its maiden Tier II capital issue of Rial 40 Million comprising of a Private Placement of Rial 35 million subordinated, non-convertible & unsecured Bonds and Rial 5 million Subordinated loan.

The Tier I Capital as at year end 2010 amounted to Rial 94.97 Million up from Rial 83.50 Million in 2009 and the Capital Adequacy ratio is at 19.67%(2009:17.62%), well above the mandatory 12% minimum requirement of Central Bank of Oman.

Dividend:

The Bank's Earning Per Share (EPS) for 2010 has risen to Baizas 19.8 from Baizas 12.0 during 2009. Keeping in view the current market condition and Central Bank's requirement to achieve the Rial 100 Million level of Share Capital, Board of Directors recommends 12.5 % stock dividend (1 share for every 8 shares held). The Bank's commitment towards its shareholders and the confidence it has in its ability to grow and enhance shareholders' value remains strong.

Outlook:

Early this year, the government announced the Eighth Five-Year Development Plan (2011-2015), which is the fourth and penultimate plan of the long-term development strategy, Vision 2020. The objectives of eight five years plan is to promote economic growth to realize annual growth rates of not less than 3% at constant prices for the Plan period. This is expected to be achieved through stimulation of domestic demand, development of exports, encouragement of investment, formulation of a strategy to increase productivity, optimal exploitation of the natural wealth, production capacities and the established infrastructure.

Domestic and foreign private sectors will benefit from the favorable environment provided to stimulate investment. At ahlibank 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.

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. 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 broaden both our services and distribution channels and provide quality service to our esteemed customers.

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 ahlibank's experienced and dedicated staff will, once again, endeavor to deliver a robust performance during 2011. This current growth and unparalleled success is a direct outcome of the efforts of all Ahlibankers, and I thank them for their hard work, solidarity, cooperation and support.

I am confident of ahlibank 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
25th Jan 2011

KPMG
4th Floor, HSBC Bank Building
MBD
P.O. Box 641
P.C. 112
Sultanate of Oman

Tel 968 24709181
Fax 968 24700839

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 12 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 2010 and does not extend to the financial statements or any other reports of Ahli Bank SAOG, taken as a whole.

KPMG

26 January 2011

Michael G.W. Armstrong

CORPORATE GOVERNANCE REPORT-2010

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 2010:

S. No.	Board Meeting
1.	26-Jan-10
2.	20-Mar-10
3.	15-Apr-10
4.	07-Jun-10
5.	26-Jul-10
6.	26-Oct-10
7.	20-Dec-10

Directors Attendance Record in the Board Meetings:

Name of Director	Position	Type of Director-ship	Board Meeting Attended	Other sub-committees memberships #	Whether attended last AGM (Yes/No/NA)
H.E. Sayyid Khalid Hamad Hamood Al Busaidi	Chairman	Independent	5	CC	Yes
Hamdan Ali Nasser Al Hinai	First Deputy Chairman	Independent/ Representing MOD Pension Fund	7	ECC, ERC	Yes
Hamad Abdulmohsen H.D. Al Marzouq	Second Deputy Chairman	Independent/ Representing Ahli United Bank	5	ECC, CC	Yes
Munir Abdulnabi Yousef Makki	Director	Independent	7	AC	Yes
Hassan Ehsan Naseeb	Director	Independent	6	ERC	Yes
Usama Mohammed Al Barwani	Director	Independent/ Representing MB Holding	6	ECC	Yes
Adel Mohamed Abdelshafe El-Labban	Director	Independent	6	ECC, ERC,CC	Yes
Sanjeev Baijal	Director	Independent	6	AC	No
Keith Henry Gale	Director	Independent	7	ECC,ERC	Yes
Mustafa Shafqat Anwar**	Director	Independent/ Representing Ahli United Bank	4	AC	No
Safana Mohamed Al Barwani**	Director	Independent	2	ERC	No
Syed Gulrez Hoda*	Director	Independent	1	AC	No
Dr. Salem ben Nasser Al Ismaily*	Director	Independent/Representing Al Murjan Investment and Services Co	2	ERC	No

*** Resigned during the year** **** Elected / appointed during the year**

\# Audit Committee-AC, Executive and Credit Committee - ECC, Executive Risk Committee - ERC, Compensation Commitee - 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 2010:

Composition of Audit Committee		Meeting Dates			
Director's Name	Position	25-Jan-10	15-Apr-10	26-Jul-10	26-Oct-10
Munir Abdulnabi Yousef Makki	Chairman	Yes	Yes	Yes	Yes
Sanjeev Baijal	Member	Yes	Yes	Yes	Yes
Mustafa Shafqat Anwar**	Member	No	Yes	Yes	Yes
Syed Gulrez Hoda*	Member	Yes	No	No	No
Attendance		3	3	3	3

*** Resigned during the year** **** Elected / appointed during the year**

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 2010:

Composition of Executive & Credit Committee		Meetings Dates			
Director's Name	Position	26-Jan-10	07-Jun-10	28-Sep-10	26-Oct-10
Hamad Abdulmohsen H.D. Al Marzouq	Chairman	Yes	No	Yes	Yes
Hamdan Ali Nasser Al Hinai	Member	Yes	Yes	Yes	Yes
Usama Mohammed Al Barwani	Member	No	No	Yes	Yes
Adel Mohamed Abdelshafe El-Labban	Member	Yes	Yes	Yes	Yes
Keith Henry Gale	Member	Yes	Yes	Yes	Yes
Attendance		4	3	5	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 2010:

Composition of Executive Risk Committee		Meeting Dates			
Director's Name	Position	26-Jan-10	07-Jun-10	28-Sep-10	26-Oct-10
Hamdan Ali Nasser Al Hinai	Chairman	Yes	Yes	Yes	Yes
Hassan Ehsan Naseeb	Member	Yes	Yes	Yes	No
Adel Mohamed Abdelshafe El-Labban	Member	Yes	Yes	Yes	Yes
Keith Henry Gale	Member	Yes	Yes	Yes	Yes
Safana Mohamed Al Barwani**	Member	No	No	No	Yes
Dr. Salem ben Nasser Al Ismaily*	Member	Yes	No	No	No
Attendance		5	4	4	4

*** Resigned during the year** **** Elected / appointed during the year**

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 2010:

Composition of Compensation Committee		Meetings Dates
Director's Name	Position	20-Mar-10
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, ICICI Bank

Ashish Sood: DCEO- Retail and Private Banking
Former Head of Consumer Banking, Standard Chartered Bank ,Jordan.
14 years of banking experience in various positions and geographies in Standard Chartered Bank including:
General Manager, Lending, Northern Gulf and Levant based in Bahrain.
General Manager, Credit Cards and Personal Loans, Bahrain,
Head of Sales, Credit Cards, Standard Chartered Bank, UAE

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 Rial 125,000 is proposed as Board Remuneration in addition to the sitting fees paid to the Board members for year 2010. The details of sitting fees paid are below:

Name of Director	Sitting Fees Paid (Rial)
H.E. Sayyid Khalid Hamad Hamood Al Busaidi	3,500
Hamdan Ali Nasser Al Hinai	7,300
Hamad Abdulmohsen H.D. Al Marzouq	4,100
Munir Abdulnabi Yousef Makki	5,500
Hassan Ehsan Naseeb	3,900
Usama Mohammed Al Barwani	3,600
Adel Mohamed Abdelshafe El-Labban	5,700
Sanjeev Baijal	4,200
Keith Henry Gale	5,900
Mustafa Shafqat Anwar**	2,900
Safana Mohamed Al Barwani**	1,300
Syed Gulrez Hoda*	800
Dr. Salem ben Nasser Al Ismaily*	1,300
Total	**50,000**

*** Resigned during the year** **** Elected / appointe dduring the year**

Total remuneration paid to the excutives of the bank amounted to **Rial 622,493** during the year 2010 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.
The Management report is part of the Annual Report.

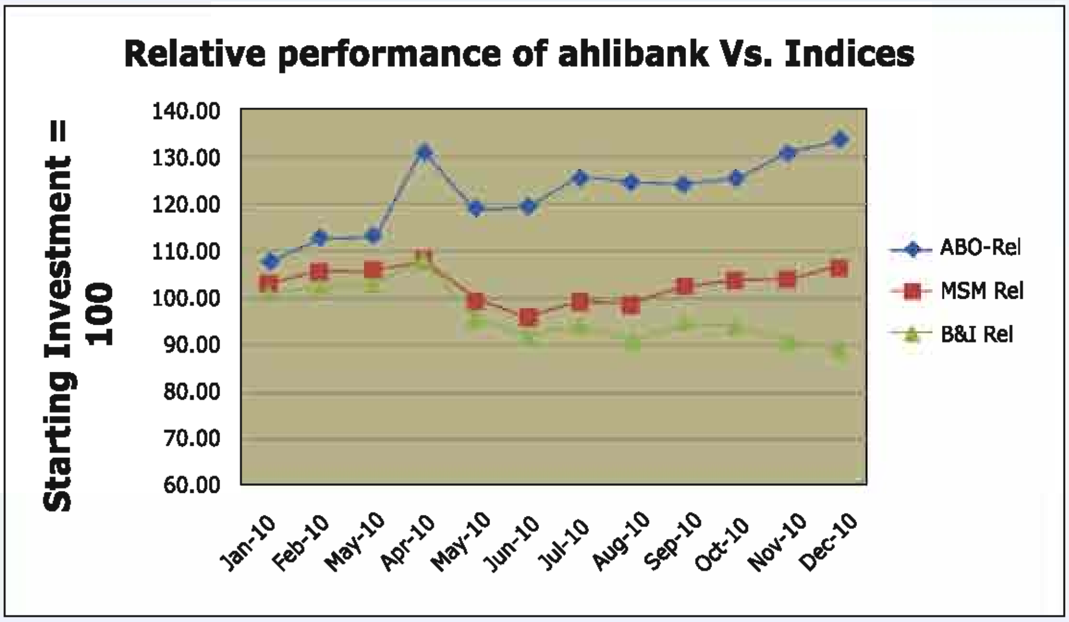
MARKET PRICE DATA:

High / Low share prices in 2010

Table below shows the high/ low prices of the bank's shares in Rial during the months in the year 2010.

Month	High	Low
Jan-2010	0.245	0.215
Feb-2010	0.250	0.222
Mar-2010	0.259	0.234
Apr-2010	0.286	0.245
May-2010	0.288	0.252
Jun-2010	0.266	0.242
Jul-2010	0.277	0.260
Aug-2010	0.276	0.263
Sep-2010	0.280	0.260
Oct-2010	0.280	0.269
Nov-2010	0.285	0.270
Dec-2010	0.299	0.278

Performance of Ahli Bank SAOG Vs MSM and Banking Indices



Distribution of share ownership between shareholders holding 5% or more as of 31 December 2010:

Name	Country of incorporation	Number of shares	%
Ahli United Bank	Bahrain	249,334,614	35.0
MB Holding & Subsidiaries Oman	Oman	108,366,414	15.2
International Finance Corporation	USA	70,560,000	9.9
Ministry of Defence – Pension Fund	Oman	46,305,000	6.5

DONATIONS

The bank paid a donation of Rial 9,500 to the Oman Charitable Organization and Rial 20,942 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 2010. KPMG is one of the leading accounting firms in Oman. The Oman practice of KPMG, which forms part of KPMG Lower Gulf, was established in 1974 and employs more than 130 people, including 3 partners, 6 directors and 17 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 146 countries and employs 140,000 people worldwide. KPMG in Oman is accredited by the Capital Market Authority (CMA) to audit joint stock companies (SAOG's).

During the year 2010, professional fees in the amount of Rial 33,600 were rendered by the external auditors in respect of the services provided by them to the organization (Rial 31,600 for audit and Rial 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

25th Jan 2011

KPMG
4th Floor, HSBC Bank Building
MBD
P.O. Box 641
P.C. 112
Sultanate of Oman

Tel 968 24709181
Fax 968 24700839

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 **45** as at and for the year ended 31 December 2010. 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.

25 January 2011

KPMG

Basel II - Pillar III Report 2010

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 12% on or before 31 Dec 2010 (earlier 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 has following credit ratings at present

Capital Intelligence –	Long Term Rating: BBB+
	Short Term Rating: A2
	Outlook: Stable
Fitch	Long Term Rating: BBB+
	Short Term Rating: F2
	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 unsecured, non-convertible subordinated bonds & loan and collective provision for credit risk. There is no innovative or complex capital instrument in the capital structure of the Bank.

	Rial '000s
Tier I capital	94,973
Tier II capital	49,276

Tier II Capital

The Bank in the last quarter of 2010 came out with its maiden Tier II capital issue of OMR 40 Million comprising of a Private Placement (December 2010) of Rial Thirty Five Million subordinated, non-convertible & unsecured Bonds ("Bonds") at an Issue Price of Rial 1.005 per Bond (Rial 0.005 for issue expenses) and Rial Five Million of Subordinated loan (October 2010).

The Bonds were issued at a coupon of 5.50% p.a. for a Tenor of 7 years with a call option to redeem the bonds at the end of 5 years from the date of allotment. The Subordinated loan of Rial Five Million was accepted at 5.75% for a tenor of 7 years.

The Bonds and the loan will constitute direct, unconditional, subordinated and unsecured obligations of the Issuer, ranking pari passu without any preference among themselves and equally with all other existing and future unsecured and subordinated obligations of the Issuer save for such obligations that may be preferred by provisions of law that are mandatory and of general application.

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 – Support Services.

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

Risk Identification
▼
Risk Measurement
▼
Risk Monitoring
▼
Risk Control

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

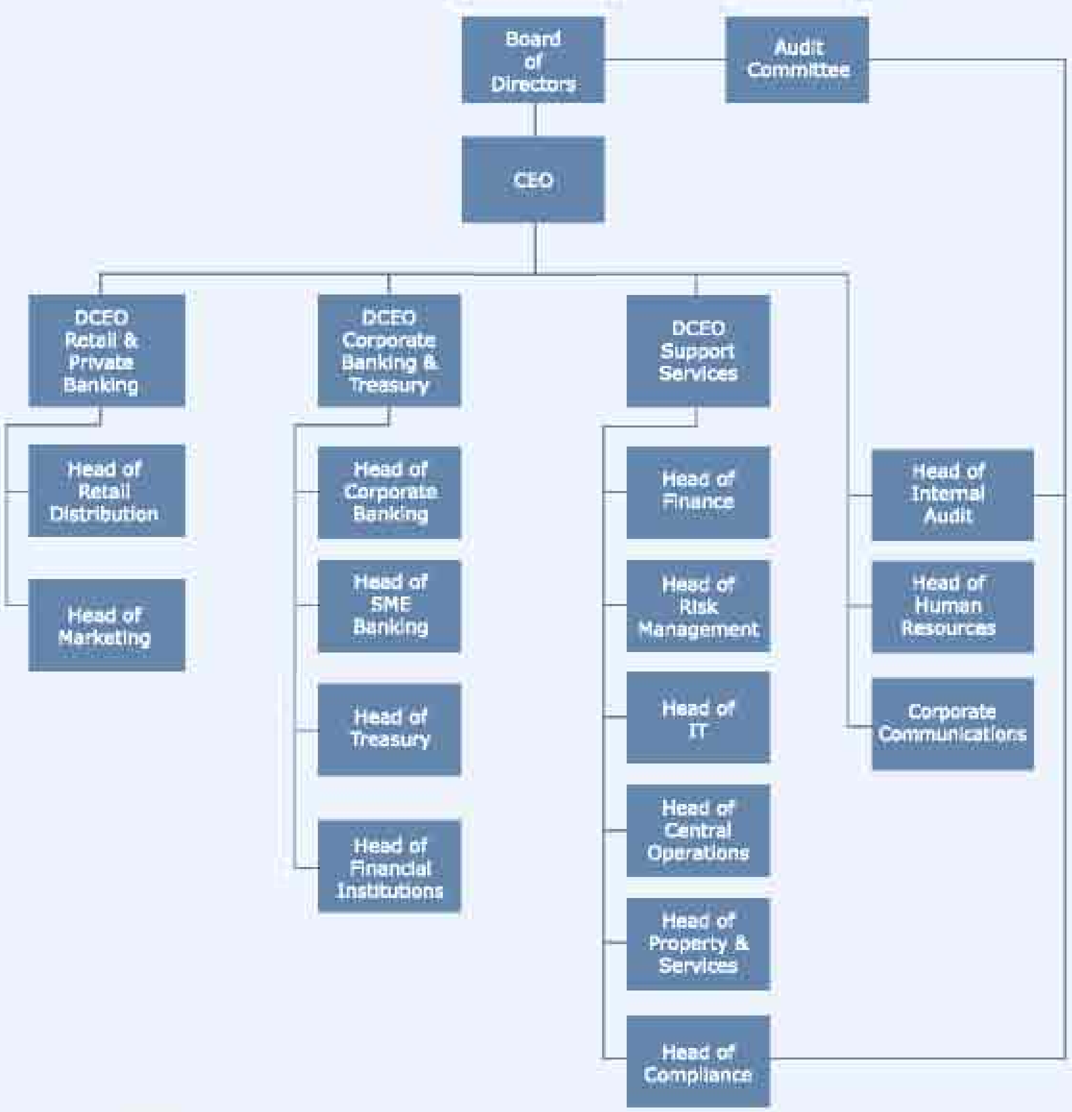
Policies and Procedures

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 Management
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
21. Corporate Governance 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 Ceilings 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.

	Rial '000s
Gross Total loans & Advances	659,909

Type of Security	Gross Loans & Advances outstanding Rial '000s 31-Dec-2010
Cash & fixed deposits	2,489
Properties	82,230
Shares	10,513
Residential mortgages	121,569
Bank Guarantees	5,008

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 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 Management (BCM) which outlines the Business Continuity process to be followed in a disaster scenario. The BCM 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; and
- 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.

Shares & Investments

The Bank had initiated direct investment in shares to generate sustainable dividend income by identifying high dividend yield shares. The investment was done in 7 companies namely, Shell Oman Marketing, Oman Telecommunications, United Power, Dhofar Power, AES Barka, Al Kamel Power Co and Al Maha Petroleum and the balance as of 31st December stood at Rial 1,489,832, generating a dividend income of Rial 77,471. In addition, the bank had generated a realized profit of Rial 32,280 (by selling Dhofar Power and Buy back by United Power) and a MTM of Rial 43,193 (recognized in Equity).

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 for Retail Banking book as they are re-priced with any change in the Central Bank of Oman's interest rate and for Corporate customer re-priced in line with the market conditions. 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:

	Rial '000s
2010	
Effect on net interest income	**(1,726)**
Effect on equity	**(1,726)**

	Rial '000s
2009	
Effect on net interest income	(1,016)
Effect on equity	(1,016)

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

Maturity Bucket Categories	Bond Book Investment %
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 29 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 30 of financial statements.

13. Subsidiaries and Significant Investments

The Bank does not have any subsidiary or other significant equity investments as on 31 December 2010 (except the MSM equity investments as mentioned in note 7)

14. Disclosure Tables

1. Capital Adequacy Disclosures (Amounts in Rial '000s)

As on December 31, 2010

SI No	Details	Gross balances (book value)	Net balances (book value)	Risk weighted assets
1	On-balance sheet items	809,090	805,594	710,458
2	Off-balance sheet items	40,426	40,426	22,831
3	Derivatives	74,589	74,589	195
4	**Total**	**924,105**	**920,609**	**733,484**
5	Tier 1 Capital			94,973
6	Tier 2 Capital			49,276
7	Tier 3 Capital			-
8	**Total Regulatory Capital**			**144,249**
8.1	Capital requirement for credit risk			83,230
8.2	Capital requirement for market risk			1,814
8.3	Capital requirement for operational risk			2,974
9	**Total required capital**			**88,018**
10	Tier 1 Ratio			12.95%
11	Total Capital Ratio			19.67%

2. Capital Break (Amounts in Rial '000)

As on December 31, 2010

Sr No	Elements of capital	Amount
	Tier I Capital	
1	Paid-up capital	71,238
2	Share premium	-
3	Legal reserves	8,444
4	General reserves	2,264
5	Subordinated loan reserve	-
6	Stock dividend *	8,905
7	Retained earnings	4,482
8	Non-cumulative perpetual preferred stock	-
9	Other non-distributable Reserve	-
	Total Gross Tier I Capital	**95,333**

Sr No	Elements of capital	Amount
	Deductions	
10	Goodwill	-
11	Deferred Tax Asset	(360)
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	**(360)**
14	**Tier I capital after the above deductions**	**94,973**
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 un-consolidated 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**	**94,973**

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	231
22	General loan loss provisions / Collective provision	9,045
23	Subordinated debt	40,000
24	Hybrid debt capital instruments	-
25	Total Tier II capital	49,276
	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)	**49,276**
30	**Tier III Capital (eligible)**	**-**
31	**Total Regulatory Capital**	**144,249**

* The Board of Directors has proposed stock dividends amounting to 12.5%, which is reduced from Retained earnings and shown separately

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

As on December 31, 2010

Sl No	Details	Simple Approach
1	Tier I Capital (after supervisory deductions)	94,973
2	Tier II capital (after supervisory deductions and upto eligible limits)	49,276
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	693,585
6	Risk weighted assets – operational risk	24,783
7	**Total Risk Weighted Assets – Banking Book + Operational Risk**	**718,368**
8	**Minimum required capital to support RWAs of banking book and operational risk**	**86,204**
	i) Minimum required Tier I Capital for banking book and operational risk	36,928
	ii) Tier II Capital required for banking book and operational risk	49,276
9	Tier I capital available for supporting trading book	58,045
10	Tier II capital available for supporting trading book	-
11	Risk Weighted Assets – trading book	15,116
12	Total capital required to support trading book	1,814
13	Minimum Tier I capital required for supporting trading book	517
14	Used Eligible Tier III Capital	-
15	**Total Regulatory Capital**	**144,249**
16	**Total Risk Weighted Assets – Whole bank**	**733,484**
17	**BIS Capital Adequacy Ratio**	**19.67%**
18	Unused but eligible Tier III Capital	-

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

SI	Type of credit exposure	Average Gross Exposure		Total Gross Exposure	
		31-Dec-10	31-Dec-09	31-Dec-10	31-Dec-09
1	Overdrafts	5,372	6,886	6,875	10,134
2	Personal loans	286,451	247,699	303,394	260,795
3	Other loans	244,456	130,915	349,640	175,634
		536,279	**385,500**	**659,909**	**446,563**

5. Credit risk exposure: Industry-wise (Amounts in Rial '000)

As on December 31, 2010

SI	Economic sector	Overdraft	Loans	Total	Off-balance sheet exposures*
1	Wholesale & Retail Trade	720	70,855	**71,575**	1,089
2	Mining and quarrying	-	44,236	**44,236**	2,231
3	Construction	3,601	72,580	**76,181**	13,350
4	Manufacturing	1,011	50,255	**51,266**	3,006
5	Financial Institutions	153	23,886	**24,039**	1,461
6	Services	331	31,112	**31,443**	1,343
7	Personal loans	895	303,396	**304,291**	-
8	Non-resident lending	-	9,677	**9,677**	-
9	All Others	164	47,037	**47,201**	92,534
	Total	**6,875**	**653,034**	**659,909**	**115,014**

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

6. Credit risk maturity exposure (Amounts in Rial '000s)

As on December 31, 2010

SI	Time Band	Overdraft	Loans	Total	Off-balance sheet exposures
1	Upto 1 month	342	110,119	**110,461**	10,205
2	1- 3months	344	98,060	**98,404**	8,837
3	3-6 months	344	16,254	**16,598**	28,354
4	6-9 months	344	16,441	**16,785**	9,247
5	9-12 months	344	17,246	**17,590**	48,650
6	1-3 years	1,719	86,416	**88,135**	7,172
7	3-5 years	1,719	49,020	**50,739**	889
8	Over 5 years	1,719	259,478	**261,197**	1,660
	Total	**6,875**	**653,034**	**659,909**	**115,014**

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

As on December 31, 2010

SI No	Economic sector	Gross Loans	Of which NPLs	Portfolio based provision /reserves*	Specific provison held	Reserve interest	Provision/ reserve made during the year	Advances written off during the year
1	Wholesale & Retail Trade	71,575	-	791	-	-	401	-
2	Mining & Quarrying	44,236	-	403	-		193	-
3	Construction	76,181	-	828	-	-	351	-
4	Manufacturing	51,266	-	605	-	-	316	-
5	Electricity, Gas & Water	-	-	-	-	-	(171)	-
6	Financial Institution	24,039	-	240	-	-	215	-
7	Services	31,443	-	361	-	-	168	-
8	Personal Loans*	304,291	2,038	5,255	828	165	1,137	4
9	Non-Resident Lending	9,677	-	97	-	-	94	-
10	All Others	47,201	-	465	-	-	404	-
	Total	**659,909**	**2,038**	**9,045**	**828**	**165**	**3,108**	**4**

* The bank has set aside an amount of Rial 6,543K as a non-distributable loan loss reserve towards the CBO non-specific position requirements at 31 December 2010.

8. Loans and Advances: Geographical Impairment Distribution (Amounts in Rial '000s)

As on December 31, 2010

Sl No	Countries	Gross Loans	Of which NPLs	Portfolio based provision /reserves	Specific provison held	Reserve interest	Provision/ reserve made during the year
1	Oman	650,232	2,038	8,948	828	165	3,014
2	Other GCC Countries	9,677	-	97	-	-	94
	Total	**659,909**	**2,038**	**9,045**	**828**	**165**	**3,108**

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

As on December 31, 2010

Sl	Details	Performing Loans	Sub-Standard	Doubtful	Loss	Total
1	Opening Balance	445,152	742	287	382	**446,563**
2	Migration I changes (+/-)	(1,432)	223	643	566	**-**
3	New Loans	1,755,355	-	-	-	**1,755,355**
4	Recovery of Loans	(1,541,204)	(268)	(504)	(29)	**(1,542,005)**
5	Loans written off	-	-	-	(4)	**(4)**
6	Closing Balance	**657,871**	**697**	**426**	**915**	**659,909**
7	Provisions/ reserves	9,045	170	176	482	**9,873**
8	Reserve Interest	-	16	17	132	**165**

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
25th Jan 2011

Management Report- 2010

1. Introduction

Since inception, ahlibank keeping up with their philosophy of 'Customer first' have developed a reputation for commitment, foresight and a remarkable, solid growth. The bank believes that it would have not been successful in its endeavors if not for the support of its loyal customers and dedicated staff that inspires the bank to move on their growth and development route reaching new heights. Customers have, from the beginning been the banks primary focus and every attempt is made to provide them with easy banking solutions and innovative products. The bank is committed to fulfilling the fiscal needs of its customers and strives to make banking an enjoyable and convenient experience for them.

ahlibank today serves its customers in Oman through 12 branches and 17 ATM. The expansion of its branches and ATM's network was part of the Banks commitment to improve its delivery channels, increase customer service levels and to enable the bank to customize its financial operations.

This year, ahlibank has effectively launched new products which have been created for its clients and customers comfort and to make banking an enhanced experience for them. These products have been successfully competing with similar inventions in the market striving to be the preferred ones among customers.

2. Business Environment and Outlook

The banking sector in Oman continued to experience a challenging environment. Businesses continued to grow in the midst of ample liquidity bringing pressure on the margins and therefore earnings. ahlibank continued to grow in a prudent manner and has had a very satisfactory business and performance oriented fiscal 2010. 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.

Early this year, the government announced the Eighth Five-Year Development Plan (2011-2015), which is the fourth and penultimate plan of the long-term development strategy, Vision 2020. The objectives of eight five years plan is to promote economic growth to realize annual growth rates of not less than 3% at constant prices for the Plan period. This is expected to be achieved through stimulation of domestic demand, development of exports, encouragement of investment, formulation of a strategy to increase productivity, optimal exploitation of the natural wealth, production capacities and the established infrastructure.

Domestic and foreign private sectors will benefit from the favorable environment provided to stimulate investment. 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.

3. New Services

3.1 Internet Banking Service:

Mye-bank, internet banking service gives our customers the convenience of accessing their account from anywhere in the world, at any time and at no extra cost to customers. This will also enable them to carry out day to day transactions including checking their account balance, online account to account transfers, paying credit card bills and requesting cheque books as well as local and international third party transfers from home or the office without having to visit a branch.

3.2 Corporate Internet Banking Services:

To provide the best services and establish permanent contact channels with the corporate customers' ahlibank launched its corporate Internet banking services this year. This service which will help in the operational efficiency of business , has several innovative features, enabling corporate customers to check balance and trade enquiries across various ahlibank accounts held by them as well as view or print transaction history.

3.3 SMS Banking:

Featuring a full suite of services, the SMS banking service will make transactions even more easier for customers. There are no additional charges for this service.
The SMS Banking services include both 'Push' and 'Pull' transactions many of which were previously only accessible in branches. 'Push' transactions are those where the customer requests transactions and 'Pull' services are where ahlibank send alerts of transactions at the customer's request. Both 'Push' and 'Pull' messages and alerts are sent and received with an easy to understand list of codes which can be used to interpret financial information. Customers are provided with a table of the codes when they register for the SMS Banking services.

3.4 Complaint Management System:

In 2010, the bank also implemented the automated Complaint Management System as part of their continual efforts to maximize customer satisfaction. This system will allow customer queries, suggestions and issues to be responded to within nominal waiting time and with maximum precision. This system will also enable the bank to effectively and efficiently resolve customer queries in accordance to specified timelines. Complaints can be made in any format (written letters, e-mails, faxes, verbally from face-to-face meetings, or via telephone, etc.). Complaints may be formally stated as a complaint by the customer or may be less formal expressions of dissatisfaction about a specific product or service rendered to the customer

4. ahlibanking

In the beginning of 2010, ahlibank has also introduced the concept of 'ahlibanking' which encompasses five basic banking values: Professional Banking; Smart Banking; Convenience Banking; Quality Banking and Responsible Banking which reflects the Bank's commitment of providing customers the best products and services and underscores its goal of being the bank of choice in Oman.

4.1 Professional Banking:

Through Professional banking, ahlibank is aiming to provide its corporate clientele unmatched services with suite of products that includes: Corporate Banking, Treasury, Trade Finance Solutions & General Coverage Services.

With these services, ahlibank can provide customized banking solutions to its corporate clients, offer comprehensive range of foreign exchange & money market products, be a one stop solution for trade finance needs of corporates and help in servicing the needs of Small & Medium Enterprises in the Sultanate.

4.2 Smart Banking:

The bank has recently introduced various initiatives on the retail banking front and has major ambitions to launch highly sophisticated products and services to meet the requirements of its retail customers. Smart banking offers different loan and deposit schemes to satisfy all the needs of their retail a customer which includes 'My Hassad Saving Scheme' which offers its customers daily, monthly and 'Salary for Life' prizes. 'MySaver' a saving account where customers can enjoy host of unique benefits. 'MyHadeya' which gives a interest for the entire tenor of fixed deposit upfront. 'MyHome' which offers an easy home loan to help customer finance their main or secondary homes. 'MyLoan' for easy personal loan and credit cards.

Ahli Bank Premium & Private Banking service provides dedicated Relationship Managers offering investment advisory services, off-shore banking products & services to meet its customers' diverse financial requirements.

4.3 Convenient Banking:

Our Convenient Banking is all about the consumers. With its unmatched services, ahli bank today has become the last word when it comes to customer convenience. Services like: My e-banking, SMS Banking, Card services and etc gives every individual customer a tailor made banking solution.

4.4 Quality Banking:

Quality Banking refers to ahli Bank's promise to serve its customers better than the rest and it also offers to harnessing the power of technology to provide more efficient banking services.

With services like: Retail Asset Tracking System, Complaint Management System & Staff Training Sessions, Ahli Bank has become a leading name when it comes to quality & efficiency.

These services will allow the customers to enjoy efficient processing & sanctioning of loans on the part of the bank, enjoy unmatched customer services and feedback.

4.5 Responsible Banking:

Ahli Bank not only serves corporates and individuals, it also serves the community with responsible banking, the leading bank of Oman is providing quintessential services to the community.

5. Corporate Social Responsibility and Sponsorships

5.1 My Hassad gives back campaign-daily Ramadan donations:

Ahlibank contributed a total of Rial 20,942 to more than eight charities across Oman during the month of Ramadan 2010, including:

- Six batches of 200 school bags filled with stationery to Al Wafa Social Centres in Nizwa, Ibra, Sohar, Sur, Ibri and Salalah
- Eleven cheques of Rial 1,000 to the Al Noor Association for the Blind in Muscat and Nizwa, Omani Women's Association in Sur, Barka, Ibra, Ibri, Salalah; Down Syndrome Parents Group in Muscat; The National Association for Cancer Awareness (NACA) in Muscat and Dar Al Atta in Muscat.
- Disability support equipment including wheelchairs, walkers and toys to the Oman Association for the Disabled in Sohar & Muscat.

- LCD Monitor, Printer Cartridge,Boxes of Photocopy Paper to the Association of Early Intervention for children with Special Needs in Muscat.
- 3 BookSense (A pocket Library) for Al Noor Association for the Blind in Muscat.

5.2 Gold Sponsor for CMA Hawkamah & OECD Annual Conference:
ahlibank was the gold sponsor for the Corporate Governance Conference held on Oct 31 & Nov 1 at Al Bustan Palace under the patronage of H.E. Maqbool Bin Ali Sultan, Minister of Commerce and Industry.

5.3 Football First Division league 'ahlibank League':
On November 1st ahlibank became the first-ever sponsors of the Oman Football Association's First Division league. The bank sponsorship is to ensure the success and professionalism of this crucial league which will henceforth be known simply as the **'ahlibank League'**.

5.4 Leader Health Challenge:
ahlibank conducted a two days innovative workshop at Grand Hyatt on Leader's Health Challenge (LHC), a pioneering offering for the corporate clients of the bank. The programme was conducted by the Bank jointly with McGannon Institute of Proactive Health from France and was well attended by Captains and Leaders of the Sultanate's corporate world.

5.5 Save Energy Campaign:
In the summer of 2010, ahlibank participated in Save Energy Oman, a campaign aimed at saving 10% of the electricity consumption in summer.

5.6 Diamond Sponsor for Crystal Ball Charity:
Organized by The Women's guild in association of the British Embassy, this year's Crystal Ball was held in support of providing scholarships to 40 students from Oman to study in the UK. Through this gesture, ahlibank continues to demonstrate its 'responsible banking' attitude.

6. Credit Rating
As a result of its continuous significant improvements in various performance indicators achieved by ahlibank, since its conversion to fully-fledged commercial bank, the credit rating agencies raised the ratings of ahlibank

6.1 Fitch rating:
This year ahlibank further raised the bar on its appeal as a bank of choice by receiving an impressive Rating of BBB+ with Stable Outlook from Fitch Ratings. Fitch has assigned the bank Long-term foreign and local currency Issuer Default Ratings (IDR) of 'BBB+. The agency has simultaneously assigned the bank Short-term foreign and local currency IDRs of 'F2'.

6.2 Capital Intelligence:
Capital Intelligence (CI), the International Credit Rating agency, also upgraded ahlibank Foreign Currency Long and Short-term Ratings to BBB+ and A2 with Stable Outlook.

7. Financial performance
ahlibank is one of the few banks in the region to have maintained an impressive financial performance despite the lingering global impact of the recession. The financial results for the year 2010 proves that the bank's fundamentals are strong and its has the ability to deliver outstanding performance in a highly competitive market.

Following the prudent policy measures of the Central Bank of Oman, all actions of ahlibank are also guided by prudent risk management practices while staying focused on the basics of banking. This strategy has resulted in the continuous growth of the bank culminating in the 65% growth in the bank's net profit for the year 2010.The bank continuously works on increasing its efficiency and managing its costs. Staff productivity is enhanced through training programs and adoption of technological solutions while operating expenses are reduced through the elimination of wasteful and unnecessary expenditure as well as through focusing on low cost liabilities. We have also implemented the most advanced risk management practices and systems which are reflected in our asset quality.

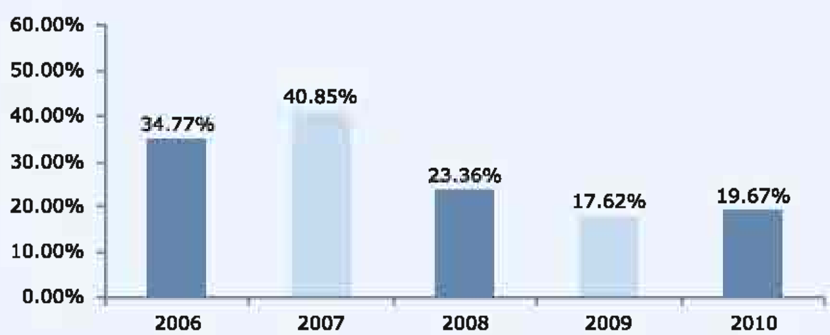
7.1 Financial highlights:

	2010 (Rial' 000)	2009 (Rial'000)	Growth
Total Assets	805,594	616,058	30.77%
Gross Loans and advances	659,909	446,563	47.78%
Customer deposit	632,178	466,710	35.45%
Gross Operating Income	41,297	32,315	27.80%
Net profit after tax	14,100	8,541	65.09%
Capital & Reserves	102,106	92,618	10.24%

7.2 Capital and Reserves:

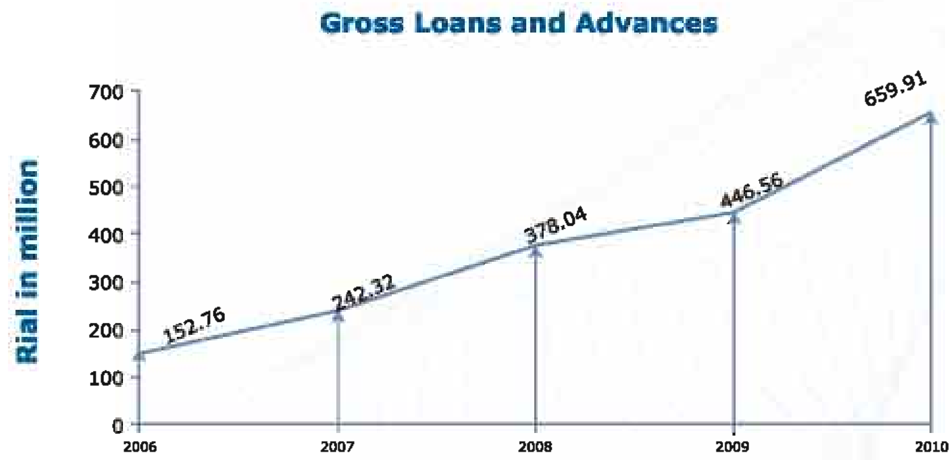
Capital and reserves of the Bank as of 31 December 2010 stood at Rial 102.1 million as compared to Rial 92.6 million as at 31 December 2009. The Capital adequacy ratio of the bank was at 19.67% well above the minimum of 12% required by Central Bank of Oman

Capital Adequacy Ratio



7.3 Loans and advances:

The gross loan book grew by 47.78% to reach Rial 659.91 million as at 31st December 2010 from Rial 446.56 million as at 31st December 2009. The increase has been mainly in the corporate book. The bank continues to adopt a prudent risk management approach while endeavoring to meet the requirements of its growing clientele.



7.4 Customer deposits:

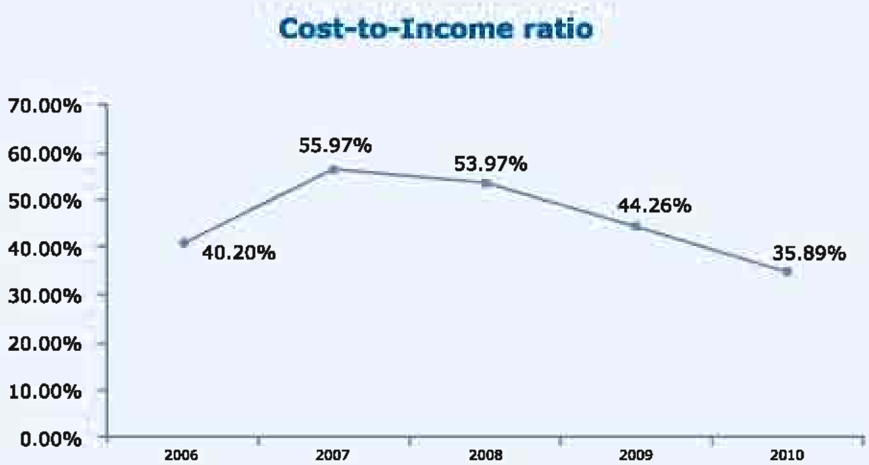
The customer deposits increased to Rial 632.18 million in 2010, an increase of over 35.45% over 2009. The growth is in line with the bank's strategy to create a diversified stable low cost funding base

7.5 Profitability:

The Profit after tax of ahlibank has increased by 65% to Rial 14.1 million in the year 2010.

7.6 Cost to Income ratio:

There has been continuous improvement in this ratio in 2010. Operating costs year over year has increased. The increase in the expenditure is commensurate to business requirements and the banks business plans



8. Risk Management and Internal controls

The Bank has a separate Risk Management Department which was established in December 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 – Support Services.

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

Risk Identification
▼
Risk Measurement
▼
Risk Monitoring
▼
Risk Control

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
- Compensation Committee
- Credit & Investment Committee
- Management Committee
- Special Assets Committee
- Assets and Liabilities Committee
- Operational Risk 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.

9.Events & Staff Trainings

9.1 Annual General Meeting (AGM) March 2010:

At the 2010 AGM in March shareholders duly considered and approved the bank's audited financial results for the year ended 31 December 2009.

9.2 Ahli Bank conducts "The 7 Habits of Highly Effective People" Workshop for Staff: To ensure the overall development of its executive talent resource, ahlibank organized a workshop on "the 7 Habits of Highly Effective People" from 19th to 22nd of April at Crowne Plaza Muscat.

9.3 Information Security Training Muscat 9th May, 2010: to benefit its employees and customers at large, in 2010 ahlibank initiated information security training program for bank personnel to equip them with better understanding of information security in the banking environment.

9.4 Salary for life Draw: The grand draw of My Hassad Salary for life was held on 22 July in Salalah. A Nizwa branch customer won the grand prize of Rial 250,000 as Rial 1,000 per month for 250 months.

9.5 Iftar Staff Gathering: In honor and celebration of the holy month of Ramadan, ahlibank gathered its board and staff members from all the divisions for an iftar celebration at the Intercontinental Hotel Muscat.

9.6 Extraordinary General Meeting: ahlibank held it's Extraordinary General Meeting (EGM) at Hotel Grand Hyatt Muscat on 1st December 2010, presided over by its first deputy Chairman, Hamdan Ali Nasser Al Hinai. At the meet, the Board of Directors, placed for the Shareholders consideration and approval, through private placement, the issuing of 35 million nonconvertible, unsecured, subordinated bonds at Rial 1.005 per bond (face value Rial 1.000 including Baizas 5 towards issue expenses). The Bank received the consent of its shareholders for the Bond issue.

9.7 Subordinated Bonds:

ahlibank successfully closed its Subordinated Bond issue. The issue size was Rial 35 million with a tenor of 7 years and call option for the Bank at the end of 5 years. Against the issue size of Rial 35 million, the Bank received commitments for Rial 55 million, resulting in over subscription of the issue by 160%. The Bonds were listed in Muscat Securities Market on Dec 22nd, 2010. After the Bond issue, the Capital Adequacy Ratio of the Bank stands at 20%, well above the regulatory requirement of 12%. The bonds were issued at the rate of 5.50% further confining the trust and confidence imposed by investors.

10. Conclusion

ahlibank continues to execute its strategy to grow its business in a prudent manner by offering attractive products and quality services to its customer. Going forward , the bank is confident of meeting its planned objective by broadening its customer base. With strong development in the bank's IT infrastructure, growth in its network and array of banking products in the pipeline, the bank is well positioned to extend its growth this year with several initiatives and to become the preferred bank by choice in Oman.

Contacts

Branches

Wattaya	P.O Box 545, PC 116, Mina Al Fahal	Tel: (+968) 24577000 Fax: (+968) 24568168
Seeb	P.O Box 270, PC 121, Seeb	Tel: (+968) 24427627 Fax: (+968) 24423500
Sohar	P.O Box 454, PC 321, Tarif	Tel: (+968) 26843843 Fax: (+968) 26844936
Nizwa	P.O Box 1212, PC 611, Nizwa	Tel: (+968) 25412370 Fax: (+968) 25412373
Sur	P.O Box 806, PC 411, Sur	Tel: (+968) 25542244 Fax: (+968) 25542277
Ibri	P.O Box 300, PC 516, Ibri	Tel: (+968) 25690005 Fax: (+968) 25690330
Salalah	P.O Box 636, PC 211, Salalah	Tel: (+968) 23298288 Fax: (+968) 23298857
Al Ghubra	P.O Box 545, PC 116, Mina Al Fahal	Tel: (+968) 24498270 Fax: (+968) 24498275
Ibra	P.O Box 565, PC 400, Ibra	Tel: (+968) 25570568 Fax: (+968) 25570637
Barka	P.O Box 494, PC 320, Barka	Tel: (+968) 26883092 Fax: (+968) 26886008
Al Khoudh	P.O Box 545, PC 116, Mina Al Fahal	Tel: (+968) 24541386 Fax: (+968) 24541309
Al Khuwair	P.O Box 545, PC 116, Mina Al Fahal	Tel: (+968) 24480050 Fax: (+968) 24480766

Head Office

Postal Address	
P.O Box 545, PC 116, Mina Al Fahal	Tel: (+968) 24577000 Fax: (+968) 24568168
Call Centre	(+968) 24577177
Website	www.ahlibank-oman.com
E-mail	info@ahlibank-oman.com

KPMG
4th Floor, HSBC Bank Building
MBD
P.O. Box 641
P.C. 112
Sultanate of Oman

Tel 968 24709181
Fax 968 24700839

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") set out on pages58to101, which comprise the statement of financial position as at 31 December 2010, and the related statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

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, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on 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 entity'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 entity's internal control. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by the entity'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 2010 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on other legal and regulatory requirements
In our opinion, the financial statements of the Bank as at and for the year ended on 31 December 2010, in all material respects, comply with:

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

KPMG

25 January 2011

Michael G W Armstrong

STATEMENT OF FINANCIAL POSITION
YEAR ENDED 31 DECEMBER

2009 US$	2010 US$		Note	2010 Rial	2009 Rial
		ASSETS			
282,648,741	**172,515,219**	Cash and balances withCentral Bank of Oman	4	**66,418,359**	108,819,765
18,724,476	**40,101,275**	Due from other banks	5	**15,438,991**	7,208,923
16,099,270	**19,253,678**	Financial investments - held for trading	7	**7,412,666**	6,198,219
1,152,109,722	**1,704,969,886**	Loans and advances to customers	6	**656,413,406**	443,562,243
90,781,106	**120,744,395**	Financial investments - available for sale	7	**46,486,592**	34,950,726
3,287,532	**339,481**	Financial investments - held to maturity	7	**130,700**	1,265,700
23,870,470	**22,032,852**	Property and equipment	8	**8,482,648**	9,190,131
894,689	**935,486**	Deferred tax asset	9	**360,162**	344,455
11,734,726	**11,560,752**	Other assets	10	**4,450,890**	4,517,870
1,600,150,732	**2,092,453,024**	**TOTAL ASSETS**		**805,594,414**	616,058,032
		LIABILITIES			
91,298,509	**15,477,730**	Due to other banks		**5,958,926**	35,149,926
1,212,234,639	**1,642,020,600**	Customers' deposits	11	**632,177,931**	466,710,336
20,424,569	**17,177,816**	Other borrowed funds	12	**6,613,459**	7,863,459
4,563,275	**6,728,296**	Taxation	9	**2,590,394**	1,756,861
31,062,233	**41,940,925**	Other liabilities	13	**16,147,256**	11,958,960
-	**103,896,104**	Subordinated liabilities	14	**40,000,000**	-
1,359,583,225	**1,827,241,471**	**TOTAL LIABILITIES**		**703,487,966**	523,439,542
		EQUITY			
176,223,777	**185,034,966**	Share capital	15	**71,238,462**	67,846,154
18,269,301	**21,931,683**	Legal reserve	16	**8,443,698**	7,033,681
4,048,192	**5,879,382**	General banking reserve	17	**2,263,562**	1,558,554
10,215,239	**16,994,930**	General loan loss reserve	6	**6,543,048**	3,932,867
243,008	**598,914**	Cumulative changes in fair values		**230,582**	93,558
31,567,990	**34,771,678**	Retained earnings		**13,387,096**	12,153,676
240,567,507	**265,211,553**	**TOTAL EQUITY**		**102,106,448**	92,618,490
1,600,150,732	**2,092,453,024**	**TOTAL LIABILITIES AND EQUITY**		**805,594,414**	616,058,032
79,664,249	**114,864,864**	Contingent Liabilities and Commitments	27	**44,222,973**	30,670,736

The financial statements were approved by the Board of Directors on 25 January 2011 and were signed on their behalf by:

Khalid Hamad Hamood Al Busaidi
Chairman

Abdul Aziz Al Balushi
Chief Executive Officer

The accounting policies on page 63 to 72 and notes on pages 73 to 101 form an integral part of these financial statements.
Independent auditors' report is on page 57.

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER

2009 US$	2010 US$		Note	2010 Rial	2009 Rial
72,956,338	90,464,117	Interest income	19	34,828,685	28,088,190
(37,448,307)	(40,167,464)	Interest expense	20	(15,464,474)	(14,417,598)
35,508,031	50,296,653	**Net interest income**		19,364,211	13,670,592
10,977,637	16,799,725	Other operating income	21	6,467,894	4,226,390
46,485,668	67,096,378	**Net operating income**		25,832,105	17,896,982
(691,190)	(1,295,530)	Loan impairment, net of recoveries	6	(498,779)	(266,108)
(11,327,754)	(12,881,652)	Staff expenses	22	(4,959,436)	(4,361,185)
(2,262,823)	(2,908,532)	Depreciation	8	(1,119,785)	(871,187)
(6,984,089)	(8,288,974)	Other operating expenses	23	(3,191,255)	(2,688,874)
(21,265,856)	(25,374,688)	**Operating expense**		(9,769,255)	(8,187,354)
25,219,812	41,721,690	**Profit before taxation**		16,062,850	9,709,628
(3,034,970)	(5,097,883)	Income tax expense	9	(1,962,685)	(1,168,464)
-					
22,184,842	36,623,807	**Profit for the year**		14,100,165	8,541,164
		Other comprehensive income - net of Income tax			
657,047	355,906	Gains arising during the period on available for sale investments		137,024	252,963
657,047	355,906	**Other comprehensive income for the year**		137,024	252,963
22,841,889	36,979,713	**Total comprehensive income for the year**		14,237,189	8,794,127
3.12	5.14	Basic and diluted earnings per share (baizas/cents)	24	19.80	12.00

The accounting policies on page 63 to 72 and notes on pages 73 to 101 form an integral part of these financial statements.
Independent auditors' report is on page 57.

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER

2009 US$	2010 US$		Note	2010 Rial	2009 Rial
		Cash flow from operating Activities			
25,219,812	**41,721,690**	**Profit before taxation**		**16,062,850**	9,709,628
		Adjustments for:			
2,262,823	**2,908,532**	Depreciation	8	**1,119,785**	871,187
194,805	**324,675**	Board remuneration proposed		**125,000**	75,000
691,190	**1,295,530**	Loan impairment, net of recoveries		**498,779**	266,108
87,868	**87,301**	End of service benefits provision	13	**33,611**	33,829
(13,117)	**1,257**	Loss/(gain) on sale of property & equipment		**484**	(5,050)
-	**(242,408)**	Gain on sale of investments	21	**(93,327)**	-
28,443,381	**46,096,577**	**Operating profit before changes in operating assets and liabilities**		**17,747,182**	10,950,702
		Changes in operating assets and liabilities			
(41,665)	**(51,535)**	Payment of end-of-service benefits	13	**(19,841)**	(16,041)
(387,938)	**(167,992)**	Increase in deposits with Central Bank of Oman		**(64,677)**	(149,356)
(178,001,532)	**(554,155,694)**	Increase in loans and advances		**(213,349,942)**	(68,530,590)
(7,586,556)	**173,974**	Decrease/(increase) in other assets		**66,980**	(2,920,824)
382,997,509	**429,785,961**	Increase in customers' deposits		**165,467,595**	147,454,041
13,619,099	**10,713,057**	Increase in other liabilities		**4,124,526**	5,243,353
239,042,298	**(67,605,652)**	**Cash from operations**		**(26,028,177)**	92,031,285
(115,844)	**(194,805)**	Board remuneration paid		**(75,000)**	(44,600)
(1,240,665)	**(2,973,660)**	Income tax paid		**(1,144,859)**	(477,656)
237,685,789	**(70,774,117)**	**Net cash (used in) / from operating activities**		**(27,248,036)**	91,509,029
		Cash flow from investing activities			
(20,948,125)	**(3,597,304)**	Increase in financial investments – net		**(1,384,962)**	(8,065,028)
(4,617,808)	**(1,080,460)**	Purchase of property and equipment		**(415,977)**	(1,777,856)
13,117	**8,288**	Proceeds on disposal of tangible fixed assets		**3,191**	5,050
(25,552,816)	**(4,669,476)**	**Net cash used in investing activities**		**(1,797,748)**	(9,837,834)
		Cash flow from financing activities			
-	**103,896,104**	Proceeds from issue of subordinated liabilties		**40,000,000**	-
(41,750,217)	**(3,246,753)**	Decrease in other borrowings		**(1,250,000)**	(16,073,833)
(8,391,610)	**(12,335,665)**	Dividend paid		**(4,749,231)**	(3,230,770)
(50,141,827)	**88,313,686**	**Net cash from / (used in) financing activities**		**34,000,769**	(19,304,603)
161,991,146	**12,870,093**	**Net change in cash and cash equivalents**		**4,954,985**	62,366,592
124,747,655	**286,738,801**	Cash and cash equivalents at 1 January		**110,394,439**	48,027,847
286,738,801	**299,608,894**	**Cash and cash equivalents at 31 December**	25	**115,349,424**	110,394,439

The accounting policies on page 63 to 72 and notes on pages 73 to 101 form an integral part of these financial statements.
Independent auditors' report is on page 57.

STATEMENT OF CHANGES IN EQUITY
YEAR ENDED 31 DECEMBER 2010

	Note	Ordinary Share Capital Rial	Share Premium Rial	Legal Reserve Rial	General Banking Reserve Rial	General Loan Loss Reserve Rial	Cumulative Changes in Fair Values Rial	Retained Earnings Rial	Total Rial
Balance at 1 January 2010		67,846,154	-	7,033,681	1,558,554	3,932,867	93,558	12,153,676	92,618,490
Profit for the year		-	-	-	-	-	-	14,100,165	14,100,165
		-	-	-	-	-	-	14,100,165	14,100,165
Other comprehensive income -net of income tax									
Net unrealised gains on available for sale investments		-	-	-	-	-	137,024	-	137,024
Total comprehensive income for the year		-	-	-	-	-	137,024	14,100,165	14,237,189
Transfer to legal reserve	16	-	-	1,410,017	-	-	-	(1,410,017)	-
Transfer to loan loss reserve	6	-	-	-	-	2,610,181	-	(2,610,181)	-
		67,846,154	-	8,443,698	1,558,554	6,543,048	230,582	22,233,643	106,855,679
Transactions with owners recorded directly in Equity									
Transfer to general banking reserve	17	-	-	-	705,008	-	-	(705,008)	-
Issue of bonus shares	18	3,392,308	-	-	-	-	-	(3,392,308)	-
Dividend paid for 2009	18	-	-	-	-	-	-	(4,749,231)	(4,749,231)
Balance at 31 December 2010 (Rial)		71,238,462	-	8,443,698	2,263,562	6,543,048	230,582	13,387,096	102,106,448
Balance at 31 December 2010 (US$)		185,034,966	-	21,931,683	5,879,382	16,994,930	598,914	34,771,678	265,211,553

The accounting policies on page 63 to 72 and notes on pages 73 to 101 form an integral part of these financial statements.
Independent auditors' report is on page 57.

STATEMENT OF CHANGES IN EQUITY
YEAR ENDED 31 DECEMBER 2010

	Note	Ordinary Share Capital Rial	Share Premium Rial	Legal Reserve Rial	General Banking Reserve Rial	General Loan Loss Reserve Rial	Cumulative Changes in Fair Values Rial	Retained Earnings Rial	Total Rial
Balance at 1 January 2009		64,615,384	6,290,440	3,119,895	1,131,496	2,272,769	(159,405)	9,784,554	87,055,133
Profit for the year		-	-	-	-	-	-	8,541,164	8,541,164
		-	-	-	-	-	-	8,541,164	8,541,164
Other comprehensive income - net of income tax									
Net unrealised gains on available for sale investments		-	-	-	-	-	252,963	-	252,963
Total comprehensive income for the year		-	-	-	-	-	252,963	8,541,164	8,794,127
Transfer to legal reserve	16	-	(3,059,670)	3,913,786	-	-	-	(854,116)	-
Transfer to loan loss reserve	6	-	-	-	-	1,660,098	-	(1,660,098)	-
		64,615,384	3,230,770	7,033,681	1,131,496	3,932,867	93,558	15,811,504	95,849,260
Transactions with owners recorded directly in Equity									
Transfer to general banking reserve	17	-	-	-	427,058	-	-	(427,058)	-
Issue of bonus shares	18	3,230,770	(3,230,770)	-	-	-	-	-	-
Dividend paid for 2008	18	-	-	-	-	-	-	(3,230,770)	(3,230,770)
Balance at 31 December 2009 (Rial)		67,846,154	-	7,033,681	1,558,554	3,932,867	93,558	12,153,676	92,618,490
Balance at 31 December 2009 (US$)		176,223,777	-	18,269,301	4,048,192	10,215,239	243,008	31,567,990	240,567,507

The accounting policies on page 63 to 72 and notes on pages 73 to 101 form an integral part of these financial statements.
Independent auditors' report is on page 57.

Notes to the Financial Statements
Year ended 31 December 2010

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 243 employees as at 31st December 2010 compared to 237 as at 31st December 2009.

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

Use of estimates and judgements
The preparation of financial statements in conformity with IFRS requires management to make judgements estimates and assumptions that effect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Information about significant areas of uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are as follows:

In the process of applying the Bank's accounting policies, management has made the

Notes to the Financial Statements
Year ended 31 December 2010 (continued)

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 statement of comprehensive income 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 statement of comprehensive income. In particular, considerable judgement by management is required in the estimation of the amount and timing of future cash flows when determining the level of provisions required. Such estimates are necessarily based on assumptions about several factors involving varying degrees of judgment and uncertainty, and actual results may differ resulting in future changes to such provisions.

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 occured. 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.

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

Notes to the Financial Statements
Year ended 31 December 2010 (continued)

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.

Changes in accounting policies
The policies have been consistently applied in dealing with items that are considered material in relation to the Bank's financial statements to all the years presented.

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 statement of comprehensive income. 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 statement of comprehensive income. Any losses arising from impairment of such investments are recognised in the statement of comprehensive income.

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 statement of comprehensive income 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

Notes to the Financial Statements
Year ended 31 December 2010 (continued)

• 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 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 statement of comprehensive income.

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 statement of

Notes to the Financial Statements
Year ended 31 December 2010 (continued)

comprehensive income. 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 statement of comprehensive income. The losses arising from impairment are recognised in the statement of comprehensive income.

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 statement of comprehensive income. 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 statement of comprehensive income 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 statement of comprehensive income over the period of the borrowings using the effective interest method.

Subordinated liabilities
Subordinated liabilities are carried at amortized cost, less amounts repaid.

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

Notes to the Financial Statements
Year ended 31 December 2010 (continued)

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 statement of comprehensive income 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 statement of comprehensive income 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 statement of comprehensive income. Any financial guarantee liability remaining is recognised in the statement of comprehensive income 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 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 statement of comprehensive income. 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

Notes to the Financial Statements
Year ended 31 December 2010 (continued)

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 statement of comprehensive income.

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 statement of comprehensive income 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 statement of comprehensive income – is removed from equity and recognised in statement of comprehensive income. Impairment losses on equity investments are not reversed through statement of

Notes to the Financial Statements
Year ended 31 December 2010 (continued)

comprehensive income; 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 statement of comprehensive income, the impairment loss is reversed through statement of comprehensive income.

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 Rial at the rates of exchange ruling at the statement of financial position date. Any resultant gains or losses are recognised in statement of comprehensive income.

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

Notes to the Financial Statements
Year ended 31 December 2010 (continued)

asset and settle the liability simultaneously.

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.

Standards and Interpretations in issue not yet effective

Management anticipates that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of the Company in the period of initial application.

New Standards and amendments to Standards

Effective for annual periods beginning on or after

IAS 32 (revised) Financial Instrument: Presentation - Amendments relating to classification of rights issue	01-February-2010
IAS 24 Related party disclosure - Amendment on disclosure requirements for entries that are controlled or significantly influenced by a Government.	01-January-2011
IFRS 9 Financial Instruments: Classification and Measurement (intended as complete replacement for IAS 39 and IFRS 7)	01-January-2013
IFRIC 19: Extinguishing Financial Liabilities with Equity Instruments	01-July-2010
Amendment to IFRIC 14:IAS 19: The limit on a defined benefit asset: Minimum	01-January-2011

ahlibank

Notes to the Financial Statements
Year ended 31 December 2010 (continued)

4. Cash and Balances with Central Bank of Oman

2009 US$	**2010 US$**		**2010 Rial**	2009 Rial
5,249,356	**4,422,681**	Cash on hand	**1,702,732**	2,021,002
12,987	**-**	Insurance deposit with the CBO	**-**	5,000
1,182,657	**1,298,701**	Capital deposit with the CBO	**500,000**	455,323
62,338	**127,273**	ATM deposit with the CBO	**49,000**	24,000
276,141,403	**166,666,564**	Clearing account with the CBO	**64,166,627**	106,314,440
282,648,741	**172,515,219**		**66,418,359**	108,819,765

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

2009 US$	**2010 US$**		**2010 Rial**	2009 Rial
6,558,442	**38,414,800**	Placements	**14,789,698**	2,525,000
12,166,034	**1,686,475**	Nostro Account balances	**649,293**	4,683,923
18,724,476	**40,101,275**		**15,438,991**	7,208,923

6. Loans and Advances to Customers

2009 US$	**2010 US$**		**2010 Rial**	2009 Rial
472,224,556	**923,684,104**	Corporate lending	**355,618,380**	181,806,454
687,679,818	**790,365,442**	Mortgage and consumer lending	**304,290,695**	264,756,730
1,159,904,374	**1,714,049,546**	Gross loans and advances	**659,909,075**	446,563,184
(7,794,652)	**(9,079,660)**	Less: Allowance for impairment losses	**(3,495,669)**	(3,000,941)
1,152,109,722	**1,704,969,886**		**656,413,406**	443,562,243

Notes to the Financial Statements
Year ended 31 December 2010 (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
	Rial	Rial	Rial	Rial	Rial	Rial
31 December 2010	**602,514,180**	**38,764,009**	**2,375,611**	**14,217,689**	**2,037,586**	**659,909,075**
31 December 2009	425,417,683	8,683,610	5,174,786	5,875,833	1,411,272	446,563,184

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 2010 towards loans and advances not impaired amounted to Rial 414,091,551 (31 December 2009 Rial 328,105,000)

An economic sector-wise distribution of loans and advances:

Gross Exposure 2009 US$ '000	**Gross Exposure 2010 US$ '000**	**Economic Sector**	**Gross Exposure 2010 Rial '000**	Gross Exposure 2009 Rial '000
101,291	**185,909**	Wholesale & Retail trade	**71,575**	38,997
54,522	**114,899**	Mining and quarrying	**44,236**	20,991
123,875	**197,873**	Construction	**76,181**	47,692
75,040	**133,158**	Manufacturing	**51,266**	28,890
44,331	**-**	Electricity, gas and water	**-**	17,067
15,745	**91,444**	Transport & Communication	**35,206**	6,062
6,621	**62,439**	Financial Institutions	**24,039**	2,549
50,026	**81,670**	Services	**31,443**	19,260
687,678	**790,366**	Personal Loans	**304,291**	264,756
775	**25,135**	Non-resident lending	**9,677**	299
-	**31,157**	Others	**11,995**	-
1,159,904	**1,714,050**		**659,909**	446,563

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 2010 US$	Mortgage & consumer lending 2010 US$	Total 2010 US$		Corporate lending 2010 Rial	Mortgage & consumer lending 2010 Rial	Total 2010 Rial
925,709	6,611,416	7,537,125	At 1 Jan 2010	356,398	2,545,395	2,901,793
214,925	1,579,309	1,794,234	Charge for the year	82,746	608,034	690,780
(214,925)	(457,205)	(672,130)	Recoveries	(82,746)	(176,024)	(258,770)
-	(8,535)	(8,535)	Write off during the year	-	(3,286)	(3,286)
925,709	**7,724,985**	**8,650,694**	**At 31 Dec 2010**	**356,398**	**2,974,119**	**3,330,517**

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

Corporate lending 2010 US$	Mortgage & consumer lending 2010 US$	Total 2010 US$		Mortgage & Corporate lending 2010 Rial	consumer lending 2010 Rial	Total 2010 Rial
-	257,527	257,527	At 1 Jan 2010	-	99,148	99,148
50,392	249,096	299,488	Interest reserved during the year	19,401	95,902	115,303
(50,392)	(75,670)	(126,062)	Interest released during the year	(19,401)	(29,133)	(48,534)
-	(1,987)	(1,987)	Write off during the year	-	(765)	(765)
-	428,966	428,966	At 31 Dec 2010	-	165,152	165,152

A further analysis of above is set out below:

-	2,580,743	2,580,743	Individual impairment	-	993,586	993,586
925,709	5,573,208	6,498,917	Collective impairment	356,398	2,145,685	2,502,083
925,709	**8,153,951**	**9,079,660**		**356,398**	**3,139,271**	**3,495,669**

Interest is reserved for all non-performing loans and advances where recovery is considered doubtful. As at 31 December 2010, the total balance of loans and advances on which interest is not being accrued, or where interest is suspended, amounted to Rial 2,037,586 equivalent to US$ 5,292,431 (31 December 2009: Rial 1,411,272 equivalent to US$ 3,665,642). The fair value of collateral that the Bank holds relating to loans individually determined to be impaired as at 31 December 2010 amounts to Rial 1,260,000 (31 December 2009: Rial 1,580,500). The collateral consists of cash, securities and properties.

Notes to the Financial Statements
Year ended 31 December 2010 (continued)

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 Rial 6.5 million (31 December 2009: Rial 3.9 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 2009 is as follows:

Corporate lending 2009 US$	Mortage & consumer lending 2009 US$	Total 2009 US$		Corporate lending 2009 Rial	Mortage & consumer lending 2009 Rial	Total 2009 Rial
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)
-	-	-	Write off during the year	-	-	-
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 for 2009 is as follows:

Corporate lending 2009 US$	Mortage & consumer lending 2009 US$	Total 2009 US$		Corporate lending 2009 Rial	Mortage & consumer lending 2009 Rial	Total 2009 Rial
-	189,278	189,278	At 1 Jan 2009	-	72,872	72,872
-	151,240	151,240	Interest reserved during the year	-	58,227	58,227
-	(55,673)	(55,673)	Interest released during theyear	-	(21,434)	(21,434)
-	(27,317)	(27,317)	Write off during the year		(10,517)	(10,517)
-	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

Notes to the Financial Statements
Year ended 31 December 2010 (continued)

7. Financial Investments

	Held For Trading Rial	Available for Sale Rial	Held to Maturity Rial	Total Rial	Cost Rial
31 December 2010					
-Government development bonds- Oman	7,412,666	-	-	7,412,666	7,430,675
-Certificates of Deposit	-	40,000,000	-	40,000,000	40,000,000
-Listed debt securities	-	2,481,728	130,700	2,612,428	2,553,553
-Listed funds	-	2,515,032	-	2,515,032	2,425,000
-Listed equities	-	1,489,832	-	1,489,832	1,446,637
Total (Rial)	**7,412,666**	**46,486,592**	**130,700**	**54,029,958**	**53,855,865**
Total (US$)	**19,253,678**	**120,744,395**	**339,481**	**140,337,554**	**139,885,364**

	Held For Trading Rial	Available for Sale Rial	Held to Maturity Rial	Total Rial	Cost Rial
31 December 2009					
-Government development bonds- Oman	6,198,219	-	1,135,000	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 (Rial)	6,198,219	34,950,726	1,265,700	42,414,645	42,367,665
Total (US$)	16,099,270	90,781,106	3,287,532	110,167,908	110,045,883

Notes to the Financial Statements
Year ended 31 December 2010 (continued)

8. Property and Equipment

	Freehold Land Rial	Leasehold Modifications Rial	Computer and Other Equipment Rial	Vehicles Rial	Furniture Rial	Capital work in Progress Rial	Total Rial
Cost							
At 1 Jan 2010	5,865,366	1,921,784	3,521,095	94,049	331,258	103,264	11,836,816
Additions	37,919	2,048	142,302	-	10,971	222,737	415,977
Transfers	-	-	38,762	-	3,864	(42,626)	-
Disposals	-	(2,379)	-	-	(9,075)	-	(11,454)
At 31 Dec 2010	5,903,285	1,921,453	3,702,159	94,049	337,018	283,375	12,241,339
Depreciation							
At 1 Jan 2010	-	812,544	1,671,894	50,242	112,005	-	2,646,685
Charge	-	502,978	541,508	21,825	53,474	-	1,119,785
Disposals/Transfers	-	(661)	-	-	(7,118)	-	(7,779)
At 31 Dec 2010	-	1,314,861	2,213,402	72,067	158,361	-	3,758,691
Net Book Value							
At 31 Dec 2010 (Rial)	**5,903,285**	**606,592**	**1,488,757**	**21,982**	**178,657**	**283,375**	**8,482,648**
At 31 Dec 2010 (US$)	**15,333,208**	**1,575,564**	**3,866,901**	**57,096**	**464,044**	**736,039**	**22,032,852**

Notes to the Financial Statements
Year ended 31 December 2010 (continued)

	Freehold Land Rial	Leasehold Modifications Rial	Computer and Other Equipment Rial	Vehicles Rial	Furniture Rial	Capital work in Progress Rial	Total Rial
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 (Rial)	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

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 2010 (continued)

9. Income Tax

2009 US$	2010 US$		2010 Rial	2009 Rial
		Current Liability:		
3,034,970	**5,097,883**	Current Year	**1,962,685**	1,168,464
1,528,305	**1,630,413**	Prior Years	**627,709**	588,397
4,563,275	**6,728,296**		**2,590,394**	1,756,861
		Deferred tax:		
884,002	**894,688**	At 1 January	**344,455**	340,341
10,687	**40,798**	Movement for the year relating to profit or loss	**15,707**	4,114
894,689	**935,486**	At 31 December	**360,162**	344,455
		The deferred asset comprises the following types of temporary differences:		
779,870	**779,870**	Loan loss disallowed for tax purposes	**300,250**	300,250
114,819	**155,616**	Accelerated accounting depreciation	**59,912**	44,205
894,689	**935,486**		**360,162**	344,455
		Income statement		
3,045,657	**5,138,681**	Current year	**1,978,392**	1,172,578
(10,687)	**(40,798)**	Deferred tax income relating to the origination and reversal of temporary differences	**(15,707)**	(4,114)
3,034,970	**5,097,883**		**1,962,685**	1,168,464

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

2009 US$	2010 US$		2010 Rial	2009 Rial
25,219,812	**41,721,690**	Accounting profit	**16,062,850**	9,709,628
		Expense/(income) excluded in determining taxable profit:		
698,629	**296,317**	Depreciation	**114,082**	268,972
-	**1,065**	Loss on sale of asset	**410**	-
-	**(201,226)**	Dividends on MSM listed securites	**(77,472)**	-
-	**(228,504)**	Gain on listed investments	**(87,974)**	-
25,918,441	**41,589,342**	Taxable profit	**16,011,896**	9,978,600
		Effective rate of income tax	**12.32%**	12.08%

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 Rial 30,000.

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

Notes to the Financial Statements
Year ended 31 December 2010 (continued)

10. Other Assets

2009 US$	2010 US$		2010 Rial	2009 Rial
462,475	**318,452**	Interest receivable	**122,604**	178,053
1,747,688	**1,218,476**	Prepayments	**469,114**	672,860
9,486,249	**9,990,564**	Acceptances	**3,846,367**	3,652,206
38,314	**33,260**	Others	**12,805**	14,751
11,734,726	**11,560,752**		**4,450,890**	4,517,870

11. Customers Deposits

2009 US$	2010 US$		2010 Rial	2009 Rial
947,991,171	**1,004,943,922**	Time deposits	**386,903,410**	364,976,601
264,243,468	**637,076,678**	Demand and saving deposits	**245,274,521**	101,733,735
1,212,234,639	**1,642,020,600**		**632,177,931**	466,710,336

The related maturity profile and interest rate risk is given in note 29 and 30 respectively.

12. Other Borrowed Funds

2009 US$	2010 US$		2010 Rial	2009 Rial
15,584,416	**15,584,416**	Fixed rate bonds	**6,000,000**	6,000,000
4,840,153	**1,593,400**	Other loans	**613,459**	1,863,459
20,424,569	**17,177,816**		**6,613,459**	7,863,459

13. Other liabilities

2009 US$	2010 US$		2010 Rial	2009 Rial
12,932,060	**15,428,429**	Interest payable	**5,939,945**	4,978,843
1,518,275	**1,804,501**	Staff related liabilities	**694,733**	584,536
7,125,649	**14,717,431**	Accrual for expenses	**5,666,211**	2,743,375
9,486,249	**9,990,564**	Acceptances	**3,846,367**	3,652,206
31,062,233	**41,940,925**		**16,147,256**	11,958,960

Notes to the Financial Statements
Year ended 31 December 2010 (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:

2009 US$	2010 US$		2010 Rial	2009 Rial
81,348	**127,551**	Liability as at 1 January	**49,107**	31,319
87,868	**87,301**	Expense recognized	**33,611**	33,829
(41,665)	**(51,535)**	End of service benefits paid	**(19,841)**	(16,041)
127,551	**163,317**	Liability as at 31st December	**62,877**	49,107

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 2009 have been transferred to the CMA Fund in September 2010.

14. Subordinated Liabilities

In December 2010, the Bank issued subordinated bonds of Rial 35 million which are listed in the Muscat Securities Market. These are subordinated, non-convertible and unsecured bonds (Tier II Capital) and the tenor of the bond is 7 years where the bank has an option to redeem the Bonds at the end of 5 years from the allotment date. The bond carries an interest rate of 5.5% per annum [payable semi-annually on 15 June and 15 December]. The subordinated loan (Tier II capital) was raised in October 2010 for a period of 7 years.

2009 US$	2010 US$		2010 Rial	2009 Rial
-	**12,987,013**	Subordinated Loan	**5,000,000**	-
-	**90,909,091**	Subordinated Bonds	**35,000,000**	-
-	**-**		**-**	-
-	**103,896,104**		**40,000,000**	-

Notes to the Financial Statements
Year ended 31 December 2010 (continued)

15. Share Capital

The authorised share capital of the Bank is 1,000,000,000 shares of 100 baizas each, out of which 712,384,616 shares (2009: 678,461,539) are issued and fully paid up. During the year, 33,923,077 shares were issued as bonus shares.

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 2010	Number of Shares 2009
Ahli United Bank BSC, Bahrain	**249,334,614**	237,461,538
MB Holding and subsidiaries	**108,366,414**	103,206,110
	357,701,028	340,667,648

16. 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, Rial 1,410,017 was transferred to legal reserve.

17. 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 Rial 705,008 (2009: Rial 427,058) was made to this reserve during the year.

18. Dividend Paid and Proposed

The Board of Directors has recommended a stock dividend of 12.5% (1 share for every 8 shares held) which is subject to approval of the shareholders at the Annual General Meeting and the regulatory authorities (2009: 7% Cash dividend and 5% stock dividend).

Notes to the Financial Statements
Year ended 31 December 2010 (continued)

19. Interest Income

2009 US$	2010 US$		2010 Rial	2009 Rial
71,916,943	**89,338,971**	Loans and advances to customers	**34,395,504**	27,688,023
717,790	**829,808**	Financial investments	**319,476**	276,349
321,605	**295,338**	Due from other banks	**113,705**	123,818
72,956,338	**90,464,117**		**34,828,685**	28,088,190

20. Interest Expense

2009 US$	2010 US$		2010 Rial	2009 Rial
32,714,904	**31,071,740**	Time deposits	**11,962,620**	12,595,238
1,435,190	**2,894,545**	Borrowings	**1,114,400**	552,548
236,608	**72,052**	Placements	**27,740**	91,094
3,061,605	**6,129,127**	Demand and saving deposits	**2,359,714**	1,178,718
37,448,307	**40,167,464**		**15,464,474**	14,417,598

21. Other Operating Income

2009 US$	2010 US$		2010 Rial	2009 Rial
10,590,239	**15,445,301**	Fees & commission (net)	**5,946,441**	4,077,242
-	**242,408**	Gain on sale of investments	**93,327**	-
374,281	**912,047**	Foreign exchange	**351,138**	144,098
-	**201,226**	Dividends Received	**77,472**	-
13,117	**(1,257)**	(Loss)/ gain on sale of fixed assets	**(484)**	5,050
10,977,637	**16,799,725**		**6,467,894**	4,226,390

The commission and fee income shown above is net of commission and fees paid of Rial 350,002 (2009: Rial 259,998).

Notes to the Financial Statements
Year ended 31 December 2010 (continued)

22. Staff Expenses

2009 US$	2010 US$		2010 Rial	2009 Rial
6,929,626	**8,230,868**	Salaries	**3,168,884**	2,667,906
3,214,044	**3,531,257**	Allowances	**1,359,534**	1,237,407
1,184,084	**1,119,527**	Others	**431,018**	455,872
11,327,754	**12,881,652**		**4,959,436**	4,361,185

23. Other Operating Expenses

2009 US$	2010 US$		2010 Rial	2009 Rial
306,312	**454,545**	Board related expenses	**175,000**	117,930
1,979,247	**2,047,239**	Occupancy costs	**788,187**	762,010
4,698,530	**5,787,190**	Other administrative expenses	**2,228,068**	1,808,934
6,984,089	**8,288,974**		**3,191,255**	2,688,874

24. 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:

	2010	2009
Net profit for the year (Rial)	**14,100,165**	8,541,164
Weighted average number of shares	**712,384,616**	712,384,616
Basic earnings per share (baizas)	**19.8**	12.0

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

Earnings per share at and for the year ended 31 December 2009 have been calculated using the weighted average shares outstanding for the period. The weighted average shares outstanding for the years ended 31 December 2010 and 31 December 2009 were 712,384,616 shares and these include 33,923,077 bonus shares.

Notes to the Financial Statements
Year ended 31 December 2010 (continued)

25. Cash and Cash Equivalents

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

2009 US$	2010 US$		2010 Rial	2009 Rial
		Cash and current balances with		
281,390,759	**171,089,245**	Central Bank of Oman	**65,869,359**	108,335,442
18,724,476	**40,101,275**	Due from other Banks	**15,438,991**	7,208,923
77,922,075	**103,896,104**	Government certificates of deposit	**40,000,000**	30,000,000
(91,298,509)	**(15,477,730)**	Due to other banks	**(5,958,926)**	(35,149,926)
286,738,801	**299,608,894**		**115,349,424**	110,394,439

26. 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 2010			Notional amounts by term to maturity				
	Assets Rial	**Liabilities Rial**	**Notional amount Total Rial**	**Within 3 months Rial**	**3-12 months Rial**	**1-5 years Rial**	**Over 5 years Rial**
Derivatives:							
Interest rate swaps	**249,318**	**-**	**32,609,289**	**1,161,930**	**21,727,090**	**8,061,130**	**1,659,139**
Interest rate swaps	**-**	**633,350**	**32,609,289**	**1,161,930**	**21,727,090**	**8,061,130**	**1,659,139**
Forward Purchase contracts	**-**	**215,613**	**41,769,788**	**1,710,761**	**40,059,027**	**-**	**-**
Forward Sales contracts	**5,788**	**-**	**41,979,613**	**1,710,406**	**40,269,207**	**-**	**-**

31 December 2009			Notional amounts by term to maturity				
	Assets Rial	Liabilities Rial	Notional amount Total Rial	Within 3 months Rial	3-12 months Rial	1-5 years Rial	Over 5 years Rial
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	-

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

Notes to the Financial Statements
Year ended 31 December 2010 (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.

27. Contingent Liabilities and Commitments

2009 US$	**2010 US$**		**2010 Rial**	2009 Rial
51,525,384	**80,010,914**	Financial guarantees	**30,804,202**	19,837,273
23,471,252	**24,992,390**	Letters of credit	**9,622,070**	9,036,432
1,079,597	**1,155,751**	Capital commitments	**444,964**	415,645
-	**6,586,983**	Loan commitments	**2,535,989**	-
		Lease commitments		
1,477,579	**1,386,930**	- not later than one year	**533,968**	568,868
2,110,437	**731,896**	- more than one year and upto five years	**281,780**	812,518
79,664,249	**114,864,864**		**44,222,973**	30,670,736

Notes to the Financial Statements
Year ended 31 December 2010 (continued)

28. 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:

2009 US$	2010 US$		2010 Rial	2009 Rial
		Directors and Senior Management		
1,644,158	**810,255**	Loans and advances	**311,948**	633,001
677,049	**4,095,592**	Customers deposits	**1,576,803**	260,664
		Major shareholders		
38,649,208	**93,198,392**	Loans and advances	**35,881,381**	14,879,945
10,186,668	**53,638,351**	Due to banks and customer deposits	**20,650,765**	3,921,867
5,000,000	**5,000,000**	Investments	**1,925,000**	1,925,000
-	**439,860**	Other Assets	**169,346**	-
944,543	**957,031**	Other liabilities	**368,457**	363,649
159,780,132	**176,071,410**	Derivatives	**67,787,493**	61,515,351
29,244,618	**31,621,412**	Contingent Liabilities and Commitments	**12,174,244**	11,259,178

The related maturity profile and interest rate risk is given in note 29 and 30 respectively.

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

2009 US$	2010 US$		2010 Rial	2009 Rial
		Directors and Senior Management		
94,203	**70,886**	Interest Income	**27,291**	36,268
5,912	**92,797**	Interest Expense	**35,727**	2,276
194,805	**324,675**	Board Remuneration proposed	**125,000**	75,000
111,506	**129,870**	Board Sitting fees	**50,000**	42,930
		Major shareholders		
1,570,023	**3,621,869**	Interest Income	**1,394,420**	604,459
352,810	**1,543,371**	Interest Expense	**594,198**	135,832
179,195	**393,434**	Fees and Other income	**151,472**	68,990
2,250,805	**1,961,816**	Other operating expenses	**755,299**	866,560

The Bank has also entered into a technical and support agreement (TMSA) with a major shareholder. In accordance with the agreement, an amount of Rial 365,457 equivalent to US$949,239 was included in the operating expenses during 2010 (2009: Rial 219,654 equivalent to US$570,530).

Notes to the Financial Statements
Year ended 31 December 2010 (continued)

Compensation of the key management personnel is as follows:

2009 US$	2010 US$		2010 Rial	2009 Rial
1,250,795	**1,532,899**	Salaries and allowances	**590,166**	481,556
23,681	**83,966**	End of service benefits	**32,327**	9,117
1,274,476	**1,616,865**	Total compensation paid to key personnel	**622,493**	490,673

No provision is required in respect of loans given to related parties (2009: nil).

29. Liquidity Risk

The maturity profile of the assets and liabilities at 31 December 2010 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 Rial	3 to 12 months Rial	1 to 5 years Rial	5 to 10 years Rial	More than 10 years Rial	Total Rial
As of 31 December 2010						
Cash and balances with Central Bank of Oman	50,033,175	7,502,135	4,320,699	4,013,350	549,000	**66,418,359**
Due from other banks	15,438,991	-	-	-	-	**15,438,991**
Financial investments	51,417,530	-	2,612,428	-	-	**54,029,958**
Loans and advances	208,869,258	50,970,750	138,873,720	74,760,100	182,939,578	**656,413,406**
Property and equipment	-	-	-	2,579,363	5,903,285	**8,482,648**
Deferred tax asset	-	-	-	360,162	-	**360,162**
Other assets	4,392,172	-	-	58,718	-	**4,450,890**
Total Assets (Rial)	**330,151,126**	**58,472,885**	**145,806,847**	**81,771,693**	**189,391,863**	**805,594,414**
Total Assets (US$)	**857,535,392**	**151,877,623**	**378,719,083**	**212,394,008**	**491,926,918**	**2,092,453,024**
Customers deposits	186,276,131	210,516,300	121,242,500	114,143,000	-	**632,177,931**
Other borrowed funds	613,459	6,000,000	-	-	-	**6,613,459**
Due to other banks	5,958,926	-	-	-	-	**5,958,926**
Taxation	2,590,394	-	-	-	-	**2,590,394**
Other liabilities	11,939,616	2,648,437	1,559,203	-	-	**16,147,256**
Subordinated liabilities	-	-	-	40,000,000	-	**40,000,000**
Total liabilities (Rial)	**207,378,526**	**219,164,737**	**122,801,703**	**154,143,000**	**-**	**703,487,966**
Total liabilities (US$)	**538,645,522**	**569,259,057**	**318,965,462**	**400,371,430**	**-**	**1,827,241,471**
Net liquidity gap (Rial)	**122,772,600**	**(160,691,852)**	**23,005,144**	**(72,371,307)**	**189,391,863**	**102,106,448**
Net liquidity gap (US$)	**318,889,870**	**(417,381,434)**	**59,753,621**	**(187,977,422)**	**491,926,918**	**265,211,553**

Notes to the Financial Statements
Year ended 31 December 2010 (continued)

	On Demand or within 3 months Rial	3 to 12 months Rial	1 to 5 years Rial	5 to 10 years Rial	More than 10 years Rial	Total Rial
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 (Rial)	236,864,677	52,199,517	45,505,244	12,313,516	269,175,078	616,058,032
Total Assets (US$)	615,232,927	135,583,161	118,195,439	31,983,158	699,156,047	1,600,150,732
Customers deposits	134,414,531	197,034,184	55,876,960	79,384,661	-	466,710,336
Other borrowed funds	625,000	625,000	6,613,459	-	-	7,863,459
Due to other banks	35,149,926	-	-	-	-	35,149,926
Taxation	1,756,861	-	-	-	-	1,756,861
Other liabilities	7,480,333	3,297,503	1,178,188	2,936	-	11,958,960
Total liabilities (Rial)	179,426,651	200,956,687	63,668,607	79,387,597	-	523,439,542
Total liabilities (US$)	466,043,249	521,965,421	165,373,005	206,201,550	-	1,359,583,225
Net liquidity gap (Rial)	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

30. 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 Rial	Months 3 to 12 Rial	Year 1 to 5 Rial	Year 5 to 10 Rial	Over 10 years Rial	Non interest sensitive Rial	Total Rial
As of 31 December 2010								
Cash and balances with								
Central Bank of Oman	-	35,000,000	-	-	-	-	30,918,359	**65,918,359**
Deposits with Central Bank of Oman	**2.00%**	500,000	-	-	-	-	-	**500,000**
Due from other banks	**0.18%**	15,438,991	-	-	-	-	-	**15,438,991**
Financial investments	**0.72%**	51,417,530	-	2,612,428	-	-	-	**54,029,958**
Loans and advances	**6.59%**	656,413,406	-	-	-	-	-	**656,413,406**
Property and equipment	-	-	-	-	-	-	8,482,648	**8,482,648**
Deferred tax asset	-	-	-	-	-	-	360,162	**360,162**
Other assets	-	-	-	-	-	-	4,450,890	**4,450,890**
Total Assets		**758,769,927**	**-**	**2,612,428**	**-**	**-**	**44,212,059**	**805,594,414**
Customers deposits	**2.80%**	163,339,931	164,567,000	109,118,000	30,000	-	195,123,000	**632,177,931**
Other borrowed funds	**5.73%**	613,459	6,000,000	-	-	-	-	**6,613,459**
Due to other banks	**0.24%**	5,958,926	-	-	-	-	-	**5,958,926**
Taxation	-	-	-	-	-	-	2,590,394	**2,590,394**
Other liabilities	-	-	-	-	-	-	16,147,256	**16,147,256**
Subordinated liabilities	**5.53%**	-	-	-	40,000,000	-	-	**40,000,000**
Equity	-	-	-	-	-	-	102,106,448	**102,106,448**
Total liabilities and equity		**169,912,316**	**170,567,000**	**109,118,000**	**40,030,000**	**-**	**315,967,098**	**805,594,414**
Total interest rate sensitivity gap		**588,857,611**	**(170,567,000)**	**(106,505,572)**	**(40,030,000)**	**-**	**(271,755,039)**	**-**
Cumulative interest rate sensititvity gap (Rial)		**588,857,611**	**418,290,611**	**311,785,039**	**271,755,039**	**271,755,039**	**-**	**-**
Cumulative interest rate sensititvity gap (US$)		**1,529,500,288**	**1,086,469,119**	**809,831,270**	**705,857,244**	**705,857,244**	**-**	**-**

Notes to the Financial Statements
Year ended 31 December 2010 (continued)

	Average effective interest rate%	Floating rate or within 3 months Rial	Months 3 to 12 Rial	Year 1 to 5 Rial	Year 5 to 10 Rial	Over 10 years Rial	Non interest sensitive Rial	Total Rial
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
Subordinated liabilities	-	-	-	-	-	-	-	-
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 sensititvity gap (Rial)		213,638,178	43,635,340	(16,429,810)	(16,537,910)	(16,082,587)	-	-
Cumulative interest rate sensititvity 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 2010 (continued)

31. Fair Value of Financial Instruments

The Bank's accounting policy on fair value measurements is discussed in note 2.

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.

	2010 Level 1 Rial	2010 Level2 Rial	2010 Total Rial
Financial Assets			
Investments held for trading (note 7)	7,412,666	-	7,412,666
Investments available for sale (note 7)	46,486,592	-	46,486,592
Derivative financial Instruments	-		
Interest rate swaps (note 26)	-	249,318	249,318
Forward Foreign Exchange contracts (note 26)	-	5,788	5,788
	53,899,258	**255,106**	**54,154,364**
Financial Liabilities			
Derivative financial Instruments			
Interest rate swaps (note 26)	-	633,350	633,350
Forward Foreign Exchange contracts (note 26)	-	215,613	215,613
	-	**848,963**	**848,963**

No financial instrument is carried at Level 3 fair value as of 31 December 2010.

32. Geographical Distribution of Assets and Liabilities

Financial investments include Rial 3,617,819 equivalent to US$ 9,396,932 (2009: Rial 3,592,598 equivalent to US$ 9,331,423) which are denominated in US$ and Euro and issued by institutions located outside the Sultanate of Oman. In addition loans advances to Customers/Banks amounting to Rial 20,957,585 (2009: Rial 2,223,358) are located outside the Sultanate of Oman. Apart from these, all other assets and liabilities are located in the Sultanate of Oman.

33. 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

Notes to the Financial Statements
Year ended 31 December 2010 (continued)

make an independent assessment of risk management process.

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 26).

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 to the Financial Statements
Year ended 31 December 2010 (continued)

	Notes	2010 (Rial '000)	2009 (Rial '000)
Balance with Central Bank of Oman	4	**64,716**	106,799
Due from other banks	5	**15,439**	7,209
Loans and advances	6	**659,909**	446,563
Financial investments	7	**54,030**	42,415
Derivative financial instruments	26	**255**	325
		794,349	603,311
Commitments	27	**3,797**	1,797
Contingent liabilities	27	**40,426**	28,874
		44,223	30,671
Total credit risk exposure		**838,572**	633,982

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.

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

	Gross maximum exposure 2010 (Rial '000)	Net maximum exposure 2010 (Rial '000)	Gross maximum exposure 2009 (Rial '000)	Net maximum exposure 2009 (Rial '000)
Loans and advances (Note 6)	**659,909**	**279,579**	446,563	116,877
Bank and financial institutions	**134,440**	**134,440**	156,748	156,748
Commitments (Note 27)	**3,797**	**3,797**	1,797	1,797
Contingent liabilities (Note 27)	**40,426**	**40,426**	28,874	28,874
	838,572	**458,242**	633,982	304,296

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.

Notes to the Financial Statements
Year ended 31 December 2010 (continued)

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 and in listed equities. 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.

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 2010 was 87.5% (31 December 2009: 87.5%). The Bank had maintained the lending ratio at the below levels:

Notes to the Financial Statements
Year ended 31 December 2010 (continued)

	2010	2009
Year end	**84.47%**	79.08%
Maximum	**87.01%**	87.44%
Minimum	**77.05%**	77.50%
Average	**83.98%**	83.55%

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 69 % (2009: 76 %) of its customers' deposits as of 31 December 2010, with no single maturity representing more than 4.1% of the customer deposits base (2009: 6.6%).

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:

	2010 Rial '000	2009 Rial '000
Net Interest Income	**19,364**	13,671
Impact of 50 bps	**490**	405
Impact of 100 bps	**981**	811
Impact of 200bps	**1,962**	1,621

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.

Notes to the Financial Statements
Year ended 31 December 2010 (continued)

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

Total assets include Rial 184,745,096 equivalent to US$ 479,857,392 (2009: Rial 114,779,712 equivalent to US$ 298,129,122) which are denominated in US$. Total liabilities include Rial 184,706,875 equivalent to US$ 479,758,117 (2009: Rial 119,061,395 equivalent to US$ 309,250,377) denominated in US Dollars. Apart from these, all other significant assets and liabilities are denominated in Rial.

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 set up a separate unit for managing Operational Risk which is part of Risk Management Department.

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

Notes to the Financial Statements
Year ended 31 December 2010 (continued)

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:

	Rial '000	US$ '000
2010		
Effect on net interest income	**(1,726)**	**(4,483)**
Effect on equity	**(1,726)**	**(4,483)**
2009		
Effect on net interest income	(1,016)	(2,639)
Effect on equity	(1,016)	(2,639)

34. 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:

2009 US$ '000	**2010 US$ '000**		**2010 Rial '000**	2009 Rial '000
		Capital		
216,883	**246,683**	Tier 1	**94,973**	83,500
16,825	**127,990**	Tier 2	**49,276**	6,478
233,708	**374,673**		**144,249**	89,978
		Risk weighted assets		
1,192,530	**1,741,701**	Statement of financial position items	**670,555**	459,124
47,574	**64,371**	Operational risk	**24,783**	18,316
47,403	**39,262**	Market risk	**15,116**	18,250
38,987	**59,818**	Off statement of financial position items	**23,030**	15,010
1,326,494	**1,905,152**	Total	**733,484**	510,700
17.62%	**19.67%**	**Risk Asset ratio (%)**	**19.67%**	17.62%
10.00%	**12.00%**	Regulatory requirement	**12.00%**	10.00%

Notes to the Financial Statements
Year ended 31 December 2010 (continued)

35. 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:

Year ended 31 December 2010

Retail Premium & Private banking US$ '000	Corporate banking and Treasury US$ '000	Total US$ '000		Retail Premium & Private banking Rial '000	Corporate banking and Treasury Rial '000	Total Rial '000
21,327	28,969	**50,296**	Net interest income	8,211	11,153	**19,364**
11,203	5,597	**16,800**	Other operating income	4,313	2,155	**6,468**
32,530	**34,566**	**67,096**	**Total operating income**	**12,524**	**13,308**	**25,832**
(1,296)	-	**(1,296)**	Loan impairment, net of recoveries	(499)	-	**(499)**
(16,309)	(7,769)	**(24,078)**	Operating expenses	(6,279)	(2,991)	**(9,270)**
14,925	26,797	**41,722**	**Profit before tax**	5,746	10,317	**16,063**
(1,836)	(3,262)	**(5,098)**	Income tax expense	(707)	(1,256)	**(1,963)**
13,089	**23,535**	**36,624**	**Net profit for the year**	**5,039**	**9,061**	**14,100**
793,865	**1,298,588**	**2,092,453**	**Segmental Assets**	**305,638**	**499,956**	**805,594**
212,296	**1,614,945**	**1,827,241**	**Segmental Liabilities**	**81,734**	**621,754**	**703,488**

Notes to the Financial Statements
Year ended 31 December 2010 (continued)

Year ended 31 December 2009

Retail Premium & Private banking US$ '000	Corporate banking and Treasury US$ '000	Total US$ '000		Retail Premium & Private banking Rial '000	Corporate banking and Treasury Rial '000	Total Rial '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)	Loan impairment, net of recoveries	(266)	-	(266)
(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	1,600,151	Segmental Assets	264,115	351,942	616,058
156,370	1,203,216	1,359,586	Segmental Liabilities	60,202	463,238	523,440

36. Comparative figures

Certain corresponding figures for 2009 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 ahlibank

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– ICICI Bank Ltd, India

Ashish Sood: DCEO- Retail and Private Banking

- Former Head of Consumer Banking, Standard Chartered Bank, Jordan
- 14 years of banking experience in various positions and geographies in Standard Chartered Bank including:
  - General Manager, Lending, Northern Gulf and Levant based in Bahrain
  - General Manager, Credit Cards and Personal Loans, Bahrain
  - Head of Sales, Credit Cards, Standard Chartered Bank, UAE