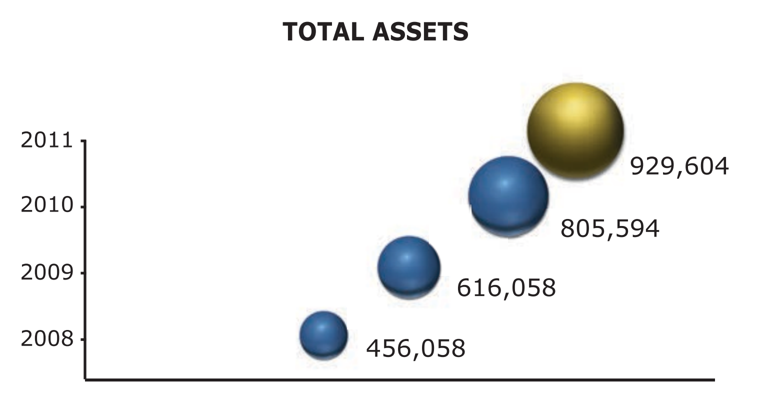
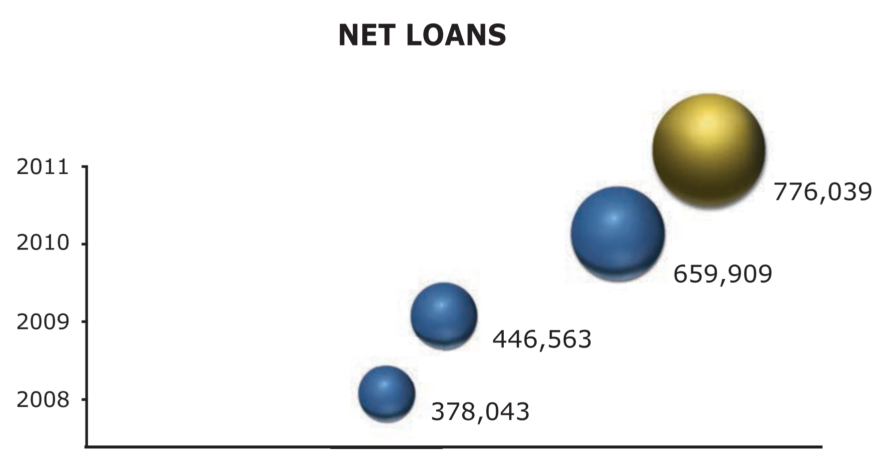
البنك الأهلي

ahlibank

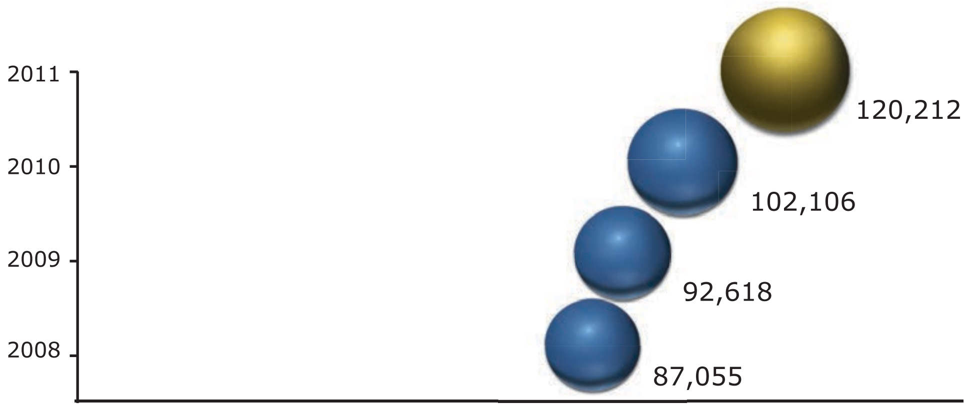
2


TOTAL ASSETS
2011
2010
2009
2008
929,604
805,594
616,058
456,058

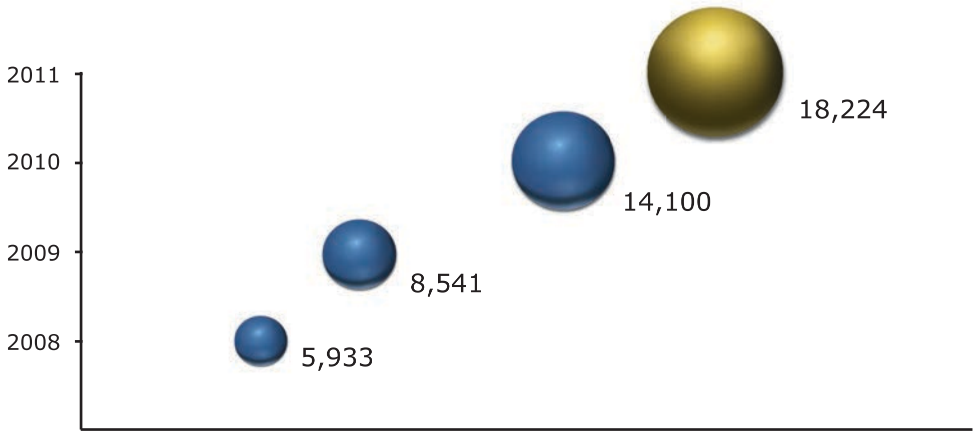
O


NET LOANS
2011
2010
2009
2008
776,039
659,909
446,563
378,043

SHAREHOLDER'S EQUITY



NET PROFIT



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

Hamdan Ali Nasser Al Hinai – Chairman

Director:
• Contracts and Legal Affairs, Ministry of Defence
Former Director:
• Planning, Ministry of Regional Municipalities and Environment

Hamad Abdulmohsen H.D. Al Marzouq – First 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
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 – Second Deputy Chairman

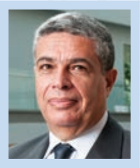
Managing Director and President:
• The Financial Corporation (FINCORP) SAOG
Director:
• Al Maha Petroleum Marketing Co. SAOG
• Qatar Oman Investment Company – Qatar

• Advent United LLC, Chairman
• Member of the Council of Higher Education
• Omani Moroccan Businessmen Council – OCCI, President
• Omani Indian Businessmen Council – OCCI, Member
• Economic Committee – OCCI, Member
Former Ambassador of Oman to France

Sayyid Khalid Hamad Hamood Al Busaidi – Director

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

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 Co, 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

Rashad Khamis Hamed Al Battashi – Director

Director:
• Oman Fixed Income Fund
• Oman Chlorine (OCHL)
• National Gas

Usama Mohammed Al Barwani – Director

Chairman:
• Flexible Industrial Packages Co. SAOG
Director:
• Taageer Finance Co. SAOG
• Oman Medical Projects Company SAOG

Chairman's Report

On behalf of the Board of Directors of Ahli Bank SAOG, it gives me great pleasure to present the 2011 annual report and financial statements of ahlibank. Amid the challenging global economic and financial situation, the key business lines of the Bank continued to record healthy performance and growth exceeding budgetary expectations.

Business Overview & Outlook

Despite adverse international developments, the Omani banking sector continued to exhibit resilience during 2011, consistent with the recovery of the real economy. The budgetary allocation for several, diversified projects during the Eighth Five-Year plan (2011-2016) in the Sultanate holds promise for the earnings and growth potential of banks. With over RO 10.4 billion investment planned in the construction sector by 2014 and Oil & Gas projects worth RO 386 millions in pipeline, the Omani banks are well positioned to grow.

Domestic and foreign private sector entities will benefit from this favorable environment and provide stimulus to 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-caliber 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 continue to develop as a strong participant in the banking sector in Oman.

Foundation stone laying ceremony for New Head Office

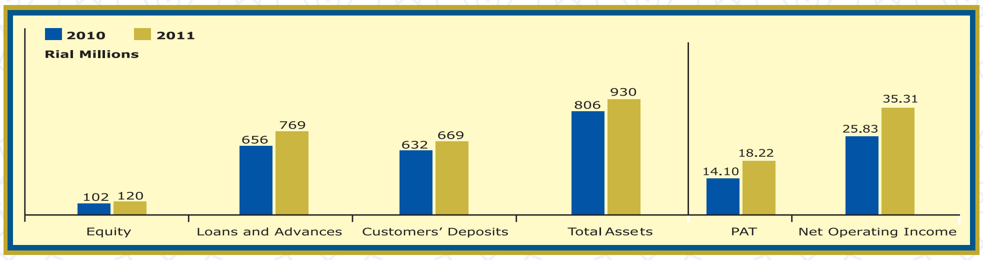
In December 2011, the foundation stone has been laid for the construction of ahlibank's New Head Office building. The design plan for the building is iconic, innovative and brings in a blend of a both traditional and modern architecture. The iconic structure will be symbolic of the nature of ahlibank as a dynamic modern financial institution strongly rooted and belonging to its Omani origin and tradition. This first phase of development will cater to the requirements of the bank for the next five years when the construction is completed by 2013.

Awards and Accolades

The Bank has received recognition from the local and regional media and investment houses as a fast-growing and profitable bank built on a stable foundation. In 2011 the bank achieved the following recognitions:

- No. 1 Best Performing Company in the Sultanate by Alam al-Iktisaad Wal' A'mal.
- The Best No.2 Bank by Business Today in their Best Bank Survey.
- The Best No.3 Bank by Oman Economic Review Magazine best Bank Survey.

Financial Highlights



	Rial Millions		
	31-Dec-10	**31-Dec-11**	**Growth %**
Equity	102	**120**	18%
Loans and Advances	656	**769**	17%
Customers' Deposits	632	**669**	6%
Total Assets	806	**930**	15%
Profit after Tax	14.10	**18.22**	29%
Net Operating Income	25.83	**35.31**	37%

The Bank continued to perform well during 2011 with all the key indicators recording growth. These results are 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 interest of all its client, counterparties and stakeholders. The Bank continues to grow in a prudent way and has established robust risk management policies and procedures enabling it to remain focused on quality of its assets without impacting its ability to expand to continually provide improving services to its customers.

The Bank's customer deposits have grown by 6% in line with our strategy to build a stable low cost deposit base. Loan growth of over 17% has been established with a prudent risk management approach and a diversified sectoral basis. The loan book continues to be of a very high quality as reflected in our NPL ratio of 1% in 2011 (2010:0.31%).

Net Operating Income has increased by 37% to Rial 35.31 Million and Operating Expenses (excluding loan impairment net of recoveries) were controlled at Rial 10.61 Million resulting in a lower cost to income ratio of 30% (2010: 36%). Overall, the Net Profit after Tax impressively rose by 29% to Rial 18.22 Million (2010: Rial 14.1 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 and EPS supportive allocation of capital; while fully complying with all Central Bank of Oman regulations in this respect.

The Bank in 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 issue was very well received and successfully placed.

The Tier I Capital as at year end 2011 amounted to Rial 112.98 Million up from Rial 94.97 Million in 2010 and the Capital Adequacy ratio is at 17.46% (2010: 19.67%), well above the mandatory 12% minimum requirement of Central Bank of Oman.

The Board of Directors with the support of the major shareholders will propose a Rial 25 Million rights issue at par for regulatory approval and implement by 30 June 2012.

Dividend:

The Bank's Earning Per Share (EPS) for 2011 has risen to Baizas 22.7 from Baizas 17.6 during 2010. 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 19% stock dividend (19 share for every 100 shares held).

Islamic Banking

Central Bank of Oman has issued a circular in June 2011 to allow Islamic Banking in the Sultanate. It had issued broad guidelines for preparation of Islamic Banking windows. ahlibank is well prepared and geared up to meet the requirements of the Central Bank of Oman and shall start the Sharia' compliant product after regulatory approvals and completion of its rights issue as explained above.

Thanks

We remain eternally grateful to His Majesty Sultan Qaboos Bin Said and his Government for creating the environment that allows the Bank to operate and grow effectively supported by his visionary leadership of Oman. The Board of Directors places on record its gratitude to the Central Bank of Oman and the Capital Market Authority to strengthen the financial Market in the Sultanate. The foresight and balanced policies adopted by His Majesty's Government have helped the Bank to achieve encouraging results.

We acknowledge the contribution of our management and staff for the dedication and commitment in making ahlibank one of the leading financial institutions in the Sultanate. We also recognized the contribution of our strategic partner, Ahli United Bank, which has been invaluable in terms of our development including the preparation for our upcoming Islamic Banking rollout. Working together, we will continue to strengthen our commitment to service excellence and seek concrete ways to reward our customers' continued loyalty. Last but not the least, we thank all our shareholders for reposing their trust in us.

Hamdan Ali Nasser Al Hinai
Chairman
30th January 2012

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 12to 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 2011 and does not extend to the financial statements or any other reports of Ahli Bank SAOG, taken as a whole.

30 January 2012

Paul Callaghan

CORPORATE GOVERNANCE REPORT

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.

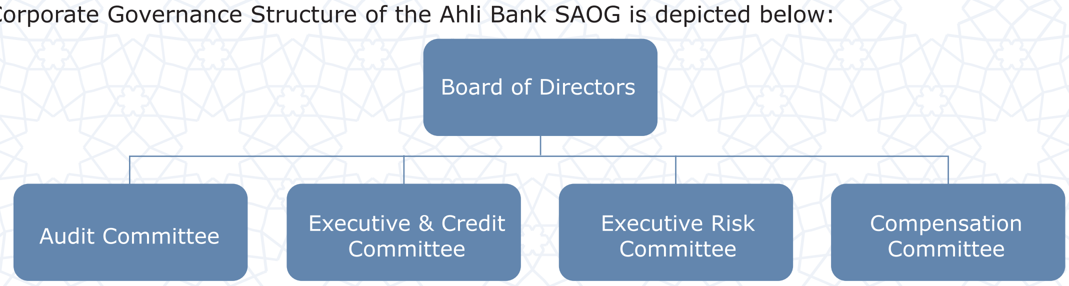
At the core of corporate governance practice is the Board, which oversees how the management serves and protects the long-term interests of all the stakeholders of the bank. We believe that an active, well-informed and independent board is necessary to ensure the highest standards of corporate governance.

CORPORATE GOVERNANCE IMPLEMENTATION INITIATIVES AT AHLI BANK SAOG

Over the years, the board has developed corporate governance culture to help fulfill our corporate responsibilities 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:



ahlibank

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 2011

Sl. No.	Board Meeting
1.	25-Jan-2011
2.	20-Mar-2011
3.	26-Apr-2011
4.	28-Jul-2011
5.	10-Oct-2011
6.	13-Dec-2011

Directors Attendance Record in the Board Meetings:

Name of Director	Position	Type of Directorship	Board Meetings Attended	Sub-committees memberships (at year end) #	Whether attended last AGM
Hamdan Ali Nasser Al-Hinai	Chairman	Independent/ Representing MOD Pension Fund	6	CC,ECC	Yes
Hamad Abdulmohsen H.D. Al Marzouq	First Deputy Chairman	Independent/ Representing Ahli United Bank	4	CC,ECC	Yes
Munir Abdulnabi Yousef Makki	Second Deputy Chairman	Independent	6	AC	Yes
H.E. Sayyid Khalid Hamad Hamood Al Busaidi	Director	Independent	3	ERC	Yes
Adel Mohamed Abdelshafe El-Labban	Director	Independent	5	CC,ECC,ERC	Yes
Sanjeev Baijal	Director	Independent	5	AC	No
Keith Henry Gale	Director	Independent	5	ECC, ERC	No
Mustafa Shafqat Anwar	Director	Independent	6	AC	Yes
Safana Mohamed Al Barwani	Director	Independent / Representing MB Holding	6	ERC	Yes
Rashad Khamis Hamed Al Batashi **	Director	Independent	4	ERC	NA
Usama Mohammed Al Barwani **	Director	Independent	3	ECC	Yes
Hassan Ehsan Nasseb*	Director	Independent	1	NA	Yes

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

Audit Committee- AC, Executive and Credit Committee- ECC, Executive Risk Committee- ERC, Compensation Committee- CC, Not applicable- NA.

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

SUB-COMMITTEES

Following the conversion into full service commercial bank, 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 RiskManagement activity within the bank.

Composition of Audit Committee and details of Meetings held and Attendance Record of Members during the year 2011:

Composition of Audit Committee		Meeting Dates			
Director's Name	Position	24-Jan-11	25-Apr-11	28-Jul-11	10-Oct-11
Munir Abdulnabi Yousef Makki	Chairman	Yes	Yes	Yes	Yes
Sanjeev Baijal	Member	Yes	Yes	Yes	Yes
Mustafa Shafqat Anwar	Member	Yes	Yes	Yes	Yes
Attendance		3	3	3	3

B. Executive and Credit Committee:

The role of the Executive and Credit Committee includes:

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

ahlibank

SUB-COMMITTEES (continued)

Composition of Executive and Credit Committee and details of Meetings held and Attendance Record of Members during the year 2011:

Composition of Executive & Credit Committee		Meetings Dates			
Director's Name	**Position**	**25-Jan-11**	**26-Apr-11**	**28-Jul-11**	**31-Dec-11**
Hamad Abdulmohsen H.D. Al Marzouq	Chairman	No	Yes	No	Yes
Hamdan Ali Nasser Al Hinai	Member	Yes	Yes	Yes	Yes
Adel Mohamed Abdelshafe El-Labban	Member	Yes	Yes	No	Yes
Keith Henry Gale	Member	Yes	Yes	Yes	Yes
Usama Mohammed Al Barwani *	Member	No	No	Yes	Yes
Attendance		3	4	3	5

* Elected/appointed during the year

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.
- Executive Risk Committee is 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 2011:

Composition of Executive Risk Committee		Meeting Dates			
Director's Name	**Position**	**25-Jan-11**	**26-Apr-11**	**28-Jul-11**	**13-Dec-11**
H.E. Sayyid Khalid Hamad Hamood Al Busaidi	Chairman	No	No	No	Yes
Adel Mohamed Abdelshafe El-Labban	Member	Yes	Yes	No	Yes
Keith Henry Gale	Member	Yes	Yes	Yes	Yes
Safana Mohamed Al Barwani	Member	No	Yes	Yes	Yes
Rashad Khamis Hamed Al Batashi **	Member	No	Yes	Yes	No
Hassan Ehsan Naseeb *	Member	Yes	No	No	No
Hamdan Ali Nasser Al Hinai	Ex-Chairman	Yes	No	No	No
Attendance		4	4	3	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 2011:

Composition of Compensation Committee		Meetings Dates
Director's Name	Position	20-Mar-11
Hamdan Ali Nasser Al Hinaii	Chairman	No
Hamad Abdulmohsen H.D. Al Marzouq	Member	Yes
Adel Mohamed Abdelshafe El-Labban	Member	Yes
H.E. Sayyid Khalid Hamad Hamood Al Busaidi	Ex-Chairman	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 ahlibank 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 hold 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 – India.
Former COO, Calyon Bank – 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 penalties or strictures imposed by the regulators on any matters relating to the capital market over the last three years.

REMUNERATION MATTERS

An amount of RO 140,000 is proposed as Board Remuneration in addition to the sitting fees paid to the Board members for year 2011. The details of sitting fees paid are below:

Name of Director	Sitting Fees Paid (Rial)
Hamdan Ali Nasser Al-Hinai	5,000
Hamad Abdulmohsen H.D. Al Marzouq	2,800
Munir Abdulnabi Yousef Makki	4,500
H.E. Sayyid Khalid Hamad Hamood Al Busaidi	2,100
Adel Mohamed Abdelshafe El-Labban	4,300
Sanjeev Baijal	3,700
Keith Henry Gale	5,100
Mustafa Shafqat Anwar	3,700
Safana Mohamed Al Barwani	3,400
Rashad Khamis Hamed Al Batashi **	2,100
Usama Mohammed Al Barwani **	2,100
Hassan Ehsan Nasseb*	800
Total	**39,600**

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

Total remuneration paid to the top five executives of the bank amounted to Rial 846,708 during the year 2011 which included salary, benefits, perquisites, bonuses 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. The latest news and information about the bank is also 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.

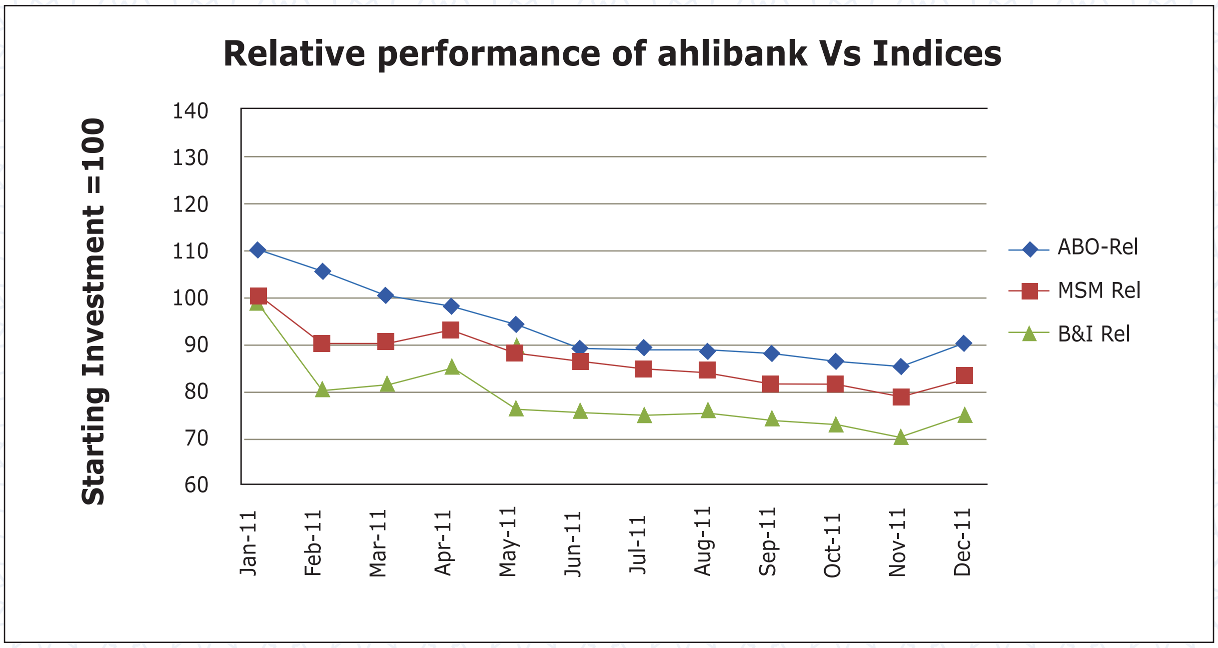
MARKET PRICE DATA:

High/Low share prices in 2011

Table below shows the high/low prices of the bank's shares in Rial during the months in the year 2011.

Month	High	Low
Jan-2011	0.329	0.290
Feb-2011	0.345	0.289
Mar-2011	0.326	0.275
Apr-2011	0.295	0.281
May-2011	0.284	0.260
Jun-2011	0.294	0.258
Jul-2011	0.270	0.260
Aug-2011	0.264	0.231
Sep-2011	0.264	0.256
Oct-2011	0.263	0.253
Nov-2011	0.255	0.245
Dec-2011	0.270	0.250

Performance of Ahli Bank SAOG Vs MSM and Banking Indices



ahlibank

Distribution of share ownership among shareholders as of 31 December 2011:

Name	Country of incorporation	Number of shares	%
Ahli United Bank	Bahrain	280,501,440	35.0
MB Holding & Subsidiaries – Oman	Oman	121,912,214	15.2
International Finance Corporation	USA	79,380,000	9.9
Ministry of Defence – Pension Fund	Oman	52,093,125	6.5
Ministry of Civil Services – Pension Fund	Oman	45,290,507	5.7
Others	-	222,255,407	27.7

DONATIONS

The bank paid a donation of Rial 13,250 to various charitable organizations and Rial 20,984 towards MyHassad Special Ramadhan Charity offer to various organizations.

EXTERNAL AUDITOR'S PROFILE – KPMG

The shareholders of the bank have appointed KPMG as the auditors for the year 2011. 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 4 partners, 5 directors and 19 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 150 countries and employs 138,000 people worldwide. KPMG in Oman is accredited by the Capital Market Authority (CMA) to audit joint stock companies (SAOG's). During the year 2011, professional fees in the amount of RO 35,000 were rendered by the external auditors in respect of the services provided by them to the organization including the audit of Corporate Governance Report.

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

Hamdan Ali Nasser Al Hinai
Chairman
Board of Directors

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 2011. 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.

30 January 2012

Paul Callaghan

Basel II - Pillar III Report 2011

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 December 2011

- 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 adjust 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 returns.

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 and loans and collective provisions and reserves for credit risk. There is no innovative or complex capital instrument in the capital structure of the Bank.

	Rial '000s
Tier I capital	112,982
Tier II capital	43,596

Tier II Capital

In 2010, the Bank came out with its maiden Tier II capital issue of Rial 40 Million comprising of a Private Placement (December 2010) of Rial Thirty Five Million subordinated, non-convertible and 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 OMR Five Million was accepted at 5.75% for a tenor of 7 years.

The Bonds and the loan 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 the year 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

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

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

Risk 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 a 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

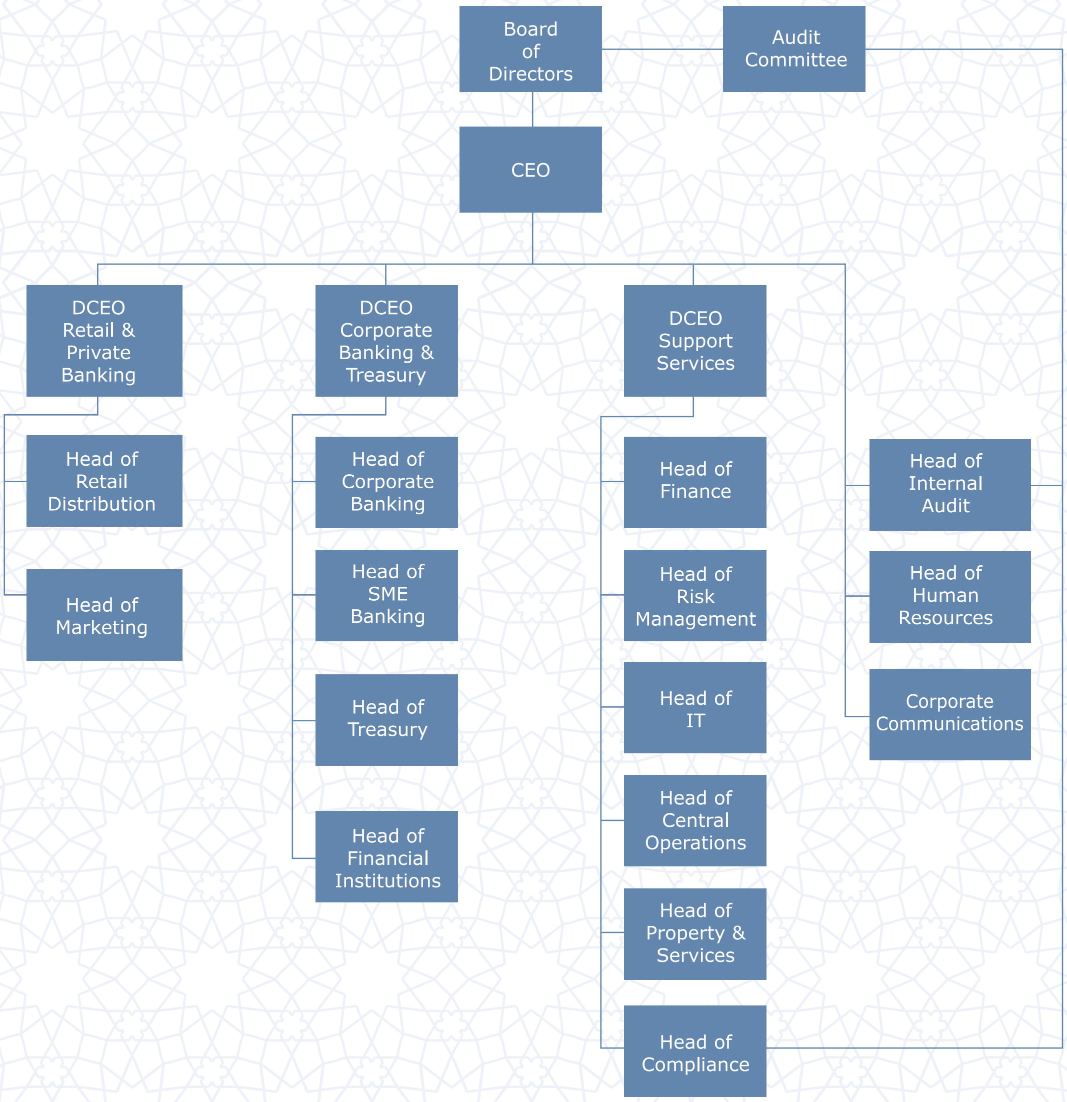
Policies and Procedures

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 the 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 and Investment Policy
3. Expenses Policy
4. Liquidity Policy
5. Trading Book Policy
6. Operational Risk Policy
7. Disclosure Policy
8. Anti-Fraud Policy
9. Anti-Money Laundering Policy
10. Business Continuity Management
11. Code of Business Conduct
12. Compliance Policy
13. Dividend Policy
14. Capital Management Policy
15. Human Resources Policy
16. Personal Account Dealing Policy
17. Outsourcing Policy
18. Voice Recording Policy
19. Board Remuneration Policy
20. Corporate Governance Policy
21. New Product Committee Policy
22. Risk Management Approach and Framework
23. Social and Environment Management System
24. Corporate Social Responsibility Policy
25. Financial Institution Policy
26. Information Security Management 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 and 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 25 September 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 limit

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	Sovereign Treasury Instruments of US and GCC countries (max. tenor 120 days)
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%	40%
Credit and Investment Committee	15%	5%	25%
Level 1	2%	1%	15%

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 Credit Committee	15.0 %	12.5 %	10.0 %
Credit and Investment Committee	10.0 %	7.0 %	3.0 %
Level 1	2.0 %	0.25 %	0.10 %
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 corporates to mitigate risks, wherever applicable and has a system of assessment of their creditworthiness.

	Rial '000s
Gross loans and advances	776,039

Type of security	**Gross loans and advances outstanding as of 31 December 2011 Rial '000**
Cash and fixed deposits	5,447
Properties	90,852
Shares	8,735
Residential mortgages	111,066
Bank guarantees	156

Due to historical reasons (previously 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 segments, 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; and
- 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 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; and
- 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; and
- 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 and 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 9 companies namely, Shell Oman Marketing, Oman Telecommunications, United Power, AES Barka, Al Kamel Power Co, Sohar Power, Port Services, Nawras and SMN Power Holding and the balance as of 31 December 2011 stood at Rial 1,898,330 generating a dividend income of Rial 222,023. In addition, the Bank had generated a realized profit of Rial 65,299 and unrealized gain of Rial 79,374 was recorded in other comprehensive income.

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
2011	
Effect on interest income	**(4,642)**
Effect on equity	**(4,642)**

2010	
Effect on interest income	(4,326)
Effect on equity	(4,326)

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 corporates 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 deposit liabilities with CBO in the form of clearing balances; and
- 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, and
- 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; and
- 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 yearend 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 2011 (except the listed equity investments as mentioned in 7 above)

14. DISCLOSURE TABLES

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

As on December 31, 2011

S. No	Details	Gross balances (book value)	Net balances (book value)	Risk weighted assets
1	On-balances sheet items	933,272	925,852	800,135
2	Off-balance sheet items	111,288	110,548	63,640
3	Derivatives	30,691	30,691	932
4	**Total**	**1,075,251**	**1,069,581**	**864,707**
5	Tier 1 Capital			112,982
6	Tier 2 Capital			43,596
7	Tier 3 Capital			-
8	**Total Regulatory Capital**			**156,578**
8.1	Capital requirement for credit risk			103,764
8.2	Capital requirement for market risk			973
8.3	Capital requirement for operational risk			2,900
9	**Total required capital**			**107,637**
10	Tier 1 Ratio			12.60%
11	Total Capital Ratio			17.46%

2. Capital Break (Amounts in Rial '000)

As on December 31, 2011

S. NO	Elements of capital	Amount
	Tier I Capital	
1	Paid-up capital	80,143
2	Share premium	-
3	Legal reserves	10,266
4	General reserves	-
5	Subordinated loan reserve	7,303
6	Stock dividend *	15,227
7	Retained earnings	618
8	Non-cumulative perpetual preferred stock	-
9	Other non-distributable Reserve	-
	Total Gross Tier I Capital	**113,557**

S. NO	Elements of capital	Amount
	Deductions	
10	Goodwill	-
11	Deferred Tax Asset	(575)
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	**(575)**
14	**Tier I capital after the above deductions**	**112,982**
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**	**112,982**

* The Board of Directors has proposed stock dividend amounting to 19%, which is reduced from retained earnings and shown separately.

S. 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	112
22	General loan loss provisions / Collective provision	10,787
23	Subordinated debt	32,697
24	Hybrid debt capital instruments	-
25	Total Tier II capital	43,596
	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)	**43,596**
30	**Tier III Capital (eligible)**	**-**
31	**Total Regulatory Capital**	**156,578**

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

As on December 31, 2011

S. No.	Details	Simple Approach
1	Tier I Capital (after supervisory deductions)	112,982
2	Tier II capital (after supervisory deductions and up to eligible limits)	43,596
3	Tier III Capital (up to 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	864,707
6	Risk weighted assets – operational risk	24,170
7	**Total Risk Weighted Assets – Banking Book + Operational Risk**	**888,877**
8	**Minimum required capital to support RWAs of banking book and operational risk**	**106,665**
	i) Minimum required Tier I Capital for banking book and operational risk	63,069
	ii) Tier II Capital required for banking book and operational risk	43,596
9	Tier I capital available for supporting trading book	49,913
10	Tier II capital available for supporting trading book	-
11	Risk Weighted Assets – trading book	8,113
12	Total capital required to support trading book	974
13	Minimum Tier I capital required for supporting trading book	277
14	Used Eligible Tier III Capital	-
15	**Total Regulatory Capital**	**156,578**
16	**Total Risk Weighted Assets – Whole bank**	**896,990**
17	**BIS Capital Adequacy Ratio**	**17.46%**
18	Unused but eligible Tier III Capital	-

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

S. No	Type of credit exposure	Average Gross Exposure 31-Dec-11	Average Gross Exposure 31-Dec-10	Total Gross Exposure 31-Dec-11	Total Gross Exposure 31-Dec-10
1	Overdrafts	8,342	5,372	11,635	6,875
2	Personal loans	333,381	286,451	364,376	303,394
3	Other loans	358,837	244,456	400,028	349,640
		700,560	536,279	**776,039**	659,909

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

As on December 31, 2011

S. No	Economic sector	Overdraft	Loans	Total	Off-balance sheet exposures *
1	Wholesale and retail trade	2,566	76,226	**78,792**	23,697
2	Mining and quarrying	-	46,589	**46,589**	-
3	Construction	3,444	76,003	**79,447**	40,458
4	Manufacturing	2,880	47,886	**50,766**	6,043
5	Financial Institutions	5	31,510	**31,515**	2,120
6	Services	2,303	81,837	**84,140**	456
7	Personal loans	408	364,376	**364,784**	-
8	Non-resident lending	-	18,385	**18,385**	61,301
9	Others	29	21,592	**21,621**	7,904
	Total	**11,635**	**764,404**	**776,039**	**141,979**

* 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, 2011

S. No	Time Band	Overdraft	Loans	Total	Off-balance sheet exposures
1	Up to 1 month	580	89,064	**89,644**	26,615
2	1 - 3 months	582	122,880	**123,462**	37,541
3	3 - 6 months	582	37,936	**38,518**	22,917
4	6 - 9 months	582	17,894	**18,476**	22,607
5	9 - 12 months	582	22,976	**23,558**	22,308
6	1 - 3 years	2,909	92,051	**94,960**	3,546
7	3 - 5 years	2,909	63,188	***66,097***	6,445
8	Over 5 years	2,909	318,415	**321,324**	-
	Total	**11,635**	**764,404**	**776,039**	**141,979**

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

As on December 31, 2011

S. No	Economic sector	Gross loans	Of which, NPLs	Portfolio - based provision /reserves*	Specific provision held	Reserve interest	Provision / reserve made during the year	Advances written off during the year
1	Wholesale and retail trade	78,792	3	788	3	-	-	-
2	Mining and quarrying	46,589	-	466	-	-	63	-
3	Construction	79,447	369	791	91	-	54	-
4	Manufacturing	50,766	-	508	-	-	(97)	-
5	Electricity, Gas and Water	1,515	-	15	-	-	-	-
6	Financial institution	31,515	-	315	-	-	75	-
7	Services	82,625	3,051	796	699	126	1,276	-
8	Personal Loans*	364,784	4,245	6,709	1,960	305	2,761	36
9	Non-Resident Lending	18,385	-	184	-	-	87	-
10	others	21,621	8	216	5	-	(244)	-
	Total	**776,039**	**7,676**	**10,787**	**2,758**	**431**	**3,974**	**36**

* 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 2011.

ahlibank

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

As on December 31, 2011

S. No	Countries	Gross loans	Of which, NPLs	Portfolio - based provision /reserves*	Specific provisions held	Reserve interest	Provisions made during the year	Advances written off during 2011
1	Oman	757,654	7,676	10,603	2,758	431	3,790	36
2	Other GCC Countries	18,385	-	184	-	-	184	-
	Total	**776,039**	**7,676**	**10,787**	**2,758**	**431**	**3,974**	**36**

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

As on December 31, 2011

S. No	Details	Performing loans	Sub-Standard	Doubtful	Loss	Total
1	Opening balance	657,871	697	426	915	**659,909**
2	Migration/changes (+/-)	(5,752)	2,594	933	2,225	**-**
3	New loans	505,717	-	-	-	**505,717**
4	Recovery of loans	(389,473)	-	(50)	(28)	**(389,551)**
5	Loans written off	-	(24)	-	(12)	**(36)**
6	Closing balance	**768,363**	**3,267**	**1,309**	**3,100**	**776,039**
7	Provisions/reserves	10,787	791	470	1,497	**13,545**
8	Reserve Interest	-	57	47	327	**431**

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

Hamdan Ali Nasser Al Hinai
Chairman

Date: 30th January 2012

Management Report

"…But we should continue to follow prudent financial and economic policies, the most important of which are reduction of expenditure and guidance and awareness in order to encourage saving, and resistance to the inclination to indulge in unnecessary consumption, and also to encourage the individual citizen effectively to contribute to the national economy. Financial institutions must be urged to make their resources available to assist the development of the productive sector, and not to facilitate consumerism. They must also adopt policies that will lead to the increase of savings by citizens. Thereby these institutions will not then necessarily depend on external financial resources since; this dependence can entail a negative impact on our economy…"

Excerpts from the speech of His Majesty Sultan Qaboos Bin Said on the occasion of the 29th National Day

1. Introduction:

At ahlibank, our journey began four years ago with the mission, 'to create an unrivalled ability to meet customer needs, provide fulfillment and development for our staff and deliver outstanding shareholder value'.

Over the past four years, ahlibank has consistently delivered on its set goals and objectives and this performance is reflected with consistency in the Bank's results, quarter over quarter and year over year since 2008. Within a short span of 4 years, ahlibank increased its customer base by a growth of over 327%.

The growth this far 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 Bank continues to grow in a prudent way and has established formidable risk management policies and procedures enabling it to remain focused on quality of its assets and continually improving services provided to its customers.

Inspired by the energy of the nation, we continue our journey of consolidation and expansion, establishing new milestones along the way. We look ahead to the future with even greater confidence.

2. Economic Development:

Despite adverse international developments, the Omani banking sector continued to exhibit optimism and resilience during 2011, consistent with the recovery of the real economy. The Budgetary allocation for the several projects during the eighth five-year plan in the Sultanate will aid to increase the earning for the financial sector. With over Rial 10.4 billion investment planned in the construction sector by 2014 and oil and gas projects worth Rial 386 millions in pipeline, the Oman economy is expected to resurge.

Domestic and foreign private investors will benefit from this favorable environment provided to stimulate investments. At ahlibank we see potential banking opportunities arising for which, a clear and wide-ranging strategy is being developed with our team of high-caliber 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. Islamic Banking:

His Majesty's Royal directives to allow Islamic banking in the Sultanate were greeted with open arms by the society, the local financial service providers and the population in general. With local banks taking up the initiative with a zest is ample proof that Islamic banking is the next step in achieving harmony between day to day activities and beliefs.

ahlibank has garnered its resources to ensure that the usual high quality of service that the Bank is known for is continued when Islamic banking is introduced by the Bank in the Sultanate.

ahlibank is well positioned to provide Islamic financial expertise to diverse segments. The Bank has in place a comprehensive strategy to effectively respond to the directive of His Majesty Sultan Qaboos Bin Said on Islamic banking and thereby cater to the financial needs of people in accordance with the guidelines and regulatory framework of the Central Bank of Oman. The Bank is proud to have on board some of the brightest minds on Islamic finance to chart the way forward.

4. Outlook:

ahlibank will continue to remain focused and grow in a prudent way. The Bank's real target will be to increase its return on equity and shareholder value while incidentally improving its ratios without compromising on the quality of its book. Customers will be bank's top priority and we will strive to provide them with quality service.

5. Financial Performance:

ahlibank has maintained its impressive financial performance despite the macroeconomic recession at the regional and global level. The financial results for the year 2011 proves that the Bank's fundamentals are strong and it has the ability to deliver outstanding performance in a highly competitive market.

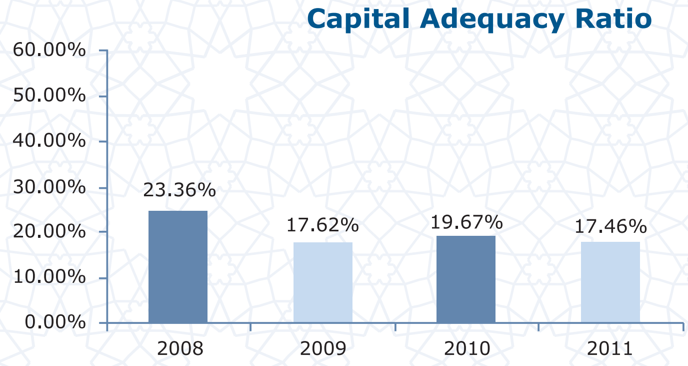
Following the directives of the Central Bank of Oman, all actions of ahlibank are also guided by prudent risk management practices while staying focused on the basics of banking. This strategy has resulted in the continuous growth of the Bank culminating in the 29% growth in the Bank's net profit for the year 2011 as compared to 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 periodic reviews to eliminate wasteful and unnecessary expenditure. We have also implemented the most advanced risk management practices and systems which are reflected in our assets quality.

5.1 Financial Highlights:

	2011 (Rial'000)	2010 (Rial'000)	Growth
Total assets	929,604	805,594	15.39%
Gross loans and advances	776,039	659,909	17.60%
Customer deposit	668,911	632,178	5.81%
Gross operating income	51,368	41,297	24.39%
Net profit after tax	18,224	14,100	29.25%
Capital and reserves	120,212	102,106	17.73%

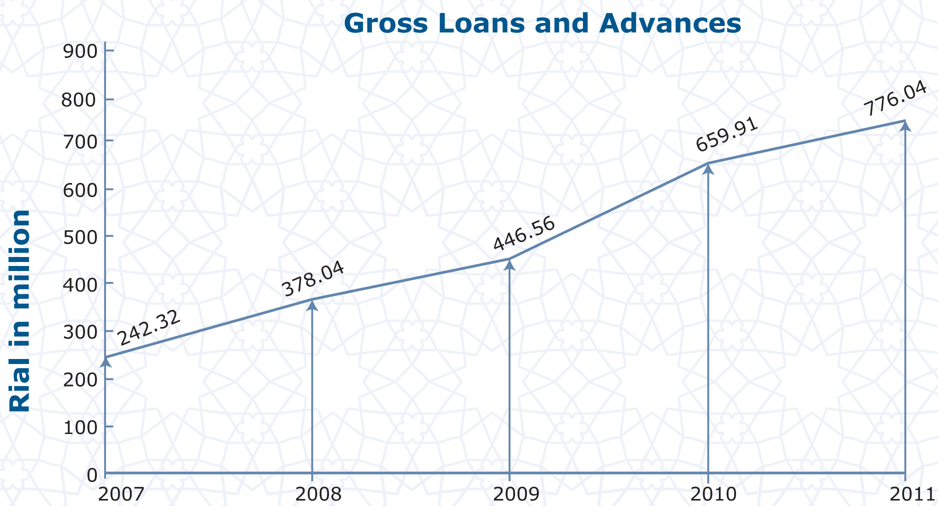
5.2 Capital and Reserves:

Capital and reserves of the Bank as of 31 December 2011 stood at Rial 120.2 million as compared to Rial 102.1 million as at 31 December 2010. The capital adequacy ratio of the Bank was at 17.46% well above the minimum of 12% as required by Central Bank of Oman.



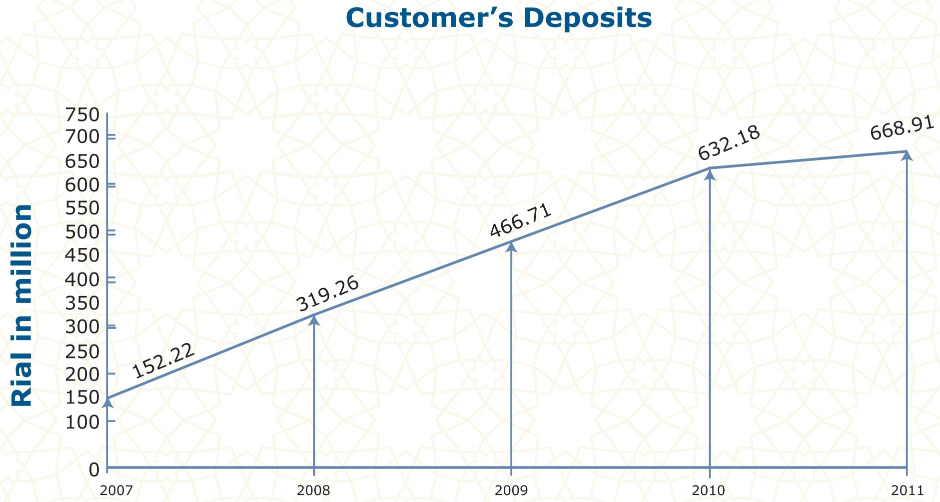
5.3 Loans and Advances:

The gross loan book grew by 17.60% to reach Rial 776.04 million as at 31 December 2011 from Rial 659.91 million as at 31 December 2010. 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.



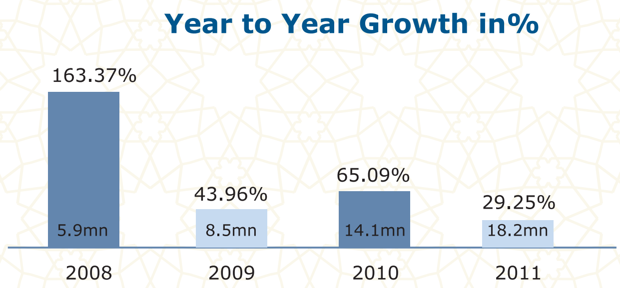
5.4 Customer Deposits:

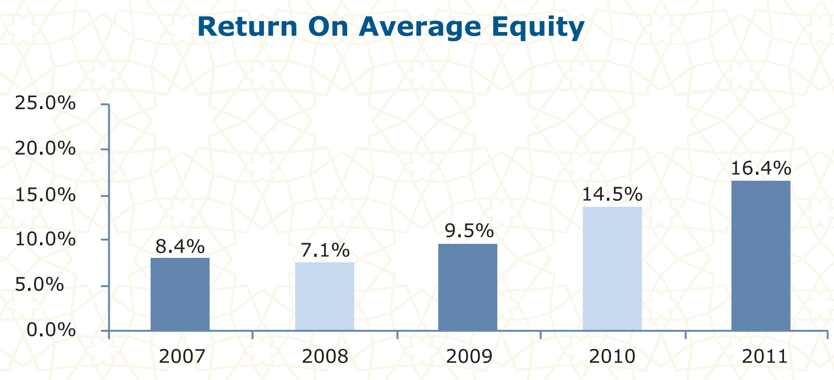
The customer deposits increased to Rial 668.91 million in 2011, an increase of over 5.81% over 2010. The growth is in line with the Bank's strategy to create a diversified stable low cost funding base.



5.5 Profitability:

The profit after tax of the Bank has increased by 29.25% to Rial 18.2 million in the year 2011.

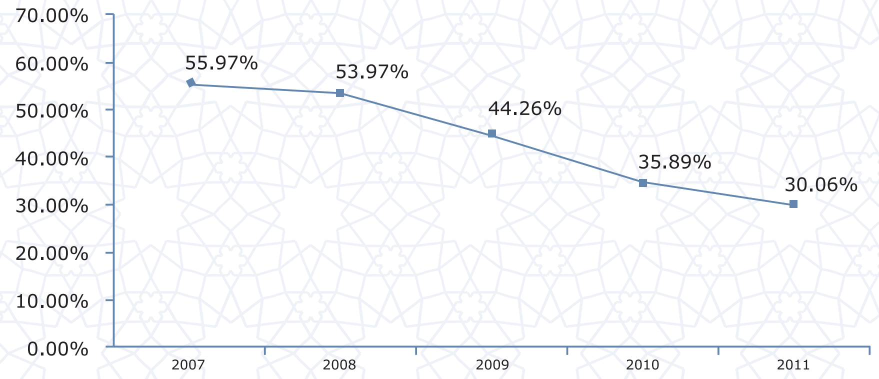




5.6 Cost to Income ratio:

There has been continuous improvement in this ratio year over year. Even though, the operating costs year over year has increased, the increase in the expenditure is commensurate to business requirements and the Banks business plans.

Cost-to-Income ratio



6. Risk Management and Internal Controls:

The Bank has developed a robust Risk Management framework with which the key elements of risk are identified, analyzed, mitigated, monitored and controlled. The Bank adopts prudent risk management policies and has in place appropriate systems to escalate key risk issues for appropriate adjudication.

A system of effective internal controls is a critical component of operational risk management and a foundation for safe and sound operations of a bank. ahlibank recognises effective internal control as a key component of operational risk management. Internal controls and the internal audit process are considered by the Bank as the primary means to control operational risk. The Bank has put in place a mechanism to control the activities both at the central level and at the unit levels with the following objectives:

- Effectiveness and efficiency of operations;
- Reliability of financial reporting; and
- Compliance with applicable laws and regulations.

Internal control for effectiveness and efficiency of operations addresses the Bank's basic business objectives including performance and profitability goals and the safeguarding of the Bank's resources. A key component of the Bank's internal system is the operation of a solid accounting and information system and includes the preparation of reliable financial statements and other financial information. The internal controls for compliance are in place to ensure that the Bank adheres to the laws and regulations and by doing so avoids damages and negative consequences. Internal control framework at ahlibank has been designed with all the controls necessary to provide reasonable assurance about the achievement of the objectives. The Board also periodically reviews the effectiveness of internal controls and confirms the efficiency and adequacy of the internal control systems on the basis of such reviews.

7. Compliance:

ahlibank gives great importance to corporate governance in all of its financial and banking transactions. The Bank continuously evaluates and updates its commitment to the practices and policies and regularly check its adherence to the provisions of the corporate governance charter and its rules and regulations related to banks and financial institutions. Periodic reporting is done to the Board of Directors through various reports.

8. Corporate Communication Department:

The corporate communication department has been successful in promoting the corporate image of the Bank by engaging in a series of well coordinated marketing and community support activities. The department is responsible for corporate image of the Bank as well as maintains and coordinates the implementation of corporate identity standards and procedures.

9. New Head Office:

In December 2011, the foundation stone has been laid for the construction of ahlibank's new head office building. The design plan for the building is very thought provoking and brings in a blend of a both tradition and modern architecture. The proposed iconic structure will be symbolic of the nature of ahlibank as a dynamic financial institution strongly rooted and belonging to its Omani origin. The building itself will be a four storey structure with sufficient car parking facilities, convenient office spaces and customer areas. It will have an auditorium for staff/customer events and facilities for staff such as a well equipped gymnasium as well as a cafeteria. The first phase of development will cater to the requirements of the Bank for the next five years and the construction is expected to be completed in 2013.

10. Consumer Banking:

The focus in 2011 was on growing the distribution footprint, launch of new products and marketing campaigns. The operation policies and procedures were documented and operational controls were strengthened thereby setting up a robust platform for future expansion.

A series of successful sales campaigns were also organized to attract business from corporate houses and various Government institutions.

Further developments in this regard can be expected in 2012. The Bank will work on enhancing customer experience, which will lead to growth in profits over the short to medium term. This year, Consumer Banking will also continue to focus on booking quality assets, gaining market share in low cost deposits and expanding distribution channels, while building an aggressive sales culture and focusing on service leadership. Following are the different consumer banking products and services offered by the Bank:

- e-banking and SMS-banking
- MyGlobal
- MyLoan
- MyHome
- MyHassad
- MySmart
- Credit Cards

11. Corporate Banking:

2011 was a year of continued growth as well as consolidation for the Corporate Banking Group. The Bank continued to grow its strong asset book with focus on infrastructure, oil and gas and contracting business which are driving forces of the Omani economy. During the first quarter of the year, taking cognizance of the global economic slowdown and its possible effect on the domestic economy, corporate banking focused more on asset quality and reviewing of the assets and adopted a more cautious approach to lending to vulnerable sectors of the economy. On the other hand, opportunities in non-funded business were tapped to keep the momentum in earnings.

ahlibank believes that in a dynamic and competitive market, the key to retaining corporate customers' base and attracting new customer is offering quality, personalized and customized services backed by state of the art technology. The Bank will continue its initiatives in this regard in 2012 and will add many more dedicated services for corporate customers.

11.1 General Coverage (SME):

The Small and Medium Enterprises (SME's) contribute a large extent to the growth of a country's economy. ahlibank realizes the potential of the SME sector of the Oman economy and its importance in driving the economy forward. ahlibank's Corporate Banking-General Coverage (SME) unit strives towards servicing its customer needs through:

- Simple and accessible relationship approach;
- A programmed solution approach;
- Local knowledge;
- Faster delivery; and
- Highly skilled team of professionals.

The department's main objective is to understand the requirements of the SME's and suggest suitable financial solutions. The Bank's innovative and structured financial products help our clients to meet their short term, medium term and long term financial requirements. Our Relationship Managers take the time to understand the unique needs of each of our customers and provide customized solutions. Our first priority is always our customer and we put advice at the heart of our relationships with them. We believe in providing premium quality services to our customers, giving them the best possible choice by supplementing best-in-class solutions we develop specifically for individual customers, along with a quality-screened selection of the shelf products. We believe our customers should effortlessly be able to access all the financial products that the Bank could provide, where and when they are required, and regardless of what combinations of teams lie behind the necessary solutions.

The various financial products that are offered range from working capital finance, contract financing, receivables discounting, equipment financing, real estate development, construction financing, trade finance and structured financing solutions.

11.2 Trade Finance Services:

ahlibank, has a foreign trade department with trade finance specialized staff members with a mission to become a one-stop shop for trade finance needs of all corporate clients by continuous exemplary customer service and be one of the most sought after banks in the Sultanate for trade finance businesses.

ahlibank, along with its strategic partner, Ahli United Bank, can provide extensive network for any trade finance requirements and also advisory services for your trade finance needs from any part of the world.

The Bank has a full range of imports, exports, collections and bank guarantee products and services with experienced staff who can seamlessly process customer transactions. With our world-wide reach, trained and friendly foreign trade and treasury staff members, we are committed to meet the foreign trade and foreign exchange requirements by providing quick and efficient services and solutions. In keeping with ahlibank's philosophy, our services are customized and competitive. The Bank has recently implemented a front-end trade finance system namely, T1 Plus which is a good enabler in the processing activities.

11.3 Treasury Services:

Ahlibank's treasury is well placed to offer a superior service to its clients. Delivering everyday banking needs right first time, every time, is critical to our success. With a treasury team that understand your business needs and ambitions, award-winning service and solutions we are committed to helping your business succeed today and in the future by working in close partnership with you.

ahlibank's treasury offers its customers a comprehensive range of foreign exchange, money market and derivative products such as:

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

Additionally the Bank can tailor solutions for specific risk and trading positions. We offer a flexible approach and a willingness to deliver competitive pricing and market information to enable customers make a informed decision. Customers are the key to our success and we therefore wish to build the future with them. We understand economic and market forces to give the right advice.

12. Information Technology:

Information technology being a key to business success continues to play a vital role in the delivery of timely cost-efficient products and services to our customers. Our IT is abreast of the latest technology and is fully aligned with the strategic goals of the Bank.

Our network and communication systems are at par with the latest industry requirement and security standards enabling prompt and secure service delivery to customers.

Business continuity is paramount and a robust Business Continuity Plan is in place with a state-of-art Disaster Recovery Centre to facilitate the same.

13. Human Resources:

An organisation on the growth path needs the support and cooperation of each and every member of the team. Ensuring this and creating a culture of participative management has been the objective of the Human Resources Department of the Bank. The Bank is aware that the success of its business calls for a lot more than just hiring qualified candidates. To recruit and retain top talent in a competitive industry calls for developing effective human resource practices and providing a creative work environment. In addition, employee satisfaction is vital to the success of an organisation because of its direct impact on productivity.

ahlibank continues with its ambitious plans to invest in human resources through various training programmes, both in-house, and external. Currently ahlibank has a Management Trainee programme for recruitment of fresh Omani graduates from campuses across the Sultanate. The Bank also introduced e-learning programmes which enables staff to learn at their convenience and allows them to get certified and credit is given in the individual's performance appraisal at the year end. ahlibank also seek the help of external training institutes such as the College of Banking and Financial Studies to organize tailor made programs to enhance the skills of existing employees. The Bank is keen on investing in its employees to ensure enhancing employee's knowledge and skills and thereby equip them to shoulder higher responsibilities in future. Training programs during the year include among job specific courses:

- Soft Skills Training;
- Information Security Awareness Training;
- Senior leadership Seminar conducted by Queen's School of Business;
- Evacuation and Safety Procedures; and
- Anti-Money Laundering and Frauds Training.

14. Omanisation Policy:

ahlibank, as a responsible corporate citizen, is deeply committed to the cause of creation of employment opportunities for Omanis and has achieved Omanisation ratio of more than 90% and continues to maintain the same. Drawing inspiration from His Majesty Sultan Qaboos, ahlibank has drawn ambitious plans to recruit more Omanis as it moves ahead with its expansion plans. Currently many senior positions in ahlibank are held by proficient Omanis.

15. Corporate Social Responsibility:

The goal of Corporate Social Responsibility (CSR) is to enhance responsibility for a company's actions and encourage a positive impact through its activities on the environment, consumers, employees, communities, stakeholders and all other members of the public sphere. The Bank's view is that its social responsibility is not merely participation in charitable work or organizing voluntary campaigns but rather a responsibility towards the all-round development of society. The Bank considers CSR in all of its operations and this culture is reflected in the way we do our business.

Through the vision and support of the Board of Directors and Executive Management, the Bank has sought to ensure its commitment to social responsibility through the following means:

- MyHassad gives back campaign-daily Ramadan donations;
- Sponsorship for the MEED Oman Investment Forum 2011;
- Sponsorship for the Super Cup Football;
- Blood Donation Camps; and
- Cancer Awareness activities.

16. Awards and Accolades:

The Bank has received recognition from the local and regional media and investment houses as a fast-growing and profitable bank built on a stable foundation.

البنك الأهلي
ahlibank

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 pages 57 to 102, which comprise the statement of financial position as at 31 December 2011, and the related statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising 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 audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2011 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 2011, 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

30 January 2012

Paul Callaghan

ahlibank

STATEMENT OF FINANCIAL POSITION
As at 31 DECEMBER

2010 US$	2011 US$		Notes	2011 Rial	2010 Rial
		ASSETS			
172,515,219	**29,349,456**	Cash and balances with Central Bank of Oman	4	**11,299,541**	66,418,359
40,101,275	**48,897,566**	Due from other banks	5	**18,825,563**	15,438,991
19,253,678	**44,923,543**	Financial investments - held for trading	7	**17,295,564**	7,412,666
1,704,969,886	**1,996,379,114**	Loans and advances to customers	6	**768,605,959**	656,413,406
120,744,395	**236,431,829**	Financial investments - available for sale	7	**91,026,254**	46,486,592
339,481	**339,481**	Financial investments - held to maturity	7	**130,700**	130,700
22,032,852	**26,480,008**	Property and equipment	8	**10,194,803**	8,482,648
935,486	**1,492,350**	Deferred tax asset	9	**574,555**	360,162
11,560,752	**30,262,999**	Other assets	10	**11,651,254**	4,450,890
2,092,453,024	**2,414,556,346**	**TOTAL ASSETS**		**929,604,193**	805,594,414
		LIABILITIES			
15,477,730	**193,067,660**	Due to other banks	5	**74,331,049**	5,958,926
1,642,020,600	**1,737,432,104**	Customers' deposits	11	**668,911,360**	632,177,931
17,177,816	**-**	Other borrowed funds	12	**-**	6,613,459
6,728,296	**9,593,679**	Taxation	9	**3,693,566**	2,590,394
41,940,925	**58,326,888**	Other liabilities	13	**22,455,852**	16,147,256
103,896,104	**103,896,104**	Subordinated liabilities	14	**40,000,000**	40,000,000
1,827,241,471	**2,102,316,435**	**TOTAL LIABILITIES**		**809,391,827**	703,487,966
		EQUITY			
185,034,966	**208,164,335**	Share capital	15	**80,143,269**	71,238,462
21,931,683	**26,665,288**	Legal reserve	16	**10,266,136**	8,443,698
5,879,382	**-**	General banking reserve	17	**-**	2,263,562
16,994,930	**16,994,930**	General loan loss reserve	6	**6,543,048**	6,543,048
-	**18,968,436**	Subordinated debt reserve	14	**7,302,848**	-
598,914	**291,231**	Cumulative changes in fair values		**112,124**	230,582
34,771,678	**41,155,691**	Retained earnings		**15,844,941**	13,387,096
265,211,553	**312,239,911**	**TOTAL EQUITY**		**120,212,366**	102,106,448
2,092,453,024	**2,414,556,346**	**TOTAL LIABILITIES AND EQUITY**		**929,604,193**	805,594,414
114,864,864	**340,129,418**	**Contingent liabilities and commitments**	27	**130,949,826**	44,222,973

The financial statements were approved by the Board of Directors on 30 January 2012 and were signed on their behalf by:

Hamdan Ali Nasser Al Hinai
Chairman

Abdul Aziz Al Balushi
Chief Executive Officer

The accounting policies on pages 62 to 73 and notes on pages 74 to 102 form an integral part of these financial statements.
Independent auditors' report is on Page 56

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER

2010 US$	2011 US$		Notes	2011 Rial	2010 Rial
90,464,117	**107,992,748**	Interest income	19	**41,577,208**	34,828,685
(40,167,464)	**(41,717,228)**	Interest expense	20	**(16,061,133)**	(15,464,474)
50,296,653	**66,275,520**	**Net interest income**		**25,516,075**	19,364,211
16,799,725	**25,431,001**	Other operating income	21	**9,790,935**	6,467,894
67,096,378	**91,706,521**	**Net operating income**		**35,307,010**	25,832,105
(1,295,530)	**(10,320,804)**	Loan impairment, net of recoveries	6	**(3,973,509)**	(498,779)
(12,881,652)	**(14,910,984)**	Staff expenses	22	**(5,740,729)**	(4,959,436)
(2,908,532)	**(2,461,182)**	Depreciation	8	**(947,555)**	(1,119,785)
(8,288,974)	**(10,191,730)**	Other operating expenses	23	**(3,923,816)**	(3,191,255)
(25,374,688)	**(37,884,700)**	**Operating expense**		**(14,585,609)**	(9,769,255)
41,721,690	**53,821,821**	**Profit before taxation**		**20,721,401**	16,062,850
(5,097,883)	**(6,485,779)**	Income tax expense	9	**(2,497,025)**	(1,962,685)
36,623,807	**47,336,042**	**Profit for the year**		**18,224,376**	14,100,165
		Other comprehensive income- net of income tax			
		Fair value reserve (available for sale investments)			
-	**(312,501)**	-Net amount transferred to income statement		**(120,313)**	-
355,906	**4,818**	-Net changes in fair values		**1,855**	137,024
355,906	**(307,683)**	**Other comprehensive income for the year**		**(118,458)**	137,024
36,979,713	**47,028,359**	**Total comprehensive income for the year**		**18,105,918**	14,237,189
4.57	**5.90**	Basic and diluted earnings per share (baizas/cents)	24	**22.70**	17.59

The accounting policies on pages 62 to 73 and notes on pages 74 to 102 form an integral part of these financial statements.
Independent auditors' report is on Page 56.

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER

2010 US$	2011 US$		Notes	2011 Rial	2010 Rial
		Cash flow from operating activities			
41,721,690	**53,821,821**	**Profit before taxation**		**20,721,401**	16,062,850
		Adjustments for:			
2,908,532	**2,461,182**	Depreciation	8	**947,555**	1,119,785
324,675	**363,636**	Board remuneration proposed	28	**140,000**	125,000
1,295,530	**10,320,804**	Loan impairment, net of recoveries		**3,973,509**	498,779
87,301	**140,070**	End of service benefits provision	13	**53,927**	33,611
1,257	**(7,403)**	(Gain)/loss on sale of property and equipment	21	**(2,850)**	484
(242,408)	**(169,607)**	Gain on sale of investments	21	**(65,299)**	(93,327)
46,096,577	**66,930,503**	**Operating profit before changes in operating assets and liabilities**		**25,768,243**	17,747,182
		Changes in operating assets and liabilities			
(51,535)	**(11,683)**	Payment of end-of-service benefits	13	**(4,498)**	(19,841)
(167,992)	**62,338**	Decrease/(increase) in deposits with Central Bank of Oman		**24,000**	(64,677)
(554,155,694)	**(301,730,033)**	Increase in loans and advances		**(116,166,062)**	(213,349,942)
173,974	**(18,702,244)**	(Increase)/decrease in other assets		**(7,200,364)**	66,980
429,785,961	**95,411,504**	Increase in customers' deposits		**36,733,429**	165,467,595
10,713,057	**16,218,617**	Increase in other liabilities		**6,244,167**	4,124,526
(67,605,652)	**(141,820,998)**	**Cash from operations**		**(54,601,085)**	(26,028,177)
(194,805)	**(324,675)**	Board remuneration paid		**(125,000)**	(75,000)
(2,973,660)	**(4,177,262)**	Income tax paid		**1,608,246)**	(1,144,859)
(70,774,117)	**(146,322,935)**	**Net cash used in operating activities**		**(56,334,331)**	(27,248,036)
		Cash flow from investing activities			
(3,597,304)	**(27,079,791)**	Increase in financial investments – net		**(10,425,719)**	(1,384,962)
(1,080,460)	**(6,908,339)**	Purchase of property and equipment		**(2,659,710)**	(415,977)
8,288	**7,403**	Proceeds on disposal of fixed assets		**2,850**	3,191
(4,669,476)	**(33,980,727)**	**Net cash used in investing activities**		**(13,082,579)**	(1,797,748)
		Cash flow from financing activities			
103,896,104	**-**	Proceeds from issue of subordinated liabilties		**-**	40,000,000
(3,246,753)	**(17,177,816)**	Decrease in other borrowings		**(6,613,459)**	(1,250,000)
(12,335,665)	**-**	Dividend paid		**-**	(4,749,231)
88,313,686	**(17,177,816)**	**Net cash (used in)/from financing activities**		**(6,613,459)**	34,000,769
12,870,093	**(197,481,478)**	**Net change in cash and cash equivalents**		**(76,030,369)**	4,954,985
286,738,801	**299,608,892**	Cash and cash equivalents at 1 January		**115,349,424**	110,394,439
299,608,894	**102,127,414**	**Cash and cash equivalents at 31 December**	25	**39,319,055**	115,349,424

The accounting policies on pages 62 to 73 and notes on pages 74 to 102 form an integral part of these financial statements.
Independent auditors' report is on Page 56

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2011

	Notes	Ordinary Share Capital Rial	Legal Reserve Rial	General Banking Reserve Rial	General Loan Loss Reserve Rial	Subordinated Debt Reserve Rial	Cumulative Changes in Fair Values Rial	Retained Earnings Rial	Total Rial
Balance at 1 January 2011		71,238,462	8,443,698	2,263,562	6,543,048	-	230,582	13,387,096	102,106,448
Total comprehensive income for the year									
Profit for the year		-	-	-	-	-	-	18,224,376	18,224,376
Other comprehensive income - net of income tax		-	-	-	-	-	(118,458)	-	(118,458)
Transfer to legal reserve		-	1,822,438	-	-	-	-	(1,822,438)	-
Transfer to subordinated debt reserve	16	-	-	-	-	7,302,848	-	(7,302,848)	-
		71,238,462	10,266,136	2,263,562	6,543,048	7,302,848	112,124	22,486,186	120,212,366
Transactions with owners recorded directly in Equity									
Transfer from general banking reserve	17	-	-	(2,263,562)	-	-	-	2,263,562	-
Issue of bonus shares	18	8,904,807	-	-	-	-	-	(8,904,807)	-
Balance at 31 December 2011 (Rial)		**80,143,269**	**10,266,136**	-	**6,543,048**	**7,302,848**	**112,124**	**15,844,941**	**120,212,366**
Balance at 31 December 2011 (US$)		**208,164,335**	**26,665,288**	-	**16,994,930**	**18,968,436**	**291,231**	**41,155,691**	**312,239,911**

The accounting policies on pages 62 to 73 and notes on pages 74 to 102 form an integral part of these financial statements.

Independent auditors' report is on Page 56.

STATEMENT OF CHANGES IN EQUITY (continued)
FOR THE YEAR ENDED 31 DECEMBER 2011

	Notes	Ordinary Share Capital Rial	Legal Reserve Rial	General Banking Reserve Rial	General Loan Loss Reserve Rial	Subordinated Debt 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
Total comprehensive income for the year									
Profit for the year		-	-	-	-	-	-	14,100,165	14,100,165
Other comprehensive income - net of income tax		-	-	-	-	-	137,024	-	137,024
Transfer to loan loss reserve	6	-	-	-	2,610,181	-	-	(2,610,181)	-
Transfer to legal reserve	16	-	1,410,017	-	-	-	-	(1,410,017)	-
Transactions with owners recorded directly in Equity		67,846,154	8,443,698	1,558,554	6,543,048	-	230,582	22,233,643	106,855,679
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 pages 62 to 73 and notes on pages 74 to 102 form an integral part of these financial statements.
Independent auditors' report is on Page 56.

NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 2011

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 288 employees as at 31 December 2011 compared to 243 as at 31 December 2010.

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 requirements 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 judgments

The preparation of financial statements in conformity with IFRS requires management to make judgments 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.

2. BASIS OF PREPARATION (continued)

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 following judgements, apart from those involving estimations, which have the most significant effect on 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 held for 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.

NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 2011

2. BASIS OF PREPARATION (continued)

Collective impairment provisions on loan accounts

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

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to these in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the years on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set-out below 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.

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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
- 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.

Sale and repurchase agreements

Securities sold subject to repurchase agreements ('repos') remain on the statement of financial position; the counterparty liability is included in due from other banks. Securities purchased under agreements to resell ('reverse repos') are recorded as due to other banks. The difference between sale and repurchase price is treated as interest and accrued over the life of the underlying agreement using the effective interest method.

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.

NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 2011

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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 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.

Collateral taken over in full settlement is recorded at the lower of fair value based on independent market valuations and the outstanding loan balance settled.

Capitalisation of interest

Interest cost on borrowings that are directly associated with the acquisition and construction of qualifying property and equipments are capitalised as part of the costs of these asset.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Derivative financial instruments are initially recognised at fair value and are subsequently remeasured at fair value. All derivative financial instruments are carried as assets when fair value is positive and liabilities when fair value is negative. Any change in the fair value of derivative financial instruments is taken to profit and loss account.

On initial designation of the derivative as hedging instrument, the Bank formally documents the relationship between the hedging instrument and hedged item, including risk management objectives and strategy in undertaking the hedge transaction and the hedged risk, together with the method to assess the effectiveness of the hedging relationship. The Bank makes an assessment, both at the inception of the

NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 2011

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

hedging relationship as well as ongoing basis, of whether the hedging instrument are expected to be highly effective in offsetting the changes in fair value or cash flows of the respective hedged items attributable to the hedge risk.

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.

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 reporting date.

Taxation

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 2011

3. SIGNIFICANT ACCOUNTING POLICIES (continued)
Impairment of financial assets (continued)

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 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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

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.

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.

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.

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 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.

NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 2011

3. SIGNIFICANT ACCOUNTING POLICIES (continued)
Impairment of financial assets (continued)
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 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 reporting date.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition

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

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 Bank in the period of initial application.

IFRS 10 Consolidated Financial Statements: effective annual periods commencing	1 January 2013
IFRS 11 Joint Arrangements: effective annual periods commencing	1 January 2013
IFRS 12 Disclosure of Interest in Other Entities: effective annual periods commencing	1 January 2013
IFRS 13 Fair Value Measurement: effective annual periods commencing	1 January 2013
Amendments to IFRS 7 : Disclosures-Transfer of Financial Assets with an effective date of	1 July 2011
Amendments ot IAS 12 : Deferred Tax - Recovery of Underlying Assets with an effective date of	1 January2012
IFRS 9: Financial Instruments: Classification and Measurement effective annual periods commencing	1 January 2015

IFRS 9 as issued reflects the first phase of the IASBs work on the replacement of IAS 39 and applies to classification and measurement of financial assets as defined in IAS 39. The standard is effective for annual periods beginning on or after 1 January 2015. In subsequent phases, the IASB will address classification and measurement of financial liabilities, hedge accounting and derecognition. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Bank's financial assets. The Bank will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 2011

4. CASH AND BALANCES WITH CENTRAL BANK OF OMAN

2010	**2011**		**2011**	2010
US$	**US$**		**Rial**	Rial
4,422,681	**6,330,719**	Cash on hand	**2,437,327**	1,702,732
1,298,701	**1,298,701**	Capital deposit with the CBO	**500,000**	500,000
127,273	**64,935**	ATM deposit with the CBO	**25,000**	49,000
166,666,564	**21,655,101**	Clearing account with the CBO	**8,337,214**	64,166,627
172,515,219	**29,349,456**		**11,299,541**	66,418,359

The 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 AND TO OTHER BANKS

A. DUE FROM OTHER BANKS

2010	**2011**		**2011**	2010
US$	**US$**		**Rial**	Rial
38,414,800	**42,638,810**	Placements	**16,415,942**	14,789,698
1,686,475	**6,258,756**	Nostro account balances	**2,409,621**	649,293
40,101,275	**48,897,566**		**18,825,563**	15,438,991

B. DUE TO OTHER BANKS

2010	**2011**		**2011**	2010
US$	**US$**		**Rial**	Rial
14,387,512	**67,857,766**	Inter-bank deposits	**26,125,240**	5,539,192
1,090,218	**2,659,894**	Vostro account balances	**1,024,059**	419,734
-	**122,550,000**	Repurchase agreement borrowings	**47,181,750**	-
15,477,730	**193,067,660**		**74,331,049**	5,958,926

Borrowings from financial institutions under repurchase agreement are secured by collateralization of US treasury bills. Market value of collateralized treasury bills as of 31 December 2011 amounted to Rial 49,665,000 equivalent to US$129,000,000 (2010: Nil).

6. LOANS AND ADVANCES TO CUSTOMERS

2010 US$	2011 US$		2011 Rial	2010 Rial
923,684,104	**1,068,195,414**	Corporate lending	**411,255,234**	355,618,380
790,365,442	**947,491,555**	Mortgage and consumer lending	**364,784,249**	304,290,695
1,714,049,546	**2,015,686,969**	Gross loans and advances	**776,039,483**	659,909,075
(9,079,660)	**(19,307,855)**	Less: Allowance for impairment losses	**(7,433,524)**	(3,495,669)
1,704,969,886	**1,996,379,114**		**768,605,959**	656,413,406

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

	Loans not in arrears Rial	Loans in arrears 1-30 days Rial	Loans in arrears 31-60 days Rial	Loans in arrears 61-89 days Rial	Loans in arrears for 90 day or more Rial	Total Rial
31 December 2011	**665,338,877**	**91,144,403**	**10,814,250**	**3,590,757**	**5,151,196**	**776,039,483**
31 December 2010	602,514,180	38,764,009	2,375,611	14,217,689	2,037,586	659,909,075

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 2011 towards loans and advances not impaired amounted to Rial 206,217,514 (31 December 2010: Rial 192,645,133)

NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 2011

6. LOANS AND ADVANCES TO CUSTOMERS (Continued)

An economic sector-wise distribution of loans and advances:

Gross Exposure 2010 US$ '000	**Gross Exposure 2011 US$ '000**	**Economic Sector**	**Gross Exposure 2011 Rial '000**	Gross Exposure 2010 Rial '000
185,909	**204,655**	Wholesale and retail trade	**78,792**	71,575
114,899	**121,010**	Mining and quarrying	**46,589**	44,236
197,873	**206,356**	Construction	**79,447**	76,181
133,158	**131,860**	Manufacturing	**50,766**	51,266
-	**3,935**	Electricity, gas and water	**1,515**	-
91,444	**131,553**	Transport and communication	**50,648**	35,206
62,439	**81,857**	Financial institutions	**31,515**	24,039
81,670	**83,057**	Services	**31,977**	31,443
790,366	**947,492**	Personal loans	**364,784**	304,291
25,135	**47,754**	Non-resident lending	**18,385**	9,677
31,157	**56,158**	Others	**21,621**	11,995
1,714,05	**2,015,687**		**776,039**	659,909

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 2011 US$	**Mortgage and consumer lending 2011 US$**	**Total 2011 US$**		**Corporate lending 2011 Rial**	**Mortgage and consumer lending 2011 Rial**	**Total 2011 Rial**
925,709	7,724,985	8,650,694	At 1 Jan	356,398	2,974,119	3,330,517
3,421,143	7,025,002	10,446,145	Charge for the year	1,317,140	2,704,626	4,021,766
(12,270)	(803,472)	(815,742)	Recoveries	(4,724)	(309,337)	(314,061)
-	(92,433)	(92,433)	Write off during the year	-	(35,587)	(35,587)
4,334,582	**13,854,082**	**18,188,664**	**At 31 Dec**	**1,668,814**	**5,333,821**	**7,002,635**

6. LOANS AND ADVANCES TO CUSTOMERS (Continued)

Impairment allowance for loans and advances to customers (continued)

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

Corporate lending 2011 US$	Mortgage and consumer lending 2011 US$	Total 2011 US$		Corporate lending 2011 Rial	Mortgage and consumer lending 2011 Rial	Total 2011 Rial
-	428,966	428,966	At 1 Jan	-	165,152	165,152
424,901	487,478	912,379	Interest reserved during the year	163,587	187,679	351,266
(97,694)	(124,284)	(221,978)	Interest released during the year	(37,612)	(47,850)	(85,462)
-	(176)	(176)	Write off during the year	-	(67)	(67)
327,207	**791,984**	**1,119,191**	**At 31 Dec**	**125,975**	**304,914**	**430,889**

A further analysis of above is set out below:

2,394,062	5,889,364	8,283,426	Individual impairment	921,713	2,267,406	3,189,119
2,267,727	8,756,702	11,024,429	Collective impairment	873,075	3,371,330	4,244,405
4,661,789	**14,646,066**	**19,307,855**		**1,794,788**	**5,638,736**	**7,433,524**

Interest is reserved for all non-performing loans and advances where recovery is considered doubtful. As at 31 December 2011, the total balance of loans and advances on which interest is not being accrued, or where interest is suspended, amounted to Rial 7,675,766 equivalent to US$ 19,937,055 (31 December 2010: Rial 2,037,586 equivalent to US$ 5,292,431). The fair value of collateral that the Bank holds relating to loans individually determined to be impaired as at 31 December 2011 amounts to Rial 4,457,338 (31 December 2010: Rial 1,260,000). The collateral consists of cash, securities and properties.

In accordance with the requirements of the CBO's circular referenced BM 977, the Bank is required to create a portfolio-based provision (general loan loss provision) by debiting the statement of comprehensive income. 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 as a non-distributable loan loss reserve in its statement of equity till 31 December 2010.

NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 2011

6. LOANS AND ADVANCES TO CUSTOMERS (continued)

Impairment allowance for loans and advances to customers (continued)

A reconciliation of the allowance for impairment losses for loans and advances by class for 2010 is as follows:

Corporate lending 2010 US$	Mortgage and consumer lending 2010 US$	Total 2010 US$		Corporate lending 2010 Rial	Mortgage and consumer lending 2010 Rial	Total 2010 Rial
925,709	6,611,416	7,537,125	At 1 Jan	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	356,398	2,974,119	3,330,517

A reconciliation of the reserved interest for loans and advances by class for 2010 is as follows:

Corporate lending 2010 US$	Mortgage and consumer lending 2010 US$	Total 2010 US$		Corporate lending 2010 Rial	Mortgage and consumer lending 2010 Rial	Total 2010 Rial
-	257,527	257,527	At 1 Jan	-	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	-	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

7. FINANCIAL INVESTMENTS

31 December 2011	Held For Trading Rial	Available for Sale Rial	Held to Maturity Rial	Total Rial	Cost Rial
Government development bonds- Oman	17,295,564	-	-	17,295,564	16,442,500
Certificates of deposit	-	20,000,000	-	20,000,000	20,000,000
Listed debt securities	-	2,516,032	130,700	2,646,732	2,446,100
Listed funds	-	2,561,892	-	2,561,892	2,565,700
Listed equities	-	1,898,330	-	1,898,330	1,818,956
Treasury Bills	-	64,050,000	-	64,050,000	64,050,000
Total (Rial)	**17,295,564**	**91,026,254**	**130,700**	**108,452,518**	**107,323,256**
Total (US$)	**44,923,543**	**236,431,829**	**339,481**	**281,694,853**	**278,761,704**

31 December 2010	Held For Trading Rial	Available for Sale Rial	Held to Maturity Rial	Total Rial	Cost Rial
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

NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 2011

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 2011	5,903,285	1,921,453	3,702,159	94,049	337,018	283,375	12,241,339
Additions	-	13,633	273,480	17,300	12,103	2,343,194	2,659,710
Transfers	-	30,190	284,425	-	680	(315,295)	-
Disposals	-	-	-	(6,750)	-	-	(6,750)
At 31 Dec 2011	5,903,285	1,965,276	4,260,064	104,599	349,801	2,311,274	14,894,299
Depreciation							
At 1 Jan 2011	-	1,314,861	2,213,402	72,067	158,361	-	3,758,691
Charge	-	296,072	571,080	17,054	63,349	-	947,555
Disposals	-	-	-	(6,750)	-	-	(6,750)
At 31 Dec 2011	-	1,610,933	2,784,482	82,371	221,710	-	4,699,496
Net Book Value							
At 31 Dec 2011 (Rial)	**5,903,285**	**354,343**	**1,475,582**	**22,228**	**128,091**	**2,311,274**	**10,194,803**
At 31 Dec 2011 (US$)	**15,333,208**	**920,371**	**3,832,681**	**57,735**	**332,704**	**6,003,309**	**26,480,008**

During the year ended 31 December 2011, Rial 1.053 million of interest costs attributable to funding the construction of the new head office have been capitalised as part of the cost of the head office building under capital work in progress.

8. PROPERTY AND EQUIPMENT (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 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	-	(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

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

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

NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 2011

9. INCOME TAX

2010 US$	2011 US$		2011 Rial	2010 Rial
		Current Liability:		
5,097,883	**6,485,779**	Current year	**2,497,025**	1,962,685
1,630,413	**3,107,900**	Prior years	**1,196,541**	627,709
6,728,296	**9,593,679**		**3,693,566**	2,590,394
		Deferred tax:		
894,688	**935,486**	At 1 January	**360,162**	344,455
40,798	**556,864**	Movement for the year relating to profit or loss	**214,393**	15,707
935,486	**1,492,350**	At 31 December	**574,555**	360,162
		The deferred asset comprises the following types of temporary differences:		
779,870	**1,318,447**	Loan loss disallowed for tax purposes	**507,602**	300,250
155,616	**173,903**	Accelerated accounting depreciation	**66,953**	59,912
935,486	**1,492,350**		**574,555**	360,162
		Income statement:		
5,138,681	**7,042,644**	Current year	**2,711,418**	1,978,392
(40,798)	**(556,865)**	Deferred tax income relating to the origination and reversal of temporary differences	**(214,393)**	(15,707)
5,097,883	**6,485,779**		**2,497,025**	1,962,685

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

2010 US$	2011 US$		2011 Rial	2010 Rial
41,721,690	**53,821,821**	Accounting profit	**20,721,401**	16,062,850
		Expense/(income) excluded in determining axable profit:		
296,317	**142,501**	Depreciation	**54,863**	114,082
1,065	**-**	Loss on sale of asset	**-**	410
(201,226)	**(576,684)**	Dividend income	**(222,023)**	(77,472)
(228,504)	**(169,607)**	Gain on sale of listed investments	**(65,299)**	(87,974)
41,589,342	**53,218,031**	Taxable profit	**20,488,942**	16,011,896
		Effective rate of income tax	**12.19%**	12.32%

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.

10. OTHER ASSETS

2010 US$	2011 US$		2011 Rial	2010 Rial
318,452	**287,987**	Interest receivable	**110,875**	122,604
1,218,476	**1,279,081**	Prepayments	**492,446**	469,114
9,990,564	**18,804,455**	Acceptances	**7,239,715**	3,846,367
-	**9,674,904**	Collateral pending sale	**3,724,838**	-
33,260	**216,572**	Others	**83,380**	12,805
11,560,752	**30,262,999**		**11,651,254**	4,450,890

11. CUSTOMERS DEPOSITS

2010 US$	2011 US$		2011 Rial	2010 Rial
1,004,943,922	**1,320,799,738**	Time deposits	**508,507,899**	386,903,410
637,076,678	**416,632,366**	Demand and saving deposits	**160,403,461**	245,274,521
1,642,020,600	**1,737,432,104**		**668,911,360**	632,177,931

Customer accounts include deposits of Rial 1,263,522 as at 31 December 2011 (31 December 2010: Rial 2,224,582) held as collateral.

12. OTHER BORROWED FUNDS

2010 US$	2011 US$		2011 Rial	2010 Rial
15,584,416	**-**	Fixed rate bonds	**-**	6,000,000
1,593,400	**-**	Other loan	**-**	613,459
17,177,816	**-**		**-**	6,613,459

Fixed rate bonds represent bonds listed in Muscat Securities Market which matured in May 2011.

13. OTHER LIABILITIES

2010 US$	2011 US$		2011 Rial	2010 Rial
15,428,429	**22,934,475**	Interest payable	**8,829,773**	5,939,945
1,804,501	**2,631,418**	Staff related liabilities	**1,013,096**	694,733
14,717,431	**13,956,540**	Accrual for expenses	**5,373,268**	5,666,211
9,990,564	**18,804,455**	Acceptances	**7,239,715**	3,846,367
41,940,925	**58,326,888**		**22,455,852**	16,147,256

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. There were no cash dividends for the year 2010.

NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 2011

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:

2010 US$	**2011 US$**		**2011 Rial**	2010 Rial
127,551	**163,317**	At 1 January	**62,877**	49,107
87,301	**140,070**	Expense recognized during the year	**53,927**	33,611
(51,535)	**(11,683)**	Benefits paid during the year	**(4,498)**	(19,841)
163,317	**291,704**	At 31 December	**112,306**	62,877

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 Bank is required to create a subordinated debt reserve with a transfer of an amount equal to 20% of the issue value annually. The subordinated loan (Tier II capital) was raised in October 2010 for a period of 7 years. For each of the last 5 years of the tenor of the subordinated loan, the Bank is required to transfer 20% of the loan amount to subordinated reserve.

2010 US$	**2011 US$**		**2011 Rial**	2010 Rial
12,987,013	**12,987,013**	Subordinated loan	**5,000,000**	5,000,000
90,909,091	**90,909,091**	Subordinated bonds	**35,000,000**	35,000,000
103,896,104	**103,896,104**		**40,000,000**	40,000,000

15. SHARE CAPITAL

The authorised share capital of the Bank is 1,000,000,000 shares of 100 baizas each, out of which 801,432,693 shares (2010: 712,384,616) are issued and fully paid up. During the year, 89,048,077 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 2011	Number of Shares 2010
Ahli United Bank BSC, Bahrain	**280,501,440**	249,334,614
MB Holding and subsidiaries	**121,912,214**	108,366,414
	402,413,654	357,701,028

16. LEGAL RESERVE

As required by the Commercial Companies Law of 1974, as amended, 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 1,822,438 was transferred to legal reserve.

17. GENERAL BANKING RESERVE

The Shareholders in the Extraordinary General Meeting held on 26th April 2011, approved the revocation of the optional reserve "General Bank Reserve" for transfering the remaining balance therein of Rial 2,263,562 to Retained Earnings.

18. DIVIDEND PAID AND PROPOSED

The Board of Directors has recommended a stock dividend of 19% (19 shares for every 100 shares) which is subject to approval of the shareholders at the Annual General Meeting and the regulatory authorities (2010: 12.5% stock dividend).

19. INTEREST INCOME

2010 US$	**2011 US$**		**2011 Rial**	2010 Rial
89,338,971	**107,140,865**	Loans and advances to customers	**41,249,233**	34,395,504
829,808	**723,871**	Financial investments	**278,690**	319,476
295,338	**128,012**	Due from other banks	**49,285**	113,705
90,464,117	**107,992,748**		**41,577,208**	34,828,685

20. INTEREST EXPENSE

2010 US$	**2011 US$**		**2011 Rial**	2010 Rial
31,071,740	**28,495,050**	Time deposits	**10,970,594**	11,962,620
2,894,545	**4,685,767**	Borrowings	**1,804,021**	1,114,400
72,052	**211,809**	Inter-bank deposits	**81,547**	27,740
6,129,127	**8,324,602**	Demand and saving deposits	**3,204,972**	2,359,714
40,167,464	**41,717,228**		**16,061,133**	15,464,474

21. OTHER OPERATING INCOME

2010 US$	**2011 US$**		**2011 Rial**	2010 Rial
15,445,301	**23,664,695**	Fees and commission-net	**9,110,907**	5,946,441
242,408	**169,607**	Gain on sale of investments	**65,299**	93,327
912,047	**1,012,612**	Foreign exchange	**389,856**	351,138
201,226	**576,684**	Dividend Income	**222,023**	77,472
(1,257)	**7,403**	Gain/(loss) on sale of fixed assets	**2,850**	(484)
16,799,725	**25,431,001**		**9,790,935**	6,467,894

The commission and fee income shown above is net of commission and fees paid of Rial 315,600 (2010: Rial 350,002).

NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 2011

22. STAFF EXPENSES

2010 US$	2011 US$		2011 Rial	2010 Rial
8,230,868	**9,545,836**	Salaries and wages	**3,675,147**	3,168,884
3,531,257	**4,039,488**	Allowances and benefits	**1,555,203**	1,359,534
1,119,527	**1,325,660**	Others	**510,379**	431,018
12,881,652	**14,910,984**		**5,740,729**	4,959,436

23. OTHER OPERATING EXPENSES

2010 US$	2011 US$		2011 Rial	2010 Rial
454,545	**466,494**	Board related expenses	**179,600**	175,000
2,047,239	**2,225,361**	Occupancy costs	**856,764**	788,187
5,787,190	**7,499,875**	Other administrative expenses	**2,887,452**	2,228,068
8,288,974	**10,191,730**		**3,923,816**	3,191,255

24. EARNINGS 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:

	2011	2010
Net profit for the year (Rial)	**18,224,376**	14,100,165
Weighted average number of shares	**801,432,693**	801,432,693
Basic earnings per share (baizas)	**22.70**	17.59

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 2011 have been calculated using the weighted average shares outstanding for the period. The weighted average shares outstanding for the years ended 31 December 2011 and 31 December 2010 were 801,432,693 shares and these include 89,048,077 bonus shares.

ahlibank

25. CASH AND CASH EQUIVALENTS

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

2010 US$	2011 US$		2011 Rial	2010 Rial
171,089,245	**27,985,820**	Cash and current balances with Central Bank of Oman	**10,774,541**	65,869,359
40,101,275	**48,897,566**	Due from other Banks	**18,825,563**	15,438,991
103,896,104	**51,948,052**	Government certificates of deposit	**20,000,000**	40,000,000
-	**166,363,636**	Treasury bills with 3 months maturity	**64,050,000**	-
(15,477,730)	**(193,067,660)**	Due to other banks	**(74,331,049)**	(5,958,926)
299,608,894	**102,127,414**		**39,319,055**	115,349,424

26. DERIVATIVES

The table below shows the positive and negative fair values of derivative financial instruments, together with the undiscounted cash flows analysed by the term of their maturity. The disclosure shows the expected net amount for derivatives that are net settled, but a gross inflow and outflow amount for derivatives that have simultaneous gross settlement (e.g. forward exchange contracts).

31 December 2011			**Nominal cash flows by term to maturity**			
	Assets	**Liabilities**	**Nominal cash flows Total**	**Within 3 months**	**3-12 months**	**1-5 years**
	Rial	**Rial**	**Rial**	**Rial**	**Rial**	**Rial**
Derivatives for hedging						
Interest rate swaps	**-**	**236,701**	**281,841**	**19,290**	**89,928**	**172,623**
Derivatives for risk management:						
Interest rate swaps	**103,224**	**-**	**84,304**	**33,788**	**25,313**	**25,203**
Interest rate swaps	**-**	**103,224**	**84,304**	**33,788**	**25,313**	**25,203**
Forward purchase contracts	**-**	**51,100**	**20,698,018**	**19,640,213**	**1,057,805**	**-**
Forward sales contracts	**66,602**	**-**	**20,681,661**	**19,631,402**	**1,050,259**	**-**

31 December 2010			Nominal cash flows by term to maturity			
	Assets	Liabilities	Nominal cash flows Total	Within 3 months	3-12 months	1-5 years
	Rial	Rial	Rial	Rial	Rial	Rial
Derivatives for risk management:						
Interest rate swaps	249,318	-	178,628	51,116	76,618	50,894
Interest rate swaps	-	633,350	178,628	51,116	76,618	50,894
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	-

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

NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 2011

26. DERIVATIVES (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 for hedging purposes

Fixed interest rates on principal amounts of loans and investments have been hedged using interest rate swaps whose repayments dates are the same as of hedge item. These contracts are designated as fair value hedges.

Derivatives held for risk management purposes

The Bank has entered into interest rate swaps and forward contracts for risk management purposes and which are usually not closed out prior to contractual maturtiy. Bank ensure that its exposure is kept to acceptable level by buying and selling of foreign currencies in forward market when necessary to address short term imbalances.

27. CONTINGENTS LIABILITIES AND COMMITMENTS

2010 US$	**2011 US$**		**2011 Rial**	2010 Rial
80,010,914	**224,343,361**	Financial guarantees	**86,372,194**	30,804,202
24,992,390	**64,716,636**	Letters of credit	**24,915,905**	9,622,070
1,155,751	**1,163,127**	Capital commitments	**447,804**	444,964
6,586,983	**48,491,043**	Loan commitments	**18,669,052**	2,535,989
		Lease commitments		
1,386,930	**853,785**	- not later than one year	**328,707**	533,968
731,896	**561,466**	- more than one year and upto five years	**216,164**	281,780
114,864,864	**340,129,418**		**130,949,826**	44,222,973

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.

NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 2011

28. RELATED PARTY TRANSACTIONS (Continued)

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

2010 US$	**2011 US$**		**2011 Rial**	2010 Rial
		Directors and senior management		
810,255	**871,330**	Loans and advances	**335,462**	311,948
4,095,592	**4,710,200**	Customers deposits	**1,813,427**	1,576,803
		Major shareholders and others		
93,198,392	**104,277,912**	Loans and advances	**40,146,996**	35,881,381
53,638,351	**62,227,283**	Due to banks and customer deposits	**23,957,504**	20,650,765
5,000,000	**5,382,247**	Investments	**2,072,165**	1,925,000
		Other assets		
-	**1,070**	- Fair value of forward contracts	**412**	-
439,860	**146,494**	- Acceptances	**56,400**	169,346
		Other liabilities		
558,260	**121,260**	- Fair value of forward contracts	**46,685**	214,930
-	**614,808**	- Fair value of swaps	**236,701**	-
957,031	**1,541,548**	- Payables	**593,496**	368,457
31,621,412	**39,232,605**	Contingent liabilities and commitments	**15,104,553**	12,174,244

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:

2010 US$	**2011 US$**		**2011 Rial**	2010 Rial
		Directors and Senior Management		
70,886	**31,634**	Interest income	**12,179**	27,291
92,797	**141,714**	Interest expense	**54,560**	35,727
324,675	**363,636**	Board remuneration proposed	**140,000**	125,000
129,870	**102,858**	Board sitting fees	**39,600**	50,000
		Major shareholders and others		
3,621,869	**3,857,853**	Interest income	**1,485,273**	1,394,420
1,543,371	**855,312**	Interest expense	**329,295**	594,198
393,434	**180,652**	Fees and commission income	**69,551**	151,472
-	**614,808**	Loss on fair value of IRS	**236,701**	-
557,190	**121,260**	Trading loss on forward contracts	**46,685**	214,518
1,961,816	**1,971,673**	Other operating expenses	**759,094**	755,299

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 593,496 equivalent to US$1,541,548 was included in the operating expenses during 2011 (2010: Rial 365,457 equivalent to US$ 949,239).

NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 2011

28. RELATED PARTY TRANSACTIONS (Continued)

Compensation of the key management personnel is as follows:

2010 US$	2011 US$		2011 Rial	2010 Rial
1,532,899	**1,828,639**	Salaries and allowances	**704,026**	590,166
83,966	**76,574**	End of service benefits	**29,481**	32,327
1,616,865	**1,905,213**	Total compensation paid to key personnel	**733,507**	622,493

No provision is required in respect of loans given to related parties (2010: nil).

29. LIQUIDITY RISK

The maturity profile of the assets and liabilities at 31 December 2011 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 2011						
Cash and balances with Central Bank of Oman	10,774,541	-	-	-	525,000	**11,299,541**
Due from other banks	18,825,563	-	-	-	-	**18,825,563**
Financial investments	105,805,786	-	2,646,732	-	-	**108,452,518**
Loans and advances	213,106,719	80,550,846	161,055,886	123,220,466	190,672,042	**768,605,959**
Property and equipment	-	-	-	4,291,518	5,903,285	**10,194,803**
Deferred tax asset	-	-	-	574,555	-	**574,555**
Other assets	11,590,809	-	-	-	60,445	**11,651,254**
Total assets (Rial)	**360,103,418**	**80,550,846**	**163,702,618**	**128,086,539**	**197,160,772**	**929,604,193**
Total assets (US$)	**935,333,553**	**209,222,977**	**425,201,605**	**332,692,309**	**512,105,902**	**2,414,556,346**
Customers deposits	173,461,426	284,826,597	101,941,609	108,681,728	-	**668,911,360**
Due to other banks	74,331,049	-	-	-	-	**74,331,049**
Taxation	3,693,566	-	-	-	-	**3,693,566**
Other liabilities	13,580,947	6,009,204	1,747,897	1,117,804	-	**22,455,852**
Subordinated liabilities	-	-	-	40,000,000	-	**40,000,000**
Total liabilities (Rial)	**265,066,988**	**290,835,801**	**103,689,506**	**149,799,532**	**-**	**809,391,827**
Total liabilities (US$)	**688,485,684**	**755,417,665**	**269,323,392**	**389,089,694**	**-**	**2,102,316,435**
Net liquidity gap (Rial)	**95,036,430**	**(210,284,955)**	**60,013,112**	**(21,712,993)**	**197,160,772**	**120,212,366**
Net liquidity gap (US$)	**246,847,869**	**(546,194,688)**	**155,878,213**	**(56,397,385)**	**512,105,902**	**312,239,911**

NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 2011

29. LIQUIDITY RISK (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 2010						
Cash and balances with Central Bank of Oman	65,869,359	-	-	-	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)	345,987,310	50,970,750	141,486,148	77,758,343	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)	138,608,784	(168,193,987)	18,684,445	(76,384,657)	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

Maturity profile of the nominal cash flows of derivatives are mentioned in note 26.

NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 2011

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 2011								
Cash and balances with Central Bank of Oman	-	-	-	-	-	-	10,799,541	10,799,541
Deposits with Central Bank of Oman	**2.00%**	500,000	-	-	-	-	-	500,000
Due from other banks	**0.07%**	18,825,563	-	-	-	-	-	18,825,563
Financial investments	**0.40%**	105,805,786	-	2,646,732	-	-	-	108,452,518
Loans and advances	**6.04%**	379,973,205	44,732,423	75,873,650	89,128,350	178,898,331	-	768,605,959
Property and equipment	-	-	-	-	-	-	10,194,803	10,194,803
Deferred tax asset	-	-	-	-	-	-	574,555	574,555
Other assets	-	139,262	-	-	-	-	11,511,992	11,651,254
Total Assets		**505,243,816**	**44,732,423**	**78,520,382**	**89,128,350**	**178,898,331**	**33,080,891**	**929,604,193**
Customers deposits	**2.19%**	188,589,000	277,071,360	100,658,000	-	-	102,593,000	668,911,360
Due to other banks	**0.40%**	74,331,049	-	-	-	-	-	74,331,049
Taxation	-	-	-	-	-	-	3,693,566	3,693,566
Other liabilities	**1.85%**	236,701	1,198,000	-	-	-	21,021,151	22,455,852
Subordinated liabilities	**5.53%**	-	-	-	40,000,000	-	-	40,000,000
Equity	-	-	-	-	-	-	120,212,366	120,212,366
Total liabilities and equity		**263,156,750**	**278,269,360**	**100,658,000**	**40,000,000**	**-**	**247,520,083**	**929,604,193**
Total interest rate sensitivity gap		**242,087,066**	**(233,536,937)**	**(22,137,618)**	**49,128,350**	**178,898,331**	**(214,439,192)**	**-**
Cumulative interest rate sensititvity gap (Rial)		**242,087,066**	**8,550,129**	**(13,587,489)**	**35,540,861**	**214,439,192**	**-**	**-**
Cumulative interest rate sensititvity gap (US$)		**628,797,574**	**22,208,127**	**(35,292,179)**	**92,313,925**	**556,984,914**	**-**	**-**

30. INTEREST RISK (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 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%	206,731,000	55,434,000	135,947,000	90,138,000	168,096,000	2,637,234	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		309,087,521	55,434,000	138,559,428	90,138,000	168,096,000	46,849,293	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	-	1,690,000	207,000	710,000	-	-	13,540,256	16,147,256
Subordinated liabilities	5.53%	-	-	-	40,000,000	-	-	40,000,000
Equity	-	-	-	-	-	-	102,106,448	102,106,448
Total liabilities and equity		171,602,316	170,774,000	109,828,000	40,030,000	-	313,360,098	805,594,414
Total interest rate sensitivity gap		137,485,205	(115,340,000)	28,731,428	50,108,000	168,096,000	(266,510,805)	-
Cumulative interest rate sensititvity gap (Rial)		137,485,205	22,145,205	50,876,633	100,984,633	269,080,633	2,569,828	-
Cumulative interest rate sensititvity gap (US$)		357,104,429	57,520,013	132,147,099	262,297,748	698,910,735	6,674,878	-

NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 2011

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.

	2011 Level 1 Rial	2011 Level 2 Rial	2011 Total Rial
Financial Assets			
Investments held for trading (note 7)	17,295,564	-	17,295,564
Investments available for sale (note 7)	6,976,254	84,050,000	91,026,254
Derivative financial Instruments			
Interest rate swaps (note 26)	-	103,224	103,224
Forward Foreign Exchange contracts (note 26)	-	66,602	66,602
	24,271,818	**84,219,826**	**108,491,644**
Financial Liabilities			
Derivative financial Instruments			
Interest rate swaps (note 26)	-	339,925	339,925
Forward Foreign Exchange contracts (note 26)	-	51,100	51,100
	-	**391,025**	**391,025**

	2010 Level 1 Rial	2010 Level 2 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	40,000,000	86,486,592
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	40,255,106	94,154,364
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 2011 (2010: Nil).

32. GEOGRAPHICAL DISTRIBUTION OF ASSETS AND LIABILITIES

Financial investments include Rial 67,714,765 equivalent to US$ 175,882,506 (2010: Rial 3,617,819 equivalent to US$ 9,396,932) which are denominated in US$ and issued by institutions located outside the Sultanate of Oman. In addition loans advances to Customers/Banks amounting to Rial 35,195,237 (2010: Rial 20,957,585) 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 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 2011

33. RISK MANAGEMENT (Continued)

	Notes	2011 Rial '000	2010 Rial '000
Balance with Central Bank of Oman	4	**8,862**	64,716
Due from other banks	5	**18,826**	15,439
Loans and advances	6	**776,039**	659,909
Financial investments	7	**108,453**	54,030
Derivative financial instruments	26	**170**	255
		912,350	794,349
Commitments	27	**19,662**	3,797
Contingent liabilities	27	**111,288**	40,426
		130,950	44,223
Total credit risk exposure		**1,043,300**	838,572

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 2011 Rial '000	Net maximum exposure 2011 Rial '000	Gross maximum exposure 2010 Rial '000	Net maximum exposure 2010 Rial '000
Loans and advances (Note 6)	**776,039**	**569,821**	659,909	467,264
Bank and financial institutions	**136,311**	**136,311**	134,440	134,440
Commitments (Note 27)	**19,662**	**19,662**	3,797	3,797
Contingent liabilities (Note 27)	**111,288**	**111,288**	40,426	40,426
	1,043,300	**837,082**	838,572	645,927

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.

33. RISK MANAGEMENT(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; and

- 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 2011 was 87.5% (31 December 2010: 87.5%). The Bank had maintained the lending ratio at the below levels:

	2011	2010
Year end	**86.71%**	84.47%
Maximum	**87.41%**	87.01%
Minimum	**77.09%**	77.05%
Average	**84.08%**	83.98%

NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 2011

33. RISK MANAGEMENT (continued)

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 66% (2010: 69%) of its customers' deposits as of 31 December 2011, with no single maturity representing more than 4.5% of the customer deposits base (2010: 4.1%).

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:

	2011	2010
	Rial '000	Rial '000
Net Interest Income	**25,516**	19,364
Impact of 50 bps	**575**	490
Impact of 100 bps	**1,150**	981
Impact of 200bps	**2,301**	1,962

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

The Banks instruments are mainly in 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 280,143,698 equivalent to US$ 727,645,969 (2010: Rial 184,745,096 equivalent to US$ 479,857,392) which are denominated in US$. Total liabilities include Rial 280,123,076 equivalent to US$ 727,592,405 (2010: 184,706,875 equivalent to US$ 479,758,117) 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.

33. RISK MANAGEMENT (continued)

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 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
2011		
Effect on interest income	**(4,642)**	**(12,057)**
Effect on equity	**(4,642)**	**(12,057)**
2010		
Effect on interest income	(4,326)	(11,236)
Effect on equity	(4,326)	(11,236)

NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 2011

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:

2010 US$ '000	**2011 US$ '000**		**2011 Rial '000**	2010 Rial '000
		Capital		
246,683	**293,460**	Tier 1	**112,982**	94,973
127,990	**113,236**	Tier 2	**43,596**	49,276
374,673	**406,696**		**156,578**	144,249
		Risk weighted assets		
1,801,519	**2,245,992**	Credit risk	**864,707**	693,585
39,262	**21,073**	Market risk	**8,113**	15,116
64,371	**62,779**	Operational risk	**24,170**	24,783
1,905,152	**2,329,844**	Total	**896,990**	733,484
19.67%	**17.46%**	**Risk asset ratio (%)**	**17.46%**	19.67%
12.00%	**12.00%**	Regulatory requirement	**12.00%**	12.00%

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 2011

Retail Premium and Private banking US$ '000	Corporate banking and Treasury US$ '000	Total US$ '000		Retail Premium and Private banking Rial '000	Corporate banking and Treasury Rial '000	Total Rial '000
31,468	34,808	**66,276**	Net interest income	12,115	13,401	**25,516**
17,249	8,182	**25,431**	Other operating income	6,641	3,150	**9,791**
48,717	**42,990**	**91,707**	**TOTAL OPERATING INCOME**	**18,756**	**16,551**	**35,307**
(6,551)	(3,771)	**(10,322)**	Loan impairment, net of recoveries	(2,522)	(1,452)	(3,974)
(17,701)	(9,862)	**(27,563)**	Operating expenses	(6,815)	(3,797)	(10,612)
24,465	**29,356**	**53,822**	**PROFIT BEFORE TAX**	**9,419**	**11,302**	**20,721**
(3,008)	(3,478)	**(6,486)**	Income tax expense	(1,158)	(1,339)	(2,497)
21,457	**25,878**	**47,336**	**NET PROFIT FOR THE YEAR**	**8,261**	**9,963**	**18,224**

Retail Premium and Private banking US$ '000	Corporate banking and Treasury US$ '000	Total US$ '000		Retail Premium and Private banking Rial '000	Corporate banking and Treasury Rial '000	Total Rial '000
939,175	**1,475,384**	**2,414,556**	**Segmental Assets**	**361,583**	**568,021**	**929,604**
272,068	**1,830,248**	**2,102,316**	**Segmental Liabilities**	**104,746**	**704,646**	**809,392**

NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 2011

35. SEGMENT REPORTING (continued)

Year ended 31 December 2010

Retail Premium and banking US$ '000	Corporate banking Privateand Treasury US$ '000	Total US$ '000		Retail Premium and 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

Retail Premium and banking US$ '000	Corporate banking Privateand Treasury US$ '000	Total US$ '000		Retail Premium and Private banking Rial '000	Corporate banking and Treasury Rial '000	Total Rial '000
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

36. COMPARATIVE FIGURES

Certain corresponding figures for 2010 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.

ahlibank

Executive Management of Ahli Bank

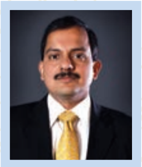
Abdul Aziz Mohammed Al Balushi: CEO

- 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

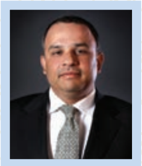
- Former COO, Global Retail & Commercial Bank Barclays Bank PLC –Mumbai, India
- Former COO, Calyon Bank –Mumbai, India
- Former COO, Dresdner Bank Group, India

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 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