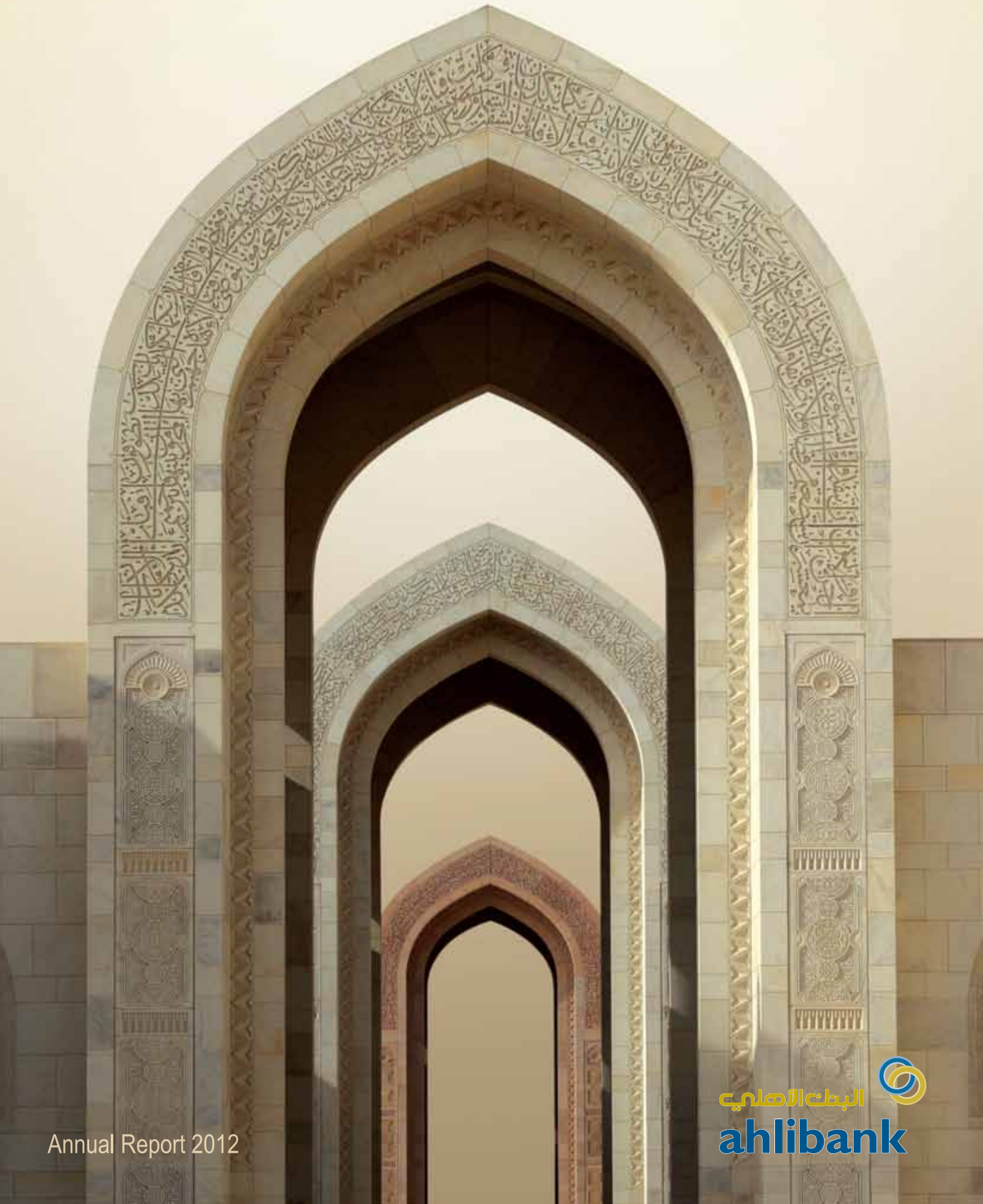
truth & transparency in Banking

The pillars of growth and prosperity.

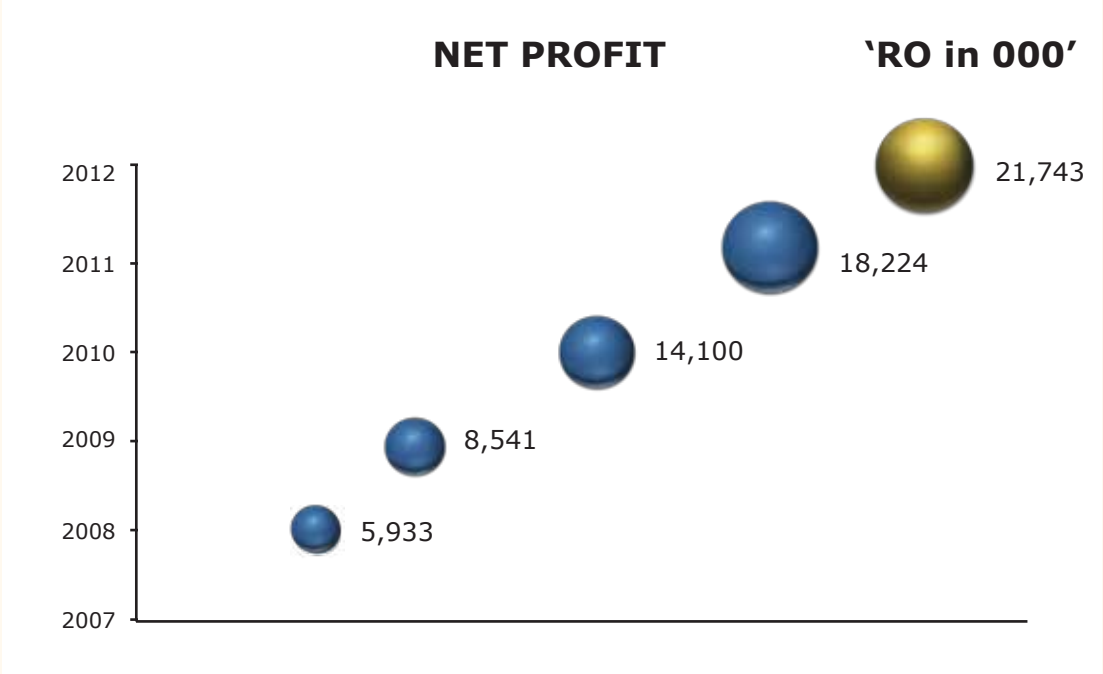


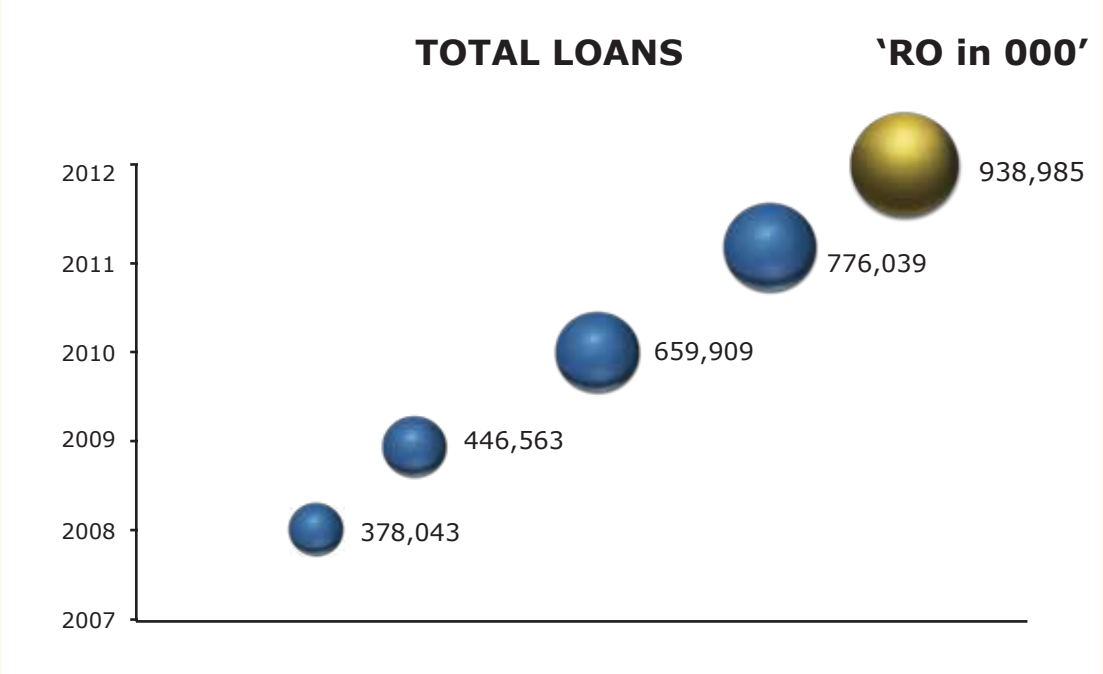
البنك الأهلي

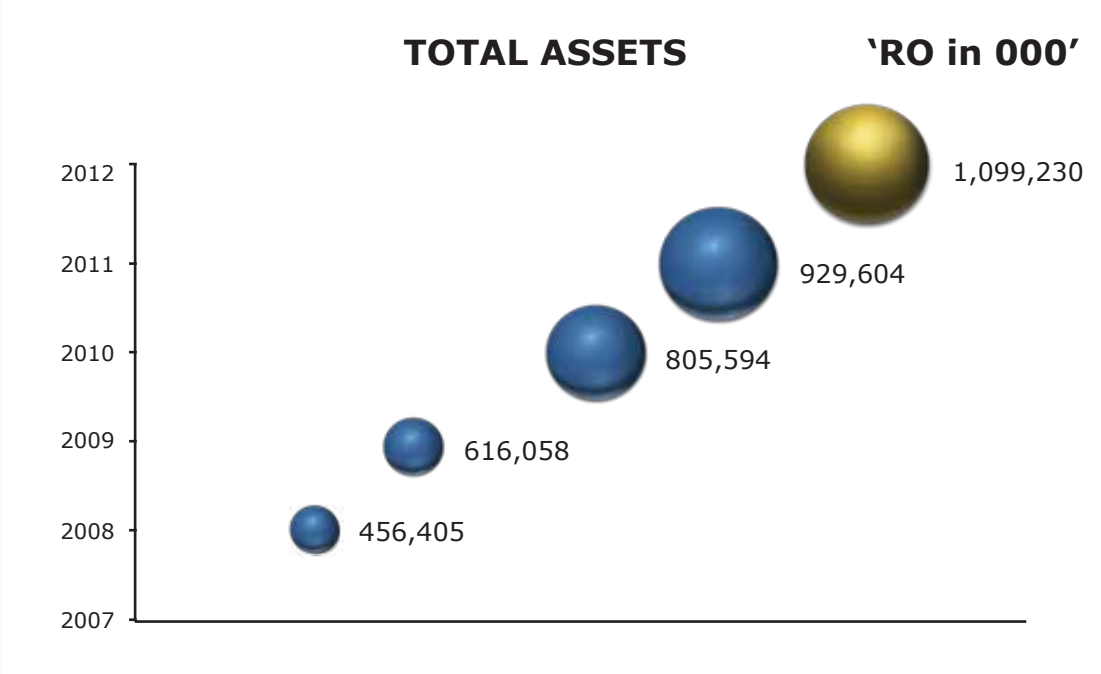
ahlibank

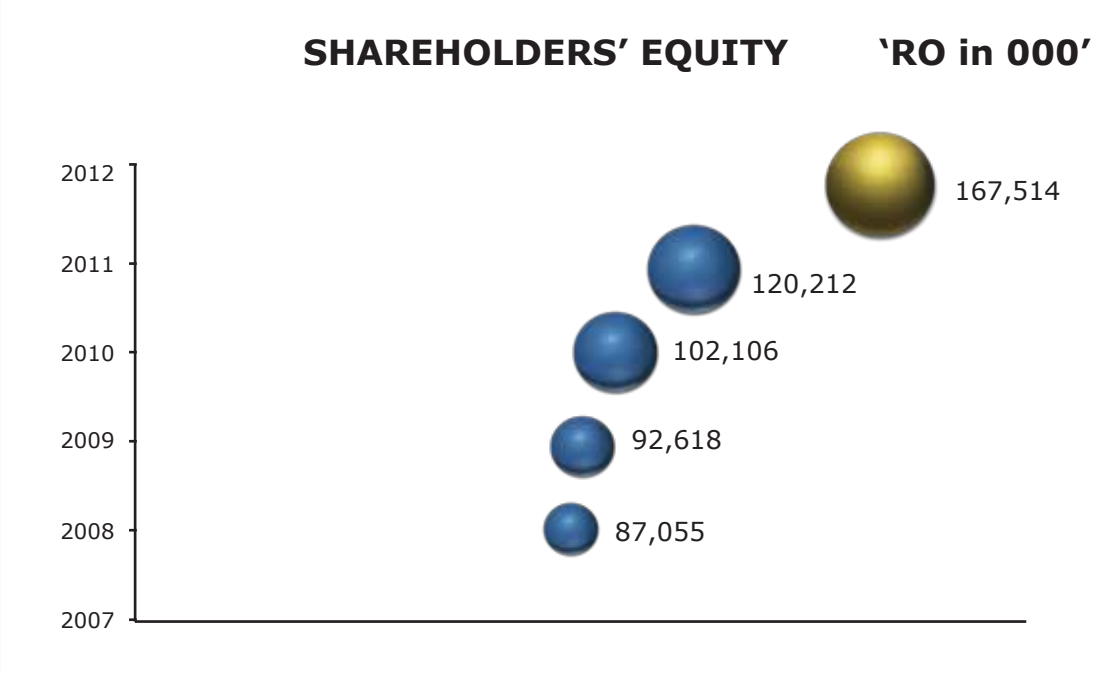
Annual Report 2012

His Majesty Sultan Qaboos Bin Said


NET PROFIT
'RO in 000'
2012
2011
2010
2009
2008
2007
21,743
18,224
14,100
8,541
5,933


TOTAL LOANS
'RO in 000'
2012
2011
2010
2009
2008
2007
938,985
776,039
659,909
446,563
378,043


TOTAL ASSETS
'RO in 000'
2012
2011
2010
2009
2008
2007
1,099,230
929,604
805,594
616,058
456,405


SHAREHOLDERS' EQUITY
'RO in 000'
2012
2011
2010
2009
2008
2007
167,514
120,212
102,106
92,618
87,055

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Chairman’s Report	8
Corporate Governance Report	12
Basel II - Pillar III Report	21
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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
Deputy Chairman:
• Ahli United Bank, Bahrain • Ahli United Bank, UK
• Ahli United Bank, Egypt
• United Bank for Commerce & Industry, Libya
• Kuwait & Middle East Financial Investment Company, Kuwait
• Middle East Financial Investment Company, Kingdom of Saudi Arabia
• Commercial Bank of Iraq, Iraq
Board Member:
• Institute of Banking Studies, Kuwait
• Public Authority for Applied Education & Training, Kuwait

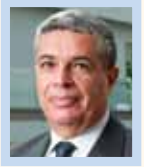
Munir Abdulnabi Yousef Makki – Second Deputy Chairman

Director:
• The Financial Corporation (FINCORP) SAOG
• 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 United Bank, Egypt
• Commercial Bank of Iraq, Iraq
• United Bank for Commerce & Investment Co, Libya
• Middle East Financial Investment Co, Kingdom of Saudi Arabia

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

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

CHAIRMAN'S REPORT FOR 2012

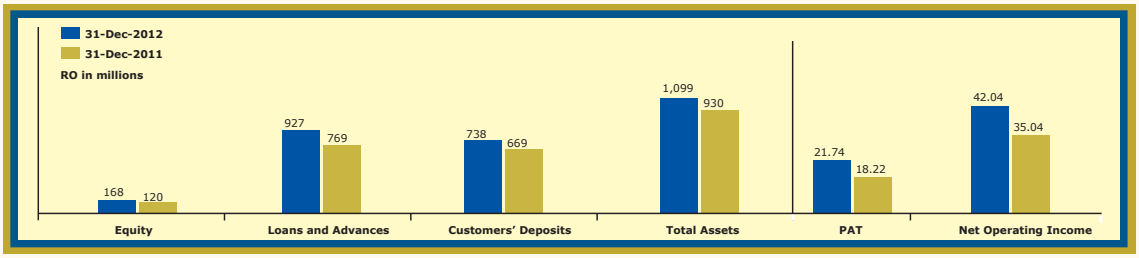
On behalf of the Board of Directors of Ahli Bank SAOG, it gives me great pleasure to present the 2012 annual report and financial statements of our Bank. The economic environment continues to evolve in the aftermath of the financial crisis and despite the challenges arising; the Bank has recorded a healthy overall performance along expected lines.

Business Overview & Outlook

The Government has proposed a growth in investments for infrastructure projects in its budget for 2013. This is likely to create higher demand for finance from the banking system. The existing liquidity in the system is expected to meet this demand for funds.

At ahlibank we see potential banking opportunities arising for which, clear and focused strategy is drawn up. Our aim is to diversify into a wide range of business activities to facilitate the banking and financial needs of our customers and at the same time maximize the value to our shareholders. Our aim would therefore be to grow in a prudent way and continue to be a strong participant in the banking sector in Oman.

Financial Highlights



	31-Dec-12	31-Dec-11	Growth %
	RO in millions		
Equity	168	120	40%
Loans and advances	927	769	21%
Customers' deposits	738	669	10%
Total assets	1,099	930	18%
PAT	21.74	18.22	19%
Net operating income	42.04	35.04	20%

The Bank continued to perform well during 2012 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 10% in line with our strategy to build a stable low cost deposit base. Loan growth of over 21% 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 1.1% in 2012 (2011: 1.0%).

Net operating income has increased by 20% to RO 42.04 million and operating expenses (excluding loan impairment net of recoveries) were controlled at RO 13.2 million maintaining a low cost to income ratio of 31.3% (2011: 30.0%). Overall, the net profit after tax impressively rose by 19% to RO 21.7 million (2011: RO 18.2 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 within the Bank's approved risk framework and in full compliance with Central Bank of Oman regulations.

The Bank in line with its business strategy successfully concluded the Right Issue for RO 25 Million to enhance the Tier I capital.

The Tier I capital as at year end 2012 amounted to RO 153.8 million up from RO 112.9 million in 2011, and the capital adequacy ratio is at 16.85% (2011: 17.46%), well above the mandatory 12% minimum requirement of Central Bank of Oman.

Dividend

The Bank's Earnings Per Share (EPS) for 2012 has risen to Baizas 19.9 from Baizas 18.0 during 2011. The successful completion of the rights issue enabled the bank achieve its twin objective of meeting the regulatory RO 100 million level of share capital as well as allocate RO 25 million for the Bank's Islamic Banking activities. The Board of Directors recommends 5% cash dividend and a 5% stock dividend (5 shares for every 100 shares held).

Islamic Banking

During the year, the Bank has been getting ready to launch the Islamic Banking services. The soon to be launched Al Hilal Islamic Banking Services will offer a vast variety of Sharia compliant banking solutions to customers in the different regions of the Sultanate through an initial network of six branches. Our readiness is in compliance with the guidelines and regulatory framework prescribed by the Central Bank of Oman (CBO).

The Bank will offer complete suite of Sharia compliant products including Musharaka, Ijarah, Ijarah Muntahia Bittamleek, Mudaraba and wakala.

The Sharia'a Supervisory Board for ahlibank's Al Hilal Islamic Banking Services includes prominent scholars from around the Middle East, comprising Prof. Ali Muhyealdin Al-Quradaghi, Dr. Fareed Mohammed Hadi, Prof. Abdul Aziz Al-Qassar and Sheikh Aflah Ahmed bin Hamad al-Khalili.

The Bank will strictly follow the required conditions of the Sharia'a Board in order to ensure that all operations of Al Hilal Islamic Banking Services are Sharia compliant.

Members of our Sharia Supervisory Board have been assisting ahlibank's Al Hilal Islamic Banking Services in conducting an awareness campaign for islamic banking products and services across the Sultanate.

Corporate Governance

The Board of Directors firmly believes that the application of a sound corporate governance framework is a matter of vital importance. Consequently, ahlibank is committed to integrating the best practices in corporate governance into the Bank's culture and conduct.

In accordance with the directives of the Code of Corporate Governance promulgated by the Capital Market Authority, the Bank includes a report on the implementation and effectiveness corporate governance guidelines, directives and recommendations, duly certified by the statutory auditors, within the Annual Report.

Asset Management & Brokerage

ahlibank acquired assets and liabilities of the Middle East Brokerage Company LLC. This acquisition came from the Bank's commitment to provide a full array of services and investment opportunities to both its retail and commercial clients. The investment banking and brokerage division commenced services from 3 June 2012 as a fully licensed brokerage in the Muscat Securities Market.

The Bank has also expanding its service offering with new licenses obtained from the Capital Market Authority (CMA). The new activities are (a) Portfolio Management, (b) Fund Management, (c) Issue Management and (d) Issuer of Structured Instruments. The above activities will be in addition to the licenses to provide Brokerage and Investment advisory services.

The Bank has established a full fledged Asset Management and Brokerage teams, with research capabilities utilizing proprietary models and execution platforms catering to both Equity and Debt securities with a geographic coverage extending to include both the GCC and MENA region.

In the Year Ahead

In 2013, ahlibank will continue to build its brand equity and expand its banking footprint to further exploit local and regional opportunities.

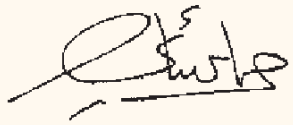
ahlibank will continue to strive for growth within acceptable risk parameters across business segments. In the consumer banking area, the Bank will focus on increasing cross-selling and enhancing the customer service proposition through technology driven solutions. In the wholesale banking segment, the Bank will continue developing comprehensive client solutions leveraging in-house expertise and exploring cross-border markets and further developing asset management and investment banking.

The Bank's new Head Office building will be completed and expected to be occupied during this year. The new premises will enhance both staff and customer experience and create a unique identity for ahlibank.

Acknowledgement

On behalf of the Board of Directors, I take this opportunity to thank all our stakeholders for the confidence reposed in the Bank. I would like to thank the management team and all our employees for their dedication and commitment. We also acknowledge the contribution of our strategic partner, Ahli United Bank, which has been invaluable in terms of our development over the years.

We are thankful to the Central Bank of Oman and the Capital Market Authority for their advice and guidance. The Board of Directors is deeply grateful to His Majesty Sultan Qaboos Bin Said for his vision and guidance, which has helped the country along its path of growth and prosperity during the last 42 years.



Hamdan Ali Nasser Al Hinai
Chairman

Date: 27 January 2013

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

Tel 968 24709181
Fax 968 24700839

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

We have performed the procedures prescribed in the Capital Market Authority ("CMA") Circular No. 16/2003 dated 29 December 2003 with respect to the Corporate Governance Report of the Bank (the "Report") and its application of the Corporate Governance practices in accordance with the CMA Code of Corporate Governance (the "Code") issued under Circular No. 11/2002 dated 3 June 2002, and the CMA Rules and Guidelines on disclosure, issued under CMA Administrative Decision 5/2007, dated 27 June 2007. The Report is set out on pages 12 to 19.

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

We found the Report reflects, in all material respects, the Bank's application of the provisions of the Code and is free from any material misrepresentation.

Because the above procedures do not constitute either an audit or a review made in accordance with International Standards on Auditing, we do not express any assurance on the Bank's Corporate Governance Report. Had we performed additional procedures or had we performed an audit or review of this Report in accordance with International Standards on Auditing, other matters might have come to our attention that would have been reported to you.

This report is solely for the purpose set forth in the second paragraph above, and for inclusion, with the Report, in the Bank's annual report, and is not to be used for any other purpose. This report relates only to the Report included in the Bank's annual report for the year ended 31 December 2012 and does not extend to the financial statements or any other reports of Ahli Bank SAOG, taken as a whole.

27 January 2013

Paul Callaghan

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C.R. No. 1/30936/6

CORPORATE GOVERNANCE REPORT FOR 2012

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. The Capital Market Authority (CMA) and the Central Bank of Oman (CBO) circular BM 932, Corporate Governance in Banks are the principal codes and drives of the Corporate Governance practices in Sultanate and Ahli Bank SAOG (the Bank) fully complies with all of their provisions.

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. 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.

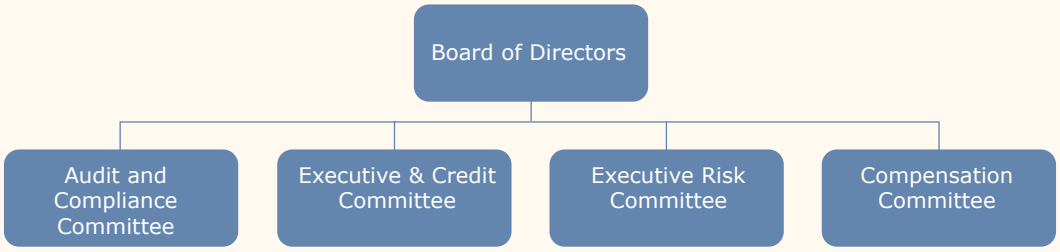
At the core of corporate governance practice is the Board, which oversees how the management serves and protects the long-term interests of all the stakeholders of the bank. We believe that an active, well-informed and independent board is necessary to ensure the highest standards of Corporate Governance.

CORPORATE GOVERNANCE IMPLEMENTATION INITIATIVES AT AHLI BANK SAOG

Good Corporate Governance is vital in supporting the delivery of our strategic objectives. Our Board Committees play an important role in the working with management to ensure our business is financially strong, that it is well-governed and that any risks are identified and mitigated. Over the years, the Board has developed Corporate Governance culture to help fulfill our corporate responsibility to various stakeholders. This ensures that the Board will have the necessary authority and practice in place to review and evaluate our operations when required.

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

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



BOARD OF DIRECTORS AND SUBCOMMITTEES OF AHLI BANK SAOG

Board of Directors:

Our principal duty, collectively, is to promote the long term success of the ahlibank by creating and delivering sustainable shareholder value. We do this by setting the strategy and overseeing its implementation by management. While our ultimate focus is long term growth, we also need to deliver on the short term objectives and we seek to ensure that the management strikes the right balance between the two.

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 2012:

Sl. No.	Board Meeting
1.	30-Jan-2012
2.	25-Mar-2012
3.	24-Apr-2012
4.	24-Jul-2012
5.	15-Oct-2012
6.	11-Dec-2012

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	3	CC,ECC	Yes
Munir Abdulnabi Yousef Makki	Second Deputy Chairman	Independent	6	AC	Yes
Sayyid Khalid Hamad Hamood Al Busaidi	Director	Independent	3	ERC	No
Adel Mohamed Abdelshafe El-Labban	Director	Independent	6	CC,ECC,ERC	Yes
Sanjeev Baijal	Director	Independent	6	AC	Yes
Keith Henry Gale	Director	Independent	6	ECC, ERC	Yes
Mustafa Shafqat Anwar	Director	Independent	6	AC	Yes
Safana Mohamed Al Barwani	Director	Independent / Representing MB Holding	3	ERC	No
Rashad Khamis Hamed Al Battashi	Director	Independent	6	ERC	Yes
Usama Mohammed Al Barwani	Director	Independent	5	ECC	No

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

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

Sub-committees:

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

A. Audit and Compliance 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 and Compliance Committee:

The role of the Audit and Compliance 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.
- Oversee the compliance with Corporate Governance and monitoring of Risk Management activity within the Bank.

Composition of Audit and Compliance Committee and Details of Meetings held and Attendance Record of Members during the year 2012:

Composition of Audit Committee		Meetings Dates			
Director's Name	Position	30-Jan-12	24-Apr-12	24-Jul-12	15-Oct-12
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 Boardconsider 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.

Sub-committees (continued):

Composition of Executive Credit Committee and Details of Meetings held and Attendance Record of Members during the year 2012:

Composition of Executive & Credit Committee		Meetings Dates				
Director's Name	Position	14-Feb-12	22-May-12	8-Aug-12	11-Sep-12	11-Dec-12
Hamad Abdulmohsen H.D. Al Marzouq	Chairman	No	Yes	Yes	Yes	Yes
Hamdan Ali Nasser Al Hinai	Member	Yes	Yes	Yes	Yes	Yes
Adel Mohamed Abdelshafe El-Labban	Member	Yes	Yes	Yes	No	Yes
Keith Henry Gale	Member	Yes	Yes	No	Yes	Yes
Usama Mohammed Al Barwani	Member	Yes	Yes	Yes	Yes	Yes
Attendance		**4**	**5**	**4**	**4**	**5**

C. Executive Risk Committee:

The role of the Executive Risk Committee includes:

- Integrated approach to managing the risks inherent in various aspects of our business.
- 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 2012:

Composition of Executive Risk Committee		Meetings Dates			
Director's Name	Position	14-Feb-12	22-May-12	15-Oct-12	11-Dec-12
Sayyid Khalid Hamad Hamood Al Busaidi	Chairman	Yes	No	Yes	No
Adel Mohamed Abdelshafe El-Labban	Member	Yes	Yes	Yes	Yes
Keith Henry Gale	Member	Yes	Yes	Yes	Yes
Safana Mohamed Al Barwani	Member	Yes	No	Yes	Yes
Rashad Khamis Hamed Al Battashi	Member	Yes	Yes	Yes	Yes
Attendance		**5**	**3**	**5**	**4**

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 2012:

Composition of Compensation Committee		Meetings Dates
Director's Name	Position	25-Mar-12
Hamdan Ali Nasser Al Hinai	Chairman	Yes
Hamad Abdulmohsen H.D. Al Marzouq	Member	Yes
Adel Mohamed Abdelshafe El-Labban	Member	Yes
Attendance		**3**

PROCEDURE FOR STANDING AS A CANDIDATE FOR THE BOARD

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

The director shall be elected by direct secret ballot by the shareholders. Each shareholder shall have number of votes equal to that of the shares 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, Credit Agricole Indosuez, India
Former COO, Dresdner Bank Group, India
Executive Assistant to Group CEO, Dresdner Bank Group, Asia-Pacific Region, Singapore

CB Ganesh: DCEO- Commercial Banking, Investment 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.
15 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 152,400 is proposed as Board Remuneration in addition to the sitting fees paid to the Board members for year 2012. The details of sitting fees paid are below:

Name of Director	Sitting Fees Paid (RO)
Hamdan Ali Nasser Al Hinai	5,800
Hamad Abdulmohsen H.D. Al Marzouq	3,800
Munir Abdulnabi Yousef Makki	5,000
Sayyid Khalid Hamad Hamood Al Busaidi	2,500
Adel Mohamed Abdelshafe El-Labban	6,100
Sanjeev Baijal	4,200
Keith Henry Gale	5,400
Mustafa Shafqat Anwar	4,200
Safana Mohamed Al Barwani	2,400
Rashad Khamis Hamed Al Battashi	4,200
Usama Mohammed Al Barwani	4,000
Total	**47,600**

Total remuneration paid to the top five executives of the bank amounted to RO 876,480 during the year 2012 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.

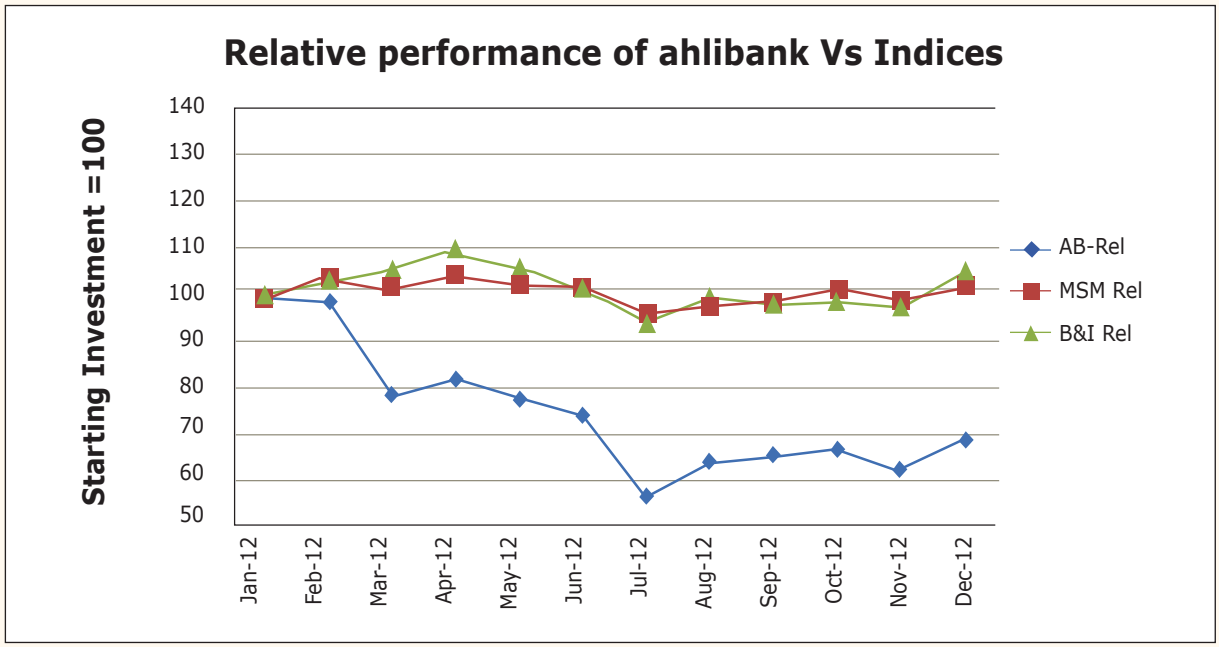
MARKET PRICE DATA

High/Low share prices in 2012:

Table below shows the high/low prices of the Bank's shares in RO during the months in the year 2012.

Month	High	Low
Jan-2012	0.265	0.252
Feb-2012	0.260	0.246
Mar-2012	0.259	0.200
Apr-2012	0.226	0.195
May-2012	0.215	0.195
Jun-2012	0.203	0.188
Jul-2012	0.170	0.134
Aug-2012	0.171	0.142
Sep-2012	0.171	0.162
Oct-2012	0.172	0.167
Nov-2012	0.170	0.156
Dec-2012	0.177	0.157

Performance of Ahli Bank SAOG Vs MSM and Banking Indices:



Distribution of share ownership among shareholders as of 31 December 2012:

Name	Country of incorporation	Number of shares	%
Ahli United Bank	Bahrain	421,296,711	35.00
MB Holding & Subsidiaries – Oman	Oman	183,104,993	15.21
International Finance Corporation	USA	119,224,104	9.90
Ministry of Defence – Pension Fund	Oman	86,678,624	7.20
Ministry of Civil Services – Pension Fund	Oman	82,048,919	6.82
Others	-	311,351,554	25.87

DONATIONS

The Bank paid a donation of RO 42,696 to various charitable organizations and RO 21,000 towards MyHassad Special Ramadhan Charity offer to various organizations.

EXTERNAL AUDITOR'S PROFILE – KPMG

The shareholders of the Bank appointed KPMG as the Bank's auditors for the year 2012. KPMG is a leading accounting firm in Oman and is a part of KPMG Lower Gulf that was established in 1974. KPMG in Oman employs more than 130 people, amongst whom are 4 Partners, 5 Directors and 20 Managers, including Omani nationals and is a member of the KPMG network of independent firms affiliated with KPMG International Co-operative. KPMG is a global network of independent firms providing Audit, Tax and Advisory services and has more than 152,000 outstanding professionals working together in 156 countries worldwide.

KPMG in Oman is accredited by the Capital Market Authority (CMA) to audit joint stock companies (SAOG's). During the year 2012, KPMG billed an amount of RO 37,500 towards professional services rendered to the bank (RO 35,500 for audit and RO 2,000 for tax and other services).

ACKNOWLEDGMENT BY THE BOARD OF DIRECTORS

- The Board is responsible for the preparation of the financial statements in accordance with the applicable standards and rules.
- The Board has reviewed of the efficiency and adequacy of internal control systems of the issuer and it complies 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 and Compliance 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 2012. 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.

27 January 2013

Paul Callaghan

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C.R. No. 1/399364/6

BASEL II PILLAR III REPORT FOR 2012

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 2012

- 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.

	RO '000s
Tier I capital	153,848
Tier II capital	38,519

Tier II Capital

In 2010 The Bank came out with its maiden Tier II capital issue of RO 40 million comprising of a Private Placement (December 2010) of RO Thirty Five million subordinated, non-convertible and unsecured Bonds ("Bonds") at an Issue Price of RO 1.005 per Bond (RO 0.005 for issue expenses) and RO 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 RO 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.

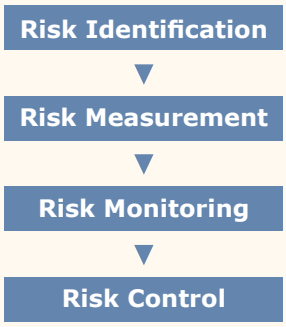
The key to this approach is the creation of a responsive organization structure around each of these risk categories with appropriate delegated authority to deliver in line with the business objectives approved by the Board of Directors.

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 Executive Risk Committee (a Board Committee).

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



Risk Framework

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

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

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

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

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).

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

Portfolio risk rises 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; and
- 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; and
- Lending limits.

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

Structure

Country Limits

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

Category	Country / Credit Rating	Country Ceilings (Excluding Banks)	Aggregate Country Ceilings by Category	Aggregate Bank Limits in Single Country
		As % of Large Exposure Capital Base (LECB)		
I	GCC countries	300%	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 Credit 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; and
- 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.

Management monitors the market value of collateral at regular interval and requests additional collateral in accordance with the underlying agreement in case of shortfall. The Bank also periodically reviews the collateral cover for determining the adequacy of the allowance for impairment losses. The fair value of collateral that the Bank held as at 31 December 2012 towards loan and advances not impaired amounted to RO 644,838 million.

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 has direct investment in shares to generate sustainable dividend income by identifying high dividend yield shares. The investments were made in 15 companies listed on the Muscat Securities Market and the balance as of 31 December 2012 stood at RO 4,139,976 generating a dividend income of RO 160,194. In addition, the Bank had generated a realized profit of RO 43,355 and unrealized gain of RO 384,830 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:

	RO '000s
2012	
Effect on interest income	**(5,426)**
Effect on equity	**(4,775)**

2011	
Effect on interest income	(4,642)
Effect on equity	(4,085)

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 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 year end are based on contractual repayment arrangements. The details of the same were provided in note 31.2.2 of the 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 31.3.2 of the financial statements.

13. SUBSIDIARIES AND SIGNIFICANT INVESTMENTS

The Bank does not have any subsidiary or other significant equity investments as on 31 December 2012 (except the listed equity investments as mentioned in 7 above).

14. DISCLOSURE TABLES

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

As on December 31, 2012

Sl. No	Details	Gross balances (book value)	Net balances (book value)	Risk weighted assets
1	On-balance sheet items	1,110,826	1,110,826	968,637
2	Off-balance sheet items	168,206	168,206	106,164
3	Derivatives (Banking Book)	1,923	1,923	1,130
4	**Total**	**1,280,955**	**1,280,955**	**1,075,931**
5	Tier 1 Capital			153,848
6	Tier 2 Capital			38,519
7	Tier 3 Capital			-
8	**Total Regulatory Capital**			**192,367**
8.1	Capital requirement for credit risk			129,112
8.2	Capital requirement for market risk			3,934
8.3	Capital requirement for operational risk			3,987
9	**Total required capital**			**137,033**
10	Tier 1 Ratio			13.47%
11	Total Capital Ratio			16.85%

2. Capital Break (Amounts in RO '000)

As on December 31, 2012

Sl. NO	Elements of capital	Amount
	Tier I Capital	
1	Paid-up capital	120,370
2	Share premium	-
3	Legal reserves	12,440
4	General reserves	-
5	Subordinated loan reserve	14,502
6	Stock dividend *	6,019
7	Retained earnings **	951
8	Non-cumulative perpetual preferred stock	-
9	Other non-distributable Reserve	-
	Total Gross Tier I Capital	**154,282**
	Deductions	
10	Goodwill	-
11	Deferred Tax Asset	(104)
12	Intangible Assets, including losses, cumulative unrealised losses recognised directly in equity	(65)
13	Reciprocal crossholding of bank capital, artificially designed to inflate the capital position of banks	-
	sub-total	**(169)**
14	**Tier I capital after the above deductions**	**154,113**
15	50% of investments in the capital of banks and other financial entities, other than reciprocal cross holdings of bank capital	(265)
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	**(265)**
19	**Tier I capital after all deductions**	**153,848**

* The Board of Directors has proposed stock dividend of 5% and cash dividend of 5%. The stock dividend has been reduced from retained earnings and shown separately.

** Payout of cash dividend of RO 6,018 thousands has been reduced from the retained earnings.

Sl. 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	202
22	General loan loss provisions / Collective provision	13,084
23	Subordinated debt	25,498
24	Hybrid debt capital instruments	-
25	**Total Tier II capital**	**38,784**
	Deductions	
26	50% of investments in the capital of banks and other financial entities, other than reciprocal cross holdings of bank capital	(265)
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	**(265)**
	Tier II Capital (Net)	**38,519**
30	**Tier III Capital (eligible)**	**-**
31	**Total Regulatory Capital**	**192,367**

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

As on December 31, 2012

Sl. No.	Details	Simple Approach
1	Tier I capital (after supervisory deductions)	153,848
2	Tier II capital (after supervisory deductions and up to eligible limits)	38,519
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	1,075,931
6	Risk weighted assets – operational risk	33,221
7	**Total Risk Weighted Assets – Banking Book + Operational Risk**	**1,109,152**
8	**Minimum required capital to support RWAs of banking book and operational risk**	**133,098**
	i) Minimum required Tier I capital for banking book and operational risk	94,579
	ii) Tier II capital required for banking book and operational risk	38,519
9	Tier I capital available for supporting trading book	59,269
10	Tier II capital available for supporting trading book	-
11	Risk Weighted Assets – trading book	32,785
12	Total capital required to support trading book	3,934
13	Minimum Tier I capital required for supporting trading book	1,121
14	Used Eligible Tier III capital	-
15	**Total Regulatory Capital**	**192,367**
16	**Total Risk Weighted Assets – Whole bank**	**1,141,937**
17	**BIS Capital Adequacy Ratio**	**16.85%**
18	Unused but eligible Tier III capital	-

4. Gross and average credit risk exposure (Amounts in R0 '000s)

Sl. No	Type of credit exposure	Average Gross Exposure		Total Gross Exposure	
		31-Dec-12	31-Dec-11	**31-Dec-12**	31-Dec-11
1	Overdrafts	9,350	8,342	10,439	11,636
2	Personal loans	410,606	333,381	437,039	364,376
3	Other loans	438,715	358,837	491,507	400,028
		858,671	**700,560**	**938,985**	**776,040**

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

As on December 31, 2012

Sl. No	Economic sector	Overdraft	Loans	Total	Off-balance sheet exposures *
1	Wholesale and retail trade	2,068	107,734	**109,802**	43,518
2	Mining and quarrying	429	22,350	**22,779**	3,557
3	Construction	3,178	117,508	**120,686**	56,285
4	Manufacturing	3,200	45,219	**48,419**	5,531
5	Financial Institutions	192	32,997	**33,189**	2,106
6	Services	712	58,833	**59,545**	596
7	Transport and Communication	217	58,240	**58,457**	3,465
8	Personal loans	304	437,039	**437,343**	**-**
9	Non-resident lending	-	26,703	**26,703**	-
10	Others	139	21,923	**22,062**	61,649
	Total	**10,439**	**928,546**	**938,985**	**176,707**

* 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 RO '000s)

As on December 31, 2012

Sl. No	Time Band	Overdraft	Loans	Total	Off-balance sheet exposures
1	Up to 1 month	521	75,607	**76,128**	51,310
2	1 - 3 months	522	155,062	**155,584**	24,620
3	3 - 6 months	522	34,839	**35,361**	15,608
4	6 - 9 months	522	17,163	**17,685**	1,699
5	9 - 12 months	522	18,190	**18,712**	2,733
6	1 - 3 years	2,610	131,632	**134,242**	54,834
7	3 - 5 years	2,610	101,202	**103,812**	14,643
8	Over 5 years	2,610	394,851	**397,461**	11,260
	Total	**10,439**	**928,546**	**938,985**	**176,707**

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

As on December 31, 2012

Sl. 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	Electricity, gas and water	-	-	-	-	-	-	-
2	Wholesale and retail trade	109,802	4	1,098	4	-	311	-
3	Mining and quarrying	22,779	-	228	-	-	(238)	-
4	Construction	120,686	1,139	1,195	361	19	673	-
5	Manufacturing	48,419	-	484	-	-	(24)	-
6	Transport & Communication	58,457	451	580	108	21	199	-
7	Financial institution	33,189	-	332	-	-	17	-
8	Services	59,545	1,820	577	449	27	7	-
9	Personal Loans*	437,343	6,710	8,101	3,586	467	3,023	2
10	Non-Resident Lending	26,703	-	267	-	-	83	-
11	Others	22,062	10	222	10	-	7	-
	Total	**938,985**	**10,134**	**13,084**	**4,518**	**534**	**4,058**	**2**

* The bank has set aside an amount of RO 6,543K as a non-distributable loan loss reserve towards the CBO non-specific position requirements at 31 December 2012.

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

As on December 31, 2012

Sl. 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 2012
1	Oman	912,282	10,134	12,817	4,518	534	3,975	2
2	Other GCC Countries	26,703	-	267	-	-	83	-
	Total	**938,985**	**10,134**	**13,084**	**4,518**	**534**	**4,058**	**2**

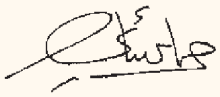
9. Movements in gross loans during the year (Amounts in RO '000s)

As on December 31, 2012

Sl. No	Details	Performing loans	Sub-Standard	Doubtful	Loss	Total
1	Opening balance	768,364	3,267	1,309	3,100	**776,040**
2	Migration/changes (+/-)	(3,690)	1,162	1,142	1,386	**-**
3	New loans	279,522	-	-	-	**279,522**
4	Recovery of loans	(115,345)	(84)	(10)	(1,136)	**(116,575)**
5	Loans written off	-	-	-	(2)	**(2)**
6	Closing balance	**928,851**	**4,345**	**2,441**	**3,348**	**938,985**
7	Provisions/reserves	13,084	1,102	958	2,458	**17,602**
8	Reserve Interest	-	74	83	377	**534**

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: 27 January 2013

MANAGEMENT REPORT

GROWTH AND COMMITMENT

Since its conversion to a full-fledged commercial bank five years ago, ahlibank has exceeded all expectations in terms of its development and establishing itself as a key player in the Omani banking industry. It has out-performed in comparative key bench marked parameters and this has been established by and recognized in the form of many accolades that the bank has been conferred with over the past few years.

The achievements of the Bank are clearly attributable to the vision and direction provided by the Board of Directors and its strategic partner the Ahli United Bank of Bahrain. The Bank has been established on a very strong foundation of Corporate Governance and has well defined policies and procedures to be followed leaving little room for ambiguity and discretion in the decision making process.

Over the years, the Bank has developed the very best expertise and with the unswerving commitment of our staff ensured that we never strayed away from our pre-defined value system. As ahlibankers, we are committed to the five pillars on which we base our products and services and these include Smart, Convenient, Quality, Professional and Responsible banking. This value based approach has established standards by which all our actions were judged. It has enabled the Bank to earn the trust of our customers and the support of our shareholders ensuring that we could grow, quarter over quarter and year over year.

ECONOMIC DEVELOPMENT

The Sultanate’s planned spending in 2013 has given a boost to some of the sectors in the non-oil sector space, which makes its diversification path clearer to achieve the vision 2020.

According to the budget 2013, the state's public revenue for 2013 is expected to grow by 27%. The government has allocated large increase in participation and subsidy to private sector expenditure; an increase of 95% from 2012 Budget to RO 1.65 billion in 2013. The budget aims to project its GDP growth at 7% and non oil GDP at 10.6%, while limiting inflation at 3% for 2013.

The Budget envisages a RO 1.1 billion spending in infrastructure projects, with RO 550 million for roads and other infrastructure projects. This is in addition to the ongoing projects like Muscat and Salalah airports, Batinah Expressway, Muscat and Salalah expansion. The budget also focuses on spending in social sectors primarily in education with RO 1.3 billion spending for 2013. These initiatives will create opportunities for banks.

FINANCIAL PERFORMANCE

The year 2012 was another good year for ahlibank. The Bank’s performance has improved over the previous year registering a net profit of RO 21.74 million for the financial year ended December 2012 compared to RO 18.22 million for the previous year, a year-on-year increase of 19 %.

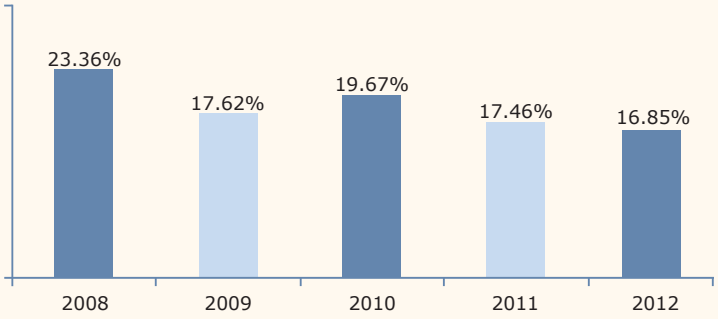
FINANCIAL HIGHLIGHTS

	2012 (RO'000)	2011 (RO'000)	Growth
Total assets	1,099,230	929,604	18.25%
Gross loans and advances	938,985	776,040	21.00%
Customers' deposit	738,407	668,911	10.39%
Gross operating income	60,372	51,102	18.14%
Net profit after tax	21,743	18,224	19.31%
Capital and reserves	167,514	120,212	39.35%

CAPITAL AND RESERVES

Capital and reserves of the Bank as of 31 December 2012 stood at RO 167.51 million as compared to RO 120.2 million as at 31 December 2011. The Capital adequacy ratio of the Bank was at 16.85% well above the minimum of 12% required by Central Bank of Oman.

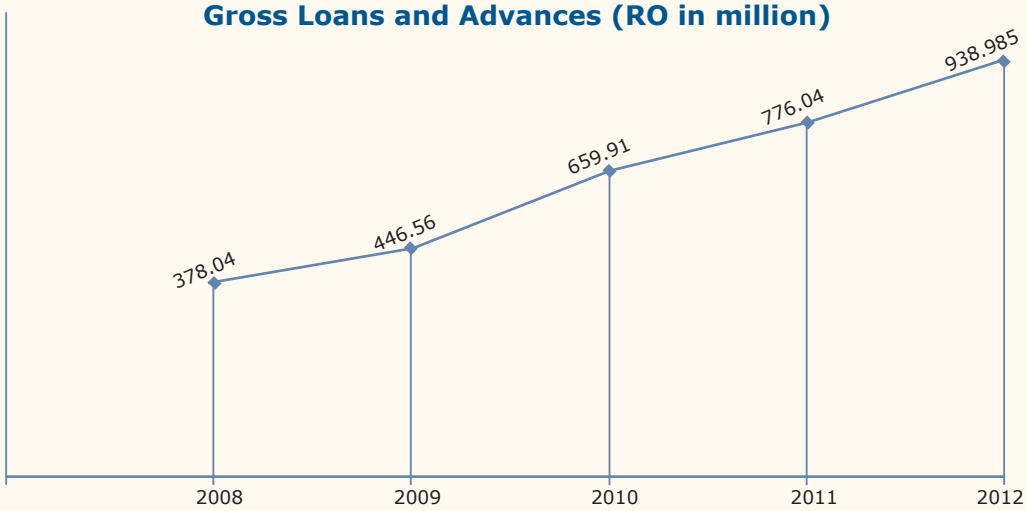
Capital Adequacy Ratio



LOANS AND ADVANCES

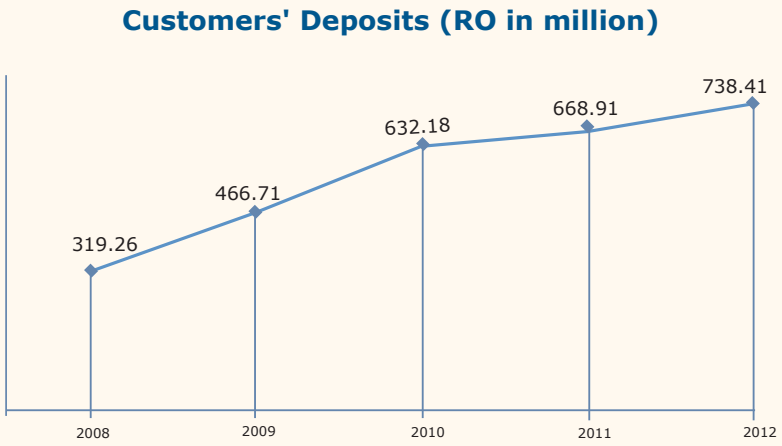
The gross loan book grew by 21% to reach RO 938.99 million as at 31 December 2012 from RO 776.04 million as at 31 December 2011. The increase has been mainly in the corporate book. The Bank continues to adopt a prudent risk management approach while endeavoring to meet the requirements of its growing clientele.

Gross Loans and Advances (RO in million)



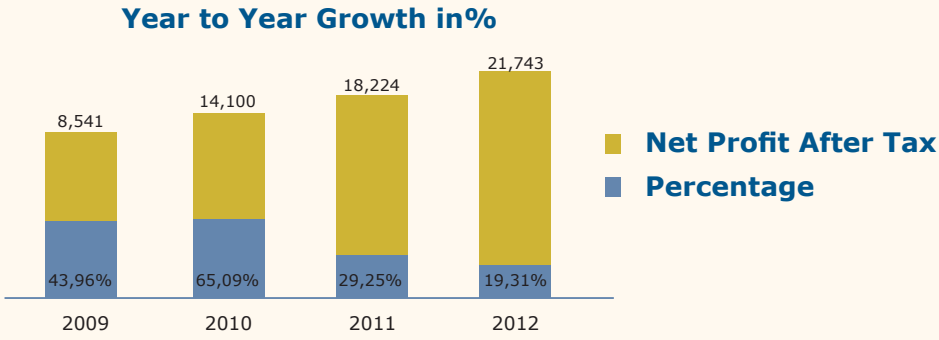
CUSTOMERS' DEPOSITS

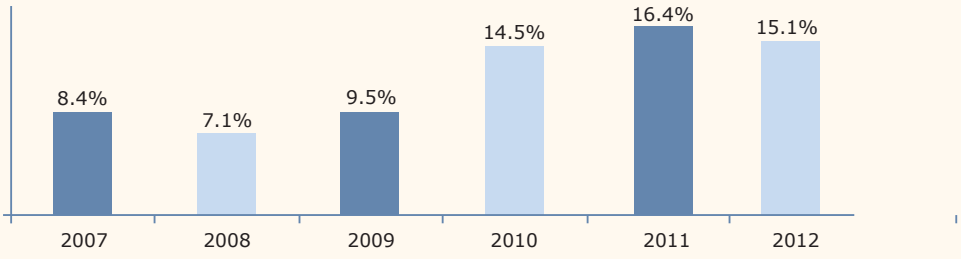
The customers' deposits increased to RO 738.41 million in 2012, an increase of over 10.39% over 2011. The growth is in line with the Bank's strategy to create a diversified stable low cost funding base.



PROFITABILITY

The profit after tax of the Bank has increased by 19.31% to RO 21.74 million in the year 2012.

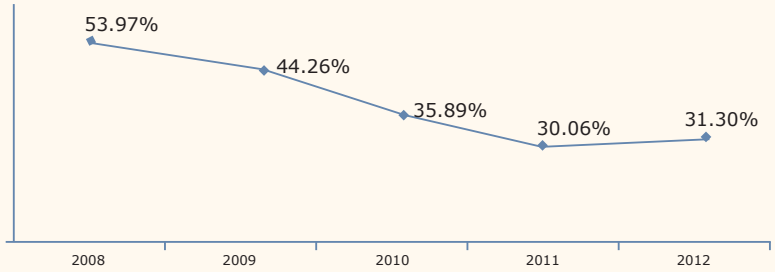




COST TO INCOME RATIO

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



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 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 branch 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.

RIGHT ISSUE

The Bank in line with its business strategy successfully launched and concluded the Right Issue for RO 25 million to enhance the Tier I capital.

ahlibank also acquired assets and liabilities of the Middle East Brokerage Company LLC. This acquisition came from the Bank's commitment to provide a full array of services and investment opportunities to both its retail and commercial clients. Investment Banking Services commenced services from 3 June 2012 as a fully licensed brokerage in the Muscat Securities Market.

KEY DEVELOPMENTS - CORE SEGMENTS

RETAIL BANKING

2012 was a year which saw the retail banking business grow substantially in a prudent way. ahlibank focused on enhancing the overall customer experience.

The Bank, in this regard, continued to invest substantially in expanding its distribution footprint, through additional ATMs, which currently stands at 18. In addition, ahlibank, launched the IVR services at the call center apart from extended working hours and enhanced services. Our remote banking customer experience continued to grow with increased focus and zeal. The Bank during this period launched a host of promotions, products and services for our existing as well as prospective customers.

The Bank also continued to host its exclusive social gatherings for its customers in different regions of the country during the year. These gatherings were highly valued as an opportunity to informally meet up with customers and interacting with them in person. As part of team building culture, the management continued to bring the branch managers together regularly and meet up to discuss ways and means for achieving the business objectives in the most customer oriented fashion. These meetings provided an opportunity to share, consult, brain storm as well as reward the deserving staff for their performance.

In 2013, we will continue to see a focused approach both for customers and staff. The Bank will work on enhancing the customer experience, while growing our profits over the short to medium term. This year, retail banking will also continue to focus on prudently growing balance sheet, increasing market share, lowering our funding cost, through low cost deposits, diversifying the existing portfolio, and expanding distribution channels, while continuing to build a high performance team and sales culture through an enhanced service proposition. In this regard , the Bank has planned for the launch of its Islamic banking business , 24 call center , improved e-banking and mobile banking services as well as customer delivery.

WHOLESALE BANKING

Our Wholesale Banking Group has been structured to meet the diverse banking, advisory, and risk management needs of our Corporate and SME clients. In 2012, the division surpassed the expectations of the customers by offering a collaborative platform consisting of Corporate Banking and Investment Banking backed by a capable and responsive Treasury, Transaction Banking and Financial Institutions Group thus becoming a one stop shop for all their requirements.

CORPORATE BANKING

As the leading Commercial Bank of Oman, strong customer relationship remains fundamental to the growth of corporate business with focus on quality of loan assets and building customer confidence. Although global financial markets continued to witness turbulence, corporates in the Sultanate continued to express their confidence in the Bank. The corporate banking team is organized on vertical lines with specialization and expertise in each industry vertical. Along with project financing and working capital financing, the Bank lays emphasis on providing superior transaction banking services to our clients. Leveraging on the latest technology, Bank has introduced B2B services to our corporate clients, which provides a seamless service without manual intervention and avoiding unnecessary paper work for the client.

INVESTMENT BANKING

It was a challenging year for investment banking around the world with most developed and developing stock markets performing poorly. The Muscat Securities Market was no exception to this. ahlibank started its investment banking activities in 2012 by acquiring a brokerage company. Currently, we are setting up our Asset Management division and are in the process of launching conventional and sharia compliant mutual funds.

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. Alongside involvement with large-scale projects, the Bank took cognizance of the importance of a robust small and medium enterprise sector as a key driver in the economic development of Oman. These projects are expected to have several spin-off benefits, including economic diversification and increasing employment.

The department's main objective is to understand the requirements of the SME's and suggest suitable financial solutions along with valuable advisory services. The Bank's innovative and structured financial products help our clients to meet their short term, medium term and long term financial requirements. 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.

TRADE FINANCE SERVICES

ahlibank's trade finance department's mission is to become a one-stop shop for all trade finance needs of our commercial banking clients by continuous exemplary customer service and to 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.

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 understands your business needs 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. 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 an informed decision.

ISLAMIC BANKING

In line with the Royal directive of His Majesty Sultan Qaboos bin Said on Islamic banking which marked a milestone in the modern history of banking and finance in the Sultanate of Oman, ahlibank decided to set up an independent Islamic Banking Division at the Bank and launch Islamic banking operations in accordance with the injunctions of Sharia. The Bank aims at introducing the most trusted and innovative Islamic banking products in the Sultanate. For this purpose, the Bank announced the brand name 'Al Hilal Islamic Banking Services' for the Islamic Banking division and formed a well experienced Sharia Board to ensure Al Hilal Islamic Services are in compliance with Sharia.

Al Hilal Islamic Banking Services will hold aloft ahlibank's legacy in terms of standard of excellence, customer centric service and transparency while delivering Islamic financial services.

A Sharia Review and Monitoring unit has been established under the direct supervision of the Sharia Board in order to oversee the Islamic banking operations. The importance of clear segregation of funds and processes is at the heart of establishing the Sharia authenticity of Al Hilal Banking Services. The purpose of the segregation of funds is to assure the proper utilisation of funds as per the Islamic banking mandate, expectations of depositors, and CBO circulars governing Islamic banks.

In 2013, ahlibank's Al Hilal Islamic Banking Services will offer a vast variety of Sharia-compliant banking solutions to different regions of the Sultanate through an initial network of six branches. The Bank has been working round-the-clock to ensure that its Islamic banking services will lead the way in the field in Oman. The Bank also organised series of presentations on Islamic banking across the Sultanate, highlighting the difference between Islamic banking and conventional banking.

HUMAN RESOURCES

Human Resource (HR) continued its pivotal role in driving Bank's performance through our people in the true sense. The main focus for 2012 was to enhance performance and productivity and to provide employment and career opportunities to our internal staff as well as the Omani society. Our continuous efforts in developing, motivating and engaging our team has succeeded in addressing the organizational objectives in the continued challenging business environment. Our approach always has been to embrace international best practices, customized to our needs, environment and culture for the long term benefit on the Bank.

OMANIZATION

The Bank continues to exceed the minimum Omanisation ratio of 90% set by the Central Bank of Oman besides all the challenges and has thus kept up with its commitments to shareholders, Central Bank of Oman and the Omani society. The challenge in 2012 was to enhance Omanisation at senior level as well as in the core business and in specialised functions such as Corporate Banking, IT, Audit, Risk Management, Product Development and Training which was achieved with much efforts and with support of the respective functions. The Bank have been hiring fresh Omani graduates from various institutions and developing them to acquire skill set and knowledge for making great career at ahlibank.

TRAINING AND DEVELOPMENT

The people learning and development strategies of the Bank are integrated with its overall strategies. HR Department draw up plans and initiatives based on the business plan of the Bank. ahlibank is reckoned a competency based organisation. In execution of the Royal directives of His Majesty Sultan Qaboos which emphasise the need to pay attention to training and development needs of human resources, the Bank achieved a series of successes in the human resources sector, all of which reflect positively on the performance and development of the Bank's operations.

During 2012, ahlibank organized 75 training courses in different banking specialisations which provided more than 208 training days. Besides in-house training programs, E-Learning and cooperation with local as well as international training institutes resulted in providing top of the class training for employees, which in turn reflected positively on their performance, skills and capabilities, which essentially forms the basic objective of training and development section. The number of employees at ahlibank is constantly growing as per the Bank's requirements and approved plans in this respect.

INFORMATION TECHNOLOGY

Technological advancements in the Information and Communication Technology (ICT) sector has enhanced the creation of new business models and ahlibank's strategy has been to leverage Information Technology to provide convenient and efficient services to its customers.

The Bank in line with His Majesty's vision of harnessing Information Technology for all round development of Oman, has integrated IT across its value chain for Operational excellence. IT has transformed the banking operations and made customer's experience more convenient through services such as Anytime, Anywhere Banking through a range of Delivery Channels such as ATMs, e-Banking and SMS and across Payment & Settlement Systems. The Bank's IT has become a key instrument in providing efficient services setting it apart from the competition.

Major milestones were achieved include getting the prestigious ISO / IEC 27001:2005 certification, in recognition of the Bank's stringent information security management and its compliance with the highest international standards in information and information processing facilities covering design, development, documentation, implementation, installation and operation of systems, applications, databases and networks.

CORPORATE SOCIAL RESPONSIBILITY (CSR) & CORPORATE COMMUNICATIONS

The CSR and Corporate Communications Division plays a pivotal role in supporting the Bank's goals by providing the best service to suit its Stakeholders' needs. The division ensures that the responsibility of managing the impact of social, economic and environmental activities in a way that continues to benefit the Bank's business has been gradually integrated into the Bank's practices. Through employee involvement programs, the division also encourages staff to give their time, energy and expertise to benefit local community.

AHLIBANK CARES

In 2012, the Bank launched **"ahlibank cares"** campaign with the task of carrying out social responsibility throughout the year. The initiative was on the basis of a new approach adopted by the Bank, aimed at serving important social and humanitarian requirements with the purpose of bringing about positive changes in society through effective partnership between all sectors.

AHLIBANK CSR CALENDAR

In January 2012, ahlibank initiated a unique concept by launching its 2012 calendar with important community messages. The themes used for each month on the calendar reflected the key issue that is affecting the society in the Sultanate, with incidents of road accidents, health & environmental pollution on the rise, ahlibank worked on events and campaigns that helped people gain a heightened awareness on how to tackle these issues and to get a broader understanding of how they can be managed and prevented. The programme, which was conducted across the country, educated people about simple, yet effective measures towards a better tomorrow.

GO GREEN CAMPAIGN

All the Bank Staff were given a small pot with a young cactus tree. The goal was to take care of this tree for one year and make sure that it grows to its maximum potential. The Corporate Communication Team was doing a surprise inspection every few weeks to monitor the growth and maintenance of the tree. After one year, the best three 'tree owners' will receive a certificate of appreciation from the CEO as well as three surprise prizes as a reward for their efforts.

RECYCLE CAMPAIGN

Eco-consciousness was integrated into ahlibank's daily operations through knowledge sharing, paperless banking and awareness campaigns on social responsibility to gradually instill the value of 'green culture' within the organization and ultimately towards the environment and the society. In line with this ideology, ahlibank implemented a paper recycling initiative across its 12 branches in Oman.

EARTH DAY

ahlibank supported the 'Earth Day' festival by being the main sponsor of the event. An initiative of a civil group, Clean Oman, this festival was organized to spread awareness about the importance of environmental conservation and preservation in Oman.

OMAN MEDIA AWARDS

Set up in 2008, the Oman Media Awards seeks to encourage new talents in journalism and to improve local communities through better press coverage and awareness. ahlibank has been sponsoring this event for four consecutive years demonstrating its concern for their welfare and development of the local media.

CONFERENCE ON EDUCATION

ahlibank sponsored the Conference on Education organized by Indian School Ghubra, in coordination with Ministry of Education. The event titled "Education, Empowerment and Excellence" was attended and addressed by eminent leaders in the field of education from India and Oman as well International speakers. The conference acclaimed a great success in introducing participants with new ideas and the sense that each individual has the potential to contribute and implement innovative solutions.

OMAN ENVIRONMENT DAY CELEBRATION

ahlibank supported Oman Environment Day Celebration by signing up as Silver sponsor of the event. The celebration comes in response to the directives of His Majesty Sultan Qaboos to protect the Omani environment and nature resources.

NATIONAL ASSOCIATION OF CANCER AWARENESS (NACA)

In 2012, ahlibank signed up with NACA to support two initiatives of the Association. The first was the 'Palliative Care Training' in the Sultanate, which trained forty nurses from different regions of Oman to take care of terminally ill cancer patients, the second was the financial support towards the running cost of the Mobile Cancer Detection unit.

OMAN ASSOCIATION FOR THE DISABLED

ahlibank supported Oman Association for the Disabled – Sohar, by a cash donation of RO 5,800, toward the purchase of twenty sports wheelchairs for the Special Needs sports team.

OMAR BIN AL KHATTAB INSTITUTE FOR THE BLIND AWARD CEREMONY

In line with the corporate social responsibility progarme, ahlibank sponsored the awards ceremony held at the Omar Bin Al Khattab Institute for the Blind.

REMOVAL OF PLIGHT

"Removal of plight" was an initiative that aimed at lending a helping hand to the under privileged members of the society that have been sentenced to jail time for defaults on payments such as rental, social payments and other obligations which they could not repay due to illness, job loss or simple misfortune. The advocates association worked closely with the primary prosecution court to identify 15 cases that fall under the criteria of charitable cases, the association after identifying these cases sent out messages on social media websites such as twitter and facebook to increase awareness about their campaign and it caught the attention of the top management at ahlibank.

MYHASSAD CHARITY DRIVE 2012

ahlibank contributed a total of RO 21,000 to more than eight charities across Oman during the month of Ramadan 2012.

GOING FORWARD

We plan to further grow our book and continue to maintain its quality, diversifying our business in terms of product offerings and increasing our client base and attaining the best in class efficiency measure ratios. Our customers will be our top priority and we will strive to provide them with the best service. Simultaneously, we plan to build and develop a pool of professional bankers and create opportunities for young Omani youth. Our commitment to the society stays and we will endeavour to meet the aspirations of all stakeholders to the best of our ability. All of this we plan to achieve in a prudent way by clearly identifying and acknowledging associated risks as we move along.

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

Report on the financial statements

We have audited the financial statements of Ahli Bank SAOG ("the Bank") set out on pages 59 to 120, which comprise the statement of financial position as at 31 December 2012, 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 misstatements, 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 judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal controls 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 policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2012 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 2012, in all material respects, comply with:

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

27 January 2013

Paul Callaghan

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C.R. No. 1/30936/6

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2012

2011 US$'000	2012 US$'000		Note	2012 RO'000	2011 RO'000
		ASSETS			
29,351	**63,478**	Cash and balances with Central Bank of Oman	5	**24,439**	11,300
48,896	**23,390**	Due from other banks	6	**9,005**	18,825
1,996,380	**2,408,810**	Loans and advances, net	7	**927,392**	768,606
281,696	**296,351**	Investment securities	8	**114,095**	108,453
26,481	**31,364**	Property and equipment	9	**12,075**	10,195
1,491	**270**	Deferred tax asset	10	**104**	574
30,262	**31,481**	Other assets	11	**12,120**	11,651
2,414,557	**2,855,144**	**TOTAL ASSETS**		**1,099,230**	929,604
		LIABILITIES AND EQUITY			
		LIABILITIES			
193,068	**298,016**	Due to other banks	12	**114,736**	74,331
1,737,431	**1,917,940**	Customers' deposits	13	**738,407**	668,911
-	**30,000**	Other borrowed funds	14	**11,550**	-
9,595	**9,920**	Taxation	10	**3,819**	3,694
58,327	**60,270**	Other liabilities	15	**23,204**	22,456
103,896	**103,896**	Subordinated liabilities	16	**40,000**	40,000
2,102,317	**2,420,042**	**TOTAL LIABILITIES**		**931,716**	809,392
		EQUITY			
208,164	**312,649**	Share capital	17	**120,370**	80,143
26,665	**32,312**	Legal reserve	18	**12,440**	10,266
16,995	**16,995**	General loan loss reserve	7	**6,543**	6,543
18,969	**37,668**	Subordinated debt reserve	16	**14,502**	7,303
291	**1,743**	Fair value reserve		**671**	112
41,156	**33,735**	Retained earnings		**12,988**	15,845
312,240	**435,102**	**TOTAL EQUITY**		**167,514**	120,212
2,414,557	**2,855,144**	**TOTAL LIABILITIES AND EQUITY**		**1,099,230**	929,604
39.0	**36.1**	Net assets per share (cents / baizas)	20	**139.2**	150.0
340,131	**446,166**	Contingent liabilities and commitments	21	**171,774**	130,950

The financial statements on pages 59 to 120 were approved by the Board of Directors on 27 January 2013 and signed on their behalf by:

Hamdan Ali Nasser Al Hinai
Chairman

Abdul Aziz Al Balushi
Chief Executive Officer

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2012

2011 US$'000	2012 US$'000		Note	2012 RO'000	2011 RO'000
107,301	**130,927**	Interest income	22	**50,407**	41,311
(41,717)	**(47,605)**	Interest expense	23	**(18,328)**	(16,061)
65,584	**83,322**	**NET INTEREST INCOME**		**32,079**	25,250
25,432	**25,883**	Other operating income	24	**9,965**	9,791
91,016	**109,205**	**NET OPERATING INCOME**		**42,044**	35,041
(9,630)	**(10,540)**	Loan impairment, net of recoveries	7	**(4,058)**	(3,708)
(14,911)	**(18,787)**	Staff expenses	25	**(7,233)**	(5,741)
(2,460)	**(2,717)**	Depreciation	9	**(1,046)**	(947)
(10,193)	**(12,761)**	Other operating expenses	26	**(4,913)**	(3,924)
(37,194)	**(44,805)**	**OPERATING EXPENSES**		**(17,250)**	(14,320)
53,822	**64,400**	**PROFIT BEFORE TAXATION**		**24,794**	20,721
(6,486)	**(7,925)**	Tax expense	10	**(3,051)**	(2,497)
47,336	**56,475**	**PROFIT FOR THE YEAR**		**21,743**	18,224
		OTHER COMPREHENSIVE INCOME - NET OF TAX			
		Fair value reserve (available for sale investments)			
(314)	**(127)**	- Net amount transferred to income statement		**(49)**	(121)
5	**1,579**	- Net changes in fair values		**608**	2
(309)	**1,452**	**OTHER COMPREHENSIVE INCOME FOR THE YEAR**		**559**	(119)
47,027	**57,927**	**TOTAL COMPREHENSIVE INCOME FOR THE YEAR**		**22,302**	18,105
4.7	**5.2**	Basic and diluted earnings per share (cents / baizas)	27	**19.9**	18.0

The notes and other explanatory information on pages 64 to 120 form an integral part of these financial statements.

Report of the Auditors - page 58.

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2012

	Note	Share Capital RO'000	Legal reserve RO'000	General banking reserve RO'000	General loan loss reserve RO'000	Subordinated debt reserve RO'000	fair value reserve RO'000	Retained earnings RO'000	Total RO'000
At 1 January 2012		**80,143**	**10,266**	**-**	**6,543**	**7,303**	**112**	**15,845**	**120,212**
Comprehensive income for the year:									
Profit for the year		**-**	**-**	**-**	**-**	**-**	**-**	**21,743**	**21,743**
Other comprehensive income, net of tax		**-**	**-**	**-**	**-**	**-**	**559**	**-**	**559**
Total comprehensive income		**-**	**-**	**-**	**-**	**-**	**559**	**21,743**	**22,302**
Transfer to legal reserve		**-**	**2,174**	**-**	**-**	**-**	**-**	**(2,174)**	**-**
Transfer to subordinated debt reserve	16	**-**	**-**	**-**	**-**	**7,199**	**-**	**(7,199)**	**-**
		-	**2,174**	**-**	**-**	**7,199**	**-**	**(9,373)**	**-**
Transactions with owners recognised directly in equity									
Issue of bonus shares	17	**15,227**	**-**	**-**	**-**	**-**	**-**	**(15,227)**	**-**
Rights issue during the year	17	**25,000**	**-**	**-**	**-**	**-**	**-**	**-**	**25,000**
Total transactions with owners		**40,227**	**-**	**-**	**-**	**-**	**-**	**(15,227)**	**25,000**
At 31 December 2012		**120,370**	**12,440**	**-**	**6,543**	**14,502**	**671**	**12,988**	**167,514**
At 31 December 2012 (US$'000)		**312,649**	**32,312**	**-**	**16,995**	**37,668**	**1,743**	**33,735**	**435,102**

البنك الأهلي ahlibank

STATEMENT OF CHANGES IN EQUITY (continued)
FOR THE YEAR ENDED 31 DECEMBER 2012

	Note	Share Capital RO'000	Legal reserve RO'000	General banking reserve RO'000	General loan loss reserve RO'000	Subordinated debt reserve RO'000	fair value reserve RO'000	Retained earnings RO'000	Total RO'000
At 1 January 2011		71,238	8,444	2,264	6,543	-	231	13,387	102,107
Comprehensive income for the year:									
Profit for the year		-	-	-	-	-	-	18,224	18,224
Other comprehensive income, net of tax		-	-	-	-	-	(119)	-	(119)
Total comprehensive income		-	-	-	-	-	(119)	18,224	18,105
Transfer to legal reserve	18	-	1,822	-	-	-	-	(1,822)	-
Transfer to subordinated debt reserve	16	-	-	-	-	7,303	-	(7,303)	-
Transfer from general banking reserve		-	-	(2,264)	-	-	-	2,264	-
		-	1,822	(2,264)	-	7,303	-	(6,861)	-
Transactions with owners recognised directly in equity									
Issue of bonus shares	17	8,905	-	-	-	-	-	(8,905)	-
Total transactions with owners		8,905	-	-	-	-	-	(8,905)	-
At 31 December 2011		80,143	10,266	-	6,543	7,303	112	15,845	120,212
At 31 December 2011 (US$'000)		208,164	26,665	-	16,995	18,969	291	41,156	312,240

The notes and other explanatory information on pages 64 to 120 form an integral part of these financial statements.

Report of the Auditors - page 58.

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2012

2011 US$'000	2012 US$'000		Note	2012 RO'000	2011 RO'000
		CASH FLOWS FROM OPERATING ACTIVITIES			
53,822	**64,400**	Profit for the year before taxation		**24,794**	20,721
		Adjustments for:			
2,460	**2,717**	Depreciation	9	**1,046**	947
364	**395**	Board remuneration proposed	28	**152**	140
9,630	**10,540**	Loan impairment, net of recoveries	7	**4,058**	3,708
140	**182**	End of service benefits provision	15	**70**	54
(8)	**(10)**	Gain on sale of property and equipment	24	**(4)**	(3)
(169)	**(114)**	Gain on sale of investment securities	24	**(44)**	(65)
-	**(34)**	Unrealised gain on revaluation of investment securities	24	**(13)**	-
66,239	**78,076**	**Operating profit before working capital changes**		**30,059**	25,502
(13)	**(39)**	End of service benefits paid	15	**(15)**	(5)
62	**-**	Decrease in deposits with Central Bank of Oman	5	**-**	24
(301,038)	**(422,970)**	Increase in loans and advances		**(162,844)**	(115,900)
(18,701)	**(1,219)**	Increase in other assets		**(469)**	(7,200)
95,414	**180,509**	Increase in customers' deposits		**69,496**	36,734
16,218	**2,075**	Increase in other liabilities		**799**	6,244
(141,819)	**(163,568)**	**Cash used in operations**		**(62,974)**	(54,601)
(325)	**(364)**	Board remuneration paid	28	**(140)**	(125)
(4,177)	**(6,379)**	Tax paid		**(2,456)**	(1,608)
(146,321)	**(170,311)**	**Net cash used in operating activities**		**(65,570)**	(56,334)
		CASH FLOWS FROM INVESTING ACTIVITIES			
(27,081)	**(41,278)**	Increase in investment securities, net		**(15,892)**	(10,426)
(6,907)	**(7,616)**	Purchase of property and equipment		**(2,932)**	(2,660)
5	**15**	Proceeds from sale of property and equipment		**6**	3
(33,983)	**(48,879)**	**Net cash used in investing activities**		**(18,818)**	(13,083)
		CASH FLOWS FROM FINANCING ACTIVITIES			
(17,177)	**30,000**	Increase/(decrease) in other borrowings	14	**11,550**	(6,613)
-	**64,935**	Proceeds from right issue	17	**25,000**	-
(17,177)	**94,935**	**Net cash from/(used in) financing activities**		**36,550**	(6,613)
(197,481)	**(124,255)**	**NET CHANGE IN CASH AND CASH EQUIVALENTS**		**(47,838)**	(76,030)
299,608	**102,127**	Cash and cash equivalents at 1 January		**39,319**	115,349
102,127	**(22,128)**	**CASH AND CASH EQUIVALENTS AT 31 DECEMBER** (Refer below)		**(8,519)**	39,319

CASH AND CASH EQUIVALENTS COMPRISE OF THE FOLLOWING:

2011 US$'000	2012 US$'000		Note	2012 RO'000	2011 RO'000
27,987	**62,114**	Cash and clearing account with Central Bank of Oman	5	**23,914**	10,775
48,896	**23,390**	Due from other banks	6	**9,005**	18,825
51,948	**-**	Central Bank of Oman certificates of deposits	8	**-**	20,000
166,364	**190,384**	Treasury bills with three months maturity	8	**73,298**	64,050
(193,068)	**(298,016)**	Due to other banks	12	**(114,736)**	(74,331)
102,127	**(22,128)**	**Cash and Cash Equivalents**		**(8,519)**	39,319

The notes and other explanatory information on pages 64 to 120 form an integral part of these financial statements.

Report of the Auditors - page 58.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

1 LEGAL STATUS AND PRINCIPAL 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 as at year end. The registered address of the Bank is PO Box 545, Mina Al Fahal, 116, Sultanate of Oman.

The Bank employed 340 employees as at 31 December 2012 compared to 288 as at 31 December 2011.

During the year, the Bank acquired assets and liabilities of Middle East Brokerage Company LLC (MEBC) at a purchase consideration of RO 1.071 million equivalent to US$ 2.782 million (31 December 2011: nil) and commenced investment banking services from 3 June 2012.

2 BASIS OF PREPARATION

2.1 Statement of compliance

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

2.2 Basis of measurement

The financial statements have been prepared under the historical cost convention except for derivative financial instruments, financial instruments at fair value through profit or loss and available for sale instruments which have been measured at fair value.

2.3 Functional and presentation currency

The financial statements are prepared in Rial Omani ('RO') which is the functional and reporting currency for these financial statements. The United States Dollar ('US$') amounts shown in the financial statements have been translated from Rial Omani at an exchange rate of RO 0.385 to each US$, and are shown for the convenience of the user of financial statements only. All financial information presented in Rial Omani and US Dollars has been rounded to the nearest thousand.

2.4 Use of estimates and judgements

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that may affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The 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 if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 4.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

2 BASIS OF PREPARATION (continued)

2.5 Standards, amendments and interpretations effective in 2012 and relevant for the Bank's operations

For the year ended 31 December 2012, the Bank has adopted all of the new and revised standards and interpretations issued by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB that are relevant to its operations and effective for periods beginning on 1 January 2012.

The adoption of those standards and interpretations has not resulted in changes to the Bank's accounting policies and has not affected the amounts reported for the current and prior periods.

2.6 Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Bank:

The following new standards and amendments have been issued by the International Accounting Standards Board (IASB) but are not yet mandatory for the year ended 31 December 2012:

IAS 1, 'Financial statement presentation' amendments (effective on or after 1 July 2012);
IAS 19, 'Employee benefits', amendments (effective on or after 1 January 2013);
IAS 32, 'Financial Instruments: Presentation' amendments (effective on or after 1 January 2014);
IFRS 7, 'Financial Instruments: Disclosures' amendments (effective on or after 1 January 2013);
IFRS 9, 'Financial instruments part 1: Classification and measurement', (effective on or after 1 January 2015);
IFRS 10, 'Consolidated financial statements' (effective on or after 1 January 2013);
IFRS 12, 'Disclosures of interests in other entities' (effective on or after 1 January 2013); and
IFRS 13, 'Fair value measurement' (effective on or after 1 January 2013).

3 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently by the Bank to all periods presented in these financial statements.

3.1 Foreign currency translation

Transactions in foreign currencies are translated into the respective functional currencies of the operations at the spot exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the rate of exchange at the reporting date. Any resulting exchange differences are included in 'other operating income' in the statement of comprehensive income.

The non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated into the functional currency at the spot exchange rate at the date the fair value is determined. Foreign exchange differences arising on translation are recognized in the statement of comprehensive income, except for non-monetary financial assets, such as securities classified as available for sale, which are included in other comprehensive income. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Revenue and expense recognition

3.2.1 Interest income and expense

Interest income and expense is recognised in the statement of comprehensive income using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability.

Interest income and expense presented in the statement of comprehensive income include:

- Interest on financial assets and liabilities at amortised cost on an effective interest rate basis;
- Interest on available for sale investment securities on an effective interest basis;

Interest income which is doubtful of recovery is included in loan impairment and excluded from income until it is received in cash.

3.2.2 Fees and commission

Fees and commission income and expenses that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Other fees and commission income include account servicing fees, credit related fees, administration fees and other management fees, sales commission, placement fees and syndication fees. These are recognised as the related services are rendered.

3.2.3 Dividends

Dividend income is recognized when the right to receive dividend is established.

3.2.4 Provisions

Provisions are recognised when the Bank has a present obligation arising from a past event and the costs to settle the obligation are both probable and can be reliably estimated.

3.3 Financial assets and liabilities

3.3.1 Classification

The Bank classifies its financial assets in the categories: at fair value through profit or loss, loans and receivables, held to maturity and available for sale. The classification depends on the purpose for which the financial assets are acquired. Management determines the classification of its financial assets at initial recognition.

(a) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term. Derivatives are also categorised as held for trading unless they are designated as hedging instruments.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3 Financial assets and liabilities (continued)

3.3.1 Classification (continued)

(a) Financial assets at fair value through profit or loss (continued)

Financial assets at fair value through profit or loss are initially recognised at fair value, which is the cash consideration paid, and measured subsequently at fair value. All the realised and unrealised gains and losses are recognised in the statement of comprehensive income. Interest earned or dividends received are recognised in the statement of comprehensive income under 'interest income' and 'other operating income' respectively.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

Loans and receivables are initially recognised at fair value which is the cash consideration to originate or purchase the loan including any transaction costs - and measured subsequently at amortised cost using the effective interest method less specifically identified and collective allowance for impairment and recognised in the statement of comprehensive income as 'loan impairment'. Specific provisions are made against the carrying amount of loans and receivables that are identified as being impaired based on regular reviews of outstanding balances to reduce the impaired loans and receivables to their recoverable amounts. Loans and receivables are reported in the statement of financial position as loans and advances, net. Interest on loans is included in the statement of comprehensive income and is reported as 'interest income' subject to note 3.2.1.

(c) Held to maturity financial assets

Held to maturity financial assets are non-derivative assets with fixed or determinable payments and fixed maturity that the Bank has the positive intent and ability to hold till maturity.

These are initially recognised at fair value including direct and incremental transaction costs and measured subsequently at amortised cost, using the effective interest method. 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.

Interest on held to maturity investments is included in the statement of comprehensive income and reported as 'interest income'. In the case of impairment, the impairment loss is been reported as a deduction from the carrying value of the investment and recognised in the statement of comprehensive income as 'impairment on investments'. Held to maturity investments includes debt securities.

(d) Available for sale financial assets

Available for sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3 Financial assets and liabilities (continued)

3.3.1 Classification (continued)

(d) Available for sale financial assets (continued)

Available for sale investments are financial assets that are intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices or that are not classified as loans and receivables, held to maturity investments or financial assets at fair value through profit or loss.

Available for sale financial assets are initially recognised at fair value, which is the cash consideration including any transaction costs, and measured subsequently at fair value with gains and losses being recognised in the statement of other comprehensive income, except for impairment losses and foreign exchange gains and losses, until the financial asset is derecognised. If an available for sale financial asset is determined to be impaired/derecognised, the cumulative gain or loss previously recognised in the statement of other comprehensive income is reclassified in the statement of comprehensive income. However, interest is calculated using the effective interest method, and foreign currency gains and losses on monetary assets classified as available for sale are recognised in the statement of comprehensive income. Dividends on available for sale equity instruments are recognised in the statement of comprehensive income in 'other operating income' when the Bank's right to receive is established.

3.3.2 Derivative financial instruments and hedging activities

Derivatives are initially recognised at fair value on the date derivative contracts are entered into and are subsequently remeasured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Bank designates certain derivatives as either:

(i) hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge);
(ii) hedges of a particular risk associated with a recognised asset or liability or a highly probable forecast transaction (cash flow hedge); or
(iii) hedges of a net investment in a foreign operation (net investment hedge).

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 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3 Financial assets and liabilities (continued)

3.3.3 Recognition

The Bank initially recognises loans and advances, deposits, debt securities issued and subordinated liabilities on the date that they are originated. All other financial assets and liabilities are initially recognised on the trade date at which the Bank becomes a party to the contractual provisions of the instrument.

3.3.4 Derecognition

The Bank derecognises a financial asset when the contractual rights to receive the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. The Bank derecognises a financial liability when its contractual obligations are discharged or cancelled or expired.

3.3.5 Offsetting

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Bank has a legal right to set off the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

3.3.6 Amortised cost measurement

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

3.3.7 Fair value measurement

A number of the Bank's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on a number of accounting policies and methods. Where applicable, information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

For investments where there is no quoted market price, a reasonable estimate of the fair value is determined by reference to the current market value of a similar investment, or is based on the expected discounted cash flows. Investments having short term maturities are not discounted.

The fair value of loans and advances is estimated at the present value of future cash flows, discounted at the market rate of interest at the reporting date.

The fair value of forward exchange contracts is based on their quoted price, if available. If a quoted price is not available, then fair value is estimated by discounting the difference between the contractual forward

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3 Financial assets and liabilities (continued)

3.3.7 Fair value measurement (continued)

price and the current forward price for the residual maturity of the contract using a risk-free interest rate (based on government bonds). The fair value of interest rate swaps is based on broker quotes. These quotes are tested for reasonableness by discounting estimated future cash flows based on the terms and maturity of each contract and using market interest rates for a similar instrument at the measurement date. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Bank and counterparty when appropriate.

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

3.4 Identification and measurement of impairment of financial assets

(a) Assets carried at amortised cost

The Bank assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired and an impairment loss is incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a loss event) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Bank about the following loss events as well as considering the guidelines issued by the Central Bank of Oman:

- significant financial difficulty of the issuer or obligor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- the Bank granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the lender would not otherwise consider;
- it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- the disappearance of an active market for that financial asset because of financial difficulties; or
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the Bank, including adverse changes in the payment status of borrowers in the group, or national or local economic conditions that correlate with defaults on the assets in the Bank.

The Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.4 Identification and measurement of impairment of financial assets (continued)

(a) Assets carried at amortised cost (continued)

If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the statement of comprehensive income. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

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

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

If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognised, any amount previously charged is credited to 'Impairment losses on financial assets' in arriving at statement of comprehensive income for the period.

(b) Assets classified as available for sale

The Bank assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. For debt securities, the Bank uses the criteria referred to in (a) above. In the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the equity investment is impaired. If any such evidence exists for available for sale financial assets, the cumulative loss, measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in income statement, is reclassified from equity and recognised in the statement of comprehensive income. Impairment losses recognised in the statement of comprehensive income on equity instruments are not reversed through the statement of comprehensive income.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.4 Identification and measurement of impairment of financial assets (continued)

(c) 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.

3.5 Cash and cash equivalents

Cash and cash equivalents consist of cash in hand, unrestricted balances held with Central Bank of Oman and highly liquid financial assets with original maturities of upto three months, which are subject to insignificant risk of changes in their fair value, and are used by the Bank in management of its short term commitments and include due from and due to other banks. Cash and cash equivalents are carried at amortised cost in the statement of financial position.

3.6 Repurchase and resale agreements

Securities sold with a commitment to repurchase (repos) at a specified future date at predetermined price are recognised in the statement of financial position and are measured in accordance with accounting policies for investment securities. The counterparty liability for amounts received under these agreements is included in 'due to banks'. The difference between sale and repurchase price is treated as interest expense and accrued over the life of the repo agreement using the effective interest rate method.

Securities purchased with a corresponding commitment to resell at a specified future date (reverse repos) at predetermined price are not recognised in the statement of financial position and the amounts paid under these agreements are included in 'due from banks'. The difference between purchase and resale price is treated as interest income and accrued over the life of the reverse repo agreement.

3.7 Due from other banks

These are stated at amortised cost using effective interest rate method, less any amounts written off and allowance for impairment.

3.8 Other borrowed funds

Other borrowed funds are recognised initially at their issue proceeds less transaction cost, if any. Borrowings are subsequently stated at amortised cost, any difference between proceeds net of transaction cost, and the redemption value is recognised in the statement of comprehensive income over the period of borrowing using the effective interest rate method.

3.9 Deposits and subordinated liabilities

Deposits and subordinated liabilities are measured at amortized cost using the effective interest method.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.10 Capitalisation of interest

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

3.11 Property and equipment

Items of property and equipment are measured at cost less accumulated depreciation and impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset. Depreciation is provided on a straight-line basis over the estimated useful lives of property and equipment, except freehold land. The estimated useful lives for the current period are as follows:

	Years
Motor vehicles	4
Furniture & fixtures	5
Computer and other equipment	5
Leasehold modifications	5

The assets' residual values, useful lives and depreciation methods are reviewed and adjusted if appropriate at each reporting date. Capital work-in-progress is not depreciated until the asset is put to use.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the sale proceeds with the carrying amount and are recognised within 'other operating income' in the statement of comprehensive income.

Repairs and renewals are charged to the statement of comprehensive income when the expense is incurred. Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the item of property and equipment. All other expenditures are recognised in the statement of comprehensive income as an expense when incurred.

3.12 Collateral pending sale

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

3.13 Fiduciary assets

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.14 Taxation

Taxation is provided in accordance with Omani fiscal regulations. Income tax comprises current and deferred tax. Income tax expense is recognised in the statement of comprehensive income except to the extent that it relates to items recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax asset/liability is calculated using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary difference when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax asset is reviewed at each reporting date and is reduced to the extent that it is no longer probable that the related tax benefit will be realised.

3.15 Trade and settlement date accounting

All "regular way" purchases and sales of financial assets are recognised on the trade date, i.e. the date that the Bank commits to purchase or sell the asset. Regular way purchase or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

3.16 Acceptances

Acceptances are disclosed on the statement of financial position under other assets with corresponding liability disclosed under other liabilities. Therefore, there is no off-balance sheet commitment for acceptances.

3.17 Leases

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

3.18 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.18 Financial guarantees (continued)

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.

3.19 Employee terminal benefits

3.19.1 Terminal benefits

End of service benefits are accrued in accordance with the terms of employment of the Bank's employees at the reporting date, having regard to the requirements of the Oman Labour Law 2003, as amended.

Contribution to a defined contribution retirement plan and occupational hazard insurance for Omani employees in accordance with the Omani Social Insurances Law of 1991 are recognised as an expense in the statement of comprehensive income when incurred.

3.19.2 Short term benefits

Short term benefit obligations are measured on an undiscounted basis and are expensed when the related service is provided.

Employee entitlement to annual leave is recognised when it accrues to the employee 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.

3.20 Segment reporting

An operating segment is the component of the Bank that engages in business activities from which it may earn revenues and incur expenses, including revenue and expenses that relate to transaction with any of the Bank's other components, whose operating results are reviewed regularly by the Bank's Management Committee (being the chief operating decision maker) to make decisions about resources allocated to each segment and assess its performance, and for which discrete financial information is available.

3.21 Earnings per share

The Bank presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the year. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, if any.

3.22 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, as amended.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.23 Dividend on ordinary shares

Dividend on ordinary shares is recognised as liability and deducted from equity in the period when it is approved by the Bank's shareholders. Interim dividend is deducted from equity when they are paid.

Dividend for the year that is approved after the statement of financial position date is dealt with as an event after the reporting date and disclosed in the financial statements.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of financial statements requires management to make judgements, estimates and assumptions that may affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses.
The Bank's significant accounting estimates are in the followings:

4.1 Impairment losses on loans and advances

The Bank reviews its loan portfolios to assess impairment periodically. In determining whether an impairment loss should be recorded in the statement of comprehensive income, the Bank makes judgements as to whether there is any observable data indicating an impairment followed by measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified within that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers and/or national or local economic conditions that correlate with defaults on assets. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed periodically to reduce any difference between loss estimates and actual loss experience. For individually significant loans and advances which are impaired, the necessary impairment loss is considered based on the future cash flow estimates. Individually significant loans and advances which are not impaired and all individually insignificant loans and advances are then assessed collectively considering historical experience and observable data on a portfolio basis, in group of assets with similar risk characteristics to determine whether collective impairment loss to be made. In determining collective impairment loss, the Bank takes into account several factors including credit quality, concentration risk, level of past due, industry and sector performance, available collateral and macro economic conditions.

4.2 Fair value of derivatives and other financial instruments

The fair value of financial instruments that are not traded in an active market (for example, over the counter derivatives) is determined by using valuation techniques. The Bank uses its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period. The Bank uses expected cash flow analysis for various available for sale financial assets that are not traded in active markets.

4.3 Impairment of available for sale equity investments

The Bank determines that available for sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost or objective evidence of impairment exists. This determination of what is considered to be significant or prolonged requires judgement. In applying judgement, the Bank evaluates among other factors, the volatility in share price. Objective evidence of impairment may be due to deterioration in the financial condition of the investee, industry and sector performance.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

5 CASH AND BALANCES WITH CENTRAL BANK OF OMAN

2011 US$'000	2012 US$'000		2012 RO'000	2011 RO'000
6,332	**6,480**	Cash	**2,495**	2,438
1,299	**1,299**	Capital deposit with Central Bank of Oman	**500**	500
65	**65**	ATM deposit with Central Bank of Oman	**25**	25
21,655	**55,634**	Clearing account with Central Bank of Oman	**21,419**	8,337
29,351	**63,478**		**24,439**	11,300

The Capital and ATM deposits with the Central Bank of Oman are mandatory deposits and cannot be withdrawn without its approval and accordingly are not available for use in day to day operations of the Bank.

6 DUE FROM OTHER BANKS

2011 US$'000	2012 US$'000		2012 RO'000	2011 RO'000
42,639	**17,496**	Placements	**6,736**	16,416
6,257	**5,894**	Nostro account balances	**2,269**	2,409
48,896	**23,390**		**9,005**	18,825

7 LOANS AND ADVANCES, NET

2011 US$'000	2012 US$'000		2012 RO'000	2011 RO'000
1,068,197	**1,302,966**	Corporate lending	**501,642**	411,256
947,491	**1,135,956**	Retail lending	**437,343**	364,784
2,015,688	**2,438,922**	Loans and advances, gross	**938,985**	776,040
(11,024)	**(16,990)**	Loan impairment on portfolio basis	**(6,541)**	(4,245)
(8,284)	**(13,122)**	Loan impairment on specific basis (including reserve interest)	**(5,052)**	(3,189)
1,996,380	**2,408,810**	Loans and advances, net	**927,392**	768,606

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

7 LOANS AND ADVANCES, NET (continued)

The table below analyses the concentration of gross loans and advances by economic sector:

2011 US$'000	**2012 US$'000**		**2012 RO'000**	2011 RO'000
947,491	**1,135,956**	Personal loans	**437,343**	364,784
206,356	**313,470**	Construction	**120,686**	79,447
204,657	**285,200**	Wholesale and retail trade	**109,802**	78,793
83,057	**154,662**	Services	**59,545**	31,977
131,554	**151,836**	Transport and communication	**58,457**	50,648
131,860	**125,764**	Manufacturing	**48,419**	50,766
81,857	**86,205**	Financial institutions	**33,189**	31,515
47,753	**69,358**	Non-resident lending	**26,703**	18,385
121,010	**59,166**	Mining and quarrying	**22,779**	46,589
3,935	**-**	Electricity, gas and water	**-**	1,515
56,158	**57,305**	Others	**22,062**	21,621
2,015,688	**2,438,922**		**938,985**	776,040

As per the CBO requirements, the movement in the loan impairment is analysed as below:

2011 US$'000	**2012 US$'000**		**2012 RO'000**	2011 RO'000
		Loan impairment on portfolio basis		
6,499	**11,024**	Balance at beginning of the year	**4,245**	2,502
4,525	**5,966**	Provided during the year	**2,296**	1,743
11,024	**16,990**	Balance at the end of the year	**6,541**	4,245
		Loan impairment on specific basis		
		Loan loss provision		
2,153	**7,165**	Balance at beginning of the year	**2,758**	829
5,921	**7,154**	Provided during the year	**2,755**	2,279
(816)	**(2,580)**	Recoveries during the year	**(993)**	(314)
(93)	**(4)**	Write offs during the year	**(2)**	(36)
7,165	**11,735**	Balance at the end of the year	**4,518**	2,758
		Reserved interest		
429	**1,119**	Balance at beginning of the year	**431**	165
912	**1,169**	Reserved during the year	**450**	352
(222)	**(901)**	Interest released during the year	**(347)**	(86)
1,119	**1,387**	Balance at end of the year	**534**	431
8,284	**13,122**		**5,052**	3,189

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

7 LOANS AND ADVANCES, NET (continued)

Total loan impairment above includes impairment for off-balance sheet exposures as well. Interest is reserved for all non-performing loans and advances where recovery is considered doubtful. As at 31 December 2012, the total balance of loans and advances on which interest is not accrued, or where interest is suspended, amounted to RO 10.134 million equivalent to US$ 26.322 million (31 December 2011: RO 7.676 million equivalent to US$ 19.937 million). The fair value of collateral that the Bank holds relating to loans and advances individually determined to be impaired as at 31 December 2012 amounts to RO 4.997 million equivalent to US$ 12.974 million (31 December 2011: RO 4.457 million equivalent to US$ 11.577 million). The collateral consists of cash, securities and properties and the amount disclosed is limited to the lower of the outstanding balance and the fair value of collateral for each loan.

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 29 December 2007, the CBO had 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 set aside an amount of RO 6.543 million equivalent to US$ 16.995 million as a non-distributable loan loss reserve in its statement of changes in equity till 31 December 2010.

8 INVESTMENT SECURITIES

2011 US$'000	**2012 US$'000**		**2012 RO'000**	2011 RO'000
44,925	**75,818**	Held for trading investments	**29,190**	17,296
236,431	**220,193**	Available for sale investments	**84,774**	91,026
340	**340**	Held to maturity investments	**131**	131
281,696	**296,351**		**114,095**	108,453

a) Held for trading investments comprise:

	Carrying value 2012 RO'000	**Cost 2012 RO'000**	Carrying value 2011 RO'000	Cost 2011 RO'000
Government Development Bonds - Oman	**29,190**	**29,177**	17,296	16,443

	Carrying value 2012 US$'000	**Cost 2012 US$'000**	Carrying value 2011 US$'000	Cost 2011 US$'000
Government Development Bonds - Oman	**75,818**	**75,784**	44,925	42,709

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

8 INVESTMENT SECURITIES (continued)

b) Available for sale investments comprise:

	Carrying value 2012 RO'000	**Cost 2012 RO'000**	Carrying value 2011 RO'000	Cost 2011 RO'000
Unquoted securities	**-**	**-**	20,000	20,000
Quoted securities	**11,476**	**10,826**	6,976	6,700
Treasury bills	**73,298**	**73,298**	64,050	64,050
	84,774	**84,124**	91,026	90,750

	Carrying value 2012 US$'000	**Cost 2012 US$'000**	Carrying value 2011 US$'000	Cost 2011 US$'000
Unquoted securities	**-**	**-**	51,948	51,948
Quoted securities	**29,809**	**28,119**	18,119	17,403
Treasury bills	**190,384**	**190,384**	166,364	166,364
	220,193	**218,503**	236,431	235,715

c) Held to maturity investments comprise:

2011 US$'000	**2012 US$'000**		**2012 RO'000**	2011 RO'000
340	**340**	Listed debt securities	**131**	131

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

9 PROPERTY AND EQUIPMENT

	Freehold land RO'000	Leasehold modifications RO'000	Computer and other equipments RO'000	Vehicles RO'000	Furniture RO'000	Capital work in progress RO'000	Total RO'000
Cost:							
At 1 January 2012	**5,903**	**1,966**	**4,260**	**104**	**350**	**2,311**	**14,894**
Additions	**-**	**-**	**152**	**36**	**8**	**2,736**	**2,932**
Transferred	**32**	**17**	**25**	**-**	**14**	**(88)**	**-**
Acquired	**-**	**21**	**88**	**3**	**38**	**-**	**150**
Disposals / scrapped	**-**	**(195)**	**(186)**	**(16)**	**(33)**	**-**	**(430)**
At 31 December 2012	**5,935**	**1,809**	**4,339**	**127**	**377**	**4,959**	**17,546**
Accumulated depreciation:							
At 1 January 2012	**-**	**1,611**	**2,785**	**82**	**221**	**-**	**4,699**
Depreciation	**-**	**278**	**675**	**18**	**75**	**-**	**1,046**
Acquired	**-**	**21**	**77**	**3**	**38**	**-**	**139**
Disposals / scrapped	**-**	**(193)**	**(172)**	**(16)**	**(32)**	**-**	**(413)**
At 31 December 2012	**-**	**1,717**	**3,365**	**87**	**302**	**-**	**5,471**
Net book value:							
At 31 December 2012	**5,935**	**92**	**974**	**40**	**75**	**4,959**	**12,075**
At 31 December 2012 US$ '000	**15,416**	**239**	**2,530**	**104**	**195**	**12,880**	**31,364**

During the year ended 31 December 2012, RO 0.076 million equivalent to US$ 0.198 million (31 December 2011: RO 1.053 million equivalent to US$ 2.735 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

9 PROPERTY AND EQUIPMENT (continued)

	Freehold land RO'000	Leasehold modifications RO'000	Computer and other equipments RO'000	Vehicles RO'000	Furniture RO'000	Capital work in progress RO'000	Total RO'000
Cost:							
At 1 January 2011	5,903	1,922	3,702	94	337	283	12,241
Additions	-	14	274	17	12	2,343	2,660
Transfers	-	30	284	-	1	(315)	-
Disposals	-	-	-	(7)	-	-	(7)
At 31 December 2011	5,903	1,966	4,260	104	350	2,311	14,894
Accumulated depreciation:							
At 1 January 2011	-	1,315	2,214	72	158	-	3,759
Depreciation	-	296	571	17	63	-	947
Disposal	-	-	-	(7)	-	-	(7)
At 31 December 2011	-	1,611	2,785	82	221	-	4,699
Net book value:							
At 31 December 2011	5,903	355	1,475	22	129	2,311	10,195
At 31 December 2011 US$ '000	15,333	922	3,831	57	335	6,003	26,481

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

10 TAXATION

a) Recognised in the statement of comprehensive income

2011 US$'000	2012 US$'000		2012 RO'000	2011 RO'000
7,042	**7,925**	Current tax	**3,051**	2,711
-	**1,317**	Reversal of prior years' deferred tax	**507**	-
-	**(1,221)**	Reversal of prior years' tax provision	**(470)**	-
(556)	**(96)**	Current deferred tax income	**(37)**	(214)
6,486	**7,925**	Total tax expense	**3,051**	2,497

b) Tax liability

2011 US$'000	2012 US$'000		2012 RO'000	2011 RO'000
6,486	**7,925**	Current year	**3,051**	2,497
3,109	**1,995**	Prior years	**768**	1,197
9,595	**9,920**		**3,819**	3,694

c) Deferred tax asset

2011 US$'000	2012 US$'000		2012 RO'000	2011 RO'000
935	**1,491**	At 1 January	**574**	360
556	**(1,221)**	Movement during the year	**(470)**	214
1,491	**270**	At 31 December	**104**	574
		The deferred tax assets comprise the following:		
1,317	**-**	Loan loss disallowed for tax purposes	**-**	507
174	**270**	Accelerated accounting depreciation	**104**	67
1,491	**270**		**104**	574

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

10 TAXATION (continued)

d) Relationship between tax expense and accounting profit

The Bank is liable to income tax for the year 2012 in accordance with the income tax laws of the Sultanate of Oman at the rate of 12% (31 December 2011: 12%) on taxable profits in excess of RO 30,000 equivalent to US$ 78,000 (31 December 2011: RO 30,000 equivalent to US$ 78,000).

2011 US$'000	**2012 US$'000**		**2012 RO'000**	2011 RO'000
53,822	**64,000**	Accounting profit for the year	**24,794**	20,721
6,450	**7,719**	Tax charge @ 12% on accounting profit	**2,972**	2,483
		Add/(less) tax effects of:		
(90)	**(63)**	Income not taxable	**(24)**	(34)
11	**20**	Non deductible expenses	**8**	4
115	**249**	Others	**95**	44
6,486	**7,925**	Tax expense	**3,051**	2,497
		Effective tax rate	**12.30%**	12.05%

The Bank's tax assessments have been completed by the Tax Authorities up to the year 2008.

11 OTHER ASSETS

2011 US$'000	**2012 US$'000**		**2012 RO'000**	2011 RO'000
18,805	**19,997**	Acceptances	**7,699**	7,240
9,675	**9,676**	Collateral pending sale	**3,725**	3,725
1,278	**1,354**	Prepayments	**521**	492
288	**423**	Interest receivable	**163**	111
216	**31**	Others	**12**	83
30,262	**31,481**		**12,120**	11,651

12 DUE TO OTHER BANKS

2011 US$'000	**2012 US$'000**		**2012 RO'000**	2011 RO'000
67,857	**174,501**	Inter-bank deposits	**67,183**	26,125
122,551	**122,551**	Borrowings under repurchase agreement	**47,182**	47,182
2,660	**964**	Vostro account balances	**371**	1,024
193,068	**298,016**		**114,736**	74,331

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 2012 amounted to RO 49.665 million equivalent to US$ 129.000 million (31 December 2011: RO 49.665 million equivalent to US$ 129.000 million).

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

13 CUSTOMERS' DEPOSITS

2011 US$'000	2012 US$'000		2012 RO'000	2011 RO'000
1,320,800	**1,467,530**	Time deposits	**564,999**	508,508
416,631	**450,410**	Demand and saving deposits	**173,408**	160,403
1,737,431	**1,917,940**		**738,407**	668,911

At 31 December 2012, customer accounts include deposits of RO 1.819 million equivalent to US$ 4.725 million (31 December 2011: RO 1.264 million equivalent to US$ 3.283 million) held as collateral.

14 OTHER BORROWED FUNDS

2011 US$'000	2012 US$'000		2012 RO'000	2011 RO'000
-	**30,000**		**11,550**	-

This represents borrowings from international financial institution under a US$ 30 million multicurrency revolving facility agreement.

15 OTHER LIABILITIES

2011 US$'000	2012 US$'000		2012 RO'000	2011 RO'000
18,805	**19,997**	Acceptances	**7,699**	7,240
22,934	**18,605**	Interest payable	**7,163**	8,830
6,080	**9,436**	Accrued expenses	**3,633**	2,341
2,631	**2,987**	Staff related liabilities	**1,150**	1,013
7,877	**9,245**	Others	**3,559**	3,032
58,327	**60,270**		**23,204**	22,456

Staff related liabilities includes employee end of service benefits liabilities, the movement during the year is as follows:

2011 US$'000	2012 US$'000		2012 RO'000	2011 RO'000
164	**291**	At 1 January	**112**	63
140	**182**	Expense recognised in the statement of comprehensive income	**70**	54
(13)	**(39)**	End of service benefits paid	**(15)**	(5)
291	**434**	At 31 December	**167**	112

As per the directives of the CMA the amount of unpaid dividend which is outstanding for more than seven months is required to be transferred to the "Investors' Trust Fund" established by CMA. There is no unpaid cash dividend for the year 2011.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

16 SUBORDINATED LIABILITIES

In December 2010, the Bank issued subordinated bonds of RO 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 bonds is 7 years where the Bank has an option to redeem the bonds at the end of 5 years from the allotment date. These bonds carry 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 of RO 5 million (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.

2011 US$'000	**2012 US$'000**		**2012 RO'000**	2011 RO'000
90,909	**90,909**	Subordinated bonds	**35,000**	35,000
12,987	**12,987**	Subordinated loans	**5,000**	5,000
103,896	**103,896**		**40,000**	40,000

17 SHARE CAPITAL

The authorised share capital of the Bank is 1,500,000,000 shares of 100 baizas each (31 December 2011: 1,000,000,000 shares of 100 baizas each) out of which 1,203,704,905 (31 December 2011: 801,432,693 shares) are issued and fully paid up. During the year ended 31 December 2012, 152,272,212 shares (31 December 2011: 89,048,077 shares) were issued as bonus shares and the Bank has issued through a Rights Issue 250,000,000 shares at par (31 December 2011: Nil). These shares were listed on Muscat Securities Market on 2 August 2012.

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		**% Holding**	
	2012	2011	**2012**	2011
Ahli United Bank B.S.C, Bahrain	**421,296,711**	280,501,440	**35.0%**	35.0%
MB Holding and subsidiaries	**183,104,993**	121,912,214	**15.2%**	15.2%

18 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, RO 2.174 million equivalent to US$ 5.647 million (31 December 2011: RO 1.822 million equivalent to US$ 4.732 million) was transferred to legal reserve.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

19 DIVIDEND PAID AND PROPOSED

The Board of Directors has recommended a cash dividend of 5% (31 December 2011: Nil) and stock dividend of 5% (5 shares for every 100 shares) which is subject to approval of the shareholders at the Annual General Meeting and the regulatory authorities (31 December 2011: 19% stock dividend, 19 shares for every 100 shares).

20 NET ASSETS PER SHARE

Net assets per share is calculated by dividing the net assets by the issued and paid up shares at end of the year.

2011 US$'000	**2012 US$'000**		**2012 RO'000**	2011 RO'000
312,240	**435,102**	Net assets	**167,514**	120,212
801,433	**1,203,705**	Issued and paid up shares (in 000's) at 31 December	**1,203,705**	801,433
39.0	**36.1**	Net asset per share (cents /baizas)	**139.2**	150.0

21 CONTINGENT LIABILITIES AND COMMITMENTS

2011 US$'000	**2012 US$'000**		**2012 RO'000**	2011 RO'000
224,343	**318,086**	Financial guarantees	**122,463**	86,372
64,717	**26,192**	Letters of credit	**10,084**	24,916
48,491	**92,649**	Loan commitments	**35,670**	18,669
1,164	**6,746**	Capital commitments	**2,597**	448
		Lease commitments		
855	**1,069**	- not later than one year	**412**	329
561	**1,424**	- more than one year and upto five years	**548**	216
340,131	**446,166**		**171,774**	130,950

22 INTEREST INCOME

2011 US$'000	**2012 US$'000**		**2012 RO'000**	2011 RO'000
106,449	128,512	Loans and advances	49,477	40,983
725	2,306	Investment securities	888	279
127	109	Due from other banks	42	49
107,301	**130,927**		**50,407**	41,311

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

23 INTEREST EXPENSE

2011 US$'000	2012 US$'000		2012 RO'000	2011 RO'000
28,496	**33,439**	Time deposits	**12,874**	10,971
8,325	**6,831**	Demand and saving deposits	**2,630**	3,205
4,686	**6,210**	Borrowings	**2,391**	1,804
210	**1,125**	Inter-bank deposits	**433**	81
41,717	**47,605**		**18,328**	16,061

24 OTHER OPERATING INCOME

2011 US$'000	2012 US$'000		2012 RO'000	2011 RO'000
23,665	**23,945**	Fees and commission, net	**9,219**	9,111
169	**114**	Gain on sale of investment securities	**44**	65
1,013	**1,364**	Foreign exchange gain, net	**525**	390
577	**416**	Dividend income	**160**	222
-	**34**	Unrealised gain on revaluation of investment securities	**13**	-
8	**10**	Gain on sale of property and equipment	**4**	3
25,432	**25,883**		**9,965**	9,791

The commission and fee income shown above is net of commission and fees paid of RO 0.318 million equivalent to US$ 0.825 million (31 December 2011: RO 0.316 million equivalent to US$ 0.821 million).

25 STAFF EXPENSES

2011 US$'000	2012 US$'000		2012 RO'000	2011 RO'000
9,545	**11,603**	Salaries and wages	**4,467**	3,675
4,039	**4,935**	Allowances	**1,900**	1,555
1,327	**2,249**	Others	**866**	511
14,911	**18,787**		**7,233**	5,741

26 OTHER OPERATING EXPENSES

2011 US$'000	2012 US$'000		2012 RO'000	2011 RO'000
7,499	**9,701**	Operating and administration costs	**3,735**	2,887
2,226	**2,540**	Occupancy costs	**978**	857
468	**520**	Board related expenses	**200**	180
10,193	**12,761**		**4,913**	3,924

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

27 BASIC AND DILUTED EARNINGS PER SHARE

2011 US$'000	2012 US$'000		2012 RO'000	2011 RO'000
47,336	**56,475**	Net profit for the year	**21,743**	18,224
1,012,272	**1,092,036**	Weighted average number of outstanding shares during the year (in 000's)	**1,092,036**	1,012,272
4.7	**5.2**	Earnings per share (cents /baizas)	**19.9**	18.0

Basis and diluted earnings per share are same as the Bank has not issued any instruments which would have a diluting impact on earnings per share when exercised.

Earnings per share for the year ended 31 December 2012 have been calculated using the weighted average number of shares outstanding during the year. The weighted average number of shares outstanding during the year 1,092,035,718 include rights issue 250,000,000 shares at par, and 152,272,212 bonus shares issued for nil consideration (31 December 2011: 1,012,272,013 shares including 152,272,212 bonus shares issued for nil consideration).

28 RELATED PARTY TRANSACTIONS

In the ordinary course of business the Bank enters into transactions with major shareholders, directors, senior management and their related concerns. These transactions are conducted on an arms length basis and are approved by the Bank's management and Board of Directors.

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

2011 US$'000	2012 US$'000		2012 RO'000	2011 RO'000
		Directors and senior management		
870	**1,429**	Loans and advances	**550**	335
4,709	**1,190**	Customers' deposits	**458**	1,813
		Major shareholders and others		
70,010	**94,023**	Loans and advances	**36,199**	26,954
34,268	**7,000**	Due from other banks	**2,695**	13,193
5,382	**5,499**	Investments	**2,117**	2,072
		Other assets		
1	**34**	- Fair value of forward contracts	**13**	-
145	**-**	- Acceptances	**-**	56
12,660	**80,935**	Due to other banks	**31,160**	4,874
49,569	**21,132**	Customers' deposits	**8,136**	19,084
		Other liabilities		
122	**55**	- Fair value of foreign exchange forward contracts	**21**	47
616	**535**	- Fair value of swaps	**206**	237
1,540	**1,844**	- Payables	**709**	593
39,234	**120,457**	Contingent liabilities and commitments	**46,376**	15,105

The related maturity profile and interest rate risk is given in note 31.2.2 and 31.3.2 respectively.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

28 RELATED PARTY TRANSACTIONS (continued)

The income and expenses in respect of related parties included in the statement of comprehensive income are as follows:

2011 US$'000	**2012 US$'000**		**2012 RO'000**	2011 RO'000
		Directors and senior management		
31	**39**	Interest income	**15**	12
143	**36**	Interest expense	**14**	55
364	**395**	Board remuneration proposed	**152**	140
103	**125**	Board sitting fees	**48**	40
		Major shareholders and others		
3,857	**3,909**	Interest income	**1,505**	1,485
855	**660**	Interest expense	**254**	329
182	**68**	Fees and commission income	**26**	70
616	**119**	Loss on fair value of interest rate swaps	**46**	237
122	**55**	Loss on foreign exchange forward contracts	**21**	47
1,971	**2,075**	Other operating expenses	**799**	759

The Bank has also entered into a technical and support agreement (TMSA) with a major shareholder. In accordance with the agreement, an amount of RO 0.709 million equivalent to US$ 1.842 million is included in other operating expenses during 2012 (31 December 2011: RO 0.593 million equivalent to US$ 1.540).

Compensation of the key management personnel is as follows;

2011 US$'000	**2012 US$'000**		**2012 RO'000**	2011 RO'000
1,829	**2,016**	Salaries and allowances	**776**	704
75	**57**	End of service benefits	**22**	29
1,904	**2,073**	Total compensation paid during the year	**798**	733

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

29 FAIR VALUE OF FINANCIAL INSTRUMENTS

The Bank considers that the fair value of financial instruments is not significantly different to their carrying value at each of reporting dates. The Bank's accounting policy on fair value is disclosed in note 3. The table below sets out the classification of each class of financial assets and liabilities, and their fair values as at 31 December 2012:

Financial assets as per statement of financial position **At 31 December 2012**	**Loans and receivables** **RO'000**	**Held for trading** **RO'000**	**Available for sale** **RO'000**	**Held to maturity** **RO'000**	**Total carrying amount** **RO'000**	**Fair value** **RO'000**
Cash and balances with Central Bank of Oman	**24,439**	**-**	**-**	**-**	**24,439**	**24,439**
Due from other banks	**9,005**	**-**	**-**	**-**	**9,005**	**9,005**
Loans and advances, net	**927,392**	**-**	**-**	**-**	**927,392**	**927,392**
Investment securities	**-**	**29,190**	**84,774**	**131**	**114,095**	**114,095**
Other assets	**11,599**	**-**	**-**	**-**	**11,599**	**11,599**
Total	**972,435**	**29,190**	**84,774**	**131**	**1,086,530**	**1,086,530**

Financial liabilities as per statement of financial position **At 31 December 2012**	**Total carrying amount** **RO '000**	**Fair value** **RO '000**
Due to other banks	**114,736**	**114,736**
Customers' deposits	**738,407**	**738,407**
Other borrowed funds	**11,550**	**11,550**
Taxation	**3,819**	**3,819**
Other liabilities (excluding accruals)	**19,571**	**19,571**
Subordinated liabilities	**40,000**	**40,000**
Total	**928,083**	**928,083**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

29 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Financial assets as per statement of financial position At 31 December 2012	Loans and receivables US$ '000	Held for trading US$ '000	Available for sale US$ '000	Held to maturity US$ '000	Total carrying amount US$ '000	Fair value US$ '000
Cash and balances with Central Bank of Oman	**63,478**	**-**	**-**	**-**	**63,478**	**63,478**
Due from other banks	**23,390**	**-**	**-**	**-**	**23,390**	**23,390**
Loans and advances, net	**2,408,810**	**-**	**-**	**-**	**2,408,810**	**2,408,810**
Investment securities	**-**	**75,818**	**220,193**	**340**	**296,351**	**296,351**
Other assets	**30,127**	**-**	**-**	**-**	**30,127**	**30,127**
Total	**2,525,805**	**75,818**	**220,193**	**340**	**2,822,156**	**2,822,156**

Financial liabilities as per statement of financial position At 31 December 2012	Total carrying amount US$ '000	Fair value US$ '000
Due to other banks	**298,016**	**298,016**
Customers' deposits	**1,917,940**	**1,917,940**
Other borrowed funds	**30,000**	**30,000**
Taxation	**9,920**	**9,920**
Other liabilities (excluding accruals)	**50,834**	**50,834**
Subordinated liabilities	**103,896**	**103,896**
Total	**2,410,606**	**2,410,606**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

29 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Financial assets as per statement of financial position At 31 December 2011	Loans and receivables RO'000	Held for trading RO'000	Available for sale RO'000	Held to maturity RO'000	Total carrying amount RO'000	Fair value RO'000
Cash and balances with Central Bank of Oman	11,300	-	-	-	11,300	11,300
Due from other banks	18,825	-	-	-	18,825	18,825
Loans and advances, net	768,606	-	-	-	768,606	768,606
Investment securities	-	17,296	91,026	131	108,453	108,453
Other assets	11,159	-	-	-	11,159	11,159
Total	809,890	17,296	91,026	131	918,343	918,343

Financial liabilities as per statement of financial position At 31 December 2011	Total carrying amount RO '000	Fair value RO '000
Due to other banks	74,331	74,331
Customers' deposits	668,911	668,911
Taxation	3,694	3,694
Other liabilities (excluding accruals)	20,115	20,115
Subordinated liabilities	40,000	40,000
Total	807,051	807,051

Financial assets as per statement of financial position At 31 December 2011	Loans and receivables US$ '000	Held for trading US$ '000	Available for sale US$ '000	Held to maturity US$ '000	Total carrying amount US$ '000	Fair value US$ '000
Cash and balances with Central Bank of Oman	29,351	-	-	-	29,351	29,351
Due from other banks	48,896	-	-	-	48,896	48,896
Loans and advances, net	1,996,380	-	-	-	1,996,380	1,996,380
Investment securities	-	44,925	236,431	340	281,696	281,696
Other assets	28,984	-	-	-	28,984	28,984
Total	2,103,611	44,925	236,431	340	2,385,307	2,385,307

Financial liabilities as per statement of financial position At 31 December 2011	Total carrying amount US$ '000	Fair value US$ '000
Due to other banks	193,068	193,068
Customers' deposits	1,737,431	1,737,431
Taxation	9,595	9,595
Other liabilities (excluding accruals)	52,247	52,247
Subordinated liabilities	103,896	103,896
Total	2,096,237	2,096,237

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

29 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Valuation of financial instruments:

The Bank measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).

Level 3 - Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

The table below analysis of financial instruments measured at fair value at the reporting date:

	31 December 2012			31 December 2011		
	Level 1	**Level 2**	**Total**	Level 1	Level 2	Total
Financial assets:	**RO '000**	**RO '000**	**RO '000**	RO '000	RO '000	RO '000
Held for trading investments	**29,190**	**-**	**29,190**	17,296	-	17,296
Available for sale investments	**11,476**	**73,298**	**84,774**	6,976	84,050	91,026
Derivative financial instruments						
Interest rate swaps	**-**	**21**	**21**	-	40	40
Forward foreign exchange contracts	**-**	**47**	**47**	-	67	67
	40,666	**73,366**	**114,032**	24,272	84,157	104,429
Financial Liabilities:						
Derivative financial instruments						
Interest rate swaps	**-**	**227**	**227**	-	277	277
Forward foreign exchange contracts	**-**	**57**	**57**	-	51	51
	-	**284**	**284**	-	328	328
Financial Assets:	**US$ '000**	**US$ '000**	**US$ '000**	US$ '000	US$ '000	US$ '000
Held for trading investments	**75,818**		**75,818**	44,924	-	44,924
Available for sale investments	**29,809**	**190,384**	**220,193**	18,119	218,312	236,431
Derivative financial instruments						
Interest rate swaps	**-**	**55**	**55**	-	103	103
Forward foreign exchange contracts	**-**	**123**	**123**	-	174	174
	105,627	**190,562**	**296,189**	63,043	218,589	281,632
Financial Liabilities:						
Derivative financial instruments						
Interest rate swaps	**-**	**589**	**589**	-	719	719
Forward foreign exchange contracts	**-**	**147**	**147**	-	132	132
	-	**736**	**736**	-	851	851

No financial instruments are carried at level 3 fair value as on 31 December 2012 (31 December 2011: nil)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

30 DERIVATIVES

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.

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

Derivatives held for hedging purposes

Fixed interest rates on principal amount 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 which are usually not closed out prior to contractual maturity. The Bank ensures 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.

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 table shows the expected net amount for derivatives that are net settled but gross inflow and outflow amount for derivatives that have simultaneous gross settlement (e.g. forward exchange contracts)

			Nominal cash flows by term to maturity			
	Assets	Liabilities	Nominal cash flows Total	Within 3 months	3 to 12 months	1 to 5 Years
	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000
Derivatives for hedging:						
Interest rate swaps	-	206	315	18	97	200
Derivatives:						
Interest rate swaps	21	-	18	18	-	-
Interest rate swaps	-	21	18	18	-	-
Forward purchase contracts	-	57	37,036	37,036	-	-
Forward sales contracts	47	-	37,046	37,046	-	-
	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000
Derivatives for hedging:						
Interest rate swaps	-	534	818	47	252	519
Derivatives:						
Interest rate swaps	55	-	47	47	-	-
Interest rate swaps	-	55	47	47	-	-
Forward purchase contracts	-	147	96,197	96,197	-	-
Forward sales contracts	123	-	96,223	96,223	-	-

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

30 DERIVATIVES (continued)

			Nominal cash flows by term to maturity			
	Assets	Liabilities	Nominal cash flows Total	Within 3 months	3 to 12 months	1 to 5 Years
	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000
Derivatives for hedging:						
Interest rate swaps	-	237	282	19	90	173
Derivatives:						
Interest rate swaps	40	-	84	34	25	25
Interest rate swaps	-	40	84	34	25	25
Forward purchase contracts	-	51	20,698	19,640	1,058	-
Forward sales contracts	67	-	20,682	19,631	1,051	-
	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000
Derivatives for hedging:						
Interest rate swaps	-	616	732	49	234	449
Derivatives:						
Interest rate swaps	103	-	218	88	65	65
Interest rate swaps	-	103	218	88	65	65
Forward purchase contracts	-	132	53,761	51,013	2,748	-
Forward sales contracts	174	-	53,720	50,990	2,730	-

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

31 FINANCIAL RISK MANAGEMENT

The primary objective of the risk management system is to safeguard the Bank's capital, its financial resources from various risks. The Bank has exposure to the following risk from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk
- Operational risk

The Board of Directors has overall responsibility for the establishment and oversight of the Bank's risk management framework. The Board has approved the Bank's risk management policies in their specified areas.

The Bank's risk management policies are established to identify and analyse the risks faced by the Bank, to set appropriate limits and controls and to monitor risks and adherence to the limits. Risk management polices and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Bank through its training and management procedures, aims to develop a constructive control environment, in which all employees understand their roles and obligations.

The Bank's Audit Committee is responsible for monitoring compliance with the Bank's risk management policies and procedures and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Bank. The Bank's Audit Committee is assisted in these functions by Internal Audit Department. Internal Audit Department undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

31 FINANCIAL RISK MANAGEMENT (continued)

31.1 CREDIT RISK

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

31.1.1 Management of credit risk

The Board of Directors has delegated responsibility for the monitoring of credit risk to its Executive Risk Committee. A separate Risk Management Department, reporting to the chairman of the Executive Risk Committee, is responsible for the following:

- formulating credit risk policies in consultation with business units, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements;
- establishing the authorisation structure for the approval and renewal of credit facilities;
- reviewing and assessing credit risk. The Board's Executive Risk Committee assesses all credit exposures in excess of designated limits, prior to facilities being committed to customers by the business unit concerned. Renewals and reviews of facilities are subject to the same review process. The process also includes approval by Risk of borrower ratings arrived at by the business units;
- limiting concentrations of exposure to counterparties, geographies and industries (for loans and advances), and by issuer, market liquidity and country (for investment securities);
- developing and maintaining the Bank's risk grading in order to categorise exposures according to the degree of risk of financial loss faced and to focus management on the attendant risks;
- reviewing compliance of business units with agreed exposure limits, including those for selected industries, country risk and product types. Ensuring to be within the single obligor limit and also within the concentration risk limit for various sectors, which are continuously monitored; and
- providing advice, guidance and specialist skills to business units to promote best practice throughout the Bank in the management of credit risk.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

31 FINANCIAL RISK MANAGEMENT (continued)

31.1 CREDIT RISK (continued)

31.1.1 Management of credit risk (continued)

Each business unit is required to implement Bank's credit risk policies and procedures, with credit approval authorities delegated from the Board. Business units have their counter parts in risk management, having specialised expertise in managing risks typical to these business units. Regular audits of business units and the Bank's credit processes are undertaken by Internal Audit Department.

The Bank employs a range of policies and practices to mitigate credit risk. The Bank follows a risk mitigation practice of identifying business cash flows as the primary take out for the loans and advances extended. These cash flows are then tested for sustainability over the tenor of the credit facility and a suitable mechanism is put in place to capture the same into the borrowers account with the Bank. To cover unforeseen risk, which dry up the cash flows, additional tangible securities are taken such as real estate or equity shares. The Bank implements guidelines on the acceptability of specific classes of collateral credit risk mitigation. The principal types of collaterals for loans and advances are:

- mortgages over properties;
- charges over business assets such as premises inventory and accounts receivable; and
- charges over financial instruments such as debt securities and equity securities.

Longer-term finance and lending to corporate borrowers are generally secured; revolving individual credit facilities are generally unsecured from a collateral perspective, whereas credit risk is primarily mitigated through capture of business cash flows. In addition, in order to minimise the credit loss, the Bank seeks additional collateral from the borrower as soon as impairment indicators are noticed for the relevant individual loans and advances. Collateral held as security for financial assets other than loans and advances, is determined by the nature of the instrument. Debt securities, treasury and other eligible bills are generally unsecured.

All loans and advances of the Bank are regularly monitored to ensure compliance with the stipulated repayment terms. Those loans and advances are classified into one of the 5 risk classification categories: Standard, Special Mention, Substandard, Doubtful, and Loss – as stipulated by Central Bank of Oman regulations and guidelines. The responsibility for identifying problem accounts and classifying them rests with business line function.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

31 FINANCIAL RISK MANAGEMENT (continued)

31.1 CREDIT RISK (continued)

31.1.2 Exposure to credit risk

The credit exposure of the Bank as on the reporting date is as follows:

	2012			2011		
	Loans and advances-Gross RO'000	**Due from other banks RO'000**	**Investment securities RO'000**	Loans and advances-Gross RO'000	Due from other banks RO'000	Investment securities RO'000
Carrying amount	**938,985**	**9,005**	**114,095**	776,040	18,825	108,453
Past due but not impaired						
1-30 days	**87,251**	**-**	**-**	100,382	-	-
31-60 days	**8,512**	**-**	**-**	6,316	-	-
61-89 days	**4,371**	**-**	**-**	4,465	-	-
	100,134	**-**	**-**	111,163	-	-
Past due and impaired	**9,567**	**-**	**-**	5,145	-	-
Not past due but impaired	**567**	**-**	**-**	2,531	-	-
Neither past due nor impaired	**828,717**	**9,005**	**114,095**	657,201	18,825	108,453

	2012			2011		
	Loans and advances-Gross US$'000	**Due from other banks US$'000**	**Investment securities US$'000**	Loans and advances-Gross US$'000	Due from other banks US$'000	Investment securities US$'000
Carrying amount	**2,438,922**	**23,390**	**296,351**	2,015,688	48,896	281,696
Past due but not impaired						
1-30 days	**226,626**	**-**	**-**	260,732	-	-
31-60 days	**22,109**	**-**	**-**	16,405	-	-
61-89 days	**11,353**	**-**	**-**	11,597	-	-
	260,088	**-**	**-**	288,734	-	-
Past due and impaired	**24,849**	**-**	**-**	13,364	-	-
Not past due but impaired	**1,473**	**-**	**-**	6,574	-	-
Neither past due nor impaired	**2,152,512**	**23,390**	**296,351**	1,707,016	48,896	281,696

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

31 FINANCIAL RISK MANAGEMENT (continued)

31.1 CREDIT RISK (continued)

31.1.2 Exposure to credit risk (continued)

Table below shows the gross maximum exposure and net maximum exposure to credit risk for the components of the statement of financial position, including derivatives. Net maximum exposure is after taking into account collateral held or other credit enhancement.

Net maximum exposure 2011 US$'000	Gross maximum exposure 2011 US$'000	**Net maximum exposure 2012 US$'000**	**Gross maximum exposure 2012 US$'000**		**Gross maximum exposure 2012 RO'000**	**Net maximum exposure 2012 RO'000**	Gross maximum exposure 2011 RO'000	Net maximum exposure 2011 RO'000
23,019	23,019	**56,998**	**56,998**	**Balances with Central Bank of Oman**	**21,944**	**21,944**	8,862	8,862
48,896	48,896	**23,390**	**23,390**	**Due from other banks**	**9,005**	**9,005**	18,825	18,825
1,480,055	2,015,688	**1,727,369**	**2,438,922**	**Loans and advances**	**938,985**	**665,037**	776,040	569,821
281,696	281,696	**296,351**	**296,351**	**Investment securities**	**114,095**	**114,095**	108,453	108,453
277	277	**178**	**178**	**Derivative financial instruments**	**68**	**68**	107	107
1,833,943	2,369,576	**2,104,286**	**2,815,839**		**1,084,097**	**810,149**	912,287	706,068
51,071	51,071	**101,888**	**101,888**	**Commitments**	**39,227**	**39,227**	19,662	19,662
289,060	289,060	**261,922**	**344,278**	**Contingent liabilities**	**132,547**	**100,840**	111,288	111,288
340,131	340,131	**363,810**	**446,166**		**171,774**	**140,067**	130,950	130,950
2,174,074	2,709,707	**2,468,096**	**3,262,005**	**Total credit risk exposure**	**1,255,871**	**950,216**	1,043,237	837,018

Where financial instruments are recorded at fair value, the amounts shown above represents the current credit risk exposure that could arise in the future as a result of changes in values.

For more details on the maximum exposure to credit risk for each class of financial instruments, reference shall be made to the specific notes.

31 FINANCIAL RISK MANAGEMENT (continued)

31.1 CREDIT RISK (continued)

31.1.3 Credit rating analysis

The table below shows the distribution of financial assets neither past due nor impaired.

Total 2012 US$'000	Special mention grade 2012 US$'000	Standard grade 2012 US$'000	High Standard grade 2012 US$'000		High Standard grade 2012 RO'000	Standard grade 2012 RO'000	Special mention grade 2012 RO'000	Total 2012 RO'000
56,998	**-**	**-**	**56,998**	Balances with Central Bank of Oman	**21,944**	**-**	**-**	**21,944**
23,390	**-**	**31**	**23,359**	Due from other banks	**8,993**	**12**	**-**	**9,005**
				Loans and advances				
1,079,602	**16,878**	**427,218**	**635,506**	- Corporate lending	**244,670**	**164,479**	**6,498**	**415,647**
1,072,910	**1,787**	**1,070,946**	**177**	- Retail lending	**68**	**412,314**	**688**	**413,070**
				Investment securities				
75,818	**-**	**-**	**75,818**	- Held for trading	**29,190**	**-**	**-**	**29,190**
203,940	**-**	**-**	**203,940**	- Available for sale	**78,517**	**-**	**-**	**78,517**
340	**-**	**-**	**340**	- Held to maturity	**131**	**-**	**-**	**131**

Total 2011 US$'000	Special mention grade 2011 US$'000	Standard grade 2011 US$'000	High Standard grade 2011 US$'000		High Standard grade 2011 RO'000	Standard grade 2011 RO'000	Special mention grade 2011 RO'000	Total 2011 RO'000
23,019	-	-	23,019	Balances with Central Bank of Oman	8,862	-	-	8,862
48,896	-	13	48,883	Due from other banks	18,820	5	-	18,825
				Loans and advances				
816,416	22,348	237,902	556,166	- Corporate lending	214,124	91,592	8,604	314,320
890,600	1,083	889,042	475	- Retail lending	183	342,281	417	342,881
				Investment securities				
44,925	-	-	44,925	- Held for trading	17,296	-	-	17,296
226,119	-	-	226,119	- Available for sale	87,056	-	-	87,056
340	-	-	340	- Held to maturity	131	-	-	131

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

31 FINANCIAL RISK MANAGEMENT (continued)

31.1 CREDIT RISK (continued)

31.1.3 Credit rating analysis (continued)

At 31 December 2012 investments securities classified as available for sale amounting to RO 6.257 million equivalent to US$ 16.253 million (31 December 2011: RO 3.970 million equivalent to US$ 10.312 million) are unrated and are not included in the investments disclosed in the note above.

It is the Bank's policy to maintain consistent internal risk ratings across the credit portfolio. The credit quality of the portfolio of the loans and advances that are neither past due nor impaired can be assessed by reference to the Bank's internal credit rating system. This facilitates focused portfolio management of the inherent level of risk across all lines of business. The credit quality rating disclosed above can be equated to the following risk rating grates

Credit quality rating	Risk rating	Definition
High standard	Risk rating 1 to 4	Undoubted through to good credit risk
Standard	Risk rating 5 to 6	Satisfactory through to adequate credit risk
Special mention	Risk rating 7	Satisfactory but vulnerable to non-payment

The risk rating system is supported by various financial analytics and qualitative market information for the measurement counter party risk.

31.1.4 Impaired loans and advances

These are loans and advances for which the Bank determines that it is probable that it will not be able to collect all the principal repayments and interest due according to the contractual terms of the loan agreement.

Past due but not impaired

These are loans and advances where contractual interest or principal payments are past due but the Bank believes that impairment is not appropriate on the basis of the level of security /collateral available and /or the stage of collection of amounts owed by the Bank.

Loans and advances with renegotiated terms

Loans and advances with renegotiated terms are loans that have been restructured due to deterioration in the borrower's financial position and where the Bank has made concessions that it would not otherwise consider. Once the loan is restructured it remains in this category for twelve months independent of satisfactory performance after restructuring.

Loan impairment

The Bank establishes an allowance for impairment losses account that represents its estimate of incurred losses in its loan portfolio. The main components of this allowance are specific loss component that relate to individually significant exposures, and a collective loan loss allowance established for group of homogenous assets in respect of losses that have been incurred but have not been identified on loans subject to individual assessment for impairment.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

31 FINANCIAL RISK MANAGEMENT (continued)

31.1 CREDIT RISK (continued)

31.1.4 Impaired loans and advances (continued)

Write off policy

The Bank writes off loans and advances balance (and any related allowances for impairment losses) when the Bank determines that the loan is uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the borrower's financial position such that the borrower can no longer repay the obligation or that proceeds from the collateral will not be sufficient to pay back the entire outstanding exposure. For smaller balance standardised loans, charge off decisions generally are based on a product specific past due status.

Set out below is an analysis of gross and net (of loan impairment) amounts of individually impaired assets by risk classification.

	2012		2011	
Particulars	**Gross**	**Net**	Gross	Net
	RO'000	**RO'000**	RO'000	RO'000
Loans and advances (refer note 31.1.2)	**10,134**	**5,082**	7,676	4,487
	US$'000	**US$'000**	US$'000	US$'000
Loans and advances (refer note 31.1.2)	**26,322**	**13,200**	19,937	11,654

31.1.5 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. 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 and advances to their subsidiaries but the benefits are not included in the above table.

Management monitors the market value of collateral at regular interval and requests additional collateral in accordance with the underlying agreement in case of shortfall. The Bank also periodically reviews the collateral cover for determining the adequacy of the allowance for impairment losses. The fair value of collateral that the Bank held as at 31 December 2012 towards loan and advances not impaired amounted to RO 644,838 million equivalent to US$ 1,674.903 million (31 December 2011: RO 541.287 million equivalent to US$ 1,405.939 million).

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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

31 FINANCIAL RISK MANAGEMENT (continued)

31.1 CREDIT RISK (continued)

31.1.6 Settlement Risk

Settlement risk is the risk of loss due to the failure of a party to honour its obligations to deliver cash, securities or other asset as contractually agreed on the day of settlement.

In foreign exchange trades, though there is fulfilment of both the legs of the transaction on the settlement date as it is common practice between trading partners (free settlement), there will be risk on account of different time zones. In these cases, the settlement risk is mitigated through the execution of bilateral payment netting agreements.

31.1.7 Concentration Risk

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

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

31 FINANCIAL RISK MANAGEMENT (continued)

31.1 CREDIT RISK (continued)

31.1.7 Concentration Risk (continued)

	2012			2011		
	Loans and advances-Gross RO'000	**Due from other banks RO'000**	**Investment securities RO'000**	Loans and advances-Gross RO'000	Due from other banks RO'000	Investment securities RO'000
Concentration by sector						
Corporate	**429,405**	**-**	**6,261**	342,685	-	3,970
Personal	**437,343**	**-**	**-**	364,784	-	-
Sovereign	**58,504**	**-**	**106,912**	64,339	-	103,515
Banks	**13,733**	**9,005**	**922**	4,232	18,825	968
Concentration by location						
Oman	**908,788**	**770**	**34,845**	757,655	1,925	40,738
Other GCC countries	**9,224**	**2,918**	**29,585**	12,762	4,470	18,050
India	**10,282**	**2**	**-**	3,602	3	-
United States of America	**-**	**856**	**49,665**	-	1,753	49,665
Others	**10,691**	**4,459**	**-**	2,021	10,674	-
	US$'000	**US$'000**	**US$'000**	US$'000	US$'000	US$'000
Concentration by sector						
Corporate	**1,115,337**	**-**	**16,263**	890,086	-	10,313
Personal	**1,135,956**	**-**	**-**	947,491	-	-
Sovereign	**151,958**	**-**	**277,694**	167,115	-	268,867
Banks	**35,671**	**23,390**	**2,394**	10,996	48,896	2,516
Concentration by location						
Oman	**2,360,488**	**2,000**	**90,507**	1,967,933	5,000	105,813
Other GCC countries	**23,959**	**7,579**	**76,844**	33,149	11,610	46,883
India	**26,707**	**6**	**-**	9,358	8	-
United States of America	**-**	**2,223**	**129,000**	-	4,553	129,000
Others	**27,768**	**11,582**	**-**	5,248	27,725	-

Concentration by location for loans and advances is measured based on the location of the entity holding the asset, which has a high correlation with the location of the borrower. Concentration by location for investment securities is measured based on the location of the issuer of the security. An analysis of the Bank's gross exposure to relevant segments is provided in note 32.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

31 FINANCIAL RISK MANAGEMENT (continued)

31.2 LIQUIDITY RISK

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

31.2.1 Management of liquidity risk

The Bank's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its obligation when due, under normal and stressed conditions without incurring unacceptable losses or risking damage to the Bank's reputation. The Bank has put in place an approved Contingency Liquidity Plan to facilitate management of liquidity.

Liquidity risk is managed by the Bank through closely monitoring the liquidity gap against the limit fixed.

Adequate liquidity is ensured by Treasury, which receives information from other business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. Treasury then maintains a portfolio of short-term liquid assets, largely made up of short-term liquid investment securities, placements with other banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Bank as a whole. In this process due care is taken to ensure that the Bank complies with all the Central Bank of Oman regulations.

All liquidity policies are subject to review and approval of Board of Directors.

The Bank prepares a liquidity gap report to monitor the Bank's short term liquidity position on the Rial denominated assets and liabilities in a time horizon spanning one month. The gap is adjusted by instruments for repo or refinance and also for unavailed committed lines of credit, if any. This statement of short term liquidity is to be reported to the ALCO and Executive Risk Committee every month.

At 31 December 2012, the Bank's ten largest depositors accounted form 69% (31 December 2011: 66%) of its customers' deposits with no single maturity representing more than 5.2% of the customer deposits base (31 December 2011: 4.5%).

31.2.2 Exposure to liquidity risk

The lending ratio, which is the ratio of the total loans and advances to customer deposits and capital, is monitored on a daily basis in line with the regulatory guidelines. Internally the lending ratio is set at a more conservative basis than required by regulation. The Bank also manages its liquidity risk on a monthly basis monitoring the liquid ratio which is a ratio of net liquid assets to total assets.

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

31 FINANCIAL RISK MANAGEMENT (continued)

31.2 LIQUIDITY RISK (continued)

31.2.2 Exposure to liquidity risk (continued)

The Bank is also required to maintain a cash reserve with the CBO of 5% (31 December 2011: 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 2012 was 87.5% (31 December 2011: 87.5%).

Details of the reported lending ratio for the year, are as follows:

	2012	2011
	Lending Ratio	Lending Ratio
Year end	86.66%	86.71%
Maximum for the year	87.36%	87.41%
Minimum for the year	83.05%	77.09%
Average for the year	86.08%	84.08%

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

31 FINANCIAL RISK MANAGEMENT (continued)

31.2 LIQUIDITY RISK (continued)

31.2.2 Exposure to liquidity risk (continued)

The table below summarises the maturity profile of the Bank's assets and liabilities as on the reporting date based on contractual repayment arrangements. The contractual maturities of assets and liabilities have been determined on the basis of the remaining period at the reporting date to the contractual maturity date and do not take account of the effective maturities as indicated by the Bank's deposit retention history and the availability of liquid funds.

31 December 2012	Upto three months RO'000	above three months to twelve months RO'000	Above one year to five years RO'000	More than five years RO'000	Total RO'000
Assets					
Cash and balances with Central Bank of Oman	**23,914**	**-**	**-**	**525**	**24,439**
Due from other banks	**9,005**	**-**	**-**	**-**	**9,005**
Loans and advances, net	**231,035**	**73,016**	**235,960**	**387,381**	**927,392**
Investment securities	**109,252**	**922**	**1,637**	**2,284**	**114,095**
Property and equipment	**-**	**-**	**-**	**12,075**	**12,075**
Deferred tax asset	**-**	**-**	**-**	**104**	**104**
Other assets	**11,963**	**-**	**-**	**157**	**12,120**
Total assets	**385,169**	**73,938**	**237,597**	**402,526**	**1,099,230**
Liabilities and equity					
Due to other banks	**114,736**	**-**	**-**	**-**	**114,736**
Customers' deposits	**203,112**	**219,735**	**176,428**	**139,132**	**738,407**
Other borrowed funds	**-**	**11,550**	**-**	**-**	**11,550**
Taxation	**3,819**	**-**	**-**	**-**	**3,819**
Other liabilities	**18,199**	**2,818**	**2,187**	**-**	**23,204**
Subordinated liabilities	**-**	**-**	**40,000**	**-**	**40,000**
Shareholders' funds	**-**	**-**	**-**	**167,514**	**167,514**
Total liabilities and equity	**339,866**	**234,103**	**218,615**	**306,646**	**1,099,230**
Net liquidity gap	**45,303**	**(160,165)**	**18,982**	**95,880**	**-**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

31 FINANCIAL RISK MANAGEMENT (continued)

31.2 LIQUIDITY RISK (continued)

31.2.2 Exposure to liquidity risk (continued)

31 December 2012	US$'000	US$'000	US$'000	US$'000	US$'000
Assets					
Cash and balances with Central Bank of Oman	**62,114**	**-**	**-**	**1,364**	**63,478**
Due from other banks	**23,390**	**-**	**-**	**-**	**23,390**
Loans and advances, net	**600,090**	**189,653**	**612,884**	**1,006,183**	**2,408,810**
Investment securities	**283,771**	**2,395**	**4,252**	**5,933**	**296,351**
Property and equipment	**-**	**-**	**-**	**31,364**	**31,364**
Deferred tax asset	**-**	**-**	**-**	**270**	**270**
Other assets	**31,073**	**-**	**-**	**408**	**31,481**
Total assets	**1,000,438**	**192,048**	**617,136**	**1,045,522**	**2,855,144**
Liabilities and equity					
Due to other banks	**298,016**	**-**	**-**	**-**	**298,016**
Customers' deposits	**527,563**	**570,740**	**458,255**	**361,382**	**1,917,940**
Other borrowed funds	**-**	**30,000**	**-**	**-**	**30,000**
Taxation	**9,920**				**9,920**
Other liabilities	**47,270**	**7,320**	**5,680**	**-**	**60,270**
Subordinated liabilities	**-**	**-**	**103,896**	**-**	**103,896**
Shareholders' funds	**-**	**-**	**-**	**435,102**	**435,102**
Total liabilities and equity	**882,769**	**608,060**	**567,831**	**796,484**	**2,855,144**
Net liquidity gap	**117,669**	**(416,012)**	**49,305**	**249,038**	**-**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

31 FINANCIAL RISK MANAGEMENT (continued)

31.2 LIQUIDITY RISK (continued)

31.2.2 Exposure to liquidity risk (continued)

31 December 2011	Upto three months RO'000	above three months to twelve months RO'000	Above one year to five years RO'000	More than five years RO'000	Total RO'000
Assets					
Cash and balances with Central Banks of Oman	10,775	-	-	525	11,300
Due from other banks	18,825	-	-	-	18,825
Loans and advances, net	213,107	80,551	161,056	313,892	768,606
Investment securities	105,806	-	2,647	-	108,453
Property and equipment	-	-	-	10,195	10,195
Deferred tax asset	-	-	-	574	574
Other assets	11,591	-	-	60	11,651
Total assets	360,104	80,551	163,703	325,246	929,604
Liabilities and equity					
Due to other banks	74,331	-	-	-	74,331
Customers' deposits	173,461	284,826	101,942	108,682	668,911
Taxation	3,694	-	-	-	3,694
Other liabilities	13,581	6,009	1,748	1,118	22,456
Subordinated liabilities	-	-	-	40,000	40,000
Shareholders' funds	-	-	-	120,212	120,212
Total liabilities and equity	265,067	290,835	103,690	270,012	929,604
Net liquidity gap	95,037	(210,284)	60,013	55,234	-
31 December 2011	US$'000	US$'000	US$'000	US$'000	US$'000
Assets					
Cash and balances with Central Banks of Oman	27,987	-	-	1,364	29,351
Due from other banks	48,896	-	-	-	48,896
Loans and advances, net	553,525	209,223	418,327	815,305	1,996,380
Investment securities	274,821	-	6,875	-	281,696
Property and equipment	-	-	-	26,481	26,481
Deferred tax asset	-	-	-	1,491	1,491
Other assets	30,106	-	-	156	30,262
Total assets	935,335	209,223	425,202	844,797	2,414,557
Liabilities and equity					
Due to other banks	193,068	-	-	-	193,068
Customers' deposits	450,548	739,808	264,784	282,291	1,737,431
Taxation	9,595	-	-	-	9,595
Other liabilities	35,275	15,608	4,540	2,904	58,327
Subordinated liabilities	-	-	-	103,896	103,896
Shareholders' funds	-	-	-	312,240	312,240
Total liabilities and equity	688,486	755,416	269,324	701,331	2,414,557
Net liquidity gap	246,849	(546,193)	155,878	143,466	-

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

31 FINANCIAL RISK MANAGEMENT (continued)

31.3 MARKET RISK

Market risk is the exposure to loss resulting from the changes in the interest rates, foreign currency exchange rates, equity prices and commodity prices. The objective of market risk management is to manage and control market risk exposures within acceptable parameters while optimising the return to risk.

31.3.1 Management of market risks

The Bank separates its exposure to market risk between trading and non trading portfolios. Trading portfolios include all positions arising from market making and proprietary position taking together with financial assets and liabilities that are managed on a fair value basis.

All foreign exchange risk within the Bank is transferred by Treasury to the trading book. Accordingly, the foreign exchange position is treated as a part of the Bank's trading portfolio for risk management purposes. Foreign currency risk is monitored and managed by the Bank through Mid Office to monitor the market risk, and the risk is managed by putting in place Market Risk Management procedures and implementing limit framework, reporting tools like Currency Position Report, Risk Analysis of Currency Position, Breach Analysis Report, and Dealer Limit Breach report.

Overall authority for market risk is vested with ALCO. The risk management function is responsible for development of detailed risk management policies (subject to approval by ALCO and Executive Risk Committee of the Board). The market risk policies are periodically reviewed to keep it up to date with the market developments.

31.3.2 Exposure to interest rate risk – non trading portfolios

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

The effective interest rate (effective yield) of a monetary financial instrument is the rate used in a present value calculation which results in the carrying amount of the instrument. The rate is a historical rate for a fixed rate instrument carried at amortised cost and a current rate for a floating rate instrument or an instrument carried at fair value.

The principal risk to which non-trading portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instrument because of a change in market interest rates. Interest rate risk is managed principally through monitoring interest rate gaps. The ALCO is the monitoring body for compliance with these limits and is assisted by Risk Management in its day-to-day monitoring activities. A summary of the Bank's interest rate gap position on non-trading portfolios is provided in this note. The Bank also assesses interest rate risk by assessing the interest rate impact (both earnings perspective and economic value perspective) as per Basel-II guidelines communicated by Central Bank of Oman by applying interest rate shock of 200 bps and takes measures to reduce the impact. The Bank also assesses impact on earnings of interest rate shock of 50,100 and 200 bps.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

31 FINANCIAL RISK MANAGEMENT (continued)

31.3 MARKET RISK (continued)

31.3.2 Exposure to interest rate risk – non trading portfolios (continued)

The Bank's interest sensitivity position based on contractual re-pricing arrangements at 31 December 2012 was as follows:

31 December 2012	Effective annual interest rate %	Upto three months RO'000	above three months to twelve months RO'000	Above one year to five years RO'000	More than five years RO'000	Non-sensitive to interest rate RO'000	Total RO'000
Assets							
Cash and balances with Central Bank of Oman	**1.50**	**500**	**-**	**-**	**-**	**23,939**	**24,439**
Due from other banks	**0.07**	**9,005**					**9,005**
Loans and advances, net	**5.84**	**421,629**	**100,395**	**88,865**	**316,503**	**-**	**927,392**
Investment securities	**0.85**	**109,252**	**922**	**1,637**	**2,284**	**-**	**114,095**
Property and equipment		**-**	**-**	**-**	**-**	**12,075**	**12,075**
Deferred tax asset		**-**	**-**	**-**	**-**	**104**	**104**
Other assets		**-**	**-**	**-**	**-**	**12,120**	**12,120**
Total assets		**540,386**	**101,317**	**90,502**	**318,787**	**48,238**	**1,099,230**
Liabilities and equity							
Due to other banks	**0.47**	**114,736**	**-**	**-**	**-**	**-**	**114,736**
Customers' deposits	**2.13**	**236,141**	**222,296**	**171,995**	**435**	**107,540**	**738,407**
Other borrowed funds	**2.18**	**-**	**11,550**	**-**	**-**	**-**	**11,550**
Taxation		**-**	**-**	**-**	**-**	**3,819**	**3,819**
Other liabilities	**2.14**	**-**	**-**	**-**	**-**	**23,204**	**23,204**
Subordinated liabilities	**5.53**	**-**	**-**	**-**	**-**	**40,000**	**40,000**
Shareholders' funds		**-**	**-**	**-**	**-**	**167,514**	**167,514**
Total liabilities and equity		**350,877**	**233,846**	**171,995**	**435**	**342,077**	**1,099,230**
Total interest rate sensitivity gap		**189,509**	**(132,529)**	**(81,493)**	**318,352**	**(293,839)**	**-**
Cumulative interest rate sensitivity gap		**189,509**	**56,980**	**(24,513)**	**293,839**	**-**	**-**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

31 FINANCIAL RISK MANAGEMENT (continued)

31.3 MARKET RISK (continued)

31.3.2 Exposure to interest rate risk – non trading portfolios (continued)

31 December 2012	Effective annual interest rate %	Upto three months US$'000	above three months to twelve months US$'000	Above one year to five years US$'000	More than five years US$'000	Non-sensitive to interest rate US$'000	Total US$'000
Assets							
Cash and balances with Central Bank of Oman	**1.50**	**1,299**	**-**	**-**	**-**	**62,179**	**63,478**
Due from other banks	**0.07**	**23,390**	**-**	**-**	**-**	**-**	**23,390**
Loans and advances, net	**5.84**	**1,095,139**	**260,767**	**230,818**	**822,086**	**-**	**2,408,810**
Investment securities	**0.85**	**283,772**	**2,395**	**4,252**	**5,932**	**-**	**296,351**
Property and equipment		**-**	**-**	**-**	**-**	**31,364**	**31,364**
Deferred tax asset		**-**	**-**	**-**	**-**	**270**	**270**
Other assets		**-**	**-**	**-**	**-**	**31,481**	**31,481**
Total assets		**1,403,600**	**263,162**	**235,070**	**828,018**	**125,294**	**2,855,144**
Liabilities and equity							
Due to other banks	**0.47**	**298,016**					**298,016**
Customers' deposits	**2.13**	**613,353**	**577,392**	**446,740**	**1,130**	**279,325**	**1,917,940**
Other borrowed funds	**2.18**	**-**	**30,000**	**-**	**-**	**-**	**30,000**
Taxation		**-**	**-**	**-**	**-**	**9,920**	**9,920**
Other liabilities	**2.14**	**-**	**-**	**-**	**-**	**60,270**	**60,270**
Subordinated liabilities	**5.53**	**-**	**-**	**-**	**-**	**103,896**	**103,896**
Shareholders' funds		**-**	**-**	**-**	**-**	**435,102**	**435,102**
Total liabilities and equity		**911,369**	**607,392**	**446,740**	**1,130**	**888,513**	**2,855,144**
Total interest rate sensitivity gap		**492,231**	**(344,230)**	**(211,670)**	**826,888**	**(763,219)**	**-**
Cumulative interest rate sensitivity gap		**492,231**	**148,001**	**(63,669)**	**763,219**	**-**	**-**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

31 FINANCIAL RISK MANAGEMENT (continued)

31.3 MARKET RISK (continued)

31.3.2 Exposure to interest rate risk – non trading portfolios (continued)

31 December 2011	Effective annual interest rate %	Upto three months RO'000	above three months to twelve months RO'000	Above one year to five years RO'000	More than five years RO'000	Non-sensitive to interest rate RO'000	Total RO'000
Assets							
Cash and balances with Central Bank of Oman	2.00	500	-	-	-	10,800	11,300
Due from other banks	0.07	18,825	-	-	-	-	18,825
Loans and advances, net	6.04	379,974	44,732	75,874	268,026	-	768,606
Investment securities	0.40	105,806	-	2,647	-	-	108,453
Property and equipment	-	-	-	-	-	10,195	10,195
Deferred tax asset	-	-	-	-	-	574	574
Other assets	-	139	-	-	-	11,512	11,651
Total assets		505,244	44,732	78,521	268,026	33,081	929,604
Liabilities and equity							
Due to other banks	0.40	74,331	-	-	-	-	74,331
Customers' deposits	2.19	188,589	277,071	100,658	-	102,593	668,911
Taxation	-	-	-	-	-	3,694	3,694
Other liabilities	1.85	237	1,198	-	-	21,021	22,456
Subordinated liabilities	5.53	-	-	-	40,000	-	40,000
Shareholders' funds	-	-	-	-	-	120,212	120,212
Total liabilities and equity		263,157	278,269	100,658	40,000	247,520	929,604
Total interest rate sensitivity gap		242,087	(233,537)	(22,137)	228,026	(214,439)	-
Cumulative interest rate sensitivity gap		242,087	8,550	(13,587)	214,439	-	-

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

31 FINANCIAL RISK MANAGEMENT (continued)

31.3 MARKET RISK (continued)

31.3.2 Exposure to interest rate risk – non trading portfolios (continued)

31 December 2011	Effective annual interest rate %	Upto three months US$'000	above three months to twelve months US$'000	Above one year to five years US$'000	More than five years US$'000	Non-sensitive to interest rate US$'000	Total US$'000
Assets							
Cash and balances with Central Bank of Oman	2.00	1,299	-	-	-	28,052	29,351
Due from other banks	0.07	48,896	-	-	-	-	48,896
Loans and advances, net	6.04	986,946	116,187	197,076	696,171	-	1,996,380
Investment securities	0.40	274,821	-	6,875	-	-	281,696
Property and equipment	-	-	-	-	-	26,481	26,481
Deferred tax asset	-	-	-	-	-	1,491	1,491
Other assets	-	361	-	-	-	29,901	30,262
Total assets		1,312,323	116,187	203,951	696,171	85,925	2,414,557
Liabilities and equity							
Due to other banks	0.40	193,068	-	-	-	-	193,068
Customers' deposits	2.19	489,842	719,665	261,449	-	266,475	1,737,431
Taxation	-	-	-	-	-	9,595	9,595
Other liabilities	1.85	615	3,112	-	-	54,600	58,327
Subordinated liabilities	5.53	-	-	-	103,896	-	103,896
Shareholders' funds	-	-	-	-	-	312,240	312,240
Total liabilities and equity		683,525	722,777	261,449	103,896	642,910	2,414,557
Total interest rate sensitivity gap		628,798	(606,590)	(57,498)	592,275	(556,985)	-
Cumulative interest rate sensitivity gap		628,798	22,208	(35,290)	556,985	-	-

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

31 FINANCIAL RISK MANAGEMENT (continued)

31.3 MARKET RISK (continued)

31.3.2 Exposure to interest rate risk – non trading portfolios (continued)

Basel-II Accord has recommended for assessing the impact of interest rate risk by applying upto 200 bps interest rate sensitivity and accordingly the impact of upto 200 bps interest rate shock on Bank's earnings and capital is provided below:

2011 US$'000	**2012 US$'000**		**2012 RO'000**	2011 RO'000
65,584	**83,322**	**Net interest income**	**32,079**	25,250
1,426	**1,865**	**Impact of +50 bps interest rate shock**	**718**	549
2,852	**3,727**	**Impact of +100 bps interest rate shock**	**1,435**	1,098
5,701	**7,455**	**Impact of +200 bps interest rate shock**	**2,870**	2,195

31.3.3 Exposure to other market risks

Investment value risk is the risk of reduction in the market value of the Bank's portfolio as a result of diminishment in the market value of individual investment. The responsibility for management of investment value risk rests with the Investment division under the supervision and guidance of the Credit Investment Committee and Executive Risk Committee of the Bank. The Bank's investments are governed by an investment policy approved by the Board of Directors. The rating and price of the instruments are monitored on a regular basis and necessary actions are taken to reduce exposure if needed. The portfolio of investments is revalued at market price to ensure that unrealised losses, if any, on account of reduction in the market value of the investments remains within the acceptable parameters.

Exposure and sensitivity analysis

The Bank analyses price sensitivity of the equity portfolio as follows:

a) For the local quoted equity portfolio, based on the beta factor of the portfolio performance to the MSM30 Index performance.

b) For the international quoted equity portfolio, based on the individual security market price movement.

The Bank's market risk is affected mainly by changes to the actual market price of financial assets. Actual performance of the Bank's local equity portfolio has a correlation to the performance of MSM30 Index. The table below shows the changes in fair value +/- 5% in the MSM 30 Index

2011 US$'000	**2012 US$'000**	**Security as per country**	**2012 RO'000**	2011 RO'000
247	**538**	**MSM - Oman +5% impact**	**207**	95
(247)	**(538)**	**MSM - Oman -5% impact**	**(207)**	(95)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

31 FINANCIAL RISK MANAGEMENT (continued)

31.3 MARKET RISK (continued)

31.3.3 Exposure to other market risks (continued)

Currency risk

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 the overall open position and for open position for each currency. The open position limits include overnight open position and intraday open position. Open positions are monitored on a daily basis and hedging strategies are used to ensure that positions are maintained within established limits. The Bank had the following net exposures denominated in foreign currencies:

	2012			2011		
	Assets RO'000	**Liabilities RO'000**	**Net assets RO'000**	Assets RO'000	Liabilities RO'000	Net assets RO'000
US Dollar	**309,122**	**308,868**	**254**	280,123	279,771	352
Euro	**1,656**	**1,649**	**7**	422	406	16
UAE Dirham	**49**	**44**	**5**	658	655	3
GBP Sterling	**47**	**45**	**2**	9,819	9,815	4
Others	**364**	**350**	**14**	19	12	7

	2012			2011		
	Assets US$'000	**Liabilities US$'000**	**Net Assets US$'000**	Assets US$'000	Liabilities US$'000	Net Assets US$'000
US Dollar	**802,914**	**802,255**	**659**	727,592	726,678	914
Euro	**4,301**	**4,283**	**18**	1,096	1,055	41
UAE Dirham	**127**	**114**	**13**	1,709	1,701	8
GBP Sterling	**122**	**117**	**5**	25,504	25,494	10
Others	**945**	**909**	**36**	49	31	18

The Bank takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board sets limits on the level of exposure by currency and in aggregate for both overnight and intra-day positions, which are monitored daily.

Changes in the non parity foreign currency prices as at 31 December 2012 on net assets is considered negligible.

31.3.4 Prepayment risk

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

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 variable held constant, is as follow:

2011	**2012**		**2012**	2011
US$'000	**US$'000**		**RO'000**	RO'000
(12,057)	**(14,094)**	**Effect on interest income**	**(5,426)**	(4,642)
(10,610)	**(12,403)**	**Effect on equity**	**(4,775)**	(4,085)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

31 FINANCIAL RISK MANAGEMENT (continued)

31.4 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 arises due to variety of causes associated with the Bank's processes, personnel, technology and infrastructure and from external events and to include risks other than credit, market and liquidity risks.

The Bank's objective is to manage operational risk to avoid/reduce financial losses to the Bank by establishing necessary controls, systems and procedures. The Bank recognises that over controlled environment will affect the Bank's business and earnings, besides adding to costs. Therefore, the Bank aims at effective management of operational risk through control optimisation and well established systems, methods and governance framework.

The primary responsibility for development and implementation of controls to address operational risk is assigned to senior management within each business unit. This responsibility is supported by the development of overall Bank standards in the following areas for management of operational risk:

- Clear reporting lines
- Proper delegation of powers
- Appropriate segregation of duties and authorisation of transactions through a maker checker system and authorisation matrix
- Ownership reconciliation and monitoring of accounts
- Documentation of controls and processes
- Compliance with regulatory and other legal requirements
- Periodic assessment of the operational risks faced and evaluating the adequacy of controls and procedures to address the risks identified
- Reporting of operational losses and incidents triggering operational losses and remedial action
- Development of contingency plans
- Training, skill up gradation and professional development
- Ethical and business standards
- Risk mitigation through insurance, wherever desirable

Compliance with Bank standards is supported by a programme of periodic reviews undertaken by Internal Audit. The results of Internal Audit reviews are discussed with the management of the business unit to which they relate, with summaries submitted to the Audit Committee and senior management of the Bank. The Bank has a comprehensive Operational Risk Management Framework by which the Bank has put in place Operational Risk Management Policy, Operational Risk Self Assessment (ORSA) Policy, Operational Risk Loss Event Reporting Framework, Maintenance of Operational Risk Loss Data Base.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

31 FINANCIAL RISK MANAGEMENT (continued)

31.5 CAPITAL MANAGEMENT

The primary objectives of the Bank's capital management are to ensure that the Bank complies with externally imposed capital requirements and that the Bank maintains strong credit ratings and healthy capital 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 are 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:

2011 US$'000	**2012 US$'000**		**2012 RO'000**	2011 RO'000
293,460	**399,605**	Tier 1	**153,848**	112,982
113,236	**100,050**	Tier 2	**38,519**	43,596
406,696	**499,655**	**Total regulatory capital**	**192,367**	156,578
		Risk-weighted assets		
2,245,992	**2,794,625**	Credit risk	**1,075,931**	864,707
21,073	**85,156**	Market risk	**32,785**	8,113
62,779	**86,289**	Operational risk	**33,221**	24,170
2,329,844	**2,966,070**	**Total risk-weighted assets**	**1,141,937**	896,990
		Capital adequacy ratio		
17.46%	**16.85%**	Total regulatory capital expressed as a percentage of total risk-weighted assets	**16.85%**	17.46%
12.60%	**13.47%**	Total Tier I capital expressed as a percentage of total risk-weighted assets	**13.47%**	12.60%

32 SEGMENT INFORMATION

Segment information is presented in respect of the Bank's operating segments. For management purposes, the Bank is organised into two operating segments based on products and services as follows:

- Retail banking includes customers' deposits, consumer loans, overdrafts, credit card and fund transfer facilities.
- Corporate banking, treasury and investments include deposits including current accounts, term deposit etc. for corporate and institutional customers, Treasury, Trade Finance and Investment Banking Services.

The Management Committee monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on the profit after tax.

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

32 SEGMENT INFORMATION (continued)

Segment information is as follows:

	2012			2011		
	Retail banking RO'000	**Corporate banking, Treasury and Investments RO'000**	**Total RO'000**	Retail banking RO'000	Corporate banking, Treasury and Investments RO'000	Total RO'000
Net interest income	**16,929**	**15,150**	**32,079**	12,115	13,135	25,250
Other operating income	**6,179**	**3,786**	**9,965**	6,641	3,150	9,791
Net operating income	**23,108**	**18,936**	**42,044**	18,756	16,285	35,041
Loan impairment, net of recoveries	**(3,103)**	**(955)**	**(4,058)**	(2,522)	(1,186)	(3,708)
Operating expenses	**(8,504)**	**(4,688)**	**(13,192)**	(6,815)	(3,797)	(10,612)
Profit before taxation	**11,501**	**13,293**	**24,794**	9,419	11,302	20,721
Tax expense	**(1,415)**	**(1,636)**	**(3,051)**	(1,158)	(1,339)	(2,497)
Segment profit for the year	**10,086**	**11,657**	**21,743**	8,261	9,963	18,224
Segment assets	**429,782**	**669,448**	**1,099,230**	361,583	568,021	929,604
Segment liabilities	**103,567**	**828,149**	**931,716**	104,746	704,646	809,392

	2012			2011		
	Retail banking US$'000	**Corporate banking, Treasury and Investments US$'000**	**Total US$'000**	Retail banking US$'000	Corporate banking, Treasury and Investments US$'000	Total US$'000
Net interest income	**43,971**	**39,351**	**83,322**	31,468	34,116	65,584
Other operating income	**16,049**	**9,834**	**25,883**	17,249	8,183	25,432
Net operating income	**60,020**	**49,185**	**109,205**	48,717	42,299	91,016
Loan impairment, net of recoveries	**(8,057)**	**(2,483)**	**(10,540)**	(6,551)	(3,079)	(9,630)
Operating expenses	**(22,088)**	**(12,177)**	**(34,265)**	(17,701)	(9,863)	(27,564)
Profit before taxation	**29,875**	**34,525**	**64,400**	24,465	29,357	53,822
Tax expense	**(3,675)**	**(4,250)**	**(7,925)**	(3,008)	(3,478)	(6,486)
Segment profit for the year	**26,200**	**30,275**	**56,475**	21,457	25,879	47,336
Segment assets	**1,116,317**	**1,738,827**	**2,855,144**	939,177	1,475,380	2,414,557
Segment liabilities	**269,005**	**2,151,037**	**2,420,042**	272,068	1,830,249	2,102,317

33 COMPARATIVE FIGURES

Certain corresponding figures for 2011 have been reclassified in order to conform to the presentation for the current year. Such reclassifications do not affect previously reported net profits or shareholders' equity.

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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, Credit Agricole Indosuez, India
- Former COO, Dresdner Bank Group, India
- Executive Assistant to Group CEO, Dresdner Bank Group, Asia-Pacific Region, Singapore

CB Ganesh: DCEO- Commercial Banking, Investment 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.
- 15 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.

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