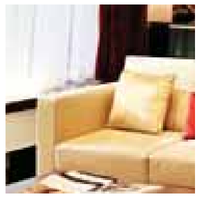
البنك الوطني العماني
National Bank of Oman

Annual Report
2009



For You.
For Our Nation

"We meet once again, with God's grace and guidance, in this annual gathering where we review with you various aspects of our blessed renaissance which has continued to go steadily ahead towards its goals of comprehensive development in every field. From the moment of its dawning, it has taken determined steps to open the doors to development and progress in the different spheres of modern life while creating equal opportunities for all the citizens of this country without exception, thereby enabling them to achieve their aspirations and ambitions and see their hopes translated into realities. This has been clearly demonstrated by the realities of daily life and the achievements of the past, and further confirmed by the wide range of targets the state has set itself for the future, which are designed to serve the citizens, develop their potential and broaden their expertise and skills, while creating greater job opportunities for them so that they can earn a living for themselves and their families and contribute to their community's development.

As we have pointed out on many occasions, a bright future that realises progress, happiness and prosperity, is built only with a high level of determination, sustained commitment and patience, diligence and persistence. We are confident that the sons and daughters of Oman enjoy many of these noble traits. Their past and present performance bears witness to this, and we have no doubt that they are capable of building a happy future, with God's permission"

His Majesty Sultan Qaboos Bin Said, Sultan of Oman

Speech Before The Opening of the Annual Session of The Council of Oman
Monday 28 Dhul Qada, 1430 AH Corresponding to 16th November 2009

His Majesty Sultan Qaboos bin Said

Contents

Chairman's Report 2009

To Our Esteemed Shareholders

Omani Economy

Oman experienced moderate economic growth in 2009 with estimated nominal GDP increasing by 3.7% in contrast to many other international and regional economies which declined sharply. In-line with falling oil prices globally, the energy sector recorded a 37% decline and the non-oil sector posted moderate decline of 2.2% at current prices. The unprecedented volatility in global and regional financial markets has stabilised to an extent during 2009. The tightening of liquidity conditions and falling asset prices have also moderated as 2009 has progressed. Inflation has declined significantly from 12.4% in 2008 to 3.6% in the current year. Oman has been one of the best performing economies in the region through this crisis and the proactive measures taken by the Central Bank of Oman ensured the stability and robustness of the Banking sector.

The budget for 2010 reflects the Government's commitment to the Seventh Five Year Plan and allows for a broad range of activities. The budget focuses on sustainable and broad based economic development which should act as an enabler for financial services in 2010. Fiscal expenditure is forecast to increase by 12% to RO 7.2 billion with the major recipients being; defence, energy, education and healthcare and development projects. Development expenditure is vital in ensuring continued credit flow in the economy and local banking sector. The oil price forecasted at USD 50 per barrel looks achievable in current circumstances. A sustained drop below the budgeted price, although unlikely, could result in strategic reallocation and prioritisation of the current projects.

> The Bank successfully grew its net interest income by 20% to RO 56.8 million from RO 47.5 million in the prior year period

Financial Performance

The Bank achieved a net profit after tax of RO 21.1 million for the twelve months ending 31 December 2009 compared to RO 45.4 million for the same period in 2008. Notwithstanding very testing global market conditions, the Bank's operating income was down only by 7% to RO 81.9 million compared to 2008, the latter reflecting a significant one-off gain on investment sales of RO 6 million. On a like for like basis operating income was broadly flat.

The Bank successfully grew its net interest income by 20% to RO 56.8 million from RO 47.5 million in the prior year period through focused balance sheet management. Net spreads have also improved to 3.24% in 2009 up from 3.08% in 2008 reflecting an improved return from existing assets.

Trade-related activities and investment income were both lower than in the comparative period in 2008 and contributed to the decline in the ratio of non-interest income to total income from 46% to 31% as a result of lower volumes of lending-related fee income and investment-related revenue which was largely attributable to factors associated with the global financial downturn. The cost to income ratio for the period increased to 42% from 38% in December 2009 mainly as a result of the decrease in non interest income and also as a consequence of a significant amount of investment in our business as we substantially increased our distribution footprint and rebranded the Bank. The investment in our distribution network will deliver long-term benefits for the Bank and its customers by bringing the Bank closer to where our customers live and work.

Operating expenses increased by only 3% to RO 34.8 million compared with RO 33.9 million for the comparable period in 2008, despite opening 10 new branches and 29 new ATMs, and rebranding our business.

The Bank's results for the twelve months ended 31 December 2009 have been negatively impacted by factors relating to the global economic crisis. We have taken impairment provisions against our investment portfolio of RO 4.1 million and provisions of RO 8 million against three specific bank exposures. Whilst the debt restructuring process for these banks is not yet complete, the Bank has, on a prudent and conservative basis, now provided 100% against two of the three banks and 75% against the third.

> Savings deposits registered a significant growth of 26%, substantially reducing the Bank's funding costs and improving net interest margins.

Since the date of the publication of the draft-audited Financial Statements on 26 January 2010, we have agreed after recommendation from the Central Bank of Oman, to recognise, on a prudent basis, an additional provision of RO 5 million against two specific exposures.

During the twelve months ending 31 December 2009 , total net advances declined by RO 40 million in-line with the Bank's approach to lend selectively and prudently and deposits declined by RO 81 million as a result of releasing certain high-cost deposits no longer required to fund asset growth. However, savings deposits registered a significant growth of 26% when compared with year-end 2008 which has helped to reduce the Bank's funding costs substantially and improve net interest margins.

The Board has recommended a cash dividend of RO 0. 012 per share this year based on the dividend policy approved by the Board of Directors. The dividend payout of the Bank during the last five years is covered under the Corporate Governance report.

Capital

The regulatory capital of the Bank now stands at RO 278 million, returning a healthy BIS capital adequacy ratio of 16.6%. During the year the Bank raised RO 11.5 million through a subordinated private placement to strengthen the Tier II capital.

Corporate Governance

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

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

> NBO received an award for the second year running by the Institute of Corporate Governance (Hawkamah) and the Union of Arab Banks (UAB).

During the Annual General Meeting, the Board of Directors is recommending for shareholders' approval the re-appointment of Ernst and Young as the Statutory Auditors for the year 2010, in-line with the directives of the Capital Market Authority. Changes to the composition of Board and changes in Senior Management during 2009 have been fully covered in the Corporate Governance report.

Corporate Social Responsibility

NBO incorporated CSR activities with the aim of integrating closely into the core business. Numerous partnerships were launched to further increase the loyalty to the Bank's stakeholders. The new logo launched in 2009 reflects the Bank's national identity. More than just a change in identity, it signifies a new commitment and a new promise to our customers and community that is summed up in the new positioning statement: "For You. For our Nation".

Employees identify very closely with the brand as well as with NBO's corporate social responsibility activities.

NBO's strategy focuses on building long-term relationships with our stakeholders in order to deliver the very best products and services to our Nation. We believe that corporate responsibility, built around the creation of employee satisfaction, customer excellence and brand loyalty, has a key role to sustain our social and business strategy.

NBO's approach to corporate responsibility management over recent years has helped us achieve competitive advantage. The sum total of our actions demonstrates our long-standing values and tells the story of NBO to our Nation. Our story is evolving as we work together with our stakeholders. And our core skills direct us to a systems approach to CSR that challenges us to constantly seek out ways to channel our resources for greater impact.

> Bank's new logo reflects national identity and signifies a new commitment that is summed up in the new positioning statement: "For You. For our Nation".

The Bank is an active supporter of a series of innovative causes with emphasis on Civic, Health and Human Services, Arts, Sports and Culture, and Education. Through the Board Donation Committee, RO 100,000 was distributed to local charities throughout the Sultanate in 2009. In 2007 and 2008, NBO received the Corporate Social Responsibility Award in Oman by World Finance Magazine, UK.

The Year Ahead

2010 will continue to pose challenges in global, regional and local markets. It is possible that the global economy has avoided a prolonged recession but recovery is likely to remain weak and prone to further sharp corrections. However, given the significant progress that has been made globally to avoid a prolonged recession, we remain cautiously optimistic about prospects for 2010.

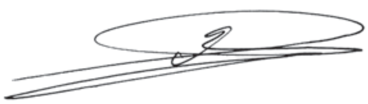
The Bank will continue to focus on leveraging its investment in its consumer banking business with a strong emphasis on its key domestic franchise. We will also seek to actively support domestic project financing by targeting quality assets. A number of projects continue to be undertaken in conjunction with its strategic partner, Commercialbank with the aim of driving efficiencies by sharing global best practices wherever possible.

Appreciation

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

We thank their Excellencies, the Ministers and their officials for their continued support and encouragement. In particular, we express our appreciation to the Ministry of Finance, the Central Bank of Oman and the Capital Market Authority for their prudent supervision and guidance for our endeavours.

We thank the Bank's management and staff for their dedication and commitment. Above all we pay tribute to His Majesty, Sultan Qaboos Bin Said, for his inspiring leadership and vision under whose wise guidance all of us in Oman will assuredly remain on the path towards continued successful development.



Omar Hussain Al Fardan
Chairman

"For You. For Our Nation"

Board of Directors

Left row from front:

Hugh Edward Thompson, Saif Said Salim Al Yazidi, Saleh Nasser Abood Al Habsi, Anil Kumar Nahar, Sheikh Ahmed Suhail Bahwan

Centre:

Omar Hussain Al Fardan

Right row from front:

Andrew Charles Stevens, Imad Kamal Sultan, Dr. Younis Khalfan Al Akhzami, Sheikh Abdullah Bin Ali Bin Jabor Al Thani, Sayyidah Rawan Al Said

Omar Hussain Al Fardan, Chairman

Chairman of the Board of Directors, National Bank of Oman and Chairman of the Executive Committee of the Board.

Board Member of the Commercial Bank of Qatar Q.S.C, Vice Chairman of United Arab Bank, Sharjah and Director of United Development Company P.S.C. Qatar.

He is also the Chairman of Qatar District Cooling Co. Q.C.S.C., Qatar; Vice Chairman of Middle East Dredging Co. Q.S.C, Qatar, President and Director of Al Fardan Group Holding Co. L.L.C. Qatar, and its subsidiaries; Director of Qatar Red Crescent Society and Trustee of the American University Beirut.

Sheikh Abdullah Bin Ali Bin Jabor Al Thani, Director

Director since July 2005. Member of the Risk and Donation Committees of the Board.

Deputy Chairman of The Commercial Bank of Qatar Q.S.C. and Director of United Arab Bank, Sharjah.

Hugh Edward Thompson, Director

Director since July 2005. Member of the Audit, Risk and Credit Committees of the Board.

EGM and Group Chief Legal and Corporate Affairs Officer, The Commercial Bank of Qatar Q.S.C., Director of United Arab Bank, Sharjah, Orient 1 Limited and CBQ Finance Limited and Deputy Chairman of Diners Club Services, Egypt.

Sayyidah Rawan Al Said, Director

Director since April 2005. Chairperson of the Audit Committee and member of the Executive Committee of the Board and the Credit Committee of the Board.

Board Member in Oman Oil Marketing Co. S.A.O.G. and National Investment Funds Company (NIFCO) S.O.A.C.

Group CEO of Oman National Investment Corporation Holding (ONICH) S.A.O.G.

Sayyidah Rawan has a Masters Degree in Economics and Finance and a Post Graduate Diploma in Investment Analysis.

Andrew Charles Stevens, Director

Director since July 2005. Member of the Executive and Credit Committees of the Board.

Group Chief Executive Officer, The Commercial Bank of Qatar Q.S.C., Director, United Arab Bank, Sharjah and Chairman of Orient 1 Limited.

Dr. Younis Khalfan Al Akhzami, Director

Director since April 2006. Member of the Executive Committee, Premises Committee and Audit Committee of the Board.

Director General, Planning and Development in the Ministry of Manpower.

Sheikh Ahmed Suhail Bahwan, Deputy Chairman

Sheikh Ahmed Suhail Bahwan is the Deputy Chairman of the Board of Directors, and the Chairman of the Board Donation Committee and Member of Executive Committee of the Board. He is Member of the Board of Directors of Ports Services Corporation S.A.O.G. and Bahwan Lamnalco S.O.A.C. Further, he is the Managing Director of Suhail Bahwan Group (Holding) L.L.C. and Chairman of Suhail Bahwan Automotive Group.

Sheikh Ahmed Suhail Bahwan is a graduate with a degree in Business Management from University of Evansville, Florida, USA.

Imad Kamal Sultan, Director

Director since June 2004. Chairman of the Credit Committee, Member of the Risk Committee and Premises Committee of the Board.

Director of W.J. Towell & CO. L.L.C., Matrah Cold Stores L.L.C., Towell Auto Centre L.L.C., Nestle Oman Trading L.L.C., Agility Logistics (Global Logistics) L.L.C., GENETCO, Director - Oman India Joint Committee.

Saleh Nasser Abood Al Habsi, Director

Director since March 2008. Chairman of Risk Committee. Member of the Credit Committee and Premises Committee of the Board.

Chairman of Muscat Fund JIA, Deputy Chairman of Al Jazeera Steel Products S.A.O.G.

Director of Al Omaniya Financial Services S.A.O.G.

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

Saif Said Salim Al Yazidi, Director

Director since March 2008. Member of the Audit Committee, Risk Committee and Donation Committee of the Board.

Member of the Board of Oman International Development and Investment Company, Muscat Gases Company, Oman National Engineering and Investment Company, Oryx Investment Fund, and Market Stabilisation Fund.

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

Anil Kumar Nahar, Director

Director since November 2003. Member of the Credit Committee, Audit Committee and the Premises Committee of the Board.

Director of AES Barka S.A.O.G., Oman Dental College S.A.O.G. and Sharqiyah Desalination Co. S.A.O.C. Financial Advisor, Bahwan Engineering Company, which is part of the Suhail Bahwan Group (Holding) L.L.C.

Management Team

Murray Sims
Chief Executive Officer

Taqi Ali Sultan*
Chief Corporate Affairs
and Communications Officer

Khalfan Al Aufi*
Chief Operating Officer

Humayun Kabir*
Chief Business Banking Officer

Simon Gibbons*
Chief Financial Officer

David Power*
Chief Retail Banking Officer

Nasser Said Al Bahantah**
Chief Human Resources Officer

Nasser Salim Al Rashdi**
Chief Risk Officer

* General Managers
** Deputy General Managers

Deputy General Managers:

Sayyid Wasfi Jamshid Al Said	Head of Investment Banking
Dev Sarker	Chief Internal Audit
Baqar Taqi Al Lawati	Head of Financial Institutions
Mansoor Darwish Al Raisi	Head of Compliance

Assistant General Managers:

Nasser Masoud Al Jahadhmi	Head of Retail Collections and Recoveries
Hassan Abdul Amir Shaban	Head of Wealth Management
Asif Redha Sabar Hussein	Head of Distribution, Sales and Business Development
Abdul Karim Zahir Al Hinai	Head of Information Technology
Dost Mohammad Al Balushi	Head of Operational Services
Thiagarajan Nachiappan	Head of Corporate Banking, IT and Operations Audit
Manjit Wadhwa	Head of Treasury

Senior Executives:

Mustafa Ali Al Hemeid	Head of Legal
Fadelallah Sulaiman Hamed	Company Secretary
Jamal Salim Al Waily	Country Manager - Egypt
Santanu Kumar Das	Country Manager - UAE

Achievements

1. Regional Corporate Governance Award
2. Rebranding
3. First Omani appointed as Head of Information Technology
4. Mandate for Oman Refineries & Petrochemicals Co. L.L.C.'s Working Capital Facility
5. Branches - Expansion with New Look
6. NBO Al Kanz 2009
7. NBO Platinum VISA Credit Card
8. NBO "Sadara" Wealth Management Services
9. NBO Website
10. Investment Stabilisation Fund (ISF)
11. NBO Call Centre Services

Regional Corporate Governance Award

National Bank of Oman was awarded for its Distinguished Corporate Governance Practices for the second consecutive year in the 'Regional 2009 Bank Corporate Governance Award' competition, organised in Dubai by the Institute of Corporate Governance (Hawkamah) and the Union of Arab Banks (UAB) in November 2009.

This competition included applications from banks in eleven Middle East countries including UAE, Bahrain, Iraq, Kuwait, Lebanon, Oman, Morocco, Qatar, Sudan, Syria and Tunisia.

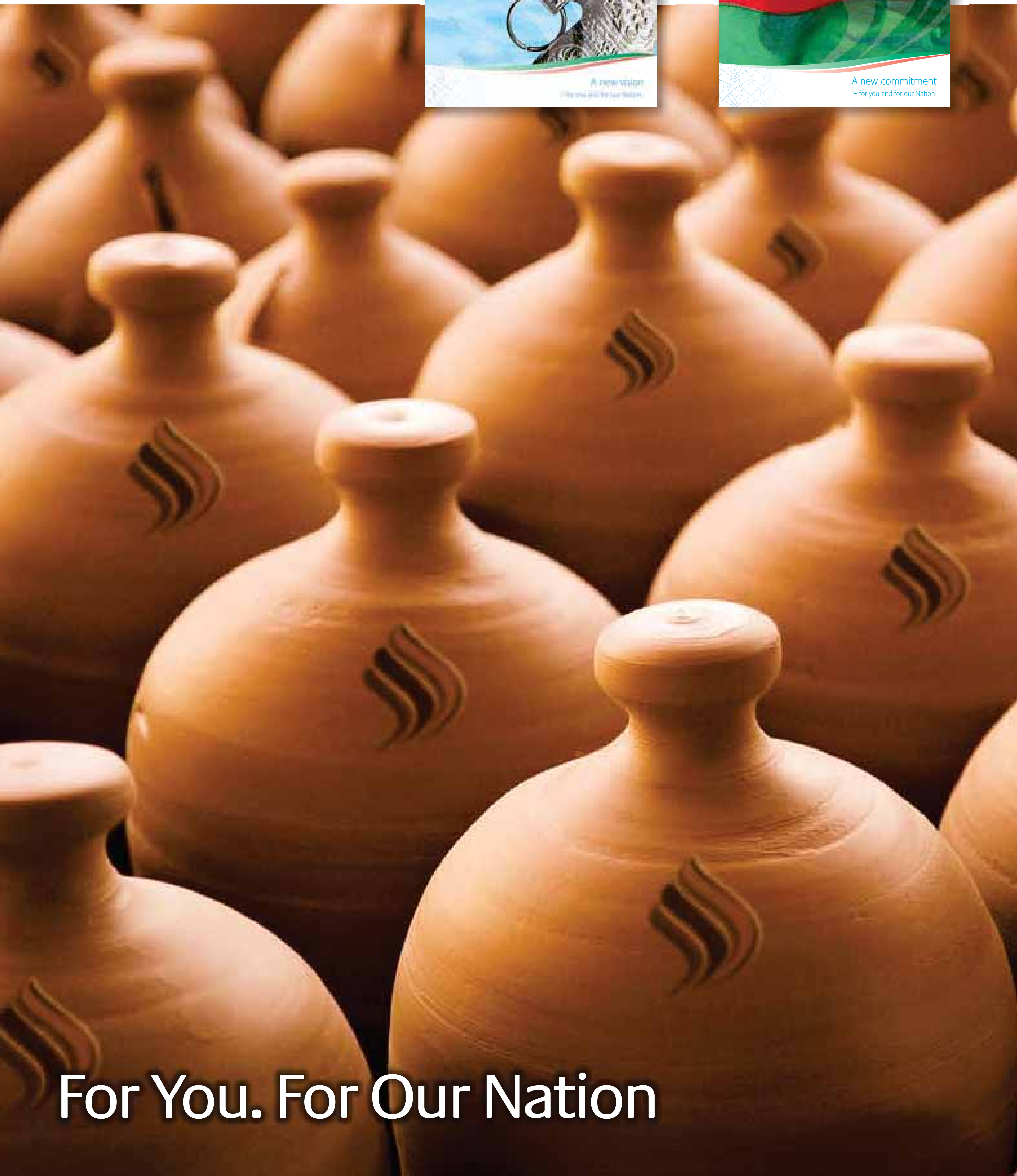
The criteria for the Award included commitment to good corporate governance; structure and functioning of the Board of Directors; control environment and processes; transparency and disclosure; and treatment of minority shareholders.

Launched in 2007 by Hawkamah and UAB, the "Regional Bank Corporate Governance Award" seeks to identify and honour regional banks that show leadership and initiative in enhancing good corporate governance. Sponsored by MasterCard Worldwide, the Award has become a prestigious, competitive and highly-coveted bank award that highlights the industry's strong commitment to good corporate governance.

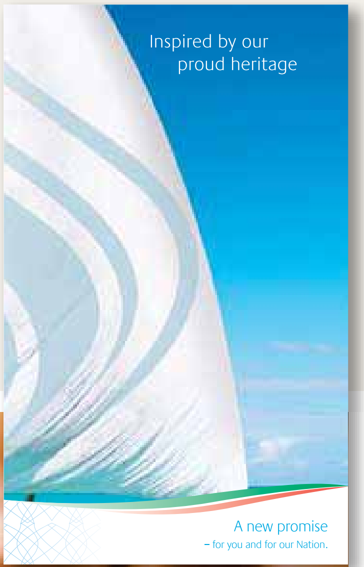
The award was a confirmation of the Bank's governance practices which are in constant evolution and policies and structures regularly updated to meet Shareholder requirements and current trends.

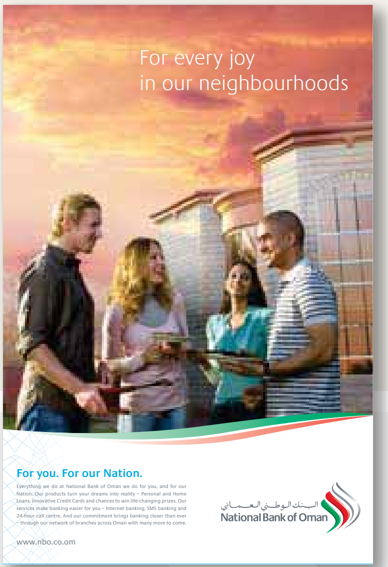
NBO's Board of Directors and Executive Management are committed to a long-term strategy that focuses on continuous improvement at all levels, showing great commitment to creating lasting value for the Bank's local, regional and international Stakeholders. This highly acclaimed award in corporate governance validates the efforts exerted by all employees of the Bank.

البـنـك الـوطـني الـعـمـاني
National Bank of Oman



For You. For Our Nation





Rebranding

NBO's new brand was successfully launched on 21st March 2009. This historic and momentous achievement in the life of National Bank of Oman was managed meticulously by the talented in-house team and saw the transformation from the old logo to the new logo, across the Sultanate.

Over 60 branches and 120 ATMs displayed the new identity on the morning of the 22nd March 2009 as well as the brand change on all formal stationery, from letterheads to account opening forms – indeed a major feat!

The rebranding establishes the platform for the Bank's future development plans and is closely aligned with Oman's traditional values and aspirational vision for the future. At the heart of the new identity is National Bank of Oman's new logo. Inspired by the National flag of Oman, the new logo incorporates the trilogy of the country's national colours presented in the shape of the flag as it gently unfurls in the breeze.

Further inspiration is derived from the billowing sails of the trading ships that contributed so much to Oman's rich culture and heritage as well as the free-flowing Islamic decorative and calligraphic styles that adorn Oman's architecture, jewellery and other cultural expressions.

Rendered in an internationally contemporary design, the 'new logo' reflects the youth, vitality and forward-looking optimism of the Omani people.

Also inherent in the new identity are a set of core values that underpin the brand, guide and inspire staff to deliver and enhance customer experience. The Bank's values are:

- the **vision** to take Oman forward by enriching the lives of its residents
- the **dynamism** to constantly set new benchmarks by anticipating the needs of the market
- the **success** that comes from pushing the boundaries and achieving more
- Our unwavering **patriotism** to have the best interests of Oman and its people at heart

More than just a change in identity, the Bank's new brand signifies a new commitment and a new promise to customers that is summed up in the Bank's new positioning statement: "For You. For Our Nation"

First Omani appointed as Head of Information Technology

As part of the Bank's efforts to empower Omani staff, the Bank announced the promotion of Mr Abdul Karim Zahran Zahir Al Hinai to Assistant General Manager – Information Technology, in May 2009.

Mr Abdul Karim Al Hinai joined the Bank on 29th April 1999 and prior to his promotion, his last assignment within NBO was the Head of Information Planning and Business Intelligence. He holds a Bachelor's degree in Computer Science from the University of St Louis, MO, USA and possesses over 20 years of Information Technology Resources Management experience, having worked in several Information Technology positions with National Bank of Oman and Petroleum Development Oman (1989-1999).

His promotion demonstrated the Bank's continuing commitment to develop its people, give them more responsibility and recognise their performance. The Bank's strategy is to attract the best talent, train them, retain them and reward them for their contributions with the ultimate intent of making NBO the 'best place to work in'.

Mandate for Oman Refineries & Petrochemicals Co. L.L.C.'s Working Capital Facility

National Bank of Oman for the third consecutive year Lead Managed and Arranged a US$ 475 million one-year dual-currency syndicated working capital facility (the "Facility") for Oman Refineries & Petrochemicals Co. L.L.C. (ORPC) in June 2009. This was a prestigious transaction for one the country's most important projects in the petrochemical sector. Apart from being one of the largest lenders in the group, the Bank displayed considerable leadership and technical expertise required in lead managing and arranging such a large transaction within a tight time frame and under difficult market conditions.

Since 2007, the facility amount has been increasing every year and is a testimony to NBO's superior technical skills. The expertise has enabled the Bank to put together and successfully arrange the amounts required by ORPC and further cemented our strong relationship with the company.

Another highlight of the transaction was the effective and successful negotiation of the nuances of the deal with a group of five domestic and two regional banks.

The technical skills and experience displayed by NBO in the ORPC facility will be leveraged in the coming years to manage further transactions of this nature. In quick succession to this transaction, the Bank was successful in getting another Agency role for a large US$ Term Loan transaction for a large local project of national importance.

Branches - Expansion with New Look

To complement the new brand, the Bank, under the direction of the Board of Directors, witnessed an aggressive branch expansion and refurbishment of existing branches. NBO's CBD Branch was the first branch to be launched as the new model branch in the new contemporary layout and colours in October 2009.

In 2009, the Bank, grew its branch and ATM Network, and opened more branches and ATM's than any other bank in Oman. Ten new branches were added to the distribution network taking the total count of branches to 64 while NBO's ATM footprint grew by 38 ATMs including three drive-thru ATM's covering key locations across the Sultanate.

The strategic intent behind rebranding and growing the Bank's network was to provide customers with the Bank's new manifesto backed with a tangible enhanced banking experience. This strive has resulted in a warm branch décor and ambience, distinctive in Oman, and one which differentiates National Bank of Oman from others. The very latest banking technology, user-friendly functionality and bright, contemporary interiors offer exceptional customer comfort and convenience.

The concept of the new branches revolves around the idea of a traditional Majlis, typically a place where people meet and discuss the topics of the day and invariably where business is transacted. This format is a significant break from the norm and whilst this goes against the stereotypical idea of a branch with bank staff separated by a counter from the customers, the use of the traditional Majlis idea has been brought up to date with modern materials and clean lines but with a nod to tradition with local colour and warmth.

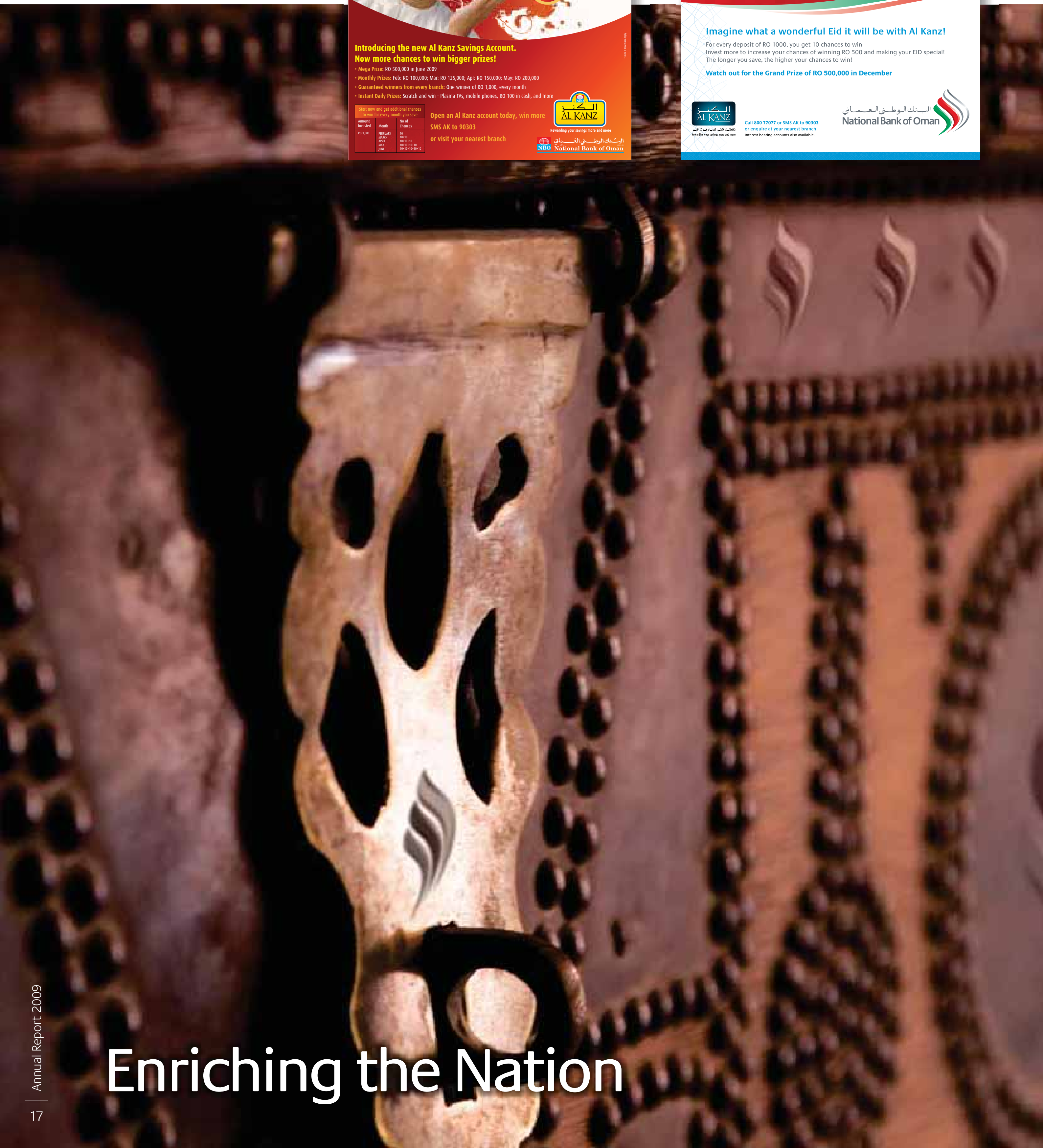
Whilst the concept of the Majlis has been the major design catalyst, other elements have also been introduced to make life easier for the customers. Air-conditioned lobbies house ATM and Cash and Cheque Deposit Machines, where a range of services are provided 24 hours, to facilitate the needs of customers. Inside the branches, services are arranged around the Majlis. The teller counters remain for the safety and security of customers and staff alike.

Further, to improve efficiency and service quality, automated queuing systems have also been installed for the convenience of customers.

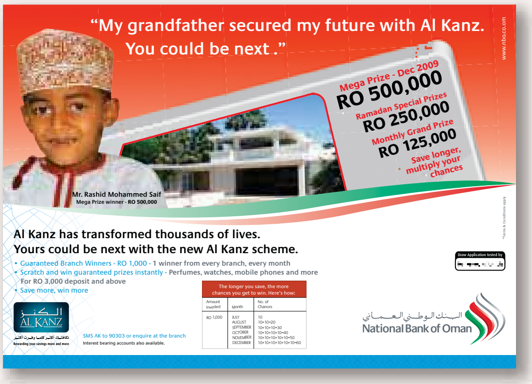
Along with new branches, the Bank also refurbished its existing network. By the close of 2010, the Banks' entire network will offer the same quality of customer service from within a freshly updated branch.

الـكـنـز
AL KANZ

تكافئـك أكثــر كلما وفــرت أكثــر
Rewarding your savings more and more



Enriching the Nation



NBO Al Kanz 2009

National Bank of Oman announced Oman's most powerful and exciting deposit savings scheme with the launch of its new Al Kanz savings account in February 2009.

For the first time in the Banking history of Oman, a new deposit savings account offered customers a chance to win a Mega Prize of RO 500,000 in June 2009-the biggest ever prize draw in the country. In addition to the June Mega Prize, the scheme also had the best monthly prizes in the market. Al Kanz 2009 was designed to stimulate savings habit amongst the larger populace of Oman. It was the **first time ever that a bank in Oman was offering such a rewarding savings product for the residents of Oman**.

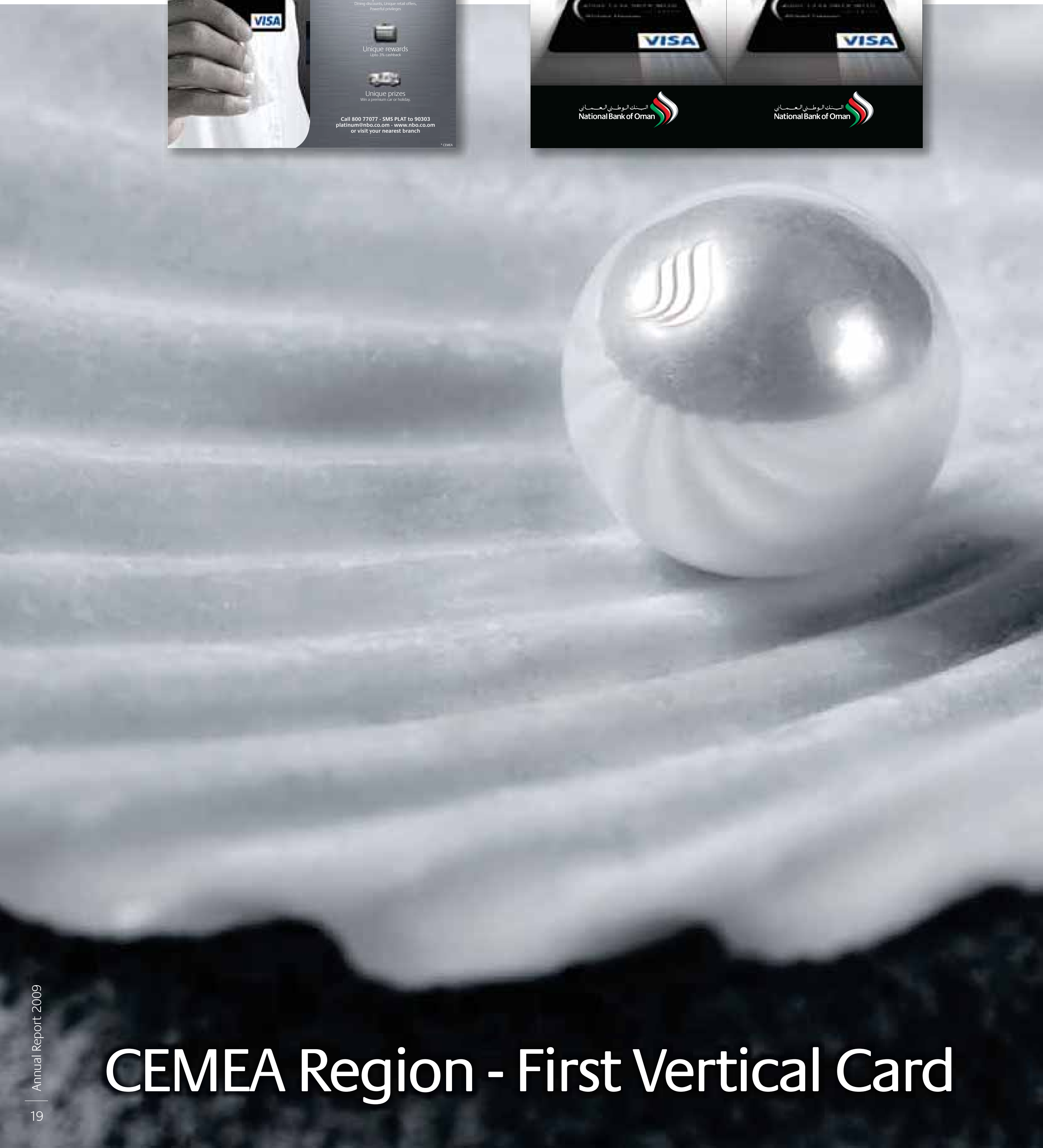
The most unique feature of the Al Kanz 2009 scheme was its first ever loyalty program for any deposit scheme ever offered by any bank in Oman. Under this program, the customer's chances of winning go up for every month they stay in Al Kanz. The Scheme was valid until end of June 2009. The first Mega Prize Winner was announced in the first week of July 2009. The scheme attracted investors from across different socio-economic segments, and it was heartening to note that the scheme particularly benefited account holders from the lower income group.

The overwhelming success of NBO's Al Kanz 2009 scheme created a sensation in the Sultanate of Oman and the response was way beyond expectations. NBO customers were enthused beyond belief, and went all out to increase their savings deposits with Al Kanz.

The overwhelming response in the first half of 2009 encouraged NBO to continue to offer customers opportunities to win big prizes in a very short period. In the second half of 2009 the new NBO Al Kanz deposit savings scheme offered customers, by popular demand, a chance to once again win a Mega Prize of RO 500,000 – the biggest ever prize draw in this country.

NBO's second Al Kanz Mega Draw took place in the month of December 2009. The new scheme offered a total prize money of RO 1.6 million in just 6 months. In addition to the December Mega Prize, the scheme continued to offer the best monthly prizes in the market.

The Al Kanz Scheme 2009 was valid until the end of December 2009. The second Mega Prize Winner was announced in first week of January 2010.



CEMEA Region - First Vertical Card

NBO Platinum VISA Credit Card

The Bank launched its premium credit card, the NBO Platinum credit card, in November 2008. **NBO was the first bank in the Central Europe Middle East and Africa (CEMEA) Region** to launch a vertical platinum credit card with VISA, which is a key and unique differentiator of the card, besides a host of attractive benefits and features that the card offers to discerning customers.

The NBO Platinum credit card is targeted at the high-net-worth customer segment and is the first among a number of new high-end offerings that the Bank looks forward to introduce in the near future.

The Platinum credit card provides access to lounges at Muscat and Dubai airports. In addition, the card is packaged with a wide choice of premium gifts. The many benefits include attractive dining discounts at 50 restaurant, in Muscat and Dubai, travel desk discounts on holiday packages, valet parking at most malls in Dubai and up to 3% cash back on purchases The card's purchasing power is further enhanced with special offers from many of Oman's luxury retail outlets including Swarovski, Khimji Luxury and Lifestyle, ID Design, Damas, and Kaya Skin Clinic.

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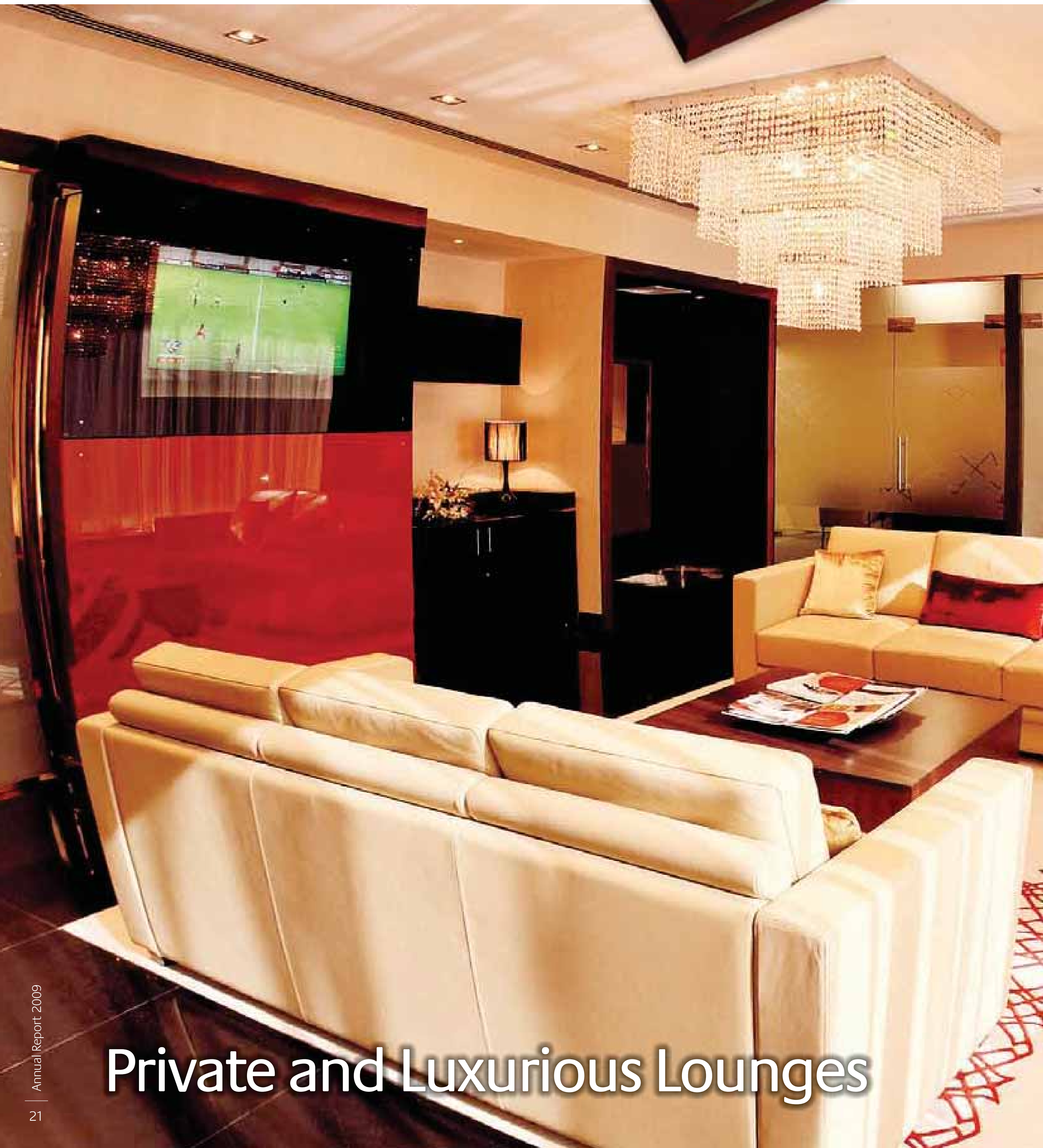
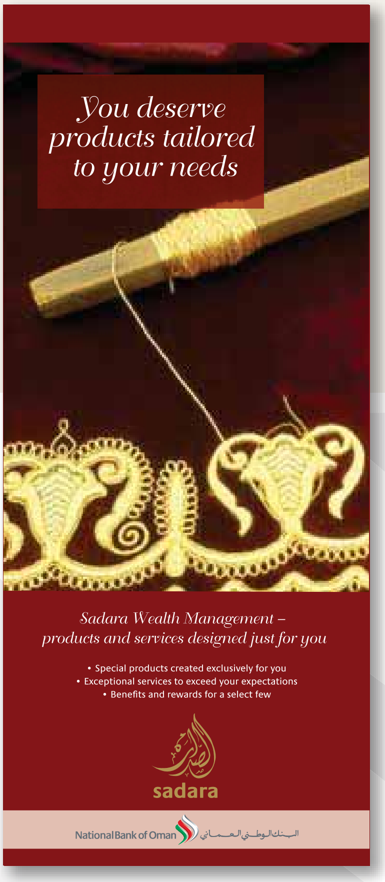
Wealth Management



Private and Luxurious Lounges



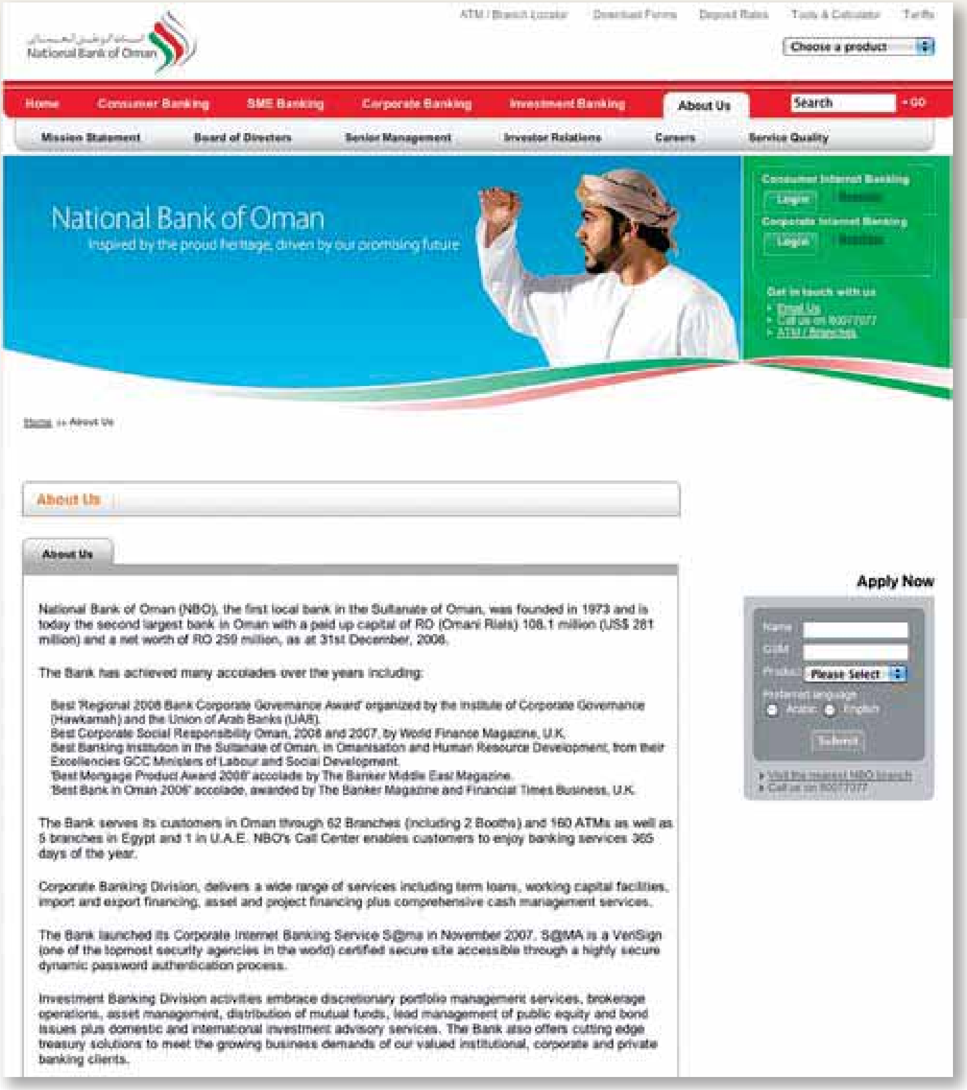
NBO "Sadara" Wealth Management Services

NBO formally launched its **"Sadara" Wealth Management Services**, for high net worth customers, in July 2009.

Sadara Wealth Management Services is an exclusive premium banking service, tailor-made to provide privileged customers, with personalised attention and with a wide range of products to meet all their financial needs.

NBO's Wealth Management Services platform was expanded to include financial planning solutions for valued high net worth clients. Exclusive and state-of-the-art Sadara Wealth Management Centre's have been set up at NBO's CBD, Shatti Al Qurum Mina Al Fahal, Sohar and Salalah Branches.

Sadara Wealth Management offers privileged customers personalised attention with an array of benefits including a dedicated relationship manager, private and luxurious lounges to discuss banking needs promptly and discreetly in all major cities in Oman, express transaction teller services, reserved parking spaces and a host of other privileges.



NBO Website

As part of the Bank's re-branding exercise, the Bank re-launched its website - complete with an altogether new look in keeping with the re-branded personality of the Bank. The new website was designed keeping in mind ease of navigation to the several products and services offered by the Bank.

Increasingly, the retail banking division has begun to utilise the website for its marketing activities. The retail Internet banking facilities are also in the process of being enhanced to provide wider services to encourage Internet banking for routine banking requirements.

Investment Stabilisation Fund (ISF)

Investment Stabilisation Fund (ISF) is the largest open-ended fund in the Sultanate of Oman, which was established in February 2009 by the Government of Oman, represented by Ministry of Commerce and Industry, with other initial subscribers being Pension Funds and Financial Institutions.

The investment objectives of the Fund are to:

- assist with stabilising prices of listed equities on the Muscat Stock Market;
- boost investor confidence and liquidity in the Market;
- focus on and invest in companies in the Market with strong fundamentals; and
- achieve capital growth for unit holders over the long-term by investing in the Market, with the intended focus of the Fund being mainly on MSM 30 index companies.

As of 31st December 2009, the total Net Assets attributable to unit holders of the Fund was RO 127.774 million (Unaudited).

The Fund has appointed National Bank of Oman (NBO) as the Custodian and Administrator since inception. With this prestigious Custody and Administration mandate, NBO has established itself as one of the leading service providers in the Fund Custody & Administration segment in the Sultanate.

NBO Call Centre Services

National Bank of Oman was the first bank in the Sultanate of Oman to set up a full call centre service in 2001. The NBO Call Centre now extends its toll-free call centre availability to 24/7 - 365 days of the year.

Along with the Interactive Voice Response (IVR) system, NBO's dedicated call centre officers are now available round the clock to assist customers in applying for our varied products and services, getting information on their accounts, making payments, transferring funds between accounts and reporting stolen or lost credit cards as well as requesting cheque books.

This adds to the wide array of electronic channels currently available to NBO customers, which includes over 166 ATMs across the Sultanate, Cash and Cheque Deposit Machines (CCDMs), Internet Banking and SMS Banking. This allows customers to transact with the Bank round the clock from any location.

ERNST & YOUNG

P.O. Box 1750, Ruwi 112
Ernst & Young Building
Qurum
Muscat, Sultanate of Oman
Tel: +968 2455 9559 Fax: +968 2456 6043
muscat@om.ey.com
www.ey.com/me
C.R. No. 1/36809/5
P. R. No. MH/4

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

TO THE SHAREHOLDERS OF NATIONAL BANK OF OMAN SAOG

We have performed the procedures prescribed in Capital Market Authority (CMA) circular no 16/2003, dated 29 December 2003 with respect to the accompanying corporate governance report of National Bank of Oman SAOG (the bank) and its application of corporate governance practices in accordance with the CMA Code of Corporate Governance issued under circular no. 11/2002 dated 3 June 2002 and the CMA Rules and Guidelines on disclosure, issued under CMA administrative decision 5, dated 27 June 2007. Our engagement was undertaken in accordance with the International Standard on Related Services applicable to agreed-upon procedures engagements. The procedures were performed solely to assist you in evaluating the extent of the bank's compliance with the code as issued by the CMA.

We report our findings below:

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

Because the above procedures do not constitute either an audit or a review made in accordance with International Standards on Auditing or International standards on Review Engagements, we do not express any assurance on the corporate governance report.

Had we performed additional procedures or had we performed an audit or review of the corporate governance report in accordance with International Standards on Auditing or International Standards on Review Engagements, other matters might have come to our attention that would have been reported to you.

Our report is solely for the purpose set forth in the first paragraph of this report and for your information and is not to be used for any other purpose. This report relates only to the accompanying corporate governance report of National Bank of Oman SAOG to be included in its annual report for the year ended 31 December 2009 and does not extend to any financial statements of National Bank of Oman SAOG, taken as a whole.

Ernst & Young

1 March 2010
Muscat

Corporate Goveranace Report

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

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

> National Bank of Oman has crowned its achievements in 2009 by winning the highly acclaimed award, the "Regional 2009 Bank Corporate Governance Award"

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

In recognition of the best practices and corporate governance measures applied by it, the National Bank of Oman has crowned its achievements in 2009 by winning the highly acclaimed award, the "Regional 2009 Bank Corporate Governance Award" during a competition recently organised by the Institute of Corporate Governance (Hawkama) and the Union of Arab Banks (UAB) in Dubai, UAE.

Board of Directors

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

Appointment of Directors

The Board is comprised of 11 members; 10 of them were elected by the shareholders at the Bank's Annual General Meeting held on 23rd March 2008 for a period of three years. However, a replacement Board member was appointed by the Board in its meeting held on 23rd March 2009 following the resignation of a member. The current term of all the Directors expires in March 2011.

Process of nomination of the Directors

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

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

Characteristics and core competency of the Board

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

Information given to the Board

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

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

Composition of the Board

No Director is a member of the Board of more than four public joint stock companies or banks whose principal place of business is in the Sultanate of Oman, or is a Chairman of more than two such companies. The following tables show the position of each of the current Board members in-line with the Code's requirements:

Table - 1

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

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

Table - 2

Name of the Directors	Other Board Committees Membership*	No. of other S.A.O.G Boards	No. of Board Meetings attended	Attended last AGM on 23rd MARCH 2009 (Yes/No/NA)
Mr. Omar Hussain Al Fardan Chairman	EXCOB	Nil	5	Yes
Sheikh Ahmed Suhail Salim Bahwan Deputy Chairman (appointed on 23 March 2009)	EXCOB, BRC, DCB	1	3	NA
Sayyidah Rawan Ahmed Al Said	EXCOB, BAC, CCB	1	5	Yes
Mr. Anil Kumar Nahar	CCB, BAC, PCB	1	5	Yes
Mr. Imad Kamal Sultan	CCB, BRC, PCB	1	3	No
Sheikh Abdullah Ali Al Thani	BRC, DCB	Nil	3	Yes
Mr. Andrew Charles Stevens	EXCOB, CCB, PCB	Nil	5	Yes
Mr. Hugh Edward Thompson	BAC, BRC, CCB	Nil	4	Yes
Dr Younis Khalfan Al Akhzami	EXCOB, BAC, PCB,	Nil	4	Yes
Mr. Saleh Nasser Al Habsi	PCB, BRC, CCB,	3	5	Yes
Mr. Saif Said Salim Al Yazidi	BAC, BRC, DCB	2	5	Yes
Sh. Suhail Salim Bahwan (resigned on 23 March 2009)	DCB	1	2	Yes

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

Number and dates of Board meetings

National Bank of Oman held 5 Board meetings during 2009. They were on 27th January, 23rd March 2009, 14th April 2009, 11th May 2009 and 2nd September 2009. The maximum interval between two meetings was 119 days. This is in compliance with Article 4 of the Code, which requires meetings to be held within a maximum time gap of four months.

Remuneration to Board and Top Management

The sum of the benefits (e.g. salaries, perquisites, bonuses, gratuity, pension, etc.) paid to the top eight officers of the management of the Bank in 2009 is RO 864,238/-

There were no direct pre-determined performance-linked incentives applicable to the top eight officers during the year.

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

As all members of the Board are Non-executive Directors, accordingly no fixed remunerations or performance linked incentives are applicable. The Non-executive Directors are paid sitting fees and reimbursement of expense for attending the Board and committee meetings. In addition to the sitting fees paid, the total remuneration for 2009 of the Directors is RO 134,099/450, subject to the Annual General Meeting approval proposed to be held on 28th March 2010.

The details of the sitting fees paid or accrued for payment during 2009 are as follows:

Table - 3

Name of the Directors	Total fees RO	Remarks
Mr. Omar Hussain Al Fardan - Chairman	3,500.000	
Sheikh Ahmed Suhail Salim Bahwan Deputy Chairman	2,100.000	Appointed on 23rd March 2009
Sayyidah Rawan Ahmed Al Said	9,500.000	
Mr. Anil Kumar Nahar	9,100.000	
Mr. Imad Kamal Sultan	6,900.000	
Sheikh Abdullah Ali Al Thani	1,700.000	
Mr. Andrew Charles Stevens	7,950.550	
Mr. Hugh Edward Thompson	7,150.000	
Dr Younis Khalfan Al Akhzami	4,000.000	
Mr. Saleh Nasser Al Habsi	8,700.000	
Mr. Saif Said Salim Al Yazidi	4,100.000	
Sheikh Suhail Salim Bahwan	1,200.000	Resigned on 23rd March 2009
Total	**65,900.550**	

The total hotel and travel expense related to the Board Members during 2009 is RO 24,321.

Board Committees

As at December 2009, The Board of Directors has six standing committees; the Credit Committee, the Audit Committee, the Risk Committee, the Executive Committee, the Premises Committee and the Donation Committee.

Audit Committee of the Board

The Audit Committee comprises four independent members and 1 non-independent member. The committee has met six times in 2009.

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

Table - 4

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

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

> The primary responsibilities and functions of the Audit Committee are to provide assistance to the Board

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

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

Credit Committee of the Board(CCB)

The Credit Committee comprises of 6 members met 10 times during 2009. The names of the members, their positions and their meetings and attendance appear in the table below:

Table - 5

Name	Position	Meetings attended	Remarks
Mr. Imad Kamal Sultan	Chairman	10	
Sayyidah Rawan Ahmed Al Said	Member	5	
Mr. Anil Kumar Nahar	Member	9	
Mr. Andrew Charles Stevens	Member	7	
Mr. Saleh Nasser Al Habsi	Member	7	
Mr. Hugh Edward Thompson	Member	6	Appointed on 11.5.09

The CCB's main responsibilities are:

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

Risk Committee of the Board

The Risk Committee of the Board comprises of six members met four times during the year 2009. The major responsibilities of the committee include risk identification and review, risk policy, risk limits and risk management and monitoring. The names of the members appear in the table below:

Table - 6

Name	Position	Meetings attended	Remarks
Mr. Saleh Nasser Al Habsi	Chairman	4	
Sh. Ahmed Suhail Bahwan	Member	2	Appointed on 11.5.09
Mr. Hugh Edward Thompson	Member	3	
Mr. Imad Kamal Sultan	Member	2	
Mr. Saif Said Salim Al Yazidi	Member	4	
Sh. Abdullah Ali Al Thani	Member	1	Appointed on 11.5.09
Sayyidah Rawan Al Said	Member	Nil	Resigned on 11.5.09

Executive Committee of the Board (EXCOB)

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

Table - 7

Name	Position	Meetings attended	Remarks
Mr. Omar Hussain Al Fardan	Chairman	5	
Sh. Ahmed Suhail Bahwan	Member	1	Appointed on 11.5.09
Mr. Andrew Charles Stevens	Member	4	
Dr. Younis Khalfan Al Akhzami	Member	5	
Sayyidah Rawan Ahmed Al Said	Member	4	
Mr. Anil Kumar Nahar	Member	1	Resigned on 11.5.09

The main responsibilities of the EXCOB are stated below:

- To recommend for Board approval strategies and policies to be pursued by the Bank.
- To review and recommend to the Board all policies relating to the Bank's organisation and operations including all necessary authorities required by Executive Management in the execution of their responsibilities
- Appointment and movement of key executives in the Bank.
- To review and approve major changes in the Bank's organisational structure at the level of Divisional Heads and above.

Premises Committee of the Board

Based on the Board strategy to expand the NBO branches network, the Board of Directors resolved to establish a Premises Committee to handle NBO premises expansion projects. The Committee comprises of five members and met once during the year. The names of the members and their positions are as set out in the table below:

Table - 8

Name	Position	Meetings attended	Remarks
Mr. Andrew Charles Stevens	Chairman	1	
Mr. Anil Kumar Nahar	Member	1	
Mr. Imad Kamal Sultan	Member	Nil	
Mr. Saleh Nasser Al Habsi	Member	1	
Dr. Younis Al Akhzami	Member	Nil	

The main responsibilities of the Premises Committee are stated below:

- To recommend for Board approval, and to review and update as necessary, a general strategy and policies for the acquisition, ownership, leasing and development of the Bank's properties.
- Approve the acquisition, sale and leasing of any property required for the business of the Bank.
- Approve the appointment of construction companies and consultants, and agree the terms of any construction contract (including any variation order), consultancy or property or facilities management contract relating to any property owned or leased by the Bank.
- Take responsibility for governmental and other high-level issues associated with the Bank's property-related activities.
- Approve expenditure or recommend for approval as appropriate.

Donation Committee of the Board

The Board of Directors, in order to enhance the activities related to the social responsibility, resolved to establish a Donation Committee to handle functions stated in its terms of reference. The committee comprises of three members and met once in the year 2009.

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

Table - 9

Name	Position	Meetings attended	Remarks
Sh. Ahmed Suhail Bahwan	Chairman	Nil	
Sh. Abdullah Ali Al Thani	Member	Nil	
Mr. Saif Said Salim Al Yazidi	Member	1	
Sheikh. Suhail Salim Bahwan	Member	1	Resigned on 23. 3.09
Dr. Younis Khalfan Al Akhzami	Member	1	Resigned on 11.5.09
Mr. Saleh Nasser Al Habsi	Member	1	Resigned on 11.5.09

The main responsibilities of the Donation Committee are stated below:

- Propose the annual amount of donations to the Board, which shall submit the annual donation amount to the shareholders in their Annual General Meetings for approval.
- Identify methods of payment of donations.
- Ensure that donations are given to the approved persons and organisations.
- Submit a report at the end of the year to the Board for ratification of donations paid.

Board Members' Profile

Omar Hussain Al Fardan, Chairman

Chairman of the Board of Directors, National Bank of Oman and Chairman of the Executive Committee of the Board.

Board Member of The Commercial Bank of Qatar Q.S.C.; Vice Chairman of United Arab Bank, Sharjah and Director of United Development Company P.S.C., Qatar.

He is also the Chairman of Qatar District Cooling Co. Q.C.S.C., Qatar; Vice Chairman of Middle East Dredging Co. Q.S.C, Qatar; President and Director of Alfardan Group Holding Co. L.L.C., Qatar and its subsidiaries; Director of Qatar Red Crescent Society and Trustee of the American University Beirut.

Sheikh Ahmed Suhail Bahwan, Deputy Chairman

Sheikh Ahmed Suhail Bahwan is the Deputy Chairman of the Board of Directors, and the Chairman of the Board Donation Committee and Member of Executive Committee of the Board. He is Member of the Board of Directors of Ports Services Corporation SAOG and Bahwan Lamnalco SOAC. Further He is also the Managing Director of Suhail Bahwan Group (Holding) L.L.C. and Chairman of Suhail Bahwan Automotive Group.

Sheikh Ahmed Suhail Bahwan is a graduate with a degree in Business Management from University of Evansville, Florida, USA.

Sayyidah Rawan Al Said, Director

Director since April 2005. Chairperson of the Audit Committee and member of the Executive Committee of the Board and the Credit Committee of the Board.

Board Member in Oman Oil Marketing Co. SAOG and National Investment Funds Company (NIFCO) SOAC

Group CEO of Oman National Investment Corporation Holding (ONICH) SAOG.

Sayyidah Rawan has a Masters Degree in Economics and Finance and Post Graduate Diploma in Investment Analysis.

Andrew Charles Stevens, Director

Director since July 2005. Member of the Executive and Credit Committees of the Board.

Group Chief Executive Officer, The Commercial Bank of Qatar Q.S.C.; Director, United Arab Bank, Sharjah and Chairman of Orient 1 Limited.

Hugh Edward Thompson, Director

Director since July 2005. Member of the Audit, Risk and Credit Committees of the Board.

EGM and Group Chief Legal and Corporate Affairs Officer, The Commercial Bank of Qatar Q.S.C.; Director of United Arab Bank, Sharjah, Orient 1 Limited and CBQ Finance Limited, and Deputy Chairman of Diners Club Services, Egypt.

Sheikh Abdullah Bin Ali Bin Jabor Al Thani, Director

Director since July 2005. Member of the Risk and Donation Committees of the Board.

Deputy Chairman of The Commercial Bank of Qatar Q.S.C. and Director of United Arab Bank, Sharjah.

Imad Kamal Sultan, Director

Director since June 2004. Chairman of the Credit Committee, Member of the Risk Committee and Premises Committee of the Board.

Director of W.J. Towell & CO L.L.C., Matrah Cold Stores L.L.C., Towell Auto Centre L.L.C., Nestle Oman Trading L.L.C.; Agility Logistics (Global Logistics) L.L.C.., GENETCO, Director - Oman India Joint Committee.

Anil Kumar Nahar, Director

Director since November 2003. Member of the Credit Committee, Audit Committee and the Premises Committee of the Board.

Director of AES Barka SAOG., Oman Dental College (SAOG) and Sharqiyah Desalination Co. SAOC. Financial Advisor, Bahwan Engineering Company, which is part of the Suhail Bahwan Group (Holding) L.L.C..

Dr. Younis Khalfan Al Akhzami, Director

Director since April 2006. Member of the Executive Committee, Premises Committee and Audit Committee of the Board.

Director General, Planning and Development in the Ministry of Manpower.

Saleh Nasser Abood Al Habsi, Director

Director since March 2008. Chairman of Risk Committee. Member of the Credit Committee and Premises Committee of the Board.

Chairman of Muscat Fund JIA, Deputy Chairman of Al Jazeera Steel Products SAOG.

Director of Al Omaniya Financial Services SAOG.

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

Saif Said Salim Al Yazidi, Director

Director since March 2008. Member of the Audit Committee, Risk Committee and Donation Committee of the Board.

Member of the Board of Oman International Development and Investment Company, Muscat Gases Company, Oman National Engineering and Investment Company, Oryx Investment Fund, and Market Stabilisation Fund.

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

Composition of the Management:

The organisation chart of the Bank's management includes a Chief Executive Officer as the leader of the organisation whose appointment, functions and package are determined by the Board. General Managers are also appointed by the Board to assist the CEO and to lead functional groups in the Bank. The organisation chart also includes Deputy General Managers and Assistant General Managers besides the Divisional Heads. During the year 2009 the GM – Business Banking, DGM – Projects Management Office and the AGM – Corporate Banking left the Bank services. The following table gives details of the top eight management officers along with their positions:

Table - 10

Name	Position
David Murray Sims	Chief Executive Officer
Taqi Ali Sultan	Chief Corporate Affairs and Communications
Humayun Kabir	Chief Business Banking Officer
Simon Gibbons	Chief Financial Officer
David Power	Chief Retail Banking Officer
Khalfan Abdullah Al Aufi	Chief Operating Officer
Nasser Said Al Bahantah	Chief Human Resources Officer
Nasser Salim Al Rashdi	Chief Risk Officer

Market Price Data:

The following table shows the high, low, and average prices of the Bank's shares and compares the Bank's performance against the broad index of banks and investment companies during 2009.

Table - 11

Banks & Investment index				NBO price			
Month	High	Low	Closing	Month	High	Low	Closing
Jan-09	7,160.51	4,919.00	5,635.89	Jan-09	0.400	0.225	0.284
Feb-09	6,309.57	5,615.19	6,281.25	Feb-09	0.340	0.275	0.300
Mar-09	6,367.67	5,973.40	6,230.61	Mar-09	0.322	0.254	0.272
Apr-09	7,208.21	6,138.99	6,751.43	Apr-09	0.316	0.267	0.295
May-09	7,737.53	6,758.64	7,506.57	May-09	0.361	0.295	0.326
Jun-09	7,946.29	7,366.58	7,646.95	Jun-09	0.360	0.300	0.307
Jul-09	8,096.79	6,871.23	7,998.64	Jul-09	0.312	0.265	0.300
Aug-09	9,327.02	8,024.48	9,257.20	Aug-09	0.335	0.296	0.326
Sep-09	10,370.42	9,251.55	10,012.14	Sep-09	0.349	0.327	0.331
Oct-09	10,700.98	9,789.38	9,789.89	Oct-09	0.363	0.321	0.327
Nov-09	10,038.12	9,471.54	9,832.87	Nov-09	0.335	0.315	0.319
Dec-09	9,753.97	8,454.72	9,374.73	Dec-09	0.324	0.252	0.322

Related Party Transactions

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

Based on the approval received from the shareholders in the Annual General Meeting held on 23rd March 2009 the management services agreement with The Commercial Bank of Qatar (CBQ) was renewed for a period of one year. The agreement which commenced from March 2008 is for an initial period of three years extendable for a further period of 3 years.

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

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

Internal Control Review

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

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

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

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

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

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

Shareholders

Communication with shareholders and investors

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

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

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

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

Table - 12

Year	Cash Dividend	Bonus shares
2005	15%	Nil
2006	17.5%	15%
2007	17.5%	17.5%
2008	17.5%	Nil
2009 (proposed subject to shareholders approval)	12 %	Nil

Donations

During the year 2009, the Bank distributed donations to the charitable organisations and other non-profitable organisations totaling RO. 100,000 as approved by the Annual General Meeting held on 14th March 2009.

Details of NBO main donations during the year 2009:

Amount (RO)	Details
7,000	Oman Heart Association
5,000	Dar Al Atta'A
25,000	Oman Charitable Organisation
10,000	Association Of Early Intervention For Children With Special Needs
44,500	Ministry Of Social Developmet
5,000	Oman Association For The Disabled
96,500	**Total**

Distribution of Shareholding

Major shareholders (5% and above)

Shareholder Name	No. of shares as on 31st Dec'09	% of Capital
Commercial Bank of Qatar	376,761,690	34.85
Suhail Bahwan Group Holding L.L.C.	159,385,410	14.74
HSBC A/C Ministry Of Defence Pension Fund	82,777,900	7.66
Civil Service Employees Pension Fund	73,687,436	6.82
Public Authority for Social Insurance	64,805,315	5.99

The shareholding pattern as on 31 December 2009 was:

Number of Shares	Number of Shareholders	Total Shares	% of Capital
7,000,000 and above	14	932,530,892	86%
3,000,000 to 6,999,999	6	27,278,083	3%
1,500,000 to 2,999,999	18	39,943,218	4%
500,000 to 1,499,999	33	25,187,854	2%
100,000 to 499,999	163	35,258,027	3%
Below 100,000	1958	20,801,926	2%
Total	**2,192**	**1,081,000,000**	**100%**

A copy of the Management Discussion and Analysis is circulated as part of the Annual report.

There are no Global Depository Receipts/Warrants or any Convertible instruments outstanding.

Auditors

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

Ernst & Young – Statutory Auditors

Ernst & Young is one of Oman's oldest-established accounting firms, having had a permanent office in the country since 1974. The practice comprises one hundred and eighty professionals, and is working under the direction of three partners.

The Oman office forms part of Ernst & Young's Middle East practice, with over 135 partners and nearly 5,700 other professionals in 23 offices in 17 countries throughout the region.

The Middle East practice is a member firm of Ernst & Young Global, operating in more than 140 countries with approximately 144,000 personnel worldwide.

During the year 2009, RO. 74,295 was accrued / paid to the external auditors against the audit and related assurance services.

Declaration

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

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

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

Omar Hussain Al Fardan

Chairman

Ernst & Young

P.O. Box 1750, Ruwi 112
Ernst & Young Building
Qurum
Muscat, Sultanate of Oman
Tel: +968 2455 9559 Fax: +968 2456 6043
muscat@om.ey.com
www.ey.com/me
C.R. No. 1/36809/5
P. R. No. MH/4

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

We have performed the procedures agreed with you and as prescribed in the Central Bank of Oman (CBO) circular no. BM 1027 dated 4 December 2007 with respect to the Basel II – Pillar III disclosures (the disclosures) of National Bank of Oman SAOG (the bank) as at and for the year ended 31 December 2009. The disclosures were prepared by the bank's management in accordance with the related requirements set out in CBO circular number BM 1009 dated 13 September 2006 and circular number BM 1027 dated 4 December 2007 (the circulars). Our engagement was undertaken in accordance with the International Standard on Related Services applicable to agreed-upon procedures engagements. The procedures, as set out in Circular number BM 1027, were performed solely to assist you in evaluating the bank's compliance with the related disclosure requirements set out in the CBO Circular number BM 1009.

We report our findings as follows:

We found that the bank's disclosures are free from any material misrepresentation.

Because the above procedures do not constitute either an audit or a review made in accordance with International Standards on Auditing or International Standards on Review Engagements, we do not express any assurance on the disclosures.

Had we performed additional procedures or had we performed an audit or review of the disclosures in accordance with the International Standards on Auditing or International Standards on Review Engagements, other matters might have come to our attention that would have been reported to you.

Our report is solely for the purpose set forth in the first paragraph of this report and for your information and is not to be used for any other purpose. This report relates only to the accompanying disclosures to be included in the bank's annual report for the year ended 31 December 2009 and does not extend to any financial statements of the bank taken as a whole or to any other reports of the bank.

Ernst & Young

1 March 2010
Muscat

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

This is a stand alone entity.

Capital Structure

The authorised share capital of the Bank as at 31 December 2009 is 1,600,000,000 shares of RO 0.100 each.

The issued and paid-up capital of the Bank as at 31 December 2009 is 1,081,000,000 shares of RO 0.100 each

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

The Bank's capital structure as at close of 31 December 2009, based on Central Bank of Oman's (CBO) guidelines issued on the matter is as follows:

Sr. No.	Elements of Capital	Amount in RO 000's
	Tier I Capital	
	Local Banks	
1	Paid-up capital	108,100
2	Share premium	34,465
3	Legal reserves	32,675
4	General reserves	4,419
5	Sub-ordinated loan reserve	3,220
6	Stock dividend	-
7	Retained earnings	49,752
8	Non-cumulative perpetual preferred stock	-
9	Other non-distributable reserve	-
	Foreign Banks	
10	Assigned capital	-
11	Capital deposits	-
12	Retained earnings	-
13	Interest free funds from HO	-
	Total Gross Tier I Capital	232,631
	Deductions	
14	Goodwill	-
15	Deferred tax asset	-
16	Intangible Assets, including cumulative unrealised losses recognised directly in equity	-
17	Reciprocal crossholding of bank capital, artificially designed to inflate the capital position of banks	-
	Sub-total	-
18	**Tier I capital after the above deductions**	**232,631**

Sr. No.	Elements of Capital	Amount in RO 000's
19	50% of investments in the capital of banks and other financial entities, other than reciprocal cross holdings of bank capital	-
20	50% of Significant minority and majority investments in commercial entities, which exceed 5% of the Bank's net worth for individual significant investments and 20% of the Banks' net worth for aggregate of such investments	-
21	50% of shortfall in the regulatory capital requirements in the un-consolidated entities	-
22	50% of investments in unconsolidated banking and financial subsidiary companies associates or affiliates, etc.	-
	Sub-total	-
23	**Tier I capital after all deductions**	**232,631**
	Tier II Capital	
24	Undisclosed reserves	-
25	Revaluation Reserves / Cumulative fair value gains or losses on available-for-sale instruments	953
26	General loan loss provision / General loan loss reserve	20,086
27	Sub-ordinated debt	24,380
28	Hybrid debt capital instruments	-
29	**Total Tier II Capital**	45,419
	Deductions	
30	50% of investments in the capital of banks and other financial entities, other than reciprocal cross holdings of bank capital	-
31	50% of Significant minority and majority investments in commercial entities, which exceed 5% of the Bank's net worth for individual significant investments and 20% of the Banks' net worth for aggregate of such investments	-
32	50% of shortfall in the regulatory capital requirements in the un-consolidated entities	-
33	50% of investments in unconsolidated banking and financial subsidiary companies associates or affiliates, etc.	-
	Total deductions from Tier II	-
	Tier II Capital (Net)	**45,419**
34	**Tier III Capital (eligible)**	-
35	**Total Regulatory Capital**	**278,050**

Note: Retained earnings are after deduction of RO 12.9 million towards proposed cash dividend.

Capital Adequacy

Qualitative Disclosures:

The ultimate objectives of capital management are three-fold:

- Ensure stability of the Bank by holding enough capital to cover unexpected loss
- Enhance the efficiency of the Bank by increasing the risk adjusted return at various levels of aggregation (and there by ensuring that too much "excess" capital is not held unnecessarily)
- Incentive informed decision-making and pro-active risk management through an efficient and effective allocation of capital across the business.

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

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

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

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

Quantitative Disclosures:

Position as at 31.12.09

Sr. No.	Elements of Capital	Amount in RO 000's
1	Tier I capital (after supervisory deductions)	232,631
2	Tier II capital (after supervisory deductions & up to eligible limits)	45,419
3	Tier III capital (up to a limit where Tier II & Tier III does not exceed Tier I)	-
4	Of which, total Eligible Tier III Capital	-
5	**Risk Weighted Assets (RWAs) – Banking Book**	**1,519,044**
6	**Risk Weighted Assets (RWAs) – Operational Risk**	**138,214**
7	**Total Risk Weighted Assets (RWAs) – Banking Book + Operational Risk**	**1,657,258**
8	Minimum required capital to support RWAs of banking book and operational risk	165,726
	i) Minimum required Tier I capital for banking book and operational risk	120,307
	ii) Tier II capital required for banking book and operational risk	45,419
9	Tier I capital available for supporting Trading Book	112,324
10	Tier II capital available for supporting Trading book	-
11	**Risk Weighted Assets (RWAs) – Trading Book**	**20,205**
12	Total capital required to support Trading Book	2,020
13	Minimum Tier I capital required for supporting Trading Book	576
14	Used Eligible Tier III Capital	-
15	Total Regulatory Capital	278,050
16	Total Risk Weighted Assets – whole bank	1,677,463
17	BIS Capital Adequacy Ratio	16.58
18	Unused but eligible Tier III Capital	-

Certain additional capital adequacy disclosures are as follows:

Position as at 31.12.09

(RO'000)

Sr. No.	Details	Gross balance (Book value)	Net balance (Book value)*	Risk Weighted Assets
1	On balance Sheet Item	1,863,822	1,747,557	1,287,480
2	Off balance sheet item	290,878	290,878	220,684
3	Derivatives	10,880	10,880	10,880
4	Operational Risk	-	-	138,214
5	Market Risk	-	-	20,205
	Total	2,165,580	2,049,315	1,677,463
6	Tier I Capital	232,631	-	-
7	Tier 2 Capital	45,419	-	-
8	Tier 3 Capital	-	-	-
9	Total Regulatory Capital	278,050	-	-
9.1	Capital requirement for credit risk	151,904	-	-
9.2	Capital requirement for market risk	2,020	-	-
9.3	Capital requirement for operational risk	13,822	-	-
10	Total required Capital	167,746	-	-
11	Tier I Ratio	13.86%	-	-
12	Total Capital ratio	16.58%	-	-

* Net of Provisions and Reserved interests and eligible collaterals.

Risk Exposure And Assessment

Risk Management

The primary objective of Risk Management is to safeguard the Bank's resources from various operational and non-operational risks which the Bank faces. The Bank has in place a Risk Charter approved by the Board, which details the overall Risk Management framework of the Bank for managing the various risks that the Bank is exposed to, namely credit risk, market risk, liquidity risk and operational risk. It includes guiding principles, approval authority structure, roles and responsibilities of various Board Committees, Chief Executive Officer, Management Committees and functions of relevant divisions.

The Bank has exposure to the following risks:

Credit Risk

Qualitative Disclosures:

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

The objective of the Bank in management of credit risk is to protect the credit quality of its credit exposures. Credit Risk is managed within the regulatory requirement of Central Bank of Oman, risk framework provided in the Board-approved Risk Charter and the Board-approved Credit Policies and Procedures.

The Bank has in place a robust credit risk management structure comprising of Credit Review, Credit Administration and Control, Credit Policy and Portfolio Management sections.

Corporate Credit Risk:

Corporate Credit Risk Division is responsible for managing all Corporate, SME and Financial Institutions exposures. The Division reviews and assesses credit risk for proposed exposures prior to facilities being committed to customers by the concerned business units. The corporate and SME customers are internally risk rated based on approved credit policy and procedures. ECAI ratings are used for risk rating financial instruments, financial institutions and country exposures. The Bank uses risk based pricing and each credit proposal is assessed based on internal benchmarks of required risk adjusted returns. Each proposal is also assessed with respect to established concentrations limits for various economic sectors, countries etc., in-line with regulatory guidelines.

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

Consumer Credit Risk:

The management of the risks inherent in retail lending differs from that of a corporate customer, and is very closely linked to the types of products offered by retail banking. Generally, retail risks are more homogeneous in nature and much of the risk management is done at the product program level as opposed to an individual credit-by-credit basis.

For retail loans there are lending programs in place for standard loans granted to customers. A programmed lending approach contains standard risk acceptance criteria and loan processing practices in order to optimise the efficiency and risk/reward of those portfolios. Product programs are approved by Risk Committee of the Board and their performance is monitored on a regular basis and reviewed.

Credit Administration and Control:

The Credit Administration and Control section ensures

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

Credit Policy and Portfolio Management

Credit Policy

Credit risk at the Bank is managed in two dimensions, portfolio level and obligor level. In order to manage concentration risks, sector wise limits have been prescribed in the Credit Risk Policy. Limits have been put in place for Cross-border Risk and Sovereign Risk. In order to monitor the quality of the loans, a risk rating system has been put in place, which rates the corporate exposures in the books of the Bank. This section also monitors compliance and periodically reviews the Credit Policies and Procedures of the Bank to ensure that they are aligned to the market and regulatory guidelines.

Portfolio Management

The Bank regularly conducts reviews of the corporate and consumer credit portfolios. Corporate Credit Portfolio reviews are conducted on a monthly/quarterly basis covering aspects of credit growth, credit quality, concentrations and significant trends. Consumer Credit Portfolio reviews are prepared monthly, analysing the performance of products across various parameters, such as, delinquency levels/ trends, recoveries etc. A report along with recommendations is reviewed by Management and Board Risk Committees.

Risk Reporting and Measurement Systems

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

Risk Reporting

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

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

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

A monthly Consumer Credit Portfolio review is prepared covering salary related loans, mortgages and credit cards. A detailed analysis is done for each product's performance considering various criteria, such as, geography, industry, age and nationality.

Measurement

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

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

Definition of past due and impaired (for accounting purposes)

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

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

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

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

An assessment is made at each balance sheet date to determine whether there is objective evidence that a specific financial asset may be impaired. If such evidence exists, the estimated recoverable amount of that asset is determined and any impairment loss, based on the net present value of future anticipated cash flows, recognised in the income statement.

Bank's Credit Risk Management Policy: The Bank has in place a comprehensive credit risk policy, which provide detailed policy guidelines embedded in which are the regulatory / in-house limits. Further, procedures manuals provide detailed process guidelines about the credit process and the templates to be used to process the individual credit applications.

Credit Risk Management Process: During the current period, the credit risk policy and procedures manuals have been comprehensively reviewed. a comprehensive corporate and retail credit portfolio review has been put in place. There have not been any significant changes in credit risk management process in the Bank during the year.

Quantitative Disclosure:

Total gross credit exposures, plus daily average of gross exposure over the period broken down by major types of credit exposure as at 31 December 2009:

(RO'000)

S. No.	Type of Credit Exposure	Average Gross Exposure		Total Gross Exposure as at	
		Current Year	Previous Year	31 Dec 09	31 Dec 08
1	Overdrafts	61,116	55,915	66,223	74,173
2	Personal Loans	596,128	461,432	641,965	560,220
3	Loans against Trust Receipts	43,799	51,788	39,922	65,169
4	Other Loans	754,672	822,664	672,520	759,001
5	Bills Purchased / Discounted	8,936	6,001	8,487	6,901
6	Any Other	-	-	-	-
	Total	**1,464,651**	**1,397,800**	**1,429,117**	**1,465,464**

(ii) Geographic distribution of exposures, broken down into significant area by major types of credit exposure as at 31 December 2009:

(RO'000)

S. No.	Type of Credit Exposure	Oman	Other GCC countries	OECD countries	India	Pakistan	Others	Total
1	Overdrafts	51,930	6,380	-	-	-	7,913	66,223
2	Personal Loans	637,681	3,167	-	-	-	1,117	641,965
3	Loans against Trust Receipts	36,263	3,659	-	-	-	-	39,922
4	Other Loans	587,051	73,927	6,834	-	-	4,708	672,520
5	Bills Purchased / Discounted	8,487	-	-	-	-	-	8,487
6	Any Other	-	-	-	-	-	-	-
	Total	**1,321,412**	**87,133**	**6,834**	-	-	**13,738**	**1,429,117**

(iii) Industry or counter-party type distribution of exposures, broken down by major types of credit exposure as at 31st December 2009:

(RO'000)

S. No.	Economic Sector	Overdraft	Loans	Bills Purchased / Discounted	Others	Total	Off Balance Sheet Exposure
1	Import trade	1,849	35	-	36,262	38,146	75
2	Export trade	-	673	-	-	673	-
3	Wholesale and retail trade	14,677	60,970	-	3,238	78,885	25,370
4	Mining and quarrying	-	34	-	-	34	423
5	Construction	4,519	139,339	4,370	-	148,228	123,063
6	Manufacturing	6,881	149,476	278	422	157,057	34,695
7	Electricity, gas and water	-	51,287	-	-	51,287	11,942
8	Transport and Communication	76	9,950	30	-	10,056	284
9	Financial institutions	19,974	68,046	-	-	88,020	189,776
10	Services	4,979	47,765	3,769	-	56,513	16,769
11	Personal loans	10,952	631,013	-	-	641,965	219
12	Agriculture and allied activities	785	10,266	22	-	11,073	383
13	Government	-	30,013	-	-	30,013	43,881
14	Non-Resident lending	-	49,471	-	-	49,471	-
15	All Others	1,531	66,147	18	-	67,696	15,090
	Total	**66,223**	**1,314,485**	**8,487**	**39,922**	**1,429,117**	**461,970**

(iv) Residual contractual maturity as at 31 December 2009, in-line with guidelines issued by CBO. Breakdown of the whole portfolio, broken down by major types of credit exposure is as follows:

(RO'000)

S. No.	Time Band	Overdraft	Loans	Bills Purchased / Discounted	Others	Total	Off Balance Sheet Exposure
1	Up to 1 month	3,311	86,884	3,728	5,115	99,038	113,809
2	1-3 months	3,311	54,007	4,714	18,926	80,958	67,555
3	3-6 months	3,311	63,907	45	14,215	81,478	66,022
4	6-9 months	3,311	45,532	-	317	49,160	59,359
5	9-12 months	3,311	118,995	-	1,349	123,655	42,990
6	1-3 years	16,556	159,113	-	-	175,669	103,444
7	3-5 years	16,556	65,495	-	-	82,051	8,739
8	Over 5 years	16,556	720,552	-	-	737,108	52
	Total	**66,223**	**1,314,485**	**8,487**	**39,922**	1,429,117	**461,970**

(v) Total loan broken down by major industry or counter party type as at 31st December 2009:

(RO'000)

S. No.	Economic Sector	Gross Loans	Of which, NPLs	General Provisions held	Specific Provisions held	Reserve Interest	Provisions made during the year	Advances written off during the year
1	Import trade	38,146	1,884	363	1,884	-	-	-
2	Export trade	673	673	-	673	-	-	-
3	Wholesale and retail trade	78,885	7,612	727	4,352	3,881	21	8,872
4	Mining and quarrying	34	34	-	9	-	8	-
5	Construction	148,228	11,902	1,447	3,334	1,478	1,975	141
6	Manufacturing	157,057	13,875	1,432	9,889	1,792	229	6
7	Electricity, gas and water	51,287	-	513	-	-	-	-
8	Transport and Communication	10,056	280	97	76	159	16	27
9	Financial institutions	88,020	678	874	235	443	-	-
10	Services	56,513	1,227	560	480	437	-	5
11	Personal loans	641,965	20,699	12,392	12,307	1,672	11,408	2,920
12	Agriculture and allied activities	11,073	5,146	59	542	484	-	234
13	Government	30,013	-	300	-	-	-	-
14	Non-Resident lending	49,471	-	590	-	-	-	-
15	All Others	67,696	7,672	732	3,714	193	6,826	224
	Total	**1,429,117**	**71,682**	**20,086**	**37,495**	**10,539**	**20,483**	**12,429**

(vi) Amount of impaired loans as at 31 December 2009, broken down by significant geographical areas including, with the amounts of specific and general allowances related to each geographical area:

(RO'000)

S. No.	Country	Gross Loans	Of which, NPLs	General Provisions held	Specific Provisions held	Reserve Interest	Provisions made during the year	Advances written off during the year
1	Oman	1,321,412	54,966	19,026	21,824	8,420	19,213	11,100
2	Other GCC Countries	87,133	3,902	955	1,954	1,989	206	1,324
3	OECD Countries	6,834	-	68	-	-	-	-
4	India	-	-	-	-	-	-	-
5	Pakistan	-	-	-	-	-	-	-
6	Others	13,738	12,814	37	13,717	130	1,064	5
	Total	**1,429,117**	**71,682**	**20,086**	**37,495**	**10,539**	**20,483**	**12,429**

(vii) Movement of Gross Loans:

(RO'000)

Movement of Gross Loans during the year ended December 31 2009							
		Performing Loans		Non performing Loans			
S. No.	Details	Standard	Special Mention	Sub-Standard	Doubtful	Loss	Total
1	Opening balance	1,345,258	55,960	4,140	5,633	54,473	1,465,464
2	Migration/changes (+/-)	(175,382)	141,593	21,727	2,840	9,222	-
3	New loans	704,161	-	428	344	2,590	707,523
4	Recovery of loans	(666,905)	(47,250)	(1,778)	(1,294)	(14,214)	(731,441)
5	Loans written off	-	-	-	-	(12,429)	(12,429)
6	Closing balance	1,207,132	150,303	24,517	7,523	39,642	1,429,117
7	Provisions held	18,427	1,659	8,914	3,483	25,098	57,581
8	Reserve interest	-	-	651	556	9,332	10,539

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

Qualitative Disclosures:

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

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

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

Quantitative Disclosures:

Exposure amount after risk mitigation as at 31 December 2009, subject to the standardised approach is as below:

(RO'000)

S. No.	Product / Rating	Carrying 0%	Carrying 20%	Carrying 35%	Carrying 50%	Carrying 100%	Carrying 150%	Total
	Rated							
1	Sovereign	235,717	-	-	1,895	-	-	237,612
2	Banks	-	128,732	-	23,164	24,111	8,526	184,533
	Unrated							
1	Corporate	-	53,994	-	-	447,792	-	501,786
2	Retail	-	-	-	-	542,975	-	542,975
3	Claims secured by residential property	-	-	65,398	-	-	-	65,398
4	Claims secured by commercial property	-	-	-	-	198,186	-	198,186
5	Past due loans	-	-	-	-	66,746	-	66,746
6	Other assets	23,174	262	-	-	43,150	-	66,586
7	Off-balance Sheet Items	19,570	42,589	-	33,104	206,495	-	301,758
	Total Banking Book	**278,461**	**225,577**	**65,398**	**58,163**	**1,529,455**	**8,526**	**2,165,580**

Credit Risk Mitigation

Qualitative Disclosures:

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

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

Quantitative Disclosures:

Eligible financial collateral

(RO'000)

S. No.	Details	Amount
1	Corporate 100% Cash	60,185
2	Past due loans (provisions)	56,079
	Total	116,264

The capital requirement on credit risk as at 31 December 2009 is RO ('000) 151,904.

Market Risk

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

Trading Book

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

Procedure: For the purpose of capital charge, the three-month average of the sum of the net short positions or net long positions, whichever is higher, is taken. The average is worked out on the basis of the actual positions as obtained on all the working days during the three month period immediately preceding the reporting date. The capital charge is computed at 10% to reflect the general market risk.

Capital required for trading book as at 31 December 2009:

- Foreign Exchange Risk - RO ('000) 2,020.

Banking book

Equity Price Risk

The proprietary equity positions are held in the 'Available-for-sale' category and not in the 'Held for Trading' category. As such, no VaR is calculated on the equity investments of the Bank. The market risk is monitored though daily Mark to Market reports which are circulated to the management, and required actions, if any, are promptly taken.

Interest Rate Risk

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

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

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

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

Quantitative Disclosures:

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

As at December 2009		200 bps increase	200 bps decrease
1	Earnings impact - RO'000s	6,834	(6,834)
2	Earnings impact - USD'000s	17,750	(17,750)

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

The Bank's interest sensitivity position, in-line with guidelines issued by Central bank of Oman, based on contractual re-pricing arrangements at 31 December 2009 was as follows:

(RO'000)

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

Liquidity Risk

Qualitative Disclosures:

Liquidity may be defined as a bank's ability to ensure the availability of funds to meet all on-balance sheet and off-balance sheet commitments at a reasonable price. Liquidity Risk can in turn be defined as the risk to earnings and capital arising from a bank's potential inability to meet its liabilities when they become due, without incurring unacceptable losses. Conversely, liquidity risk also manifests itself in the form of opportunity losses due to holding excess liquidity relative to liabilities.

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

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

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

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

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

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

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

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

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

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

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

The Bank has in place a state-of-the-art liquidity risk management structure comprising an active ALCO which meets at monthly intervals and more frequently as warranted.

Scope and Nature of Risk Reporting:

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

Further, the liquidity of the Bank is estimated under Bank-specific and market-specific scenarios, the results of which are reviewed by the ALCO on a regular basis.

Measurement:

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

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

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

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

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

Quantitative Disclosures:

The maturity profile of the assets and liabilities in-line with guidelines issued by Central bank of Oman, at 31 December 2009 was as follows:

(RO'000)

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

Operational Risk

Operational Risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events

Objective: The Operational Risk Management ("ORM") of the Bank aims at achieving strong risk control using the latest risk management techniques and technologies, creating general operational risk awareness within the Bank leading to effective capital allocation in respect of potential impact of operational risks while enabling business units to meet their performance and growth objectives.

Key responsibilities include:

- Developing, maintaining and communicating bank-wide Operational Risk Policy and Procedures
- Liaise with support units (e.g. Internal Audit) and with external parties (e.g. regulators, professional bodies, etc.) with respect to operational risk issues
- Raising risk and control awareness across the Bank through ongoing training, and communications etc.
- Developing and enhancing ORM programs and tools
- Selection and implementation of ORM systems
- Assisting the business units in the interpretation of the ORM Policy and in the implementation of ORM programs, tools and systems
- Collating operational risk data and information at the Bank-wide level
- Analysing operational risk data and information and provide reports to management
- Ensuring compliance with ORM Policy and Procedures
- Providing advice to the business units and senior management on ORM related issues, where necessary
- Overseeing the creation of a Business Continuity and Disaster Recovery Plan
- Ensuring the adequacy of the security infrastructure of the Bank

The aims and objectives are achieved through effective internal controls, clear de-lineation of duties and reporting lines and detailed operational manuals and procedures.

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

The Bank follows basic indicator approach for determining operational risk.

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

Capital requirement for operational risk as per Basel II is RO ('000) 13,822.

This report on Basel II disclosures set out from pages no 42 to 60 was authorised for issue by the Board of Directors on 1st March 2010.

Omar Hussain Al Fardan

Chairman

Economic Development

2009 was a challenging year for global, regional and national markets. A gloomy outlook for global demand, coupled with depressed energy prices on the international markets, meant the Sultanate was required to focus more internally to drive continued economic growth, while also pressing ahead with its economic diversification strategy.

Diversification is centreed on the special economic zones of Sohar and Salalah. The former has enjoyed a relatively successful 2009, with continued international investment in the shape of aluminium smelting, iron ore pelletising and further port expansion. Brazilian mining giant Vale expects its $1.5bn iron ore plant to come on-line next year, and is already considering doubling production capacity from 9m tonnes. The government hopes to attract a further $2.5bn of international investment to Sohar over the next five years.

The year 2009 began on a positive note, with the realisation of a free trade agreement (FTA) with the US on January 1. This was the fourth such agreement signed between the US and an Arab country, and reflects Oman's continued commitment to the liberalisation of international trade. The US FTA followed soon after a similar GCC-wide agreement signed with Singapore the previous month. 2009 also marked progress for Oman in terms of its growing trade relationship with India – set to hit $2.5bn by the end of the year. Altogether, Oman's integration with the global economy continued to strengthen in 2009, in spite of the constraints on international trade and capital.

The budget for 2010 reflects the Government's commitment to the Seventh Five Year Plan and allows for a broad range of activities. The budget focuses on sustainable and broad based economic development which should act as an enabler for financial services in 2010. Fiscal expenditure is forecast to increase by 12% to RO 7.2 billion with the major recipients being defence, energy, education and healthcare and development projects. Development expenditure is vital in ensuring continued credit flow in the economy and local banking sector. The oil price forecasted at USD 50 per barrel looks achievable in current circumstances. A sustained drop below the budgeted price, although unlikely, could result in strategic reallocation and prioritisation of the current projects.

In summary, we expect operating conditions to remain favourable in view of the various government initiatives and economic policies, and NBO is well-positioned to take advantage of the anticipated upturn in 2010.

Industry Structure and Development

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

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

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

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

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

2010 will continue to pose challenges in global, regional and local markets. It is possible that the global economy has avoided a prolonged recession but recovery is likely to remain weak and prone to further sharp corrections. However, given the significant progress that has been made globally to avoid a prolonged recession, we remain cautiously optimistic about prospects for 2010.

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

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

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

Financial Performance Including Segmental Analysis

The Bank achieved a net profit after tax of RO 21.1 million for the twelve months ended 31December 2009 compared to RO 45.4 million for the same period in 2008. Notwithstanding very testing global market conditions, the Bank's operating income was down only by 7% to RO 81.9 million compared to 2008, the latter reflecting a significant one-off gain on investment sales of RO 6 million. On a like for like basis operating income was broadly flat.

The Bank successfully grew its net interest income by 20% to RO 56.8 million from RO 47.5 million in the prior year period through focused balance sheet management. Net spreads have also improved to 3.24% in 2009 up from 3.08% in 2008 reflecting an improved return from existing assets.

Trade-related activities and investment income were both lower than in the comparative period in 2008, and contributed to the decline in the ratio of non-interest income to total income from 46% to 31% as a result of lower volumes of lending-related fee income and investment-related revenue which was largely attributable to factors associated with the global financial downturn. The cost-to-income ratio for the period increased to 42% from 38% in December 2009, mainly as a result of the decrease in non-interest income and also as a consequence of a significant amount of investment in our business as we substantially increased our distribution footprint and rebranded the Bank. The investment in our distribution network will deliver long-term benefits for the Bank and its customers by bringing the Bank closer to where our customers live and work.

Operating expenses increased by only 3% to RO 34.8 million compared with RO 33.9 million for the comparable period in 2008 despite opening 9 new branches and 31 new ATMs and rebranding our business.

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

The Bank's results for the twelve months ended 31 December 2009 have been negatively impacted by factors relating to the global economic crisis. We have taken mark to market provisions against our investment portfolio of RO 4.1 million and provisions of RO 8 million against three specific bank exposures. Whilst the debt restructuring process for these banks is not yet complete, the Bank has, on a prudent and conservative basis, now provided 100% against two of the three banks and 75% against the third.

During the twelve months ended 31 December 2009 , total net advances declined by RO 40 million in-line with the Bank's approach to lend selectively and prudently, and deposits declined by RO 81 million as a result of releasing certain high-cost deposits no longer required to fund asset growth. However, savings deposits registered a significant growth of 26% when compared with year end 2008 which has helped to reduce the Bank's funding costs substantially and improve net interest margins.

The performance of various segments is covered in detail in the financial statement under segment information (note 31)

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

Risk Management

In 2009, risk management processes were further embedded with the Risk Committee of the Board meeting four times to review and approve policies and procedures for risk management: Credit Risk, Market Risk, Operational Risk, Information Security and Recoveries. Detailed reports on enterprise-wide risks encountered and managed by the Bank are presented on a regular basis to the Management Risk Committee and the Risk Committee of the Board.

The Bank has begun the process of moving to advanced Basel II approaches by installing Risk-Rating software. Currently, proposals are being evaluated for a software and consultancy arrangement to enable the Bank to migrate to the advanced approaches for measurement of credit risk, as per the provisions of the revised Basel II framework. The Bank is compliant with the provisions of the Basel II framework as advised by the Regulator.

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

Credit Risk Management

The Bank has fully developed policies and procedures for management of Credit Risk. These policies and procedures manuals were reviewed and amended, as required, and were approved by the Risk Committee of the Board.

Apart from monitoring credit exposures on a regular basis, the Bank tracks portfolio credit quality and concentration risks through detailed quarterly Credit Portfolio Reviews for both Corporate and Consumer Banking and monthly Portfolio Trend Reviews, which are presented to the Management Risk Committee and Risk Committee of the Board. The Corporate Credit Division also periodically undertakes studies on sensitive sectors and makes detailed recommendations to the management as appropriate.

The Bank has refined its approach to risk based pricing by implementing further enhancements to the Risk Adjusted Return on Capital (RAROC) Model for all Corporate and Financial Institution borrowers. The model is based on Basel II guidelines. It has extensive parameterisation based on currency, tenure, types of facilities and collateral.

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

Recognising the high potential impact of the financial crisis on sensitive sectors the Bank took proactive measures for increasing the monitoring and control of such exposures. The Bank formed a Special Assets Management Unit for handling these exposures. Progress was monitored by Management and periodically reviewed by the Credit Committee of the Board.

Country and Bank Exposures and Cross Border Exposures were also placed under tight scrutiny. The Bank undertook Quarterly Reviews of all Financial Institutions exposures to ensure risk was aligned to prevailing market conditions. Further credit controls were aslo implemented with even transactions within approved limits requiring specific approvals. Exposures in countries perceived as higher risk were proactively reduced or kept on run down.

Increased level of monitoring and follow-up was driven through daily monitoring of past dues and security shortfall for loans against shares. Tracking and follow-up was intensified through weekly interdepartmental meetings covering overdue reviews, past dues, excesses and pending documentation.

Liquidity Risk Management

In view of volatile market conditions experienced in 2009, the number of ALCO meetings was increased with the introduction of special Liquidity ALCOs for reviewing the Bank's liquidity position and formulating action plans for liquidity management. Additionally, a Daily Financial Risk Report, providing a financial snapshot of the key metrics, was prepared and circulated to ALCO members.

Recognising that the global financial turmoil led to a reduction in availability of USD funding, the Bank took action early in pursuing credit lines from overseas counterparties. Overseas placements were also allowed to run down. As a result of these actions, the Bank was able to manage its funding and gap positions in USD at acceptable rates. To ensure stability of long-term Rial Omani funding and also create room for future balance sheet expansion, the Bank launched a sub-debt program which resulted in increase in Tier II Capital.

Liquidity Risk Policy, Liquidity Contingency Policy and Country and Transfer Risk Policy were reviewed and approved by the Risk Committee of the Board. Basel II guidelines on Sound Liquidity Management practices were reviewed and existing MIS was enhanced for improved monitoring and management of Liquidity Risk. New Policy guidelines on Early Warning Indicators and Liquidity Ratios were developed and approved by the Board Risk Committee.

Risk Manager Software was upgraded, resulting in more dynamic funding projections. The Bank is currently monitoring Liquidity Risk using the maturity gap method, future projections, Early Warning Indicators and Liquidity Ratios. In addition, the liquidity impact of stressed scenarios are regularly analysed and reviewed by ALCO and Risk Committee of the Board.

Market Risk Management

Market Risk Policy for Oman and new Market Risk Policies for Egypt and UAE were reviewed and approved by the Risk Committee of the Board. Investment Policy guidelines were amended for improved monitoring of the proprietary Available-for-sale portfolio.

A middle-office function was introduced for basic monitoring of Market Risk positions in the absence of a trading portfolio. A more sophisticated real time monitoring mechanism will be introduced over time, as and when warranted.

Currently the Bank is using re-pricing maturity gaps and duration to monitor and manage the Interest Rate Risk in the Banking Book. Earnings at Risk and Economic Value are analysed based on Basel Committee and CBO guidelines. New Stress Testing practices were introduced and existing stress scenarios were broadened. Quarterly stress tests on Capital Adequacy were also introduced in 2009. Earnings at Risk, Economic Value and Stress Tests are regularly discussed in the ALCO meetings and reviewed by the Risk Committee of the Board.

Operational Risk Management

Effective Operational Risk Management ultimately reflects in improved shareholder value.

The guiding principle in ORM is that management at all levels is responsible for directing and managing operational risks. ORM coordinators are assigned throughout the Bank to assist line management in fulfilling this responsibility.

To achieve this objective ORM has been using internationally known ORM tools to gather all the necessary information in order to:

- Enable line management to identify and analyse operational risks; and
- Implement mitigating measures and determine the effectiveness of these actions.

As operational risk has a potential impact across all business lines, ORM aims to ensure that the concept is well implemented by involving every business division and their business processes, technology, infrastructure and personnel, as all have a key role to play in the effective management of operational risk.

The division has implemented an online incident reporting system to be part of a constructive monitoring process, designed to help owners drive risk to an acceptable level and keep it under control. It has also introduced the concept of risk mapping; the process of identifying, quantifying and prioritising risks relating to the achievement of the Bank's objectives. This is also linked to the Bank's planning process. All procedures were reviewed and standardised to ensure all risks and processes are covered to an appropriate extent.

The division also played a critical role in review of new products and major changes in the organisation that fall under ORAP, and identified inherent operational risks to simplify the process of product launch and enhance operational controls as well customer services.

Remedial Management

The Bank continued its intensified efforts to contain the level of NPLs. Due to the general economic slowdown and challenges faced by various sectors; NPL has gone up from RO 64.2 million in 2008 to RO 71.7 million in 2009. With focused attention and implementation of proper account strategies, we are hopeful of achieving significant reduction in NPL in 2010. Our relentless pursuit of delinquent borrowers resulted in recoveries and releases aggregating to RO 10.5 million, positively impacting the profitability. All efforts for the follow-up and monitoring of retail portfolio are continuing with vigour in order to enhance the quality of retail portfolio.

Information Security and Business Continuity Management

The division has delivered substantial enhancements to the information security rating of the Bank through development and implementation of appropriate policies and procedures and improvements to business continuity management.

The initiatives undertaken to improve corporate governance include; a comprehensive review of the corporate information security policy and enterprise security assessment of IT infrastructure. The information security architecture of the Bank was enhanced through implementation of a new log management solution.

The Internet banking channel security enhancement included a detailed retail Internet banking security review and the deployment of an anti-phishing solution.

Business continuity readiness of the Bank was further improved through comprehensive testing of the individual business functions recovery plans and disaster recovery testing of all critical systems. A focused drive for business continuity awareness was undertaken covering all branches and other operating offices.

Compliance

The Bank's approach to managing compliance is proactive and is premised on specific regulatory requirements in the markets in which it operates, (such as those mandated by the Central Bank of Oman (CBO) and the Capital Market Authority (CMA) among others for the Bank's Oman business), as well as internationally accepted principles. The Bank fosters a culture of compliance which is seen not only as a requirement of law but also as a good business practice.

To carry out its responsibilities effectively, the compliance division is divided into four sections i.e. CBO Compliance, CMA Compliance, Anti-Money Laundering (AML) and Testing and Review sections.

Compliance (continued)

The Bank remains steadfast in its commitment to combat money laundering and terrorist financing by improving control measures as the regulatory environment becomes more dynamic. To this end, the Bank has implemented a new state-of-the-art AML system which has enhanced the Bank's ability to effectively monitor and detect suspicious transactions. On the AML training side, in addition to in-house and on-the-job training, AML e-learning is a mandatory annual training program for all employees of the Bank.

The Bank's commitment to Corporate Governance was recognised by being awarded for distinguished Corporate Governance Practices for the second consecutive year by the Institute of Corporate Governance (Hawkamah) and the Union of Arab Banks (UAB).

Corporate Communications

Corporate Communications Division (CCD) is responsible for the supervision and execution of all the activities undertaken by National Bank of Oman (NBO) to communicate with both internal and external constituencies.

NBO's Corporate Communications goal continues to promote a sense of corporate identity by presenting a consistent and coherent corporate image.

NBO's team is supported by professionals with experience in various areas of communications. Some of the services of the division include: Media Strategy Development, Corporate Citizenship, Sponsorships, Web Management, Branding, Media Relations, Events Planning and Organisation.

- NBO Rebranding – In 2007, NBO underwent an innovative rebranding exercise and on 21st March 2009, CCD spearheaded the launch of NBO's new brand.
- The new primary colours embrace Oman's national flag. Moreover, the colours support the fact that NBO is the first local bank incorporated by His Majesty Sultan Qaboos in 1973. The new look signals to the local market that NBO is focusing on the Nation and its citizens.
- Internal Communications – CCD engages in various mediums in supporting the internal communications of the Bank. CCD engages employees through the internal website, annual staff get-together and weekly electronic newsletter. This has proven to add significant value to the Bank from productivity and employee engagement. CCD is also responsible for organising and executing all the Bank's activities and events.

- Additionally CCD sponsors several employee initiatives. Recently, NBO sponsored the NBO Staff Soccer Night, Paint Ball Tournament, Cricket and Bowling Competitions. It also recognises talented employees by sponsoring them in their areas of interest.
- External Communications – CCD has participated in a number of major local events as sponsors, such as Muscat Festival and Khareef Festival in Salalah. A number of sports events including the Sayyid Abbas Golf Tournament, the Asian Cup Tournament for Hockey, Camel and Horse Race, have also been sponsored. On the economic, educational and cultural front, CCD has played a pivotal role by sponsoring the annual Women in Business Conference and the SME Conference and exhibition and Media Creativity Forum at Sultan Qaboos University.

Consumer Banking

Despite a challenging economic environment, the Retail Bank has continued to make significant strides in 2009. NBO invested substantially in customer-facing initiatives, which included increasing our distribution footprint in terms of both intensity and spread, from 54 branches at the beginning of the year to 64 branches in December 2009. Additionally, the ATM and CCDM network grew from 133 to 162 machines during the same period.

The Bank's Wealth Management proposition, Sadara, continued to expand with 5 new centres being established in the following areas; CBD Branch, Shatti Al Qurum, Mina Al Fahal, Sohar and Salalah. Besides the increased number of branches and ATMs, NBO also embarked on a significant refurbishment programme of all its branches, to ensure that all our customers experience the new image of NBO. This project will continue throughout next year with completion being targeted for the end of 2010.

Al Kanz, a powerful savings account scheme, was launched by NBO in 2009 and continues to set new records with a significant growth in market share.

Several other retail products and initiatives were launched during the period under review such as the 0% Card Installment Plan, a travel promotion with 7 travel partners, in-store promotions at Lulu Hypermarkets, Home Centre and E Max stores. NBO also launched Himayati – the Bank's first insurance plan for the life protection needs of its customers.

Customer experience has again been a key focus area for the Bank in 2009. Noteworthy initiatives included the implementation of a new, award-winning website together with SMS alerts for all credit and debit card transactions. This was a first for the retail banking sector in Oman. A dedicated Service Quality Division was also established to monitor and address service quality issues, ensuring that customer service breakdowns were attended to immediately. To support this initiative, a mystery shopping exercise was conducted, across the distribution network, to get a deeper understanding of the customer experience from all our touch points. Based on the findings, new standards for customer service excellence were established. A service measurement and a coaching program was also launched throughout Retail which included putting all our client-facing staff through an intensive service-quality training programme.

In keeping with its progress on Omanisation, the Bank has continuously promoted selected local talent to take on more senior positions. In consumer banking, all branch staff are now Omani nationals. To supplement this, NBO continues to invest in training Omani staff throughout the business to develop their knowledge and skills. All staff responsibilities are managed through a performance management programme which tracks and rewards the achievement of key performance indicators, thus ensuring a goal focused behaviour amongst all staff.

In-line with its growth strategy, NBO has drawn up ambitious plans for 2010. At the forefront will be an increased focus on delivering superior customer service. On the product side Al Kanz will remain a key focus area, followed by the Cards business, Wealth Management and Insurance. Al Manzel, the Bank's popular mortgage product, will continue in its pursuit to increase market share.

To summarise, 2010 will see the consumer banking business continue to focus on booking quality assets, gaining market share in low-cost deposits and improving the quality of our distribution channels. Most importantly, the Bank will strive to establish service leadership by delivering significantly improved customer service in 2010, whilst at the same time building an aggressive performance culture throughout the franchise.

Corporate Banking and Capital Markets

Corporate Banking

2009 was a year of selective growth and consolidation for the Corporate Banking Group. The Bank was cognisant of the continued uncertainty in the global markets and its possible impact on the regional and domestic markets. However, the cautious and conservative policies of the Central Bank of Oman and the internal policies of the Bank ensured that the impact of these external factors on the Bank's business was muted.

During the year the Bank focused its attention on the protection of its existing assets and to ensure that credit continued to be available to selected sectors and to customers with sustainable business models and strong cashflows. The Bank was very cautious on the more vulnerable sectors of the economy and continued to focus on the infrastructure, oil and gas and contracting businesses which are the driving forces of the Omani economy and continued to provide support to projects of national importance.

To meet the challenges of the global and domestic market environment during the year, the Bank took various measures to protect its assets and at the same time provide a stable platform for measured growth during the year, and to prepare the Bank for a rebound in the economic activities in the years 2010/2011.

The Bank set up a Special Asset Management Unit to identify and nurse the assets showing signs of difficulties. A limited number of customers in the construction and real estate sector were identified and the Bank took a very proactive role to nurse them and work out medium-to-long-term solutions to their problems. This has been hard but successful work for the Bank which has ensured that the customers continue to do business with more acceptable and sustainable models, recalibrating their debt and repayments to more appropriate levels and at the same time enhancing our credit risk by taking extra security.

> The Bank will open
> Corporate Facilities Centres
> in Sohar and Salalah in 2010.

The Bank undertook an extensive and detailed review of the corporate book and initiated corrective action where required, in terms of documentation and security. The process involved extensive calling plans by the Relationship Managers to discuss and understand the customers' businesses during a difficult year and to get involved in any required corrective action at the business level. These close interactions with the customers and the understanding shown by the Bank on their businesses are expected to yield dividends in the years to come.

However, the last quarter of the year 2009 started showing signs of recovery in the global and the domestic economy, with active support from the Government in terms of announcement of various new and large projects of national importance, and the awarding of tenders to local and international contractors. The Bank has also identified potential businesses arising out of the Government's spending plan on the infrastructure sectors and has positioned itself with various leading domestic and international business houses to play a significant role in these projects. These are expected to yield dividends in 2010.

The corporate banking division's profit grew by 11% to RO 23 million while maintaining asset quality.

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

Trade Services, Bulk remittances and Corporate Internet Banking services have proved to be a success with most of our corporate customers actively using it for their banking requirements. Plans are in development to implement Phase II of Corporate Internet banking to further enhance the scope and functionality of the existing offering.

Encouraged by the success of the Corporate Branch the Bank is in advanced stage to open similar corporate facilities centres in Sohar and Salalah during the early part of 2010.

The Bank believes that in a dynamic and competitive market, the key to retaining a Corporate customer base and attracting new customers is by offering quality personalised and customised services backed by state-of-the-art technology. The Bank will continue its initiatives in this regard in 2010 and add more dedicated services for corporate customers.

To maintain and enhance the quality of credit appraisal process, staff were trained on credit approval processes and additional credit analysts were recruited.

Investment Banking

After a tumulus 2008, International and regional capital markets started their path to recovery. The MSM performed well compared to its regional peers, posting a double-digit return of 17.05%. Regional markets had their share of problems emanating from the liquidity crisis in Dubai, affecting investor confidence adversely.

Despite the challenging market conditions, Investment Banking Division (IBD) performed creditably during the year. Due to volatile market conditions, the division realised profits during the year to protect the shareholders' funds from a downside risk. The division diversified its product reach as it launched and was mandated to be the Custodian and Fund Administrator for the prestigious Oman-government-sponsored Investment Stabilisation Fund with an expected fund corpus of USD 390 million. The division captured other mandates in this area and has now become one of the leading players in the business in Oman.

Despite the sluggish market conditions, the Asset Management unit grew assets under management through acquisition of new mandates. The Corporate Finance & Advisory unit also won new mandates and continued to show steady growth. The Brokerage unit increased its market share during the year.

The division will continue to look for opportunities to expand its product base in 2010 as well as diversify its income streams to attain sustainable growth in the coming years.

Treasury

The year 2009 dawned in the midst of the worst bear market since 1929 with nervousness being reflected in very high market volatility. It was a year of dollar weakness, although it started the year on a strong note as the financial crisis drove a lot of money into safe-haven investments like US Treasuries. Thanks to massive policy stimulus by leading Central Banks, volatile market sentiment stabilised as money started to flow. The commodity currencies offered an attractive carry and a large exposure to China delivered strong performance for global portfolios. The latter might turn out to be a risk factor going forward, and the quick growth acceleration has the added side effect that leverage continues to grow in commodity currencies. Commodities markets witnessed price rise led by base metal like Aluminum and Oil prices retreated from their highs of over $80 per barrel to around $70 per barrel. Agricultural commodities after breaking out their lull rallied high. Gold continued to build on its positive momentum. In 2010 the performance is likely to be driven by individual market dynamics as opposed to growth and US dollar led recovery in 2009.

In its continued pursuit to provide the best possible value-added services to its clients, the Treasury, in 2009, expanded the reach of a dedicated Treasury Sales Team to cater to the risk management requirements of clients. 2009 from an exchange income perspective was steady if unspectacular.

During the year the Treasury worked on improving the Asset Liability Management process and policies that assisted the Bank in efficiently managing its balance sheet during volatile market conditions. This resulted in significant cost savings and improving the Net Interest Margin to improve bank's bottom line. In addition, during the year, the Treasury working with the Financial Institution Group established and strengthened our Foreign Exchange and Money Market relationships with Banks and Financial Institutions within and outside the GCC, as part of its liquidity and contingency planning management.

We approach 2010 with a degree of optimism that both economic recovery and stability in markets can be sustained, pointing to less volatile conditions in the year ahead. We expect 2010 will provide opportunity for the Treasury as it seeks to build on opportunities generated by the Bank.

International Banking – Financial Institutions Group (FIG)

National Bank of Oman's Corporate and Institutional Clients have access to state-of-the-art international trade and payment products, owing to the strong alliances that the Financial Institutions Group (FIG) has established with a large network of local and international banks. Our global banking partnerships ensure that our customers can avail a broad spectrum of products and services in-line with their expectations.

Despite the global financial turmoil, FIG was successful in raising resources from major international banks to support the Bank's continued growth.

The current portfolio of the Financial Institutions business segment is spread across key international markets.

Correspondent banking activities also successfully drove the performance of the Bank and key activities and products included:

- Letter of Credit
- Confirmation of L/C's in favor of customers in Oman
- Issuance of guarantees against counter guarantees of Correspondent Banks
- Remittances to bank or non-bank beneficiaries through our network of domestic online branches, overseas operations and strategic correspondent arrangements
- Risk Participation
- FI Syndications.

Finance

Financial Control

The Bank continues to follow international best practice in terms of disclosure requirements of International Financial Reporting Standards (IFRS) as well as the Regulators in the reporting of the financial statements so as to increase the transparency of financial information provided externally. The new requirements under IFRS 7 and IFRS 8 are fully embedded. The division is closely engaged with the statutory auditors in producing an impact analysis on IFRS 9. Key staff were trained for the new tax laws that will come into effect from 2010 onwards.

The division was actively involved in cost management, balance sheet management and various Bank-wide strategic projects.

Performance Management

The division was actively involved in the analysis, forecasting, KPI linkage to business plans, target setting and measurement. This division plays a key role in providing MIS reports and analytics to the executive management, business managers and line managers through a variety of operational, tactical and strategic reports.

The Division has successfully implemented an effective and robust MIS reporting system. It also ensures structured and adequate information is available at all times so that informed business decisions are possible.

Operations

2009 had been a successful and eventful year for the Operations Division. The year began with major reorganisation of Operations Division with all operational services/activities being consolidated under its control, thus freeing up the business divisions to focus on core customer-related activity.

Highlights and achievements of the Division included:

- Launch of a new front-end branch system (Symphony) on pilot basis at one of the Muscat region branches,
- Re-engineering of several processes under 'Lean Operation' initiatives and its implementation branches/Head Office units,
- Implementation of Electronic Cheque Clearing (ECC) system, full integration of ECC with our Core Banking System (we were the first bank to do so in Oman), roll-out of ECC to most of the Muscat region branches,
- MasterCard regarding post-migration of Cards Management System from Arab Financial Services to Commercialbank of Qatar Prime system in 2008.
- Supported launch of Credit Shield (cards insurance product), and Flexi Purchase scheme under credit cards.

On the investment banking operations front, we commenced Fund Custody & Administration services and are currently handling the largest Fund (Investment Stabilisation Fund) in the Sultanate of Oman. Additionally we have introduced several process changes within Investment Banking Operations to significantly improve our capability to manage execution of local and international stocks traded by our customers through the NBO Brokerage team, whilst also enhancing levels of customer satisfaction.

Further enhancements were also made across Payments, Treasury and centralised capabilities that have greatly improved processing efficiency, accuracy and customer experience.

Credit Administration and Control

The previous name of Credit Operations was changed during 2009 to Credit Administration and Control and additionally the responsibilities of the Card Processing Services (CPS) division were merged into it. This new organisation structure has been designed to segregate department functions into four categories i.e. Documentation, Monitoring & Control, System Maintenance and MIS in order to streamline activities into focused functional areas which will lead to better service, superior controls and improved turnaround time.

Information Technology

The Information Technology (IT) Division is committed to supporting NBO's business and customer requirements. We partner closely with the business to build IT solutions and deliver comprehensive services to support the Bank's business priorities and drive growth. We consistently use diverse technologies to meet the complex demands of the business and our customers.

By aligning our IT initiatives with the Bank's overall business objectives, the IT Division ensures seamless service delivery. Additionally, the IT division is focused on providing confidentiality, integrity and availability of information to the Bank's customers in a highly secure environment.

> We were the first Bank in the Sultanate to complete online integration of Electronic Cheque Clearing System with our Core Banking System.

The Bank has initiated a number of projects to improve our systems and provide more convenient and efficient service to our customers. Our network and communication systems are on par with the latest industry requirements and security standards, enabling prompt and secure service delivery to customers.

The Bank has a disaster recovery site that can be activated in the case of any unforeseen circumstances to ensure availability and continuity of critical systems and data to provide essential services to our customers.

The following major system changes were delivered in 2009:

- Upgrading our Core Banking system to support current and future requirements.
- We have received appreciation from Central Bank of Oman on our commitment and efforts in completing new BCSB Project.
- We were the first Bank in the Sultanate to complete online integration on Electronic Cheque Clearing System with our Core Banking System.
- A new Contact Centre solution was implemented for better customer interaction and marketing.
- ATMs are commissioned on GPRS to provide communication to areas where other communication channels are not available.
- We have also implemented a number of direct-to-customer technology solutions like instant transactional SMS Alerts to protect our clients and mitigate the risk of any fraudulent credit card transactions.
- The division is actively engaged in the implementation of a new front-end system developed in-house and implemented in a pilot branch. Implementation of the system for remaining branches is scheduled for 2010.
- As part of cross training and personnel development, IT has successfully completed mentoring for 16 staff members on various technology areas.

Human Resources

The year 2009 has been a significant year with several key initiatives undertaken by HR and it continues to remain closely aligned with business functions.

- Omanisation - the Bank's Omanisation percentage stands at 91.22 % as of 31st December 2009.
- Recruitment Policy - The Bank revised its recruitment policy with an emphasis on providing greater opportunities to Omani nationals.
- Career Development - Several Omani national were provided opportunities internally within the Bank to occupy more senior positions with increased representation in the management team.
- Succession Planning - The Bank formulated a succession policy for its key staff to ensure continuity and seamless transfer of responsibility should a change in personnel take place.
- Redeployment of staff - the lean Project identified a number of staff in the Bank that were successfully redeployed to customer facing areas.
- Voluntary Early Retirement Scheme - The Bank revised its early retirement scheme and has offered the same to select employees based on individual's circumstances.
- Management Trainee Program – a further batch of Management Trainees were hired in 2009 as part of our drive to improve the bench strength and quality of our people over time.
- Organisation Restructuring - various sections and divisions were realigned and restructured during 2009 to deliver improved efficiency and productivity of our people.
- Training & Development – programmes such as Target Group Oriented Training Programs like Client Relationship Management; Credit Risk Analysis; Introduction to Retail Credit Risk Management; Structured Trade Finance; Presentation Skills; Middle Management Program; were delivered to staff. A very comprehensive Training Program for a very large number of staff members of the Bank in Customer Service Excellence Standards was also provided.

> The Bank's Omanisation percentage stands at 91.22 % as of 31st December 2009

Internal Audit Function

- Structure and mandate – The Internal audit division is an independent function reporting to the Board Audit Committee. The Internal Audit mandate covers the review all corporate and consumer businesses, operations, risk management and loan portfolios of the Bank as well as the conduct of Investigations.

- Risk-based Auditing – A three-year audit plan is developed under the risk-based audit methodology, which uses a structured risk assessment approach that examines all of the Bank's activities and entities. Consideration is paid to the level of inherent risk and control effectiveness against the various risk types. An Annual Audit Plan is then prepared and audit resources are focused on those activities that are deemed to carry higher risks. The coverage of the Annual Audit Plan is reviewed and modified as required, by the Board Audit Committee at quarterly intervals.

- Internal Audit Coverage – The scope of audit entails the evaluation of the adequacy and effectiveness of the internal controls, risk management practices, governance processes and the quality of performance in meeting corporate objectives. The audit coverage extends to all part of the Bank which includes corporate banking, retail banking, treasury, investment banking, financial control, Information technology, corporate and consumer credit portfolios, operations and all branches in the Oman, Egypt and the UAE.

- Staffing – The audit division has competent professionals with a mix of ACA, ACCA, MBA, CISA, CISM, CIA qualifications. The professional competence of the internal auditors is enhanced through internal and external training programs, secondments to specific areas in the Bank and on the job training. The Internal Audit division encourages an ongoing rotation and exchange of staff between internal audit and others parts of the Bank.

- Internal Audit Reports and Corrective action – All audit reports are issued to Board Audit Committee and the senior management simultaneously. The progress of corrective actions on outstanding issues is monitored monthly through a centralised Bank-wide Issues management system that is maintained by the internal audit team. Information on outstanding issues is categorised according to severity and monthly reports are sent to the Board Audit Committee and senior management. Excessive delays in taking corrective action are factored into the performance of senior management.

The regulators are apprised of all relevant audit matters and are given audit reports whenever these are required. Internal Audit also works closely with the statutory auditors and meets with them regularly to discuss and to co-ordinate audit efforts.

Quality Assurance Reviews on Internal Audit

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

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

PwC has stated that the Internal Audit Division continues to be viewed as independent, objective and effective, meeting stakeholders' needs and expectations. IAD remains favourably benchmarked against other higher performing internal audit groups and international best practices. The function retains a high level of stature in the organisation and receives strong support from management.

Internal Control Systems and Their Adequacy

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

The compliance function has put in place procedures for monitoring 'Anti Money Laundering' activities and ensuring regulatory compliance across the Bank.

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

Finally, the internal audit division conducts ongoing audits of the entire bank under the direction of the Board Audit Committee.

Outlook

Both the challenges and achievements of 2009 have been considerable. We have focused on building a sustainable, scalable platform for future growth. We have continued to work with our strategic partner Commercial Bank of Qatar in identifying areas of common ground and benefit.

The country's budget for the year 2010, which is based on conservative pricing of oil at US $ 50 per barrel has estimated sizeable expenditure on expansion of educational and health services. Further, under the seventh five-year plan the total appropriations to the various projects approved under the plan amounted to RO 5,373 million. This will ensure that opportunities to grow continue to be available to banks.

The Bank has established a clear strategy for sustainable growth in 2010 and beyond, wherein, the Bank has clearly defined strategy with respect to financial performance, customers and products, process and service improvement and development of its employees.

Oman is the primary focus and market for the Bank and we will continue to build the UAE franchise as an additional service point for our Omani customer and opportunities.

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

We will continue to work closely with our strategic alliance partner Commercial Bank of Qatar, to capitalise on regional business opportunities and transfer best practices across both organisations.

We approach 2010 with a degree of optimism that both the economic recovery and the stability in markets can be sustained, pointing to less volatile conditions in the year ahead.

Murray Sims
Chief Executive Officer

ERNST & YOUNG

P.O. Box 1750, Ruwi 112
Ernst & Young Building
Qurum
Muscat, Sultanate of Oman
Tel: +968 2455 9559 Fax: +968 2456 6043
muscat@om.ey.com
www.ey.com/me
C.R. No. 1/36809/5
P. R. No. MH/4

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF NATIONAL BANK OF OMAN SAOG

Report on the Financial Statements

We have audited the accompanying financial statements of National Bank of Oman SAOG ('the bank'), which comprise the statement of financial position as at 31 December 2009 and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes

Board of Directors' Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate for the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the bank as of 31 December 2009 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on Other Legal and Regulatory Requirements

In our opinion the financial statements comply, in all material respects, with the relevant disclosure requirements of the Commercial Companies Law of 1974, as amended and the Rules and Guidelines on disclosure issued by the Capital Market Authority.

Ernst & Young

1 March 2010
Muscat

Philip Stanton
Partner

STATEMENT OF FINANCIAL POSITION

At 31 December 2009

2008 USD'000	2009 USD'000		Notes	2009 RO'000	2008 RO'000
		ASSETS			
691,919	**478,849**	Cash and balances with Central Banks	3	**184,357**	266,389
55	**45,153**	Financial assets designated at fair value through profit or loss	4	**17,384**	21
515,873	**433,548**	Due from banks and other money market placements (net)	5	**166,916**	198,611
3,639,527	**3,535,057**	Loans and advances to customers (net)	6	**1,360,997**	1,401,218
80,117	**78,078**	Non-trading financial investments	7	**30,060**	30,845
24,857	**33,151**	Premises and equipment	8	**12,763**	9,570
158	**-**	Deferred tax asset	13	**-**	61
201,987	**66,847**	Other assets	9	**25,736**	77,765
5,154,493	**4,670,683**	**TOTAL ASSETS**		**1,798,213**	1,984,480
		LIABILITIES, SUBORDINATED FUNDS AND EQUITY			
		LIABILITIES			
718,262	**570,551**	Due to banks and other money market deposits	10	**219,662**	276,531
3,485,078	**3,274,722**	Customers' deposits	11	**1,260,768**	1,341,755
220,509	**90,130**	Other liabilities	12	**34,700**	84,896
18,995	**13,200**	Taxation	13	**5,082**	7,313
-	**26**	Deferred tax liability		**10**	-
4,442,844	**3,948,629**	**TOTAL LIABILITIES**		**1,520,222**	1,710,495
		SUBORDINATED FUNDS			
74,286	**71,688**	Subordinated private placements	14	**27,600**	28,600
		EQUITY			
280,779	**280,779**	Share capital	15	**108,100**	108,100
89,519	**89,519**	Share premium reserve	16	**34,465**	34,465
79,387	**84,870**	Legal reserve	17	**32,675**	30,564
11,478	**11,478**	General reserve	18	**4,419**	4,419
37,582	**20,800**	Other non-distributable reserves	19	**8,008**	14,469
49,138	**33,694**	Proposed cash dividend	20	**12,972**	18,918
89,480	**129,226**	Retained earnings		**49,752**	34,450
637,363	**650,366**	**TOTAL EQUITY**		**250,391**	245,385
5,154,493	**4,670, 683**	**TOTAL LIABILITIES, SUBORDINATED FUNDS AND EQUITY**		**1,798,213**	1,984,480

The financial statements were authorised for issue on 1st March 2010 in accordance with a resolution of the Board of Directors.

Chairman

Chief Executive Officer

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

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2009

2008 USD'000	2009 USD'000		Notes	2009 RO'000	2008 RO'000
234,338	**265,873**	Interest income	22	**102,361**	90,220
(110,875)	**(118,283)**	Interest expense	23	**(45,539)**	(42,687)
123,463	**147,590**	Net interest income		**56,822**	47,533
105,493	**65,052**	Other operating income	24	**25,045**	40,615
228,956	**212,642**	**OPERATING INCOME**		**81,867**	88,148
		OPERATING EXPENSES			
(50,831)	**(53,260)**	Staff costs		**(20,505)**	(19,570)
(32,413)	**(29,711)**	Other operating expenses	25	**(11,439)**	(12,479)
(4,688)	**(7,377)**	Depreciation	8	**(2,840)**	(1,805)
(87,932)	**(90,348)**			**(34,784)**	(33,854)
141,024	**122,294**	**PROFIT FROM OPERATIONS BEFORE IMPAIRMENT LOSSES AND TAX**		**47,083**	54,294
(40,470)	**(53,203)**	Credit loss expense – customer's loan	6	**(20,483)**	(15,581)
22,210	**18,276**	Recoveries and releases from provision for credit losses	6	**7,036**	8,551
21,024	**9,000**	Recoveries from loans and advances written off		**3,465**	8,094
(9,618)	**(10,704)**	Impairment losses on available-for-sale investments	7	**(4,121)**	(3,703)
-	**(20,691)**	Credit loss expense - bank loans	5	**(7,966)**	-
(6,854)	**(57,322)**	TOTAL IMPAIRMENT LOSSES (NET)		**(22,069)**	(2,639)
134,170	**64,972**	**PROFIT BEFORE TAX**		**25,014**	51,655
(16,299)	**(10,153)**	Taxation	13	**(3,909)**	(6,275)
117,871	**54,819**	**PROFIT FOR THE YEAR**		**21,105**	45,380
		OTHER COMPREHENSIVE INCOME			
(43,040)	**4,115**	Net unrealised gain/(loss) on available-for-sale investments		**1,584**	(16,571)
1,104	**(1,442)**	Net unrealised (loss)/gain on cash flow hedge		**(555)**	425
(1,552)	**4,834**	Impairment losses realised on available-for-sale investments		**1,861**	(597)
158	**(184)**	Tax effect of net results on available-for-sale financial investments		**(71)**	61
(43,330)	**7,323**	**OTHER COMPREHENSIVE INCOME (EXPENSE) FOR THE YEAR**		**2,819**	(16,682)
74,541	**62,142**	**TOTAL COMPREHENSIVE INCOME FOR THE YEAR**		**23,924**	28,698
0.11	**0.05**	Earnings per share: Basic and diluted, profit for the year attributable to equity holders	27	**0.019**	0.042

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

STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2009

(RO'000)	Share capital	Share premium	Legal reserve	General reserve	Other non-distributable reserves (note 19)	Proposed cash dividend (note 20)	Proposed issue of bonus shares	Retained earnings	Total
Balance at 1 January 2008	92,000	34,465	26,026	4,419	34,833	16,100	16,100	8,844	232,787
Total comprehensive income	-	-	-	-	(16,682)	-	-	45,380	28,698
Issue of bonus shares	16,100	-	-	-	-	-	(16,100)	-	-
Transfer to subordinated reserve	-	-	-	-	2,500	-	-	(2,500)	-
Transfer to retained earnings	-	-	-	-	(6,182)	-	-	6,182	-
Transfer to legal reserve	-	-	4,538	-	-	-	-	(4,538)	-
Dividend paid	-	-	-	-	-	(16,100)	-	-	(16,100)
Proposed cash dividend	-	-	-	-	-	18,918	-	(18,918)	-
Balance at 31 December 2008	108,100	34,465	30,564	4,419	14,469	18,918	-	34,450	245,385
Balance at 1 January 2009	**108,100**	**34,465**	**30,564**	**4,419**	**14,469**	**18,918**	**-**	**34,450**	**245,385**
Total comprehensive income	**-**	**-**	**-**	**-**	**2,819**	**-**	**-**	**21,105**	**23,924**
Transfer to retained earnings	**-**	**-**	**-**	**-**	**(12,500)**	**-**	**-**	**12,500**	**-**
Transfer to subordinated reserve	**-**	**-**	**-**	**-**	**3,220**	**-**	**-**	**(3,220)**	**-**
Dividend paid	**-**	**-**	**-**	**-**	**-**	**(18,918)**	**-**	**-**	**(18,918)**
Transfer to legal reserve	**-**	**-**	**2,111**	**-**	**-**	**-**	**-**	**(2,111)**	**-**
Proposed cash dividend	**-**	**-**	**-**	**-**	**-**	**12,972**	**-**	**(12,972)**	**-**
Balance at 31 December 2009	**108,100**	**34,465**	**32,675**	**4,419**	**8,008**	**12,972**	**-**	**49,752**	**250,391**
Balance at 1 January 2009 – In USD'000	280,779	89,519	79,387	11,478	37,582	49,138	-	89,480	637,363
Balance at 31 December 2009 – In USD'000	**280,779**	**89,519**	**84,870**	**11,478**	**20,800**	**33,694**	**-**	**129,226**	**650,366**

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

2008 USD'000	2009 USD'000		Notes	2009 RO'000	2008 RO'000
		OPERATING ACTIVITIES			
134,170	**64,972**	Profit before taxation		**25,014**	51,655
		Adjustments for:			
4,688	**7,377**	Depreciation		**2,840**	1,805
(12,862)	**10,062**	Provision for credit losses (net)		**3,874**	(4,952)
9,618	**10,704**	Impairment losses on available-for-sale investments		**4,121**	3,703
-	**20,896**	Impairment losses and interest reserve on bank loans		**8,045**	-
(126)	**(66)**	Profit on sale of equipment (net)		**(25)**	(48)
(26,335)	**(6,519)**	Profit on sale of investments		**(2,510)**	(10,139)
(3,597)	**(3,838)**	Investment income		**(1,477)**	(1,385)
105,556	**103,588**	Operating profit before changes in operating assets and liabilities		**39,882**	40,639
(127,036)	**100,371**	Due from banks and other money market placements		**38,643**	(48,909)
131,057	**6,268**	Due to banks and other money market deposits		**2,413**	50,457
(1,271,431)	**94,408**	Loans and advances to customers		**36,347**	(489,501)
73	**(45,099)**	Financial assets at fair value through profit or loss		**(17,363)**	28
(21,016)	**135,140**	Other assets		**52,029**	(8,091)
1,053,849	**(210,356)**	Customers' deposits		**(80,987)**	405,732
27,901	**(130,379)**	Other liabilities		**(50,196)**	10,742
(101,047)	**53,941**	**Cash from (used in) operations**		**20,768**	(38,903)
(12,031)	**(15,979)**	Taxes paid		**(6,152)**	(4,632)
(113,078)	**37,962**	**Net cash from (used in) operating activities**		**14,616**	(43,535)
		INVESTING ACTIVITIES			
(62,258)	**(26,904)**	Purchase of non-trading investments		**(10,358)**	(23,969)
72,341	**33,649**	Proceeds from sale of non-trading investments		**12,955**	27,851
(12,070)	**(15,883)**	Purchase of premises and equipment	8	**(6,115)**	(4,647)
224	**281**	Disposal of premises and equipment		**108**	86
1,683	**1,873**	Income from bond and other investments		**721**	648
1,914	**1,965**	Dividend income		**756**	737
(5)	**88**	Translation differences on investments, premises and equipment and tax		**34**	(2)
1,829	**(4,931)**	**Net cash (used in) from investing activities**		**(1,899)**	704
		FINANCING ACTIVITIES			
(41,818)	**(49,138)**	Payment of dividend		**(18,918)**	(16,100)
41,818	**(2,597)**	Net movement in subordinated private placements		**(1,000)**	16,100
-	**(51,735)**	Net cash used in financing activities		**(19,918)**	-
(111,249)	**(18,704)**	**DECREASE IN CASH AND CASH EQUIVALENTS**		**(7,201)**	(42,831)
832,579	**721,330**	Cash and cash equivalents at the beginning of the year		**277,712**	320,543
721,330	**702,626**	**CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR**		**270,511**	277,712
		REPRESENTING:			
688,636	**475,566**	Cash and balances with Central Banks (note 3)		**183,093**	265,125
32,694	**227,060**	Deposits and balances with other banks and financial institutions (net)		**87,418**	12,587
721,330	**702,626**			**270,511**	277,712

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

1 LEGAL STATUS ANDPRINCIPAL ACTIVITIES

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

The Bank employed 1,329 employees as at 31 December 2009 (2008: 1,345).

2 ACCOUNTING POLICIES

2.1 Basis of preparation

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

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

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

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

2.2 Statement of compliance

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

2.3 Significant accounting judgments and estimates

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

Going concern
The Bank's management has made an assessment of the Bank's ability to continue as a going concern and is satisfied that the Bank has the resources to continue in business for the foreseeable future. Furthermore, the management is not aware of any material uncertainties that may cast significant doubt upon the Bank's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

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

2 ACCOUNTING POLICIES (continued)

2.3 Significant accounting judgments and estimates (continued)

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

Impairment of equity investments

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

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded on the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data are not available, judgment is required to establish fair values.

Deferred tax assets

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

2.4 Change in accounting policies

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

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

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

IAS 1 Presentation of Financial Statements effective 1 January 2009

This standard requires an entity to present all owner changes in equity and all non-owner changes to be presented in either in one statement of comprehensive income or in two separate statements of income and comprehensive income. The revised standard also requires that the income tax effect of each component of comprehensive income be disclosed. In addition, it requires entities to present a comparative statement of financial position as at the beginning of the earliest comparative period when the entity has applied an accounting policy retrospectively, makes a retrospective restatement, or reclassifies items in the financial statements.

The Bank has elected to present comprehensive income in one statement of comprehensive income. Information about the individual components of comprehensive income as well as the tax effects have been disclosed in the notes to the financial statements.

Amendments to IFRS 7 Financial Instruments: Disclosures - Improving Disclosures about Financial Instruments

The amendments to IFRS 7 were issued in March 2009 to enhance fair value and liquidity disclosures. With respect to fair value, the amendments require disclosure of a three-level fair value hierarchy, by class, for all financial instruments recognised at fair value and specific disclosures related to the transfers between levels in the hierarchy and detailed disclosures related to level 3 of the fair value hierarchy. In addition, the amendments modify the required liquidity disclosures with respect to derivative transactions and assets used for liquidity management. Comparative information has not been restated as permitted by the transition provisions of the amendment.

2 ACCOUNTING POLICIES (continued)

2.4 Change in accounting policies (continued)

IFRS 8 Operating Segments effective 1 January 2009

IFRS 8 replaced IAS 14 Segment Reporting upon its effective date. This standard requires disclosure of information about the Bank's operating segments and replaced the requirement to determine primary (business) and secondary (geographical) reporting segments of the Bank. The Bank concluded that the operating segments determined in accordance with IFRS 8 are the same as the business segments previously identified under IAS 14. IFRS 8 disclosures are shown in note 31.

IAS 32 Financial Instruments: Presentation and IAS 1 Puttable Financial Instruments and Obligations Arising on Liquidation

The standards have been amended to allow a limited scope exception for puttable financial instruments to be classified as equity if they fulfil a number of specified criteria. The adoption of these amendments did not have any impact on the financial position or the performance of the Bank.

IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items

The amendment clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item. This also covers the designation of inflation as a hedged risk or portion in particular situations. The Bank has concluded that the amendment will have no impact on the financial position or performance of the Bank, as the Bank has not entered into any such hedges.

IFRIC 9 Reassessment of Embedded Derivatives and IAS 39 Financial Instruments: Recognition and Measurement

This amendment to IFRIC 9 requires an entity to assess whether an embedded derivative must be separated from a host contract when the entity reclassifies a hybrid financial asset out of the fair value through profit or loss category. This assessment is to be made based on circumstances that existed on the later of the date the entity first became a party to the contract and the date of any contract amendments that significantly change the cash flows of the contract. IAS 39 now states that if an embedded derivative cannot be reliably measured, the entire hybrid instrument must remain classified as at fair value through profit or loss.

The following standards, amendments and interpretations are not yet effective :

Phase 1 of IFRS 9

On 12 November 2009, the International Accounting Standard Board (IASB) published phase 1 of IFRS 9 Financial Instruments, the accounting standard that will eventually replace IAS 39: Financial Instruments: Recognition and Measurement. Whilst IFRS 9 is not mandatory until 1 January 2013, entities may adopt for reporting periods ending on or after 31 December 2009. The standard when adopted will have an impact on the Bank's financial statements, which is currently being evaluated by the management.

IFRIC 17 Distributions of Non-cash Assets to Owners

This interpretation is effective for annual periods beginning on or after 1 July 2009 with early application permitted. It provides guidance on how to account for non-cash distributions to owners. The interpretation clarifies when to recognise a liability, how to measure it and the associated assets, and when to derecognise the asset and liability. The Bank does not expect IFRIC 17 to have an impact on the financial statements.

2 ACCOUNTING POLICIES (continued)

2.5 Summary of significant accounting polices

Date of recognition

All financial assets and liabilities are initially recognised on the trade date, i.e., the date that the Bank becomes a party to the contractual provisions of the instrument. This includes "regular way trades"; purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

Initial measurement of financial instruments

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

Cash and cash equivalents

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

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

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

- the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on them on a different basis; or
- the assets and liabilities are part of a group of financial assets, financial liabilities or both which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or
- the financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

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

Held to maturity

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

Available-for-sale

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

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

2 ACCOUNTING POLICIES (continued)

Available-for-sale (continued)

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

Due from banks and loans and advances to customers

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

Determination of fair values

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

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

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

Premises and equipment

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

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

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

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

The assets' residual values, useful lives and depreciation methods are reviewed and adjusted if appropriate at each balance sheet date.

2 ACCOUNTING POLICIES (continued)

Derecognition of financial assets and financial liabilities

Financial assets:

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired; or
- the Bank has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and
- either (a) the Bank has transferred substantially all the risks and rewards of the asset, or (b) the Bank has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Bank has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Bank's continuing involvement in the asset. In that case, the Bank also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Bank has retained. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Bank could be required to repay.

Financial liabilities:

A financial liability is derecognised when the obligation under the liability is discharged, or cancelled, or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

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.

Deposits

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

Other borrowed funds

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

Taxation

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

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the statement of comprehensive income except to the extent that it relates to items recognised directly to equity, in which case it is recognised in equity.

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

Deferred tax is calculated using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date.

2 ACCOUNTING POLICIES (continued)

Taxation (continued)

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Derivatives and hedge accounting

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

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

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

Cash flow hedges

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

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

When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the statement of income.

Derivative financial instruments including credit default swaps, which are not designated and qualified as hedges are recorded at fair value and unrealised gains or losses are included in the statement of comprehensive income.

Fiduciary assets

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

Financial guarantees

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

Any increase in the liability relating to financial guarantees is taken to the statement of comprehensive income. Any financial guarantee liability remaining is recognised in the statement of comprehensive income when the guarantee is discharged, cancelled or expires.

Provisions

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

2 ACCOUNTING POLICIES (continued)

Impairment of financial assets

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

Due from banks and loans and advances to customers

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

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

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

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

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

Held-to-maturity financial investments

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

2 ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

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

Available-for-sale financial investments
For available-for-sale financial investments, the Bank assesses at each balance sheet date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of comprehensive income – is removed from equity and recognised in the statement of comprehensive income. Impairment losses on equity investments are not reversed through the statement of comprehensive income; increases in their fair value after impairment are recognised directly in equity.

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

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

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

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

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

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

2 ACCOUNTING POLICIES (continued)

Fee and commission income

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

Fee income earned from services that are provided over a certain period of time

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

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

Fee income from providing transaction services

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

Dividend income

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

Foreign currencies

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

(ii) Monetary assets and liabilities denominated in foreign currencies are translated into Rial Omani at exchange rates ruling at the balance sheet date. Realised and unrealised gains and losses are dealt with in the statement of comprehensive income.

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

Repurchase and resale agreements

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

Leases

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

2 ACCOUNTING POLICIES (continued)

Staff terminal benefits

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

Segment reporting

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

Dividend on ordinary shares

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

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

Directors' remuneration

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

3 CASH AND BALANCES WITH CENTRAL BANKS

2008 USD'000	**2009 USD'000**		**2009 RO'000**	2008 RO'000
56,506	**60,190**	Cash	**23,173**	21,755
9,067	**7,475**	Treasury bills with Central Banks	**2,878**	3,491
62,338	**246,753**	Certificates of deposit with the Central Banks	**95,000**	24,000
560,725	**161,148**	Other balances with the Central Banks (net)	**62,042**	215,879
688,636	**475,566**	**Cash and cash equivalents (Pending)**	**183,093**	265,125
1,984	**1,984**	Insurance deposit with the Central Bank of Oman	**764**	764
1,299	**1,299**	Capital deposit with the Central Bank of Oman	**500**	500
691,919	**478,849**	**Cash and balances with Central Banks**	**184,357**	266,389

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

4 FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

2008 USD'000	2009 USD'000		2009 RO'000	2008 RO'000
-	**44,958**	Oman Government Development Bonds	**17,309**	-
55	**195**	Oman Government Development Bonds(OTC)	**75**	21
55	**45,153**		**17,384**	21

5 DUE FROM BANKS AND OTHER MONEY MARKET PLACEMENTS

2008 USD'000	2009 USD'000		2009 RO'000	2008 RO'000
314,626	**99,548**	Net loans and advances to banks	**38,326**	121,131
165,153	**337,688**	Placement with banks	**130,010**	63,584
36,094	**17,208**	Demand balances	**6,625**	13,896
515,873	**454,444**	Due from banks and other money market placement	**174,961**	198,611
-	**(20,691)**	Less: allowance for credit losses (refer note below)	**(7,966)**	-
-	**(205)**	Less: reserved interest	**(79)**	-
515,873	**433,548**	Net due from banks and other money market placement	**166,916**	198,611

During the second quarter of 2009, two large regional groups were reported to have defaulted on their payment obligations. As at 31 December 2009, the Bank has a limited inter-bank exposure of RO 6.6 million against these groups. In addition, NBO has an exposure to a bank in Kazakhstan for RO 1.9 million which has also defaulted in meeting its payment obligations. The restructuring process for these banks is not yet complete. The Bank has, on a prudent basis, decided to record provision of 100% against the two large regional groups and 75% against the Bank in Kazakhstan.

6 LOANS AND ADVANCES TO CUSTOMERS

2008 USD'000	2009 USD'000		2009 RO'000	2008 RO'000
192,657	**172,008**	Overdrafts	**66,223**	74,173
1,455,117	**1,667,442**	Personal loans	**641,965**	560,220
1,971,431	**1,746,804**	Other loans	**672,520**	759,001
169,270	**103,694**	Loans against trust receipts	**39,922**	65,169
17,925	**22,044**	Bills discounted	**8,487**	6,901
3,806,400	**3,711,992**	Gross loans and advances	**1,429,117**	1,465,464
(133,569)	**(149,561)**	Allowance for credit losses	**(57,581)**	(51,424)
(33,304)	**(27,374)**	Reserved interest	**(10,539)**	(12,822)
3,639,527	**3,535,057**	Net loans and advances	**1,360,997**	1,401,218

6 LOANS AND ADVANCES TO CUSTOMERS (continued)

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

2008 USD'000	2009 USD'000		2009 RO'000	2008 RO'000
		Allowance for credit losses		
138,298	**133,569**	Balance at beginning of year	**51,424**	53,245
40,470	**53,203**	Provided during the year	**20,483**	15,581
(14,309)	**(17,362)**	Released/recovered during the year	**(6,684)**	(5,509)
(30,800)	**(20,008)**	Written off during the year	**(7,703)**	(11,858)
(90)	**159**	Translation difference	**61**	(35)
133,569	**149,561**	Balance at end of year	**57,581**	51,424
		Reserved interest		
41,436	**33,304**	Balance at beginning of year	**12,822**	15,953
7,972	**8,735**	Reserved during the year	**3,363**	3,069
(7,901)	**(914)**	Released/recovered during the year	**(352)**	(3,042)
(938)	**(1,475)**	Released/recovered during the year to interest income	**(568)**	(361)
(7,265)	**(12,276)**	Written off during the year	**(4,726)**	(2,797)
33,304	**27,374**	Balance at end of year	**10,539**	12,822

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

2008 USD'000	2009 USD'000		2009 RO'000	2008 RO'000
82,634	**97,390**	Specific impairment	**37,495**	31,814
50,935	**52,171**	Collective impairment	**20,086**	19,610
133,569	**149,561**	Balance at end of year	**57,581**	51,424

All loans and advances require payment of interest based on agreed tenors, some at fixed rates and others at rates that re-price prior to maturity. As of 31 December 2009, loans and advances on which interest is not being accrued or where interest has been reserved amounted to RO 71.7 million – USD 186.2 million (2008 – RO 64.2 million – USD 166.8 million).

During the year, the Bank has written-off fully provided loans and advances amounting to RO 12.4 million – USD 32.2 million (2008: RO 14.7 million – USD 38.2 million) against impairment provisions where the Bank believes the possibility of a recovery is low. The Bank will continue to pursue the recovery of these loans through all possible means and any future recovery from these written-off loans will be recognised in the statement of comprehensive income.

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

6 LOANS AND ADVANCES TO CUSTOMERS (continued)

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

2008 USD'000	2009 USD'000		2009 RO'000	2008 RO'000
38,052	**28,761**	Agriculture	**11,073**	14,650
399,470	**385,008**	Construction	**148,228**	153,796
1,712	**1,748**	Export trade	**673**	659
240,094	**228,623**	Financial institutions	**88,020**	92,436
10	**77,956**	Government	**30,013**	4
166,423	**99,081**	Import trade	**38,146**	64,073
429,029	**407,940**	Manufacturing	**157,057**	165,176
1,455,117	**1,667,442**	Personal	**641,965**	560,220
157,112	**146,787**	Service	**56,513**	60,488
32,953	**26,119**	Transport and communication	**10,056**	12,687
278,886	**204,896**	Wholesale and retail trade	**78,885**	107,371
607,542	**437,631**	Others	**168,488**	233,904
3,806,400	**3,711,992**	Total	**1,429,117**	1,465,464

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

	Consumer and personal loans RO'000	Business and Government RO'000	Real estate and others RO'000	31/12/2009 Total RO'000	31/12/2008 Total RO'000
Sultanate of Oman	**637,681**	**504,345**	**179,386**	**1,321,412**	1,342,317
United Arab Emirates	**3,167**	**55,469**	**13,117**	**71,753**	84,290
Egypt	**1,117**	**12,621**	**-**	**13,738**	15,239
Others	**-**	**22,214**	**-**	**22,214**	23,618
Total - 31 December 2009	**641,965**	**594,649**	**192,503**	**1,429,117**	1,465,464
Total - 31 December 2008	560,220	732,155	173,089	-	1,465,464

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

	Consumer and personal loans USD'000	Business and Government USD'000	Real estate and others USD'000	31/12/2009 Total USD'000	31/12/2008 Total USD'000
Sultanate of Oman	**1,656,315**	**1,309,986**	**465,938**	**3,432,239**	3,486,538
United Arab Emirates	**8,226**	**144,075**	**34,070**	**186,371**	218,935
Egypt	**2,901**	**32,782**	**-**	**35,683**	39,582
Others	**-**	**57,699**	**-**	**57,699**	61,345
Total - 31 December 2009	**1,667,442**	**1,544,542**	**500,008**	**3,711,992**	3,806,400
Total - 31 December 2008	1,455,117	1,901,701	449,582	-	3,806,400

7 NON-TRADING FINANCIAL INVESTMENTS

	Carrying value 31/12/2009 RO'000	**Cost 31/12/2009 RO'000**	Carrying value 31/12/2008 RO'000	Cost 31/12/2008 RO'000
Available-for-sale investments				
Quoted investments - Oman				
Banking and investment sector	**249**	**254**	1,834	2,640
Industry sector	**761**	**707**	3,036	4,461
Service sector	**6,940**	**8,451**	8,993	11,287
Government Development bonds	**10,009**	**10,009**	10,012	10,012
	17,959	**19,421**	23,875	28,400
Quoted investments - Foreign				
Banking and investment sector	**395**	**-**	333	28
Service sector	**-**	**-**	103	354
	395	**-**	436	382
Unquoted investments				
Banking and investment sector	**7,060**	**6,402**	2,479	3038
Service sector	**66**	**66**	56	56
	7,126	**6,468**	2,535	3,094
Total available-for-sale investments	**25,480**	**25,889**	26,846	31,876
Held to maturity investments				
Government Development Bonds	**-**	**-**	3,999	3,999
Other Bonds	**4,580**	**4,580**	-	-
Total non-trading investments	**30,060**	**30,469**	30,845	35,875
Total non-trading investments – USD'000	**78,078**	**79,140**	80,117	93,182

Included under unquoted available-for-sale investments are investments with a value of RO 0.59 million – USD 1.53 million (2008 – RO 0.44 million – USD 1.15 million), which are carried at cost, less any impairment losses, due to the unpredictable nature of future cash flows and the lack of other suitable methods for arriving at a reliable fair value. All other available-for-sale investments are carried at fair value.

During the year, the Bank has recorded RO 4.1 million - USD 10.6 million (2008 – RO 3.7 million – USD 9.6 million) as impairment losses against its available-for-sale investments. The impairment loss on available-for-sale investments is recognised in view of either a significant or prolonged decline in the fair value of the investment below cost.

7 NON-TRADING FINANCIAL INVESTMENTS (Continued)

Details of significant investments

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

31 December 2009	Bank's portfolio %	Number of securities	Carrying value RO'000	Cost RO'000
Government Development Bonds	**39.28**	**100,000**	**10,009**	**10,009**
Investment Stabilisation Fund	**23.43**	**5,000,000**	**5,970**	**5,000**
31 December 2008				
Government Development Bonds	37.29	100,000	10,012	10,012

8 PREMISES AND EQUIPMENT

	Freehold land and buildings and leasehold improvements RO'000	Motor vehicles, furniture and equipment RO'000	Capital work in progress RO'000	Total RO'000
Reconciliation of carrying amount:				
Balance as at 1 January 2009, net of accumulated depreciation	3,670	4,088	1,812	9,570
Additions	77	1,718	4,320	6,115
Disposals	-	(59)	(24)	(83)
Transfers	2,135	1,066	(3,201)	-
Translation difference	1	-	-	1
Depreciation	(1,105)	(1,735)	-	(2,840)
Balance as at 31 December 2009, net of accumulated depreciation	**4,778**	**5,078**	**2,907**	**12,763**
At cost	12,127	18,975	2,907	34,009
At revaluation	2,811	-	-	2,811
Accumulated depreciation	(10,160)	(13,897)	-	(24,057)
Net carrying value at 31 December 2009	**4,778**	**5,078**	**2,907**	**12,763**
Net carrying value at 31 December 2009 – USD'000	**12,410**	**13,190**	**7,551**	**33,151**
Net carrying value at 31 December 2008	3,670	4,088	1,812	9,570
Net carrying value at 31 December 2008 – USD'000	9,532	10,618	4,707	24,857

8 PREMISES AND EQUIPMENT (Continued)

Freehold land stated at cost of RO 0.06 million - USD 0.16 million (2008 - RO 0.06 million – USD 0.16 million) is not depreciated. Land and buildings include three buildings on freehold land, which were re-valued at their open market value for existing use by an independent professional valuer as of 30 September 2005, at RO 2.8 million (USD 7.27 million). Other buildings on freehold land not re-valued were purchased or acquired within the past five years at a cost of RO 2.12 million (USD 5.5 million). On revaluation, the gross carrying amount of each building revalued was restated so that the net carrying amount of the asset after revaluation equals its re-valued amount. Should the buildings be carried at cost less depreciation, the net carrying amount would have been RO 1.59 million – USD 4.13 million (2008 - RO 1.86 million – USD 4.83million).

9 OTHER ASSETS

2008 USD'000	2009 USD'000		2009 RO'000	2008 RO'000
21,520	**19,087**	Interest receivable	**7,349**	8,285
3,901	**3,707**	Prepayments and deposits	**1,427**	1,502
5,260	**5,286**	Collateral pending sale	**2,035**	2,025
4,787	**2,184**	Positive fair value of derivatives (note 33)	**841**	1,843
149,675	**27,422**	Customers' indebtedness for acceptances	**10,557**	57,625
16,844	**9,161**	Others	**3,527**	6,485
201,987	**66,847**		**25,736**	77,765
9,338	**8,982**	Amount receivable from BCCI	**3,458**	3,595
(9,338)	**(8,982)**	Less: provision for amount due from BCCI	**(3,458)**	(3,595)
-	**-**		**-**	-

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

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

10 DUE TO BANKS AND OTHER MONEY MARKET DEPOSITS

2008 USD'000	2009 USD'000		2009 RO'000	2008 RO'000
702,244	**561,151**	Acceptance and borrowings	**216,043**	270,364
16,018	**9,400**	Other balances	**3,619**	6,167
718,262	**570,551**		**219,662**	276,531

None of the above balances were past due as of 31 December 2009 or 2008.

11 CUSTOMERS' DEPOSITS

2008 USD'000	**2009 USD'000**		**2009 RO'000**	2008 RO'000
605,280	**565,849**	Current accounts	**217,852**	233,033
576,248	**724,353**	Savings accounts	**278,876**	221,855
2,163,810	**1,819,533**	Term deposits	**700,520**	833,067
139,740	**164,987**	Certificates of deposit	**63,520**	53,800
3,485,078	**3,274,722**		**1,260,768**	1,341,755

12 OTHER LIABILITIES

2008 USD'000	**2009 USD'000**		**2009 RO'000**	2008 RO'000
27,483	**25,992**	Interest payable	**10,007**	10,581
2,452	**2,493**	Staff entitlements	**960**	944
149,675	**27,422**	Liabilities under acceptances	**10,557**	57,625
11,535	**1,387**	Negative fair value of derivatives (note 33)	**534**	4,441
29,364	**32,836**	Other accruals and provisions	**12,642**	11,305
220,509	**90,130**		**34,700**	84,896
		Staff entitlements are as follows:		
2,109	**2,158**	End of service benefits	**831**	812
343	**335**	Other liabilities	**129**	132
2,452	**2,493**		**960**	944
		Movements in the end of service benefits liability are as follows:		
1,740	**2,109**	Liability as at 1 January	**812**	670
670	**361**	Expense recognised in the statement of comprehensive income	**139**	258
(301)	**(312)**	End of service benefits paid	**(120)**	(116)
2,109	**2,158**	Liability as at 31 December	**831**	812

13 TAXATION

2008 USD'000	2009 USD'000		2009 RO'000	2008 RO'000
		Current tax expense (income)		
16,299	**10,153**	Current year	**3,909**	6,275

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

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

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

2008 USD'000	2009 USD'000		2009 RO'000	2008 RO'000
134,170	**64,972**	Accounting profit	**25,014**	51,655
16,091	**7,797**	Tax at applicable rate	**3,002**	6,195
1,288	**1,395**	Non-deductible expenses	**537**	496
(1,376)	**(1,270)**	Tax exempt revenues	**(489)**	(530)
296	**2,231**	Others	**859**	114
16,299	**10,153**		**3,909**	6,275

The Bank's liabilities for taxation in the Sultanate of Oman has been assessed up to the year ended 31 December 2004. Management had filed an appeal with the tax authorities against the assessment orders received for years 2001 and 2002. Recently the tax committee issued a decision in favour of the Bank. The decision resulted in a reduction in tax expense amounting to RO 0.68 million which has been included in the financial statements.

13 TAXATION (continued)

The tax assessments of the Egypt operations in respect of the different taxes applicable are at different stages of completion with the respective tax authorities. The Bank's liability in respect of its branch in Abu Dhabi has been agreed with the tax authorities up to 31 December 2008.

2008 USD'000	2009 USD'000		2009 RO'000	2008 RO'000
		Tax liability		
		Current year		
16,299	**10,153**	Income tax and other taxes	**3,909**	6,275
		Prior year		
2,696	**3,047**	Income tax and other taxes	**1,173**	1,038
18,995	**13,200**		**5,082**	7,313

Recognised deferred tax assets and liabilities:

2008 USD'000	2009 USD'000		2009 RO'000	2008 RO'000
		Deferred tax assets and liabilities are attributable to the following:		
(158)	**26**	Available-for-sale investments -overseas	**10**	(61)

Deferred tax is calculated at 12% (2008 – 12%).

14 SUBORDINATED PRIVATE PLACEMENT

2008 USD'000	2009 USD'000		2009 RO'000	2008 RO'000
32,468	**74,286**	At I January	**28,600**	12,500
41,818	**29,870**	Received during the year	**11,500**	16,100
-	**(32,468)**	Matured during the year	**(12,500)**	-
74,286	**71,688**		**27,600**	28,600

(i) Placements received in 2009 include RO 1.5 million (USD 3.90 million) with a call option to renew the facility after six years, repayable at the end of March 2019 and RO 10 million (USD 25.97 million) for a period of 6 years repayable at the end of December 2015.

(ii) Placements of RO 16.1 million (USD 74.29 million) received in 2008 retain a call option to renew the facility after 6 years, repayable at the end of October 2018

(iii) During the year placements received prior to 2008 matured.

15 SHARE CAPITAL

2008 USD'000	2009 USD'000		2009 RO'000	2008 RO'000
415,584	**415,584**	Authorised - ordinary shares of RO 0.100 each	**160,000**	160,000
280,779	**280,779**	Issued and fully paid - ordinary shares of RO 0.100 each	**108,100**	108,100

As of 31 December 2009, the following shareholders held 10% or more of the Bank's capital, either individually or together with the family members:

	Number of shares '000	% Holding
The Commercial Bank of Qatar	**376,762**	**34.85%**
Suhail Bahwan Group (Holdings) L.L.C	**159,385**	**14.74%**

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

16 SHARE PREMIUM RESERVE

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

17 LEGAL RESERVE

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

18 GENERAL RESERVE

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

19 OTHER NON-DISTRIBUTABLE RESERVES

	Available for sale reserve RO '000'	Cash flow hedge reserve RO '000' (note 33)	Revaluation reserve RO '000'	Subordinated loan reserve RO '000'	Total RO '000'
At 1 January 2009	(1,267)	425	2,811	12,500	14,469
Net unrealised gain on available-for-sale financial investments	1,584	-	-	-	1,584
Impairment losses on available-for-sale investments (net)	1,861	-	-	-	1,861
Tax effect of net losses on available-for-sale financial investments	(71)	-	-	-	(71)
Net unrealised loss on cash flow hedges	-	(555)	-	-	(555)
Transfer to subordinated loan reserve	-	-	-	3,220	3,220
Transfer to retained earnings	-	-	-	(12,500)	(12,500)
At 31 December 2009	**2,107**	**(130)**	**2,811**	**3,220**	**8,008**
At 31 December 2009 – In USD'000	**5,473**	**(338)**	**7,301**	**8,364**	**20,800**

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

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

20 DIVIDENDS PAID AND PROPOSED

The Board of Directors have proposed a cash dividend of RO 0.012 per share totalling RO 12.9 million (USD 0.031 per share totalling USD 33.7 million) for the year ended 31 December 2009, which is subject to the approval of the shareholders at the Annual General Meeting to be held in March 2010.

At the Annual General Meeting held on 23 March 2009, a cash dividend of RO 0.0175 per share totalling RO 18.9 million (USD 0.045 per share totalling USD 49.1 million) for the year ended 31 December 2008 was declared and paid.

21 CONTINGENT LIABILITIES AND COMMITMENTS

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

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

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

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

Contingent liabilities

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

2008 USD'000	2009 USD'000		2009 RO'000	2008 RO'000
935,787	**1,008,132**	Guarantees	**388,131**	360,278
420,932	**191,790**	Documentary letters of credit	**73,839**	162,059
1,356,719	**1,199,922**		**461,970**	522,337

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

2008 USD'000	2009 USD'000		2009 RO'000	2008 RO'000
301	**995**	Agriculture	**383**	116
213,161	**319,645**	Construction	**123,063**	82,067
472,709	**492,925**	Financial institutions	**189,776**	181,993
218	**195**	Import trade	**75**	84
200,668	**121,134**	Manufacturing	**46,636**	77,257
852	**570**	Personal	**219**	328
35,398	**43,555**	Service	**16,769**	13,628
184	**737**	Transport and communication	**284**	71
40,579	**65,897**	Wholesale and retail trade	**25,370**	15,623
392,649	**154,269**	Others	**59,395**	151,170
1,356,719	**1,199,922**		**461,970**	522,337

Guarantees include RO 0.1 million – USD 0.3 million (Dec 2009: RO 0.2 million – USD 0.5 million) relating to non-performing loans.

21 CONTINGENT LIABILITIES AND COMMITMENTS (continued)

Commitments

2008 USD'000	2009 USD'000		2009 RO'000	2008 RO'000
304,158	**161,696**	Undrawn commitment	**62,253**	117,101
6,865	**6,184**	Capital expenditure	**2,381**	2,643
6,044	**7,415**	Operating lease commitments	**2,855**	2,327
		Future minimum lease payments:		
829	**3,452**	Not later than one year at the balance sheet date	**1,329**	319
4,849	**3,535**	Later than one year and not later than five years at the balance sheet date	**1,361**	1,867
366	**428**	Later than five years	**165**	141
6,044	**7,415**	Aggregate operating lease expenditure contracted for at the balance sheet date	**2,855**	2,327

Branches

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

2008 USD'000	2009 USD'000		2009 RO'000	2008 RO'000
14,294	**14,294**	Abu Dhabi branch	**5,503**	5,503
50,000	**50,000**	Egypt branches	**19,250**	19,250
64,294	**64,294**		**24,753**	24,753

Legal claims

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

Fiduciary assets

The value of securities as of 31 December 2009 held on trust for customers, shown at market amounts to RO 50.48 million – USD 131.11 million (2008 – RO 42.90 million – USD 111.43 million)

22 INTEREST INCOME

2008 USD'000	2009 USD'000		2009 RO'000	2008 RO'000
211,551	**257,470**	Interest from customers	**99,126**	81,447
22,787	**8,403**	Interest from banks	**3,235**	8,773
234,338	**265,873**		**102,361**	90,220

Interest-bearing assets other than investments earned interest at an overall effective annual rate of 6.19% for the year ended 31 December 2009 (31 December 2008 – 6.30%).

23 INTEREST EXPENSE

2008 USD'000	2009 USD'000		2009 RO'000	2008 RO'000
89,348	**108,826**	Interest to customers	**41,898**	34,399
21,527	**9,457**	Interest to banks	**3,641**	8,288
110,875	**118,283**		**45,539**	42,687

For the year ended 31 December 2009, the average overall effective annual cost of the Bank's funds was 2.95% (31 December 2008 – 3.22%).

24 OTHER OPERATING INCOME

2008 USD'000	2009 USD'000		2009 RO'000	2008 RO'000
26,127	**23,681**	Fees and commission income	**9,117**	10,059
(31)	**(45)**	Fees and commission expense	**(17)**	(12)
26,096	**23,636**	Net fees and commissions	**9,100**	10,047
37,746	**22,501**	Service charges	**8,663**	14,532
26,335	**6,519**	Profit on sale of investments available-for-sale	**2,510**	10,139
7,551	**5,843**	Net gains from foreign exchange dealings	**2,250**	2,907
4,168	**2,715**	Miscellaneous income	**1,045**	1,605
1,683	**1,873**	Income from bonds and others	**721**	648
1,914	**1,965**	Dividend income	**756**	737
105,493	**65,052**		**25,045**	40,615

25 OTHER OPERATING EXPENSES

2008 USD'000	2009 USD'000		2009 RO'000	2008 RO'000
6,943	**9,338**	Establishment costs	**3,595**	2,673
25,127	**20,025**	Operating and administration costs	**7,710**	9,674
343	**348**	Directors' remuneration	**134**	132
32,413	**29,711**		**11,439**	12,479

26 RELATED PARTY TRANSACTIONS

Management service agreement with a shareholder

Based on the approval received from its shareholders in the Annual General Meeting held on 23 March 2008, the Bank entered into a renewed management services agreement with a shareholder, the Commercial Bank of Qatar (CBQ) for a further period of three years. This agreement is subject to annual renewal after approval by the shareholders of the Bank in a general meeting.

The major areas covered by the agreement include broad strategic guidelines in all areas of the operations including overseas expansion. Other areas covered in the agreement include introducing or enhancing policies and processes in various areas of the Bank including credit, operational controls, internal control, and reporting. In addition the areas where services will be provided include human resources, information technology and financial control.

For the above services the Bank pays management fees as follows:
-For profit up to RO 15 million, no management fees is payable
-For profits between RO 15 million to RO 30 million the higher of management costs or 1% of the Bank's profit
-For profits in excess of RO 30 million, in addition to the above, 3% of the profits in excess of RO 30 million

Proportionate fees will be paid where the agreement is not in effect for the full year. In addition, with the approval of the Board reasonable out of pocket expenses incurred in connection with the provision of the Management Services such as travel, boarding and lodging will be reimbursed.
For the year ended 31 December 2009, management fees of RO 0.2 million – USD 0.5 million (31 December 2008: RO 0.8 million – USD 2.1 million) are accrued for.

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

	2009			2008		
	Principal shareholder RO'000	**Others RO'000**	**Total RO'000**	Principal shareholder RO'000	Others RO'000	Total RO'000
Loans and advances	**-**	**18,191**	**18,191**	-	15,108	15,108
Customer's deposits	**-**	**13,167**	**13,167**	-	14,738	14,738
Due from banks	**40**	**-**	**40**	130	-	130
Due to banks	**72**	**-**	**72**	61	7,700	7,761
Subordinated private placement	**-**	**3,100**	**3,100**	-	4,600	4,600
Letter of credit, guarantees and acceptance	**107**	**6,236**	**6,343**	215	6,509	6,724
Standby revolving credit facility	**26,950**	**11,550**	**38,500**	26,950	11,550	38,500
Risk indemnities received	**9,647**	**-**	**9,647**	68,723	-	68,723

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

	2009			2008		
	Principal shareholder RO'000	**Others RO'000**	**Total RO'000**	Principal shareholder RO'000	Others RO'000	Total RO'000
Interest income	**-**	**1,100**	**1,100**	-	447	447
Commission income	**-**	**168**	**168**	-	222	222
Interest expense	**561**	**339**	**900**	-	283	283
Other expenses	**396**	**481**	**877**	923	386	1,309
Director's remuneration and sitting fees	-	**200**	**200**	-	200	200

26 RELATED PARTY TRANSACTIONS (Continued)

	2009			2008		
	Principal shareholder USD'000	Others USD'000	Total USD'000	Principal shareholder USD'000	Others USD'000	Total USD'000
Loans and advances	-	47,249	47,249	-	39,241	39,241
Customer's deposits	-	34,200	34,200	-	38,281	38,281
Due from banks	104	-	104	338	-	338
Due to banks	187	-	187	157	20,000	20,157
Subordinated private placement	-	-	8,052	-	11,948	11,948
Letter of credit, guarantees and acceptance	278	16,197	16,475	558	16,907	17,465
Standby revolving credit facility	70,000	30,000	100,000	70,000	30,000	100,000
Risk indemnities received	25,057	-	25,057	178,501	-	178,501

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

	2009			2008		
	Principal shareholder USD'000	Others USD'000	Total USD'000	Principal shareholder USD'000	Others USD'000	Total USD'000
Interest Income	-	2,857	2,857	-	1,161	1,161
Commission income	-	436	436	-	577	577
Interest expense	1,457	881	2,338	-	734	734
Other expenses	1,029	1,249	2,278	2,398	1,002	3,400
Directors remuneration and sitting fees	-	519	519	-	519	519

Details regarding senior management compensation are set out below:

2008 USD'000	2009 USD'000		2009 RO'000	2008 RO'000
		Salaries and other short term benefits		
3,816	4,722	- Fixed	1,818	1,469
1,808	1,788	- Discretionary	688	696
5,624	6,510		2,506	2,165

27 BASIC AND DILUTED EARNING PER SHARE

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

2008 USD'000	2009 USD'000		2009 RO'000	2008 RO'000
117,871	54,819	Profit for the year	21,105	45,380
1,081,000	1,081,000	Weighted average number of shares outstanding during the year (in '000s)	1,081,000	1,081,000
USD 0.11	USD 0.05	Earnings per share	RO 0.019	RO 0.042

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

28 CAPITAL ADEQUACY

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

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

Capital management

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

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

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

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

2008	**2009**		**2009**	2008
USD'000	**USD'000**		**RO'000**	RO'000
		Capital base		
580,766	**604,236**	Tier 1 - shareholders' funds	**232,631**	223,595
92,753	**117,971**	Tier 2 - subordinated private placement and collective impairment provisions	**45,419**	35,710
673,519	**722,207**	Total capital base	**278,050**	259,305
		Risk weighted assets		
4,461,016	**3,945,569**	Credit risk	**1,519,044**	1,717,491
313,179	**358,997**	Operational risk	**138,214**	120,574
64,343	**52,481**	Market risk	**20,205**	24,772
4,838,538	**4,357,047**	Total risk weighted assets	**1,677,463**	1,862,837
13.92%	**16.58%**	Risk asset ratio (Basel II norms)	**16.58%***	13.92%

* The proposed dividend in the amount of RO 12.9 million – USD 33.7 million (refer note 20) is subject to approval at the Annual General Meeting which is to be held in March 2010.

29 RISK MANAGEMENT

The primary objective of risk management is to safeguard the Bank's resources from various operational and non-operational risks which the Bank faces. The Bank has exposure to the following risks:-

29.1 CREDIT RISK

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

Credit risk management

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

Corporate Credit

Corporate Credit Risk Division is responsible for managing all Corporate, SME and Financial Institutions exposures. The Division reviews and assesses credit risk for proposed exposures prior to facilities being committed to customers by the concerned business units. Renewals and reviews of facilities are subject to the same process. Each proposal is also assessed with respect to established concentrations limits for various economic sectors, countries, risk grades, etc. and deviations, if any, are highlighted. The Bank has introduced risk-based pricing and each credit proposal is also assessed based on internal benchmarks of required risk adjusted returns. The Credit Division also provides advice guidance to business units to promote best practices throughout the Bank in management of credit risk.

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

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

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

Consumer Credit

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

29 RISK MANAGEMENT (Continued)

29.1 CREDIT RISK (Continued)

Consumer Credit (Continued)

A comprehensive review of the Consumer Credit Portfolio is conducted on a monthly basis and provided to the Senior Management and the Risk Committee of the Board. Salient areas covered in the review include analysis of delinquency levels, concentrations, portfolio performance, credit quality of various products and segments, recoveries, etc.

Risk mitigation policies

The Bank manages, limits and controls concentrations of credit risk – in particular, to individual counterparties and groups, and to industries and countries. The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Such risks are monitored and reviewed periodically by the Management Credit Committee, Audit, Risk Committee of the Board and the Credit Committee of the Board of Directors.

Maximum exposure to credit risk

Gross maximum exposure 2008 USD'000	**Gross maximum exposure 2009 USD'000**		**Gross maximum exposure 2009 RO '000**	Gross maximum exposure 2008 RO '000
635,413	**418,659**	Balances with Central Banks	**161,184**	244,634
55	**45,153**	Financial assets designated at fair value through profit or loss	**17,384**	21
515,873	**433,548**	Due from banks and other money market placements	**166,916**	198,611
3,639,527	**3,535,057**	Loans and advances to customers (net)	**1,360,997**	1,401,218
80,117	**78,078**	Non-trading financial investments	**30,060**	30,845
201,987	**66,847**	Other assets	**25,736**	77,765
5,072,972	**4,577,342**	**Total on balance sheet exposure**	**1,762,277**	1,953,094
935,787	**1,008,132**	Letter of guarantee	**388,131**	360,278
420,932	**191,790**	Letter of credit	**73,839**	162,059
304,158	**161,696**	Undrawn commitment	**62,253**	117,101
624,451	**873,997**	Derivative financial instruments	**336,489**	240,414
2,285,328	**2,235,615**	**Total off balance sheet exposure**	**860,712**	879,852

The above table represents the worst case scenario of credit risk exposure to the Bank at 31 December 2009 and 31 December 2008 without taking into account the collateral held or other credit enhancements. Management is confident that the Bank has suitable policies to measure and control the credit risk. In addition credit risk is mitigated through collaterals in the form of mortgages and guarantees wherever required.

29 RISK MANAGEMENT (Continued)

29.1 CREDIT RISK (Continued)

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

	Performing loans (neither past due nor impaired) RO'000	Loans past due and not impaired RO'000	Non performing loans RO'000	Gross loans RO'000
Balance as at 1 January 2009	**1,385,847**	**15,371**	**64,246**	**1,465,464**
Additions during the year	**570,692**	**99,680**	**37,151**	**707,523**
Attrition during the year	**(617,097)**	**(97,058)**	**(17,286)**	**(731,441)**
Written-off during the year	**-**	**-**	**(12,429)**	**(12,429)**
Balance as at 31 December 2009	**1,339,442**	**17,993**	**71,682**	**1,429,117**
Balance as at 31 December 2009 – USD'000s	**3,479,070**	**46,735**	**186,187**	**3,711,992**
Balance as at 31 December 2008	1,385,847	15,371	64,246	1,465,464
Balance as at 31 December 2008 – USD'000s	3,599,602	39,925	166,873	3,806,400

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

	Loans in arrears 1-30 days RO'000	Loans in arrears 31-60 days RO'000	Loans in arrears 61-89 days RO'000	Total RO'000
Loans and advances to customers (net) at				
31 December 2009	**5,413**	**6,323**	**6,257**	**17,993**
31 December 2008	1,098	7,349	6,924	15,371

29 RISK MANAGEMENT (Continued)

Collateral and other credit enhancements

The Bank employs a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of security for funds advanced, which is common practice. The Bank implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation. The principal collateral types for loans and advances are:

-Charges over business assets such as premises, inventory and accounts receivable
-Lien on fixed deposits
-Cash margins
-Mortgages over residential and commercial properties
-Pledge of marketable shares and securities

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

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

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

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

	Performing Loans (neither past due nor impaired) RO'000	Loans past due and not impaired RO'000	Non performing loans RO'000	Gross Loans RO'000
Collateral available	**654,650**	**6,549**	**42**	**661,241**
Guarantees available	**13,798**	**-**	**4,400**	**18,198**
Government soft loans*	**9,662**	**-**	**5,451**	**15,113**
Balance as at 31 December 2009	**678,110**	**6,549**	**9,893**	**694,552**
Balance as at 31 December 2009– USD'000s	**1,761,325**	**17,010**	**25,696**	**1,804,031**
Balance as at 31 December 2008	507,634	38,775	17,799	564,208
Balance as at 31 December 2008 – USD'000s	1,318,530	100,714	46,231	1,465,475

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

29 RISK MANAGEMENT (Continued)

Impairment and provisioning policy

An assessment is made at each balance sheet date to determine whether there is objective evidence that a specific financial asset may be impaired. If such evidence exists, the estimated recoverable amount of that asset is determined and any impairment loss, based on the net present value of future anticipated cash flows, recognised in the statement of comprehensive income. In addition the Bank creates collective provision.

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

	Substandard	Doubtful	Loss	Total
	RO'000	RO'000	RO'000	RO'000
Balance as at 1 January 2009	**4,140**	**5,633**	**54,473**	**64,246**
Additions during the year	**22,155**	**3,184**	**11,812**	**37,151**
Attrition during the year	**(1,778)**	**(1,294)**	**(14,214)**	**(17,286)**
Written-off during the year	-	-	**(12,429)**	**(12,429)**
Balance as at 31 December 2009	**24,517**	**7,523**	**39,642**	**71,682**
Balance as at 31 December 2009– USD'000s	**63,680**	**19,540**	**102,967**	**186,187**
Balance as at 31 December 2008	4,140	5,633	54,473	64,246
Balance as at 31 December 2008 – USD'000s	10,754	14,631	141,488	166,873

Movement of rescheduled corporate loans:

	2009	2008
	RO'000	RO'000
Balance as at 1 January	**39,804**	40,297
Additions during the year	**62,487**	12,939
Attrition during the year	**(30,889)**	(12,558)
Written-off during the year	-	(874)
Balance as at 31 December	**71,402**	39,804
Balance as at 31 December – USD'000s	**185,460**	103,387

29.2 LIQUIDITY RISK

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

The Bank maintains liquidity by continually assessing, identifying and monitoring changes in funding needs required to meet strategic goals set in terms of the overall strategy. In addition the Bank holds certain liquid assets as part of its liquidity risk management strategy.

The Bank manages the liquidity risk based on Central bank of Oman guidelines and the Liquidity Contingency Policies, which are approved and periodically reviewed by the Risk Committee of the Board. The Bank has enhanced its Liquidity Risk Policy in-line with recommendations of the Basel Committee by including additional guidelines on Early Warning Indicators and Liquidity Ratios. Further, the Bank also periodically conducts stress tests on liquidity based on market and bank specific events, which have also been enhanced based on Basel Committee recommendations. The liquidity position of the Bank and stress test scenarios are regularly reviewed by the Management and also discussed at the Risk Committee of the Board.

29 RISK MANAGEMENT (Continued)

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

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

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

29 RISK MANAGEMENT (Continued)

The maturity profile of the assets, liabilities and equity at 31 December 2008 was as follows:

	On demand within 3 months RO'000	3 to 12 months RO'000	Subtotal less than 12 months RO'000	1 to 5 years RO'000	Over 5 years RO'000	Subtotal over 12 months RO'000	Total RO'000
Cash and balances with Central Banks	202,787	24,806	227,593	22,670	16,126	38,796	266,389
Financial assets designated at fair value through profit and loss	21	-	21	-	-	-	21
Due from banks and other money market placements	106,766	42,609	149,375	49,236	-	49,236	198,611
Loans and advances (net)	237,107	132,364	369,471	384,459	647,288	1,031,747	1,401,218
Non-trading financial investments	3,010	1,000	4,010	26,835	-	26,835	30,845
Premises and equipment	-	-	-	-	9,570	9,570	9,570
Deferred tax assets	-	-	-	61	-	61	61
Other assets	76,144	1,152	77,296	469	-	469	77,765
Total assets	625,835	201,931	827,766	483,730	672,984	1,156,714	1,984,480
Due to banks and other money market deposits	94,178	19,250	113,428	163,103	-	163,103	276,531
Customers' deposits	464,060	315,748	779,808	348,124	213,823	561,947	1,341,755
Other liabilities	71,569	6,203	77,772	4,686	2,438	7,124	84,896
Taxation	6,034	-	6,034	1,279	-	1,279	7,313
Subordinated funds	-	12,500	12,500	-	16,100	16,100	28,600
Shareholders' equity	-	-	-	-	245,385	245,385	245,385
Total liabilities and shareholders' equity	635,841	353,701	989,542	517,192	477,746	994,938	1,984,480

	On demand within 3 months USD'000	3 to 12 months USD'000	Subtotal less than 12 months USD'000	1 to 5 years USD'000	Over 5 years USD'000	Subtotal over 12 months USD'000	Total USD'000
Cash and balances with Central Banks	526,719	64,431	591,150	58,883	41,886	100,769	691,919
Financial assets designated at fair value through profit and loss	55	-	55	-	-	-	55
Due from banks and other money market placement	277,314	110,673	387,987	127,886	-	127,886	515,873
Loans and advances (net)	615,862	343,803	959,665	998,595	1,681,267	2,679,862	3,639,527
Non-trading financial investments	7,818	2,597	10,415	69,702	-	69,702	80,117
Premises and equipment	-	-	-	-	24,857	24,857	24,857
Deferred tax assets	-	-	-	158	-	158	158
Other assets	197,777	2,992	200,769	1,218	-	1,218	201,987
Total assets	1,625,545	524,496	2,150,041	1,256,442	1,748,010	3,004,452	5,154,493
Due to banks and other money market deposits	244,618	50,000	294,618	423,644	-	423,644	718,262
Customers' deposits	1,205,351	820,125	2,025,476	904,218	555,384	1,459,602	3,485,078
Other liabilities	185,895	16,112	202,007	12,170	6,332	18,502	220,509
Taxation	15,672	-	15,672	3,323	-	3,323	18,995
Subordinated funds	-	32,468	32,468	-	41,818	41,818	74,286
Shareholders' equity	-	-	-	-	637,363	637,363	637,363
Total liabilities and shareholders' equity	1,651,536	918,705	2,570,241	1,343,355	1,240,897	2,584,252	5,154,493

29 RISK MANAGEMENT (Continued)

29.3 MARKET RISK

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

Equity Risk

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

Interest Rate Risk

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

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

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

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

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

As at 31 December 2009	200 bps increase	200 bps decrease
Earnings impact - RO'000s	**6,834**	**(6,834)**
Earnings impact - USD'000s	**17,750**	**(17,750)**

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

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

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

29 RISK MANAGEMENT (Continued)

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

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

29 RISK MANAGEMENT (Continued)

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

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

29 RISK MANAGEMENT (Continued)

The Bank's interest sensitivity position based on contractual re-pricing arrangements at 31 December 2008 was as follows:

	Average effective interest rate	On demand within 3 months RO'000	3 to 12 months RO'000	1 to 5 year RO'000	Over 5 year RO'000	Non interest sensitive RO'000	Total RO'000
Cash and balances with Central Banks	1.21%	27,490	-	-	-	238,899	266,389
Financial assets designated at fair value through profit and loss	4.50%	21	-	-	-	-	21
Due from banks and other money market placements	4.32%	159,119	39,492	-	-	-	198,611
Loans and advances (net)	7.13%	687,519	129,940	90,061	493,698	-	1,401,218
Non-trading financial investments	4.21%	-	3,005	10,000	-	17,840	30,845
Premises and equipment	N/A	-	-	-	-	9,570	9,570
Deferred tax assets	N/A	-	-	-	-	61	61
Other assets	N/A	-	-	-	-	77,765	77,765
Total assets		874,149	172,437	100,061	493,698	344,135	1,984,480
Due to banks and other money market deposits	3.86%	257,281	15,400	3,850	-	-	276,531
Customers' deposits	3.10%	368,961	338,053	284,376	-	350,365	1,341,755
Other liabilities	N/A	-	-	-	-	84,896	84,896
Taxation	N/A	-	-	-	-	7,313	7,313
Subordinated funds	6.45%	-	12,500	-	16,100	-	28,600
Shareholders' equity	N/A	-	-	-	--	245,385	245,385
Total liabilities and shareholders' equity		626,242	365,953	288,226	16,100	687,959	1,984,480
Total interest rate sensitivity gap		247,907	(193,516)	(188,165)	477,598	(343,824)	-
Cumulative interest rate sensitivity gap		247,907	54,391	(133,774)	343,824	-	-

29 RISK MANAGEMENT (Continued)

The Bank's interest sensitivity position based on contractual re-pricing arrangements at 31 December 2008 was as follows:

	Average effective interest rate	On demand within 3 months USD'000	3 to 12 months USD'000	1 to 5 year USD'000	Over 5 year USD'000	Non interest sensitive USD'000	Total USD'000
Cash and balances with Central Banks	1.21%	71,403	-	-	-	620,516	691,919
Financial assets designated at fair value through profit and loss	4.50%	55	-	-	-	-	55
Due from banks and other money market placements	4.32%	413,296	102,577	-	-	-	515,873
Loans and advances (net)	7.13%	1,785,764	337,506	233,925	1,282,332	-	3,639,527
Non-trading financial investments	4.21%	-	7,805	25,974	-	46,338	80,117
Premises and equipment	N/A	-	-	-	-	24,857	24,857
Deferred tax assets	N/A	-	-	-	-	158	158
Other assets	N/A	-	-	-	-	201,987	201,987
Total assets		2,270,518	447,888	259,899	1,282,332	893,856	5,154,493
Due to banks and other money market							
Deposits	3.86%	668,262	40,000	10,000	-	-	718,262
Customers' deposits	3.10%	958,340	878,060	738,639	-	910,039	3,485,078
Other liabilities	N/A	-	-	-	-	220,509	220,509
Taxation	N/A	-	-	-	-	18,995	18,995
Subordinated private placement	6.45%	-	32,468	-	41,818	-	74,286
Shareholders' equity	N/A	-	-	-	-	637,363	637,363
Total liabilities and shareholders' equity		1,626,602	950,528	748,639	41,818	1,786,906	5,154,493
Total interest rate sensitivity gap		643,916	(502,640)	(488,740)	1,240,514	(893,050)	-
Cumulative interest rate sensitivity gap		643,916	141,276	(347,464)	893,050	-	-

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 positions by currency. Positions are monitored on a daily basis and hedging strategies used to ensure positions are maintained within established limits.

The Bank does not hold any proprietary position in foreign exchange. The forex positions in the books of the Bank are largely held on account of customers and any variations in the exchange rates are absorbed by the customers.

However, a standardised shock of 15% adverse movement in exchange rates is factored on the aggregate of net open position in each currency (excluding fixed parity currencies) at quarterly intervals.

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

2008 USD'000	**2009 USD'000**		**2009 RO'000**	2008 RO'000
93,353	**63,257**	US Dollar	**24,354**	35,941
8,475	**29,522**	UAE Dirham	**11,366**	3,263
1,681	**1,130**	Others	**435**	647

29 RISK MANAGEMENT (Continued)

OPERATIONAL RISK

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

30 CONCENTRATIONS

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

The distribution of assets, liabilities and contingent items by geographical regions as of 31 December 2009 was as follows:

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

30 CONCENTRATIONS (continued)

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

30 CONCENTRATIONS (continued)

The distribution of assets, liabilities and off balance sheet items by geographical regions as of 31 December 2008 was as follows:

	Sultanate of Oman RO'000	UAE RO'000	Egypt RO'000	Others RO'000	Total RO'000
Cash and balances with Central Banks	245,732	3,984	16,673	-	266,389
Financial assets designated at fair value through profit and loss	21	-	-	-	21
Due from banks and other money market placements	4,462	30,202	204	163,743	198,611
Loans and advances (net)	1,296,919	78,681	2,000	23,618	1,401,218
Non-trading financial investments	28,315	103	-	2,427	30,845
Premises and equipment	8,625	98	847	-	9,570
Deferred tax assets	61	-	-	-	61
Other assets	73,931	1,190	2,644	-	77,765
Total assets	1,658,066	114,258	22,368	189,788	1,984,480
Due to banks and other money market deposits	1,394	7,742	5,005	262,390	276,531
Customers' deposits	1,219,623	82,459	38,328	1,345	1,341,755
Other liabilities	81,934	2,368	594	-	84,896
Taxation	5,982	52	1,279	-	7,313
Subordinated funds	28,600	-	-	-	28,600
Shareholders' equity	228,017	1,423	15,945	-	245,385
Liabilities and shareholders' equity	1,565,550	94,044	61,151	263,735	1,984,480
Contingent liabilities	317,113	53,700	5,032	146,492	522,337

	Sultanate of Oman USD'000	UAE USD'000	Egypt USD'000	Others USD'000	Total USD'000
Cash and balances with Central Banks	638,265	10,348	43,306	-	691,919
Financial assets designated at fair value through profit and loss	55	-	-	-	55
Due from banks and other money market placements	11,590	78,446	531	425,306	515,873
Loans and advances (net)	3,368,620	204,367	5,195	61,345	3,639,527
Non-trading financial investments	73,544	269	-	6,304	80,117
Premises and equipment	22,402	255	2,200	-	24,857
Deferred tax assets	158	-	-	-	158
Other assets	192,028	3,091	6,868	-	201,987
Total assets	4,306,662	296,776	58,100	492,955	5,154,493
Due to banks and other money market deposits	3,621	20,107	13,000	681,534	718,262
Customers' deposits	3,167,852	214,180	99,553	3,493	3,485,078
Other liabilities	212,815	6,151	1,543	-	220,509
Taxation	15,538	135	3,322	-	18,995
Subordinated funds	74,286	-	-	-	74,286
Shareholders' equity	592,251	3,696	41,416	-	637,363
Liabilities and shareholders' equity	4,066,363	244,269	158,834	685,027	5,154,493
Contingent liabilities	823,668	139,481	13,071	380,499	1,356,719

31 SEGMENTAL INFORMATION

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

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

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

No revenue from transactions with a single external customer or counterparty amounted to 10% or more of the Bank's total revenue in 2009 or 2008.

Segment information is as follows:

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

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

31 SEGMENTAL INFORMATION (Continued)

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

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

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

Segment information is as follows:

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

31 SEGMENTAL INFORMATION (Continued)

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

Segment information is as follows:

Year ended 31 December 2008	Consumer banking RO'000	Corporate banking RO'000	Investment banking RO'000	Treasury and international banking RO'000	Head Office RO'000	Total RO'000
Net Interest Income	24,133	17,207	(987)	1,563	5,617	47,533
Other Income	18,317	4,379	12,100	4,750	1,069	40,615
Operating Profit	32,125	18,467	10,592	5,536	(12,426)	54,294
Impairment provisions (net)	(1,456)	2,520	(3,703)	-	-	(2,639)
Profit	30,669	20,987	6,889	5,536	(18,701)	45,380
Total assets	533,610	810,697	16,834	51,408	571,931	1,984,480
Total liabilities	422,024	817,530	12,155	-	732,771	1,984,480

31 SEGMENTAL INFORMATION (Continued)

Year ended 31 December 2008	Consumer banking USD'000	Corporate banking USD'000	Investment banking USD'000	Treasury and international banking USD'000	Head Office USD'000	Total USD'000
Net Interest Income	62,683	44,694	(2,564)	4,060	14,590	123,463
Other Income	47,576	11,374	31,428	12,338	2,777	105,493
Operating Profit	83,442	47,966	27,512	14,379	(32,275)	141,024
Impairment provisions (net)	(3,781)	6,545	(9,618)	-	-	(6,854)
Profit	79,661	54,511	17,894	14,379	(48,574)	117,871
Total assets	1,386,000	2,105,706	43,725	133,527	1,485,535	5,154,493
Total liabilities	1,096,166	2,123,453	31,571	-	1,903,303	5,154,493

For the year ended 31 December 2008	Oman RO'000	UAE RO'000	Egypt RO'000	Total RO'000
Segment revenue				
Interest income - external	83,555	4,570	2,095	90,220
Interest income - internal	330	14	4,842	5,186
Operating income - external	39,701	617	297	40,615
Operating income - internal	955	-	-	955
Total	124,541	5,201	7,234	136,976
Segment costs				
Interest costs - external	37,817	2,761	2,109	42,687
Interest costs - internal	1,802	190	3,194	5,186
Operating expenses - external	29,424	1,553	1,072	32,049
Operating expenses – internal	-	811	144	955
Depreciation	1,672	40	93	1,805
Credit loss expense - customer loan	13,302	254	2,025	15,581
Impairment losses on available-for-sale investments	3,703	-	-	3,703
Recoveries	(12,289)	(453)	(3,903)	(16,645)
Taxation	6,176	11	88	6,275
Total	81,607	5,167	4,822	91,596
Segment net profit for the year	42,934	34	2,412	45,380
Other information				
Segment assets	1,869,720	91,324	23,436	1,984,480
Segment capital expenses	4,578	48	21	4,647

31 SEGMENTAL INFORMATION (Continued)

For the year ended 31 December 2008	Oman USD'000	UAE USD'000	Egypt USD'000	Total USD'000
Segment revenue				
Interest income - external	217,027	11,869	5,442	234,338
Interest income - internal	857	37	12,576	13,470
Operating income - external	103,118	1,603	772	105,493
Operating income - internal	2,481	-	-	2,481
Total	323,483	13,509	18,790	355,782
Segment costs				
Interest costs - external	98,225	7,172	5,478	110,875
Interest costs - internal	4,682	492	8,296	13,470
Operating expenses - external	76,427	4,034	2,783	83,244
Operating expenses – internal	-	2,107	374	2,481
Depreciation	4,344	103	241	4,688
Credit loss expense - customer loan	34,552	659	5,259	40,470
Impairment losses on available-for-sale investments	9,618	-	-	9,618
Recoveries	(31,919)	(1,177)	(10,138)	(43,234)
Taxation	16,044	27	228	16,299
Total	211,973	13,417	12,521	237,911
Segment net profit for the year	111,510	92	6,269	117,871
Other information				
Segment assets	4,856,418	237,200	60,875	5,154,493
Segment capital expenses	11,891	124	54	12,069

32 FAIR VALUE OF FINANCIAL INSTRUMENTS

It is the Bank's intention to hold loans and advances to customers to maturity. As a result the fair value of performing loans is arrived at using the discounted cash flow analysis based on a discount rate equal to the prevailing market rates of interest for loans having similar terms and conditions. The Bank considers that the fair value of financial instruments at 31 December 2009 and 2008 are not significantly different to their carrying value at each of those dates.

Fair value of financial instruments

The Bank uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and

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

32 FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

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

31 December 2009	Level 1 RO'000	Level 2 RO'000	Level 3 RO'000	Total RO'000
Financial assets				
Financial assets designated at fair value through profit or loss				
OTC	75	-	-	75
GDB	17,309	-	-	17,309
Total	**17,384**	**-**	**-**	**17,384**
Investments - available-for-sale:				
Government development bonds	10,009	-	-	10,009
Quoted equities	8,345	-	-	8,345
Other unquoted equities	-	7,126	-	7,126
Total	**18,354**	**7,126**	**-**	**25,480**
Derivative financial instruments:				
Purchase contracts	-	137,243	-	137,243
Sale contracts	-	137,243	-	137,243
Interest rate swaps	-	53,660	-	53,660
Interest rate caps	-	643	-	643
Credit default swaps	-	7,700	-	7,700
Total	**-**	**336,489**	**-**	**336,489**
Total financial assets	**35,738**	**343,615**	**-**	**379,353**
Total financial assets – In USD'000s	**92,826**	**892,506**	**-**	**985,332**

33 DERIVATIVES

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

Derivative product types

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

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

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

Derivatives held or issued for hedging purposes

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

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

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

33 DERIVATIVES (continued)

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

31 December 2009

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

31 December 2008

				Notional amounts by term to maturity		
	Positive fair value RO'000 (note 9)	Negative fair value RO'000 (note 12)	Notional amount RO'000	Within 3 months RO'000	3 - 12 months RO'000	1 - 5 years RO'000
Derivatives held for trading purposes						
Interest rate swaps	366	(366)	12,000	1,500	1,500	9,000
Credit default swaps	-	(987)	9,625	1,925	-	7,700
Forward foreign exchange purchase contracts	1,367	(1)	108,953	87,169	17,987	3,797
Forward foreign exchange sales contracts	110	(3,087)	108,953	87,334	17,965	3,654
Interest rate caps	-	-	883	80	181	622
Total	1,843	(4,441)	240,414	178,008	37,633	24,773
Total – USD'000	4,787	(11,535)	624,451	462,358	97,748	64,345

Cash flow hedge

During the year 2008, the Bank entered into three funded cross currency interest rate swaps amounting to RO 17.90 million (USD 46.5 million) in order to hedge an equivalent amount due to a bank. As of 31 December 2009, the mark to market adjustments for these cross currency interest rate swaps amounted to RO 0.130 million (2008: RO 0.425 million) (note 19) which is recorded in equity with a corresponding adjustment made to amounts due from banks. These cross currency interest rate swaps will mature on 8 April 2010.

64 Branches in Oman (including 2 booths)

5 Branches in Egypt

1 Branch in UAE (Abu Dhabi)

Muscat Region (South)

Main Branch C.B.D. Area
P.O. Box 752, Ruwi,
Postal Code 112
Tel: 24 778 350, 24 778 352
Fax: 24 778 395, 24 778 394

MBD
P.O. Box 801, Muttrah,
Postal Code 114
Tel: 24 810 227, 24 778 550,
24 778 553
Fax: 247 78 555

Corporate Branch
GETCO Building CBD
P.O. Box 751,
Postal Code 112, Ruwi,
Tel: 24 778 060, 24 778 055,
Fax: 24 778 046, 24 778 048

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

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

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

Corniche
P.O. Box 272, Muttrah,
Postal Code 100
Tel: 24 715 103, 24 714 245
Fax: 24 713 131

Mina Al-Fahal
P.O. Box 123, Mina Al-Fahal,
Postal Code 116
Tel: 24 677 020, 24 677 058
Fax: 24 563 647, 24 546 703

Wattaya
P.O. Box 1647, Ruwi,
Postal Code 112
Tel : 24 563 830, 24 560 584
Fax : 24 561 334

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

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

Shatti Al Qurum
P.O. Box 1816, Al Khuwair,
Postal Code 133
Tel : 24 607 161
Fax : 24 607 023

Muscat Region (North and Musandam)

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

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

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

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

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

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

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

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

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

Ghoubrah
Ministry of Health Building
P.O. Box 393, Ghoubrah,
Postal Code 113
Tel: 24 602 763, 24 692 310
24 692 309
Fax: 24 697 076

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

Quriyat
P.O. Box 55, Quriyat,
Postal Code 120
Tel: 24 846 100, 24 846 415
Fax: 24 845 899

Al Khoudh
P.O. Box 690, Al Khoudh,
Postal Code 132
Tel: 24 537 950, 24 537 951
Fax: 24 537 952

Khasab
P.O. Box 30, Khasab,
Postal Code 811
Tel: 26 730 467, 26 731 442
Fax: 26 730 266

Bukha
P.O. Box 42, Bukha,
Postal Code 812
Tel: 26 828 014, 26 828 278
Fax: 26 828 466

NBO Branches

Dakhiliyah & Dhahira Region

Nizwa
P.O. Box 100, Nizwa,
Postal Code 611
Tel: 25 410 072, 25 410 043,
25 413 167
Fax: 25 410 048

Nizwa Firq
P.O. Box 983, Nizwa,
Postal Code 611
Tel: 25 431 140, 25 432 149
Fax: 25 432 008

Ibri
P.O. Box 30, Ibri,
Postal Code 511
Tel: 25 691 161, 25 690 782
Fax: 25 689 391

Al Araqi
P.O. Box 203, Ibri,
Postal Code 515
Tel: 25 694 342, 25 694 141
Fax: 25 694 340

Buraimi
P.O. Box 9, Buraimi,
Postal Code 512
Tel: 25 653 037, 25 655 226
Fax: 25 650 346

Bahla
P.O. Box 72, Bahla,
Postal Code 612
Tel: 25 419 673, 25 420 772
Fax: 25 419 167

Sumail
P.O. Box 35, Samail,
Postal Code 620
Tel: 25 351 483, 25 350 355
Fax: 25 350 234

Fanja
P.O. Box 88, Bid Bid,
Postal Code 600
Tel: 25 360 444, 25 361 190
Fax: 25 360 011

Al Hamra
P.O. Box 19, Al Hamra,
Postal Code 617
Tel: 25 422 008
Fax: 25 422 766

Dhank
P.O. Box 33, Dhank,
Postal Code 514
Tel: 25 676 603
Fax: 25 676 191

Batinah Region

Sohar
P.O. Box 65, Sohar,
Postal Code 311
Tel: 26 840 234, 26 843 780,
26 845 388
Fax: 26 845 322

Safeer Sohar
P.O. Box 48, Sohar,
Postal Code 321, Safeer Mall
Tel: 26 841 967, 26 844 372
Fax: 26 842 690

Saham
P.O. Box 33, Saham,
Postal Code 319
Tel: 26 855 146, 26 855 299
Fax: 26 854 006

Al Khaboura
P.O. Box 4, Al-Khaboura,
Postal Code 326
Tel: 268 05 155, 262 02 970
Fax: 268 05 204

Barka
P.O. Box 7, Barka,
Postal Code 320
Tel: 26 882 368, 26 882 007
Fax: 26 884 332

Bidaya
P.O. Box 92, Bidaya,
Postal Code 316
Tel: 26 709 240, 26 709 340
Fax: 26 709 350

Musn'a
P. O. Box 38, Musn'a,
Postal Code 312
Tel: 26 868 145, 268 68 136
Fax: 26 868 885

Mullada
P. O. Box 265, Musn'a,
Postal Code 314
Tel: 26 871 118, 26 870 182
Fax: 26 869 635

Shinas
P.O. Box 3, Shinas,
Postal Code 324
Tel: 26 747 663, 26 748 394
Fax: 26 747 134

Rustaq
P.O.Box 189, Rustaq,
Postal Code 318
Tel: 26 878 332, 26 878 334
Fax: 26 878 335

Rustaq
P.O. Box 480, Rustaq,
Postal Code 329
Burig Al Raddah
Tel: 26 875 241, 26 875 254
Fax: 26 875 156

Afi
P.O. Box 197, Nakhal,
Postal Code 323
Tel: 26 780 972
Fax: 26 780 967

Sohar Hambar
P.O. Box 65, Sohar,
Postal Code 311, Sohar Mall
Tel: 26 859 104, 26 859 106
Fax: 26 859 109

Sohar Industrial Branch
P.O. Box 497, Sohar,
Postal Code 311
Tel: 26 751 925, 26 751 309
Fax: 26 751 705

Suwaiq
P.O. Box 594, Suwaiq
Postal Code 315,
Tel: 26 860 518, 26 862 764
Fax: 26 860 517

Dhofar Region

Salalah Main Branch
P.O. Box 197, Salalah,
Postal Code 211
Tel: 23 291 604, 23 290 170,
23 290 710
Fax: 23 295 695, 23 293 069
22 184 584

Salalah 23rd July Street Branch
P.O. Box 1317, Salalah,
Postal Code 211
Tel: 23 298 019, 23 298 027
Fax: 23 297 135

Hafa
P.O. Box 824, Salalah,
Postal Code 211
Tel: 23 291 952, 23 291 940
Fax: 23 290 066

Sultan Qaboos Hospital
P.O. Box 944, Salalah,
Postal Code 211
Tel: 23 211 042, 23 211 092
Fax: 23 211 040

Salalah Port
P.O. Box 1183, Salalah,
Postal Code 211
Tel: 23 219 024, 23 219 373
Fax: 23 219 032

Mirbat
P.O. Box 92, Mirbat,
Postal Code 220
Tel: 23 268 346, 23 268 345
Fax: 23 268 010

Sadah
P.O. Box 428, Sadah,
Postal Code 215
Tel: 23 226 031, 23 225 283
Fax: 23 225 374

Sharqiyah Region

Sur
P.O. Box 55, Sur,
Postal Code 411
Tel: 25 540 246, 25 545 158
Fax: 25 542 046

Ibra
P.O. Box 161, Ibra,
Postal Code 413
Tel: 25 570 015, 2 5570 144
Fax: 25 570 155

Bilad Bani Bu Ali
P.O. Box 11, Bilad Bani Bu Ali,
Postal Code 416
Tel: 25 5 54 015, 25 5 54 138
Fax: 25 5 53 211

Ja'alan
P.O. Box 77, BBB-Hassan,
Postal Code 415
Tel: 25 550 950, 25 550 110
Fax: 25 550 020

Masira
P.O. Box 24, Masira Island,
Postal Code 414
Tel: 25 504 026, 25 504 516
Fax: 25 504 494

Al Kamil
P.O. Box 20, Al Kamil,
Postal Code 412
Tel: 25 557 524, 25 557 770
Fax: 25 557 020

Al Mudaibi
P.O. Box 215, Al Mudaibi,
Postal Code 420
Tel: 25 578 014, 25 578 484
Fax: 25 578 015

Overseas Branches

Egypt

Country Head Office
(C.H.O. Annexe)
68 El Merghani Street,
Abu Ghali Building
Tel: +(202) Switchboard 241 44 184,
PPFM 269 03 597
Fax: +(202) PPFM 229 09 522

Country Manager Office
Tel: +(202) 229 00413
Fax: +(202) 229 07076
Telex: 93309 NBOUN
Swift: NBOMEGCX

Heliopolis
133-135, Abdel Aziz Fahmy Street,
Heliopolis Masr El Gedida, Cairo
Tel: +(202) 220 0158, 220 0157
Fax: +(202) 220 5956

El Maadi
25, El Zaini Tower
Cross of Misr Helwan Street & Street 151
Tel: +(202) 235 96 526, 235 96 536
Fax: +(202) 235 96 603

Mohandessin
34, El Batal Ahmed Abdul Aziz Street
Mohandessin Giza
Tel: +(202) 376 17 041-333 59 684
Fax: +(202) 376 17 044

Alexandria
49, El Horeya Avenue
Tel: +(203) 393 6939, 393 6927
Fax: +(203) 393 6924

El Gouna
102/H2 Downtown,
Tel: +(20-653) 580 240-1-2
Fax: +(20-653) 580 243

United Arab Emirates

Abu Dhabi
P.O. Box 3822, Abu Dhabi,
United Arab Emirates
Tel: (+9712) 634 8111, 639 3028
Fax: (+9712) 632 5027
Telex: 22866 NBO EM
Cable: NATBANK

Head Office: P.O. Box 751, Postal Code 112, Ruwi, Sultanate of Oman.
Tel: +(968) 24 778 000 Fax: +(968) 24 778 585
www.nbo.co.om E-mail: ask@nbo.co.om

البنك الوطني العماني
National Bank of Oman

P.O. Box 751, P.C. 112, Ruwi, Muscat, Sultanate of Oman
www.nbo.co.om