1 LEGAL STATUS AND PRINCIPAL ACTIVITIES

Bank Muscat (SAOG) (the Bank or the Parent Company) is a joint stock company incorporated in the Sultanate of Oman and is engaged in commercial and investment banking activities through a network of a hundred and thirty six branches within the Sultanate of Oman and one branch in Riyadh, Kingdom of Saudi Arabia and one in Kuwait. The Bank has representative offices in Dubai, United Arab Emirates and in Singapore. The Bank (Parent Company) has a 96.25% owned subsidiary in Riyadh, Kingdom of Saudi Arabia. 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 Bank has its primary listing on the Muscat Securities Market. The Bank has recently obtained licence for its Islamic Banking window and has opened its first Islamic Banking branch on 20 January 2013.

The Bank and its subsidiary (together, the Group) operate in Five countries (2011 -Four countries) and employed 3,210 employees as of 31 December 2012 (2011: 3,024).

2 BASIS OF PREPARATION

2.1 Statement of compliance

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

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

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 4.

2.2 Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis, modified to include the revaluation of freehold land and buildings and the measurement at fair value of derivative financial instruments and available-for-sale investment securities.

The consolidated statement of financial position is presented in descending order of liquidity as this presentation is more appropriate to the Group’s operations.

2 BASIS OF PREPARATION (continued)

2.3 Functional and presentation currency

These consolidated financial statements are presented in Rial Omani, which is the Group's functional currency and also in US Dollars, for the convenience of the readers. The US Dollar amounts, which are presented in these consolidated financial statements have been translated from the Rial Omani amounts at an exchange rate of US Dollar 1 = RO 0.385. All financial information presented in Rial Omani and US Dollars has been rounded to the nearest thousands, unless otherwise stated.

2.4 (a) New and amended standards and interpretations to IFRS relevant to the Group

The accounting policies adopted are consistent with those of the previous financial year, except for the following:

IFRS 7 Financial Instruments: Disclosures (amendment)

The IASB issued an amendment to IFRS 7 on 7 October 2010. The amendment provides enhanced disclosures for "Transferred financial assets that are derecognised in their entirety" and "Transferred assets that are not derecognised in their entirety". The effective date is for annual periods beginning on or after 1 July 2011.

Other amendments resulting from Improvements to IFRSs to the following standards did not have any impact on the accounting policies, financial position or performance of the Bank:

- IAS 12 Income Taxes (Amendment) – Deferred Taxes: Recovery of Underlying Assets
- IFRS 1 First-Time Adoption of International Financial Reporting Standards (Amendment) – Severe Hyperinflation and Removal of Fixed Dates for First-Time Adopter

2.4 (b) STANDARDS ISSUED BUT NOT YET EFFECTIVE

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's consolidated financial statements are disclosed below. The bank intends to adopt these standards, if applicable, when they become effective.

IFRS 1 Government Loans — Amendments to IFRS 1

These amendments require first-time adopters to apply the requirements of IAS 20 Accounting for Government Grants and Disclosure of Government Assistance, prospectively to government loans existing at the date of transition to IFRS. Entities may choose to apply the requirements of IFRS 9 (or IAS 39, as applicable) and IAS 20 to government loans retrospectively if the information needed to do so had been obtained at the time of initially accounting for that loan. The exception would give first-time adopters relief from retrospective measurement of government loans with a below-market rate of interest. The amendment is effective for annual periods on or after 1 January 2013. The amendment has no impact on the Group.

2.4 (b) STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)

IFRS 7 Disclosures — Offsetting Financial Assets and Financial Liabilities — Amendments to IFRS 7

These amendments require an entity to disclose information about rights to set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32 Financial Instruments: Presentation. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with IAS 32. These amendments will not impact the Group's financial position or performance and will become effective for annual periods beginning on or after 1 January 2013.

IFRS 9 Financial Instruments

IFRS 9, as issued, reflects the first phase of the IASB's work though the adoption date is subject to the recently issued Exposure Draft on the replacement of IAS 39 and applies to classification and measurement of financial assets and liabilities as defined in IAS 39. The standard was initially effective for annual periods beginning on or after 1 January 2013, but Amendments to IFRS 9 Mandatory Effective Date of IFRS 9 and Transition Disclosures, issued in December 2011, moved the mandatory effective date to 1 January 2015. In subsequent phases, the Board will address impairment and hedge accounting. The Group will quantify the effect of the adoption of the first phase of IFRS 9 in conjunction with the other phases, when issued, to present a comprehensive picture.

IFRS 10 – Consolidated Financial Statements, IAS 27 Separate Financial Statements

The standard becomes effective for annual periods beginning on or after 1 January 2013. It replaces the requirements of IAS 27 Consolidated and Separate Financial Statements that address the accounting for consolidated financial statements and SIC 12 Consolidation – Special Purpose Entities. What remains in IAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. The group is currently assessing the impact of adopting IFRS 10. The impact of the new standard will be affected by the financial position and performance of the entity to be consolidated until the effective date of the new standard and by any possible change in the standard until such date.

IFRS 11 – Joint Arrangements

The standard becomes effective for annual periods beginning on or after 1 January 2013. It replaces IAS 31 Interests in Joint Ventures and SIC 13 Jointly Controlled Entities – Non-monetary Contributions by Venturers. Because IFRS 11 uses the principle of control in IFRS 10 to define control, the determination of whether joint control exists may change. The adoption of IFRS 11 is not expected to have a significant impact on the accounting treatment of investments currently held by the Group.

2.4 (b) STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)

IFRS 12 – Disclosure of Involvement with Other Entities

The standard becomes effective for annual periods beginning on or after 1 January 2013. It includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 Interests in Joint Ventures and IAS 28 Investment in Associates. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. One of the most significant changes introduced by IFRS 12 is that an entity is now required to disclose the judgements made to determine whether it controls another entity. Many of these changes were introduced by the IASB in response to the financial crisis. Now, even if the Group concludes that it does not control an entity, the information used to make that judgement will be transparent to users of the financial statements to make their own assessment of the financial impact were the Group to reach a different conclusion regarding consolidation.

The Group will need to disclose more information about the consolidated and unconsolidated structure entities with which it is involved or has sponsored. However, the standard will not have any impact on the financial position or performance of the Group.

IFRS 13 – Fair Value measurement

The standard becomes effective for annual periods beginning on or after 1 January 2013. IFRS 13 does not change when an entity is required to use fair value, but rather, provides guidance on how to measure the fair value of financial and non-financial assets and liabilities when required or permitted by IFRS. There are also additional disclosure requirements.

Adoption of the standard is not expected to have a material impact on the financial position or performance of the Group.

IAS 1 Presentation of Items of Other Comprehensive Income – Amendments to IAS 1

The amendments to IAS 1 change the grouping of items presented in other comprehensive income (OCI). Items that could be reclassified (or recycled) to profit or loss at a future point in time (for example, net gains on hedges of net investments, exchange differences on translation of foreign operations, net movements on cash flow hedges and net losses or gains on available-for-sale financial assets) would be presented separately from items that will never be reclassified (for example, actuarial gains and losses on defined benefit plans). The amendment affects presentation only and has no impact on the Group's financial position or performance. The amendment becomes effective for annual periods beginning on or after 1 July 2012.

IAS 19 Employee Benefits – Amendments

The amendments to IAS 19 remove the option to defer the recognition of actuarial gains and losses, i.e., the corridor mechanism. All changes in the value of defined benefit plans will be recognised in profit or loss and other comprehensive income. The effective date of the standard is 1 January 2013. The amendment is not expected to have a significant impact on the Group.

IAS 27 Separate Financial Statements (as revised in 2011)

As a consequence of the new IFRS 10 and IFRS 12, what remains in IAS 27 is limited to accounting for subsidiaries, jointly controlled entities and associates in separate financial statements. The amendment becomes effective for annual periods beginning on or after 1 January 2013.The amendment is not expected to have significant impact on the Group.

2.4 (b) STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)

IAS 28 Investments in Associates and Joint Ventures (as revised in 2011)

As a consequence of the new IFRS 11 Joint Arrangements, and IFRS 12 Disclosure of Interests in Other Entities, IAS 28 Investments in Associates, has been renamed IAS 28 Investments in Associates and Joint Ventures, and describes the application of the equity method to investments in joint ventures in addition to associates. The revised standard becomes effective for annual periods beginning on or after 1 January 2013.

IAS 32 Offsetting Financial Assets and Financial Liabilities — Amendments to IAS 32

These amendments clarify the meaning of "currently has a legally enforceable right to set-off". It will be necessary to assess the impact to the bank by reviewing settlement procedures and legal documentation to ensure that offsetting is still possible in cases where it has been achieved in the past. In certain cases, offsetting may no longer be achieved. In other cases, contracts may have to be renegotiated. The requirement that the right of set-off be available for all counterparties to the netting agreement may prove to be a challenge for contracts where only one party has the right to offset in the event of default.

The amendments also clarify the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. Offsetting on the grounds of simultaneous settlement is particularly relevant for the Bank as to where it engages in large numbers of sale and repurchase transactions. Currently, transactions settled through clearing systems are, in most cases, deemed to achieve simultaneous settlement. While many settlement systems are expected to meet the new criteria, some may not. Any changes in offsetting are expected to impact leverage ratios, regulatory capital requirements, etc. As the impact of the adoption depends on the bank's examination of the operational procedures applied by the central clearing houses and settlement systems it deals with to determine if they meet the new criteria, it is not practical to quantify the effects.

These amendments become effective for annual periods beginning on or after 1 January 2014.

Annual Improvements May 2012

These improvements will not have an impact on the Group, but include:

IFRS 1 First-time Adoption of International Financial Reporting Standards

This improvement clarifies that an entity that stopped applying IFRS in the past and chooses, or is required, to apply IFRS, has the option to re-apply IFRS 1. If IFRS 1 is not re-applied, an entity must retrospectively restate its financial statements as if it had never stopped applying IFRS.

IAS 1 Presentation of Financial Statements

This improvement clarifies the difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative information is the previous period.

IAS 16 Property Plant and Equipment

This improvement clarifies that major spare parts and servicing equipment that meet the definition of property, plant and equipment are not inventory.

2.4 (b) STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)

IAS 32 Financial Instruments, Presentation

This improvement clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with IAS 12 Income taxes.

IAS 34 Interim Financial Reporting

The amendment aligns the disclosure requirements for total segment assets with total segment liabilities in interim financial statements. This clarification also ensures that interim disclosures are aligned with annual disclosures.

2.5 Consolidation

(a) Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases. The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the statement of comprehensive income.

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(b) Transactions and non-controlling interests

The Group treats transactions with non-controlling interests as transactions with equity owners of the group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

When the Group ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

2 BASIS OF PREPARATION (continued)

2.5 Consolidation

(c) Associates

Associates are those entities in which the Parent Company has significant influence, but not control, over the financial and operating policies. Associates are accounted for using the equity method (equity accounted investees). Under the equity method, the investment in the associate is carried in the statement of financial position at cost plus post acquisition changes in the Parent Company's share of net assets of the associate. Goodwill relating to the associate is included in the carrying amount of the investment and is not amortised or separately tested for impairment.

The financial statements include the Parent Company's share of the net profit or loss of equity accounted investees, after adjustments to align the accounting policies with those of the Parent Company, from the date that significant influence commences until the date that significant influence ceases. When the Parent Company's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest (including any long term investment) is reduced to nil and recognition of further losses is discontinued except to the extent that the Parent Company has an obligation or has made payments on behalf of the associate.

After application of equity method, the Parent Company determines whether it is necessary to recognise an additional impairment loss on the Parent Company's investment in its associates. The Parent Company determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Parent Company calculates the amount of impairment as the difference between the recoverable amount of the investment in associate and its carrying value and charges the amount in the statement of comprehensive income.

3 SIGNIFICANT ACCOUNTING POLICIES

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

3.1 Foreign currency translation

(i) Transactions in foreign currencies are translated into Rial Omani at exchange rates 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 reporting date. The foreign currency gain or loss on monetary items is the difference between amortised costs in the Rial Omani at the beginning of the period, adjusted for effective interest and payments during the period and the amortised costs in foreign currency translated at the exchange rate at the end of the period. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income, except when deferred in other comprehensive income as qualifying cash flow hedges and qualifying net investment hedges.

(iii) Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to Rial Omani at the exchange rate at the date that the fair value was determined. Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets, such as equities classified as available-for-sale, are included in other comprehensive income.

(iv) On consolidation, the assets and liabilities of foreign operations are translated into Rial Omani at the rate of exchange prevailing at the reporting date and their income statements are translated at exchange rates prevailing at the dates of the transactions. The exchange differences arising on translation for consolidation are recognised in other comprehensive income. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement in other operating expenses or ther operating income. Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operations and translated at closing rate.

3.2 Revenue and expense 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.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Revenue and expense recognition (continued)

3.2.1 Interest

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 effective interest rate (EIR). EIR 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 Group 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 "interest income' for financial assets and "interest expense" for financial liabilities. However, for a reclassified financial asset for which the Group subsequently increases its estimates of future cash receipts as a result of increased recoverability of those cash receipts, the effect of that increase is recognised as an adjustment to the EIR from the date of the change in estimate.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

3.2.2 Fees and commission

Fees and commission income and expenses that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate. Other fees and commission income, including service charges, advisory fees, processing fees, syndication fees and others are recognised when they are due.

3.2.3 Dividends

Dividend income is recognised in the consolidated statement of comprehensive income in ‘Other operating income’, when the Group’s right to receive income is established.

3.2.4 Provisions

A provision is recognised if, as a result of past event, the Group has a present legal or constructive obligation that can be estimated reliably and it is probable that an outflow of economic benefits will be required to settle the obligations. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risk specific to the liability.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3 Financial assets and liabilities

3.3.1 Classification

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

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

Financial assets and financial liabilities classified in this category are those that have been designated by management upon initial recognition. Management may only designate an instrument at fair value through profit or loss upon initial recognition when the following criteria are met, and designation is determined on an instrument-by-instrument basis:

i) 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.

ii) 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.

iii) The financial instrument contains one or more embedded derivatives, which significantly modify the cash flows that would otherwise be required by the contract.

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 Net gain or loss on financial assets and liabilities designated at fair value through profit or loss. 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.

(b) Loans and receivables

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

When the Group is the lessor in a lease agreement that transfers substantially all of the risks and rewards incidental to ownership of an asset to the lessee, the arrangement is presented within loans and advances.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3 Financial assets and liabilities (continued)

3.3.1 Classification (continued)

(b) Loans and receivables (continued)

Loans and receivables are initially recognised at fair value – which is the cash consideration to originate or purchase the loan including any transaction costs – and measured subsequently at amortised cost using the effective interest rate method. Loans and receivables are reported in the consolidated statement of financial position as loans and advances to banks or customers. Interest on loans is included in the consolidated statement of comprehensive income and is reported as 'Interest income'. In the case of an impairment, the impairment loss is reported as a deduction from the carrying value of the loan and recognised in the consolidated statement of comprehensive income as 'Impairment for credit losses'.

(c) Held to maturity

Held to maturity financial assets are non-derivative assets with fixed or determinable payments and fixed maturity that the Group has the positive intent and ability to hold to maturity and which are not designated at fair value through profit or loss or available-for-sale.

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

Interest on held to maturity investments is included in the consolidated statement of comprehensive income and reported as 'Interest income'. In the case of impairment, the impairment loss is been reported as a deduction from the carrying value of the investment and recognised in the consolidated statement of comprehensive income as 'Impairment for investments'. Held to maturity investments are corporate bonds and treasury bills.

(d) Available-for-sale financial assets

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 intended to be held for an indefinite period of time and 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.

After initial measurement, available-for-sale financial investments are subsequently measured at fair value.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3 Financial assets and liabilities (continued)

3.3.1 Classification (continued)

(d) Available-for-sale financial assets (continued)

Unrealised gains and losses are recognised directly in equity (other comprehensive income) in the change in fair value of investments available-for-sale. When the investment is disposed of, the cumulative gain or loss previously recognised in equity is recognised in the income statement in other operating income. 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 income statement 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 income statement in impairment for investments and removed from the change in fair value of investments available-for-sale.

(e) 'Day 1' profit or loss

When the transaction price differs from the fair value of other observable current market transactions in the same instrument, or based on a valuation technique whose variables include only data from observable markets, the Bank immediately recognises the difference between the transaction price and fair value (a Day 1 profit or loss) in Net trading income. In cases where fair value is determined using data which is not observable, the difference between the transaction price and model value is only recognised in the income statement when the inputs become observable, or when the instrument is derecognised.

3.3.2 Derivative financial instruments and hedging activities

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

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

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3 Financial assets and liabilities (continued)

3.3.3 Recognition

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

3.3.4 Derecognition

The Group derecognises a financial asset when the contractual rights to receive the cash flows from the asset expire or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

3.3.5 Offsetting

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

Income and expenses are presented on a net basis only when permitted by the accounting standards or for gains and losses arising from a Group of similar transactions.

3.3.6 Amortised cost measurement

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

3.3.7 Fair value measurement

A number of the Group’s accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on a number of accounting policies and methods. Where applicable, information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability. Details are set out in note 43.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3 Financial assets and liabilities (continued)

3.3.8 Investment in equity and debt securities

For investments traded in organised financial markets, fair value is determined by reference to Stock Exchange quoted market prices at the close of business on the reporting date.

The fair value of interest-bearing items is estimated based on discounted cash flows using interest rates for items with similar terms and risk characteristics.

For unquoted equity investments fair value is determined by reference to the market value of a similar investment or is based on the expected discounted cash flows.

3.3.9 Fair value measurement of financial assets

The fair value of forward contracts is estimated based on observable market inputs for such contracts as on the reporting date.

The fair value of interest rate swaps is arrived at by discounting estimated future cash flows based on the terms and maturity of each contract and using market interest rates for a similar instrument at the measurement date.

3.3.10 Derivatives at fair value through profit or loss

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any these derivative instruments are recognised immediately in the statement of comprehensive income within ‘Other operating income’.

3.4 Identification and measurement of impairment of financial assets

(a) Assets carried at amortised cost

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

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

(a) Assets carried at amortised cost (continued)

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

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

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

Future cash flows in a Group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the Bank and historical loss experience for assets with credit risk characteristics similar to those in the Bank.

The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Bank to reduce any differences between loss estimates and actual loss experience.

When a loan is uncollectible, it is written off against the related allowance for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

(a) Assets carried at amortised cost (continued)

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the statement of comprehensive income. Also refer to notes 2.5 associates, 3.3.1 (b) loans and receivables and 3.3.1(c) held to maturity investments.

(b) Assets classified as available-for-sale

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. For debt securities, the group uses the criteria referred to at (a) above. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss - is removed from equity and recognised in the separate consolidated statement of comprehensive income. Impairment losses on equity instruments recognised in the profit or loss are not reversed through separate profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the profit or loss.

(c) Renegotiated loans

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

3.5 Cash and cash equivalents

Cash and cash equivalents consist of cash in hand, balances with Group, treasury bills and money market placements and deposits maturing within three months of the date of acquisition. Cash and cash equivalents are carried at amortised cost in the statement of financial position.

3.6 Placements with banks

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

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.7 Property and equipment

Items of property and equipment are measured at cost less accumulated depreciation and impairment loss. Cost includes expenditures that are directly attributable to the acquisition of the asset.

When parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

Revaluations of freehold land and buildings are carried out every five years on an open market value for existing use basis, by an independent valuer. Increases in the carrying amount arising on revaluation are credited to other comprehensive income and shown as revaluation reserve in shareholders' equity. Decreases that offset previous increases of the same asset are charged in other comprehensive income and debited against other reserves directly in equity; all other decreases are charged to the statement of comprehensive income. On disposal the related revaluation surplus is transferred directly to retained earnings. Transfers from revaluation surplus to retained earnings are not made through statement of comprehensive income.

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives, as follows:

	Years
Freehold and leasehold buildings	20 - 50
Leased hold improvements	5-10
Furniture, fixtures and equipment	5-10
Motor vehicles	3-5

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

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

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

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

3.8 Collateral pending sale

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

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.9 Goodwill

Goodwill represents the excess of the cost of the acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree. Goodwill is measured at cost less any accumulated impairment losses. In respect of equity accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold. Goodwill is allocated to cash-generating units for the purpose of impairment testing. Each of those cash-generating units is represented by each operating segment.

3.10 Deposits

Deposits from banks and customers, debt securities and subordinated liabilities are the Group's sources of funding. These are initially measured at fair value plus transaction costs and subsequently measured at their amortised cost using the effective interest method.

3.11 Income tax

Income tax expense comprises current and deferred tax. Taxation is provided in accordance with Omani fiscal regulations.

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

Income tax is recognised in the statement of comprehensive income except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Deferred tax assets/liabilities are calculated using the balance sheet 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 the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the reporting date.

The carrying amount of deferred income tax assets/liabilities is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

3.12 Fiduciary assets

The Group provides trustee, corporate administration, investment management and advisory services to third parties, which involve the Group making allocation and purchase and sale decisions in relation to a wide range of financial instruments. Those assets that are held in a fiduciary capacity are not included in these consolidated financial statements.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.13 Acceptances

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

3.14 Repurchase and resale agreements

Securities sold subject to repurchase agreements ('repos') are reclassified in the financial statements as pledged assets when the transferee has the right by contract or custom to sell or repledge the collateral; the counterparty liability is included in deposits from banks or deposits from customers, as appropriate. Securities purchased under agreements to resell ('reverse repos') are recorded as loans and advances to other banks or customers, as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest method. Securities lent to counterparties are also retained in the consolidated financial statements.

3.15 Trade and settlement date accounting

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

3.16 Leases

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term.

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

3.17 Employee terminal benefits

Contributions to a defined contribution retirement plan, for Omani employees, in accordance with the Oman Social Insurance Scheme, are recognised as expense in the statement of comprehensive income when accrued.

The Group's obligation in respect of non-Omani terminal benefits, which is an unfunded defined benefit retirement plan, is the amount of future benefit that such employees have earned in return for their service in current and prior periods.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.18 Earnings per share

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

3.19 Financial guarantees contracts

Financial guarantees are contracts that require the issuer to make specified payments to reimburse the beneficiary for a loss incurred because the debtor fails to make payments when due, in accordance with the terms of the debt. Such guarantees are given to banks, financial institutions or other entities on behalf of the customers.

Financial guarantees are initially recognised in the financial statements at fair value on the date the guarantee was issued. Subsequent to initial recognition, the bank's liabilities under such guarantees are measured at the higher of initial measurement, less amortisation calculated to recognise in the statement of comprehensive income the fee income earned on the straight line basis over the life of the guarantee and the best estimate of the expenditure required to settle any financial obligation arising at the reporting date. These estimates are determined based on experience of similar transactions and history of past losses, supplemented by the judgment of management. Any increase in the liability relating to guarantees is taken to the statement of comprehensive income.

3.20 Borrowings

Borrowings are recognised initially at fair value, being their issue proceeds (fair value of consideration received) net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds, net of transaction costs, and the redemption value is recognised in the statement of comprehensive income over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

3.21 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.

3.22 Directors' remuneration

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

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of consolidated financial statements requires the Management to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. The resulting accounting estimates will, by definition, seldom equal the related actual results. Specific fair value estimates are disclosed in note 43.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods. The Group's significant accounting estimates were on:

(a) Impairment on placements

The Group reviews its portfolio of placements with banks on a yearly basis to assess impairment. In determining whether an impairment loss should be recorded in the consolidated statement of comprehensive income, the Group makes judgements as to whether there is any observable data indicating an impairment. For individually impaired placements, the Group considers the necessary impairment loss based on the expected cash flows and borrower's financial position. In addition, the Group assesses the portfolio on a collective basis and estimates the collective impairment loss if any. The judgements and estimates used for impairment assessment depend on a number of parameters which include the borrower's financial condition, local and international economic conditions and economic outlook.

(b) Impairment losses on loans and advances

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

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

(c) Fair value of derivatives and other financial instruments

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

(d) Impairment of available - for - sale equity investments

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

(e) Impairment loss on investments in associates

The Group reviews its investments in associates periodically and evaluates the objective evidence of impairment. Objective evidence includes the performance of associate, the future business model, local economic conditions and other relevant factors. Based on the objective evidences, the Group determines the need for impairment loss on investments in associates.

(f) Deferred tax asset

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.

5. CASH AND BALANCES WITH CENTRAL BANKS

2011 US$ 000's	**2012 US$ 000's**		**2012 RO 000's**	2011 RO 000's
272,977	**345,135**	Cash	**132,877**	105,096
1,299	**1,299**	Capital deposit with Central Banks	**500**	500
1,413	**-**	Insurance deposit with Central Banks	**-**	544
1,869,410	**1,376,595**	Other balances with Central Banks	**529,989**	719,723
2,145,099	**1,723,029**		**663,366**	825,863

The capital deposit with the Central Banks cannot be withdrawn without the approval of the Central Banks. Insurance deposit with Central Bank of Oman is non refundable and the Bank is amortising the same over a period of 3 years ending 31 December 2012.

6. PLACEMENTS WITH BANKS

2011 US$ 000's	**2012 US$ 000's**		**2012 RO 000's**	2011 RO 000's
1,979,540	**1,736,592**	Inter bank placements	**668,588**	762,123
286,047	**158,992**	Nostro balances	**61,212**	110,128
2,265,587	**1,895,584**		**729,800**	872,251
(8,182)	**(9,740)**	Provision for impairment	**(3,750)**	(3,150)
2,257,405	**1,885,844**		**726,050**	869,101

As of 31 December 2012, placements on which contractual interest is not being accrued or has not been recognised amounted to RO 1.547 million (2011 - nil).

The movement in provision for impairment is analysed below:

Provision for placements with Banks

2011 US$ 000's	**2012 US$ 000's**		**2012 RO 000's**	2011 RO 000's
6,494	**8,182**	**1 January**	**3,150**	2,500
1,688	**1,558**	Provided during the year	**600**	650
8,182	**9,740**	**31 December**	**3,750**	3,150

7. LOANS AND ADVANCES

2011 US$ 000's	**2012 US$ 000's**		**2012 RO 000's**	2011 RO 000's
11,521,377	**13,609,558**	Loans	**5,239,680**	4,435,730
539,800	**592,294**	Overdrafts and credit cards	**228,033**	207,823
547,532	**568,930**	Loans against trust receipts	**219,038**	210,800
185,758	**45,421**	Bills purchased and discounted	**17,487**	71,517
181,964	**279,330**	Other advances	**107,542**	70,056
12,976,431	**15,095,533**		**5,811,780**	4,995,926
(458,426)	**(547,605)**	Provision for impairment	**(210,828)**	(176,494)
12,518,005	**14,547,928**		**5,600,952**	4,819,432

7. LOANS AND ADVANCES (continued)

The movement in provision for impairment is analysed below:

Provision for loan losses

2011 US$ 000's	2012 US$ 000's		2012 RO 000's	2011 RO 000's
408,701	**413,134**	**1 January**	**159,057**	157,350
145,857	**150,384**	Provided during the year	**57,898**	56,155
(64,886)	**(76,997)**	Released during the year	**(29,644)**	(24,981)
(76,538)	**(9,888)**	Written off during the year	**(3,807)**	(29,467)
-	**16,512**	Transfer from memorandum portfolio	**6,357**	-
413,134	**493,145**	**31 December (a)**	**189,861**	159,057

Contractual interest not recognised

2011 US$ 000's	2012 US$ 000's		2012 RO 000's	2011 RO 000's
75,107	**45,292**	**1 January**	**17,437**	28,916
(44,179)	**(5,429)**	Written off during the year	**(2,090)**	(17,009)
38,333	**29,106**	Contractual interest not recognised	**11,206**	14,758
(23,969)	**(15,319)**	Contractual interest recovered	**(5,898)**	(9,228)
-	**810**	Transfer from memorandum portfolio	**312**	-
45,292	**54,460**	**31 December (b)**	**20,967**	17,437
458,426	**547,605**	Total Impairment (a) + (b)	**210,828**	176,494

Recoveries during the year of RO 33.511 million (2011: RO 25.554 million) include RO 3.867 million (2011- RO 0.573 million) recovered from loans written off earlier. The loans written off during the year include an amount of RO 0.55

As of 31 December 2012, loans and advances on which contractual interest is not being accrued or has not been recognised amounted to RO 173.7 million (2011 - RO 149.1 million).

During the year, written off loans amounting to RO 6.7 million were regularised. Accordingly these loans were reclassified from memorandum account to loans and advances. These accounts were fully provided.

8. OTHER ASSETS

2011 US$ 000's	2012 US$ 000's		2012 RO 000's	2011 RO 000's
125,036	**108,745**	Positive fair value of derivatives (Note 38)	**41,867**	48,139
233,945	**306,106**	Acceptances	**117,851**	90,069
38,665	**36,852**	Accrued interest	**14,188**	14,886
209,771	**44,740**	Other debtors and prepaid expenses	**17,225**	80,762
31,512	**13,906**	Deferred tax asset (Note 21)	**5,354**	12,132
260	**1,244**	Collateral pending sale (net of provisions)	**479**	100
8,512	**14,961**	Others	**5,760**	3,277
647,701	**526,554**		**202,724**	249,365

Recoveries from impairment of collateral pending sale:

US$ 000's	US$ 000's		RO 000's	RO 000's
1,036	**86**	Opening balance	**33**	399
(951)	**-**	Write back during the year	**-**	(366)
85	**86**		**33**	33

9. INVESTMENTS

	2012 Available for sale RO 000's	Held to maturity RO 000's	Total RO 000's	2011 Total RO 000's
Quoted investments	265,054	20,680	285,734	237,869
Unquoted investments:				
Treasury bills	-	279,873	279,873	67,041
Bonds/securities	48,169	-	48,169	44,092
Total unquoted	48,169	279,873	328,042	111,133
Total investments	**313,223**	**300,553**	**613,776**	349,002
Impairment losses on investments	(8,403)	-	(8,403)	(6,149)
Net investments	**304,820**	**300,553**	**605,373**	342,853
2011	275,812	67,041	342,853	

	Available for sale US$ 000's	Held to maturity US$ 000's	2012 Total US$ 000's	2011 Total US$ 000's
Quoted investments	688,452	53,714	742,166	617,842
Unquoted investments:				
Treasury bills	-	726,943	726,943	174,132
Bonds/securities	125,114	-	125,114	114,525
Total unquoted	125,114	726,943	852,057	288,657
Total investments	**813,566**	**780,657**	**1,594,223**	906,499
Impairment losses on investments	**(21,826)**	**-**	**(21,826)**	(15,971)
Net investments	**791,740**	**780,657**	**1,572,397**	890,528
2011	716,396	174,132	890,528	

9. INVESTMENTS (continued)

An analysis of available-for-sale investments is set out below:

2011 US$ 000's	**2012 US$ 000's**		**2012 RO 000's**	2011 RO 000's
		Quoted investments		
		Equity		
65,481	**73,203**	Foreign securities	**28,183**	25,210
49,655	**42,367**	Other services sector	**16,311**	19,117
22,501	**23,558**	Unit funds	**9,070**	8,663
19,595	**23,252**	Financial services sector	**8,952**	7,544
18,930	**20,901**	Industrial sector	**8,047**	7,288
		Debt		
388,062	**431,156**	Government bonds	**165,995**	149,404
48,444	**68,745**	Foreign bonds	**26,467**	18,651
5,174	**5,270**	Local bonds	**2,029**	1,992
617,842	**688,452**	***Total quoted investments***	**265,054**	237,869
		Unquoted investments		
		Equity		
37,686	**38,397**	Foreign securities	**14,783**	14,509
20,332	**21,132**	Local securities	**8,136**	7,828
130	**130**	Unit funds	**50**	50
		Debt		
1,249	**-**	Foreign bonds	**-**	481
55,128	**65,455**	Local bonds	**25,200**	21,224
114,525	**125,114**	***Total unquoted investments***	**48,169**	44,092
732,367	**813,566**	Total available for sale investments	**313,223**	281,961
(15,971)	**(21,826)**	Impairment losses on investments	**(8,403)**	(6,149)
716,396	**791,740**	Total available for sale	**304,820**	275,812

The movement in impairment of investment securities is summarised as follows:

2011 US$ 000's	**2012 US$ 000's**		**2012 RO 000's**	2011 RO 000's
13,964	15,971	At 1 January	6,149	5,376
7,094	10,088	Increase during the year	3,884	2,731
(5,087)	(4,234)	Decrease during the year for sales	(1,630)	(1,958)
15,971	21,825	At 31 December	8,403	6,149

9. INVESTMENTS (continued)

The movement in investment securities may be summarised as follows:

	Available for sale	**Held to maturity**	**Total**
	RO 000's	**RO 000's**	**RO 000's**
At 1 January 2012	**275,812**	**67,041**	**342,853**
Exchange differences on monetary assets	**(285)**	**-**	**(285)**
Additions	**49,238**	**299,551**	**348,789**
Disposals and redemption	**(23,956)**	**(67,041)**	**(90,997)**
Gain from change in fair value	**7,383**	**-**	**7,383**
Impairment losses	**(3,884)**	**-**	**(3,884)**
Amortisation of discount / premium	**(1,986)**	**1,002**	**(984)**
Realised gains on sale	**2,498**	**-**	**2,498**
At 31 December 2012	**304,820**	**300,553**	**605,373**
US$'000	**791,740**	**780,657**	**1,572,396**

	Available for sale	Held to maturity	Total
	RO 000's	RO 000's	RO 000's
At 1 January 2011	237,105	29,922	267,027
Exchange Differences on monetary assets	(382)	-	(382)
Additions	95,845	67,041	162,886
Disposals and redemption	(48,738)	(29,922)	(78,660)
Gain from changes in fair value	(8,314)	-	(8,314)
Impairment losses	(2,731)	-	(2,731)
Amortisation	(1,265)	-	(1,265)
Realised gains on sale	4,292	-	4,292
At 31 December 2011	275,812	67,041	342,853
US$'000	716,396	174,132	890,528

10. INVESTMENTS IN A SUBSIDIARY

Details regarding the Parent company's investment in a subsidiary is set out below

Company name	**Country of incorporation**	**Year end**	**Proportion held**
Muscat Capital LLC	Kingdom of Saudi Arabia	31-Dec-12	96.25%
Muscat Capital LLC	Kingdom of Saudi Arabia	31-Dec-11	96.25%

As at 31 December 2012, the authorised and issued share capital of the subsidiary is SAR 100 million (2011 - SAR 100 million) Financial information relating to subsidiary is summarised as follows:

31 December 2012	**Total RO 000's**	**Share of parent company RO 000's**	**Share of non-controlling interest RO 000's**
Total share capital	**10,272**	**9,887**	**385**
Reserves	**(5,187)**	**(4,993)**	**(194)**
Total equity	**5,085**	**4,894**	**191**

	Total US$ 000's	**Share of parent company US$ 000's**	**Share of non-controlling interest US$ 000's**
Total share capital	**26,681**	**25,681**	**1,000**
Reserves	**(13,473)**	**(12,969)**	**(504)**
Total equity	**13,208**	**12,712**	**496**

31 December 2011	Total RO 000's	Share of parent company RO 000's	Share of non-controlling interest RO 000's
Total share capital	10,272	9,887	385
Reserves	(4,034)	(3,883)	(151)
Total equity	6,238	6,004	234

	Total US$ 000's	Share of parent company US$ 000's	Share of non-controlling interest US$ 000's
Total share capital	26,681	25,681	1,000
Reserves	(10,478)	(10,085)	(393)
Total equity	16,203	15,596	607

11. INVESTMENTS IN ASSOCIATES

2011 US$ 000's	2012 US$ 000's		2012 RO 000's	2011 RO 000's
104,068	**94,330**	BMI Bank B.S.C. (c), Kingdom of Bahrain	**36,318**	40,067
24,750	**24,997**	Mangal Keshav Holding Ltd. (MKHL), India	**9,623**	9,528
128,818	**119,327**		**45,941**	49,595

During 2012, share of losses from associates amounted to RO 3.418 million (2011 – RO 3.529 million) and translation losse on associate investments amounted to RO 0.236 million (2011 - RO 1.793 million).

Details in investment in associates are as given below:

11.1 Investment in BMI Bank B.S.C. (c), Kingdom of Bahrain(BMI)

As at 31 December 2012, the Parent Company held 49% (2011 - 49%) shareholding in BMI Bank B.S.C. (c), a closely held bank. The carrying value of the investment in BMI Bank B.S.C. (c) as on 31 December 2012 was as follows:

2011 US$ 000's	2012 US$ 000's		2012 RO 000's	2011 RO 000's
114,325	**104,068**	Carrying value at 1 January	**40,067**	44,016
(10,257)	**(9,738)**	Share of adjusted loss for the year	**(3,749)**	(3,949)
104,068	**94,330**	Carrying value at 31 December	**36,318**	40,067

11.2 Investment in Mangal Keshav Holdings Limited, India (MKHL)

As at 31 December 2012, the Bank held 45.7% (2011 - 42.96%) shareholding in MKHL. In May 2012, the associate carried out a buy- back of shares to the extent of 15.26 million shares. Accordingly the paid up share capital has reduced from 25,418,584 to 23,892,583 shares. Subsequent to the buy back, the share holding of Bank Muscat SAOG has increased from 42.96% to 45.70%. The carrying value of the investment in MKHL as on 31 December 2012 was as follows:

2011 US$ 000's	2012 US$ 000's		2012 RO 000's	2011 RO 000's
28,316	**24,750**	Carrying value of investments at 1 January	**9,528**	10,901
1,091	**860**	Add: share of profit for the period 1 October 2011 to 30 September 2012 (2010 - 1 October 2010 to 30 September 2011)	**331**	420
(4,657)	**(613)**	Translation of foreign currency	**(236)**	(1,793)
24,750	**24,997**	Carrying value of investments at 31 December	**9,623**	9,528

The carrying value of investments as reflected above includes an amount of RO 1.973 million (2011 - RO 2.023) million on account of goodwill related to acquisition. The Parent Company's share of the total recognised gains and losses of associate are reflected on the basis of reviewed results of MKHL for the period ended 30 September 2012. The financial statements of MKHL for the quarter ended 31 December 2012 were not available at the time of the preparation of these consolidated financial statements.

The financial statements of MKHL are prepared in accordance with generally accepted accounting practices prevailing in India (Indian GAAP). The Management of the Parent Company believe that it is not practicable to restate the financial statements of MKHL in order to reflect the position as per International Financial Reporting Standards, as MKHL does not operate under similar circumstances and management considers the impact not to be material to the Group.

11. INVESTMENTS IN ASSOCIATES (continued)

11.3 Financial information relating to associates

Financial information relating to associates is summarised as follows:

2011	**2012**		**2012**	2011
US$'000	**US$'000**		**RO 000's**	RO 000's
60,847	**59,715**	Total revenue	**22,990**	23,426
(14,914)	**(10,351)**	Net adjusted loss	**(3,985)**	(5,742)
1,709,664	**2,049,837**	Total assets	**789,187**	658,221
1,448,847	**1,782,562**	Total liability	**686,286**	557,806
260,418	**267,275**	Equity	**102,901**	100,261

12. PROPERTY AND EQUIPMENT

	Land and buildings	*Furniture, fixtures and equipment*	*Motor vehicles*	*Total*
	RO 000's	**RO 000's**	**RO 000's**	**RO 000's**
Cost or valuation :				
At 1 January 2012	46,301	74,078	768	121,147
Additions during the year	38	7,384	76	7,498
Disposals	(160)	(44)	(102)	(306)
Surplus on revaluation	1,250	-	-	1,250
At 31 December 2012	47,429	81,418	742	129,589
Depreciation :				
At 1 January 2012	5,699	43,121	535	49,355
Charge for the year	1,137	9,966	104	11,207
Relating to disposals	(112)	(37)	(87)	(236)
At 31 December 2012	6,724	53,050	552	60,326
Net book value :				
At 31 December 2012	**40,705**	**28,368**	**190**	**69,263**
At 31 December 2012 (US$)	**105,727**	**73,683**	**494**	**179,904**

	Land and buildings	*Furniture, fixtures and equipment*	*Motor vehicles*	*Total*
	RO 000's	RO 000's	RO 000's	RO 000's
Cost or valuation :				
As 1 January 2011	48,300	81,402	806	130,508
Additions during the year	185	8,739	66	8,990
Disposals	(1,312)	(384)	(104)	(1,800)
Retirement	-	(16,551)	-	(16,551)
Transfer	(872)	872	-	-
At 31 December 2011	46,301	74,078	768	121,147
Depreciation :				
As 1 January 2011	4,994	50,264	462	55,720
Charge for the year	1,276	9,752	128	11,156
Relating to disposals	(571)	(344)	(55)	(970)
Relating to retirements	-	(16,551)	-	(16,551)
At 31 December 2011	5,699	43,121	535	49,355
Net book value :				
At 31 December 2011	40,602	30,957	233	71,792
At 31 December 2011 (US$)	105,460	80,408	605	186,473

Land and buildings above includes leasehold land and buildings of RO 36,669 K (2011: RO 37,642 K). The Bank has a policy to revalue its owned land and buildings at the end of every five years. In accordance with the bank's policy, the owned land and buildings were revalued during 2012 by independent professional valuers on an open market basis. The gross carrying amount of the land and buildings was restated so that the net carrying amount of the asset after its revaluation equals its revalued amount, surplus on revaluation was credited to revaluation reserve.

13. FINANCE LEASE LIABILITIES

The Group has entered into a lease agreement with a third party (a quasi government entity) to lease a purpose built head office which was constructed for exclusive use of the Group. The construction of building was completed in 2009. The lease is for a period of 50 years. The annual lease payment of building for the initial 25 years is RO 2.7 million. Subsequently, for the next 10 years, the annual rent will increase by 25% to RO 3.4 million. From 36th year onwards, the annual rent will further increase by 10% to RO 3.7 million. Due to which the minimum lease payments in the first 25 years of the lease period are less than the finance charges payable every year.

The minimum lease payments and total liability in respect of these leases relating to future periods are as follows:

2011 USD 000's	**2012 USD 000's**		**2012 RO 000's**	2011 RO 000's
(91)	**(99)**	Current	**(38)**	(35)
99,353	**99,452**	Non current	**38,289**	38,251
99,262	**99,353**	Total (note 20)	**38,251**	38,216
		Represented by:		
399,000	**391,995**	Gross finance lease payment due	**150,918**	153,615
(299,739)	**(292,642)**	Less: future finance charges	**(112,667)**	(115,399)
99,262	**99,353**	Net lease liability / present value recognised as property	**38,251**	38,216

The following tables shows the maturity analysis of finance lease payable:

RO 000's	**Less than 1 year**	**Between 1 and 2 years**	**Between 2 and 5 years**	**More than 5 years**	**Total**
As at 31 Dec 2012					
Gross finance lease payable	**2,697**	**2,697**	**8,091**	**137,433**	**150,918**
Less: future finance charges	**(2,735)**	**(2,738)**	**(8,231)**	**(98,963)**	**(112,667)**
Net lease liability	**(38)**	**(41)**	**(140)**	**38,470**	**38,251**

US$ 000's	**Less than 1 year**	**Between 1 and 2 years**	**Between 2 and 5 years**	**More than 5 years**	**Total**
As at 31 Dec 2012					
Gross finance lease payable	**7,005**	**7,005**	**21,016**	**356,969**	**391,995**
Less: future finance charges	**(7,104)**	**(7,112)**	**(21,379)**	**(257,047)**	**(292,642)**
Net lease liability	**(99)**	**(106)**	**(364)**	**99,922**	**99,353**

The following table shows the maturity analysis of finance lease payable:

RO 000's	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	More than 5 years	Total
As at 31 Dec 2011					
Gross finance lease payable	2,697	2,697	8,091	140,130	153,615
Less: future finance charges	(2,732)	(2,735)	(8,222)	(101,710)	(115,399)
Net lease liability	(35)	(38)	(131)	38,420	38,216

USD 000's	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	More than 5 years	Total
As at 31 Dec 2011					
Gross finance lease payable	7,005	7,005	21,016	363,974	399,000
Less: future finance charges	(7,096)	(7,104)	(21,356)	(264,182)	(299,738)
Net lease liability	(91)	(99)	(340)	99,792	99,262

14. DEPOSITS FROM BANKS

2011 US$ 000's	2012 US$ 000's		2012 RO 000's	2011 RO 000's
725,338	**1,151,696**	Inter bank borrowings	**443,403**	279,255
518,195	**92,878**	Vostro balances	**35,758**	199,505
654,979	**705,436**	Other money market deposits	**271,593**	252,167
1,898,512	**1,950,010**		**750,754**	730,927

15. CUSTOMERS' DEPOSITS

2011 US$ 000's	2012 US$ 000's		2012 RO 000's	2011 RO 000's
5,254,429	**5,044,958**	Deposit accounts	**1,942,309**	2,022,955
2,867,932	**3,469,166**	Savings accounts	**1,335,629**	1,104,154
3,434,366	**4,407,717**	Current accounts	**1,696,971**	1,322,231
725,974	**795,252**	Call accounts	**306,172**	279,500
53,634	**111,519**	Margin accounts	**42,935**	20,649
12,336,335	**13,828,612**		**5,324,016**	4,749,489

As on the reporting date, deposits from Ministries and other Government organizations represent 39% of the total customer deposits (2011: 32 %).

16. CERTIFICATES OF DEPOSIT

During the year the Parent Company issued certificates of deposit of RO Nil (2011: Nil) and RO 47.4 million (2011: RO 53.6 million) of certificates of deposits matured. The certificates of deposits issued by the Parent Company are unsecured and are denominated in Rial Omani. The maturity profile and interest rate are disclosed in notes 42.3.2 and 42.4.4

17. UNSECURED BONDS

Unsecured bonds are non-convertible, unsecured and listed on the Muscat Securities Market. The bonds have a maturity of 10 years. The maturity profile and interest rate of unsecured bonds are disclosed in notes 42.3.2 and 42.4.4 respectively.

18. FLOATING RATE NOTES

Floating rate notes are issued by the Parent Company under its Euro Medium Term Note Programme and are denominated in US Dollars. The notes carry a floating interest rate. These are non-convertible, unsecured and listed on Luxemburg stock exchange. During the year 2012, notes amounting to RO 5.775 million matured (2011: RO 9.625 million). The maturity profile and interest rates of floating rate notes are disclosed in notes 42.3.2 and 42.4.4 respectively.

19. MANDATORY CONVERTIBLE BONDS

The mandatory convertible bonds carry an annual coupon rate of 7%. On maturity, the bonds will be converted to ordinary shares of the Parent Company by using a "Conversion price" which will be calculated by applying 20% discount to 3 month average share price of the Parent Company on the Muscat Securities market prior to the conversion. 50% of bonds representing RO 16.157 million matured in Q1-2012. Based on the terms of prospectus, conversion price was calculated at RO 0.515 which represented a 20% discount to average closing market price over the preceding 90 calendar day period prior to the conversion date after adjusting for the impact of bonus shares issued in Q1-2012. The Bank issued 31,372,825 shares on account of conversion. The remaining 50% of convertible bonds will be converted into equity on March 20, 2014. The bonds are listed on the Muscat Securities Market.

20. OTHER LIABILITIES

2011 US$ 000's	2012 US$ 000's		2012 RO 000's	2011 RO 000's
144,595	**137,473**	Negative fair value of derivatives (note 38)	**52,927**	55,669
233,945	**306,083**	Acceptances	**117,842**	90,069
100,740	**78,031**	Accrued interest	**30,042**	38,785
11,603	**12,590**	Unearned discount and interest	**4,847**	4,467
10,031	**12,532**	Employee terminal benefits	**4,825**	3,862
935	**1,426**	Deferred tax liability (note 21)	**549**	360
99,262	**99,353**	Finance lease (note 13)	**38,251**	38,216
292,855	**316,873**	Other liabilities and accrued expenses	**121,996**	112,749
893,966	**964,361**		**371,279**	344,177

The charge for the year and amounts paid in respect of employee terminal benefits were RO 1,252 K (2011 - RO 966 K) and RO 353 K (2011 - RO 395 K), respectively.

21. TAXATION

2011	**2012**		**2012**	2011
US$ 000's	**US$ 000's**		**RO 000's**	RO 000's
		Current liability:		
43,099	**50,753**	Current year	**19,540**	16,593
52,265	**19,106**	Prior years	**7,356**	20,122
95,364	**69,860**		**26,896**	36,715

2011	**2012**		**2012**	2011
US$ 000's	**US$ 000's**	Statement of comprehensive income	**RO 000's**	RO 000's
43,099	**50,753**	Current year	**19,540**	16,593
8,068	**(22,777)**	Prior years	**(8,769)**	3,106
51,166	**27,977**		**10,771**	19,699
(2,691)	**17,605**	Relating to origination and reversal of temporary differences	**6,778**	(1,036)
48,475	**45,582**		**17,549**	18,663

(a) The tax rate applicable to the Bank is 12% (2011 - 12%). For the purpose of determining the tax expense for the year, the accounting profit has been adjusted for tax purposes. Adjustments for tax purposes include items relating to both income and expense. After giving effect to these adjustments, the average effective tax rate is estimated to be 6.87 % (2011 – 14.46%).

The difference between the applicable tax rate of 12% (2011 - 12%) and effective tax rate of 6.87% (2011 – 14.46%) arises due to tax effect of income not considered to be taxable and expenses not considered to be deductible. The adjustments are based on the current understanding of the existing tax laws, regulations and practices.

(b) The reconciliation of taxation on the accounting profit before tax for the year at RO 156.7 million (2011 - RO 136.2 million) after the basic exemption limit of RO 30,000 and the taxation charge in the consolidated financial statements is as follows:

2011	**2012**		**2012**	2011
US$ 000's	**US$ 000's**		**RO 000's**	RO 000's
42,455	**48,849**	Tax charge at12% on accounting profit before tax	**18,807**	16,345
		Add/(less) tax effect of:		
(1,543)	**(1,286)**	Income not taxable	**(495)**	(594)
7,244	**(2,553)**	Expenses not deductible or deferred	**(983)**	2,789
-	**265**	Foreign taxes on foreign-sourced income	**102**	-
319	**306**	Tax relating to subsidiary	**118**	123
48,475	**45,581**	Tax charge as per statement of comprehensive income	**17,549**	18,663

(c) The deferred tax asset/liability has been recognised at the effective tax rate of 12% (2011 - 12%).

Deferred tax asset (liability) in the statement of financial position and the deferred tax credit/(charge) in the statement of comprehensive income relate to the tax effect of provisions.

21. TAXATION (continued)

	1 January 2012	Charged to statement of comprehensive income	31 December 2012
	RO 000's	RO 000's	RO 000's
Asset			
Tax effect of provisions	11,602	(5,745)	5,857
Liability			
Tax effect of accelerated tax depreciation	530	(1,033)	(503)
	12,132	(6,778)	5,354

	1 January 2011	Charged to statement of comprehensive income	31 December 2011
	RO 000's	RO 000's	RO 000's
Asset			
Tax effect of provisions	10,888	714	11,602
Liability			
Tax effect of accelerated tax depreciation	208	322	530

The tax (charge)/credit relating to components of other comprehensive income is as follows:

	31 December 2012			31 December 2011		
	Before tax	Tax (charge)/ credit	After tax	Before tax	Tax (charge)/ credit	After tax
	RO 000's	RO 000's	RO 000's	RO 000's	RO 000's	RO 000's
Loss on translation of net investments in associates	(236)	-	(236)	(1,793)	-	(1,793)
Loss on translation of net investments in associates reversed to profit and loss	(202)	-	(202)	190	-	190
Changes in fair value of hedge	(2,725)	327	(2,398)	-	-	-
Surplus on revaluation of land and building	1,250	-	1,250	-	-	-
Change in fair value of investments available for sale	7,383	(516)	6,867	(8,314)	219	(8,095)
Other comprehensive income	5,470	(189)	5,281	(9,917)	219	(9,698)

21. TAXATION (continued)

	1 January 2012	Tax charge/ (credit)	31 December 2012	1 January 2011	Tax charge/ (credit)	31 December 2011
	RO 000's	RO 000's	RO 000's	RO 000's	RO 000's	RO 000's
Deferred tax liability	**360**	**189**	**549**	579	-219	360

During the year, the Group charged deferred tax liability of RO 190 K (2011: RO 219 K reversal) relating to fair value changes of investments available for sale and changes in fair value of hedge, which may be taxable in the future. The deferred tax credit/charge is disclosed under other comprehensive income.

	31 December 2012			31 December 2011		
	Before tax	Tax (charge)/ credit	After tax	Before tax	Tax (charge)/ credit	After tax
	US$ 000's	US$ 000's	US$ 000's	US$ 000's	US$ 000's	US$ 000's
Loss on translation of net investments in associates	**(613)**	**-**	**(613)**	(4,657)	-	(4,657)
Loss on translation of net investments in associates reversed to profit and loss	**(525)**	**-**	**(525)**	493	-	493
Changes in fair value of hedge	**(7,078)**	**849**	**(6,229)**	-	-	-
Surplus on revaluation of land and building	**3,247**	**-**	**3,247**	-	-	-
Change in fair value of investments available for sale (note 9)	**19,177**	**(1,340)**	**17,837**	(21,595)	569	(21,026)
comprehensive income	**14,208**	**(491)**	**13,716**	(25,759)	569	(25,190)

	1 January 2012	Tax charge/ (credit)	31 December 2012	1 January 2011	Tax charge/ (credit)	31 December 2011
	US$ 000's	US$ 000's	US$ 000's	US$ 000's	US$ 000's	US$ 000's
Deferred tax liability	**935**	**491**	**1,426**	1,504	(569)	935

The Bank's tax assessments have been completed by the tax authorities up to tax year 2007.

22. SUBORDINATED LIABILITIES

In accordance with the Central Bank of Oman's regulations, subordinated loans are included in the calculation of supplementary capital as defined by the Bank for International Settlements (BIS) for capital adequacy purposes. During the year the Bank obtained Tier II capital of RO 8 million (in 2011 Tier II capital of RO 157.45 million) and repaid RO 82.83 million (2011: RO 6.42 million).

2011 US$ 000's	**2012 US$ 000's**		**2012 RO 000's**	2011 RO 000's
615,584	**454,545**	Fixed rate Rial Omani subordinated loans	**175,000**	237,000
253,332	**220,000**	Floating rate US$ subordinated loans	**84,700**	97,533
868,916	**674,545**		**259,700**	334,533

Subordinated loans are repayable at par on maturity. The maturity profile and interest rate of subordinated liabilities are disclosed in notes 42.3.2 and 42.4.4 respectively.

23. SHARE CAPITAL

Share capital

The authorised share capital of the Parent Company is 2,500,000,000 shares of RO 0.100 each (2011 - 2,500,000,000 of RO 0.100 each). At 31 December 2012, 2,038,510,684 shares of RO 0.100 each (2011 - 1,548,379,715 shares of RO 0.100 each) have been issued and fully paid. The Bank's shares are listed on Muscat Securities Market, Bahrain stock exchange and London stock exchange. Listing in London stock exchange is through Global Depository Receipts issued by the Bank.

In July 2012, the bank issued 226,501,187 shares of RO 0.100 baiza each, through a rights issue to its existing shareholders at a price of RO 0.425 Baiza per share (excluding issue expenses of 2 baisa). The proceeds of rights issue amounting to RO 96.25 million was credited to the share capital account to the extent of RO 22.65 million and RO 73.61 million to share premium account.

The bank has also issued bonus shares (note 26) and converted a portion of its mandatory convertible bonds into share capital (note 19).

Significant shareholders

The following shareholders held 10% or more of the Parent Company's capital, either individually or together with their family members:

2011			**2012**	
No of shares	% holding		No of shares	% holding
384,535,473	24.84%	Royal Court Affairs	**507,368,201**	**24.89%**
232,256,875	15.00%	Dubai Financial Group	**269,211,333**	**13.21%**

24. LEGAL AND GENERAL RESERVES

(i) In accordance with the Omani Commercial Companies Law of 1974, the Parent Company is required to transfer 10% of its profit for the year to legal reserve until the accumulated balance of the reserve equals one third of the Parent Company's paid up share capital. During the year RO 16,337 K (2011: 6,732 K) was transferred from profits to legal reserve. After this transfer the Parent Company's legal reserve is equal to one third of its share capital.

(ii) The general reserve is established to support the operations and the capital structure of the Group.

25. SUBORDINATED LOAN RESERVE

The subordinated loan reserve is created in accordance with the guidelines given by the Bank of International Settlement and The Central Bank of Oman. During the year 2012, the Parent Company transferred RO 35.42 million (2011: 32.85 million) to subordinated loan reserve from retained profit.

A subordinated loan of RO 82.83 million was repaid during the year 2012 (2011: RO 6.4 million). On maturity, the reserve of RO 82.83 million (2011: RO 6.4 million) related to this loan was thus transferred to General Reserve.

26. PROPOSED DIVIDENDS

The Board of Directors have proposed a dividend of 40%, 25% in the form of cash and 15% in the form of mandatory-convertible bonds. Thus shareholders would receive cash dividend of RO 0.025 per ordinary share of RO 0.100 each aggregating to RO 50.96 million on Bank’s existing share capital. In addition, they would receive mandatory-convertible bonds in lieu of dividend of RO 0.015 per ordinary share of RO 0.100 each aggregating to RO 30.58 million. The mandatory-convertible bonds will carry a coupon rate of 4.5% per annum. On maturity, the bonds will be converted to ordinary shares of the Bank by using a “conversion price” which will be calculated by applying 20% discount to 3 month average share price of the Bank on the Muscat Securities Market prior to the conversion. These bonds will mature after a period of 3 years from the date of issuance. The bonds will be listed on the Muscat Securities Market.

The proposed cash dividend and issuance of mandatory-convertible bonds are subject to formal approval of the Annual General Meeting of the shareholders and regulatory authorities.

For the year 2011, the Board of Directors have proposed a dividend of 40%, 25% in the form of cash and 15% in the form of bonus shares. Thus shareholders received cash dividend of RO 0.025 per ordinary share of RO 0.100 each aggregating to RO 38.71 million on the Parent company's existing share capital. In addition, they received bonus shares in the proportion of one share for every 6.666 ordinary shares aggregating to 232,280,185 shares of RO 0.100 each amounting to RO 23.22 million.

27. NET ASSETS PER SHARE

The calculation of net assets per share is based on net assets as at 31 December 2012 attributable to ordinary shareholders of RO 1,072.6 million (2011: RO 870.6 million) and on 2,038,510,684 ordinary shares (2011 - 1,548,379,715 ordinary shares) being the number of shares outstanding as at 31 December 2012.

28. CONTINGENT LIABILITIES AND COMMITMENTS

(a) Legal proceedings

There were a number of legal proceedings outstanding against the Parent Company at 31 December 2012. No provision has been made, as professional advice indicates that it is unlikely that any significant loss will arise.

(b) Credit related commitments

Credit related commitments include commitments to extend credit, standby letters of credit and guarantees which are designed to meet the requirements of the Parent Company'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 obligations.

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

Irrevocable commitments to extend credit at the reporting date amounted to RO 352,914,000 (2011: RO 348,539,000).

28 CONTINGENT LIABILITIES AND COMMITMENTS (continued)

(b) Credit related commitments (continued)

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

2011 US$ 000's	2012 US$ 000's		2012 RO 000's	2011 RO 000's
831,431	**1,334,262**	Letters of credit	**513,691**	320,101
2,651,338	**3,352,634**	Guarantees	**1,290,764**	1,020,765
3,482,769	**4,686,896**		**1,804,455**	1,340,866

(c) Capital commitments

As of the reporting date, capital commitments were as follows :

2011 US$ 000's	2012 US$ 000's		2012 RO 000's	2011 RO 000's
7,464	**6,774**	Purchase of property and equipment	**2,608**	2,874

(d) As of the reporting date, the bank has not pledged any of its assets as security (2011: no assets pledged).

(e) As of the reporting date, the amount payable on partly paid shares held by the bank was RO 9,167,543 (2011: RO 10,307,722)

28.1 Concentration of credit related commitments

The table below analyses the concentration of credit related commitments by economic sector:

2011 US$ 000's	2012 US$ 000's		2012 RO 000's	2011 RO 000's
48,361	**38,005**	Agriculture/allied activity	**14,632**	18,619
738,234	**984,122**	Construction	**378,887**	284,220
5,864	**5,322**	Export trade	**2,049**	2,258
862,104	**1,834,878**	Financial institutions	**706,428**	331,910
164,434	**174,629**	Government	**67,232**	63,307
334,364	**291,971**	Import trade	**112,409**	128,730
190,714	**168,829**	Manufacturing	**64,999**	73,425
145,174	**187,382**	Mining and quarrying	**72,142**	55,892
74,847	**49,177**	Real estate	**18,933**	28,816
446,691	**519,088**	Services	**199,849**	171,976
40,371	**31,644**	Transport	**12,183**	15,543
187,125	**188,758**	Utilities	**72,672**	72,043
144,852	**109,304**	Wholesale and retail trade	**42,082**	55,768
99,634	**103,787**	Others	**39,958**	38,359
3,482,769	**4,686,896**	Total	**1,804,455**	1,340,866

29. INTEREST INCOME

2011 US$ 000's	2012 US$ 000's		2012 RO 000's	2011 RO 000's
702,644	**774,932**	Interest income on loans and advances	**298,349**	270,518
27,717	**36,571**	Interest income on bank placements	**14,080**	10,671
14,984	**20,881**	Interest income on investments	**8,039**	5,769
745,345	**832,384**		**320,468**	286,958

Effecitve annual rates on yielding assets are provided in note 42.4.4.

30. INTEREST EXPENSE

2011 US$ 000's	2012 US$ 000's		2012 RO 000's	2011 RO 000's
118,901	**140,197**	Interest expense on customers deposits	**53,976**	45,777
35,842	**51,912**	Interest expense on subordinated liabilities	**19,986**	13,799
17,917	**12,021**	Interest expense on certificates of deposits	**4,628**	6,898
12,101	**20,255**	Interest expense on bank borrowings	**7,798**	4,659
9,384	**9,384**	Interest expense on unsecured bonds	**3,613**	3,613
242	**161**	Interest expense on floating rate notes	**62**	93
194,387	**233,930**		**90,063**	74,839

Interest expense on customer deposits include accruals towards prize schemes of RO 6 million (2011: RO 3.2 million) offered by the bank to its saving deposit holders.

Effective annual rate of interest bearing liabilities are provided in note 42.4.4.

31. COMMISSION AND FEES INCOME (NET)

The commission and fee income shown in the statement of consolidated comprehensive income is net of commission and fees paid of RO 1,239,816 (2011: RO 1,087,878).

32. OTHER OPERATING INCOME

2011 US$ 000's	2012 US$ 000's		2012 RO 000's	2011 RO 000's
27,460	**32,291**	Foreign exchange	**12,432**	10,572
11,148	**6,488**	Profit on sale of non trading investments	**2,498**	4,292
7,496	**6,218**	Dividend income	**2,394**	2,886
8,203	**9,597**	Other income	**3,695**	3,158
54,307	**54,594**		**21,019**	20,908

33. OTHER OPERATING EXPENSES

2011 US$ 000's	2012 US$ 000's		2012 RO 000's	2011 RO 000's
112,831	**127,468**	Employees' salaries	**49,075**	43,440
81,974	**97,083**	Administrative expenses	**37,377**	31,560
50,621	**56,213**	Other staff costs	**21,642**	19,489
31,390	**30,031**	Occupancy costs	**11,562**	12,085
5,179	**5,956**	Contribution to social insurance schemes	**2,293**	1,994
2,509	**3,252**	Employees’ end of service benefits	**1,252**	966
519	**519**	Directors’ remuneration	**200**	200
285,023	**320,522**		**123,401**	109,734

34. CASH AND CASH EQUIVALENTS

Cash and cash equivalents included in the statement of cash flows comprise the following amounts:

2011 US$ 000's	2012 US$ 000's		2012 RO 000's	2011 RO 000's
1,117,632	**1,349,490**	Placements with banks	**519,554**	430,289
2,142,387	**1,721,729**	Cash and balances with Central Banks	**662,866**	824,819
174,132	**726,942**	Treasury bills	**279,873**	67,041
(860,205)	**(948,656)**	Deposits from banks	**(365,232)**	(331,179)
2,573,946	**2,849,505**		**1,097,061**	990,970

35. EARNINGS PER SHARE

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

	2012	2011
Profit attributable to ordinary shareholders of parent company for basic earnings per share (RO 000's)	**139,249**	117,608
Weighted average number of shares outstanding during the year (in 000's)	**1,923,467**	1,812,541
Basic earnings per share (RO)	**0.072**	0.065
Basic earnings per share (US$)	**0.188**	0.169

Diluted earnings per share is calculated by dividing the profit attributable to ordinary shareholders (after adjusting for interest on the convertible bonds, net of tax) for the period by the weighted average number of ordinary shares including dilutive potential ordinary shares issued on the conversion of convertible bonds.

	2012	2011
Profit for the year (RO 000's)	**139,249**	117,608
Interest on convertible bonds, net of taxation (RO 000's)	**1,216**	1,991
	140,465	119,599
Weighted average number of shares in issue during the year (000's)	**1,958,530**	1,865,272
Diluted earnings per share (RO)	**0.072**	0.064
Diluted earnings per share (US$)	**0.186**	0.167

36. RELATED PARTY TRANSACTIONS

In the ordinary course of business, the Group conducts transactions with certain of its directors, shareholders, senior management and companies in which they have a significant interest. The terms of these transactions are approved by the Bank's Board and Management. As of the reporting date balances and transactions with directors and their related concerns during the year were as follows:

2011 US$ 000's	**2012 US$ 000's**		**2012 RO 000's**	2011 RO 000's
		Loans and advances		
199,434	**145,619**	At January 1	**56,063**	76,782
15,590	**39,587**	Disbursed during the year	**15,241**	6,002
(58,332)	**(28,829)**	Repaid during the year	**(11,099)**	(22,458)
(11,073)	**(11,478)**	Less: provisions	**(4,419)**	(4,263)
145,619	**144,899**	At December 31	**55,786**	56,063
		Current, deposit and other accounts		
154,349	**119,585**	At January 1	**46,040**	59,424
3,610	**70,088**	Received during the year	**26,984**	1,390
(37,701)	**(37,057)**	Repaid during the year	**(14,267)**	(14,515)
(673)	**-**	Other decreases	**-**	(259)
119,585	**152,616**	At December 31	**58,757**	46,040
16,177	**17,735**	Customers' liabilities under documentary credits, guarantees and other commitments	**6,828**	6,228

At 31 December 2012 the placements and other receivable balances due from the associates amount to RO 9.3 million (2011 - RO 9.6 million) and the deposits due to the associates amount to RO 0.50 million (2011 - RO 0.8 million).

For the year ending 31 December 2012 the interest income received from and interest expense paid to the associates amount to RO 386 K (2011 - RO 470 K) and RO 0.8 K (2011 - RO 2 K) respectively.

Loans, advances or receivables due from related parties or holders of 10% or more of Banks shares, or their family members, less all provisions and write-offs, is further analysed as follows:

2011 US$ 000's	**2012 US$ 000's**		**2012 RO 000's**	2011 RO 000's
36,184	**36,262**	Royal Court Affairs	**13,961**	13,931
		Dubai Financial Group		
21,260	**22,551**	Gross	**8,682**	8,185
(11,073)	**(22,551)**	Less: provisions	**(8,682)**	(4,263)
		HE Sheikh Mustahail Ahmed Al Mashani		
85,270	**90,582**	Group Companies	**34,874**	32,829
13,978	**18,055**	Others	**6,951**	5,381
145,619	**144,899**		**55,786**	56,063

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

2011 US$ 000's	**2012 US$ 000's**		**2012 RO 000's**	2011 RO 000's
6,610	**4,499**	Interest income	**1,732**	2,545
1,081	**1,195**	Interest expenditure	**460**	416
8	**23**	Commission and other income	**9**	3
338	**340**	Directors' remuneration (note 33)	**131**	130
182	**179**	Directors' sitting fees	**69**	70

36. RELATED PARTY TRANSACTIONS (continued)

Interest expense incurred on deposits:

Items of expense which were paid to related parties or holders of 10% or more of the bank's shares, or their family members, during the year can be further analysed as follows:

2011 US$ 000's	**2012 US$ 000's**		**2012 RO 000's**	2011 RO 000's
304	**301**	Royal Court Affairs	**116**	117
738	**849**	HE Sheikh Mustahail Ahmed Al Mashani Group Companies	**327**	284
39	**44**	Others	**17**	15
1,081	**1,195**		**460**	416

Key management compensation

Key management comprises of 7 members of the management executive committee in the year 2012 and prior year numbers are accordingly restated.

2011 US$ 000's	**2012 US$ 000's**		**2012 RO 000's**	2011 RO 000's
8,455	**9,460**	Salaries and other short-term benefits	**3,642**	3,255
358	**377**	Post-employment benefits	**145**	138
8,813	**9,836**		**3,787**	3,393

Certain components of key management compensation are on accrual basis. Hence the previous year figures are revised considering the actual payment.

37. FIDUCIARY ACTIVITIES

The bank's fiduciary activities consist of investment management activities conducted as trustee and manager for a number of investment funds and individuals. The aggregate amounts of funds managed, which are not included in the Group's statement of financial position, are as follows:

2011 US$ 000's	**2012 US$ 000's**		**2012 RO 000's**	2011 RO 000's
582,301	**749,948**	Funds under management	**288,730**	224,186

38. DERIVATIVES

In the ordinary course of business, the Group 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. These derivatives are stated at fair value. The fair value of a derivative is the equivalent of the unrealised gain or loss from marking to market the derivative using prevailing market rates or internal pricing models. Unrealised gains or losses on derivatives classified as held for trading and fair value hedges are included in the statement of comprehensive income. The Group uses the following derivative financial instruments:

Derivative product types

Forwards and futures 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. Forward rate agreements are effectively tailor-made interest rate futures which fix a forward rate of interest on a notional loan, for an agreed period of time starting on a specified future date.

Interest rate swaps are contractual agreements between two parties to exchange interest differentials based on a specific notional amount. Counter parties generally exchange fixed and floating rate interest payments based on a notional value in a single currency.

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 Group transacts only in currency options for its customers. The Group does not engage in writing of options.

Derivatives held or issued for hedging purposes

As part of its asset and liability management, the Group uses derivatives for hedging purposes in order to reduce its exposure to currency and interest rate risks. This is achieved by hedging specific financial instruments and forecasted transactions as well as strategic hedging against overall financial position exposures.

The Group uses forward foreign exchange contracts, currency options and currency swaps to hedge against specifically identified currency risks. In addition, the Group uses interest rate swaps to hedge against the changes in the cash flow arising from certain fixed interest rate loans and deposits.

For interest rate risks strategic hedging is carried out by monitoring the repricing of financial assets and liabilities and entering into interest rate swaps to hedge a proportion of the interest rate exposure. As strategic hedging does not qualify for special hedge accounting, the related derivatives are accounted for as trading instruments.

During the year 2012, the bank entered into an interest rate swap amounting to RO 65.45 million (USD 170 million) in order to hedge interest rate exposure of the bank. As of 31 December 2012, the mark to market adjustment for this interest rate swap amounted to RO 2.725 million (USD 7.1 million), which is recorded in equity in the cash flow hedge reserve. This interest rate swap will mature on 15 October 2021.

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.

38. DERIVATIVES (continued)

31 December 2012						**RO 000's**
	Positive	**Negative**	**Notional**	**Notional amounts by term to maturity**		
	fair value	**fair value**	**amount total**	**within 3 months**	**3-12 months**	**> 12 months**
Derivatives:	*(Note 8)*	*(Note 20)*				
Interest rate swaps	**32,403**	**35,128**	**523,832**	**514**	**16,709**	**506,609**
Interest rate CAP	**1,472**	**1,472**	**28,820**	**-**	**-**	**28,820**
Cross currency swap	**3**	**9,142**	**173,370**	**-**	**96,370**	**77,000**
Currency options - bought	**1,454**	**-**	**228,197**	**65,806**	**162,391**	**-**
Currency options - sold	**-**	**1,454**	**228,197**	**65,806**	**162,391**	**-**
Commodity derivatives - bought	**533**	**-**	**77,019**	**29,171**	**47,848**	**-**
Commodity derivatives - sold	**-**	**533**	**77,019**	**29,171**	**47,848**	**-**
Commodities purchase contracts	**664**	**790**	**49,571**	**43,997**	**5,212**	**362**
Commodities sale contracts	**809**	**634**	**49,620**	**44,038**	**5,219**	**363**
Forward purchase contracts	**1,515**	**2,016**	**945,375**	**690,462**	**155,049**	**99,864**
Forward sales contracts	**3,014**	**1,758**	**945,117**	**689,939**	**155,309**	**99,869**
Total	**41,867**	**52,927**	**3,326,137**	**1,658,904**	**854,346**	**812,887**
Total US$	**108,745**	**137,473**	**8,639,317**	**4,308,842**	**2,219,081**	**2,111,395**

						RO 000's
	Positive	Negative	Notional	Notional amounts by term to maturity		
31 December 2011	fair value	fair value	amount total	within 3 months	3-12 months	> 12 months
Derivatives:						
Interest rate swaps	36,699	36,699	577,020	-	42,350	534,670
Interest CAP	1,893	1,893	32,757	-	-	32,757
Cross currency swap	80	8,624	98,738	-	-	98,738
Forward rate agreement	-	-	-	-	-	-
Credit derivative swaps	-	108	7,700	-	7,700	-
Currency options - bought	1,141	-	432,104	226,546	203,706	1,852
Currency options - sold	-	1,141	432,104	226,546	203,706	1,852
Commodity derivatives - bought	456	-	30,607	22,691	7,916	-
Commodity derivatives - sold	-	456	30,607	22,691	7,916	-
Commodities purchase contracts	1,501	1,862	68,446	60,375	7,327	744
Commodities sale contracts	1,928	1,464	68,549	60,464	7,337	748
Forward purchase contracts	451	2,877	860,984	591,142	256,680	13,162
Forward sales contracts	3,990	545	860,691	590,932	256,615	13,144
Total	48,139	55,669	3,500,307	1,801,387	1,001,253	697,667
Total US$	125,036	144,595	9,091,706	4,678,927	2,600,657	1,812,122

The terms of the currency options entered on behalf of customers have been negotiated with the counter party banks to match the terms of commitments. The aggregate fair value of the respective rights and obligations in respect of the currency options has been recorded in the financial statements.

39. REPURCHASE AGREEMENTS

The Group did not have any repurchase transactions outstanding as of the reporting date (2011: RO nil).

40. GEOGRAPHICAL DISTRIBUTION OF ASSETS AND LIABILITIES

The geographical distribution of assets and liabilities was as follows:

	Sultanate of Oman	Other GCC countries	Europe	United States of America	Others	Total
	RO 000's	RO 000's	RO 000's	RO 000's	RO 000's	RO 000's
As of 31 December 2012						
Cash and balances with Central Banks	576,385	86,981	-	-	-	663,366
Placements with banks	51,227	137,635	164,480	12,362	360,346	726,050
Loans and advances	5,302,495	264,548	3,008	-	30,901	5,600,952
Investments	287,266	116,375	203,919	7,442	36,312	651,314
Property and equipment and other assets	270,060	1,927	-	-	-	271,987
Total assets	6,487,433	607,466	371,407	19,804	427,559	7,913,669
Deposits from banks	435	249,194	275,624	3,404	222,097	750,754
Customers' deposits and certificates of deposit	4,761,305	552,962	60,415	-	2,934	5,377,616
Unsecured bonds and floating rate notes	54,803	-	-	-	-	54,803
Other liabilities and taxation	391,512	6,663	-	-	-	398,175
Subordinated liabilities	175,000	-	-	84,700	-	259,700
Shareholders' funds	1,072,621	-	-	-	-	1,072,621
Total liabilities and equity	6,455,676	808,819	336,039	88,104	225,031	7,913,669

	Sultanate of Oman	Other GCC countries	Europe	United States of America	Others	Total
	US$ 000's	US$ 000's	US$ 000's	US$ 000's	US$ 000's	US$ 000's
As of 31 December 2012						
Cash and balances with Central Banks	1,497,104	225,925	-	-	-	1,723,029
Placements with banks	133,056	357,494	427,221	32,109	935,964	1,885,844
Loans and advances	13,772,715	687,138	7,813	-	80,262	14,547,928
Investments	746,144	302,273	529,660	19,330	94,317	1,691,724
Property and equipment and other assets	701,453	5,005	-	-	-	706,458
Total assets	16,850,472	1,577,835	964,694	51,439	1,110,543	20,554,983
Deposits from banks	1,130	647,257	715,906	8,842	576,875	1,950,010
Customers' deposits and certificates of deposit	12,367,025	1,436,265	156,922	-	7,621	13,967,833
Unsecured bonds and floating rate notes	142,345	-	-	-	-	142,345
Other liabilities and taxation	1,016,915	17,306	-	-	-	1,034,221
Subordinated liabilities	454,545	-	-	220,000	-	674,545
Shareholders' funds	2,786,029	-	-	-	-	2,786,029
Total liabilities and equity	16,767,989	2,100,828	872,828	228,842	584,496	20,554,983

40. GEOGRAPHICAL DISTRIBUTION OF ASSETS AND LIABILITIES (continued)

The geographical distribution of assets and liabilities was as follows:

	Sultanate of Oman	Other GCC countries	Europe	United States of America	Others	Total
	RO 000's	RO 000's	RO 000's	RO 000's	RO 000's	RO 000's
As of 31 December 2011						
Cash and balances with Central Banks	749,315	76,548	-	-	-	825,863
Placements with banks	1,118	216,455	161,634	4,115	485,779	869,101
Loans and advances	4,543,559	200,866	-	-	75,007	4,819,432
Investments	220,437	126,338	12,289	6,345	27,039	392,448
Property and equipment and other assets	318,763	2,394	-	-	-	321,157
Total assets	5,833,192	622,601	173,923	10,460	587,825	7,228,001
Deposits from banks	48,199	121,517	299,167	27,113	234,931	730,927
Customers' deposits and certificates of deposit	4,226,068	561,541	60,525	-	2,355	4,850,489
Unsecured bonds and floating rate notes	54,803	-	5,775	-	-	60,578
Other liabilities and taxation	376,479	4,413	-	-	-	380,892
Subordinated liabilities	237,000	-	-	97,533	-	334,533
Shareholders' funds	870,582	-	-	-	-	870,582
Total liabilities and equity	5,813,131	687,471	365,467	124,646	237,286	7,228,001

	Sultanate of Oman	Other GCC countries	Europe	United States of America	Others	Total
	US $ 000's	US $ 000's	US $ 000's	US $ 000's	US $ 000's	US $ 000's
As of 31 December 2011						
Cash and balances with Central Banks	1,946,273	198,826	-	-	-	2,145,099
Placements with banks	2,903	562,221	419,829	10,688	1,261,764	2,257,405
Loans and advances	11,801,452	521,730	-	-	194,823	12,518,005
Investments	572,564	328,151	31,919	16,481	70,231	1,019,346
Property & equipment and other assets	827,956	6,218	-	-	-	834,174
Total assets	15,151,148	1,617,146	451,748	27,169	1,526,818	18,774,029
Deposits from banks	125,193	315,629	777,057	70,423	610,210	1,898,512
Customers' deposits and certificates of deposit	10,976,800	1,458,548	157,208	-	6,117	12,598,673
Unsecured bonds & floating rate notes	142,345	-	15,000	-	-	157,345
Other liabilities and taxation	977,868	11,462	-	-	-	989,330
Subordinated liabilities	615,584	-	-	253,332	-	868,916
Shareholders' funds	2,261,253	-	-	-	-	2,261,253
Total liabilities and equity	15,099,043	1,785,639	949,265	323,755	616,327	18,774,029

41. SEGMENTAL INFORMATION

Management has determined the operating segments based on the reports reviewed by the executive committee that are used to make strategic decisions. The committee considers the business from both a geographic and product perspective. Geographically, management considers the performance of whole bank in Oman and International markets. The Oman market is further segregated into corporate, consumer and wholesale, as all of these business lines are located in Oman.

Segment information in respect of geographical locations is as follows:

For the year ended 31 December 2012

Total US$ 000's	International US$ 000's	Oman US$ 000's	Segment revenue	Oman RO 000's	International RO 000's	Total RO 000's
832,384	33,875	798,509	Interest income	307,426	13,042	320,468
(233,930)	(14,184)	(219,745)	Interest expense	(84,602)	(5,461)	(90,063)
187,605	8,138	179,467	Commission and fee income (net)	69,095	3,133	72,228
54,594	776	53,818	Other operating income	20,720	299	21,019
840,653	**28,605**	**812,049**	**Operating income**	**312,639**	**11,013**	**323,652**
			Segment costs			
(320,522)	(21,138)	(299,384)	Other operating expenses	(115,263)	(8,138)	(123,401)
(29,109)	(2,348)	(26,761)	Depreciation	(10,303)	(904)	(11,207)
(150,384)	(24,694)	(125,690)	Impairment for credit losses	(48,391)	(9,507)	(57,898)
87,042	13,283	73,759	Recoveries from impairment for credit losses	28,397	5,114	33,511
(10,088)	-	(10,088)	Impairment for investments	(3,884)	-	(3,884)
(1,558)	-	(1,558)	Impairment for placements	(600)	-	(600)
(8,878)	(8,878)	-	Share of loss from associates	-	(3,418)	(3,418)
(45,582)	(800)	(44,782)	Tax expense	(17,241)	(308)	(17,549)
(479,079)	(44,575)	(434,504)	Total	(167,285)	(17,161)	(184,446)
361,574	**(15,970)**	**377,545**	**Segment profit (loss) for the year**	**145,354**	**(6,148)**	**139,206**
			Other information			
20,554,985	1,928,906	18,626,079	Segment assets and liabilities	7,171,040	742,629	7,913,669
19,475	449	19,026	Segment capital expenses	7,325	173	7,498

41. SEGMENTAL INFORMATION(continued)

For the year ended 31 December 2011

Total US$ 000's	Internatioal US$ 000's	Oman US$ 000's	Segment revenue	Oman RO 000's	International RO 000's	Total RO 000's
745,345	26,391	718,953	Interest income	276,797	10,161	286,958
(194,387)	(11,581)	(182,805)	Interest expense	(70,380)	(4,459)	(74,839)
159,005	5,096	153,909	Commission and fees income (net)	59,255	1,962	61,217
54,307	969	53,338	Other operating income	20,535	373	20,908
764,270	20,875	743,395	Operating income	286,207	8,037	294,244
			Segment costs			
(285,023)	(20,233)	(264,790)	Other operating expenses	(101,944)	(7,790)	(109,734)
(28,977)	(3,003)	(25,974)	Depreciation	(10,000)	(1,156)	(11,156)
(145,857)	(5,636)	(140,221)	Impairment for credit losses	(53,985)	(2,170)	(56,155)
66,374	561	65,813	Recoveries from impairment for credit losses	25,338	216	25,554
(7,094)	(3,197)	(3,896)	Impairment for investments	(1,500)	(1,231)	(2,731)
(1,688)	-	(1,688)	Impairment for placements	(650)	-	(650)
951	-	951	Recoveries from impairment of collateral pending sale	366	-	366
(9,166)	(9,166)	-	Share of loss from associates	-	(3,529)	(3,529)
(48,475)	(319)	(48,156)	Tax expense	(18,540)	(123)	(18,663)
(458,955)	(40,993)	(417,961)	Total	(160,915)	(15,783)	(176,698)
305,315	(20,118)	325,434	Segment profit (loss) for the year	125,292	(7,746)	117,546
			Other information			
18,774,029	1,817,782	16,956,248	Segment assets and liabilities	6,528,155	699,846	7,228,001
23,350	431	22,919	Segment capital expenses	8,824	166	8,990

41. SEGMENTAL INFORMATION (continued)

The Group reports the segment information by the following business segments Corporate, Consumer, Wholesale and International. The following table shows the distribution of the Group's operating income, net profit and total assets by business

31 December 2012	**Corporate Banking RO 000's**	**Consumer Banking RO 000's**	**Wholesale Banking RO 000's**	**International Banking RO 000's**	**Total RO 000's**
Segment revenue					
Net interest income	**70,049**	**114,133**	**38,273**	**7,950**	**230,405**
Commission, fees and other income (net)	**16,908**	**49,477**	**23,312**	**3,550**	**93,247**
Operating income	**86,957**	**163,610**	**61,585**	**11,500**	**323,652**
Segment costs					
Operating expenses (incl. depreciation)	**(22,866)**	**(85,919)**	**(14,184)**	**(11,639)**	**(134,608)**
Impairment for credit losses (net)	**(10,875)**	**(9,119)**	**-**	**(4,393)**	**(24,387)**
Impairments for placements / investments	**-**	**-**	**(4,484)**	**-**	**(4,484)**
Share of loss from associates	**-**	**-**	**-**	**(3,418)**	**(3,418)**
Tax expense	**(5,570)**	**(7,178)**	**(4,493)**	**(308)**	**(17,549)**
	(39,311)	**(102,216)**	**(23,161)**	**(19,758)**	**(184,446)**
Segment profit / (loss) for the year	**47,646**	**61,394**	**38,424**	**(8,258)**	**139,206**
Segment assets	**3,369,485**	**2,311,949**	**1,489,606**	**742,629**	**7,913,669**
Operating income (US $ 000's)	**225,861**	**424,961**	**159,961**	**29,870**	**840,653**
Net profit (US $ 000's)	**123,755**	**159,465**	**99,803**	**(21,449)**	**361,574**
Segment assets (US $ 000's)	**8,751,909**	**6,005,062**	**3,869,106**	**1,928,906**	**20,554,983**

31 December 2011	Corporate Banking RO 000's	Consumer Banking RO 000's	Wholesale Banking RO 000's	International Banking RO 000's	Total RO 000's
Segment revenue					
Net interest income	67,376	94,726	43,794	6,223	212,119
Commission, fees and other income (net)	14,542	42,747	22,534	2,302	82,125
Operating income	81,918	137,473	66,328	8,525	294,244
Segment costs					
Operating expenses (incl. depreciation)	(21,024)	-75,691	-12,637	-11,538	-120,890
Impairment for credit losses (net)	(15,866)	-12,415	-	-1,954	-30,235
Impairments for placements / investments	-	-	(2,150)	(1,231)	-3,381
Share of profit / (loss) from associates	-	-	-	-3,529	-3,529
Tax expense	(5,720)	-6,272	-6,548	-123	-18,663
	(42,610)	-94,378	-21,335	-18,375	-176,698
Segment profit / (loss) for the year	39,308	43,095	44,993	-9,850	117,546
Segment assets	2,863,045	2,033,599	1,631,511	699,846	7,228,001
Operating income (US $ 000's)	212,773	357,073	172,281	22,143	764,270
Net profit (US $ 000's)	102,094	111,935	116,865	-25,579	305,315
Segment assets (US $ 000's)	7,106,535	6,097,488	4,630,912	939,094	18,774,029

42. FINANCIAL RISK MANAGEMENT

42.1 Introduction and overview

Risk Management is a process by which the Group identifies key risks, applies consistent, understandable risk measures, and chooses which risks to reduce and which to hold and by what means and establishes procedures to monitor and report the resulting risk position for necessary action. The objective of risk management is to ensure that the group operates within the risk appetite levels set by its Board of Directors while various business functions pursue their objective of maximizing the risk adjusted returns. The Group has exposure to the following core risks from its use of financial instruments:

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

Risk management is the overall responsibility of the Group's Board of Directors and managed through the Board Risk Committee (BRC). BRC provides recommendations to the Board of Directors on the risk-reward strategy, risk appetite and policies and framework for managing different types of risks. The Board reviews and approves the risk management strategy of the Group and defines the risk appetite of the Group. The Board approved strategy is implemented at management level through management committees. For the purpose of day-to-day management of risks, the Group has created an independent Risk Management department (RMD). Risk Management department objectively reviews and ensures that the various functions of the Group operate in compliance with the risk parameters set by the Board of Directors. Risk Management department has a direct reporting line to the Board of Directors of the Group.

The risk appetite, approved by the Board of Directors of the Group, in various business areas is defined and communicated through an enterprise-wide risk policy. The Group's risk policy, approved by the Board of Directors, analyses and sets risk limits for core risks - Credit risk, Liquidity risk, Market risk and Operational risk. The risk levels of each of these categories is measured and monitored on a continuous basis and compliance to prescribed risk levels reported on a quarterly basis. This ensures prudent management of the risks assumed by the group in its normal course of business. The risk policy is updated regularly, based on an analysis of the economic trends and the operating environment in the countries where the Group operates.

The Group's risk management processes have proven effective throughout the review year. group's Board of Directors have remained closely involved with key risk management initiatives, in ensuring the Group's risks are effectively managed, appropriate levels of liquidity are maintained and adequate capital is held in line with the requirements.

The Group recognises that an effective risk management process is key to its objective of enhancing shareholder value and is committed to developing risk management as an area of core competence. It continues in investing in its risk management capabilities so as to ensure that it is able to deliver on its growth plans while managing the underlying risks in an effective manner.

42.2 Credit risk

42.2.1 Management of credit risk

Credit risk is the potential loss resulting from the failure of a borrower or counter party to honour its financial or contractual obligations in accordance with the agreed terms. It includes the below sub types:

- Cross border risk
- Counterparty Risk
- Settlement risk

The Group has set for itself clear and well defined limits to address different dimensions of credit risk including concentration risk. Compliance with the various parameters set in the risk policy, is reviewed on a regular basis and exceptions are reported to enable remedial actions.

42 FINANCIAL RISK MANAGEMENT (continued)

42.2 Credit risk (continued)

42.2.1 Management of credit risk (continued)

Risk limit control and mitigation policies

The group has set for itself clear and well defined limits to address different dimensions of credit risk including credit concentration risk. Compliance, with the various parameters set in the risk policy, is reviewed on a regular basis and exceptions are reported to enable remedial actions. The Group addresses credit risk through the following process:

- All credit processes – Approval, disbursal, administration, classification, recoveries and write-off, all are governed by the Group's credit manual which is reviewed by Risk Management department and approved by appropriate approval authorities. The credit policy stipulates clear guidelines for each of these functions and the lending authority at various levels as stipulated in appropriate 'Lending Authority Limits'.
- All Corporate lending proposals, where the proposed credit limit for a borrower or related group exceeds a threshold, are submitted for approval/renewal to the appropriate authority after an independent review by the Risk Management Department whose comments are incorporated into the proposal.
- All Corporate relationships are reviewed at least once a year. Retail portfolio, including credit cards and mortgage portfolio, is reviewed on a portfolio basis at a product level at least once a year.
- Concentration of exposure to counterparties, geographies and sector are governed and monitored according to regulatory norms and limits prescribed in the Group's risk policy.
- Credit exposures are risk rated to provide support for credit decisions. The portfolio is analyzed based on risk grades and risk grade migration to focus on management of prevalent credit risk.
- Retail portfolio is rated using an application score card.

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

- Mortgages over residential properties;
- Charges over business assets such as premises, inventory and accounts receivable;
- Charges over financial instruments such as debt securities and equities.

Longer-term finance and lending to corporate entities are generally secured; revolving individual credit facilities are generally unsecured. In addition, in order to minimise the credit loss, the Group will seek additional collateral from the counterparty as soon as impairment indicators are noticed for the relevant individual loans and advances. Collateral held as security for financial assets other than loans and advances, is determined by the nature of the instrument. Debt securities, treasury and other eligible bills are generally

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

42 FINANCIAL RISK MANAGEMENT (continued)

42.2.2 Exposure to credit risk – Statement of financial position items

	Loans and advances to customers		Placements with banks		Investment securities	
	2012	2011	**2012**	2011	**2012**	2011
	RO 000's	RO 000's	**RO 000's**	RO 000's	**RO 000's**	RO 000's
Individually impaired						
Sub-Standard	**9,360**	23,236	**1,547**	-	**-**	-
Doubtful	**18,527**	28,128	**-**	-	**29,260**	20,099
Loss	**91,553**	50,548	**-**	-	**472**	472
Gross amount	**119,440**	101,912	**1,547**	-	**29,732**	20,571
Allowance for impairment	**(74,259)**	(60,367)	**(387)**	-	**(8,403)**	(6,149)
Carrying amount	**45,181**	41,545	**1,160**	-	**21,329**	14,422
Collectively impaired						
Sub-Standard	**6,457**	8,785	**-**	-	**-**	-
Doubtful	**9,502**	11,412	**-**	-	**-**	-
Loss	**38,251**	26,950	**-**	-	**-**	-
Gross amount	**54,210**	47,147	**-**	-	**-**	-
Allowance for impairment	**(45,103)**	(35,731)	**-**	-	**-**	-
Carrying amount	**9,107**	11,416		-	**-**	-
Past due but not impaired						
Standard	**210,074**	173,727	**-**	-	**-**	-
Carrying amount	**210,074**	173,727	**-**	-	**-**	-
Past due but not impaired						
1-30 days	**174,137**	117,719	**-**	-	**-**	-
30-60 days	**21,844**	35,758	**-**	-	**-**	-
60-90 days	**14,093**	20,250	**-**	-	**-**	-
	210,074	173,727	**-**	-	**-**	-
Neither past due nor impaired						
Standard	**5,175,560**	4,356,273	**728,253**	872,251	**584,044**	328,431
Special mention	**252,496**	316,867	**-**	-	**-**	-
Gross amount	**5,428,056**	4,673,140	**728,253**	872,251	**584,044**	328,431
Allowance for impairment	**(91,466)**	(80,396)	**(3,363)**	(3,150)	**-**	
Carrying amount	**5,336,590**	4,592,744	**724,890**	869,101	**584,044**	328,431
Total carrying amount	**5,600,952**	4,819,432	**726,050**	869,101	**605,373**	342,853
Carrying amount in USD’000	**14,547,927**	12,518,005	**1,885,844**	2,257,405	**1,572,397**	890,527
Total allowances for	**(210,828)**	(176,494)	**(3,750)**	(3,150)	**(8,403)**	(6,149)
USD’000	**(547,605)**	(458,426)	**(9,740)**	(8,182)	**(21,826)**	(15,972)

Total impairment above includes impairment for off-balance sheet exposures as well.

Restructured and rescheduled loans during the year on standard portfolio amounted to RO 62 million (2011: RO 85 million) and on classified portfolio it amounted to RO 34 million (2011: RO 49 million).

42 FINANCIAL RISK MANAGEMENT (continued)

42.2.2 Exposure to credit risk – Statement of financial position items (continued)

Maximum exposure to credit risk before collateral held or other credit enhancements for all on-balance sheet assets are based on net carrying amounts as reported in the statement of financial position.

The maximum credit risk exposures relating to off-balance sheet items calculated as per Basel II guidelines are as follows:

2011 USD'000	**2012 USD'000**		**2012 RO'000**	2011 RO'000
577,660	**523,358**	Financial guarantees	**201,493**	222,399
1,061,499	**1,401,319**	Other credit related liabilities	**539,508**	408,677
469,208	**482,143**	Loan commitments	**185,625**	180,645
2,108,366	**2,406,820**		**926,626**	811,721

The above table represents a worst case scenario of credit risk exposure as of 31 December 2012 and 2011, without taking into account of any collateral held or other credit enhancements attached.

Management is confident in its ability to continue to control and sustain minimal exposure of credit risk resulting from the Group's loan and advances portfolio based on the following:

- Regular review of the loans and advances portfolio to identify any potential risk;
- 95% of the loans and advances portfolio are considered to be neither past due nor impaired (2011: 95%);
- Of the RO 3,523 million (2011: RO 3,041 million) loans and advances assessed on an individual basis, less than 3.4% (2011: 3.4%) is impaired;
- Personal and housing loans represent 39.4% (2011: 39.1%) of total loans and advances which are backed by salary assignment and/or by collaterals;
- Well diversified loans and advances portfolio to avoid concentration risk in segment, sector, geographies and counterparty.

42.2.3 Impaired loans and securities

Impaired loans and securities are loans and securities for which the Group determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan and security agreements. Those loans are categorised either as Sub-standard, Doubtful or Loss in the internal credit risk system.

42.2.4 Past due but not impaired loans

Loans and securities where contractual interest or principal payments are past due but the Group believes that impairment is not appropriate on the basis of the stage of collection of amounts owed to the Group.

42.2.5 Allowances for impairment

The Group establishes an allowance for impairment losses that represents its estimate of incurred losses in its loan portfolio. The main components of this allowance are a specific loss component that relates to individually significant exposures. A collective loan loss allowance is established for Groups of homogeneous assets in respect of losses that have been incurred but have not been identified on loans subject to individual assessment for impairment. The Group makes provision for bad and doubtful debts promptly when required in line with the conservative provisioning norms it has set for itself.

42.2.6 Write-off policy

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

42 FINANCIAL RISK MANAGEMENT (continued)

42.2.6 Write-off policy (continued)

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

	Loans and advances to customers		Placements with banks		Investment securities	
	Gross RO 000's	Net RO 000's	Gross RO 000's	Net RO 000's	Gross RO 000's	Net RO 000's
2012						
Sub-Standard	**9,360**	**6,440**	**1,547**	**1,160**	**-**	**-**
Doubtful	**18,527**	**10,071**	**-**	**-**	**29,260**	**21,329**
Loss	**91,553**	**28,670**	**-**	**-**	**472**	**-**
Total amount	**119,440**	**45,181**	**1,547**	**1,160**	**29,732**	**21,329**
Total in US$ '000	**310,234**	**117,353**	**4,018**	**3,014**	**77,226**	**55,400**

	Loans and advances to customers		Placements with banks		Investment securities	
	Gross RO 000's	Net RO 000's	Gross RO 000's	Net RO 000's	Gross RO 000's	Net RO 000's
2011						
Sub-Standard	23,236	16,478	-	-		
Doubtful	28,128	15,793	-	-	20,099	14,422
Loss	50,548	9,274	-	-	472	-
Total amount	101,912	41,545	-	-	20,571	14,422
Total in USD '000	264,706	107,909	-	-	53,431	37,461

The Group holds collateral against credit exposures to customers in the form of cash on deposits, bank guarantees, quoted securities, mortgage interest over property, other registered securities over assets and other guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing and are updated regularly.

42.2.7 Analysis of impairment and collaterals

(a) An estimate of the fair value of collateral and other security enhancements held against financial assets is shown below:

Loans and advances			Loans and advances	
2011 USD '000	**2012 USD '000**		**2012 RO '000**	2011 RO '000
		Against individually impaired		
120,135	**294,623**	Property	**113,430**	46,252
771	**19,701**	Equities	**7,585**	297
28,709	**85,561**	Others	**32,941**	11,053
149,615	**399,885**		**153,956**	57,602
		Against past due but not impaired		
105,475	**253,519**	Property	**97,605**	40,608
202,314	**20,104**	Equities	**7,740**	77,891
-	**18,894**	Others	**7,274**	-
307,789	**292,517**		**112,619**	118,499
		Against neither past due nor impaired		
2,199,556	**2,075,403**	Property	**799,030**	846,829
835,304	**311,249**	Equities	**119,831**	321,592
1,663,384	**1,941,010**	Others	**747,289**	640,403
4,698,244	**4,327,662**		**1,666,150**	1,808,824
5,155,648	**5,020,064**	Total	**1,932,725**	1,984,925

42 FINANCIAL RISK MANAGEMENT (continued)

42.2.7 Analysis of impairment and collaterals (continued)

(b) Repossessed Collateral

The Group obtains assets by taking possession of collateral held as security. The carrying value of collateral held for sale as at 31 December 2012 is as follows:

	Carrying Amount	
	2012	2011
Nature of Assets	**RO 000's**	RO 000's
Residential/commercial property	**480**	100
US$ '000	**1,247**	260

Repossessed properties are sold as soon as practicable, with the proceeds used to reduce the outstanding indebtedness. Repossessed property is classified in the statement of financial position within other assets.

42.2.8 Credit Rating Ananlysis

The table below presents an analysis of debt securities, treasury bills and other eligible bills by rating agency designation at 31 December 2012, based on Moody's ratings or their equivalent:

31 December 2012

Debt and T Bills	**2012**	2011
Banks rated:	**RO 000's**	RO 000's
Aaa to Aa3	**447,670**	193,236
A1 to A3	**5,853**	6,187
Baa1 to Baa3	**13,372**	8,713
Banks unrated	**7,293**	4,360
	474,188	212,496
Equity	**139,588**	136,506
Total investment securities	**613,776**	349,002

The following table shows the gross placements held with counterparties at the reporting date:

	2012	2011
Banks rated:	**RO 000's**	RO 000's
Aaa to Aa3	**92,009**	46,625
A1 to A3	**102,126**	169,287
Baa1 to Baa3	**375,787**	517,417
Ba1 to Ba3	**20,061**	24,597
B1 & Below	**18,363**	95
Banks unrated	**121,454**	114,230
Total	**729,800**	872,251

The Group performs an independent assessment based on quantitative and qualitative factors where in case a Bank is unrated.

42 FINANCIAL RISK MANAGEMENT (continued)

42.2.9 Concentration of credit risk

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 Group's performance to developments affecting a particular industry or geographic location.

The Group seeks to manage its credit risk exposure through diversification of lending activities to avoid undue concentrations of risks with individuals or Groups of customers in specific locations or businesses. It also obtains appropriate security concentration by location for loans and advances and is measured based on the location of the Group holding the asset, which has a high co-relation with the location of the borrower. Concentration by location for investment securities is measured based on the location of the issuer of the security.

An analysis of concentrations of credit risk as the reporting date is shown below.

	Gross loans and advances to customers		Gross loans and advances to banks		Gross investment in securities	
Carrying amount	**2012**	2011	**2012**	2011	**2012**	2011
	RO'000	RO'000	**RO'000**	RO'000	**RO'000**	RO'000
Concentration by Sector						
Corporate	**3,244,526**	2,798,570	**-**	-	**158,956**	125,013
Sovereign	**24,277**	26,319	**-**	-	**445,868**	216,445
Financial institution	**253,969**	216,539	**729,800**	872,251	**8,952**	7,544
Retail	**2,289,008**	1,954,498	**-**	-	**-**	-
Total	**5,811,780**	4,995,926	**729,800**	872,251	**613,776**	349,002
USD'000	**15,095,532**	12,976,431	**1,895,584**	2,265,587	**1,594,223**	906,499

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

2011 USD'000	**2012 USD'000**		**2012 RO'000**	2011 RO'000
		Corporate and other loans		
1,445,745	**1,680,826**	Services	**647,118**	556,612
1,051,909	**1,308,771**	Mining and quarrying	**503,877**	404,985
718,460	**822,270**	Manufacture	**316,574**	276,607
800,545	**600,545**	Real estate	**231,210**	308,210
473,055	**600,636**	Wholesale and retail trade	**231,245**	182,126
503,652	**681,413**	Import trade	**262,344**	193,906
562,439	**659,660**	Financial institutions	**253,969**	216,539
715,481	**1,022,229**	Utilities	**393,558**	275,460
741,522	**876,005**	Transport	**337,262**	285,486
281,564	**435,501**	Construction	**167,668**	108,402
68,361	**63,057**	Government	**24,277**	26,319
22,192	**36,364**	Agriculture and allied activities	**14,000**	8,544
7,462	**22,325**	Export trade	**8,595**	2,873
507,426	**340,455**	Others	**131,075**	195,359
7,899,813	**9,150,057**		**3,522,772**	3,041,428
5,076,618	**5,076,618**	Personal and Housing loans	**2,289,008**	1,954,498
12,976,431	**14,226,675**		**5,811,780**	4,995,926

The Group monitors concentrations of credit risk by sector and by geographic location.

42.2.9 Concentration of credit risk (continued)

An analysis of concentrations of credit risk by location at the reporting date is shown below.

	Gross loans and advances to customers		Gross loans and advances to banks		Gross investment in securities	
Carrying amount	**2012**	2011	**2012**	2011	**2012**	2011
	RO'000	RO'000	**RO'000**	RO'000	**RO'000**	RO'000
Concentration by Location						
Sultanate of Oman	**5,459,568**	4,688,977	**54,977**	4,268	**249,728**	176,991
Other GCC countries	**287,897**	231,942	**137,635**	216,455	**116,375**	126,338
Europe	**-**	-	**164,480**	161,634	**203,919**	12,289
United States of America	**-**	-	**12,362**	4,115	**7,442**	6,345
Others	**64,315**	75,007	**360,346**	485,779	**36,312**	27,039
Total	**5,811,780**	4,995,926	**729,800**	872,251	**613,776**	349,002
US$ '000	**15,095,532**	12,976,431	**1,895,584**	2,265,587	**1,594,223**	906,499

42.2.10 Settlement risk

The Group's activities may give rise to risk at the time of settlement of transactions and trades. Settlement risk is the risk of loss due to the failure of counterparty to honour its obligation to deliver cash, securities or other assets as contractually agreed.

The Group mitigates settlement risk by conducting settlements through a settlement / clearing agent or having bilateral payment netting agreements. Settlement limits form part of the credit approval or limit monitoring process of the risk management system.

42.3 Liquidity risk

Liquidity risk is the potential inability of the Group to meet its maturing obligations to a counterparty.

42.3.1 Management of liquidity risk

Liquidity risk arises when the group is unable generate sufficient cash resources to meet obligations as they fall due or can do so only at materially disadvantageous terms. Such liquidity risk may arise even when the institution is solvent. Liquidity stress may be caused by counterparties withdrawing credit lines or of not rolling over existing funding or as a result of general disruption in the markets or run on group deposits etc.

Asset Liability Committee (ALCO) of the group manages the liquidity position of the group. In order to ensure that the group meets its financial obligations as and when they fall due, cash flow positions are closely monitored. Liquidity risk management ensures that the group has the ability, under varying levels of stress to efficiently and economically meet liquidity needs.

The group consciously diversifies its funding base to include deposits raised from intergroup, issue of Certificate of deposits, retail customer deposits, bonds and medium term funds raised through floating rate notes and subordinated liabilities. These together with the strength of the group's equity and asset quality ensure that funds are available at competitive rates at all times.

The sources and maturities of assets and liabilities are closely monitored to avoid any undue concentration and ensure a robust management of liquidity risks. The group undertakes structural profiling based on the actual behavioural patterns of customers to study the structural liquidity position and initiate measures to fund these gaps.

The group undertakes liquidity management through both cash flow approach and stock approach. Under Stock approach, Liquid assets to total deposits and Liquid assets to total assets ratios are closely monitored and managed. Under cash approach, assets and liabilities are bucketed based on their residual maturity to ascertain liquidity gaps. The ALCO reviews the liquidity position on a continuous basis.

The group's statement on Maturity of asset and liability is outlined in note 42.3.2 to the financial statements.

42.3.2. EXPOSURE TO LIQUIDITY RISK

The key measure used by the Group for managing liquidity risk is the ratio of liquid assets to total deposits and liquid assets to total assets. For this purpose the liquid assets include cash and balances with Central Banks, government securities, treasury bills and placements with banks. The table below provides the ratio of liquid assets to deposits from customers and liquid assets to total assets at the reporting date and during the reporting period

	Liquid assets to total assets ratio		Liquid assets to total deposits ratio	
	2012	2011	**2012**	2011
As at 31 December	**24.24%**	26.45%	**30.92%**	33.88%
Average for the period	**24.30%**	25.67%	**31.40%**	32.27%
Maximum for the period	**26.20%**	28.07%	**33.67%**	35.31%
Minimum for the period	**22.81%**	23.25%	**29.24%**	28.07%

The table below analyses the Group's non-derivative financial liabilities and net-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. Derivative financial liabilities are included in the analysis if their contractual maturities are essential for an understanding of the timing of the cash flows. The amounts disclosed in the table are the contractual undiscounted cash flows.

The asset and liability maturity profile was as follows:

	On demand or within three months	Four months to 12 months	One to five years	More than five years	Total
	RO 000's	RO 000's	RO 000's	RO 000's	RO 000's
As of 31 December 2012					
Cash and balances with Central Banks	**440,231**	**61,484**	**110,199**	**51,452**	**663,366**
Placements with banks	**519,554**	**146,084**	**41,997**	**18,415**	**726,050**
Loans and advances	**1,250,230**	**798,965**	**1,205,688**	**2,346,069**	**5,600,952**
Investments	**505,670**	**10,062**	**85,178**	**50,404**	**651,314**
Property and equipment and other assets	**122,113**	**74,784**	**1,385**	**73,705**	**271,987**
Total assets	**2,837,798**	**1,091,379**	**1,444,447**	**2,540,045**	**7,913,669**
Deposits from banks	**365,232**	**102,905**	**246,118**	**36,499**	**750,754**
Customers' deposits and certificates of deposit	**1,427,513**	**1,185,919**	**1,893,201**	**870,983**	**5,377,616**
Unsecured bonds and floating rate notes	**-**	**25,000**	**29,803**	**-**	**54,803**
Other liabilities and taxation	**221,619**	**136,992**	**1,353**	**38,211**	**398,175**
Subordinated liabilities	**-**	**-**	**112,250**	**147,450**	**259,700**
Shareholders' funds	**-**	**-**	**-**	**1,072,621**	**1,072,621**
Total liabilities and equity	**2,014,364**	**1,450,816**	**2,282,725**	**2,165,764**	**7,913,669**
Assets off balance sheet					
Future interest cash flows	**66,216**	**190,331**	**689,019**	**483,492**	**1,429,058**
Liabilities off balance sheet					
Future interest cash flows	**14,812**	**52,646**	**156,125**	**116,827**	**340,410**

42.3.2. EXPOSURE TO LIQUIDITY RISK (continued)

	On demand or within three months	Four months to 12 months	One to five years	More than five years	Total
	US $ 000's	US $ 000's	US $ 000's	US $ 000's	US $ 000's
As of 31 December 2012					
Cash and balances with Central Banks	1,143,457	159,699	286,231	133,642	1,723,029
Placements with banks	1,349,490	379,439	109,085	47,830	1,885,844
Loans and advances	3,247,351	2,075,234	3,131,657	6,093,686	14,547,928
Investments	1,313,430	26,135	221,240	130,919	1,691,724
Property and equipment and other assets	317,178	194,244	3,592	191,444	706,458
Total assets	7,370,906	2,834,751	3,751,805	6,597,521	20,554,983
Deposits from banks	948,656	267,286	639,266	94,802	1,950,010
Customers' deposits and certificates of deposit	3,707,826	3,080,309	4,917,404	2,262,294	- 13,967,833
Unsecured bonds and floating rate notes	-	64,935	77,410	-	142,345
Other liabilities & taxation	575,634	355,823	3,513	99,251	1,034,221
Subordinated liabilities	-	-	291,558	382,987	674,545
Shareholders' funds	-	-	-	2,786,029	2,786,029
Total liabilities and equity	5,232,116	3,768,353	5,929,151	5,625,363	20,554,983
Assets off balance sheet					
Future interest cash flows	171,990	494,366	1,789,660	1,255,823	3,711,839
Liabilities off balance sheet					
Future interest cash flows	38,473	136,743	405,519	303,447	884,182

42.3.2. EXPOSURE TO LIQUIDITY RISK (continued)

As of 31 December 2011	On demand or within three months	Four months to 12 months	One to five years	More than five years	Total
	RO 000's	RO 000's	RO 000's	RO 000's	RO 000's
Cash and balances with Central Banks	714,490	35,655	49,214	26,504	825,863
Placements with banks	430,289	301,127	110,240	27,445	869,101
Loans and advances	962,316	399,186	1,198,425	2,259,505	4,819,432
Investments	274,546	10,727	51,325	55,850	392,448
Property and equipment and other assets	135,358	96,597	18,554	70,648	321,157
Total assets	2,516,999	843,292	1,427,758	2,439,952	7,228,001
Deposits from banks	331,179	143,783	186,508	69,457	730,927
Customers' deposits and certificates of deposit	1,339,965	1,243,073	1,510,636	756,815	4,850,489
Unsecured bonds and floating rate notes	-	5,775	54,803	-	60,578
Other liabilities and taxation	94,345	111,791	136,338	38,418	380,892
Subordinated liabilities	-	70,000	32,083	232,450	334,533
Shareholders' funds	-	-	-	870,582	870,582
Total liabilities and equity	1,765,489	1,574,422	1,920,368	1,967,722	7,228,001
Assets off balance sheet					
Future interest cash flows	63,854	186,672	645,616	470,523	1,366,665
Liabilities off balance sheet					
Future interest cash flows	15,559	55,293	168,213	133,652	372,718

As of 31 December 2011	On demand or within three months	Four months to 12 months	One to five years	More than five years	Total
	US $ 000's	US $ 000's	US $ 000's	US $ 000's	US $ 000's
Cash and balances with	-	-	-	-	-
Central Banks	1,855,818	92,610	127,829	68,842	2,145,099
Placements with banks	1,117,633	782,148	286,338	71,286	2,257,405
Loans and advances	2,499,522	1,036,847	3,112,792	5,868,844	12,518,005
Investments	713,107	27,862	133,312	145,065	1,019,346
Property and equipment and other assets	351,580	250,901	48,192	183,501	834,174
Total assets	6,537,660	2,190,368	3,708,463	6,337,538	18,774,029
Deposits from banks	860,206	373,462	484,436	180,408	1,898,512
Customers' deposits and					-
certificates of deposit	3,480,429	3,228,761	3,923,730	1,965,753	12,598,673
Unsecured bonds and floating rate notes	-	15,000	142,345	-	157,345
Other liabilities and taxation	245,052	290,366	354,125	99,787	989,330
Subordinated liabilities	-	181,818	83,332	603,766	868,916
Shareholders' funds	-	-	-	2,261,253	2,261,253
Total liabilities and equity	4,585,687	4,089,407	4,987,968	5,110,967	18,774,029
Assets off balance sheet					
Future interest cash flows	165,854	484,862	1,676,925	1,222,138	3,549,779
Liabilities off balance sheet					
Future interest cash flows	40,414	143,618	436,918	347,149	968,099

Interest cash flows shown in the above table represent inflows and outflows up to the contractual maturity of financial assets and liabilities. Mismatch in interest cash flows arise as contractual maturity of financial assets is longer than contractual maturity of financial liabilities. Historically, financial liabilities are rolled over on contractual maturity which is not considered in the future interest cash flow calculations. Further more, the interest cash flows do not factor in the stable nature of unambiguous maturity financial liabilities such as demand and savings accounts.

42. FINANCIAL RISK MANAGEMENT (continued)

42.4 Market risk

42.4.1 Management of market risks

The Group sets limits for each product and risk type in order to ensure that the Group's market risk is managed well within the overall regulatory requirements set by the Central Bank of Oman and internal regulations contained in the Risk Policy. The Group does not trade in commodities. Limits and all internal/external guidelines are strictly adhered to, deviations, if any, are immediately escalated and action taken wherever necessary.

The principal categories of market risk faced by the Bank Muscat are set out below:

- Foreign exchange risk
- Investment price risk
- Interest rate risk
- Commodity price risk

42.4.2 Foreign Exchange Risk

Foreign exchange risk is the risk of loss due to volatility in the exchange rates. Foreign exchange risk management in the Bank is ensured through regular measurement and monitoring of open foreign exchange positions against approved limits. Majority of the foreign exchange transactions carried out by the division are on behalf of corporate customers and are on a back-to-back basis. The treasury ensures that positions with customers are covered in the interbank market.

The Group conservatively restricts its open currency position at below 35% of its net worth as against the regulatory limit of 40% of net worth.

It also stipulates that exposure on any single non parity currency should be restricted to the extent of 3% of Parent Company's net worth and restricted to the extent of 10% of the Parent Company's net worth for all non parity currencies taken together. As at the reporting date, the Group had the following net exposures denominated in foreign currencies:

2011	**2012**		**2012**	2011
US$ '000	**US$ '000**		**RO 000's**	RO 000's
41,494	**35,361**	UAE Dirhams	**13,614**	15,975
18,475	**156,221**	US Dollar	**60,145**	7,113
98,712	**398,930**	Saudi Riyal	**153,588**	38,004
3,821	**26,750**	Qatari Riyal	**10,299**	1,471
34,564	**34,081**	Pakistani Rupee	**13,121**	13,307
4,117	**3,255**	Indian Rupee	**1,253**	1,585
72,384	**73,763**	Kuwait Dinar	**28,399**	27,868
104,662	**98,828**	Bahraini Dinar	**38,049**	40,295
7,340	**5,314**	Others	**2,046**	2,826
385,569	**832,503**		**320,513**	148,444

Positions are monitored on a daily basis to ensure positions are maintained within the limits approved by the Central Bank of Oman.

Exposure and sensitivity analysis:

The net exposure in foreign currencies includes foreign currency exposure on investment in overseas associates and branches of equivalent RO 177 million (2011: RO 100 million) which are exempted from regulatory limit on foreign exchange exposure.

The Group's significant portion of foreign exchange exposure is in USD and other GCC currencies which have fixed parity with Omani Rial.

42. FINANCIAL RISK MANAGEMENT (continued)

42.4.2 Foreign Exchange Risk (continued)

The table below indicates the sensitivity analysis of foreign exchange exposure of the Group to changes in the non parity foreign currency prices as at 31 December 2012 with all other variables held constant.

	At 31 December 2012		At 31 December 2011	
Non parity foreign currency assets	**% of change in the currency price (+/-)**	**Change in the fair value (+/-)**	% of change in the currency price (+/-)	Change in the fair value (+/-)
Indian Rupee	**10%**	**125**	10%	159
Pakistani Rupee	**10%**	**2,840**	10%	2,787
Others	**10%**	**3,805**	10%	4,030

42.4.3 Investment Price Risk

Investment price risk is the risk of decline in the market value of the Group's portfolio as a result of diminishment in the market value of individual investments. The Group's investments are governed by the Investment Policy and Risk Policy approved by the Board of Directors and are subject to rigorous due diligence. Investment limits such as position limits, exposure limits, stop loss limits, sectoral limits are defined in various policies enabling proper risk management of the Group's investments. The Group's Investment Committee monitors the investments. The rating and cost vis-a-vis the market price of the instruments are monitored on daily basis and necessary actions taken to reduce exposure, if needed. Traded portfolio is revalued on daily basis and the rest at regular interval to ensure that unrealized losses, if any, on account of reduction in the market value of the investments over its cost remain within the acceptable parameters defined in the group's Investment Policy.

Exposure and sensitivity analysis

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

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

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

The Group's market risk is affected mainly by changes to the actual market price of financial assets. Actual performance of the Group's local equity portfolio has a correlation to the performance of MSM30 Index.

The beta of the Group's quoted local equity portfolio against the MSM30 Index for 2012 was 2.51. Thus, a +/- 5% change in the value of MSM30 index may result in 12.54% change in the value of Group's quoted local equity portfolio, amounting to RO 5.41 million decrease in the unrealised gain recognised in the statement of other comprehensive income for the year.

The beta of the Group's quoted local equity portfolio against the MSM30 Index for 2011 was 0.58. Thus, a +/- 5% change in the value of MSM30 index may result in 2.91% change in the value of Group's quoted local equity portfolio, amounting to RO 1.33 million increase in the unrealised gain recognised in the statement of other comprehensive income for the year.

International quoted equity portfolio of the Group comprises of shares listed in GCC stock markets, Indian Stock markets and other international markets. A +/-5% change in the market price of the respective securities, have resulted in change in value of the portfolio of +/- RO 1.64 million (2011: +/-RO 1.57 million) and consequently increased or decreased in the unrealised gain recognised in the statement of other comprehensive income.

42.4.4. INTEREST RATE RISK MANAGEMENT

Interest rate risk is the risk of adverse impact on the Bank's financial position due to change in market interest rates. While the impact on the trading book is by way of change in the value of the portfolio, the banking book leads to impact on the net Interest Income (NII) and/or Economic Value of Equity (EVE). The short term impact of interest rate risk is measured by studying the impact on the NII of the Bank while the long term impact is measured through the study of the impact on the Economic Value of Equity. The responsibility for interest rate risk management rests with the Parent Company's Treasury under the supervision of the Asset Liability Management Committee (ALCO). The Group's interest rate sensitivity position of assets and liabilities, based on the contractual repricing or maturity dates,

	Effective annual interest rate %	Floating or within 3 months RO 000's	Months 4 to 12 RO 000's	Year 1 to 5 RO 000's	Over 5 years RO 000's	Non-interest sensitive RO 000's	Total RO 000's
As of 31 December 2012							
Cash and balances with Central Banks	**0-2**	**70,087**	**-**	**-**	**-**	**593,279**	**663,366**
Placements with banks	**1.45**	**625,409**	**81,344**	**-**	**18,413**	**884**	**726,050**
Loans and advances	**5.59**	**1,860,614**	**924,353**	**1,520,695**	**1,295,083**	**207**	**5,600,952**
Investments	**2.10**	**270,345**	**56,158**	**178,866**	**17,192**	**128,753**	**651,314**
Property and equipment and other assets	**None**	**73,179**	**39,509**	**1,263**	**-**	**158,036**	**271,987**
Total assets		**2,899,634**	**1,101,364**	**1,700,824**	**1,330,688**	**881,159**	**7,913,669**
Deposits from banks	**1.18**	**590,990**	**102,973**	**15,050**	**36,499**	**5,242**	**750,754**
Customers' deposits and certificates of deposit	**1.27**	**756,276**	**2,668,887**	**784,045**	**108,367**	**1,060,041**	**5,377,616**
Unsecured bonds and Floating rate notes	**5.74**	**-**	**25,000**	**29,803**	**-**	**-**	**54,803**
Other liabilities and taxation	**None**	**72,852**	**39,509**	**1,263**	**-**	**284,551**	**398,175**
Subordinated liabilities	**5.98**	**-**	**84,700**	**93,000**	**82,000**	**-**	**259,700**
Shareholders' funds	**None**	**-**	**-**	**-**	**-**	**1,072,621**	**1,072,621**
Total liabilities and equity		**1,420,118**	**2,921,069**	**923,161**	**226,866**	**2,422,455**	**7,913,669**
Total interest rate sensitivity gap		**1,479,516**	**(1,819,705)**	**777,663**	**1,103,822**	**(1,541,296)**	**-**
Cumulative interest rate sensitivity gap		**1,479,516**	**(340,189)**	**437,474**	**1,541,296**	**-**	**-**
In US$ '000		**3,842,899**	**(883,608)**	**1,136,296**	**4,003,366**	**-**	**-**

42.4.4. INTEREST RATE RISK MANAGEMENT

	Effective annual interest rate %	Floating rate or within 3 months RO 000's	Months 4 to 12 RO 000's	Year 1 to 5 RO 000's	Over 5 years RO 000's	Non-interest sensitive RO 000's	Total RO 000's
As of 31 December 2011							
Cash and balances with Central Banks	0 - 2	541,620	-	-	-	284,243	825,863
Placements with banks	1.09	517,341	321,311	502	27,945	2,002	869,101
Loans and advances	6.07	1,441,867	770,429	1,462,657	1,143,707	772	4,819,432
Investments	2.49	78,452	7,678	172,152	6,255	127,911	392,448
Property and equipment and other assets	None	-	-	-	-	321,157	321,157
Total assets		2,579,280	1,099,418	1,635,311	1,177,907	736,085	7,228,001
Deposits from banks	1.08	420,956	47,532	186,508	69,457	6,474	730,927
Customers' deposits and certificates of deposit	1.46	829,967	2,683,748	578,863	87,914	669,997	4,850,489
Unsecured bonds and Floating rate notes	5.33	5,775	-	54,803	-	-	60,578
Other liabilities and taxation	None	(2)	(29)	(169)	38,421	342,671	380,892
Subordinated liabilities	6.39	59,183	108,350	-	167,000	-	334,533
Shareholders' funds	None	-	-	-	-	870,582	870,582
Total liabilities and equity		1,315,879	2,839,601	820,005	362,792	1,889,724	7,228,001
Total interest rate sensitivity gap		1,263,401	(1,740,183)	815,306	815,115	(1,153,639)	-
Cumulative interest rate sensitivity gap		1,263,401	(476,782)	338,524	1,153,639	-	-
In US$ '000		3,281,561	(1,238,395)	879,283	2,996,465	-	-

42 FINANCIAL RISK MANAGEMENT (continued)

42.4.4 Interest rate risk management (continued)

(i) The off-balance sheet gap represents the net notional amount of off-balance sheet financial instruments, including interest rate swaps which are used to manage interest rate risk.

(ii) The repricing profile is based on the remaining period to the next interest repricing date.

(iii) An asset (or positive) gap position exists when assets reprice more quickly or in greater proportion than liabilities during a given period and tends to benefit net interest income in a rising interest rate environment. A liability (or negative) gap position exists when liabilities reprice more quickly or in greater proportion than assets during a given period and tends to benefit net interest income in a declining interest rate environment.

Re-pricing gap is the difference between interest rate sensitive assets and liabilities spread over distinct maturity bands based on residual maturity or re-pricing dates. The Parent Company uses currency-wise and consolidated re-pricing gaps to quantify interest rate risk exposure over distinct maturities and analyze the magnitude of portfolio changes necessary to alter existing risk profile. The distribution of assets and liabilities over these time bands is done based on the actual repricing schedules. The schedules are used as a guideline to assess interest rate risk sensitivity and to focus the efforts towards reducing the mismatch in the repricing pattern of assets and liabilities.

The Parent Company uses simulation reports as an effective tool for understanding risk exposure under variety of interest rate scenarios. These reports help ALCO to understand the direction of interest rate risk in the Parent Company and decide on the appropriate strategy and hedging mechanism for managing it. The Parent Company's current on- and off-balance sheet exposures are evaluated under static environment to quantify potential effect of external interest rate shocks on the earnings and economic value of equity at risk, using assumptions about future course of interest rates and changes in Parent Company's business profile. The impact of interest rate changes on EVE is monitored by recognising the changes in the value of assets and liabilities for a given change in the market interest rate. The interest rate risk management is facilitated by limits of 5% NII impact and 20% impact on EVE for a 200 basis points shock.

An analysis of the Group's sensitivity to an increase or decrease in market interest rates is as follows:

Impact on Net Interest income	**+200 bps**	**-200 bps**	**+100 bps**	**-100 bps**	**+50 bps**	**-50 bps**
	RO'000	**RO'000**	**RO'000**	**RO'000**	**RO'000**	**RO'000**
2012						
As at 31 December	**(5,402)**	**(316)**	**(3,997)**	**(1,487)**	**(3,302)**	**1,008**
Average for the period	**(3,866)**	**1,706**	**(3,502)**	**(779)**	**(3,321)**	**66**
Maximum for the period	**(8,086)**	**(12,057)**	**(5,662)**	**(8,049)**	**(4,449)**	**(3,904)**
Minimum for the period	**9,054**	**5,103**	**2,041**	**989**	**(1,466)**	**1,008**
2011						
As at 31 December	1,314	2,594	(691)	(471)	(1,694)	(614)
Average for the period	(816)	1,658	(1,691)	(203)	(2,128)	(236)
Maximum for the period	(8,364)	(118)	(5,482)	(1,341)	(4,040)	(1,268)
Minimum for the period	3,432	3,564	490	1,245	(980)	1,382

42.4.4 Interest rate risk management (continued)

Impact on Economic Value	**+200 bps**	**-200 bps**	**+100 bps**	**-100 bps**	**+50 bps**	**-50 bps**
2012	**RO'000**	**RO'000**	**RO'000**	**RO'000**	**RO'000**	**RO'000**
As at 31 December	**(165,716)**	**206,927**	**(86,425)**	**97,405**	**(44,304)**	**46,885**
Average for the period	**(159,262)**	**200,851**	**(83,094)**	**92,147**	**(42,644)**	**44,644**
Maximum for the period	**(180,679)**	**212,338**	**(94,186)**	**100,913**	**(48,285)**	**49,587**
Minimum for the period	**(151,386)**	**193,634**	**(79,019)**	**88,100**	**(40,575)**	**42,620**
2011						
As at 31 December	(143,398)	182,451	(74,899)	83,535	(38,480)	40,402
Average for the period	(128,471)	159,333	(66,984)	73,704	(34,413)	35,808
Maximum for the period	(143,398)	182,451	(74,899)	83,535	(38,480)	40,402
Minimum for the period	(101,681)	127,992	(53,003)	57,323	(27,280)	28,025

Impact on Net Interest income	**+200 bps**	**-200 bps**	**+100 bps**	**-100 bps**	**+50 bps**	**-50 bps**
	USD'000	**USD'000**	**USD'000**	**USD'000**	**USD'000**	**USD'000**
2012						
As at 31 December	**(14,032)**	**(820)**	**(10,381)**	**(3,862)**	**(8,576)**	**2,619**
Average for the period	**(10,042)**	**4,432**	**(9,096)**	**(2,023)**	**(8,626)**	**172**
Maximum for the period	**(21,004)**	**(31,318)**	**(14,706)**	**(20,906)**	**(11,557)**	**(10,141)**
Minimum for the period	**23,518**	**13,256**	**5,300**	**2,568**	**(3,808)**	**2,619**
2011						
As at 31 December	3,412	6,738	(1,796)	(1,224)	(4,399)	(1,595)
Average for the period	(2,120)	4,308	(4,392)	(527)	(5,528)	(612)
Maximum for the period	(21,724)	(307)	(14,238)	(3,483)	(10,494)	(3,293)
Minimum for the period	8,914	9,257	1,274	3,233	(2,546)	3,589

Impact on Economic Value	**+200 bps**	**-200 bps**	**+100 bps**	**-100 bps**	**+50 bps**	**-50 bps**
2012	**USD'000**	**USD'000**	**USD'000**	**USD'000**	**USD'000**	**USD'000**
As at 31 December	**(430,431)**	**537,472**	**(224,481)**	**253,001**	**(115,075)**	**121,780**
Average for the period	**(413,668)**	**521,692**	**(215,830)**	**239,343**	**(110,764)**	**115,957**
Maximum for the period	**(469,296)**	**551,527**	**(244,638)**	**262,112**	**(125,416)**	**128,796**
Minimum for the period	**(393,209)**	**502,945**	**(205,244)**	**228,831**	**(105,389)**	**110,701**
2011						
As at 31 December	(372,464)	473,898	(194,542)	216,973	(99,948)	104,939
Average for the period	(333,692)	413,852	(173,983)	191,439	(89,385)	93,008
Maximum for the period	(372,464)	473,898	(194,542)	216,973	(99,948)	104,939
Minimum for the period	(264,108)	332,447	(137,671)	148,891	(70,856)	72,793

42.5 Commodity Price Risk

As part of its treasury operations, the group offers commodities hedging facility to its clients. Customers of the group who are exposed to commodities like Copper, Aluminium and also Jewellers with exposure to gold prices cover their commodity exposures through the group. The group covers all its commodity exposures back-to-back in the intergroup market.

The group operates in the commodities market purely as a provider of hedging facilities and does not either trade in commodities or bullion or maintain positions in commodities. Customers of the group are sanctioned a transaction volume limit based on their turn-over/ orders as well as a Variation Margin limit is applied to mitigate any mark-to-mark related credit exposures for the group. The transaction volume limit is to restrict the total outstanding contracts value to the business requirement of the customer and the variation margin limit is to protect the group from excessive credit risk due to adverse price movement in the underlying commodity prices. Margin calls for additional collateral or cash deposits is demanded from customers on the breach of the Variation Margin limit. The treasury middle-office monitors customers' positions and MTMs on daily basis.

42.6 Operational risks

Operational risk is the deficiencies in information systems/internal controls or uncontrollable external events will result in loss. The risk is associated with human error, systems failure and inadequate procedures or control and external causes. As per the Basel Committee on grouping Supervision (BCBS), operational risk is the risk of monetary losses resulting from inadequate or failed internal processes, people and systems or from external events. Operational risk includes legal risk but excludes strategic and reputational risk.

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

The Group has developed its own Operational Risk Management Software to aid assessment of operational risks as well as the collection and analysis of operational losses.

The Group's risk policy provides the framework to identify, assess, monitor, control and report operational risks in a consistent and comprehensive manner across the group. Operational Risk Management function independently supports business units in the management of operational risks. Operational risk management in the Group is driven by the objective to increase the efficiency and effectiveness of the available resources, minimise losses and utilise opportunities. The main objectives of Operational Risk Management are as follows:

- To achieve strong risk control by harnessing the latest risk management technologies and techniques, resulting in a distinctive risk management capability, enabling business units to meet their performance and growth objectives.
- To enable adequate capital allocation in respect of potential impact of operational risks.
- To minimize the impact of operational risks through means such as a fully functional IT Disaster Recovery facility, Business Continuity Plans, up-to-date documentation and by developing general operational risk awareness

Operational risk appetite is defined at a business unit and group level. Business units have the primary responsibility for identifying, measuring and managing the operational risks that are inherent in their respective operations. Operational risk is controlled through a series of strong internal controls and audits, well-defined segregation of duties and reporting lines, detailed operational manuals and standards. The responsibility of overseeing the process lies with Operational Risk Unit in accordance with the Operational Risk Management Framework. Internal Audit independently reviews effectiveness of the Group's internal controls and its ability to minimize the impact of operational risks.

The Operations committee is the primary oversight body for operational risk. The Operations committee is represented by business and control functions and is responsible for ensuring that the group has an adequate risk management process that covers identification, evaluation and management of operational risks and the formulation of adequate policies pertaining to operational risk management.

42 FINANCIAL RISK MANAGEMENT (continued)

42.6 Operational risks (continued)

Business Continuity Planning (BCP)

Business Continuity Management within the Group is the implementation and management of preventative measures, planning and preparation to ensure the group can continue to operate following an incident, significant unplanned event or major operational disruption. The Group ensures that its systems and procedures are resilient to ensure business continuity through potential situations of failure. The Group has put in place Business Continuity Plans (BCP) to ensure that its business runs effectively in the event of most unforeseen disasters as required by the CBO Business Continuity Guidelines, the Basel Committee Joint Forum High-level principles for business continuity and international business continuity standards. The Group continuously strengthens and enhances its existing plans by implementing a robust business continuity framework to ensure that its systems and procedures are resilient and ready to meet 'emergency preparedness'. The BCM Committee is entrusted with the responsibility of formulating, adopting, implementing, testing and maintaining a robust BCP for the Group. The BCM Committee continuously review and agree the strategic Business Continuity assessment and planning information to ensure Business Continuity Management, planning and maintenance responsibilities are assigned, understood and implemented across the business areas.

The Group has made significant strides in enhancing its business continuity framework. Some of the major developments in line with the objective of the continuous evolution of the group's BCM framework were:

- BCM Committee ensures Business continuity continues to be closely aligned and integrated with business initiatives and developments.
- Fire evacuation drills were conducted for each section of the Seeb Head Office and a collective, full fledged surprise fire drill and evacuation was conducted in conjunction with the Royal Oman Police. Fire evacuation response leaders were appointed and trained.
- Comprehensive testing of the recovery of the groups key systems and applications was conducted in conjunction with the Business.
- The group's Business Recovery Centre of the group has the capability to meet any unforeseen disaster and ensure continual operational capability in the event of a major operational disruption.To ensure the functionality of the Business Recovery Centre.

42.7 Capital management

42.7.1 Regulatory capital

The Parent Company's regulator, Central Bank of Oman (CBO), sets and monitors capital requirements for the Parent Company as a whole. In implementing Basel II's capital requirement, the CBO requires the Parent Company to maintain a minimum of 12% ratio of total capital to total risk-weighted assets. The group's regulatory capital is analysed into three tiers:

- Tier I capital, which includes ordinary share capital, share premium, distributable and non-distributable reserves and retained earnings (net of proposed dividend) after deductions for goodwill and fifty percent of carrying value of investment in associates as per the regulatory adjustments that are included in equity but are treated differently for capital adequacy purposes;
- Tier II capital, which includes qualifying subordinated liabilities, collective impairment allowances and the element of the fair value reserve relating to unrealised gains on equity instruments classified as available-for-sale after deductions for fifty percent of carrying value of investments in associates;
- Tier III capital which includes qualifying subordinated liabilities (net of reserves).

Various limits are applied to elements of the capital base. The qualifying Tier II and Tier III capital cannot exceed Tier I capital; qualifying subordinated liabilities may not exceed fifty percent of Tier I capital; and amount of collective impairment allowances that may be included as part of Tier II capital is limited to 1.25 percent of the total risk-weighted assets.

42 FINANCIAL RISK MANAGEMENT (continued)

42.7.2 Capital adequacy

Capital adequacy indicates the ability of the group in meeting any contingency without compromising the interest of the depositors and to provide credit across the business cycles. Sufficient capital in relation to the risk profile of the group's assets helps promote financial stability and confidence of the stakeholders and creditors. The group aims to maximise the shareholder's value through an optimal capital structure that protects the stakeholders interests under most extreme stress situations, provides sufficient room for growth while meeting the regulatory requirements and at the same time gives a reasonable return to the shareholders. The group has a forward looking capital policy which considers the current risk, planned growth and an assessment of the emerging risk for the forecasted period.

While risk coverage is the prime factor influencing capital retention, the group is conscious of the fact that as a business entity, its capital needs to be serviced and a comfortable rate of return needs to be provided to the shareholders. Excessive capital will dilute the return on capital and this in turn can exert pressure for profitability, propelling business asset growth resulting in the group assuming higher levels of risk. Hence, with regards to the retention of capital, the group's policy is governed by the need for adequately providing for associated risks and the needs for servicing the capital retained. The group makes good use of subordinated loans as Tier II Capital and raises share capital as and when the need arises. The Group's strong and diverse shareholder profile gives the group the necessary confidence in its ability to raise capital when it is needed.

The Group desires to move to more advanced approaches for measuring credit risk, market risk and operational risk and has put in place a 'building block' approach. A road map has been laid down for each core area of risk viz. credit, market, operational. Progress has been made in line with the road map and is being monitored on a continuous basis and reported.

42 FINANCIAL RISK MANAGEMENT (continued)

42.7.2 Capital Adequacy (continued)

The following table sets out the capital adequacy position of the Group.

2011 USD'000	2012 USD'000		2012 RO'000	2011 RO'000
402,177	**529,483**	Share capital	**203,851**	154,838
783,130	**1,008,148**	Share premium	**388,137**	301,505
134,060	**176,494**	Legal reserve	**67,950**	51,613
175,909	**391,060**	General reserve	**150,558**	67,725
276,709	**153,551**	Subordinated loan reserve	**59,117**	106,533
396,847	**463,234**	Retained profit *	**178,345**	152,786
2,168,831	**2,721,970**	**Total**	**1,047,958**	835,000
		Less:		
(11,694)	**(4,345)**	Cumulative loss on fair value	**(1,673)**	(4,502)
-	**(6,229)**	Cumulative loss on cash flow hedge	**(2,398)**	-
(5,255)	**(5,125)**	Goodwill	**(1,973)**	(2,023)
(31,512)	**(13,906)**	Deferred tax assets	**(5,354)**	(12,132)
(5,470)	**(6,608)**	Foreign currency translation reserve	**(2,544)**	(2,106)
(3,106)	**(3,694)**	Non strategic investment in groups (50%)	**(1,422)**	(1,196)
(61,782)	**(57,101)**	Investment in associates (50%)	**(21,984)**	(23,786)
2,050,013	**2,624,962**	**Tier I Capital**	**1,010,610**	789,255
6,717	**11,439**	Cumulative change in fair value (45%)	**4,404**	2,586
180,138	**212,504**	General loan loss impairment	**81,814**	69,353
592,208	**520,995**	Subordinated liabilities (net of reserves)	**200,583**	228,000
83,932	**41,966**	Mandatory convertible bonds	**16,157**	32,314
862,995	**786,904**	**Total**	**302,958**	332,253
		Less:		
(3,106)	**(3,694)**	Non strategic investment in groups (50%)	**(1,422)**	(1,196)
(61,782)	**(57,101)**	Investment in associates (50%)	**(21,984)**	(23,786)
798,106	**726,109**	**Tier II Capital**	**279,552**	307,271
2,848,119	**3,351,071**	**Total Regulatory Capital**	**1,290,162**	1,096,526
		Risk weighted assets		
15,449,387	**17,759,590**	Credit risk	**6,837,442**	5,948,014
521,109	**551,260**	Market risk	**212,235**	200,627
1,277,306	**1,410,813**	Operational risk	**543,163**	491,763
17,247,803	**19,721,663**	**Total risk weighted assets**	**7,592,840**	6,640,404
		Capital Ratios		
16.51%	**16.99%**	Total regulatory capital expressed as a % of total risk weighted assets	**16.99%**	16.51%
11.89%	**13.31%**	Total Tier I capital expressed as a % of total risk weighted assets	**13.31%**	11.89%

* The total regulatory capital adequacy ratio of 16.99% (2011: 16.51%) is before considering the proposed dividend of 40 %: 25% Cash and 15% Mandatory convertible bonds (2011 : 25% Cash and 15% Stock Dividend). The total capital adequacy ratio post consideration of dividend would be 16.32% (2011: 15.93%).

42 FINANCIAL RISK MANAGEMENT (continued)

42.7.3 Internal Capital Adequacy Assessment Process (ICAAP):

The Bank has in place Internal Capital Adequacy Assessment Process (ICAAP) which provides an assessment of the Bank's actual capital adequacy on an advanced Economic Capital measure. ICAAP incorporates the impact of residual risk including business risk, concentration risk, correlation risk, interest rate risk on banking book. The purpose of the Bank's ICAAP is not only to provide a detailed assessment of its current capital adequacy, but also to project future capital adequacy ratios in line with approved business plans in order to evaluate their validity from a risk perspective. The process covers a forward looking plan for the next 5 years. The overall framework has introduced a structured methodology for a comprehensive forward-looking assessment of capital based on the Bank's risk profile. It is also expected that the establishment of ICAAP in the Bank will facilitate the awareness for risk sensitive topics when it comes to strategic decisions like acquisitions, launch of new products or organic growth targets. It will scrutinize the current business model of the Bank and may lead to corresponding adjustments if the inherent risk goes beyond the Bank's risk appetite. ICAAP was approved by the Board of Directors through Board Risk Committee. On a quarterly basis, reporting is done to the Board on the adequacy of capital. The Bank believes that its current and foreseen capital endowment is suitable to support its business strategy in a soothing market environment. The present plan will be updated at least annually for a rolling, forward-looking planning period of 5 years.

In order to determine the Bank's capability to withstand adverse conditions, in addition to the base case, a stress scenario has also been examined. This scenario assumes a prolonged recession and specifically incorporates a deterioration of credit quality, increased IRRBB and Market Risk as well as a decrease in retained profits.also been examined.

42.7.4 Capital allocation

The allocation of capital between specific business units and activities is, to large extent, driven by optimisation of the return on capital allocated. Although maximisation of the return on risk-adjusted capital is the principal basis used in determining how capital is allocated within the Bank to particular business units or activities, it is not the sole basis used for decision making. Other factors such as synergies between the units or activities, the availability of management and other resources, and the fit of the activity with the Bank's longer term strategic objectives are taken in to account while allocating capital.

43. FAIR VALUE INFORMATION

Based on the valuation methodology outlined below, the fair values of all on and off-balance sheet financial instruments at reporting dates are considered by the Board and Management not to be materially different to their book values:

As of 31 December 2012	**Notes**	**Loans and receivables RO 000's**	**Available for sale RO 000's**	**Held-to-maturity RO 000's**	**amortised cost RO 000's**	**carrying value RO 000's**	**Fair Value RO 000's**
Cash and balances with Central Bank	5	**663,366**	-	-	-	**663,366**	**663,366**
Placements with banks	6	**726,050**	-	-	-	**726,050**	**726,050**
Loans and advances	7	**5,600,952**	-	-	-	**5,600,952**	**5,600,952**
Investment securities	9	-	**304,820**	**300,553**	-	**605,373**	**605,373**
		6,990,368	**304,820**	**300,553**	-	**7,595,741**	**7,595,741**
Deposits from banks	14	-	-	-	**750,754**	**750,754**	**750,754**
Customers' deposits	15	-	-	-	**5,324,016**	**5,324,016**	**5,324,016**
Certificates of deposit	16	-	-	-	**53,600**	**53,600**	**53,600**
Unsecured bonds	17	-	-	-	**54,803**	**54,803**	**54,803**
Subordinated liabilities	22	-	-	-	**259,700**	**259,700**	**259,700**
		-	-	-	**6,442,873**	**6,442,873**	**6,442,873**

As of 31 December 2011	Notes	Loans and receivables RO 000's	Available for sale RO 000's	Held-to-maturity RO 000's	Other amortised cost RO 000's	Total carrying value RO 000's	Fair Value RO 000's
Cash and balances with Central Bank	5	825,863	-	-	-	825,863	825,863
Placements with banks	6	869,101	-	-	-	869,101	869,101
Loans and advances	7	4,819,432	-	-	-	4,819,432	4,819,432
Investment securities	9	-	275,812	67,041	-	342,853	342,853
		6,514,396	275,812	67,041	-	6,857,249	6,857,249
Deposits from banks	14	-	-	-	730,927	730,927	730,927
Customers' deposits	15	-	-	-	4,749,489	4,749,489	4,749,489
Certificates of deposit	16	-	-	-	101,000	101,000	101,000
Unsecured bonds	17	-	-	-	54,803	54,803	54,803
Floating rate notes	18	-	-	-	5,775	5,775	5,775
Subordinated liabilities	22	-	-	-	334,533	334,533	334,533
		-	-	-	5,976,527	5,976,527	5,976,527

43. FAIR VALUE INFORMATION (continued)

Effective 1 January 2010, the Group adopted the amendment to IFRS 7 for financial instruments that are measured in the statement of financial position at fair value; this requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

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

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

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

The following table presents the Group's assets and liabilities that are measured at fair value at 31 December 2012:

2012	**Level 1 RO'000**	**Level 2 RO'000**	**Level 3 RO'000**	**Total RO'000**
Assets				
Derivatives	**-**	**41,867**	**-**	**41,867**
Available-for-sale financial assets				
Equity securities	**62,160**	**-**	**22,969**	**85,129**
Debt investments	**194,491**	**-**	**25,200**	**219,691**
Total Assets	**256,651**	**41,867**	**48,169**	**346,687**
Liabilities				
Derivatives	**-**	**52,927**	**-**	**52,927**

2011	Level 1 RO'000	Level 2 RO'000	Level 3 RO'000	Total Balance RO'000
Assets				
Derivatives	-	48,139	-	48,139
Available-for-sale financial assets				
Equity securities	61,673	-	22,387	84,060
Debt investments	170,047	-	21,705	191,752
Total Assets	231,720	48,139	44,092	323,951
Liabilities				
Derivatives	-	55,669	-	55,669

43.1 Estimation of fair values

The following summarises the major methods and assumptions used in estimating the fair values of assets and liabilities:

43.1.1 Loans and advances

Fair value is calculated based on discounted expected future principal and interest cash flows. Loan repayments are assumed to occur at contractual repayment dates, where applicable. For loans that do not have fixed repayment dates or that are subject to prepayment risk, repayments are estimated based on experience in previous periods when interest rates were at levels similar to current levels, adjusted for any differences in interest rate outlook. Expected future cash flows are estimated considering credit risk and any indication of impairment. Expected future cash flows for homogeneous categories of loans are estimated on a portfolio basis and discounted at current rates offered for similar loans to new borrowers with similar credit profiles. The estimated fair values of loans reflect changes in credit status since the loans were made and changes in interest rates in the case of fixed rate loans.

43. FAIR VALUE INFORMATION (continued)

43.1.2 Investments carried at cost and derivatives

Fair value is based on quoted market prices at the reporting date without any deduction for transaction costs. If a quoted market price is not available, fair value is estimated based on discounted cash flow and other valuation techniques.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market related rate for a similar instrument at the reporting date.

43.1.3 Bank and customer deposits

For demand deposits and deposits with no defined maturities, fair value is taken to be the amount payable on demand at the reporting date. The estimated fair value of fixed-maturity deposits, including certificates of deposit, is based on discounted cash flows using rates currently offered for deposits of similar remaining maturities. The value of long-term relationships with depositors is not taken into account in estimating fair values.

43.1.4 Other on-balance sheet financial instruments

The fair values of all on-balance sheet financial instruments are considered to approximate their book values.

43.1.5 Off-balance sheet financial instruments

No fair value adjustment is made with respect to credit-related off-balance sheet financial instruments, which include commitments to extend credit, standby letters of credit and guarantees, as the related future income streams materially reflect contractual fees and commissions actually charged at the reporting date for agreements of similar credit standing and maturity.

Foreign exchange contracts are valued based on market prices. The market value adjustments in respect of foreign exchange contracts are included in the book values of other assets and other liabilities.

44 COMPARATIVE FIGURES

No material corresponding figures for 2011 included for comparative purposes were reclassified.

45 EVENT AFTER THE REPORTING PERIOD

On 20 February 2013, the Bank's prepaid Travel Cards were compromised in an isolated event. This event affected 12 prepaid Travel Cards and the gross value of transactions on these cards, which were compromised was RO 15 million (USD 39 million). No customers have suffered any financial loss and no other credit or debit cards issued by Bank Muscat have been affected. The maximum impact on the Bank will be RO 15 million (USD 39 million) and the Bank is exploring all avenues to minimise the impact on the financial statements after the reporting period and will pursue the various options available to the Bank.