

National Bank of Oman SAOG

INTERIM CONDENSED FINANCIAL STATEMENTS

31 March 2010 (UNAUDITED)



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CHAIRMAN'S REPORT – MARCH 2010

TO OUR ESTEEMED SHAREHOLDERS:

On behalf of the Board of Directors of National Bank of Oman SAOG, I am pleased to announce the unaudited results for the three months ended 31 March 2010.

Operating Performance

The Bank achieved a net profit after tax of RO 6.6 million for the three months ended 31 March 2010 compared to RO 7.3 million for the same period in 2009, but increased strongly by RO 5.1 million when compared to the last final quarter of 2009. Overall economic activity has started to show signs of improvement but market conditions continue to be testing.

The Bank successfully grew its net interest income by 4.5% to RO 13.5 million from RO 13.1 million in the prior year period through focused balance sheet management.

Trade related activities and investment income were both lower than in the comparative period in 2009 due to the continuing effect of the global financial crisis and contributed to the decline in the ratio of non interest income to total income from 35% to 31%. While operating expenses increased by 10% compared to the first quarter in 2009, they have remained flat against the final quarter of 2009 as the Bank continues to focus on cost management while continuing to invest in our franchise.

The results for the three months to 31 March 2010 continue to be negatively impacted by provisions as the Bank is committed to improving the provision coverage ratio against non performing loans. The coverage ratio has been increased to 100% from 95% as at December 2009.

During the three months ended 31 March 2009, total advances grew by RO 19 million as the Bank has been continued to lend cautiously on a selective basis. Customer deposits also grew by RO 112 million in the current quarter with an emphasis on expanding the Bank's low cost deposit base to fund its balance sheet growth.

The Bank has recently invested in a substantial plot of land on which it plans to build its new head office demonstrating a continuing commitment to invest in its infrastructure and brand.

Capital

The capital adequacy ratio at 31 March 2009 was 16% compared to 16.6% as at 31 December 2009. With market conditions remaining uncertain, the Bank's capital position will continue to be carefully managed and well above Central Bank's minimum required level of 10%.

Appreciation

On behalf of the members of the Board of Directors, I would like to acknowledge and thank our valued customers and shareholders for the continued support to the Bank.

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

We thank the bank's management and staff for their dedication and commitment.

Most of all, we pay tribute to His Majesty, Sultan Qaboos Bin Said, for his inspiring leadership and vision under whose wise guidance all of us in Oman will assuredly continue on the path towards successful development.

Omar Hussain Al Fardan
Chairman

SUMMARY OF RESULTS

Particulars	3 months ended 31/03/2010	3 months ended 31/03/2009
(All RO '000 unless stated otherwise)		
Loans and advances to customers (net)	1,380,101	1,413,741
Customers' deposits	1,372,873	1,423,298
Other assets	40,781	48,778
Net interest income	13,678	13,093
Profit before tax	6,921	8,749
Earnings per share-annualized (RO)	0.025	0.028
Net assets per share (RO)	0.226	0.216

INTERIM CONDENSED STATEMENT OF FINANCIAL POSITION
31 March 2010 (Un-audited)

		<i>31-3-2010</i>	<i>31-3-2009</i>	<i>Audited</i> <i>31-12-2009</i>
	<i>Notes</i>	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>
Assets				
Cash and balances with Central Banks	3	293,752	323,682	184,357
Due from banks and other money market placements (net)	4	107,142	177,604	166,916
Loans and advances to customers (net)	5	1,380,101	1,413,741	1,360,997
Financial assets at fair value through profit and loss	6	17,310	59	17,384
Non-trading financial investments	7	29,394	30,271	30,060
Premises and equipment	8	21,290	11,161	12,763
Deferred tax asset	12	9	77	-
Other assets	9	40,781	48,778	25,736
		<hr/>	<hr/>	<hr/>
Total assets		1,889,779	2,005,373	1,798,213
		<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
Liabilities				
Due to banks and other money market deposits		189,787	243,582	219,662
Customers' deposits	10	1,372,873	1,423,298	1,260,768
Other liabilities	11	50,078	72,032	34,700
Taxation	12	2,366	2,715	5,082
Deferred tax liability	12	-	-	10
		<hr/>	<hr/>	<hr/>
Total liabilities		1,615,104	1,741,627	1,520,222
		<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
Subordinated Funds				
Subordinated private placement	13	30,600	30,100	27,600
		<hr/>	<hr/>	<hr/>
Equity				
Share capital		108,100	108,100	108,100
Share premium		34,465	34,465	34,465
Legal reserve		32,675	30,564	32,675
General reserve		4,419	4,419	4,419
Other non-distributable reserves	14	8,088	14,314	8,008
Proposed cash dividend		-	-	12,972
Retained earnings		56,328	41,784	49,752
		<hr/>	<hr/>	<hr/>
Total equity		244,075	233,646	250,391
		<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
Total liabilities, subordinated funds and equity		1,889,779	2,005,373	1,798,213
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The attached notes 1 to 23 form part of the interim condensed financial statements.

INTERIM CONDENSED STATEMENT OF COMPREHENSIVE INCOME
31 March 2010 (Un-audited)

		<i>Three months ended 31 March</i>	
		<i>2010</i>	<i>2009</i>
	<i>Notes</i>	<i>RO'000</i>	<i>RO'000</i>
Interest income	16	23,758	26,302
Interest expense	17	(10,080)	(13,209)
Net interest income		13,678	13,093
Other operating income	18	6,192	7,200
OPERATING INCOME		19,870	20,293
OPERATING EXPENSES			
Staff costs		(5,374)	(4,907)
Other operating expenses	19	(2,853)	(2,828)
Depreciation	8	(747)	(474)
		(8,974)	(8,209)
PROFIT FROM OPERATIONS BEFORE IMPAIRMENT LOSSES AND TAX		10,896	12,084
Credit loss expense – customer's loan	5	(5,323)	(3,682)
Recoveries and releases from provision for credit losses	5	691	1,278
Recoveries from loans and advances written off		764	813
Impairment losses on available for sale investments		(107)	(1,744)
TOTAL IMPAIRMENT LOSSES (NET)		(3,975)	(3,335)
PROFIT BEFORE TAX		6,921	8,749
Taxation	12	(345)	(1,415)
PROFIT FOR THE PERIOD		6,576	7,334
OTHER COMPREHENSIVE INCOME			
Net unrealised gain/(loss) on available for sale investments		117	(1,212)
Net unrealised gain on cash flow hedge		184	177
Impairment (gains) / losses realised on available for sale investments		(240)	864
Tax effect of net results on available for sale financial investments		19	16
OTHER COMPREHENSIVE INCOME (EXPENSE) FOR THE YEAR		80	(155)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		6,656	7,179
Earnings per share annualised:			
Basic and diluted, profit for the year attributable to equity holders		0.025	0.028

The attached notes 1 to 23 form part of the interim condensed financial statements.

INTERIM CONDENSED STATEMENT OF CASH FLOWS

31 March 2010 (Un-audited)

	<i>Notes</i>	<i>3 months ended 31/03/2010 RO'000</i>	<i>3 months ended 31/03/2009 RO'000</i>
Operating activities			
Profit before taxation		6,921	8,749
Adjustments for:			
Depreciation	8	747	474
Provision for credit losses (net)		2,582	1,574
impairment losses on available for investments		107	1,744
Profit on sale of equipments (net)		-	(15)
Profit on sale of investments	18	(348)	(21)
Investment income		(634)	(827)
Operating profit before changes in operating assets and liabilities		9,375	11,678
Due from banks and other money market placements		15,504	11,156
Due to banks and other money market deposits		(25,430)	(16,624)
Loans and advances to customers		(21,686)	(14,097)
Financial assets at fair value through profit and loss		74	(38)
Other assets		(15,045)	28,987
Customers' deposits		112,105	81,543
Other liabilities		15,378	(12,864)
Cash from operations		90,275	89,741
Taxes paid		(3,058)	(5,986)
Net cash from operating activities		87,217	83,755
Investing activities			
Purchase of non-trading investments		(223)	(5,000)
Proceeds from sale of non-trading investments		1,008	3,475
Purchase of land and equipment	8	(9,276)	(2,098)
Disposal of equipment		-	34
Translation differences on investments, premises and equipment and tax		(2)	16
Income from bond and other investment		257	128
Dividends income	18	377	699
Net cash used in investing activities		(7,859)	(2,746)
Financing activity			
Payment of dividend		(12,972)	(18,918)
Net movement in subordinated private placements	13	3,000	1,500
Net cash used in financing activity		(9,972)	(17,418)
Increase in cash and cash equivalents		69,386	63,591
Cash and cash equivalents at the beginning of the period		270,511	277,712
Cash and cash equivalents at the end of the period		339,897	341,303
Representing:			
Cash and balances with Central Bank (note 3)		292,488	322,418
Deposits and balances with other banks and financial institutions (net)		47,409	18,885
		339,897	341,303

The attached explanatory notes 1 to 23 form part of the interim condensed financial statements.

INTERIM CONDENSED STATEMENT OF CHANGES IN EQUITY
Period ended 31 March 2010 (Un audited)

<i>(RO'000)</i>	<i>Share capital</i>	<i>Share premium</i>	<i>Legal reserve *</i>	<i>General reserve</i>	<i>Other non distributable reserves</i>	<i>Proposed cash dividend</i>	<i>Retained earnings</i>	<i>Total</i>
Balance at 1 January 2009	108,100	34,465	30,564	4,419	14,469	18,918	34,450	245,385
Total comprehensive income for the period	-	-	-	-	(155)	-	7,334	7,179
Dividend paid during the period	-	-	-	-	-	(18,918)	-	(18,918)
Balance at 31 March 2009	108,100	34,465	30,564	4,419	14,314	-	41,784	233,646
Balance at 1 April 2009	108,100	34,465	30,564	4,419	14,314	-	41,784	233,646
Total comprehensive income for the period	-	-	-	-	2,974	-	13,771	16,745
Transfer to retained earnings	-	-	-	-	(12,500)	-	12,500	-
Transfer to subordinated funds reserve	-	-	-	-	3,220	-	(3,220)	-
Transfer to legal reserve	-	-	2,111	-	-	-	(2,111)	-
Transfer to proposed dividend	-	-	-	-	-	12,972	(12,972)	-
Balance at 31 December 2009	108,100	34,465	32,675	4,419	8,008	12,972	49,752	250,391

INTERIM CONDENSED STATEMENT OF CHANGES IN EQUITY (continued)
Period ended 31 March 2010 (Unaudited)

<i>(RO'000)</i>	<i>Share capital</i>	<i>Share premium</i>	<i>Legal reserve *</i>	<i>General reserve</i>	<i>Other non distri- butable reserves</i>	<i>Proposed cash dividend</i>	<i>Retained earnings</i>	<i>Total</i>
Balance at 1 January 2010	108,100	34,465	32,675	4,419	8,008	12,972	49,752	250,391
Total comprehensive income for the period	-	-	-	-	80	-	6,576	6,656
Dividend paid during the period	-	-	-	-	-	(12,972)	-	(12,972)
Balance as at 31 March 2010	108,100	34,465	32,675	4,419	8,088	-	56,328	244,075

*Transfers to legal reserve are done on an annual basis.

The attached notes 1 to 23 form part of the interim condensed financial statements.

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT 31 March 2010 (Unaudited)

1 LEGAL STATUS AND PRINCIPAL ACTIVITIES

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

The bank employed 1,313 employees as of 31 March 2010 (31 March 2009 – 1,332 employees and 31 December 2009 – 1,329)

2 SIGNIFICANT ACCOUNTING POLICIES

The condensed interim financial statements of the bank are prepared in accordance with International Accounting Standard 34, Interim Financial Reporting. The accounting policies used in the preparation of the condensed interim financial statements are consistent with those used in the preparation of the annual financial statements for the year ended 31 December 2009.

The condensed interim financial statements do not contain all information and disclosures required for full financial statements prepared in accordance with International Financial Reporting Standards. In addition, results for the three months ended 31 March 2010 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2010.

The condensed interim financial statements are prepared in Rial Omani, rounded to the nearest thousand, except as indicated. The functional currencies of the bank's operations are as follows:

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

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

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT
31 March 2010 (Unaudited)

3 CASH AND BALANCES WITH CENTRAL BANKS

	<i>31/03/2010</i>	<i>31/03/2009</i>	<i>31/12/2009</i>
	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>
Cash	22,329	20,737	23,173
Treasury bills with Central Banks	2,448	2,389	2,878
Certificate of deposit with Central Banks	125,000	108,000	95,000
Other balances with Central Banks	142,711	191,292	62,042
	<hr/>	<hr/>	<hr/>
Cash and short term funds	292,488	322,418	183,093
Insurance deposit with Central Bank of Oman	764	764	764
Capital deposit with Central Bank of Oman	500	500	500
	<hr/>	<hr/>	<hr/>
	293,752	323,682	184,357
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

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

4 DUE FROM BANKS AND OTHER MONEY MARKET PLACEMENTS (NET)

	<i>31/03/2010</i>	<i>31/03/2009</i>	<i>31/12/2009</i>
	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>
Net loans and advances to banks	35,375	83,929	38,326
Placement with banks	71,511	85,714	130,010
Demand balances	8,301	7,961	6,625
	<hr/>	<hr/>	<hr/>
Due from banks and other money market placement	115,187	177,604	174,961
Less: Allowance for credit losses (refer note below)	(7,966)	-	(7,966)
Less: Reserved interest	(79)	-	(79)
	<hr/>	<hr/>	<hr/>
Net due from banks and other money market placement	107,142	177,604	166,916
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

During the second quarter of 2009, two large regional groups were reported to have defaulted on their payment obligations. As at 31 March 2010, the bank has a limited inter-bank exposure of RO 6.6 million against these groups. In addition, NBO has an exposure to a bank in Kazakhstan for RO 1.9 million which has also defaulted in meeting its payment obligations. The restructuring process for these banks is not yet complete. The bank recorded a provision of 100% against the two large regional groups and 75% against the bank in Kazakhstan during the year 2009.

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT
31 March 2010 (Unaudited)

5 LOANS AND ADVANCES TO CUSTOMERS (NET)

	<i>31/03/2010</i> <i>RO'000</i>	<i>31/03/2009</i> <i>RO'000</i>	<i>31/12/2009</i> <i>RO'000</i>
Corporate loans	754,943	793,199	720,929
Personal loans	633,683	608,810	641,965
Overdrafts	62,177	77,552	66,223
Gross loans and advances	1,450,803	1,479,561	1,429,117
Less: Allowance for credit losses and reserved interest	(70,702)	(65,820)	(68,120)
Net loans and advances	1,380,101	1,413,741	1,360,997

Gross loans and advances include RO 23.71 million due from related parties at 31 March 2010 (31 March, 2009 - RO 12.86 million, 31 December 2009 - RO 18.19 million).

The movement in the provision for impairment of loans and advances presented as loan loss provisions and reserved interest is set out below:

Allowance for credit losses	<i>3 months ended</i> <i>31/03/2010</i> <i>RO'000</i>	<i>3 months ended</i> <i>31/03/2009</i> <i>RO'000</i>	<i>12 months ended</i> <i>31/12/2009</i> <i>RO'000</i>
Balance at beginning of period / year	57,581	51,424	51,424
Provided during the period / year	5,323	3,682	20,483
Recovered/ released during the period / year	(654)	(1,225)	(6,684)
Written off during the period / year	(2,588)	(544)	(7,703)
Translation difference	(80)	(199)	61
Balance at end of period / year	59,582	53,138	57,581
Reserved interest	<i>3 months Ended</i> <i>31/03/2010</i> <i>RO'000</i>	<i>3 months ended</i> <i>31/03/2009</i> <i>RO'000</i>	<i>12 months Ended</i> <i>31/12/2009</i> <i>RO'000</i>
Balance at beginning of period / year	10,539	12,822	12,822
Reserved during the period / year	1,079	841	3,363
Recovered/ released during the period / year	(37)	(53)	(352)
Recovered/released during the period to interest income	(222)	(110)	(568)
Written off during the period / year	(239)	(814)	(4,726)
Translation difference	-	(4)	-
Balance at end of period / year	11,120	12,682	10,539

All loans and advances require payment of interest based on agreed tenors, some at fixed rates and other at rates that re-price prior to maturity.

As of 31 March 2010 loans and advances on which interest is not being accrued or where interest has been reserved amounted to RO 70.9 million, 31 March 2009 - RO 66 million and 31 December 2009 - RO 71.7 million).

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT
31 March 2010 (Unaudited)

6 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS

	<i>31/03/2010</i> <i>RO'000</i>	<i>31/03/2009</i> <i>RO'000</i>	<i>31/12/2009</i> <i>RO'000</i>
Oman Government Development Bonds	17,235	-	17,309
Oman Government Development Bonds (OTC)	75	59	75
	<u>17,310</u>	<u>59</u>	<u>17,384</u>

7 NON TRADING FINANCIAL INVESTMENTS

The bank had no investments in associates or subsidiaries as of 31 March 2010 (30 September 2009 and 31 December 2009 – Nil).

a) Available for sale (AFS)

	<i>Carrying value</i> <i>31/03/2010</i> <i>RO'000</i>	<i>Cost</i> <i>31/03/2010</i> <i>RO'000</i>	<i>Carrying value</i> <i>31/03/2009</i> <i>RO'000</i>	<i>Cost</i> <i>31/03/2009</i> <i>RO'000</i>	<i>Carrying value</i> <i>31/12/2009</i> <i>RO'000</i>	<i>Cost</i> <i>31/12/2009</i> <i>RO'000</i>
Quoted investments- Oman						
Banking and investment sector	248	254	1,479	2,510	249	254
Industry sector	489	550	2,491	3,509	761	707
Service sector	6,209	7,707	7,482	11,287	6,940	8,451
Government Development Bonds	10,009	10,009	10,011	10,011	10,009	10,009
	<u>16,955</u>	<u>18,520</u>	<u>21,463</u>	<u>27,317</u>	<u>17,959</u>	<u>19,421</u>
Quoted investments- Foreign						
Banking and investment sector	204	-	349	27	395	-
Service sector	-	-	65	354	-	-
	<u>204</u>	<u>-</u>	<u>414</u>	<u>381</u>	<u>395</u>	<u>-</u>
Unquoted investments						
Banking and investment sector	7,594	6,631	7,339	8,013	7,060	6,402
Service sector	66	66	56	56	66	66
	<u>7,660</u>	<u>6,697</u>	<u>7,395</u>	<u>8,069</u>	<u>7,126</u>	<u>6,468</u>
Total available for sale	<u>24,819</u>	<u>25,217</u>	<u>29,272</u>	<u>35,767</u>	<u>25,480</u>	<u>25,889</u>

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT
31 March 2010 (Unaudited)

7 NON TRADING FINANCIAL INVESTMENTS (continued)

b) Held to maturity

	<i>Carrying value 31/03/2010 RO'000</i>	<i>Cost 31/03/2010 RO'000</i>	<i>Carrying value 31/03/2009 RO'000</i>	<i>Cost 31/03/2009 RO'000</i>	<i>Carrying value 31/12/2009 RO'000</i>	<i>Cost 31/12/2009 RO'000</i>
Government Development Bonds	-	-	999	999	-	-
Other bonds	4,575	4,575	-	-	4,580	4,580
Total held to maturity	4,575	4,575	999	999	4,580	4,580
Total non trading investments	29,394	29,792	30,271	36,766	30,060	30,469

Details of significant investments

Details of investments exceeding 10% of the carrying value of the bank's investment AFS portfolio as at 31 March 2010 are as follows:

<u>31 March 2010</u>	<i>Bank's portfolio %</i>	<i>Number of Securities</i>	<i>Carrying Value RO'000</i>	<i>Cost RO'000</i>
Government Development Bonds	40.33	100,000	10,009	10,009
Investment Stabilization Fund	25.40	5,000,000	6,305	5,000

31 March 2009

Investment Stabilization Fund	17.08	5,000,000	5,000	5,000
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31 December 2009

Government Development Bonds	39.28	100,000	10,009	10,009
Investment Stabilization Fund	23.43	5,000,000	5,970	5,000

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT
31 March 2010 (Unaudited)

8 PREMISES AND EQUIPMENT

	<i>Freehold land and buildings and leasehold improvements RO'000</i>	<i>Motor vehicles, furniture and equipment RO'000</i>	<i>Capital work in progress RO'000</i>	<i>Total RO'000</i>
Reconciliation of carrying amount:				
Balance at 1 January 2010, net of accumulated depreciation	4,778	5,078	2,907	12,763
Addition	8,534	162	580	9,276
Transfer	159	60	(219)	-
Translation difference	(1)	(1)	-	(2)
Depreciation	(306)	(441)	-	(747)
Balance at 31 March 2010, net of accumulated depreciation	<u>13,164</u>	<u>4,858</u>	<u>3,268</u>	<u>21,290</u>
At cost / valuation	23,625	19,151	3,268	46,044
Accumulated depreciation	(10,461)	(14,293)	-	(24,754)
Net carrying value at 31 March 2010	<u>13,164</u>	<u>4,858</u>	<u>3,268</u>	<u>21,290</u>
Net carrying value at 31 March 2009	<u>3,563</u>	<u>4,142</u>	<u>3,456</u>	<u>11,161</u>
Net carrying value at 31 December 2009	<u>4,778</u>	<u>5,078</u>	<u>2,907</u>	<u>12,763</u>

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT
31 March 2010 (Unaudited)

9 OTHER ASSETS

	<i>31/03/2010</i>	<i>31/03/2009</i>	<i>31/12/2009</i>
	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>
Interest receivable	7,776	7,564	7,349
Prepayments and deposits	2,266	2,053	1,427
Collateral pending sale	2,028	1,980	2,035
Positive fair value of derivatives (note 23)	1,387	1,136	841
Customers' indebtedness for acceptances (note 11)	18,847	30,950	10,557
Others	8,477	5,095	3,527
	<u>40,781</u>	<u>48,778</u>	<u>25,736</u>
Amount receivable from BCCI	3,458	3,472	3,458
Less provision for amount receivable from BCCI	<u>(3,458)</u>	<u>(3,472)</u>	<u>(3,458)</u>
Net due from BCCI	<u>-</u>	<u>-</u>	<u>-</u>

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

On 7 July 2009, the bank has cancelled and returned the guarantee to the Government discharging it of all related liabilities. Full impairment provision has been recorded by the bank against the remaining amounts due from BCCI.

10 CUSTOMERS' DEPOSITS

	<i>31/03/2010</i>	<i>31/03/2009</i>	<i>31/12/2009</i>
	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>
Current accounts	350,552	354,109	217,852
Savings accounts	289,374	275,767	278,876
Certificate of deposits	57,520	53,800	63,520
Term deposits	675,427	739,622	700,520
	<u>1,372,873</u>	<u>1,423,298</u>	<u>1,260,768</u>

11 OTHER LIABILITIES

	<i>31/03/2010</i>	<i>31/03/2009</i>	<i>31/12/2009</i>
	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>
Interest payable	13,363	14,069	10,007
Other accruals and provisions	16,596	25,189	13,602
Negative fair value of derivatives (note 23)	1,272	1,824	534
Liabilities under acceptances (note 9)	18,847	30,950	10,557
	<u>50,078</u>	<u>72,032</u>	<u>34,700</u>

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT
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12 TAXATION

	<i>31/03/2010</i>	<i>31/03/2009</i>	<i>31/12/2009</i>
	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>
Income statement			
Current period/year	<u>345</u>	<u>1,415</u>	<u>3,909</u>

Reconciliation of tax expense

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

- Sultanate of Oman: 12% of consolidated taxable income in excess of RO 30,000
- United Arab Emirates: 20% of taxable income
- Egypt: 20% of taxable income (with effect from 2007)

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

	<i>31/03/2010</i>	<i>31/03/2009</i>	<i>31/12/2009</i>
	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>
Accounting profit	<u>6,921</u>	<u>8,749</u>	<u>25,014</u>
Tax applicable rate	831	1,050	3,002
Non-deductible expenses	33	396	537
Tax exempt revenues	(69)	(91)	(489)
Others	<u>(450)</u>	<u>60</u>	<u>859</u>
	<u>345</u>	<u>1,415</u>	<u>3,909</u>

The bank's liabilities for taxation in the Sultanate of Oman has been assessed up to the year ended 31 December 2004.

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

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT
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12 TAXATION (continued)

	<i>31/03/2010</i>	<i>31/03/2009</i>	<i>31/12/2009</i>
	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>
Tax liability			
<i>Current period/year</i>			
Income tax and other taxes	345	1,415	3,909
<i>Prior period/year</i>			
Income tax and other taxes	2,021	1,300	1,173
	<u>2,366</u>	<u>2,715</u>	<u>5,082</u>
Recognised deferred tax assets and liabilities			
	<i>31/03/2010</i>	<i>31/03/2009</i>	<i>31/12/2009</i>
	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>
Deferred tax assets and liabilities are attributable to the following:			
Available for sale investments	<u>(9)</u>	<u>77</u>	<u>10</u>

Deferred tax is calculated at 12% (2009 – 12%).

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT
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13 SUBORDINATED PRIVATE PLACEMENT

	31/03/2010 RO'000	31/03/2009 RO' 000	31/12/2009 RO'000
At 1 January	27,600	28,600	28,600
Received during the period/year	3,000	1,500	11,500
Matured during the period/year	-	-	(12,500)
	<u>30,600</u>	<u>30,100</u>	<u>27,600</u>

- (i) Placements received in 2010 include RO 3 million repayable at the end of January 2016.
- (ii) Placements received in 2009 include RO 1.5 million with a call option to renew the facility after six years, repayable at the end of March 2019 and RO 10 million for a period of 6 years repayable at the end of December 2015.

14 OTHER NON-DISTRIBUTABLE RESERVES

	<i>Available for sale reserve RO '000'</i>	<i>Cash flow hedge reserve RO '000'</i>	<i>Revaluati on reserve RO '000'</i>	<i>Subordin ated loan reserve RO '000'</i>	<i>Total RO '000'</i>
At 1 January 2010	2,107	(130)	2,811	3,220	8,008
Net unrealised gain on available-for-sale financial investments	117	-	-	-	117
Impairment losses on available for sale investments (net)	(240)	-	-	-	(240)
Tax effect of net losses on available-for-sale financial investments	19	-	-	-	19
Net unrealised loss on cash flow hedges	-	184	-	-	184
At 31 March 2010	<u>2,003</u>	<u>54</u>	<u>2,811</u>	<u>3,220</u>	<u>8,088</u>
At 31 March 2009	<u>(1,599)</u>	<u>602</u>	<u>2,811</u>	<u>12,500</u>	<u>14,314</u>

- (i) The revaluation reserve represents the surplus on revaluation of land and building and is not available for distribution until the related assets have been disposed off or used.
- (ii) The subordinated loan reserve represents an annual transfer towards subordinated private placements which are due to mature within the next five years period. The reserve is available for transfer back to retained earning upon maturity of the private placement.

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT
31 March 2010 (Unaudited)

15 CONTINGENT LIABILITIES AND COMMITMENTS

	<i>31/03/2010</i>	<i>31/03/2009</i>	<i>31/12/2009</i>
	<i>RO'000</i>	<i>RO' 000</i>	<i>RO'000</i>
Guarantees	388,291	339,926	388,131
Documentary letters of credit	67,808	109,616	73,839
Undrawn commitment to lend	66,299	39,027	62,253
	<u>522,398</u>	<u>488,569</u>	<u>524,223</u>

Contingent liabilities include RO. 0.1 million (31 March 2009 – RO 0.1 million/31 December 2009 – RO 0.1 million) relating to non-performing loans.

16 INTEREST INCOME

Interest bearing assets earned interest at an overall rate of 6.01% for the three months period ended 31 March 2010 (31 March 2009 – 6.51% 31 December 2009 – 6.19%).

17 INTEREST EXPENSE

For the three months period ended 31 March 2010, the average overall cost of funds was 2.76% (31 March 2009 - 3.27%, 31 December 2009 - 2.95%).

18 OTHER OPERATING INCOME

	<i>3 months ended</i>	<i>3 months ended</i>
	<i>31/03/2010</i>	<i>31/03/2009</i>
	<i>RO'000</i>	<i>RO'000</i>
Net gains from foreign exchange dealings	521	748
Fees and commissions	2,524	2,294
Net income from sale of investments	348	21
Income from bonds and others	257	128
Dividend income	377	699
Service charges	1,980	3,008
Miscellaneous income	185	302
	<u>6,192</u>	<u>7,200</u>

19 OTHER OPERATING EXPENSES

	<i>3 months</i>	<i>3 months</i>
	<i>ended</i>	<i>ended</i>
	<i>31/03/2010</i>	<i>31/03/2009</i>
	<i>RO'000</i>	<i>RO'000</i>
Establishment costs	962	903
Operating and administration expenses	1,891	1,925
	<u>2,853</u>	<u>2,828</u>

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT 31 March 2010 (Unaudited)

20 RELATED PARTY TRANSACTIONS

Management service agreement with a shareholder

Based on the approval received from its shareholders in the Annual General Meeting held on 23 March 2009, the bank entered into a renewed management services agreement with a shareholder, the Commercial Bank of Qatar (CBQ) for a further period of three years. This agreement is subject to annual renewal after approval by the shareholders of the bank in a general meeting.

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

For the above services the bank pays management fees as follows:

- For profit up to RO 15 million, no management fees are payable.
- For profits between RO 15 million to RO 30 million the higher of management costs or 1% of the bank's profit is payable.
- For profits in excess of RO 30 million, in addition to the above, 3% of the profits in excess of RO 30 million are payable.

Proportionate fees will be paid where the agreement is not in effect for the full year. In addition, with the approval of the Board reasonable out of pocket expenses incurred in connection with the provision of the Management Services such as travel, boarding and lodging will be reimbursed.

For the period ended 31 March 2010, management fees of RO 0.08 million have been accrued for (31 March 2009 – RO 0.08 million and 31 December 2009 – RO 0.80 million).

Other related parties transactions:

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

	31/03/2010			31/03/2009		
	<i>Principal shareholder RO'000</i>	<i>Others RO'000</i>	<i>Total RO'000</i>	<i>Principal shareholder RO'000</i>	<i>Others RO'000</i>	<i>Total RO'000</i>
Loans and advances	-	23,706	23,706	-	12,860	12,860
Customer's deposits	-	12,504	12,504	-	13,943	13,943
Due from banks	9,661	-	9,661	3,875	-	3,875
Due to banks	96	-	96	6	-	6
Subordinated private placement	-	3,100	3,100	-	4,600	4,600
Letter of credit, guarantees and acceptance	107	5,908	6,015	215	6,478	6,693
Standby revolving credit facility	26,950	11,550	38,500	26,950	11,550	38,500
Risk indemnities received	9,287	-	9,287	65,902	-	65,902

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT
31 March 2010 (Unaudited)

20 RELATED PARTY TRANSACTIONS (continued)

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

	<u>31/03/2010</u>			<u>31/03/2009</u>		
	<i>Principal shareholder</i> RO'000	<i>Others</i> RO'000	<i>Total</i> RO'000	<i>Principal shareholder</i> RO'000	<i>Others</i> RO'000	<i>Total</i> RO'000
Interest income	-	257	257	10	191	201
Commission income	-	40	40	-	17	17
Interest expense	24	145	169	-	104	104
Other expenses	91	21	112	14	97	111

Senior management compensation:

	<u>31/03/2010</u> RO'000	<u>31/03/2009</u> RO'000	<u>31/12/2009</u> RO'000
Salaries and other short term benefits			
- Fixed	551	449	1,818
- Discretionary	408	488	688
	<u>959</u>	<u>937</u>	<u>2,506</u>

21 SHAREHOLDERS

As of 31 March 2010, shareholders of the bank who own 10% or more of the bank's shares, whether in their name or through a nominee account and the number of shares held are as follows:

	<i>Number of shares '000</i>	<i>% Holding</i>
The Commercial Bank of Qatar (CBQ)	377,267	34.9
Suhail Bahwan Group (Holdings) LLC	159,385	14.7

The bank had no preferred shareholders as of 31 March 2010 (31 March 2009 – nil/31 December 2009 – nil).

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT 31 March 2010 (unaudited)

22 SEGMENT REPORTING

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

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

Management monitors the operating results of the operating segments separately for the purpose of making decisions about resource allocation and performance assessment.

Segment information is as follows:

<i>3 months ended 31 March 2010</i>	<i>Consumer banking RO'000</i>	<i>Corporate banking RO'000</i>	<i>Investment banking RO'000</i>	<i>Treasury and international banking RO'000</i>	<i>Head office RO'000</i>	<i>Total RO'000</i>
Operating income	9,300	8,091	915	700	864	19,870
Profit	3,472	5,439	675	536	(3,546)	6,576
Total assets	615,661	711,197	19,386	46,849	496,686	1,889,779

<i>3 months ended 31 March 2009</i>	<i>Consumer banking RO'000</i>	<i>Corporate banking RO'000</i>	<i>Investment banking RO'000</i>	<i>Treasury and international banking RO'000</i>	<i>Head office RO'000</i>	<i>Total RO'000</i>
Operating income	10,416	6,368	932	1,608	969	20,293
Profit	5,828	5,303	(929)	1,532	(4,400)	7,334
Total assets	574,363	784,687	19,261	98,929	528,133	2,005,373

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT
31 March 2010 (Unaudited)

23 DERIVATIVES

<i>31 March 2010</i>	<i>Positive fair value (Note 9) RO'000</i>	<i>Negative fair value (Note 11) RO'000</i>	<i>Notional amount total RO'000</i>	<i>Notional amounts by term maturity</i>		
				<i>Within 3 months RO'000</i>	<i>3 - 12 Months RO'000</i>	<i>Above 1 Year RO'000</i>
<i>Derivatives</i>						
Interest rate swaps	912	(912)	158,774	21,714	25,946	111,114
Credit default swaps	-	(79)	7,700	-	-	7,700
Forward foreign exchange purchase contracts	5	(269)	130,793	70,832	59,961	-
Forward foreign exchange sales contracts	470	(12)	130,793	71,016	59,777	(0)
Interest rate caps	-	-	583	80	181	322
Total	<u>1,387</u>	<u>(1,272)</u>	<u>428,643</u>	<u>163,642</u>	<u>145,865</u>	<u>119,136</u>

<i>31 March 2009</i>	<i>Positive fair value (Note 9) RO'000</i>	<i>Negative fair value (Note 11) RO'000</i>	<i>Notional amount total RO'000</i>	<i>Notional amounts by term maturity</i>		
				<i>Within 3 months RO'000</i>	<i>3 - 12 months RO'000</i>	<i>Above 1 year RO'000</i>
<i>Derivatives</i>						
Interest rate swaps	329	(329)	10,500	-	3,000	7,500
Credit default swaps	-	(849)	7,700	-	-	7,700
Forward foreign exchange purchase contracts	151	(646)	88,196	66,408	17,436	4,352
Forward foreign exchange sales contracts	656	-	88,196	66,527	17,248	4,421
Interest rate caps	-	-	823	80	180	563
Total	<u>1,136</u>	<u>(1,824)</u>	<u>195,415</u>	<u>133,015</u>	<u>37,864</u>	<u>24,536</u>

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT
31 March 2010 (Unaudited)

23 DERIVATIVES (continued)

<i>31 December 2009</i>	<i>Positive fair value (Note 9) RO'000</i>	<i>Negative fair value (Note 11) RO'000</i>	<i>Notional amount total RO'000</i>	<i>Notional amounts by term maturity</i>		
				<i>Within 3 months RO'000</i>	<i>3 – 12 months RO'000</i>	<i>Above 1 year RO'000</i>
<i>Derivatives</i>						
Interest rate swaps	319	(319)	53,660	1,500	46,160	6,000
Credit default swaps		(84)	7,700	-	-	7,700
Forward foreign exchange purchase contracts	250	(117)	137,243	40,635	96,608	-
Forward foreign exchange sales contracts	272	(14)	137,243	40,959	96,284	-
Interest rate caps	-	-	643	80	181	382
	841	(534)	336,489	83,174	239,233	14,082
	841	(534)	336,489	83,174	239,233	14,082

Cash flow hedge

During the year 2008, the bank entered into three funded cross currency interest rate swaps amounting to RO 17.90 million (USD 46.5 million) in order to hedge an equivalent amount due to a bank. As of the 31 March 2010, the mark to market adjustments for these cross currency interest rate swaps amounted to RO 0.054 million (2009: RO 0.130 million) (note 14) which is recorded in equity with a corresponding adjustment made to amounts due from banks. These cross currency interest rate swaps will mature on 8 April 2010.