

National Bank of Oman SAOG
CONDENSED INTERIM FINANCIAL STATEMENTS
30 September 2007 (UNAUDITED)



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Chairman's Report – September 2007

TO OUR ESTEEMED SHAREHOLDERS:

On behalf of the Board of Directors of National Bank of Oman SAOG, I am pleased to announce the results for the nine months ended 30th September 2007.

Operating Performance and Analysis

The bank has achieved a net profit after tax of RO 28.9 million for the nine months ended September 2007, which is a 41% increase over RO 20.5 million for the same period in 2006.

Profit from operations showed a positive trend with a growth of 26.4% from RO 21.9 million as at September 2006 to RO 27.7 million for the current period reflecting continued positive outlook for the economy as well as the bank's clear emphasis on sustainable growth.

Net interest income for the nine months to September 2007 was RO 29.2 million, an increase of RO 3.5 million (13.5%) over the same period last year reflecting volume growth across all businesses.

The momentum towards diversifying sources of income continues. The ratio of other operating income to total income increased further to 39.2% in the first nine months of 2007 as compared to 33.8% in the first nine months of 2006. New initiatives are underway so as to enable sustained growth in this area.

The cost to income ratio of 42.4% in September 07 was lower than the 43.7% ratio achieved for the nine months in 2006 reflecting the bank's focus on productivity improvement.

During the nine month period loan loss and other provisions of RO 4.9 million were taken which was RO 3 million lower than the RO 8.3 million taken for the same period in 2006, a decrease of 41%. Collection efforts for impaired assets have continued to be successful with recoveries amounting to RO 9.7 million as at September 2007.

Overseas operations in the UAE and Egypt continue to contribute towards the improved profitability of the bank.

Business Volumes and Funding Developments

Total Deposits have grown by RO 154 million during the nine months to close at RO 971 million as at September 2007. Net advances have grown by RO 191 million to close at RO 895 million as at September 2007. The continuing upward trend is consistent with the strategy of the bank to grow quality loans and deposits.

The bank has been successful in further diversifying its funding sources by procuring a USD 325 million 5 year syndicated loan facility from international banks at competitive pricing. The transaction was completed in August 2007 and drawdown of the funds will occur in October 2007.



Capital Movements

Based on the bank's net worth (BIS) of RO 181 million the capital adequacy ratio as at the end of the September 07 was 14.38 % well above the minimum prescribed level of 10%.

Included in the non distributable reserves is RO 7 million in respect of changes in fair value of investments available for sale. This is mainly on account of marking to market of an overseas investment, which was listed during this quarter. In addition there has been an overall positive change in value of local investments as compared to December 2006.

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 participation in the performance of 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 endeavours.

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.

Rawan Al Said

Deputy Chairperson



SUMMARY OF RESULTS

| Particulars | 9 months ended | 9 months ended |
|---|---------------------------|-------------------|
| | 30/09/2007 | 30/09/2006 |
| (All RO'000 unless stated otherwise) | | |
| Net Loans and advances | 894,786 | 684,374 |
| Deposits | 970,904 | 740,518 |
| Other assets | 49,314 | 34,308 |
| Net interest income | 29,195 | 25,713 |
| Net profit before tax | 32,473 | 23,432 |
| Earnings per share-annualized (RO) | 0.420 | 0.298 |
| Net Assets per share (RO) | 2.269 | 1.898 |
| Capital adequacy ratio * | 14.38% | 17.10% |

* Capital adequacy ratio is computed in line with Basel II norms.



CONDENSED INTERIM BALANCE SHEET
At 30 September 2007 (Un-audited)

| | <i>Notes</i> | <i>30/09/2007</i> RO'000 | <i>30/09/2006</i> <i>RO'000</i> | <i>Audited</i> <i>31/12/2006</i> <i>RO'000</i> |
|---|--------------|------------------------------------|------------------------------------|--|
| ASSETS | | | | |
| Cash and balances with Central Banks | 3 | 185,836 | 95,818 | 102,317 |
| Due from banks and other money market placements | 4 | 141,110 | 125,493 | 184,205 |
| Loans and advances (net) | 5 | 894,786 | 684,374 | 703,767 |
| Financial assets at fair value through income statement | | 98 | 83 | 83 |
| Investments | 6 | 48,498 | 35,753 | 40,697 |
| Premises and equipment | 7 | 6,528 | 5,880 | 5,885 |
| Deferred tax asset | 11 | - | 2,675 | 1,370 |
| Other assets | 8 | 49,314 | 34,308 | 44,119 |
| | | 1,326,170 | 984,384 | 1,082,443 |
| LIABILITIES | | | | |
| Due to banks and other money market deposits | | 61,545 | 8,544 | 17,256 |
| Customers' deposits | 9 | 970,904 | 740,518 | 816,647 |
| Other liabilities | 10 | 68,968 | 46,637 | 49,867 |
| Taxation | 11 | 3,462 | 1,604 | 1,596 |
| | | 1,104,879 | 797,303 | 885,366 |
| SUBORDINATED FUNDS | | | | |
| Subordinated private placement | 12 | 12,500 | 12,500 | 12,500 |
| | | 12,500 | 12,500 | 12,500 |
| SHAREHOLDERS' EQUITY | | | | |
| Share capital | | 92,000 | 80,000 | 80,000 |
| Share premium | | 34,465 | 34,465 | 34,465 |
| Legal reserve | | 21,564 | 18,521 | 21,564 |
| General reserve | | 4,419 | 4,419 | 4,419 |
| Non distributable reserves | | 24,044 | 12,168 | 14,739 |
| Proposed dividend | | - | - | 14,000 |
| Proposed stock dividend | | - | - | 12,000 |
| Retained earnings | | 32,299 | 25,008 | 3,390 |
| | | 208,791 | 174,581 | 184,577 |
| | | 1,326,170 | 984,384 | 1,082,443 |
| COMMITMENTS AND CONTINGENT LIABILITIES | 13 | 425,482 | 251,123 | 253,541 |

The condensed interim financial statements were authorized for issue on 25th October 2007 in accordance with a resolution of the Board of Directors.

.....
Deputy Chairperson

.....
Chief Executive Officer

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

**CONDENSED INTERIM INCOME STATEMENT**

Period Ended 30 September 2007 (Un-audited)

| | | <i>9 months ended 30/09/2007</i> | <i>9 months ended 30/09/2006</i> | <i>3 months ended 30/09/2007</i> | <i>3 months ended 30/09/2006</i> |
|--|--------------|--|--|--|--|
| | <i>Notes</i> | <i>RO'000</i> | <i>RO'000</i> | <i>RO'000</i> | <i>RO'000</i> |
| Interest income | 14 | 54,928 | 43,152 | 18,935 | 15,705 |
| Interest expense | 15 | (25,733) | (17,439) | (8,522) | (6,624) |
| Net interest income | | 29,195 | 25,713 | 10,413 | 9,081 |
| Other operating income | 16 | 18,822 | 13,176 | 7,393 | 4,489 |
| OPERATING INCOME | | 48,017 | 38,889 | 17,806 | 13,570 |
| OPERATING EXPENSES | | | | | |
| Staff costs | | (11,395) | (9,453) | (3,957) | (3,454) |
| Other operating expenses | 17 | (7,799) | (6,235) | (3,080) | (2,297) |
| Depreciation | 7 | (1,158) | (1,308) | (421) | (408) |
| | | (20,352) | (16,996) | (7,458) | (6,159) |
| PROFIT FROM OPERATIONS BEFORE PROVISIONS AND RECOVERIES | | 27,665 | 21,893 | 10,348 | 7,411 |
| Provision for credit losses | 5 | (4,871) | (8,301) | (2,123) | (1,918) |
| Recoveries/releases from provision for impairment | 5 | 4,586 | 8,003 | 1,768 | 2,260 |
| Recoveries from bad debts written off and others | | 5,093 | 1,837 | 411 | 616 |
| | | 4,808 | 1,539 | 56 | 958 |
| PROFIT FROM OPERATIONS AFTER PROVISIONS AND RECOVERIES | | 32,473 | 23,432 | 10,404 | 8,369 |
| Taxation | 11 | (3,564) | (2,931) | (670) | (992) |
| NET PROFIT FOR THE PERIOD | | 28,909 | 20,501 | 9,734 | 7,377 |
| Basic earnings per share-annualized | | 0.420 | 0.298 | 0.420 | 0.318 |

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

CONDENSED INTERIM STATEMENT OF CASH FLOWS
Period ended 30 September 2007 (Un-audited)

| | <i>9 months ended 30 September 2007 RO'000</i> | <i>9 months ended 30 September 2006 RO'000</i> |
|---|--|--|
| OPERATING ACTIVITIES | | |
| Net profit after taxation | 28,909 | 20,501 |
| Adjustments for: | | |
| Depreciation | 1,158 | 1,308 |
| Provision for credit losses and others | 4,871 | 8,301 |
| (Profit) on sale of assets (net) | (40) | (65) |
| (Profit) on sale of investment securities | (312) | (1,451) |
| Investment (income) | (2,467) | (1,962) |
| Operating profit before changes in operating assets and liabilities | <u>32,119</u> | <u>26,632</u> |
| Due from banks and other money market placements | (26,227) | (382) |
| Loans and advances (Gross) | (182,448) | (141,231) |
| Loan Loss Provision | (13,442) | (10,006) |
| Other assets | (3,825) | 11,891 |
| Customers' deposits | 154,257 | 124,132 |
| Other liabilities | 21,238 | (4,592) |
| Cash from operations | <u>(18,328)</u> | <u>6,444</u> |
| Taxes paid | (271) | (100) |
| Net cash from operating activities | <u>(18,599)</u> | <u>6,344</u> |
| INVESTING ACTIVITIES | | |
| Purchase of non-trading investments | (1,931) | (18,475) |
| Proceeds from sale of non-trading investments | 3,732 | 13,858 |
| Purchase of premises and equipment | (1,815) | (788) |
| Proceeds from sale of premises and equipment | 70 | 413 |
| Translation differences on investments, premises, equipment & CWIP adjustment | (16) | (2) |
| Interest received on Government Development Bonds and Treasury Bills | 1,793 | 223 |
| Dividends received from investment securities | 674 | 1,739 |
| Net cash from investing activities | <u>2,507</u> | <u>(3,032)</u> |
| FINANCING ACTIVITIES | | |
| Payment of Dividends & Director's remuneration | (14,000) | (12,110) |
| Repayment of subordinated loans | - | (8,838) |
| Net cash from financing activities | <u>(14,000)</u> | <u>(20,948)</u> |
| INCREASE IN CASH AND CASH EQUIVALENTS | (30,092) | (17,636) |
| Cash and cash equivalents at the beginning of the year | <u>250,501</u> | <u>212,102</u> |
| CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR | <u>220,409</u> | <u>194,466</u> |
| REPRESENTING: | | |
| Cash and balances with Central Banks | 185,836 | 95,818 |
| Deposits and balances with other banks and financial institutions (net) | 34,573 | 98,648 |
| | <u>220,409</u> | <u>194,466</u> |

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

CONDENSED INTERIM STATEMENT OF CHANGES IN EQUITY
Period ended 30 September 2007 (Un-audited)

| <i>(RO'000)</i> | <i>Share capital</i> | <i>Proposed Stock Dividend</i> | <i>Share premium reserve</i> | <i>Legal reserve</i> | <i>General Reserve</i> | <i>Non distributable reserve*</i> | <i>Other non-distributable reserves</i> | | <i>Change in fair value of Investments Available for Sale</i> | <i>Proposed Dividends and Directors Remuneration</i> | <i>Retained earnings</i> | <i>Total</i> |
|---|----------------------|--------------------------------|------------------------------|----------------------|------------------------|-----------------------------------|---|----------------------------------|---|--|--------------------------|-----------------|
| | | | | | | | <i>Revaluation reserve</i> | <i>Subordinated Fund reserve</i> | | | | |
| Balance at 1 January 2006 | 80,000 | - | 34,465 | 18,521 | - | 6,182 | 2,928 | 9,419 | (132) | 12,110 | 4,507 | 168,000 |
| Change in fair value of Investment available for sale | - | - | - | - | - | - | - | - | (1,693) | - | - | (1,693) |
| Transfer from Subordinated Funds Reserve | - | - | - | - | 4,419 | - | - | (4,419) | - | - | - | - |
| Dividends and directors remuneration paid | - | - | - | - | - | - | - | - | - | (12,110) | - | (12,110) |
| Reversal of previous year revaluation reserve | - | - | - | - | - | - | (117) | - | - | - | - | (117) |
| Net profit for the period | - | - | - | - | - | - | - | - | - | - | 20,501 | 20,501 |
| Balance at 30 September 2006 | 80,000 | - | 34,465 | 18,521 | 4,419 | 6,182 | 2,811 | 5,000 | (1,825) | - | 25,008 | 174,581 |
| Balance at 1 October 2006 | 80,000 | - | 34,465 | 18,521 | 4,419 | 6,182 | 2,811 | 5,000 | (1,825) | - | 25,008 | 174,581 |
| Change in fair value of Investment available for sale | - | - | - | - | - | - | - | - | 71 | - | - | 71 |
| Transfer to Subordinated funds reserve | - | - | - | - | - | - | - | 2,500 | - | - | (2,500) | - |
| Transfer to Proposed stock Dividends | - | 12,000 | - | - | - | - | - | - | - | - | (12,000) | - |
| Transfer to legal reserve | - | - | - | 3,043 | - | - | - | - | - | - | (3,043) | - |
| Transfer to proposed dividend | - | - | - | - | - | - | - | - | - | 14,000 | (14,000) | - |
| Net profit for the period | - | - | - | - | - | - | - | - | - | - | 9,925 | 9,925 |
| Balance at 31 December 2006 | 80,000 | 12,000 | 34,465 | 21,564 | 4,419 | 6,182 | 2,811 | 7,500 | (1,754) | 14,000 | 3,390 | 184,577 |
| Balance at 1 January 2007 | 80,000 | 12,000 | 34,465 | 21,564 | 4,419 | 6,182 | 2,811 | 7,500 | (1,754) | 14,000 | 3,390 | 184,577 |
| Change in fair value of Investment available for sale | - | - | - | - | - | - | - | - | 9,305 | - | - | 9,305 |
| Transfer from proposed stock dividends | 12,000 | (12,000) | - | - | - | - | - | - | - | - | - | - |
| Dividend paid during the year | - | - | - | - | - | - | - | - | - | (14,000) | - | (14,000) |
| Net profit for the period | - | - | - | - | - | - | - | - | - | - | 28,909 | 28,909 |
| Balance as at 30 September 2007 | 92,000 | - | 34,465 | 21,564 | 4,419 | 6,182 | 2,811 | 7,500 | 7,551 | - | 32,299 | 208,791 |

* Non-distributable reserve is a voluntary reserve created by the bank's board of directors to cover the obligation, if any, arising from Government guarantee relating to BCCI receivables. The attached explanatory notes 1 to 23 form part of the condensed interim financial statements.



NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

At 30 September 2007 (Un-audited)

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 corporate and retail banking activities within the Sultanate of Oman with 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, Sultanate of Oman.

The bank employed 1,088 employees as of 30 September 2007 (30 September 2006 - 1,066 employees, 31 December 2006 - 1,065)

2 SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted are as follows:

Basis of preparation:

These condensed interim financial statements have been prepared in accordance with International Accounting Standard no 34. They do not include all of the information required for full annual financial statements, and should be read in conjunction with the financial statements of the Bank as at and for the year ended 31 December 2006.

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, trading and available for sale investment securities at fair value.

These financial statements are presented in Rials Omani. 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 preparation of financial statements requires management to make adjustments, estimates and assumptions that effect 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 by the bank 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 a regular 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. Estimates considered by the bank to have a significant risk of material adjustment in subsequent periods primarily comprise provisions for impairment of loans and advances.

The accounting policies are the same as those applied by the Bank in its annual financial statements as at and for the year ended 31 December 2006 and have been applied consistently by the Bank.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, balances with banks and other financial institutions, treasury bills and money market placements, deposits and certificates of deposit maturing within three months of the date of acquisition.

Financial Assets at fair value through income statement

This category includes those investments, which are initially recognized at cost and re-measured at fair value. All related realized and unrealized gains or losses are included in the income statement in the period in which they arise. Interest earned or dividends received are included in interest and dividend income, respectively.



NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

At 30 September 2007 (Un-audited)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Loans and advances

Loans and advances are carried at amortized cost less specifically identified and collective provisions for impairment. Specific provisions are made against the carrying amount of loans and advances that are identified as being impaired based on regular reviews of outstanding balances to reduce those loans and advances to their recoverable amounts. Collective impairment provisions are maintained in respect of incurred losses, which have not yet been specifically identified within the portfolio of loans and advances. The recoverable amount of loans and advances is calculated as the present value of the expected future cash flows discounted at the original effective interest rate. Short-term balances are not discounted.

When a loan is known to be uncollectible, all the necessary legal procedures have been completed, and the final loss has been determined, the loan is written off directly.

Non-trading investments

These are classified as follows:

- Available for sale
- Held to maturity

All investments are initially recognised at cost, being the fair value of the consideration given including acquisition costs.

Available for sale

After initial recognition, investments, which are classified as “available for sale”, are re-measured at fair value. Fair value changes are included in equity in the period in which they arise, except for impairment losses and, in the case of monetary items, foreign exchange gains and losses. When these investments are de-recognised, the cumulative gain or loss previously recognised directly in equity is recognised in the income statement.

Held to maturity

Where the bank has the positive intent and ability to hold financial assets to maturity, they are stated at amortized cost less impairment losses.

Premiums and discounts on held to maturity investments are amortized using the effective interest rate method and taken to interest income.

Fair values

For investments traded in organized financial markets, fair value is determined by reference to quoted market prices at the close of business on the balance sheet 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 investments where there is no quoted market price, a reasonable estimate of the fair value is determined by reference to the current market value of a similar investment, or is based on the expected discounted cash flows.

Due from banks and other money market placements

These are stated at cost less any provisions for impairment.

Premises and equipment

Premises and equipment are initially recorded at cost or deemed cost.

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

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



NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

At 30 September 2007 (Un-audited)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

Collateral pending sale

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

Deposits

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

Taxation

Taxation is provided for based on the relevant tax laws of the respective countries, in which the bank operates. Income tax on the profit or loss for the years comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly to equity, in which case it is recognised in equity.

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

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

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

Derivatives

Derivatives are used in the bank's non-trading activities to reduce exposures to fluctuations in interest and exchange rates, including forward foreign exchange contracts, interest rate swaps and credit default swaps. 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 are included in the income statement.

Fiduciary assets

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

Offsetting

Financial assets and financial liabilities are only offset and the net reported in the balance sheet when there is a legally enforceable right to set off the recognised amounts and the bank intends to either settle on a net basis, or to realise the asset and settle the liability simultaneously.



NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

At 30 September 2007 (Un-audited)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition

Interest income is recognised on an accrual basis using the effective interest rate method. Commission and fees are recognised when earned. Income from investments is accrued on notification of entitlement. Dividend income is recognised when the right to receive payment is established.

Foreign currencies

- (i) Transactions denominated in foreign currencies are translated into Rial Omani and recorded at rates of exchange ruling at the value dates of the transactions.
- (ii) Monetary assets and liabilities denominated in foreign currencies are translated into Rial Omani at exchange rates ruling at the balance sheet date. Realised and unrealised gains and losses are dealt with in the income statement.
- (iii) The financial statements of overseas branches are translated into Rial Omani for aggregation purposes at the balance sheet date rates of exchange. Any translation difference arising from the application of balance sheet date rates of exchange to the opening net assets of overseas branches are taken directly to reserves.

Repurchase and resale agreements

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

Impairment and uncollectibility of financial assets

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

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 time frame generally established by regulation or convention in the market place.

Leases

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

Staff terminal benefits

The terminal benefits for Omani employees are provided in accordance with the Sultanate of Oman's Social Insurance Law of 1991. For Egyptian employees the terminal benefits are provided in accordance with the Egyptian social security law. For all other employees, provision for staff terminal benefits is based on the liability that would arise if the employment of all employees were terminated at the balance sheet date.

Segment Reporting

A segment is a distinguishable component of the bank that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.



NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

At 30 September 2007 (Un-audited)

3 CASH AND BALANCES WITH CENTRAL BANKS

| | 30/09/2007 | 30/09/2006 | 31/12/2006 |
|---|-------------------|-------------------|-------------------|
| | RO'000 | RO'000 | RO'000 |
| Cash | 17,472 | 12,993 | 16,489 |
| Treasury bills with Central Banks | 11,550 | 24,634 | 21,584 |
| Certificate of Deposit with Central Banks | 40,385 | 28,000 | 30,000 |
| Insurance Deposit with Central Bank of Oman | 764 | 764 | 764 |
| Capital Deposit with Central Bank of Oman | 500 | 500 | 500 |
| Other balances with Central Banks | 115,165 | 28,927 | 32,980 |
| | <u>185,836</u> | <u>95,818</u> | <u>102,317</u> |

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

On 13th March 2007, a claim by Central Bank of Egypt (CBE) and a counter claim by the Bank (both related to CBE's conversion to Egyptian Pounds in 2003 of a placement of US Dollars by the Bank with CBE) were settled with no further loss to the Bank (an exchange loss of RO 8.9 million had been recognized in 2003 in respect of this matter).

4 DUE FROM BANKS AND OTHER MONEY MARKET PLACEMENTS

| | 30/09/2007 | 30/09/2006 | 31/12/2006 |
|---|-------------------|-------------------|-------------------|
| | RO'000 | RO'000 | RO'000 |
| Net loans and advances to banks | 65,738 | 23,431 | 28,925 |
| Due from Banks - money market placement | 64,453 | 96,800 | 147,025 |
| Other balances | 10,919 | 5,262 | 8,255 |
| | <u>141,110</u> | <u>125,493</u> | <u>184,205</u> |

5 LOANS AND ADVANCES

| | 30/09/2007 | 30/09/2006 | 31/12/2006 |
|---------------------------------|-------------------|-------------------|-------------------|
| | RO'000 | RO'000 | RO'000 |
| Corporate loans | 544,229 | 448,357 | 426,395 |
| Personal loans | 387,587 | 287,021 | 322,172 |
| Overdrafts | 38,746 | 41,708 | 39,547 |
| | <u>970,562</u> | <u>777,086</u> | <u>788,114</u> |
| Gross loans and advances | 970,562 | 777,086 | 788,114 |
| Less: Provisions for impairment | (75,776) | (92,712) | (84,347) |
| | <u>894,786</u> | <u>684,374</u> | <u>703,767</u> |

Gross loans and advances include RO 14.9 million due from related parties at 30 September 2007 (30 September 2006 - RO 28.77 million/ 31 December 2006 – RO 26.51 million).



NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

At 30 September 2007 (Un-audited)

5 LOANS AND ADVANCES (continued)

The maturity of the gross loans and advances can be analyzed as follows:

| | <i>30/09/2007</i> <i>RO'000</i> | <i>30/09/2006</i> <i>RO'000</i> | <i>31/12/2006</i> <i>RO'000</i> |
|-------------------|------------------------------------|------------------------------------|------------------------------------|
| 0 - 6 months | 235,585 | 117,789 | 141,678 |
| 6 – 12 months | 57,839 | 59,956 | 55,679 |
| 1 – 3 years | 72,699 | 54,608 | 57,650 |
| 3 – 5 years | 106,616 | 59,101 | 75,352 |
| More than 5 years | 497,823 | 485,632 | 457,755 |
| | 970,562 | 777,086 | 788,114 |

The average effective interest rate on gross loans and advances as at 30 September 2007, was 7.03% (30 September 2006 - 7.08% - 31 December 2006 – 7.06%).

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

Loan loss provision

| | <i>9 months</i> <i>ended</i> <i>30/09/2007</i> <i>RO'000</i> | <i>9 months</i> <i>ended</i> <i>30/09/2006</i> <i>RO'000</i> | <i>Year</i> <i>ended</i> <i>31/12/2006</i> <i>RO'000</i> |
|---------------------------------------|---|---|---|
| Balance at beginning of period | 66,472 | 75,140 | 75,140 |
| Provided during the period | 4,871 | 8,301 | 10,642 |
| Recovered/ released during the period | (3,542) | (5,967) | (11,808) |
| Written off during the period | (9,720) | (5,093) | (7,622) |
| Translation difference | 254 | 45 | 120 |
| Balance at end of period | 58,335 | 72,426 | 66,472 |

Reserved interest

| | <i>9 months</i> <i>ended</i> <i>30/09/2007</i> <i>RO'000</i> | <i>9 months</i> <i>ended</i> <i>30/09/2006</i> <i>RO'000</i> | <i>Year</i> <i>ended</i> <i>31/12/2006</i> <i>RO'000</i> |
|---|---|---|---|
| Balance at beginning of period | 17,875 | 19,278 | 19,278 |
| Reserved during the period | 3,368 | 4,106 | 5,366 |
| Recovered/ released during the period | (1,044) | (2,036) | (2,396) |
| Recovered/released during the period to interest income | (299) | (168) | (460) |
| Written off during the period | (2,463) | (894) | (3,913) |
| Translation difference | 2 | - | - |
| Balance at end of period | 17,439 | 20,286 | 17,875 |

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 30 September 2007 loans and advances on which interest is not being accrued or where interest has been reserved amounted to RO 82.0 million (30 September 2006 – RO 95.5 million/31 December 2006 – RO 88.8 million).



NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

At 30 September 2007 (Un-audited)

6 INVESTMENTS**Financial Assets at fair value**

Investments held at fair value through income statement represent Government Development Bonds of the Sultanate of Oman, purchased from an “Over The Counter Exchange” for trading purposes.

The bank had no investments in associates or subsidiaries as of 30 September 2007 (30 September 2006 – Nil/31 December 2006 – Nil).

Non-trading investments**a) Available for sale**

| | <i>Carrying/ Fair value 30/09/2007 RO'000</i> | <i>Cost 30/09/2007 RO'000</i> | <i>Carrying/ Fair value 30/09/2006 RO'000</i> | <i>Cost 30/09/2006 RO'000</i> | <i>Carrying/ Fair value 31/12/2006 RO'000</i> | <i>Cost 31/12/2006 RO'000</i> |
|------------------------------------|---|---------------------------------------|---|---------------------------------------|---|---------------------------------------|
| Quoted investments- Oman | | | | | | |
| Banking and Investment Sector | 3,810 | 4,279 | 3,086 | 4,033 | 3,083 | 4,302 |
| Industry Sector | 5,838 | 5,166 | 4,232 | 4,527 | 5,751 | 5,965 |
| Services Sector | 3,525 | 3,561 | 1,784 | 1,895 | 1,959 | 2,116 |
| | <u>13,173</u> | <u>13,006</u> | <u>9,102</u> | <u>10,455</u> | <u>10,793</u> | <u>12,383</u> |
| Quoted investments- Foreign | | | | | | |
| Banking and Investment Sector | 13,954 | 6,721 | 5,773 | 5,777 | 3,219 | 3,146 |
| Industry Sector | 134 | 126 | 692 | 897 | - | - |
| Service Sector | 7 | 28 | 667 | 749 | 102 | 155 |
| | <u>14,095</u> | <u>6,875</u> | <u>7,132</u> | <u>7,423</u> | <u>3,321</u> | <u>3,301</u> |
| Unquoted investments | | | | | | |
| Banking and Investment Sector | 5,198 | 5,033 | 2,294 | 2,310 | 9,362 | 9,381 |
| Industry Sector | - | - | - | 674 | - | - |
| Service Sector | 22 | 22 | 22 | 22 | 22 | 22 |
| | <u>5,220</u> | <u>5,055</u> | <u>2,316</u> | <u>3,006</u> | <u>9,384</u> | <u>9,403</u> |
| Total available for sale | <u><u>32,488</u></u> | <u><u>24,936</u></u> | <u><u>18,550</u></u> | <u><u>20,884</u></u> | <u><u>23,498</u></u> | <u><u>25,087</u></u> |



NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

At 30 September 2007 (Un-audited)

6 INVESTMENTS (continued)**b) Held to maturity**

| | <i>30/09/2007</i> <i>RO'000</i> | <i>30/09/2006</i> <i>RO'000</i> | <i>31/12/2006</i> <i>RO'000</i> |
|---|------------------------------------|------------------------------------|------------------------------------|
| Government Development Bonds | 16,010 | 17,203 | 17,199 |
| Total Held to maturity | 16,010 | 17,203 | 17,199 |
| Total non trading investments – carrying value | 48,498 | 35,753 | 40,697 |

Details of significant investments

Details of investments exceeding 10% of the carrying/fair value of the investment portfolio as at 30 September 2007 are as follows:

| | <i>Bank's portfolio %</i> | <i>Number of Securities</i> | <i>Fair Value/ Carrying Value RO'000</i> | <i>Cost RO'000</i> |
|---------------------------------|-----------------------------------|---------------------------------|--|------------------------|
| <u>30 September 2007</u> | | | | |
| <i>Quoted</i> | | | | |
| Gulf Commercial Bank Al Khaliji | 42.95% | 12,100,000 | 13,954 | 6,721 |
| <u>30 September 2006</u> | | | | |
| <i>Quoted</i> | | | | |
| Emerging Growth Note | 10.07% | 5,000 | 1,869 | 1,887 |
| <u>31 December 2006</u> | | | | |
| <i>Unquoted</i> | | | | |
| Gulf Commercial Bank Al Khaliji | 28.60% | 12,100,000 | 6,721 | 6,721 |



NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

At 30 September 2007 (Un-audited)

7 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 2007, net of Accumulated depreciation | 3,386 | 2,229 | 270 | 5,885 |
| Additions | 19 | 1,097 | 699 | 1,815 |
| Revaluation | - | - | - | - |
| Disposals | - | (30) | - | (30) |
| Transfers | - | 337 | (337) | - |
| Translation difference | 12 | 4 | - | 16 |
| Depreciation | (314) | (844) | - | (1,158) |
| Balance at 30 September 2007, net of accumulated depreciation | 3,103 | 2,793 | 632 | 6,528 |
| At cost | 11,571 | 14,528 | 632 | 26,731 |
| Accumulated depreciation | (8,468) | (11,735) | - | (20,203) |
| Net carrying value at 30 September 2007 | 3,103 | 2,793 | 632 | 6,528 |
| Net carrying value at 30 September 2006 | 3,460 | 2,248 | 172 | 5,880 |
| Net carrying value at 31 December 2006 | 3,386 | 2,229 | 270 | 5,885 |



NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

At 30 September 2007 (Un-audited)

8 OTHER ASSETS

| | 30/09/2007 | 30/09/2006 | 31/12/2006 |
|--|-------------------|-------------------|-------------------|
| | RO'000 | RO'000 | RO'000 |
| Interest receivable | 4,723 | 2,436 | 2,913 |
| Prepayments and deposits | 1,597 | 1,293 | 1,164 |
| Net due from BCCI (refer below) | 3,090 | 3,540 | 3,540 |
| Collateral pending sale | 185 | 723 | 985 |
| Positive fair value of derivatives (note 22) | 294 | 275 | 130 |
| Customers' indebtedness for acceptances | 34,812 | 25,006 | 31,924 |
| Others | 4,613 | 1,035 | 3,463 |
| | <u>49,314</u> | <u>34,308</u> | <u>44,119</u> |
| Due from BCCI net of provision for impairment | 35,346 | 35,796 | 35,796 |
| Interim amounts received from BCCI liquidators | <u>(32,256)</u> | <u>(32,256)</u> | <u>(32,256)</u> |
| | <u>3,090</u> | <u>3,540</u> | <u>3,540</u> |

The Government of the Sultanate of Oman has agreed, unconditionally, to guarantee payments of all and any sums, which are due to the bank by Bank of Credit and Commerce International (BCCI) up to a maximum of RO 38,944,200. BCCI is in liquidation. Upon receipt of formal and final notification from the liquidators of BCCI of the settlement arrangements in respect of amounts due to the bank ("the settlement date") the bank may make a call under this guarantee.

In consideration of granting of the guarantee, the bank has undertaken to pay to the Government, out of the bank's net profits, an annual fee of RO 1 million or 15% of the bank's annual profit, whichever is higher from the settlement date. The annual fee will initially offset any payments due from the Government under this guarantee. If after twenty years from the settlement date, a balance remains payable by the Government, the payment of the annual fee can be extended by mutual consent. The annual fee specified above is payable prior to dividends being distributed to shareholders.

In March 2001 certain terms of the guarantee with the Government of the Sultanate of Oman were revised so that the maximum amount payable by the bank to the Government is equivalent to the amount due from BCCI on the settlement date.

Under the terms of the revised guarantee agreement the Government of the Sultanate of Oman continues to have certain rights of approval and consultation.

The total interim amounts accepted by and received from the BCCI liquidators approximates 83% of the bank's admitted claims on BCCI. The details of the amounts received pending the final notification of settlement by the BCCI liquidators is as follows:

| <i>Year</i> | <i>Interim amounts received RO'000</i> | <i>% of claim</i> |
|-------------|--|-----------------------|
| 1996 | 9,457 | 24.28 % |
| 1998 | 8,372 | 21.50 % |
| 2000 | 5,430 | 13.94 % |
| 2003 | 6,569 | 16.87 % |
| 2005 | 2,393 | 6.14 % |
| 2006 | 35 | 0.09 % |
| | <u>32,256</u> | <u>82.82 %</u> |



NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

At 30 September 2007 (Un-audited)

9 CUSTOMERS' DEPOSITS

| | <i>30/09/2007</i> | <i>30/09/2006</i> | <i>31/12/2006</i> |
|-------------------------|-------------------|-------------------|-------------------|
| | <i>RO'000</i> | <i>RO'000</i> | <i>RO'000</i> |
| Current accounts | 215,916 | 137,903 | 130,459 |
| Savings accounts | 192,751 | 156,233 | 169,956 |
| Certificate of deposits | 46,500 | 15,686 | 15,686 |
| Term deposits | 515,737 | 430,696 | 500,546 |
| | 970,904 | 740,518 | 816,647 |

The maturity profile of customers' deposits is as follows:

| | <i>30/09/2007</i> | <i>30/09/2006</i> | <i>31/12/2006</i> |
|-------------------|-------------------|-------------------|-------------------|
| | <i>RO'000</i> | <i>RO'000</i> | <i>RO'000</i> |
| 0 - 6 month | 468,226 | 352,294 | 400,050 |
| 6 - 12 month | 114,792 | 125,045 | 130,161 |
| 1 - 3 years | 106,880 | 76,279 | 88,703 |
| 3 - 5 years | 109,301 | 47,369 | 49,971 |
| More than 5 years | 171,705 | 139,531 | 147,762 |
| | 970,904 | 740,518 | 816,647 |

The average effective interest rate of deposits as at 30 September 2007 was 3.57% (30 September 2006 – 3.47%/31 December 2006 – 3.49%).

10 OTHER LIABILITIES

| | <i>30/09/2007</i> | <i>30/09/2006</i> | <i>31/12/2006</i> |
|--|-------------------|-------------------|-------------------|
| | <i>RO'000</i> | <i>RO'000</i> | <i>RO'000</i> |
| Interest payable | 8,766 | 6,647 | 6,042 |
| Other accruals & provisions | 24,127 | 14,497 | 11,633 |
| Negative fair value of derivatives (note 22) | 1,263 | 487 | 268 |
| Liabilities under acceptances | 34,812 | 25,006 | 31,924 |
| | 68,968 | 46,637 | 49,867 |



NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

At 30 September 2007 (Un-audited)

11 TAXATION

| | <i>30/09/2007</i> <i>RO'000</i> | <i>30/09/2006</i> <i>RO'000</i> | <i>31/12/2006</i> <i>RO'000</i> |
|-------------------------------------|------------------------------------|------------------------------------|------------------------------------|
| Current tax expense (income) | | | |
| Current liability | 2,194 | 240 | 277 |
| Adjustment for prior year | - | - | - |
| | <u>2,194</u> | <u>240</u> | <u>277</u> |
| Deferred tax expense | 1,370 | 2,691 | 3,996 |
| | <u>3,564</u> | <u>2,931</u> | <u>4,273</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 2006)

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

| | <i>30/09/2007</i> <i>RO'000</i> | <i>30/09/2006</i> <i>RO'000</i> | <i>31/12/2006</i> <i>RO'000</i> |
|-------------------------|------------------------------------|------------------------------------|------------------------------------|
| Accounting profit | <u>32,473</u> | <u>23,432</u> | <u>34,699</u> |
| Tax applicable rate | 3,897 | 2,812 | 4,164 |
| Non-deductible expenses | - | - | - |
| Tax exempt revenues | (123) | (235) | (241) |
| Others | (210) | 354 | 350 |
| | <u>3,564</u> | <u>2,931</u> | <u>4,273</u> |

The Bank's liabilities for taxation in the Sultanate of Oman has been assessed up to the year ended 31 December 2002. Management has filed an appeal with the tax authorities against the assessment orders received for years 2001 and 2002 and it has been advised that the appeal would be heard favourably based on current indications. Management believes that any additional taxes that may arise on completion of the tax assessments for the years 2001 to 2006 will not be significant to the Bank's financial position at 30 September 2007.



NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

At 30 September 2007 (Un-audited)

11 TAXATION (continued)

The tax assessments of the Egypt operations in respect of the different taxes applicable are at different stages of completion with the respective tax authorities. The Bank's liability in respect of its branch in Abu Dhabi has been agreed with the tax authorities up to 31 December 2006.

| | <i>30/09/2007</i> <i>RO'000</i> | <i>30/09/2006</i> <i>RO'000</i> | <i>31/12/2006</i> <i>RO'000</i> |
|----------------------|------------------------------------|------------------------------------|------------------------------------|
| Tax liability | | | |
| <i>Current year</i> | | | |
| Income tax | 2,113 | 240 | 223 |
| Other taxes | 25 | 13 | 42 |
| | <u>2,138</u> | <u>253</u> | <u>265</u> |
| <i>Prior year</i> | | | |
| Income tax | 87 | 87 | 87 |
| Other taxes | 1,237 | 1,264 | 1,244 |
| | <u>1,324</u> | <u>1,351</u> | <u>1,331</u> |
| | <u><u>3,462</u></u> | <u><u>1,604</u></u> | <u><u>1,596</u></u> |

Recognized deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

| | <i>30/09/2007</i> <i>RO'000</i> | <i>30/09/2006</i> <i>RO'000</i> | <i>31/12/2006</i> <i>RO'000</i> |
|----------------------------------|------------------------------------|------------------------------------|------------------------------------|
| Premises and equipment | - | (95) | (56) |
| Provisions | - | - | (23) |
| Tax value of loss carry forwards | - | (2,580) | (1,291) |
| | <u>-</u> | <u>(2,675)</u> | <u>(1,370)</u> |
| | <u><u>-</u></u> | <u><u>(2,675)</u></u> | <u><u>(1,370)</u></u> |

De-recognized deferred tax assets

| | <i>30/09/2007</i> <i>RO'000</i> | <i>30/09/2006</i> <i>RO'000</i> | <i>31/12/2006</i> <i>RO'000</i> |
|--|------------------------------------|------------------------------------|------------------------------------|
| Deductible temporary differences (net) | (79) | 222 | 206 |
| Tax losses | (1,291) | (2,913) | (4,202) |
| | <u>(1,370)</u> | <u>(2,691)</u> | <u>(3,996)</u> |
| | <u><u>(1,370)</u></u> | <u><u>(2,691)</u></u> | <u><u>(3,996)</u></u> |



NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

At 30 September 2007 (Un-audited)

11 TAXATION (continued)**Movement in temporary differences during the year**

| | As at 1 January 2007 (Asset) liability RO'000 | (Income) expense RO'000 | As at 30 September 2007 (Asset) liability RO'000 |
|------------------------|--|----------------------------|---|
| Premises and equipment | (56) | 56 | - |
| Provisions | (23) | 23 | - |
| Tax losses | (1,291) | 1,291 | - |
| | <u>(1,370)</u> | <u>1,370</u> | <u>-</u> |

12 SUBORDINATED PRIVATE PLACEMENT

The bank obtained through subordinated private placement an amount of RO 12.5 million on 7 April 2003. This placement is repayable at the end of 6 years and carries effective annual interest rate of 5.875%. In accordance with the Central Bank of Oman regulations, the subordinated private placement is appropriately included in the calculation of capital as defined by Basel Convention.

An amount equal to RO 2.5 million (USD 6.5 million) will be set aside annually before payment of dividends to shareholders, till the maturity of the private placement in April 2009, The amount set aside is credited to a non-distributable subordinated fund reserve account.

13 COMMITMENTS AND CONTINGENT LIABILITIES

| | 30/09/2007 RO'000 | 30/09/2006 RO'000 | 31/12/2006 RO'000 |
|-------------------------------|----------------------|----------------------|----------------------|
| Guarantees | 278,153 | 185,988 | 191,543 |
| Documentary letters of credit | 147,329 | 65,135 | 61,998 |
| | <u>425,482</u> | <u>251,123</u> | <u>253,541</u> |

Guarantees include RO 0.4 million (30 September 2006 – RO 6.5 million/31 December 2006 – RO 6.3 million) relating to non-performing loans.

14 INTEREST INCOME

Interest bearing assets other than investments earned interest at an overall effective annual rate of 7.23% for the nine months period ended 30 September 2007 (30 September 2006 – 7.56% / 31 December 2006 – 7.69%).

15 INTEREST EXPENSE

For the nine months period ended 30 September 2007 the average overall effective annual cost of funds was 3.62% (30 September 2006 – 3.45% / 31 December 2006 – 3.48%).



NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

At 30 September 2007 (Un-audited)

16 OTHER OPERATING INCOME

| | <i>9 months ended 30/09/2007 RO'000</i> | <i>9 months ended 30/09/2006 RO'000</i> |
|---|---|---|
| Net gains from foreign exchange dealings | 1,609 | 1,259 |
| Fees and commissions | 4,966 | 2,590 |
| Profit (loss) on sale of investments | 312 | 1,451 |
| Income from Treasury bills, Government Development Bonds and Certificates of Deposit | 1,793 | 1,528 |
| Dividend income | 674 | 434 |
| Service charges | 8,263 | 4,960 |
| Miscellaneous income | 1205 | 954 |
| | 18,822 | 13,176 |

17 OTHER OPERATING EXPENSES

| | <i>9 months ended 30/09/2007 RO'000</i> | <i>9 months ended 30/09/2007 RO'000</i> |
|---------------------------------------|---|---|
| Establishment costs | 1,617 | 1,498 |
| Operating and administration expenses | 5,732 | 4,287 |
| BCCI Provision | 450 | 450 |
| | 7,799 | 6,235 |



NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

At 30 September 2007 (Un-audited)

18 ASSETS LIABILITY MISMATCH

The asset liability mismatch can be analyzed as follows:

30 September 2007

| Maturities | Assets RO'000 | Equity, subordinated funds and liabilities RO'000 | Mismatch RO'000 |
|-------------------|------------------|---|--------------------|
| 0 - 6 month | 578,271 | 592,568 | (14,297) |
| 6 - 12 month | 61,175 | 115,445 | (54,270) |
| 1 - 3 years | 115,072 | 128,546 | (13,474) |
| 3 - 5 years | 111,140 | 110,086 | 1,054 |
| More than 5 years | 460,512 | 379,525 | 80,987 |
| | 1,326,170 | 1,326,170 | - |
| | 1,326,170 | 1,326,170 | - |

30 September 2006

| Maturities | Assets RO'000 | Equity, subordinated funds and liabilities RO'000 | Mismatch RO'000 |
|-------------------|------------------|---|--------------------|
| 0 - 6 month | 361,292 | 399,529 | (38,237) |
| 6 - 12 month | 50,874 | 127,657 | (76,783) |
| 1 - 3 years | 80,432 | 91,069 | (10,637) |
| 3 - 5 years | 60,542 | 47,616 | 12,926 |
| More than 5 years | 431,244 | 318,513 | 112,731 |
| | 984,384 | 984,384 | - |
| | 984,384 | 984,384 | - |

31 December 2006

| Maturities | Assets RO'000 | Equity, subordinated funds and liabilities RO'000 | Mismatch RO'000 |
|-------------------|------------------|---|--------------------|
| 0 - 6 month | 450,104 | 459,352 | (9,248) |
| 6 - 12 month | 72,597 | 131,160 | (58,563) |
| 1 - 3 years | 73,181 | 107,974 | (34,793) |
| 3 - 5 years | 75,900 | 49,971 | 25,929 |
| More than 5 years | 410,661 | 333,986 | 76,675 |
| | 1,082,443 | 1,082,443 | - |
| | 1,082,443 | 1,082,443 | - |

The above analysis is based on residual maturity dates adjusted as per Central Bank of Oman guidelines. However the bank does not expect its deposits retention to deteriorate significantly in the immediate future.



NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

At 30 September 2007 (Un-audited)

19 RELATED PARTY TRANSACTIONSa) Management Service Agreement with CBQ

Based on the approval received from the Shareholders in the Extraordinary General Meeting held on 25th September 2005, the bank entered into a management services agreement with the Commercial Bank of Qatar (CBQ) for an initial period of three years extendable for a further period of 3 years. This agreement is subject to annual renewal after approval by the Shareholders of the bank in a general meeting.

The scope of work under the management services agreement is subject to approval by the Board of Directors of the bank. The major areas covered include, broad strategic guidelines in all areas of the operations including overseas expansion. The 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, financial control.

For the above services the bank will pay Management Fees as follows:

- For net profit up to RO 15 Million the lower of Management Costs or 1% of the net profit
- For net profits between RO 15 million to RO 30 million the higher of Management Costs or 1% of the net profit
- For net profits in excess of RO 30 million, in addition to the above, 3% of the net profits in excess of RO 30 Million.

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

For the period ended 30 September 2007, management fees of RO 420,000 have been accrued for.

b) Other related party transactions

In the ordinary course of business the bank conducts transactions with certain of its directors, shareholders, senior management and companies in which they have a significant interest. These transactions are conducted on an arms length basis and are approved by the bank's management.

No provision has been recognised in respect of the loans given to related parties (2006:nil).

The loans issued to related parties during the period of RO 9.1 million (September 2006: RO 44.6 million/Dec 2006: RO 25.7 million) are repayable or repaid as per the contract with them. The loans and advances to the related parties are generally collateralized by cash deposits, bank guarantees, shares listed on the MSM, commercial charge over fixed assets or based on the business model of the borrower.

The aggregate amount of balances and the income and expenses generated with such related parties is as follows:

| | 30/09/2007 RO'000 * | 30/09/2006 RO'000 ** | 31/12/2006 RO'000 |
|--|------------------------|-------------------------|----------------------|
| Loans | | | |
| Loans outstanding at 1 January | 26,512 | 27,636 | 27,636 |
| Loans issued during the period | 9,108 | 44,610 | 25,672 |
| Transferred out during the period | - | - | (1) |
| Loans repayment during the period | (20,721) | (43,474) | (26,795) |
| Loans outstanding at the end of period | <u>14,899</u> | <u>28,772</u> | <u>26,512</u> |
| Interest income earned | <u>969</u> | <u>686</u> | <u>1,012</u> |
| Deposits | | | |
| Deposits at 1 January | 7,176 | 7,624 | 7,624 |
| Deposits received during the period | 2,855 | 12,112 | 5,506 |
| Transferred out during the period | - | - | (81) |
| Deposits repaid during the period | (3,563) | (11,858) | (5,873) |
| Deposits at the end of period | <u>6,468</u> | <u>7,878</u> | <u>7,176</u> |
| Interest expense on deposits | <u>204</u> | <u>188</u> | <u>264</u> |



NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

At 30 September 2007 (Un-audited)

19 RELATED PARTY TRANSACTIONS (continued)

| | <i>30/09/2007</i> <i>RO'000</i> | <i>30/09/2006</i> <i>RO'000</i> | <i>31/12/2006</i> <i>RO'000</i> |
|-----------------------------------|------------------------------------|------------------------------------|------------------------------------|
| Other income earned | 57 | 50 | 57 |
| Contingent liabilities | 5,479 | 17,426 | 14,217 |
| Risk indemnities | 32,015 | 12,816 | 18,816 |
| Standby revolving credit facility | 26,950 | 9,625 | 26,950 |
| Other expenses | 133 | 248 | 526 |

Senior Management compensation:

| | <i>30/09/2007</i> <i>RO'000</i> | <i>30/09/2006</i> <i>RO'000</i> | <i>31/12/2006</i> <i>RO'000</i> |
|--|------------------------------------|------------------------------------|------------------------------------|
| Salaries and other short term benefits | | | |
| -Fixed | 612 | 533 | 799 |
| -Discretionary | 272 | 165 | 165 |
| Total | <u>884</u> | <u>698</u> | <u>964</u> |

20 SHAREHOLDERS

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>30/09/2007</i> <i>Shares '000</i> | <i>30/09/2006</i> <i>Shares '000</i> | <i>31/12/2006</i> <i>Shares '000</i> |
|------------------------------------|---|---|---|
| The Commercial Bank of Qatar (CBQ) | 32,065 | 27,882 | 27,882 |
| Suhail Bahwan Group (Holdings) LLC | 13,565 | 11,795 | 11,795 |

The Bank had no preferred shareholders as of 30 September 2007 (30 September 2006– Nil/31 December 2006 – Nil).



NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

At 30 September 2007 (Un-audited)

21 SEGMENT REPORTING

Segment information is as follows:

| <i>9 months ended 30 September 2007</i> | <i>Oman RO'000</i> | <i>UAE RO'000</i> | <i>Egypt RO'000</i> | <i>Total RO'000</i> |
|--|------------------------|-----------------------|-------------------------|-------------------------|
| Segment revenue | 75,594 | 5,361 | 9,430 | 90,385 |
| Segment expenses | (50,701) | (4,083) | (7,936) | (62,720) |
| Profit from operations before provisions, recoveries and share of head office expenses | <u>24,893</u> | <u>1,278</u> | <u>1,494</u> | <u>27,665</u> |
| Net Profit for the period | <u>22,778</u> | <u>972</u> | <u>5,159</u> | <u>28,909</u> |
| <i>9 months ended 30 September 2006</i> | <i>Oman RO'000</i> | <i>UAE RO'000</i> | <i>Egypt RO'000</i> | <i>Total RO'000</i> |
| Segment revenue | 60,088 | 4,309 | 7,942 | 72,339 |
| Segment expenses | (40,578) | (2,653) | (7,215) | (50,446) |
| Profit from operations before provisions, recoveries and share of head office expenses | <u>19,510</u> | <u>1,656</u> | <u>727</u> | <u>21,893</u> |
| Net Profit for the period | <u>17,294</u> | <u>239</u> | <u>2,968</u> | <u>20,501</u> |



NOTES TO THE FINANCIAL STATEMENTS

At 30 September 2007 (Un-audited)

22 DERIVATIVES

| 30 September 2007 | Positive Fair value RO'000 | Negative Fair value RO'000 | Notional amount total RO'000 | Notional amounts by term maturity | | |
|---|--------------------------------------|--------------------------------------|---|-----------------------------------|--------------------------------|-------------------------------|
| | | | | Within 3 months RO'000 | 3 – 12 months RO'000 | Above 1 Year RO'000 |
| <i>Derivatives</i> | | | | | | |
| Interest rate swaps | - | - | 12,000 | - | - | 12,000 |
| Credit default swaps | - | 446 | 15,400 | - | 3,850 | 11,550 |
| Forward foreign exchange purchase contracts | 294 | - | 60,263 | 47,196 | 13,067 | - |
| Forward foreign exchange sales contracts | - | 817 | 60,263 | 47,111 | 13,152 | - |
| Interest rate caps | - | - | 1,183 | 80 | 180 | 923 |
| Total | 294 | 1,263 | 149,109 | 94,387 | 30,249 | 24,473 |
| | | | | | | |
| 30 September 2006 | Positive Fair value RO'000 | Negative Fair value RO'000 | Notional amount total RO'000 | Notional amounts by term maturity | | |
| | | | | Within 3 months RO'000 | 3 – 12 months RO'000 | Above 1 year RO'000 |
| <i>Derivatives</i> | | | | | | |
| Interest rate swaps | - | 179 | 20,662 | - | 8,662 | 12,000 |
| Forward foreign exchange purchase contracts | 230 | 38 | 42,978 | 34,825 | 8,153 | - |
| Forward foreign exchange sales contracts | 45 | 270 | 42,978 | 34,827 | 8,151 | - |
| Interest rate caps | - | - | 1,424 | 70 | 180 | 1,114 |
| Total | 275 | 487 | 108,042 | 69,722 | 25,146 | 13,174 |



NOTES TO THE FINANCIAL STATEMENTS

At 30 September 2007 (Un-audited)

22 DERIVATIVES (continued)

| 31 December 2006 | Positive Fair value RO'000 | Negative Fair value RO'000 | Notional amount total RO'000 | Notional amounts by term maturity | | |
|---|----------------------------------|----------------------------------|------------------------------------|-----------------------------------|----------------------------|---------------------------|
| | | | | Within 3 months RO'000 | 3 – 12 months RO'000 | Above 1 year RO'000 |
| <i>Derivatives</i> | | | | | | |
| Interest rate swaps | - | 91 | 20,662 | - | 8,662 | 12,000 |
| Forward foreign exchange purchase contracts | 83 | 16 | 31,961 | 23,558 | 8,403 | - |
| Forward foreign exchange sales contracts | 47 | 161 | 31,961 | 23,557 | 8,404 | - |
| Interest rate caps | - | - | 1,364 | 70 | 180 | 1,114 |
| | <u>130</u> | <u>268</u> | <u>85,948</u> | <u>47,185</u> | <u>25,649</u> | <u>13,114</u> |

23 COMPARATIVE FIGURES

The corresponding figures for September 2006 and December 2006 included for comparative purposes have been reclassified wherever appropriate. In addition, corresponding figures for earnings per share and net assets per share have been restated based upon the increased number of shares of 92 million (previously 80 million shares).