



National Bank of Oman SAOG

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CONDENSED INTERIM FINANCIAL STATEMENTS

31 March 2008 (UNAUDITED)



البنك الوطني العماني
بنك
National Bank of Oman
SAOG

PO Box 751 PC 112 Ruwi Sultanate of Oman.



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CHAIRMAN'S REPORT – MARCH 2008

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 three months ended 31st March 2008.

Operating Performance

The bank achieved a net profit after tax of RO 10.9 million for the period ended March 2008, which is a 14% increase over RO 9.6 million for the same period in 2007.

More gratifying was the continuing improvement in profit from operations and this is reflected in the 49% growth in operating profit to RO 12.7 million compared to RO 8.5 million for the same quarter last year. The achievement underlines the Banks' positive and clear emphasis on sustainable growth.

Net interest income for the three months to March 2008 was RO 10.1 million, an increase of 8% over the same period last year.

The momentum towards diversifying sources of income continued and this is evidenced by the ratio of other operating income to total income which increased from 36% in the first quarter of 2007 to 49% in the first quarter of 2008. Business efficiency remained an important focus and the improvement in cost to income ratio from 42% in March 2007 to 36 % in March 2008 is a testimony to this effort.

During the three month period, additional loan loss provisions of RO 2 million (after excluding RO 1.9 Mn of corresponding release) were taken as compared to RO 1.2 million for the same period in 2007. The increase is mainly on account of non specific charges. The collection efforts for impaired assets have continued to be successful with recoveries amounting to RO 1.9 million (after excluding RO 1.9 Mn of corresponding charge in provision) for the three months to March 2008.

Total Deposits and Advances crossed the one billion mark during the current quarter to close at RO 1.05 billion and RO 1.01 billion respectively. The growth in deposits by RO 123 million and net advances by RO 109 million for the three months is consistent with the strategy of the bank to grow quality loans and deposits.

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

Capital

Based on the bank's net worth (BIS) of RO 220 million, the capital adequacy ratio as at the end of the March 2008 was 14.57% and well above the minimum prescribed 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 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.

Suhail Salim Bahwan
Chairman



SUMMARY OF RESULTS

	3 months ended	3 months ended
Particulars	31/03/2008	31/03/2007
(All RO '000 unless stated otherwise)		
Net loans and advances	1,015,354	763,946
Deposits	1,059,107	849,101
Other assets	67,763	50,247
Net interest income	10,173	9,391
Net profit before tax	12,487	11,019
Earnings per share-annualized (RO)	0.041	0.035
Net assets per share (RO)	0.209	0.166
Capital adequacy ratio *	14.57%	16.85%

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

**CONDENSED INTERIM BALANCE SHEET****At 31 March 2008 (Un-audited)**

	<i>Notes</i>	31/03/2008 RO'000	31/03/2007 RO'000	<i>Audited</i> 31/12/2007 RO'000
ASSETS				
Cash and balances with Central Banks	3	308,852	151,492	245,838
Due from banks and other money market placements	4	125,845	116,181	202,077
Loans and advances (net)	5	1,015,354	763,946	906,765
Financial assets at fair value through profit and loss		49	78	49
Non-trading investments	6	45,484	41,385	45,459
Premises and equipment	7	6,671	5,992	6,763
Deferred tax asset	11	-	113	-
Other assets	8	67,763	50,247	69,674
		1,570,018	1,129,434	1,476,625
LIABILITIES				
Due to banks and other money market deposits		192,903	38,331	215,493
Customers' deposits	9	1,059,107	849,101	936,023
Other liabilities	10	76,969	47,791	74,154
Taxation	11	2,989	1,730	5,668
Deferred tax liability	11	1,224	-	-
		1,333,192	936,953	1,231,338
SUBORDINATED FUNDS				
Subordinated private placement	12	12,500	12,500	12,500
SHAREHOLDERS' EQUITY				
Share capital		108,100	92,000	92,000
Share premium		34,465	34,465	34,465
Legal reserve		26,026	21,564	26,026
General reserve		4,419	4,419	4,419
Other non distributable reserves		31,527	14,562	34,833
Proposed dividend		-	-	16,100
Proposed stock dividend		-	-	16,100
Retained earnings		19,789	12,971	8,844
		224,326	179,981	232,787
		1,570,018	1,129,434	1,476,625
CONTINGENT LIABILITIES				
	13	474,591	271,500	454,874

The condensed interim financial statements were authorised for issue on 28th April 2008 in accordance with a resolution of the Board of Directors.

.....
Chairman

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Chief Executive Officer

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

CONDENSED INTERIM INCOME STATEMENT
Period ended 31 March 2008 (Unaudited)

	<i>Notes</i>	3 months ended 31/03/2008 RO'000	3 months ended 31/03/2007 RO'000
Interest income	14	19,972	18,666
Interest expense	15	(9,799)	(9,275)
Net interest income		10,173	9,391
Other operating income	16	9,623	5,298
OPERATING INCOME		19,796	14,689
OPERATING EXPENSES			
Staff costs		(4,167)	(3,561)
Other operating expenses	17	(2,568)	(2,256)
Depreciation	7	(406)	(365)
		(7,141)	(6,182)
PROFIT FROM OPERATIONS BEFORE PROVISIONS AND RECOVERIES		12,655	8,507
Provision for credit losses	5	(4,050)	(1,285)
Recoveries/releases from provision for impairments	5	2,901	1,643
Recoveries from bad debts written off and others		981	2,154
		(168)	2,512
PROFIT FROM OPERATIONS AFTER PROVISIONS AND RECOVERIES		12,487	11,019
Taxation	11	(1,542)	(1,438)
NET PROFIT FOR THE PERIOD		10,945	9,581
Basic and diluted earnings per share-annualised		0.041	0.035

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

CONDENSED INTERIM CASH FLOW STATEMENT

Period ended 31 March 2008 (Un-audited)

	<i>Notes</i>	<i>3 months ended 31/03/2008 RO'000</i>	<i>3 months ended 31/03/2007 RO'000</i>
OPERATING ACTIVITIES			
Profit before tax		12,487	11,019
Adjustments for:			
Depreciation	7	406	365
Provision for credit losses and others		556	(2,625)
Profit on sale of assets (net)		(29)	(20)
Realised (gain) loss on sale of investments	16	(1,742)	4
Investment income		(1,340)	(902)
Operating profit before changes in operating assets and liabilities		10,338	7,841
Due from banks and other money market placements		(28,213)	(18,596)
Due to banks and other money market deposits		8	-
Loans and advances to customers		(109,144)	(57,554)
Financial assets at fair value through profit and loss		-	5
Other assets		1,911	(4,871)
Customers' deposits		123,084	32,454
Other liabilities		2,815	(2,076)
Cash from (used in) operations		799	(42,797)
Taxes paid		(4,228)	(1,304)
Net cash used in operating activities		(3,429)	(44,101)
INVESTING ACTIVITIES			
Purchase of non-trading investments		(6,686)	(1,125)
Proceeds from sale of non-trading investments		6,321	252
Purchase of premises and equipment	7	(332)	(475)
Disposal of premises and equipment		56	25
Translation differences on investments, premises and equipment		(3)	2
Interest received on Government Development Bonds and Treasury Bills		703	482
Dividends received from investment securities	16	637	420
Net cash from (used in) investing activities		696	(419)
FINANCING ACTIVITY			
Payment of dividend		(16,100)	(14,000)
Net cash used in financing activity		(16,100)	(14,000)
DECREASE IN CASH AND CASH EQUIVALENTS		(18,833)	(58,520)
Cash and cash equivalents at the beginning of the period		321,807	250,501
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD		302,974	191,981
REPRESENTING:			
Cash and balances with Central Banks		308,852	151,492
Deposits and balances with other banks and financial institutions (net)		(5,878)	40,489
		302,974	191,981

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

CONDENSED INTERIM STATEMENT OF CHANGES IN EQUITY

Period ended 31 March 2008 (Unaudited)

(RO'000)	Other non-distributable reserves							Change in fair value of investments available for sale	Proposed dividends	Proposed stock dividend	Retained earnings	Total
	Share capital	Share premium reserve	Legal reserve **	General reserve	Non distributable reserve*	Revaluation reserve	Subordinated fund reserve**					
Balance at 1 January 2007	80,000	34,465	21,564	4,419	6,182	2,811	7,500	(1,754)	14,000	12,000	3,390	184,577
Change in fair value of investments available for sale	-	-	-	-	-	-	-	(177)	-	-	-	(177)
Total income and expense for the period recognized directly in equity	-	-	-	-	-	-	-	(177)	-	-	-	(177)
Net profit for the period	-	-	-	-	-	-	-	-	-	-	9,581	9,581
Total income and expense for the period	-	-	-	-	-	-	-	(177)	-	-	9,581	9,404
Issue of bonus shares	12,000	-	-	-	-	-	-	-	-	(12,000)	-	-
Dividend paid during the period	-	-	-	-	-	-	-	-	(14,000)	-	-	(14,000)
Balance at 31 March 2007	92,000	34,465	21,564	4,419	6,182	2,811	7,500	(1,931)	-	-	12,971	179,981
Balance at 1 April 2007	92,000	34,465	21,564	4,419	6,182	2,811	7,500	(1,931)	-	-	12,971	179,981
Change in fair value of investments available for sale	-	-	-	-	-	-	-	17,771	-	-	-	17,771
Total income and expense for the period recognized directly in equity	-	-	-	-	-	-	-	17,771	-	-	-	17,771
Net profit for the period	-	-	-	-	-	-	-	-	-	-	35,035	35,035
Total income and expense for the period	-	-	-	-	-	-	-	17,771	-	-	35,035	52,806
Transfer to subordinated funds reserve	-	-	-	-	-	-	2,500	-	-	-	(2,500)	-
Transfer to legal reserve	-	-	4,462	-	-	-	-	-	-	-	(4,462)	-
Transferred to proposed dividend	-	-	-	-	-	-	-	-	16,100	-	(16,100)	-
Transfer to proposed stock dividends	-	-	-	-	-	-	-	-	-	16,100	(16,100)	-
Balance at 31 December 2007	92,000	34,465	26,026	4,419	6,182	2,811	10,000	15,840	16,100	16,100	8,844	232,787

CONDENSED INTERIM STATEMENT OF CHANGES IN EQUITY (continued)

Period ended 31 March 2008 (Unaudited)

(RO'000)	Other non-distributable reserves							Change in fair value of investments available for sale	Proposed dividends	Proposed stock dividend	Retained earnings	Total
	Share capital	Share premium reserve	Legal reserve **	General reserve	Non distributable reserve*	Revaluation reserve	Subordinated fund reserve**					
Balance at 1 January 2008	92,000	34,465	26,026	4,419	6,182	2,811	10,000	15,840	16,100	16,100	8,844	232,787
Change in fair value of investments available for sale	-	-	-	-	-	-	-	(2,082)	-	-	-	(2,082)
Deferred tax liability on fair value changes recognised in equity	-	-	-	-	-	-	-	(1,224)	-	-	-	(1,224)
Total income and expense for the period recognized directly in equity	-	-	-	-	-	-	-	(3,306)	-	-	-	(3,306)
Net profit for the period	-	-	-	-	-	-	-	-	-	-	10,945	10,945
Total income and expense for the period	-	-	-	-	-	-	-	(3,306)	-	-	10,945	7,639
Issue of bonus shares	16,100	-	-	-	-	-	-	-	-	(16,100)	-	-
Dividend paid during the period	-	-	-	-	-	-	-	-	(16,100)	-	-	(16,100)
Balance as at 31 March 2008	108,100	34,465	26,026	4,419	6,182	2,811	10,000	12,534	-	-	19,789	224,326

- 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.
- **Transfers to legal and subordinated fund reserves are done on an annual basis.

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



NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

Period ended 31 March 2008 (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 corporate and retail banking activities 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, Sultanate of Oman.

The bank employed -1,155 employees as of 31 March 2008 (31 March 2007-1,059 employees and 31 December 2007-1,130)

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 2007.

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 2008 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2008.

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

**NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS****Period ended 31 March 2008 (Unaudited)****3 CASH AND BALANCES WITH CENTRAL BANKS**

	<i>31/03/2008</i> <i>RO'000</i>	<i>31/03/2007</i> <i>RO'000</i>	<i>31/12/2007</i> <i>RO'000</i>
Cash	16,717	13,156	15,806
Treasury bills with Central Banks	4,048	17,234	4,189
Certificate of deposit with Central Banks	119,914	36,085	161,832
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	166,909	83,753	62,747
	<u>308,852</u>	<u>151,492</u>	<u>245,838</u>

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

	<i>31/03/2008</i> <i>RO'000</i>	<i>31/03/2007</i> <i>RO'000</i>	<i>31/12/2007</i> <i>RO'000</i>
Net loans and advances to banks	81,927	44,985	58,661
Due from banks - money market placement	38,533	68,698	138,459
Other balances	5,385	2,498	4,957
	<u>125,845</u>	<u>116,181</u>	<u>202,077</u>

5 LOANS AND ADVANCES

	<i>31/03/2008</i> <i>RO'000</i>	<i>31/03/2007</i> <i>RO'000</i>	<i>31/12/2007</i> <i>RO'000</i>
Corporate loans	607,774	469,828	532,362
Personal loans	424,653	336,744	396,008
Overdrafts	52,680	39,096	47,593
	<u>1,085,107</u>	<u>845,668</u>	<u>975,963</u>
Gross loans and advances	1,085,107	845,668	975,963
Less: provisions for impairment	(69,753)	(81,722)	(69,198)
	<u>1,015,354</u>	<u>763,946</u>	<u>906,765</u>

Gross loans and advances include RO 12.03 million due from related parties at 31 March 2008 (31 March 2007 - RO 26.59 million/ 31 December 2007 – RO 19.21 million).

NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

Period ended 31 March 2008 (Unaudited)

5 LOANS AND ADVANCES (continued)

The maturity of the gross loans and advances based on residual maturity can be analysed as follows:

	<i>31/03/2008</i> <i>RO'000</i>	<i>31/03/2007</i> <i>RO'000</i>	<i>31/12/2007</i> <i>RO'000</i>
Upto 6 months	218,449	170,332	199,946
6 – 12 months	69,238	53,645	57,241
1 – 3 years	119,331	71,557	71,081
3 – 5 years	113,030	91,533	120,077
More than 5 years	565,059	458,601	527,618
	<u>1,085,107</u>	<u>845,668</u>	<u>975,963</u>

The average effective interest rate on gross loans and advances as at 31 March 2008, was 7.04% (31 March 2007- 7.02% and 31 December 2007 – 7.05%).

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>3 months ended</i> <i>31/03/2008</i> <i>RO'000</i>	<i>3 months ended</i> <i>31/03/2007</i> <i>RO'000</i>	<i>12 months ended</i> <i>31/12/2007</i> <i>RO'000</i>
Balance at beginning of period / year	53,245	66,472	66,472
Provided during the period / year	4,050	1,285	7,857
Recovered/ released during the period / year	(531)	(1,427)	(7,533)
Written off during the period / year	(373)	(2,795)	(12,058)
Translation difference	152	28	388
Transfer	-	-	(1,881)
Balance at end of period / year	<u>56,543</u>	<u>63,563</u>	<u>53,245</u>

Reserved interest

	<i>3 months ended</i> <i>31/03/2008</i> <i>RO'000</i>	<i>3 months ended</i> <i>31/03/2007</i> <i>RO'000</i>	<i>12 months Ended</i> <i>31/12/2007</i> <i>RO'000</i>
Balance at beginning of period / year	15,953	17,875	17,875
Reserved during the period / year	792	1,132	4,392
Recovered/ released during the period / year	(2,370)	(216)	(1,595)
Recovered/released during the period to interest income	(45)	(107)	(399)
Written off during the period / year	(1,121)	(526)	(4,323)
Translation difference	1	1	3
Balance at end of period / year	<u>13,210</u>	<u>18,159</u>	<u>15,953</u>

RO 1.9 million included in recovery represents the suspense interest released on erstwhile retail loans, which were written off directly from provisions. Correspondingly the same amount has been included in the provision charge for the quarter.

NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

Period ended 31 March 2008 (Unaudited)

5 LOANS AND ADVANCES (continued)

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 2008 loans and advances on which interest is not being accrued or where interest has been reserved amounted to RO 73.2 million (31 March 2007 – RO 91.6 million and 31 December 2007 – RO 75.5 million).

6 INVESTMENTS

Financial Assets at fair value

Investments held at fair value through the 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 31 March 2008 (31 March 2007 and 31 December 2007 – Nil).

Non-trading investments

a) Available for sale

	<i>Carrying/ Fair value 31/03/2008 RO'000</i>	<i>Cost 31/03/2008 RO'000</i>	<i>Carrying/ Fair value 31/03/2007 RO'000</i>	<i>Cost 31/03/2007 RO'000</i>	<i>Carrying/ Fair value 31/12/2007 RO'000</i>	<i>Cost 31/12/2007 RO'000</i>
Quoted investments- Oman						
Banking and investment sector	2,654	2,219	2,932	4,405	4,979	3,975
Industry sector	7,312	4,512	6,089	6,417	6,188	4,403
Service sector	7,241	6,920	2,376	2,475	3,549	2,817
	<u>17,207</u>	<u>13,651</u>	<u>11,397</u>	<u>13,297</u>	<u>14,716</u>	<u>11,195</u>
Quoted investments- Foreign						
Banking and investment sector	16,939	6,755	3,267	3,146	18,699	6,749
Service sector	242	354	100	155	176	145
	<u>17,181</u>	<u>7,109</u>	<u>3,367</u>	<u>3,301</u>	<u>18,875</u>	<u>6,894</u>
Unquoted investments						
Banking and investment sector	3,073	2,943	9,408	9,381	3,842	3,504
Service sector	22	22	22	22	22	22
	<u>3,095</u>	<u>2,965</u>	<u>9,430</u>	<u>9,403</u>	<u>3,864</u>	<u>3,526</u>
Total available for sale	<u>37,483</u>	<u>23,725</u>	<u>24,194</u>	<u>26,001</u>	<u>37,455</u>	<u>21,615</u>

NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

Period ended 31 March 2008 (Unaudited)

6 INVESTMENTS (continued)

b) Held to maturity

	<i>31/03/2008</i> <i>RO'000</i>	<i>31/03/2007</i> <i>RO'000</i>	<i>31/12/2007</i> <i>RO'000</i>
Government Development Bonds	<u>8,001</u>	<u>17,191</u>	<u>8,004</u>
Total non trading investments – carrying value	<u><u>45,484</u></u>	<u><u>41,385</u></u>	<u><u>45,459</u></u>

Details of significant investments

Details of investments exceeding 10% of the carrying/fair value of the investment portfolio as at 31 March 2008 are as follows:

<u><i>31 March 2008</i></u>	<i>Bank's</i> <i>portfolio</i> <i>%</i>	<i>Number of</i> <i>Securities</i>	<i>Fair Value/</i> <i>Carrying Value</i> <i>RO'000</i>	<i>Cost</i> <i>RO'000</i>
Gulf Commercial Bank Al Khaliji	<u>44.10</u>	<u>12,100,000</u>	<u>16,530</u>	<u>6,727</u>

31 March 2007

Gulf Commercial Bank Al Khaliji	<u>27.78</u>	<u>12,100,000</u>	<u>6,721</u>	<u>6,721</u>
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31 December 2007

Gulf Commercial Bank Al Khaliji	<u>49.90</u>	<u>12,100,000</u>	<u>18,691</u>	<u>6,721</u>
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NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

Period ended 31 March 2008 (Unaudited)

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 2008, net of accumulated depreciation	3,147	3,205	411	6,763
Additions	-	106	226	332
Disposals	-	(1)	(26)	(27)
Transfers	15	18	(33)	-
Translation difference	7	2	-	9
Depreciation	(113)	(293)	-	(406)
Balance at 31 March 2008, net of accumulated depreciation	3,056	3,037	578	6,671
At cost / valuation	11,791	15,080	578	27,449
Accumulated depreciation	(8,735)	(12,043)	-	(20,778)
Net carrying value at 31 March 2008	3,056	3,037	578	6,671
Net carrying value at 31 March 2007	3,287	2,238	467	5,992
Net carrying value at 31 December 2007	3,147	3,205	411	6,763

NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

Period ended 31 March 2008 (Unaudited)

8 OTHER ASSETS

	31/03/2008 RO'000	31/03/2007 RO'000	31/12/2007 RO'000
Interest receivable	4,867	3,261	5,386
Prepayments and deposits	1,952	1,939	1,411
Net due from BCCI (refer below)	-	3,390	-
Collateral pending sale	2,176	985	1,329
Positive fair value of derivatives (note 22)	621	49	81
Customers' indebtedness for acceptances (note 10)	50,507	23,655	52,291
Others	7,640	16,968	9,176
	67,763	50,247	69,674
Due from BCCI net of provision for impairment	33,465	35,646	33,465
Interim amounts received from BCCI liquidators	(33,465)	(32,256)	(33,465)
	-	3,390	-

The Government of the Sultanate of Oman has agreed, unconditionally, to guarantee payments of all and any sums, which are due to the bank by Bank of Credit and Commerce International (BCCI) up to a maximum of RO 38.9 million (USD 101.0 million). BCCI is in liquidation. 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 (USD 2.6 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 details of the amounts received from the BCCI liquidators against the bank's admitted claims, pending the final notification of settlement by the BCCI liquidators is as follows

Year	Interim amounts received RO'000
1996	9,457
1998	8,372
2000	5,430
2003	6,569
2005	2,393
2006	35
2007	1,209
	33,465

NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

Period ended 31 March 2008 (Unaudited)

9 CUSTOMERS' DEPOSITS

	<i>31/03/2008</i> <i>RO'000</i>	<i>31/03/2007</i> <i>RO'000</i>	<i>31/12/2007</i> <i>RO'000</i>
Current accounts	237,522	171,089	159,724
Savings accounts	221,938	180,868	201,293
Certificate of deposits	53,800	15,172	527,206
Term deposits	545,847	481,972	47,800
	<u>1,059,107</u>	<u>849,101</u>	<u>936,023</u>

The maturity profile of customers' deposits is as follows:

	<i>31/03/2008</i> <i>RO'000</i>	<i>31/03/2007</i> <i>RO'000</i>	<i>31/12/2007</i> <i>RO'000</i>
Upto 6 months	421,264	410,548	421,206
6 - 12 months	152,324	136,066	124,963
1 – 3 years	133,340	88,063	96,557
3 – 5 years	143,748	57,649	124,200
More than 5 years	208,431	156,775	169,097
	<u>1,059,107</u>	<u>849,101</u>	<u>936,023</u>

The average effective interest rate of deposits as at 31 March 2008 was 3.30% (31 March 2007 – 3.65%/ 31 December 2007 – 3.58%).

10 OTHER LIABILITIES

	<i>31/03/2008</i> <i>RO'000</i>	<i>31/03/2007</i> <i>RO'000</i>	<i>31/12/2007</i> <i>RO'000</i>
Interest payable	9,608	7,232	9,312
Other accruals and provisions	15,628	16,631	11,302
Negative fair value of derivatives (note 22)	1,226	273	1,249
Liabilities under acceptances(note 8)	50,507	23,655	52,291
	<u>76,969</u>	<u>47,791</u>	<u>74,154</u>

NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

Period ended 31 March 2008 (Unaudited)

11 TAXATION

	<i>31/03/2008</i> <i>RO'000</i>	<i>31/03/2007</i> <i>RO'000</i>	<i>31/12/2007</i> <i>RO'000</i>
Current tax expense (income)			
Current liability	1,542	181	4,427
Adjustment for prior year	-	-	-
	1,542	181	4,427
Deferred tax expense	-	1,257	1,370
	1,542	1,438	5,797

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 a reconciliation between incomes taxes calculated on accounting profits with income tax expense for the year:

	<i>31/03/2008</i> <i>RO'000</i>	<i>31/03/2007</i> <i>RO'000</i>	<i>31/12/2007</i> <i>RO'000</i>
Accounting profit	12,487	11,019	50,413
Tax applicable rate	1498	1,322	6,046
Non-deductible expenses	-	-	34
Tax exempt revenues	(238)	(50)	(247)
Others	282	166	(36)
	1,542	1,438	5,797

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 favorably based on current indications. Management believes that any additional taxes that may arise on completion of the tax assessments for the years 2003 to 2007 will not be significant to the Bank's financial position at 31 March 2008.

NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

Period ended 31 March 2008 (Unaudited)

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>31/03/2008</i> <i>RO'000</i>	<i>31/03/2007</i> <i>RO'000</i>	<i>31/12/2007</i> <i>RO'000</i>
Tax liability			
<i>Current year</i>			
Income tax	1,534	145	4,306
Other taxes	14	15	114
	<u>1,548</u>	<u>160</u>	<u>4,420</u>
<i>Prior year</i>			
Income tax	184	310	87
Other taxes	1,257	1,260	1,161
	<u>1,441</u>	<u>1,570</u>	<u>1,248</u>
	<u>2,989</u>	<u>1,730</u>	<u>5,668</u>

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	<i>31/03/2008</i> <i>RO'000</i>	<i>31/03/2007</i> <i>RO'000</i>	<i>31/12/2007</i> <i>RO'000</i>
Premises and equipment	-	(43)	-
Tax value of loss carry forwards	-	(70)	-
Unrealised gains on overseas investments	1,224	-	-
	<u>1,224</u>	<u>(113)</u>	<u>-</u>

De-recognized deferred tax assets

	<i>31/03/2008</i> <i>RO'000</i>	<i>31/03/2007</i> <i>RO'000</i>	<i>31/12/2007</i> <i>RO'000</i>
Deductible temporary differences (net)	-	(36)	(79)
Tax losses	-	(1,221)	(1,291)
	<u>-</u>	<u>(1,257)</u>	<u>(1,370)</u>

NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

Period ended 31 March 2008 (Unaudited)

12 SUBORDINATED PRIVATE PLACEMENT

The bank obtained through subordinated private placement an amount of RO 12.5 million (USD 32.5 million) on 7 April 2003. This placement is repayable at the end of 6 years and carries an effective annual interest rate of 5.875%. In accordance with the Central Bank of Oman regulations, the subordinated private placement is 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 CONTINGENT LIABILITIES

	<i>31/03/2008</i> <i>RO'000</i>	<i>31/03/2007</i> <i>RO' 000</i>	<i>31/12/2007</i> <i>RO'000</i>
Guarantees	279,864	215,362	292,016
Documentary letters of credit	194,727	56,138	162,858
	<u>474,591</u>	<u>271,500</u>	<u>454,874</u>

Contingent liabilities include RO 0.4 million (31 March 2007 – RO 0.7 million/31 December 2007 – RO 0.4 million) relating to non-performing loans.

14 INTEREST INCOME

Interest bearing assets earned interest at an overall rate of 7.21% for the three months period ended 31 March 2008 (31 March 2007 – 7.60% / 31 December 2007 – 7.42%).

15 INTEREST EXPENSE

For the three months period ended 31 March 2008 the average overall cost of funds was 3.43% (31 March 2007 – 3.67 %/ 31 December 2007 – 3.67%).

16 OTHER OPERATING INCOME

	<i>3 months ended</i> <i>31/03/2008</i> <i>RO'000</i>	<i>3 months ended</i> <i>31/03/2007</i> <i>RO'000</i>
Net gains from foreign exchange dealings	639	561
Fees and commissions	2,405	1,231
Profit (loss) on sale of investments	1,742	(4)
Income from treasury bills, bonds and certificate of deposit interest	876	482
Dividend income	637	420
Service charges	2,842	2,262
Miscellaneous income	482	346
	<u>9,623</u>	<u>5,298</u>

**NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS****Period ended 31 March 2008 (Unaudited)****17 OTHER OPERATING EXPENSES**

	<i>3 months ended 31/03/2008 RO'000</i>	<i>3 months ended 31/03/2007 RO'000</i>
Establishment costs	548	534
Operating and administration expenses	2,020	1,572
BCCI provision	-	150
	<u>2,568</u>	<u>2,256</u>

18 ASSETS LIABILITY MISMATCH

The asset liability mismatch can be analysed as follows:

31 March 2008

Maturities	<i>Assets RO'000</i>	<i>Equity, subordinated funds and liabilities RO'000</i>	<i>Mismatch RO'000</i>
Upto 6 months	627,537	553,046	74,491
6 - 12 months	81,276	160,879	(79,603)
1 – 3 years	189,621	148,456	41,165
3 – 5 years	123,281	271,334	(148,053)
More than 5 years	548,303	436,303	112,000
	<u>1,570,018</u>	<u>1,570,018</u>	<u>-</u>

31 March 2007

Maturities	<i>Assets RO'000</i>	<i>Equity, subordinated funds and liabilities RO'000</i>	<i>Mismatch RO'000</i>
Upto 6 months	450,142	487,062	(36,920)
6 - 12 months	72,534	137,094	(64,560)
1 – 3 years	96,626	109,256	(12,630)
3 – 5 years	94,366	58,240	36,126
More than 5 years	415,766	337,782	77,984
	<u>1,129,434</u>	<u>1,129,434</u>	<u>-</u>

NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

Period ended 31 March 2008 (Unaudited)

18 ASSETS LIABILITY MISMATCH (continued)

31 December 2007

Maturities	Assets RO'000	Equity, subordinated funds and liabilities RO'000	Mismatch RO'000
Upto 6 months	670,854	577,559	93,295
6 - 12 months	60,653	132,878	(72,225)
1 – 3 years	117,873	110,760	7,113
3 – 5 years	129,471	251,358	(121,887)
More than 5 years	497,774	404,070	93,704
	<u>1,476,625</u>	<u>1,476,625</u>	<u>-</u>

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.

19 RELATED PARTY TRANSACTIONS

a) Management Service Agreement with CBQ

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

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

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

- For net profit up to RO 15 Million, no management fees.
- 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 31 March 2008, management fees of RO 0.15 million 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 approved by the bank's management.

No provision has been recognised in respect of the loans given to related parties (2007:nil).

The loans issued to related parties during the period of RO 3.91 million (March 2007: RO 6.87 million/Dec 2007: 24.83 million) are repayable or repaid as per the contract with them and have an average interest rate of 5.04% during the period ended 31 March 2008. The loans and advances to the related parties are generally collateralized by cash deposits, Bank Guarantees, shares in MSM and commercial charge over fixed assets or based on the business model of the borrower.

NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

Period ended 31 March 2008 (Unaudited)

19 RELATED PARTY TRANSACTIONS (continued)

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

	<i>31/03/2008</i> <i>RO'000</i>	<i>31/03/2007</i> <i>RO'000</i>	<i>31/12/2007</i> <i>RO'000</i>
Loans			
Loans outstanding at beginning of year	19,210	26,512	26,512
Loans issued during the period	3,913	6,870	24,827
Transferred out during the period	-	(6,793)	-
Loans repayment during the period	(11,092)	-	(32,129)
Loans outstanding at the end of period	12,031	26,589	19,210
Interest income earned	132	363	1,083

Deposits

Deposits at 1 January	6,823	7,176	7,176
Deposits received during the period	1,299	1,401	3,835
Deposits repaid during the period	(725)	(734)	(4,188)
Deposits at the end of period	7,397	7,843	6,823
Interest expense on deposits	69	66	280

	<i>31/03/2008</i> <i>RO'000</i>	<i>31/03/2007</i> <i>RO'000</i>	<i>31/12/2007</i> <i>RO'000</i>
Other income earned	32	23	97
Contingent liabilities	7,897	12,090	8,138
Risk indemnities	29,178	18,816	33,143
Standby revolving credit facility	26,950	26,950	26,950
Other expense	77	83	936

Senior Management compensation:

	<i>31/03/2008</i> <i>RO'000</i>	<i>31/03/2007</i> <i>RO'000</i>	<i>31/12/2007</i> <i>RO'000</i>
Salaries and other short term benefits			
-Fixed	255	248	927
-Discretionary	518	227	205
Total	773	475	1,132

NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

Period ended 31 March 2008 (Unaudited)

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>31/03/2008</i> <i>Shares '000</i>	<i>31/03/2007</i> <i>Shares '000</i>	<i>31/12/2007</i> <i>Shares '000</i>
The Commercial Bank of Qatar (CBQ)	376,762	32,065	32,065
Suhail Bahwan Group (Holdings) LLC	159,385	13,565	13,565

Increase in number of shares during the period is attributable to a stock split from RO 1 per share to 100 baizas per share, and on account of bonus shares issued.

The Bank had no preferred shareholders as of 31 March 2008 (31 March 2007 – Nil/31 December 2007 – Nil).

21 SEGMENT REPORTING

Segment information is as follows:

<i>3 months ended 31 March 2008</i>	<i>Oman</i> <i>RO'000</i>	<i>UAE</i> <i>RO'000</i>	<i>Egypt</i> <i>RO'000</i>	<i>Total</i> <i>RO'000</i>
Segment revenue	26,970	1,514	1,111	29,595
Segment expenses	(14,857)	(1,171)	(912)	(16,940)
Profit from operations before provisions, recoveries and tax	12,113	343	199	12,655
Net profit for the period	10,554	216	175	10,945
<i>3 months ended 31 March 2007</i>	<i>Oman</i> <i>RO'000</i>	<i>UAE</i> <i>RO'000</i>	<i>Egypt</i> <i>RO'000</i>	<i>Total</i> <i>RO'000</i>
Segment revenue	18,903	1,547	3,514	23,964
Segment expenses	(11,465)	(1,112)	(2,880)	(15,457)
Profit from operations before provisions, recoveries and tax	7,438	435	634	8,507
Net profit for the period	6,238	576	2,767	9,581

NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

Period ended 31 March 2008 (Unaudited)

22 DERIVATIVES

31 March 2008	<i>Notional amounts by term maturity</i>					
	<i>Positive fair value (Note 8) RO'000</i>	<i>Negative fair value (Note 10) RO'000</i>	<i>Notional amount total RO'000</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	-	-	12,000	-	-	12,000
Credit default swaps	-	(695)	15,400	3,850	3,850	7,700
Forward foreign exchange purchase contracts	556	(5)	54,408	35,953	18,455	-
Forward foreign exchange sales contracts	65	(526)	54,408	36,079	18,329	-
Interest rate caps	-	-	1,063	80	181	802
Total	621	(1,226)	137,279	75,962	40,815	20,502
31 March 2007	<i>Notional amounts by term maturity</i>					
	<i>Positive fair value (Note 8) RO'000</i>	<i>Negative fair value (Note 10) RO'000</i>	<i>Notional amount total RO'000</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	-	(90)	20,662	-	8,662	12,000
Credit default swaps	-	(39)	13,475	-	-	13,475
Forward foreign exchange purchase contracts	2	(30)	46,279	30,384	15,895	-
Forward foreign exchange sales contracts	47	(114)	46,279	30,313	15,966	-
Interest rate caps	-	-	1,304	60	180	1,064
Total	49	(273)	127,999	60,757	40,703	26,539

**NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS****Period ended 31 March 2008 (Unaudited)****22 DERIVATIVES (continued)**

<i>31 December 2007</i>	<i>Positive fair value (Note 8) RO'000</i>	<i>Negative fair value (Note 10) 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	-	-	12,000	-	-	12,000
Credit default swaps	-	(989)	15,400	-	3,850	11,550
Forward foreign exchange purchase contracts	81	-	62,247	54,841	7,406	-
Forward foreign exchange sales contracts	-	(260)	62,247	54,811	7,436	-
Interest rate caps	-	-	1,123	80	180	863
	<u>81</u>	<u>(1,249)</u>	<u>153,017</u>	<u>109,732</u>	<u>18,872</u>	<u>24,413</u>

23 COMPARATIVE FIGURES

The corresponding figures for 31 March 2007 and 31 December 2007 included for comparative purposes have been reclassified wherever appropriate. Such re-classifications do not impact previously reported net profit or equity.