



National Bank of Oman SAOG

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CONDENSED INTERIM FINANCIAL STATEMENTS

30 June 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 – JUNE 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 six months ended 30th June 2008.

Financial Performance

The bank achieved a net profit after tax of RO 22.6 million for the period ended June 2008, which is an 18% increase over the same period in 2007.

Profit from Operations increased by 47% over the same period in 2007 to RO 25.5 million, and reflects the Banks' positive and clear emphasis on sustainable growth.

Net interest income for the six months to June 2008 was RO 22.2 million, an increase of 13% over the same period last year.

Diversification of revenue streams continued to improve with the ratio of other operating income to total income increasing to 46% in the first six months of 2008 as compared to 35% in the first six months of 2007

Business efficiency remained an important focus. Despite increased investment spending, the cost to income ratio has improved from 43% in June 2007 to 38 % in June 2008.

During the six months ended June 2008, net credit charges of RO 2.6 million were taken. The charges are mainly on account of formula driven regulatory provisions on new business growth and not for impaired assets. The collection efforts for written-off assets have continued to be successful with recoveries amounting to RO 2.9 million for the six months to June 2008.

Total Assets have shown a healthy growth and were at RO 1.7 billion as of June 30, 2008. Total Assets have increased by 50% compared to June 2007 and net advances grew by RO 376 million or 47%. The asset expansion was funded by growth in deposits of RO 282 million (32%) and increase in medium term borrowings.

A number of initiatives are also underway in conjunction with our strategic partner, Commercial Bank of Qatar ("CB"), and Alliance Member, United Arab Bank, Sharjah. ("UAB") These are aimed at producing business efficiencies, by identifying potential synergies across NBO/CB Bank's operations; sharing of best practice and, with UAB, seeking out potential joint lending/syndicated opportunities across all three Bank's.

Capital

Based on the bank's net worth (BIS) of RO 217 million, the capital adequacy ratio as at the end of the June 2008 was 12.94% 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

	6 months ended	6 months ended
Particulars	30/06/2008	30/06/2007
(All RO '000 unless stated otherwise)		
Net loans and advances	1,174,138	797,949
Deposits	1,175,910	893,699
Other assets	76,240	33,060
Net interest income	22,233	19,611
Net profit before tax	25,680	22,069
Earnings per share-annualized (RO)	0.042	0.036
Net assets per share (RO)	0.224	0.176
Capital adequacy ratio *	12.94%	16.05%

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

**CONDENSED INTERIM BALANCE SHEET****At 30 June 2008 (Un-audited)**

	<i>Notes</i>	30/06/2008 RO'000	30/06/2007 RO'000	<i>Audited</i> 31/12/2007 RO'000
ASSETS				
Cash and balances with Central Banks	3	253,772	129,367	245,838
Due from banks and other money market placements	4	160,711	142,958	202,077
Loans and advances (net)	5	1,174,138	797,949	906,765
Financial assets at fair value through profit and loss		24	98	49
Non-trading investments	6	51,185	41,471	45,459
Premises and equipment	7	6,590	6,411	6,763
Other assets	8	76,240	33,060	69,674
		1,722,660	1,151,314	1,476,625
LIABILITIES				
Due to banks and other money market deposits		203,161	14,841	215,493
Customers' deposits	9	1,175,910	893,699	936,023
Other liabilities	10	82,675	36,732	74,154
Taxation	11	4,234	2,788	5,668
Deferred tax liability		1,703	-	-
		1,467,683	948,060	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		38,047	15,741	34,833
Proposed dividend		-	-	16,100
Proposed stock dividend		-	-	16,100
Retained earnings		31,420	22,565	8,844
		242,477	190,754	232,787
		1,722,660	1,151,314	1,476,625
CONTINGENT LIABILITIES				
	13	575,320	387,918	454,874

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

CONDENSED INTERIM INCOME STATEMENT
Period Ended 30 June 2008 (Un-audited)

	<i>Notes</i>	<i>6 months ended 30/06/2008 RO'000</i>	<i>6 months ended 30/06/2007 RO'000</i>	<i>3 months ended 30/06/2008 RO'000</i>	<i>3 months ended 30/06/2007 RO'000</i>
Interest income	14	41,714	36,822	21,124	17,871
Interest expense	15	(19,481)	(17,211)	(9,682)	(7,936)
Net interest income		22,233	19,611	11,442	9,935
Other operating income	16	18,691	10,600	9,686	5,587
OPERATING INCOME		40,924	30,211	21,128	15,522
OPERATING EXPENSES					
Staff costs		(9,044)	(7,438)	(4,877)	(3,877)
Other operating expenses	17	(5,603)	(4,719)	(3,035)	(2,463)
Depreciation	7	(813)	(737)	(407)	(372)
		(15,460)	(12,894)	(8,319)	(6,712)
PROFIT FROM OPERATIONS BEFORE PROVISIONS AND RECOVERIES		25,464	17,317	12,809	8,810
Provision for credit losses	5	(6,806)	(2,748)	(2,756)	(1,463)
Recoveries/releases from provision for impairment	5	4,124	2,818	1,223	1,175
Recoveries from bad debts written off and others		2,898	4,682	1,917	2,528
		216	4,752	384	2,240
PROFIT FROM OPERATIONS AFTER PROVISIONS AND RECOVERIES		25,680	22,069	13,193	11,050
Taxation	11	(3,104)	(2,894)	(1,562)	(1,456)
NET PROFIT FOR THE PERIOD		22,576	19,175	11,631	9,594
Basic and diluted earnings per share-annualized		0.042	0.036	0.043	0.036

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

CONDENSED INTERIM CASH FLOW STATEMENT

Period ended 30 June 2008 (Un-audited)

	<i>Notes</i>	<i>6 months ended 30/06/2008 RO'000</i>	<i>6 months ended 30/06/2007 RO'000</i>
OPERATING ACTIVITIES			
Profit before tax		25,680	22,069
Adjustments for:			
Depreciation	7	813	737
Provision for credit losses and others		1,149	(9,140)
Profit on sale of assets (net)		(34)	(34)
Realised (gain) loss on sale of investments	16	(3,150)	(97)
Investment income		(997)	(933)
Operating profit before changes in operating assets and liabilities		23,461	12,602
Due from banks and other money market placements		(48,209)	(34,010)
Due to banks and other money market deposits		41,966	
Loans and advances to customers		(268,522)	(85,042)
Financial assets at fair value through profit and loss		25	-
Other assets		(6,566)	12,429
Customers' deposits		239,887	77,052
Other liabilities		8,521	(13,135)
Cash from (used in) operations		(9,437)	(30,104)
Taxes paid		(4,565)	(1,702)
Net cash used in operating activities		(14,002)	(31,806)
INVESTING ACTIVITIES			
Purchase of non-trading investments		(11,311)	(1,675)
Proceeds from sale of non-trading investments		13,654	1,985
Purchase of premises and equipment	7	(647)	(1,266)
Disposal of premises and equipment		66	39
Translation differences on investments, premises and equipment & Tax			(2)
Interest received on Government Development Bonds		315	376
Dividends received from investment securities	16	682	557
Net cash from (used in) investing activities		2,759	14
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		(27,343)	(45,792)
Cash and cash equivalents at the beginning of the period		321,807	250,501
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD		294,464	204,709
REPRESENTING:			
Cash and balances with Central Banks		253,772	129,367
Deposits and balances with other banks and financial institutions (net)		40,692	75,342
		294,464	204,709

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 June 2008 (Unaudited)**

(RO'000)	<i>Other non-distributable reserves</i>							<i>Change in fair value of investments available for sale</i>	<i>Proposed dividends</i>	<i>Proposed stock dividend</i>	<i>Retained earnings</i>	<i>Total</i>
	<i>Share capital</i>	<i>Share premium reserve</i>	<i>Legal reserve **</i>	<i>General reserve</i>	<i>Non distributable reserve*</i>	<i>Revaluation reserve</i>	<i>Subordinated fund reserve**</i>					
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	-	-	-	-	-	-	-	1,002	-	-	-	1,002
Total income and expense for the period recognized directly in equity	-	-	-	-	-	-	-	1,002	-	-	-	1,002
Net profit for the period	-	-	-	-	-	-	-	-	-	-	19,175	19,175
Total	-	-	-	-	-	-	-	1,002	-	-	19,175	20,177
Issue of bonus shares	12,000	-	-	-	-	-	-	-	-	(12,000)	-	-
Dividend paid during the period	-	-	-	-	-	-	-	-	(14,000)	-	-	(14,000)
Balance at 30 June 2007	92,000	34,465	21,564	4,419	6,182	2,811	7,500	(752)	-	-	22,565	190,754
Balance at 1 July 2007	92,000	34,465	21,564	4,419	6,182	2,811	7,500	(752)	-	-	22,565	190,754
Change in fair value of investments available for sale	-	-	-	-	-	-	-	16,592	-	-	-	16,592
Total income and expense for the period recognized directly in equity	-	-	-	-	-	-	-	16,592	-	-	-	16,592
Net profit for the period	-	-	-	-	-	-	-	-	-	-	25,441	25,441
Total	-	-	-	-	-	-	-	16,592	-	-	25,441	42,033
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 30 June 2008 (Unaudited)

(RO'000)	Share capital	Share premium reserve	Legal reserve **	General reserve	Other non-distributable reserves			Change in fair value of investments available for sale	Proposed dividends	Proposed stock dividend	Retained earnings	Total
					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	-	-	-	-	-	-	-	4,917	-	-	-	4,917
Deferred tax liability on fair value changes recognised in equity	-	-	-	-	-	-	-	(1,703)	-	-	-	(1,703)
Total income and expense for the period recognized directly in equity	-	-	-	-	-	-	-	3,214	-	-	-	3,214
Net profit for the period	-	-	-	-	-	-	-	-	-	-	22,576	22,576
Total	-	-	-	-	-	-	-	3,214	-	-	22,576	25,790
Issue of bonus shares	16,100	-	-	-	-	-	-	-	-	(16,100)	-	-
Dividend paid during the period	-	-	-	-	-	-	-	-	(16,100)	-	-	(16,100)
Balance as at 30 June 2008	108,100	34,465	26,026	4,419	6,182	2,811	10,000	19,054	-	-	31,420	242,477

- 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 (note 8).
- **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 30 June 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 -1,286 employees as of 30 June 2008 (30 June 2007-1,055 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 six months ended 30 June 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 30 June 2008 (Unaudited)

3 CASH AND BALANCES WITH CENTRAL BANKS

	<i>30/06/2008</i> <i>RO'000</i>	<i>30/06/2007</i> <i>RO'000</i>	<i>31/12/2007</i> <i>RO'000</i>
Cash	18,230	13,627	15,806
Treasury bills with Central Banks	2,527	9,800	4,189
Certificate of deposit with Central Banks	119,012	39,958	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	112,739	64,718	62,747
	253,772	129,367	245,838

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>30/06/2008</i> <i>RO'000</i>	<i>30/06/2007</i> <i>RO'000</i>	<i>31/12/2007</i> <i>RO'000</i>
Net loans and advances to banks	115,141	64,730	58,661
Due from banks - money market placement	41,193	73,465	138,459
Other balances	4,377	4,763	4,957
Net due from banks and other money market placement	160,711	142,958	202,077

5 LOANS AND ADVANCES

	<i>30/06/2008</i> <i>RO'000</i>	<i>30/06/2007</i> <i>RO'000</i>	<i>31/12/2007</i> <i>RO'000</i>
Corporate loans	718,329	489,195	532,362
Personal loans	472,919	346,195	396,008
Overdrafts	53,237	37,766	47,593
Gross loans and advances	1,244,485	873,156	975,963
Less: provisions for impairment	(70,347)	(75,207)	(69,198)
Net loans and advances	1,174,138	797,949	906,765

Gross loans and advances include RO 15.25 million due from related parties at 30 June 2008 (30 June 2007 - RO 28.25 million/ 31 December 2007 – RO 19.21 million).

NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

Period ended 30 June 2008 (Unaudited)

5 LOANS AND ADVANCES (continued)

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

	30/06/2008 RO'000	30/06/2007 RO'000	31/12/2007 RO'000
Up to 6 months	242,872	175,780	199,946
6 – 12 months	67,719	50,670	57,241
1 – 3 years	152,377	74,070	71,081
3 – 5 years	123,555	85,087	120,077
More than 5 years	657,962	487,549	527,618
	<u>1,244,485</u>	<u>873,156</u>	<u>975,963</u>

The average effective interest rate on gross loans and advances as at 30 June 2008, was 6.85% (30 June 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

	6 months ended 30/06/2008 RO'000	6 months ended 30/06/2007 RO'000	12 months ended 31/12/2007 RO'000
Balance at beginning of period / year	53,245	66,472	66,472
Provided during the period / year	6,806	2,748	7,857
Recovered/ released during the period / year	(1,383)	(2,284)	(7,533)
Written off during the period / year	(1,896)	(8,797)	(12,058)
Translation difference	346	42	388
Transfer	-	-	(1,881)
Balance at end of period / year	<u>57,118</u>	<u>58,181</u>	<u>53,245</u>

Reserved interest

	6 months ended 30/06/2008 RO'000	6 months ended 30/06/2007 RO'000	12 months ended 31/12/2007 RO'000
Balance at beginning of period / year	15,953	17,875	17,875
Reserved during the period / year	1,500	2,238	4,392
Recovered/ released during the period / year	(2,741)	(534)	(1,595)
Recovered/released during the period to interest income	(108)	(210)	(399)
Written off during the period / year	(1,379)	(2,343)	(4,323)
Translation difference	4	-	3
Balance at end of period / year	<u>13,229</u>	<u>17,026</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 period.

NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

Period ended 30 June 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 30 June 2008 loans and advances on which interest is not being accrued or where interest has been reserved amounted to RO 73.9 million (30 June 2007 – RO 84.2 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 30 June 2008 (30 June 2007 and 31 December 2007 – Nil).

Non-trading investments

a) Available for sale

	<i>Carrying/ Fair value 30/06/2008 RO'000</i>	<i>Cost 30/06/2008 RO'000</i>	<i>Carrying/ Fair value 30/06/2007 RO'000</i>	<i>Cost 30/06/2007 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	3,078	2,619	3,120	4,041	4,979	3,975
Industry sector	8,243	4,243	5,861	5,508	6,188	4,403
Service sector	11,603	9,497	3,461	3,788	3,549	2,817
	<u>22,924</u>	<u>16,359</u>	<u>12,442</u>	<u>13,337</u>	<u>14,716</u>	<u>11,195</u>
Quoted investments- Foreign						
Banking and investment sector	21,015	6,748	3,331	3,147	18,699	6,749
Service sector	234	354	120	154	176	145
	<u>21,249</u>	<u>7,102</u>	<u>3,451</u>	<u>3,301</u>	<u>18,875</u>	<u>6,894</u>
Unquoted investments						
Banking and investment sector	2,990	2,945	9,535	9,458	3,842	3,504
Service sector	22	22	22	22	22	22
	<u>3,012</u>	<u>2,967</u>	<u>9,557</u>	<u>9,480</u>	<u>3,864</u>	<u>3,526</u>
Total available for sale	<u>47,185</u>	<u>26,428</u>	<u>25,450</u>	<u>26,118</u>	<u>37,455</u>	<u>21,615</u>

NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS
Period ended 30 June 2008 (Unaudited)
6 INVESTMENTS (continued)
b) Held to maturity

	<i>30/06/2008 RO'000</i>	<i>30/06/2007 RO'000</i>	<i>31/12/2007 RO'000</i>
Government Development Bonds	<u>4,000</u>	<u>16,021</u>	<u>8,004</u>
Total non trading investments – carrying value	<u>51,185</u>	<u>41,471</u>	<u>45,459</u>

Details of significant investments

Details of investments exceeding 10% of the carrying/fair value of the investment portfolio as at 30 June 2008 are as follows:

<u><i>30 June 2008</i></u>	<i>Bank's portfolio %</i>	<i>Number of Securities</i>	<i>Fair Value/ Carrying Value RO'000</i>	<i>Cost RO'000</i>
Gulf Commercial Bank Al Khaliji	<u>43.41</u>	<u>12,100,000</u>	<u>20,483</u>	<u>6,721</u>
<u><i>30 June 2007</i></u>				
Gulf Commercial Bank Al Khaliji	<u>26.40</u>	<u>12,100,000</u>	<u>6,721</u>	<u>6,721</u>
<u><i>31 December 2007</i></u>				
Gulf Commercial Bank Al Khaliji	<u>49.90</u>	<u>12,100,000</u>	<u>18,691</u>	<u>6,721</u>

NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

Period ended 30 June 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	12	243	392	647
Disposals	-	(5)	(26)	(31)
Transfers	15	60	(75)	-
Translation difference	20	4	-	24
Depreciation	(227)	(586)	-	(813)
Balance at 30 June 2008, net of accumulated depreciation	2,967	2,921	702	6,590
At cost / valuation	11,837	15,191	702	27,730
Accumulated depreciation	(8,870)	(12,270)	-	(21,140)
Net carrying value at 30 June 2008	2,967	2,921	702	6,590
Net carrying value at 30 June 2007	3,191	2,448	772	6,411
Net carrying value at 31 December 2007	3,147	3,205	411	6,763

NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

Period ended 30 June 2008 (Unaudited)

8 OTHER ASSETS

	<i>30/06/2008</i>	<i>30/06/2007</i>	<i>31/12/2007</i>
	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>
Interest receivable	6,233	3,619	5,386
Prepayments and deposits	2,191	1,753	1,411
Net due from BCCI (refer below)	-	3,240	-
Collateral pending sale	2,196	662	1,329
Positive fair value of derivatives (note 22)	695	270	81
Customers' indebtedness for acceptances (note 10)	58,868	19,695	52,291
Others	6,057	3,821	9,176
	76,240	33,060	69,674
Amount receivable from BCCI	4,587	5,796	4,587
Less provision for amount receivable from BCCI	(4,587)	(2,556)	(4,587)
Net due from BCCI	-	3,240	-

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

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

NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

Period ended 30 June 2008 (Unaudited)

9 CUSTOMERS' DEPOSITS

	<i>30/06/2008</i>	<i>30/06/2007</i>	<i>31/12/2007</i>
	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>
Current accounts	221,718	184,466	159,724
Savings accounts	239,424	198,191	201,293
Certificate of deposits	53,800	35,172	47,800
Term deposits	660,968	475,870	527,206
	<u>1,175,910</u>	<u>893,699</u>	<u>936,023</u>

The maturity profile of customers' deposits is as follows:

	<i>30/06/2008</i>	<i>30/06/2007</i>	<i>31/12/2007</i>
	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>
Upto 6 months	436,853	421,251	421,206
6 - 12 months	186,978	136,694	124,963
1 – 3 years	184,798	107,995	96,557
3 – 5 years	148,661	67,058	124,200
More than 5 years	218,620	160,701	169,097
	<u>1,175,910</u>	<u>893,699</u>	<u>936,023</u>

The average effective interest rate of deposits as at 30 June 2008 was 3.13% (30 June 2007 – 3.59%/ 31 December 2007 – 3.58%).

10 OTHER LIABILITIES

	<i>30/06/2008</i>	<i>30/06/2007</i>	<i>31/12/2007</i>
	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>
Interest payable	9,780	7,169	9,312
Other accruals and provisions	13,317	9,323	11,302
Negative fair value of derivatives (note 22)	710	545	1,249
Liabilities under acceptances(note 8)	58,868	19,695	52,291
	<u>82,675</u>	<u>36,732</u>	<u>74,154</u>

NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

Period ended 30 June 2008 (Unaudited)

11 TAXATION

	<i>30/06/2008</i> <i>RO'000</i>	<i>30/06/2007</i> <i>RO'000</i>	<i>31/12/2007</i> <i>RO'000</i>
Current tax expense (income)			
Current liability	3,104	1,524	4,427
Adjustment for prior year	-	-	-
	3,104	1,524	4,427
Deferred tax expense	-	1,370	1,370
	3,104	2,894	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>30/06/2008</i> <i>RO'000</i>	<i>30/06/2007</i> <i>RO'000</i>	<i>31/12/2007</i> <i>RO'000</i>
Accounting profit	25,680	22,069	50,413
Tax applicable rate	3,082	2,648	6,046
Non-deductible expenses	-	-	34
Tax exempt revenues	(454)	(82)	(247)
Others	476	328	(36)
	3,104	2,894	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 30 June 2008.

NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

Period ended 30 June 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 2007.

	<i>30/06/2008</i> <i>RO'000</i>	<i>30/06/2007</i> <i>RO'000</i>	<i>31/12/2007</i> <i>RO'000</i>
Tax liability			
<i>Current year</i>			
Income tax	3,086	1,467	4,306
Other taxes	44	(14)	114
	3,130	1,453	4,420
<i>Prior year</i>			
Income tax	184	87	87
Other taxes	920	1,248	1,161
	1104	1,335	1,248
	4,234	2,788	5,668
De-recognized deferred tax assets			
	<i>30/06/2008</i> <i>RO'000</i>	<i>30/06/2007</i> <i>RO'000</i>	<i>31/12/2007</i> <i>RO'000</i>
Deductible temporary differences (net)	-	(79)	(79)
Tax losses	-	(1,291)	(1,291)
	-	(1,370)	(1,370)

NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

Period ended 30 June 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%.

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>30/06/2008</i> <i>RO'000</i>	<i>30/06/2007</i> <i>RO' 000</i>	<i>31/12/2007</i> <i>RO'000</i>
Guarantees	272,235	243,409	292,016
Documentary letters of credit	303,085	144,509	162,858
	575,320	387,918	454,874

Contingent liabilities include RO 0.4 million (30 June 2007 – RO 0.4 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 6.30% for the six months period ended 30 June 2008 (30 June 2007 – 7.32% / 31 December 2007 – 7.21%).

15 INTEREST EXPENSE

For the six months period ended 30 June 2008 the average overall cost of funds was 3.22% (30 June 2007 – 3.63 %/ 31 December 2007 – 3.67%).

16 OTHER OPERATING INCOME

	<i>6 months ended</i> <i>30/06/2008</i> <i>RO'000</i>	<i>6 months ended</i> <i>30/06/2007</i> <i>RO'000</i>
Net gains from foreign exchange dealings	1,354	1,142
Fees and commissions	5,239	3,230
Profit (loss) on sale of investments	3,150	97
Income from bonds and others	315	376
Dividend income	682	557
Service charges	7,395	4,742
Miscellaneous income	556	456
	18,691	10,600

NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

Period ended 30 June 2008 (Unaudited)

17 OTHER OPERATING EXPENSES

	<i>6 months ended 30/06/2008 RO'000</i>	<i>6 months ended 30/06/2007 RO'000</i>
Establishment costs	1,176	1,051
Operating and administration expenses	4,427	3,368
BCCI provision	-	300
	<u>5,603</u>	<u>4,719</u>

18 ASSETS LIABILITY MISMATCH

The asset liability mismatch can be analyzed as follows:

30 June 2008

Maturities	<i>Assets RO'000</i>	<i>Equity, subordinated funds and liabilities RO'000</i>	<i>Mismatch RO'000</i>
Upto 6 months	598,877	557,519	41,358
6 - 12 months	105,553	234,221	(128,668)
1 – 3 years	230,732	188,532	42,200
3 – 5 years	157,344	276,509	(119,165)
More than 5 years	630,154	465,879	164,275
	<u>1,722,660</u>	<u>1,722,660</u>	<u>-</u>

30 June 2007

Maturities	<i>Assets RO'000</i>	<i>Equity, subordinated funds and liabilities RO'000</i>	<i>Mismatch RO'000</i>
Upto 6 months	449,355	463,427	(14,072)
6 - 12 months	65,980	137,712	(71,732)
1 – 3 years	100,486	129,403	(28,917)
3 – 5 years	87,026	67,606	19,420
More than 5 years	448,467	353,166	95,301
	<u>1,151,314</u>	<u>1,151,314</u>	<u>-</u>

NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

Period ended 30 June 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 30 June 2008, management fees of RO 0.38 million have been accrued for. (30 June 2007 – RO 0.27 million and 31 December 2007 – RO 0.72 million).

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 9.45 million (June 2007: RO 7.99 million/Dec 2007: 24.83 million) are repayable or repaid as per the contract with them and have an average interest rate of 4.84% during the period ended 30 June 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 30 June 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>30/06/2008</i> <i>RO'000</i>	<i>30/06/2007</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	9,445	7,994	24,827
Transferred out during the period	-	-	-
Loans repayment during the period	(13,407)	(6,256)	(32,129)
Loans outstanding at the end of period	15,248	28,250	19,210
Interest income earned	289	770	1,083
Deposits			
Deposits at 1 January	6,823	7,176	7,176
Deposits received during the period	804	2,108	3,835
Deposits repaid during the period	(1,058)	(1,032)	(4,188)
Deposits at the end of period	6,569	8,252	6,823
Interest expense on deposits	133	136	280

	<i>30/06/2008</i> <i>RO'000</i>	<i>30/06/2007</i> <i>RO'000</i>	<i>31/12/2007</i> <i>RO'000</i>
Other income earned	87	55	97
Contingent liabilities	9,446	11,238	8,138
Risk indemnities	22,723	28,215	33,143
Standby revolving credit facility	26,950	26,950	26,950
Other expense	243	105	216

Senior Management compensation:

	<i>30/06/2008</i> <i>RO'000</i>	<i>30/06/2007</i> <i>RO'000</i>	<i>31/12/2007</i> <i>RO'000</i>
Salaries and other short term benefits			
-Fixed	593	509	927
-Discretionary	518	241	205
Total	1,111	750	1,132

NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

Period ended 30 June 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:

	30/06/2008 Shares '000	30/06/2007 Shares '000	31/12/2007 Shares '000
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 30 June 2008 (30 June 2007– Nil/31 December 2007 – Nil).

21 SEGMENT REPORTING

Segment information is as follows:

6 months ended 30 June 2008	Oman RO'000	UAE RO'000	Egypt RO'000	Total RO'000
Segment revenue	55,609	2,660	2,136	60,405
Segment expenses	(30,926)	(2,268)	(1,747)	(34,941)
Profit from operations before provisions, recoveries, share of ho expenses and tax	24,683	392	389	25,464
Net profit for the period	22,032	193	351	22,576
6 months ended 30 June 2007	Oman RO'000	UAE RO'000	Egypt RO'000	Total RO'000
Segment revenue	39,201	3,349	4,872	47,422
Segment expenses	(23,857)	(2,451)	(3,797)	(30,105)
Profit from operations before provisions, recoveries, share of ho expenses and tax	15,344	898	1,075	17,317
Net profit for the period	13,750	689	4,736	19,175

**NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS****Period ended 30 June 2008 (Unaudited)****22 DERIVATIVES**

<i>30 June 2008</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	-	(557)	11,550	1,925	1,925	7,700
Forward foreign exchange purchase contracts	286	(137)	65,457	47,633	17,824	-
Forward foreign exchange sales contracts	409	(16)	65,457	47,945	17,512	-
Interest rate caps	-	-	1,003	80	181	742
Total	695	(710)	155,467	97,583	37,442	20,442
<i>30 June 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	-	(90)	20,662	8,662	-	12,000
Credit default swaps	-	(65)	15,400	-	-	15,400
Forward foreign exchange purchase contracts	33	(233)	63,159	43,857	19,302	-
Forward foreign exchange sales contracts	237	(157)	63,159	43,747	19,412	-
Interest rate caps	-	-	1,244	80	180	984
Total	270	(545)	163,624	96,346	38,894	28,384

NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

Period ended 30 June 2008 (Unaudited)

22 DERIVATIVES (continued)

31 December 2007	Positive fair value (Note 8) RO'000	Negative fair value (Note 10) 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	-	(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 30 June 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.