

# **National Bank of Oman SAOG**

## **INTERIM CONDENSED FINANCIAL STATEMENTS**

**31 March 2009 (UNAUDITED)**



PO Box 751 PC 112 Ruwi Sultanate of Oman.

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NO.**

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**Chairman's Report – March 2009**

**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 31<sup>st</sup> March 2009.

**Operating Performance**

The bank achieved a net profit after tax of RO 7.3 million for the period ended 31<sup>st</sup> March 2009 compared to RO 10.9 million for the same period in 2008 mainly due lower investment income and provision towards impairment on investment.

Net interest income for the first three months was RO 13.1 million, an increase of 21% over the same period last year.

The ratio of other operating income to total income decreased to 33% from 45% in the first quarter of 2008. Lower trade related activities and lower income from investment contributed to this decline. The cost to income ratio for the period increased to 42% from 36% in March 2008 mainly due to the decrease in other operating income.

During the three month period, additional loan loss of provision RO 3.7 million and RO 1.7 million provision towards impairment of investment were taken. The collection efforts for impaired assets have continued to be successful with recoveries amounting to RO 2 million for the three months to March 2009.

The total assets crossed the RO 2 billion mark during the current quarter. Deposits registered an impressive growth of RO 81 million for the quarter and net advances grew by RO 12 million for the three months.

In line with our strategy to expand the consumer banking franchise, the bank opened 7 new branches and 13 new ATMs throughout Oman. The Bank will continue to work closely with its strategic partner, Commercialbank in various projects aimed at producing better customer value propositions and business efficiency through the adoption of global best practices.

**Capital**

Based on the bank's net worth (BIS) of RO 260 million, the capital adequacy ratio as at the end of the March 2009 was 14.5% , well above the minimum prescribed level of 10%.

**Appreciation**

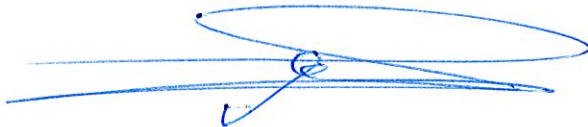
On behalf of the members of the Board of Directors, I would like to acknowledge and thank our valued customers and shareholders for the continued support to the Bank.

## National Bank of Oman SAOG

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.



**Omar Hussain Al Fardan**  
**Chairman**

## SUMMARY OF RESULTS

<b>Particulars</b>	<b><i>3 months ended 31/03/2009</i></b>	<b><i>3 months ended 31/03/2008</i></b>
<b>(All RO '000 unless stated otherwise)</b>		
Loans and advances to customers (net)	<b>1,413,741</b>	1,015,354
Customers' deposits	<b>1,423,298</b>	1,059,107
Other assets	<b>48,778</b>	67,763
Net interest income	<b>13,093</b>	10,791
Profit before tax	<b>8,749</b>	12,487
Earnings per share-annualized (RO)	<b>0.028</b>	0.041
Net assets per share (RO)	<b>0.216</b>	0.209

## INTERIM CONDENSED STATEMENT OF FINANCIAL POSITION

### 31 March 2009 (Un-audited)

		<i>31 March</i>	<i>31 March</i>	<i>Audited</i>
		<i>2009</i>	<i>2008</i>	<i>31 December</i>
	<i>Notes</i>	<i>RO'000</i>	<i>RO'000</i>	<i>2008</i>
				<i>RO'000</i>
<b>Assets</b>				
Cash and balances with Central Banks	3	323,682	308,852	266,389
Due from banks and other money market placements	4	177,604	125,845	198,611
Loans and advances to customers (net)	5	1,413,741	1,015,354	1,401,218
Financial assets at fair value through profit and loss		59	49	21
Non-trading financial investments	6	30,271	45,484	30,845
Premises and equipment	7	11,161	6,671	9,570
Deferred tax asset	11	77	-	61
Other assets	8	48,778	67,763	77,765
<b>Total assets</b>		<b>2,005,373</b>	<b>1,570,018</b>	<b>1,984,480</b>
<b>Liabilities</b>				
Due to banks and other money market deposits		243,582	192,903	276,531
Customers' deposits	9	1,423,298	1,059,107	1,341,755
Other liabilities	10	72,032	76,969	84,896
Taxation	11	2,715	2,989	7,313
Deferred tax liability	11	-	1,224	-
<b>Total liabilities</b>		<b>1,741,627</b>	<b>1,333,192</b>	<b>1,710,495</b>
<b>Subordinated Funds</b>				
Subordinated private placement	12	30,100	12,500	28,600
<b>Equity</b>				
Share capital		108,100	108,100	108,100
Share premium		34,465	34,465	34,465
Legal reserve		30,564	26,026	30,564
General reserve		4,419	4,419	4,419
Other non distributable reserves	13	15,311	18,993	15,311
Cumulative changes in fair value		(997)	12,534	(842)
Proposed cash dividend		-	-	18,918
Retained earnings		41,784	19,789	34,450
<b>Total equity</b>		<b>233,646</b>	<b>224,326</b>	<b>245,385</b>
<b>Total liabilities, subordinated funds and equity</b>		<b>2,005,373</b>	<b>1,570,018</b>	<b>1,984,480</b>

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

## INTERIM CONDENSED STATEMENT OF INCOME

### 31 March 2009 (Un-audited)

		<i>Three months ended 31 March</i>	
		<i>2009</i>	<i>2008</i>
	<i>Notes</i>	<i>RO'000</i>	<i>RO'000</i>
Interest income	15	26,302	20,590
Interest expense	16	(13,209)	(9,799)
<b>Net interest income</b>		<b>13,093</b>	<b>10,791</b>
Other operating income	17	7,200	9,005
<b>Operating income</b>		<b>20,293</b>	<b>19,796</b>
<b>Operating expenses</b>			
Staff costs		(4,907)	(4,167)
Other operating expenses	18	(2,828)	(2,568)
Depreciation	7	(474)	(406)
		<b>(8,209)</b>	<b>(7,141)</b>
<b>Operating profit before net impairment losses and tax</b>		<b>12,084</b>	<b>12,655</b>
Credit loss expense	5	(3,682)	(4,050)
Recoveries/releases from provision for credit losses	5	1,278	2,901
Recoveries from loans and advances written off		813	981
Impairment losses on available for sales investments		(1,744)	-
<b>Total impairment losses</b>		<b>(3,335)</b>	<b>(168)</b>
<b>Profit before tax</b>		<b>8,749</b>	<b>12,487</b>
Taxation	11	(1,415)	(1,542)
<b>Profit for the period</b>		<b>7,334</b>	<b>10,945</b>
Basic and diluted earnings per share-annualised		<b>0.028</b>	<b>0.041</b>

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

**INTERIM CONDENSED STATEMENT OF COMPREHENSIVE INCOME**  
**31 March 2009 (Un-audited)**

	<i>Three months ended 31 March</i>	
	<i>2009</i>	<i>2008</i>
	<i>RO'000</i>	<i>RO'000</i>
<b>Profit for the period</b>	<b>7,334</b>	<b>10,945</b>
<b>Other comprehensive income</b>		
Net unrealised losses on available for sale investments	<b>(1,212)</b>	(2,082)
Net unrealised gain on cash flow hedges	<b>177</b>	-
Impairment losses on available for sale investments	<b>864</b>	-
Tax effect of net losses on available for sale financial investments	<b>16</b>	(1,224)
<b>Other comprehensive income for the period</b>	<b>(155)</b>	<b>(3,306)</b>
<b>Total comprehensive income for the period</b>	<b>7,179</b>	<b>7,639</b>

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



## INTERIM CONDENSED STATEMENT OF CASH FLOWS

31 March 2009 (Un-audited)

	Notes	3 months ended 31/03/2009 RO'000	3 months ended 31/03/2008 RO'000
<b>Operating activities</b>			
Profit before tax for the period		8,749	12,487
Adjustments for:			
Depreciation	7	474	406
Provision for credit losses and others		1,574	556
Provision for impairment in investments value		1,744	-
Profit on sale of assets (net)		(15)	(29)
Realised loss (gain) on sale of investments	17	(21)	(1,742)
Investment income		(827)	(895)
Operating profit before changes in operating assets and liabilities		11,678	10,783
Due from banks and other money market placements		10,979	(28,213)
Increase in fair value of Financial assets		177	-
Due to banks and other money market deposits		(16,624)	8
Loans and advances to customers		(14,097)	(109,144)
Financial assets at fair value through profit and loss		(38)	-
Other assets		28,987	1911
Customers' deposits		81,543	123,084
Other liabilities		(12,864)	2,815
<b>Cash used in operations</b>		89,741	1,244
Taxes paid		(5,986)	(4,228)
Net cash from (used in) operating activities		83,755	(2,984)
<b>Investing activities</b>			
Purchase of non-trading investments		(5,000)	(6,686)
Proceeds from sale of non-trading investments		3,475	6,321
Purchase of premises and equipment	7	(2,098)	(332)
Disposal of premises and equipment		34	56
Translation differences on investments, premises and equipment and tax		16	(3)
Interest received on Government Development Bonds		128	258
Dividends received from investment securities	17	699	637
Net cash (used in) from investing activities		(2,746)	251
<b>Financing activity</b>			
Payment of dividend		(18,918)	(16,100)
Proceeds from subordinated loans		1,500	-
Net cash used in financing activity		(17,418)	(16,100)
<b>Increase (decrease) in short term funds</b>		63,591	(18,833)
Cash and cash equivalents at the beginning of the period		277,712	320,543
<b>Cash and short term funds at the end of the period</b>		341,303	301,710
<b>Representing:</b>			
Cash and balances with Central Banks		322,418	307,588
Deposits and balances with other banks and financial institutions (net)		18,885	(5,878)
		341,303	301,710

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

## INTERIM CONDENSED STATEMENT OF CHANGES IN EQUITY

For the period ended 31 March 2009 (Unaudited)

<i>(RO'000)</i>	<i>Share capital</i>	<i>Share premium reserve</i>	<i>Legal reserve **</i>	<i>General reserve</i>	<i>Other non distributable reserves</i>	<i>Cumulative changes in fair value</i>	<i>Proposed cash dividend</i>	<i>Proposed issue of bonus shares</i>	<i>Retained earnings</i>	<i>Total</i>
Balance at 1 January 2008	92,000	34,465	26,026	4,419	18,993	15,840	16,100	16,100	8,844	<b>232,787</b>
Total comprehensive income for the period	-	-	-	-	-	(3,306)	-	-	10,945	<b>7,639</b>
Issue of bonus shares	16,100	-	-	-	-	-	-	(16,100)	-	-
Dividend paid during the period	-	-	-	-	-	-	(16,100)	-	-	<b>(16,100)</b>
<b>Balance at 31 March 2008</b>	<b>108,100</b>	<b>34,465</b>	<b>26,026</b>	<b>4,419</b>	<b>18,993</b>	<b>12,534</b>	-	-	<b>19,789</b>	<b>224,326</b>
Balance at 1 April 2008	108,100	34,465	26,026	4,419	18,993	12,534	-	-	19,789	<b>224,326</b>
Total comprehensive income for the period	-	-	-	-	-	(13,376)	-	-	34,435	<b>21,059</b>
Transfer to subordinated funds reserve	-	-	-	-	2,500	-	-	-	(2,500)	-
Transfer to legal reserve	-	-	4,538	-	-	-	-	-	(4,538)	-
Transferred to proposed dividend	-	-	-	-	-	-	18,918	-	(18,918)	-
Transfer to retained earnings	-	-	-	-	(6,182)	-	-	-	6,182	-
<b>Balance at 31 December 2008</b>	<b>108,100</b>	<b>34,465</b>	<b>30,564</b>	<b>4,419</b>	<b>15,311</b>	<b>(842)</b>	<b>18,918</b>	-	<b>34,450</b>	<b>245,385</b>

**INTERIM CONDENSED STATEMENT OF CHANGES IN EQUITY (continued)**  
**Period ended 31 March 2009 (Unaudited)**

<i>(RO'000)</i>	<i>Share capital</i>	<i>Share premium</i>	<i>Legal reserve *</i>	<i>General reserve</i>	<i>Other non distributable reserves</i>	<i>Cumulative changes in fair value</i>	<i>Proposed cash dividend</i>	<i>Proposed issue of Bonus shares</i>	<i>Retained earnings</i>	<i>Total</i>
Balance at 1 January 2009	108,100	34,465	30,564	4,419	15,311	(842)	18,918	-	34,450	245,385
Total comprehensive income for the period	-	-	-	-	-	(155)	-	-	7,334	7,179
Dividend paid during the period	-	-	-	-	-	-	(18,918)	-	-	(18,918)
<b>Balance as at 31 March 2009</b>	<b>108,100</b>	<b>34,465</b>	<b>30,564</b>	<b>4,419</b>	<b>15,311</b>	<b>(997)</b>	<b>-</b>	<b>-</b>	<b>41,784</b>	<b>233,646</b>

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

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

## NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT 31 March 2009 (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 1,332 employees as of 31 March 2009 (31 March 2008 - 1,155 employees and 31 December 2008 – 1,345)

### 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 2008.

During the period, the bank has adopted the following standards effective for the annual periods beginning on or after 1 January 2009.

IAS 1 'Presentation of Financial Statements' (Revised):

The revised standard requires changes in equity arising from transactions with owners in their capacity as owners (ie. owner changes in income) to be presented in the statement of changes in equity. All other changes in equity (i.e. non-owner changes in equity) are required to be presented separately in a performance statement (consolidated statement of comprehensive income). Components of comprehensive income are not permitted to be presented in the statement of changes in equity.

IFRS 8 'Operating segments':

The new standard which replaced IAS 14 'Segment reporting' requires a 'management approach' under which segment information is presented on the same basis as that used for internal reporting purposes.

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 2009 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2009.

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

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

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

## NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT

### 31 March 2009 (Unaudited)

#### 3 CASH AND BALANCES WITH CENTRAL BANKS

	<i>31/03/2009</i>	<i>31/03/2008</i>	<i>31/12/2008</i>
	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>
Cash	20,737	16,717	21,755
Treasury bills with Central Banks	2,389	4,048	3,491
Certificate of deposit with Central Banks	108,000	119,914	24,000
Other balances with Central Banks	191,292	166,909	215,879
<b>Cash and short term funds</b>	<b>322,418</b>	<b>307,588</b>	<b>265,125</b>
Insurance deposit with Central Bank of Oman	764	764	764
Capital deposit with Central Bank of Oman	500	500	500
	<b>323,682</b>	<b>308,852</b>	<b>266,389</b>

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>31/03/2009</i>	<i>31/03/2008</i>	<i>31/12/2008</i>
	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>
Net loans and advances to banks	83,929	81,927	121,131
Due from banks - money market placement	85,714	38,533	63,584
Other balances	7,961	5,385	13,896
<b>Net due from banks and other money market placement</b>	<b>177,604</b>	<b>125,845</b>	<b>198,611</b>

#### 5 LOANS AND ADVANCES TO CUSTOMERS (NET)

	<i>31/03/2009</i>	<i>31/03/2008</i>	<i>31/12/2008</i>
	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>
Corporate loans	793,199	607,774	831,071
Personal loans	608,810	424,653	560,220
Overdrafts	77,552	52,680	74,173
<b>Gross loans and advances</b>	<b>1,479,561</b>	<b>1,085,107</b>	<b>1,465,464</b>
Less: Allowance for credit losses	(65,820)	(69,753)	(64,246)
<b>Net loans and advances</b>	<b>1,413,741</b>	<b>1,015,354</b>	<b>1,401,218</b>

Gross loans and advances include RO 12.86 million due from related parties at 31 March 2009 (31 March 2008 - RO 12.03 million/ 31 December 2008 – RO 15.11 million).

## NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT

### 31 March 2009 (Unaudited)

#### 5 LOANS AND ADVANCES (continued)

The average effective interest rate on gross loans and advances as at 31 March 2009 was 6.80% (31 March 2008- 7.04% and 31 December 2008 – 6.71%).

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

##### Allowance for credit losses

	<i>3 months ended 31/03/2009 RO'000</i>	<i>3 months ended 31/03/2008 RO'000</i>	<i>12 months ended 31/12/2008 RO'000</i>
Balance at beginning of period / year	51,424	53,245	53,245
Provided during the period / year	3,682	4,050	15,581
Recovered/ released during the period / year	(1,225)	(531)	(5,509)
Written off during the period / year	(544)	(373)	(11,858)
Translation difference	(199)	152	(35)
Balance at end of period / year	<u>53,138</u>	<u>56,543</u>	<u>51,424</u>

##### Reserved interest

	<i>3 months ended 31/03/2009 RO'000</i>	<i>3 months ended 31/03/2008 RO'000</i>	<i>12 months ended 31/12/2008 RO'000</i>
Balance at beginning of period / year	12,822	15,953	15,953
Reserved during the period / year	841	792	3,069
Recovered/ released during the period / year	(53)	(2,370)	(3,042)
Recovered/released during the period to interest income	(110)	(45)	(361)
Written off during the period / year	(814)	(1,121)	(2,797)
Translation difference	(4)	1	-
Balance at end of period / year	<u>12,682</u>	<u>13,210</u>	<u>12,822</u>

For the period ended 31 March 2008, RO 1.9 million included in recovery represents the suspended 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.

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 2009 loans and advances on which interest is not being accrued or where interest has been reserved amounted to RO 66 million (31 March 2008 – RO 73.2 million and 31 December 2008 – RO 64.2. million).

## NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT

### 31 March 2009 (Unaudited)

#### 6 NON TRADING INVESTMENTS

The bank had no investments in associates or subsidiaries as of 31 March 2009 (31 March 2008 and 31 December 2008 – Nil).

##### a) Available for sale

	<i>Carrying value 31/03/2009 RO'000</i>	<i>Cost 31/03/2009 RO'000</i>	<i>Carrying value 31/03/2008 RO'000</i>	<i>Cost 31/03/2008 RO'000</i>	<i>Carrying value 31/12/2008 RO'000</i>	<i>Cost 31/12/2008 RO'000</i>
<b>Quoted investments- Oman</b>						
Banking and investment sector	1,479	2,510	2,654	2,219	1,834	2,640
Industry sector	2,491	3,509	7,312	4,512	3,036	4,461
Service sector	7,482	11,287	7,241	6,920	8,993	11,287
Government Development Bonds	10,011	10,011	-	-	10,012	10,012
	<u>21,463</u>	<u>27,317</u>	<u>17,207</u>	<u>13,651</u>	<u>23,875</u>	<u>28,400</u>
<b>Quoted investments- Foreign</b>						
Banking and investment sector	349	27	16,939	6,755	333	28
Service sector	65	354	242	354	103	354
	<u>414</u>	<u>381</u>	<u>17,181</u>	<u>7,109</u>	<u>436</u>	<u>382</u>
<b>Unquoted investments</b>						
Banking and investment sector	7,339	8,013	3,073	2,943	2,479	3,038
Service sector	56	56	22	22	56	56
	<u>7,395</u>	<u>8,069</u>	<u>3,095</u>	<u>2,965</u>	<u>2,535</u>	<u>3,094</u>
<b>Total available for sale</b>	<u>29,272</u>	<u>35,767</u>	<u>37,483</u>	<u>23,725</u>	<u>26,846</u>	<u>31,876</u>

## NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT

### 31 March 2009 (Unaudited)

#### 6 INVESTMENTS (continued)

##### b) Held to maturity

	<i>Carrying value 31/03/2009 RO'000</i>	<i>Cost 31/03/2009 RO'000</i>	<i>Carrying value 31/03/2008 RO'000</i>	<i>Cost 31/03/2008 RO'000</i>	<i>Carrying value 31/12/2008 RO'000</i>	<i>Cost 31/12/2008 RO'000</i>
Government Development Bonds	999	999	8,001	8,001	3,999	3,999
Total non trading investments	<u>30,271</u>	<u>36,766</u>	<u>45,484</u>	<u>31,726</u>	<u>30,845</u>	<u>35,875</u>

#### Details of significant investments

Details of investments exceeding 10% of the carrying value of the bank's investment portfolio as at 31 March 2009 are as follows:

<u>31 March 2009</u>	<i>Bank's portfolio %</i>	<i>Number of Securities</i>	<i>Carrying Value RO'000</i>	<i>Cost RO'000</i>
Investment Stabilization Fund	<u>17.08</u>	<u>5,000,000</u>	<u>5,000</u>	<u>5,000</u>
<u>31 March 2008</u>				
Gulf Commercial Bank Al Khaliji	<u>44.10</u>	<u>12,100,000</u>	<u>16,530</u>	<u>6,727</u>
<u>31 December 2008</u>				
Gulf Commercial Bank Al Khaliji	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>



## NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT

### 31 March 2009 (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>
<b>Reconciliation of carrying amount:</b>				
Balance at 1 January 2009, net of accumulated depreciation	3,670	4,088	1,812	9,570
Additions	19	435	1,644	2,098
Disposals	-	(19)	-	(19)
Translation difference	(10)	(4)	-	(14)
Depreciation	(116)	(358)	-	(474)
<b>Balance at 31 March 2009, net of accumulated depreciation</b>	<u><u>3,563</u></u>	<u><u>4,142</u></u>	<u><u>3,456</u></u>	<u><u>11,161</u></u>
At cost / valuation	12,716	17,050	3,456	33,222
Accumulated depreciation	<u>(9,153)</u>	<u>(12,908)</u>	<u>-</u>	<u>(22,061)</u>
<b>Net carrying value at 31 March 2009</b>	<u><u>3,563</u></u>	<u><u>4,142</u></u>	<u><u>3,456</u></u>	<u><u>11,161</u></u>
Net carrying value at 31 March 2008	<u><u>3,056</u></u>	<u><u>3,037</u></u>	<u><u>578</u></u>	<u><u>6,671</u></u>
Net carrying value at 31 December 2008	<u><u>3,670</u></u>	<u><u>4,088</u></u>	<u><u>1,812</u></u>	<u><u>9,570</u></u>

## NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT

### 31 March 2009 (Unaudited)

#### 8 OTHER ASSETS

	<i>31/03/2009</i> <i>RO'000</i>	<i>31/03/2008</i> <i>RO'000</i>	<i>31/12/2008</i> <i>RO'000</i>
Interest receivable	7,564	4,867	8,285
Prepayments and deposits	2,053	1,952	1,502
Collateral pending sale	1,980	2,176	2,025
Positive fair value of derivatives (note 22)	1,136	621	1,843
Customers' indebtedness for acceptances (note 10)	30,950	50,507	57,625
Others	5,095	7,640	6,485
	<u>48,778</u>	<u>67,763</u>	<u>77,765</u>
Amount receivable from BCCI	3,472	4,587	3,595
Less provision for amount receivable from BCCI	(3,472)	(4,587)	(3,595)
Net due from BCCI	<u>-</u>	<u>-</u>	<u>-</u>

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

On 7 July 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.

#### 9 CUSTOMERS' DEPOSITS

	<i>31/03/2009</i> <i>RO'000</i>	<i>31/03/2008</i> <i>RO'000</i>	<i>31/12/2008</i> <i>RO'000</i>
Current accounts	354,109	237,522	233,033
Savings accounts	275,767	221,938	221,855
Certificate of deposits	53,800	53,800	53,800
Term deposits	739,622	545,847	833,067
	<u>1,423,298</u>	<u>1,059,107</u>	<u>1,341,755</u>

The average effective interest rate of deposits as at 31 March 2009 was 3.47% (31 March 2008 – 3.30% and 31 December 2008 - 3.10%).

#### 10 OTHER LIABILITIES

	<i>31/03/2009</i> <i>RO'000</i>	<i>31/03/2008</i> <i>RO'000</i>	<i>31/12/2008</i> <i>RO'000</i>
Interest payable	14,069	9,608	10,581
Other accruals and provisions	25,189	15,628	12,249
Negative fair value of derivatives (note 22)	1,824	1,226	4,441
Liabilities under acceptances (note 8)	30,950	50,507	57,625
	<u>72,032</u>	<u>76,969</u>	<u>84,896</u>

## NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT

### 31 March 2009 (Unaudited)

#### 11 TAXATION

	<i>31/03/2009</i> <i>RO'000</i>	<i>31/03/2008</i> <i>RO'000</i>	<i>31/12/2008</i> <i>RO'000</i>
<b>Income statement</b>			
Current period/year	<b>1,415</b>	1,542	6,275
	<b>1,415</b>	1,542	6,275

#### 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>31/03/2009</i> <i>RO'000</i>	<i>31/03/2008</i> <i>RO'000</i>	<i>31/12/2008</i> <i>RO'000</i>
Accounting profit	<b>8,749</b>	12,487	51,655
Tax applicable rate	<b>1,050</b>	1,498	6,195
Non-deductible expenses	<b>396</b>	-	496
Tax exempt revenues	<b>(91)</b>	(238)	(530)
Others	<b>60</b>	282	114
	<b>1,415</b>	1,542	6,275

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 2008 will not be significant to the bank's financial position at 31 March 2009.

## NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT

### 31 March 2009 (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 2008.

	<i>31/03/2009</i> <i>RO'000</i>	<i>31/03/2008</i> <i>RO'000</i>	<i>31/12/2008</i> <i>RO'000</i>
<b>Tax liability</b>			
<i>Current period/year</i>			
Income tax and other taxes	1,415	1,548	6,275
<i>Prior period/year</i>			
Income tax and other taxes	1,300	1,441	1,038
	<u>2,715</u>	<u>2,989</u>	<u>7,313</u>
	<u><u>2,715</u></u>	<u><u>2,989</u></u>	<u><u>7,313</u></u>
<b>Recognised deferred tax assets and liabilities</b>			
	<i>31/03/2009</i> <i>RO'000</i>	<i>31/03/2008</i> <i>RO'000</i>	<i>31/12/2008</i> <i>RO'000</i>
Deferred tax assets and liabilities are attributable to the following:			
Available for sale investments	<u>77</u>	<u>1,224</u>	<u>61</u>
	<u><u>77</u></u>	<u><u>1,224</u></u>	<u><u>61</u></u>

Deferred tax is calculated at 12% (2008 – 12%).

## NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT

### 31 March 2009 (Unaudited)

#### 12 SUBORDINATED PRIVATE PLACEMENT

	<i>31/03/2009</i> <i>RO'000</i>	<i>31/03/2008</i> <i>RO' 000</i>	<i>31/12/2008</i> <i>RO'000</i>
Placements received in 2009 (i)	<b>1,500</b>	-	-
Placements received in 2008 (ii)	<b>16,100</b>	-	16,100
Placements received in prior years (iii)	<b>12,500</b>	12,500	12,500
	<b>30,100</b>	12,500	28,600

- (i) This placement with a call option to renew the facility after 6 years is repayable at the end of March 2019, or the date on which the bank exercises its call option. The placement carries an annual interest rate of 7%, for the first 72 months from the subscription date and 7.5%, for the period commencing from the 73rd month till the maturity.
- (ii) This placement with a call option to renew the facility after 6 years is repayable at the end of October 2018, or the date on which the bank exercises its call option. The placement carries an annual interest rate of 7.25%, for the first 72 months from the subscription date and 7.75%, for the period commencing from the 73rd month till the maturity.
- (iii) The placement carries an effective annual interest rate of 5.87% and is due to mature in April 2009.
- (iv) In accordance with the requirement of Central Bank of Oman, an amount of RO 2.5 million (USD 6.5 million) is set aside annually till the maturity of private placement towards a non-distributable subordinated fund reserve account. The reserve is created for placements, which are due to mature within next five years period.

#### 13 OTHER NON DISTRIBUTABLE RESERVES

	<i>Revaluation reserve RO '000'</i>	<i>Subordinated loan reserve RO '000'</i>	<i>Other reserve RO '000'</i>	<i>Total RO '000'</i>
At 1 January 2009	2,811	12,500	-	15,311
Transfer	-	-	-	-
<b>At 31 March 2009</b>	<b>2,811</b>	<b>12,500</b>	-	<b>15,311</b>
At 31 March 2008	2,811	10,000	6,182	18,993
<b>At 31 December 2008</b>	<b>2,811</b>	<b>12,500</b>	-	<b>15,311</b>

The revaluation reserve represents the surplus on revaluation of land and building and is not available for distribution until the related assets have been disposed off or used.

## NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT

### 31 March 2009 (Unaudited)

#### 14 CONTINGENT LIABILITIES AND COMMITMENTS

	<i>31/03/2009</i> <i>RO'000</i>	<i>31/03/2008</i> <i>RO'000</i>	<i>31/12/2008</i> <i>RO'000</i>
Guarantees	339,926	279,864	360,278
Documentary letters of credit	109,616	194,727	162,059
Undrawn Commitment to lend	39,027	111,051	97,970
	<u>488,569</u>	<u>585,642</u>	<u>620,307</u>

Contingent liabilities include RO 0.1 million (31 March 2008 – RO 0.4 million/31 December 2008 – RO 0.2 million) relating to non-performing loans.

#### 15 INTEREST INCOME

Interest bearing assets earned interest at an overall rate of 6.51% for the three months period ended 31 March 2009 (31 March 2008 – 7.21% / 31 December 2008 – 6.30%).

#### 16 INTEREST EXPENSE

For the three months period ended 31 March 2009, the average overall cost of funds was 3.27% (31 March 2008 – 3.43 %/ 31 December 2008 – 3.22%).

#### 17 OTHER OPERATING INCOME

	<i>3 months ended</i> <i>31/03/2009</i> <i>RO'000</i>	<i>3 months ended</i> <i>31/03/2008</i> <i>RO'000</i>
Net gains from foreign exchange dealings	748	639
Fees and commissions	2,294	2719
Profit on sale of available for sale investments (net)	21	1,742
Income from bonds and others	128	258
Dividend income	699	637
Service charges	3,008	2,842
Miscellaneous income	302	168
	<u>7,200</u>	<u>9,005</u>

#### 18 OTHER OPERATING EXPENSES

	<i>3 months ended</i> <i>31/03/2009</i> <i>RO'000</i>	<i>3 months ended</i> <i>31/03/2008</i> <i>RO'000</i>
Establishment costs	903	548
Operating and administration expenses	1,925	2,020
	<u>2,828</u>	<u>2,568</u>

## NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT

### 31 March 2009 (Unaudited)

#### 19 RELATED PARTY TRANSACTIONS

##### *Management service agreement with a shareholder*

Based on the approval received from its shareholders in the Annual General Meeting held on 23 March 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 pays management fees as follows:

- For profit up to RO 15 million, no management fees is payable
- For profits between RO 15 million to RO 30 million the higher of management costs or 1% of the bank's profit
- For profits in excess of RO 30 million, in addition to the above, 3% of the 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 2009, management fees of RO 0.08 million have been accrued for (31 March 2008 – RO 0.15 million and 31 December 2008 – RO 0.80 million).

##### *Other related parties transactions:*

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

	31/03/2009			31/03/2008		
	<i>Principal shareholder</i>	<i>Others</i>	<i>Total</i>	<i>Principal shareholder</i>	<i>Others</i>	<i>Total</i>
	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>
Loans and advances	-	12,860	12,860	-	12,031	12,031
Customer's deposits	-	13,943	13,943	-	7,397	7,397
Due from banks	3,875	-	3,875	361	-	361
Due to banks	6	-	6	143	-	143
Subordinated private placement	-	4,600	4,600	-	4,600	4,600
Letter of credit, guarantees and acceptance	215	6,478	6,693	215	7,682	7,897
Standby revolving credit facility	26,950	11,550	38,500	26,950	-	26,950
Risk indemnities received	65,902	-	65,902	65,902	-	65,902

## NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT

### 31 March 2009 (Unaudited)

#### 19 RELATED PARTY TRANSACTIONS (continued)

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

	31/03/2009			31/03/2008		
	<i>Principal shareholder</i>	<i>Others</i>	<i>Total</i>	<i>Principal shareholder</i>	<i>Others</i>	<i>Total</i>
	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>
Interest income	10	191	201	-	132	132
Commission income	-	17	17	-	32	32
Interest expense	-	104	104	-	69	69
Other expenses	14	97	111	28	49	77

Senior Management compensation:

	31/03/2009	31/03/2008	31/12/2008
	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>
Salaries and other short term benefits			
- Fixed	449	255	1,469
- Discretionary	488	518	696
	<u>937</u>	<u>773</u>	<u>2,165</u>

#### 20 SHAREHOLDERS

As of 31 March 2009, shareholders of the bank who own 10% or more of the bank's shares, whether in their name or through a nominee account and the number of shares held are as follows:

	<i>Number of shares '000</i>	<i>% Holding</i>
The Commercial Bank of Qatar (CBQ)	376,762	34.85%
Suhail Bahwan Group (Holdings) LLC	159,385	14.74%

The bank had no preferred shareholders as of 31 March 2009 (31 March 2008 – nil/31 December 2008 – nil).



## NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT

### 31 March 2009 (unaudited)

#### 21 SEGMENT REPORTING

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

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

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

Segment information is as follows:

<i>3 months ended 31 March 2009</i>	<i>Consumer banking RO'000</i>	<i>Corporate banking RO'000</i>	<i>Investment banking RO'000</i>	<i>Treasury and international banking RO'000</i>	<i>Unallocated RO'000</i>	<i>Total RO'000</i>
Operating income	10,416	6,368	932	1,608	969	20,293
Profit	5,828	5,303	(929)	1,532	(4,400)	7,334
Total assets	574,363	784,687	19,261	98,929	528,133	2,005,373
<i>3 months ended 31 March 2008</i>	<i>Consumer banking RO'000</i>	<i>Corporate banking RO'000</i>	<i>Investment banking RO'000</i>	<i>Treasury and international banking RO'000</i>	<i>Unallocated RO'000</i>	<i>Total RO'000</i>
Operating income	9,906	4,974	2,421	2,458	38	19,796
Profit	7,814	3,997	2,346	2,197	(5,408)	10,945
Total assets	382,875	563,296	37,483	79,336	507,027	1,570,018

## NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT

31 March 2009 (Unaudited)

### 22 DERIVATIVES

31 March 2009	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	329	(329)	10,500	-	3,000	7,500
Credit default swaps	-	(849)	7,700	-	-	7,700
Forward foreign exchange purchase contracts	151	(646)	88,196	66,408	17,436	4,352
Forward foreign exchange sales contracts	656	-	88,196	66,527	17,248	4,421
Interest rate caps	-	-	823	80	180	563
Total	1,136	(1,824)	195,415	133,015	37,864	24,536

31 March 2008	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	-	(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

## NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT

### 31 March 2009 (Unaudited)

#### 22 DERIVATIVES (continued)

31 December 2008	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	366	(366)	12,000	1,500	1,500	9,000
Credit default swaps	-	(987)	9,625	1,925	-	7,700
Forward foreign exchange purchase contracts	1,367	(1)	108,953	87,169	17,987	3,797
Forward foreign exchange sales contracts	110	(3,087)	108,953	87,334	17,965	3,654
Interest rate caps	-	-	883	80	181	622
	<u>1,843</u>	<u>(4,441)</u>	<u>240,414</u>	<u>178,008</u>	<u>37,633</u>	<u>24,773</u>

#### Cash flow hedge

During the year 2008, the bank entered into three funded cross currency interest rate swaps amounting to RO 17.90 million (USD 46.5 million) in order to hedge an equivalent amount due to a bank. As of the 31 March 2009, the mark to market adjustments for these cross currency interest rate swaps amounted to RO 0.602 million (31 December 2008: RO 0.425 million) which is recorded in equity with a corresponding adjustment made to amounts due to banks. These cross currency interest rate swaps will mature on 8 April 2010.

#### 23 COMPARATIVE FIGURES

The corresponding figures for 31 March 2008 and 31 December 2008 included for comparative purposes have been reclassified wherever appropriate. Such re-classifications do not impact previously reported net profit or equity.