

National Bank of Oman SAOG

INTERIM CONDENSED FINANCIAL STATEMENTS

30 September 2009 (UNAUDITED)



PO Box 751 PC 112 Ruwi Sultanate of Oman.

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Chairman's Report – 30 September 2009

TO OUR ESTEEMED SHAREHOLDERS:

On behalf of the Board of Directors of National Bank of Oman SAOG, I am pleased to announce the unaudited results for the nine months ended 30 September 2009.

Operating Performance

The bank achieved a net profit after tax of RO 19.6 million for the nine months ended 30 September 2009 compared to RO 34.8 million for the same period in 2008. Notwithstanding very testing global market conditions, the Bank's operating profit for the first nine months of 2009 declined by only 5% compared to 2008.

The Bank successfully grew its net interest income by 22% to RO 42.3 million from RO 34.6 million in the prior year period through focused balance sheet management.

Trade related activities and investment income were both lower than in the comparative period in 2008 and contributed to the decline in the ratio of non interest income to total income from 43% to 31%. The cost to income ratio for the period increased to 42% from 40% in September 2009 mainly as a result of the decrease in non interest income and a significant amount of investment in our business as we substantially increased our distribution footprint and rebranded the bank.

The results for the nine months to 30 September 2009 have been negatively impacted by factors relating to the global economic crisis. We have taken provisions against our investment portfolio of RO 3.1 million and a provision of RO 4 million against three specific bank exposures. The debt restructuring process for these banks is not yet complete. The bank has, on a prudent and conservative basis, now provided 50% against two of the three banks and 37.5% against the third.

During the nine months ended 30 September 2009, total advances declined by RO 23 million in line with the bank's approach to lend selectively and prudently and deposits declined by RO 97 million as a result of releasing certain high cost deposits. However, savings deposits registered a growth of 21% when compared with year end 2008.

In line with our strategy to expand the consumer banking franchise, the bank opened 9 new branches and 23 new ATMs throughout Oman during the first nine months of 2009. The Bank also continues to work closely with its strategic partner, Commercialbank in various projects aimed at producing improved customer value propositions and business efficiencies through the adoption of global best practices.

National Bank of Oman SAOG

Capital

The capital adequacy ratio at 30 September 2009 was 15.5% compared to 15% as at 30th June 2009. With market conditions remaining uncertain, the Bank's capital position will continue to be carefully managed and well above Central Bank's minimum required level of 10%.

Appreciation

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

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

Particulars	<i>9 months ended 30/09/2009</i>	<i>9 months ended 30/09/2008</i>
(All RO ‘000 unless stated otherwise)		
Loans and advances to customers (net)	1,378,197	1,230,783
Customers’ deposits	1,244,630	1,163,612
Other assets	30,671	111,767
Net interest income	42,382	34,614
Profit before tax	22,381	39,588
Earnings per share-annualized (RO)	0.024	0.043
Net assets per share (RO)	0.230	0.228


INTERIM CONDENSED STATEMENT OF FINANCIAL POSITION

30 September 2009 (Un-audited)

		30 September 2009 RO'000	30 September 2008 RO'000	Audited 31 December 2008 RO'000
	Notes			
Assets				
Cash and balances with Central Banks	3	211,642	228,358	266,389
Due from banks and other money market placements (net)	4	89,051	173,744	198,611
Loans and advances to customers (net)	5	1,378,197	1,230,783	1,401,218
Financial assets at fair value through profit and loss	6	17,420	21	21
Non-trading financial investments	7	31,828	53,047	30,845
Premises and equipment	8	12,495	8,189	9,570
Deferred tax asset	12	51	-	61
Other assets	9	30,671	111,767	77,765
Total assets		1,771,355	1,805,909	1,984,480
Liabilities				
Due to banks and other money market deposits		212,382	257,027	276,531
Customers' deposits	10	1,244,630	1,163,612	1,341,755
Other liabilities	11	43,758	118,700	84,896
Taxation	12	3,996	5,848	7,313
Deferred tax liability	12	-	1,321	-
Total liabilities		1,504,766	1,546,508	1,710,495
Subordinated funds				
Subordinated private placement	13	17,600	12,500	28,600
Equity				
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	14	2,811	18,993	15,311
Cumulative changes in fair value		2,110	11,242	(842)
Proposed cash dividend		-	-	18,918
Retained earnings		66,520	43,656	34,450
Total equity		248,989	246,901	245,385
Total liabilities, subordinated funds and equity		1,771,355	1,805,909	1,984,480

The interim condensed statement of financial position were authorised for issue on 15th October 2009 in accordance with a resolution of the Board of Directors.

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Chairman



 Chief Executive Officer

The attached notes 1 to 24 form part of the interim condensed financial statements.

INTERIM CONDENSED STATEMENT OF INCOME
30 September 2009 (Un-audited)

		<i>Nine months ended 30 September</i>		<i>Three months ended 30 September</i>	
		<i>2009</i>	<i>2008</i>	<i>2009</i>	<i>2008</i>
	<i>Notes</i>	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>
Interest income	16	77,530	64,628	25,021	22,914
Interest expense	17	(35,148)	(30,014)	(10,487)	(10,533)
Net interest income		42,382	34,614	14,534	12,381
Other operating income	18	18,690	27,043	4,705	8,352
Operating income		61,072	61,657	19,239	20,733
Operating expenses					
Staff costs		(15,326)	(14,299)	(5,099)	(5,255)
Other operating expenses	19	(8,565)	(9,026)	(2,888)	(3,423)
Depreciation	8	(1,958)	(1,299)	(819)	(486)
		(25,849)	(24,624)	(8,806)	(9,164)
Operating profit before net impairment losses and tax		35,223	37,033	10,433	11,569
Credit loss expense – customer loans	5	(10,437)	(10,359)	(2,495)	(3,552)
Recoveries/releases from provision for credit losses	5	2,000	6,922	313	2,797
Recoveries from loans and advances written off		2,725	5,992	916	3,094
Impairment losses on available for sale investments		(3,135)	-	(256)	-
Credit loss expense - bank loans	4	(3,995)	-	(1,871)	-
Total impairment losses		(12,842)	2,555	(3,393)	2,339
Profit before tax		22,381	39,588	7,040	13,908
Taxation	12	(2,811)	(4,776)	(921)	(1,672)
Profit for the period		19,570	34,812	6,119	12,236
Basic and diluted earnings per share-annualised		0.024	0.043	0.022	0.045

The attached notes 1 to 24 form part of the interim condensed financial statements.

INTERIM CONDENSED STATEMENT OF COMPREHENSIVE INCOME
30 September 2009 (Un-audited)

	<i>Nine months ended 30 September</i>		<i>Three months ended 30 September</i>	
	<i>2009</i>	<i>2008</i>	<i>2009</i>	<i>2008</i>
	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>
Profit for the period	19,570	34,812	6,119	12,236
Other comprehensive income				
Net unrealised loss (gain) on available for sale investments	1,942	(3,277)	1,253	(8,194)
Net unrealised loss on cash flow hedge	(318)	-	(1,433)	-
Impairment losses realized on available for sale investments	1,338	-	190	-
Tax effect of net unrealised movements on available for sale financial investments	(10)	(1,321)	(12)	382
Other comprehensive income for the period	2,952	(4,598)	(2)	(7,812)
Total comprehensive income for the period	22,522	30,214	6,117	4,424

The attached explanatory notes 1 to 24 form part of the interim condensed financial statements.

INTERIM CONDENSED STATEMENT OF CASH FLOWS

30 September 2009 (Un-audited)

	<i>Notes</i>	9 months ended 30/09/2009 RO'000	9 months ended 30/09/2008 RO'000
Operating activities			
Profit before tax for the period		22,381	39,588
Adjustments for:			
Depreciation	8	1,958	1,299
Provision for credit losses and others		5,640	(493)
Provision for impairment in investments		3,135	-
Provision for impairment in bank loans		4,074	-
Profit on sale of assets (net)		(18)	(45)
Write back on sale of investments	18	(4,555)	-
(Profit)/ Loss on sale of investments	18	2,536	(4,075)
Investment income		(1,191)	(1,199)
Operating profit before changes in operating assets and liabilities		<u>33,960</u>	<u>35,075</u>
Due from banks and other money market placements		32,596	(74,153)
Increase in fair value of financial assets		(316)	-
Due to banks and other money market deposits		(10,663)	29,832
Loans and advances to customers		17,381	(323,525)
Financial assets at fair value through profit and loss		(17,399)	28
Other assets		47,104	(42,893)
Customers' deposits		(97,125)	227,589
Other liabilities		(41,138)	44,546
Cash used in operations		<u>(35,600)</u>	<u>(103,501)</u>
Taxes paid		(6,136)	(4,599)
Net cash used in operating activities		<u>(41,736)</u>	<u>(108,100)</u>
Investing activities			
Purchase of non-trading investments		(9,596)	(21,834)
Proceeds from sale of non-trading investments		10,743	15,048
Purchase of premises and equipment	8	(4,952)	(1,954)
Disposal of premises and equipment		88	81
Translation differences on investments, premises and equipment and tax		30	(8)
Interest received on Government Development Bonds		460	502
Dividends received from investment securities	18	731	697
Net cash used in from investing activities		<u>(2,496)</u>	<u>(7,468)</u>
Financing activity			
Payment of dividend		(18,918)	(16,100)
Net repayment from subordinated private placements		(11,000)	-
Net cash used in financing activity		<u>(29,918)</u>	<u>(16,100)</u>
Decrease in cash and cash equivalents		<u>(74,150)</u>	<u>(131,668)</u>
Cash and cash equivalents at the beginning of the period		<u>277,712</u>	<u>320,543</u>
Cash and cash equivalents at the end of the period		<u><u>203,562</u></u>	<u><u>188,875</u></u>
Representing:			
Cash and balances with Central Banks		210,378	227,094
Deposits and balances with other banks and financial institutions (net)		(6,816)	(38,219)
		<u>203,562</u>	<u>188,875</u>

The attached explanatory notes 1 to 24 form part of the interim condensed financial statements.

INTERIM CONDENSED STATEMENT OF CHANGES IN EQUITY

Period ended 30 September 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 2008	92,000	34,465	26,026	4,419	18,993	15,840	16,100	16,100	8,844	232,787
Total comprehensive income for the period	-	-	-	-	-	(4,598)	-	-	34,812	30,214
Issue of bonus shares	16,100	-	-	-	-	-	-	(16,100)	-	-
Dividend paid during the period	-	-	-	-	-	-	(16,100)	-	-	(16,100)
Balance at 30 September 2008	108,100	34,465	26,026	4,419	18,993	11,242	-	-	43,656	246,901
Balance at 1 October 2008	108,100	34,465	26,026	4,419	18,993	11,242	-	-	43,656	246,901
Total comprehensive income for the period	-	-	-	-	-	(12,084)	-	-	10,568	(1,516)
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	-
Balance at 31 December 2008	108,100	34,465	30,564	4,419	15,311	(842)	18,918	-	34,450	245,385

INTERIM CONDENSED STATEMENT OF CHANGES IN EQUITY (continued)
Period ended 30 September 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	-	-	-	-	-	2,952	-	-	19,570	22,522
Transfer to retained earnings	-	-	-	-	(12,500)	-	-	-	12,500	-
Dividend paid during the period	-	-	-	-	-	-	(18,918)	-	-	(18,918)
Balance as at 30 September 2009	108,100	34,465	30,564	4,419	2,811	2,110	-	-	66,520	248,989

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

The attached notes 1 to 24 form part of the interim condensed financial statements.

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT 30 September 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 retail, corporate banking, and investment banking services within the Sultanate of Oman with overseas branches in the United Arab Emirates and Egypt. The bank operates in Oman under a banking licence issued by the Central Bank of Oman and is covered by its deposit insurance scheme. The registered address of the bank is PO Box 751, Ruwi, Postal Code 112, Muscat, Sultanate of Oman.

The bank employed 1,316 employees as of 30 September 2009 (30 September 2008 - 1,358 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 (i.e. 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 (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 nine months ended 30 September 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 assets carried at fair value through profit and loss and available for sale at fair value.

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT
30 September 2009 (Unaudited)

3 CASH AND BALANCES WITH CENTRAL BANKS

	<i>30/09/2009</i>	<i>30/09/2008</i>	<i>31/12/2008</i>
	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>
Cash	28,062	20,946	21,755
Treasury bills with Central Banks	3,288	4,578	3,491
Certificate of deposit with Central Banks	85,000	28,000	24,000
Other balances with Central Banks	94,028	173,570	215,879
	<u>210,378</u>	<u>227,094</u>	<u>265,125</u>
Cash and short term funds	210,378	227,094	265,125
Insurance deposit with Central Bank of Oman	764	764	764
Capital deposit with Central Bank of Oman	500	500	500
	<u>211,642</u>	<u>228,358</u>	<u>266,389</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 (NET)

	<i>30/09/2009</i>	<i>30/09/2008</i>	<i>31/12/2008</i>
	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>
Net loans and advances to banks	40,432	138,472	121,131
Placement with banks	46,914	31,361	63,584
Demand balances	5,779	3,911	13,896
	<u>93,125</u>	<u>173,744</u>	<u>198,611</u>
Due from banks and other money market placement	93,125	173,744	198,611
Less: Allowance for credit losses (refer note below)	(3,995)	-	-
Less: Reserved interest	(79)	-	-
	<u>89,051</u>	<u>173,744</u>	<u>198,611</u>
Net due from banks and other money market placement	89,051	173,744	198,611

During the second quarter of 2009, two large regional groups were reported to have defaulted on their payment obligations. As at 30 September 2009, the bank has a limited inter-bank exposure of RO 6.6 million against these groups. In addition, NBO has an exposure to a bank in Kazakhstan for RO 1.9 million which has also defaulted in meeting its payment obligations. The restructuring process for these banks is not yet complete. The bank has, on a prudent basis, decided to record an estimated provision of 50% against the two large regional groups and 37.5% against the bank in Kazakhstan.

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT
30 September 2009 (Unaudited)

5 LOANS AND ADVANCES TO CUSTOMERS (NET)

	<i>30/09/2009</i> <i>RO'000</i>	<i>30/09/2008</i> <i>RO'000</i>	<i>31/12/2008</i> <i>RO'000</i>
Corporate loans	761,054	714,341	831,071
Personal loans	618,549	525,823	560,220
Overdrafts	68,480	59,324	74,173
Gross loans and advances	<u>1,448,083</u>	<u>1,299,488</u>	<u>1,465,464</u>
Less: Allowance for credit losses	<u>(69,886)</u>	<u>(68,705)</u>	<u>(64,246)</u>
Net loans and advances	<u><u>1,378,197</u></u>	<u><u>1,230,783</u></u>	<u><u>1,401,218</u></u>

Gross loans and advances include RO 21.87 million due from related parties at 30 September 2009 (30 September 2008 - RO 16.34 million/ 31 December 2008 – RO 15.11 million).

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

Allowance for credit losses	<i>9 months ended</i> <i>30/09/2009</i> <i>RO'000</i>	<i>9 months ended</i> <i>30/09/2008</i> <i>RO'000</i>	<i>12 months ended</i> <i>31/12/2008</i> <i>RO'000</i>
Balance at beginning of period / year	51,424	53,245	53,245
Provided during the period / year	10,437	10,359	15,581
Recovered/ released during the period / year	(1,710)	(4,090)	(5,509)
Written off during the period / year	(3,490)	(4,632)	(11,858)
Translation difference	46	60	(35)
Balance at end of period / year	<u><u>56,707</u></u>	<u><u>54,942</u></u>	<u><u>51,424</u></u>
Reserved interest	<i>9 months ended</i> <i>30/09/2009</i> <i>RO'000</i>	<i>9 months ended</i> <i>30/09/2008</i> <i>RO'000</i>	<i>12 months ended</i> <i>31/12/2008</i> <i>RO'000</i>
Balance at beginning of period / year	12,822	15,953	15,953
Reserved during the period / year	2,393	2,274	3,069
Recovered/ released during the period / year	(290)	(2,832)	(3,042)
Recovered/released during the period to interest income	(492)	(249)	(361)
Written off during the period / year	(1,253)	(1,384)	(2,797)
Translation difference	(1)	1	-
Balance at end of period / year	<u><u>13,179</u></u>	<u><u>13,763</u></u>	<u><u>12,822</u></u>

For the period ended 30 September 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 30 September 2009 loans and advances on which interest is not being accrued or where interest has been reserved amounted to RO 69.6 million, 30 September 2008 – RO 71.7 million and 31 December 2008 – RO 64.2 million).

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT
30 September 2009 (Unaudited)

6 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS

	<i>30/09/2009</i> <i>RO'000</i>	<i>30/09/2008</i> <i>RO'000</i>	<i>31/12/2008</i> <i>RO'000</i>
Oman Government Development Bonds (OTC)	38	21	21
Oman Government Development Bonds	17,382	-	-
Total	17,420	21	21

7 NON TRADING FINANCIAL INVESTMENTS

The bank had no investments in associates or subsidiaries as of 30 September 2009 (30 September 2008 and 31 December 2008 – Nil).

a) Available for sale

	<i>Carrying value</i> <i>30/09/2009</i> <i>RO'000</i>	<i>Cost</i> <i>30/09/2009</i> <i>RO'000</i>	<i>Carrying value</i> <i>30/09/2008</i> <i>RO'000</i>	<i>Cost</i> <i>30/09/2008</i> <i>RO'000</i>	<i>Carrying value</i> <i>31/12/2008</i> <i>RO'000</i>	<i>Cost</i> <i>31/12/2008</i> <i>RO'000</i>
Quoted investments- Oman						
Banking and investment sector	249	254	2,470	2,640	1,834	2,640
Industry sector	671	462	5,114	3,957	3,036	4,461
Service sector	7,131	8,468	10,260	9,692	8,993	11,287
Government Development Bonds	10,010	10,010	10,012	10,012	10,012	10,012
	<u>18,061</u>	<u>19,194</u>	<u>27,856</u>	<u>26,301</u>	<u>23,875</u>	<u>28,400</u>
Quoted investments- Foreign						
Banking and investment sector	449	28	18,172	6,748	333	28
Service sector	147	354	193	354	103	354
	<u>596</u>	<u>382</u>	<u>18,365</u>	<u>7,102</u>	<u>436</u>	<u>382</u>
Unquoted investments						
Banking and investment sector	8,528	7,944	2,804	3,056	2,479	3,038
Service sector	56	56	22	22	56	56
	<u>8,584</u>	<u>8,000</u>	<u>2,826</u>	<u>3,078</u>	<u>2,535</u>	<u>3,094</u>
Total available for sale	27,241	27,576	49,047	36,481	26,846	31,876

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT
30 September 2009 (Unaudited)

7 NON TRADING FINANCIAL INVESTMENTS (continued)

b) Held to maturity

	<i>Carrying value 30/09/2009 RO'000</i>	<i>Cost 30/09/2009 RO'000</i>	<i>Carrying value 30/09/2008 RO'000</i>	<i>Cost 30/09/2008 RO'000</i>	<i>Carrying value 31/12/2008 RO'000</i>	<i>Cost 31/12/2008 RO'000</i>
Government Development Bonds	-	-	4,000	4000	3,999	3,999
Other bonds	4,587	4,587	-	-	-	-
Total non trading investments	31,828	32,163	53,047	40,481	30,845	35,875

Details of significant investments

Details of investments exceeding 10% of the carrying value of the bank's investment available for sale portfolio are as follows:

<u>30 September 2009</u>	<i>Bank's portfolio %</i>	<i>Number of securities</i>	<i>Carrying value RO'000</i>	<i>Cost RO'000</i>
Government Development Bonds	36.75	100,000	10,010	10,010
Investment Stabilization Fund	22.83	5,000,000	6,220	5,000
<u>30 September 2008</u>				
Gulf Commercial Bank Al Khaliji	36.28	12,100,000	17,795	6,721
<u>31 December 2008</u>				
	-	-	-	-

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT
30 September 2009 (Unaudited)

8 PREMISES AND EQUIPMENT

	<i>Freehold land and buildings and leasehold improvements RO'000</i>	<i>Motor vehicles, furniture and equipment RO'000</i>	<i>Capital work in progress RO'000</i>	<i>Total RO'000</i>
Reconciliation of carrying amount:				
Balance at 1 January 2009, net of accumulated depreciation	3,670	4,088	1,812	9,570
Addition	62	1,212	3,678	4,952
Disposal	-	(46)	(24)	(70)
Transfers	1,668	582	(2,250)	-
Translation difference	2	(1)	-	1
Depreciation	(714)	(1,244)	-	(1,958)
Balance at 30 September 2009, net of accumulated depreciation	4,688	4,591	3,216	12,495
At cost / valuation	14,451	18,162	3,216	35,829
Accumulated depreciation	(9,763)	(13,571)	-	(23,334)
Net carrying value at 30 September 2009	4,688	4,591	3,216	12,495
Net carrying value at 30 September 2008	3,680	3,529	980	8,189
Net carrying value at 31 December 2008	3,670	4,088	1,812	9,570

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT
30 September 2009 (Unaudited)

9 OTHER ASSETS

	<i>30/09/2009</i>	<i>30/09/2008</i>	<i>31/12/2008</i>
	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>
Interest receivable	7,096	7,139	8,285
Prepayments and deposits	1,859	1,907	1,502
Collateral pending sale	2,029	845	2,025
Positive fair value of derivatives (note 23)	1,427	906	1,843
Customers' indebtedness for acceptances (note 11)	12,615	90,460	57,625
Others	5,645	10,510	6,485
	<u>30,671</u>	<u>111,767</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.

10 CUSTOMERS' DEPOSITS

	<i>30/09/2009</i>	<i>30/09/2008</i>	<i>31/12/2008</i>
	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>
Current accounts	252,706	205,984	233,033
Savings accounts	267,474	222,354	221,855
Certificate of deposits	63,520	53,800	53,800
Term deposits	660,930	681,474	833,067
	<u>1,244,630</u>	<u>1,163,612</u>	<u>1,341,755</u>

11 OTHER LIABILITIES

	<i>30/09/2009</i>	<i>30/09/2008</i>	<i>31/12/2008</i>
	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>
Interest payable	15,561	11,973	10,581
Other accruals and provisions	14,205	14,645	12,249
Negative fair value of derivatives (note 23)	1,377	1,622	4,441
Liabilities under acceptances (note 9)	12,615	90,460	57,625
	<u>43,758</u>	<u>118,700</u>	<u>84,896</u>

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT
30 September 2009 (Unaudited)

12 TAXATION

	<i>30/09/2009</i> <i>RO'000</i>	<i>30/09/2008</i> <i>RO'000</i>	<i>31/12/2008</i> <i>RO'000</i>
Income statement			
Current period/year	<u>2,811</u>	<u>4,776</u>	<u>6,275</u>
	<u>2,811</u>	<u>4,776</u>	<u>6,275</u>

Reconciliation of tax expense

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

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

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

	<i>30/09/2009</i> <i>RO'000</i>	<i>30/09/2008</i> <i>RO'000</i>	<i>31/12/2008</i> <i>RO'000</i>
Accounting profit	<u>22,381</u>	<u>39,588</u>	<u>51,655</u>
Tax applicable rate	2,686	4,751	6,195
Non-deductible expenses	412	22	496
Tax exempt revenues	(506)	(530)	(530)
Others	<u>219</u>	<u>533</u>	<u>114</u>
	<u>2,811</u>	<u>4,776</u>	<u>6,275</u>

The bank's liabilities for taxation in the Sultanate of Oman has been assessed up to the year ended 31 December 2002. Management had filed an appeal with the tax authorities against the assessments orders received for years 2001 and 2002. Recently, the tax committee issued a decision in favour of the bank. The decision resulted in a reduction in tax expense amounting to RO 0.68 million and the same has been included in the financial statements. 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 30 September 2009.

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT

30 September 2009 (Unaudited)

12 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.

	30/09/2009 RO'000	30/09/2008 RO'000	31/12/2008 RO'000
Tax liability			
<i>Current period/year</i>			
Income tax and other taxes	2,811	4,876	6,275
<i>Prior period/year</i>			
Income tax and other taxes	1,185	972	1,038
	<u>3,996</u>	<u>5,848</u>	<u>7,313</u>

Recognised deferred tax assets and liabilities

	30/09/2009 RO'000	30/09/2008 RO'000	31/12/2008 RO'000
Deferred tax assets and liabilities are attributable to the following:			
Available for sale investments	51	(1,321)	61

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

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT

30 September 2009 (Unaudited)

13 SUBORDINATED PRIVATE PLACEMENT

	30/09/2009 RO'000	30/09/2008 RO' 000	31/12/2008 RO'000
Subordinate Private Placements in 2009 (i)	1,500	-	-
Subordinate Private Placements in 2008 (ii)	16,100	-	16,100
Subordinate Private Placements in prior years (iii)	-	12,500	12,500
	<u>17,600</u>	<u>12,500</u>	<u>28,600</u>

- (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 with an effective annual interest rate of 5.87% matured in April 2009.

14 OTHER NON DISTRIBUTABLE RESERVES

	Revaluation reserve RO '000'	Subordinated loan reserve RO '000'	Other reserve RO '000'	Total RO '000'
At 1 January 2009	2,811	12,500	-	15,311
Transfer to retained earnings	-	(12,500)	-	(12,500)
At 30 September 2009	<u>2,811</u>	<u>-</u>	<u>-</u>	<u>2,811</u>
At 30 September 2008	<u>2,811</u>	<u>10,000</u>	<u>6,182</u>	<u>18,993</u>
At 31 December 2008	<u>2,811</u>	<u>12,500</u>	<u>-</u>	<u>15,311</u>

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
30 September 2009 (Unaudited)

15 CONTINGENT LIABILITIES AND COMMITMENTS

	<i>30/09/2009</i> <i>RO'000</i>	<i>30/09/2008</i> <i>RO' 000</i>	<i>31/12/2008</i> <i>RO'000</i>
Guarantees	313,766	303,772	360,278
Documentary letters of credit	90,087	210,236	162,059
Undrawn commitment to lend	58,394	104,320	117,101
	<u>462,247</u>	<u>618,328</u>	<u>639,438</u>

Contingent liabilities include RO 0.1 million (30 September 2008 – RO 0.2 million/31 December 2008 – RO 0.2 million) relating to non-performing loans.

16 INTEREST INCOME

Interest bearing assets earned interest at an overall rate of 6.19% for the nine months period ended 30 September 2009 (30 September 2008 – 6.27% / 31 December 2008 – 6.30%).

17 INTEREST EXPENSE

For the nine months period ended 30 September 2009, the average overall cost of funds was 3.01% (30 September 2008 – 3.18 %/ 31 December 2008 – 3.22%).

18 OTHER OPERATING INCOME

	<i>9 months ended</i> <i>30/09/2009</i> <i>RO'000</i>	<i>9 months ended</i> <i>30/09/2008</i> <i>RO'000</i>
Net gains from foreign exchange dealings	1,729	2,162
Fees and commissions	6,699	7,790
Net income from sale of investments	2,019	4,075
Income from bonds and others	460	502
Dividend income	731	697
Service charges	6,240	11,448
Miscellaneous income	812	369
	<u>18,690</u>	<u>27,043</u>

19 OTHER OPERATING EXPENSES

	<i>9 months ended</i> <i>30/09/2009</i> <i>RO'000</i>	<i>9 months ended</i> <i>30/09/2008</i> <i>RO'000</i>
Establishment costs	2,710	1,953
Operating and administration expenses	5,855	7,073
	<u>8,565</u>	<u>9,026</u>

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT 30 September 2009 (Unaudited)

20 RELATED PARTY TRANSACTIONS

Management service agreement with a shareholder

Based on the approval received from its shareholders in the Annual General Meeting held on 23 March 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 are payable.
- For profits between RO 15 million to RO 30 million the higher of management costs or 1% of the bank's profit is payable.
- For profits in excess of RO 30 million, in addition to the above, 3% of the profits in excess of RO 30 million are payable.

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

For the period ended 30 September 2009, management fees of RO 0.78 million have been accrued for (30 September 2008 – RO 0.60 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:

	30/09/2009			30/09/2008		
	<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	-	21,869	21,869	-	16,343	16,343
Customer's deposits	-	6,872	6,872	-	7,253	7,253
Due from banks	11		11	167		167
Due to banks	45	-	45	2	-	2
Subordinated private placement		3,100	3,100		-	-
Letter of credit, guarantees and acceptance	107	6,401	6,508	215	8,462	8,677
Standby revolving credit facility	38,500	-	38,500	26,950	-	26,950
Risk indemnities received	56,367	-	56,367	22,723	-	22,723

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT

30 September 2009 (Unaudited)

20 RELATED PARTY TRANSACTIONS (continued)

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

	<u>30/09/2009</u>			<u>30/09/2008</u>		
	<i>Principal shareholder RO'000</i>	<i>Others RO'000</i>	<i>Total RO'000</i>	<i>Principal shareholder RO'000</i>	<i>Others RO'000</i>	<i>Total RO'000</i>
Interest income	-	893	893	-	348	348
Commission income	-	120	120	-	148	148
Interest expense	34	253	287	51	164	215
Other expenses	315	416	731	620	194	814

Senior Management compensation:

	<u>30/09/2009 RO'000</u>	<u>30/09/2008 RO'000</u>	<u>31/12/2008 RO'000</u>
Salaries and other short term benefits			
- Fixed	1,366	1,015	1,469
- Discretionary	674	656	696
	<u>2,040</u>	<u>1,671</u>	<u>2,165</u>

21 SHAREHOLDERS

As of 30 September 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 30 September 2009 (30 September 2008 – nil/31 December 2008 – nil).

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT

30 September 2009 (unaudited)

22 SEGMENT REPORTING

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

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

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

Segment information is as follows:

<i>9 months ended 30 September 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	28,711	20,331	3,852	2,513	5,665	61,072
Profit	14,118	16,298	360	(1,232)	(9,974)	19,570
Total assets	585,813	739,752	21,818	31,091	392,881	1,771,355
<i>9 months ended 30 September 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	32,942	15,211	4,943	5,905	2,656	61,657
Profit	25,195	15,895	4,567	5,393	(16,238)	34,812
Total assets	495,869	676,548	39,035	138,473	455,984	1,805,909

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT

30 September 2009 (Unaudited)

23 DERIVATIVES

30 September 2009	Positive fair value (Note 9) RO'000	Negative fair value (Note 11) 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	289	(289)	9,000	-	4,500	4,500
Credit default swaps	-	(167)	7,700	-	-	7,700
Forward foreign exchange purchase contracts	1,137	-	95,189	72,271	22,918	-
Forward foreign exchange sales contracts	1	(921)	95,189	72,535	22,654	-
Interest rate caps	-	-	703	80	180	443
Total	1,427	(1,377)	207,781	144,886	50,252	12,643
30 September 2008	Positive fair value (Note 9) RO'000	Negative fair value (Note 11) 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	178	(178)	12,000	-	-	12,000
Credit default swaps	-	(703)	9,625	-	1,925	7,700
Forward foreign exchange purchase contracts	619	(22)	122,654	53,768	68,886	-
Forward foreign exchange sales contracts	109	(719)	122,654	53,969	68,685	-
Interest rate caps	-	-	943	80	180	683
Total	906	(1,622)	267,876	107,817	139,676	20,383

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT

30 September 2009 (Unaudited)

23 DERIVATIVES (continued)

31 December 2008	Positive fair value (Note 9) RO'000	Negative fair value (Note 11) 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>

24 COMPARATIVE FIGURES

The corresponding figures for 30 September 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.