

National Bank of Oman SAOG

INTERIM CONDENSED FINANCIAL STATEMENTS

30 June 2010 (UNAUDITED)



PO Box 751 PC 112 Ruwi Sultanate of Oman.

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Chairman's Report – 30 June 2010

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 six months ended 30 June 2010.

Operating Performance

The Bank achieved a net profit after tax of RO 14.6 million for the six months ended 30 June 2010 compared with RO 13.5 million for the same period in 2009 and saw net profit RO 1.4 million higher in the second quarter compared with the first quarter of 2010. However, overall market conditions remain challenging with continued uncertainty around the sustainability and pace of global economic recovery.

The Bank maintained its net interest income at RO 27.8 million despite significant pressure on yields, focused balance sheet management enabled the Bank to improve spreads from 3.04% to 3.28%.

Trade related activities and investment income were both lower in 2010 due to the continuing effect of the global financial crisis. The ratio of non-interest income to total income declined slightly from 33% to 32%. While operating expenses increased by 7% compared with the comparative period in 2009, expenses in the second quarter were up only 3.5% on the first quarter of 2010 as the Bank continues to focus on cost management while continuing to invest in our franchise.

The results for the six months to 30 June 2010 were impacted by provisions although at a lower level than the comparative period in 2009 and the trend continued to improve over the first quarter of 2010. The Bank is committed to improving the provision coverage ratio against non-performing loans. The coverage ratio has been increased to over 100%.

During the six months ended 30 June 2010, total net advances grew by RO 51 million against a backdrop of limited growth in the overall market. Customer deposits grew by RO 46 million in the first six months of 2010 with an emphasis on expanding the Bank's low cost deposit base to fund its balance sheet growth.

Capital

The capital adequacy ratio at 15.1% as of 30 June 2010 was well above Central Bank's minimum required level of 10%. With market conditions remaining uncertain, the Bank's capital position will continue to be carefully managed.

Appreciation

On behalf of the members of the Board of Directors, I would like to acknowledge and thank our valued customers and shareholders for their 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 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 will assuredly continue on the path towards successful development.

Rawan Ahmed Al Said
Deputy Chairperson

SUMMARY OF RESULTS

Particulars	6 months ended 30/06/2010	6 months ended 30/06/2009
(All RO '000 unless stated otherwise)		
Loans and advances to customers (net)	1,412,162	1,391,708
Customers' deposits	1,306,748	1,308,418
Other assets	48,244	33,601
Net interest income	27,825	27,848
Profit before tax	16,045	15,341
Earnings per share-annualized (RO)	0.027	0.025
Net assets per share (RO)	0.232	0.225

INTERIM CONDENSED STATEMENT OF FINANCIAL POSITION
30 June 2010 (Un-audited)

		<i>30-6-2010</i>	<i>30-6-2009</i>	<i>Audited</i> <i>31-12-2009</i>
	<i>Notes</i>	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>
Assets				
Cash and balances with Central Banks	3	198,443	222,682	184,357
Due from banks and other money market placements (net)	4	127,243	127,442	166,916
Loans and advances to customers (net)	5	1,412,162	1,391,708	1,360,997
Financial assets at fair value through profit and loss	6	17,235	59	17,384
Non-trading financial investments	7	28,924	33,205	30,060
Premises and equipment	8	21,883	12,202	12,763
Deferred tax asset	12	28	63	-
Other assets	9	48,244	33,601	25,736
		<hr/>	<hr/>	<hr/>
Total assets		1,854,162	1,820,962	1,798,213
		<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
Liabilities				
Due to banks and other money market deposits		210,890	207,769	219,662
Customers' deposits	10	1,306,748	1,308,418	1,260,768
Other liabilities	11	52,080	41,185	34,700
Taxation	12	2,951	3,118	5,082
Deferred tax liability	12	-	-	10
		<hr/>	<hr/>	<hr/>
Total liabilities		1,572,669	1,560,490	1,520,222
		<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
Subordinated funds				
Subordinated private placement	13	30,600	17,600	27,600
		<hr/>	<hr/>	<hr/>
Equity				
Share capital		108,100	108,100	108,100
Share premium		34,465	34,465	34,465
Legal reserve		32,675	30,564	32,675
General reserve		4,419	4,419	4,419
Other non-distributable reserves	14	6,885	4,923	8,008
Proposed cash dividend		-	-	12,972
Retained earnings		64,349	60,401	49,752
		<hr/>	<hr/>	<hr/>
Total equity		250,893	242,872	250,391
		<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
Total liabilities, subordinated funds and equity		1,854,162	1,820,962	1,798,213
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The attached notes 1 to 23 form part of the interim condensed financial statements.

INTERIM CONDENSED STATEMENT OF COMPREHENSIVE INCOME
30 June 2010 (Un-audited)

	Notes	<u>Six months ended 30 June</u>		<u>Three months ended 30 June</u>	
		2010	2009	2010	2009
		RO'000	RO'000	RO'000	RO'000
Interest income	16	47,614	52,509	23,856	26,207
Interest expense	17	(19,789)	(24,661)	(9,709)	(11,452)
Net interest income		27,825	27,848	14,147	14,755
Other operating income	18	12,894	13,985	6,702	6,785
OPERATING INCOME		40,719	41,833	20,849	21,540
OPERATING EXPENSES					
Staff costs		(10,718)	(10,227)	(5,344)	(5,320)
Other operating expenses	19	(5,949)	(5,677)	(3,096)	(2,849)
Depreciation	8	(1,592)	(1,139)	(845)	(665)
		(18,259)	(17,043)	(9,285)	(8,834)
PROFIT FROM OPERATIONS BEFORE IMPAIRMENT LOSSES AND TAX		22,460	24,790	11,564	12,706
Credit loss expense – customers' loan	5	(10,144)	(7,942)	(4,821)	(4,260)
Recoveries and releases from provision for credit losses	5	2,176	1,687	1,485	409
Recoveries from loans and advances written off		1,973	1,809	1,209	996
Impairment losses on available for sale investments		(420)	(2,879)	(313)	(1,135)
Credit loss expense – bank loans		-	(2,124)	-	(2,124)
TOTAL IMPAIRMENT LOSSES (NET)		(6,415)	(9,449)	(2,440)	(6,114)
PROFIT BEFORE TAX		16,045	15,341	9,124	6,592
Taxation	12	(1,448)	(1,890)	(1,103)	(475)
PROFIT FOR THE PERIOD		14,597	13,451	8,021	6,117
OTHER COMPREHENSIVE INCOME					
Net movement on available for sale investments		(1,271)	1,837	(1,148)	2,185
Net unrealised (gain) / losses on cash flow hedge		110	1,115	(74)	938
Tax effect of net results on available for sale financial investments		38	2	19	(14)
OTHER COMPREHENSIVE (EXPENSE) INCOME FOR THE PERIOD		(1,123)	2,954	(1,203)	3,109
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		13,474	16,405	6,818	9,226
Earnings per share annualised: Basic and diluted, profit for the year attributable to equity holders		0.027	0.025	0.030	0.023

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

INTERIM CONDENSED STATEMENT OF CASH FLOWS 30 June 2010 (Un-audited)

		<i>6 months ended 30/06/2010 RO'000</i>	<i>6 months ended 30/06/2009 RO'000</i>
Operating activities			
Profit before taxation		16,045	15,341
Adjustments for:			
Depreciation	8	1,592	1,139
Provision for credit losses (net)		2,769	5,611
impairment losses on available for investments		420	2,879
Provision for impairment in bank loans		-	2,124
Profit on sale of equipment (net)		-	(15)
Profit on sale of investments	18	(498)	(1,552)
Investment income		(903)	(993)
Operating profit before changes in operating assets and liabilities		19,425	24,534
Due from banks and other money market placements		3,731	(6,529)
Due to banks and other money market deposits		(4,759)	34,351
Loans and advances to customers		(53,934)	3,899
Financial assets at fair value through profit and loss		149	(38)
Other assets		(22,508)	44,164
Customers' deposits		45,980	(33,337)
Other liabilities		17,380	(43,711)
Other deposits		764	-
Cash from operations		6,228	23,333
Taxes paid		(3,532)	(6,069)
Net cash from operating activities		2,696	17,264
Investing activities			
Purchase of non-trading investments		(2,939)	(9,596)
Proceeds from sale of non-trading investments		2,881	7,721
Purchase of land and equipment	8	(10,747)	(3,801)
Disposal of equipment		14	36
Translation differences on investments, premises and equipment and tax		(25)	19
Income from bond and other investment		517	262
Dividends income	18	386	731
Net cash used in investing activities		(9,913)	(4,628)
Financing activity			
Payment of dividend		(12,972)	(18,918)
Net movement in subordinated private placements	13	3,000	(11,000)
Net cash used in financing activity		(9,972)	(29,918)
Decrease in cash and cash equivalents		(17,189)	(17,282)
Cash and cash equivalents at the beginning of the period		270,511	277,712
Cash and cash equivalents at the end of the period		253,322	260,430
Representing:			
Cash and balances with Central Bank (note 3)		197,943	221,418
Deposits and balances with other banks and financial institutions (net)		55,379	39,012
		253,322	260,430

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

INTERIM CONDENSED STATEMENT OF CHANGES IN EQUITY
Period ended 30 June 2010 (Un audited)

<i>(RO'000)</i>	<i>Share capital</i>	<i>Share premium</i>	<i>Legal reserve *</i>	<i>General reserve</i>	<i>Other non distri- butable reserves</i>	<i>Proposed cash dividend</i>	<i>Retained earnings</i>	<i>Total</i>
Balance at 1 January 2009	108,100	34,465	30,564	4,419	14,469	18,918	34,450	245,385
Total comprehensive income for the period	-	-	-	-	2,954	-	13,451	16,405
Transfer to retained earnings	-	-	-	-	(12,500)	-	12,500	-
Dividend paid during the period	-	-	-	-	-	(18,918)	-	(18,918)
Balance at 30 June 2009	108,100	34,465	30,564	4,419	4,923	-	60,401	242,872
Balance at 1 July 2009	108,100	34,465	30,564	4,419	4,923	-	60,401	242,872
Total comprehensive income for the period	-	-	-	-	(135)	-	7,654	7,519
Transfer to subordinated funds reserve	-	-	-	-	3,220	-	(3,220)	-
Transfer to legal reserve	-	-	2,111	-	-	-	(2,111)	-
Transfer to proposed dividend	-	-	-	-	-	12,972	(12,972)	-
Balance at 31 December 2009	108,100	34,465	32,675	4,419	8,008	12,972	49,752	250,391

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

INTERIM CONDENSED STATEMENT OF CHANGES IN EQUITY (continued)
Period ended 30 June 2010 (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>Proposed cash dividend</i>	<i>Retained earnings</i>	<i>Total</i>
Balance at 1 January 2010	108,100	34,465	32,675	4,419	8,008	12,972	49,752	250,391
Total comprehensive income for the period	-	-	-	-	(1,123)	-	14,597	13,474
Dividend paid during the period	-	-	-	-	-	(12,972)	-	(12,972)
Balance as at 30 June 2010	108,100	34,465	32,675	4,419	6,885	-	64,349	250,893

*Transfers to legal reserve 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 30 June 2010 (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, and Sultanate of Oman.

The bank employed 1,317 employees as of 30 June 2010 (30 June 2009 – 1,313 employees and 31 December 2009 – 1,329)

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 2009.

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 2010 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2010.

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 June 2010 (Unaudited)**

3 CASH AND BALANCES WITH CENTRAL BANKS

	<i>30/06/2010</i>	<i>30/06/2009</i>	<i>31/12/2009</i>
	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>
Cash	21,585	23,908	23,173
Treasury bills with Central Banks	1,352	2,408	2,878
Certificate of deposit with Central Banks	50,000	95,000	95,000
Other balances with Central Banks	125,006	100,102	62,042
	197,943	221,418	183,093
Insurance deposit with Central Bank of Oman	-	764	764
Capital deposit with Central Bank of Oman	500	500	500
	198,443	222,682	184,357

The capital 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>30/06/2010</i>	<i>30/06/2009</i>	<i>31/12/2009</i>
	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>
loans and advances to banks	34,726	71,158	38,326
Placement with banks	89,001	52,654	130,010
Demand balances	11,561	5,754	6,625
Due from banks and other money market placement	135,288	129,566	174,961
Less: Allowance for credit losses (refer note below)	(7,966)	(2,124)	(7,966)
Less: Reserved interest	(79)	-	(79)
Net due from banks and other money market placement	127,243	127,442	166,916

During the second quarter of 2009, two large regional groups were reported to have defaulted on their payment obligations. As at 30 June 2010, 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 recorded a provision of 100% against the two large regional groups and 75% against the bank in Kazakhstan during the year 2009.

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT
30 June 2010 (Unaudited)

5 LOANS AND ADVANCES TO CUSTOMERS (NET)

	<i>30/06/2010</i> <i>RO'000</i>	<i>30/06/2009</i> <i>RO'000</i>	<i>31/12/2009</i> <i>RO'000</i>
Corporate loans	769,805	759,978	720,929
Personal loans	658,124	622,837	641,965
Overdrafts	55,122	78,750	66,223
Gross loans and advances	1,483,051	1,461,565	1,429,117
Less: Allowance for credit losses and reserved interest	(70,889)	(69,857)	(68,120)
Net loans and advances	1,412,162	1,391,708	1,360,997

Gross loans and advances include RO 30.1 million due from related parties at 30 June 2010 (30 June 2009 - RO 22.03 million, 31 December 2009 - RO 18.19 million).

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

Allowance for credit losses	<i>6 months</i> <i>ended</i> <i>30/06/2010</i> <i>RO'000</i>	<i>6 months</i> <i>ended</i> <i>30/06/2009</i> <i>RO'000</i>	<i>12 months</i> <i>ended</i> <i>31/12/2009</i> <i>RO'000</i>
Balance at beginning of period / year	57,581	51,424	51,424
Provided during the period / year	10,144	7,942	20,483
Recovered/ released during the period / year	(2,080)	(1,425)	(6,684)
Written off during the period / year	(5,145)	(747)	(7,703)
Translation difference	(414)	(104)	61
Balance at end of period / year	60,086	57,090	57,581
Reserved interest	<i>6 months</i> <i>ended</i> <i>30/06/2010</i> <i>RO'000</i>	<i>6 months</i> <i>ended</i> <i>30/06/2009</i> <i>RO'000</i>	<i>12 months</i> <i>ended</i> <i>31/12/2009</i> <i>RO'000</i>
Balance at beginning of period / year	10,539	12,822	12,822
Reserved during the period / year	2,070	1,726	3,363
Recovered/ released during the period / year	(96)	(262)	(352)
Recovered/released during the period to interest income	(560)	(313)	(568)
Written off during the period / year	(1,145)	(1,202)	(4,726)
Translation difference	(5)	(4)	-
Balance at end of period / year	10,803	12,767	10,539

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 2010, loans and advances on which interest is not being accrued or where interest has been reserved amounted to RO 66 million, (30 June 2009 - RO 68.4 million and 31 December 2009 - RO 71.7 million).

**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT
30 June 2010 (Unaudited)**

6 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS

	<i>30/06/2010</i> <i>RO'000</i>	<i>30/06/2009</i> <i>RO'000</i>	<i>31/12/2009</i> <i>RO'000</i>
Oman Government Development Bonds	17,160	-	17,309
Oman Government Development Bonds (OTC)	75	59	75
	<u>17,235</u>	<u>59</u>	<u>17,384</u>

7 NON TRADING FINANCIAL INVESTMENTS

The bank had no investments in associates or subsidiaries as of 30 June 2010 (30 June 2009 and 31 December 2009 – Nil).

a) Available for sale (AFS)

	<i>Carrying value</i> <i>30/06/2010</i> <i>RO'000</i>	<i>Cost</i> <i>30/06/2010</i> <i>RO'000</i>	<i>Carrying value</i> <i>30/06/2009</i> <i>RO'000</i>	<i>Cost</i> <i>30/06/2009</i> <i>RO'000</i>	<i>Carrying value</i> <i>31/12/2009</i> <i>RO'000</i>	<i>Cost</i> <i>31/12/2009</i> <i>RO'000</i>
Quoted investments- Oman						
Banking and investment sector	247	254	1,302	1,515	249	254
Industry sector	345	386	1,238	803	761	707
Service sector	4,271	5,665	6,559	8,638	6,940	8,451
Government Development Bonds	10,008	10,008	10,010	10,010	10,009	10,009
	<u>14,871</u>	<u>16,313</u>	<u>19,109</u>	<u>20,966</u>	<u>17,959</u>	<u>19,421</u>
Quoted investments- Foreign						
Banking and investment sector	2,594	2,722	407	28	395	-
Service sector	-	-	98	354	-	-
	<u>2,594</u>	<u>2,722</u>	<u>505</u>	<u>382</u>	<u>395</u>	<u>-</u>
Unquoted investments						
Banking and investment sector	6,822	6,168	7,942	8,020	7,060	6,402
Service sector	66	66	56	56	66	66
	<u>6,888</u>	<u>6,234</u>	<u>7,998</u>	<u>8,076</u>	<u>7,126</u>	<u>6,468</u>
Total available for sale	<u>24,353</u>	<u>25,269</u>	<u>27,612</u>	<u>29,424</u>	<u>25,480</u>	<u>25,889</u>

**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT
30 June 2010 (Unaudited)**

7 NON TRADING FINANCIAL INVESTMENTS (continued)

b) Held to maturity

	<i>Carrying value 30/06/2010 RO'000</i>	<i>Cost 30/06/2010 RO'000</i>	<i>Carrying value 30/06/2009 RO'000</i>	<i>Cost 30/06/2009 RO'000</i>	<i>Carrying value 31/12/2009 RO'000</i>	<i>Cost 31/12/2009 RO'000</i>
Government Development Bonds	-	-	1,000	1,000	-	-
Other bonds	<u>4,571</u>	<u>4,571</u>	<u>4,593</u>	<u>4,593</u>	<u>4,580</u>	<u>4,580</u>
Total held to maturity	<u><u>4,571</u></u>	<u><u>4,571</u></u>	<u><u>5,593</u></u>	<u><u>5,593</u></u>	<u><u>4,580</u></u>	<u><u>4,580</u></u>
Total non trading investments	<u><u>28,924</u></u>	<u><u>29,840</u></u>	<u><u>33,205</u></u>	<u><u>35,017</u></u>	<u><u>30,060</u></u>	<u><u>30,469</u></u>

Details of significant investments

Details of investments exceeding 10% of the carrying value of the bank's investment AFS portfolio as at 30 June 2010 are as follows:

<u>30 June 2010</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	41.10	100,000	10,008	10,008
Investment Stabilization Fund	24.21	5,000,000	5,895	5,000

30 June 2009

Government Development Bonds	36.25	100,000	10,010	10,010
Investment Stabilization Fund	20.17	5,000,000	5,570	5,000

31 December 2009

Government Development Bonds	39.28	100,000	10,009	10,009
Investment Stabilization Fund	23.43	5,000,000	5,970	5,000

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT
30 June 2010 (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 2010, net of accumulated depreciation	4,778	5,078	2,907	12,763
Addition	8,580	402	1,765	10,747
Disposals	-	(6)	(8)	(14)
Transfer	315	425	(740)	-
Translation difference	(18)	(3)	-	(21)
Depreciation	(640)	(952)	-	(1,592)
Balance at 30 June 2010, net of accumulated depreciation	13,015	4,944	3,924	21,883
At cost / valuation	22,898	19,660	3,924	46,482
Accumulated depreciation	(9,883)	(14,716)	-	(24,599)
Net carrying value at 30 June 2010	13,015	4,944	3,924	21,883
Net carrying value at 30 June 2009	4,153	4,278	3,771	12,202
Net carrying value at 31 December 2009	4,778	5,078	2,907	12,763

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT
30 June 2010 (Unaudited)

9 OTHER ASSETS

	<i>30/06/2010</i>	<i>30/06/2009</i>	<i>31/12/2009</i>
	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>
Interest receivable	8,510	7,475	7,349
Prepayments and deposits	2,894	1,925	1,427
Collateral pending sale	1,960	1,995	2,035
Positive fair value of derivatives (note 23)	5,316	1,049	841
Customers' indebtedness for acceptances (note 11)	19,176	14,315	10,557
Others	10,388	6,842	3,527
	48,244	33,601	25,736
	<u> </u>	<u> </u>	<u> </u>
Amount receivable from BCCI	3,458	3,472	3,458
Less provision for amount receivable from BCCI	(3,458)	(3,472)	(3,458)
	<u> </u>	<u> </u>	<u> </u>
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>30/06/2010</i>	<i>30/06/2009</i>	<i>31/12/2009</i>
	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>
Current accounts	286,328	288,828	217,852
Savings accounts	293,346	301,401	278,876
Certificate of deposits	52,520	43,800	63,520
Term deposits	674,554	674,389	700,520
	1,306,748	1,308,418	1,260,768
	<u> </u>	<u> </u>	<u> </u>

11 OTHER LIABILITIES

	<i>30/06/2010</i>	<i>30/06/2009</i>	<i>31/12/2009</i>
	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>
Interest payable	12,282	12,533	10,007
Other accruals and provisions	15,178	13,475	13,602
Negative fair value of derivatives (note 23)	5,444	862	534
Liabilities under acceptances (note 9)	19,176	14,315	10,557
	52,080	41,185	34,700
	<u> </u>	<u> </u>	<u> </u>

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT
30 June 2010 (Unaudited)

12 TAXATION

	<i>30/06/2010</i>	<i>30/06/2009</i>	<i>31/12/2009</i>
	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>
Statement of comprehensive income			
Current period/year	1,448	1,890	3,909

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 period:

	<i>30/06/2010</i>	<i>30/06/2009</i>	<i>31/12/2009</i>
	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>
Accounting profit	16,045	15,341	25,014
Tax applicable rate	1,925	1,841	3,002
Non-deductible expenses	95	369	537
Tax exempt revenues	(87)	(375)	(489)
Others	(485)	55	859
	1,448	1,890	3,909

The bank's liabilities for taxation in the Sultanate of Oman has been assessed up to the year ended 31 December 2004.

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 2009.

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT
30 June 2010 (Unaudited)

12 TAXATION (continued)

	<i>30/06/2010</i>	<i>30/06/2009</i>	<i>31/12/2009</i>
	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>
Tax liability			
<i>Current period/year</i>			
Income tax and other taxes	1,448	1,890	3,909
<i>Prior period/year</i>			
Income tax and other taxes	1,503	1,228	1,173
	<u>2,951</u>	<u>3,118</u>	<u>5,082</u>
Recognised deferred tax assets and liabilities			
	<i>30/06/2010</i>	<i>30/06/2009</i>	<i>31/12/2009</i>
	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>
Deferred tax assets and liabilities are attributable to the following:			
Available for sale investments	<u>(28)</u>	<u>(63)</u>	<u>10</u>

Deferred tax is calculated at 12% (2009 – 12%).

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT
30 June 2010 (Unaudited)

13 SUBORDINATED PRIVATE PLACEMENT

	30/06/2010	30/06/2009	31/12/2009
	RO'000	RO' 000	RO'000
At 1 January	27,600	28,600	28,600
Received during the period/year	3,000	1,500	11,500
Matured during the period/year	-	(12,500)	(12,500)
	<u>30,600</u>	<u>17,600</u>	<u>27,600</u>

- (i) Placements received in 2010 are repayable in January 2016.
- (ii) Placements received in 2009 include RO 1.5 million with a call option to renew the facility after six years, repayable at the end of March 2019 and RO 10 million for a period of 6 years repayable at the end of December 2015.

14 OTHER NON-DISTRIBUTABLE RESERVES

	<i>Available for sale reserve RO '000'</i>	<i>Cash flow hedge reserve RO '000'</i>	<i>Revalua- tion reserve RO '000'</i>	<i>Subordin- ated loan reserve RO '000'</i>	<i>Total RO '000'</i>
At 1 January 2010	2,107	(130)	2,811	3,220	8,008
Net movement on available for sale investments	(1,271)	-	-	-	(1,271)
Tax effect of net results on available for sale financial investments	38	-	-	-	38
Net unrealised (gain) / losses on cash flow hedge	-	110	-	-	110
At 30 June 2010	<u>874</u>	<u>(20)</u>	<u>2,811</u>	<u>3,220</u>	<u>6,885</u>
At 30 June 2009	<u>572</u>	<u>1,540</u>	<u>2,811</u>	<u>-</u>	<u>4,923</u>
At 31 December 2009	<u>2,107</u>	<u>(130)</u>	<u>2,811</u>	<u>3,220</u>	<u>8,008</u>

- (i) 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.
- (ii) The subordinated loan reserve represents an annual transfer towards subordinated private placements which are due to mature within the next five years period. The reserve is available for transfer back to retained earning upon maturity of the private placement.

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT
30 June 2010 (Unaudited)

15 CONTINGENT LIABILITIES AND COMMITMENTS

	<i>30/06/2010</i>	<i>30/06/2009</i>	<i>31/12/2009</i>
	<i>RO'000</i>	<i>RO' 000</i>	<i>RO'000</i>
Guarantees	348,059	323,608	388,131
Documentary letters of credit	79,733	116,695	73,839
Undrawn commitment to lend	106,553	56,847	62,253
	<u>534,345</u>	<u>497,150</u>	<u>524,223</u>

Contingent liabilities include RO. 0.1 million (30 June 2009 – RO 0.1 million/31 December 2009 – RO 0.1 million) relating to non-performing loans.

16 INTEREST INCOME

Interest bearing assets earned interest at an overall rate of 5.95% for the six months period ended 30 June 2010 (30 June 2009 – 6.15%, 31 December 2009 – 6.19%).

17 INTEREST EXPENSE

For the six months period ended 30 June 2010, the average overall cost of funds was 2.67% (30 June 2009 - 3.11%, 31 December 2009 - 2.95%).

18 OTHER OPERATING INCOME

	<i>6 months ended</i>	<i>6 months ended</i>
	<i>30/06/2010</i>	<i>30/06/2009</i>
	<i>RO'000</i>	<i>RO'000</i>
Net gains from foreign exchange dealings	1,222	1,229
Fees and commissions	5,155	4,724
Net income from sale of investments	498	1,552
Income from bonds and others	517	262
Dividend income	386	731
Service charges	4,709	4,983
Miscellaneous income	407	504
	<u>12,894</u>	<u>13,985</u>

19 OTHER OPERATING EXPENSES

	<i>6 months ended</i>	<i>6 months ended</i>
	<i>30/06/2010</i>	<i>30/06/2009</i>
	<i>RO'000</i>	<i>RO'000</i>
Establishment costs	1,969	1,796
Operating and administration expenses	3,980	3,881
	<u>5,949</u>	<u>5,677</u>

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT 30 June 2010 (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 2009, 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 is 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 June 2010, management fees of RO 0.16 million have been accrued for (30 June 2009 – RO 0.15 million and 31 December 2009 – RO 0.20 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:

	30/06/2010			30/06/2009		
	<i>Principal shareholder</i> RO'000	<i>Others</i> RO'000	<i>Total</i> RO'000	<i>Principal shareholder</i> RO'000	<i>Others</i> RO'000	<i>Total</i> RO'000
Loans and advances	-	30,122	30,122	-	22,027	22,027
Customer's deposits	-	16,957	16,957	-	6,137	6,137
Due from banks	27,124	6,930	34,054	201	-	201
Due to banks	55	-	55	9	-	9
Subordinated private placement	-	3,100	3,100	-	4,600	4,600
Letter of credit, guarantees and acceptance	-	11,158	11,158	107	6,018	6,125
Standby revolving credit facility	26,950	11,550	38,500	-	-	-
Risk indemnities received	8,927	-	8,927	63,855	-	63,855

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT 30 June 2010 (Unaudited)

20 RELATED PARTY TRANSACTIONS (continued)

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

	30/06/2010			30/06/2009		
	<i>Principal shareholder</i> RO'000	<i>Others</i> RO'000	<i>Total</i> RO'000	<i>Principal shareholder</i> RO'000	<i>Others</i> RO'000	<i>Total</i> RO'000
Interest income	24	523	547	-	608	608
Commission income	-	99	99	-	76	76
Interest expense	48	389	436	-	194	194
Other expenses	161	43	205	201	220	421

Senior management compensation:

	30/06/2010 RO'000	30/06/2009 RO'000
Salaries and other short term benefits		
- Fixed	1,075	895
- Discretionary	481	587
	<u>1,556</u>	<u>1,482</u>

21 SHAREHOLDERS

As of 30 June 2010, 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)	377,267	34.9
Suhail Bahwan Group (Holdings) LLC	159,385	14.7

The bank had no preferred shareholders as of 30 June 2010 (30 June 2009 – nil/31 December 2009 – nil).

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT 30 June 2010 (unaudited)

22 SEGMENT REPORTING

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

- Retail 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 and syndications.

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>6 months ended 30 June 2010</i>	<i>Retail 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>Head office RO'000</i>	<i>Total RO'000</i>
Operating income	19,386	16,093	1,432	1,734	2,074	40,719
Profit	7,845	12,015	717	1,385	(7,365)	14,597
Total assets	630,514	740,418	18,916	26,200	438,114	1,854,162

<i>6 months ended 30 June 2009</i>	<i>Retail 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>Head office RO'000</i>	<i>Total RO'000</i>
Operating income	18,677	13,971	2,918	2,911	3,356	41,833
Profit	9,378	10,249	(185)	1,020	(7,011)	13,451
Total assets	589,180	747,712	22,195	71,159	390,716	1,820,962

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT
30 June 2010 (Unaudited)

23 DERIVATIVES

<i>30 June 2010</i>	<i>Positive fair value (Note 9) RO'000</i>	<i>Negative fair value (Note 11) 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	4,831	(4,831)	185,166	24,446	1,500	159,220
Credit default swaps	-	(106)	7,700	-	-	7,700
Forward foreign exchange purchase contracts	60	(330)	75,667	65,389	10,278	-
Forward foreign exchange sales contracts	425	(177)	75,667	65,489	10,178	-
Interest rate caps	-	-	523	80	179	264
Total	5,316	(5,444)	344,723	155,404	22,135	167,184

<i>30 June 2009</i>	<i>Positive fair value (Note 9) RO'000</i>	<i>Negative fair value (Note 11) 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	314	(314)	10,500	-	3,000	7,500
Credit default swaps	-	(346)	7,700	-	-	7,700
Forward foreign exchange purchase contracts	657	-	68,144	38,872	29,272	-
Forward foreign exchange sales contracts	78	(202)	68,144	39,075	29,069	-
Interest rate caps	-	-	763	80	180	503
Total	1,049	(862)	155,251	78,027	61,521	15,703

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT
30 June 2010 (Unaudited)

23 DERIVATIVES (continued)

<i>31 December 2009</i>	<i>Positive fair value (Note 9) RO'000</i>	<i>Negative fair value (Note 11) 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	319	(319)	53,660	1,500	46,160	6,000
Credit default swaps	-	(84)	7,700	-	-	7,700
Forward foreign exchange purchase contracts	250	(117)	137,243	40,635	96,608	-
Forward foreign exchange sales contracts	272	(14)	137,243	40,959	96,284	-
Interest rate caps	-	-	643	80	181	382
	841	(534)	336,489	83,174	239,233	14,082
	841	(534)	336,489	83,174	239,233	14,082

Cash flow hedge

During the year 2010, the bank renewed Six funded cross currency, which was entered in 2009, interest rate swaps amounting to RO 16.6 million in order to hedge an equivalent amount due to a bank. As of the 30 June 2010, the mark to market adjustments for these cross currency interest rate swaps amounted to RO 0.02 million (2009: RO 1.54 million) (note 14) which is recorded in equity with a corresponding adjustment made to amounts due from banks. These cross currency interest rate swaps will mature on 31 December 2010.