

National Bank of Oman SAOG

INTERIM CONDENSED FINANCIAL STATEMENTS

30 September 2010 (UNAUDITED)



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SUMMARY OF RESULTS

Particulars	9 months ended 30/09/2010	9 months ended 30/09/2009
(All RO '000 unless stated otherwise)		
Loans and advances to customers (net)	1,428,722	1,378,197
Customers' deposits	1,339,678	1,244,630
Other assets	45,443	30,671
Net interest income	41,935	42,382
Profit before tax	24,265	22,381
Earnings per share-annualized (RO)	0.027	0.024
Net assets per share (RO)	0.239	0.230

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

		<i>30-9-2010</i>	<i>30-9-2009</i>	<i>Audited</i>
	<i>Notes</i>	<i>RO'000</i>	<i>RO'000</i>	<i>31-12-2009</i>
				<i>RO'000</i>
Assets				
Cash and balances with Central Banks	3	172,896	211,642	184,357
Due from banks and other money market placements (net)	4	148,908	89,051	166,916
Loans and advances to customers (net)	5	1,428,722	1,378,197	1,360,997
Financial assets at fair value through profit and loss	6	17,161	17,420	17,384
Non-trading financial investments	7	51,207	31,828	30,060
Premises and equipment	8	21,474	12,495	12,763
Deferred tax asset	12	36	51	-
Other assets	9	45,443	30,671	25,736
		<hr/>	<hr/>	<hr/>
Total assets		1,885,847	1,771,355	1,798,213
		<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
Liabilities				
Due to banks and other money market deposits		198,060	212,382	219,662
Customers' deposits	10	1,339,678	1,244,630	1,260,768
Other liabilities	11	55,440	43,758	34,700
Taxation	12	3,762	3,996	5,082
Deferred tax liability	12	-	-	10
		<hr/>	<hr/>	<hr/>
Total liabilities		1,596,940	1,504,766	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	7,211	4,921	8,008
Proposed cash dividend		-	-	12,972
Retained earnings		71,437	66,520	49,752
		<hr/>	<hr/>	<hr/>
Total equity		258,307	248,989	250,391
		<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
Total liabilities, subordinated funds and equity		1,885,847	1,771,355	1,798,213
		<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

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

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

	Notes	<u>Nine months ended 30</u>		<u>Three months ended 30</u>	
		<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
		<u>RO'000</u>	<u>RO'000</u>	<u>RO'000</u>	<u>RO'000</u>
Interest income	16	71,791	77,530	24,177	25,021
Interest expense	17	(29,856)	(35,148)	(10,067)	(10,487)
Net interest income		41,935	42,382	14,110	14,534
Other operating income	18	18,466	18,690	5,572	4,705
OPERATING INCOME		60,401	61,072	19,682	19,239
OPERATING EXPENSES					
Staff costs		(16,474)	(15,326)	(5,756)	(5,099)
Other operating expenses	19	(9,303)	(8,565)	(3,354)	(2,888)
Depreciation	8	(2,802)	(1,958)	(1,210)	(819)
		(28,579)	(25,849)	(10,320)	(8,806)
PROFIT FROM OPERATIONS BEFORE IMPAIRMENT LOSSES AND TAX		31,822	35,223	9,362	10,433
Credit loss expense – customers' loan	5	(13,065)	(10,437)	(2,921)	(2,495)
Recoveries and releases from provision for credit losses	5	2,900	2,000	724	313
Recoveries from loans and advances written off		2,834	2,725	861	916
Recoveries and releases from provision for credit losses on bank loans		308	-	308	-
Impairment losses on available for sale investments		(534)	(3,135)	(114)	(256)
Credit loss expense – bank loans		-	(3,995)	-	(1,871)
TOTAL IMPAIRMENT LOSSES (NET)		(7,557)	(12,842)	(1,142)	(3,393)
PROFIT BEFORE TAX		24,265	22,381	8,220	7,040
Taxation	12	(2,580)	(2,811)	(1,132)	(921)
PROFIT FOR THE PERIOD		21,685	19,570	7,088	6,119
OTHER COMPREHENSIVE INCOME					
Net movement on available for sale investments		(857)	3,280	414	1,443
Net unrealised (gain) / losses on cash flow hedge		14	(318)	(96)	(1,433)
Tax effect of net results on available for sale financial investments		46	(10)	8	(12)
OTHER COMPREHENSIVE (EXPENSE) INCOME FOR THE PERIOD		(797)	2,952	326	(2)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		20,888	22,522	7,414	6,117
Earnings per share annalised: Basic and diluted, profit for the year attributable to equity holders		0.027	0.024	0.026	0.022

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

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

	Notes	9 months ended 30/09/2010 RO'000	9 months ended 30/09/2009 RO'000
Operating activities			
Profit before taxation		24,265	22,381
Adjustments for:			
Depreciation	8	2,802	1,958
Provision for credit losses (net)		2,232	5,640
impairment losses on available for investments		534	3,135
Provision for bank loans (net)		(1,455)	4,074
Profit on sale of equipment (net)		-	(18)
Profit on sale of investments	18	(1,134)	(2,019)
Investment income		(1,273)	(1,191)
Operating profit before changes in operating assets and liabilities		<u>25,971</u>	<u>33,960</u>
Due from banks and other money market placements		32,844	32,280
Due to banks and other money market deposits		(59,641)	(10,663)
Loans and advances to customers		(69,957)	17,381
Financial assets at fair value through profit and loss		223	(17,399)
Other assets		(19,707)	47,104
Customers' deposits		78,910	(97,125)
Other liabilities		20,740	(41,138)
Other deposits		764	-
Cash from (used in) operations		<u>10,147</u>	<u>(35,600)</u>
Taxes paid		(3,866)	(6,136)
Net cash from (used in) operating activities		<u>6,281</u>	<u>(41,736)</u>
Investing activities			
Purchase of non-trading investments		(29,833)	(9,596)
Proceeds from sale of non-trading investments		8,427	10,743
Purchase of land and equipment	8	(11,563)	(4,952)
Proceeds from disposal of equipment		29	88
Translation differences on investments, premises and equipment and tax		(13)	30
Income from bond and other investment		857	460
Dividends income	18	416	731
Net cash used in investing activities		<u>(31,680)</u>	<u>(2,496)</u>
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		<u>(9,972)</u>	<u>(29,918)</u>
Decrease in cash and cash equivalents		<u>(35,371)</u>	<u>(74,150)</u>
Cash and cash equivalents at the beginning of the period		270,511	277,712
Cash and cash equivalents at the end of the period		<u>235,140</u>	<u>203,562</u>
Representing:			
Cash and balances with Central Bank (note 3)		172,396	210,378
Deposits and balances with other banks and financial institutions (net)		62,744	(6,816)
		<u>235,140</u>	<u>203,562</u>

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 September 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 distributable 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	-	-	-	-	2,952	-	19,570	22,522
Transfer to retained earnings	-	-	-	-	(12,500)	-	12,500	-
Dividend paid during the period	-	-	-	-	-	(18,918)	-	(18,918)
Balance at 30 September 2009	108,100	34,465	30,564	4,419	4,921	-	66,520	248,989
Balance at 1 October 2009	108,100	34,465	30,564	4,419	4,921	-	66,520	248,989
Total comprehensive income for the period	-	-	-	-	(133)	-	1,535	1,402
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 September 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	-	-	-	-	(797)	-	21,685	20,888
Dividend paid during the period	-	-	-	-	-	(12,972)	-	(12,972)
Balance at 30 September 2010	108,100	34,465	32,675	4,419	7,211	-	71,437	258,307

*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 September 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, Sultanate of Oman.

The bank employed 1,302 employees as of 30 September 2010 (30 September 2009 – 1,316 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 interim condensed 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 nine months ended 30 September 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 September 2010 (Unaudited)

3 CASH AND BALANCES WITH CENTRAL BANKS

	<i>30/09/2010</i>	<i>30/09/2009</i>	<i>31/12/2009</i>
	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>
Cash	24,046	28,062	23,173
Treasury bills with Central Banks	2,366	3,288	2,878
Certificate of deposit with Central Banks	40,000	85,000	95,000
Other balances with Central Banks	105,984	94,028	62,042
	172,396	210,378	183,093
Insurance deposit with Central Bank of Oman	-	764	764
Capital deposit with Central Bank of Oman	500	500	500
	172,896	211,642	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>30/09/2010</i>	<i>30/09/2009</i>	<i>31/12/2009</i>
	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>
loans and advances to banks	22,389	40,432	38,326
Placement with banks	120,760	46,914	130,010
Demand balances	12,349	5,779	6,625
Due from banks and other money market placement	155,498	93,125	174,961
Less: Allowance for credit losses (refer note below)	(6,522)	(3,995)	(7,966)
Less: Reserved interest	(68)	(79)	(79)
Net due from banks and other money market placement	148,908	89,051	166,916

During the second quarter of 2009, two large regional groups were reported to have defaulted on their payment obligations. As at 30 September 2010, the bank has a limited inter-bank exposure of RO 6.6 million against these groups. The bank recorded a provision of 100% against the two large regional groups.

During the quarter ended 30 September 2010, the bank has received RO 0.79 million in full and final settlement against its exposure of RO 1.9 million to a bank in Kazakhstan. Accordingly a provision of RO 0.3 million was released.

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

5 LOANS AND ADVANCES TO CUSTOMERS (NET)

	30/09/2010 RO'000	30/09/2009 RO'000	31/12/2009 RO'000
Corporate loans	783,084	761,054	720,929
Personal loans	656,143	618,549	641,965
Overdrafts	59,847	68,480	66,223
Gross loans and advances	1,499,074	1,448,083	1,429,117
Less: Allowance for credit losses and reserved interest	(70,352)	(69,886)	(68,120)
Net loans and advances	1,428,722	1,378,197	1,360,997

Gross loans and advances include RO 29.7 million due from related parties at 30 September 2010 (30 September 2009 - RO 21.87 million and 31 December 2009 - RO 18.19 million).

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

Allowance for credit losses	9 months ended 30/09/2010 RO'000	9 months ended 30/09/2009 RO'000	12 months ended 31/12/2009 RO'000
Balance at beginning of period / year	57,581	51,424	51,424
Provided during the period / year	13,065	10,437	20,483
Recovered/ released during the period / year	(2,701)	(1,710)	(6,684)
Written off during the period / year	(8,493)	(3,490)	(7,703)
Translation difference	(350)	46	61
Balance at end of period / year	59,102	56,707	57,581
Reserved interest	9 months Ended 30/09/2010 RO'000	9 months ended 30/09/2009 RO'000	12 months ended 31/12/2009 RO'000
Balance at beginning of period / year	10,539	12,822	12,822
Reserved during the period / year	3,000	2,393	3,363
Recovered/ released during the period / year	(199)	(290)	(352)
Recovered/released during the period to interest income	(660)	(492)	(568)
Written off during the period / year	(1,425)	(1,253)	(4,726)
Translation difference	(5)	(1)	-
Balance at end of period / year	11,250	13,179	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 September 2010, loans and advances on which interest is not being accrued or where interest has been reserved amounted to RO 64.8 million, (30 September 2009 - RO 69.6 million and 31 December 2009 - RO 71.7 million).

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

6 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS

	<i>30/09/2010</i> <i>RO'000</i>	<i>30/09/2009</i> <i>RO'000</i>	<i>31/12/2009</i> <i>RO'000</i>
Oman Government Development Bonds	17,086	17,382	17,309
Oman Government Development Bonds (OTC)	75	38	75
	<u>17,161</u>	<u>17,420</u>	<u>17,384</u>

7 NON TRADING FINANCIAL INVESTMENTS

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

a) Available for sale (AFS)

	<i>Carrying value</i> <i>30/09/2010</i> <i>RO'000</i>	<i>Cost</i> <i>30/09/2010</i> <i>RO'000</i>	<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>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	249	254	249	254
Industry sector	342	386	671	462	761	707
Service sector	4,175	5,382	7,131	8,468	6,940	8,451
Government Development Bonds	36,798	36,798	10,010	10,010	10,009	10,009
	<u>41,562</u>	<u>42,820</u>	<u>18,061</u>	<u>19,194</u>	<u>17,959</u>	<u>19,421</u>
Quoted investments- Foreign						
Banking and investment sector	2,528	2,724	449	28	395	-
Service sector	-	-	147	354	-	-
	<u>2,528</u>	<u>2,724</u>	<u>596</u>	<u>382</u>	<u>395</u>	<u>-</u>
Unquoted investments						
Banking and investment sector	7,051	6,168	8,528	7,944	7,060	6,402
Service sector	66	66	56	56	66	66
	<u>7,117</u>	<u>6,234</u>	<u>8,584</u>	<u>8,000</u>	<u>7,126</u>	<u>6,468</u>
Total available for sale	<u>51,207</u>	<u>51,778</u>	<u>27,241</u>	<u>27,576</u>	<u>25,480</u>	<u>25,889</u>

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

7 NON TRADING FINANCIAL INVESTMENTS (continued)

b) Held to maturity

	<i>Carrying value 30/09/2010 RO'000</i>	<i>Cost 30/09/2010 RO'000</i>	<i>Carrying value 30/09/2009 RO'000</i>	<i>Cost 30/09/2009 RO'000</i>	<i>Carrying value 31/12/2009 RO'000</i>	<i>Cost 31/12/2009 RO'000</i>
Government Development Bonds	-	-	-	-	-	-
Other bonds	-	-	4,587	4,587	4,580	4,580
Total held to maturity	-	-	4,587	4,587	4,580	4,580
Total non trading investments	51,207	51,778	31,828	32,163	30,060	30,469

Details of significant investments

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

<u>30 September 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	71.86	350,000	36,798	36,798
Investment Stabilization Fund	12.07	5,000,000	6,180	5,000

30 September 2009

Government Development Bonds	36.75	100,000	10,010	10,010
Investment Stabilization Fund	22.83	5,000,000	6,220	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 September 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	8,504	767	2,292	11,563
Disposals	-	(14)	(15)	(29)
Transfer	1,858	1,405	(3,263)	-
Translation difference	(17)	(4)	-	(21)
Depreciation	(1,152)	(1,650)	-	(2,802)
Balance at 30 September 2010, net of accumulated depreciation	13,971	5,582	1,921	21,474
At cost / valuation	24,365	20,898	1,921	47,184
Accumulated depreciation	(10,394)	(15,316)	-	(25,710)
Net carrying value at 30 September 2010	13,971	5,582	1,921	21,474
Net carrying value at 30 September 2009	4,688	4,591	3,216	12,495
Net carrying value at 31 December 2009	4,778	5,078	2,907	12,763

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

9 OTHER ASSETS

	<i>30/09/2010</i>	<i>30/09/2009</i>	<i>31/12/2009</i>
	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>
Interest receivable	8,795	7,096	7,349
Prepayments and deposits	2,715	1,859	1,427
Collateral pending sale	1,961	2,029	2,035
Positive fair value of derivatives (note 23)	8,165	1,427	841
Customers' indebtedness for acceptances (note 11)	16,791	12,615	10,557
Others	7,016	5,645	3,527
	<u>45,443</u>	<u>30,671</u>	<u>25,736</u>
Amount receivable from BCCI	3,458	3,472	3,458
Less provision for amount receivable from BCCI	(3,458)	(3,472)	(3,458)
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>30/09/2010</i>	<i>30/09/2009</i>	<i>31/12/2009</i>
	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>
Current and call accounts	321,319	252,706	217,852
Savings accounts	284,870	267,474	278,876
Certificate of deposits	62,520	63,520	63,520
Term deposits	670,969	660,930	700,520
	<u>1,339,678</u>	<u>1,244,630</u>	<u>1,260,768</u>

11 OTHER LIABILITIES

	<i>30/09/2010</i>	<i>30/09/2009</i>	<i>31/12/2009</i>
	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>
Interest payable	15,036	15,561	10,007
Other accruals and provisions	15,328	14,205	13,602
Negative fair value of derivatives (note 23)	8,285	1,377	534
Liabilities under acceptances (note 9)	16,791	12,615	10,557
	<u>55,440</u>	<u>43,758</u>	<u>34,700</u>

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

12 TAXATION

	<i>30/09/2010</i>	<i>30/09/2009</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	2,580	2,811	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>30/09/2010</i>	<i>30/09/2009</i>	<i>31/12/2009</i>
	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>
Accounting profit	24,265	22,381	25,014
Tax applicable rate	2,912	2,686	3,002
Non-deductible expenses	129	412	537
Tax exempt revenues	(116)	(506)	(489)
Others	(345)	219	859
	2,580	2,811	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 September 2010 (Unaudited)

12 TAXATION (continued)

	<i>30/09/2010</i>	<i>30/09/2009</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	2,580	2,811	3,909
<i>Prior period/year</i>			
Income tax and other taxes	1,182	1,185	1,173
	<u>3,762</u>	<u>3,996</u>	<u>5,082</u>
Recognised deferred tax assets and liabilities			
	<i>30/09/2010</i>	<i>30/09/2009</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>(36)</u>	<u>(51)</u>	<u>10</u>

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

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

13 SUBORDINATED PRIVATE PLACEMENT

	30/09/2010	30/09/2009	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
 - 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	(857)	-	-	-	(857)
Tax effect of net results on available for sale financial investments	46	-	-	-	46
Net unrealised (gain) / losses on cash flow hedge	-	14	-	-	14
At 30 September 2010	<u>1,296</u>	<u>(116)</u>	<u>2,811</u>	<u>3,220</u>	<u>7,211</u>
At 30 September 2009	<u>2,003</u>	<u>107</u>	<u>2,811</u>	<u>-</u>	<u>4,921</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 September 2010 (Unaudited)

15 CONTINGENT LIABILITIES AND COMMITMENTS

	<i>30/09/2010</i>	<i>30/09/2009</i>	<i>31/12/2009</i>
	<i>RO'000</i>	<i>RO' 000</i>	<i>RO'000</i>
Guarantees	359,740	313,766	388,131
Documentary letters of credit	84,071	90,087	73,839
Undrawn commitment to lend	117,388	58,394	62,253
	<u>561,199</u>	<u>462,247</u>	<u>524,223</u>

Contingent liabilities include RO. 0.2 million (30 September 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 5.96% for the nine months period ended 30 September 2010 (30 September 2009 – 6.19% and 31 December 2009 – 6.19%).

17 INTEREST EXPENSE

For the nine months period ended 30 September 2010, the average overall cost of funds was 2.67% (30 September 2009 - 3.01% and 31 December 2009 - 2.95%).

18 OTHER OPERATING INCOME

	<i>9 months ended</i>	<i>9 months ended</i>
	<i>30/09/2010</i>	<i>30/09/2009</i>
	<i>RO'000</i>	<i>RO'000</i>
Net gains from foreign exchange dealings	1,772	1,729
Fees and commissions	7,478	6,699
Net income from sale of investments	1,134	2,019
Income from bonds and others	857	460
Dividend income	416	731
Service charges	6,236	6,352
Miscellaneous income	573	700
	<u>18,466</u>	<u>18,690</u>

19 OTHER OPERATING EXPENSES

	<i>9 months ended</i>	<i>9 months ended</i>
	<i>30/09/2010</i>	<i>30/09/2009</i>
	<i>RO'000</i>	<i>RO'000</i>
Establishment costs	3,118	2,710
Operating and administration expenses	6,185	5,855
	<u>9,303</u>	<u>8,565</u>

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT 30 September 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 September 2010, management fees of RO 0.24 million have been accrued for (30 September 2009 – RO 0.78 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:

	30/09/2010			30/09/2009		
	Principal shareholder RO'000	Others RO'000	Total RO'000	Principal shareholder RO'000	Others RO'000	Total RO'000
Loans and advances	-	29,606	29,606	-	21,869	21,869
Customer's deposits	-	12,682	12,682	-	6,872	6,872
Due from banks	17,370	-	17,370	11	-	11
Due to banks	62	-	62	45	-	45
Subordinated private placement	-	3,100	3,100	-	3,100	3,100
Letter of credit, guarantees and acceptance	-	11,844	11,844	107	6,401	6,508
Standby revolving credit facility	26,950	11,550	38,500	38,500	-	38,500
Risk indemnities received	8,567	-	8,567	56,367	-	56,367

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

20 RELATED PARTY TRANSACTIONS (continued)

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

	<i>30/09/2010</i>			<i>30/09/2009</i>		
	<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	35	823	858	-	893	893
Commission income	-	113	113	-	120	120
Interest expense	72	539	611	34	253	287
Other expenses	270	359	629	315	416	731

Senior management compensation:

	<i>30/09/2010 RO'000</i>	<i>30/09/2009 RO'000</i>
Salaries and other short term benefits		
- Fixed	1,644	1,366
- Discretionary	565	674
	2,209	2,040

21 SHAREHOLDERS

As of 30 September 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 September 2010 (30 September 2009 – nil/31 December 2009 – nil).

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT 30 September 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>9 months ended 30 September 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	27,988	24,361	2,296	2,493	3,263	60,401
Profit	10,740	19,734	1,269	2,315	(12,373)	21,685
Total assets	627,906	765,591	14,409	19,780	458,161	1,885,847

<i>9 months ended 30 September 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	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

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

23 DERIVATIVES

<i>30 September 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	7,568	(7,568)	160,720	-	7,431	153,289
Credit default swaps	-	(77)	7,700	-	1,925	5,775
Forward foreign exchange purchase contracts	595	-	34,412	28,992	5,420	-
Forward foreign exchange sales contracts	2	(640)	34,412	28,995	5,417	-
Interest rate caps	-	-	443	80	181	182
Total	8,165	(8,285)	237,687	58,067	20,374	159,246

<i>30 September 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	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

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT
30 September 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 its funded cross currency interest rate swaps , which was entered in 2009, amounting to RO 21.04 million in order to hedge an equivalent amount due to a bank. As of the 30 September 2010, the mark to market adjustments for these cross currency interest rate swaps amounted to RO 0.12 million (2009: RO 0.11 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.