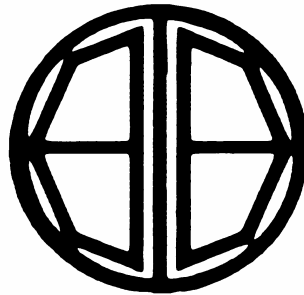


Oman International Bank S.A.O.G

Quarterly return to MSM as at 31 March 2010

I N D E X

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**Board of Directors' Report on the first quarter results (unaudited)
for the period ended March 31, 2010**

Dear Shareholders,

On behalf of the Board of Directors of Oman International Bank SAOG, it gives me pleasure to present a brief summary of the activities of the Bank and its performance for the first three months ended 31st March 2010.

The net interest income for the 1st quarter was RO 7.491 Mio compared to RO 8.231 Mio for the corresponding quarter last year. The other operating income increased by 8.4% from RO 2.517 Mio to RO 2.730 Mio for the comparative period. The operating expenditure increased by 2.2% to RO 4.693 Mio as compared to RO 4.591 Mio for the 1st quarter last year. Thus the bank's operating profit before provision for the quarter is RO 5.528 Mio compared with RO 6.157 Mio for the corresponding quarter last year.

The provision for loan impairment is RO 477K compared to RO 372K for the 1st quarter last year. The impact of recoveries amounted to RO 1.355 Mio compared to RO 1.438 Mio for the comparative period last year and the bank continues to pursue further recoveries.

Accordingly the bank achieved a net profit of RO 5.656 Mio compared with RO 6.366 Mio for the corresponding period last year.

The gross loans and advances stood at RO 683.133 Mio with acceptances of RO 51.686 Mio as at 31st March 2010 as compared to RO 688.096 Mio with acceptances of RO 44.281 Mio as at 31st March 2009. Non-funded business in terms of outstanding letters of credit and guarantees are at RO 269.422 Mio as compared to RO 212.553 Mio last year.

The bank maintains one of the strongest liquidity positions in the banking sector in the Sultanate of Oman.

The net asset per share is 173 baiza compared to 168 baiza for the corresponding period last year.

As regards our international operations, there has been consistent improvement. The India operations have reported a profit whereas the Pakistan operations are being



closely monitored to improve the results.

In closing this address, on behalf of the Board of Directors, I would like to express our appreciation and thanks to all our customers, correspondent banks, staff and management whose commitment to the Bank is appreciated, as well as to the Central Bank of Oman and their counterparts overseas for their support and guidance.

On behalf of the Board, I wish to express our most humble gratitude and loyalty to His Majesty Sultan Qaboos Bin Said for the peace, stability, and growth which his reign has brought us. We pray that the Almighty grant His Majesty good health to allow him to lead us on an enlightened path to further prosperity and development for Oman and its people.

Reem Zawawi

Reem Omar Zawawi
Chairperson of the Board



KPMG
4th Floor, HSBC Bank Building
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Tel 968 24709181
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REVIEW REPORT TO THE BOARD OF DIRECTORS OF OMAN INTERNATIONAL BANK SAOG

Introduction

We have reviewed the accompanying condensed interim report of the Oman International Bank SAOG ("the Bank") as at 31 March 2010, which includes condensed statement of financial position and the related condensed statements of comprehensive income, changes in equity and cash flows, prepared in Capital Market Authority's format, for the three months period then ended, and a summary of significant accounting policies and other explanatory notes set out on pages 5 to 34.

The condensed interim report is the responsibility of the Bank's Management. Bank's Management are responsible for the preparation of this condensed interim financial information in accordance with International Financial Reporting Standards and the requirements set out in the Rules for Disclosure and Proformas issued by the Capital Market Authority of the Sultanate of Oman. Our responsibility is to express a conclusion on this condensed interim financial information based on our review.

Scope of Review

We conducted our review in accordance with the International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of the Bank's personnel responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed interim financial information as at and for the three months period ended 31 March 2010 is not prepared, in all material respects, in accordance with International Financial Reporting Standards and the minimum disclosure requirements of the Capital Market Authority of the Sultanate of Oman.

24 April 2010



KPMG



Oman International Bank S.A.O.G

Interim report for the three months period ended 31 March 2010

Summary of unaudited results

| | 31 March 2010 RO'000 | 31 March 2009 RO'000 |
|--|-------------------------------------|-------------------------------------|
| Loans and advances net of provision and reserved interest | 611,326 | 623,027 |
| Deposits | 723,619 | 730,353 |
| Networth | 157,610 | 153,613 |
| Net assets per share | RO 0.173 | RO 0.168 |

| | Three months ended 31 March 2010 RO'000 | Three months ended 31 March 2009 RO'000 |
|--|--|--|
| Net interest income | 7,491 | 8,231 |
| Net profit for the period | 5,656 | 6,366 |
| Earnings per share for the period | RO 0.006 | RO 0.007 |
| Earnings per share (annualised) | RO 0.024 | RO 0.028 |
| Capital adequacy ratio % | 15.36 | 14.84 |



Unaudited statement of comprehensive income for the three months period ended 31 March 2010

| | Notes | Three months ended 31 March 2010 RO'000 | Three months ended 31 March 2009 RO'000 |
|--|-------|--|--|
| Interest income | | 9,052 | 10,655 |
| Interest expense | | <u>(1,561)</u> | <u>(2,424)</u> |
| Net interest income | | 7,491 | 8,231 |
| Other operating income | 5 | <u>2,730</u> | <u>2,517</u> |
| Total income | | 10,221 | 10,748 |
| Other operating expenditure | 5 | <u>(4,693)</u> | <u>(4,591)</u> |
| Operating profit before provisions and recoveries | | 5,528 | 6,157 |
| Provision for loan impairment | | (477) | (372) |
| Impact of recoveries / write back | 6 | <u>1,355</u> | <u>1,438</u> |
| Profit before tax | | 6,406 | 7,223 |
| Taxation | | <u>(750)</u> | <u>(857)</u> |
| Net profit for the period | | <u>5,656</u> | <u>6,366</u> |
| Other comprehensive income | | | |
| Net movement in fair value of available-for-sale investments | | 801 | (612) |
| Effect of currency translation | | <u>66</u> | <u>(74)</u> |
| Other comprehensive income for the period | | <u>867</u> | <u>(686)</u> |
| Total comprehensive income for the period | | <u>6,523</u> | <u>5,680</u> |
| Dividend per share | | = | = |

The notes set out on pages 10 to 34 form an integral part of these interim unaudited financial statements



Oman International Bank S.A.O.G

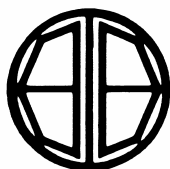
Interim report for the three months period ended 31 March 2010

Unaudited statement of financial position at 31 March 2010

| | Notes | 31 March 2010 RO'000 | 31 March 2009 RO'000 | 31 December 2009 RO'000 |
|--|--------|----------------------------|----------------------------|-------------------------------|
| Assets | | | | |
| Cash and balances with central banks | | 64,671 | 63,938 | 107,260 |
| Treasury bills and certificates of deposits | | 214,949 | 255,000 | 179,931 |
| Due from other banks | | 41,254 | 20,421 | 24,138 |
| Loans and advances: | 8 | | | |
| Due from related parties | | 40,913 | 54,041 | 37,023 |
| Other loans and advances | | 642,220 | 634,055 | 648,769 |
| Loans and advances (gross) | | 683,133 | 688,096 | 685,792 |
| Provision for impairment and reserved interest | 9 | (71,807) | (65,069) | (71,182) |
| Loans and advances (net) | | 611,326 | 623,027 | 614,610 |
| Investments | 13 | 31,860 | 31,357 | 31,038 |
| Other assets | | 58,948 | 50,779 | 52,268 |
| Property and equipment | 14 | 30,022 | 30,328 | 30,085 |
| Total assets | | 1,053,030 | 1,074,850 | 1,039,330 |
| Liabilities | | | | |
| Deposits from customers: | 10 | | | |
| Due to related parties | | 19,468 | 17,870 | 20,081 |
| Deposits from others | | 704,151 | 712,483 | 709,803 |
| Total deposits | | 723,619 | 730,353 | 729,884 |
| Due to banks | | 87,616 | 105,691 | 83,387 |
| Other liabilities | | 84,185 | 85,193 | 54,880 |
| Total liabilities | | 895,420 | 921,237 | 868,151 |
| Shareholders' funds | | | | |
| Share capital | | 91,325 | 91,325 | 91,325 |
| Non-distributable reserves | | 58,601 | 54,438 | 57,789 |
| Retained earnings | | 7,684 | 7,850 | 22,065 |
| Total shareholders' funds | | 157,610 | 153,613 | 171,179 |
| Total liabilities and shareholders' funds | | 1,053,030 | 1,074,850 | 1,039,330 |
| Letters of credit and guarantees | 18 (a) | 269,422 | 212,553 | 263,278 |

The interim unaudited financial statements were authorised for issue in accordance with a resolution of the Board of Directors on 24 April 2010.

REEM OMAR ZAWAWI
CHAIRPERSON



Oman International Bank S.A.O.G

Interim report for the three months period ended 31 March 2010

Unaudited statement of changes in equity for the three months period ended 31 March 2010

| | Share capital RO'000 | Legal reserve RO'000 | Statutory reserve RO'000 | Investment revaluation reserve RO'000 | Asset revaluation reserve RO'000 | Retained profits RO'000 | Total RO'000 |
|--|-------------------------|-------------------------|-----------------------------|--|-------------------------------------|----------------------------|-----------------|
| At 1 January 2009 | 91,325 | 29,346 | 618 | 2,942 | 22,109 | 26,251 | 172,591 |
| Total comprehensive income for the period | | | | | | | |
| Net profit for the period | - | - | - | - | - | 6,366 | 6,366 |
| Other comprehensive income for the period | | | | | | | |
| Effect of currency translation | - | - | (40) | 19 | - | (53) | (74) |
| Net movement in fair values | - | - | - | (612) | - | - | (612) |
| Total other comprehensive income | - | - | (40) | (593) | - | (53) | (686) |
| Total comprehensive income for the period | - | - | (40) | (593) | - | 6,313 | 5,680 |
| Transfer to statutory reserve | - | - | 56 | - | - | (56) | - |
| Transactions with shareholders, recorded directly in equity | | | | | | | |
| Dividend paid for 2008 | - | - | - | - | - | (24,658) | (24,658) |
| At 31 March 2009 | <u>91,325</u> | <u>29,346</u> | <u>634</u> | <u>2,349</u> | <u>22,109</u> | <u>7,850</u> | <u>153,613</u> |
| At 1 January 2010 | 91,325 | 30,442 | 694 | 4,544 | 22,109 | 22,065 | 171,179 |
| Total comprehensive income for the period | | | | | | | |
| Net profit for the year | - | - | - | - | - | 5,656 | 5,656 |
| Other comprehensive income for the period | | | | | | | |
| Effect of currency translation | - | - | 26 | (15) | - | 55 | 66 |
| Net movement in fair values | - | - | - | 801 | - | - | 801 |
| Total other comprehensive income | - | - | 26 | 786 | - | 55 | 867 |
| Total comprehensive income for the period | - | - | 26 | 786 | - | 5,711 | 6,523 |
| Transactions with shareholders, recorded directly in equity | | | | | | | |
| Dividend paid for 2009 | - | - | - | - | - | (20,092) | (20,092) |
| At 31 March 2010 | <u>91,325</u> | <u>30,442</u> | <u>720</u> | <u>5,330</u> | <u>22,109</u> | <u>7,684</u> | <u>157,610</u> |



Unaudited statement of cash flows for the three months period ended 31 March 2010

| | Three months ended 31 March 2010 RO'000 | Three months ended 31 March 2009 RO'000 |
|--|--|---|
| Profit before taxation | 6,406 | 7,223 |
| Adjustments for: | | |
| Depreciation | 261 | 299 |
| Provision for loan impairment (net of recoveries/write back) | (878) | (1,066) |
| Interest/dividend on investments | (341) | (331) |
| Unrealised forward foreign currency gains | (163) | (70) |
| Profit on disposal of property and equipment | (4) | - |
| Unrealised losses on investments | - | 92 |
| Operating profit before changes in operating assets and liabilities | 5,281 | 6,147 |
| Changes in operating assets | 12,756 | (48,340) |
| Changes in operating liabilities | 24,518 | 87,955 |
| Cash generated from operations | 42,555 | 45,762 |
| Income taxes paid | (2,970) | (3,781) |
| Net cash flow from operating activities | 39,585 | 41,981 |
| Cash flows from investing activities | | |
| Purchase of property and equipment | (158) | (683) |
| Proceeds from sale of property and equipment | 4 | - |
| Proceeds from maturities / sale of investments | - | 1,000 |
| Income received from investments | 971 | 1,444 |
| Effect of currency translation | (251) | 498 |
| Net cash flow from investing activities | 566 | 2,259 |
| Cash flows from financing activities | | |
| Dividend paid | (20,092) | (24,658) |
| Net change in cash and cash equivalents | 20,059 | 19,582 |
| Cash and cash equivalents at beginning of period | 211,728 | 191,900 |
| Cash and cash equivalents at end of period (Refer note 19) | 231,787 | 211,482 |



**NOTES TO THE FINANCIAL STATEMENTS
FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2010**

1 Legal status and principal activities

Oman International Bank SAOG (the Bank) is an Omani joint stock company, which was incorporated on 1 January 1979, operating as a commercial bank through a network of branches in the Sultanate of Oman, India and Pakistan. The registered address of the head office of the Bank is P.O. Box 1727, CPO Seeb, Postal Code 111, Sultanate of Oman. The Bank has its shares listed on Muscat Securities Market.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these condensed interim financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

2.1 Basis of preparation

The condensed interim unaudited financial statements are prepared in accordance with International Financial Reporting Standards and the disclosure requirements set out in the Rules for Disclosure and Proformas issued by the Capital Market Authority. The accounting policies used in the preparation of 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 prior year. The annual financial statements were prepared in accordance with International Financial Reporting Standards (IFRS), the disclosure requirements set out in the Rules for Disclosure and Proformas issued by the Capital Market Authority, the Commercial Company Law of the Sultanate of Oman and the applicable regulations of the Central Bank of Oman. The annual financial statements are prepared under the historical cost convention as modified by the revaluation of land, available-for-sale investment securities, investment carried at fair value through profit or loss, financial assets and financial liabilities held for trading and all derivative instruments.

Functional and presentation currency

The financial statements have been prepared in Rials Omani which is the functional currency of the primary economic environment in which the Bank operates.

2.2 Foreign currencies

2.2.1 Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of income. Translation differences on non-monetary items, such as equities held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation differences on non-monetary items classified as available-for-sale financial assets, are included in the investment revaluation reserve in equity.

2.2.2 Translation of financial statements of overseas branches

The assets and liabilities of the overseas branches that have a functional currency other than the Rial Omani are translated into Rial Omani at the period-end rates of exchange. The income and expenses of these overseas branches are translated into Rial Omani at average exchange rates for the period. Differences resulting from the translation of the opening net investment in these overseas branches are taken directly to retained profits.



**NOTES TO THE FINANCIAL STATEMENTS
FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2010**

2. Summary of significant accounting policies (continued)

2.3 Financial assets

The Bank classifies its financial assets in the following categories: financial assets at fair value through profit or loss; loans and receivables; held-to-maturity investments; and available-for-sale financial assets. Management determines the classification of its financial assets at initial recognition.

2.3.1 Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading and those designated at fair value through profit or loss at inception.

A financial asset is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Derivatives are also categorised as held for trading unless they are designated as hedging instruments.

Financial assets and financial liabilities are designated at fair value through profit or loss when:

- doing so significantly reduces measurement inconsistencies that would arise if the related derivatives were treated as held for trading and the underlying financial instruments were carried at amortised cost;
- certain investments, that are managed and evaluated on a fair value basis in accordance with a documented risk management or investment strategy and reported to key management personnel on that basis are designated at fair value through profit or loss; and
- financial instruments, containing one or more embedded derivatives significantly modify the cash flows, are designated at fair value through profit or loss.

Gains and losses arising from changes in the fair value of derivatives that are managed in conjunction with designated financial assets or financial liabilities are included in 'other operating income'.

2.3.2 Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than: (a) those that the Bank intends to sell immediately or in the short-term, which are classified as held for trading, and those that the Bank upon initial recognition designates as at fair value through profit or loss; (b) those that the Bank upon initial recognition designates as available-for-sale; or (c) those for which the Bank may not recover substantially all of its initial investment, other than because of credit deterioration.

2.3.3 Held-to-maturity financial assets

Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Bank's management has the positive intention and ability to hold to maturity.

2.3.4 Available-for-sale financial assets

Available-for-sale financial assets are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.



**NOTES TO THE FINANCIAL STATEMENTS
FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2010**

2. Summary of significant accounting policies (continued)

2.3 Financial assets (continued)

2.3.5 Initial and subsequent measurement

Regular-way purchases and sales of financial assets at fair value through profit or loss, held-to-maturity and available-for-sale are recognised on trade-date the date on which the Bank commits to purchase or sell the asset.

Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit and loss are initially recognised at fair value, and transaction costs are expensed in the statement of income. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Bank has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognised when they are extinguished – that is, when the obligation is discharged, cancelled or expires.

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method. Gains and losses arising from changes in the fair value of the financial assets at fair value through profit or loss category are included in the statement of income in the period in which they arise. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised directly in equity, until the financial asset is derecognised or impaired. At this time, the cumulative gain or loss previously recognised in equity is recognised in profit or loss. However, interest calculated using the effective interest method and foreign currency gains and losses on monetary assets classified as available-for-sale are recognised in the statement of income.

The fair values of quoted investments in active markets are based on current bid prices. If there is no active market for a financial asset, the Bank establishes fair value using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.

2.3.6 Fair value hierarchy

The Bank measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

Level 1: Quoted market price (unadjusted) in an active market for an identical instrument. Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations.

Level 2: Valuation techniques based on observable inputs, either directly (i.e., as prices) or indirectly (i.e., derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

Level 3: Valuation techniques using significant unobservable inputs. This category included all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instrument that are valued base on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.



**NOTES TO THE FINANCIAL STATEMENTS
FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2010**

2. Summary of significant accounting policies (continued)

2.3 Financial assets (continued)

2.3.6 Fair value hierarchy (continued)

The Bank uses widely recognized valuation models for determining the fair value of common and more simple financial instruments, like interest rate swaps and forward foreign exchange contract that use only observable market data and require little management judgment and estimation. Observable prices and model inputs are usually available in the market for listed debt and equity securities, exchange traded derivatives and simple over the counter derivatives like interest rate swaps.

2.4 Derivative financial instruments

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at their fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and valuation techniques, including discounted cash flow models and options pricing models, as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

2.5 Offsetting

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

2.6 Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, including cash and non-restricted balances with central banks, treasury bills and other eligible bills, amounts due from other banks and short-term government securities.

2.7 Treasury bills

Treasury bills are classified as held for trading or as loans and receivables. Treasury bills acquired for generating a profit from short-term fluctuations in price or dealer's margin are classified as held for trading and other treasury bills are classified as loans and receivables. Treasury bills held for trading are stated at their fair value based on quoted market prices or amounts derived from cash flow models. Unrealised gains and losses arising from changes in the fair value of treasury bills classified as held for trading are recognised in the statement of income as they arise. Treasury bills classified as loans and receivables are stated at their amortised cost.

2.8 Due from banks and money market placements

These are stated at amortised cost using the effective interest method, less any amounts written off and provision for impairment.



**NOTES TO THE FINANCIAL STATEMENTS
FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2010**

2. Summary of significant accounting policies (continued)

2.9 Property and equipment

All property and equipment except freehold land are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Revaluation of freehold land is carried out every three years on an open market value basis by an independent professional valuer. Net surpluses arising on revaluation are credited to a revaluation reserve, except that a revaluation increase is recognized as income to the extent that it reverses a revaluation decrease of the same asset previously recognized as an expense. A decrease as a result of a revaluation is recognized as an expense, except that it is charged directly against any related revaluation surplus to the extent that the decrease does not exceed the amount held in the revaluation surplus in respect of that asset. On disposal the related revaluation surplus is transferred directly to retained earnings. Transfers from revaluation surplus to retained earnings are not made through statement of income.

Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. All other repairs and maintenance are charged to other operating expenses during the financial period in which they are incurred.

Land is not depreciated. Depreciation is calculated so as to write off the cost of property and equipment, other than freehold land, less their estimated residual values, on a straight-line basis over the estimated useful lives of the assets concerned. Capital work-in-progress is not depreciated until the assets are ready for use. The principal lives adopted for this purpose are:

| | |
|-----------------------------------|-------------|
| Freehold buildings | 25 years |
| Equipment, furniture and fixtures | 5 years |
| Motor vehicles | 3 - 5 years |
| Computer software and equipment | 3 - 5 years |

Leased property is amortised over 20 years or, if shorter, the period of the lease. Improvements to leased property are amortised over five years.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the statement of income.

2.10 Sale and purchase agreement

Securities sold subject to linked repurchase agreements ('repos') are retained in the financial statements as investment securities and the counter party liability is included in amounts due to banks. Securities purchased under agreements to resell ('reverse repos') are recorded as due from other banks. The difference between sale and repurchase price is treated as interest and accrued over the life of the repo agreement using the effective yield method.



**NOTES TO THE FINANCIAL STATEMENTS
FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2010**

2. Summary of significant accounting policies (continued)

2.11 Impairment of financial assets

2.11.1 Assets carried at amortised cost

The Bank assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the statement of income. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e. on the basis of the Bank's grading process that considers asset type, industry, geographical location, collateral type, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the Bank and historical loss experience for assets with credit risk characteristics similar to those in the Bank. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

The Bank, as a policy, believes in full recovery of all outstanding. Only when all possible avenues for recovery of loans are fully exhausted the Bank considers write off.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the statement of income.



**NOTES TO THE FINANCIAL STATEMENTS
FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2010**

2. Summary of significant accounting policies (continued)

2.11 Impairment of financial assets (continued)

2.11.2 Assets carried at fair value

The Bank assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the statement of income. Impairment losses recognised in the statement of income on equity instruments are not reversed through the statement of income. If, in a subsequent period, in the case of debt instrument classified as available for sale, the fair value increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the statement of income.

2.12 Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.13 Acceptances

Acceptances are disclosed on the statement of financial position under other assets with corresponding liability disclosed under other liabilities. Therefore, there is no off-balance sheet commitment for acceptances.

2.14 Borrowings

Borrowings are recognised initially at fair value net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between proceeds net of transaction costs and the redemption value is recognised in the statement of income over the period of the borrowings using the effective interest method.

2.15 Deposits

All money market and customer deposits are recognised initially at fair value being consideration received and subsequently stated at amortised cost.



**NOTES TO THE FINANCIAL STATEMENTS
FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2010**

2. Summary of significant accounting policies (continued)

2.16 End of service benefits and leave entitlement

End of service benefits are accrued in accordance with the terms of employment of the Bank's employees at the reporting date, having regard to the requirements of the relevant labour laws of the countries in which the Bank operates. Employee entitlements to annual leave are recognised when they accrue to employees and an accrual is made for the estimated liability for annual leave as a result of services rendered by employees up to the reporting date.

Contributions to a defined contribution retirement plan for Omani employees in accordance with the Omani Social Insurance Scheme are recognised as an expense in the statement of income.

2.17 Provisions

Provisions for legal claims are recognised when:

- the Bank has a present legal or constructive obligation as a result of past events;
- it is more likely than not that an outflow of resources will be required to settle the obligation; and
- the amount has been reliably estimated.

2.18 Interest income and interest expense

Interest income and expense for all interest-bearing financial instruments, except for those classified as held for trading or designated at fair value through profit or loss, are recognised within 'interest income' and 'interest expense' in the statement of income using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument but does not consider

future credit losses. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Contractual interest is recognised unless collectibility is in doubt. Interest on interest bearing financial assets classified as held for trading or at fair value through profit or loss is recognised on an accrual basis.

2.19 Fee and commission income

Fees and commissions are generally recognised on an accrual basis when the service has been provided. Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognised as an adjustment to the effective interest rate on the loan.

2.20 Dividend income

Dividends are recognised in the statement of income once notice of entitlement is received.



**NOTES TO THE FINANCIAL STATEMENTS
FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2010**

2. Summary of significant accounting policies (continued)

2.21 Taxation

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the statement of income except to the extent that it relates to items recognised directly in equity, in which case it is recognised in other comprehensive income.

Provision for Oman taxation has been made on the basis of the rates applicable to an Omani Public Joint Stock company. Taxation on the overseas operations is provided on the basis of the relevant taxation laws of the countries in which the Bank operates.

Deferred income tax is provided in full, using the liability method, on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes (the tax base). The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the reporting date. The principal temporary differences arise from depreciation of property and equipment, provisions, tax losses carried forward and unrealised gains or losses on investments.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

2.22 Operating segment reporting

An operating segment is a component of the Bank that engages in business activities from which it may earn revenues and incur expense, including revenues and expenses that relate to transactions with any of the Bank's other components, whose operating results are reviewed regularly by the Business Committee (being the chief operating decision maker) to make decisions about resources allocated to each segment and assess its performance, and for which discrete financial information is available

2.23 Fiduciary activities

Assets and income arising thereon together with related undertakings to return such assets to customers are excluded from these financial statements where the Bank acts in a fiduciary capacity such as nominee, trustee or agent.

2.24 Critical accounting estimates and judgments

The key assumptions concerning the future and other key sources of estimating uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Impairment losses on loans and advances

The Bank reviews its problem loans and advances at each reporting date to assess whether a provision for impairment should be recorded in the statement of income. In particular, considerable judgement by management is required in the estimation of the amount and timing of future cash flows when determining the level of provisions required. Such estimates are necessarily based on assumptions about several factors involving varying degrees of judgment and uncertainty and actual results may differ resulting in future changes to such provisions.



**NOTES TO THE FINANCIAL STATEMENTS
FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2010**

2. Summary of significant accounting policies (continued)

2.24 Critical accounting estimates and judgments (Continued)

Collective impairment provisions on loans and advances

In addition to specific provisions against individually significant loans and advances, the Bank also makes a collective impairment provision against loans and advances which, although not specifically identified as requiring a specific provision, have a greater risk of default than when originally granted. This collective provision is based on any deterioration in the internal grade of the loan since it was granted. The amount of the provision is based on the historical loss pattern for loans within each grade and is adjusted to reflect current economic changes.

2.25 Director's remuneration

The Directors' remuneration is governed as set out in the Memorandum of Association of the Bank, the Commercial Companies Law, the Capital Market Authority and the Central Bank of Oman.

The Annual General Meeting shall determine and approve the remuneration and the sitting fees for the Board Directors and its sub-committees provided that such fees shall not exceed 5% of the annual net profit after deduction of the legal reserve and the optional reserve and the distribution of dividends to the shareholders provided that such fees shall not exceed RO 200,000. The sitting fees for each director shall not exceed RO 10,000 in one year.

2.26 Dividend distribution

The Board adopts a prudent dividend policy, which complies with regulatory and prudential requirements applicable in the Sultanate of Oman. Net profits of the Bank shall be distributed in accordance with the Bank's Memorandum of Association and subject to the approval of the Central Bank of Oman and the shareholders.

2.27 New standard and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2010, and have not been applied in preparing these financial statements. None of these will have an effect on the financial statements of the company, with the exception of IFRS 9 Financial Instruments, published on 12 November 2009 as part of phase I of the IASB's comprehensive project to replace IAS 39, deals with classification and measurement of financial assets. The requirements of this standard represent a significant change from the existing requirements in IAS 39 in respect of financial assets. The standard contains two primary measurement categories for financial assets: amortised cost and fair value. The standard eliminates the existing IAS 39 categories of held to maturity, available for sale and loans and receivables.

The standard is effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted.

3. Interest income

Interest bearing assets earned interest at an overall annualised rate of **3.99 %** for the three months ended 31 March 2010 (March 2009: 4.71 %).

4. Interest expense

For the three months ended 31 March 2010, the average overall annualised cost of funds was **0.79 %** (March 2009: 1.17 %).



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NOTES TO THE FINANCIAL STATEMENTS FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2010

5. Analysis of other operating income and expenditure

| | Three months ended 31 March 2010 RO'000 | Three months ended 31 March 2009 RO'000 |
|--|---|---|
| Other operating income | | |
| Fee and commission income | 1,492 | 1,446 |
| Exchange gain | 419 | 516 |
| Unrealised loss on trading investments | - | (92) |
| Dividend | 124 | 65 |
| Profit on sale of property and equipment | 4 | - |
| Other income | <u>691</u> | <u>582</u> |
| | <u>2,730</u> | <u>2,517</u> |
| Other operating expenditure | | |
| Staff costs | 2,602 | 2,467 |
| Occupancy costs | 441 | 409 |
| Depreciation | 261 | 299 |
| Other operating costs: | | |
| Advertisement and publicity | 317 | 357 |
| Communication | 165 | 179 |
| Repairs and maintenance | 344 | 268 |
| Others | <u>563</u> | <u>612</u> |
| | <u>4,693</u> | <u>4,591</u> |

6. Loans recoveries and write back

| | Three months ended 31 March 2010 RO'000 | Three months ended 31 March 2009 RO'000 |
|-------------------|---|---|
| Impaired loans | 612 | 835 |
| Reserved interest | 676 | 544 |
| Written-off loans | <u>67</u> | <u>59</u> |
| | <u>1,355</u> | <u>1,438</u> |

7 Basic earnings per share

Basic earnings per share are calculated by dividing the profit attributable to the shareholders, being profit for the period, by the weighted average number of shares in issue, as follows:

| | 31 March 2010 | 31 March 2009 | 31 December 2009 |
|---|------------------|------------------|---------------------|
| Weighted average number of shares in issue ('000) | 913,257 | 913,257 | 913,257 |
| Net profit for the period (RO'000) | 5,656 | 6,366 | 21,522 |
| Basic earnings per share – annualised (RO) | 0.024 | 0.028 | 0.024 |



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NOTES TO THE FINANCIAL STATEMENTS FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2010

8. Loans and advances

Loans and advances can be analysed as follows:

| | 31 March 2010 RO'000 | 31 March 2009 RO'000 | 31 December 2009 RO'000 |
|-------------------------------|-------------------------------------|----------------------------|-------------------------------|
| Overdrafts | 73,125 | 88,125 | 75,876 |
| Loans | 603,444 | 594,173 | 603,532 |
| Bills discounted / purchased | <u>6,564</u> | <u>5,798</u> | <u>6,384</u> |
| Gross loans and advances | 683,133 | 688,096 | 685,792 |
| Provision for loan impairment | (31,309) | (29,714) | (31,446) |
| Reserved interest | (40,498) | <u>(35,355)</u> | <u>(39,736)</u> |
| Net loans and advances | <u>611,326</u> | <u>623,027</u> | <u>614,610</u> |

The concentration of gross loans and advances by economic sector are as follows:

| | 31 March 2010 RO'000 | 31 March 2009 RO'000 | 31 December 2009 RO'000 |
|--|-------------------------------------|----------------------------|-------------------------------|
| Personal and consumer loans | 265,939 | 242,067 | 262,021 |
| Import trade | 23,081 | 34,326 | 36,572 |
| Construction | 27,189 | 39,844 | 27,434 |
| Financial institutions | 24,974 | 33,107 | 25,484 |
| Manufacturing | 96,192 | 111,276 | 100,086 |
| Wholesale and retail trade | 18,178 | 18,497 | 9,803 |
| Export trade | 973 | 856 | 933 |
| Electricity, gas, water, Transportation and communication Services | 58,271 | 41,016 | 50,762 |
| | 18,857 | 18,326 | 18,780 |
| Mining and quarrying | 113,366 | 113,838 | 116,788 |
| Others | <u>36,113</u> | <u>34,943</u> | <u>37,129</u> |
| | <u>683,133</u> | <u>688,096</u> | <u>685,792</u> |

The interest rate bands of gross loans and advances are as follows:

| | 31 March 2010 RO'000 | 31 March 2009 RO'000 | 31 December 2009 RO'000 |
|---------------|-------------------------------------|----------------------------|-------------------------------|
| 0-5% | 295,538 | 298,174 | 301,638 |
| 5-7% | 42,116 | 71,244 | 51,518 |
| 7-10% | 301,670 | 275,468 | 289,442 |
| 10-13% | 38,217 | 39,342 | 37,983 |
| more than 13% | <u>5,592</u> | <u>3,868</u> | <u>5,211</u> |
| | <u>683,133</u> | <u>688,096</u> | <u>685,792</u> |



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NOTES TO THE FINANCIAL STATEMENTS FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2010

8. Loans and advances (continued)

The contractual maturity of net loans and advances based on period remaining to maturity are as follows:

| | 31 March 2010 RO'000 | 31 March 2009 RO'000 | 31 December 2009 RO'000 |
|-------------------|-------------------------------------|----------------------------|-------------------------------|
| 0-6 months | 135,360 | 165,448 | 136,750 |
| 6-12 months | 24,958 | 20,692 | 24,083 |
| 1-3 years | 128,285 | 126,451 | 133,467 |
| 3-5 years | 74,245 | 74,654 | 74,832 |
| More than 5 years | <u>248,478</u> | <u>235,782</u> | <u>245,478</u> |
| | <u>611,326</u> | <u>623,027</u> | <u>614,610</u> |

9. Provision for loan impairment and reserved interest

The Central Bank of Oman (CBO) requires provision for loan impairment to be made on the basis of the higher of provision as per International Accounting Standards (IAS) 39 - Financial Instruments: Recognition and Measurement and as per CBO norms on a portfolio basis on the non-performing loans.

The Central Bank of Oman also requires as per circular BM 977 a general loan loss provision to cover expected losses, whereas IFRS requires collective impairment based on incurred losses. As per BM 977, the financial statements include a general provision of RO 5.7 million which is based on an expected loan loss provisioning model developed by Mercer Oliver Wyman, a leading international firm on financial services strategy and risk management consultancy. The collective impairment provision as required under IAS 39 based on an incurred loss model developed by the same consultant amounts to RO 0.81 million.

The movement on provision for loan impairment for the three months period ended on 31 March 2010 is analysed in the table below:

| | Specific Provision RO'000 | General Provision RO'000 | Total Provision RO'000 |
|--|--|---|---------------------------------------|
| Balance at 1 January 2010 | 25,651 | 5,795 | 31,446 |
| Currency translation effect on opening balance | (2) | - | (2) |
| Provided during the period | 475 | 2 | 477 |
| Released during the period: | | | |
| Due to recoveries | (444) | - | (444) |
| Due to write back | <u>(70)</u> | <u>(98)</u> | <u>(168)</u> |
| Balance at 31 March 2010 | <u>25,610</u> | <u>5,699</u> | <u>31,309</u> |

The movement on provision for loan impairment for the three months period ended on 31 March 2009 is analysed in the table below:

| | Specific Provision RO'000 | General Provision RO'000 | Total Provision RO'000 |
|--|---------------------------------|--------------------------------|------------------------------|
| Balance at 1 January 2009 | 23,986 | 6,196 | 30,182 |
| Currency translation effect on opening balance | (3) | (2) | (5) |
| Provided during the period | 372 | - | 372 |
| Released during the period: | | | |
| Due to recoveries | (476) | - | (476) |
| Due to write back | <u>(90)</u> | <u>(269)</u> | <u>(359)</u> |
| Balance at 31 March 2009 | <u>23,789</u> | <u>5,925</u> | <u>29,714</u> |



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NOTES TO THE FINANCIAL STATEMENTS FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2010

9. Provision for loan impairment and reserved interest (continued)

The movement on reserved interest for the period is analysed as below:

| | 31 March 2010 RO'000 | 31 March 2009 RO'000 |
|--|-------------------------------------|----------------------------|
| Balance at the beginning of the period | 39,736 | 33,362 |
| Currency translation effect on opening balance | - | (1) |
| Reserved during the period | 1,438 | 2,538 |
| Transfer to the statement of income | <u>(676)</u> | <u>(544)</u> |
| Balance at end of the period | <u>40,498</u> | <u>35,355</u> |

Provision for loan impairment and reserved interest represent **97.67 %** of gross non-performing loans and advances less government soft loans at 31 March 2010 (March 2009: 103.14 %).

At 31 March 2010, loans and advances on which interest has been reserved and/or has not been accrued amounted to RO 73.5 million (March 2009 - RO 63.1 million). In addition, Government soft loans, amounting to RO 4.3 million, on which the principal is guaranteed and part of interest serviced by the Government of the Sultanate of Oman, are impaired. Adequate provision for impairment is established for the portion of interest not serviced by the customers.

The estimated fair value of loans and advances is not materially different from the book value of loans and advances.

10. Deposits

Deposits can be analysed as follows:

| | 31 March 2010 RO'000 | 31 March 2009 RO'000 | 31 December 2009 RO'000 |
|---------------|-------------------------------------|----------------------------|-------------------------------|
| Current | 196,206 | 201,085 | 218,126 |
| Savings | 315,497 | 313,655 | 312,846 |
| Time deposits | 103,198 | 120,345 | 106,731 |
| Others | <u>108,718</u> | <u>95,268</u> | <u>92,181</u> |
| | <u>723,619</u> | <u>730,353</u> | <u>729,884</u> |

The contractual maturities of deposits based on the period remaining to maturity are as follows:

| | 31 March 2010 RO'000 | 31 March 2009 RO'000 | 31 December 2009 RO'000 |
|-------------|-------------------------------------|----------------------------|-------------------------------|
| 0-6 months | 691,337 | 708,936 | 675,985 |
| 6-12 months | 24,318 | 17,597 | 46,195 |
| 1-3 years | 7,649 | 3,565 | 7,374 |
| 3-5 years | <u>315</u> | <u>255</u> | <u>330</u> |
| | <u>723,619</u> | <u>730,353</u> | <u>729,884</u> |



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Interim report for the three months period ended 31 March 2010

NOTES TO THE FINANCIAL STATEMENTS FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2010

10. Deposits (continued)

The interest rate bands of deposits are as follows:

| | 31 March 2010 RO'000 | 31 March 2009 RO'000 | 31 December 2009 RO'000 |
|---------------|-------------------------------------|----------------------------|-------------------------------|
| 0-2% | 707,261 | 674,871 | 711,511 |
| 2-4% | 13,045 | 26,080 | 14,806 |
| 4-6% | 1,965 | 24,296 | 2,328 |
| 6-8% | 57 | 2,914 | 167 |
| 8-10 % | 170 | 1,157 | 155 |
| more than 10% | <u>1,121</u> | <u>1,035</u> | <u>917</u> |
| | <u>723,619</u> | <u>730,353</u> | <u>729,884</u> |

11. Asset liability mismatch

The asset liability mismatch based on the remaining period to maturity is as follows:

| Maturities | 31 March 2010 | | | 31 March 2009 | | |
|-------------------|-------------------------|-------------------------|-----------------------|------------------|-----------------------|--------------------|
| | Assets RO'000 | Liabilities RO'000 | Mismatch RO'000 | Assets RO'000 | Liabilities RO'000 | Mismatch RO'000 |
| 0-6 months | 497,827 | 805,392 | (307,565) | 527,452 | 838,164 | (310,712) |
| 6-12 months | 34,047 | 82,063 | (48,016) | 49,502 | 17,599 | 31,903 |
| 1-3 years | 135,278 | 7,650 | 127,628 | 132,595 | 65,219 | 67,376 |
| 3-5 years | 81,887 | 315 | 81,572 | 81,997 | 255 | 81,742 |
| more than 5 years | <u>303,991</u> | <u>157,610</u> | <u>146,381</u> | <u>283,304</u> | <u>153,613</u> | <u>129,691</u> |
| | <u>1,053,030</u> | <u>1,053,030</u> | <u>-</u> | <u>1,074,850</u> | <u>1,074,850</u> | <u>-</u> |

12. Investment income

Investment income can be analysed as follows:

| | Three months ended 31 March 2010 RO'000 | Three months ended 31 March 2009 RO'000 |
|-----------------|--|---|
| Interest | 206 | 318 |
| Dividend | 124 | 65 |
| Unrealised loss | <u>-</u> | <u>(92)</u> |
| | <u>330</u> | <u>291</u> |



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NOTES TO THE FINANCIAL STATEMENTS FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2010

13. Investments

Investments can be analysed as follows:

| | Market Value 31 March 2010 RO'000 | Market Value 31 March 2009 RO'000 | Book Value 31 March 2010 RO'000 | Book Value 31 March 2009 RO'000 | Cost 31 March 2010 RO'000 |
|--|--|--|--|--|--|
| Marketable securities – MSM | | | | | |
| Finance | 2,068 | 2,109 | 2,068 | 2,109 | 617 |
| Insurance | 478 | 536 | 478 | 536 | 422 |
| Services | 240 | 248 | 240 | 248 | 64 |
| Industrial | 44 | 86 | 44 | 86 | 48 |
| Government bonds | 5,119 | 13,724 | 4,923 | 13,426 | 4,832 |
| Other bonds | 251 | 256 | 226 | 226 | 221 |
| | <u>8,200</u> | <u>16,959</u> | <u>7,979</u> | <u>16,631</u> | <u>6,204</u> |
| Marketable securities – Foreign by Sector | | | | | |
| Government securities | <u>7,934</u> | <u>9,790</u> | <u>8,154</u> | <u>9,975</u> | <u>9,269</u> |
| Unquoted and other investments | | | | | |
| Unquoted Omani shares | | | 510 | 510 | 510 |
| Investment fund units | | | 13,347 | 3,093 | 10,624 |
| Unquoted foreign shares | | | 1,870 | 1,148 | 77 |
| | | | <u>15,727</u> | <u>4,751</u> | <u>11,211</u> |
| Total | | | <u>31,860</u> | <u>31,357</u> | <u>26,684</u> |

13. a. Details of significant investments

| | Market Value 31 March 2010 RO'000 | Book Value 31 March 2010 RO'000 | Cost RO'000 |
|-----------------------------------|--|--|------------------------------|
| MSM quoted securities | | | |
| Government bonds | 5,119 | 4,923 | 4,832 |
| Others | 3,081 | 3,056 | 1,372 |
| | <u>8,200</u> | <u>7,979</u> | <u>6,204</u> |
| Foreign listed securities | | | |
| Government securities | 7,934 | 8,154 | 9,269 |
| Total quoted securities | <u>16,134</u> | <u>16,133</u> | <u>15,473</u> |
| Unquoted securities | | | |
| Oman | | 13,857 | 11,134 |
| Others | | 1,870 | 77 |
| | | <u>15,727</u> | <u>11,211</u> |
| Totals as at 31 March 2010 | | <u>31,860</u> | <u>26,684</u> |



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NOTES TO THE FINANCIAL STATEMENTS FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2010

13 Investments (continued)

13. a. Details of significant investments (continued)

Details of the bank's investments for which the bank's holding exceeds 10% of the market value of its investments portfolio are :

| | % of Overall Portfolio | Number of securities | Market Value 31 March 2010 RO'000 | Cost 31 March 2010 RO'000 |
|--------------------------------------|------------------------------|-------------------------|--|------------------------------------|
| Investment Stabilisation Fund – Oman | <u>28.59</u> | <u>7,228,957</u> | <u>9,108</u> | <u>7,500</u> |

13.b. Details of classification of investments are given below:

| | 31 March 2010 RO'000 | 31 March 2009 RO'000 | 31December 2009 RO'000 |
|-----------------------------------|----------------------------|----------------------------|------------------------------|
| Fair value through profit or loss | - | 2,706 | - |
| Held-to-maturity | 10,122 | 18,071 | 10,215 |
| Available-for-sale | <u>21,738</u> | <u>10,580</u> | <u>20,823</u> |
| | <u>31,860</u> | <u>31,357</u> | <u>31,038</u> |

At 31 March 2010, available-for-sale investments in the amount of RO 6.0 million (2009 – RO 5.83 million) are measured using Level I of fair value hierarchy, RO 15.14 million (2009 – RO 4.16 million) are measured using Level II of fair value hierarchy and RO 0.59 million (2009 – RO 0.59 million) are stated at cost.

At 31 March 2009, investments carried at fair value through profit or loss in the amount of RO 2.71 million are measured using Level I of fair value hierarchy.

13.c. Details of investments classified as carried at fair value through profit or loss are as follows:

| | 31 March 2010 RO'000 | 31 March 2009 RO'000 | 31December 2009 RO'000 |
|--|----------------------------|----------------------------|------------------------------|
| Quoted - Foreign Government securities | = | <u>2,706</u> | = |

13.d. Details of investments classified as held-to-maturity are as follows:

| | 31 March 2010 RO'000 | 31 March 2009 RO'000 | 31December 2009 RO'000 |
|--|----------------------------|----------------------------|------------------------------|
| Quoted - Oman Government securities | 4,923 | 13,426 | 5,203 |
| Quoted - Foreign Government securities | 4,978 | 4,422 | 4,794 |
| Quoted - Other securities, Oman | <u>221</u> | <u>223</u> | <u>218</u> |
| | <u>10,122</u> | <u>18,071</u> | <u>10,215</u> |



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NOTES TO THE FINANCIAL STATEMENTS FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2010

13 Investments (continued)

13. e. Details of available-for-sale investments are as follows:

| | 31 March 2010 RO'000 | 31 March 2009 RO'000 | 31 December 2009 RO'000 |
|--|----------------------------|----------------------------|-------------------------------|
| Cost of: | | | |
| Quoted - Foreign Government securities | 3,608 | 3,186 | 3,479 |
| Quoted - Equity and other securities: | | | |
| Oman | 1,155 | 1,186 | 1,155 |
| Unquoted investments | <u>11,212</u> | <u>3,702</u> | <u>11,212</u> |
| | 15,975 | 8,074 | 15,846 |
| Revaluation gains/(losses) of: | | | |
| Quoted - Foreign Government securities | (431) | (340) | (421) |
| Quoted - Equity and other securities: | | | |
| Oman | 1,678 | 1,797 | 1,792 |
| Unquoted investments | <u>4,516</u> | <u>1,049</u> | <u>3,606</u> |
| | <u>21,738</u> | <u>10,580</u> | <u>20,823</u> |

14 Property and equipment

The movement in property and equipment during the period is as follows

| | Freehold land and buildings RO'000 | Leasehold property and improvements RO'000 | Equipment, furniture and fixtures RO'000 | Motor vehicles RO'000 | Computer equipment RO'000 | Capital work in progress RO'000 | Total RO'000 |
|--|---|---|---|-----------------------------|---------------------------------|--|----------------------|
| Cost / Valuation | | | | | | | |
| 1 January 2010 | 32,557 | 2,683 | 7,305 | 856 | 12,958 | 526 | 56,885 |
| Currency translation effect on opening balances | 82 | - | 8 | 1 | 10 | - | 101 |
| Additions | - | - | 58 | 19 | 45 | 36 | 158 |
| Disposals | <u>-</u> | <u>-</u> | <u>(10)</u> | <u>-</u> | <u>(32)</u> | <u>-</u> | <u>(42)</u> |
| 31 March 2010 | <u>32,639</u> | <u>2,683</u> | <u>7,361</u> | <u>876</u> | <u>12,981</u> | <u>562</u> | <u>57,102</u> |
| Depreciation | | | | | | | |
| 1 January 2010 | 4,606 | 2,564 | 6,695 | 812 | 12,123 | - | 26,800 |
| Currency translation effect on opening balances | 40 | - | 7 | 2 | 12 | - | 61 |
| Charge for the year | 72 | 11 | 58 | 10 | 110 | - | 261 |
| Disposals | <u>-</u> | <u>-</u> | <u>(10)</u> | <u>-</u> | <u>(32)</u> | <u>-</u> | <u>(42)</u> |
| 31 March 2010 | <u>4,718</u> | <u>2,575</u> | <u>6,750</u> | <u>824</u> | <u>12,213</u> | <u>-</u> | <u>27,080</u> |
| Net book value | | | | | | | |
| 31 March 2010 | <u>27,921</u> | <u>108</u> | <u>611</u> | <u>52</u> | <u>768</u> | <u>562</u> | <u>30,022</u> |
| 31 December 2009 | <u>27,951</u> | <u>119</u> | <u>610</u> | <u>44</u> | <u>835</u> | <u>526</u> | <u>30,085</u> |



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15 Related Parties and Holders of 10 % of the Bank's shares

| | 31 March 2010 RO'000 | 31 March 2009 RO'000 | 31 December 2009 RO'000 |
|-------------------------------------|----------------------------|----------------------------|-------------------------------|
| Loans and advances | 40,913 | 54,041 | 37,023 |
| Current, deposit and other accounts | 19,468 | 17,870 | 20,081 |
| Letters of credit and guarantees | 3,910 | 4,831 | 5,327 |
| Provision for loans and advances | <u>888</u> | <u>888</u> | <u>888</u> |

Loans and advances amounting to RO 17,510,000 (March 2009: RO 16,201,000; December 2009: RO 17,510,000) included above are secured by cash collaterals, government securities and bank guarantees.

| | 31 March 2010 RO'000 | 31 March 2009 RO'000 |
|-------------------------------------|----------------------------|----------------------------|
| Interest income | 495 | 891 |
| Interest expense* | 22 | 206 |
| Other operating income | 2 | 5 |
| Other operating expenditure: | | |
| Advertisement and publicity | 20 | 4 |
| Insurance | 67 | 67 |
| Printing and stationery | 18 | 25 |
| Repairs and maintenance | 30 | 41 |
| Others | <u>75</u> | <u>83</u> |
| | <u>210</u> | <u>220</u> |
| Purchase of property and equipment: | <u>57</u> | <u>126</u> |

*As at 31 March 2009, there was an expense of RO 172,000 towards 312 Mercedes Benz cars scheme for the "Mandoos Prize draws 2009". These amount included as cost of fund for savings accounts under "interest expenses" in statement of comprehensive income.



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15 Related Parties and Holders of 10 % of the Bank's shares (continued)

Analysis of the related party transactions with related parties or holders of 10% or more of the Bank's shares, ("Significant shareholders") or their family members during the period is as follows:

| For the period ended 31 March 2010 | Director RO'000 | Other directors RO'000 | Significant shareholder RO'000 | Others RO'000 | Total RO'000 |
|--|--------------------|------------------------------|--------------------------------------|------------------|-----------------|
| Loans and advances | 12,400 | 17 | 18,184 | 10,312 | 40,913 |
| Deposits | 168 | 22 | 4,086 | 15,192 | 19,468 |
| Letters of credit, acceptances and guarantees | 28 | - | 1,058 | 2,824 | 3,910 |
| Provision for loans and advances | - | - | - | 888 | 888 |
| Interest income | 132 | - | 283 | 80 | 495 |
| Interest expense | - | - | 1 | 21 | 22 |
| Other operating income | - | - | - | 2 | 2 |
| Other operating expenditure: | | | | | |
| Advertisement and publicity | - | - | 20 | - | 20 |
| Insurance | - | - | - | 67 | 67 |
| Printing and stationery | - | - | 17 | 1 | 18 |
| Repairs and maintenance | - | - | 25 | 5 | 30 |
| Others | 3 | 8 | 32 | 32 | 75 |
| Purchase of property and equipment | <u>-</u> | <u>=</u> | <u>29</u> | <u>28</u> | <u>57</u> |

For the period ended
31 March 2009

| | | | | | |
|--|----------|----------|-----------|-----------|------------|
| Loans and advances | 12,276 | 389 | 20,009 | 21,367 | 54,041 |
| Deposits | 208 | 22 | 4,048 | 13,592 | 17,870 |
| Letters of credit, acceptances and guarantees | 27 | - | 959 | 3,845 | 4,831 |
| Provision for loans and advances | - | - | - | 888 | 888 |
| Interest income | 183 | 9 | 312 | 387 | 891 |
| Interest expense | - | - | 174 | 32 | 206 |
| Other operating income | - | - | 5 | - | 5 |
| Other operating expenditure: | | | | | |
| Advertisement and publicity | - | - | 4 | - | 4 |
| Insurance | - | - | - | 67 | 67 |
| Printing and stationery | - | - | 23 | 2 | 25 |
| Repairs and maintenance | - | - | 26 | 15 | 41 |
| Others | 3 | 15 | 35 | 30 | 83 |
| Purchase of property and equipment | <u>-</u> | <u>-</u> | <u>31</u> | <u>95</u> | <u>126</u> |

Details are provided separately above where amounts relating to an individual director and/or significant shareholder and his/her related parties are greater than 5% of the total of related party loans and advances. Others represent transactions with parties related to more than one director and/or significant shareholder.



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16. Shareholders

All those 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 they hold are as follows:

| | 31 March 2010 | 31 March 2009 | 31 December 2009 |
|--|-------------------|-------------------|---------------------|
| H.E. Dr. Omar Bin Abdul Muniem Al Zawawi | <u>91,965,660</u> | <u>91,965,660</u> | <u>91,965,660</u> |

17. Operating segments

The Bank has two reportable segments as describe below, which are the Banks strategic business units. The strategic business units offer different products and services, and are managed separately based on the Bank's management and internal reporting structure for each of the strategic business units, the Bank's Business Committee reviews internal management reports on at least monthly basis. The following summary describes the operations in each of the Bank's reportable segments.

Wholesale Banking: includes loans, deposits and other transactions, balances with the corporate customers, treasury and trade finance.

Retail Banking: includes loans, deposits and other transactions.

Information regarding the results of each reportable segment is included below. The performance is measured based on segment profit before income tax, as included in the management information report that are reviewed by the Business Committee. Segment profit is used to measure the performance as management believes that such information is most relevant in evaluating the results of certain segments relative to other entities that operate within these industries.

Information about operating segments

| | 31 March 2010 | | | 31 March 2009 | | |
|--|---------------------------------|------------------------------|------------------|---------------------------------|------------------------------|------------------|
| | Wholesale Banking RO' 000 | Retail Banking RO' 000 | Total RO' 000 | Wholesale Banking RO' 000 | Retail Banking RO' 000 | Total RO' 000 |
| External income | | | | | | |
| Net interest income | 3,257 | 4,234 | 7,491 | 4,637 | 3,594 | 8,231 |
| Other operating income | <u>768</u> | <u>1,962</u> | <u>2,730</u> | <u>678</u> | <u>1,839</u> | <u>2,517</u> |
| Total segment income | <u>4,025</u> | <u>6,196</u> | <u>10,221</u> | <u>5,315</u> | <u>5,433</u> | <u>10,748</u> |
| Other material non-cash items: | | | | | | |
| Impairment losses on financial assets | <u>250</u> | <u>227</u> | <u>477</u> | <u>155</u> | <u>217</u> | <u>372</u> |
| Reportable segment profit before income tax | <u>3,472</u> | <u>2,934</u> | <u>6,406</u> | <u>5,069</u> | <u>2,154</u> | <u>7,223</u> |
| Reportable segment assets | <u>763,700</u> | <u>251,144</u> | <u>1,014,844</u> | <u>808,868</u> | <u>229,184</u> | <u>1,038,052</u> |
| Reportable segment liabilities | <u>419,860</u> | <u>447,274</u> | <u>867,134</u> | <u>399,649</u> | <u>483,853</u> | <u>883,502</u> |



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17. Operating segments (continued)

Reconciliation of reportable segment assets and liabilities

| | 31 March 2010 RO'000 | 31 March 2009 RO'000 |
|---|----------------------------|----------------------------|
| Assets | | |
| Total assets for reportable segments | 1,014,844 | 1,038,052 |
| Other unallocated amounts | <u>38,186</u> | <u>36,798</u> |
| Total assets | <u>1,053,030</u> | <u>1,074,850</u> |
| Liabilities | | |
| Total liabilities for reportable segments | 867,134 | 883,502 |
| Other unallocated amounts | <u>28,286</u> | <u>37,735</u> |
| Total liabilities | <u>895,420</u> | <u>921,237</u> |

Operating segments geographical areas

A geographical analysis of key financial data by location of primary assets as at 31 March 2010 is set out below:

| | Oman RO'000 | Others RO'000 | Consolidation adjustments RO'000 | Total RO'000 |
|-------------------------------|----------------|------------------|--|-----------------|
| Income from customers | 11,374 | 408 | - | 11,782 |
| Internal income | 7 | - | (7) | - |
| Net segment result | 5,643 | 13 | - | 5,656 |
| Assets | 1,044,963 | 39,281 | (31,214) | 1,053,030 |
| Liabilities | 887,654 | 24,047 | (16,281) | 895,420 |
| Capital expenditure | 153 | 5 | - | 158 |
| Depreciation | 229 | 32 | - | 261 |
| Provision for loan impairment | <u>475</u> | <u>2</u> | : | <u>477</u> |

A geographical analysis of key financial data by location of primary assets as at 31 March 2009 is set out below:

| | Oman RO'000 | Others RO'000 | Consolidation adjustments RO'000 | Total RO'000 |
|-------------------------------|----------------|------------------|--|-----------------|
| Income from customers | 12,829 | 343 | - | 13,172 |
| Internal income | 2 | - | (2) | - |
| Net segment result | 6,398 | (32) | - | 6,366 |
| Assets | 1,068,276 | 35,448 | (28,874) | 1,074,850 |
| Liabilities | 914,869 | 20,925 | (14,557) | 921,237 |
| Capital expenditure | 683 | - | - | 683 |
| Depreciation | 271 | 28 | - | 299 |
| Provision for loan impairment | <u>372</u> | = | = | <u>372</u> |



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NOTES TO THE FINANCIAL STATEMENTS FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2010

18. Contingent liabilities, commitments and derivatives

(a) Letters of credit, guarantees and other commitments

| | 31 March 2010 RO'000 | 31 March 2009 RO'000 | 31 December 2009 RO'000 |
|-------------------------------------|-------------------------------------|----------------------------|-------------------------------|
| Letters of credit | 76,235 | 15,054 | 64,507 |
| Guarantees and performance bonds | <u>193,187</u> | <u>197,499</u> | <u>198,771</u> |
| | <u>269,422</u> | <u>212,553</u> | <u>263,278</u> |
| Derivatives: | | | |
| Forward forex contracts – sales | 101,677 | 48,927 | 101,531 |
| Forward forex contracts – purchases | 80,104 | 24,451 | 70,353 |
| Interest rate caps | 924 | 3,203 | 1,109 |
| Interest rate swaps | <u>20,041</u> | <u>23,243</u> | <u>20,041</u> |

(b) Currency risk

Currency risk is the risk that the Bank is exposed to as a result of any exchange rate movements. The Bank's main functional currency is the Rial Omani. The treasury manual of the Bank sets out the details of the intra day and overnight exposures that are continuously monitored.

The Bank had the following significant net exposures denominated in foreign currencies as at 31 March:

| | Assets | Liabilities | Forward | | Net exposure 31 March 2010 FCY'000 | Net exposure 31 March 2010 RO'000 | Net exposure 31 March 2009 RO'000 |
|---------------|------------------|--------------------|------------------------------|--------------------------|---|--|--|
| | FCY'000 | FCY'000 | Purchases FCY'000 | Sales FCY'000 | | | |
| US Dollars | 654,134 | 467,379 | 118,135 | 189,586 | 115,304 | 44,392 | 44,380 |
| Indian Rupees | 1,369,975 | 1,370,708 | 1,000 | - | 267 | 2 | 8 |
| Others | | | | | | <u>1,053</u> | <u>1,387</u> |
| | | | | | | <u>45,447</u> | <u>45,775</u> |

(c) Contingencies

As at 31 March 2010, there were certain legal suits pending against the Bank, aggregating to RO 5.9 million (March 2009: RO 15.9 million, December 2009: RO 5.9 million). Based on the opinion of the Bank's legal counsel, the Bank's management believes that no liability is expected to arise from these cases and it therefore does not consider it necessary to make any provision in this regard.



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NOTES TO THE FINANCIAL STATEMENTS FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2010

19. Cash and cash equivalents

| | 31 March 2010 RO'000 | 31 March 2009 RO'000 |
|---|-------------------------------------|----------------------------|
| Statement of financial position items comprise: | | |
| Cash and balances with central banks | 64,671 | 63,938 |
| Treasury bills and certificates of deposit | 214,949 | 255,000 |
| Due from other banks | 41,254 | 20,421 |
| Due to banks | <u>(87,616)</u> | <u>(105,691)</u> |
| | 233,258 | 233,668 |
| Adjustment for items maturing after three months from date of acquisition and restricted balances | <u>(1,471)</u> | <u>(22,186)</u> |
| | <u>231,787</u> | <u>211,482</u> |
| Cash and cash equivalents comprise: | | |
| Cash and balances with central banks | 17,590 | 16,937 |
| Treasury bills and certificates of deposit | 210,000 | 230,000 |
| Due from other banks | 33,252 | 12,060 |
| Due to banks | <u>(29,055)</u> | <u>(47,515)</u> |
| | <u>231,787</u> | <u>211,482</u> |

20. Exposure to credit risk

| | Loans and advances | | Due from other banks | | Investments | |
|-------------------------------|-------------------------------------|-------------------------------|-------------------------------------|-------------------------------|-------------------------------------|-------------------------------|
| | 31 March 2010 RO'000 | 31 December 2009 RO'000 | 31 March 2010 RO'000 | 31 December 2009 RO'000 | 31 March 2010 RO'000 | 31 December 2009 RO'000 |
| Individually impaired | 73,499 | 72,350 | - | - | 79 | 79 |
| Allowance for impairment | <u>(66,108)</u> | <u>(65,387)</u> | - | - | <u>(31)</u> | <u>(31)</u> |
| Carrying amount | 7,391 | 6,963 | - | - | 48 | 48 |
| Past due and not impaired | 26,080 | 19,468 | - | - | - | - |
| Neither past due nor impaired | <u>577,855</u> | <u>588,179</u> | <u>41,254</u> | <u>24,138</u> | <u>31,812</u> | <u>30,990</u> |
| Total carrying amount | <u>611,326</u> | <u>614,610</u> | <u>41,254</u> | <u>24,138</u> | <u>31,860</u> | <u>31,038</u> |

21. Dividend per share

The Shareholders at the Annual General meeting held on 31 March, 2010 approved a cash dividend of RO 0.022 per share amounting to RO 20.092 million for the year 2009 (2008: cash dividend of RO 0.027 per share amounting to RO 24.658 million). These financial statements reflect these dividends, which have been accounted for in shareholders' equity as an appropriation of retained earnings for the period ended 31 March 2010.



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NOTES TO THE FINANCIAL STATEMENTS FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2010

22. Capital adequacy ratio

Details of capital adequacy, calculated in accordance with the norms prescribed by the Bank for International Settlements, are given below:

| | 31 March 2010 RO'000 | 31 March 2009 RO'000 | 31 December 2009 RO'000 |
|----------------------------|-------------------------------------|----------------------------|-------------------------------|
| Tier I and tier II capital | 132,389 | 131,930 | 132,042 |
| Risk-weighted assets | 862,099 | 889,084 | 861,501 |
| Capital adequacy ratio % | 15.36 | 14.84 | 15.33 |

23. Comparative balances

The corresponding figures of 2009 included for comparative purposes have been reclassified to conform with the presentation in the current period.