

BankMuscat  بنك مسقط

**CMA REPORT**  
**PERIOD ENDED MARCH 31, 2010**

| <b>CONTENTS</b> |   | <b>PAGE NO.</b> |
|-----------------|---|-----------------|
| <b>1</b>        | CHAIRMAN'S REPORT   |                 |
| <b>2</b>        | SUMMARY OF UNAUDITED CONSOLIDATED RESULTS                   | <b>2</b>        |
| <b>3</b>        | UNAUDITED CONSOLIDATED STATEMENT OF<br>COMPREHENSIVE INCOME | <b>3</b>        |
| <b>4</b>        | UNAUDITED CONSOLIDATED BALANCE SHEET                        | <b>4</b>        |
| <b>5</b>        | UNAUDITED CONSOLIDATED STATEMENT OF CASH<br>FLOWS           | <b>5</b>        |
| <b>6</b>        | UNAUDITED CONSOLIDATED STATEMENT OF<br>CHANGES IN EQUITY    | <b>6</b>        |
| <b>7</b>        | NOTES TO THE CONSOLIDATED FINANCIAL<br>STATEMENTS           | <b>7-13</b>     |

## Chairman's Report First Quarter 2010

Dear Shareholders,

I am glad to share with you the encouraging results achieved by the Bank during the first quarter ending 31 March 2010. The key business lines of the Bank recorded impressive performance during the period in question.

The Sultanate's economy, buoyed by an increase in oil prices and favourable financial, economic and monetary policies, is well on track to achieve the official projected growth rate of 6.1 per cent at constant prices and 18.4 per cent at current prices in 2010.

### *Financial Overview*

The Bank achieved a net profit of RO 24.5 million for the three months ended 31 March 2010 as compared to RO 48.4 million reported during the same period in 2009. Net profit for Q1'09 included RO 35.3 million of post-tax gain on sale of HDFC Bank investment and RO 7.5 million losses on available-for-sale investment portfolio. Excluding these one-off items, the adjusted net profit for Q1'09 was RO 20.6 million. Thus, on a like to like comparison, the net profit for Q1'10 shows an increase of 18.9 per cent over Q1'09.

Net interest income increased by 12 per cent to RO 44.4 million during the three months period ended 31 March 2010 from RO 39.6 million reported during the corresponding period in 2009. Non-interest income was higher by 15 per cent compared to Q1'09, excluding the gain on HDFC Bank investment and realised losses on Available-for-Sale investment. Operating expenses for Q1'10 at RO 24.6 million increased by 15.5 per cent as compared to the same period in 2009. Increase in operating expense is attributable to expansion of delivery channels, investment in technology and increase in manpower cost.

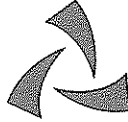
Impairment for credit losses for the three-month period in 2010 was RO 11.8 million as against RO 11.2 million, an increase of RO 0.6 million. Recoveries from impairment for credit losses was RO 2.8 million during Q1'10 as against RO 1.7 million in Q1'09. Share of profit from associates was RO 0.7 million as against a share of loss of RO 0.3 million reported in Q1'09.

Gross loans and advances increased by 3 per cent to RO 4,032 million as against RO 3,916 million in Q1'09. Customer deposits, including CDs, increased by 12.5 per cent to RO 3,628 million as against RO 3,225 million in Q1'09. Savings deposits witnessed a strong growth of 11% from RO 720 million as at 31 March 2009 to RO 802 million as at 31 March 2010. The Bank would continue to focus on savings and demand deposits to improve the net interest margin.

### *Strategic initiatives*

Coinciding with the Sultanate's 40<sup>th</sup> Renaissance Day anniversary under the leadership of His Majesty Sultan Qaboos bin Said, the Bank launched its 2010 activities under a year-long celebratory campaign titled 'Oman Celebrates'.

The Bank successfully closed its 11<sup>th</sup> Certificate of Deposit (CD) auction issue, accepting a total amount of RO 182.40 million of bids against the subscription of RO 370.75 million till the 11<sup>th</sup> CD auction.



Tapping into the huge investment and trade flows between China, Oman and the GCC, the Bank signed an agreement with Bank of China to establish the first-of-its-kind 'China Desk' in the region at BankMuscat.

*Accolades*

The Bank won, for the seventh consecutive year, the Best Foreign Exchange Bank in Oman 2010 award from Global Finance magazine. The Bank was also adjudged the Best Bank in Oman at the Emeafinance Middle East Banking awards ceremony.

*In conclusion*

On behalf of the Board of Directors, I take this opportunity to thank the banking community, both in Oman and overseas, for the confidence reposed in the Bank. I would also like to thank the Management Team and all our employees for their dedication and commitment to press ahead amid the challenging situation to reach higher levels of excellence.

The Board of Directors welcomes and supports the measures taken by the Central Bank of Oman and the Capital Market Authority to strengthen the financial market in the Sultanate. The foresight and market-friendly policies adopted by His Majesty's Government have helped the Bank to record encouraging results.

The Board of Directors is deeply grateful to His Majesty Sultan Qaboos Bin Said for his vision and guidance, which has helped the country along its path of growth and prosperity.

**AbdulMalik bin Abdullah Al Khalili**

**Summary of unaudited consolidated results as at 31 Mar 2010**

|   | <b>31-Mar-10</b>                  | <b>31-Mar-09</b>                  |
|---|-----------------------------------|-----------------------------------|
|   | <b>RO' 000</b>                    | <b>RO' 000</b>                    |
| <b>Loans and advances net of provisions and reserved interest</b> | 3,808,392                         | 3,777,767                         |
| <b>Customer Deposits and Bonds</b>                                | 3,697,941                         | 3,391,819                         |
| <b>Net assets</b>   | 715,439                           | 684,407                           |
| <b>Net assets per share *</b>                                     | 0.531                             | 0.635                             |
|   | <b>3 months ended 31 Mar 2010</b> | <b>3 months ended 31 Mar 2009</b> |
| <b>Net interest income</b>  | 44,367                            | 39,618                            |
| <b>Net profit before tax for the period</b>                       | 28,823                            | 55,667                            |
| <b>Net profit after tax for the period</b>                        | 24,475                            | 48,417                            |
| <b>Basic earnings per share (for the period) **</b>               | 0.073                             | 0.081                             |
| <b>Diluted earnings per share (for the period) **</b>             | 0.073                             | 0.081                             |
| <b>Capital adequacy ratio ***</b>                                 | 14.81%                            | 13.05%                            |

\* Net assets per share is calculated by dividing net assets owned by ordinary shareholders at 31 March 2010 by 1,346 million number of ordinary shares. (2009 : 1,077 million ordinary shares)

\*\* Basic and Diluted earnings per share is calculated as per International Accounting Standard No : 33.

\*\*\* Capital adequacy ratio has been calculated in accordance with the Basle II guidelines.

*Unaudited Consolidated Statement of Comprehensive Income  
For the three months ended 31 Mar 2010*

|  | Notes | 3 months<br>ended 31<br>Mar 2010 | 3 months<br>ended 31<br>Mar 2009 |
|--|-------|----------------------------------|----------------------------------|
|  |       | RO' 000                          | RO' 000                          |
| Interest income  | 1     | 67,710                           | 70,286                           |
| Interest expense   | 2     | (19,898)                         | (29,152)                         |
|  |       | <u>47,812</u>                    | <u>41,134</u>                    |
| Interest expense on tier II capital  |       | (3,445)                          | (1,516)                          |
| <b>Net interest income</b>   |       | <u>44,367</u>                    | <u>39,618</u>                    |
| Other operating income   | 3     | 17,319                           | 49,399                           |
| <b>OPERATING INCOME</b>  |       | <u>61,686</u>                    | <u>89,017</u>                    |
| <b>OPERATING EXPENSES</b>  |       |                                  |                                  |
| Other operating expenses   |       | (22,746)                         | (19,814)                         |
| Depreciation   |       | (1,897)                          | (1,441)                          |
|  |       | <u>(24,643)</u>                  | <u>(21,255)</u>                  |
| Impairment for credit losses   | 5     | (11,795)                         | (11,187)                         |
| Impairment for investments   |       | (77)                             | (1,720)                          |
| Recoveries from impairment for credit losses   | 5     | 2,790                            | 1,137                            |
| Recoveries from impairment for investments   |       | 62                               | -                                |
| Recoveries from impairment for placements  |       | 84                               | -                                |
| Share of profit / (loss) from associates   | 8a    | 716                              | (325)                            |
|  |       | <u>(32,863)</u>                  | <u>(33,350)</u>                  |
| <b>PROFIT BEFORE TAXATION</b>  |       | 28,823                           | 55,667                           |
| Tax expense  |       | (4,348)                          | (7,250)                          |
| <b>PROFIT FOR THE PERIOD</b>   |       | <u>24,475</u>                    | <u>48,417</u>                    |
| <b>OTHER COMPREHENSIVE INCOME</b>  |       |                                  |                                  |
| Profit / (loss) from foreign currency translation of investments in associates, before tax |       | 353                              | (1,113)                          |
| Change in fair value of investments available for sale, before tax                         |       | 840                              | (56,105)                         |
| <b>OTHER COMPREHENSIVE INCOME FOR THE PERIOD</b>   |       | <u>1,193</u>                     | <u>(57,218)</u>                  |
| Profit attributable to:  |       |                                  |                                  |
| Equity holders of the parent company   |       | 24,494                           | 48,417                           |
| Non-controlling interests  |       | (19)                             | -                                |
|  |       | <u>24,475</u>                    | <u>48,417</u>                    |

*Unaudited Consolidated Balance sheet  
As at 31 March 2010*

|  | Notes  | 31-Mar-10<br>RO' 000 | 31-Mar-09<br>RO' 000 |
|--|--------|----------------------|----------------------|
| <b>ASSETS</b>  |        |                      |                      |
| Cash and balances with Central Banks   |        | 872,763              | 451,212              |
| Placements with banks  |        | 1,006,036            | 984,838              |
| Loans and advances   | 4 & 5  | 3,808,392            | 3,777,767            |
| Investments  | 8b & c | 145,096              | 209,599              |
| Investment in associates   | 8a     | 68,242               | 91,771               |
| Property and equipment   |        | 26,498               | 21,884               |
| Other assets   |        | 173,607              | 189,232              |
|  |        | <u>6,100,634</u>     | <u>5,726,303</u>     |
| <b>LIABILITIES AND EQUITY</b>  |        |                      |                      |
| <b>LIABILITIES</b>   |        |                      |                      |
| Deposits from banks  |        | 1,232,862            | 1,188,503            |
| Customers' deposits  | 6      | 3,475,338            | 3,127,616            |
| Certificates of deposit  |        | 152,400              | 97,750               |
| Unsecured bonds  |        | 54,803               | 54,803               |
| Floating rate notes  |        | 15,400               | 111,650              |
| Other liabilities  |        | 245,521              | 314,793              |
| Taxation   |        | 20,371               | 33,281               |
| Subordinated liabilities   |        | 188,500              | 113,500              |
|  |        | <u>5,385,195</u>     | <u>5,041,896</u>     |
| <b>EQUITY</b>  |        |                      |                      |
| <b>Capital and reserves attributable to equity holders<br/>of the parent company</b> |        |                      |                      |
| Share capital  |        | 134,642              | 107,713              |
| Share premium  |        | 301,505              | 301,505              |
| Mandatory Convertible bonds  |        | 32,314               | 32,314               |
| General reserve  |        | 56,308               | 56,308               |
| Legal reserve  |        | 35,905               | 35,905               |
| Revaluation reserve  |        | 3,957                | 3,957                |
| Subordinated loan reserve  |        | 48,400               | 24,200               |
| Foreign exchange translation reserve   |        | (534)                | (10,583)             |
| Cumulative changes in fair value   | 8a&8b  | 5,664                | 13,171               |
| Retained profit  |        | 97,085               | 119,917              |
|  |        | <u>715,246</u>       | <u>684,407</u>       |
| Non-controlling interests in equity  |        | 193                  | -                    |
| Total Equity   |        | <u>715,439</u>       | <u>684,407</u>       |
| <b>TOTAL LIABILITIES AND EQUITY</b>  |        | <u>6,100,634</u>     | <u>5,726,303</u>     |
| <b>Contingent liabilities</b>  | 11     | <u>976,512</u>       | <u>1,017,555</u>     |
| <b>Related party information</b>   |        |                      |                      |
| Due from related parties   | 9      | 48,210               | 57,550               |
| Due to related parties   |        | 35,214               | 15,494               |

*Unaudited Consolidated Statement of cash flow  
For the three months ended 31 Mar 2010*

|   | <b>3 months<br/>ended 31<br/>Mar 2010</b> | 3 months<br>ended 31<br>Mar 2009 |
|---|---|----------------------------------|
|   | <b>RO' 000</b>                            | RO' 000                          |
| <b>Cash flow from operating activities</b>                    |   |                                  |
| Net profit for the period before taxation                     | 28,823                                    | 55,667                           |
| Adjustments for :   |   |                                  |
| Depreciation  | 1,897                                     | 1,441                            |
| Investment income   | (875)                                     | (35,333)                         |
| Operating profit before working capital changes               | <u>29,845</u>                             | <u>21,775</u>                    |
| Change in operating assets*                                   | (219,480)                                 | (99,052)                         |
| Change in operating liabilities**                             | <u>360,883</u>                            | <u>(149,588)</u>                 |
| <b>Net cash (used in) / from operating activities</b>         | <u>171,248</u>                            | <u>(226,865)</u>                 |
| <b>Net cash (used in) / from financing activities</b>         | (21,543)                                  | (21,542)                         |
| <b>Net cash (used in) / from investing activities</b>         | (3,084)                                   | 83,858                           |
| <b>Net increase / (decrease) in cash and cash equivalents</b> | <u>146,621</u>                            | <u>(164,549)</u>                 |
| Cash and cash equivalents brought forward                     | 367,289                                   | 410,385                          |
| <b>Cash and cash equivalents carried forward</b>              | <u><u>513,910</u></u>                     | <u><u>245,836</u></u>            |

\* Operating assets includes deposits with central banks, bank placements, loans and advances and other assets.

\*\* Operating liabilities includes customer deposits, deposits from banks and other liabilities.

**Unaudited Consolidated Statement of Changes in Equity**  
**Period ended 31 March 2010**

|  | Share capital  | Share premium  | Convertible Bonds           | General reserve | Legal reserve | Revaluation reserve | Subordinated loan reserve | Cumulative changes in fair value | Foreign exchange translation reserve | Retained Earnings | Total before Non-controlling interest | Non-controlling interest | Total           |
|--|----------------|----------------|-----------------------------|-----------------|---------------|---------------------|---------------------------|----------------------------------|--------------------------------------|-------------------|---------------------------------------|--------------------------|-----------------|
|  | RO' 000        | RO' 000        | RO' 000                     | RO' 000         | RO' 000       | RO' 000             | RO' 000                   | RO' 000                          | RO' 000                              | RO' 000           | RO' 000                               | RO' 000                  | RO' 000         |
| <b>Balance at 31 December 2008</b>                                       | <b>107,713</b> | <b>301,505</b> | <b>-</b>                    | <b>56,308</b>   | <b>35,905</b> | <b>3,957</b>        | <b>24,200</b>             | <b>69,276</b>                    | <b>(9,471)</b>                       | <b>125,357</b>    | <b>714,750</b>                        | <b>-</b>                 | <b>714,750</b>  |
| <b>Comprehensive income</b>  |                |                |                             |                 |               |                     |                           |                                  |                                      |                   |                                       |                          |                 |
| Profit for the year  |                |                |                             |                 |               |                     |                           |                                  |                                      | 73,763            | 73,763                                | (45)                     | 73,718          |
| <b>Other comprehensive income</b>  |                |                |                             |                 |               |                     |                           |                                  |                                      |                   |                                       |                          |                 |
| Loss on translation of net investments in                                |                |                |                             |                 |               |                     |                           |                                  | (1,040)                              |                   | (1,040)                               |                          | (1,040)         |
| Transfer to comprehensive income statement on derecognition of associate |                |                |                             |                 |               |                     |                           |                                  | 9,627                                |                   | 9,627                                 |                          | 9,627           |
| Change in fair value of investments available for sale                   |                |                |                             |                 |               |                     |                           | (64,453)                         |                                      |                   | (64,453)                              |                          | (64,453)        |
| <b>Total other comprehensive income</b>                                  | <b>-</b>       | <b>-</b>       | <b>-</b>                    | <b>-</b>        | <b>-</b>      | <b>-</b>            | <b>-</b>                  | <b>(64,453)</b>                  | <b>8,587</b>                         | <b>-</b>          | <b>(55,866)</b>                       | <b>-</b>                 | <b>(55,866)</b> |
| <b>Transactions with owners</b>  |                |                |                             |                 |               |                     |                           |                                  |                                      |                   |                                       |                          |                 |
| Dividends paid 2008  |                |                |                             |                 |               |                     |                           |                                  |                                      | (21,543)          | (21,543)                              |                          | (21,543)        |
| Issue of convertible bonds   |                |                | 32,314                      |                 |               |                     |                           |                                  |                                      | (32,314)          | -                                     |                          | -               |
| Transfer to Subordinated loan reserve                                    |                |                |                             |                 |               |                     | 24,200                    |                                  |                                      | (24,200)          | -                                     |                          | -               |
| Total contributions by and distributions to Non-controlling interest     | -              | -              | 32,314                      | -               | -             | -                   | 24,200                    | -                                | -                                    | (78,057)          | (21,543)                              | -                        | (21,543)        |
| <b>Total transactions with owners</b>                                    | <b>-</b>       | <b>-</b>       | <b>32,314</b>               | <b>-</b>        | <b>-</b>      | <b>-</b>            | <b>24,200</b>             | <b>-</b>                         | <b>-</b>                             | <b>(78,057)</b>   | <b>(21,543)</b>                       | <b>257</b>               | <b>(21,286)</b> |
| <b>Balance at 31 December 2009</b>                                       | <b>107,713</b> | <b>301,505</b> | <b>32,314</b>               | <b>56,308</b>   | <b>35,905</b> | <b>3,957</b>        | <b>48,400</b>             | <b>4,823</b>                     | <b>(884)</b>                         | <b>121,063</b>    | <b>711,104</b>                        | <b>212</b>               | <b>711,316</b>  |
|  |                |                |                             |                 |               |                     |                           |                                  |                                      |                   |                                       |                          |                 |
|  | Share capital  | Share premium  | Mandatory Convertible Bonds | General reserve | Legal reserve | Revaluation reserve | Subordinated loan reserve | Cumulative changes in fair value | Foreign exchange translation reserve | Retained Earnings | Total before Non-controlling interest | Non-controlling interest | Total           |
|  | RO' 000        | RO' 000        | RO' 000                     | RO' 000         | RO' 000       | RO' 000             | RO' 000                   | RO' 000                          | RO' 000                              | RO' 000           | RO' 000                               | RO' 000                  | RO' 000         |
| <b>Balance at 31 December 2009</b>                                       | <b>107,713</b> | <b>301,505</b> | <b>32,314</b>               | <b>56,308</b>   | <b>35,905</b> | <b>3,957</b>        | <b>48,400</b>             | <b>4,823</b>                     | <b>(884)</b>                         | <b>121,063</b>    | <b>711,104</b>                        | <b>212</b>               | <b>711,316</b>  |
| <b>Comprehensive income</b>  |                |                |                             |                 |               |                     |                           |                                  |                                      |                   |                                       |                          |                 |
| Profit for the year  |                |                |                             |                 |               |                     |                           |                                  |                                      | 24,494            | 24,494                                | (19)                     | 24,475          |
| <b>Other comprehensive income</b>  |                |                |                             |                 |               |                     |                           |                                  |                                      |                   |                                       |                          |                 |
| Loss on translation of net investments in                                |                |                |                             |                 |               |                     |                           |                                  | 350                                  |                   | 350                                   |                          | 350             |
| Change in fair value of investments available for sale                   |                |                |                             |                 |               |                     |                           | 841                              |                                      |                   | 841                                   |                          | 841             |
| <b>Total other comprehensive income</b>                                  | <b>-</b>       | <b>-</b>       | <b>-</b>                    | <b>-</b>        | <b>-</b>      | <b>-</b>            | <b>-</b>                  | <b>841</b>                       | <b>350</b>                           | <b>-</b>          | <b>1,191</b>                          | <b>-</b>                 | <b>1,191</b>    |
| <b>Transactions with owners</b>  |                |                |                             |                 |               |                     |                           |                                  |                                      |                   |                                       |                          |                 |
| Dividends paid 2009  |                |                |                             |                 |               |                     |                           |                                  |                                      | (21,543)          | (21,543)                              |                          | (21,543)        |
| Issue of bonus shares 2009   | 26,929         |                |                             |                 |               |                     |                           |                                  |                                      | (26,929)          | -                                     |                          | -               |
| Total contributions by and distributions to Non-controlling interest     | 26,929         | -              | -                           | -               | -             | -                   | -                         | -                                | -                                    | (48,472)          | (21,543)                              | -                        | (21,543)        |
| <b>Total transactions with owners</b>                                    | <b>26,929</b>  | <b>-</b>       | <b>-</b>                    | <b>-</b>        | <b>-</b>      | <b>-</b>            | <b>-</b>                  | <b>-</b>                         | <b>-</b>                             | <b>(48,472)</b>   | <b>(21,543)</b>                       | <b>-</b>                 | <b>(21,543)</b> |
| <b>Balance at 31 March 2010</b>  | <b>134,642</b> | <b>301,505</b> | <b>32,314</b>               | <b>56,308</b>   | <b>35,905</b> | <b>3,957</b>        | <b>48,400</b>             | <b>5,664</b>                     | <b>(534)</b>                         | <b>97,085</b>     | <b>715,246</b>                        | <b>193</b>               | <b>715,439</b>  |

**Notes to the Financial Statements as at 31 March 2010**
**1. Interest Income**

Interest bearing assets earned interest at an overall rate of 4.99% for the three months ended 31 Mar 2010. (Mar 2009 : 5.84%).

**2. Interest expense**

For the three months ended 31 Mar 2010 the average overall cost of funds was 1.95%. (Mar 09 : 2.74%).

**3. Other operating income**

|  | For the quarter ended |               |
|--|-----------------------|---------------|
|  | <b>31-Mar-10</b>      | 31-Mar-09     |
|  | <b>RO' 000</b>        | RO' 000       |
| Foreign Exchange                               | 2,742                 | 2,215         |
| Commission and fees (net)                      | 13,694                | 11,875        |
| Dividend income                                | 846                   | 667           |
| Profit/(loss) on sale of investment securities | 28                    | 34,360        |
| Other income                                   | 8                     | 282           |
|  | <u>17,319</u>         | <u>49,399</u> |

The commission and fees shown above is net off commission and fees paid of RO 225 K. (2009 : RO 150 K.)

**4. Loans and advances**

Loans and advances is analysed as follows:

|   | <b>31-Mar-10</b>        | 31-Mar-09               |
|---|-------------------------|-------------------------|
|   | <b>RO' 000</b>          | RO' 000                 |
| Corporate and Other Loans               | 2,451,557               | 2,398,499               |
| Personal and Housing loans              | <u>1,580,776</u>        | <u>1,517,353</u>        |
| Gross loans and advances                | 4,032,333               | 3,915,852               |
| Less : Provisions and reserved interest | <u>223,941</u>          | <u>138,085</u>          |
| Net loans and advances                  | <u><u>3,808,392</u></u> | <u><u>3,777,767</u></u> |

**Notes to the Financial Statements as at 31 Mar 2010 (continued)**
**4. Loans and advances (continued)**

The maturity of these is analysed as follows:

|                  | <b>31-Mar-10</b> | 31-Mar-09        |
|------------------|------------------|------------------|
|                  | <b>RO' 000</b>   | RO' 000          |
| Less than 1 year | 1,070,996        | 1,045,580        |
| 1 to 3 years     | 691,866          | 642,136          |
| 3 to 5 years     | 450,325          | 465,092          |
| Over 5 years     | 1,819,146        | 1,763,044        |
|                  | <u>4,032,333</u> | <u>3,915,852</u> |

The interest rate band of these are as follows:

|               | <b>31-Mar-10</b> | 31-Mar-09        |
|---------------|------------------|------------------|
|               | <b>RO' 000</b>   | RO' 000          |
| 0-5%          | 1,012,215        | 989,391          |
| 5-7%          | 524,253          | 702,211          |
| 7-9%          | 2,273,341        | 1,992,574        |
| 9-11%         | 175,937          | 177,496          |
| 11-13%        | 21,576           | 33,117           |
| more than 13% | 25,011           | 21,063           |
|               | <u>4,032,333</u> | <u>3,915,852</u> |

**Notes to the Financial Statements as at 31 Mar 2010 (continued)**
**5. Provisions and reserved interest**

The movement on the provision for possible credit losses and reserved interest for the period is analysed as follows:

|                                      | Provisions<br>RO' 000 | Reserved<br>Interest<br>RO' 000 |
|--------------------------------------|-----------------------|---------------------------------|
| At 1 January 2010                    | 184,190               | 29,655                          |
| Provided during the period           | 11,795                |                                 |
| Released/recovered during the period | (2,297)               |                                 |
| Written off during the period        | (504)                 | (492)                           |
| Transfer to memorandum account       | -                     |                                 |
| Interest reserved during the period  |                       | 3,838                           |
| Reserved interest recovered          |                       | (2,245)                         |
| At 31 Mar 2010                       | <u>193,184</u>        | <u>30,756</u>                   |
|                                      | Provisions<br>RO' 000 | Reserved<br>Interest<br>RO' 000 |
| At 1 January 2009                    | 99,597                | 25,977                          |
| Provided during the period           | 11,187                |                                 |
| Released/recovered during the period | (897)                 |                                 |
| Written off during the period        | (150)                 | (174)                           |
| Transferred during the period        | -                     | -                               |
| Interest reserved during the period  | -                     | 3,471                           |
| Reserved interest recovered          | -                     | (926)                           |
| At 31 March 2009                     | <u>109,737</u>        | <u>28,348</u>                   |

Recoveries of RO 2,790 K (Mar 2009: 1,137 K) reported in the income statement includes RO 493 K (2009: 240 K) recovered from loans written off earlier.

Interest is reserved on loans and advances which are impaired.

At 31 Mar 2010 loans and advances on which interest had been reserved amounted to RO 207.03 Million (2009 : RO. 101.26 Million). This includes off balance sheet exposure.

\* *Specific provisions are established after considering security on a case by case basis in respect of specific loans and advances where recovery appears doubtful.*

\*\* *General Provisions are established to meet the credit risks inherent within the loans and advances portfolio.*

## Notes to the Financial Statements as at 31 Mar 2010 (continued)

**6. Deposits**

Deposits are analysed as follows:

|                                | <b>31-Mar-10</b>        | 31-Mar-09               |
|--------------------------------|-------------------------|-------------------------|
|                                | <b>RO' 000</b>          | RO' 000                 |
| Current accounts               | 896,182                 | 695,293                 |
| Call accounts                  | 260,856                 | 201,570                 |
| Savings accounts               | 802,056                 | 720,407                 |
| Time deposits                  | 1,497,760               | 1,495,930               |
| Other                          | 18,483                  | 14,416                  |
| <b>Customer Deposits</b>       | <b>3,475,338</b>        | <b>3,127,616</b>        |
| CD's / Unsecured Bonds / FRN's | 222,603                 | 264,203                 |
| <b>Total Deposits</b>          | <b><u>3,697,941</u></b> | <b><u>3,391,819</u></b> |

The maturities of deposits are as follows

|                  | <b>31-Mar-10</b>        | 31-Mar-09               |
|------------------|-------------------------|-------------------------|
|                  | <b>RO' 000</b>          | RO' 000                 |
| Less than 1 year | 1,820,486               | 2,148,860               |
| 1 to 3 years     | 662,539                 | 368,725                 |
| 3 to 5 years     | 503,187                 | 323,523                 |
| Over 5 years     | 711,729                 | 550,711                 |
|                  | <b><u>3,697,941</u></b> | <b><u>3,391,819</u></b> |

The interest rate bands of deposits are as follows:

|              | <b>31-Mar-10</b>        | 31-Mar-09               |
|--------------|-------------------------|-------------------------|
|              | <b>RO' 000</b>          | RO' 000                 |
| 0%           | 1,356,846               | 1,162,973               |
| 0-2%         | 936,686                 | 566,713                 |
| 2-4%         | 555,075                 | 565,622                 |
| 4-6%         | 779,443                 | 1,020,803               |
| more than 6% | 69,891                  | 75,708                  |
|              | <b><u>3,697,941</u></b> | <b><u>3,391,819</u></b> |

**7. Asset liability mismatch**

The asset liability mismatch is analysed as follows:

| <i>Maturities</i> | <b>31-Mar-10</b>        |                         |                 | 31-Mar-09               |                         |                 |
|-------------------|-------------------------|-------------------------|-----------------|-------------------------|-------------------------|-----------------|
|                   | <b>Assets</b>           | <b>Liabilities</b>      | <b>Mismatch</b> | Assets                  | Liabilities             | Mismatch        |
|                   | <b>RO' 000</b>          | <b>RO' 000</b>          | <b>RO' 000</b>  | RO' 000                 | RO' 000                 | RO' 000         |
| Less than 1 year  | 2,790,881               | 3,038,048               | (247,167)       | 2,489,941               | 3,283,933               | (793,992)       |
| 1 to 3 years      | 797,137                 | 903,651                 | (106,514)       | 746,690                 | 564,309                 | 182,381         |
| 3 to 5 years      | 498,438                 | 583,052                 | (84,614)        | 515,038                 | 426,693                 | 88,345          |
| Over 5 years      | 2,014,178               | 1,575,883               | 438,295         | 1,974,634               | 1,451,368               | 523,266         |
|                   | <b><u>6,100,634</u></b> | <b><u>6,100,634</u></b> | <b><u>-</u></b> | <b><u>5,726,303</u></b> | <b><u>5,726,303</u></b> | <b><u>-</u></b> |

The mismatch represents the difference between assets and liabilities for each maturity band. Share capital is included within liabilities.

**Notes to the Financial Statements as at 31 Mar 2010 (continued)**
**8. Non Trading Investments**
**8.a. Investment in associates**
**1 Investment in Bank Muscat International (BMI), Bahrain**

As at Mar 31, 2010 the carrying value of the investment in BMI was as follows:

|   | <b>31-Mar-10</b>     | 31-Mar-09            |
|---|----------------------|----------------------|
|   | <b>RO. 000's</b>     | RO. 000's            |
| Carrying value of the investment at January 1 | 57,328               | 65,668               |
| Share of profit for the period                | 451                  | 255                  |
| Carrying value of the Investment at March 31  | <u><u>57,779</u></u> | <u><u>65,923</u></u> |

**2 Investment in Mangal Keshav Holdings Private Limited (MKH), India**

As at Mar 31, 2010 the carrying value of the investment in MKH was as follows:

|  | <b>31-Mar-10</b>     | 31-Mar-09           |
|--|----------------------|---------------------|
|  | <b>RO. 000's</b>     | RO. 000's           |
| Carrying value of the Investment at January 1                  | 9,844                | 9,355               |
| Share of profit for the period Oct08 to Dec08                  |                      | 54                  |
| Share of profit for the period Oct09 to Dec09                  | 266                  | -                   |
| Profit / (loss) on translation of foreign currency investments | 353                  | (452)               |
| Carrying value of the Investment at March 31                   | <u><u>10,463</u></u> | <u><u>8,957</u></u> |

**3 Investment in Silk Bank Limited (SBL) (formerly Saudi Pak Commercial Bank Limited).**

In December 2009, SBL announced a rights issue of Pakistani Rupee (PKR) 7 billion through issuance of 2.8 billion right shares at the rate of PKR 2.5 per share for every one share held in order to meet the minimum capital requirement of the local regulator.

As announced in the annual financial statements of December 2009, the Bank has decided non participation in rights issue and to dilute its stake in SBL. As a result of non-participation the Bank's stake in SBL is expected to be diluted to around 8.5% based on the proposed rights issue terms.

As it was certain that the Bank is not participating in the rights issue and thereby substantially diluting its stake from an associate status to non-strategic investment, the SBL investment has been classified from Associate Investment to Available-for-sale investment from 31 December 2009.

As at Mar 31, 2009 carrying value of investment in SBL was RO 16,891 K. As mentioned above these investments were reclassified as available for sale securities in Dec 2009 with a carrying value of RO 3,870 K. As at Mar 31, 2010, carrying value of the same is RO 3,877 K.

**Notes to the Financial Statements as at 31 Mar 2010 (continued)**
**8. Non Trading Investments (continued)**
**8.b. Available For Sale**

|                             | <b>Fair Value<br/>31-Mar-10<br/>RO' 000</b> | Fair Value<br>31-Mar-09<br>RO' 000 |
|-----------------------------|---|------------------------------------|
| <i>Quoted Investments</i>   |   |                                    |
| Industrial sector           | 4,428                                       | 3,156                              |
| Financial services sector   | 4,029                                       | 5,496                              |
| Other services sector       | 13,799                                      | 9,166                              |
| Foreign securities*         | 25,431                                      | 30,985                             |
| Corporate Bonds             | 7,191                                       | 8,016                              |
| Investment fund units       | 10,008                                      | 7,539                              |
| Government bonds            | 45,910                                      | 48,259                             |
| Total                       | <u>110,796</u>                              | <u>112,617</u>                     |
| <i>Unquoted investments</i> |   |                                    |
| Unquoted local securities   | 6,686                                       | 5,897                              |
| Unquoted foreign securities | 10,163                                      | 7,777                              |
| Investment fund units       | 50  | 50                                 |
| Total                       | <u>16,899</u>                               | <u>13,724</u>                      |
| Impairment losses           | (5,677)                                     | (4,981)                            |
| Total available for sale    | <u><b>122,018</b></u>                       | <u><b>121,360</b></u>              |

**8.c. Held To Maturity**

|                  |                      |                      |
|------------------|----------------------|----------------------|
| Treasury Bills   | 21,777               | 78,273               |
| Government Bonds | 1,301                | 9,966                |
|                  | <u><b>23,078</b></u> | <u><b>88,239</b></u> |

\* Includes RO Nil (2009: 15,638 K) relating to investment in HDFC Bank.

**Notes to the Financial Statements as at 31 Mar 2010 (continued)**
**9. Related Party Transactions**

The balances of directors and their related concerns were as follows:

|  | <b>31-Mar-10</b> | 31-Mar-09 |
|--|------------------|-----------|
|  | <b>RO' 000</b>   | RO' 000   |
| Loans and advances   | 48,210           | 57,550    |
| Current, deposit and other accounts  | 35,214           | 15,494    |
| Customers' liabilities under documentary credits, guarantees and other commitments | 5,514            | 1,696     |

The income and expenses in respect of related parties are as follows:

|                             | <b>3 months</b> | 3 months |
|-----------------------------|-----------------|----------|
|                             | <b>ended 31</b> | ended 31 |
|                             | <b>Mar 2010</b> | Mar 2009 |
|                             | <b>RO' 000</b>  | RO' 000  |
| Interest income             | 413             | 520      |
| Interest expenditure        | 107             | 139      |
| Commission and other income | 17              | 4        |

**10. Shareholders**

Shareholders of the bank who hold 10% or more of the bank's shares are given below:

|                           | <b>31-Mar-10</b>     | 31-Mar-09            |
|---------------------------|----------------------|----------------------|
|                           | <b>RO' 000</b>       | RO' 000              |
| Royal Court Affairs       | 33,442               | 18,364               |
| Dubai Financial Group LLC | 20,196               | 16,157               |
|                           | <b><u>53,638</u></b> | <b><u>34,521</u></b> |

**11. Contingent liabilities**

|                   |                       |                         |
|-------------------|-----------------------|-------------------------|
| Letters of Credit | 295,533               | 390,329                 |
| Guarantees        | 680,979               | 627,226                 |
|                   | <b><u>976,512</u></b> | <b><u>1,017,555</u></b> |

**12. Forwards and options**
**Forwards**

|             |           |           |
|-------------|-----------|-----------|
| - Sales     | 1,586,349 | 1,778,276 |
| - Purchases | 1,586,536 | 1,775,828 |

**Options**

|             |         |        |
|-------------|---------|--------|
| - Sales     | 113,115 | 21,801 |
| - Purchases | 113,115 | 21,801 |

**13. Comparative Figures**

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