

# **National Bank of Oman SAOG**

## **INTERIM CONDENSED FINANCIAL STATEMENTS**

**31 March 2011 (UNAUDITED)**



PO Box 751 PC 112 Ruwi Sultanate of Oman.

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**SUMMARY OF RESULTS**

<b>Particulars</b>	<b>3 months ended 31/03/2011</b>	<b>3 months ended 31/03/2010</b>
<b>(All RO '000 unless stated otherwise)</b>		
Loans and advances to customers (net)	<b>1,414,831</b>	1,380,101
Customers' deposits	<b>1,355,097</b>	1,372,873
Other assets	<b>59,079</b>	40,781
Net interest income	<b>13,381</b>	13,678
Profit before tax	<b>8,937</b>	6,921
Earnings per share-annualized (RO)	<b>0.029</b>	0.025
Net assets per share (RO)	<b>0.236</b>	0.226

**INTERIM CONDENSED STATEMENT OF FINANCIAL POSITION**  
**31 March 2011 (Un-audited)**

		<i>31-3-2011</i>	<i>31-3-2010</i>	<i>Audited</i> <i>31-12-2010</i>
	<i>Notes</i>	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>
<b>Assets</b>				
Cash and balances with Central Banks	3	<b>195,165</b>	293,752	227,539
Due from banks and other money market placements (net)	4	<b>110,614</b>	107,142	84,155
Loans and advances to customers (net)	5	<b>1,414,831</b>	1,380,101	1,363,362
Financial assets at fair value through profit and loss	6	-	17,310	-
Non-trading financial investments	7	<b>66,609</b>	29,394	63,133
Premises and equipment	8	<b>22,240</b>	21,290	22,353
Deferred tax asset	12	<b>16</b>	9	7
Other assets	9	<b>59,079</b>	40,781	44,355
<b>Total assets</b>		<b>1,868,554</b>	1,889,779	1,804,904
<b>Liabilities</b>				
Due to banks and other money market deposits		<b>168,962</b>	189,787	132,345
Customers' deposits	10	<b>1,355,097</b>	1,372,873	1,324,890
Other liabilities	11	<b>56,621</b>	50,078	47,084
Taxation	12	<b>1,944</b>	2,366	4,175
<b>Total liabilities</b>		<b>1,582,624</b>	1,615,104	1,508,494
<b>Subordinated Funds</b>				
Subordinated private placement	13	<b>30,600</b>	30,600	30,600
<b>Equity</b>				
Share capital		<b>108,100</b>	108,100	108,100
Share premium		<b>34,465</b>	34,465	34,465
Legal reserve		<b>35,392</b>	32,675	35,392
General reserve		<b>4,419</b>	4,419	4,419
Other non-distributable reserves	14	<b>12,743</b>	8,088	14,748
Proposed cash dividend		-	-	16,215
Retained earnings		<b>60,211</b>	56,328	52,471
<b>Total equity</b>		<b>255,330</b>	244,075	265,810
<b>Total liabilities, subordinated funds and equity</b>		<b>1,868,554</b>	1,889,779	1,804,904

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

**INTERIM CONDENSED STATEMENT OF COMPREHENSIVE INCOME**  
**31 March 2011 (Un-audited)**

		<i><u>Three months ended 31 March</u></i>	
		<i>2011</i>	<i>2010</i>
		<i>RO'000</i>	<i>RO'000</i>
	<i>Notes</i>		
Interest income	16	<b>22,346</b>	23,758
Interest expense	17	<b>(8,965)</b>	(10,080)
<b>Net interest income</b>		<b>13,381</b>	13,678
Other operating income	18	<b>7,646</b>	6,192
<b>OPERATING INCOME</b>		<b>21,027</b>	19,870
<b>OPERATING EXPENSES</b>			
Staff costs		<b>(6,062)</b>	(5,286)
Other operating expenses	19	<b>(3,382)</b>	(2,941)
Depreciation	8	<b>(953)</b>	(747)
		<b>(10,397)</b>	(8,974)
<b>PROFIT FROM OPERATIONS BEFORE IMPAIRMENT LOSSES AND TAX</b>		<b>10,630</b>	10,896
Credit loss expense – customer’s loan	5	<b>(7,251)</b>	(5,323)
Recoveries and releases from provision for credit losses	5	<b>4,753</b>	691
Recoveries from loans and advances written off		<b>1,054</b>	764
Impairment losses on available for sale investments		<b>(249)</b>	(107)
<b>TOTAL IMPAIRMENT LOSSES (NET)</b>		<b>(1,693)</b>	(3,975)
<b>PROFIT BEFORE TAX</b>		<b>8,937</b>	6,921
Taxation	12	<b>(1,197)</b>	(345)
<b>PROFIT FOR THE PERIOD</b>		<b>7,740</b>	6,576
<b>OTHER COMPREHENSIVE INCOME</b>			
Net movement on available for sale investments		<b>(2,014)</b>	(123)
Net movement on cash flow hedge		<b>-</b>	184
Tax effect of net results on available for sale financial investments		<b>9</b>	19
<b>OTHER COMPREHENSIVE (EXPENSE) INCOME FOR THE YEAR</b>		<b>(2,005)</b>	80
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>		<b>5,735</b>	6,656
Earnings per share annualised:			
Basic and diluted, profit for the year attributable to equity holders		<b>0.029</b>	0.025

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

## INTERIM CONDENSED STATEMENT OF CASH FLOWS

### 31 March 2011 (Un-audited)

	<i>3 months ended</i>	<i>3 months ended</i>
<i>Notes</i>	<i>31/03/2011</i>	<i>31/03/2010</i>
	<b>RO'000</b>	<b>RO'000</b>
<b>Operating activities</b>		
Profit before taxation	8,937	6,921
Adjustments for:		
Depreciation	8      953	747
Provision for credit losses (net)	837	2,582
impairment losses on available for investments	249	107
Profit on sale of equipments (net)	(46)	-
Profit on sale of investments	18     (395)	(348)
Investment income	(1,531)	(634)
Operating profit before changes in operating assets and liabilities	<u>9,004</u>	<u>9,375</u>
Due from banks and other money market placements	437	15,504
Due to banks and other money market deposits	-	(25,430)
Loans and advances to customers	(52,306)	(21,686)
Financial assets at fair value through profit and loss	-	74
Other assets	(14,724)	(15,045)
Customers' deposits	30,207	112,105
Other liabilities	9,537	15,378
<b>Cash from operations</b>	<u>(17,845)</u>	<u>90,275</u>
Taxes paid	(3,403)	(3,058)
Net cash from operating activities	<u>(21,248)</u>	<u>87,217</u>
<b>Investing activities</b>		
Purchase of non-trading investments	(9,831)	(223)
Proceeds from sale of non-trading investments	4,446	1,008
Purchase of premises and equipment	8      (909)	(9,276)
Disposal of equipment and vehicles	102	-
Translation differences	29	(2)
Income from bond and other investment	353	257
Dividends income	18     1,178	377
Net cash used in investing activities	<u>(4,632)</u>	<u>(7,859)</u>
<b>Financing activity</b>		
Payment of dividend	(16,215)	(12,972)
Net movement in subordinated private placements	13      -	3,000
Net cash used in financing activity	<u>(16,215)</u>	<u>(9,972)</u>
<b>(Decrease) / Increase in cash and cash equivalents</b>	<b>(42,095)</b>	<b>69,386</b>
Cash and cash equivalents at the beginning of the period	<u>288,847</u>	<u>270,511</u>
<b>Cash and cash equivalents at the end of the period</b>	<u><b>246,752</b></u>	<u><b>339,897</b></u>
<b>Representing:</b>		
Cash and balances with Central Bank (note 3)	194,665	292,488
Deposits and balances with other banks and financial institutions (net)	52,087	47,409
	<u>246,752</u>	<u>339,897</u>

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

**INTERIM CONDENSED STATEMENT OF CHANGES IN EQUITY**  
**Period ended 31 March 2011 (Un audited)**

<i>(RO'000)</i>	<i>Share capital</i>	<i>Share premium</i>	<i>Legal reserve *</i>	<i>General reserve</i>	<i>Other non distributable reserves</i>	<i>Proposed cash dividend</i>	<i>Retained earnings</i>	<i>Total</i>
Balance at 1 January 2010	108,100	34,465	32,675	4,419	8,008	12,972	49,752	250,391
Total comprehensive income for the period	-	-	-	-	80	-	6,576	6,656
Dividend paid during the period	-	-	-	-	-	(12,972)	-	(12,972)
<b>Balance at 31 March 2010</b>	<b>108,100</b>	<b>34,465</b>	<b>32,675</b>	<b>4,419</b>	<b>8,088</b>	<b>-</b>	<b>56,328</b>	<b>244,075</b>
Balance at 1 April 2010	108,100	34,465	32,675	4,419	8,088	-	56,328	244,075
Total comprehensive income for the period	-	-	-	-	1,140	-	20,595	21,735
Transfer to subordinated funds reserve	-	-	-	-	5,520	-	(5,520)	-
Transfer to legal reserve	-	-	2,717	-	-	-	(2,717)	-
Transfer to proposed dividend	-	-	-	-	-	16,215	(16,215)	-
<b>Balance at 31 December 2010</b>	<b>108,100</b>	<b>34,465</b>	<b>35,392</b>	<b>4,419</b>	<b>14,748</b>	<b>16,215</b>	<b>52,471</b>	<b>265,810</b>
Balance at 1 January 2011	<b>108,100</b>	<b>34,465</b>	<b>35,392</b>	<b>4,419</b>	<b>14,748</b>	<b>16,215</b>	<b>52,471</b>	<b>265,810</b>
Total comprehensive income for the period	-	-	-	-	(2,005)	-	7,740	5,735
Dividend paid during the period	-	-	-	-	-	(16,215)	-	(16,215)
<b>Balance as at 31 March 2011</b>	<b>108,100</b>	<b>34,465</b>	<b>35,392</b>	<b>4,419</b>	<b>12,743</b>	<b>-</b>	<b>60,211</b>	<b>255,330</b>

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

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

## **NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT 31 March 2011 (Unaudited)**

### **1 LEGAL STATUS AND PRINCIPAL ACTIVITIES**

National Bank of Oman SAOG ("NBO", "the bank") was established in the Sultanate of Oman in 1973 as a joint stock company and is engaged in retail, corporate banking, and investment banking services within the Sultanate of Oman with overseas branches in the United Arab Emirates and Egypt. The bank operates in Oman under a banking licence issued by the Central Bank of Oman and is covered by its deposit insurance scheme. The registered address of the bank is PO Box 751, Ruwi, Postal Code 112, Muscat, and Sultanate of Oman.

The bank employed 1,296 employees as of 31 March 2011 (31 March 2010 – 1,313 employees and 31 December 2010 – 1,306)

### **2 SIGNIFICANT ACCOUNTING POLICIES**

The condensed interim financial statements of the bank are prepared in accordance with International Accounting Standard 34, Interim Financial Reporting. The accounting policies used in the preparation of the condensed interim financial statements are consistent with those used in the preparation of the annual financial statements for the year ended 31 December 2010.

The condensed interim financial statements do not contain all information and disclosures required for full financial statements prepared in accordance with International Financial Reporting Standards. In addition, results for the three months ended 31 March 2011 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2011.

The condensed interim financial statements are prepared in Rial Omani, rounded to the nearest thousand, except as indicated. The functional currencies of the bank's operations are as follows:

- Sultanate of Oman: Rial Omani
- United Arab Emirates: UAE Dirham
- Egypt: US Dollar

The financial statements are prepared under the historical cost convention modified to include the revaluation of freehold land and buildings and the measurement of derivative financial instruments, investments classified as financial assets carried at fair value through profit and loss and available for sale at fair value.

**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT**  
**31 March 2011 (Unaudited)**

**3 CASH AND BALANCES WITH CENTRAL BANKS**

	<i>31/03/2011</i>	<i>31/03/2010</i>	<i>31/12/2010</i>
	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>
Cash	<b>25,028</b>	22,329	35,075
Treasury bills with Central Banks	<b>2,258</b>	2,448	2,321
Certificate of deposit with Central Banks	<b>55,000</b>	125,000	45,000
Other balances with Central Banks	<b>112,379</b>	142,711	144,643
<b>Cash and cash equivalents</b>	<b>194,665</b>	292,488	227,039
Insurance deposit with Central Bank of Oman	-	764	-
Capital deposit with Central Bank of Oman	<b>500</b>	500	500
<b>Cash and balances with Central Banks</b>	<b>195,165</b>	293,752	227,539

The capital deposits with the Central Bank of Oman cannot be withdrawn without the approval of the Central Bank of Oman.

**4 DUE FROM BANKS AND OTHER MONEY MARKET PLACEMENTS (NET)**

	<i>31/03/2011</i>	<i>31/03/2010</i>	<i>31/12/2010</i>
	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>
Loans and advances to banks	<b>21,368</b>	35,375	22,462
Placement with banks	<b>89,269</b>	71,511	57,850
Demand balances	<b>6,567</b>	8,301	10,433
Due from banks and other money market placement	<b>117,204</b>	115,187	90,745
Less: allowance for credit losses (refer note below)	<b>(6,522)</b>	(7,966)	(6,522)
Less: reserved interest	<b>(68)</b>	(79)	(68)
Net due from banks and other money market placement	<b>110,614</b>	107,142	84,155

As at 31 March 2011, the bank has a limited inter-bank exposure of RO 6.6 million. The bank has recorded a provision of 100% against the same.

**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT**  
**31 March 2011 (Unaudited)**

**5 LOANS AND ADVANCES TO CUSTOMERS (NET)**

	<i>31/03/2011</i> <i>RO'000</i>	<i>31/03/2010</i> <i>RO'000</i>	<i>31/12/2010</i> <i>RO'000</i>
Corporate loans	<b>788,025</b>	754,943	727,946
Personal loans	<b>645,009</b>	633,683	645,047
Overdrafts	<b>51,641</b>	62,177	59,376
Gross loans and advances	<b>1,484,675</b>	1,450,803	1,432,369
Less: Allowance for credit losses and reserved interest	<b>(69,844)</b>	(70,702)	(69,007)
Net loans and advances	<b>1,414,831</b>	1,380,101	1,363,362

Gross loans and advances include RO 31.77 million due from related parties at 31 March 2011 (31 March, 2010 - RO 23.71 million, 31 December 2010 - RO 28.70 million).

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

<b>Allowance for credit losses</b>	<i>3 months</i> <i>ended</i> <i>31/03/2011</i> <i>RO'000</i>	<i>3 months</i> <i>ended</i> <i>31/03/2010</i> <i>RO'000</i>	<i>12 months</i> <i>ended</i> <i>31/12/2010</i> <i>RO'000</i>
Balance at beginning of period / year	<b>57,464</b>	57,581	57,581
Provided during the period / year	<b>7,251</b>	5,323	15,881
Recovered/ released during the period / year	<b>(4,516)</b>	(654)	(3,994)
Written off during the period / year	<b>(1,824)</b>	(2,588)	(11,494)
Translation difference	<b>(168)</b>	(80)	(510)
Balance at end of period / year	<b>58,207</b>	59,582	57,464
<b>Reserved interest</b>	<i>3 months</i> <i>Ended</i> <i>31/03/2011</i> <i>RO'000</i>	<i>3 months</i> <i>ended</i> <i>31/03/2010</i> <i>RO'000</i>	<i>12 months</i> <i>Ended</i> <i>31/12/2010</i> <i>RO'000</i>
Balance at beginning of period / year	<b>11,543</b>	10,539	10,539
Reserved during the period / year	<b>798</b>	1,079	3,844
Recovered/ released during the period / year	<b>(237)</b>	(37)	(251)
Recovered/released during the period to interest income	<b>(37)</b>	(222)	(697)
Written off during the period / year	<b>(427)</b>	(239)	(1,885)
Translation difference	<b>(3)</b>	-	(7)
Balance at end of period / year	<b>11,637</b>	11,120	11,543

All loans and advances require payment of interest based on agreed tenors, some at fixed rates and other at rates that re-price prior to maturity.

As of 31 March 2011 loans and advances on which interest is not being accrued or where interest has been reserved amounted to RO 52.2 million, (31 March 2010 - RO 70.9 million and 31 December 2010 - RO 61.3 million).

**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT**  
**31 March 2011 (Unaudited)**

**6 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS**

	<i>31/03/2011</i> <i>RO'000</i>	<i>31/03/2010</i> <i>RO'000</i>	<i>31/12/2010</i> <i>RO'000</i>
Oman Government Development Bonds	-	17,235	-
Oman Government Development Bonds (OTC)	-	75	-
	<u>-</u>	<u>17,310</u>	<u>-</u>
	<u>-</u>	<u>17,310</u>	<u>-</u>

**7 NON TRADING FINANCIAL INVESTMENTS**

The bank had no investments in associates or subsidiaries as of 31 March 2011 (30 March 2010 and 31 December 2011 – Nil).

**a) Available for sale (AFS)**

	<i>Carrying value</i> <i>31/03/2011</i> <i>RO'000</i>	<i>Cost</i> <i>31/03/2011</i> <i>RO'000</i>	<i>Carrying value</i> <i>31/03/2010</i> <i>RO'000</i>	<i>Cost</i> <i>31/03/2010</i> <i>RO'000</i>	<i>Carrying value</i> <i>31/12/2010</i> <i>RO'000</i>	<i>Cost</i> <i>31/12/2010</i> <i>RO'000</i>
<b>Quoted investments- Oman</b>						
Banking and investment sector	2,082	2,020	248	254	185	190
Industry sector	2,623	2,970	489	550	1,723	1,763
Service sector	9,914	10,836	6,209	7,707	7,998	8,706
Government Development Bonds	44,593	44,607	10,009	10,009	44,096	44,096
	<u>59,212</u>	<u>60,433</u>	<u>16,955</u>	<u>18,520</u>	<u>54,002</u>	<u>54,755</u>
<b>Quoted investments- Foreign</b>						
Banking and investment sector	-	-	204	-	1,422	1,363
	<u>-</u>	<u>-</u>	<u>204</u>	<u>-</u>	<u>1,422</u>	<u>1,363</u>
<b>Unquoted investments</b>						
Banking and investment sector	7,331	7,236	7,594	6,631	7,643	6,636
Service sector	66	66	66	66	66	66
	<u>7,397</u>	<u>7,302</u>	<u>7,660</u>	<u>6,697</u>	<u>7,709</u>	<u>6,702</u>
<b>Total available for sale</b>	<u>66,609</u>	<u>67,735</u>	<u>24,819</u>	<u>25,217</u>	<u>63,133</u>	<u>62,820</u>

**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT**  
**31 March 2011 (Unaudited)**

**7 NON TRADING FINANCIAL INVESTMENTS (continued)**

**b) Held to maturity**

	<i>Carrying value</i>	<i>Cost</i>	<i>Carrying value</i>	<i>Cost</i>	<i>Carrying value</i>	<i>Cost</i>
	<i>31/03/2011</i>	<i>31/03/2011</i>	<i>31/03/2010</i>	<i>31/03/2010</i>	<i>31/12/2010</i>	<i>31/12/2010</i>
	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>
Other bonds	-	-	4,575	4,575	-	-
Total held to maturity	-	-	4,575	4,575	-	-
<b>Total non trading investments</b>	<b>66,609</b>	<b>67,735</b>	<b>29,394</b>	<b>29,792</b>	<b>63,133</b>	<b>62,820</b>

**Details of significant investments**

Details of investments exceeding 10% of the carrying value of the bank's investment AFS portfolio as at 31 March 2011 are as follows:

<b><u>31 March 2011</u></b>	<i>Bank's portfolio %</i>	<i>Carrying Value RO'000</i>	<i>Cost RO'000</i>
Government Development Bonds	<b>66.95</b>	<b>44,593</b>	<b>44,607</b>
<b><u>31 March 2010</u></b>			
Government Development Bonds	40.33	10,009	10,009
Investment Stabilization Fund	25.40	6,305	5,000
<b><u>31 December 2010</u></b>			
Government Development Bonds	69.85	44,096	44,096
Investment Stabilization Fund	10.08	6,365	5,000

**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT**  
**31 March 2011 (Unaudited)**

**8 PREMISES AND EQUIPMENT**

	<i>Freehold land and buildings and leasehold improvements RO'000</i>	<i>Motor vehicles, furniture and equipment RO'000</i>	<i>Capital work in progress RO'000</i>	<i>Total RO'000</i>
<b>Reconciliation of carrying amount:</b>				
Balance at 1 January 2011, net of accumulated depreciation	14,513	5,720	2,120	22,353
Addition	21	99	789	909
Transfer	21	205	(226)	-
Disposal	(4)	(52)	-	(56)
Translation difference	(11)	(2)	-	(13)
Depreciation	(442)	(511)	-	(953)
<b>Balance at 31 March 2011, net of accumulated depreciation</b>	<b>14,098</b>	<b>5,459</b>	<b>2,683</b>	<b>22,240</b>
At cost / valuation	25,294	21,256	2,683	49,233
Accumulated depreciation	(11,196)	(15,797)	-	(26,993)
<b>Net carrying value at 31 March 2011</b>	<b>14,098</b>	<b>5,459</b>	<b>2,683</b>	<b>22,240</b>
Net carrying value at 31 March 2010	13,164	4,858	3,268	21,290
Net carrying value at 31 December 2010	14,513	5,720	2,120	22,353

**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT**  
**31 March 2011 (Unaudited)**

**9 OTHER ASSETS**

	<i>31/03/2011</i> <i>RO'000</i>	<i>31/03/2010</i> <i>RO'000</i>	<i>31/12/2010</i> <i>RO'000</i>
Interest receivable	<b>8,334</b>	7,776	8,935
Prepayments and deposits	<b>2,716</b>	2,266	2,267
Collateral pending sale	<b>11,191</b>	2,028	1,923
Positive fair value of derivatives (note 23)	<b>3,801</b>	1,387	4,676
Customers' indebtedness for acceptances (note 11)	<b>26,199</b>	18,847	19,615
Others	<b>6,838</b>	8,477	6,939
	<b>59,079</b>	40,781	44,355
Amount receivable from BCCI	<b>3,458</b>	3,458	3,458
Less provision for amount receivable from BCCI	<b>(3,458)</b>	(3,458)	(3,458)
Net due from BCCI	-	-	-

The Government of the Sultanate of Oman had agreed, unconditionally, to guarantee payments of all and any sums, which are due to the bank by Bank of Credit and Commerce International (BCCI) up to a maximum of RO 38.9 million (USD 101.0 million). BCCI is in liquidation.

On 7 July 2008, the bank has cancelled and returned the guarantee to the Government discharging it of all related liabilities. Full impairment provision has been recorded by the bank against the remaining amounts due from BCCI.

**10 CUSTOMERS' DEPOSITS**

	<i>31/03/2011</i> <i>RO'000</i>	<i>31/03/2010</i> <i>RO'000</i>	<i>31/12/2010</i> <i>RO'000</i>
Current accounts	<b>315,331</b>	350,552	298,197
Savings accounts	<b>308,863</b>	289,374	299,315
Certificate of deposits	<b>62,520</b>	57,520	62,520
Term deposits	<b>668,383</b>	675,427	664,858
	<b>1,355,097</b>	1,372,873	1,324,890

**11 OTHER LIABILITIES**

	<i>31/03/2011</i> <i>RO'000</i>	<i>31/03/2010</i> <i>RO'000</i>	<i>31/12/2010</i> <i>RO'000</i>
Interest payable	<b>11,188</b>	13,363	8,175
Other accruals and provisions	<b>15,437</b>	16,596	14,533
Negative fair value of derivatives (note 23)	<b>3,797</b>	1,272	4,761
Liabilities under acceptances (note 9)	<b>26,199</b>	18,847	19,615
	<b>56,621</b>	50,078	47,084

**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT**  
**31 March 2011 (Unaudited)**

**12 TAXATION**

	<i>31/03/2011</i>	<i>31/03/2010</i>	<i>31/12/2010</i>
	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>
<b>Income statement</b>			
Current period/year	<u>1,197</u>	<u>345</u>	<u>3,065</u>

**Reconciliation of tax expense**

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

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

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

	<i>31/03/2011</i>	<i>31/03/2010</i>	<i>31/12/2010</i>
	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>
Accounting profit	<u>8,937</u>	<u>6,921</u>	<u>30,236</u>
Tax applicable rate	1,072	831	3,628
Non-deductible expenses	60	33	181
Tax exempt revenues	(153)	(69)	(468)
Others	<u>218</u>	<u>(450)</u>	<u>(276)</u>
	<u>1,197</u>	<u>345</u>	<u>3,065</u>

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

The tax assessments of the Egypt operations in respect of the different taxes applicable are at different stages of completion with the respective tax authorities. The bank's liability in respect of its branch in Abu Dhabi has been agreed with the tax authorities up to 31 December 2009.

**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT**  
**31 March 2011 (Unaudited)**

**12 TAXATION (continued)**

	<i>31/03/2011</i>	<i>31/03/2010</i>	<i>31/12/2010</i>
	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>
<b>Tax liability</b>			
<i>Current period/year</i>			
Income tax and other taxes	<b>1,197</b>	345	3,065
<i>Prior period/year</i>			
Income tax and other taxes	<b>747</b>	2,021	1,110
	<u><b>1,944</b></u>	<u>2,366</u>	<u>4,175</u>
<b>Recognised deferred tax assets</b>			
	<i>31/03/2011</i>	<i>31/03/2010</i>	<i>31/12/2010</i>
	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>
Deferred tax assets are attributable to the following:			
Available for sale investments	<b>16</b>	9	7
	<u><b>16</b></u>	<u>9</u>	<u>7</u>

Deferred tax is calculated at 12% (2010 - 12%).

**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT**  
**31 March 2011 (Unaudited)**

**13 SUBORDINATED PRIVATE PLACEMENT**

	<b>31/03/2011</b>	<b>31/03/2010</b>	<b>31/12/2010</b>
	<b>RO'000</b>	<b>RO' 000</b>	<b>RO'000</b>
At 1 January	<b>30,600</b>	27,600	27,600
Received during the period/year	-	3,000	3,000
	<u><b>30,600</b></u>	<u>30,600</u>	<u>30,600</u>

The outstanding subordinate private placements mature on various dates between 2014 and 2016.

**14 OTHER NON-DISTRIBUTABLE RESERVES**

	<i>Available for sale reserve RO '000'</i>	<i>Cash flow hedge reserve RO '000'</i>	<i>Revaluation reserve RO '000'</i>	<i>Subordin ated loan reserve RO '000'</i>	<i>Total RO '000'</i>
At 1 January 2011	2,242	-	3,766	8,740	14,748
Net movement on available for sale investments	(2,014)	-	-	-	(2,014)
Tax effect of net losses on available-for-sale financial investments	9	-	-	-	9
<b>At 31 March 2011</b>	<u><b>237</b></u>	<u>-</u>	<u><b>3,766</b></u>	<u><b>8,740</b></u>	<u><b>12,743</b></u>
At 31 March 2010	<u>2,003</u>	<u>54</u>	<u>2,811</u>	<u>3,220</u>	<u>8,088</u>

- (i) The revaluation reserve represents the surplus on revaluation of building and is not available for distribution until the related assets have been disposed off or used.
- (ii) The subordinated loan reserve represents an annual transfer towards subordinated private placements which are due to mature within the next five years period (note 13). The reserve is available for transfer back to retained earning upon maturity of the private placement.

**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT**  
**31 March 2011 (Unaudited)**

**15 CONTINGENT LIABILITIES AND COMMITMENTS**

	<i>31/03/2011</i> <i>RO'000</i>	<i>31/03/2010</i> <i>RO'000</i>	<i>31/12/2010</i> <i>RO'000</i>
Guarantees	377,249	388,291	391,036
Documentary letters of credit	67,450	67,808	81,907
Undrawn commitment to lend	145,169	66,299	103,417
	<u>589,868</u>	<u>522,398</u>	<u>576,360</u>

Contingent liabilities include RO 0.1 million (31 March 2010 – RO 0.1 million/31 December 2010 – RO 0.1 million) relating to non-performing loans.

**16 INTEREST INCOME**

Interest bearing assets earned interest at an overall rate of 5.53% for the three months period ended 31 March 2011 (31 March 2010 – 6.01%, 31 December 2010 – 5.92%).

**17 INTEREST EXPENSE**

For the three months period ended 31 March 2011, the average overall cost of funds was 2.39% (31 March 2010-2.76%, 31 December 2010 - 2.64%).

**18 OTHER OPERATING INCOME**

	<i>3 months ended</i> <i>31/03/2011</i> <i>RO'000</i>	<i>3 months ended</i> <i>31/03/2010</i> <i>RO'000</i>
Net gains from foreign exchange dealings	730	521
Fees and commissions	2,629	2,524
Net income from sale of investments	395	348
Income from bonds and others	353	257
Dividend income	1,178	377
Service charges	2,247	2,125
Miscellaneous income	114	40
	<u>7,646</u>	<u>6,192</u>

**19 OTHER OPERATING EXPENSES**

	<i>3 months ended</i> <i>31/03/2011</i> <i>RO'000</i>	<i>3 months ended</i> <i>31/03/2010</i> <i>RO'000</i>
Establishment costs	1,293	962
Operating and administration expenses	2,089	1,979
	<u>3,382</u>	<u>2,941</u>

## NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT 31 March 2011 (Unaudited)

### 20 RELATED PARTY TRANSACTIONS

#### *Management service agreement with a shareholder*

The Board of Directors of the National Bank of Oman (SAOG) had entered into a Management Services Agreement with its strategic partner The Commercial Bank of Qatar in 2005 to provide NBO with management services. As the management and processes of the Bank have been substantially strengthened during the past 6 years, the Commercial Bank of Qatar advised NBO that they do not wish to extend the term of the agreement on its expiry in March 2011.

#### *Other related parties transactions:*

In the ordinary course of business, the Bank conducts transactions with certain of its Directors and/or shareholders and companies over which they have significant interest. The aggregate amounts of balances with such related parties are as follows:

	<u>31/03/2011</u>			<u>31/03/2010</u>		
	<i>Principal shareholder</i> RO'000	<i>Others</i> RO'000	<i>Total</i> RO'000	<i>Principal shareholder</i> RO'000	<i>Others</i> RO'000	<i>Total</i> RO'000
Loans and advances	-	31,770	31,770	-	23,706	23,706
Customer's deposits	-	12,120	12,120	-	12,504	12,504
Due from banks	13,497	-	13,497	9,661	-	9,661
Due to banks	5,720	-	5,720	96	-	96
Subordinated private placement	-	1,500	1,500	-	3,100	3,100
Letter of credit, guarantees and acceptance	-	10,799	10,799	107	5,908	6,015
Standby revolving credit facility	77,000	-	77,000	26,950	11,550	38,500
Risk indemnities received	3,924	-	3,924	9,287	-	9,287

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

	<u>31/03/2011</u>			<u>31/03/2010</u>		
	<i>Principal shareholder</i> RO'000	<i>Others</i> RO'000	<i>Total</i> RO'000	<i>Principal shareholder</i> RO'000	<i>Others</i> RO'000	<i>Total</i> RO'000
Interest income	3	264	267	-	257	257
Commission income	-	7	7	-	40	40
Interest expense	24	152	176	24	145	169
Other expenses	100	149	249	91	21	112

**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT**  
**31 March 2011 (Unaudited)**

**20 RELATED PARTY TRANSACTIONS (continued)**

Senior management compensation:

	<i>31/03/2011</i>	<i>31/03/2010</i>
	<i>RO'000</i>	<i>RO'000</i>
Salaries and other short term benefits		
- Fixed	493	551
- Discretionary	185	408
	678	959

**21 SHAREHOLDERS**

As of 31 March 2011, shareholders of the bank who own 10% or more of the bank's shares, whether in their name or through a nominee account and the number of shares held are as follows:

	<i>Number of shares '000</i>	<i>% Holding</i>
The Commercial Bank of Qatar (CBQ)	377,267	34.9
Suhail Bahwan Group (Holdings) LLC	159,385	14.7

The bank had no preferred shareholders as of 31 March 2011 (31 March 2010 – nil/31 December 2010 – nil).

## NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT 31 March 2011 (unaudited)

### 22 SEGMENT REPORTING

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

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

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

Segment information is as follows:

<i>3 months ended 31 March 2011</i>	<i>Consumer banking RO'000</i>	<i>Corporate banking RO'000</i>	<i>Investment banking RO'000</i>	<i>Treasury and international banking RO'000</i>	<i>Head office RO'000</i>	<i>Total RO'000</i>
Operating income	8,856	8,369	1,634	1,071	1,097	21,027
Profit	4,001	6,914	1,185	910	(5,270)	7,740
Total assets	619,803	793,173	22,016	18,488	415,074	1,868,554

<i>3 months ended 31 March 2010</i>	<i>Consumer banking RO'000</i>	<i>Corporate banking RO'000</i>	<i>Investment banking RO'000</i>	<i>Treasury and international banking RO'000</i>	<i>Head office RO'000</i>	<i>Total RO'000</i>
Operating income	9,300	8,091	915	700	864	19,870
Profit	3,472	5,439	675	536	(3,546)	6,576
Total assets	615,661	711,197	19,386	46,849	496,686	1,889,779

**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT**  
**31 March 2011 (Unaudited)**

**23 DERIVATIVES**

<i>31 March 2011</i>	<i>Positive fair value (Note 9) RO'000</i>	<i>Negative fair value (Note 11) RO'000</i>	<i>Notional amount total RO'000</i>	<i>Notional amounts by term maturity</i>		
				<i>Within 3 months RO'000</i>	<i>3 – 12 Months RO'000</i>	<i>Above 1 Year RO'000</i>
<i>Derivatives</i>						
Interest rate swaps	3,405	(3,405)	159,220	404	12,373	146,443
Credit default swaps	-	(26)	7,700	-	7,700	-
Forward foreign exchange purchase contracts	120	(1)	15,116	8,185	6,931	-
Forward foreign exchange sales contracts	24	(113)	15,116	8,188	6,928	-
Interest rate caps	-	-	323	80	182	61
Currency options	198	(198)	34,162	27,044	7,118	-
Commodity hedging	54	(54)	15,947	10,420	5,527	-
<b>Total</b>	<b>3,801</b>	<b>(3,797)</b>	<b>247,584</b>	<b>54,321</b>	<b>46,759</b>	<b>146,504</b>

<i>31 March 2010</i>	<i>Positive fair value (Note 9) RO'000</i>	<i>Negative fair value (Note 11) RO'000</i>	<i>Notional amount total RO'000</i>	<i>Notional amounts by term maturity</i>		
				<i>Within 3 months RO'000</i>	<i>3 – 12 months RO'000</i>	<i>Above 1 year RO'000</i>
<i>Derivatives</i>						
Interest rate swaps	912	(912)	158,774	21,714	25,946	111,114
Credit default swaps	-	(79)	7,700	-	-	7,700
Forward foreign exchange purchase contracts	5	(269)	130,793	70,832	59,961	-
Forward foreign exchange sales contracts	470	(12)	130,793	71,016	59,777	-
Interest rate caps	-	-	583	80	181	322
<b>Total</b>	<b>1,387</b>	<b>(1,272)</b>	<b>428,643</b>	<b>163,642</b>	<b>145,865</b>	<b>119,136</b>

**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT**  
**31 March 2011 (Unaudited)**

**23 DERIVATIVES (continued)**

<i>31 December 2010</i>	<i>Positive fair value (Note 9) RO'000</i>	<i>Negative fair value (Note 11) RO'000</i>	<i>Notional amount total RO'000</i>	<i>Notional amounts by term maturity</i>		
				<i>Within 3 months RO'000</i>	<i>3 – 12 months RO'000</i>	<i>Above 1 year RO'000</i>
<i>Derivatives</i>						
Interest rate swaps	4,212	(4,212)	160,720	1,500	7,144	152,076
Credit default swaps	-	(45)	7,700	-	1,925	5,775
Forward foreign exchange purchase contracts	40	(55)	41,890	41,268	622	-
Forward foreign exchange sales contracts	55	(80)	41,890	41,269	621	-
Interest rate caps	-	-	383	80	181	122
Currency options	187	(187)	27,080	19,037	8,043	-
Commodity hedging	182	(182)	2,232	2,232	-	-
	4,676	(4,761)	281,895	105,386	18,536	157,973
	4,676	(4,761)	281,895	105,386	18,536	157,973