

# **National Bank of Oman SAOG**

## **INTERIM CONDENSED FINANCIAL STATEMENTS**

**30 June 2011 (UNAUDITED)**



PO Box 751 PC 112 Ruwi Sultanate of Oman.

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**SUMMARY OF RESULTS**

<b>Particulars</b>	<b>6 months ended 30/06/2011</b>	<b>6 months ended 30/06/2010</b>
<b>(All RO '000 unless stated otherwise)</b>		
Loans and advances to customers (net)	<b>1,549,301</b>	1,412,162
Customers' deposits	<b>1,455,683</b>	1,306,748
Other assets	<b>58,211</b>	48,244
Net interest income	<b>28,293</b>	27,825
Profit before tax	<b>19,805</b>	16,045
Earnings per share-annualized (RO)	<b>0.032</b>	0.027
Net assets per share (RO)	<b>0.244</b>	0.232

**INTERIM CONDENSED STATEMENT OF FINANCIAL POSITION**  
**30 June 2011 (Un-audited)**

		<i>30-6-2011</i>	<i>30-6-2010</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>253,733</b>	198,443	227,539
Due from banks and other money market placements (net)	4	<b>70,778</b>	127,243	84,155
Loans and advances to customers (net)	5	<b>1,549,301</b>	1,412,162	1,363,362
Financial assets at fair value through profit and loss	6	-	17,235	-
Non-trading financial investments	7	<b>64,943</b>	28,924	63,133
Premises and equipment	8	<b>21,938</b>	21,883	22,353
Deferred tax asset	12	<b>16</b>	28	7
Other assets	9	<b>58,211</b>	48,244	44,355
<b>Total assets</b>		<b>2,018,920</b>	1,854,162	1,804,904
<b>Liabilities</b>				
Due to banks and other money market deposits		<b>207,050</b>	210,890	132,345
Customers' deposits	10	<b>1,455,683</b>	1,306,748	1,324,890
Other liabilities	11	<b>58,402</b>	52,080	47,084
Taxation	12	<b>3,307</b>	2,951	4,175
<b>Total liabilities</b>		<b>1,724,442</b>	1,572,669	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>11,961</b>	6,885	14,748
Proposed cash dividend		-	-	16,215
Retained earnings		<b>69,541</b>	64,349	52,471
<b>Total equity</b>		<b>263,878</b>	250,893	265,810
<b>Total liabilities, subordinated funds and equity</b>		<b>2,018,920</b>	1,854,162	1,804,904

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

**INTERIM CONDENSED STATEMENT OF COMPREHENSIVE INCOME**  
**30 June 2011 (Un-audited)**

	Notes	Six months ended 30 June		Three months ended 30 June	
		2011 RO'000	2010 RO'000	2011 RO'000	2010 RO'000
Interest income	16	46,250	47,614	23,904	23,856
Interest expense	17	(17,957)	(19,789)	(8,992)	(9,709)
<b>Net interest income</b>		<b>28,293</b>	27,825	<b>14,912</b>	14,147
Other operating income	18	17,365	12,894	9,719	6,702
<b>OPERATING INCOME</b>		<b>45,658</b>	40,719	<b>24,631</b>	20,849
<b>OPERATING EXPENSES</b>					
Staff costs		(12,030)	(10,546)	(5,968)	(5,260)
Other operating expenses	19	(7,009)	(6,121)	(3,627)	(3,180)
Depreciation	8	(1,919)	(1,592)	(966)	(845)
		<b>(20,958)</b>	(18,259)	<b>(10,561)</b>	(9,285)
<b>PROFIT FROM OPERATIONS BEFORE IMPAIRMENT LOSSES AND TAX</b>		<b>24,700</b>	22,460	<b>14,070</b>	11,564
Credit loss expense – customers' loan	5	(11,803)	(10,144)	(4,552)	(4,821)
Recoveries and releases from provision for credit losses	5	5,341	2,176	588	1,485
Recoveries from loans and advances written off		2,099	1,973	1,045	1,209
Impairment losses on available for sale investments		(532)	(420)	(283)	(313)
<b>TOTAL IMPAIRMENT LOSSES (NET)</b>		<b>(4,895)</b>	(6,415)	<b>(3,202)</b>	(2,440)
<b>PROFIT BEFORE TAX</b>		<b>19,805</b>	16,045	<b>10,868</b>	9,124
Taxation	12	(2,735)	(1,448)	(1,538)	(1,103)
<b>PROFIT FOR THE PERIOD</b>		<b>17,070</b>	14,597	<b>9,330</b>	8,021
<b>OTHER COMPREHENSIVE INCOME</b>					
Net movement on available for sale investments		(2,796)	(1,271)	(782)	(1,148)
Net movement on cash flow hedge		-	110	-	(74)
Tax effect of net results on available for sale financial investments		9	38	-	19
<b>OTHER COMPREHENSIVE EXPENSE FOR THE PERIOD</b>		<b>(2,787)</b>	(1,123)	<b>(782)</b>	(1,203)
<b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD</b>		<b>14,283</b>	13,474	<b>8,548</b>	6,818
Earnings per share annalised:					
Basic and diluted, profit for the year attributable to equity holders		0.032	0.027	0.035	0.030

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

## INTERIM CONDENSED STATEMENT OF CASH FLOWS 30 June 2011 (Un-audited)

	Notes	Six months ended 30 June	
		2011 RO'000	2010 RO'000
<b>Operating activities</b>			
Profit before taxation		19,805	16,045
Adjustments for:			
Depreciation	8	1,919	1,592
Provision for credit losses (net)		(4,110)	2,769
Impairment losses on available for investments		532	420
Profit on sale of equipments (net)		(46)	-
Profit on sale of investments		(457)	(498)
Investment income		(1,962)	(903)
Operating profit before changes in operating assets and liabilities		<u>15,681</u>	<u>19,425</u>
Due from banks and other money market placements		(2,097)	3,731
Due to banks and other money market deposits		2,502	(4,759)
Loans and advances to customers		(181,829)	(53,934)
Financial assets at fair value through profit and loss		-	149
Other assets		(13,856)	(22,508)
Customers' deposits		130,793	45,980
Other liabilities		11,318	17,380
Other deposits		-	764
<b>Cash (used in ) from operations</b>		<u>(37,488)</u>	<u>6,228</u>
Taxes paid		(3,576)	(3,532)
Net cash (used in) from operating activities		<u>(41,064)</u>	<u>2,696</u>
<b>Investing activities</b>			
Purchase of non-trading investments		(9,751)	(2,939)
Proceeds from sale of non-trading investments		5,029	2,881
Purchase of premises and equipment	8	(1,582)	(10,747)
Disposal of equipment and vehicles		110	14
Translation differences		28	(25)
Income from bonds and other investment		692	517
Dividends income	18	1,270	386
Net cash used in investing activities		<u>(4,204)</u>	<u>(9,913)</u>
<b>Financing activities</b>			
Payment of dividend		(16,215)	(12,972)
Net movement in subordinated private placements	13	-	3,000
Net cash used in financing activities		<u>(16,215)</u>	<u>(9,972)</u>
<b>Decrease in cash and cash equivalents</b>		<u>(61,483)</u>	<u>(17,189)</u>
Cash and cash equivalents at the beginning of the period		288,847	270,511
<b>Cash and cash equivalents at the end of the period</b>		<u><u>227,364</u></u>	<u><u>253,322</u></u>
<b>Representing:</b>			
Cash and balances with Central Bank	3	253,233	197,943
Deposits and balances with other banks and financial institutions (net)		(25,869)	55,379
		<u><u>227,364</u></u>	<u><u>253,322</u></u>

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

**INTERIM CONDENSED STATEMENT OF CHANGES IN EQUITY**  
**Period ended 30 June 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	-	-	-	-	(1,123)	-	14,597	13,474
Dividend paid during the period	-	-	-	-	-	(12,972)	-	(12,972)
<b>Balance at 30 June 2010</b>	<b>108,100</b>	<b>34,465</b>	<b>32,675</b>	<b>4,419</b>	<b>6,885</b>	<b>-</b>	<b>64,349</b>	<b>250,893</b>
Balance at 1 July 2010	108,100	34,465	32,675	4,419	6,885	-	64,349	250,893
Total comprehensive income for the period	-	-	-	-	2,343	-	12,574	14,917
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	-	-	-	-	(2,787)	-	17,070	14,283
Dividend paid during the period	-	-	-	-	-	(16,215)	-	(16,215)
<b>Balance as at 30 June 2011</b>	<b>108,100</b>	<b>34,465</b>	<b>35,392</b>	<b>4,419</b>	<b>11,961</b>	<b>-</b>	<b>69,541</b>	<b>263,878</b>

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

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

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## NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT 30 June 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, Sultanate of Oman.

The bank employed 1,335 employees as of 30 June 2011 (30 June 2010 – 1,317 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 six months ended 30 June 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 interim condensed financial statements are prepared under the historical cost convention modified to include the revaluation of freehold land and buildings and the measurement of derivative financial instruments, investments classified as financial assets carried at fair value through profit and loss and available for sale at fair value.

**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT  
30 June 2011 (Unaudited)**

**3 CASH AND BALANCES WITH CENTRAL BANKS**

	<i>30/06/2011</i>	<i>30/06/2010</i>	<i>31/12/2010</i>
	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>
Cash	28,021	21,585	35,075
Treasury bills with Central Banks	6,772	1,352	2,321
Certificate of deposit with Central Banks	105,000	50,000	45,000
Other balances with Central Banks	113,440	125,006	144,643
<b>Cash and cash equivalents</b>	<b>253,233</b>	<b>197,943</b>	<b>227,039</b>
Capital deposit with Central Bank of Oman	500	500	500
<b>Cash and balances with Central Banks</b>	<b>253,733</b>	<b>198,443</b>	<b>227,539</b>

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

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

	<i>30/06/2011</i>	<i>30/06/2010</i>	<i>31/12/2010</i>
	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>
Loans and advances to banks	22,901	34,726	22,462
Placement with banks	46,231	89,001	57,850
Demand balances	8,236	11,561	10,433
Due from banks and other money market placement	77,368	135,288	90,745
Less: allowance for credit losses (refer note below)	(6,522)	(7,966)	(6,522)
Less: reserved interest	(68)	(79)	(68)
Net due from banks and other money market placement	<b>70,778</b>	<b>127,243</b>	<b>84,155</b>

As at 30 June 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  
30 June 2011 (Unaudited)**

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

	<i>30/06/2011</i> <i>RO'000</i>	<i>30/06/2010</i> <i>RO'000</i>	<i>31/12/2010</i> <i>RO'000</i>
Corporate loans	<b>858,560</b>	769,805	727,946
Personal loans	<b>712,429</b>	658,124	645,047
Overdrafts	<b>43,209</b>	55,122	59,376
Gross loans and advances	<b>1,614,198</b>	1,483,051	1,432,369
Less: Allowance for credit losses and reserved interest	<b>(64,897)</b>	(70,889)	(69,007)
Net loans and advances	<b>1,549,301</b>	1,412,162	1,363,362

Gross loans and advances include RO 40.1 million due from related parties at 30 June 2011 (30 June 2010 - RO 30.1 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>6 months</i> <i>ended</i> <i>30/06/2011</i> <i>RO'000</i>	<i>6 months</i> <i>ended</i> <i>30/06/2010</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>11,803</b>	10,144	15,881
Recovered/ released during the period / year	<b>(5,068)</b>	(2,080)	(3,994)
Written off during the period / year	<b>(11,178)</b>	(5,145)	(11,494)
Translation difference	<b>(158)</b>	(414)	(510)
Balance at end of period / year	<b>52,863</b>	60,086	57,464
<b>Reserved interest</b>	<i>6 months</i> <i>ended</i> <i>30/06/2011</i> <i>RO'000</i>	<i>6 months</i> <i>ended</i> <i>30/06/2010</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>1,420</b>	2,070	3,844
Recovered/ released during the period / year	<b>(273)</b>	(96)	(251)
Recovered/released during the period to interest income	<b>(69)</b>	(560)	(697)
Written off during the period / year	<b>(584)</b>	(1,145)	(1,885)
Translation difference	<b>(3)</b>	(5)	(7)
Balance at end of period / year	<b>12,034</b>	10,803	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 30 June 2011 loans and advances on which interest is not being accrued or where interest has been reserved amounted to RO 55.3 million, (30 June 2010 - RO 66 million and 31 December 2010 - RO 61.3 million).

**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT  
30 June 2011 (Unaudited)**

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

	<i>30/06/2011</i> <i>RO'000</i>	<i>30/06/2010</i> <i>RO'000</i>	<i>31/12/2010</i> <i>RO'000</i>
Oman Government Development Bonds	-	17,160	-
Oman Government Development Bonds (OTC)	-	75	-
	<u>-</u>	<u>17,235</u>	<u>-</u>
	<u>-</u>	<u>17,235</u>	<u>-</u>

**7 NON TRADING FINANCIAL INVESTMENTS**

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

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

	<i>Carrying value</i> <i>30/06/2011</i> <i>RO'000</i>	<i>Cost</i> <i>30/06/2011</i> <i>RO'000</i>	<i>Carrying value</i> <i>30/06/2010</i> <i>RO'000</i>	<i>Cost</i> <i>30/06/2010</i> <i>RO'000</i>	<i>Carrying value</i> <i>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	1,444	1,499	247	254	185	190
Industry sector	2,530	2,970	345	386	1,723	1,763
Service sector	9,265	10,836	4,271	5,665	7,998	8,706
Government Development Bonds	42,888	42,888	10,008	10,008	43,101	43,101
	<u>56,127</u>	<u>58,193</u>	<u>14,871</u>	<u>16,313</u>	<u>53,007</u>	<u>53,760</u>
<b>Quoted investments- Foreign</b>						
Banking and investment sector	-	-	2,594	2,722	1,422	1,363
Government Development Bonds	1,599	1,612	-	-	995	995
	<u>1,599</u>	<u>1,612</u>	<u>2,594</u>	<u>2,722</u>	<u>2,417</u>	<u>2,358</u>
<b>Unquoted investments</b>						
Banking and investment sector	7,124	7,236	6,822	6,168	7,643	6,636
Service sector	93	93	66	66	66	66
	<u>7,217</u>	<u>7,329</u>	<u>6,888</u>	<u>6,234</u>	<u>7,709</u>	<u>6,702</u>
<b>Total available for sale</b>	<u>64,943</u>	<u>67,134</u>	<u>24,353</u>	<u>25,269</u>	<u>63,133</u>	<u>62,820</u>

**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT  
30 June 2011 (Unaudited)**

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

**b) Held to maturity**

	<i>Carrying value 30/06/2011 RO'000</i>	<i>Cost 30/06/2011 RO'000</i>	<i>Carrying value 30/06/2010 RO'000</i>	<i>Cost 30/06/2010 RO'000</i>	<i>Carrying value 31/12/2010 RO'000</i>	<i>Cost 31/12/2010 RO'000</i>
Other bonds	-	-	4,571	4,571	-	-
Total held to maturity	-	-	4,571	4,571	-	-
<b>Total non-trading investments</b>	<b>64,943</b>	<b>67,134</b>	<b>28,924</b>	<b>29,840</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 are as follows:

	<i>Bank's portfolio %</i>	<i>Carrying value RO'000</i>	<i>Cost RO'000</i>
<b><u>30 June 2011</u></b>			
Government Development Bonds-Oman	<b>66.04</b>	<b>42,888</b>	<b>42,888</b>
<b><u>30 June 2010</u></b>			
Government Development Bonds	41.10	10,008	10,008
Investment Stabilization Fund	24.21	5,895	5,000
<b><u>31 December 2010</u></b>			
Government Development Bonds-Oman	68.27	43,101	43,101
Investment Stabilization Fund	10.08	6,365	5,000

**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT**  
**30 June 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	38	368	1,176	1,582
Disposal	(4)	(60)	-	(64)
Transfer	30	398	(428)	-
Translation difference	(11)	(3)	-	(14)
Depreciation	(891)	(1,028)	-	(1,919)
<b>Balance at 30 June 2011, net of accumulated depreciation</b>	<b><u>13,675</u></b>	<b><u>5,395</u></b>	<b><u>2,868</u></b>	<b><u>21,938</u></b>
At cost / valuation	25,320	21,491	2,868	49,679
Accumulated depreciation	(11,645)	(16,096)	-	(27,741)
<b>Net carrying value at 30 June 2011</b>	<b><u>13,675</u></b>	<b><u>5,395</u></b>	<b><u>2,868</u></b>	<b><u>21,938</u></b>
Net carrying value at 30 June 2010	<u>13,015</u>	<u>4,944</u>	<u>3,924</u>	<u>21,883</u>
Net carrying value at 31 December 2010	<u>14,513</u>	<u>5,720</u>	<u>2,120</u>	<u>22,353</u>

**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT**  
**30 June 2011 (Unaudited)**

**9 OTHER ASSETS**

	<i>30/06/2011</i> <i>RO'000</i>	<i>30/06/2010</i> <i>RO'000</i>	<i>31/12/2010</i> <i>RO'000</i>
Interest receivable	<b>9,960</b>	8,510	8,935
Prepayments and deposits	<b>2,514</b>	2,894	2,267
Collateral pending sale	<b>10,683</b>	1,960	1,923
Positive fair value of derivatives (note 23)	<b>5,758</b>	5,316	4,676
Customers' indebtedness for acceptances (note 11)	<b>23,743</b>	19,176	19,615
Others	<b>5,553</b>	10,388	6,939
	<b>58,211</b>	48,244	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>30/06/2011</i> <i>RO'000</i>	<i>30/06/2010</i> <i>RO'000</i>	<i>31/12/2010</i> <i>RO'000</i>
Current accounts	<b>350,285</b>	286,328	298,197
Savings accounts	<b>347,670</b>	293,346	299,315
Certificate of deposits	<b>57,520</b>	52,520	62,520
Term deposits	<b>700,208</b>	674,554	664,858
	<b>1,455,683</b>	1,306,748	1,324,890

**11 OTHER LIABILITIES**

	<i>30/06/2011</i> <i>RO'000</i>	<i>30/06/2010</i> <i>RO'000</i>	<i>31/12/2010</i> <i>RO'000</i>
Interest payable	<b>10,865</b>	12,282	8,175
Other accruals and provisions	<b>18,034</b>	15,178	14,533
Negative fair value of derivatives (note 23)	<b>5,760</b>	5,444	4,761
Liabilities under acceptances (note 9)	<b>23,743</b>	19,176	19,615
	<b>58,402</b>	52,080	47,084

**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT**  
**30 June 2011 (Unaudited)**

**12 TAXATION**

	<i>30/06/2011</i>	<i>30/06/2010</i>	<i>31/12/2010</i>
	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>
<b>Statement of comprehensive income</b>			
Current period/year	<u>2,735</u>	<u>1,448</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>30/06/2011</i>	<i>30/06/2010</i>	<i>31/12/2010</i>
	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>
Accounting profit	<u>19,805</u>	<u>16,045</u>	<u>30,236</u>
Tax applicable rate	2,373	1,925	3,628
Non-deductible expenses	167	95	181
Tax exempt revenues	(250)	(87)	(468)
Others	445	(485)	(276)
	<u>2,735</u>	<u>1,448</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  
30 June 2011 (Unaudited)**

**12 TAXATION (continued)**

	<i>30/06/2011</i> <i>RO'000</i>	<i>30/06/2010</i> <i>RO'000</i>	<i>31/12/2010</i> <i>RO'000</i>
<b>Tax liability</b>			
<i>Current period/year</i>			
Income tax and other taxes	2,735	1,448	3,065
<i>Prior period/year</i>			
Income tax and other taxes	572	1,503	1,110
	<u>3,307</u>	<u>2,951</u>	<u>4,175</u>
<b>Recognised deferred tax assets and liabilities</b>			
	<i>30/06/2011</i> <i>RO'000</i>	<i>30/06/2010</i> <i>RO'000</i>	<i>31/12/2010</i> <i>RO'000</i>
Deferred tax assets and liabilities are attributable to the following:			
Available for sale investments	16	28	7

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

**13 SUBORDINATED PRIVATE PLACEMENT**

	<i>30/06/2011</i> <i>RO'000</i>	<i>30/06/2010</i> <i>RO'000</i>	<i>31/12/2010</i> <i>RO'000</i>
At 1 January	30,600	27,600	27,600
Received during the period/year	-	3,000	3,000
	<u>30,600</u>	<u>30,600</u>	<u>30,600</u>

The outstanding subordinate private placements will 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	(2,796)	-	-	-	(2,796)
Tax effect of net losses on available-for-sale financial investments	9	-	-	-	9
<b>At 30 June 2011</b>	<u>(545)</u>	<u>-</u>	<u>3,766</u>	<u>8,740</u>	<u>11,961</u>
At 30 June 2010	<u>874</u>	<u>(20)</u>	<u>2,811</u>	<u>3,220</u>	<u>6,885</u>

## NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT 30 June 2011 (Unaudited)

### 14 OTHER NON-DISTRIBUTABLE RESERVES (Continued)

- (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.

### 15 CONTINGENT LIABILITIES AND COMMITMENTS

	<b>30/06/2011</b>	<i>30/06/2010</i>	<i>31/12/2010</i>
	<b>RO'000</b>	<i>RO'000</i>	<i>RO'000</i>
Guarantees	<b>410,646</b>	348,059	391,036
Documentary letters of credit	<b>86,376</b>	79,733	81,907
Undrawn commitment to lend	<b>143,685</b>	106,553	103,417
	<b>640,707</b>	534,345	576,360

Contingent liabilities include RO 0.1 million (30 June 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 5.56% for the six months period ended 30 June 2011 (30 June 2010 - 5.95%, 31 December 2010 - 5.92%).

### 17 INTEREST EXPENSE

For the six months period ended 30 June 2011, the average overall cost of funds was 2.31% (30 June 2010 - 2.67%, 31 December 2010 - 2.64%).

### 18 OTHER OPERATING INCOME

	<b>6 months ended</b>	<i>6 months ended</i>
	<b>30/06/2011</b>	<i>30/06/2010</i>
	<b>RO'000</b>	<i>RO'000</i>
Net gains from foreign exchange dealings	<b>1,509</b>	1,222
Fees and commissions	<b>5,495</b>	5,155
Net income from sale of investments	<b>457</b>	498
Income from bonds	<b>692</b>	517
Dividend income	<b>1,270</b>	386
Service charges	<b>7,718</b>	5,004
Miscellaneous income	<b>224</b>	112
	<b>17,365</b>	12,894

## NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT 30 June 2011 (Unaudited)

### 19 OTHER OPERATING EXPENSES

	<b>6 months ended 30/06/2011 RO'000</b>	<b>6 months ended 30/06/2010 RO'000</b>
Establishment costs	2,573	1,969
Operating and administration expenses	4,436	4,152
	<b>7,009</b>	<b>6,121</b>

### 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>30/06/2011</u>			<u>30/06/2010</u>		
	<i>Principal shareholder RO'000</i>	<i>Others RO'000</i>	<i>Total RO'000</i>	<i>Principal shareholder RO'000</i>	<i>Others RO'000</i>	<i>Total RO'000</i>
Loans and advances	-	40,092	40,092	-	30,122	30,122
Customers' deposits	-	12,892	12,892	-	16,957	16,957
Due from banks	92	-	92	27,124	6,930	34,054
Due to banks	106	-	106	55	-	55
Subordinated private placement	-	1,500	1,500	-	3,100	3,100
Letter of credit, guarantees and acceptance	-	7,315	7,315	-	11,158	11,158
Standby revolving credit facility	77,000	-	77,000	26,950	11,550	38,500
Risk indemnities received	-	-	-	8,927	-	8,927

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

	<u>30/06/2011</u>			<u>30/06/2010</u>		
	<i>Principal shareholder RO'000</i>	<i>Others RO'000</i>	<i>Total RO'000</i>	<i>Principal shareholder RO'000</i>	<i>Others RO'000</i>	<i>Total RO'000</i>
Interest income	-	552	552	24	523	547
Commission income	-	10	10	-	99	99
Interest expense	92	303	395	48	389	436
Other expenses	100	313	413	161	43	205

## NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT 30 June 2011 (Unaudited)

### 20 RELATED PARTY TRANSACTIONS (continued)

Senior management compensation:

	30/06/2011 RO'000	30/06/2010 RO'000
Salaries and other short term benefits		
- Fixed	1,001	1,075
- Discretionary	235	481
	<u>1,236</u>	<u>1,556</u>

### 21 SHAREHOLDERS

As of 30 June 2011, the shareholders of the bank who own 10% or more of the bank's shares, whether in their name or through a nominee account and the number of shares held are as follows:

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

The bank had no preferred shareholders as of 30 June 2011 (30 June 2010 – nil/31 December 2010 – nil).

### 22 SEGMENT REPORTING

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

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

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

**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT**  
**30 June 2011 (unaudited)**

**22 SEGMENT REPORTING (CONTINUED)**

Segment information is as follows:

<i>6 months ended</i> <i>30 June 2011</i>	<i>Retail</i> <i>banking</i> <i>RO'000</i>	<i>Corporate</i> <i>banking</i> <i>RO'000</i>	<i>Investment</i> <i>banking</i> <i>RO'000</i>	<i>Treasury and</i> <i>international</i> <i>banking</i> <i>RO'000</i>	<i>Head office</i> <i>RO'000</i>	<i>Total</i> <i>RO'000</i>
Operating income	22,212	17,646	1,865	2,119	1,816	45,658
Profit	12,454	13,028	944	1,775	(11,131)	17,070
Total assets	687,889	873,563	20,457	23,839	413,172	2,018,920
<i>6 months ended</i> <i>30 June 2010</i>	<i>Retail</i> <i>banking</i> <i>RO'000</i>	<i>Corporate</i> <i>banking</i> <i>RO'000</i>	<i>Investment</i> <i>banking</i> <i>RO'000</i>	<i>Treasury and</i> <i>international</i> <i>banking</i> <i>RO'000</i>	<i>Head office</i> <i>RO'000</i>	<i>Total</i> <i>RO'000</i>
Operating income	19,386	16,093	1,432	1,734	2,074	40,719
Profit	7,845	12,015	717	1,385	(7,365)	14,597
Total assets	630,514	756,333	18,916	29,192	419,207	1,854,162

**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT**  
**30 June 2011 (Unaudited)**

**23 DERIVATIVES**

<i>30 June 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	5,425	(5,425)	158,816	5,931	8,059	144,826
Credit default swaps	-	(24)	7,700	1,925	5,775	-
Forward foreign exchange purchase contracts	177	(5)	20,338	15,392	4,946	-
Forward foreign exchange sales contracts	7	(157)	20,338	15,397	4,941	-
Interest rate caps	-	-	263	80	183	-
Currency options	90	(90)	84,406	51,976	32,430	-
Commodity hedging	59	(59)	7,979	7,979	-	-
<b>Total</b>	<b>5,758</b>	<b>(5,760)</b>	<b>299,840</b>	<b>98,680</b>	<b>56,334</b>	<b>144,826</b>

<i>30 June 2010</i>	<i>Positive fair value (Note 9) RO'000</i>	<i>Negative fair value (Note 11) RO'000</i>	<i>Notional amount total RO'000</i>	<i>Notional amounts by term maturity</i>		
				<i>Within 3 months RO'000</i>	<i>3 – 12 months RO'000</i>	<i>Above 1 year RO'000</i>
<i>Derivatives</i>						
Interest rate swaps	4,831	(4,831)	185,166	24,446	1,500	159,220
Credit default swaps	-	(106)	7,700	-	-	7,700
Forward foreign exchange purchase contracts	60	(330)	75,667	65,389	10,278	-
Forward foreign exchange sales contracts	425	(177)	75,667	65,489	10,178	-
Interest rate caps	-	-	523	80	179	264
<b>Total</b>	<b>5,316</b>	<b>(5,444)</b>	<b>344,723</b>	<b>155,404</b>	<b>22,135</b>	<b>167,184</b>

**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT**  
**30 June 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	-	-
	<u>4,676</u>	<u>(4,761)</u>	<u>281,895</u>	<u>105,386</u>	<u>18,536</u>	<u>157,973</u>