

National Bank of Oman SAOG

INTERIM CONDENSED FINANCIAL STATEMENTS

31 March 2012 (UNAUDITED)



PO Box 751 PC 112 Ruwi Sultanate of Oman.

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INTERIM CONDENSED STATEMENT OF FINANCIAL POSITION
31 March 2012 (Un-audited)

		<i>31-03-2012</i>	<i>31-03-2011</i>	<i>Audited</i> <i>31-12-2011</i>
	<i>Notes</i>	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>
Assets				
Cash and balances with Central Banks	3	251,289	195,165	220,771
Due from banks and other money market placements (net)	4	147,608	110,614	160,544
Loans and advances to customers (net)	5	1,791,788	1,414,831	1,670,778
Non-trading financial investments	6	95,590	66,609	95,022
Premises and equipment	7	20,433	22,240	20,505
Deferred tax asset	11	36	16	482
Other assets	8	64,562	59,079	60,970
Total assets		2,371,306	1,868,554	2,229,072
Liabilities				
Due to banks and other money market deposits		252,231	168,962	223,149
Customers' deposits	9	1,720,242	1,355,097	1,599,824
Other liabilities	10	69,752	56,621	64,932
Taxation	11	1,480	1,944	5,240
Total liabilities		2,043,705	1,582,624	1,893,145
Subordinated debt				
Subordinated debt	12	54,700	30,600	54,700
Equity				
Share capital		110,803	108,100	108,100
Share premium		34,465	34,465	34,465
Legal reserve		38,642	35,392	38,642
General reserve		4,419	4,419	4,419
Other non-distributable reserves	13	19,267	12,743	18,298
Proposed cash dividend		-	-	18,918
Proposed stock dividend		-	-	2,703
Retained earnings		65,305	60,211	55,682
Total equity		272,901	255,330	281,227
Total liabilities, subordinated funds and equity		2,371,306	1,868,554	2,229,072

The attached notes 1 to 22 form part of the interim condensed financial statements.

INTERIM CONDENSED STATEMENT OF COMPREHENSIVE INCOME
31 March 2012 (Un-audited)

		<i>Three months ended 31 March</i>	
		<i>2012</i>	<i>2011</i>
		<i>RO'000</i>	<i>RO'000</i>
	<i>Notes</i>		
Interest income	15	25,418	22,346
Interest expense	16	(9,237)	(8,965)
Net interest income		16,181	13,381
Other operating income	17	8,564	7,646
OPERATING INCOME		24,745	21,027
OPERATING EXPENSES			
Staff costs		(6,041)	(6,062)
Other operating expenses	18	(3,971)	(3,382)
Depreciation	7	(942)	(953)
		(10,954)	(10,397)
PROFIT FROM OPERATIONS BEFORE IMPAIRMENT LOSSES AND TAX		13,791	10,630
Credit loss expense – customer’s loan	5	(3,631)	(7,251)
Recoveries and releases from provision for credit losses	5	320	4,753
Recoveries from loans and advances written off		1,770	1,054
Impairment losses on available for sale investments		(983)	(249)
Provision – others		(73)	-
TOTAL IMPAIRMENT LOSSES (NET)		(2,597)	(1,693)
PROFIT BEFORE TAX		11,194	8,937
Taxation	11	(1,571)	(1,197)
PROFIT FOR THE PERIOD		9,623	7,740
OTHER COMPREHENSIVE INCOME			
Net movement on available for sale investments		969	(2,014)
Tax effect of net results on available for sale financial investments		-	9
OTHER COMPREHENSIVE INCOME (EXPENSE) FOR THE YEAR		969	(2,005)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		10,592	5,735
Earnings per share annualized:			
Basic and diluted, profit for the year attributable to equity holders		0.035	0.028

The attached notes 1 to 22 form part of the interim condensed financial statements.

INTERIM CONDENSED STATEMENT OF CASH FLOWS 31 March 2012 (Un-audited)

	Notes	Three months ended 31 March	
		2012 RO'000	2011 RO'000
Operating activities			
Profit before taxation		11,194	8,937
Adjustments for:			
Depreciation	7	942	953
Provision for credit losses (net)		3,882	837
Impairment losses on available for investments		983	249
Profit on sale of equipment (net)		(30)	(46)
Profit on sale of investments		(135)	(395)
Investment income		(1,254)	(1,531)
Operating profit before changes in operating assets and liabilities		<u>15,582</u>	<u>9,004</u>
Due from banks and other money market placements		(1,180)	437
Due to banks and other money market deposits		5,390	-
Loans and advances to customers		(124,892)	(52,306)
Other assets		(3,592)	(14,724)
Customers' deposits		120,418	30,207
Other liabilities		4,820	9,537
Cash from operations		<u>16,546</u>	<u>(17,845)</u>
Taxes paid		(4,881)	(3,403)
Net cash from operating activities		<u>11,665</u>	<u>(21,248)</u>
Investing activities			
Purchase of non-trading investments		(1,476)	(9,831)
Proceeds from sale of non-trading investments		1,025	4,446
Purchase of premises and equipment	7	(874)	(909)
Disposal of equipment and vehicles		34	102
Translation differences		-	29
Income from bonds and other investment		571	353
Dividend income	17	683	1,178
Net cash used in investing activities		<u>(37)</u>	<u>(4,632)</u>
Financing activities			
Payment of dividend		(18,918)	(16,215)
Net cash used in financing activities		<u>(18,918)</u>	<u>(16,215)</u>
Decrease in cash and cash equivalents		<u>(7,290)</u>	<u>(42,095)</u>
Cash and cash equivalents at the beginning of the period		<u>274,923</u>	<u>288,847</u>
Cash and cash equivalents at the end of the period		<u>267,633</u>	<u>246,752</u>
Representing:			
Cash and balances with Central Bank	3	250,789	194,665
Deposits and balances with other banks and financial institutions (net)		16,844	52,087
		<u>267,633</u>	<u>246,752</u>

The attached explanatory notes 1 to 22 form part of the interim condensed financial statements.

INTERIM CONDENSED STATEMENT OF CHANGES IN EQUITY
Period ended 31 March 2012 (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>Proposed stock dividend</i>	<i>Retained earnings</i>	<i>Total</i>
Balance at 1 January 2011	108,100	34,465	35,392	4,419	14,748	16,215	-	52,471	265,810
Total comprehensive income for the period	-	-	-	-	(2,005)	-	-	7,740	5,735
Dividend paid during the period	-	-	-	-	-	(16,215)	-	-	(16,215)
Balance at 31 March 2011	108,100	34,465	35,392	4,419	12,743	-	-	60,211	255,330
Balance at 1 April 2011	108,100	34,465	35,392	4,419	12,743	-	-	60,211	255,330
Total comprehensive income for the period	-	-	-	-	(565)	-	-	26,462	25,897
Transfer to subordinated funds reserve	-	-	-	-	6,120	-	-	(6,120)	-
Transfer to legal reserve	-	-	3,250	-	-	-	-	(3,250)	-
Transfer to proposed cash dividend	-	-	-	-	-	18,918	-	(18,918)	-
Transfer to proposed stock dividend	-	-	-	-	-	-	2,703	(2,703)	-
Balance at 31 December 2011	108,100	34,465	38,642	4,419	18,298	18,918	2,703	55,682	281,227
Balance at 1 January 2012	108,100	34,465	38,642	4,419	18,298	18,918	2,703	55,682	281,227
Total comprehensive income for the period	-	-	-	-	969	-	-	9,623	10,592
Dividend paid during the period	-	-	-	-	-	(18,918)	-	-	(18,918)
Issue of Shares	2,703	-	-	-	-	-	(2,703)	-	-
Balance at 31 March 2012	110,803	34,465	38,642	4,419	19,267	-	-	65,305	272,901

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

The attached notes 1 to 22 form part of the interim condensed financial statements.

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT 31 March 2012 (Un-audited)

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 has a primary listing on the Muscat Stock Exchange.

The bank employed 1,373 employees as of 31 March 2012 (31 March 2011 – 1,296 employees and 31 December 2011 – 1,339)

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 2011.

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 2012 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2012.

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
31 March 2012 (Unaudited)

3 CASH AND BALANCES WITH CENTRAL BANKS

	<i>31/03/2012</i>	<i>31/03/2011</i>	<i>31/12/2011</i>
	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>
Cash	24,332	25,028	25,785
Treasury bills with Central Banks	6,287	2,258	5,744
Certificate of deposit with Central Banks	85,000	55,000	90,000
Other balances with Central Banks	135,170	112,379	98,742
	<u>250,789</u>	<u>194,665</u>	<u>220,271</u>
Cash and cash equivalents	250,789	194,665	220,271
Capital deposit with Central Bank of Oman	500	500	500
	<u>500</u>	<u>500</u>	<u>500</u>
Cash and balances with Central Banks	251,289	195,165	220,771
	<u><u>251,289</u></u>	<u><u>195,165</u></u>	<u><u>220,771</u></u>

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>31/03/2012</i>	<i>31/03/2011</i>	<i>31/12/2011</i>
	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>
Loans and advances to banks	24,999	21,368	22,968
Placement with banks	116,445	89,269	127,149
Demand balances	12,754	6,567	17,017
	<u>154,198</u>	<u>117,204</u>	<u>167,134</u>
Due from banks and other money market placement	154,198	117,204	167,134
Less: allowance for credit losses (refer note below)	(6,522)	(6,522)	(6,522)
Less: reserved interest	(68)	(68)	(68)
	<u>147,608</u>	<u>110,614</u>	<u>160,544</u>
Net due from banks and other money market placement	147,608	110,614	160,544
	<u><u>147,608</u></u>	<u><u>110,614</u></u>	<u><u>160,544</u></u>

As at 31 March 2012, the bank has a limited inter-bank exposure of RO 6.6 million against two regional large groups. The bank has recorded a provision of 100% against the same.

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT
31 March 2012 (Unaudited)

5 LOANS AND ADVANCES TO CUSTOMERS (NET)

	<i>31/03/2012</i> <i>RO'000</i>	<i>31/03/2011</i> <i>RO'000</i>	<i>31/12/2011</i> <i>RO'000</i>
Corporate loans	965,108	788,025	910,365
Personal loans	837,960	645,009	780,272
Overdrafts	55,512	51,641	43,051
Gross loans and advances	<u>1,858,580</u>	<u>1,484,675</u>	<u>1,733,688</u>
Less: Allowance for credit losses and reserved interest	<u>(66,792)</u>	<u>(69,844)</u>	<u>(62,910)</u>
Net loans and advances	<u><u>1,791,788</u></u>	<u><u>1,414,831</u></u>	<u><u>1,670,778</u></u>

Gross loans and advances include RO 35.29 million due from related parties at 31 March 2012 (31 March 2011 – RO 31.77 million, 31 December 2011 – RO 33.40 million).

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

Allowance for credit losses	<i>3 months</i> <i>ended</i> <i>31/03/2012</i> <i>RO'000</i>	<i>3 months</i> <i>ended</i> <i>31/03/2011</i> <i>RO'000</i>	<i>12 months</i> <i>ended</i> <i>31/12/2011</i> <i>RO'000</i>
	Balance at beginning of period / year	49,457	57,464
Provided during the period / year	3,631	7,251	18,932
Recovered/ released during the period / year	(255)	(4,516)	(7,077)
Written off during the period / year	(526)	(1,824)	(15,231)
Transfer during the period / year	-	-	(4,395)
Translation difference	9	(168)	(236)
Balance at end of period / year	<u><u>52,316</u></u>	<u><u>58,207</u></u>	<u><u>49,457</u></u>
 Reserved interest	 <i>3 months</i> <i>ended</i> <i>31/03/2012</i> <i>RO'000</i>	 <i>3 months</i> <i>ended</i> <i>31/03/2011</i> <i>RO'000</i>	 <i>12 months</i> <i>ended</i> <i>31/12/2011</i> <i>RO'000</i>
Balance at beginning of period / year	13,453	11,543	11,543
Reserved during the period / year	1,197	798	3,446
Recovered/ released during the period / year	(65)	(237)	(448)
Recovered/ released during the period to interest income	(34)	(37)	(154)
Written off during the period / year	(75)	(427)	(929)
Translation difference	-	(3)	(5)
Balance at end of period / year	<u><u>14,476</u></u>	<u><u>11,637</u></u>	<u><u>13,453</u></u>

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 2012 loans and advances on which interest is not being accrued or where interest has been reserved amounted to RO 66.1 million, (31 March 2011 – RO 52.2 million and 31 December 2011 – RO 64.0 million).

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT
31 March 2012 (Unaudited)

6 NON TRADING FINANCIAL INVESTMENTS

Available for sale investments

	<i>Carrying value</i>	<i>Cost</i>	<i>Carrying value</i>	<i>Cost</i>	<i>Carrying value</i>	<i>Cost</i>
	<i>31/03/2012</i>	<i>31/03/2012</i>	<i>31/03/2011</i>	<i>31/03/2011</i>	<i>31/12/2011</i>	<i>31/12/2011</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>
Quoted investments- Oman						
Banking and investment sector	1,390	1,464	2,082	2,020	1,347	1,464
Industry sector	1,254	1,515	2,623	2,970	1,692	2,384
Service sector	7,783	9,164	9,914	10,836	6,884	8,004
Government Development Bonds	74,213	74,213	42,994	42,994	74,405	74,405
	<u>84,640</u>	<u>86,356</u>	<u>57,613</u>	<u>58,820</u>	<u>84,328</u>	<u>86,257</u>
Quoted investments- Foreign						
Government Development Bonds	3,613	3,824	1,599	1,613	3,649	3,830
	<u>3,613</u>	<u>3,824</u>	<u>1,599</u>	<u>1,613</u>	<u>3,649</u>	<u>3,830</u>
Unquoted investments						
Banking and investment sector	7,068	7,386	7,331	7,236	6,776	7,386
Service sector	269	269	66	66	269	269
	<u>7,337</u>	<u>7,655</u>	<u>7,397</u>	<u>7,302</u>	<u>7,045</u>	<u>7,655</u>
Total available for sale	<u>95,590</u>	<u>97,835</u>	<u>66,609</u>	<u>67,735</u>	<u>95,022</u>	<u>97,742</u>
Total non-trading investments	<u>95,590</u>	<u>97,835</u>	<u>66,609</u>	<u>67,735</u>	<u>95,022</u>	<u>97,742</u>

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>
<u>31 March 2012</u>			
Government Development Bonds-Oman	<u>77.64</u>	<u>74,213</u>	<u>74,213</u>
<u>31 March 2011</u>			
Government Development Bonds-Oman	<u>64.55</u>	<u>42,994</u>	<u>42,994</u>
<u>31 December 2011</u>			
Government Development Bonds-Oman	<u>78.30</u>	<u>74,405</u>	<u>74,405</u>

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT
31 March 2012 (Unaudited)

7 PREMISES AND EQUIPMENT

	<i>Freehold Land, buildings and leasehold improvements RO'000</i>	<i>Motor vehicles, furniture and equipment RO'000</i>	<i>Capital work in progress RO'000</i>	<i>Total RO'000</i>
Reconciliation of carrying amount:				
Balance at 1 January 2012, net of accumulated depreciation	13,009	6,508	988	20,505
Addition	24	186	664	874
Disposal	(1)	(3)	-	(4)
Transfer	43	109	(152)	-
Translation difference	-	-	-	-
Depreciation	(334)	(608)	-	(942)
Balance at 31st March 2012, net of accumulated depreciation	<u>12,741</u>	<u>6,192</u>	<u>1,500</u>	<u>20,433</u>
At cost / valuation	25,513	24,000	1,500	51,013
Accumulated depreciation	(12,772)	(17,808)	-	(30,580)
Net carrying value at 31st March 2012	<u>12,741</u>	<u>6,192</u>	<u>1,500</u>	<u>20,433</u>
Net carrying value at 31 March 2011	<u>14,098</u>	<u>5,459</u>	<u>2,683</u>	<u>22,240</u>
Net carrying value at 31 December 2011	<u>13,009</u>	<u>6,508</u>	<u>988</u>	<u>20,505</u>

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT
31 March 2012 (Unaudited)

8 OTHER ASSETS

	<i>31/03/2012</i>	<i>31/03/2011</i>	<i>31/12/2011</i>
	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>
Interest receivable and others	23,333	29,079	23,027
Positive fair value of derivatives (note 22)	9,858	3,801	11,042
Customers' indebtedness for acceptances (note 10)	31,371	26,199	26,901
	<u>64,562</u>	<u>59,079</u>	<u>60,970</u>
Amount receivable from BCCI	3,458	3,458	3,458
Less provision for amount receivable from BCCI	(3,458)	(3,458)	(3,458)
Net due from BCCI	<u>-</u>	<u>-</u>	<u>-</u>

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

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

9 CUSTOMERS' DEPOSITS

	<i>31/03/2012</i>	<i>31/03/2011</i>	<i>31/12/2011</i>
	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>
Current accounts	435,122	315,331	312,075
Savings accounts	431,731	308,863	376,876
Certificate of deposits	41,300	62,520	41,300
Term deposits	812,089	668,383	869,573
	<u>1,720,242</u>	<u>1,355,097</u>	<u>1,599,824</u>

10 OTHER LIABILITIES

	<i>31/03/2012</i>	<i>31/03/2011</i>	<i>31/12/2011</i>
	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>
Interest payable and others	28,500	26,625	26,975
Negative fair value of derivatives (note 22)	9,881	3,797	11,056
Liabilities under acceptances (note 8)	31,371	26,199	26,901
	<u>69,752</u>	<u>56,621</u>	<u>64,932</u>

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT
31 March 2012 (Unaudited)

11 TAXATION

	<i>31/03/2012</i>	<i>31/03/2011</i>	<i>31/12/2011</i>
	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>
Statement of comprehensive income			
Current period/year	1,125	1,197	4,942
Deferred tax adjustment	446	-	(446)
	<u>1,571</u>	<u>1,197</u>	<u>4,496</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>31/03/2012</i>	<i>31/03/2011</i>	<i>31/12/2011</i>
	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>
Accounting profit	11,194	8,937	38,698
	<u>11,194</u>	<u>8,937</u>	<u>38,698</u>
Tax applicable rate	1,340	1,072	4,644
Non-deductible expenses	181	60	525
Tax exempt revenues	(111)	(153)	(353)
Others	161	218	(320)
	<u>1,571</u>	<u>1,197</u>	<u>4,496</u>

The bank's liabilities for taxation in the Sultanate of Oman has been assessed up to the year ended 31 December 2007.

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 2010.

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT
31 March 2012 (Unaudited)

11 TAXATION (continued)

	<i>31/03/2012</i>	<i>31/03/2011</i>	<i>31/12/2011</i>
	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>
Tax liability			
<i>Current period/year</i>			
Income tax and other taxes	1,125	1,197	4,942
<i>Prior period/year</i>			
Income tax and other taxes	355	747	298
	1,480	1,944	5,240
	1,480	1,944	5,240
Recognised deferred tax assets and liabilities			
	<i>31/03/2012</i>	<i>31/03/2011</i>	<i>31/12/2011</i>
	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>
Deferred tax assets and liabilities are attributable to the following:			
Timing differences provisions	-	-	446
Available for sale investments	36	16	36
	36	16	482
	36	16	482
De-recognized deferred tax assets			
	<i>31/03/2012</i>	<i>31/03/2011</i>	<i>31/12/2011</i>
	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>
Timing differences provisions	(446)	-	-
	(446)	-	-
	(446)	-	-

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

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT
31 March 2012 (Unaudited)

12 SUBORDINATED DEBT

	31/03/2012	31/03/2011	31/12/2011
	RO'000	RO'000	RO'000
At 1 January	54,700	30,600	30,600
Received during the period/year	-	-	24,100
	54,700	30,600	54,700

The outstanding subordinated debt will mature on various dates between 2014 and 2017.

13 OTHER NON-DISTRIBUTABLE RESERVES

	<i>Available for sale reserve</i>	<i>Revaluation reserve</i>	<i>Subordin- ated loan reserve</i>	<i>Total</i>
	<i>RO '000</i>	<i>RO '000</i>	<i>RO '000</i>	<i>RO '000</i>
At 1 January 2012	(328)	3,766	14,860	18,298
Net movement on available for sale investments	969	-	-	969
At 31 March 2012	641	3,766	14,860	19,267
At 31 March 2011	237	3,766	8,740	12,743

- (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 debt reserve represents an annual transfer towards subordinated debt which is due to mature within the next five years period (note 12). The reserve is available for transfer back to retained earnings upon maturity of the subordinated debt.

14 CONTINGENT LIABILITIES AND COMMITMENTS

	31/03/2012	31/03/2011	31/12/2011
	RO'000	RO'000	RO'000
Guarantees	425,487	377,249	436,886
Documentary letters of credit	74,396	67,450	70,928
Undrawn commitment to lend	110,167	145,169	76,221
	610,050	589,868	584,035

Contingent liabilities include RO 0.1 million (31 March 2011 – RO 0.1 million/31 December 2011 – RO 0.1 million) relating to non-performing loans.

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT 31 March 2012 (Unaudited)

15 INTEREST INCOME

Interest bearing assets earned interest at an overall rate of 5.23% for the three months period ended 31 March 2012 (31 March 2011 -5.53%, 31 December 2011- 5.31%).

16 INTEREST EXPENSE

For the three months period ended 31 March 2012, the average overall cost of funds was 2.00% (31 March 2011- 2.39%, 31 December 2011 - 2.13%).

17 OTHER OPERATING INCOME

	<i>3 months ended 31/03/2012 RO'000</i>	<i>3 months ended 31/03/2011 RO'000</i>
Net gains from foreign exchange dealings	848	730
Fees and commissions	2,470	2,629
Net income from sale of investments	135	395
Income from bonds	571	353
Dividend income	683	1,178
Service charges	3,732	2,247
Miscellaneous income	125	114
	<u>8,564</u>	<u>7,646</u>

18 OTHER OPERATING EXPENSES

	<i>3 months ended 31/03/2012 RO'000</i>	<i>3 months ended 31/03/2011 RO'000</i>
Establishment costs	1,195	1,293
Operating and administration expenses	2,776	2,089
	<u>3,971</u>	<u>3,382</u>

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT 31 March 2012 (Unaudited)

19 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:

	31/03/2012			31/03/2011		
	<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	-	35,290	35,290	-	31,770	31,770
Customers' deposits	-	11,499	11,499	-	12,120	12,120
Due from banks	40	-	40	13,497	-	13,497
Due to banks	23,183	11,550	34,733	5,720	-	5,720
Subordinated debt	-	2,500	2,500	-	1,500	1,500
Letter of credit, guarantees and acceptance	-	5,824	5,824	-	10,799	10,799
Standby revolving credit facility	77,000	-	77,000	77,000	-	77,000
Risk indemnities received	-	6,000	6,000	3,924	-	3,924

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

Interest income	1	302	303	3	264	267
Commission income	-	6	6	-	7	7
Interest expense	85	76	161	24	152	176
Other expenses	45	378	423	100	149	249

Senior management compensation:

	31/03/2012 RO'000	31/03/2011 RO'000
Salaries and other short term benefits		
- Fixed	458	493
- Discretionary	450	185
	<u>908</u>	<u>678</u>

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT

31 March 2012 (Unaudited)

20 SHAREHOLDERS

As of 31 March 2012, 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)	386,699	34.9
Suhail Bahwan Group (Holdings) LLC	163,370	14.7

The bank had no preferred shareholders as of 31 March 2012 (31 March 2011 – nil/31 December 2011 – nil).

21 SEGMENT REPORTING

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

- Retail banking offers various products and 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 performance is evaluated based on operating profit or loss which in certain respects is measured differently from operating profit or loss in the financial statements. The costs incurred by the central functions are managed on a group basis and are not allocated to operating segments.

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT
31 March 2012 (unaudited)

21 SEGMENT REPORTING (CONTINUED)

Segment information is as follows:

<i>3 months ended</i> <i>31 March 2012</i>	<i>Retail banking RO'000</i>	<i>Corporate banking RO'000</i>	<i>Investment banking RO'000</i>	<i>Treasury and international banking RO'000</i>	<i>Head office RO'000</i>	<i>Total RO'000</i>
Operating income	13,254	7,887	876	1,392	1,336	24,745
Profit	7,834	6,164	(196)	1,248	(5,427)	9,623
Total assets	812,665	995,295	17,764	92,828	452,754	2,371,306
<i>3 months ended</i> <i>31 March 2011</i>	<i>Retail banking RO'000</i>	<i>Corporate banking RO'000</i>	<i>Investment banking RO'000</i>	<i>Treasury and international banking RO'000</i>	<i>Head office RO'000</i>	<i>Total RO'000</i>
Operating income	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

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT
31 March 2012 (Unaudited)

22 DERIVATIVES

<i>31 March 2012</i>	<i>Positive fair value (Note 8) RO'000</i>	<i>Negative fair value (Note 10) RO'000</i>	<i>Notional amount total RO'000</i>	<i>Notional amounts by term to 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	8,365	(8,365)	146,442	1,213	8,166	137,063
Forward foreign exchange purchase contracts	57	(192)	69,261	59,658	9,603	-
Forward foreign exchange sales contracts	202	(90)	69,261	59,663	9,598	-
Interest rate caps	-	-	82	82	-	-
Currency options	987	(987)	89,225	51,327	37,898	-
Commodity hedging	247	(247)	30,024	16,138	13,886	-
Total	9,858	(9,881)	404,295	188,081	79,151	137,063

<i>31 March 2011</i>	<i>Positive fair value (Note 8) RO'000</i>	<i>Negative fair value (Note 10) RO'000</i>	<i>Notional amount total RO'000</i>	<i>Notional amounts by term to 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	-
Total	3,801	(3,797)	247,584	54,321	46,759	146,504

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT
31 March 2012 (Unaudited)

22 DERIVATIVES (continued)

<i>31 December 2011</i>	<i>Positive fair value (Note 8) RO'000</i>	<i>Negative fair value (Note 10) RO'000</i>	<i>Notional amount total RO'000</i>	<i>Notional amounts by term to 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	9,453	(9,453)	152,076	6,037	8,166	137,873
Credit default swaps	-	(26)	5,775	5,775	-	-
Forward foreign exchange purchase contracts	41	(341)	79,169	72,396	6,773	-
Forward foreign exchange sales contracts	348	(36)	79,169	72,401	6,768	-
Interest rate caps	-	-	142	80	62	-
Currency options	320	(320)	31,076	15,660	15,416	-
Commodity hedging	880	(880)	16,793	16,495	298	-
	<u>11,042</u>	<u>(11,056)</u>	<u>364,200</u>	<u>188,844</u>	<u>37,483</u>	<u>137,873</u>