

# **National Bank of Oman SAOG**

## **INTERIM CONDENSED FINANCIAL STATEMENTS**

**30 June 2012 (UNAUDITED)**



PO Box 751 PC 112 Ruwi Sultanate of Oman.

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**INTERIM CONDENSED STATEMENT OF FINANCIAL POSITION**  
**30 June 2012 (Un-audited)**

		<i>30-06-2012</i>	<i>30-06-2011</i>	<i>Audited</i> <i>31-12-2011</i>
	<i>Notes</i>	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>
<b>Assets</b>				
Cash and balances with Central Banks	3	228,533	253,733	220,771
Due from banks and other money market placements (net)	4	218,213	70,778	160,544
Loans and advances to customers (net)	5	1,861,102	1,549,301	1,670,778
Non-trading financial investments	6	95,286	64,943	95,022
Premises and equipment	7	20,285	21,938	20,505
Deferred tax asset	11	36	16	482
Other assets	8	70,000	58,211	60,970
<b>Total assets</b>		<b>2,493,455</b>	<b>2,018,920</b>	<b>2,229,072</b>
<b>Liabilities</b>				
Due to banks and other money market deposits		247,474	207,050	223,149
Customers' deposits	9	1,827,795	1,455,683	1,599,824
Other liabilities	10	77,465	58,402	64,932
Taxation	11	2,553	3,307	5,240
<b>Total liabilities</b>		<b>2,155,287</b>	<b>1,724,442</b>	<b>1,893,145</b>
<b>Subordinated debt</b>				
Subordinated debt	12	54,700	30,600	54,700
<b>Equity</b>				
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	19,533	11,961	18,298
Proposed cash dividend		-	-	18,918
Proposed stock dividend		-	-	2,703
Retained earnings		75,606	69,541	55,682
<b>Total equity</b>		<b>283,468</b>	<b>263,878</b>	<b>281,227</b>
<b>Total liabilities, subordinated funds and equity</b>		<b>2,493,455</b>	<b>2,018,920</b>	<b>2,229,072</b>

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

**INTERIM CONDENSED STATEMENT OF COMPREHENSIVE INCOME**  
**30 June 2012 (Un-audited)**

	Notes	<u>Six months ended 30</u>		<u>Three months ended 30</u>	
		<u>June</u>		<u>June</u>	
		<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
		<u>RO'000</u>	<u>RO'000</u>	<u>RO'000</u>	<u>RO'000</u>
Interest income	15	<b>52,024</b>	46,250	<b>26,606</b>	23,904
Interest expense	16	<b>(18,855)</b>	(17,957)	<b>(9,618)</b>	(8,992)
<b>Net interest income</b>		<b>33,169</b>	28,293	<b>16,988</b>	14,912
Other operating income	17	<b>17,470</b>	17,365	<b>8,906</b>	9,719
<b>OPERATING INCOME</b>		<b>50,639</b>	45,658	<b>25,894</b>	24,631
<b>OPERATING EXPENSES</b>					
Staff costs		<b>(12,569)</b>	(12,030)	<b>(6,528)</b>	(5,968)
Other operating expenses	18	<b>(7,993)</b>	(7,009)	<b>(4,022)</b>	(3,627)
Depreciation	7	<b>(1,827)</b>	(1,919)	<b>(885)</b>	(966)
		<b>(22,389)</b>	(20,958)	<b>(11,435)</b>	(10,561)
<b>PROFIT FROM OPERATIONS BEFORE IMPAIRMENT LOSSES AND TAX</b>		<b>28,250</b>	24,700	<b>14,459</b>	14,070
Credit loss expense – customers' loan	5	<b>(9,927)</b>	(11,803)	<b>(6,296)</b>	(4,552)
Recoveries and releases from provision for credit losses	5	<b>2,578</b>	5,341	<b>2,258</b>	588
Recoveries from loans and advances written off		<b>3,632</b>	2,099	<b>1,862</b>	1,045
Impairment losses on available for sale investments		<b>(1,449)</b>	(532)	<b>(466)</b>	(283)
Provision – others		<b>(73)</b>	-	<b>-</b>	-
<b>TOTAL IMPAIRMENT LOSSES (NET)</b>		<b>(5,239)</b>	(4,895)	<b>(2,642)</b>	(3,202)
<b>PROFIT BEFORE TAX</b>		<b>23,011</b>	19,805	<b>11,817</b>	10,868
Taxation	11	<b>(3,087)</b>	(2,735)	<b>(1,516)</b>	(1,538)
<b>PROFIT FOR THE PERIOD</b>		<b>19,924</b>	17,070	<b>10,301</b>	9,330
<b>OTHER COMPREHENSIVE INCOME</b>					
Net movement on available for sale investments		<b>1,235</b>	(2,786)	<b>266</b>	(782)
Tax effect of net results on available for sale financial investments		-	9	-	-
<b>OTHER COMPREHENSIVE INCOME / (EXPENSE) FOR THE PERIOD</b>		<b>1,235</b>	(2,787)	<b>266</b>	(782)
<b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD</b>		<b>21,159</b>	14,283	<b>10,567</b>	8,548
Earnings per share annualized:		<b>0.036</b>	0.031	<b>0.037</b>	0.034

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

## INTERIM CONDENSED STATEMENT OF CASH FLOWS 30 June 2012 (Un-audited)

	Notes	Six months ended 30 June	
		2012 RO'000	2011 RO'000
<b>Operating activities</b>			
Profit before taxation		23,011	19,805
Adjustments for:			
Depreciation	7	1,827	1,919
Provision for credit losses (net)		6,997	(4,110)
Impairment losses on available for investments		1,449	532
Profit on sale of equipment (net)		(30)	(46)
Profit on sale of investments		(236)	(457)
Investment income		(1,876)	(1,962)
Operating profit before changes in operating assets and liabilities		<u>31,142</u>	<u>15,681</u>
Due from banks and other money market placements		(8,112)	(2,097)
Due to banks and other money market deposits		(68,530)	2,502
Loans and advances to customers		(197,321)	(181,829)
Other assets		(9,030)	(13,856)
Customers' deposits		227,971	130,793
Other liabilities		12,533	11,318
<b>Cash from operations</b>		<u>(11,347)</u>	<u>(37,488)</u>
Taxes paid		(5,326)	(3,576)
Net cash from operating activities		<u>(16,673)</u>	<u>(41,064)</u>
<b>Investing activities</b>			
Purchase of non-trading investments		(2,329)	(9,751)
Proceeds from sale of non-trading investments		2,070	5,029
Purchase of premises and equipment	7	(1,614)	(1,582)
Disposal of equipment and vehicles		35	110
Translation differences		18	28
Income from bonds and other investment		1,140	692
Dividend income	17	736	1,270
Net cash used in investing activities		<u>56</u>	<u>(4,204)</u>
<b>Financing activities</b>			
Payment of dividend		(18,918)	(16,215)
Net cash used in financing activities		<u>(18,918)</u>	<u>(16,215)</u>
<b>Decrease in cash and cash equivalents</b>		<u>(35,535)</u>	<u>(61,483)</u>
Cash and cash equivalents at the beginning of the period		274,922	288,847
<b>Cash and cash equivalents at the end of the period</b>		<u>239,387</u>	<u>227,364</u>
<b>Representing:</b>			
Cash and balances with Central Bank	3	228,033	253,233
Deposits and balances with other banks and financial institutions (net)		11,354	(25,869)
		<u>239,387</u>	<u>227,364</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 30 June 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	-	-	-	-	(2,787)	-	-	17,070	14,283
Dividend paid during the period	-	-	-	-	-	(16,215)	-	-	(16,215)
<b>Balance 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>-</b>	<b>69,541</b>	<b>263,878</b>
Balance at 1 July 2011	108,100	34,465	35,392	4,419	11,961	-	-	69,541	263,878
Total comprehensive income for the period	-	-	-	-	217	-	-	17,132	17,349
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)	-
<b>Balance at 31 December 2011</b>	<b>108,100</b>	<b>34,465</b>	<b>38,642</b>	<b>4,419</b>	<b>18,298</b>	<b>18,918</b>	<b>2,703</b>	<b>55,682</b>	<b>281,227</b>
Balance at 1 January 2012	<b>108,100</b>	<b>34,465</b>	<b>38,642</b>	<b>4,419</b>	<b>18,298</b>	<b>18,918</b>	<b>2,703</b>	<b>55,682</b>	<b>281,227</b>
Total comprehensive income for the period	-	-	-	-	1,235	-	-	19,924	21,159
Dividend paid during the period	-	-	-	-	-	(18,918)	-	-	(18,918)
Issue of Shares	2,703	-	-	-	-	-	(2,703)	-	-
<b>Balance at 30 June 2012</b>	<b>110,803</b>	<b>34,465</b>	<b>38,642</b>	<b>4,419</b>	<b>19,533</b>	<b>-</b>	<b>-</b>	<b>75,606</b>	<b>283,468</b>

\*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 30 June 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 1,368 employees as of 30 June 2012 (30 June 2011 – 1,335 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 six months ended 30 June 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  
30 June 2012 (Unaudited)**

**3 CASH AND BALANCES WITH CENTRAL BANKS**

	<i>30/06/2012</i> <i>RO'000</i>	<i>30/06/2011</i> <i>RO'000</i>	<i>31/12/2011</i> <i>RO'000</i>
Cash	28,577	28,021	25,785
Treasury bills with Central Banks	26,322	6,772	5,744
Certificate of deposit with Central Banks	50,000	105,000	90,000
Other balances with Central Banks	123,134	113,440	98,742
<b>Cash and cash equivalents</b>	<b>228,033</b>	<b>253,233</b>	<b>220,271</b>
Capital deposit with Central Bank of Oman	500	500	500
<b>Cash and balances with Central Banks</b>	<b>228,533</b>	<b>253,733</b>	<b>220,771</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>30/06/2012</i> <i>RO'000</i>	<i>30/06/2011</i> <i>RO'000</i>	<i>31/12/2011</i> <i>RO'000</i>
Loans and advances to banks	30,466	22,901	22,968
Placement with banks	160,594	46,231	127,149
Demand balances	33,743	8,236	17,017
Due from banks and other money market placement	224,803	77,368	167,134
Less: allowance for credit losses (refer note below)	(6,522)	(6,522)	(6,522)
Less: reserved interest	(68)	(68)	(68)
Net due from banks and other money market placement	218,213	70,778	160,544

As at 30 June 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**  
**30 June 2012 (Unaudited)**

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

	<i>30/06/2012</i> <i>RO'000</i>	<i>30/06/2011</i> <i>RO'000</i>	<i>31/12/2011</i> <i>RO'000</i>
Corporate loans	<b>972,861</b>	858,560	910,365
Personal loans	<b>911,040</b>	712,429	780,272
Overdrafts	<b>47,108</b>	43,209	43,051
	<u>1,931,009</u>	<u>1,614,198</u>	<u>1,733,688</u>
Less: Allowance for credit losses and reserved interest	<b>(69,907)</b>	(64,897)	(62,910)
Net loans and advances	<b>1,861,102</b>	1,549,301	1,670,778

Gross loans and advances include RO 42.7 million due from related parties at 30 June 2012 (30 June 2011 – RO 40.1 million, 31 December 2011 – RO 33.4 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>30/06/2012</i> <i>RO'000</i>	<i>6 months</i> <i>ended</i> <i>30/06/2011</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	<b>49,457</b>	57,464
Provided during the period / year	<b>9,927</b>	11,803	18,932
Recovered/ released during the period / year	<b>(2,471)</b>	(5,068)	(7,077)
Written off during the period / year	<b>(2,432)</b>	(11,178)	(15,231)
Transfer during the period / year	-		(4,395)
Translation difference	<b>(23)</b>	(158)	(236)
Balance at end of period / year	<b>54,458</b>	52,863	49,457
	<u>54,458</u>	<u>52,863</u>	<u>49,457</u>
<b>Reserved interest</b>	<i>6 months</i> <i>ended</i> <i>30/06/2012</i> <i>RO'000</i>	<i>6 months</i> <i>ended</i> <i>30/06/2011</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	<b>13,453</b>	11,543	11,543
Reserved during the period / year	<b>2,458</b>	1,420	3,446
Recovered/ released during the period / year	<b>(107)</b>	(273)	(448)
Recovered/ released during the period to interest income	<b>(94)</b>	(69)	(154)
Written off during the period / year	<b>(261)</b>	(584)	(929)
Translation difference	-	(3)	(5)
Balance at end of period / year	<b>15,449</b>	12,034	13,453
	<u>15,449</u>	<u>12,034</u>	<u>13,453</u>

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

As of 30 June 2012 loans and advances on which interest is not being accrued or where interest has been reserved amounted to RO 66.2 million, (30 June 2011 – RO 55.3 million and 31 December 2011 – RO 64.0 million).

**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT  
30 June 2012 (Unaudited)**

**6 NON TRADING FINANCIAL INVESTMENTS**

**Available for sale investments**

	<i>Carrying value 30/06/2012 RO'000</i>	<i>Cost 30/06/2012 RO'000</i>	<i>Carrying value 30/06/2011 RO'000</i>	<i>Cost 30/06/2011 RO'000</i>	<i>Carrying value 31/12/2011 RO'000</i>	<i>Cost 31/12/2011 RO'000</i>
<b>Quoted investments- Oman</b>						
Banking and investment sector	1,132	1,248	1,444	1,499	1,347	1,464
Industry sector	947	871	2,530	2,970	1,692	2,384
Service sector	8,235	9,654	9,265	10,836	6,884	8,004
Government Development Bonds	74,022	74,022	42,888	42,888	74,405	74,405
	<u>84,336</u>	<u>85,795</u>	<u>56,127</u>	<u>58,193</u>	<u>84,328</u>	<u>86,257</u>
<b>Quoted investments- Foreign</b>						
Government Development Bonds	3,638	3,813	1,599	1,612	3,649	3,830
	<u>3,638</u>	<u>3,813</u>	<u>1,599</u>	<u>1,612</u>	<u>3,649</u>	<u>3,830</u>
<b>Unquoted investments</b>						
Banking and investment sector	7,030	7,441	7,124	7,236	6,776	7,386
Service sector	282	282	93	93	269	269
	<u>7,312</u>	<u>7,723</u>	<u>7,217</u>	<u>7,329</u>	<u>7,045</u>	<u>7,655</u>
<b>Total available for sale</b>	<u><u>95,286</u></u>	<u><u>97,331</u></u>	<u><u>64,943</u></u>	<u><u>67,134</u></u>	<u><u>95,022</u></u>	<u><u>97,742</u></u>
<b>Total non-trading investments</b>	<u><u>95,286</u></u>	<u><u>97,331</u></u>	<u><u>64,943</u></u>	<u><u>67,134</u></u>	<u><u>95,022</u></u>	<u><u>97,742</u></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>
<b><u>30 June 2012</u></b>			
Government Development Bonds-Oman	<u>77.68</u>	<u>74,022</u>	<u>74,022</u>
<b><u>30 June 2011</u></b>			
Government Development Bonds-Oman	<u>66.04</u>	<u>42,888</u>	<u>42,888</u>
<b><u>31 December 2011</u></b>			
Government Development Bonds-Oman	<u>78.30</u>	<u>74,405</u>	<u>74,405</u>

**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT  
30 June 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>
<b>Reconciliation of carrying amount:</b>				
Balance at 1 January 2012, net of accumulated depreciation	13,009	6,508	988	20,505
Addition	6	347	1,261	1,614
Disposal	(1)	(4)	-	(5)
Transfer	439	141	(580)	-
Translation difference	(2)	-	-	(2)
Depreciation	(608)	(1,219)	-	(1,827)
<b>Balance at 30 June 2012, net of accumulated depreciation</b>	<b><u>12,843</u></b>	<b><u>5,773</u></b>	<b><u>1,669</u></b>	<b><u>20,285</u></b>
At cost / valuation	25,888	24,153	1,669	51,710
Accumulated depreciation	(13,045)	(18,380)	-	(31,425)
<b>Net carrying value at 30 June 2012</b>	<b><u>12,843</u></b>	<b><u>5,773</u></b>	<b><u>1,669</u></b>	<b><u>20,285</u></b>
Net carrying value at 30 June 2011	<u>13,675</u>	<u>5,395</u>	<u>2,868</u>	<u>21,938</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**  
**30 June 2012 (Unaudited)**

**8 OTHER ASSETS**

	<i>30/06/2012</i>	<i>30/06/2011</i>	<i>31/12/2011</i>
	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>
Interest receivable and others	<b>21,178</b>	28,710	23,027
Positive fair value of derivatives (note 22)	<b>10,416</b>	5,758	11,042
Customers' indebtedness for acceptances (note 10)	<b>38,406</b>	23,743	26,901
	<u><b>70,000</b></u>	<u>58,211</u>	<u>60,970</u>
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	<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>30/06/2012</i>	<i>30/06/2011</i>	<i>31/12/2011</i>
	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>
Current accounts	<b>435,865</b>	350,285	312,075
Savings accounts	<b>473,120</b>	347,670	376,876
Certificate of deposits	<b>36,300</b>	57,520	41,300
Term deposits	<b>882,510</b>	700,208	869,573
	<u><b>1,827,795</b></u>	<u>1,455,683</u>	<u>1,599,824</u>

**10 OTHER LIABILITIES**

	<i>30/06/2012</i>	<i>30/06/2011</i>	<i>31/12/2011</i>
	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>
Interest payable and other accruals	<b>28,653</b>	28,899	26,975
Negative fair value of derivatives (note 22)	<b>10,406</b>	5,760	11,056
Liabilities under acceptances (note 8)	<b>38,406</b>	23,743	26,901
	<u><b>77,465</b></u>	<u>58,402</u>	<u>64,932</u>

**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT  
30 June 2012 (Unaudited)**

**11 TAXATION**

	<i>30/06/2012</i> <i>RO'000</i>	<i>30/06/2011</i> <i>RO'000</i>	<i>31/12/2011</i> <i>RO'000</i>
<b>Statement of comprehensive income</b>			
Current period/year	<b>2,641</b>	2,735	4,942
Deferred tax adjustment	<b>446</b>	-	(446)
	<u><b>3,087</b></u>	<u>2,735</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 a reconciliation between incomes taxes calculated on accounting profits with income tax expense for the period:

	<i>30/06/2012</i> <i>RO'000</i>	<i>30/06/2011</i> <i>RO'000</i>	<i>31/12/2011</i> <i>RO'000</i>
Accounting profit	<b>23,011</b>	19,805	38,698
Tax applicable rate	<b>2,757</b>	2,373	4,644
Non-deductible expenses	<b>270</b>	167	525
Tax exempt revenues	<b>(274)</b>	(250)	(353)
Others	<b>334</b>	445	(320)
	<u><b>3,087</b></u>	<u>2,735</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 2011.

**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT**  
**30 June 2012 (Unaudited)**

**11 TAXATION (continued)**

	<i>30/06/2012</i>	<i>30/06/2011</i>	<i>31/12/2011</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>2,543</b>	2,735	4,942
<i>Prior period/year</i>			
Income tax and other taxes	<b>10</b>	572	298
	<u>2,553</u>	<u>3,307</u>	<u>5,240</u>
	<u><u>2,553</u></u>	<u><u>3,307</u></u>	<u><u>5,240</u></u>
<b>Recognised deferred tax assets and liabilities</b>			
	<i>30/06/2012</i>	<i>30/06/2011</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	<b>36</b>	16	36
	<u>36</u>	<u>16</u>	<u>482</u>
	<u><u>36</u></u>	<u><u>16</u></u>	<u><u>482</u></u>
<b>De-recognized deferred tax assets</b>			
	<i>30/06/2012</i>	<i>30/06/2011</i>	<i>31/12/2011</i>
	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>
Timing differences provisions	<b>(446)</b>	-	-
	<u>(446)</u>	<u>-</u>	<u>-</u>
	<u><u>(446)</u></u>	<u><u>-</u></u>	<u><u>-</u></u>

Deferred tax is calculated at 12% (2011 - 12%).

**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT  
30 June 2012 (Unaudited)**

**12 SUBORDINATED DEBT**

	<i>30/06/2012</i> <i>RO'000</i>	<i>30/06/2011</i> <i>RO'000</i>	<i>31/12/2011</i> <i>RO'000</i>
At 1 January	<b>54,700</b>	30,600	30,600
Received during the period/year	-	-	24,100
	<u><b>54,700</b></u>	<u>30,600</u>	<u>54,700</u>

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

**13 OTHER NON-DISTRIBUTABLE RESERVES**

	<i>Available for sale 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 2012	(328)	3,766	14,860	18,298
Net movement on available for sale investments	1,235	-	-	1,235
<b>At 30 June 2012</b>	<u><b>907</b></u>	<u><b>3,766</b></u>	<u><b>14,860</b></u>	<u><b>19,533</b></u>
At 30 June 2011	<u>(545)</u>	<u>3,766</u>	<u>8,740</u>	<u>11,961</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 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**

	<i>30/06/2012</i> <i>RO'000</i>	<i>30/06/2011</i> <i>RO'000</i>	<i>31/12/2011</i> <i>RO'000</i>
Guarantees	<b>416,417</b>	410,646	436,886
Documentary letters of credit	<b>80,774</b>	86,376	70,928
Undrawn commitment to lend	<b>175,095</b>	143,685	76,221
	<u><b>672,286</b></u>	<u>640,707</u>	<u>584,035</u>

Contingent liabilities include RO 0.1 million (30 June 2011 – RO 0.1 million and 31 December 2011 – RO 0.1 million) relating to non-performing loans.

**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT**  
**30 June 2012 (Unaudited)**

**15 INTEREST INCOME**

Interest bearing assets earned interest at an overall rate of 5.08% for the six months period ended 30 June 2012 (30 June 2011 – 5.56% and 31 December 2011– 5.31%).

**16 INTEREST EXPENSE**

For the six months period ended 30 June 2012, the average overall cost of funds was 1.96% (30 June 2011- 2.31% and 31 December 2011 – 2.13%).

**17 OTHER OPERATING INCOME**

	<i>6 months ended 30/06/2012 RO'000</i>	<i>6 months ended 30/06/2011 RO'000</i>
Net gains from foreign exchange dealings	1,707	1,509
Fees and commissions	5,029	5,495
Net income from sale of investments	236	457
Income from bonds	1,140	692
Dividend income	736	1,270
Service charges	8,432	7,718
Miscellaneous income	190	224
	<u>17,470</u>	<u>17,365</u>

**18 OTHER OPERATING EXPENSES**

	<i>6 months ended 30/06/2012 RO'000</i>	<i>6 months ended 30/06/2011 RO'000</i>
Establishment costs	2,368	2,573
Operating and administration expenses	5,625	4,436
	<u>7,993</u>	<u>7,009</u>

## NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT 30 June 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:

	30/06/2012			30/06/2011		
	<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	-	42,730	42,730	-	40,092	40,092
Customers' deposits	-	9,748	9,748	-	12,892	12,892
Due from banks	89	-	89	92	-	92
Due to banks	40	-	40	106	-	106
Subordinated debt	-	2,500	2,500	-	1,500	1,500
Letter of credit, guarantees and acceptance	1,581	3,416	4,997	-	7,315	7,315
Standby revolving credit facility	77,000	-	77,000	77,000	-	77,000
Risk indemnities received	-	5,333	5,333	-	-	-

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

	30/06/2012			30/06/2011		
	<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
Interest income	2	663	665	-	552	552
Commission income	-	12	12	-	10	10
Interest expense	182	163	345	92	303	395
Other expenses	125	530	655	100	313	413

Senior management compensation:

	30/06/2012 RO'000	30/06/2011 RO'000
Salaries and other short term benefits		
- Fixed	949	1,001
- Discretionary	480	235
	<u>1,429</u>	<u>1,236</u>

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**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT  
30 June 2012 (Unaudited)**

**20 SHAREHOLDERS**

As of 30 June 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)	<b>386,699</b>	<b>34.9</b>
Suhail Bahwan Group (Holdings) LLC	<b>163,370</b>	<b>14.7</b>

The bank had no preferred shareholders as of 30 June 2012 (30 June 2011 – nil and 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**  
**30 June 2012 (unaudited)**

**21 SEGMENT REPORTING (CONTINUED)**

Segment information is as follows:

<i>6 months ended</i> <i>30 June 2012</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	28,267	15,672	1,227	2,635	2,838	50,639
Net Profit	16,659	12,136	(507)	2,311	(10,675)	19,924
Total assets	884,931	990,208	17,627	96,319	504,370	2,493,455

<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
Net 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

**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT**  
**30 June 2012 (Unaudited)**

**22 DERIVATIVES**

<i>30 June 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	9,978	(9,978)	145,229	6,144	6,784	132,301
Forward foreign exchange purchase contracts	32	(100)	38,607	35,721	2,886	-
Forward foreign exchange sales contracts	107	(29)	38,607	35,728	2,879	-
Interest rate caps	-	-	22	22	-	-
Currency options	113	(113)	78,901	57,816	21,085	-
Commodity hedging	186	(186)	31,909	17,801	14,108	-
<b>Total</b>	<b>10,416</b>	<b>(10,406)</b>	<b>333,275</b>	<b>153,232</b>	<b>47,742</b>	<b>132,301</b>

<i>30 June 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	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>

**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT**  
**30 June 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>