

National Bank of Oman SAOG

INTERIM CONDENSED FINANCIAL STATEMENTS

30 September 2012 (UNAUDITED)



PO Box 751 PC 112 Ruwi Sultanate of Oman.

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

		30-09-2012	30-09-2011	<i>Audited</i> 31-12-2011
	<i>Notes</i>	RO'000	RO'000	RO'000
Assets				
Cash and balances with Central Banks	3	300,501	280,063	220,771
Due from banks and other money market placements (net)	4	153,299	75,498	160,544
Loans and advances to customers (net)	5	1,881,136	1,587,916	1,670,778
Non-trading financial investments	6	97,405	66,832	95,022
Premises and equipment	7	20,830	20,890	20,505
Deferred tax asset	11	420	25	482
Other assets	8	65,404	66,984	60,970
		<u> </u>	<u> </u>	<u> </u>
Total assets		2,518,995	2,098,208	2,229,072
		<u> </u>	<u> </u>	<u> </u>
Liabilities				
Due to banks and other money market deposits		180,667	172,632	223,149
Customers' deposits	9	1,909,097	1,547,827	1,599,824
Other liabilities	10	76,562	68,235	64,932
Taxation	11	4,276	4,589	5,240
		<u> </u>	<u> </u>	<u> </u>
Total liabilities		2,170,602	1,793,283	1,893,145
		<u> </u>	<u> </u>	<u> </u>
Subordinated debt				
Subordinated debt	12	54,700	30,600	54,700
		<u> </u>	<u> </u>	<u> </u>
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	19,217	12,222	18,298
Proposed cash dividend		-	-	18,918
Proposed stock dividend		-	-	2,703
Retained earnings		86,147	79,727	55,682
		<u> </u>	<u> </u>	<u> </u>
Total equity		293,693	274,325	281,227
		<u> </u>	<u> </u>	<u> </u>
Total liabilities, subordinated funds and equity		2,518,995	2,098,208	2,229,072
		<u> </u>	<u> </u>	<u> </u>

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

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

	Notes	<u>Nine months ended 30</u>		<u>Three months ended 30</u>	
		<u>September</u>		<u>September</u>	
		2012	2011	2012	2011
		RO'000	RO'000	RO'000	RO'000
Interest income	15	79,416	71,073	27,392	24,823
Interest expense	16	(29,448)	(26,457)	(10,593)	(8,500)
Net interest income		49,968	44,616	16,799	16,323
Other operating income	17	23,887	25,097	6,417	7,732
OPERATING INCOME		73,855	69,713	23,216	24,055
OPERATING EXPENSES					
Staff costs		(19,264)	(18,192)	(6,695)	(6,162)
Other operating expenses	18	(12,208)	(10,491)	(4,215)	(3,482)
Depreciation	7	(2,766)	(3,124)	(939)	(1,205)
		(34,238)	(31,807)	(11,849)	(10,849)
PROFIT FROM OPERATIONS BEFORE IMPAIRMENT LOSSES AND TAX		39,617	37,906	11,367	13,206
Credit loss expense – customers' loan	5	(13,470)	(13,865)	(3,543)	(2,062)
Recoveries and releases from provisio for credit losses	5	3,063	6,314	485	973
Recoveries from loans and advances written off		7,504	3,126	3,872	1,027
Impairment losses on available for sale investments		(1,640)	(1,935)	(191)	(1,403)
Provision – others		(73)	(259)	-	(259)
TOTAL IMPAIRMENT LOSSES (NET)		(4,616)	(6,619)	623	(1,724)
PROFIT BEFORE TAX		35,001	31,287	11,990	11,482
Taxation	11	(4,536)	(4,031)	(1,449)	(1,296)
PROFIT FOR THE PERIOD		30,465	27,256	10,541	10,186
OTHER COMPREHENSIVE INCOME					
Net movement on available for sale investments		916	(2,544)	(319)	252
Tax effect of net results on available for sale financial investments		3	18	3	9
OTHER COMPREHENSIVE INCOME / (EXPENSE) FOR THE PERIOD		919	(2,526)	(316)	261
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		31,384	24,730	10,225	10,447
Earnings per share annualized:		0.037	0.033	0.038	0.037

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

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

	Notes	Nine months ended 30 September	
		2012 RO'000	2011 RO'000
Operating activities			
Profit before taxation		35,001	31,287
Adjustments for:			
Depreciation	7	2,766	3,124
Provision for credit losses (net)		10,630	(3,096)
Impairment losses on available for investments		1,640	1,935
Profit on sale of equipment (net)		(55)	(256)
Profit on sale of investments		(372)	(460)
Investment income		(2,555)	(2,398)
Operating profit before changes in operating assets and liabilities		<u>47,055</u>	<u>30,136</u>
Increase in due from and other money market deposits		(4,607)	(6,664)
Increase in due to and other money market placements		27,720	-
Increase in loans and advances to customers		(220,988)	(221,458)
Increase in other assets		(4,434)	(22,629)
Increase in customer deposits		309,273	222,937
Increase in other liabilities		11,630	21,151
Cash from operations		<u>165,649</u>	<u>23,473</u>
Tax paid		(5,430)	(3,592)
Net cash from operating activities		<u>160,219</u>	<u>19,881</u>
Investing activities			
Purchase of investments		(7,491)	(12,831)
Proceeds from sale of investments		4,719	5,066
Purchase of premises and equipment	7	(3,127)	(1,849)
Disposal of premises and equipment		88	432
Translation difference in premises & equipment & Tax		36	34
Interest on Govt Development Bond and T-Bills		1,709	1,090
Dividend income	17	846	1,308
Net cash from (used in) investing activities		<u>(3,220)</u>	<u>(6,750)</u>
Financing activities			
Payment of dividend		(18,918)	(16,215)
Net cash used in financing activities		<u>(18,918)</u>	<u>(16,215)</u>
Increase / (Decrease) in cash and cash equivalents		<u>138,081</u>	<u>(3,084)</u>
Cash and cash equivalents at the beginning of the period		274,922	288,847
Cash and cash equivalents at the end of the period		<u>413,003</u>	<u>285,763</u>
Representing:			
Cash and balances with Central Bank	3	300,001	279,563
Deposits and balances with other banks and financial institutions (net)		113,002	6,200
		<u>413,003</u>	<u>285,763</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 September 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	-	-	-	-	(2,526)	-	-	27,256	24,730
Dividend paid during the period	-	-	-	-	-	(16,215)	-	-	(16,215)
Balance at 30 September 2011	108,100	34,465	35,392	4,419	12,222	-	-	79,727	274,325
Balance at 1 October 2011	108,100	34,465	35,392	4,419	12,222	-	-	79,727	274,325
Total comprehensive income for the period	-	-	-	-	(44)	-	-	6,946	6,902
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	-	-	-	-	919	-	-	30,465	31,384
Dividend paid during the period	-	-	-	-	-	(18,918)	-	-	(18,918)
Issue of Shares	2,703	-	-	-	-	-	(2,703)	-	-
Balance at 30 September 2012	110,803	34,465	38,642	4,419	19,217	-	-	86,147	293,693

*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 September 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 1,385 employees as of 30 September 2012 (30 September 2011 – 1,330 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 nine months ended 30 September 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 thousands, 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 September 2012 (Unaudited)

3 CASH AND BALANCES WITH CENTRAL BANKS

	<i>30/09/2012</i>	<i>30/09/2011</i>	<i>31/12/2011</i>
	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>
Cash	30,275	26,496	25,785
Treasury bills with Central Banks	4,787	7,422	5,744
Certificate of deposit with Central Banks	150,000	180,000	90,000
Other balances with Central Banks	114,939	65,645	98,742
	<hr/>	<hr/>	<hr/>
Cash and cash equivalents	300,001	279,563	220,271
Capital deposit with Central Bank of Oman	500	500	500
	<hr/>	<hr/>	<hr/>
Cash and balances with Central Banks	300,501	280,063	220,771
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

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>30/09/2012</i>	<i>30/09/2011</i>	<i>31/12/2011</i>
	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>
Loans and advances to banks	36,945	21,596	22,968
Placement with banks	102,775	46,681	127,149
Demand balances	20,169	13,811	17,017
	<hr/>	<hr/>	<hr/>
Due from banks and other money market placement	159,889	82,088	167,134
Less: allowance for credit losses (refer note below)	(6,522)	(6,522)	(6,522)
Less: reserved interest	(68)	(68)	(68)
	<hr/>	<hr/>	<hr/>
Net due from banks and other money market placement	153,299	75,498	160,544
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

As at 30 September 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 September 2012 (Unaudited)

5 LOANS AND ADVANCES TO CUSTOMERS (NET)

	30/09/2012	30/09/2011	31/12/2011
	RO'000	RO'000	RO'000
Corporate loans	971,774	876,418	910,365
Personal loans	937,689	731,750	780,272
Overdrafts	45,213	45,659	43,051
	<hr/>	<hr/>	<hr/>
Gross loans and advances	1,954,676	1,653,827	1,733,688
Less: Allowance for credit losses and reserved interest	(73,540)	(65,911)	(62,910)
	<hr/>	<hr/>	<hr/>
Net loans and advances	1,881,136	1,587,916	1,670,778
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

Gross loans and advances include RO 39.5 million due from related parties at 30 September 2012 (30 September 2011 – RO 38.0 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:

Allowance for credit losses	9 months	9 months	12 months
	ended	ended	ended
	30/09/2012	30/09/2011	31/12/2011
	RO'000	RO'000	RO'000
Balance at beginning of period / year	49,457	57,464	57,464
Provided during the period / year	13,470	13,865	18,932
Recovered/ released during the period / year	(2,773)	(5,967)	(7,077)
Written off during the period / year	(3,232)	(12,038)	(15,231)
Transfer during the period / year	-	-	(4,395)
Translation difference	(27)	(181)	(236)
	<hr/>	<hr/>	<hr/>
Balance at end of period / year	56,895	53,143	49,457
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
Reserved interest	9 months	9 months	12 months
	ended	ended	ended
	30/09/2012	30/09/2011	31/12/2011
	RO'000	RO'000	RO'000
Balance at beginning of period / year	13,453	11,543	11,543
Reserved during the period / year	3,969	2,348	3,446
Recovered/ released during the period / year	(290)	(347)	(448)
Recovered/released during the period to interest income	(165)	(116)	(154)
Written off during the period / year	(321)	(656)	(929)
Translation difference	(1)	(4)	(5)
	<hr/>	<hr/>	<hr/>
Balance at end of period / year	16,645	12,768	13,453
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

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 September 2012 loans and advances on which interest is not being accrued or where interest has been reserved amounted to RO 69.4 million, (30 September 2011 – RO 56.2 million and 31 December 2011 – RO 64.0 million).

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

6 NON TRADING FINANCIAL INVESTMENTS

Available for sale investments

	<i>Carrying value 30/09/2012 RO'000</i>	<i>Cost 30/09/2012 RO'000</i>	<i>Carrying value 30/09/2011 RO'000</i>	<i>Cost 30/09/2011 RO'000</i>	<i>Carrying value 31/12/2011 RO'000</i>	<i>Cost 31/12/2011 RO'000</i>
Quoted investments- Oman						
Banking and investment sector	972	1,101	1,360	1,464	1,347	1,464
Industry sector	915	822	2,257	2,970	1,692	2,384
Service sector	7,470	8,284	9,517	11,433	6,884	8,004
Government Development Bonds	73,825	73,825	42,780	42,780	74,405	74,405
	<u>83,182</u>	<u>84,032</u>	<u>55,914</u>	<u>58,647</u>	<u>84,328</u>	<u>86,257</u>
Quoted investments- Foreign						
Government Development Bonds	3,639	3,791	3,778	3,872	3,649	3,830
	<u>3,639</u>	<u>3,791</u>	<u>3,778</u>	<u>3,872</u>	<u>3,649</u>	<u>3,830</u>
Unquoted investments						
Banking and investment sector	6,819	7,386	6,871	7,386	6,776	7,386
Industry sector	3,483	3,483	-	-	-	-
Service sector	282	282	269	269	269	269
	<u>10,584</u>	<u>11,151</u>	<u>7,140</u>	<u>7,655</u>	<u>7,045</u>	<u>7,655</u>
Total available for sale	<u><u>97,405</u></u>	<u><u>98,974</u></u>	<u><u>66,832</u></u>	<u><u>70,174</u></u>	<u><u>95,022</u></u>	<u><u>97,742</u></u>
Total non-trading investments	<u><u>97,405</u></u>	<u><u>98,974</u></u>	<u><u>66,832</u></u>	<u><u>70,174</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>
<u>30 September 2012</u>			
Government Development Bonds-Oman	<u>75.79</u>	<u>73,825</u>	<u>73,825</u>
<u>30 September 2011</u>			
Government Development Bonds-Oman	<u>64.01</u>	<u>42,780</u>	<u>42,780</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
30 September 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	40	570	2,517	3,127
Disposal	(1)	(13)	(19)	(33)
Transfer	773	171	(944)	-
Translation difference	(3)	-	-	(3)
Depreciation	(947)	(1,819)	-	(2,766)
Balance at 30 September 2012, net of accumulated depreciation	12,871	5,417	2,542	20,830
At cost / valuation	26,252	24,206	2,542	53,000
Accumulated depreciation	(13,381)	(18,789)	-	(32,170)
Net carrying value at 30 September 2012	12,871	5,417	2,542	20,830
Net carrying value at 30 September 2011	13,430	6,650	810	20,890
Net carrying value at 31 December 2011	13,009	6,508	988	20,505

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

8 OTHER ASSETS

	30/09/2012	30/09/2011	31/12/2011
	RO'000	RO'000	RO'000
Interest receivable and others	21,984	28,012	23,027
Positive fair value of derivatives (note 22)	10,500	13,038	11,042
Customers' indebtedness for acceptances (note 10)	32,920	25,934	26,901
	65,404	66,984	60,970
Amount receivable from BCCI	1,994	3,458	3,458
Less provision for amount receivable from BCCI	(1,994)	(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.

During the year RO 1.5 million was received from (BCCI overseas) towards the final dividend. The provision has accordingly been released to that extent.

9 CUSTOMERS' DEPOSITS

	30/09/2012	30/09/2011	31/12/2011
	RO'000	RO'000	RO'000
Current accounts	463,282	416,734	312,075
Savings accounts	472,089	342,224	376,876
Certificate of deposits	6,300	41,300	41,300
Term deposits	967,426	747,569	869,573
	1,909,097	1,547,827	1,599,824

10 OTHER LIABILITIES

	30/09/2012	30/09/2011	31/12/2011
	RO'000	RO'000	RO'000
Interest payable and other accruals	33,154	29,243	26,975
Negative fair value of derivatives (note 22)	10,488	13,058	11,056
Liabilities under acceptances (note 8)	32,920	25,934	26,901
	76,562	68,235	64,932

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

11 TAXATION

	30/09/2012	30/09/2011	31/12/2011
	RO'000	RO'000	RO'000
Statement of comprehensive income			
Current period/year	4,471	4,031	4,942
Deferred tax adjustment	65	-	(446)
	4,536	4,031	4,496

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:

	30/09/2012	30/09/2011	31/12/2011
	RO'000	RO'000	RO'000
Accounting profit	35,001	31,287	38,698
Tax applicable rate	4,196	3,754	4,644
Non-deductible expenses	317	386	525
Tax exempt revenues	(313)	(272)	(353)
Others	336	163	(320)
	4,536	4,031	4,496

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 September 2012 (Unaudited)

11 TAXATION (CONTINUED)

	30/09/2012	30/09/2011	31/12/2011
	RO'000	RO'000	RO'000
Tax liability			
<i>Current period/year</i>			
Income tax and other taxes	4,536	4,031	4,942
<i>Prior period/year</i>			
Income tax and other taxes	(260)	558	298
	<u>4,276</u>	<u>4,589</u>	<u>5,240</u>
	<u><u>4,276</u></u>	<u><u>4,589</u></u>	<u><u>5,240</u></u>
Recognised deferred tax assets and liabilities			
	30/09/2012	30/09/2011	31/12/2011
	RO'000	RO'000	RO'000
Deferred tax assets and liabilities are attributable to the following:			
Timing differences provisions	381	-	446
Available for sale investments	39	25	36
	<u>420</u>	<u>25</u>	<u>482</u>
	<u><u>420</u></u>	<u><u>25</u></u>	<u><u>482</u></u>
De-recognized deferred tax assets			
	30/09/2012	30/09/2011	31/12/2011
	RO'000	RO'000	RO'000
Timing differences provisions	65	-	-
	<u>65</u>	<u>-</u>	<u>-</u>
	<u><u>65</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
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12 SUBORDINATED DEBT

	<i>30/09/2012</i> <i>RO'000</i>	<i>30/09/2011</i> <i>RO'000</i>	<i>31/12/2011</i> <i>RO'000</i>
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 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	916	-	-	916
Tax effect of net results on available for sale financial investments	3	-	-	3
At 30 September 2012	591	3,766	14,860	19,217
At 30 September 2011	(284)	3,766	8,740	12,222

- (i) The revaluation reserve represents the surplus on revaluation of building and is not available for distribution until the related assets have been disposed of 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>30/09/2012</i> <i>RO'000</i>	<i>30/09/2011</i> <i>RO' 000</i>	<i>31/12/2011</i> <i>RO'000</i>
Guarantees	421,658	461,618	436,886
Documentary letters of credit	72,596	79,356	70,928
Undrawn commitment to lend	180,832	100,131	76,221
	675,086	641,105	584,035

Contingent liabilities include RO 0.04 million (30 September 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
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15 INTEREST INCOME

Interest bearing assets earned interest at an overall rate of 5.09% for the nine months period ended 30 September 2012 (30 September 2011 – 5.53% and 31 December 2011– 5.31%).

16 INTEREST EXPENSE

For the nine months period ended 30 September 2012, the average overall cost of funds was 1.98% (30 September 2011- 2.20% and 31 December 2011 – 2.13%).

17 OTHER OPERATING INCOME

	<i>9 months ended 30/09/2012 RO'000</i>	<i>9 months ended 30/09/2011 RO'000</i>
Net gains from foreign exchange dealings	2,497	2,347
Fees and commissions	7,471	8,356
Net income from sale of investments	372	460
Income from bonds	1,709	1,090
Dividend income	846	1,308
Service charges	10,749	10,989
Miscellaneous income	243	547
	<u>23,887</u>	<u>25,097</u>

18 OTHER OPERATING EXPENSES

	<i>9 months ended 30/09/2012 RO'000</i>	<i>9 months ended 30/09/2011 RO'000</i>
Establishment costs	3,470	3,600
Operating and administration expenses	8,738	6,891
	<u>12,208</u>	<u>10,491</u>

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT
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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:

	30/09/2012			30/09/2011		
	<i>Principal shareholder</i>	<i>Others</i>	<i>Total</i>	<i>Principal shareholder</i>	<i>Others</i>	<i>Total</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>
Loans and advances	-	39,521	39,521	-	37,977	37,977
Customers' deposits	-	10,587	10,587	-	7,764	7,764
Due from banks	13,551	-	13,551	5,798	-	5,798
Due to banks	89	-	89	81	-	81
Subordinated debt	-	2,500	2,500	-	1,500	1,500
Letter of credit, guarantees and acceptance	2,031	3,910	5,941	-	7,109	7,109
Standby revolving credit facility	77,000	-	77,000	77,000	-	77,000
Risk indemnities received	669	4,667	5,336	-	-	-

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

	30/09/2012			30/09/2011		
	<i>Principal shareholder</i>	<i>Others</i>	<i>Total</i>	<i>Principal shareholder</i>	<i>Others</i>	<i>Total</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>
Interest income	10	1,032	1,042	8	942	950
Commission income	-	19	19	-	14	14
Interest expense	266	260	526	147	326	473
Other expenses	125	655	780	100	474	574

Senior management compensation:

	9 months ended	9 months ended
	30/09/2012	30/09/2011
	RO'000	RO'000
Salaries and other short term benefits		
- Fixed	1,441	1,457
- Discretionary	543	320
	1,984	1,777

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

20 SHAREHOLDERS

As of 30 September 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 30 September 2012 (30 September 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 September 2012 (unaudited)

21 SEGMENT REPORTING (Continued)

Segment information is as follows:

<i>9 months ended</i> <i>30 September 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	40,995	23,617	1,573	3,696	3,974	73,855
Net Profit	24,107	18,789	(450)	3,205	(15,186)	30,465
Total assets	910,479	983,563	19,940	75,009	530,004	2,518,995
<i>9 months ended</i> <i>30 September 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	35,040	26,798	1,996	3,374	2,505	69,713
Net Profit	19,764	21,792	(534)	2,798	(16,564)	27,256
Total assets	706,412	898,527	20,274	16,834	456,161	2,098,208

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

22 DERIVATIVES

<i>30 September 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	9,988	(9,988)	139,489	1,617	10,046	127,826
Forward foreign exchange purchase contracts	96	(17)	30,689	19,546	10,614	529
Forward foreign exchange sales contracts	18	(85)	30,689	19,555	10,606	528
Currency options	22	(22)	41,503	30,106	11,397	-
Commodity hedging	376	(376)	48,786	25,728	23,058	-
Total	10,500	(10,488)	291,156	96,552	65,721	128,883

<i>30 September 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	9,100	(9,100)	153,289	1,617	12,480	139,192
Credit default swaps	-	(54)	5,775	-	5,775	-
Forward foreign exchange purchase contracts	90	(102)	54,971	41,998	12,973	-
Forward foreign exchange sales contracts	102	(56)	54,971	42,001	12,970	-
Interest rate caps	-	-	203	80	123	-
Currency options	878	(878)	85,485	72,103	13,382	-
Commodity hedging	2,868	(2,868)	32,335	21,124	11,211	-
Total	13,038	(13,058)	387,029	178,923	68,914	139,192

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT

30 September 2012 (Unaudited)

22 DERIVATIVES (continued)

31 December 2011	Positive fair value (Note 8) RO'000	Negative fair value (Note 10) RO'000	Notional amount total RO'000	Notional amounts by term to maturity		
				Within 3 months RO'000	3 – 12 months RO'000	Above 1 year RO'000
<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>