

National Bank of Oman SAOG

INTERIM CONDENSED FINANCIAL STATEMENTS

30 June 2013 (UNAUDITED)



PO Box 751 PC 112 Ruwi Sultanate of Oman.

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INTERIM CONDENSED STATEMENT OF FINANCIAL POSITION
30 June 2013 (Un-audited)

		30-06-2013	<i>30-06-2012</i>	<i>Audited</i> 31-12-2012
	<i>Notes</i>	RO'000	<i>RO'000</i>	<i>RO'000</i>
Assets				
Cash and balances with Central Banks	3	321,529	228,533	215,738
Due from banks and other money market placements (net)	4	165,272	218,213	217,261
Loans, advances and financing activities for customers (net)	5	2,075,229	1,861,102	1,911,562
Non-trading financial investments	6	124,334	95,286	110,722
Premises and equipment	7	19,999	20,285	20,498
Deferred tax asset	11	381	36	409
Other assets	8	64,311	70,000	61,628
		<u> </u>	<u> </u>	<u> </u>
Total assets		2,771,055	2,493,455	2,537,818
		<u> </u>	<u> </u>	<u> </u>
Liabilities				
Due to banks and other money market deposits		210,606	247,474	210,447
Customers' deposits and unrestricted investment accounts	9	2,087,035	1,827,795	1,886,754
Other liabilities	10	85,641	77,465	68,778
Taxation	11	2,459	2,553	5,687
		<u> </u>	<u> </u>	<u> </u>
Total liabilities		2,385,741	2,155,287	2,171,666
		<u> </u>	<u> </u>	<u> </u>
Subordinated debt				
Subordinated debt	12	79,700	54,700	61,700
		<u> </u>	<u> </u>	<u> </u>
Equity				
Share capital		110,803	110,803	110,803
Share premium		34,465	34,465	34,465
Legal reserve		39,586	38,642	39,586
General reserve		4,419	4,419	4,419
Other non-distributable reserves	13	32,500	19,533	30,719
Proposed cash dividend		-	-	19,391
Retained earnings		83,841	75,606	65,069
		<u> </u>	<u> </u>	<u> </u>
Total equity		305,614	283,468	304,452
		<u> </u>	<u> </u>	<u> </u>
Total liabilities, subordinated funds and equity		2,771,055	2,493,455	2,537,818
		<u> </u>	<u> </u>	<u> </u>

The interim condensed financial statements were authorised for issue on 17th July 2013 in accordance with a resolution of the Board of Directors.

.....
Deputy Chairman

.....
Chief Executive Officer

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

INTERIM CONDENSED STATEMENT OF COMPREHENSIVE INCOME
30 June 2013 (Un-audited)

	Notes	<u>Six months ended 30 June</u>		<u>Three months ended 30 June</u>	
		2013 RO'000	2012 RO'000	2013 RO'000	2012 RO'000
Interest income	15	57,237	52,024	29,518	26,606
Interest expense	16	(21,073)	(18,855)	(10,754)	(9,618)
Net interest income		36,164	33,169	18,764	16,988
Income from Islamic financing and Investment activities		51	-	46	-
Unrestricted investment account holders' share of profit		(16)	-	(15)	-
Net Income from Islamic financing and Investment activities		35	-	31	-
Other operating income	17	14,403	17,470	7,392	8,906
OPERATING INCOME		50,602	50,639	26,187	25,894
OPERATING EXPENSES					
Staff costs		(13,573)	(12,569)	(6,731)	(6,528)
Other operating expenses	18	(8,078)	(7,993)	(4,197)	(4,022)
Depreciation	7	(1,737)	(1,827)	(864)	(885)
		(23,388)	(22,389)	(11,792)	(11,435)
PROFIT FROM OPERATIONS BEFORE IMPAIRMENT LOSSES AND TAX		27,214	28,250	14,395	14,459
Credit loss expense – customer's loan	5	(10,030)	(9,927)	(5,634)	(6,296)
Recoveries and releases from provision for credit losses	5	685	2,578	538	2,258
Recoveries from loans and advances written off		3,804	3,632	1,986	1,862
Write-back / Impairment losses on available for sale investments		29	(1,449)	8	(466)
Write-back / Credit loss expense - bank loans		(371)	-	268	-
Provision – others		-	(73)	-	-
TOTAL IMPAIRMENT LOSSES (NET)		(5,883)	(5,239)	(2,834)	(2,642)
PROFIT BEFORE TAX		21,331	23,011	11,561	11,817
Taxation	11	(2,559)	(3,087)	(1,375)	(1,516)
PROFIT FOR THE PERIOD		18,772	19,924	10,186	10,301
OTHER COMPREHENSIVE INCOME					
Net movement on available for sale investments		1,809	1,235	949	266
Tax effect of net results on available for sale financial investments		(28)	-	-	-
OTHER COMPREHENSIVE INCOME FOR THE PERIOD		1,781	1,235	949	266
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		20,553	21,159	11,135	10,567
Earnings per share annualized:					
Basic and diluted, profit for the year attributable to equity holders		0.034	0.036	0.037	0.037

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

INTERIM CONDENSED STATEMENT OF CASH FLOWS
30 June 2013 (Un-audited)

	Notes	Six months ended 30 June	
		2013 RO'000	2012 RO'000
Profit before taxation		21,331	23,011
Adjustments for:			
Depreciation	7	1,737	1,827
Provision for credit losses (net)		8,075	6,997
Write-back / Impairment losses on available for sale investments		(29)	1,449
Profit on sale of equipment (net)		(1)	(30)
Profit on sale of investments		(522)	(236)
Investment income		(1,841)	(1,876)
Operating profit before changes in operating assets and liabilities		28,750	31,142
Increase in due from and other money market deposits		(6,301)	(8,112)
Increase in due to and other money market placements		32,725	(68,530)
Increase in loans and advances to customers		(171,371)	(197,321)
Increase in other assets		(2,683)	(9,030)
Increase in customer deposits		200,281	227,971
Increase in other liabilities		16,863	12,533
Cash from / (used in) operations		98,264	(11,347)
Tax paid		(5,739)	(5,326)
Net cash from / (used in) operating activities		92,525	(16,673)
Investing activities			
Purchase of investments		(14,004)	(2,329)
Proceeds from sale of investments		2,411	2,070
Purchase of premises and equipment	7	(1,304)	(1,614)
Disposal of premises and equipment		33	35
Translation difference in premises & equipment & Tax		327	18
Interest on Govt Development Bond and T-Bills		1,312	1,140
Dividend income	17	529	736
Net cash (used in) / from investing activities		(10,696)	56
Financing activities			
Payment of dividend		(19,391)	(18,918)
Proceeds from Subordinated debt		18,000	-
Net cash used in financing activities		(1,391)	(18,918)
Increase / (Decrease) in cash and cash equivalents		80,438	(35,535)
Cash and cash equivalents at the beginning of the period		279,178	274,922
Cash and cash equivalents at the end of the period		359,616	239,387
Representing:			
Cash and balances with Central Bank	3	321,029	228,033
Deposits and balances with other banks and financial institutions (net)		38,587	11,354
		359,616	239,387

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

INTERIM CONDENSED STATEMENT OF CHANGES IN EQUITY
Period ended 30 June 2013 (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 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	-	-	-	-	1,235	-	-	19,924	21,159
Dividend paid during the period	-	-	-	-	-	(18,918)	-	-	(18,918)
Issue of Shares	2,703	-	-	-	-	-	(2,703)	-	-
Balance at 30 June 2012	110,803	34,465	38,642	4,419	19,533	-	-	75,606	283,468
Balance at 1 July 2012	110,803	34,465	38,642	4,419	19,533	-	-	75,606	283,468
Total comprehensive income for the period	-	-	-	-	246	-	-	20,738	20,984
Transfer to subordinated funds reserve	-	-	-	-	10,940	-	-	(10,940)	-
Transfer to legal reserve	-	-	944	-	-	-	-	(944)	-
Transfer to proposed cash dividend	-	-	-	-	-	19,391	-	(19,391)	-
Balance at 31 December 2012	110,803	34,465	39,586	4,419	30,719	19,391	-	65,069	304,452
Balance at 1 January 2013	110,803	34,465	39,586	4,419	30,719	19,391	-	65,069	304,452
Total comprehensive income for the period	-	-	-	-	1,781	-	-	18,772	20,553
Dividend paid during the period	-	-	-	-	-	(19,391)	-	-	(19,391)
Balance at 30 June 2013	110,803	34,465	39,586	4,419	32,500	-	-	83,841	305,614

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

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

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT 30 June 2013 (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, wholesale banking, investment banking services and Islamic banking within the Sultanate of Oman with overseas branches in the United Arab Emirates and Egypt. The bank operates in Oman under a banking license 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 1,331 employees as of 30 June 2013 (30 June 2012 – 1,368 employees and 31 December 2012 – 1,352)

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 2012. The bank has adopted IFRS 13 w.e.f 1.1.13. Minimum disclosure relating to fair value is accordingly given in note no 22 of the condensed interim financial statements.

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 2013 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2013.

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 revaluation of freehold land and buildings, measurement of derivative financial instruments and fair valuation of investments either through profit and loss account in case of trading portfolio or through other comprehensive income in case of available for sale portfolio.

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT
30 June 2013 (Unaudited)

3 CASH AND BALANCES WITH CENTRAL BANKS

	<i>30/06/2013</i>	<i>30/06/2012</i>	<i>31/12/2012</i>
	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>
Cash	33,909	28,577	31,175
Treasury bills with Central Banks	1,582	26,322	3,555
Certificate of deposit with Central Banks	130,000	50,000	25,000
Other balances with Central Banks	155,538	123,134	155,508
Cash and cash equivalents	321,029	228,033	215,238
Capital deposit with Central Bank of Oman	500	500	500
Cash and balances with Central Banks	321,529	228,533	215,738

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>30/06/2013</i>	<i>30/06/2012</i>	<i>31/12/2012</i>
	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>
Loans and advances to banks	43,565	30,466	81,865
Placement with banks	112,637	160,594	113,853
Demand balances	16,031	33,743	28,133
Due from banks and other money market placement	172,233	224,803	223,851
Less: allowance for credit losses (refer note below)	(6,893)	(6,522)	(6,522)
Less: reserved interest	(68)	(68)	(68)
Net due from banks and other money market placement	165,272	218,213	217,261

As at 30 June 2013, the allowances for credit losses include 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. In addition to this, the bank holds collective provisions on the loans and advances to banks.

30 June 2013 (Unaudited)

5 LOANS, ADVANCES AND FINANCING ACTIVITIES FOR CUSTOMERS (NET)

	30/06/2013	30/06/2012	31/12/2012
	RO'000	RO'000	RO'000
Corporate loans	1,084,389	972,861	983,194
Personal loans	1,012,067	911,040	963,568
Overdrafts	53,240	47,108	39,630
Islamic financing activities	8,067	-	-
Gross loans and advances	2,157,763	1,931,009	1,986,392
Less: Allowance for credit losses and reserved interest	(82,534)	(69,907)	(74,830)
Net loans and advances	2,075,229	1,861,102	1,911,562

Gross loans and advances include RO 48.4 million due from related parties at 30 June 2013 (30 June 2012 – RO 42.7 million, 31 December 2012 – RO 53.7 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	6 months	6 months	12 months
	ended	ended	ended
	30/06/2013	30/06/2012	31/12/2012
	RO'000	RO'000	RO'000
Balance at beginning of period / year	58,001	49,457	49,457
Provided during the period / year	10,030	9,927	16,941
Recovered/ released during the period / year	(568)	(2,471)	(3,139)
Written off during the period / year	(3,233)	(2,432)	(5,169)
Translation difference	(190)	(23)	(89)
Balance at end of period / year	64,040	54,458	58,001

Reserved interest	6 months	6 months	12 months
	ended	ended	ended
	30/06/2013	30/06/2012	31/12/2012
	RO'000	RO'000	RO'000
Balance at beginning of period / year	16,829	13,453	13,453
Reserved during the period / year	2,972	2,458	5,466
Recovered/ released during the period / year	(117)	(107)	(341)
Recovered/released during the period to interest income	(77)	(94)	(195)
Written off during the period / year	(1,103)	(261)	(1,548)
Translation difference	(10)	-	(6)
Balance at end of period / year	18,494	15,449	16,829

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 2013 loans and advances on which interest is not being accrued or where interest has been reserved amounted to RO 79.0 million, (30 June 2012 – RO 66.2 million and 31 December 2012 – RO 79.0 million).

30 June 2013 (Unaudited)

6 TRADING FINANCIAL INVESTMENTS

	<i>Carrying value 30/06/2013 RO'000</i>	<i>Carrying value 30/06/2012 RO'000</i>	<i>Carrying value 31/12/2012 RO'000</i>
A. Held for trading			
Quoted investments- Oman			
Government Development Bonds	10,838	-	-
Total held for trading	10,838	-	-
B. Available for sale investments			
Quoted investments- Oman			
Banking and investment sector	612	1,132	741
Industry sector	1,623	947	1,162
Service sector	8,585	8,235	8,365
Government Development Bonds	85,726	74,022	86,170
	96,546	84,336	96,438
Quoted investments- Foreign			
Banking and investment sector	359	-	-
Government Development Bonds	3,272	3,638	3,593
	3,631	3,638	3,593
Unquoted investments			
Banking and investment sector	7,834	7,030	6,920
Industry sector	3,483	-	3,483
Service sector	213	282	288
	11,530	7,312	10,691
Total available for sale	111,707	95,286	110,722
C. Held to maturity			
Quoted investments- Overseas			
Industry sector	1,789	-	-
Total Held to maturity	1,789	-	-
TOTAL FINANCIAL INVESTMENTS	124,334	95,286	110,722

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>
<u>30 June 2013</u>		
Government Development Bonds-Oman	76.7	85,726
<u>30 June 2012</u>		
Government Development Bonds-Oman	77.7	74,022
<u>31 December 2012</u>		
Government Development Bonds-Oman	77.8	86,170

30 June 2013 (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 2013, net of accumulated depreciation	12,696	5,443	2,359	20,498
Addition	62	372	870	1,304
Disposal	-	(32)	-	(32)
Transfer	532	849	(1,381)	-
Translation difference	(32)	(2)	-	(34)
Depreciation	(517)	(1,220)	-	(1,737)
Balance at 30 June 2013, net of	12,741	5,410	1,848	19,999
At cost / valuation	26,093	25,520	1,848	53,461
Accumulated depreciation	(13,352)	(20,110)	-	(33,462)
Net carrying value at 30 June 13	12,741	5,410	1,848	19,999
Net carrying value at 30 June 2012	12,843	5,773	1,669	20,285
Net carrying value at 31 December 2012	12,696	5,443	2,359	20,498

8 OTHER ASSETS

	<i>30/06/2013 RO'000</i>	<i>30/06/2012 RO'000</i>	<i>31/12/2012 RO'000</i>
Interest receivable and others	23,812	21,178	22,710
Positive fair value of derivatives (note 23)	8,196	10,416	11,070
Customers' indebtedness for acceptances (note 10)	32,303	38,406	27,848
	64,311	70,000	61,628

9 CUSTOMERS' DEPOSITS AND UNRESTRICTED INVESTMENT ACCOUNTS

	<i>30/06/2013 RO'000</i>	<i>30/06/2012 RO'000</i>	<i>31/12/2012 RO'000</i>
Current accounts	531,378	435,865	385,964
Savings accounts	528,983	473,120	482,944
Certificate of deposits	5,000	36,300	5,000
Term deposits	1,007,899	882,510	1,012,846
Islamic deposits	13,775	-	-
	2,087,035	1,827,795	1,886,754

30 June 2013 (Unaudited)

10 OTHER LIABILITIES

	30/06/2013	30/06/2012	31/12/2012
	RO'000	RO'000	RO'000
Interest payable and other accruals	45,247	28,653	29,763
Negative fair value of derivatives (note 23)	8,091	10,406	11,167
Liabilities under acceptances (note 8)	32,303	38,406	27,848
	85,641	77,465	68,778

11 TAXATION

	30/06/2013	30/06/2012	31/12/2012
	RO'000	RO'000	RO'000
Statement of comprehensive income			
Current period/year	2,559	2,641	5,953
Deferred tax adjustment	-	446	65
	2,559	3,087	6,018

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:

	30/06/2013	30/06/2012	31/12/2012
	RO'000	RO'000	RO'000
Accounting profit	21,331	23,011	46,680
Tax applicable rate	2,560	2,757	5,598
Non-deductible expenses	67	270	294
Tax exempt revenues	(192)	(274)	(330)
Others	124	334	456
	2,559	3,087	6,018

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 2012.

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT
30 June 2013 (Unaudited)

11 TAXATION (continued)

	30/06/2013	30/06/2012	31/12/2012
	RO'000	RO'000	RO'000
Tax liability			
<i>Current period/year</i>			
Income tax and other taxes	2,559	2,543	5,953
<i>Prior period/year</i>			
Income tax and other taxes	(100)	10	(266)
	2,459	2,553	5,687
Recognised deferred tax assets and liabilities			
	30/06/2013	30/06/2012	31/12/2012
	RO'000	RO'000	RO'000
Deferred tax assets and liabilities are attributable to the following:			
Timing differences provisions	381	-	381
Available for sale investments	-	36	28
	381	36	409

De-recognized deferred tax assets

	30/06/2013	30/06/2012	31/12/2012
	RO'000	RO'000	RO'000
Timing differences provisions	-	(446)	65
	-	(446)	65

Deferred tax is calculated at 12% (2012 – 12%).

12 SUBORDINATED DEBT

	30/06/2013	30/06/2012	31/12/2012
	RO'000	RO'000	RO'000
At 1 January	61,700	54,700	54,700
Received during the period/year	18,000	-	7,000
	79,700	54,700	61,700

The outstanding subordinated debt will mature on various dates between 2014 and 2019.

**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT
30 June 2013 (Unaudited)**

13 OTHER NON-DISTRIBUTABLE RESERVES

	<i>Available for sale reserve</i>	<i>Revaluation reserve</i>	<i>Subordinated 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 2013	1,153	3,766	25,800	30,719
Net movement on available for sale investments	1,809	-	-	1,809
Tax effect of net results on available for sale financial investments	(28)	-	-	(28)
At 30 June 2013	2,934	3,766	25,800	32,500
At 30 June 2012	907	3,766	14,860	19,533

- (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>30/06/2013</i>	<i>30/06/2012</i>	<i>31/12/2012</i>
	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>
Guarantees	428,083	416,417	456,721
Documentary letters of credit	74,545	80,774	59,902
Undrawn commitment to lend	117,558	175,095	149,626
	620,186	672,286	666,249

Contingent liabilities include RO 0.1 million (30 June 2012 – RO 0.1 million and 31 December 2012 – RO 0.1 million) relating to non-performing loans.

15 INTEREST INCOME

Interest bearing assets earned interest at an overall rate of 5.03% for the six months period ended 30 June 2013 (30 June 2012 – 5.08% and 31 December 2012 – 5.07%).

16 INTEREST EXPENSE

For the six months period ended 30 June 2013, the average overall cost of funds was 1.92% (30 June 2012- 1.96% and 31 December 2012 – 1.98%).

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT
30 June 2013 (Unaudited)

17 OTHER OPERATING INCOME

	<i>6 months ended 30/06/2013 RO'000</i>	<i>6 months ended 30/06/2012 RO'000</i>
Net gains from foreign exchange dealings	1,757	1,707
Fees and commissions	5,892	5,029
Net income from sale of investments	522	236
Income from bonds	1,312	1,140
Dividend income	529	736
Service charges	4,229	8,432
Miscellaneous income	162	190
	14,403	17,470

18 OTHER OPERATING EXPENSES

	<i>6 months ended 30/06/2013 RO'000</i>	<i>6 months ended 30/06/2012 RO'000</i>
Establishment costs	2,294	2,368
Operating and administration expenses	5,784	5,625
	8,078	7,993

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT 30 June 2013 (Unaudited)

19 RELATED PARTY TRANSACTIONS

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

	30/06/2013			30/06/2012		
	<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	-	48,384	48,384	-	42,730	42,730
Customers' deposits	-	17,527	17,527	-	9,748	9,748
Due from banks	15,430	6,930	22,360	89	-	89
Due to banks	149	13,475	13,624	40	-	40
Subordinated debt	-	5,500	5,500	-	2,500	2,500
Letter of credit, guarantees and acceptance	27	520	547	1,581	3,416	4,997
Standby revolving credit facility	77,000	-	77,000	77,000	-	77,000
Risk indemnities received	1,254	4,167	5,421	-	5,333	5,333

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

	30/06/2013			30/06/2012		
	<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	12	799	811	2	663	665
Commission income	-	17	17	-	12	12
Interest expense	169	246	415	182	163	345
Other expenses	-	686	686	125	530	655

Senior management compensation:

	<i>6 months ended</i>	<i>6 months ended</i>
	<i>30/06/2013</i>	<i>30/06/2012</i>
	<i>RO'000</i>	<i>RO'000</i>
Salaries and other short term benefits		
- Fixed	1,141	949
- Discretionary	878	480
	2,019	1,429

20 SHAREHOLDERS

As of 30 June 2013, 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 June 2013 (30 June 2012 – nil and 31 December 2012 – nil).

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT
30 June 2013 (Unaudited)

21 SEGMENT REPORTING

For management purposes, the bank is organised into 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.
- Islamic banking offers Shari'a compliant Islamic products and services.

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.

Segment information is as follows:

<i>6 months ended</i>	<i>Retail banking</i>	<i>Corporate banking</i>	<i>Investment banking</i>	<i>Treasury and international banking</i>	<i>Head office</i>	<i>Islamic Banking</i>	<i>Total</i>
<i>30-June-13</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>	<i>RO'000</i>
Operating income	25,749	18,034	1,563	2,898	2,308	50	50,602
Net Profit / (loss)	13,385	13,185	1,202	2,199	(10,845)	(354)	18,772
Total assets	980,201	1,118,553	24,497	115,420	524,443	7,941	2,771,055
<i>6 months ended</i>	<i>Retail banking</i>	<i>Corporate banking</i>	<i>Investment banking</i>	<i>Treasury and international banking</i>	<i>Head office</i>	<i>Islamic Banking</i>	<i>Total</i>
<i>30-June-12</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>	<i>RO'000</i>
Operating income	28,267	15,672	1,227	2,635	2,838	-	50,639
Net Profit / (loss)	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

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT
30 June 2013 (unaudited)

22 FAIR VALUE OF FINANCIAL INSTRUMENTS

It is the bank's intention to hold loans and advances granted to customers to maturity. As a result the fair value of performing loans is arrived at using the discounted cash flow analysis based on a discount rate equal to the prevailing market rates of interest for loans having similar terms and conditions. The bank considers that the fair value of financial instruments at 30 June 2013 and 31 December 2012 are not significantly different to their carrying value at each of those dates.

Fair value of financial instruments

The bank uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>
<i>30 June 2013</i>	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>
Financial assets				
Investments – held for trading:				
Government development bonds	10,838	-	-	10,838
Total	10,838	-	-	10,838
Investments - available for sale:				
Government development bonds	88,998	-	-	88,998
Quoted equities	11,179	-	-	11,179
Other unquoted equities	-	11,530	-	11,530
Total	100,177	11,530	-	111,707
Derivative financial instruments:				
Purchase contracts	-	71,023	-	71,023
Sale contracts	-	71,023	-	71,023
Interest rate swaps	-	152,198	-	152,198
Currency options	-	60,864	-	60,864
Commodity hedging	-	60,094	-	60,094
Total	-	415,202	-	415,202
Total financial assets	111,015	426,732	-	537,747
Total financial assets at 31 December 2012	100,031	378,925	-	478,956

Other unquoted equities are valued based on information provided by fund managers, investee financial information and current purchase prices. Derivative financial instruments are valued based on counter-party valuations, quoted forward rates and yield curves.

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT
30 June 2013 (Unaudited)

23 DERIVATIVES

<i>30 June 2013</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	6,276	(6,276)	150,604	2,125	11,435	137,044
Forward foreign exchange purchase contracts	35	(106)	41,855	31,364	10,491	-
Forward foreign exchange sales contracts	208	(32)	41,855	31,406	10,449	-
Currency options	49	(49)	35,621	22,144	13,477	-
Commodity hedging	1,628	(1,628)	37,152	24,714	12,438	-
Total	8,196	(8,091)	307,087	111,753	58,290	137,044

<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	-
Total	10,416	(10,406)	333,275	153,232	47,742	132,301

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT
30 June 2013 (Unaudited)

23 DERIVATIVES (continued)

<i>31 December 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	9,753	(9,753)	138,276	4,762	6,901	126,613
Forward foreign exchange purchase contracts	64	(361)	66,657	48,716	17,941	-
Forward foreign exchange sales contracts	370	(170)	66,657	48,649	18,008	-
Currency options	325	(325)	45,483	33,253	12,230	-
Commodity hedging	558	(558)	51,161	30,980	20,181	-
	<u>11,070</u>	<u>(11,167)</u>	<u>368,234</u>	<u>166,360</u>	<u>75,261</u>	<u>126,613</u>