

National Bank of Oman SAOG

INTERIM CONDENSED FINANCIAL STATEMENTS

30 September 2013 (UNAUDITED)



PO Box 751 PC 112 Ruwi Sultanate of Oman.

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Chairman's Report – 30 September 2013

TO OUR ESTEEMED SHAREHOLDERS:

On behalf of the Board of Directors of National Bank of Oman SAOG, I am pleased to announce the results for the nine months ended 30 September 2013.

Operating Performance

The net profit for the nine months ended 30 September 2013 is OMR 31.2 million, compared with OMR 30.5 million for the same period last year, a 2.3% increase. This increase is primarily as a result of stronger performance at an operating level where income growth has outpaced cost growth resulting in a net operating income growth of 5.8%.

Net interest income from conventional banking and revenues from Islamic financing activities increased by 10.9% to OMR 55.4 million for the nine month period due to growth in loans and advances as well as a better deposit mix. Low cost deposits have improved to 53% of total deposits compared with 49% in September last year.

Total non-interest income for the nine month period decreased by 7.4% to OMR 22.1 million. Regulatory changes relating to personal loans introduced by the Central Bank of Oman in May 2012, have had a full nine month period impact in 2013. Referral fee income decreased by OMR 3.8 million compared to the same period last year.

Operating expenses are well controlled and are up only 4% for the nine month period at OMR 35.6 million compared with 2012. Operating expenses growth is lower than the income growth of 5% reflecting an improving profitability trend.

Impairments on loans and advances at OMR 6.47 million are higher than last year by 40%. Whilst part of the increase is as a result of the regulatory general provision requirements, the personal loan portfolio has accounted for the vast majority of the increase. However, the overall non-performing loans (NPLs) as a percentage of total loans remain at a satisfactory level of 2.77% with provision coverage in excess of 109%.

During the nine month period, deposits grew by over OMR 300 million supported by growth in loans and advances of OMR 200 million, investments of OMR 18 million and increases in liquid assets. The balance sheet has grown by 18% since December 2012. As at 30th September 2013, loans and advances stand at OMR 2.1 billion, deposits stand at OMR 2.2 billion and shareholder's equity at OMR 318 million.

Capital

The Bank's capital adequacy ratio is 14.3% as at 30 September 2013 compared with 14.4% as at 31 December 2012. The September year-to-date interim profits of RO 31.2 million have not been taken into consideration in arriving at the above ratio. The Bank's capital position will continue to be carefully managed and maintained at a level above Central Bank of Oman's minimum requirement of 12%.

Islamic Banking

The Bank commenced its Islamic banking operation under the brand name of Muzn in the first quarter of 2013. We see a steady growth in financing and deposit taking activities. As at the end of September, the Bank has financed OMR 10.9 million in Islamic transactions and OMR 17.2 million Islamic deposits have been taken.

Appreciation

On behalf of the members of the Board of Directors, I would like to acknowledge and thank our valued customers and shareholders for their continued support of the Bank. We express our appreciation to our regulators the Central Bank of Oman and the Capital Market Authority, for their continued guidance and support of our endeavours. We thank the Bank's management and staff for their dedication and commitment.

Above all, we pay tribute to His Majesty, Sultan Qaboos Bin Said, for his inspiring leadership and vision and under whose wise guidance Oman steadfastly continues on its path towards successful development.

Omar Hussain Al Fardan
Chairman

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

		30-09-2013	<i>30-09-2012</i>	<i>Audited</i>
	<i>Notes</i>	RO'000	<i>RO'000</i>	<i>31-12-2012</i>
				<i>RO'000</i>
Assets				
Cash and balances with Central Banks	3	429,684	300,501	215,738
Due from banks and other money market placements (net)	4	247,971	153,299	217,261
Loans, advances and financing activities for customers (net)	5	2,111,157	1,881,136	1,911,562
Financial investments	6	128,420	97,405	110,722
Premises and equipment	7	19,724	20,830	20,498
Deferred tax asset	11	381	420	409
Other assets	8	57,300	65,404	61,628
Total assets		2,994,637	2,518,995	2,537,818
Liabilities				
Due to banks and other money market deposits		224,523	180,667	210,447
Customers' deposits and unrestricted investment accounts	9	2,192,746	1,909,097	1,886,754
Other liabilities	10	175,339	76,562	68,778
Taxation	11	4,153	4,276	5,687
Total liabilities		2,596,761	2,170,602	2,171,666
Subordinated debt				
Subordinated debt	12	79,700	54,700	61,700
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	32,670	19,217	30,719
Proposed cash dividend		-	-	19,391
Retained earnings		96,233	86,147	65,069
Total equity		318,176	293,693	304,452
Total liabilities, subordinated debt and equity		2,994,637	2,518,995	2,537,818

The interim condensed financial statements were authorised for issue on 22 October 2013 in accordance with a resolution of the Board of Directors.

.....
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 September 2013 (Un-audited)

	Notes	<u>Nine months ended 30</u>		<u>Three months ended 30</u>	
		<u>September</u>		<u>September</u>	
		<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
		<u>RO'000</u>	<u>RO'000</u>	<u>RO'000</u>	<u>RO'000</u>
Interest income	15	86,803	79,416	29,566	27,392
Interest expense	16	(31,494)	(29,448)	(10,421)	(10,593)
Net interest income		55,309	49,968	19,145	16,799
Income from Islamic financing and Investment activities		174	-	123	-
Unrestricted investment account holders' share of profit		(61)	-	(45)	-
Net Income from Islamic financing and Investment activities		113	-	78	-
Other operating income	17	22,113	23,887	7,710	6,417
OPERATING INCOME		77,535	73,855	26,933	23,216
OPERATING EXPENSES					
Staff costs		(20,945)	(19,264)	(7,372)	(6,695)
Other operating expenses	18	(12,118)	(12,208)	(4,040)	(4,215)
Depreciation	7	(2,559)	(2,766)	(822)	(939)
		(35,622)	(34,238)	(12,234)	(11,849)
PROFIT FROM OPERATIONS BEFORE IMPAIRMENT LOSSES AND TAX		41,913	39,617	14,699	11,367
Credit loss expense – customer loans	5	(12,942)	(13,470)	(2,912)	(3,543)
Recoveries and releases from provision for credit losses	5	783	3,063	98	485
Recoveries from loans and advances written off		5,935	7,504	2,131	3,872
Write-back / Impairment losses on available for sale investments		41	(1,640)	12	(191)
Write-back / Credit loss expense - bank loans		(194)	-	177	-
Provision – others		(92)	(73)	(92)	-
TOTAL IMPAIRMENT LOSSES (NET)		(6,469)	(4,616)	(586)	623
PROFIT BEFORE TAX		35,444	35,001	14,113	11,990
Taxation	11	(4,280)	(4,536)	(1,721)	(1,449)
PROFIT FOR THE PERIOD		31,164	30,465	12,392	10,541
OTHER COMPREHENSIVE INCOME					
Net movement on available for sale investments		1,979	916	170	(319)
Tax effect of net results on available for sale financial investments		(28)	3	-	3
OTHER COMPREHENSIVE INCOME FOR THE PERIOD		1,951	919	170	(316)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		33,115	31,384	12,562	10,225
Earnings per share annualized:					
Basic and diluted, profit for the year attributable to equity holders		0.038	0.037	0.045	0.038

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

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

	Notes	Nine months ended 30 September	
		2013 RO'000	2012 RO'000
Profit before taxation		35,444	35,001
Adjustments for:			
Depreciation	7	2,559	2,766
Provision for credit losses (net)		10,813	10,630
Write-back / Impairment losses on available for sale investments		(41)	1,640
Profit on sale of equipment (net)		(10)	(55)
Profit on sale of investments		(902)	(372)
Investment income		(2,638)	(2,555)
Operating profit before changes in operating assets and liabilities		45,225	47,055
Decrease / (increase) in due from and other money market deposits		1,045	(4,607)
Increase in due to and other money market placements		32,724	27,720
Increase in loans and advances to customers		(210,214)	(220,988)
Decrease / (increase) in other assets		4,328	(4,434)
Increase in customer deposits		305,992	309,273
Increase in other liabilities		106,561	11,630
Cash from operations		285,661	165,649
Tax paid		(5,742)	(5,430)
Net cash from operating activities		279,919	160,219
Investing activities			
Purchase of investments		(18,393)	(7,491)
Proceeds from sale of investments		3,315	4,719
Purchase of premises and equipment	7	(1,846)	(3,127)
Disposal of premises and equipment		42	88
Translation difference in premises & equipment & Tax		259	36
Interest on Govt Development Bond and T-Bills		2,022	1,709
Dividend income	17	616	846
Net cash used in investing activities		(13,985)	(3,220)
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 in cash and cash equivalents		264,543	138,081
Cash and cash equivalents at the beginning of the period		279,178	274,922
Cash and cash equivalents at the end of the period		543,721	413,003
Representing:			
Cash and balances with Central Bank	3	429,184	300,001
Deposits and balances with other banks and financial institutions (net)		114,537	113,002
		543,721	413,003

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 September 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	-	-	-	-	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
Balance at 1 October 2012	110,803	34,465	38,642	4,419	19,217	-	-	86,147	293,693
Total comprehensive income for the period	-	-	-	-	562	-	-	10,197	10,759
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	-	-	-	-	1,951	-	-	31,164	33,115
Dividend paid during the period	-	-	-	-	-	(19,391)	-	-	(19,391)
Balance at 30 September 2013	110,803	34,465	39,586	4,419	32,670	-	-	96,233	318,176

*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 September 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 1,344 employees as of 30 September 2013 (30 September 2012- 1,385 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 nine months ended 30 September 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 September 2013 (Unaudited)

3 CASH AND BALANCES WITH CENTRAL BANKS

	<i>30/09/2013</i>	<i>30/09/2012</i>	<i>31/12/2012</i>
	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>
Cash	40,574	30,275	31,175
Treasury bills with Central Banks	817	4,787	3,555
Certificate of deposit with Central Banks	130,000	150,000	25,000
Other balances with Central Banks	257,793	114,939	155,508
Cash and cash equivalents	429,184	300,001	215,238
Capital deposit with Central Bank of Oman	500	500	500
Cash and balances with Central Banks	429,684	300,501	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>30/09/2013</i>	<i>30/09/2012</i>	<i>31/12/2012</i>
	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>
Loans and advances to banks	19,405	36,945	81,865
Placements with bank	212,014	102,775	113,853
Demand balances	16,746	20,169	28,133
Due from banks and other money market placement	248,165	159,889	223,851
Less: allowance for credit losses (refer note below)	(194)	(6,522)	(6,522)
Less: reserved interest	-	(68)	(68)
Net due from banks and other money market placement	247,971	153,299	217,261

As at 30 September 2013, the bank holds collective provisions on the loans and advances to banks.

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

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

	<i>30/09/2013</i>	<i>30/09/2012</i>	<i>31/12/2012</i>
	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>
Corporate loans	1,079,553	971,774	983,194
Personal loans	1,047,998	937,689	963,568
Overdrafts	58,158	45,213	39,630
Islamic financing activities	10,897	-	-
Gross loans and advances	2,196,606	1,954,676	1,986,392
Less: Allowance for credit losses and reserved interest	(85,449)	(73,540)	(74,830)
Net loans and advances	2,111,157	1,881,136	1,911,562

Gross loans and advances include RO 42.8 million due from related parties at 30 September 2013 (30 September 2012 – RO 39.5 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	<i>9 months</i>	<i>9 months</i>	<i>12 months</i>
	<i>ended</i>	<i>ended</i>	<i>ended</i>
	<i>30/09/2013</i>	<i>30/09/2012</i>	<i>31/12/2012</i>
	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>
Balance at beginning of period / year	58,001	49,457	49,457
Provided during the period / year	12,942	13,470	16,941
Recovered/ released during the period / year	(664)	(2,773)	(3,139)
Written off during the period / year	(4,575)	(3,232)	(5,169)
Translation difference	(152)	(27)	(89)
Balance at end of period / year	65,552	56,895	58,001

Reserved interest	<i>9 months</i>	<i>9 months</i>	<i>12 months</i>
	<i>ended</i>	<i>ended</i>	<i>ended</i>
	<i>30/09/2013</i>	<i>30/09/2012</i>	<i>31/12/2012</i>
	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>
Balance at beginning of period / year	16,829	13,453	13,453
Reserved during the period / year	4,525	3,969	5,466
Recovered/ released during the period / year	(119)	(290)	(341)
Recovered/released during the period to interest income	(105)	(165)	(195)
Written off during the period / year	(1,225)	(321)	(1,548)
Translation difference	(8)	(1)	(6)
Balance at end of period / year	19,897	16,645	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 September 2013 loans and advances on which interest is not being accrued or where interest has been reserved amounted to RO 80.2 million, (30 September 2012 – RO 69.4 million and 31 December 2012 – RO 79.0 million).

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

6 FINANCIAL INVESTMENTS

	<i>Carrying value</i> <i>30/09/2013</i> <i>RO'000</i>	<i>Carrying value</i> <i>30/09/2012</i> <i>RO'000</i>	<i>Carrying value</i> <i>31/12/2012</i> <i>RO'000</i>
A. Held for trading			
Quoted investments- Oman			
Government Development Bonds	21,086	-	-
Total held for trading	21,086	-	-
B. Available for sale investments			
Quoted investments- Oman			
Banking and investment sector	599	972	741
Industry sector	1,666	915	1,162
Service sector	8,178	7,470	8,365
Government Development Bonds	75,491	73,825	86,170
	85,934	83,182	96,438
Quoted investments- Foreign			
Banking and investment sector	396	-	-
Government Development Bonds	2,785	3,639	3,593
	3,181	3,639	3,593
Unquoted investments			
Banking and investment sector	8,733	6,819	6,920
Industry sector	3,483	3,483	3,483
Service sector	4,214	282	288
	16,430	10,584	10,691
Total available for sale	105,545	97,405	110,722
C. Held to maturity			
Quoted investments- Overseas			
Industry sector	1,789	-	-
Total Held to maturity	1,789	-	-
TOTAL FINANCIAL INVESTMENTS	128,420	97,405	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>%</i>	<i>Carrying value</i> <i>RO'000</i>
<u>30 September 2013</u>		
Government Development Bonds-Oman	71.5	75,491
<u>30 September 2012</u>		
Government Development Bonds-Oman	75.8	73,825
<u>31 December 2012</u>		
Government Development Bonds-Oman	77.8	86,170

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT
30 September 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	73	609	1,164	1,846
Disposal	-	(32)	-	(32)
Transfer	531	887	(1,418)	-
Translation difference	(27)	(2)	-	(29)
Depreciation	(751)	(1,808)	-	(2,559)
Balance at 30 September 2013, net of	12,522	5,097	2,105	19,724
At cost / valuation	26,115	25,672	2,105	53,892
Accumulated depreciation	(13,593)	(20,575)	-	(34,168)
Net carrying value at 30 September 2013	12,522	5,097	2,105	19,724
Net carrying value at 30 September 2012	12,871	5,417	2,542	20,830
Net carrying value at 31 December 2012	12,696	5,443	2,359	20,498

8 OTHER ASSETS

	30/09/2013 RO'000	30/09/2012 RO'000	31/12/2012 RO'000
Interest receivable and others	23,792	21,984	22,710
Positive fair value of derivatives (note 23)	6,033	10,500	11,070
Customers' indebtedness for acceptances (note 10)	27,475	32,920	27,848
	57,300	65,404	61,628

9 CUSTOMERS' DEPOSITS AND UNRESTRICTED INVESTMENT ACCOUNTS

	30/09/2013 RO'000	30/09/2012 RO'000	31/12/2012 RO'000
Current accounts	640,166	463,282	385,964
Savings accounts	522,862	472,089	482,944
Certificates of deposit	-	6,300	5,000
Term deposits	1,012,551	967,426	1,012,846
Islamic deposits	17,167	-	-
	2,192,746	1,909,097	1,886,754

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

10 OTHER LIABILITIES

	<i>30/09/2013</i>	<i>30/09/2012</i>	<i>31/12/2012</i>
	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>
Interest payable and other accruals	141,674	33,154	29,763
Negative fair value of derivatives (note 23)	6,190	10,488	11,167
Liabilities under acceptances (note 8)	27,475	32,920	27,848
	175,339	76,562	68,778

11 TAXATION

	<i>30/09/2013</i>	<i>30/09/2012</i>	<i>31/12/2012</i>
	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>
Statement of comprehensive income			
Current period/year	4,280	4,471	5,953
Deferred tax adjustment	-	65	65
	4,280	4,536	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:

	<i>30/09/2013</i>	<i>30/09/2012</i>	<i>31/12/2012</i>
	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>
Accounting profit	35,444	35,001	46,680
Tax applicable rate	4,253	4,196	5,598
Non-deductible expenses	88	317	294
Tax exempt revenues	(252)	(313)	(330)
Others	191	336	456
	4,280	4,536	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.

	<i>30/09/2013</i>	<i>30/09/2012</i>	<i>31/12/2012</i>
	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>
Tax liability			
Income tax and other taxes – Current year	4,280	4,536	5,953
Income tax and other taxes – Prior years	(127)	(260)	(266)
	4,153	4,276	5,687

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT
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11 TAXATION (continued)

	30/09/2013	30/09/2012	31/12/2012
	RO'000	RO'000	RO'000
Recognised deferred tax assets and liabilities			
Deferred tax assets and liabilities are attributable to the following:			
Timing differences provisions	381	381	381
Available for sale investments	-	39	28
	381	420	409
De-recognized deferred tax assets			
Timing differences provisions	-	65	65
	-	65	65

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

12 SUBORDINATED DEBT

	30/09/2013	30/09/2012	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.

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	1,979	-	-	1,979
Tax effect of net results on available for sale financial investments	(28)	-	-	(28)
At 30 September 2013	3,104	3,766	25,800	32,670
At 30 September 2012	591	3,766	14,860	19,217

- (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.

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14 CONTINGENT LIABILITIES AND COMMITMENTS

	<i>30/09/2013</i>	<i>30/09/2012</i>	<i>31/12/2012</i>
	<i>RO'000</i>	<i>RO' 000</i>	<i>RO'000</i>
Guarantees	445,586	421,658	456,721
Documentary letters of credit	78,502	72,596	59,902
Undrawn commitment to lend	98,080	180,832	149,626
	622,168	675,086	666,249

Contingent liabilities include RO 0.1 million (30 September 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 4.96% for the nine months period ended 30 September 2013 (30 September 2012 – 5.09% and 31 December 2012 – 5.07%).

16 INTEREST EXPENSE

For the nine months period ended 30 September 2013, the average overall cost of funds was 1.87 % (30 September 2012- 1.98% and 31 December 2012 – 1.98%).

17 OTHER OPERATING INCOME

	<i>9 months ended</i>	<i>9 months ended</i>
	<i>30/09/2013</i>	<i>30/09/2012</i>
	<i>RO'000</i>	<i>RO'000</i>
Net gains from foreign exchange dealings	2,500	2,497
Fees and commissions	8,544	7,471
Net income from sale of investments	902	372
Income from bonds	2,022	1,709
Dividend income	616	846
Service charges	7,323	10,749
Miscellaneous income	206	243
	22,113	23,887

18 OTHER OPERATING EXPENSES

	<i>9 months ended</i>	<i>9 months ended</i>
	<i>30/09/2013</i>	<i>30/09/2012</i>
	<i>RO'000</i>	<i>RO'000</i>
Establishment costs	3,462	3,470
Operating and administration expenses	8,656	8,738
	12,118	12,208

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT
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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

	30/09/2013			30/09/2012		
	<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	-	42,824	42,824	-	39,521	39,521
Customers' deposits	-	14,857	14,857	-	10,587	10,587
Due from banks	37,733	12,705	50,438	13,551	-	13,551
Due to banks	132	-	132	89	-	89
Subordinated debt	-	5,500	5,500	-	2,500	2,500
Letter of credit, guarantees and acceptance	72	687	759	2,031	3,910	5,941
Standby revolving credit facility	77,000	-	77,000	77,000	-	77,000
Risk indemnities received	1,518	2,000	3,518	669	4,667	5,336

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

	30/09/2013			30/09/2012		
	<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	21	1,184	1,205	10	1,032	1,042
Commission income	-	19	19	-	19	19
Interest expense	227	402	629	266	260	526
Other expenses	-	761	761	125	655	780

Senior management compensation:

	9 months ended 30/09/2013	9 months ended 30/09/2012
	RO'000	RO'000
Salaries and other short term benefits		
- Fixed	1,720	1,441
- Discretionary	945	543
	2,665	1,984

20 SHAREHOLDERS

As of 30 September 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:

	Number of shares '000	% Holding
The Commercial Bank of Qatar	386,699	34.9
Suhail Bahwan Group (Holdings) LLC	163,370	14.7

The bank had no preferred shareholders as of 30 September 2013 (30 September 2012 – nil and 31 December 2012 – nil).

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT
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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>9 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-Sep-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	40,145	27,250	1,386	4,040	4,585	129	77,535
Net Profit / (loss)	22,123	21,063	872	3,351	(15,697)	(548)	31,164
Total assets	1,015,354	1,111,995	29,057	127,247	700,260	10,724	2,994,637
<i>9 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-Sep-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	40,995	23,617	1,573	3,696	3,974	-	73,855
Net Profit / (loss)	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

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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 September 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 other than derivatives 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 September 2013</i>	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>
Investments – held for trading:				
Government development bonds	21,086	-	-	21,086
Total	21,086	-	-	21,086
Investments - available for sale:				
Government development bonds	78,276	-	-	78,276
Quoted equities	10,839	-	-	10,839
Other unquoted equities	-	16,430	-	16,430
Total	89,115	16,430	-	105,545
Total financial assets	110,201	16,430	-	126,631
Total financial assets at 31 December 2012	100,031	10,691	-	110,722

Other unquoted equities are valued based on information provided by fund managers, investee financial information and current purchase prices. Derivative financial instrument at level 2 are valued based on counter party valuation, quoted forward rates and yield curves (see note 23).

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23 DERIVATIVES

	<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>30 September 2013</i>						
<i>Derivatives</i>						
Interest rate swaps	5,649	(5,649)	145,748	2,125	11,690	131,933
Forward foreign exchange purchase contracts	100	(5)	62,540	40,264	14,575	7,701
Forward foreign exchange sales contracts	8	(260)	62,540	40,271	14,570	7,699
Currency options	109	(109)	20,376	19,285	1,091	-
Commodity hedging	167	(167)	18,618	18,618	-	-
Total	6,033	(6,190)	309,822	120,563	41,926	147,333
<i>30 September 2012</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>31 December 2012</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	-
Total	11,070	(11,167)	368,234	166,360	75,261	126,613