

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

		<b>30-09-2013</b>	<i>30-09-2012</i>	<i>Audited</i>
	<i>Notes</i>	<b>RO'000</b>	<i>RO'000</i>	<i>31-12-2012</i>
				<i>RO'000</i>
<b>Assets</b>				
Cash and balances with Central Banks	3	<b>429,684</b>	300,501	215,738
Due from banks and other money market placements (net)	4	<b>247,971</b>	153,299	217,261
Loans, advances and financing activities for customers (net)	5	<b>2,111,157</b>	1,881,136	1,911,562
Financial investments	6	<b>128,420</b>	97,405	110,722
Premises and equipment	7	<b>19,724</b>	20,830	20,498
Deferred tax asset	11	<b>381</b>	420	409
Other assets	8	<b>57,300</b>	65,404	61,628
<b>Total assets</b>		<b>2,994,637</b>	2,518,995	2,537,818
<b>Liabilities</b>				
Due to banks and other money market deposits		<b>224,523</b>	180,667	210,447
Customers' deposits and unrestricted investment accounts	9	<b>2,192,746</b>	1,909,097	1,886,754
Other liabilities	10	<b>175,339</b>	76,562	68,778
Taxation	11	<b>4,153</b>	4,276	5,687
<b>Total liabilities</b>		<b>2,596,761</b>	2,170,602	2,171,666
<b>Subordinated debt</b>				
Subordinated debt	12	<b>79,700</b>	54,700	61,700
<b>Equity</b>				
Share capital		<b>110,803</b>	110,803	110,803
Share premium		<b>34,465</b>	34,465	34,465
Legal reserve		<b>39,586</b>	38,642	39,586
General reserve		<b>4,419</b>	4,419	4,419
Other non-distributable reserves	13	<b>32,670</b>	19,217	30,719
Proposed cash dividend		-	-	19,391
Retained earnings		<b>96,233</b>	86,147	65,069
<b>Total equity</b>		<b>318,176</b>	293,693	304,452
<b>Total liabilities, subordinated debt and equity</b>		<b>2,994,637</b>	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	<b>86,803</b>	79,416	<b>29,566</b>	27,392
Interest expense	16	<b>(31,494)</b>	(29,448)	<b>(10,421)</b>	(10,593)
<b>Net interest income</b>		<b>55,309</b>	49,968	<b>19,145</b>	16,799
Income from Islamic financing and Investment activities		<b>174</b>	-	<b>123</b>	-
Unrestricted investment account holders' share of profit		<b>(61)</b>	-	<b>(45)</b>	-
<b>Net Income from Islamic financing and Investment activities</b>		<b>113</b>	-	<b>78</b>	-
Other operating income	17	<b>22,113</b>	23,887	<b>7,710</b>	6,417
<b>OPERATING INCOME</b>		<b>77,535</b>	73,855	<b>26,933</b>	23,216
<b>OPERATING EXPENSES</b>					
Staff costs		<b>(20,945)</b>	(19,264)	<b>(7,372)</b>	(6,695)
Other operating expenses	18	<b>(12,118)</b>	(12,208)	<b>(4,040)</b>	(4,215)
Depreciation	7	<b>(2,559)</b>	(2,766)	<b>(822)</b>	(939)
		<b>(35,622)</b>	(34,238)	<b>(12,234)</b>	(11,849)
<b>PROFIT FROM OPERATIONS BEFORE IMPAIRMENT LOSSES AND TAX</b>		<b>41,913</b>	39,617	<b>14,699</b>	11,367
Credit loss expense – customer loans	5	<b>(12,942)</b>	(13,470)	<b>(2,912)</b>	(3,543)
Recoveries and releases from provision for credit losses	5	<b>783</b>	3,063	<b>98</b>	485
Recoveries from loans and advances written off		<b>5,935</b>	7,504	<b>2,131</b>	3,872
Write-back / Impairment losses on available for sale investments		<b>41</b>	(1,640)	<b>12</b>	(191)
Write-back / Credit loss expense - bank loans		<b>(194)</b>	-	<b>177</b>	-
Provision – others		<b>(92)</b>	(73)	<b>(92)</b>	-
<b>TOTAL IMPAIRMENT LOSSES (NET)</b>		<b>(6,469)</b>	(4,616)	<b>(586)</b>	623
<b>PROFIT BEFORE TAX</b>		<b>35,444</b>	35,001	<b>14,113</b>	11,990
Taxation	11	<b>(4,280)</b>	(4,536)	<b>(1,721)</b>	(1,449)
<b>PROFIT FOR THE PERIOD</b>		<b>31,164</b>	30,465	<b>12,392</b>	10,541
<b>OTHER COMPREHENSIVE INCOME</b>					
Net movement on available for sale investments		<b>1,979</b>	916	<b>170</b>	(319)
Tax effect of net results on available for sale financial investments		<b>(28)</b>	3	-	3
<b>OTHER COMPREHENSIVE INCOME FOR THE PERIOD</b>		<b>1,951</b>	919	<b>170</b>	(316)
<b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD</b>		<b>33,115</b>	31,384	<b>12,562</b>	10,225
Earnings per share annualized:					
Basic and diluted, profit for the year attributable to equity holders		<b>0.038</b>	0.037	<b>0.045</b>	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
<b>Profit before taxation</b>		<b>35,444</b>	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)
<b>Operating profit before changes in operating assets and liabilities</b>		<b>45,225</b>	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
<b>Cash from operations</b>		<b>285,661</b>	165,649
Tax paid		(5,742)	(5,430)
<b>Net cash from operating activities</b>		<b>279,919</b>	160,219
<b>Investing activities</b>			
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
<b>Net cash used in investing activities</b>		<b>(13,985)</b>	(3,220)
<b>Financing activities</b>			
Payment of dividend		(19,391)	(18,918)
Proceeds from Subordinated debt		18,000	-
<b>Net cash used in financing activities</b>		<b>(1,391)</b>	(18,918)
<b>Increase in cash and cash equivalents</b>		<b>264,543</b>	138,081
Cash and cash equivalents at the beginning of the period		279,178	274,922
<b>Cash and cash equivalents at the end of the period</b>		<b>543,721</b>	413,003
<b>Representing:</b>			
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
		<b>543,721</b>	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)	-	-
<b>Balance at 30 September 2012</b>	<b>110,803</b>	<b>34,465</b>	<b>38,642</b>	<b>4,419</b>	<b>19,217</b>	<b>-</b>	<b>-</b>	<b>86,147</b>	<b>293,693</b>
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)	-
<b>Balance at 31 December 2012</b>	<b>110,803</b>	<b>34,465</b>	<b>39,586</b>	<b>4,419</b>	<b>30,719</b>	<b>19,391</b>	<b>-</b>	<b>65,069</b>	<b>304,452</b>
Balance at 1 January 2013	<b>110,803</b>	<b>34,465</b>	<b>39,586</b>	<b>4,419</b>	<b>30,719</b>	<b>19,391</b>	<b>-</b>	<b>65,069</b>	<b>304,452</b>
Total comprehensive income for the period	-	-	-	-	1,951	-	-	31,164	33,115
Dividend paid during the period	-	-	-	-	-	(19,391)	-	-	(19,391)
<b>Balance at 30 September 2013</b>	<b>110,803</b>	<b>34,465</b>	<b>39,586</b>	<b>4,419</b>	<b>32,670</b>	<b>-</b>	<b>-</b>	<b>96,233</b>	<b>318,176</b>

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

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

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## 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	<b>40,574</b>	30,275	31,175
Treasury bills with Central Banks	<b>817</b>	4,787	3,555
Certificate of deposit with Central Banks	<b>130,000</b>	150,000	25,000
Other balances with Central Banks	<b>257,793</b>	114,939	155,508
<b>Cash and cash equivalents</b>	<b>429,184</b>	300,001	215,238
Capital deposit with Central Bank of Oman	<b>500</b>	500	500
<b>Cash and balances with Central Banks</b>	<b>429,684</b>	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	<b>19,405</b>	36,945	81,865
Placements with bank	<b>212,014</b>	102,775	113,853
Demand balances	<b>16,746</b>	20,169	28,133
<b>Due from banks and other money market placement</b>	<b>248,165</b>	159,889	223,851
Less: allowance for credit losses (refer note below)	<b>(194)</b>	(6,522)	(6,522)
Less: reserved interest	-	(68)	(68)
<b>Net due from banks and other money market placement</b>	<b>247,971</b>	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	<b>1,079,553</b>	971,774	983,194
Personal loans	<b>1,047,998</b>	937,689	963,568
Overdrafts	<b>58,158</b>	45,213	39,630
Islamic financing activities	<b>10,897</b>	-	-
Gross loans and advances	<b>2,196,606</b>	1,954,676	1,986,392
Less: Allowance for credit losses and reserved interest	<b>(85,449)</b>	(73,540)	(74,830)
Net loans and advances	<b>2,111,157</b>	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:

<b>Allowance for credit losses</b>	<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	<b>58,001</b>	49,457	49,457
Provided during the period / year	<b>12,942</b>	13,470	16,941
Recovered/ released during the period / year	<b>(664)</b>	(2,773)	(3,139)
Written off during the period / year	<b>(4,575)</b>	(3,232)	(5,169)
Translation difference	<b>(152)</b>	(27)	(89)
Balance at end of period / year	<b>65,552</b>	56,895	58,001

<b>Reserved interest</b>	<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	<b>16,829</b>	13,453	13,453
Reserved during the period / year	<b>4,525</b>	3,969	5,466
Recovered/ released during the period / year	<b>(119)</b>	(290)	(341)
Recovered/released during the period to interest income	<b>(105)</b>	(165)	(195)
Written off during the period / year	<b>(1,225)</b>	(321)	(1,548)
Translation difference	<b>(8)</b>	(1)	(6)
Balance at end of period / year	<b>19,897</b>	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>
<b>A. Held for trading</b>			
<b>Quoted investments- Oman</b>			
Government Development Bonds	21,086	-	-
<b>Total held for trading</b>	<b>21,086</b>	<b>-</b>	<b>-</b>
<b>B. Available for sale investments</b>			
<b>Quoted investments- Oman</b>			
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
	<b>85,934</b>	<b>83,182</b>	<b>96,438</b>
<b>Quoted investments- Foreign</b>			
Banking and investment sector	396	-	-
Government Development Bonds	2,785	3,639	3,593
	<b>3,181</b>	<b>3,639</b>	<b>3,593</b>
<b>Unquoted investments</b>			
Banking and investment sector	8,733	6,819	6,920
Industry sector	3,483	3,483	3,483
Service sector	4,214	282	288
	<b>16,430</b>	<b>10,584</b>	<b>10,691</b>
<b>Total available for sale</b>	<b>105,545</b>	<b>97,405</b>	<b>110,722</b>
<b>C. Held to maturity</b>			
<b>Quoted investments- Overseas</b>			
Industry sector	1,789	-	-
<b>Total Held to maturity</b>	<b>1,789</b>	<b>-</b>	<b>-</b>
<b>TOTAL FINANCIAL INVESTMENTS</b>	<b>128,420</b>	<b>97,405</b>	<b>110,722</b>

**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>
<b><u>30 September 2013</u></b>		
Government Development Bonds-Oman	71.5	75,491
<b><u>30 September 2012</u></b>		
Government Development Bonds-Oman	75.8	73,825
<b><u>31 December 2012</u></b>		
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>
<b>Reconciliation of carrying amount:</b>				
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)
<b>Balance at 30 September 2013, net of</b>	<b>12,522</b>	<b>5,097</b>	<b>2,105</b>	<b>19,724</b>
At cost / valuation	26,115	25,672	2,105	53,892
Accumulated depreciation	(13,593)	(20,575)	-	(34,168)
<b>Net carrying value at 30 September 2013</b>	<b>12,522</b>	<b>5,097</b>	<b>2,105</b>	<b>19,724</b>
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**

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

**9 CUSTOMERS' DEPOSITS AND UNRESTRICTED INVESTMENT ACCOUNTS**

	<b>30/09/2013 RO'000</b>	<b>30/09/2012 RO'000</b>	<b>31/12/2012 RO'000</b>
Current accounts	<b>640,166</b>	463,282	385,964
Savings accounts	<b>522,862</b>	472,089	482,944
Certificates of deposit	-	6,300	5,000
Term deposits	<b>1,012,551</b>	967,426	1,012,846
Islamic deposits	<b>17,167</b>	-	-
	<b>2,192,746</b>	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	<b>141,674</b>	33,154	29,763
Negative fair value of derivatives (note 23)	<b>6,190</b>	10,488	11,167
Liabilities under acceptances (note 8)	<b>27,475</b>	32,920	27,848
	<b>175,339</b>	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>
<b>Statement of comprehensive income</b>			
Current period/year	<b>4,280</b>	4,471	5,953
Deferred tax adjustment	-	65	65
	<b>4,280</b>	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	<b>35,444</b>	35,001	46,680
Tax applicable rate	<b>4,253</b>	4,196	5,598
Non-deductible expenses	<b>88</b>	317	294
Tax exempt revenues	<b>(252)</b>	(313)	(330)
Others	<b>191</b>	336	456
	<b>4,280</b>	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>
<b>Tax liability</b>			
Income tax and other taxes – Current year	<b>4,280</b>	4,536	5,953
Income tax and other taxes – Prior years	<b>(127)</b>	(260)	(266)
	<b>4,153</b>	4,276	5,687

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

**11 TAXATION (continued)**

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

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

**12 SUBORDINATED DEBT**

	<b>30/09/2013</b>	<b>30/09/2012</b>	<b>31/12/2012</b>
	<b>RO'000</b>	<b>RO'000</b>	<b>RO'000</b>
At 1 January	<b>61,700</b>	54,700	54,700
Received during the period/year	<b>18,000</b>	-	7,000
	<b>79,700</b>	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	<b>1,153</b>	<b>3,766</b>	<b>25,800</b>	<b>30,719</b>
Net movement on available for sale investments	<b>1,979</b>	-	-	<b>1,979</b>
Tax effect of net results on available for sale financial investments	<b>(28)</b>	-	-	<b>(28)</b>
<b>At 30 September 2013</b>	<b>3,104</b>	<b>3,766</b>	<b>25,800</b>	<b>32,670</b>
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.

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

**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	<b>445,586</b>	421,658	456,721
Documentary letters of credit	<b>78,502</b>	72,596	59,902
Undrawn commitment to lend	<b>98,080</b>	180,832	149,626
	<b>622,168</b>	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	<b>2,500</b>	2,497
Fees and commissions	<b>8,544</b>	7,471
Net income from sale of investments	<b>902</b>	372
Income from bonds	<b>2,022</b>	1,709
Dividend income	<b>616</b>	846
Service charges	<b>7,323</b>	10,749
Miscellaneous income	<b>206</b>	243
	<b>22,113</b>	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	<b>3,462</b>	3,470
Operating and administration expenses	<b>8,656</b>	8,738
	<b>12,118</b>	12,208

**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT**  
**30 September 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

	30/09/2013			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:

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

**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:

	<b>Number of shares '000</b>	<b>% Holding</b>
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**  
**30 September 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>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>
<b>Operating income</b>	<b>40,145</b>	<b>27,250</b>	<b>1,386</b>	<b>4,040</b>	<b>4,585</b>	<b>129</b>	<b>77,535</b>
<b>Net Profit / (loss)</b>	<b>22,123</b>	<b>21,063</b>	<b>872</b>	<b>3,351</b>	<b>(15,697)</b>	<b>(548)</b>	<b>31,164</b>
<b>Total assets</b>	<b>1,015,354</b>	<b>1,111,995</b>	<b>29,057</b>	<b>127,247</b>	<b>700,260</b>	<b>10,724</b>	<b>2,994,637</b>
<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>
<b>Operating income</b>	<b>40,995</b>	<b>23,617</b>	<b>1,573</b>	<b>3,696</b>	<b>3,974</b>	<b>-</b>	<b>73,855</b>
<b>Net Profit / (loss)</b>	<b>24,107</b>	<b>18,789</b>	<b>(450)</b>	<b>3,205</b>	<b>(15,186)</b>	<b>-</b>	<b>30,465</b>
<b>Total assets</b>	<b>910,479</b>	<b>983,563</b>	<b>19,940</b>	<b>75,009</b>	<b>530,004</b>	<b>-</b>	<b>2,518,995</b>



**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT**  
**30 September 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 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>30 September 2013</i>	<i>Level 1 RO'000</i>	<i>Level 2 RO'000</i>	<i>Level 3 RO'000</i>	<i>Total RO'000</i>
<b>Investments – held for trading:</b>				
Government development bonds	<b>21,086</b>	-	-	<b>21,086</b>
<b>Total</b>	<b>21,086</b>	-	-	<b>21,086</b>
<b>Investments - available for sale:</b>				
Government development bonds	<b>78,276</b>	-	-	<b>78,276</b>
Quoted equities	<b>10,839</b>	-	-	<b>10,839</b>
Other unquoted equities	-	<b>16,430</b>	-	<b>16,430</b>
<b>Total</b>	<b>89,115</b>	<b>16,430</b>	-	<b>105,545</b>
<b>Total financial assets</b>	<b>110,201</b>	<b>16,430</b>	-	<b>126,631</b>
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).

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

**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	-	-
<b>Total</b>	<b>6,033</b>	<b>(6,190)</b>	<b>309,822</b>	<b>120,563</b>	<b>41,926</b>	<b>147,333</b>
<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	-
<b>Total</b>	<b>10,500</b>	<b>(10,488)</b>	<b>291,156</b>	<b>96,552</b>	<b>65,721</b>	<b>128,883</b>
<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	-
<b>Total</b>	<b>11,070</b>	<b>(11,167)</b>	<b>368,234</b>	<b>166,360</b>	<b>75,261</b>	<b>126,613</b>