

National Bank of Oman SAOG

INTERIM CONDENSED FINANCIAL STATEMENTS

31 March 2014 (UNAUDITED)



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Chairman's Report – 31 March 2014

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 quarter ended 31 March 2014.

Operating Performance

Net profit recorded for the quarter at OMR 10.3 million, shows an 20% increase compared with OMR 8.6 million for the same period last year. This increase is primarily a result of stronger revenue growth at 7% and lower net provisions charge of 37% compared to the same period last year.

Net interest income from conventional banking and revenues from Islamic financing activities increased by 10% to OMR 19.1 million for the period, as a result of growth in loans and advances, as well as a better deposit mix. Low cost deposits continue to show improvement and this has resulted in a reduction in our cost of funds.

Total non-interest income for the quarter increased by 3% to OMR 7.2 million. This has arrested the declining trend seen in non-interest income since May 2012. The Bank has actively managed to widen fee income streams so that it is not reliant on a few income lines.

Operating expenses are 9% above the same period last year. New infrastructure has been created to support our Islamic and UAE businesses which are at fledgling stages. We hope to achieve improvements to our cost to income ratio as these new businesses grow to their potential.

Impairment on loans and advances at OMR 1.92 million is significantly lower compared to the same period last year. Lower provisions on our corporate book and a reduced requirement for general provisions account for this positive variance. The Bank's asset quality is satisfactory with NPLs at 2.25% and coverage of 145%.

During the quarter, loans and advances grew by 1.1% to OMR 2092 million. However, it is very pleasing to note that within this modest growth, our UAE business recorded a strong growth partially offsetting the large repayments that have occurred in the Bank's Oman business. In Oman, the Bank has experienced a strong growth in deposits and as a result the Bank's deposits grew by 30% to OMR 2830 million. Consequently, the balance sheet at the end of the quarter is very liquid. The Bank will, in due course, deploy this surplus liquidity in quality assets.

Capital

Shareholders' funds stand at OMR 322.5 million, showing a reduction of OMR 5.6 million from December 2013 levels, as a result of dividend payments partially offset by interim profits. The Bank's capital adequacy ratio continues to be strong at 14.5% as at 31 March 2014 against the statutory requirement of 12.625%. The capital position will be managed and maintained at a level above Central Bank of Oman's minimum requirement.

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.

Chairman

Mohammed Mahfoodh Al Ardhi

INTERIM CONDENSED STATEMENT OF FINANCIAL POSITION
31 March 2014 (Un-audited)

		31-03-2014	31-03-2013	<i>Audited</i> 31-12-2013
	<i>Notes</i>	RO'000	RO'000	RO'000
Assets				
Cash and balances with Central Banks	3	1,024,514	356,947	368,316
Due from banks and other money market placements (net)	4	140,124	196,480	228,518
Loans, advances and financing activities for customers (net)	5	2,091,874	1,971,012	2,068,199
Financial investments	6	133,872	110,408	132,603
Premises and equipment	7	20,297	20,131	20,104
Deferred tax asset	11	410	381	460
Other assets	8	114,983	78,383	78,141
Total assets		3,526,074	2,733,742	2,896,341
Liabilities				
Due to banks and other money market deposits		189,337	183,144	226,359
Customers' deposits and unrestricted investment accounts	9	2,829,984	2,072,652	2,179,159
Other liabilities	10	102,972	102,508	77,512
Taxation	11	1,576	1,259	5,527
Total liabilities		3,123,869	2,359,563	2,488,557
Subordinated debt	12	79,700	79,700	79,700
Equity				
Share capital		121,883	110,803	110,803
Share premium		34,465	34,465	34,465
Legal reserve		39,586	39,586	39,586
General reserve		4,419	4,419	4,419
Other non-distributable reserves	13	45,639	31,551	44,905
Proposed cash dividend		-	-	16,620
Proposed stock dividend		-	-	11,080
Retained earnings		76,513	73,655	66,206
Total equity		322,505	294,479	328,084
Total liabilities, subordinated debt and equity		3,526,074	2,733,742	2,896,341

The interim condensed financial statements were authorised for issue on 17th April 2014 in accordance with a resolution of the Board of Directors.

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

INTERIM CONDENSED STATEMENT OF COMPREHENSIVE INCOME
31 March 2014 (Un-audited)

	Notes	<i>Three months ended 31 March</i>	
		2014 RO'000	2013 RO'000
Interest income	15	28,657	27,719
Interest expense	16	(9,736)	(10,319)
Net interest income		18,921	17,400
Income from Islamic financing and Investment activities		217	5
Unrestricted investment account holders' share of profit		(40)	(1)
Net Income from Islamic financing and Investment activities		177	4
Other operating income	17	7,201	7,011
OPERATING INCOME		26,299	24,415
OPERATING EXPENSES			
Staff costs		(7,590)	(6,842)
Other operating expenses	18	(4,272)	(3,881)
Depreciation	7	(744)	(873)
		(12,606)	(11,596)
PROFIT FROM OPERATIONS BEFORE IMPAIRMENT LOSSES AND TAX		13,693	12,819
Credit loss expense – customer loans	5	(3,744)	(4,396)
Recoveries and releases from provision for credit losses	5	148	147
Recoveries from loans and advances written off		1,546	1,818
(Impairment) / Write-back losses on available for sale investments		(17)	21
Write-back / (Credit) loss expense - bank loans		139	(639)
TOTAL IMPAIRMENT LOSSES (NET)		(1,928)	(3,049)
PROFIT BEFORE TAX		11,765	9,770
Taxation	11	(1,458)	(1,184)
PROFIT FOR THE PERIOD		10,307	8,586
OTHER COMPREHENSIVE INCOME			
Net movement on available for sale investments		784	860
Tax effect of net results on available for sale financial investments		(50)	(28)
OTHER COMPREHENSIVE INCOME FOR THE PERIOD		734	832
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		11,041	9,418
Earnings per share annualized:			
Basic and diluted, profit for the period attributable to equity holders		0.034	0.029

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

INTERIM CONDENSED STATEMENT OF CASH FLOWS
31 March 2014 (Un-audited)

	<i>Notes</i>	<i>Three months ended</i>	
		<i>31 March</i>	
		2014	2013
		RO'000	RO'000
Profit before taxation		11,765	9,770
Adjustments for:			
Depreciation	7	744	873
Provision for credit losses (net)		3,596	4,249
(Write back)/provision for credit loss expenses bank loans (net)		(139)	639
Impairment/(write-back) on available for sale investments		17	(21)
Profit on sale of equipment (net)		(4)	-
Profit on sale of investments		(161)	(202)
Investment income		(1,406)	(1,015)
Operating profit before changes in operating assets and liabilities		14,412	14,293
Increase in due from and other money market deposits		29,398	(98,772)
Increase in due to and other money market placements		(42,350)	(9,625)
Increase in loans and advances to customers		(27,271)	(63,699)
Increase in other assets		(36,842)	(16,755)
Increase in customer deposits		650,825	185,898
Increase in other liabilities		25,460	33,730
Cash from operations		613,632	45,070
Tax paid		(5,358)	(5,578)
Net cash from operating activities		608,274	39,492
Investing activities			
Purchase of investments		(2,131)	(434)
Proceeds from sale of investments		1,739	1,588
Purchase of premises and equipment	7	(937)	(530)
Disposal of premises and equipment		4	-
Translation difference in premises & equipment & Tax		-	233
Interest on Govt. Development Bonds and T-Bills		714	616
Dividend income	17	692	399
Net cash used in investing activities		81	1,872
Financing activities			
Payment of dividend		(16,620)	(19,391)
Proceeds from Subordinated debt		-	18,000
Net cash used in financing activities		(16,620)	(1,391)
Increase in cash and cash equivalents		591,735	39,973
Cash and cash equivalents at the beginning of the period		479,315	279,178
Cash and cash equivalents at the end of the period		1,071,050	319,151
Representing:			
Cash and balances with Central Bank	3	1,024,014	356,447
Deposits and balances with other banks and financial institutions (net)		47,036	(37,296)
		1,071,050	319,151

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

INTERIM CONDENSED STATEMENT OF CHANGES IN EQUITY
Period ended 31 March 2014 (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 2013	110,803	34,465	39,586	4,419	30,719	19,391	-	65,069	304,452
Total comprehensive income for the period	-	-	-	-	832	-	-	8,586	9,418
Dividend paid during the period	-	-	-	-	-	(19,391)	-	-	(19,391)
Balance at 31 March 2013	110,803	34,465	39,586	4,419	31,551	-	-	73,655	294,479
Balance at 1 April 2013	110,803	34,465	39,586	4,419	31,551	-	-	73,655	294,479
Total comprehensive income for the period	-	-	-	-	814	-	-	32,791	33,605
Transfer to subordinated funds reserve	-	-	-	-	12,540	-	-	(12,540)	-
Transfer to legal reserve	-	-	-	-	-	-	-	-	-
Transfer to proposed cash dividend	-	-	-	-	-	16,620	-	(16,620)	-
Transfer to proposed stock dividend	-	-	-	-	-	-	11,080	(11,080)	-
Balance at 31 December 2013	110,803	34,465	39,586	4,419	44,905	16,620	11,080	66,206	328,084
Balance at 1 January 2014	110,803	34,465	39,586	4,419	44,905	16,620	11,080	66,206	328,084
Total comprehensive income for the period	-	-	-	-	734	-	-	10,307	11,041
Dividend paid during the period	-	-	-	-	-	(16,620)	-	-	(16,620)
Issue of shares	11,080	-	-	-	-	-	(11,080)	-	-
Balance at 31 March 2014	121,883	34,465	39,586	4,419	45,639	-	-	76,513	322,505

*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 31 March 2014 (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 1,371 employees as of 31 March 2014 (31 March 2013 – 1,338 employees and 31 December 2013 – 1,370)

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 2013.

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 three months ended 31 March 2014 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2014.

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 investments, either through profit and loss account or through other comprehensive Income, at fair value.

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT
31 March 2014 (Unaudited)

3 CASH AND BALANCES WITH CENTRAL BANKS

	<i>31/03/2014</i>	<i>31/03/2013</i>	<i>31/12/2013</i>
	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>
Cash	36,701	32,769	36,538
Treasury bills with Central Banks	-	1,978	-
Certificate of deposit with Central Banks	850,000	140,000	105,000
Other balances with Central Banks	137,313	181,700	226,278
Cash and cash equivalents	1,024,014	356,447	367,816
Capital deposit with Central Bank of Oman	500	500	500
Cash and balances with Central Banks	1,024,514	356,947	368,316

The capital deposit 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>31/03/2014</i>	<i>31/03/2013</i>	<i>31/12/2013</i>
	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>
Loans and advances to banks	-	70,455	13,860
Placements with bank	113,611	109,774	188,163
Demand balances	26,513	23,480	26,634
Due from banks and other money market placements	140,124	203,709	228,657
Less: allowance for credit losses	-	(7,161)	(139)
Less: reserved interest	-	(68)	-
Net due from banks and other money market placements	140,124	196,480	228,518

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT
31 March 2014 (Unaudited)

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

	<i>31/03/2014</i>	<i>31/03/2013</i>	<i>31/12/2013</i>
	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>
Corporate loans	1,072,007	1,013,375	1,032,480
Personal loans	1,028,235	986,575	1,056,760
Overdrafts	59,379	48,154	54,268
Islamic financing activities	20,822	1,699	13,333
Gross loans and advances	2,180,443	2,049,803	2,156,841
Less: Allowance for credit losses and reserved interest	(88,569)	(78,791)	(88,642)
Net loans and advances	2,091,874	1,971,012	2,068,199

Gross loans and advances include RO 29.9 million due from related parties at 31 March 2014 (31 March 2013 – RO 50.1 million, 31 December 2013 – RO 36.1 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>3 months</i>	<i>3 months</i>	<i>12 months</i>
	<i>ended</i>	<i>ended</i>	<i>ended</i>
	<i>31/03/2014</i>	<i>31/03/2013</i>	<i>31/12/2013</i>
	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>
Balance at beginning of period / year	67,752	58,001	58,001
Provided during the period / year	3,744	4,396	19,193
Recovered/ released during the period / year	(81)	(64)	(3,153)
Written off during the period / year	(924)	(1,453)	(6,132)
Translation difference	(5)	(143)	(157)
Balance at end of period / year	70,486	60,737	67,752

Reserved interest	<i>3 months</i>	<i>3 months</i>	<i>12 months</i>
	<i>ended</i>	<i>ended</i>	<i>ended</i>
	<i>31/03/2014</i>	<i>31/03/2013</i>	<i>31/12/2013</i>
	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>
Balance at beginning of period / year	20,890	16,829	16,829
Reserved during the period / year	1,186	1,531	5,991
Recovered/ released during the period / year	(67)	(83)	(386)
Recovered/released during the period to interest income	-	(29)	(193)
Written off during the period / year	(3,926)	(187)	(1,342)
Translation difference	-	(7)	(9)
Balance at end of period / year	18,083	18,054	20,890

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 31 March 2014 loans and advances on which interest is not being accrued or where interest has been reserved amounted to RO 66.7 million, (31 March 2013 – RO 82.4 million and 31 December 2013 – RO 61 million).

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT
31 March 2014 (Unaudited)

6 FINANCIAL INVESTMENTS

	<i>Carrying value 31/03/2014 RO'000</i>	<i>Carrying value 31/03/2013 RO'000</i>	<i>Carrying value 31/12/2013 RO'000</i>
A. Held for trading			
Quoted investments- Oman			
Government Development Bonds	26,698	-	26,760
Total held for trading	26,698	-	26,760
B. Available for sale			
Quoted investments- Oman			
Banking and investment sector	675	516	191
Manufacturing sector	1,354	1,105	1,099
Service sector	9,369	8,114	8,095
Government Development Bonds	75,043	85,948	75,269
	86,441	95,683	84,654
Quoted investments- Foreign			
Banking and investment sector	501	67	435
Service sector	3,349	-	2,729
Government Development Bonds	834	3,369	1,399
	4,684	3,436	4,563
Unquoted investments			
Banking and investment sector	10,570	7,509	10,555
Manufacturing sector	3,483	3,483	3,483
Service sector	225	297	811
	14,278	11,289	14,849
Total available for sale	105,403	110,408	104,066
C. Held to maturity			
Quoted investments- Overseas			
Manufacturing sector	1,771	-	1,777
Total Held to maturity	1,771	-	1,777
TOTAL FINANCIAL INVESTMENTS	133,872	110,408	132,603

Details of significant investments

Details of investments exceeding 10% of the carrying value of the bank's investment are as follows:

	<i>Bank's portfolio %</i>	<i>Carrying value RO'000</i>
<u>31 March 2014</u>		
Government Development Bonds-Oman	76.0	101,741
<u>31 March 2013</u>		
Government Development Bonds-Oman	77.8	85,948
<u>31 December 2013</u>		
Government Development Bonds-Oman	76.9	102,029

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT
31 March 2014 (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	12,367	4,762	2,975	20,104
Additions	144	391	402	937
Disposal	-	-	-	-
Transfers	-	108	(108)	-
Translation difference	-	-	-	-
Depreciation	(219)	(525)	-	(744)
Balance at 31 March 2014, net of accumulated depreciation	12,292	4,736	3,269	20,297
At cost / valuation	26,252	26,254	3,269	55,775
Accumulated depreciation	(13,960)	(21,518)	-	(35,478)
Net carrying value at 31 March 2014	12,292	4,736	3,269	20,297
Net carrying value at 31 March 2013	12,580	5,267	2,284	20,131
Net carrying value at 31 December 2013	12,367	4,762	2,975	20,104

8 OTHER ASSETS

	31/03/2014 RO'000	<i>31/03/2013 RO'000</i>	<i>31/12/2013 RO'000</i>
Interest receivable and others	51,243	33,081	36,289
Positive fair value of derivatives (note 23)	3,374	9,951	5,407
Customers' indebtedness for acceptances (note 10)	60,366	35,351	36,445
	114,983	78,383	78,141

9 CUSTOMERS' DEPOSITS AND UNRESTRICTED INVESTMENT ACCOUNTS

	31/03/2014 RO'000	<i>31/03/2013 RO'000</i>	<i>31/12/2013 RO'000</i>
Current accounts	1,289,216	512,261	609,839
Savings accounts	556,491	503,600	541,287
Certificates of deposit	-	5,000	-
Term deposits	965,340	1,050,987	1,012,918
Islamic deposits	18,937	804	15,115
	2,829,984	2,072,652	2,179,159

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT
31 March 2014 (Unaudited)

10 OTHER LIABILITIES

	<i>31/03/2014</i>	<i>31/03/2013</i>	<i>31/12/2013</i>
	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>
Interest payable and other accruals	39,261	57,557	35,669
Negative fair value of derivatives (note 23)	3,345	9,600	5,398
Liabilities under acceptances (note 8)	60,366	35,351	36,445
	102,972	102,508	77,512

11 TAXATION

	<i>31/03/2014</i>	<i>31/03/2013</i>	<i>31/12/2013</i>
	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>
Statement of comprehensive income			
Current period/year	1,458	1,184	5,591

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>31/03/2014</i>	<i>31/03/2013</i>	<i>31/12/2013</i>
	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>
Accounting profit	11,765	9,770	46,968
Tax applicable rate	1,412	1,169	5,636
Non-deductible expenses	34	43	110
Tax exempt revenues	(102)	(73)	(350)
Others	114	45	195
	1,458	1,184	5,591

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>31/03/2014</i>	<i>31/03/2013</i>	<i>31/12/2013</i>
	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>
Tax liability			
Income tax and other taxes – Current year	1,458	1,184	5,591
Income tax and other taxes – Prior years	118	75	(64)
	1,576	1,259	5,527

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT
31 March 2014 (Unaudited)

11 TAXATION (continued)

	31/03/2014	31/03/2013	31/12/2013
	RO'000	RO'000	RO'000
Recognised deferred tax assets and liabilities			
Deferred tax assets and liabilities are attributable to the following:			
Provisions	480	381	480
Available for sale investments	(70)	-	(20)
	410	381	460

Deferred tax is calculated at 12% (2013 – 12%).

12 SUBORDINATED DEBT

	31/03/2014	31/03/2013	31/12/2013
	RO'000	RO'000	RO'000
At 1 January	79,700	61,700	61,700
Received during the period/year	-	18,000	18,000
	79,700	79,700	79,700

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>
	RO '000	RO '000	RO '000	RO '000
At 1 January 2013	2,799	3,766	38,340	44,905
Net movement on available for sale investments	784	-	-	784
Tax effect of net results on available for sale financial investments	(50)	-	-	(50)
At 31 March 2014	3,533	3,766	38,340	45,639
At 31 March 2013	1,985	3,766	25,800	31,551

- (i) The revaluation reserve represents the surplus on revaluation of building and is not available for distribution until the related assets have been disposed off.
- (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
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14 CONTINGENT LIABILITIES AND COMMITMENTS

	<i>31/03/2014</i>	<i>31/03/2013</i>	<i>31/12/2013</i>
	<i>RO'000</i>	<i>RO' 000</i>	<i>RO'000</i>
Guarantees	476,891	457,754	482,327
Documentary letters of credit	69,606	68,129	80,423
Undrawn commitment to lend	93,344	141,966	97,836
	639,841	667,849	660,586

Contingent liabilities include RO 0.1 million (31 March 2013 – RO 0.1 million and 31 December 2013 – RO 0.1 million) relating to non-performing loans.

15 INTEREST INCOME

Interest bearing assets earned interest at an overall rate of 4.48% for the three months period ended 31 March 2014 (31 March 2013 – 5.00% and 31 December 2013 – 4.93%).

16 INTEREST EXPENSE

For the three months period ended 31 March 2014, the average overall cost of funds was 1.46 % (31 March 2013- 1.92% and 31 December 2013 – 1.84%).

17 OTHER OPERATING INCOME

	<i>3 months ended</i>	<i>3 months ended</i>
	<i>31/03/2014</i>	<i>31/03/2013</i>
	<i>RO'000</i>	<i>RO'000</i>
Net gains from foreign exchange dealings	892	918
Fees and commissions	3,574	2,736
Net income from sale of investments	161	202
Income from bonds	714	616
Dividend income	692	399
Service charges	1,050	2,086
Miscellaneous income	118	54
	7,201	7,011

18 OTHER OPERATING EXPENSES

	<i>3 months ended</i>	<i>3 months ended</i>
	<i>31/03/2014</i>	<i>31/03/2013</i>
	<i>RO'000</i>	<i>RO'000</i>
Establishment costs	1,405	1,111
Operating and administration expenses	2,867	2,770
	4,272	3,881

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

	31/03/2014			31/03/2013		
	Principal shareholder RO'000	Others RO'000	Total RO'000	Principal shareholder RO'000	Others RO'000	Total RO'000
Loans and advances	-	29,899	29,899	-	50,145	50,145
Customers' deposits	209,167	22,585	231,752	-	13,984	13,984
Due from banks	83	12,898	12,981	30	-	30
Due to banks	83	-	83	65	13,475	13,540
Subordinated debt	14,500	5,500	20,000	-	5,500	5,500
Letter of credit, guarantees and acceptance	700	1,017	1,717	27	1,835	1,862
Standby revolving credit facility	77,000	-	77,000	77,000	-	77,000
Risk indemnities received	957	667	1,624	859	3,333	4,192
Investments	2,026	166	2,192	-	-	-

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

	31/03/2014			31/03/2013		
	Principal shareholder RO'000	Others RO'000	Total RO'000	Principal shareholder RO'000	Others RO'000	Total RO'000
Interest income	4	322	326	6	412	418
Commission income	-	10	10	-	8	8
Interest expense	1,375	169	1,544	82	100	182
Other expenses	-	235	235	-	365	365

Senior management compensation:

	3 months ended 31/03/2014 RO'000	3 months ended 31/03/2013 RO'000
	Salaries and other short term benefits	
- Fixed	561	569
- Discretionary	830	824
	1,391	1,393

20 SHAREHOLDERS

As of 31 March 2014, the shareholders of the bank who own 10% or more of the bank's shares:

	Number of shares '000	% Holding
The Commercial Bank of Qatar	425,369	34.90
Suhail Bahwan Group (Holdings) LLC	179,707	14.74
Civil Service Employees Pension Fund	123,025	10.09

The percentage shareholding is calculated based on the total shares of the bank outstanding at the reporting date.

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>3 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>31-Mar-14</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	12,267	10,584	1,167	1,158	934	189	26,299
Net Profit / (loss)	6,961	7,527	995	1,161	(6,147)	(190)	10,307
Total assets	994,482	1,137,072	31,297	62,585	1,280,028	20,610	3,526,074
<i>3 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>31-Mar-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	12,532	8,152	789	1,569	1,358	15	24,415
Net Profit / (loss)	6,272	6,311	614	766	(5,258)	(119)	8,586
Total assets	956,747	1,039,783	21,091	138,769	566,114	11,238	2,733,742

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22 FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair values of financial instruments that are traded in active markets are based on quoted market prices or dealer price quotations. Other unquoted equities are valued based on information provided by fund managers, investee financial information and current purchase prices.

The Bank measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements.

Valuation models

Level 1: inputs that are quoted market prices (unadjusted) in active markets for identical instruments.

Level 2: inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.

Level 3: inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

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

31 March 2014	Level 1 RO'000	Level 2 RO'000	Total RO'000
Investments – held for trading:			
Government development bonds	26,698	-	26,698
Total	26,698	-	26,698
Investments - available for sale:			
Government development bonds	75,877	-	75,877
Quoted equities	15,248	-	15,248
Other unquoted equities	-	14,278	14,278
Total	91,125	14,278	105,403
Total financial assets at 31 March 2014	117,823	14,278	132,101
Total financial assets at 31 March 2013	99,119	11,289	110,408
Total financial assets at 31 December 2013	115,977	14,849	130,826

Derivative financial instrument at level 2 are valued based on counter party valuation, quoted forward rates and yield curves.

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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>31 March 2014</i>						
<i>Derivatives</i>						
Interest rate swaps	3,290	(3,290)	139,171	2,125	11,690	125,356
Forward foreign exchange purchase contracts	39	(24)	110,687	63,871	46,816	-
Forward foreign exchange sales contracts	44	(30)	110,687	63,887	46,800	-
Currency options	1	(1)	638	638	-	-
Total	3,374	(3,345)	361,183	130,521	105,306	125,356
<i>31 March 2013</i>						
<i>Derivatives</i>						
Interest rate swaps	8,386	(8,386)	152,198	2,125	11,435	138,638
Forward foreign exchange purchase contracts	30	(96)	71,023	50,949	20,074	-
Forward foreign exchange sales contracts	434	(17)	71,023	51,282	19,741	-
Currency options	895	(895)	60,864	30,551	30,313	-
Commodity hedging	206	(206)	60,094	27,698	32,396	-
Total	9,951	(9,600)	415,202	162,605	113,959	138,638
<i>31 December 2013</i>						
<i>Derivatives</i>						
Interest rate swaps	5,261	(5,261)	144,155	2,125	11,690	130,340
Forward foreign exchange purchase contracts	53	(49)	49,505	39,660	9,845	-
Forward foreign exchange sales contracts	54	(49)	49,505	39,663	9,842	-
Currency options	16	(16)	4,244	3,820	424	-
Commodity hedging	23	(23)	2,193	2,193	-	-
Total	5,407	(5,398)	249,602	87,461	31,801	130,340