

# **National Bank of Oman SAOG**

## **INTERIM CONDENSED FINANCIAL STATEMENTS**

**30 June 2014 (UNAUDITED)**



SR.NO	INDEX	PAGE NO
1	CHAIRMAN REPORT	2
2	INTERIM CONDENSED STATEMENT OF FINANCIAL POSITION	3
3	INTERIM CONDENSED STATEMENT OF COMPREHENSIVE INCOME	4
4	INTERIM CONDENSED STATEMENT OF CASH FLOWS	5
5	INTERIM CONDENSED STATEMENT OF CHANGES IN EQUITY	6
6	NOTES TO INTERIM CONDENSED FINANCIAL INFORMATION	7-19

## **Chairman's Report for the six months ended 30 June 2014**

**Dear Shareholders,**

Over the last six months, our primary focus has been on maintaining our track record of sustainable growth through a strategy based on four key foundations: putting our customers first, creating the best working environment for our employees, yielding strong and sustainable returns for our shareholders and investing in our community.

On the 10th of May, we were pleased to announce the appointment the new Chief Executive Officer, Ahmed Al Musalmi, who demonstrated great leadership and has already started to deliver on the Bank's strategic growth plans as we focus on achieving our vision: To be the bank of choice.

On behalf of the Board of Directors of National Bank of Oman SAOG, it gives me great pleasure to present you with your Bank's results for the six months ended 30 June 2014.

### **Financial Performance Summary**

Net profit for the six months ended 30 June 2014 increased by 22.8% to OMR 23.0 million, compared to OMR 18.8 million for the same period last year. This increase primarily results from stronger revenue growth at 7%, and 62% lower net provisions charge compared to the same period last year.

Net interest income from conventional banking and revenues from Islamic financing activities increased by 6.2% to OMR 38.5 million for the period, due to growth in loans and advances as well as a better deposit mix. Low cost deposits have improved substantially and this has reduced our deposit costs.

Total non-interest income for the six months ended 30 June 2014 increased by 8.9% to OMR 15.7 million. The Bank has actively managed to diversify its fee income streams so that it is not dependent on a few income lines.

Operating expenses increased by 8.9% compared to the same period last year. The increase is mostly attributed to associated costs for expansion of the UAE and Islamic businesses. These businesses have registered a strong growth since commencement of the year and we hope to improve our cost to income ratio from the existing 47%, as these new businesses grow.

Impairments on loans and advances stood at OMR 2.2 million, which 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 2.1% and coverage in excess of 146%.

During the six months ended 30 June 2014, net loans, advances and financing activities grew by 7.4% to OMR 2,222 million. The loan book of the UAE and the Islamic Banking (Muzn) businesses registered healthy growth to support the Bank's overall loan book. In Oman, the bank grew its low cost deposits and as a result, the Bank's total deposits rose by

28% to OMR 2,789 million which resulted in a reduction in the cost of funds. This growth led to an increase in lower yielding certificates of deposit, thereby reducing the spread. The bank will look to deploy this surplus liquidity in quality assets.

## **Capital**

Shareholder's funds stands at OMR 334.7 million showing an increase of OMR 6.6 million from December 2013 levels as a result of interim profit partially offset by dividend payments in the last quarter. The Bank's capital adequacy ratio continues to be strong at 14.1%, excluding interim profits, as at 30 June 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.

## **Our Transformational Journey**

National Bank of Oman has continued to innovate through the first half of 2014, launching new services which cater to our customers' requirements. This is reflected in the consistent trend of impressive, strong growth, particularly in the Bank's profits.

We started off the year with a strategy to transform the Bank, to deliver a consistently superior customer experience through all our customer touch points. Significant investments have been made in expanding our distribution network, improving our digital platforms and supporting our people's development to benefit from a much sharper focus on performance and delivery.

The Bank opened a new branch in Al Rustaq with a dedicated Sadara Centre to serve customers in that region as well as five new Muzn Islamic Banking branches in Mabellah, Sur, Sohar, Salalah and Nizwa.

In line with our commitment to continue to interact and connect with our customers, employees and our community, National Bank of Oman recently launched its social media pages on Facebook, Twitter, Instagram and YouTube. This important milestone is the first of many to come as we continue to innovate to expand our reach and deliver a superior customer experience across all our conventional and digital channels.

To reward our customers for their loyalty, the Bank introduced the 'MyChoice Rewards' loyalty Program, which enables all National Bank of Oman Debit and Credit cardholders to earn and redeem rewards points, in addition to many other offers and benefits that were introduced over the last quarter.

We remain committed to attracting and developing Omani talent and providing more career advancement and development opportunities for our people. We have continued to invest in many talent development initiatives and training and development programs designed to address competency gaps, these include customer service excellence workshops and a leadership development program offered by the London Business School of Management through the Bank's Academy of Excellence. We also launched a series of staff engagement initiatives across the Sultanate that will help ensure all our employees are aligned to the Bank's vision and strategy. With the support of our strong and talented

workforce, I believe we are better positioned to realize our growth opportunities, and we are very excited about our prospects.

As part of our commitment to our community, we have invested in various corporate social responsibility initiatives including a workshop for Omani designers to help them run their SMEs, Ernst & Young's 'Student Excellence Awards' to recognize and reward the future leaders of Oman, and we supported the distribution of food hampers to underprivileged families in various Governorates across the Sultanate.

### **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. 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 inspirational leadership and vision and under whose wise guidance, Oman steadfastly continues on its path towards successful development.

**Mohammed Mahfoodh Al Ardhi**  
**Chairman**

**INTERIM CONDENSED STATEMENT OF FINANCIAL POSITION**  
**30 June 2014 (Un-audited)**

		<b>30-06-2014</b>	30-06-2013	<i>Audited</i> 31-12-2013
	<i>Notes</i>	<b>RO'000</b>	RO'000	RO'000
<b>Assets</b>				
Cash and balances with Central Banks	3	<b>936,806</b>	321,529	368,316
Due from banks and other money market placements (net)	4	<b>135,404</b>	165,272	228,518
Loans, advances and financing activities for customers (net)	5	<b>2,221,680</b>	2,075,229	2,068,199
Financial investments	6	<b>129,090</b>	124,334	132,603
Premises and equipment	7	<b>21,149</b>	19,999	20,104
Deferred tax asset	11	<b>426</b>	381	460
Other assets	8	<b>73,942</b>	64,311	78,141
<b>Total assets</b>		<b>3,518,497</b>	2,771,055	2,896,341
<b>Liabilities</b>				
Due to banks and other money market deposits		<b>224,079</b>	210,606	226,359
Customers' deposits and unrestricted investment accounts	9	<b>2,788,924</b>	2,087,035	2,179,159
Other liabilities	10	<b>87,577</b>	85,641	77,512
Taxation	11	<b>3,492</b>	2,459	5,527
<b>Total liabilities</b>		<b>3,104,072</b>	2,385,741	2,488,557
<b>Subordinated debt</b>	12	<b>79,700</b>	79,700	79,700
<b>Equity</b>				
Share capital		<b>121,883</b>	110,803	110,803
Share premium		<b>34,465</b>	34,465	34,465
Legal reserve		<b>39,586</b>	39,586	39,586
General reserve		<b>4,419</b>	4,419	4,419
Other non-distributable reserves	13	<b>45,117</b>	32,500	44,905
Proposed cash dividend		-	-	16,620
Proposed stock dividend		-	-	11,080
Retained earnings		<b>89,255</b>	83,841	66,206
<b>Total equity</b>		<b>334,725</b>	305,614	328,084
<b>Total liabilities, subordinated debt and equity</b>		<b>3,518,497</b>	2,771,055	2,896,341

The interim condensed financial statements were authorised for issue on 16 July 2014 in accordance with a resolution of the Board of Directors.

The attached notes 1 to 24 form part of the interim condensed financial statements.

## INTERIM CONDENSED STATEMENT OF COMPREHENSIVE INCOME

30 June 2014 (Un-audited)

	Notes	<u>Six months ended 30 June</u>		<u>Three months ended 30 June</u>	
		2014 RO'000	2013 RO'000	2014 RO'000	2013 RO'000
Interest income	15	57,392	57,237	28,735	29,518
Interest expense	16	(19,409)	(21,073)	(9,673)	(10,754)
<b>Net interest income</b>		<b>37,983</b>	36,164	<b>19,062</b>	18,764
Income from Islamic financing and Investment activities		573	51	356	46
Unrestricted investment account holders' share of profit		(105)	(16)	(65)	(15)
<b>Net Income from Islamic financing and Investment activities</b>		<b>468</b>	35	<b>291</b>	31
Other operating income	17	15,686	14,403	8,485	7,392
<b>OPERATING INCOME</b>		<b>54,137</b>	50,602	<b>27,838</b>	26,187
<b>OPERATING EXPENSES</b>					
Staff costs		(15,407)	(13,573)	(7,817)	(6,731)
Other operating expenses	18	(8,600)	(8,078)	(4,328)	(4,197)
Depreciation	7	(1,453)	(1,737)	(709)	(864)
		<b>(25,460)</b>	(23,388)	<b>(12,854)</b>	(11,792)
<b>PROFIT FROM OPERATIONS BEFORE IMPAIRMENT LOSSES AND TAX</b>		<b>28,677</b>	27,214	<b>14,984</b>	14,395
Credit loss expense – customer loans	5	(7,575)	(10,030)	(3,831)	(5,634)
Recoveries and releases from provision for credit losses	5	2,132	685	1,984	538
Recoveries from loans and advances written off		3,100	3,804	1,554	1,986
Write-back / Impairment losses on available for sale investments		(20)	29	(3)	8
Write-back / Credit loss expense - bank loans		121	(371)	(18)	268
<b>TOTAL IMPAIRMENT LOSSES (NET)</b>		<b>(2,242)</b>	(5,883)	<b>(314)</b>	(2,834)
<b>PROFIT BEFORE TAX</b>		<b>26,435</b>	21,331	<b>14,670</b>	11,561
Taxation	11	(3,386)	(2,559)	(1,928)	(1,375)
<b>PROFIT FOR THE PERIOD</b>		<b>23,049</b>	18,772	<b>12,742</b>	10,186
<b>OTHER COMPREHENSIVE INCOME</b>					
<b>Items that are or may be reclassified subsequently to profit or loss</b>					
Net movement on available for sale investments		246	1,809	(538)	949
Tax effect of net results on available for sale financial investments		(34)	(28)	16	-
<b>OTHER COMPREHENSIVE INCOME FOR THE PERIOD</b>		<b>212</b>	1,781	<b>(522)</b>	949
<b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD</b>		<b>23,261</b>	20,553	<b>12,220</b>	11,135
Earnings per share annualized:					
Basic and diluted, profit for the period attributable to equity holders		0.038	0.031	0.042	0.034

The attached notes 1 to 24 form part of the interim condensed financial statements.

**INTERIM CONDENSED STATEMENT OF CASH FLOWS**  
**30 June 2014 (Un-audited)**

	Notes	Six months ended	
		30 June	
		2014	2013
		RO'000	RO'000
<b>Profit before taxation</b>		<b>26,435</b>	21,331
Adjustments for:			
Depreciation	7	1,453	1,737
Provision for credit losses (net)		5,443	9,345
(Write back)/provision for credit loss expenses bank loans (net)		(121)	371
Impairment/(write-back) on available for sale investments		20	(29)
Profit on sale of equipment (net)		(7)	(1)
Profit on sale of investments		(1,360)	(522)
Investment income		(2,226)	(1,841)
<b>Operating profit before changes in operating assets and liabilities</b>		<b>29,637</b>	30,391
Increase in due from and other money market deposits		(3,882)	(6,301)
(Decrease)/Increase in due to and other money market placements		(26,947)	32,725
Increase in loans and advances to customers		(158,924)	(173,012)
Increase /(Decrease) in other assets		4,199	(2,683)
Increase in customer deposits		609,765	200,281
Increase in other liabilities		10,065	16,863
<b>Cash from operations</b>		<b>463,913</b>	98,264
Tax paid		(5,411)	(5,739)
<b>Net cash from operating activities</b>		<b>458,502</b>	92,525
<b>Investing activities</b>			
Purchase of investments		(8,024)	(14,004)
Proceeds from sale of investments		13,133	2,411
Purchase of premises and equipment	7	(2,514)	(1,304)
Disposal of premises and equipment		14	33
Translation difference in premises & equipment & Tax		(11)	327
Interest on Govt. Development Bonds and T-Bills		1,369	1,312
Dividend income	17	857	529
<b>Net cash from / used in investing activities</b>		<b>4,824</b>	(10,696)
<b>Financing activities</b>			
Payment of dividend		(16,620)	(19,391)
Proceeds from Subordinated debt		-	18,000
<b>Net cash used in financing activities</b>		<b>(16,620)</b>	(1,391)
<b>Increase in cash and cash equivalents</b>		<b>446,706</b>	80,438
Cash and cash equivalents at the beginning of the period		479,315	279,178
<b>Cash and cash equivalents at the end of the period</b>		<b>926,021</b>	359,616
<b>Representing:</b>			
Cash and balances with Central Bank	3	936,306	321,029
Deposits and balances with other banks and financial institutions (net)		(10,285)	38,587
		<b>926,021</b>	359,616

The attached explanatory notes 1 to 24 form part of the interim condensed financial statements.

**INTERIM CONDENSED STATEMENT OF CHANGES IN EQUITY**  
**Period ended 30 June 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	-	-	-	-	1,781	-	-	18,772	20,553
Dividend paid during the period	-	-	-	-	-	(19,391)	-	-	(19,391)
<b>Balance at 30 June 2013</b>	<b>110,803</b>	<b>34,465</b>	<b>39,586</b>	<b>4,419</b>	<b>32,500</b>	<b>-</b>	<b>-</b>	<b>83,841</b>	<b>305,614</b>
Balance at 1 July 2013	110,803	34,465	39,586	4,419	32,500	-	-	83,841	305,614
Total comprehensive income for the period	-	-	-	-	(135)	-	-	22,605	22,470
Transfer to subordinated debt 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)	-
<b>Balance at 31 December 2013</b>	<b>110,803</b>	<b>34,465</b>	<b>39,586</b>	<b>4,419</b>	<b>44,905</b>	<b>16,620</b>	<b>11,080</b>	<b>66,206</b>	<b>328,084</b>
Balance at 1 January 2014	<b>110,803</b>	<b>34,465</b>	<b>39,586</b>	<b>4,419</b>	<b>44,905</b>	<b>16,620</b>	<b>11,080</b>	<b>66,206</b>	<b>328,084</b>
Total comprehensive income for the period	-	-	-	-	212	-	-	23,049	23,261
Dividend paid during the period	-	-	-	-	-	(16,620)	-	-	(16,620)
Issue of shares	11,080	-	-	-	-	-	(11,080)	-	-
<b>Balance at 30 June 2014</b>	<b>121,883</b>	<b>34,465</b>	<b>39,586</b>	<b>4,419</b>	<b>45,117</b>	<b>-</b>	<b>-</b>	<b>89,255</b>	<b>334,725</b>

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

The attached notes 1 to 24 form part of the interim condensed financial statements.

---

## NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT 30 June 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 1,393 employees as of 30 June 2014 (30 June 2013 – 1,331 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 six months ended 30 June 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**  
**30 June 2014 (Unaudited)**

**3 CASH AND BALANCES WITH CENTRAL BANKS**

	<i>30/06/2014</i>	<i>30/06/2013</i>	<i>31/12/2013</i>
	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>
Cash	<b>41,753</b>	33,909	36,538
Treasury bills with Central Banks	-	1,582	-
Certificate of deposit with Central Banks	<b>850,000</b>	130,000	105,000
Other balances with Central Banks	<b>44,553</b>	155,538	226,278
<b>Cash and cash equivalents</b>	<b>936,306</b>	321,029	367,816
Capital deposit with Central Bank of Oman	<b>500</b>	500	500
<b>Cash and balances with Central Banks</b>	<b>936,806</b>	321,529	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>30/06/2014</i>	<i>30/06/2013</i>	<i>31/12/2013</i>
	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>
Loans and advances to banks	<b>3,502</b>	43,565	13,860
Placements with bank	<b>105,495</b>	112,637	188,163
Demand balances	<b>26,424</b>	16,031	26,634
<b>Due from banks and other money market placements</b>	<b>135,421</b>	172,233	228,657
Less: allowance for credit losses	<b>(17)</b>	(6,893)	(139)
Less: reserved interest	-	(68)	-
<b>Net due from banks and other money market placements</b>	<b>135,404</b>	165,272	228,518

**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT**  
**30 June 2014 (Unaudited)**

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

	<i>30/06/2014</i>	<i>30/06/2013</i>	<i>31/12/2013</i>
	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>
Corporate loans	<b>1,176,435</b>	1,084,389	1,032,480
Personal loans	<b>1,010,147</b>	1,012,067	1,056,760
Overdrafts	<b>65,139</b>	53,240	54,268
Islamic financing activities	<b>52,199</b>	8,067	13,333
Gross loans and advances	<b>2,303,920</b>	2,157,763	2,156,841
Less: Allowance for credit losses and reserved interest	<b>(82,240)</b>	(82,534)	(88,642)
Net loans and advances	<b>2,221,680</b>	2,075,229	2,068,199

Gross loans and advances include RO 27.6 million due from related parties at 30 June 2014 (30 June 2013 – RO 48.4 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:

<b>Allowance for credit losses</b>	<i>6 months</i>	<i>6 months</i>	<i>12 months</i>
	<i>ended</i>	<i>ended</i>	<i>ended</i>
	<i>30/06/2014</i>	<i>30/06/2013</i>	<i>31/12/2013</i>
	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>
Balance at beginning of period / year	<b>67,752</b>	58,001	58,001
Provided during the period / year	<b>7,575</b>	10,030	19,193
Recovered/ released during the period / year	<b>(1,973)</b>	(568)	(3,153)
Written off during the period / year	<b>(3,603)</b>	(3,233)	(6,132)
Translation difference	<b>(54)</b>	(190)	(157)
Balance at end of period / year	<b>69,697</b>	64,040	67,752

<b>Reserved interest</b>	<i>6 months</i>	<i>6 months</i>	<i>12 months</i>
	<i>ended</i>	<i>ended</i>	<i>ended</i>
	<i>30/06/2014</i>	<i>30/06/2013</i>	<i>31/12/2013</i>
	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>
Balance at beginning of period / year	<b>20,890</b>	16,829	16,829
Reserved during the period / year	<b>2,415</b>	2,972	5,991
Recovered/ released during the period / year	<b>(159)</b>	(117)	(386)
Recovered/released during the period to interest income	<b>-</b>	(77)	(193)
Written off during the period / year	<b>(10,600)</b>	(1,103)	(1,342)
Translation difference	<b>(3)</b>	(10)	(9)
Balance at end of period / year	<b>12,543</b>	18,494	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 30 June 2014 loans and advances on which interest is not being accrued or where interest has been reserved amounted to RO 60.4 million, (30 June 2013 – RO 79.0 million and 31 December 2013 – RO 61 million).

**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT  
30 June 2014 (Unaudited)**

**6 FINANCIAL INVESTMENTS**

	<i>Carrying value 30/06/2014 RO'000</i>	<i>Carrying value 30/06 /2013 RO'000</i>	<i>Carrying value 31/12/2013 RO'000</i>
<b>A. Held for trading</b>			
<b>Quoted investments- Oman</b>			
Government Development Bonds	26,638	10,838	26,760
Equities	119	-	-
	<b>26,757</b>	<b>10,838</b>	<b>26,760</b>
<b>Quoted investments- Foreign</b>			
Equities	300	-	-
	<b>300</b>	<b>-</b>	<b>-</b>
<b>Total held for trading</b>	<b>27,057</b>	<b>10,838</b>	<b>26,760</b>
<b>B. Available for sale</b>			
<b>Quoted investments- Oman</b>			
Banking and investment sector	634	612	191
Manufacturing sector	1,179	1,623	1,099
Service sector	15,145	8,585	8,095
Government Development Bonds	74,817	85,726	75,269
	<b>91,775</b>	<b>96,546</b>	<b>84,654</b>
<b>Quoted investments- Foreign</b>			
Banking and investment sector	523	359	435
Service sector	-	-	2,729
Government Development Bonds	-	3,272	1,399
	<b>523</b>	<b>3,631</b>	<b>4,563</b>
<b>Unquoted investments</b>			
Banking and investment sector	4,291	7,834	10,555
Manufacturing sector	3,483	3,483	3,483
Service sector	196	213	811
	<b>7,970</b>	<b>11,530</b>	<b>14,849</b>
<b>Total available for sale</b>	<b>100,268</b>	<b>111,707</b>	<b>104,066</b>
<b>C. Held to maturity</b>			
<b>Quoted investments- Overseas</b>			
Manufacturing sector	1,765	1,789	1,777
<b>Total Held to maturity</b>	<b>1,765</b>	<b>1,789</b>	<b>1,777</b>
<b>TOTAL FINANCIAL INVESTMENTS</b>	<b>129,090</b>	<b>124,334</b>	<b>132,603</b>

**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>
<b><u>30 June 2014</u></b>		
Government Development Bonds-Oman	<b>78.6</b>	<b>101,455</b>
<b><u>30 June 2013</u></b>		
Government Development Bonds-Oman	77.7	95,564
<b><u>31 December 2013</u></b>		
Government Development Bonds-Oman	76.9	102,029

**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT**  
**30 June 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>
<b>Reconciliation of carrying amount:</b>				
Balance at 1 January 2014, net of accumulated depreciation	12,367	4,762	2,975	20,104
Additions	277	595	1,642	2,514
Disposal	-	(8)	-	(8)
Transfers	-	108	(108)	-
Translation difference	(8)	-	-	(8)
Depreciation	(421)	(1,032)	-	(1,453)
<b>Balance at 30 June 2014, net of accumulated depreciation</b>	<b>12,215</b>	<b>4,425</b>	<b>4,509</b>	<b>21,149</b>
At cost / valuation	26,008	25,789	4,509	56,306
Accumulated depreciation	(13,793)	(21,364)	-	(35,157)
<b>Net carrying value at 30 June 2014</b>	<b>12,215</b>	<b>4,425</b>	<b>4,509</b>	<b>21,149</b>
Net carrying value at 30 June 2013	12,741	5,410	1,848	19,999

**8 OTHER ASSETS**

	<i>30/06/2014 RO'000</i>	<i>30/06/2013 RO'000</i>	<i>31/12/2013 RO'000</i>
Interest receivable and others	24,831	23,812	36,289
Positive fair value of derivatives (note 24)	5,679	8,196	5,407
Customers' indebtedness for acceptances (note 10)	43,432	32,303	36,445
	<b>73,942</b>	<b>64,311</b>	<b>78,141</b>

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

	<i>30/06/2014 RO'000</i>	<i>30/06/2013 RO'000</i>	<i>31/12/2013 RO'000</i>
Current accounts	1,297,472	531,378	609,839
Savings accounts	557,979	528,983	541,287
Certificates of deposit	-	5,000	-
Term deposits	915,043	1,007,899	1,012,918
Islamic deposits	18,430	13,775	15,115
	<b>2,788,924</b>	<b>2,087,035</b>	<b>2,179,159</b>

**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT**  
**30 June 2014 (Unaudited)**

**10 OTHER LIABILITIES**

	<i>30/06/2014</i>	<i>30/06/2013</i>	<i>31/12/2013</i>
	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>
Interest payable and other accruals	<b>38,484</b>	45,247	35,669
Negative fair value of derivatives (note 24)	<b>5,661</b>	8,091	5,398
Liabilities under acceptances (note 8)	<b>43,432</b>	32,303	36,445
	<b>87,577</b>	85,641	77,512

**11 TAXATION**

	<i>30/06/2014</i>	<i>30/06/2013</i>	<i>31/12/2013</i>
	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>
<b>Statement of comprehensive income</b>			
Current period/year	<b>3,386</b>	2,559	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>30/06/2014</i>	<i>30/06/2013</i>	<i>31/12/2013</i>
	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>
Accounting profit	<b>26,435</b>	21,331	46,968
Tax at applicable rate	<b>3,172</b>	2,560	5,636
Non-deductible expenses	<b>51</b>	67	110
Tax exempt revenues	<b>(243)</b>	(192)	(350)
Others	<b>406</b>	124	195
	<b>3,386</b>	2,559	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>30/06/2014</i>	<i>30/06/2013</i>	<i>31/12/2013</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>3,386</b>	2,559	5,591
Income tax and other taxes – Prior years	<b>106</b>	(100)	(64)
	<b>3,492</b>	2,459	5,527

**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT**  
**30 June 2014 (Unaudited)**

**11 TAXATION (continued)**

	<i>30/06/2014</i>	<i>30/06/2013</i>	<i>31/12/2013</i>
	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>
<b>Recognised deferred tax assets and liabilities</b>			
Deferred tax assets and liabilities are attributable to the following:			
Provisions	<b>480</b>	381	480
Available for sale investments	<b>(54)</b>	-	(20)
	<b>426</b>	381	460

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

**12 SUBORDINATED DEBT**

	<i>30/06/2014</i>	<i>30/06/2013</i>	<i>31/12/2013</i>
	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>
At 1 January	<b>79,700</b>	61,700	61,700
Received during the period/year	-	18,000	18,000
	<b>79,700</b>	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 debt reserve</i>	<i>Total</i>
	<i>RO '000</i>	<i>RO '000</i>	<i>RO '000</i>	<i>RO '000</i>
At 1 January 2014	<b>2,799</b>	<b>3,766</b>	<b>38,340</b>	<b>44,905</b>
Net movement on available for sale investments	<b>246</b>	-	-	<b>246</b>
Tax effect of net results on available for sale financial investments	<b>(34)</b>	-	-	<b>(34)</b>
<b>At 30 June 2014</b>	<b>3,011</b>	<b>3,766</b>	<b>38,340</b>	<b>45,117</b>
At 30 June 2013	2,934	3,766	25,800	32,500

- (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**  
**30 June 2014 (Unaudited)**

**14 CONTINGENT LIABILITIES AND COMMITMENTS**

	<i>30/06/2014</i>	<i>30/06/2013</i>	<i>31/12/2013</i>
	<i>RO'000</i>	<i>RO' 000</i>	<i>RO'000</i>
Guarantees	<b>457,713</b>	428,083	482,327
Documentary letters of credit	<b>75,298</b>	74,545	80,423
Undrawn commitment to lend	<b>97,199</b>	117,558	97,836
	<b>630,210</b>	620,186	660,586

Contingent liabilities include RO 0.1 million (30 June 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 4.19% for the six months period ended 30 June 2014 (30 June 2013 – 5.03% and 31 December 2013 – 4.93%).

**16 INTEREST EXPENSE**

For the six months period ended 30 June 2014, the average overall cost of funds was 1.38 % (30 June 2013- 1.92% and 31 December 2013 – 1.84%).

**17 OTHER OPERATING INCOME**

	<i>6 months ended</i>	<i>6 months ended</i>
	<i>30/06/2014</i>	<i>30/06/2013</i>
	<i>RO'000</i>	<i>RO'000</i>
Net gains from foreign exchange dealings	<b>1,940</b>	1,757
Fees and commissions	<b>7,495</b>	5,892
Net income from sale of investments	<b>1,360</b>	522
Income from bonds	<b>1,369</b>	1,312
Dividend income	<b>857</b>	529
Service charges	<b>2,368</b>	4,229
Miscellaneous income	<b>297</b>	162
	<b>15,686</b>	14,403

**18 OTHER OPERATING EXPENSES**

	<i>6 months ended</i>	<i>6 months ended</i>
	<i>30/06/2014</i>	<i>30/06/2013</i>
	<i>RO'000</i>	<i>RO'000</i>
Establishment costs	<b>2,739</b>	2,294
Operating and administration expenses	<b>5,861</b>	5,784
	<b>8,600</b>	8,078

**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT**  
**30 June 2014 (Unaudited)**

**19 ASSET LIABILITY MISMATCH**

The asset liability mismatch is based on CBO circular BM 955 and given as follows:

**30 June 2014**

Maturities	<i>Assets</i> <i>RO'000</i>	<i>Equity, subordinated</i> <i>funds and liabilities</i> <i>RO'000</i>	<i>Mismatch</i> <i>RO'000</i>
0 - 3 month	1,555,011	957,642	597,369
3 - 12 month	246,584	899,593	(653,009)
1 – 5 years	536,707	762,241	(225,534)
More than 5 years	1,180,195	899,021	281,174
<b>Total</b>	<b>3,518,497</b>	<b>3,518,497</b>	<b>-</b>

**31 December 2013**

Maturities	<i>Assets</i> <i>RO'000</i>	<i>Equity, subordinated</i> <i>funds and liabilities</i> <i>RO'000</i>	<i>Mismatch</i> <i>RO'000</i>
0 - 3 month	1,008,395	655,081	353,314
3 - 12 month	235,731	762,089	(526,358)
1 – 5 years	452,294	731,627	(279,333)
More than 5 years	1,199,921	747,544	452,377
<b>Total</b>	<b>2,896,341</b>	<b>2,896,341</b>	<b>-</b>

## 30 June 2014 (Unaudited)

### 20 RELATED PARTY TRANSACTIONS

#### Other related parties transactions:

In the ordinary course of business, the Bank conducts transactions with certain of its Directors and/or shareholders and companies over which they have significant interest. The aggregate amounts of balances with such related parties are as follows

	30/06/2014			30/06/2013		
	Principal shareholder RO'000	Others RO'000	Total RO'000	Principal shareholder RO'000	Others RO'000	Total RO'000
Loans and advances	-	27,596	27,596	-	48,384	48,384
Customers' deposits	140,088	23,620	163,708	-	17,527	17,527
Due from banks	52	12,705	12,757	15,430	6,930	22,360
Due to banks	13,694	15,400	29,094	149	13,475	13,624
Subordinated debt	14,500	5,500	20,000	-	5,500	5,500
Letters of credit, guarantees and acceptances	98	1,051	1,149	27	520	547
Standby revolving credit facility	77,000	-	77,000	77,000	-	77,000
Risk indemnities received	962	667	1,629	1,254	4,167	5,421
Investments	2,172	165	2,337	-	-	-

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

	30/06/2014			30/06/2013		
	Principal shareholder RO'000	Others RO'000	Total RO'000	Principal shareholder RO'000	Others RO'000	Total RO'000
Interest income	4	548	552	12	799	811
Commission income	-	24	24	-	17	17
Interest expense	2,579	336	2,915	169	246	415
Other expenses	-	391	391	-	686	686

Senior management compensation:

	6 months ended 30/06/2014 RO'000	6 months ended 30/06/2013 RO'000
	Salaries and other short term benefits	
- Fixed	1,171	1,141
- Discretionary	738	878
	<b>1,909</b>	<b>2,019</b>

### 21 SHAREHOLDERS

As of 30 June 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	130,775	10.73

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

**30 June 2014 (Unaudited)**

## 22 SEGMENT REPORTING

For management purposes, the bank is organised into operating segments based on business units and are as follows:

- Retail banking offers various products and facilities to individual customers to meet everyday banking needs.
- Corporate banking delivers a variety of products and services to corporate customers that include lending, accepting deposits, trade finance and foreign exchange.
- Investment banking offers investment products such as asset management, corporate advisory and brokerage services to retail customers as well as high net worth individuals and institutional clients.
- Treasury provides a full range of treasury products and services including money market and foreign exchange to the clients in addition to managing liquidity and market risk.
- International banking offers services such as issuance of guarantee, risk participation, syndications, etc.
- Islamic banking offers Shari'a compliant Islamic products and services.

Management monitors the operating results of the operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss which in certain respects is measured differently from operating profit or loss in the financial statements. The costs incurred by the central functions are managed on a group basis and are not allocated to operating segments.

Segment information is as follows:

<i>6 months ended</i>	<i>Retail banking</i>	<i>Corporate banking</i>	<i>Investment banking</i>	<i>Treasury and international banking</i>	<i>Head office</i>	<i>Islamic Banking</i>	<i>Total</i>
<i>30-Jun-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>
<b>Operating income</b>	<b>25,454</b>	<b>22,459</b>	<b>2,835</b>	<b>2,019</b>	<b>868</b>	<b>502</b>	<b>54,137</b>
<b>Net Profit / (loss)</b>	<b>15,343</b>	<b>17,991</b>	<b>2,491</b>	<b>1,811</b>	<b>(14,089)</b>	<b>(498)</b>	<b>23,049</b>
<b>Total assets</b>	<b>975,855</b>	<b>1,237,425</b>	<b>27,634</b>	<b>75,062</b>	<b>1,146,570</b>	<b>55,951</b>	<b>3,518,497</b>
<i>6 months ended</i>	<i>Retail banking</i>	<i>Corporate banking</i>	<i>Investment banking</i>	<i>Treasury and international banking</i>	<i>Head office</i>	<i>Islamic Banking</i>	<i>Total</i>
<i>30-Jun-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>25,749</b>	<b>18,034</b>	<b>1,563</b>	<b>2,898</b>	<b>2,308</b>	<b>50</b>	<b>50,602</b>
<b>Net Profit / (loss)</b>	<b>13,385</b>	<b>13,185</b>	<b>1,202</b>	<b>2,199</b>	<b>(10,845)</b>	<b>(354)</b>	<b>18,772</b>
<b>Total assets</b>	<b>980,201</b>	<b>1,118,553</b>	<b>24,497</b>	<b>115,420</b>	<b>524,443</b>	<b>7,941</b>	<b>2,771,055</b>

**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT**

**30 June 2014 (unaudited)**

## **23 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:

	<i>Level 1</i>	<i>Level 2</i>	<i>Total</i>
<i>30 June 2014</i>	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>
<b>Investments – held for trading:</b>			
Government development bonds	26,638	-	26,638
Quoted equities	419	-	419
<b>Total</b>	<b>27,057</b>	<b>-</b>	<b>27,057</b>
<b>Investments - available for sale:</b>			
Government development bonds	74,817	-	74,817
Quoted equities	17,481	-	17,481
Other unquoted equities	-	7,970	7,970
<b>Total</b>	<b>92,298</b>	<b>7,970</b>	<b>100,268</b>
<b>Total financial assets at 30 June 2014</b>	<b>119,355</b>	<b>7,970</b>	<b>127,325</b>
Total financial assets at 30 June 2013	111,015	11,530	122,545
Total financial assets at 31 December 2013	115,977	14,849	130,826

Financial instruments at level 2 are valued based on counter party valuation, quoted forward rates and yield curves.

**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT**  
**30 June 2014 (Unaudited)**

**24 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>
<b>30 June 2014</b>						
<i>Derivatives</i>						
Interest rate swaps	5,628	(5,628)	137,577	2,125	11,690	123,762
Forward foreign exchange purchase contracts	24	(23)	84,470	47,778	36,692	-
Forward foreign exchange sales contracts	27	(10)	84,470	47,789	36,681	-
Currency options	-	-	-	-	-	-
<b>Total</b>	<b>5,679</b>	<b>(5,661)</b>	<b>306,517</b>	<b>97,692</b>	<b>85,063</b>	<b>123,762</b>
<i>30 June 2013</i>						
<i>Derivatives</i>						
Interest rate swaps	6,276	(6,276)	150,604	2,125	11,435	137,044
Forward foreign exchange purchase contracts	35	(106)	41,855	31,364	10,491	-
Forward foreign exchange sales contracts	208	(32)	41,855	31,406	10,449	-
Currency options	49	(49)	35,621	22,144	13,477	-
Commodity hedging	1,628	(1,628)	37,152	24,714	12,438	-
<b>Total</b>	<b>8,196</b>	<b>(8,091)</b>	<b>307,087</b>	<b>111,753</b>	<b>58,290</b>	<b>137,044</b>
<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	-	-
<b>Total</b>	<b>5,407</b>	<b>(5,398)</b>	<b>249,602</b>	<b>87,461</b>	<b>31,801</b>	<b>130,340</b>