

National Bank of Oman SAOG

INTERIM CONDENSED FINANCIAL STATEMENTS

30 September 2014 (UNAUDITED)



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Chairman's Report – 30 September 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 nine months ended 30 September 2014.

Operating Performance

The net profit for the nine months ended 30 September 2014 is OMR 37.1 million, compared with OMR 31.2 million for the same period last year, a 19% increase. This increase is primarily as a result of stronger performance at an operating level as well as reduced charges for loan impairments.

Net interest income from conventional banking and revenues from Islamic financing activities increased by 8.1% to OMR 59.9 million for the nine month period due to growth in loans and advances as well as a better deposit mix. Low cost deposits have improved to 68% of total deposits compared with 53% in September last year.

Total non-interest income increased by 8.6% to OMR 24 million. The Bank's efforts to diversify earnings have started to yield positive results.

Total net income as a result grew by 8.3% and given the market conditions with surplus liquidity and therefore declining yields, I am pleased with the financial progress the bank has made during the year.

Operating expenses grew by 9.6% to OMR 39 million during the nine month period. This growth in costs is largely as a result of developing businesses such as UAE and Muzn, our Islamic window where we had to increase our human resources and add other infrastructure. We expect these businesses to achieve the desired scale in the next two to three years by when we not only expect the cost/income ratio to reach the desired levels but also achieve the desired earnings diversification.

Impairments on loans and advances at OMR 2.4 million is significantly (63%) lower than last year. The Bank had to provide for a few non performing corporate loans in previous year to boost its coverage ratio. The Bank's coverage ratio currently stands at a satisfactory 143%. The Bank has also improved its recovery efforts and as result recoveries of debts previously provided or written off has increased by 7.3% to OMR 7.2 million. Non performing loans (NPLs) as at the period end stood at 2.1%, same levels as June 2014.

During the nine month period, deposits grew by over OMR 542 million whereas loans have grown by OMR 192 million resulting in surplus liquid assets. The bank will look to deploy the surplus liquidity in more remunerative assets to boost its return on assets further. The Bank recently concluded a USD 500 million Reg S bond issuance under its EMTN programme.

These funds will be used to repay some of its existing dollar liabilities and also support the growth of its USD loan portfolio.

Return on equity a key measure used to measure returns has improved from 13.6% in 2013 to 14.6% in the current year.

Capital adequacy ratio stands at 13.8% , in excess of the regulatory requirement of 12.625% and given that the interim profits of OMR 37.1 million is not considered , we consider this ratio healthy. The bank has plans in place to substitute all of its tier 2 debt to Basel 3 compliant capital instruments. This will have the effect of strengthening its capital ratio further at year end.

Islamic Banking

The Bank continues to witness robust growth to its Islamic banking. Islamic assets grew by 426% to OMR 56 million, which has resulted in a total income of OMR 1 million for the nine months ending 30 September 2014, a revenue growth of 773% compared to the same period last year.

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, the Central Bank of UAE 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.

Mohammed Mahfoodh Al Ardhi
Chairman

INTERIM CONDENSED STATEMENT OF FINANCIAL POSITION

30 September 2014 (Un-audited)

		<i>30-09-2014</i>	<i>30-09-2013</i>	<i>Audited</i> <i>31-12-2013</i>
	<i>Notes</i>	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>
Assets				
Cash and balances with Central Banks	3	691,596	429,684	368,316
Due from banks and other money market placements (net)	4	217,614	247,971	228,518
Loans, advances and financing activities for customers (net)	5	2,259,778	2,111,157	2,068,199
Financial investments	6	141,090	128,420	132,603
Premises and equipment	7	22,425	19,724	20,104
Deferred tax asset	11	398	381	460
Other assets	8	52,080	57,300	78,141
Total assets		3,384,981	2,994,637	2,896,341
Liabilities				
Due to banks and other money market deposits		157,040	224,523	226,359
Customers' deposits and unrestricted investment accounts	9	2,721,317	2,192,746	2,179,159
Other liabilities	10	70,830	175,339	77,512
Taxation	11	5,546	4,153	5,527
Total liabilities		2,954,733	2,596,761	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	46,936	32,670	44,905
Proposed cash dividend		-	-	16,620
Proposed stock dividend		-	-	11,080
Retained earnings		103,259	96,233	66,206
Total equity		350,548	318,176	328,084
Total liabilities, subordinated debt and equity		3,384,981	2,994,637	2,896,341

The interim condensed financial statements were authorised for issue on 16th October 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 September 2014 (Un-audited)

	Notes	<u>Nine months ended 30 Sep</u>		<u>Three months ended 30</u> <u>September</u>	
		2014 RO'000	2013 RO'000	2014 RO'000	2013 RO'000
Interest income	15	87,502	86,803	30,110	29,566
Interest expense	16	(28,647)	(31,494)	(9,238)	(10,421)
Net interest income		58,855	55,309	20,872	19,145
Income from Islamic financing and Investment activities		1,258	174	685	123
Unrestricted investment account holders' share of profit		(187)	(61)	(82)	(45)
Net Income from Islamic financing and Investment activities		1,071	113	603	78
Other operating income	17	24,006	22,113	8,320	7,710
OPERATING INCOME		83,932	77,535	29,795	26,933
OPERATING EXPENSES					
Staff costs		(23,528)	(20,945)	(8,121)	(7,372)
Other operating expenses	18	(13,277)	(12,118)	(4,677)	(4,040)
Depreciation	7	(2,223)	(2,559)	(770)	(822)
		(39,028)	(35,622)	(13,568)	(12,234)
PROFIT FROM OPERATIONS BEFORE IMPAIRMENT LOSSES AND TAX		44,904	41,913	16,227	14,699
Credit loss expense – customer loans	5	(9,550)	(12,942)	(1,975)	(2,912)
Recoveries and releases from provision for credit losses	5	2,181	783	49	98
Recoveries from loans and advances written off		5,027	5,935	1,927	2,131
Write-back / Impairment losses on available for sale investments		(54)	41	(34)	12
Write-back / Credit loss expense - bank loans		(13)	(194)	(134)	177
Provision - Others		-	(92)	-	(92)
TOTAL IMPAIRMENT LOSSES (NET)		(2,409)	(6,469)	(167)	(586)
PROFIT BEFORE TAX		42,495	35,444	16,060	14,113
Taxation	11	(5,442)	(4,280)	(2,056)	(1,721)
PROFIT FOR THE PERIOD		37,053	31,164	14,004	12,392
OTHER COMPREHENSIVE INCOME					
Items that are or may be reclassified subsequently to profit or loss					
Net movement on available for sale investments		2,093	1,979	1,847	170
Tax effect of net results on available for sale financial investments		(62)	(28)	(28)	-
OTHER COMPREHENSIVE INCOME FOR THE PERIOD		2,031	1,951	1,819	170
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		39,084	33,115	15,823	12,562
Earnings per share annualized:					
Basic and diluted, profit for the period attributable to equity holders		0.041	0.034	0.046	0.040

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

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

	Notes	Nine months ended	
		30 September	
		2014	2013
		RO'000	RO'000
Profit before taxation		42,495	35,444
Adjustments for:			
Depreciation	7	2,223	2,559
Provision for credit losses (net)		7,369	12,159
Provision for credit loss expenses bank loans (net)		13	194
Impairment/(write-back) on available for sale investments		54	(41)
Profit on sale of equipment (net)		(6)	(10)
Profit on sale of investments		(2,177)	(902)
Investment income		(3,077)	(2,638)
Operating profit before changes in operating assets and liabilities		46,894	46,765
Increase in due from and other money market deposits		12,325	1,045
(Decrease)/increase in due to and other money market placements		(105,874)	32,724
Increase in loans and advances to customers		(198,948)	(211,754)
Increase in other assets		26,061	4,328
Increase in customer deposits		542,158	305,992
(Decrease)/increase in other liabilities		(6,682)	106,561
Cash from operations		315,934	285,661
Tax paid		(5,414)	(5,742)
Net cash from operating activities		310,520	279,919
Investing activities			
Purchase of investments		(18,728)	(18,393)
Proceeds from sale of investments		14,468	3,315
Purchase of premises and equipment	7	(4,604)	(1,846)
Disposal of premises and equipment		59	42
Translation difference in premises & equipment & Tax		(13)	259
Interest on Govt. Development Bonds and T-Bills		1,987	2,022
Dividend income	17	1,090	616
Net cash used in investing activities		(5,741)	(13,985)
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		288,159	264,543
Cash and cash equivalents at the beginning of the period		479,315	279,178
Cash and cash equivalents at the end of the period		767,474	543,721
Representing:			
Cash and balances with Central Bank	3	691,096	429,184
Deposits and balances with other banks and financial institutions (net)		76,378	114,537
		767,474	543,721

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

INTERIM CONDENSED STATEMENT OF CHANGES IN EQUITY
Period ended 30 September 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	-	-	-	-	1,951	-	-	31,164	33,115
Dividend paid during the period	-	-	-	-	-	(19,391)	-	-	(19,391)
Balance at 30 September 2013	110,803	34,465	39,586	4,419	32,670	-	-	96,233	318,176
Balance at 1 October 2013	110,803	34,465	39,586	4,419	32,670	-	-	96,233	318,176
Total comprehensive income for the period	-	-	-	-	(305)	-	-	10,213	9,908
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)	-
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	-	-	-	-	2,031	-	-	37,053	39,084
Dividend paid during the period	-	-	-	-	-	(16,620)	-	-	(16,620)
Issue of shares	11,080	-	-	-	-	-	(11,080)	-	-
Balance at 30 September 2014	121,883	34,465	39,586	4,419	46,936	-	-	103,259	350,548

*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 September 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 1,367 employees as of 30 September 2014 (30 September 2013 – 1,344 employees / 31 December 2013 – 1,370 employees).

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 Nine months ended 30 September 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.

Subsequent to the period ended 30 September 2014, the Bank has concluded a 5-year, USD 500 million Regulation S, bond issuance under its Euro Medium Term Note (EMTN) programme of USD 600 million with regional and international investors. The bonds are listed on the Irish Stock Exchange and are governed by English law.

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

3 CASH AND BALANCES WITH CENTRAL BANKS

	<i>30/09/2014</i>	<i>30/09/2013</i>	<i>31/12/2013</i>
	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>
Cash	73,760	40,574	36,538
Treasury bills with Central Banks	-	817	-
Certificate of deposit with Central Banks	530,000	130,000	105,000
Other balances with Central Banks	87,336	257,793	226,278
Cash and cash equivalents	691,096	429,184	367,816
Capital deposit with Central Bank of Oman	500	500	500
Cash and balances with Central Banks	691,596	429,684	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>30/09/2014</i>	<i>30/09/2013</i>	<i>31/12/2013</i>
	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>
Loans and advances to banks	30,396	19,405	13,860
Placements with bank	158,122	212,014	188,163
Demand balances	29,248	16,746	26,634
Due from banks and other money market placements	217,766	284,165	228,657
Less: allowance for credit losses	(152)	(194)	(139)
Net due from banks and other money market placements	217,614	247,971	228,518

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

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

	30/09/2014	30/09/2013	31/12/2013
	RO'000	RO'000	RO'000
Corporate loans	1,244,716	1,084,013	1,037,541
Personal loans	1,033,216	1,054,435	1,065,032
Overdrafts	64,492	58,158	54,268
Gross loans and advances	2,342,424	2,196,606	2,156,841
Less: Allowance for credit losses and reserved interest	(82,646)	(85,449)	(88,642)
Net loans and advances	2,259,778	2,111,157	2,068,199

Gross loans and advances include RO 28.5 million due from related parties at 30 September 2014 (30 September 2013 – RO 42.8 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	9 months	9 months	12 months
	ended	ended	ended
	30/09/2014	30/09/2013	31/12/2013
	RO'000	RO'000	RO'000
Balance at beginning of period / year	67,752	58,001	58,001
Provided during the period / year	9,550	12,942	19,193
Recovered/ released during the period / year	(1,997)	(664)	(3,153)
Written off during the period / year	(5,059)	(4,575)	(6,132)
Translation difference	(80)	(152)	(157)
Balance at end of period / year	70,166	65,552	67,752

Reserved interest	9 months	9 months	12 months
	ended	ended	ended
	30/09/2014	30/09/2013	31/12/2013
	RO'000	RO'000	RO'000
Balance at beginning of period / year	20,890	16,829	16,829
Reserved during the period / year	2,741	4,525	5,991
Recovered/ released during the period / year	(184)	(119)	(386)
Recovered/released during the period to interest income	-	(105)	(193)
Written off during the period / year	(10,964)	(1,225)	(1,342)
Translation difference	(3)	(8)	(9)
Balance at end of period / year	12,480	19,897	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 September 2014 loans and advances on which interest is not being accrued or where interest has been reserved amounted to RO 61.5 million, (30 September 2013 – RO 80.2 million and 31 December 2013 – RO 61 million).

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

6 FINANCIAL INVESTMENTS

	<i>Carrying value 30/09/2014 RO'000</i>	<i>Carrying value 30/09 /2013 RO'000</i>	<i>Carrying value 31/12/2013 RO'000</i>
A. Held for trading			
Quoted investments- Oman			
Government Development Bonds	26,935	21,086	26,760
Equities	141	-	-
	27,076	21,086	26,760
Quoted investments- Foreign			
Equities	237	-	-
	237	-	-
Total held for trading	27,313	-	26,760
B. Available for sale			
Quoted investments- Oman			
Banking and investment sector	515	599	191
Manufacturing sector	1,165	1,666	1,099
Service sector	19,652	8,178	8,095
Government Development Bonds	75,341	75,491	75,269
	96,673	85,934	84,654
Quoted investments- Foreign			
Banking and investment sector	395	396	435
Service sector	-	-	2,729
Government Development Bonds	-	2,785	1,399
	395	3,181	4,563
Unquoted investments			
Banking and investment sector	11,292	8,733	10,555
Manufacturing sector	3,483	3,483	3,483
Service sector	175	4,214	811
	14,950	16,430	14,849
Total available for sale	112,018	105,545	104,066
C. Held to maturity			
Quoted investments- Overseas			
Manufacturing sector	1,759	1,789	1,777
Total Held to maturity	1,759	1,789	1,777
TOTAL FINANCIAL INVESTMENTS	141,090	128,420	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>30 September 2014</u>		
Government Development Bonds-Oman	72.5	102,276
<u>30 September 2013</u>		
Government Development Bonds-Oman	75.2	96,577
<u>31 December 2013</u>		
Government Development Bonds-Oman	76.9	102,029

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT
30 September 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 2014, net of accumulated depreciation	12,367	4,762	2,975	20,104
Additions	337	940	3,327	4,604
Disposal	-	(8)	(45)	(53)
Transfers	59	1,662	(1,721)	-
Translation difference	(7)	-	-	(7)
Depreciation	(632)	(1,591)	-	(2,223)
Balance at 30 September 2014, net of accumulated depreciation	12,124	5,765	4,536	22,425
At cost / valuation	26,127	27,660	4,536	58,323
Accumulated depreciation	(14,003)	(21,895)	-	(35,898)
Net carrying value at 30 September 2014	12,124	5,765	4,536	22,425
Net carrying value at 30 September 2013	12,522	5,097	2,105	19,724

8 OTHER ASSETS

	<i>30/09/2014 RO'000</i>	<i>30/09/2013 RO'000</i>	<i>31/12/2013 RO'000</i>
Interest receivable and others	15,798	23,792	36,289
Positive fair value of derivatives (note 24)	5,676	6,033	5,407
Customers' indebtedness for acceptances (note 10)	30,606	27,475	36,445
	52,080	57,300	78,141

9 CUSTOMERS' DEPOSITS AND UNRESTRICTED INVESTMENT ACCOUNTS

	<i>30/09/2014 RO'000</i>	<i>30/09/2013 RO'000</i>	<i>31/12/2013 RO'000</i>
Current accounts	1,290,749	645,704	618,035
Savings accounts	555,979	523,309	542,376
Term deposits	874,589	1,023,733	1,018,748
	2,721,317	2,192,746	2,179,159

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

10 OTHER LIABILITIES

	<i>30/09/2014</i>	<i>30/09/2013</i>	<i>31/12/2013</i>
	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>
Interest payable and other accruals	35,046	141,674	35,669
Negative fair value of derivatives (note 24)	5,178	6,190	5,398
Liabilities under acceptances (note 8)	30,606	27,475	36,445
	70,830	175,339	77,512

11 TAXATION

	<i>30/09/2014</i>	<i>30/09/2013</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	5,442	4,280	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>30/09/2014</i>	<i>30/09/2013</i>	<i>31/12/2013</i>
	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>
Accounting profit	42,495	35,444	46,968
Tax at applicable rate	5,099	4,253	5,636
Non-deductible expenses	44	88	110
Tax exempt revenues	(351)	(252)	(350)
Others	650	191	195
	5,442	4,280	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>30/09/2014</i>	<i>30/09/2013</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	5,442	4,280	5,591
Income tax and other taxes – Prior years	104	(127)	(64)
	5,546	4,153	5,527

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

11 TAXATION (continued)

	<i>30/09/2014</i>	<i>30/09/2013</i>	<i>31/12/2013</i>
	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>
Recognised deferred tax assets and liabilities			
Deferred tax assets and liabilities are attributable to the following:			
Provisions	480	381	480
Available for sale investments	(82)	-	(20)
	398	381	460

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

12 SUBORDINATED DEBT

	<i>30/09/2014</i>	<i>30/09/2013</i>	<i>31/12/2013</i>
	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>
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 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	2,799	3,766	38,340	44,905
Net movement on available for sale investments	2,093	-	-	2,093
Tax effect of net results on available for sale financial investments	(62)	-	-	(62)
At 30 September 2014	4,830	3,766	38,340	46,936
At 30 September 2013	3,104	3,766	25,800	32,670

- (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>30/09/2014</i>	<i>30/09/2013</i>	<i>31/12/2013</i>
	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>
Guarantees	453,783	445,586	482,327
Documentary letters of credit	74,960	78,502	80,423
Undrawn commitment to lend	114,941	98,080	97,836
	643,684	622,168	660,586

Contingent liabilities include RO 0.1 million (30 September 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 4.15% for the nine months period ended 30 September 2014 (30 September 2013 – 4.96% and 31 December 2013 – 4.93%).

16 INTEREST EXPENSE

For the nine months period ended 30 September 2014, the average overall cost of funds was 1.33% (30 September 2013- 1.87% and 31 December 2013 – 1.84%).

17 OTHER OPERATING INCOME

	<i>9 months ended</i>	<i>9 months ended</i>
	<i>30/09/2014</i>	<i>30/09/2013</i>
	<i>RO'000</i>	<i>RO'000</i>
Net gains from foreign exchange dealings	2,959	2,500
Fees and commissions	10,927	8,544
Net income from sale of investments	2,177	902
Income from bonds	1,987	2,022
Dividend income	1,090	616
Service charges	4,367	7,323
Miscellaneous income	499	206
	24,006	22,113

18 OTHER OPERATING EXPENSES

	<i>9 months ended</i>	<i>9 months ended</i>
	<i>30/09/2014</i>	<i>30/09/2013</i>
	<i>RO'000</i>	<i>RO'000</i>
Establishment costs	4,050	3,462
Operating and administration expenses	9,227	8,656
	13,277	12,118

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT
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19 ASSET LIABILITY MISMATCH

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

30 September 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	1,427,069	1,140,964	286,105
3 - 12 month	263,371	747,995	(484,624)
1 – 5 years	490,809	576,840	(86,031)
More than 5 years	1,203,732	919,182	284,550
Total	3,384,981	3,384,981	-

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
Total	2,896,341	2,896,341	-

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT
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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

	30/09/2014			30/09/2013		
	Principal shareholder RO'000	Others RO'000	Total RO'000	Principal shareholder RO'000	Others RO'000	Total RO'000
Loans and advances	-	28,506	28,506	-	42,824	42,824
Customers' deposits	139,784	28,535	168,319	-	14,857	14,857
Due from banks	53	12,705	12,758	37,733	12,705	50,438
Due to banks	632	-	632	132	-	132
Subordinated debt	14,503	5,500	20,003	-	5,500	5,500
Letters of credit, guarantees and acceptances	130	1,306	1,436	72	687	759
Standby revolving credit facility	77,000	-	77,000	77,000	-	77,000
Risk indemnities received	889	-	889	1,518	2,000	3,518
Investments	2,320	-	2,320	-	-	-

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

	30/09/2014			30/09/2013		
	Principal shareholder RO'000	Others RO'000	Total RO'000	Principal shareholder RO'000	Others RO'000	Total RO'000
Interest income	4	797	801	21	1,184	1,205
Commission income	-	36	36	-	19	19
Interest expense	3,762	502	4,264	227	402	629
Other expenses	-	686	686	-	761	761

Senior management compensation:

	9 months ended 30/09/2014 RO'000	9 months ended 30/09/2013 RO'000
	Salaries and other short term benefits	
- Fixed	1,734	1,720
- Discretionary	850	945
	2,584	2,665

21 SHAREHOLDERS

As of 30 September 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 September 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>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-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	40,142	34,089	4,099	2,983	1,493	1,126	83,932
Net Profit / (loss)	24,178	29,147	3,553	2,495	(22,026)	(294)	37,053
Total assets	981,524	1,252,408	38,813	89,044	963,545	59,647	3,384,981
<i>9 months ended</i>	<i>Retail banking</i>	<i>Corporate banking</i>	<i>Investment banking</i>	<i>Treasury and international banking</i>	<i>Head office</i>	<i>Islamic Banking</i>	<i>Total</i>
<i>30-Sep-13</i>	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>
Operating income	40,145	27,250	1,386	4,040	4,585	129	77,535
Net Profit / (loss)	22,123	21,063	872	3,351	(15,697)	(548)	31,164
Total assets	1,015,354	1,111,995	29,057	127,247	700,260	10,724	2,994,637

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT
30 September 2014 (unaudited)

22 SEGMENT REPORTING (Continued)

For management purposes the bank also reports the segment information of its operations by the following geographical locations:

- i) Oman
- ii) United Arab Emirates (UAE)
- iii) Egypt

Transactions between the above segments are conducted at estimated market rates on an arm's length basis. Segment information by geography is as follows:

For the period ended 30 September 2014	<i>Oman</i> <i>RO'000</i>	<i>UAE</i> <i>RO'000</i>	<i>Egypt</i> <i>RO'000</i>	<i>Total</i> <i>RO'000</i>
Segment revenue				
Interest income and Income from Islamic financing and Investment activities – external	86,097	2,603	60	88,760
Interest income – internal	46	21	164	231
Other operating income – external	22,562	1,357	87	24,006
Other operating income – internal	105	-	-	105
Total	108,810	3,981	311	113,102
Segment costs				
Interest costs and Unrestricted investment account holders' share of profit – external	28,220	519	95	28,834
Interest costs – internal	44	64	123	231
Other operating expenses – external	34,547	1,761	497	36,805
Other operating expenses – internal	-	99	6	105
Depreciation	2,117	105	1	2,223
Credit loss expense - customer loan Recoveries	9,242	307	1	9,550
	(6,590)	(560)	(58)	(7,208)
Impairment losses on available for sale investments	54	-	-	54
Credit loss expense – bank loans	13	-	-	13
Taxation	5,090	337	15	5,442
Total	72,737	2,632	680	76,049
Segment profit for the year	36,073	1,349	(369)	37,053
Other information				
Segment assets	3,238,252	125,789	20,940	3,384,981

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT
30 September 2014 (unaudited)

22 SEGMENT REPORTING (Continued)

For the year ended 31 December 2013	<i>Oman</i> <i>RO'000</i>	<i>UAE</i> <i>RO'000</i>	<i>Egypt</i> <i>RO'000</i>	<i>Total</i> <i>RO'000</i>
Segment revenue				
Interest income and Income from Islamic financing and Investment activities – external	114,656	1,784	525	116,965
Interest income – internal	9	39	879	927
Other operating income – external	27,567	870	518	28,955
Other operating income – internal	130	-	-	130
Total	142,362	2,693	1,922	146,977
Segment costs				
Interest costs and Unrestricted investment account holders' share of profit – external	41,056	483	459	41,998
Interest costs – internal	78	48	801	927
Other operating expenses – external	43,023	1,690	528	45,241
Other operating expenses – internal	-	67	63	130
Depreciation	3,157	125	57	3,339
Credit loss expense - customer loan	17,883	1,305	5	19,193
Recoveries	(9,170)	(1,028)	(863)	(11,061)
Impairment losses on available for sale investments	11	-	-	11
Credit loss expense – bank loans	139	-	-	139
Provision - Others	-	-	92	92
Taxation	5,465	1	125	5,591
Total	101,642	2,691	1,267	105,600
Segment profit for the year	40,720	2	655	41,377
Other information				
Segment assets	2,808,781	59,795	27,765	2,896,341

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT
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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 September 2014</i>	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>
Investments – held for trading:			
Government development bonds	26,935	-	26,935
Quoted equities	378	-	378
Total	27,313	-	27,313
Investments - available for sale:			
Government development bonds	75,341	-	75,341
Quoted equities	21,727	-	21,727
Other unquoted equities	-	14,950	14,950
Total	97,068	14,950	112,018
Total financial assets	124,381	14,950	139,331

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
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23 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

	<i>Level 1</i>	<i>Level 2</i>	<i>Total</i>
<i>30 September 2013</i>	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>
Investments – held for trading:			
Government development bonds	21,086	-	21,086
Total	21,086	-	21,086
Investments - available for sale:			
Government development bonds	78,276	-	78,276
Quoted equities	10,839	-	10,839
Other unquoted equities	-	16,430	16,430
Total	89,115	16,430	105,545
Total financial assets	110,201	16,430	126,631
	<i>Level 1</i>	<i>Level 2</i>	<i>Total</i>
<i>31 December 2013</i>	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>
Investments – held for trading:			
Government development bonds	26,760	-	26,760
Total	26,760	-	26,760
Investments - available for sale:			
Government development bonds	76,668	-	76,668
Quoted equities	12,549	-	12,549
Other unquoted equities	-	14,849	14,849
Total	89,217	14,849	104,066
Total financial assets	115,977	14,849	130,826

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT
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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>
<i>30 September 2014</i>						
<i>Derivatives</i>						
Interest rate swaps	4,519	(4,519)	324,966	2,125	11,690	311,151
Forward foreign exchange purchase contracts	14	(526)	212,266	29,461	182,805	-
Forward foreign exchange sales contracts	1,143	(133)	212,266	29,911	182,355	-
Total	5,676	(5,178)	749,498	61,497	376,850	311,151
<i>30 September 2013</i>						
<i>Derivatives</i>						
Interest rate swaps	5,649	(5,649)	145,748	2,125	11,690	131,933
Forward foreign exchange purchase contracts	100	(5)	62,540	40,264	14,575	7,701
Forward foreign exchange sales contracts	8	(260)	62,540	40,271	14,570	7,699
Currency options	109	(109)	20,376	19,285	1,091	-
Commodity hedging	167	(167)	18,618	18,618	-	-
Total	6,033	(6,190)	309,822	120,563	41,926	147,333
<i>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