

National Bank of Oman SAOG

INTERIM CONDENSED FINANCIAL STATEMENTS

30 June 2016 (UNAUDITED)



PO Box 751 PC 112 Ruwi Sultanate of Oman.

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INTERIM CONDENSED STATEMENT OF FINANCIAL POSITION
As at 30 June 2016 (Un-audited)

		30-06-2016	30-06-2015	<i>Audited</i> 31-12-2015
	<i>Notes</i>	RO'000	RO'000	RO'000
Assets				
Cash and balances with Central Banks	3	400,465	398,179	304,488
Due from banks and other money market placements (net)	4	102,747	144,040	170,985
Loans, advances and financing activities for customers (net)	5	2,792,749	2,434,076	2,534,099
Financial investments	6	155,946	164,969	156,658
Premises and equipment	7	38,108	29,676	34,671
Other assets	8	66,267	84,132	62,534
Total assets		3,556,282	3,255,072	3,263,435
Liabilities				
Due to banks and other money market deposits		270,660	62,109	162,525
Customers' deposits and unrestricted investment accounts	9	2,439,760	2,458,689	2,249,826
Euro medium term notes	10	199,813	195,908	195,973
Other liabilities	11	75,761	102,107	79,952
Taxation	12	4,142	3,279	8,402
Total liabilities		2,990,136	2,822,092	2,696,678
Subordinated debt	13	49,100	62,100	52,100
Equity				
Share capital		147,478	134,071	134,071
Share premium		34,465	34,465	34,465
Legal reserve		47,737	43,380	47,737
General reserve		-	4,419	-
Other non-distributable reserves	14	36,844	41,830	40,596
Proposed cash dividend		-	-	22,792
Proposed stock dividend		-	-	13,407
Retained earnings		135,022	112,715	106,089
Total shareholders' equity attributable to the equity holders of the bank		401,546	370,880	399,157
Tier 1 perpetual bond	15	115,500	-	115,500
Total equity		517,046	370,880	514,657
Total liabilities, subordinated debt and equity		3,556,282	3,255,072	3,263,435
Contingent liabilities and commitments	16	646,401	636,704	697,782

The interim condensed financial statements were authorised for issue on 21 July 2016 in accordance with a resolution of the Board of Directors.

The attached notes 1 to 27 form part of the interim condensed financial statements.

INTERIM CONDENSED STATEMENT OF COMPREHENSIVE INCOME
For the period ended 30 June 2016 (Un-audited)

	Notes	<u>Six months ended</u>		<u>Three months ended</u>	
		<u>30 June</u>		<u>30 June</u>	
		2016	2015	2016	2015
		RO'000	RO'000	RO'000	RO'000
Interest income	17	65,175	59,347	33,509	30,070
Interest expense	18	(16,937)	(15,555)	(9,063)	(7,918)
Net interest income		48,238	43,792	24,446	22,152
Income from Islamic financing and Investment activities		2,379	1,842	1,186	984
Unrestricted investment account holders' share of profit		(665)	(265)	(364)	(153)
Net Income from Islamic financing and Investment activities		1,714	1,577	822	831
Net interest income and net income from Islamic financing and Investment activities		49,952	45,369	25,268	22,983
Other operating income	19	17,858	19,009	9,459	9,937
OPERATING INCOME		67,810	64,378	34,727	32,920
Staff costs		(16,941)	(16,993)	(8,661)	(8,453)
Other operating expenses	20	(10,676)	(9,974)	(5,288)	(4,930)
Depreciation	7	(1,316)	(1,548)	(656)	(813)
OPERATING EXPENSES		(28,933)	(28,515)	(14,605)	(14,196)
PROFIT FROM OPERATIONS BEFORE IMPAIRMENT LOSSES AND TAX		38,877	35,863	20,122	18,724
Credit loss expense – customer loans	5	(9,224)	(8,102)	(4,238)	(3,043)
Recoveries and releases from provision for credit losses		4,012	4,586	2,087	2,114
Others		19	(69)	35	(52)
TOTAL IMPAIRMENT LOSSES (NET)		(5,193)	(3,585)	(2,116)	(981)
PROFIT BEFORE TAX		33,684	32,278	18,006	17,743
Taxation	12	(4,289)	(4,215)	(2,548)	(2,318)
PROFIT FOR THE PERIOD		29,395	28,063	15,458	15,425
OTHER COMPREHENSIVE INCOME					
Items that are or may be reclassified subsequently to profit or loss					
Net movement on available for sale investments		(737)	1,974	(659)	1,989
Tax effect of net results on available for sale financial investments		(15)	34	12	(9)
OTHER COMPREHENSIVE INCOME FOR THE PERIOD		(752)	2,008	(647)	1,980
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		28,643	30,071	14,811	17,405
Earnings per share annualized:					
Basic and diluted, profit for the period attributable to equity holders		0.040	0.038	0.042	0.042

The attached notes 1 to 27 form part of the interim condensed financial statements.

INTERIM CONDENSED STATEMENT OF CASH FLOWS
For the period ended 30 June 2016 (Un-audited)

	Notes	Six months ended	
		30 June	
		2016	2015
		RO'000	RO'000
Profit before taxation		33,684	32,278
Adjustments for:			
Depreciation	7	1,316	1,548
Provision for credit losses (net)		9,224	8,102
(Write-back)/provision for others		(19)	69
(Profit) on sale of fixed assets		(12)	(4)
(Profit)/loss on sale of investments		(1,451)	67
Investment income		(2,361)	(2,379)
Operating profit before changes in operating assets and liabilities		40,381	39,681
Due from and other money market deposits		(29,069)	(24,870)
Due to and other money market placements		8,614	(5,242)
Loans and advances to customers		(267,874)	(125,365)
Other assets		(3,532)	(29,310)
Customer deposits		189,934	280,947
Other liabilities		(351)	33,031
Cash (used in)/from operations		(61,897)	168,872
Tax paid		(8,641)	(6,971)
Net cash (used in)/from operating activities		(70,538)	161,901
Investing activities			
Purchase of investments		(10,762)	(16,649)
Proceeds from sale of investments		12,163	1,191
Purchase of premises and equipment	7	(4,797)	(8,053)
Disposal of premises and equipment		25	23
Translation difference in premises & equipment & tax		(129)	(15)
Interest on govt. development bond and t-bills		1,815	1,390
Dividend income	19	546	989
Net cash used in investing activities		(1,139)	(21,124)
Financing activities			
Payment of dividend		(22,792)	(20,720)
Proceeds from subordinated debt		(3,000)	(1,500)
Interest on tier 1 perpetual bond		(3,462)	-
Net cash used in financing activities		(29,254)	(22,220)
(Decrease)/increase in cash and cash equivalents		(100,931)	118,557
Cash and cash equivalents at the beginning of the period		341,881	313,135
Cash and cash equivalents at the end of the period		240,950	431,692
Representing:			
Cash and balances with central bank	3	399,965	397,679
Deposits and balances with other banks and financial institutions (net)		(159,015)	34,013
		240,950	431,692

The attached notes 1 to 27 form part of the interim condensed financial statements.

INTERIM CONDENSED STATEMENT OF CHANGES IN EQUITY
As at 30 June 2016 (Un-audited)

<i>(RO'000)</i>	Share capital	Share premium	Legal reserve *	General reserve	Other non-distributable reserves*	Proposed cash dividend	Proposed stock dividend	Retained earnings	Total	Tier 1 Perpetual bond	Total
Balance at 1 January 2015	121,883	34,465	43,380	4,419	41,322	20,720	12,188	83,152	361,529	-	361,529
Total comprehensive income for the period	-	-	-	-	2,008	-	-	28,063	30,071	-	30,071
Transfer to retained earnings	-	-	-	-	(1,500)	-	-	1,500	-	-	-
Dividend paid during the period	-	-	-	-	-	(20,720)	-	-	(20,720)	-	(20,720)
Issue of shares	12,188	-	-	-	-	-	(12,188)	-	-	-	-
Balance at 30 June 2015	134,071	34,465	43,380	4,419	41,830	-	-	112,715	370,880	-	370,880
Balance at 1 July 2015	134,071	34,465	43,380	4,419	41,830	-	-	112,715	370,880	-	370,880
Total comprehensive income for the period	-	-	-	-	(1,529)	-	-	32,043	30,514	-	30,514
Proceeds from tier 1 perpetual bond	-	-	-	-	-	-	-	-	-	115,500	115,500
Tier 1 perpetual bond issuance cost	-	-	-	-	-	-	-	(1,151)	(1,151)	-	(1,151)
Payment of tier 1 perpetual bond	-	-	-	-	-	-	-	(1,086)	(1,086)	-	(1,086)
Transfer to retained earnings	-	-	-	(4,419)	(10,125)	-	-	14,544	-	-	-
Transfer to subordinated funds reserve	-	-	-	-	10,420	-	-	(10,420)	-	-	-
Transfer to legal reserve	-	-	4,357	-	-	-	-	(4,357)	-	-	-
Proposed dividend	-	-	-	-	-	22,792	13,407	(36,199)	-	-	-
Balance at 31 December 2015	134,071	34,465	47,737	-	40,596	22,792	13,407	106,089	399,157	115,500	514,657
Balance at 1 January 2016	134,071	34,465	47,737	-	40,596	22,792	13,407	106,089	399,157	115,500	514,657
Total comprehensive income for the period	-	-	-	-	(752)	-	-	29,395	28,643	-	28,643
Transfer to retained earnings	-	-	-	-	(3,000)	-	-	3,000	-	-	-
Payment of tier 1 perpetual bond	-	-	-	-	-	-	-	(3,462)	(3,462)	-	(3,462)
Issue of shares	13,407	-	-	-	-	-	(13,407)	-	-	-	-
Dividend paid during the period	-	-	-	-	-	(22,792)	-	-	(22,792)	-	(22,792)
Balance at 30 June 2016	147,478	34,465	47,737	-	36,844	-	-	135,022	401,546	115,500	517,046

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

The attached notes 1 to 27 form part of the interim condensed financial statements.

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT 30 June 2016 (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 1,548 employees as of 30 June 2016 (30 June 2015 – 1,426 employees / 31 December 2015 – 1,506 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 2015.

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 2016 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2016.

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

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT
30 June 2016 (Unaudited)

3 CASH AND BALANCES WITH CENTRAL BANKS

	<i>30/06/2016</i>	<i>30/06/2015</i>	<i>31/12/2015</i>
	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>
Cash	68,172	48,421	44,678
Treasury bills	2,658	47,123	8,146
Certificate of deposit with Central Banks	-	113,900	-
Other balances with Central Banks	329,135	188,235	251,164
Cash and cash equivalents	399,965	397,679	303,988
Capital deposit with Central Bank of Oman	500	500	500
Cash and balances with Central Banks	400,465	398,179	304,488

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>30/06/2016</i>	<i>30/06/2015</i>	<i>31/12/2015</i>
	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>
Loans and advances to banks	29,549	38,319	26,084
Placements with banks	44,071	72,519	96,080
Demand balances	29,217	33,394	48,951
Due from banks and other money market placements	102,837	144,232	171,115
Less: allowance for credit losses	(90)	(192)	(130)
Net due from banks and other money market placements	102,747	144,040	170,985

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT
30 June 2016 (Unaudited)

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

	<i>30/06/2016</i>	<i>30/06/2015</i>	<i>31/12/2015</i>
	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>
Overdrafts	86,262	70,594	69,987
Personal loans	1,325,375	1,109,243	1,190,195
Other loans	1,475,150	1,337,642	1,362,123
Gross loans and advances	2,886,787	2,517,479	2,622,305
Allowance for credit losses	(94,038)	(83,403)	(88,206)
Net loans and advances	2,792,749	2,434,076	2,534,099

Gross loans and advances include RO 68.5 million due from related parties at 30 June 2016 (30 June 2015 – RO 32.4 million, 31 December 2015 – RO 43.7 million).

The movement in the provision for impairment of loans and advances presented as loan loss provisions and reserved interest is set out below:

Allowance for credit losses	<i>6 months</i>	<i>6 months</i>	<i>12 months</i>
	<i>ended</i>	<i>ended</i>	<i>ended</i>
	<i>30/06/2016</i>	<i>30/06/2015</i>	<i>31/12/2015</i>
	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>
Balance at beginning of period / year	76,743	69,197	69,197
Provided during the period / year	9,224	8,102	15,472
Recovered/ released during the period / year	(301)	(449)	(1,155)
Written off during the period / year	(3,743)	(4,079)	(6,639)
Translation difference	(39)	(118)	(132)
Balance at end of period / year	81,884	72,653	76,743

Reserved interest	<i>6 months</i>	<i>6 months</i>	<i>12 months</i>
	<i>ended</i>	<i>ended</i>	<i>ended</i>
	<i>30/06/2016</i>	<i>30/06/2015</i>	<i>31/12/2015</i>
	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>
Balance at beginning of period / year	11,463	9,751	9,751
Reserved during the period / year	1,984	1,429	2,769
Recovered/ released during the period / year	(309)	(209)	(664)
Written off during the period / year	(974)	(216)	(386)
Translation difference	(10)	(5)	(7)
Balance at end of period / year	12,154	10,750	11,463

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 2016 loans and advances on which interest is not being accrued or where interest has been reserved amounted to RO 69 million, (30 June 2015 – RO 60 million and 31 December 2015 – RO 62 million).

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT
30 June 2016 (Unaudited)

6 FINANCIAL INVESTMENTS

	<i>Carrying value 30/06/2016 RO'000</i>	<i>Carrying value 30/06/2015 RO'000</i>	<i>Carrying value 31/12/2015 RO'000</i>
A. Held for trading			
Quoted investments- Oman			
Government Sukuk	3,000	-	-
Government Development Bonds	62,259	42,349	65,468
Equities	92	34	-
	65,351	42,383	65,468
Quoted investments- Foreign			
Equities	137	-	-
	137	-	-
Total held for trading	65,488	42,383	65,468
B. Available for sale			
Quoted investments- Oman			
Banking and investment sector	590	595	500
Manufacturing sector	163	385	159
Service sector	12,731	26,504	23,885
Government Development Bonds	-	68,528	43,266
	13,484	96,012	67,810
Quoted investments- Foreign			
Banking and investment sector	314	2,117	307
Service sector	3,654	3,750	3,700
	3,968	5,867	4,007
Unquoted investments			
Banking and investment sector	8,388	9,741	8,566
Manufacturing sector	3,483	3,483	3,483
Service sector	350	175	70
	12,221	13,399	12,119
Total available for sale	29,673	115,278	83,936
C. Held to maturity			
Quoted investments- Oman			
Government Development Bonds	47,786	-	-
Manufacture sector	5,775	-	-
	53,561	-	-
Quoted investments- Overseas			
Government Development Bonds	5,244	5,323	5,270
Banking Sector	1,980	1,985	1,984
	7,224	7,308	7,254
Total Held to maturity	60,785	7,308	7,254
TOTAL FINANCIAL INVESTMENTS	155,946	164,969	156,658

Government Development Bonds which were classified at 31 December 2015 as available for sale amounting to RO 43.3 million have been reclassified as held to maturity with effect from 1 January 2016.

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT
30 June 2016 (Unaudited)

6 FINANCIAL INVESTMENTS (continued)

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</i> RO'000
<u>30 June 2016</u>		
Government Development Bonds-Oman	70.6	110,045
<u>30 June 2015</u>		
Government Development Bonds-Oman	67.2	110,877
<u>31 December 2015</u>		
Government Development Bonds-Oman	69.4	108,734

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 2016, net of accumulated depreciation	11,723	5,368	17,580	34,671
Addition	74	504	4,219	4,797
Disposal	-	(5)	(8)	(13)
Transfer	162	705	(867)	-
Translation difference	(30)	(1)	-	(31)
Depreciation	(291)	(1,025)	-	(1,316)
Balance at 30 June 2016, net of accumulated depreciation	11,638	5,546	20,924	38,108
At cost / valuation	26,324	30,873	20,924	78,121
Accumulated depreciation	(14,686)	(25,327)	-	(40,013)
Net carrying value at 30 June 16	11,638	5,546	20,924	38,108
Net carrying value at 30 June 2015	11,974	5,656	12,046	29,676

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT
30 June 2016 (Unaudited)

8 OTHER ASSETS

	30/06/2016	30/06/2015	31/12/2015
	RO'000	RO'000	RO'000
Interest receivable and others	21,166	20,117	15,502
Positive fair value of derivatives (note 26)	14,144	8,789	8,250
Customers' indebtedness for acceptances (note 11)	30,019	54,626	38,030
Deferred tax (note 12)	938	600	752
	66,267	84,132	62,534

9 CUSTOMERS' DEPOSITS AND UNRESTRICTED INVESTMENT ACCOUNTS

	30/06/2016	30/06/2015	31/12/2015
	RO'000	RO'000	RO'000
Current accounts	1,050,073	875,707	800,726
Savings accounts	611,586	603,112	599,367
Term deposits	778,101	979,870	849,733
	2,439,760	2,458,689	2,249,826

10 EURO MEDIUM TERM NOTES

The Bank in 2014 had issued a 5-year, USD 500 million Regulation S, bond 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. The carrying amount of EMTN is stated after taking into account the amount of MTM value of the fair value hedge (refer note 26).

11 OTHER LIABILITIES

	30/06/2016	30/06/2015	31/12/2015
	RO'000	RO'000	RO'000
Interest payable and other accruals	40,042	42,481	36,384
Negative fair value of derivatives (note 26)	5,700	5,000	5,538
Liabilities under acceptances (note 8)	30,019	54,626	38,030
	75,761	102,107	79,952

12 TAXATION

	30/06/2016	30/06/2015	31/12/2015
	RO'000	RO'000	RO'000
Statement of comprehensive income			
Current period/year	4,289	4,215	9,265

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT
30 June 2016 (Unaudited)

12 TAXATION (continued)

Set out below is reconciliation between incomes taxes calculated on accounting profits with income tax expense for the period:

	30/06/2016	30/06/2015	31/12/2015
	RO'000	RO'000	RO'000
Accounting profit	33,684	32,278	69,371
Tax at applicable rate	4,042	3,873	8,325
Non-deductible expenses	34	47	261
Tax exempt revenues	(787)	(337)	(595)
Others	1,000	632	1,274
	4,289	4,215	9,265

The bank's liabilities for taxation in the Sultanate of Oman have been assessed up to the year ended 31 December 2009.

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 branches in UAE has been agreed with the tax authorities up to 31 December 2014.

	30/06/2016	30/06/2015	31/12/2015
	RO'000	RO'000	RO'000
Tax liability			
Income tax and other taxes – Current year	4,289	4,215	9,265
Income tax and other taxes – Prior years	(147)	(936)	(863)
	4,142	3,279	8,402

	30/06/2016	30/06/2015	31/12/2015
	RO'000	RO'000	RO'000
Recognised deferred tax assets and liabilities			
Deferred tax assets and liabilities are attributable to the following:			
Provisions	929	610	728
Available for sale investments	9	(10)	24
	938	600	752

Deferred tax is calculated at 12% (2015 – 12%).

13 SUBORDINATED DEBT

	30/06/2016	30/06/2015	31/12/2015
	RO'000	RO'000	RO'000
At 1 January	52,100	63,600	63,600
Redeemed during the period/year	(3,000)	(1,500)	(11,500)
	49,100	62,100	52,100

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT
30 June 2016 (Unaudited)

14 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 2016	2,331	4,385	33,880	40,596
Net movement on available for sale investments	(737)	-	-	(737)
Tax effect of net results on available for sale financial investments	(15)	-	-	(15)
Transfer to retained earnings	-	-	(3,000)	(3,000)
At 30 June 2016	1,579	4,385	30,880	36,844
At 30 June 2015	4,604	3,766	33,460	41,830

- (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 13). The reserve is available for transfer back to retained earnings upon maturity of the subordinated debt.

15 TIER 1 PERPETUAL BOND

On 18 Nov 2015, the Bank issued Perpetual Tier 1 Capital Securities (the "Tier 1 Securities"), amounting to USD 300,000,000.

The Tier 1 Securities constitute direct, unconditional, subordinated and unsecured obligations of the Bank and are classified as equity in accordance with IAS 32: Financial Instruments – Classification. The Tier 1 Securities do not have a fixed or final maturity date. They are redeemable by the Bank at its sole discretion on 18 Nov 2020 (the "First Call Date") or on any interest payment date thereafter subject to the prior consent of the regulatory authority.

The Tier 1 Securities bear interest on their nominal amount from the issue date to the First Call Date at a fixed annual rate of 7.875%. Thereafter the interest rate will be reset at five year intervals. Interest will be payable semi-annually in arrears and treated as deduction from equity.

These securities form part of Tier 1 Capital of the Bank and comply with basel-3 and Central Bank of Oman regulation (BM 1114).

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT
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16 CONTINGENT LIABILITIES AND COMMITMENTS

	<i>30/06/2016</i>	<i>30/06/2015</i>	<i>31/12/2015</i>
	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>
Guarantees	420,338	414,958	457,570
Documentary letters of credit	95,979	86,541	100,221
Undrawn commitment to lend	130,084	135,205	139,991
	646,401	636,704	697,782

Contingent liabilities include RO 0.2 million (30 June 2015 – RO 0.1 million and 31 December 2015– RO 0.1 million) relating to non-performing loans

17 INTEREST INCOME

Interest bearing assets earned interest at an overall rate of 4.76% for the six months period ended 30 June 2016 (30 June 2015 – 4.51% and 31 December 2015 – 4.68%).

18 INTEREST EXPENSE

For the six months period ended 30 June 2016, the average overall cost of funds was 1.30% (30 June 2016-1.20% and 31 December 2015 – 1.16%).

19 OTHER OPERATING INCOME

	<i>6 months ended</i>	<i>6 months ended</i>
	<i>30/06/2016</i>	<i>30/06/2015</i>
	<i>RO'000</i>	<i>RO'000</i>
Net gains from foreign exchange dealings	2,369	2,705
Fees and commissions	8,031	8,836
Net (loss)/income from sale of investments	1,451	(67)
Income from bonds	1,815	1,390
Dividend income	546	989
Service charges	3,087	4,331
Miscellaneous income	559	825
	17,858	19,009

20 OTHER OPERATING EXPENSES

	<i>6 Months ended</i>	<i>6 Months ended</i>
	<i>30/06/2016</i>	<i>30/06/2015</i>
	<i>RO'000</i>	<i>RO'000</i>
Establishment costs	3,129	3,054
Operating and administration expenses	7,547	6,920
	10,676	9,974

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT
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21 ASSET LIABILITY MISMATCH

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

30 June 2016

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	1,061,307	967,798	93,509
3 - 12 month	377,989	755,003	(377,014)
1 – 5 years	675,003	830,047	(155,044)
More than 5 years	1,441,983	1,003,434	438,549
Total	3,556,282	3,556,282	-

30 June 2015

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	1,074,618	765,154	309,464
3 - 12 month	299,497	904,225	(604,728)
1 – 5 years	605,730	733,283	(127,553)
More than 5 years	1,275,227	852,410	422,817
Total	3,255,072	3,255,072	-

31 December 2015

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	983,544	860,308	123,236
3 - 12 month	286,624	665,021	(378,397)
1 – 5 years	623,624	784,819	(161,195)
More than 5 years	1,369,643	953,287	416,356
Total	3,263,435	3,263,435	-

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT
30 June 2016 (Unaudited)

22 RELATED PARTY 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

	<u>30/06/2016</u>			<u>31/12/2015</u>		
	<i>Principal shareholder</i> RO'000	<i>Others</i> RO'000	<i>Total</i> RO'000	<i>Principal shareholder</i> RO'000	<i>Others</i> RO'000	<i>Total</i> RO'000
Loans and advances	-	68,532	68,532	-	43,669	43,669
Customers' deposits	91,438	20,110	111,548	91,345	20,869	112,214
Due from banks	156	13,668	13,824	235	15,015	15,250
Due to banks	176	-	176	38,647	-	38,647
Subordinated debt	14,500	4,000	18,500	14,500	4,000	18,500
Letters of credit, guarantees and acceptances	98	725	823	118	2,122	2,240
Standby revolving credit facility	77,000	-	77,000	77,000	-	77,000
Risk indemnities received	470	-	470	484	-	484
Investments	1,757	-	1,757	1,801	-	1,801

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

	<u>30/06/2016</u>			<u>30/06/2015</u>		
	<i>Principal shareholder</i> RO'000	<i>Others</i> RO'000	<i>Total</i> RO'000	<i>Principal shareholder</i> RO'000	<i>Others</i> RO'000	<i>Total</i> RO'000
Interest income	-	1,266	1,266	17	433	450
Commission income	74	22	96	-	26	26
Interest expense	1,782	129	1,911	1,834	171	2,005
Other expenses	-	216	216	-	208	208
Senior management compensation:				6 months ended	6 months ended	
Salaries and other short term benefits				30/06/2016	30/06/2015	
				RO'000	RO'000	
- Fixed				1,439	1,234	
- Discretionary				1,211	1,699	
				2,650	2,933	

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT 30 June 2016 (Unaudited)

23 SHAREHOLDERS

As of 30 June 2016, the shareholders of the bank who own 10% or more of the bank's shares:

	<i>Number of shares '000</i>	<i>% Holding</i>
The Commercial Bank of Qatar	514,696	34.90%
Suhail Bahwan Group (Holdings) LLC	217,446	14.74%
Civil Service Employees Pension Fund	166,313	11.28%

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

24 SEGMENT REPORTING

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

- Retail banking offers various products and facilities to individual retail and high networth customers to meet everyday banking needs. This includes asset products like Personal Loans, Housing Loan, Credit Cards and Term Loans and liability products like Savings account, Current account & Term Deposits.
- Wholesale banking delivers a variety of products and services to Corporate customers that include lending, accepting deposits, trade finance, treasury and foreign exchange. It also includes Investment banking which offers investment products such as asset management, corporate advisory and brokerage services to retail customers and institutional clients.
- Commercial banking covers the mid-tier corporate and SME customers offering the entire spectrum of products to suit their business needs. It also includes our international operations in UAE and Egypt.
- Islamic banking offers products to cater to both retail and corporate customers as per Sharia principles.

Management monitors the operating results of these segments separately for the purpose of making decisions about resource allocation and performance assessment. The costs incurred by the central functions are managed on a group basis and are not allocated to operating segments.

Segment information by business line is as follows:

<i>6 months ended</i>	<i>Retail banking</i>	<i>Wholesale Banking</i>	<i>Commercial banking</i>	<i>Head office</i>	<i>Sub Total</i>	<i>Islamic Banking</i>	<i>Total</i>
<i>30-June-16</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	25,841	20,795	8,835	10,497	65,968	1,842	67,810
Net Profit / (loss)	13,122	16,701	3,876	(4,940)	28,759	636	29,395
Total assets	1,213,098	1,169,432	466,037	561,817	3,410,384	145,898	3,556,282

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT
30 June 2016 (unaudited)

24 SEGMENT REPORTING (Continued)

<i>6 months ended</i>	<i>Retail banking</i>	<i>Wholesale Banking</i>	<i>Commercial banking</i>	<i>Head office</i>	<i>Sub Total</i>	<i>Islamic Banking</i>	<i>Total</i>
<i>30-June-15</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	23,953	23,769	7,258	7,767	62,747	1,631	64,378
Net Profit / (loss)	13,181	20,745	3,525	(9,861)	27,590	473	28,063
Total assets	1,033,830	1,194,542	326,505	596,513	3,151,390	103,682	3,255,072

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 June 2016	<i>Oman</i>	<i>UAE</i>	<i>Egypt</i>	<i>Total</i>
	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>
Interest income and Income from Islamic financing and Investment activities	62,562	4,816	176	67,554
Other operating income	16,621	1,273	(36)	17,858
Total Income	79,183	6,089	140	85,412
Interest costs and Unrestricted investment account holders' share of profit	16,355	1,213	34	17,602
Other operating expenses	25,494	1,914	209	27,617
Depreciation	1,274	42	-	1,316
Credit loss expense - customer loan	7,948	1,275	1	9,224
Recoveries	(3,762)	(250)	-	(4,012)
Others	(19)	-	-	(19)
Taxation	3,901	377	11	4,289
Total	51,191	4,571	255	56,017
Segment profit for the year	27,992	1,518	(115)	29,395
Other information				
Segment assets	3,229,947	305,373	20,962	3,556,282
Segment capital expenses	4,746	51	-	4,797

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT
30 June 2016 (unaudited)

24 SEGMENT REPORTING (Continued)

For the period ended 30 June 2015	<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>
Interest income and Income from Islamic financing and Investment activities	58,248	2,881	60	61,189
Other operating income	17,392	1,136	481	19,009
Total Income	75,640	4,017	541	80,198
Interest costs and Unrestricted investment account holders' share of profit	15,238	548	34	15,820
Other operating expenses	25,215	1,600	152	26,967
Depreciation	1,501	47	-	1,548
Credit loss expense - customer loan	7,643	458	1	8,102
Recoveries	(4,111)	(363)	(112)	(4,586)
Others	69	-	-	69
Taxation	3,868	344	3	4,215
Total	49,423	2,634	78	52,135
Segment profit for the year	26,217	1,383	463	28,063
Other information				
Segment assets	3,033,724	200,205	21,143	3,255,072
Segment capital expenses	8,014	39	-	8,053

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT
30 June 2016 (unaudited)

25 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 2016</i>	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>
Investments – held for trading:			
Government development bonds	62,259	-	62,259
Government Sukuk	3,000	-	3,000
Quoted equities	229	-	229
Total	65,488	-	65,488
Investments - available for sale:			
Quoted equities	17,452	-	17,452
Other unquoted equities	-	12,221	12,221
Total	17,452	12,221	29,673
Total financial assets	82,940	12,221	95,161

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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25 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

<i>30 June 2015</i>	<i>Level 1</i> <i>RO'000</i>	<i>Level 2</i> <i>RO'000</i>	<i>Total</i> <i>RO'000</i>
Investments – held for trading:			
Government development bonds	42,345	-	42,345
Quoted equities	34	-	34
Total	42,383	-	42,383
Investments - available for sale:			
Government development bonds	68,528	-	68,528
Quoted equities	33,351	-	33,351
Other unquoted equities	-	13,399	13,399
Total	101,879	13,399	115,278
Total financial assets	144,262	13,399	157,661
<i>31 December 2015</i>	<i>Level 1</i> <i>RO'000</i>	<i>Level 2</i> <i>RO'000</i>	<i>Total</i> <i>RO'000</i>
Investments – held for trading:			
Government development bonds	65,468	-	65,468
Total	65,468	-	65,468
Investments - available for sale:			
Government development bonds	43,266	-	43,266
Quoted equities	28,551	-	28,551
Other unquoted equities	-	12,119	12,119
Total	71,817	12,119	83,936
Total financial assets	137,285	12,119	149,404

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT
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26 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 June 2016</i>						
<i>Derivatives</i>						
Fair value hedge	7,313	-	192,500	-	-	192,500
Interest rate swaps	5,101	(5,101)	109,956	2,125	11,691	96,140
Forward foreign exchange purchase contracts	517	(434)	211,903	137,996	73,907	-
Forward foreign exchange sales contracts	1,213	(165)	211,903	139,314	72,589	-
Currency options	-	-	1,039	780	259	-
Total	14,144	(5,700)	727,301	280,215	158,446	288,640
<i>30 June 2015</i>						
<i>Derivatives</i>						
Fair value hedge	3,408	-	192,500	-	-	192,500
Interest rate swaps	4,819	(4,819)	124,039	2,125	11,691	110,223
Forward foreign exchange purchase contracts	348	(44)	122,074	56,126	65,948	-
Forward foreign exchange sales contracts	220	(143)	122,072	55,832	65,880	360
Currency Options	(6)	6	15,675	15,658	17	-
Total	8,789	(5,000)	576,360	129,741	143,536	303,083
<i>31 December 2015</i>						
<i>Derivatives</i>						
Fair value hedge	3,473	-	192,500	-	-	192,500
Interest rate swaps	4,373	(4,373)	117,067	2,125	11,691	103,251
Forward purchase contracts	265	(324)	135,681	105,634	30,047	-
Forward sales contracts	138	(840)	135,681	105,807	29,874	-
Currency options	1	(1)	765	294	-	471
Total	8,250	(5,538)	581,694	213,860	71,612	296,222

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT
30 June 2016 (Unaudited)

27 LIQUIDITY COVERAGE RATIO

		June 2016		June 2015	
		Quarterly average			
		Total Unweighted Value	Total Weighted Value	Total Unweighted Value	Total Weighted Value
		RO'000	RO'000	RO'000	RO'000
High Quality Liquid Assets					
1	Total High Quality Liquid Assets (HQLA)		444,055		534,564
Cash Outflows					
2	Retail deposits and deposits from small business customers, of which:	752,716	44,335	711,400	41,003
3	Stable deposits	618,723	30,936	602,743	30,137
4	Less stable deposits	133,993	13,399	108,657	10,866
5	Unsecured wholesale funding, of which:	985,899	403,266	887,140	349,216
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks	985,899	403,266	887,140	349,216
7	Non-operational deposits (all counterparties)	-	-	-	-
8	Unsecured debt	-	-	-	-
9	Secured wholesale funding		-		-
10	Additional requirements, of which	14,619	1,462	30,139	3,014
11	Outflows related to derivative exposures and other collateral requirements	-	-	-	-
12	Outflows related to loss of funding on debt products	-	-	-	-
13	Credit and liquidity facilities	14,619	1,462	30,139	3,014
14	Other contractual funding obligations	-	-	-	-
15	Other contingent funding obligations	587,652	52,628	562,684	31,620
16	TOTAL CASH OUTFLOWS		501,692		424,853
Cash Inflows					
17	Secured lending (e.g. reverse repos)	-	-	-	-
18	Inflows from fully performing exposures	439,349	262,974	305,989	191,710
19	Other cash inflows	35,039	35,039	12,936	12,936
20	TOTAL CASH INFLOWS	474,388	298,013	318,925	204,646
21	TOTAL HQLA		444,055		534,564
22	TOTAL NET CASH OUTFLOWS		203,679		220,207
23	LIQUIDITY COVERAGE RATIO (%)		218.02		243