

National Bank of Oman SAOG

INTERIM CONDENSED FINANCIAL STATEMENTS

31 March 2017 (UNAUDITED)



PO Box 751 PC 112 Ruwi Sultanate of Oman.

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INTERIM CONDENSED STATEMENT OF FINANCIAL POSITION

As at 31 March 2017 (Un-audited)

		<i>31-03-2017</i>	<i>31-03-2016</i>	<i>Audited</i> <i>31-12-2016</i>
	<i>Notes</i>	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>
Assets				
Cash and balances with Central Banks	3	411,626	356,907	511,594
Due from banks and other money market placements (net)	4	129,583	157,790	115,330
Loans, advances and financing activities for customers (net)	5	2,799,750	2,625,812	2,670,281
Financial investments	6	145,749	155,632	128,383
Premises and equipment	7	50,066	36,115	46,345
Other assets	8	67,202	82,185	60,750
Total assets		3,603,976	3,414,441	3,532,683
Liabilities				
Due to banks and other money market deposits		155,389	174,064	225,235
Customers' deposits and unrestricted investment accounts	9	2,530,506	2,394,131	2,399,361
Euro medium term notes	10	233,325	200,009	233,105
Other liabilities	11	104,076	92,107	80,062
Taxation	12	3,416	1,607	7,406
		3,026,712	2,861,918	2,945,169
Subordinated debt	13	49,100	49,100	49,100
Total liabilities		3,075,812	2,911,018	2,994,269
Equity				
Share capital		154,852	147,478	147,478
Share premium		34,465	34,465	34,465
Legal reserve		49,159	47,737	49,159
Other non-distributable reserves	14	45,661	37,491	46,196
Proposed cash dividend		-	-	23,478
Proposed stock dividend		-	-	7,374
Retained earnings		128,527	120,752	114,764
Total shareholders' equity attributable to the equity holders of the bank		412,664	387,923	422,914
Tier 1 perpetual bond	15	115,500	115,500	115,500
Total equity		528,164	503,423	538,414
Total liabilities and equity		3,603,976	3,414,441	3,532,683
Contingent liabilities and commitments	16	627,938	674,195	781,729

The interim condensed financial statements were authorised for issue on 26 April 2017 in accordance with a resolution of the Board of Directors.

Chairperson

Chief Executive Officer

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

INTERIM CONDENSED STATEMENT OF COMPREHENSIVE INCOME
For the period ended 31 March 2017 (Un-audited)

	Notes	Three months ended 31	
		March	
		2017	2016
		RO'000	RO'000
Interest income	17	36,107	31,666
Interest expense	18	(12,959)	(7,874)
NET INTEREST INCOME		23,148	23,792
Income from Islamic financing and Investment activities		1,362	1,193
Unrestricted investment account holders' share of profit		(572)	(301)
NET INCOME FROM ISLAMIC FINANCING AND INVESTMENT ACTIVITIES		790	892
NET INTEREST INCOME AND NET INCOME FROM ISLAMIC FINANCING AND INVESTMENT ACTIVITIES		23,938	24,684
Other operating income	19	10,221	8,399
OPERATING INCOME		34,159	33,083
Staff costs		(8,751)	(8,280)
Other operating expenses	20	(5,660)	(5,388)
Depreciation	7	(856)	(660)
OPERATING EXPENSES		(15,267)	(14,328)
PROFIT FROM OPERATIONS BEFORE IMPAIRMENT LOSSES AND TAX		18,892	18,755
Credit loss expense – customer loans	5	(4,570)	(4,986)
Recoveries and releases from provision for credit losses		1,678	1,925
Others		-	(16)
TOTAL IMPAIRMENT LOSSES (NET)		(2,892)	(3,077)
PROFIT BEFORE TAX		16,000	15,678
Taxation	12	(2,237)	(1,741)
PROFIT FOR THE PERIOD		13,763	13,937
OTHER COMPREHENSIVE INCOME			
Items that are or may be reclassified subsequently to profit or loss			
Net movement on available for sale investments		(579)	(78)
Tax effect of net results on available for sale financial investments		44	(27)
OTHER COMPREHENSIVE (LOSS) FOR THE PERIOD		(535)	(105)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		13,228	13,832
Earnings per share annualised:			
Basic and diluted, profit for the period attributable to equity holders		0.036	0.037

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

INTERIM CONDENSED STATEMENT OF CASH FLOWS
For the period ended 31 March 2017 (Un-audited)

	<i>Notes</i>	Three months ended 31 March	
		2017	2016
		RO'000	RO'000
Profit before taxation		16,000	15,678
Adjustments for:			
Depreciation	7	856	660
Provision for credit losses (net)		4,570	4,986
Provision for credit loss expenses bank loans (net)		-	-
Impairment on available for sale investments		-	16
Profit / (loss) on sale of investments		(6)	(662)
Investment income		(2,060)	(1,084)
Operating profit before changes in operating assets and liabilities		19,360	19,594
Due from and other money market deposits		16,052	(20,443)
Due to and other money market placements		(70,947)	2,367
Loans, advances and financing activities for customers		(134,039)	(96,699)
Other assets		(6,408)	(19,651)
Customers' deposits and unrestricted investment accounts		131,145	144,305
Other liabilities		24,234	16,191
Cash from operations		(20,603)	45,664
Tax paid		(6,273)	(8,411)
Net cash from operating activities		(26,876)	37,253
Investing activities			
Purchase of investments		(18,668)	(4,585)
Proceeds from sale of investments		773	6,184
Purchase of premises and equipment	7	(4,578)	(2,147)
Disposal of premises and equipment		1	11
Translation difference in premises and equipment and tax		1	(125)
Interest on Government Development Bond and T-Bills		942	891
Dividend income	19	1,118	193
Net cash from / (used in) investing activities		20,410	422
Financing activities			
Payment of dividend		(23,478)	(22,792)
Repayment of Subordinated debt			(3,000)
Interest on Tier 1 perpetual bond			(2,274)
Net cash used in financing activities		(23,478)	(28,066)
Increase in cash and cash equivalents		(70,764)	9,609
Cash and cash equivalents at the beginning of the period		502,493	341,881
Cash and cash equivalents at the end of the period		431,729	351,490
Representing:			
Cash and balances with Central Bank	3	411,126	356,407
Due from Bank (maturing within 3 months)		103,039	109,529
Due to Bank (maturing within 3 months)		(82,436)	(114,446)
		431,729	351,490

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

INTERIM CONDENSED STATEMENT OF CHANGES IN EQUITY
As at 31 March 2017 (Un-audited)

<i>(RO'000)</i>	Share capital	Share premium	Legal reserve *	Other non-distributable reserves*	Proposed cash dividend	Proposed stock dividend	Retained earnings	Total	Tier 1 Perpetual bond	Total
Balance at 1 January 2017	147,478	34,465	49,159	46,196	23,478	7,374	114,764	422,914	115,500	538,414
Total comprehensive income for the period	-	-	-	(535)	-	-	13,763	13,228	-	13,228
Issue of shares	7,374	-	-	-	-	(7,374)	-	-	-	-
Dividend transferred to payable	-	-	-	-	(23,478)	-	-	(23,478)	-	(23,478)
Balance at 31 March 2017	154,852	34,465	49,159	45,661	-	-	128,527	412,664	115,500	528,164
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	-	-	-	(105)	-	-	13,937	13,832	-	13,832
Transfer to retained earnings	-	-	-	(3,000)	-	-	3,000	-	-	-
Payment of tier 1 perpetual bond	-	-	-	-	-	-	(2,274)	(2,274)	-	(2,274)
Issue of shares	13,407	-	-	-	-	(13,407)	-	-	-	-
Dividend paid during the period	-	-	-	-	(22,792)	-	-	(22,792)	-	(22,792)
Balance at 31 March 2016	147,478	34,465	47,737	37,491	-	-	120,752	387,923	115,500	503,423
Balance at 1 April 2016	147,478	34,465	47,737	37,491	-	-	120,752	387,923	115,500	503,423
Total comprehensive income for the period	-	-	-	(1,115)	-	-	41,842	40,727	-	40,727
Payment of tier 1 perpetual bond	-	-	-	-	-	-	(5,736)	(5,736)	-	(5,736)
Transfer to subordinated funds reserve	-	-	-	9,820	-	-	(9,820)	-	-	-
Transfer to legal reserve	-	-	1,422	-	-	-	(1,422)	-	-	-
Proposed dividend	-	-	-	-	23,478	7,374	(30,852)	-	-	-
Balance at 31 December 2016	147,478	34,465	49,159	46,196	23,478	7,374	114,764	422,914	115,500	538,414

*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
31 March 2017 (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 1,535 employees as of 31 March 2017 (31 March 2016-1,524 employees / 31 December 2016 - 1,544).

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 2016.

The condensed interim financial statements do not contain all information and disclosures required for full financial statements prepared in accordance with International Financial Reporting Standards. In addition, results for the three months ended 31 March 2017 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
31 March 2017 (Unaudited)

3 CASH AND BALANCES WITH CENTRAL BANKS

	<i>31/03/2017</i>	<i>31/03/2016</i>	<i>31/12/2016</i>
	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>
Cash	43,909	44,407	46,587
Treasury bills	5,255	27,789	253
Other balances with Central Banks	361,962	284,211	464,254
Cash and cash equivalents	411,126	356,407	511,094
Capital deposit with Central Bank of Oman	500	500	500
Cash and balances with Central Banks	411,626	356,907	511,594

The capital deposit with the Central Bank of Oman cannot be withdrawn without the approval of the Central Bank of Oman.

4 DUE FROM BANKS AND OTHER MONEY MARKET PLACEMENTS (NET)

	<i>31/03/2017</i>	<i>31/03/2016</i>	<i>31/12/2016</i>
	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>
Loans and advances to banks	13,668	33,784	25,218
Placements with banks	83,542	78,347	56,078
Demand balances	32,441	45,789	34,102
Due from banks and other money market placements	129,651	157,920	115,398
Less: allowance for credit losses	(68)	(130)	(68)
Net due from banks and other money market placements	129,583	157,790	115,330

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT
31 March 2017 (Unaudited)

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

	<i>31/03/2017</i>	<i>31/03/2016</i>	<i>31/12/2016</i>
	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>
Overdrafts	88,988	77,564	87,419
Personal loans	1,344,308	1,261,599	1,339,213
Other loans	1,467,211	1,378,330	1,341,664
Gross loans and advances	2,900,507	2,717,493	2,768,296
Less: Allowance for credit losses	(100,757)	(91,681)	(98,015)
Net loans and advances	2,799,750	2,625,812	2,670,281

Gross loans and advances include RO 129 million due from related parties at 31 March 2017 (31 March 2016 – RO 47.8 million, 31 December 2016 – RO 99 million).

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

Allowance for credit losses	<i>3 months</i>	<i>3 months</i>	<i>12 months</i>
	<i>ended</i>	<i>ended</i>	<i>ended</i>
	<i>31/03/2017</i>	<i>31/03/2016</i>	<i>31/12/2016</i>
	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>
Balance at beginning of period / year	85,372	76,743	76,743
Provided during the period / year	4,570	4,986	19,646
Recovered/ released during the period / year	(129)	(215)	(2,028)
Written off during the period / year	(2,398)	(1,713)	(8,834)
Translation difference	2	(41)	(155)
Balance at end of period / year	87,417	79,760	85,372

Reserved interest	<i>3 months</i>	<i>3 months</i>	<i>12 months</i>
	<i>ended</i>	<i>ended</i>	<i>ended</i>
	<i>31/03/2017</i>	<i>31/03/2016</i>	<i>31/12/2016</i>
	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>
Balance at beginning of period / year	12,643	11,463	11,463
Reserved during the period / year	945	886	3,905
Recovered/ released during the period / year	(101)	(190)	(541)
Written off during the period / year	(147)	(228)	(2,135)
Translation difference	-	(10)	(49)
Balance at end of period / year	13,340	11,921	12,643

All loans and advances require payment of interest based on agreed tenors, some at fixed rates and others at rates that re-price prior to maturity.

As of 31 March 2017 loans and advances on which interest is not being accrued or where interest has been reserved amounted to RO 78 million, (31 March 2016 – RO 67million and 31 December 2016 – RO 74 million).

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT
31 March 2017 (Unaudited)

6 FINANCIAL INVESTMENTS

	<i>Carrying value 31/03/2017 RO'000</i>	<i>Carrying value 31/03/2016 RO'000</i>	<i>Carrying value 31/12/2016 RO'000</i>
A. Held for trading			
Quoted investments- Oman			
Government Sukuk	3,000	-	3,000
Government Development Bonds	61,637	65,363	61,740
Equities	75	75	299
	64,712	65,438	65,039
Quoted investments- Foreign			
Equities	356	48	609
	356	48	609
Total held for trading	65,068	65,486	65,648
B. Available for sale			
Quoted investments- Oman			
Banking and investment sector	875	510	870
Manufacturing sector	2,617	136	141
Service sector	22,575	18,428	13,812
	26,067	19,074	14,823
Quoted investments- Foreign			
Banking and investment sector	2,582	319	332
Service sector	3,568	3,676	3,602
	6,150	3,995	3,934
Unquoted investments			
Banking and investment sector	8,370	8,250	8,355
Manufacturing sector	3,483	3,483	3,483
Service sector	341	228	351
	12,194	11,961	12,189
Total available for sale	44,411	35,030	30,946
C. Held to maturity			
Quoted investments- Oman			
Government Development Bonds	23,356	47,890	18,874
Manufacturing sector	5,775	-	5,775
	29,131	47,890	24,649
Quoted investments- Overseas			
Government Development Bonds	5,165	5,244	5,165
Banking Sector	1,974	1,982	1,975
	7,139	7,226	7,140
Total Held to maturity	36,270	55,116	31,789
TOTAL FINANCIAL INVESTMENTS	145,749	155,632	128,383

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT
31 March 2017 (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>31 March 2017</u>		
Government Development Bonds-Oman	58	84,993
<u>31 March 2016</u>		
Government Development Bonds-Oman	72.8	113,253
<u>31 December 2016</u>		
Government Development Bonds-Oman	62.8	80,614

7 PREMISES AND EQUIPMENT

	<i>Freehold land, buildings and leasehold improvements</i> RO'000	<i>Motor vehicles, furniture and equipment</i> RO'000	<i>Capital work in progress</i> RO'000	<i>Total</i> RO'000
Reconciliation of carrying amount:				
Balance at 1 January 2017, net of accumulated depreciation	12,492	7,900	25,953	46,345
Additions	146	169	4,263	4,578
Disposal	-	(1)	-	(1)
Depreciation	(225)	(631)	-	(856)
Balance at 31 March 2017, net of accumulated depreciation	12,413	7,437	30,216	50,066
At cost / valuation	27,156	34,283	30,216	91,655
Accumulated depreciation	(14,743)	(26,846)	-	(41,589)
Net carrying value at 31 March 2017	12,413	7,437	30,216	50,066
Net carrying value at 31 March 2016	11,582	5,006	19,527	36,115

8 OTHER ASSETS

	31/03/2017 RO'000	31/03/2016 RO'000	31/12/2016 RO'000
Interest receivable and others	25,879	16,273	18,447
Positive fair value of derivatives (note 26)	5,203	14,142	8,397
Customers' indebtedness for acceptances (note 11)	35,248	51,049	33,078
Deferred tax (note 12)	872	721	828
	67,202	82,185	60,750

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT
31 March 2017 (Unaudited)

9 CUSTOMERS' DEPOSITS AND UNRESTRICTED INVESTMENT ACCOUNTS

	31/03/2017	31/03/2016	31/12/2016
	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>
Current accounts	946,528	975,934	850,334
Savings accounts	606,688	603,339	603,851
Term deposits	977,290	814,858	945,176
	2,530,506	2,394,131	2,399,361

10 EURO MEDIUM TERM NOTES

The Bank in 2014 had issued a 5-year, RO 192.27 million (USD 500 million) Regulation S, bond under its Euro Medium Term Note (EMTN) programme of USD 600, and in July 2016 bank concluded a tap issuance for USD 100 million under the name Euro Medium Term Note (EMTN) programme, bringing the total issuance to 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 entered by the bank to manage its risk relating to interest rate (Refer note 26).

11 OTHER LIABILITIES

	31/03/2017	31/03/2016	31/12/2016
	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>
Interest payable and other accruals	66,910	35,616	39,578
Staff entitlements	-	-	1,772
Negative fair value of derivatives (note 26)	1,918	5,442	5,634
Liabilities under acceptances (note 8)	35,248	51,049	33,078
	104,076	92,107	80,062

12 TAXATION

	31/03/2017	31/03/2016	31/12/2016
	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>
Statement of comprehensive income			
Current period/year	2,237	1,741	7,636

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT
31 March 2017 (Unaudited)

12 TAXATION (continued)

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

	31/03/2017	31/03/2016	31/12/2016
	RO'000	RO'000	RO'000
Accounting profit	16,000	15,678	63,415
Tax at applicable rate	2,400	1,881	7,610
Non-deductible expenses	(16)	32	(16)
Tax exempt revenues	(814)	(95)	(814)
Others	667	(77)	999
	2,237	1,741	7,779

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.

	31/03/2017	31/03/2016	31/12/2016
	RO'000	RO'000	RO'000
Tax liability			
Income tax and other taxes – Current year	2,237	1,741	7,779
Income tax and other taxes – Prior years	1,179	(134)	(373)
	3,416	1,607	7,406

	31/03/2017	31/03/2016	31/12/2016
	RO'000	RO'000	RO'000
Recognised deferred tax assets and liabilities			
Deferred tax assets and liabilities are attributable to the following:			
Provisions	871	728	871
Available for sale investments	1	(7)	(43)
	872	721	828

Deferred tax is calculated at 15% (2016 – 12%).

13 SUBORDINATED DEBT

	31/03/2017	31/03/2016	31/12/2016
	RO'000	RO'000	RO'000
At 1 January	49,100	52,100	52,100
Redeemed during the period/year	-	(3,000)	(3,000)
	49,100	49,100	49,100

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT
31 March 2017 (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 2017	1,111	4,385	40,700	46,196
Net movement on available for sale	(579)	-	-	(579)
Tax effect of net results on available for sale	44	-	-	44
At 31 March 2017	576	4,385	40,700	45,661
At 31 March 2016	2,226	4,385	30,880	37,491

- (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 or used.
- (ii) The subordinated debt reserve represents an annual transfer towards subordinated debt which is due to mature within the next five years period (note 13). The reserve is available for transfer back to retained earning 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 Central Bank of Oman.

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% which is the aggregate of 5 year mid-swap rate and credit margin that was prevailing at the time of issuance. The mid-swap rate will be reset at end of every fifth year. Interest will be payable semi-annually in arrears and treated as deduction from equity. Interest is non-cumulative and payable at the Bank's discretion.

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

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT
31 March 2017 (Unaudited)

16 CONTINGENT LIABILITIES AND COMMITMENTS

	<i>31/03/2017</i>	<i>31/03/2016</i>	<i>31/12/2016</i>
	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>
Guarantees	424,964	448,420	463,564
Documentary letters of credit	87,213	95,231	80,134
Undrawn commitment to lend	155,761	130,544	238,031
	627,938	674,195	781,729

Contingent liabilities include RO 0.11 million (31 March 2016 – RO 0.2 million and 31 December 2016– RO 0.4 million) relating to non-performing loans.

17 INTEREST INCOME

Interest bearing assets earned interest at an overall rate of 5.18% for the three months period ended 31 March 2017 (31 March 2016 – 4.61% and 31 December 2016 – 4.90%).

18 INTEREST EXPENSE

For the three months period ended 31 March 2017, the average overall cost of funds was 1.88% (31 March 2016- 1.23% and 31 December 2016 – 1.43%)

19 OTHER OPERATING INCOME

	<i>3 months ended</i>	<i>3 months ended</i>
	<i>31/03/2017</i>	<i>31/03/2016</i>
	<i>RO'000</i>	<i>RO'000</i>
Net gains from foreign exchange dealings	1,374	1,237
Fees and commissions	5,251	3,529
Net income/(loss) from sale of investments	6	662
Income from bonds	942	891
Dividend income	1,118	193
Service charges	1,250	1,685
Miscellaneous income	280	202
	10,221	8,399

20 OTHER OPERATING EXPENSES

	<i>3 months ended</i>	<i>3 months ended</i>
	<i>31/03/2017</i>	<i>31/03/2016</i>
	<i>RO'000</i>	<i>RO'000</i>
Establishment costs	1,566	1,518
Operating and administration expenses	4,094	3,870
	5,660	5,388

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT
31 March 2017 (Unaudited)

21 ASSET LIABILITY MISMATCH

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

31 March 2017

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	963,030	856,454	106,576
3 - 12 month	413,223	901,453	(488,230)
1 – 5 years	726,062	828,479	(102,417)
More than 5 years	1,501,661	1,017,590	484,071
Total	3,603,976	3,603,976	-

31 March 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	1,004,102	865,962	138,140
3 - 12 month	304,572	733,765	(429,193)
1 – 5 years	683,984	828,887	(144,903)
More than 5 years	1,421,783	985,827	435,956
Total	3,414,441	3,414,441	-

31 December 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	1,092,334	804,340	287,994
3 - 12 month	326,065	891,932	(565,867)
1 – 5 years	647,880	834,478	(186,598)
More than 5 years	1,466,404	1,001,933	464,471
Total	3,532,683	3,532,683	-

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT
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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>31/03/2017</u>			<u>31/12/2016</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	-	129,174	129,174	-	99,039	99,039
Customers' deposits	51,296	58,865	110,161	82,292	35,304	117,596
Due from banks	(15,373)	13,668	(1,705)	55	13,668	13,723
Due to banks	29,244	-	29,244	28,917	-	28,917
Subordinated debt	14,500	4,000	18,500	14,500	4,000	18,500
Letters of credit, guarantees and acceptances	98	2,936	3,034	118	5,348	5,466
Standby revolving credit facility	77,000	-	77,000	77,000	-	77,000
Risk indemnities received	284	-	284	422	-	422
Investments	1,918	-	1,918	1,918	-	1,918

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

	<u>31/03/2017</u>			<u>31/03/2016</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	2	1,258	1,260	-	558	558
Commission income	73	17	90	1	54	55
Interest expense	650	215	865	860	52	912
Other expenses	-	126	126	-	118	118
Senior management compensation:				3 months ended	3 months ended	
Salaries and other short term benefits				31/03/2017	31/03/2016	
				RO'000	RO'000	
- Fixed				821	706	
- Discretionary				1,243	1,114	
				2,064	1,820	

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT
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23 SHAREHOLDERS

As of 31 March 2017, 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	540,431	34.90%
Suhail Bahwan Group (Holdings) LLC	228,318	14.74%
Civil Service Employees Pension Fund	176,465	11.40%

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 international operations of UAE and Egypt and Islamic banking which offers products as per Sharia principles.
- Funding Center – The Funding center is responsible for balancing and managing the liquidity of funds within the bank. It acts as repository of funds by allocating funds transfer pricing to various business units for performance management purposes. The department also handles the bank's investments in securities, asset/liability management and cash instruments.

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>3 month ended</i>	<i>Retail banking RO'000</i>	<i>Wholesale banking RO'000</i>	<i>Commercial banking RO'000</i>	<i>Funding Center RO'000</i>	<i>Total RO'000</i>
31-Mar-2017					
Operating Income	13,855	11,523	5,864	2,917	34,159
Net Profit	4,075	8,141	740	807	13,763
Total Assets	1,241,891	1,226,336	546,645	589,104	3,603,976

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT
31 March 2017 (unaudited)

24 SEGMENT REPORTING (Continued)

<i>3 month ended</i>	<i>Retail banking</i>	<i>Wholesale banking</i>	<i>Commercial banking</i>	<i>Funding Center</i>	<i>Total</i>
	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>
<i>31-Mar-2016</i>					
Operating Income	12,304	10,808	5,114	4,857	33,083
Net Profit	2,064	8,202	360	3,311	13,937
Total Assets	1,159,557	1,138,127	568,141	548,616	3,414,441

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 31 March 2017	<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	34,705	2,665	99	37,469
Other operating income	9,567	644	10	10,221
Total Income	44,272	3,309	109	47,690
Interest costs and Unrestricted investment account holders' share of profit	12,836	681	14	13,531
Other operating expenses	13,286	1,065	60	14,411
Depreciation	824	32	-	856
Credit loss expense - customer loan	3,126	1,444	-	4,570
Recoveries	(1,637)	(41)	-	(1,678)
Taxation	2,209	26	2	2,237
Total	30,644	3,207	76	33,927
Segment profit for the period	13,628	102	33	13,763

Other information

Segment assets	3,348,918	235,259	19,799	3,603,976
Segment capital expenses	4,468	111	-	4,579

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT
31 March 2017 (unaudited)

24 SEGMENT REPORTING (Continued)

For the period ended 31 March 2016

	<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>
Revenue				
Interest income and Income from Islamic financing and Investment activities	30,500	2,274	85	32,859
Other operating income	7,851	586	(38)	8,399
Total	38,351	2,860	47	41,258
Costs				
Interest costs and Unrestricted investment account holders' share of profit	7,575	583	17	8,175
Other operating expenses	12,600	928	140	13,668
Depreciation	640	20	-	660
Credit loss expense - customer loan	4,278	708	-	4,986
Recoveries	(1,739)	(186)	-	(1,925)
Impairment losses on available for sale investments	16	-	-	16
Taxation	1,574	160	7	1,741
Total	24,944	2,213	164	27,321
	13,407	647	(117)	13,937
Other information				
Segment assets	3,094,139	299,488	20,814	3,414,441
Segment capital expenses	2,129	18	-	2,147

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT
31 March 2017 (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>31 March 2017</i>	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>
Investments – held for trading:			
Government development bonds	61,637	-	61,637
Government Sukuk	3,000	-	3,000
Quoted equities	431	-	431
Total	65,068	-	65,068
Investments - available for sale:			
Government development bonds	-	-	-
Quoted equities	32,217	-	32,217
Other unquoted equities	-	12,194	12,194
Total	32,217	12,194	44,411
Total financial assets	97,285	12,194	109,479

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
31 March 2017 (unaudited)

25 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

<i>31 March 2016</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:			
Quoted equities	123	-	123
Total	123	-	123
Investments - available for sale:			
Quoted equities	23,069	-	23,069
Other unquoted equities	-	11,961	11,961
Total	23,069	11,961	35,030
Total financial assets	23,192	11,961	35,153

<i>31 December 2016</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	61,740	-	61,740
Government Sukuk	3,000	-	3,000
Quoted equities	908	-	908
Total	65,648	-	65,648
Investments - available for sale:			
Government development bonds	-	-	-
Quoted equities	18,757	-	18,757
Other unquoted equities	-	12,189	12,189
Total	18,757	12,189	30,946
Total financial assets	84,405	12,189	96,594

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT
31 March 2017 (Unaudited)

26 DERIVATIVES

	<i>Positive fair value (Note 8)</i>	<i>Negative fair value (Note 10)</i>	<i>Notional amount total</i>	<i>Notional amounts by term to maturity</i>		
				<i>Within 3 months</i>	<i>3 – 12 months</i>	<i>Above 1 Year</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>31 March 2017</i>						
<i>Derivatives</i>						
Fair value hedge	2,325	-	192,500	-	-	192,500
Interest rate swaps	2,439	(2,439)	105,405	3,720	14,483	87,202
Forward foreign exchange purchase contracts	1	322	172,565	130,608	37,013	4,944
Forward foreign exchange sales contracts	428	210	172,565	130,952	36,580	5,033
Currency options	11	(11)	1,950	1,746	204	-
Total	5,204	(1,918)	644,985	267,026	88,280	289,679
<i>31 March 2016</i>						
<i>Derivatives</i>						
Fair value hedge	7,509	-	192,500	-	-	192,500
Interest rate swaps	4,719	(4,719)	111,550	2,125	11,691	97,734
Forward foreign exchange purchase contracts	1,707	(1)	137,721	81,915	55,806	-
Forward foreign exchange sales contracts	207	(722)	137,721	81,258	54,842	1,621
Currency Options	-	-	-	-	-	-
Total	14,142	(5,442)	579,492	165,298	122,339	291,855
<i>31 December 2016</i>						
<i>Derivatives</i>						
Fair value hedge	2,105	-	192,500	-	-	192,500
Interest rate swaps	2,981	(2,981)	112,152	2,660	14,484	95,008
Forward purchase contracts	821	(2)	187,531	173,133	14,398	-
Forward sales contracts	2,432	(2,593)	187,531	174,155	13,376	-
Currency options	58	(58)	2,835	2,159	676	-
Total	8,397	(5,634)	682,549	352,107	42,934	287,508

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT
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27 LIQUIDITY COVERAGE RATIO

		March 2017		March 2016	
		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)		459,257		424,677
Cash Outflows					
2	Retail deposits and deposits from small business customers, of which:	730,720	42,220	727,296	42,781
3	Stable deposits	617,032	30,852	598,971	29,949
4	Less stable deposits	113,688	11,369	128,325	12,833
5	Unsecured wholesale funding, of which:	985,200	391,451	935,672	356,292
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks	985,200	391,451	935,672	356,292
7	Non-operational deposits (all counterparties)	-	-	-	-
8	Unsecured debt	-	-	-	-
9	Secured wholesale funding		-		-
10	Additional requirements, of which	27,538	-	-	2,782
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	27,538	2,754	27,820	2,782
14	Other contractual funding obligations	-	-	-	-
15	Other contingent funding obligations	550,838	31,197	603,245	34,623
16	TOTAL CASH OUTFLOWS		467,622		436,478
Cash Inflows					
17	Secured lending (e.g. reverse repos)	-	-	-	-
18	Inflows from fully performing exposures	386,406	293,611	437,489	299,700
19	Other cash inflows	20,782	20,782	17,869	17,869
20	TOTAL CASH INFLOWS	407,188	314,393	455,358	317,568
			Total Adjusted Value		Total Adjusted Value
21	TOTAL HQLA		459,257		424,677
22	TOTAL NET CASH OUTFLOWS		153,229		118,910
23	LIQUIDITY COVERAGE RATIO (%)		299.72		357.1