

National Bank of Oman SAOG

INTERIM CONDENSED FINANCIAL STATEMENTS

31 March 2016 (UNAUDITED)



PO Box 751 PC 112 Ruwi Sultanate of Oman.

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INTERIM CONDENSED STATEMENT OF FINANCIAL POSITION

As at 31 March 2016 (Un-audited)

		31-03-2016	31-03-2015	<i>Audited</i> 31-12-2015
	<i>Notes</i>	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>
Assets				
Cash and balances with Central Banks	3	356,907	402,324	304,488
Due from banks and other money market placements (net)	4	157,790	164,729	170,985
Loans, advances and financing activities for customers (net)	5	2,625,812	2,387,984	2,534,099
Financial investments	6	155,632	158,907	156,658
Premises and equipment	7	36,115	27,938	34,671
Other assets	8	82,185	62,235	62,534
Total assets		3,414,441	3,204,117	3,263,435
Liabilities				
Due to banks and other money market deposits		174,064	67,605	162,525
Customers' deposits and unrestricted investment accounts	9	2,394,131	2,439,624	2,249,826
Euro medium term notes	10	200,009	198,266	195,973
Other liabilities	11	92,107	81,944	79,952
Taxation	12	1,607	1,103	8,402
Total liabilities		2,861,918	2,788,542	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	37,491	39,850	40,596
Proposed cash dividend		-	-	22,792
Proposed stock dividend		-	-	13,407
Retained earnings		120,752	97,290	106,089
Total shareholders' equity attributable to the equity holders of the bank		387,923	353,475	399,157
Tier 1 perpetual bond	15	115,500	-	115,500
Total equity		503,423	353,475	514,657
Total liabilities, subordinated debt and equity		3,414,441	3,204,117	3,263,435

The interim condensed financial statements were authorised for issue on 25th April 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 31 March 2016 (Un-audited)

	Notes	Three months ended 31 Mar	
		2016 RO'000	2015 RO'000
Interest income	17	31,666	29,277
Interest expense	18	(7,874)	(7,637)
Net interest income		23,792	21,640
Income from Islamic financing and Investment activities		1,193	858
Unrestricted investment account holders' share of profit		(301)	(112)
Net Income from Islamic financing and Investment activities		892	746
Net interest income and net income from Islamic financing and Investment activities		24,684	22,386
Other operating income	19	8,399	9,072
OPERATING INCOME		33,083	31,458
Staff costs		(8,280)	(8,540)
Other operating expenses	20	(5,388)	(5,044)
Depreciation	7	(660)	(735)
OPERATING EXPENSES		(14,328)	(14,319)
PROFIT FROM OPERATIONS BEFORE IMPAIRMENT LOSSES AND TAX		18,755	17,139
Credit loss expense – customer loans	5	(4,986)	(5,059)
Recoveries and releases from provision for credit losses		1,925	2,472
Others		(16)	(17)
TOTAL IMPAIRMENT LOSSES (NET)		(3,077)	(2,604)
PROFIT BEFORE TAX		15,678	14,535
Taxation	12	(1,741)	(1,897)
PROFIT FOR THE PERIOD		13,937	12,638
OTHER COMPREHENSIVE INCOME			
Items that are or may be reclassified subsequently to profit or loss			
Net movement on available for sale investments		(78)	(15)
Tax effect of net results on available for sale financial investments		(27)	43
OTHER COMPREHENSIVE (LOSS)/ INCOME FOR THE PERIOD		(105)	28
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		13,832	12,666
Earnings per share annualised:			
Basic and diluted, profit for the period attributable to equity holders		0.038	0.035

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 2016 (Un-audited)

	Notes	Three months ended 31 Mar	
		2016 RO'000	2015 RO'000
Profit before taxation		15,678	14,535
Adjustments for:			
Depreciation	7	660	735
Provision for credit losses (net)		4,986	5,059
Provision for credit loss expenses bank loans (net)		-	17
Impairment on available for sale investments		16	-
Profit / (loss) on sale of investments		(662)	32
Investment income		(1,084)	(1,325)
Operating profit before changes in operating assets and liabilities		19,594	19,053
Due from and other money market deposits		(20,443)	(10,558)
Due to and other money market placements		2,367	1,483
Loans, advances and financing activities for customers		(96,699)	(76,230)
Other assets		(19,651)	(7,404)
Customers' deposits and unrestricted investment accounts		144,305	261,882
Other liabilities		16,191	15,226
Cash from operations		45,664	203,452
Tax paid		(8,411)	(6,829)
Net cash from operating activities		37,253	196,623
Investing activities			
Purchase of investments		(4,585)	(12,275)
Proceeds from sale of investments		6,184	891
Purchase of premises and equipment	7	(2,147)	(5,486)
Disposal of premises and equipment		11	3
Translation difference in premises and equipment and tax		(125)	(31)
Interest on Government Development Bond and T-Bills		891	675
Dividend income	19	193	650
Net cash from / (used in) investing activities		422	(15,573)
Financing activities			
Payment of dividend		(22,792)	(20,720)
Repayment of Subordinated debt		(3,000)	(1,500)
Interest on Tier 1 perpetual bond		(2,274)	-
Net cash used in financing activities		(28,066)	(22,220)
Increase in cash and cash equivalents		9,609	158,830
Cash and cash equivalents at the beginning of the period		341,881	313,135
Cash and cash equivalents at the end of the period		351,490	471,965
Representing:			
Cash and balances with Central Bank	3	356,407	401,824
Deposits and balances with other banks and financial institutions (net)		(4,917)	70,141
		351,490	471,965

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 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	-	-	-	-	28	-	-	12,638	12,666	-	12,666
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 31 March 2015	134,071	34,465	43,380	4,419	39,850	-	-	97,290	353,475	-	353,475
Balance at 1 April 2015	134,071	34,465	43,380	4,419	39,850	-	-	97,290	353,475	-	353,475
Total comprehensive income for the period	-	-	-	-	451	-	-	47,468	47,919	-	47,919
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	-	-	-	-	(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

*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 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.

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 three months ended 31 March 2016 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2015.

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 2016 (Unaudited)

3 CASH AND BALANCES WITH CENTRAL BANKS

	<i>31/03/2016</i>	<i>31/03/2015</i>	<i>31/12/2015</i>
	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>
Cash	44,407	43,764	44,678
Treasury bills	27,789	7,320	8,146
Certificate of deposit with Central Banks	-	110,000	-
Other balances with Central Banks	284,211	240,740	251,164
Cash and cash equivalents	356,407	401,824	303,988
Capital deposit with Central Bank of Oman	500	500	500
Cash and balances with Central Banks	356,907	402,324	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>31/03/2016</i>	<i>31/03/2015</i>	<i>31/12/2015</i>
	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>
Loans and advances to banks	33,784	27,931	26,084
Placements with banks	78,347	110,990	96,080
Demand balances	45,789	25,948	48,951
Due from banks and other money market placements	157,920	164,869	171,115
Less: allowance for credit losses	(130)	(140)	(130)
Net due from banks and other money market placements	157,790	164,729	170,985

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT
31 March 2016 (Unaudited)

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

	<i>31/03/2016</i>	<i>31/03/2015</i>	<i>31/12/2015</i>
	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>
Overdrafts	77,564	70,202	69,987
Personal loans	1,261,599	1,075,231	1,190,195
Other loans	1,378,330	1,325,324	1,362,123
Gross loans and advances	2,717,493	2,470,757	2,622,305
Allowance for credit losses	(91,681)	(82,773)	(88,206)
Net loans and advances	2,625,812	2,387,984	2,534,099

Gross loans and advances include RO 47.8 million due from related parties at 31 March 2016 (31 March 2015 – RO 20.8 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>3 months</i>	<i>3 months</i>	<i>12 months</i>
	<i>ended</i>	<i>ended</i>	<i>ended</i>
	<i>31/03/2016</i>	<i>31/03/2015</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	4,986	5,059	15,472
Recovered/ released during the period / year	(215)	(240)	(1,155)
Written off during the period / year	(1,713)	(1,288)	(6,639)
Translation difference	(41)	(124)	(132)
Balance at end of period / year	79,760	72,604	76,743

Reserved interest	<i>3 months</i>	<i>3 months</i>	<i>12 months</i>
	<i>ended</i>	<i>ended</i>	<i>ended</i>
	<i>31/03/2016</i>	<i>31/03/2015</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	886	735	2,769
Recovered/ released during the period / year	(190)	(193)	(664)
Written off during the period / year	(228)	(118)	(386)
Translation difference	(10)	(6)	(7)
Balance at end of period / year	11,921	10,169	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 31 March 2016 loans and advances on which interest is not being accrued or where interest has been reserved amounted to RO 67 million, (31 March 2015 – RO 60 million and 31 December 2015 – RO 62 million).

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT
31 March 2016 (Unaudited)

6 FINANCIAL INVESTMENTS

	<i>Carrying value 31/03/2016 RO'000</i>	<i>Carrying value 31/03/2015 RO'000</i>	<i>Carrying value 31/12/2015 RO'000</i>
A. Held for trading			
Quoted investments- Oman			
Government Development Bonds	65,363	42,433	65,468
Equities	75	52	-
	65,438	42,485	65,468
Quoted investments- Foreign			
Equities	48	48	-
	48	48	-
Total held for trading	65,486	42,533	65,468
B. Available for sale			
Quoted investments- Oman			
Banking and investment sector	510	490	500
Manufacturing sector	136	355	159
Service sector	18,428	20,523	23,885
Government Development Bonds	-	68,742	43,266
	19,074	90,110	67,810
Quoted investments- Foreign			
Banking and investment sector	319	2,008	307
Service sector	3,676	3,809	3,700
	3,995	5,817	4,007
Unquoted investments			
Banking and investment sector	8,250	9,453	8,566
Manufacturing sector	3,483	3,483	3,483
Service sector	228	175	70
	11,961	13,111	12,119
Total available for sale	35,030	109,038	83,936
C. Held to maturity			
Quoted investments- Oman			
Government Development Bonds	47,890	-	-
Quoted investments- Overseas			
Government Development Bonds	5,244	5,349	5,270
Banking Sector	1,982	1,987	1,984
	7,226	7,336	7,254
Total Held to maturity	55,116	7,336	7,254
TOTAL FINANCIAL INVESTMENTS	155,632	158,907	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
31 March 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>31 March 2016</u>		
Government Development Bonds-Oman	72.8	113,253
<u>31 March 2015</u>		
Government Development Bonds-Oman	70.0	111,175
<u>31 December 2015</u>		
Government Development Bonds-Oman	69.4	108,734

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 2016, net of accumulated depreciation	11,723	5,368	17,580	34,671
Additions	21	158	1,968	2,147
Disposal	-	(4)	(8)	(12)
Transfers	13	-	(13)	-
Translation difference	(30)	(1)	-	(31)
Depreciation	(145)	(515)	-	(660)
Balance at 31 March 2016, net of accumulated depreciation	11,582	5,006	19,527	36,115
At cost / valuation	26,123	29,881	19,527	75,531
Accumulated depreciation	(14,541)	(24,875)	-	(39,416)
Net carrying value at 31 March 2016	11,582	5,006	19,527	36,115
Net carrying value at 31 March 2015	11,950	5,463	10,525	27,938

8 OTHER ASSETS

	31/03/2016 RO'000	31/03/2015 RO'000	31/12/2015 RO'000
Interest receivable and others	16,273	17,213	15,502
Positive fair value of derivatives (note 26)	14,142	11,216	8,250
Customers' indebtedness for acceptances (note 11)	51,049	33,327	38,030
Deferred tax (note 12)	721	479	752
	82,185	62,235	62,534

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT
31 March 2016 (Unaudited)

9 CUSTOMERS' DEPOSITS AND UNRESTRICTED INVESTMENT ACCOUNTS

	31/03/2016	31/03/2015	31/12/2015
	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>
Current accounts	975,934	893,151	800,726
Savings accounts	603,339	591,588	599,367
Term deposits	814,858	954,885	849,733
	2,394,131	2,439,624	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

	31/03/2016	31/03/2015	31/12/2015
	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>
Interest payable and other accruals	35,616	43,052	36,384
Negative fair value of derivatives (note 26)	5,442	5,565	5,538
Liabilities under acceptances (note 8)	51,049	33,327	38,030
	92,107	81,944	79,952

12 TAXATION

	31/03/2016	31/03/2015	31/12/2015
	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>
Statement of comprehensive income			
Current period/year	1,741	1,897	9,265

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT
31 March 2016 (Unaudited)

12 TAXATION (continued)

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

	31/03/2016	31/03/2015	31/12/2015
	RO'000	RO'000	RO'000
Accounting profit	15,677	14,535	69,371
Tax at applicable rate	1,881	1,744	8,325
Non-deductible expenses	32	28	261
Tax exempt revenues	(95)	(178)	(595)
Others	(77)	303	1,274
	1,741	1,897	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.

	31/03/2016	31/03/2015	31/12/2015
	RO'000	RO'000	RO'000
Tax liability			
Income tax and other taxes – Current year	1,741	1,897	9,265
Income tax and other taxes – Prior years	(134)	(794)	(863)
	1,607	1,103	8,402

	31/03/2016	31/03/2015	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	728	480	728
Available for sale investments	(7)	(1)	24
	721	479	752

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

13 SUBORDINATED DEBT

	31/03/2016	31/03/2015	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
31 March 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	(78)	-	-	(78)
Tax effect of net results on available for sale financial investments	(27)	-	-	(27)
Transfer to retained earnings	-	-	(3,000)	(3,000)
At 31 March 2016	2,226	4,385	30,880	37,491
At 31 March 2015	2,624	3,766	33,460	39,850

- (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

During the year 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 November 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
31 March 2016 (Unaudited)

16 CONTINGENT LIABILITIES AND COMMITMENTS

	<i>31/03/2016</i>	<i>31/03/2015</i>	<i>31/12/2015</i>
	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>
Guarantees	448,420	447,294	457,570
Documentary letters of credit	95,231	96,827	100,221
Undrawn commitment to lend	130,544	113,433	139,991
	674,195	657,554	697,782

Contingent liabilities include RO 0.2 million (31 March 2015 – RO 0.3 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 4.61% for the three months period ended 31 March 2016 (31 March 2015 – 4.72% and 31 December 2015 – 4.68%).

18 INTEREST EXPENSE

For the three months period ended 31 March 2016, the average overall cost of funds was 1.23% (31 March 2015- 1.21% and 31 December 2015 – 1.16%).

19 OTHER OPERATING INCOME

	<i>3 months ended</i>	<i>3 months ended</i>
	<i>31/03/2016</i>	<i>31/03/2015</i>
	<i>RO'000</i>	<i>RO'000</i>
Net gains from foreign exchange dealings	1,237	1,330
Fees and commissions	3,529	4,310
Net income/(loss) from sale of investments	662	(32)
Income from bonds	891	675
Dividend income	193	650
Service charges	1,685	1,968
Miscellaneous income	202	171
	8,399	9,072

20 OTHER OPERATING EXPENSES

	<i>3 months ended</i>	<i>3 months ended</i>
	<i>31/03/2016</i>	<i>31/03/2015</i>
	<i>RO'000</i>	<i>RO'000</i>
Establishment costs	1,518	1,575
Operating and administration expenses	3,870	3,469
	5,388	5,044

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:

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 March 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	1,128,787	778,366	350,421
3 - 12 month	302,268	836,722	(534,454)
1 – 5 years	604,885	755,664	(150,779)
More than 5 years	1,168,177	833,365	334,812
Total	3,204,117	3,204,117	-

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
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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>31/03/2016</u>			<u>31/03/2015</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	-	47,750	47,750	-	20,791	20,791
Customers' deposits	98,193	23,748	121,941	113,149	24,497	137,646
Due from banks	401	15,015	15,416	19,311	12,898	32,209
Due to banks	76	-	76	9,816	15,400	25,216
Subordinated debt	14,500	4,000	18,500	14,500	4,000	18,500
Letters of credit, guarantees and acceptances	998	1,550	2,548	469	1,439	1,908
Standby revolving credit facility	77,000	-	77,000	77,000	-	77,000
Risk indemnities received	483	-	483	488	-	488
Investments	1,839	-	1,839	2,034	-	2,034

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

	<u>31/03/2016</u>			<u>31/03/2015</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	-	558	558	-	186	186
Commission income	1	54	55	-	7	7
Interest expense	860	52	912	947	82	1,029
Other expenses	-	118	118	-	129	129
Senior management compensation:				3 months ended		3 months ended
Salaries and other short term benefits				31/03/2016		31/03/2015
- Fixed				706		598
- Discretionary				1,114		1,616
				1,820		2,214

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT
31 March 2016 (Unaudited)

23 SHAREHOLDERS

As of 31 March 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	166,148	11.27%

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>3 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>31-Mar-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	12,305	10,135	4,152	5,528	32,120	963	33,083
Net Profit / (loss)	5,167	8,558	1,167	(1,497)	13,395	542	13,937
Total assets	1,152,562	1,115,972	444,547	577,773	3,290,854	123,587	3,414,441

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT
31 March 2016 (unaudited)

24 SEGMENT REPORTING (Continued)

<i>3 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>31-Mar-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	11,795	11,877	2,871	4,145	30,688	770	31,458
Net Profit / (loss)	7,036	10,819	1,682	(7,161)	12,376	262	12,638
Total assets	1,015,263	1,181,511	280,770	643,945	3,121,490	82,627	3,204,117

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 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>
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 Recoveries	4,278	708	-	4,986
Impairment losses on available for sale investments	(1,739)	(186)	-	(1,925)
Taxation	16	-	-	16
Total	1,574	160	7	1,741
	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
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24 SEGMENT REPORTING (Continued)

For the period ended 31 March 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>
Revenue				
Interest income and Income from Islamic financing and Investment activities – external	28,774	1,335	26	30,135
Other operating income – external	8,647	417	8	9,072
Total	37,421	1,752	34	39,207
Costs				
Interest costs and Unrestricted investment account holders' share of profit – external	7,469	263	17	7,749
Other operating expenses – external	12,803	716	65	13,584
Depreciation	710	25	-	735
Credit loss expense - customer loan	4,919	140	-	5,059
Recoveries	(2,269)	(159)	(44)	(2,472)
Credit loss expense – bank loans	17	-	-	17
Taxation	1,744	153	-	1,897
Total	25,393	1,138	38	26,569
Segment profit for the year	12,028	614	(4)	12,638
Other information				
Segment assets	3,015,778	168,086	20,253	3,204,117
Segment capital expenses	5,474	12	-	5,486

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENT
31 March 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>31 March 2016</i>	<i>RO'000</i>	<i>RO'000</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

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 2016 (unaudited)

25 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

<i>31 March 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	42,433	-	42,433
Quoted equities	100	-	100
Total	42,533	-	42,533
Investments - available for sale:			
Government development bonds	68,742	-	68,742
Quoted equities	27,185	-	27,185
Other unquoted equities	-	13,111	13,111
Total	95,927	13,111	109,038
Total financial assets	138,360	13,111	151,571
<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 11) 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>
31 March 2016						
<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
Total	14,142	(5,442)	579,492	165,298	122,339	291,855
31 March 2015						
<i>Derivatives</i>						
Fair value hedge	5,766	-	192,500	-	-	192,500
Interest rate swaps	5,242	(5,242)	125,633	2,125	11,691	111,817
Forward foreign exchange purchase contracts	45	(156)	222,952	212,239	10,713	-
Forward foreign exchange sales contracts	163	(167)	222,953	220,529	2,424	-
Total	11,216	(5,565)	764,038	434,893	24,828	304,317
31 December 2015						
<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 foreign exchange purchase contracts	265	(324)	135,681	105,634	30,047	-
Forward foreign exchange 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
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27 LIQUIDITY COVERAGE RATIO

		March 2016		March 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)		424,677		439,486
Cash Outflows					
2	Retail deposits and deposits from small business customers, of which:	727,296	42,781	702,388	40,300
3	Stable deposits	598,971	29,949	598,782	29,939
4	Less stable deposits	128,325	12,833	103,606	10,361
5	Unsecured wholesale funding, of which:	935,672	356,292	805,407	333,754
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks	935,672	356,292	805,407	333,754
7	Non-operational deposits (all counterparties)	-	-	-	-
8	Unsecured debt	-	-	-	-
9	Secured wholesale funding		-		-
10	Additional requirements, of which	27,820	2,782	15,503	1,550
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	27,820	2,782	15,503	1,550
14	Other contractual funding obligations	-	-	-	-
15	Other contingent funding obligations	603,245	34,623	587,810	93,272
16	TOTAL CASH OUTFLOWS		436,478		468,876
Cash Inflows					
17	Secured lending (e.g. reverse repos)	-	-	-	-
18	Inflows from fully performing exposures	437,489	299,700	372,186	256,028
19	Other cash inflows	17,869	17,869	12,534	12,534
20	TOTAL CASH INFLOWS	455,358	317,568	384,719	268,562
			Total Adjusted Value		Total Adjusted Value
21	TOTAL HQLA		424,677		439,486
22	TOTAL NET CASH OUTFLOWS		118,910		200,314
23	LIQUIDITY COVERAGE RATIO (%)		357.1		219.4