

## CHAIRMAN'S REPORT

Dear Shareholders,

On behalf of the Board of Directors of Ahli Bank S.A.O.G, I am presenting to you the Bank's unaudited financial statements for the half year that ended 30 June 2017. This is based on the condensed interim financial statements which have been reviewed by the external auditors.

### The Bank's Financial Performance

We are happy to report a satisfactory financial performance for the second quarter. This achievement has been possible despite the fact that economies including Oman continue to pass through a challenging phase. The Bank's loans & advances and financing grew by 4.5 %, in line with Bank's strategic plan to grow in a prudent way. While the Bank's loans & advances and financing were RO 1,547.5 million in June 2016, these reached to RO 1,617.8 million in June 2017.

The Bank's customer deposits witnessed an increase of 11.7% to RO 1,377.4 million as compared to RO 1,233.5 million at 30 June 2016. Total assets on 30 June 2017 stood at RO 1,939.7 million reflecting an increase of 4.5 per cent as compared to the same period last year.

	30-Jun-17	30-Jun-16	Growth %
	RO Million		
Total assets	1,939.7	1,856.1	4.5%
Loans & advances and financing, net	1,617.8	1,547.5	4.5%
Customers' deposits	1,377.4	1,233.5	11.7%
Equity	240.8	227.9	5.7%
Operating income	25.8	26.1	-1.1%
Operating expenses	9.3	9.3	0.0%
Profit for the period	12.4	14.2	-12.7%

The operating expenses (excluding loan and financing impairment net of recoveries) were controlled at RO 9.3 million for the half year. Overall, the net profit after tax decreased by 12.7 % to RO 12.4 million, as compared to RO 14.2 million during the same period last year.

The operating income of the second quarter of 2017 at RO 13.7 million increased by 13.2% over first quarter of 2017. Operating expenses were controlled at RO 4.3 million compared to RO 5.0 million in first quarter of 2017. The net profit after tax for the second quarter of 2017 was RO 7.2 million as against of RO 5.2 million for first quarter of 2017 recording an increase of 38.5% on a quarter over quarter basis.

### Capital

The Bank held a shareholder meeting in April 2017, to raise additional Tier 1 capital of RO 50 million which was approved by shareholders. The Bank is well positioned for growth in 2017, with a high quality portfolio of assets and ample liquidity.

## **Technology**

We are pleased to have been recertified for the Payment Card Industry standards PCI-DSS certification which ensures a global comprehensive standard that secures card payments. PCI-DSS provides additional assurance to customers and stakeholders on the security and reliability of our Bank's systems and processes, handling customer credit and debit card information. In keeping with ahlibank's stringent information security management and its compliance with the highest international standards in information security and information processing facilities, the Bank also was recertified with the ISO-27001-2013 certification.

## **New MyHassad Scheme**

ahlibank revamped its MyHassad prize money scheme in Q1-17 for conventional customers by introducing weekly, monthly, quarterly, annual and "Salary for Life" prizes. The Bank's campaign of 'A seed sown today is tomorrow's harvest' harnesses its belief in building a long term sustainable relationship with customers from one generation to the next. This campaign includes among other prizes a monthly prize of OMR 5,000 for retail customers and OMR 10,000 for premium and exclusive customers. The Bank will also reward one lucky winner with a bumper year end prize of OMR 250,000 cash in addition to the "Salary for Life" prize.

## **MyHassad Carnival**

To strengthen its relationships with customers, ahlibank organised its first carnival at the Oman Avenues Mall recently which was a huge success. While many new customers opened MyHassad accounts with the Bank, existing customers also responded enthusiastically. The customers who were eligible for the draw included existing and new retail, premium and private customers who opened new MyHassad accounts.

## **Benefits for Credit Cards holders**

With access to 25 airport lounges all around the world through the Lounge Key programme, ahlibank platinum credit cardholders can have the privilege of having relaxing, stress-free journeys wherever they go. There is no registration required to activate the card, customers will only need to create login details if they wish to download the APP. ahlibank platinum credit cardholders are eligible for the airport Dining Discount Program with DragonPass. Ahlibank platinum and Signature cardholders can also have access to 985,000+ hotels and vacation rentals globally by visiting [www.agoda.com/visamena](http://www.agoda.com/visamena); at point of payment inputting their eligible Visa card to receive the discount. Customers get free travel Insurance, free purchase protection, free supplementary cards, while earning "Pearl" rewards. The cards have an advanced EMV chip feature and 3D Secure for online transactions via Worldwide Acceptance

## **CSR – Ramadan Charities**

To showcase its enduring commitment to support the community it operates in, ahlibank launched unique volunteering initiatives to mark the Holy Month of Ramadan this year. As part of the Ramadan volunteering initiatives, ahlibank distributed 150,000 water bottles across various wilayats across the Sultanate. Apart from the water bottle supply initiative, ahlibank's

Al Hilal Islamic Banking Services distributed electronic devices to needy families across the Sultanate in coordination with the Ministry of Social Development.

### **Looking ahead**

We believe that the combination of ahlibank's focused strategy and diversified business model will continue to create long-term value for our shareholders, stakeholders and customers. The Bank will continue to adopt a prudential risk management approach and will do the best to service customer needs and meet shareholders expectations, while being committed to facilitating economic growth in the Sultanate. ahlibank will remain dedicated to its organic growth and development, not only in terms of market share but also in diversifying its products and services to its growing customer base. In line with the mandate of the government to support SME businesses, ahlibank will remain resolute on providing this segment with the support it requires.

### **Acknowledgements**

We remain eternally grateful to His Majesty Sultan Qaboos bin Said for his vision and guidance in steering the banking sector and the country along the path of growth and prosperity. The Board of Directors would like to thank our dedicated management and staff for their commitment to maintain a momentum in growth of business. We would also like to acknowledge the contribution of our strategic partner, Ahli United Bank BSC, which has played a key role in our development over the years. At the same time, we would also like to thank the Central Bank of Oman and the Capital Market Authority for their guidance and support. We also want to thank our shareholders for their confidence and continued support. In closing, we would like to thank our customers for their trust. It is a privilege for us to serve our customers well.

**Hamdan Ali Nasser Al Hinai**

Chairman

26 July 2017

**INTERIM CONDENSED STATEMENT OF FINANCIAL POSITION  
AT 30 June 2017**

Audited 31-Dec-16 US\$ '000	Unaudited 30-Jun-16 US\$ '000	Unaudited 30-Jun-17 US\$ '000		Note	Unaudited 30-Jun-17 RO '000	Unaudited 30-Jun-16 RO '000	Audited 31-Dec-16 RO '000
<b>ASSETS</b>							
364,528	261,460	<b>226,987</b>	Cash and balances with Central Bank of Oman		<b>87,390</b>	100,662	140,343
79,927	38,842	<b>19,405</b>	Due from banks		<b>7,471</b>	14,954	30,772
3,953,524	4,019,499	<b>4,201,984</b>	Loans & advances and Financing, net	6	<b>1,617,764</b>	1,547,507	1,522,106
458,812	425,239	<b>504,294</b>	Investment securities	16	<b>194,153</b>	163,717	176,643
43,844	44,805	<b>43,660</b>	Property and equipment		<b>16,809</b>	17,250	16,880
33,533	31,101	<b>41,818</b>	Other assets		<b>16,100</b>	11,974	12,910
<b>4,934,168</b>	<b>4,820,946</b>	<b>5,038,148</b>	<b>TOTAL ASSETS</b>		<b>1,939,687</b>	<b>1,856,064</b>	<b>1,899,654</b>
<b>LIABILITIES</b>							
603,319	640,444	<b>496,140</b>	Due to banks		<b>191,014</b>	246,571	232,278
3,301,367	3,203,870	<b>3,577,782</b>	Customers' deposits	7	<b>1,377,446</b>	1,233,490	1,271,026
130,000	125,000	<b>150,000</b>	Borrowed funds		<b>57,750</b>	48,125	50,050
11,655	6,102	<b>6,462</b>	Taxation		<b>2,488</b>	2,349	4,487
87,961	84,844	<b>104,291</b>	Other liabilities		<b>40,152</b>	32,665	33,865
168,831	168,831	<b>77,922</b>	Subordinated liabilities		<b>30,000</b>	65,000	65,000
<b>4,303,133</b>	<b>4,229,091</b>	<b>4,412,597</b>	<b>TOTAL LIABILITIES</b>		<b>1,698,850</b>	<b>1,628,200</b>	<b>1,656,706</b>
<b>EQUITY</b>							
370,140	370,140	<b>370,140</b>	Share capital		<b>142,504</b>	142,504	142,504
59,699	52,023	<b>59,699</b>	Legal reserve		<b>22,984</b>	20,029	22,984
16,995	16,995	<b>16,995</b>	General loan loss reserve		<b>6,543</b>	6,543	6,543
115,691	109,416	<b>41,374</b>	Subordinated debt reserve		<b>15,929</b>	42,125	44,541
1,081	1,717	<b>327</b>	Fair value reserve		<b>126</b>	661	416
67,429	41,564	<b>137,016</b>	Retained earnings		<b>52,751</b>	16,002	25,960
<b>631,035</b>	<b>591,855</b>	<b>625,551</b>	<b>TOTAL EQUITY</b>		<b>240,837</b>	<b>227,864</b>	<b>242,948</b>
<b>4,934,168</b>	<b>4,820,946</b>	<b>5,038,148</b>	<b>TOTAL LIABILITIES AND EQUITY</b>		<b>1,939,687</b>	<b>1,856,064</b>	<b>1,899,654</b>
44.3	41.5	<b>43.9</b>	Net assets value per share (US cents / baizas)	10	<b>169.0</b>	159.9	170.5
555,382	626,323	<b>987,969</b>	Contingent liabilities and commitments	12	<b>380,368</b>	241,134	213,822

The interim condensed financial statements were approved by the Board of Directors on 26 July 2017 and signed on their behalf by:

**Hamdan Ali Nasser Al Hinai**  
Chairman

**Lloyd Maddock**  
Chief Executive Officer

Notes 1 to 16 form part of these interim condensed financial statements

**INTERIM CONDENSED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME  
FOR THE SIX MONTH PERIOD ENDED 30 June 2017**

Six month period ended Unaudited 30-Jun-16 US\$ '000	Unaudited 30-Jun-17 US\$ '000	Three month period ended Unaudited 30-Jun-16 US\$ '000	Unaudited 30-Jun-17 US\$ '000		Note	Three month period ended Unaudited 30-Jun-17 RO '000	Unaudited 30-Jun-16 RO '000	Six month period ended Unaudited 30-Jun-17 RO '000	Unaudited 30-Jun-16 RO '000
83,239	<b>94,332</b>	42,953	<b>47,639</b>	Interest income		<b>18,341</b>	16,537	<b>36,318</b>	32,047
(36,745)	<b>(49,164)</b>	(18,987)	<b>(24,644)</b>	Interest expense		<b>(9,488)</b>	(7,310)	<b>(18,928)</b>	(14,147)
46,494	<b>45,168</b>	23,966	<b>22,995</b>	<b>NET INTEREST INCOME</b>		<b>8,853</b>	9,227	<b>17,390</b>	17,900
14,405	<b>16,062</b>	7,112	<b>8,153</b>	Income from Islamic financing and investments		<b>3,139</b>	2,738	<b>6,184</b>	5,546
(5,096)	<b>(7,790)</b>	(2,657)	<b>(3,974)</b>	Unrestricted investment account holders' share of profit and profit expense		<b>(1,530)</b>	(1,023)	<b>(2,999)</b>	(1,962)
9,309	<b>8,272</b>	4,455	<b>4,179</b>	<b>NET INCOME FROM ISLAMIC FINANCING AND INVESTMENTS</b>		<b>1,609</b>	1,715	<b>3,185</b>	3,584
				<b>NET INTEREST INCOME AND INCOME FROM ISLAMIC FINANCING AND INVESTMENTS</b>		<b>10,462</b>	10,942	<b>20,575</b>	21,484
55,803	<b>53,440</b>	28,421	<b>27,174</b>	Other operating income	4	<b>3,240</b>	2,312	<b>5,204</b>	4,609
11,971	<b>13,517</b>	6,005	<b>8,416</b>	<b>OPERATING INCOME</b>		<b>13,702</b>	13,254	<b>25,779</b>	26,093
67,774	<b>66,957</b>	34,426	<b>35,590</b>	Loans and financing impairment, net of recoveries	6	<b>(831)</b>	157	<b>(1,731)</b>	(164)
(426)	<b>(4,496)</b>	408	<b>(2,158)</b>	Impairment on available for sale investments		<b>(53)</b>	(348)	<b>(95)</b>	(511)
(1,327)	<b>(247)</b>	(904)	<b>(138)</b>	<b>NET OPERATING INCOME</b>		<b>12,818</b>	13,063	<b>23,953</b>	25,418
66,021	<b>62,214</b>	33,930	<b>33,294</b>	Staff expenses		<b>(2,936)</b>	(2,992)	<b>(6,130)</b>	(5,871)
(15,249)	<b>(15,922)</b>	(7,771)	<b>(7,626)</b>	Depreciation		<b>(325)</b>	(322)	<b>(650)</b>	(640)
(1,662)	<b>(1,688)</b>	(836)	<b>(844)</b>	Other operating expenses		<b>(1,036)</b>	(1,574)	<b>(2,528)</b>	(2,747)
(7,135)	<b>(6,566)</b>	(4,088)	<b>(2,691)</b>	<b>OPERATING EXPENSES</b>		<b>(4,297)</b>	(4,888)	<b>(9,308)</b>	(9,258)
(24,046)	<b>(24,176)</b>	(12,695)	<b>(11,161)</b>	<b>PROFIT BEFORE TAXATION</b>		<b>8,521</b>	8,175	<b>14,645</b>	16,160
41,975	<b>38,038</b>	21,235	<b>22,133</b>	Tax expense	5	<b>(1,297)</b>	(977)	<b>(2,216)</b>	(1,937)
(5,031)	<b>(5,756)</b>	(2,538)	<b>(3,369)</b>	<b>PROFIT FOR THE PERIOD</b>		<b>7,224</b>	7,198	<b>12,429</b>	14,223
36,944	<b>32,282</b>	18,697	<b>18,764</b>						
				<b>OTHER COMPREHENSIVE (EXPENSE)/ INCOME - NET OF TAX</b>					
				Items that are or may be reclassified subsequently to profit or loss					
1,421	<b>2,127</b>	992	<b>2,236</b>	- Net amount reclassified to profit or loss		<b>861</b>	382	<b>819</b>	547
158	<b>(2,881)</b>	351	<b>(3,912)</b>	- Net changes in fair values		<b>(1,506)</b>	135	<b>(1,109)</b>	61
				<b>OTHER COMPREHENSIVE (EXPENSE)/INCOME FOR THE PERIOD</b>		<b>(645)</b>	517	<b>(290)</b>	608
1,579	<b>(753)</b>	1,343	<b>(1,675)</b>	<b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD</b>		<b>6,579</b>	7,715	<b>12,139</b>	14,831
38,523	<b>31,529</b>	20,040	<b>17,089</b>						
				<b>Basic and diluted earnings per share (US cents / baizas)</b>	10	<b>5.1</b>	5.1	<b>8.7</b>	10.0
2.6	<b>2.3</b>	1.3	<b>2.3</b>						

Notes 1 to 16 form part of these interim condensed financial statements

**INTERIM CONDENSED STATEMENT OF CASH FLOWS**  
**FOR THE SIX MONTH PERIOD ENDED 30 June 2017**

Unaudited 30-Jun-16 US\$ '000	Unaudited 30-Jun-17 US\$ '000		Unaudited 30-Jun-17 RO '000	Unaudited 30-Jun-16 RO '000
		<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
41,975	<b>38,038</b>	<b>Profit before taxation</b>	<b>14,645</b>	16,160
		<b>Adjustments for:</b>		
1,662	<b>1,688</b>	Depreciation	<b>650</b>	640
426	<b>4,496</b>	Loans and financing impairment, net of recoveries	<b>1,731</b>	164
1,327	<b>247</b>	Impairment on available for sale investments	<b>95</b>	511
195	<b>161</b>	End of service benefits provision	<b>62</b>	75
80	-	Loss on sale of investment securities	-	31
45,665	<b>44,630</b>	<b>Operating profit before working capital changes</b>	<b>17,183</b>	17,581
(5,000)	-	Decrease in due to banks	-	(1,925)
(44)	<b>(55)</b>	End of service benefits paid	<b>(21)</b>	(17)
(76,932)	<b>(252,958)</b>	Increase in loans & advances and financing	<b>(97,389)</b>	(29,619)
(63,984)	<b>(59,475)</b>	Net movement in held for trading investments	<b>(22,898)</b>	(24,634)
(174,927)	<b>276,416</b>	Increase / (Decrease) in customers' deposits	<b>106,420</b>	(67,347)
7,179	<b>7,938</b>	Changes in other assets and other liabilities	<b>3,056</b>	2,765
(268,043)	<b>16,496</b>	<b>Cash generated from/(used in) operations</b>	<b>6,351</b>	(103,196)
(7,358)	<b>(10,948)</b>	Tax paid	<b>(4,215)</b>	(2,833)
(275,401)	<b>5,548</b>	<b>Net cash generated from / (used in) operating activities</b>	<b>2,136</b>	(106,029)
		<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
5,369	<b>(42,005)</b>	Increase in investment, net (excluding held for trading investments)	<b>(16,172)</b>	2,067
(743)	<b>(1,504)</b>	Purchase of property and equipment	<b>(579)</b>	(286)
4,626	<b>(43,509)</b>	<b>Net cash (used in)/ generated from investing activities</b>	<b>(16,751)</b>	1,781
		<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
(37,013)	<b>(37,013)</b>	Dividends paid	<b>(14,250)</b>	(14,250)
-	<b>(90,909)</b>	Decrease in subordinated liabilities	<b>(35,000)</b>	-
-	<b>20,000</b>	Increase in borrowed funds	<b>7,700</b>	-
(37,013)	<b>(107,922)</b>	<b>Net cash used in financing activities</b>	<b>(41,550)</b>	(14,250)
(307,788)	<b>(145,883)</b>	<b>Net change in cash and cash equivalents</b>	<b>(56,165)</b>	(118,498)
261,282	<b>139,771</b>	Cash and cash equivalents at 1 January	<b>53,812</b>	100,593
(46,506)	<b>(6,112)</b>	<b>Cash and cash equivalents at 30 June</b>	<b>(2,353)</b>	(17,905)

**INTERIM CONDENSED STATEMENT OF CASH FLOWS  
FOR THE SIX MONTH PERIOD ENDED 30 June 2017**
**Cash and cash equivalent comprises of the following:**

30-Jun-16 US\$ '000	30-Jun-17 US\$ '000		30-Jun-17 RO '000	30-Jun-16 RO '000
260,096	<b>225,623</b>	Cash and current balances with Central Bank of Oman	<b>86,865</b>	100,137
33,842	<b>19,405</b>	Due from banks	<b>7,471</b>	13,029
200,000	<b>145,000</b>	Treasury bills with three months maturity	<b>55,825</b>	77,000
(540,444)	<b>(396,140)</b>	Due to banks	<b>(152,514)</b>	(208,071)
<u>(46,506)</u>	<u><b>(6,112)</b></u>		<u><b>(2,353)</b></u>	<u>(17,905)</u>

**Reconciliation of liabilities arising from financing activities**

30-Jun-16 US\$ '000	30-Jun-17 US\$ '000		30-Jun-17 RO '000	30-Jun-16 RO '000
		<b>Borrowed funds</b>		
125,000	130,000	Balance at beginning of the period	<b>50,050</b>	48,125
-	20,000	Cash flows	<b>7,700</b>	-
<u>125,000</u>	<u>150,000</u>	Balance at end of the period	<u><b>57,750</b></u>	<u>48,125</u>
		<b>Subordinated liabilities</b>		
168,831	168,831	Balance at beginning of the period	<b>65,000</b>	65,000
-	(90,909)	Cash flows	<b>(35,000)</b>	-
<u>168,831</u>	<u>77,922</u>	Balance at end of the period	<u><b>30,000</b></u>	<u>65,000</u>

Notes 1 to 16 form part of these interim condensed financial statements

**INTERIM CONDENSED STATEMENT OF CHANGES IN EQUITY  
FOR THE SIX MONTH PERIOD ENDED 30 June 2017**

	Share capital	Legal reserve	General loan loss reserve	Subordinated debt reserve	Fair value reserve	Retained earnings	Total
	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000
<b>Balance at 1 January 2017</b>	<b>142,504</b>	<b>22,984</b>	<b>6,543</b>	<b>44,541</b>	<b>416</b>	<b>25,960</b>	<b>242,948</b>
Profit for the period	-	-	-	-	-	12,429	12,429
Other comprehensive expense, net of tax	-	-	-	-	(290)	-	(290)
<b>Total comprehensive income</b>	-	-	-	-	(290)	12,429	12,139
Transfer from subordinated debt reserve	-	-	-	(28,612)	-	28,612	-
Cash dividends paid	-	-	-	-	-	(14,250)	(14,250)
<b>Balance at 30 June 2017 RO (unaudited)</b>	<b>142,504</b>	<b>22,984</b>	<b>6,543</b>	<b>15,929</b>	<b>126</b>	<b>52,751</b>	<b>240,837</b>
<b>Balance at 30 June 2017 (US\$ '000) (unaudited)</b>	<b>370,140</b>	<b>59,699</b>	<b>16,995</b>	<b>41,374</b>	<b>327</b>	<b>137,016</b>	<b>625,551</b>

  

	Share capital	Legal reserve	General loan loss reserve	Subordinated debt reserve	Fair value reserve	Retained earnings	Total
	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000
<i>Balance at 1 January 2016</i>	<i>142,504</i>	<i>20,029</i>	<i>6,543</i>	<i>40,337</i>	<i>53</i>	<i>17,817</i>	<i>227,283</i>
Profit for the period	-	-	-	-	-	14,223	14,223
Other comprehensive income, net of tax	-	-	-	-	608	-	608
<i>Total comprehensive income</i>	-	-	-	-	608	14,223	14,831
Transfer to subordinated debt reserve	-	-	-	1,788	-	(1,788)	-
Cash dividends paid	-	-	-	-	-	(14,250)	(14,250)
<i>Balance at 30 June 2016 RO (unaudited)</i>	<i>142,504</i>	<i>20,029</i>	<i>6,543</i>	<i>42,125</i>	<i>661</i>	<i>16,002</i>	<i>227,864</i>
<i>Balance at 30 June 2016 (US\$ '000) (unaudited)</i>	<i>370,140</i>	<i>52,023</i>	<i>16,995</i>	<i>109,416</i>	<i>1,717</i>	<i>41,564</i>	<i>591,855</i>
<i>Balance at 1 July 2016</i>	<i>142,504</i>	<i>20,029</i>	<i>6,543</i>	<i>42,125</i>	<i>661</i>	<i>16,002</i>	<i>227,864</i>
Profit for the period	-	-	-	-	-	15,329	15,329
Other comprehensive expense, net of tax	-	-	-	-	(245)	-	(245)
<i>Total comprehensive income</i>	-	-	-	-	(245)	15,329	15,084
Transfer to legal reserve	-	2,955	-	-	-	(2,955)	-
Transfer to subordinated debt reserve	-	-	-	2,416	-	(2,416)	-
<i>Balance at 31 December 2016 RO</i>	<i>142,504</i>	<i>22,984</i>	<i>6,543</i>	<i>44,541</i>	<i>416</i>	<i>25,960</i>	<i>242,948</i>
<i>Balance at 31 December 2016 (US\$ '000)</i>	<i>370,140</i>	<i>59,699</i>	<i>16,995</i>	<i>115,691</i>	<i>1,081</i>	<i>67,429</i>	<i>631,035</i>

Appropriation to legal reserve is made on an annual basis.

Notes 1 to 16 form part of these interim condensed financial statements



## **NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE SIX MONTH PERIOD ENDED 30 June 2017**

### **1. LEGAL STATUS AND PRINCIPAL ACTIVITIES**

Ahli Bank SAOG (the Bank) is a joint stock company incorporated in the Sultanate of Oman and is engaged in the commercial banking activities through a network of twenty branches (thirteen conventional and seven Islamic branches). The registered address of the Bank is PO Box 545, Mina Al Fahal, Postal Code 116, Sultanate of Oman.

The Bank employed 549 employees as at 30 June 2017 compared to 521 as at 30 June 2016 and 538 as at 31 December 2016.

### **2. BASIS OF PREPARATION AND ACCOUNTING POLICIES**

(a) The unaudited interim condensed financial statements for the six month period ended 30 June 2017 of the Bank are prepared in accordance with International Accounting Standard (IAS) 34, 'Interim Financial Reporting', applicable regulations of the Central Bank of Oman (CBO) and the disclosure requirements set out in the Rules and Disclosure and Proformas issued by the Capital Market Authority (CMA).

(b) The accounting policies used in the preparation of the unaudited interim condensed financial statements as at end of the six month ended 30 June 2017 are consistent with those used in preparing the last audited financial statements as at and for the year ended 31 December 2016.

(c) The unaudited interim condensed 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 month period ended 30 June 2017 are not necessarily indicative of the results that may be expected for the financial year 2017.

(d) The unaudited interim condensed financial statements are prepared under the historical cost convention as modified for the measurement at fair value of derivatives and investment securities other than held to maturity securities.

(e) The functional currency of the Bank is Rial Omani (RO). These unaudited interim condensed financial statements of the Bank are prepared in RO. Certain figures are also presented in US dollars (US\$) for information purposes only, using the exchange rate of RO 0.385 = US\$ 1.00.

(f) The bank has adopted the disclosure requirements in Disclosure Initiatives (Amendment to IAS 7), on 1 January 2017. Consequently the Bank has provided additional disclosure in relation to the change in liabilities arising from financing activities for the period ended 30 June 2017.

### **3. USE OF JUDGEMENTS AND ESTIMATES**

In preparing these interim condensed financial statements, management has made judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates. The significant judgements made by management in applying the Bank's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the financial statements as at and for the year ended 31 December 2016.

### **4. OTHER OPERATING INCOME**

Other operating income comprises commission, fees, dividend, gain on sales of financial investments and miscellaneous income.

### **5. TAXATION**

During first quarter, a Royal Decree has been issued for increase in income tax rate from 12% to 15%. This increase is effective for the financial years beginning on or after 1 January 2017. This change has increased the Bank's current tax charge for the year 2017 onwards.

**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS  
FOR THE SIX MONTH PERIOD ENDED 30 June 2017**

**6. LOANS & ADVANCES AND FINANCING ACTIVITIES**

Audited 31-Dec-16 US\$ '000	Unaudited 30-Jun-16 US\$ '000	Unaudited 30-Jun-17 US\$ '000		Unaudited 30-Jun-17 RO '000	Unaudited 30-Jun-16 RO '000	Audited 31-Dec-16 RO '000
			<b>Conventional Banking</b>			
2,071,570	2,171,169	<b>2,312,449</b>	Corporate lending	<b>890,293</b>	835,900	797,554
1,349,450	1,345,943	<b>1,336,985</b>	Retail lending	<b>514,739</b>	518,188	519,538
3,421,020	3,517,112	<b>3,649,434</b>	Loans & advances, gross	<b>1,405,032</b>	1,354,088	1,317,092
			<b>Islamic Banking</b>			
264,935	237,730	<b>291,701</b>	Corporate financing	<b>112,305</b>	91,526	102,000
327,205	325,065	<b>325,522</b>	Retail financing	<b>125,326</b>	125,150	125,974
592,140	562,795	<b>617,223</b>	Financing, gross	<b>237,631</b>	216,676	227,974
4,013,160	4,079,907	<b>4,266,657</b>	<b>Loans &amp; advances and financing, gross</b>	<b>1,642,663</b>	1,570,764	1,545,066
(33,387)	(34,047)	<b>(35,569)</b>	Loans and financing impairment on portfolio basis	<b>(13,694)</b>	(13,108)	(12,854)
(26,249)	(26,361)	<b>(29,104)</b>	Loans and financing impairment on specific basis (including reserve interest and profit)	<b>(11,205)</b>	(10,149)	(10,106)
3,953,524	4,019,499	<b>4,201,984</b>		<b>1,617,764</b>	1,547,507	1,522,106

In accordance with the CBO requirements, the movement in the loan impairment provisions is analysed as below:

Audited 31-Dec-16 US\$ '000	Unaudited 30-Jun-16 US\$ '000	Unaudited 30-Jun-17 US\$ '000		Unaudited 30-Jun-17 RO '000	Unaudited 30-Jun-16 RO '000	Audited 31-Dec-16 RO '000
			<b>Impairment provision on portfolio basis</b>			
34,127	34,127	<b>33,387</b>	Balance at beginning of the period / year	<b>12,854</b>	13,139	13,139
(740)	(80)	<b>2,182</b>	Provided/(Reversal)during the period / year	<b>840</b>	(31)	(285)
33,387	34,047	<b>35,569</b>	Balance at the end of the period / year	<b>13,694</b>	13,108	12,854
			<b>Impairment provision on specific basis</b>			
			<b>Impairment provision</b>			
21,461	21,461	<b>22,057</b>	Balance at beginning of the period / year	<b>8,491</b>	8,262	8,262
8,351	2,855	<b>5,662</b>	Provided during the period / year	<b>2,180</b>	1,099	3,215
(7,236)	(2,377)	<b>(3,356)</b>	Recoveries during the period / year	<b>(1,292)</b>	(915)	(2,786)
(519)	603	<b>475</b>	Reversal / (write offs) during the period / year	<b>183</b>	232	(200)
22,057	22,542	<b>24,838</b>	Balance at the end of the period / year	<b>9,562</b>	8,678	8,491
			<b>Reserve interest and profit</b>			
3,146	3,147	<b>4,192</b>	Balance at beginning of the period / year	<b>1,615</b>	1,212	1,212
2,132	1,007	<b>1,106</b>	Reserved during the period / year	<b>426</b>	388	821
(917)	(335)	<b>(1,034)</b>	Interest released during the period / year	<b>(398)</b>	(129)	(353)
(169)	-	-	- Write offs during the period / year	-	-	(65)
4,192	3,819	<b>4,264</b>	Balance at end of the period / year	<b>1,643</b>	1,471	1,615
26,249	26,361	<b>29,102</b>		<b>11,205</b>	10,149	10,106

During the period, an amount of RO 0.003 million equivalent to US\$ 0.068 million (30 June 2016: RO 0.011 million equivalent to US\$ 0.029million and 31 December 2016: RO 0.008 million equivalent to US\$ 0.020million) of loans & advances and financing is directly written off / recovered in the statement of comprehensive income.

**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS  
FOR THE SIX MONTH PERIOD ENDED 30 June 2017**

**7. CUSTOMERS' DEPOSITS**

Customers' deposits can be analysed as follows:

Audited 31-Dec-16 US\$ '000	Unaudited 30-Jun-16 US\$ '000	Unaudited 30-Jun-17 US\$ '000		Unaudited 30-Jun-17 RO '000	Unaudited 30-Jun-16 RO '000	Audited 31-Dec-16 RO '000
			<b>Conventional Banking</b>			
1,956,192	1,945,608	<b>1,830,909</b>	Time deposits	<b>704,900</b>	749,059	753,134
189,094	213,514	<b>173,171</b>	Saving deposits	<b>66,671</b>	82,203	72,801
712,810	619,577	<b>1,076,688</b>	Demand and Call deposits	<b>414,525</b>	238,537	274,432
<u>2,858,096</u>	<u>2,778,699</u>	<u><b>3,080,768</b></u>		<u><b>1,186,096</b></u>	<u>1,069,799</u>	<u>1,100,367</u>
			<b>Islamic Banking</b>			
30,317	29,914	<b>29,013</b>	Current deposits	<b>11,170</b>	11,517	11,672
			Unrestricted investment accounts			
56,504	36,023	<b>98,504</b>	- under mudaraba agreement	<b>37,924</b>	13,869	21,754
356,450	359,234	<b>369,497</b>	- under wakala agreement	<b>142,256</b>	138,305	137,233
<u>443,271</u>	<u>425,171</u>	<u><b>497,014</b></u>		<u><b>191,350</b></u>	<u>163,691</u>	<u>170,659</u>
<u>3,301,367</u>	<u>3,203,870</u>	<u><b>3,577,782</b></u>		<u><b>1,377,446</b></u>	<u>1,233,490</u>	<u>1,271,026</u>

**8. RELATED PARTY TRANSACTIONS**

The Bank enters into transactions with major shareholders, directors, senior management and their related entities in the ordinary course of business at mutually agreed terms and conditions.

The balances in respect of related parties included in the statement of financial position are as follows:

Audited 31-Dec-16 US\$ '000	Unaudited 30-Jun-16 US\$ '000	Unaudited 30-Jun-17 US\$ '000		Unaudited 30-Jun-17 RO '000	Unaudited 30-Jun-16 RO '000	Audited 31-Dec-16 RO '000
			<b>Directors and senior management</b>			
1,958	1,688	1,548	Loans & advances and financing, net	596	650	754
3,104	3,556	3,166	Customers' deposits	1,219	1,369	1,195
174	18	112	Prepaid rent	43	7	67
			<b>Major shareholders and others</b>			
1,727	2,914	2,140	Due from banks	824	1,122	665
1,234	1,213	1,226	Investment securities	472	467	475
			Other assets	-	-	-
-	-	21	- Fair value of forward contracts	8	-	-
	190	-	- Fair value of swaps	13	73	-
160,860	226,668	130,587	Due to banks	50,276	87,267	61,931
94	70	31	Customers' deposits	12	27	36
			Other liabilities			
			- Fair value of foreign exchange forward			
91	3	-	- contracts	-	1	35
-	-	62	- Fair value of swaps	24	-	-
2,213	1,140	182	- Other payables	70	439	852
<u>57,127</u>	<u>58,177</u>	<u>43,551</u>	Contingent liabilities and commitments	<u>16,767</u>	<u>22,398</u>	<u>21,994</u>

**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS  
FOR THE SIX MONTH PERIOD ENDED 30 June 2017**

**8. RELATED PARTY TRANSACTIONS (continued)**

The income and expenses in respect of related parties included in the financial statements are as follows:

Audited 31-Dec-16	Unaudited 30-Jun-16	Unaudited 30-Jun-17	Unaudited 30-Jun-17	Unaudited 30-Jun-16	Audited 31-Dec-16
US\$ '000	US\$ '000	US\$ '000	RO'000	RO '000	RO '000
			<b>Directors and Senior Management</b>		
52	26	31	Interest and profit income	12	20
44	23	16	Interest and profit expense	6	17
418	-	-	- Board remuneration proposed	-	161
101	57	47	Board sitting fees	18	39
94	47	47	Shariah supervisory board expenses	18	36
122	62	62	Other operating expenses	24	47
			<b>Major shareholders and others</b>		
-	-	-	- Interest and profit income	-	-
2,818	1,216	1,449	Interest and profit expense	558	1,085
			Other operating income	1	-
5	5	21	Loss on fair value of interest rate swaps	8	2
148	3	21	Gain on foreign exchange forward	8	57
2,930	1,429	475	Other operating expenses	183	1,128

The Bank has a committed line of loans from one of the related parties of RO 57.75 million equivalent to US\$ 150 million (30 June 2016: RO 38.5 million equivalent to US\$ 100 million and 31 December 2016: RO 38.5 million equivalent to US\$ 100 million).

Other Operating expenses includes management fee under a Technical and Management Support Agreement(TMSA) with a major shareholder. In accordance with the agreement, no management fees was included in other operating expenses during the six months period ended 30 June 2017(30 June 2016: RO 0.366 million equivalent to US\$0.951 million and 31 December 2016: RO 0.764 million equivalent to US\$ 1.984 million).

The Bank has rented a branch premises from a Director. In accordance with the agreement, an amount of RO 0.024 million equivalent to US\$ 0.062 million was included in the other operating expenses (30 June 2016: RO 0.024 million equivalent to US\$ 0.062 million and 31 December 2016: RO 0.047 million equivalent to US\$ 0.123 million).

Compensation of the key management personnel for the six month period ended 30 June 2017 was RO 0.789 million equivalent to US\$ 2.048 million (30 June 2016: RO 0.757 million equivalent to US\$ 1.966 million).

## NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE SIX MONTH PERIOD ENDED 30 June 2017

### 9. SHARE CAPITAL

The authorised share capital of the Bank is 2,500,000,000 shares of 100 baizas each (30 June 2016 and 31 December 2016: 2,500,000,000 shares of 100 baizas each) out of which 1,425,036,144 (30 June 2016 and 31 December 2016: 1,425,036,144 shares) are issued and fully paid up.

Ahli United Bank BSC (AUB) is the only shareholder owning 10% or more of the Bank's shares. On 30 June 2017 shareholding of AUB was 498,762,642 shares equivalent to 35% (30 June 2016 and 31 December 2016: 498,762,642 shares equivalent to 35%)

### 10. BASIC AND DILUTED EARNINGS AND NET ASSETS VALUE PER SHARE

Basic earnings per share figures are calculated by dividing the profit for the period by the weighted average number of shares outstanding during the period as follows:

			Unaudited 30-Jun-17	Unaudited 30-Jun-16	Audited 31-Dec-16
Weighted average number of shares in 000's			1,425,036	1,425,036	1,425,036
Outstanding number of shares in 000's			1,425,036	1,425,036	1,425,036
Audited 31-Dec-16	Unaudited 30-Jun-16	Unaudited 30-Jun-17	Unaudited 30-Jun-17	Unaudited 30-Jun-16	Audited 31-Dec-16
US\$ '000	US\$ '000	US\$ '000	RO '000	RO '000	RO '000
76,760	36,944	32,282	12,429	14,223	29,552
631,035	591,855	625,551	240,837	227,864	242,948
5.4	2.6	2.3	8.7	10.0	20.7
44.3	41.5	43.9	169.0	159.9	170.5

No figure for diluted earnings per share has been presented as the Bank has not issued any instruments which would have a diluting impact on earnings per share when exercised.

### 11. SEGMENT REPORTING

Segment information is presented in respect of the Bank's operating segments. For management purposes, the Bank is organised into two operating segments based on products and services as follows:

1. Retail banking includes customers' deposits, unrestricted investments accounts, consumer loans, overdrafts, credit card, Islamic financing and fund transfer facilities.
2. Corporate banking, treasury and investments include deposits including current accounts, term deposits, loans & advances and Islamic financing etc. for corporate and institutional customers, Treasury, Trade Finance, SME and Investment Banking Services.

The Management Committee monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on the profit after tax.

**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS  
FOR THE SIX MONTH PERIOD ENDED 30 June 2017**

**11. SEGMENT INFORMATION (continued)**

Transactions between segments are conducted at estimated market rates on an arm's length basis. Interest is charged/credited to business segments based on pool rate, which is approximates the cost of the funds.

Segment information is as follows:

	30-Jun-17			30-Jun-16			31-Dec-16		
	Retail banking RO '000	Corporate banking, Treasury & Investment RO '000	Total RO '000	Retail banking RO '000	Corporate banking, Treasury & Investment RO '000	Total RO '000	Retail banking RO '000	Corporate banking, Treasury & Investment RO '000	Total RO '000
Net interest income	6,299	11,091	17,390	7,311	10,589	17,900	15,492	22,205	37,697
Net income from islamic financing and investments	1,025	2,160	3,185	1,305	2,279	3,584	2,720	4,315	7,035
<b>Net interest income and income from islamic financing</b>	<b>7,324</b>	<b>13,251</b>	<b>20,575</b>	<b>8,616</b>	<b>12,868</b>	<b>21,484</b>	<b>18,212</b>	<b>26,520</b>	<b>44,732</b>
Other operating income	415	4,789	5,204	716	3,893	4,609	1,257	7,583	8,840
<b>Net operating income</b>	<b>7,739</b>	<b>18,040</b>	<b>25,779</b>	<b>9,332</b>	<b>16,761</b>	<b>26,093</b>	<b>19,469</b>	<b>34,103</b>	<b>53,572</b>
Loans and financing impairment, net of recoveries	(735)	(996)	(1,731)	(22)	(142)	(164)	(601)	449	(152)
Impairment for investments	-	(95)	(95)	-	(511)	(511)	-	(576)	(576)
Operating expenses	(5,009)	(4,299)	(9,308)	(4,774)	(4,484)	(9,258)	(10,243)	(8,973)	(19,216)
<b>Profit before taxation</b>	<b>1,995</b>	<b>12,650</b>	<b>14,645</b>	<b>4,536</b>	<b>11,624</b>	<b>16,160</b>	<b>8,625</b>	<b>25,003</b>	<b>33,628</b>
Tax expense	(299)	(1,917)	(2,216)	(544)	(1,393)	(1,937)	(1,035)	(3,041)	(4,076)
<b>Segment profit for the period</b>	<b>1,696</b>	<b>10,733</b>	<b>12,429</b>	<b>3,992</b>	<b>10,231</b>	<b>14,223</b>	<b>7,590</b>	<b>21,962</b>	<b>29,552</b>
<b>Segment assets</b>	<b>629,531</b>	<b>1,310,156</b>	<b>1,939,687</b>	<b>635,838</b>	<b>1,220,226</b>	<b>1,856,064</b>	<b>633,945</b>	<b>1,265,709</b>	<b>1,899,654</b>
<b>Segment liabilities</b>	<b>187,561</b>	<b>1,511,289</b>	<b>1,698,850</b>	<b>180,117</b>	<b>1,448,083</b>	<b>1,628,200</b>	<b>181,335</b>	<b>1,475,371</b>	<b>1,656,706</b>
	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Net interest income	16,361	28,808	45,169	18,990	27,504	46,494	40,239	57,676	97,915
Net income from islamic financing and investments	2,662	5,610	8,272	3,389	5,920	9,309	7,065	11,207	18,272
<b>Net interest income and income from islamic financing</b>	<b>19,023</b>	<b>34,418</b>	<b>53,441</b>	<b>22,379</b>	<b>33,424</b>	<b>55,803</b>	<b>47,304</b>	<b>68,883</b>	<b>116,187</b>
Other operating income	1,078	12,439	13,517	1,860	10,111	11,971	3,265	19,696	22,961
<b>Net operating income</b>	<b>20,101</b>	<b>46,857</b>	<b>66,958</b>	<b>24,239</b>	<b>43,535</b>	<b>67,774</b>	<b>50,569</b>	<b>88,579</b>	<b>139,148</b>
Loans and financing impairment, net of recoveries	(1,909)	(2,587)	(4,496)	(57)	(369)	(426)	(1,561)	1,166	(395)
Impairment for investments	-	(247)	(247)	-	(1,327)	(1,327)	-	(1,496)	(1,496)
Operating expenses	(13,010)	(11,166)	(24,177)	(12,400)	(11,646)	(24,046)	(26,605)	(23,305)	(49,910)
<b>Profit before taxation</b>	<b>5,182</b>	<b>32,857</b>	<b>38,038</b>	<b>11,782</b>	<b>30,193</b>	<b>41,975</b>	<b>22,403</b>	<b>64,944</b>	<b>87,347</b>
Tax expense	(777)	(4,979)	(5,756)	(1,413)	(3,618)	(5,031)	(2,688)	(7,899)	(10,587)
<b>Segment profit for the period</b>	<b>4,405</b>	<b>27,878</b>	<b>32,282</b>	<b>10,369</b>	<b>26,575</b>	<b>36,944</b>	<b>19,715</b>	<b>57,045</b>	<b>76,760</b>
<b>Segment assets</b>	<b>1,635,145</b>	<b>3,403,003</b>	<b>5,038,148</b>	<b>1,651,527</b>	<b>3,169,419</b>	<b>4,820,946</b>	<b>1,646,610</b>	<b>3,287,558</b>	<b>4,934,168</b>
<b>Segment liabilities</b>	<b>487,171</b>	<b>3,925,426</b>	<b>4,412,597</b>	<b>467,836</b>	<b>3,761,255</b>	<b>4,229,091</b>	<b>471,000</b>	<b>3,832,133</b>	<b>4,303,133</b>

**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS  
FOR THE SIX MONTH PERIOD ENDED 30 June 2017**

**12. CONTINGENT LIABILITIES AND COMMITMENTS**

Audited 31-Dec-16 US\$ '000	Unaudited 30-Jun-16 US\$ '000	Unaudited 30-Jun-17 US\$ '000		Unaudited 30-Jun-17 RO '000	Unaudited 30-Jun-16 RO '000	Audited 31-Dec-16 RO '000
397,818	431,478	<b>367,543</b>	Financial guarantees	<b>141,504</b>	166,119	153,160
60,205	58,943	<b>477,262</b>	Letters of credit	<b>183,746</b>	22,693	23,179
89,543	128,000	<b>134,951</b>	Loan commitments	<b>51,956</b>	49,280	34,474
6,395	6,146	<b>7,052</b>	Capital commitments	<b>2,715</b>	2,366	2,462
1,421	1,756	<b>1,161</b>	Lease commitments	<b>447</b>	676	547
<b>555,382</b>	<b>626,323</b>	<b>987,969</b>		<b>380,368</b>	241,134	213,822

**13. ASSETS AND LIABILITIES MATURITY**

As at 30 June 2017	Upto 3 months RO '000	Above 3 months to 12 months RO '000	Above 1 year to 5 years RO '000	More than 5 years RO '000	Total RO '000
<b>Assets</b>	<b>647,676</b>	<b>146,882</b>	<b>286,846</b>	<b>858,283</b>	<b>1,939,687</b>
<b>Liabilities and equity</b>	<b>(562,597)</b>	<b>(405,005)</b>	<b>(539,923)</b>	<b>(432,162)</b>	<b>(1,939,687)</b>
<b>Net liquidity gap</b>	<b>85,079</b>	<b>(258,123)</b>	<b>(253,077)</b>	<b>426,121</b>	<b>-</b>
<b>Net liquidity gap in US \$ '000</b>	<b>220,984</b>	<b>(670,449)</b>	<b>(657,343)</b>	<b>1,106,808</b>	<b>-</b>

As at 30 June 2016	Upto 3 months RO '000	Above 3 months to 12 months RO '000	Above 1 year to 5 years RO '000	More than 5 years RO '000	Total RO '000
<b>Assets</b>	<b>695,414</b>	<b>90,201</b>	<b>253,963</b>	<b>816,486</b>	<b>1,856,064</b>
<b>Liabilities and equity</b>	<b>(477,807)</b>	<b>(389,003)</b>	<b>(500,563)</b>	<b>(488,691)</b>	<b>(1,856,064)</b>
<b>Net liquidity gap</b>	<b>217,607</b>	<b>(298,802)</b>	<b>(246,600)</b>	<b>327,795</b>	<b>-</b>
<b>Net liquidity gap in US \$ '000</b>	<b>565,212</b>	<b>(776,109)</b>	<b>(640,519)</b>	<b>851,416</b>	<b>-</b>

  

As at 31 December 2016	Upto 3 months RO '000	Above 3 months to 12 months RO '000	Above 1 year to 5 years RO '000	More than 5 years RO '000	Total RO '000
<b>Assets</b>	<b>686,966</b>	<b>121,265</b>	<b>257,432</b>	<b>833,991</b>	<b>1,899,654</b>
<b>Liabilities and equity</b>	<b>(428,663)</b>	<b>(561,862)</b>	<b>(416,449)</b>	<b>(492,680)</b>	<b>(1,899,654)</b>
<b>Net liquidity gap</b>	<b>258,303</b>	<b>(440,597)</b>	<b>(159,017)</b>	<b>341,311</b>	<b>-</b>
<b>Net liquidity gap in US \$ '000</b>	<b>670,917</b>	<b>(1,144,407)</b>	<b>(413,032)</b>	<b>886,522</b>	<b>-</b>

# NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE SIX MONTH PERIOD ENDED 30 June 2017

## 14. CAPITAL MANAGEMENT

The following table sets out the capital adequacy position

	Unaudited 30-Jun-17 RO '000	Unaudited 30-Jun-16 RO '000	Audited 31-Dec-16 RO '000
Common Equity Tier 1 (CET1)	233,758	220,574	221,400
Additional Tier 1	-	-	-
Tier 1	233,758	220,574	221,400
Tier 2	34,549	42,484	40,196
<b>Total regulatory capital</b>	<b>268,307</b>	<b>263,058</b>	<b>261,596</b>
<b>Risk weighted assets</b>			
Credit risk	1,678,367	1,541,856	1,563,083
Market risk	98,335	35,356	80,469
Operational risk	101,544	96,123	96,123
<b>Total risk weighted assets</b>	<b>1,878,246</b>	<b>1,673,335</b>	<b>1,739,675</b>
<b>Capital adequacy ratio</b>			
CET1 capital expressed as a percentage of total risk-weighted assets	12.45%	13.18%	12.73%
Total tier I capital expressed as a percentage of total risk-weighted assets	12.45%	13.18%	12.73%
Tier II capital expressed as a percentage of total risk-weighted assets	1.84%	2.54%	2.31%
Total regulatory capital expressed as a percentage of total risk-weighted assets	14.28%	15.72%	15.04%
	Unaudited 30-Jun-17 US\$ '000	Unaudited 30-Jun-16 US\$ '000	Audited 31-Dec-16 US\$ '000
Common Equity Tier 1 (CET1)	607,164	572,918	575,065
Additional Tier 1	-	-	-
Tier 1	607,164	572,918	575,065
Tier 2	89,738	110,348	104,405
<b>Total regulatory capital</b>	<b>696,902</b>	<b>683,266</b>	<b>679,470</b>
<b>Risk weighted assets</b>			
Credit risk	4,359,394	4,004,821	4,059,956
Market risk	255,415	91,834	209,010
Operational risk	263,752	249,670	249,670
<b>Total risk weighted assets</b>	<b>4,878,561</b>	<b>4,346,325</b>	<b>4,518,636</b>
<b>Capital adequacy ratio</b>			
CET1 capital expressed as a percentage of total risk-weighted assets	12.45%	13.18%	12.73%
Total tier I capital expressed as a percentage of total risk-weighted assets	12.45%	13.18%	12.73%
Tier II capital expressed as a percentage of total risk-weighted assets	1.84%	2.54%	2.31%
Total regulatory capital expressed as a percentage of total risk-weighted assets	14.28%	15.72%	15.04%



**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS  
FOR THE SIX MONTH PERIOD ENDED 30 June 2017**

**15. FAIR VALUE OF FINANCIAL INSTRUMENTS**

The fair value of financial assets and financial liabilities, other than those disclosed in the table below and in note 8, approximate their carrying values.

The bank's primary medium and long-term financial liabilities are the borrowed funds and subordinated liabilities. The fair values of these financial liabilities not materially different from their carrying values, since these liabilities are repriced at intervals of three or six months, depending on the terms and conditions of the instrument and the resultant applicable margins approximate the current spreads that would apply for borrowings with similar maturities.

The Bank measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).

Level 3 - Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

The table below analysis of financial instruments measured at fair value at the reporting date:

	30-Jun-17			30-Jun-16			31-Dec-16		
	Level 1	Level 2	Total	Level 1	Level 2	Total	Level 1	Level 2	Total
<b>Financial assets:</b>	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000
Held for trading investments	-	108,101	108,101	-	79,569	79,569	-	85,203	85,203
Available for sale investments	30,227	55,825	86,052	7,148	77,000	84,148	14,440	77,000	91,440
<i>Derivative financial instruments</i>									
Interest rate swaps	-	13	-	-	-	-	-	-	-
Forward foreign exchange contracts	1,086	-	1,086	428	-	428	1,093	-	1,093
	<b>31,313</b>	<b>163,939</b>	<b>195,239</b>	<b>7,576</b>	<b>156,569</b>	<b>164,145</b>	<b>15,533</b>	<b>162,203</b>	<b>177,736</b>
<b>Financial liabilities</b>									
<i>Derivative financial instruments</i>									
Interest rate swaps	-	24	24	-	442	442	-	-	-
Forward foreign exchange contracts	1,016	-	1,016	803	-	803	1,274	-	1,274
	<b>1,016</b>	<b>24</b>	<b>1,040</b>	<b>803</b>	<b>442</b>	<b>1,245</b>	<b>1,274</b>	<b>-</b>	<b>1,274</b>
<b>Financial assets:</b>	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Held for trading investments	-	280,782	280,782	-	206,673	206,673	-	221,306	221,306
Available for sale investments	78,512	145,000	223,512	18,566	200,000	218,566	37,506	200,000	237,506
<i>Derivative financial instruments</i>									
Interest rate swaps	-	-	-	-	-	-	-	-	-
Forward foreign exchange contracts	-	-	2,821	1,112	-	1,112	2,839	-	2,839
	<b>78,512</b>	<b>425,782</b>	<b>507,115</b>	<b>19,678</b>	<b>406,673</b>	<b>426,351</b>	<b>40,345</b>	<b>421,306</b>	<b>461,651</b>
<b>Financial liabilities</b>									
<i>Derivative financial instruments</i>									
Interest rate swaps	-	-	62	-	1,148	1,148	-	-	-
Forward foreign exchange contracts	2,639	-	2,639	2,086	-	2,086	3,309	-	3,309
	<b>2,639</b>	<b>-</b>	<b>2,701</b>	<b>2,086</b>	<b>1,148</b>	<b>3,234</b>	<b>3,309</b>	<b>-</b>	<b>3,309</b>

No financial instruments are carried at level 3 fair value as on 30 June 2017 (30 June 2016: nil)

**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS  
FOR THE SIX MONTH PERIOD ENDED 30 June 2017**
**16. INVESTMENT SECURITIES**

31-Dec-16	30-Jun-16	30-Jun-17		30-Jun-17	30-Jun-16	31-Dec-16
US\$ '000	US\$ '000	US\$ '000		RO '000	RO '000	RO '000
221,306	206,673	<b>280,782</b>	Held for trading investments	<b>108,101</b>	79,569	85,203
237,506	218,566	<b>223,512</b>	Available for sale investments	<b>86,052</b>	84,148	91,440
<u>458,812</u>	<u>425,239</u>	<u><b>504,294</b></u>		<u><b>194,153</b></u>	<u>163,717</u>	<u>176,643</u>

**Held for trading investments comprise:**

	30-Jun-17		30-Jun-16		31-Dec-16	
	Carrying value	Cost	Carrying value	Cost	Carrying value	Cost
	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000
Government Development Bonds - Oman	<b>98,101</b>	<b>98,101</b>	69,569	69,569	75,203	75,203
Government Sukuks - Oman	<b>10,000</b>	<b>10,000</b>	10,000	10,000	10,000	10,000
	<u><b>108,101</b></u>	<u><b>108,101</b></u>	<u>79,569</u>	<u>79,569</u>	<u>85,203</u>	<u>85,203</u>
	Carrying value	Cost	Carrying value	Cost	Carrying value	Cost
	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Government Development Bonds - Oman	<b>254,808</b>	<b>254,808</b>	180,699	180,699	195,332	195,332
Government Sukuks - Oman	<b>25,974</b>	<b>25,974</b>	25,974	25,974	25,974	25,974
	<u><b>280,782</b></u>	<u><b>280,782</b></u>	<u>206,673</u>	<u>206,673</u>	<u>221,306</u>	<u>221,306</u>

**Available for sale investments comprise:**

	30-Jun-17		30-Jun-16		31-Dec-16	
	Carrying value	Cost	Carrying value	Cost	Carrying value	Cost
	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000
Government Bonds - Oman	<b>9,531</b>	<b>9,633</b>	-	-	7,464	7,698
Government Sukuks - Oman	<b>1,638</b>	<b>1,638</b>	-	-	-	-
Quoted securities	<b>5,701</b>	<b>7,608</b>	7,148	7,757	6,976	7,651
Treasury bills	<b>55,825</b>	<b>55,825</b>	77,000	77,000	77,000	77,000
Local bonds	<b>7,790</b>	<b>7,653</b>	-	-	-	-
Foreign bonds	<b>5,567</b>	<b>5,442</b>	-	-	-	-
	<b>86,052</b>	<b>87,799</b>	84,148	84,757	91,440	92,349
Impairment - quoted securities	-	<b>(1,100)</b>	-	<b>(1,270)</b>	-	<b>(1,325)</b>
	<u><b>86,052</b></u>	<u><b>86,699</b></u>	<u>84,148</u>	<u>83,487</u>	<u>91,440</u>	<u>91,024</u>
	Carrying value	Cost	Carrying value	Cost	Carrying value	Cost
	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Government Bonds - Oman	<b>24,756</b>	<b>25,021</b>	-	-	19,387	19,995
Government Sukuks - Oman	<b>4,255</b>	<b>4,255</b>	-	-	-	-
Quoted securities	<b>14,808</b>	<b>19,761</b>	18,566	20,148	18,119	19,873
Treasury bills	<b>145,000</b>	<b>145,000</b>	200,000	200,000	200,000	200,000
Local bonds	<b>20,233</b>	<b>19,877</b>	-	-	-	-
Foreign bonds	<b>14,460</b>	<b>14,135</b>	-	-	-	-
	<b>223,512</b>	<b>228,049</b>	218,566	220,148	237,506	239,868
Impairment - quoted securities	-	<b>(2,857)</b>	-	<b>(3,299)</b>	-	<b>(3,442)</b>
	<u><b>223,512</b></u>	<u><b>225,192</b></u>	<u>218,566</u>	<u>216,849</u>	<u>237,506</u>	<u>236,426</u>