

Chairman's Report - First Half (H1) Results 2016

Dear Shareholders,

I am glad to share with you the encouraging results achieved by the bank during the second quarter ending 30 June 2016. Reflecting the strategy towards challenges and opportunities faced in light of the prevailing economic situation, the key business lines of the bank sustained performance momentum during the 6-month period.

Financial Overview

The bank posted a net profit of RO 90.47 million for the period compared to RO 89.82 million reported during the same period in 2015, an increase of 0.7 per cent.

Net Interest Income from Conventional Banking stood at RO 124.42 million for the six months of 2016 compared to RO 115.45 million for the same period of 2015, an increase of 7.8 per cent. Net income from Islamic financing was RO 11.76 million for the six months of 2016 compared to RO 9.21 million for the same period of 2015, an increase of 27.7 per cent.

Non-interest income was RO 74.58 million for the six month period ended 30 June 2016 compared to RO 75.51 million for the same period in 2015.

Operating expenses for the six month period ended 30 June 2016 was RO 86.06 million as compared to RO 84.13 million for the same period in 2015, an increase of 2.3 per cent.

Impairment for credit losses for the six month period in 2016 was RO 32.72 million as against RO 27.60 million for the same period in 2015. Recoveries from impairment for credit losses was RO 15.66 million for the six month period of 2016 as against RO 16.49 million for the same period in 2015. Share of income from an associate for the six months period in 2016 was RO 481 thousand as against RO 1.07 million for the same period in 2015.

Net Loans and advances increased by 7.1 per cent to RO 6,848 million as against RO 6,392 million as at 30 June 2015. Customer deposits decreased by 0.1 per cent to RO 6,908 million as against RO 6,914 million as at 30 June 2015.

Islamic financing receivables amounted to RO 749 million as of 30 June 2016 compared to RO 465 million in the same period of 2015. Islamic customer deposits amounted to RO 733 million as of 30 June 2016 compared to RO 510 million reported for the same period in 2015.

Strategic Initiatives

- Endorsing global investor confidence, the bank achieved successful pricing and closure of a 5 year, USD 500 million bond issuance under its Euro Medium Term Note (EMTN) programme.

Key Developments

- As the leading finance provider to the core sectors in Oman, the bank provided term loan commitment (as a part of a syndicated facility) to Sohar and Ibri Power Projects and Sohar Water Desalination Project.
- In step with the latest technology and innovation, the bank launched business cash deposit machine for bulk cash deposit by corporate clients and statement printer kiosk for both retail and corporate clients.
- Reflecting innovative customer-centric strategy, the bank launched the first dedicated social media account (Twitter) in the banking sector in Oman for customer service.

CSR & Sustainability

- Marking the successful fifth year of **Green Sports** initiative aimed at greening and development of football fields to promote Oman as a sporting nation, the bank announced 15 new beneficiary teams in 2016.
- Marking the Holy Month of Ramadhan, the **Tadhamun** CSR initiative launched in association with the Ministry of Social Development supported beneficiary homes across the Sultanate with basic electronic home appliances and *Eidiyah* as special gift from the bank employees.
- **bank muscat hearts** for voluntary activities by employees was re-launched during Ramadhan. The programme encourages and supports employee charity initiatives that benefit the community.
- The bank, in cooperation with Riyada - the Public Authority for SME Development, organised **al wathbah souq** to support SMEs and women entrepreneurs by providing a platform to exhibit their products at the bank's head office.

Accolades

- Endorsing the unrivalled position in Oman and the region, the bank achieved a unique distinction of being the only Omani company to be ranked in the Forbes Top 100 Companies in the Arab World 2016.
- In recognition of outstanding contributions to the banking sector in Oman and the Arab region, the bank won the Best Bank in Oman award by the World Union of Arab Bankers (WUAB).

- The bank's *najahi* catering to micro and small businesses won the Best SME Product in Oman Award by Banker Middle East.
- In recognition of the state-of-the-art electronic banking service, the bank won the Best Online Service in Oman award by Banker Middle East.
- Based on the leading revenue position maintained in 2015, the bank won the best performing bank in Oman award by Oman Economic Review.

In Conclusion

On behalf of the Board of Directors, I would like to take this opportunity to thank the banking community, both in Oman and overseas, the shareholders and clients for the confidence reposed in the bank. I would also like to thank the Management Team and all our employees for their dedication and commitment to press ahead amid the challenging situation to reach higher levels of excellence. Following 34 years of successful growth, the Sultanate's flagship financial institution is poised to further consolidate its leading position, driven by the 'Let's Do More' vision which reflects the strategy for the coming period.

The Board of Directors welcomes and supports the measures taken by the Central Bank of Oman and the Capital Market Authority to strengthen the financial market in the Sultanate. The foresight and market-friendly policies adopted by His Majesty's Government have helped the bank to record encouraging results.

As Oman marks the 46th year of the glorious Renaissance, we express our deep gratitude and appreciation to our leader, His Majesty Sultan Qaboos Bin Said for his vision and guidance, which have helped the country along its path of success, growth and prosperity.

Khalid bin Mustahail Al Mashani