



AHLI BANK SAOG

**Unaudited interim condensed financial statements
30 September 2016**

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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 third quarter that ended 30 September 2016. This is based on the condensed interim financial statements which have been reviewed by the external auditors.

The Bank's Financial Performance

The financial results for the period that ended 30 September 2016 indicate the Bank has remained resilient despite challenges.

| | 30-Sep-16 | 30-Sep-15 | Growth % |
|-------------------------------------|------------------|------------------|-----------------|
| | RO Million | | |
| Total assets | 1,887.4 | 1,924.3 | -1.9% |
| Loans & advances and financing, net | 1,557.4 | 1,506.0 | 3.4% |
| Customers' deposits | 1,235.7 | 1,324.9 | -6.7% |
| Equity | 234.7 | 221.3 | 6.1% |
| Operating income | 39.4 | 43.0 | -8.4% |
| Operating expenses | 14.3 | 15.2 | 5.9% |
| Profit for the period | 21.0 | 21.8 | -3.7% |

Loans and advances and financing growth of over 3.4% has been achieved with a prudent risk management approach and in a diversified manner.

The Bank's customer deposits witnessed a decrease by 6.7%. Total assets at 30 September 2016 stood at R.O. 1,887.4 million showing a drop of 1.9% as compared to the same period last year. As compared to last year, ahlibank's operating income has decreased by 8.4% to R.O. 39.4 million from RO 43.0 million. This is mainly attributed to the high cost of funds as a result of the global economic environment.

The Operating Expenses (excluding loan and financing impairment net of recoveries) were controlled at R.O. 14.3 million resulting in a cost to income ratio of 36.3%. Overall, the Net Profit After Tax decreased marginally to R.O. 21.0 million, as compared to R.O. 21.8 million during the same period last year.

The Year Ahead

Despite the challenging economic landscape, ahlibank is dedicated to following its objective of growth, not only in terms of market size but also in expanding its products and services to its growing customer base.

The bank will continue to build its brand equity and expand its banking footprint to further expand its businesses locally as well as regionally. The bank intends to continue to drive

profitability across business segments. In the consumer banking area in particular, the Bank will focus on enhancing its customer service proposition. ahlibank continues to focus on innovative products and services, both for its conventional and Islamic customers, in order to increase its foothold and market presence. In the wholesale banking segment, the bank aims to focus on developing comprehensive client solutions, and leveraging its banking expertise across networks. The Bank will also continue to upgrade its Information Technology (IT) platforms to ensure secure and better service to its customers.

Honour

In recognition of its consistent performance, soundness of strategy and commitment, ahlibank was recognised with the AIWA Best Performing Company Awards for large capital companies recently. This honour is an acknowledgement of ahlibank's strong financial performance and its adoption of long-term prudent business strategies.

Best Practices

Ahlibank is well-known for its robust corporate governance framework and is dedicated to integrating best practices in the Bank's culture and conduct. The Board of Directors continues to review policies and procedures to enhance internal controls and ensure compliance to local laws and regulations.

Corporate Social Responsibility (CSR)

Our strategy as a financial institution has been to act as an active and leading partner in the socio-economic development of the nation; this was derived from the vision of His Majesty Sultan Qaboos which is guiding the life and achievements of Oman, and we intend to carry on this vision, we remain committed to corporate social responsibility. In all of our actions we strive to ensure that all economic, environmental and social factors are considered.

Acknowledgements

The Board of Directors would like to thank the management and staff for their commitment. We would also like to acknowledge the contribution of our strategic partner, Ahli United Bank, 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 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. Let me reiterate once again that we stand committed to delivering value to all our stakeholders.

Hamdan Ali Nasser Al Hinai

Chairman

30 October 2016

**INTERIM CONDENSED STATEMENT OF FINANCIAL POSITION
AT 30 SEPTEMBER 2016**

| Audited 31-Dec-15 US\$ '000 | Unaudited 30-Sep-15 US\$ '000 | Unaudited 30-Sep-16 US\$ '000 | | Note | Unaudited 30-Sep-16 RO '000 | Unaudited 30-Sep-15 RO '000 | Audited 31-Dec-15 RO '000 |
|-----------------------------------|-------------------------------------|-------------------------------------|---|------|-----------------------------------|-----------------------------------|---------------------------------|
| ASSETS | | | | | | | |
| 321,299 | 434,377 | 222,151 | Cash and balances with Central Bank of Oman | | 85,528 | 167,235 | 123,700 |
| 156,824 | 115,016 | 59,151 | Due from banks | | 22,773 | 44,281 | 60,377 |
| 3,942,991 | 3,911,679 | 4,045,323 | Loans & advances and financing, net | 4 | 1,557,449 | 1,505,997 | 1,518,052 |
| 416,452 | 443,281 | 494,787 | Investment securities | | 190,493 | 170,663 | 160,334 |
| 45,725 | 45,226 | 44,405 | Property and equipment | | 17,096 | 17,412 | 17,604 |
| 47,267 | 48,608 | 36,493 | Other assets | | 14,050 | 18,714 | 18,198 |
| 4,930,558 | 4,998,187 | 4,902,310 | TOTAL ASSETS | | 1,887,389 | 1,924,302 | 1,898,265 |
| LIABILITIES | | | | | | | |
| 565,478 | 585,932 | 713,943 | Due to banks | | 274,868 | 225,584 | 217,709 |
| 3,378,797 | 3,441,333 | 3,209,504 | Customers' deposits | 5 | 1,235,659 | 1,324,913 | 1,300,837 |
| 125,000 | 125,000 | 100,000 | Borrowed funds | | 38,500 | 48,125 | 48,125 |
| 8,427 | 7,275 | 8,563 | Taxation | | 3,297 | 2,801 | 3,245 |
| 93,680 | 95,075 | 91,880 | Other liabilities | | 35,373 | 36,604 | 36,066 |
| 168,831 | 168,831 | 168,831 | Subordinated liabilities | | 65,000 | 65,000 | 65,000 |
| 4,340,213 | 4,423,446 | 4,292,721 | TOTAL LIABILITIES | | 1,652,697 | 1,703,027 | 1,670,982 |
| EQUITY | | | | | | | |
| 370,140 | 370,140 | 370,140 | Share capital | | 142,504 | 142,504 | 142,504 |
| 52,023 | 44,821 | 52,023 | Legal reserve | | 20,029 | 17,256 | 20,029 |
| 16,995 | 16,995 | 16,995 | General loan loss reserve | | 6,543 | 6,543 | 6,543 |
| 104,771 | 98,927 | 112,166 | Subordinated debt reserve | | 43,184 | 38,087 | 40,337 |
| 138 | 3 | 1,756 | Fair value reserve | | 676 | 1 | 53 |
| 46,278 | 43,855 | 56,509 | Retained earnings | | 21,756 | 16,884 | 17,817 |
| 590,345 | 574,741 | 609,589 | TOTAL EQUITY | | 234,692 | 221,275 | 227,283 |
| 4,930,558 | 4,998,187 | 4,902,310 | TOTAL LIABILITIES AND EQUITY | | 1,887,389 | 1,924,302 | 1,898,265 |
| 41.4 | 40.3 | 42.8 | Net assets per share (US cents / baizas) | 8 | 164.7 | 155.3 | 159.5 |
| 734,825 | 683,515 | 621,250 | Contingent liabilities and commitments | 10 | 239,181 | 263,153 | 282,908 |

The interim condensed financial statements were approved by the Board of Directors on 30 October 2016 and signed on their behalf by:

Hamdan Ali Nasser Al Hinai
Chairman

Lloyd Maddock
Chief Executive Officer

The attached notes 1 to 11 form part of these interim condensed financial statements

**INTERIM CONDENSED STATEMENT OF COMPREHENSIVE INCOME
FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2016**

| Nine months period ended | | Three months period ended | | | Three months period ended | | Nine months period ended | |
|-------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|--|--|-----------------------------------|-----------------------------------|-----------------------------------|
| Unaudited 30-Sep-15 US\$ '000 | Unaudited 30-Sep-16 US\$ '000 | Unaudited 30-Sep-15 US\$ '000 | Unaudited 30-Sep-16 US\$ '000 | | Notes Unaudited 30-Sep-16 RO '000 | Unaudited 30-Sep-15 RO '000 | Unaudited 30-Sep-16 RO '000 | Unaudited 30-Sep-15 RO '000 |
| 116,418 | 128,335 | 39,792 | 45,096 | Interest income | 17,362 | 15,320 | 49,409 | 44,821 |
| (39,636) | (56,364) | (14,242) | (19,618) | Interest expense | (7,553) | (5,483) | (21,700) | (15,260) |
| 76,782 | 71,971 | 25,550 | 25,478 | NET INTEREST INCOME | 9,809 | 9,837 | 27,709 | 29,561 |
| 18,231 | 21,987 | 6,665 | 7,582 | Income from Islamic financing and investment | 2,919 | 2,566 | 8,465 | 7,019 |
| (4,631) | (7,990) | (1,800) | (2,894) | Unrestricted investment account holders' share of profit and profit expense | (1,114) | (693) | (3,076) | (1,783) |
| 13,600 | 13,997 | 4,865 | 4,688 | NET INCOME FROM ISLAMIC FINANCING AND INVESTMENTS | 1,805 | 1,873 | 5,389 | 5,236 |
| 90,382 | 85,968 | 30,415 | 30,166 | NET INTEREST INCOME AND INCOME FROM ISLAMIC FINANCING AND INVESTMENTS | 11,614 | 11,710 | 33,098 | 34,797 |
| 21,301 | 16,457 | 6,114 | 4,486 | Other operating income | 1,727 | 2,354 | 6,336 | 8,201 |
| 111,683 | 102,425 | 36,529 | 34,652 | OPERATING INCOME | 13,341 | 14,064 | 39,434 | 42,998 |
| (9,010) | (1,670) | (2,525) | (1,244) | Loan and financing impairment, net of recoveries | (479) | (972) | (643) | (3,469) |
| (1,016) | (1,434) | (1,016) | (106) | Impairment on available for sale investments | (41) | (391) | (552) | (391) |
| 101,657 | 99,321 | 32,988 | 33,302 | NET OPERATING INCOME | 12,821 | 12,701 | 38,239 | 39,138 |
| (22,782) | (23,366) | (7,865) | (8,117) | Staff expenses | (3,125) | (3,028) | (8,996) | (8,771) |
| (2,813) | (2,509) | (992) | (847) | Depreciation | (326) | (382) | (966) | (1,083) |
| (13,769) | (11,314) | (4,943) | (4,179) | Other operating expenses | (1,609) | (1,903) | (4,356) | (5,301) |
| (39,364) | (37,189) | (13,800) | (13,143) | OPERATING EXPENSES | (5,060) | (5,313) | (14,318) | (15,155) |
| 62,293 | 62,132 | 19,188 | 20,159 | PROFIT BEFORE TAX | 7,761 | 7,388 | 23,921 | 23,983 |
| (5,745) | (7,494) | (452) | (2,462) | Tax expense | (948) | (174) | (2,885) | (2,212) |
| 56,548 | 54,638 | 18,736 | 17,697 | PROFIT FOR THE PERIOD | 6,813 | 7,214 | 21,036 | 21,771 |
| | | | | OTHER COMPREHENSIVE INCOME- NET OF TAX | | | | |
| | | | | Fair value reserve (available for sale investments) to be reclassified to profit or loss in subsequent periods | | | | |
| 706 | 1,527 | 1,016 | 106 | - Net amount transferred to profit | 41 | 391 | 588 | 272 |
| (774) | 91 | (1,377) | (68) | - Net changes in fair values | (26) | (530) | 35 | (298) |
| (68) | 1,618 | (361) | 38 | OTHER COMPREHENSIVE (EXPENSE) / INCOME FOR THE PERIOD | 15 | (139) | 623 | (26) |
| 56,480 | 56,256 | 18,375 | 17,735 | TOTAL COMPREHENSIVE INCOME FOR THE PERIOD | 6,828 | 7,075 | 21,659 | 21,745 |
| 4.0 | 3.8 | 1.3 | 1.2 | Basic and diluted earnings per share (US cents / baizas) | 4.8 | 5.1 | 14.8 | 15.3 |

The attached notes 1 to 11 form part of these interim condensed financial statements

**INTERIM CONDENSED STATEMENT OF CHANGES IN EQUITY
FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2016**

| | 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 |
| Balance at 1 January 2016 | 142,504 | 20,029 | 6,543 | 40,337 | 53 | 17,817 | 227,283 |
| Profit for the period | - | - | - | - | - | 21,036 | 21,036 |
| Other comprehensive income, net of tax | - | - | - | - | 623 | - | 623 |
| Total comprehensive income | - | - | - | - | 623 | 21,036 | 21,659 |
| Transfer to subordinated debt reserve | - | - | - | 2,847 | - | (2,847) | - |
| Cash dividends paid | - | - | - | - | - | (14,250) | (14,250) |
| Balance at 30 September 2016 (RO) (unaudited) | 142,504 | 20,029 | 6,543 | 43,184 | 676 | 21,756 | 234,692 |
| Balance at 30 September 2016 (US\$) (unaudited) | 370,140 | 52,023 | 16,995 | 112,166 | 1,756 | 56,509 | 609,589 |
| | 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 2015</i> | 129,549 | 17,256 | 6,543 | 30,492 | 27 | 15,663 | 199,530 |
| Profit for the period | - | - | - | - | - | 21,771 | 21,771 |
| Other comprehensive expense, net of tax | - | - | - | - | (26) | - | (26) |
| <i>Total comprehensive income</i> | - | - | - | - | (26) | 21,771 | 21,745 |
| Transfer to subordinated debt reserve | - | - | - | 7,595 | - | (7,595) | - |
| Issue of bonus shares | 12,955 | - | - | - | - | (12,955) | - |
| Cash dividends paid | - | - | - | - | - | - | - |
| <i>Balance at 30 September 2015 (RO) (unaudited)</i> | <i>142,504</i> | <i>17,256</i> | <i>6,543</i> | <i>38,087</i> | <i>1</i> | <i>16,884</i> | <i>221,275</i> |
| <i>Balance at 30 September 2015 (US\$) (unaudited)</i> | <i>370,140</i> | <i>44,821</i> | <i>16,995</i> | <i>98,927</i> | <i>3</i> | <i>43,855</i> | <i>574,741</i> |
| <i>Balance at 1 October 2015</i> | 142,504 | 17,256 | 6,543 | 38,087 | 1 | 16,884 | 221,275 |
| Profit for the period | - | - | - | - | - | 5,956 | 5,956 |
| Other comprehensive expense, net of tax | - | - | - | - | 52 | - | 52 |
| <i>Total comprehensive income</i> | - | - | - | - | 52 | 5,956 | 6,008 |
| Transfer to legal reserve | - | 2,773 | - | - | - | (2,773) | - |
| Transfer to subordinated debt reserve | - | - | - | 2,250 | - | (2,250) | - |
| <i>Balance at 31 December 2015 (RO)</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> |
| <i>Balance at 31 December 2015 (US\$)</i> | <i>370,140</i> | <i>52,023</i> | <i>16,995</i> | <i>104,771</i> | <i>138</i> | <i>46,278</i> | <i>590,345</i> |

Appropriation to legal reserve is made on an annual basis.
The attached notes 1 to 11 form part of these interim condensed financial statements

**INTERIM CONDENSED STATEMENT OF CASH FLOWS
FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2016**

| Unaudited 30-Sep-15 US\$ '000 | Unaudited 30-Sep-16 US\$ '000 | | Unaudited 30-Sep-16 RO '000 | Unaudited 30-Sep-15 RO '000 |
|-------------------------------------|-------------------------------------|--|-----------------------------------|-----------------------------------|
| | | CASH FLOWS FROM OPERATING ACTIVITIES | | |
| 62,293 | 62,132 | Profit before taxation | 23,921 | 23,983 |
| | | Adjustments for: | | |
| 2,813 | 2,509 | Depreciation | 966 | 1,083 |
| 9,010 | 1,670 | Loan and financing impairment, net of recoveries | 643 | 3,469 |
| 1,016 | 1,434 | Impairment on available for sale investments | 552 | 391 |
| 242 | 270 | End of service benefits accrual | 104 | 93 |
| (564) | 109 | Gain / (loss) on sale of investment securities | 42 | (217) |
| | | Operating profit before changes in operating assets and liabilities | 26,228 | 28,802 |
| 74,810 | 68,124 | | | |
| - | (60) | End of service benefits paid | (23) | - |
| 40,444 | - | Decrease in due from banks | - | 15,571 |
| (313,234) | (104,000) | (Decrease) in loans & advances and financing | (40,040) | (120,595) |
| (36,446) | (39,208) | Net investment in held for trading investment | (15,095) | (14,032) |
| (93,556) | - | Decrease in due to banks | - | (36,019) |
| 646,034 | (169,294) | (Decrease) / Increase in customers' deposits | (65,178) | 248,723 |
| (6,478) | 8,766 | Changes in other assets and other liabilities | 3,374 | (2,495) |
| 311,574 | (235,672) | Cash (used in)/from operations | (90,734) | 119,955 |
| (8,494) | (7,359) | Tax paid | (2,833) | (3,270) |
| 303,080 | (243,031) | Net cash (used in)/from operating activities | (93,567) | 116,685 |
| | | CASH FLOWS FROM INVESTING ACTIVITIES | | |
| 1,672 | 5,522 | Decrease in investment, net (excluding held for trading investments) | 2,126 | 644 |
| (2,696) | (1,190) | Purchase of property and equipment | (458) | (1,038) |
| (1,024) | 4,332 | Net cash from/(used in) investing activities | 1,668 | (394) |
| | | CASH FLOWS FROM FINANCING ACTIVITIES | | |
| 64,935 | - | Increase in subordinated liabilities | - | 25,000 |
| (24,351) | (25,000) | Decrease in borrowed funds | (9,625) | (9,375) |
| - | (37,013) | Dividends paid | (14,250) | - |
| 40,584 | (62,013) | Net cash (used in)/from financing activities | (23,875) | 15,625 |
| 342,640 | (300,712) | Net change in cash and cash equivalents | (115,774) | 131,916 |
| 19,458 | 261,281 | Cash and cash equivalents at beginning of 1 January | 100,593 | 7,491 |
| 362,098 | (39,431) | Cash and cash equivalents at end of 30 September | (15,181) | 139,407 |

Cash and cash equivalent comprises of the following:

| 30-Sep-15 US\$ '000 | 30-Sep-16 US\$ '000 | | 30-Sep-16 RO '000 | 30-Sep-15 RO '000 |
|------------------------|------------------------|---|----------------------|----------------------|
| 433,014 | 220,787 | Cash and current balances with Central Bank of Oman | 85,003 | 166,710 |
| 115,016 | 59,151 | Due from banks | 22,773 | 44,281 |
| 300,000 | 294,574 | Treasury bills with three months original maturity | 113,411 | 115,500 |
| (485,932) | (613,943) | Due to banks | (236,368) | (187,084) |
| 362,098 | (39,431) | | (15,181) | 139,407 |

The attached notes 1 to 11 form part of these interim condensed financial statements

**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS
FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2016**

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, PC 116, Sultanate of Oman.

The Bank employed 523 employees as at 30 September 2016 compared to 500 as at 30 September 2015 and 505 as at 31 December 2015.

2. BASIS OF PREPERATION AND ACCOUNTING POLICIES

(a) The unaudited interim condensed financial statements for the nine months period ended 30 September 2016 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 nine months ended 30 September 2016 are consistent with those used in preparing the last audited financial statements as at and for the year ended 31 December 2015.

(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 nine months period ended 30 September 2016 are not necessarily indicative of the results that may be expected for the financial year 2016.

(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 the 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.

3. OTHER OPERATING INCOME

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

4. LOANS & ADVANCES AND FINANCING ACTIVITIES

| Audited 31-Dec-15 US\$ '000 | Unaudited 30-Sep-15 US\$ '000 | Unaudited 30-Sep-16 US\$ '000 | | Unaudited 30-Sep-16 RO '000 | Unaudited 30-Sep-15 RO '000 | Audited 31-Dec-15 RO '000 |
|-----------------------------------|-------------------------------------|-------------------------------------|---|-----------------------------------|-----------------------------------|---------------------------------|
| | | | Conventional Banking | | | |
| 2,064,860 | 2,034,805 | 2,205,655 | Corporate lending | 849,177 | 783,400 | 794,971 |
| 1,371,048 | 1,389,971 | 1,329,771 | Retail lending | 511,962 | 535,139 | 527,854 |
| 3,435,908 | 3,424,776 | 3,535,426 | Loans & advances, gross | 1,361,139 | 1,318,539 | 1,322,825 |
| | | | Islamic Banking | | | |
| 254,553 | 248,558 | 244,338 | Corporate financing | 94,070 | 95,695 | 98,003 |
| 311,265 | 296,449 | 327,418 | Retail financing | 126,056 | 114,133 | 119,837 |
| 565,818 | 545,007 | 571,756 | Financing, gross | 220,126 | 209,828 | 217,840 |
| 4,001,726 | 3,969,783 | 4,107,182 | Loans & advances and financing, gross | 1,581,265 | 1,528,367 | 1,540,665 |
| (34,127) | (34,382) | (34,584) | Loan and financing impairment on portfolio basis | (13,315) | (13,237) | (13,139) |
| (24,608) | (23,722) | (27,275) | Loan and financing impairment on specific basis (including reserve interest and profit) | (10,501) | (9,133) | (9,474) |
| 3,942,991 | 3,911,679 | 4,045,323 | | 1,557,449 | 1,505,997 | 1,518,052 |

**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS
FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2016**

4. LOANS & ADVANCES AND FINANCING ACTIVITIES (continued)

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

Loan and financing impairment on portfolio basis

| Audited 31-Dec-15 US\$ '000 | Unaudited 30-Sep-15 US\$ '000 | Unaudited 30-Sep-16 US\$ '000 | | Unaudited 30-Sep-16 RO '000 | Unaudited 30-Sep-15 RO '000 | Audited 31-Dec-15 RO '000 |
|-----------------------------------|-------------------------------------|-------------------------------------|---|-----------------------------------|-----------------------------------|---------------------------------|
| | | | Impairment loss on portfolio basis | | | |
| | | | Balance at beginning of the | | | |
| 29,106 | 29,106 | 34,127 | period/year | 13,139 | 11,206 | 11,206 |
| 5,021 | 5,275 | 457 | Provided during the period/year | 176 | 2,031 | 1,933 |
| <u>34,127</u> | <u>34,381</u> | <u>34,584</u> | Balance at the end of the period/year | <u>13,315</u> | <u>13,237</u> | <u>13,139</u> |

Loan and financing impairment on specific basis

| | | | Impairment loss of Loan and financing | | | |
|---------------|---------------|----------------------|--|----------------------|--------------|--------------|
| | | | Balance at beginning of the | | | |
| 16,253 | 16,253 | 21,461 | period/year | 8,262 | 6,257 | 6,257 |
| 11,956 | 7,299 | 5,218 | Provided during the period/year | 2,009 | 2,810 | 4,603 |
| (4,652) | (3,595) | (4,091) | Recoveries during the period/year | (1,575) | (1,384) | (1,791) |
| | | | Reversal/(write offs) during the | | | |
| (2,096) | 553 | 704 | period/year | 271 | 213 | (807) |
| <u>21,461</u> | <u>20,510</u> | <u>23,292</u> | Balance at the end of the period | <u>8,967</u> | <u>7,896</u> | <u>8,262</u> |
| | | | Reserved interest and profit | | | |
| | | | Balance at beginning of the | | | |
| 2,152 | 2,152 | 3,147 | period/year | 1,212 | 829 | 829 |
| 2,252 | 1,657 | 1,582 | Reserved during the period/year | 609 | 638 | 867 |
| | | | Interest released during the | | | |
| (951) | (597) | (745) | period/year | (287) | (230) | (366) |
| (306) | - | | - Write offs during the period/year | | - | (118) |
| <u>3,147</u> | <u>3,212</u> | <u>3,984</u> | Balance at end of the period/year | <u>1,534</u> | <u>1,237</u> | <u>1,212</u> |
| <u>24,608</u> | <u>23,722</u> | <u>27,276</u> | | <u>10,501</u> | <u>9,133</u> | <u>9,474</u> |

During the period, an amount of RO 0.033 million equivalent to US\$ 0.085 million (30 September 2015: RO 0.012 million equivalent to US\$ 0.031 million and 31 December 2015: RO 0.005 million equivalent to US\$ 0.012 million) of loans & advances and financing is directly written off in the profit and loss.

5. CUSTOMERS' DEPOSITS

Customers' deposits can be analysed as follows:

| Audited 31-Dec-15 US\$ '000 | Unaudited 30-Sep-15 US\$ '000 | Unaudited 30-Sep-16 US\$ '000 | | Unaudited 30-Sep-16 RO '000 | Unaudited 30-Sep-15 RO '000 | Audited 31-Dec-15 RO '000 |
|-----------------------------------|-------------------------------------|-------------------------------------|----------------------------------|-----------------------------------|-----------------------------------|---------------------------------|
| | | | Conventional Banking | | | |
| 2,156,862 | 2,096,164 | 1,970,177 | Time deposits | 758,518 | 807,023 | 830,392 |
| 820,265 | 979,691 | 785,068 | Demand and saving deposits | 302,251 | 377,181 | 315,802 |
| <u>2,977,127</u> | <u>3,075,855</u> | <u>2,755,245</u> | | <u>1,060,769</u> | <u>1,184,204</u> | <u>1,146,194</u> |
| | | | Islamic Banking | | | |
| 44,740 | 47,083 | 27,935 | Current deposits | 10,755 | 18,127 | 17,225 |
| | | | Unrestricted investment accounts | | | |
| 25,465 | 22,686 | 53,166 | - under mudaraba agreement | 20,469 | 8,734 | 9,804 |
| 331,465 | 295,709 | 373,158 | - under wakala agreement | 143,666 | 113,848 | 127,614 |
| 401,670 | 365,478 | 454,259 | | 174,890 | 140,709 | 154,643 |
| <u>3,378,797</u> | <u>3,441,333</u> | <u>3,209,504</u> | | <u>1,235,659</u> | <u>1,324,913</u> | <u>1,300,837</u> |

**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS
FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2016**

6. RELATED PARTY TRANSACTIONS

The Bank enters into transactions with major shareholders, directors, senior management and their related concerns in the ordinary course of business at commercial interest and commission rates on an arms' length basis.

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

| Audited 31-Dec-15 US\$ '000 | Unaudited 30-Sep-15 US\$ '000 | Unaudited 30-Sep-16 US\$ '000 | Unaudited 30-Sep-16 RO '000 | Unaudited 30-Sep-15 RO '000 | Audited 31-Dec-15 RO '000 |
|--|-------------------------------------|-------------------------------------|-----------------------------------|-----------------------------------|---------------------------------|
| Directors and senior management | | | | | |
| 2,327 | 1,483 | 1,987 | 765 | 571 | 896 |
| 3,119 | 3,423 | 3,738 | 1,439 | 1,318 | 1,201 |
| 52 | 83 | - | - | 32 | 20 |
| - | - | 31 | 12 | - | - |
| Major shareholders and others | | | | | |
| - | 1,382 | - | - | 532 | - |
| 1,979 | 3,083 | 11,634 | 4,479 | 1,187 | 762 |
| 1,236 | 1,273 | 1,205 | 464 | 490 | 476 |
| 16 | 10 | - | - | 4 | 6 |
| - | 195 | 314 | 121 | 75 | - |
| 401,094 | 186,441 | 130,291 | 50,162 | 71,780 | 154,421 |
| 3 | 94 | 29 | 11 | 36 | 1 |
| - | 177 | - | - | - | - |
| 86 | - | 55 | 21 | 68 | - |
| 1,795 | 1,434 | 1,535 | 591 | 552 | 691 |
| 63,722 | 73,821 | 58,135 | 22,382 | 28,421 | 24,533 |

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

| Directors and senior management | | | | | |
|--|-------|--------------|------------|-----|-----|
| 68 | 57 | 39 | 15 | 22 | 26 |
| 57 | 44 | 36 | 14 | 17 | 22 |
| 421 | - | - | - | - | 162 |
| 99 | 34 | 68 | 26 | 13 | 38 |
| 83 | - | 70 | 27 | - | 32 |
| 73 | 42 | 94 | 36 | 16 | 28 |
| Major shareholders and others | | | | | |
| 34 | 23 | - | - | 9 | 13 |
| 2,073 | 1,501 | 1,766 | 680 | 578 | 798 |
| - | - | - | - | - | - |
| 88 | 83 | 5 | 2 | 32 | 34 |
| 177 | 177 | 55 | 21 | 68 | 68 |
| 2,436 | 1,958 | 2,132 | 821 | 754 | 938 |

The Bank has a technical and management services agreement (TMSA) with a major shareholder. In accordance with the agreement, an amount of RO 546 K equivalent to US\$ 1,418 K was included in the operating expenses for the nine month period ended 30 September 2016 (30 September 2015: RO 545 K equivalent to US\$ 1,416 K and 31 December 2015: RO 691 K equivalent to US\$ 1,795 K).

The Bank has rented a branch premises from one of the Director. In accordance with the agreement, an amount of RO 36 K equivalent to US\$ 94 K was included in the other operating expenses (30 September 2015: RO 16 K equivalent to US\$ 41 K and 31 December 2015: RO 28K equivalent to US\$ 73K).

The Bank has a committed line of loans from one of the related parties of RO 38.5 million equivalent to US\$ 100 million (30 September 2015: RO 40 million equivalent to US\$ 103.896 million and 31 December 2015: RO 40 million equivalent to US\$ 103.896 million).

Compensation of the key management personnel for the nine month period ended 30 September 2016 was RO 734 K equivalent to US\$ 1,906 K (30 September 2015: RO 720 K equivalent to US\$ 1,871 K).

**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS
FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2016**

7. SHARE CAPITAL

The authorised share capital of the Bank is 2,500,000,000 shares of 100 baizas each (30 September 2015 and 31 December 2015: 2,500,000,000 shares of 100 baizas each) out of which 1,425,036,144 (30 September 2015 and 31 December 2015: 1,425,036,144 shares) are issued and fully paid up.

Ahli United Bank BSC (AUB) is the only shareholder which owns 10% or more of the Bank's shares. On 30 September 2016 shareholding of AUB was 498,762,642 shares equivalent to 35% (30 September 2015 and 31 December 2015: 498,762,642 shares equivalent to 35%).

8. BASIC AND DILUTED EARNINGS AND NET ASSETS 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-Sep-16 | Unaudited 30-Sep-15 | Audited 31-Dec-15 |
|--|-------------------------------------|--|--|-----------------------------------|---------------------------------|
| 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-15 US\$ '000 | Unaudited 30-Sep-15 US\$ '000 | Unaudited 30-Sep-16 US\$ '000 | Unaudited 30-Sep-16 RO '000 | Unaudited 30-Sep-15 RO '000 | Audited 31-Dec-15 RO '000 |
| 72,021 | 56,548 | 54,638 | 21,036 | 21,771 | 27,727 |
| 590,345 | 574,741 | 609,589 | 234,692 | 221,275 | 227,283 |
| | | | | | |
| | | | | | |
| 5.1 | 4.0 | 3.8 | 14.8 | 15.3 | 19.5 |
| 41.4 | 40.3 | 42.8 | 164.7 | 155.3 | 159.5 |

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.

9. 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 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.

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.

**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS
FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2016**

9. SEGMENT REPORTING (continued)

Segment information for the nine month period ended 30 September 2016 is as follows:

| Total US\$ '000 | Corporate banking, treasury and investments US\$ '000 | Retail banking US\$ '000 | | Retail banking RO '000 | Corporate banking, treasury and investments RO '000 | Total RO '000 |
|--------------------|---|--------------------------------|--------------------------|------------------------------|---|------------------|
| | | | Net interest and finance | | | |
| 85,968 | 51,473 | 34,495 | income | 13,281 | 19,817 | 33,098 |
| 16,457 | 13,888 | 2,569 | Other operating income | 989 | 5,347 | 6,336 |
| 102,425 | 65,361 | 37,064 | Operating income | 14,270 | 25,164 | 39,434 |
| | | | Loan and financing | | | |
| | | | impairment, net of | | | |
| (1,670) | (255) | (1,415) | recoveries | (545) | (98) | (643) |
| (1,434) | (1,434) | - | Impairment of available | - | (552) | (552) |
| (37,189) | (17,460) | (19,729) | for sale investments | - | (552) | (552) |
| 62,132 | 46,212 | 15,920 | Operating expenses | (7,596) | (6,722) | (14,318) |
| (7,494) | (5,582) | (1,912) | Profit before tax | 6,129 | 17,792 | 23,921 |
| 54,638 | 40,630 | 14,008 | Income tax expense | (736) | (2,149) | (2,885) |
| | | | Profit for the period | 5,393 | 15,643 | 21,036 |

Segment information for the nine month period ended 30 September 2015 is as follows:

| Total US\$ '000 | Corporate banking, treasury and investments US\$ '000 | Retail banking US\$ '000 | | Retail banking RO '000 | Corporate banking, treasury and investments RO '000 | Total RO '000 |
|--------------------|---|--------------------------------|--------------------------|------------------------------|---|------------------|
| | | | Net interest and finance | | | |
| 90,382 | 52,091 | 38,291 | income | 14,742 | 20,055 | 34,797 |
| 21,301 | 16,569 | 4,732 | Other operating income | 1,822 | 6,379 | 8,201 |
| 111,683 | 68,660 | 43,023 | Operating income | 16,564 | 26,434 | 42,998 |
| | | | Loan and financing | | | |
| | | | impairment, net of | | | |
| (9,010) | (4,254) | (4,756) | recoveries | (1,831) | (1,638) | (3,469) |
| (1,016) | (1,016) | - | Impairment of available | - | (391) | (391) |
| (39,364) | (20,681) | (18,683) | for sale investments | (7,193) | (7,962) | (15,155) |
| 62,293 | 42,709 | 19,584 | Operating expenses | 7,540 | 16,443 | 23,983 |
| (5,745) | (3,338) | (2,407) | Profit before tax | (927) | (1,285) | (2,212) |
| 56,548 | 39,371 | 17,177 | Income tax expense | 6,613 | 15,158 | 21,771 |
| | | | Profit for the period | | | |

10. CONTINGENT LIABILITIES AND COMMITMENTS

| Audited 31-Dec-15 US\$ '000 | Unaudited 30-Sep-15 US\$ '000 | Unaudited 30-Sep-16 US\$ '000 | | Unaudited 30-Sep-16 RO '000 | Unaudited 30-Sep-15 RO '000 | Audited 31-Dec-15 RO '000 |
|-----------------------------------|-------------------------------------|-------------------------------------|----------------------|-----------------------------------|-----------------------------------|---------------------------------|
| 468,016 | 483,429 | 422,725 | Financial guarantees | 162,749 | 186,120 | 180,186 |
| 78,779 | 56,577 | 86,447 | Letters of credit | 33,282 | 21,782 | 30,330 |
| 6,384 | 5,595 | 6,185 | Capital commitments | 2,381 | 2,154 | 2,458 |
| 179,675 | 135,966 | 104,501 | Loan commitments | 40,233 | 52,347 | 69,175 |
| 1,971 | 1,948 | 1,392 | Lease commitments | 536 | 750 | 759 |
| 734,825 | 683,515 | 621,250 | | 239,181 | 263,153 | 282,908 |

**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS
FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2016**

11. ASSET AND LIABILITY MATURITY

| As at 30 September 2016 | Upto 3 months | Above 3 months to 12 months | Above 1 year to 5 years | More than 5 years | Total |
|--|------------------|-----------------------------|-------------------------|-------------------|--------------------|
| | RO '000 | RO '000 | RO '000 | RO '000 | RO '000 |
| Assets | 690,073 | 139,311 | 251,067 | 806,938 | 1,887,389 |
| Liabilities and equity | (475,766) | (417,372) | (508,395) | (485,856) | (1,887,389) |
| Net liquidity gap | 214,307 | (278,061) | (257,328) | 321,082 | - |
| Net liquidity gap in US \$ '000 | 556,642 | (722,236) | (668,384) | 833,978 | - |

| As at 30 September 2015 | Upto 3 months | Above 3 months to 12 months | Above 1 year to 5 years | More than 5 years | Total |
|--|------------------|-----------------------------|-------------------------|-------------------|--------------------|
| | RO '000 | RO '000 | RO '000 | RO '000 | RO '000 |
| Assets | 800,855 | 111,279 | 235,502 | 776,666 | 1,924,302 |
| Liabilities and equity | (507,454) | (407,931) | (509,423) | (499,494) | (1,924,302) |
| Net liquidity gap | 293,401 | (296,652) | (273,921) | 277,172 | - |
| Net liquidity gap in US \$ '000 | 762,081 | (770,525) | (711,483) | 719,927 | - |

| As at 31 December 2015 | Upto 3 months | Above 3 months to 12 months | Above 1 year to 5 years | More than 5 years | Total |
|--|------------------|-----------------------------|-------------------------|-------------------|--------------------|
| | RO '000 | RO '000 | RO '000 | RO '000 | RO '000 |
| Assets | 745,260 | 122,865 | 242,025 | 788,115 | 1,898,265 |
| Liabilities and equity | (440,084) | (449,809) | (504,961) | (503,411) | (1,898,265) |
| Net liquidity gap | 305,176 | (326,944) | (262,936) | 284,704 | - |
| Net liquidity gap in US \$ '000 | 792,665 | (849,206) | (682,951) | 739,492 | - |