

**Ahli United Bank B.S.C.**

**INTERIM CONDENSED CONSOLIDATED  
FINANCIAL STATEMENTS**

**31 MARCH 2005**



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## **REVIEW REPORT TO THE BOARD OF DIRECTORS OF AHLI UNITED BANK B.S.C.**

We have reviewed the accompanying consolidated balance sheet of Ahli United Bank B.S.C. (Bank) and its subsidiaries (together known as “the Group”) as of 31 March 2005, and the related consolidated statements of income, cash flows and changes in equity for the three month period then ended. These interim condensed consolidated financial statements are the responsibility of the Bank’s Board of Directors. Our responsibility is to issue a report on these interim condensed consolidated financial statements based on our review.

We conducted our review in accordance with the International Standard on Review Engagements 2400. This Standard requires that we plan and perform the review to obtain moderate assurance as to whether the interim condensed consolidated financial statements are free of material misstatement. A review is limited primarily to inquiries of Bank personnel and analytical procedures applied to financial data, and thus provides less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not presented fairly, in all material respects, in accordance with International Accounting Standard 34.

9 May 2005  
Manama, Kingdom of Bahrain

**Ahli United Bank B.S.C.****CONSOLIDATED INCOME STATEMENT**

31 March 2005 (Unaudited)

	<i>Three months ended</i>	
	<i>31 March 2005</i>	<i>31 March 2004</i>
	<i>US\$ '000</i>	<i>US\$ '000</i>
<b>OPERATING INCOME</b>		
Interest income	<b>82,588</b>	57,310
Interest expense	<b>52,788</b>	26,659
Net interest income	<b>29,800</b>	30,651
Fees and commissions	<b>10,836</b>	9,606
Trading income	<b>1,873</b>	3,995
Gains on sale of non-trading investments	<b>1,886</b>	3,054
Share of profit from associates	<b>15,363</b>	7,475
Other operating income	<b>1,001</b>	2,203
	<b>30,959</b>	26,333
<b>NET INTEREST AND OTHER INCOME</b>	<b>60,759</b>	56,984
Provision for loan losses	<b>163</b>	1,781
Provision for impairment of non-trading investments	<b>-</b>	213
	<b>163</b>	1,994
<b>OPERATING INCOME AFTER PROVISIONS</b>	<b>60,596</b>	54,990
<b>OPERATING EXPENSES</b>		
Staff costs	<b>12,391</b>	11,916
Depreciation	<b>1,492</b>	1,508
Other operating expenses	<b>6,014</b>	6,469
	<b>19,897</b>	19,893
<b>PROFIT BEFORE TAXATION</b>	<b>40,699</b>	35,097
Income tax expense	<b>1,846</b>	1,893
<b>NET PROFIT FOR THE PERIOD</b>	<b>38,853</b>	33,204
Basic earnings per ordinary share (US cents) [Note 2]	<b>1.49</b>	1.28
Diluted earnings per ordinary share (US cents) [Note 2]	<b>1.25</b>	1.28

The attached explanatory notes 1 to 7 form part of these interim condensed consolidated financial statements.

# Ahli United Bank B.S.C.

## CONSOLIDATED BALANCE SHEET

31 March 2005 (Unaudited)

	<i>31 March 2005 US\$ '000</i>	<i>Audited 31 December 2004 US\$ '000</i>
<b>ASSETS</b>		
Cash and balances with central banks	61,350	60,653
Deposits with banks and other financial institutions	1,922,582	2,173,056
Loans and advances	3,197,333	2,901,842
Non-trading investments	2,112,662	1,922,587
Investment in associates	858,458	820,170
Premises and equipment	57,248	58,150
Other assets and intangibles	220,734	188,414
	<u>8,430,367</u>	<u>8,124,872</u>
<b>LIABILITIES, SUBORDINATED LIABILITIES AND EQUITY</b>		
<b>LIABILITIES</b>		
Deposits from banks and other financial institutions	2,022,949	1,829,793
Customers' deposits (Note 3)	3,702,766	4,009,084
Certificates of deposits	58,313	116,724
Term debt	807,051	811,718
Other liabilities	305,627	221,941
	<u>6,896,706</u>	<u>6,989,260</u>
SUBORDINATED LIABILITIES (Note 4)	<u>344,782</u>	<u>134,709</u>
<b>EQUITY</b>		
Ordinary share capital	650,000	650,000
Preference share capital (Note 4)	125,000	-
Reserves	413,879	350,903
	<u>1,188,879</u>	<u>1,000,903</u>
	<u>8,430,367</u>	<u>8,124,872</u>

Fahad Al Rajaan  
Chairman  
Board of Directors

Hamad Al-Marzouq  
Deputy Chairman  
Board of Directors

Adel A. El-Labban  
Group Chief Executive Officer  
& Managing Director

The attached explanatory notes 1 to 7 form part of these interim condensed consolidated financial statements.

# Ahli United Bank B.S.C.

## CONSOLIDATED CONDENSED CASH FLOW STATEMENT

31 March 2005 (Unaudited)

	<i>Three months ended</i>	
	<i>31 March 2005</i>	<i>31 March 2004</i>
	<i>US\$ '000</i>	<i>US\$ '000</i>
Net cash (used in) operating activities	<b>(839,684)</b>	(310,336)
Net cash (used in) investing activities	<b>(211,982)</b>	(10,396)
Net cash from financing activities	<b>423,321</b>	22,989
Foreign currency translation adjustments	<b>2,152</b>	(95)
<b>(DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(626,193)</b>	(297,838)
Cash and cash equivalents at 1 January	<b>2,146,149</b>	1,225,420
<b>CASH AND CASH EQUIVALENTS AT 31 MARCH</b>	<b>1,519,956</b>	927,582
<b>Comprising:</b>		
Cash and balances with central banks, excluding mandatory reserve deposits	<b>22,596</b>	21,738
Deposits with banks and other financial institutions - with an original maturity of three months or less	<b>1,497,360</b>	905,844
	<b>1,519,956</b>	927,582

The attached explanatory notes 1 to 7 form part of these interim condensed consolidated financial statements.

Ahli United Bank B.S.C.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

31 March 2005 (Unaudited)

	Ordinary share capital US\$ '000	Preference share capital US\$ '000	Share premium US\$ '000	Capital reserve US\$ '000	Statutory reserve US\$ '000	Translation reserve US\$ '000	Retained earnings US\$ '000	Proposed appropriations US\$ '000	Cumulative changes in fair values US\$ '000	Total US\$ '000
Balance at 31 December 2004 (as previously stated)	650,000	-	123,752	307	34,185	(7,258)	54,171	70,666	74,272	1,000,095
Adjustment arising on application of IAS 39 (revised) (Note 1)	-	-	-	-	-	-	3,620	-	(2,812)	808
Balance at 31 December 2004 (restated)	650,000	-	123,752	307	34,185	(7,258)	57,791	70,666	71,460	1,000,903
Currency translation adjustments	-	-	-	-	-	2,152	-	-	-	2,152
Net fair value movements during the period	-	-	-	-	-	-	-	-	(278)	(278)
Net income recognised directly in equity	-	-	-	-	-	2,152	-	-	(278)	1,874
Net profit for the period	-	-	-	-	-	-	38,853	-	-	38,853
Total recognised income and expense for the period	-	-	-	-	-	2,152	38,853	-	(278)	40,727
Class A Preference Shares issued (Note 4)	-	125,000	92,915	-	-	-	-	-	-	217,915
Dividend declared	-	-	-	-	-	-	-	(70,200)	-	(70,200)
Directors' fees approved	-	-	-	-	-	-	-	(466)	-	(466)
<b>Balance at 31 March 2005</b>	<b>650,000</b>	<b>125,000</b>	<b>216,667</b>	<b>307</b>	<b>34,185</b>	<b>(5,106)</b>	<b>96,644</b>	<b>-</b>	<b>71,182</b>	<b>1,188,879</b>

The attached explanatory notes 1 to 7 form part of these interim condensed consolidated financial statements.

Ahli United Bank B.S.C.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

31 March 2005 (Unaudited)

	Ordinary share capital US\$ '000	Preference share capital US\$ '000	Share premium US\$ '000	Capital reserve US\$ '000	Statutory reserve US\$ '000	Translation reserve US\$ '000	Retained earnings US\$ '000	Proposed appropriations US\$ '000	Cumulative changes in fair values US\$ '000	Total US\$ '000
Balance at 31 December 2003 (as previously stated)	650,000	-	123,752	307	23,530	(7,226)	28,512	62,746	54,524	936,145
Adjustment arising on application of IAS 39 (revised) (Note 1)	-	-	-	-	-	-	4,058	-	(4,067)	(9)
Balance at 31 December 2003 (restated)	650,000	-	123,752	307	23,530	(7,226)	32,570	62,746	50,457	936,136
Currency translation adjustments	-	-	-	-	-	(95)	-	-	-	(95)
Net fair value movements during the period	-	-	-	-	-	-	-	-	6,678	6,678
Net income recognised directly in equity	-	-	-	-	-	(95)	-	-	6,678	6,583
Net profit for the period	-	-	-	-	-	-	33,204	-	-	33,204
Total recognised income and expense for the period	-	-	-	-	-	(95)	33,204	-	6,678	39,787
Dividend	-	-	-	-	-	-	-	(62,400)	-	(62,400)
Directors' fees	-	-	-	-	-	-	-	(346)	-	(346)
Balance at 31 March 2004	650,000	-	123,752	307	23,530	(7,321)	65,774	-	57,135	913,177

The attached explanatory notes 1 to 7 form part of these interim condensed consolidated financial statements.

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NOTES TO THE INTERIM CONDENSED  
CONSOLIDATED FINANCIAL STATEMENTS  
31 March 2005 (Unaudited)

**1 ACCOUNTING POLICIES**

The interim condensed consolidated financial statements of Ahli United Bank B.S.C. (“the Bank”) and its subsidiaries (together known as “the Group”) are prepared in accordance with International Accounting Standard 34, *Interim Financial Reporting*. The accounting policies used in the preparation of the interim condensed consolidated financial statements are consistent with those used in the preparation of the annual consolidated financial statements for the year ended 31 December 2004, with the exception of the following policies which have been revised due to the adoption of International Financial Reporting Standards becoming mandatory for financial years beginning on or after 1 January 2005. In 2004, the International Accounting Standards Board issued International Accounting Standard 39, *Financial Instruments: Recognition and Measurement* (IAS 39) replacing the earlier version of IAS 39, *Financial Instruments: Recognition and Measurement (revised in 2000)*. The new Standard revised a number of requirements of the old version with respect to recognition and measurement of financial instruments and is effective for annual periods beginning on or after 1 January 2005. The principal effects of the changes are stated below:

***Non-trading investments***

***Investments originated by the Group***

Investments in certain debt securities where the Group provided funds directly to the issuer were previously classified as “originated by the Group” and stated at amortised cost, adjusted for effective [fair value] hedges, less provision for impairment. In accordance with the revised IAS 39 where these are quoted in an active market they have been retrospectively reclassified with effect from 1 January 2004 as either held-to-maturity investments or available-for-sale investments as appropriate. The impact of this was to increase the carrying value of such investments now classified as “available-for-sale investments” by US\$808 thousand at 1 January 2005 and to decrease the carrying value of such investments by US\$9 thousand at 1 January 2004, with a corresponding effect in “cumulative changes in fair values”.

***Impairment of available-for-sale investments***

In the case of available-for-sale equity investments reversal of previously recognized impairment losses are no longer recorded through the consolidated income statement but as increase in cumulative changes in fair value. There was no impact on the consolidated income statement for the comparative three month period ended 31 March 2004 as there were no such reversals during this period.

***Transition adjustment***

In accordance with the revised IAS 39, the balance of the unrecycled adjustment to retained earnings relating to fair values of available-for-sale investments, arising on the adoption of IAS 39, has been reclassified from retained earnings to “cumulative changes in fair value”.

***Derecognition of financial assets***

With effect from 1 January 2005 a financial asset (in whole or in part) is derecognised either (i) when the Group has transferred substantially all the risks and rewards of ownership or (ii) when it has neither transferred nor retained substantially all the risks and rewards and when it no longer has control over the asset or a proportion of the asset.



## Ahli United Bank B.S.C.

### NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

31 March 2005 (Unaudited)

#### 2 EARNINGS PER ORDINARY SHARE

	<i>Three months ended</i>	
	<i>31 March 2005</i>	<i>31 March 2004</i>
Net profit for the period (US\$'000)	<b>38,853</b>	33,204
Weighted average ordinary shares outstanding during the period (million)	<b>2,600</b>	2,600
Weighted average ordinary shares adjusted for dilutive effect of the convertible portion of Class A Preference shares (million)	<b>3,100</b>	2,600
Basic earnings per ordinary share (US cents)	<b>1.49</b>	1.28
Diluted earnings per ordinary share (US cents)	<b>1.25</b>	1.28

#### 3 CUSTOMERS' DEPOSITS

Customers' deposits at 31 December 2004 included subscription monies of US\$465 million received towards the Bank's pre-emptive rights preference share issue which was finalised during the current quarter. Consequently, issue proceeds (Note 4) has been transferred to subordinated liabilities and equity.

#### 4 PREFERENCE SHARE CAPITAL

Effective 1 January 2005, the Bank raised net proceeds of US\$443 million by issuing 1,000 million Class A preference shares, of par value US\$0.25 each at an issue price of US\$0.451 per share. 50% of the Class A preference shares that are redeemable at par value of US\$0.45 each are included in subordinated liabilities. The remaining 50% portion, that is mandatorily convertible on 1 January 2008 into 500 million new ordinary shares (adjusted for any bonus share issues), is included in equity.

#### 5 SEASONALITY OF RESULTS

Dividend income of US\$512,000 for the quarter ended 31 March 2005 (2004: US\$710,000), included in other operating income, is of a seasonal nature. Fees and commission income for the quarter ended 31 March 2004 include commission income of US\$1,597,000 thousand relating to prior periods negotiated in that quarter.

#### 6 CONTINGENT LIABILITIES

The Group had the following credit related contingent liabilities at the balance sheet date:

	<i>31 March</i>	<i>Audited</i>
	<i>2005</i>	<i>31 December</i>
	<i>US\$ '000</i>	<i>US\$ '000</i>
Guarantees	<b>377,401</b>	335,425
Acceptances	<b>7,798</b>	10,724
Letters of credit	<b>43,514</b>	35,928
	<b>428,713</b>	382,077

There have been no other significant changes in the contingent liabilities subsequent to 31 December 2004.

NOTES TO THE INTERIM CONDENSED  
CONSOLIDATED FINANCIAL STATEMENTS

31 March 2005 (Unaudited)

7 SEGMENT INFORMATION

**Primary segment information**

For management purposes the Group is organised into three major business segments:

- Retail banking
- Corporate banking, treasury and investments
- Private banking and wealth management

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

Segmental information for the period was as follows:

	<i>Retail banking US\$ '000</i>	<i>Corporate banking, treasury and investments US\$ '000</i>	<i>Private banking and wealth management US\$ '000</i>	<i>Total US\$ '000</i>
<b>Three months ended 31 March 2005:</b>				
Operating income before provisions	<u>14,039</u>	<u>41,143</u>	<u>5,577</u>	<u>60,759</u>
Segment result	<u>8,411</u>	<u>30,813</u>	<u>1,838</u>	<u>41,062</u>
Unallocated costs				(200)
Provisions – net				(163)
Taxation				<u>(1,846)</u>
Net profit				<u>38,853</u>
<b>Three months ended 31 March 2004:</b>				
Operating income before provisions	<u>13,692</u>	<u>35,839</u>	<u>7,453</u>	<u>56,984</u>
Segment result	<u>8,172</u>	<u>25,757</u>	<u>4,053</u>	<u>37,982</u>
Unallocated costs				(891)
Provisions – net				(1,994)
Taxation				<u>(1,893)</u>
Net profit				<u>33,204</u>