

Ahli United Bank B.S.C.

**INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS**

30 SEPTEMBER 2004

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 (Group) as of 30 September 2004, and the related consolidated statements of income, cash flows and changes in equity for the nine 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's 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.



18 October 2004
Manama, Kingdom of Bahrain

Ahli United Bank B.S.C.

CONSOLIDATED BALANCE SHEET

30 September 2004 (Unaudited)

	<i>30 September</i> 2004 US\$ '000	<i>Audited</i> 31 December 2003 US\$ '000
ASSETS		
Cash and balances with central banks	61,180	60,304
Trading securities	-	19,553
Deposits with banks and other financial institutions	1,508,323	1,259,684
Loans and advances	2,664,656	2,506,945
Non-trading investments	1,770,034	1,721,373
Investment in associates (Note 4)	778,693	501,527
Premises and equipment	58,297	54,958
Other assets and intangibles	154,541	145,722
	<u>6,995,724</u>	<u>6,270,066</u>
LIABILITIES, SUBORDINATED LIABILITIES AND EQUITY		
LIABILITIES		
Due to banks and other financial institutions	1,831,341	1,674,068
Customers' deposits	3,140,765	2,807,183
Certificates of deposits	117,958	111,949
Floating rate notes and other term debt (Note 5)	646,250	414,242
Other liabilities	149,759	197,013
	<u>5,886,073</u>	<u>5,204,455</u>
SUBORDINATED LIABILITIES	<u>130,374</u>	<u>129,466</u>
EQUITY		
Share capital	650,000	650,000
Reserves	329,277	286,145
	<u>979,277</u>	<u>936,145</u>
	<u>6,995,724</u>	<u>6,270,066</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 8 form part of these interim condensed consolidated financial statements.

Ahli United Bank B.S.C.

CONSOLIDATED INCOME STATEMENT

30 September 2004 (Unaudited)

	<u>3 months ended</u>		<u>9 months ended</u>	
	<u>30 September</u>	<u>30 September</u>	<u>30 September</u>	<u>30 September</u>
	2004	2003	2004	2003
	US\$ '000	US\$ '000	US\$ '000	US\$ '000
OPERATING INCOME				
Interest income	62,198	53,283	178,420	161,101
Interest expense	33,021	24,687	87,074	78,662
Net interest income	<u>29,177</u>	<u>28,596</u>	<u>91,346</u>	<u>82,439</u>
Fees and commission – net	7,804	6,562	29,569	22,245
Trading income	3,090	2,077	9,262	3,772
Gains on sale of non-trading investments	3,557	765	9,797	10,000
Share of profit from associates	11,118	6,172	26,494	17,166
Other operating income	1,961	2,054	5,170	12,714
	<u>27,530</u>	<u>17,630</u>	<u>80,292</u>	<u>65,897</u>
NET INTEREST AND OTHER INCOME	<u>56,707</u>	<u>46,226</u>	<u>171,638</u>	<u>148,336</u>
Provision for loan losses – net	10,940	3,819	26,107	12,431
Provision for impairment of non-trading investments	(5)	1,036	2,695	6,353
	<u>10,935</u>	<u>4,855</u>	<u>28,802</u>	<u>18,784</u>
OPERATING INCOME AFTER PROVISIONS	<u>45,772</u>	<u>41,371</u>	<u>142,836</u>	<u>129,552</u>
OPERATING EXPENSES				
Staff expenses	11,693	10,297	35,610	31,048
Depreciation and amortisation	1,728	1,451	6,006	4,323
Other operating expenses	7,532	6,425	20,869	18,098
	<u>20,953</u>	<u>18,173</u>	<u>62,485</u>	<u>53,469</u>
PROFIT BEFORE TAXATION	<u>24,819</u>	<u>23,198</u>	<u>80,351</u>	<u>76,083</u>
Income tax credit (expense) [Note 6]	(2,634)	(1,686)	4,681	(5,144)
NET PROFIT FOR THE PERIOD	<u>22,185</u>	<u>21,512</u>	<u>85,032</u>	<u>70,939</u>
Basic earnings per share (cents)	<u>0.85</u>	<u>0.83</u>	<u>3.27</u>	<u>2.73</u>
Weighted average number of shares outstanding (in millions)	<u>2,600</u>	<u>2,600</u>	<u>2,600</u>	<u>2,600</u>

The attached explanatory notes 1 to 8 form part of these interim condensed consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

30 September 2004 (Unaudited)

	<i>Nine months ended</i>	
	<i>30 September 2004 US\$ '000</i>	<i>30 September 2003 US\$ '000</i>
Net cash from operating activities	273,168	320,748
Net cash (used in) investing activities	(280,125)	(204,138)
Net cash from (used in) financing activities	170,516	(165,872)
Foreign currency translation adjustments	(32)	-
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	163,527	(49,262)
Cash and cash equivalents at 1 January	1,225,420	824,538
CASH AND CASH EQUIVALENTS AT 30 SEPTEMBER	1,388,947	775,276
Comprising:		
Cash and balances with central banks	26,247	21,053
Deposits with banks and other financial institutions maturing within three months	1,362,700	754,223
	1,388,947	775,276

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

30 September 2004 (Unaudited)

	Share capital US\$ '000	Share premium US\$ '000	Capital reserve US\$ '000	Statutory reserve US\$ '000	Foreign currency translation adjustments 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	650,000	123,752	307	23,530	(7,226)	28,512	62,746	54,524	936,145
Dividends paid	-	-	-	-	-	-	(62,400)	-	(62,400)
Directors' fees paid	-	-	-	-	-	-	(346)	-	(346)
Net profit for the period	-	-	-	-	-	85,032	-	-	85,032
Currency translation adjustments	-	-	-	-	(32)	-	-	-	(32)
Net loss on sale of available-for-sale investments (previously included in retained earnings on adoption of IAS 39)	-	-	-	-	-	265	-	-	265
Net fair value movements during the period	-	-	-	-	-	-	-	20,613	20,613
Balance at 30 September 2004	650,000	123,752	307	23,530	(7,258)	113,809	-	75,137	979,277
Balance at 31 December 2002	650,000	123,752	307	14,822	(11,514)	13,858	41,871	(2,481)	830,615
Dividends paid	-	-	-	-	-	-	(41,553)	-	(41,553)
Directors' fees paid	-	-	-	-	-	-	(318)	-	(318)
Net profit for the period	-	-	-	-	-	70,939	-	-	70,939
Net gain on sale of available-for-sale investments (previously included in retained earnings on adoption of IAS 39)	-	-	-	-	-	(968)	-	-	(968)
Net fair value movements during the period	-	-	-	-	-	-	-	31,861	31,861
Balance at 30 September 2003	650,000	123,752	307	14,822	(11,514)	83,829	-	29,380	890,576

The attached explanatory notes 1 to 8 form part of these interim condensed consolidated financial statements.

NOTES TO THE INTERIM CONDENSED
CONSOLIDATED FINANCIAL STATEMENTS

30 September 2004 (Unaudited)

1 ACCOUNTING POLICIES

The interim condensed consolidated financial statements of Ahli United Bank B.S.C. (the Bank) and its subsidiaries (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 2003.

2 CONTINGENT LIABILITIES

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

	<i>30 September</i> <i>2004</i> <i>US\$ '000</i>	<i>Audited</i> <i>31 December</i> <i>2003</i> <i>US\$ '000</i>
Guarantees	328,263	313,804
Acceptances	8,411	7,465
Letters of credit	32,641	51,252
	<u>369,315</u>	<u>372,521</u>

There have been no other significant changes in the contingent liabilities subsequent to 31 December 2003.

3 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.

NOTES TO THE INTERIM CONDENSED
CONSOLIDATED FINANCIAL STATEMENTS

30 September 2004 (Unaudited)

3 SEGMENT INFORMATION (continued)

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>
Nine months ended 30 September 2004				
Operating income before provisions	<u>42,561</u>	<u>109,186</u>	<u>19,891</u>	<u>171,638</u>
Segment result	<u>25,510</u>	<u>51,409</u>	<u>8,889</u>	<u>85,808</u>
Share of profit from associates				26,494
Unallocated costs				(3,149)
Provisions – net				(28,802)
Tax credit -net				4,681
Net profit				<u><u>85,032</u></u>
Nine months ended 30 September 2003				
Operating income before provisions	<u>36,703</u>	<u>98,166</u>	<u>13,467</u>	<u>148,336</u>
Segment result	<u>22,359</u>	<u>51,784</u>	<u>4,373</u>	78,516
Share of profit from associates				17,166
Unallocated costs				(815)
Provisions - net				(18,784)
Tax expense				(5,144)
Net profit				<u><u>70,939</u></u>

4 INVESTMENT IN ASSOCIATES

During the period ended 30 September 2004, the Bank completed its acquisition of a 40% stake in Ahli Bank Q.S.C. [formerly known as Al-Ahli Bank of Qatar Q.S.C.], a commercial bank incorporated in the State of Qatar, through 100% participation in the latter's capital increase. The Bank has also signed a ten-year (renewable) technical services agreement to provide technical and management services to Ahli Bank Q.S.C.

During the same period, the Bank entered into a joint venture with Bank Melli Iran and Bank Saderat Iran and formed Future Bank B.S.C. (c), a joint venture commercial bank in the Kingdom of Bahrain with the Bank having a one-third shareholding.

5 TERM DEPOSIT

During the quarter ended 30 September 2004, the Bank raised a three-year syndicated medium term deposit facility totaling to USD 225 million through a consortium of international banks. The deposit is unsecured and carries a six-monthly floating rate of interest.

NOTES TO THE INTERIM CONDENSED
CONSOLIDATED FINANCIAL STATEMENTS

30 September 2004 (Unaudited)

6 INCOME TAX CREDIT (EXPENSE)

During 2004 tax assessments relating to a subsidiary for certain prior years were concluded with the U.K. Inland Revenue. This permitted a release of USD 8.2 million in provisions no longer required.

7 POST BALANCE SHEET EVENT

At the Bank's EGM held on 5 October 2004, the shareholders authorised the Board of Directors to make a pre-emptive rights share offer of 600 million (increasable to 1,000 million) Non-cumulative Partly Convertible Preference Shares of USD 0.25 nominal value each at a price of USD 0.45. Under the terms of the offer, 50% of the preference shares are mandatorily convertible on 1 January 2008 into ordinary shares at a price of USD 0.45 per share resulting in the issuance of 300 million (increasable up to 500 million) new ordinary shares, adjusted for any bonus share issues. The remaining 50% of the preference shares are redeemable in cash on 1 January 2015, or at an earlier date at the Bank's option after 1 January 2010 subject to 3 months prior notice.

8 COMPARATIVES

Certain of the prior period amounts have been reclassified to conform to the presentation in the current period. Such reclassifications do not affect previously reported net profit or shareholders' equity.