

Ahli United Bank B.S.C.
INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS
31 MARCH 2017



Ernst & Young
P.O. Box 140
10th Floor, East Tower
Bahrain World Trade Center
Manama
Kingdom of Bahrain

Tel: +973 1753 5455
Fax: +973 1753 5405
manama@bh.ey.com
ey.com/mena
C.R. No. 6700 / 29977

REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS TO THE BOARD OF DIRECTORS OF AHLI UNITED BANK B.S.C.

Introduction

We have reviewed the accompanying interim condensed consolidated financial statements of Ahli United Bank B.S.C. (the "Bank") and its subsidiaries (the "Group") as at 31 March 2017, comprising of the interim consolidated balance sheet as at 31 March 2017 and the related interim consolidated statements of income, comprehensive income, changes in equity and condensed cash flows for the three-month period then ended and explanatory notes. The Bank's Board of Directors is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Accounting Standard IAS 34 Interim Financial Reporting ("IAS 34"). Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

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 prepared, in all material respects, in accordance with IAS 34.

2 May 2017
Manama, Kingdom of Bahrain

Ahli United Bank B.S.C.

INTERIM CONSOLIDATED STATEMENT OF INCOME

Three months ended 31 March 2017 (Reviewed)

	Note	Three months ended	
		31 March	
		2017	2016
		USD'000	USD'000
Interest income		317,263	316,704
Interest expense		113,144	115,420
Net interest income		204,119	201,284
Fees, commissions and others		37,128	36,369
Trading income		7,715	15,252
Investment income	3	24,267	25,803
Fees and other income		69,110	77,424
OPERATING INCOME		273,229	278,708
Net provision for loan losses and others		12,218	2,554
Provision for investments		-	5,500
NET OPERATING INCOME		261,011	270,654
Staff costs		45,655	48,290
Depreciation		4,596	6,040
Other operating expenses		24,242	22,810
OPERATING EXPENSES		74,493	77,140
PROFIT BEFORE TAX		186,518	193,514
Tax expense		11,346	19,158
NET PROFIT FOR THE PERIOD		175,172	174,356
Net profit attributable to non-controlling interest		15,747	19,751
NET PROFIT ATTRIBUTABLE TO THE OWNERS OF THE BANK		159,425	154,605
EARNINGS PER SHARE ATTRIBUTABLE TO THE OWNERS OF THE BANK FOR THE PERIOD			
Basic & diluted earnings per ordinary share (US cents)	4	2.1	2.1

Hamad M. Al-Humaidhi
Chairman

Mohammad J. Al-Marzoq
Deputy Chairman

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

The attached notes 1 to 9 form part of these interim condensed consolidated financial statements

Ahli United Bank B.S.C.

INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Three months ended 31 March 2017 (Reviewed)

	<i>Three months ended</i>	
	<i>31 March</i>	
	<i>2017</i>	<i>2016</i>
	<i>USD'000</i>	<i>USD'000</i>
Net profit for the period	175,172	174,356
Other comprehensive income (OCI)		
Items that will not be reclassified to consolidated statement of income		
Net change in fair value of financial assets measured at fair value through OCI	350	(2,701)
Net change in pension fund reserve	2,938	(4,398)
Net change in property revaluation reserve	(269)	-
Items that may be reclassified subsequently to consolidated statement of income		
Foreign currency translation adjustments	10,355	(62,156)
Net change in fair value of cash flow hedges	(652)	(13,200)
Other comprehensive income for the period	12,722	(82,455)
Total comprehensive income for the period	187,894	91,901
Total comprehensive income attributable to non-controlling interest	18,185	12,042
Total comprehensive income attributable to owners of the Bank	169,709	79,859

Ahli United Bank B.S.C.

INTERIM CONSOLIDATED BALANCE SHEET

31 March 2017 (Reviewed)

	<i>(Audited)</i>
	<i>31 March</i>
	<i>31 December</i>
	<i>2017</i>
	<i>2016</i>
	<i>US\$ '000</i>
	<i>US\$ '000</i>
ASSETS	
Cash and balances with central banks	840,314
Treasury bills and deposits with central banks	2,457,356
Deposits with banks	1,961,086
Loans and advances	18,880,997
Non-trading investments	5,468,506
Investment in associates	318,207
Investment properties	132,058
Premises and equipment	213,463
Interest receivable and other assets	721,923
Goodwill and other intangible assets	476,145
TOTAL ASSETS	31,470,055
LIABILITIES AND EQUITY	
LIABILITIES	
Deposits from banks	3,603,186
Borrowings under repurchase agreements	686,659
Customers' deposits	21,335,739
Interest payable and other liabilities	1,192,624
Subordinated liabilities	237,054
TOTAL LIABILITIES	27,055,262
EQUITY	
Ordinary share capital	1,889,213
Treasury shares	(11,497)
Reserves	1,495,631
Equity attributable to the owners	3,373,347
Perpetual Tier 1 Capital Securities	600,000
Non-controlling interest	441,446
TOTAL EQUITY	4,414,793
TOTAL LIABILITIES AND EQUITY	31,470,055

Hamad M. Al-Humaidhi
Chairman

Mohammad J. Al-Marzoq
Deputy Chairman

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

The attached notes 1 to 9 form part of these interim condensed consolidated financial statements

Ahli United Bank B.S.C.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

Three months ended 31 March 2017 (Reviewed)

	<i>Three months ended</i>	
	<i>31 March</i>	
	<i>2017</i>	<i>2016</i>
	<i>US\$ '000</i>	<i>US\$ '000</i>
Net cash (used in) from operating activities	(43,219)	107,549
Net cash from (used in) investing activities	126,361	(216,512)
Net cash from (used in) financing activities	12,588	(16,214)
Net foreign exchange difference	8,949	(11,982)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	104,679	(137,159)
Cash and cash equivalents at 1 January	2,309,113	3,940,640
CASH AND CASH EQUIVALENTS AT 31 MARCH	2,413,792	3,803,481
Comprising:		
Cash and balances with central banks, excluding mandatory reserve deposits	653,736	1,201,689
Deposits with banks with an original maturity of three months or less	1,760,056	2,601,792
	2,413,792	3,803,481

The attached notes 1 to 9 form part of these interim condensed consolidated financial statements

Ahli United Bank B.S.C.

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Three months ended 31 March 2017 (Reviewed)

	<i>Attributable to the owners</i>										
	Reserves										
	<i>Ordinary share capital</i>	<i>Treasury shares</i>	<i>Share premium</i>	<i>Statutory reserve</i>	<i>Retained earnings</i>	<i>Proposed appropriations</i>	<i>Other reserves (note 7)</i>	<i>Total reserves</i>	<i>Perpetual Tier 1 Capital Securities</i>	<i>Non-controlling interest</i>	<i>Total</i>
<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	
Balance at 31 December 2016	1,711,322	(11,497)	747,583	454,856	791,395	310,144	(502,976)	1,801,002	600,000	438,675	4,539,502
Donations	-	-	-	-	-	(1,000)	-	(1,000)	-	-	(1,000)
Bonus shares issued	171,747	-	-	-	(171,747)	-	-	(171,747)	-	-	-
Additional shares issued	6,144	-	6,373	-	-	-	-	6,373	-	-	12,517
Transfer from OCI reserve	-	-	-	-	(950)	-	-	(950)	-	-	(950)
Ordinary share dividend paid	-	-	-	-	733	(309,144)	-	(308,411)	-	-	(308,411)
Dividends of subsidiary	-	-	-	-	-	-	-	-	-	(15,414)	(15,414)
Fair value amortisation of share based transactions	-	-	-	-	-	-	655	655	-	-	655
Total comprehensive income for the period	-	-	-	-	159,425	-	10,284	169,709	-	18,185	187,894
Balance at 31 March 2017	1,889,213	(11,497)	753,956	454,856	778,856	-	(492,037)	1,495,631	600,000	441,446	4,414,793

The attached notes 1 to 9 form part of these interim condensed consolidated financial statements

Ahli United Bank B.S.C.

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Three months ended 31 March 2017 (Reviewed)

	Attributable to the owners										
	Reserves										
	Ordinary share capital US\$ '000	Treasury shares US\$ '000	Share premium US\$ '000	Statutory reserve US\$ '000	Retained earnings US\$ '000	Proposed appropriations US\$ '000	Other reserves (note 7) US\$ '000	Total reserves US\$ '000	Tier 1 Securities US\$ '000	Non-controlling interest US\$ '000	Total US\$ '000
Balance at 31 December 2015	1,623,030	(7,309)	739,781	397,792	694,312	294,099	(223,968)	1,902,016	400,000	442,477	4,360,214
Donations	-	-	-	-	-	(1,000)	-	(1,000)	-	-	(1,000)
Bonus shares issued	81,417	-	-	-	(81,417)	-	-	(81,417)	-	-	-
Additional shares issued	5,300	-	5,724	-	-	-	-	5,724	-	-	11,024
Purchase of treasury shares	-	(4,188)	-	-	-	-	-	-	-	-	(4,188)
Ordinary share dividend paid	-	-	-	-	698	(293,099)	-	(292,401)	-	-	(292,401)
Dividends of subsidiary	-	-	-	-	-	-	-	-	-	(5,892)	(5,892)
Fair value amortisation of share based transactions	-	-	-	-	-	-	1,036	1,036	-	-	1,036
Total comprehensive income for the period	-	-	-	-	154,605	-	(74,746)	79,859	-	12,042	91,901
Balance at 31 March 2016	1,709,747	(11,497)	745,505	397,792	768,198	-	(297,678)	1,613,817	400,000	448,627	4,160,694

The attached notes 1 to 9 form part of these interim condensed consolidated financial statements

1 CORPORATE INFORMATION

The parent company, Ahli United Bank B.S.C. ("AUB" or "the Bank") was incorporated in the Kingdom of Bahrain on 31 May 2000 originally as a closed company and changed on 12 July 2000 to a public shareholding company by Amiri Decree number 16/2000. The Bank and its subsidiaries (collectively known as "the Group") are engaged in retail, commercial, islamic and investment banking business, global fund management, private banking services and life insurance business through 110 branches, as at 31 March 2017, in the Kingdom of Bahrain (22 branches), the State of Kuwait (38 branches), the Arab Republic of Egypt (37 branches), Republic of Iraq (11 branches), Dubai International Financial Centre (Authorised Firm) and the United Kingdom (1 branch). It also operates through its managed associates in the Sultanate of Oman (20 branches) and Libya (11 branches) with a total network of 31 branches as at 31 March 2017. The Bank operates under a retail banking license issued by the Central Bank of Bahrain. The Bank's registered office is located at Building 2495, Road 2832, Al Seef District 428, Kingdom of Bahrain.

The interim condensed consolidated financial statements of the Group for the three-month period ended 31 March 2017 were authorised for issue in accordance with a resolution of the Directors dated 2 May 2017.

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES

The interim condensed consolidated financial statements of the Bank and the Group are prepared in accordance with International Accounting Standard IAS 34, Interim Financial Reporting ("IAS 34").

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 2016, except for the adoption of the amendments and annual improvements to International Financial Reporting Standards (IFRSs), relevant to the Group which are effective for annual reporting period starting from 1 January 2017 and did not result in any material impact on the accounting policies, financial position or performance of the Group.

3 OTHER OPERATING INCOME

Other operating income includes income amounting to US\$ 5,001 thousand for the three months ended 31 March 2017 (31 March 2016: US\$ 6,176 thousand) which is of a seasonal nature.

4 EARNINGS PER ORDINARY SHARE

	<i>Three months ended 31 March</i>	
	<i>2017</i>	<i>2016</i>
Net profit for the period attributable to Bank's ordinary equity shareholders for basic and diluted earnings per share computation (US\$ '000)	159,425	154,605
Weighted average ordinary shares outstanding during the period adjusted for bonus shares (in million)	7,523	7,499
Basic & diluted earnings per ordinary share (US cents)	2.1	2.1
Issued and fully paid ordinary shares of US\$ 0.25 each (in million)	7,556.9	6,839.0
Number of treasury shares (in million)	17.9	16.3

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL

31 March 2017 (Reviewed)

5 CONTINGENT LIABILITIES

The Group had the following credit related contingent liabilities:

	<i>(Audited)</i>	
	<i>31 March</i>	<i>31 December</i>
	<i>2017</i>	<i>2016</i>
	<i>US\$ '000</i>	<i>US\$ '000</i>
Guarantees	2,532,735	2,443,017
Acceptances	143,718	132,119
Letters of credit	597,458	534,461
	<u>3,273,911</u>	<u>3,109,597</u>

6 SEGMENT INFORMATION

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

- Retail banking
- Corporate banking
- Treasury and investments
- Private banking

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</i>	<i>Corporate banking</i>	<i>Treasury & investments</i>	<i>Private banking</i>	<i>Total</i>
	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>
Three months ended 31 March 2017:					
Net interest income	11,680	143,642	36,138	12,659	204,119
Inter segment Interest	32,388	(44,610)	8,325	3,897	-
Fees, commissions and others	8,257	19,392	3,828	5,651	37,128
Trading and investment income	361	2,240	29,381	-	31,982
OPERATING INCOME	<u>52,686</u>	<u>120,664</u>	<u>77,672</u>	<u>22,207</u>	<u>273,229</u>
Net impairment provisions	1,717	9,963	248	290	12,218
NET OPERATING INCOME	<u>50,969</u>	<u>110,701</u>	<u>77,424</u>	<u>21,917</u>	<u>261,011</u>
Operating expenses	24,405	18,802	24,020	7,266	74,493
PROFIT BEFORE TAX	<u>26,564</u>	<u>91,899</u>	<u>53,404</u>	<u>14,651</u>	<u>186,518</u>
Tax expense					11,346
NET PROFIT FOR THE PERIOD					<u>175,172</u>
Less : Non - controlling interest					15,747
NET PROFIT ATTRIBUTABLE TO THE OWNERS OF THE BANK					<u>159,425</u>

6 SEGMENT INFORMATION (Continued)

	<i>Retail banking</i>	<i>Corporate banking</i>	<i>Treasury & investments</i>	<i>Private banking</i>	<i>Total</i>
	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>
Three months ended 31 March 2016:					
Net interest income	3,778	139,835	44,773	12,898	201,284
Inter segment Interest	41,042	(42,025)	(982)	1,965	-
Fees, commissions and others	9,717	18,005	3,091	5,556	36,369
Trading and investment income	1,656	3,276	36,123	-	41,055
OPERATING INCOME	56,193	119,091	83,005	20,419	278,708
Net impairment provisions/(recovery)	2,525	256	5,500	(227)	8,054
NET OPERATING INCOME	53,668	118,835	77,505	20,646	270,654
Operating expenses	26,164	17,966	25,032	7,978	77,140
PROFIT BEFORE TAX	27,504	100,869	52,473	12,668	193,514
Tax expense					19,158
NET PROFIT FOR THE PERIOD					174,356
Less : Non-controlling interest					19,751
NET PROFIT ATTRIBUTABLE TO THE OWNERS OF THE BANK					154,605

31 March 2017 (Reviewed)

7 MOVEMENT IN OTHER RESERVES

	Capital reserve	Property revaluation reserve	Foreign exchange translation reserve	Cumulative changes in			Total other reserves	
				OCI reserve	Cash flow hedge reserve	ESPP reserve		Pension fund reserve
	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	
Balance at 31 December 2016	8,480	36,256	(455,168)	(11,019)	(23,783)	-	(57,742)	(502,976)
Currency translation adjustments	-	-	7,914	-	-	-	-	7,914
Transfers to consolidated statement of income	-	-	-	-	(283)	-	-	(283)
Net fair value movements	-	-	-	(597)	(369)	-	-	(966)
Transfers to retained	-	-	-	950	-	-	-	950
Fair value movements and others	-	-	-	-	-	655	2,938	3,593
Revaluation of freehold land	-	(269)	-	-	-	-	-	(269)
Balance at 31 March 2017	8,480	35,987	(447,254)	(10,666)	(24,435)	655	(54,804)	(492,037)

	Capital reserve	Property revaluation reserve	Foreign exchange translation reserve	Cumulative changes in			Total other reserves	
				OCI reserve	Cash flow hedge reserve	ESPP reserve		Pension fund reserve
	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	
Balance at 31 December 2015	8,480	36,173	(194,342)	(16,568)	(28,048)	12,587	(42,250)	(223,968)
Currency translation adjustments	-	2	(54,606)	-	-	-	-	(54,604)
Transfers to consolidated statement of income	-	-	-	-	(95)	-	-	(95)
Net fair value movements	-	-	-	(2,544)	(13,105)	-	-	(15,649)
Fair value movements and others	-	-	-	-	-	1,036	(4,398)	(3,362)
Balance at 31 March 2016	8,480	36,175	(248,948)	(19,112)	(41,248)	13,623	(46,648)	(297,678)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL

31 March 2017 (Reviewed)

8 FAIR VALUE MEASUREMENT

The fair value of financial assets and financial liabilities, with the exception of non-trading investments that are carried at amortised cost, approximate their carrying values. The fair value of the non-trading investments held at amortised cost is US\$ 5,505.0 million as at 31 March 2017 (31 December 2016: US\$ 5,563.8 million). Carrying value of these non-trading investments is US\$ 5,331.6 million as at 31 March 2017 (31 December 2016: US\$ 5,429.6 million).

The Group's primary medium and long-term financial liabilities are the subordinated liabilities. The fair values of these financial liabilities are 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 Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:-

Level 1 : Quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2 : Other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and

Level 3 : Techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

	<i>31 March 2017</i>			
	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>
	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>
Equity instruments and funds at fair value	471	122,327	14,071	136,869
Derivative assets	-	85,853	-	85,853
Derivative liabilities	-	(142,752)	-	(142,752)
	<i>31 December 2016</i>			
	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>
	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>
Equity instruments and funds at fair value	465	126,360	14,044	140,869
Derivative assets	-	112,945	-	112,945
Derivative liabilities	-	(142,547)	-	(142,547)

During three month period ended 31 March 2017 and 31 March 2016 there have been no transfers between Levels 1, 2 and 3.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

31 March 2017 (Reviewed)

9 RELATED PARTY TRANSACTIONS

The Group enters into transactions with major shareholders, associates, directors, senior management and companies which are controlled, jointly controlled or significantly influenced by such parties in the ordinary course of business at arm's length. All the loans and advances to related parties are performing and are free of any provision for possible loan losses.

The income, expense and the period end balances in respect of related parties included in the interim consolidated financial statements were as follows:

	2017					
	US\$ '000					
	Major shareholders	Associates	Non Executive Directors	Senior management		Total
Directors				Others		
<i>For the three months ended 31 March 2017</i>						
Interest income	63	884	1,736	61	13	2,757
Interest expense	26,235	2	4	2	-	26,243
Fees and commissions	109	300	133	3	3	548
<i>As of 31 March 2017</i>						
Deposits with banks	-	180,447	-	-	-	180,447
Loans and advances	-	-	180,185	12,299	2,751	195,235
Deposits from banks	-	6,564	-	-	-	6,564
Customers' deposits	5,751,707	-	35,143	10,211	2,248	5,799,309
Subordinated liabilities	219,058	-	-	-	-	219,058
Commitments and contingent liabilities	-	165,797	176,617	-	-	342,414
Derivative liability	-	240	-	-	-	240
Short term employee benefits	-	-	-	2,677	965	3,642
End of service benefits	-	-	-	422	57	479
Directors' fees and related expenses	-	-	552	-	-	552
2016						
US\$ '000						
	Major shareholders	Associates	Non Executive Directors	Senior management		Total
				Directors	Others	
<i>For the three months ended 31 March 2016</i>						
Interest income	608	725	1,225	21	-	2,579
Interest expense	18,253	2	1	2	4	18,262
Fees and commissions	146	366	67	-	-	579
<i>As of 31 December 2016</i>						
Deposits with banks	-	160,889	-	-	-	160,889
Loans and advances	110,500	-	151,604	13,055	2,282	277,441
Deposits from banks	-	5,692	-	-	-	5,692
Customers' deposits	6,193,804	-	17,536	6,609	32	6,217,981
Subordinated liabilities	218,985	-	-	-	-	218,985
Commitments and contingent liabilities	-	144,088	152,331	-	-	296,419
Short term employee benefits	-	-	-	3,081	779	3,860
End of service benefits	-	-	-	413	48	461
Directors' fees and related expenses	-	-	466	-	-	466