

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

**INTERIM CONDENSED CONSOLIDATED  
FINANCIAL STATEMENTS**

**30 SEPTEMBER 2006**

## **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 balance sheet of Ahli United Bank B.S.C. (the "Bank") and its subsidiaries (the "Group") as at 30 September 2006 and the related interim condensed consolidated statements of income, changes in equity and cash flows for the nine-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 Financial Reporting 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.



16 October 2006  
Manama, Kingdom of Bahrain

# Ahli United Bank B.S.C.

## INTERIM CONDENSED CONSOLIDATED INCOME STATEMENT

Period ended 30 September 2006 (Unaudited)

	Note	<i>Three months ended</i>		<i>Nine months ended</i>	
		<i>30 September</i>		<i>30 September</i>	
		<i>2006</i>	<i>2005</i>	<i>2006</i>	<i>2005</i>
		<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>
<b>OPERATING INCOME</b>					
Interest income		<b>269,546</b>	126,867	<b>670,450</b>	307,117
Interest expense		<b>194,712</b>	76,879	<b>465,947</b>	198,019
Net interest income		<b>74,834</b>	49,988	<b>204,503</b>	109,098
Fees and commissions - net		<b>28,823</b>	21,761	<b>86,291</b>	43,211
Trading income		<b>5,905</b>	7,342	<b>10,622</b>	11,559
Gains on sale of non-trading investments - net		<b>4,890</b>	11,965	<b>22,403</b>	18,834
Share of profit from associates	2	<b>7,865</b>	16,734	<b>21,916</b>	51,987
Dividend income	3	<b>266</b>	-	<b>12,026</b>	634
Other operating income		<b>1,945</b>	1,368	<b>5,736</b>	2,122
		<b>49,694</b>	59,170	<b>158,994</b>	128,347
<b>NET INTEREST AND OTHER INCOME</b>		<b>124,528</b>	109,158	<b>363,497</b>	237,445
Provision for loan losses, impairment of non-trading investments, other assets and contingencies - net		<b>5,249</b>	11,374	<b>16,321</b>	16,023
<b>OPERATING INCOME AFTER PROVISIONS</b>		<b>119,279</b>	97,784	<b>347,176</b>	221,422
<b>OPERATING EXPENSES</b>					
Staff costs		<b>31,064</b>	19,899	<b>85,230</b>	44,600
Depreciation		<b>4,061</b>	2,144	<b>9,491</b>	5,068
Other operating expenses		<b>14,284</b>	11,490	<b>45,015</b>	25,563
		<b>49,409</b>	33,533	<b>139,736</b>	75,231
<b>PROFIT BEFORE TAXATION</b>		<b>69,870</b>	64,251	<b>207,440</b>	146,191
Income tax expense		<b>3,282</b>	1,085	<b>7,457</b>	4,389
<b>NET PROFIT FOR THE PERIOD</b>		<b>66,588</b>	63,166	<b>199,983</b>	141,802
<b>Attributable to:</b>					
Bank's equity shareholders		<b>56,486</b>	51,806	<b>164,342</b>	130,442
Minority interest		<b>10,102</b>	11,360	<b>35,641</b>	11,360
		<b>66,588</b>	63,166	<b>199,983</b>	141,802
<b>EARNINGS PER SHARE:</b>					
Basic (US cents)	4	<b>2.07</b>	1.90	<b>6.02</b>	4.78
Diluted (US cents)	4	<b>1.69</b>	1.55	<b>4.91</b>	3.89

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

# Ahli United Bank B.S.C.

## INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 September 2006 (Unaudited)

		<i>Audited</i>
		<i>31 December</i>
		<i>2005</i>
	<i>Note</i>	<i>US\$ '000</i>
		<i>US\$ '000</i>
<b>ASSETS</b>		
Cash and balances with central banks		140,575
Treasury bills and bonds		982,850
Trading securities		52,765
Deposits with banks and other financial institutions		3,028,965
Loans and advances		5,986,396
Non-trading investments		2,215,828
Kuwait Government Debt Bonds		318,712
Investments in associates	8	351,012
Premises and equipment		127,312
Interest receivable		108,663
Other assets		165,787
Goodwill		393,364
<b>TOTAL ASSETS</b>		<b>13,872,229</b>
<b>LIABILITIES, SUBORDINATED LIABILITIES AND EQUITY</b>		
<b>LIABILITIES</b>		
Deposits from banks and other financial institutions		3,797,163
Customers' deposits		6,663,104
Certificates of deposits		43,034
Term debt		966,937
Interest payable		119,127
Other liabilities		220,663
		<b>11,810,028</b>
<b>SUBORDINATED LIABILITIES</b>		<b>439,003</b>
<b>EQUITY</b>		
Ordinary share capital	5	650,000
Preference share capital		125,000
Reserves		592,618
Attributable to the Bank's equity shareholders		1,367,618
Minority interest		255,580
		<b>1,623,198</b>
<b>TOTAL LIABILITIES, SUBORDINATED LIABILITIES AND EQUITY</b>		<b>13,872,229</b>

**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 9 form part of these interim condensed consolidated financial statements.

Ahli United Bank B.S.C.

INTERIM CONDENSED CONSOLIDATED CASH FLOW STATEMENT

Period ended 30 September 2006 (Unaudited)

	<i>Nine months ended</i>	
	<i>30 September</i>	
	<i>2006</i>	<i>2005</i>
	<i>US\$ '000</i>	<i>US\$ '000</i>
Net cash from operating activities	1,740,727	344,330
Net cash used in investing activities	(120,899)	(208,035)
Net cash used in financing activities	(146,089)	(56,639)
Foreign currency translation adjustments - net	(7,129)	2,160
<b>INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>1,466,610</b>	<b>81,816</b>
Cash and cash equivalents at 1 January	2,107,240	2,146,149
<b>CASH AND CASH EQUIVALENTS AT 30 SEPTEMBER</b>	<b>3,573,850</b>	<b>2,227,965</b>
<b>Comprising:</b>		
Cash and balances with central banks, excluding mandatory reserve deposits	80,889	100,707
Deposits with banks and other financial institutions with an original maturity of three months or less	3,492,961	2,127,258
	<b>3,573,850</b>	<b>2,227,965</b>

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

# Ahli United Bank B.S.C.

## INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Period ended 30 September 2006 (Unaudited)

	Attributable to Bank's equity shareholders													
	Ordinary share capital		Preference share capital		Share premium	Capital reserve	Statutory reserve	Currency translation adjustments		Retained earnings	Proposed appropriations	Cumulative changes in fair values	Total	Minority interest
	US\$ '000	'000	US\$ '000	'000				US\$ '000	US\$ '000					
Balance at 31 December 2005	650,000	125,000	216,667	307	50,672	(5,010)	116,766	89,403	123,813	1,367,618	255,580			
Directors' fees paid	-	-	-	-	-	-	-	(617)	-	(617)	-			
Donations approved	-	-	-	-	-	-	-	(413)	-	(413)	-			
Currency translation adjustments	-	-	-	-	-	(7,129)	-	-	-	(7,129)	-			
Net fair value movements during the period	-	-	-	-	-	-	-	-	-	-	-			
Other equity movements of a subsidiary	-	-	-	-	-	-	-	-	13,115	13,115	3,032			
Net income recognised directly in equity	-	-	-	-	-	(7,129)	-	(1,030)	13,115	4,956	(16,358)			
Net profit for the period	-	-	-	-	-	-	164,342	-	-	164,342	35,641			
Total recognised income and expense for the period	-	-	-	-	-	(7,129)	164,342	(1,030)	13,115	169,298	19,283			
Class A preference share dividend paid	-	-	-	-	-	-	-	(10,373)	-	(10,373)	-			
Ordinary share dividend paid	-	-	-	-	-	-	-	(78,000)	-	(78,000)	-			
Bonus shares issued (Note 5)	32,500	-	-	-	-	-	(32,500)	-	-	-	-			
Class B preference shares issued (Note 5)	-	23,718	18,974	-	-	-	-	-	-	-	42,692			
<b>Balance at 30 September 2006</b>	<b>682,500</b>	<b>148,718</b>	<b>235,641</b>	<b>307</b>	<b>50,672</b>	<b>(12,139)</b>	<b>248,608</b>	<b>-</b>	<b>136,928</b>	<b>1,491,235</b>	<b>274,863</b>			

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

Ahli United Bank B.S.C.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

Period ended 30 September 2006 (Unaudited)

	Attributable to Bank's equity shareholders										
	Ordinary share capital US\$ '000	Preference share capital US\$ '000	Share premium US\$ '000	Capital reserve US\$ '000	Statutory reserve US\$ '000	Currency translation adjustments US\$ '000	Retained earnings US\$ '000	Proposed appropriations US\$ '000	Cumulative changes in fair values US\$ '000	Total US\$ '000	Minority interest US\$ '000
Balance at 31 December 2004 (restated)	650,000	-	123,752	307	34,185	(7,258)	57,791	70,666	71,460	1,000,903	-
Directors' fees paid	-	-	-	-	-	-	-	(466)	-	(466)	-
Arising on acquisition of a subsidiary	-	-	-	-	-	-	-	-	-	-	-
Currency translation adjustments	-	-	-	-	-	2,160	-	-	-	-	197,254
Net fair value movements during the period	-	-	-	-	-	-	-	-	-	2,160	-
Net income recognised directly in equity	-	-	-	-	-	-	-	-	24,728	24,728	3,195
Net profit for the period	-	-	-	-	-	2,160	-	(466)	24,728	26,422	200,449
Total recognised income and expense for the period	-	-	-	-	-	2,160	130,442	-	-	130,442	11,360
Class A preference shares issued	-	125,000	92,915	-	-	-	-	(466)	-	-	-
Ordinary share dividend paid	-	-	-	-	-	-	-	(70,200)	-	(70,200)	-
Balance at 30 September 2005	650,000	125,000	216,667	307	34,185	(5,098)	188,233	-	96,188	1,305,482	211,809

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

# Ahli United Bank B.S.C.

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 September 2006 (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 Financial Reporting 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 2005.

The interim condensed consolidated financial statements do not contain all information and disclosures required for full financial statements prepared in accordance with International Financial Reporting Standards. In the opinion of management, all adjustments consisting of normal recurring accruals considered necessary for a fair presentation have been included. In addition, results for the 9 months ended 30 September 2006 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2006.

### 2 SHARE OF PROFIT FROM ASSOCIATES

Until 7 August 2005, the Bank's investment in Bank of Kuwait and the Middle East K.S.C. (BKME) was equity accounted with the Bank's share of income from that investment reflected as "share of profit from associates". Following a circa 27% additional share acquisition on 8 August 2005, BKME became a subsidiary. As a result, BKME's financial statements have been consolidated on a line-by-line basis from that date.

### 3 SEASONALITY OF RESULTS

Dividend income of US\$ 12,026,000 for the nine months ended 30 September 2006 (2005: US\$ 634,000) is of a seasonal nature.

### 4 EARNINGS PER ORDINARY SHARE

	<i>Three months ended</i>		<i>Nine months ended</i>	
	<i>30 September</i>		<i>30 September</i>	
	<i>2006</i>	<i>2005</i>	<i>2006</i>	<i>2005</i>
Net profit for the period attributable to Bank's ordinary equity shareholders (US\$'000)	<u>56,486</u>	<u>51,806</u>	<u>164,342</u>	<u>130,442</u>
Weighted average ordinary shares outstanding during the period adjusted for bonus shares (million)	<u>2,730</u>	<u>2,730</u>	<u>2,730</u>	<u>2,730</u>
Weighted average ordinary shares adjusted for bonus shares and dilutive effect of the convertible portion of Class A and Class B preference shares (million)	<u>3,350</u>	<u>3,350</u>	<u>3,350</u>	<u>3,350</u>
Basic earnings per ordinary share (US cents)	<u>2.07</u>	<u>1.90</u>	<u>6.02</u>	<u>4.78</u>
Diluted earnings per ordinary share (US cents)	<u>1.69</u>	<u>1.55</u>	<u>4.91</u>	<u>3.89</u>



NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL  
STATEMENTS

30 September 2006 (Unaudited)

**5 EQUITY**

The Annual General Meeting held on 27 March 2006 approved a bonus dividend of 5% (1 ordinary share for every 20 shares held) resulting in an increase in the ordinary share capital by 130 million ordinary shares to 2,730 million ordinary shares.

The increase in preference share capital of US\$ 23.7 million, with share premium of US\$18.9 million, represents issue of Class B shares to employees under the Employees' Share Purchase Plan.

**6 CONTINGENT LIABILITIES**

The Group had the following credit related contingent liabilities:

	<i>30 September 2006 US\$ '000</i>	<i>31 December 2005 US\$ '000</i>
Guarantees	854,372	826,543
Acceptances	28,657	38,749
Letters of credit	350,195	227,957
	<u>1,233,224</u>	<u>1,093,249</u>

**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.

# Ahli United Bank B.S.C.

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 September 2006 (Unaudited)

### 7 SEGMENT INFORMATION (continued)

Segmental information for the period was as follows:

	<i>Retail banking</i> US\$ '000	<i>Corporate banking, treasury and investments</i> US\$ '000	<i>Private banking and wealth management</i> US\$ '000	<i>Total</i> US\$ '000
<b>Nine months ended 30 September 2006:</b>				
Operating income before provisions	107,387	183,501	50,693	341,581
	31%	54%	15%	100%
Share of profit from associates				21,916
<b>Operating income before provisions</b>				<b>363,497</b>
Segment result	57,314	122,319	22,212	201,845
	28%	61%	11%	100%
Share of profit from associates				21,916
Provisions - net				(16,321)
Income tax expense				(7,457)
Net profit attributable to minority interest				(35,641)
Net profit attributable to the Bank's equity shareholders				<b>164,342</b>
<b>Nine months ended 30 September 2005:</b>				
Operating income before provisions	54,039	114,564	16,855	185,458
	29%	62%	9%	100%
Share of profit from associates				51,987
<b>Operating income before provisions</b>				<b>237,445</b>
Segment result	27,400	77,087	5,740	110,227
	25%	70%	5%	100%
Share of profit from associates				51,987
Provisions - net				(16,023)
Income tax expense				(4,389)
Net profit attributable to minority interest				(11,360)
Net profit attributable to the Bank's equity shareholders				<b>130,442</b>

### 8 INVESTMENTS IN ASSOCIATES

On 20 August 2006, the Bank acquired an effective holding of 44.6% in the share capital of Delta International Bank S.A.E, a bank engaged in commercial and retail banking and headquartered in Cairo, Arab Republic of Egypt. The consideration paid for the Bank's holding was US\$ 144 million.