

Ahli United Bank B.S.C.
INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS
31 MARCH 2019

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 2019, comprising of the interim consolidated balance sheet as at 31 March 2019 and the related interim consolidated statements of income, comprehensive income, changes in equity and 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.



18 April 2019
Manama, Kingdom of Bahrain

Ahli United Bank B.S.C.

INTERIM CONSOLIDATED STATEMENT OF INCOME

Three months ended 31 March 2019 (Reviewed)

	Note	Three months ended	
		31 March	
		2019	2018
		USD'000	USD'000
Interest income		458,866	384,182
Interest expense		215,600	154,852
Net interest income		243,266	229,330
Fees and commissions		34,381	37,600
Trading income		9,807	11,138
Investment income and others	3	24,432	14,540
Fees and other income		68,620	63,278
OPERATING INCOME		311,886	292,608
Provision for credit losses	7c	13,489	13,253
NET OPERATING INCOME		298,397	279,355
Staff costs		47,654	45,590
Depreciation	2.3	8,469	5,218
Other operating expenses		23,831	25,071
OPERATING EXPENSES		79,954	75,879
PROFIT BEFORE TAX		218,443	203,476
Tax expense and zakat		9,533	11,303
NET PROFIT FOR THE PERIOD		208,910	192,173
Net profit attributable to non-controlling interests		16,050	17,459
NET PROFIT ATTRIBUTABLE TO THE OWNERS OF THE BANK		192,860	174,714
EARNINGS PER SHARE ATTRIBUTABLE TO THE OWNERS OF THE BANK FOR THE PERIOD			
Basic & diluted earnings per ordinary share (US cents)	4	2.2	2.0

Meshal AbdulAziz Alothman
Chairman

Mohammad J. Al-Marzooq
Deputy Chairman

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

The attached notes 1 to 12 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 2019 (Reviewed)

	<i>Three months ended</i>	
	<i>31 March</i>	
	<i>2019</i>	<i>2018</i>
	<i>USD'000</i>	<i>USD'000</i>
Net profit for the period	208,910	192,173
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	288	238
Net change in pension fund reserve	2,506	(3,688)
Items that may be reclassified subsequently to consolidated statement of income		
Foreign currency translation adjustments	6,856	17,476
Net change in fair value of financial assets measured at fair value through OCI	7,362	(12,770)
Net change in fair value of cash flow hedges	(5,475)	5,807
Other comprehensive income for the period	11,537	7,063
Total comprehensive income for the period	220,447	199,236
Total comprehensive income attributable to non-controlling interests	17,594	20,626
Total comprehensive income attributable to owners of the Bank	202,853	178,610

The attached notes 1 to 12 form part of these interim condensed consolidated financial statements

Ahli United Bank B.S.C.

INTERIM CONSOLIDATED BALANCE SHEET

31 March 2019 (Reviewed)

		<i>(Audited)</i>
		<i>31 March</i>
		<i>31 December</i>
		<i>2019</i>
		<i>2018</i>
	<i>Note</i>	<i>US\$ '000</i>
		<i>US\$ '000</i>
ASSETS		
Cash and balances with central banks		1,289,443
Treasury bills and deposits with central banks		1,390,470
Deposits with banks		2,413,405
Loans and advances	7	1,918,727
Non-trading investments	8	2,958,591
Investment in associates		3,061,818
Investment properties		20,117,438
Interest receivable and other assets		8,079,520
Premises and equipment		314,814
Goodwill and other intangible assets		318,802
		265,794
		797,145
		764,094
		296,944
		478,319
		480,036
TOTAL ASSETS		36,984,753
		35,507,577
LIABILITIES AND EQUITY		
LIABILITIES		
Deposits from banks		4,679,703
Borrowings under repurchase agreements		3,752,792
Customers' deposits		2,173,560
Interest payable and other liabilities	9	1,832,134
Subordinated liabilities		23,461,260
		23,660,035
		1,708,911
		1,097,911
		192,812
		192,697
TOTAL LIABILITIES		32,216,246
		30,535,569
EQUITY		
Ordinary share capital		2,193,611
Treasury shares		1,992,541
Reserves		(13,190)
		(13,190)
		1,536,896
		1,929,350
Equity attributable to the owners		3,717,317
Perpetual Tier 1 Capital Securities		3,908,701
Non-controlling interests		600,000
		600,000
		451,190
		463,307
TOTAL EQUITY		4,768,507
		4,972,008
TOTAL LIABILITIES AND EQUITY		36,984,753
		35,507,577

Meshal AbdulAziz Alothman
Chairman

Mohammad J. Al-Marzooq
Deputy Chairman

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

The attached notes 1 to 12 form part of these interim condensed consolidated financial statements

CONSOLIDATED STATEMENT OF CASH FLOWS

Three months ended 31 March 2019 (Reviewed)

	<i>Three months ended</i>	
	<i>31 March</i>	
	<i>2019</i>	<i>2018</i>
	<i>US\$ '000</i>	<i>US\$ '000</i>
OPERATING ACTIVITIES		
Profit before tax	218,443	203,476
Adjustments for:		
Depreciation	8,469	5,218
Investment income	(16,829)	(4,427)
Provision for credit losses	13,489	13,253
Fair Value of Employee Share Purchase Plan (ESPP) charge	352	261
Share of profit from associates	(9,560)	(9,345)
Operating profit before changes in operating assets and liabilities	214,364	208,436
Changes in:		
Mandatory reserve deposits with central banks	76,026	58,586
Treasury bills and deposits with central banks	(284,274)	(445,623)
Deposits with banks	371,611	(265,052)
Loans and advances	(617,500)	(544,544)
Interest receivable and other assets	(22,320)	(60,648)
Deposits from banks	926,911	(181,456)
Borrowings under repurchase agreements	341,426	(203,862)
Customers' deposits	(198,775)	902,248
Interest payables and other liabilities	109,037	122,260
Cash from/(used in) operations	916,506	(409,655)
Income tax paid	(7,720)	(10,655)
Net cash from/(used in) operating activities	908,786	(420,310)
INVESTING ACTIVITIES		
Purchase of non-trading investments	(722,454)	(810,786)
Proceeds from sale or redemption of non-trading investments	233,237	474,869
Net movement in investment properties	28,183	3,322
Net increase in premises and equipment	(10,000)	(8,516)
Net cash used in investing activities	(471,034)	(341,111)
FINANCING ACTIVITIES		
Capital increase due to Mandatory Share Plan (MSP) & ESPP shares	4,200	17,797
Net cash from financing activities	4,200	17,797
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	441,952	(743,624)
Net foreign exchange difference	11,835	2,855
Cash and cash equivalents at 1 January	3,088,964	2,528,722
CASH AND CASH EQUIVALENTS AT 31 MARCH	3,542,751	1,787,953
Comprising:		
Cash and balances with central banks, excluding mandatory reserve deposits	878,915	659,499
Deposits with banks, central banks & treasury bills with an original maturity of three months or less	2,663,836	1,128,454
	3,542,751	1,787,953

The attached notes 1 to 12 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 2019 (Reviewed)

	<i>Attributable to the owners</i>										
	<i>Reserves</i>							<i>Total reserves</i>	<i>Perpetual Tier 1 Capital Securities</i>	<i>Non-controlling interests</i>	<i>Total</i>
	<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 10)</i>				
Balance at 1 January 2019	1,992,541	(13,190)	763,660	586,481	634,672	399,838	(455,301)	1,929,350	600,000	463,307	4,972,008
Donations	-	-	-	-	-	(1,000)	-	(1,000)	-	-	(1,000)
Bonus shares issued	199,419	-	-	-	(199,419)	-	-	(199,419)	-	-	-
Additional shares issued	1,651	-	2,549	-	-	-	-	2,549	-	-	4,200
Purchase of treasury shares	-	-	-	-	-	-	-	-	-	-	-
Transfer from OCI reserve	-	-	-	-	(33)	-	-	(33)	-	5	(28)
Ordinary share dividend	-	-	-	-	1,082	(398,838)	-	(397,756)	-	-	(397,756)
Dividends of subsidiaries	-	-	-	-	-	-	-	-	-	(29,716)	(29,716)
Fair value amortisation of share based transactions	-	-	-	-	-	-	352	352	-	-	352
Total comprehensive income for the period	-	-	-	-	192,860	-	9,993	202,853	-	17,594	220,447
Balance at 31 March 2019	2,193,611	(13,190)	766,209	586,481	629,162	-	(444,956)	1,536,896	600,000	451,190	4,768,507

The attached notes 1 to 12 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 2019 (Reviewed)

	<i>Attributable to the owners</i>										
	<i>Reserves</i>							<i>Perpetual Tier 1 Capital Securities</i>	<i>Non- controlling interests</i>	<i>Total</i>	
	<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 10)</i>				<i>Total reserves</i>
Balance at 31 December 2017	1,889,213	(11,661)	754,308	516,728	799,366	342,578	(474,910)	1,938,070	600,000	472,532	4,888,154
Transition adjustment on adoption of IFRS 9	-	-	-	-	(249,543)	-	54,644	(194,899)	-	(30,432)	(225,331)
Restated balance at 1 January 2018	1,889,213	(11,661)	754,308	516,728	549,823	342,578	(420,266)	1,743,171	600,000	442,100	4,662,823
Donations	-	-	-	-	-	(1,000)	-	(1,000)	-	-	(1,000)
Bonus shares issued	94,883	-	-	-	(94,883)	-	-	(94,883)	-	-	-
Additional shares issued	8,445	-	9,352	-	-	-	-	9,352	-	-	17,797
Transfer from OCI reserve	-	-	-	-	(4,693)	-	-	(4,693)	-	-	(4,693)
Ordinary share dividend	-	-	-	-	818	(341,578)	-	(340,760)	-	-	(340,760)
Dividends of subsidiary	-	-	-	-	-	-	-	-	-	(23,667)	(23,667)
Fair value amortisation of share based transactions	-	-	-	-	-	-	261	261	-	-	261
Total comprehensive income for the period	-	-	-	-	174,714	-	3,896	178,610	-	20,626	199,236
Balance at 31 March 2018	1,992,541	(11,661)	763,660	516,728	625,779	-	(416,109)	1,490,058	600,000	439,059	4,509,997

The attached notes 1 to 12 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 and private banking services through branches in the Kingdom of Bahrain, the State of Kuwait, the Arab Republic of Egypt, Republic of Iraq, the United Kingdom and an overseas branch in Dubai International Financial Centre (DIFC). It also operates through its associates in Libya and in the Sultanate of Oman. The Bank operates under a retail banking license issued by the Central Bank of Bahrain. The Bank also engages in life insurance business through its subsidiary, Al Hilal Life B.S.C. (c). 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 2019 were authorised for issue in accordance with a resolution of the Directors dated 18 April 2019.

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 2018, except for changes to the accounting for adoption of IFRS 16: Leases from 1 January 2019 as explained below.

IFRS 16 Leases

- 2.1 IFRS 16 supersedes IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for most leases under a single on-balance sheet model.

Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16 did not have an impact for leases where the Group is the lessor.

Prior to the adoption of IFRS 16, the Group accounted and classified each of its leases (as lessee) at the inception date as either a finance lease or an operating lease in accordance with IAS 17.

- 2.2 Upon adoption of IFRS 16, the Group applied a single recognition and measurement approach for all leases that it is the lessee, except for short-term leases and leases of low-value assets. The Group recognised lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets. The Group adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019 and accordingly, the comparative information is not restated. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application.
- 2.3 The Group has recorded right-of-use assets representing the right to use the underlying assets under premises and equipment and the corresponding lease liabilities to make lease payments under other liabilities. The right-of-use assets and lease liabilities recorded as at 1 January 2019 amounted to US\$ 60.6 million, with no impact on retained earnings. When measuring lease liabilities, the Group discounted lease payments using its incremental borrowing rate of 2.5% at 1 January 2019. Lease costs for the period ended 31 March 2019 relating to right-of-use assets amount to US\$ 2.5 million and are included under depreciation expense.

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

IFRS 16 Leases (continued)

Summary of new accounting policies

2.4 The accounting policies of the Group upon adoption of IFRS 16 are as follows:

a) Right of use assets

The Group recognises right of use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right of use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any re-measurement of lease liabilities. The cost of right of use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right of use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right of use assets are subject to impairment. The carrying value of right-of-use assets are recognised under premises and equipment in the balance sheet.

b) Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset and is recognised under other liabilities in the balance sheet.

3 INVESTMENT INCOME AND OTHERS

Investment income and others include income amounting to US\$ 2,604 thousand for the three months ended 31 March 2019 (31 March 2018: US\$ 2,636 thousand) which is of a seasonal nature.

4 EARNINGS PER ORDINARY SHARE

	<i>Three months ended</i>	
	<i>31 March</i>	
	<i>2019</i>	<i>2018</i>
	<i>US\$ '000</i>	<i>US\$ '000</i>
Net profit for the period attributable to Bank's ordinary equity shareholders for basic and diluted earnings per share computation	192,860	174,714
Weighted average ordinary shares outstanding during the period adjusted for bonus shares (in millions)	8,746	8,745
Basic & diluted earnings per ordinary share (US cents)	2.2	2.0
Issued and fully paid ordinary shares of US\$ 0.25 each (in millions)	8,774.4	7,970.2
Number of treasury shares (in millions)	23.8	19.1

5 CONTINGENT LIABILITIES

The Group had the following credit related contingent liabilities:

	<i>(Audited)</i>	
	<i>31 March</i>	<i>31 December</i>
	<i>2019</i>	<i>2018</i>
	<i>US\$ '000</i>	<i>US\$ '000</i>
Guarantees	2,660,930	2,600,252
Acceptances	135,876	126,455
Letters of credit	461,806	576,710
	3,258,612	3,303,417

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.

Ahli United Bank B.S.C.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

31 March 2019 (Reviewed)

6 SEGMENT INFORMATION (Continued)

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 2019:					
Net interest income	49,437	90,945	80,348	22,536	243,266
Fees and commissions	8,984	19,274	769	5,354	34,381
Trading, investment income and others	778	3,608	29,845	8	34,239
OPERATING INCOME	59,199	113,827	110,962	27,898	311,886
Provision for credit losses	1,516	11,423	72	478	13,489
NET OPERATING INCOME	57,683	102,404	110,890	27,420	298,397
Operating expenses	28,437	19,594	23,873	8,050	79,954
PROFIT BEFORE TAX	29,246	82,810	87,017	19,370	218,443
Tax expense					9,533
NET PROFIT FOR THE PERIOD					208,910
Less : Non - controlling interests					16,050
NET PROFIT ATTRIBUTABLE TO THE OWNERS OF THE BANK					192,860
Inter segment interest included in net interest income above	69,997	(103,770)	22,396	11,377	-
	<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 2018:					
Net interest income	43,633	109,789	58,766	17,142	229,330
Fees and commissions	8,038	21,960	442	7,160	37,600
Trading, investment income and others	1,041	4,726	19,883	28	25,678
OPERATING INCOME	52,712	136,475	79,091	24,330	292,608
Provision for credit losses	2,691	12,049	(1,284)	(203)	13,253
NET OPERATING INCOME	50,021	124,426	80,375	24,533	279,355
Operating expenses	25,621	18,666	22,802	8,790	75,879
PROFIT BEFORE TAX	24,400	105,760	57,573	15,743	203,476
Tax expense					11,303
NET PROFIT FOR THE PERIOD					192,173
Less : Non-controlling interests					17,459
NET PROFIT ATTRIBUTABLE TO THE OWNERS OF THE BANK					174,714
Inter segment interest included in net interest income above	48,695	(69,005)	14,527	5,783	-

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

31 March 2019 (Reviewed)

7 LOANS AND ADVANCES

a) Carrying amount of loans and advances

	31 March 2019			
	Stage 1	Stage 2	Stage 3	Total
	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Loans and advances				
High standard grade	12,162,664	274,542	-	12,437,206
Standard grade	5,754,670	2,380,566	-	8,135,236
Impaired	-	-	370,969	370,969
	17,917,334	2,655,108	370,969	20,943,411
Less: ECL allowances	(129,125)	(379,135)	(317,713)	(825,973)
	17,788,209	2,275,973	53,256	20,117,438
	31 December 2018			
	Stage 1	Stage 2	Stage 3	Total
	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Loans and advances				
High standard grade	12,016,100	452,471	-	12,468,571
Standard grade	5,146,227	2,324,630	-	7,470,857
Impaired	-	-	379,779	379,779
	17,162,327	2,777,101	379,779	20,319,207
Less: ECL allowances	(125,066)	(365,332)	(324,848)	(815,246)
	17,037,261	2,411,769	54,931	19,503,961

b) ECL allowance movements of loans and advances

	2019			
	Stage 1	Stage 2	Stage 3	Total
	US\$ '000	US\$ '000	US\$ '000	US\$ '000
At 1 January	125,066	365,332	324,848	815,246
Add/(Less):				
Transfer from stage 1	(1,856)	762	1,094	-
Transfer from stage 2	-	(4,021)	4,021	-
Net remeasurement of ECL allowances for the period	5,943	17,634	(14,175)	9,402
Amounts written off during the period	-	-	(16)	(16)
Exchange rate and other adjustments	(28)	(572)	1,941	1,341
At 31 March	129,125	379,135	317,713	825,973

7 LOANS AND ADVANCES (continued)

b) ECL allowance movements of loans and advances (continued)

	2018			Total US\$ '000
	Stage 1 US\$ '000	Stage 2 US\$ '000	Stage 3 US\$ '000	
At 1 January				589,068
Transition adjustment on adoption of IFRS 9				260,259
At 1 January - restated	145,982	378,666	324,679	849,327
Add/(Less):				
Transfer from stage 1	(6,128)	4,942	1,186	-
Transfer from stage 2	-	(6,594)	6,594	-
Net remeasurement of ECL allowances for the period	13,713	(1,568)	13,753	25,898
Amounts written off during the period	-	-	(7,411)	(7,411)
Exchange rate and other adjustments	(47)	1,245	10,616	11,814
At 31 March	153,520	376,691	349,417	879,628

c) Provision for credit losses

The net ECL measurement for provision for credit losses in the interim consolidated statement of income is determined as follows:

	Three months ended 31 March	
	2019 US\$ '000	2018 US\$ '000
Net remeasurement of ECL on loans and advances (note 7 b)	9,402	25,898
Recoveries from loans and advances during the period (from fully provided loans written off in previous years)	(5,379)	(3,235)
Net remeasurement of ECL for non-trading investments (note 8 b)	72	(1,284)
Net remeasurement of ECL on off-balance sheet exposures and others	9,394	(8,126)
Provision for credit losses	13,489	13,253

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

31 March 2019 (Reviewed)

8 NON-TRADING INVESTMENTS

a) Carrying amount of non-trading investments

	31 March 2019			
	Stage 1	Stage 2	Stage 3	Total
	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Non trading investments				
High standard grade	5,414,729	-	-	5,414,729
Standard grade	2,261,037	157,129	-	2,418,166
	7,675,766	157,129	-	7,832,895
Less: ECL allowances	(10,479)	(3,032)	-	(13,511)
Equity instruments and funds at fair value	-	-	-	260,136
	7,665,287	154,097	-	8,079,520
	31 December 2018			
	Stage 1	Stage 2	Stage 3	Total
	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Non trading investments				
High standard grade	5,022,919	4,909	-	5,027,828
Standard grade	2,123,813	151,944	-	2,275,757
	7,146,732	156,853	-	7,303,585
Less: ECL allowances	(9,729)	(3,722)	-	(13,451)
Equity instruments and funds at fair value	-	-	-	278,394
	7,137,003	153,131	-	7,568,528

Equity instruments and funds held at fair value include investments amounting to US\$ 148.5 million (31 December 2018: US\$ 168.7 million) which are designated as FVTPL.

b) ECL allowance movements of non-trading investments

	2019			
	Stage 1	Stage 2	Stage 3	Total
	US\$ '000	US\$ '000	US\$ '000	US\$ '000
At 1 January	9,729	3,722	-	13,451
Add/(Less):				
Transfer from stage 1	(17)	17	-	-
Net remeasurement of ECL allowances for the period (note 7 c)	779	(707)	-	72
Exchange rate and other adjustments	(12)	-	-	(12)
At 31 March	10,479	3,032	-	13,511

8 NON-TRADING INVESTMENTS (continued)**b) ECL allowance movements of non-trading investments (continued)**

	2018			<i>Total</i> US\$ '000
	<i>Stage 1</i> US\$ '000	<i>Stage 2</i> US\$ '000	<i>Stage 3</i> US\$ '000	
At 1 January				39,221
Transition adjustment on adoption of IFRS 9				(23,404)
At 1 January - restated	12,847	2,520	450	15,817
Add/(Less):				
Net remeasurement of ECL allowances for the period (note 7 c)	(417)	(867)	-	(1,284)
Exchange rate and other adjustments	(213)	450	(450)	(213)
At 31 March	12,217	2,103	-	14,320

9 INTEREST PAYABLE AND OTHER LIABILITIES

Interest payable and other liabilities includes the year 2018 related dividend payable amounting to US\$ 397,756 thousands.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL

31 March 2019 (Reviewed)

10 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	Pension fund reserve		
								ESPP reserve
US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	
Balance at 1 January 2019	8,480	35,225	(435,370)	3,639	(17,021)	-	(50,254)	(455,301)
Currency translation adjustments	-	(1)	5,277	-	-	-	-	5,276
Transfers to consolidated statement of income	-	-	-	-	(224)	-	-	(224)
Net fair value movements	-	-	-	7,653	(5,251)	-	-	2,402
Transfers to retained earnings	-	-	-	33	-	-	-	33
Fair value movements and others	-	-	-	-	-	352	2,506	2,858
Balance at 31 March 2019	8,480	35,224	(430,093)	11,325	(22,496)	352	(47,748)	(444,956)

	Capital reserve	Property revaluation reserve	Foreign exchange translation reserve	Cumulative changes in			Total other reserves	
				OCI reserve	Cash flow hedge reserve	Pension fund reserve		
								ESPP reserve
US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	
Balance at 31 December 2017	8,480	35,568	(423,986)	(12,981)	(26,659)	-	(55,332)	(474,910)
Transition adjustment on adoption of IFRS 9	-	-	-	54,644	-	-	-	54,644
Balance at 1 January 2018 -restated	8,480	35,568	(423,986)	41,663	(26,659)	-	(55,332)	(420,266)
Currency translation adjustments	-	3	14,422	-	-	-	-	14,425
Transfers to consolidated statement of income	-	-	-	-	289	-	-	289
Net fair value movements	-	-	-	(17,341)	5,518	-	-	(11,823)
Transfers to retained earnings	-	-	-	4,693	-	-	-	4,693
Fair value movements and others	-	-	-	-	-	261	(3,688)	(3,427)
Balance at 31 March 2018	8,480	35,571	(409,564)	29,015	(20,852)	261	(59,020)	(416,109)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL

31 March 2019 (Reviewed)

11 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\$ 6,843.0 million as at 31 March 2019 (31 December 2018: US\$ 6,182.9 million). Carrying value of these non-trading investments is US\$ 6,861.3 million as at 31 March 2019 (31 December 2018: US\$ 6,338.8 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 2019</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	148,111	72,977	39,048	260,136
Debt instruments (FVTOCI)	945,150	12,952	-	958,102
Derivative assets	113	99,985	-	100,098
Derivative liabilities	64	280,316	-	280,380

	<i>31 December 2018</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	168,403	70,912	39,079	278,394
Debt instruments (FVTOCI)	938,394	12,950	-	951,344
Derivative assets	-	117,888	-	117,888
Derivative liabilities	260	186,896	-	187,156

During the three month period ended 31 March 2019 and 31 March 2018 there have been no transfers between Levels 1, 2 and 3.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

31 March 2019 (Reviewed)

12 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 subject to ECL.

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

	2019					
	<u>Senior management</u>					<i>Total</i>
	<i>Major</i>	<i>Associates</i>	<i>Non</i>	<i>Management</i>		
<i>shareholders</i>	<i>Directors</i>		<i>Directors</i>	<i>Directors</i>	<i>Others</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>For the three months ended</i>						
<i>31 March 2019</i>						
Interest income	-	947	1,888	74	9	2,918
Interest expense	44,958	407	553	7	4	45,929
Fees and commissions	-	1,071	133	1	-	1,205
Short term employee benefits	-	-	-	3,006	720	3,726
End of service benefits	-	-	-	438	39	477
Directors' fees and related expenses	-	-	611	-	-	611
<i>As of 31 March 2019</i>						
Deposits with banks	-	62,207	-	-	-	62,207
Loans and advances	-	-	144,071	5,477	921	150,469
Deposits from banks	-	91,935	-	-	-	91,935
Customers' deposits	6,741,992	-	96,758	5,151	1,221	6,845,122
Subordinated liabilities	9,815	-	-	-	-	9,815
Commitments and contingent liabilities	-	44,184	190,275	-	-	234,459
Derivative assets	-	1,082	-	-	-	1,082
2018						
<u>Senior management</u>						<i>Total</i>
<i>Major</i>	<i>Associates</i>	<i>Non</i>	<i>Management</i>			
<i>shareholders</i>		<i>Directors</i>	<i>Directors</i>	<i>Directors</i>	<i>Others</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>For the three months ended</i>						
<i>31 March 2018</i>						
Interest income	-	1,011	1,895	52	13	2,971
Interest expense	25,517	8	212	30	8	25,775
Fees and commissions	-	588	16	2	1	607
Short term employee benefits	-	-	-	2,846	855	3,701
End of service benefits	-	-	-	431	228	659
Directors' fees and related expenses	-	-	584	-	-	584
<i>As of 31 December 2018</i>						
Deposits with banks	-	120,148	-	-	-	120,148
Loans and advances	-	25,865	172,261	7,705	1,024	206,855
Deposits from banks	-	137,818	-	-	-	137,818
Customers' deposits	7,057,754	-	96,846	5,297	1,111	7,161,008
Subordinated liabilities	9,700	-	-	-	-	9,700
Commitments and contingent liabilities	-	96,290	161,172	-	-	257,462
Derivatives liabilities	-	800	-	-	-	800