

Ahli United Bank B.S.C.

**INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS**

30 JUNE 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 30 June 2019, comprising of the interim consolidated balance sheet as at 30 June 2019 and the related interim consolidated statements of income, comprehensive income, changes in equity and cash flows for the six-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.



29 July 2019
Manama, Kingdom of Bahrain

Ahli United Bank B.S.C.

INTERIM CONSOLIDATED STATEMENT OF INCOME

Six months ended 30 June 2019 (Reviewed)

	Note	<i>Three months ended</i>		<i>Six months ended</i>	
		<i>30 June</i>		<i>30 June</i>	
		<i>2019</i>	<i>2018</i>	<i>2019</i>	<i>2018</i>
		<i>USD'000</i>	<i>USD'000</i>	<i>USD'000</i>	<i>USD'000</i>
Interest income		476,924	412,480	935,790	796,662
Interest expense		230,001	174,568	445,601	329,420
Net interest income		246,923	237,912	490,189	467,242
Fees and commissions		29,568	31,859	63,949	69,459
Trading income		14,304	10,428	24,111	21,566
Investment income and others	3	27,405	39,599	51,837	54,139
Fees and other income		71,277	81,886	139,897	145,164
OPERATING INCOME		318,200	319,798	630,086	612,406
Provision for credit losses	7c	20,845	29,034	34,334	42,287
NET OPERATING INCOME		297,355	290,764	595,752	570,119
Staff costs		50,721	50,463	98,375	96,053
Depreciation	2.3	8,761	5,515	17,230	10,733
Other operating expenses		27,437	28,264	51,268	53,335
OPERATING EXPENSES		86,919	84,242	166,873	160,121
PROFIT BEFORE TAX		210,436	206,522	428,879	409,998
Tax expense and zakat		10,713	12,227	20,246	23,530
NET PROFIT FOR THE PERIOD		199,723	194,295	408,633	386,468
Net profit attributable to non-controlling interests		15,067	11,584	31,117	29,043
NET PROFIT ATTRIBUTABLE TO THE OWNERS OF THE BANK		184,656	182,711	377,516	357,425
EARNINGS PER SHARE ATTRIBUTABLE TO THE OWNERS OF THE BANK FOR THE PERIOD					
Basic & diluted earnings per ordinary share (US cents)	4	1.9	1.9	4.1	3.9

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 11 form part of these interim condensed consolidated financial statements

Ahli United Bank B.S.C.

INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Six months ended 30 June 2019 (Reviewed)

	<i>Three months ended</i>		<i>Six months ended</i>	
	<i>30 June</i>		<i>30 June</i>	
	<i>2019</i>	<i>2018</i>	<i>2019</i>	<i>2018</i>
	<i>USD'000</i>	<i>USD'000</i>	<i>USD'000</i>	<i>USD'000</i>
Net profit for the period	199,723	194,295	408,633	386,468
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	1,555	2,619	1,843	2,857
Net change in pension fund reserve	2,377	14,140	4,883	10,452
Items that may be reclassified subsequently to consolidated statement of income				
Foreign currency translation adjustments	15,869	(25,908)	22,725	(8,432)
Net change in fair value of financial assets measured at fair value through OCI	4,931	(8,249)	12,293	(21,019)
Transfers to consolidated statement of income	1,085	(5,909)	1,085	(5,909)
Net change in fair value of cash flow hedges	(11,497)	6,314	(16,972)	12,121
Other comprehensive income for the period	14,320	(16,993)	25,857	(9,930)
Total comprehensive income for the period	214,043	177,302	434,490	376,538
Total comprehensive income attributable to non-controlling interests	18,928	7,294	36,522	27,920
Total comprehensive income attributable to owners of the Bank	195,115	170,008	397,968	348,618

The attached notes 1 to 11 form part of these interim condensed consolidated financial statements

Ahli United Bank B.S.C.

INTERIM CONSOLIDATED BALANCE SHEET

30 June 2019 (Reviewed)

		<i>(Audited)</i>
		<i>30 June</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		1,460,016
Treasury bills and deposits with central banks		1,390,470
Deposits with banks		1,918,727
Loans and advances	7	3,061,818
Non-trading investments	8	20,302,254
Investment in associates		8,441,837
Investment properties		318,348
Interest receivable and other assets		7,568,528
Premises and equipment		231,364
Goodwill and other intangible assets		843,564
		297,416
		478,319
TOTAL ASSETS		38,046,200
		35,507,577
LIABILITIES AND EQUITY		
LIABILITIES		
Deposits from banks		5,578,783
Borrowings under repurchase agreements		3,752,792
Customers' deposits		2,436,581
Interest payable and other liabilities		23,579,573
Subordinated liabilities		1,466,022
		27,685
TOTAL LIABILITIES		33,088,644
		30,535,569
EQUITY		
Ordinary share capital		2,193,611
Treasury shares		1,992,541
Reserves		(13,190)
		1,709,407
Equity attributable to the owners		3,889,828
Perpetual Tier 1 Capital Securities		3,908,701
Non-controlling interests		600,000
		467,728
TOTAL EQUITY		4,957,556
		4,972,008
TOTAL LIABILITIES AND EQUITY		38,046,200
		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 11 form part of these interim condensed consolidated financial statements

CONSOLIDATED STATEMENT OF CASH FLOWS

Six months ended 30 June 2019 (Reviewed)

	<i>Six months ended</i>	
	<i>30 June</i>	
	<i>2019</i>	<i>2018</i>
	<i>US\$ '000</i>	<i>US\$ '000</i>
OPERATING ACTIVITIES		
Profit before tax	428,879	409,998
Adjustments for:		
Depreciation	17,230	10,733
Investment income	(41,035)	(29,770)
Provision for credit losses	34,334	42,287
Fair Value of Employee Share Purchase Plan (ESPP) charge	705	2,217
Share of profit from associates	(14,861)	(20,130)
Operating profit before changes in operating assets and liabilities	425,252	415,335
Changes in:		
Mandatory reserve deposits with central banks	84,560	(121,755)
Treasury bills and deposits with central banks	196,508	58,438
Deposits with banks	242,720	(219,579)
Loans and advances	(821,460)	(415,549)
Interest receivable and other assets	(85,046)	(155,885)
Deposits from banks	1,825,991	(253,333)
Borrowings under repurchase agreements	604,447	(331,606)
Customers' deposits	(80,462)	1,847,061
Interest payables and other liabilities	39,335	104,414
Cash from operations	2,431,845	927,541
Income tax paid	(22,867)	(27,038)
Net cash from operating activities	2,408,978	900,503
INVESTING ACTIVITIES		
Purchase of non-trading investments	(1,516,117)	(1,890,445)
Proceeds from sale or redemption of non-trading investments	944,720	1,348,869
Net movement in investment properties	34,208	4,646
Net increase in premises and equipment	(21,820)	(15,369)
Dividends received from associates	13,603	12,955
Net cash used in investing activities	(545,406)	(539,344)
FINANCING ACTIVITIES		
Distribution on Perpetual Tier 1 Capital Securities	(19,250)	(19,250)
Repayment of subordinated liabilities	(165,012)	(11,222)
Dividends and other appropriations paid	(386,878)	(332,418)
Dividends paid to non-controlling interest	(29,716)	(23,667)
Capital increase due to Mandatory Share Plan (MSP) & ESPP shares	4,200	17,797
Purchase of treasury shares	-	(1,529)
Net cash used in financing activities	(596,656)	(370,289)
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	1,266,916	(9,130)
Net foreign exchange difference	13,415	(1,984)
Cash and cash equivalents at 1 January	3,088,964	2,528,722
CASH AND CASH EQUIVALENTS AT 30 JUNE	4,369,295	2,517,608
Comprising:		
Cash and balances with central banks, excluding mandatory reserve deposits	1,058,022	741,482
Deposits with banks, central banks & treasury bills with an original maturity of three months or less	3,311,273	1,776,126
	4,369,295	2,517,608

The attached notes 1 to 11 form part of these interim condensed consolidated financial statements

Ahli United Bank B.S.C.

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Six months ended 30 June 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 9)</i>	<i>Total reserves</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>	<i>US\$ '000</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
Transfer from OCI reserve	-	-	-	-	(3,415)	-	-	(3,415)	-	(1,005)	(4,420)
Distribution related to Perpetual Tier 1 Capital Securities	-	-	-	-	(13,750)	-	-	(13,750)	-	-	(13,750)
Distribution related to Perpetual Tier 1 Sukuk	-	-	-	-	(4,120)	-	-	(4,120)	-	(1,380)	(5,500)
Ordinary share dividend	-	-	-	-	1,082	(398,838)	-	(397,756)	-	-	(397,756)
Dividends of subsidiaries	-	-	-	-	-	-	-	-	-	(29,716)	(29,716)
Movement in associate	-	-	-	-	(1,705)	-	-	(1,705)	-	-	(1,705)
Fair value amortisation of share based transactions	-	-	-	-	-	-	705	705	-	-	705
Total comprehensive income for the period	-	-	-	-	377,516	-	20,452	397,968	-	36,522	434,490
Balance at 30 June 2019	2,193,611	(13,190)	766,209	586,481	790,861	-	(434,144)	1,709,407	600,000	467,728	4,957,556

The attached notes 1 to 11 form part of these interim condensed consolidated financial statements

Ahli United Bank B.S.C.

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Six months ended 30 June 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 9)</i>				<i>Total reserves</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 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
Purchase of treasury shares	-	(1,529)	-	-	-	-	-	-	-	-	(1,529)
Transfer from OCI reserve	-	-	-	-	(5,705)	-	-	(5,705)	-	-	(5,705)
Distribution related to Perpetual Tier 1 Capital Securities	-	-	-	-	(13,750)	-	-	(13,750)	-	-	(13,750)
Distribution related to Perpetual Tier 1 Sukuk	-	-	-	-	(4,120)	-	-	(4,120)	-	(1,380)	(5,500)
Ordinary share dividend	-	-	-	-	818	(341,578)	-	(340,760)	-	-	(340,760)
Dividends of subsidiary	-	-	-	-	-	-	-	-	-	(23,667)	(23,667)
Fair value amortisation of share based transactions	-	-	-	-	-	-	2,217	2,217	-	-	2,217
Total comprehensive income for the period	-	-	-	-	357,425	-	(8,807)	348,618	-	27,920	376,538
Balance at 30 June 2018	1,992,541	(13,190)	763,660	516,728	789,608	-	(426,856)	1,643,140	600,000	444,973	4,667,464

The attached notes 1 to 11 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 six-month period ended 30 June 2019 were authorised for issue in accordance with a resolution of the Directors dated 29 July 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.

Lessors 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 30 June 2019 relating to right-of-use assets amount to US\$ 5.3 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\$ 11,396 thousand for the six months ended 30 June 2019 (30 June 2018: US\$ 7,814 thousand) which is of a seasonal nature.

Ahli United Bank B.S.C.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2019 (Reviewed)

4 EARNINGS PER ORDINARY SHARE

	<i>Three months ended</i>		<i>Six months ended</i>	
	<i>30 June</i>		<i>30 June</i>	
	<i>2019</i>	<i>2018</i>	<i>2019</i>	<i>2018</i>
	<i>US\$ '000</i>	<i>US\$ '000</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	184,656	182,711	377,516	357,425
(Less): Perpetual Tier 1 Capital Securities distribution	(13,750)	(13,750)	(13,750)	(13,750)
(Less): Perpetual Tier 1 Sukuk distribution	(4,120)	(4,120)	(4,120)	(4,120)
Adjusted net profit for the period attributable to Bank's ordinary equity shareholders for basic and diluted earnings per share computation	166,786	164,841	359,646	339,555
Weighted average ordinary shares outstanding during the period adjusted for bonus shares (in millions)	8,751	8,745	8,748	8,745
Basic & diluted earnings per ordinary share (US cents)	1.9	1.9	4.1	3.9
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	21.6

5 CONTINGENT LIABILITIES

The Group had the following credit related contingent liabilities:

	<i>(Audited)</i>	
	<i>30 June</i>	<i>31 December</i>
	<i>2019</i>	<i>2018</i>
	<i>US\$ '000</i>	<i>US\$ '000</i>
Guarantees	2,741,240	2,600,252
Acceptances	108,864	126,455
Letters of credit	376,951	576,710
	3,227,055	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

30 June 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>
Six months ended 30 June 2019:					
Net interest income	100,137	220,694	129,445	39,913	490,189
Fees and commissions	17,942	34,343	1,290	10,374	63,949
Trading, investment income and others	1,774	8,647	65,462	65	75,948
OPERATING INCOME	119,853	263,684	196,197	50,352	630,086
Provision for credit losses	3,606	33,170	(2,350)	(92)	34,334
NET OPERATING INCOME	116,247	230,514	198,547	50,444	595,752
Operating expenses	59,389	41,909	48,832	16,743	166,873
PROFIT BEFORE TAX	56,858	188,605	149,715	33,701	428,879
Tax expense					20,246
NET PROFIT FOR THE PERIOD					408,633
Less : Non - controlling interests					31,117
NET PROFIT ATTRIBUTABLE TO THE OWNERS OF THE BANK					377,516
Inter segment interest included in net interest income above	143,124	(201,231)	33,204	24,903	-
	<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>
Six months ended 30 June 2018:					
Net interest income	95,342	225,086	110,550	36,264	467,242
Fees and commissions	16,264	38,400	2,142	12,653	69,459
Trading, investment income and others	1,760	9,712	64,156	77	75,705
OPERATING INCOME	113,366	273,198	176,848	48,994	612,406
Provision for credit losses	5,283	38,870	(970)	(896)	42,287
NET OPERATING INCOME	108,083	234,328	177,818	49,890	570,119
Operating expenses	55,612	39,266	47,729	17,514	160,121
PROFIT BEFORE TAX	52,471	195,062	130,089	32,376	409,998
Tax expense					23,530
NET PROFIT FOR THE PERIOD					386,468
Less : Non-controlling interests					29,043
NET PROFIT ATTRIBUTABLE TO THE OWNERS OF THE BANK					357,425
Inter segment interest included in net interest income above	114,357	(143,661)	14,119	15,185	-

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2019 (Reviewed)

7 LOANS AND ADVANCES

a) Carrying amount of loans and advances

	30 June 2019			
	Stage 1	Stage 2	Stage 3	Total
	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Loans and advances				
High standard grade	12,399,877	351,724	-	12,751,601
Standard grade	5,701,979	2,213,193	-	7,915,172
Impaired	-	-	411,509	411,509
	18,101,856	2,564,917	411,509	21,078,282
Less: ECL allowances	(115,012)	(310,704)	(350,312)	(776,028)
	17,986,844	2,254,213	61,197	20,302,254
	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	(4,819)	3,331	1,488	-
Transfer from stage 2	-	(79,811)	79,811	-
Net remeasurement of ECL allowances for the period	(5,182)	20,160	21,497	36,475
Amounts written off during the period	-	-	(80,919)	(80,919)
Exchange rate and other adjustments	(53)	1,692	3,587	5,226
At 30 June	115,012	310,704	350,312	776,028

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2019 (Reviewed)

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	(6,797)	5,198	1,599	-
Transfer from stage 2	-	(9,175)	9,175	-
Net remeasurement of ECL allowances for the period	8,632	51,986	28,931	89,549
Amounts written off during the period	-	-	(7,414)	(7,414)
Exchange rate and other adjustments	32	(1,042)	9,339	8,329
At 30 June	147,849	425,633	366,309	939,791

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:

	Six months ended 30 June	
	2019 US\$ '000	2018 US\$ '000
Net remeasurement of ECL on loans and advances (note 7 b)	36,475	89,549
Recoveries from loans and advances during the period (from fully provided loans written off in previous years)	(13,308)	(37,161)
Net remeasurement of ECL for non-trading investments (note 8 b)	(2,350)	(970)
Net remeasurement of ECL on off-balance sheet exposures and others	13,517	(9,131)
Provision for credit losses	34,334	42,287

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2019 (Reviewed)

8 NON-TRADING INVESTMENTS

a) Carrying amount of non-trading investments

	30 June 2019			
	Stage 1	Stage 2	Stage 3	Total
	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Non trading investments				
High standard grade	5,908,375	27,282	-	5,935,657
Standard grade	2,094,749	195,401	-	2,290,150
	8,003,124	222,683	-	8,225,807
Less: ECL allowances	(8,559)	(2,521)	-	(11,080)
Equity instruments and funds at fair value	-	-	-	227,110
	7,994,565	220,162	-	8,441,837
	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\$ 119.5 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	(127)	127	-	-
Net remeasurement of ECL allowances for the period (note 7 c)	(1,022)	(1,328)	-	(2,350)
Exchange rate and other adjustments	(21)	-	-	(21)
	8,559	2,521	-	11,080

30 June 2019 (Reviewed)

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

	<i>2018</i>			<i>Total</i>
	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	
	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>
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)	(433)	(537)	-	(970)
Exchange rate and other adjustments	(2,988)	450	(450)	(2,988)
At 30 June	9,426	2,433	-	11,859

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2019 (Reviewed)

9 MOVEMENT IN OTHER RESERVES

	<i>Capital reserve</i>	<i>Property revaluation reserve</i>	<i>Foreign exchange translation reserve</i>	<i>Cumulative changes in</i>			<i>Total other reserves</i>	
				<i>OCI reserve</i>	<i>Cash flow hedge reserve</i>	<i>ESPP reserve</i>		<i>Pension fund reserve</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 1 January 2019	8,480	35,225	(435,370)	3,639	(17,021)	-	(50,254)	(455,301)
Currency translation adjustments	-	-	18,034	-	-	-	-	18,034
Transfers to consolidated statement of income	-	-	-	1,085	(446)	-	-	639
Net fair value movements	-	-	-	10,007	(16,526)	-	-	(6,519)
Transfers to retained earnings	-	-	-	3,415	-	-	-	3,415
Fair value movements and others	-	-	-	-	-	705	4,883	5,588
Balance at 30 June 2019	8,480	35,225	(417,336)	18,146	(33,993)	705	(45,371)	(434,144)
	<i>Capital reserve</i>	<i>Property revaluation reserve</i>	<i>Foreign exchange translation reserve</i>	<i>Cumulative changes in</i>			<i>Total other reserves</i>	
	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>OCI reserve</i>	<i>Cash flow hedge reserve</i>	<i>ESPP reserve</i>	<i>Pension fund reserve</i>	<i>US\$ '000</i>
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	-	(2)	(7,007)	-	-	-	-	(7,009)
Transfers to consolidated statement of income	-	-	-	(5,909)	610	-	-	(5,299)
Net fair value movements	-	-	-	(24,167)	11,511	-	-	(12,656)
Transfers to retained earnings	-	-	-	5,705	-	-	-	5,705
Fair value movements and others	-	-	-	-	-	2,217	10,452	12,669
Balance at 30 June 2018	8,480	35,566	(430,993)	17,292	(14,538)	2,217	(44,880)	(426,856)

10 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\$ 6,961.1 million as at 30 June 2019 (31 December 2018: US\$ 6,182.9 million). Carrying value of these non-trading investments is US\$ 7,021.9 million as at 30 June 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>30 June 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	117,258	70,754	39,098	227,110
Debt instruments (FVTOCI)	1,152,177	40,695	-	1,192,872
Derivative assets	642	120,011	-	120,653
Derivative liabilities	-	465,660	-	465,660
	<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 six month period ended 30 June 2019 and 30 June 2018 there have been no transfers between Levels 1, 2 and 3.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2019 (Reviewed)

11 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					
	<i>Major shareholders</i>	<i>Associates</i>	<i>Non Executive Directors</i>	<i>Senior management</i>		<i>Total</i>
				<i>Management 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>For the six months ended</i>						
<i>30 June 2019</i>						
Interest income	-	1,931	3,749	89	14	5,783
Interest expense	93,487	769	920	24	11	95,211
Fees and commissions	-	1,606	246	3	2	1,857
Short term employee benefits	-	-	-	5,874	1,623	7,497
End of service benefits	-	-	-	920	93	1,013
Directors' fees and related expenses	-	-	1,274	-	-	1,274
<i>As of 30 June 2019</i>						
Deposits with banks	-	89,383	-	-	-	89,383
Loans and advances	-	-	158,705	3,745	577	163,027
Deposits from banks	-	60,713	-	-	-	60,713
Customers' deposits	6,486,368	-	62,959	5,494	1,952	6,556,773
Subordinated liabilities	9,689	-	-	-	-	9,689
Commitments and contingent liabilities	-	35,394	187,091	-	-	222,485
Derivative assets	-	4,056	-	-	-	4,056
2018						
	<i>Major shareholders</i>	<i>Associates</i>	<i>Non Executive Directors</i>	<i>Senior management</i>		<i>Total</i>
				<i>Management 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>For the six months ended</i>						
<i>30 June 2018</i>						
Interest income	-	2,872	3,823	130	16	6,841
Interest expense	61,150	11	556	54	5	61,776
Fees and commissions	-	1,217	46	10	6	1,279
Short term employee benefits	-	-	-	6,698	1,536	8,234
End of service benefits	-	-	-	924	85	1,009
Directors' fees and related expenses	-	-	1,057	-	-	1,057
<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