

Ahli United Bank B.S.C.
INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS
30 SEPTEMBER 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 September 2019, comprising of the interim consolidated balance sheet as at 30 September 2019 and the related interim consolidated statements of income, comprehensive 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 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.



23 October 2019
Manama, Kingdom of Bahrain

Ahli United Bank B.S.C.

INTERIM CONSOLIDATED STATEMENT OF INCOME

Nine months ended 30 September 2019 (Reviewed)

	Note	<i>Three months ended</i>		<i>Nine months ended</i>	
		<i>30 September</i>		<i>30 September</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		459,935	424,899	1,395,725	1,221,561
Interest expense		227,386	183,711	672,987	513,131
Net interest income		232,549	241,188	722,738	708,430
Fees and commissions		29,494	29,113	93,443	98,572
Trading income		11,236	11,128	35,347	32,694
Investment income and others	3	15,948	13,198	67,785	67,337
Fees and other income		56,678	53,439	196,575	198,603
OPERATING INCOME		289,227	294,627	919,313	907,033
Provision for credit losses	7c	4,892	19,538	39,226	61,825
NET OPERATING INCOME		284,335	275,089	880,087	845,208
Staff costs		48,554	47,103	146,929	143,156
Depreciation	2.3	7,270	5,745	24,500	16,478
Other operating expenses		22,417	25,080	73,685	78,415
OPERATING EXPENSES		78,241	77,928	245,114	238,049
PROFIT BEFORE TAX		206,094	197,161	634,973	607,159
Tax expense and zakat		10,342	11,533	30,588	35,063
NET PROFIT FOR THE PERIOD		195,752	185,628	604,385	572,096
Net profit attributable to non-controlling interests		14,848	14,785	45,965	43,828
NET PROFIT ATTRIBUTABLE TO THE OWNERS OF THE BANK		180,904	170,843	558,420	528,268
EARNINGS PER SHARE ATTRIBUTABLE TO THE OWNERS OF THE BANK FOR THE PERIOD					
Basic & diluted earnings per ordinary share (US cents)	4	2.1	2.0	6.2	5.8

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

Nine months ended 30 September 2019 (Reviewed)

	<i>Three months ended</i>		<i>Nine months ended</i>	
	<i>30 September</i>		<i>30 September</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	195,752	185,628	604,385	572,096
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	688	(1,390)	2,531	1,467
Net change in pension fund reserve	5,032	(203)	9,915	10,249
Items that may be reclassified subsequently to consolidated statement of income				
Foreign currency translation adjustments	3,977	(3,106)	26,702	(11,538)
Net change in fair value of financial assets measured at fair value through OCI	737	3,775	13,030	(17,244)
Transfers to consolidated statement of income	(257)	(565)	828	(6,474)
Net change in fair value of cash flow hedges	(10,541)	3,438	(27,513)	15,559
Other comprehensive income (loss) for the period	(364)	1,949	25,493	(7,981)
Total comprehensive income for the period	195,388	187,577	629,878	564,115
Total comprehensive income attributable to non-controlling interests	15,568	14,155	52,090	42,075
Total comprehensive income attributable to owners of the Bank	179,820	173,422	577,788	522,040

Ahli United Bank B.S.C.

INTERIM CONSOLIDATED BALANCE SHEET

30 September 2019 (Reviewed)

		<i>(Audited)</i>
		<i>30 September</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		1,517,119
Treasury bills and deposits with central banks		1,980,978
Deposits with banks		3,826,944
Loans and advances	7	20,385,876
Non-trading investments	8	8,748,127
Investment in associates		323,834
Investment properties		230,235
Interest receivable and other assets		845,713
Premises and equipment		295,152
Goodwill and other intangible assets		484,643
TOTAL ASSETS		38,638,621
LIABILITIES AND EQUITY		
LIABILITIES		
Deposits from banks		4,975,691
Borrowings under repurchase agreements		2,385,910
Customers' deposits		24,547,975
Interest payable and other liabilities		1,546,597
Subordinated liabilities		27,547
TOTAL LIABILITIES		33,483,720
EQUITY		
Ordinary share capital		2,193,611
Treasury shares		(13,190)
Reserves		1,890,205
Equity attributable to the owners		4,070,626
Perpetual Tier 1 Capital Securities		600,000
Non-controlling interests		484,275
TOTAL EQUITY		5,154,901
TOTAL LIABILITIES AND EQUITY		38,638,621

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

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

Nine months ended 30 September 2019 (Reviewed)

	<i>Nine months ended</i>	
	<i>30 September</i>	
	<i>2019</i>	<i>2018</i>
	<i>US\$ '000</i>	<i>US\$ '000</i>
OPERATING ACTIVITIES		
Profit before tax	634,973	607,159
Adjustments for:		
Depreciation	24,500	16,478
Investment income	(50,156)	(34,439)
Provision for credit losses	39,226	61,825
Fair Value of Employee Share Purchase Plan (ESPP) charge	1,057	3,326
Share of profit from associates	(23,315)	(27,466)
Operating profit before changes in operating assets and liabilities	626,285	626,883
Changes in:		
Mandatory reserve deposits with central banks	43,006	(58,113)
Treasury bills and deposits with central banks	152,782	1,049,869
Deposits with banks	(621,939)	(691,644)
Loans and advances	(912,633)	(672,751)
Interest receivable and other assets	(93,644)	(167,655)
Deposits from banks	1,222,899	(871,128)
Borrowings under repurchase agreements	553,776	214,449
Customers' deposits	887,940	2,712,180
Interest payables and other liabilities	156,586	183,151
Cash from operations	2,015,058	2,325,241
Income tax paid	(31,646)	(37,238)
Net cash from operating activities	1,983,412	2,288,003
INVESTING ACTIVITIES		
Purchase of non-trading investments	(2,414,325)	(2,627,768)
Proceeds from sale or redemption of non-trading investments	1,525,247	1,855,950
Net movement in investment properties	35,330	(4,632)
Net increase in premises and equipment	(30,993)	(21,147)
Dividends received from associates	13,603	12,955
Net cash used in investing activities	(871,138)	(784,642)
FINANCING ACTIVITIES		
Distribution on Perpetual Tier 1 Capital Securities	(19,250)	(19,250)
Movement in subsidiary	181	-
Repayment of subordinated liabilities	(165,000)	(11,286)
Dividends and other appropriations paid	(389,523)	(333,505)
Dividends paid to non-controlling interest	(29,716)	(26,179)
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	(599,108)	(373,952)
INCREASE IN CASH AND CASH EQUIVALENTS	513,166	1,129,409
Net foreign exchange difference	14,709	(3,935)
Cash and cash equivalents at 1 January	3,088,964	2,528,722
CASH AND CASH EQUIVALENTS AT 30 SEPTEMBER	3,616,839	3,654,196
Comprising:		
Cash and balances with central banks, excluding mandatory reserve deposits	1,073,571	941,309
Deposits with banks, central banks & treasury bills with an original maturity of three months or less	2,543,268	2,712,887
	3,616,839	3,654,196

Ahli United Bank B.S.C.

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Nine months ended 30 September 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>			
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	-	-	-	-	(970)	-	-	(970)	-	(186)	(1,156)
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	-	-	-	-	(3,545)	-	-	(3,545)	-	-	(3,545)
Movement in subsidiary	-	-	21	-	-	-	-	21	-	160	181
Fair value amortisation of share based transactions	-	-	-	-	-	-	1,057	1,057	-	-	1,057
Total comprehensive income for the period	-	-	-	-	558,420	-	19,368	577,788	-	52,090	629,878
Balance at 30 September 2019	2,193,611	(13,190)	766,230	586,481	972,370	-	(434,876)	1,890,205	600,000	484,275	5,154,901

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

Nine months ended 30 September 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>
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	-	-	-	-	(5,659)	-	-	(5,659)	-	-	(5,659)
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 subsidiaries	-	-	-	-	-	-	-	-	-	(26,179)	(26,179)
Fair value amortisation of share based transactions	-	-	-	-	-	-	3,326	3,326	-	-	3,326
Total comprehensive income for the period	-	-	-	-	528,268	-	(6,228)	522,040	-	42,075	564,115
Balance at 30 September 2018	1,992,541	(13,190)	763,660	516,728	960,497	-	(423,168)	1,817,717	600,000	456,616	4,853,684

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 nine-month period ended 30 September 2019 were authorised for issue in accordance with a resolution of the Directors dated 23 October 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 30 September 2019 relating to right-of-use assets amount to US\$ 7.9 million and are included under depreciation expense.

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

IFRS 16 Leases (continued)

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.

Ahli United Bank B.S.C.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 September 2019 (Reviewed)

3 INVESTMENT INCOME AND OTHERS

Investment income and others include income amounting to US\$ 15,804 thousand for the nine months ended 30 September 2019 (30 September 2018: US\$ 12,512 thousand) which 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>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	180,904	170,843	558,420	528,268
(Less): Perpetual Tier 1 Capital Securities distribution	-	-	(13,750)	(13,750)
(Less): Perpetual Tier 1 Sukuk distribution	-	-	(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	180,904	170,843	540,550	510,398
Weighted average ordinary shares outstanding during the period adjusted for bonus shares (in millions)	8,751	8,743	8,749	8,744
Basic & diluted earnings per ordinary share (US cents)	2.1	2.0	6.2	5.8
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 September</i>	<i>31 December</i>
	<i>2019</i>	<i>2018</i>
	<i>US\$ '000</i>	<i>US\$ '000</i>
Guarantees	2,645,542	2,600,252
Acceptances	108,881	126,455
Letters of credit	417,089	576,710
	3,171,512	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 September 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>
Nine months ended 30 September 2019:					
Net interest income	154,875	317,589	193,633	56,641	722,738
Fees and commissions	28,587	49,214	856	14,786	93,443
Trading, investment income and others	1,284	14,365	87,401	82	103,132
OPERATING INCOME	184,746	381,168	281,890	71,509	919,313
Provision/(reversal) for credit losses	4,556	36,147	(1,635)	158	39,226
NET OPERATING INCOME	180,190	345,021	283,525	71,351	880,087
Operating expenses	91,377	63,675	65,944	24,118	245,114
PROFIT BEFORE TAX	88,813	281,346	217,581	47,233	634,973
Tax expense					30,588
NET PROFIT FOR THE PERIOD					604,385
Less : Non - controlling interests					45,965
NET PROFIT ATTRIBUTABLE TO THE OWNERS OF THE BANK					558,420
Inter segment interest included in net interest income above	214,298	(306,111)	53,168	38,645	-
	<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>
Nine months ended 30 September 2018:					
Net interest income	144,933	336,178	172,232	55,087	708,430
Fees and commissions	23,449	54,687	2,523	17,913	98,572
Trading, investment income and others	3,074	14,069	82,787	101	100,031
OPERATING INCOME	171,456	404,934	257,542	73,101	907,033
Provision/(reversal) for credit losses	8,063	53,184	1,663	(1,085)	61,825
NET OPERATING INCOME	163,393	351,750	255,879	74,186	845,208
Operating expenses	85,694	59,965	66,194	26,196	238,049
PROFIT BEFORE TAX	77,699	291,785	189,685	47,990	607,159
Tax expense					35,063
NET PROFIT FOR THE PERIOD					572,096
Less : Non-controlling interests					43,828
NET PROFIT ATTRIBUTABLE TO THE OWNERS OF THE BANK					528,268
Inter segment interest included in net interest income above	176,677	(231,950)	29,389	25,884	-

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 September 2019 (Reviewed)

7 LOANS AND ADVANCES

a) Carrying amount of loans and advances

	30 September 2019			
	Stage 1	Stage 2	Stage 3	Total
	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Loans and advances				
High standard grade	12,454,925	457,139	-	12,912,064
Standard grade	5,635,204	2,205,051	-	7,840,255
Impaired	-	-	421,393	421,393
	18,090,129	2,662,190	421,393	21,173,712
Less: ECL allowances	(117,866)	(310,988)	(358,982)	(787,836)
	17,972,263	2,351,202	62,411	20,385,876

	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	(5,359)	3,580	1,779	-
Transfer from stage 2	-	(80,149)	80,149	-
Net remeasurement of ECL allowances for the period	(1,498)	21,865	27,747	48,114
Amounts written off during the period	-	-	(82,037)	(82,037)
Exchange rate and other adjustments	(343)	360	6,496	6,513
At 30 September	117,866	310,988	358,982	787,836

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 September 2019 (Reviewed)

7 LOANS AND ADVANCES (continued)

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

	2018			<i>Total</i> US\$ '000
	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	
	US\$ '000	US\$ '000	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	(6,141)	3,999	2,142	-
Transfer from stage 2	-	(10,591)	10,591	-
Net remeasurement of ECL allowances for the period	15,309	50,921	41,602	107,832
Amounts written off during the period	-	-	(22,599)	(22,599)
Exchange rate and other adjustments	2	(1,191)	9,440	8,251
At 30 September	155,152	421,804	365,855	942,811

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:

	<i>Nine months ended</i> <i>30 September</i>	
	<i>2019</i>	<i>2018</i>
	US\$ '000	US\$ '000
Net remeasurement of ECL on loans and advances (note 7 b)	48,114	107,832
Recoveries from loans and advances during the period (from fully provided loans written off in previous years)	(17,396)	(40,470)
Net remeasurement of ECL for non-trading investments (note 8 b)	(1,635)	1,663
Net remeasurement of ECL on off-balance sheet exposures and others	10,143	(7,200)
Provision for credit losses	39,226	61,825

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 September 2019 (Reviewed)

8 NON-TRADING INVESTMENTS

a) Carrying amount of non-trading investments

	30 September 2019			
	Stage 1	Stage 2	Stage 3	Total
	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Non trading investments				
High standard grade	6,193,728	7,511	-	6,201,239
Standard grade	2,130,319	204,230	-	2,334,549
	8,324,047	211,741	-	8,535,788
Less: ECL allowances	(9,850)	(1,862)	-	(11,712)
Equity instruments at fair value				224,051
	8,314,197	209,879	-	8,748,127
	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 at fair value				278,394
	7,137,003	153,131	-	7,568,528

Equity instruments held at fair value include investments amounting to US\$ 116.1 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	(1,132)	1,132	-	-
Net remeasurement of ECL allowances for the period (note 7 c)	1,357	(2,992)	-	(1,635)
Exchange rate and other adjustments	(104)	-	-	(104)
	9,850	1,862	-	11,712

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

	<i>2018</i>			
	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</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):				
Transfer from stage 1	(634)	634	-	-
Net remeasurement of ECL allowances for the period (note 7 c)	2,347	(684)	-	1,663
Exchange rate and other adjustments	(3,001)	450	(450)	(3,001)
At 30 September	11,559	2,920	-	14,479

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NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 September 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	-	(1)	21,761	-	-	-	-	21,760
Transfers to consolidated statement of income	-	-	-	828	(668)	-	-	160
Net fair value movements	-	-	-	13,408	(26,845)	-	-	(13,437)
Transfers to retained earnings	-	-	-	970	-	-	-	970
Fair value movements and others	-	-	-	-	-	1,057	9,915	10,972
Balance at 30 September 2019	8,480	35,224	(413,609)	18,845	(44,534)	1,057	(40,339)	(434,876)

	<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 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)	(9,591)	-	-	-	-	(9,593)
Transfers to consolidated statement of income	-	-	-	(6,474)	666	-	-	(5,808)
Net fair value movements	-	-	-	(21,628)	14,893	-	-	(6,735)
Transfers to retained earnings	-	-	-	5,659	-	-	-	5,659
Fair value movements and others	-	-	-	-	-	3,326	10,249	13,575
Balance at 30 September 2018	8,480	35,566	(433,577)	19,220	(11,100)	3,326	(45,083)	(423,168)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 September 2019 (Reviewed)

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\$ 7,356.5 million as at 30 September 2019 (31 December 2018: US\$ 6,182.9 million). Carrying value of these non-trading investments is US\$ 7,350.0 million as at 30 September 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 September 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	113,752	71,256	39,043	224,051
Debt instruments (FVTOCI)	1,127,872	46,189	-	1,174,061
Derivative assets	-	143,426	-	143,426
Derivative liabilities	-	588,072	-	588,072
	<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 nine month period ended 30 September 2019 and 30 September 2018 there have been no transfers between Levels 1, 2 and 3.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 September 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</i>	<i>Others</i>	
				<i>Directors</i>	<i>Directors</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 nine months ended</i>						
<i>30 September 2019</i>						
Interest income	-	2,769	5,746	125	18	8,658
Interest expense	136,359	1,112	826	50	15	138,362
Fees and commissions	-	2,159	334	6	4	2,503
Short term employee benefits	-	-	-	8,367	2,411	10,778
End of service benefits	-	-	-	1,349	142	1,491
Directors' fees and related expenses	-	-	1,702	-	-	1,702
<i>As of 30 September 2019</i>						
Deposits with banks	-	76,831	-	-	-	76,831
Loans and advances	-	-	183,184	3,790	456	187,430
Deposits from banks	-	90,289	-	-	-	90,289
Customers' deposits	6,231,044	-	15,153	5,891	1,831	6,253,919
Subordinated liabilities	9,550	-	-	-	-	9,550
Commitments and contingent liabilities	-	39,771	167,401	-	-	207,172
Derivative assets	-	5,445	-	-	-	5,445
2018						
	<i>Major shareholders</i>	<i>Associates</i>	<i>Non Executive Directors</i>	<i>Senior management</i>		<i>Total</i>
				<i>Management</i>	<i>Others</i>	
				<i>Directors</i>	<i>Directors</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 nine months ended</i>						
<i>30 September 2018</i>						
Interest income	-	5,079	5,738	197	28	11,042
Interest expense	100,787	12	1,313	88	9	102,209
Fees and commissions	-	1,867	65	12	6	1,950
Short term employee benefits	-	-	-	7,581	2,295	9,876
End of service benefits	-	-	-	418	134	552
Directors' fees and related expenses	-	-	1,724	-	-	1,724
<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