# Ahli United Bank B.S.C.

## INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 31 MARCH 2018

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

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

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

*Introduction*

We have reviewed the accompanying interim condensed consolidated financial statements of Ahli United Bank B.S.C. (the "Bank") and its subsidiaries (the "Group") as at 31 March 2018, comprising of the interim consolidated balance sheet as at 31 March 2018 and the related interim consolidated statements of income, comprehensive income, changes in equity and condensed cash flows for the three-month period then ended and explanatory notes. The Bank's Board of Directors is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Accounting Standard IAS 34 Interim Financial Reporting ("IAS 34"). Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

*Scope of Review*

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

*Conclusion*

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34.

Ernst & Young

2 May 2018
Manama, Kingdom of Bahrain

# INTERIM CONSOLIDATED STATEMENT OF INCOME

Three months ended 31 March 2018 (Reviewed)

| | Note | *Three months ended 31 March* 2018 USD'000 | 2017 USD'000 |
|---|---|---|---|
| Interest income | | **384,182** | 317,263 |
| Interest expense | | **154,852** | 113,144 |
| Net interest income | | **229,330** | 204,119 |
| Fees and commissions | | **37,600** | 34,211 |
| Trading income | | **11,138** | 7,715 |
| Investment income and others | 3 | **14,540** | 26,113 |
| Fees and other income | | **63,278** | 68,039 |
| **OPERATING INCOME** | | **292,608** | 272,158 |
| Provision for credit losses | 7c | **13,253** | 12,218 |
| **NET OPERATING INCOME** | | **279,355** | 259,940 |
| Staff costs | | **45,590** | 45,655 |
| Depreciation | | **5,218** | 4,596 |
| Other operating expenses | | **25,071** | 23,171 |
| **OPERATING EXPENSES** | | **75,879** | 73,422 |
| **PROFIT BEFORE TAX** | | **203,476** | 186,518 |
| Tax expense | | **11,303** | 11,346 |
| **NET PROFIT FOR THE PERIOD** | | **192,173** | 175,172 |
| Net profit attributable to non-controlling interest | | **17,459** | 15,747 |
| **NET PROFIT ATTRIBUTABLE TO THE OWNERS OF THE BANK** | | **174,714** | 159,425 |
| **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 |

**Hamad M. Al-Humaidhi**
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

# INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Three months ended 31 March 2018 (Reviewed)

| | *Three months ended 31 March* | |
|---|---|---|
| | ***2018*** | *2017* |
| | ***USD'000*** | *USD'000* |
| **Net profit for the period** | **192,173** | 175,172 |
| **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 | **238** | 350 |
| Net change in pension fund reserve | **(3,688)** | 2,938 |
| Net change in property revaluation reserve | **-** | (269) |
| **Items that may be reclassified subsequently to consolidated statement of income** | | |
| Foreign currency translation adjustments | **17,476** | 10,355 |
| Net change in fair value of financial assets measured at fair value through OCI | **(12,770)** | - |
| Net change in fair value of cash flow hedges | **5,807** | (652) |
| **Other comprehensive income for the period** | **7,063** | 12,722 |
| **Total comprehensive income for the period** | **199,236** | 187,894 |
| Total comprehensive income attributable to non-controlling interest | **20,626** | 18,185 |
| **Total comprehensive income attributable to owners of the Bank** | **178,610** | 169,709 |

# INTERIM CONSOLIDATED BALANCE SHEET

31 March 2018 (Reviewed)

| | Note | *31 March 2018* *US$ '000* | *(Audited)* *31 December 2017* *US$ '000* |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and balances with central banks | | **926,775** | 809,986 |
| Treasury bills and deposits with central banks | | **3,021,975** | 2,576,352 |
| Deposits with banks | | **1,817,153** | 2,469,751 |
| Loans and advances | 7 | **19,760,324** | 19,498,702 |
| Non-trading investments | 8 | **6,410,668** | 6,002,410 |
| Investment in associates | | **301,822** | 304,020 |
| Investment properties | | **264,548** | 256,242 |
| Premises and equipment | | **229,970** | 226,672 |
| Interest receivable and other assets | | **690,523** | 616,920 |
| Goodwill and other intangible assets | | **483,925** | 480,830 |
| **TOTAL ASSETS** | | **33,907,683** | 33,241,885 |
| **LIABILITIES AND EQUITY** | | | |
| **LIABILITIES** | | | |
| Deposits from banks | | **3,761,777** | 3,943,233 |
| Borrowings under repurchase agreements | | **1,068,896** | 1,272,758 |
| Customers' deposits | | **22,912,105** | 22,009,857 |
| Interest payable and other liabilities | 9 | **1,439,516** | 912,679 |
| Subordinated liabilities | | **215,392** | 215,204 |
| **TOTAL LIABILITIES** | | **29,397,686** | 28,353,731 |
| **EQUITY** | | | |
| Ordinary share capital | | **1,992,541** | 1,889,213 |
| Treasury shares | | **(11,661)** | (11,661) |
| Reserves | | **1,490,058** | 1,938,070 |
| Equity attributable to the owners | | **3,470,938** | 3,815,622 |
| Perpetual Tier 1 Capital Securities | | **600,000** | 600,000 |
| Non-controlling interest | | **439,059** | 472,532 |
| **TOTAL EQUITY** | | **4,509,997** | 4,888,154 |
| **TOTAL LIABILITIES AND EQUITY** | | **33,907,683** | 33,241,885 |

| **Hamad M. Al-Humaidhi** | **Mohammad J. Al-Marzooq** | **Adel A. El-Labban** |
|---|---|---|
| Chairman | Deputy Chairman | Group Chief Executive Officer & Managing Director |

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

# INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

Three months ended 31 March 2018 (Reviewed)

| | *Three months ended 31 March* | |
|---|---|---|
| | ***2018*** | *2017* |
| | ***US$ '000*** | *US$ '000* |
| Net cash used in operating activities | **(431,939)** | (43,219) |
| Net cash (used in) from investing activities | **(339,784)** | 126,361 |
| Net cash from financing activities | **17,985** | 12,588 |
| Net foreign exchange difference | **12,969** | 8,949 |
| **(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS** | **(740,769)** | 104,679 |
| Cash and cash equivalents at 1 January | **2,528,722** | 2,309,113 |
| **CASH AND CASH EQUIVALENTS AT 31 MARCH** | **1,787,953** | 2,413,792 |
| **Comprising:** | | |
| Cash and balances with central banks, excluding mandatory reserve deposits | **659,499** | 653,736 |
| Deposits with banks with an original maturity of three months or less | **1,128,454** | 1,760,056 |
| | **1,787,953** | 2,413,792 |

# INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Three months ended 31 March 2018 (Reviewed)

| | *Attributable to the owners* | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | *Reserves* | | | | | | | |
| | *Ordinary share capital US$ '000* | *Treasury shares US$ '000* | *Share premium US$ '000* | *Statutory reserve US$ '000* | *Retained earnings US$ '000* | *Proposed appropriations US$ '000* | *Other reserves (note 10) US$ '000* | *Total reserves US$ '000* | *Perpetual Tier 1 Capital Securities US$ '000* | *Non-controlling interest US$ '000* | *Total US$ '000* |
| 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 (note 2) | - | - | - | - | (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 subsidiaries | - | - | - | - | - | - | - | - | - | (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

# INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Three months ended 31 March 2018 (Reviewed)

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

The attached notes 1 to 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, private banking services and life insurance business through branches, in the Kingdom of Bahrain, the State of Kuwait, the Arab Republic of Egypt, Republic of Iraq, Dubai International Financial Centre (Authorised Firm) and the United Kingdom. It also operates through its associates in the Sultanate of Oman and Libya as at 31 March 2018. The Bank operates under a retail banking licence issued by the Central Bank of Bahrain. The Bank's registered office is located at Building 2495, Road 2832, Al Seef District 428, Kingdom of Bahrain.

The interim condensed consolidated financial statements of the Group for the three-month period ended 31 March 2018 were authorised for issue in accordance with a resolution of the Directors dated 2 May 2018.

## 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 2017, except for changes to the accounting for financial instruments resulting from the adoption of IFRS 9: Financial Instruments and IFRS 15: Revenue from Contracts with Customers from 1 January 2018 as explained below.

**IFRS 15 Revenue from Contracts with Customers**
IFRS 15 was issued in May 2014 and is effective for annual periods commencing on or after 1 January 2018. IFRS 15 outlines a single comprehensive model of accounting for revenue arising from contracts with customers and supersedes current revenue guidance, which is found currently across several Standards and Interpretations within IFRS. It established a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The Group adopted IFRS 15 'Revenue from Contracts with Customers' resulting in no change in the revenue recognition policy of the Group in relation to its contracts with customers. Further, adoption of IFRS 15 had no material impact on this interim condensed consolidated financial information of the Group.

**IFRS 9 (2014) Financial Instruments and IFRS 7 Financial Instruments: Disclosures**
The Group has adopted IFRS 9 as issued by the International Accounting Standards Board in July 2014 with a date of adoption being 1 January 2018, which resulted in changes in accounting policies and adjustments to the amounts previously recognised in the financial statements. The Group had previously early adopted Phase 1 of IFRS 9 - 'classification IFRS 9 (2010) during 2012 and assessed the classification and measurement of its existing financial assets and financial liabilities as of that date.

As permitted by the transitional provisions of IFRS 9, the Group elected not to restate comparative figures. Accordingly, the information presented for 2017 does not reflect the requirements of IFRS 9 and therefore is not comparable to the information presented for 2018 under IFRS 9. The impact of the adoption of IFRS 9 as at 1 January 2018 has been recognised in retained earnings and other reserves. The new Standard eliminates the use of the existing IAS 39 incurred loss impairment model approach and replaces with a forward-looking expected credit loss (ECL) approach, uses the revised hedge accounting framework, and the revised guidance on the classification and measurement requirements.

**2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)**

**IFRS 9 (2014) Financial Instruments and IFRS 7 Financial Instruments: Disclosures (continued)**

***Classification & Measurement***
IFRS 9 (2014) provides revised guidance on how an entity should classify and measure its financial assets and financial liabilities. IFRS 9 requires all financial assets to be classified in their entirety on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. The Group reviewed and assessed the classification and measurement of financial assets and financial liabilities on the adoption of IFRS 9 (2010) during 2012 and has further reviewed and assessed the existing financial assets and financial liabilities at 1 January 2018. Except for classification of debt instruments amounting to US$ 1.3 billion from amortised cost to fair value through other comprehensive income (FVTOCI) category on 1 January 2018, there have been no changes in the classification and measurement of financial assets or financial liabilities on the adoption of IFRS 9 (2014).

The Group applies the new category under IFRS 9 for debt instruments measured at FVTOCI when both of the following conditions are met:

- The instrument is held within a business model, the objective of which is achieved by both collecting contractual cash flows and selling financial assets; and

- The contractual terms of the financial asset meet the solely payments of principal and interest (SPPI) test.

FVTOCI debt instruments are subsequently measured at fair value with gains and losses arising due to changes in fair value recognised in OCI. On derecognition, cumulative gains or losses previously recognised in OCI are reclassified from OCI to consolidated statement of income.

***Hedge accounting***
Hedge accounting model introduced under IFRS 9 is designed to better align hedge accounting with risk management activities. It has also provided using more broadly to a greater variety of hedging instruments and risks eligible for hedge accounting. Moreover, it has removed rule based thresholds for testing hedge effectiveness by bringing principle based criteria. Retrospective assessment of hedge effectiveness is no longer required. Current accounting treatments of fair value, cashflow and net investment hedge accounting have been retained. IFRS 9 provides an accounting choice to continue to apply IAS 39 hedge accounting rules until the IASB finalizes its macro hedge accounting project.

The Group has determined that all existing hedge relationships that are currently designated as effective hedging relationships would continue to qualify for hedge accounting under IFRS 9 and accordingly will apply IFRS 9 hedge accounting effective 1 January 2018.

***Impairment of financial assets***
IFRS 9 (2014) replaces the incurred loss model in IAS 39 Financial Instruments: Recognition and Measurement with an expected credit loss model.

The Group applies a three-stage approach to measure allowance for credit losses, using an expected credit loss approach as required under IFRS 9, for the following categories of financial instruments that are not measured at fair value through profit or loss (FVTPL):
- Amortized cost financial assets;
- Debt securities classified as FVTOCI;
- Off-balance sheet loan commitments; and
- Financial guarantee contracts, letters of credit & acceptances.

Impairment allowances for expected credit losses (ECL) are recognised for financial instruments that are not measured at FVTPL and are reflected in provisions for loan losses & others and provision for investments. Equity investments are not subject to impairment assessments.

**2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)**

**IFRS 9 (2014) Financial Instruments and IFRS 7 Financial Instruments: Disclosures (continued)**

***Expected credit loss impairment model***
The Group's allowance for credit losses calculations are outputs of models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. The expected credit loss impairment model reflects the present value of all cash shortfalls related to default events either (i) over the following twelve months or (ii) over the expected life of a financial instrument depending on credit deterioration from date of intial recognition. The allowance for credit losses reflects an unbiased, probability-weighted outcome which considers multiple scenarios based on reasonable and supportable forecasts.

Expected credit losses are the product of the Probability of Default (PD), Exposure at Default (EAD), and Loss Given Default (LGD). The PD represents the likelihood of a borrower defaulting on its financial obligation, either over the next 12 months, or over the remaining lifetime of the obligation. The EAD is the expected amount of exposure at the point of default which is mainly determined by the current exposure value for funded exposures. The EAD for unfunded exposures including undrawn commitments are determined by historical behavioural analysis and regulatory Credit Conversion Factors (CCF). The LGD quantifies the potential loss from an exposure in the event of default. The key determinants of LGD are, among others, past recovery / loss data for each segment, external loss data, expected recovery period, discount rate, regulatory guidance etc.

***Incorporation of forward looking information***
The Group incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of Point-in-Time PD (PiT PD). The Group has performed historical analysis and identified the key economic variables impacting credit risk and expected credit losses. The forecast economic variables are applied to established regression relationships to determine PiT PD. Macro-economic factors taken into consideration include oil related variables, gross domestic product, unemployment and real estate indices. The methodologies and assumptions including any forecasts of future economic conditions are reviewed regularly.

The impairment model measures credit loss allowances using a three-stage approach based on the extent of credit deterioration since origination as described below:

Stage 1 – Measures and recognizes credit loss allowance equal to 12-month ECL for financial instruments for which credit risk has not significantly increased since initial recognition. All investment grade assets are deemed to be Stage 1 as per AUB's policy under the low credit risk presumption except in cases where there are past dues in excess of 30 days (rebuttable) or 60 days (non-rebuttable).

Stage 2 – If credit risk has increased significantly since initial recognition (whether assessed on an individual or collective basis), then measure and recognise credit loss allowance at an amount equal to the lifetime ECL. The key drivers to consider an asset as Stage 2 as per AUB's policy are as follows:

- Movements in risk rating since origination. Where the rating movement has deteriorated by 50% or more, 'the amortised cost of financial asset is automatically migrated to Stage 2.
- Number of days past due (30 days - rebuttable) subject to approval of IFRS 9 working committee (WC) decision; 60 days (non-rebuttable).
- Restructured credits: As per CBB, all restructured facilities are required to remain in Stage 2 for a minimum period of 12 months from the date of restructuring.
- Delays in credit reviews or resolving credit exceptions subject to WC decision.
- Sector or country specific weakness subject to WC decision.

## 2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

**IFRS 9 (2014) Financial Instruments and IFRS 7 Financial Instruments: Disclosures (continued)**

- Any other specific indicators including forward looking information which are available without undue cost or effort with respect to the obligor or the exposure such as, but not limited to, arrears with other lenders, law suits filed against the obligor by other lenders / creditors, negative movements in market indicators of financial performance etc. and the WC determines that this represents a significant deterioration in credit quality etc.

Stage 3 – Financial instruments where there is objective evidence of impairment are considered to be in credit impaired are included in this stage. Similar to Stage 2, the allowance for credit losses captures the lifetime expected credit losses.

Financial assets that are subject to ECL measurement are tested as to whether they are credit-impaired. Objective evidence that a financial asset is credit-impaired may include a breach of contract, such as default or delinquency in interest or principal payments, indications that it is probable that the borrower will enter bankruptcy or other significant financial reorganisation, the disappearance of an active market, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group. The Group continues its policy of treating financial instruments as credit impaired under Stage 3 category when the repayment of the principal or interest is overdue for 90 days or more.

Financial assets are written off after all restructuring and collection activities have taken place and there is no realistic prospect of recovery.

In preparing these interim condensed consolidated financial statements, significant judgements made by management in applying accounting policies and key sources of estimation were the same as those that were applied to the annual consolidated financial statements for the year ended 31 December 2017 except for new judgements and estimates explained below:

**Measurement of the expected credit loss allowance**

The measurement of the ECL for financial assets measured at amortised cost and FVTOCI is an area that requires the use of complex models and significant assumptions about future economic conditions, credit behaviour (e.g. the likelihood of customers defaulting and the resulting losses), estimation of the amount and timing of the future cash flows and collateral values. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

The Group's ECL calculation are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

-Internal credit rating model, which assigns PDs to the individual ratings;
-Determining criteria for significant increase in credit risk;
-Choosing appropriate models and assumptions for the measurement of ECL;
-Determination of associations between macroeconomic scenarios and, economic inputs, such as unemployment levels and collateral values, and the effect on PDs, EADs and LGDs;
-Selection and relative weightings of forward-looking scenarios to derive the economic inputs into the ECL models;
-Establishing groups of similar financial assets for the purposes of measuring ECL; and
-Determining relevant period of exposure with respect to the revolving facilities and facilities undergoing restructuring at the time of the reporting date.

**2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)**

**IFRS 9 (2014) Financial Instruments and IFRS 7 Financial Instruments: Disclosures (continued)**

**Transition adjustments**

**a) Impact of reclassification and remeasurement on the carrying value of non-trading investments**

The impact of reclassification and remeasurement on the carrying value of non-trading investments arising from a change in measurement from amortised cost to FVTOCI attributable on transition to IFRS 9 for the Group's financial assets as at 1 January 2018 is disclosed in the table below:-

| | *Carrying amount 31 December 2017* | *Reclassification* | *Remeasurement* | *Carrying amount 1 January 2018* |
|---|---|---|---|---|
| | *US$'000* | *US$'000* | *US$'000* | *US$'000* |
| Non-trading investments | 1,345,162 | 54,644 | (2,486) | 1,397,320 |

**b) Impact of impairment allowance**

The following table relates to the impact of impairment allowance for financial assets in accordance with IAS 39 as at 31 December 2017 and the opening ECL allowance determined in accordance with IFRS 9 as at 1 January 2018 :

| | *31 December 2017* | | *Remeasurement* | | *1 January 2018* |
|---|---|---|---|---|---|
| | *US$'000* | *US$'000* | *US$'000* | *US$'000* | *US$'000* |
| | *Carrying amount* | *Retained earnings* | *Non controlling interest* | *Total* | *Carrying amount* |
| | | *Debit/(Credit)* | *Debit* | *Debit/(Credit)* | |
| Deposits with banks | 2,469,751 | 1,481 | 25 | 1,506 | 2,468,245 |
| Loans and advances | 19,498,702 | 232,376 | 27,883 | 260,259 | 19,238,443 |
| Non-trading investments | 6,002,410 | (23,533) | 129 | (23,404) | 6,025,814 |
| Other liabilities | | | | | |
| - Off balance sheet exposures | 912,679 | 39,219 | 2,395 | 41,614 | 871,065 |
| | | **249,543** | **30,432** | **279,975** | |

## 3 OTHER OPERATING INCOME

Other operating income includes income amounting to US$ 2,636 thousand for the three months ended 31 March 2018 (31 March 2017: US$ 5,001 thousand) which is of a seasonal nature.

## 4 EARNINGS PER ORDINARY SHARE

| | *Three months ended 31 March* | |
|---|---|---|
| | ***2018*** | *2017* |
| Net profit for the period attributable to Bank's ordinary equity shareholders for basic and diluted earnings per share computation (US$ '000) | **174,714** | 159,425 |
| Weighted average ordinary shares outstanding during the period adjusted for bonus shares (in million) | **7,950** | 7,899 |
| Basic & diluted earnings per ordinary share (US cents) | **2.2** | 2.0 |
| Issued and fully paid ordinary shares of US$ 0.25 each (in million) | **7,970.2** | 7,556.9 |
| Number of treasury shares (in million) | **19.1** | 17.9 |

## 5 CONTINGENT LIABILITIES

The Group had the following credit related contingent liabilities:

| | ***31 March 2018*** | *(Audited) 31 December 2017* |
|---|---|---|
| | ***US$ '000*** | *US$ '000* |
| Guarantees | **2,641,315** | 2,629,554 |
| Acceptances | **176,505** | 187,852 |
| Letters of credit | **704,967** | 566,808 |
| | **3,522,787** | 3,384,214 |

## 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.

**6 SEGMENT INFORMATION (Continued)**

Segmental information for the period was as follows:

| | *Retail banking* | *Corporate banking* | *Treasury & investments* | *Private banking* | *Total* |
|---|---|---|---|---|---|
| | *US$ '000* | *US$ '000* | *US$ '000* | *US$ '000* | *US$ '000* |
| **Three months ended 31 March 2018:** | | | | | |
| Net interest income | **43,633** | **108,292** | **60,263** | **17,142** | **229,330** |
| Fees and commissions | **8,038** | **20,102** | **2,300** | **7,160** | **37,600** |
| Trading, investment income and others | **1,041** | **4,726** | **19,883** | **28** | **25,678** |
| **OPERATING INCOME** | **52,712** | **133,120** | **82,446** | **24,330** | **292,608** |
| Provision for credit losses | **2,691** | **12,049** | **(1,284)** | **(203)** | **13,253** |
| **NET OPERATING INCOME** | **50,021** | **121,071** | **83,730** | **24,533** | **279,355** |
| Operating expenses | **25,621** | **18,308** | **23,160** | **8,790** | **75,879** |
| **PROFIT BEFORE TAX** | **24,400** | **102,763** | **60,570** | **15,743** | **203,476** |
| Tax expense | | | | | **11,303** |
| **NET PROFIT FOR THE PERIOD** | | | | | **192,173** |
| **Less : Non - controlling interest** | | | | | **17,459** |
| **NET PROFIT ATTRIBUTABLE TO THE OWNERS OF THE BANK** | | | | | **174,714** |
| **Inter segment interest included in net interest income above** | **48,695** | **(68,626)** | **14,148** | **5,783** | **-** |

| | *Retail banking* | *Corporate banking* | *Treasury & investments* | *Private banking* | *Total* |
|---|---|---|---|---|---|
| | *US$ '000* | *US$ '000* | *US$ '000* | *US$ '000* | *US$ '000* |
| **Three months ended 31 March 2017:** | | | | | |
| Net interest income | 44,068 | 99,032 | 44,463 | 16,556 | 204,119 |
| Fees and commissions | 7,202 | 18,344 | 3,015 | 5,650 | 34,211 |
| Trading, investment income and others | 345 | 3,288 | 30,195 | - | 33,828 |
| **OPERATING INCOME** | 51,615 | 120,664 | 77,673 | 22,206 | 272,158 |
| Provision for credit losses | 1,717 | 9,963 | 248 | 290 | 12,218 |
| **NET OPERATING INCOME** | 49,898 | 110,701 | 77,425 | 21,916 | 259,940 |
| Operating expenses | 24,162 | 17,692 | 24,263 | 7,305 | 73,422 |
| **PROFIT BEFORE TAX** | 25,736 | 93,009 | 53,162 | 14,611 | 186,518 |
| Tax expense | | | | | 11,346 |
| **NET PROFIT FOR THE PERIOD** | | | | | 175,172 |
| **Less : Non-controlling interest** | | | | | 15,747 |
| **NET PROFIT ATTRIBUTABLE TO THE OWNERS OF THE BANK** | | | | | 159,425 |
| **Inter segment interest included in net interest income above** | 32,388 | (44,610) | 8,325 | 3,897 | - |

## 7 LOANS AND ADVANCES

### a) Carrying amount of loans and advances

| | *Stage 1* *US$ '000* | *Stage 2* *US$ '000* | *Stage 3* *US$ '000* | *Total* *US$ '000* |
|---|---|---|---|---|
| **Loans and advances** | | | | |
| High standard grade | 11,317,094 | 339,475 | - | 11,656,569 |
| Standard grade | 6,126,191 | 2,455,938 | - | 8,582,129 |
| Impaired | - | - | 401,254 | 401,254 |
| | 17,443,285 | 2,795,413 | 401,254 | 20,639,952 |
| **Less: ECL allowances** | (153,520) | (376,691) | (349,417) | (879,628) |
| | 17,289,765 | 2,418,722 | 51,837 | 19,760,324 |

### b) ECL allowance movements of loans and advances

| | | | | *2018* | *2017* | |
|---|---|---|---|---|---|---|
| | *Stage 1* | *Stage 2* | *Stage 3* | *US$ '000* *Total* | *US$ '000* *Specific* | *US$ '000* *Collective* |
| At 31 December | | | | 589,068 | 380,239 | 316,932 |
| Transition adjustment on adoption of IFRS 9 | | | | 260,259 | | |
| **At 1 January - restated** | 145,982 | 378,666 | 324,679 | 849,327 | 380,239 | 316,932 |
| 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 | 7,957 | 5,705 |
| Amounts written off during the period | - | - | (7,411) | (7,411) | (17,194) | - |
| Exchange rate and other adjustments | (47) | 1,245 | 10,616 | 11,814 | 245 | 937 |
| **At 31 March** | 153,520 | 376,691 | 349,417 | 879,628 | 371,247 | 323,574 |

### 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:

| | *2018* *US$ '000* | *2017* *US$ '000* |
|---|---|---|
| Net remeasurement of ECL on loans and advances (note 7 b) | 25,898 | 13,662 |
| Recoveries from loans and advances during the period (from fully provided loans written off in previous years) | (3,235) | (4,674) |
| Net remeasurement of ECL for non-trading investments (note 8 b) | (1,284) | - |
| Net remeasurement of ECL on off balance sheet exposures and others | (8,126) | 3,230 |
| **Provision for credit losses** | 13,253 | 12,218 |

## 8 NON-TRADING INVESTMENTS

**a) Carrying amount of non-trading investments**

| | *Stage 1* *US$ '000* | *Stage 2* *US$ '000* | *Stage 3* *US$ '000* | *Total* *US$ '000* |
|---|---|---|---|---|
| **Non trading investments** | | | | |
| High standard grade | 4,156,677 | - | - | 4,156,677 |
| Standard grade | 1,922,955 | 34,905 | - | 1,957,860 |
| | 6,079,632 | 34,905 | - | 6,114,537 |
| **Equity instruments and funds at fair value** | | | | 310,451 |
| **Less: ECL allowances** | (12,217) | (2,103) | - | (14,320) |
| | 6,067,415 | 32,802 | - | 6,410,668 |

**b) ECL allowance movements of non-trading investments**

| | | | | *2018* | *2017* | |
|---|---|---|---|---|---|---|
| | | | | *US$ '000* | *US$ '000* | *US$ '000* |
| | *Stage 1* | *Stage 2* | *Stage 3* | *Total* | *Specific* | *Collective* |
| At 31 December | | | | 39,221 | 12,963 | 77,271 |
| Transition adjustment on adoption of IFRS 9 | | | | (23,404) | | |
| **At 1 January - restated** | 12,847 | 2,520 | 450 | 15,817 | 12,963 | 77,271 |
| Add/(Less): | | | | | | |
| Net remeasurement of ECL allowances for the period (note 7 c) | (417) | (867) | - | (1,284) | - | - |
| Amounts written off during the period | - | - | - | - | (12,436) | - |
| Exchange rate and other adjustments | (213) | 450 | (450) | (213) | - | - |
| **At 31 March** | 12,217 | 2,103 | - | 14,320 | 527 | 77,271 |

## 9 INTEREST PAYABLE AND OTHER LIABILITIES

Interest payable and other liabilities includes the year 2017 related dividend payable amounting to US$ 340,760 thousands.

## 10 MOVEMENT IN OTHER RESERVES

| | Capital reserve | Property revaluation reserve | Foreign exchange translation reserve | Cumulative changes in OCI reserve | Cumulative changes in Cash flow hedge reserve | Cumulative changes in ESPP reserve | Cumulative changes in Pension fund reserve | Total other reserves |
|---|---|---|---|---|---|---|---|---|
| | 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 | 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) |

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

## 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$ 4,683.5 million as at 31 March 2018 (31 December 2017: US$ 5,990.7 million). Carrying value of these non-trading investments is US$ 4,690.2 million as at 31 March 2018 (31 December 2017: US$ 5,876.6 million).

The Group's primary medium and long-term financial liabilities are the subordinated liabilities. The fair values of these financial liabilities are not materially different from their carrying values, since these liabilities are repriced at intervals of three or six months, depending on the terms and conditions of the instrument and the resultant applicable margins approximate the current spreads that would apply for borrowings with similar maturities.

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:-

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

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

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

| | ***31 March 2018*** | | | |
|---|---|---|---|---|
| | ***Level 1*** | ***Level 2*** | ***Level 3*** | ***Total*** |
| | ***US$ '000*** | ***US$ '000*** | ***US$ '000*** | ***US$ '000*** |
| Equity instruments and funds at fair value | **253** | **271,251** | **38,947** | **310,451** |
| Debt instruments (FVTOCI) | **1,397,999** | **14,826** | **-** | **1,412,825** |
| Derivative assets | **-** | **136,268** | **-** | **136,268** |
| Derivative liabilities | **47** | **197,302** | **-** | **197,349** |

| | *31 December 2017* | | | |
|---|---|---|---|---|
| | *Level 1* | *Level 2* | *Level 3* | *Total* |
| | *US$ '000* | *US$ '000* | *US$ '000* | *US$ '000* |
| Equity instruments and funds at fair value | 251 | 77,034 | 48,509 | 125,794 |
| Derivative assets | 320 | 90,871 | - | 91,191 |
| Derivative liabilities | 102 | 143,043 | - | 143,145 |

During three month period ended 31 March 2018 and 31 March 2017 there have been no transfers between Levels 1, 2 and 3.

## 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 free of any provision for possible loan losses.

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

| | | | *2018* | | | |
|---|---|---|---|---|---|---|
| | | | *US$ '000* | | | |
| | | | | *Senior management* | | |
| | *Major shareholders* | *Associates* | *Non Executive Directors* | *Management Directors* | *Others* | *Total* |
| *For the three months ended 31 March 2018* | | | | | | |
| 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** |
| *As of 31 March 2018* | | | | | | |
| Deposits with banks | - | **105,414** | - | - | - | **105,414** |
| Loans and advances | - | - | **161,640** | **10,764** | **2,265** | **174,669** |
| Deposits from banks | - | **7,099** | - | - | - | **7,099** |
| Customers' deposits | **5,867,047** | - | **78,237** | **6,209** | **2,929** | **5,954,422** |
| Subordinated liabilities | **10,174** | - | - | - | - | **10,174** |
| Commitments and contingent liabilities | - | **188,839** | **166,527** | - | - | **355,366** |
| Derivative liabilities | - | **2,527** | - | - | - | **2,527** |

| | | | *2017* | | | |
|---|---|---|---|---|---|---|
| | | | *US$ '000* | | | |
| | | | | *Senior management* | | |
| | *Major shareholders* | *Associates* | *Non Executive Directors* | *Management Directors* | *Others* | *Total* |
| *For the three months ended 31 March 2017* | | | | | | |
| Interest income | 63 | 884 | 1,736 | 61 | 13 | 2,757 |
| Interest expense | 26,235 | 2 | 4 | 2 | - | 26,243 |
| Fees and commissions | 109 | 300 | 133 | 3 | 3 | 548 |
| Short term employee benefits | - | - | - | 2,677 | 965 | 3,642 |
| End of service benefits | - | - | - | 422 | 57 | 479 |
| Directors' fees and related expenses | - | - | 552 | - | - | 552 |
| *As of 31 December 2017* | | | | | | |
| Deposits with banks | - | 113,336 | - | - | - | 113,336 |
| Loans and advances | - | - | 167,615 | 7,310 | 1,767 | 176,692 |
| Deposits from banks | - | 6,686 | - | - | - | 6,686 |
| Customers' deposits | 5,966,668 | - | 46,248 | 7,035 | 1,916 | 6,021,867 |
| Subordinated liabilities | 197,207 | - | - | - | - | 197,207 |
| Commitments and contingent liabilities | - | 198,158 | 155,511 | - | - | 353,669 |
| Derivatives liabilities | - | 622 | - | - | - | 622 |