Ahli United Bank B.S.C.

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 SEPTEMBER 2018

Building a better working world

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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 2018, comprising of the interim consolidated balance sheet as at 30 September 2018 and the related interim consolidated statements of income, comprehensive income, changes in equity and condensed 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.

Ernst + Young

29 October 2018
Manama, Kingdom of Bahrain

Ahli United Bank B.S.C.

INTERIM CONSOLIDATED STATEMENT OF INCOME

Nine months ended 30 September 2018 (Reviewed)

		Three months ended 30 September		*Nine months ended 30 September*	
		2018	*2017*	***2018***	*2017*
	Note	***USD'000***	*USD'000*	***USD'000***	*USD'000*
Interest income		**424,899**	350,972	**1,221,561**	997,356
Interest expense		**183,711**	131,910	**513,131**	362,245
Net interest income		**241,188**	219,062	**708,430**	635,111
Fees and commissions		**29,113**	33,191	**98,572**	100,686
Trading income		**11,128**	8,652	**32,694**	25,807
Investment income and others	3	**13,198**	16,449	**67,337**	63,519
Fees and other income		**53,439**	58,292	**198,603**	190,012
OPERATING INCOME		**294,627**	277,354	**907,033**	825,123
Provision for credit losses	7c	**19,538**	18,328	**61,825**	56,311
NET OPERATING INCOME		**275,089**	259,026	**845,208**	768,812
Staff costs		**47,103**	48,234	**143,156**	140,973
Depreciation		**5,745**	5,550	**16,478**	15,026
Other operating expenses		**25,080**	24,101	**78,415**	71,221
OPERATING EXPENSES		**77,928**	77,885	**238,049**	227,220
PROFIT BEFORE TAX		**197,161**	181,141	**607,159**	541,592
Tax expense		**11,533**	9,873	**35,063**	31,053
NET PROFIT FOR THE PERIOD		**185,628**	171,268	**572,096**	510,539
Net profit attributable to non-controlling interest		**14,785**	13,871	**43,828**	41,832
NET PROFIT ATTRIBUTABLE TO THE OWNERS OF THE BANK		**170,843**	157,397	**528,268**	468,707
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	**6.4**	5.7

Hamad M. Al-Humaidhi
Chairman

Mohammad J. Al-Marzooq
Deputy Chairman

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

INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Nine months ended 30 September 2018 (Reviewed)

	Three months ended 30 September		*Nine months ended 30 September*	
	2018	*2017*	***2018***	*2017*
	USD'000	*USD'000*	***USD'000***	*USD'000*
Net profit for the period	**185,628**	171,268	**572,096**	510,539
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	**(1,390)**	(143)	**1,467**	(3,082)
Net change in pension fund reserve	**(203)**	1,279	**10,249**	5,565
Net change in property revaluation reserve	**-**	(243)	**-**	(512)
Items that may be reclassified subsequently to consolidated statement of income				
Foreign currency translation adjustments	**(3,106)**	22,272	**(11,538)**	39,582
Net change in fair value of financial assets measured at fair value through OCI	**3,775**	-	**(17,244)**	-
Transfers to consolidated statement of income	**(565)**	-	**(6,474)**	-
Net change in fair value of cash flow hedges	**3,438**	(307)	**15,559**	(5,427)
Other comprehensive income for the period	**1,949**	22,858	**(7,981)**	36,126
Total comprehensive income for the period	**187,577**	194,126	**564,115**	546,665
Total comprehensive income attributable to non-controlling interest	**14,155**	16,883	**42,075**	47,867
Total comprehensive income attributable to owners of the Bank	**173,422**	177,243	**522,040**	498,798

INTERIM CONSOLIDATED BALANCE SHEET

30 September 2018 (Reviewed)

	Note	*30 September 2018* *US$ '000*	*(Audited) 31 December 2017* *US$ '000*
ASSETS			
Cash and balances with central banks		**1,325,284**	809,986
Treasury bills and deposits with central banks		**2,106,103**	2,576,352
Deposits with banks		**3,248,558**	2,469,751
Loans and advances	7	**19,843,832**	19,498,702
Non-trading investments	8	**6,845,296**	6,002,410
Investment in associates		**318,686**	304,020
Investment properties		**260,874**	256,242
Premises and equipment		**231,341**	226,672
Interest receivable and other assets		**811,980**	616,920
Goodwill and other intangible assets		**478,805**	480,830
TOTAL ASSETS		**35,470,759**	33,241,885
LIABILITIES AND EQUITY			
LIABILITIES			
Deposits from banks		**3,072,105**	3,943,233
Borrowings under repurchase agreements		**1,487,207**	1,272,758
Customers' deposits		**24,722,037**	22,009,857
Interest payable and other liabilities		**1,131,808**	912,679
Subordinated liabilities		**203,918**	215,204
TOTAL LIABILITIES		**30,617,075**	28,353,731
EQUITY			
Ordinary share capital		**1,992,541**	1,889,213
Treasury shares		**(13,190)**	(11,661)
Reserves		**1,817,717**	1,938,070
Equity attributable to the owners		**3,797,068**	3,815,622
Perpetual Tier 1 Capital Securities		**600,000**	600,000
Non-controlling interest		**456,616**	472,532
TOTAL EQUITY		**4,853,684**	4,888,154
TOTAL LIABILITIES AND EQUITY		**35,470,759**	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 11 form part of these interim condensed consolidated financial statements

CONSOLIDATED STATEMENT OF CASH FLOWS

Nine months ended 30 September 2018 (Reviewed)

	Nine months ended 30 September	
	2018	*2017*
	US$ '000	*US$ '000*
OPERATING ACTIVITIES		
Profit before tax	**607,159**	541,592
Adjustments for:		
Depreciation	**16,478**	15,026
Investment income	**(21,927)**	(24,162)
Provision for credit losses	**61,825**	56,311
Fair Value of Employee Share Purchase Plan (ESPP) charge	**3,326**	2,833
Share of profit from associates	**(27,466)**	(17,637)
Operating profit before changes in operating assets and liabilities	**639,395**	573,963
Changes in:		
Mandatory reserve deposits with central banks	**(58,113)**	(59,984)
Treasury bills and deposits with central banks	**1,049,869**	(247,500)
Deposits with banks	**(691,644)**	(105,793)
Loans and advances	**(672,751)**	(818,649)
Interest receivable and other assets	**(180,167)**	(46,175)
Deposits from banks	**(871,128)**	724,498
Borrowings under repurchase agreements	**214,449**	61,786
Customers' deposits	**2,712,180**	1,426,419
Interest payables and other liabilities	**188,885**	45,201
Cash from operations	**2,330,975**	1,553,766
Income tax paid	**(37,238)**	(43,258)
Net cash from operating activities	**2,293,737**	1,510,508
INVESTING ACTIVITIES		
Purchase of non-trading investments	**(2,627,768)**	(1,704,626)
Proceeds from sale or redemption of non-trading investments	**1,855,950**	1,311,775
Net increase in investment properties	**(4,632)**	(36,126)
Net increase in premises and equipment	**(21,147)**	(27,274)
Dividends received from associates	**12,955**	12,955
Net cash used in investing activities	**(784,642)**	(443,296)
FINANCING ACTIVITIES		
Additional investment in subsidiary	-	(1,490)
Distribution on Perpetual Tier 1 Capital Securities	**(19,250)**	(19,250)
Repayment of subordinated liabilities	**(11,286)**	(10,709)
Dividends and other appropriations paid	**(333,505)**	(287,760)
Dividends paid to non-controlling interest	**(26,179)**	(15,414)
Capital increase due to Mandatory Share Plan (MSP) & ESPP shares	**17,797**	12,517
Purchase of treasury shares	**(1,529)**	-
Net cash used in financing activities	**(373,952)**	(322,106)
Net foreign exchange difference	**(9,669)**	33,289
INCREASE IN CASH AND CASH EQUIVALENTS	**1,125,474**	778,395
Cash and cash equivalents at 1 January	**2,528,722**	2,309,113
CASH AND CASH EQUIVALENTS AT 30 SEPTEMBER	**3,654,196**	3,087,508
Comprising:		
Cash and balances with central banks, excluding mandatory reserve deposits	**941,309**	886,831
Deposits with banks, central banks & treasury bills with an original maturity of three months or less	**2,712,887**	2,200,677
	3,654,196	3,087,508

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

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Nine months ended 30 September 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 9) 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
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

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Nine months ended 30 September 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 9) 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	-	-	-	-	(2,259)	-	-	(2,259)	-	-	(2,259)
Transfer of property revaluation reserve on sale of property	-	-	-	-	243	-	-	243	-	-	243
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	-	-	-	-	733	(309,144)	-	(308,411)	-	-	(308,411)
Dividends of subsidiary	-	-	-	-	-	-	-	-	-	(15,414)	(15,414)
Movement in subsidiaries	-	-	352	-	-	-	-	352	-	(1,621)	(1,269)
Fair value amortisation of share based transactions	-	-	-	-	-	-	2,832	2,832	-	-	2,832
Total comprehensive income for the period	-	-	-	-	468,707	-	30,091	498,798	-	47,867	546,665
Balance at 30 September 2017	**1,889,213**	**(11,497)**	**754,308**	**454,856**	**1,069,202**	**-**	**(470,053)**	**1,808,313**	**600,000**	**468,127**	**4,754,156**

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 30 September 2018. The Bank operates under a retail banking licence issued by the Central Bank of Bahrain ("CBB"). 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 2018 were authorised for issue in accordance with a resolution of the Directors dated 29 October 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, other reserves and non-controlling interest. The new standard eliminates the use of 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 has adopted 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 ECL are recognised for financial instruments that are not measured at FVTPL and are reflected in provisions for credit losses. 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 initial 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 these represent a significant deterioration in credit quality etc.

Stage 3 – Financial instruments where there is objective evidence of impairment are considered to be credit impaired and 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 additional 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*
	Carrying amount	*Retained earnings Debit/(Credit)*	*Non controlling interest Debit*	*Total Debit/(Credit)*	*Carrying amount*
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*
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	954,293
		249,543	**30,432**	**279,975**	

3 INVESTMENT INCOME AND OTHERS

Investment income and others includes income amounting to US$ 12,512 thousand for the nine months ended 30 September 2018 (30 September 2017: US$ 8,315 thousand) which is of a seasonal nature.

4 EARNINGS PER ORDINARY SHARE

	Three months ended 30 September		*Nine months ended 30 September*	
	2018	*2017*	***2018***	*2017*
	US$ '000	*US$ '000*	***US$ '000***	*US$ '000*
Net profit for the period attributable to Bank's ordinary equity shareholders for basic and diluted earnings per share computation	**170,843**	157,397	**528,268**	468,707
(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	**170,843**	157,397	**510,398**	450,837
Weighted average ordinary shares outstanding during the period adjusted for bonus shares (in millions)	**7,950**	7,916	**7,950**	7,910
Basic & diluted earnings per ordinary share (US cents)	**2.1**	2.0	**6.4**	5.7
Issued and fully paid ordinary shares of US$ 0.25 each (in millions)			**7,970.2**	7,556.9
Number of treasury shares (in millions)			**21.6**	17.9

5 CONTINGENT LIABILITIES

The Group had the following credit related contingent liabilities:

	30 September 2018	*(Audited) 31 December 2017*
	US$ '000	*US$ '000*
Guarantees	**2,598,826**	2,629,554
Acceptances	**142,557**	187,852
Letters of credit	**491,067**	566,808
	3,232,450	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*
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 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 interest					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	-

	Retail banking	*Corporate banking*	*Treasury & investments*	*Private banking*	*Total*
	US$ '000	*US$ '000*	*US$ '000*	*US$ '000*	*US$ '000*
Nine months ended 30 September 2017:					
Net interest income	128,096	327,896	127,483	51,636	635,111
Fees and commissions	23,451	57,191	1,538	18,506	100,686
Trading, investment income and others	7,581	12,304	69,381	60	89,326
OPERATING INCOME	159,128	397,391	198,402	70,202	825,123
Provision for credit losses	6,180	49,330	1,487	(686)	56,311
NET OPERATING INCOME	152,948	348,061	196,915	70,888	768,812
Operating expenses	80,659	56,415	67,589	22,557	227,220
PROFIT BEFORE TAX	72,289	291,646	129,326	48,331	541,592
Tax expense					31,053
NET PROFIT FOR THE PERIOD					510,539
Less : Non-controlling interest					41,832
NET PROFIT ATTRIBUTABLE TO THE OWNERS OF THE BANK					468,707
Inter segment interest included in net interest income above	101,576	(132,686)	16,838	14,272	-

7 LOANS AND ADVANCES

a) Carrying amount of loans and advances

	30 September 2018			
	Stage 1 *US$ '000*	*Stage 2* *US$ '000*	*Stage 3* *US$ '000*	*Total* *US$ '000*
Loans and advances				
High standard grade	11,423,609	360,374	-	11,783,983
Standard grade	5,848,706	2,729,888	-	8,578,594
Impaired	-	-	424,066	424,066
	17,272,315	3,090,262	424,066	20,786,643
Less: ECL allowances	(155,152)	(421,804)	(365,855)	(942,811)
	17,117,163	2,668,458	58,211	19,843,832

b) ECL allowance movements - loans and advances

	2018				2017	
	Stage 1 *US$ '000*	*Stage 2* *US$ '000*	*Stage 3* *US$ '000*	*Total* *US$ '000*	*Specific* *US$ '000*	*Collective* *US$ '000*
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	(6,141)	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	36,060	17,610
Amounts written off during the period	-	-	(22,599)	(22,599)	(24,136)	-
Exchange rate and other adjustments	2	(1,191)	9,440	8,251	12,689	1,308
At 30 September	155,152	421,804	365,855	942,811	404,852	335,850

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:

	Nine months ended 30 September	
	2018 *US$ '000*	*2017* *US$ '000*
Net remeasurement of ECL on loans and advances (note 7 b)	107,832	53,670
Recoveries from loans and advances during the period (from fully provided loans written off in previous years)	(40,470)	(24,414)
Net remeasurement of ECL for non-trading investments (note 8 b)	1,663	1,487
Net remeasurement of ECL on off-balance sheet exposures and others	(7,200)	25,568
Provision for credit losses	61,825	56,311

8 NON-TRADING INVESTMENTS

a) Carrying amount of non-trading investments

	30 September 2018			
	Stage 1 *US$ '000*	*Stage 2* *US$ '000*	*Stage 3* *US$ '000*	*Total* *US$ '000*
Non trading investments				
High standard grade	**4,832,327**	**-**	**-**	**4,832,327**
Standard grade	**1,622,690**	**130,210**	**-**	**1,752,900**
	6,455,017	**130,210**	**-**	**6,585,227**
Equity instruments and funds at fair value				**274,548**
Less: ECL allowances	**(11,559)**	**(2,920)**	**-**	**(14,479)**
	6,443,458	**127,290**	**-**	**6,845,296**

Equity instruments and funds held at fair value include investments amounting to US$ 164.3 million (31 December 2017: US$ 1.2 million) which are designated as FVTPL.

b) ECL allowance movements of non-trading investments

	2018				2017	
	Stage 1 *US$ '000*	*Stage 2* *US$ '000*	*Stage 3* *US$ '000*	*Total* *US$ '000*	*Specific* *US$ '000*	*Collective* *US$ '000*
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):						
Transfer from stage 1	**(634)**	**634**	**-**	**-**	-	-
Net remeasurement of ECL allowances for the period (note 7 c)	**2,347**	**(684)**	**-**	**1,663**	-	1,487
Amounts written off during the period	**-**	**-**	**-**	**-**	(12,436)	-
Exchange rate and other adjustments	**(3,001)**	**450**	**(450)**	**(3,001)**	(77)	(10,487)
At 30 September	**11,559**	**2,920**	**-**	**14,479**	450	68,271

9 MOVEMENT IN OTHER RESERVES

	Capital reserve	Property revaluation reserve	Foreign exchange translation reserve	Cumulative changes in OCI reserve	Cash flow hedge reserve	ESPP reserve	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 -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)

	Capital reserve	Property revaluation reserve	Foreign exchange translation reserve	Cumulative changes in OCI reserve	Cash flow hedge reserve	ESPP reserve	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	32,969	-	-	-	-	32,976
Transfers to consolidated statement of income	-	-	-	-	(829)	-	-	(829)
Net fair value movements	-	-	-	(4,770)	(4,598)	-	-	(9,368)
Transfers to retained earnings	-	(243)	-	2,259	-	-	-	2,016
Fair value movements and others	-	-	-	-	-	2,832	5,565	8,397
Revaluation of freehold land	-	(269)	-	-	-	-	-	(269)
Balance at 30 September 2017	8,480	35,751	(422,199)	(13,530)	(29,210)	2,832	(52,177)	(470,053)

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$ 5,383.4 million as at 30 September 2018 (31 December 2017: US$ 5,990.7 million). Carrying value of these non-trading investments is US$ 5,381.4 million as at 30 September 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.

	30 September 2018			
	Level 1	***Level 2***	***Level 3***	***Total***
	US$ '000	***US$ '000***	***US$ '000***	***US$ '000***
Equity instruments and funds at fair value	**163,870**	**71,899**	**38,779**	**274,548**
Debt instruments (FVTOCI)	**1,175,939**	**13,402**	**-**	**1,189,341**
Derivative assets	**-**	**180,093**	**-**	**180,093**
Derivative liabilities	**-**	**162,410**	**-**	**162,410**

	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 the nine month period ended 30 September 2018 and 30 September 2017 there have been no transfers between Levels 1, 2 and 3.

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 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					
				Senior management		
	Major shareholders US$ '000	*Associates US$ '000*	*Non Executive Directors US$ '000*	*Management Directors US$ '000*	*Others US$ '000*	*Total US$ '000*
For the nine months ended 30 September 2018						
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
As of 30 September 2018						
Deposits with banks	-	122,256	-	-	-	122,256
Loans and advances	-	52,531	166,618	7,681	1,142	227,972
Deposits from banks	-	10,188	-	-	-	10,188
Customers' deposits	8,064,058	-	129,042	5,562	1,164	8,199,826
Subordinated liabilities	9,810	-	-	-	-	9,810
Commitments and contingent liabilities	-	30,275	143,172	-	-	173,447
Derivative liabilities	-	3,753	-	-	-	3,753

	2017					
				Senior management		
	Major shareholders US$ '000	*Associates US$ '000*	*Non Executive Directors US$ '000*	*Management Directors US$ '000*	*Others US$ '000*	*Total US$ '000*
For the nine months ended 30 September 2017						
Interest income	63	2,645	5,310	181	44	8,243
Interest expense	82,958	6	24	81	6	83,075
Fees and commissions	109	2,360	227	10	1	2,707
Short term employee benefits	-	-	-	8,624	2,741	11,365
End of service benefits	-	-	-	1,252	419	1,671
Directors' fees and related expenses	-	-	1,762	-	-	1,762
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