Ahli United Bank B.S.C.

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 JUNE 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 June 2018, comprising of the interim consolidated balance sheet as at 30 June 2018 and the related interim consolidated statements of income, comprehensive income, changes in equity and condensed cash flows for the six-month period then ended and explanatory notes. The Bank's Board of Directors is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Accounting Standard IAS 34 Interim Financial Reporting ("IAS 34"). Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of Review

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

Conclusion

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

Ernst + Young

22 July 2018
Manama, Kingdom of Bahrain

Ahli United Bank B.S.C.

INTERIM CONSOLIDATED STATEMENT OF INCOME

Six months ended 30 June 2018 (Reviewed)

		Three months ended 30 June		*Six months ended 30 June*	
		2018	*2017*	***2018***	*2017*
	Note	***USD'000***	*USD'000*	***USD'000***	*USD'000*
Interest income		**412,480**	329,121	**796,662**	646,384
Interest expense		**174,568**	117,191	**329,420**	230,335
Net interest income		**237,912**	211,930	**467,242**	416,049
Fees and commissions		**31,859**	33,284	**69,459**	67,495
Trading income		**10,428**	9,440	**21,566**	17,155
Investment income and others	3	**39,599**	20,957	**54,139**	47,070
Fees and other income		**81,886**	63,681	**145,164**	131,720
OPERATING INCOME		**319,798**	275,611	**612,406**	547,769
Provision for credit losses	7c	**29,034**	25,765	**42,287**	37,983
NET OPERATING INCOME		**290,764**	249,846	**570,119**	509,786
Staff costs		**50,463**	47,084	**96,053**	92,739
Depreciation		**5,515**	4,880	**10,733**	9,476
Other operating expenses		**28,264**	23,949	**53,335**	47,120
OPERATING EXPENSES		**84,242**	75,913	**160,121**	149,335
PROFIT BEFORE TAX		**206,522**	173,933	**409,998**	360,451
Tax expense		**12,227**	9,834	**23,530**	21,180
NET PROFIT FOR THE PERIOD		**194,295**	164,099	**386,468**	339,271
Net profit attributable to non-controlling interest		**11,584**	12,214	**29,043**	27,961
NET PROFIT ATTRIBUTABLE TO THE OWNERS OF THE BANK		**182,711**	151,885	**357,425**	311,310
EARNINGS PER SHARE ATTRIBUTABLE TO THE OWNERS OF THE BANK FOR THE PERIOD					
Basic & diluted earnings per ordinary share (US cents)	4	**2.1**	1.7	**4.3**	3.7

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 11 form part of these interim condensed consolidated financial statements

INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Six months ended 30 June 2018 (Reviewed)

	Three months ended 30 June		*Six months ended 30 June*	
	2018	*2017*	***2018***	*2017*
	USD'000	*USD'000*	***USD'000***	*USD'000*
Net profit for the period	**194,295**	164,099	**386,468**	339,271
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	**2,619**	(3,289)	**2,857**	(2,939)
Net change in pension fund reserve	**14,140**	1,348	**10,452**	4,286
Net change in property revaluation reserve	**-**	-	**-**	(269)
Items that may be reclassified subsequently to consolidated statement of income				
Foreign currency translation adjustments	**(25,908)**	6,955	**(8,432)**	17,310
Net change in fair value of financial assets measured at fair value through OCI	**(8,249)**	-	**(21,019)**	-
Transfers to consolidated statement of income	**(5,909)**	-	**(5,909)**	-
Net change in fair value of cash flow hedges	**6,314**	(4,468)	**12,121**	(5,120)
Other comprehensive income for the period	**(16,993)**	546	**(9,930)**	13,268
Total comprehensive income for the period	**177,302**	164,645	**376,538**	352,539
Total comprehensive income attributable to non-controlling interest	**7,294**	12,799	**27,920**	30,984
Total comprehensive income attributable to owners of the Bank	**170,008**	151,846	**348,618**	321,555

INTERIM CONSOLIDATED BALANCE SHEET

30 June 2018 (Reviewed)

	Note	30 June 2018 US$ '000	(Audited) 31 December 2017 US$ '000
ASSETS			
Cash and balances with central banks		**1,189,100**	809,986
Treasury bills and deposits with central banks		**2,517,914**	2,576,352
Deposits with banks		**2,419,352**	2,469,751
Loans and advances	7	**19,601,604**	19,498,702
Non-trading investments	8	**6,615,184**	6,002,410
Investment in associates		**311,409**	304,020
Investment properties		**262,832**	256,242
Premises and equipment		**231,392**	226,672
Interest receivable and other assets		**792,740**	616,920
Goodwill and other intangible assets		**479,315**	480,830
TOTAL ASSETS		**34,420,842**	33,241,885
LIABILITIES AND EQUITY			
LIABILITIES			
Deposits from banks		**3,689,900**	3,943,233
Borrowings under repurchase agreements		**941,152**	1,272,758
Customers' deposits		**23,856,918**	22,009,857
Interest payable and other liabilities		**1,061,427**	912,679
Subordinated liabilities		**203,981**	215,204
TOTAL LIABILITIES		**29,753,378**	28,353,731
EQUITY			
Ordinary share capital		**1,992,541**	1,889,213
Treasury shares		**(13,190)**	(11,661)
Reserves		**1,643,140**	1,938,070
Equity attributable to the owners		**3,622,491**	3,815,622
Perpetual Tier 1 Capital Securities		**600,000**	600,000
Non-controlling interest		**444,973**	472,532
TOTAL EQUITY		**4,667,464**	4,888,154
TOTAL LIABILITIES AND EQUITY		**34,420,842**	33,241,885

Hamad M. Al-Humaidhi
Chairman

Mohammad J. Al-Marzooq
Deputy Chairman

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

Six months ended 30 June 2018 (Reviewed)

	Six months ended 30 June	
	2018	*2017*
	US$ '000	*US$ '000*
Net cash from operating activities	**897,033**	641,216
Net cash used in investing activities	**(531,750)**	(175,440)
Net cash used in financing activities	**(370,289)**	(319,936)
Net foreign exchange difference	**(6,108)**	14,882
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	**(11,114)**	160,722
Cash and cash equivalents at 1 January	**2,528,722**	2,309,113
CASH AND CASH EQUIVALENTS AT 30 JUNE	**2,517,608**	2,469,835
Comprising:		
Cash and balances with central banks, excluding mandatory reserve deposits	**741,482**	881,404
Deposits with banks with an original maturity of three months or less	**1,776,126**	1,588,431
	2,517,608	2,469,835

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

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

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

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Six months ended 30 June 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	-	-	-	-	(1,972)	-	-	(1,972)	-	-	(1,972)
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)
Fair value amortisation of share based transactions	-	-	-	-	-	-	1,744	1,744	-	-	1,744
Total comprehensive income for the period	-	-	-	-	311,310	-	10,245	321,555	-	30,984	352,539
Balance at 30 June 2017	**1,889,213**	**(11,497)**	**753,956**	**454,856**	**911,849**	**-**	**(490,987)**	**1,629,674**	**600,000**	**452,865**	**4,560,255**

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, 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 June 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 six-month period ended 30 June 2018 were authorised for issue in accordance with a resolution of the Directors dated 22 July 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 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 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 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 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*
	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	871,065
		249,543	30,432	279,975	

3 INVESTMENT INCOME AND OTHERS

Investment income and others includes income amounting to US$ 7,814 thousand for the six months ended 30 June 2018 (30 June 2017: US$ 7,013 thousand) which is of a seasonal nature.

4 EARNINGS PER ORDINARY SHARE

	Three months ended 30 June		*Six months ended 30 June*	
	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	**182,711**	151,885	**357,425**	311,310
(Less): Perpetual Tier 1 Capital Securities distribution	**(13,750)**	(13,750)	**(13,750)**	(13,750)
(Less): Perpetual Tier 1 Sukuk distribution	**(4,120)**	(4,120)	**(4,120)**	(4,120)
Adjusted net profit for the period attributable to Bank's ordinary equity shareholders for basic and diluted earnings per share computation	**164,841**	134,015	**339,555**	293,440
Weighted average ordinary shares outstanding during the period adjusted for bonus shares (in millions)	**7,950**	7,916	**7,950**	7,908
Basic & diluted earnings per ordinary share (US cents)	**2.1**	1.7	**4.3**	3.7
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 June 2018	*(Audited) 31 December 2017*
	US$ '000	*US$ '000*
Guarantees	**2,569,228**	2,629,554
Acceptances	**218,268**	187,852
Letters of credit	**563,845**	566,808
	3,351,341	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*
Six months ended 30 June 2018:					
Net interest income	95,342	225,086	110,550	36,264	467,242
Fees and commissions	16,264	38,400	2,142	12,653	69,459
Trading, investment income and others	1,760	9,712	64,156	77	75,705
OPERATING INCOME	113,366	273,198	176,848	48,994	612,406
Provision for credit losses	5,283	38,870	(970)	(896)	42,287
NET OPERATING INCOME	108,083	234,328	177,818	49,890	570,119
Operating expenses	55,612	39,266	47,729	17,514	160,121
PROFIT BEFORE TAX	52,471	195,062	130,089	32,376	409,998
Tax expense					23,530
NET PROFIT FOR THE PERIOD					386,468
Less : Non - controlling interest					29,043
NET PROFIT ATTRIBUTABLE TO THE OWNERS OF THE BANK					357,425
Inter segment interest included in net interest income above	114,357	(143,661)	14,119	15,185	-

	Retail banking	*Corporate banking*	*Treasury & investments*	*Private banking*	*Total*
	US$ '000	*US$ '000*	*US$ '000*	*US$ '000*	*US$ '000*
Six months ended 30 June 2017:					
Net interest income	86,555	213,072	82,712	33,710	416,049
Fees and commissions	15,587	39,024	458	12,426	67,495
Trading, investment income and others	7,219	8,649	48,267	90	64,225
OPERATING INCOME	109,361	260,745	131,437	46,226	547,769
Provision for credit losses	4,030	32,630	1,184	139	37,983
NET OPERATING INCOME	105,331	228,115	130,253	46,087	509,786
Operating expenses	52,303	36,760	45,212	15,060	149,335
PROFIT BEFORE TAX	53,028	191,355	85,041	31,027	360,451
Tax expense					21,180
NET PROFIT FOR THE PERIOD					339,271
Less : Non-controlling interest					27,961
NET PROFIT ATTRIBUTABLE TO THE OWNERS OF THE BANK					311,310
Inter segment interest included in net interest income above	64,799	(84,092)	10,892	8,401	-

7 LOANS AND ADVANCES

a) Carrying amount of loans and advances

	30 June 2018			
	Stage 1	***Stage 2***	***Stage 3***	***Total***
	US$ '000	***US$ '000***	***US$ '000***	***US$ '000***
Loans and advances				
High standard grade	**11,446,885**	**430,437**	**-**	**11,877,322**
Standard grade	**5,698,168**	**2,555,294**	**-**	**8,253,462**
Impaired	**-**	**-**	**410,611**	**410,611**
	17,145,053	**2,985,731**	**410,611**	**20,541,395**
Less: ECL allowances	**(147,849)**	**(425,633)**	**(366,309)**	**(939,791)**
	16,997,204	**2,560,098**	**44,302**	**19,601,604**

b) ECL allowance movements - loans and advances

				2018	*2017*	
	Stage 1	***Stage 2***	***Stage 3***	***Total***	*Specific*	*Collective*
				US$ '000	*US$ '000*	*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	**(6,797)**	**5,198**	**1,599**	**-**	-	-
Transfer from stage 2	**-**	**(9,175)**	**9,175**	**-**	-	-
Net remeasurement of ECL allowances for the period	**8,632**	**51,986**	**28,931**	**89,549**	28,529	9,637
Amounts written off during the period	**-**	**-**	**(7,414)**	**(7,414)**	(17,467)	-
Exchange rate and other adjustments	**32**	**(1,042)**	**9,339**	**8,329**	8,358	(5,510)
At 30 June	**147,849**	**425,633**	**366,309**	**939,791**	399,659	321,059

c) Provision for credit losses

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

	Six months ended 30 June	
	2018	*2017*
	US$ '000	*US$ '000*
Net remeasurement of ECL on loans and advances (note 7 b)	**89,549**	38,166
Recoveries from loans and advances during the period (from fully provided loans written off in previous years)	**(37,161)**	(20,564)
Net remeasurement of ECL for non-trading investments (note 8 b)	**(970)**	1,184
Net remeasurement of ECL on off-balance sheet exposures and others	**(9,131)**	19,197
Provision for credit losses	**42,287**	37,983

8 NON-TRADING INVESTMENTS

a) Carrying amount of non-trading investments

	30 June 2018			
	Stage 1 *US$ '000*	*Stage 2* *US$ '000*	*Stage 3* *US$ '000*	*Total* *US$ '000*
Non trading investments				
High standard grade	4,729,293	-	-	4,729,293
Standard grade	1,565,048	55,243	-	1,620,291
	6,294,341	55,243	-	6,349,584
Equity instruments and funds at fair value				277,459
Less: ECL allowances	(9,426)	(2,433)	-	(11,859)
	6,284,915	52,810	-	6,615,184

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	*Stage 2*	*Stage 3*	*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):						
Net remeasurement of ECL allowances for the period (note 7 c)	(433)	(537)	-	(970)	-	1,184
Amounts written off during the period	-	-	-	-	(12,436)	-
Exchange rate and other adjustments	(2,988)	450	(450)	(2,988)	(77)	(1,184)
At 30 June	9,426	2,433	-	11,859	450	77,271

9 MOVEMENT IN OTHER RESERVES

			Foreign	*Cumulative changes in*				
	Capital reserve	*Property revaluation reserve*	*exchange translation reserve*	*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)	(7,007)	-	-	-	-	(7,009)
Transfers to consolidated statement of income	-	-	-	(5,909)	610	-	-	(5,299)
Net fair value movements	-	-	-	(24,167)	11,511	-	-	(12,656)
Transfers to retained earnings	-	-	-	5,705	-	-	-	5,705
Fair value movements and others	-	-	-	-	-	2,217	10,452	12,669
Balance at 30 June 2018	**8,480**	**35,566**	**(430,993)**	**17,292**	**(14,538)**	**2,217**	**(44,880)**	**(426,856)**

			Foreign	*Cumulative changes in*				
	Capital reserve	*Property revaluation reserve*	*exchange translation reserve*	*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	-	3	13,707	-	-	-	-	13,710
Transfers to consolidated statement of income	-	-	-	-	(549)	-	-	(549)
Net fair value movements	-	-	-	(4,334)	(4,571)	-	-	(8,905)
Transfers to retained earnings	-	-	-	1,972	-	-	-	1,972
Fair value movements and others	-	-	-	-	-	1,744	4,286	6,030
Revaluation of freehold land	-	(269)	-	-	-	-	-	(269)
Balance at 30 June 2017	8,480	35,990	(441,461)	(13,381)	(28,903)	1,744	(53,456)	(490,987)

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$ 5,054.6 million as at 30 June 2018 (31 December 2017: US$ 5,990.7 million). Carrying value of these non-trading investments is US$ 5,110.9 million as at 30 June 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 June 2018			
	Level 1	***Level 2***	***Level 3***	***Total***
	US$ '000	***US$ '000***	***US$ '000***	***US$ '000***
Equity instruments and funds at fair value	**163,935**	**74,727**	**38,797**	**277,459**
Debt instruments (FVTOCI)	**1,213,371**	**13,490**	**-**	**1,226,861**
Derivative assets	**-**	**169,183**	**-**	**169,183**
Derivative liabilities	**50**	**191,692**	**-**	**191,742**

	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 six month period ended 30 June 2018 and 30 June 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	*Associates*	*Non Executive Directors*	*Management Directors*	*Others*	*Total*
	US$ '000	*US$ '000*	*US$ '000*	*US$ '000*	*US$ '000*	*US$ '000*
For the six months ended 30 June 2018						
Interest income	-	2,872	3,823	130	16	6,841
Interest expense	61,150	11	556	54	5	61,776
Fees and commissions	-	1,217	46	10	6	1,279
Short term employee benefits	-	-	-	6,698	1,536	8,234
End of service benefits	-	-	-	924	85	1,009
Directors' fees and related expenses	-	-	1,057	-	-	1,057
As of 30 June 2018						
Deposits with banks	-	121,099	-	-	-	121,099
Loans and advances	-	52,531	184,891	8,603	1,078	247,103
Deposits from banks	-	14,186	-	-	-	14,186
Customers' deposits	7,448,216	98	87,221	6,948	961	7,543,444
Subordinated liabilities	9,874	-	-	-	-	9,874
Commitments and contingent liabilities	-	70,416	132,413	-	-	202,829
Derivative liabilities	-	1,522	-	-	-	1,522

	2017					
				Senior management		
	Major shareholders	*Associates*	*Non Executive Directors*	*Management Directors*	*Others*	*Total*
	US$ '000	*US$ '000*	*US$ '000*	*US$ '000*	*US$ '000*	*US$ '000*
For the six months ended 30 June 2017						
Interest income	63	1,683	3,515	123	28	5,412
Interest expense	53,205	5	22	34	-	53,266
Fees and commissions	109	1,959	161	4	4	2,237
Short term employee benefits	-	-	-	5,547	1,997	7,544
End of service benefits	-	-	-	840	114	954
Directors' fees and related expenses	-	-	1,155	-	-	1,155
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