AHLI UNITED BANK B.S.C.

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2019

AHLI UNITED BANK B.S.C.

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INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF AHLI UNITED BANK B.S.C.

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the accompanying consolidated financial statements of Ahli United Bank B.S.C. ("the Bank") and its subsidiaries (together "the Group"), which comprise the consolidated balance sheet as at 31 December 2019, and the consolidated statements of income, comprehensive income, cash flows and changes in equity for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the *International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code)* together with the ethical requirements that are relevant to our audit of the financial statements in the Kingdom of Bahrain, and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended 31 December 2019. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF AHLI UNITED BANK B.S.C. (continued)

Report on the Audit of the Consolidated Financial Statements (continued)

Key audit matters (continued)

<table>
<tr><th colspan="2">1. Impairment of carrying value of loans and advances</th></tr>
<tr><th>Key audit matter</th><th>How our audit addressed the key audit matter</th></tr>
<tr><td>The process for estimating impairment provision on credit risk associated with loans and advances in accordance with IFRS 9 Financial instruments (IFRS 9) is significant and complex. IFRS 9 requires use of the Expected Credit Loss (ECL) model for the purposes of calculating impairment provision. ECL model requires the Group to exercise significant judgment using subjective assumptions when determining both the timing and the amounts of ECL for loans and advances. Due to the complexity of requirements under IFRS 9, significance of judgments applied and the Group's exposure to loans and advances forming a major portion of the Group's assets, the audit of ECL for loans and advances is a key area of focus.

As at 31 December 2019, the Group's gross loans and advances amounted to US$ 21,512 million and the related ECL allowances amounted to US$ 770 million, comprising US$ 413 million of ECL against Stage 1 and 2 exposures and US$ 357 million against exposures classified under Stage 3. The basis of calculation of ECL is presented in the summary of significant accounting policies and note 7 to the consolidated financial statements.</td><td>Our approach included testing the controls associated with the relevant processes for estimating ECL and performing substantive procedures on such estimates. Our procedures, amongst others, focused on the following key areas:
• We assessed:
o the Group's IFRS 9 based impairment provisioning policy including significant increase in credit risk criteria with the requirements of IFRS 9;
o Group's ECL modeling techniques and methodology against the requirements of IFRS 9; and
o the theoretical soundness and tested the mathematical integrity of the models.
• We obtained an understanding of the design and tested the operating effectiveness of relevant controls over ECL model, including model build and approval, ongoing monitoring / validation, model governance and mathematical accuracy. We have also checked completeness and accuracy of the data used and the reasonableness of the management assumptions;
• We understood and assessed the significant modeling assumptions for exposures as well as overlays with a focus on:
o Key modeling assumptions adopted by the Group; and
o Basis for and data used to determine overlays.
• For a sample of exposures, we performed procedures to evaluate:
o Appropriateness of exposure at default, probability of default and loss given default (including collateral values used) in the calculation of ECL;
o Timely identification of exposures with a significant increase in credit risk and appropriateness of the Group's staging; and
o ECL calculation.</td></tr>
</table>

**INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF
AHLI UNITED BANK B.S.C. (continued)**

Report on the Audit of the Consolidated Financial Statements (continued)

Key audit matters (continued)

1. Impairment of carrying value of loans and advances (continued)	
Key audit matter	**How our audit addressed the key audit matter**
	• For forward looking information used by the Group's management in its ECL calculations, we held discussions with management and checked internal approvals by management for economic outlook used for purposes of calculating ECL; and • We considered the adequacy of the disclosures in the consolidated financial statements in relation to impairment of loans and advances as required under IFRS. We also involved our internal specialists where their specific expertise was required. Refer to the critical accounting estimates and judgments, disclosures of loans and advances and credit risk management in notes 2, 7 and 31 to the consolidated financial statements.
2. Impairment of goodwill	
Key audit matter	**How our audit addressed the key audit matter**
Goodwill is allocated to cash generating units ('CGUs') for the purpose of impairment testing. Goodwill impairment testing of CGUs relies on estimates of value-in- use based on estimated future cash flows. Due to the subjectivity involved in computing recoverable amounts and the significance of the Group's recognised goodwill of US$ 432 million as at 31 December 2019, this audit area is considered a key audit risk.	We obtained an understanding of management's processes for determining the recoverable amount for annual goodwill impairment testing. With the assistance of our valuation specialists, we formed an independent range of key assumptions used in a sample of impairment assessment, with reference to the relevant industry and market valuation considerations, and derived a range of values using our assumptions and other qualitative risk factors. We compared these ranges with the management's assumptions, and discussed our results with management. Additionally, we considered whether the Group's disclosures of the application of judgment in estimating CGU cash flows and the sensitivity of the results of those estimates reflect the risks associated with goodwill impairment. Refer to the critical accounting estimates and judgments and disclosures of goodwill in note 13, and allocation of goodwill to CGUs in note 29 to the consolidated financial statements.

Report on the Audit of the Consolidated Financial Statements (continued)

Other information included in the Group's 2019 Annual Report
Other information consists of the information included in the Group's 2019 Annual Report, other than the consolidated financial statements and our auditor's report thereon. The Board of Directors is responsible for the other information. Prior to the date of this auditors' report, we obtained the Board of Directors' report which forms part of the annual report, and the remaining sections of the annual report are expected to be made available to us after that date.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information obtained prior to the date of the auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors for the consolidated financial statements
The Board of Directors is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Board of Directors is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the consolidated financial statements
Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF AHLI UNITED BANK B.S.C. (continued)

Report on the Audit of the Consolidated Financial Statements (continued)

Auditor's responsibilities for the audit of the consolidated financial statements (continued)

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.

- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit and Compliance Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit and Compliance Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit and Compliance Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF AHLI UNITED BANK B.S.C. (continued)

Report on Other Legal and Regulatory Requirements

As required by the Bahrain Commercial Companies Law and Volume 1 of the Central Bank of Bahrain (CBB) Rule Book, we report that:

a) the Bank has maintained proper accounting records and the consolidated financial statements are in agreement therewith;

b) the financial information contained in the Report of the Board of Directors is consistent with the consolidated financial statements;

c) we are not aware of any violations of the Bahrain Commercial Companies Law, the Central Bank of Bahrain and Financial Institutions Law, the CBB Rule Book (Volume 1 and applicable provisions of Volume 6) and CBB directives, regulations and associated resolutions, rules and procedures of the Bahrain Bourse or the terms of the Bank's memorandum and articles of association during the year ended 31 December 2019 that might have had a material adverse effect on the business of the Bank or on its consolidated financial position; and

d) satisfactory explanations and information have been provided to us by Management in response to all our requests.

The partner in charge of the audit resulting in this independent auditor's report is Nader Rahimi.

Ernst + Young

Partner's registration no. 115
7 February 2020
Manama, Kingdom of Bahrain

CONSOLIDATED STATEMENT OF INCOME
For the year ended 31 December 2019

	Note	*2019* *US$ '000*	*2018* *US$ '000*
Interest income	3a	**1,843,953**	1,655,750
Interest expense	3b	**892,453**	715,226
Net interest income		**951,500**	940,524
Fees and commissions	4	**127,305**	128,888
Trading income	5	**44,081**	39,068
Investment income and others		**81,757**	61,129
Share of profit from associates	9	**30,886**	40,941
Fees and other income		**284,029**	270,026
OPERATING INCOME		**1,235,529**	1,210,550
Provision for credit losses and others	7g	**54,417**	86,222
NET OPERATING INCOME		**1,181,112**	1,124,328
Staff costs		**199,077**	196,839
Depreciation		**34,454**	22,269
Other operating expenses		**120,218**	109,110
OPERATING EXPENSES		**353,749**	328,218
PROFIT BEFORE TAX		**827,363**	796,110
Tax expense and zakat	21	**38,538**	43,745
NET PROFIT FOR THE YEAR		**788,825**	752,365
Net profit attributable to non-controlling interests		**58,324**	54,831
NET PROFIT ATTRIBUTABLE TO THE OWNERS OF THE BANK		**730,501**	697,534
EARNINGS PER SHARE ATTRIBUTABLE TO THE OWNERS OF THE BANK FOR THE YEAR:			
Basic and diluted earnings per ordinary share (US cents)	22	**7.9**	7.6

Meshal AbdulAziz Alothman
Chairman

Mohammad J. Al-Marzooq
Deputy Chairman

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

The attached notes 1 to 42 form part of these consolidated financial statements

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2019

	2019	*2018*
	US$ '000	*US$ '000*
Net profit for the year	**788,825**	752,365
Other comprehensive income (OCI)		
Items that will not be reclassified subsequently to consolidated statement of income		
Net change in fair value of equity investments measured at fair value through OCI	**(6,307)**	1,237
Net change in pension fund reserve	**11,107**	5,078
Net change in property revaluation reserve	**227**	(457)
Items that may be reclassified subsequently to consolidated statement of income		
Foreign currency translation adjustments	**39,949**	(13,852)
Net change in fair value of debt instruments measured at fair value through OCI	**24,537**	(20,915)
Transfer to consolidated statement of income arising on debt instruments held as fair value through OCI	**1,126**	(18,523)
Net change in fair value of cash flow hedges	**(20,116)**	9,638
Other comprehensive income / (loss) for the year	**50,523**	(37,794)
Total comprehensive income for the year	**839,348**	714,571
Total comprehensive income attributable to non-controlling interests	**67,080**	52,072
Total comprehensive income attributable to the owners of the Bank	**772,268**	662,499

CONSOLIDATED BALANCE SHEET
At 31 December 2019

	Note	2019 US$ '000	2018 US$ '000
ASSETS			
Cash and balances with central banks	6a	**1,366,978**	1,390,470
Treasury bills and deposits with central banks	6b	**2,202,340**	1,918,727
Deposits with banks		**4,683,260**	3,061,818
Loans and advances	7	**20,742,360**	19,503,961
Non-trading investments	8	**9,133,881**	7,568,528
Investment in associates	9	**315,011**	318,802
Investment properties	10	**229,803**	265,794
Interest receivable and other assets	11	**823,714**	764,094
Premises and equipment	12	**295,549**	237,064
Goodwill and other intangible assets	13	**487,155**	478,319
TOTAL ASSETS		**40,280,051**	35,507,577
LIABILITIES AND EQUITY			
LIABILITIES			
Deposits from banks	14	**5,023,915**	3,752,792
Borrowings under repurchase agreements	15	**2,891,532**	1,832,134
Customers' deposits	16	**25,518,123**	23,660,035
Interest payable and other liabilities	17	**1,457,090**	1,097,911
Subordinated liabilities	18	**27,862**	192,697
TOTAL LIABILITIES		**34,918,522**	30,535,569
EQUITY			
Ordinary share capital	19b	**2,193,611**	1,992,541
Treasury shares		**-**	(13,190)
Reserves		**2,071,916**	1,929,350
Equity attributable to the owners		**4,265,527**	3,908,701
Perpetual Tier 1 Capital Securities	19d	**600,000**	600,000
Non-controlling interests		**496,002**	463,307
TOTAL EQUITY		**5,361,529**	4,972,008
TOTAL LIABILITIES AND EQUITY		**40,280,051**	35,507,577

Meshal AbdulAziz Alothman
Chairman

Mohammad J. Al-Marzooq
Deputy Chairman

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

The attached notes 1 to 42 form part of these consolidated financial statements

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

	Note	2019 US$ '000	2,018 US$ '000
OPERATING ACTIVITIES			
Profit before tax		**827,363**	796,110
Adjustments for:			
Depreciation		**34,454**	22,269
Investment income		**(68,548)**	(38,582)
Provision for credit losses and others	7g	**54,417**	86,222
Fair value of Employee Share Purchase Plan (ESPP) charge	20h	**1,851**	4,435
Share of profit from associates	9	**(30,886)**	(40,941)
Operating profit before changes in operating assets and liabilities		**818,651**	829,513
Changes in:			
Mandatory reserve deposits with central banks		**89,587**	(160,692)
Treasury bills and deposits with central banks		**101,972**	1,222,886
Deposits with banks		**(1,137,163)**	(1,018,384)
Loans and advances		**(1,294,825)**	(341,445)
Interest receivable and other assets		**(74,576)**	(137,536)
Deposits from banks		**1,271,123**	(190,441)
Borrowings under repurchase agreements		**1,059,398**	559,376
Customers' deposits		**1,858,088**	1,650,178
Interest payables and other liabilities		**21,936**	109,909
Net cash generated from operations		**2,714,191**	2,523,364
Income tax paid		**(36,374)**	(44,507)
Net cash from operating activities		**2,677,817**	2,478,857
INVESTING ACTIVITIES			
Purchase of non-trading investments		**(3,292,698)**	(3,981,827)
Proceeds from sale or redemption of non-trading investments		**2,127,545**	2,485,519
Net decrease in investment properties		**40,529**	7,246
Net increase in premises and equipment		**(45,913)**	(33,118)
Dividends received from associates		**13,603**	12,955
Net cash used in investing activities		**(1,156,934)**	(1,509,225)
FINANCING ACTIVITIES			
Movement in subsidiaries		**181**	-
Distribution on Perpetual Tier 1 Capital Securities	20j	**(38,500)**	(38,500)
Repayment of subordinated liabilities		**(165,000)**	(22,507)
Dividends and other appropriations paid		**(390,585)**	(333,863)
Dividends paid to non-controlling interests		**(31,706)**	(26,179)
Issuance of ESPP and Mandatory Purchase Plan (MSP) shares		**4,200**	17,797
Movement in treasury shares		**21,950**	(1,529)
Net cash used in financing activities		**(599,460)**	(404,781)
NET INCREASE IN CASH AND CASH EQUIVALENTS		**921,423**	564,851
Net foreign exchange difference		**14,536**	(4,609)
Cash and cash equivalents at 1 January		**3,088,964**	2,528,722
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	23	**4,024,923**	3,088,964
Additional cash flow information:			
Interest received		**1,840,294**	1,579,594
Interest paid		**854,144**	631,689

The attached notes 1 to 42 form part of these consolidated financial statements

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019

	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 appro-priations US$ '000***	***Other reserves [Note 20(h)] US$ '000***	***Total reserves US$'000***	***Equity attributable to the owners US$'000***	***Perpetual Tier 1 Capital Securities US$'000***	***Non-controlling interests US$'000***	***Total US$'000***
Balance at 1 January 2019	1,992,541	(13,190)	763,660	586,481	634,672	399,838	(455,301)	1,929,350	3,908,701	600,000	463,307	**4,972,008**
Distribution on Perpetual Tier 1 Capital Securities [note 20(j)]	-	-	-	-	(27,500)	-	-	(27,500)	(27,500)	-	-	**(27,500)**
Distribution related to Perpetual Tier 1 Sukuk [note 20(j)]	-	-	-	-	(8,240)	-	-	(8,240)	(8,240)	-	(2,760)	**(11,000)**
Ordinary share dividend paid [note 20(i)]	-	-	-	-	1,082	(398,838)	-	(397,756)	(397,756)	-	-	**(397,756)**
Dividends of subsidiaries	-	-	-	-	-	-	-	-	-	-	(31,706)	**(31,706)**
Donations paid	-	-	-	-	-	(1,000)	-	(1,000)	(1,000)	-	-	**(1,000)**
Bonus shares issued	199,419	-	-	-	(199,419)	-	-	(199,419)	-	-	-	**-**
Additional shares issued [note 19 (c)]	1,651	-	2,549	-	-	-	-	2,549	4,200	-	-	**4,200**
Sale of treasury shares	-	13,190	-	-	-	-	8,760	8,760	21,950	-	-	**21,950**
Fair value amortisation of share based transactions	-	-	-	-	1,851	-	-	1,851	1,851	-	-	**1,851**
Transfer from OCI reserve	-	-	-	-	(1,195)	-	-	(1,195)	(1,195)	-	(79)	**(1,274)**
Movement in associates	-	-	-	-	(7,773)	-	-	(7,773)	(7,773)	-	-	**(7,773)**
Movement in subsidiaries	-	-	21	-	-	-	-	21	21	-	160	**181**
Total comprehensive income for the year	-	-	-	-	730,501	-	41,767	772,268	772,268	-	67,080	**839,348**
Transfer to statutory reserve [note 20(c)]	-	-	-	73,050	(73,050)	-	-	-	-	-	-	**-**
Proposed dividend on ordinary shares [note 20(i)]	-	-	-	-	(438,722)	438,722	-	-	-	-	-	**-**
Proposed donations	-	-	-	-	(1,000)	1,000	-	-	-	-	-	**-**
Balance at 31 December 2019	**2,193,611**	**-**	**766,230**	**659,531**	**611,207**	**439,722**	**(404,774)**	**2,071,916**	**4,265,527**	**600,000**	**496,002**	**5,361,529**

The attached notes 1 to 42 form part of these consolidated financial statements

Ahli United Bank B.S.C.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019

	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 appro-priations US$ '000*	*Other reserves [Note 20(h)] US$ '000*	*Total reserves US$ '000*	*Equity attributable to the owners US$ '000*	*Perpetual Tier 1 Capital Securities US$ '000*	*Non-controlling interests US$ '000*	*Total US$ '000*
Restated balance at 1 January 2018	1,889,213	(11,661)	754,308	516,728	549,823	342,578	(420,266)	1,743,171	3,620,723	600,000	442,100	4,662,823
Distribution on Perpetual Tier 1 Capital Securities [note 20(j)]	-	-	-	-	(27,500)	-	-	(27,500)	(27,500)	-	-	(27,500)
Distribution related to Perpetual Tier 1 Sukuk [note 20(j)]	-	-	-	-	(8,240)	-	-	(8,240)	(8,240)	-	(2,760)	(11,000)
Ordinary share dividend paid [note 20(i)]	-	-	-	-	818	(341,578)	-	(340,760)	(340,760)	-	-	(340,760)
Dividends of subsidiary	-	-	-	-	-	-	-	-	-	-	(26,179)	(26,179)
Donations paid	-	-	-	-	-	(1,000)	-	(1,000)	(1,000)	-	-	(1,000)
Bonus shares issued	94,883	-	-	-	(94,883)	-	-	(94,883)	-	-	-	-
Additional shares issued [note 19 (c)]	8,445	-	9,352	-	-	-	-	9,352	17,797	-	-	17,797
Purchase of treasury shares	-	(1,529)	-	-	-	-	-	-	(1,529)	-	-	(1,529)
Fair value amortisation of share based transactions	-	-	-	-	4,435	-	-	4,435	4,435	-	-	4,435
Transfer from OCI reserve	-	-	-	-	(7,633)	-	-	(7,633)	(7,633)	-	(305)	(7,938)
Movement in associates	-	-	-	-	(10,091)	-	-	(10,091)	(10,091)	-	(1,621)	(11,712)
Total comprehensive income for the year	-	-	-	-	697,534	-	(35,035)	662,499	662,499	-	52,072	714,571
Transfer to statutory reserve [note 20(c)]	-	-	-	69,753	(69,753)	-	-	-	-	-	-	-
Proposed dividend on ordinary shares [note 20(i)]	-	-	-	-	(398,838)	398,838	-	-	-	-	-	-
Proposed donations	-	-	-	-	(1,000)	1,000	-	-		-	-	-
Balance at 31 December 2018	1,992,541	(13,190)	763,660	586,481	634,672	399,838	(455,301)	1,929,350	3,908,701	600,000	463,307	4,972,008

The attached notes 1 to 42 form part of these 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 as detailed in note 2.3 below (collectively known as "the Group") are engaged in retail, commercial, islamic and investment banking business, global fund management and private banking services through branches in the Kingdom of Bahrain, the State of Kuwait, the Arab Republic of Egypt, Republic of Iraq, the United Kingdom and an overseas branch in Dubai International Financial Centre (DIFC). It also operates through its associates in Libya and in the Sultanate of Oman. The Bank operates under a retail banking license issued by the Central Bank of Bahrain. The Bank also engages in life insurance business through its subsidiary, Al Hilal Life B.S.C. (c). The Bank's registered office is located at Building 2495, Road 2832, Al Seef District 428, Kingdom of Bahrain.

The consolidated financial statements for the year ended 31 December 2019 were authorised for issue in accordance with a resolution of the Board of Directors dated 7 February 2020.

2 ACCOUNTING POLICIES

2.1 Basis of preparation

The consolidated financial statements have been prepared on a historical cost basis as modified for the re-measurement at fair value of freehold land, certain financial instruments [as detailed below in note 2.7(c)] and all derivative financial instruments. In addition, as fully discussed below in note 2.7(h)(i), carrying values of recognised assets that are designated as hedged items in fair value hedges are adjusted to the extent of the fair value attributable to the risk being hedged. The consolidated financial statements are presented in US Dollars, which is also the Bank's functional currency and all values are rounded-off to the nearest thousands except where otherwise indicated.

2.2 Statement of compliance

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRSs) as issued by International Accounting Standards Board (IASB) and in conformity with the Bahrain Commercial Companies Law, the Central Bank of Bahrain and Financial Institutions Law.

2.3 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries as at and for the years ended 31 December 2019 and 2018. The results of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Control is achieved where the Bank is exposed, or has rights, to variable returns from its involvement from its investee and has the ability to affect those returns through its power over the investee. The Bank re-assesses whether or not it controls an investee if facts and circumstances indicates that there are any change to elements of control. The financial statements of the subsidiaries are prepared for the same reporting year as the Bank, using consistent accounting policies. Adjustments are made to the consolidated financial statements to bring into line any dissimilar accounting policies that may exist.

All material intra-group balances, transactions, income and expenses and profits and losses resulting from intra-group transactions are eliminated in full upon consolidation. The Group does not have significant restrictions on its ability to access or use its assets and settle its liabilities.

The following are the Bank's principal subsidiaries:

		Group's nominal holding	
Name	***Incorporated in***	***2019***	*2018*
Ahli United Bank (U.K.) PLC ("AUBUK")	United Kingdom	**100.0%**	100.0%
Ahli United Bank K.S.C.P. ("AUBK")*	State of Kuwait	**67.3%**	67.3%
Ahli United Bank (Egypt) S.A.E. ("AUBE")	Arab Republic of Egypt	**85.5%**	85.5%
Commercial Bank of Iraq P.S.C. ("CBIQ")	Republic of Iraq	**75.0%**	75.0%
Al Ahli Real Estate Company S.P.C. ("AREC")	Kingdom of Bahrain	**100.0%**	100.0%
Al Hilal Life B.S.C. (c) ("AHL")	Kingdom of Bahrain	**100.0%**	100.0%

* Effective holding 74.9% (2018: 74.9%)

2 ACCOUNTING POLICIES (continued))

2.4 New standards and interpretations issued but not yet effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's consolidated financial statements are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective.

-Interest Rate Benchmark Reform (Amendments to IFRS 9 and IFRS 7) - effective for annual periods beginning on or after 1 January 2020.

The current LIBOR linked interest rate benchmarks are expected to cease by the end of year 2021. In order to alleviate uncertainties that this change may have on the accounting of hedging relationships that are based on LIBOR benchmark rates, the IASB issued the Interest Rate Benchmark Reform Amendments to IFRS 9, IAS 39 and IFRS 7, that primarily includes a number of reliefs, which allows reporting entities to continue to account for hedging relationships on the basis of current LIBOR linked interest rate benchmarks.

- Definition of Material (Amendments to IAS 1 and IAS 8) - effective for annual periods beginning on or after 1 January 2020.
- Definition of a Business (Amendments to IFRS 3) - effective for annual periods beginning on or after 1 January 2020.

The Group does not expect any significant impact on the Group's financial position and results, arising from the adoption of above standards and amendments.

2.5 New standards and interpretations effective for the year

The accounting policies used in the preparation of these consolidated financial statements are consistent with those used in previous year, except for the adoption of IFRS 16, which is explained below.

IFRS 16 Leases

IFRS 16 supersedes IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for most leases under a single on-balance sheet model.

Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16 did not have an impact for leases where the Group is the lessor.

Prior to the adoption of IFRS 16, the Group accounted and classified each of its leases (as lessee) at the inception date as either a finance lease or an operating lease in accordance with IAS 17.

Upon adoption of IFRS 16, the Group applied a single recognition and measurement approach for all leases in which it is the lessee, except for short-term leases and leases of low-value assets. The Group recognised lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets. The Group adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019 and accordingly, the comparative information is not restated. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application.

The Group has recorded right-of-use assets representing the right to use the underlying assets under premises and equipment and the corresponding lease liabilities to make lease payments under other liabilities. The right-of-use assets and lease liabilities recorded as at 1 January 2019 amounted to US$ 60.6 million, with no impact on retained earnings. When measuring lease liabilities, the Group discounted lease payments using its incremental borrowing rate of 2.5% at 1 January 2019. As on 31 December 2019, right-of-lease assets amounted to US$ 46.2 million and lease cost for the year ended 31 December 2019 relating to right-of-use assets of US$ 11.0 million is included under "depreciation" line in the consolidated statement of income.

The accounting policies of the Group upon adoption of IFRS 16 are as follows:

2 ACCOUNTING POLICIES (continued)

2.5 New standards and interpretations effective for the year (continued)

IFRS 16 Leases (continued)

a) Right-of-use assets
The Group recognises right of use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right of use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any re-measurement of lease liabilities. The cost of right of use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received.

Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right of use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right of use assets are subject to impairment. The carrying value of right-of-use assets are recognised under premises and equipment in the balance sheet.

b) Lease liabilities
At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset and is recognised under other liabilities in the balance sheet.

2.6 Significant accounting judgements and estimates

The preparation of the consolidated financial statements requires management to make judgements and estimates that affect the reported amounts of income, expenses, assets, liabilities, the accompanying disclosures and disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

The most significant uses of judgement and estimates are as follows:

i) Business model
In making an assessment of whether a business model's objective is to hold assets in order to collect contractual cash flows, the Group considers at which level of its business activities such assessment should be made. Generally, a business model is a matter of fact which can be evidenced by the way business is managed and the information provided to management.

In determining whether its business model for managing financial assets is to hold assets in order to collect contractual cash flows, the Group considers:

- Management's stated policies and objectives for the portfolio and the operation of those policies in practice;
- Management's evaluation of the performance of the portfolio; and
- Management's strategy in terms of earning contractual interest revenues or generating capital gains.

ii) Measurement of the expected credit loss (ECL) allowances
The measurement of the ECL for financial assets measured at amortised cost and debt instruments measured at Fair Value Through Other Comprehensive Income (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:

2 ACCOUNTING POLICIES (continued)

2.6 Significant accounting judgements and estimates (continued)

ii) Measurement of the expected credit loss (ECL) allowances (continued)

- Internal credit rating model, which assigns Probability of Defaults (PDs) to the individual ratings;
- The Group calculates Point-in-Time PD (PiT PD) estimates under three scenarios, a base case, good case and bad case. An appropriate probability weighted ECL is then calculated by assigning probabilities, based on current and expected market conditions, to each scenario;
- Determining and applying criteria for significant increase in credit risk;
- Determination of associations between macroeconomic variables such as Gross domestic product, oil prices and unemployment levels on the one hand and default and loss rates on the other and the consequent impact on PDs, Exposure at Defaults (EADs) and Loss Given Defaults (LGDs);
- Selection and relative weightings of forward-looking scenarios;
- Segmentation of financial assets for the purposes of determining and applying the most appropriate risk rating model; and
- Determining the behavioral maturities of exposures for revolving facilities and other facilities where contractual maturities are not an accurate representation of actual maturities.

iii) Pension plans

Estimates and assumptions are used in determining the Group's pension liabilities. The cost of the defined benefit pension plan and the present value of pension obligations are determined using actuarial valuations. An actuarial valuation involves making various assumptions that may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, mortality rates and future pension increases.

iv) Going concern

The management has made an assessment of its ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt on the Group's ability to continue as a going concern. Therefore, the consolidated financial statements continue to be prepared on the going concern basis.

v) Fair value of financial instruments

Estimates are also made in determining the fair values of financial assets and derivatives that are not quoted in an active market. Such estimates are necessarily based on assumptions about several factors involving varying degrees of uncertainty and actual results may differ resulting in future changes in such estimates.

vi) Impairment of goodwill and intangible assets

The Group determines whether goodwill and intangibles with indefinite useful lives are impaired at least on an annual basis. Impairment exists when carrying value of an asset or cash generating unit (CGU) exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The key assumptions and estimates used to determine the recoverable amount for the different CGUs, are disclosed and further explained in note 13.

The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

2.7 Summary of significant accounting policies

The principal accounting policies which are consistently applied in the preparation of these consolidated financial statements, except for those detailed in note 2.5, are set out below.

2 ACCOUNTING POLICIES (continued)

2.7 Summary of significant accounting policies (continued)

(a) Investments in associates

Associate companies are companies in which the Group exercises significant influence but does not control. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies. Investments in associate companies are accounted for using the equity method. After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investment in its associate. At each reporting date, the Group determines whether there is an objective evidence that the investment in the associate is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value, and then recognises the loss in the consolidated statement of income.

The reporting dates of the associates and the Group are identical and the associates' accounting policies materially conform to those used by the Group for like transactions and events in similar circumstances. Adjustments are made to the consolidated financial statements to bring into line any dissimilar accounting policies that may exist. There are no significant restrictions on the Group's ability to access or use associates assets and settle liabilities.

(b) Foreign currency translation

(i) Transactions and balances

Transactions in foreign currencies are initially recorded in the relevant functional currency at the rate of exchange prevailing on the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the rate of exchange ruling at the balance sheet date. Any resulting exchange differences are included in "trading income" in the consolidated statement of income.

Non-monetary assets and liabilities that are measured at historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary investments classified as FVTOCI measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined and the differences are included in other comprehensive income as part of the fair value adjustment of the respective items, unless these non-monetary investments items are designated as Fair Value Through Profit or Loss (FVTPL) or are part of an effective hedging strategy, in which case it is recorded in the consolidated statement of income.

(ii) Group companies

Assets and liabilities of foreign subsidiaries and associates whose functional currency is not US Dollars are translated into US Dollars at the rates of exchange prevailing at the balance sheet date. Income and expense items are translated at average exchange rates prevailing for the reporting period. Any exchange differences arising on translation are included in "foreign exchange translation reserve" forming part of other comprehensive income except to the extent that the translation difference is allocated to the non-controlling interest. On disposal of foreign operations, exchange differences relating thereto and previously recognised in other comprehensive income are recognised in the consolidated statement of income.

(c) Financial instruments

The classification of financial instruments at initial recognition depends on the purpose for which the financial instruments were acquired and their characteristics. All financial instruments are initially recognised at the fair value plus, for an item not recorded at FVTPL, transaction costs that are directly attributable to its acquisition or issue. Premiums and discounts are amortised on a systematic basis to maturity using the effective interest rate method and taken to interest income or interest expense as appropriate.

(i) Date of recognition

All "regular way" purchases and sales of financial assets are recognised on the settlement date, i.e. the date that the Group receives or delivers the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the timeframe generally established by regulation or convention in the market place.

2 ACCOUNTING POLICIES (continued)

2.7 Summary of significant accounting policies (continued)

(c) Financial instruments (continued)

(ii) Treasury bills and deposits with central banks

Treasury bills and deposits with central banks are initially recognised at amortised cost. Premiums and discounts are amortised to their maturity using the effective interest rate method.

(iii) Deposits with banks and other financial institutions and loans and advances

Deposits with banks and other financial institutions and loans and advances are financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. Loans with renegotiated terms are loans, the repayment plan of which have been revised as part of ongoing customer relationship to align with change in cash flows of the borrower, in some instances with improved security and with no other concessions. These assets are risk rated in accordance with the Group's policy on internal credit rating as explained in note 31 (c). After initial recognition, these are subsequently measured at amortised cost using the effective interest rate method, adjusted for effective fair value hedges, less any amounts written off and provision for credit losses. The losses arising from impairment of these assets are recognised in the consolidated statement of income in "provision for credit losses" and in an ECL allowance account in the consolidated balance sheet. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The amortisation is included in "interest income" in the consolidated statement of income.

(iv) Debt instruments

Debt instruments are measured at amortised cost using the effective interest rate method if:

- the assets are held within a business model whose objective is to hold assets in order to collect contractual cash flows; and
- the contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding.

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs, as well as profit margin. In assessing whether the contractual cash flows are SPPI, the Group considers the contractual terms of the instrument.

The change in fair value is not recognized for assets carried at cost or amortised cost.

Debt instruments are measured at FVTOCI when both 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.

If either of these two criteria is not met, the financial assets are classified and measured at FVTPL. Additionally, even if the financial asset meets the amortised cost criteria, the Group may choose at initial recognition to designate the financial asset at FVTPL based on the business model.

The Group accounts for any changes in the fair value in the consolidated statement of income for assets classified as "FVTPL".

2 ACCOUNTING POLICIES (continued)

2.7 Summary of significant accounting policies (continued)

(c) Financial instruments (continued)

(v) Equity investments
Investments in equity instruments are classified as FVTPL, unless the Group designates an equity investment as FVTOCI on initial recognition. At initial recognition, the Group can make irrevocable election on an instrument by instrument basis to designate an equity instrument as FVTOCI. If an equity investment is designated as FVTOCI, all gains and losses, except for dividend income, are recognised in other comprehensive income and are not subsequently included in the consolidated statement of income.

(vi) Other financial instruments
A financial asset is classified as FVTPL, if:
- it has been acquired principally for the purpose of selling in the near term;
- on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is a recent actual pattern of short term profitability; or
- it is a derivative and not designated and effective as a hedging instrument or a financial guarantee.

(vii) Derivatives (other than hedging instruments)
Changes in fair values of the derivatives held for trading are included in the consolidated statement of income under "trading income".

Derivatives embedded in other financial instruments are not separated from the host contract and the entire contract is considered in order to determine its classification. These financial instruments are classified as FVTPL and the changes in fair value of the entire hybrid contract are recognised in the consolidated statement of income.

(viii) Deposits and subordinated liabilities
These financial liabilities are carried at amortised cost, less amounts repaid.

(d) Derecognition of financial assets and financial liabilities
A financial asset (or where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (i) has transferred substantially all the risks and rewards of the asset, or (ii) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires.

(e) Repurchase agreements
Where investments are sold subject to a commitment to repurchase them at a predetermined price, they remain on the consolidated balance sheet and the consideration received is included in "borrowings under repurchase agreements". The difference between the sale price and repurchase price is treated as interest expense and is accrued over the life of the agreement using the effective interest rate method.

(f) Determination of fair value
Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell an asset or transfer a liability takes place either in the principal market, or in the absence of a principal market, in the most advantageous market.

The fair value of financial instruments that are quoted in an active market is determined by reference to market bid prices respectively at the close of business on the balance sheet date.

2 ACCOUNTING POLICIES (continued)

2.7 Summary of significant accounting policies (continued)

(f) Determination of fair value (continued)
The fair value of liabilities with a demand feature is the amount payable on demand.

The fair value of interest-bearing financial assets and financial liabilities that are not quoted in an active market and are not payable on demand is determined by a discounted cash flow model using the current market interest rates for financial instruments with similar terms and risk characteristics.

For equity investments that are not quoted in an active market, a reasonable estimate of the fair value is determined by reference to the current market value of another instrument that is substantially similar, or is determined using net present valuation techniques. Equity securities and funds classified under Level 3 are valued based on discounted cash flows and dividend discount models.

Investments in funds are stated at net asset values provided by the fund managers.

The fair value of unquoted derivatives is determined either by discounted cash flows or option-pricing models.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the assets or liabilities.

For assets and liabilities that are recognised in the consolidated financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period disclosed in note 37.

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

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.

ECL allowances are the product of the PD, EAD and 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 an estimate of the exposure at a future default date, taking into account expected changes in the funded exposure after the reporting date, including repayments of principal and interest. 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. Management overlays may be applied to the model outputs if consistent with the objective of a significant increase in the credit risk.

2 ACCOUNTING POLICIES (continued)

2.7 Summary of significant accounting policies (continued)

(g) Impairment of financial assets (continued)

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 are as follows:

- Movements in risk rating since origination. Where the rating movement has deteriorated significantly, 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 twelve 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.

- 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.

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.

Exposures which are classified as Stage 2 are not moved back to Stage 1 unless a minimum cooling off period of six months has elapsed from the date when the exposure qualifies to be reclassified except for restructured facilities for which a minimum cooling off period of twelve months is applied. Further, no exposure classified in Stage 3 is moved to Stage 2 till a period of twelve months has elapsed from the date on which the account qualifies for reclassification.

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 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 crude 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.

Definition of default

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.

2 ACCOUNTING POLICIES (continued)

2.7 Summary of significant accounting policies (continued)

(g) Impairment of financial assets (continued)

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

(h) Hedge accounting

The Group enters into derivative instruments including futures, forwards, swaps and options to manage exposures to interest rate and foreign currency risks, including exposures arising from forecast transactions. In order to manage particular risks, the Group applies hedge accounting for transactions which meet the specified criteria. These derivatives are stated at fair value. Derivatives with positive market values are included in "interest receivable and other assets" and derivatives with negative market values are included in "interest payable and other liabilities" in the consolidated balance sheet.

At inception of the hedge relationship, the Group formally designates and documents the economic relationship between the hedged item and the hedging instrument, including the nature of the risk, management objectives and strategy for undertaking the hedge. The methods that will be used to assess the effectiveness of the hedging relationship form part of the Group's documentation.

Also at the inception of the hedge relationship, the Group undertakes a formal assessment to ensure the effectiveness of changes in the hedging instruments fair value in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are regarded as effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been effective throughout the financial reporting periods for which they were designated. For situations where the hedged item is a forecast transaction, the Group assesses whether the transaction is highly probable and presents an exposure to variations in cash flows that could ultimately affect the consolidated statement of income.

For the purposes of hedge accounting, hedges are classified into two categories: (i) fair value hedges, which hedge the exposure to changes in the fair value of a recognised asset or liability; and (ii) cash flow hedges, which hedge exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability or a forecasted transaction.

(i) Fair value hedges

For fair value hedges which meet the conditions for hedge accounting, any gain or loss from remeasuring the hedging instrument at fair value is recognised immediately in the consolidated statement of income. The hedged item is adjusted for fair value changes relating to the risk being hedged and the difference is recognised in the consolidated statement of income.

If the hedging instrument expires or is sold, terminated or exercised, or when the hedge no longer meets the criteria for hedge accounting, the hedge relationship is terminated. For hedged items recorded at amortised cost or at FVTOCI, the difference between the carrying value of the hedged item on termination and the value at which it would have been carried without being hedged is amortised over the remaining term of the original hedge. If the hedged item is derecognised, the unamortised fair value adjustment is recognised immediately in the consolidated statement of income.

(ii) Cash flow hedges

For cash flow hedges which meet the conditions for hedge accounting, the portion of the gain or loss on the hedging instrument which is determined to be an effective hedge is recognised initially in OCI. The ineffective portion of the fair value of the derivative is recognised immediately in the consolidated statement of income as "trading income".

The gains or losses on effective cash flow hedges recognised initially in OCI are either transferred to the consolidated statement of income in the period in which the hedged transaction impacts the consolidated statement of income or included in the initial measurement of the related asset or liability.

2 ACCOUNTING POLICIES (continued)

2.7 Summary of significant accounting policies (continued)

(h) Hedge accounting (continued)

(ii) Cash flow hedges (continued)
For hedges which do not qualify for hedge accounting, any gains or losses arising from changes in the fair value of the hedging instrument are recognised in the consolidated statement of income for the year.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. In the case of cash flow hedges, the cumulative gain or loss on the hedging instrument recognised in OCI remains in OCI until the forecasted transaction occurs, unless the hedged transaction is no longer expected to occur, in which case the net cumulative gain or loss recognised in equity is transferred to the consolidated statement of income for the year.

(i) Offsetting financial instruments
Financial assets and financial liabilities are only offset and the net amount reported in the consolidated balance sheet when there is a currently enforceable legal right to offset the recognised amounts and the Group intends to settle on a net basis.

(j) Revenue recognition
Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

(i) Interest income and expense
For all interest bearing financial instruments, interest income or expense is recorded using the effective interest rate, which is the rate that discounts estimated future cash payments or receipts through the expected life of the financial instrument or a short period, where appropriate, to the net carrying amount of the financial asset or financial liability. Recognition of interest income is suspended on loans and advances where interest and / or principal is overdue by 90 days or more.

(ii) Fees and commissions
Credit origination fees are treated as an integral part of the effective interest rate of financial instruments and are recognised over their lives, except when the underlying risk is sold to a third party at which time it is recognised immediately. Fees or components of fees that are linked to certain performance obligations are recognised after fulfilling those obligations. Other fees and commission income are recognised when earned.

(iii) Dividend income
Dividend income is recognised when the right to receive payment is established.

(k) Business combinations, goodwill and other intangible assets
Business combinations are accounted for using the purchase method of accounting. Assets and liabilities acquired are recognised at the acquisition date fair values with any excess of the cost of acquisition over the net assets acquired being recognised as goodwill. Changes in parent's ownership interest in a subsidiary that do not result in loss of control are treated as transactions between equity holders and are reported in equity.

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities acquired. Following initial recognition, goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. After initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Intangible assets are measured on initial recognition at their fair values on the date of recognition. Following initial recognition, intangible assets are carried at originally recognised values less any accumulated impairment losses.

2 ACCOUNTING POLICIES (continued)

2.7 Summary of significant accounting policies (continued)

(k) Business combinations, goodwill and other intangible assets (continued)
Impairment of goodwill and intangible assets with indefinite life is determined by assessing the recoverable amount of the cash-generating unit (or group of cash-generating units), to which the goodwill relates. Where the recoverable amount of the cash-generating unit (or group of cash-generating units) is less than the carrying amount, an impairment loss is recognised immediately in the consolidated statement of income.

For the purpose of impairment testing, goodwill and intangible assets with indefinite life acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- is not larger than a segment based on either the Group's primary or the Group's geographic segment reporting format determined in accordance with IFRS 8 - Operating Segments.

(l) Premises and equipment
Freehold land is initially recognised at cost. After initial recognition, freehold land is carried at the revalued amount. The revaluation is carried out periodically by independent professional property valuers. Fair value is determined by using unobservable valuation inputs. The resultant revaluation surplus is recognised, as a separate component under equity. Revaluation deficit, if any, is recognised in the consolidated statement of income, except that a deficit directly offsetting a previously recognised surplus on the same asset is directly offset against the surplus in the revaluation reserve in equity.

Premises and equipment are stated at cost, less accumulated depreciation and impairment, if any.

Depreciation on buildings and other premises and equipment is provided on a straight-line basis over their estimated useful lives.

The estimated useful lives of the assets for the calculation of depreciation are as follows:

- Freehold buildings	40 to 50 years
- Fixtures and improvenents	Over the lease period or up to 10 years
- Other premises and equipment	Up to 10 years

(m) Investment properties
Land and buildings held for the purpose of capital appreciation or for long term rental yields and not occupied by the Group are classified as investment properties. Investment properties are remeasured at cost less accumulated depreciation (depreciation for buildings based on an estimated useful life of 40 years using the straight-line method) and accumulated impairment. Any gains or losses on the retirement or disposal of an investment property are recognised in the consolidated statement of income in the period of retirement or when sale is completed.

(n) Cash and cash equivalents
Cash and cash equivalents comprise cash and balances with central banks, excluding mandatory reserve deposits, together with those deposits with banks and other financial institutions and treasury bills having an original maturity of three months or less.

(o) Provisions
Provisions are recognised when the Group has a present obligation arising from a past event and the costs to settle the obligation are both probable and able to be reliably estimated.

2 ACCOUNTING POLICIES (continued)

2.7 Summary of significant accounting policies (continued)

(p) Employee benefits

Defined benefit pension plan
Pension costs are recognised on a systematic basis so that the costs of providing retirement benefits to employees are evenly matched, so far as possible, to the service lives of the employees concerned. Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, the return on plan assets and the effect of the asset ceiling (if any) both excluding interest are recognised immediately in OCI.

Defined contribution plans
The Group also operates a defined contribution plan, the costs of which are recognised in "staff costs" in the period to which they relate.

(q) Taxes
There is no tax on corporate income in the Kingdom of Bahrain. Taxation on income from foreign entities is provided for in accordance with the fiscal regulations of the countries in which the respective Group entities operate.

Deferred taxation is provided for using the liability method on all temporary differences calculated at the rate at which it is expected to be payable. Deferred tax assets are only recognised if recovery is probable.

(r) Fiduciary assets
Assets held in trust or in a fiduciary capacity are not treated as assets of the Group and accordingly are not incorporated in the consolidated balance sheet.

(s) Non-controlling interests
Non-controlling interest represents the portion of profit or loss and net assets in the subsidiaries not attributable to the Bank's equity shareholders. Any change in Group's ownership interest in the subsidiary that does not result in a loss of control is accounted for as an equity transaction.

(t) Perpetual Tier 1 Capital Securities
Perpetual Tier 1 Capital Securities of the Group are recognised under equity in the consolidated balance sheet and the corresponding distribution on those securities are accounted as a debit to the retained earnings.

(u) Dividends on ordinary shares
Dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the Bank's shareholders.

Dividends for the period that are approved after the balance sheet date are shown as an appropriation and reported in the consolidated statement of changes in equity, as an event after the balance sheet date.

(v) Treasury shares
Own equity instruments that are acquired are recognised at cost and deducted from equity. Any surplus/deficit arising from the subsequent sale of treasury shares is included in capital reserve under equity.

(w) Employees' share purchase plan
The Group operates an employees' share purchase plan for certain eligible employees. The difference between the issue price and the fair value of the shares at the grant date is amortised over the vesting period in the consolidated statement of income with a corresponding effect to equity.

(x) Financial guarantees and loan commitments
In the ordinary course of business, the Group gives financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are contracts that require the Group to make specified payments to reimburse the holders for a loss that is incurred because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument. Loan commitments are firm commitments to provide credit under pre-specified terms and conditions.

2 ACCOUNTING POLICIES (continued)

2.7 Summary of significant accounting policies (continued)

(x) Financial guarantees and loan commitments (continued)

Financial guarantees are initially recognised in the consolidated financial statements at fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, the Group's liability under each guarantee is measured at the higher of the amortised commission and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee. The expected loss allowance on financial guarantees is measured on the basis of expected payment to be made to the holder less any amounts that the Group expects to recover. Any change in a liability relating to guarantees is recognised in the consolidated statement of income.

(y) Repossessed assets

Repossessed assets are assets acquired in settlement of debt. These assets are carried at the lower of their repossessed value or their fair value and reported under "other assets" in the consolidated balance sheet.

(z) Islamic banking

The Islamic banking activities of the Group are conducted in accordance with Islamic Shari'a principles, as approved by the Shari'a Supervisory Board.

- Earnings prohibited by Sharia

The Islamic operation is committed to avoid recognising any income generated from non-Islamic sources. Accordingly, all non-Islamic income is credited to the charity account, where the Islamic operation uses these funds for charitable purposes.

- Commingling of funds

The funds of Islamic operation are not commingled with the funds of the conventional operations of the Group.

(aa) Islamic products

Murabaha

An agreement whereby the Group sells to a customer commodities, real estate and certain other assets at cost plus an agreed profit mark up whereby the Group (seller) informs the purchaser of the price at which the asset had been purchased and also stipulates the amount of profit to be recognized.

Ijara

A lease agreement between the Group (lessor) and the customer (lessee), whereby the Group earns profit by charging rentals on assets leased to customers.

Tawarruq

A sales agreement whereby a customer buys commodities from the Group on a deferred payment basis and then immediately resells them for cash to a third party.

Mudaraba

An agreement between two parties; one of them provides the funds and is called Rab-Ul-Mal and the other provides efforts and expertise and is called the Mudarib and is responsible for investing such funds in a specific enterprise or activity in return for a pre-agreed percentage of the Mudaraba income. In the case of normal loss, the Rab-Ul-Mal would bear the loss of its funds while the Mudarib would bear the loss of its efforts. However, in the case of default, negligence or violation of any of the terms and conditions of the Mudaraba agreement, only the Mudarib would bear the losses. The Group acts as Mudarib when accepting funds from depositors and as Rab-Ul-Mal when investing such funds on a Mudaraba basis.

Wakala

An agreement whereby the Group provides a certain sum of money to an agent who invests it according to specific conditions in return for a certain fee (a lump sum of money or a percentage of the amount invested). The agent is obliged to return the invested amount in the case of default, negligence or violation of any of the terms and conditions of the Wakala.

2 ACCOUNTING POLICIES (continued)

2.7 Summary of significant accounting policies (continued)

(aa) Islamic products (continued)

Istisna'a
Istisna'a is a sale contract between a contract owner and a contractor whereby the contractor based on an order from the contract owner undertakes to manufacture or otherwise acquire the subject matter of the contract according to specifications, and sells it to the contract owner for an agreed upon price and method of settlement whether that be in advance, by instalments or deferred to a specific future time.

Revenue recognition
Revenue is recognised on the above Islamic products as follows:

Income from Murabaha, Tawarruq and Istisna'a are recognised on an effective yield basis which is established on the initial recognition of the asset and is not revised subsequently.

Income from Ijara is recognized over the term of the Ijara agreement so as to yield a constant rate of return on the net investment outstanding.

Income / (loss) on Mudaraba financing is based on expected results adjusted for actual experience as applicable, while similarly the losses are charged to income.

Estimated income from Wakala is recognised on an accrual basis over the period, adjusted by actual income when received. Losses are accounted for on the date of declaration by the agent.

(ab) Equity of unrestricted investment account holders' share of profit
The profit computed after taking into account all income and expenses at the end of a financial year is distributed between equity of unrestricted investment account holders which include Mudaraba depositors and the Group's shareholders. The share of profit of the equity of unrestricted investment account holders is calculated on the basis of their daily deposit balances over the year, after reducing the agreed and declared Mudarib fee.

Equity of unrestricted investment account holders do not bear the expenses relating to non compliance with Shari'a regulations.

3 NET INTEREST INCOME

	2019 US$'000	2018 US$'000
(a) INTEREST INCOME		
Treasury bills	**98,442**	110,160
Deposits with banks	**122,510**	97,821
Loans and advances	**1,203,401**	1,116,706
Non-trading investments	**419,600**	331,063
	1,843,953	1,655,750
(b) INTEREST EXPENSE		
Deposits from banks (including borrowings under repurchase agreements)	**192,933**	88,697
Customers' deposits	**693,678**	614,395
Subordinated liabilities	**5,842**	12,134
	892,453	715,226
	951,500	940,524

4 FEES AND COMMISSIONS

	2019 US$'000	2018 US$'000
Fees and commission income		
- Transaction banking services	**117,911**	112,536
- Management, performance and brokerage fees*	**19,951**	24,151
Fees and commission expense	**(10,557)**	(7,799)
	127,305	128,888

* This includes US$ 10.5 million (2018: US$ 9.7 million) of fee income relating to trust and other fiduciary activities.

5 TRADING INCOME

	2019 US$'000	2018 US$'000
Foreign exchange - customer transactions	**39,196**	30,203
Proprietary trading	**4,885**	8,865
	44,081	39,068

6 (a) CASH AND BALANCES WITH CENTRAL BANKS

	2019 US$'000	2018 US$'000
Cash and balances with central banks, excluding mandatory reserve deposits (note 23)	**970,011**	903,916
Mandatory reserve deposits with central banks *	**396,967**	486,554
	1,366,978	1,390,470

* Mandatory reserve deposits are not available for use in day-to-day operations.

6 (b) TREASURY BILLS AND DEPOSITS WITH CENTRAL BANKS

	2019 US$'000	2018 US$'000
Central Bank of Bahrain	**727,542**	352,859
Central Bank of Kuwait	**1,137,879**	1,140,183
Central Bank of Egypt	**306,165**	294,932
Central Bank of Iraq	**30,754**	130,753
	2,202,340	1,918,727

The deposits with Central Banks and treasury bills are local currency denominated and are match funded by underlying respective local currencies.

7 LOANS AND ADVANCES

	2019 US$ '000	%	2018 US$ '000	%
a) By industry sector				
Consumer / personal	**2,741,426**	**12.7**	2,732,571	13.5
Residential mortgage	**1,710,385**	**8.0**	1,520,131	7.5
Trading and manufacturing	**5,717,748**	**26.5**	5,267,616	25.9
Real estate	**5,529,821**	**25.7**	5,143,957	25.3
Banks and other financial institutions	**1,153,099**	**5.4**	1,171,627	5.8
Services	**3,999,375**	**18.6**	3,840,749	18.9
Government / public sector	**150,611**	**0.7**	147,872	0.7
Others	**509,659**	**2.4**	494,684	2.4
	21,512,124	**100.0**	20,319,207	100.0
Less: ECL allowances (Stage 1 and 2)	**(413,259)**		(490,398)	
Less: ECL allowances (Stage 3)	**(356,505)**		(324,848)	
	20,742,360		19,503,961	

	2019 US$ '000	%	2018 US$ '000	%
b) By geographic region				
Kingdom of Bahrain	**3,821,623**	**17.8**	3,670,637	18.1
State of Kuwait	**10,486,465**	**48.7**	9,859,978	48.5
Other GCC countries	**2,751,961**	**12.8**	2,873,672	14.1
United Kingdom	**1,988,072**	**9.2**	1,772,606	8.7
Arab Republic of Egypt	**2,120,162**	**9.9**	1,723,554	8.5
Europe (excluding United Kingdom)	**138,774**	**0.6**	174,880	0.9
Asia (excluding GCC countries)	**98,150**	**0.5**	92,920	0.5
Others	**106,917**	**0.5**	150,960	0.7
	21,512,124	**100.0**	20,319,207	100.0
Less: ECL allowances (Stage 1 and 2)	**(413,259)**		(490,398)	
Less: ECL allowances (Stage 3)	**(356,505)**		(324,848)	
	20,742,360		19,503,961	

7 LOANS AND ADVANCES (continued)

c) Credit quality of loans and advances

	2019			
	Stage 1	***Stage 2***	***Stage 3***	***Total***
	US$ '000	***US$ '000***	***US$ '000***	***US$ '000***
High standard grade				
Retail	**3,437,377**	**102,297**	**-**	**3,539,674**
Corporate	**9,348,355**	**449,367**	**-**	**9,797,722**
Standard grade				
Retail	**156,129**	**189,020**	**-**	**345,149**
Corporate	**5,397,441**	**2,017,347**	**-**	**7,414,788**
Credit impaired				
Retail	**-**	**-**	**66,665**	**66,665**
Corporate	**-**	**-**	**348,126**	**348,126**
	18,339,302	**2,758,031**	**414,791**	**21,512,124**
Less: ECL allowances	**(100,805)**	**(312,454)**	**(356,505)**	**(769,764)**
	18,238,497	**2,445,577**	**58,286**	**20,742,360**

	2018			
	Stage 1	*Stage 2*	*Stage 3*	*Total*
	US$ '000	*US$ '000*	*US$ '000*	*US$ '000*
High standard grade				
Retail	3,324,450	127,873	-	3,452,323
Corporate	8,691,650	324,598	-	9,016,248
Standard grade				
Retail	176,554	135,532	-	312,086
Corporate	4,969,673	2,189,098	-	7,158,771
Credit impaired				
Retail	-	-	71,926	71,926
Corporate	-	-	307,853	307,853
	17,162,327	2,777,101	379,779	20,319,207
Less: ECL allowances	(125,066)	(365,332)	(324,848)	(815,246)
	17,037,261	2,411,769	54,931	19,503,961

Refer note 31 for further details on credit quality of loans and advances.

7 LOANS AND ADVANCES (continued)

d) Age analysis of past due but not credit impaired loans and advances

	2019			
	Up to 30 days US$ '000	31 to 60 days US$ '000	61 to 89 days US$ '000	Total US$ '000
Retail	156,560	42,348	25,796	224,704
Corporate	79,638	27,495	18,518	125,651
	236,198	69,843	44,314	350,355

	2018			
	Up to 30 days US$ '000	31 to 60 days US$ '000	61 to 89 days US$ '000	Total US$ '000
Retail	86,209	37,036	25,590	148,835
Corporate	108,528	14,558	44,806	167,892
	194,737	51,594	70,396	316,727

The past due loans and advances up to 30 days include those that are only past due by a few days. None of the above past due loans are considered to be credit impaired.

e) Individually credit impaired loans and advances

	2019		
	Retail US$ '000	Corporate US$ '000	Total US$ '000
Gross credit impaired loans and advances	66,665	348,126	414,791
ECL allowances (Stage 3)	(56,798)	(299,707)	(356,505)
	9,867	48,419	58,286
ECL coverage on credit impaired loans and advances	85.2%	86.1%	85.9%
Gross loans and advances	3,951,488	17,560,636	21,512,124
Credit impaired loans and advances ratio	1.7%	2.0%	1.9%

	2018		
	Retail US$ '000	Corporate US$ '000	Total US$ '000
Gross credit impaired loans and advances	71,926	307,853	379,779
ECL allowances (Stage 3)	(61,277)	(263,571)	(324,848)
	10,649	44,282	54,931
ECL coverage on credit impaired loans and advances	85.2%	85.6%	85.5%
Gross loans and advances	3,836,335	16,482,872	20,319,207
Credit impaired loans and advances ratio	1.9%	1.9%	1.9%

The fair value of collateral that the Group holds relating to loans individually determined to be credit impaired at 31 December 2019 amounts to US$ 290.8 million (31 December 2018: US$ 357.9 million). The collateral consists of cash, securities and properties.

The carrying amount of restructured credit facilities was US$ 218.9 million as at 31 December 2019 (31 December 2018: US$ 243.1 million) with no significant impact on ECL.

7 LOANS AND ADVANCES (continued)

f) Impairment allowance for loans and advances

A reconciliation of the loss allowances for loans and advances by class is as follows:

i) Loss allowances for loans and advances - Retail

	2019			
	Stage 1	*Stage 2*	*Stage 3*	*Total*
	US$ '000	*US$ '000*	*US$ '000*	*US$ '000*
At 1 January 2019	**36,613**	**9,535**	**61,277**	**107,425**
Transfer from Stage 1	**(4,607)**	**2,450**	**2,157**	**-**
Transfer from Stage 2	**-**	**(3,502)**	**3,502**	**-**
Net remeasurement of ECL allowances for the year	**(6,092)**	**(450)**	**16,769**	**10,227**
Amounts written-off during the year *	**-**	**-**	**(27,028)**	**(27,028)**
Exchange rate and other adjustments	**34**	**(77)**	**121**	**78**
At 31 December 2019	**25,948**	**7,956**	**56,798**	**90,702**

	2018			
	Stage 1	*Stage 2*	*Stage 3*	*Total*
	US$ '000	*US$ '000*	*US$ '000*	*US$ '000*
At 1 January 2018 (restated)	39,057	13,576	39,422	92,055
Transfer from Stage 1	(3,719)	1,371	2,348	-
Transfer from Stage 2	-	(5,798)	5,798	-
Net remeasurement of ECL allowances for the year	1,261	551	16,950	18,762
Amounts written-off during the year *	-	-	(2,880)	(2,880)
Exchange rate and other adjustments	14	(165)	(361)	(512)
At 31 December 2018	36,613	9,535	61,277	107,425

ii) Loss allowances for loans and advances - Corporate

	2019			
	Stage 1	*Stage 2*	*Stage 3*	*Total*
	US$ '000	*US$ '000*	*US$ '000*	*US$ '000*
At 1 January 2019	**88,453**	**355,797**	**263,571**	**707,821**
Transfer from Stage 1	**(3,111)**	**3,067**	**44**	**-**
Transfer from Stage 2	**-**	**(97,898)**	**97,898**	**-**
Net remeasurement of ECL allowances for the year	**(11,660)**	**43,578**	**44,868**	**76,786**
Amounts written-off during the year *	**-**	**-**	**(114,030)**	**(114,030)**
Exchange rate and other adjustments	**1,175**	**(46)**	**7,356**	**8,485**
At 31 December 2019	**74,857**	**304,498**	**299,707**	**679,062**

7 LOANS AND ADVANCES (continued)

f) Impairment allowance for loans and advances (continued)

ii) Loss allowances for loans and advances - Corporate (continued)

	2018			
	Stage 1 *US$ '000*	*Stage 2* *US$ '000*	*Stage 3* *US$ '000*	*Total* *US$ '000*
At 1 January 2018 (restated)	106,924	365,091	285,257	757,272
Transfer from Stage 1	(81)	-	81	-
Transfer from Stage 2	4,148	(25,793)	21,645	-
Net remeasurement of ECL allowances for the year	(22,475)	17,437	104,941	99,903
Amounts written-off during the year *	-	-	(163,848)	(163,848)
Exchange rate and other adjustments	(63)	(938)	15,495	14,494
At 31 December 2018	88,453	355,797	263,571	707,821

* Represents the full carrying value of the loans written-off.

g) Provision for credit losses and others

The net charge for provision in the consolidated statement of income is as follows:

	2019 **US$ '000**	2018 US$ '000
Net remeasurement of ECL on loans and advances (note 7f)	**87,013**	118,665
Recoveries from loans and advances during the year (from fully provided loans written-off in previous years)	**(30,587)**	(42,738)
Net remeasurement of ECL for non-trading investments (note 8)	**(2,316)**	679
Net remeasurement of ECL on off-balance sheet exposures and others	**307**	9,616
	54,417	86,222

8 NON-TRADING INVESTMENTS

a) By sector

	2019			
	Held at amortised cost US$'000	***Held at FVTOCI US$'000***	***Held at FVTPL US$'000***	***Total US$'000***
Quoted investments				
GCC government bonds and debt securities	**2,204,604**	**231,710**	**-**	**2,436,314**
Other government bonds and debt securities	**744,219**	**179,096**	**-**	**923,315**
GCC government entities' securities	**1,067,542**	**240,532**	**-**	**1,308,074**
Notes and certificates of deposit:				
- issued by banks and other financial institutions	**1,292,804**	**219,415**	**-**	**1,512,219**
- issued by corporate bodies	**2,399,403**	**254,008**	**-**	**2,653,411**
Equity instruments	**-**	**26,512**	**115,446**	**141,958**
	7,708,572	**1,151,273**	**115,446**	**8,975,291**
Unquoted investments				
Notes and certificates of deposit:				
- issued by banks and other financial institutions	**13,898**	**68,747**	**-**	**82,645**
Equity instruments	**-**	**84,087**	**2,998**	**87,085**
	13,898	**152,834**	**2,998**	**169,730**
Total	**7,722,470**	**1,304,107**	**118,444**	**9,145,021**
Less: ECL allowances				**(11,140)**
				9,133,881

	2018			
	Held at amortised cost US$ '000	*Held at FVTOCI US$ '000*	*Held at FVTPL US$ '000*	*Total US$ '000*
Quoted investments				
GCC government bonds and debt securities	1,669,185	303,648	-	1,972,833
Other government bonds and debt securities	1,096,991	-	-	1,096,991
GCC government entities' securities	832,171	111,364	-	943,535
Notes and certificates of deposit:				
- issued by banks and other financial institutions	1,330,196	275,549	-	1,605,745
- issued by corporate bodies	1,405,698	247,833	-	1,653,531
Equity instruments	-	29,364	168,165	197,529
	6,334,241	967,758	168,165	7,470,164
Unquoted investments				
Notes and certificates of deposit:				
- issued by banks and other financial institutions	18,000	12,950	-	30,950
Equity instruments	-	80,286	579	80,865
	18,000	93,236	579	111,815
Total	6,352,241	1,060,994	168,744	7,581,979
Less: ECL allowances				(13,451)
				7,568,528

8 NON-TRADING INVESTMENTS (continued)

The fair value of the non-trading investments held at amortised cost is US$ 7,876.4 million as at 31 December 2019 (31 December 2018: US$ 6,182.9 million) of which US$ 7,862.5 million is classified under Level 1 of fair value hierarchy (31 December 2018: US$ 6,164.9 million) and US$ 13.9 million is classified under Level 2 of fair value hierarchy (31 December 2018: US$ 18.0 million).

Income from FVTPL investments for the year amounted to US$ 40.8 million (2018: US$ 22.2 million).

b) Credit quality of non-trading investments

	2019			
	Stage 1 ***US$ '000***	***Stage 2*** ***US$ '000***	***Stage 3*** ***US$ '000***	***Total*** ***US$ '000***
High standard grade	**6,319,300**	**50,882**	**-**	**6,370,182**
Standard grade	**2,397,676**	**148,120**	**-**	**2,545,796**
	8,716,976	**199,002**	**-**	**8,915,978**
Less: ECL allowances	**(9,407)**	**(1,733)**	**-**	**(11,140)**
Equity instruments at fair value	**-**	**-**	**-**	**229,043**
	8,707,569	**197,269**	**-**	**9,133,881**

	2018			
	Stage 1 *US$ '000*	*Stage 2* *US$ '000*	*Stage 3* *US$ '000*	*Total* *US$ '000*
High standard grade	5,022,919	4,909	-	5,027,828
Standard grade	2,123,813	151,944	-	2,275,757
	7,146,732	156,853	-	7,303,585
Less: ECL allowances	(9,729)	(3,722)	-	(13,451)
Equity instruments at fair value	-	-	-	278,394
	7,137,003	153,131	-	7,568,528

Refer note 31 for further details on credit quality of non-trading investments.

c) Movements in ECL allowances

	2019			
	Stage 1 ***US$ '000***	***Stage 2*** ***US$ '000***	***Stage 3*** ***US$ '000***	***Total*** ***US$ '000***
At 1 January 2019	**9,729**	**3,722**	**-**	**13,451**
Transfer from Stage 1	**(84)**	**84**	**-**	**-**
Net remeasurement of ECL allowances for the year	**(243)**	**(2,073)**	**-**	**(2,316)**
Exchange rate and other adjustments	**5**	**-**	**-**	**5**
At 31 December 2019	**9,407**	**1,733**	**-**	**11,140**

8 NON-TRADING INVESTMENTS (continued)

c) Movements in ECL allowances (continued)

	2018			
	Stage 1 *US$ '000*	*Stage 2* *US$ '000*	*Stage 3* *US$ '000*	*Total* *US$ '000*
At 1 January 2018 (Restated)	12,847	2,520	450	15,817
Transfer from Stage 1	(829)	829	-	-
Net remeasurement of ECL allowances for the year	756	(77)	-	679
Exchange rate and other adjustments	(3,045)	450	(450)	(3,045)
At 31 December 2018	9,729	3,722	-	13,451

9 INVESTMENT IN ASSOCIATES

The principal associates of the Group are:

Name	*Incorporated in*	*Group's nominal holding* 2019	*Group's nominal holding* 2018
Ahli Bank S.A.O.G. (ABO)	Sultanate of Oman	**35.0%**	35.0%
United Bank for Commerce and Investment S.A.L. (UBCI)	Libya	**40.0%**	40.0%
Middle East Financial Investment Company (MEFIC)	Kingdom of Saudi Arabia	**40.0%**	40.0%

The summarised financial information of the Group's associates was as follows:

	2019 ***US$ '000***	*2018* *US$ '000*
Total assets	**7,222,669**	6,712,855
Total liabilities	**6,028,896**	5,585,550
Net profit for the year (Group's share)	**30,886**	40,941
Net comprehensive loss for the year (Group's share)	**(7,436)**	(103)

9 INVESTMENT IN ASSOCIATES (continued)

Financial information of ABO, being the material associate is provided below. The information is based on amounts as reported in financial statements of ABO.

	2019	*2018*
	US$ 'million	*US$ 'million*
Ahli Bank S.A.O.G.		
Balance sheet related information		
Loans and advances	**5,337.6**	4,858.9
Total assets	**6,541.6**	5,949.1
Customers' deposits	**4,446.0**	4,316.0
Total liabilities	**5,530.7**	5,016.7
Income statement related information		
Total operating income	**181.2**	161.4
Net profit for the year	**80.6**	74.8
Dividends received during the year	**13.6**	13.0
Cash flow related information		
Net cash (used in)/generated from operating activities	**(237.5)**	59.3
Net cash used in investing activities	**(110.4)**	(3.1)
Net cash from financing activities	**165.1**	78.5

The market value of AUB's investment in ABO based on the price quoted in the Muscat Securities Market at 31 December 2019 is US$ 185.7 million (31 December 2018: US$ 198.6 million).

10 INVESTMENT PROPERTIES

These represent properties acquired by the Group and are recognised at cost. As at 31 December 2019, the fair value of the investment properties is US$ 281.4 million (31 December 2018: US$ 320.3 million). Investment properties were valued by independent valuers using unobservable valuation inputs and are classified under Level 3 of the fair value hierarchy.

11 INTEREST RECEIVABLE AND OTHER ASSETS

	2019	*2018*
	US$ '000	*US$ '000*
Deferred tax asset (note 21)	**65**	2,365
Interest receivable	**240,459**	236,800
Derivative assets (note 27)	**105,489**	117,888
Prepayments and others	**477,701**	407,041
	823,714	764,094

Prepayments and others include repossessed real estate assets amounting to US$ 318.3 million (31 December 2018: US$ 296.2 million).

Interest receivable include US$ 20.7 million (31 December 2018: US$ 12.2 million) relating to financial assets classified as FVTOCI and balance relates to assets held at amortised cost.

12 PREMISES AND EQUIPMENT

The net book values of the Group's premises and equipment are:

	2019 US$ '000	2018 US$ '000
Freehold land	**92,747**	92,253
Freehold buildings	**26,215**	27,850
Fixtures and improvements	**33,469**	36,451
IT equipment and others	**67,994**	53,321
Capital work-in-progress	**28,875**	27,189
Right-of-use assets (note 2.5)	**46,249**	-
	295,549	237,064

Freehold land was revalued by an independent valuer using significant valuation inputs based on unobservable inputs and is classified under Level 3 of the fair value hierarchy.

13 GOODWILL AND OTHER INTANGIBLE ASSETS

	2019			2018		
	Goodwill US$'000	Intangible assets US$'000	Total US$'000	Goodwill US$'000	Intangible assets US$'000	Total US$'000
At 1 January	**429,305**	**49,014**	**478,319**	431,299	49,531	480,830
Exchange rate adjustments	**3,112**	**5,724**	**8,836**	(1,994)	(517)	(2,511)
At 31 December	**432,417**	**54,738**	**487,155**	429,305	49,014	478,319

Goodwill:

Goodwill acquired through business combinations has been allocated to the cash-generating units of the acquired entities for impairment testing purposes. The carrying amount of goodwill and intangible assets allocated to each of the cash-generating units is shown under note 29.

Key assumptions used in estimating recoverable amounts of cash-generating units

The recoverable amount of each cash-generating unit's goodwill is based on value-in-use calculations using cash flow projections from financial budgets approved by the management, extrapolated for five year projections using nominal projected Gross Domestic Product growth rate in the respective countries in which they operate. The discount rate applied to cash flow projections represent the cost of capital adjusted for an appropriate risk premium for these business segments. The discount rate used in goodwill impairment testing was 8.1% to 17.8% (2018: 8.8% to 16.9%). The key assumptions used in estimating recoverable amounts of cash generating units were sensitised to test the resilience of value-in-use calculations. On this basis, management believes that reasonable changes in the key assumptions used to determine the recoverable amount of the Group's cash-generating units will not result in an impairment.

Intangible assets:

Intangible assets comprises primarily the subsidiaries' banking licenses which have indefinite lives. Based on an annual impairment assessment of the intangible assets, no indications of impairment were identified (2018: same). The fair values of a banking license are determined at the time of acquisition by discounting the future expected profits from their acquisition and their projected terminal value.

14 DEPOSITS FROM BANKS

	2019	2018
	US$ '000	US$ '000
Demand and call	**186,298**	191,296
Time deposits	**4,837,617**	3,561,496
	5,023,915	3,752,792

15 BORROWINGS UNDER REPURCHASE AGREEMENTS

The Group has collateralized borrowing lines of credit with various financial institutions through repurchase arrangements, under which it can borrow up to US$ 7.4 billion (31 December 2018: US$ 6.8 billion). Collateral is provided in the form of investment securities held within the non-trading investments portfolio.

As at 31 December 2019, the borrowings under these agreements were US$ 2.9 billion (31 December 2018: US$ 1.8 billion) and the fair value of investment securities that had been provided as collateral was US$ 3.2 billion (31 December 2018: US$ 2.0 billion).

16 CUSTOMERS' DEPOSITS

	2019	2018
	US$ '000	US$ '000
Current and call accounts	**4,686,902**	4,473,268
Saving accounts	**2,637,336**	2,155,917
Time deposits	**18,193,885**	17,030,850
	25,518,123	23,660,035

17 INTEREST PAYABLE AND OTHER LIABILITIES

	2019	2018
	US$ '000	US$ '000
Interest payable	**267,493**	229,184
Accruals and other payables*	**180,092**	179,516
Derivative liabilities (note 27)	**497,373**	187,156
Other credit balances**	**438,593**	416,174
Tax liabilities (note 21)	**49,641**	48,607
ECL allowances***	**23,898**	37,274
	1,457,090	1,097,911

Interest payable includes US$ 1.7 million (31 December 2018: US$ 0.9 million) relating to liabilities classified as FVTOCI and balance related to liabilities at amortised cost.

* Accruals and other payables include US$ 46.6 million (31 December 2018: Nil) relating to lease liabilities.

** Other credit balances mainly includes insurance related technical provisions, unearned fees, margin deposits, unclaimed dividends and other sundary creditors.

*** This represents ECL allowances on financial contracts such as guarantees and undrawn commitments.

18 SUBORDINATED LIABILITIES

These borrowings are subordinated to the claims of all other creditors of the respective entities.

	Maturity	2019 US$ '000	2018 US$ '000
IFC Capitalization (Subordinated Debt) Fund L.P.:			
- Repayable in four equal semi-annual installments commencing on 15 April 2019 and thereafter up to and including 15 October 2020 *		-	165,000
		-	165,000
Others:			
- 10 year subordinated debt repayable at maturity on 20 January 2020	2020	**17,997**	17,997
- Repayable at maturity	5 years and one day notice	**9,865**	9,700
		27,862	27,697
		27,862	192,697

* The Bank prepaid the entire residual principal balance of US$ 123.75 million, together with accrued interest, on 17 June 2019 in accordance with the terms of the agreement.

19 EQUITY

	2019 US$ '000	2018 US$ '000
(a) Authorised :		
Share capital		
10,000 million shares (2018: 10,000 million shares) of US$ 0.25 each	**2,500,000**	2,500,000

Available for issuance of ordinary shares and various classes of preference shares.

(b) Issued and fully paid:

	2019 US$ '000	2018 US$ '000
Ordinary share capital (US$ 0.25 each)	**2,193,611**	1,992,541
Number of shares (millions)	**8,774.4**	7,970.2
Number of treasury shares (millions)	-	21.6

Movement in ordinary shares	2019 (number in millions)	2018
Opening balance as at 1 January	**7,970.2**	7,556.9
Add: issuance of additional shares [note 19 (c)]	**6.6**	33.8
Add: issuance of bonus shares	**797.6**	379.5
Closing balance as at 31 December	**8,774.4**	7,970.2

19 EQUITY (continued)

(c) Employee Share Purchase Plan and Mandatory Share Plan

The Employee Share Purchase Plan (ESPP) and Mandatory Share Plan (MSP) were setup during 2005 and 2014 respectively after obtaining necessary approvals from regulatory authorities.

ESPP

Movements in ordinary shares under ESPP	*2019*	*2018*
	(number in thousands)	
Opening balance	**187,851**	182,345
Bonus shares issued during the year	**16,654**	10,245
Awarded during the year	**-**	26,333
Exercised during the year	**(78,490)**	(31,072)
Closing balance	**126,015**	187,851

MSP

Under the MSP scheme, the MSP Trust procures and provide for shares to satisfy options to be issued under the MSP Scheme as part of the annual performance bonus deferred share awards. These shares are entitled to cash dividend and bonus share issues.

Movements in ordinary shares under MSP	*2019*	*2018*
	(number in thousands)	
Opening balance	**18,805**	13,335
Bonus shares issued during the year	**1,788**	1,015
Awarded during the year	**6,605**	7,444
Exercised during the year	**(16,891)**	(2,989)
Closing balance	**10,307**	18,805

19 EQUITY (continued)

(d) Perpetual Tier 1 Capital Securities

	2019	*2018*
	US$ '000	*US$ '000*
Issued by the Bank [19d(i)]	**400,000**	400,000
Issued by the subsidiary [19d(ii)]	**200,000**	200,000
	600,000	600,000

(i) Basel III compliant Additional Tier I Perpetual Capital Securities issued by the Bank during 2015 carries an initial distribution rate of 6.875% per annum payable semi-annually with a reset after every 5 years. These securities are perpetual, subordinated and unsecured. The Capital Certificates are listed on the Irish Stock Exchange. The Bank can elect to make a distribution at its own discretion. The holders of these securities do not have a right to claim the same and such an event will not be considered an event of default. The securities carry no maturity date and have been classified under equity.

(ii) During 2016, Ahli United Bank K.S.C.P, a subsidiary of the Bank, issued a US$ 200 million Basel III compliant Additional Tier 1 Perpetual Capital Securities that bears a profit rate of 5.5%, which are eligible to be classified under equity. The Capital Certificates are subordinated, unsecured and will carry a Periodic Distribution Amount, payable semi-annually in arrears, until the first call date (25 October 2021). The Periodic Distribution Amounts in respect of the Capital Certificates may be cancelled (in whole or in part) at the sole discretion of the issuer on a non-cumulative basis. The Capital Certificates are listed on the Irish Stock Exchange and NASDAQ Dubai. These certificates have no maturity date and are callable (in whole but not in part) at par at the option of the issuer on the first call date and on every distribution payment date thereafter, subject to certain conditions.

20 RESERVES

a) Share premium
The share premium arising on the issue of ordinary shares is not distributable except in such circumstances as stipulated in the Bahrain Commercial Companies Law (BCCL).

b) Capital reserve
As required by the BCCL, any profit on the sale of treasury stock is transferred to a capital reserve. The reserve is not distributable except in such circumstances as stipulated in the BCCL.

c) Statutory reserve
As required by the BCCL and the Bank's Articles of Association, 10% of the net profit is transferred to a statutory reserve on an annual basis. The Bank may resolve to discontinue such transfers when the reserve totals 50% of the paid up capital. The reserve is not distributable except in such circumstances as stipulated in the BCCL.

d) Property revaluation reserve
The revaluation reserve arising on revaluation of freehold land is not distributable except in such circumstances as stipulated in the BCCL.

e) Foreign exchange translation reserve
It comprises mainly of translation effects arising on consolidation of subsidiaries and investments in associates.

20 RESERVES (continued)

f) Other comprehensive income reserve (OCI Reserve)

This reserve represents changes in the fair values of equity and debt instruments that are classified as fair value through other comprehensive income.

g) Cash flow hedge reserve

This reserve represents the effective portion of gain or loss on the Group's cash flow hedging instruments.

h) Movements in other reserves

	Capital reserve	Property revaluation reserve	Foreign exchange translation reserve	Cumulative changes: OCI reserve	Cumulative changes: Cash flow hedge reserve	Cumulative changes: ESPP reserve	Cumulative changes: Pension fund reserve	Total other reserves
	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000
Balance at 1 January 2019	8,480	35,225	(435,370)	3,639	(17,021)	-	(50,254)	(455,301)
Currency translation adjustments	-	-	32,914	-	-	-	-	32,914
Transfers to consolidated statement of income	-	-	-	1,126	(1,294)	-	-	(168)
Sale of treasury shares	8,760	-	-	-	-	-	-	8,760
Net fair value movements	-	-	-	15,371	(18,822)	-	-	(3,451)
Transfers to retained earnings	-	-	-	1,195	-	(1,851)	-	(656)
Fair value movements and others	-	-	-	-	-	1,851	11,107	12,958
Revaluation of freehold land	-	170	-	-	-	-	-	170
Balance at 31 December 2019	17,240	35,395	(402,456)	21,331	(37,137)	-	(39,147)	(404,774)

	Capital reserve	Property revaluation reserve	Foreign exchange translation reserve	Cumulative changes: OCI reserve	Cumulative changes: Cash flow hedge reserve	Cumulative changes: ESPP reserve	Cumulative changes: Pension fund reserve	Total other reserves
	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000
Restated balance at 1 January 2018	8,480	35,568	(423,986)	41,663	(26,659)	-	(55,332)	(420,266)
Currency translation adjustments	-	-	(11,384)	-	-	-	-	(11,384)
Transfers to consolidated statement of income	-	-	-	(18,523)	893	-	-	(17,630)
Net fair value movements	-	-	-	(27,134)	8,745	-	-	(18,389)
Transfers to retained earnings	-	-	-	7,633	-	(4,435)	-	3,198
Fair value movements and others	-	-	-	-	-	4,435	5,078	9,513
Revaluation of freehold land	-	(343)	-	-	-	-	-	(343)
Balance at 31 December 2018	8,480	35,225	(435,370)	3,639	(17,021)	-	(50,254)	(455,301)

Foreign currency translation risk primarily arises from Group's investments in diverse countries. Assets and liabilities of these subsidiaries are translated into US Dollars at the rates of exchange prevailing at the balance sheet date. Income and expense items are translated at average exchange rates prevailing for the reporting periods. Any exchange differences arising on translation are included in "foreign exchange translation reserve" forming part of other comprehensive income prorated between non-controlling interests and equity owners.

The Group undertakes hedging of such net investment in foreign operations to mitigate any currency risk in a number of ways including borrowing in the underlying currency, structural hedging in the form of holding US Dollar long position to the extent possible and forward contracts.

20 RESERVES (continued)

i) Dividends proposed and paid

	2019 US$'000	2018 US$'000
Proposed for approval at the forthcoming Annual General Assembly of Shareholders Meeting		
Total cash dividend proposed on the ordinary shares	**438,722**	398,838
Cash dividend on each ordinary share (US cents per share)	**5.0**	5.0
Bonus share issue	**10%**	10%

j) Distribution on Perpetual Tier 1 Capital Securities and Sukuk

	2019 US$'000	2018 US$'000
Distribution @ 6.875 percent per annum on the Perpetual Tier 1 Capital Securities	**27,500**	27,500
Distribution @ 5.5 percent per annum on the Perpetual Tier 1 Sukuk	**11,000**	11,000
	38,500	38,500

21 TAXATION

	2019 US$'000	2018 US$'000
Consolidated balance sheet (note 11 and note 17):		
- Deferred tax asset	**65**	2,365
- Current tax liability	**(29,446)**	(27,217)
- Deferred tax liability	**(20,195)**	(21,390)
	(49,641)	(48,607)
Consolidated statement of income		
- Current tax expense on foreign operations	**41,974**	42,678
- Deferred tax expense on foreign operations	**(3,436)**	1,067
	38,538	43,745

The Group's tax expense includes all direct taxes that are accrued on taxable profits of entities to the authorities in the respective countries of incorporation, in accordance with the tax laws prevailing in those jurisdictions. Consequently, it is not practical to provide a reconciliation between the accounting and taxable profits together with the details of effective tax rates. Tax expense primarily relates to AUBUK and AUBE. Effective tax rate at AUBE is 22.5% (2018: 22.5%) and AUBUK is 19.0% (2018: 19.0%).

The Group also incurred zakat amounting to US$ 1,899 thousand (2018: US$ 1,774 thousand) which is included in the consolidated statement of income under 'tax expense and zakat'.

22 EARNINGS PER SHARE

Basic and diluted earnings per ordinary share are calculated by dividing the net profit for the year attributable to the Bank's ordinary equity shareholders less distribution on Perpetual Tier 1 Capital Securities, by the weighted average number of ordinary shares outstanding during the year.

The following reflects the income and share data used in basic and diluted earnings per ordinary share computations :

	2019	*2018*
	US$'000	*US$'000*
Net profit for basic and diluted earnings per ordinary share computation		
Net profit attributable to Bank's equity shareholders	**730,501**	697,534
(Less): Share of Perpetual Tier 1 Capital Securities distribution	**(35,740)**	(35,740)
Adjusted net profit attributable to Bank's ordinary equity shareholders for basic and diluted earnings per ordinary share	**694,761**	661,794
Basic and diluted earnings per ordinary share (US cents)	**7.9**	7.6

	Number of shares (in millions)	
	2019	*2018*
Weighted average ordinary shares outstanding during the year adjusted for bonus shares	**8,774**	8,744
Weighted average number of ordinary shares for diluted earnings per share	**8,774**	8,744

23 CASH AND CASH EQUIVALENTS

Cash and cash equivalents included in the consolidated statement of cash flows include the following balance sheet amounts:

	2019	*2018*
	US$ '000	*US$ '000*
Cash and balances with central banks, excluding mandatory reserve deposits [note 6(a)]	**970,011**	903,916
Treasury bills and deposits with central banks and other banks - with an original maturity of three months or less	**3,054,912**	2,185,048
	4,024,923	3,088,964

24 RELATED PARTY TRANSACTIONS

The Group enters into transactions with major shareholders, associates, directors, senior management and companies which are controlled, jointly controlled or significantly influenced by such parties in the ordinary course of business at arm's length. All the loans and advances to related parties are performing and are subject to ECL allowances. Share of profit from associates and investment in associates are shown separately under the consolidated statement of income and consolidated balance sheet respectively.

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

				2019		
				US$ '000		
				Senior Management		
	Major shareholders	***Associates***	***Non-Executive Directors***	***Management Directors***[2]	***Others***	***Total***
Interest income	**-**	**3,039**	**7,852**	**152**	**41**	**11,084**
Interest expense	**177,294**	**1,390**	**125**	**64**	**27**	**178,900**
Fees and commissions	**-**	**2,864**	**2,631**	**12**	**1**	**5,508**
Deposits with banks	**-**	**13,432**	**-**	**-**	**-**	**13,432**
Loans and advances	**-**	**-**	**184,307**	**3,111**	**581**	**187,999**
Deposits from banks	**-**	**93,363**	**-**	**-**	**-**	**93,363**
Customers' deposits[1]	**6,769,750**	**-**	**21,934**	**7,196**	**1,815**	**6,800,695**
Subordinated liabilities	**9,866**	**-**	**-**	**-**	**-**	**9,866**
Derivatives liabilities	**-**	**-**	**-**	**-**	**-**	**-**
Commitments and contingent liabilities	**-**	**29,936**	**153,666**	**-**	**-**	**183,602**
Short term employee benefits	**-**	**-**	**-**	**12,678**	**1,916**	**14,594**
End of service benefits	**-**	**-**	**-**	**1,865**	**127**	**1,992**
Directors' fees and related expenses[3]	**-**	**-**	**2,235**	**-**	**-**	**2,235**

				2018		
				US$ '000		
				Senior Management		
	Major shareholders	*Associates*	*Non-Executive Directors*	*Management Directors*[2]	*Others*	*Total*
Interest income	-	7,022	7,841	286	37	15,186
Interest expense	145,933	431	1,982	117	13	148,476
Fees and commissions	-	3,032	160	16	6	3,214
Deposits with banks	-	120,148	-	-	-	120,148
Loans and advances	-	25,865	172,261	7,705	1,024	206,855
Deposits from banks	-	137,818	-	-	-	137,818
Customers' deposits[1]	7,057,754	-	96,846	5,297	1,111	7,161,008
Subordinated liabilities	9,700	-	-	-	-	9,700
Derivatives liabilities	-	800	-	-	-	800
Commitments and contingent liabilities	-	96,290	161,172	-	-	257,462
Short term employee benefits	-	-	-	13,321	2,642	15,963
End of service benefits	-	-	-	1,823	149	1,972
Directors' fees and related expenses[3]	-	-	2,314	-	-	2,314

24 RELATED PARTY TRANSACTIONS (continued)

[1]Customers' deposits include deposits from GCC government-owned institutions amounting to US$ 6,723 million (31 December 2018: US$ 6,978 million).

[2]AUB Group Management Directors (Employees) who are appointed by the shareholders of AUB to the AUB Board to represent management or by AUB to the boards of any of its subsidiaries or affiliates or their related committees, are excluded from receiving any additional remuneration for their membership of or attendance at board or related committee meetings as per their contractual arrangements. Accordingly, the short term employee benefits and end of service benefits shown above reflect employment remuneration only.

[3]Directors fees and related expenses for 2018 were approved by the shareholders in the annual general meeting on 28 March 2019 and the same for 2019 will be presented for shareholders' approval at the forthcoming annual general meeting in March 2020.

The consolidated income statement includes a fair value amortisation charge of US$ 0.44 million (2018: US$ 1.7 million) relating to share based transactions.

25 EMPLOYEE BENEFITS

The Group operates Defined Benefit and Defined Contribution retirement benefit schemes for its employees in accordance with the local laws and regulations in the countries in which it operates. The costs of providing retirement benefits including current contributions, are charged to the consolidated statement of income.

Defined benefit plans

The charge to the consolidated statement of income on account of end of service benefits for the year amounted to US$ 8,914 thousand (2018: US$ 13,581 thousand).

AUBUK's defined benefit pension scheme was closed to future service accruals on 31 March 2010. In accordance with the amended IAS-19 Employee Benefits, the Group immediately recognizes the actuarial gains and losses relating to 'Defined Pension Benefit' scheme through consolidated statement of changes in equity.

Defined contribution plans

The Group contributed US$ 8,780 thousand (2018: US$ 7,994 thousand) during the year towards defined contribution plans. The Group's obligations are limited to the amounts contributed to various schemes.

26 MANAGED FUNDS

Funds administrated on behalf of customers to which the Group does not have legal title are not included in the consolidated balance sheet. The total market value of all such funds at 31 December 2019 was US$ 2,568.7 million (2018: US$ 3,616.9 million).

27 DERIVATIVES

In the ordinary course of business, the Group enters into various types of transactions that involve derivative financial instruments. A derivative financial instrument is a financial contract between two parties where payments are dependent upon movements in price in one or more underlying financial instruments, reference rates or indices.

Derivatives include financial options, futures and forwards, interest rate swaps and currency swaps, which create rights and obligations that have the effect of transferring between the parties of the instrument one or more of the financial risks inherent in an underlying primary financial instrument. On inception, a derivative financial instrument gives one party a contractual right to exchange financial assets or financial liabilities with another party under conditions that are potential favourable, or a contractual obligation to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable. However, they generally do not result in a transfer of the underlying primary financial instrument on inception of the contract, nor does such a transfer necessarily take place on maturity of the contract. Some instruments embody both a right and an obligation to make an exchange. Because the terms of the exchange are determined on inception of the derivative instruments, as prices in financial markets change those terms may become either favourable or unfavourable.

The table below shows the net fair values of derivative financial instruments held for trading.

	2019		*2018*	
	Derivative assets	***Derivative liabilities***	*Derivative assets*	*Derivative liabilities*
	US$ '000	***US$ '000***	*US$ '000*	*US$ '000*
Derivatives held for trading:				
- Interest rate swaps	**54,217**	**49,273**	28,499	23,436
- Forward foreign exchange contracts	**15,892**	**42,127**	31,528	19,088
- Options	**1,036**	**1,036**	1,108	1,042
- Interest rate futures	**-**	**-**	-	260
	71,145	**92,436**	61,135	43,826

The table below shows the net fair values of derivative financial instruments held for hedging.

	2019			*2018*		
	Derivative assets	***Derivative liabilities***	***Notionals amounts***	*Derivative assets*	*Derivative liabilities*	*Notionals amounts*
	US$ '000	***US$ '000***	***US$ '000***	*US$ '000*	*US$ '000*	*US$ '000*
Derivatives held as fair value hedges:						
- Interest rate swaps on amortised cost instruments	**31,395**	**354,497**	**7,841,580**	42,668	120,269	8,140,868
- Interest rate swaps on FVTOCI instruments	**2,471**	**10,520**	**628,082**	11,845	1,608	635,218
Derivatives held as cash flow hedges:						
- Interest rate swaps	**197**	**39,920**	**217,937**	847	21,453	204,328
- Forward foreign exchange contracts	**281**	**-**	**14,665**	1,393	-	29,126
	34,344	**404,937**	**8,702,264**	56,753	143,330	9,009,540

Counterparties with whom the Group has entered into forward foreign exchange contracts have placed margin monies covering the fair values of contracts outstanding.

27 DERIVATIVES (continued)

In respect of derivative assets above, the Group has US$ 48.0 million (2018: US$ 73.0 million) of liabilities that can be offset through master netting arrangements. These master netting arrangements create a right of set-off that is enforceable only following an event of default, insolvency or bankruptcy of counterparties or following other predetermined events.

Fair value hedges
The net fair value of interest rate swaps held as fair value hedges as at 31 December 2019 is negative US$ 331.3 million (2018: Negative US$ 67.4 million) which is offset by gain recognised on the hedged item at 31 December 2019, attributable to the hedged risk is US$ 331.3 million (2018: US$ 67.4 million). These offsetting gains and losses are included in "trading income" in the consolidated statement of income during the years ended 31 December 2019

Hedging instruments are issued to hedge against interest rate and foreign exchange risks pertaining to hedged items. Hedged items include certain loans and advances amounting to US$ 228.8 million (31 December 2018: US$ 128.0 million), non-trading investments amounting to US$ 7,067.0 million (31 December 2018: US$ 5,216.0 million) and customer deposits amounting to US$ 1,764.6 million (31 December 2018: US$ 3,258.8 million). The net fair value amounting to US$ 331.3 million is included in the carrying amount of the hedged items.

Cash flow hedges
The time periods in which the hedged cash flows are expected to occur and their impact on the consolidated statement of income is as follows:

	3 months or less	*More than 3 months up to 1 year*	*More than 1 year up to 5 years*	*More than 5 years*	*Total*
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*
At 31 December 2019					
Net cash flows	**600**	**(2,860)**	**(12,439)**	**(22,438)**	**(37,137)**
At 31 December 2018					
Net cash flows	861	(151)	(7,689)	(10,042)	(17,021)

No significant hedge ineffectiveness on cash flow hedges was recognised during the years ended 31 December 2019 and 2018.

Derivatives held for trading purposes
Most of the Group's derivative trading activities relate to customer driven transactions as well as positioning and arbitrage. Positioning involves managing positions with the expectation of profiting from favourable movements in prices, rates or indices. Arbitrage involves identifying and profiting from price differentials between markets or products.

Derivatives held for hedging purposes
The Group has adopted a comprehensive system for the measurement and management of risk.

As part of its asset and liability management the Group uses derivatives for hedging purposes in order to reduce its exposure to currency and interest rate movements. This is achieved by hedging specific financial instruments and forecasted transactions, as well as strategic hedging against overall balance sheet exposures.

The Group uses options and currency swaps to hedge against specifically identified currency and equity risks. In addition, the Group uses interest rate swaps and forward rate agreements to hedge against the interest rate risk arising from specifically identified, or a portfolio of, fixed interest rate investments and loans. The Group also uses interest rate swaps to hedge against the cash flow risks arising on certain floating rate deposits. In all such cases the hedging relationship and objective, including details of the hedged item and hedging instrument, are formally documented and the transactions are accounted for as fair value hedges.

Hedging of interest rate risk is also carried out by monitoring the duration of assets and liabilities and entering into interest rate swaps to hedge net interest rate exposures. Since hedging of net positions does not qualify for special hedge accounting, related derivatives are accounted for the same way as trading instruments.

28 COMMITMENTS AND CONTINGENT LIABILITIES

Credit-related commitments

Credit-related commitments include commitments to extend credit, standby letters of credit, guarantees and acceptances which are designed to meet the requirements of the Group's customers.

Commitments to extend credit represent contractual commitments to make loans and revolving credits available and generally have fixed expiration dates or other termination clauses. Since commitments may expire without being drawn upon, the total contract amounts do not necessarily represent future cash requirements.

Standby letters of credit, guarantees and acceptances (standby facilities) commit the Group to make payments on behalf of customers contingent upon their failure to perform under the terms of the contract. Standby facilities would have market risk if issued or extended at a fixed rate of interest. However, these contracts are primarily made at floating rates.

The Group has the following credit related commitments:

	2019	*2018*
	US$ '000	*US$ '000*
Contingent liabilities:		
Guarantees	**2,671,283**	2,600,252
Acceptances	**177,977**	126,455
Letters of credit	**381,452**	576,710
	3,230,712	3,303,417
Maturity of contingent liabilities is as follows:		
Less than one year	**2,330,480**	2,414,825
Over one year	**900,232**	888,592
	3,230,712	3,303,417
Irrevocable commitments:		
Undrawn loan commitments	**575,702**	661,599

Also, refer to note 34 for additional liquidity disclosures.

29 SEGMENT INFORMATION

For management purposes, the Group is organised into four major business segments:

Retail banking	Principally handling individual customers' deposit and current accounts, providing consumer loans, residential mortgages, overdrafts, credit cards and fund transfer facilities.
Corporate banking	Principally handling loans and other credit facilities, and deposit and current accounts for corporate and institutional customers.
Treasury and investments	Principally providing money market, trading and treasury services, as well as management of the Group's investments and funding.
Private banking	Principally servicing high net worth clients through a range of investment products, funds, credit facilities, trusts and alternative investments.

29 SEGMENT INFORMATION (continued)

These segments are the basis on which the Group reports its primary segment information. Transactions between segments are conducted at approximate 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.

	Retail banking	*Corporate banking*	*Treasury and investments*	*Private banking*	*Total*
	US$ '000	*US$ '000*	*US$ '000*	*US$ '000*	*US$ '000*
Year ended 31 December 2019:					
Net interest income	210,748	404,835	263,409	72,508	951,500
Fees and commissions	38,983	66,145	3,650	18,527	127,305
Investment income and trading income	3,407	19,470	133,705	142	156,724
OPERATING INCOME	253,138	490,450	400,764	91,177	1,235,529
Provision for credit losses and others	6,811	49,146	(2,316)	776	54,417
NET OPERATING INCOME	246,327	441,304	403,080	90,401	1,181,112
Operating expenses	128,045	91,076	101,058	33,570	353,749
PROFIT BEFORE TAX	118,282	350,228	302,022	56,831	827,363
Tax expense and zakat					38,538
NET PROFIT FOR THE YEAR					788,825
Less: Attributable to non-controlling interests					58,324
NET PROFIT ATTRIBUTABLE TO THE OWNERS' OF THE BANK					730,501
Inter segment interest included in net interest income above	281,891	(406,227)	73,884	50,452	-
Segment assets	3,325,396	16,347,868	16,665,760	2,019,598	38,358,622
Goodwill	155,185	100,422	97,285	79,525	432,417
Other intangible assets	14,854	19,652	17,917	2,315	54,738
Investment in associates					315,011
Unallocated assets					1,119,263
TOTAL ASSETS					40,280,051
Segment liabilities	6,016,102	5,938,250	17,908,738	3,598,342	33,461,432
Unallocated liabilities					1,457,090
TOTAL LIABILITIES					34,918,522

29 SEGMENT INFORMATION (continued)

	Retail banking	*Corporate banking*	*Treasury and investments*	*Private banking*	*Total*
	US$ '000	*US$ '000*	*US$ '000*	*US$ '000*	*US$ '000*
Year ended 31 December 2018:					
Net interest income	193,711	455,790	217,697	73,326	940,524
Fees and commissions	31,204	70,639	3,690	23,355	128,888
Investment income and trading income	4,143	18,461	118,416	118	141,138
OPERATING INCOME	229,058	544,890	339,803	96,799	1,210,550
Provision for credit losses and others	11,250	76,237	679	(1,944)	86,222
NET OPERATING INCOME	217,808	468,653	339,124	98,743	1,124,328
Operating expenses	118,918	82,236	92,158	34,906	328,218
PROFIT BEFORE TAX	98,890	386,417	246,966	63,837	796,110
Tax expense and zakat					43,745
NET PROFIT FOR THE YEAR					752,365
Less: Attributable to non-controlling interests					54,831
NET PROFIT ATTRIBUTABLE TO THE OWNERS' OF THE BANK					697,534
Inter segment interest included in net interest income above	238,320	(308,152)	32,754	37,078	-
Segment assets	3,240,493	15,523,225	13,149,951	1,795,629	33,709,298
Goodwill	154,278	99,333	96,401	79,293	429,305
Other intangible assets	13,301	17,597	16,044	2,072	49,014
Investment in associates					318,802
Unallocated assets					1,001,158
TOTAL ASSETS					35,507,577
Segment liabilities	5,619,254	4,956,004	15,655,138	3,207,262	29,437,658
Unallocated liabilities					1,097,911
TOTAL LIABILITIES					30,535,569

Geographic segmentation

Although the management of the Group is based primarily on business segments, the Group's geographic segmentation is based on the countries where the Bank and its subsidiaries are incorporated. Thus, the operating income generated by the Bank and its subsidiaries based in the GCC are grouped as "GCC Countries", while those generated by the Bank's subsidiaries located outside the GCC region is grouped under "Others". Similar segmentation is followed for the distribution of total assets. The following table shows the distribution of the Group's operating income and total assets by geographical segment:

29 SEGMENT INFORMATION (continued)

Geographic segmentation (continued)

	Operating income		*Total assets*	
	2019	*2018*	***2019***	*2018*
	US$ '000	*US$ '000*	***US$ '000***	*US$ '000*
GCC Countries	**809,605**	818,312	**26,768,450**	24,187,029
Others	**425,924**	392,238	**13,511,601**	11,320,548
Total	**1,235,529**	1,210,550	**40,280,051**	35,507,577

Net profit from Bahrain onshore operations included above is US$ 102.3 million (2018: US$ 96.4 million), which represents 14.0% (2018: 13.8%) of the Group's net profit attributable to the owners of the Bank.

30 RISK MANAGEMENT

The Board of Directors (BOD) seek to optimise the Group's performance by enabling the various business units to realize the Group's business strategy and meet agreed business performance targets by operating within the BOD approved Group Risk Framework covering risk parameters.

The Group Risk Committee, Group Investment Committee, Group Assets & Liability Committee and Group Operational Risk Commitee are set up as part of the Group's risk governance structure. The terms of reference for these committees are approved by the BOD. Group Audit & Compliance Committee (including the Corporate Governance committee) has oversight over Group's audit, compliance and operational risk.

The BOD approves the Group Risk Framework on an annual basis. The Group Risk Committee monitors the Group's risk profile against the risk parameters. The BOD and its Executive Committee receive quarterly risk updates including detailed risk exposures analysis reports. The Group faces a range of risks in its business and operations including (i) credit risk; (ii) market risk (comprising of interest rate risk, currency risk and equity price risk); (iii) liquidity risk, (iv) operational risk, and (v) legal risk as detailed in notes 31 to 36.

31 CREDIT RISK

Credit risk is the risk that one party to a financial instrument will fail to discharge a financial obligation and cause the other party to incur a financial loss. In the case of derivatives this is limited to positive fair values. The Group attempts to mitigate credit risk by monitoring credit exposures, limiting transactions with specific counterparties, and continually assessing the creditworthiness of counterparties.

a) Concentration risk
Concentrations of credit risk arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions.

Concentrations of credit risk indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographic location.

The Group manages its credit risk exposure so as to avoid over concentration to a particular sector or geographic location. It also obtains security where appropriate. Guidelines are in place regarding the acceptability of types of collateral and valuation parameters.

The principal collateral types are as follows:

- In the personal sector – cash, mortgages over residential properties and assignments over salary income;
- In the commercial sector – cash, charges over business assets such as premises, inventories, receivables, debt securities and bank guarantees;
- In the commercial real estate sector – charges over the properties being financed; and
- In the financial sector – charges over financial instruments, such as debt securities and equities.

31 CREDIT RISK (continued)

a) Concentration risk (continued)

The Group monitors the market value of collateral and requests additional collateral when necessary in accordance with the underlying agreement.

Details of the concentration of the loans and advances by industry sector and geographic region are disclosed in note 7(a) and 7(b) respectively.

Details of the industry sector analysis and the geographical distribution of the assets, liabilities and commitments on behalf of customers are set out in note 32.

b) Gross maximum exposure to credit risk without taking account of any collateral and other credit enhancements

The table below shows the gross maximum exposure to credit risk for the components of the balance sheet. The maximum exposure is shown gross, before the effect of mitigation through the use of master netting and collateral agreements, but after provision for credit losses, where applicable.

	Gross maximum exposure 2019	*Gross maximum exposure 2018*
	US$ '000	*US$ '000*
Balances with central banks	**1,221,112**	1,264,079
Treasury bills and deposits with central banks	**2,202,340**	1,918,727
Deposits with banks	**4,683,260**	3,061,818
Loans and advances	**20,742,360**	19,503,961
Non-trading investments	**8,904,838**	7,290,134
Interest receivable and other assets	**452,863**	416,716
Total	**38,206,773**	33,455,435
Contingent liabilities	**3,230,712**	3,303,417
Undrawn loan commitments	**575,702**	661,599
Total credit related commitments	**3,806,414**	3,965,016
Total credit risk exposure	**42,013,187**	37,420,451

Where financial instruments are recorded at fair value the amounts shown above represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

31 CREDIT RISK (continued)

c) Credit quality of financial assets

The tables below shows distribution of financial assets:

	Stage 1	*Stage 2*	*Stage 3*	*Total*
	US$ '000	*US$ '000*	*US$ '000*	*US$ '000*
At 31 December 2019				
Balances with central banks:				
High standard grade	**1,221,112**	**-**	**-**	**1,221,112**
Treasury bills and deposits with central banks:				
High standard grade	**1,871,600**	**-**	**-**	**1,871,600**
Standard grade	**331,015**	**-**	**-**	**331,015**
Deposits with banks:				
High standard grade	**4,027,398**	**-**	**-**	**4,027,398**
Standard grade	**642,663**	**13,544**	**-**	**656,207**
Loans and advances:				
High standard grade	**12,785,732**	**551,664**	**-**	**13,337,396**
Standard grade	**5,553,570**	**2,206,367**	**-**	**7,759,937**
Credit impaired	**-**	**-**	**414,791**	**414,791**
Non-trading investments:				
High standard grade	**6,319,300**	**50,882**	**-**	**6,370,182**
Standard grade	**2,397,676**	**148,120**	**-**	**2,545,796**
Credit related contingent items:				
High standard grade	**5,466,541**	**140,879**	**-**	**5,607,420**
Standard grade	**2,177,005**	**326,516**	**-**	**2,503,521**
Credit impaired*	**-**	**-**	**62,511**	**62,511**

	Stage 1	*Stage 2*	*Stage 3*	*Total*
	US$ '000	*US$ '000*	*US$ '000*	*US$ '000*
At 31 December 2018				
Balances with central banks:				-
High standard grade	1,264,079	-	-	1,264,079
Treasury bills and deposits with central banks:				
High standard grade	1,493,056	-	-	1,493,056
Standard grade	425,685	-	-	425,685
Deposits with banks:				-
High standard grade	2,841,393	-	-	2,841,393
Standard grade	220,834	-	-	220,834
Loans and advances:				
High standard grade	12,016,100	452,471	-	12,468,571
Standard grade	5,146,227	2,324,630	-	7,470,857
Credit impaired	-	-	379,779	379,779
Non-trading investments:				
High standard grade	5,022,919	4,909	-	5,027,828
Standard grade	2,123,813	151,944	-	2,275,757
Credit related contingent items:				
High standard grade	5,035,017	299,690	-	5,334,707
Standard grade	2,270,127	349,043	-	2,619,170
Credit impaired*	-	-	22,162	22,162

* After application of credit conversion factors, credit impaired contingent items amounted to US$ 29,475 thousand (31 December 2018: US$ 10,985 thousand.

31 CREDIT RISK (continued)

c) Credit quality of financial assets (continued)

It is the Group's policy to maintain consistent internal risk ratings across the credit portfolio. The credit quality of the portfolio of loans and advances that were neither past due nor impaired can be assessed by reference to the Group's internal credit rating system. This facilitates focused portfolio management of the inherent level of risk across all lines of business. The credit quality ratings disclosed below can be equated to the following risk rating grades which are either internally applied or external ratings mapped to internal ratings.

Credit quality rating	Risk rating	Definition
High standard	Risk rating 1 to 4	Undoubted through to good credit risk
Standard	Risk rating 5 to 7	Satisfactory through to adequate credit risk
Credit impaired	Risk rating 8 to 10	Substandard through to loss

The risk rating system is supported by various financial analytics and qualitative market information for the measurement of counterparty risk. Refer to note 2.7(g) for detailed ECL measurement methodology.

There are no financial assets which are past due but not impaired as at 31 December 2019 and 2018 other than those disclosed under note 7(d).

32 CONCENTRATION ANALYSIS

The distribution of assets, liabilities and contingent liabilities on behalf of customers by geographic region and industry sector was as follows:

	2019			2018		
	Assets	*Liabilities*	*Contingent liabilities on behalf of customers*	*Assets*	*Liabilities*	*Contingent liabilities on behalf of customers*
	US$ '000	*US$ '000*	*US$ '000*	*US$ '000*	*US$ '000*	*US$ '000*
Geographic region:						
Kingdom of Bahrain	**6,567,334**	**4,990,295**	**924,615**	5,687,619	4,455,381	980,490
State of Kuwait	**13,567,056**	**18,397,588**	**1,450,019**	12,395,107	17,063,555	1,405,590
Other GCC countries	**6,634,060**	**2,212,339**	**205,159**	6,104,303	1,906,559	253,013
United Kingdom (UK)	**3,617,402**	**1,422,431**	**32,164**	2,794,035	670,606	23,148
Arab Republic of Egypt	**3,250,254**	**2,845,449**	**325,172**	2,963,893	2,811,173	288,294
Europe (excluding UK)	**1,626,146**	**2,179,813**	**218,583**	1,533,970	1,314,962	169,715
Asia (excluding GCC)	**1,823,995**	**1,806,067**	**61,257**	1,504,002	1,214,455	77,826
United States of America	**1,733,719**	**69,963**	**11,601**	1,305,430	210,248	11,741
Rest of the World	**1,460,085**	**994,577**	**2,142**	1,219,218	888,630	93,600
	40,280,051	**34,918,522**	**3,230,712**	35,507,577	30,535,569	3,303,417
Industry sector:						
Banks and other financial institutions	**13,080,144**	**17,651,767**	**336,813**	11,005,405	14,859,838	548,861
Consumer/personal	**2,657,801**	**6,979,360**	**4,314**	2,598,253	6,076,419	14,085
Residential mortgage	**1,705,991**	**-**	**1,237**	1,512,113	-	1,221
Trading and manufacturing	**7,148,141**	**1,878,701**	**1,343,770**	6,306,265	1,493,065	1,183,462
Real estate	**5,641,453**	**679,286**	**1,176**	5,287,672	432,372	31,469
Services	**4,695,139**	**3,107,946**	**1,475,967**	3,820,876	2,762,727	1,199,376
Government/public sector	**4,846,079**	**3,921,239**	**39,490**	4,476,785	4,106,517	117,658
Others	**505,303**	**700,223**	**27,945**	500,208	804,631	207,285
	40,280,051	**34,918,522**	**3,230,712**	35,507,577	30,535,569	3,303,417

33 MARKET RISK

Market risk is the risk of potential financial loss that may arise from adverse changes in the value of a financial instrument or portfolio of financial instruments due to movements in interest rates, foreign exchange rates, equity prices, commodity prices and derivatives. This risk arises from asset - liability mismatches, changes that occur in the yield curve, foreign exchange rates and changes in volatilities/implied volatilities in the market value of derivatives. The Group classifies exposures to market risk into either trading or non-trading portfolios. Given the Group's low risk strategy, aggregate market risk levels are considered low. The Group utilises Value-at-Risk (VaR) models to assist in estimating potential losses that may arise from adverse market movements in addition to non-quantitative risk management techniques. The market risk for the trading portfolio is managed and monitored on a VaR methodology which reflects the inter-dependency between risk variables. Non-trading portfolios are managed and monitored using stop loss limits and other sensitivity analyses. The data given below is representative of the information during the year.

33 MARKET RISK (continued)

a. Market risk-trading

The Group calculates historical simulation VaR using a one day holding period at a confidence level of 99%, which takes into account the actual correlations observed historically between different markets and rates.

Since VaR is an integral part of the Group's market risk management, VaR limits have been established for all trading operations and exposures are reviewed daily against the limits by management. Actual outcomes are compared to the VaR model derived predictions on a regular basis as a means of validating the assumptions and parameters used in the VaR calculation.

The table below summarises the risk factor composition of the VaR including the correlative effects intrinsic to the trading book:

	Foreign exchange	*Interest rate*	*Effects of correlation*	*Total*
	US$ '000	*US$ '000*	*US$ '000*	*US$ '000*
31 December 2019	**331**	**(21)**	**0**	**310**
31 December 2018	153	51	0	204

b. Market risk-non-trading

i) Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect the value of financial instruments or the future profitability of the Group. The Group is exposed to interest rate risk as a result of mismatches or gaps in the amounts of assets and liabilities and off balance sheet instruments that mature or reprice in a given period. The Group measures and manages interest rate risk by establishing levels of interest rate risk by setting limits on the interest rate gaps for stipulated periods. Interest rate gaps on assets and liabilities are reviewed periodically and hedging strategies are used to reduce the interest rate gaps to within the limits established by the Bank's Board of Directors.

The following table demonstrates the sensitivity of the Group's net interest income for the next one year, to a change in interest rates, with all other variables held constant. The sensitivity is based on the floating rate financial assets and financial liabilities held at 31 December 2019 and 2018 including the effect of hedging instruments.

Sensitivity analysis - interest rate risk

		2019	*2018*
		US$ '000	*US$ '000*
At 25 bps - increase (+) / decrease (-)	+/-	**11,302**	10,649

ii) Currency risk

Currency risk is the risk that the functional currency value of a financial instrument will fluctuate due to changes in foreign exchange rates.

The risk management process manages the Group's exposure to fluctuations in foreign exchange rates (currency risk) through the asset and liability management process. It is the Group's policy to reduce its exposure to currency fluctuations to acceptable levels as determined by the Board of Directors. The Board of directors has established levels of currency risk by setting limits on currency position exposures. Positions are monitored periodically and hedging strategies used to ensure positions are maintained within established limits.

33 MARKET RISK (continued)

b. Market risk-non-trading (continued)

ii) Currency risk (continued)
The Group had the following significant net exposures arising out of banking operations as of the consolidated balance sheet date:

	2019	*2018*
	US$ '000	*US$ '000*
Great Britain Pound	**(10,487)**	(6,623)
Euro	**(8,647)**	(3,664)
Egyptian Pound	**128,294**	(8,162)
Iraqi Dinar	**(139,796)**	(79,627)
Kuwaiti Dinar	**(25,850)**	(132,288)

Sensitivity analysis - currency risk
All foreign currency exposures with the exception of investments in subsidiaries and associates are captured as part of the trading book. The risk of the exposures are subject to quantification via a daily VaR calculation, the results of which are disclosed in note 33 (a).

The effect of foreign currency translation on the Group's investments in subsidiaries and associates are reported in the "foreign exchange translation reserve" in note 20(h).

iii) Equity price risk
Equity price risk arises from fluctuations in equity indices and prices. The Board of Directors has set limits on the amount and type of investments that may be accepted. This is monitored on an ongoing basis by the Group Risk Committee. The non-trading equity price risk exposure arises from the Group's investment portfolio.

The effect on equity valuations (as a result of a change in the fair value of equity investments held as FVTPL) due to a reasonably possible change in equity indices, with all other variables held constant is as follows:

	Change in equity indices	***Effect on income statement***	
		2019	*2018*
Market indices	**%**	***US$ '000***	*US$ '000*
Saudi Stock Exchange (Tadawul)	**+/- 10%**	**13,589**	19,151

34 LIQUIDITY RISK

Liquidity risk is the risk that the Group does not have sufficient financial resources to meet its obligations as they fall due, or will have to do so at an excessive cost. This risk arises from mismatches in the timing of cash flows. Funding risk arises when the necessary liquidity to fund illiquid asset positions cannot be obtained at the expected terms and when required.

The management of the Group's liquidity and funding is the responsibility of the Group Asset and Liability Committee (GALCO) under the chairmanship of the Deputy Group Chief Executive Officer Treasury and Investments supported by the Group Treasurer, and is responsible for ensuring that all foreseeable funding commitments, including deposit withdrawals, can be met when due, and that wholesale market access is coordinated and controlled.

The Group maintains a stable funding base comprising core retail and corporate customer deposits and institutional balances, augmented by wholesale funding and portfolios of highly liquid assets which are diversified by currency and maturity, in order to enable the Group to respond quickly to any unforeseen liquidity requirements.

The Group subsidiaries and affiliates maintain a strong individual liquidity position and manage their liquidity profiles so that cash flows are balanced and funding obligations can be met when due.

Treasury limits are set by the GALCO and allocated as required across the various group entities. Specifically GALCO and the Group Treasurer are responsible for:

- projecting cash flows by major currency under various stress scenarios and considering the level of liquid assets necessary in relation thereto;
- monitoring balance sheet liquidity ratios against internal and regulatory requirements;
- maintaining a diverse range of funding sources with adequate back-up facilities;
- managing the concentration and profile of debt maturities;
- managing contingent liquidity commitment exposures within predetermined caps;
- monitoring depositor concentration in order to avoid undue reliance on large individual depositors and ensure a satisfactory overall funding mix; and
- maintaining liquidity and funding contingency plans. These plans must identify early indicators of stress conditions and describe actions to be taken in the event of difficulties arising from systemic or other crises while minimising adverse long-term implications for the business.

The maturity profile of the assets and liabilities at 31 December 2019 and 2018 given below reflects management's best estimates of the maturities of assets and liabilities. These have been determined on the basis of the remaining period at the balance sheet date to the contractual or expected maturity date, where relevant. The liquidity profile of customer deposits has been determined on the basis of the effective maturities indicated by the Group's deposit retention history and the liquidity profile of bonds has been determined on the basis of liquidity requirements.

34 LIQUIDITY RISK (continued)

	US$ '000				
31 December 2019	*Upto three months*	*Over three months to one year*	*Above 1 year*	*Undated*	*Total*
Assets					
Cash and balances with central banks	1,366,978	-	-	-	1,366,978
Treasury bills and deposits with central banks	1,414,922	787,418	-	-	2,202,340
Deposits with banks	4,064,195	619,065	-	-	4,683,260
Loans and advances	8,305,095	3,313,962	9,123,303	-	20,742,360
Non-trading investments	4,932,780	2,823,913	1,377,188	-	9,133,881
Investment in associates	-	-	-	315,011	315,011
Investment properties	-	-	-	229,803	229,803
Interest receivable and other assets	281,698	432,358	109,658	-	823,714
Premises and equipment	2,891	8,672	34,687	249,299	295,549
Goodwill and other intangible assets	-	-	-	487,155	487,155
Total	20,368,559	7,985,388	10,644,836	1,281,268	40,280,051
Liabilities					
Deposits from banks	3,551,657	549,433	922,825	-	5,023,915
Borrowings under repurchase agreements	319,993	1,690,464	881,075	-	2,891,532
Customers' deposits	8,790,513	4,981,680	11,745,930	-	25,518,123
Interest payable and other liabilities	465,668	342,421	649,001	-	1,457,090
Subordinated liabilities	17,997	-	9,865	-	27,862
Total	13,145,828	7,563,998	14,208,696	-	34,918,522
Net liquidity gap	7,222,731	421,390	(3,563,860)	1,281,268	5,361,529

The Group has collateralised borrowing lines of credit with various financial institutions through repurchase arrangements. Refer note 15 for further details.

34 LIQUIDITY RISK (continued)

	US$' 000				
31 December 2018	*Upto three months*	*Over three months to one year*	*Above 1 year*	*Undated*	*Total*
Assets					
Cash and balances with central banks	1,390,470	-	-	-	1,390,470
Treasury bills and deposits with central banks	879,547	1,039,180	-	-	1,918,727
Deposits with banks	2,992,648	61,009	8,161	-	3,061,818
Loans and advances	7,452,751	2,970,511	9,080,699	-	19,503,961
Non-trading investments	4,908,736	2,358,858	300,934	-	7,568,528
Investment in associates	-	-	-	318,802	318,802
Investment properties	-	-	-	265,794	265,794
Interest receivable and other assets	255,681	396,377	112,036	-	764,094
Premises and equipment	-	-	-	237,064	237,064
Goodwill and other intangible assets	-	-	-	478,319	478,319
Total	17,879,833	6,825,935	9,501,830	1,299,979	35,507,577
Liabilities					
Deposits from banks	3,515,088	206,384	31,320	-	3,752,792
Borrowings under repurchase agreements	482,946	1,349,188	-	-	1,832,134
Customers' deposits	8,649,369	4,601,426	10,409,240	-	23,660,035
Interest payable and other liabilities	422,825	368,479	306,607	-	1,097,911
Subordinated liabilities	-	82,500	110,197	-	192,697
Total	13,070,228	6,607,977	10,857,364	-	30,535,569
Net liquidity gap	4,809,605	217,958	(1,355,534)	1,299,979	4,972,008

34 LIQUIDITY RISK (continued)

Analysis of financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Group's financial liabilities (including interest) based on contractual undiscounted repayment obligations. However, the Group's expected cash flows on these instruments vary significantly from this analysis. In particular, customer deposits are expected to maintain stable or increased balances.

	US$' 000					
	Up to One month	*One month to three months*	*Over three months to one year*	*Over one year to five years*	*Over five years*	*Total*
As at 31 December 2019						
Deposits from banks	**1,958,371**	**1,604,009**	**558,015**	**980,480**	**-**	**5,100,875**
Borrowings under repurchase agreements	**55,644**	**265,521**	**1,715,887**	**934,076**	**-**	**2,971,128**
Customers' deposits	**11,759,074**	**3,532,386**	**7,629,519**	**2,952,935**	**23,589**	**25,897,503**
Subordinated liabilities	**18,072**	**-**	**-**	**-**	**12,327**	**30,399**
Total	**13,791,161**	**5,401,916**	**9,903,421**	**4,867,491**	**35,916**	**33,999,905**
Credit related commitments	**3,955**	**69,295**	**189,823**	**231,462**	**81,167**	**575,702**
Derivatives (net)	**(17,796)**	**(8,041)**	**7,368**	**(25,102)**	**(348,313)**	**(391,884)**

	US$' 000					
	Up to One month	*One month to three months*	*Over three months to one year*	*Over one year to five years*	*Over five years*	*Total*
As at 31 December 2018						
Deposits from banks	2,641,602	880,805	208,963	32,885	-	3,764,255
Borrowings under repurchase agreements	97,498	387,198	1,369,577	-	-	1,854,273
Customers' deposits	11,879,446	4,123,617	6,091,506	1,820,825	13,057	23,928,451
Subordinated liabilities	-	-	85,318	114,228	12,351	211,897
Total	14,618,546	5,391,620	7,755,364	1,967,938	25,408	29,758,876
Credit related commitments	11,932	40,114	75,844	459,660	74,049	661,599
Derivatives (net)	(1,861)	3,372	11,083	9,979	(91,647)	(69,074)

35 OPERATIONAL RISK

Operational risk is the risk of loss arising from inadequate or failed internal processes, people and systems or from external events, whether intentional, unintentional or natural. This definition includes legal risk, but excludes strategic and reputational risk. It is an inherent risk faced by all businesses and covers a large number of operational risk events including business interruption and systems failures, internal and external fraud, employment practices and workplace safety, customer and business practices, transaction execution and process management, and damage to physical assets.

The BOD acknowledges that it has ultimate responsibility for operational risk. Oversight rests with the Group Risk Committee, whilst day to day monitoring is carried out by the Group Operational Risk Committee.

36 LEGAL RISK

Legal risk is the risk relating to losses due to legal or regulatory action that invalidates or otherwise precludes performance by the end user or its counterparty under the terms of the contract or related netting agreements.

The Group has a dedicated Legal Department whose role is to identify, and provide analysis and advice on the legal risks. The department is governed by the Group Legal Policy approved by the BOD, which facilitates the management and control of operational risks from pending legal actions.

37 FAIR VALUE MEASUREMENT

The fair value of financial assets and financial liabilities, other than those disclosed in the table below and in note 8, approximate their carrying values. Please refer note 8 for the fair value of non-trading investments carried at amortised cost.

The Group's primary medium and long-term financial liabilities are the term debts and 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.

	2019			
	Level 1	***Level 2***	***Level 3***	***Total***
	US$ '000	***US$ '000***	***US$ '000***	***US$ '000***
Equity instruments at fair value	**113,760**	**75,830**	**39,453**	**229,043**
Debt instruments (FVTOCI)	**1,124,761**	**68,747**	**-**	**1,193,508**
Derivative assets	**-**	**105,489**	**-**	**105,489**
Derivative liabilities	**-**	**497,950**	**-**	**497,950**

	2018			
	Level 1	*Level 2*	*Level 3*	*Total*
	US$ '000	*US$ '000*	*US$ '000*	*US$ '000*
Equity instruments at fair value	168,403	70,912	39,079	278,394
Debt instruments (FVTOCI)	938,394	12,950	-	951,344
Derivative assets	-	117,888	-	117,888
Derivative liabilities	260	186,896	-	187,156

During the years ended 31 December 2019 and 2018 there have been no transfers between Levels 1, 2 and 3.

For an explanation of valuation techniques used to value these financial instruments, refer to note 2.7(f).

The significant inputs for valuation of equity securities classified under Level 3 are annual growth rate of cash flows and discount rates and for funds it is the illiquidity discount. Lower growth rate and higher discount rate, illiquidity discount will result in a lower fair value. The impact on the consolidated balance sheet or the consolidated statement of shareholders' equity would be immaterial if the relevant risk variables used to fair value the unquoted securities were altered by five per cent. There was no material changes in the valuation techniques used for the purpose of measuring fair value of investment securities as compared to the previous year.

38 CAPITAL ADEQUACY AND NET STABLE FUNDING RATIO (NSFR)

The primary objectives of the Group's capital management policies are to ensure that the Group complies with externally imposed capital requirements and that the Group maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise shareholders' value. Capital adequacy for each of the Group companies is also managed separately at individual company level. The Group does not have any significant restrictions on its ability to access or use its assets and settle its liabilities other than any restrictions that may result from the supervisory frameworks within which the banking subsidiaries operate.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividend payment to shareholders or issue capital securities. No changes were made in the objectives, policies and processes from the previous year.

The total capital ratio is calculated in accordance with the capital adequacy guidelines, under Basel III, issued by the CBB. The minimum capital adequacy ratio as per CBB is 12.5%. The Group's total capital ratio is 16.4% as of 31 December 2019 (31 December 2018: 16.9%).

The NSFR ratio is calculated in accordance with the Liquidity Risk Management Module guidelines, issued by the CBB and is effective from 31 December 2019. The minimum NSFR ratio as per CBB is 100%. The Group's consolidated NSFR ratio as of 31 December 2019 is 117.0%.

39 DEPOSIT PROTECTION SCHEME

Certain customers' deposits of the Group are covered by deposit protection schemes established by the CBB and the Financial Services Compensation Scheme, UK.

Bahrain: Customers' deposits held with the Bank in the Kingdom of Bahrain are covered by the Regulation Protecting Deposits issued by the CBB in accordance with Resolution No. (34) of 2010. This scheme covers eligible 'natural persons' (individuals) up to a maximum of Bahraini Dinar 20,000 as set out by CBB requirements. A periodic contribution as mandated by the CBB is paid by the Bank under this scheme.

UK: Customers' deposits in AUBUK are covered under the Financial Services Compensation Scheme, up to a limit of GBP 85,000 per customer. No up-front contribution is currently mandated under this scheme and no liability is due unless any member bank of the scheme is unable to meet its depository obligations.

40 ISLAMIC BANKING AND INSURANCE ACTIVITIES

The Group's Shari'a compliant Islamic banking and insurance activities are offered through its Islamic Banking subsidiary AUBK, Takaful Islamic Insurance subsidiary of AHL, Islamic Banking associate UBCI and dedicated Islamic banking branches/windows at AUB Bahrain and AUBUK. The results of its Islamic Banking and insurance activities are presented below.

BALANCE SHEET AS AT 31 DECEMBER	Note	*2019* *US$ '000*	*2018* *US$ '000*
ASSETS			
Cash and balances with central banks		**348,484**	210,318
Deposits with central banks		**1,137,879**	1,140,184
Deposits with banks	(a)	**1,317,839**	1,040,463
Receivable balances from Islamic financing	(b)	**12,255,286**	11,144,184
Financial investments		**1,558,585**	1,159,007
Investment in associates		**35,370**	38,057
Investment properties		**96,452**	120,374
Profit receivable and other assets		**116,645**	50,521
Premises and equipment		**135,533**	113,477
TOTAL ASSETS		**17,002,073**	15,016,585
LIABILITIES			
Deposits from banks	(c)	**2,715,320**	2,348,533
Customers' deposits	(d)	**11,186,926**	9,840,762
Profit payable and other liabilities		**382,189**	258,998
Restricted investment		**48,854**	6,750
		14,333,289	12,455,043
EQUITY OF UNRESTRICTED INVESTMENT ACCOUNTHOLDERS		**574,597**	671,231
TOTAL LIABILITIES AND EQUITY OF UNRESTRICTED INVESTMENT ACCOUNTHOLDERS		**14,907,886**	13,126,274
TOTAL EQUITY		**2,094,187**	1,890,311
TOTAL LIABILITIES, EQUITY OF UNRESTRICTED INVESTMENT ACCOUNTHOLDERS AND EQUITY		**17,002,073**	15,016,585

40 ISLAMIC BANKING (continued)

STATEMENT OF INCOME FOR THE YEAR ENDED 31 DECEMBER	Note	2019 US$ '000	2018 US$ '000
Net income from Islamic financing	(e)	407,469	434,048
		407,469	434,048
Fees and commissions		45,145	41,477
Other operating income		38,411	30,242
Foreign exchange gains		10,310	10,961
OPERATING INCOME		501,335	516,728
Provision for financing receivables and others		33,772	98,750
NET OPERATING INCOME		467,563	417,978
Staff costs		78,531	74,391
Depreciation		18,313	9,859
Other operating expenses		44,175	47,027
OPERATING EXPENSES		141,019	131,277
PROFIT FOR THE YEAR BEFORE TAX		326,544	286,701
Tax expense and zakat		9,416	7,707
PROFIT FOR THE YEAR BEFORE THE SHARE OF PROFIT EQUITY OF UNRESTRICTED INVESTMENT ACCOUNT HOLDERS		317,128	278,994
Less: Share of profit of equity of unrestricted investment account holders		13,704	13,248
NET PROFIT FOR THE YEAR		303,424	265,746
Attributable to:			
Owners of the Bank		257,116	224,164
Non-controlling interests		46,308	41,582
		303,424	265,746

Notes	2019 US$ '000	2018 US$ '000
(a) Deposits with banks		
Murabaha finance with other banks	719,735	695,451
Wakala with banks	503,339	299,758
Current accounts and others	94,765	45,254
	1,317,839	1,040,463

40 ISLAMIC BANKING (continued)

Notes (continued)

	2019 US$ '000	2018 US$ '000
(b) Receivable balances from Islamic financing		
Tawarruq receivables	**7,628,157**	7,046,623
Murabaha receivables	**3,194,888**	3,107,381
Ijara receivables	**1,768,191**	1,419,050
Others	**28,588**	32,700
Less: Allowance for impairment	**(364,538)**	(461,570)
	12,255,286	11,144,184

	2019 US$ '000	2018 US$ '000
(c) Deposits from banks		
Murabaha	**1,430,159**	1,952,480
Wakala	**1,277,834**	389,003
Current accounts	**7,327**	7,050
	2,715,320	2,348,533

	2019 US$ '000	2018 US$ '000
(d) Customers' deposits		
Wakala	**7,369,709**	6,573,070
Murabaha	**2,649,678**	2,069,522
Current accounts	**1,167,539**	1,198,170
	11,186,926	9,840,762

	2019 US$ '000	2018 US$ '000
(e) Net income from Islamic financing		
Income from Tawarruq	**325,972**	300,575
Income from Murabaha	**260,526**	194,987
Income from Ijara	**89,807**	87,903
Income from financial investments	**58,166**	82,682
Income from Islamic financing	**734,471**	666,147
Profit expense on Wakala	**193,856**	113,130
Profit expense on Murabaha	**48,272**	86,290
Profit expense on Mudaraba	**84,874**	32,679
Less: Distribution to depositors	**327,002**	232,099
Net income from Islamic financing	**407,469**	434,048

41 SUBSIDIARIES

Financial information of subsidiaries that has material non-controlling interests is provided below.

Proportion of equity interest held by non-controlling interests are provided below:

Name	*Incorporated in*	*2019*	*2018*
Ahli United Bank K.S.C.P. [AUBK]	State of Kuwait	*25.1%*	25.1%
Ahli United Bank (Egypt) S.A.E. [AUBE]	Arab Republic of Egypt	*14.5%*	14.5%

41 SUBSIDIARIES (continued)

	2019 US$ '000	2018 US$ '000
Accumulated material non-controlling interests as at:		
Ahli United Bank K.S.C.P.	**370,806**	348,740
Ahli United Bank (Egypt) S.A.E.	**68,004**	54,509
Profit allocated to material non-controlling interests:		
Ahli United Bank K.S.C.P.	**46,308**	41,582
Ahli United Bank (Egypt) S.A.E.	**10,636**	10,951

Summarised financial information of AUBK and AUBE is provided below. The information is based on amounts as reported in the consolidated financial statements before inter-company eliminations and adjustments.

	2019 US$ '000	2018 US$ '000
Ahli United Bank K.S.C.P. (AUBK)		
Balance sheet related information		
Loans and advances	**9,954,936**	9,184,017
Non-trading investments	**1,000,622**	870,332
Total assets	**14,352,392**	12,853,150
Customers' deposits	**11,251,727**	10,280,576
Total liabilities	**12,649,176**	11,234,268
Income statement related information		
Total operating income	**352,915**	401,327
Net profit attributable to shareholders	**181,107**	169,630
Total comprehensive income attributable to shareholders	**179,880**	166,973
Dividends paid to non-controlling interest	**21,913**	18,347
Cash flow related information		
Net cash from operating activities	**578,332**	273,467
Net cash used in investing activities	**(56,715)**	(144,935)
Net cash used in financing activities	**(98,387)**	(83,493)
Ahli United Bank (Egypt) S.A.E. (AUBE)		
Balance sheet related information		
Loans and advances	**1,637,102**	1,282,682
Non-trading investments	**567,191**	497,838
Total assets	**2,947,865**	2,875,519
Customers' deposits	**2,327,950**	2,374,326
Total liabilities	**2,470,232**	2,481,171
Income statement related information		
Total operating income	**128,749**	141,178
Net profit attributable to shareholders	**78,484**	82,055
Total comprehensive income attributable to shareholders	**93,679**	63,274
Dividends paid to non-controlling interests	**5,952**	3,945
Cash flow related information		
Net cash (used in) from operating activities	**(504,353)**	465,115
Net cash used in investing activities	**(5,483)**	(51,277)
Net cash used in financing activities	**(49,318)**	(32,343)

42 SUBSEQUENT EVENT

Pursuant to the Memorandum of Understanding and Confidentiality of Information executed between the Bank and Kuwait Finance House K.S.C.P. (KFH) in terms of a potential acquisition of the Bank by KFH to create a major regional banking institution, the conclusion of due diligence and valuation reports by specialist professional advisors and due consideration thereof, the AUB Board of Directors on 12 September 2019 approved a share exchange ratio of 2.325581 AUB shares for each KFH share. The KFH AGM/EGM held on 20 January 2020 approved the pursuit of the acquisition of AUB at the indicative share swap ratio. The KFH approval was conditional on securing a minimum 85% acceptance rate for its tender offer amongst other conditions.

In this regard, as of date, KFH has announced a firm intention to make a voluntary conditional offer to acquire 100% of the issued and paid up shares of the bank by way of a share swap at the above exchange ratio. The proposed acquisition remains subject to conditions precedent and all relevant regulatory and shareholder approvals.