

Ahli United Bank B.S.C.
CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2018

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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 2018, 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 2018, 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 Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code), 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 2018. 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)

1. Adoption of impairment provisions under IFRS 9	
Key audit matter	How our audit addressed the key audit matter
<p>The Group adopted the impairment provisions under IFRS 9 effective from 1 January 2018. This new standard replaces the requirements under IAS 39 Financial instruments: recognition and measurement (IAS 39).</p> <p>The impairment requirements of IFRS 9 apply to all financial assets that are measured at Amortized Cost ("AC") or Fair Value Through Other Comprehensive Income ("FVOCI"), and to off-balance sheet lending commitments such as loan commitments and financial guarantees. IFRS 9 also replaced the 'incurred loss' approach under IAS 39 with a forward looking 'expected credit loss (ECL)' approach. Under IFRS 9, ECLs are recognized based on expectations of potential credit losses at the time of initial recognition which are then continuously remeasured to reflect the changes to the credit risk characteristics.</p> <p>On adoption, the Group has applied the impairment provisions of IFRS 9 retrospectively without restating comparatives.</p> <p>Differences between previously reported carrying amounts and new carrying amounts of financial instruments as of 31 December 2017 and 1 January 2018 amounting to US\$ 280.0 million have been recognized in the opening total equity. Refer note 3.4(b) in the consolidated financial statements for further details.</p>	<p>We have obtained an understanding of the Group's implementation process of ECL model of IFRS 9, including understanding of the changes to the Group's IT systems and processes.</p> <p>Our approach included testing the controls associated with the relevant processes for estimating the ECL and performing substantive procedures on such estimates for all financial assets subject to impairment testing under IFRS 9. Our procedures on each of the components of ECL are discussed in further detail below, under the key audit matter "Impairment of carrying value of loans and advances".</p> <p>Additionally, we also checked the appropriateness of the opening balance adjustments.</p>

**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)

2. Impairment of carrying value of loans and advances	
Key audit matter	How our audit addressed the key audit matter
<p>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 ECL model for the purposes of calculating impairment provision. ECL model requires the Group to exercise significant judgement 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 judgements 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.</p> <p>As at 31 December 2018, the Group's gross loans and advances amounted to US\$ 20,319.2 million and the related ECL amounted to US\$ 815.2 million, comprising US\$ 490.4 million of ECL against Stage 1 and 2 exposures and US\$ 324.8 million against exposures classified under Stage 3. The basis of calculation of ECL is presented in the summary of significant accounting policies and note 8 to the consolidated financial statements.</p>	<p>In addition to the procedures enumerated in the key audit matter noted in 1 above, our procedures focused on the following key areas:</p> <ul style="list-style-type: none"> • We assessed: <ul style="list-style-type: none"> ◦ the Group's IFRS 9 based impairment provisioning policy including significant increase in credit risk criteria with the requirements of IFRS 9; ◦ Group's ECL modeling techniques and methodology against the requirements of IFRS 9; and ◦ 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: <ul style="list-style-type: none"> ◦ Key modeling assumptions adopted by the Group; and ◦ Basis for and data used to determine overlays. • For a sample of exposures, we performed procedures to evaluate: <ul style="list-style-type: none"> ◦ Appropriateness of exposure at default, probability of default and loss given default (including collateral values used) in the calculation of ECL; ◦ Timely identification of exposures with a significant increase in credit risk and appropriateness of the Group's staging; and

**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)

2. Impairment of carrying value of loans and advances	
Key audit matter	How our audit addressed the key audit matter
	<ul style="list-style-type: none"> ○ ECL calculation. • 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 9. <p>We also involved our internal specialists where their specific expertise was required.</p> <p>Refer to the critical accounting estimates and judgements, disclosures of loans and advances and credit risk management in notes 3, 8 and 31 to the consolidated financial statements.</p>

**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)

3. Impairment of goodwill and intangible assets	
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 and intangible assets impairment testing of CGUs relies on estimates of value-in-use based on estimated future cash flows. Due to the subjectivity involved in forecasting and discounting of future cash flows and the significance of the Group's recognised goodwill and intangible assets (US\$ 478.3 million) as at 31 December 2018, this audit area is considered a key audit risk. Subjectivity is typically highest for those CGUs where headroom between value-in-use and carrying value is limited and where the value-in-use is most sensitive to estimates of future cash flows.	<p>Our audit procedures included:</p> <ul style="list-style-type: none"> • The assessment of reasonableness of key inputs, such as the discount rates and growth rates, by comparison to externally available industry, economic and financial data and the Group's own historical data and performance; • With the assistance of our own specialists, we assessed the reasonableness of assumptions and methodologies used to forecast value-in-use for those CGUs where significant goodwill was found to be sensitive to changes in those assumptions; and • Additionally, we considered whether the Group's disclosures of the application of judgement in estimating CGU cash flows and the sensitivity of the results of those estimates adequately reflect the risks associated with goodwill impairment. <p>Refer to the critical accounting estimates and judgements and disclosures of goodwill and intangible assets in Note 14, and allocation of goodwill and intangible assets to CGUs in Note 30 to the consolidated financial statements.</p>

Other information included in the Group's 2018 Annual Report

Other information consists of the information included in the Group's 2018 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.

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)

Other information included in the Group's 2018 Annual Report (continued)

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.
- 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.

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)

- 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.

**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 2018 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 Mr. Nader Rahimi.



Partner's registration no. 115
19 February 2019
Manama, Kingdom of Bahrain

CONSOLIDATED STATEMENT OF INCOME

For the year ended 31 December 2018

	<i>Note</i>	<u>2018</u> <u>US\$ '000</u>	<u>2017</u> <u>US\$ '000</u>
Interest income	4a	1,655,750	1,379,174
Interest expense	4b	715,226	502,704
Net interest income		940,524	876,470
Fees and commissions	5	128,888	131,767
Trading income	6	39,068	35,239
Investment income and others		61,129	52,645
Share of profit from associates	10	40,941	23,251
Fees and other income		270,026	242,902
OPERATING INCOME		1,210,550	1,119,372
Provision for credit losses	8g	86,222	88,950
NET OPERATING INCOME		1,124,328	1,030,422
Staff costs		196,839	193,831
Depreciation		22,269	20,824
Other operating expenses		109,110	108,245
OPERATING EXPENSES		328,218	322,900
PROFIT BEFORE TAX		796,110	707,522
Tax expense	22	43,745	41,008
NET PROFIT FOR THE YEAR		752,365	666,514
Net profit attributable to non-controlling interests		54,831	47,799
NET PROFIT ATTRIBUTABLE TO THE OWNERS OF THE BANK		697,534	618,715
EARNINGS PER SHARE ATTRIBUTABLE TO THE OWNERS OF THE BANK FOR THE YEAR:			
Basic & diluted earnings per ordinary share (US cents)	23	8.3	7.4

Meshal A A Al-Othman
Chairman

Mohammad J. Al-Marzooq
Deputy Chairman

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2018

	<u>2018</u>	<u>2017</u>
	<u>US\$ '000</u>	<u>US\$ '000</u>
Net profit for the year	752,365	666,514
Other comprehensive income (OCI)		
Items that will not be reclassified to consolidated statement of income		
Net change in fair value of equity investments measured at fair value through OCI	1,237	(2,289)
Net change in pension fund reserve	5,078	2,410
Net change in property revaluation reserve	(457)	(750)
Items that may be reclassified subsequently to consolidated statement of income		
Foreign currency translation adjustments	(13,852)	37,424
Net change in fair value of debt instruments measured at fair value through OCI	(20,915)	-
Transfer to consolidated statement of income arising on debt instruments held as fair value through OCI	(18,523)	-
Net change in fair value of cash flow hedges	9,638	(2,876)
Other comprehensive (loss) income for the year	(37,794)	33,919
Total comprehensive income for the year	714,571	700,433
Total comprehensive income attributable to non-controlling interests	52,072	53,652
Total comprehensive income attributable to owners of the Bank	662,499	646,781

CONSOLIDATED BALANCE SHEET

At 31 December 2018

	Note	<u>2018</u> <u>US\$ '000</u>	<u>2017</u> <u>US\$ '000</u>
ASSETS			
Cash and balances with central banks	7a	1,390,470	809,986
Treasury bills and deposits with central banks	7b	1,918,727	2,576,352
Deposits with banks		3,061,818	2,469,751
Loans and advances	8	19,503,961	19,498,702
Non-trading investments	9	7,568,528	6,002,410
Investment in associates	10	318,802	304,020
Investment properties	11	265,794	256,242
Interest receivable and other assets	12	764,094	616,920
Premises and equipment	13	237,064	226,672
Goodwill and other intangible assets	14	478,319	480,830
TOTAL ASSETS		35,507,577	33,241,885
LIABILITIES AND EQUITY			
LIABILITIES			
Deposits from banks	15	3,752,792	3,943,233
Borrowings under repurchase agreements	16	1,832,134	1,272,758
Customers' deposits	17	23,660,035	22,009,857
Interest payable and other liabilities	18	1,097,911	912,679
Subordinated liabilities	19	192,697	215,204
TOTAL LIABILITIES		30,535,569	28,353,731
EQUITY			
Ordinary share capital	20	1,992,541	1,889,213
Treasury shares		(13,190)	(11,661)
Reserves		1,929,350	1,938,070
Equity attributable to the owners		3,908,701	3,815,622
Perpetual Tier 1 Capital Securities	20d	600,000	600,000
Non-controlling interests		463,307	472,532
TOTAL EQUITY		4,972,008	4,888,154
TOTAL LIABILITIES AND EQUITY		35,507,577	33,241,885

Meshal A A Al-Othman
Chairman

Mohammad J. Al-Marzooq
Deputy Chairman

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	Note	<u>2018</u> <u>US\$ '000</u>	<u>2,017</u> <u>US\$ '000</u>
OPERATING ACTIVITIES			
Profit before tax		796,110	707,522
Adjustments for:			
Depreciation		22,269	20,824
Investment income		(53,464)	(39,399)
Provision for credit losses	8g	86,222	88,950
Fair value of ESPP charge	21h	4,435	3,921
Share of profit from associates	10	(40,941)	(23,251)
Operating profit before changes in operating assets and liabilities		814,631	758,567
Changes in:			
Mandatory reserve deposits with central banks		(160,692)	(78,832)
Treasury bills and deposits with central banks		1,222,886	(111,506)
Deposits with banks		(1,018,384)	(183,879)
Loans and advances		(341,445)	(978,489)
Interest receivable and other assets		(122,654)	121,235
Deposits from banks		(190,441)	664,195
Borrowings under repurchase agreements		559,376	574,530
Customers' deposits		1,650,178	306,499
Interest payables and other liabilities		109,909	88,370
Cash from operations		2,523,364	1,160,690
Income tax paid		(44,507)	(30,997)
Net cash from operating activities		2,478,857	1,129,693
INVESTING ACTIVITIES			
Purchase of non-trading investments		(3,981,827)	(2,220,817)
Proceeds from sale or redemption of non-trading investments		2,485,519	1,817,326
Net decrease/(increase) in investment properties		7,246	(124,221)
Net increase in premises and equipment		(33,118)	(36,732)
Dividends received from associates		12,955	12,955
Net cash used in investing activities		(1,509,225)	(551,489)
FINANCING ACTIVITIES			
Additional investment in subsidiary		-	(1,490)
Distribution on Perpetual Tier 1 Capital Securities	21j	(38,500)	(38,500)
Repayment of subordinated liabilities		(22,507)	(21,778)
Dividends and other appropriations paid		(333,863)	(302,647)
Dividends paid to non-controlling interest		(26,179)	(15,414)
Capital increase from issuance of ESPP & MSP shares	20c	17,797	12,517
Purchase of treasury shares		(1,529)	(164)
Net cash used in financing activities		(404,781)	(367,476)
INCREASE IN CASH AND CASH EQUIVALENTS		564,851	210,728
Net foreign exchange difference		(4,609)	8,881
Cash and cash equivalents at 1 January		2,528,722	2,309,113
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	24	3,088,964	2,528,722
Additional cash flow information:			
Interest received		1,579,594	1,398,430
Interest paid		631,689	518,651

The attached notes 1 to 40 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 2018

	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 21(h)) US\$ '000	Total reserves US\$'000	Perpetual Tier 1 Capital Securities US\$'000	Non-controlling interests US\$'000	Total US\$'000
Balance at 1 January 2018	1,889,213	(11,661)	754,308	516,728	799,366	342,578	(474,910)	1,938,070	600,000	472,532	4,888,154
Transition adjustment on adoption of IFRS 9 [note 3]	-	-	-	-	(249,543)	-	54,644	(194,899)	-	(30,432)	(225,331)
Restated balance at 1 January 2018	1,889,213	(11,661)	754,308	516,728	549,823	342,578	(420,266)	1,743,171	600,000	442,100	4,662,823
Distribution on Perpetual Tier 1 Capital Securities [note 21(j)]	-	-	-	-	(27,500)	-	-	(27,500)	-	-	(27,500)
Distribution related to Perpetual Tier 1 Sukuk [note 21(j)]	-	-	-	-	(8,240)	-	-	(8,240)	-	(2,760)	(11,000)
Ordinary share dividend paid [note 21(i)]	-	-	-	-	818	(341,578)	-	(340,760)	-	-	(340,760)
Dividends of subsidiaries	-	-	-	-	-	-	-	-	-	(26,179)	(26,179)
Donations paid	-	-	-	-	-	(1,000)	-	(1,000)	-	-	(1,000)
Bonus shares issued	94,883	-	-	-	(94,883)	-	-	(94,883)	-	-	-
Additional shares issued [note 20 (c)]	8,445	-	9,352	-	-	-	-	9,352	-	-	17,797
Purchase of treasury shares	-	(1,529)	-	-	-	-	-	-	-	-	(1,529)
Fair value amortisation of share based transactions	-	-	-	-	4,435	-	-	4,435	-	-	4,435
Transfer from OCI reserve	-	-	-	-	(7,633)	-	-	(7,633)	-	(305)	(7,938)
Movement in associates	-	-	-	-	(10,091)	-	-	(10,091)	-	(1,621)	(11,712)
Total comprehensive income for the year	-	-	-	-	697,534	-	(35,035)	662,499	-	52,072	714,571
Transfer to statutory reserve [note 21(c)]	-	-	-	69,753	(69,753)	-	-	-	-	-	-
Proposed dividend on ordinary shares [note 21(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	600,000	463,307	4,972,008

The attached notes 1 to 40 form part of these consolidated financial statements

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017

	Attributable to the owners										
	Reserves							Perpetual Tier 1 Capital Securities US\$ '000	Non-controlling interests US\$'000	Total US\$'000	
	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 21(h)) US\$ '000				Total reserves US\$'000
Balance at 1 January 2017	1,711,322	(11,497)	747,583	454,856	791,395	310,144	(502,976)	1,801,002	600,000	438,675	4,539,502
Distribution on Perpetual Tier 1 Capital Securities [note 21(j)]	-	-	-	-	(27,500)	-	-	(27,500)	-	-	(27,500)
Distribution related to Perpetual Tier 1 Sukuk [note 21(j)]	-	-	-	-	(8,240)	-	-	(8,240)	-	(2,760)	(11,000)
Ordinary share dividend paid [note 21(i)]	-	-	-	-	733	(309,144)	-	(308,411)	-	-	(308,411)
Dividends of subsidiary	-	-	-	-	-	-	-	-	-	(15,414)	(15,414)
Donations paid	-	-	-	-	-	(1,000)	-	(1,000)	-	-	(1,000)
Bonus shares issued	171,747	-	-	-	(171,747)	-	-	(171,747)	-	-	-
Additional shares issued [note 20 (c)]	6,144	-	6,373	-	-	-	-	6,373	-	-	12,517
Purchase of treasury shares	-	(164)	-	-	-	-	-	-	-	-	(164)
Transfer of property revaluation reserve on sale of property	-	-	-	-	243	-	-	243	-	-	243
Fair value amortisation of share based transactions	-	-	-	-	3,921	-	-	3,921	-	-	3,921
Transfer from OCI reserve	-	-	-	-	(3,704)	-	-	(3,704)	-	-	(3,704)
Movement in subsidiaries	-	-	352	-	-	-	-	352	-	(1,621)	(1,269)
Total comprehensive income for the year	-	-	-	-	618,715	-	28,066	646,781	-	53,652	700,433
Transfer to statutory reserve [note 21(c)]	-	-	-	61,872	(61,872)	-	-	-	-	-	-
Proposed dividend on ordinary shares [note 21(i)]	-	-	-	-	(341,578)	341,578	-	-	-	-	-
Proposed donations	-	-	-	-	(1,000)	1,000	-	-	-	-	-
Balance at 31 December 2017	1,889,213	(11,661)	754,308	516,728	799,366	342,578	(474,910)	1,938,070	600,000	472,532	4,888,154

The attached notes 1 to 40 form part of these consolidated financial statements

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2018

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 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 2018 were authorised for issue in accordance with a resolution of the directors dated 19 February 2019.

2 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 2018 and 2017. 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 on 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:

<i>Name</i>	<i>Incorporated in</i>	<i>Group's nominal holding</i>	
		<i>31 December 2018</i>	<i>31 December 2017</i>
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%
Ahli United Bank Limited (AUBL)	DIFC - United Arab Emirates	-	100.0%
Al Hilal Life B.S.C. (c) (AHL)	Kingdom of Bahrain	100.0%	100.0%

* Effective holding 74.9% (31 December 2017: 74.9%)

After obtaining approval from Dubai Financial Services Authority (DFSA), AUBL subsidiary business was transferred to the newly established branch in DIFC with effect from 10 December 2018 and operates under a branch licence issued by the DFSA.

3 ACCOUNTING POLICIES

3.1 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 3.6(c)) and all derivative financial instruments. In addition, as fully discussed below in note 3.6(g)(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 US Dollars thousand except where otherwise indicated.

3.2 Statement of compliance

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

3.3 New standards and interpretations issued but not yet effective

The following new Standards and amendments have been issued by the International Accounting Standards Board (IASB) but are not yet mandatory as of 31 December 2018:

- IFRS 16 Leases (effective for annual periods beginning on or after 1 January 2019)

In January 2016, the IASB issued IFRS 16 'Leases' with an effective date of annual periods beginning on or after 1 January 2019. IFRS 16 results in lessees accounting for most leases within the scope of the Standard in a manner similar to the way in which finance leases are currently accounted for under IAS 17 'Leases'. Lessees will recognise a 'right of use' asset and a corresponding financial liability on the balance sheet. The asset will be amortised over the length of the lease and the financial liability to be measured at amortised cost.

- Annual Improvements Cycle 2015-2017 (effective for annual periods beginning on or after 1 January 2019); and
- IAS 19 Employee Benefits (amendments) (effective for annual periods beginning on or after 1 January 2019)

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

3.4 New standards and interpretations effective for the year

- IFRS 15 Contract with customers (effective for annual periods beginning on or after 1 January 2018)

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

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

- IAS 40 Investment property (effective for annual periods beginning on or after 1 January 2018)

The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. This amendment does not have any material impact on the consolidated financial information of the Group.

3 ACCOUNTING POLICIES (continued)

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

- IFRS 9 (2014) Financial Instruments and IFRS 7 Financial Instruments: Disclosures

The Group has adopted IFRS 9 as issued by the International Accounting Standards Board in July 2014 with a date of adoption being 1 January 2018, which resulted in changes in accounting policies and adjustments to the amounts previously recognised in the financial statements. In these financial statements, the Group has applied revised IFRS 7, effective for annual periods beginning on 1 January 2018. The Group had previously early adopted Phase 1 of IFRS 9 - 'Classification IFRS 9 (2010)' during 2012 and assessed the classification and measurement of its existing financial assets and financial liabilities as of that date.

Classification & Measurement

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

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

- The instrument is held within a business model, the objective of which is achieved by both collecting contractual cash flows and selling financial assets; and
- The contractual terms of the financial asset meet the solely payments of principal and interest (SPPI) test.

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

Impairment of financial assets

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

The Group applies a three-stage approach to measure allowance for credit losses, using an expected credit loss approach as required under IFRS 9, for the following categories of financial instruments that are not measured at fair value through profit or loss (FVTPL):

- Amortized cost financial assets;
- Debt securities classified as FVTOCI;
- Off-balance sheet loan commitments; and
- Financial guarantee contracts, letters of credit & acceptances.

Impairment allowances for ECL are recognised for financial instruments that are not measured at FVTPL and are reflected in provisions for credit losses. Equity investments are not subject to impairment assessments.

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.

3 ACCOUNTING POLICIES (continued)

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

Expected credit loss impairment model (continued)

ECL allowances are the product of the Probability of Default (PD), Exposure at Default (EAD) and Loss Given Default (LGD). The PD represents the likelihood of a borrower defaulting on its financial obligation, either over the next 12 months, or over the remaining lifetime of the obligation. The EAD is 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.

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 12 months from the date of restructuring.
- Delays in credit reviews or resolving credit exceptions subject to WC decision.
- Sector or country specific weakness subject to WC decision.
- 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.

3 ACCOUNTING POLICIES (continued)

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

Incorporation of forward looking information

The Group incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of Point-in-Time PD (PiT PD). The Group has performed historical analysis and identified the key economic variables impacting credit risk and expected credit losses. The forecast economic variables are applied to established regression relationships to determine PiT PD. Macro-economic factors taken into consideration include 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.

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

Impairment policy applicable up to 31 December 2017

The detailed accounting policies for impairment of financial assets under IAS 39 have been provided in the consolidated financial statements for the year ended 31 December 2017. The accounting policies up to 31 December 2017 followed under IAS 39 for impairment of financial assets which have changed pursuant to adoption of IFRS 9 are given below.

An assessment is made at each balance sheet date to determine whether there is any objective evidence that a specific financial asset or a group of financial assets may be impaired. If such evidence exists, the estimated recoverable amount of that asset or a group of financial assets is determined and any impairment loss, based on the net present value of future anticipated cash flows, is recognised in the consolidated statement of income and credited to an allowance account.

The Group considers specific provisions against individually significant financial assets and collective impairment provisions on groups of financial assets, which although not identified as requiring a specific provision, have a greater risk of default than the risk at initial recognition. Financial assets are grouped on the basis of similar credit risk characteristics that are indicative of the debtors' ability to pay all amounts due according to the contractual terms and the collective impairment provision is estimated for any such group where credit risk characteristics of the group of financial assets has deteriorated.

Hedge accounting

Hedge accounting model introduced under IFRS 9 is designed to better align hedge accounting with risk management activities; permit a greater variety of hedging instruments and risks eligible for hedge accounting; and removed rule based thresholds for testing hedge effectiveness by bringing principle based criteria. Retrospective assessment of hedge effectiveness is no longer required and current accounting treatments of fair value, cashflow and net investment hedge accounting have been retained.

IFRS 9 provides an accounting choice to continue to apply IAS 39 hedge accounting rules until the IASB finalizes its macro hedge accounting project. The Group has adopted IFRS 9 hedge accounting effective 1 January 2018 and has determined that all existing hedge relationships that are currently designated as effective hedging relationships would continue to qualify for hedge accounting under IFRS 9.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2018

3 ACCOUNTING POLICIES (continued)**3.4 New standards and interpretations effective for the year (continued)***Transition adjustments*

As permitted by the transitional provisions of IFRS 9, the Group elected not to restate comparative figures. Accordingly, the information presented for 2017 does not reflect the requirements of IFRS 9 and therefore is not comparable to the information presented for 2018 under IFRS 9. The impact of the adoption of IFRS 9 as at 1 January 2018 has been recognised in retained earnings, other reserves and non-controlling interest.

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

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

	<i>Carrying amount 31 December 2017</i>	<i>Reclassification</i>	<i>Carrying amount 1 January 2018</i>
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Non-trading investments	1,345,162	54,644	1,399,806

b) Impact of impairment allowance

	<i>31 December 2017</i>	<i>Remeasurement</i>			<i>1 January 2018</i>
	<i>Carrying amount US\$'000</i>	<i>Retained earnings Debit/ (Credit) US\$'000</i>	<i>Non controlling interest Debit US\$'000</i>	<i>Total Debit/ (Credit) US\$'000</i>	<i>Carrying amount US\$'000</i>
Deposits with banks	2,469,751	1,481	25	1,506	2,468,245
Loans and advances	19,498,702	232,376	27,883	260,259	19,238,443
Non-trading investments	6,002,410	(23,533)	129	(23,404)	6,025,814
Other liabilities					
- Off balance sheet exposures	912,679	39,219	2,395	41,614	954,293
		249,543	30,432	279,975	

3.5 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, financial 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:

3 ACCOUNTING POLICIES (continued)

3.5 Significant accounting judgements and estimates (continued)

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.

Measurement of the expected credit loss allowance

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

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

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

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.

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.

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.

3 ACCOUNTING POLICIES (continued)

3.5 Significant accounting judgements and estimates (continued)

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 14.

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

3.6 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 3.4, are set out below.

(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 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 fair value through other comprehensive income (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 items are designated as 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 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.

3 ACCOUNTING POLICIES (continued)

3.6 Summary of significant accounting policies (continued)

(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.

(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 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.

3 ACCOUNTING POLICIES (continued)

3.6 Summary of significant accounting policies (continued)

(c) Financial instruments (continued)

(iv) Debt instruments (continued)

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".

(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.

3 ACCOUNTING POLICIES (continued)

3.6 Summary of significant accounting policies (continued)

(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.

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 34.

(g) 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.

3 ACCOUNTING POLICIES (continued)

3.6 Summary of significant accounting policies (continued)

(g) Hedge accounting (continued)

(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.

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.

(h) 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.

(i) 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 exactly 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 assets or financial liability. Recognition of interest income is suspended on loans and advances where interest is overdue by 90 days or more.

3 ACCOUNTING POLICIES (continued)

3.6 Summary of significant accounting policies (continued)

(i) Revenue recognition (continued)

(ii) Fees and commissions income

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. Other fees and commissions income are recognised when earned.

(iii) Dividend income

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

(j) 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.

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.

(k) 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.

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

3 ACCOUNTING POLICIES (continued)

3.6 Summary of significant accounting policies (continued)

(k) Premises and equipment (continued)

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

- Freehold buildings	40 to 50 years
- Leasehold land and buildings	Over the lease period
- Other premises and equipment	Up to 10 years

(l) Investment property

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.

(m) 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.

(n) 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.

(o) 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 the period to which they relate.

(p) 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.

(q) 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.

(r) Non-controlling interests

Non-controlling interest represent 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.

(s) 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 retained earnings.

3 ACCOUNTING POLICIES (continued)

3.6 Summary of significant accounting policies (continued)

(t) 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.

(u) 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.

(v) 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.

(w) 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.

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.

(x) Repossessed assets

Reposessed assets are assets acquired in settlement of debt. These assets are carried at the lower of their reposessed value or their fair value and reported under "other assets".

(y) 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.

(z) 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.

3 ACCOUNTING POLICIES (continued)

3.6 Summary of significant accounting policies (continued)

(z) Islamic products (continued)

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-UI-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-UI-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-UI-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.

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.

(aa) 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 Mudaraba fee.

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

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4 NET INTEREST INCOME**(a) INTEREST INCOME**

	<i>2018</i>	<i>2017</i>
	<i>US\$'000</i>	<i>US\$'000</i>
Treasury bills	110,160	101,032
Deposits with banks	97,821	42,432
Loans and advances	1,116,706	998,161
Non-trading investments	331,063	237,549
	1,655,750	1,379,174

(b) INTEREST EXPENSE

	<i>2018</i>	<i>2017</i>
	<i>US\$'000</i>	<i>US\$'000</i>
Deposits from banks (including repurchase agreements)	88,697	54,766
Customers' deposits	614,395	437,711
Subordinated liabilities	12,134	10,227
	715,226	502,704
NET INTEREST INCOME	940,524	876,470

5 FEES AND COMMISSIONS

	<i>2018</i>	<i>2017</i>
	<i>US\$'000</i>	<i>US\$'000</i>
Fees and commission income		
- Transaction banking services	112,536	112,881
- Management, performance and brokerage fees	24,151	28,336
Fees and commission expense	(7,799)	(9,450)
	128,888	131,767

Included in 'management, performance and brokerage fees' is US\$ 9.7 million (2017: US\$ 12.6 million) of fee income relating to trust and other fiduciary activities.

6 TRADING INCOME

	<i>2018</i>	<i>2017</i>
	<i>US\$'000</i>	<i>US\$'000</i>
Foreign exchange - customer transactions	30,203	29,198
Proprietary trading	8,865	6,041
	39,068	35,239

7 (a) CASH AND BALANCES WITH CENTRAL BANKS

	<i>2018</i>	<i>2017</i>
	<i>US\$'000</i>	<i>US\$'000</i>
Cash and balances with central banks, excluding mandatory reserve deposits (note 24)	903,916	484,124
Mandatory reserve deposits with central banks	486,554	325,862
	1,390,470	809,986

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

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7 (b) TREASURY BILLS AND DEPOSITS WITH CENTRAL BANKS

	<u>2018</u>	<u>2017</u>
	<u>US\$ '000</u>	<u>US\$ '000</u>
Central Bank of Bahrain	352,859	610,952
Central Bank of Kuwait	1,140,183	1,376,244
Central Bank of Egypt	294,932	407,909
Central Bank of Iraq	130,753	140,744
Bank of England	-	40,503
	<u>1,918,727</u>	<u>2,576,352</u>

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

8 LOANS AND ADVANCES

	<u>2018</u>		<u>2017</u>	
	<u>US\$ '000</u>	<u>%</u>	<u>US\$ '000</u>	<u>%</u>
a) By industry sector				
Consumer/personal	2,732,571	13.5	2,923,110	14.6
Residential mortgage	1,520,131	7.5	1,566,687	7.8
Trading and manufacturing	5,267,616	25.9	4,980,074	24.8
Real estate	5,143,957	25.3	5,192,200	25.8
Banks and other financial institutions	1,171,627	5.8	805,739	4.0
Services	3,840,749	18.9	4,130,810	20.6
Government/public sector	147,872	0.7	115,380	0.6
Others	494,684	2.4	373,770	1.8
	<u>20,319,207</u>	<u>100.0</u>	<u>20,087,770</u>	<u>100.0</u>
Less: Collective impairment provision	-		(264,389)	
Less: Specific impairment provision	-		(324,679)	
Less: ECL allowance (Stage 1 & 2)	(490,398)		-	
Less: ECL allowance (Stage 3)	(324,848)		-	
	<u>19,503,961</u>		<u>19,498,702</u>	
	<u>2018</u>		<u>2017</u>	
	<u>US\$ '000</u>	<u>%</u>	<u>US\$ '000</u>	<u>%</u>
b) By geographic region				
Kingdom of Bahrain	3,670,637	18.1	3,640,879	18.1
State of Kuwait	9,859,978	48.5	9,683,976	48.2
Other GCC countries	2,873,672	14.1	3,096,729	15.4
United Kingdom	1,772,606	8.7	1,558,328	7.8
Arab Republic of Egypt	1,723,554	8.5	1,601,126	8.0
Europe (excluding United Kingdom)	174,880	0.9	205,848	1.0
Asia (excluding GCC countries)	92,920	0.5	200,977	1.0
Rest of the world	150,960	0.7	99,907	0.5
	<u>20,319,207</u>	<u>100.0</u>	<u>20,087,770</u>	<u>100.0</u>
Less: Collective impairment provision	-		(264,389)	
Less: Specific impairment provision	-		(324,679)	
Less: ECL allowance (Stage 1 & 2)	(490,398)		-	
Less: ECL allowance (Stage 3)	(324,848)		-	
	<u>19,503,961</u>		<u>19,498,702</u>	

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8 LOANS AND ADVANCES (continued)**c) Credit quality of loans and advances**

	<i>31 December 2018</i>				<i>2017</i>
	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>	
	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>
Loans and advances					
High standard grade					
Retail	3,324,450	127,873	-	3,452,323	2,844,665
Corporate	8,691,650	324,598	-	9,016,248	8,952,988
Standard grade					
Retail	176,554	135,532	-	312,086	1,051,099
Corporate	4,969,673	2,189,098	-	7,158,771	6,857,365
Credit impaired					
Retail	-	-	71,926	71,926	46,269
Corporate	-	-	307,853	307,853	335,384
	17,162,327	2,777,101	379,779	20,319,207	20,087,770
Less: ECL allowances	(125,066)	(365,332)	(324,848)	(815,246)	(589,068)
	17,037,261	2,411,769	54,931	19,503,961	19,498,702

Please refer note 31 (c) for further details on credit quality of loans and advances.

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

	<i>2018</i>			
	<i>Up to 30 days</i>	<i>31 to 60 days</i>	<i>61 to 89 days</i>	<i>Total</i>
	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>
Loans and advances				
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
	<i>2017</i>			
	<i>Up to 30 days</i>	<i>31 to 60 days</i>	<i>61 to 89 days</i>	<i>Total</i>
	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>
Loans and advances				
Retail	167,574	48,011	30,908	246,493
Corporate	83,416	22,025	32,893	138,334
	250,990	70,036	63,801	384,827

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.

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8 LOANS AND ADVANCES (continued)**e) Individually credit impaired loans and advances**

	<i>2018</i>		
	<i>Retail</i>	<i>Corporate</i>	<i>Total</i>
	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>
Gross credit impaired loans	71,926	307,853	379,779
ECL allowance (Stage 3)	(61,277)	(263,571)	(324,848)
	10,649	44,282	54,931
Credit impaired loan coverage	85.2%	85.6%	85.5%
Gross loans	3,836,335	16,482,872	20,319,207
Credit impaired loan ratio	1.9%	1.9%	1.9%
<i>2017</i>			
	<i>Retail</i>	<i>Corporate</i>	<i>Total</i>
	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>
Gross impaired loans	46,269	335,384	381,653
Specific impairment	(39,422)	(285,257)	(324,679)
	6,847	50,127	56,974
Impaired loan coverage	85.2%	85.1%	85.1%
Gross loans	3,942,033	16,145,737	20,087,770
Impaired loan ratio	1.2%	2.1%	1.9%

The fair value of collateral that the Group holds relating to loans individually determined to be credit impaired at 31 December 2018 amounts to US\$ 357.9 million (31 December 2017: US\$ 357.7 million). The collateral consists of cash, securities and properties.

The carrying amount of restructured credit facilities was US\$ 243.1 million as at 31 December 2018 (31 December 2017: US\$ 238.9 million) with no significant impact on ECL.

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8 LOANS AND ADVANCES (continued)**f) Impairment allowance for loans and advances**

A reconciliation of the allowance for impairment losses for loans and advances by class is as follows:

i) Impairment allowance for loans and advances - Retail

	2018			2017		
	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>	<i>Specific</i>	<i>Collective</i>
	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>
At 1 January				62,619	42,494	21,654
Transition adjustment on adoption of IFRS 9				29,436	-	-
At 1 January - restated	39,057	13,576	39,422	92,055	42,494	21,654
Add/(Less):						
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	17,263	(151)
Amounts written off during the year *	-	-	(2,880)	(2,880)	(20,464)	-
Exchange rate and other adjustments	14	(165)	(361)	(512)	129	1,694
At 31 December	36,613	9,535	61,277	107,425	39,422	23,197

ii) Impairment allowance for loans and advances - Corporate

	2018			2017		
	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>	<i>Specific</i>	<i>Collective</i>
	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>
At 1 January				526,449	337,748	295,275
Transition adjustment on adoption of IFRS 9				230,823	-	-
At 1 January - restated	106,924	365,091	285,257	757,272	337,748	295,275
Add/(Less):						
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	53,731	16,279
Amounts written off during the year *	-	-	(163,848)	(163,848)	(188,981)	-
Transfers	-	-	-	-	76,485	(76,485)
Exchange rate and other adjustments	(63)	(938)	15,495	14,494	6,274	6,123
At 31 December	88,453	355,797	263,571	707,821	285,257	241,192

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

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8 LOANS AND ADVANCES (continued)**g) Net provision charge**

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

	<u>2018</u> <u>US\$ '000</u>
Net remeasurement of ECL on loans and advances (note 8 f)	118,665
Recoveries from loans and advances during the year (from fully provided loans written off in previous years)	(42,738)
Net remeasurement of ECL for non-trading investments (note 9)	679
Net remeasurement of ECL on off-balance sheet exposures and others	9,616
	<u>86,222</u>
Provision for credit losses	<u>88,950</u>
	<u>2017</u> <u>US\$ '000</u>
Net impairment charge on loans and advances (note 8 f)	87,122
Recoveries from loans and advances during the year (from fully provided loans written off in previous years)	(26,405)
Net impairment charge for non-trading investments (note 9)	2,280
Net impairment charge on others	25,953
	<u>88,950</u>

9 NON-TRADING INVESTMENTS

	<u>2018</u>			
	<i>Held at amortised cost US\$'000</i>	<i>Held at FVTOCI US\$'000</i>	<i>Held at FVTPL US\$'000</i>	<i>Total US\$'000</i>
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	-	29,364	168,165	197,529
	<u>6,334,241</u>	<u>967,758</u>	<u>168,165</u>	<u>7,470,164</u>
Unquoted investments				
Notes and certificates of deposit:				
- issued by banks and other financial institutions	18,000	12,950	-	30,950
Equity	-	80,286	579	80,865
	<u>18,000</u>	<u>93,236</u>	<u>579</u>	<u>111,815</u>
Total	<u>6,352,241</u>	<u>1,060,994</u>	<u>168,744</u>	<u>7,581,979</u>
Less: ECL allowances				(13,451)
				<u>7,568,528</u>

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31 December 2018

9 NON-TRADING INVESTMENTS (continued)

	2017			Total US\$ '000
	Held at amortised cost US\$ '000	Held at FVTOCI US\$ '000	Held at FVTPL US\$ '000	
Quoted investments				
GCC government bonds and debt securities	1,141,952	-	-	1,141,952
Other government bonds and debt securities	1,100,076	-	-	1,100,076
GCC government entities' securities	650,860	-	-	650,860
Notes and certificates of deposit:				
- issued by banks and other financial institutions	1,770,930	-	-	1,770,930
- issued by corporate bodies	1,194,231	-	-	1,194,231
Equity	-	37,926	1,165	39,091
	5,858,049	37,926	1,165	5,897,140
Unquoted investments				
Notes and certificates of deposit:				
- issued by banks and other financial institutions	57,788	-	-	57,788
Equity	-	86,703	-	86,703
	57,788	86,703	-	144,491
Total	5,915,837	124,629	1,165	6,041,631
Less: Allowance for impairment				(39,221)
				6,002,410

The fair value of the non-trading investments held at amortised cost is US\$ 6,182.9 million as at 31 December 2018 (31 December 2017: US\$ 5,990.7 million) of which US\$ 6,164.9 million is classified under level 1 of fair value hierarchy (31 December 2017: US\$ 5,932.9 million) and US\$ 18.0 million is classified under level 2 of fair value hierarchy (31 December 2017: US\$ 57.8 million).

Credit quality of non-trading investments

	2018				2017
	Stage 1 US\$ '000	Stage 2 US\$ '000	Stage 3 US\$ '000	Total US\$ '000	Total US\$ '000
Non-trading investments					
High standard grade	5,022,919	4,909	-	5,027,828	3,914,616
Standard grade	2,123,813	151,944	-	2,275,757	2,001,221
	7,146,732	156,853	-	7,303,585	5,915,837
Less: ECL allowances	(9,729)	(3,722)	-	(13,451)	(39,221)
Equity instruments at fair value	-	-	-	278,394	125,794
	7,137,003	153,131	-	7,568,528	6,002,410

Please refer note 31 (c) for further details of credit quality of non-trading investments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2018

9 NON-TRADING INVESTMENTS (continued)

The movements in ECL allowances on investments were as follows:

	2018				2017	
	Stage 1 US\$ '000	Stage 2 US\$ '000	Stage 3 US\$ '000	Total US\$ '000	Specific US\$ '000	Collective US\$ '000
At 1 January				39,221	12,963	77,271
Transition adjustment on adoption of IFRS 9				(23,404)	-	-
At 1 January - restated	12,847	2,520	450	15,817	12,963	77,271
Add/(Less):						
Transfer from stage 1	(829)	829	-	-	-	-
Net remeasurement of ECL allowances for the year	756	(77)	-	679	-	2,280
Amounts written off during the year	-	-	-	-	(12,436)	-
Exchange rate and other reclassification / adjustments	(3,045)	450	(450)	(3,045)	(77)	(40,780)
At 31 December	9,729	3,722	-	13,451	450	38,771

10 INVESTMENT IN ASSOCIATES

The principal associates of the Group are:

Name	Country of incorporation	Nominal Holding	
		2018	2017
Ahli Bank S.A.O.G.	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:

	2018 US\$ '000	2017 US\$ '000
Assets	6,712,855	5,937,476
Liabilities	5,585,550	4,967,284
Net profit and comprehensive income for the year (Group's share)	40,941	23,251

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10 INVESTMENT IN ASSOCIATES (continued)

Financial information of Ahli Bank S.A.O.G. is provided below. The information is based on amounts as reported in financial statements of Ahli Bank S.A.O.G.

	<i>31 December 2018</i>	<i>31 December 2017</i>
	<i>US\$ 'million</i>	<i>US\$ 'million</i>
Ahli Bank S.A.O.G.		
<i>Balance sheet related information</i>		
Loans and advances	4,858.9	4,245.3
Investment securities	556.0	563.0
Total assets	5,949.1	5,232.7
Customers' deposits	4,316.0	3,768.4
Total liabilities	5,016.7	4,440.9
<i>Income statement related information</i>		
Total operating income	161.4	145.9
Net profit for the year	74.8	69.3
Total comprehensive income	61.2	67.9
Dividends received during the year	13.0	13.0
<i>Cash flow related information</i>		
Net cash from operating activities	412.9	131.0
Net cash used in investing activities	(356.8)	(62.0)
Net cash from financing activities	78.5	9.0

The market value of AUB's investment in Ahli Bank S.A.O.G. based on the price quoted in the Muscat Securities Market is US\$ 198.6 million (31 December 2017: US\$ 224.1 million).

11 INVESTMENT PROPERTIES

These represent properties acquired by the Group and are recognized at cost. As at 31 December 2018, the fair value of the investment properties is US\$ 320.3 million (31 December 2017: US\$ 291.3 million). Investment properties were valued by independent valuers using unobservable valuation inputs and are classified under level 3 of the fair value hierarchy.

12 INTEREST RECEIVABLE AND OTHER ASSETS

	<i>2018</i>	<i>2017</i>
	<i>US\$ '000</i>	<i>US\$ '000</i>
Tax assets (note 22)	2,365	3,748
Interest receivable	236,800	160,644
Derivative assets (note 28)	117,888	91,191
Prepayments and others	407,041	361,337
	764,094	616,920

Prepayments and others include repossessed assets amounting to US\$ 296.2 million (31 December 2017: US\$ 255.6 million).

Interest receivable include US\$ 12.2 million (2017: Nil) relating to financial assets classified as FVTOCI and balance relates to assets held at amortised cost.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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13 PREMISES AND EQUIPMENT

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

	<i>2018</i>	<i>2017</i>
	<i>US\$ '000</i>	<i>US\$ '000</i>
Freehold land	92,253	92,976
Freehold buildings	27,850	26,146
Leasehold land and buildings	36,451	37,350
IT equipment and others	53,321	49,715
Capital work-in-progress	27,189	20,485
	237,064	226,672

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.

14 GOODWILL AND OTHER INTANGIBLE ASSETS

	<i>2018</i>			<i>2017</i>		
	<i>Intangible</i>			<i>Intangible</i>		
	<i>Goodwill</i>	<i>assets</i>	<i>Total</i>	<i>Goodwill</i>	<i>assets</i>	<i>Total</i>
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
At 1 January	431,299	49,531	480,830	426,561	48,071	474,632
Exchange rate and other adjustments	(1,994)	(517)	(2,511)	4,738	1,460	6,198
At 31 December	429,305	49,014	478,319	431,299	49,531	480,830

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 30.

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 8.8% to 16.9% (2017: 8.8% to 17.3%). 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 (2017: Nil). 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.

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15 DEPOSITS FROM BANKS

	<u>2018</u>	<u>2017</u>
	<u>US\$ '000</u>	<u>US\$ '000</u>
Demand and call	1,373,846	1,146,635
Time deposits	2,378,946	2,796,598
	3,752,792	3,943,233

16 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\$ 6.8 billion (31 December 2017: US\$ 5.6 billion). Collateral is provided in the form of investment securities held within the non-trading investments portfolio.

As at 31 December 2018, the borrowings under these agreements were US\$ 1,832.1 million (31 December 2017: US\$ 1,272.8 million) and the fair value of investment securities that had been provided as collateral was US\$ 2,036.4 million (31 December 2017: US\$ 1,437.6 million).

17 CUSTOMERS' DEPOSITS

	<u>2018</u>	<u>2017</u>
	<u>US\$ '000</u>	<u>US\$ '000</u>
Current and call accounts	4,473,268	3,999,944
Saving accounts	2,155,917	2,178,777
Time deposits	17,030,850	15,831,136
	23,660,035	22,009,857

18 INTEREST PAYABLE AND OTHER LIABILITIES

	<u>2018</u>	<u>2017</u>
	<u>US\$ '000</u>	<u>US\$ '000</u>
Interest payable	229,184	145,647
Accrued charges and other payables	179,516	148,612
Derivative liabilities (note 28)	187,156	143,145
Other credit balances*	416,174	425,238
Tax liabilities (note 22)	48,607	50,037
ECL allowances**	37,274	-
	1,097,911	912,679

Interest payable include US\$ 0.9 million (2017: US\$ 0.6 million) relating to liabilities classified as FVTOCI and balance related to liabilities at amortised cost.

* Other credit balances mainly includes insurance related technical provisions, unearned fees, dividend payables, pension fund, margin deposits and other creditors.

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

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19 SUBORDINATED LIABILITIES

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

	<i>Maturity</i>	<i>2018</i> <i>US\$ '000</i>	<i>2017</i> <i>US\$ '000</i>
International Finance Corporation (IFC):			
- Repaid on 17 December 2018	2018	-	22,222
- Repayable in four equal semi-annual installments commencing on 15 April 2019 and thereafter up to and including 15 October 2020.	2020	165,000	165,000
		165,000	187,222
Others:			
- 10 year subordinated debt repayable at maturity on 20 January 2020	2020	17,997	17,997
- Repayable at maturity	5 years & one day notice	9,700	9,985
		27,697	27,982
		192,697	215,204

20 EQUITY**Ordinary share capital :**

	<i>2018</i> <i>US\$ '000</i>	<i>2017</i> <i>US\$ '000</i>
(a) Authorised :		
Share capital		
10,000 million shares (2017: 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:

	<i>2018</i> <i>US\$ '000</i>	<i>2017</i> <i>US\$ '000</i>
Ordinary share capital (US\$ 0.25 each)	1,992,541	1,889,213
Number of shares (millions)	7,970.2	7,556.9
Number of treasury shares (millions)	21.6	18.2

Movement in ordinary shares

	<i>2018</i> <i>(number in millions)</i>	<i>2017</i> <i>(number in millions)</i>
Opening balance as at 1 January	7,556.9	6,845.3
Add: bonus share issue	379.5	687.0
Add: issuance of additional shares (note 20 (c))	33.8	24.6
Closing balance as at 31 December	7,970.2	7,556.9

20 EQUITY (continued)

(c) Employee Share Purchase Plan and Mandatory Share Plan

The Employee Share Purchase Plan ("ESPP") was approved by the Board of Directors on 29 March 2005 and authorized by the shareholders at an EGM on 5 October 2004. An extension of the ESPP by authorizing the issuance of 100 million Ordinary Shares ("Shares") was approved by:

- (i) Board of Directors (on 5 November 2014);
- (ii) Ministry of Commerce (letter dated 9 March 2015);
- (iii) Capital Markets Supervision Directorate of CBB (letter dated 10 March 2015);
- (iv) Retail Banking Supervision Directorate of CBB (letters dated 22 February 2015 & 18 March 2015); and
- (v) Shareholders at Annual General Meeting (on 31 March 2015).

As per the approved ESPP terms, 100 million shares were authorized for issuance to qualifying employees of the AUB Group, in five annual tranches (tranches 9-13) over a period from 2015 to 2019. The prices, timing and sizes of the tranches of the Shares are determined by the Board of Directors, within set parameters. The individual allocations of each tranche are made at the discretion of the Compensation Committee. In line with the earlier structure, the Shares are issued to the existing ESPP company, Al Mazaya Company B.S.C. (c) ["AMC"] a special purpose entity incorporated on 29 August 2005, to hold the Shares. AMC in turn issues to the ESPP Trustees, for the beneficial ownership of employees, a corresponding number of unsecured and unsubordinated equity linked notes ("Notes"), each Note representing the economic value of an Ordinary Share, as adjusted by any bonus share issues, dividends and/or rights issues. Notes issued under the scheme are subject to the vesting criteria and conditions, as set out in the ESPP Rules.

During 2017, the Bank issued 18,368,831 Ordinary Shares at a price of US\$ 0.48 per share under Tranche 11 and it was fully allocated to employees. During 2018, the Bank issued 26,333,496 Ordinary Shares at a price of US\$ 0.50 per share under Tranche 12 and it was fully allocated to employees. These shares were eligible for 10,244,939 bonus shares. These Notes vest equally over three years from the grant date and as determined by the Compensation Committee.

Subsequent to the redemption of 31,072,059 shares during 2018 (2017: 68,439,948) the balance shares issued under the ESPP scheme is 187,851,029 as of 31 December 2018 (31 December 2017: 182,344,653).

The same bodies also approved the issuance of up to 50 million of Ordinary Shares for the approved Mandatory Share Plan ("MSP") to be initially issued as option rights exercisable into AUB ordinary shares, adjustable for any future bonus share distributions, rights issues or other issuances of share equivalents arising from any re-organization, re-classification, stock-split or consolidation of ordinary shares by the Bank. These options were authorised for issuance to employees of the Bank falling within the ambit of Module HC-5.4.2 of the CBB Rulebook, commencing 1 January 2015 to 1 January 2019 in five annual tranches, corresponding to the annual staff compensation cycle. Individual tranche sizes are determined by the Compensation Committee to address annual remuneration of defined employees, within the CBB regulations. The options can be exercised at the grant price of US\$ 0.25 per option over a three year service period in the ratio of 50%, 35%, 15% respectively and the options expire within 12 months from end of grant date month.

During 2017, the Bank issued 6,208,326 shares as part of the 2016 Performance Bonus Deferred Share Awards. During 2018, the Bank issued 7,444,378 shares as part of the 2017 Performance Bonus Deferred Share Awards. These shares were eligible for 1,014,874 bonus shares.

Subsequent to the exercise of 2,989,100 shares during 2018 (2017: 4,097,279) the balance shares issued under the MSP scheme is 18,805,027 as of 31 December 2018 (31 December 2017: 13,334,875).

As the approved 150 million shares allotment has been fully consumed by the above MSP and ESPP issuance, the same bodies further approved issuance of an additional 150 million AUB ordinary shares, with a nominal value of US\$ 25 cents per share, for purpose of MSP and ESPP as determined by the Board of Directors. This issuance of 150 million Ordinary Shares was approved by:

- (i) Board of Directors (on 24 January 2018);
- (ii) Ministry of Commerce (letter dated 20 February 2018);
- (iii) Capital Markets Supervision Directorate of CBB (letter dated 19 February 2018);
- (iv) Retail Banking Supervision Directorate of CBB (letters dated 15 February 2018); and
- (v) Shareholders at Extra Ordinary General Meeting (on 29 March 2018).

20 EQUITY (continued)**(c) Employee Share Purchase Plan and Mandatory Share Plan (continued)**

Under the MSP scheme, the Board of Directors has resolved to issue up to 11,000,000 shares as part of the 2018 Performance Bonus Deferred Share Awards. These shares are entitled to be adjusted for any bonus share issues and dividend until the rights are exercised under the MSP.

(d) Perpetual Tier 1 Capital Securities

	<u>2018</u>	<u>2017</u>
	<u>US\$ '000</u>	<u>US\$ '000</u>
Issued by the Bank (20d(i))	400,000	400,000
Issued by the subsidiary (20d(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,

21 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.

b) Capital reserve

As required by the Bahrain Commercial Companies Law, 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 Bahrain Commercial Companies Law.

c) Statutory reserve

As required by the Bahrain Commercial Companies Law 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 Bahrain Commercial Companies Law.

d) Property revaluation reserve

The revaluation reserve arising on revaluation of freehold land is not distributable except in such circumstances as stipulated in the Bahrain Commercial Companies Law.

e) Foreign exchange translation reserve

It comprises mainly of translation effects arising on consolidation of subsidiaries and investments in associates.

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21 RESERVES (continued)**f) Other comprehensive income reserve (OCI Reserve)**

This reserve represents changes in the fair values of FVTOCI 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

	<i>Property</i>		<i>Foreign</i>	<i>Cumulative changes</i>				
	<i>Capital</i>	<i>revaluation</i>	<i>exchange</i>	<i>OCI</i>	<i>Cash flow</i>	<i>ESPP</i>	<i>Pension</i>	<i>Total</i>
	<i>reserve</i>	<i>reserve</i>	<i>translation</i>	<i>reserve</i>	<i>hedge</i>	<i>reserve</i>	<i>fund</i>	<i>other</i>
	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>reserves</i>
Balance at 1 January 2018	8,480	35,568	(423,986)	(12,981)	(26,659)	-	(55,332)	(474,910)
Transition adjustment on adoption of IFRS 9 (note 3.4a)	-	-	-	54,644	-	-	-	54,644
Balance at 1 January 2018 -restated	8,480	35,568	(423,986)	41,663	(26,659)	-	(55,332)	(420,266)
Currency translation adjustments	-	-	(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)

	<i>Property</i>		<i>Foreign</i>	<i>Cumulative changes</i>				
	<i>Capital</i>	<i>revaluation</i>	<i>exchange</i>	<i>OCI</i>	<i>Cash flow</i>	<i>ESPP</i>	<i>Pension</i>	<i>Total</i>
	<i>reserve</i>	<i>reserve</i>	<i>translation</i>	<i>reserve</i>	<i>hedge</i>	<i>reserve</i>	<i>fund</i>	<i>other</i>
	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>reserves</i>
Balance at 1 January 2017	8,480	36,256	(455,168)	(11,019)	(23,783)	-	(57,742)	(502,976)
Currency translation adjustments	-	-	31,182	-	-	-	-	31,182
Transfers to consolidated statement of income	-	-	-	-	(1,570)	-	-	(1,570)
Net fair value movements	-	-	-	(5,666)	(1,306)	-	-	(6,972)
Transfers to retained earnings	-	(243)	-	3,704	-	(3,921)	-	(460)
Fair value movements and others	-	-	-	-	-	3,921	2,410	6,331
Revaluation of freehold land	-	(445)	-	-	-	-	-	(445)
Balance at 31 December 2017	8,480	35,568	(423,986)	(12,981)	(26,659)	-	(55,332)	(474,910)

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 operation 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.

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21 RESERVES (continued)**i) Dividends paid and proposed**

	<u>2018</u> <u>US\$'000</u>
Proposed for approval at the forthcoming Annual General Assembly of Shareholders Meeting	
Cash dividend on the ordinary shares @ US cents 5.0 per share	398,838
Bonus share issue	10%
	<u>2017</u> <u>US\$'000</u>
Declared and paid during the year	
Cash dividend on the ordinary shares @ US cents 4.5 per share (2017:US cents 4.5 per share)	341,578
Bonus share issue (2017: 10%)	5%

j) Distribution on Perpetual Tier 1 capital securities and Sukuk

	<u>2018</u> <u>US\$'000</u>	<u>2017</u> <u>US\$'000</u>
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
	<u>38,500</u>	<u>38,500</u>

22 TAXATION

	<u>2018</u> <u>US\$'000</u>	<u>2017</u> <u>US\$'000</u>
Consolidated balance sheet (note 12 and note 18):		
- Deferred tax asset	<u>2,365</u>	<u>3,748</u>
- Current tax liability	(27,217)	(26,737)
- Deferred tax liability	(21,390)	(23,300)
	<u>(48,607)</u>	<u>(50,037)</u>
Consolidated statement of income		
- Current tax expense on foreign operations	42,678	40,925
- Deferred tax expense on foreign operations	1,067	83
	<u>43,745</u>	<u>41,008</u>

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% (2017: 22.5%) and AUBUK is 19.0% (2017: 19.25%).

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23 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 :

	<u>2018</u>	<u>2017</u>
	<u>US\$'000</u>	<u>US\$'000</u>
Net profit for basic and diluted earnings per ordinary share computation		
Net profit attributable to Bank's equity shareholders	697,534	618,715
(Less): Perpetual Tier 1 Capital Securities distribution share	(35,740)	(35,740)
Adjusted net profit attributable to Bank's ordinary equity shareholders for basic and diluted earnings per ordinary share	661,794	582,975
Basic and diluted earnings per ordinary share (US cents)	8.3	7.4
	Number of shares	
	(in millions)	
	<u>2018</u>	<u>2017</u>
Weighted average ordinary shares outstanding during the year adjusted for bonus shares	7,949	7,912
Weighted average number of ordinary shares for diluted earnings per share	7,949	7,912

24 CASH AND CASH EQUIVALENTS

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

	<u>2018</u>	<u>2017</u>
	<u>US\$ '000</u>	<u>US\$ '000</u>
Cash and balances with central banks, excluding mandatory reserve deposits (note 7(a))	903,916	484,124
Treasury bills and deposits with central banks and other banks - with an original maturity of three months or less	2,185,048	2,044,598
	3,088,964	2,528,722

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25 RELATED PARTY TRANSACTIONS

The Group enters into transactions with major shareholders, associates, directors, senior management and companies which are controlled, jointly controlled or significantly influenced by such parties in the ordinary course of business at arm's length. All the loans and advances to related parties are performing and are subject to ECL.

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

	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
	2017					
	US\$ '000					
				Senior Management		
	Major shareholders	Associates	Non Executive Directors	Management Directors ²	Others	Total
Interest income	63	3,756	7,073	241	49	11,182
Interest expense	111,247	12	696	113	12	112,080
Fees and commissions	109	2,338	288	11	2	2,748
Deposits with banks	-	113,336	-	-	-	113,336
Loans and advances	-	-	167,615	7,310	1,767	176,692
Deposits from banks	-	6,686	-	-	-	6,686
Customers' deposits ¹	5,966,668	-	46,248	7,035	1,916	6,021,867
Subordinated liabilities	197,207	-	-	-	-	197,207
Derivatives liabilities	-	622	-	-	-	622
Commitments and contingent liabilities	-	198,158	155,511	-	-	353,669
Short term employee benefits	-	-	-	11,437	3,781	15,218
End of service benefits	-	-	-	1,663	472	2,135
Directors' fees and related expenses ³	-	-	2,226	-	-	2,226

25 RELATED PARTY TRANSACTIONS (continued)

¹Customers' deposits include deposits from GCC government-owned institutions amounting to US\$ 6,978 million (31 December 2017: US\$ 5,925 million).

²AUB 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.

³Directors fees and related expenses for 2017 were approved by the shareholders in the annual general meeting on 29 March 2018 and the same for 2018 will be presented for shareholders' approval at the ensuing annual general meeting in March 2019.

The consolidated income statement includes a fair value amortisation charge of US\$ 1.7 million (2017: US\$ 1.4 million) relating to share based transactions.

26 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\$ 13,581 thousand (2017: US\$ 17,451 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\$ 7,994 thousand (2017: US\$ 7,726 thousand) during the year towards defined contribution plans. The Group's obligations are limited to the amounts contributed to various schemes.

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27 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 2018 was US\$ 3,616.9 million (2017: US\$ 3,774.1 million).

28 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.

	2018		2017	
	<i>Derivative assets</i>	<i>Derivative liabilities</i>	<i>Derivative assets</i>	<i>Derivative liabilities</i>
	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>
<i>Derivatives held for trading:</i>				
Interest rate swaps	28,499	23,436	20,787	15,939
Forward foreign exchange contracts	31,528	19,088	36,446	25,279
Options	1,108	1,042	278	415
Interest rate futures	-	260	320	102
	61,135	43,826	57,831	41,735

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

	2018			2017		
	<i>Derivative assets</i>	<i>Derivative liabilities</i>	<i>Notionals amounts</i>	<i>Derivative assets</i>	<i>Derivative liabilities</i>	<i>Notionals amounts</i>
	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>
<i>Derivatives held as fair value hedges:</i>						
Interest rate swaps on						
Amortised cost instruments	42,668	120,269	8,140,868	33,334	72,371	4,648,903
Interest rate swaps on						
FVTOCI instruments	11,845	1,608	635,218	-	-	-
<i>Derivatives held as cash flow hedges:</i>						
Interest rate swaps	847	21,453	204,328	-	27,982	145,000
Forward foreign exchange contracts	1,393	-	29,126	26	1,057	96,697
	56,753	143,330	9,009,540	33,360	101,410	4,890,600

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

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28 DERIVATIVES (continued)

In respect of derivative assets above, the Group has US\$ 73.0 million (2017: US\$ 25.2 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 swap held as fair value hedges as at 31 December 2018 is negative US\$ 67.4 million (2017: Negative US\$ 39.0 million). Gain recognised on the hedged item at 31 December 2018, attributable to the hedged risk is US\$ 67.4 million (2017: US\$ 39.0 million). These gains and losses are included in "trading income" in the consolidated statement of income during 2018 and 2017 respectively.

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\$ 128.0 million, non-trading investments amounting to US\$ 5,216.0 million and customer deposits amounting to US\$ 3,258.8 million. The net fair value amounting to US\$ 67.4 million is included in the carrying amount of the hedged items.

During the year, the Group recognised US\$ 72 thousands towards ineffectiveness on fairvalue hedges.

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:

	<i>3 months or less</i>	<i>More than 3 months up to 1 year</i>	<i>More than 1 year up to 5 years</i>	<i>More than 5 years</i>	<i>Total</i>
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
At 31 December 2018					
Net cash flows	861	(151)	(7,689)	(10,042)	(17,021)
At 31 December 2017					
Net cash flows	(345)	(3,211)	(9,205)	(13,898)	(26,659)

No significant hedge ineffectiveness on cash flow hedges was recognised in 2018 and 2017.

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.

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29 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:

	<u>2018</u>	<u>2017</u>
	<u>US\$ '000</u>	<u>US\$ '000</u>
Contingent liabilities		
Guarantees	2,600,252	2,629,554
Acceptances	126,455	187,852
Letters of credit	576,710	566,808
	3,303,417	3,384,214
Maturity of contingent liabilities is as follows:		
- Less than one year	2,414,825	2,502,602
- Over one year	888,592	881,612
	3,303,417	3,384,214
Irrevocable commitments:		
Undrawn loan commitments	661,599	1,077,266

Please also refer to note 35 for additional liquidity disclosures.

The Group's commitments in respect of non-cancellable operating leases were as follows:

	<u>2018</u>	<u>2017</u>
	<u>US\$ '000</u>	<u>US\$ '000</u>
Within one year	1,833	1,967
Between one to five years	3,631	4,718
	5,464	6,685

30 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 & 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.

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30 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.

Segmental information for the year was as follows:

	<i>Retail banking</i>	<i>Corporate banking</i>	<i>Treasury & investments</i>	<i>Private banking</i>	<i>Total</i>
	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>
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	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					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	3,702,036	15,970,682	12,111,490	1,925,090	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

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30 SEGMENT INFORMATION (continued)

Segmental information for the year was as follows:

	<i>Retail banking</i>	<i>Corporate banking</i>	<i>Treasury & investments</i>	<i>Private banking</i>	<i>Total</i>
	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>
Year ended 31 December 2017:					
Net interest income	173,511	452,061	182,274	68,624	876,470
Fees and commissions	31,169	67,142	9,687	23,769	131,767
Investment income and trading income	8,850	20,892	81,177	216	111,135
OPERATING INCOME	213,530	540,095	273,138	92,609	1,119,372
Provision for credit losses	8,264	80,179	2,280	(1,773)	88,950
NET OPERATING INCOME	205,266	459,916	270,858	94,382	1,030,422
Operating expenses	111,932	75,768	103,191	32,009	322,900
PROFIT BEFORE TAX	93,334	384,148	167,667	62,373	707,522
Tax expense					41,008
NET PROFIT FOR THE YEAR					666,514
Less : Attributable to non-controlling interests					47,799
NET PROFIT ATTRIBUTABLE TO THE OWNERS' OF THE BANK					618,715
Inter segment interest included in net interest income above	146,080	(199,562)	34,269	19,213	-
Segment assets	3,807,435	15,452,710	10,397,849	1,955,449	31,613,443
Goodwill	154,935	99,857	96,826	79,681	431,299
Other intangible assets	13,441	17,783	16,213	2,094	49,531
Investment in associates					304,020
Unallocated assets					843,592
TOTAL ASSETS					33,241,885
Segment liabilities	5,146,229	4,833,337	14,509,456	2,952,030	27,441,052
Unallocated liabilities					912,679
TOTAL LIABILITIES					28,353,731

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 "Rest of the World". 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:

30 SEGMENT INFORMATION (continued)**Geographic segmentation (continued)**

	<i>Operating income</i>		<i>Total assets</i>	
	<i>2018</i>	<i>2017</i>	<i>2018</i>	<i>2017</i>
	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>
GCC Countries	818,312	783,536	24,187,029	22,977,029
Rest of the World	392,238	335,836	11,320,548	10,264,856
Total	1,210,550	1,119,372	35,507,577	33,241,885

Net profit from Bahrain onshore operations included above is US\$ 96.4 million (2017: US\$ 86.3 million) amounting to 13.8% (2017: 13.9%) of the Group's net profit attributable to owners of the Bank.

RISK MANAGEMENT**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.

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 8(a) and 8(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.

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31 CREDIT RISK (continued)**b) Maximum exposure to credit risk without taking account of any collateral and other credit enhancements**

The table below shows the 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.

	<i>Gross maximum exposure 2018 US\$ '000</i>	<i>Gross maximum exposure 2017 US\$ '000</i>
Balances with central banks	1,264,079	677,594
Treasury bills and deposits with central banks	1,918,727	2,576,352
Deposits with banks	3,061,818	2,469,751
Loans and advances	19,503,961	19,498,702
Non-trading investments	7,290,134	5,876,616
Interest receivable and other assets	416,716	308,942
Total	33,455,435	31,407,957
Contingent liabilities	3,303,417	3,384,214
Undrawn loan commitments	661,599	1,077,266
Total credit related commitments	3,965,016	4,461,480
Total credit risk exposure	37,420,451	35,869,437

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.

c) Credit quality of financial assets

The table below shows distribution of financial assets:

	<i>Stage 1 US\$ '000</i>	<i>Stage 2 US\$ '000</i>	<i>Stage 3 US\$ '000</i>	<i>Total US\$ '000</i>
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

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31 CREDIT RISK (continued)**c) Credit quality of financial assets (continued)**

The table below shows distribution of financial assets neither past due nor impaired.

	<i>Neither past due nor impaired</i>		<i>Total</i> <i>US\$ '000</i>
	<i>High standard grade</i>	<i>Standard grade</i>	
	<i>US\$ '000</i>	<i>US\$ '000</i>	
At 31 December 2017			
Balances with central banks	677,594	-	677,594
Treasury bills and deposits with central banks	2,037,712	538,640	2,576,352
Deposits with banks	2,309,631	160,120	2,469,751
Loans and advances			
Retail	2,844,665	804,606	3,649,271
Corporate	8,952,988	6,719,031	15,672,019
Non-trading investments	3,914,616	2,001,221	5,915,837
Interest receivable and other assets	147,382	70,369	217,751
Other assets - derivatives	91,191	-	91,191

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 above 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 3.4 for detailed ECL measurement methodology.

There are no financial assets which are past due but not impaired as at 31 December 2018 and 2017 other than those disclosed under note 8(d).

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32 CONCENTRATION ANALYSIS

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

	2018			2017		
	<i>Assets</i>	<i>Liabilities</i>	<i>Contingent liabilities & commitments on behalf of customers</i>	<i>Assets</i>	<i>Liabilities</i>	<i>Contingent liabilities & commitments on behalf of customers</i>
	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>
Geographic region:						
Kingdom of Bahrain	5,687,619	4,455,381	980,490	5,935,876	4,278,065	956,123
State of Kuwait	12,395,107	17,063,555	1,405,590	12,091,452	15,865,172	1,428,029
Other GCC countries	6,104,303	1,906,559	253,013	4,949,701	1,546,179	310,399
United Kingdom (UK)	2,794,035	670,606	23,148	2,402,182	705,559	37,976
Arab Republic of Egypt	2,963,893	2,811,173	288,294	2,749,095	2,573,010	386,634
Europe (excluding UK)	1,533,970	1,314,962	169,715	1,517,920	956,564	181,467
Asia (excluding GCC)	1,504,002	1,214,455	77,826	1,742,117	1,342,957	35,727
United States of America	1,305,430	210,248	11,741	723,072	199,670	4,803
Rest of the World	1,219,218	888,630	93,600	1,130,470	886,555	43,056
	35,507,577	30,535,569	3,303,417	33,241,885	28,353,731	3,384,214
Industry sector:						
Banks and other financial institutions	11,005,405	14,859,838	548,861	10,045,621	13,265,548	489,975
Consumer/personal	2,598,253	6,076,419	14,085	2,843,340	5,492,545	21,939
Residential mortgage	1,512,113	-	1,221	1,540,526	-	215
Trading and manufacturing	6,306,265	1,493,065	1,183,462	5,771,772	1,459,145	1,309,406
Real estate	5,287,672	432,372	31,469	5,332,464	368,572	32,625
Services	3,820,876	2,762,727	1,199,376	4,111,806	2,537,221	1,247,853
Government/public sector	4,476,785	4,106,517	117,658	3,234,447	4,296,313	89,222
Others	500,208	804,631	207,285	361,909	934,387	192,979
	35,507,577	30,535,569	3,303,417	33,241,885	28,353,731	3,384,214

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.

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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:

	<i>Foreign exchange</i>	<i>Interest rate</i>	<i>Effects of correlation</i>	<i>Total</i>
	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>
31 December 2018	153	51	0	204
31 December 2017	1,032	(139)	1	894

b. Market risk-non-trading**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 2018 and 31 December 2017 including the effect of hedging instruments.

Sensitivity analysis - interest rate risk

		2018	2017
		US\$ '000	US\$ '000
at 10 bps - increase (+)/decrease (-)	+/-	4,259	4,669
at 25 bps - increase (+)/decrease (-)	+/-	10,649	11,673

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 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.

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33 MARKET RISK (continued)**b. Market risk-non-trading (continued)****Currency risk (continued)**

The Group had the following significant net exposures arising out of banking operations as of the consolidated statement of financial position date:

	<i>2018</i>	<i>2017</i>
	<i>US\$ '000</i>	<i>US\$ '000</i>
Great Britain Pound	(6,623)	(5,287)
Euro	(3,664)	(14,987)
Egyptian Pound	(8,162)	23,518
Iraqi Dinar	(79,627)	(74,751)
Kuwaiti Dinar	(132,288)	(101,531)

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 under the "foreign exchange translation reserve" under the note 21(h).

Equity price risk

Equity price risk arises from fluctuations in equity indices and prices. The Board 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 FVTOCI) due to a reasonably possible change in equity indices, with all other variables held constant is as follows:

	<i>Change in equity indices %</i>		<i>Effect on OCI</i>	
			<i>2018</i>	<i>2017</i>
			<i>US\$ '000</i>	<i>US\$ '000</i>
Market indices				
Boursa Kuwait	+/- 10%	+/-	163	25

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:

	<i>Change in equity indices %</i>		<i>Effect on Income statement</i>	
			<i>2018</i>	<i>2017</i>
			<i>US\$ '000</i>	<i>US\$ '000</i>
Market indices				
Saudi Stock Exchange	+/- 10%	+/-	19,151	-

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34 FAIR VALUE MEASUREMENT

The fair value of financial assets and financial liabilities, other than those disclosed in the table below and in note 9, approximate their carrying values. Please refer note 9 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.

	<i>2018</i>			
	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>
	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>
Equity instruments 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

	<i>2017</i>			
	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>
	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>
Equity instruments at fair value	251	77,034	48,509	125,794
Derivative assets	320	90,871	-	91,191
Derivative liabilities	102	143,043	-	143,145

During the year 2018 and 2017 there have been no transfers between Levels 1, 2 and 3.

For an explanation of valuation techniques used to value these financial instruments please refer to note 3.6 (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 statement of financial position 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.

35 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 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 FVTOCI bonds has been determined on the basis of liquidity requirements.

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35 LIQUIDITY RISK (continued)

	<i>US\$ '000</i>				
	<i>Upto three months</i>	<i>Over three months to one year</i>	<i>Above 1 year</i>	<i>Undated</i>	<i>Total</i>
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	7,697,158	2,300,333	9,506,470	-	19,503,961
Non-trading investments	493,836	1,405,251	5,669,441	-	7,568,528
Investment in associates	-	-	-	318,802	318,802
Investment properties	-	-	-	265,794	265,794
Interest receivable and other assets	154,141	394,853	215,100	-	764,094
Premises and equipment	-	-	-	237,064	237,064
Goodwill and other intangible assets	-	-	-	478,319	478,319
Total	13,607,800	5,200,626	15,399,172	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	413,152	380,923	303,836	-	1,097,911
Subordinated liabilities	-	82,500	110,197	-	192,697
Total	13,060,555	6,620,421	10,854,593	-	30,535,569
Net liquidity gap	547,245	(1,419,795)	4,544,579	1,299,979	4,972,008

The Group has collateralized borrowing lines of credit with various financial institutions through repurchase arrangements. Please refer note 16 for further details.

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35 LIQUIDITY RISK (continued)

The maturity profile of the assets and liabilities at 31 December 2017 was as follows:

	<i>US\$' 000</i>				
	<i>Upto three months</i>	<i>Over three months to one year</i>	<i>Above 1 year</i>	<i>Undated</i>	<i>Total</i>
ASSETS					
Cash and balances with central banks	809,986	-	-	-	809,986
Treasury bills and deposits with central banks	1,007,636	1,568,716	-	-	2,576,352
Deposits with banks	2,357,499	12,252	100,000	-	2,469,751
Loans and advances	7,802,632	1,940,791	9,755,279	-	19,498,702
Non-trading investments	538,448	575,149	4,888,813	-	6,002,410
Investment in associates	-	-	-	304,020	304,020
Investment properties	-	-	-	256,242	256,242
Interest receivable and other assets	119,909	335,230	161,781	-	616,920
Premises and equipment	-	-	-	226,672	226,672
Goodwill and other intangible assets	-	-	-	480,830	480,830
Total	12,636,110	4,432,138	14,905,873	1,267,764	33,241,885
LIABILITIES					
Deposits from banks	3,555,191	388,042	-	-	3,943,233
Borrowings under repurchase agreements	737,992	534,766	-	-	1,272,758
Customers' deposits	6,557,366	4,926,848	10,525,643	-	22,009,857
Interest payable and other liabilities	346,493	308,470	257,716	-	912,679
Subordinated liabilities	-	22,222	192,982	-	215,204
Total	11,197,042	6,180,348	10,976,341	-	28,353,731
Net liquidity gap	1,439,068	(1,748,210)	3,929,532	1,267,764	4,888,154

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35 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 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)
	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 2017						
Deposits from banks	2,105,425	1,455,037	391,105	-	-	3,951,567
Borrowings under repurchase agreements	231,808	507,800	539,973	-	-	1,279,581
Customers' deposits	10,506,062	3,917,929	6,604,986	1,140,625	11,241	22,180,843
Subordinated liabilities	-	-	22,856	203,885	12,264	239,005
Total	12,843,295	5,880,766	7,558,920	1,344,510	23,505	27,650,996
Credit related commitments	22,877	75,139	330,793	597,290	51,167	1,077,266
Derivatives (net)	205	9,183	(2,142)	(7,946)	(51,335)	(52,035)

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36 CAPITAL ADEQUACY

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 years.

The total capital ratio is calculated in accordance with the capital adequacy guidelines, under Basel III, issued by the Central Bank of Bahrain ("CBB"). The minimum capital adequacy ratio as per CBB is 12.5%. The Group's total capital ratio is 16.9% as of 31 December 2018 (31 December 2017: 17.0%).

37 DEPOSIT PROTECTION SCHEME

Certain customers' deposits of the Group are covered by deposit protection schemes established by the Central Bank of Bahrain (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 Central Bank of Bahrain (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.

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38 ISLAMIC BANKING

The Group's Shari'a compliant Islamic banking activities are offered through its Islamic Banking subsidiary AUBK, Islamic banking associate UBCI and dedicated Islamic banking branches/windows at AUB Bahrain, AUBUK and through its associate Ahli Bank S.A.O.G. The results of its Islamic banking activities is presented below.

BALANCE SHEET AS AT 31 DECEMBER

	<i>Note</i>	<u>2018</u> <i>US\$ '000</i>	<u>2017</u> <i>US\$ '000</i>
ASSETS			
Cash and balances with central banks		210,318	114,885
Deposits with central banks		1,140,184	1,376,244
Deposits with banks	(a)	1,040,463	641,960
Receivable balances from Islamic financing	(b)	11,520,652	11,115,957
Financial investments		1,159,007	819,008
Investment in associates		51,124	42,738
Investment properties		120,374	125,914
Premises and equipment		113,477	110,616
Profit receivable and other assets		50,521	57,291
TOTAL ASSETS		<u>15,406,120</u>	<u>14,404,613</u>
LIABILITIES			
Deposits from banks	(c)	2,725,001	2,391,720
Customers' deposits	(d)	10,319,426	9,825,484
Profit payable and other liabilities		258,998	240,499
Restricted investment		6,750	31,964
		<u>13,310,175</u>	<u>12,489,667</u>
Equity of unrestricted investment account holders		192,567	125,219
TOTAL LIABILITIES AND EQUITY OF UNRESTRICTED INVESTMENT ACCOUNTHOLDERS		<u>13,502,742</u>	<u>12,614,886</u>
TOTAL EQUITY		<u>1,903,378</u>	<u>1,789,727</u>
TOTAL LIABILITIES, EQUITY OF UNRESTRICTED INVESTMENT ACCOUNTHOLDERS AND EQUITY		<u>15,406,120</u>	<u>14,404,613</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2018

38 ISLAMIC BANKING (continued)**STATEMENT OF INCOME FOR THE YEAR ENDED 31 DECEMBER**

		<i>2018</i>	<i>2017</i>
	<i>Note</i>	<i>US\$ '000</i>	<i>US\$ '000</i>
Net income from Islamic financing	(e)	421,441	402,436
		421,441	402,436
Fees and commissions		41,477	41,609
Other operating income		33,925	14,623
Foreign exchange gains		10,961	11,447
OPERATING INCOME		507,804	470,115
Provision for financing receivables and others		98,750	117,462
NET OPERATING INCOME		409,054	352,653
Staff costs		74,391	81,680
Depreciation		9,859	8,527
Other operating expenses		47,027	45,029
OPERATING EXPENSES		131,277	135,236
PROFIT FOR THE YEAR BEFORE TAX		277,777	217,417
Tax expense		7,707	7,085
PROFIT FOR THE YEAR BEFORE THE SHARE OF PROFIT			
EQUITY OF UNRESTRICTED INVESTMENT			
ACCOUNT HOLDERS		270,070	210,332
Less : Share of profit of equity of unrestricted investment account holders		641	611
NET PROFIT FOR THE YEAR		269,429	209,721
<i>Attributable to:</i>			
Owners of the Bank		227,847	172,906
Non-controlling interest		41,582	36,815
		269,429	209,721

Notes

	<i>2018</i>	<i>2017</i>
	<i>US\$ '000</i>	<i>US\$ '000</i>
(a) Deposits with banks		
Murabaha finance with other banks	695,451	514,929
Wakala with banks	299,758	99,917
Current accounts and others	45,254	27,114
	1,040,463	641,960

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2018

38 ISLAMIC BANKING (continued)*Notes (continued)*

	<u>2018</u>	<u>2017</u>
	<u>US\$ '000</u>	<u>US\$ '000</u>
(b) Receivable balances from Islamic financing		
Tawarruq receivables	7,046,623	6,539,897
Murabaha receivables	3,483,849	3,301,572
Ijara receivables	1,419,050	1,707,097
Others	32,700	28,861
Less: Allowance for impairment	(461,570)	(461,470)
	<u>11,520,652</u>	<u>11,115,957</u>
	<u>2018</u>	<u>2017</u>
	<u>US\$ '000</u>	<u>US\$ '000</u>
(c) Deposits from banks		
Murabaha	2,328,948	1,855,346
Wakala	389,003	464,265
Current accounts	7,050	72,109
	<u>2,725,001</u>	<u>2,391,720</u>
	<u>2018</u>	<u>2017</u>
	<u>US\$ '000</u>	<u>US\$ '000</u>
(d) Customers' deposits		
Wakala	6,573,070	5,899,772
Murabaha	1,876,954	1,997,722
Mudaraba	671,232	779,536
Current accounts	1,198,170	1,148,454
	<u>10,319,426</u>	<u>9,825,484</u>
	<u>2018</u>	<u>2017</u>
	<u>US\$ '000</u>	<u>US\$ '000</u>
(e) Net income from Islamic financing		
Income from Tawarruq	300,575	292,040
Income from Murabaha	194,987	149,274
Income from Ijara	87,903	93,049
Income from Financial Investments	82,682	51,654
Income from Islamic financing	<u>666,147</u>	<u>586,017</u>
Profit expenses on Wakala	113,130	91,536
Profit expenses on Murabaha	98,897	69,295
Profit expenses on Mudaraba	32,679	22,750
Less: Distribution to depositors	<u>244,706</u>	<u>183,581</u>
Net income from Islamic financing	<u>421,441</u>	<u>402,436</u>

39 SUBSIDIARIES

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

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

<i>Name</i>	<i>Country of incorporation</i>	<u>2018</u>	<u>2017</u>
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%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2018

39 SUBSIDIARIES (continued)

	2018 US\$ '000	2017 US\$ '000
Accumulated material non-controlling interest as at:		
Ahli United Bank K.S.C.P. (AUBK)	348,740	352,741
Ahli United Bank (Egypt) S.A.E. (AUBE)	54,509	58,073
Profit allocated to material non-controlling interest:		
Ahli United Bank K.S.C.P. (AUBK)	41,582	36,815
Ahli United Bank (Egypt) S.A.E. (AUBE)	10,951	8,821

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

	2018 US\$ '000	2017 US\$ '000
Ahli United Bank K.S.C.P. (AUBK)		
<i>Balance sheet related information of AUBK</i>		
Loans and advances	9,184,017	8,844,108
Non- trading investments	870,332	719,728
Total assets	12,853,150	12,131,348
Customers' deposits	10,280,576	9,793,292
Total liabilities	11,234,268	10,583,044
<i>Income statement related information of AUBK</i>		
Total operating income	401,327	397,779
Net profit attributable to shareholders	169,630	146,602
Total comprehensive income attributable to shareholders	166,973	144,924
Dividends paid to non-controlling interest	18,347	15,414
<i>Cash flow related information of AUBK</i>		
Net cash from operating activities	273,467	218,998
Net cash used in investing activities	(144,935)	(111,487)
Net cash used in financing activities	(83,493)	(72,716)
Ahli United Bank (Egypt) S.A.E. (AUBE)		
<i>Balance sheet related information of AUBE</i>		
Loans and advances	1,282,682	1,233,727
Non- trading investments	497,838	474,229
Total assets	2,875,519	2,652,834
Customers' deposits	2,374,326	2,159,354
Total liabilities	2,481,171	2,285,489
<i>Income statement related information of AUBE</i>		
Total operating income	141,178	133,707
Net profit attributable to shareholders	82,055	67,588
Dividends paid to non-controlling interest	3,945	-
<i>Cash flow related information of AUBE</i>		
Net cash from operating activities	465,115	182,750
Net cash used in investing activities	(51,277)	(240,809)
Net cash used in financing activities	(32,343)	(4,575)

40 COMPARATIVE INFORMATION

Certain corresponding figures for 2018 have been reclassified in order to conform to the presentation of financial statements for the current year. Such reclassifications do not affect previously reported net profit or shareholders' equity.