AHLI UNITED BANK B.S.C.

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 JUNE 2020

EY
Building a better working world

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

Tel: +973 1753 5455
Fax: +973 1753 5405
manama@bh.ey.com
C.R. No. 29977 - 1

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

Introduction

We have reviewed the accompanying interim condensed consolidated financial statements of Ahli United Bank B.S.C. (the "Bank") and its subsidiaries (the "Group") as at 30 June 2020, comprising of the interim condensed consolidated balance sheet as at 30 June 2020 and the related interim condensed consolidated statements of income, comprehensive income, cash flows and changes in equity for the six-month period then ended and explanatory notes. The Bank's Board of Directors is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Accounting Standard IAS 34 Interim Financial Reporting ("IAS 34"), as modified by the Central Bank of Bahrain ("the CBB") referred to under note 2.1 of the accompanying interim condensed consolidated financial statements. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of Review

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

Conclusion

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

Ernst + Young

13 August 2020
Manama, Kingdom of Bahrain

AHLI UNITED BANK B.S.C.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF INCOME

Six months ended 30 June 2020 (Reviewed)

		Six months ended 30 June	
		2020	*2019*
	Note	***USD'000***	*USD'000*
Interest income		**789,732**	935,790
Interest expense		**383,012**	445,601
Net interest income		**406,720**	490,189
Fees and commissions		**55,340**	63,949
Trading income		**24,451**	24,111
Investment income and others		**89,063**	51,837
Fees and other income		**168,854**	139,897
OPERATING INCOME		**575,574**	630,086
Provision for credit losses and others	6c	**82,382**	34,334
NET OPERATING INCOME		**493,192**	595,752
Staff costs		**95,195**	98,375
Depreciation		**16,754**	17,230
Other operating expenses		**45,504**	51,268
OPERATING EXPENSES		**157,453**	166,873
PROFIT BEFORE TAX AND ZAKAT		**335,739**	428,879
Tax expense and zakat		**21,376**	20,246
NET PROFIT FOR THE PERIOD		**314,363**	408,633
Net profit attributable to non-controlling interests		**20,924**	31,117
NET PROFIT ATTRIBUTABLE TO THE OWNERS OF THE BANK		**293,439**	377,516
EARNINGS PER SHARE ATTRIBUTABLE TO THE OWNERS OF THE BANK FOR THE PERIOD			
Basic and diluted earnings per ordinary share (US cents)	3	**2.9**	3.7

Meshal AbdulAziz Alothman	**Mohammad J. Al-Marzooq**	**Adel A. El-Labban**
Chairman	Deputy Chairman	Group Chief Executive Officer & Managing Director

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
Six months ended 30 June 2020 (Reviewed)

	Six months ended 30 June	
	2020	*2019*
	USD'000	*USD'000*
Net profit for the period	**314,363**	408,633
Other comprehensive income (OCI)		
Items that will not be reclassified subsequently to consolidated statement of income		
Net change in fair value of equity investments measured at fair value through OCI	**(848)**	1,843
Net change in pension fund reserve	**(2,388)**	4,883
Items that may be reclassified subsequently to consolidated statement of income		
Foreign currency translation adjustments	**(73,660)**	22,725
Net change in fair value of debt instruments held as fair value through OCI	**(38,761)**	12,293
Transfers to consolidated statement of income	**1,223**	1,085
Net change in fair value of cash flow hedges	**(28,829)**	(16,972)
Other comprehensive (loss) income for the period	**(143,263)**	25,857
Total comprehensive income for the period	**171,100**	434,490
Total comprehensive income attributable to non-controlling interests	**13,754**	36,522
Total comprehensive income attributable to owners of the Bank	**157,346**	397,968

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

AHLI UNITED BANK B.S.C.

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

30 June 2020 (Reviewed)

	Note	***30 June 2020***	*(Audited) 31 December 2019*
		US$ '000	*US$ '000*
ASSETS			
Cash and balances with central banks		**1,317,727**	1,366,978
Treasury bills and deposits with central banks		**1,956,995**	2,202,340
Deposits with banks		**3,812,135**	4,683,260
Loans and advances	6	**21,128,777**	20,742,360
Non-trading investments	7	**9,704,412**	9,133,881
Investment in associates		**297,646**	315,011
Investment properties		**179,346**	229,803
Interest receivable and other assets		**903,668**	823,714
Premises and equipment		**296,764**	295,549
Goodwill and other intangible assets		**481,363**	487,155
TOTAL ASSETS		**40,078,833**	40,280,051
LIABILITIES AND EQUITY			
LIABILITIES			
Deposits from banks		**5,391,174**	5,023,915
Borrowings under repurchase agreements		**3,940,383**	2,891,532
Customers' deposits		**23,905,196**	25,518,123
Interest payable and other liabilities		**1,901,699**	1,457,090
Subordinated liabilities		**9,534**	27,862
TOTAL LIABILITIES		**35,147,986**	34,918,522
EQUITY			
Ordinary share capital		**2,412,972**	2,193,611
Reserves		**1,445,986**	2,071,916
Equity attributable to the owners		**3,858,958**	4,265,527
Perpetual Tier 1 Capital Securities		**600,000**	600,000
Non-controlling interests		**471,889**	496,002
TOTAL EQUITY		**4,930,847**	5,361,529
TOTAL LIABILITIES AND EQUITY		**40,078,833**	40,280,051

Meshal AbdulAziz Alothman	**Mohammad J. Al-Marzooq**	**Adel A. El-Labban**
Chairman	Deputy Chairman	Group Chief Executive Officer & Managing Director

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

Six months ended 30 June 2020 (Reviewed)

	Six months ended 30 June	
	2020	*2019*
	US$ '000	*US$ '000*
OPERATING ACTIVITIES		
Profit before tax and zakat	**335,739**	428,879
Adjustments for:		
Depreciation	**16,754**	17,230
Investment income	**(44,672)**	(29,639)
Provision for credit losses and others	**82,382**	34,334
Fair value of Employee Share Purchase Plan (ESPP) charge	**-**	705
Share of profit from associates	**(38,290)**	(14,861)
Operating profit before changes in operating assets and liabilities	**351,913**	436,648
Changes in:		
Mandatory reserve deposits with central banks	**(5,945)**	84,560
Treasury bills and deposits with central banks	**(120,360)**	196,508
Deposits with banks	**506,530**	242,720
Loans and advances	**(561,513)**	(821,460)
Interest receivable and other assets	**(108,995)**	(96,442)
Deposits from banks	**367,259**	1,825,991
Borrowings under repurchase agreements	**1,048,851**	604,447
Customers' deposits	**(1,612,927)**	(80,462)
Interest payables and other liabilities	**17,908**	39,335
Cash (used in) / from operations	**(117,279)**	2,431,845
Income tax and zakat paid	**(19,564)**	(22,867)
Net cash (used in) / from operating activities	**(136,843)**	2,408,978
INVESTING ACTIVITIES		
Purchase of non-trading investments	**(1,401,189)**	(1,516,117)
Proceeds from sale or redemption of non-trading investments	**1,206,649**	944,720
Net decrease in investment properties	**50,737**	34,208
Net increase in premises and equipment	**(12,002)**	(21,820)
Dividends received from associates	**14,283**	13,603
Net cash used in investing activities	**(141,522)**	(545,406)
FINANCING ACTIVITIES		
Distribution on Perpetual Tier 1 Capital Securities	**(19,250)**	(19,250)
Movement in subsidiary	**143**	-
Repayment of subordinated liabilities	**(17,996)**	(165,012)
Dividends and other appropriations paid	**(428,547)**	(386,878)
Dividends paid to non-controlling interest	**(26,845)**	(29,716)
Capital increase due to Mandatory Share Plan (MSP) and ESPP shares	**-**	4,200
Net cash used in financing activities	**(492,495)**	(596,656)
NET (DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS	**(770,860)**	1,266,916
Net foreign exchange difference	**(14,635)**	13,415
Cash and cash equivalents at 1 January	**4,024,923**	3,088,964
CASH AND CASH EQUIVALENTS AT 30 JUNE	**3,239,428**	4,369,295
Cash and cash equivalents comprise:		
Cash and balances with central banks, excluding mandatory reserve deposits	**914,816**	1,058,022
Deposits with banks, central banks and treasury bills with an original maturity of three months or less	**2,324,612**	3,311,273
	3,239,428	4,369,295

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

Ahli United Bank B.S.C.

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Six months ended 30 June 2020 (Reviewed)

	Attributable to the owners											
			Reserves									
	Ordinary share capital US$ '000	***Treasury shares US$ '000***	***Share premium US$ '000***	***Statutory reserve US$ '000***	***Retained earnings US$ '000***	***Proposed appropriations US$ '000***	***Other reserves (note 8) US$ '000***	***Total reserves US$ '000***	***Equity attributable to the owners US$ '000***	***Perpetual Tier 1 Capital Securities US$ '000***	***Non-controlling interests US$ '000***	***Total US$ '000***
Balance at 1 January 2020	2,193,611	-	766,230	659,531	611,207	439,722	(404,774)	2,071,916	4,265,527	600,000	496,002	5,361,529
Donations	-	-	-	-	-	(1,000)	-	(1,000)	(1,000)	-	-	(1,000)
Bonus shares issued	219,361	-	-	-	(219,361)	-	-	(219,361)	-	-	-	-
Transfer from OCI reserve	-	-	-	-	(1,387)	-	-	(1,387)	(1,387)	-	2	(1,385)
Distribution related to Perpetual Tier 1 Capital Securities	-	-	-	-	(13,750)	-	-	(13,750)	(13,750)	-	-	(13,750)
Distribution related to Perpetual Tier 1 Sukuk	-	-	-	-	(4,120)	-	-	(4,120)	(4,120)	-	(1,380)	(5,500)
Ordinary share dividend	-	-	-	-	-	(438,722)	-	(438,722)	(438,722)	-	-	(438,722)
Net loss on loan contract modification (note 2.5)	-	-	-	-	(98,449)	-	-	(98,449)	(98,449)	-	(9,405)	(107,854)
Dividends of subsidiaries	-	-	-	-	-	-	-	-	-	-	(26,845)	(26,845)
Movement in associates	-	-	-	-	(4,455)	-	-	(4,455)	(4,455)	-	-	(4,455)
Movement in subsidiaries	-	-	(21)	-	(2,011)	-	-	(2,032)	(2,032)	-	(239)	(2,271)
Total comprehensive (loss) income for the period	-	-	-	-	293,439	-	(136,093)	157,346	157,346	-	13,754	171,100
Balance at 30 June 2020	**2,412,972**	**-**	**766,209**	**659,531**	**561,113**	**-**	**(540,867)**	**1,445,986**	**3,858,958**	**600,000**	**471,889**	**4,930,847**

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Six months ended 30 June 2020 (Reviewed)

	Attributable to the owners											
			Reserves									
	Ordinary share capital US$ '000	*Treasury shares US$ '000*	*Share premium US$ '000*	*Statutory reserve US$ '000*	*Retained earnings US$ '000*	*Proposed appropriations US$ '000*	*Other reserves (note 8) US$ '000*	*Total reserves US$ '000*	*Equity attributable to the owners US$ '000*	*Perpetual Tier 1 Capital Securities US$ '000*	*Non-controlling interests US$ '000*	*Total US$ '000*
Balance at 1 January 2019	1,992,541	(13,190)	763,660	586,481	634,672	399,838	(455,301)	1,929,350	3,908,701	600,000	463,307	4,972,008
Donations	-	-	-	-	-	(1,000)	-	(1,000)	(1,000)	-	-	(1,000)
Bonus shares issued	199,419	-	-	-	(199,419)	-	-	(199,419)	-	-	-	-
Additional shares issued	1,651	-	2,549	-	-	-	-	2,549	4,200	-	-	4,200
Transfer from OCI reserve	-	-	-	-	(3,415)	-	-	(3,415)	(3,415)	-	(1,005)	(4,420)
Distribution related to Perpetual Tier 1 Capital Securities	-	-	-	-	(13,750)	-	-	(13,750)	(13,750)	-	-	(13,750)
Distribution related to Perpetual Tier 1 Sukuk					(4,120)			(4,120)	(4,120)	-	(1,380)	(5,500)
Ordinary share dividend	-	-	-	-	1,082	(398,838)	-	(397,756)	(397,756)	-	-	(397,756)
Dividends of subsidiaries	-	-	-	-	-	-	-	-	-	-	(29,716)	(29,716)
Movement in associates					(1,705)	-	-	(1,705)	(1,705)	-	-	(1,705)
Fair value amortisation of share based transactions	-	-	-	-	-	-	705	705	705	-	-	705
Total comprehensive income for the period	-	-	-	-	377,516	-	20,452	397,968	397,968	-	36,522	434,490
Balance at 30 June 2019	2,193,611	(13,190)	766,209	586,481	790,861	-	(434,144)	1,709,407	3,889,828	600,000	467,728	4,957,556

1 CORPORATE INFORMATION

The parent company, Ahli United Bank B.S.C. ("AUB" or "the Bank") was incorporated in the Kingdom of Bahrain on 31 May 2000 originally as a closed company and changed on 12 July 2000 to a public shareholding company by Amiri Decree number 16/2000. The Bank and its subsidiaries (collectively known as "the Group") are engaged in retail, commercial, islamic and investment banking business, global fund management 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 it's 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 interim condensed consolidated financial statements of the Group for the six-month period ended 30 June 2020 were authorised for issue in accordance with a resolution of the Board of Directors dated 13 August 2020.

2 ACCOUNTING POLICIES

2.1 Basis of preparation

The interim condensed consolidated financial statements of the Group have been prepared in accordance with applicable rules and regulations issued by the Central Bank of Bahrain (“CBB”) including the recently issued CBB circulars on regulatory concessionary measures in response to COVID-19. These rules and regulations, in particular CBB circular OG/226/2020 dated 21 June 2020, require the adoption of all International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), except for:

(a) recognition of modification losses on financial assets arising from payment holidays provided to customers impacted by COVID-19 without charging additional interest, in equity instead of profit or loss as required by IFRS 9 Financial Instruments. Any other modification gain or loss on financial assets are recognised in accordance with the requirements of IFRS 9. Refer note 2.5 for further details; and

(b) recognition of financial assistance received from the government and/ or regulators in response to its COVID-19 support measures that meets the government grant requirement, in equity, instead of profit or loss. This will only be to the extent of any modification loss recorded in equity as a result of (a) above, and the balance amount to be recognized in profit or loss. Any other financial assistance is recognised in accordance with the requirements of IAS 20. Refer note 2.5 for further details.

The above framework forms the basis of preparation and presentation, of the interim condensed consolidated financial statements of the Group and is hereinafter referred to as ‘IFRS as modified by CBB’.

The interim condensed consolidated financial statements of the Group have been presented in condensed form in accordance with the guidance provided by International Accounting Standard 34 – ‘Interim Financial Reporting’, using the IFRS as modified by CBB framework. Hence, the framework used in the preparation of the condensed consolidated interim financial information of the Group is hereinafter referred to as ‘IAS 34 as modified by CBB’.

The accounting policies used in the preparation of annual audited consolidated financial statements of the Group for the year ended 31 December 2019 were in accordance with IFRS as issued by IASB. However, except for the above-mentioned modifications to accounting policies, all other accounting policies remain the same and have been consistently applied in these interim condensed consolidated financial statements. The change in accounting policies, as explained above, did not result in any change to the financial information reported for the comparative period.

2 ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

The interim condensed consolidated financial statements of the Group do not contain all information and disclosures required for the annual audited consolidated financial statements, and should be read in conjunction with the Group's annual audited consolidated financial statements for the year ended 31 December 2019. Further, results for the interim periods are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2020.

2.2 New standards and amendments effective for the period

The accounting policies used in the preparation of these interim condensed consolidated financial statements are consistent with those used in the preparation of the annual consolidated financial statements for the year ended 31 December 2019, except for following new and amended IAS / IFRS as of 1 January 2020 and as mentioned in note 2.5 below. The adoption of the below new standards and amendments did not result in changes to previously reported net profit or equity of the Group.

- Definition of Material – Amendments to IAS 1 and IAS 8 effective from 1 January 2020.
- Definition of a Business – Amendments to IFRS 3 effective from 1 January 2020.
- Amendments to References to Conceptual Framework in IFRS Standards effective from 1 January 2020.
- Interest Rate Benchmark Reform (Amendments to IFRS 9 and IFRS 7) - effective for annual periods beginning on or after 1 January 2020.

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

2.3 New standard issued but not yet effective

IFRS 17 Insurance Contracts is effective from 1 January 2023. The Group is currently evaluating the impact of this new standard. The Group intends to adopt this new standard on the effective date.

2.4 Estimates and judgments

COVID-19 pandemic has severely impacted various economies globally, causing disruption to business and economic activities and resulting in significant uncertainties in the operating environment. Global financial markets have also experienced enhanced levels of volatility. Governments and central banks have responded with monetary and fiscal interventions to stabilize economic conditions.

Meanwhile, in H1 2020, oil prices have witnessed unprecedented volatility and the reduction in prices is expected to have medium to long term adverse consequences on these economies.

In preparing these interim condensed consolidated financial statements, significant judgments were made by the management in applying the Group's accounting policies. While the key performance metrics are subject to current economic volatility, these are considered to represent management's best assessment based on available or observable information.

The Bank has performed an assessment of the relevant macro-economic information based on the available guidance of regulators and IFRS, which has resulted in changes to the expected credit loss methodology and valuation estimates and judgments as at and for the period ended 30 June 2020.

2 ACCOUNTING POLICIES (continued)

2.4 Estimates and judgments (continued)

Accordingly, the Group has updated inputs and assumptions used for the determination of expected credit losses ("ECLs") in response to uncertainties caused by COVID 19 and oil prices volatility. Under IFRS 9, financial assets are required to be moved from Stage 1 to Stage 2 if and only if they have been the subject of a significant increase in credit risk (SICR) since origination. A SICR occurs when there has been a significant increase in the risk of a default occurring over the expected life of a financial instrument. The Group continues to assess borrowers for other indicators of unlikeliness to pay, taking into consideration the underlying cause of any financial difficulty and whether it is likely to be temporary as a result of Covid-19 or longer term. ECLs were estimated based on a range of forecast economic conditions as at that date.

Considering that the situation is evolving, the Group has considered the impact of higher volatility in the forward-looking macro-economic factors, when determining the severity and likelihood of economic scenarios for ECL determination. This volatility has been reflected through adjustments in the established regression relationships. Management overlays may be applied to the model outputs if consistent with the objective of a significant increase in the credit risk. Furthermore, the Group continues to closely monitor the potential repayment risk impact of COVID-19 on affected industry sectors.

2.5 Accounting for modification loss and government grants

During the current period, based on a regulatory directive issued by the CBB (refer note 2.1) as concessionary measures to mitigate the impact of COVID-19, the one-off modification losses amounting to US$ 104.9 million arising from the 6-month payment holidays provided to financing customers without charging additional interest has been recognized directly in equity. The modification loss has been calculated as the difference between the net present value of the modified cash flows relating to financing exposures amounting to US$ 4.3 billion calculated using the original effective interest rate and the current carrying value of the financial assets on the date of modification.

Further, as per the regulatory directive financial assistance amounting to US$ 6.5 million (representing specified reimbursement of a portion of staff costs and waiver of levies and utility charges) received from the government, in response to its COVID-19 support measures, has been recognized directly in equity under retained earnings.

The net impact of above two adjustments amounting to US$ 98.4 million has been debited to retained earnings.

3 EARNINGS PER ORDINARY SHARE

	Six months ended 30 June	
	2020	*2019*
	US$ '000	*US$ '000*
Net profit for the period attributable to Bank's ordinary equity shareholders for basic and diluted earnings per share computation	**293,439**	377,516
Perpetual Tier 1 Capital Securities distribution	**(13,750)**	(13,750)
Perpetual Tier 1 Sukuk distribution	**(4,120)**	(4,120)
Adjusted net profit for the period attributable to Bank's ordinary equity shareholders for basic and diluted earnings per share computation	**275,569**	359,646
Weighted average ordinary shares outstanding during the period adjusted for bonus shares (in millions)	**9,652**	9,623
Basic and diluted earnings per ordinary share (US cents)	**2.9**	3.7
Issued and fully paid ordinary shares of US$ 0.25 each (in millions)	**9,651.9**	8,774.4
Number of treasury shares (in millions)	**-**	23.8

4 CONTINGENT LIABILITIES

The Group had the following credit related contingent liabilities:

		(Audited)
	30 June 2020	*31 December 2019*
	US$ '000	*US$ '000*
Guarantees	**2,552,052**	2,671,283
Acceptances	**157,842**	177,977
Letters of credit	**352,612**	381,452
	3,062,506	3,230,712

5 SEGMENT INFORMATION

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

- Retail banking
- Corporate banking
- Treasury and investments
- Private banking

Transactions between segments are conducted at estimated market rates on an arm's length basis. Interest is charged/credited to business segments based on a pool rate, which approximates the cost of funds.

5 SEGMENT INFORMATION (continued)

Segmental information for the period was as follows:

	Retail banking	*Corporate banking*	*Treasury and investments*	*Private banking*	*Total*
	US$ '000	*US$ '000*	*US$ '000*	*US$ '000*	*US$ '000*
Six months ended 30 June 2020:					
Net interest income	**108,212**	**156,965**	**113,509**	**28,034**	**406,720**
Fees and commissions	**13,605**	**32,085**	**2,141**	**7,509**	**55,340**
Trading, investment income and others	**820**	**7,034**	**105,546**	**114**	**113,514**
OPERATING INCOME	**122,637**	**196,084**	**221,196**	**35,657**	**575,574**
Provision for credit losses and others	**5,824**	**66,539**	**6,819**	**3,200**	**82,382**
NET OPERATING INCOME	**116,813**	**129,545**	**214,377**	**32,457**	**493,192**
Operating expenses	**57,333**	**40,092**	**44,438**	**15,590**	**157,453**
PROFIT BEFORE TAX AND ZAKAT	**59,480**	**89,453**	**169,939**	**16,867**	**335,739**
Tax expense and zakat					**21,376**
NET PROFIT FOR THE PERIOD					**314,363**
Less : Attributable to non-controlling interests					**20,924**
NET PROFIT ATTRIBUTABLE TO THE OWNERS OF THE BANK					**293,439**
Inter segment interest included in net interest income above	**121,860**	**(172,069)**	**33,625**	**16,584**	**-**

	Retail banking	*Corporate banking*	*Treasury and investments*	*Private banking*	*Total*
	US$ '000	*US$ '000*	*US$ '000*	*US$ '000*	*US$ '000*
Six months ended 30 June 2019:					
Net interest income	100,137	220,694	129,445	39,913	490,189
Fees and commissions	17,942	34,343	1,290	10,374	63,949
Trading, investment income and others	1,774	8,647	65,462	65	75,948
OPERATING INCOME	119,853	263,684	196,197	50,352	630,086
Provision for credit losses and others	3,606	33,170	(2,350)	(92)	34,334
NET OPERATING INCOME	116,247	230,514	198,547	50,444	595,752
Operating expenses	59,389	41,909	48,832	16,743	166,873
PROFIT BEFORE TAX AND ZAKAT	56,858	188,605	149,715	33,701	428,879
Tax expense and zakat					20,246
NET PROFIT FOR THE PERIOD					408,633
Less : Attributable to non-controlling interests					31,117
NET PROFIT ATTRIBUTABLE TO THE OWNERS OF THE BANK					377,516
Inter segment interest included in net interest income above	143,124	(201,231)	33,204	24,903	-

6 LOANS AND ADVANCES

a) Carrying amount of loans and advances

	30 June 2020			
	Stage 1	***Stage 2***	***Stage 3***	***Total***
	US$ '000	***US$ '000***	***US$ '000***	***US$ '000***
High standard grade	**12,847,416**	**626,748**	**-**	**13,474,164**
Standard grade	**5,914,502**	**2,109,103**	**-**	**8,023,605**
Impaired	**-**	**-**	**467,442**	**467,442**
	18,761,918	**2,735,851**	**467,442**	**21,965,211**
Less: ECL allowances	**(150,238)**	**(304,000)**	**(382,196)**	**(836,434)**
	18,611,680	**2,431,851**	**85,246**	**21,128,777**

	31 December 2019			
	Stage 1	*Stage 2*	*Stage 3*	*Total*
	US$ '000	*US$ '000*	*US$ '000*	*US$ '000*
High standard grade	12,785,732	551,664	-	13,337,396
Standard grade	5,553,570	2,206,367	-	7,759,937
Impaired	-	-	414,791	414,791
	18,339,302	2,758,031	414,791	21,512,124
Less: ECL allowances	(100,805)	(312,454)	(356,505)	(769,764)
	18,238,497	2,445,577	58,286	20,742,360

b) ECL allowance movements of loans and advances

	2020			
	Stage 1	***Stage 2***	***Stage 3***	***Total***
	US$ '000	***US$ '000***	***US$ '000***	***US$ '000***
At 1 January 2020	**100,805**	**312,454**	**356,505**	**769,764**
Transfer from Stage 1	**(1,978)**	**865**	**1,113**	**-**
Transfer from Stage 2	**1,217**	**(13,648)**	**12,431**	**-**
Net remeasurement of ECL allowances for the period	**50,494**	**7,025**	**18,007**	**75,526**
Amounts written-off during the period	**-**	**-**	**(4,223)**	**(4,223)**
Exchange rate and other adjustments	**(300)**	**(2,696)**	**(1,637)**	**(4,633)**
At 30 June 2020	**150,238**	**304,000**	**382,196**	**836,434**

6 LOANS AND ADVANCES (continued)

b) ECL allowance movements of loans and advances (continued)

	2019			
	Stage 1	*Stage 2*	*Stage 3*	*Total*
	US$ '000	*US$ '000*	*US$ '000*	*US$ '000*
At 1 January 2019	125,066	365,332	324,848	815,246
Transfer from Stage 1	(4,819)	3,331	1,488	-
Transfer from Stage 2	-	(79,811)	79,811	-
Net remeasurement of ECL allowances for the period	(5,182)	20,160	21,497	36,475
Amounts written-off during the period	-	-	(80,919)	(80,919)
Exchange rate and other adjustments	(53)	1,692	3,587	5,226
At 30 June 2019	115,012	310,704	350,312	776,028

c) Provision for credit losses and others

	Six months ended 30 June	
	2020	*2019*
	US$ '000	*US$ '000*
Net remeasurement of ECL on loans and advances (note 6 b)	**75,526**	36,475
Recoveries from loans and advances during the period (from fully provided loans written-off in previous years)	**(8,304)**	(13,308)
Net remeasurement of ECL for non-trading investments (note 7 b)	**6,819**	(2,350)
Net remeasurement of ECL on off-balance sheet exposures and others	**8,341**	13,517
	82,382	34,334

7 NON-TRADING INVESTMENTS

a) Credit quality of non-trading investments

	30 June 2020			
	Stage 1	***Stage 2***	***Stage 3***	***Total***
	US$ '000	***US$ '000***	***US$ '000***	***US$ '000***
High standard grade	**6,588,446**	**-**	**-**	**6,588,446**
Standard grade	**2,438,972**	**500,875**	**-**	**2,939,847**
	9,027,418	**500,875**	**-**	**9,528,293**
Less: ECL allowances	**(13,597)**	**(4,288)**	**-**	**(17,885)**
Equity instruments at fair value	**-**	**-**	**-**	**194,004**
	9,013,821	**496,587**	**-**	**9,704,412**

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

Equity instruments held at fair value include investments amounting to US$ 85.0 million (31 December 2019: US$ 118.4 million) which are designated as FVTPL. Income from FVTPL investments for the period amounted to US$ 22.2 million (30 June 2019: US$ 16.0 million).

7 NON-TRADING INVESTMENTS (continued)

b) Movement in ECL allowances

	2020			
	Stage 1	***Stage 2***	***Stage 3***	***Total***
	US$ '000	***US$ '000***	***US$ '000***	***US$ '000***
At 1 January 2020	**9,407**	**1,733**	**-**	**11,140**
Transfer from Stage 1	**-**	**-**	**-**	**-**
Net remeasurement of ECL allowances for the period (note 6 c)	**4,299**	**2,520**	**-**	**6,819**
Exchange rate and other adjustments	**(109)**	**35**	**-**	**(74)**
At 30 June 2020	**13,597**	**4,288**	**-**	**17,885**

	2019			
	Stage 1	*Stage 2*	*Stage 3*	*Total*
	US$ '000	*US$ '000*	*US$ '000*	*US$ '000*
At 1 January 2019	9,729	3,722	-	13,451
Transfer from Stage 1	(127)	127	-	-
Net remeasurement of ECL allowances for the period (note 6 c)	(1,022)	(1,328)	-	(2,350)
Exchange rate and other adjustments	(21)	-	-	(21)
At 30 June 2019	8,559	2,521	-	11,080

8 MOVEMENT IN OTHER RESERVES

	Capital reserve	***Property revaluation reserve***	***Foreign exchange translation reserve***	***Cumulative changes in OCI reserve***	***Cumulative changes in Cash flow hedge reserve***	***Cumulative changes in ESPP reserve***	***Cumulative changes in Pension fund reserve***	***Total other reserves***
	US$ '000	***US$ '000***	***US$ '000***	***US$ '000***	***US$ '000***	***US$ '000***	***US$ '000***	***US$ '000***
Balance at 1 January 2020	**17,240**	**35,395**	**(402,456)**	**21,331**	**(37,137)**	**-**	**(39,147)**	**(404,774)**
Currency translation adjustments	**-**	**(4)**	**(67,047)**	**-**	**-**	**-**	**-**	**(67,051)**
Transfers to consolidated statement of income	**-**	**-**	**-**	**1,223**	**(66)**	**-**	**-**	**1,157**
Net fair value movements	**-**	**-**	**-**	**(40,435)**	**(28,763)**	**-**	**-**	**(69,198)**
Transfers to retained earnings	**-**	**-**	**-**	**1,387**	**-**	**-**	**-**	**1,387**
Fair value movements and others	**-**	**-**	**-**	**-**	**-**	**-**	**(2,388)**	**(2,388)**
Balance at 30 June 2020	**17,240**	**35,391**	**(469,503)**	**(16,494)**	**(65,966)**	**-**	**(41,535)**	**(540,867)**

	Capital reserve	*Property revaluation reserve*	*Foreign exchange translation reserve*	*Cumulative changes in OCI reserve*	*Cumulative changes in Cash flow hedge reserve*	*Cumulative changes in ESPP reserve*	*Cumulative changes in Pension fund reserve*	*Total other reserves*
	US$ '000	*US$ '000*	*US$ '000*	*US$ '000*	*US$ '000*	*US$ '000*	*US$ '000*	*US$ '000*
Balance at 1 January 2019	8,480	35,225	(435,370)	3,639	(17,021)	-	(50,254)	(455,301)
Currency translation adjustments	-	-	18,034	-	-	-	-	18,034
Transfers to consolidated statement of income	-	-	-	1,085	(446)	-	-	639
Net fair value movements	-	-	-	10,007	(16,526)	-	-	(6,519)
Transfers to retained earnings	-	-	-	3,415	-	-	-	3,415
Fair value movements and others	-	-	-	-	-	705	4,883	5,588
Balance at 30 June 2019	8,480	35,225	(417,336)	18,146	(33,993)	705	(45,371)	(434,144)

9 FAIR VALUE MEASUREMENT

The fair value of financial assets and financial liabilities, with the exception of non-trading investments that are carried at amortised cost, approximate their carrying values. The fair value of the non-trading investments held at amortised cost is US$ 8,022.2 million as at 30 June 2020 (31 December 2019: US$ 7,876.4 million). Carrying value of these non-trading investments is US$ 8,451.3 million as at 30 June 2020 (31 December 2019: US$ 7,711.3 million).

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

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

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

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

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

	30 June 2020			
	Level 1	***Level 2***	***Level 3***	***Total***
	US$ '000	***US$ '000***	***US$ '000***	***US$ '000***
Equity instruments at fair value	**80,167**	**74,615**	**39,222**	**194,004**
Debt instruments (FVTOCI)	**1,017,527**	**41,572**	**-**	**1,059,099**
Derivative assets	**-**	**192,773**	**-**	**192,773**
Derivative liabilities	**-**	**1,017,479**	**-**	**1,017,479**

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

During the six months period ended 30 June 2020 and 30 June 2019, there have been no transfers between Levels 1, 2 and 3.

10 RELATED PARTY TRANSACTIONS

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

Details of transactions and the period end balances, other than those which have been disclosed elsewhere in these interim condensed consolidated financial statements, were as follows:

	2020					
				Senior management		
	Major shareholders US$ '000	***Associates US$ '000***	***Non Executive Directors US$ '000***	***Management Directors US$ '000***	***Others US$ '000***	***Total US$ '000***
For the six months ended 30 June 2020						
Interest income	**-**	**111**	**3,428**	**46**	**3**	**3,588**
Interest expense	**63,960**	**356**	**43**	**39**	**6**	**64,404**
Fees and commissions	**467**	**692**	**468**	**7**	**1**	**1,635**
Short term employee benefits	**-**	**-**	**-**	**6,242**	**1,342**	**7,584**
End of service benefits	**-**	**-**	**-**	**1,156**	**90**	**1,246**
Directors' fees and related expenses	**-**	**-**	**1,115**	**-**	**-**	**1,115**
As of 30 June 2020						
Deposits with banks	**-**	**14,258**	**-**	**-**	**-**	**14,258**
Loans and advances	**-**	**-**	**146,719**	**1,232**	**136**	**148,087**
Deposits from banks	**-**	**32,223**	**-**	**-**	**-**	**32,223**
Customers' deposits	**4,897,032**	**-**	**21,969**	**7,023**	**526**	**4,926,550**
Subordinated liabilities	**9,535**	**-**	**-**	**-**	**-**	**9,535**
Commitments and contingent liabilities	**-**	**31,694**	**87,750**	**-**	**-**	**119,444**
Derivative assets	**-**	**10,856**	**-**	**-**	**-**	**10,856**

	2019					
				Senior management		
	Major shareholders US$ '000	*Associates US$ '000*	*Non Executive Directors US$ '000*	*Management Directors US$ '000*	*Others US$ '000*	*Total US$ '000*
For the six months ended 30 June 2019						
Interest income	-	1,931	3,749	89	14	5,783
Interest expense	93,487	769	920	24	11	95,211
Fees and commissions	-	1,606	246	3	2	1,857
Short term employee benefits	-	-	-	5,874	1,623	7,497
End of service benefits	-	-	-	920	93	1,013
Directors' fees and related expenses	-	-	1,274	-	-	1,274
As of 31 December 2019						
Deposits with banks	-	13,432	-	-	-	13,432
Loans and advances	-	-	184,307	3,111	581	187,999
Deposits from banks	-	93,363	-	-	-	93,363
Customers' deposits	6,769,750	-	21,934	7,196	1,815	6,800,695
Subordinated liabilities	9,866	-	-	-	-	9,866
Commitments and contingent liabilities	-	29,936	153,666	-	-	183,602

11 NET STABLE FUNDING RATIO (NSFR)

The NSFR ratio is calculated in accordance with the Liquidity Risk Management Module guidelines, issued by the Central Bank of Bahrain. The minimum NSFR ratio limit as per CBB is 100%. However, as per CBB circular OG/106/2020 dated 17 March 2020, the limit is reduced to 80% for a period of six months, to contain the financial repercussions of COVID-19. The Group's consolidated NSFR ratio as of 30 June 2020 is 106.0% (31 December 2019: 117.0%).

	30 June 2020	*(Audited) 31 December 2019*
	US$ '000	*US$ '000*
Available Stable Funding :		
Regulatory capital	**5,344,444**	5,579,449
Stable deposits	**5,993,419**	5,745,209
Wholesale funding	**11,286,585**	13,085,627
Others	**323,461**	515,344
Total Available Stable Funding (A)	**22,947,909**	24,925,629
Required Stable Funding :		
High-quality liquid assets (HQLA)	**1,745,629**	1,768,970
Performing loans	**14,039,042**	14,247,078
Securities (other than HQLA)	**2,667,183**	2,421,235
Derivative contracts	**590,651**	309,961
Others	**2,234,259**	2,237,933
Off-Balance sheet items	**371,150**	326,416
Total Required Stable Funding (B)	**21,647,914**	21,311,593
NSFR (%) (A/B)	**106.0%**	117.0%

12 TRANSACTION WITH KUWAIT FINANCE HOUSE K.S.C.P. (KFH)

The shareholders of Kuwait Finance House K.S.C.P (KFH) in its AGM/EGM held on 20 January 2020 approved the pursuit of the acquisition of Ahli United Bank B.S.C.("AUB"/"Bank") through a firm voluntary conditional offer to acquire 100% of the issued and paid up shares of the Bank by way of a share swap at the exchange ratio of 2.325581 AUB shares for each KFH share following approval by the Bank's Board of Directors on 12 September 2019. The KFH approval was conditional on securing a minimum 85% acceptance rate for its tender offer and the proposed acquisition remains subject to conditions precedent and all relevant regulatory and shareholder approvals.

Given the prevailing unprecedented circumstances relating to the COVID-19 pandemic, the AUB Board of Directors, in consultation with KFH, and after KFH having obtained the Central Bank of Bahrain's approval of the postponement of the acquisition procedures until December 2020, has approved the suspension of the acquisition procedures in both the State of Kuwait and the Kingdom of Bahrain until December 2020.

(The attached financial information do not form part of the interim condensed consolidated financial statements)

البنك الأهلي المتحد
ahli united bank

Ahli United Bank B.S.C.

Supplementary Public Disclosure- Financial Impact of COVID-19 for H1/2020

As part of the objective to maintain enhanced transparency amidst the current implications of Coronavirus (COVID-19) and pursuant to the Central Bank of Bahrain (CBB) instructions under circular: OG/259/2020 dated 14 July 2020, the AUB Group herein provides additional supplementary information pertaining to the financial impact of COVID-19 on its interim condensed consolidated financial statements for H1/2020.

The COVID-19 pandemic has severely impacted the global economy, causing wide spread disruption to business and economic activities resulting in significant uncertainties in the operating environment. Global financial markets have also experienced very high levels of volatility. Various governments and central banks have responded with monetary and fiscal interventions to stabilize economic and market conditions. The impact on regional economies was further exacerbated by the collapse in oil and gas prices in the first half of 2020.

During H1/2020, the Central Banks of Bahrain and Kuwait provided six months' payment holidays without interest to eligible borrowers impacted by COVID-19. The resultant one-off modification loss, expressed as the difference between the net present value of the modified cash flows calculated using the original effective interest rate and the carrying value of the financial assets on the date of modification, amounted to US$ 104.9 million for the AUB Group.

The Bahrain government also provided grants as part of its relief measures in the form of coverage of 3 months' salaries for AUB Bahraini staff (US$ 6.2 million) and waiver of levies and electricity charges for 3 months (US$ 0.3 million).

The CBB's instruction, as per its circular OG/226/2020 dated 21 June 2020, required the full modification loss amount, net of any related financial support received from governments and/or regulators, to be debited to shareholders' equity. Accordingly, the net impact of the two above adjustments, amounting to US$ 98.4 million, was debited to retained earnings.

The table below summarises the overall financial impact of the above for H1/2020:

	Net Impact on (In US$ millions)		
Overall Impact on Interim Condensed Consolidated Financial Statements	**Group's Condensed Consolidated Statement of Income**	**Group's Condensed Consolidated Balance Sheet (Assets)**	**Group's Equity attributable to Owners**
Modification loss	-	(104.9)	(104.9)
Government grants	-	-	6.5

Pursuant to the Covid-19 pandemic outbreak, funding conditions tightened both regionally and globally and a risk premia consequently rose on repos as well as other sources of client and inter-bank deposits with a consequential negative impact on the cost of funds. The US and other regulators' responses to this crisis with stimulus packages including significant cuts to benchmark interest rates further adversely impacted the interest rates achieved by the bank in its deployment of funds. The combined impact of these factors resulted in a lower NII by US$ 83.5 million (-17.0%), reducing the overall AUB Group NPAT for H1/2020.

The overall contraction in economic activity also resulted in a drop in Fees and Commissions by US$ 8.6 million (-13.5%) which was compensated by an increase in investment income & others by US$ 37.3 million.

Incremental Stage 1 and Stage 2 ECL gross provision charges of US$ 64.3 million were taken on performing risk assets as a precautionary measure in accordance with IFRS 9 during H1/2020 taking into consideration the direction of macro-economic variables and assessed management overlays to cover any inherent Significant Increase in Credit Risk (SICR) in specific sectors and in the overall portfolio given the uncertain and evolving impact of the COVID-19 pandemic.

As a result, AUB Group reported a net profit attributable to its equity shareholders of US$ 293.4 million for the six months ended 30 June 2020, representing a decrease of 22.3%, as compared to US$ 377.5 million achieved in H1/2019.

Other Comprehensive Loss for H1/2020 was US$ 143.3 million as compared to Other Comprehensive income of US$ 25.9 million in H1/2019 mainly due to:

- Foreign currency translation loss movement relating to strategic investments of (-) US$ 73.7 million;
- Reduction in market value of hedges due to fluctuations in interest rate by (-) US$ 28.8 million;
- Reduction in market value of Debt and Equity investments classified as Fair Value through Other Comprehensive Income FVOCI by (-) US $ 39.6 million.

The above movements are temporary and variable in nature and unrealized.

The AUB Group also made total donations amounting to US$ 4.7 million in the region to support humanitarian and relief efforts in the wake of COVID-19 pandemic.

In order to ensure the health and safety of the AUB customers and staff during the COVID-19 pandemic period, major changes to infrastructure in all group-wide offices and branches were made to facilitate implementation of social distancing norms, precautionary equipment and materials as well as health support / advices were provided to customers and staff, periodic disinfection of office and branch premises were and continue to be undertaken in compliance with respective governmental guidelines and regulations. Additional expenditure incurred for the six months ended 30 June 2020 for these exceptional measures was US$ 1.3 million.

The Group has also invested in its operational and technical capabilities to provide easy continuous access to its clients to securely conduct their business needs on a remote basis as well as to enhance the ability and training of its staff to handle their responsibilities from remote locations in a controlled manner as required by pandemic conditions.

The above supplementary information should not be considered as an indication of the results of the entire year 2020 or relied upon for any other purposes. Since the COVID-19 situation is uncertain and its consequences are still evolving, its impact on the financial results of the bank is presented as assessed on the date of preparation of this information. Circumstances may change which may result in this information becoming out of date or requiring appropriate modification. It is also important to note that this information has not been subject to a review by the external auditors and does not form part of the reviewed interim condensed consolidated financial statements for H1/2020.