

AHLI UNITED BANK B.S.C. (c)
INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS
30 JUNE 2023

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

Introduction

We have reviewed the accompanying interim condensed consolidated financial statements of Ahli United Bank B.S.C. (c) (the "Bank") and its subsidiaries (collectively the "Group") as at 30 June 2023, comprising of the interim condensed consolidated balance sheet as at 30 June 2023 and the related interim condensed consolidated statements of income, comprehensive income for the three month period and six month period then ended, and the interim condensed consolidated statement of 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"). 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.



13 August 2023
Manama, Kingdom of Bahrain

AHLI UNITED BANK B.S.C. (c)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF INCOME

Six months ended 30 June 2023 (Reviewed)

	<i>Note</i>	<i>Three months ended</i>		<i>Six months ended</i>	
		<i>30 June</i>		<i>30 June</i>	
		<i>2023</i>	<i>2022</i>	<i>2023</i>	<i>2022</i>
		<i>USD'000</i>	<i>USD'000</i>	<i>USD'000</i>	<i>USD'000</i>
Interest income		626,947	376,273	1,222,071	717,251
Interest expense		379,844	157,632	738,063	286,519
Net interest income		247,103	218,641	484,008	430,732
Fees and commissions - net		26,505	27,337	58,970	54,772
Trading income		11,974	9,015	15,139	19,139
Investment and other income		23,927	37,883	106,984	98,884
Fees and other income		62,406	74,235	181,093	172,795
OPERATING INCOME		309,509	292,876	665,101	603,527
Provision for credit losses and others	6c	5,603	19,202	34,237	52,785
NET OPERATING INCOME		303,906	273,674	630,864	550,742
Staff costs		49,456	43,729	100,629	89,558
Depreciation		8,795	8,444	17,712	17,241
Other operating expenses		38,630	30,869	77,762	63,409
OPERATING EXPENSES		96,881	83,042	196,103	170,208
PROFIT BEFORE TAX AND ZAKAT		207,025	190,632	434,761	380,534
Tax expense and zakat		16,154	12,373	33,443	20,290
NET PROFIT FOR THE PERIOD		190,871	178,259	401,318	360,244
Net profit attributable to non-controlling interests		8,760	8,292	18,809	19,340
NET PROFIT ATTRIBUTABLE TO THE OWNERS OF THE BANK		182,111	169,967	382,509	340,904
EARNINGS PER SHARE ATTRIBUTABLE TO THE OWNERS OF THE BANK FOR THE PERIOD:					
Basic and diluted earnings per ordinary share (US cents)	3	1.5	1.3	3.2	2.9

Hamad Al-Marzouq
Chairman

Adel A. El-Labban
Deputy Chairman

Ahmed AlKharji
Group Chief Executive Officer

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

AHLI UNITED BANK B.S.C. (c)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Six months ended 30 June 2023 (Reviewed)

	<i>Three months ended</i>		<i>Six months ended</i>	
	<i>30 June</i>		<i>30 June</i>	
	<i>2023</i>	<i>2022</i>	<i>2023</i>	<i>2022</i>
	<i>USD'000</i>	<i>USD'000</i>	<i>USD'000</i>	<i>USD'000</i>
Net profit for the period	190,871	178,259	401,318	360,244
<i>Other Comprehensive Income (OCI)</i>				
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	3,433	(1,424)	1,822	3,382
Net change in pension fund reserve	(19,429)	(4,018)	(19,206)	(5,592)
Items that may be reclassified subsequently to consolidated statement of income				
Foreign currency translation adjustments	6,165	(40,405)	(75,015)	(145,610)
Net change in fair value of debt instruments held as fair value through OCI	20,336	(27,407)	9,397	(55,134)
Transfers to consolidated statement of income arising on sale of debt instruments	466	(1,167)	(7,355)	(1,967)
Net change in fair value of cash flow hedges	(200)	13,255	(324)	32,291
Other comprehensive income/(loss) for the period	10,771	(61,166)	(90,681)	(172,630)
Total comprehensive income for the period	201,642	117,093	310,637	187,614
Total comprehensive income attributable to non-controlling interests	8,345	3,830	18,339	8,742
Total comprehensive income attributable to the owners of the Bank	193,297	113,263	292,298	178,872

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

AHLI UNITED BANK B.S.C. (c)

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

30 June 2023 (Reviewed)

		<i>(Reviewed)</i> 30 June 2023	<i>(Audited)</i> 31 December 2022
	<i>Note</i>	US\$ '000	US\$ '000
ASSETS			
Cash and balances with central banks		1,505,969	1,643,192
Treasury bills and deposits with central banks		2,792,628	2,340,304
Deposits with banks		2,670,270	3,467,846
Loans and advances	6	21,404,179	21,221,325
Non-trading investments	7	9,495,189	9,955,597
Investment in associates		351,889	350,958
Investment properties		199,874	189,065
Interest receivable, derivative and other assets		1,383,664	1,557,338
Premises and equipment		327,559	325,302
Goodwill and other intangible assets		500,653	510,045
TOTAL ASSETS		40,631,874	41,560,972
LIABILITIES AND EQUITY			
LIABILITIES			
Deposits from banks		3,385,984	4,077,229
Borrowings under repurchase agreements		3,675,266	4,359,845
Customers' deposits		24,897,732	24,393,349
Term borrowings		1,681,670	1,778,323
Interest payable, derivative and other liabilities		1,177,236	1,113,365
Subordinated liabilities		-	9,462
TOTAL LIABILITIES		34,817,888	35,731,573
EQUITY			
Ordinary share capital		2,786,983	2,786,983
Reserves		1,574,657	1,588,521
Equity attributable to the owner of the Bank		4,361,640	4,375,504
Perpetual Tier 1 Capital Securities		1,000,000	1,000,000
Non-controlling interests		452,346	453,895
TOTAL EQUITY		5,813,986	5,829,399
TOTAL LIABILITIES AND EQUITY		40,631,874	41,560,972

Hamad Al-Marzouq
Chairman

Adel A. El-Labban
Deputy Chairman

Ahmed AlKharji
Group Chief Executive Officer

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

Six months ended 30 June 2023 (Reviewed)

	<i>Six months ended</i>	
	30 June	
	2023	2022
	US\$ '000	US\$ '000
OPERATING ACTIVITIES		
Profit before tax and zakat	434,761	380,534
Adjustments for:		
Depreciation	17,712	17,241
Investment and other income	(43,180)	(47,518)
Provision for credit losses and others	34,237	52,785
Share of profit from associates	(20,968)	(16,745)
Operating profit before changes in operating assets and liabilities	422,562	386,297
Changes in:		
Mandatory reserve deposits with central banks	(400,891)	(39,426)
Treasury bills and deposits with central banks	444,478	(42,267)
Deposits with banks	196,214	(472,211)
Loans and advances	(240,182)	52,293
Interest receivable, derivatives and other assets	173,674	(18,254)
Deposits from banks	(691,245)	(209,341)
Borrowings under repurchase agreements	(684,579)	411,232
Customers' deposits	504,383	2,231,804
Interest payables, derivatives and other liabilities	(725)	22,234
Net cash flows (used in) / generated from operations	(276,311)	2,322,361
Income tax and zakat paid	(16,427)	(20,818)
Net cash flows (used in) / generated from operating activities	(292,738)	2,301,543
INVESTING ACTIVITIES		
Purchase of non-trading investments	(1,705,366)	(2,135,684)
Proceeds from sale or redemption of non-trading investments	2,281,142	1,721,311
Sale of investment in subsidiary	990	-
Net decrease in investment properties	677	-
Net increase in premises and equipment	(19,969)	(21,504)
Dividends received from associates	15,952	13,293
Net cash flows generated from / (used in) from investing activities	573,426	(422,584)
FINANCING ACTIVITIES		
Distribution on Perpetual Tier 1 Capital Securities	(23,308)	(23,303)
Repayment of term debts	(100,000)	-
Repayment of subordinated liabilities	(9,462)	-
Dividends and other appropriations paid	(278,698)	(304,034)
Dividends paid to non-controlling interests	(17,954)	(8,837)
Net cash flows used in financing activities	(429,422)	(336,174)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(148,734)	1,542,785
Net foreign exchange difference	(51,780)	(22,039)
Cash and cash equivalents at 1 January	3,629,090	2,609,526
CASH AND CASH EQUIVALENTS AT 30 June	3,428,576	4,130,272
<i>Cash and cash equivalents comprise:</i>		
Cash and balances with central banks, excluding mandatory reserve deposits	543,401	635,159
Deposits with banks, central banks and treasury bills with an original maturity of three months or less	2,885,175	3,495,113
	3,428,576	4,130,272
Additional cash flow information:		
Interest received	1,210,959	703,253
Interest paid	652,975	301,914

Ahli United Bank B.S.C. (c)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Six months ended 30 June 2023 (Reviewed)

	Attributable to the owner of the Bank											
	Reserves											
	Ordinary share capital 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 owner US\$ '000	Perpetual Tier 1 Capital Securities US\$ '000	Non- controlling interests US\$ '000	Total US\$ '000	
Balance at 1 January 2023	2,786,983	752,549	820,089	508,173	280,698	(772,988)	1,588,521	4,375,504	1,000,000	453,895	5,829,399	
Donations	-	-	-	-	(2,000)	-	(2,000)	(2,000)	-	-	(2,000)	
Distribution related to Perpetual Tier 1 Capital Securities	-	-	-	(11,678)	-	-	(11,678)	(11,678)	-	-	(11,678)	
Distribution related to Perpetual Tier 1 Sukuk	-	-	-	(8,697)	-	-	(8,697)	(8,697)	-	(2,933)	(11,630)	
Ordinary share dividend paid	-	-	-	-	(278,698)	-	(278,698)	(278,698)	-	-	(278,698)	
Dividends of subsidiaries	-	-	-	-	-	-	-	-	-	(17,954)	(17,954)	
Movement in associates	-	-	-	(5,080)	-	-	(5,080)	(5,080)	-	-	(5,080)	
Movement in subsidiaries	-	(9)	-	-	-	-	(9)	(9)	-	999	990	
Total comprehensive income for the period	-	-	-	382,509	-	(90,211)	292,298	292,298	-	18,339	310,637	
Balance at 30 June 2023	2,786,983	752,540	820,089	865,227	-	(863,199)	1,574,657	4,361,640	1,000,000	452,346	5,813,986	

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

Ahli United Bank B.S.C. (c)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Six months ended 30 June 2023 (Reviewed)

	Attributable to the owners of the Bank							Equity attributable to the owners US\$ '000	Perpetual Tier 1 Capital Securities US\$ '000	Non-controlling interests US\$ '000	Total US\$ '000
	Ordinary share capital 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				
Balance at 1 January 2022	2,533,621	752,538	765,479	600,122	306,034	(488,090)	1,936,083	4,469,704	1,000,000	448,261	5,917,965
Donations	-	-	-	-	(2,000)	-	(2,000)	(2,000)	-	-	(2,000)
Bonus shares issued	253,362	-	-	(253,362)	-	-	(253,362)	-	-	-	-
Transfer from OCI reserve on sale of equity investments	-	-	-	(109)	-	-	(109)	(109)	-	-	(109)
Distribution related to Perpetual Tier 1 Capital Securities	-	-	-	(11,678)	-	-	(11,678)	(11,678)	-	-	(11,678)
Distribution related to Perpetual Tier 1 Sukuk	-	-	-	(8,705)	-	-	(8,705)	(8,705)	-	(2,920)	(11,625)
Ordinary share dividend	-	-	-	-	(304,034)	-	(304,034)	(304,034)	-	-	(304,034)
Dividends of subsidiaries	-	-	-	-	-	-	-	-	-	(8,837)	(8,837)
Movement in associates	-	-	-	(4,233)	-	-	(4,233)	(4,233)	-	-	(4,233)
Movement in subsidiaries	-	12	-	-	-	-	12	12	-	(346)	(334)
Total comprehensive income for the period	-	-	-	340,904	-	(162,032)	178,872	178,872	-	8,742	187,614
Balance at 30 June 2022	2,786,983	752,550	765,479	662,939	-	(650,122)	1,530,846	4,317,829	1,000,000	444,900	5,762,729

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

30 June 2023 (Reviewed)

1 CORPORATE INFORMATION

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 ("CBB"). 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.

Pursuant to obtaining necessary regulatory approvals, during 2023, the Bank was de-listed both at Bahrain Bourse and Kuwait Boursa. Further, the Bank was converted to a closed Bahraini shareholding company and name was changed on 14 June 2023 to Ahli United Bank B.S.C.(c).

Pursuant to acquisition of AUB by Kuwait Finance House K.S.C.P. ("KFH") effective 2 October 2022, KFH is the Parent Company and AUB is 100% subsidiary of KFH. KFH is a public shareholding company incorporated in the State of Kuwait on 23 March 1977 and is listed in the Boursa Kuwait and Bahrain Bourse. KFH is regulated and supervised by the Central Bank of Kuwait.

Subsequent to the balance sheet date, KFH has made an announcement in the Kuwait and Bahrain stock exchanges that "In the light of completion of the acquisition procedures and phases, KFH has reached an Initial Agreement regarding the merger by combination with Ahli United Bank K.S.C.P. (Ahli United Bank - Kuwait), whereby Kuwait Finance House K.S.C.P. is the merging company, and Ahli United Bank - Kuwait as the merged company. Thus, considering the merger is one of the acquisition's steps, KFH emphasizes that the merger process will be implemented as per the applicable laws and regulations and also as per the instructions and procedures organizing the merger processes and after the approval of the extraordinary general assemblies' meetings of both banks on merger. KFH will disclose on a timely basis any new or material development(s) related to the same."

The interim condensed consolidated financial statements of the Group for the six month period ended 30 June 2023 were authorised for issue in accordance with a resolution of the Board of Directors dated 13 August 2023.

2 ACCOUNTING POLICIES**2.1 Basis of preparation**

The interim condensed consolidated financial statements of the Group are prepared in accordance with International Accounting Standard IAS 34, Interim Financial Reporting ("IAS 34").

2.2 New standards, interpretations and amendments effective for the period

The accounting policies used in the preparation of these consolidated financial statements are consistent with those used in previous year, except for the items below.

IFRS 17 Insurance Contracts

In May 2017, the IASB issued IFRS 17 Insurance Contracts (IFRS 17), a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. IFRS 17 replaced IFRS 4 Insurance Contracts (IFRS 4) that was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features.

IFRS 17 also introduced new accounting requirements for banking products with insurance features that may affect the determination of which instruments or which components thereof will be in the scope of IFRS 9 or IFRS 17.

Definition of Accounting Estimates - Amendments to IAS 8

In February 2021, the IASB issued amendments to IAS 8, in which it introduces a definition of 'accounting estimates'. The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. Also, they clarify how entities use measurement techniques and inputs to develop accounting estimates.

The above amendments and other amendments to IFRS which are effective for annual accounting period starting from 1 January 2023 did not have any material impact on the accounting policies, financial position or performance of the Group.

AHLI UNITED BANK B.S.C. (c)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2023 (Reviewed)

3 EARNINGS PER ORDINARY SHARE

	<i>Three months ended 30 June</i>		<i>Six months ended 30 June</i>	
	<i>2023</i>	<i>2022</i>	<i>2023</i>	<i>2022</i>
	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>
For basic and diluted earnings per share computation				
Net profit attributable to the owners of the Bank	182,111	169,967	382,509	340,904
Perpetual Tier 1 Capital Securities distribution	(11,678)	(11,678)	(11,678)	(11,678)
Perpetual Tier 1 Sukuk distribution	(8,697)	(8,705)	(8,697)	(8,705)
Adjusted net profit for the period attributable to Bank's ordinary equity shareholders for basic and diluted earnings per share computation	161,736	149,584	362,134	320,521
Weighted average ordinary shares outstanding during the period adjusted for bonus shares (in millions)	11,148	11,148	11,148	11,148
Basic and diluted earnings per ordinary share (US cents)	1.5	1.3	3.2	2.9
Issued and fully paid ordinary shares of US\$ 0.25 each (in millions)	11,147.9	11,147.9	11,147.9	11,147.9

4 CONTINGENT LIABILITIES

The Group had the following credit related contingent liabilities:

	<i>(Reviewed) 30 June 2023 US\$ '000</i>	<i>(Audited) 31 December 2022 US\$ '000</i>
Guarantees	2,710,318	2,755,245
Acceptances	435,798	442,842
Letters of credit	567,892	563,737
	3,714,008	3,761,824

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.

AHLI UNITED BANK B.S.C. (c)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2023 (Reviewed)

5 SEGMENT INFORMATION (continued)

Segmental information for the period was as follows:

	<i>Retail banking</i>	<i>Corporate banking</i>	<i>Treasury and 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>
Six months ended 30 June 2023:					
Net interest income	130,848	146,796	171,948	34,416	484,008
Fees and commissions - net	18,896	31,739	3,111	5,224	58,970
Trading, investment and other income	1,671	10,726	109,625	101	122,123
OPERATING INCOME	151,415	189,261	284,684	39,741	665,101
Provision for credit losses and others	12,796	10,157	6,710	4,574	34,237
NET OPERATING INCOME	138,619	179,104	277,974	35,167	630,864
Operating expenses	74,741	49,326	54,431	17,605	196,103
PROFIT BEFORE TAX AND ZAKAT	63,878	129,778	223,543	17,562	434,761
Tax expense and zakat					33,443
NET PROFIT FOR THE PERIOD					401,318
Less: Attributable to non-controlling interests					18,809
NET PROFIT ATTRIBUTABLE TO THE OWNERS OF THE BANK					382,509
Inter segment interest included in net interest income above	110,671	(187,055)	22,905	53,479	-
	<i>Retail banking</i>	<i>Corporate banking</i>	<i>Treasury and 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>
Six months ended 30 June 2022:					
Net interest income	87,858	164,978	152,409	25,487	430,732
Fees and commissions - net	14,486	31,672	2,593	6,021	54,772
Trading, investment and other income	911	3,744	113,542	(174)	118,023
OPERATING INCOME	103,255	200,394	268,544	31,334	603,527
Provision (recoveries) for credit losses and others	(1,001)	6,832	45,068	1,886	52,785
NET OPERATING INCOME	104,256	193,562	223,476	29,448	550,742
Operating expenses	62,798	45,943	46,088	15,379	170,208
PROFIT BEFORE TAX AND ZAKAT	41,458	147,619	177,388	14,069	380,534
Tax expense and zakat					20,290
NET PROFIT FOR THE PERIOD					360,244
Less: Attributable to non-controlling interests					19,340
NET PROFIT ATTRIBUTABLE TO THE OWNERS OF THE BANK					340,904
Inter segment interest included in net interest income above	56,629	(89,341)	19,331	13,381	-

AHLI UNITED BANK B.S.C. (c)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2023 (Reviewed)

6 LOANS AND ADVANCES

a) Credit quality of loans and advances

<i>30 June 2023 (Reviewed)</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>
High standard grade	12,926,935	771,313	-	13,698,248
Standard grade	5,836,217	2,353,984	-	8,190,201
Credit impaired	-	-	432,266	432,266
	18,763,152	3,125,297	432,266	22,320,715
Less: ECL allowances	(186,760)	(366,431)	(363,345)	(916,536)
	18,576,392	2,758,866	68,921	21,404,179
<i>31 December 2022 (Audited)</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>
High standard grade	13,040,545	770,635	-	13,811,180
Standard grade	5,763,196	2,167,574	-	7,930,770
Credit impaired	-	-	430,391	430,391
	18,803,741	2,938,209	430,391	22,172,341
Less: ECL allowances	(190,447)	(396,889)	(363,680)	(951,016)
	18,613,294	2,541,320	66,711	21,221,325

b) Reconciliation of ECL allowances

<i>2023</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>
At 1 January 2023	190,447	396,889	363,680	951,016
Transfer from Stage 1	(5,091)	4,134	957	-
Transfer from Stage 2	245	(41,677)	41,432	-
Transfer from Stage 3	-	17,728	(17,728)	-
Net remeasurement of ECL allowances (note 6c)	6,769	1,910	34,010	42,689
Amounts written-off	-	-	(55,105)	(55,105)
Exchange rate and other adjustments	(5,610)	(12,553)	(3,901)	(22,064)
At 30 June 2023	186,760	366,431	363,345	916,536

AHLI UNITED BANK B.S.C. (c)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2023 (Reviewed)

6 LOANS AND ADVANCES (continued)

b) Reconciliation of ECL allowances (continued)

	2022			
	Stage 1	Stage 2	Stage 3	Total
	US\$ '000	US\$ '000	US\$ '000	US\$ '000
At 1 January 2022	171,528	330,668	464,034	966,230
Transfer from Stage 1	(3,891)	1,868	2,023	-
Transfer from Stage 2	375	(2,161)	1,786	-
Transfer from stage 3	346	71	(417)	-
Net remeasurement of ECL allowances (note 6c)	14,906	35,197	7,243	57,346
Amounts written-off	-	-	(4,099)	(4,099)
Exchange rate and other adjustments	(3,248)	(8,181)	(6,929)	(18,358)
At 30 June 2022	180,016	357,462	463,641	1,001,119

c) Provision for credit losses and others

	Six months ended 30 June	
	2023	2022
	US\$ '000	US\$ '000
Net remeasurement of ECL on loans and advances (note 6 b)	42,689	57,346
Recoveries from loans and advances during the period (from fully provided loans written-off in previous years)	(5,410)	(36,536)
Net remeasurement of ECL for non-trading investments (note 7 b)	(30,242)	45,068
Net remeasurement of ECL on off-balance sheet exposures and others	5,719	(529)
Net other provision charges / (write-back)	21,481	(12,564)
	34,237	52,785

7 NON-TRADING INVESTMENTS

a) Credit quality of non-trading investments

	30 June 2023 (Reviewed)			
	Stage 1	Stage 2	Stage 3	Total
	US\$ '000	US\$ '000	US\$ '000	US\$ '000
High standard grade	6,454,227	-	-	6,454,227
Standard grade	2,883,232	38,387	-	2,921,619
	9,337,459	38,387	-	9,375,846
Less: ECL allowances	(18,677)	(8,103)	-	(26,780)
	9,318,782	30,284	-	9,349,066
Equity instruments at fair value				146,123
				9,495,189
	31 December 2022 (Audited)			
	Stage 1	Stage 2	Stage 3	Total
	US\$ '000	US\$ '000	US\$ '000	US\$ '000
High standard grade	6,419,430	-	-	6,419,430
Standard grade	3,399,655	120,131	-	3,519,786
Impaired	-	-	10,873	10,873
	9,819,085	120,131	10,873	9,950,089
Less: ECL allowances	(24,571)	(64,398)	(10,873)	(99,842)
	9,794,514	55,733	-	9,850,247
Equity instruments at fair value				105,350
				9,955,597

Equity instruments held at fair value include investments amounting to US\$ 9.7 million (31 December 2022: US\$ 2.9 million) which are designated as FVTPL. Income from FVTPL equity investments for the period amounted to US\$ 6.1 million (30 June 2022: US\$ 0.01 million).

7 NON-TRADING INVESTMENTS (continued)

b) Reconciliation of ECL allowances

	2023			
	Stage 1	Stage 2	Stage 3	Total
	US\$ '000	US\$ '000	US\$ '000	US\$ '000
At 1 January 2023	24,571	64,398	10,873	99,842
Transfer from Stage 1	(169)	169	-	-
Net remeasurement of ECL allowances (note 6c)	(5,782)	(56,725)	32,265	(30,242)
Amounts written off during the period	-	-	(43,148)	(43,148)
Exchange rate and other adjustments	57	261	10	328
At 30 June 2023	18,677	8,103	-	26,780
	2022			
	Stage 1	Stage 2	Stage 3	Total
	US\$ '000	US\$ '000	US\$ '000	US\$ '000
At 1 January 2022	23,273	2,990	-	26,263
Transfer from Stage 1	(248)	231	17	-
Net remeasurement of ECL allowances (note 6c)	(2,298)	36,944	10,422	45,068
Exchange rate and other adjustments	(303)	(1,045)	-	(1,348)
At 30 June 2022	20,424	39,120	10,439	69,983

On 2 October 2022, the AUB Group was acquired by KFH by way of a share swap. Subsequent to the acquisition, the shareholder resolved to convert the Group into a Sharia Compliant Islamic Financial Institution. As part of the overall conversion project, the Group has taken steps to convert part of the bond portfolio to Sharia compliant instruments through controlled special purpose entities, which is approved by the Sharia Supervisory Board of the Bank.

Accordingly, during the period a part of the Bank's conventional bonds were converted to Sharia compliant Sukuks and consequently, as at 30 June 2023, 88% of the total bond investments are Sharia compliant.

AHLI UNITED BANK B.S.C. (c)
NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2023 (Reviewed)

8 MOVEMENT IN OTHER RESERVES

	<i>Capital reserve</i>	<i>Property revaluation reserve</i>	<i>Foreign exchange translation reserve</i>	<i>Cumulative changes in</i>			<i>Total other reserves</i>
	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>OCI reserve</i>	<i>Cash flow hedge reserve</i>	<i>Pension fund reserve*</i>	<i>US\$ '000</i>
Balance at 1 January 2023	17,240	38,731	(763,201)	(30,765)	(29)	(34,964)	(772,988)
Currency translation adjustments	-	(12)	(74,661)	-	-	-	(74,673)
Transfers to interim condensed consolidated statement of income	-	-	-	(7,378)	55	-	(7,323)
Net fair value movements	-	-	-	11,370	(379)	(19,206)	(8,215)
Balance at 30 June 2023	17,240	38,719	(837,862)	(26,773)	(353)	(54,170)	(863,199)

	<i>Capital reserve</i>	<i>Property revaluation reserve</i>	<i>Foreign exchange translation reserve</i>	<i>Cumulative changes in</i>			<i>Total other reserves</i>
	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>OCI reserve</i>	<i>Cash flow hedge reserve</i>	<i>Pension fund reserve</i>	<i>US\$ '000</i>
Balance at 1 January 2022	17,240	36,574	(476,737)	(6,421)	(41,387)	(17,359)	(488,090)
Currency translation adjustments	-	(20)	(135,463)	-	-	-	(135,483)
Transfers to interim condensed consolidated statement of income	-	-	-	(1,924)	(31)	-	(1,955)
Net fair value movements	-	-	-	(51,433)	32,322	(5,592)	(24,703)
Transfers to retained earnings on equity investments	-	-	-	109	-	-	109
Balance at 30 June 2022	17,240	36,554	(612,200)	(59,669)	(9,096)	(22,951)	(650,122)

* In May 2023, the trustees of the Ahli United Bank (U.K.) PLC (AUBUK) Pension Fund invested the Fund's assets in a bulk annuity policy ("buy-in" policy) with a leading insurance company. Under the terms of this "buy-in" policy, the insurance company will make payments into the Fund that exactly match the benefit outgo for all covered members. The policy therefore had the effect of removing the Fund's normal funding and investment risks; however, AUBUK remains legally responsible to Fund benefits in the unlikely event this insurance company defaults on any payments to covered members.

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 was US\$ 8,143.6 million as at 30 June 2023 (31 December 2022: US\$ 8,574.2 million). Carrying value of these non-trading investments was US\$ 8,048.8 million as at 30 June 2023 (31 December 2022: US\$ 8,466.3 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.

<i>30 June 2023 (Reviewed)</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	537	65,186	80,400	146,123
Debt instruments (FVTOCI)	1,245,232	59,187	-	1,304,419
Loans and advances	-	-	13,205	13,205
Derivative assets	-	662,574	-	662,574
Derivative liabilities	-	222,032	-	222,032
<i>31 December 2022 (Audited)</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	561	65,639	39,150	105,350
Debt instruments (FVTOCI)	1,301,703	101,489	-	1,403,192
Derivative assets	-	750,140	-	750,140
Derivative liabilities	-	225,216	-	225,216

During the six months ended 30 June 2023 and 2022, there have been no transfers between Level 1, 2, 3 and during the period addition to Level 3 financial instruments were US\$ 48.4 million and fair value movement of US\$ 5.9 million (Comparative: nil).

30 June 2023 (Reviewed)

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. All the loans and advances to related parties are performing and are subject to ECL assessments.

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

	2023					
				Senior management		
	Major		Non-	Management		Other
	shareholders	Associates	Executive	Directors	Others	related
	US\$ '000	US\$ '000	Directors	US\$ '000	US\$ '000	parties
			US\$ '000			US\$ '000
For the six months ended						
30 June 2023						
Interest income	7,678	97	99	-	1	385
Interest expense	58,466	70	169	74	26	2,161
Fees and commissions	250	653	1	8	3	10
Short term employee benefits	-	-	-	2,665	2,674	-
End of service benefits	-	-	-	284	221	-
Directors' fees and related expenses	-	-	893	-	-	-
As of 30 June 2023						
Deposits with banks	180,514	3,736	-	-	-	-
Loans and advances	-	-	2,434	173	240	9,488
Non Trading investment	15,000	-	-	-	-	9,244
Interest receivable, derivative and other assets	737	227	136	-	-	-
Deposits from banks	209	48,195	-	-	-	17
Customers' deposits	1,831,525	11	13,444	6,928	2,150	101,726
Term borrowing	100,000	-	-	-	-	-
Interest payable, derivative and other liabilities	5,093	4,263	128	-	-	1,988
Commitments and contingent liabilities	1,908	19,628	-	-	-	1,807
				2022		
				Senior management		
	Major		Non-	Management		Other
	shareholders	Associates	Executive	Directors	Others	related
	US\$ '000	US\$ '000	Directors	US\$ '000	US\$ '000	parties
			US\$ '000			US\$ '000
For the six months ended						
30 June 2022						
Interest income	-	9	4,252	18	-	4,279
Interest expense	4,143	-	460	37	2	4,642
Fees and commissions	508	1,007	683	6	8	2,212
Short term employee benefits	-	-	-	5,970	1,786	7,756
End of service benefits	-	-	-	440	107	547
Directors' fees and related expenses	-	-	869	-	-	869
As of 31 December 2022						
Deposits with banks	325,000	12,052	-	-	-	30,000
Loans and advances	-	-	229,719	488	267	9,839
Non-trading investments	15,000	-	-	-	-	18,332
Interest receivable, derivative and other assets	-	3,762	-	-	-	-
Deposits from banks	78,767	41,088	-	10,973	878	18,585
Customers' deposits	2,787,380	-	71,153	-	-	50,147
Term borrowings	100,000	-	-	-	-	-
Interest payable, derivative and other liabilities	5,031	3,912	468	-	-	427
Subordinated liabilities	9,462	-	-	-	-	-
Commitments and contingent liabilities	2,126	13,797	64,876	-	-	1,811

11 NET STABLE FUNDING RATIO (NSFR)

The NSFR ratio is calculated in accordance with the Liquidity Risk Management Module guidelines, issued by the CBB. The minimum NSFR ratio limit as per CBB is 100%. The Group's consolidated NSFR ratio as of 30 June 2023 is 118.8% (31 December 2022: 118.0%).

	<i>(Reviewed)</i>	<i>(Audited)</i>
	<i>30 June</i>	<i>31 December</i>
	<i>2023</i>	<i>2022</i>
	<i>US\$ '000</i>	<i>US\$ '000</i>
<u>Available Stable Funding:</u>		
Regulatory capital	6,067,817	6,155,841
Stable deposits	7,854,761	7,346,964
Wholesale funding	11,802,966	12,576,583
Others	690,467	734,758
Total Available Stable Funding (A)	26,416,011	26,814,146
<u>Required Stable Funding :</u>		
High-Quality Liquid Assets (HQLA)	1,635,628	1,451,622
Performing loans	14,778,164	14,912,508
Securities (other than HQLA)	2,728,628	3,046,772
Derivative contracts	259,907	290,695
Others	2,388,043	2,552,342
Off-balance sheet items	448,752	479,381
Total Required Stable Funding (B)	22,239,122	22,733,320
NSFR (%) (A/B)	118.8%	118.0%