

**AHLI UNITED BANK B.S.C. (c)**  
**INTERIM CONDENSED CONSOLIDATED**  
**FINANCIAL STATEMENTS**  
**30 SEPTEMBER 2024**

## **REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS TO THE SHAREHOLDER 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 [together "the Group"] as at 30 September 2024, comprising of the interim condensed consolidated balance sheet as at 30 September 2024, the related interim condensed consolidated statements of income, comprehensive income for the three-month period and nine-month period then ended, and the interim condensed consolidated statements of cash flows, changes in owner equity, income and attribution related to quasi-equity and changes in off-balance sheet assets under management for the nine-month period then ended and other explanatory information. The Board of Directors are responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with Financial Accounting Standard 41 Interim Financial Reporting (FAS 41). 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 FAS 41.



11 November 2024  
Manama, Kingdom of Bahrain

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

## INTERIM CONDENSED CONSOLIDATED STATEMENT OF INCOME

Nine months ended 30 September 2024 (Reviewed)

	<i>Note</i>	<i>Three months ended</i>		<i>Nine months ended</i>	
		<i>30 September</i>		<i>30 September</i>	
		<i>2024</i>	<i>2023</i>	<i>2024</i>	<i>2023</i>
		<i>USD'000</i>	<i>USD'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Financing and similar income		500,125	498,440	1,519,349	1,376,810
Finance and similar cost		169,231	293,794	609,301	796,958
Net distribution to quasi-equity		147,232	-	330,667	-
Net financing and similar income		183,662	204,646	579,381	579,852
Fees and commissions - net		19,219	24,046	64,377	74,558
Trading income		10,313	3,547	28,311	12,205
Investment and other income		9,912	31,761	156,569	103,271
Profit share from associates and dividend income from investments		36,994	2,067	79,707	27,532
Fees and other income		76,438	61,421	328,964	217,566
<b>OPERATING INCOME</b>		<b>260,100</b>	<b>266,067</b>	<b>908,345</b>	<b>797,418</b>
Allowance for impairment, credit losses and others	6c	(27,380)	40,592	54,463	65,610
<b>NET OPERATING INCOME</b>		<b>287,480</b>	<b>225,475</b>	<b>853,882</b>	<b>731,808</b>
Staff costs		35,129	33,999	108,118	100,409
Depreciation		6,769	6,216	20,242	16,191
Other operating expenses		33,165	27,797	101,819	87,325
<b>OPERATING EXPENSES</b>		<b>75,063</b>	<b>68,012</b>	<b>230,179</b>	<b>203,925</b>
<b>PROFIT BEFORE TAX</b>		<b>212,417</b>	<b>157,463</b>	<b>623,703</b>	<b>527,883</b>
Tax expense		14,681	14,670	41,378	45,016
<b>NET PROFIT FOR THE PERIOD FROM CONTINUING OPERATIONS</b>		<b>197,736</b>	<b>142,793</b>	<b>582,325</b>	<b>482,867</b>
Profit after tax expense for the period from discontinued operations	12	-	39,714	10,891	100,958
<b>NET PROFIT FOR THE PERIOD</b>		<b>197,736</b>	<b>182,507</b>	<b>593,216</b>	<b>583,825</b>
Non-controlling interests		2,753	1,604	9,711	4,395
Non-controlling interests - discontinued operations		-	10,627	3,366	26,645
<b>NET PROFIT ATTRIBUTABLE TO THE OWNER OF THE BANK</b>		<b>194,983</b>	<b>170,276</b>	<b>580,139</b>	<b>552,785</b>
<b>EARNINGS PER SHARE ATTRIBUTABLE TO THE OWNER OF THE BANK</b>					
Basic and diluted earnings per ordinary share (US cents)	3	1.7	1.5	5.1	4.8

Hamad Al-Marzouq  
Chairman

Adel A. El-Labban  
Deputy Chairman

Ahmed AlKharji  
Group Chief Executive Officer

The attached notes 1 to 13 form part of these interim condensed consolidated financial statements

**AHLI UNITED BANK B.S.C. (c)**
**INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

Nine months ended 30 September 2024 (Reviewed)

	<i>Three months ended</i>		<i>Nine months ended</i>	
	<i>30 September</i>		<i>30 September</i>	
	<i>2024</i>	<i>2023</i>	<i>2024</i>	<i>2023</i>
	<i>USD'000</i>	<i>USD'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
<b>Net profit for the period</b>	<b>197,736</b>	182,507	<b>593,216</b>	583,825
<b><i>Other Comprehensive Income (OCI)</i></b>				
<b>Items that will not be reclassified subsequently to consolidated statement of income</b>				
Net change in pension fund revaluation reserve	-	-	-	(19,206)
<b>Items that may be reclassified subsequently to consolidated statement of income</b>				
Foreign currency translation adjustments	(1,696)	(16,818)	(90,479)	(91,833)
Net change in fair value of equity investments measured at fair value through OCI	23,432	3,421	(48,908)	5,243
Net change in fair value of debt-type instruments held as fair value through OCI	10,479	(11,930)	29,926	(2,533)
Transfers to consolidated statement of income arising on sale of debt-type instruments	(6,140)	(5,318)	(8,015)	(12,673)
Net change in fair value of cash flow hedges	(294)	312	(259)	(12)
<b>Other comprehensive income / (loss) for the period</b>	<b>25,781</b>	(30,333)	<b>(117,735)</b>	(121,014)
<b>Total comprehensive income for the period</b>	<b>223,517</b>	152,174	<b>475,481</b>	462,811
Total comprehensive income attributable to non-controlling interests	2,855	1,342	1,974	4,684
Total comprehensive income attributable to non-controlling interests - discontinued operations	-	7,871	2,068	22,868
<b>Total comprehensive income attributable to the owner of the Bank</b>	<b>220,662</b>	142,961	<b>471,439</b>	435,259

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

## INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

30 September 2024 (Reviewed)

		(Reviewed) 30 September 2024 US\$ '000	1 January 2024 US\$ '000	(Audited) 31 December 2023 US\$ '000
Note				
<b>ASSETS</b>				
	Cash and balances with central banks	1,161,559	1,173,479	1,173,479
	Due from central banks and sukuk	1,050,465	913,049	913,049
	Due from banks	2,193,557	2,202,025	2,202,025
	Financing receivables and Ijarah assets	6 9,681,614	10,943,479	10,907,398
	Non-trading investments	7 11,359,699	10,182,949	10,182,949
	Investment in associates	416,155	375,313	375,313
	Investment properties	108,184	105,037	105,037
	Profit receivable and other assets	867,701	1,067,963	1,104,044
	Premises and equipments	184,722	203,876	203,876
	Goodwill and other intangible assets	108,750	136,180	136,180
	Assets classified as held for sale	12 -	14,596,548	14,596,548
	<b>TOTAL ASSETS</b>	<b>27,132,406</b>	<b>41,899,898</b>	<b>41,899,898</b>
<b>LIABILITIES, QUASI-EQUITY AND OWNER EQUITY</b>				
<b>LIABILITIES</b>				
	Due to banks	678,052	1,081,725	2,213,524
	Term financing against sukuk	4,210,145	4,619,644	4,619,644
	Customers' accounts	2,637,912	8,665,035	14,039,595
	Sukuk payable and term financing	599,093	1,096,685	1,624,410
	Profit payable and other liabilities	982,118	1,002,951	1,002,951
	Liabilities directly associated with assets as held for sale	12 -	12,340,832	12,340,832
	<b>TOTAL LIABILITIES</b>	<b>9,107,320</b>	<b>28,806,872</b>	<b>35,840,956</b>
<b>QUASI-EQUITY</b>				
	Banks	1,861,725	1,131,799	-
	Non-banks & individuals	10,370,970	5,374,560	-
	Sukuk payable	567,413	527,725	-
	<b>TOTAL QUASI-EQUITY</b>	<b>12,800,108</b>	<b>7,034,084</b>	<b>-</b>
<b>OWNER EQUITY</b>				
	Ordinary share capital	2,786,983	2,786,983	2,786,983
	Reserves	1,971,421	1,800,525	1,800,525
	Equity attributable to the owner of the Bank	4,758,404	4,587,508	4,587,508
	Perpetual Tier 1 Capital Securities	400,000	400,000	400,000
	Perpetual Tier 1 Capital Securities - held for sale	-	600,000	600,000
	Non-controlling interests	66,574	64,600	64,600
	Non-controlling interests- held for sale	-	406,834	406,834
	<b>TOTAL OWNER EQUITY</b>	<b>5,224,978</b>	<b>6,058,942</b>	<b>6,058,942</b>
	<b>TOTAL LIABILITIES, QUASI-EQUITY AND OWNER EQUITY</b>	<b>27,132,406</b>	<b>41,899,898</b>	<b>41,899,898</b>
<b>OFF-BALANCE SHEET</b>				
	Assets under management	1,645,146	1,957,554	1,957,554
	Contingencies and commitments	2,059,332	2,093,256	2,093,256

**Hamad Al-Marzouq**  
Chairman

**Adel A. El-Labban**  
Deputy Chairman

**Ahmed AlKharji**  
Group Chief Executive Officer

The attached notes 1 to 13 form part of these interim condensed consolidated financial statements

**AHLI UNITED BANK B.S.C. (c)**
**INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS**

Nine months ended 30 September 2024 (Reviewed)

	<i>Nine months ended 30 September</i>	
	<i>2024</i>	<i>2023</i>
	<i>US\$ '000</i>	<i>US\$ '000</i>
<b>OPERATING ACTIVITIES</b>		
Profit before tax from continuing operations	623,703	633,856
Profit before tax from discontinued operations	11,880	-
Adjustments for:		
Depreciation	20,242	27,827
Investment and other income	(79,385)	(77,572)
Allowance for impairment, credit losses and others	54,463	73,662
Profit share from associates	(32,394)	(22,629)
Operating profit before changes in operating assets and liabilities	598,509	635,144
Changes in:		
Mandatory reserves with central banks	233,156	(419,006)
Due from central banks and sukuk	(219,078)	984,255
Due from banks	(521,612)	(342,560)
Financing receivables and Ijarah assets	1,033,870	277,893
Profit receivable and other assets	222,903	49,015
Due to banks and quasi equity	422,911	(838,845)
Term financing against sukuk	(409,499)	(650,427)
Customers' accounts and quasi equity	(1,030,713)	371,718
Profit payable and other liabilities	(138,431)	(1,840)
Net cash flows from operations	192,016	65,347
Tax paid	(32,374)	(30,930)
Net cash flows from operating activities	159,642	34,417
<b>INVESTING ACTIVITIES</b>		
Purchase of non-trading investments and others	(1,708,959)	(2,387,357)
Proceeds from sale or redemption of non-trading investments	2,217,765	3,161,617
Sale of investment in subsidiary	-	990
Proceed from sale of / (additional) investment in associates	7,987	(45,818)
Net (increase) / decrease in investment properties	(3,148)	10,716
Net increase in premises and equipments	(1,088)	(36,332)
Dividends received from associates	9,612	15,952
Net cash flows generated from investing activities	522,169	719,768
<b>FINANCING ACTIVITIES</b>		
Distribution on Perpetual Tier 1 Capital Securities	(11,678)	(23,308)
Repayment of term financing	(500,000)	(100,000)
Repayment of subordinated liabilities	-	(9,462)
Dividends and other appropriations paid	(278,698)	(278,698)
Dividends paid to non-controlling interests	-	(17,954)
Net cash flows used in financing activities	(790,376)	(429,422)
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	(108,565)	324,763
Net foreign exchange difference	(41,702)	(56,080)
Cash and cash equivalents at 1 January	2,345,190	3,629,091
<b>CASH AND CASH EQUIVALENTS AT 30 SEPTEMBER</b>	<b>2,194,923</b>	<b>3,897,774</b>
<i>Cash and cash equivalents comprise:</i>		
Cash and balances with central banks, excluding mandatory reserves	648,096	425,087
Due from banks, central banks and sukuk with an original maturity of three months or less	1,546,827	3,472,687
	<b>2,194,923</b>	<b>3,897,774</b>
<b>Additional cash flow information:</b>		
Profit received	1,547,328	1,870,836
Profit paid	912,613	1,027,694

The attached notes 1 to 13 form part of these interim condensed consolidated financial statements

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN OWNER EQUITY

Nine months ended 30 September 2024 (Reviewed)

<i>Attributable to the owner of the Bank</i>											
	<i>Reserves</i>										
	<i>Ordinary</i>					<i>Other</i>		<i>Equity</i>	<i>Perpetual</i>	<i>Non-</i>	
	<i>share</i>	<i>Share</i>	<i>Statutory</i>	<i>Retained</i>	<i>Proposed</i>	<i>reserves</i>	<i>Total</i>	<i>attributable</i>	<i>Tier 1 Capital</i>	<i>controlling</i>	<i>Total</i>
	<i>capital</i>	<i>premium</i>	<i>reserve</i>	<i>earnings</i>	<i>appropriations</i>	<i>(note 8)</i>	<i>reserves</i>	<i>to the owner</i>	<i>Securities</i>	<i>interests</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>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>
<b>Balance at 1 January 2024</b>	<b>2,786,983</b>	<b>752,540</b>	<b>886,815</b>	<b>721,844</b>	<b>280,698</b>	<b>(841,372)</b>	<b>1,800,525</b>	<b>4,587,508</b>	<b>1,000,000</b>	<b>471,434</b>	<b>6,058,942</b>
Transfer from OCI reserve	-	-	-	(548)	-	-	(548)	(548)	-	-	(548)
Distribution on Perpetual											
Tier 1 Capital Securities	-	-	-	(11,678)	-	-	(11,678)	(11,678)	-	-	(11,678)
Ordinary share dividend paid	-	-	-	-	(278,698)	-	(278,698)	(278,698)	-	-	(278,698)
Donations	-	-	-	-	(2,000)	-	(2,000)	(2,000)	-	-	(2,000)
Movement in associates	-	-	-	(7,619)	-	-	(7,619)	(7,619)	-	-	(7,619)
Movement in subsidiaries	-	-	-	12,750	-	(12,750)	-	-	(600,000)	(408,902)	(1,008,902)
Total comprehensive											
income for the period	-	-	-	580,139	-	(108,700)	471,439	471,439	-	4,042	475,481
<b>Balance at 30 September 2024</b>	<b>2,786,983</b>	<b>752,540</b>	<b>886,815</b>	<b>1,294,888</b>	<b>-</b>	<b>(962,822)</b>	<b>1,971,421</b>	<b>4,758,404</b>	<b>400,000</b>	<b>66,574</b>	<b>5,224,978</b>

The attached notes 1 to 13 form part of these interim condensed consolidated financial statements

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN OWNER EQUITY

Nine months ended 30 September 2023 (Reviewed)

	Attributable to the owner of the Bank										
	Reserves										
	Ordinary share capital	Share premium	Statutory reserve	Retained earnings	Proposed appropriations	Other reserves (note 8)	Total reserves	Equity attributable to the owner	Perpetual Tier 1 Capital Securities	Non- controlling interests	Total
	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	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
Distribution on 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)
Donations	-	-	-	-	(2,000)	-	(2,000)	(2,000)	-	-	(2,000)
Dividends of subsidiaries	-	-	-	-	-	-	-	-	-	(17,954)	(17,954)
Movement in associates	-	-	-	(7,619)	-	-	(7,619)	(7,619)	-	-	(7,619)
Movement in subsidiaries	-	(9)	-	-	-	-	(9)	(9)	-	999	990
Total comprehensive income for the period	-	-	-	552,785	-	(117,526)	435,259	435,259	-	27,552	462,811
Balance at 30 September 2023	2,786,983	752,540	820,089	1,032,964	-	(890,514)	1,715,079	4,502,062	1,000,000	461,559	5,963,621

The attached notes 1 to 13 form part of these interim condensed consolidated financial statements



**AHLI UNITED BANK B.S.C. (c)****INTERIM CONDENSED CONSOLIDATED STATEMENT OF INCOME AND  
ATTRIBUTION RELATED TO QUASI-EQUITY**

Nine months ended 30 September 2024 (Reviewed)

	<i>Nine months ended 30 September 2024 US\$'000</i>
<b>Gross financing income</b>	<b>1,519,349</b>
Less: Income not attributable to quasi-equity	<b>(895,167)</b>
	<b>624,182</b>
Adjusted for:	
Less: Expenses attributable to quasi-equity	<b>(27,280)</b>
Less: Bank's share of income for its own / share of investments	<b>(100,042)</b>
Less: Allowance for impairment and expected credit losses - attributable to quasi-equity	<b>(1,964)</b>
<b>Total income available for quasi-equity</b>	<b>494,896</b>
Less: Mudarib's share of profit	<b>(12,114)</b>
Less: Wakala agency fees	<b>(152,115)</b>
<b>Net distribution to quasi-equity *</b>	<b>330,667</b>

\* Quasi equity comprises of Mudaraba and Wakala accounts.

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN  
OFF-BALANCE SHEET ASSETS UNDER MANAGEMENT

Nine months ended 30 September 2024 (Reviewed)

	<i>Participatory investments US\$'000</i>	<i>Investments in real estate US\$'000</i>	<i>Investments in Sukuk, shares and other securities US\$'000</i>	<i>Total US\$'000</i>
Balance at				
1 January 2024	481,812	805,589	670,153	1,957,554
Additions	29,349	-	240,204	269,553
Disposals / maturities	(167,095)	(225,277)	(193,543)	(585,915)
Net (decrease) / increase	(137,746)	(225,277)	46,661	(316,362)
Market movement	(40,263)	(14,966)	59,183	3,954
<b>Balance at 30 September 2024</b>	<b>303,803</b>	<b>565,346</b>	<b>775,997</b>	<b>1,645,146</b>
Balance at				
1 January 2023	653,736	808,260	473,629	1,935,625
Additions	340,981	34,314	178,227	553,522
Disposals / maturities	(436,014)	(9,028)	(86,851)	(531,893)
Net (decrease) / increase	(95,033)	25,286	91,376	21,629
Market movement	95,868	(43,745)	49,357	101,480
Balance at 30 September 2023	654,571	789,801	614,362	2,058,734

The attached notes 1 to 13 form part of these interim condensed consolidated financial statements

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NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL  
STATEMENTS

30 September 2024 (Reviewed)

**1 CORPORATE INFORMATION**

Ahli United Bank B.S.C. (c) ("AUB" or "the Bank") was incorporated in the Kingdom of Bahrain on 31 May 2000. The Bank and its subsidiaries (collectively known as "the Group") are engaged in banking business, global fund management and private banking services in the Kingdom of Bahrain, 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 the Sultanate of Oman and Libya. The Bank operates under a retail Islamic banking license issued by the Central Bank of Bahrain ("CBB"). The Bank's registered office is located at Building 2495, Road 2832, Al Seef District 428, Kingdom of Bahrain.

AUB is 100% owned subsidiary of Kuwait Finance House K.S.C.P. ("KFH"). KFH is a public shareholding company incorporated in the State of Kuwait on 23 March 1977 and operates under an Islamic Banking Licence issued by the Central Bank of Kuwait and its ordinary shares are listed in the Boursa Kuwait and Bahrain Bourse.

In line with the Bank's plan to convert its operations in compliance with the Islamic Shari'a principles, during 2023 and 2024 after complying with all the requirements and guidelines by the respective Central Banks of Bahrain, UK and Egypt and their respective Shari'a Supervisory boards, the Group has converted its Bahrain, UK & Egypt based conventional business according to the Islamic Shari'a principles and commenced its operations under the licence of an Islamic retail bank in Bahrain effective 10 December 2023 and in UK and Egypt from 22 August 2024 and 1 September 2024 respectively. From these dates, all activities in Bahrain, UK and Egypt are conducted in accordance with the Islamic Shari'a principles.

All income and expenses from Non Shari'a compliant activities are treated based on the guidelines by the Shari'a Supervisory Board.

The interim condensed consolidated financial statements of the Group for the nine month period ended 30 September 2024 were authorised for issue in accordance with a resolution of the Board of Directors dated 11 November 2024.

**2 ACCOUNTING POLICIES**

**2.1 Basis of preparation**

The interim condensed consolidated financial statements of the Group are prepared in accordance with AAOIFI Financial Accounting Standard - Interim Financial Reporting ("FAS 41").

The interim consolidated financial statements of the Group have been prepared in accordance with Financial Accounting Standards ("FAS") issued by the Accounting and Auditing Organisation of Islamic Financial Institutions ("AAOIFI") and the Shari'a rules and principles as determined by the Shari'a Supervisory Board of the Bank in conformity with the Bahrain Commercial Companies Law and the Central Bank of Bahrain and Financial Institutions Law, the CBB Rule Book (Volume 2 and applicable provisions of Volume 6) and CBB directives. The prior period financial information included in the 2023 consolidated financial statements were reported in accordance with the International Financial Reporting Standards ("IFRS") as issued by International Accounting Standards Board ("IASB"). For accounting policies under IFRS for the comparative period 31 December 2023, refer to audited consolidated financial statements for the year 2023.

For matters not covered by FAS, the Group uses the relevant IFRS issued by the International Accounting Standard Board ("IASB")

**2.2 First time adoption of AAOIFI Financial Reporting Framework**

As a result of the change in financial reporting framework from IFRS to FAS, the Group has adopted FAS 36 - First Time Adoption of AAOIFI Financial Accounting Standards for the year 2024.

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 September 2024 (Reviewed)

### 2 ACCOUNTING POLICIES (continued)

#### 2.2 First time adoption of AAOIFI Financial Reporting Framework (continued)

In line with FAS 36 - First Time Adoption of AAOIFI Financial Accounting Standards, the assets and liabilities of the comparative period are reclassified as per FAS 1(revised). However, these are measured using the erstwhile accounting policies as per the previous financial reporting framework - International financial reporting standards (IFRS) (refer to Bank's website (<https://www.ahliunited.com>) for the significant accounting policies applicable for the year ended 31 December 2023.)

Further, in line with FAS 36, the Group has elected to present three reporting periods in the statement of interim condensed consolidated financial position, as of the end of the current reporting period, as of the beginning of the current reporting period and as of the end of the previous period presented. The standard also requires the Group to present the transitional effects arising on first time adoption of the AAOIFI framework and as per the management assessment there are no significant transitional impact except for change in classification.

#### 2.3 Significant accounting judgements and estimates

In preparing these interim condensed consolidated financial statements, significant judgments and estimates were made by the management in applying the Group's accounting policies.

The most significant uses of judgement and estimates applied in the preparation of these interim condensed consolidated financial statements are as follows:

##### *i) Business model*

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

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

- Management's stated policies and objectives for the portfolio and the operation of those policies in practice;
- Management's evaluation of the performance of the portfolio and liquidity requirements in the current market conditions; and
- Management's strategy in terms of earning contractual profits or generating capital gains.

##### *ii) Measurement of the Expected Credit Loss (ECL) allowances*

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

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

- Internal credit rating model, which assigns Probability of Defaults (PDs) to the obligor ratings;
- The Group calculates Point-in-Time PD (PiT PD) estimates under three scenarios, a base case, good case and bad case. An appropriate probability weighted ECL is then calculated by assigning probabilities, based on current and expected market conditions, to each scenario;
- Determining and applying criteria for significant increase in credit risk;
- Determination of associations between macroeconomic variables such as, gross domestic product, oil prices and unemployment levels on the one hand and default / loss rates on the other and the consequent impact on PDs, Exposure at Defaults (EADs) and Loss Given Defaults (LGDs);

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NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL  
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30 September 2024 (Reviewed)

**2 ACCOUNTING POLICIES (continued)**

**2.3 Significant accounting judgements and estimates (continued)**

*ii) Measurement of the Expected Credit Loss (ECL) allowances (continued)*

- Selection and relative weights to the forward-looking scenarios;
- Segmentation of financial assets for the purposes of determining and applying the most appropriate risk rating model; and
- Determining the behavioral maturities of exposures for revolving facilities and other facilities where contractual maturities are not an accurate representation of actual maturities.

*iii) Pension plans*

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

*iv) Going concern*

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

*v) Fair value of financial instruments*

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

*vi) Impairment of goodwill and intangible assets*

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

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

*vii) On-going Economic environment impact*

The Group has performed an assessment of the relevant macro-economic information based on the available guidance of regulators and FAS, which has resulted in enhancement to the expected credit loss model, valuation estimates and judgements.

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**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

30 September 2024 (Reviewed)

**2 ACCOUNTING POLICIES (continued)****2.3 Significant accounting judgements and estimates (continued)*****vii) On-going Economic environment impact (continued)***

The Group has taken note of the current economic situation post the end of regulatory forbearance measures, forecast economic recession in Europe, persistently high benchmark rates and continued inflationary pressures in many countries across the globe and ongoing geopolitical tensions. The Group has also considered the impact of the challenging economic environment post COVID-19, other geo-political conditions, and potential recession on vulnerable sectors in determining the ECL which have been reflected through adjustments in the established regression relationship and increased volatility in collateral haircuts. Accordingly, the Group has updated inputs and assumptions used for the determination of ECL supplemented with management overlays.

**2.4 Summary of material accounting policies**

The key accounting policies which are consistently applied in the preparation of these interim condensed consolidated financial statements are set out below.

**(a) Investment in associates**

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

The reporting dates of the associates and the Group are identical and the associates' accounting policies materially conform to those used by the Group for like transactions and events in similar circumstances. Adjustments are made to the consolidated financial statements to bring into line any dissimilar accounting policies that may exist.

Upon loss of significant influence over the associate, the Group measures and recognises such investment at its fair value. Upon loss of significant influence, any difference between the carrying amount of the associate and the fair value and proceeds from disposal is recognised in the consolidated statement of income.

**(b) Foreign currency translation****(i) Transactions and balances**

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

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

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

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NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 September 2024 (Reviewed)

**2 ACCOUNTING POLICIES (continued)**

**2.4 Summary of material accounting policies (continued)**

**(b) Foreign currency translation (continued)**

**(ii) Group companies**

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

**(c) Financial instruments**

The classification of financial instruments at initial recognition depends on the purpose for which the financial instruments were acquired and their characteristics. All financial instruments are initially recognised at the fair value plus, for an item not recorded at fair value through income statement ("FVTIS"), 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 profit rate method and taken to financing income or finance cost as appropriate.

The Bank converted a certain portion of its financial instruments to Shari'a compliant instruments through controlled special purpose entities as approved by the Shari'a Supervisory Board of the Bank.

Financial instruments include contracts with the Bank's customers in accordance with conventional banking contracts.

Financial assets consist of cash balances with banks and the due from Central Banks, due from banks, Investment in equity, Investment in sukuk, Murabaha financing (net of deferred profits), Ijarah assets, Receivables, other assets, hedge used for risk management, financing commitments and financial guarantee contracts. Balances relating to these contracts are stated net of impairment and allowance for credit losses.

Financial liabilities contracts consist of due to banks and customer accounts, murabaha term financing and other payables.

Except for investments carried at fair value through other comprehensive income ("FVTOCI") or FVTIS and risk management instruments, all financial assets and financial liabilities are carried at amortised cost.

**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 time frame generally established by regulation or convention in the market place.

The Group has determined the classification and measurement of its financial assets as follows:

**(i) Due from central banks**

Due from central banks are initially recognised at amortised cost. Premiums and discounts are amortised to their maturity using the effective profit rate method.

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**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

30 September 2024 (Reviewed)

**2 ACCOUNTING POLICIES (continued)****2.4 Summary of material accounting policies (continued)****(c) Financial instruments (continued)****(ii) Due from banks, financing receivables and Ijarah assets**

Due from banks (including nostro accounts) and other financial institutions and Financing receivables are financial assets with fixed or determinable payments and fixed maturities. After initial recognition, these are subsequently measured at amortised cost using the effective profit rate method, adjusted for effective fair value hedges, less any amounts written off and impairment for credit losses. The losses arising from impairment of these assets are recognised in the consolidated statement of income in "allowance for impairment, credit losses and others" 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 profit rate. The amortisation is included in "Financing and similar income" in the consolidated statement of income.

Financing receivables with renegotiated terms are Financing receivable, the repayment plan of which have been revised as part of ongoing customer relationship to align with change in cash flows of the obligor, in some instances with improved security and with no other concessions.

**Financing contracts**

Financing contracts comprise Shari'a compliant financing contracts with fixed or determinable payments. These include financing provided through Murabaha, Tawarruq and Ijarah contracts. Financing assets are recognised on the date they are originated and are carried at their amortised cost less impairment allowances, if any.

Following contracts are primarily used to structure the financing receivables based on Shari'a principles:

**Trade-based financing contracts****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 recognised. Murabaha receivables are stated net of deferred profits, any amounts written off and provision for impairment, if any.

**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.

**Lease-based financing contracts****Ijarah assets ("Ijarah Muntahia Bittamleek")**

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

Ijarah assets mainly comprise of land and buildings and certain other assets. Ijarah is a lease whereby the legal title of the leased asset passes to the lessee at the end of the Ijarah (lease term), provided that all Ijarah installments are settled.



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**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

30 September 2024 (Reviewed)

**2 ACCOUNTING POLICIES (continued)****2.4 Summary of material accounting policies (continued)****(c) Financial instruments (continued)****(ii) Due from banks, financing receivables and Ijarah assets (continued)**

Ijarah assets ("Ijarah Muntahia Bittamleek") (continued)

Ijarah assets are stated at cost less accumulated depreciation and any impairment. Depreciation is calculated using rates that systematically reduce the cost of the leased assets over the period of the lease in a pattern of economic benefits arising from these assets. The Group assesses at each reporting date whether there is objective evidence that the ijarah assets are impaired. Impairment loss is the amount by which the carrying amount of an asset exceeds its estimated recoverable amount. Impairment losses, if any, are recognised in the income statement. The estimates of future cash flows, when dependent on a single customer, takes into consideration the credit evaluation of the respective customer in addition to other factors.

Other financing receivables and advances

Other financing receivables and advances are financial assets with fixed or determinable payments and fixed maturities and also includes the assets under the conversion process based on the Islamic Shari'a principles. After initial recognition, they are subsequently measured at amortized cost using the effective profit rate method, adjusted to reflect actual fair value hedges, less any amounts written off and allowance for credit losses. Amortized cost is calculated by considering any discount or premium on acquisition and fees that are an integral part of the effective profit rate.

**(iii) Debt-type instruments**

Debt-type instruments are measured at amortised cost using the effective profit 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 investment represents either a debt-type instrument or other investment instrument having reasonably determinable effective yield.

Debt-type 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 investment represents a non-monetary debt-type instrument or other investment instrument having reasonably determinable effective yield.

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

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

**(iv) Equity investments**

Investments in equity instruments are classified as FVTIS, 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. Upon derecognition, cumulative gains or losses previously recognised in OCI are reclassified from OCI to consolidated statement of income.

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NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 September 2024 (Reviewed)

**2 ACCOUNTING POLICIES (continued)**

**2.4 Summary of material accounting policies (continued)**

**(c) Financial instruments (continued)**

**(v) Other financial instruments**

A financial asset is classified as FVTIS, 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 Islamic derivative financial instruments and not designated and effective as a hedging instrument or a financial guarantee.

**(vi) Islamic derivative financial instruments (other than hedging instruments)**

Changes in fair values of the Islamic derivative financial instruments held for trading are included in the consolidated statement of income under "trading income".

Islamic derivative financial instruments 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 FVTIS and the changes in fair value of the entire hybrid contract are recognised in the consolidated statement of income.

**(vii) Customers' accounts, sukuk payable and term financing**

These financial liabilities are carried at amortised cost, less amounts repaid. Sukuk issued is initially recognised at their fair value being the issue proceeds. Changes in fair value to the extent of the changes in fair value of the Sukuk hedged and unamortised transaction costs are adjusted under "Sukuk payable". Term financing from financial institutions represents financing obtained through wakala/ murabaha contract recognized on the origination date and carried at amortized cost.

Current account balances based on Qard Hasan contracts with the customers are recognised when received by the Bank. The transaction is measured at the cash equivalent amount received by the Bank at the time of contracting. At the end of the accounting year, the accounts are measured at their book value, which represents the settlement value to the customers. These accounts are not entitled to any profits nor do they bear any risk of loss as the Bank pays to the related balances on demand. Accordingly, these accounts are considered Qard Hasan from customers to the Bank under Islamic Shari'a.

**(viii) Quasi Equity**

Quasi Equity includes fixed maturity accounts as specified in the term of the contract, based on the Mudaraba or Wakala contracts and are automatically renewable for the same periods unless notified to the contrary in writing by the account holder. Quasi equity call / savings accounts are valid for an unlimited period. In all cases, the quasi equity accounts receive a proportion of the profit as determined by the Bank, or bear a share of loss based on the results of the financial year.

**(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.

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**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

30 September 2024 (Reviewed)

**2 ACCOUNTING POLICIES (continued)****2.4 Summary of material accounting policies (continued)****(e) Term financing against sukuk**

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 “Term financing against sukuk”. The difference between the sale price and repurchase price is treated as finance cost and is accrued over the life of the agreement using the effective profit rate method.

**(f) Determination of fair value**

The Group measures financial instruments and non-financial assets such as investment in real estate, at fair value at the reporting date.

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 profit-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 profit 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 classified under Level 3 are valued based on discounted cash flows and dividend discount models.

The fair value of unquoted Islamic derivative financial instruments 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 as disclosed in note 9.

**(g) Impairment of financial assets**

The Group applies a three-stage approach to measure allowance for credit losses, using an expected credit loss approach as required under FAS 30, for the following categories of financial instruments that are not measured at FVTIS:

- Amortised cost financial assets;
- Sukuk securities classified as FVTOCI;
- Off-balance sheet financing commitments; and
- Financial guarantee contracts, letters of credit and acceptances.

ECL allowances are recognised for financial instruments that are not measured at FVTIS and are reflected in provisions for credit losses.

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 September 2024 (Reviewed)

## 2 ACCOUNTING POLICIES (continued)

### 2.4 Summary of material accounting policies (continued)

#### (g) Impairment of financial assets (continued)

##### *Expected credit loss 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 model reflects the present value of all cash shortfalls related to default events either (i) over the following twelve months or (ii) over the expected life of a financial instrument depending on credit deterioration from date of initial recognition. The allowance for credit losses reflects an unbiased, probability-weighted outcome which considers multiple scenarios based on reasonable and supportable forecasts.

ECL allowances are the product of the PD, EAD and LGD. The PD represents the likelihood of a borrower defaulting on its financial obligation, either over the next 12 months, or over the remaining lifetime of the obligation. The EAD is an estimate of the exposure at a future default date, taking into account expected changes in the funded exposure after the reporting date, including repayments of principal and profit. 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. Furthermore, management overlays are applied to the model outputs, as required.

The impairment model measures credit loss allowances using a three-stage approach to measure ECL based on the extent of credit deterioration since origination as described below:

Stage 1 – Measures and recognises 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 the Bank'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 FAS 30 Working Committee (WC) decision; 60 days (non-rebuttable).
- Restructured credits: All restructured facilities are required to remain in Stage 2 for a minimum period of twelve months from the date of restructuring.
- Delays in credit reviews or resolving credit exceptions subject to WC decision.
- Sector or country specific weakness subject to WC decision.
- Any other specific indicators including forward looking information which are available without undue cost or effort with respect to the obligor or the exposure such as, but not limited to, arrears with other lenders, law suits filed against the obligor by other lenders / creditors, negative movements in market indicators of financial performance etc., and the WC determines that these represent a significant deterioration in credit quality.

Stage 3 – Financial instruments considered to be credit impaired 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 prescribed by regulators has elapsed from the date on which the account qualifies for reclassification.

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 September 2024 (Reviewed)

## 2 ACCOUNTING POLICIES (continued)

### 2.4 Summary of material accounting policies (continued)

#### (g) Impairment of financial assets (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 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 mainly 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 profit 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 profit 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.

##### *Sukuk or similar instruments measured at fair value through OCI*

The ECL for sukuk measured at FVTOCI is recognised as an amount equal to the allowance that would arise if the assets were measured at amortised cost is recognised in OCI as an accumulated impairment amount, with a corresponding charge to consolidated income statement. The accumulated gain / loss recognised in OCI is recycled to the consolidated income statement upon derecognition of the assets.

#### (h) Hedge accounting

In the ordinary course of business, the Group enters into currency swaps, profit rate swaps, forward foreign exchange and forward commodity contracts ("Islamic derivative financial instruments") and other derivative instruments to mitigate foreign currency and profit rate risk. The Islamic currency swaps and forward commodity contracts are based on Wa'ad (promise) structure between two parties to buy a specified Shari'a compliant commodity at an agreed price on the relevant date in future. It is a conditional promise to purchase a commodity through unilateral purchase undertaking. For Islamic profit rate swaps, counterparties generally exchange fixed and floating rate profit payments based on a notional value in a single currency through series of transactions to buy a specified Shari'a compliant commodity at an agreed price on the relevant date in future based on Wa'ad (promise) structure. For currency swaps, fixed or floating payments as well as notional amounts are exchanged in different currencies. The currency swaps, profit rate swaps, forward foreign exchange and forward commodity contracts are being used for hedging purpose.

In order to manage particular risks, the Group applies hedge accounting for transactions which meet the specified criteria. These Islamic derivative financial instruments are stated at fair value. Islamic derivative financial instruments with positive market values are included in "other assets" and Islamic derivative financial instruments with negative market values are included in "other liabilities" in the consolidated balance sheet.

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 September 2024 (Reviewed)

## 2 ACCOUNTING POLICIES (continued)

### 2.4 Summary of material accounting policies (continued)

#### (h) Hedge accounting (continued)

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

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

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

#### (i) Fair value hedges

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

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

Hedge ineffectiveness can arise from:

- Differences in timing of cash flows of hedged items and hedging instruments;
- Different profit rate curves applied to discount the hedged items and hedging instruments; or
- Islamic derivative financial instruments used as hedging instruments having a non-nil fair value at the time of designation.

#### (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 Islamic derivative financial instruments 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.

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**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

30 September 2024 (Reviewed)

**2 ACCOUNTING POLICIES (continued)****2.4 Summary of material accounting policies (continued)****(h) Hedge accounting (continued)****(ii) Cash flow hedges (continued)**

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.

The Group makes an assessment, both at the inception of the hedge relationship as well as on an on-going basis, as to whether the hedging transactions are highly effective in offsetting changes in the fair value or cash flows of the respective hedged items. In case of cash flow hedges, the Group makes an assessment of whether the forecasted transaction is highly probable to occur in order to ascertain whether any variations in those cash flows could affect the profit and loss.

**(i) Offsetting financial instruments**

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

**(j) Revenue recognition**

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

**(i) Financing and similar income & finance and similar cost**

For all profit bearing financial instruments, financing income or expense is recorded using the effective profit rate, which is the rate that discounts estimated future cash payments or receipts through the expected life of the financial instrument or a short period, where appropriate, to the net carrying amount of the financial asset or financial liability. Recognition of financing income is suspended on Financing receivables where profit and / or principal is overdue by 90 days or more. If the Stage 3 financial asset is cured and no longer credit-impaired, the Group reverts to calculating financing income on a gross basis.

Income is recognised on the Islamic products as follows:

Income from Murabaha and Tawarruq are recognised on an effective profit rate, which is established on the initial recognition of the asset and is not revised subsequently. Accrual of income is suspended when the Group believes that the recovery of these amounts may be doubtful.

Income from Ijarah assets is recognised over the term of the Ijarah agreement so as to yield a constant rate of return on the net investment outstanding. Ijarah income is recognised on effective profit rate basis, net of depreciation, over the lease term. Accrual of income is suspended when the Group believes that the recovery of these amounts may be doubtful.

As the subsidiaries were in the phase of converting its operations based on Islamic Shari'a principles, financing income and finance cost includes yield earned and cost incurred on the conventional portfolio of financial Instruments.

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NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL  
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30 September 2024 (Reviewed)

**2 ACCOUNTING POLICIES (continued)**

**2.4 Summary of material accounting policies (continued)**

**(j) Revenue recognition (continued)**

**(ii) Net income attributable to quasi-equity**

Return on Quasi Equity accounts (QEA) is computed after taking into account all income and expenses at the end of the financial period and is distributed between the Quasi Equity which include Mudaraba / Wakala account holders and the shareholder. The share of profit of the Quasi Equity is calculated on the basis of their average account balances over the period, after reducing the agreed and declared Mudarib / Wakala fee.

**(iii) Fees and commissions**

The Group earns fee and commission income from a diverse range of financial services it provides to its customers. Fee and commission income is recognised at an amount that reflects the consideration to which the Group expects to be entitled to in exchange for provision of services. The performance obligations, as well as the timing of their satisfaction, are identified, and determined, at the inception of the contract. When the Group provides a service to its customers, consideration is invoiced and generally due immediately upon satisfaction of a service provided at a point in time or at the end of the contract period for a service provided over time.

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

**(iv) Dividend income**

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

**(k) Business combinations, goodwill and other intangible assets**

Business combinations are accounted for using the purchase method of accounting. Assets and liabilities acquired are recognised at the acquisition date fair values with any excess of the cost of acquisition over the net assets acquired being recognised as goodwill.

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 profit 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:



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**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

30 September 2024 (Reviewed)

**2 ACCOUNTING POLICIES (continued)****2.4 Summary of material accounting policies (continued)****(l) Business combinations, goodwill and other intangible assets (continued)**

- 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 FAS 22 - Operating Segments.

**(m) Premises and equipments**

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

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

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

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

**(n) Investment properties**

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

**(o) Cash and cash equivalents**

Cash and cash equivalents comprise cash and balances with central banks, excluding mandatory reserves, together with those due from banks and other financial institutions and sukuks having an original maturity of three months or less. These cash and cash equivalents are readily convertible to a known amount of cash and subject to an insignificant risk of changes in value.

**(p) 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.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL  
STATEMENTS

30 September 2024 (Reviewed)

**2 ACCOUNTING POLICIES (continued)**

**2.4 Summary of material accounting policies (continued)**

**(q) 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 profit are recognised immediately in OCI.

*Defined contribution plans*

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

**(r) 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.

**(s) 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.

**(t) Non-controlling interests**

Non-controlling interest represents the portion of profit or loss and net assets in the subsidiaries not attributable to the Bank's equity shareholder. 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.

**(u) Perpetual Tier 1 Capital Securities**

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

**(v) 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 shareholder.

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.

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 September 2024 (Reviewed)

### 2 ACCOUNTING POLICIES (continued)

#### 2.4 Summary of material accounting policies (continued)

##### (w) Treasury shares

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

##### (x) Financial guarantees and financing 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-type instrument. Financing 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 guarantee. Subsequent to initial recognition, the Group's liability under each guarantee is measured at the higher of the amortised commission and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee. The expected loss allowance on financial guarantees is measured on the basis of expected payment to be made to the holder less any amounts that the Group expects to recover. Any change in a liability relating to guarantees is recognised in the consolidated statement of income.

##### (y) Repossessed assets

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

##### (z) Ijarah

###### *Right-of-use assets (Group as a lessee)*

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

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

###### *Ijarah liabilities (Group as a lessee)*

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

##### (aa) Zakah

Payment of Zakah is the responsibility of the shareholders of the Bank, accordingly no Zakah has been charged to these consolidated financial statements.

### 3 EARNINGS PER ORDINARY SHARE

	<i>Three months ended 30 September</i>		<i>Nine months ended 30 September</i>	
	<i>2024</i>	<i>2023</i>	<i>2024</i>	<i>2023</i>
	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>
<b>For basic and diluted earnings per share computation</b>				
Net profit attributable to the owner of the Bank	<b>194,983</b>	170,276	<b>580,139</b>	552,785
Less: Share of Perpetual Tier 1 Capital Securities and Sukuk distributions	-	-	(11,678)	(20,375)
Adjusted net profit for the period attributable to Bank's ordinary equity shareholder for basic and diluted earnings per ordinary share	<b>194,983</b>	170,276	<b>568,461</b>	532,410
Weighted average ordinary shares outstanding during the period (in millions)	<b>11,147.9</b>	11,147.9	<b>11,147.9</b>	11,147.9
Basic and diluted earnings per ordinary share (US cents)	<b>1.7</b>	1.5	<b>5.1</b>	4.8
Issued and fully paid ordinary shares of US\$ 0.25 each (in millions)	<b>11,147.9</b>	11,147.9	<b>11,147.9</b>	11,147.9

### 4 CONTINGENT LIABILITIES

The Group had the following credit related contingent liabilities:

	<i>(Reviewed) 30 September 2024 US\$ '000</i>	<i>(Audited) 31 December 2023 US\$ '000</i>
Guarantees	<b>1,488,695</b>	1,683,246
Letters of credit	<b>296,216</b>	253,019
	<b>1,784,911</b>	1,936,265
Contingent liabilities relating to held for sale	-	1,514,458
Irrevocable commitments:		
Undrawn financing receivables commitments	<b>274,421</b>	156,991

### 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. Profit 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 September 2024 (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>
<b>Nine months ended 30 September 2024:</b>					
Net financing and similar income	107,223	174,696	261,655	35,807	579,381
Fees and commissions-net	21,925	26,674	11,491	4,287	64,377
Other operating income	360	(6)	264,002	231	264,587
<b>OPERATING INCOME</b>	<b>129,508</b>	<b>201,364</b>	<b>537,148</b>	<b>40,325</b>	<b>908,345</b>
Provision for credit losses and others	15,084	64,201	(25,411)	589	54,463
<b>NET OPERATING INCOME</b>	<b>114,424</b>	<b>137,163</b>	<b>562,559</b>	<b>39,736</b>	<b>853,882</b>
Operating expenses	60,213	45,397	95,303	29,266	230,179
<b>PROFIT BEFORE TAX</b>	<b>54,211</b>	<b>91,766</b>	<b>467,256</b>	<b>10,470</b>	<b>623,703</b>
Tax expense					41,378
<b>NET PROFIT FOR THE PERIOD FROM CONTINUING OPERATIONS</b>					<b>582,325</b>
Profit after tax expense for the period from discontinued operations					10,891
Less: Attributable to non-controlling profits					13,077
<b>NET PROFIT ATTRIBUTABLE TO THE OWNER OF THE BANK</b>					<b>580,139</b>
<b>Inter segment financing income (expense) included in net financing income above</b>	<b>156,895</b>	<b>(231,518)</b>	<b>(11,452)</b>	<b>86,075</b>	<b>-</b>
	<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>
<b>Nine months ended 30 September 2023:</b>					
Net financing and similar income	92,494	167,610	284,861	34,887	579,852
Fees and commissions-net	20,767	33,671	14,420	5,700	74,558
Other operating income	(317)	469	142,778	78	143,008
<b>OPERATING INCOME</b>	<b>112,944</b>	<b>201,750</b>	<b>442,059</b>	<b>40,665</b>	<b>797,418</b>
Provision for credit losses and others	19,493	(12,620)	54,318	4,419	65,610
<b>NET OPERATING INCOME</b>	<b>93,451</b>	<b>214,370</b>	<b>387,741</b>	<b>36,246</b>	<b>731,808</b>
Operating expenses	53,090	43,552	83,980	23,303	203,925
<b>PROFIT BEFORE TAX</b>	<b>40,361</b>	<b>170,818</b>	<b>303,761</b>	<b>12,943</b>	<b>527,883</b>
Tax expense					45,016
<b>NET PROFIT FOR THE PERIOD FROM CONTINUING OPERATIONS</b>					<b>482,867</b>
Profit after tax expense for the period from discontinued operations					100,958
Less: Attributable to non-controlling profits					31,040
<b>NET PROFIT ATTRIBUTABLE TO THE OWNER OF THE BANK</b>					<b>552,785</b>
<b>Inter segment financing income (expense) included in net financing income above</b>	<b>103,899</b>	<b>(196,861)</b>	<b>15,276</b>	<b>77,686</b>	<b>-</b>

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 September 2024 (Reviewed)

**6 FINANCING RECEIVABLES AND IJARAH ASSETS**

**a) Credit quality of financing receivables and Ijarah assets**

<i>30 September 2024 (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	5,643,409	288,184	-	5,931,593
Standard grade	2,575,435	1,433,093	-	4,008,528
Credit impaired	-	-	268,688	268,688
	<b>8,218,844</b>	<b>1,721,277</b>	<b>268,688</b>	<b>10,208,809</b>
Less: ECL allowances	<b>(70,689)</b>	<b>(240,756)</b>	<b>(215,750)</b>	<b>(527,195)</b>
	<b>8,148,155</b>	<b>1,480,521</b>	<b>52,938</b>	<b>9,681,614</b>
<i>31 December 2023 (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	5,671,160	250,204	-	5,921,364
Standard grade	3,583,528	1,711,735	-	5,295,263
Credit impaired	-	-	273,864	273,864
	<b>9,254,688</b>	<b>1,961,939</b>	<b>273,864</b>	<b>11,490,491</b>
Less: ECL allowances	<b>(82,490)</b>	<b>(274,664)</b>	<b>(225,939)</b>	<b>(583,093)</b>
	<b>9,172,198</b>	<b>1,687,275</b>	<b>47,925</b>	<b>10,907,398</b>

**b) Reconciliation of ECL allowances**

<i>2024</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>
<b>At 1 January 2024</b>	<b>82,490</b>	<b>274,664</b>	<b>225,939</b>	<b>583,093</b>
Transfer from Stage 1	(2,190)	1,643	547	-
Transfer from Stage 2	13,865	(31,862)	17,997	-
Transfer from Stage 3	79	3,695	(3,774)	-
Net remeasurement of ECL allowances (note 6c)	(16,877)	11,400	101,273	95,796
Amounts written-off	-	-	(118,715)	(118,715)
Exchange rate and other adjustments	(6,678)	(18,784)	(7,517)	(32,979)
<b>At 30 September 2024</b>	<b>70,689</b>	<b>240,756</b>	<b>215,750</b>	<b>527,195</b>

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 September 2024 (Reviewed)

**6 FINANCING RECEIVABLES AND IJARAH ASSETS (continued)**

**b) Reconciliation of ECL allowances (continued)**

	2023			
	Stage 1	Stage 2	Stage 3	Total
	US\$ '000	US\$ '000	US\$ '000	US\$ '000
At 1 January 2023	190,447	396,889	363,680	951,016
Transfer from Stage 1	(7,104)	5,787	1,317	-
Transfer from Stage 2	466	(43,603)	43,137	-
Transfer from stage 3	-	17,761	(17,761)	-
Net remeasurement of ECL allowances	26,655	22,181	21,246	70,082
Amounts written-off	-	-	(61,177)	(61,177)
Exchange rate and other adjustments	(11,522)	(8,023)	(4,521)	(24,066)
At 30 September 2023	198,942	390,992	345,921	935,855

**c) Provision for credit losses and others**

	Nine months ended 30 September	
	2024	2023
	US\$ '000	US\$ '000
Net remeasurement of ECL on financing receivables and Ijarah assets (note 6 b)	95,796	42,669
Recoveries from financing receivables and Ijarah assets during the period (from fully provided financing receivables and Ijarah assets written-off in previous years)	(4,061)	(3,551)
Net remeasurement of ECL for non-trading investments (note 7 b)	(15,578)	(30,234)
Net remeasurement of ECL on off-balance sheet exposures and others	(3,801)	4,918
Net other provision (write-back) / charges	(17,893)	51,808
	54,463	65,610

**7 NON-TRADING INVESTMENTS**

**a) Credit quality of non-trading investments**

	30 September 2024 (Reviewed)			
	Stage 1	Stage 2	Stage 3	Total
	US\$ '000	US\$ '000	US\$ '000	US\$ '000
High standard grade	5,713,041	4,884	-	5,717,925
Standard grade	3,757,574	213,954	-	3,971,528
	9,470,615	218,838	-	9,689,453
Less: ECL allowances	(11,266)	(1,367)	-	(12,633)
	9,459,349	217,471	-	9,676,820
Equity instruments at fair value				1,682,879
				11,359,699

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 September 2024 (Reviewed)

**7 NON-TRADING INVESTMENTS (continued)**

**a) Credit quality of non-trading investments (continued)**

	<i>31 December 2023 (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	7,007,065	-	-	7,007,065
Standard grade	2,717,405	382,141	-	3,099,546
	9,724,470	382,141	-	10,106,611
Less: ECL allowances	(25,661)	(2,572)	-	(28,233)
	9,698,809	379,569	-	10,078,378
Equity instruments at fair value				104,571
				10,182,949

Equity instruments held at fair value include investments amounting to US\$ 9.1 million (31 December 2023: US\$ 9.9 million) which are designated as FVTIS. Income from FVTIS equity investments for the period amounted to US\$ 0.2 million (30 September 2023: US\$ 6.1 million).

**b) Reconciliation of ECL allowances**

	<i>2024</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>
<b>At 1 January 2024</b>	<b>25,661</b>	<b>2,572</b>	<b>-</b>	<b>28,233</b>
Net remeasurement of ECL allowances (note 6c)	(14,385)	(1,193)	-	(15,578)
Exchange rate and other adjustments	(10)	(12)	-	(22)
<b>At 30 September 2024</b>	<b>11,266</b>	<b>1,367</b>	<b>-</b>	<b>12,633</b>

  

	<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	24,571	64,398	10,873	99,842
Transfer from Stage 1	(169)	169	-	-
Net remeasurement of ECL allowances	(5,203)	(58,182)	32,265	(31,120)
Amounts written off during the period	-	-	(43,148)	(43,148)
Exchange rate and other adjustments	(35)	87	10	62
At 30 September 2023	19,164	6,472	-	25,636



8 MOVEMENT IN OTHER RESERVES

			Foreign exchange translation reserve	Cumulative changes in		Pension fund reserve*	Total other reserves
	Capital reserve	Property revaluation reserve		OCI reserve	Cash flow hedge reserve		
	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
<b>Balance at 1 January 2024</b>	<b>17,240</b>	<b>39,840</b>	<b>(837,247)</b>	<b>(6,161)</b>	<b>-</b>	<b>(55,044)</b>	<b>(841,372)</b>
Currency translation adjustments	-	(54)	(185,199)	-	-	(222)	(185,475)
Transfers to interim condensed consolidated statement of income	-	-	-	(7,997)	-	-	(7,997)
Transfers to retained earnings on sale of equity investments	-	-	-	548	-	-	548
Net fair value movements	-	-	-	(19,517)	(259)	-	(19,776)
Transfers to retained earnings on sale of subsidiary	-	(4,696)	-	(8,054)	-	-	(12,750)
Transfers to interim condensed consolidated statement of income on sale of subsidiary	-	-	104,000	-	-	-	104,000
<b>Balance at 30 September 2024</b>	<b>17,240</b>	<b>35,090</b>	<b>(918,446)</b>	<b>(41,181)</b>	<b>(259)</b>	<b>(55,266)</b>	<b>(962,822)</b>

  

			Foreign exchange translation reserve	Cumulative changes in		Pension fund reserve	Total other reserves
	Capital reserve	Property revaluation reserve		OCI reserve	Cash flow hedge reserve		
	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
<b>Balance at 1 January 2023</b>	<b>17,240</b>	<b>38,731</b>	<b>(763,201)</b>	<b>(30,765)</b>	<b>(29)</b>	<b>(34,964)</b>	<b>(772,988)</b>
Currency translation adjustments	-	(36)	(88,673)	-	-	(42)	(88,751)
Transfers to interim condensed consolidated statement of income	-	-	-	(12,709)	82	-	(12,627)
Net fair value movements	-	-	-	3,152	(94)	(19,206)	(16,148)
<b>Balance at 30 September 2023</b>	<b>17,240</b>	<b>38,695</b>	<b>(851,874)</b>	<b>(40,322)</b>	<b>(41)</b>	<b>(54,212)</b>	<b>(890,514)</b>

\* 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 financial institution. Under the terms of this "buy-in" policy, the financial institution 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 the financial institution defaults on any payments to covered members.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 September 2024 (Reviewed)

**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\$ 8,237.6 million as at 30 September 2024 (31 December 2023: US\$ 8,358.7 million). Carrying value of these non-trading investments was US\$ 8,141.4 million as at 30 September 2024 (31 December 2023: US\$ 8,222.8 million).

The Group's primary medium and long-term financial liabilities are sukuk payable and term financing. 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 September 2024 (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	<b>1,603,929</b>	<b>54,564</b>	<b>24,386</b>	<b>1,682,879</b>
Non-trading investments at fair value	<b>1,506,844</b>	<b>30,619</b>	-	<b>1,537,463</b>
Financing receivables and Ijarah assets	-	-	<b>8,952</b>	<b>8,952</b>
Islamic derivative financial assets	-	<b>292,394</b>	-	<b>292,394</b>
Islamic derivative financial liabilities	-	<b>338,854</b>	-	<b>338,854</b>

<i>31 December 2023 (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	613	64,172	39,786	104,571
Non-trading investments at fair value	1,793,752	66,743	-	1,860,495
Financing receivables and Ijarah assets	-	-	10,386	10,386
Islamic derivative financial assets	-	500,604	-	500,604
Islamic derivative financial liabilities	-	290,644	-	290,644

During the nine months ended 30 September 2024 and 2023, there have been no transfers between Level 1, 2, 3 and no significant movements were noted in Level 3 instruments.

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**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 financing receivables and Ijarah assets to related parties are performing and are subject to ECL assessment.

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

	<b>2024</b>				
	<i>Major shareholders</i>	<i>Associates</i>	<i>Board of Directors</i>	<i>Senior Management</i>	<i>Other related parties</i>
	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>
<b><i>For the nine months ended</i></b>					
<b><i>30 September 2024</i></b>					
Financing and similar income	380	-	121	-	-
Finance and similar cost	30,880	177	301	192	11,721
Fees and commissions - net	2	949	-	3	-
Dividend income	42,655	-	-	-	-
Short term employee benefits	-	-	-	5,915	-
End of service benefits	-	-	-	495	-
Directors' fees and related expenses	-	-	1,664	-	-
Net operating (loss) / income from discontinued operations	(10,436)	17	(78)	-	(849)
<b><i>As of 30 September 2024</i></b>					
Due from banks	154,416	2,106	-	-	-
Financing receivables and Ijarah assets	-	-	1,727	146	-
Non-trading investments	1,603,505	-	-	-	-
Profit receivable and other assets	4,243	21	92	-	-
Due to banks	382,459	29,025	-	-	17
Customers' accounts and quasi equity	418,440	-	3,700	7,291	358,000
Sukuk payable and term financing	54,545	-	-	-	-
Profit payable and other liabilities	8,753	690	10	-	5,788
Commitments and contingent liabilities	2,452	40,035	-	-	-

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30 September 2024 (Reviewed)

10 RELATED PARTY TRANSACTIONS (continued)

	2023				
	Major shareholders US\$ '000	Associates US\$ '000	Board of Directors US\$ '000	Senior Management US\$ '000	Other related parties US\$ '000
<i>For the nine months ended</i>					
<i>30 September, 2023</i>					
Financing and similar income	-	164	149	1	97
Finance and similar cost	4,634	151	163	134	60
Fees and commissions - net	-	933	-	14	-
Short term employee benefits	-	-	-	7,561	-
End of service benefits	-	-	-	631	-
Directors' fees and related expenses	-	-	1,504	-	-
Net operating income (loss) from discontinued operations	(67,680)	20	(201)	(546)	(2,985)
<i>As of 31 December 2023</i>					
Due from banks	-	3,001	-	-	-
Financing receivables and Ijarah assets	-	-	2,117	245	-
Profit receivable and other assets	-	130	134	-	-
Due to banks	97,616	28,126	-	-	17
Customers' accounts and quasi equity	206,241	2	4,337	11,020	-
Sukuk payable and term financing	100,000	-	-	-	-
Profit payable and other liabilities	524	2,941	13	-	-
Commitments and contingent liabilities	1,597	21,482	-	-	-
<i>Held for Sale:</i>					
Assets classified as held for sale	311,169	-	30	483	18,577
Liabilities directly associated with assets as held for sale	1,959,473	970	10,330	2,150	134,419
Commitments and contingent liabilities	315	4,003	-	-	1,809

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# 11 CAPITAL ADEQUACY AND NET STABLE FUNDING RATIO (NSFR)

The total capital ratio is calculated in accordance with the capital adequacy guidelines, under Basel III, issued by the CBB. The minimum capital adequacy ratio as per CBB is 12.5%, including mandatory Capital Conservation Buffer (CCB) of 2.5%. AUB had been designated as a Domestic Systemically Important Banks (DSIB) by the CBB. CBB has mandated in its rule book (DS-1.2.1) that DSIBs must hold additional Common Equity Tier 1 (CET 1) capital buffer of 1.5% of total RWA as calculated for the purpose of capital adequacy. Consequently, AUB is required to maintain minimum total capital adequacy ratio of 14.0%. The Group's total capital ratio is 26.8% as of 30 September 2024 (31 December 2023: 17.2%).

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 September 2024 is 120.7% (31 December 2023: 120.8%).

	<i>(Reviewed)</i> <b>30 September</b> <b>2024</b> <i>US\$ '000</i>	<i>(Audited)</i> <b>31 December</b> <b>2023</b> <i>US\$ '000</i>
<u>Available Stable Funding:</u>		
Regulatory capital	<b>5,411,196</b>	6,230,233
Stable accounts	<b>4,388,460</b>	8,485,752
Wholesale funding	<b>6,821,472</b>	11,258,826
Others	<b>320,668</b>	814,759
<b>Total Available Stable Funding (A)</b>	<b>16,941,796</b>	26,789,570
<u>Required Stable Funding :</u>		
High-Quality Liquid Assets (HQLA)	<b>1,827,320</b>	2,073,404
Performing financing receivables and Ijarah assets	<b>6,781,791</b>	14,741,827
Securities (other than HQLA)	<b>3,517,571</b>	2,588,539
Islamic derivative financial instruments	<b>454,857</b>	283,378
Others	<b>1,250,489</b>	2,075,887
Off-balance sheet items	<b>208,198</b>	421,494
<b>Total Required Stable Funding (B)</b>	<b>14,040,226</b>	22,184,529
<b>NSFR (%) (A/B)</b>	<b>120.7%</b>	120.8%

# 12 ASSETS HELD FOR SALE

The board of directors of the Bank on 13 November 2023 approved AUB's shareholding in Ahli United Bank K.S.C.P. ("AUBK") being swapped for shares in KFH, at a share exchange ratio of 0.3723118279 KFH shares for each AUBK share. Accordingly, AUBK was classified as a held for sale and as a discontinued operation as per IFRS 5 until 21 February 2024. The sale of AUBK was completed on 22 February 2024. The results of AUBK for the period presented are as below:

	<i>Nine months ended</i> <b>30 September</b> <b>2024*</b> <i>US\$ '000</i>	<b>2023</b> <i>US\$ '000</i>
Operating income	<b>38,700</b>	205,034
Allowance for impairment, credit losses and others	<b>11,738</b>	8,051
Net operating income	<b>26,962</b>	196,983
Operating expense and tax expense	<b>16,071</b>	96,025
Profit after tax expense for the period from discontinued operations	<b>10,891</b>	100,958
Non-controlling interests	<b>3,366</b>	26,645
Net profit attributable to the owner of the bank	<b>7,525</b>	74,313

\* AUBK results included upto 21 February 2024.

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**13 COMPARATIVE INFORMATION**

On account of sale of AUBK certain corresponding figures have been reclassified in order to conform to the presentation of the interim condensed consolidated financial statements for the current period. Such reclassifications did not affect previously reported net profit.