

البنك الأهلي المتحد



ahli united bank

## OFFEREE BOARD CIRCULAR DATED 15 AUGUST 2022

THIS OFFEREE BOARD CIRCULAR ("CIRCULAR") IS IMPORTANT AS IT CONTAINS THE RECOMMENDATIONS OF THE BOARD OF DIRECTORS OF AHLI UNITED BANK B.S.C. ("AUB" OR THE "OFFEREE") AND THE ADVICE OF THE PROFESSIONAL INDEPENDENT ADVISER. THIS CIRCULAR REQUIRES YOUR IMMEDIATE ATTENTION. PLEASE READ IT CAREFULLY.

Prior to making a decision, each recipient of this Circular is responsible for obtaining independent advice for considering the appropriateness of the Offer with regard to their respective objectives, financial situation and investment needs. If you are in doubt about any aspect of this Circular and/or the Offer, you should consult a licensed securities dealer or licensed institution in securities, a bank manager, solicitor or attorney, professional accountant, or other professional advisers.

If you have sold or transferred all your shares in AUB, you should immediately forward this Circular together with the Offer Document to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for onward transmission to the purchaser or transferee.

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AHLI UNITED BANK B.S.C.

(Incorporated in the Kingdom of Bahrain under Commercial Registration No.: 46348)

CIRCULAR TO SHAREHOLDERS OF AHLI UNITED BANK B.S.C.

in relation to the

VOLUNTARY CONDITIONAL OFFER TO ACQUIRE UP TO 100% OF THE ISSUED AND PAID UP ORDINARY SHARES OF AHLI UNITED BANK B.S.C. BY WAY OF A SHARE SWAP AT AN EXCHANGE RATIO OF 2.695 AUB SHARES FOR 1 NEW KFH SHARE

BY

KUWAIT FINANCE HOUSE K.S.C.P. ("KFH")

بيت التمويل الكويتي  
Kuwait Finance House



PROFESSIONAL  
INDEPENDENT ADVISER



Citigroup Global Markets Limited

LEAD INTERNATIONAL  
LEGAL ADVISOR TO  
AHLI UNITED BANK B.S.C.

Linklaters

Linklaters LLP

ISSUE ADVISOR



KPMG Fakhro, Bahrain

LEGAL ADVISOR TO  
AHLI UNITED BANK B.S.C.  
AS TO BAHRAINI AND  
KUWAITI LAW



ASAR - Al Ruwayeh & Partners

## DISCLAIMER STATEMENT

THE CENTRAL BANK OF BAHRAIN, THE BAHRAIN BOURSE AND THE MINISTRY OF INDUSTRY AND COMMERCE, IN THE KINGDOM OF BAHRAIN, ASSUME NO RESPONSIBILITY FOR THE ACCURACY AND COMPLETENESS OF THE STATEMENTS AND INFORMATION CONTAINED IN THIS CIRCULAR AND EXPRESSLY DISCLAIM ANY LIABILITY WHATSOEVER FOR ANY LOSS, HOWSOEVER ARISING, FROM THE RELIANCE UPON THE WHOLE OR ANY PART OF THE CONTENTS OF THIS CIRCULAR.

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**AHLI UNITED BANK B.S.C.**

(Incorporated in the Kingdom of Bahrain  
under Commercial Registration No.: 46348)

**OFFEREE BOARD CIRCULAR**

## **DIRECTORS' DECLARATION**

**THE DIRECTORS OF AUB ISSUING THIS CIRCULAR, WHOSE NAMES APPEAR IN THIS CIRCULAR, JOINTLY AND SEVERALLY ACCEPT FULL RESPONSIBILITY FOR THE ACCURACY OF INFORMATION CONTAINED IN THIS CIRCULAR INCLUDING THE APPENDICES. TO THE BEST OF THE KNOWLEDGE AND BELIEF OF THE DIRECTORS, WHO HAVE TAKEN ALL REASONABLE CARE TO ENSURE THAT SUCH IS THE CASE, THE INFORMATION CONTAINED IN THIS CIRCULAR IS IN ACCORDANCE WITH THE FACTS AND CONTAINS NO OMISSIONS LIKELY TO AFFECT THE IMPORTANCE AND COMPLETENESS OF THIS CIRCULAR.**

### **STATEMENT FROM THE BOARD OF DIRECTORS OF AHLI UNITED BANK B.S.C.**

This Circular has been prepared by Ahli United Bank B.S.C. to provide information to its shareholders in connection with the Offer made by Kuwait Finance House K.S.C.P. to acquire up to 100% of the issued and paid up ordinary shares of Ahli United Bank B.S.C. by way of a share swap at an exchange ratio of 2.695 AUB Shares for 1 New KFH Share.

**IN ACCORDANCE WITH THE TAKEOVERS, MERGERS AND ACQUISITIONS MODULE OF THE CENTRAL BANK OF BAHRAIN RULEBOOK VOLUME 6, THE RECOMMENDATIONS TO THE SHAREHOLDERS IN RELATION TO THE OFFER CONTAINED IN THIS CIRCULAR HAVE BEEN MADE BY THE BOARD OF DIRECTORS, WHOSE MEMBERS HAVE NO DIRECT OR INDIRECT PERSONAL INTEREST WHICH WOULD PREVENT ANY OF THEM FROM PROVIDING THIS CIRCULAR, NOTING THE DISCLOSURES IN PARAGRAPH 6 OF APPENDIX A.**

This Circular has been filed with the Central Bank of Bahrain in the Kingdom of Bahrain, in accordance with the requirements of Central Bank of Bahrain Rulebook Volume 6, Takeovers, Mergers and Acquisitions Module.

The information in this Circular regarding the Offeree has been provided by the Offeree. The Professional Independent Adviser, the Legal Advisors and the Issue Advisor make no representation or warranty, express or implied, as to the accuracy, completeness or verification of such information, and nothing contained in this Circular is, or shall be relied upon as, a promise, representation, or recommendation to any recipient of this Circular, whether as to the past or the future, in connection with the Offeree or this transaction, by the Professional Independent Adviser, the Legal Advisors and the Issue Advisor.

The Professional Independent Adviser is acting exclusively for the Offeree as financial adviser and for no one else in connection with this transaction, and will not regard any other person (whether or not a recipient of this Circular) as a client in relation to this transaction and will not be responsible to anyone other than the Offeree for providing the protections afforded to its clients nor for providing advice in relation to this transaction or any other matter referred to in this Circular. Neither the Professional Independent Adviser or any of its subsidiaries, branches or affiliates, nor any of their respective directors or employees owes or accepts any duty, liability or responsibility whatsoever (whether direct or indirect, whether in contract, in tort, under statute or otherwise), and accordingly disclaims to the fullest extent permitted by law all and any responsibility and liability, to any person who is not a client of the Professional Independent Adviser in connection with the contents of this Circular or any other matter referred to in this Circular.

The information in this Circular pertaining to KFH has been prepared in good faith based on publicly available information. Consequently, the Offeree, the Professional Independent Adviser, the Legal Advisors and the Issue Advisor do not accept any liability for the accuracy, completeness or verification of the information in this Circular regarding KFH. The Board of Directors of Ahli United Bank B.S.C. hereby declares that, having taken all reasonable care to ensure that such is the case, the information contained in this Circular is, to the best of its knowledge, in accordance with the facts and contains no material omissions.

**Board of Directors of Ahli United Bank B.S.C.:**

Name of Director	Title	Signature
Mr. Meshal AbdulAziz Alothman	Chairman	
Mr. Mohammad Fouad Al-Ghanim	Deputy Chairman	
Mr. Khalid Mohamed Najibi	Board Member	
Mr. Abdulghani M.S.Y Behbehani	Board Member	
Mr. Ahmad Ghazi Al-Abduljalil	Board Member	
Mr. Abdullah Al Mudhaf	Board Member	
Mr. Jamal Abdel Razzaq Al-Naif	Board Member	

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## I. CORPORATE INFORMATION

<b>Board of Directors</b>	<p>Mr. Meshal AbdulAziz Alothman          Mr. Mohammad Fouad Al-Ghanim          Mr. Khalid Mohamed Najibi          Mr. Abdulghani M.S.Y Behbehani          Mr. Ahmad Ghazi Al-Abduljalil          Mr. Abdullah Al Mudhaf          Mr. Jamal Abdel Razzaq Al-Naif</p>
<b>Sharia'a Supervisory Board</b>	<p>Prof. Ali Muhyealdin Al-Quradaghi          Dr. Fareed Mohammed Hadi          Prof. Abdul Aziz Al-Qassar</p>
<b>Executive Management</b>	<p>Mr. Adel A. El-Labban – Group CEO          Mr. Keith Gale – Deputy Group CEO – Risk, Legal and Compliance          Mr. Suvrat Saigal – Deputy Group CEO – Retail Banking          Mr. Geoff Stecyk – Deputy Group CEO – Technology and Operations          Mr. David O'Loan – Deputy Group CEO – Treasury and Investments          Mr. Othman Hijazi – Deputy Group CEO – Corporate Banking and interim charge of Private Banking &amp; Wealth Management          Mrs. Iman Al-Madani – Deputy Group CEO – Human Resources Transformation &amp; Development          Mr. Rajeev Gogia – Deputy Group CEO – Finance and Strategy          Mr. Sami Tamim – Chief Executive Officer – Ahli United Bank (UK) PLC, UK          Ms. Jehad Al-Humaidhi – Chief Executive Officer – Ahli United Bank K.S.C.P., Kuwait          Mrs. Hala Sadek – Chief Executive Officer – Ahli United Bank (Egypt) S.A.E., Egypt          Mr. Faisal Al Haimus – Chief Executive Officer – Commercial Bank of Iraq, Iraq          Mr. Ayman El Gammal – Chief Executive Officer – United Bank for Commerce &amp; Investment S.A.L., Libya          Mr. Said Hathout – Chief Executive Officer – Al Hilal Life &amp; Al Hilal Takaful</p>
<b>Registered Office</b>	<p>Building 2495,          Road 2832,          Al Seef District 428,          Kingdom of Bahrain</p>
<b>Share Registrar</b>	<p>Bahrain Clear B.S.C.(c)</p>

**I. CORPORATE INFORMATION (CONTINUED)**

<b>Receiving Agents</b>	<p>For AUB Shareholders of AUB BK Shares, Kuwait Clearing Company K.S.C.</p> <p>For AUB Shareholders of AUB BB Shares, Bahrain Clear B.S.C.(c) and/or SICO B.S.C.(c)</p> <p>For AUB Shareholders resident outside Kuwait and Bahrain, Kuwait Clearing Company K.S.C., Bahrain Clear B.S.C.(c) and/or SICO B.S.C.(c)</p>
<b>External Auditor of the Offeree</b>	Ernst & Young
<b>Issue Advisor</b>	KPMG Fakhro, Bahrain
<b>Lead Legal Advisor to the Offeree in relation to the Offer</b>	Linklaters LLP
<b>Legal Advisor to the Offeree in respect of the laws of Bahrain and Kuwait in relation to the Offer</b>	ASAR – Al Ruwayeh & Partners
<b>Professional Independent Adviser to the Board of Directors in relation to the Offer</b>	Citigroup Global Markets Limited



## II. DEFINITIONS

Words and expressions not otherwise defined in this Circular have, unless the context otherwise requires, the following meanings:

<b>Acceptance</b>	The valid acceptance of the Offer by an AUB Shareholder by indicating such acceptance on the Acceptance and Transfer Form and submitting the same to any of the Receiving Agents or electronically at <a href="http://www.ipo.com.kw">www.ipo.com.kw</a> within the Offer Period as per the procedures prescribed in the Offer Document, and which shall only be deemed validly received by the Offeror upon the Offer being declared unconditional in all respects
<b>Acceptance and Transfer Form</b>	The form (electronic or paper) to be prepared by the Receiving Agents and available: (i) for AUB Shareholders of AUB BB Shares, from the Participating Branches and/or the Bahrain Receiving Agent as well as procured and completed electronically at the following website: <a href="http://www.ipo.com.kw">www.ipo.com.kw</a> ; and (ii) for AUB Shareholders of AUB BK Shares, procured and completed electronically at the following website: <a href="http://www.ipo.com.kw">www.ipo.com.kw</a> , in each case for the AUB Shareholders to accept the Offer
<b>Acquisition</b>	The acquisition by KFH of up to 100% of the issued ordinary shares of AUB by way of a share swap at the Exchange Ratio
<b>Adviser's Opinion or Professional Independent Adviser's Opinion</b>	The fairness opinion dated 10 August 2022 issued by the Professional Independent Adviser to the Board, set out in Part VI of this Circular
<b>AUB or Offeree</b>	Ahli United Bank B.S.C., commercial registration number 46348 licensed and regulated by the CBB as a conventional retail bank and listed on the BB and BK
<b>AUB BB Shares</b>	AUB Shares that are listed on the BB, including AUB Shares held in physical form
<b>AUB BK Shares</b>	AUB Shares that are listed on the BK
<b>AUB Shareholder</b>	A holder of AUB Shares
<b>AUB Shares</b>	11,147,931,458 outstanding issued shares of AUB with a nominal value of USD0.25 each in the capital of AUB, and any AUB Shares that are issued and paid, whether as dividends shares, shares issued pursuant to AUB's employee stock option plan, after the date of the Offer Document, but before the Effective date
<b>Bahrain</b>	Kingdom of Bahrain
<b>Bahrain Clear or BC</b>	Bahrain Clear B.S.C.(c)
<b>Bahrain Receiving Agent</b>	Bahrain Clear and/or SICO, being the entities appointed by the Offeror which are authorised to receive Acceptance and Transfer Forms in accordance with the Offer Document for AUB Shareholders of AUB BB Shares and for AUB Shareholders resident outside Kuwait and Bahrain
<b>BB</b>	Bahrain Bourse
<b>BK</b>	Boursa Kuwait
<b>Board or AUB Board</b>	The Board of Directors of AUB

## II. DEFINITIONS (CONTINUED)

<b>Business Days</b>	A day (other than a Friday or Saturday) on which banks are open for general business in Kuwait and the Kingdom of Bahrain
<b>CBB</b>	The Central Bank of Bahrain
<b>CBB Rulebook</b>	The Central Bank of Bahrain's rulebook issued and in force in the Kingdom of Bahrain
<b>CBK</b>	The Central Bank of Kuwait
<b>Certified Copy</b>	A copy of a document certified as a true copy of the original by any of the following from a GCC or FATF member state indicating that the "original was sighted" or a combination of words that give the same effect: (a) a lawyer; (b) a notary; (c) a chartered/certified accountant; (d) an official of a government ministry; (e) an official of an embassy or consulate; or (f) an official of the Offeror, Offeree, or another licensed financial institution. The individual certifying the Certified Copy must provide clear contact details that allow the recipient of the Certified Copy to check and confirm the authenticity of the document if required
<b>Circular</b>	This circular to AUB Shareholders in relation to the Offer enclosing, <i>inter alia</i> , the recommendations of the Board and the Adviser's Opinion
<b>CMA</b>	The Capital Markets Authority in the State of Kuwait
<b>CMSD</b>	The CBB's Capital Markets Supervision Directorate
<b>Commercial Companies Law</b>	Decree Law No. 21 of the year 2001 promulgating the Commercial Companies Law in the Kingdom of Bahrain, as amended from time to time
<b>Conditions Precedent</b>	The conditions set out in section 5.7 ( <i>Conditions Precedent to the Offer</i> ) of the Offer Document and as replicated in paragraph 2.6 of Part IV of this Circular
<b>CSD</b>	The Central Securities Depository at Bahrain Clear
<b>Demat</b>	Dematerialised
<b>Director</b>	A person holding office as a director of AUB as at the Latest Practicable Date
<b>Dissenting Shareholder Effective Date</b>	If the Offeror receives the Requisite Acceptances and exercises its compulsory acquisition rights, the date on which New KFH Shares are successfully issued at the Exchange Ratio as fully paid-up to the Dissenting Shareholders (excluding any Dissenting Shareholders subject to a legal binding order of a competent court which would prevent the transfer of their AUB Shares to KFH), which date shall be no earlier than 60 days from the date of the Squeeze-Out Notice but no later than three months after the day on which KFH received the Requisite Acceptances

<b>Dissenting Shareholders</b>	AUB Shareholders who appear on the shareholder register of AUB as at the Record Date and who do not deliver valid Acceptances prior to the Final Offer Closing Date
<b>Effective Date</b>	If the Offer is successful, the date on which New KFH Shares are successfully issued at the Exchange Ratio as fully paid up to the AUB Shareholders who appear on the shareholder register of AUB as at the Record Date and who accepted the Offer in accordance with the terms of the Offer Document, which date shall be no later than 10 calendar days from: (i) the Final Offer Closing Date; or (ii) the date on which the general assembly of AUB (convened in accordance with section 5.7 of the Offer Document) is validly held (and subject to the consent of the CBB)
<b>Exchange Ratio</b>	The exchange ratio of 2.695 AUB Shares for 1 New KFH Share
<b>FATF</b>	The Financial Action Task Force
<b>Final Offer Closing Date</b>	The date falling not less than the 15th calendar day from the date of announcement of the Offer having become unconditional in all respect
<b>Firm Intention</b>	The firm intention to make an Offer issued by KFH to the AUB Board on 25 July 2022
<b>GCC</b>	Gulf Cooperation Council, comprising the Kingdom of Bahrain, the State of Kuwait, the Sultanate of Oman, the State of Qatar, the Kingdom of Saudi Arabia and the United Arab Emirates
<b>Implementation Agreement</b>	The agreement to be entered into between KFH and AUB setting out the parties' rights and obligations in respect of, and the process for, the implementation of, and certain other matters in connection with, the Offer
<b>IN</b>	A unique number issued by BC for any investor who opens a securities depository account at BC
<b>Initial Offer Closing Date</b>	The date falling on the 15th calendar day from the Offer Opening Date, being the last date, subject to the Final Offer Closing Date and any extensions as may be permissible under the TMA, for receiving the completed Acceptance and Transfer Forms, being 7 September 2022
<b>Issue Advisor</b>	KPMG Fakhro, being the issue advisor appointed by AUB to assist in the TMA-related process
<b>KCC</b>	The Kuwait Clearing Company K.S.C.
<b>KFH or Offeror</b>	Kuwait Finance House K.S.C.P., a public joint stock company incorporated in the State of Kuwait and registered under commercial registration number 26066
<b>KFH Board</b>	The Board of Directors of KFH
<b>KFH Firm Intention Date</b>	The date on which the Firm Intention was sent by KFH, being 25 July 2022

## II. DEFINITIONS (CONTINUED)

<b>KFH Shares</b>	9,285,707,127 outstanding issued and paid-up shares of KFH with a nominal value of KWDO.100 each in the capital of KFH
<b>Kuwait Receiving Agent</b>	The KCC, being the entity appointed by the Offeror which is authorised to receive Acceptance and Transfer Forms in accordance with the Offer Document for AUB Shareholders of AUB BK Shares and for AUB Shareholders resident outside Kuwait and Bahrain
<b>KWD</b>	Kuwaiti Dinar, the lawful currency in the State of Kuwait
<b>Last Trading Date</b>	The date falling one Business Day prior to the Suspension Date, being 17 August 2022
<b>Latest Practicable Date</b>	7 August 2022, being the latest practicable date prior to the printing of this Circular on which certain factual information (such as closing prices and shareholdings) is provided in this Circular
<b>Lead Legal Advisor</b>	Linklaters LLP
<b>Legal Advisor in respect of the laws of Bahrain and Kuwait</b>	ASAR - Al Ruwayeh & Partners
<b>Legal Advisors</b>	Linklaters LLP and ASAR - Al Ruwayeh & Partners
<b>Material Adverse Effect</b>	Means any event, occurrence or change in circumstances which individually, or when aggregated with all such other events, occurrences or changes, has or could reasonably be expected to have a material adverse effect on the business, assets, liabilities, financial position, profitability or prospects of either of the KFH group or the AUB group (in each case taken as a whole, provided that in no event shall a deterioration of the economic, political or market conditions in the industry globally, in the Middle East, in Kuwait, in Bahrain or in general be treated as a "Material Adverse Effect" except to the extent that such effect disproportionately adversely affects the KFH Group or the AUB Group (as the case may be) compared to other businesses or participants in the industry. The occurrence of a Material Adverse Effect shall be: (i) determined by KFH Board or AUB Board of Directors (acting reasonably); and (ii) subject to the consent of the CBB
<b>Minor</b>	A person who is below 21 years of age
<b>MOCI</b>	The Ministry of Commerce and Industry in the State of Kuwait
<b>MOIC</b>	The Ministry of Industry and Commerce of the Kingdom of Bahrain
<b>New KFH Shares</b>	The new KFH Shares to be issued, credited as fully paid, to the AUB Shareholders pursuant to the Offer
<b>Offer or KFH Offer</b>	The voluntary conditional offer made by KFH to acquire up to 100% of the issued and paid-up ordinary shares of AUB by way of a share swap at the Exchange Ratio
<b>Offer Document</b>	The offer document prepared by KFH in connection with the Offer dated 25 July 2022
<b>Offer Opening Date</b>	The date from which the completed Acceptance and Transfer Forms will be received by the Receiving Agents, being 24 August 2022

<b>Offer Period</b>	The period beginning on the Offer Opening Date and ending on the Final Offer Closing Date
<b>Participating Branches</b>	The branches of AUB in Bahrain listed in paragraph 8.2.1 of Part IV of this Circular that will be receiving Acceptance and Transfer Forms during the Offer Period
<b>Professional Independent Adviser</b>	Citigroup Global Markets Limited, being the professional independent adviser appointed by AUB in connection with the Offer
<b>Receiving Agents</b>	The Bahrain Receiving Agent and the Kuwait Receiving Agent
<b>Recommendations of the Board</b>	The recommendations of the Board to the AUB Shareholders in relation to the KFH Offer as set out in Part V of this Circular
<b>Record Date</b>	The date preceding the Offer Opening Date established for the purposes of identifying the AUB Shareholders' entitlement to receive the Offer, being 21 August 2022 for AUB BB Shares and 22 August 2022 for AUB BK Shares
<b>Requisite Acceptances</b>	The valid Acceptances that are received in respect of AUB Shares, representing at least 90% or more of the total outstanding share capital of AUB and which remain unwithdrawn until the day on which the Offer is declared unconditional in all respects (excluding, for the avoidance of doubt, AUB Shares which are owned by KFH or persons acting in concert as at the date of the Offer Document)
<b>Restricted Jurisdiction</b>	Any jurisdiction where the making or the acceptance of the Offer would violate the laws of the jurisdiction
<b>SICO or Cross Listing Agent</b>	SICO B.S.C.(c)
<b>Squeeze-Out</b>	The acquisition of the AUB Shares held by Dissenting Shareholders in accordance with article 319 bis I of the Commercial Companies Law and article 3.4.4. of the TMA
<b>Squeeze-Out Notice</b>	The notification to be issued by the Offeror, within 15 days from the date on which the Offer is declared unconditional in all respects, to the Dissenting Shareholders to inform them of its intention to exercise its power of compulsory acquisition and the date for executing such acquisition as per articles 3.4.4, 3.4.7 and 3.4.8 of the TMA, in the form prescribed in Appendix TMA-E
<b>Suspension Date</b>	The date on which trading in the AUB Shares is suspended to enable a list of AUB Shareholders entitled to receive the Offer to be drawn up, being 18 August 2022

## II. DEFINITIONS (CONTINUED)

<b>Suspension Period</b>	The period during which trading in the AUB Shares will be suspended, which shall commence on the Suspension Date and will continue until the earlier of: (i) the date on which the Offer is discontinued due to failure in declaring it unconditional as to the Requisite Acceptances; (ii) the date on which the Offer is discontinued due to failure in declaring it unconditional in all respects; and (iii) the Effective Date (provided that in case the Offeror receives the Requisite Acceptances and exercises its rights to Squeeze-Out, the Suspension Period shall be automatically extended until the Dissenting Shareholder Effective Date)
<b>TMA or TMA Module</b>	The Takeovers, Mergers and Acquisitions Module of Volume 6 of the CBB Rulebook
<b>USD</b>	United States dollar, the lawful currency of the United States of America
<b>VWAP</b>	Volume Weight Average Price per AUB Share

### III. EXPECTED TIMETABLE

The following dates are indicative only and will depend on whether, amongst other things, (and the dates on which) the Conditions Precedent are satisfied or waived (where applicable).

#### Offer Timetable and key dates

Event	Date
KFH Firm Intention Date	25 July 2022
Receipt of the Offer Document	25 July 2022
Latest Practicable Date	7 August 2022
Date of this Circular	15 August 2022
Posting date of this Circular, the Offer Document and Acceptance and Transfer Form to AUB Shareholders	15 August 2022
Last Trading Date	17 August 2022
Suspension Date	18 August 2022
Record Date for AUB BB Shares	21 August 2022
Record Date for AUB BK Shares	22 August 2022
Offer Opening Date	24 August 2022
Initial Offer Closing Date	7 September 2022 (subject to extension)
Offer to be declared unconditional in all respects	To be announced
Squeeze-Out Notice to Dissenting Shareholders sent / published (1)	To be announced
Final Offer Closing Date	To be announced
Release of New KFH Shares to accepting AUB Shareholders (2)	Effective Date
Effective Date (3)	To be announced
End of Dissenting Shareholders 60-day objection period	To be announced
Release of New KFH Shares to Dissenting Shareholders	To be announced

**Notes:**

(1) KFH will deliver the Squeeze-Out Notice in the manner described in section 5.10 (Compulsory Acquisitions (Squeeze-Out)) of the Offer Document.

(2) Subject to the approval of the CMA on issuance of the New KFH Shares and adhering to the applicable laws and regulations in Kuwait and Bahrain.

(3) Subject to the Conditions Precedent of the Offer having been satisfied or (where applicable) waived and, where applicable, after the general assembly, described in section 5.7 (Condition Precedents to the Offer) of the Offer Document, is held.

## **IV. LETTER TO AUB SHAREHOLDERS FROM THE BOARD**

### **AHLI UNITED BANK B.S.C.**

(Incorporated in the Kingdom of Bahrain with Commercial Registration No.: 46348)

#### **Registered Office:**

Building 2495, Road 2832,  
Al Seef District 428, P.O. Box 2424,  
Manama, Kingdom of Bahrain

15 August 2022

**To,**

**The Shareholders of Ahli United Bank B.S.C.**

Dear Sir/Madam,

**Kuwait Finance House K.S.C.P.'s voluntary conditional offer to acquire up to 100% of the issued and paid up ordinary shares of Ahli United Bank B.S.C. by way of a share swap at an exchange ratio of 2.695 AUB Shares for 1 New KFH Share**

### **1. INTRODUCTION**

#### **1.1 Circular**

The purpose of this Circular is to provide relevant information to the AUB Shareholders in compliance with the TMA and pertaining to the Offer and to set out the Recommendations of the Board and the Professional Independent Adviser's Opinion to the Board in relation to the Offer.

#### **1.2 Background**

- 1.2.1 On 22 July 2018, KFH and AUB entered into a memorandum of understanding governing the valuation, due diligence and other technical and regulatory steps required to create a combined business entity with KFH.
- 1.2.2 On 5 February 2020, AUB received from KFH an initial firm intention announcement to make an Offer to acquire 100% of the AUB Shares.
- 1.2.3 Due to unforeseen circumstances arising from the Covid-19 global pandemic, KFH and AUB announced the postponement of the Offer process on 23 March 2020..
- 1.2.4 On 1 December 2021, AUB announced that, in coordination with KFH, the AUB Board had agreed to the update of the financial and legal due diligence studies and the resumption of all connected procedures in relation to the Offer.
- 1.2.5 On 24 March 2022, AUB announced that the updated due diligence exercises had been concluded and that KFH had communicated a revised share exchange ratio to the AUB Board, which was subject to KFH obtaining shareholder and regulatory approvals and that the AUB Board and KFH Board were in discussions regarding the share exchange ratio and potential alternatives.
- 1.2.6 On 6 July 2022, KFH announced that it had received approval from the CBK to acquire 100% of the outstanding shares of AUB and the KFH Board approved the new revised final share Exchange Ratio of 2.695 AUB Shares for each New KFH Share after the review and evaluation of the top-up due diligence findings.
- 1.2.7 On 6 July 2022, AUB announced that the AUB Board had resolved to accept a revised share exchange



ratio of 2.695 AUB Shares for each New KFH Share, as proposed by KFH, subject to (i) the Professional Independent Adviser's Opinion and (ii) the aggregate ownership of the AUB Shareholders in KFH immediately following completion of a full acquisition of all AUB Shares being not less than 31% of the total outstanding and paid up KFH Shares at such time.

- 1.2.8 On 17 July 2022, KFH received a letter from the CBB providing its no objection for KFH to proceed with the Acquisition of up to 100% of AUB's issued and paid-up shares subject to the satisfaction of all applicable conditions and in accordance with the Commercial Companies Law.
- 1.2.9 On 25 July 2022, AUB received a firm intention to make an offer and a voluntary conditional offer document from KFH to acquire up to 100% of the issued ordinary shares of AUB, subject to the fulfilment of certain Conditions Precedent as set out in section 5.7 of the Offer Document (which are replicated in paragraph 2.6 of Part IV of this Circular).
- 1.2.10 In accordance with article 2.2.1 of the TMA, the AUB Board appointed Citigroup Global Markets Limited as its Professional Independent Adviser to advise the AUB Board as to whether the Offer is, or is not, fair and reasonable. Citigroup Global Markets Limited has confirmed to AUB that it is an eligible professional advisor in accordance with the TMA and does not fall within In-Eligible Professional Adviser as prescribed in article 2.2.5 of the TMA. The fairness opinion of the Professional Independent Adviser (including the assumptions, limitations and qualifications on which such opinion has been provided) is set out in Part VI of this Circular. Citigroup Global Markets Limited expects to receive fees for its services from AUB.
- 1.2.11 The AUB Shareholders should, at a minimum, carefully and diligently consider the following before deciding on whether or not to accept the KFH Offer:
- (i) this letter to the AUB Shareholders from the Board as set out in Part IV of this Circular;
  - (ii) the recommendation letter from the Board to the AUB Shareholders as set out in Part V of this Circular;
  - (iii) the fairness opinion of the Professional Independent Adviser as set out in Part VI of this Circular;
  - (iv) the terms and conditions as mentioned in the Offer Document;
  - (v) the terms and conditions as mentioned in the Acceptance and Transfer Form; and
  - (vi) any independent professional advice sought and as deemed appropriate by an AUB Shareholder.

## 2. THE KFH OFFER

Information on the KFH Offer is available in section 5 of the Offer Document. The information set out below is reproduced from the Offer Document:

The KFH Board refers to the Firm Intention dated 25 July 2022 whereby the AUB Board was notified of KFH's Firm Intention to make an Offer to the AUB Shareholders to acquire their AUB Shares. The details of the Offer are set out below and in the Offer Document.

### 2.1 The Offeree and securities for which the Offer is made

AUB is registered with the MOIC under commercial registration number 46348 as a public Bahraini shareholding company whose ordinary shares are listed on the BB and BK.

AUB is licensed by the CBB as a locally incorporated bank operating as a conventional retail bank and providing its clients through its network of subsidiaries and associated companies with: (i) retail banking; (ii) corporate banking; (iii) treasury and investment services; (iv) private banking and wealth management services; and (v) Islamic banking products & services, besides offering conventional and Takaful life insurance products. AUB operates regionally through its subsidiaries, associates and branches in the United Kingdom, Kuwait, Egypt, United Arab Emirates, Iraq, Libya and Oman.

## **2. THE KFH OFFER (CONTINUED)**

### **2.1 The Offeree and securities for which the Offer is made (Continued)**

The Offer is to acquire AUB Shares that comprise up to 100% of AUB's issued share capital that is inclusive (as at the date of the Offer Document) of 11,147,931,458 (eleven billion, one hundred and forty-seven million, nine hundred and thirty-one thousand and four hundred and fifty-eight) AUB Shares of a nominal value of USD0.25 each and any AUB Shares that are issued, whether as dividend shares, or shares issued pursuant to AUB's employee stock option plan, after the date of the Offer Document, but before the Effective Date.

### **2.2 The Offeror**

KFH is registered in the State of Kuwait with the MOCI under commercial registration number 26066 as a public Kuwaiti shareholding company whose ordinary shares are listed on the BK.

KFH is licensed by the CBK as a locally incorporated bank operating as an Islamic Bank and provides a wide range of banking Sharia'a compliant products and services, covering real estate, trade finance, investment portfolios, commercial, retail and corporate banking and is available in Kuwait, Kingdom of Bahrain, Kingdom of Saudi Arabia, Turkey, Malaysia, and Germany.

As at the date of the Offer Document, KFH has an authorised share capital of KWD 1,348,570,712.700 and an issued and paid up share capital of KWD 928,570,712.700 divided into 9,285,707,127 ordinary shares with a nominal value of KWD0.100 each and 9,207,101,211 outstanding ordinary shares with a nominal value of KWD0.100 each.

### **2.3 Consideration for the Offer**

The consideration for the Offer is the issue of New KFH Shares to AUB Shareholders at the Exchange Ratio of 2.695 AUB Shares for 1 New KFH Share.

Please refer to section 5.4 of the Offer Document for further details.

### **2.4 Shareholders Eligible for the Offer**

AUB Shareholders whose names appear in the AUB Share register on the Record Date will be eligible to receive the Offer.

### **2.5 Suspension of Trading**

Trading in AUB Shares will be suspended for the duration of the Suspension Period.

### **2.6 Conditions Precedent to the Offer**

The implementation of the Offer will be subject to the fulfilment or waiver, where applicable, by KFH of the following Conditions Precedent. For the avoidance of doubt, the Offer shall not become unconditional unless the below Conditions Precedent are fulfilled or waived, where applicable, by KFH:

- (a) KFH having received acceptances in respect of AUB Shares representing at least 90% of the total outstanding share capital of AUB, which would result in total ownership by KFH of at least 90% of the total outstanding share capital of AUB;
- (b) Receipt of all regulatory and statutory approvals, exemptions and/or waivers from the CBB and CMA as may be determined to be required in connection with the Offer, the acquisition of up to 100% of the issued ordinary shares of AUB and the issuance of the New KFH Shares;
- (c) Receipt of all regulatory and statutory approvals, exemptions and/or waivers from any other regulatory or statutory authority as may be determined to be required in connection with the Offer and the acquisition of up to 100% of the issued ordinary shares of AUB;

- (d) KFH completing all the steps required, and obtaining all regulatory approvals required, to complete a cross-listing of KFH shares on BB as at the Effective Date in line with the applicable rules and regulations of the CBB and BB;
- (e) No material breach of the warranties given by AUB in the implementation agreement (to be entered into between KFH and AUB in respect of this Offer) having occurred during the period up to (and inclusive of) the Initial Offer Closing Date (provided, however, that if such breach is capable of remedy, and is remedied to the reasonable satisfaction of the non-breaching party prior to such date, this Condition Precedent shall not be deemed unsatisfied as a result solely of such breach); and
- (f) No Material Adverse Effect having occurred prior to, and being continued as at, the date on which the Offer would have been declared unconditional in all respects but for the occurrence of a Material Adverse Effect.

**AUB Shareholders and/or potential investors of AUB should note that the Offer is subject to the satisfaction or, with the exception of Conditions Precedent (b) and (d) in section 5.7 of the Offer Document, waiver by KFH (where applicable) of the Conditions Precedent<sup>1</sup> and is conditional upon the Offer becoming or being declared unconditional in all respects.**

**Accordingly, the Offer may or may not become unconditional. AUB Shareholders and/or potential investors of AUB should therefore exercise caution when dealing in the securities of AUB. Persons who are in doubt as to the action they should take should consult their licensed brokers, dealers, solicitors, professional accountants or other professional advisers.**

**In the event the Requisite Acceptances are not received by the Initial Offer Closing Date, KFH reserves the right to waive condition (a) above and proceed to declaring the Offer unconditional in all respects (subject to the satisfaction or, where applicable, waiver of the other conditions), in which case KFH may either; (i) proceed to settlement of the Offer after the Final Offer Closing Date; or (ii) announce that it intends to seek the delisting of AUB from BB and BK, and request that the AUB Board (subject to the approval of the CBB and other competent regulatory authorities in Bahrain), after the Final Offer Closing Date, invites the shareholders of AUB to convene a general meeting in order to consider and approve the delisting of AUB from the BB and the BK. All AUB Shareholders, other than the Offeror and persons acting in concert with the Offeror, including shareholders who accept the Offer, shall be eligible to vote their shares in such general meeting.**

**Details of the Compulsory Acquisitions (Squeeze-Out) process are set out in section 5.10 of the Offer Document which AUB Shareholders are urged to read.**

More guidance on the expected timetable for the Offer is provided in Part III of this Circular.

## **2.7 Offer Acceptance Procedures**

AUB Shareholders willing to accept the Offer are required to tender all of their AUB Shares and may not tender only a part of their AUB Shares. AUB Shareholders may potentially be holding the AUB Shares in one, or a combination, of the following forms:

- (a) AUB Shares in Demat form held in a brokerage account with a registered broker in BB;
- (b) AUB Shares in Demat form held in BC or KCC; and/or
- (c) AUB Shares in physical form with an original share certificate only.

Please refer to sections 5.8 and 6 of the Offer Document for further details.

<sup>1</sup> KFH shall not waive the condition set out in section 5.7(a) of the Offer Document (as set out in paragraph 2.6(a) of Part IV above in this Circular) unless, as at the Initial Offer Closing Date, KFH has received Acceptances which represent at least 50% of the total outstanding share capital of AUB.

## 2. THE KFH OFFER (CONTINUED)

### 2.8 Acceptance Irrevocable

As per the procedures set out in the Offer Document, upon an AUB Shareholder submitting the completed Acceptance and Transfer Form to the relevant Receiving Agent, the Acceptance becomes irrevocable and cannot be withdrawn by that AUB Shareholder either in whole or in part. However, an AUB Shareholder will be entitled to withdraw his acceptance within 14 days from the Initial Offer Closing Date, if the Offer has not become unconditional as to Requisite Acceptances by that date.

In accordance with article 2.18.11 of the TMA, if the Offer has been declared unconditional as to the Requisite Acceptances, but KFH fails to comply with any of the requirements of the section titled "Announcement of Result of Offer" of the TMA Module by close of trading at the licensed exchange in Bahrain on the relevant day, the CBB shall have the right to grant the AUB Shareholders who have accepted the Offer with the right to withdraw their Acceptance.

### 2.9 Compulsory Acquisitions (Squeeze-Out)

Subject to receipt of valid Acceptances in respect of AUB Shares representing at least 90% or more of the total outstanding share capital of AUB and the satisfaction of the requirements under Article 319 bis I of the Commercial Companies Law and requirements under the TMA Module, KFH intends to exercise its right to compulsorily acquire all AUB Shares which are owned by the Dissenting Shareholders (pursuant to Article 319 bis I of the Commercial Companies Law, and article 3.4.4 of the TMA Module), within three months from the date of receipt of the Requisite Acceptances, being the period prescribed for compulsory acquisition under the Commercial Companies Law and the TMA Module. AUB Shareholders should note that the Requisite Acceptances shall not be deemed to have been received before the date on which the Offer is declared unconditional in all respects (and not any prior date).

The Dissenting Shareholders shall receive a number of New KFH Shares which depends on the number of AUB Shares which they own at the Record Date and calculated at the Exchange Ratio (i.e. each Dissenting Shareholder will receive one New KFH Share against each 2.695 AUB Shares which they own as at the Record Date).

No later than 15 calendar days from the date on which the Offer is declared unconditional in all respects (and provided that KFH received the Requisite Acceptances prior to such date), KFH will issue to the Dissenting Shareholders the Squeeze-Out Notice in the form prescribed in Appendix TMA-E of the TMA Module. The Squeeze-Out Notice will be accompanied by a declaration from KFH confirming that the Requisite Acceptances have been received.

The Squeeze-Out Notice will be issued by KFH to the Dissenting Shareholders in the following manner. The notice will be sent by registered mail to the address registered with the Central Registry of BB as at the Initial Offer Closing Date in respect of those Dissenting Shareholders whose details registered with the Central Registry of BB are up-to-date.

**AUB Shareholders are encouraged to update their details (including their registered address) with the Central Registry of BB as soon as possible and prior to the Initial Offer Closing Date.**

### 2.10 Untraceable AUB Shareholders

KFH will fulfil its obligation to exercise best efforts to deliver the Squeeze-Out Notice by completion of serving the Squeeze-Out Notice in accordance with the manner prescribed above. KFH has discussed

with the CBB the following alternative methods for serving the notice, if KFH, despite best efforts, fails to deliver the Squeeze-Out Notice to the Dissenting Shareholders, pursuant to article 3.4.8 of the TMA Module:

- (a) the dedication of an email address for any AUB Shareholder who would like to receive the Offer documentation and announcements (including the Squeeze-Out Notice). Any AUB Shareholder who would like to receive the Offer documentation and announcements (including the Squeeze-Out Notice) which is made available to the AUB Shareholders at any point in time shall send a request to the following email address: [agent@sicobank.com](mailto:agent@sicobank.com).
- (b) the Squeeze-Out Notice will be announced through a market announcement in the BB and through a newspaper publication in two official newspapers in circulation in the Kingdom of Bahrain and such announcement shall be deemed to be valid and effective notice issued by KFH.

Dissenting Shareholders have the right to make an application to the court to object to such compulsory acquisition and such application shall be made by the Dissenting Shareholders within 60 calendar days from the date of the Squeeze-Out Notice. Dissenting Shareholders who wish to object to the Squeeze-Out shall be entitled to make an application to a competent court in accordance with the provisions of the TMA Module and Bahrain Commercial Companies Law. Unless otherwise ordered by a competent court, Dissenting Shareholders shall receive the New KFH Shares on the Dissenting Shareholder Effective Date which will be set out in the Squeeze-Out Notice, and such Dissenting Shareholders will, as at such date, cease to own their respective AUB Shares which will be transferred to, and registered in the name of, KFH. It should therefore be noted that, in the event KFH exercises its right to compulsory acquisition under the Commercial Companies Law and TMA Module, receipt of the New KFH Shares by Dissenting Shareholders will be delayed compared to AUB Shareholders who have accepted the Offer and submitted a valid Acceptance and Transfer Form. Upon completion of the compulsory acquisition, KFH will acquire 100% of the share capital of AUB, AUB will become a wholly-owned subsidiary of KFH and AUB will apply to the CBB to delist AUB from the BB in accordance with the terms of the TMA Module.

## 2.11 Issuance of New KFH Shares

The issuance of the New KFH Shares will be conducted and managed by the KCC and is subject to the CMA processes and approval. The KCC will liaise directly with the BC to create a shared electronic platform in order to enable the production of an AUB Shareholders register of the shareholders entitled to receive the New KFH Shares, whether in Kuwait or Bahrain, pursuant to the terms and conditions of the Offer.

Two Business Days prior to the Effective Date, the KCC will issue and credit the New KFH Shares in Kuwait to the AUB Shareholders holding the AUB BK Shares who have submitted a valid Acceptance and Transfer Form, however, the issued New KFH Shares will not be released to the AUB Shareholders until the Effective Date. AUB Shareholders should note that the two Business Day period reflects the timing required administratively for the transfer of the New KFH Shares with respect to the AUB Shareholders of AUB BB Shares to BB. For the avoidance of doubt, the Acquisition will be effected by way of an off-market trade through the KCC or the BC (as applicable) and not through a licensed exchange.

## 2. THE KFH OFFER (CONTINUED)

On the Effective Date, the KCC or BC, as the case may be, will release the New KFH Shares and the AUB Shareholders holding the AUB BK Shares and who have submitted a valid Acceptance and Transfer Form will receive their New KFH Shares listed on BK and the AUB Shareholders holding AUB BB Shares will receive their New KFH Shares listed on BB. Each such AUB Shareholder will be added to the register of the shareholders of KFH in respect of the New KFH Shares to which they are eligible. However, AUB Shareholders who accepted the Offer will not be able to trade the New KFH Shares allotted to them until five (5) Business Days after (and excluding) the Effective Date.

AUB Shareholders should note, that on the Effective Date, the share register of KFH will be updated to reflect the ownership of both AUB Shareholders of AUB BK Shares and AUB BB Shares who have submitted a valid Acceptance and Transfer Form. Actual ownership of the New KFH Shares and the attached entitlements will be effected for both AUB Shareholders of AUB BK Shares and AUB BB Shares who have submitted a valid Acceptance and Transfer Form on the Effective Date.

Unless otherwise ordered by a competent court, Dissenting Shareholders shall receive the New KFH Shares after 60 days from the date of the Squeeze-Out Notice but before the end of three months after the day on which the Requisite Acceptances were received and such Dissenting Shareholders will, as at such date, cease to own their respective AUB Shares which will be transferred to, and registered in the name of, KFH. The share register of KFH will be further updated to reflect the ownership of Dissenting Shareholders, however, such Dissenting Shareholders will not be able to trade the New KFH Shares allotted to them until five (5) Business Days after (and excluding) the Dissenting Shareholder Effective Date. Actual ownership of the New KFH Shares and the attached entitlements will be effected for any Dissenting Shareholder on the Dissenting Shareholder Effective Date.

**AUB Shareholders should note that the process for issuing the New KFH Shares may be subject to change or update as may be required by the CMA, KCC, CBB, CMSD, BC, BK and/or BB. Full and immediate disclosure will be made to the AUB Shareholders of any changes or updates that may occur after the date of the Offer Document.**

### 2.12 Rights of the New KFH Shares

The New KFH Shares shall rank *pari passu* with the existing ordinary KFH Shares. Other than ordinary shares, KFH has not issued any other classes of shares.

Provided that the Offer becomes unconditional after the fulfilment or waiver (where applicable) of the Conditions Precedent, AUB Shareholders of the New KFH Shares who have submitted a valid Acceptance and Transfer Form will be entitled to any dividends declared by KFH from the Effective Date and for subsequent years on a *pari passu* basis with other holders of KFH Shares. Unless otherwise ordered by a competent court, Dissenting Shareholders shall be entitled to any dividends declared by KFH from the Dissenting Shareholder Effective Date and, for subsequent years, on a *pari passu* basis with other holders of KFH Shares.

Holders of the New KFH Shares will enjoy all the rights and obligations of the existing shareholders of KFH, including, but not limited to, participation and voting in shareholders' general assembly meetings and participation on a *pari passu* basis in any distributions or other returns of capital whether with respect to a liquidation or otherwise.

### 2.13 Delisting of AUB

Upon completion of the Squeeze-Out, KFH will acquire 100% of the issued share capital of AUB, AUB will become a wholly-owned subsidiary of KFH and AUB will apply to the CBB to delist AUB from the

BB and the BK in accordance with the terms of the TMA Module. As set out in section 5.7 (Conditions Precedent to the Offer) of the Offer Document, in the event KFH waives the Condition Precedent in respect of Requisite Acceptances, KFH may announce that it intends to seek the delisting of AUB from BB and BK and request that the AUB Board invites the shareholders of AUB (after obtaining the approval of the CBB and other competent regulatory authorities in Bahrain), after the Final Offer Closing Date, to convene a general meeting in order to consider and approve the delisting of AUB from the BB and the BK. All AUB Shareholders, other than the Offeror and persons acting in concert with the Offeror, including shareholders who accept the Offer, shall be eligible to vote their shares in such general meeting. In this scenario, AUB Shareholders who do not accept the KFH Offer should note that they will remain shareholders in a closed joint-stock company and will be exposed to the liquidity risk in relation their holding of AUB Shares with no exit option through the BB or the BK. Rights and obligation of such remaining AUB Shareholders will be governed by memorandum and articles of association of AUB, as amended following completion of the KFH Offer and the delisting of AUB.

### **3. POST-ACQUISITION STRATEGY OF KFH FOR AUB AND THE EFFECT OF THE KFH OFFER**

The post-acquisition strategy of KFH for AUB and the effect of the KFH Offer are set out in sections 11 and 15 respectively of the Offer Document.

### **4. OPINION ON IMPACT ON OFFEREE'S EMPLOYEES**

As per section 15.4 of the Offer Document, the successful completion of the Offer will not result in any immediate effect on AUB's employees and there is no current intention to implement changes in management or organisational structure except for any changes which may be implemented as contemplated as per the Offer Document.

The Board has not made any assessments or evaluations of the effect of the successful completion of the Offer on the Offeree's employees and has relied on the representations and statements made by KFH as above.

### **5. INFORMATION ABOUT THE OFFEREE**

Relevant information about the Offeree is covered in Appendix A of this Circular.

### **6. INFORMATION ABOUT KFH**

Relevant information about KFH has been set out in section 7 of the Offer Document.

### **7. RECOMMENDATIONS OF THE BOARD AND THE ADVISER'S OPINION**

Your attention is drawn to: (i) Part V of this Circular which contains the recommendation of the Board as to whether or not the AUB Shareholders should accept the KFH Offer; and (ii) Part VI of this Circular which contains the Professional Independent Adviser's Opinion to the Board in connection with the Offer and the principal factors considered by the Professional Independent Adviser in arriving at its opinion. AUB Shareholders should read these letters in conjunction with this Circular and the Offer Document carefully before taking any action in respect of the Offer.

## **8. AUB SHAREHOLDERS' RESPONSIBILITIES**

### **8.1 Compliance with Applicable Laws**

The availability of the Offer to the AUB Shareholders might be affected by the laws of their respective jurisdiction in which they are based. Accordingly, any AUB Shareholder should inform himself/herself about and observe any applicable legal requirements in his/her respective jurisdiction.

For the avoidance of doubt, the Offer is made to all AUB Shareholders including those to whom the Offer Document, the Acceptance and Transfer Form, the Circular and any other related documents have not been, or will not be, sent.

Where there are potential restrictions on sending the Offer Document, the Acceptance and Transfer Form, the Circular and any other related documents to any jurisdiction, the Offeree reserves the right not to send the documents to AUB Shareholders in such jurisdictions. However, the Offeree may at its sole discretion take such action as it may deem necessary to send this Circular to AUB Shareholders in any jurisdiction.

The Offer may be made, directly or indirectly, in or into, or by the use of mails of, or by any means or instrumentality (including, without limitation, telephonically or electronically) of interstate or foreign commerce of, or any facility of a national, state or other securities exchange of, any Restricted Jurisdiction, and any AUB Shareholder should inform himself/herself about and observe any applicable legal requirements in his/her respective jurisdiction.

It is the responsibility of any AUB Shareholder who wishes to: (i) request the Offer Document, the Acceptance and Transfer Form and the Circular; or (ii) accept the KFH Offer, to satisfy himself/herself as to the full observance of the laws of the relevant jurisdiction in that connection, including the obtaining of any governmental or other consent which may be required, and compliance with all necessary formalities or legal requirements and the payment of any taxes, imposts, duties or other requisite payments due in such jurisdiction. Such AUB Shareholders shall be liable for any such taxes, imposts, duties or other requisite payments payable and the KFH Board and any person acting on its behalf shall be fully indemnified and held harmless by such AUB Shareholder for any such taxes, imposts, duties or other requisite payments as the Board and/or any person acting on its behalf may be required to pay. In: (i) requesting the Offer Document, the Acceptance and Transfer Form and the Circular; and/or (ii) accepting the KFH Offer, the AUB Shareholder represents and warrants to the Board that he/she is in full observance of the laws of the relevant jurisdiction in that connection, and that he/she is in full compliance with all necessary formalities or legal requirements. Any AUB Shareholder who is in any doubt about his/her position should consult his/her professional adviser in the relevant jurisdiction.

### **8.2 Copy of Offer Documents**

AUB Shareholders may obtain a copy of this Circular and the Offer Document from offices of the Receiving Agents, BB and Participating Branches set out in paragraph 8.2.1 below. Copies of the Acceptance and Transfer Form can be: (i) in Bahrain, obtained from the offices of the Bahrain Receiving Agents, BB and the Participating Branches as well as procured and completed electronically at [www.ipo.com.kw](http://www.ipo.com.kw); and (ii) in Kuwait, procured and completed electronically at [www.ipo.com.kw](http://www.ipo.com.kw).

This Circular, the Offer Document and the specimen Acceptance and Transfer Form shall also be available on AUB's website – <https://www.ahliunited.com>, BB's website – <https://www.bahrainbourse.com>, and BK's website – <https://boursakuwait.com.kw/>.

Alternatively, any AUB Shareholder who wishes to receive a copy of this Circular, the Offer Document and the Acceptance and Transfer Form (as applicable, noting that AUB Shareholders of AUB BK Shares will procure and complete Acceptance and Transfer Forms electronically at [www.ipo.com.kw](http://www.ipo.com.kw)) may write to the Board Secretary of AUB at the registered office of AUB at



Building 2495, Road 2832, Al Seef District 428, Manama, Kingdom of Bahrain or by email to [corporate.secretary@ahliunited.com](mailto:corporate.secretary@ahliunited.com), in each case up to three days prior to the Final Offer Closing Date. Such AUB Shareholders will be sent the documents by ordinary post at the AUB Shareholder's own risk.

8.2.1 Addresses, contact details and opening times for the Receiving Agents and the Participating Branches

No.	Name	Address	Telephone No.	Opening days	Operating hours
<b>Bahrain Receiving Agents</b>					
1	SICO B.S.C.(c) – Receiving desk at the BB	4th floor, Harbour Gate, Bahrain Financial Harbour, Manama, Kingdom of Bahrain	(973) 17515022	Sunday to Thursday	9:00am - 1:00pm
2	Bahrain Clear B.S.C.(c)	4th floor, Harbour Gate, Bahrain Financial Harbour, Manama, Kingdom of Bahrain	(973) 17108844	Sunday to Thursday	9:00am - 1:00pm
<b>Kuwait Receiving Agent</b>					
1	Kuwait Clearing Company K.S.C.	Ahmad Tower 5th Floor, Sharq, Kuwait City	(965) 22464565	Sunday to Thursday	8:30am - 3:00pm
<b>Participating Branches in Bahrain</b>					
1	Seef Headquarters	Building 2495, Road 2832, Al Seef District 428	(973) 17585539 /5813 /5514	Sunday to Thursday	8:00am - 3:30pm
2	Central Manama	Bahrain car park commercial center, Manama, Building #126, Road 383, Block 316	(973) 17221855 /1736 / 1807	Saturday to Thursday	8:00am - 2:00pm
3	Seef Mall Muharraq	Seef Mall Muharraq in Arad Block 240	(973) 17562720	Saturday to Wednesday	9:00am - 4:30pm
4	Mercado Mall	Unit 112, Building 108, Road #79 Avenue 79, Block 575 Janabiyah	(973) 17562749	Saturday to Wednesday	9:00am - 4:30pm
5	Juffair Oasis Mall	Bldg 304, Road 2929, Block 341, Oasis Mall, Juffair	(973) 17579354	Saturday to Wednesday	9:00am - 4:30pm
6	Riffa Branch	Shops 122, 124, 126 & 128, Shaikh Ali Bin Khalifa Road, Block 903, East Riffa	(973) 17562722	Sunday to Thursday	8:00am - 3:30pm

## **8. AUB SHAREHOLDERS' RESPONSIBILITIES (CONTINUED)**

### **8.3 Notice**

Subject to the laws of the Kingdom of Bahrain and the rules and regulations of the CBB, the Offeree and/or the Offeror has reserved the right to notify any matter, including the fact that the Offer has been made, to any or all AUB Shareholders by announcement to the BB and BK and/or paid advertisement in two daily newspapers published and circulated in the Kingdom of Bahrain and in the State of Kuwait, in which case such notice shall be deemed to have been sufficiently given notwithstanding any failure by any AUB Shareholder to receive or see such announcement or advertisement.

## **9. ACTION TO BE TAKEN BY AUB SHAREHOLDERS**

### **9.1 Acceptance submission procedures pertaining to AUB Shareholders of AUB BB Shares**

All AUB Shareholders of AUB BB Shares willing to accept the Offer will be required to forward the following documentation to the Bahrain Receiving Agent or submit them at the following website: [www.ipo.com.kw](http://www.ipo.com.kw) under the tab titled "Current IPOs and CIs". AUB BB Shareholders may opt to submit their Acceptances in either detailed form or simplified form as set out below: Certain AUB Shareholders who are located in the United States will not be able to participate in the Offer. AUB Shareholders located in the United States must complete and return an executed US Investor Letter (as such term is defined in the Acceptance and Transfer Form) to the Bahrain Receiving Agent alongside their Acceptance and Transfer Form. The form of US Investor Letter can be requested from the Bahrain Receiving Agent by contacting [agent@sicobank.com](mailto:agent@sicobank.com).

#### **9.1.1 For detailed submissions by individuals:**

AUB Shareholders who are individuals and who wish to accept the Offer must submit the following documents:

- (i) the original signed Acceptance and Transfer Form;
- (ii) the original together with a copy, or Certified Copy of the following two forms of identification:
  - (a) the individual's valid passport or valid international travel document; and
  - (b) the individual's valid national identification card or an equivalent document,
- (iii) proof of permanent residential address. The proof can consist of a copy of a recent utility bill, bank statement or similar statement from another bank or financial institution licensed in the country, which has been issued within three months prior to their presentation, or official documentation, such as a smartcard, from a public/governmental authority, or a tenancy agreement;
- (iv) signature verification of the signature on the application (with a passport copy showing the specimen of the person signing the application form to suffice);
- (v) proof of IN is required in the form of a BB investor card or statement of account, or a BB system print-screen or an allotment notice from a previous initial public offering in Bahrain of no earlier than 2006;
- (vi) original share certificates for those AUB Shareholders holding physical AUB Shares. Holders of physical AUB Shares that have been misplaced or damaged are required to obtain replacements of such shares directly from BC prior to submitting their Acceptance and Transfer Form. As an alternative to physical AUB Shares, holders of lost or damaged physical AUB Shares may also approach BC to have such replacement shares issued in electronic form at no additional cost;

- (vii) a statement of account from BC or a BB registered broker in respect of AUB Shares held in electronic form;
- (viii) the following additional documents are required when a person is signing on behalf of an individual AUB Shareholder by way of a power of attorney:
  - (a) the original or Certified Copy and copy of the valid passport or international travel document of the person applying and signing on behalf of the individual AUB Shareholder;
  - (b) the original or Certified Copy and copy of the valid national identification card or an equivalent document of the person applying and signing on behalf of the individual AUB Shareholder; and
  - (c) the original or Certified Copy and copy of the notarised (or where from outside the Kingdom of Bahrain, apostilled/legalised) power of attorney; and
- (ix) the following additional documents are required for applications on behalf of Minors<sup>2</sup>:
  - (a) the original or Certified Copy and copy of the valid passport or valid international travel document of the legal guardian applying and signing on behalf of the Minor;
  - (b) the original or Certified Copy and copy of the government-issued valid national identification card or an equivalent document of the legal guardian applying and signing on behalf of the Minor; and
  - (c) unless the legal guardian signing on behalf of the Minor is the Minor's father, the original or Certified Copy and copy of the proof of guardianship to the applying Minor.

#### 9.1.2 For detailed submissions by institutions:

All institutions must submit the following documentation:

- (i) the original signed Acceptance and Transfer Form;
- (ii) a copy of a valid commercial registration certificate of the institution;
- (iii) a copy of the memorandum and articles of association, or equivalent, of the institution;
- (iv) the original together with a copy, or Certified Copy of the following two forms of identification in respect of the individual signing on behalf of the institution:
  - (a) the individual's valid passport or valid international travel document; and
  - (b) the individual's valid national identification card or an equivalent document;
- (v) signature verification of the signature on the application (with a passport copy showing the specimen of the person signing the application form to suffice);
- (vi) proof of IN is required in the form of a BB investor card or statement of account, or a BB system print-screen, or an allotment notice from a previous initial public offering in Bahrain of no earlier than 2006;
- (vii) original share certificates for those institutions holding AUB Shares in physical form. Holders of physical AUB Shares that have been misplaced or damaged are required to obtain replacements of such shares directly from BC prior to submitting their Acceptance and Transfer Form. As an alternative to physical AUB Shares, holders of lost or damaged physical AUB Shares may also approach BC to have such replacement shares issued in electronic form at no additional cost;

<sup>2</sup> Guardians of Minors to ensure compliance with the Legislative Decree no. (7) of 1986 promulgating the Guardianship of Money Law and the Minor Fund Directorate (as defined in such law) document booklet and user guidelines, and to submit any consents required under such law.

## **9. ACTION TO BE TAKEN BY AUB SHAREHOLDERS (CONTINUED)**

### **9.1 Acceptance submission procedures pertaining to AUB Shareholders of AUB BB Shares (Continued)**

9.1.2 For detailed submissions by institutions: (Continued)

- (viii) a statement of account from BC or a BB registered broker in respect of their AUB Shares held in electronic form;
- (ix) the original and copy of the document authorising the person(s), whose signature(s) appear(s) on the Acceptance and Transfer Form to sign such document on behalf of the institution. Such a document can be either a power of attorney or a resolution of the board of the institution; and
- (x) if located in the United States, a completed and executed US Investor Letter.

All completed Acceptance and Transfer Forms, together with the required documentation, may be submitted electronically through the following website: [www.ipo.com.kw](http://www.ipo.com.kw) under the table title "Current IPOs and CIs" or physically at:

- (i) the desk of the Bahrain Receiving Agent listed in section 6.2 of the Offer Document during the Offer Period; or
- (ii) the Participating Branches listed in section 6.2 of the Offer Document during the Offer Period.

The documents should be submitted no later than the close of business on the Initial Offer Closing Date. The Bahrain Receiving Agent may accept couriered applications that have been pre-agreed and pre-arranged with the Bahrain Receiving Agent with Certified Copies and on the basis of receipt of such Acceptances by the Bahrain Receiving Agent prior to the Initial Offer Closing Date.

At the time of submission of a completed Acceptance and Transfer Form, the Bahrain Receiving Agent or the Participating Branches shall verify the validity of all copies of each participating AUB Shareholder's identification documents along with the submitted Acceptance and Transfer Form.

Following the electronic submissions of a completed Acceptance and Transfer Form, the Bahrain Receiving Agent shall verify the validity of the submission and notification shall be sent to the AUB Shareholder confirming receipt of the submission. Any AUB Shareholder holding BB Shares who has electronically submitted a completed Acceptance and Transfer Form but has not received such notification should contact the Bahrain Receiving Agent. All AUB Shareholders holding BB Shares and who make physical submissions will receive a copy of their Acceptance and Transfer Form at the time of application.

AUB Shareholders intending to accept the Offer and who hold AUB BB Shares that are mortgaged will have to provide original written clearance from the mortgagee in a form acceptable to the Offeror or the Bahrain Receiving Agent. The clearance must acknowledge that such AUB Shares shall be transferred to KFH pursuant to the Offer free from any and all charges, liens and other encumbrances, and that any encumbrances (including mortgages and attachments) on the sold AUB Shares will be transferred to the corresponding New KFH Shares owned by the relevant selling AUB Shareholder in the manner prescribed and provided for in the Acceptance and Transfer Form.

The following important directions should be followed when completing the Acceptance and Transfer Form:

- (a) Only the prescribed Acceptance and Transfer Form made available on the prescribed electronic platform or collected from the participating desk of the Bahrain Receiving Agent or the Participating Branches should be used, and completed in full in accordance with the instructions contained therein.

- (b) In the case of joint owners of AUB Shares only one Acceptance and Transfer Form may be used and signed by all such joint owners.
- (c) In the case of any AUB Shares held by investment managers, the Acceptance and Transfer Form should be signed by the investment manager and sent along with a copy of the document reflecting the investment manager's position as the investment manager for the AUB Shareholder. The Acceptance and Transfer Form must state the beneficial owners of the AUB Shares and be provided together with their specific signed mandate.

*For simplified submissions by institutions and/or individuals*

All institutions and individuals holding AUB BB Shares and a valid IN may opt to submit their Acceptance in a simplified manner without requiring the documents set out above by submitting their Acceptance and Transfer Form electronically or physically in a simplified manner together with (i) two copies of valid identification (passport and National ID/CPR) and (ii) signature verification of the signature on the Acceptance and Transfer Form (passport signature page or equivalent). Simplified submissions made by institutions should also provide proof of authority pertaining to the authorised signatory and a copy of the commercial registration certificate.

However, should institutions and individuals holding AUB BB Shares opt to submit their Acceptance in a simplified manner, upon receipt by such AUB BB Shareholders of the New KFH Shares, their New KFH Shares will not be available for trading until the rest of the documents listed above (as applicable to individuals or institutions) are submitted to the BC.

The Offeror and the Bahrain Receiving Agent reserve the right to reject any Acceptance and Transfer Forms if:

- (a) the Acceptance and Transfer Form is not completed in all respects or is completed with incorrect information;
- (b) if it receives an Acceptance and Transfer Form from an AUB Shareholder located in the United States and such Acceptance and Transfer Form is not accompanied by a completed, accurate and executed US Investor Letter or the Bahrain Receiving Agent has reason to believe that any of the acknowledgements, representations, agreements and warranties contained in the US Investor Letter are inaccurate;
- (c) any of the information stated in section 6.1 of the Offer Document is not included in or with the Acceptance and Transfer Form; or
- (d) the Acceptance and Transfer Form along with all of the above documents is received by the Bahrain Receiving Agent after the close of business on the Initial Offer Closing Date.

The Offeror and the Bahrain Receiving Agent reserve the right to accept, at their sole discretion, duly completed Acceptance and Transfer Forms where the information set out in section 6.1 of the Offer Document has not been provided in its entirety but sufficient information and documentation has been provided or otherwise procured to comply with all applicable laws and regulations associated with know your client and anti-money laundering requirements and other laws and regulations applicable to the Offeror and the Offer.

AUB Shareholders who do not have an IN number will be required to obtain an IN number prior to any future transfer of any New KFH Shares received pursuant to the Offer using BC Application Form Number 1(A) for individuals and 1(B) for institutions. Certain fees payable to BC may apply. AUB Shareholders who wish to trade any New KFH Shares received pursuant to the Offer on the BB in the future will be required, prior to such trading, to open a trading account with a registered broker and open an investor account with BC via BC Application Form Number (2) – Investor Account Opening Form. Subsequently, an AUB Shareholder may transfer the shares from the "CSD to the Broker" via the BC Application Form Number (6) – Transfer application between CSD and Broker.

## **9. ACTION TO BE TAKEN BY AUB SHAREHOLDERS (CONTINUED)**

### **9.1 Acceptance submission procedures pertaining to AUB Shareholders of AUB BB Shares (Continued)**

#### 9.1.2 For detailed submissions by institutions: (Continued)

Certain fees payable to BC may apply. For the avoidance of doubt, this is not a requirement for accepting the Offer.

AUB Shareholders holding AUB Shares in physical form must first submit the original share certificates and obtain an IN.

AUB Shareholders who accept the Offer shall:

- (a) consent to the passing on of any information about the AUB Shareholder to any relevant regulatory authorities (including, but not limited, to the KCC) by the Bahrain Receiving Agent, the registrar, the Offeror or the Offeree (as the case may be) or their delegates and any onward transmission by those regulatory authorities of such information;
- (b) acknowledge that due to money laundering requirements operating within Bahrain, the Bahrain Receiving Agent, the Offeror or the Offeree (as the case may be) may require identification of the AUB Shareholder(s) and source of funds before the Acceptance and Transfer Forms can be processed;
- (c) hold the Bahrain Receiving Agent, the Offeror or the Offeree (as the case may be) harmless and indemnified and shall keep them held harmless and indemnified against any loss arising from the failure to process the Acceptance and Transfer Form, if information as has been required from the AUB Shareholder has not been provided within the allotted time to the satisfaction of the party requesting such information;
- (d) understand and agree that any New KFH Shares to, be issued to the AUB Shareholder may be retained pending the completion of any verification of identity required by the Bahrain Receiving Agent, the Offeror or the Offeree (as the case may be); and
- (e) consent to the deposit of any New KFH Shares to the brokerage account where their AUB Shares were held prior to the Acquisition.

### **9.2 Acceptance submission procedures pertaining to AUB Shareholders of AUB BK Shares**

AUB Shareholders of AUB BK Shares who are willing to accept the Offer will be required to submit the following documentation at the following website: [www.ipo.com.kw](http://www.ipo.com.kw) under the tab titled "Current IPOs and CIs". AUB Shareholders holding AUB BK Shares who require assistance may approach the offices of the Kuwait Receiving Agent.

Certain AUB Shareholders who are located in the United States will not be able to participate in the Offer. AUB Shareholders located in the United States must complete and return an executed US Investor Letter alongside their Acceptance and Transfer Form. The form of US Investor Letter can be requested from the Bahrain Receiving Agent by contacting [agent@sicobank.com](mailto:agent@sicobank.com).

All institutions and individuals holding AUB BK Shares may submit their Acceptance and Transfer Form electronically together with:

1. the original signed Acceptance and Transfer Form;
2. a copy of one of the following forms of identification:
  - (i) the individual's valid passport or valid international travel document; and
  - (ii) the individual's valid national identification card or an equivalent document;

3. signature verification of the signature on the application (with passport copy showing the specimen of the person signing the application form to suffice);
4. the following additional documents are required when a person is signing on behalf of an individual AUB Shareholder by way of a power of attorney:
  - (i) the original or Certified Copy and copy of the valid passport or international travel document or valid national identification card of the person applying and signing on behalf of the individual AUB Shareholder;
  - (ii) the original or Certified Copy and copy of the valid national identification card or an equivalent document of the person applying and signing on behalf of the individual AUB Shareholder; and
  - (iii) the original or Certified Copy and copy of the notarised (or where from outside the State of Kuwait, apostilled/legalised) power of attorney;

In addition to the above, all institutions must also submit:

1. the original and copy of the document authorising the person(s), whose signature(s) appear(s) on the Acceptance and Transfer Form to sign such document on behalf of the institution. Such a document can be either a power of attorney or a resolution of the board of the institution; and
2. signature verification of the signature on the application (with a passport copy showing the specimen of the person signing the application form to suffice); and
3. if located in the United States, a completed and executed US Investor Letter.

The following additional documents are required for applications on behalf of Minors:

1. copy of the valid passport or valid international travel document or valid national identification card of the legal guardian (being the Minor's father) applying and signing on behalf of the Minor; and
2. copy of the government-issued valid national identification card or an equivalent document of the legal guardian applying and signing on behalf of the Minor.

Any other legal guardianship arrangements should approach the Kuwait Receiving Agent to assist with the application.

All signed Acceptance and Transfer Forms should be submitted electronically through the following website: [www.ipos.com.kw](http://www.ipos.com.kw) under the tab titled "Current IPOs and CIs" during the Offer Period.

The documents should be submitted no later than the close of business on the Initial Offer Closing Date.

Following the electronic submission of a completed Acceptance and Transfer Form, the Kuwait Receiving Agent shall verify the validity of the submission and a notification shall be sent to the AUB Shareholders confirming receipt of the submission. Any AUB Shareholder holding BK Shares who has electronically submitted a completed Acceptance and Transfer Form but has not received such a notification should contact the Kuwait Receiving Agent.

AUB Shareholders intending to accept the Offer and who hold AUB BK Shares that are mortgaged will have to provide original written clearance from the mortgagee in a form acceptable to the Offeror or the Kuwait Receiving Agent. The clearance must acknowledge that such AUB Shares shall be transferred to KFH pursuant to the Offer free from any and all charges, liens and other encumbrances, and that any encumbrances (including mortgages and attachments) on the sold AUB Shares will be transferred to the corresponding New KFH Shares owned by the relevant selling AUB Shareholder in the manner prescribed and provided for in the Acceptance and Transfer Form.

## **9. ACTION TO BE TAKEN BY AUB SHAREHOLDERS (CONTINUED)**

### **9.2 Acceptance submission procedures pertaining to AUB Shareholders of AUB BK Shares (Continued)**

Noting that the Acceptance and Transfer Form will be submitted electronically through the electronic platform made available by the Kuwait Receiving Agent, the following important directions should be followed when completing the Acceptance and Transfer Form:

- (a) Only the prescribed Acceptance and Transfer Form made available on the prescribed electronic platform should be used, and completed in full in accordance with the instructions contained therein.
- (b) In the case of joint owners of AUB Shares only one Acceptance and Transfer Form may be used and signed by all such joint owners.
- (c) In the case of any AUB Shares held by investment managers, the Acceptance and Transfer Form should be signed by the investment manager and submitted along with a copy of the document reflecting the investment manager's position as the investment manager for the AUB Shareholder. The Acceptance and Transfer Form must state the beneficial owners of the AUB Shares and be provided together with their specific signed mandate.

The Offeror and the Kuwait Receiving Agent reserve the right to reject any Acceptance and Transfer Forms if:

- (a) the Acceptance and Transfer Form is not completed in all respects or is completed with incorrect information;
- (b) if it receives an Acceptance and Transfer Form from an AUB Shareholder located in the United States and such Acceptance and Transfer Form is not accompanied by a completed, accurate and executed US Investor Letter or the Kuwait Receiving Agent has reason to believe that any of the acknowledgements, representations, agreements and warranties contained in the US Investor Letter are inaccurate;
- (c) any of the information stated in section 6.1 of the Offer Document is not included in or with the Acceptance and Transfer Form; or
- (d) the Acceptance and Transfer Form along with all of the above documents is received by the Kuwait Receiving Agent after the close of business on the Initial Offer Closing Date.

The Offeror and the Kuwait Receiving Agent reserve the right to accept, at its sole discretion, duly completed Acceptance and Transfer Forms where the information set out in section 6.1 of the Offer Document has not been provided in its entirety but sufficient information and documentation has been provided or otherwise procured to comply with all applicable laws and regulations associated with know your client and anti-money laundering requirements and other laws and regulations applicable to the Offeror and the Offer.

The AUB Shareholders holding the AUB Shares in physical form with original share certificates shall deliver the original share certificates to the BK or the Receiving Agent and receive an IN prior to their submission of the Acceptance and Transfer Form.

AUB Shareholders who accept the Offer shall:

- (a) consent to the passing on of any information about the AUB Shareholder to any relevant regulatory authorities by the Kuwait Receiving Agent, the registrar, the Offeror or the Offeree (as the case may be) or their delegates and any onward transmission by those regulatory authorities of such information;



- (b) acknowledge that due to money laundering requirements operating within Kuwait, the Kuwait Receiving Agent, the Offeror or the Offeree (as the case may be) may require identification of the AUB Shareholder(s) and source of funds before the Acceptance and Transfer Forms can be processed;
- (c) hold the Kuwait Receiving Agent, the Offeror or the Offeree (as the case may be) harmless and indemnified and shall keep them held harmless and indemnified against any loss arising from the failure to process the Acceptance and Transfer Form, if information as has been required from the AUB Shareholder has not been provided within the allotted time to the satisfaction of the party requesting such information; and
- (d) understand and agree that any New KFH Shares to be issued to the AUB Shareholder may be retained pending the completion of any verification of identity required by the Kuwait Receiving Agent, the Offeror or the Offeree (as the case may be).

AUB Shareholders should note that only Acceptances that are not rejected will count towards the Requisite Acceptances.

Once all the Conditions Precedent have been fulfilled or waived (where applicable) and the Offer becomes unconditional in all respects, during or at the end of the Final Offer Closing Date, KFH will arrange to make an announcement to this effect in two newspapers in the Kingdom of Bahrain and the websites of the BB, BK, AUB and KFH.

Allotment notices for each AUB Shareholder will be made available for collection at the KCC for AUB Shareholders of AUB BK Shares and the BC for AUB Shareholders of AUB BB Shares, during normal working hours starting from the Effective Date. Allotment notices will also be sent to the email provided by the AUB Shareholder in the Acceptance and Transfer Form.

Any queries regarding the application procedure should be directed to the Receiving Agents.

Yours faithfully,

On behalf of the Board of Directors



Chairman of the Board of Directors

## **V. RECOMMENDATION LETTER FROM THE BOARD TO THE AUB SHAREHOLDERS**

### **AHLI UNITED BANK B.S.C.**

(Incorporated in the Kingdom of Bahrain with Commercial Registration No.: 46348)

#### **Registered Office:**

Building 2495, Road 2832,  
Al Seef District 428, P.O. Box 2424  
Manama, Kingdom of Bahrain

15 August 2022

**To,**

**The Shareholders of Ahli United Bank B.S.C.**

Dear Sir/Madam,

**Kuwait Finance House K.S.C.P.'s voluntary conditional offer to acquire up to 100% of the issued ordinary shares of Ahli United Bank B.S.C. by way of a share swap at an exchange ratio of 2.695 AUB Shares for 1 New KFH Share**

#### **INTRODUCTION**

We refer to the Circular dated 15 August 2022 issued by AUB, of which this letter forms part. Capitalised terms used herein shall have the same meanings as those defined in the Circular unless the context requires otherwise.

On 26 July 2022, AUB announced that the Board received the Offer Document from KFH on 25 July 2022 offering to acquire up to 100% of the issued ordinary capital of AUB by way of a share swap at an exchange ratio of 2.695 AUB Shares for 1 New KFH Share on the terms and conditions contained in the Offer Document.

**The acquisition requires the satisfaction of certain conditions (as set out in section 5.7 of the Offer Document and as replicated in paragraph 2.6 of Part IV of this Circular). If you accept the Offer and the conditions are met you will receive 1 New KFH Share for every 2.695 AUB Shares that you hold, and you will no longer hold any shares in AUB.**

The Offer, which the Board unanimously recommends, will, if effected, create a financial institution with a significantly enhanced strategic position across key products and services in the Islamic Finance sector. We understand from public sources that the revised final share Exchange Ratio was approved by the Board of KFH on 6 July 2022 and the General Assembly of the KFH shareholders resolved to approve the proposed acquisition of AUB and authorized the KFH Board to proceed with the relevant procedures to effect the proposed acquisition.

The Board recognises the strategic potential the Offer provides for AUB as the combined entity would be positioned to compete for regional market leadership given increase in size of capital and balance sheet, enhanced underwriting capacity and higher cross-selling opportunities. The Board further believes that the resulting group will, by virtue of its wider regional reach, be well-positioned to generate larger cross-border business flows.

The Offer is subject to several conditions, as set out in section 5.7 of the Offer Document.

## ACTIONS TO BE TAKEN BY AUB SHAREHOLDERS

The actions required from AUB Shareholders to accept KFH's Offer are set out in sections 5.8 and 6 of the Offer Document.

*Please refer to section 5.7 of the Offer Document (or paragraph 2.6 of Part IV of this Circular) for the complete list of conditions which must be fulfilled or waived (where applicable) in order for the Offer to become effective.*

## COMPULSORY ACQUISITIONS (SQUEEZE-OUT)

Under the TMA and Commercial Companies Law, any person who makes an offer for all shares in a company listed in Bahrain, and in response to such offer receives 90% or more acceptances from such company's shareholders, has the right to compulsorily acquire all remaining shares in issue from the minority shareholders of such company.

*Please refer to section 5.10 of the Offer Document for the details of KFH's proposal to acquire the AUB Shares of any Dissenting Shareholders who do not accept the Offer, subject to certain conditions (as set out in section 5.10 of the Offer Document).*

## AUB DELISTING

KFH intends to procure the delisting of AUB from BB and BK. Such delisting may occur: (i) if KFH receives 90% or more acceptances from AUB Shareholders, following completion of the Squeeze-Out; or (ii) if approved by AUB Shareholders at a general assembly meeting to be held (such general assembly meeting to be convened, (as described in paragraph 2.13 of Part IV of this Circular), subject to CBB approval at such time, if KFH (a) does not receive 90% acceptances from AUB Shareholders and waives the Condition Precedent in respect of Requisite Acceptances, and (b) requests the AUB Board to do so). If such general assembly meeting is convened, all AUB Shareholders including shareholders who accepted the Offer shall be eligible to vote their shares in such general assembly meeting.

*Please refer to section 5.13 of the Offer Document for details of KFH's proposal on the delisting of AUB.*

## RECOMMENDATION

Taking into consideration KFH's statements made in the Offer Document and the opinion of the Professional Independent Adviser that the KFH Offer is fair and reasonable (as set out in Part VI of this Circular), THE BOARD IS UNANIMOUSLY OF THE OPINION THAT THE KFH OFFER IS **FAIR AND REASONABLE. ACCORDINGLY, THE BOARD UNANIMOUSLY RECOMMENDS THAT THE AUB SHAREHOLDERS ACCEPT THE KFH OFFER TO ACQUIRE UP TO 100% OF THE ISSUED AND PAID UP ORDINARY SHARES OF AHLI UNITED BANK B.S.C BY WAY OF A SHARE SWAP AT AN EXCHANGE RATIO OF 2.695 AUB SHARES FOR 1 NEW KFH SHARE BY COMPLETING THE ACCEPTANCE AND TRANSFER FORM IN ACCORDANCE WITH ITS TERMS.**

In the event the Requisite Acceptances are not received by the Initial Offer Closing Date, and a general assembly meeting is convened (as described in paragraph 2.13 of Part IV of this Circular and in accordance with section 5.13 of the Offer Document). **THE BOARD UNANIMOUSLY RECOMMENDS THAT THE AUB SHAREHOLDERS VOTE IN FAVOUR OF THE RELEVANT RESOLUTIONS WHICH WILL BE PROPOSED IN SUCH GENERAL MEETING TO CONSIDER THE DELISTING OF AUB.**

**In case of any doubt, AUB Shareholders are also advised to seek independent professional advice, as deemed appropriate, prior to making any decision.**

Yours faithfully,

**Board of Directors of Ahli United Bank B.S.C.:**

Name of Director	Title	Signature
Mr. Meshal AbdulAziz Alothman	Chairman	
Mr. Mohammad Fouad Al-Ghanim	Deputy Chairman	
Mr. Khalid Mohamed Najibi	Board Member	
Mr. Abdulghani M.S.Y Behbehani	Board Member	
Mr. Ahmad Ghazi Al-Abduljalil	Board Member	
Mr. Abdullah Al Mudhaf	Board Member	
Mr. Jamal Abdel Razzaq Al-Naif	Board Member	

## VI. FAIRNESS OPINION OF THE PROFESSIONAL INDEPENDENT ADVISER



10 August 2022

The Board of Directors (the "Board")  
 Ahli United Bank B.S.C.  
 Building 2495  
 Road 2832  
 Al Seef District 428  
 P.O. Box 2424  
 Manama, Kingdom of Bahrain

Members of the Board:

You have requested our opinion as to the fairness and reasonableness, from a financial point of view, to the holders of the common stock (the "AUB Shareholders") of Ahli United Bank B.S.C. ("AUB") of the Exchange Ratio (defined below) set forth in the offer document issued by Kuwait Finance House K.S.C.P. ("KFH") to the AUB Shareholders and received by the Board on 25 July 2022 (the "Offer Document"). As more fully described in the Offer Document, (i) KFH will make a voluntary conditional offer to acquire 100% of the outstanding shares of the common stock, par value \$0.25 per share, of AUB ("AUB Common Stock") by way of a share swap (the "Offer") and (ii) every 2.695 outstanding shares of AUB Common Stock that are tendered in acceptance of the Offer will be converted into the right to receive 1 share (the "Exchange Ratio") of the common stock, par value Kuwaiti Dinar 0.10 per share, of KFH ("KFH Common Stock") ((i) and (ii) together, the "Transaction").

In arriving at our opinion, we reviewed the Offer Document and held discussions with certain senior officers, directors and other representatives and advisors of AUB and certain senior officers and other representatives and advisors of KFH concerning the businesses, operations and prospects of AUB and KFH. We examined certain publicly available business and financial information relating to AUB and KFH as well as certain financial forecasts and other information and data relating to AUB and KFH which were provided to or discussed with us by the respective managements of AUB and KFH (including reports prepared by third parties at the instruction of AUB and/or KFH, and on which we relied with the consent of AUB, on among other matters the economic impact of the conversion of AUB's business into a Sharia'a compliant business following the completion of the Transaction), including information relating to the potential strategic implications and operational benefits (including the amount, timing and achievability thereof) anticipated by the managements of AUB and KFH to result from the Transaction. We reviewed the financial terms of the Transaction as set forth in the Offer Document in relation to, among other things: current and historical market prices and trading volumes of AUB Common Stock and KFH Common Stock; the historical and projected earnings and other operating data of AUB and KFH; and the capitalization and financial condition of AUB and KFH. We considered, to the extent publicly available, the financial terms of certain other transactions which we considered relevant in evaluating the Transaction and analyzed certain financial, stock market and other publicly available information relating to the businesses of other companies whose operations we considered relevant in evaluating those of AUB and KFH. We also evaluated certain potential pro forma financial effects of the Transaction on KFH. In addition to the foregoing, we conducted such other analyses and examinations and considered such other information and financial, economic and market criteria as we deemed appropriate in arriving at our opinion. The issuance of our opinion has been authorized by our fairness opinion committee.

**VI. FAIRNESS OPINION OF THE PROFESSIONAL INDEPENDENT ADVISER (CONTINUED)**



In rendering our opinion, we have assumed and relied, without independent verification, upon the accuracy and completeness of all financial and other information and data publicly available or provided to or otherwise reviewed by or discussed with us and upon the assurances of the managements of AUB and KFH that they are not aware of any relevant information that has been omitted or that remains undisclosed to us. With respect to financial forecasts and other information and data relating to AUB and KFH provided to or otherwise reviewed by or discussed with us, we have been advised by the respective managements of AUB and KFH that such forecasts and other information and data were reasonably prepared on bases reflecting the best currently available estimates and judgments of the managements of AUB and KFH as to the future financial performance of AUB and KFH, the potential strategic implications and operational benefits anticipated to result from the Transaction and the other matters covered thereby, and have assumed, with your consent, that the financial results (including the potential strategic implications and operational benefits anticipated to result from the Transaction) reflected in such forecasts and other information and data will be realized in the amounts and at the times projected.

We have assumed, with your consent, that the Transaction will be consummated in accordance with its terms, without waiver (except for any waiver of the acceptance condition contemplated by the Offer Document), modification or amendment of any material term, condition or agreement and that, in the course of obtaining the necessary regulatory or third party approvals, consents and releases for the Transaction, no delay, limitation, restriction or condition will be imposed that would have an adverse effect on AUB, KFH or the contemplated benefits of the Transaction. Our opinion, as set forth herein, relates to the relative values of AUB and KFH. We are not expressing any opinion as to what the value of the KFH Common Stock actually will be when issued pursuant to the Transaction or the price at which the KFH Common Stock will trade at any time. Furthermore, the credit, financial and stock markets are currently experiencing and may continue to experience volatility, and we express no view or opinion as to any potential effects of such volatility on AUB, KFH or the Transaction. We have not made or been provided with an independent evaluation or appraisal of the assets or liabilities (contingent or otherwise) of AUB or KFH nor have we made any physical inspection of the properties or assets of AUB or KFH. We are not experts in the evaluation of loan and lease portfolios for purposes of assessing the adequacy of allowances for losses with respect thereto, and we have not made an independent evaluation of the adequacy of such allowances of AUB and KFH. We were not requested to, and we did not, solicit third party indications of interest in the possible acquisition of all or a part of AUB, nor were we requested to consider, and our opinion does not address, the underlying business decision of AUB to effect the Transaction, the relative merits of the Transaction as compared to any alternative business strategies that might exist for AUB or the effect of any other transaction in which AUB or KFH might engage (including the submission of a mandatory tender offer by KFH with respect to the shares of Ahli United Bank K.S.C.P., and the statutory merger of Kuwait Finance House (Bahrain) B.S.C.(c). into AUB, in each case following the completion of the Transaction). We express no view as to, and have not made an independent evaluation or appraisal of, the potential strategic implications of, and the operational costs and benefits (including the amount, timing and achievability thereof) anticipated to result from, the conversion of AUB's business into a Sharia'a compliant business following the completion of the Transaction. We also express no view as to, and our opinion does not address, the fairness (financial or otherwise) of the amount or nature or any other aspect of any compensation to any officers, directors or employees of any parties to the Transaction, or any class of such persons, relative to the Exchange Ratio. Our opinion is necessarily based upon information available to us, and financial, stock market and other conditions and circumstances existing, as of the date hereof. We have also assumed, with your consent, that between the date hereof and the consummation of the Transaction: (a) neither AUB nor KFH will issue any new stock options or stock grants or any other instruments or securities convertible into, or exchangeable for, shares of, respectively, AUB or KFH; (b) neither AUB nor KFH will repurchase any of their shares; (c) neither AUB nor KFH will otherwise change the number of their outstanding shares of common stock; and (d) neither AUB nor KFH will pay any dividend.



## Methodology and Background to our Financial Analysis

Our financial analysis is summarized in our financial analysis presentation dated 10 August 2022 provided to the Board (the “Summary Financial Analysis”). In preparing this opinion, we have performed a variety of financial and comparative analyses, including those described below, of AUB on a standalone basis relative to KFH on a standalone basis, as well as, at the request of AUB, of AUB on a standalone basis relative to the *pro forma* combined entity following the Transaction taking into account different scenarios of estimated net synergies derived from third party estimates and upon which we relied with the consent of AUB (and on which we express no view as to the amount, timing, and achievability thereof). In the preparation of this opinion, we performed, among others, (i) analysis of trading prices of AUB and KFH over the last twelve months, (ii) analysis of broker target prices for AUB and KFH; (iii) analysis of selected past transactions involving change of control for listed Gulf Cooperation Council (“GCC”) banks or Middle Eastern companies, (iv) analysis of price/book value and price/earnings multiples of listed peer group GCC banks, (v) regression analysis of expected profitability of listed peers against their trading multiples, (vi) analysis using the Gordon Growth Model taking into account sustainable returns on equity, long-term growth and cost of equity, and (vii) analysis using the dividend discount model based on forecasts provided by the managements of AUB and KFH up to 2024, and also for an extrapolated set of forecasts up to 2026 prepared at the guidance of the Board. The preparation of this opinion is a complex analytical process involving various determinations as to the most appropriate and relevant methods of financial analysis and the application of those methods to the particular circumstances, and, therefore, this paragraph should not be considered to be, nor does it represent, a comprehensive description of all analyses performed by and underlying our opinion, nor does the order of financial analyses described above represent the relative importance or weight given to those financial analyses by us. Financial data utilized in our analyses, to the extent based on internal financial forecasts and estimates of management, were based on certain financial forecasts and other information relating to AUB and KFH provided to and/or discussed with us by the managements of AUB and/or KFH.

## Citi Relationships

Citigroup Global Markets Limited has acted as financial advisor to AUB in connection with the proposed Transaction and will receive a fee for such services, a part of which is payable only in certain circumstances upon the consummation of the Transaction. We and our affiliates in the past have provided, and currently provide, services to AUB, KFH and their respective affiliates unrelated to the proposed Transaction, for which services we and such affiliates have received and expect to receive compensation, including, without limitation, providing lending services, liability management services and debt capital market services to AUB and its affiliates and providing minor lending services and debt capital market services to KFH and its affiliates. In light of our existing business relationship with KFH, we have also had preliminary informal contacts with KFH regarding the possibility of providing certain markets, treasury and transaction services to it in the future that are incidental to, or arising as a consequence of, the consummation of the Transaction. We and our affiliates in the past have also provided, and currently provide, lending services to The Public Institution for Social Security (Kuwait) (“PIFSS”), a significant shareholder in AUB and a shareholder in KFH; debt capital markets services to the State of Kuwait, a significant indirect shareholder in KFH; and lending, mergers and acquisitions advisory, acquisition finance, equity capital markets and debt capital markets services to Kuwait Investment Authority (“KIA”), a significant shareholder in KFH, and portfolio companies managed and/or advised by KIA, in each case unrelated to the proposed Transaction, for which services we and such affiliates have received and expect to receive compensation. In addition, on April 4, 2022, an affiliate of Citigroup Global Markets Limited entered into an agreement to sell Citi’s consumer banking business in Bahrain to AUB. In the ordinary course of our business, we and our affiliates may actively trade or hold the securities of AUB, KFH and portfolio companies managed and/or advised by KIA for our own account or for the account of our customers and, accordingly, may at any time hold a long or short position in such securities. In addition, we and our affiliates (including Citigroup Inc. and its affiliates) may maintain relationships with AUB, KFH, PIFSS, the State of Kuwait, KIA and portfolio companies managed and/or advised by KIA, and their respective affiliates.



**Opinion**

Our advisory services and the opinion expressed herein are provided for the information of the Board in its independent evaluation of the proposed Transaction, and our opinion is not intended to be and does not constitute a recommendation to any stockholder as to how such stockholder should vote or act on any matters relating to the proposed Transaction.

Based upon and subject to the foregoing, our experience as investment bankers, our work as described above and other factors we deemed relevant, we are of the opinion that, as of the date hereof, the Exchange Ratio is fair and reasonable, from a financial point of view, to the AUB Shareholders. Our opinion is issued solely to the Board pursuant to paragraph TMA-2.2.1 of the Takeovers, Mergers and Acquisitions Module, Volume 6 of the CBB Rulebook.

This opinion supersedes and prevails over our opinion dated 10 March 2020, a copy of which was enclosed in the circular published by the Board on 16 March 2020.

This opinion is rendered in the English language. If this opinion is translated into any language other than English and in the event of any discrepancy between the English language and any such other language version, the English language version shall prevail.

Very truly yours,

*Citigroup Global Markets Limited*

CITIGROUP GLOBAL MARKETS LIMITED



## APPENDIX A –

### INFORMATION ABOUT THE OFFEREE AND OTHER STATUTORY INFORMATION

#### 1. BUSINESS OVERVIEW

##### 1.1 AUB

AUB was established in Bahrain on 31 May 2000 following a merger between The United Bank of Kuwait PLC (“**UBK**”) and Al-Ahli Commercial Bank B.S.C. (“**ACB**”) pursuant to which UBK and ACB each became wholly-owned subsidiaries of AUB. AUB was originally incorporated as a closed company and was converted to a public shareholding company on 12 July 2000 by Amiri Decree Law 16/2000. AUB is regulated by the CBB and operates under a retail banking licence issued under the CBB’s integrated licensing framework.

##### 1.2 Market Price of AUB

The VWAP for AUB shares up to six months prior to and including the Latest Practicable Date is as follows:

VWAP Period	Bahrain Bourse VWAP (USD per AUB Share) (A)	Boursa Kuwait VWAP (KWD per AUB Share) (B)	Average Exchange Rate (USD:KWD) (C)	Boursa Kuwait VWAP in USD per AUB Share D = B / C
1 month	0.954	0.297	0.3070	0.967
2 months	0.903	0.278	0.3068	0.906
3 months	0.912	0.279	0.3066	0.910
4 months	0.936*	0.287*	0.3064	0.937*
5 months	0.941*	0.288*	0.3058	0.942*
6 months	0.933*	0.285*	0.3053	0.934*

\* Share price adjusted for 10% bonus share issuance in April 2022

The market price of AUB on certain key dates is given below:

Event	Event Date	Bahrain Bourse Closing Price (USD per AUB Share) (A)	Boursa Kuwait Closing Price (KWD per AUB Share) (B)	Exchange Rate (USD:KWD) (C)	Boursa Kuwait Closing Price in USD per AUB Share D = B / C
The last Business Day prior to the December announcement regarding resumption of the transaction	30 November 2021	0.818*	0.240*	0.3026	0.793*

## 1. BUSINESS OVERVIEW (CONTINUED)

Event	Event Date	Bahrain Bourse Closing Price (USD per AUB Share) (A)	Boursa Kuwait Closing Price (KWD per AUB Share) (B)	Exchange Rate (USD:KWD) (C)	Boursa Kuwait Closing Price in USD per AUB Share D = B / C
The last Business Day prior to the date of announcement of update of financial and legal due diligence studies	23 March 2022	0.914*	0.277*	0.3041	0.912*
The last Business Day prior to the date of announcing the approved Exchange Ratio	6 July 2022	0.920	0.278	0.3072	0.905
Issuance of Firm Intention	25 July 2022	0.985	0.304	0.3072	0.990
Issuance of Offer Document	25 July 2022	0.985	0.304	0.3072	0.990
Latest Practicable Date	7 August 2022	0.988	0.305	0.3068	0.994

\* Share price adjusted for 10% bonus share issuance in April 2022

The closing prices for the last trading day of the month for the period commencing six months prior to the commencement of the Offer and ending on the Latest Practicable Date prior to the posting of the Circular were as follows:

Date	Bahrain Bourse Closing Price (USD per AUB Share) (A)	Boursa Kuwait Closing Price (KWD per AUB Share) (B)	Exchange Rate (USD:KWD) (C)	Boursa Kuwait Closing Price in USD per AUB Share D = B / C
24-Feb-2022**	0.909*	0.272*	0.3027	0.898*
28-Feb-2022	0.932*	Kuwait Market Closed		
31-Mar-2022	1.000*	0.302*	0.3039	0.993*
28-Apr-2022**	1.015	0.315	0.3067	1.027
31-May-2022	0.915	0.274	0.3057	0.896
30-Jun-2022	0.865	0.267	0.3067	0.871
28-Jul-2022**	1.000	0.305	0.3069	0.994
Latest Practicable Date 7-Aug-2022	0.988	0.305	0.3068	0.994

\* Share price adjusted for 10% bonus share issuance in April 2022

\*\* last trading day of the respective month

The highest and lowest closing prices during the period commencing six months prior to the commencement of the Offer and ending on the Latest Practicable Date prior to the posting of the Circular were as follows:

	Date	Bahrain Bourse Closing Price (USD per AUB Share)
Highest closing price	10-Apr-2022	1.060*
Lowest closing price	19-Jun-2022	0.830

\* Share price adjusted for 10% bonus share issuance in April 2022

	Date	Boursa Kuwait Closing Price (KWD per AUB Share) (A)	Exchange Rate (USD:KWD) (B)	Boursa Kuwait Closing Price in USD per AUB Share C = A / B
Highest closing price	6-Apr-2022	0.329*	0.3048	1.080*
Lowest closing price	19-Jun-2022	0.249	0.3069	0.811

\* Share price adjusted for 10% bonus share issuance in April 2022

## 2. MAJOR SHAREHOLDERS (as at the Latest Practicable Date)

Shareholder Name	% Ownership
Public Institution for Social Security, Kuwait	18.86%
Social Insurance Organisation, Bahrain	10.01%
Tamdeen Investment Company - Kuwait	5.55%
Sheikh Salem Sabah Naser AlSabah	5.43%
Total shareholding of shareholders owning 5% or above	39.85%
Other Shareholders	60.15%

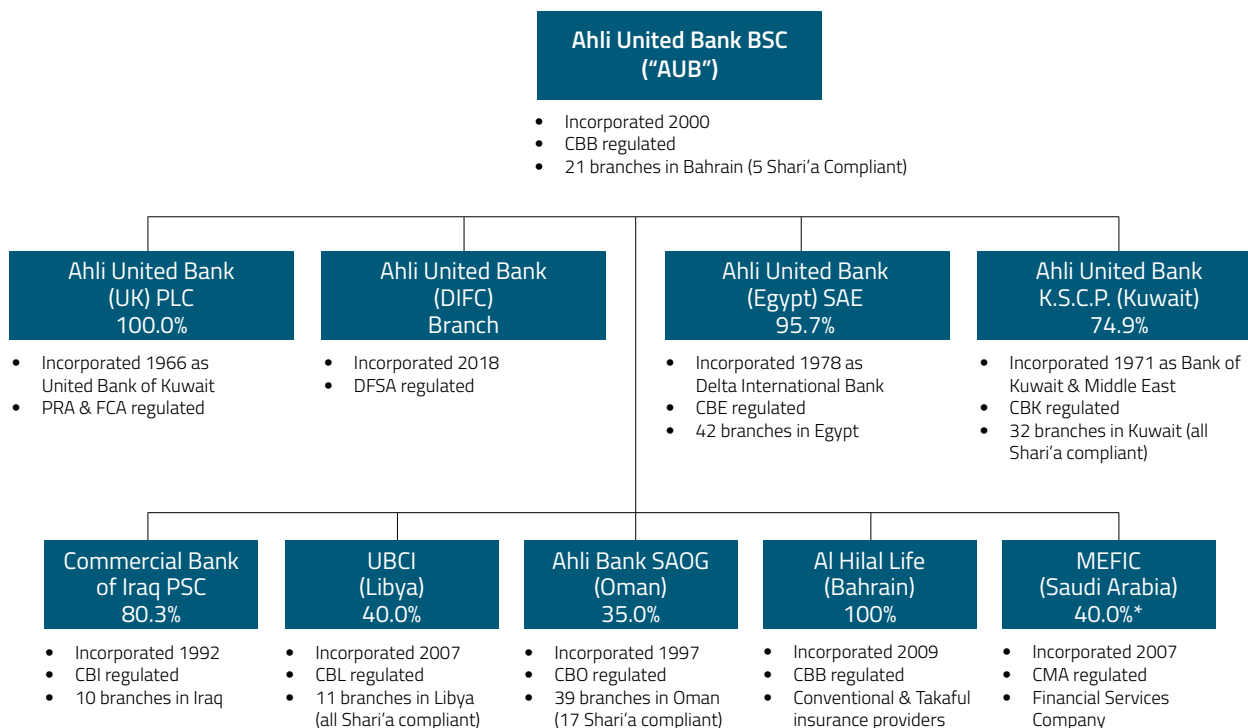
## 3. GROUP STRUCTURE

The following table depicts the subsidiaries, associated companies and branches of AUB as at the Latest Practicable Date:

Legal Entity Name	AUB Shareholding %	Country of Incorporation
Subsidiaries		
Ahli United Bank (U.K.) PLC	100.0%	United Kingdom
Ahli United Bank K.S.C.P.	74.9%	Kuwait
Ahli United Bank (Egypt) S.A.E.	95.7%	Egypt
Commercial Bank of Iraq P.S.C.	80.3%	Iraq
Al Ahli Real Estate Company W.L.L.	100.0%	Bahrain
Al Hilal Life B.S.C. (c)	100.0%	Bahrain

Legal Entity Name	AUB Shareholding %	Country of Incorporation
Associates		
Ahli Bank S.A.O.G.	35.0%	Oman
United Bank for Commerce and Investment S.A.L. (UBCI)	40.0%	Libya
Middle East Financial Investment Company (MEFIC)	40.0%	Kingdom of Saudi Arabia
Foreign Branch		
DIFC – Dubai	-	United Arab Emirates

**AUB Group structure chart**



\* 30% held through Ahli United Bank K.S.C.P.

#### 4. DIRECTORS OF THE OFFEREE

As of the date of this Circular, the Directors of AUB are:

Name of Director	Title
Mr. Meshal AbdulAziz Alothman	Chairman
Mr. Mohammad Fouad Al-Ghanim	Deputy Chairman
Mr. Khalid Mohamed Najibi	Board Member
Mr. Abdulghani M.S.Y Behbehani	Board Member
Mr. Ahmad Ghazi Al-Abduljalil	Board Member
Mr. Abdullah Al Mudhaf	Board Member
Mr. Jamal Abdel Razzaq Al-Naif	Board Member

A brief description of each Director is set out below.

- **Meshal AbdulAziz Alothman**

Non-Executive Director – Director since 19 February 2019. Chairman of the Board and the Executive Committee. Holds a Bachelor of Science, Marketing with a Minor in International Studies from the University of South Florida, 1996. Chairman of the Board of Directors, Ahli United Bank (UK) PLC, United Kingdom; Director General, The Public Institution for Social Security, Kuwait; Member of The Board of Directors, The Public Institution for Social Security, Kuwait; Chairman of The Board of Directors, Wafra Intervest Corporation, Bermuda; Member of The Board of Directors, The Industrial Bank of Kuwait, Kuwait; Member of The Awqaf Affairs Council, Kuwait Awqaf Public Foundation, Kuwait; Chairman of the Board of Directors, Kuwait Medical City Co., Kuwait. Formerly: Deputy Director General for Investment and Operations, The Public Institution For Social Security, Kuwait; Chief Investment Officer, The Public Institution For Social Security, Kuwait; Member of The Board of Directors, Kuwait Ports Authority, Kuwait. He has held many key positions in the investment department for 20 years in the Kuwait Fund for Arab Economic Development and has 25 years of experience covering financial services and investments.

- **Mohammad Fouad Al-Ghanim**

Non-Executive Director – Director since 29 March 2003. Deputy Chairman of the Board and member of the Executive Committee. Holds a degree, in Business Administration from Kuwait University, 1993. Vice Chairman and Group Chief Executive Officer of the Fouad Alghanim & Sons Group of Companies which includes several companies in various fields, Kuwait; Chairman, Ahli United Bank (Egypt) SAE, Egypt; Chairman, Fluor Kuwait Co. KSC, Kuwait; Formerly: Board Member, Ahli United Bank Limited, Dubai. Mr. Al-Ghanim is a respected member of the international business community including World Economic Forum (WEF), The World Economic Forum is an independent international organization committed to improving the state of the world by engaging business, political, academic and other leaders of society to shape global, regional and industry agendas. He is an active member in various business forums in Kuwait and abroad. He is also personally associated with various philanthropic activities particularly with a focus on children's health, education, and refugees. 32 years of experience covering corporate management operations, contracting, manufacturing, trade, real estate and financial.

- **Khalid Mohamed Najibi**

Non-Executive Director – Director since 23 April 2019 Member of the Executive Committee. Holds a Bachelor Degree in Business Administration (with major in Finance) from BA Schiller International University, UK, 1990; Passed CPA 1993 (from The American Institute of CPA), United States. Founding Member and Managing Director, Najibi Investment Co. B.S.C(c), Director/Co-Owner, Al Souq Group W.L.L., First Vice Chairman, Bahrain Chamber of Commerce and Industry (BCCI) (NGO), Board Member, Social Insurance Organisation (SIO), Chairman, Osool Asset Management B.S.C. (c), Chairman, Bahrain Marina Co., Board Member, Ahli United Bank (UK) PLC, Board Member, Bahrain Tourism and Exhibitions Authority (BTEA), Kingdom of Bahrain, Board Member, King Fahad Causeway Authority (KFCA), and Board Member

#### 4. DIRECTORS OF THE OFFEREE (Continued)

of Arab British Chamber of Commerce (ABCC). Formerly: Vice Chairman, Managing Director/Chief Executive Officer, Capital Management House B.S.C. (c), Vice Chairman of Ibdar Bank, Board Member, & Chairman of Executive Committee of Bahrain Islamic Bank, Board Member of Gulf Finance House, Board Member of First Energy Bank, Board Member of QInvest Regulated by QFC in Qatar; Board Member & Member of Executive Committee of Arbah Capital Regulated by CMA in Kingdom of Saudi Arabia. Also, Board Member & Chairman of Executive Committee of Crown Industries & Bahrain Scrapmould; Board Member of Skaugen Gulf Petchem Carriers. 31 years of experience covering investments and real estate development, Islamic banking both wholesale and retail.

- **Abdulghani M.S.Y Behbehani**

Independent Director – Director since 29 March 2016. Chairman of the Audit & Compliance Committee and the Nominating Committee and a Member of the Compensation Committee. Holds a Bachelor of Science in Mechanical Engineering from Kuwait University, 1984. Vice Chairman, Noor Financial Investment Co. KSC, Kuwait; Board Member, Al-Alfain Printing, Publishing & Distribution Co. KSCC, Kuwait; Board Member, Kuwait Insurance Co. SAK, Kuwait; Board Member United Beverage Co. KSCC, Kuwait; Chairman, Noor Jordan Kuwait Financial Investment Co., Jordan; Chairman, Hotels Global Group, Jordan; Director, Mohammad Saleh & Reza Yousuf Behbehani Co. W.L.L, Kuwait; Director, Behbehani Capital Co. for Selling & Purchasing Shares & Bonds W.L.L, Kuwait; Manager, Shereen Motor Company W.L.L, Kuwait; Manager, Behbehani Tire Center Company SPC, Kuwait. Former Board Member, Al-Ahli Bank of Kuwait KSCP, Kuwait. 38 years of experience covering financial services, trade, engineering and real estate sectors.

- **Ahmad Ghazi Al-Abduljalil**

Non-Executive Director – Director since, 29 March 2016. Member of the Audit & Compliance Committee and Nominating Committee. Holds a Master's Certificate in Project Management from The George Washington University, School of Business, 2009; Certified Investment and Derivatives Auditor, 2009; Certified International Financial Accountant, 2014; Certified Professional Internal Auditor, 2015; Certified Merger & Acquisition Specialist, 2016; Certified Enterprise Risk Manager, 2020; Certified Banking and Credit Analyst, 2021; Certified Finance Specialist, 2021; Investment Diploma from American University of London, 2009; Bachelor of Political Science from Kuwait University, 1999; Associate's Certificate in Project Management from The George Washington University, School of Business, 2008. Financial Advisor to Director General, The Public Institution for Social Security, Kuwait; Board Member, Petro Link Holding Co. (K.S.C.C), Kuwait; Member of The International Centre for Settlement of Investment Disputes (ICSID) Panels of Arbitrators and of Conciliators, Washington D.C. Formerly: Vice Chairman, Kuwait Medical City Co. (K.S.C.C), Kuwait; Advisory Board Member, Markaz Real Estate Fund, Kuwait; Board Member, Al Salmiya Group for Enterprise Development Co. (K.S.C.C), Kuwait; Chairman, United Marketing and Organizing Exhibitions (K.S.C.C), Kuwait; Vice Chairman, Arab Gulf Company for food & Supermarket (S.A.K.C), Kuwait. 23 years of experience covering financial services, trading, real estate and manufacturing sectors.

- **Abdullah Al Mudhaf**

Independent Director – Director since 29 March 2018. Chairman of the Compensation Committee and a member of the Audit & Compliance Committee and Nominating Committee. Holds a Bachelor Degree in Arts Business Administration (E-Commerce & Info System) from Seattle University USA, 2005. Managing Director and Partner, AM Holding Group, Kuwait, Executive Director, Ruby's Café Restaurant Management and Catering Services, Kuwait; General Manager, Big Bang Restaurant Management and Catering Services, Kuwait and General Manager, Flain Gulf General Trading Company, Kuwait. Formerly: Independent Board Member, YIACO Medical Company, Kuwait; Senior Director, International Brokerage Division, Kuwait & Middle East Financial Investment Company (KMEFIC), Kuwait. 16 years of experience covering financial services and entrepreneur private sector development.

- **Jamal Abdel Razzaq Al-Naif**

Independent Director – Director since 29 March 2018. Member of the Audit & Compliance Committee, and the Nominating Committee, and the Compensation Committee. Holds Bachelor of Science Degree in (Economics) from Bradley University, USA 1980. Independent Director, Lakemore Partners (DIFC) Limited, Dubai. Formerly: Regional Head, Middle East, Africa & Central Asia, Pictet Asset Management, DIFC, Dubai; Managing Partner, Safanad SA DIFC, Dubai; Managing Director, Regional Head, MENA, Credit Suisse Asset Management, Dubai; Member of Credit Suisse MENA Operating Committee, Dubai; Managing Director, Regional Head MENA, Citi Alternative Investments, Citibank N.A., London; Founder and Managing Partner Al-Naif Consulting, Amman, Jordan; Head of Middle East Fixed Income Sales, Lehman Brothers, London; VP, Head of European and Middle East Sales, Head of Emerging Market Sales Europe, Member of Citibank Global Capital Markets Committee, Citibank N.A., London; VP, Head of Corporate Treasury, Gulf International Bank B.S.C., Bahrain; AVP, Middle East Currencies Trading and Head of Corporate Treasury Desk, Citibank N.A., Bahrain, Executive Trainee, Citibank N.A. Treasury, Bahrain. 41 years of experience in financial service sector.

## 5. SHARE CAPITAL

### 5.1 Capital structure

At the Latest Practicable Date, AUB has one class of shares, being ordinary shares. The total authorised share capital of AUB is USD3,000,000,000.00 divided into 12,000,000,000 ordinary shares, at a nominal value of USD0.25 for each share. The issued and fully paid up capital of AUB consists of 11,147,931,458 shares as of the Latest Practicable Date of USD0.25 each.

The AUB Shares are quoted and listed on the Bahrain Bourse and Boursa Kuwait and all the shares carry equal rights as to dividend, vote at shareholders' meetings and any other matter of shareholder concern.

### 5.2 Shares issued since end of last financial year

1,013,448,314 AUB shares have been issued from 31 December 2021 up to and including the date of this Circular.

### 5.3 Outstanding instruments convertible into, rights to subscribe for an option in respect of, securities being offered for or which carry voting rights affecting the AUB Shares

As at the Latest Practicable Date, there are no outstanding options, warrants or conversion rights affecting the AUB Shares.

AUB has closed its Employee Share Purchase Plan ("**ESPP**") and Mandatory Share Plan ("**MSP**") which were established in 2005 and 2014, respectively. The MSP has been fully wound down, with all options exercised and all shares having been transferred out of the MSP structure. There are no outstanding issuances in the ESPP, with the transfer of shares to individual participant(s) targeted to be completed on or before the Last Trading Date and, in any event, such transfers will not impact the issued share capital of AUB (being 11,147,931,458 issued shares, as at the Latest Practicable Date).

### 5.4 Treasury shares

As at the Latest Practicable Date, AUB holds no treasury shares.

## 6. DISCLOSURE OF INTERESTS

### 6.1 Shareholdings

#### 6.1.1 Interests of and dealings by AUB in the KFH Shares

AUB has no interest in the KFH Shares as at the Latest Practicable Date and has not undertaken any dealings in the KFH Shares in the last six months prior to the Latest Practicable Date.

#### 6.1.2 Interests of and dealings by AUB Directors in AUB and KFH shares

The following shows those Directors of AUB having direct or indirect shareholdings in the AUB Shares and/or the KFH Shares as at the Latest Practicable Date:

Name of Director	Number of AUB Shares*	Number of KFH Shares*
Mr. Meshal AbdulAziz Alothman	0	0
Mr. Mohammad Fouad Al-Ghanim	494,635,856	5,968,074
Mr. Khalid Mohamed Najibi	474,202	0
Mr. Abdulghani M.S.Y Behbehani	259,048,480	0
Mr. Ahmad Ghazi Al-Abduljalil	0	0
Mr. Abdullah Al Mudhaf	38,756,132	0
Mr. Jamal Abdel Razzaq Al-Naif	0	0

\* Includes direct and indirect shareholdings only (where indirect shareholding include shareholdings or persons under guardianship and/or control of a Director of AUB).

No Director of AUB has purchased or sold any AUB Shares or KFH Shares in the last six months prior to the Latest Practicable Date.

#### 6.1.3 Interests of and dealings by the Professional Independent Adviser

(i) In AUB

The Professional Independent Adviser has no direct or deemed interest in the AUB Shares as at the Latest Practicable Date and has not dealt on its own account for value in AUB Shares during the period commencing six months prior to the Latest Practicable Date.

(ii) In KFH

The Professional Independent Adviser has no direct or deemed interest in the KFH Shares as at the Latest Practicable Date and has not dealt on its own account for value in KFH Shares during the period commencing six months prior to the Latest Practicable Date other than KFH Shares held pursuant to hedging activities which are related to certain products facilitated for Citi's clients. As of the Latest Practicable Date, KFH Shares held pursuant to such hedging arrangements totalled 1,648,244 KFH Shares (0.02% of KFH).

### 6.2 AUB Directors' Intentions

Each member of the AUB Board as listed in paragraph 6.1.2 above intends to **ACCEPT** the Offer.



## 6.3 Financial Disclosures

6.3.1 The complete set of consolidated audited financial statements for the year ended 31 December 2019, 31 December 2020 and 31 December 2021 and the reviewed interim condensed consolidated financial statements for the period ending 30 June 2022 are provided in Appendix B of this Circular.

### 6.3.2 Statement of Material Changes

There have been no material changes in the financial position of AUB since 1 January 2022 till the Latest Practicable Date.

There have been no material transactions (not in the ordinary course of business) to be reported since 1 January 2022 (the date after the last published financial statement).

### 6.3.3 Significant Accounting Policies

All the significant accounting policies as contained in the financial statements for the financial year ending 31 December 2021 have been mentioned in Appendix B of this Circular, under the heading "*Notes to the Consolidated Financial Statements*".

### 6.3.4 Auditor's Qualification

The auditors have not made any qualifications in the Auditors Report in respect to the financials of AUB in the past three years.

### 6.3.5 Change in Accounting Policy

There has been no material change in the Accounting Policy during the past three financial years except as mentioned in Appendix B of this Circular, under the heading "*Significant Accounting Policies*".

## 6.4 Other Disclosures

### Directors' Service Agreements

All Directors' Service Agreements are for a term commencing from 30 September 2021, to the date of AUB's AGM to be held in March 2024 (unless terminated earlier in accordance with their terms). No service agreement has a notice period of 12 months or more.

No Directors' Service Agreements have been entered into or amended within six months before the commencement of the Offer Period.

## 7. MANAGEMENT

A brief description of the management of AUB is furnished below:

- **Mr. Adel A. El-Labban – Group Chief Executive Officer**

Holds a Masters in Economics (Highest Honors) from the American University in Cairo, 1980, Bachelors in Economics (Highest Honors) from the American University in Cairo, 1977.

Group Chief Executive Officer, Ahli United Bank B.S.C., Bahrain; Deputy Chairman, United Bank for Commerce & Investment S.A.C., Libya; Director, Ahli United Bank (UK) PLC; and Director, Ahli United Bank K.S.C.P., Kuwait. Former Positions: Chief Executive Officer and Director, United Bank of Kuwait P.L.C., UK; Managing Director, Commercial International Bank, Egypt S.A.E.; Chairman, Commercial International Investment Company, Egypt; First Deputy Chairman, Ahli Bank S.A.O.G., Oman; Vice Chairman, Middle East Financial Investment Co., Saudi Arabia; Deputy Chairman, Ahli United Bank S.A.E., Egypt; Deputy Chairman, Commercial Bank of Iraq; Director, Ahli United Bank Limited, UAE; Vice President, Morgan Stanley, USA; Assistant Vice President, Arab Banking Corporation, Bahrain; Director, Bahrain Bourse, formerly Bahrain Stock Exchange; and Director, Bahrain Association of Banks, Bahrain.

(Total years of experience: 43 years)

- **Mr. Keith Gale – Deputy Group Chief Executive Officer – Risk, Legal and Compliance**

Director, Ahli United Bank K.S.C.P. Kuwait; Director, Ahli United Bank (UK) PLC; Director, Ahli Bank S.A.O.G., Oman; Previously Group Head of Risk Management, Ahli United Bank, Bahrain; Former Head of Credit and Risk at ABC International Bank PLC; Former Assistant Vice President, Internal Audit Department, Arab Banking Corporation, Bahrain. Held various positions in the UK with KPMG and Ernst & Young. Associate Member of the Institute of Chartered Accountants England & Wales (ACA) and holds a BA (Hons) in Accounting and Finance from the University of Lancaster, UK.

(Total years of experience: 41 years)

- **Mr. Suvrat Saigal – Deputy Group Chief Executive Officer – Retail Banking**

Director, Al Hilal Life B.S.C.(c) & Al Hilal Takaful B.S.C.(c), Bahrain. Former: Head of Mass Segment and Products, First Abu Dhabi Bank, UAE; Head of Global Retail, National Bank of Abu Dhabi, UAE; Head of Consumer Banking, Barclays, India; Head of Strategy, Marketing & Consumer Experience, Citibank, Australia; Citibanking Head, Asia Pacific, Citibank N.A., Singapore; Cards Head, Citibank N.A., Japan. Held various management positions with Citibank in Singapore, USA, India and Saudi Arabia. Holds a Bachelor of Engineering from Delhi College of Engineering, India.

(Total years of experience: 32 years)

- **Mr. Geoff Stecyk – Deputy Group Chief Executive Officer – Operations and Technology**

Director, Ahli United Bank K.S.C.P., Kuwait. Former: Chief Operating Officer, Rakbank, UAE; Group Chief Technology Officer, Maybank Berhad, Malaysia; Vice President – National Head of Bancassurance, AIA China; Executive Vice President – Business Integration, Southern Bank Berhad, Malaysia; Co-Director and Founder, Asiapace Limited, Malaysia, Hong Kong and Singapore; General Manager, Southern Bank Unit Trust, Malaysia; Financial Consultant, Southern Bank Unit Trust, Malaysia; Business Development Officer, Investors Group, Canada. Holds a Bachelor of Commerce, Marketing/ Finance from University of Alberta, Canada.

(Total years of experience: 30 years)

- **Mr. David O'Loan – Deputy Group Chief Executive Officer – Treasury and Investments**

Director, Ahli United Bank K.S.C.P., Kuwait. Former: Group Treasurer for J. Sainsbury Plc, UK; Deputy Group Treasurer, RBS Group, UK; Senior Vice President, Swiss Re Asset Management, Switzerland; Investment Director, Standard Life Investments, UK; Head of Treasury, BGB (Ireland) plc, Ireland; Manager, Citibank N.A, Ireland. Fellow of the Association of Chartered Certified Accountants; holds a Master of Science degree in Treasury & Investment from Dublin City University and an MBA from University of Edinburgh.

(Total years of experience: 28 years)

- **Mr. Othman Hijazi – Deputy Group Chief Executive Officer – Corporate Banking and interim charge of Private Banking & Wealth Management**

Vice Chairman, Commercial Bank of Iraq; Director, Ahli United Bank K.S.C.P., Kuwait; Director, Al Hilal Life B.S.C.(c) and Al Hilal Takaful B.S.C.(c), Bahrain; Director, Al Ahli Real Estate Company WLL, Bahrain; Director, MEFIC Capital, Saudi Arabia; Director, Waqf Fund, Bahrain; Director, Property Company One & Two Ltd, UK. Former: Group Head – Corporate Banking, Ahli United Bank B.S.C., Bahrain; Executive Director International Corporates – Origination and Customers Coverage – Saudi and Kuwait Markets, Standard Chartered Bank, UAE; Executive Director – Head of Local Corporate Business – Origination and Customer Coverage – Sharjah and Northern Emirates, Standard Chartered Bank, UAE; Senior Relationship Manager – Business Banking Group, Abu Dhabi Commercial Bank, UAE; Relationship Manager, Commercial Bank International, UAE. Holds a Masters in Finance from University of Western Sydney, Australia.

(Total years of experience: 28 years)

- **Mrs. Iman Al-Madani – Deputy Group CEO – Human Resources Transformation & Development**

Former Group Head of Human Resources & Development; Ahli United Bank B.S.C., Bahrain; Head of Human Resources, Bank of Kuwait & Middle East (BKME). Former Assistant General Manager Human Resources, Burgan Bank, Kuwait. Certified Corporate Governance Officer (CCGO) from the London Business School. Holds a Bachelor of Science in Mathematics from the University of Denver, USA and an Associate of Science Degree in Data Processing & Computer Programming, Lane College, Oregon State, USA.

(Total years of experience: 38 years)

- **Mr. Rajeev Gogia – Deputy Group Chief Executive Officer – Finance and Strategy**

Former: Group Head of Strategic Development, Ahli United Bank B.S.C., Bahrain; Director, Ahli United Bank (Egypt) SAE; Director Ahli United Bank S.A.O.G., Oman; Director, Ahli United Bank K.S.P.C., Kuwait; Director, Kuwait & Middle East Financial Investment Company KSCP; Director, Al Hilal Life B.S.C.(c) and Al Hilal Takaful B.S.C.(c), Bahrain, Senior Division Head – Strategic Development, National Bank of Dubai, UAE. Held various positions in the consulting and advisory practice of KPMG UAE and in a financial institution in India. Associate Member of the Institute of Chartered Accountants of India (Rank holder).

(Total years of experience: 25 years)

- **Mr. Sami Tamim – Chief Executive Officer – AUBUK**

Director, Arab Bankers Association, UK. Formerly: Deputy CEO – Private Banking and Wealth Management, Ahli United Bank UK; Executive Director, UBS, London; Director, Citibank, UK; Senior Vice President, Coutts Bank, Geneva; Managing Director, Bank of Beirut, UK; Head of Private Banking, SAMBA, UK. Holds a Bachelor Degree in Economics from the American University of Beirut. Chartered FCSI, Chartered Institute for Securities & Investment.

(Total years of experience: 37 years)

- **Ms. Jehad Al-Humaidhi – Chief Executive Officer – Ahli United Bank, Kuwait**

Ms. Jehad has over 37 years of banking experience mainly in Information Technology and Operations. Ms. Jehad Al-Humaidhi joined the Bank in 1984 and has held several managerial positions related to operations, administration, electronic systems, data processing and system development. Since 2011, she has held the position of General Manager of IT & Operations rising to Senior General Manager in 2016 before she got promoted to Deputy CEO – Banking Support Group in June 2018. She is a Board Member and Vice-Chairman of KNET, Board member & Vice chairman of Al Hilal Life & Al Hilal Takaful, former Vice-Chairman of Ci Net and former Board Member of Gulf Custody Company. Ms. Jehad holds a Bachelor of Science degree in Mathematics (Major) and Economics (Minor) from Kuwait University.

(Total years of experience: 37 years)

- **Mrs. Hala Sadek – Chief Executive Officer – Ahli United Bank, Egypt**

Director, United Bank of Commerce & Investment. Hala has over 32 years of banking experience mainly in the Corporate Banking and Risk Management functions, in addition to her supervisory responsibilities in respect of Finance, Compliance, Legal, Operations, IT, Premises and Administration Departments. She joined AUBE in December 2006. Prior to joining AUBE, she had worked with Commercial International Bank (CIB) Egypt where she spent around 8 years holding senior roles in Corporate Banking and Risk Management functions. She is a board member in AUBE. Hala holds a Bachelor's degree in Economics from the faculty of Economics and Political Science, Cairo University.

(Total years of experience: 33 years)

- **Mr. Faisal Al Haimus – Chief Executive Officer – Commercial Bank of Iraq**

Chairman, Iraq Securities Commission, Iraq; Former: Chairman and President, Trade Bank of Iraq; Senior Deputy CEO, Commercial Bank of Iraq; Chief Executive Officer, Bank of Baghdad, Iraq; Head of Wholesale Banking – Iraq, Standard Chartered Bank, UAE; Head of Commercial Banking, HSBC Bank Middle East – Iraq, Iraq; Associate Vice President, Emirates Islamic Bank, UAE. Held various positions at Standard Chartered, Mashreq Bank and Union National Bank in UAE. Holds a Masters in Business Administration from Staffordshire University, UK.

(Total years of experience: 27 years)

- **Mr. Ayman El Gammal – Chief Executive Officer – United Bank for Commerce & Investment, Libya**

Former Assistant Managing Director and Head of Investments, National Investment Bank, Egypt, Former Managing Director, Asset Management – Private Equity, NAEEM Holdings, Egypt, Former Managing Director, EFG Hermes Private Equity, Egypt, Former Executive Director, Commercial International Investment Company, Former Assistant General Manager, Commercial International Bank (CIB), Egypt. Former board member in various companies and banks representing employers' investments. Holds a BA in Business from Cairo University, Egypt.

(Total years of experience: 38 years)

- **Mr. Said Hathout – Chief Executive Officer – Al Hilal Life & Al Hilal Takaful**

Former Chief Operating Officer, Al Hilal Life B.S.C.(c) and Al Hilal Takaful B.S.C.(c), Bahrain; Former Operations and IT Director, Al Hilal Life B.S.C.(c) and Al Hilal Takaful B.S.C.(c), Bahrain; Former Regional Operations Director, ACE Life Insurance Company, Former Chief Operations Officer, ACE Life Insurance Company Egypt; Former Life Administration Manager, Arabia Insurance Company S.A.L.; Lebanon. Holds a Master's Degree in Business Administration and a Bachelor Degree in Business Marketing from the Lebanese American University in Lebanon.

(Total years of experience: 24 years)

## 8. DOCUMENTS AVAILABLE FOR INSPECTION

AUB Shareholders may obtain copies of this Circular, the Offer Document and the Acceptance and Transfer Form (as per the procedures set out in paragraph 8.2 of Part IV above). Any AUB Shareholder who would like to receive the Offer documentation and announcements (including the Squeeze-Out Notice) shall send a request to the following email address: [agent@sicobank.com](mailto:agent@sicobank.com).

In addition, the following documents will be available for inspection at AUB's headquarters (c/o Corporate Secretary at Building 2495, Road 2832, Al Seef District 428, Manama, Kingdom of Bahrain) and Ahli United Bank K.S.C.P.'s headquarters (c/o Corporate Secretary at East Tower, Joint Banking Complex, Commercial Area No. 9, Darwazat Abdul Razak, Mubarak Al Kabir St., Kuwait) during normal office hours for the period for which the Offer remains open for acceptance:

- (a) Memorandum and Articles of Association of AUB, as amended from time to time;
- (b) Consolidated audited financial statements of AUB for the financial years 2019, 2020 and 2021 and the reviewed interim condensed consolidated financial statements for the period ending 30 June 2022;
- (c) The Firm Intention from KFH to AUB dated 25 July 2022;
- (d) Written consent of the Professional Independent Adviser to share the Professional Independent Adviser's Opinion;
- (e) Professional Independent Adviser's Opinion;
- (f) Summary presentation of the Professional Independent Adviser; and
- (g) The Implementation Agreement (once signed).

**APPENDIX B**

**CONSOLIDATED AUDITED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED 31 DECEMBER 2019, 2020 AND 2021 AND  
THE REVIEWED INTERIM CONDENSED CONSOLIDATED FINANCIAL  
STATEMENTS FOR THE PERIOD ENDING 30 JUNE 2022**

**AHLI UNITED BANK B.S.C.**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**31 DECEMBER 2019**



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C.R. No. 29977-1

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

### **Report on the Audit of the Consolidated Financial Statements**

#### *Opinion*

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

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

#### *Basis for opinion*

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

#### *Key audit matters*

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

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





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

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

*Key audit matters (continued)*

<b>1. Impairment of carrying value of loans and advances</b>	
<b>Key audit matter</b>	<b>How our audit addressed the key audit matter</b>
<p>The process for estimating impairment provision on credit risk associated with loans and advances in accordance with IFRS 9 Financial instruments (IFRS 9) is significant and complex. IFRS 9 requires use of the Expected Credit Loss (ECL) model for the purposes of calculating impairment provision. ECL model requires the Group to exercise significant judgment using subjective assumptions when determining both the timing and the amounts of ECL for loans and advances. Due to the complexity of requirements under IFRS 9, significance of judgments applied and the Group's exposure to loans and advances forming a major portion of the Group's assets, the audit of ECL for loans and advances is a key area of focus.</p> <p>As at 31 December 2019, the Group's gross loans and advances amounted to US\$ 21,512 million and the related ECL allowances amounted to US\$ 770 million, comprising US\$ 413 million of ECL against Stage 1 and 2 exposures and US\$ 357 million against exposures classified under Stage 3. The basis of calculation of ECL is presented in the summary of significant accounting policies and note 7 to the consolidated financial statements.</p>	<p>Our approach included testing the controls associated with the relevant processes for estimating ECL and performing substantive procedures on such estimates. Our procedures, amongst others, focused on the following key areas:</p> <ul style="list-style-type: none"> <li>• We assessed: <ul style="list-style-type: none"> <li>○ the Group's IFRS 9 based impairment provisioning policy including significant increase in credit risk criteria with the requirements of IFRS 9;</li> <li>○ Group's ECL modeling techniques and methodology against the requirements of IFRS 9; and</li> <li>○ the theoretical soundness and tested the mathematical integrity of the models.</li> </ul> </li> <li>• We obtained an understanding of the design and tested the operating effectiveness of relevant controls over ECL model, including model build and approval, ongoing monitoring / validation, model governance and mathematical accuracy. We have also checked completeness and accuracy of the data used and the reasonableness of the management assumptions;</li> <li>• We understood and assessed the significant modeling assumptions for exposures as well as overlays with a focus on: <ul style="list-style-type: none"> <li>○ Key modeling assumptions adopted by the Group; and</li> <li>○ Basis for and data used to determine overlays.</li> </ul> </li> <li>• For a sample of exposures, we performed procedures to evaluate: <ul style="list-style-type: none"> <li>○ Appropriateness of exposure at default, probability of default and loss given default (including collateral values used) in the calculation of ECL;</li> <li>○ Timely identification of exposures with a significant increase in credit risk and appropriateness of the Group's staging; and</li> <li>○ ECL calculation.</li> </ul> </li> </ul>



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

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

*Key audit matters (continued)*

<b>1. Impairment of carrying value of loans and advances (continued)</b>	
<b>Key audit matter</b>	<b>How our audit addressed the key audit matter</b>
	<ul style="list-style-type: none"> <li>• For forward looking information used by the Group’s management in its ECL calculations, we held discussions with management and checked internal approvals by management for economic outlook used for purposes of calculating ECL; and</li> <li>• We considered the adequacy of the disclosures in the consolidated financial statements in relation to impairment of loans and advances as required under IFRS.</li> </ul> <p>We also involved our internal specialists where their specific expertise was required.</p> <p>Refer to the critical accounting estimates and judgments, disclosures of loans and advances and credit risk management in notes 2, 7 and 31 to the consolidated financial statements.</p>
<b>2. Impairment of goodwill</b>	
<b>Key audit matter</b>	<b>How our audit addressed the key audit matter</b>
<p>Goodwill is allocated to cash generating units (‘CGUs’) for the purpose of impairment testing. Goodwill impairment testing of CGUs relies on estimates of value-in- use based on estimated future cash flows. Due to the subjectivity involved in computing recoverable amounts and the significance of the Group’s recognised goodwill of US\$ 432 million as at 31 December 2019, this audit area is considered a key audit risk.</p>	<p>We obtained an understanding of management’s processes for determining the recoverable amount for annual goodwill impairment testing. With the assistance of our valuation specialists, we formed an independent range of key assumptions used in a sample of impairment assessment, with reference to the relevant industry and market valuation considerations, and derived a range of values using our assumptions and other qualitative risk factors. We compared these ranges with the management’s assumptions, and discussed our results with management.</p> <p>Additionally, we considered whether the Group’s disclosures of the application of judgment in estimating CGU cash flows and the sensitivity of the results of those estimates reflect the risks associated with goodwill impairment.</p> <p>Refer to the critical accounting estimates and judgments and disclosures of goodwill in note 13, and allocation of goodwill to CGUs in note 29 to the consolidated financial statements.</p>



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

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

*Other information included in the Group's 2019 Annual Report*

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

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

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

*Responsibilities of the Board of Directors for the consolidated financial statements*

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

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

*Auditor's responsibilities for the audit of the consolidated financial statements*

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

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

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



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

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

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



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

### **Report on Other Legal and Regulatory Requirements**

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

- a) the Bank has maintained proper accounting records and the consolidated financial statements are in agreement therewith;
- b) the financial information contained in the Report of the Board of Directors is consistent with the consolidated financial statements;
- c) we are not aware of any violations of the Bahrain Commercial Companies Law, the Central Bank of Bahrain and Financial Institutions Law, the CBB Rule Book (Volume 1 and applicable provisions of Volume 6) and CBB directives, regulations and associated resolutions, rules and procedures of the Bahrain Bourse or the terms of the Bank's memorandum and articles of association during the year ended 31 December 2019 that might have had a material adverse effect on the business of the Bank or on its consolidated financial position; and
- d) satisfactory explanations and information have been provided to us by Management in response to all our requests.

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

The signature of Ernst &amp; Young is written in a black, cursive script. The words 'Ernst' and 'Young' are connected by a '+' sign, and the entire signature is written in a fluid, handwritten style.

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

**Ahli United Bank B.S.C.**  
**CONSOLIDATED STATEMENT OF INCOME**  
 For the year ended 31 December 2019

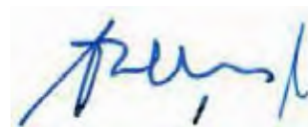
	Note	<u>2019</u> US\$ '000	<u>2018</u> US\$ '000
Interest income	3a	1,843,953	1,655,750
Interest expense	3b	892,453	715,226
Net interest income		<u>951,500</u>	<u>940,524</u>
Fees and commissions	4	127,305	128,888
Trading income	5	44,081	39,068
Investment income and others		81,757	61,129
Share of profit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



**Meshal AbdulAziz Alothman**  
Chairman



**Mohammad J. Al-Marzooq**  
Deputy Chairman



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

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

**Ahli United Bank B.S.C.**

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

For the year ended 31 December 2019

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

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

**Ahli United Bank B.S.C.**  
**CONSOLIDATED BALANCE SHEET**

At 31 December 2019

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



**Meshal AbdulAziz Alothman**  
Chairman



**Mohammad J. Al-Marzooq**  
Deputy Chairman



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

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



**Ahli United Bank B.S.C.**
**CONSOLIDATED STATEMENT OF CASH FLOWS**

For the year ended 31 December 2019

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

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

Ahli United Bank B.S.C.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019

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

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

**Ahli United Bank B.S.C.**
**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

For the year ended 31 December 2019

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

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

## Ahli United Bank B.S.C.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2019

#### 1 CORPORATE INFORMATION

The parent company, Ahli United Bank B.S.C. ("AUB" or "the Bank") was incorporated in the Kingdom of Bahrain on 31 May 2000 originally as a closed company and changed on 12 July 2000 to a public shareholding company by Amiri Decree number 16/2000. The Bank and its subsidiaries as detailed in note 2.3 below (collectively known as "the Group") are engaged in retail, commercial, Islamic and investment banking business, global fund management and private banking services through branches in the Kingdom of Bahrain, the State of Kuwait, the Arab Republic of Egypt, Republic of Iraq, the United Kingdom and an overseas branch in Dubai International Financial Centre (DIFC). It also operates through its associates in Libya and in the Sultanate of Oman. The Bank operates under a retail banking license issued by the Central Bank of Bahrain. The Bank also engages in life insurance business through its subsidiary, Al Hilal Life B.S.C. (c). The Bank's registered office is located at Building 2495, Road 2832, Al Seef District 428, Kingdom of Bahrain.

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

#### 2 ACCOUNTING POLICIES

##### 2.1 Basis of preparation

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

##### 2.2 Statement of compliance

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

##### 2.3 Basis of consolidation

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

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

The following are the Bank's principal subsidiaries:

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

\* Effective holding 74.9% (2018: 74.9%)

**Ahli United Bank B.S.C.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

31 December 2019

**2 ACCOUNTING POLICIES (continued))**

**2.4 New standards and interpretations issued but not yet effective**

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

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

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

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

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

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

**2.5 New standards and interpretations effective for the year**

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

***IFRS 16 Leases***

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

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

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

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

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

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

**Ahli United Bank B.S.C.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

31 December 2019

**2 ACCOUNTING POLICIES (continued)**

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

***IFRS 16 Leases (continued)***

**a) Right-of-use assets**

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

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

**b) Lease liabilities**

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

**2.6 Significant accounting judgements and estimates**

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

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

***i) Business model***

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

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

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

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

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

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

**Ahli United Bank B.S.C.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

31 December 2019

**2 ACCOUNTING POLICIES (continued)**

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

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

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

*iii) Pension plans*

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

*iv) Going concern*

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

*v) Fair value of financial instruments*

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

*vi) Impairment of goodwill and intangible assets*

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

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

**2.7 Summary of significant accounting policies**

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

## Ahli United Bank B.S.C.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2019

#### 2 ACCOUNTING POLICIES (continued)

##### 2.7 Summary of significant accounting policies (continued)

###### (a) Investments in associates

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

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

###### (b) Foreign currency translation

###### (i) Transactions and balances

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

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

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

###### (ii) Group companies

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

###### (c) Financial instruments

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

###### (i) Date of recognition

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



**Ahli United Bank B.S.C.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

31 December 2019

**2 ACCOUNTING POLICIES (continued)**

**2.7 Summary of significant accounting policies (continued)**

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

**(ii) Treasury bills and deposits with central banks**

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

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

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

**(iv) Debt instruments**

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

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

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

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

Debt instruments are measured at FVTOCI when both the following conditions are met:

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

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

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

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

**Ahli United Bank B.S.C.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

31 December 2019

**2 ACCOUNTING POLICIES (continued)**

**2.7 Summary of significant accounting policies (continued)**

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

**(v) Equity investments**

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

**(vi) Other financial instruments**

A financial asset is classified as FVTPL, if:

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

**(vii) Derivatives (other than hedging instruments)**

Changes in fair values of the derivatives held for trading are included in the consolidated statement of income under "trading income".

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

**(viii) Deposits and subordinated liabilities**

These financial liabilities are carried at amortised cost, less amounts repaid.

**(d) Derecognition of financial assets and financial liabilities**

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

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

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

**(e) Repurchase agreements**

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

**(f) Determination of fair value**

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

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

**Ahli United Bank B.S.C.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

31 December 2019

**2 ACCOUNTING POLICIES (continued)**

**2.7 Summary of significant accounting policies (continued)**

**(f) Determination of fair value (continued)**

The fair value of liabilities with a demand feature is the amount payable on demand.

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

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

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

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

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

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

**(g) Impairment of financial assets**

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

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

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

***Expected credit loss impairment model***

The Group's allowance for credit losses calculations are outputs of models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. The expected credit loss impairment model reflects the present value of all cash shortfalls related to default events either (i) over the following twelve months or (ii) over the expected life of a financial instrument depending on credit deterioration from date of initial recognition. The allowance for credit losses reflects an unbiased, probability-weighted outcome which considers multiple scenarios based on reasonable and supportable forecasts.

ECL allowances are the product of the PD, EAD and LGD. The PD represents the likelihood of a borrower defaulting on its financial obligation, either over the next 12 months, or over the remaining lifetime of the obligation. The EAD is an estimate of the exposure at a future default date, taking into account expected changes in the funded exposure after the reporting date, including repayments of principal and interest. The EAD for unfunded exposures including undrawn commitments are determined by historical behavioural analysis and regulatory Credit Conversion Factors (CCF). The LGD quantifies the potential loss from an exposure in the event of default. The key determinants of LGD are, among others, past recovery / loss data for each segment, external loss data, expected recovery period, discount rate, regulatory guidance etc. Management overlays may be applied to the model outputs if consistent with the objective of a significant increase in the credit risk.

## Ahli United Bank B.S.C.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2019

#### 2 ACCOUNTING POLICIES (continued)

##### 2.7 Summary of significant accounting policies (continued)

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

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

Stage 1 – Measures and recognizes credit loss allowance equal to 12-month ECL for financial instruments for which credit risk has not significantly increased since initial recognition. All investment grade assets are deemed to be Stage 1 as per AUB's policy under the low credit risk presumption, except in cases where there are past dues in excess of 30 days (rebuttable) or 60 days (non-rebuttable).

Stage 2 – If credit risk has increased significantly since initial recognition (whether assessed on an individual or collective basis), then measure and recognise credit loss allowance at an amount equal to the lifetime ECL. The key drivers to consider an asset as Stage 2 are as follows:

- Movements in risk rating since origination. Where the rating movement has deteriorated significantly, the amortised cost of financial asset is automatically migrated to Stage 2.
- Number of days past due (30 days - rebuttable) subject to approval of IFRS 9 Working Committee (WC) decision; 60 days (non-rebuttable).
- Restructured credits: As per CBB, all restructured facilities are required to remain in Stage 2 for a minimum period of twelve months from the date of restructuring.
- Delays in credit reviews or resolving credit exceptions subject to WC decision.
- Sector or country specific weakness subject to WC decision.
- Any other specific indicators including forward looking information which are available without undue cost or effort with respect to the obligor or the exposure such as, but not limited to, arrears with other lenders, law suits filed against the obligor by other lenders / creditors, negative movements in market indicators of financial performance etc., and the WC determines that these represent a significant deterioration in credit quality.

Stage 3 – Financial instruments where there is objective evidence of impairment are considered to be credit impaired and are included in this stage. Similar to Stage 2, the allowance for credit losses captures the lifetime expected credit losses.

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

###### ***Incorporation of forward looking information***

The Group incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of PiT PD. The Group has performed historical analysis and identified the key economic variables impacting credit risk and expected credit losses. The forecast economic variables are applied to established regression relationships to determine PiT PD. Macro-economic factors taken into consideration include crude oil related variables, gross domestic product, unemployment and real estate indices. The methodologies and assumptions including any forecasts of future economic conditions are reviewed regularly.

###### ***Definition of default***

Financial assets that are subject to ECL measurement are tested as to whether they are credit-impaired. Objective evidence that a financial asset is credit-impaired may include a breach of contract, such as default or delinquency in interest or principal payments, indications that it is probable that the borrower will enter bankruptcy or other significant financial reorganisation, the disappearance of an active market, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group. The Group continues its policy of treating financial instruments as credit impaired under Stage 3 category when the repayment of the principal or interest is overdue for 90 days or more.

**Ahli United Bank B.S.C.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

31 December 2019

**2 ACCOUNTING POLICIES (continued)**

**2.7 Summary of significant accounting policies (continued)**

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

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

**(h) Hedge accounting**

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

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

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

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

**(i) Fair value hedges**

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

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

**(ii) Cash flow hedges**

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

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

**Ahli United Bank B.S.C.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

31 December 2019

**2 ACCOUNTING POLICIES (continued)**

**2.7 Summary of significant accounting policies (continued)**

**(h) Hedge accounting (continued)**

**(ii) Cash flow hedges (continued)**

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

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

**(i) Offsetting financial instruments**

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

**(j) Revenue recognition**

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

**(i) Interest income and expense**

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

**(ii) Fees and commissions**

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

**(iii) Dividend income**

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

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

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

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

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

**Ahli United Bank B.S.C.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

31 December 2019

**2 ACCOUNTING POLICIES (continued)**

**2.7 Summary of significant accounting policies (continued)**

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

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

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

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

**(l) Premises and equipment**

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

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

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

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

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

**(m) Investment properties**

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

**(n) Cash and cash equivalents**

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

**(o) Provisions**

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

**Ahli United Bank B.S.C.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

31 December 2019

**2 ACCOUNTING POLICIES (continued)**

**2.7 Summary of significant accounting policies (continued)**

**(p) Employee benefits**

*Defined benefit pension plan*

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

*Defined contribution plans*

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

**(q) Taxes**

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

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

**(r) Fiduciary assets**

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

**(s) Non-controlling interests**

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

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

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

**(u) Dividends on ordinary shares**

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

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

**(v) Treasury shares**

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

**(w) Employees' share purchase plan**

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

**(x) Financial guarantees and loan commitments**

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



**Ahli United Bank B.S.C.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

31 December 2019

**2 ACCOUNTING POLICIES (continued)**

**2.7 Summary of significant accounting policies (continued)**

**(x) Financial guarantees and loan commitments (continued)**

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

**(y) Repossessed assets**

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

**(z) Islamic banking**

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

*- Earnings prohibited by Sharia*

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

*- Commingling of funds*

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

**(aa) Islamic products**

**Murabaha**

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

**Ijara**

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

**Tawarruq**

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

**Mudaraba**

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

**Wakala**

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

**Ahli United Bank B.S.C.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

31 December 2019

**2 ACCOUNTING POLICIES (continued)**

**2.7 Summary of significant accounting policies (continued)**

**(aa) Islamic products (continued)**

**Istisna'a**

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

**Revenue recognition**

Revenue is recognised on the above Islamic products as follows:

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

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

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

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

**(ab) Equity of unrestricted investment account holders' share of profit**

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

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

**Ahli United Bank B.S.C.**
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

31 December 2019

**3 NET INTEREST INCOME**

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

**4 FEES AND COMMISSIONS**

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

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

**5 TRADING INCOME**

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

**6 (a) CASH AND BALANCES WITH CENTRAL BANKS**

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

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

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**6 (b) TREASURY BILLS AND DEPOSITS WITH CENTRAL BANKS**

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

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

**7 LOANS AND ADVANCES**

	<u>2019</u>		<u>2018</u>	
	<u>US\$ '000</u>	<u>%</u>	<u>US\$ '000</u>	<u>%</u>
<b>a) By industry sector</b>				
Consumer / personal	2,741,426	12.7	2,732,571	13.5
Residential mortgage	1,710,385	8.0	1,520,131	7.5
Trading and manufacturing	5,717,748	26.5	5,267,616	25.9
Real estate	5,529,821	25.7	5,143,957	25.3
Banks and other financial institutions	1,153,099	5.4	1,171,627	5.8
Services	3,999,375	18.6	3,840,749	18.9
Government / public sector	150,611	0.7	147,872	0.7
Others	509,659	2.4	494,684	2.4
	<u>21,512,124</u>	<u>100.0</u>	<u>20,319,207</u>	<u>100.0</u>
Less: ECL allowances (Stage 1 and 2)	(413,259)		(490,398)	
Less: ECL allowances (Stage 3)	(356,505)		(324,848)	
	<u>20,742,360</u>		<u>19,503,961</u>	
<b>b) By geographic region</b>				
Kingdom of Bahrain	3,821,623	17.8	3,670,637	18.1
State of Kuwait	10,486,465	48.7	9,859,978	48.5
Other GCC countries	2,751,961	12.8	2,873,672	14.1
United Kingdom	1,988,072	9.2	1,772,606	8.7
Arab Republic of Egypt	2,120,162	9.9	1,723,554	8.5
Europe (excluding United Kingdom)	138,774	0.6	174,880	0.9
Asia (excluding GCC countries)	98,150	0.5	92,920	0.5
Others	106,917	0.5	150,960	0.7
	<u>21,512,124</u>	<u>100.0</u>	<u>20,319,207</u>	<u>100.0</u>
Less: ECL allowances (Stage 1 and 2)	(413,259)		(490,398)	
Less: ECL allowances (Stage 3)	(356,505)		(324,848)	
	<u>20,742,360</u>		<u>19,503,961</u>	

**Ahli United Bank B.S.C.**
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**7 LOANS AND ADVANCES (continued)**
**c) Credit quality of loans and advances**

	<i>2019</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				
Retail	3,437,377	102,297	-	3,539,674
Corporate	9,348,355	449,367	-	9,797,722
Standard grade				
Retail	156,129	189,020	-	345,149
Corporate	5,397,441	2,017,347	-	7,414,788
Credit impaired				
Retail	-	-	66,665	66,665
Corporate	-	-	348,126	348,126
	<b>18,339,302</b>	<b>2,758,031</b>	<b>414,791</b>	<b>21,512,124</b>
Less: ECL allowances	<b>(100,805)</b>	<b>(312,454)</b>	<b>(356,505)</b>	<b>(769,764)</b>
	<b>18,238,497</b>	<b>2,445,577</b>	<b>58,286</b>	<b>20,742,360</b>
	<i>2018</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				
Retail	3,324,450	127,873	-	3,452,323
Corporate	8,691,650	324,598	-	9,016,248
Standard grade				
Retail	176,554	135,532	-	312,086
Corporate	4,969,673	2,189,098	-	7,158,771
Credit impaired				
Retail	-	-	71,926	71,926
Corporate	-	-	307,853	307,853
	<b>17,162,327</b>	<b>2,777,101</b>	<b>379,779</b>	<b>20,319,207</b>
Less: ECL allowances	<b>(125,066)</b>	<b>(365,332)</b>	<b>(324,848)</b>	<b>(815,246)</b>
	<b>17,037,261</b>	<b>2,411,769</b>	<b>54,931</b>	<b>19,503,961</b>

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

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**7 LOANS AND ADVANCES (continued)**
**d) Age analysis of past due but not credit impaired loans and advances**

	2019			
	Up to 30 days US\$ '000	31 to 60 days	61 to 89 days US\$ '000	Total US\$ '000
		US\$ '000		
Retail	156,560	42,348	25,796	224,704
Corporate	79,638	27,495	18,518	125,651
	<b>236,198</b>	<b>69,843</b>	<b>44,314</b>	<b>350,355</b>
	2018			
	Up to 30 days US\$ '000	31 to 60 days	61 to 89 days US\$ '000	Total US\$ '000
		US\$ '000		
Retail	86,209	37,036	25,590	148,835
Corporate	108,528	14,558	44,806	167,892
	<b>194,737</b>	<b>51,594</b>	<b>70,396</b>	<b>316,727</b>

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

**e) Individually credit impaired loans and advances**

	2019		
	Retail US\$ '000	Corporate US\$ '000	Total US\$ '000
	Gross credit impaired loans and advances	66,665	348,126
ECL allowances (Stage 3)	(56,798)	(299,707)	(356,505)
	<b>9,867</b>	<b>48,419</b>	<b>58,286</b>
ECL coverage on credit impaired loans and advances	<b>85.2%</b>	<b>86.1%</b>	<b>85.9%</b>
Gross loans and advances	<b>3,951,488</b>	<b>17,560,636</b>	<b>21,512,124</b>
Credit impaired loans and advances ratio	<b>1.7%</b>	<b>2.0%</b>	<b>1.9%</b>
	2018		
	Retail US\$ '000	Corporate US\$ '000	Total US\$ '000
	Gross credit impaired loans and advances	71,926	307,853
ECL allowances (Stage 3)	(61,277)	(263,571)	(324,848)
	<b>10,649</b>	<b>44,282</b>	<b>54,931</b>
ECL coverage on credit impaired loans and advances	<b>85.2%</b>	<b>85.6%</b>	<b>85.5%</b>
Gross loans and advances	<b>3,836,335</b>	<b>16,482,872</b>	<b>20,319,207</b>
Credit impaired loans and advances ratio	<b>1.9%</b>	<b>1.9%</b>	<b>1.9%</b>

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

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

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

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

*i) Loss allowances for loans and advances - Retail*

	<i>2019</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 2019</b>	<b>36,613</b>	<b>9,535</b>	<b>61,277</b>	<b>107,425</b>
Transfer from Stage 1	(4,607)	2,450	2,157	-
Transfer from Stage 2	-	(3,502)	3,502	-
Net remeasurement of ECL allowances for the year	(6,092)	(450)	16,769	10,227
Amounts written-off during the year *	-	-	(27,028)	(27,028)
Exchange rate and other adjustments	34	(77)	121	78
<b>At 31 December 2019</b>	<b>25,948</b>	<b>7,956</b>	<b>56,798</b>	<b>90,702</b>
	<i>2018</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 2018 (restated)	39,057	13,576	39,422	92,055
Transfer from Stage 1	(3,719)	1,371	2,348	-
Transfer from Stage 2	-	(5,798)	5,798	-
Net remeasurement of ECL allowances for the year	1,261	551	16,950	18,762
Amounts written-off during the year *	-	-	(2,880)	(2,880)
Exchange rate and other adjustments	14	(165)	(361)	(512)
<b>At 31 December 2018</b>	<b>36,613</b>	<b>9,535</b>	<b>61,277</b>	<b>107,425</b>

*ii) Loss allowances for loans and advances - Corporate*

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

**Ahli United Bank B.S.C.**

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**7 LOANS AND ADVANCES (continued)**

**f) Impairment allowance for loans and advances (continued)**

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

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

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

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

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

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



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**8 NON-TRADING INVESTMENTS**
**a) By sector**

	<i>2019</i>			
	<i>Held at amortised cost</i>	<i>Held at FVTOCI</i>	<i>Held at FVTPL</i>	<i>Total</i>
	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>
<i>Quoted investments</i>				
GCC government bonds and debt securities	2,204,604	231,710	-	2,436,314
Other government bonds and debt securities	744,219	179,096	-	923,315
GCC government entities' securities	1,067,542	240,532	-	1,308,074
Notes and certificates of deposit:				
- issued by banks and other financial institutions	1,292,804	219,415	-	1,512,219
- issued by corporate bodies	2,399,403	254,008	-	2,653,411
Equity instruments	-	26,512	115,446	141,958
	<b>7,708,572</b>	<b>1,151,273</b>	<b>115,446</b>	<b>8,975,291</b>
<i>Unquoted investments</i>				
Notes and certificates of deposit:				
- issued by banks and other financial institutions	13,898	68,747	-	82,645
Equity instruments	-	84,087	2,998	87,085
	<b>13,898</b>	<b>152,834</b>	<b>2,998</b>	<b>169,730</b>
Total	<b>7,722,470</b>	<b>1,304,107</b>	<b>118,444</b>	<b>9,145,021</b>
Less: ECL allowances				<b>(11,140)</b>
				<b>9,133,881</b>
				<i>2018</i>
	<i>Held at amortised cost</i>	<i>Held at FVTOCI</i>	<i>Held at FVTPL</i>	<i>Total</i>
	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>
<i>Quoted investments</i>				
GCC government bonds and debt securities	1,669,185	303,648	-	1,972,833
Other government bonds and debt securities	1,096,991	-	-	1,096,991
GCC government entities' securities	832,171	111,364	-	943,535
Notes and certificates of deposit:				
- issued by banks and other financial institutions	1,330,196	275,549	-	1,605,745
- issued by corporate bodies	1,405,698	247,833	-	1,653,531
Equity instruments	-	29,364	168,165	197,529
	<b>6,334,241</b>	<b>967,758</b>	<b>168,165</b>	<b>7,470,164</b>
<i>Unquoted investments</i>				
Notes and certificates of deposit:				
- issued by banks and other financial institutions	18,000	12,950	-	30,950
Equity instruments	-	80,286	579	80,865
	<b>18,000</b>	<b>93,236</b>	<b>579</b>	<b>111,815</b>
Total	<b>6,352,241</b>	<b>1,060,994</b>	<b>168,744</b>	<b>7,581,979</b>
Less: ECL allowances				<b>(13,451)</b>
				<b>7,568,528</b>

**Ahli United Bank B.S.C.**
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**8 NON-TRADING INVESTMENTS (continued)**

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

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

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

	<i>2019</i>			
	<i>Stage 1</i> <i>US\$ '000</i>	<i>Stage 2</i> <i>US\$ '000</i>	<i>Stage 3</i> <i>US\$ '000</i>	<i>Total</i> <i>US\$ '000</i>
High standard grade	6,319,300	50,882	-	6,370,182
Standard grade	2,397,676	148,120	-	2,545,796
	<b>8,716,976</b>	<b>199,002</b>	<b>-</b>	<b>8,915,978</b>
Less: ECL allowances	(9,407)	(1,733)	-	(11,140)
Equity instruments at fair value	-	-	-	229,043
	<b>8,707,569</b>	<b>197,269</b>	<b>-</b>	<b>9,133,881</b>
	<i>2018</i>			
	<i>Stage 1</i> <i>US\$ '000</i>	<i>Stage 2</i> <i>US\$ '000</i>	<i>Stage 3</i> <i>US\$ '000</i>	<i>Total</i> <i>US\$ '000</i>
High standard grade	5,022,919	4,909	-	5,027,828
Standard grade	2,123,813	151,944	-	2,275,757
	<b>7,146,732</b>	<b>156,853</b>	<b>-</b>	<b>7,303,585</b>
Less: ECL allowances	(9,729)	(3,722)	-	(13,451)
Equity instruments at fair value	-	-	-	278,394
	<b>7,137,003</b>	<b>153,131</b>	<b>-</b>	<b>7,568,528</b>

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

**c) Movements in ECL allowances**

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

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**8 NON-TRADING INVESTMENTS (continued)**
**c) Movements in ECL allowances (continued)**

	<i>2018</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 2018 (Restated)	12,847	2,520	450	15,817
Transfer from Stage 1	(829)	829	-	-
Net remeasurement of ECL allowances for the year	756	(77)	-	679
Exchange rate and other adjustments	(3,045)	450	(450)	(3,045)
At 31 December 2018	<u>9,729</u>	<u>3,722</u>	<u>-</u>	<u>13,451</u>

**9 INVESTMENT IN ASSOCIATES**

The principal associates of the Group are:

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

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

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

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**9 INVESTMENT IN ASSOCIATES (continued)**

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

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

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

**10 INVESTMENT PROPERTIES**

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

**11 INTEREST RECEIVABLE AND OTHER ASSETS**

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

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

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

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**12 PREMISES AND EQUIPMENT**

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

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

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

**13 GOODWILL AND OTHER INTANGIBLE ASSETS**

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

**Goodwill:**

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

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

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

**Intangible assets:**

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

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**14 DEPOSITS FROM BANKS**

	<u>2019</u>	<u>2018</u>
	<u>US\$ '000</u>	<u>US\$ '000</u>
Demand and call	<b>186,298</b>	191,296
Time deposits	<b>4,837,617</b>	3,561,496
	<b><u>5,023,915</u></b>	<u>3,752,792</u>

**15 BORROWINGS UNDER REPURCHASE AGREEMENTS**

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

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

**16 CUSTOMERS' DEPOSITS**

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

**17 INTEREST PAYABLE AND OTHER LIABILITIES**

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

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

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

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

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

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**18 SUBORDINATED LIABILITIES**

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

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

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

**19 EQUITY**

	<u>2019</u> <i>US\$ '000</i>	<u>2018</u> <i>US\$ '000</i>
<b>(a) Authorised :</b>		
Share capital		
10,000 million shares (2018: 10,000 million shares) of US\$ 0.25 each	<u>2,500,000</u>	<u>2,500,000</u>
Available for issuance of ordinary shares and various classes of preference shares.		
<b>(b) Issued and fully paid:</b>		
	<u>2019</u> <i>US\$ '000</i>	<u>2018</u> <i>US\$ '000</i>
Ordinary share capital (US\$ 0.25 each)	<u>2,193,611</u>	<u>1,992,541</u>
Number of shares (millions)	<u>8,774.4</u>	<u>7,970.2</u>
Number of treasury shares (millions)	<u>-</u>	<u>21.6</u>
<b><u>Movement in ordinary shares</u></b>		
	<u>2019</u>	<u>2018</u>
	<i>(number in millions)</i>	
Opening balance as at 1 January	7,970.2	7,556.9
Add: issuance of additional shares [note 19 (c)]	6.6	33.8
Add: issuance of bonus shares	797.6	379.5
Closing balance as at 31 December	<u>8,774.4</u>	<u>7,970.2</u>

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**19 EQUITY (continued)**

**(c) Employee Share Purchase Plan and Mandatory Share Plan**

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

**ESPP**

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

**MSP**

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

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



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**19 EQUITY (continued)**

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

	<u>2019</u>	<u>2018</u>
	<u>US\$ '000</u>	<u>US\$ '000</u>
Issued by the Bank [19d(i)]	400,000	400,000
Issued by the subsidiary [19d(ii)]	200,000	200,000
	<u>600,000</u>	<u>600,000</u>

(i) Basel III compliant Additional Tier 1 Perpetual Capital Securities issued by the Bank during 2015 carries an initial distribution rate of 6.875% per annum payable semi-annually with a reset after every 5 years. These securities are perpetual, subordinated and unsecured. The Capital Certificates are listed on the Irish Stock Exchange. The Bank can elect to make a distribution at its own discretion. The holders of these securities do not have a right to claim the same and such an event will not be considered an event of default. The securities carry no maturity date and have been classified under equity.

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

**20 RESERVES**

**a) Share premium**

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

**b) Capital reserve**

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

**c) Statutory reserve**

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

**d) Property revaluation reserve**

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

**e) Foreign exchange translation reserve**

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

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

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

**g) Cash flow hedge reserve**

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

**h) Movements in other reserves**

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

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

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

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

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

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

**j) Distribution on Perpetual Tier 1 Capital Securities and Sukuk**

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

**21 TAXATION**

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

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

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

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**22 EARNINGS PER SHARE**

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

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

	<u>2019</u>	<u>2018</u>
	<i>US\$ '000</i>	<i>US\$ '000</i>
<b>Net profit for basic and diluted earnings per ordinary share computation</b>		
Net profit attributable to Bank's equity shareholders	730,501	697,534
(Less): Share of Perpetual Tier 1 Capital Securities distribution	(35,740)	(35,740)
Adjusted net profit attributable to Bank's ordinary equity shareholders for basic and diluted earnings per ordinary share	<u>694,761</u>	<u>661,794</u>
Basic and diluted earnings per ordinary share (US cents)	<u>7.9</u>	<u>7.6</u>
	<i>Number of shares</i>	
	<i>(in millions)</i>	
	<u>2019</u>	<u>2018</u>
Weighted average ordinary shares outstanding during the year adjusted for bonus shares	<u>8,774</u>	<u>8,744</u>
Weighted average number of ordinary shares for diluted earnings per share	<u>8,774</u>	<u>8,744</u>

**23 CASH AND CASH EQUIVALENTS**

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

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

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24 RELATED PARTY TRANSACTIONS

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

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

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

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

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**24 RELATED PARTY TRANSACTIONS (continued)**

<sup>1</sup>Customers' deposits include deposits from GCC government-owned institutions amounting to US\$ 6,723 million (31 December 2018: US\$ 6,978 million).

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

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

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

**25 EMPLOYEE BENEFITS**

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

**Defined benefit plans**

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

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

**Defined contribution plans**

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

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**26 MANAGED FUNDS**

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

**27 DERIVATIVES**

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

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

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

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

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

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

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

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**27 DERIVATIVES (continued)**

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

**Fair value hedges**

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

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

**Cash flow hedges**

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

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

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

**Derivatives held for trading purposes**

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

**Derivatives held for hedging purposes**

The Group has adopted a comprehensive system for the measurement and management of risk.

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

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

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



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**28 COMMITMENTS AND CONTINGENT LIABILITIES**

**Credit-related commitments**

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

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

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

The Group has the following credit related commitments:

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

Also, refer to note 34 for additional liquidity disclosures.

**29 SEGMENT INFORMATION**

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

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

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**29 SEGMENT INFORMATION (continued)**

These segments are the basis on which the Group reports its primary segment information. Transactions between segments are conducted at approximate market rates on an arm's length basis. Interest is charged/credited to business segments based on a pool rate which approximates the cost of funds.

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

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**29 SEGMENT INFORMATION (continued)**

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

**Geographic segmentation**

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

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**29 SEGMENT INFORMATION (continued)**

**Geographic segmentation (continued)**

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

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

**30 RISK MANAGEMENT**

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

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

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

**31 CREDIT RISK**

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

**a) Concentration risk**

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

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

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

The principal collateral types are as follows:

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

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**31 CREDIT RISK (continued)**
**a) Concentration risk (continued)**

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

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

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

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

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

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

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

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

The tables below shows distribution of financial assets:

	<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 31 December 2019</b>				
Balances with central banks:				
High standard grade	1,221,112	-	-	1,221,112
Treasury bills and deposits with central banks:				
High standard grade	1,871,600	-	-	1,871,600
Standard grade	331,015	-	-	331,015
Deposits with banks:				
High standard grade	4,027,398	-	-	4,027,398
Standard grade	642,663	13,544	-	656,207
Loans and advances:				
High standard grade	12,785,732	551,664	-	13,337,396
Standard grade	5,553,570	2,206,367	-	7,759,937
Credit impaired	-	-	414,791	414,791
Non-trading investments:				
High standard grade	6,319,300	50,882	-	6,370,182
Standard grade	2,397,676	148,120	-	2,545,796
Credit related contingent items:				
High standard grade	5,466,541	140,879	-	5,607,420
Standard grade	2,177,005	326,516	-	2,503,521
Credit impaired*	-	-	62,511	62,511
	<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 31 December 2018</b>				
Balances with central banks:				-
High standard grade	1,264,079	-	-	1,264,079
Treasury bills and deposits with central banks:				
High standard grade	1,493,056	-	-	1,493,056
Standard grade	425,685	-	-	425,685
Deposits with banks:				-
High standard grade	2,841,393	-	-	2,841,393
Standard grade	220,834	-	-	220,834
Loans and advances:				
High standard grade	12,016,100	452,471	-	12,468,571
Standard grade	5,146,227	2,324,630	-	7,470,857
Credit impaired	-	-	379,779	379,779
Non-trading investments:				
High standard grade	5,022,919	4,909	-	5,027,828
Standard grade	2,123,813	151,944	-	2,275,757
Credit related contingent items:				
High standard grade	5,035,017	299,690	-	5,334,707
Standard grade	2,270,127	349,043	-	2,619,170
Credit impaired*	-	-	22,162	22,162

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

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**31 CREDIT RISK (continued)**

**c) Credit quality of financial assets (continued)**

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

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

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

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

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**32 CONCENTRATION ANALYSIS**

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

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

**33 MARKET RISK**

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



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**33 MARKET RISK (continued)**

**a. Market risk-trading**

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

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

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

	<i>Foreign exchange</i>	<i>Interest rate</i>	<i>Effects of correlation</i>	<i>Total</i>
	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>
<b>31 December 2019</b>	<b>331</b>	<b>(21)</b>	<b>0</b>	<b>310</b>
31 December 2018	153	51	0	204

**b. Market risk-non-trading**

**i) Interest rate risk**

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

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

*Sensitivity analysis - interest rate risk*

		<u>2019</u>	<u>2018</u>
		<i>US\$ '000</i>	<i>US\$ '000</i>
At 25 bps - increase (+) / decrease (-)	+/-	<b>11,302</b>	10,649

**ii) Currency risk**

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

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

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**33 MARKET RISK (continued)**

**b. Market risk-non-trading (continued)**

**ii) Currency risk (continued)**

The Group had the following significant net exposures arising out of banking operations as of the consolidated balance sheet date:

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

*Sensitivity analysis - currency risk*

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

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

**iii) Equity price risk**

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

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

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

**Ahli United Bank B.S.C.**

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**34 LIQUIDITY RISK**

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

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

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

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

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

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

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

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**34 LIQUIDITY RISK (continued)**

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

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

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**34 LIQUIDITY RISK (continued)**

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

**Ahli United Bank B.S.C.**
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**34 LIQUIDITY RISK (continued)**
**Analysis of financial liabilities by remaining contractual maturities**

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

	<i>US\$' 000</i>					<i>Total</i>
	<i>Up to One month</i>	<i>One month to three months</i>	<i>Over three months to one year</i>	<i>Over one year to five years</i>	<i>Over five years</i>	
<i>As at 31 December 2019</i>						
Deposits from banks	1,958,371	1,604,009	558,015	980,480	-	5,100,875
Borrowings under repurchase agreements	55,644	265,521	1,715,887	934,076	-	2,971,128
Customers' deposits	11,759,074	3,532,386	7,629,519	2,952,935	23,589	25,897,503
Subordinated liabilities	18,072	-	-	-	12,327	30,399
<b>Total</b>	<b>13,791,161</b>	<b>5,401,916</b>	<b>9,903,421</b>	<b>4,867,491</b>	<b>35,916</b>	<b>33,999,905</b>
Credit related commitments	3,955	69,295	189,823	231,462	81,167	575,702
Derivatives (net)	(17,796)	(8,041)	7,368	(25,102)	(348,313)	(391,884)
<i>US\$' 000</i>						
	<i>Up to One month</i>	<i>One month to three months</i>	<i>Over three months to one year</i>	<i>Over one year to five years</i>	<i>Over five years</i>	<i>Total</i>
<i>As at 31 December 2018</i>						
Deposits from banks	2,641,602	880,805	208,963	32,885	-	3,764,255
Borrowings under repurchase agreements	97,498	387,198	1,369,577	-	-	1,854,273
Customers' deposits	11,879,446	4,123,617	6,091,506	1,820,825	13,057	23,928,451
Subordinated liabilities	-	-	85,318	114,228	12,351	211,897
<b>Total</b>	<b>14,618,546</b>	<b>5,391,620</b>	<b>7,755,364</b>	<b>1,967,938</b>	<b>25,408</b>	<b>29,758,876</b>
Credit related commitments	11,932	40,114	75,844	459,660	74,049	661,599
Derivatives (net)	(1,861)	3,372	11,083	9,979	(91,647)	(69,074)

**35 OPERATIONAL RISK**

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

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

**Ahli United Bank B.S.C.**
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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**36 LEGAL RISK**

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

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

**37 FAIR VALUE MEASUREMENT**

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

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

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

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

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

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

	<i>2019</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	113,760	75,830	39,453	229,043
Debt instruments (FVTOCI)	1,124,761	68,747	-	1,193,508
Derivative assets	-	105,489	-	105,489
Derivative liabilities	-	497,950	-	497,950
	<i>2018</i>			
	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>
	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>
Equity instruments at fair value	168,403	70,912	39,079	278,394
Debt instruments (FVTOCI)	938,394	12,950	-	951,344
Derivative assets	-	117,888	-	117,888
Derivative liabilities	260	186,896	-	187,156

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

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

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

**Ahli United Bank B.S.C.**

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**38 CAPITAL ADEQUACY AND NET STABLE FUNDING RATIO (NSFR)**

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

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

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

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

**39 DEPOSIT PROTECTION SCHEME**

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

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

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



**Ahli United Bank B.S.C.**
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**40 ISLAMIC BANKING AND INSURANCE ACTIVITIES**

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

**BALANCE SHEET AS AT 31 DECEMBER**

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

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**40 ISLAMIC BANKING (continued)**

<b>STATEMENT OF INCOME FOR THE YEAR ENDED 31 DECEMBER</b>		<u>2019</u>	<u>2018</u>
	<i>Note</i>	<i>US\$ '000</i>	<i>US\$ '000</i>
Net income from Islamic financing	(e)	<b>407,469</b>	434,048
		<b>407,469</b>	434,048
Fees and commissions		45,145	41,477
Other operating income		38,411	30,242
Foreign exchange gains		10,310	10,961
<b>OPERATING INCOME</b>		<b>501,335</b>	516,728
Provision for financing receivables and others		33,772	98,750
<b>NET OPERATING INCOME</b>		<b>467,563</b>	417,978
Staff costs		78,531	74,391
Depreciation		18,313	9,859
Other operating expenses		44,175	47,027
<b>OPERATING EXPENSES</b>		<b>141,019</b>	131,277
<b>PROFIT FOR THE YEAR BEFORE TAX</b>		<b>326,544</b>	286,701
Tax expense and zakat		9,416	7,707
<b>PROFIT FOR THE YEAR BEFORE THE SHARE OF PROFIT EQUITY OF UNRESTRICTED INVESTMENT ACCOUNT HOLDERS</b>		<b>317,128</b>	278,994
Less: Share of profit of equity of unrestricted investment account holders		13,704	13,248
<b>NET PROFIT FOR THE YEAR</b>		<b>303,424</b>	265,746
<i>Attributable to:</i>			
Owners of the Bank		257,116	224,164
Non-controlling interests		46,308	41,582
		<b>303,424</b>	265,746
<b>Notes</b>		<u>2019</u>	<u>2018</u>
		<i>US\$ '000</i>	<i>US\$ '000</i>
<b>(a) Deposits with banks</b>			
Murabaha finance with other banks		719,735	695,451
Wakala with banks		503,339	299,758
Current accounts and others		94,765	45,254
		<b>1,317,839</b>	1,040,463

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**40 ISLAMIC BANKING (continued)**
*Notes (continued)*

	<u>2019</u>	<u>2018</u>
	<i>US\$ '000</i>	<i>US\$ '000</i>
<b>(b) Receivable balances from Islamic financing</b>		
Tawarruq receivables	7,628,157	7,046,623
Murabaha receivables	3,194,888	3,107,381
Ijara receivables	1,768,191	1,419,050
Others	28,588	32,700
Less: Allowance for impairment	(364,538)	(461,570)
	<u>12,255,286</u>	<u>11,144,184</u>
	<u>2019</u>	<u>2018</u>
	<i>US\$ '000</i>	<i>US\$ '000</i>
<b>(c) Deposits from banks</b>		
Murabaha	1,430,159	1,952,480
Wakala	1,277,834	389,003
Current accounts	7,327	7,050
	<u>2,715,320</u>	<u>2,348,533</u>
	<u>2019</u>	<u>2018</u>
	<i>US\$ '000</i>	<i>US\$ '000</i>
<b>(d) Customers' deposits</b>		
Wakala	7,369,709	6,573,070
Murabaha	2,649,678	2,069,522
Current accounts	1,167,539	1,198,170
	<u>11,186,926</u>	<u>9,840,762</u>
	<u>2019</u>	<u>2018</u>
	<i>US\$ '000</i>	<i>US\$ '000</i>
<b>(e) Net income from Islamic financing</b>		
Income from Tawarruq	325,972	300,575
Income from Murabaha	260,526	194,987
Income from Ijara	89,807	87,903
Income from financial investments	58,166	82,682
<b>Income from Islamic financing</b>	<u>734,471</u>	<u>666,147</u>
Profit expense on Wakala	193,856	113,130
Profit expense on Murabaha	48,272	86,290
Profit expense on Mudaraba	84,874	32,679
<b>Less: Distribution to depositors</b>	<u>327,002</u>	<u>232,099</u>
<b>Net income from Islamic financing</b>	<u>407,469</u>	<u>434,048</u>

**41 SUBSIDIARIES**

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

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

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

**Ahli United Bank B.S.C.**
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

31 December 2019

**41 SUBSIDIARIES (continued)**

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

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

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

**Ahli United Bank B.S.C.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

31 December 2019

**42 SUBSEQUENT EVENT**

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

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

**AHLI UNITED BANK B.S.C.**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**31 DECEMBER 2020**



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

### Report on the Audit of the Consolidated Financial Statements

#### *Opinion*

We have audited the accompanying consolidated financial statements of Ahli United Bank B.S.C. ("the Bank") and its subsidiaries (together "the Group"), which comprise the consolidated balance sheet as at 31 December 2020, and the consolidated statements of income, comprehensive income, cash flows and changes in equity for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2020, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS") as modified by the Central Bank of Bahrain ("CBB").

#### *Basis for opinion*

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

#### *Key audit matters*

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended 31 December 2020. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

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



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

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

*Key audit matters (continued)*

<b>1. Expected Credit Loss on loans and advances</b>	
<b>Key audit matter</b>	<b>How our audit addressed the key audit matter</b>
<p>The process for estimating Expected Credit Loss (“ECL”) on credit risk associated with loans and advances in accordance with IFRS 9 Financial Instruments (“IFRS 9”) is significant and complex. Furthermore, the COVID-19 global pandemic impacted the management’s determination of ECL as it required the application of a significant level of judgment and estimation uncertainty, which may materially change the estimates in future periods. Also, as a result of regulatory payment holidays due to COVID-19, significant judgment and estimation uncertainty is made in relation to the determination of the significant increase in the credit risk and consequent staging of customers.</p> <p>IFRS 9 requires use of the ECL model for the purposes of calculating loss allowances. Due to the complexity of the requirements under IFRS 9, the significance of judgments and estimations applied in the ECL calculations, in addition, the impact of the COVID-19 global pandemic and the Group’s exposure to loans and advances which form a major portion of the Group’s assets, the audit of ECL for loans and advances is a key area of focus.</p> <p>As at 31 December 2020, the Group’s gross loans and advances amounted to US\$ 21,715 million and the related ECL amounted to US\$ 995 million.</p> <p>Refer to the accounting policies, disclosures of loans and advances and credit risk management in notes 2, 7 and 32 to the consolidated financial statements.</p>	<p>Our approach included testing the controls associated with the relevant processes for estimating the ECL and performing substantive procedures on such estimates. We involved our internal specialists where their specific expertise was required.</p> <p>Our key audit procedures focused on the following:</p> <ul style="list-style-type: none"> <li>• We obtained an understanding of the design and tested the operating effectiveness of relevant controls over the ECL model, including model build and approval, ongoing monitoring / validation, model governance and mathematical accuracy. We have also checked completeness of the data used in the ECL calculation.</li> <li>• We assessed: <ul style="list-style-type: none"> <li>◦ the Group’s ECL policy including determination of the significant increase in credit risk and consequent staging criteria with the requirements of IFRS 9 and considering the regulatory guidelines issued to address the COVID-19 global pandemic;</li> <li>◦ the significant modelling and macroeconomic assumptions, including evaluation of forward-looking information and scenarios against the requirements of the Group’s ECL policy; and</li> <li>◦ the basis of determination of the management overlays considering the impact of the COVID-19 global pandemic against the requirements of the Group’s ECL policy.</li> </ul> </li> </ul>





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

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

*Key audit matters (continued)*

<b>1. Expected Credit Loss on loans and advances (continued)</b>	
<b>Key audit matter</b>	<b>How our audit addressed the key audit matter</b>
	<ul style="list-style-type: none"> <li>• We reviewed a sample of credit files and performed procedures to assess:                             <ul style="list-style-type: none"> <li>○ timely identification of exposures with a significant increase in credit risk and appropriateness of the Group’s staging;</li> <li>○ the process of collateral valuation; and</li> <li>○ ECL recalculation.</li> </ul> </li> <li>• We considered the adequacy of the disclosures in the consolidated financial statements in relation to ECL for loans and advances as per the applicable financial reporting standards.</li> </ul>
<b>2. Impairment of goodwill</b>	
<b>Key audit matter</b>	<b>How our audit addressed the key audit matter</b>
<p>Goodwill is allocated to cash generating units (“CGUs”) for the purpose of impairment testing. Goodwill impairment testing of CGUs relies on estimates of value-in-use based on estimated future cash flows. Due to the subjectivity involved in computing recoverable amounts and the significance of the Group’s recognised goodwill of US\$ 430 million as at 31 December 2020, this audit area is considered a key audit risk.</p> <p>Refer to the critical accounting estimates and judgments and disclosures of goodwill in note 2, and allocation of goodwill to CGUs in note 13 to the consolidated financial statements.</p>	<p>We obtained an understanding of management’s processes for determining the recoverable amount for annual goodwill impairment testing. With the assistance of our internal valuation specialists, we formed an independent range of key assumptions used in a sample of impairment assessment, with reference to the relevant industry and market valuation considerations and derived a range of values using our assumptions and other qualitative risk factors. We compared these ranges with the management’s assumptions and discussed our results with management.</p> <p>We considered the adequacy of the disclosures in the consolidated financial statements in relation to goodwill impairment.</p>



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

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

*Other information included in the Group’s 2020 Annual Report*

Other information consists of the information included in the Group’s 2020 Annual Report, other than the consolidated financial statements and our auditor’s report thereon. The Board of Directors is responsible for the other information. Prior to the date of this auditor’s report, we obtained the Board of Directors’ report which forms part of the annual report, and the remaining sections of the annual report are expected to be made available to us after that date.

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

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

*Responsibilities of the Board of Directors for the consolidated financial statements*

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

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

*Auditor’s responsibilities for the audit of the consolidated financial statements*

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

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



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

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

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



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

### **Report on Other Legal and Regulatory Requirements**

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

- a) the Bank has maintained proper accounting records and the consolidated financial statements are in agreement therewith;
- b) the financial information contained in the Report of the Board of Directors is consistent with the consolidated financial statements;
- c) we are not aware of any violations of the Bahrain Commercial Companies Law, the Central Bank of Bahrain and Financial Institutions Law, the CBB Rule Book (Volume 1 and applicable provisions of Volume 6) and CBB directives, regulations and associated resolutions, rules and procedures of the Bahrain Bourse or the terms of the Bank's memorandum and articles of association during the year ended 31 December 2020 that might have had a material adverse effect on the business of the Bank or on its consolidated financial position; and
- d) satisfactory explanations and information have been provided to us by Management in response to all our requests.

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

A handwritten signature in black ink that reads 'Ernst &amp; Young' in a cursive, script font.

Partner's registration no. 115  
22 February 2021  
Manama, Kingdom of Bahrain

**Ahli United Bank B.S.C.**
**CONSOLIDATED STATEMENT OF INCOME**

For the year ended 31 December 2020

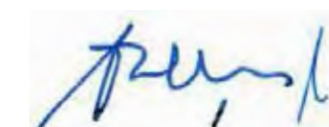
	Note	<u>2020</u>	<u>2019</u>
		<i>US\$ '000</i>	<i>US\$ '000</i>
Interest income	3a	<b>1,452,812</b>	1,843,953
Interest expense	3b	<b>653,457</b>	892,453
Net interest income		<b>799,355</b>	951,500
Fees and commissions -net	4	<b>103,669</b>	127,305
Trading income	5	<b>74,249</b>	44,081
Investment income and others		<b>84,643</b>	81,757
Share of results from associates	9	<b>50,020</b>	30,886
Fees and other income		<b>312,581</b>	284,029
<b>OPERATING INCOME</b>		<b>1,111,936</b>	1,235,529
Provision for credit losses and others	7g	<b>254,918</b>	54,417
<b>NET OPERATING INCOME</b>		<b>857,018</b>	1,181,112
Staff costs		<b>175,574</b>	199,077
Depreciation		<b>32,724</b>	34,454
Other operating expenses		<b>117,553</b>	120,218
<b>OPERATING EXPENSES</b>		<b>325,851</b>	353,749
<b>PROFIT BEFORE TAX AND ZAKAT</b>		<b>531,167</b>	827,363
Tax expense and zakat	22	<b>44,695</b>	38,538
<b>NET PROFIT FOR THE YEAR</b>		<b>486,472</b>	788,825
Net profit attributable to non-controlling interests		<b>34,228</b>	58,324
<b>NET PROFIT ATTRIBUTABLE TO THE OWNERS OF THE BANK</b>		<b>452,244</b>	730,501
<b>EARNINGS PER SHARE ATTRIBUTABLE TO THE OWNERS OF THE BANK FOR THE YEAR:</b>			
Basic and diluted earnings per ordinary share (US cents)	23	<b>4.3</b>	7.2



**Meshal AbdulAziz Allothman**  
Chairman



**Mohammad J. Al-Marzooq**  
Deputy Chairman



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

The attached notes 1 to 44 form part of these consolidated financial statements

Ahli United Bank B.S.C.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2020

	<u>2020</u>	<u>2019</u>
	<i>US\$ '000</i>	<i>US\$ '000</i>
<b>Net profit for the year</b>	<b>486,472</b>	788,825
<b>Other comprehensive income (OCI)</b>		
<b>Items that will not be reclassified subsequently to consolidated statement of income</b>		
Net change in fair value of equity investments measured at fair value through OCI	(78)	(6,307)
Net change in pension fund reserve	(6,292)	11,107
Net change in property revaluation reserve	1,221	227
<b>Items that may be reclassified subsequently to consolidated statement of income</b>		
Foreign currency translation adjustments	(82,532)	39,949
Net change in fair value of debt instruments measured at fair value through OCI	(14,715)	24,537
Transfer to consolidated statement of income arising on debt instruments held as fair value through OCI	(9,464)	1,126
Net change in fair value of cash flow hedges	(16,602)	(20,116)
<b>Other comprehensive (loss) / income for the year</b>	<b>(128,462)</b>	50,523
<b>Total comprehensive income for the year</b>	<b>358,010</b>	839,348
Total comprehensive income attributable to non-controlling interests	23,093	67,080
<b>Total comprehensive income attributable to the owners of the Bank</b>	<b>334,917</b>	772,268

The attached notes 1 to 44 form part of these consolidated financial statements

**Ahli United Bank B.S.C.**  
**CONSOLIDATED BALANCE SHEET**  
 At 31 December 2020

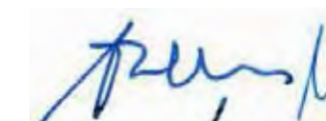
	Note	<u>2020</u> US\$ '000	<u>2019</u> US\$ '000
<b>ASSETS</b>			
Cash and balances with central banks	6a	<b>1,747,560</b>	1,366,978
Treasury bills and deposits with central banks	6b	<b>2,333,852</b>	2,202,340
Deposits with banks		<b>3,532,689</b>	4,683,260
Loans and advances	7	<b>20,719,878</b>	20,742,360
Non-trading investments	8	<b>9,608,309</b>	9,133,881
Investment in associates	9	<b>303,127</b>	315,011
Investment properties	10	<b>185,715</b>	229,803
Interest receivable, derivative and other assets	11	<b>857,232</b>	823,714
Premises and equipment	12	<b>296,847</b>	295,549
Goodwill and other intangible assets	13	<b>485,958</b>	487,155
<b>TOTAL ASSETS</b>		<b><u>40,071,167</u></b>	<u>40,280,051</u>
<b>LIABILITIES AND EQUITY</b>			
<b>LIABILITIES</b>			
Deposits from banks	14	<b>4,218,417</b>	5,023,915
Borrowings under repurchase agreements	15	<b>3,618,069</b>	2,891,532
Customers' deposits	16	<b>25,182,585</b>	25,518,123
Term debts	17	<b>175,000</b>	-
Interest payable, derivative and other liabilities	18	<b>1,830,706</b>	1,457,090
Subordinated liabilities	19	<b>10,032</b>	27,862
<b>TOTAL LIABILITIES</b>		<b><u>35,034,809</u></b>	<u>34,918,522</u>
<b>EQUITY</b>			
Ordinary share capital	20b	<b>2,412,972</b>	2,193,611
Reserves		<b>1,588,668</b>	2,071,916
Equity attributable to the owners of the Bank		<b>4,001,640</b>	4,265,527
Perpetual Tier 1 Capital Securities	20d	<b>600,000</b>	600,000
Non-controlling interests		<b>434,718</b>	496,002
<b>TOTAL EQUITY</b>		<b><u>5,036,358</u></b>	<u>5,361,529</u>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b><u>40,071,167</u></b>	<u>40,280,051</u>



**Meshal AbdulAziz Alothman**  
Chairman



**Mohammad J. Al-Marzoq**  
Deputy Chairman



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

The attached notes 1 to 44 form part of these consolidated financial statements

**Ahli United Bank B.S.C.**
**CONSOLIDATED STATEMENT OF CASH FLOWS**

For the year ended 31 December 2020

	<i>Note</i>	<u>2020</u> US\$ '000	<u>2019</u> US\$ '000
<b>OPERATING ACTIVITIES</b>			
Profit before tax and zakat		531,167	827,363
Adjustments for:			
Depreciation		32,724	34,454
Investment income and others		(72,504)	(68,548)
Provision for credit losses and others	7g	254,918	54,417
Fair value of Employee Share Purchase Plan (ESPP) charge	21h	-	1,851
Share of results from associates	9	(50,020)	(30,886)
Operating profit before changes in operating assets and liabilities		<u>696,285</u>	<u>818,651</u>
Changes in:			
Mandatory reserve deposits with central banks		27,673	10,175
Treasury bills and deposits with central banks		(530,924)	(17,664)
Deposits with banks		986,593	(1,520,499)
Loans and advances		(307,187)	(1,294,825)
Interest receivable, derivative and other assets		(50,575)	(74,576)
Deposits from banks		(805,498)	1,271,123
Borrowings under repurchase agreements		726,537	1,059,398
Customers' deposits		(335,538)	1,858,088
Interest payable, derivative and other liabilities		(119,738)	22,546
Net cash flows generated from operations		<u>287,628</u>	<u>2,132,417</u>
Income tax and zakat paid		(45,070)	(36,374)
Net cash flows from operating activities		<u>242,558</u>	<u>2,096,043</u>
<b>INVESTING ACTIVITIES</b>			
Purchase of non-trading investments		(2,469,664)	(3,292,698)
Proceeds from sale or redemption of non-trading investments		2,471,414	2,127,726
Additional investment in subsidiary	2.3	(58,158)	-
Net decrease in investment properties		44,720	40,529
Net increase in premises and equipment		(34,384)	(45,913)
Dividends received from associates		15,364	13,603
Net cash flows used in investing activities		<u>(30,708)</u>	<u>(1,156,753)</u>
<b>FINANCING ACTIVITIES</b>			
Distribution on Perpetual Tier 1 Capital Securities	21j	(36,428)	(38,500)
Additional term debts	17	175,000	-
Repayment of subordinated liabilities		(17,996)	(165,000)
Dividends and other appropriations paid		(432,658)	(390,585)
Dividends paid to non-controlling interests		(26,845)	(31,706)
Issuance of ESPP and Mandatory Purchase Plan (MSP) shares		-	4,200
Movement in treasury shares		-	21,950
Net cash flows used in financing activities		<u>(338,927)</u>	<u>(599,641)</u>
<b>NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b>		<u>(127,077)</u>	<u>339,649</u>
Net foreign exchange difference		(28,047)	13,927
Cash and cash equivalents at 1 January		3,132,123	2,778,547
<b>CASH AND CASH EQUIVALENTS AT 31 DECEMBER</b>	24	<u><u>2,976,999</u></u>	<u><u>3,132,123</u></u>
<b>Additional cash flow information:</b>			
Interest received		1,483,350	1,840,294
Interest paid		771,577	854,144

The attached notes 1 to 44 form part of these consolidated financial statements



**Ahli United Bank B.S.C.**  
**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

For the year ended 31 December 2020

	Attributable to the owners of the Bank										Total US\$'000	
	Reserves											
	Ordinary share capital US\$ '000	Treasury shares US\$ '000	Share premium US\$ '000	Statutory reserve US\$ '000	Retained earnings US\$ '000	Proposed appro- priations US\$ '000	Other reserves [Note 21(h)] US\$ '000	Total reserves US\$'000	Equity attributable to the owners US\$'000	Perpetual Tier 1 Capital Securities US\$'000		Non- controlling interests US\$'000
Balance at 1 January 2020	2,193,611	-	766,230	659,531	611,207	439,722	(404,774)	2,071,916	4,265,527	600,000	496,002	<b>5,361,529</b>
Distribution on Perpetual Tier 1 Capital Securities [note 21(f)]	-	-	-	-	(25,428)	-	-	(25,428)	(25,428)	-	-	<b>(25,428)</b>
Distribution related to Perpetual Tier 1 Sukuk [note 21(f)]	-	-	-	-	(8,240)	-	-	(8,240)	(8,240)	-	(2,760)	<b>(11,000)</b>
Ordinary share dividend paid [note 21(i)]	-	-	-	-	-	(438,722)	-	(438,722)	(438,722)	-	-	<b>(438,722)</b>
Dividends of subsidiaries	-	-	-	-	-	-	-	-	-	-	(26,845)	<b>(26,845)</b>
Donations	-	-	-	-	-	(1,000)	-	(1,000)	(1,000)	-	-	<b>(1,000)</b>
Bonus shares issued	219,361	-	-	-	(219,361)	-	-	(219,361)	-	-	-	<b>-</b>
Net loss on loan contract modification (note 2.2)	-	-	-	-	(98,449)	-	-	(98,449)	(98,449)	-	(9,506)	<b>(107,955)</b>
Arising on additional acquisition in a subsidiary (note 2.3)	-	-	(13,187)	-	-	-	-	(13,187)	(13,187)	-	(44,971)	<b>(58,158)</b>
Transfer from OCI reserve	-	-	-	-	(1,527)	-	-	(1,527)	(1,527)	-	(9)	<b>(1,536)</b>
Movement in associates	-	-	-	-	(9,364)	-	-	(9,364)	(9,364)	-	-	<b>(9,364)</b>
Movement in subsidiaries	-	-	20	-	(2,907)	-	-	(2,887)	(2,887)	-	(286)	<b>(3,173)</b>
Total comprehensive income for the year	-	-	-	-	452,244	-	(117,327)	334,917	334,917	-	23,093	<b>358,010</b>
Transfer to statutory reserve [note 21(e)]	-	-	-	45,224	(45,224)	-	-	-	-	-	-	<b>-</b>
Proposed dividend on ordinary shares [note 21(i)]	-	-	-	-	(120,649)	120,649	-	-	-	-	-	<b>-</b>
Proposed donations	-	-	-	-	(2,000)	2,000	-	-	-	-	-	<b>-</b>
<b>Balance at 31 December 2020</b>	<b>2,412,972</b>	<b>-</b>	<b>753,063</b>	<b>704,755</b>	<b>530,302</b>	<b>122,649</b>	<b>(522,101)</b>	<b>1,588,668</b>	<b>4,001,640</b>	<b>600,000</b>	<b>434,718</b>	<b>5,036,358</b>

The attached notes 1 to 44 form part of these consolidated financial statements

Ahli United Bank B.S.C.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2020

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

## Ahli United Bank B.S.C.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2020

#### 1 CORPORATE INFORMATION

The parent company, Ahli United Bank B.S.C. ("AUB" or "the Bank") was incorporated in the Kingdom of Bahrain on 31 May 2000 originally as a closed company and changed on 12 July 2000 to a public shareholding company by Amiri Decree number 16/2000. The Bank and its subsidiaries as detailed in note 2.3 below (collectively known as "the Group") are engaged in retail, commercial, Islamic and investment banking business, global fund management and private banking services through branches in the Kingdom of Bahrain, the State of Kuwait, the Arab Republic of Egypt, Republic of Iraq, the United Kingdom and an overseas branch in Dubai International Financial Centre (DIFC). It also operates through its associates in Libya and in the Sultanate of Oman. The Bank operates under a retail banking license issued by the Central Bank of Bahrain (the "CBB"). The Bank also engages in life insurance business through its subsidiary, Al Hilal Life B.S.C. (c). The Bank's registered office is located at Building 2495, Road 2832, Al Seef District 428, Kingdom of Bahrain.

The consolidated financial statements for the year ended 31 December 2020 were authorised for issue in accordance with a resolution of the Board of Directors dated 22 February 2021.

#### 2 ACCOUNTING POLICIES

##### 2.1 Basis of preparation

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

##### 2.2 Framework and statement of compliance

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

- (a) recognition of modification losses on financial assets arising from payment holidays provided to customers impacted by COVID-19 without charging additional interest, directly in equity instead of profit or loss as required by IFRS 9 Financial Instruments (IFRS 9). Any other modification gain or loss on financial assets are recognised in accordance with the requirements of IFRS 9; and
- (b) recognition of financial assistance received from the government and / or regulators in response to its COVID-19 support measures that meets the government grant requirement, directly in equity, instead of profit or loss. This is only to the extent of any modification loss recorded in equity as a result of (a) above, and the balance amount recognized in profit or loss. Any other financial assistance, if any, is recognised in accordance with the requirements of IAS 20 Accounting for Government Grants and Disclosure of Government Assistance.

For the purpose of these consolidated financial statements, the financial information of banking subsidiaries has been adjusted to align with the above framework.

During the year, based on a regulatory directive issued by the CBB and the Central Bank of Kuwait (the "CBK") as concessionary measures to mitigate the impact of COVID-19, the one-off modification losses amounting to US\$ 114.4 million arising from the 6-month payment holidays provided to financing customers without charging additional interest has been recognized directly in equity. The modification loss has been calculated as the difference between the net present value of the modified cash flows relating to financing exposures amounting to US\$ 4.3 billion calculated using the original effective interest rate and the current carrying value of the financial assets on the date of modification.

**Ahli United Bank B.S.C.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

31 December 2020

**2 ACCOUNTING POLICIES (continued)**

**2.2 Framework and statement of compliance (continued)**

Further, as per the regulatory directive financial assistance amounting to US\$ 6.5 million (representing specified reimbursement of a portion of staff costs, waiver of levies and utility charges) received from the governments, in response to its COVID-19 support measures, has been recognized directly in equity under retained earnings. The net impact of above two adjustments amounting to US\$ 98.4 million has been debited to retained earnings and US\$ 9.5 million adjusted in non-controlling interest.

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

The consolidated financial statements of the Group have been prepared in accordance with IFRS as modified by CBB and in conformity with the Bahrain Commercial Companies Law, the Central Bank of Bahrain and Financial Institutions Law.

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

**2.3 Basis of consolidation**

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries as at and for the years ended 31 December 2020 and 2019. The results of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Control is achieved where the Bank is exposed, or has rights, to variable returns from its involvement from its investee and has the ability to affect those returns through its power over the investee. The Bank re-assesses whether or not it controls an investee if facts and circumstances indicates that there are any change to elements of control. The financial statements of the subsidiaries are prepared for the same reporting year as the Bank, using consistent accounting policies. Adjustments are made to the consolidated financial statements to bring into line any dissimilar accounting policies that may exist.

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

The following are the Bank's principal subsidiaries:

<i>Name</i>	<i>Incorporated in</i>	<i>Group's nominal holding</i>	
		<i>2020</i>	<i>2019</i>
Ahli United Bank (U.K.) PLC ("AUBUK")	United Kingdom	<b>100.0%</b>	100.0%
Ahli United Bank K.S.C.P. ("AUBK")*	State of Kuwait	<b>67.3%</b>	67.3%
Ahli United Bank (Egypt) S.A.E. ("AUBE")**	Arab Republic of Egypt	<b>95.7%</b>	85.5%
Commercial Bank of Iraq P.S.C. ("CBIQ")	Republic of Iraq	<b>75.0%</b>	75.0%
Al Ahli Real Estate Company W.L.L. ("AREC")	Kingdom of Bahrain	<b>100.0%</b>	100.0%
Al Hilal Life B.S.C. (c) ("AHL")	Kingdom of Bahrain	<b>100.0%</b>	100.0%

\* Effective holding 74.9% (2019: 74.9%).

\*\* During the year, the Group increased its holding in AUBE by 10.2% to 95.7%. Cash consideration of US\$ 58.2 million was paid to the non-controlling shareholders.

**Ahli United Bank B.S.C.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

31 December 2020

**2 ACCOUNTING POLICIES (continued)**

**2.4 New standards and amendments effective for the year**

The accounting policies used in the preparation of these consolidated financial statements are consistent with those used in previous year except for changes in framework as set out in note 2.2 and for the items below.

- **Amendments to IFRS 3: Definition of a Business**  
The amendment to IFRS 3 clarifies that to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. Furthermore, it clarified that a business can exist without including all of the inputs and processes needed to create outputs. These amendments had no impact on the consolidated financial statements of the Group but may impact future periods should the Group enter into any business combinations.
- **Amendments to IFRS 7, IFRS 9 and IAS 39: Interest Rate Benchmark Reform**  
The current LIBOR linked interest rate benchmarks are expected to cease progressively from the end of year 2021. In order to alleviate uncertainties that this change may have on the accounting of hedging relationships that are based on LIBOR benchmark rates, the IASB issued the Interest Rate Benchmark Reform Amendments to IFRS 9, IAS 39 and IFRS 7, that primarily includes a number of reliefs, which allows reporting entities to continue to account for hedging relationships on the basis of current LIBOR linked interest rate benchmarks.
- **Amendments to IAS 1 and IAS 8: Definition of Material**  
The amendments provide a new definition of material that states “information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose consolidated financial statements make on the basis of those consolidated financial statements, which provide financial information about a specific reporting entity.”  
  
The amendments clarify that materiality will depend on the nature or magnitude of information, either individually or in combination with other information, in the context of the consolidated financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. These amendments had no impact on the consolidated financial statements of, nor is there expected to be any future impact to the Group.
- **Amendments to IFRS 16 COVID-19 Related Rent Concessions**  
On 28 May 2020, the IASB issued COVID-19-Related Rent Concessions - amendment to IFRS 16 Leases. The amendments provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the COVID-19 pandemic. As a practical expedient, a lessee may elect not to assess whether a COVID-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the COVID-19 related rent concession the same way it would account for the change under IFRS 16, if the change were not a lease modification. These amendments had no impact on the consolidated financial statements of, nor is there expected to be any future impact to the Group.

**2.5 New standards and interpretations issued but not yet effective**

The standards and interpretations that are issued but not yet effective, up to the date of issuance of the Group's consolidated financial statements are disclosed below.

- **Interest Rate Benchmark Reform (Phase 2)**  
On 27 August 2020 the IASB published ‘Interest Rate Benchmark Reform – Phase 2, Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16’ (IBOR reform Phase 2). IBOR reform Phase 2 provides temporary reliefs to address the accounting issues which arise upon the replacement of an Inter-Bank Offered Rate (an IBOR) with an alternative nearly risk-free rate (an RFR). The amendment is effective for annual reporting periods beginning on or after 1 January 2021 with earlier adoption permitted.

**Ahli United Bank B.S.C.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

31 December 2020

**2 ACCOUNTING POLICIES (continued)**

**2.5 New standards and interpretations issued but not yet effective (continued)**

- Interest Rate Benchmark Reform (Phase 2) (continued)  
The impact of the replacement of inter-bank offered rates ('IBORs') with alternative risk-free rates on the Group's products and services remains a key area of focus. The Group has exposure to contracts referencing IBORs, such as LIBOR, extending past FY2021, when it is likely that publication of these IBORs will cease progressively. The Group is currently assessing the impact of the Group's transition to the new rate regimes after 2021 by considering changes in its products, services, systems and reporting and will continue to engage with internal and external stakeholders to support an orderly transition and to mitigate the risks resulting from the transition.

The Group is currently evaluating the impact of this new standard. The Group intends to adopt this new standard on the effective date.

**2.6 Significant accounting judgements and estimates**

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

The most significant uses of judgement and estimates applied in the preparation of these 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 interest revenues or generating capital gains.

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

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

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

- Internal credit rating model, which assigns Probability of Defaults (PDs) to the individual ratings;
- The Group calculates Point-in-Time PD (PIT PD) estimates under three scenarios, a base case, good case and bad case. An appropriate probability weighted ECL is then calculated by assigning probabilities, based on current and expected market conditions, to each scenario;
- Determining and applying criteria for significant increase in credit risk;

Ahli United Bank B.S.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2020

**2 ACCOUNTING POLICIES (continued)**

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

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

- Determination of associations between macroeconomic variables such as, gross domestic product, oil prices and unemployment levels on the one hand and default and loss rates on the other and the consequent impact on PDs, Exposure at Defaults (EADs) and Loss Given Defaults (LGDs);
- Selection and relative weightings of forward-looking scenarios;
- Segmentation of financial assets for the purposes of determining and applying the most appropriate risk rating model; and
- Determining the behavioral maturities of exposures for revolving facilities and other facilities where contractual maturities are not an accurate representation of actual maturities.

*iii) Pension plans*

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

*iv) Going concern*

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

*v) Fair value of financial instruments*

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

*vi) Impairment of goodwill and intangible assets*

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

The recoverable amount of each cash-generating unit's goodwill is based on value-in-use calculations using cash flow projections from financial budgets approved by the management, extrapolated for five year projections using nominal projected gross domestic product growth 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.

**Ahli United Bank B.S.C.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

31 December 2020

**2 ACCOUNTING POLICIES (continued)**

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

*vii) COVID-19 Impact*

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

Meanwhile, during the year, oil prices have witnessed unprecedented volatility and the overall decline in average oil prices is expected to have medium to long-term impact on economies.

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

The level of estimation uncertainty has increased since Q1/2020 as a result of the economic disruption and consequential impact of the COVID-19 pandemic as explained in note 43.

The Group has performed an assessment of the relevant macro-economic information based on the available guidance of regulators and IFRS, which has resulted in changes to the expected credit loss methodology and valuation estimates and judgements as at and for the year ended 31 December 2020.

Accordingly, the Group has updated inputs and assumptions used for the determination of ECL in response to uncertainties caused by COVID-19 and oil prices volatility. Under IFRS 9, financial assets are required to be moved from Stage 1 to Stage 2 if and only if they have been the subject of a significant increase in credit risk (SICR) since origination. A SICR occurs when there has been a significant increase to the risk of a default. The Group continues to assess borrowers for other indicators of unlikelihood to pay, taking into consideration the underlying cause of any financial difficulty and whether it is likely to be temporary as a result of COVID-19 or non-temporary.

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



Ahli United Bank B.S.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2020

**2 ACCOUNTING POLICIES (continued)**

**2.7 Summary of significant accounting policies**

The principal accounting policies which are consistently applied in the preparation of these consolidated financial statements, except for those detailed in note 2.2 and 2.4, are set out below.

**(a) Investments in associates**

Associate companies are companies in which the Group exercises significant influence but does not control. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies. Investments in associate companies are accounted for using the equity method. After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investment in its associate. At each reporting date, the Group determines whether there is 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.

**(b) Foreign currency translation**

**(i) Transactions and balances**

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

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

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

**(ii) Group companies**

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

**(c) Financial instruments**

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

**Ahli United Bank B.S.C.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

31 December 2020

**2 ACCOUNTING POLICIES (continued)**

**2.7 Summary of significant accounting policies (continued)**

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

(i) Date of recognition

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

(ii) Treasury bills and deposits with central banks

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

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

Deposits with banks (including nostro accounts) and other financial institutions and loans and advances are financial assets with fixed or determinable payments and fixed maturities. Loans with renegotiated terms are loans, the repayment plan of which have been revised as part of ongoing customer relationship to align with change in cash flows of the borrower, in some instances with improved security and with no other concessions. These assets are risk rated in accordance with the Group's policy on internal credit rating as explained in note 32 (c). After initial recognition, these are subsequently measured at amortised cost using the effective interest rate method, adjusted for effective fair value hedges, less any amounts written off and provision for credit losses. The losses arising from impairment of these assets are recognised in the consolidated statement of income in "provision for credit losses and 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 interest rate. The amortisation is included in "interest income" in the consolidated statement of income.

(iv) Debt instruments

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

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

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

Debt instruments are measured at FVTOCI when both the following conditions are met:

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

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

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

**Ahli United Bank B.S.C.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

31 December 2020

**2 ACCOUNTING POLICIES (continued)**

**2.7 Summary of significant accounting policies (continued)**

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

**(iv) Debt instruments (continued)**

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

**(v) Equity investments**

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

**(vi) Other financial instruments**

A financial asset is classified as FVTPL, if:

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

**(vii) Derivatives (other than hedging instruments)**

Changes in fair values of the derivatives held for trading are included in the consolidated statement of income under "trading income".

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

**(viii) Deposits, term debt and subordinated liabilities**

These financial liabilities are carried at amortised cost, less amounts repaid.

**(d) Derecognition of financial assets and financial liabilities**

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

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

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

**(e) Repurchase agreements**

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

**Ahli United Bank B.S.C.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

31 December 2020

**2 ACCOUNTING POLICIES (continued)**

**2.7 Summary of significant accounting policies (continued)**

**(f) Determination of fair value**

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

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

The fair value of liabilities with a demand feature is the amount payable on demand.

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

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

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

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

For assets and liabilities that are recognised in the consolidated financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period as disclosed in note 38.

**(g) Impairment of financial assets**

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

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

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

***Expected credit loss 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.

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**Ahli United Bank B.S.C.**
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

31 December 2020

**2 ACCOUNTING POLICIES (continued)****2.7 Summary of significant accounting policies (continued)****(g) Impairment of financial assets (continued)*****Expected credit loss model (continued)***

ECL allowances are the product of the PD, EAD and LGD. The PD represents the likelihood of a borrower defaulting on its financial obligation, either over the next 12 months, or over the remaining lifetime of the obligation. The EAD is an estimate of the exposure at a future default date, taking into account expected changes in the funded exposure after the reporting date, including repayments of principal and interest. The EAD for unfunded exposures including undrawn commitments are determined by historical behavioural analysis and regulatory Credit Conversion Factors (CCF). The LGD quantifies the potential loss from an exposure in the event of default. The key determinants of LGD are, among others, past recovery / loss data for each segment, external loss data, expected recovery period, discount rate, regulatory guidance etc. Management overlays are applied to the model outputs if consistent with the objective of SICR.

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

Stage 1 – Measures and recognizes credit loss allowance equal to 12-month ECL for financial instruments for which credit risk has not significantly increased since initial recognition. All investment grade assets are deemed to be Stage 1 as per AUB's policy under the low credit risk presumption, except in cases where there are past dues in excess of 30 days (rebuttable) or 60 days (non-rebuttable).

Stage 2 – If credit risk has increased significantly since initial recognition (whether assessed on an individual or collective basis), then measure and recognise credit loss allowance at an amount equal to the lifetime ECL. The key drivers to consider an asset as Stage 2 are as follows:

- Movements in risk rating since origination. Where the rating movement has deteriorated significantly, the amortised cost of financial asset is automatically migrated to Stage 2.
- Number of days past due (30 days - rebuttable) subject to approval of IFRS 9 Working Committee (WC) decision; 60 days (non-rebuttable).
- Restructured credits: As per CBB, all restructured facilities are required to remain in Stage 2 for a minimum period of twelve months from the date of restructuring.
- Delays in credit reviews or resolving credit exceptions subject to WC decision.
- Sector or country specific weakness subject to WC decision.
- Any other specific indicators including forward looking information which are available without undue cost or effort with respect to the obligor or the exposure such as, but not limited to, arrears with other lenders, law suits filed against the obligor by other lenders / creditors, negative movements in market indicators of financial performance etc., and the WC determines that these represent a significant deterioration in credit quality.

Stage 3 – Financial instruments 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 of twelve months has elapsed from the date on which the account qualifies for reclassification.

**Ahli United Bank B.S.C.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

31 December 2020

**2 ACCOUNTING POLICIES (continued)**

**2.7 Summary of significant 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 interest or principal payments, indications that it is probable that the borrower will enter bankruptcy or other significant financial reorganisation, the disappearance of an active market, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group. The Group continues its policy of treating financial instruments as credit impaired under Stage 3 category when the repayment of the principal or interest is overdue for 90 days or more.

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

***Debt instruments measured at fair value through OCI***

The ECL for debt instruments 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 loss recognised in OCI is recycled to the consolidated income statement upon derecognition of the assets.

**(h) Hedge accounting**

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

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

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

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

## Ahli United Bank B.S.C.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2020

## 2 ACCOUNTING POLICIES (continued)

### 2.7 Summary of significant accounting policies (continued)

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

##### (i) Fair value hedges

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

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

Hedge ineffectiveness can arise from:

- Differences in timing of cash flows of hedged items and hedging instruments;
- Different interest rate curves applied to discount the hedged items and hedging instruments; or
- Derivatives 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 derivative is recognised immediately in the consolidated statement of income as "trading income".

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

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

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

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 a 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.

**Ahli United Bank B.S.C.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

31 December 2020

**2 ACCOUNTING POLICIES (continued)**

**2.7 Summary of significant accounting policies (continued)**

**(j) Revenue recognition**

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

**(i) Interest income and expense**

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

**(ii) 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 interest rate of financial instruments and are recognised over their lives, except when the underlying risk is sold to a third party at which time it is recognised immediately. Fees or components of fees that are linked to certain performance obligations are recognised after fulfilling those obligations.

**(iii) Dividend income**

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

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

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

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

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

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.



Ahli United Bank B.S.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2020

**2 ACCOUNTING POLICIES (continued)**

**2.7 Summary of significant accounting policies (continued)**

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

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

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

**(l) Premises and equipment**

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

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

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

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

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

**(m) Investment properties**

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

**(n) Cash and cash equivalents**

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

**(o) Provisions**

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

**Ahli United Bank B.S.C.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

31 December 2020

**2 ACCOUNTING POLICIES (continued)**

**2.7 Summary of significant accounting policies (continued)**

**(p) Employee benefits**

*Defined benefit pension plan*

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

*Defined contribution plans*

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

**(q) Taxes**

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

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

**(r) Fiduciary assets**

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

**(s) Non-controlling interests**

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

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

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

**(u) Dividends on ordinary shares**

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

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

**(v) Treasury shares**

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

**(w) Employees' share purchase plan**

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

**(x) Financial guarantees and loan commitments**

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

Ahli United Bank B.S.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2020

**2 ACCOUNTING POLICIES (continued)**

**2.7 Summary of significant accounting policies (continued)**

**(x) Financial guarantees and loan commitments (continued)**

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

**(y) Repossessed assets**

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

**(z) Leases**

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

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

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

*Lease liabilities (Group as lessee)*

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

**(aa) Islamic banking**

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

*Earnings prohibited by Sharia*

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

*Commingling of funds*

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

**(ab) Islamic products**

**Murabaha**

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

**Ahli United Bank B.S.C.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

31 December 2020

**2 ACCOUNTING POLICIES (continued)**

**2.7 Summary of significant accounting policies (continued)**

**(ab) Islamic products (continued)**

**Ijara**

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

**Tawarruq**

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

**Mudaraba**

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

**Wakala**

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

**Istisna'a**

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

**Revenue recognition**

Revenue is recognised on the above Islamic products as follows:

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

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

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

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

**(ac) Equity of unrestricted investment account holders' share of profit**

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

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

## Ahli United Bank B.S.C.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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**3 NET INTEREST INCOME**

	<u>2020</u>	<u>2019</u>
	<i>US\$'000</i>	<i>US\$'000</i>
<b>(a) INTEREST INCOME</b>		
Treasury bills	88,539	98,442
Deposits with banks	46,584	122,510
Loans and advances	947,543	1,203,401
Non-trading investments	370,146	419,600
	<u>1,452,812</u>	<u>1,843,953</u>
<b>(b) INTEREST EXPENSE</b>		
Deposits from banks (including borrowings under repurchase agreements)	127,459	192,933
Customers' deposits	525,663	693,678
Subordinated liabilities	207	5,842
Term debt	128	-
	<u>653,457</u>	<u>892,453</u>
	<u>799,355</u>	<u>951,500</u>

**4 FEES AND COMMISSIONS - NET**

	<u>2020</u>	<u>2019</u>
	<i>US\$'000</i>	<i>US\$'000</i>
Fees and commission income		
- Transaction banking services	99,366	117,911
- Management, performance and brokerage fees*	15,131	19,951
Fees and commission expense	(10,828)	(10,557)
	<u>103,669</u>	<u>127,305</u>

\* This includes US\$ 4.6 million (2019: US\$ 10.5 million) of fee income relating to trust and other fiduciary activities.

**5 TRADING INCOME**

	<u>2020</u>	<u>2019</u>
	<i>US\$'000</i>	<i>US\$'000</i>
Foreign exchange	65,977	39,196
Proprietary trading	8,272	4,885
	<u>74,249</u>	<u>44,081</u>

**6 (a) CASH AND BALANCES WITH CENTRAL BANKS**

	<u>2020</u>	<u>2019</u>
	<i>US\$'000</i>	<i>US\$'000</i>
Cash and balances with central banks, excluding mandatory reserve deposits (note 24)	834,735	702,532
Mandatory reserve deposits with central banks	912,825	664,446
	<u>1,747,560</u>	<u>1,366,978</u>

**Ahli United Bank B.S.C.**
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

31 December 2020

**6 (b) TREASURY BILLS AND DEPOSITS WITH CENTRAL BANKS**

	<i>2020</i>	<i>2019</i>
	<i>US\$ '000</i>	<i>US\$ '000</i>
Central Bank of Bahrain	<b>844,520</b>	727,542
Central Bank of Kuwait	<b>905,114</b>	1,137,879
Central Bank of Egypt	<b>584,218</b>	306,165
Central Bank of Iraq	-	30,754
	<b>2,333,852</b>	<b>2,202,340</b>

The deposits with central banks and treasury bills are local currency denominated and are match funded by underlying respective local currencies. Deposit with Central Bank of Kuwait includes US\$ 578.2 million (2019: US\$ 854.3 million) as mandatory reserve.

**7 LOANS AND ADVANCES**

	<i>2020</i>		<i>2019</i>	
	<i>US\$ '000</i>	<i>%</i>	<i>US\$ '000</i>	<i>%</i>
<b>a) By industry sector</b>				
Consumer / personal	<b>2,907,071</b>	<b>13.4</b>	2,741,426	12.7
Residential mortgage	<b>1,732,675</b>	<b>8.0</b>	1,710,385	8.0
Trading and manufacturing	<b>5,985,032</b>	<b>27.6</b>	5,717,748	26.5
Real estate	<b>5,973,545</b>	<b>27.5</b>	5,529,821	25.7
Banks and other financial institutions	<b>897,366</b>	<b>4.1</b>	1,153,099	5.4
Services	<b>3,665,405</b>	<b>16.9</b>	3,999,375	18.6
Government / public sector	<b>203,291</b>	<b>0.9</b>	150,611	0.7
Others	<b>350,217</b>	<b>1.6</b>	509,659	2.4
	<b>21,714,602</b>	<b>100.0</b>	21,512,124	100.0
Less: ECL allowances (Stage 1 and 2)	<b>(514,931)</b>		(413,259)	
Less: ECL allowances (Stage 3)	<b>(479,793)</b>		(356,505)	
	<b>20,719,878</b>		<b>20,742,360</b>	
<b>b) By geographic region</b>				
Kingdom of Bahrain	<b>4,057,085</b>	<b>18.7</b>	3,821,623	17.8
State of Kuwait	<b>10,581,088</b>	<b>48.7</b>	10,486,465	48.7
Other GCC countries	<b>2,500,139</b>	<b>11.5</b>	2,751,961	12.8
United Kingdom	<b>1,966,530</b>	<b>9.1</b>	1,988,072	9.2
Arab Republic of Egypt	<b>2,331,023</b>	<b>10.7</b>	2,120,162	9.9
Europe (excluding United Kingdom)	<b>61,794</b>	<b>0.3</b>	138,774	0.6
Asia (excluding GCC countries)	<b>35,268</b>	<b>0.2</b>	98,150	0.5
Others	<b>181,675</b>	<b>0.8</b>	106,917	0.5
	<b>21,714,602</b>	<b>100.0</b>	21,512,124	100.0
Less: ECL allowances (Stage 1 and 2)	<b>(514,931)</b>		(413,259)	
Less: ECL allowances (Stage 3)	<b>(479,793)</b>		(356,505)	
	<b>20,719,878</b>		<b>20,742,360</b>	

## Ahli United Bank B.S.C.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2020

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

	<i>2020</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				
Retail	3,577,701	162,672	-	3,740,373
Corporate	8,673,203	677,119	-	9,350,322
Standard grade				
Retail	175,180	135,478	-	310,658
Corporate	5,493,856	2,260,530	-	7,754,386
Credit impaired				
Retail	-	-	101,748	101,748
Corporate	-	-	457,115	457,115
	<b>17,919,940</b>	<b>3,235,799</b>	<b>558,863</b>	<b>21,714,602</b>
Less: ECL allowances	<b>(138,970)</b>	<b>(375,961)</b>	<b>(479,793)</b>	<b>(994,724)</b>
	<b>17,780,970</b>	<b>2,859,838</b>	<b>79,070</b>	<b>20,719,878</b>
	<i>2019</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				
Retail	3,437,377	102,297	-	3,539,674
Corporate	9,348,355	449,367	-	9,797,722
Standard grade				
Retail	156,129	189,020	-	345,149
Corporate	5,397,441	2,017,347	-	7,414,788
Credit impaired				
Retail	-	-	66,665	66,665
Corporate	-	-	348,126	348,126
	18,339,302	2,758,031	414,791	21,512,124
Less: ECL allowances	(100,805)	(312,454)	(356,505)	(769,764)
	18,238,497	2,445,577	58,286	20,742,360

Refer note 32 for further details on credit quality of loans and advances.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

31 December 2020

**7 LOANS AND ADVANCES (continued)**
**d) Age analysis of past due but not credit impaired loans and advances**

	<b>2020</b>			
	<i>Up to 30 days</i>	<i>31 to 60 days</i>	<i>61 to 89 days</i>	<i>Total</i>
	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>
Retail	87,626	20,283	26,823	134,732
Corporate	35,027	3,751	88,760	127,538
	<b>122,653</b>	<b>24,034</b>	<b>115,583</b>	<b>262,270</b>
	<b>2019</b>			
	<i>Up to 30 days</i>	<i>31 to 60 days</i>	<i>61 to 89 days</i>	<i>Total</i>
	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>
Retail	156,560	42,348	25,796	224,704
Corporate	79,638	27,495	18,518	125,651
	<b>236,198</b>	<b>69,843</b>	<b>44,314</b>	<b>350,355</b>

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

**e) Individually credit impaired loans and advances**

	<b>2020</b>		
	<i>Retail</i>	<i>Corporate</i>	<i>Total</i>
	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>
Gross credit impaired loans and advances	101,748	457,115	558,863
ECL allowances (Stage 3)	(86,486)	(393,307)	(479,793)
	<b>15,262</b>	<b>63,808</b>	<b>79,070</b>
ECL coverage on credit impaired loans and advances	<b>85.0%</b>	<b>86.0%</b>	<b>85.9%</b>
Gross loans and advances	<b>4,152,779</b>	<b>17,561,823</b>	<b>21,714,602</b>
Credit impaired loans and advances ratio	<b>2.5%</b>	<b>2.6%</b>	<b>2.6%</b>
	<b>2019</b>		
	<i>Retail</i>	<i>Corporate</i>	<i>Total</i>
	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>
Gross credit impaired loans and advances	66,665	348,126	414,791
ECL allowances (Stage 3)	(56,798)	(299,707)	(356,505)
	9,867	48,419	58,286
ECL coverage on credit impaired loans and advances	85.2%	86.1%	85.9%
Gross loans and advances	3,951,488	17,560,636	21,512,124
Credit impaired loans and advances ratio	1.7%	2.0%	1.9%

The fair value of collateral that the Group holds relating to loans individually determined to be credit impaired at 31 December 2020 amounts to US\$ 313.2 million (31 December 2019: US\$ 290.8 million). The collateral consists of cash, securities and properties.

The carrying amount of restructured credit facilities was US\$ 385.4 million as at 31 December 2020 (31 December 2019: US\$ 218.9 million) with no significant additional impact on ECL during the year.



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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2020

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

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

*i) Loss allowances for loans and advances - Retail*

	2020			
	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
	US\$ '000	US\$ '000	US\$ '000	US\$ '000
<b>At 1 January 2020</b>	<b>25,948</b>	<b>7,956</b>	<b>56,798</b>	<b>90,702</b>
Transfer from Stage 1	(2,268)	812	1,456	-
Transfer from Stage 2	816	(3,886)	3,070	-
Net remeasurement of ECL allowances	22,723	5,467	27,318	55,508
Amounts written-off *	-	-	(2,928)	(2,928)
Exchange rate and other adjustments	331	(124)	772	979
<b>At 31 December 2020</b>	<b>47,550</b>	<b>10,225</b>	<b>86,486</b>	<b>144,261</b>
	2019			
	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
	US\$ '000	US\$ '000	US\$ '000	US\$ '000
At 1 January 2019	36,613	9,535	61,277	107,425
Transfer from Stage 1	(4,607)	2,450	2,157	-
Transfer from Stage 2	-	(3,502)	3,502	-
Net remeasurement of ECL allowances	(6,092)	(450)	16,769	10,227
Amounts written-off *	-	-	(27,028)	(27,028)
Exchange rate and other adjustments	34	(77)	121	78
<b>At 31 December 2019</b>	<b>25,948</b>	<b>7,956</b>	<b>56,798</b>	<b>90,702</b>

*ii) Loss allowances for loans and advances - Corporate*

	2020			
	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
	US\$ '000	US\$ '000	US\$ '000	US\$ '000
<b>At 1 January 2020</b>	<b>74,857</b>	<b>304,498</b>	<b>299,707</b>	<b>679,062</b>
Transfer from Stage 1	(2,478)	2,227	251	-
Transfer from Stage 2	339	(23,650)	23,311	-
Net remeasurement of ECL allowances	18,327	82,121	75,809	176,257
Amounts written-off *	-	-	(6,178)	(6,178)
Exchange rate and other adjustments	375	540	407	1,322
<b>At 31 December 2020</b>	<b>91,420</b>	<b>365,736</b>	<b>393,307</b>	<b>850,463</b>

Ahli United Bank B.S.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2020

**7 LOANS AND ADVANCES (continued)**

**f) Impairment allowance for loans and advances (continued)**

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

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

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

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

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

	<u>2020</u>	<u>2019</u>
	<u>US\$ '000</u>	<u>US\$ '000</u>
Net remeasurement of ECL on loans and advances (note 7f)	<b>231,765</b>	87,013
Recoveries from loans and advances during the year (from fully provided loans written-off in previous years)	<b>(16,505)</b>	(30,587)
Net remeasurement of ECL for non-trading investments (note 8c)	<b>15,403</b>	(2,316)
Net remeasurement of ECL on off-balance sheet exposures and others	<b>1,004</b>	(12,151)
Net other provision charges	<b>23,251</b>	12,458
	<u><b>254,918</b></u>	<u>54,417</u>

## Ahli United Bank B.S.C.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2020

**8 NON-TRADING INVESTMENTS**
**a) By sector**

	<i>2020</i>			
	<i>Held at amortised cost</i>	<i>Held at FVTOCI</i>	<i>Held at FVTPL</i>	<i>Total</i>
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
<b><i>Quoted investments</i></b>				
GCC government bonds and debt securities	2,643,879	240,566	-	2,884,445
Other government bonds and debt securities	498,504	287,254	-	785,758
GCC government entities' securities	1,147,118	192,050	-	1,339,168
Notes and certificates of deposit:				
- issued by banks and other financial institutions	1,325,367	149,381	-	1,474,748
- issued by corporate bodies	2,594,915	312,394	-	2,907,309
Equity instruments	-	26,985	2,083	29,068
	<b>8,209,783</b>	<b>1,208,630</b>	<b>2,083</b>	<b>9,420,496</b>
<b><i>Unquoted investments</i></b>				
Notes and certificates of deposit:				
- issued by banks and other financial institutions	15,480	101,817	-	117,297
Equity instruments	-	93,007	4,451	97,458
	<b>15,480</b>	<b>194,824</b>	<b>4,451</b>	<b>214,755</b>
Total	<b>8,225,263</b>	<b>1,403,454</b>	<b>6,534</b>	<b>9,635,251</b>
Less: ECL allowances	<b>(26,942)</b>	<b>-</b>	<b>-</b>	<b>(26,942)</b>
	<b>8,198,321</b>	<b>1,403,454</b>	<b>6,534</b>	<b>9,608,309</b>
	<i>2019</i>			
	<i>Held at amortised cost</i>	<i>Held at FVTOCI</i>	<i>Held at FVTPL</i>	<i>Total</i>
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
<b><i>Quoted investments</i></b>				
GCC government bonds and debt securities	2,204,604	231,710	-	2,436,314
Other government bonds and debt securities	744,219	179,096	-	923,315
GCC government entities' securities	1,067,542	240,532	-	1,308,074
Notes and certificates of deposit:				
- issued by banks and other financial institutions	1,292,804	219,415	-	1,512,219
- issued by corporate bodies	2,399,403	254,008	-	2,653,411
Equity instruments	-	26,512	115,446	141,958
	<b>7,708,572</b>	<b>1,151,273</b>	<b>115,446</b>	<b>8,975,291</b>
<b><i>Unquoted investments</i></b>				
Notes and certificates of deposit:				
- issued by banks and other financial institutions	13,898	68,747	-	82,645
Equity instruments	-	84,087	2,998	87,085
	<b>13,898</b>	<b>152,834</b>	<b>2,998</b>	<b>169,730</b>
Total	<b>7,722,470</b>	<b>1,304,107</b>	<b>118,444</b>	<b>9,145,021</b>
Less: ECL allowances	<b>(11,140)</b>	<b>-</b>	<b>-</b>	<b>(11,140)</b>
	<b>7,711,330</b>	<b>1,304,107</b>	<b>118,444</b>	<b>9,133,881</b>

**Ahli United Bank B.S.C.**
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

31 December 2020

**8 NON-TRADING INVESTMENTS (continued)**
**a) By sector (continued)**

The fair value of the non-trading investments held at amortised cost is US\$ 8,209.5 million as at 31 December 2020 (31 December 2019: US\$ 7,876.4 million) of which US\$ 8,193.9 million is classified under Level 1 of fair value hierarchy (31 December 2019: US\$ 7,862.5 million) and US\$ 15.6 million is classified under Level 2 of fair value hierarchy (31 December 2019: US\$ 13.9 million).

Income from FVTPL investments for the year amounted to US\$ 30.6 million (2019: US\$ 40.8 million).

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

	<i>2020</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	6,508,714	-	-	6,508,714
Standard grade	2,904,951	95,060	-	3,000,011
	<b>9,413,665</b>	<b>95,060</b>	<b>-</b>	<b>9,508,725</b>
Less: ECL allowances	(21,171)	(5,771)	-	(26,942)
	<b>9,392,494</b>	<b>89,289</b>	<b>-</b>	<b>9,481,783</b>
Equity instruments at fair value				<b>126,526</b>
				<b>9,608,309</b>
				<b>9,608,309</b>
				<b>9,608,309</b>
	<i>2019</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	6,319,300	50,882	-	6,370,182
Standard grade	2,397,676	148,120	-	2,545,796
	<b>8,716,976</b>	<b>199,002</b>	<b>-</b>	<b>8,915,978</b>
Less: ECL allowances	(9,407)	(1,733)	-	(11,140)
	<b>8,707,569</b>	<b>197,269</b>	<b>-</b>	<b>8,904,838</b>
Equity instruments at fair value				229,043
				<b>9,133,881</b>
				<b>9,133,881</b>

Refer note 32 for further details on credit quality of non-trading investments.

**c) Movements in ECL allowances**

	<i>2020</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 2020</b>	<b>9,407</b>	<b>1,733</b>	<b>-</b>	<b>11,140</b>
Transfer from Stage 1	(42)	42	-	-
Transfer from Stage 2	131	(131)	-	-
Net remeasurement of ECL allowances	<b>12,219</b>	<b>3,184</b>	<b>-</b>	<b>15,403</b>
Exchange rate and other adjustments	(544)	943	-	399
<b>At 31 December 2020</b>	<b>21,171</b>	<b>5,771</b>	<b>-</b>	<b>26,942</b>

## Ahli United Bank B.S.C.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2020

**8 NON-TRADING INVESTMENTS (continued)**
**c) Movements in ECL allowances (continued)**

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

**9 INVESTMENT IN ASSOCIATES**

The associates of the Group are:

<i>Name</i>	<i>Incorporated in</i>	<i>Group's nominal holding</i>	
		<i>2020</i>	<i>2019</i>
Ahli Bank S.A.O.G. (ABO)	Sultanate of Oman	<b>35.0%</b>	35.0%
United Bank for Commerce and Investment S.A.L. (UBCI)	Libya	<b>40.0%</b>	40.0%
Middle East Financial Investment Company (MEFIC)	Kingdom of Saudi Arabia	<b>40.0%</b>	40.0%

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

	<i>2020</i>	<i>2019</i>
	<i>US\$ '000</i>	<i>US\$ '000</i>
Total assets	<b>7,425,146</b>	7,222,669
Total liabilities	<b>6,296,424</b>	6,028,896
Share of results for the year (Group's share)	<b>50,020</b>	30,886
Net comprehensive loss for the year (Group's share)	<b>(1,331)</b>	(7,436)

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**9 INVESTMENT IN ASSOCIATES (continued)**

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

	<u>2020</u>	<u>2019</u>
	<i>US\$ 'million</i>	<i>US\$ 'million</i>
<b>Ahli Bank S.A.O.G.</b>		
<b>Balance sheet related information</b>		
Loans and advances	<b>5,763.4</b>	5,337.6
Total assets	<b>7,019.4</b>	6,541.6
Customers' deposits	<b>4,999.2</b>	4,446.0
Total liabilities	<b>6,010.7</b>	5,530.7
<b>Income statement related information</b>		
Total operating income	<b>185.7</b>	181.2
Net profit for the year	<b>62.3</b>	80.6
Dividends received during the year	<b>14.3</b>	13.6
<b>Cash flow related information</b>		
Net cash from (used in) operating activities	<b>104.9</b>	(229.3)
Net cash used in investing activities	<b>(70.8)</b>	(116.6)
Net cash from financing activities	<b>7.0</b>	163.0

The market value of AUB's investment in ABO based on the price quoted in the Muscat Securities Market at 31 December 2020 is US\$ 190.5 million (31 December 2019: US\$ 185.7 million).

**10 INVESTMENT PROPERTIES**

These represent properties acquired by the Group and are recognised at cost. As at 31 December 2020, the fair value of the investment properties is US\$ 198.9 million (31 December 2019: US\$ 281.4 million). Investment properties were valued by independent valuers using unobservable valuation inputs and are classified under Level 3 of the fair value hierarchy.

Movements for the year are as follows:

	<u>2020</u>	<u>2019</u>
	<i>US\$ '000</i>	<i>US\$ '000</i>
At 1 January	<b>229,803</b>	265,794
Additions	<b>15,187</b>	9,296
Disposals	<b>(56,654)</b>	(44,401)
Depreciation, impairment and other movements	<b>(2,621)</b>	(886)
At 31 December	<b>185,715</b>	229,803

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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**11 INTEREST RECEIVABLE, DERIVATIVE AND OTHER ASSETS**

	<u>2020</u>	<u>2019</u>
	<i>US\$ '000</i>	<i>US\$ '000</i>
Interest receivable	<b>209,921</b>	240,459
Derivative assets (note 28)	<b>166,662</b>	105,489
Tax assets (note 22)	<b>632</b>	65
Reposessed real estate assets	<b>343,187</b>	318,252
Prepayments and others	<b>136,830</b>	159,449
	<b>857,232</b>	823,714

Interest receivable include US\$ 24.8 million (2019: US\$ 20.7 million) relating to financial assets classified as FVTOCI and US\$ 185.1 million (2019: US\$ 219.8 million) relates to assets held at amortised cost.

**12 PREMISES AND EQUIPMENT**

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

	<u>2020</u>	<u>2019</u>
	<i>US\$ '000</i>	<i>US\$ '000</i>
Freehold land	<b>93,927</b>	92,747
Freehold buildings	<b>31,814</b>	26,215
Fixtures and improvements	<b>32,469</b>	33,469
IT equipment and others	<b>79,552</b>	67,210
Capital work-in-progress	<b>15,393</b>	28,875
Right-of-use assets	<b>43,692</b>	47,033
	<b>296,847</b>	295,549

Freehold land is revalued by independent valuers annually close to year end using significant valuation inputs based on unobservable inputs and is classified under Level 3 of the fair value hierarchy. During the years ended 31 December 2020 and 2019, there have been no movements in Level 3 freehold land other than valuation changes.

**13 GOODWILL AND OTHER INTANGIBLE ASSETS**

	<u>2020</u>			<u>2019</u>		
	<i>Intangible</i>			<i>Intangible</i>		
	<i>Goodwill</i>	<i>assets</i>	<i>Total</i>	<i>Goodwill</i>	<i>assets</i>	<i>Total</i>
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
At 1 January	<b>432,417</b>	<b>54,738</b>	<b>487,155</b>	429,305	49,014	478,319
Exchange rate adjustments	<b>(2,273)</b>	<b>1,076</b>	<b>(1,197)</b>	3,112	5,724	8,836
At 31 December	<b>430,144</b>	<b>55,814</b>	<b>485,958</b>	432,417	54,738	487,155

**Goodwill:**

Goodwill acquired through business combinations has been allocated to the cash-generating units of the acquired entities for impairment testing purposes. The carrying amount of goodwill and intangible assets allocated to each of the cash-generating units is shown under note 30.

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**13 GOODWILL AND OTHER INTANGIBLE ASSETS (continued)**

**Goodwill (continued):**

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

The discount rate used in goodwill impairment testing was 6.6% to 16.9% (2019: 8.1% to 17.8%). The key assumptions used in estimating recoverable amounts of cash generating units were sensitised to test the resilience of value-in-use calculations. On this basis, management believes that reasonable changes in the key assumptions used to determine the recoverable amount of the Group's cash-generating units will not result in an impairment.

**Intangible assets:**

Intangible assets comprises primarily the subsidiaries' banking licenses which have indefinite lives. Based on an annual impairment assessment of the intangible assets, no indications of impairment were identified (2019: same). The fair values of a banking license are determined at the time of acquisition by discounting the future expected profits from their acquisition and their projected terminal value.

**14 DEPOSITS FROM BANKS**

	<u>2020</u>	<u>2019</u>
	<u>US\$ '000</u>	<u>US\$ '000</u>
Demand and call deposits	<b>135,885</b>	186,298
Time deposits	<b>4,082,532</b>	4,837,617
	<b><u>4,218,417</u></b>	<u>5,023,915</u>

**15 BORROWINGS UNDER REPURCHASE AGREEMENTS**

The Group has collateralized borrowing lines of credit with various financial institutions through repurchase arrangements, amounting to US\$ 7.7 billion (31 December 2019: US\$ 7.4 billion).

As at 31 December 2020, the borrowings under these agreements were US\$ 3.6 billion (31 December 2019: US\$ 2.9 billion) and the fair value of investment securities that had been provided as collateral was US\$ 4.3 billion (31 December 2019: US\$ 3.2 billion).

**16 CUSTOMERS' DEPOSITS**

	<u>2020</u>	<u>2019</u>
	<u>US\$ '000</u>	<u>US\$ '000</u>
Current and call accounts	<b>5,399,932</b>	4,686,902
Saving accounts	<b>2,837,387</b>	2,303,610
Time deposits	<b>16,945,266</b>	18,527,611
	<b><u>25,182,585</u></b>	<u>25,518,123</u>



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**17 TERM DEBTS**

	<u>2020</u>	<u>2019</u>
	<u>US\$ '000</u>	<u>US\$ '000</u>
Bilateral Term Debts:		
-repayable in December 2022	<b>100,000</b>	-
-repayable in December 2023	<b>75,000</b>	-
	<b>175,000</b>	-

**18 INTEREST PAYABLE, DERIVATIVE AND OTHER LIABILITIES**

	<u>2020</u>	<u>2019</u>
	<u>US\$ '000</u>	<u>US\$ '000</u>
Interest payable	<b>149,373</b>	267,493
Accruals and other payables*	<b>180,333</b>	180,092
Derivative liabilities (note 28)	<b>1,014,416</b>	497,373
Other credit balances**	<b>413,320</b>	438,593
Tax liabilities (note 22)	<b>50,252</b>	49,641
ECL allowances***	<b>23,012</b>	23,898
	<b>1,830,706</b>	1,457,090

\* Accruals and other payables include US\$ 43.1 million (31 December 2019: US\$ 46.6 million) relating to lease liabilities.

\*\* Other credit balances mainly includes insurance related technical provisions, unearned fees and other sundry creditors.

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

**19 SUBORDINATED LIABILITIES**

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

	<u>2020</u>	<u>2019</u>
	<u>US\$ '000</u>	<u>US\$ '000</u>
- 10 year subordinated debt (repaid on 20 January 2020)	-	17,997
- Repayable on 24 July 2025	<b>10,032</b>	9,865
	<b>10,032</b>	27,862

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**20 EQUITY**

	<u>2020</u>	<u>2019</u>
	<u>US\$ '000</u>	<u>US\$ '000</u>
<b>(a) Authorised:</b>		
Share capital		
10,000 million shares (2019: 10,000 million shares) of US\$ 0.25 each	<u>2,500,000</u>	<u>2,500,000</u>
Available for issuance of ordinary shares and various classes of preference shares.		
<b>(b) Issued and fully paid:</b>		
	<u>2020</u>	<u>2019</u>
	<u>US\$ '000</u>	<u>US\$ '000</u>
Ordinary share capital (US\$ 0.25 each)	<u>2,412,972</u>	<u>2,193,611</u>
Number of shares (millions)	<u>9,651.9</u>	<u>8,774.4</u>
<u>Movement in ordinary shares</u>	<u>2020</u>	<u>2019</u>
	<i>(number in millions)</i>	
Opening balance as at 1 January	8,774.4	7,970.2
Add: issuance of additional shares	-	6.6
Add: issuance of bonus shares	<u>877.5</u>	<u>797.6</u>
Closing balance as at 31 December	<u>9,651.9</u>	<u>8,774.4</u>

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

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

**ESPP**

<u>Movements in ordinary shares under ESPP</u>	<u>2020</u>	<u>2019</u>
	<i>(number in thousands)</i>	
Opening balance	<b>126,015</b>	187,851
Bonus shares issued during the year	<b>9,566</b>	16,654
Exercised during the year	<b>(58,355)</b>	(78,490)
Closing balance	<b><u>77,226</u></b>	<u>126,015</u>

**MSP**

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

Movements in ordinary shares under MSP

	<u>2020</u>	<u>2019</u>
	<i>(number in thousands)</i>	
Opening balance	<b>10,307</b>	18,805
Bonus shares issued during the year	<b>279</b>	1,788
Awarded during the year	<b>3,344</b>	6,605
Exercised during the year	<b>(13,930)</b>	(16,891)
Closing balance	<b><u>-</u></b>	<u>10,307</u>

**(d) Perpetual Tier 1 Capital Securities and Sukuk**

	<u>2020</u>	<u>2019</u>
	<i>US\$ '000</i>	<i>US\$ '000</i>
Issued by the Bank [20d(i)]	<b>400,000</b>	400,000
Issued by the subsidiary [20d(ii)]	<b>200,000</b>	200,000
	<b><u>600,000</u></b>	<u>600,000</u>

- (i) Basel III compliant Additional Tier 1 Perpetual Capital Securities issued by the Bank during 2015 carries an initial distribution rate of 6.875% per annum payable semi-annually with a reset after every 5 years. On completion of the initial 5 year period, during the year, distribution rate was reset to 5.839% .These securities are perpetual, subordinated and unsecured. The Capital Certificates are listed on the Irish Stock Exchange. The Bank can elect to make a distribution at its own discretion. The holders of these securities do not have a right to claim the same and such an event will not be considered an event of default. The securities carry no maturity date and have been classified under equity.
- (ii) During 2016, Ahli United Bank K.S.C.P, a subsidiary of the Bank, issued a US\$ 200 million Basel III compliant Additional Tier 1 Perpetual Capital Sukuk that bears a profit rate of 5.5%, which are eligible to be classified under equity. The Capital Certificates are subordinated, unsecured and carry a Periodic Distribution Amount, payable semi-annually in arrears, until the first call date (25 October 2021). The Periodic Distribution Amounts in respect of the Capital Certificates may be cancelled (in whole or in part) at the sole discretion of the issuer on a non-cumulative basis. The Capital Certificates are listed on the Irish Stock Exchange and NASDAQ Dubai. These certificates have no maturity date and are callable (in whole but not in part) at par at the option of the issuer on the first call date and on every distribution payment date thereafter, subject to certain conditions.

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**21 RESERVES**
**a) Share premium**

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

**b) Capital reserve**

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

**c) Statutory reserve**

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

**d) Property revaluation reserve**

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

**e) Foreign exchange translation reserve**

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

**f) Other comprehensive income reserve (OCI Reserve)**

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

**g) Cash flow hedge reserve**

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

**h) Movements in other reserves**

	<i>Foreign</i>			<i>Cumulative changes</i>			<i>Total</i>	
	<i>Capital</i>	<i>Property</i>	<i>exchange</i>	<i>OCI</i>	<i>Cash flow</i>	<i>Pension</i>		
	<i>reserve</i>	<i>revaluation</i>	<i>translation</i>	<i>reserve</i>	<i>reserve</i>	<i>ESPP</i>	<i>fund</i>	
	<i>reserve</i>	<i>reserve</i>	<i>reserve</i>	<i>reserve</i>	<i>reserve</i>	<i>reserve</i>	<i>reserve</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</b>								
<b>1 January 2020</b>	<b>17,240</b>	<b>35,395</b>	<b>(402,456)</b>	<b>21,331</b>	<b>(37,137)</b>	<b>-</b>	<b>(39,147)</b>	<b>(404,774)</b>
Currency translation adjustments	-	-	(71,468)	-	-	-	-	(71,468)
Transfers to consolidated statement of income	-	-	-	(9,226)	(435)	-	-	(9,661)
Net fair value movements	-	-	-	(16,180)	(16,167)	-	-	(32,347)
Transfers to retained earnings	-	-	-	1,527	-	-	-	1,527
Fair value movements and others	-	-	-	-	-	-	(6,292)	(6,292)
Revaluation of freehold land	-	914	-	-	-	-	-	914
<b>Balance at</b>								
<b>31 December 2020</b>	<b>17,240</b>	<b>36,309</b>	<b>(473,924)</b>	<b>(2,548)</b>	<b>(53,739)</b>	<b>-</b>	<b>(45,439)</b>	<b>(522,101)</b>

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**21 RESERVES (continued)**
**h) Movements in other reserves (continued)**

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

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

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

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**21 RESERVES (continued)**

**i) Dividends proposed and paid**

	<u>2020</u>	<u>2019</u>
	<i>US\$'000</i>	<i>US\$'000</i>
<b>Proposed for approval at the forthcoming Annual General Assembly of Shareholders Meeting</b>		
Total cash dividend proposed on the ordinary shares	<b>120,649</b>	438,722
Cash dividend on each ordinary share (US cents per share)	<b>1.25</b>	5.0
Bonus share issue	<b>5%</b>	10%

**j) Distribution on Perpetual Tier 1 Capital Securities and Sukuk**

	<u>2020</u>	<u>2019</u>
	<i>US\$'000</i>	<i>US\$'000</i>
Distribution on the Perpetual Tier 1 Capital Securities	<b>25,428</b>	27,500
Distribution on the Perpetual Tier 1 Sukuk	<b>11,000</b>	11,000
	<b>36,428</b>	38,500

**22 TAXATION AND ZAKAT**

	<u>2020</u>	<u>2019</u>
	<i>US\$'000</i>	<i>US\$'000</i>
Consolidated balance sheet (note 11 and note 18):		
- Current tax asset	<b>581</b>	-
- Deferred tax asset	<b>51</b>	65
	<b>632</b>	65
- Current tax liability	<b>(30,779)</b>	(29,446)
- Deferred tax liability	<b>(19,473)</b>	(20,195)
	<b>(50,252)</b>	(49,641)
Consolidated statement of income		
- Current tax expense on foreign operations	<b>44,544</b>	40,075
- Zakat expense arising from subsidiary operations	<b>1,144</b>	1,899
- Deferred tax expense on foreign operations	<b>(993)</b>	(3,436)
	<b>44,695</b>	38,538

The Group's tax expense includes all direct taxes that are accrued on taxable profits of entities to the authorities in the respective countries of incorporation, in accordance with the tax laws prevailing in those jurisdictions. Consequently, it is not practical to provide a reconciliation between the accounting and taxable profits together with the details of effective tax rates. Tax expense primarily relates to AUBUK and AUBE. Tax rate at AUBE is 22.5% (2019: 22.5%) and AUBUK is 19.0% (2019: 19.0%).

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**23 EARNINGS PER SHARE**

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

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

	<u>2020</u>	<u>2019</u>
	<i>US\$'000</i>	<i>US\$'000</i>
<b>Net profit for basic and diluted earnings per ordinary share computation</b>		
Net profit attributable to Bank's equity shareholders	<b>452,244</b>	730,501
Less: Share of Perpetual Tier 1 Capital Securities and sukuk distributions	<b>(33,668)</b>	(35,740)
Adjusted net profit attributable to Bank's ordinary equity shareholders for basic and diluted earnings per ordinary share	<b>418,576</b>	694,761
Basic and diluted earnings per ordinary share (US cents)	<b>4.3</b>	7.2
	<i>Number of shares</i>	
	<i>(in millions)</i>	
	<u>2020</u>	<u>2019</u>
Weighted average ordinary shares outstanding during the year adjusted for bonus shares	<b>9,651.9</b>	9,651.9
Weighted average number of ordinary shares for diluted earnings per share	<b>9,651.9</b>	9,651.9

**24 CASH AND CASH EQUIVALENTS**

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

	<u>2020</u>	<u>2019</u>
	<i>US\$ '000</i>	<i>US\$ '000</i>
Cash and balances with central banks, excluding mandatory reserve deposits [note 6(a)]	<b>834,735</b>	702,532
Treasury bills and deposits with central banks and other banks - with an original maturity of three months or less	<b>2,142,264</b>	2,429,591
	<b>2,976,999</b>	3,132,123

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**25 RELATED PARTY TRANSACTIONS**

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

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

<b>2020</b>						
<i>US\$ '000</i>						
	<i>Major shareholders</i>	<i>Associates</i>	<i>Non-Executive Directors</i>	<i>Senior Management</i>		<i>Total</i>
				<i>Management Directors<sup>2</sup></i>	<i>Others</i>	
Interest income	-	126	6,306	61	3	6,496
Interest expense	94,379	356	147	104	6	94,992
Fees and commissions	-	1,228	1,291	18	2	2,539
Deposits with banks	-	15,570	-	-	-	15,570
Loans and advances	-	-	144,053	379	-	144,432
Derivatives assets	-	8,853	-	-	-	8,853
Deposits from banks	-	17,086	-	-	-	17,086
Customers' deposits <sup>1</sup>	3,674,177	-	30,405	8,715	396	3,713,693
Subordinated liabilities	10,032	-	-	-	-	10,032
Commitments and contingent liabilities	-	7,436	84,461	-	-	91,897
Short term employee benefits	-	-	-	12,193	2,622	14,815
End of service benefits	-	-	-	2,044	166	2,210
Directors' fees and related expenses <sup>3</sup>	-	-	1,622	-	-	1,622
<b>2019</b>						
<i>US\$ '000</i>						
	<i>Major shareholders</i>	<i>Associates</i>	<i>Non-Executive Directors</i>	<i>Senior Management</i>		<i>Total</i>
				<i>Management Directors<sup>2</sup></i>	<i>Others</i>	
Interest income	-	3,039	7,852	152	41	11,084
Interest expense	177,294	1,390	125	64	27	178,900
Fees and commissions	-	2,864	2,631	12	1	5,508
Deposits with banks	-	13,432	-	-	-	13,432
Loans and advances	-	-	184,307	3,111	581	187,999
Derivatives assets	-	4,238	-	-	-	4,238
Deposits from banks	-	93,363	-	-	-	93,363
Customers' deposits <sup>1</sup>	6,769,750	-	21,934	7,196	1,815	6,800,695
Subordinated liabilities	9,866	-	-	-	-	9,866
Commitments and contingent liabilities	-	29,936	153,666	-	-	183,602
Short term employee benefits	-	-	-	12,678	1,916	14,594
End of service benefits	-	-	-	1,865	127	1,992
Directors' fees and related expenses <sup>3</sup>	-	-	2,235	-	-	2,235



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**25 RELATED PARTY TRANSACTIONS (continued)**

<sup>1</sup>Customers' deposits include deposits from GCC government-owned institutions amounting to US\$ 3,637 million (31 December 2019: US\$ 6,730 million).

<sup>2</sup>AUB Group Management Directors (Employees) who are appointed by the shareholders of AUB to the AUB Board to represent management or by AUB to the boards of any of its subsidiaries or affiliates or their related committees, are excluded from receiving any additional remuneration for their membership of or attendance at board or related committee meetings as per their contractual arrangements.

<sup>3</sup>Directors fees and related expenses for 2019 were approved by the shareholders in the annual general meeting on 19 March 2020 and the same for 2020 will be presented for shareholders' approval at the forthcoming annual general meeting in March 2021.

The consolidated statement of income includes a Nil fair value amortisation charge (2019: US\$ 0.44 million) relating to share based transactions.

**26 EMPLOYEE BENEFITS**

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

**Defined benefit plans**

The charge to the consolidated statement of income on account of end of service benefits for the year amounted to US\$ 8,100 thousand (2019: US\$ 8,914 thousand).

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

**Defined contribution plans**

The Group contributed US\$ 9,465 thousand (2019: US\$ 8,780 thousand) during the year towards defined contribution plans. The Group's obligations are limited to the amounts contributed to various schemes.

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**27 MANAGED FUNDS**

Funds administrated on behalf of customers to which the Group does not have legal title are not included in the consolidated balance sheet. The total market value of all such funds at 31 December 2020 was US\$ 2,339.3 million (2019: US\$ 2,568.7 million).

**28 DERIVATIVES**

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

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

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

	2020		2019	
	<i>Derivative assets</i>	<i>Derivative liabilities</i>	<i>Derivative assets</i>	<i>Derivative liabilities</i>
	US\$ '000	US\$ '000	US\$ '000	US\$ '000
<i>Derivatives held for trading:</i>				
- Interest rate swaps	107,626	103,697	54,217	49,273
- Forward foreign exchange contracts	35,118	87,265	15,892	42,127
- Options	810	873	1,036	1,036
	<b>143,554</b>	<b>191,835</b>	71,145	92,436

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

	2020			2019		
	<i>Derivative assets</i>	<i>Derivative liabilities</i>	<i>Notionals amounts</i>	<i>Derivative assets</i>	<i>Derivative liabilities</i>	<i>Notionals amounts</i>
	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
<i>Derivatives held as fair value hedges:</i>						
- Interest rate swaps on amortised cost instruments	20,824	732,789	7,522,521	31,395	354,497	7,841,580
- Interest rate swaps on FVTOCI instruments	865	32,254	485,620	2,471	10,520	628,082
<i>Derivatives held as cash flow hedges:</i>						
- Interest rate swaps	1,419	57,137	198,863	197	39,920	217,937
- Forward foreign exchange contracts	-	401	14,875	281	-	14,665
	<b>23,108</b>	<b>822,581</b>	<b>8,221,879</b>	34,344	404,937	8,702,264

Major financial counterparties with whom the Group has entered into above derivative contracts are covered through margin monies for the fair values of contracts outstanding.

In respect of derivative assets above, the Group has US\$ 36.1 million (2019: US\$ 48.0 million) of liabilities that can be offset through master netting arrangements. These master netting arrangements create a right of set-off that is enforceable only following an event of default, insolvency or bankruptcy of counterparties or following other predetermined events.

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**28 DERIVATIVES (continued)**
**Fair value hedges**

The net fair value of interest rate swaps held as fair value hedges as at 31 December 2020 is negative US\$ 743.4 million (2019: Negative US\$ 331.2 million) which is offset by gain recognised on the hedged item at 31 December 2020, attributable to the hedged risk of US\$ 743.4 million (2019: US\$ 331.2 million). These offsetting gains and losses are included in "trading income" in the consolidated statement of income during the years ended 31 December 2020 and 2019 respectively.

Hedging instruments are issued to hedge against interest rate and foreign exchange risks pertaining to hedged items. Hedged items include certain loans and advances amounting to US\$ 228.2 million (31 December 2019: US\$ 228.8 million), non-trading investments amounting to US\$ 7,044.7 million (31 December 2019: US\$ 7,067.0 million), Borrowings under repurchase agreements amounting to US\$ 331.5 million (31 December 2019: US\$ 145.0 million) and customer deposits amounting to US\$ 1,135.4 million (31 December 2019: US\$ 1,619.6 million). The net fair value amounting to US\$ 743.4 million (31 December 2019: US\$ 331.2 million) is included in the carrying amount of the hedged items.

**Cash flow hedges**

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

	<i>3 months or less</i>	<i>More than 3 months up to 1 year</i>	<i>More than 1 year up to 5 years</i>	<i>More than 5 years</i>	<i>Total</i>
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
<b>At 31 December 2020</b>					
Net cash flows	<b>869</b>	<b>(5,716)</b>	<b>(20,112)</b>	<b>(28,780)</b>	<b>(53,739)</b>
<b>At 31 December 2019</b>					
Net cash flows	600	(2,860)	(12,439)	(22,438)	(37,137)

No significant hedge ineffectiveness on cash flow hedges was recognised during the years ended 31 December 2020 and 2019.

**Derivatives held for trading purposes**

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

**Derivatives held for hedging purposes**

The Group has adopted a comprehensive system for the measurement and management of risk.

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

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

Hedging of interest rate risk is also carried out by monitoring the duration of assets and liabilities and entering into interest rate swaps to hedge net interest rate exposures.

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**29 COMMITMENTS AND CONTINGENT LIABILITIES**

**Credit-related commitments**

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

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

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

The Group has the following credit related commitments:

	<u>2020</u>	<u>2019</u>
	<u>US\$ '000</u>	<u>US\$ '000</u>
Contingent liabilities:		
Guarantees	2,710,332	2,671,283
Acceptances	244,546	177,977
Letters of credit	390,673	381,452
	<u>3,345,551</u>	<u>3,230,712</u>
Maturity of contingent liabilities is as follows:		
Less than one year	2,511,668	2,330,480
Over one year	833,883	900,232
	<u>3,345,551</u>	<u>3,230,712</u>
Irrevocable commitments:		
Undrawn loan commitments	222,380	575,702

Also, refer to note 18 for ECL allowances and note 35 for additional liquidity disclosures.

**30 SEGMENT INFORMATION**

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

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

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**30 SEGMENT INFORMATION (continued)**

These segments are the basis on which the Group reports its primary segment information. Transactions between segments are conducted at approximate market rates on an arm's length basis. Interest is charged/credited to business segments based on a pool rate which approximates the cost of funds.

	<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>Year ended 31 December 2020:</b>					
Net interest income	206,090	320,369	219,239	53,657	799,355
Fees and commissions-net	28,027	58,626	3,128	13,888	103,669
Other operating income	3,315	15,200	190,266	131	208,912
<b>OPERATING INCOME</b>	<b>237,432</b>	<b>394,195</b>	<b>412,633</b>	<b>67,676</b>	<b>1,111,936</b>
Provision for credit losses and others	43,355	173,778	32,503	5,282	254,918
<b>NET OPERATING INCOME</b>	<b>194,077</b>	<b>220,417</b>	<b>380,130</b>	<b>62,394</b>	<b>857,018</b>
Operating expenses	116,589	91,286	86,726	31,250	325,851
<b>PROFIT BEFORE TAX AND ZAKAT</b>	<b>77,488</b>	<b>129,131</b>	<b>293,404</b>	<b>31,144</b>	<b>531,167</b>
Tax expense and zakat					44,695
<b>NET PROFIT FOR THE YEAR</b>					<b>486,472</b>
Less: Attributable to non-controlling interests					34,228
<b>NET PROFIT ATTRIBUTABLE TO THE OWNERS OF THE BANK</b>					<b>452,244</b>
Inter segment interest included in net interest income above	230,412	(286,098)	24,841	30,845	-
	<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>As at 31 December 2020:</b>					
Segment assets	3,533,793	16,152,564	16,327,557	2,114,089	38,128,003
Goodwill	155,243	100,544	94,859	79,498	430,144
Other intangible assets	15,146	20,038	18,270	2,360	55,814
Investment in associates					303,127
Unallocated assets					1,154,079
<b>TOTAL ASSETS</b>					<b>40,071,167</b>
Segment liabilities	6,774,789	7,372,469	15,275,013	3,781,832	33,204,103
Unallocated liabilities					1,830,706
<b>TOTAL LIABILITIES</b>					<b>35,034,809</b>

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**30 SEGMENT INFORMATION (continued)**

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

**Geographic segmentation**

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

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**30 SEGMENT INFORMATION (continued)**

**Geographic segmentation (continued)**

	<i>Operating income</i>		<i>Total assets</i>	
	<i>2020</i>	<i>2019</i>	<i>2020</i>	<i>2019</i>
	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>
GCC Countries	<b>720,263</b>	809,605	<b>26,519,194</b>	26,768,450
Others	<b>391,673</b>	425,924	<b>13,551,973</b>	13,511,601
Total	<b>1,111,936</b>	1,235,529	<b>40,071,167</b>	40,280,051

Net profit from Bahrain onshore operations is US\$ 63.3 million (2019: US\$ 102.3 million), which represents 14% (2019: 14%) of the Group's net profit attributable to the owners of the Bank.

**31 RISK MANAGEMENT**

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

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

The BOD approves the Group Risk Framework on an annual basis. The Group Risk Committee monitors the Group's risk profile against the risk parameters. The BOD and its Executive Committee receive quarterly risk updates including detailed risk exposures analysis reports. The Group faces a range of risks in its business and operations including (i) credit risk; (ii) market risk (comprising of interest rate risk, currency risk and equity price risk); (iii) liquidity risk, (iv) operational risk, and (v) legal risk as detailed in notes 32 to 37.

**32 CREDIT RISK**

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

**a) Concentration risk**

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

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

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

The principal collateral types are as follows:

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

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**32 CREDIT RISK (continued)**

**a) Concentration risk (continued)**

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

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

Details of the industry sector analysis and the geographical distribution of the assets, liabilities and commitments on behalf of customers are set out in note 33.

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

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

	<i>Gross maximum exposure 2020</i>	<i>Gross maximum exposure 2019</i>
	<i>US\$ '000</i>	<i>US\$ '000</i>
Balances with central banks	<b>1,620,575</b>	1,221,112
Treasury bills and deposits with central banks	<b>2,333,852</b>	2,202,340
Deposits with banks	<b>3,532,689</b>	4,683,260
Loans and advances	<b>20,719,878</b>	20,742,360
Non-trading investments	<b>9,481,783</b>	8,904,838
Interest receivable, derivative and other assets	<b>459,430</b>	452,863
<b>Total</b>	<b>38,148,207</b>	38,206,773
Contingent liabilities	<b>3,345,551</b>	3,230,712
Undrawn loan commitments	<b>222,380</b>	575,702
<b>Total credit related commitments</b>	<b>3,567,931</b>	3,806,414
<b>Total credit risk exposure</b>	<b>41,716,138</b>	42,013,187

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



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

The tables below shows distribution of financial assets before ECL allowances:

	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>
<i>At 31 December 2020</i>				
Balances with central banks:				
High standard grade	1,620,575	-	-	1,620,575
Treasury bills and deposits with central banks:				
High standard grade	1,749,635	-	-	1,749,635
Standard grade	585,014	-	-	585,014
Deposits with banks:				
High standard grade	3,355,808	12,582	-	3,368,390
Standard grade	160,349	5,379	-	165,728
Loans and advances:				
High standard grade	12,250,904	839,791	-	13,090,695
Standard grade	5,669,036	2,396,008	-	8,065,044
Credit impaired	-	-	558,863	558,863
Non-trading investments:				
High standard grade	6,508,714	-	-	6,508,714
Standard grade	2,904,951	95,060	-	3,000,011
Credit related contingent items:				
High standard grade	5,210,268	183,347	-	5,393,615
Standard grade	2,111,577	204,830	-	2,316,407
Credit impaired*	-	-	53,005	53,005
	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>
<i>At 31 December 2019</i>				
Balances with central banks:				
High standard grade	1,221,112	-	-	1,221,112
Treasury bills and deposits with central banks:				
High standard grade	1,871,600	-	-	1,871,600
Standard grade	331,015	-	-	331,015
Deposits with banks:				
High standard grade	4,508,219	-	-	4,508,219
Standard grade	161,842	13,544	-	175,386
Loans and advances:				
High standard grade	12,785,732	551,664	-	13,337,396
Standard grade	5,553,570	2,206,367	-	7,759,937
Credit impaired	-	-	414,791	414,791
Non-trading investments:				
High standard grade	6,319,300	50,882	-	6,370,182
Standard grade	2,397,676	148,120	-	2,545,796
Credit related contingent items:				
High standard grade	5,466,541	140,879	-	5,607,420
Standard grade	2,177,005	326,516	-	2,503,521
Credit impaired*	-	-	62,511	62,511

\* After application of credit conversion factors, credit impaired contingent items amounted to US\$ 25,364 thousand (31 December 2019: US\$ 29,475 thousand).

Except for non-trading investments that are classified as FVTOCI or FVTPL, all the above financial instruments are carried at amortised cost.

**Ahli United Bank B.S.C.**

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**32 CREDIT RISK (continued)**

**c) Credit quality of financial assets (continued)**

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

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

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

There are no financial assets which are past due but not impaired as at 31 December 2020 and 2019 other than those disclosed under note 7(d).

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**33 CONCENTRATION ANALYSIS**

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

	2020			2019		
	<i>Assets</i>	<i>Liabilities</i>	<i>Contingent liabilities on behalf of customers</i>	<i>Assets</i>	<i>Liabilities</i>	<i>Contingent liabilities on behalf of customers</i>
	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>
<b>Geographic region:</b>						
Kingdom of Bahrain	6,983,862	4,976,040	981,801	6,567,334	4,990,295	924,615
State of Kuwait	13,054,962	15,709,765	1,357,283	13,567,056	18,397,588	1,450,019
Other GCC countries	6,480,370	2,989,061	202,764	6,634,060	2,212,339	205,159
United Kingdom (UK)	3,909,726	2,237,987	4,893	3,617,402	1,422,431	32,164
Arab Republic of Egypt	3,917,520	3,362,846	503,850	3,250,254	2,845,449	325,172
Europe (excluding UK)	975,229	2,556,656	207,273	1,626,146	2,179,813	218,583
Asia (excluding GCC)	2,079,646	2,171,664	77,534	1,823,995	1,806,067	61,257
United States of America	1,459,780	71,978	6,683	1,733,719	69,963	11,601
Rest of the World	1,210,072	958,812	3,470	1,460,085	994,577	2,142
	<b>40,071,167</b>	<b>35,034,809</b>	<b>3,345,551</b>	<b>40,280,051</b>	<b>34,918,522</b>	<b>3,230,712</b>
<b>Industry sector:</b>						
Banks and other financial institutions	12,126,345	15,373,807	259,894	13,080,144	17,651,767	336,813
Consumer/personal	2,802,240	7,463,845	15,707	2,657,801	6,979,360	4,314
Residential mortgage	1,696,614	-	1,331	1,705,991	-	1,237
Trading and manufacturing	7,440,233	2,427,774	1,382,072	7,148,141	1,878,701	1,343,770
Real estate	5,942,534	601,415	1,131	5,641,453	679,286	1,176
Services	4,497,836	3,487,268	1,591,745	4,695,139	3,107,946	1,475,967
Government/public sector	5,215,266	4,382,811	50,276	4,846,079	3,921,239	39,490
Others	350,099	1,297,889	43,395	505,303	700,223	27,945
	<b>40,071,167</b>	<b>35,034,809</b>	<b>3,345,551</b>	<b>40,280,051</b>	<b>34,918,522</b>	<b>3,230,712</b>

**34 MARKET RISK**

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

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**34 MARKET RISK (continued)**
**i) Value-at-Risk**

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

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

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

	<i>Foreign exchange</i>	<i>Interest rate</i>	<i>Effects of correlation</i>	<i>Total</i>
	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>
<b>31 December 2020</b>	<b>1,504</b>	<b>3</b>	<b>(0)</b>	<b>1,507</b>
31 December 2019	331	(21)	0	310

**ii) Interest rate risk**

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

	<i>2020</i>			<i>Total</i>
	<i>Less than three months</i>	<i>Three months to one year</i>	<i>Over one year</i>	
	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>
Treasury bills and deposits with central banks	1,434,238	899,614	-	2,333,852
Deposits with banks	3,431,299	101,390	-	3,532,689
Loans and advances	16,500,408	2,599,544	1,619,926	20,719,878
Non-trading investments	519,586	426,873	8,535,324	9,481,783
	<b>21,885,531</b>	<b>4,027,421</b>	<b>10,155,250</b>	<b>36,068,202</b>
Deposits from banks	3,560,540	577,877	80,000	4,218,417
Borrowings under repurchase agreements	3,454,269	163,800	-	3,618,069
Customers' deposits	15,968,947	6,646,604	2,567,034	25,182,585
Term debts	175,000	-	-	175,000
Subordinated liabilities	10,032	-	-	10,032
	<b>23,168,788</b>	<b>7,388,281</b>	<b>2,647,034</b>	<b>33,204,103</b>
On balance sheet gap	(1,283,257)	(3,360,860)	7,508,216	2,864,099
Off balance sheet gap	5,451,804	1,028,993	(6,480,797)	
<b>Total interest sensitivity gap</b>	<b>4,168,547</b>	<b>(2,331,867)</b>	<b>1,027,419</b>	
<b>Cumulative interest sensitivity gap</b>	<b>4,168,547</b>	<b>1,836,680</b>	<b>2,864,099</b>	

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**34 MARKET RISK (continued)**
**ii) Interest rate risk (continued)**

	2019			<i>Total</i> US\$ '000
	<i>Less than</i> <i>three</i> <i>months</i>	<i>Three</i> <i>months to</i> <i>one year</i>	<i>Over one</i> <i>year</i>	
	US\$ '000	US\$ '000	US\$ '000	
Treasury bills and deposits with central banks	1,409,650	792,690	-	2,202,340
Deposits with banks	4,064,118	619,142	-	4,683,260
Loans and advances	16,012,744	3,007,901	1,721,715	20,742,360
Non-trading investments	387,428	1,568,589	6,948,821	8,904,838
	<u>21,873,940</u>	<u>5,988,322</u>	<u>8,670,536</u>	<u>36,532,798</u>
Deposits from banks	4,403,891	550,158	69,866	5,023,915
Borrowings under repurchase agreements	2,456,647	434,885	-	2,891,532
Customers' deposits	15,348,975	7,843,785	2,325,363	25,518,123
Subordinated liabilities	27,862	-	-	27,862
	<u>22,237,375</u>	<u>8,828,828</u>	<u>2,395,229</u>	<u>33,461,432</u>
On balance sheet gap	(363,435)	(2,840,506)	6,275,307	
Off balance sheet gap	5,276,338	1,412,037	(6,688,375)	
Total interest sensitivity gap	<u>4,912,903</u>	<u>(1,428,469)</u>	<u>(413,068)</u>	
Cumulative interest sensitivity gap	<u>4,912,903</u>	<u>3,484,434</u>	<u>3,071,366</u>	

The following table demonstrates the sensitivity of the Group's net interest income for the next one year, to a change in interest rates, with all other variables held constant. The sensitivity is based on the floating rate financial assets and financial liabilities held at 31 December 2020 and 2019 including the effect of hedging instruments.

*Sensitivity analysis - interest rate risk*

		2020	2019
		US\$ '000	US\$ '000
At 25 bps - increase (+) / decrease (-)	+/-	<b>8,830</b>	11,302

**iii) Currency risk**

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

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

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**34 MARKET RISK (continued)**

**iii) Currency risk (continued)**

The Group's significant net exposures arising out of banking operations as of the consolidated balance sheet date and the effect of change in currency rate by + 1% on the consolidated statement of income is presented below:

	<i>(Loss) / Gain</i>		<i>Net exposures</i>	
	<i>2020</i>	<i>2019</i>	<i>2020</i>	<i>2019</i>
	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>
Great Britain Pound	(105)	(105)	(10,505)	(10,487)
Euro	(54)	(86)	(5,398)	(8,647)
Egyptian Pound	1,433	1,283	143,322	128,294
Iraqi Dinar	(1,373)	(1,398)	(137,276)	(139,796)
Kuwaiti Dinar	69	(259)	6,910	(25,850)

*Sensitivity analysis - currency risk*

All foreign currency exposures with the exception of investments in subsidiaries and associates are captured as part of the trading book. The risk of the exposures are subject to quantification via a daily VaR calculation, the results of which are disclosed in note 34 (i).

The effect of foreign currency translation on the Group's investments in subsidiaries and associates are reported in the "foreign exchange translation reserve" in note 21(h).

**iv) Equity price risk**

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

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

<i>Market indices</i>	<i>Change in equity indices</i> %	<i>Effect on income statement</i>	
		<i>2020</i>	<i>2019</i>
		<i>US\$ '000</i>	<i>US\$ '000</i>
Saudi Stock Exchange (Tadawul)	+/- 10%	7	13,589

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### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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#### 35 LIQUIDITY RISK

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

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

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

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

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

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

During COVID-19, the Group further diversified its funding sources and enhanced its liquidity position. Governments, monetary authorities, regulators and financial institutions, including AUB, have taken and continue to take actions in support of the economy and financial system. These actions include fiscal, monetary and other financial measures to increase liquidity, and provide financial aid to individual, small business, commercial and corporate clients. The Group has maintained strong capital and liquidity positions well above the minimum ratio set by CBB with a Capital Adequacy Ratio (CAR) of 16.1%, Liquidity Coverage Ratio (LCR) of 103.2% and Net Stable Funding Ratio (NSFR) of 117.0% as at 31 December 2020.

The maturity profile of the assets and liabilities at 31 December 2020 and 2019 given below reflects management's best estimates of the maturities of assets and liabilities. These have been determined on the basis of the remaining period at the balance sheet date to the contractual or expected maturity date, where relevant. The liquidity profile of customer deposits has been determined on the basis of the effective maturities indicated by the Group's deposit retention history and the liquidity profile of bonds has been determined on the basis of liquidity requirements.

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**35 LIQUIDITY RISK (continued)**

31 December 2020	<i>Upto three</i>	<i>Over three</i>	<i>Above</i>	<i>Undated</i>	<i>Total</i>
	<i>months</i>	<i>months to</i>	<i>one year</i>		
	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>
<b>Assets</b>					
Cash and balances with central banks	1,747,560	-	-	-	1,747,560
Treasury bills and deposits with central banks	1,444,084	889,768	-	-	2,333,852
Deposits with banks	3,431,367	101,322	-	-	3,532,689
Loans and advances	8,926,427	2,954,383	8,839,068	-	20,719,878
Non-trading investments	4,640,911	3,529,981	1,437,417	-	9,608,309
Investment in associates	-	-	-	303,127	303,127
Investment properties	-	-	-	185,715	185,715
Interest receivable, derivative and other assets	399,984	429,768	27,480	-	857,232
Premises and equipment	2,731	8,192	32,769	253,155	296,847
Goodwill and other intangible assets	-	-	-	485,958	485,958
<b>Total</b>	<b>20,593,064</b>	<b>7,913,414</b>	<b>10,336,734</b>	<b>1,227,955</b>	<b>40,071,167</b>
<b>Liabilities</b>					
Deposits from banks	2,869,495	309,620	1,039,302	-	4,218,417
Borrowings under repurchase agreements	170,591	2,382,389	1,065,089	-	3,618,069
Customers' deposits	9,661,697	4,760,665	10,760,223	-	25,182,585
Term debts	-	-	175,000	-	175,000
Interest payable, derivative and other liabilities	1,393,840	267,700	169,166	-	1,830,706
Subordinated liabilities	-	-	10,032	-	10,032
<b>Total</b>	<b>14,095,623</b>	<b>7,720,374</b>	<b>13,218,812</b>	<b>-</b>	<b>35,034,809</b>
<b>Net liquidity gap</b>	<b>6,497,441</b>	<b>193,040</b>	<b>(2,882,078)</b>	<b>1,227,955</b>	<b>5,036,358</b>

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



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**35 LIQUIDITY RISK (continued)**

31 December 2019	<i>Upto three</i>	<i>Over three</i>	<i>Above</i>	<i>Undated</i>	<i>Total</i>
	<i>months</i>	<i>months to</i>	<i>one year</i>		
	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>
<i>Assets</i>					
Cash and balances with central banks	1,366,978	-	-	-	1,366,978
Treasury bills and deposits with central banks	1,414,922	787,418	-	-	2,202,340
Deposits with banks	4,064,195	619,065	-	-	4,683,260
Loans and advances	8,305,095	3,313,962	9,123,303	-	20,742,360
Non-trading investments	4,932,780	2,823,913	1,377,188	-	9,133,881
Investment in associates	-	-	-	315,011	315,011
Investment properties	-	-	-	229,803	229,803
Interest receivable, derivative and other assets	378,664	413,802	31,248	-	823,714
Premises and equipment	2,891	8,672	34,687	249,299	295,549
Goodwill and other intangible assets	-	-	-	487,155	487,155
<b>Total</b>	<b>20,465,525</b>	<b>7,966,832</b>	<b>10,566,426</b>	<b>1,281,268</b>	<b>40,280,051</b>
<i>Liabilities</i>					
Deposits from banks	3,551,657	549,433	922,825	-	5,023,915
Borrowings under repurchase agreements	319,993	1,690,464	881,075	-	2,891,532
Customers' deposits	8,790,513	4,981,680	11,745,930	-	25,518,123
Interest payable, derivative and other liabilities	923,568	336,516	197,006	-	1,457,090
Subordinated liabilities	17,997	-	9,865	-	27,862
<b>Total</b>	<b>13,603,728</b>	<b>7,558,093</b>	<b>13,756,701</b>	<b>-</b>	<b>34,918,522</b>
<b>Net liquidity gap</b>	<b>6,861,797</b>	<b>408,739</b>	<b>(3,190,275)</b>	<b>1,281,268</b>	<b>5,361,529</b>

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**35 LIQUIDITY RISK (continued)**
**Analysis of financial liabilities by remaining contractual maturities**

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

	<i>Up to One month</i>	<i>One month to three months</i>	<i>Over three months to one year</i>	<i>Over one year to five years</i>	<i>Over five years</i>	<i>Total</i>
	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>
<b>As at 31 December 2020</b>						
Deposits from banks	1,691,393	1,182,678	312,244	1,081,586	-	4,267,901
Borrowings under repurchase agreements	23,550	147,393	2,402,281	1,107,778	-	3,681,002
Customers' deposits	12,059,857	5,215,829	5,293,239	2,882,742	20,775	25,472,442
Term debts	-	-	-	182,436	-	182,436
Subordinated liabilities	-	-	-	10,349	-	10,349
Interest payable	59,703	44,525	33,237	11,908	-	149,373
<b>Total</b>	<b>13,834,503</b>	<b>6,590,425</b>	<b>8,041,001</b>	<b>5,276,799</b>	<b>20,775</b>	<b>33,763,503</b>
Credit related commitments	4,806	12,740	42,701	120,320	41,813	222,380
Derivatives (net)	(847,692)	-	-	-	-	(847,692)
	<i>Up to One month</i>	<i>One month to three months</i>	<i>Over three months to one year</i>	<i>Over one year to five years</i>	<i>Over five years</i>	<i>Total</i>
	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>
<b>As at 31 December 2019</b>						
Deposits from banks	1,958,371	1,604,009	558,015	980,480	-	5,100,875
Borrowings under repurchase agreements	55,644	265,521	1,715,887	934,076	-	2,971,128
Customers' deposits	11,759,074	3,532,386	7,629,519	2,952,935	23,589	25,897,503
Subordinated liabilities	18,072	-	-	-	12,327	30,399
Interest payable	104,473	73,294	70,578	19,148	-	267,493
<b>Total</b>	<b>13,895,634</b>	<b>5,475,210</b>	<b>9,973,999</b>	<b>4,886,639</b>	<b>35,916</b>	<b>34,267,398</b>
Credit related commitments	3,955	69,295	189,823	231,462	81,167	575,702
Derivatives (net)	(391,884)	-	-	-	-	(391,884)

**36 OPERATIONAL RISK**

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

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

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**37 LEGAL RISK**

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

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

**38 FAIR VALUE MEASUREMENT**

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

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

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

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

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

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

	<i>2020</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	176	87,911	38,439	126,526
Debt instruments (FVTOCI)	1,181,645	101,817	-	1,283,462
Derivative assets	-	166,662	-	166,662
Derivative liabilities	-	1,014,416	-	1,014,416

	<i>2019</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	113,760	75,830	39,453	229,043
Debt instruments (FVTOCI)	1,124,761	68,747	-	1,193,508
Derivative assets	-	105,489	-	105,489
Derivative liabilities	-	497,373	-	497,373

During the years ended 31 December 2020 and 2019, there have been no transfers between Levels 1, 2 and 3.

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

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

**Ahli United Bank B.S.C.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

31 December 2020

**39 CAPITAL ADEQUACY AND NET STABLE FUNDING RATIO (NSFR)**

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

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

The total capital ratio is calculated in accordance with the capital adequacy guidelines, under Basel III, issued by the CBB. The minimum capital adequacy ratio as per CBB is 12.5%. The Group's total capital ratio is 16.1% as of 31 December 2020 (31 December 2019: 16.4%).

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%. However, as per CBB circular OG/106/2020 dated 17 March 2020, OG/296/2020 dated 26 August 2020 and OG/431/2020 dated 29 December 2020, the limit is reduced to 80% until 31 December 2021, to contain the financial repercussions of COVID-19. The Group's consolidated NSFR ratio as of 31 December 2020 is 117.0% (31 December 2019: 117.0%).

	<u>2020</u>	<u>2019</u>
	<u>US\$ '000</u>	<u>US\$ '000</u>
<b>Available Stable Funding:</b>		
Regulatory capital	5,539,056	5,579,449
Retail and SME deposits	6,381,437	5,745,209
Wholesale funding	12,707,451	13,085,627
Others	480,576	515,344
<b>Total Available Stable Funding (A)</b>	<b>25,108,520</b>	<b>24,925,629</b>
<b>Required Stable Funding:</b>		
High-Quality Liquid Assets (HQLA)	1,798,935	1,768,970
Performing loans	13,552,637	14,247,078
Securities (other than HQLA)	2,734,716	2,421,235
Derivative contracts and margins	587,712	309,961
Others	2,405,618	2,237,933
Off-Balance sheet items	388,174	326,416
<b>Total Required Stable Funding (B)</b>	<b>21,467,792</b>	<b>21,311,593</b>
<b>NSFR (%) (A/B)</b>	<b>117.0%</b>	<b>117.0%</b>

**40 DEPOSIT PROTECTION SCHEME**

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

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

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

**Ahli United Bank B.S.C.**
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

31 December 2020

**40 DEPOSIT PROTECTION SCHEME (continued)**

Republic of Iraq: Customers' deposits held with the Bank in the Iraq are covered by the Regulation Protecting Deposits issued by the Central Bank of Iraq in accordance with Resolution No. (121) of 2018 up to a maximum limit of IQD 25 million per customer and an overall limit of IQD 150 million per Bank.

**41 ISLAMIC BANKING ACTIVITIES**

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

**BALANCE SHEET AT 31 DECEMBER**

	<i>Note</i>	<u>2020</u>	<u>2019</u>
		<i>US\$ '000</i>	<i>US\$ '000</i>
<b>ASSETS</b>			
Cash and balances with central banks		538,486	348,484
Deposits with central banks		905,115	1,137,879
Deposits with banks	(a)	726,540	1,317,839
Receivable balances from Islamic financing	(b)	12,503,119	12,255,286
Financial investments		2,040,424	1,558,585
Investment in associates		25,647	35,370
Investment properties		60,543	96,452
Profit receivable and other assets		115,315	116,645
Premises and equipment		132,924	135,533
<b>TOTAL ASSETS</b>		<u>17,048,113</u>	<u>17,002,073</u>
<b>LIABILITIES</b>			
Deposits from banks	(c)	1,479,484	2,715,320
Customers' deposits	(d)	12,419,055	11,186,926
Repurchase agreements with banks		25,011	-
Profit payable and other liabilities		286,289	382,189
Restricted investment		25,793	48,854
		<u>14,235,632</u>	<u>14,333,289</u>
<b>EQUITY OF UNRESTRICTED INVESTMENT ACCOUNTHOLDERS</b>		<u>696,276</u>	<u>574,597</u>
<b>TOTAL LIABILITIES AND EQUITY OF UNRESTRICTED INVESTMENT ACCOUNTHOLDERS</b>		<u>14,931,908</u>	<u>14,907,886</u>
<b>TOTAL EQUITY</b>		<u>2,116,205</u>	<u>2,094,187</u>
<b>TOTAL LIABILITIES, EQUITY OF UNRESTRICTED INVESTMENT ACCOUNTHOLDERS AND EQUITY</b>		<u>17,048,113</u>	<u>17,002,073</u>

Ahli United Bank B.S.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2020

41 ISLAMIC BANKING AND INSURANCE ACTIVITIES (continued)

STATEMENT OF INCOME FOR THE YEAR ENDED 31 DECEMBER	Note	2020 US\$ '000	2019 US\$ '000
Net income from Islamic financing	(e)	337,767	407,469
		<b>337,767</b>	407,469
Fees and commissions - net		31,170	45,145
Other operating income		21,189	38,411
Foreign exchange gains		11,792	10,310
<b>OPERATING INCOME</b>		<b>401,918</b>	501,335
Provision for financing receivables and others		<b>102,187</b>	33,772
<b>NET OPERATING INCOME</b>		<b>299,731</b>	467,563
Staff costs		62,942	78,531
Depreciation		13,553	18,313
Other operating expenses		40,341	44,175
<b>OPERATING EXPENSES</b>		<b>116,836</b>	141,019
<b>PROFIT BEFORE TAX AND ZAKAT</b>		<b>182,895</b>	326,544
Tax expense and zakat		5,366	9,416
<b>PROFIT BEFORE THE SHARE OF PROFIT OF EQUITY OF UNRESTRICTED INVESTMENT ACCOUNT HOLDERS</b>		<b>177,529</b>	317,128
Less: Share of profit of equity of unrestricted investment account holders		5,880	13,704
<b>NET PROFIT FOR THE YEAR</b>		<b>171,649</b>	303,424
<i>Attributable to:</i>			
Owners of the Bank		146,836	257,116
Non-controlling interests		24,813	46,308
		<b>171,649</b>	303,424
<i>Notes</i>		2020 US\$ '000	2019 US\$ '000
<b>(a) Deposits with banks</b>			
Murabaha finance with other banks		399,483	719,735
Wakala with banks		256,488	503,339
Current accounts and others		70,569	94,765
		<b>726,540</b>	1,317,839

## Ahli United Bank B.S.C.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2020

**41 ISLAMIC BANKING AND INSURANCE ACTIVITIES (continued)**

Notes (continued)

	<u>2020</u>	<u>2019</u>
	<i>US\$ '000</i>	<i>US\$ '000</i>
<b>(b) Receivable balances from Islamic financing</b>		
Tawarruq receivables	<b>7,961,610</b>	7,628,157
Murabaha receivables	<b>3,090,890</b>	3,194,888
Ijara receivables	<b>1,904,929</b>	1,768,191
Others	<b>24,636</b>	28,588
Less: Allowance for impairment	<b>(478,946)</b>	(364,538)
	<b><u>12,503,119</u></b>	<u>12,255,286</u>
	<u>2020</u>	<u>2019</u>
	<i>US\$ '000</i>	<i>US\$ '000</i>
<b>(c) Deposits from banks</b>		
Murabaha	<b>930,442</b>	1,430,159
Wakala	<b>541,399</b>	1,277,834
Current accounts	<b>7,643</b>	7,327
	<b><u>1,479,484</u></b>	<u>2,715,320</u>
	<u>2020</u>	<u>2019</u>
	<i>US\$ '000</i>	<i>US\$ '000</i>
<b>(d) Customers' deposits</b>		
Wakala	<b>7,405,693</b>	7,369,709
Murabaha	<b>3,604,791</b>	2,608,485
Current accounts	<b>1,408,571</b>	1,208,732
	<b><u>12,419,055</u></b>	<u>11,186,926</u>
	<u>2020</u>	<u>2019</u>
	<i>US\$ '000</i>	<i>US\$ '000</i>
<b>(e) Net income from Islamic financing</b>		
Income from Tawarruq	<b>248,152</b>	325,972
Income from Murabaha	<b>203,209</b>	260,526
Income from Ijara	<b>85,341</b>	89,807
Income from financial investments	<b>63,695</b>	58,166
<b>Income from Islamic financing</b>	<b><u>600,397</u></b>	<u>734,471</u>
Profit expense on Wakala	<b>131,346</b>	194,558
Profit expense on Murabaha and others	<b>131,284</b>	132,444
<b>Less: Distribution to depositors</b>	<b><u>262,630</u></b>	<u>327,002</u>
<b>Net income from Islamic financing</b>	<b><u>337,767</u></b>	<u>407,469</u>

**42 SUBSIDIARIES**

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

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

<i>Name</i>	<i>Incorporated in</i>	<u>2020</u>	<u>2019</u>
Ahli United Bank K.S.C.P. [AUBK]	State of Kuwait	<b>25.1%</b>	25.1%
Ahli United Bank (Egypt) S.A.E. [AUBE]	Arab Republic of Egypt	<b>4.3%</b>	14.5%

**Ahli United Bank B.S.C.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

31 December 2020

**42 SUBSIDIARIES (continued)**

	<i>2020</i>	<i>2019</i>
	<i>US\$ '000</i>	<i>US\$ '000</i>
<b>Accumulated material non-controlling interests as at 31 December:</b>		
Ahli United Bank K.S.C.P.	<b>359,929</b>	370,806
Ahli United Bank (Egypt) S.A.E.	<b>22,091</b>	68,004
<b>Profit allocated to material non-controlling interests:</b>		
Ahli United Bank K.S.C.P.	<b>24,813</b>	46,308
Ahli United Bank (Egypt) S.A.E.	<b>3,148</b>	10,636

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

	<i>2020</i>	<i>2019</i>
	<i>US\$ '000</i>	<i>US\$ '000</i>
<b>Ahli United Bank K.S.C.P. (AUBK)</b>		
<b>Balance sheet related information</b>		
Loans and advances	<b>10,267,715</b>	9,954,936
Non-trading investments	<b>1,294,285</b>	1,000,622
Total assets	<b>14,410,546</b>	14,352,392
Customers' deposits	<b>11,833,856</b>	11,251,727
Total liabilities	<b>12,751,179</b>	12,649,176
<b>Income statement related information</b>		
Total operating income	<b>295,681</b>	352,915
Net profit attributable to shareholders	<b>96,905</b>	181,107
Total comprehensive income attributable to shareholders	<b>97,565</b>	179,880
Dividends paid to non-controlling interest	<b>22,713</b>	21,913
<b>Cash flow related information</b>		
Net cash from operating activities	<b>410,017</b>	572,479
Net cash used in investing activities	<b>(211,976)</b>	(50,862)
Net cash used in financing activities	<b>(101,878)</b>	(98,387)
<b>Ahli United Bank (Egypt) S.A.E. (AUBE)</b>		
<b>Balance sheet related information</b>		
Loans and advances	<b>1,887,793</b>	1,637,102
Non-trading investments	<b>599,999</b>	567,191
Total assets	<b>3,583,362</b>	2,947,865
Customers' deposits	<b>2,966,155</b>	2,327,950
Total liabilities	<b>3,061,726</b>	2,470,232
<b>Income statement related information</b>		
Total operating income	<b>162,933</b>	128,749
Net profit attributable to shareholders	<b>77,012</b>	78,484
Total comprehensive income attributable to shareholders	<b>71,033</b>	93,679
Dividends paid to non-controlling interests	<b>4,132</b>	5,952
<b>Cash flow related information</b>		
Net cash from (used in) operating activities	<b>131,186</b>	(504,353)
Net cash used in investing activities	<b>(8,618)</b>	(5,483)
Net cash used in financing activities	<b>(36,585)</b>	(49,318)



**Ahli United Bank B.S.C.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

31 December 2020

**43 IMPACT OF COVID-19 OUTBREAK**

The Group considered the potential impact of the uncertainties caused by the COVID-19 pandemic together with the associated economic support and relief measures of governments and central banks in its estimation of ECL requirements for the year ended 31 December 2020.

*Significant increase in credit risk*

The Group considered the following aspects to assess if there was a significant increase in credit risk or objective evidence of impairment in the light of COVID-19 situation.

- Temporary financial difficulties of the customers are distinguished from longer-term or permanent impact;
- Customers operating in certain sectors or industries are likely to be more severely impacted;
- Deferral of instalments or profit payments on financing facilities will not automatically trigger significant increase in credit risk;
- Retail facilities to certain customer segment are more likely to have significant increase in credit risk arising from job losses and pay cuts; and
- Significant corporate exposures are individually assessed to identify significant increase in credit risk as and when reliable data is available.

The above assessment has resulted in staging downgrade of certain exposures and increase in ECL.

*Macro-economic factors*

The Group considered of volatility witnessed in the range of macroeconomic factors and in the scenarios used for determination of ECL. In particular, given the continuing uncertainty stemming from fast evolving COVID-19, the Group revised certain assumptions reflected through constructing a plausible forward-looking view of the macroeconomic environment. The Group applied a high probability weightage to the severe scenario combined with the revised forecasts of macro-economic factors. The uncertainties in the current market caused by the pandemic, may not be fully captured in the modelled results, and therefore a higher level of expert credit judgement has been applied on the ECL estimates. These adjustments resulted in significant increase in the amount of ECL charge for the year ended 31 December 2020.

*Other impacts*

The Group considered the potential impact of the current economic volatility on the reported amounts in the Group's consolidated financial statement. The reported amounts best represent management's assessment based on observable information. The impact of the highly uncertain economic environment remains judgemental and the Group will accordingly continue to reassess its position and the related impact on a regular basis.

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

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

However, subsequently the proposed acquisition procedures were suspended until December 2020 due to the prevailing unprecedented circumstances relating to the Covid-19 pandemic. During December 2020, the AUB Board of Directors, in consultation with KFH Board of Directors, and subject to necessary regulatory approvals, has agreed to extend the suspension period for the resumption of the acquisition of AUB by KFH until completion of KFH's updated assessment to be conducted by the international advisor appointed by KFH in this respect.

**AHLI UNITED BANK B.S.C.**  
**SUPPLEMENTARY FINANCIAL INFORMATION**  
At 31 December 2020

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



## Ahli United Bank B.S.C.

### Supplementary Public Disclosure- Financial Impact of COVID-19 For Year Ended 31 December 2020

As part of the objective to maintain enhanced transparency amidst the current implications of Coronavirus (COVID-19) and pursuant to the Central Bank of Bahrain instructions under circular: OG/259/2020 dated 14 July 2020, the AUB Group herein provides additional supplementary information pertaining to the financial impact of COVID-19 on its consolidated financial statements for the year ended 31 December 2020.

As noted in our H1/2020 and Q3/2020 supplementary disclosures, the COVID-19 pandemic has severely impacted the global economy, causing wide spread disruption to business and economic activities resulting in significant uncertainties in the operating environment. Global financial markets have also experienced very high levels of volatility. Various governments and central banks have responded with monetary and fiscal interventions to stabilize economic and market conditions. The impact on regional economies was further exacerbated by the collapse in oil and gas prices in 2020.

The Central Bank of Bahrain (CBB) and Central Banks of Kuwait (CBK) announced payment holiday for 6 months to eligible customers by CBB and CBK; Further, the modification loss, calculated as the difference between the net present value of the modified cash flows using the original effective interest/profit rate and the current carrying value of the financial assets, on the date of modification, is to be debited to retained earnings.

The Central Bank of Bahrain initially announced certain relief measures to combat the effects of COVID-19 during Q1/2020 and Q2/2020: These measures included the following:

- Concessionary repo facility to eligible banks at zero percent rate by the CBB;
- Reduction of the cash reserve ratio from 5% to 3% by the CBB;
- Reduction of liquidity coverage ratio (LCR) and net stable funding ratio (NSFR) from 100% to 80% up to 31 December 2020 by the CBB;



- Aggregate of the modification loss and incremental expected credit losses (ECL) provision for stage 1 and stage 2 from March to December 2020 is to be added back to Tier 1 capital for the two years ending 31 December 2020 and 31 December 2021 and to deduct this amount proportionately from Tier 1 capital on an annual basis over the three-year period from 1 January 2022 to 31 December 2024 by CBB;
- The CBB directed banks to offer customers additional four months' installments deferment options (up to 31 December 2020) with interest charge in a circular dated 21 September 2020.
- The CBB issued a circular on 29 December 2020, directing banks to offer customers additional six months' installments deferment options (up to 30 June 2021) with interest charge. Further, the central bank extended the regulatory concessionary measures up to 31 December 2021, i.e. reduced levels of LCR (100% to 80%), NSFR (100% to 80%), SMEs risk weight (from 75% to 25%), cash reserve ratio (5% to 3%), merchant fees, cooling off period for transferring exposures from stage 3 to stage 2, relaxation concerning the days past due for ECL staging criteria from stage 1 to stage 2 of 74 days, and relaxation requirement on LTV ratio for residential mortgages.

The table below summarizes the overall financial impact of the above for 2020:

**Overall Impact on 31 December 2020 Consolidated Financial Statements**

	Net Impact (In US\$ millions)		
	Consolidated Statement of Income	Consolidated Balance Sheet (Assets)	Group's Equity attributable to Owners
<b>Modification Loss</b>	-	(104.9)	(104.9)
<b>Bahrain Government Grants</b>	-	-	6.5
<b>Reduction in Cash Reserve with CBB</b>	-	65.9	-
<b>CBB Concessionary Repo Facility</b>	Not availed	Not availed	Not availed



### Other COVID-19 Impacts:

Pursuant to the COVID-19 pandemic outbreak, whilst funding conditions remained under pressure both regionally and globally, AUB effectively managed its liquidity requirements and maintained healthy liquidity contingency buffers through tapping diversified and multiple sources of funds including utilization of repo lines, albeit at a higher cost. Furthermore, with the downward trend in benchmark interest rates in AUB's key operating markets in response to the rate cuts by the US Federal Reserve in H2/2019 followed by the COVID -19 induced further steep rate cuts in Q1/2020 together with a weak business environment resulted in a lower Net Interest Income by US\$ 152.1 million (-16.0%), reducing the overall AUB Group NPAT for the year 2020.

Fees and Commissions decreased by US\$ 23.6 million (-18.6%) consequent to the overall subdued economic activity levels.

Incremental Stage 1 and Stage 2 ECL gross provision charges of US\$ 145.0 million were taken on performing risk assets as a precautionary measure in accordance with IFRS 9 during 2020 taking into consideration the direction of macro-economic variables and assessed management overlays to cover any inherent Significant Increase in Credit Risk (SICR) in specific sectors and in the overall portfolio given the uncertain and evolving impact of the COVID-19 pandemic.

As a result, AUB Group reported a net profit attributable to its equity shareholders of US\$ 452.2 million for 2020, representing a decrease of 38.1%, as compared to US\$ 730.5 million achieved in 2019.

Other Comprehensive Loss for 2020 was US\$ 128.5 million mainly due to:

- Foreign currency translation loss movement relating to strategic investments of (-) US\$ 82.5 million;
- Reduction in market value of hedges due to fluctuations in interest rate by (-) US\$ 16.6 million;
- Reduction in market value of Debt and Equity investments classified as Fair Value through Other Comprehensive Income FVOCI by (-) US\$ 24.3 million.

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

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



In order to ensure the health and safety of the AUB customers and staff during the COVID-19 pandemic period, major changes to infrastructure in all group-wide offices and branches were made to facilitate implementation of social distancing norms, precautionary equipment and materials as well as health support / advices were provided to customers and staff, periodic disinfection of office and branch premises continue to be undertaken in compliance with respective governmental guidelines and regulations. Additional expenditure incurred for the year 2020 for these exceptional measures was US\$ 2.1 million.

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

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

**AHLI UNITED BANK B.S.C.**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**31 DECEMBER 2021**



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

### **Report on the Audit of the Consolidated Financial Statements**

#### *Opinion*

We have audited the consolidated financial statements of Ahli United Bank B.S.C. ("the Bank") and its subsidiaries (together "the Group"), which comprise the consolidated balance sheet as at 31 December 2021, and the consolidated statements of income, comprehensive income, cash flows and changes in equity for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2021, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS") as modified by the Central Bank of Bahrain ("CBB").

#### *Basis for opinion*

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

#### *Key audit matters*

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended 31 December 2021. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

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





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

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

*Key audit matters (continued)*

<b>1. Expected Credit Loss on loans and advances</b>	
<b>Key audit matter</b>	<b>How our audit addressed the key audit matter</b>
<p>The process for estimating Expected Credit Loss ("ECL") on credit risk associated with loans and advances in accordance with IFRS 9 Financial Instruments ("IFRS 9") is significant and complex. Furthermore, the COVID-19 global pandemic impacted the management's determination of ECL as it required the application of a significant level of judgment and estimation uncertainty, which may materially change the estimates in future periods. Also, as a result of regulatory payment holidays due to COVID-19, significant judgment and estimation uncertainty is made in relation to the determination of the significant increase in the credit risk and consequent staging of customers.</p> <p>IFRS 9 requires use of the ECL model for the purposes of calculating loss allowances. Due to the complexity of the requirements under IFRS 9, the significance of judgments and estimations applied in the ECL calculations, in addition, the impact of the COVID-19 global pandemic and the Group's exposure to loans and advances which form a major portion of the Group's assets, the audit of ECL for loans and advances is a key area of focus.</p> <p>As at 31 December 2021, the Group's gross loans and advances amounted to US\$ 23,041 million and the related ECL amounted to US\$ 966 million.</p> <p>Refer to the accounting policies, disclosures of loans and advances and credit risk management in notes 2, 7 and 32 to the consolidated financial statements.</p>	<p>Our approach included testing the controls associated with the relevant processes for estimating the ECL and performing substantive procedures on such estimates. We involved our internal specialists where their specific expertise was required.</p> <p>Our key audit procedures focused on the following:</p> <ul style="list-style-type: none"> <li>• We obtained an understanding of the design and tested the operating effectiveness of relevant controls over the ECL model, including model build and approval, ongoing monitoring / validation, model governance and mathematical accuracy. We have also checked completeness of the data used in the ECL calculation.</li> <li>• We assessed:             <ul style="list-style-type: none"> <li>◦ the Group's ECL policy including determination of the significant increase in credit risk and consequent staging criteria with the requirements of IFRS 9 and considering the regulatory guidelines issued to address the COVID-19 global pandemic;</li> <li>◦ the significant modelling and macroeconomic assumptions, including evaluation of forward-looking information and scenarios against the requirements of the Group's ECL policy; and</li> <li>◦ the basis of determination of the management overlays considering the impact of the COVID-19 global pandemic against the requirements of the Group's ECL policy.</li> </ul> </li> </ul>



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

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

*Key audit matters (continued)*

<b>1. Expected Credit Loss on loans and advances (continued)</b>	
<b>Key audit matter</b>	<b>How our audit addressed the key audit matter</b>
	<ul style="list-style-type: none"> <li>• We reviewed a sample of credit files and performed procedures to assess:                             <ul style="list-style-type: none"> <li>○ timely identification of exposures with a significant increase in credit risk and appropriateness of the staging;</li> <li>○ the process of collateral valuation; and</li> <li>○ ECL recalculation.</li> </ul> </li> <li>• We considered the adequacy of the disclosures in the consolidated financial statements in relation to ECL for loans and advances as per the applicable financial reporting standards.</li> </ul>
<b>2. Impairment of goodwill</b>	
<b>Key audit matter</b>	<b>How our audit addressed the key audit matter</b>
<p>Goodwill is allocated to cash generating units ("CGUs") for the purpose of impairment testing. Goodwill impairment testing of CGUs relies on estimates of value-in-use based on estimated future cash flows. Due to the subjectivity involved in computing recoverable amounts and the significance of the Group's recognised goodwill of US\$ 431 million as at 31 December 2021, this audit area is considered a key audit risk.</p> <p>Refer to the critical accounting estimates and judgments and disclosures of goodwill in note 2, and allocation of goodwill to CGUs in note 13 to the consolidated financial statements.</p>	<p>We obtained an understanding of management's processes for determining the recoverable amount for annual goodwill impairment testing. With the assistance of our internal valuation specialists, we formed an independent range of key assumptions used in a sample of impairment assessment, with reference to the relevant industry and market valuation considerations and derived a range of values using our assumptions and other qualitative risk factors. We compared these ranges with the management's assumptions and discussed our results with management.</p> <p>We considered the adequacy of the disclosures in the consolidated financial statements in relation to goodwill impairment.</p>



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

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

*Other information included in the Group's 2021 Annual Report*

Other information consists of the information included in the Group's 2021 Annual Report, other than the consolidated financial statements and our auditor's report thereon. The Board of Directors is responsible for the other information. Prior to the date of this auditor's report, we obtained the Board of Directors' report which forms part of the annual report, and the remaining sections of the annual report are expected to be made available to us after that date.

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

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

*Responsibilities of the Board of Directors for the consolidated financial statements*

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

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

*Auditor's responsibilities for the audit of the consolidated financial statements*

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

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

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



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

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

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



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

**Report on Other Legal and Regulatory Requirements**

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

- a) the Bank has maintained proper accounting records and the consolidated financial statements are in agreement therewith;
- b) the financial information contained in the Report of the Board of Directors is consistent with the consolidated financial statements;
- c) we are not aware of any violations of the Bahrain Commercial Companies Law, the Central Bank of Bahrain and Financial Institutions Law, the CBB Rule Book (Volume 1 and applicable provisions of Volume 6) and CBB directives, regulations and associated resolutions, rules and procedures of the Bahrain Bourse or the terms of the Bank's memorandum and articles of association during the year ended 31 December 2021 that might have had a material adverse effect on the business of the Bank or on its consolidated financial position; and
- d) satisfactory explanations and information have been provided to us by Management in response to all our requests.

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

Partner's registration no. 115  
22 February 2022  
Manama, Kingdom of Bahrain

**Ahli United Bank B.S.C.**  
**CONSOLIDATED STATEMENT OF INCOME**  
 For the year ended 31 December 2021

	Note	<u>2021</u>	<u>2020</u>
		<u>US\$ '000</u>	<u>US\$ '000</u>
Interest income	3a	<b>1,348,252</b>	1,452,812
Interest expense	3b	<b>476,463</b>	653,457
Net interest income		<b>871,789</b>	799,355
Fees and commissions - net	4	<b>104,386</b>	103,669
Trading income	5	<b>34,750</b>	74,249
Investment and other income		<b>62,620</b>	84,643
Share of results from associates	9	<b>35,383</b>	50,020
Fees and other income		<b>237,139</b>	312,581
<b>OPERATING INCOME</b>		<b>1,108,928</b>	1,111,936
Provision for credit losses and others	7g	<b>122,350</b>	254,918
<b>NET OPERATING INCOME</b>		<b>986,578</b>	857,018
Staff costs		<b>175,357</b>	175,574
Depreciation		<b>34,624</b>	32,724
Other operating expenses		<b>117,025</b>	117,553
<b>OPERATING EXPENSES</b>		<b>327,006</b>	325,851
<b>PROFIT BEFORE TAX AND ZAKAT</b>		<b>659,572</b>	531,167
Tax expense and zakat	22	<b>21,641</b>	44,695
<b>NET PROFIT FOR THE YEAR</b>		<b>637,931</b>	486,472
Net profit attributable to non-controlling interests		<b>30,687</b>	34,228
<b>NET PROFIT ATTRIBUTABLE TO THE OWNERS OF THE BANK</b>		<b>607,244</b>	452,244
<b>EARNINGS PER SHARE ATTRIBUTABLE TO THE OWNERS OF THE BANK FOR THE YEAR:</b>			
Basic and diluted earnings per ordinary share (US cents)	23	<b>5.6</b>	<b>4.1</b>



**Meshal AbdulAziz Alothman**  
Chairman



**Mohammad J. Al-Marzooq**  
Deputy Chairman



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

The attached notes 1 to 44 form part of these consolidated financial statements

**Ahli United Bank B.S.C.**

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

For the year ended 31 December 2021

	<u>2021</u>	<u>2020</u>
	<u>US\$ '000</u>	<u>US\$ '000</u>
<b>Net profit for the year</b>	<b>637,931</b>	486,472
<b>Other Comprehensive Income (OCI)</b>		
<b>Items that will not be reclassified subsequently to consolidated statement of income</b>		
Net change in fair value of equity investments measured at fair value through OCI	<b>8,081</b>	(78)
Net change in pension fund reserve	<b>28,080</b>	(6,292)
Net change in property revaluation reserve	<b>353</b>	1,221
<b>Items that may be reclassified subsequently to consolidated statement of income</b>		
Foreign currency translation adjustments	<b>(1,826)</b>	(82,532)
Net change in fair value of debt instruments measured at fair value through OCI	<b>(5,621)</b>	(14,715)
Transfer to consolidated statement of income arising on sale of debt instruments held as fair value through OCI	<b>(6,474)</b>	(9,464)
Net change in fair value of cash flow hedges	<b>12,352</b>	(16,602)
<b>Other comprehensive income / (loss) for the year</b>	<b>34,945</b>	(128,462)
<b>Total comprehensive income for the year</b>	<b>672,876</b>	358,010
Total comprehensive income attributable to non-controlling interests	<b>31,621</b>	23,093
<b>Total comprehensive income attributable to the owners of the Bank</b>	<b>641,255</b>	334,917

The attached notes 1 to 44 form part of these consolidated financial statements

**Ahli United Bank B.S.C.**  
**CONSOLIDATED BALANCE SHEET**  
 At 31 December 2021

	<i>Note</i>	<u>2021</u> <i>US\$ '000</i>	<u>2020</u> <i>US\$ '000</i>
<b>ASSETS</b>			
Cash and balances with central banks	6a	<b>1,819,841</b>	1,747,560
Treasury bills and deposits with central banks	6b	<b>1,731,698</b>	2,333,852
Deposits with banks		<b>4,116,647</b>	3,532,689
Loans and advances	7	<b>22,075,148</b>	20,719,878
Non-trading investments	8	<b>9,923,294</b>	9,608,309
Investment in associates	9	<b>343,076</b>	303,127
Investment properties	10	<b>188,648</b>	185,715
Interest receivable, derivative and other assets	11	<b>916,200</b>	857,232
Premises and equipment	12	<b>311,929</b>	296,847
Goodwill and other intangible assets	13	<b>486,889</b>	485,958
<b>TOTAL ASSETS</b>		<b><u>41,913,370</u></b>	<u>40,071,167</u>
<b>LIABILITIES AND EQUITY</b>			
<b>LIABILITIES</b>			
Deposits from banks	14	<b>4,638,973</b>	4,218,417
Borrowings under repurchase agreements	15	<b>3,775,499</b>	3,618,069
Customers' deposits	16	<b>25,203,941</b>	25,182,585
Term borrowings	17	<b>1,088,822</b>	175,000
Interest payable, derivative and other liabilities	18	<b>1,278,187</b>	1,830,706
Subordinated liabilities	19	<b>9,983</b>	10,032
<b>TOTAL LIABILITIES</b>		<b><u>35,995,405</u></b>	<u>35,034,809</u>
<b>EQUITY</b>			
Ordinary share capital	20b	<b>2,533,621</b>	2,412,972
Reserves		<b>1,936,083</b>	1,588,668
Equity attributable to the owners of the Bank		<b>4,469,704</b>	4,001,640
Perpetual Tier 1 Capital Securities	20d	<b>1,000,000</b>	600,000
Non-controlling interests		<b>448,261</b>	434,718
<b>TOTAL EQUITY</b>		<b><u>5,917,965</u></b>	<u>5,036,358</u>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b><u>41,913,370</u></b>	<u>40,071,167</u>



**Meshal AbdulAziz Alothman**  
Chairman



**Mohammad J. Al-Marzooq**  
Deputy Chairman



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

The attached notes 1 to 44 form part of these consolidated financial statements



**Ahli United Bank B.S.C.**
**CONSOLIDATED STATEMENT OF CASH FLOWS**

For the year ended 31 December 2021

	<i>Note</i>	<u>2021</u>	<u>2020</u>
		<i>US\$ '000</i>	<i>US\$ '000</i>
<b>OPERATING ACTIVITIES</b>			
Profit before tax and zakat		<b>659,572</b>	531,167
Adjustments for:			
Depreciation		<b>34,624</b>	32,724
Investment and other income		<b>(43,740)</b>	(72,504)
Provision for credit losses and others	7g	<b>122,350</b>	254,918
Share of results from associates	9	<b>(35,383)</b>	(50,020)
Operating profit before changes in operating assets and liabilities		<b>737,423</b>	696,285
Changes in:			
Mandatory reserve deposits with central banks		<b>(147,367)</b>	27,673
Treasury bills and deposits with central banks		<b>596,982</b>	(530,924)
Deposits with banks		<b>(931,067)</b>	986,593
Loans and advances		<b>(1,493,647)</b>	(307,187)
Interest receivable, derivative and other assets		<b>(27,769)</b>	(50,575)
Deposits from banks		<b>420,556</b>	(805,498)
Borrowings under repurchase agreements		<b>157,430</b>	726,537
Customers' deposits		<b>21,356</b>	(335,538)
Interest payable, derivative and other liabilities		<b>(8,852)</b>	(119,738)
Net cash flows (used in) / generated from operations		<b>(674,955)</b>	287,628
Income tax and zakat paid		<b>(37,757)</b>	(45,070)
Net cash flows (used in) / from operating activities		<b>(712,712)</b>	242,558
<b>INVESTING ACTIVITIES</b>			
Purchase of non-trading investments		<b>(3,080,132)</b>	(2,469,664)
Proceeds from sale or redemption of non-trading investments		<b>2,342,681</b>	2,471,414
Additional investment in subsidiary	2.3	<b>(8,609)</b>	(58,158)
Right subscription in an associate		<b>(27,545)</b>	-
Net decrease in investment properties		<b>151</b>	44,720
Net increase in premises and equipment		<b>(50,820)</b>	(34,384)
Dividends received from associates		<b>8,862</b>	15,364
Net cash flows used in investing activities		<b>(815,412)</b>	(30,708)
<b>FINANCING ACTIVITIES</b>			
Additional Perpetual Tier 1 Capital Securities issued	20d	<b>600,000</b>	-
Redemption of Perpetual Tier 1 Capital Securities	20d	<b>(200,000)</b>	-
Expenses related to Perpetual Tier 1 Sukuk issued and others		<b>(1,191)</b>	-
Distribution on Perpetual Tier 1 Capital Securities	21j	<b>(45,215)</b>	(36,428)
Additional term borrowings	17	<b>926,700</b>	175,000
Repayment of subordinated liabilities		<b>-</b>	(17,996)
Dividends and other appropriations paid		<b>(119,005)</b>	(432,658)
Dividends paid to non-controlling interests		<b>(842)</b>	(26,845)
Net cash flows from / (used in) financing activities		<b>1,160,447</b>	(338,927)
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>		<b>(367,677)</b>	(127,077)
Net foreign exchange difference		<b>204</b>	(28,047)
Cash and cash equivalents at 1 January		<b>2,976,999</b>	3,132,123
<b>CASH AND CASH EQUIVALENTS AT 31 DECEMBER</b>	24	<b>2,609,526</b>	2,976,999
<b>Additional cash flow information:</b>			
Interest received		<b>1,311,850</b>	1,483,350
Interest paid		<b>466,502</b>	771,577

The attached notes 1 to 44 form part of these consolidated financial statements

**Ahli United Bank B.S.C.**  
**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

For the year ended 31 December 2021

	Attributable to the owners of the Bank									
	Ordinary share capital	Share premium	Statutory reserve	Retained earnings	Proposed appropriations	Other reserves	Equity attributable to the owners	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
Balance at 1 January 2021	2,412,972	753,063	704,755	530,302	122,649	(522,101)	4,001,640	600,000	434,718	5,036,358
Distribution on Perpetual Tier 1 Capital Securities [note 21(f)]	-	-	-	(23,356)	-	-	(23,356)	-	-	(23,356)
Distribution related to Perpetual Tier 1 Sukuk [note 21(j)]	-	-	-	(16,363)	-	-	(16,363)	-	(5,496)	(21,859)
Ordinary share dividend paid [note 21(i)]	-	-	-	-	(120,649)	-	(120,649)	-	-	(120,649)
Dividends of subsidiaries	-	-	-	-	-	-	-	-	(842)	(842)
Donations	-	-	-	(2,000)	-	-	(2,000)	-	-	(2,000)
Bonus shares issued	120,649	-	-	(120,649)	-	-	-	-	-	-
Arising on additional acquisition in a subsidiary (note 2.3)	-	(525)	-	-	-	-	(525)	-	(11,333)	(11,858)
Perpetual Tier 1 Sukuk issued [note 20(d)]	-	-	-	-	-	-	-	600,000	-	600,000
Perpetual Tier 1 Sukuk redemption [note 20(d)]	-	-	-	-	-	-	-	(200,000)	-	(200,000)
Expenses related to issuance of Perpetual Tier 1 Sukuk and others	-	-	-	(891)	-	-	(891)	-	(300)	(1,191)
Transfer from OCI reserve on sale of equity investments	-	-	-	1,412	-	-	1,412	-	-	1,412
Movement in associates	-	-	-	(8,457)	-	-	(8,457)	-	-	(8,457)
Movement in subsidiaries	-	-	-	(2,362)	-	-	(2,362)	-	(107)	(2,469)
Total comprehensive income for the year	-	-	-	607,244	-	34,011	641,255	-	31,621	672,876
Transfer to statutory reserve [note 21(c)]	-	-	60,724	(60,724)	-	-	-	-	-	-
Proposed dividend on ordinary shares [note 21(i)]	-	-	-	(304,034)	304,034	-	-	-	-	-
Proposed donations	-	-	-	(2,000)	2,000	-	-	-	-	-
<b>Balance at 31 December 2021</b>	<b>2,533,621</b>	<b>752,538</b>	<b>765,479</b>	<b>600,122</b>	<b>306,034</b>	<b>(488,090)</b>	<b>4,469,704</b>	<b>1,000,000</b>	<b>448,261</b>	<b>5,917,965</b>

**Ahli United Bank B.S.C.**
**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

For the year ended 31 December 2021

	<i>Attributable to the owners of the Bank</i>										
	<i>Reserves</i>										
	<i>Ordinary share capital</i>	<i>Share premium</i>	<i>Statutory reserve</i>	<i>Retained earnings</i>	<i>Proposed appropriations</i>	<i>Other reserves</i>	<i>Total reserves</i>	<i>Equity attributable to the owners</i>	<i>Tier 1 Capital Securities</i>	<i>Non-controlling interests</i>	<i>Total</i>
<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	
Balance at 1 January 2020	2,193,611	766,230	659,531	611,207	439,722	(404,774)	2,071,916	4,265,527	600,000	496,002	5,361,529
Distribution on Perpetual Tier 1 Capital Securities [note 21(i)]	-	-	-	(25,428)	-	-	(25,428)	(25,428)	-	-	(25,428)
Distribution related to Perpetual Tier 1 Sukuk [note 21(j)]	-	-	-	(8,240)	-	-	(8,240)	(8,240)	-	(2,760)	(11,000)
Ordinary share dividend paid [note 21(i)]	-	-	-	-	(438,722)	-	(438,722)	(438,722)	-	-	(438,722)
Dividends of subsidiary	-	-	-	-	-	-	-	-	-	(26,845)	(26,845)
Donations	-	-	-	-	(1,000)	-	(1,000)	(1,000)	-	-	(1,000)
Bonus shares issued	219,361	-	-	(219,361)	-	-	(219,361)	-	-	-	-
Net loss on loan contract modification (note 2.2)	-	-	-	(98,449)	-	-	(98,449)	(98,449)	-	(9,506)	(107,955)
Arising on additional acquisition in a subsidiary	-	(13,187)	-	-	-	-	(13,187)	(13,187)	-	(44,971)	(58,158)
Transfer from OCI reserve on sale of equity investments	-	-	-	(1,527)	-	-	(1,527)	(1,527)	-	(9)	(1,536)
Movement in associates	-	-	-	(9,364)	-	-	(9,364)	(9,364)	-	-	(9,364)
Movement in subsidiaries	-	20	-	(2,907)	-	-	(2,887)	(2,887)	-	(286)	(3,173)
Total comprehensive income for the year	-	-	-	452,244	-	(117,327)	334,917	334,917	-	23,093	358,010
Transfer to statutory reserve [note 21(c)]	-	-	45,224	(45,224)	-	-	-	-	-	-	-
Proposed dividend on ordinary shares [note 21(i)]	-	-	-	(120,649)	120,649	-	-	-	-	-	-
Proposed donations	-	-	-	(2,000)	2,000	-	-	-	-	-	-
Balance at 31 December 2020	2,412,972	753,063	704,755	530,302	122,649	(522,101)	1,588,668	4,001,640	600,000	434,718	5,036,358

## Ahli United Bank B.S.C.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2021

#### 1 CORPORATE INFORMATION

The parent company, Ahli United Bank B.S.C. ("AUB" or "the Bank") was incorporated in the Kingdom of Bahrain on 31 May 2000 originally as a closed company and changed on 12 July 2000 to a public shareholding company by Amiri Decree number 16/2000. The Bank and its subsidiaries as detailed in note 2.3 (collectively known as "the Group") are engaged in retail, commercial, Islamic and investment banking business, global fund management and private banking services through branches in the Kingdom of Bahrain, the State of Kuwait, the Arab Republic of Egypt, Republic of Iraq, the United Kingdom and an overseas branch in Dubai International Financial Centre (DIFC). It also operates through its associates in Libya and in the Sultanate of Oman. The Bank operates under a retail banking license issued by the Central Bank of Bahrain (the "CBB"). The Bank also engages in life insurance business through its subsidiary, Al Hilal Life B.S.C. (c). The Bank's registered office is located at Building 2495, Road 2832, Al Seef District 428, Kingdom of Bahrain.

The consolidated financial statements for the year ended 31 December 2021 were authorised for issue in accordance with a resolution of the Board of Directors dated 22 February 2022.

#### 2 ACCOUNTING POLICIES

##### 2.1 Basis of preparation

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

##### 2.2 Framework and statement of compliance

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

- (a) recognition of modification losses on financial assets arising from payment holidays provided to customers impacted by COVID-19 without charging additional interest, directly in equity instead of profit or loss as required by IFRS 9 Financial Instruments (IFRS 9). Any other modification gain or loss on financial assets are recognised in accordance with the requirements of IFRS 9; and
- (b) recognition of financial assistance received from the government and / or regulators in response to its COVID-19 support measures that meets the government grant requirement, directly in equity, instead of profit or loss. This is only to the extent of any modification loss recorded in equity as a result of (a) above, and the balance amount recognised in profit or loss. Any other financial assistance, if any, is recognised in accordance with the requirements of IAS 20 Accounting for Government Grants and Disclosure of Government Assistance.

For the purpose of these consolidated financial statements, the financial information of banking subsidiaries has been adjusted to align with the above framework.

During the year ended 2020, based on a regulatory directive issued by the CBB and the Central Bank of Kuwait (the "CBK") as concessionary measures to mitigate the impact of COVID-19, the one-off modification losses amounting to US\$ 114.4 million arising from the 6-month payment holidays provided to financing customers without charging additional interest has been recognised directly in equity. The modification loss had been calculated as the difference between the net present value of the modified cash flows relating to financing exposures calculated using the original effective interest rate and the carrying value of the financial assets as of the date of modification.

**Ahli United Bank B.S.C.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

31 December 2021

**2 ACCOUNTING POLICIES (continued)**

**2.2 Framework and statement of compliance (continued)**

Further, as per the regulatory directive, financial assistance amounting to US\$ 6.5 million (representing specified reimbursement of a portion of staff costs, waiver of levies and utility charges) received from the governments during 2020, in response to its COVID-19 support measures, had been recognised directly in equity under retained earnings. The net impact of above two adjustments amounting to US\$ 98.4 million was debited to retained earnings and US\$ 9.5 million was adjusted in non-controlling interest. No such adjustments were made during the year ended 31 December 2021.

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

The consolidated financial statements of the Group have been prepared in accordance with IFRS as modified by CBB and in conformity with the Bahrain Commercial Companies Law, the Central Bank of Bahrain and Financial Institutions Law.

**2.3 Basis of consolidation**

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries as at and for the years ended 31 December 2021 and 2020. The results of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Control is achieved where the Group is exposed, or has rights, to variable returns from its involvement from its investee and has the ability to affect those returns through its power over the investee. The Group re-assesses whether or not it controls an investee if facts and circumstances indicates that there are any change to elements of control. The financial statements of the subsidiaries are prepared for the same reporting year as the Bank, using consistent accounting policies. Adjustments are made to the consolidated financial statements to bring into line any dissimilar accounting policies that may exist. Changes in parent's ownership interest in a subsidiary that do not result in loss of control are treated as transactions between equity holders and are reported in equity.

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

The following are the Bank's principal subsidiaries:

<i>Name</i>	<i>Incorporated in</i>	<i>Group's nominal holding</i>	
		<i>2021</i>	<i>2020</i>
Ahli United Bank (U.K.) PLC ("AUBUK")	United Kingdom	<b>100.0%</b>	100.0%
Ahli United Bank K.S.C.P. ("AUBK")*	State of Kuwait	<b>67.3%</b>	67.3%
Ahli United Bank (Egypt) S.A.E. ("AUBE")	Arab Republic of Egypt	<b>95.7%</b>	95.7%
Commercial Bank of Iraq P.S.C. ("CBIQ")**	Republic of Iraq	<b>80.3%</b>	75.0%
Al Ahli Real Estate Company W.L.L. ("AREC")	Kingdom of Bahrain	<b>100.0%</b>	100.0%
Al Hilal Life B.S.C. (c) ("AHL")	Kingdom of Bahrain	<b>100.0%</b>	100.0%

\* Effective holding 74.9% (2020: 74.9%).

\*\* During the year, the Group increased its holding in CBIQ by 5.3% to 80.3% for a cash consideration of US\$ 8.6 million.

## Ahli United Bank B.S.C.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2021

#### 2 ACCOUNTING POLICIES (continued)

##### 2.4 New standards and amendments effective for the year

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

- Amendments to IFRS 7, IFRS 9 and IAS 39: Interest Rate Benchmark Reform

Interbank Offered Rates (“IBORs”), such as the London Interbank Offered Rate (“LIBOR”), play a critical role in global financial markets, serving as reference rates for derivatives, loans and securities, and as parameters in the valuation of financial instruments. Uncertainty surrounding the integrity of IBOR rates has in recent years, led regulators, central banks and market participants to work towards a transition to alternative risk-free benchmark reference rates (“RFRs”) and market-led working groups in respective jurisdictions have recommended alternative risk-free reference rates, which are gradually being adopted.

Interest Rate Benchmark Reform - Phase 2 amendments have become effective from 1 January 2021 which address issues that might affect financial reporting as a result of the reform of an interest rate benchmark, including the effects of changes to contractual cash flows or hedging relationships arising from the replacement of an interest rate benchmark with an alternative benchmark rate. The amendments provide practical relief from certain requirements in IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 relating to changes in the basis for determining contractual cash flows of financial assets, financial liabilities and lease liabilities and hedge accounting. The Group has adopted the requirements of ‘Interest Rate Benchmark Reform – Phase 2 Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 (IBOR reform Phase 2) which is effective for annual periods beginning on or after 1 January 2021 with earlier adoption permitted.

The amendments require an entity to account for a change in the basis for determining the contractual cash flows of a financial asset or financial liability that is required by interest rate benchmark reform by updating the effective interest rate of the financial asset or financial liability. In addition, it provides certain exceptions to hedge accounting requirements.

The majority of LIBOR and other IBORs are to be discontinued after 31 December 2021 and replaced with certain Alternative Benchmark Rates, with the exception of certain USD LIBOR rates where cessation is delayed until 30 June 2023. Refer note 34 (ii) for further details.

- Amendments to IFRS 16 Covid-19 Related Rent Concessions beyond 30 June 2020

On 28 May 2020, the IASB issued Covid-19-Related Rent Concessions - amendment to IFRS 16 Leases (IFRS 16). The amendments provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the Covid-19 pandemic. As a practical expedient, a lessee may elect not to assess whether a Covid-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the Covid-19 related rent concession the same way it would account for the change under IFRS 16, if the change were not a lease modification. The amendment was intended to apply until 30 June 2021, but as the impact of the Covid-19 pandemic is continuing, on 31 March 2021, the IASB extended the period of application of the practical expedient to 30 June 2022. The amendment applies to annual reporting periods beginning on or after 1 April 2021. Earlier application is permitted. This amendment had no material impact on the consolidated financial statements of the Group.

**Ahli United Bank B.S.C.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

31 December 2021

**2 ACCOUNTING POLICIES (continued)**

**2.5 New standards, amendments and interpretations issued but not yet effective**

The standards and interpretations that are issued but not yet effective, up to the date of issuance of the Group's consolidated financial statements are disclosed below.

- IFRS 17 Insurance Contracts

In May 2017, the IASB issued IFRS 17 Insurance Contracts (IFRS 17), a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 Insurance Contracts (IFRS 4) that was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. IFRS 17 is effective for reporting periods beginning on or after 1 January 2023, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17. The Group expects that the new standard will result in changes to the accounting policies for insurance contract liabilities of the Group and is likely to have a impact on the consolidated financial performance and total equity together with presentation and disclosure. Such assessment is still being made by management.

- Definition of Accounting Estimates – Amendments to IAS 8

In February 2021, the IASB issued amendments to IAS 8, in which it introduces a definition of 'accounting estimates'. The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. Also, they clarify how entities use measurement techniques and inputs to develop accounting estimates. The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. Earlier application is permitted as long as this fact is disclosed. The amendments are not expected to have a material impact on the Group.

The Group is currently evaluating the impact of these new standards and amendments. The Group intends to adopt these on the effective date.

**2.6 Significant accounting judgements and estimates**

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

The most significant uses of judgement and estimates applied in the preparation of these 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 interest revenues or generating capital gains.

**Ahli United Bank B.S.C.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

31 December 2021

**2 ACCOUNTING POLICIES (continued)**

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

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

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

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

- Internal credit rating model, which assigns Probability of Defaults (PDs) to the individual ratings;
- The Group calculates Point-in-Time PD (PiT PD) estimates under three scenarios, a base case, good case and bad case. An appropriate probability weighted ECL is then calculated by assigning probabilities, based on current and expected market conditions, to each scenario;
- Determining and applying criteria for significant increase in credit risk;
- Determination of associations between macroeconomic variables such as, gross domestic product, oil prices and unemployment levels on the one hand and default / loss rates on the other and the consequent impact on PDs, Exposure at Defaults (EADs) and Loss Given Defaults (LGDs);
- 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. The cost of the defined benefit pension plan and the present value of pension obligations are determined using actuarial valuations. An actuarial valuation involves making various assumptions that may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, mortality rates and future pension increases.

**iv) Going concern**

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

**v) Fair value of financial instruments**

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

**vi) Impairment of goodwill and intangible assets**

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

The 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.



## Ahli United Bank B.S.C.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2021

#### 2 ACCOUNTING POLICIES (continued)

##### 2.6 Significant accounting judgements and estimates (continued)

###### *vi) Impairment of goodwill and intangible assets (continued)*

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) COVID-19 Impact*

As a regulatory response to the impact arising from the coronavirus pandemic situation, the CBB has issued various relaxation measures from time-to-time to contain the financial repercussions of COVID-19. These mainly include, several deferral programs for eligible customers both with and without interest, reduced limits of Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) for all locally incorporated banks, cash reserve ratio for retail banks, cap on merchant fees, adjustments to cooling off period for transferring exposures from Stage 3 to Stage 2, relaxation concerning days past due for ECL staging criteria, and relaxation on Loan-to-Value (LTV) ratio for residential mortgages.

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

The level of estimation uncertainty has increased since Q1/2020 as a result of the economic disruption and consequential impact of the COVID-19 pandemic as explained in note 43.

The Group has performed an assessment of the relevant macro-economic information based on the available guidance of regulators and IFRS, which has resulted in changes to the expected credit loss methodology and valuation estimates and judgements as at and for the year ended 31 December 2021 and 2020.

Accordingly, the Group has updated inputs and assumptions used for the determination of ECL in response to uncertainties caused by COVID-19. Under IFRS 9, financial assets are required to be moved from Stage 1 to Stage 2 if and only if they have been the subject of a Significant Increase in Credit Risk (SICR) since origination. A SICR occurs when there has been a significant increase to the risk of a default. The Group continues to assess borrowers for other indicators of unlikelihood to pay, taking into consideration the underlying cause of any financial difficulty and whether it is likely to be temporary as a result of COVID-19 or non-temporary.

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

**Ahli United Bank B.S.C.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

31 December 2021

**2 ACCOUNTING POLICIES (continued)**

**2.7 Summary of significant accounting policies**

The principal accounting policies which are consistently applied in the preparation of these consolidated financial statements, except for those detailed in note 2.4, are set out below.

**(a) Investments in associates**

Associate companies are companies in which the Group exercises significant influence but does not control. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies. Investments in associate companies are accounted for using the equity method. After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investment in its associate. At each reporting date, the Group determines whether there is 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.

**(b) Foreign currency translation**

**(i) Transactions and balances**

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

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

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

**(ii) Group companies**

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

**(c) Financial instruments**

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

**Ahli United Bank B.S.C.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

31 December 2021

**2 ACCOUNTING POLICIES (continued)**

**2.7 Summary of significant accounting policies (continued)**

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

**(i) Date of recognition**

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

**(ii) Treasury bills and deposits with central banks**

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

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

Deposits with banks (including nostro accounts) and other financial institutions and loans and advances are financial assets with fixed or determinable payments and fixed maturities. Loans with renegotiated terms are loans, the repayment plan of which have been revised as part of ongoing customer relationship to align with change in cash flows of the borrower, in some instances with improved security and with no other concessions. These assets are risk rated in accordance with the Group's policy on internal credit rating as explained in note 32 (c). After initial recognition, these are subsequently measured at amortised cost using the effective interest rate method, adjusted for effective fair value hedges, less any amounts written off and provision for credit losses. The losses arising from impairment of these assets are recognised in the consolidated statement of income in "provision for credit losses and 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 interest rate. The amortisation is included in "interest income" in the consolidated statement of income.

**(iv) Debt instruments**

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

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

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

Debt instruments are measured at FVTOCI when both the following conditions are met:

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

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

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

**Ahli United Bank B.S.C.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

31 December 2021

**2 ACCOUNTING POLICIES (continued)**

**2.7 Summary of significant accounting policies (continued)**

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

(iv) Debt instruments (continued)

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

(v) Equity investments

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

(vi) Other financial instruments

A financial asset is classified as FVTPL, if:

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

(vii) Derivatives (other than hedging instruments)

Changes in fair values of the derivatives held for trading are included in the consolidated statement of income under "trading income".

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

(viii) Deposits, term borrowings and subordinated liabilities

These financial liabilities are carried at amortised cost, less amounts repaid. Sukuk issued is initially recognised at their fair value being the issue proceeds.

**(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.

***Derecognition of financial instruments in the context of IBOR reform***

The Group derecognises financial assets and financial liabilities if there has been a substantial modification of their terms and conditions. In the context of IBOR reform, many financial instruments have already been amended or will be amended during 2022 as they transition from IBORs to RFRs. In addition to the interest rate of a financial instrument changing, there may be other changes made to the terms of the financial instrument at the time of transition.

**Ahli United Bank B.S.C.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

31 December 2021

**2 ACCOUNTING POLICIES (continued)**

**2.7 Summary of significant accounting policies (continued)**

**(d) Derecognition of financial assets and financial liabilities (continued)**

*Derecognition of financial instruments in the context of IBOR reform (continued)*

For financial instruments measured at amortised cost, the Group first applies the practical expedient as described in note 2.7 (j), to reflect the change in the referenced interest rate from an IBOR to a RFR. Second, for any changes not covered by the practical expedient, the Group applies judgement to assess whether the changes are substantial and if they are, the financial instrument is derecognised and a new financial instrument is recognised. If the changes are not substantial, the Group adjusts the gross carrying amount of the financial instrument by the present value of the changes not covered by the practical expedient, discounted using the revised EIR.

**(e) Repurchase agreements**

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

**(f) Determination of fair value**

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

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

The fair value of liabilities with a demand feature is the amount payable on demand.

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

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

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

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

For assets and liabilities that are recognised in the consolidated financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period as disclosed in note 38.

**(g) Impairment of financial assets**

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

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

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

**Ahli United Bank B.S.C.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

31 December 2021

**2 ACCOUNTING POLICIES (continued)**

**2.7 Summary of significant 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 interest. The EAD for unfunded exposures including undrawn commitments are determined by historical behavioural analysis and regulatory Credit Conversion Factors (CCF). The LGD quantifies the potential loss from an exposure in the event of default. The key determinants of LGD are, among others, past recovery / loss data for each segment, external loss data, expected recovery period, discount rate, regulatory guidance etc. Management overlays are applied to the model outputs if consistent with the objective of SICR.

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

Stage 1 – Measures and 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 AUB's policy under the low credit risk presumption, except in cases where there are past dues in excess of 30 days (rebuttable) or 60 days (non-rebuttable).

Stage 2 – If credit risk has increased significantly since initial recognition (whether assessed on an individual or collective basis), then measure and recognise credit loss allowance at an amount equal to the lifetime ECL. The key drivers to consider an asset as Stage 2 are as follows:

- Movements in risk rating since origination. Where the rating movement has deteriorated significantly, the amortised cost of financial asset is automatically migrated to Stage 2.
- Number of days past due (30 days - rebuttable) subject to approval of IFRS 9 Working Committee (WC) decision; 60 days (non-rebuttable).
- Restructured credits: As per CBB, all restructured facilities are required to remain in Stage 2 for a minimum period of twelve months from the date of restructuring.
- Delays in credit reviews or resolving credit exceptions subject to WC decision.
- Sector or country specific weakness subject to WC decision.
- Any other specific indicators including forward looking information which are available without undue cost or effort with respect to the obligor or the exposure such as, but not limited to, arrears with other lenders, law suits filed against the obligor by other lenders / creditors, negative movements in market indicators of financial performance etc., and the WC determines that these represent a significant deterioration in credit quality.

Stage 3 – Financial instruments 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 of twelve months has elapsed from the date on which the account qualifies for reclassification.

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**Ahli United Bank B.S.C.**
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

31 December 2021

**2 ACCOUNTING POLICIES (continued)****2.7 Summary of significant 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 interest or principal payments, indications that it is probable that the borrower will enter bankruptcy or other significant financial reorganisation, the disappearance of an active market, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group. The Group continues its policy of treating financial instruments as credit impaired under Stage 3 category when the repayment of the principal or interest is overdue for 90 days or more.

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

***Debt instruments measured at fair value through OCI***

The ECL for debt instruments 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 loss recognised in OCI is recycled to the consolidated income statement upon derecognition of the assets.

**(h) Hedge accounting**

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

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

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

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

**Ahli United Bank B.S.C.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

31 December 2021

**2 ACCOUNTING POLICIES (continued)**

**2.7 Summary of significant accounting policies (continued)**

**(h) Hedge accounting (continued)**

**(i) Fair value hedges**

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

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

Hedge ineffectiveness can arise from:

- Differences in timing of cash flows of hedged items and hedging instruments;
- Different interest rate curves applied to discount the hedged items and hedging instruments; or
- Derivatives 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 derivative is recognised immediately in the consolidated statement of income as "trading income".

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

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

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

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 a 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.



**Ahli United Bank B.S.C.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

31 December 2021

**2 ACCOUNTING POLICIES (continued)**

**2.7 Summary of significant accounting policies (continued)**

**(j) Revenue recognition**

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

**(i) Interest income and expense**

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

The Group adopted IBOR reform Phase 2 from its effective date, which allows as a practical expedient for changes to the basis for determining contractual cash flows to be treated as changes to a floating rate of interest, provided certain conditions are met. The conditions include that the change is necessary as a direct consequence of IBOR reform and that the transition takes place on an economically equivalent basis.

**(ii) 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 interest rate of financial instruments and are recognised over their lives, except when the underlying risk is sold to a third party at which time it is recognised immediately. Fees or components of fees that are linked to certain performance obligations are recognised after fulfilling those obligations.

**(iii) Dividend income**

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

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

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

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

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

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

**Ahli United Bank B.S.C.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

31 December 2021

**2 ACCOUNTING POLICIES (continued)**

**2.7 Summary of significant accounting policies (continued)**

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

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

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

**(l) Premises and equipment**

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

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

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

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

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

**(m) Investment properties**

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

**(n) Cash and cash equivalents**

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

**(o) Provisions**

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

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**Ahli United Bank B.S.C.**
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

31 December 2021

**2 ACCOUNTING POLICIES (continued)**
**2.7 Summary of significant accounting policies (continued)**
**(p) Employee benefits**
*Defined benefit pension plan*

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

*Defined contribution plans*

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

**(q) Taxes**

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

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

**(r) Fiduciary assets**

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

**(s) Non-controlling interests**

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

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

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

**(u) Dividends on ordinary shares**

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

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

**(v) Treasury shares**

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

**(w) Employees' share purchase plan**

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

**(x) Financial guarantees and loan commitments**

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

**Ahli United Bank B.S.C.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

31 December 2021

**2 ACCOUNTING POLICIES (continued)**

**2.7 Summary of significant accounting policies (continued)**

**(x) Financial guarantees and loan commitments (continued)**

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

**(y) Repossessed assets**

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

**(z) Leases**

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

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

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

*Lease liabilities (Group as lessee)*

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

**(aa) Islamic banking**

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

*Earnings prohibited by Sharia*

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

*Commingling of funds*

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

**(ab) Islamic products**

**Murabaha**

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

**Ahli United Bank B.S.C.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

31 December 2021

**2 ACCOUNTING POLICIES (continued)**

**2.7 Summary of significant accounting policies (continued)**

**(ab) Islamic products (continued)**

**Ijara**

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

**Tawarruq**

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

**Mudaraba**

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

**Wakala**

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

**Istisna'a**

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

**Revenue recognition**

Revenue is recognised on the above Islamic products as follows:

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

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

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

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

**(ac) Equity of unrestricted investment account holders' share of profit**

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

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

**Ahli United Bank B.S.C.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

31 December 2021

**3 NET INTEREST INCOME**

	<u>2021</u>	<u>2020</u>
	<i>US\$'000</i>	<i>US\$'000</i>
<b>(a) INTEREST INCOME</b>		
Treasury bills	86,867	88,539
Deposits with banks	30,584	46,584
Loans and advances	902,597	947,543
Non-trading investments	328,204	370,146
	<u>1,348,252</u>	<u>1,452,812</u>

The income on non-trading investments consists income from FVTOCI investments amounting to US\$ 114.0 million (2020: US\$ 76.0 million).

**(b) INTEREST EXPENSE**

Deposits from banks	28,516	77,392
Borrowings under repurchase agreements	23,381	50,067
Customers' deposits	410,214	525,663
Subordinated liabilities	105	207
Term borrowings	14,247	128
	<u>476,463</u>	<u>653,457</u>
<b>NET INTEREST INCOME</b>	<u>871,789</u>	<u>799,355</u>

All financial liabilities are recorded at amortised cost.

**4 FEES AND COMMISSIONS - NET**

	<u>2021</u>	<u>2020</u>
	<i>US\$'000</i>	<i>US\$'000</i>
Fees and commission income		
- Transaction banking services	115,040	99,366
- Management, performance and brokerage fees*	11,356	15,131
Fees and commission expense	(22,010)	(10,828)
	<u>104,386</u>	<u>103,669</u>

\* This includes US\$ 5.9 million (2020: US\$ 4.6 million) of fee income relating to trust and other fiduciary activities.

**5 TRADING INCOME**

	<u>2021</u>	<u>2020</u>
	<i>US\$'000</i>	<i>US\$'000</i>
Foreign exchange	27,134	65,977
Proprietary trading	7,616	8,272
	<u>34,750</u>	<u>74,249</u>

**6 (a) CASH AND BALANCES WITH CENTRAL BANKS**

	<u>2021</u>	<u>2020</u>
	<i>US\$'000</i>	<i>US\$'000</i>
Cash and balances with central banks, excluding mandatory reserve (note 24)	850,456	834,735
Mandatory reserve with central banks	969,385	912,825
	<u>1,819,841</u>	<u>1,747,560</u>

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**6 (b) TREASURY BILLS AND DEPOSITS WITH CENTRAL BANKS**

	<u>2021</u>	<u>2020</u>
	<i>US\$'000</i>	<i>US\$'000</i>
Central Bank of Bahrain	<b>559,306</b>	844,520
Central Bank of Kuwait	<b>609,158</b>	905,114
Central Bank of Egypt	<b>563,234</b>	584,218
	<b><u>1,731,698</u></b>	<b><u>2,333,852</u></b>

The deposits with central banks and treasury bills are local currency denominated and are match funded by underlying respective local currencies. Deposit with Central Bank of Kuwait includes US\$ 609.2 million (2020: US\$ 578.2 million) as mandatory reserve.

**7 LOANS AND ADVANCES**

	<u>2021</u>		<u>2020</u>	
	<i>US\$ '000</i>	<i>%</i>	<i>US\$ '000</i>	<i>%</i>
<b>a) By industry sector</b>				
Consumer / personal	<b>2,982,059</b>	<b>12.9</b>	2,907,071	13.4
Residential mortgage	<b>1,685,672</b>	<b>7.3</b>	1,732,675	8.0
Trading and manufacturing	<b>6,197,504</b>	<b>26.9</b>	5,985,032	27.6
Real estate	<b>6,647,896</b>	<b>28.9</b>	5,973,545	27.5
Banks and other financial institutions	<b>1,022,705</b>	<b>4.4</b>	897,366	4.1
Services	<b>3,862,501</b>	<b>16.8</b>	3,665,405	16.9
Government / public sector	<b>246,545</b>	<b>1.1</b>	203,291	0.9
Others	<b>396,496</b>	<b>1.7</b>	350,217	1.6
	<b><u>23,041,378</u></b>	<b><u>100.0</u></b>	<u>21,714,602</u>	<u>100.0</u>
Less: ECL allowances (Stage 1 and 2)	<b>(502,196)</b>		(514,931)	
Less: ECL allowances (Stage 3)	<b>(464,034)</b>		(479,793)	
	<b><u>22,075,148</u></b>		<u>20,719,878</u>	
	<u>2021</u>		<u>2020</u>	
	<i>US\$ '000</i>	<i>%</i>	<i>US\$ '000</i>	<i>%</i>
<b>b) By geographic region</b>				
Kingdom of Bahrain	<b>4,111,730</b>	<b>17.9</b>	4,057,085	18.7
State of Kuwait	<b>11,314,746</b>	<b>49.1</b>	10,581,088	48.7
Other GCC countries	<b>2,370,540</b>	<b>10.3</b>	2,500,139	11.5
United Kingdom	<b>1,830,517</b>	<b>7.9</b>	1,966,530	9.1
Arab Republic of Egypt	<b>2,935,217</b>	<b>12.7</b>	2,331,023	10.7
Europe (excluding United Kingdom)	<b>149,371</b>	<b>0.7</b>	61,794	0.3
Asia (excluding GCC countries)	<b>75,860</b>	<b>0.3</b>	35,268	0.2
Others	<b>253,397</b>	<b>1.1</b>	181,675	0.8
	<b><u>23,041,378</u></b>	<b><u>100.0</u></b>	<u>21,714,602</u>	<u>100.0</u>
Less: ECL allowances (Stage 1 and 2)	<b>(502,196)</b>		(514,931)	
Less: ECL allowances (Stage 3)	<b>(464,034)</b>		(479,793)	
	<b><u>22,075,148</u></b>		<u>20,719,878</u>	

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7 LOANS AND ADVANCES (continued)

c) Credit quality of loans and advances

	<i>2021</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				
Retail	3,801,927	171,290	-	3,973,217
Corporate	9,224,450	425,616	-	9,650,066
Standard grade				
Retail	66,258	184,679	-	250,937
Corporate	6,496,427	2,112,201	-	8,608,628
Credit impaired				
Retail	-	-	98,469	98,469
Corporate	-	-	460,061	460,061
	<b>19,589,062</b>	<b>2,893,786</b>	<b>558,530</b>	<b>23,041,378</b>
Less: ECL allowances	<b>(171,528)</b>	<b>(330,668)</b>	<b>(464,034)</b>	<b>(966,230)</b>
	<b>19,417,534</b>	<b>2,563,118</b>	<b>94,496</b>	<b>22,075,148</b>
	<i>2020</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				
Retail	3,577,701	162,672	-	3,740,373
Corporate	8,673,203	677,119	-	9,350,322
Standard grade				
Retail	175,180	135,478	-	310,658
Corporate	5,493,856	2,260,530	-	7,754,386
Credit impaired				
Retail	-	-	101,748	101,748
Corporate	-	-	457,115	457,115
	17,919,940	3,235,799	558,863	21,714,602
Less: ECL allowances	(138,970)	(375,961)	(479,793)	(994,724)
	17,780,970	2,859,838	79,070	20,719,878

Refer note 32 for further details on credit quality of loans and advances.



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**7 LOANS AND ADVANCES (continued)**
**d) Age analysis of past due but not credit impaired loans and advances**

	<b>2021</b>			
	<b>31 to 60</b>		<b>61 to 89 days</b>	<b>Total</b>
	<b>Up to 30 days</b>	<b>days</b>		
	<b>US\$ '000</b>	<b>US\$ '000</b>	<b>US\$ '000</b>	<b>US\$ '000</b>
Retail	74,449	22,458	22,315	119,222
Corporate	46,386	5,562	17,166	69,114
	<b>120,835</b>	<b>28,020</b>	<b>39,481</b>	<b>188,336</b>
	<b>2020</b>			
	<b>31 to 60</b>		<b>61 to 89 days</b>	<b>Total</b>
	<b>Up to 30 days</b>	<b>days</b>		
	<b>US\$ '000</b>	<b>US\$ '000</b>	<b>US\$ '000</b>	<b>US\$ '000</b>
Retail	87,626	20,283	26,823	134,732
Corporate	35,027	3,751	88,760	127,538
	<b>122,653</b>	<b>24,034</b>	<b>115,583</b>	<b>262,270</b>

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

**e) Individually credit impaired loans and advances**

	<b>2021</b>		
	<b>Retail</b>	<b>Corporate</b>	<b>Total</b>
	<b>US\$ '000</b>	<b>US\$ '000</b>	<b>US\$ '000</b>
Gross credit impaired loans and advances	98,469	460,061	558,530
ECL allowances (Stage 3)	(82,253)	(381,781)	(464,034)
	<b>16,216</b>	<b>78,280</b>	<b>94,496</b>
ECL coverage on credit impaired loans and advances	<b>83.5%</b>	<b>83.0%</b>	<b>83.1%</b>
Gross loans and advances	<b>4,322,623</b>	<b>18,718,755</b>	<b>23,041,378</b>
Credit impaired loans and advances ratio	<b>2.3%</b>	<b>2.5%</b>	<b>2.4%</b>
	<b>2020</b>		
	<b>Retail</b>	<b>Corporate</b>	<b>Total</b>
	<b>US\$ '000</b>	<b>US\$ '000</b>	<b>US\$ '000</b>
Gross credit impaired loans and advances	101,748	457,115	558,863
ECL allowances (Stage 3)	(86,486)	(393,307)	(479,793)
	15,262	63,808	79,070
ECL coverage on credit impaired loans and advances	85.0%	86.0%	85.9%
Gross loans and advances	4,152,779	17,561,823	21,714,602
Credit impaired loans and advances ratio	2.5%	2.6%	2.6%

The fair value of collateral that the Group holds relating to loans individually determined to be credit impaired at 31 December 2021 amounted to US\$ 364.6 million (31 December 2020: US\$ 313.2 million). The collateral consists of cash, securities and properties.

The carrying amount of restructured credit facilities was US\$ 478.2 million as at 31 December 2021 (31 December 2020: US\$ 385.4 million) with no significant additional impact on ECL during the years ended 31 December 2021 and 2020.

Ahli United Bank B.S.C.

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**7 LOANS AND ADVANCES (continued)**

**f) Impairment allowance for loans and advances**

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

*i) Loss allowances for loans and advances - Retail*

	2021			
	Stage 1 US\$ '000	Stage 2 US\$ '000	Stage 3 US\$ '000	Total US\$ '000
<b>At 1 January 2021</b>	47,550	10,225	86,486	144,261
Transfer from Stage 1	(3,492)	864	2,628	-
Transfer from Stage 2	258	(1,980)	1,722	-
Net remeasurement of ECL allowances	9,996	2,605	2,672	15,273
Amounts written-off *	-	-	(11,269)	(11,269)
Exchange rate and other adjustments	38	73	14	125
<b>At 31 December 2021</b>	<b>54,350</b>	<b>11,787</b>	<b>82,253</b>	<b>148,390</b>
	2020			
	Stage 1 US\$ '000	Stage 2 US\$ '000	Stage 3 US\$ '000	Total US\$ '000
At 1 January 2020	25,948	7,956	56,798	90,702
Transfer from Stage 1	(2,268)	812	1,456	-
Transfer from Stage 2	816	(3,886)	3,070	-
Net remeasurement of ECL allowances	22,723	5,467	27,318	55,508
Amounts written-off *	-	-	(2,928)	(2,928)
Exchange rate and other adjustments	331	(124)	772	979
At 31 December 2020	47,550	10,225	86,486	144,261

*ii) Loss allowances for loans and advances - Corporate*

	2021			
	Stage 1 US\$ '000	Stage 2 US\$ '000	Stage 3 US\$ '000	Total US\$ '000
<b>At 1 January 2021</b>	91,420	365,736	393,307	850,463
Transfer from Stage 1	(2,926)	1,306	1,620	-
Transfer from Stage 2	31,732	(98,364)	66,632	-
Net remeasurement of ECL allowances	(3,208)	50,394	103,345	150,531
Amounts written-off *	-	-	(183,206)	(183,206)
Exchange rate and other adjustments	160	(191)	83	52
<b>At 31 December 2021</b>	<b>117,178</b>	<b>318,881</b>	<b>381,781</b>	<b>817,840</b>

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**7 LOANS AND ADVANCES (continued)**
**f) Impairment allowance for loans and advances (continued)**
*ii) Loss allowances for loans and advances - Corporate (continued)*

	2020			
	<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 2020	74,857	304,498	299,707	679,062
Transfer from Stage 1	(2,478)	2,227	251	-
Transfer from Stage 2	339	(23,650)	23,311	-
Net remeasurement of ECL allowances	18,327	82,121	75,809	176,257
Amounts written-off *	-	-	(6,178)	(6,178)
Exchange rate and other adjustments	375	540	407	1,322
At 31 December 2020	<u>91,420</u>	<u>365,736</u>	<u>393,307</u>	<u>850,463</u>

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

The contractual amount outstanding on loans and advances that have been written off during the year, but were still subject to legal action was US\$ 176.6 million at 31 December 2021 (2020: US\$ 8.3 million).

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

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

	<u>2021</u>	<u>2020</u>
	<i>US\$ '000</i>	<i>US\$ '000</i>
Net remeasurement of ECL on loans and advances (note 7f)	<b>165,804</b>	231,765
Recoveries from loans and advances during the year (from fully provided loans written-off in previous years)	<b>(27,427)</b>	(16,505)
Net remeasurement of ECL for non-trading investments (note 8c)	<b>(1,943)</b>	15,403
Net remeasurement of ECL on off-balance sheet exposures and others	<b>8,541</b>	1,004
Net other provision (write-back) / charges	<b>(22,625)</b>	23,251
	<u><b>122,350</b></u>	<u>254,918</u>

**Ahli United Bank B.S.C.**
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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**8 NON-TRADING INVESTMENTS**
**a) By sector**

	<i>2021</i>			
	<i>Held at amortised cost US\$'000</i>	<i>Held at FVTOCI US\$'000</i>	<i>Held at FVTPL US\$'000</i>	<i>Total US\$'000</i>
<i>Quoted investments</i>				
GCC government bonds and debt securities	3,010,570	67,373	-	3,077,943
Other government bonds and debt securities	773,964	643,973	-	1,417,937
GCC government entities' securities	879,332	252,792	-	1,132,124
Notes and certificates of deposit:				
- issued by banks and other financial institutions	1,258,444	412,284	-	1,670,728
- issued by corporates	1,948,051	437,900	-	2,385,951
Equity instruments	-	24,767	2,910	27,677
	<b>7,870,361</b>	<b>1,839,089</b>	<b>2,910</b>	<b>9,712,360</b>
<i>Unquoted investments</i>				
Notes and certificates of deposit:				
- issued by banks and other financial institutions	13,675	138,874	-	152,549
Equity instruments	-	83,720	928	84,648
	<b>13,675</b>	<b>222,594</b>	<b>928</b>	<b>237,197</b>
Total	<b>7,884,036</b>	<b>2,061,683</b>	<b>3,838</b>	<b>9,949,557</b>
Less: ECL allowances	<b>(18,346)</b>	<b>(7,917)</b>	<b>-</b>	<b>(26,263)</b>
	<b>7,865,690</b>	<b>2,053,766</b>	<b>3,838</b>	<b>9,923,294</b>
	<i>2020</i>			
	<i>Held at amortised cost US\$'000</i>	<i>Held at FVTOCI US\$'000</i>	<i>Held at FVTPL US\$'000</i>	<i>Total US\$'000</i>
<i>Quoted investments</i>				
GCC government bonds and debt securities	2,643,879	240,566	-	2,884,445
Other government bonds and debt securities	498,504	287,254	-	785,758
GCC government entities' securities	1,147,118	192,050	-	1,339,168
Notes and certificates of deposit:				
- issued by banks and other financial institutions	1,325,367	149,381	-	1,474,748
- issued by corporates	2,594,915	312,394	-	2,907,309
Equity instruments	-	26,985	2,083	29,068
	<b>8,209,783</b>	<b>1,208,630</b>	<b>2,083</b>	<b>9,420,496</b>
<i>Unquoted investments</i>				
Notes and certificates of deposit:				
- issued by banks and other financial institutions	15,480	101,817	-	117,297
Equity instruments	-	93,007	4,451	97,458
	<b>15,480</b>	<b>194,824</b>	<b>4,451</b>	<b>214,755</b>
Total	<b>8,225,263</b>	<b>1,403,454</b>	<b>6,534</b>	<b>9,635,251</b>
Less: ECL allowances	<b>(26,942)</b>	<b>-</b>	<b>-</b>	<b>(26,942)</b>
	<b>8,198,321</b>	<b>1,403,454</b>	<b>6,534</b>	<b>9,608,309</b>

Ahli United Bank B.S.C.

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

**a) By sector (continued)**

The fair value of the non-trading investments held at amortised cost is US\$ 7,986.8 million as at 31 December 2021 (31 December 2020: US\$ 8,209.5 million) of which US\$ 7,972.6 million is classified under Level 1 of fair value hierarchy (31 December 2020: US\$ 8,193.9 million) and US\$ 14.2 million is classified under Level 2 of fair value hierarchy (31 December 2020: US\$ 15.6 million).

FVTPL investments loss for the year amounted to US\$ 1.2 million (2020: Gain of US\$ 30.6 million).

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

	<i>2021</i>			
	<i>Stage 1</i> <i>US\$ '000</i>	<i>Stage 2</i> <i>US\$ '000</i>	<i>Stage 3</i> <i>US\$ '000</i>	<i>Total</i> <i>US\$ '000</i>
High standard grade	5,958,028	5,036	-	5,963,064
Standard grade	3,818,558	55,610	-	3,874,168
	<u>9,776,586</u>	<u>60,646</u>	<u>-</u>	<u>9,837,232</u>
Less: ECL allowances	(23,273)	(2,990)	-	(26,263)
	<u>9,753,313</u>	<u>57,656</u>	<u>-</u>	<u>9,810,969</u>
Equity instruments at fair value				<u>112,325</u>
				<u><u>9,923,294</u></u>
	<i>2020</i>			
	<i>Stage 1</i> <i>US\$ '000</i>	<i>Stage 2</i> <i>US\$ '000</i>	<i>Stage 3</i> <i>US\$ '000</i>	<i>Total</i> <i>US\$ '000</i>
High standard grade	6,508,714	-	-	6,508,714
Standard grade	2,904,951	95,060	-	3,000,011
	<u>9,413,665</u>	<u>95,060</u>	<u>-</u>	<u>9,508,725</u>
Less: ECL allowances	(21,171)	(5,771)	-	(26,942)
	<u>9,392,494</u>	<u>89,289</u>	<u>-</u>	<u>9,481,783</u>
Equity instruments at fair value				<u>126,526</u>
				<u><u>9,608,309</u></u>

Refer note 32 for further details on credit quality of non-trading investments.

**c) Movements in ECL allowances**

	<i>2021</i>			
	<i>Stage 1</i> <i>US\$ '000</i>	<i>Stage 2</i> <i>US\$ '000</i>	<i>Stage 3</i> <i>US\$ '000</i>	<i>Total</i> <i>US\$ '000</i>
<b>At 1 January 2021</b>	<b>21,171</b>	<b>5,771</b>	<b>-</b>	<b>26,942</b>
Net remeasurement of ECL allowances	1,206	(3,149)	-	(1,943)
Exchange rate and other adjustments	896	368	-	1,264
<b>At 31 December 2021</b>	<u><b>23,273</b></u>	<u><b>2,990</b></u>	<u><b>-</b></u>	<u><b>26,263</b></u>

**Ahli United Bank B.S.C.**

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

**c) Movements in ECL allowances (continued)**

	2020			
	<i>Stage 1</i> US\$ '000	<i>Stage 2</i> US\$ '000	<i>Stage 3</i> US\$ '000	<i>Total</i> US\$ '000
At 1 January 2020	9,407	1,733	-	11,140
Transfer from Stage 1	(42)	42	-	-
Transfer from Stage 2	131	(131)	-	-
Net remeasurement of ECL allowances	12,219	3,184	-	15,403
Exchange rate and other adjustments	(544)	943	-	399
At 31 December 2020	<u>21,171</u>	<u>5,771</u>	<u>-</u>	<u>26,942</u>

**9 INVESTMENT IN ASSOCIATES**

The associates of the Group are:

<i>Name</i>	<i>Incorporated in</i>	<i>Group's nominal holding</i>	
		2021	2020
Ahli Bank S.A.O.G. (ABO)	Sultanate of Oman	35.0%	35.0%
United Bank for Commerce and Investment S.A.L. (UBCI)	Libya	40.0%	40.0%
Middle East Financial Investment Company (MEFIC)	Kingdom of Saudi Arabia	40.0%	40.0%

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

	2021	2020
	US\$ '000	US\$ '000
Total assets	<b>8,343,899</b>	7,427,050
Total liabilities	<b>7,102,751</b>	6,300,071
Share of results for the year (Group's share)	<b>35,383</b>	50,020
Net comprehensive income / (loss) for the year (Group's share)	<b>4,272</b>	(1,331)

**Ahli United Bank B.S.C.**
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**9 INVESTMENT IN ASSOCIATES (continued)**

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

	<u>2021</u>	<u>2020</u>
	<i>US\$ million</i>	<i>US\$ million</i>
<b>Ahli Bank S.A.O.G.</b>		
<b>Balance sheet related information</b>		
Loans and advances	<b>6,238.9</b>	5,763.4
Total assets	<b>7,928.7</b>	7,019.4
Customers' deposits	<b>5,666.0</b>	4,999.2
Total liabilities	<b>6,819.6</b>	6,010.7
<b>Income statement related information</b>		
Total operating income	<b>214.1</b>	185.7
Net profit for the year	<b>71.7</b>	62.3
Dividends received during the year	<b>8.9</b>	14.3
<b>Cash flow related information</b>		
Net cash from operating activities	<b>351.8</b>	107.9
Net cash used in investing activities	<b>(144.0)</b>	(71.4)
Net cash (used in) / from financing activities	<b>(170.5)</b>	4.6

The market value of AUB's investment in ABO based on the price quoted in the Muscat Securities Market at 31 December 2021 is US\$ 205.6 million (31 December 2020: US\$ 190.5 million).

**10 INVESTMENT PROPERTIES**

These represent properties acquired by the Group and are recognised at cost. As at 31 December 2021, the fair value of the investment properties is US\$ 202.3 million (31 December 2020: US\$ 198.9 million). Investment properties were valued by independent valuers using unobservable valuation inputs such as comparable sales, potential revenue etc. and are classified under Level 3 (2020: Level 3) of the fair value hierarchy.

Movements during the year are as follows:

	<u>2021</u>	<u>2020</u>
	<i>US\$ '000</i>	<i>US\$ '000</i>
At 1 January	<b>185,715</b>	229,803
Additions	<b>18,350</b>	15,187
Disposals	<b>(15,545)</b>	(56,654)
Depreciation, impairment and other movements	<b>128</b>	(2,621)
At 31 December	<b>188,648</b>	185,715

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**11 INTEREST RECEIVABLE, DERIVATIVE AND OTHER ASSETS**

	<u>2021</u>	<u>2020</u>
	<i>US\$ '000</i>	<i>US\$ '000</i>
Interest receivable	<b>246,323</b>	209,921
Derivative assets (note 28)	<b>120,307</b>	166,662
Tax assets (note 22)	<b>507</b>	632
Repossessed real estate assets	<b>317,538</b>	343,187
Prepayments and others	<b>231,525</b>	136,830
	<b><u>916,200</u></b>	<u>857,232</u>

Interest receivable includes US\$ 43.1 million (2020: US\$ 24.8 million) relating to financial assets classified as FVTOCI and US\$ 203.2 million (2020: US\$ 185.1 million) relates to assets held at amortised cost.

**12 PREMISES AND EQUIPMENT**

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

	<u>2021</u>	<u>2020</u>
	<i>US\$ '000</i>	<i>US\$ '000</i>
Freehold land	<b>94,403</b>	93,927
Freehold buildings	<b>40,311</b>	31,814
Fixtures and improvements	<b>31,296</b>	32,469
IT equipment and others	<b>81,960</b>	79,552
Capital work-in-progress	<b>22,212</b>	15,393
Right-of-use assets	<b>41,747</b>	43,692
	<b><u>311,929</u></b>	<u>296,847</u>

Freehold land is revalued by independent valuers annually close to year end using significant valuation inputs based on unobservable inputs such as comparable sales, potential revenue etc. and is classified under Level 3 (2020: Level 3) of the fair value hierarchy. During the years ended 31 December 2021 and 2020, there have been no movements in Level 3 freehold land other than valuation changes.

**13 GOODWILL AND OTHER INTANGIBLE ASSETS**

	<u>2021</u>			<u>2020</u>		
	<i>Goodwill</i>	<i>Intangible assets</i>	<i>Total</i>	<i>Goodwill</i>	<i>Intangible assets</i>	<i>Total</i>
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
At 1 January	<b>430,144</b>	<b>55,814</b>	<b>485,958</b>	432,417	54,738	487,155
Exchange rate adjustments	<b>877</b>	<b>54</b>	<b>931</b>	(2,273)	1,076	(1,197)
At 31 December	<b><u>431,021</u></b>	<b><u>55,868</u></b>	<b><u>486,889</u></b>	<u>430,144</u>	<u>55,814</u>	<u>485,958</u>

**Goodwill:**

Goodwill acquired through business combinations has been allocated to the cash-generating units of the acquired entities for impairment testing purposes. The carrying amount of goodwill and intangible assets allocated to each of the cash-generating units is shown under note 30.



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**13 GOODWILL AND OTHER INTANGIBLE ASSETS (continued)**
**Goodwill (continued):**

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

The discount rate used in goodwill impairment testing ranged between 7.0% to 13.6% (2020: 6.6% to 16.9%). The key assumptions used in estimating recoverable amounts of cash generating units were sensitised to test the resilience of value-in-use calculations. On this basis, management believes that reasonable changes in the key assumptions used to determine the recoverable amount of the Group's cash-generating units will not result in an impairment.

**Intangible assets:**

Intangible assets comprises primarily the subsidiaries' banking licenses which have indefinite lives. Based on an annual impairment assessment of the intangible assets, no indications of impairment were identified (2020: same). The fair values of a banking license are determined at the time of acquisition by discounting the future expected profits from their acquisition and their projected terminal value.

**14 DEPOSITS FROM BANKS**

	<u>2021</u>	<u>2020</u>
	<u>US\$ '000</u>	<u>US\$ '000</u>
Demand and call deposits	<b>180,241</b>	135,885
Time deposits	<b>4,458,732</b>	4,082,532
	<b><u>4,638,973</u></b>	<u>4,218,417</u>

**15 BORROWINGS UNDER REPURCHASE AGREEMENTS**

The Group has collateralised borrowing lines of credit with various financial institutions through repurchase arrangements, amounting to US\$ 8.3 billion (31 December 2020: US\$ 7.7 billion).

As at 31 December 2021, the borrowings under these agreements were US\$ 3.8 billion (31 December 2020: US\$ 3.6 billion) of which 92% (31 December 2020: 83%) are in evergreen facilities up to 18 months contractual notice period and the fair value of investment securities that had been provided as collateral was US\$ 4.3 billion (31 December 2020: US\$ 4.3 billion).

**16 CUSTOMERS' DEPOSITS**

	<u>2021</u>	<u>2020</u>
	<u>US\$ '000</u>	<u>US\$ '000</u>
Current and call accounts	<b>6,511,827</b>	5,399,932
Saving accounts	<b>2,900,037</b>	2,837,387
Time deposits	<b>15,792,077</b>	16,945,266
	<b><u>25,203,941</u></b>	<u>25,182,585</u>

**17 TERM BORROWINGS**

	<u>2021</u>	<u>2020</u>
	<u>US\$ '000</u>	<u>US\$ '000</u>
(a) Bilateral term debts:		
- repayable in December 2022	<b>200,000</b>	100,000
- repayable in December 2023	<b>325,000</b>	75,000
(b) Long term Sukuk payable	<b>563,822</b>	-
	<b><u>1,088,822</u></b>	<u>175,000</u>

(a) Term debts carry interest rates ranging from 1.9% to 2.2%.

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**17 TERM BORROWINGS (continued)**

- (b) The Sukuk was issued during the year through a wholly owned special purpose vehicle with a tenor of 5 years maturing on 9 September 2026 and carries a fixed profit rate of 2.615% per annum, payable semi-annually in arrears on 9 September and 9 March respectively commencing 9 March 2022. The Sukuk is listed on the London Stock Exchange.

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 "Long term Sukuk payable".

**18 INTEREST PAYABLE, DERIVATIVE AND OTHER LIABILITIES**

	<u>2021</u>	<u>2020</u>
	<i>US\$ '000</i>	<i>US\$ '000</i>
Interest payable	<b>159,334</b>	149,373
Accruals and other payables*	<b>186,709</b>	180,333
Derivative liabilities (note 28)	<b>453,654</b>	1,014,416
Other credit balances**	<b>411,079</b>	413,320
Tax liabilities (note 22)	<b>42,311</b>	50,252
ECL allowances***	<b>25,100</b>	23,012
	<b><u>1,278,187</u></b>	<u>1,830,706</u>

\* Accruals and other payables include US\$ 41.7 million (31 December 2020: US\$ 43.1 million) relating to lease liabilities.

\*\* Other credit balances mainly includes insurance related technical provisions, clearing balances, unearned fees and other sundry creditors.

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

**19 SUBORDINATED LIABILITIES**

The Group has borrowings amounting to US\$ 10.0 million (31 December 2020: US\$ 10.0 million), which are subordinated to the claims of all other creditors of a group entity and are repayable on 24 July 2025.

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**20 EQUITY**

	<u>2021</u>	<u>2020</u>
	<u>US\$ '000</u>	<u>US\$ '000</u>
<b>(a) Authorised:</b>		
Share capital		
12,000 million shares (2020: 10,000 million shares) of US\$ 0.25 each	<b>3,000,000</b>	2,500,000
	<u><u>3,000,000</u></u>	<u><u>2,500,000</u></u>
Available for issuance of ordinary shares and various classes of preference shares.		
<b>(b) Issued and fully paid:</b>		
	<u>2021</u>	<u>2020</u>
	<u>US\$ '000</u>	<u>US\$ '000</u>
Ordinary share capital (US\$ 0.25 each)	<b>2,533,621</b>	2,412,972
	<u><u>2,533,621</u></u>	<u><u>2,412,972</u></u>
Number of shares (millions)	<b>10,134.5</b>	9,651.9
	<u><u>10,134.5</u></u>	<u><u>9,651.9</u></u>
<u>Movement in ordinary shares</u>	<u>2021</u>	<u>2020</u>
	<i>(number in millions)</i>	
Opening balance as at 1 January	<b>9,651.9</b>	8,774.4
Add: issuance of bonus shares	<b>482.6</b>	877.5
	<u><u>9,651.9</u></u>	<u><u>8,774.4</u></u>
Closing balance as at 31 December	<b>10,134.5</b>	9,651.9
	<u><u>10,134.5</u></u>	<u><u>9,651.9</u></u>

**Ahli United Bank B.S.C.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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**20 EQUITY (continued)**

**(c) Employee Share Purchase Plan and Mandatory Share Plan**

The Employee Share Purchase Plan (ESPP) and Mandatory Share Plan (MSP) were setup during 2005 and 2014 respectively after obtaining necessary approvals from shareholders and regulatory authorities. Following a decision by the Board of Directors, the ESPP program was terminated in 2020 including a decision to wind-up the ESPP program related entities.

**ESPP**

<u>Movements in ordinary shares under ESPP</u>	<u>2021</u>	<u>2020</u>
	<i>(number in thousands)</i>	
Opening balance	77,226	126,015
Bonus shares issued during the year	3,839	9,566
Exercised during the year	(7,146)	(58,355)
Closing balance	<u>73,919</u>	<u>77,226</u>

**MSP**

All issued and un-exercised MSP shares were fully exercised during 2020 under Clause 7.1 of the MSP Rules pursuant to CBB's letter dated 27 February 2020 exempting eligible MSP participants from the six months retention of proceeds in the form of cash or shares to ensure equitable treatment of AUB MSP participants.

<u>Movements in ordinary shares under MSP</u>	<u>2021</u>	<u>2020</u>
	<i>(number in thousands)</i>	
Opening balance	-	10,307
Bonus shares issued during the year	-	279
Awarded during the year	-	3,344
Exercised during the year	-	(13,930)
Closing balance	<u>-</u>	<u>-</u>

**(d) Perpetual Tier 1 Capital Securities and Sukuk**

	<u>2021</u>	<u>2020</u>
	<i>US\$ '000</i>	<i>US\$ '000</i>
Issued by the Bank (note i)	400,000	400,000
Perpetual Tier I Sukuk-2021 (note ii)	600,000	-
Perpetual Tier I Sukuk-2016 (note iii)	-	200,000
	<u>1,000,000</u>	<u>600,000</u>

(i) Basel III compliant Additional Tier I Perpetual Capital Securities issued by the Bank during 2015 carried an initial distribution rate of 6.875% per annum payable semi-annually with a reset after every 5 years. On completion of the initial 5 year period, during 2020, distribution rate was reset to 5.839%. These securities are perpetual, subordinated and unsecured. The securities are listed on the Irish Stock Exchange. The Bank can elect to make a distribution at its own discretion. The holders of these securities do not have a right to claim the same and such an event will not be considered an event of default. The securities carry no maturity date and have been classified under equity.

(ii) During the year ended 31 December 2021, AUBK completed a US\$ 600 million Basel III compliant Additional Tier 1 Perpetual Capital Sukuk ("Perpetual Tier I Sukuk-2021") issue that bears a profit rate of 3.875% per annum, which are eligible to be classified under equity. These are subordinated, unsecured and carry a periodic distribution amount, payable semi-annually in arrears, is callable after five year period of issuance until the first call date ending June 2026 or any profit distribution date thereafter subject to certain redemption conditions, including prior CBK approval. The securities are listed on the Irish Stock Exchange and NASDAQ Dubai.

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**20 EQUITY (continued)**
**(d) Perpetual Tier 1 Capital Securities and Sukuk (continued)**

(iii) During 2016, Ahli United Bank K.S.C.P (AUBK), a subsidiary of the Bank, issued a US\$ 200 million Basel III compliant Additional Tier 1 Perpetual Capital Sukuk that borne a profit rate of 5.5%, which were eligible to be classified under equity. The Sukuk was subordinated, unsecured and carried a Periodic Distribution Amount, payable semi-annually in arrears, until the first call date (25 October 2021). The Sukuk was listed on the Irish Stock Exchange and NASDAQ Dubai.

In accordance with approval from CBK to recall Perpetual Tier I Sukuk-2016, AUBK recalled and fully redeemed the outstanding Perpetual Tier I Sukuk during the year ended 31 December 2021.

**21 RESERVES**
**a) Share premium**

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

**b) Capital reserve**

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

**c) Statutory reserve**

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

**d) Property revaluation reserve**

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

**e) Foreign exchange translation reserve**

It comprises mainly of translation effects arising on consolidation of subsidiaries and investments in associates.

**f) Other comprehensive income reserve**

This reserve represents changes in the fair values of equity and debt instruments that are classified as fair value through other comprehensive income.

**g) Cash flow hedge reserve**

This reserve represents the effective portion of gain or loss on the Group's cash flow hedging instruments.

**h) Movements in other reserves**

	Capital reserve	Property revaluation reserve	Foreign exchange translation reserve	Cumulative changes			Total other reserves
				OCI reserve	Cash flow hedge reserve	Pension fund reserve	
	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
<b>Balance at</b>							
<b>1 January 2021</b>	17,240	36,309	(473,924)	(2,548)	(53,739)	(45,439)	(522,101)
Currency translation adjustments	-	-	(2,813)	-	-	-	(2,813)
Transfers to consolidated statement of income	-	-	-	(6,319)	313	-	(6,006)
Net fair value movements	-	-	-	3,858	12,039	-	15,897
Transfers to retained earnings on equity investments	-	-	-	(1,412)	-	-	(1,412)
Fair value movements and others	-	-	-	-	-	28,080	28,080
Revaluation of freehold land	-	265	-	-	-	-	265
<b>Balance at</b>							
<b>31 December 2021</b>	17,240	36,574	(476,737)	(6,421)	(41,387)	(17,359)	(488,090)

**Ahli United Bank B.S.C.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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**21 RESERVES (continued)**

**h) Movements in other reserves (continued)**

	<i>Capital reserve</i>	<i>Property revaluation reserve</i>	<i>Foreign exchange translation reserve</i>	<i>Cumulative changes</i>			<i>Total other reserves</i>
				<i>OCI reserve</i>	<i>Cash flow hedge reserve</i>	<i>Pension fund reserve</i>	
Balance at 1 January 2020	17,240	35,395	(402,456)	21,331	(37,137)	(39,147)	(404,774)
Currency translation adjustments	-	-	(71,468)	-	-	-	(71,468)
Transfers to consolidated statement of income	-	-	-	(9,226)	(435)	-	(9,661)
Net fair value movements	-	-	-	(16,180)	(16,167)	-	(32,347)
Transfers to retained earnings on equity investments	-	-	-	1,527	-	-	1,527
Fair value movements and others	-	-	-	-	-	(6,292)	(6,292)
Revaluation of freehold land	-	914	-	-	-	-	914
Balance at 31 December 2020	17,240	36,309	(473,924)	(2,548)	(53,739)	(45,439)	(522,101)

Foreign currency translation risk primarily arises from Group's investments in diverse countries. Assets and liabilities of the Group's subsidiaries are translated into US Dollars at the rates of exchange prevailing at the balance sheet date. Income and expense items are translated at average exchange rates prevailing for the reporting periods. Any exchange differences arising on translation are included in "foreign exchange translation reserve" forming part of other comprehensive income prorated between non-controlling interests and equity owners.

The Group undertakes hedging of such net investment in foreign operations to mitigate any currency risk in a number of ways including borrowing in the underlying currency, structural hedging in the form of holding US Dollar long position to the extent possible and forward contracts.

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**21 RESERVES (continued)**
**i) Dividends proposed and paid**

	<u>2021</u>	<u>2020</u>
	<i>US\$'000</i>	<i>US\$'000</i>
<b>Proposed for approval at the forthcoming Annual General Assembly of Shareholders</b>		
Total cash dividend proposed on the ordinary shares	<b>304,034</b>	120,649
Cash dividend on each ordinary share (US cents per share)	<b>3.00</b>	1.25
Bonus share issue	<b>10%</b>	5%

**j) Distribution on Perpetual Tier 1 Capital Securities and Sukuk**

	<u>2021</u>	<u>2020</u>
	<i>US\$'000</i>	<i>US\$'000</i>
Distribution on the Perpetual Tier 1 Capital Securities	<b>23,356</b>	25,428
Distribution on the Perpetual Tier 1 Sukuk	<b>21,859</b>	11,000
	<b>45,215</b>	36,428

**22 TAXATION AND ZAKAT**

	<u>2021</u>	<u>2020</u>
	<i>US\$'000</i>	<i>US\$'000</i>
Consolidated balance sheet (note 11 and note 18):		
- Current tax asset	<b>507</b>	581
- Deferred tax asset	-	51
	<b>507</b>	632
- Current tax liability	<b>(27,143)</b>	(30,779)
- Deferred tax liability	<b>(15,168)</b>	(19,473)
	<b>(42,311)</b>	(50,252)
Consolidated statement of income:		
- Current tax expense on foreign operations	<b>37,086</b>	44,544
- Zakat expense arising from subsidiary operations	<b>1,058</b>	1,144
- Deferred tax credit on foreign operations	<b>(16,503)</b>	(993)
	<b>21,641</b>	44,695

The Group's tax expense includes all direct taxes that are accrued on taxable profits of entities to the authorities in the respective countries of incorporation, in accordance with the tax laws prevailing in those jurisdictions. Consequently, it is not practical to provide a reconciliation between the accounting and taxable profits together with the details of effective tax rates. Tax expense primarily relates to AUBE and AUBUK. Tax rate at AUBE is 22.5% (2020: 22.5%) and AUBUK is 19.0% (2020: 19.0%).

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**23 EARNINGS PER SHARE**

Basic and diluted earnings per ordinary share are calculated by dividing the net profit for the year attributable to the Bank's ordinary equity shareholders less distribution on Perpetual Tier 1 Capital Securities, by the weighted average number of ordinary shares outstanding during the year.

The following reflects the income and share data used in basic and diluted earnings per ordinary share computations:

	<u>2021</u>	<u>2020</u>
	<i>US\$'000</i>	<i>US\$'000</i>
<b>Net profit for basic and diluted earnings per ordinary share computation</b>		
Net profit attributable to Bank's equity shareholders	<b>607,244</b>	452,244
Less: Share of Perpetual Tier 1 Capital Securities and Sukuk distributions	<b>39,719</b>	33,668
Adjusted net profit attributable to Bank's ordinary equity shareholders for basic and diluted earnings per ordinary share	<b>567,525</b>	418,576
Basic and diluted earnings per ordinary share (US cents)	<b>5.6</b>	4.1
	<i>Number of shares</i>	
	<i>(in millions)</i>	
	<u>2021</u>	<u>2020</u>
Weighted average ordinary shares outstanding during the year adjusted for bonus shares	<b>10,134.5</b>	10,134.5
Weighted average number of ordinary shares for diluted earnings per share	<b>10,134.5</b>	10,134.5

**24 CASH AND CASH EQUIVALENTS**

Cash and cash equivalents included in the consolidated statement of cash flows include the following balance sheet amounts:

	<u>2021</u>	<u>2020</u>
	<i>US\$ '000</i>	<i>US\$ '000</i>
Cash and balances with central banks, excluding mandatory reserve deposits [note 6(a)]	<b>850,456</b>	834,735
Treasury bills and deposits with central banks and other banks - with an original maturity of three months or less	<b>1,759,070</b>	2,142,264
	<b>2,609,526</b>	2,976,999



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**25 RELATED PARTY TRANSACTIONS**

The Group enters into transactions with major shareholders, associates, directors, senior management and companies which are controlled, jointly controlled or significantly influenced by such parties in the ordinary course of business. All the loans and advances to related parties are performing and are subject to ECL assessments. Share of profit from associates and investment in associates are shown separately under the consolidated statement of income and consolidated balance sheet respectively.

The income, expense and the period end balances in respect of related parties included in the consolidated financial statements were as follows:

	<b>2021</b>					
	<b>US\$ '000</b>					
	<i>Major shareholders</i>	<i>Associates</i>	<i>Non-Executive Directors</i>	<i>Senior Management Management</i>		<i>Total</i>
			<i>Directors</i>	<i>Directors<sup>2</sup></i>	<i>Others</i>	
Interest income	-	65	8,140	30	-	8,235
Interest expense	13,894	-	732	77	6	14,709
Fees and commissions	1,075	2,581	1,159	10	2	4,827
Deposits with banks	-	13,384	-	-	-	13,384
Loans and advances	-	-	321,615	311	31	321,957
Derivatives assets	-	4,501	-	-	-	4,501
Deposits from banks	-	39,004	-	-	-	39,004
Customers' deposits <sup>1</sup>	2,541,430	-	43,552	9,626	831	2,595,439
Subordinated liabilities	9,983	-	-	-	-	9,983
Commitments and contingent liabilities	560	44,425	83,136	-	-	128,121
Short term employee benefits	-	-	-	11,580	3,066	14,646
End of service benefits	-	-	-	847	196	1,043
Directors' fees and related expenses <sup>3</sup>	-	-	993	-	-	993
	<b>2020</b>					
	<b>US\$ '000</b>					
	<i>Major shareholders</i>	<i>Associates</i>	<i>Non-Executive Directors</i>	<i>Senior Management Management</i>		<i>Total</i>
				<i>Directors<sup>2</sup></i>	<i>Others</i>	
Interest income	-	126	6,306	61	3	6,496
Interest expense	94,379	356	147	104	6	94,992
Fees and commissions	-	1,228	1,291	18	2	2,539
Deposits with banks	-	15,570	-	-	-	15,570
Loans and advances	-	-	144,053	379	-	144,432
Derivatives assets	-	8,853	-	-	-	8,853
Deposits from banks	-	17,086	-	-	-	17,086
Customers' deposits <sup>1</sup>	3,674,177	-	30,405	8,715	396	3,713,693
Subordinated liabilities	10,032	-	-	-	-	10,032
Commitments and contingent liabilities	-	7,436	84,461	-	-	91,897
Short term employee benefits	-	-	-	12,193	2,622	14,815
End of service benefits	-	-	-	2,044	166	2,210
Directors' fees and related expenses <sup>3</sup>	-	-	1,622	-	-	1,622

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**25 RELATED PARTY TRANSACTIONS (continued)**

<sup>1</sup>Customers' deposits include deposits from GCC government-owned institutions amounting to US\$ 2,460.1 million (31 December 2020: US\$ 3,637 million).

<sup>2</sup>AUB Group Management Directors (Employees) who are appointed by the shareholders of AUB to the AUB Board to represent management or by AUB to the boards of any of its subsidiaries or affiliates or their related committees, are excluded from receiving any additional remuneration for their membership of or attendance at board or related committee meetings at AUB or its subsidiaries / affiliates as per their specific contractual arrangements and as per the Board approved HR Policy covering all of AUB Group.

<sup>3</sup>Directors fees and related expenses for 2020 were approved by the shareholders in the annual general meeting on 31 March 2021 and the same for 2021 will be presented for shareholders' approval at the forthcoming annual general meeting to be convened in March 2022.

**26 EMPLOYEE BENEFITS**

The Group operates Defined Benefit and Defined Contribution retirement benefit schemes for its employees in accordance with the local laws and regulations in the countries in which it operates. The costs of providing retirement benefits including current contributions, are charged to the consolidated statement of income.

**Defined benefit plans**

The charge to the consolidated statement of income on account of end of service benefits for the year amounted to US\$ 3,892 thousand (2020: US\$ 8,100 thousand).

AUBUK's defined benefit pension scheme was closed to future service accruals on 31 March 2010. In accordance with the IAS-19 Employee Benefits, the Group immediately recognises the actuarial gains and losses relating to 'Defined Pension Benefit' scheme through consolidated statement of changes in equity.

**Defined contribution plans**

The Group contributed US\$ 9,664 thousand during the year (2020: US\$ 9,465 thousand) towards defined contribution plans. The Group's obligations are limited to the amounts contributed to various schemes.

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**27 MANAGED FUNDS**

Funds administrated on behalf of customers to which the Group does not have legal title are not included in the consolidated balance sheet. The total market value of all such funds at 31 December 2021 was US\$ 2,327.1 million (2020: US\$ 2,339.3 million).

**28 DERIVATIVES**

In the ordinary course of business, the Group enters into various types of transactions that involve derivative financial instruments. A derivative financial instrument is a financial contract between two parties where payments are dependent upon movements in price in one or more underlying financial instruments, reference rates or indices.

Derivatives include financial options, futures and forwards, interest rate swaps and currency swaps, which create rights and obligations that have the effect of transferring between the parties of the instrument one or more of the financial risks inherent in an underlying primary financial instrument. On inception, a derivative financial instrument gives one party a contractual right to exchange financial assets or financial liabilities with another party under conditions that are potential favourable, or a contractual obligation to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable. However, they generally do not result in a transfer of the underlying primary financial instrument on inception of the contract, nor does such a transfer necessarily take place on maturity of the contract. Some instruments embody both a right and an obligation to make an exchange. Because the terms of the exchange are determined on inception of the derivative instruments, as prices in financial markets change those terms may become either favourable or unfavourable.

The IBOR reform phase 2 amendments address issues arising during interest rate benchmark reform (IBOR reform), including specifying when the 'phase 1' amendments will cease to apply, when hedge designations and documentation should be updated, and when hedges of the alternative benchmark rate or Alternative Reference Rate (ARR) as the hedged risk are permitted.

The 'phase 1' amendments provided temporary relief from applying specific hedge accounting requirements to hedging relationships directly affected by IBOR reform. The reliefs had the effect that IBOR reform should not generally cause hedge accounting to terminate prior to contracts being amended. However, any hedge ineffectiveness continued to be recorded in the statement of profit or loss. Furthermore, the amendments set out triggers for when the reliefs would end, which included the uncertainty arising from IBOR reform no longer being present.

The Group evaluated the extent to which its fair value and cash flow hedging relationships are subject to uncertainty driven by IBOR reform as at the reporting date. The Group's hedged items and hedging instruments continue to be indexed to IBOR benchmark rates, which are mainly US Dollar LIBOR. These IBOR benchmark rates are quoted each day and IBOR cash flows are exchanged with its counterparties as usual.

The table below shows the net fair values of derivative financial instruments held for trading.

	<i>2021</i>		<i>2020</i>	
	<i>Derivative</i>	<i>Derivative</i>	<i>Derivative</i>	<i>Derivative</i>
	<i>assets</i>	<i>liabilities</i>	<i>assets</i>	<i>liabilities</i>
	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>
<i>Derivatives held for trading:</i>				
- Interest rate swaps	<b>60,570</b>	<b>57,041</b>	107,626	103,697
- Forward foreign exchange contracts	<b>30,682</b>	<b>15,905</b>	35,118	87,265
- Options	<b>379</b>	<b>370</b>	810	873
	<b>91,631</b>	<b>73,316</b>	143,554	191,835

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**28 DERIVATIVES (continued)**

The table below shows the net fair values of derivative financial instruments held for hedging.

	2021			2020		
	<i>Derivative assets</i>	<i>Derivative liabilities</i>	<i>Notionals amounts</i>	<i>Derivative assets</i>	<i>Derivative liabilities</i>	<i>Notionals amounts</i>
	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>
<i>Derivatives held as fair value hedges:</i>						
- Interest rate swaps on amortised cost instruments	23,171	323,682	7,222,634	20,824	732,789	7,522,521
- Interest rate swaps on FVTOCI instruments	5,179	12,676	689,448	865	32,254	485,620
<i>Derivatives held as cash flow hedges:</i>						
- Interest rate swaps	-	43,980	186,922	1,419	57,137	198,863
- Forward foreign exchange contracts	326	-	8,056	-	401	14,875
	<b>28,676</b>	<b>380,338</b>	<b>8,107,060</b>	23,108	822,581	8,221,879

Major financial counterparties with whom the Group has entered into above derivative contracts are covered through margin monies for the fair values of contracts outstanding.

In respect of derivative assets above, the Group has US\$ 45.5 million (2020: US\$ 36.1 million) of liabilities that can be offset through master netting arrangements. These master netting arrangements create a right of set-off that is enforceable only following an event of default, insolvency or bankruptcy of counterparties or following other predetermined events.

**Fair value hedges**

The net fair value of interest rate swaps held as fair value hedges as at 31 December 2021 is negative US\$ 308.0 million (2020: Negative US\$ 743.4 million) which is offset by gain recognised on the hedged item at 31 December 2021, attributable to the hedged risk of US\$ 308.0 million (2020: US\$ 743.4 million). These offsetting gains and losses are included in "trading income" in the consolidated statement of income during the years ended 31 December 2021 and 2020 respectively.

Hedging instruments are issued to hedge against interest rate and foreign exchange risks pertaining to hedged items. Hedged items include certain loans and advances amounting to US\$ 203.6 million (31 December 2020: US\$ 228.2 million), Sukuk issuance amounting to US\$ 600.0 million (31 December 2020: Nil), non-trading investments amounting to US\$ 6,018.9 million (31 December 2020: US\$ 7,044.7 million), borrowings under repurchase agreements amounting to US\$ 145.0 million (31 December 2020: US\$ 331.5 million) and customer deposits amounting to US\$ 1,139.5 million (31 December 2020: US\$ 1,135.4 million).

**Cash flow hedges**

The time periods in which the hedged cash flows are expected to occur and their impact on the consolidated statement of income is as follows:

	<i>3 months or less</i>	<i>More than 3 months up to 1 year</i>	<i>More than 1 year up to 5 years</i>	<i>More than 5 years</i>	<i>Total</i>
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
<b>At 31 December 2021</b>					
Net cash flows	(959)	(5,022)	(13,180)	(22,226)	(41,387)
<b>At 31 December 2020</b>					
Net cash flows	869	(5,716)	(20,112)	(28,780)	(53,739)

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**28 DERIVATIVES (continued)****Derivatives held for trading purposes**

Most of the Group's derivative trading activities relate to customer driven transactions as well as positioning and arbitrage. Positioning involves managing positions with the expectation of profiting from favourable movements in prices, rates or indices. Arbitrage involves identifying and profiting from price differentials between markets or products.

**Derivatives held for hedging purposes**

The Group has adopted a comprehensive system for the measurement and management of risk.

As part of its asset and liability management, the Group uses derivatives for hedging purposes in order to reduce its exposure to currency and interest rate movements. This is achieved by hedging specific financial instruments and forecasted transactions, as well as strategic hedging against overall balance sheet exposures.

The Group uses options and currency swaps to hedge against specifically identified currency and equity risks. In addition, the Group uses interest rate swaps and forward rate agreements to hedge against the interest rate risk arising from specifically identified, or a portfolio of, fixed interest rate investments and loans. The Group also uses interest rate swaps to hedge against the cash flow risks arising on certain floating rate deposits. In all such cases the hedging relationship and objective, including details of the hedged item and hedging instrument, are formally documented and the transactions are accounted for as derivatives held for hedging purposes.

Hedging of interest rate risk is also carried out by monitoring the duration of assets and liabilities and entering into interest rate swaps to hedge net interest rate exposures.

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**29 COMMITMENTS AND CONTINGENT LIABILITIES**

**Credit-related commitments**

Credit-related commitments include commitments to extend credit, standby letters of credit, guarantees and acceptances which are designed to meet the requirements of the Group's customers.

Commitments to extend credit represent contractual commitments to make loans and revolving credits available and generally have fixed expiration dates or other termination clauses. Since commitments may expire without being drawn upon, the total contract amounts do not necessarily represent future cash requirements.

Standby letters of credit, guarantees and acceptances (standby facilities) commit the Group to make payments on behalf of customers contingent upon their failure to perform under the terms of the contract. Standby facilities would have market risk if issued or extended at a fixed rate of interest. However, these contracts are primarily made at floating rates.

The Group has the following credit related commitments:

	<u>2021</u>	<u>2020</u>
	<i>US\$ '000</i>	<i>US\$ '000</i>
Contingent liabilities:		
Guarantees	2,727,426	2,710,332
Acceptances	431,573	244,546
Letters of credit	730,247	390,673
	<u>3,889,246</u>	<u>3,345,551</u>
Maturity of contingent liabilities is as follows:		
Less than one year	3,149,966	2,511,668
Over one year	739,280	833,883
	<u>3,889,246</u>	<u>3,345,551</u>
Irrevocable commitments:		
Undrawn loan commitments	292,122	222,380

Also, refer to note 18 for ECL allowances and note 35 for additional liquidity disclosures.

**30 SEGMENT INFORMATION**

For management purposes, the Group is organised into four major business segments:

Retail banking	Principally handling individual customers' deposit and current accounts, providing consumer loans, residential mortgages, overdrafts, credit cards and fund transfer facilities.
Corporate banking	Principally handling loans and other credit facilities, and deposit and current accounts for corporate and institutional customers.
Treasury and investments	Principally providing money market, trading and treasury services, as well as management of the Group's investments and funding.
Private banking	Principally servicing high net worth clients through a range of investment products, funds, credit facilities, trusts and alternative investments.

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**30 SEGMENT INFORMATION (continued)**

These segments are the basis on which the Group reports its primary segment information. Transactions between segments are conducted at approximate market rates on an arm's length basis. Interest is charged/credited to business segments based on a pool rate which approximates the cost of funds.

	<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>Year ended 31 December 2021:</b>					
Net interest income	182,649	326,867	311,487	50,786	871,789
Fees and commissions-net	27,472	60,260	3,059	13,595	104,386
Other operating income	5,172	12,963	114,372	246	132,753
<b>OPERATING INCOME</b>	<b>215,293</b>	<b>400,090</b>	<b>428,918</b>	<b>64,627</b>	<b>1,108,928</b>
Provision for credit losses and others	10,140	113,258	(1,943)	895	122,350
<b>NET OPERATING INCOME</b>	<b>205,153</b>	<b>286,832</b>	<b>430,861</b>	<b>63,732</b>	<b>986,578</b>
Operating expenses	124,901	81,729	86,988	33,388	327,006
<b>PROFIT BEFORE TAX AND ZAKAT</b>	<b>80,252</b>	<b>205,103</b>	<b>343,873</b>	<b>30,344</b>	<b>659,572</b>
Tax expense and zakat					21,641
<b>NET PROFIT FOR THE YEAR</b>					<b>637,931</b>
<b>Less: Attributable to non-controlling interests</b>					<b>30,687</b>
<b>NET PROFIT ATTRIBUTABLE TO THE OWNERS OF THE BANK</b>					<b>607,244</b>
Inter segment interest included in net interest income above	205,247	(207,940)	(22,629)	25,322	-
	<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>As at 31 December 2021:</b>					
Segment assets	3,713,494	17,141,429	16,891,185	2,109,168	39,855,276
Goodwill	155,537	100,766	95,035	79,683	431,021
Other intangible assets	15,161	20,058	18,287	2,362	55,868
Investment in associates					343,076
Unallocated assets					1,228,129
<b>TOTAL ASSETS</b>					<b>41,913,370</b>
Segment liabilities	7,668,533	7,720,360	15,361,346	3,966,979	34,717,218
Unallocated liabilities					1,278,187
<b>TOTAL LIABILITIES</b>					<b>35,995,405</b>

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**30 SEGMENT INFORMATION (continued)**

	<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>
Year ended 31 December 2020:					
Net interest income	206,090	320,369	219,239	53,657	799,355
Fees and commissions-net	28,027	58,626	3,128	13,888	103,669
Other operating income	3,315	15,200	190,266	131	208,912
<b>OPERATING INCOME</b>	<b>237,432</b>	<b>394,195</b>	<b>412,633</b>	<b>67,676</b>	<b>1,111,936</b>
Provision for credit losses and others	43,355	173,778	32,503	5,282	254,918
<b>NET OPERATING INCOME</b>	<b>194,077</b>	<b>220,417</b>	<b>380,130</b>	<b>62,394</b>	<b>857,018</b>
Operating expenses	116,589	91,286	86,726	31,250	325,851
<b>PROFIT BEFORE TAX AND ZAKAT</b>	<b>77,488</b>	<b>129,131</b>	<b>293,404</b>	<b>31,144</b>	<b>531,167</b>
Tax expense and zakat					44,695
<b>NET PROFIT FOR THE YEAR</b>					<b>486,472</b>
Less: Attributable to non-controlling interests					34,228
<b>NET PROFIT ATTRIBUTABLE TO THE OWNERS OF THE BANK</b>					<b>452,244</b>
Inter segment interest included in net interest income above	230,412	(286,098)	24,841	30,845	-
	<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>
As at 31 December 2020:					
Segment assets	3,533,793	16,152,564	16,327,557	2,114,089	38,128,003
Goodwill	155,243	100,544	94,859	79,498	430,144
Other intangible assets	15,146	20,038	18,270	2,360	55,814
Investment in associates					303,127
Unallocated assets					1,154,079
<b>TOTAL ASSETS</b>					<b>40,071,167</b>
Segment liabilities	6,774,789	7,372,469	15,275,013	3,781,832	33,204,103
Unallocated liabilities					1,830,706
<b>TOTAL LIABILITIES</b>					<b>35,034,809</b>

**Geographic segmentation**

Although the management of the Group is based primarily on business segments, the Group's geographic segmentation is based on the countries where the Bank and its subsidiaries are incorporated. Thus, the operating income generated by the Bank and its subsidiaries based in the Gulf Cooperation Council (GCC) are grouped as "GCC Countries", while those generated by the Bank's subsidiaries located outside the GCC region is grouped under "Others". Similar segmentation is followed for the distribution of total assets. The following table shows the distribution of the Group's operating income and total assets by geographical segments:



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**30 SEGMENT INFORMATION (continued)**

**Geographic segmentation (continued)**

	<i>Operating income</i>		<i>Total assets</i>	
	<i>2021</i>	<i>2020</i>	<i>2021</i>	<i>2020</i>
	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>
GCC Countries	<b>745,453</b>	720,263	<b>27,164,539</b>	26,519,194
Others	<b>363,475</b>	391,673	<b>14,748,831</b>	13,551,973
Total	<b>1,108,928</b>	1,111,936	<b>41,913,370</b>	40,071,167

Net profit from Bahrain onshore operations is US\$ 85.0 million (2020: US\$ 63.3 million), which represents 14% (2020: 14%) of the Group's net profit attributable to the owners of the Bank.

**31 RISK MANAGEMENT**

The Board of Directors (BOD) seeks to optimise the Group's performance by enabling the various business units to realise the Group's business strategy and meet agreed business performance targets by operating within the BOD approved Group Risk Framework covering risk parameters.

The Group Risk Committee, Group Investment Committee, Group Assets & Liability Committee and Group Operational Risk Committee are set up as part of the Group's risk governance structure. The terms of reference for these committees are approved by the BOD. Group Audit & Compliance Committee (including the Corporate Governance committee) has oversight over Group's audit, compliance and operational risk.

The BOD approves the Group Risk Framework on an annual basis. The Group Risk Committee monitors the Group's risk profile against the risk parameters. The BOD and its Executive Committee receive quarterly risk updates including detailed risk exposures analysis reports. The Group faces a range of risks in its business and operations including (i) credit risk; (ii) market risk (comprising of interest rate risk, currency risk and equity price risk); (iii) liquidity risk; (iv) operational risk; and (v) legal risk as detailed in notes 32 to 37.

**32 CREDIT RISK**

Credit risk is the risk that one party to a financial instrument will fail to discharge a financial obligation and cause the other party to incur a financial loss. In the case of derivatives, this is limited to positive fair values. The Group attempts to mitigate credit risk by monitoring credit exposures, limiting transactions with specific counterparties, and continually assessing the creditworthiness of counterparties.

**a) Concentration risk**

Concentrations of credit risk arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions.

Concentrations of credit risk indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographic location.

The Group manages its credit risk exposure so as to avoid over concentration to a particular sector or geographic location. It also obtains security where appropriate. Guidelines are in place regarding the acceptability of types of collateral and valuation parameters.

The principal collateral types are as follows:

- In the personal sector – cash, mortgages over residential properties and assignments over salary income;
- In the commercial sector – cash, charges over business assets such as premises, inventories, receivables, debt securities and bank guarantees;
- In the commercial real estate sector – charges over the properties being financed; and
- In the financial sector – charges over financial instruments, such as debt securities and equities.

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**32 CREDIT RISK (continued)**

**a) Concentration risk (continued)**

The Group monitors the market value of collateral and requests additional collateral when necessary in accordance with the underlying agreement.

Details of the concentration of the loans and advances by industry sector and geographic region are disclosed in note 7(a) and 7(b) respectively.

Details of the industry sector analysis and the geographical distribution of the assets, liabilities and commitments on behalf of customers are set out in note 33.

**b) Gross maximum exposure to credit risk without taking account of any collateral and other credit enhancements**

The table below shows the gross maximum exposure to credit risk for the components of the balance sheet. The maximum exposure is shown gross, before the effect of mitigation through the use of master netting and collateral agreements, but after provision for credit losses, where applicable.

	<i>Gross maximum exposure 2021</i>	<i>Gross maximum exposure 2020</i>
	<i>US\$ '000</i>	<i>US\$ '000</i>
Balances with central banks	<b>1,698,694</b>	1,620,575
Treasury bills and deposits with central banks	<b>1,731,698</b>	2,333,852
Deposits with banks	<b>4,116,647</b>	3,532,689
Loans and advances	<b>22,075,148</b>	20,719,878
Non-trading investments	<b>9,810,969</b>	9,481,783
Interest receivable, derivative and other assets	<b>553,747</b>	459,430
Total	<b>39,986,903</b>	38,148,207
Contingent liabilities	<b>3,889,246</b>	3,345,551
Undrawn loan commitments	<b>292,122</b>	222,380
Total credit related commitments	<b>4,181,368</b>	3,567,931
Total credit risk exposure	<b>44,168,271</b>	41,716,138

Where financial instruments are recorded at fair value the amounts shown above represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

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**32 CREDIT RISK (continued)**
**c) Credit quality of financial assets**

The tables below shows distribution of financial assets before ECL allowances:

	<u>Stage 1</u>	<u>Stage 2</u>	<u>Stage 3</u>	<u>Total</u>
	<u>US\$ '000</u>	<u>US\$ '000</u>	<u>US\$ '000</u>	<u>US\$ '000</u>
<b>At 31 December 2021</b>				
Balances with central banks:				
High standard grade	1,698,694	-	-	1,698,694
Treasury bills and deposits with central banks:				
High standard grade	1,168,464	-	-	1,168,464
Standard grade	553,825	11,051	-	564,876
Deposits with banks:				
High standard grade	3,947,682	23,883	-	3,971,565
Standard grade	142,172	3,654	-	145,826
Loans and advances:				
High standard grade	13,026,377	596,906	-	13,623,283
Standard grade	6,562,685	2,296,880	-	8,859,565
Credit impaired	-	-	558,530	558,530
Non-trading investments:				
High standard grade	5,958,028	5,036	-	5,963,064
Standard grade	3,818,558	55,610	-	3,874,168
Credit related contingent items:				
High standard grade	5,617,671	247,727	-	5,865,398
Standard grade	2,651,423	218,105	-	2,869,528
Credit impaired*	-	-	46,692	46,692
	<u>Stage 1</u>	<u>Stage 2</u>	<u>Stage 3</u>	<u>Total</u>
	<u>US\$ '000</u>	<u>US\$ '000</u>	<u>US\$ '000</u>	<u>US\$ '000</u>
<b>At 31 December 2020</b>				
Balances with central banks:				
High standard grade	1,620,575	-	-	1,620,575
Treasury bills and deposits with central banks:				
High standard grade	1,749,635	-	-	1,749,635
Standard grade	585,014	-	-	585,014
Deposits with banks:				
High standard grade	3,355,808	12,582	-	3,368,390
Standard grade	160,349	5,379	-	165,728
Loans and advances:				
High standard grade	12,250,904	839,791	-	13,090,695
Standard grade	5,669,036	2,396,008	-	8,065,044
Credit impaired	-	-	558,863	558,863
Non-trading investments:				
High standard grade	6,508,714	-	-	6,508,714
Standard grade	2,904,951	95,060	-	3,000,011
Credit related contingent items:				
High standard grade	5,210,268	183,347	-	5,393,615
Standard grade	2,111,577	204,830	-	2,316,407
Credit impaired*	-	-	53,005	53,005

\* After application of credit conversion factors, credit impaired contingent items amounted to US\$ 21,926 thousand (31 December 2020: US\$ 25,364 thousand).

Except for non-trading investments that are classified as FVTOCI or FVTPL, all the above financial instruments are carried at amortised cost.

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**32 CREDIT RISK (continued)**

**c) Credit quality of financial assets (continued)**

It is the Group's policy to maintain consistent internal risk ratings across the credit portfolio. The credit quality of the portfolio of loans and advances that were neither past due nor impaired can be assessed by reference to the Group's internal credit rating system. This facilitates focused portfolio management of the inherent level of risk across all lines of business. The credit quality ratings disclosed below can be equated to the following risk rating grades, which are either internally applied or external ratings mapped to internal ratings.

<b>Credit quality rating</b>	<b>Risk rating</b>	<b>Definition</b>
High standard	Risk rating 1 to 4	Undoubted through to good credit risk
Standard	Risk rating 5 to 7	Satisfactory through to adequate credit risk
Credit impaired	Risk rating 8 to 10	Substandard through to loss

The risk rating system is supported by various financial analytics and qualitative market information for the measurement of counterparty risk. Refer to note 2.7(g) for detailed ECL measurement methodology.

There are no financial assets which are past due but not impaired as at 31 December 2021 and 2020 other than those disclosed under note 7(d).

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**33 CONCENTRATION ANALYSIS**

The distribution of assets, liabilities and contingent liabilities on behalf of customers by geographic region and industry sector was as follows:

	2021			2020		
	Assets	Liabilities	Contingent liabilities on behalf of customers	Assets	Liabilities	Contingent liabilities on behalf of customers
<b>Geographic region:</b>						
Kingdom of Bahrain	7,058,870	5,713,637	1,041,464	6,983,862	4,976,040	981,801
State of Kuwait	13,901,103	15,747,517	1,430,219	13,054,962	15,709,765	1,357,283
Other GCC countries	6,204,566	3,017,650	224,471	6,480,370	2,989,061	202,764
United Kingdom (UK)	3,668,618	1,856,804	14,617	3,909,726	2,237,987	4,893
Arab Republic of Egypt	4,750,979	3,800,919	715,212	3,917,520	3,362,846	503,850
Europe (excluding UK)	1,540,883	2,400,496	186,034	975,229	2,556,656	207,273
Asia (excluding GCC)	1,758,635	2,153,626	225,859	2,079,646	2,171,664	77,534
United States of America	1,693,036	429,294	10,985	1,459,780	71,978	6,683
Rest of the World	1,336,680	875,462	40,385	1,210,072	958,812	3,470
	<b>41,913,370</b>	<b>35,995,405</b>	<b>3,889,246</b>	<b>40,071,167</b>	<b>35,034,809</b>	<b>3,345,551</b>
<b>Industry sector:</b>						
Banks and other financial institutions	12,461,127	15,455,347	296,430	12,126,345	15,373,807	259,894
Consumer/personal	2,889,600	7,576,972	14,230	2,802,240	7,463,845	15,707
Residential mortgage	1,670,756	23,297	1,317	1,696,614	-	1,331
Trading and manufacturing	7,367,437	2,593,212	1,689,008	7,440,233	2,427,774	1,382,072
Real estate	6,619,159	694,297	63,526	5,942,534	601,415	1,131
Services	4,618,716	3,919,261	1,628,111	4,497,836	3,487,268	1,591,745
Government/public sector	5,899,306	4,619,126	2,669	5,215,266	4,382,811	50,276
Others	387,269	1,113,893	193,955	350,099	1,297,889	43,395
	<b>41,913,370</b>	<b>35,995,405</b>	<b>3,889,246</b>	<b>40,071,167</b>	<b>35,034,809</b>	<b>3,345,551</b>

**34 MARKET RISK**

Market risk is the risk of potential financial loss that may arise from adverse changes in the value of a financial instrument or portfolio of financial instruments due to movements in interest rates, foreign exchange rates, equity prices, commodity prices and derivatives. This risk arises from asset - liability mismatches, changes that occur in the yield curve, foreign exchange rates and changes in volatilities/implied volatilities in the market value of derivatives. The Group classifies exposures to market risk into either trading or non-trading portfolios. Given the Group's low risk strategy, aggregate market risk levels are considered low. The Group utilises Value-at-Risk (VaR) models to assist in estimating potential losses that may arise from adverse market movements in addition to non-quantitative risk management techniques. The market risk for the trading portfolio is managed and monitored on a VaR methodology which reflects the inter-dependency between risk variables. Non-trading portfolios are managed and monitored using stop loss limits and other sensitivity analyses. The data given below is representative of the information during the year.

**i) Value-at-Risk**

The Group calculates historical simulation VaR using a one day holding period at a confidence level of 99%, which takes into account the actual correlations observed historically between different markets and rates.

Since VaR is an integral part of the Group's market risk management, VaR limits have been established for all trading operations and exposures are reviewed daily against the limits by management. Actual outcomes are compared to the VaR model derived predictions on a regular basis as a means of validating the assumptions and parameters used in the VaR calculation.

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**34 MARKET RISK (continued)**
**i) Value-at-Risk (continued)**

The table below summarises the risk factor composition of the VaR including the correlative effects intrinsic to the trading book:

	<i>Foreign exchange</i>	<i>Interest rate</i>	<i>Effects of correlation</i>	<i>Total</i>
	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>
<b>31 December 2021</b>	<b>648</b>	<b>4</b>	<b>0</b>	<b>652</b>
31 December 2020	1,504	3	(0)	1,507

**ii) Interest rate risk**

Interest rate risk arises from the possibility that changes in interest rates will affect the value of financial instruments or the future profitability of the Group. The Group is exposed to interest rate risk as a result of mismatches or gaps in the amounts of assets and liabilities and off balance sheet instruments that mature or reprice in a given period. The Group measures and manages interest rate risk by establishing levels of interest rate risk by setting limits on the interest rate gaps for stipulated periods. Interest rate gaps on assets and liabilities are reviewed periodically and hedging strategies are used to reduce the interest rate gaps to within the limits established by the Bank's Board of Directors.

**Progress in and risks arising from the transition to alternative benchmark interest rates**

Following the decision by global regulators to phase out IBORs and replace them with alternative reference rates and to manage our transition to ABRs, the Group has implemented a comprehensive group-wide program and governance structure that addresses the key areas of impact including contract remediation, funding and liquidity planning, risk management, financial reporting and valuation, systems, processes and client education and communication.

The transition from IBORs to alternative benchmark interest rates will impact GBP and EUR denominated financial instruments referencing LIBOR rates for terms that extend beyond 31 December 2021. The corresponding date for majority of USD IBOR based contracts is 30 June 2023.

The announcement of changes in IBOR setting process has affected the Group's LIBOR linked products, including certain loans, bonds, and derivatives, and defined the dates of their transition to alternative benchmark rates. The fixed spreads to be used in the transition to the relevant alternative benchmark rate for each LIBOR setting were also defined by the respective regulatory bodies.

AUB Group LIBOR Transition Steering Committee is managing the Group's transition activities and continues to engage with various stakeholders to support an orderly transition and to mitigate the risks resulting from the transition.

**Financial instruments that are yet to transit to alternative benchmark interest rates**

The table below summarises the exposures to financial instruments referencing benchmark interest rates subject to the reform that are yet to transit to alternative benchmark interest rates as of 31 December 2021. No significant impact is expected as a result of IBOR change on the transition date.

	<i>Assets</i>	<i>Liabilities</i>	<i>Derivative notional amounts</i>
	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>
<b>Currency</b>			
GBP LIBOR*	42,606	4,883	-
USD LIBOR**	4,569,236	2,547,512	8,834,178
	<b>4,611,842</b>	<b>2,552,395</b>	<b>8,834,178</b>

\*Only deals maturing beyond 31 December 2021

\*\*Only deals maturing beyond 30 June 2023

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**34 MARKET RISK (continued)**
**ii) Interest rate risk (continued)**

The table below provides an analysis of the Group's interest rate risk exposure:

	<i>2021</i>			
	<i>Less than three months</i>	<i>Three months to one year</i>	<i>Over one year</i>	<i>Total</i>
	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>
Cash and balances with central banks	425,228	-	425,228	850,456
Treasury bills and deposits with central banks	1,000,381	731,317	-	1,731,698
Deposits with banks	3,302,750	812,136	1,761	4,116,647
Loans and advances	17,480,187	3,132,223	1,462,738	22,075,148
Non-trading investments	176,889	877,350	8,756,730	9,810,969
	<b>22,385,435</b>	<b>5,553,026</b>	<b>10,646,457</b>	<b>38,584,918</b>
Deposits from banks	4,042,338	167,635	429,000	4,638,973
Borrowings under repurchase agreements	3,618,093	157,406	-	3,775,499
Customers' deposits	16,530,213	5,647,255	3,026,473	25,203,941
Term borrowings	525,000	-	563,822	1,088,822
Subordinated liabilities	9,983	-	-	9,983
	<b>24,725,627</b>	<b>5,972,296</b>	<b>4,019,295</b>	<b>34,717,218</b>
On balance sheet gap	(2,340,192)	(419,270)	6,627,162	3,867,700
Off balance sheet gap	5,063,353	124,677	(5,188,030)	
<b>Total interest sensitivity gap</b>	<b>2,723,161</b>	<b>(294,593)</b>	<b>1,439,132</b>	
<b>Cumulative interest sensitivity gap</b>	<b>2,723,161</b>	<b>2,428,568</b>	<b>3,867,700</b>	
	<i>2020</i>			
	<i>Less than three months</i>	<i>Three months to one year</i>	<i>Over one year</i>	<i>Total</i>
	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>
Cash and balances with central banks	417,368	-	417,367	834,735
Treasury bills and deposits with central banks	1,434,238	899,614	-	2,333,852
Deposits with banks	3,431,299	101,390	-	3,532,689
Loans and advances	16,500,408	2,599,544	1,619,926	20,719,878
Non-trading investments	519,586	426,873	8,535,324	9,481,783
	<b>22,302,899</b>	<b>4,027,421</b>	<b>10,572,617</b>	<b>36,902,937</b>
Deposits from banks	3,132,190	577,878	508,349	4,218,417
Borrowings under repurchase agreements	3,454,269	163,800	-	3,618,069
Customers' deposits	15,968,947	6,646,604	2,567,034	25,182,585
Term borrowings	175,000	-	-	175,000
Subordinated liabilities	10,032	-	-	10,032
	<b>22,740,438</b>	<b>7,388,282</b>	<b>3,075,383</b>	<b>33,204,103</b>
On balance sheet gap	(437,539)	(3,360,861)	7,497,234	3,698,834
Off balance sheet gap	5,451,804	1,028,993	(6,480,797)	
<b>Total interest sensitivity gap</b>	<b>5,014,265</b>	<b>(2,331,868)</b>	<b>1,016,437</b>	
<b>Cumulative interest sensitivity gap</b>	<b>5,014,265</b>	<b>2,682,397</b>	<b>3,698,834</b>	

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**34 MARKET RISK (continued)**

**ii) Interest rate risk (continued)**

The following table demonstrates the sensitivity of the Group's net interest income for the next one year, to a change in interest rates, with all other variables held constant. The sensitivity is based on the floating rate financial assets and financial liabilities held at 31 December 2021 and 2020 including the effect of hedging instruments.

*Sensitivity analysis - interest rate risk*

		<u>2021</u>	<u>2020</u>
		<i>US\$ '000</i>	<i>US\$ '000</i>
At 25 bps - increase (+) / decrease (-)	+/-	<b>6,270</b>	8,872

**iii) Currency risk**

Currency risk is the risk that the functional currency value of a financial instrument will fluctuate due to changes in foreign exchange rates.

The risk management process manages the Group's exposure to fluctuations in foreign exchange rates (currency risk) through the asset and liability management process. It is the Group's policy to reduce its exposure to currency fluctuations to acceptable levels as determined by the Board of Directors. The Board of Directors has established levels of currency risk by setting limits on currency position exposures. Positions are monitored periodically and hedging strategies are used to ensure positions are maintained within the established limits.

The Group's significant net exposures arising out of banking operations as of the consolidated balance sheet date and the effect of change in currency rate by + 1% on the consolidated statement of income is presented below:

	<i>(Loss) / Gain</i>		<i>Net exposures</i>	
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>
Great Britain Pound	<b>(36)</b>	(105)	<b>(3,593)</b>	(10,505)
Euro	<b>(114)</b>	(54)	<b>(11,400)</b>	(5,398)
Egyptian Pound	<b>3,743</b>	1,433	<b>374,328</b>	143,322
Iraqi Dinar	<b>(1,056)</b>	(1,373)	<b>(105,582)</b>	(137,276)
Kuwaiti Dinar	<b>703</b>	69	<b>70,276</b>	6,910

*Sensitivity analysis - currency risk*

All foreign currency exposures with the exception of investments in subsidiaries and associates are captured as part of the trading book. The risk of the exposures are subject to quantification via a daily VaR calculation, the results of which are disclosed in note 34 (i).

The effect of foreign currency translation on the Group's investments in subsidiaries and associates are reported in the "foreign exchange translation reserve" in note 21(h).

**iv) Equity price risk**

Equity price risk arises from fluctuations in equity indices and prices. The Board of Directors has set limits on the amount and type of investments that may be accepted. This is monitored on an ongoing basis by the Group Risk Committee. The non-trading equity price risk exposure arises from the Group's investment portfolio. The Group is not exposed to any significant equity price risk.



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### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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#### 35 LIQUIDITY RISK

Liquidity risk is the risk that the Group does not have sufficient financial resources to meet its obligations as they fall due, or will have to do so at an excessive cost. This risk arises from mismatches in the timing of cash flows. Funding risk arises when the necessary liquidity to fund illiquid asset positions cannot be obtained at the expected terms and when required.

The management of the Group's liquidity and funding is the responsibility of the Group Asset and Liability Committee (GALCO) under the chairmanship of the Deputy Group Chief Executive Officer Treasury and Investments supported by the Group Treasurer, and is responsible for ensuring that all foreseeable funding commitments, including deposit withdrawals, can be met when due, and that wholesale market access is coordinated and controlled.

The Group maintains a stable funding base comprising core retail and corporate customer deposits and institutional balances, augmented by wholesale funding and portfolios of highly liquid assets, which are diversified by currency and maturity, in order to enable the Group to respond quickly to any unforeseen liquidity requirements.

The Group subsidiaries and affiliates maintain a strong individual liquidity position and manage their liquidity profiles so that cash flows are balanced and funding obligations can be met when due.

Treasury limits are set by the GALCO and allocated as required across the various group entities. Specifically GALCO and the Group Treasurer are responsible for:

- projecting cash flows by major currency under various stress scenarios and considering the level of liquid assets necessary in relation thereto;
- monitoring balance sheet liquidity ratios against internal and regulatory requirements;
- maintaining a diverse range of funding sources with adequate back-up facilities;
- managing the concentration and profile of debt maturities;
- managing contingent liquidity commitment exposures within predetermined caps;
- monitoring depositor concentration in order to avoid undue reliance on large individual depositors and ensure a satisfactory overall funding mix; and
- maintaining liquidity and funding contingency plans. These plans must identify early indicators of stress conditions and describe actions to be taken in the event of difficulties arising from systemic or other crises while minimising adverse long-term implications for the business.

During COVID-19, the Group further diversified its funding sources and enhanced its liquidity position. Governments, monetary authorities, regulators and financial institutions, including AUB, have taken and continue to take actions in support of the economy and financial system. These actions include fiscal, monetary and other financial measures to increase liquidity, and provide financial aid to individual, small business, commercial and corporate clients. The Group has maintained strong capital and liquidity positions well above the minimum ratio set by CBB with a Capital Adequacy Ratio (CAR) of 17.0%, Liquidity Coverage Ratio (LCR) of 177.0% and Net Stable Funding Ratio (NSFR) of 118.1% as at 31 December 2021.

The maturity profile of the assets and liabilities at 31 December 2021 and 2020 given below reflects management's best estimates of the maturities of assets and liabilities. These have been determined on the basis of the remaining period at the balance sheet date to the contractual or expected maturity date, where relevant. The liquidity profile of customer deposits has been determined on the basis of the effective maturities indicated by the Group's deposit retention history and the liquidity profile of bonds has been determined on the basis of liquidity requirements.

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**35 LIQUIDITY RISK (continued)**

<b>31 December 2021</b>	<i>Upto three months</i>	<i>Over three months to one year</i>	<i>Above one year</i>	<i>Undated</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>Assets</b>					
Cash and balances with central banks	1,819,841	-	-	-	1,819,841
Treasury bills and deposits with central banks	1,014,171	717,527	-	-	1,731,698
Deposits with banks	3,576,080	540,567	-	-	4,116,647
Loans and advances	9,319,193	3,539,510	9,216,445	-	22,075,148
Non-trading investments	4,740,883	3,524,268	1,658,143	-	9,923,294
Investment in associates	-	-	-	343,076	343,076
Investment properties	-	-	-	188,648	188,648
Interest receivable, derivative and other assets	387,126	465,066	64,008	-	916,200
Premises and equipment	3,589	7,827	31,310	269,203	311,929
Goodwill and other intangible assets	-	-	-	486,889	486,889
<b>Total</b>	<b>20,860,883</b>	<b>8,794,765</b>	<b>10,969,906</b>	<b>1,287,816</b>	<b>41,913,370</b>
<b>Liabilities</b>					
Deposits from banks	3,538,283	148,058	952,632	-	4,638,973
Borrowings under repurchase agreements	309,650	2,221,041	1,244,808	-	3,775,499
Customers' deposits	10,342,187	6,366,835	8,494,919	-	25,203,941
Term borrowings	-	200,000	888,822	-	1,088,822
Interest payable, derivative and other liabilities	765,555	283,984	228,648	-	1,278,187
Subordinated liabilities	-	-	9,983	-	9,983
<b>Total</b>	<b>14,955,675</b>	<b>9,219,918</b>	<b>11,819,812</b>	<b>-</b>	<b>35,995,405</b>
<b>Net liquidity gap</b>	<b>5,905,208</b>	<b>(425,153)</b>	<b>(849,906)</b>	<b>1,287,816</b>	<b>5,917,965</b>

The Group has collateralised borrowing lines of credit with various financial institutions through repurchase arrangements. Refer note 15 for further details.

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**35 LIQUIDITY RISK (continued)**

31 December 2020	<i>Upto three months</i>	<i>Over three months to one year</i>	<i>Above one year</i>	<i>Undated</i>	<i>Total</i>
	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>
<i>Assets</i>					
Cash and balances with central banks	1,747,560	-	-	-	1,747,560
Treasury bills and deposits with central banks	1,444,084	889,768	-	-	2,333,852
Deposits with banks	3,431,367	101,322	-	-	3,532,689
Loans and advances	8,926,427	2,954,383	8,839,068	-	20,719,878
Non-trading investments	4,640,911	3,529,981	1,437,417	-	9,608,309
Investment in associates	-	-	-	303,127	303,127
Investment properties	-	-	-	185,715	185,715
Interest receivable, derivative and other assets	399,984	429,768	27,480	-	857,232
Premises and equipment	2,731	8,192	32,769	253,155	296,847
Goodwill and other intangible assets	-	-	-	485,958	485,958
<b>Total</b>	<b>20,593,064</b>	<b>7,913,414</b>	<b>10,336,734</b>	<b>1,227,955</b>	<b>40,071,167</b>
<i>Liabilities</i>					
Deposits from banks	2,869,495	309,620	1,039,302	-	4,218,417
Borrowings under repurchase agreements	170,591	2,382,389	1,065,089	-	3,618,069
Customers' deposits	9,661,697	4,760,665	10,760,223	-	25,182,585
Term borrowings	-	-	175,000	-	175,000
Interest payable, derivative and other liabilities	1,393,840	267,700	169,166	-	1,830,706
Subordinated liabilities	-	-	10,032	-	10,032
<b>Total</b>	<b>14,095,623</b>	<b>7,720,374</b>	<b>13,218,812</b>	<b>-</b>	<b>35,034,809</b>
<b>Net liquidity gap</b>	<b>6,497,441</b>	<b>193,040</b>	<b>(2,882,078)</b>	<b>1,227,955</b>	<b>5,036,358</b>

The Group has collateralised borrowing lines of credit with various financial institutions through repurchase arrangements. Refer note 15 for further details.

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**35 LIQUIDITY RISK (continued)**

**Analysis of financial liabilities by remaining contractual maturities**

The table below summarises the maturity profile of the Group's financial liabilities (including interest) based on contractual undiscounted repayment obligations. However, the Group's expected cash flows on these instruments vary significantly from this analysis. In particular, customer deposits are expected to maintain stable or increased balances.

	<i>Up to One month</i>	<i>One month to three months</i>	<i>Over three months to one year</i>	<i>Over one year to five years</i>	<i>Over five years</i>	<i>Total</i>
	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>
<b>As at 31 December 2021</b>						
Deposits from banks	2,788,911	751,638	148,644	970,767	-	4,659,960
Borrowings under repurchase agreements	309,794	-	2,228,843	1,265,801	-	3,804,438
Customers' deposits	13,147,923	5,599,979	5,467,309	1,114,979	22,257	25,352,447
Term borrowings	-	-	202,527	939,724	-	1,142,251
Subordinated liabilities	-	-	-	10,295	-	10,295
Interest payable	61,733	36,401	40,208	20,992	-	159,334
<b>Total</b>	<b>16,308,361</b>	<b>6,388,018</b>	<b>8,087,531</b>	<b>4,322,558</b>	<b>22,257</b>	<b>35,128,725</b>
Credit related commitments	28,283	26,804	175,036	40,534	21,465	292,122
Derivatives (net)	(333,356)	-	-	-	-	(333,356)
	<i>Up to One month</i>	<i>One month to three months</i>	<i>Over three months to one year</i>	<i>Over one year to five years</i>	<i>Over five years</i>	<i>Total</i>
	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>
<b>As at 31 December 2020</b>						
Deposits from banks	1,691,393	1,182,678	312,244	1,081,586	-	4,267,901
Borrowings under repurchase agreements	23,550	147,393	2,402,281	1,107,778	-	3,681,002
Customers' deposits	12,059,857	5,215,829	5,293,239	2,882,742	20,775	25,472,442
Term borrowings	-	-	-	182,436	-	182,436
Subordinated liabilities	-	-	-	10,349	-	10,349
Interest payable	59,703	44,525	33,237	11,908	-	149,373
<b>Total</b>	<b>13,834,503</b>	<b>6,590,425</b>	<b>8,041,001</b>	<b>5,276,799</b>	<b>20,775</b>	<b>33,763,503</b>
Credit related commitments	4,806	12,740	42,701	120,320	41,813	222,380
Derivatives (net)	(847,692)	-	-	-	-	(847,692)

**36 OPERATIONAL RISK**

Operational risk is the risk of loss arising from inadequate or failed internal processes, people and systems or from external events, whether intentional, unintentional or natural. This definition includes legal risk, but excludes strategic and reputational risk. It is an inherent risk faced by all businesses and covers a large number of operational risk events including business interruption and systems failures, internal and external fraud, employment practices and workplace safety, customer and business practices, transaction execution and process management, and damage to physical assets.

The BOD acknowledges that it has ultimate responsibility for operational risk. Oversight rests with the Group Risk Committee, whilst day to day monitoring is carried out by the Group Operational Risk Committee.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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**37 LEGAL RISK**

Legal risk is the risk relating to losses due to legal or regulatory action that invalidates or otherwise precludes performance by the end user or its counterparty under the terms of the contract or related netting agreements.

The Group has a dedicated Legal Department whose role is to identify, and provide analysis and advice on the legal risks. The department is governed by the Group Legal Policy approved by the BOD, which facilitates the management and control of operational risks from pending legal actions. The Group Legal Policy is reviewed on a periodic basis.

**38 FAIR VALUE MEASUREMENT**

The fair value of financial assets and financial liabilities, other than those disclosed in the table below and in note 8, approximate their carrying values. Please refer note 8 for the fair value of non-trading investments carried at amortised cost.

The Group's primary medium and long-term financial liabilities are the term debts and subordinated liabilities. The fair values of these financial liabilities are not materially different from their carrying values, since these liabilities are repriced at intervals of three or six months, depending on the terms and conditions of the instrument and the resultant applicable margins approximate the current spreads that would apply for borrowings with similar maturities.

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1 : Quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2: Other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and

Level 3 : Techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

	<i>2021</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	340	72,834	39,151	112,325
Debt instruments (FVTOCI)	1,814,322	138,874	-	1,953,196
Derivative assets	-	120,307	-	120,307
Derivative liabilities	-	453,654	-	453,654
	<i>2020</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	176	87,911	38,439	126,526
Debt instruments (FVTOCI)	1,181,645	101,817	-	1,283,462
Derivative assets	-	166,662	-	166,662
Derivative liabilities	-	1,014,416	-	1,014,416

During the years ended 31 December 2021 and 2020, there have been no transfers between Levels 1, 2 and 3 and no significant movements were noted in Level 3 investments.

For an explanation of valuation techniques used to value these financial instruments, refer to note 2.7(f).

The significant inputs for valuation of equity securities classified under Level 3 are annual growth rate of cash flows and discount rates and for funds, it is the illiquidity discount. Lower growth rate and higher discount rate, illiquidity discount will result in a lower fair value. The impact on the consolidated balance sheet or the consolidated statement of shareholders' equity would be immaterial if the relevant risk variables used to fair value the unquoted securities were altered by five per cent. There were no material changes in the valuation techniques used for the purpose of measuring fair value of investment securities as compared to the previous year.

**Ahli United Bank B.S.C.**

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**39 CAPITAL ADEQUACY AND NET STABLE FUNDING RATIO (NSFR)**

The primary objectives of the Group's capital management policies are to ensure that the Group complies with externally imposed capital requirements and that the Group maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise shareholders' value. Capital adequacy for each of the Group companies is also managed separately at individual company level. The Group does not have any significant restrictions on its ability to access or use its assets and settle its liabilities other than any restrictions that may result from the supervisory frameworks within which the banking subsidiaries operate.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividend payment to shareholders or issue capital securities. No changes were made in the objectives, policies and processes from the previous year.

The total capital ratio is calculated in accordance with the capital adequacy guidelines, under Basel III, issued by the CBB. The minimum capital adequacy ratio as per CBB is 12.5%. The Group's total capital ratio is 17.0% as of 31 December 2021 (31 December 2020: 16.1%).

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%. However, as per CBB circular OG/106/2020 dated 17 March 2020, OG/296/2020 dated 26 August 2020, OG/431/2020 dated 29 December 2020 and OG/417/2021 dated 23 December 2021, the limit is reduced to 80% until 30 June 2022, to contain the financial repercussions of COVID-19. The Group's consolidated NSFR ratio as of 31 December 2021 is 118.1% (31 December 2020: 117.0%).

	<u>2021</u>	<u>2020</u>
	<i>US\$ '000</i>	<i>US\$ '000</i>
<b>Available Stable Funding:</b>		
Regulatory capital	<b>6,270,390</b>	5,539,056
Stable deposits	<b>6,958,945</b>	6,381,437
Wholesale funding	<b>13,039,788</b>	12,707,451
Others	<b>650,939</b>	480,576
<b>Total Available Stable Funding (A)</b>	<b>26,920,062</b>	25,108,520
<b>Required Stable Funding:</b>		
High-Quality Liquid Assets (HQLA)	<b>1,439,864</b>	1,798,935
Performing loans	<b>14,730,855</b>	13,552,637
Securities (other than HQLA)	<b>3,341,785</b>	2,734,716
Derivative contracts	<b>283,217</b>	587,712
Others	<b>2,562,446</b>	2,405,618
Off-Balance sheet items	<b>438,989</b>	388,174
<b>Total Required Stable Funding (B)</b>	<b>22,797,156</b>	21,467,792
<b>NSFR (%) (A/B)</b>	<b>118.1%</b>	117.0%

**40 DEPOSIT PROTECTION SCHEME**

Certain customers' deposits of the Group are covered by deposit protection schemes established by the CBB, the Financial Services Compensation Scheme, UK and Central Bank of Iraq.

Kingdom of Bahrain: Customers' deposits held with the Bank in the Kingdom of Bahrain are covered by the Regulation Protecting Deposits issued by the CBB in accordance with Resolution No. (34) of 2010. This scheme covers eligible 'natural persons' (individuals) up to a maximum of Bahraini Dinar 20,000 as set out by CBB requirements. A periodic contribution, as mandated by the CBB, is paid by the Bank under this scheme.

United Kingdom: Customers' deposits in AUBUK are covered under the Financial Services Compensation Scheme, up to a limit of GBP 85,000 per customer. No up-front contribution is currently mandated under this scheme and no liability is due unless any member bank of the scheme is unable to meet its depository obligations.

**Ahli United Bank B.S.C.**
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**40 DEPOSIT PROTECTION SCHEME (continued)**

Republic of Iraq: Customers' deposits held with the Bank in the Iraq are covered by the Regulation Protecting Deposits issued by the Central Bank of Iraq in accordance with Resolution No. (121) of 2018 up to a maximum limit of IQD 25 million per customer and an overall limit of IQD 150 million per bank.

**41 ISLAMIC BANKING AND INSURANCE ACTIVITIES**

The Group's Shari'a compliant Islamic activities are offered through its Islamic Banking subsidiary AUBK, Takaful subsidiary of AHL, Islamic Banking associate UBCI and dedicated Islamic banking branches/windows at AUB Bahrain and AUBUK. The results of its Islamic Banking activities are presented below.

**BALANCE SHEET AT 31 DECEMBER**

	<i>Note</i>	<u>2021</u>	<u>2020</u>
		<i>US\$ '000</i>	<i>US\$ '000</i>
<b>ASSETS</b>			
Cash and balances with central banks		537,842	538,486
Deposits with central banks		612,600	905,115
Deposits with banks	(a)	974,674	726,540
Receivable balances from Islamic financing	(b)	13,209,322	12,503,119
Financial investments		1,731,048	2,040,424
Investment in associates		26,678	25,647
Investment properties		65,847	60,543
Profit receivable and other assets		174,984	115,315
Premises and equipment		130,716	132,924
<b>TOTAL ASSETS</b>		<b>17,463,711</b>	<b>17,048,113</b>
<b>LIABILITIES</b>			
Deposits from banks	(c)	1,811,432	1,479,484
Customers' deposits	(d)	11,470,139	12,349,420
Long term Sukuk payable		563,822	-
Repurchase agreements with banks		-	25,011
Profit payable and other liabilities		320,548	286,289
Restricted investment		17,842	25,793
		<b>14,183,783</b>	<b>14,165,997</b>
<b>EQUITY OF UNRESTRICTED INVESTMENT ACCOUNTHOLDERS</b>		<b>672,253</b>	<b>765,911</b>
<b>TOTAL LIABILITIES AND EQUITY OF UNRESTRICTED INVESTMENT ACCOUNTHOLDERS</b>		<b>14,856,036</b>	<b>14,931,908</b>
<b>TOTAL EQUITY</b>		<b>2,607,675</b>	<b>2,116,205</b>
<b>TOTAL LIABILITIES, EQUITY OF UNRESTRICTED INVESTMENT ACCOUNTHOLDERS AND EQUITY</b>		<b>17,463,711</b>	<b>17,048,113</b>

**Ahli United Bank B.S.C.**
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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**41 ISLAMIC BANKING AND INSURANCE ACTIVITIES (continued)**

<b>STATEMENT OF INCOME FOR THE YEAR ENDED 31 DECEMBER</b>	<i>Note</i>	<u>2021</u>	<u>2020</u>
		<i>US\$ '000</i>	<i>US\$ '000</i>
Net income from Islamic financing	(e)	<b>334,024</b>	339,290
		<b>334,024</b>	339,290
Fees and commissions - net		<b>30,879</b>	31,170
Other operating income		<b>25,418</b>	21,189
Foreign exchange gains		<b>12,008</b>	11,792
<b>OPERATING INCOME</b>		<b>402,329</b>	403,441
Provision for financing receivables and others		<b>81,176</b>	102,187
<b>NET OPERATING INCOME</b>		<b>321,153</b>	301,254
Staff costs		<b>67,560</b>	62,942
Depreciation		<b>14,643</b>	13,553
Other operating expenses		<b>45,435</b>	40,341
<b>OPERATING EXPENSES</b>		<b>127,638</b>	116,836
<b>PROFIT BEFORE TAX AND ZAKAT</b>		<b>193,515</b>	184,418
Tax expense and zakat		<b>4,342</b>	5,366
<b>PROFIT BEFORE THE SHARE OF PROFIT OF EQUITY OF UNRESTRICTED INVESTMENT ACCOUNT HOLDERS</b>		<b>189,173</b>	179,052
Less: Share of profit of equity of unrestricted investment account holders		<b>5,325</b>	7,403
<b>NET PROFIT FOR THE YEAR</b>		<b>183,848</b>	171,649
<i>Attributable to:</i>			
Owners of the Bank		<b>157,829</b>	146,836
Non-controlling interests		<b>26,019</b>	24,813
		<b>183,848</b>	171,649
<i>Notes</i>		<u>2021</u>	<u>2020</u>
		<i>US\$ '000</i>	<i>US\$ '000</i>
<b>(a) Deposits with banks</b>			
Murabaha finance with other banks		<b>566,555</b>	399,483
Wakala with banks		<b>338,060</b>	256,488
Current accounts and others		<b>70,059</b>	70,569
		<b>974,674</b>	726,540



**Ahli United Bank B.S.C.**
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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**41 ISLAMIC BANKING AND INSURANCE ACTIVITIES (continued)**
*Notes (continued)*

	<u>2021</u>	<u>2020</u>
	<i>US\$ '000</i>	<i>US\$ '000</i>
<b>(b) Receivable balances from Islamic financing</b>		
Tawarruq receivables	<b>8,686,312</b>	7,961,610
Murabaha receivables	<b>3,124,656</b>	3,090,890
Ijara receivables	<b>1,794,459</b>	1,904,929
Others	<b>19,695</b>	24,636
Less: Allowance for impairment	<b>(415,800)</b>	(478,946)
	<b>13,209,322</b>	12,503,119
	<u>2021</u>	<u>2020</u>
	<i>US\$ '000</i>	<i>US\$ '000</i>
<b>(c) Deposits from banks</b>		
Murabaha	<b>553,583</b>	930,442
Wakala	<b>1,246,034</b>	541,399
Current accounts	<b>11,815</b>	7,643
	<b>1,811,432</b>	1,479,484
	<u>2021</u>	<u>2020</u>
	<i>US\$ '000</i>	<i>US\$ '000</i>
<b>(d) Customers' deposits</b>		
Wakala	<b>7,199,434</b>	7,405,693
Murabaha	<b>2,831,857</b>	3,535,156
Current accounts	<b>1,438,848</b>	1,408,571
	<b>11,470,139</b>	12,349,420
	<u>2021</u>	<u>2020</u>
	<i>US\$ '000</i>	<i>US\$ '000</i>
<b>(e) Net income from Islamic financing</b>		
Income from Tawarruq	<b>234,441</b>	248,152
Income from Murabaha	<b>149,396</b>	203,209
Income from Ijara	<b>72,385</b>	85,341
Income from financial investments and others	<b>45,260</b>	63,695
<b>Income from Islamic financing</b>	<b>501,482</b>	600,397
Profit expense on Wakala	<b>103,427</b>	131,346
Profit expense on Murabaha and others	<b>64,031</b>	129,761
<b>Less: Distribution to depositors</b>	<b>167,458</b>	261,107
<b>Net income from Islamic financing</b>	<b>334,024</b>	339,290

**42 SUBSIDIARIES**

Financial information of subsidiaries that has material non-controlling interests is provided below.

**Proportion of equity interest held by non-controlling interests are provided below:**

<i>Name</i>	<i>Incorporated in</i>	<u>2021</u>	<u>2020</u>
Ahli United Bank K.S.C.P. [AUBK]	State of Kuwait	<b>25.1%</b>	25.1%
Ahli United Bank (Egypt) S.A.E. [AUBE]	Arab Republic of Egypt	<b>4.3%</b>	4.3%

**Ahli United Bank B.S.C.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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**42 SUBSIDIARIES (continued)**

	<i>2021</i>	<i>2020</i>
	<i>US\$ '000</i>	<i>US\$ '000</i>
<b>Accumulated material non-controlling interests as at 31 December:</b>		
Ahli United Bank K.S.C.P.	<b>381,191</b>	359,929
Ahli United Bank (Egypt) S.A.E.	<b>24,696</b>	22,091
<b>Profit allocated to material non-controlling interests:</b>		
Ahli United Bank K.S.C.P.	<b>26,019</b>	24,813
Ahli United Bank (Egypt) S.A.E.	<b>2,903</b>	3,148

Summarised financial information of AUBK and AUBE is provided below. The information is based on amounts as reported in the consolidated financial statements before inter-company eliminations and adjustments.

	<i>2021</i>	<i>2020</i>
	<i>US\$ '000</i>	<i>US\$ '000</i>
<b>Ahli United Bank K.S.C.P. (AUBK)</b>		
<b><i>Balance sheet related information</i></b>		
Loans and advances	<b>11,048,423</b>	10,267,715
Non-trading investments	<b>1,258,976</b>	1,294,285
Total assets	<b>15,118,792</b>	14,410,546
Customers' deposits	<b>11,301,799</b>	11,833,856
Total liabilities	<b>12,977,785</b>	12,751,179
<b><i>Income statement related information</i></b>		
Total operating income	<b>303,058</b>	295,681
Net profit attributable to shareholders	<b>103,485</b>	96,905
Total comprehensive income attributable to shareholders	<b>104,126</b>	97,565
Dividends paid to non-controlling interest	-	22,713
<b><i>Cash flow related information</i></b>		
Net cash (used in) / from operating activities	<b>(587,767)</b>	410,017
Net cash from / (used in) investing activities	<b>11,028</b>	(211,976)
Net cash from / (used in) financing activities	<b>374,679</b>	(101,878)
<b>Ahli United Bank (Egypt) S.A.E. (AUBE)</b>		
<b><i>Balance sheet related information</i></b>		
Loans and advances	<b>2,336,101</b>	1,887,793
Non-trading investments	<b>829,812</b>	599,999
Total assets	<b>4,100,508</b>	3,583,362
Customers' deposits	<b>3,410,631</b>	2,966,155
Total liabilities	<b>3,517,782</b>	3,061,726
<b><i>Income statement related information</i></b>		
Total operating income	<b>168,674</b>	162,933
Net profit attributable to shareholders	<b>74,863</b>	77,012
Total comprehensive income attributable to shareholders	<b>70,821</b>	71,033
Dividends paid to non-controlling interests	-	4,132
<b><i>Cash flow related information</i></b>		
Net cash from operating activities	<b>333,139</b>	66,483
Net cash used in investing activities	<b>(253,840)</b>	(8,618)
Net cash used in financing activities	<b>(8,373)</b>	(36,585)

**Ahli United Bank B.S.C.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

31 December 2021

**43 IMPACT OF COVID-19 OUTBREAK**

The Group considered the potential impact of the uncertainties caused by the COVID-19 pandemic together with the associated economic support and relief measures of governments and central banks in its estimation of ECL requirements for the years ended 31 December 2020 and 2021.

*Significant increase in credit risk*

The Group considered the following aspects to assess if there was a significant increase in credit risk or objective evidence of impairment in the light of COVID-19 situation.

- Temporary financial difficulties of the customers are distinguished from longer-term or permanent impact.
- Customers operating in certain sectors or industries are likely to be more severely impacted;
- Deferral of instalments or profit payments on financing facilities;
- Retail facilities to certain customer segment are more likely to have significant increase in credit risk arising from job losses and pay cuts; and
- Significant corporate exposures are individually assessed to identify significant increase in credit risk as and when reliable data is available.

The above assessment has resulted in staging downgrade of certain exposures and resultant increase in ECL.

*Macro-economic factors*

The Group considered of volatility witnessed in the range of macroeconomic factors and in the scenarios used for determination of ECL. In particular, given the continuing uncertainty stemming from COVID-19, the Group revised certain assumptions reflected through constructing a plausible forward-looking view of the macroeconomic environment. The uncertainties in the current market caused by the pandemic, may not be fully captured in the modelled results, and therefore a higher level of expert credit judgement has been applied on the ECL estimates. These adjustments resulted in significant increase in the amount of ECL charge for the years ended 31 December 2020 and 2021 as compared to prior years.

Following a year of economic distress due to COVID-19 pandemic causing a global GDP growth contraction of 4.9% in 2020, global economic activity gained momentum in 2021 along with revival of crude oil prices resulting in expected global GDP growth rate of 5.6% in 2021. The outlook for the GCC region improved from Q1-2021, with economies benefiting from high level of vaccination and reopening of domestic and global economies. While GDP growth of GCC economies contracted by 4.8% in 2020, during 2021 GDP growth was 2.7%. GDP growth rate is forecast at 3.8% in 2022. Further, Brent crude oil prices rebounded to average price of US\$ 68 per barrel in 2021 from average US\$ 41 per barrel in 2020. During 2022, average crude oil prices is expected to be US \$ 70 per barrel on the back of increase in oil demand across the globe.

The Group has performed an assessment of relevant macro-economic information including key macro-economic factors noted above and has incorporated this into its forward-looking information to estimate PDs, LGDs and EADs. On the resultant ECL calculated using the estimated PDs, LGDs and EADs, scenario weights (i.e. base, upside and downside) are applied to arrive at a weighted average ECL. These scenario weights were revised during 2021, consequent to perceived improvement in economic operating conditions during 2021. The scenario weights applied during the year ended 2021 in the measurement of ECL are base case 35% (2020: 30%), upside 20% (2020: 10%) and downside 45% (2020: 60%).

The impact of change by 1% in GDP growth rate on the ECL will be +/- US\$ 0.9 million (2020: US\$ 1.1 million) and the impact of change in 5% of crude oil price per barrel on the ECL will be +/- US\$ 0.7 million (2020: US\$ 0.5 million).

*Other impacts*

The Group considered the potential impact of the current economic volatility on the reported amounts in the Group's consolidated financial statement. The reported amounts best represent management's assessment based on observable information. The impact of the highly uncertain economic environment remains judgemental and the Group will accordingly continue to reassess its position and the related impact on a regular basis.

**Ahli United Bank B.S.C.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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**44 TRANSACTION WITH KUWAIT FINANCE HOUSE K.S.C.P. (KFH)**

The shareholders of Kuwait Finance House K.S.C.P (“KFH”), in its AGM / EGM held on 20 January 2020, approved the pursuit of the acquisition of Ahli United Bank B.S.C. (“AUB”/ “Bank”), through a firm voluntary conditional offer to acquire 100% of the issued and paid up shares of the Bank by way of a share swap, at the exchange ratio of 2.325581 AUB shares for each KFH share following approval by the Bank’s Board of Directors on 12 September 2019. The KFH approval was conditional on securing a minimum 85% acceptance rate for its tender offer and the proposed acquisition is subject to conditions precedent and all relevant regulatory and shareholder approvals.

However, subsequently the proposed acquisition procedures were suspended until December 2020 due to the prevailing unprecedented circumstances relating to the Covid-19 pandemic. During December 2020, the AUB Board of Directors, in consultation with KFH Board of Directors, and subject to necessary regulatory approvals, agreed to extend the suspension period for the resumption of the acquisition of AUB by KFH, until completion of KFH’s updated assessments to be conducted by the international advisor appointed by KFH in this respect.

During December 2021, the AUB Board of Directors, in coordination with KFH and regulatory authorities, agreed to the update of financial and legal due diligence studies, and the resumption of all connected procedures related to the acquisition, including the assessment of the impact of such studies on the final share exchange ratio. AUB has re-appointed the specialised professional advisors previously appointed to provide AUB with the necessary financial, tax (KPMG) and legal (Linklaters LLP) studies regarding the transaction. AUB has and will disclose on the Bahrain Bourse and Boursa Kuwait, any relevant developments on this matter, as required, on a prompt ongoing basis, to ensure transparency and to comply with governing laws and regulations.

**AHLI UNITED BANK B.S.C.**  
**SUPPLEMENTARY FINANCIAL INFORMATION**  
At 31 December 2021

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**(The attached financial information do not form part of the  
consolidated financial statements)**



**Ahli United Bank B.S.C.**

**Supplementary Public Disclosure- Financial Impact of COVID-19 For Year Ended  
31 December 2021**

As part of the objective to maintain enhanced transparency amidst the current implications of Coronavirus (COVID-19) and pursuant to the Central Bank of Bahrain instructions, the AUB Group herein provides additional supplementary information pertaining to the financial impact of COVID-19 on its consolidated financial statements for the year ended 31 December 2021.

The COVID-19 pandemic continues to severely impact the global economy, causing wide spread disruption to business and economic activities resulting in significant uncertainties in the operating environment. At the end of 2021, resurgence of Covid-19 virus variant Omicron and resultant health situation has again forced governments to take precautionary curbs impacting the business sentiment which is exasperated by shortages of raw materials and components affecting production in many key industries for e.g., vehicles, mobile phones and energy. On the other hand, inflationary pressures are forcing central banks to consider interest rate increases. As a result of these market dynamics, global financial markets are still subject to volatility given the evolving developments and uncertainty. Some governments and central banks have extended monetary and fiscal interventions to stabilize economic and market conditions.

In the GCC region, Governments have conducted successful vaccination programs which ensured that majority of the population have been vaccinated (including booster dosage in the Kingdom of Bahrain) and have taken proactive steps to ensure opening-up of local economies and return of customer confidence. Currently its projected that the impact of the recent surge in Covid variant Omicron may not be as severe as the earlier Delta variant while businesses expect curbs imposed will be retained for a shorter time frame than earlier. Further, recent recovery in oil prices is expected to assist in stimulating recovery of local economies and boost business confidence.

The Central Bank of Bahrain (CBB) issued a circular on 27 May 2021, directing banks to offer customers six months' installments deferment options up to 31 December 2021 with interest charge and also extending various regulatory support measures to financial institutions up to 31 December 2021. This was followed by CBB, per circular dated 23 December 2021 again extending these reliefs up to 30 June 2022.



These regulatory support measures included the following:

- Reduction of the cash reserve ratio from 5% to 3% by the CBB;
- Reduction of liquidity coverage ratio (LCR) and net stable funding ratio (NSFR) from 100% to 80%;
- SMEs risk weight reduced from 75% to 25%;
- Reduction of cooling off period for transferring exposures from stage 3 to stage 2, relaxation concerning the days past due for ECL staging criteria from stage 1 to stage 2 of 74 days, and relaxation requirement on LTV ratio for residential mortgages.

For regulatory capital adequacy ratio, CBB has deferred the amortization of modification loss and 2020 ECL charge up to 30 June 2022.

The table below summarizes the overall financial impact of the above for year 2021:

**Overall Impact on Consolidated Financial Statements**

	Net Impact (In US\$ millions)		
	Consolidated Statement of Income	Consolidated Balance Sheet (Assets)	Group's Equity attributable to Owners
<b>Reduction in Cash Reserve with CBB</b>	-	62.1	-

**Other COVID-19 Impacts:**

AUB Group reported a net profit attributable to its equity shareholders of US\$ 607.2 million for year 2021, representing an increase of 34.3%, as compared to US\$ 452.2 million achieved in 2020.

In response to the ongoing COVID 19 pandemic related trajectory and projected market impact, regulators sustained the very low-key benchmark interest rates following the rate cuts by the US Federal Reserve beginning H2/2019 and in Q1/2020. Net Interest Income increased by US\$ 72.4 million (+9.1%) primarily due to asset growth, judicious asset mix and reduction in funding costs driven by lower liquidity premia.



The AUB Group assessed its Stage 1 and Stage 2 ECL gross provisions on performing loans and advances as a pre-cautionary measure in accordance with IFRS-9 taking into consideration the projected direction of macro-economic variables and level of assessed management overlays to cover any inherent Significant Increase in Credit Risk (SICR) in specific sectors and in the overall portfolio given the uncertain and evolving impact of the COVID-19 pandemic. Accordingly, ECL provisions charge on loans and advances was of US\$ 165.8 million during 2021.

The AUB Group continued to make donations in various jurisdictions in which the Group operates to support humanitarian and relief efforts in the wake of COVID-19 pandemic and made donations amounting to US\$ 1.0 million in 2021.

The AUB Group continues to comply with respective governmental guidelines and regulations and adherence to precautionary measures to ensure health and safety of the AUB customers and staff during the COVID-19 pandemic period. The Group has also invested in its operational and technical capabilities to provide easy continuous access to its clients to securely conduct their business needs on a remote basis as well as to enhance the ability and training of its staff to handle their responsibilities from remote locations, as applicable, in a controlled manner as required by pandemic conditions.

The above supplementary information should not be relied upon for any other purposes. Since the COVID-19 situation is uncertain and its consequences are still evolving, its impact on the financial results of the bank is presented as assessed on the date of preparation of this information. Circumstances may change which may result in this information becoming out of date or requiring appropriate modification. It is also important to note that this information has not been subject to review by the external auditors and does not form part of the consolidated financial statements for the year ended 31 December 2021.



**AHLI UNITED BANK B.S.C.**  
**INTERIM CONDENSED CONSOLIDATED**  
**FINANCIAL STATEMENTS**  
**30 JUNE 2022**



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C.R. No. 29977-1

## REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS TO THE BOARD OF DIRECTORS OF AHLI UNITED BANK B.S.C.

### *Introduction*

We have reviewed the accompanying interim condensed consolidated financial statements of Ahli United Bank B.S.C. (the "Bank") and its subsidiaries (the "Group") as at 30 June 2022, comprising of the interim condensed consolidated balance sheet as at 30 June 2022 and the related interim condensed consolidated statements of income, comprehensive income for the three month period and six month period then ended, and the interim condensed consolidated statement of cash flows and changes in equity for the six month period then ended and explanatory notes. The Bank's Board of Directors is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Accounting Standard IAS 34 Interim Financial Reporting ("IAS 34"). Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

### *Scope of Review*

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### *Conclusion*

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34.

4 August 2022  
Manama, Kingdom of Bahrain

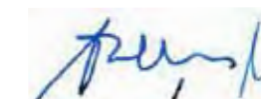
**AHLI UNITED BANK B.S.C.**
**INTERIM CONDENSED CONSOLIDATED STATEMENT OF INCOME**

Six months ended 30 June 2022 (Reviewed)

	Note	<i>Three months ended</i>		<i>Six months ended</i>	
		<i>30 June</i>		<i>30 June</i>	
		<i>2022</i>	<i>2021</i>	<i>2022</i>	<i>2021</i>
		<i>USD'000</i>	<i>USD'000</i>	<i>USD'000</i>	<i>USD'000</i>
Interest income		376,273	330,288	717,251	656,465
Interest expense		157,632	115,625	286,519	234,809
Net interest income		218,641	214,663	430,732	421,656
Fees and commissions - net		27,337	23,978	54,772	53,471
Trading income		9,015	8,123	19,139	16,647
Investment and other income		37,883	14,390	98,884	60,399
Fees and other income		74,235	46,491	172,795	130,517
<b>OPERATING INCOME</b>		<b>292,876</b>	<b>261,154</b>	<b>603,527</b>	<b>552,173</b>
Provision for credit losses and others	6c	19,202	31,965	52,785	62,816
<b>NET OPERATING INCOME</b>		<b>273,674</b>	<b>229,189</b>	<b>550,742</b>	<b>489,357</b>
Staff costs		43,729	44,079	89,558	86,633
Depreciation		8,444	8,610	17,241	16,954
Other operating expenses		30,869	20,650	63,409	50,485
<b>OPERATING EXPENSES</b>		<b>83,042</b>	<b>73,339</b>	<b>170,208</b>	<b>154,072</b>
<b>PROFIT BEFORE TAX AND ZAKAT</b>		<b>190,632</b>	<b>155,850</b>	<b>380,534</b>	<b>335,285</b>
Tax expense and zakat		12,373	10,055	20,290	19,494
<b>NET PROFIT FOR THE PERIOD</b>		<b>178,259</b>	<b>145,795</b>	<b>360,244</b>	<b>315,791</b>
Net profit attributable to non-controlling interests		8,292	6,854	19,340	17,234
<b>NET PROFIT ATTRIBUTABLE TO THE OWNERS OF THE BANK</b>		<b>169,967</b>	<b>138,941</b>	<b>340,904</b>	<b>298,557</b>
<b>EARNINGS PER SHARE ATTRIBUTABLE TO THE OWNERS OF THE BANK FOR THE PERIOD:</b>					
Basic and diluted earnings per ordinary share (US cents)	3	1.3	1.1	2.9	2.5


**Meshal AbdulAziz Alothman**  
Chairman


**Mohammad Al-Ghanim**  
Deputy Chairman


**Adel A. El-Labban**  
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.**

**INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

Six months ended 30 June 2022 (Reviewed)

	<i>Three months ended</i>		<i>Six months ended</i>	
	<i>30 June</i>		<i>30 June</i>	
	<i>2022</i>	<i>2021</i>	<i>2022</i>	<i>2021</i>
	<i>USD'000</i>	<i>USD'000</i>	<i>USD'000</i>	<i>USD'000</i>
<b>Net profit for the period</b>	<b>178,259</b>	145,795	<b>360,244</b>	315,791
<b>Other Comprehensive Income (OCI)</b>				
<b>Items that will not be reclassified subsequently to consolidated statement of income</b>				
Net change in fair value of equity investments measured at fair value through OCI	(1,424)	(663)	3,382	5,431
Net change in pension fund reserve	(4,018)	4,819	(5,592)	11,615
<b>Items that may be reclassified subsequently to consolidated statement of income</b>				
Foreign currency translation adjustments	(40,405)	9,051	(145,610)	11,617
Net change in fair value of debt instruments held as fair value through OCI	(27,407)	18,068	(55,134)	4,971
Transfers to consolidated statement of income arising on sale of debt instruments	(1,167)	906	(1,967)	(2,066)
Net change in fair value of cash flow hedges	13,255	(6,560)	32,291	10,264
<b>Other comprehensive (loss) income for the period</b>	<b>(61,166)</b>	25,621	<b>(172,630)</b>	41,832
<b>Total comprehensive income for the period</b>	<b>117,093</b>	171,416	<b>187,614</b>	357,623
Total comprehensive income attributable to non-controlling interests	3,830	8,493	8,742	19,858
<b>Total comprehensive income attributable to the owners of the Bank</b>	<b>113,263</b>	162,923	<b>178,872</b>	337,765

The attached notes 1 to 13 form part of these interim condensed consolidated financial statements

**AHLI UNITED BANK B.S.C.**
**INTERIM CONDENSED CONSOLIDATED BALANCE SHEET**

30 June 2022 (Reviewed)

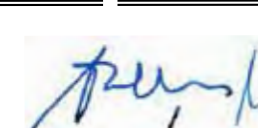
		<i>(Reviewed)</i>	<i>(Audited)</i>
		<i>30 June</i>	<i>31 December</i>
		<i>2022</i>	<i>2021</i>
	<i>Note</i>	<i>US\$ '000</i>	<i>US\$ '000</i>
<b>ASSETS</b>			
Cash and balances with central banks		<b>1,406,108</b>	1,819,841
Treasury bills and deposits with central banks		<b>2,267,761</b>	1,731,698
Deposits with banks		<b>5,907,454</b>	4,116,647
Loans and advances	6	<b>22,002,045</b>	22,075,148
Non-trading investments	7	<b>9,718,533</b>	9,923,294
Investment in associates		<b>341,712</b>	343,076
Investment properties		<b>187,661</b>	188,648
Interest receivable, derivative and other assets		<b>1,254,898</b>	916,200
Premises and equipment		<b>317,751</b>	311,929
Goodwill and other intangible assets		<b>468,768</b>	486,889
<b>TOTAL ASSETS</b>		<b>43,872,691</b>	41,913,370
<b>LIABILITIES AND EQUITY</b>			
<b>LIABILITIES</b>			
Deposits from banks		<b>4,429,632</b>	4,638,973
Borrowings under repurchase agreements		<b>4,186,731</b>	3,775,499
Customers' deposits		<b>27,435,745</b>	25,203,941
Term borrowings		<b>1,049,534</b>	1,088,822
Interest payable, derivative and other liabilities		<b>998,824</b>	1,278,187
Subordinated liabilities		<b>9,496</b>	9,983
<b>TOTAL LIABILITIES</b>		<b>38,109,962</b>	35,995,405
<b>EQUITY</b>			
Ordinary share capital		<b>2,786,983</b>	2,533,621
Reserves		<b>1,530,846</b>	1,936,083
Equity attributable to the owners of the Bank		<b>4,317,829</b>	4,469,704
Perpetual Tier 1 Capital Securities		<b>1,000,000</b>	1,000,000
Non-controlling interests		<b>444,900</b>	448,261
<b>TOTAL EQUITY</b>		<b>5,762,729</b>	5,917,965
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>43,872,691</b>	41,913,370



**Meshal AbdulAziz Alothman**  
Chairman



**Mohammad Al-Ghanim**  
Deputy Chairman



**Adel A. El-Labban**  
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.**
**INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS**

Six months ended 30 June 2022 (Reviewed)

	Note	Six months ended	
		30 June	
		2022	2021
		US\$ '000	US\$ '000
<b>OPERATING ACTIVITIES</b>			
Profit before tax and zakat		380,534	335,285
Adjustments for:			
Depreciation		17,241	16,954
Investment and other income		(47,518)	(40,946)
Provision for credit losses and others	6c	52,785	62,816
Share of profit from associates		(16,745)	(16,254)
Operating profit before changes in operating assets and liabilities		386,297	357,855
Changes in:			
Mandatory reserve deposits with central banks		(39,426)	(81,872)
Treasury bills and deposits with central banks		(42,267)	445,452
Deposits with banks		(472,211)	(282,843)
Loans and advances		52,293	(719,677)
Interest receivable, derivatives and other assets		(18,254)	20,139
Deposits from banks		(209,341)	299,698
Borrowings under repurchase agreements		411,232	61,984
Customers' deposits		2,231,804	(739,037)
Interest payables, derivatives and other liabilities		22,234	(50,292)
Net cash flows generated from / (used in) operations		2,322,361	(688,593)
Income tax and zakat paid		(20,818)	(21,417)
Net cash flows generated from / (used in) operating activities		2,301,543	(710,010)
<b>INVESTING ACTIVITIES</b>			
Purchase of non-trading investments		(2,135,684)	(1,957,725)
Proceeds from sale or redemption of non-trading investments		1,721,311	1,809,599
Additional investment in subsidiary		-	(8,628)
Right subscription in an associate		-	(27,545)
Net decrease in investment properties		-	14,399
Net increase in premises and equipment		(21,504)	(19,701)
Dividends received from associates		13,293	8,862
Net cash flows used in investing activities		(422,584)	(180,739)
<b>FINANCING ACTIVITIES</b>			
Additional Perpetual Tier 1 Capital Securities issued		-	600,000
Redemption of Perpetual Tier 1 Capital Securities		-	(39,185)
Expenses related to Perpetual Tier 1 Sukuk issued and others		-	(2,102)
Distribution on Perpetual Tier 1 Capital Securities		(23,303)	(17,490)
Additional term debts		-	350,000
Dividends and other appropriations paid		(304,034)	(119,005)
Dividends paid to non-controlling interests		(8,837)	-
Net cash flows (used in) / generated from financing activities		(336,174)	772,218
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>		<b>1,542,785</b>	<b>(118,531)</b>
Net foreign exchange difference		(22,039)	1,362
Cash and cash equivalents at 1 January		2,609,526	2,976,999
<b>CASH AND CASH EQUIVALENTS AT 30 JUNE</b>		<b>4,130,272</b>	<b>2,859,830</b>
<i>Cash and cash equivalents comprise:</i>			
Cash and balances with central banks, excluding mandatory reserve deposits		635,159	947,145
Deposits with banks, central banks and treasury bills with an original maturity of three months or less		3,495,113	1,912,685
		4,130,272	2,859,830
<b>Additional cash flow information:</b>			
Interest received		703,253	660,868
Interest paid		301,914	244,867

## Ahli United Bank B.S.C.

## INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Six months ended 30 June 2022 (Reviewed)

	Attributable to the owners of the Bank										
	Ordinary share capital	Share premium	Statutory reserve	Retained earnings	Proposed appropriations	Other reserves (note 8)	Total reserves	Equity attributable to the owners	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
<b>Balance at 1 January 2022</b>	2,533,621	752,538	765,479	600,122	306,034	(488,090)	1,936,083	4,469,704	1,000,000	448,261	5,917,965
Donations	-	-	-	-	(2,000)	-	(2,000)	(2,000)	-	-	(2,000)
Bonus shares issued	253,362	-	-	(253,362)	-	-	(253,362)	-	-	-	-
Ordinary share dividend	-	-	-	-	(304,034)	-	(304,034)	(304,034)	-	-	(304,034)
Transfer from OCI reserve on equity investments	-	-	-	(109)	-	-	(109)	(109)	-	-	(109)
Distribution related to Perpetual Tier 1 Capital Securities	-	-	-	(11,678)	-	-	(11,678)	(11,678)	-	-	(11,678)
Distribution related to Perpetual Tier 1 Sukuk	-	-	-	(8,705)	-	-	(8,705)	(8,705)	-	(2,920)	(11,625)
Ordinary share dividend paid	-	-	-	-	-	-	-	-	-	-	-
Dividends of subsidiary	-	-	-	-	-	-	-	-	-	(8,837)	(8,837)
Movement in associates	-	-	-	(4,233)	-	-	(4,233)	(4,233)	-	-	(4,233)
Movement in subsidiaries	-	12	-	-	-	-	12	12	-	(346)	(334)
Total comprehensive income for the period	-	-	-	340,904	-	(162,032)	178,872	178,872	-	8,742	187,614
<b>Balance at 30 June 2022</b>	2,786,983	752,550	765,479	662,939	-	(650,122)	1,530,846	4,317,829	1,000,000	444,900	5,762,729

Ahli United Bank B.S.C.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Six months ended 30 June 2022 (Reviewed)

	Attributable to the owners of the Bank										
	Ordinary share capital US\$ '000	Share premium US\$ '000	Statutory reserve US\$ '000	Retained earnings US\$ '000	Proposed appropriations US\$ '000	Other reserves (note 8) US\$ '000	Total reserves US\$ '000	Equity attributable to the owners US\$ '000	Perpetual Tier 1 Capital Securities US\$ '000	Non-controlling interests US\$ '000	Total US\$ '000
Balance at 1 January 2021											
Donations	-	-	-	-	(2,000)	-	(2,000)	(2,000)	-	-	(2,000)
Bonus shares issued	120,649	-	-	(120,649)	-	-	(120,649)	-	-	-	-
Ordinary share dividend	-	-	-	-	(120,649)	-	(120,649)	(120,649)	-	-	(120,649)
Transfer from OCI reserve on equity investments	-	-	-	1,355	-	-	1,355	1,355	-	-	1,355
Distribution related to Perpetual Tier 1 Capital Securities	-	-	-	(11,678)	-	-	(11,678)	(11,678)	-	-	(11,678)
Distribution related to Perpetual Tier 1 Sukuk	-	-	-	(4,351)	-	-	(4,351)	(4,351)	-	(1,461)	(5,812)
Perpetual Tier 1 Sukuk issued	-	-	-	-	-	-	-	-	600,000	-	600,000
Perpetual Tier 1 Sukuk	-	-	-	-	-	-	-	-	(39,185)	-	(39,185)
Expenses related to Perpetual Tier 1 Sukuk issued and others	-	-	-	(1,574)	-	-	(1,574)	(1,574)	-	(528)	(2,102)
Movement in associates	-	-	-	(4,228)	-	-	(4,228)	(4,228)	-	-	(4,228)
Movement in subsidiaries	-	-	-	(2,362)	-	-	(2,362)	(2,362)	-	(107)	(2,469)
Arising on additional acquisition in a subsidiary	-	(544)	-	-	-	-	(544)	(544)	-	(11,333)	(11,877)
Total comprehensive income for the period	-	-	-	298,557	-	39,208	337,765	337,765	-	19,858	357,623
Balance at 30 June 2021	2,533,621	752,519	704,755	685,372	-	(482,893)	1,659,753	4,193,374	1,160,815	441,147	5,795,336



**AHLI UNITED BANK B.S.C.****NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

30 June 2022 (Reviewed)

**1 CORPORATE INFORMATION**

The parent company, Ahli United Bank B.S.C. ("AUB" or "the Bank") was incorporated in the Kingdom of Bahrain on 31 May 2000 originally as a closed company and changed on 12 July 2000 to a public shareholding company by Amiri Decree number 16/2000. The Bank and its subsidiaries (collectively known as "the Group") are engaged in retail, commercial, Islamic and investment banking business, global fund management and private banking services through branches in the Kingdom of Bahrain, the State of Kuwait, the Arab Republic of Egypt, Republic of Iraq, the United Kingdom and an overseas branch in Dubai International Financial Centre (DIFC). It also operates through its associates in Libya and in the Sultanate of Oman. The Bank operates under a retail banking license issued by the Central Bank of Bahrain ("CBB"). The Bank also engages in life insurance business through its subsidiary, Al Hilal Life B.S.C. (c). The Bank's registered office is located at Building 2495, Road 2832, Al Seef District 428, Kingdom of Bahrain.

The interim condensed consolidated financial statements of the Group for the six month period ended 30 June 2022 were authorised for issue in accordance with a resolution of the Board of Directors dated 4 August 2022.

**2 ACCOUNTING POLICIES****2.1 Basis of preparation**

The interim condensed consolidated financial statements of the Bank and the Group are prepared in accordance with International Accounting Standard IAS 34, Interim Financial Reporting ("IAS 34").

The consolidated financial statements for the year ended 31 December 2021 were prepared in accordance with IFRS modified by CBB as the comparative information included in the 31 December 2021 consolidated financial statements were reported in accordance with the IFRS modified by CBB. The transition from "IFRS modified by CBB" to IAS 34 and IFRS as issued by IASB has not resulted in any material changes to the previously reported numbers in the consolidated financial statements for the year ended 31 December 2021.

**2.2 New standards, interpretations and amendments effective for the period**

The accounting policies used in the preparation of these interim condensed consolidated financial statements are consistent with those used in the preparation of the annual consolidated financial statements for the year ended 31 December 2021, except as noted in note 2.1 and adoption of new standards effective as of 1 January 2022. The adoption of below new standards and amendments did not result in changes to previously reported net profit or equity of the Group.

*- IFRS 9 Financial Instruments – Fees in the '10 per cent' test for derecognition of financial liabilities*

The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. There is no similar amendment proposed for IAS 39 Financial Instruments: Recognition and Measurement. These amendments had no material impact on the interim condensed consolidated financial statements of the Group as there were no significant modifications of the Group's financial instruments during the period.

Other amendments to IFRS which are effective for annual accounting period starting from 1 January 2022 did not have any material impact on the accounting policies, financial position or performance of the Group.

**AHLI UNITED BANK B.S.C.**

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

30 June 2022 (Reviewed)

**2 ACCOUNTING POLICIES (continued)**

**2.3 New standard issued but not yet effective**

*IFRS 17 Insurance Contracts*

In May 2017, the IASB issued IFRS 17 Insurance Contracts (IFRS 17), a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 Insurance Contracts (IFRS 4) that was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply. The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of IFRS 17 is the general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach); and
- A simplified approach (the premium allocation approach) mainly for short-duration contracts.

IFRS 17 is effective for reporting periods beginning on or after 1 January 2023, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17. The Group intends to adopt this standard on the effective date.

**2.4 Estimates and judgments**

In preparing these interim condensed consolidated financial statements, significant judgments were made by the management in applying the Group's accounting policies. While the key performance metrics are subject to current economic volatility, these are considered to represent management's best assessment based on available or observable information.

The level of estimation uncertainty has increased as a result of moderate economic recovery and visibility of COVID-19 downstream impact.

The Group has updated inputs and assumptions used for the determination of ECL in response to global economic recovery and oil demand. Under IFRS 9, financial assets are required to be moved from Stage 1 to Stage 2 if and only if they have been the subject of a significant increase in credit risk (SICR) since origination. A SICR occurs when there has been a significant increase to the risk of a default. The Group continues to assess borrowers for other indicators of unlikelihood to pay, taking into consideration the underlying cause of any financial difficulty

Considering that the moderate global recovery and rising inflation, the Group has considered the impact of higher volatility in the forward-looking macro-economic factors, when determining the severity and likelihood of economic scenarios for ECL determination. This volatility has been reflected through adjustments in the established regression relationships. Management overlays are applied to the model outputs if consistent with the objective of SICR and to address the uncertainties if any in SICR assessment arising from CBB-mandated deferrals. Furthermore, the Group continues to closely monitor the potential repayment risk impact of COVID-19 on affected industry sectors. Further, CBB vide circular ODG/27/2022 dated 28 June 2022, announced suspension of installment deferral by 30 June 2022.

**AHLI UNITED BANK B.S.C.**
**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

30 June 2022 (Reviewed)

**3 EARNINGS PER ORDINARY SHARE**

	<i>Three months ended</i>		<i>Six months ended</i>	
	<i>30 June</i>		<i>30 June</i>	
	<i>2022</i>	<i>2021</i>	<i>2022</i>	<i>2021</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 owners of the Bank	<b>169,967</b>	138,941	<b>340,904</b>	298,557
Perpetual Tier 1 Capital Securities distribution	<b>(11,678)</b>	(11,678)	<b>(11,678)</b>	(11,678)
Perpetual Tier 1 Sukuk distribution	<b>(8,705)</b>	(4,351)	<b>(8,705)</b>	(4,351)
Adjusted net profit for the period attributable to Bank's ordinary equity shareholders for basic and diluted earnings per share computation	<b>149,584</b>	122,912	<b>320,521</b>	282,528
Weighted average ordinary shares outstanding during the period adjusted for bonus shares (in millions)	<b>11,148</b>	11,148	<b>11,148</b>	11,148
Basic and diluted earnings per ordinary share (US cents)	<b>1.3</b>	1.1	<b>2.9</b>	2.5
Issued and fully paid ordinary shares of US\$ 0.25 each (in millions)	<b>11,147.9</b>	10,134.5	<b>11,147.9</b>	10,134.5

**4 CONTINGENT LIABILITIES**

The Group had the following credit related contingent liabilities:

	<i>(Reviewed)</i>		<i>(Audited)</i>	
	<i>30 June</i>		<i>31 December</i>	
	<i>2022</i>	<i>2021</i>	<i>2022</i>	<i>2021</i>
	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>
Guarantees	<b>2,723,043</b>		2,727,426	
Acceptances	<b>602,660</b>		431,573	
Letters of credit	<b>730,934</b>		730,247	
	<b>4,056,637</b>		3,889,246	

**5 SEGMENT INFORMATION**

For management reporting purposes, the Group is organised into four major business segments:

- Retail banking
- Corporate banking
- Treasury and investments
- Private banking

Transactions between segments are conducted at estimated market rates on an arm's length basis. Interest is charged/credited to business segments based on a pool rate, which approximates the cost of funds.

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**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>Six months ended 30 June 2022:</b>					
Net interest income	87,858	164,978	152,409	25,487	430,732
Fees and commissions - net	14,486	31,672	2,593	6,021	54,772
Trading, investment income and others	911	3,744	113,542	(174)	118,023
<b>OPERATING INCOME</b>	<b>103,255</b>	<b>200,394</b>	<b>268,544</b>	<b>31,334</b>	<b>603,527</b>
Provision (recoveries) for credit losses and others	(1,001)	6,832	45,068	1,886	52,785
<b>NET OPERATING INCOME</b>	<b>104,256</b>	<b>193,562</b>	<b>223,476</b>	<b>29,448</b>	<b>550,742</b>
Operating expenses	62,798	45,943	46,088	15,379	170,208
<b>PROFIT BEFORE TAX AND ZAKAT</b>	<b>41,458</b>	<b>147,619</b>	<b>177,388</b>	<b>14,069</b>	<b>380,534</b>
Tax expense and zakat					20,290
<b>NET PROFIT FOR THE PERIOD</b>					<b>360,244</b>
Less: Attributable to non-controlling interests					19,340
<b>NET PROFIT ATTRIBUTABLE TO THE OWNERS OF THE BANK</b>					<b>340,904</b>
<b>Inter segment interest included in net interest income above</b>	<b>56,629</b>	<b>(89,341)</b>	<b>19,331</b>	<b>13,381</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>Six months ended 30 June 2021:</b>					
Net interest income	94,875	173,215	126,545	27,021	421,656
Fees and commissions - net	12,470	32,594	1,295	7,112	53,471
Trading, investment income and others	1,020	6,847	69,149	30	77,046
<b>OPERATING INCOME</b>	<b>108,365</b>	<b>212,656</b>	<b>196,989</b>	<b>34,163</b>	<b>552,173</b>
Provision (recoveries) for credit losses and others	3,138	62,854	(4,441)	1,265	62,816
<b>NET OPERATING INCOME</b>	<b>105,227</b>	<b>149,802</b>	<b>201,430</b>	<b>32,898</b>	<b>489,357</b>
Operating expenses	60,436	35,939	42,189	15,508	154,072
<b>PROFIT BEFORE TAX AND ZAKAT</b>	<b>44,791</b>	<b>113,863</b>	<b>159,241</b>	<b>17,390</b>	<b>335,285</b>
Tax expense and zakat					19,494
<b>NET PROFIT FOR THE PERIOD</b>					<b>315,791</b>
Less: Attributable to non-controlling interests					17,234
<b>NET PROFIT ATTRIBUTABLE TO THE OWNERS OF THE BANK</b>					<b>298,557</b>
<b>Inter segment interest included in net interest income above</b>	<b>65,545</b>	<b>(48,867)</b>	<b>(30,519)</b>	<b>13,841</b>	<b>-</b>

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**6 LOANS AND ADVANCES**
**a) Credit quality of loans and advances**

	<i>30 June 2022 (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	13,138,394	730,023	-	13,868,417
Standard grade	6,311,760	2,251,578	-	8,563,338
Credit impaired	-	-	571,409	571,409
	<b>19,450,154</b>	<b>2,981,601</b>	<b>571,409</b>	<b>23,003,164</b>
Less: ECL allowances	(180,016)	(357,462)	(463,641)	(1,001,119)
	<b>19,270,138</b>	<b>2,624,139</b>	<b>107,768</b>	<b>22,002,045</b>
	<i>31 December 2021 (Audited)</i>			
	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>
High standard grade	13,026,377	596,906	-	13,623,283
Standard grade	6,562,685	2,296,880	-	8,859,565
Credit impaired	-	-	558,530	558,530
	19,589,062	2,893,786	558,530	23,041,378
Less: ECL allowances	(171,528)	(330,668)	(464,034)	(966,230)
	<b>19,417,534</b>	<b>2,563,118</b>	<b>94,496</b>	<b>22,075,148</b>

**b) Reconciliation of ECL allowances**

	<i>2022</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 2022</b>	<b>171,528</b>	<b>330,668</b>	<b>464,034</b>	<b>966,230</b>
Transfer from Stage 1	(3,891)	1,868	2,023	-
Transfer from Stage 2	375	(2,161)	1,786	-
Transfer from Stage 3	346	71	(417)	-
Net remeasurement of ECL allowances (note 6c)	14,906	35,197	7,243	57,346
Amounts written-off	-	-	(4,099)	(4,099)
Exchange rate and other adjustments	(3,248)	(8,181)	(6,929)	(18,358)
<b>At 30 June 2022</b>	<b>180,016</b>	<b>357,462</b>	<b>463,641</b>	<b>1,001,119</b>

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**6 LOANS AND ADVANCES (continued)**
**b) Reconciliation of ECL allowances (continued)**

	2021			
	<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 2021	138,970	375,961	479,793	994,724
Transfer from Stage 1	(3,881)	1,257	2,624	-
Transfer from Stage 2	2,896	(17,910)	15,014	-
Transfer from stage 3	-	17,461	(17,461)	-
Net remeasurement of ECL allowances (note 6c)	15,620	8,912	34,958	59,490
Amounts written-off	-	-	(46,246)	(46,246)
Exchange rate and other adjustments	285	836	1,599	2,720
At 30 June 2021	<u>153,890</u>	<u>386,517</u>	<u>470,281</u>	<u>1,010,688</u>

**c) Provision for credit losses and others**

	<i>Six months ended</i>	
	<i>30 June</i>	
	<i>2022</i>	<i>2021</i>
	<i>US\$ '000</i>	<i>US\$ '000</i>
Net remeasurement of ECL on loans and advances (note 6 b)	<b>57,346</b>	59,490
Recoveries from loans and advances during the period (from fully provided loans written-off in previous years)	<b>(36,536)</b>	(4,742)
Net remeasurement of ECL for non-trading investments (note 7 b)	<b>45,068</b>	(4,441)
Net remeasurement of ECL on off-balance sheet exposures and others	<b>(529)</b>	7,190
Net other provision (write-back) / charges	<b>(12,564)</b>	5,319
	<u><b>52,785</b></u>	<u>62,816</u>

**7 NON-TRADING INVESTMENTS**
**a) Credit quality of non-trading investments**

	<i>30 June 2022 (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	<b>5,811,416</b>	-	-	<b>5,811,416</b>
Standard grade	<b>3,723,059</b>	<b>132,701</b>	-	<b>3,855,760</b>
Impaired	-	-	<b>10,439</b>	<b>10,439</b>
	<u><b>9,534,475</b></u>	<u><b>132,701</b></u>	<u><b>10,439</b></u>	<u><b>9,677,615</b></u>
Less: ECL allowances	<b>(20,424)</b>	<b>(39,120)</b>	<b>(10,439)</b>	<b>(69,983)</b>
	<u><b>9,514,051</b></u>	<u><b>93,581</b></u>	<u>-</u>	<u><b>9,607,632</b></u>
Equity instruments at fair value				<u><b>110,901</b></u>
				<u><b>9,718,533</b></u>
	<i>31 December 2021 (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	5,958,028	5,036	-	5,963,064
Standard grade	3,818,558	55,610	-	3,874,168
	9,776,586	60,646	-	9,837,232
Less: ECL allowances	(23,273)	(2,990)	-	(26,263)
	<u>9,753,313</u>	<u>57,656</u>	<u>-</u>	<u>9,810,969</u>
Equity instruments at fair value				112,325
				<u>9,923,294</u>

Equity instruments held at fair value include investments amounting to US\$ 3.4 million (31 December 2021: US\$ 3.8 million) which are designated as FVTPL. Income from FVTPL equity investments for the period amounted to US\$ 0.01 million (30 June 2021: US\$ 0.5 million).

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**7 NON-TRADING INVESTMENTS (continued)**
**b) Reconciliation of ECL allowances**

	<i>2022</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 2022</b>	<b>23,273</b>	<b>2,990</b>	<b>-</b>	<b>26,263</b>
Transfer from Stage 1	(248)	231	17	-
Net remeasurement of ECL allowances (note 6c)	(2,298)	36,944	10,422	45,068
Exchange rate and other adjustments	(303)	(1,045)	-	(1,348)
<b>At 30 June 2022</b>	<b>20,424</b>	<b>39,120</b>	<b>10,439</b>	<b>69,983</b>
	<i>2021</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 2021	21,171	5,771	-	26,942
Net remeasurement of ECL allowances (note 6c)	(2,530)	(1,911)	-	(4,441)
Exchange rate and other adjustments	(174)	89	-	(85)
At 30 June 2021	18,467	3,949	-	22,416

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30 June 2022 (Reviewed)

**8 MOVEMENT IN OTHER RESERVES**

	<i>Capital reserve</i>	<i>Property revaluation reserve</i>	<i>Foreign exchange translation reserve</i>	<i>Cumulative changes in</i>			<i>Total other reserves</i>
				<i>OCI reserve</i>	<i>Cash flow hedge reserve</i>	<i>Pension fund reserve</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 2022</b>	<b>17,240</b>	<b>36,574</b>	<b>(476,737)</b>	<b>(6,421)</b>	<b>(41,387)</b>	<b>(17,359)</b>	<b>(488,090)</b>
Currency translation adjustments	-	(20)	(135,463)	-	-	-	(135,483)
Transfers to interim condensed consolidated statement of income	-	-	-	(1,924)	(31)	-	(1,955)
Net fair value movements	-	-	-	(51,433)	32,322	(5,592)	(24,703)
Transfers to retained earnings on equity investments	-	-	-	109	-	-	109
<b>Balance at 30 June 2022</b>	<b>17,240</b>	<b>36,554</b>	<b>(612,200)</b>	<b>(59,669)</b>	<b>(9,096)</b>	<b>(22,951)</b>	<b>(650,122)</b>

	<i>Capital reserve</i>	<i>Property revaluation reserve</i>	<i>Foreign exchange translation reserve</i>	<i>Cumulative changes in</i>			<i>Total other reserves</i>
				<i>OCI reserve</i>	<i>Cash flow hedge reserve</i>	<i>Pension fund reserve</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>	
Balance at 1 January 2021	17,240	36,309	(473,924)	(2,548)	(53,739)	(45,439)	(522,101)
Currency translation adjustments	-	8	8,861	-	-	-	8,869
Transfers to interim condensed consolidated statement of income	-	-	-	(2,091)	48	-	(2,043)
Net fair value movements	-	-	-	11,906	10,216	11,615	33,737
Transfers to retained earnings on equity investments	-	-	-	(1,355)	-	-	(1,355)
<b>Balance at 30 June 2021</b>	<b>17,240</b>	<b>36,317</b>	<b>(465,063)</b>	<b>5,912</b>	<b>(43,475)</b>	<b>(33,824)</b>	<b>(482,893)</b>



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**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\$ 7,728.0 million as at 30 June 2022 (31 December 2021: US\$ 7,986.8 million). Carrying value of these non-trading investments was US\$ 7,917.0 million as at 30 June 2022 (31 December 2021: US\$ 7,865.7 million).

The Group's primary medium and long-term financial liabilities are the subordinated liabilities. The fair values of these financial liabilities are not materially different from their carrying values, since these liabilities are repriced at intervals of three or six months, depending on the terms and conditions of the instrument and the resultant applicable margins approximate the current spreads that would apply for borrowings with similar maturities.

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1 : Quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2 : Other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and

Level 3 : Techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

	<i>30 June 2022 (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	206	71,745	38,950	110,901
Debt instruments (FVTOCI)	1,583,048	126,293	-	1,709,341
Derivative assets	-	477,589	-	477,589
Derivative liabilities	-	201,950	-	201,950
	<i>31 December 2021 (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	340	72,834	39,151	112,325
Debt instruments (FVTOCI)	1,814,322	138,874	-	1,953,196
Derivative assets	-	120,307	-	120,307
Derivative liabilities	-	453,654	-	453,654

During the six months ended 30 June 2022 and 2021, there have been no transfers between Level 1, 2, 3 and no significant movements were noted in Level 3 investments.

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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 loans and advances to related parties are performing and are subject to ECL assessments.

The income, expense and the period end balances in respect of related parties included in the consolidated financial statements were as follows:

	<b>2022</b>					<b>Total</b> <i>US\$ '000</i>
	<b>Senior management</b>					
	<i>Major</i> <i>shareholders</i> <i>US\$ '000</i>	<i>Associates</i> <i>US\$ '000</i>	<i>Non-Executive</i> <i>Directors</i> <i>US\$ '000</i>	<i>Management</i> <i>Directors</i> <i>US\$ '000</i>	<i>Others</i> <i>US\$ '000</i>	
<b>For the six months ended</b>						
<b>30 June 2022</b>						
Interest income	-	9	4,252	18	-	4,279
Interest expense	4,143	-	460	37	2	4,642
Fees and commissions	508	1,007	683	6	8	2,212
Short term employee benefits	-	-	-	5,970	1,786	7,756
End of service benefits	-	-	-	440	107	547
Directors' fees and related expenses	-	-	869	-	-	869
<b>As of 30 June 2022</b>						
Deposits with banks	-	4,393	-	-	-	4,393
Loans and advances	-	-	260,630	507	86	261,223
Deposits from banks	-	22,356	-	-	-	22,356
Customers' deposits	3,616,927	-	65,292	11,161	911	3,694,291
Derivative liability	-	1,297	-	-	-	1,297
Subordinated liabilities	9,496	-	-	-	-	9,496
Commitments and contingent liabilities	552	39,479	84,299	-	-	124,330
<b>2021</b>						
<b>Senior management</b>						
	<i>Major</i> <i>shareholders</i> <i>US\$ '000</i>	<i>Associates</i> <i>US\$ '000</i>	<i>Non-Executive</i> <i>Directors</i> <i>US\$ '000</i>	<i>Management</i> <i>Directors</i> <i>US\$ '000</i>	<i>Others</i> <i>US\$ '000</i>	<i>Total</i> <i>US\$ '000</i>
<b>For the six months ended</b>						
<b>30 June 2021</b>						
Interest income	-	51	2,991	14	-	3,056
Interest expense	8,426	-	294	39	3	8,762
Fees and commissions	553	1,012	957	5	1	2,528
Short term employee benefits	-	-	-	6,544	1,548	8,092
End of service benefits	-	-	-	602	99	701
Directors' fees and related expenses	-	-	497	-	-	497
<b>As of 31 December 2021</b>						
Deposits with banks	-	13,384	-	-	-	13,384
Loans and advances	-	-	321,615	311	31	321,957
Derivatives assets	-	4,501	-	-	-	4,501
Deposits from banks	-	39,004	-	-	-	39,004
Customers' deposits	2,541,430	-	43,552	9,626	831	2,595,439
Subordinated liabilities	9,983	-	-	-	-	9,983
Commitments and contingent liabilities	560	44,425	83,136	-	-	128,121

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**11 NET STABLE FUNDING RATIO (NSFR)**

The NSFR ratio is calculated in accordance with the Liquidity Risk Management Module guidelines, issued by the CBB. The minimum NSFR ratio limit as per CBB is 100%. However, as per CBB circulars OG/106/2020 dated 17 March 2020, OG/296/2020 dated 26 August 2020, OG/431/2020 dated 29 December 2020 and OG/417/2021 dated 23 December 2021, the limit was reduced to 80% until 30 June 2022, to contain the financial repercussions of COVID-19. The Group's consolidated NSFR ratio as of 30 June 2022 is 119.5% (31 December 2021: 118.1%).

	<i>(Reviewed)</i> <b>30 June</b> <b>2022</b> <i>US\$ '000</i>	<i>(Audited)</i> <b>31 December</b> <b>2021</b> <i>US\$ '000</i>
<b>Available Stable Funding:</b>		
Regulatory capital	<b>6,153,094</b>	6,270,390
Stable deposits	<b>6,820,971</b>	6,958,945
Wholesale funding	<b>13,870,790</b>	13,039,788
Others	<b>690,960</b>	650,939
<b>Total Available Stable Funding (A)</b>	<b>27,535,815</b>	26,920,062
<b>Required Stable Funding :</b>		
High-Quality Liquid Assets (HQLA)	<b>1,440,364</b>	1,439,864
Performing loans	<b>15,209,792</b>	14,730,855
Securities (other than HQLA)	<b>3,187,023</b>	3,341,785
Derivative contracts	<b>284,491</b>	283,217
Others	<b>2,483,286</b>	2,562,446
Off-balance sheet items	<b>437,807</b>	438,989
<b>Total Required Stable Funding (B)</b>	<b>23,042,763</b>	22,797,156
<b>NSFR (%) (A/B)</b>	<b>119.5%</b>	118.1%

**12 TRANSACTION WITH KUWAIT FINANCE HOUSE K.S.C.P. (KFH)**

The shareholders of Kuwait Finance House K.S.C.P ("KFH"), in its AGM / EGM held on 20 January 2020, approved the pursuit of the acquisition of Ahli United Bank B.S.C. ("AUB"/ "Bank"), through a firm voluntary conditional offer to acquire 100% of the issued and paid up shares of the Bank by way of a share swap, at the exchange ratio of 2.325581 AUB shares for each KFH share following approval by the Bank's Board of Directors on 12 September 2019. The KFH approval was conditional on securing a minimum 85% acceptance rate for its tender offer and the proposed acquisition is subject to conditions precedent and all relevant regulatory and shareholder approvals.

However, subsequently the proposed acquisition procedures were suspended until December 2020 due to the prevailing unprecedented circumstances relating to the Covid-19 pandemic. During December 2020, the AUB Board of Directors, in consultation with KFH Board of Directors, and subject to necessary regulatory approvals, agreed to extend the suspension period for the resumption of the acquisition of AUB by KFH, until completion of KFH's updated assessments to be conducted by the international advisor appointed by KFH in this respect.

During December 2021, the AUB Board of Directors, in coordination with KFH and regulatory authorities, agreed to the update of financial and legal due diligence studies, and the resumption of all connected procedures related to the acquisition, including the assessment of the impact of such studies on the final share exchange ratio. AUB has re-appointed the specialised professional advisors previously appointed to provide AUB with the necessary financial, tax (KPMG) and legal (Linklaters LLP) studies regarding the transaction.

Subsequently, the specialised professional advisors appointed by AUB have completed their due diligence studies on KFH and their reports have been submitted to the AUB Board of Directors for review and evaluation. KFH has also communicated the AUB Board a revised share exchange ratio, which is subject to the KFH obtaining shareholder and regulatory approvals.

**AHLI UNITED BANK B.S.C.**

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

30 June 2022 (Reviewed)

**12 TRANSACTION WITH KUWAIT FINANCE HOUSE K.S.C.P. (KFH) (continued)**

On 6 July 2022, AUB announced that the AUB Board of Directors had resolved to accept the revised share exchange ratio of 2.695 AUB shares for each KFH share, as proposed by KFH, subject to: (i) the fairness opinion of the independent professional advisor to be appointed by the AUB Board of Directors pursuant to TMA-2.2.1 of the Takeovers, Mergers and Acquisitions Module of Volume 6 of the CBB Rulebook; and (ii) the aggregate ownership of the AUB shareholders in KFH immediately following completion of the acquisition being not less than 31% of the total outstanding and paid up shares of KFH at such time (assuming the full acquisition of all AUB shares by KFH). The proposed acquisition remains subject to conditions precedent and all relevant regulatory and shareholder approvals. Further, on 25 July 2022, AUB Board of Directors received a notice of firm intention to make an offer and an offer document from KFH, in respect of a voluntary conditional offer to acquire up to 100% of the issued ordinary shares of AUB by way of a share swap, subject to the fulfilment or waiver of certain conditions.

AUB has and will disclose on the Bahrain Bourse and Boursa Kuwait, any relevant developments on this matter, as required, on a prompt ongoing basis, to ensure transparency and to comply with governing laws and regulations.

**13 ACQUISITION OF CITIBANK BAHRAIN CONSUMER BUSINESS**

AUB has executed an agreement on 4 April 2022 with Citibank N.A. to acquire its consumer banking business in the Kingdom of Bahrain, subject to regulatory approvals. Regulator's decision is expected during Q3/2022.

