الـبـنك الاهـلي المـتحد
ahli united bank

# AHLI UNITED BANK (UK) PLC

## FINANCIAL STATEMENTS

## 31 DECEMBER 2011

**BOARD OF DIRECTORS**
Mr Fahad Al-Rajaan (Chairman)
Mr Hamad Al-Marzouq (Deputy Chairman) *
Mr Rashid Al-Meer
Mr Khaled Al Fouzan
Mr Herschel Post *
Mr David Casson *
Mr Adel El-Labban
Mr Graham Dunnachie
Mr James Forster
Ms Sawsan Abulhassan
Mr Stephen Hussey
Mr Stuart Taylor

*Audit Committee

**SECRETARY**
Mr Graham Dunnachie

**AUDITORS**
BDO LLP
55 Baker Street
London W1U 7EU

**REGISTERED OFFICE**
35 Portman Square
London W1H 6LR

**REGISTERED NUMBER**
877859

The directors of Ahli United Bank (UK) PLC (the 'Bank') are pleased to submit the audited financial statements for the year ended 31 December 2011

Results and dividends
The profit, after tax of the Bank and its subsidiaries for the year amounted to $36 380,000

No interim dividend was proposed or paid in the year A final dividend of $20 000,000 is proposed

Principal activities and review of the business
The Bank is an authorised institution under the United Kingdom Financial Services and Markets Act 2000 and carries on an international commercial, private and investment banking business

The principal risks faced by the Bank and details of derivatives and financial instruments held are set out in note 25

The Bank enjoyed a successful year of performance The Bank continued to focus on its core lending businesses of residential mortgages commercial property, margin lending and structured finance and in providing a global fund management service to institutional and private clients

The activities of the Bank in the forthcoming period will continue to be those currently undertaken

The Bank achieved net interest income of $54.8 million, a 24.3 % increase on the 2010 level of $44.1 million The net interest margin (net interest income / average interest bearing balances) was 1.9% (2010 1.9%) Total other operating income increased by 1.3% to $24.5 million

At the year end, total assets stood at $3.4 billion (2010 $2.7 billion) with loans to customers of $1.8 billion, showing a 13.2% increase compared to 2010 Total deposits amounted to $2.9 billion, a 30.1% increase on 2010

The return on average equity (profit after tax /average equity over the year) was 14.5% (2010 9.1%) and the return on average assets (profit after tax / average assets over the year) was 1.2% (2010 0.9%)

Pillar III disclosures
As part of its implementation of the Banking Consolidation Directive and the Capital Adequacy Directive, the Financial Services Authority requires the Bank to make certain disclosures to the market, described as Pillar III disclosures These are largely included within note 25 to the Financial Statements However where additional disclosures are required these have either been included in the Appendix to the Financial Statements or cross referenced within the Appendix to other notes within the Financial Statements

The information included in the Appendix has not been audited

Charitable contributions
No charitable donations were paid during the year (2010 $388)

Guernsey Branch
The Bank has a branch based in Guernsey which held total customers deposits of $127 453,000 as at 31 December 2011

Policy on payment to creditors
The Bank's policy, which is also applied by the Group, is to settle terms of payment with suppliers when agreeing the terms of each transaction and ensure that suppliers are made aware of the terms of payment and abide by the terms of payment Trade creditors of the Bank at 31 December 2011 were equivalent to 30 (2010 31) days' purchases based on the average daily amount invoiced by suppliers during the year

Directors
The names of the directors who served during 2011 are those listed on page 2

In accordance with the Articles of Association, one third of the directors retire at each Annual General Meeting Those retiring in 2012, being eligible, stand for re-election

Auditors
The directors have taken all the steps they ought to have taken to make themselves aware of any information needed by the company's auditors for the purposes of their audit and to establish that the auditors are aware of that information The directors are not aware of any relevant audit information of which the auditors are unaware

A resolution to reappoint BDO LLP as the auditors will be proposed at the next Annual General Meeting

On behalf of the board

G Dunnachie

Graham Dunnachie
Company Secretary

10 February 2012

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year Under that law the directors have elected to prepare the group and company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and company and of the profit or loss of the group for that period

In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and accounting estimates that are reasonable and prudent,
- state whether they have been prepared in accordance with IFRSs as adopted by the European Union, subject to any material departures disclosed and explained in the financial statements,
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006 They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

**Independent Auditor's report to the members of Ahli United Bank (UK) PLC**
We have audited the group and company's financial statements (the "financial statements") of Ahli United Bank (UK) PLC for the year ended 31 December 2011 which comprise the Group Income Statement, the Group and Company Balance Sheets, the Group and Company Cash Flow Statements, the Group and Company Statements of Changes in Shareholder's Equity and the related notes The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006 Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report report and for no other purpose To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed

Respective responsibilities of directors and auditors
As explained more fully in the statement of directors' responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Ireland) Those Standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors

Scope of the audit of the financial statements
A description of the scope of an audit of financial statements is provided on the APB's website at www frc org uk/apb/scope/private cfm

Opinion on financial statements
In our opinion

- the financial statements give a true and fair view of the state of the group's and the parent company's affairs as at 31 December 2011 and of the group's profit for the year then ended,
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union,
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006, and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matters prescribed by the Companies Act 2006
In our opinion the information given in the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements

Matters on which we are required to report by exception
We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us, or
- the parent company financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit

BDO LLP.

Peter Chidgey, Senior Statutory Auditor,
For and on behalf of BDO LLP,
London
United Kingdom

10 February 2012

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127)

| FOR THE YEAR ENDED 31 DECEMBER | NOTES | 2011 $000 | 2010 $000 |
|---|---|---|---|
| Interest income | | | |
| Interest income and similar income arising from non-trading investments | | **22,217** | 20,822 |
| Other interest and similar income | | **86,191** | 63,230 |
| | | **108,408** | 84,052 |
| Interest expense | | **(53,616)** | (39,958) |
| Net interest income | 3 | **54,792** | 44,094 |
| Fee and commission income | | **19,696** | 21,087 |
| Fee and commission expense | | **(921)** | (1,119) |
| Net fee and commission income | | **18,775** | 19,968 |
| Trading income - net | | **961** | 934 |
| Other operating income | 4 | **4,716** | 3,237 |
| Total trading and other operating income | | **5,677** | 4,171 |
| Total operating income before impairment charges | | **79,244** | 68,233 |
| Provisions for losses on loans and advances, impairment of non-trading investments and other assets - net | 10 | **(4,236)** | (14,700) |
| Net operating income | | **75,008** | 53,533 |
| Operating expenses | | **(24,127)** | (26,023) |
| Profit before tax | 6 | **50,881** | 27,510 |
| Income tax expense | 7 | **(14,501)** | (6,750) |
| Profit for the year | 22 | **36,380** | 20,760 |
| Other comprehensive income (after tax) | | | |
| Net (Loss) / Gain on remeasuring available-for-sale investments | | **(15,212)** | 1,553 |
| Total comprehensive income for the year | | **21,168** | 22,313 |

The notes on pages 12 to 40 are an integral part of these audited financial statements

| AT 31 DECEMBER | NOTES | 2011 $000 | 2010 $000 |
|---|---|---|---|
| Assets | | | |
| Cash and balances with central banks | | 1,862 | 1 795 |
| Loans and advances to banks | 8 | 1,130,598 | 504 936 |
| Derivative financial instruments | 25 | 30,693 | 29,216 |
| Loans and advances to customers | 9 | 1,767,372 | 1,560 955 |
| Non-trading investments | 12 | 450,482 | 582,559 |
| Property, plant and equipment | 13 | 5,260 | 5,577 |
| Current tax asset | 14 | 1,340 | 3 147 |
| Other assets | 15 | 13,946 | 17,024 |
| Retirement benefit scheme | 28 | 18,008 | 13 044 |
| Total assets | | 3,419,561 | 2 718,253 |
| Liabilities | | | |
| Deposits from banks | 16 | 50,684 | 343,310 |
| Customer deposits | 17 | 2,883,800 | 1,912 390 |
| Syndicated Loan | 18 | 150,000 | 150 000 |
| Derivative financial instruments | 25 | 33,234 | 27,284 |
| Deferred tax liability | 14 | 3,718 | 2,816 |
| Other liabilities | 19 | 20,426 | 22 790 |
| Other borrowed funds | 20 | 16,918 | 20 048 |
| Total liabilities | | 3,158,780 | 2 478,638 |
| | | | |
| Issued share capital | 21 | 200,080 | 200 080 |
| Share premium | 21 | 128 | 128 |
| Other (deficit) / reserves | 22 | (10,815) | 4 397 |
| Retained earnings | 22 | 71,388 | 35 010 |
| Equity shareholders' funds | | 260,781 | 239,615 |
| | | | |
| Total liabilities and equity | | 3,419,561 | 2,718 253 |
| Memorandum items | | | |
| Contingent liabilities | 23 | 16,057 | 17,795 |
| | | 16,057 | 17,795 |
| Commitments | 24 | 150,597 | 268 702 |
| | | 150,597 | 268,702 |

The notes on pages 12 to 40 are an integral part of these audited financial statements

Fahad Al-Rajaan
Chairman

Hamad Al-Marzouq
Deputy Chairman

Graham Dunnachie
Chief Executive Officer

The financial statements were approved by the Board of Directors and authorised for issue on 10 February 2012

| AT 31 DECEMBER | NOTES | 2011 $000 | 2010 $000 |
|---|---|---|---|
| **Assets** | | | |
| Cash and balances with central banks | | **1,862** | 1,795 |
| Loans and advances to banks | 8 | **1,130,598** | 504 936 |
| Derivative financial instruments | 25 | **30,693** | 29,216 |
| Loans and advances to customers | 9 | **1,767,372** | 1,560,955 |
| Non-trading investments | 12 | **450,482** | 582,559 |
| Investments in group undertakings | 11 | **658** | 2,158 |
| Property, plant and equipment | 13 | **5,260** | 5,577 |
| Current tax asset | 14 | **1,340** | 3,147 |
| Other assets | 15 | **13,946** | 17 024 |
| Retirement benefit scheme | 28 | **18,008** | 13,044 |
| Total assets | | **3,420,219** | 2,720 411 |
| **Liabilities** | | | |
| Deposits from banks | 16 | **50,684** | 343 310 |
| Customer deposits | 17 | **2,884,458** | 1,914 548 |
| Syndicated Loan | 18 | **150,000** | 150,000 |
| Derivative financial instruments | 25 | **33,234** | 27,284 |
| Deferred tax liability | 14 | **3,718** | 2 816 |
| Other liabilities | 19 | **20,426** | 22 790 |
| Other borrowed funds | 20 | **16,918** | 20 048 |
| Total liabilities | | **3,159,438** | 2,480 796 |
| Issued share capital | 21 | **200,080** | 200,080 |
| Share premium | 21 | **128** | 128 |
| Other (deficit) / reserves | 22 | **(10,815)** | 4 397 |
| Retained earnings | 22 | **71,388** | 35,010 |
| Equity shareholders' funds | | **260,781** | 239 615 |
| Total liabilities and equity | | **3,420,219** | 2 720,411 |

The notes on pages 12 to 40 are an integral part of these audited financial statements

Fahad Al-Rajaan
Chairman

Hamad Al-Marzouq
Deputy Chairman

Graham Dunnachie
Chief Executive Officer

The financial statements were approved by the Board of Directors and authorised for issue on 10 February 2012

| FOR THE YEAR ENDED 31 DECEMBER | 2011 $000 | 2010 $000 |
|---|---|---|
| Cash flows from operating activities | | |
| Profit before tax | **50,881** | 27,510 |
| Adjustments for | | |
| Depreciation and amortization | **1,454** | 1,419 |
| Amortization and revaluation of non-trading investments | **(18,840)** | (1,866) |
| Profit on sale of non-trading investments | **(738)** | 0 |
| Provision for losses on loans and advances | **5,926** | 15,074 |
| Release for impairment of non-trading investments and contingencies | **(1,690)** | (374) |
| Operating cash flows before changes in operating assets and liabilities | **36,993** | 41,763 |
| Changes in | | |
| Loans and advances to customers | **(212,343)** | (266,126) |
| Other assets (including derivative financial instruments) | **(16,057)** | (14,179) |
| Deposits from banks | **(292,626)** | 103,100 |
| Customer deposits | **971,410** | 547,778 |
| Other liabilities (including derivative financial instruments and borrowed funds) | **15,291** | 15,016 |
| Cash from operations | **502,668** | 427,352 |
| Net tax paid | **(7,675)** | 2 |
| Net cash from operating activities | **494,993** | 427,354 |
| Cash flows from investing activities | | |
| Purchase of non-trading investments | **(64,538)** | (259,383) |
| Proceeds from sale and maturity of non-trading investments | **198,563** | 118,283 |
| Investment in property, plant and equipment | **(1,137)** | (1,123) |
| Net cash from / (used in) investing activities | **132,888** | (142,223) |
| Cash flows from financing activities | | |
| Other borrowed funds repaid | **(3,130)** | **0** |
| Net cash used in financing activities | **(3,130)** | **0** |
| Foreign currency translation adjustments | **978** | **15,245** |
| Net decrease in cash and cash equivalents | **625,729** | **300,376** |
| Cash and cash equivalents at 1 January | **506,731** | **206,355** |
| Cash and cash equivalents at 31 December | **1,132,460** | 506,731 |
| Cash and cash equivalents comprise | | |
| Cash and balances with central banks | **1,862** | 1,795 |
| Loans and advances to banks - with an original maturity of three months or less | **1,130,598** | 504,936 |
| | **1,132,460** | 506,731 |

The notes on pages 12 to 40 are an integral part of these audited financial statements

| FOR THE YEAR ENDED 31 DECEMBER | 2011 $000 | 2010 $000 |
|---|---|---|
| Cash flows from operating activities | | |
| Profit before tax | **50,881** | 27,510 |
| Adjustments for | | |
| Depreciation and amortization | **1,454** | 1,419 |
| Amortization and revaluation of non-trading investments | **(18,840)** | (1,866) |
| Profit on sale of non-trading investments | **(738)** | 0 |
| Provision for losses on loans and advances | **5,926** | 15,074 |
| Release for impairment of non-trading investments and contingencies | **(1,690)** | (374) |
| Operating cash flows before changes in operating assets and liabilities | **36,993** | 41,763 |
| Changes in | | |
| Loans and advances to customers | **(212,343)** | (266,126) |
| Other assets (including derivative financial instruments) | **(16,057)** | (14,179) |
| Deposits from banks | **(292,626)** | 103,100 |
| Customer deposits | **969,910** | 547,747 |
| Other liabilities (including derivative financial instruments and other borrowed funds) | **15,291** | 15,043 |
| Cash from operations | **501,168** | 427,348 |
| Net tax paid | **(7,675)** | 2 |
| Net cash from operating activities | **493,493** | 427,350 |
| Cash flows from investing activities | | |
| Purchase of non-trading investments | **(64,538)** | (259,383) |
| Proceeds from sale and maturity of non-trading investments | **198,563** | 118,283 |
| Investment in property, plant and equipment | **(1,137)** | (1,123) |
| Proceeds from investments | **1,500** | 0 |
| Net cash from / (used in) investing activities | **134,388** | (142,223) |
| Cash flows from financing activities | | |
| Other borrowed funds repaid | **(3,130)** | 0 |
| Net cash used in financing activities | **(3,130)** | 0 |
| Foreign currency translation adjustments | **978** | 15,249 |
| Net decrease in cash and cash equivalents | **625,729** | 300,376 |
| Cash and cash equivalents at 1 January | **506,731** | 206,355 |
| Cash and cash equivalents at 31 December | **1,132,460** | 506,731 |
| Cash and cash equivalents comprise | | |
| Cash and balances with central banks | **1,862** | 1,795 |
| Loans and advances to banks - with an original maturity of three months or less | **1,130,598** | 504,936 |
| | **1,132,460** | 506,731 |

The notes on pages 12 to 40 are an integral part of these audited financial statements

| GROUP AND BANK | SHARE CAPITAL $000 | SHARE PREMIUM $000 | OTHER RESERVES $000 | RETAINED EARNINGS $000 | TOTAL $000 |
|---|---|---|---|---|---|
| Changes in equity 2011 | | | | | |
| At 1 January 2011 | 200 080 | 128 | 4 397 | 35 010 | **239,615** |
| Available-for-sale investments valuation net loss | 0 | 0 | (15 212) | 0 | **(15,212)** |
| | 200 080 | 128 | (10 815) | 35 010 | **224,403** |
| Profit for the year | 0 | 0 | 0 | 36 380 | **36,380** |
| | 200 080 | 128 | (10,815) | 71,390 | **260,783** |
| Currency translation differences | 0 | 0 | 0 | (2) | **(2)** |
| At 31 December 2011 | 200 080 | 128 | (10 815) | 71 388 | **260,781** |

| GROUP AND BANK | SHARE CAPITAL $000 | SHARE PREMIUM $000 | OTHER RESERVES $000 | RETAINED EARNINGS $000 | TOTAL $000 |
|---|---|---|---|---|---|
| Changes in equity 2010 | | | | | |
| At 1 January 2010 | 200 080 | 128 | 2 844 | 14 252 | **217,304** |
| Available-for-sale investments valuation gains | 0 | 0 | 1 553 | 0 | **1,553** |
| | 200 080 | 128 | 4 397 | 14 252 | **218,857** |
| Profit for the year | 0 | 0 | 0 | 20 760 | **20,760** |
| | 200 080 | 128 | 4 397 | 35 012 | **239,617** |
| Currency translation differences | 0 | 0 | 0 | (2) | **(2)** |
| At 31 December 2010 | 200 080 | 128 | 4 397 | 35 010 | **239,615** |

The notes on pages 12 to 40 are an integral part of these audited financial statements

**1 ACCOUNTING POLICIES**

**1 1 Basis of consolidation**
The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries (together known as the 'Group') as at and for the year ended 31 December 2011 and 2010 The financial statements of material subsidiaries are prepared for the same reporting year as the Bank using consistent accounting policies Adjustments are made 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 on consolidation
Subsidiaries are fully consolidated from the date on which control is transferred to the Group Control is achieved where the Bank has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the date of acquisition or up to the date of disposal as appropriate

No income statement is presented for the Bank as permitted by section 408 of the Companies Act 2006

The principal subsidiaries are set out in note 11

**Basis of preparation**
The consolidated financial statements have been prepared on a historical cost basis as modified for the remeasurement at fair value of trading and available-for-sale financial assets and all derivatives In addition, as more fully discussed below in note 1 3 (f) (i), assets that are fair value hedged are adjusted to the extent of the fair value of the risk being hedged The consolidated financial statements are presented in US Dollars which is the Groups's functional currency and all values are rounded to the nearest thousand (US Dollar thousand) except where otherwise indicated The US Dollar / Sterling foreign exchange rate applicable as at the reporting date was 1 54

**Statement of compliance**
The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board (IASB) and as adopted by the EU, and interpretations issued by the International Financial Reporting Interpretations Committee of the IASB and in accordance with the special provisions of Part IV [Section 6, Part 2] of the Companies Act 2006 relating to banking companies

**New standards, Interpretations and amendments effective from 1 January 2011**

None of the new standards interpretations and amendments effective for the first time from 1 January 2011 have had a material effect on the financial statements

**New standards, Interpretations and amendments not yet effective**

The following new standards have been issued by the International Accounting Standards Board (IASB) but are not yet mandatory for the year ended 31 December 2011 -

- IFRS 9 Financial Instruments Classification and Measurement effective annual periods commencing 1 January 2015
- IFRS 10 Consolidated Financial Statements effective annual periods commencing 1 January 2013
- IFRS 11 Joint Arrangements effective annual periods commencing 1 January 2013
- IFRS 12 Disclosure of interest in Other Entities effective annual periods commencing 1 Janaury 2013
- IFRS 13 Fair Value Measurement effective annual periods commencing 1 January 2013

IFRS 9 Financial Instruments was published in November 2009 and contained requirements for financial assets Requirements for financial liabilities were added to IFRS 9 in October 2010 Most of the requirements for financial liabilities were carried forward unchanged from IAS 39 However, some changes were made to the fair value option for financial liabilities to address the issue of own credit risk

On 16 December 2011, IASB published Mandatory Effective date and Transition Disclosures (Amendments to IFRS 9 and IFRS 7), which amends the effective date of IFRS 9 to annual periods beginning on or after 1 January 2015 and modifies the relief from restating comparative periods and the associated disclosures in IFRS 7

IAS 19 Employee Benefits - On 16 June 2011 the IASB published an amended IAS 19 Employee Benefits The amendments,

- eliminate an option to defer the recognition of gains and losses, known as the 'corridor method'
- streamline the presentation of changes in assets and liabilities arising from defined benefits plans, including requiring remeasurements to be presented in other comprehensive income (OCI)
- enhance the disclosure requirements for defined benefit plans, providing better information about the characteristics of defined benefit plans and the risks that entities are exposed to through participation in those plans

The amended version of IAS 19 comes into effect for the financial years beginning on or after 1 January 2013 Earlier application is permitted

The Group is not early adopting IFRS 9 and the amendment to IAS 19 and is currently assessing the impact and timing of application of these on the Group's future financial statements

None of the other new standards, interpretations and amendments which are effective for periods beginning after 1 January 2011 and which have not been adopted early, are expected to have a material effect on the Group's future financial statements

**1 2 Significant accounting judgements and estimates**

The preparation of the consolidated financial statements requires management to make judgements and estimates that affect the reported amount of financial assets and liabilities and disclosure of contingent liabilities These judgements and estimates also affect the revenues and expenses and the resultant provisions as well as fair value changes reported in equity

**Judgements**

Judgements are made in the classification of available-for-sale, held-for-trading and held-to-maturity investments based on management's intention at the acquisition of the financial asset Judgements are also made in the determination of the objective evidence that a financial asset is impaired

**Estimates**

Pension plan

Estimates and assumptions are used in determining the Group's pension liabilities The principal actuarial assumptions used for the defined benefit pension plan are set out in note 28

Impairment losses on loans and advances, non-trading investments and other assets

Estimates are made regarding the amount and timing of future cash flows when measuring the level of provisions required for non-performing loans portfolios of performing loans with similar risk characteristics where the risk of default has increased, as well as for provisions for non-trading investments and other assets These are more fully described in note 1 3 (e) and note 10

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 provisions

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

**1 3 Summary of significant accounting policies**

The principal accounting policies applied in the preparation of these consolidated and Bank financial statements are set out below These policies have been consistently applied to all the years presented

**(a) Foreign currency translation**

(i) Transactions and balances

Transactions in foreign currencies are initially recorded in the 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 - net" 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 available-for-sale investments measured at fair value in a foreign currency are translated using the exchange rates at the date the fair value is determined and the differences are included in other comprehensive income as part of the fair value adjustment of the respective items, unless these items are part of trading securities as explained in note 1 3 (b) (iii) or are part of an effective hedging strategy, in which case it is recorded in the consolidated statement of income

(ii) Group companies

Assets and liabilities of foreign subsidiaries whose functional currency is not US Dollars are translated into US Dollars at the rates of exchange prevailing at the balance sheet date Income and expense items are translated at exchange rates prevailing at each month end as an approximation for the rate at the date of the transaction

(iii) Capital

The primary objectives of the Group's capital management 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 maximize shareholders' value

The Group's ordinary shares are classified as equity instruments The Group considers its capital to comprise its ordinary share capital share premium, accumulated retained earnings and other reserves There have been no changes in what the Group considers to be capital since the previous period

The Group is subject to capital requirements imposed by the Financial Services Authority (FSA) and as such must ensure that it has sufficient capital as defined by the FSA, to meet its requirements as set out by the FSA These requirements have been met throughout the year

**(b) 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 of consideration given, including acquisition costs associated with the investment, except in the case of trading securities, the acquisition costs of which are expensed Premiums and discounts are amortised on a systematic basis to maturity using the effective interest 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 time frame generally established by regulation or convention in the market place

The Group accounts for any changes in the fair value of the asset to be received during the period between the trade date and the settlement date in the same way as it accounts for the acquired asset The change in fair value is recognised in the consolidated statement of income for assets classified as "trading securities" and it is recognised in equity for assets classified as available-for-sale The change in value is not recognised for assets carried at cost or amortised cost.

(ii) Treasury bills and deposits with central banks

Treasury bills and deposits with central banks are initially recognised at cost Premiums and discounts are amortised on a systematic basis to their maturity

(iii) Trading securities

A financial asset is classified as "held for trading" if it is acquired or incurred principally for the purpose of generating profit from short term fluctuations in price Trading securities are initially recognised at cost, being the fair value of the consideration given and are subsequently measured at fair value Resultant unrealised gains and losses arising from changes in fair value are included in the consolidated statement of income under "trading income - net" while dividend income is recorded in "dividend income" when the right of the payment has been establised

(iv) Held-to-maturity

Non-trading investments with fixed or determinable payments, fixed maturities and which the Group has the intention and ability to hold till maturity are classified as held-to-maturity After initial recognition these are subsequently measured at amortised cost using the effective interest rate method less allowance for impairment The losses arising from impairment of such investments are recognised in the consolidated statement of income

(v) Deposits with banks and other financial institutions and loans and advances

Deposits with bank 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 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 impairment. The losses arising from impairment of these assets are recognised in the consolidated statement of income in "provision for losses on loans and advances, non-trading investments and other assets - net" and in an impairment 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

(vi) Available-for-sale

Non-trading investments that are not classified as held-to-maturity, held-for-trading or loans and advances are classified as available-for-sale After initial recognition, available-for-sale investments are remeasured at fair value For investments in equity investments, where a reasonable estimate of the fair value cannot be determined the investments are carried at cost less impairment provision

Unless unrealised gains and losses on remeasurement to fair value are part of an effective hedging relationship, they are reported as a separate component of equity until the investment is sold settled or otherwise disposed of, or the investment is determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in the consolidated statement of income for the period

Any gain or loss arising from a change in fair value of available-for-sale investments which are part of an effective hedging relationship, is recognised directly in the consolidated statement of income to the extent of the changes in fair value being hedged

(vii) Derivatives

Changes in fair values of the derivatives held for trading are included in the consolidated statement of income under "trading income -net" Derivatives embedded in other financial instruments are treated as separate derivatives and recorded at fair value, when their economic characteristics and risks are not closely related to those of the host contract and the host contract is not carried as held for trading The change in fair value of such embedded derivatives is recognised in the consolidated statement of income

(viii) Deposits, Syndicated loans and Other borrowed funds

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

**(c) 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

**(d) Determination of fair value**

The fair value of financial instruments that are quoted in an active market is determined by reference to market bid and offer 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 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 value techniques

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

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

**(e) Impairment of financial assets**

An assessment is made at each balance sheet date to determine whether there is any objective evidence that a specific financial asset or a group of financial assets may be impaired If such evidence exists the estimated recoverable amount of that asset or a group of assets is determined and any impairment loss, based on the net present value of future anticipated cash flows, is recognised in the consolidated statement of income and credited to an allowance account In the case of equity investments, impairment is reflected directly as a write down of the financial asset Impairment losses on equity investments are not reversed through the consolidated statement of income while any subsequent increases in their value are recognised directly in equity

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a borrower restructuring of a loan or advance by the Group on terms that the Group would not otherwise consider, indications that a borrower or issuer will enter bankruptcy the discrepancies of an active market for a security, 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 In addition for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

The present value of the estimated future cash flows for loans and other interest bearing financial asset is discounted at the financial assets's original effective interest rate If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable

In addition to specific provisions against individually significant financial assets the Group also makes collective impairment provisions on groups of financial assets, which although not identified as requiring a specific provision, have a greater risk of default than the risk at initial recognition Financial assets are grouped on the basis of similar credit risk characteristics that are indicative of the debtors' ability to pay all amounts due according to the contractual terms and the collective impairment provision is estimated for any such group where credit risk characteristics of the group of financial assets has deteriorated Factors such as any deterioration in country risk, industry, technological obsolescence as well as identified structural weaknesses or deterioration in cash flows are taken into consideration and the amount of the provision is based on the historical loss pattern within each group, adjusted to reflect current economic changes

Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account If a write-off is later recovered, the recovery is credited to the 'provision for losses on loans and advances, non-trading investments and other assets - net' in the consolidated statement of income

**(f) Hedge accounting**

The Group enters into derivative instruments including futures, forwards, swaps and options to manage exposures to interest rates 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. Derivatives are stated at fair value.

At inception of the hedge relationship, the Group formally documents the 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, a formal assessment is undertaken to ensure the hedging instrument is expected to be highly effective in offsetting the designated risk in the hedged item. Hedges are formally assessed at each reporting date. A hedge is regarded as highly effective if the changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated were offset in a range of 80% to 125%. For situations where that 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 where the hedge no longer meets the criteria for hedge accounting, the hedge relationship is terminated. For hedged items recorded at amortised cost, 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.

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 taken directly to the consolidated statement of income for the year.

(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 equity. The ineffective portion of the gain or loss, if any, on the hedging instrument is recognised immediately in the consolidated statement of income as "trading income - net".

The gains or losses on effective cash flow hedges recognised initially in equity 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 taken directly to 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 equity remains in equity 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.

**(g) 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

**(h) Property, plant and equipment**

Property, plant and equipment is stated at cost, less accumulated depreciation

Depreciation of 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

- Leasehold buildings and improvements - over the period of the lease
- Other assets - 2 to 5 years

**(i) Revenue recognition**

(i) Interest

Interest income on loans and advances is credited to the consolidated income statement on an accrual basis unless the collection of principal or interest is deemed non-recoverable, in which case interest accrual is suspended Interest received on loans where the recovery of the principal balance is uncertain is held in a suspended interest account and is used to reduce the carrying value of the loan Interest income from financial assets is calculated using the effective interest yield method

(ii) Fees and commissions

Fees and commissions that constitute remuneration for risk are taken to the consolidated income statement over the duration of the risk Front-end fees, net of direct costs, are charged to cover the costs of a continuing service to a borrower and are recognised over the life of the related advance Other front-end fees are accounted for on a cash basis Fund management fees are credited to the income statement on an accruals basis as services are provided

(iii) Dividend income

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

(iv) Operating leases

Rentals receivable and payable under operating leases are charged in the consolidated income statement on a straight line basis over the lease term

(v) Segment information

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker The chief operating decision maker has been identified as the Management Committee including the Chief Executive Officer and Deputy Chief Executive Officers

**(j) 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

**(k) 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

**(l) 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 Any excess or deficiency of the actuarial value of assets over the actuarial value of liabilities of the pension scheme, outside of a defined corridor is charged to the consolidated statement of income over the average remaining service lives of the scheme members

Defined contribution plans

Ahli United Bank (UK) PLC also operates a defined contribution plan, the costs of which are recognised in the period to which they relate

**(m) Taxation**

Deferred tax is recognised in respect of all temporary differences that have originated but not reversed at the reporting date where transactions or events have occurred at that date that will result in an obligation to pay more, or right to pay less tax, except that deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying temporary differences can be deducted

Deferred tax is measured on a non-discounted basis at the tax rates that are expected to apply in the periods in which temporary differences reverse, based on tax rates and laws enacted or substantively enacted at the reporting date

**(n) Fiduciary assets**

Assets held in trust or in a fiduciary capacity (note 27) are not treated as assets of the Group and, accordingly , are not incorporated in the consolidated balance sheet.

## 2 SEGMENT INFORMATION

The Group's income during the year all related to banking activities
For management purposes the Bank is organised into three 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 treasury and investments principally handling loans and other credit facilities and providing money market and treasury services as well as management of the Bank s funding
- Private banking and wealth management principally servicing high net worth clients through a range of investment products funds credit facilities trusts and alternative investments

Transactions between segments including intersegmental interest charges are conducted at approximate market rates on an arm s length basis

**Segment information for the year ended 31 December 2011 is as follows** **2011**

| | RETAIL BANKING $000 | CORPORATE AND TREASURY $000 | PRIVATE BANKING $000 | TOTAL $000 |
|---|---|---|---|---|
| Net interest income | 14 912 | 27 103 | 12 777 | **54,792** |
| Net fee income | 2 373 | 3 973 | 12 429 | **18,775** |
| Non-interest income / ( expense) | 0 | 5 762 | (85) | **5,677** |
| | 17 285 | 36 838 | 25 121 | **79,244** |
| Impairment (charges) / recoveries | (1 555) | (2 543) | (138) | **(4,236)** |
| Net operating income | 15 730 | 34 295 | 24 983 | **75,008** |
| Operating expenses | (3 290) | (7 496) | (13 341) | **(24,127)** |
| Profit before tax | 12 440 | 26 799 | 11 642 | **50,881** |
| Income tax expense | (3 545) | (7 638) | (3,318) | **(14,501)** |
| Profit after tax | 8 895 | 19 161 | 8 324 | **36,380** |
| Segmental assets | 812 399 | 2 055 357 | 482 558 | **3,350,314** |
| Unallocated assets | | | | **69,247** |
| Total assets | | | | **3,419 561** |
| Segmental liabilities | 1 039 | 1 230 821 | 1 869 542 | **3,101,402** |
| Unallocated liabilities | | | | **57,378** |
| Total liabilities | | | | **3,158,780** |

**Segment information for the year ended 31 December 2010 is as follows** **2010**

| | RETAIL BANKING $000 | CORPORATE AND TREASURY $000 | PRIVATE BANKING $000 | TOTAL $000 |
|---|---|---|---|---|
| Net interest income | 13 681 | 23 388 | 7,025 | **44,094** |
| Net fee income | 3 401 | 4 073 | 12 494 | **19,968** |
| Non-interest income / (expense) | 0 | 4 256 | (85) | **4,171** |
| | 17 082 | 31 717 | 19 434 | **68,233** |
| Impairment (charges) / recoveries | 147 | (14 956) | 109 | **(14,700)** |
| Net operating income | 17 229 | 16 761 | 19 543 | **53,533** |
| Operating expenses | (5 764) | (8 166) | (12 093) | **(26,023)** |
| Profit before tax | 11 465 | 8 595 | 7 450 | **27,510** |
| Income tax (expense) / credit | (3,439) | (1 075) | (2 236) | **(6,750)** |
| Profit after tax | 8 026 | 7 520 | 5 214 | **20,760** |
| Segmental assets | 656 316 | 1 598 141 | 395 788 | **2,650,245** |
| Unallocated assets | | | | **68,008** |
| Total assets | | | | **2,718 253** |
| Segmental liabilities | 146 489 | 994 548 | 1 284,711 | **2,425,748** |
| Unallocated liabilities | | | | **52,890** |
| Total liabilities | | | | **2,478,638** |

## 2 SEGMENT INFORMATION (continued)

Interest is analysed on a net basis above as this is the key interest performance indicator for each segment
Unallocated assets / liabilities comprise derivative financial instruments, tax, fixed assets and retirement benefit scheme related balances and other assets/ liabilities as shown on the Group Balance Sheet
Interest income is analysed by geographic area in note 3

## 3 NET INTEREST INCOME

| | 2011 $000 | 2010 $000 |
|---|---|---|
| Non-trading investments and certificates of deposit | **22,217** | 20,822 |
| Deposits with banks and other financial institutions | **23,865** | 15 893 |
| Loans and advances | **62,326** | 47 337 |
| Interest income | **108,408** | 84,052 |
| Deposits from banks and other financial institutions | **35,968** | 29,160 |
| Customer deposits | **16,312** | 9,456 |
| Syndicated Loan | **991** | 1 026 |
| Subordinated liabilities | **345** | 316 |
| Interest expense | **53,616** | 39,958 |
| Net interest income | **54,792** | 44,094 |

Interest income is analysed by geographic area as follows

| | EUROPE (excl UK) $000 | GULF COOPERATION COUNCIL $000 | UNITED KINGDOM $000 | UNITED STATES OF AMERICA $000 | OTHER $000 | **TOTAL $000** |
|---|---|---|---|---|---|---|
| Interest income | | | | | | |
| **2011** | **27,763** | **11,289** | **49,677** | **564** | **19,115** | **108,408** |
| 2010 | 19 197 | 12,603 | 40,003 | 507 | 11,742 | **84,052** |

## 4 OTHER OPERATING INCOME

| | 2011 $000 | 2010 $000 |
|---|---|---|
| Profit on sale of available-for-sale investments and related hedging instruments | **738** | 0 |
| Other | **3,978** | 3,237 |
| | **4,716** | 3 237 |

## 5 STAFF COSTS

| | 2011 $000 | 2010 $000 |
|---|---|---|
| Staff cost | | |
| - wages and salaries | **11,050** | 10 339 |
| - social security costs | **1,279** | 1,139 |
| - other pension costs | **1,463** | 3,222 |
| | **13,792** | 14,700 |

The average monthly number of employees during the year was 94 (2010 97)

## 6 PROFIT BEFORE TAX

| | 2011 $000 | 2010 $000 |
|---|---|---|
| Profit before tax is stated after crediting | | |
| Income from listed securities | **22,217** | 20 822 |
| Income from leased properties | **112** | 109 |
| Fee income from net fund management and performance fees | **7,129** | 7 412 |
| Fee income from trust and other fiduciary activities | **1,873** | 1 906 |
| and after charging | | |
| Directors' remuneration | **2,093** | 1 275 |
| Auditors' remuneration | | |
| - audit services | **310** | 299 |
| - non audit services | | |
| - services relating to taxation | **120** | 181 |
| - other services | **181** | 106 |
| Depreciation | **1,454** | 1 419 |
| Operating lease rentals | **1,893** | 1 833 |

Payments of $55 000 have been made to the defined contribution scheme in respect of three directors The emoluments of the directors are inclusive of $Nil in respect of the share based payment scheme The emoluments include all fees and expenses and are stated gross before the deduction of UK income tax The emoluments of the highest paid director in 2011 were $426 000 (2010 $333 000)

## 7 INCOME TAX EXPENSE

| | 2011 $000 | 2010 $000 |
|---|---|---|
| Current tax expense - UK corporation tax on profits for the year | **13,599** | 5 139 |
| Deferred tax expense - origination and reversal of temporary differences (note 14) | **902** | 1 611 |
| Income tax expense | **14,501** | 6 750 |

The tax rate for 2011 is lower than the standard rate of corporation tax applicable The differences are explained below

| | 2011 $000 | 2010 $000 |
|---|---|---|
| Profit before tax | **50,881** | 27,510 |
| Multiplied by the average rate of corporation tax in the UK of 28 0% (2010 28 0%) | **14,247** | 7,703 |
| Effects of | | |
| Expenses not deductible for tax purposes / Income not subject to tax | **254** | (953) |
| Income tax expense | **14 501** | 6 750 |

The tax credit relating to available-for-sale investment losses is $6 5 million (2010 $0 7 million)

## 8 LOANS AND ADVANCES TO BANKS

| GROUP AND BANK | 2011 $000 | 2010 $000 |
|---|---|---|
| Repayable | | |
| - on demand | **970,424** | 486 906 |
| - within three months | **160,174** | 18,030 |
| | **1,130,598** | 504 936 |

| | 2011 $000 | 2010 $000 |
|---|---|---|
| Included within the above amounts | | |
| Amounts due from parent and fellow subsidiary undertakings | **29,502** | **18,378** |

## 9 LOANS AND ADVANCES TO CUSTOMERS

| GROUP AND BANK | 2011 $000 | 2010 $000 |
|---|---|---|
| Repayable | | |
| - on demand | **18,813** | 40 712 |
| - within three months | **50,354** | 54 019 |
| - between three months and one year | **114,532** | 89 550 |
| - between one and five years | **606,744** | 573 950 |
| - after five years | **1,021,736** | 835 034 |
| Provisions (note 10) | **(44,807)** | (32 310) |
| | **1,767,372** | 1 560 955 |

| | 2011 $000 | 2010 $000 |
|---|---|---|
| Included within the above amounts (Bank only) | | |
| Amounts due from fellow subsidiary undertakings | **10,000** | 10 000 |

## 10 PROVISIONS FOR LOSSES ON LOANS AND ADVANCES, IMPAIRMENT OF NON-TRADING INVESTMENTS AND OTHER ASSETS - NET

Loans and advances to banks, customers and non-trading investments are stated net of the following provisions

| GROUP AND BANK | SUSPENDED INTEREST $000 | PROVISIONS $000 | TOTAL $000 |
|---|---|---|---|
| At 1 January 2011 | 0 | 40 307 | **40,307** |
| Applied in writing off advances | 0 | 6 691 | **6,691** |
| Exchange rate movements | (0) | (179) | **(179)** |
| Net provision charge for the year | 0 | 4 236 | **4,236** |
| Additions during the year | 46 | 0 | **46** |
| At 31 December 2011 | **46** | **51,055** | **51,101** |
| Of which | | | |
| In respect of loans and advances to customers (note 9) | | | **44,807** |
| In respect of impairment of non-trading investments | | | **6,294** |
| | | | **51,101** |
| Charge for provisions against loans and advances to banks and customers | | | **5,926** |
| Credit for provisions against non-trading investments | | | **(1,690)** |
| Net provision charge for the year | | | **4,236** |

## 11 INVESTMENTS IN GROUP UNDERTAKINGS

| BANK | 2011 $000 | 2010 $000 |
|---|---|---|
| Shares at cost | **658** | **2,158** |

The following are the principal subsidiaries All operating entities are engaged in the provision of financial services

| Name | Country of incorporation | Percentage holding |
|---|---|---|
| IIBU II Fund PLC | Ireland | 100% |
| AUB Finance BV | The Netherlands | 100% |

A significant portion of the investment balance relates to IIBU II Fund PLC with a carrying value of $567 000 at 31 December 2011 (2010 $2 067 000) for which a distribution of $1 500 000 was received during the year The carrying value represents cash held in Ahli United Bank (UK) PLC on behalf of IIBU II Fund PLC

## 12 NON-TRADING INVESTMENTS

| GROUP AND BANK | AVAILABLE-FOR-SALE 2011 $000 | 2010 $000 | TOTAL 2011 $000 | 2010 $000 |
|---|---|---|---|---|
| Non-trading investments issued by Other Issuers | | | | |
| Central and Local Government | 82,695 | 83 313 | 82,695 | 83,313 |
| Banks and Building Societies | 148 876 | 211 176 | 148,876 | 211 176 |
| Other | 218 806 | 287 934 | 218,806 | 287 934 |
| | 450,377 | 582 423 | 450,377 | 582 423 |
| Other Fund Investments | 105 | 136 | 105 | 136 |
| | 450,482 | 582 559 | 450,482 | 582 559 |
| Non-trading investments analysed by maturity | | | | |
| Due within one year | 22,238 | 22 858 | 22,238 | 22 858 |
| Due after one year | 428,139 | 559,565 | 428,139 | 559 565 |
| Other Fund Investments | 105 | 136 | 105 | 136 |
| | 450,482 | 582 559 | 450,482 | 582 559 |
| Non-trading investments analysed by listing status | | | | |
| Listed | 417,495 | 554 980 | 417,495 | 554 980 |
| Unlisted | 32,882 | 27 443 | 32,882 | 27 443 |
| Other Fund Investments | | | | |
| Unlisted | 105 | 136 | 105 | 136 |
| | 450,482 | 582 559 | 450,482 | 582 559 |
| Non-trading investments analysed by IFRS 7 fair value methodology | | | | |
| Level 1 | 417,495 | 554 980 | 417,495 | 554 980 |
| Level 3 | 32,882 | 27 443 | 32,882 | 27,443 |
| Other Fund Investments | | | | |
| Level 3 | 105 | 136 | 105 | 136 |
| | 450,482 | 582 559 | 450,482 | 582 559 |

Although Group companies may act as the general partner and the manager of certain funds they act in a fiduciary capacity and so the investments in those funds are included as other fund investments
An impairment provision of $6 294 000 (2010 $7 997 000) was held against non-trading investments Level 3

| The movements for non-trading investments Level 3 are as follows - | Fair value 2011 $000 |
|---|---|
| At 1 January 2011 | 27,443 |
| Currency translation differences | (938) |
| Additions | 6 246 |
| Repayments | (1 559) |
| Provision release | 1 690 |
| At 31 December 2011 | 32,882 |

## 13 PROPERTY, PLANT AND EQUIPMENT

| GROUP AND BANK | LEASEHOLD BUILDINGS SHORT LEASEHOLD $000 | FIXTURES, FITTINGS AND EQUIPMENT $000 | TOTAL $000 |
|---|---|---|---|
| Cost | | | |
| At 1 January 2011 | 5 940 | 15,735 | 21,675 |
| Additions | 0 | 1 137 | 1,137 |
| Disposals | 0 | (744) | (744) |
| At 31 December 2011 | 5,940 | 16,128 | 22,068 |
| Depreciation | | | |
| At 1 January 2011 | 2,646 | 13 452 | 16,098 |
| Charge for the year | 263 | 1 191 | 1,454 |
| Disposals | 0 | (744) | (744) |
| At 31 December 2011 | 2,909 | 13,899 | 16,808 |
| Net book value at 31 December 2011 | 3,031 | 2,229 | 5,260 |
| Net book value at 1 January 2011 | 3 294 | 2 283 | 5 577 |

## 13 PROPERTY, PLANT AND EQUIPMENT (continued)

| GROUP AND BANK | LEASEHOLD BUILDINGS SHORT LEASEHOLD $000 | FIXTURES, FITTINGS AND EQUIPMENT $000 | TOTAL $000 |
|---|---|---|---|
| Cost | | | |
| At 1 January 2010 | 5,923 | 14,629 | **20,552** |
| Additions | 17 | 1,106 | **1,123** |
| At 31 December 2010 | **5,940** | **15,735** | **21,675** |
| Depreciation | | | |
| At 1 January 2010 | 2,383 | 12 296 | **14,679** |
| Charge for the year | 263 | 1,156 | **1,419** |
| At 31 December 2010 | **2,646** | **13,452** | **16,098** |
| Net book value at 31 December 2010 | **3,294** | **2,283** | **5,577** |
| Net book value at 1 January 2010 | 3,540 | 2,333 | 5 873 |

## 14 TAXATION

| GROUP AND BANK | 2011 $000 | 2010 $000 |
|---|---|---|
| Current tax asset | **1,340** | 3,147 |
| Deferred tax liability | **(3,718)** | (2 816) |
| | **(2,378)** | 331 |

| GROUP AND BANK | 2011 $000 | 2010 $000 |
|---|---|---|
| Deferred tax liability at 1 January | **(2,816)** | (1 205) |
| Deferred tax charge in income statement | **(902)** | (1,611) |
| Deferred tax liability at 31 December | **(3,718)** | (2 816) |

## 15 OTHER ASSETS

| GROUP AND BANK | 2011 $000 | 2010 $000 |
|---|---|---|
| Prepayments and accrued income | **12,182** | 14,335 |
| Other assets | **1,764** | 2,689 |
| | **13,946** | 17,024 |

## 16 DEPOSITS FROM BANKS

| GROUP AND BANK | 2011 $000 | 2010 $000 |
|---|---|---|
| Repayable | | |
| - on demand | **40,457** | 18 559 |
| - within three months | **9,275** | 322,843 |
| - between three months and one year | **952** | 1,000 |
| - between one and five years | **0** | 908 |
| | **50,684** | 343 310 |

| | 2011 $000 | 2011 $000 |
|---|---|---|
| Included within the above amounts | | |
| Amounts due to parent and fellow subsidiary undertakings | **11,994** | 147,542 |

## 17 CUSTOMER DEPOSITS

| | | GROUP | | BANK |
|---|---|---|---|---|
| | 2011 $000 | 2010 $000 | 2011 $000 | 2010 $000 |
| Repayable | | | | |
| - on demand | **1,228,795** | 886 714 | **1,229,453** | 888 872 |
| - within three months | **1,326,913** | 688,390 | **1,326,913** | 688,390 |
| - between three months and one year | **315,171** | 325,972 | **315,171** | 325,972 |
| - between one and five years | **12,921** | 11 314 | **12,921** | 11,314 |
| | **2,883,800** | 1,912,390 | **2,884,458** | 1,914,548 |

| | 2011 $000 | 2010 $000 |
|---|---|---|
| Included within the above amounts (Bank only) | | |
| Amounts due to fellow subsidiary undertakings (on demand) | **2** | 0 |

## 18 SYNDICATED LOAN

| GROUP AND BANK | 2011 $000 | 2010 $000 |
|---|---|---|
| Syndicated loan repayable | **150,000** | 150,000 |

The US dollar denominated syndicated loan is repayable in September 2012 and it is the Bank's intention to repay this

## 19 OTHER LIABILITIES

| GROUP AND BANK | 2011 $000 | 2010 $000 |
|---|---|---|
| Accruals and deferred income | **19,323** | 20,472 |
| Other liabilities and provisions | **1,103** | 2,318 |
| | **20,426** | 22,790 |

## 20 OTHER BORROWED FUNDS

These borrowings are subordinated to the claims of all other creditors of the Bank

| GROUP AND BANK | 2011 $000 | 2010 $000 |
|---|---|---|
| Sterling loan stock carrying interest at six months LIBOR plus 3/4%,* | 6,357 | 6 371 |
| Sterling loan stock carrying interest at six months LIBOR plus 3/4%, repayable 2011 | 0 | 1,625 |
| Sterling loan stock carrying interest at six months LIBOR plus 3/4% repayable 2013 | 2,477 | 2,483 |
| US$ loan stock carrying interest at three months LIBOR plus 3/4%,* | 5,817 | 5,817 |
| US$ loan stock carrying interest at three months LIBOR plus 3/4%, repayable 2011 | 0 | 1,485 |
| US$ loan stock carrying interest at three months LIBOR plus 3/4%, repayable 2013 | 2,267 | 2 267 |
| The funds provided by these subordinated loans raised by AUB Finance BV have all been lent to the Bank on similar terms but with interest payable at 1/8% over the rates shown | | |
| | 16,918 | 20 048 |

* The loan stock is redeemable by holders giving notice of five years and one day

## 21 SHARE CAPITAL AND SHARE PREMIUM

| GROUP AND BANK | AUTHORISED 2011 $000 | AUTHORISED 2010 $000 | ISSUED AND FULLY PAID 2011 $000 | ISSUED AND FULLY PAID 2010 $000 |
|---|---|---|---|---|
| Ordinary shares at £1 each (50,000 shares) | 80 | 80 | 80 | 80 |
| Ordinary shares at $1 each | 500,000 | 500 000 | 200,000 | 200,000 |
| | 500,080 | 500 080 | 200,080 | 200,080 |
| Share premium | | | 128 | 128 |
| | | | 200,208 | 200 208 |

## 22 RESERVES

| GROUP | SHARE CAPITAL $000 | SHARE PREMIUM $000 | OTHER RESERVES $000 | RETAINED EARNINGS $000 | SHAREHOLDERS' FUNDS $000 |
|---|---|---|---|---|---|
| At 1 January 2011 | 200 080 | 128 | 4,397 | 35,010 | 239,615 |
| | 200,080 | 128 | 4 397 | 35 010 | 239,615 |
| Available-for-sale investments valuation net loss | 0 | 0 | (15 212) | 0 | (15,212) |
| Profit for the year | 0 | 0 | 0 | 36,380 | 36,380 |
| Currency translation differences | 0 | 0 | 0 | (2) | (2) |
| At 31 December 2011 | 200,080 | 128 | (10,815) | 71,388 | 260,781 |

Other reserves relate to available-for-sale fair value adjustments

## 22 RESERVES (continued)

| BANK | SHARE CAPITAL $000 | SHARE PREMIUM $000 | OTHER RESERVES $000 | RETAINED EARNINGS $000 | SHAREHOLDERS' FUNDS $000 |
|---|---|---|---|---|---|
| At 1 January 2011 | 200,080 | 128 | 4,397 | 35,010 | **239,615** |
| | 200 080 | 128 | 4,397 | 35,010 | **239,615** |
| Available-for-sale investments valuation net loss | 0 | 0 | (15 212) | 0 | **(15,212)** |
| Profit for the year | 0 | 0 | 0 | 36,380 | **36,380** |
| Currency translation differences | 0 | 0 | 0 | (2) | **(2)** |
| At 31 December 2011 | **200,080** | **128** | **(10,815)** | **71,388** | **260,781** |

The movements in the retained earnings reserve of the Bank during the year were

| BANK | 2011 $000 | 2010 $000 |
|---|---|---|
| At 1 January | **35,010** | 14,252 |
| Profit for the year | **36,380** | 20,760 |
| Currency translation differences | **(2)** | (2) |
| At 31 December | **71,388** | 35,010 |

## 23 CONTINGENT LIABILITIES

| GROUP AND BANK | 2011 $000 | 2010 $000 |
|---|---|---|
| Guarantees | **3,353** | 2,267 |
| Irrevocable letters of credit | **12,704** | 15,528 |
| | **16,057** | 17 795 |

To facilitate its day-to-day securities settlement operations Ahli United Bank (UK) PLC has given a floating charge on its debt securities portfolio (note 12)

## 23 CONTINGENT LIABILITIES (continued)

Contingent liabilities are analysed by geographic area and industry sector as follows

| | 2011 $000 | 2010 $000 |
|---|---|---|
| Geographic area | | |
| Europe (excluding United Kingdom) | **5,324** | 7,896 |
| Gulf Cooperation Council | **8,577** | 8,890 |
| United Kingdom | **2,081** | 934 |
| Other | **75** | 75 |
| | **16,057** | 17,795 |

| | 2011 $000 | 2010 $000 |
|---|---|---|
| Industry sector | | |
| Finance | **540** | 541 |
| Manufacturing | **4,989** | 7 318 |
| Personal | **552** | 698 |
| Real Estate | **431** | 432 |
| Other | **9,545** | 8 806 |
| | **16,057** | 17,795 |

## 24 COMMITMENTS

The amounts shown below are intended to provide an indication of the volume of business transacted and not of the underlying credit or other risks

| GROUP AND BANK | CONTRACT OR UNDERLYING PRINCIPAL AMOUNT 2011 $000 | 2010 $000 |
|---|---|---|
| Formal standby facilities credit lines and other commitments to lend | | |
| - within one year | **82,388** | 165,452 |
| - between one and five years | **57,307** | 90,389 |
| - over five years | **10,902** | 12,861 |
| | **150,597** | 268,702 |

Forward and futures contracts outstanding at 31 December 2011 are analysed in note 25
At 31 December 2011 there were $855,000 (2010 $Nil) contracted capital commitments

Commitments are analysed by geographic region and industry sector as follows

| | 2011 $000 | 2010 $000 |
|---|---|---|
| Geographic region | | |
| Europe (excluding United Kingdom) | **49,862** | 62,161 |
| Gulf Cooperation Council | **15,431** | 13 885 |
| United Kingdom | **71,308** | 192,233 |
| Other | **13,996** | 423 |
| | **150,597** | 268,702 |

| | 2011 $000 | 2010 $000 |
|---|---|---|
| Industry sector | | |
| Finance | **10,504** | 8,805 |
| Manufacturing | **53,887** | 56,628 |
| Personal | **24,957** | 15 987 |
| Real Estate | **51,497** | 160,585 |
| Other | **9,752** | 26 697 |
| | **150,597** | 268,702 |

## 24 COMMITMENTS (continued)

There are outstanding commitments under non-cancellable operating leases, which fall due as follows

| | 2011 $000 | 2010 $000 |
|---|---|---|
| - within one year | 1,893 | 1,833 |
| - between one and five years | 7,463 | 7 334 |
| - over five years | 9,147 | 11,001 |
| | 18,503 | 20,168 |

Operating lease payments represent rentals payable by the Group for leases of office properties

## 25 FINANCIAL INSTRUMENT RISK EXPOSURE AND MANAGEMENT

The major risks associated with the Bank's and Group s businesses are credit risk, liquidity risk, operational risk and market risk

### Credit risk

Credit Risk is the risk that companies financial institutions and other counterparties will be unable to meet their obligations to the Group Credit Risk arises principally from lending but also from other transactions involving on and off balance sheet instruments The Risk Committee in conjunction with the Risk Management Department have the responsibility for developing and implementing policies to ensure that all exposures are properly pre-approved, measured and controlled With the exception of certain small retail loans, all credits are independently pre-approved including, for credits over a set limit, by the Parent Undertaking's Executive Committee Credit proposals are put through a comprehensive risk assessment which examines the customer's financial condition and trading performance, nature of the business quality of management and market position In addition an internal risk rating model scores these quantitative and qualitative factors The credit approval decision is then made and terms and conditions set. Exposure limits are based on the aggregate exposure to the counterparty All credit exposures are reviewed at least annually Measurement of credits includes geographic, product, market and individual counterparty concentration

All exposures are checked daily against approved limits independently of each business unit and are reported to the senior management

The Group s first priority when making loans is to establish the borrower's capacity to repay and not rely principally on security / collateral Where the customer's financial standing is strong facilities may be granted on an unsecured basis but when necessary collateral is an essential credit risk mitigant.

Acceptable forms of collateral are defined within the credit risk framework and conservative valuation parameters are also pre-set and regularly reviewed to reflect any changes in market conditions Security structures and legal covenants are also subject to regular review to ensure that they continue to fulfill their intended purpose and remain in line with market practice Guidelines are in place regarding the acceptability of types of collateral and valuation parameters

The principal collateral types are as follows

- mortgages over residential properties,
- charges over business assets such as premises plant stock and receivables,
- charges over commercial properties being financed and
- charges over financial instruments, such as debt securities and equities

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

Possession orders for 4 properties (in respect of 4 loans aggregating to $2 49m) were obtained in 2011 Such properties are valued and marketed by third party professionals who, in consultation with Risk Management Department, seek to obtain the best price on sale

Arrears policy is strictly controlled The size of the balance sheet is such that it is possible to monitor each individual exposure to evaluate if specific provisions are necessary and adequate A dedicated corporate recovery team within the Risk Management Department provides managerial focus to remedial situations Additionally, a collective provision is held to cover any losses where there is objective evidence that losses may be present in components of the financial assets portfolio at the reporting date These have been estimated based on historical patterns of losses in each component, the credit ratings allotted to the borrowers and reflecting the current economic climate in which the borrowers operate The majority of lending excluding interbank, is secured on assets The main geographical credit exposure is to the UK markets

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 are 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 risk across all lines of business

The three credit quality ratings given can be equated to the following risk grades

| | | |
|---|---|---|
| High Standard | Risk Rating 1 to 4 | Undoubted through to Good Credit Risk |
| Standard | Risk Rating 5 to 6 | Satisfactory through to Adequate Credit Risk |
| Watch list | Risk Rating 7 | Watch List Credit Risk |

The rating system is supported by various financial analytics and qualitative market information for the measurement of counterparty risk

Loans and advances are further analysed in the tables below into the following categories

| | |
|---|---|
| Retail | principally individual customers' consumer loans, residential mortgages and overdrafts |
| Corporate | principally loans and other credit facilities for corporate and institutional customers Also included are credit facilities to high net worth individuals |

## 25 FINANCIAL INSTRUMENT RISK EXPOSURE AND MANAGEMENT (continued)

Exposures which are neither past due nor impaired are analysed by asset class and broad risk categories as follows

| 2011 | HIGH STANDARD GRADE $000 | STANDARD GRADE $000 | WATCH-LIST $000 | TOTAL $000 |
|---|---|---|---|---|
| Loans and advances to banks | 1 130,450 | 148 | 0 | **1,130,598** |
| Derivative financial instruments | 30 693 | 0 | 0 | **30,693** |
| Loans and advances to customers | | | | |
| Retail | 891 613 | 48,570 | 7 142 | **947,325** |
| Corporate | 545,650 | 247,568 | 0 | **793,218** |
| Investment securities | | | | |
| Available-for-sale | 411 805 | 44,971 | 0 | **456,776** |
| | **3,010,211** | **341,257** | **7,142** | **3,358,610** |

| 2010 | HIGH STANDARD GRADE $000 | STANDARD GRADE $000 | WATCH-LIST $000 | TOTAL $000 |
|---|---|---|---|---|
| Loans and advances to banks | 499 776 | 5,160 | 0 | 504,936 |
| Derivative financial instruments | 29,216 | 0 | 0 | 29,216 |
| Loans and advances to customers | | | | |
| Retail | 702,594 | 59,874 | 989 | 763,457 |
| Corporate | 443 968 | 298,544 | 1 729 | 744,241 |
| Investment securities | | | | |
| Available-for-sale | 554,980 | 35 576 | 0 | 590,556 |
| | 2,230,534 | 399 154 | 2,718 | 2,632,406 |

An aged analysis of Loans and advances which are past due but not impaired is given below

| | RETAIL **2011** **$000** | CORPORATE **2011** **$000** | RETAIL 2010 $000 | CORPORATE 2010 $000 |
|---|---|---|---|---|
| Less than 30 days | 241 | 3 021 | 734 | 9,173 |
| Between 30 days and 60 days | 3,625 | 481 | 16,824 | 536 |
| Between 60 days and 90 days | 6 977 | 16,553 | 5,297 | 18 595 |
| Greater than 90 days | 6,495 | 4 787 | 7,393 | 7,856 |
| | **17,338** | **24,842** | **30,248** | **36,160** |
| Collateral | 29,535 | 43,900 | 49,119 | 66 704 |

The collateral comprises residential properties

Gross and net exposures to individually impaired Loans and advances can be analysed as follows

| | GROSS **2011** **$000** | NET **2011** **$000** | GROSS 2010 $000 | NET 2010 $000 |
|---|---|---|---|---|
| Retail | 3 136 | 1 497 | 0 | 0 |
| Corporate | 26,320 | 6 808 | 19,159 | 5,518 |
| | **29,456** | **8,305** | 19 159 | 5 518 |
| Collateral | | **10,732** | | 17 934 |

The collateral held against individually impaired loans comprises commercial and residential properties

A specific provision of $21,151,000 (2010 $13 641,000) was held against these impaired loans and advances No individually impaired Loans were restructured during the year Interest income includes $49 000 (2010 $NIL) on impaired Loans and advances

## 25 FINANCIAL INSTRUMENT RISK EXPOSURE AND MANAGEMENT (continued)

Exposures are analysed by geography as follows

| 2011 | EUROPE (excl UK) $000 | GULF COOPERATION COUNCIL $000 | UNITED KINGDOM $000 | UNITED STATES OF AMERICA $000 | OTHER $000 | **TOTAL $000** |
|---|---|---|---|---|---|---|
| Loans and advances to banks | 535,645 | 80,000 | 508,920 | 5 569 | 464 | **1,130,598** |
| Derivative financial instruments | 5 805 | 5 760 | 19 128 | 0 | 0 | **30,693** |
| Loans and advances to customers | | | | | | |
| Retail | 162,145 | 122,467 | 485,324 | 6,383 | 183,934 | **960,253** |
| Corporate | 435 263 | 21 212 | 238 743 | 69 | 111 832 | **807,119** |
| Investment securities | | | | | | |
| Available-for-sale | 111,356 | 94,986 | 168,557 | 13,278 | 62,305 | **450,483** |
| Contingent liabilities | 5,323 | 8,577 | 2,082 | 0 | 75 | **16,057** |
| Commitments | 49,864 | 15,431 | 71,308 | 9 | 13,985 | **150,597** |
| | **1,305,401** | **348,433** | **1,494,062** | **25,308** | **372,595** | **3,545,799** |

| 2010 | EUROPE (excl UK) $000 | GULF COOPERATION COUNCIL $000 | UNITED KINGDOM $000 | UNITED STATES OF AMERICA $000 | OTHER $000 | TOTAL $000 |
|---|---|---|---|---|---|---|
| Loans and advances to banks | 53,334 | 20,281 | 373,798 | 56,928 | 595 | 504,936 |
| Derivative financial instruments | 8,493 | 3,083 | 17,640 | 0 | 0 | 29,216 |
| Loans and advances to customers | | | | | | |
| Retail | 98,915 | 116,635 | 427,177 | 4,192 | 143,150 | 790,069 |
| Corporate | 376,064 | 31,931 | 259,107 | 750 | 103,034 | 770,886 |
| Investment securities | | | | | | |
| Available-for-sale | 107,128 | 206,625 | 199,566 | 14,006 | 55,234 | 582,559 |
| Contingent liabilities | 7,896 | 8,890 | 934 | 0 | 75 | 17,795 |
| Commitments | 62,161 | 13,885 | 192,233 | 8 | 415 | 268,702 |
| | 713 991 | 401 330 | 1 470 455 | 75 884 | 302,503 | 2 964 163 |

Exposures are analysed by industry as follows

| 2011 | FINANCE $000 | MANU-FACTURING $000 | PERSONAL $000 | REAL ESTATE $000 | OTHER $000 | **TOTAL $000** |
|---|---|---|---|---|---|---|
| Loans and advances to banks | 1 130 598 | 0 | 0 | 0 | 0 | **1,130,598** |
| Derivative financial instruments | 28,580 | 0 | 73 | 0 | 2,040 | **30,693** |
| Loans and advances to customers | | | | | | |
| Retail | 0 | 0 | 668 571 | 291 256 | 426 | **960,253** |
| Corporate | 8,880 | 84,745 | 12,244 | 668,146 | 33,104 | **807,119** |
| Investment securities | | | | | | |
| Available-for-sale | 193,151 | 67,622 | 0 | 9 798 | 179 911 | **450,482** |
| Contingent liabilities | 540 | 4,989 | 552 | 431 | 9,546 | **16,058** |
| Commitments | 10,504 | 53,887 | 24,957 | 51,497 | 9,751 | **150,596** |
| | **1,372,253** | **211,243** | **706,397** | **1,021,128** | **234,778** | **3,545,799** |

## 25 FINANCIAL INSTRUMENT RISK EXPOSURE AND MANAGEMENT (continued)

| 2010 | FINANCE $000 | MANU-FACTURING $000 | PERSONAL $000 | REAL ESTATE $000 | OTHER $000 | TOTAL $000 |
|---|---|---|---|---|---|---|
| Loans and advances to banks | 504,936 | 0 | 0 | 0 | 0 | 504 936 |
| Derivative financial instruments | 27 636 | 0 | 7 | 0 | 1 573 | 29 216 |
| Loans and advances to customers | | | | | | |
| Retail | 0 | 0 | 589 304 | 200 327 | 438 | 790 069 |
| Corporate | 19 132 | 123 800 | 11 489 | 549 988 | 66,477 | 770 886 |
| Investment securities | | | | | | |
| Available-for-sale | 270 248 | 57,401 | 0 | 19 849 | 235 061 | 582 559 |
| Contingent liabilities | 541 | 7,318 | 698 | 432 | 8 806 | 17 795 |
| Commitments | 8 804 | 56 628 | 15 987 | 160 586 | 26 697 | 268 702 |
| | 831 297 | 245 147 | 617 485 | 931,182 | 339,052 | 2 964,163 |

### Liquidity risk

Liquidity is managed by the Asset and Liability Committee which ensures the ability of the Group to meet the demands of customers for additional borrowing and to replace existing deposits as they mature The mismatch of liabilities to assets as a percentage of total deposits is within that required by the UK Financial Services Authority under its Liquidity Guidelines and is monitored daily A maturity ladder analyzing the inward and outward cash-flow is produced daily to ensure compliance with internal policy and regulatory guidelines

Liquidity policy covers all currencies It specifies the means of monitoring volatility of deposit base and diversification of funding

Procedures in the event of extreme market conditions are also included as well as responsibilities for reporting and approving reports and limits

The undiscounted contractual cash flows of financial liabilities at the reporting date of both derivative and non-derivative financial instruments are as follows

| 2011 | Within 1 month $000 | Within 3 months $000 | After 3 months but within 1 year $000 | After 1 year but within 5 years $000 | After 5 years $000 | Total $000 | Per Balance Sheet $000 |
|---|---|---|---|---|---|---|---|
| Deposits from banks | 50 002 | 0 | 952 | 0 | 0 | **50,954** | 50 684 |
| Customer deposits | 1 732 651 | 827 178 | 317 466 | 16 545 | 0 | **2,893,840** | 2 883 800 |
| Other borrowed funds | 20 | 39 | 178 | 7 017 | 11 048 | **18,302** | 16 918 |
| Syndicated loan | 75 | 150 | 150 338 | 0 | 0 | **150,563** | 150 000 |
| Total liabilities | **1,782,748** | **827,367** | **468,934** | **23,562** | **11,048** | **3,113,659** | 3 101 402 |
| Derivatives - inflows | (8 885) | (8 292) | (13,712) | (20,907) | (2 374) | **(54,170)** | |
| Derivatives - outflows | 1 544 | 1 802 | 11 765 | 39 906 | 3 248 | **58,265** | |
| Total | **1 775,407** | **820,877** | **466,987** | **42,561** | **11,922** | **3,117,754** | |

## 25 FINANCIAL INSTRUMENT RISK EXPOSURE AND MANAGEMENT (continued)

| 2010 | Within 1 month $000 | Within 3 months $000 | After 3 months but within 1 year $000 | After 1 year but within 5 years $000 | After 5 years $000 | Total $000 | Per Balance Sheet $000 |
|---|---|---|---|---|---|---|---|
| Deposits from banks | 107,045 | 235 533 | 1,000 | 907 | 0 | 344,485 | 343,310 |
| Customer deposits | 1,153,282 | 423 139 | 329,586 | 11,314 | 0 | 1,917,321 | 1,912,390 |
| Other borrowed funds | 23 | 47 | 3,305 | 5,565 | 12,614 | 21,554 | 20,048 |
| Syndicated loan | 75 | 150 | 675 | 151,800 | 0 | 152,700 | 150,000 |
| Total liabilities | **1,260,425** | **658,869** | **334,566** | **169,586** | **12,614** | **2,436,060** | 2 425,748 |
| Derivatives - inflows | (2,880) | (7,566) | (8 414) | (47,014) | (6 966) | (72,840) | |
| Derivatives - outflows | 1,738 | 5,496 | 15 856 | 46,246 | 6 281 | 75,617 | |
| Total | **1,259,283** | **656,799** | **342,008** | **168,818** | **11,929** | **2,438,837** | |

The liability maturities disclosed in the table are contractual the majority of the deposits by customers are expected to be rolled over rather than repaid on the contractual maturity date Consequently, the Group assesses the likelihood of repayment of these liabilities when assessing its liquidity

### Operational Risk

Operational Risk is the risk that deficiencies in information systems or internal controls result in unexpected business, financial and operating losses The identification and control of these risks is managed by the Board of Directors The Bank's Risk Management Department carries out a regular review of all operational areas to ensure operational risks are being properly controlled and reported to the Operational Risk Committee
Contingency plans are in place to achieve business continuity in the event of serious disruptions to business operations

### Market Risk

Market risk is the risk of potential financial loss that may arise from adverse changes in the value of financial instruments or portfolio of financial instruments due to movements in interest rates foreign exchange rates or other prices and volatilities 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 utilizes 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

Currency risk is the risk that the functional currency value of a financial instrument will fluctuate due to changes in foreign exchange rates
The Group continually monitors its currency risk position and has systems and controls in place that are able to calculate its foreign currency exposures ALCO has set limits for each currency and exposures are measured against these on a daily basis Any currency risk arising from the Group's commercial banking and lending activities in the banking book is transferred to and managed within the limits of the trading book

The Group had the following significant net exposures denominated in foreign currencies as at 31 December

| | Long / (Short) 2011 $000 | Long / (Short) 2010 $000 |
|---|---|---|
| Bahraini Dinar | **(5,150)** | (4 555) |
| Euro | **31** | 468 |
| Great Britain Pound | **(2,554)** | (3 522) |
| Kuwait Dinar | **(233)** | 293 |
| Omani Riyal | **183** | 82 |
| Other | **757** | 1,037 |

## 25 FINANCIAL INSTRUMENT RISK EXPOSURE AND MANAGEMENT (continued)

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 within its Treasury operations which is monitored utilising VaR techniques as detailed in the VaR section below Additionally the Group is exposed to interest rate risk in its non-trading book due to mismatches between the repricing dates of assets and liabilities The net exposure is measured daily in terms of the number of equivalent futures contracts in each currency required to hedge the risk This risk is monitored within agreed limits and the exposures at the end of the year in total and by individual currency were minimal
The total interest rate mismatch including the effect of interest rate contracts used for hedging purposes as at the year end is stated in the table below

| 2011 | Effective Interest Rate % | Within 3 months $000 | After 3 months but within 6 months $000 | After 6 months but within 1 year $000 | After 1 year but within 5 years $000 | After 5 years $000 | Non-interest bearing funds $000 | Total $000 |
|---|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | | |
| Loans and advances to banks (including cash) | 0 3 | 1 132 460 | 0 | 0 | 0 | 0 | 0 | **1,132,460** |
| Loans and advances to customers | 3 5 | 1 677 182 | 37 233 | 8 083 | 32 492 | 8 990 | 3,392 | **1,767,372** |
| Investment securities | 4 5 | 16 550 | 0 | 5 690 | 295 679 | 99 576 | 32,987 | **450,482** |
| | | **2,826,192** | **37,233** | **13,773** | **328,171** | **108,566** | **36,379** | **3,350,314** |
| Non-interest earning other assets | | 0 | 0 | 0 | 0 | 0 | 69 247 | **69,247** |
| Total assets | | **2 826,192** | **37,233** | **13,773** | **328,171** | **108,566** | **105,626** | **3,419,561** |
| **Liabilities** | | | | | | | | |
| Deposits from banks | 1 0 | 49 732 | 0 | 952 | 0 | 0 | 0 | **50,684** |
| Customer deposits | 1 0 | 2 555 708 | 177 516 | 137 655 | 12 921 | 0 | 0 | **2,883,800** |
| Other borrowed funds | 1 6 | 16 918 | 0 | 0 | 0 | 0 | 0 | **16,918** |
| Medium term debt | 0 6 | 150 000 | 0 | 0 | 0 | 0 | 0 | **150,000** |
| | | **2,772,358** | **177,516** | **138,607** | **12,921** | **0** | **0** | **3,101,402** |
| Non-interest bearing other liabilities | | 0 | 0 | 0 | 0 | 0 | 57 378 | **57,378** |
| Equity shareholders' funds | | 0 | 0 | 0 | 0 | 0 | 260 781 | **260,781** |
| Total liabilities | | **2,772,358** | **177,516** | **138 607** | **12,921** | **0** | **318,159** | **3,419,561** |
| **Total assets less total liabilities** | | **53,834** | **(140,283)** | **(124,834)** | **315 250** | **108,566** | **(212,533)** | **0** |
| Off balance sheet items affecting interest rate sensitivity | | 445 239 | (7,324) | (1 655) | (327 494) | (108 766) | 0 | **0** |
| **Interest rate sensitivity gap** | | **499,073** | **(147 607)** | **(126,489)** | **(12,244)** | **(200)** | **(212,533)** | **0** |
| **Cumulative interest rate sensitivity gap** | | **499,073** | **351,466** | **224,977** | **212,733** | **212,533** | **0** | |

All derivative instruments held by the Group the effect of which is to alter the interest bases of the portfolio of assets and liabilities are reflected in the above table
Short-term debtors and creditors are included in the above table as non-interest bearing items

## 25 FINANCIAL INSTRUMENT RISK EXPOSURE AND MANAGEMENT (continued)

| 2010 | Effective Interest Rate % | Within 3 months $000 | After 3 months but within 6 months $000 | After 6 months but within 1 year $000 | After 1 year but within 5 years $000 | After 5 years $000 | Non-interest bearing funds $000 | Total $000 |
|---|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | | |
| Loans and advances to banks (including cash) | 0 4 | 506 731 | 0 | 0 | 0 | 0 | 0 | **506,731** |
| Loans and advances to customers | 3 2 | 1 471 837 | 32,917 | 15,079 | 24,734 | 1 778 | 14,610 | **1,560,955** |
| Investment securities | 4 8 | 3 299 | 9,652 | 9,906 | 392,829 | 141 075 | 25 797 | **582,558** |
| | | **1,981,867** | **42,569** | **24,985** | **417,563** | **142,853** | **40,407** | **2,650,244** |
| Non-interest earning other assets | | 0 | 0 | 0 | 0 | 0 | 68 009 | **68,009** |
| Total assets | | **1,981,867** | **42,569** | **24,985** | **417,563** | **142,853** | **108,416** | **2,718,253** |
| **Liabilities** | | | | | | | | |
| Deposits from banks | 0 8 | 341,403 | 0 | 1,000 | 907 | 0 | 0 | **343,310** |
| Customer deposits | 0 7 | 1 575,104 | 132,985 | 192,987 | 11 314 | 0 | 0 | **1,912,390** |
| Other borrowed funds | 1 4 | 20,048 | 0 | 0 | 0 | 0 | 0 | **20,048** |
| Medium term debt | 0 6 | 150,000 | 0 | 0 | 0 | 0 | 0 | **150,000** |
| | | **2,086,555** | **132,985** | **193,987** | **12,221** | **0** | **0** | **2,425,748** |
| Non-interest bearing other liabilities | | 0 | 0 | 0 | 0 | 0 | 52,890 | **52,890** |
| Equity shareholders' funds | | 0 | 0 | 0 | 0 | 0 | 239,615 | **239,615** |
| Total liabilities | | **2,086,555** | **132,985** | **193,987** | **12,221** | **0** | **292,505** | **2,718,253** |
| **Total assets less total liabilities** | | **(104,688)** | **(90,416)** | **(169,002)** | **405,342** | **142,853** | **(184,089)** | **(2,718,253)** |
| Off balance sheet items affecting interest rate sensitivity | | 496,147 | 23 830 | (16 375) | (364,655) | (138,947) | 0 | **0** |
| **Interest rate sensitivity gap** | | **391,459** | **(66,586)** | **(185,377)** | **40,687** | **3,906** | **(184,089)** | **0** |
| **Cumulative interest rate sensitivity gap** | | **391,459** | **324,873** | **139,496** | **180,183** | **184,089** | **0** | |

All derivative instruments held by the Group, the effect of which is to alter the interest bases of the portfolio of assets and liabilities, are reflected in the above table Short-term debtors and creditors are included in the above table as non-interest bearing items

## 25 FINANCIAL INSTRUMENT RISK EXPOSURE AND MANAGEMENT (continued)

VaR

The Group's exposure to market risk is monitored using the VaR methodology of estimating potential losses

VaR is a technique which estimates the potential losses that could occur on risk positions taken due to movements in market rates and prices over a specified time horizon and to a given level of confidence VaR is calculated on an historical simulation basis, using one-day movements in market rates and prices a 99% confidence level and taking into account the actual correlations observed historically between different markets and rates The one-day movement in market prices is calculated by reference to market data from a 100 trading day history VaR should be viewed in the context of the limitations of the methodology used

These include

- The use of a one-day holding period assumes that all positions can be liquidated or hedged in one day this does not fully capture the market risk arising from times of illiquidity, when one-day liquidation or hedging may not be possible
- The use of a 99% confidence measure does not take account of any losses that might occur beyond this level of confidence
- The use of historical data as a proxy for estimating future events may not include all potential events particularly those that are extreme in nature
- Correlations in the future may change from those correlations observed in the past
- VaR is calculated at the close of business with intra-day exposures not being subject to intra-day VaR calculations

The key VaR positions for the Group are as follows

| | | Foreign exchange $000 | Interest rate $000 | Effects of covariance $000 | Total $000 |
|---|---|---|---|---|---|
| **At 31 December 2011** | | **27** | **0** | **(1)** | **26** |
| At 31 December 2010 | | 24 | 10 | 0 | **34** |
| **Average daily** | | | | | |
| | **2011** | **22** | **3** | **(1)** | **24** |
| | 2010 | 8 | 36 | (2) | **42** |
| **Minimum** | | | | | |
| | **2011** | **8** | **0** | **0** | **8** |
| | 2010 | 3 | 2 | 0 | **5** |
| **Maximum** | | | | | |
| | **2011** | **103** | **2** | **0** | **105** |
| | 2010 | 1 | 221 | (2) | **220** |

The Group is therefore confident within a 99% confidence interval that given the risks as at 31 December 2011 it will not incur a one day loss on its trading book of more than $26 000 (2010 $34,000) based on the VaR model used

Daily VaR is independently checked against board approved VaR limits Furthermore the Group's exposure to interest rate risk is measured daily against limits by currency on a detailed maturity ladder in futures position equivalents Risk is further controlled by an extensive program of stress and scenario testing performed monthly, which calculates the profits and losses which would result from a variety of projected interest and exchange rate shifts The VaR futures equivalents and stress/scenario reports are presented to and discussed with the senior management of the Group at monthly Asset and Liability Committee meetings to ensure knowledge and understanding of the Group's positions, strategies and resultant risks remain current among all relevant staff

Fair values of derivatives

The Group uses forward and futures derivative contracts as part of its asset and liability management process to hedge underlying on-balance sheet positions The Group also uses derivative contracts for taking proprietary positions in interest and exchange rate markets The use of derivatives is controlled through the Group s Risk department which is an independent area of the Group The Risk department is responsible for ensuring that all interest and exchange rate risk is undertaken within the policy guidelines set by the Board and the Asset and Liability Committee Market values are determined using either quoted market prices or discounted future cash flows based on market yield curves

## 25 FINANCIAL INSTRUMENT RISK EXPOSURE AND MANAGEMENT (continued)

| | Within 1 year $000 | After 1 year but within 5 years $000 | After 5 years $000 | Total $000 |
|---|---|---|---|---|
| Contract or underlying principal amount by maturity | | | | |
| Exchange rate contracts held for trading purposes | | | | |
| **2011** | **457,493** | **0** | 0 | **457,493** |
| 2010 | 428,128 | 100 000 | 0 | 528 128 |
| Exchange rate contracts held for hedging purposes | | | | |
| **2011** | **150,000** | **0** | 0 | **150,000** |
| 2010 | 0 | 150,000 | 0 | 150,000 |
| Interest rate contracts held for trading purposes | | | | |
| **2011** | 0 | 0 | **25,849** | **25,849** |
| 2010 | 0 | 0 | 26,607 | 26,607 |
| Interest rate contracts held for hedging purposes | | | | |
| **2011** | **32,818** | **413,739** | **70,708** | **517,265** |
| 2010 | 77 152 | 396,324 | 161,232 | 634,708 |
| Equity based contracts held for hedging purposes | | | | |
| **2011** | **6,016** | **41,965** | 0 | **47,981** |
| 2010 | 14 939 | 35,596 | 0 | 50,535 |
| Replacement costs by maturity | | | | |
| Exchange rate contracts | | | | |
| **2011** | **17,759** | **6,442** | 0 | **24,201** |
| 2010 | 10,008 | 6,420 | 0 | 16,428 |
| Interest rate contracts | | | | |
| **2011** | **310** | **1,912** | **3,983** | **6,205** |
| 2010 | 698 | 3,004 | 4 528 | 8 230 |
| Equity based contracts | | | | |
| **2011** | **158** | **129** | 0 | **287** |
| 2010 | 4 351 | 207 | 0 | 4 558 |

| | Positive values **2011** $000 | Positive values 2010 $000 | Negative values **2011** $000 | Negative values 2010 $000 |
|---|---|---|---|---|
| Fair values | | | | |
| Exchange rate contracts held for trading purposes | **17,759** | 10,008 | **(138)** | (3 588) |
| Exchange rate contracts held for hedging purposes | **6,442** | 6,420 | 0 | 0 |
| Interest rate contracts held for trading purposes | **1,363** | 958 | **(2,008)** | (1,633) |
| Interest rate contracts held for hedging purposes | **4,842** | 7,272 | **(31,088)** | (22 063) |
| | **30,406** | 24,658 | **(33,234)** | (27 284) |
| Equity based contracts held for hedging purposes<br>Negative values included with host contract within customer deposits | **287** | 4 558 | **(287)** | (4,558) |
| | **30,693** | 29 216 | **(33,521)** | (31,842) |

| | **2011** $000 | 2010 $000 |
|---|---|---|
| Credit risk weighted amount | | |
| Exchange rate contracts | | |
| - for trading purposes | **4,021** | 4,000 |
| - for hedging purposes | **2,788** | 2,784 |
| Interest rate contracts | | |
| - for trading purposes | **324** | 264 |
| - for hedging purposes | **1,941** | 2,542 |
| Equity based contracts | | |
| - for hedging purposes | **801** | 1,660 |

## 25 FINANCIAL INSTRUMENT RISK EXPOSURE AND MANAGEMENT (continued)

The replacement costs of derivatives can be analysed as follows

| | Financial institutions | | Non-financial institutions | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| | $000 | $000 | $000 | $000 |
| Exchange rate contracts | | | | |
| - for trading purposes | 17,680 | 9,706 | 79 | 302 |
| - for hedging purposes | 6,442 | 6,420 | 0 | 0 |
| Interest rate contracts | | | | |
| - for trading purposes | 1,363 | 958 | 0 | 0 |
| - for hedging purposes | 2,802 | 5,698 | 2,040 | 1 573 |
| Equity based contracts | | | | |
| - for hedging purposes | 287 | 4 558 | 0 | 0 |

| | OECD | | Non- OECD | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| | $000 | $000 | $000 | $000 |
| Exchange rate contracts | | | | |
| - for trading purposes | 11,999 | 6,960 | 5,760 | 3,049 |
| - for hedging purposes | 6,442 | 6 420 | 0 | 0 |
| Interest rate contracts | | | | |
| - for trading purposes | 1,363 | 958 | 0 | 0 |
| - for hedging purposes | 2,802 | 7 237 | 0 | 35 |
| Equity based contracts | | | | |
| - for hedging purposes | 287 | 4,558 | 0 | 0 |

Gain and losses on financial instruments

Trading income is analysed as follows

| | 2011 | 2010 |
|---|---|---|
| | $000 | $000 |
| Treasury | (12) | 25 |
| Foreign exchange | 973 | 909 |
| | 961 | 934 |

Treasury profits derive from interest rate futures, options, FRAs and swaps

Foreign exchange profits derive from spot and forward foreign exchange contracts

Net losses on financial instruments held for hedging purposes and losses on the underlying hedged risk were $11,326,000 (2010 $10,127,000) These derived from interest rate and equity based contracts

Profit on sale of available-for-sale investments and related hedging instruments is detailed in note 4 and provisions against available-for-sale investments are detailed in note 10 These include gains of $Nil (2010 $Nil) which have been recycled from Other Reserves Unrealised gains and losses are included in Other reserves (note 22)

Fair values of other financial instruments

***Trading Book***

The Group's trading book comprises derivatives All amounts are included in the balance sheet at fair value

***Non Trading Book***

The fair values of listed and publicly traded securities held for non-trading book purposes (comprising debt securities and fund investments) are disclosed under the relevant balance sheet note

The fair values of other non-trading book balances approximate to their carrying value in the balance sheet where a liquid and active market exists

The fair value of financial liabilities is not materially different to their balance sheet value

## 26 ULTIMATE HOLDING COMPANY

The ultimate holding company of the Bank is Ahli United Bank B S C , which is incorporated in Bahrain and is the smallest and largest group of which the Bank is a member and for which group accounts are prepared Copies of the group accounts are available from Ahli United Bank B S C at PO Box 2424, Manama Kingdom of Bahrain

## 27 MANAGED FUNDS

Funds managed or administered on behalf of customers and to which the Bank does not have legal title are not included in the Bank's balance sheet

The value of all such funds managed by the Group at 31 December 2011 was $1,587,000 000 (2010 $1,566,000,000)

## 28 RETIREMENT BENEFIT OBLIGATIONS

(i) Defined benefits pension plan

The Bank operates a funded defined benefits scheme for its employees who joined prior to 1 March 2001 The assets of the pension scheme are held independently of the Group s assets in a separate trustee administered fund As from 31 March 2010 the scheme was closed with respect to future accruals This cessation has been treated as a curtailment event as disclosed below

The amounts recognised in the balance sheet are as follows

| GROUP AND BANK | 2011 $000 | 2010 $000 |
|---|---|---|
| Present value of scheme's obligations | **146,134** | 145,396 |
| Fair value of plan assets | **(132,174)** | (127,300) |
| | **13,960** | 18,096 |
| Unrecognised net actuarial losses | **(31,968)** | (31,140) |
| Asset in the balance sheet | **(18,008)** | (13,044) |

The assets of the scheme were as follows

| GROUP AND BANK | 2011 Value $000 | 2010 Value $000 |
|---|---|---|
| Equities | **92,522** | 90,383 |
| Bonds | **19,826** | 19,095 |
| Cash | **18,504** | 17,822 |
| Other | **1,322** | 0 |
| Total market value of assets | **132,174** | 127,300 |

The charge recognised in the income statement is as follows

| GROUP AND BANK | 2011 $000 | 2010 $000 |
|---|---|---|
| Current service cost | **79** | 318 |
| Interest cost | **8,341** | 8,309 |
| Expected return on plan assets | **(8,793)** | (7,868) |
| Net actuarial losses recognised in the year | **1,434** | 2 367 |
| Losses/(gains) on curtailment | **0** | (431) |
| | **1,061** | 2,695 |

The actual returns on plan assets were $2,865,000 (2010 $13,480 000)

Principal Actuarial Assumptions

| | 2011 | 2010 |
|---|---|---|
| Expected investment return | **6 0% p a** | 6 8% p a |
| Future rate of salary progression | **n/a** | n/a |
| Future pension increases | **3 0% p a** | 3 4% p a |
| Discount rate | **5 2%p a** | 5 6%p a |
| Pre-retirement mortality | **AC00** | AC00 |
| Post-retirement mortality | **S1NA_LU09MC(03)FL1** | S1NA_LU09MC(03)FL1 |

The overall expected rate of return on plan assets is determined based on best estimates of the fair value of the plan assets over the period of the plan

## 28 RETIREMENT BENEFIT OBLIGATIONS (continued)

The movement in the fair value of plan assets during the year is as follows

| GROUP AND BANK | 2011 $000 | 2010 $000 |
|---|---|---|
| At 1 January | **127,300** | 112,561 |
| Exchange rate adjustments | **(483)** | (3 307) |
| | **126,817** | 109 254 |
| Expected return on plan assets | **8,793** | 7,868 |
| Actuarial gains | **(5,927)** | 5,613 |
| Contributions paid into the plan | **6,250** | 7,449 |
| Benefits paid | **(3,759)** | (2,884) |
| At 31 December | **132,174** | 127,300 |

The movement in the present value of the scheme's obligations during the year is as follows

| GROUP AND BANK | 2011 $000 | 2010 $000 |
|---|---|---|
| At 1 January | **145,396** | 148,900 |
| Exchange rate adjustments | **(361)** | (4 378) |
| | **145,035** | 144,522 |
| Employer's part of current Service Cost | **79** | 318 |
| Interest cost | **8,341** | 8 309 |
| Actuarial losses / (gains) | **(3,562)** | (4,438) |
| Benefits paid | **(3,759)** | (2,884) |
| Curtailments and settlements | **0** | (431) |
| At 31 December | **146,134** | 145,396 |

The movement in the asset recognised in the Group balance sheet during the year is as follows

| GROUP AND BANK | 2011 $000 | 2010 $000 |
|---|---|---|
| At 1 January | **(13,044)** | (8,544) |
| Exchange rate adjustments | **225** | 254 |
| | **(12,819)** | (8 290) |
| Total expenses as above | **1,061** | 2 695 |
| Contributions by the Group | **(6,250)** | (7,449) |
| At 31 December | **(18,008)** | (13,044) |

The expected contribution to the plan to be paid in the year ending 31 December 2012 is US$6 0 million

| GROUP AND BANK | 2011 $000 | 2010 $000 | 2009 $000 | 2008 $000 | 2007 $000 |
|---|---|---|---|---|---|
| Present value of scheme's obligations | **146,134** | 145,396 | 148 900 | 107,147 | 158,447 |
| Fair value of plan assets | **(132,174)** | (127 300) | (112,561) | (82 023) | (133,978) |
| Deficit at the reporting date | **13,960** | 18,096 | 36,339 | 25,124 | 24 469 |

(ii) Defined contributions plan

The Bank also operates a defined contribution plan, the costs of which are recognised in the period to which they relate
The contribution during the year amounted to $485,000 (2010 $377,000)

## 29 RELATED PARTY TRANSACTIONS

On occasions the Bank carries on normal banking business with related parties, including directors This is all conducted on ordinary commercial terms
Transactions with related parties and balances outstanding as at 31 December were

| GROUP AND BANK | | | | | | |
|---|---|---|---|---|---|---|
| 2011 | Notes | Parent undertaking | Fellow Subsidiaries | Fellow Associates | Directors & senior management | Other |
| | | $000 | $000 | $000 | $000 | $000 |
| Interest income | 3 | 175 | 0 | 0 | 86 | 0 |
| Interest expense | 3 | (63) | (226) | (1) | 0 | (8,985) |
| Loans and advances to banks | 8 | 29,151 | 351 | 60 | 0 | 0 |
| Loans and advances to customers | 9 | 0 | 10,000 | 0 | 6,379 | 0 |
| Deposits from banks | 16 | (38) | (11,956) | (26,678) | 0 | 0 |
| Customer deposits | 17 | 0 | (2) | (2,502) | (1,127) | 1,494,906 |
| Other borrowed funds | | 0 | 0 | 0 | 0 | 10,674 |

| 2010 | Notes | Parent undertaking | Fellow Subsidiaries | Fellow Associates | Directors & senior management | Other |
|---|---|---|---|---|---|---|
| | | $000 | $000 | $000 | $000 | $000 |
| Interest income | 3 | 488 | 0 | 0 | 86 | (4,142) |
| Interest expense | 3 | (471) | (146) | 0 | 0 | 0 |
| Loans and advances to banks | 8 | 9 939 | 3 439 | 5 000 | 0 | 0 |
| Loans and advances to customers | 9 | 0 | 0 | 0 | 6 350 | 0 |
| Deposits from banks | 16 | (38) | (147 504) | 0 | 0 | 0 |
| Customer deposits | 17 | 0 | 0 | (492) | (1 562) | 825 081 |
| Other borrowed funds | | 0 | 0 | 0 | 0 | 10 686 |

| Key management and personnel remuneration | 2011 | 2010 |
|---|---|---|
| Short term employee benefits | 1,415 | 921 |
| Post employment benefits | 55 | 41 |
| | 1,470 | 962 |

Details of directors' remuneration are set out in note 6

There are no provisions or impairment on the related party balances

## ADDITIONAL PILLAR III DISCLOSURES - Unaudited

The major risks associated with the Bank s and Group s businesses, together with key risk management objectives and policies are detailed in note 25 to the Financial Statements

There are no restrictions to the movement of capital between the legal entities within the statutory accounting group and there are no material differences between the statutory accounting group and the unconsolidated basis on which the Bank reports to the Financial Services Authority (FSA)

### Capital resources

The called up share capital of the Bank is fully paid Principal terms of the dated subordinated debt are detailed in note 20 to the Financial Statements

| | 2011<br>$000 | 2010<br>$000 |
|---|---|---|
| Core tier 1 capital | | |
| Called up share capital | 200,080 | 200 080 |
| Share premium account | 128 | 128 |
| Profit and loss account | 67,700 | 14 252 |
| | 267,908 | 214,460 |
| Upper tier 2 capital | | |
| Collective provision (restricted) | 21,410 | 19 740 |
| | 21,410 | 19 740 |
| Lower tier 2 capital | | |
| Dated subordinated debt (amortised) | 14 072 | 15 660 |
| | 14,072 | 15 660 |
| Deductions from total capital | (1,824) | (3 305) |
| | (1 824) | (3 305) |
| Net available capital | 301,566 | 246 555 |

### Capital requirements

The Bank monitors the adequacy of its capital to support current activities at least monthly against limits which are the equivalent to an additional 4% over the capital requirement imposed on the Bank by the FSA When the actual ratio is close to this limit the capital requirement is calculated on a daily basis Additionally detailed capital adequacy calculations are carried out as part of the budget process with frequently updated forecasts being produced throughout the year Detailed analysis is carried out in order to assess the impact on capital resource requirements of all new products

| | 2011<br>$000 | 2010<br>$000 |
|---|---|---|
| Credit risk capital requirement (Standardised approach) | | |
| Central governments or central banks | 1,259 | 435 |
| Institutions | 6,036 | 7 236 |
| Corporates | 29,559 | 35 680 |
| Secured on real estate property | 36,040 | 47 969 |
| Secured on commercial real estate property | 21,915 | 0 |
| Past due items | 1,386 | 817 |
| Items belonging to regulatory high risk categories | 5,899 | 7 357 |
| Short term claims on institutions and corporates | 20,194 | 10 665 |
| Other items | 3,021 | 3 104 |
| | 125,309 | 113 263 |
| Market risk capital requirement (Standardised approach) | | |
| Interest rate PRR | 1,517 | 3 344 |
| Foreign currency PRR | 662 | 664 |
| Counterparty risk capital component | 571 | 564 |
| | 2,750 | 4 572 |
| Operational risk capital requirement (Basic indicator approach) | 9,536 | 9 069 |
| | 9,536 | 9 069 |
| Total capital requirement | 137,595 | 126 904 |

The Bank calculates its credit risk weighted exposure amounts in accordance with the standardised approach The Bank uses external credit assessments provided by Moody s to determine the risk weight of rated counterparties in certain standardised credit risk exposure classes The external rating is mapped to the prescribed quality assessment scale that in turn produces standard risk weightings The standardised credit risk exposure classes for which such external ratings are used are Central governments or central banks, Institutions Corporates and Short term claims on institutions and corporates

## ADDITIONAL PILLAR III DISCLOSURES (continued) - Unaudited

Exposure values, both before and after credit risk mitigation (CRM), for each credit quality step prescribed by the FSA are as follows

| 2011 | Credit Quality Step | Risk Weight % | Exposure $000 | Exposure (after CRM) $000 |
|---|---|---|---|---|
| Central governments or central banks | | | | |
| | 1 | 0 | 57 811 | 57,811 |
| | 3 | 50 | 13 124 | 13 124 |
| | Unrated | 100 | 9,178 | 9,178 |
| | | | 80,113 | 80,113 |
| Institutions | | | | |
| | 1 | 20 | 61,445 | 61,445 |
| | 2 | 50 | 98,907 | 98 907 |
| | 3 | 50 | 11 708 | 11 708 |
| | 5 | 100 | 7,857 | 7,857 |
| | | | 179,917 | 179,917 |
| Corporates | | | | |
| | 1 | 20 | 28,837 | 28 837 |
| | 2 | 50 | 31,880 | 31,880 |
| | 3 | 100 | 123,098 | 123,098 |
| | 4 | 100 | 22 889 | 22,889 |
| | 5 | 150 | 4,341 | 4,341 |
| | 6 | 50 | 1,629 | 1 629 |
| | 6 | 150 | 13 125 | 13,125 |
| | Unrated | 100 | 209,910 | 174,755 |
| | | | 435,709 | 400 554 |
| Short term claims on institutions and corporates | | | | |
| Institutions | 1 | 20 | 892 140 | 892,140 |
| | 2 | 20 | 208,059 | 208,059 |
| | 3 | 20 | 29,154 | 29 154 |
| | Unrated | 20 | 67 | 67 |
| Corporates | Unrated | 100 | 26,541 | 26,541 |
| | | | 1,155 961 | 1,155,961 |

| 2010 | Credit Quality Step | Risk Weight % | Exposure $000 | Exposure (after CRM) $000 |
|---|---|---|---|---|
| Central governments or central banks | 1 | 0 | 70,936 | 0 |
| | 2 | 20 | 16 391 | 16,391 |
| | Unrated | 100 | 2,164 | 2,164 |
| | | | 89,491 | 18,555 |
| Institutions | | | | |
| | 1 | 20 | 127,805 | 127,805 |
| | 2 | 50 | 92,189 | 92 189 |
| | 3 | 50 | 37 653 | 37,653 |
| | | | 257,647 | 257 647 |
| Corporates | | | | |
| | 1 | 20 | 19,913 | 19,913 |
| | 2 | 50 | 97,517 | 97,517 |
| | 3 | 100 | 130,524 | 130,524 |
| | 4 | 100 | 4 167 | 4,167 |
| | 5 | 150 | 19 375 | 19,375 |
| | Unrated | 100 | 275,799 | 224 375 |
| | | | 547,295 | 495 871 |
| Short term claims on institutions and corporates | | | | |
| Institutions | 1 | 20 | 487,709 | 487,709 |
| | 2 | 20 | 15,540 | 15 540 |
| | Unrated | 100 | 10,007 | 10,007 |
| Corporates | Unrated | 100 | 22,735 | 22 694 |
| | | | 535,991 | 535,950 |

## ADDITIONAL PILLAR III DISCLOSURES (contınued) - Unaudıted

### Counterparty credıt rısk

The gross posıtive faır value of derıvatıve contracts ıs detaıled ın note 25 to the Financial Statements No advantage ıs taken of nettıng agreements or collateral agreements The Group has not entered ınto any contracts whereby ıt would be required to provıde addıtıonal collateral gıven a downgrade ın its credıt ratıng

The measures for exposures values of derıvatıve financıal ınstruments under the Counterparty Credıt Rısk mark-to-market method are as follows

| | 2011 $000 | 2010 $000 |
|---|---|---|
| Exchange rate contracts | | |
| - for tradıng purposes | **25,726** | 33,189 |
| - for hedgıng purposes | **7,942** | 13,920 |
| Interest rate contracts | | |
| - for tradıng purposes | **1,363** | 918 |
| - for hedgıng purposes | **2,802** | 5,698 |
| Equıty based contracts | | |
| - for hedgıng purposes | **4,005** | 8 302 |

The amounts after credıt rısk weıghtıng are ıncluded ın note 25 to the Fınancıal Statements

### Credıt rısk

Detaıls regardıng the Bank's methodology ın assıgnıng credıt lımıts and securıng collateral are detaıled ın note 25 to the Fınancıal Statements
The bank rarely makes use of on- and off-balance sheet nettıng and where thıs is utılısed detaıled analysıs ıs carrıed out ın order to ensure that the relevant FSA crıterıa have been met

Total exposures (before credıt rısk mıtıgatıon) by exposure class and by maturıty together wıth average amounts for the year are as follows

| 2011 | Wıthın 3 months $000 | After 3 months but wıthın 1 year $000 | After 1 year but wıthın 5 years $000 | After 5 years $000 | TOTAL $000 | AVERAGE $000 |
|---|---|---|---|---|---|---|
| Loans and advances to banks | 1 130 598 | 0 | 0 | 0 | 1,130,598 | 1 044,758 |
| Derıvatıve financıal ınstruments | 7,921 | 16 748 | 2,041 | 3,983 | 30,693 | 20,698 |
| Loans and advances to customers | 48 016 | 114 532 | 606,744 | 998 080 | 1,767,372 | 1 774 499 |
| Investment securıtıes | | | | | | |
| Avaılable-for-sale | 16 548 | 5 690 | 321,025 | 107 219 | 450,482 | 524 335 |
| Contıngent lıabılıtıes | 1,145 | 13 610 | 855 | 447 | 16,057 | 17 222 |
| Commıtments | 9,560 | 72 829 | 57,307 | 10 901 | 150,597 | 203,874 |
| | 1 213,788 | 223 409 | 987,972 | 1 120,630 | 3,545,799 | 3 585,386 |

| 2010 | Wıthın 3 months $000 | After 3 months but wıthın 1 year $000 | After 1 year but wıthın 5 years $000 | After 5 years $000 | TOTAL $000 | AVERAGE $000 |
|---|---|---|---|---|---|---|
| Loans and advances to banks | 504,936 | 0 | 0 | 0 | 504,936 | 473,796 |
| Derıvatıve financıal ınstruments | 7,639 | 7 418 | 9,632 | 4,527 | 29,216 | 28,428 |
| Loans and advances to customers | 84,417 | 89 551 | 573,950 | 813,037 | 1,560,955 | 1 424,786 |
| Investment securıtıes | | | | | | |
| Avaılable-for-sale | 3,300 | 19,558 | 401 689 | 15,802 | 582 559 | 512,462 |
| Contıngent lıabılıtıes | 998 | 8,568 | 7 768 | 461 | 17,795 | 14,006 |
| Commıtments | 18,402 | 147,050 | 90 389 | 12,861 | 268,702 | 238 087 |
| | 619 692 | 272,145 | 1 083,428 | 988 898 | 2,964,163 | 2 691 565 |

The above exposures are analysed by geography and ındustry ın note 25 to the Fınancıal Statements

The total exposure value covered by elıgıble financıal collateral, by exposure class ıs

| | 2011 $000 | 2010 $000 |
|---|---|---|
| Loans and advances to customers | **35,005** | 51,142 |
| Contıngent lıabılıtıes | **150** | 282 |
| | **35,155** | 51,424 |

The elıgıble financıal collateral ıs prıncıpally cash

## ADDITIONAL PILLAR III DISCLOSURES (continued) - Unaudited

Details of impaired exposure together with related provisions and past due (but not impaired) exposures analysed by geography are

| 2011 | GROSS IMPAIRED $000 | SPECIFIC PROVISIONS $000 | NET IMPAIRED $000 | PROVISION CHARGE/ (CREDIT) $000 | PAST DUE $000 |
|---|---|---|---|---|---|
| Europe (excluding United Kingdom) | 0 | 0 | 0 | (6,006) | 4,787 |
| United Kingdom | 29,379 | (21,151) | 8,228 | 7,053 | 5,149 |
| United States of America | 77 | 0 | 77 | 0 | 1,346 |
| | 29,456 | (21,151) | 8,305 | 1,047 | 11,282 |

| 2010 | GROSS IMPAIRED $000 | SPECIFIC PROVISIONS $000 | NET IMPAIRED $000 | PROVISION CHARGE/ (CREDIT) $000 | PAST DUE $000 |
|---|---|---|---|---|---|
| Europe (excluding United Kingdom) | 0 | 0 | 0 | (6,051) | 7 414 |
| Gulf Cooperation Council | 0 | 0 | 0 | 0 | 910 |
| United Kingdom | 19,069 | (13 641) | 5,428 | 3,365 | 5,953 |
| United States of America | 90 | 0 | 90 | 0 | 0 |
| Other | 0 | 0 | 0 | 0 | 971 |
| | 19 159 | (13,641) | 5 518 | (2,686) | 15,248 |

Details of impaired exposure together with related provisions and past due (but not impaired) exposures analysed by industry are

| 2011 | GROSS IMPAIRED $000 | SPECIFIC PROVISIONS $000 | NET IMPAIRED $000 | PROVISION CHARGE $000 | PAST DUE $000 |
|---|---|---|---|---|---|
| Manufacturing | 6,377 | (5,345) | 1,032 | (977) | 0 |
| Personal | 0 | 0 | 0 | 11 | 259 |
| Real Estate | 23,002 | (15,806) | 7,196 | 2,013 | 11,022 |
| Other | 77 | 0 | 77 | 0 | 0 |
| | 29,456 | (21,151) | 8,305 | 1,047 | 11,281 |

| 2010 | GROSS IMPAIRED $000 | SPECIFIC PROVISIONS $000 | NET IMPAIRED $000 | PROVISION CHARGE $000 | PAST DUE $000 |
|---|---|---|---|---|---|
| Manufacturing | 0 | 0 | 0 | (9,153) | 0 |
| Personal | 0 | 0 | 0 | (100) | 7,877 |
| Real Estate | 19,159 | (13,641) | 5 518 | 6,567 | 7,371 |
| Other | 0 | 0 | 0 | 0 | 0 |
| | 19,159 | (13 641) | 5,518 | (2,686) | 15 248 |

Only those loans which have been past due for more than 90 days are treated as past due for the purposes of calculating the Bank's minimum capital requirements and in the tables above Identification and treatment of impaired loans together with the methods adopted for determining provisions, is detailed in note 1 to the Financial Statements

Operational Risk

The Bank has adopted the Basic Indicator approach for operational risk Under this approach, the regulatory capital requirement for operational risk is calculated by applying a co-efficient of 15 per cent to the average gross income for the preceding three financial years

Exposure to interest rate risk in the non-trading book

Details of the nature of this risk and of its measurement by the Bank are included in note 25 to the Financial Statements

Remuneration

The Bank's compensation policy is incorporated in the parent company's Group HR policy which is reviewed by the Group Compensation Committee on an annual basis

The total variable amount available is determined firstly by assessing the Bank's profitability compared to budget The employee s variable remuneration is based on the results of the annual performance appraisal process The process assesses the financial and non financial attributes of the employees awarding grades which result in a formula driven bonus The resulting awards are then subject to a moderation review by senior management before being presented to the Compensation Committee for further revision and approval

The table below shows the fixed and variable remuneration for code staff based on bonus payments paid during 2011

| | Fixed $000 | Variable $000 | Total $000 | Number of Code Staff |
|---|---|---|---|---|
| Private banking & Wealth Management | 2 703 | 636 | 3,339 | 15 |
| Corporate Banking | 1,845 | 375 | 2 220 | 11 |
| **Total** | **4,548** | **1,011** | **5,559** | **26** |

| | | | | |
|---|---|---|---|---|
| Senior Management | 4,548 | 1,011 | 5,559 | 26 |