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**ahli united bank**

**AHLI UNITED BANK (UK) PLC**  
**ANNUAL REPORT AND FINANCIAL STATEMENTS**  
**31 December 2016**

THURSDAY



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COMPANIES HOUSE

# Ahli United Bank (UK) PLC

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*Unless stated, all notes to the financial statements represent both the AUBUK group and bank balances. Those notes identified by (\*) are separately shown on a AUBUK Group and Bank level.*

# Ahli United Bank (UK) PLC

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## COMPANY INFORMATION

### BOARD OF DIRECTORS

Mr Hamad Al-Humaidhi (Chairman)  
Mr Rashed Al-Meer  
Mr Adnan Al-Marzouq  
Mr David Hodgkinson  
Mr Herschel Post  
Mr Khaled Al-Fouzan  
Mr James Steel  
Mr Adel El-Labban  
Mr Keith Gale  
Mr Sami Tamim (Acting Chief Executive Officer)  
Mr Stephen Hussey

### COMPANY SECRETARY

Mrs Emma Booth

### AUDITORS

Ernst & Young LLP  
25 Churchill Place  
Canary Wharf  
London E14 5EY

### REGISTERED OFFICE

35 Portman Square  
London W1H 6LR

### REGISTERED NUMBER

877859

# Ahli United Bank (UK) PLC

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## DIRECTORS' STRATEGIC REPORT

The Directors of Ahli United Bank (UK) PLC are pleased to submit the Annual Report and Financial Statements for the year ended 31 December 2016. These comprise of the financial statements of the Bank and its subsidiaries (together known as the 'Group'). The Directors consider that the information contained within the Annual Report and Financial Statements provides a fair and balanced view necessary to assess the Group's position and performance.

### 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 Bank is regulated in the United Kingdom by the Prudential Regulation Authority (PRA) and Financial Conduct Authority (FCA).

Key performance indicators	2016	2015
<i>Amounts stated in US\$ million.</i>		
Profit after tax	32.8	40.3
Total Assets	2,581.0	2,723.7
Return on average equity	11.3%	13.9%
Return on average assets	1.2%	1.3%
EPS (in cents)	16.4	20.2
Surplus capital - Amount	67.4	75.5
Surplus capital - ratio *	31.6%	34.9%
Cost / Income ratio	40.9%	42.4%

\* Surplus capital as % of required PRA capital

### Results and performance

Despite difficult market conditions the Bank achieved a stable performance on core activities in 2016 with a profit after tax of \$32.8m. The Bank continued to focus on its core lending businesses of residential mortgages, commercial property, margin lending and providing a global fund management service to institutional and private clients.

#### • Net interest income

The Bank achieved a net interest income of \$42.4m for the year (2015 : \$45.5m).

The reduction in the year was primarily due to both the relative strength of the dollar and market conditions, predominately in relation to a reduction in GBP 3 month libor during 2016 and rising USD funding costs for structural deposits. This impact was partially compensated by the Bank's management of liquidity utilising the Bank of England reserve facility and investing in high yielding corporate bonds.

#### • Fees and other income

Fees and other income for the year were \$27.2m (2015 : \$25.4m) and included the following:-

- Net fees and commissions of \$16.0m, from institutional client funds, new business commitment fees and trustee fees.
- Treasury trading income of \$3.4m, including \$1.6m from foreign exchange forward contracts that strategically hedged the forecast 2016 GBP and EUR net profits.
- Income distributions of \$3.7m from unquoted non-trading investments.
- Net gain on sale of investments \$1.8m.
- Other operating income of \$2.3m from other investments.

#### • Provisions / Recoveries.

The net provision charge for the year was \$0.4m (2015 net recovery : \$9.7m).

The Bank's policy in relation to credit risk ensured that the credit quality of loans and advances remained high, with 89% (2015: 93%) of the book rated high investment grade. The net provision charge for the year was \$0.4m.

#### • Operating Expenses

Operating expenses were \$28.5m compared to \$30.1m in 2015, reflecting management's continued focus on cost control and coupled with the GBP/USD currency FX impact on expenses.

## Ahli United Bank (UK) PLC

### DIRECTORS' STRATEGIC REPORT (continued)

#### Country By Country Reporting (CBCR)

The Capital Requirements Directive IV ("CRD IV") Country by Country Reporting ("CBCR") framework is now mandatory for regulated financial institutions. The following table complies with this regulation for the 2016 financial year.

Name of entity	Ahli United Bank (UK) PLC
Geographical location	United Kingdom
Turnover	\$69.5m (2015 : \$70.9m)
Average number of employees	120 (2015 : 130)
Profit before tax	\$40.7m (2015 : \$50.6m)
Public subsidies received	\$nil (2015 : \$nil)

A corporation tax expense of \$7.9m in 2016 (2015 : \$10.2m). There were no payments to other group companies in respect of surrendered losses for 2016 and 2015.

#### Principal risks

The principal risks faced by the Bank in relation to the financial instruments recognised within the balance sheet, are liquidity risk, market risk, credit risk and operational risk. Notes 28-32 to the Annual Report and Financial Statements detail how these risks are identified and managed.

On 15 November 2016, Fitch rating agency reconfirmed the Bank's BBB+ status, with a stable outlook.

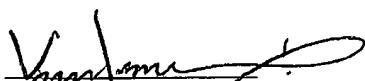
#### Future developments

The activities of the Bank in the forthcoming period will continue to focus on its core lending businesses of residential mortgages, commercial property and margin lending, in addition to treasury management and providing a global fund management service to institutional and private clients.

In respect of its core lending businesses, the Bank will continue to lend at rates that are competitive to allow for growth. Lending is based on the Bank's risk appetite ensuring that the loan book is robust and able to withstand volatile economic or market changes. The Bank will continue to ensure any business growth complies with regulatory requirements and is in accordance with the PRA capital and liquidity guidelines.

The Bank's relationship managers will increase marketing activities within our core market locations and offer competitive products, including those targeted at acquiring additional customer and institutional client deposits.

Signed on behalf of the board



Sami Tamim  
Acting Chief Executive Officer

8<sup>th</sup> February 2017

# Ahli United Bank (UK) PLC

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## DIRECTORS' REPORT

The Directors of Ahli United Bank (UK) PLC are pleased to submit the Annual Report and Financial Statements for the year ended 31 December 2016. These comprise of the financial statements of the Bank and its subsidiaries (together known as the 'Group'). The Directors consider that the information contained within the Annual Report and Financial Statements provides a fair and balanced view necessary to assess the Group's position and performance.

### Results and dividends

The profit after tax of the Group for the year amounted to \$32.8 million (2015 \$40.3 million). A final dividend for 2015 of \$30.0 million (15 cents per share) was paid during the year. A final dividend of \$40.0 million (20 cents per share) is proposed for 2016.

### Going Concern

The future plan for the Bank, in addition to the Bank's policies for managing the credit, liquidity and market risks associated with its financial instruments, provides a basis whereby the Directors believe that the Bank is well placed to manage its business risks successfully.

The Directors confirm the Bank has adequate resources to continue in business for the foreseeable future. For this reason, the Bank continues to adopt the going concern basis for preparing financial statements.

### Pillar III disclosures

As part of its implementation of the Banking Consolidation Directive and the Capital Adequacy Directive, the Prudential Regulation Authority requires the Group to make certain disclosures to the market, often described as Pillar III disclosures. Some of the required disclosures are included within notes 28-32 to the financial statements. However, where additional disclosures are required, these have either been included in an 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.

### Directors

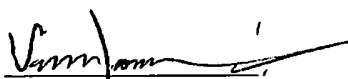
The names of the directors who served during the year to 31st December 2016 are outlined within the corporate governance section.

### Auditors

The Directors have taken all the steps they ought to have taken to make themselves aware of any information needed by the Group'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 Ernst & Young LLP as the auditors will be proposed at the next Annual General Meeting.

Signed on behalf of the board



Sami Tamim  
Acting Chief Executive Officer

8th  
February 2017

### **The Role and Responsibilities of the Board of Directors**

The Board is responsible to the parent company for creating and delivering sustainable shareholder value through the prudent management of the Group's business.

The Board, as a whole, is collectively responsible to ensure that an effective, comprehensive and transparent corporate governance framework is in place. The Board's role is to:

- ensure adherence to prevailing laws and regulations and to best business ethics;
- provide entrepreneurial leadership of the Group within a framework of prudent and effective controls, which enables all types of relevant risk to be assessed and managed;
- set the Group's strategic goals, ensure that the necessary financial and human resources are in place for the Group to meet its objectives and review management performance; and
- set the Group's values and standards and ensure that its obligations to its shareholders and others are understood and met.

In carrying out these responsibilities the Board must ensure that management strikes an appropriate balance between promoting long term growth and delivering short term objectives. This strategy also considers reputational risk and the materiality of the financial and other risks inherent in the business as well as the relative costs and benefits of implementing specific controls.

All Directors must act in the way they consider, in good faith, would be the most likely to promote the success of the Group for the benefit of its parent company as a whole. In doing so, each Director, must have regard (amongst other matters) to the:

- likely consequences of any decision in the long term;
- interests of the Group's employees and shareholder;
- need to foster the Group's business relationships with suppliers, customers and others;
- impact of the Group's operations on the community and the environment;
- desirability of the Group maintaining a reputation for high standards of business conduct and ethics.

When carrying out their responsibilities, Directors must:

- act with integrity;
- act with due skill, care and attention;
- observe proper standards of market conduct;
- deal with the regulatory authorities in an open and co-operative way and must disclose appropriately any information of which the regulator would reasonably expect notice.

The Directors are responsible for preparing the Group's financial statements in accordance with applicable United Kingdom law and regulations. Company law requires the Directors to prepare consolidated financial statements for each financial year. Under that law, directors are required to prepare consolidated financial statements under IFRS as adopted by the European Union.

Under Company Law the directors must not approve the consolidated financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and of the profit or loss of the Group for that period. In preparing the consolidated financial statements the directors are required to:

- present fairly the financial position, financial performance and cash flows of the Group;
- select suitable accounting policies in accordance with IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors and then apply them consistently;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- make judgements that are reasonable;
- provide additional disclosures when compliance with the specific requirements in IFRS as adopted by the European Union is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's financial position and financial performance; and
- state whether the consolidated financial statements have been prepared in accordance with IFRS as adopted by the European Union.

# Ahli United Bank (UK) PLC

## CORPORATE GOVERNANCE (continued)

### The Role and Responsibilities of the Board of Directors (continued)

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Group and enable them to ensure that the Group's financial statements comply with the Companies Act 2006 and Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

### Board meetings and attendance

The Board is required to meet at least four times per year.

In accordance with the Articles of Association, all of the Directors retire at every third Annual General Meeting and, being eligible, offer themselves for re-election. All Directors are expected to attend each meeting, unless there are exceptional circumstances that prevent them from doing so.

During 2016 there were four Board meetings held and the attendance of each Director is detailed below:

Name	Non Executive Director	Audit and Compliance Committee	Appointed / resignation date in the current year	Board meetings attended	Meeting dates
Mr Hamad Al-Humaidhi (Chairman)				100%	
Mr Rashed Al-Meer				100%	
Mr Adnan Al-Marzouq	*	*		100%	
Mr David Hodgkinson	*	*		100%	11.02.2016
Mr Herschel Post	*	*		100%	02.06.2016
Mr Khaled Al-Fouzan				75%	01.09.2016
Mr James Steel	*	*	Appointed 25.4.2016	100%	18.11.2016
Mr Adel El-Labban				100%	
Mr Keith Gale				100%	
Mr James Forster			Resigned 13.1.2017	100%	
Mr Sami Tamim (Acting CEO)				75%	
Mr Stephen Hussey				100%	



**Audit and Compliance Committee**

The Audit and Compliance Committee assists the Board in discharging its responsibilities relating to the Group's accounting, corporate governance and key persons dealings and market abuse practices, internal audit controls, compliance procedures, risk management systems, financial reporting functions and in liaising with the Group's external auditors and regulators to ensure compliance with all relevant regulatory requirements and consistency with best market practices.

The Audit and Compliance Committee consists of four members all of whom are Independent Directors, including the Chairman of the Audit and Compliance Committee.

**Management Committee**

The Management Committee is the senior collective management forum of the Bank, providing a formal framework for effective consultation and transparent decision-making on organisational matters. The Management Committee is chaired by the Acting Chief Executive Officer.

**Asset and Liability Committee**

The Asset and Liability Committee sets, reviews and manages the liquidity, market risk and funding strategy of the Bank. The Asset and Liability Committee is chaired by the Acting Chief Executive Officer.

**Risk Committee**

The Risk Committee reviews and manages the risk asset policies, approvals, exposures and recoveries related to credit, operational and compliance risks. It acts as a general forum for the discussions of any aspect of risk facing or which could potentially face the Bank. The Risk Committee is chaired by the AUB Group Deputy Chief Executive Officer - Risk, Legal and Compliance.

# Ahli United Bank (UK) PLC

## INDEPENDENT AUDITOR'S REPORT

### Independent Auditor's report to the members of Ahli United Bank (UK) PLC

We have audited the consolidated financial statements (the "financial statements") of Ahli United Bank (UK) PLC for the year ended 31 December 2016 which comprise the Consolidated Statement of Income, the Consolidated Statement of Other Comprehensive Income, the Consolidated and Bank Balance Sheets, the Consolidated and Bank Statement of Cash Flows, the Consolidated and Bank Statement of Changes in Equity and the related notes 1 to 36. 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 Bank's 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 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 set out on page 5, 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). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report and Financial Statements to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### 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 Bank's affairs as at 31 December 2016 and of the Group's profit for the year then ended;
- the Group's financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the Bank's 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, based on the work undertaken in the course of the audit:

- the information given in the Directors' Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Directors' Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

### Matters on which we are required to report by exception

In light of the knowledge and understanding of the Bank and its environment obtained in the course of the audit, we have identified no material misstatements in the Directors' Strategic Report or Directors' Report.

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 Bank, or returns adequate for our audit have not been received from branches not visited by us; or
- the Bank's 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.

Ernst & Young LLP

Maurice McCormick, Senior Statutory Auditor  
for and on behalf of Ernst & Young LLP, Statutory Auditor  
London  
United Kingdom

Date: 9 February 2017

# Ahli United Bank (UK) PLC

## CONSOLIDATED STATEMENT OF INCOME

For the year ended 31 December 2016

	Note	2016 US\$ '000	2015 US\$ '000
Interest income	3 (a)	56,163	58,272
Interest expense	3 (b)	13,773	12,819
Net interest income		42,390	45,453
Net fees and commissions	4	16,039	17,528
Trading income	5	3,354	3,171
Net gains on investments		1,785	264
Share of profit/(loss) from joint ventures		16	(257)
Other operating income & expense	6	5,961	4,744
Fees and other income		27,155	25,450
<b>OPERATING INCOME</b>		<b>69,545</b>	<b>70,903</b>
Net (provisions) / recoveries on loans and advances	11 (f)	(413)	9,741
<b>NET OPERATING INCOME</b>		<b>69,132</b>	<b>80,644</b>
Staff costs	7	17,830	20,113
Depreciation	16	1,127	1,159
Operating expenses	8	9,518	8,798
<b>OPERATING EXPENSES</b>		<b>28,475</b>	<b>30,070</b>
<b>PROFIT BEFORE TAX</b>		<b>40,657</b>	<b>50,574</b>
Tax expense	24	7,875	10,246
<b>NET PROFIT AFTER TAX ATTRIBUTABLE TO THE OWNERS OF THE BANK</b>		<b>32,782</b>	<b>40,328</b>

The profits for the year were derived from continuing activities.

The attached notes 1 to 36 form part of these consolidated financial statements

# Ahli United Bank (UK) PLC

## CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2016


	<i>Note</i>	<u>2016</u> <u>US\$ '000</u>	<u>2015</u> <u>US\$ '000</u>
<b>Net profit after tax for the year</b>		<b>32,782</b>	<b>40,328</b>
<b>Other comprehensive income (OCI)</b>			
<b>Items that will not be reclassified to consolidated statement of income</b>			
Net Pension fund actuarial (losses) / gains during the year	36	(15,492)	4,494
<b>Items that may be reclassified subsequently to consolidated statement of income</b>			
Net change in fair value of cash flow hedges		304	(799)
Net change in fair value of available-for-sale investments		<u>2,411</u>	<u>(4,641)</u>
<b>Other comprehensive income for the year</b>		<b>(12,777)</b>	<b>(946)</b>
<b>Total other comprehensive income for the year</b>		<b><u>20,005</u></b>	<b><u>39,382</u></b>

The attached notes 1 to 36 form part of these consolidated financial statements

Ahli United Bank (UK) PLC  
**CONSOLIDATED BALANCE SHEET**  
At 31 December 2016

		2016	2015
	Note	US\$ '000	US\$ '000
<b>ASSETS</b>			
Cash and balances with central banks	9 (a)	448,831	335,197
Treasury bills	9 (b)	36,852	88,905
Deposits with banks	10	191,610	295,853
Loans and advances	11	1,170,198	1,292,433
Reverse repurchase agreements	12	52,615	-
Non-trading investments	13	634,798	664,355
Derivative financial instruments	25	25,350	19,334
Investments in joint ventures	14	1,246	1,546
Premises and equipment	16	4,144	4,331
Deferred tax asset	24	4,735	2,421
Interest receivable and other assets	17	10,593	19,308
<b>TOTAL ASSETS</b>		<b>2,580,972</b>	<b>2,723,683</b>
<b>LIABILITIES AND EQUITY</b>			
<b>LIABILITIES</b>			
Deposits from banks	18	6,928	30,229
Customers' deposits	19	2,211,207	2,245,806
Borrowings under repurchase agreements	20	-	73,067
Derivative financial instruments	25	7,576	12,060
Current tax liability	24	3,577	3,979
Deferred tax liability	24	1,291	-
Retirement benefit scheme	36	23,715	12,523
Interest payable and other liabilities	21	24,738	31,621
Subordinated liabilities	22	9,541	11,930
<b>TOTAL LIABILITIES</b>		<b>2,288,573</b>	<b>2,421,215</b>
<b>EQUITY</b>			
Ordinary share capital	23	200,080	200,080
Reserves		92,319	102,388
Equity attributable to the owners of the Bank		292,399	302,468
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>2,580,972</b>	<b>2,723,683</b>

Signed on behalf of the board

  
Sami Tamim

Acting Chief Executive Officer

The financial statements were approved by the Board of Directors and authorised for issue on 8 February 2017.

The attached notes 1 to 36 form part of these consolidated financial statements

# Ahli United Bank (UK) PLC

## BANK BALANCE SHEET

At 31 December 2016

		2016	2015
	Note	US\$ '000	US\$ '000
<b>ASSETS</b>			
Cash and balances with central banks	9 (a)	448,080	334,768
Treasury bills	9 (b)	36,852	88,905
Deposits with banks	10	191,610	295,853
Loans and advances	11	1,170,198	1,292,433
Reverse repurchase agreements	12	52,615	-
Non-trading investments	13	634,798	664,355
Derivative financial instruments	25	25,350	19,334
Investments in joint ventures	14	62	74
Investments in group undertakings	15	60	189
Premises and equipment	16	4,144	4,331
Deferred tax asset	24	4,735	2,421
Interest receivable and other assets	17	10,126	18,210
<b>TOTAL ASSETS</b>		<b>2,578,630</b>	<b>2,720,873</b>
<b>LIABILITIES AND EQUITY</b>			
<b>LIABILITIES</b>			
Deposits from banks	18	6,928	30,229
Customers' deposits	19	2,211,207	2,245,960
Borrowings under repurchase agreements	20	-	73,067
Derivative financial instruments	25	7,576	12,060
Current tax liability	24	3,577	3,979
Deferred tax liability	24	1,291	-
Retirement benefit scheme	36	23,715	12,523
Interest payable and other liabilities	21	24,147	30,760
Subordinated liabilities	22	9,541	11,930
<b>TOTAL LIABILITIES</b>		<b>2,287,982</b>	<b>2,420,508</b>
<b>EQUITY</b>			
Ordinary share capital	23	200,080	200,080
Reserves		90,568	100,285
<b>Equity attributable to the owners of the Bank</b>		<b>290,648</b>	<b>300,365</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>2,578,630</b>	<b>2,720,873</b>

The Bank's profit after tax for the year ended 31 December 2016 amounted to \$30.8m (2015: \$40.6m).

Signed on behalf of the board



Sami Tamim  
Acting Chief Executive Officer

The financial statements were approved by the Board of Directors and authorised for issue on  
8 February 2017

The attached notes 1 to 36 form part of these consolidated financial statements

# Ahli United Bank (UK) PLC

## CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2016

		2016	2015
	Note	US\$ '000	US\$ '000
<b>OPERATING ACTIVITIES</b>			
Profit before tax		40,657	50,574
Adjustments for:			
Depreciation		1,127	1,159
Amortisation and revaluation for non-trading investment and pension fund		(8,844)	15,132
Net (provisions) / recoveries (for) / from losses on loans and advances		413	(9,741)
Consolidation reserves from subsidiary undertaking		4	415
Share of net (profit)/loss from joint ventures		(16)	257
Profit on sale of non-trading investments		(1,785)	(264)
Operating profit before changes in operating assets and liabilities		31,556	57,532
Changes in:			
Cash and balances with central banks		(837)	(208)
Reverse repurchase agreements		(52,615)	227,452
Treasury bills and bonds		-	(56,942)
Repurchase agreements		(73,067)	73,067
Loans and advances		121,821	132,775
Interest receivable		2,658	1,915
Other assets (including derivative financial instruments)		92	1,062
Deposits from banks		(23,301)	10,089
Customers' deposits		(34,599)	(1,002,715)
Interest payable		2,026	(2,021)
Other liabilities (including derivative financial instruments)		(2,200)	(30,550)
Cash from operations		(28,466)	(588,544)
Tax paid		(6,090)	(10,677)
Net cash used in operating activities		(34,556)	(599,221)
<b>INVESTING ACTIVITIES</b>			
Purchase of non-trading investments		(322,732)	(904,069)
Proceeds from sale of non-trading investments		362,551	1,178,138
Purchase of premises and equipment		(940)	(655)
Net capital repayments from private equity investments		1,459	1,239
Net cash used in investing activities		40,338	274,653
<b>FINANCING ACTIVITIES</b>			
Dividend paid to parent undertaking		(30,000)	(32,000)
Subordinated liabilities repaid		(1,470)	-
Net cash used in financing activities		(31,470)	(32,000)
Foreign currency translation adjustments		34,243	38,855
<b>DECREASE IN CASH AND CASH EQUIVALENTS</b>		8,555	(317,713)
Cash and cash equivalents at 1 January		629,632	947,345
<b>CASH AND CASH EQUIVALENTS AT 31 DECEMBER</b>		638,187	629,632
<b>Cash and cash equivalents comprise:</b>			
Cash and balances with central banks (excluding mandatory reserves)	9 (a)	446,577	333,779
Deposits with Banks - with an original maturity of three months or less		191,610	295,853
		638,187	629,632

Mandatory reserves are not available for use in day-to-day operations.

The attached notes 1 to 36 form part of these consolidated financial statements

**Ahli United Bank (UK) PLC**  
**BANK STATEMENT OF CASH FLOWS**  
For the year ended 31 December 2016

	2016	2015
Note	US\$ '000	US\$ '000
<b>OPERATING ACTIVITIES</b>		
Profit before tax	40,637	50,826
Adjustments for:		
Depreciation	1,127	1,159
Amortisation and revaluation for non-trading investment and pension fund	(8,844)	15,132
Net (provisions) / recoveries (for) / from losses on loans and advances	413	(9,741)
Profit on sale of non-trading investments	(1,785)	(264)
	<u>31,548</u>	<u>57,112</u>
Operating profit before changes in operating assets and liabilities		
Changes in:		
Cash and balances with central banks	(837)	(208)
Reverse repurchase agreements	(52,615)	227,452
Treasury bills and bonds	-	(56,942)
Repurchase agreements	(73,067)	73,067
Loans and advances	121,821	132,775
Interest receivable	2,658	1,915
Other assets (including derivative financial instruments)	(591)	2,031
Deposits from banks	(23,301)	10,089
Customers' deposits	(34,753)	(1,002,692)
Interest payable	2,026	(2,021)
Other liabilities (including derivatives instruments)	(1,929)	(31,504)
	<u>(29,040)</u>	<u>(588,926)</u>
Cash from operations		
Tax paid	(6,090)	(10,677)
Net cash used in operating activities	<u>(35,130)</u>	<u>(599,603)</u>
<b>INVESTING ACTIVITIES</b>		
Purchase of non-trading investments	(322,732)	(904,069)
Proceeds from sale of non-trading investments	362,551	1,178,138
Purchase of premises and equipment	(940)	(655)
Net capital repayments from private equity investments	1,459	1,239
Proceeds from sale of investments	119	-
Net cash used in investing activities	<u>40,457</u>	<u>274,653</u>
<b>FINANCING ACTIVITIES</b>		
Dividend paid to parent undertaking	(30,000)	(32,000)
Subordinated liabilities repaid	(1,470)	-
Net cash used in financing activities	<u>(31,470)</u>	<u>(32,000)</u>
Foreign currency translation adjustments	34,377	38,937
	<u>8,234</u>	<u>(318,013)</u>
<b>DECREASE IN CASH AND CASH EQUIVALENTS</b>		
Cash and cash equivalents at 1 January	629,203	947,216
<b>CASH AND CASH EQUIVALENTS AT 31 DECEMBER</b>	<u><u>637,437</u></u>	<u><u>629,203</u></u>
<b>Cash and cash equivalents comprise:</b>		
Cash and balances with central banks (excluding mandatory reserves)	9 (a) 445,827	333,350
Loans and Advances to Banks - with an original maturity of three months or less	191,610	295,853
	<u><u>637,437</u></u>	<u><u>629,203</u></u>

Mandatory reserves are not available for use in day-to-day operations.

The attached notes 1 to 36 form part of these consolidated financial statements



# Ahli United Bank (UK) PLC

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2016

	2016				
	Reserves				
	Ordinary share capital	Share premium	Retained earnings	Other reserves	Total reserves
	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Balance at 1 January 2016	200,080	128	94,436	7,824	302,468
Profit for the year	-	-	32,782	-	32,782
Net change in fair value of cash flow hedges	-	-	-	304	304
Net change in fair value of available-for-sale investments	-	-	-	2,411	2,411
Pension fund actuarial losses	-	-	(15,492)	-	(15,492)
Consolidation reserves from subsidiary undertakings	-	-	20	-	20
Currency translation differences	-	-	(94)	-	(94)
Dividend paid	-	-	(30,000)	-	(30,000)
Balance at 31 December 2016	200,080	128	81,652	10,539	292,399

	2015				
	Reserves				
	Ordinary share capital	Share premium	Retained earnings	Other reserves	Total reserves
	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Balance at 1 January 2015	200,080	128	81,208	13,264	294,680
Profit for the year	-	-	40,328	-	40,328
Net change in fair value of cash flow hedges	-	-	-	(799)	(799)
Net change in fair value of available-for-sale investments	-	-	-	(4,641)	(4,641)
Pension fund actuarial gains	-	-	4,494	-	4,494
Consolidation reserves from subsidiary undertaking	-	-	415	-	415
Currency translation differences	-	-	(9)	-	(9)
Dividend paid	-	-	(32,000)	-	(32,000)
Balance at 31 December 2015	200,080	128	94,436	7,824	302,468

The attached notes 1 to 36 form part of these consolidated financial statements

# Ahli United Bank (UK) PLC

## BANK STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2016

	2016				
	Reserves				
	Ordinary share capital US\$ '000	Share premium US\$ '000	Retained earnings US\$ '000	Other reserves US\$ '000	Total reserves US\$ '000
Balance at 1 January 2016	200,080	128	92,333	7,824	300,365
Profit for the year	-	-	32,766	-	32,766
Net change in fair value of cash flow hedges	-	-	-	304	304
Net change in fair value of available-for-sale investments	-	-	-	2,411	2,411
Pension fund actuarial losses	-	-	(15,492)	-	(15,492)
Currency translation differences	-	-	294	-	294
Dividend paid	-	-	(30,000)	-	(30,000)
Balance at 31 December 2016	200,080	128	79,901	10,539	290,648

	2015				
	Reserves				
	Ordinary share capital US\$ '000	Share premium US\$ '000	Retained earnings US\$ '000	Other reserves US\$ '000	Total reserves US\$ '000
Balance at 1 January 2015	200,080	128	79,277	13,264	292,749
Profit for the year	-	-	40,571	-	40,571
Net change in fair value of cash flow hedges	-	-	-	(799)	(799)
Net change in fair value of available-for-sale investments	-	-	-	(4,641)	(4,641)
Pension fund actuarial gains	-	-	4,494	-	4,494
Currency translation differences	-	-	(9)	-	(9)
Dividends paid	-	-	(32,000)	-	(32,000)
Balance at 31 December 2015	200,080	128	92,333	7,824	300,365

The attached notes 1 to 36 form part of these consolidated 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 years ended 31 December 2016 and 2015. The financial statements of material subsidiaries are prepared for the same reporting year as the Bank (unless stated otherwise within note 15), 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 Group as permitted by section 408 of the Companies Act 2006. The principal subsidiaries are set out in note 15.

### Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards. The consolidated financial statements are presented in US Dollars which is the Group's functional currency, owing to this being the primary currency that is used: (i) to fund the business, through share capital and deposits; (ii) for dividend distributions; and (iii) the ultimate parent's presentational and functional currency. 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 1.2287 (2015: 1.4829).

### Statement of compliance

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards as adopted by the EU.

### New Standards and Interpretations issued but not yet effective

Standards issued but not yet effective up to the date of issuance of the Bank's consolidated financial statements are listed below. The Bank intends to adopt those standards when they become effective.

#### \* IFRS 9: Financial Instruments

The IASB issued IFRS 9 'Financial Instruments' in its final form in July 2014 and is effective for annual periods beginning on or after 1 January 2018. IFRS 9 sets out the requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial assets, impairment of financial assets and hedge accounting. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement.

##### a. Classification and measurement

The adoption of this standard will have an effect on the classification and measurement of Bank's financial assets but is not expected to have a significant impact on the classification and measurement of financial liabilities. The classification and measurement of financial assets will depend on how these are managed (the entity's business model) and their contractual cash flow characteristics. These factors determine whether the financial assets are measured at amortised cost, fair value through other comprehensive income or fair value through statement of income.

##### b. Hedge accounting

IFRS 9 allows entities to continue with the hedge accounting under IAS 39 even when other elements of IFRS become mandatory on 1 January 2018.

##### c. Impairment of financial assets

The impairment requirements apply to financial assets measured at amortised cost, fair value through other comprehensive income, and lease receivables and certain loan commitments and financial guarantee contracts. At initial recognition, an allowance is required for expected credit losses ('ECL') resulting from default events that are possible within the next 12 months ('12-month ECL'). In the event of a significant increase in credit risk, an allowance is required for ECL resulting from all possible default events over the expected life of the financial instrument ('lifetime ECL').

Financial assets where 12-month ECL is recognised are considered to be 'stage 1'; financial assets which are considered to have experienced a significant increase in credit risk are in 'stage 2'; and financial assets for which there is objective evidence of impairment so are considered to be in default or otherwise credit impaired are in 'stage 3'.

The assessment of whether credit risk has increased significantly since initial recognition is performed for each reporting period by considering the change in the risk of default occurring over the remaining life of the financial instrument, rather than by considering an increase in ECL.

**New Standards and Interpretations issued but not yet effective (continued)**

The assessment of credit risk and the estimation of ECL are required to be unbiased and probability-weighted, and should incorporate all available information which is relevant to the assessment including information about past events, current conditions and reasonable and supportable forecasts of economic conditions at the reporting date. In addition, the estimation of ECL should take into account the time value of money. As a result, the recognition and measurement of impairment is intended to be more forward-looking than under IAS 39 and the resulting impairment charge will tend to be more volatile. The Bank is in the process of quantifying the impact of this standard on the Bank's consolidated financial statements, when adopted.

\* IFRS 15: Revenue from Contracts with customers (effective 1 January 2018).

\* IFRS 16: Leases (effective 1 January 2019).

\* Amendments to IAS 12 Income Taxes (effective 1 January 2017).

The aforementioned standards are not expected to have a material impact on the Bank's consolidated 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 amounts of income, expenses, financial assets, liabilities, the accompanying disclosures and disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

**Judgements**

Judgements are made in the classification of available-for-sale and held-for-trading investments based on management's intention at the time of 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 cost of the defined benefit pension plan and other post-employment medical benefits and the present value of pension obligations are determined using actuarial valuations. An actuarial valuation involves making various assumptions that may differ from actual developments in the future. These include the determination of the discount rate, mortality rates and future pension increases. Refer to note 36 for further information.

*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 (g) and note 11.

*Fair value of financial instruments*

Estimates are also made in determining the fair values of financial assets that are not quoted in an active market. The Net Asset Values (NAV) of the fund are adjusted by reference to indicative secondary market quotes for each fund.

**1.3 Summary of significant accounting policies**

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

**(a) Investments in joint ventures**

The Group classifies an investment as "joint venture" when it is a party to a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Investments in joint ventures are accounted for using the equity method.

**(b) 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 in the consolidated income statement. 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 (c) (iii) or are part of an effective hedging strategy, in which case it is recorded in the consolidated income statement.

**(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.

**(c) Financial instruments**

The classification of financial instruments at initial recognition depends on the purpose for which the financial instruments were acquired and their characteristics. All financial instruments are initially recognised at the fair value 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 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 income statement 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) Held for Trading**

A financial asset is classified as held for trading if either a derivative or it is acquired or incurred principally for the purpose of generating profit from short term fluctuations in price. Resultant unrealised gains and losses arising from changes in fair value are included in the consolidated income statement under trading income.

**(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 banks and other financial institutions and Loans and advances are financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. After initial recognition, these are subsequently measured at amortised cost, 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 income statement in "net provision for loan losses and other" 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 income statement.

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

**(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 re-measured at fair value.

Unless unrealised gains and losses on re-measurement 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 income statement 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 income statement 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 income statement under trading income.

**(viii) Reverse repurchase and Repurchase agreements**

Reverse repurchase agreements are a form of lending whereby the Group provides a loan or cash collateral in exchange for the transfer of collateral, generally in the form of marketable securities subject to an agreement to transfer the securities back at a fixed price in the future. Repurchase agreements are when the Group obtains such loans or cash collateral, in exchange for the collateral. In accounting for reverse repurchase agreements, the securities purchased are not included on the balance sheet because the group does not acquire the risks and rewards of ownership. Consideration paid is accounted for as a loan asset at amortised cost. Similarly for a repurchase agreement the securities sold are retained on the balance sheet as the group retains the risks and rewards of ownership. Consideration received is accounted for as a financial liability at amortised cost.

**(ix) Deposits, Syndicated loans and Subordinated liabilities**

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

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

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

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

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

**(e) Determination of fair value**

The fair value of financial instruments that are quoted in an active market is determined by reference to market bid prices 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, less a liquidity discount.

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

**(f) Forbearance**

The Bank will consider forbearance or similar repayment programmes on a case by case basis to assist customers who are temporarily in financial difficulty and unable to meet the contractual repayments under their original agreement. Loans whose original terms have been modified including those subject to forbearance strategies are considered renegotiated loans. Such renegotiations provide objective evidence of impairment and the loan is assessed accordingly and as such individual impairment recognition is accelerated compared to those under normal contractual policy.

**(g) 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 income statement 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 income statement 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 net present value of the estimated future cash flows for loans and other interest bearing financial assets is discounted at the financial asset'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, where relevant, 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 income statement.

**(h) Hedge accounting**

The Group enters into derivative instruments including foreign exchange forwards, swaps and fx 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 held for hedging purposes 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 income statement.

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.

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

**(i) Fair value hedges**

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

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 income statement.

**(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.

The gains or losses on effective cash flow hedges recognised initially in equity are transferred to the consolidated statement of income in the period in which the hedged transaction impacts 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 income statement 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 income statement for the year.

**(i) Offsetting financial instruments**

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

**(j) 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 improvements - over the period of the lease.
- Other assets - 2 to 5 years.

**(k) 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 income and expense from hedging swaps is reported on a net basis within interest income against the underlying hedged item.

**(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.



**(k) Revenue recognition (continued)**

**(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 Acting Chief Executive Officer and Deputy Chief Executive Officer.

**(l) 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.

**(m) Provisions**

Provisions are recognised when the Group has a present obligation arising from a past event, the settlement of which is expected to result in an outflow from the Group. Such obligations can be either legal or constructive in nature.

Legal obligations arise due to either a contract, legislation or other operation of law. Constructive obligations arise where the group has created a valid expectation with other parties based on published policies or an established a pattern of past practices.

**(n) Employee benefits**

Defined benefit pension plan 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. Re-measurements of the net defined benefit liability, which comprise actuarial gains or losses, the return on plan assets and the effect of the asset ceiling (if any), both excluding interest, are recognised immediately in other comprehensive income.

**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.

**(o) Taxation**

Deferred tax is recognised in respect of all temporary differences that have originated but not reversed at the reporting date. Transactions or events that have occurred at the reporting date 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 it 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 the tax rates and laws enacted or substantively enacted at the reporting date. The amounts reported within other comprehensive income are net of tax.

**(p) Fiduciary assets**

Assets held in trust or in a fiduciary capacity (note 34) are not treated as assets of the Group and, accordingly, are not incorporated in the consolidated balance sheet.

**(q) Financial guarantees and loans commitments**

In the ordinary course of business, the Group gives financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are contracts that require the Group to make specified payments to reimburse the holders for a loss that is incurred because a specified holder fails to make payments when due in accordance with the terms of a debt instrument. Loans commitments are firm commitments to provide credit under pre-specified terms and conditions. Financial guarantees are initially recognised in the consolidated financial statements at fair value, adjusted for transactions costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, the Group's liability under each guarantee is measured at the higher of the amortised commission and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee.

# Ahli United Bank (UK) PLC

## NOTES TO THE FINANCIAL STATEMENTS

31 December 2016

### 2 SEGMENT INFORMATION

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

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

These segments are the basis on which the Group reports its primary segment information. Transactions between segments are conducted at approximate market rates on an arm's length basis. Interest is charged/credited to business segments based on rates appropriate to the type of asset or liability and underlying maturity profile.

The primary activities of the Bank are based in the United Kingdom

Segmental information for the year was as follows:

	<i>Retail banking</i>	<i>Corporate banking</i>	<i>Treasury &amp; investments</i>	<i>Private banking</i>	<i>Total</i>
	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>
Year ended 31 December 2016					
Net interest income	9,344	5,849	8,905	18,292	42,390
Fees and commissions	1,486	1,042	(185)	13,696	16,039
Trading Income	-	-	3,354	-	3,354
Other operating income and expenses (*)	-	3,668	1,973	2,121	7,762
OPERATING INCOME	10,830	10,559	14,047	34,109	69,545
Net (provisions) / recoveries on loans and advances	(135)	32	-	(310)	(413)
NET OPERATING INCOME	10,695	10,591	14,047	33,799	69,132
Operating expenses	4,360	2,792	3,457	17,866	28,475
PROFIT BEFORE TAX	6,335	7,799	10,590	15,933	40,657
Tax expense	1,237	1,560	1,862	3,216	7,875
NET PROFIT AFTER TAX ATTRIBUTABLE TO THE OWNERS OF THE BANK	5,098	6,239	8,728	12,717	32,782

	<i>Retail banking</i>	<i>Corporate banking</i>	<i>Treasury &amp; Investments</i>	<i>Private banking</i>	<i>Unallocated</i>	<i>Total</i>
	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>
Segment assets	412,281	264,294	1,337,123	521,207	-	2,534,905
Investment in joint venture	-	1,246	-	-	-	1,246
Unallocated assets	-	-	-	-	44,821	44,821
TOTAL ASSETS	412,281	265,540	1,337,123	521,207	44,821	2,580,972
Segment liabilities	1,631	12,650	470,146	1,743,249	-	2,227,676
Unallocated liabilities	-	-	-	-	60,897	60,897
TOTAL LIABILITIES	1,631	12,650	470,146	1,743,249	60,897	2,288,573

Note (\*): Other operating income and expenses for segment reporting includes net gain on sale of investments and share of profit/(loss) from joint ventures.

Interest is analysed on a net basis as this is the key interest performance indicator for each segment.

Unallocated assets and liabilities comprise derivative financial instruments, tax, fixed assets, retirement benefit scheme related balances, prepayments and accruals, deferred income and other assets and liabilities as shown on the consolidated balance sheet.

# Ahli United Bank (UK) PLC

## NOTES TO THE FINANCIAL STATEMENTS

31 December 2016

### 2 SEGMENT INFORMATION (continued)

Segmental information for the year was as follows:

	<i>Retail banking</i>	<i>Corporate banking</i>	<i>Treasury &amp; investments</i>	<i>Private banking</i>	<i>Total</i>
	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>
Year ended 31 December 2015					
Net interest income	9,788	6,773	16,292	12,600	45,453
Fees and commissions	1,511	3,984	(116)	12,149	17,528
Trading income	-	-	3,171	-	3,171
Other operating income and expenses (*)	-	3,995	739	17	4,751
OPERATING INCOME	11,299	14,752	20,086	24,766	70,903
Net recoveries from losses on loans and advances	648	8,580	-	513	9,741
NET OPERATING INCOME	11,947	23,332	20,086	25,279	80,644
Operating expenses	4,543	2,862	3,362	19,303	30,070
PROFIT BEFORE TAX	7,404	20,470	16,724	5,976	50,574
Tax expense	1,500	4,145	3,392	1,209	10,246
NET PROFIT AFTER TAX ATTRIBUTABLE TO THE OWNERS OF THE BANK	5,904	16,325	13,332	4,767	40,328

	<i>Retail banking</i>	<i>Corporate banking</i>	<i>Treasury &amp; investments</i>	<i>Private banking</i>	<i>Unallocated</i>	<i>Total</i>
	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>
Segment assets	558,580	286,201	1,347,728	484,234	-	2,676,743
Investment in joint venture	-	1,546	-	-	-	1,546
Unallocated assets	-	-	-	-	45,394	45,394
TOTAL ASSETS	558,580	287,747	1,347,728	484,234	45,394	2,723,683
Segment liabilities	20,275	3,983	725,144	1,611,630	-	2,361,032
Unallocated liabilities	-	-	-	-	60,183	60,183
TOTAL LIABILITIES	20,275	3,983	725,144	1,611,630	60,183	2,421,215

Note (\*): Other operating income and expenses for segment reporting includes net gain on sale of investments and share of profit/(loss) from joint ventures.

Interest is analysed on a net basis as this is the key interest performance indicator for each segment.

Unallocated assets and liabilities comprise derivative financial instruments, tax, fixed assets, retirement benefit scheme related balances, prepayments and accruals, deferred income and other assets & liabilities as shown on the consolidated balance sheet.

Ahli United Bank (UK) PLC

NOTES TO THE FINANCIAL STATEMENTS

31 December 2016

**3 NET INTEREST INCOME**

**3 (a) INTEREST INCOME**

	2016	2015
	US\$'000	US\$'000
Deposits with banks and other financial institutions	4,710	2,772
Loans and advances	39,351	44,821
Non-trading investments (including Treasury Bills)	12,102	10,679
	<u>56,163</u>	<u>58,272</u>

**3 (b) INTEREST EXPENSE**

	2016	2015
	US\$'000	US\$'000
Deposits from banks and other financial institutions (including repurchase agreements)	517	200
Customers' deposits	13,069	12,443
Subordinated liabilities	187	176
	<u>13,773</u>	<u>12,819</u>

**NET INTEREST INCOME**

<u>42,390</u>	<u>45,453</u>
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**4 NET FEES AND COMMISSIONS**

	2016	2015
	US\$'000	US\$'000
Fees and commission income		
- Transaction banking services	4,182	7,285
- Management, performance and brokerage fees	14,308	13,033
Fees and commission expense	(2,451)	(2,790)
	<u>16,039</u>	<u>17,528</u>

Included in management, performance and brokerage fees is \$3.7 million (2015: \$4.5 million) for fee income relating to trust and fiduciary activities.

**5 TRADING INCOME**

	2016	2015
	US\$'000	US\$'000
Foreign exchange	3,476	3,898
Other trading activities	(122)	(727)
	<u>3,354</u>	<u>3,171</u>

Foreign exchange profits derive from spot and forward foreign exchange contracts. Other trading activities consist primarily of ineffectiveness from hedge accounting.

**6 OTHER OPERATING INCOME & EXPENSES**

	2016	2015
	US\$'000	US\$'000
Dividends and distributions from non trading investments	3,670	5,071
Other operating income	2,291	(327)
	<u>5,961</u>	<u>4,744</u>

## NOTES TO THE FINANCIAL STATEMENTS

31 December 2016

## 7 STAFF COSTS

	2016 US\$'000	2015 US\$'000
Wages and salaries	12,471	14,170
Social security costs	1,338	1,491
Net interest on net defined benefit liability	349	789
Other pension costs	1,189	1,052
Other staff costs	2,483	2,611
	<u>17,830</u>	<u>20,113</u>

The average monthly number of employees during the year was 120 (2015: 130).

Since 1 July 2013, the fund administrative expenses have been met directly by the bank and are reported within other pension costs.

Payments of \$39,000 (2015:\$41,000) were made during 2016 to the defined contribution scheme for two directors. The emoluments of the Directors do not include any amounts 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 pension costs of the highest paid director were nil (2015: nil). The emoluments of the highest paid director in 2016 were \$403,000 (2015: \$412,000).

## 8 OPERATING EXPENSES

Operating expenses include the following specific charges

	2016 US\$'000	2015 US\$'000
Directors' remuneration	1,520	1,681
Auditors' remuneration		
- group statutory audit fee	269	275
- audit related assurances services	152	134

## 9 (a) CASH AND BALANCES WITH CENTRAL BANKS

	GROUP		BANK	
	2016 US\$'000	2015 US\$'000	2016 US\$'000	2015 US\$'000
Cash and balances with central banks, excluding mandatory reserve deposits	446,577	333,779	445,826	333,350
Mandatory reserve deposits with central banks	2,254	1,418	2,254	1,418
	<u>448,831</u>	<u>335,197</u>	<u>448,080</u>	<u>334,768</u>

## 9 (b) TREASURY BILLS

	2016 US\$'000	2015 US\$'000
UK Treasury Bills	<u>36,852</u>	<u>88,905</u>

## 10 DEPOSITS WITH BANKS

	2016 US\$'000	2015 US\$'000
Demand and call	65,557	49,285
Time deposits	126,053	246,568
	<u>191,610</u>	<u>295,853</u>

# Ahli United Bank (UK) PLC

## NOTES TO THE FINANCIAL STATEMENTS

31 December 2016

### 11 LOANS AND ADVANCES

	2016		2015	
	US\$ '000	%	US\$ '000	%
<b>11 (a) By industry sector</b>				
Consumer/personal	10,645	0.9	13,319	1.0
Residential mortgage	991,541	84.2	1,101,795	84.8
Trading and manufacturing	10,000	0.8	15,000	1.1
Real estate	156,137	13.3	157,957	12.2
Others	9,223	0.8	11,226	0.9
	<b>1,177,546</b>	<b>100.0</b>	<b>1,299,297</b>	<b>100.0</b>
Less: Specific impairment provision	(28)		(543)	
Less: Collective impairment provision	(7,320)		(6,260)	
Less: Interest in suspense	-		(61)	
	<b>1,170,198</b>		<b>1,292,433</b>	
	2016		2015	
	US\$ '000	%	US\$ '000	%
<b>11 (b) By geographic region</b>				
Kingdom of Bahrain	75,163	6.4	61,044	4.7
State of Kuwait	87,212	7.4	87,566	6.7
Other GCC countries	32,945	2.8	26,980	2.1
United Kingdom	787,391	66.8	946,445	72.8
Europe (excluding United Kingdom)	63,425	5.4	66,333	5.1
Arab Republic of Egypt	32,549	2.8	19,378	1.5
Asia (excluding GCC countries)	26,858	2.3	30,601	2.4
Rest of the world	71,763	6.1	60,143	4.6
USA	240	0.0	807	0.1
	<b>1,177,546</b>	<b>100.0</b>	<b>1,299,297</b>	<b>100.0</b>
Less: Specific impairment provision	(28)		(543)	
Less: Collective impairment provision	(7,320)		(6,260)	
Less: Interest in suspense	-		(61)	
	<b>1,170,198</b>		<b>1,292,433</b>	

Other GCC countries comprise the members from the Gulf Co-operation Council being the Sultanate of Oman, State of Qatar, Kingdom of Saudi Arabia and the United Arab Emirates.

11 (c) Age analysis of past due but not impaired loans and advances

		2016					Collateral US\$ '000
		Up to 30 days	31 to 60 days	61 to 90 days	More than 90 days	Total	
		US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	
Loans and advances							
Retail		4,606	3,884	5,853	3,939	18,282	49,280
Corporate		5,741	604	6,168	5,377	17,890	67,761
		<u>10,347</u>	<u>4,488</u>	<u>12,021</u>	<u>9,316</u>	<u>36,172</u>	<u>117,041</u>
		2015					Collateral US\$ '000
		Up to 30 days	31 to 60 days	61 to 90 days	More than 90 days	Total	
		US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	
Loans and advances							
Retail		17,142	1,998	4,682	1,199	25,021	69,560
Corporate		19,096	510	7,856	2,860	30,322	77,511
		<u>36,238</u>	<u>2,508</u>	<u>12,538</u>	<u>4,059</u>	<u>55,343</u>	<u>147,071</u>

For a definition of Retail and Corporate refer to Credit Risk note 28 on page 41.

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

11 (d) Individually impaired loans and advances

		2016			2015		
		Retail	Corporate	Total	Retail	Corporate	Total
		US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Gross impaired loans		28	-	28	-	1,775	1,775
Specific impairment provisions		(28)	-	(28)	-	(543)	(543)
Interest in suspense		-	-	-	-	(61)	(61)
		<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,171</u>	<u>1,171</u>
Impaired loan coverage		<u>100.0%</u>	<u>-</u>	<u>100.0%</u>	<u>-</u>	<u>34.0%</u>	<u>34.0%</u>
Gross loans		595,770	581,776	1,177,546	645,923	653,374	1,299,297
Impaired loan ratio		<u>0.0%</u>	<u>-</u>	<u>0.0%</u>	<u>-</u>	<u>0.3%</u>	<u>0.1%</u>

**11 (e) Impairment allowance for loans and advances**

A reconciliation of the allowance for impairment losses for loans and advances by class is as follows:

	<i>2016</i>	<i>2015</i>
	<i>Total</i>	<i>Total</i>
	<i>US\$ '000</i>	<i>US\$ '000</i>
At 1 January	6,803	8,300
Add/(Less):		
Amounts released during the year	(509)	(1,919)
Charge for the year	1,088	449
Exchange rate and other adjustments	(34)	(27)
At 31 December	<u>7,348</u>	<u>6,803</u>

**11 (f) Net (provisions) / recoveries (for) / from losses on loans and advances**

	<i>2016</i>	<i>2015</i>
	<i>US\$ '000</i>	<i>US\$ '000</i>
Provision released for loans and advances during the year	509	1,919
Impairment charge for the year on loans and advances	(1,088)	(449)
Recoveries from fully provided loans written off in previous years	166	8,271
Net (provisions) / recoveries on loans and advances	<u>(413)</u>	<u>9,741</u>

**12 REVERSE REPURCHASE AGREEMENTS**

	<i>2016</i>	<i>2015</i>
	<i>US\$ '000</i>	<i>US\$ '000</i>
Banks	<u>52,615</u>	<u>-</u>

**13 NON-TRADING INVESTMENTS**

	<i>2016</i>	<i>2015</i>
	<i>US\$ '000</i>	<i>US\$ '000</i>
<b>Quoted investments</b>		
GCC government bonds and debt securities	81,220	77,854
Other government bonds and debt securities	59,779	138,206
Floating rate notes:		
- issued by banks and other financial institutions	390,264	348,707
- issued by corporate bodies	76,619	69,424
	<u>607,882</u>	<u>634,191</u>
<b>Unquoted investments</b>		
Funds at net asset value	26,542	30,164
Other unquoted investments	374	-
	<u>26,916</u>	<u>30,164</u>
	<u>634,798</u>	<u>664,355</u>

All non-trading investments are categorised as available-for-sale.



# Ahli United Bank (UK) PLC

## NOTES TO THE FINANCIAL STATEMENTS

31 December 2016

### 14 INVESTMENTS IN JOINT VENTURES

	Ownership		Profit or Loss share after tax	
	2016	2015	2016	2015
Rosefarm Estates PLC	50.0%	50.0%	55.0%	35.0%
Swinbury Limited	50.0%	50.0%	50.0%	50.0%

#### Rosefarm Estates PLC

A jointly controlled entity involved in property development, principally on the Eurokent Business Park in Thanet, Kent. This interest is accounted for using the equity method.

#### Swinbury Limited

A jointly controlled entity involved in residential property development in Swindon. This interest is accounted for using the equity method.

	2016			2015		
	Rosefarm US\$ '000	Swinbury US\$ '000	Total US\$ '000	Rosefarm US\$ '000	Swinbury US\$ '000	Total US\$ '000
Cost of investment in joint ventures	62	-	62	74	-	74
Group share of reserves after tax	1,330	(146)	1,184	1,716	(244)	1,472
Total Group carrying value of investment	1,392	(146)	1,246	1,790	(244)	1,546

The reporting year for Rosefarm Estates PLC and Swinbury Ltd are both 31st March, and therefore not coterminous with the Group.

### 15 INVESTMENTS IN GROUP UNDERTAKINGS

	2016 US\$ '000	2015 US\$ '000
Shares at cost	60	189

The following are the principal subsidiaries, and all operating entities are engaged in the provision of financial services. All companies are private and limited by shares.

Name and registered office address	Company registration number	Country of registration	Percentage holding	Status
<b>AUB Finance BV *</b> Herikerbergweg 238, 1101 CM Amsterdam, The	62576	The Netherlands	100%	Consolidated
<b>AUB Trustees (Guernsey) Limited *</b> PO Box 190, Anson Court, La Route des Camps, St	23220	Guernsey	100%	Consolidated
<b>The UBK European Property Company Limited</b> Trafalgar Court, Les Banques, St Peter Port, Guernsey	34514	Guernsey	100%	In liquidation
<b>AUB Investment Holdings</b> 35 Portman Square, London W1H 6LR	2730977	England, United Kingdom	100%	Dormant
<b>AUB Secretaries Limited</b> 35 Portman Square, London W1H 6LR	3070486	England, United Kingdom	100%	Dormant

\* Consolidation reporting date 30/11/2016.

# Ahli United Bank (UK) PLC

## NOTES TO THE FINANCIAL STATEMENTS

31 December 2016

### 16 PREMISES AND EQUIPMENT

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

	2016			2015		
	Leasehold improvements	Fixture, fittings and equipment	Total	Leasehold improvements	Fixture, fittings and equipment	Total
	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Cost as at 1 January	5,959	17,099	23,058	5,959	18,765	24,724
Additions	414	526	940	-	654	654
Disposals	-	-	-	-	(2,320)	(2,320)
Cost as at 31 December	6,373	17,625	23,998	5,959	17,099	23,058
Depreciation as at 1 January	3,963	14,764	18,727	3,699	16,189	19,888
Charge for year	265	862	1,127	264	895	1,159
Disposals	-	-	-	-	(2,320)	(2,320)
Depreciation as at 31 December	4,228	15,626	19,854	3,963	14,764	18,727
Net book value as at 31 December	2,145	1,999	4,144	1,996	2,335	4,331

### 17 INTEREST RECEIVABLE AND OTHER ASSETS

	GROUP		BANK	
	2016	2015	2016	2015
	US\$'000	US\$'000	US\$'000	US\$'000
Interest receivable	6,212	8,870	6,212	8,870
Fees receivable	2,122	7,155	2,122	7,155
Prepayments and others	2,259	3,283	1,792	2,185
	10,593	19,308	10,126	18,210

### 18 DEPOSITS FROM BANKS

	2016	2015
	US\$ '000	US\$ '000
Demand and call	6,928	30,229

### 19 CUSTOMERS' DEPOSITS

	GROUP		BANK	
	2016	2015	2016	2015
	US\$'000	US\$'000	US\$'000	US\$'000
Current and call accounts	966,435	861,659	966,435	861,813
Saving accounts	5,767	7,199	5,767	7,199
Time deposits	1,239,005	1,376,948	1,239,005	1,376,948
	2,211,207	2,245,806	2,211,207	2,245,960

### 20 BORROWINGS UNDER REPURCHASE AGREEMENTS

	2016	2015
	US\$ '000	US\$ '000
Banks	-	53,467
Financial Corporations	-	19,600
	-	73,067

# Ahli United Bank (UK) PLC

## NOTES TO THE FINANCIAL STATEMENTS

31 December 2016

### 21 INTEREST PAYABLE AND OTHER LIABILITIES

	<b>GROUP</b>		<b>BANK</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
	<b>US\$ '000</b>	<b>US\$ '000</b>	<b>US\$ '000</b>	<b>US\$ '000</b>
Accruals and deferred income	9,470	18,576	9,470	18,576
Interest payable	9,020	6,994	9,020	6,994
Other credit balances	6,248	6,051	5,657	5,190
	<b>24,738</b>	<b>31,621</b>	<b>24,147</b>	<b>30,760</b>

### 22 SUBORDINATED LIABILITIES

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

	<b>Maturity</b>	<b>2016</b>	<b>2015</b>
		<b>US\$ '000</b>	<b>US\$ '000</b>
- GBP loan stock carrying interest at six months LIBOR plus 3/4%	-	4,441	5,360
- GBP loan stock carrying interest at six months LIBOR plus 3/4%	17/08/16	-	753
- US\$ loan stock carrying interest at six months LIBOR plus 3/4%	-	5,100	5,100
- US\$ loan stock carrying interest at six months LIBOR plus 3/4%	17/08/16	-	717
		<b>9,541</b>	<b>11,930</b>

Unless stated, the maturity date for subordinated liabilities is indefinite. The notice period for the redemption is five years and one day from the date on which notice has been given.

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.

### 23 SHARE CAPITAL

The ultimate holding company of the Bank is Ahli United Bank B.S.C., which is incorporated in Bahrain. Building 2495, Road 2832, Al Seef District 428, P.O.Box 2424, Manama, Kingdom of Bahrain.

The Bank has the following ordinary shares authorised and issued.

	<b>Authorised</b>		<b>Issued and fully paid</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
	<b>US\$ '000</b>	<b>US\$ '000</b>	<b>US\$ '000</b>	<b>US\$ '000</b>
<b>Authorised</b>				
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
	<b>500,080</b>	<b>500,080</b>	<b>200,080</b>	<b>200,080</b>

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### 24 TAXATION

	<u>2016</u>	<u>2015</u>
	<u>US\$'000</u>	<u>US\$'000</u>
Consolidated balance sheet :		
- Deferred tax asset	4,735	2,421
- Current tax liability	(3,577)	(3,979)
- Deferred tax liability	(1,291)	-
	<u>(133)</u>	<u>(1,558)</u>
Consolidated statement of income		
- Current tax expense - UK corporation tax on profits for the year	7,275	9,113
- Deferred tax charge - origination and reversal of temporary differences	923	1,128
- UK corporation tax relating to previous years	(323)	5
	<u>7,875</u>	<u>10,246</u>
<b>TAX EXPENSE</b>		
Profit before tax	<u>40,657</u>	<u>50,574</u>
Multiplied by the average rate of corporation tax in the UK of 20.0% (2015:20.25%)	8,131	10,241
Effects of:		
Corporation tax surcharge for the year	67	-
Expenses not deductible for tax purposes	12	23
Income not subject to tax	(12)	(23)
UK corporation tax relating to previous years	(323)	5
Tax expense	<u>7,875</u>	<u>10,246</u>

The effective income tax rate for 2016 is 20.0% (2015 : 20.25%)

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted as at the Balance Sheet date. The Finance (No. 2) Act 2015 reduced the tax rate to 19% (effective from 1 April 2017) and the Finance Act 2016 further reduced the tax rate to 17% (effective from 1 April 2020). These changes to the main tax rate had been enacted at the Balance Sheet date where the effective corporation tax rates for future financial periods are as follows - 2017: 19.25%, 2018 : 19%, 2019 : 19% and 2020 : 17.5%.

Deferred tax assets and liabilities have been calculated based on a three year time period and recognised at 19%.

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### 25 DERIVATIVES

In the ordinary course of business the Bank enters into various types of transactions that involve derivative financial instruments. A derivative financial instrument is a financial contract between two parties where its value changes in response to the change in a specified interest rate, foreign exchange rate or other variable, there is little or no initial net investment, and settlement is based in the future.

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

The Bank uses forward foreign exchange and swap contracts as part of its asset and liability management process to hedge underlying on-balance sheet positions. The use of derivatives is controlled through the Bank's Risk management department which is an independent area of the Bank. The Risk Management 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 The Bank holds the following derivative contracts or underlying principal amounts, by maturity

	Less than 1 year	Over 1 year to 5 years	Over 5 years	Total
	US\$'000	US\$'000	US\$'000	US\$'000
<b>Foreign Exchange contracts</b>				
2016	307,339	-	-	307,339
2015	197,411	-	-	197,411
<b>Interest Rate contracts</b>				
2016	615,918	204,931	127,615	948,464
2015	440,229	294,769	157,698	892,696

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

	2016		2015	
	Derivative assets	Derivative liabilities	Derivative assets	Derivative liabilities
	US\$ '000	US\$ '000	US\$ '000	US\$ '000
<i>Derivatives held for risk management:</i>				
Interest rate swaps	532	561	1,167	1,255
Forward foreign exchange contracts	17,779	212	1,784	625
<i>Derivatives held as fair value hedges:</i>				
Interest rate swaps	4,040	6,803	423	10,180
<i>Derivatives held as cash flow hedges:</i>				
Interest rate currency swaps	2,265	-	15,354	-
Forward foreign exchange contracts	734	-	606	-
	<u>25,350</u>	<u>7,576</u>	<u>19,334</u>	<u>12,060</u>

**25 DERIVATIVES (continued)****Hedge Accounting****1) Fair Value Hedges****Interest rate risk**

At 31 December 2016, the Bank had interest rate swap contracts in place whereby the Bank pays a fixed rate of interest and receives a variable rate of return. The swaps are being used to hedge the exposure to changes in the fair value of its fixed rate bonds, loans and customer deposits.

A fair value loss of \$2,664,845 (2015: \$9,757,303) has been recognised for the interest rate swaps, with an offsetting gain of \$2,264,879 (2015: \$10,097,288) recognised against the associated bond and loan portfolio, which resulted in a life to date loss of \$399,966 (2015: loss \$339,985) being recognised as ineffective. As such, within the statement of income for the year ending 31 December 2016, a loss of \$59,981 (2015 : gain \$70,823) has been recorded.

**2) Cashflow hedges****Foreign currency risk**

2)(i) Forward foreign exchange contracts measured at fair value through Other comprehensive income are designated as hedging instruments in cash flow hedges in relation to a proportion of 2017 forecast GBP and EUR P&L. These forecast P&L events are highly probable.

2016		2015	
<i>Derivative assets</i>	<i>Derivative liabilities</i>	<i>Derivative assets</i>	<i>Derivative liabilities</i>
<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>
734	-	606	-

The terms of the foreign currency forward contracts match the terms of the expected highly probable forecast transactions. As a result, a net unrealised gain of \$733,721 (2015: \$605,979) is included in Other comprehensive income and no hedge ineffectiveness arises requiring recognition through the consolidated statement of income for the year ending 31 December 2016.

The amount of \$605,979 (2015: \$1,665,150) was removed from Other comprehensive income during the year and was recognised within the consolidated statement of income. No adjustments were made to the carrying amount of the hedging items. The amounts retained in Other comprehensive income at 31 December 2016 will affect the consolidated statement of income in 2017.

2)(ii) Interest rate currency swap contracts measured at fair value through Other comprehensive income are designated as hedging instruments to manage the currency and interest rate risks for a portion of the banks GBP denominated mortgage loans in relation to the USD functional currency.

2016		2015	
<i>Derivative assets</i>	<i>Derivative liabilities</i>	<i>Derivative assets</i>	<i>Derivative liabilities</i>
<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>
2,265	-	15,354	-

The cash flow hedges were assessed to be highly effective and a net unrealised gain of \$2,264,887 (2015: \$15,354,107) is included in Other comprehensive income. The terms of the derivative contracts significantly match the terms of the underlying hedged items and a hedge ineffectiveness loss of \$55,013 (2015: loss \$397,338) has been recognised through the consolidated statement of income for the year ending 31 December 2016.

No adjustments were made to the carrying value of the hedged items. The amounts retained in Other comprehensive income at 31 December 2016 will affect the consolidated statement of income in 2017.

**26 FAIR VALUE MEASUREMENT**

For over-the-counter derivatives the Bank calculates fair values on the basis of observable market prices for similar instruments or by applying present value or other valuation methods commonly used in the market, using data based on market conditions.

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

The fair values of other non-trading book balances (cash and balances with central banks, deposits with banks, loans and advances and reverse repurchase agreements) are approximate to their carrying value in the balance sheet where a liquid and active market exists and the resultant applicable margins approximate the current spreads that would apply for balances with similar maturities that are short term in nature. Where the financial instrument pricing includes a fixed rate element, this risk is hedged and valued in accordance with the accounting policy on hedge accounting (note 1.3 (h) i). The fair value of financial liabilities (deposits from banks, customers' deposits, borrowings under repurchase agreements and subordinated liabilities) is not materially different to its balance sheet value.

The bank has collateral agreements in place for swap derivative contracts. As at 31 December 2016, the Bank had no placements with swap derivative counterparties (2015 : \$650,000).

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

Level 1: Quoted (Unadjusted) prices in active markets for identical assets and liabilities.

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

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

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26 FAIR VALUE MEASUREMENT (continued)

	2016			Total US\$ '000
	Level 1 US\$ '000	Level 2 US\$ '000	Level 3 US\$ '000	
<b>Financial Assets</b>				
Non Trading Investments				
Bonds and Treasury bills	644,734	-	-	644,734
Unquoted investments	-	-	26,916	26,916
<b>Total Non Trading Investments</b>	<b>644,734</b>	<b>-</b>	<b>26,916</b>	<b>671,650</b>
Derivative Assets	18,514	6,836	-	25,350
<b>Total Financial Assets</b>	<b>663,248</b>	<b>6,836</b>	<b>26,916</b>	<b>697,000</b>
<b>Financial Liabilities</b>				
Derivative Liabilities	212	7,364	-	7,576
<b>Total Financial Liabilities</b>	<b>212</b>	<b>7,364</b>	<b>-</b>	<b>7,576</b>
	2015			Total US\$ '000
	Level 1 US\$ '000	Level 2 US\$ '000	Level 3 US\$ '000	
<b>Financial Assets</b>				
Non Trading Investments				
Bonds and Treasury bills	723,096	-	-	723,096
Unquoted investments	-	-	30,164	30,164
<b>Total Non Trading Investments</b>	<b>723,096</b>	<b>-</b>	<b>30,164</b>	<b>753,260</b>
Derivative Assets	2,390	16,944	-	19,334
<b>Total Financial Assets</b>	<b>725,486</b>	<b>16,944</b>	<b>30,164</b>	<b>772,594</b>
<b>Financial Liabilities</b>				
Derivative Liabilities	625	11,435	-	12,060
<b>Total Financial Liabilities</b>	<b>625</b>	<b>11,435</b>	<b>-</b>	<b>12,060</b>



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**26 FAIR VALUE MEASUREMENT (continued)**

In relation to level 3 financial assets, the fair value movements through Other comprehensive income for the current financial period are as follows:

	2016 US\$ '000	2015 US\$ '000
Fair Value as at 1 January	30,164	36,322
Currency translation differences	(1,136)	(7,019)
Additions	2,119	3,131
Repayments	(3,578)	(4,370)
Revaluations	(653)	2,100
Fair Value as at 31 December	<u>26,916</u>	<u>30,164</u>

During the years 2016 and 2015 there have been no transfers between Levels 1, 2 and 3.

For an explanation of valuation techniques used to value these financial instruments please refer to note 1.3 (e).

**27 COMMITMENTS AND CONTINGENT LIABILITIES**

**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.

	2016 US\$ '000	2015 US\$ '000
- within one year	40,013	24,757
- between one year and five years	38,323	24,450
- over 5 years	8,407	6,005
	<u>86,743</u>	<u>55,212</u>

**Contingent liabilities**

	2016 US\$ '000	2015 US\$ '000
Guarantees	3,502	11,640
Letter of credit	6,144	-
	<u>9,646</u>	<u>11,640</u>

Maturity of contingent liabilities is as follows:

- Less than one year	9,535	11,507
- Over one year	111	133
	<u>9,646</u>	<u>11,640</u>

**RISK MANAGEMENT**

**28 CREDIT RISK**

Credit Risk is the risk that companies, financial institutions and other counterparties will be unable to meet their obligations to the Bank. 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 above 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. Small loans are not authorised by the parent undertaking.

All exposures are checked daily against approved limits, independently of each business unit, and are reported to senior management. The Bank's first priority when making loans is to establish the borrower's capacity to repay and not rely principally on security / collateral.

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 fulfil 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 Bank monitors the market value of collateral and requests additional collateral when necessary in accordance with the underlying No possession orders were obtained and enforced in 2016 (2015:Nil).

The 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 remedy 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 Bank'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 AUB Group's internal credit rating system. This facilitates focused portfolio management of the inherent risk across all lines of business.

The four 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
Criticised	Risk Rating 8 to 10	Criticised List Credit Risk

## 28 CREDIT RISK (continued)

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.

On the basis of objective indicators such as the borrower's financial condition, business situation and satisfaction of interest and principal repayments, we review case by case whether there are signs of a credit risk-related impairment which is likely to leave the borrower unable to meet all or part of its payment obligations.

Risk provisioning is quantified as the difference between the carrying value of the loan and the present value of estimated future cash flows in the form of interest and principal payments, cash flows resulting from restructuring and discounted in each case at the original effective interest rate, and the discounted proceeds expected from the sale of collateral.

If a borrower's financial situation improves to the point that the reasons for the allowance no longer exist the reversal is recognised in the statement of income up to the amount of the amortised cost. Any gain or loss on sale of a loan is recognised in the statement of income.

### Credit risk - Derivative contacts

The table below shows the credit risk weighted amounts for derivative contacts:

	2016 US\$ '000	2015 US\$ '000
Exchange traded contracts		
- for trading purposes	4,525	841
- for hedging purposes	560	3,409
Interest rate contracts		
- for trading purposes	350	638
- for hedging purposes	1,373	768

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### 28 CREDIT RISK (continued)

#### Credit quality per class of financial assets

The tables below shows distribution of financial assets neither past due nor impaired.

	<i>Neither past due nor impaired</i>			<i>Total</i>
	<i>High</i>	<i>Standard</i>	<i>Watch List</i>	
	<i>standard</i>	<i>grade</i>		
	<i>grade</i>	<i>grade</i>		
	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>
<b>At 31 December 2016</b>				
Balances with central banks	447,055	-	-	447,055
Treasury bills	36,852	-	-	36,852
Deposits with banks (including reverse repos)	241,587	2,638	-	244,225
Loans and advances				
Retail	557,769	22,828	15,146	595,743
Corporate	491,516	61,917	28,342	581,775
Non trading investments	554,654	80,144	-	634,798
Other assets - derivatives	25,350	-	-	25,350
	<b>2,354,783</b>	<b>167,527</b>	<b>43,488</b>	<b>2,565,798</b>

	<i>Neither past due nor impaired</i>			<i>Total</i>
	<i>High</i>	<i>Standard</i>	<i>Watch List</i>	
	<i>standard</i>	<i>grade</i>		
	<i>grade</i>	<i>grade</i>		
	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>
<b>At 31 December 2015</b>				
Balances with central banks	332,472	-	-	332,472
Treasury bills	88,905	-	-	88,905
Deposits with banks (including reverse repos)	293,800	2,053	-	295,853
Loans and advances				
Retail	588,356	31,842	704	620,902
Corporate	569,959	49,988	1,330	621,277
Non trading investments	619,744	44,611	-	664,355
Other assets - derivatives	19,334	-	-	19,334
	<b>2,512,570</b>	<b>128,494</b>	<b>2,034</b>	<b>2,643,098</b>

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

No individually impaired loans were restructured during the year. Interest income includes \$NIL (2015: \$32,445) recovered on impaired loans.

#### Loans and Advances

All non-cash collateral held against financial assets is convertible into cash by means of a sale process upon repossession of the underlying financial asset.

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### 29 CONCENTRATION RISK

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

	2016			2015		
	<i>Assets</i>	<i>Liabilities</i>	<i>Contingent liabilities &amp; commitments on behalf of customers</i>	<i>Assets</i>	<i>Liabilities</i>	<i>Contingent liabilities &amp; commitments on behalf of customers</i>
	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>
<b>Geographic region:</b>						
Kingdom of Bahrain	178,449	108,232	7,846	94,721	130,390	148
State of Kuwait	87,486	1,212,353	6,465	87,856	1,327,882	4,391
Other GCC countries	149,711	497,197	16,587	122,932	392,087	8,208
United Kingdom (UK)	1,415,358	99,707	63,706	1,532,313	64,040	45,624
Europe (excluding UK)	437,676	119,344	1,285	541,202	240,784	4,778
United States of America	109,535	1,434	-	94,769	1,309	-
Asia (excluding GCC)	47,081	13,674	-	81,173	39,986	-
Rest of the World	123,114	166,219	-	149,310	167,291	-
Arab Republic of Egypt	32,562	70,413	500	19,407	57,446	3,703
	<b>2,580,972</b>	<b>2,288,573</b>	<b>96,389</b>	<b>2,723,683</b>	<b>2,421,215</b>	<b>66,852</b>
<b>Industry sector:</b>						
Banks and other financial institutions	1,114,525	989,129	11,136	1,004,526	225,142	8,138
Consumer/personal	10,617	520,774	3,264	13,319	592,150	2,948
Trading and manufacturing	15,898	16,167	-	32,997	16,139	-
Real estate	151,959	25,286	43,831	156,444	27,541	24,757
Residential mortgage	988,646	72,066	28,746	1,096,386	92,415	19,651
Government/public sector	178,080	460,661	9,228	304,909	452,328	11,136
Services	14,238	7,498	-	17,964	2,672	-
Others	107,009	196,992	184	97,138	1,012,828	222
	<b>2,580,972</b>	<b>2,288,573</b>	<b>96,389</b>	<b>2,723,683</b>	<b>2,421,215</b>	<b>66,852</b>

**30 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 Bank classifies exposures to market risk into either trading or non-trading portfolios. Given the Bank's low risk strategy, aggregate market risk levels are considered low. The Bank utilises Value-at-Risk (VaR) models to assist in estimating potential losses that may arise from adverse market movements in addition to non-quantitative risk management techniques. The market risk for the trading portfolio is managed and monitored on a VaR methodology which reflects the inter-dependency between risk variables. Non-trading portfolios are managed and monitored using stop loss limits and other sensitivity analyses.

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.

- 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.

		Foreign Exchange	Interest Rate	Effects of covariance	Total
		\$000	\$000	\$000	\$000
<b>As at 31 December 2016</b>		<b>40</b>	<b>(1)</b>	-	<b>39</b>
<i>As at 31 December 2015</i>		<i>195</i>	<i>5</i>	-	<i>200</i>
<b>Average daily</b>	<b>2016</b>	<b>17</b>	-	-	<b>17</b>
	<i>2015</i>	<i>179</i>	<i>1</i>	-	<i>180</i>
<b>Minimum</b>	<b>2016</b>	<b>5</b>	-	-	<b>5</b>
	<i>2015</i>	<i>89</i>	<i>14</i>	-	<i>103</i>
<b>Maximum</b>	<b>2016</b>	<b>87</b>	<b>(9)</b>	-	<b>78</b>
	<i>2015</i>	<i>246</i>	<i>7</i>	-	<i>253</i>

The Bank is therefore confident within a 99% confidence interval that, given the risks, as at 31 December 2016, it will not incur a one day loss on its trading book of more than \$39,000 (2015: \$200,000) based on the VaR model used.

Daily VaR is independently checked against Board approved VaR limits. Furthermore, the Bank'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 Bank at monthly Asset and Liability Committee meetings to ensure knowledge and understanding of the Bank's positions, strategies and resultant risks remain current among all relevant staff.

### 31 LIQUIDITY RISK

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

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

Treasury limits are set by the Asset and Liability Committee. Specifically the Asset and Liability Committee and the Bank Treasurer are responsible for:

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

Liquidity risk is the risk that an institution will be unable to meet its funding requirements in an orderly and cost efficient manner. Market disruptions or a credit downgrade, for example, may reduce the availability of certain sources of funding. To guard against this risk, management has diversified funding sources and assets are managed with liquidity in mind, maintaining a healthy balance of cash, cash equivalents and readily marketable securities.

The maturity profile of the following assets and liabilities at 31 December 2016 reflect management's best estimates of the maturities of assets and liabilities. These have been determined on the basis of the remaining period at the balance sheet date to the contractual maturity date.

# Ahli United Bank (UK) PLC

## NOTES TO THE FINANCIAL STATEMENTS

31 December 2016

### 31 LIQUIDITY RISK (continued)

	<i>Less than 1 year</i>	<i>Above 1 year</i>	<i>Undated</i>	<i>Total</i>
	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>
<b>ASSETS</b>				
Cash and balances with central banks	448,831	-	-	448,831
Treasury bills	36,852	-	-	36,852
Deposits with banks (including reverse repos)	191,610	52,615	-	244,225
Loans and advances	162,859	1,007,339	-	1,170,198
Non-trading investments	129,356	505,442	-	634,798
Investment in associates and joint venture	-	-	1,246	1,246
Premises and equipment	-	-	4,144	4,144
Interest receivable and all other assets	30,008	10,670	-	40,678
<b>Total</b>	<b>999,516</b>	<b>1,576,066</b>	<b>5,390</b>	<b>2,580,972</b>
<b>LIABILITIES</b>				
Deposits from banks	6,928	-	-	6,928
Borrowings under repurchase agreements	-	-	-	-
Customers' deposits	2,211,207	-	-	2,211,207
Interest payable and all other liabilities	28,723	32,174	-	60,897
Subordinated liabilities	-	-	9,541	9,541
<b>Total</b>	<b>2,246,858</b>	<b>32,174</b>	<b>9,541</b>	<b>2,288,573</b>
<b>Net liquidity gap</b>	<b>(1,247,342)</b>	<b>1,543,892</b>	<b>(4,151)</b>	<b>292,399</b>

	<i>2015</i>			
	<i>Less than 1 year</i>	<i>Above 1 year</i>	<i>Undated</i>	<i>Total</i>
	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>
<b>ASSETS</b>				
Cash and balances with central banks	335,197	-	-	335,197
Treasury bills	88,905	-	-	88,905
Deposits with banks (including reverse repos)	295,853	-	-	295,853
Loans and advances	123,057	1,169,376	-	1,292,433
Non-trading investments	78,784	585,571	-	664,355
Investment in associates and joint venture	-	-	1,546	1,546
Premises and equipment	-	-	4,331	4,331
Interest receivable and all other assets	36,838	4,225	-	41,063
<b>Total</b>	<b>958,634</b>	<b>1,759,172</b>	<b>5,877</b>	<b>2,723,683</b>
<b>LIABILITIES</b>				
Deposits from banks	30,229	-	-	30,229
Borrowings under repurchase agreements	73,067	-	-	73,067
Customer deposits	2,119,814	125,992	-	2,245,806
Interest payable and all other liabilities	30,872	29,311	-	60,183
Subordinated liabilities	1,470	-	10,460	11,930
<b>Total</b>	<b>2,255,452</b>	<b>155,303</b>	<b>10,460</b>	<b>2,421,215</b>
<b>Net liquidity gap</b>	<b>(1,296,818)</b>	<b>1,603,869</b>	<b>(4,583)</b>	<b>302,468</b>



## NOTES TO THE FINANCIAL STATEMENTS

31 December 2016

## 31 LIQUIDITY RISK (continued)

## Analysis of financial liabilities by remaining contractual maturities

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

	2016				
	Up to One month	One month to three months	Over three months to one year	Over one year to five years	Over five years
	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Deposits from banks	6,928	-	-	-	-
Borrowings under repurchase agreements	-	-	-	-	-
Customers' deposits	1,203,292	175,441	834,840	-	-
Subordinated liabilities	-	-	-	-	9,711
<b>Total</b>	<b>1,210,220</b>	<b>175,441</b>	<b>834,840</b>	<b>-</b>	<b>9,711</b>
Derivatives (net)	(1,944)	(7,940)	(9,704)	1,116	698
	2015				
	Up to One month	One month to three months	Over three months to one year	Over one year to five years	Over five years
	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Deposits from banks	30,233	-	-	-	-
Borrowings under repurchase agreements	19,600	53,469	-	-	-
Customers' deposits	1,152,079	104,403	865,662	128,006	-
Subordinated liabilities	-	1,474	-	-	11,254
<b>Total</b>	<b>1,201,912</b>	<b>159,346</b>	<b>865,662</b>	<b>128,006</b>	<b>11,254</b>
Credit related commitments	2,831	-	33,433	24,450	6,138
Derivatives (net)	(1,263)	(108)	(15,899)	5,148	4,848

## 32 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.

# Ahli United Bank (UK) PLC

## NOTES TO THE FINANCIAL STATEMENTS

31 December 2016

### 33 RELATED PARTY TRANSACTIONS

The Bank enters into transactions with major shareholders, subsidiaries, associates, directors, senior management and companies which are controlled, jointly controlled or significantly influenced by such parties in the ordinary course of business at arm's length. All the loans and advances to related parties are performing and are free of any provision for possible loan losses.

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

	2016					Total US\$ '000
	Parent	Direct	Fellow	Directors &	Other	
	Undertaking US\$ '000	Subsidiaries & Joint Ventures US\$ '000	Associates & Subsidiaries US\$ '000	Senior Mgmt US\$ '000	related US\$ '000	
Interest income	(119)	-	-	-	141	22
Interest expense	(9)	(1)	(7)	(1)	(7,364)	(7,382)
Fees and commissions	-	1,695	233	-	9	1,936
Trading Income	194	-	-	-	-	194
Deposits with banks and other financial institutions	(13,455)	-	(329)	-	-	(13,784)
Loans and advances	-	-	-	-	(5,774)	(5,774)
Reverse repurchase agreements	(52,615)	-	-	-	-	(52,615)
Investments in subsidiaries and joint ventures	-	(1,246)	-	-	-	(1,246)
Deposits from banks and other financial institutions	1,802	-	3,400	-	-	5,202
Customers' deposits	-	2,122	4	337	837,504	839,968
Subordinated liabilities	-	-	-	-	9,541	9,541
Commitments and contingent liabilities	(123)	-	-	-	-	(123)
Derivatives (notional)	23,460	-	-	-	-	23,460
Other assets	(744)	(466)	-	-	-	(1,210)
Other liabilities	252	590	3,196	-	-	4,039

	2015					Total US\$ '000
	Parent	Direct	Fellow	Directors &	Other	
	Undertaking US\$ '000	Subsidiaries & Joint Ventures US\$ '000	Associates & Subsidiaries US\$ '000	Senior Mgmt US\$ '000	related US\$ '000	
Interest income	229	-	-	-	50	279
Interest expense	(178)	(1)	-	-	(5,566)	(5,745)
Fees and commissions	210	1,594	2,234	-	1	4,039
Trading Income	577	-	-	-	-	577
Deposits with banks and other financial institutions	(2,035)	-	(451)	-	-	(2,486)
Loans and advances	-	(241)	-	-	(2,266)	(2,507)
Reverse repurchase agreements	-	-	-	-	-	-
Investments in joint ventures	-	(1,546)	-	-	-	(1,546)
Deposits from banks and other financial institutions	27,700	-	619	-	-	28,319
Customers' deposits	152	2,233	2	-	882,238	884,625
Subordinated liabilities	-	-	-	-	10,460	10,460
Commitments and contingent liabilities	(148)	-	-	-	-	(148)
Derivatives (notional)	40,603	-	-	-	-	40,603
Other assets	(1,265)	(1,098)	(1,668)	-	-	(4,031)
Other liabilities	4,076	862	1,301	-	-	6,239

For presentation purposes a restatement within the 2015 comparable has been made between Directors & Senior Management and Other related parties.

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NOTES TO THE FINANCIAL STATEMENTS

31 December 2016

**34 MANAGED FUNDS**

Funds administered on behalf of customers to which the Bank does not have legal title are not included in the consolidated balance sheet. The total market value of all such funds at 31 December 2016 was \$1,528 million (2015: \$1,818 million).

**35 CAPITAL ADEQUACY**

The primary objectives of the Bank's capital management policies are to ensure that the Bank complies with externally imposed capital requirements and that the Bank maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise shareholders' value. The Bank does not have any significant restrictions on its ability to access or use its assets and settle its liabilities other than any restrictions that may result from the supervisory frameworks within which the banking subsidiaries operate.

In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payment to its shareholder or issue capital securities. No changes were made in the objectives, policies and processes from the previous years.

# Ahli United Bank (UK) PLC

## NOTES TO THE FINANCIAL STATEMENTS

31 December 2016

### 36 EMPLOYEE BENEFITS

Within the UK, the Bank operates a funded defined benefit scheme ("the Fund") for its employees who joined prior to 1 March 2001. The Fund was a final salary scheme which became closed to future accrual with effect from 31 March 2010. The majority of UK employees are now members of a defined contribution pension scheme.

The Fund is registered with HMRC for tax purposes, and is operated separately from the Bank and managed by a set of trustees. The trustees are responsible for the payment of benefits and the management of the scheme's assets which are held in a separate Trustee administered fund.

The Fund is subject to UK regulations, which require the Bank and the trustees to agree a funding strategy and contributions schedule. Contributions to the defined contribution pension scheme are payable in addition and are charged directly to profit and loss.

The funding target is for the Fund to hold assets equal in value to the accrued benefits. If there is a shortfall against this target, then the Bank and Trustees will agree on deficit contributions to meet this deficit over a period. There is a risk to the Bank that adverse experience could lead to a requirement for the Bank to make additional contributions to recover any deficit that arises.

Contributions are set based upon funding valuations carried out every three years; the most recent valuation was at 31 December 2014. The estimated amount of total employer contributions expected to be paid to the Fund during 2017 is US\$4.8m (2016 actual: US\$5.2m).

The results of the formal actuarial valuation as at 31 December 2014 were updated to the accounting date by an independent qualified actuary in accordance with IAS 19.

The weighted average duration of the expected benefit payments from the Fund is around 19 years.

The amount included in the statement of financial position arising from the Bank's obligations in respect of the Fund is as follows:

	2016	2015
	US\$ '000	US\$ '000
Present value of defined benefit obligation	199,966	192,326
Fair value of Fund assets	(176,251)	(179,803)
Net liability recognised in the Balance Sheet	<u>23,715</u>	<u>12,523</u>

The net liability recognised in the balance sheet has not been limited as the Bank believes that a refund of any surplus assets would be available to it following the final payment to the last beneficiary of the Fund.

The amounts recognised in profit and loss (note 7) are as follows:

	2016	2015
	US\$ '000	US\$ '000
Net interest on net defined benefit liability	<u>349</u>	<u>789</u>

The amounts recognised immediately in other comprehensive income are as follows:

	2016	2015
	US\$ '000	US\$ '000
Net actuarial losses / (gains) in the year due to :-		
Changes in financial assumptions	43,649	(9,792)
Changes in demographic assumptions	1,470	-
Experience on benefit obligations	(534)	2,673
Actual return less interest on Fund assets	<u>(25,219)</u>	<u>1,475</u>
Gross amount to recognise outside profit and loss in other comprehensive income	19,366	(5,644)
Tax at the respective tax rate for the reporting period	<u>(3,874)</u>	<u>1,150</u>
Net amount recognised in other comprehensive income	<u>15,492</u>	<u>(4,494)</u>

# Ahli United Bank (UK) PLC

## NOTES TO THE FINANCIAL STATEMENTS

31 December 2016

### 36 EMPLOYEE BENEFITS (continued)

Changes in the net liabilities recognised in the balance sheet are as follows:

	2016	2015
	US\$ '000	US\$ '000
Balance sheet liability at period start	12,523	24,149
Exchange rate and other adjustments	(3,313)	(804)
	9,210	23,345
Amount recognised in profit and loss	349	789
Amount recognised in other comprehensive income	19,366	(5,644)
Contributions paid	(5,210)	(5,967)
Balance sheet liability at period end	23,715	12,523

The movement in the present value of the defined benefit obligation is as follows:

	2016	2015
	US\$ '000	US\$ '000
Opening defined benefit obligation	192,326	215,646
Exchange rate and other adjustments	(36,509)	(9,746)
	155,817	205,900
Interest on obligation	6,788	7,788
Actuarial (gains) / losses due to:		
Changes in financial assumptions	43,649	(9,792)
Changes in demographic assumptions	1,470	-
Experience adjustments on obligation	(534)	2,673
Benefits paid	(7,224)	(14,243)
Closing defined benefit obligation	199,966	192,326

The movement in the fair value of the Fund assets is as follows:

	2016	2015
	US\$ '000	US\$ '000
Opening fair value of the Fund assets	179,803	191,497
Exchange rate and other adjustments	(33,197)	(8,941)
	146,606	182,556
Interest on Fund assets	6,440	6,999
Actual return less interest on Fund assets	25,219	(1,476)
Contributions by the employer	5,210	5,967
Benefits paid	(7,224)	(14,243)
Closing fair value of Fund assets	176,251	179,803

The major categories of Fund assets at the balance sheet date are as follows:

	2016	2015
	US\$ '000	US\$ '000
Equities	125,921	122,178
Corporate bonds	24,106	26,835
Gilts	23,576	27,182
Property	772	2,223
Other	1,876	1,385
	176,251	179,803

36 EMPLOYEE BENEFITS (continued)

The Fund assets are held exclusively within instruments with quoted market prices in an active market with the exception of the holdings in property. The Fund does not invest directly in property occupied by the Bank or in financial securities issued by the Bank.

The investment strategy is set by the Trustees of the Fund. The Trustees regularly review the investment strategy with the aim of meeting benefit payments as they fall due and maintain the funding position at an appropriate level subject to an appropriate level of risk. These broad principles have led to the investment strategy below. There is no exact matching of assets and liabilities in the form of insurance policies or derivatives.

**Long term asset allocation**

	%
Equities	70
Government Bonds	15
Corporate Bonds	15
	<u>100</u>

The following table sets out the significant IAS 19 assumptions used for the Fund:

	<u>2016</u>	<u>2015</u>
Price inflation (RPI)	3.1% pa	2.8% pa
Price inflation (CPI)	2.1% pa	1.8% pa
Discount rate	2.9% pa	4.0% pa
Pension increases in payment	3.0%/5% pa	2.7%/5% pa
Life expectancy of male aged 60 at balance sheet date	28.6 years	28.4 years
Life expectancy of male aged 60 in 20 years' time	30.4 years	29.9 years

**Sensitivity analysis of significant assumptions at 31 December 2016**

	<i>US\$ '000</i>
Effect on defined benefit obligation of a 0.1% decrease in discount rate	3,932
Effect on defined benefit obligation of a 0.1% increase in inflation (RPI, LPI pension increase and CPI)	983
Effect on defined benefit obligation of a CPI deduction of 0.9% below RPI	(369)
Effect on defined benefit obligation of members living 1 year longer	7,004

These sensitivities have been calculated to show the movement in the defined benefit obligation in isolation, and assuming no other changes in market conditions at the accounting date. This is unlikely in practice - for example, a change in discount rate is unlikely to occur without any movement in the value of the assets held by the Fund.

**36 EMPLOYEE BENEFITS (continued)**

**Financial assumptions**

**1. Summary**

The key assumptions at 31 December 2016 have been derived consistently with those adopted at 31 December 2015. The changes in financial assumptions therefore reflect only changes in underlying financial conditions.

**2. Commentary**

The following describes the key financial assumptions used to measure the IAS 19 measure of the defined benefit obligation.

**2.1. Discount rate**

The discount rate has been derived as follows:

- Bonds are included in the data set if they are classified as "AA" and "Corporate", in line with the requirements of the accounting standards.
- Reasonableness checks are carried out on the data, in particular to ensure that we use bonds only where the prices supplied and yields are consistent.
- A yield curve is fitted to the data using least squares optimisation techniques based on an approach adopted for similar purposes by the US Treasury.
- Due to the absence of corporate bond data beyond 30 years, the yield curve is extrapolated by assuming flat forward rates.
- A yield curve is fitted to the data using least squares optimisation techniques based on an approach adopted for similar purposes by the US Treasury.
- The discount rate is calculated as a weighted average of the yields on the resulting curve, where the weighting is based on the projected cash flows of the Fund.

**2.2 Inflation**

The inflation assumption is derived from an inflation curve based on figures published by the Bank of England and reflects the difference between the yields on index-linked and fixed interest gilts based on the term of the pension liabilities. We have shown a weighted average inflation rate, based on the projected cash flows from the Fund, for the discount rate above.

In deriving the rate from the gilt yields, we have had regard to an "inflation risk premium" which we have assumed to be inherent in fixed interest gilt yields and to be currently equal to 0.3% pa.

In the long term, inflation measured by the Consumer Prices Index is expected to be lower than inflation measured by the Retail Prices Index because of differences in how the indices are calculated. Consistent with last year, we have calculated this assumption by taking the assumption for Retail Prices Index Inflation and deducting 1.0% pa.

**2.3 Pension increases**

The pension increases granted by the Fund are, in respect of some pension payments, in line with the Retail Price Index subject to a maximum increase of 5% and a minimum increase of 0%.

In setting the pension increase assumption we have adjusted the inflation assumption to allow for the maximum and minimum increases, using our financial models of RPI inflation using the current price inflation outlook and our view of potential year to year volatility in price inflation.

# Ahli United Bank (UK) PLC

## APPENDIX : PILLAR 3 DISCLOSURES (UNAUDITED)

31 December 2016

The major risks associated with the Bank's and Group's businesses, together with key risk management objectives and policies, are detailed in notes 28-32 to the Financial Statements.

There are no restrictions to the movement of capital between the legal entities within the statutory accounting group.

### Own Funds

The called up share capital of the Bank is fully paid. Principal terms of the dated subordinated debt are detailed in note 23 to the Financial Statements.

	<u>2016</u>	<u>2015</u>
	<u>US\$ '000</u>	<u>US\$ '000</u>
<b>Tier 1 capital</b>		
Paid up capital instruments	200,080	200,080
Share premium	128	128
Retained earnings	55,915	74,446
Accumulated other comprehensive income	7,824	-
	<u>263,947</u>	<u>274,654</u>
<b>Tier 2 capital</b>		
Paid up capital instruments and subordinated loans	9,541	10,754
Standardised Approach (SA) general credit risk adjustments	7,160	6,560
	<u>16,701</u>	<u>17,314</u>
<b>Own Funds</b>	<u>280,648</u>	<u>291,968</u>

### Own Funds requirements

The Bank monitors the adequacy of its capital to support current activities daily against limits which are the equivalent to an additional 4% over the capital requirement imposed on the Bank by the PRA. 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.

	<u>2016</u>	<u>2015</u>
	<u>US\$ '000</u>	<u>US\$ '000</u>
<b>Credit and counterparty risk capital requirement (SA)</b>		
Central governments or central banks	2,599	1,393
Multilateral development banks	-	-
Institutions	7,236	7,640
Corporates	12,795	7,061
Secured by mortgages on immovable property	41,774	44,955
Exposures in default	2,031	867
Items associated with particular high risk	3,275	3,891
Claims on institutions and corporates with a short-term credit assessment	3,112	5,255
Other items	1,710	1,853
	<u>74,532</u>	<u>72,915</u>
<b>Market risk capital requirement (SA)</b>		
Interest rate PRR	751	320
Foreign currency PRR	782	604
Credit value adjustment (SA)	71	38
	<u>1,604</u>	<u>962</u>
<b>Operational risk capital requirement (Basic indicator approach)</b>	<u>11,172</u>	<u>11,452</u>
	<u>11,172</u>	<u>11,452</u>
<b>Total capital requirement</b>	<u>87,308</u>	<u>85,329</u>

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.



Ahli United Bank (UK) PLC

APPENDIX : PILLAR 3 DISCLOSURES (UNAUDITED)

31 December 2016

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

2016				
Credit Quality Step	Risk Weight %	Exposure US\$ '000	Exposure (after CRM) US\$ '000	
<b>Central governments or central banks</b>				
1	0	589,695	589,695	
4	100	5,324	5,324	
Unrated	100	27,162	27,162	
		<u>622,181</u>	<u>622,181</u>	
<b>Multilateral development banks</b>				
1	0	160,036	160,036	
		<u>160,036</u>	<u>160,036</u>	
<b>Institutions</b>				
1	20	42,395	42,395	
2	50	122,730	122,730	
3	50	41,209	41,209	
		<u>206,334</u>	<u>206,334</u>	
<b>Corporates</b>				
1	20	71,936	71,936	
1	50	171	171	
2	50	20,511	20,511	
3	50	7,897	7,897	
3	100	84,247	84,247	
4	100	27,700	27,700	
Unrated	50	16	16	
Unrated	100	21,393	19,188	
Unrated	250	47	47	
		<u>233,918</u>	<u>231,713</u>	
<b>Short term claims on institutions and corporates</b>				
<b>Institutions</b>				
1	20	2,117	2,117	
2	20	172,925	172,925	
3	20	2,638	2,638	
Unrated	20	1,396	1,396	
<b>Corporates</b>				
Unrated	100	3,090	3,090	
		<u>182,166</u>	<u>182,166</u>	
2015				
Credit Quality Step	Risk Weight %	Exposure US\$ '000	Exposure (after CRM) US\$ '000	
<b>Central governments or central banks</b>				
1	0	596,866	596,866	
3	50	20,432	20,432	
Unrated	100	7,194	7,194	
		<u>624,492</u>	<u>624,492</u>	
<b>Multilateral development banks</b>				
1	0	142,875	142,875	
		<u>142,875</u>	<u>142,875</u>	
<b>Institutions</b>				
1	20	52,516	52,516	
2	20	17,047	17,047	
2	50	119,967	119,967	
3	50	43,197	43,197	
		<u>232,727</u>	<u>232,727</u>	
<b>Corporates</b>				
1	20	27,293	27,293	
3	100	48,831	48,831	
4	100	5,587	5,587	
Unrated	100	31,312	28,390	
		<u>113,023</u>	<u>110,101</u>	
<b>Short term claims on institutions and corporates</b>				
<b>Institutions</b>				
1	20	153,285	153,285	
2	20	140,648	140,648	
3	20	2,241	2,241	
Unrated	20	1,225	1,225	
<b>Corporates</b>				
Unrated	100	6,210	6,210	
		<u>303,609</u>	<u>303,609</u>	

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**Counterparty credit risk**

The gross positive fair values of derivative contracts are detailed in note 26 to the Financial Statements. No advantage is taken of netting agreements or collateral agreements. The Bank has not entered into any contracts whereby it would be required to provide additional collateral given a downgrade in its credit rating.

The measures for exposures values of derivative financial instruments under the Counterparty credit risk mark-to-market method are as follows:

	2016	2015
	US\$ '000	US\$ '000
<b>Exchange rate contracts:</b>		
- for trading purposes	22,627	4,207
- for hedging purposes	2,801	17,047
<b>Interest rate contracts:</b>		
- for trading purposes	743	1,654
- for hedging purposes	6,867	3,839

**Credit risk**

Details regarding the Bank's methodology in assigning credit limits and securing collateral are detailed in note 28 to the Financial Statements.

The bank rarely makes use of on- and off-balance sheet netting and, where this is utilised, detailed analysis is carried out in order to ensure that the relevant PRA criteria have been met.

Total exposures (before credit risk mitigation) by exposure class and by maturity together with average amounts for the year are as follows:

2016					
	Up to 3 months	Over three months to one year	Over one year to five years	Over 5 years	Total
	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Treasury bills	36,852	-	-	-	36,852
Deposits with banks	186,052	5,558	-	-	191,610
Loans and advances	81,717	81,142	749,603	257,736	1,170,198
Reverse repurchase agreements	-	-	52,615	-	52,615
Non-trading investments	24,825	104,531	358,801	146,641	634,798
Derivative financial instruments	10,152	10,712	1,877	2,609	25,350
Investments in joint ventures	-	-	-	1,246	1,246
Contingent liabilities	-	9,535	-	111	9,646
Commitments	4,031	36,119	38,186	8,407	86,743
	<u>343,629</u>	<u>247,597</u>	<u>1,201,082</u>	<u>416,750</u>	<u>2,209,058</u>
					<u>1,852,456</u>
2015					
	Up to 3 months	Over three months to one year	Over one year to five years	Over 5 years	Total
	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Treasury bills	88,905	-	-	-	88,905
Deposits with banks	295,853	-	-	-	295,853
Loans and advances	75,408	47,649	772,550	396,826	1,292,433
Reverse repurchase agreements	-	-	-	-	-
Non-trading investments	24,581	54,203	399,401	186,170	664,355
Derivative financial instruments	1,947	16,204	985	198	19,334
Investments in joint ventures	-	-	-	1,546	1,546
Contingent liabilities	-	11,507	-	133	11,640
Commitments	2,831	21,926	24,450	6,005	55,212
	<u>489,525</u>	<u>151,489</u>	<u>1,197,386</u>	<u>590,878</u>	<u>2,429,278</u>
					<u>3,144,007</u>

The above exposures are analysed by geography and industry in note 29 to the Financial Statements.

The total exposure value covered by eligible financial collateral, by exposure class is:

	2016	2015
	US\$ '000	US\$ '000
Loans and advances	2,205	2,922
	<u>2,205</u>	<u>2,922</u>

The eligible financial collateral is principally cash.

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

	2016				
	Gross Impaired US\$ '000	Specific Provisions incl IIS US\$ '000	Net Impaired US\$ '000	Specific Provision Charge/(Credit) US\$ '000	Past Due More than 90 days US\$ '000
Europe (excluding United Kingdom)	-	-	-	-	-
United Kingdom	-	-	-	647	9,316
Kuwait	28	(28)	-	-	-
Other	-	-	-	-	-
	<u>28</u>	<u>(28)</u>	<u>-</u>	<u>647</u>	<u>9,316</u>

	2015				
	Gross Impaired US\$ '000	Specific Provisions incl IIS US\$ '000	Net Impaired US\$ '000	Specific Provision Charge/(Credit) US\$ '000	Past Due More than 90 days US\$ '000
Europe (excluding United Kingdom)	-	-	-	-	-
United Kingdom	1,775	(604)	1,171	8,271	875
Kuwait	-	-	-	-	-
Other	-	-	-	-	3,184
	<u>1,775</u>	<u>(604)</u>	<u>1,171</u>	<u>8,271</u>	<u>4,059</u>

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

	2016				
	Gross Impaired US\$ '000	Specific Provisions incl IIS US\$ '000	Net Impaired US\$ '000	Specific Provision Charge/(Credit) US\$ '000	Past Due More than 90 days US\$ '000
Personal	28	(28)	-	(28)	-
Real Estate	-	-	-	631	9,316
Other	-	-	-	44	-
	<u>28</u>	<u>(28)</u>	<u>-</u>	<u>647</u>	<u>9,316</u>

	2015				
	Gross Impaired US\$ '000	Specific Provisions incl IIS US\$ '000	Net Impaired US\$ '000	Specific Provision Charge/(Credit) US\$ '000	Past Due More than 90 days US\$ '000
Personal	-	-	-	-	-
Real Estate	1,775	(604)	1,171	8,274	4,059
Other	-	-	-	(3)	-
	<u>1,775</u>	<u>(604)</u>	<u>1,171</u>	<u>8,271</u>	<u>4,059</u>

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, are detailed in note 1(g) 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 30 to the Financial Statements.

#### Remuneration

The Bank's remuneration policy is incorporated into its HR policy which is reviewed by the Board of Directors and 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 result 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 Group Compensation Committee for further revision and approval.

The table below shows the fixed and variable remuneration for code staff based on payments paid during 2016.

	Fixed US\$ '000	Variable US\$ '000	Total US\$ '000	Number of Code Staff
Corporate Banking	3,260	740	4,000	22
Private Banking & Wealth Management	1,475	334	1,809	12
Total Senior management	<u>4,735</u>	<u>1,074</u>	<u>5,809</u>	<u>34</u>