

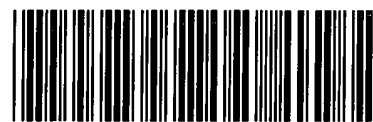
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ahli united bank

AHLI UNITED BANK (UK) PLC
ANNUAL REPORT AND FINANCIAL STATEMENTS
31 December 2017

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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

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

AUDITOR

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

REGISTERED OFFICE

35 Portman Square
London W1H 6LR
England

REGISTERED NUMBER

877859

Ahli United Bank (UK) PLC

DIRECTORS' STRATEGIC REPORT

The Directors of Ahli United Bank (UK) PLC (the 'Bank') are pleased to submit the Annual Report and Financial Statements for the year ended 31 December 2017. 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	2017	2016
<i>Amounts stated in US\$ million.</i>		
Profit after tax	39.1	32.8
Total Assets	2,785.3	2,581.0
Return on average equity	13.8%	11.3%
Return on average assets	1.5%	1.2%
EPS (in cents)	19.5	16.4
Surplus capital - Amount	64.4	67.4
Surplus capital - ratio *	28.2%	31.6%
Cost / Income ratio	39.0%	40.9%

* Surplus capital as % of required PRA capital

Results and performance

Despite the general market and economic uncertainty in relation to Brexit, the Bank continued to achieve a good performance on its business activities in 2017 with a profit after tax of \$39.1m. 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 result of \$43.0m for the year (2016: \$42.4m), with an average net interest income margin of 1.59% (2016: 1.62%), which reflects the Bank's ability to generate new loan and investment business and in addition utilise the Bank's natural USD funding base.

◦ Fees and other income

Fees and other income for the year were \$29.5m (2016 : \$27.2m) and include the following:-

- Net fees and commissions of \$15.7m, from institutional client funds, new business commitment fees and trustee fees.
- Treasury trading income of \$1.3m, predominately emanating from foreign exchange management.
- Income distributions of \$9.1m from unquoted non-trading investments.
- Net gain on sale of investments \$1.1m.
- Other operating income of \$2.3m from investments in joint ventures.

◦ Provisions / Recoveries.

The net provision release for the year was \$3.9m (2016 net charge : \$0.4m). This provision release was predominately driven by improvements in the control environment, including credit policies & procedures, that have become more effectively embedded in recent years.

The Bank's policy in relation to credit risk ensured that the credit quality of loans and advances remained high, with 91% (2016: 89%) of the book rated high investment grade.

◦ Operating Expenses

Operating expenses were \$28.3m compared to \$28.5m in 2016, reflecting management's continued focus on cost control.

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 2017 financial year.

Name of entity	Ahli United Bank (UK) PLC
Geographical location	United Kingdom
Turnover	\$72.6m (2016 : \$69.5m)
Average number of employees	115 (2016 : 120)
Profit before tax	\$48.1m (2016 : \$40.7m)
Public subsidies received	\$nil (2016 : \$nil)

A corporation tax expense of \$9.0m was reported in 2017 (2016 : \$7.9m). There were no payments to other group companies in respect of surrendered losses for 2017 and 2016.

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 27-31 to the Annual Report and Financial Statements detail how these risks are identified and managed.

On 2 November 2017, 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

8th February 2018

Ahli United Bank (UK) PLC

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 2017. 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 \$39.1 million (2016 \$32.8 million). A final dividend for 2016 of \$40.0 million (20 cents per share) was paid during the year. A final dividend of \$40.0 million (20 cents per share) is proposed for 2017.

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.

Future developments

Please refer to Directors' Strategic Report for future developments.

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 concerning financial risk, management objectives and exposure to risks on financial instruments are included within notes 27-31 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 2017 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 2018

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, one third of the Directors were required to retire by rotation, being those who have been longest in office since their last appointment, and seek re-election. All Directors are expected to attend each meeting, unless there are exceptional circumstances that prevent them from doing so.

During 2017 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	*	*		75%	
Mr David Hodgkinson	*	*		100%	08.02.2017
Mr Herschel Post	*	*		100%	08.05.2017
Mr Khaled Al-Fouzan				75%	06.09.2017
Mr James Steel	*	*		100%	27.11.2017
Mr Adel El-Labban				100%	
Mr Keith Gale				100%	
Mr James Forster			Resigned 13.1.2017	-	
Mr Sami Tamim (Acting CEO)				100%	
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 to the members of Ahli United Bank (UK) PLC

Opinion

In our opinion:

- Ahli United Bank (UK) PLC's consolidated financial statements (the 'Group') and the Bank's financial statements give a true and fair view of the state of the Group's and the Bank's affairs as at 31st December 2017 and of the Group's profit for the year then ended;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 2006; and
- the Bank's financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Ahli United Bank (UK) PLC which comprise:

Group	Bank
Consolidated balance sheet as at 31 December 2017	Bank balance sheet as at 31 December 2017
Consolidated statement of income	-
Consolidated statement of other comprehensive income	-
Consolidated statement of changes in equity	Bank statement of changes in equity
Consolidated statement of cash flows	Bank statement of cash flows
Related notes 1 to 35 to the financial statements including a summary of significant accounting policies	Related notes 1 to 35 to the financial statements including a summary of significant accounting policies

The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the group and parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the parent company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Overview of our audit approach

Key audit matters

- Overstatement of Revenue.

- The Collective Impairment Provision (CIP) may be materially misstated due to the complexity of the calculation.

Materiality

- Overall group materiality of \$ 2.2 m which represents 5% of adjusted profit before tax.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

Risk 1 - overstatement of revenue

Overstatement of Revenue with focus on the incentive to achieve performance related bonuses, including the risk of management override (Fraud Risk). The accounts that fraud risk is applied to are fees and commissions income, and other income.

Refer to the Strategic Report (page 1); Accounting policies (page 11); and Note 4 and 6 of the Financial Statements (page 32)

Revenue is a key measure of performance at both a local bank and group level. Fees and commissions and other income could be subject to manipulation in order for the bank or individuals working at the bank to meet performance targets. It is a rebuttable presumption under International Standards on Auditing (UK and Ireland) 240, that this is always a fraud risk. The risk has remained the same as prior year due to the bank applying the same business model throughout both periods.

We have considered this risk specifically with regards to fees and commissions income and other income as these income streams have the highest degree of judgement in the calculation.

Ahli United Bank (UK) PLC

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

Our response to the risk

Our approach focused on:

- Understanding, reviewing and testing the internal control framework underpinning the processes which drive the revenue in the financial statements. Where possible we seek to place reliance on this internal control framework during our audit.
- Individual assessment of the risk of material misstatement for each revenue stream considering the level of automation, use of judgement and whether this equates to a high or low risk of fraud for each stream.
- Assessment of the appropriateness of the revenue recognition accounting policies adopted by reference to International Accounting Standards.
- Analytical procedures and tests of detail on individual transactions using statistical sampling techniques to mitigate any residual audit risk on all revenue streams to which the fraud risk is applied.
- Testing reasonableness of finance income by performing substantive analytical procedures considering how the balance sheet drivers have moved with income and whether there are any significant deviations from the prior period.
- Testing material key items to supporting transaction documentation and cash receipts for fees and commissions and other income.
- Due to the higher risk on fees and commissions and other income, we will test an additional, random sample regardless of materiality levels back to transaction documents and cash receipts.
- Fees and commissions – reviewed fund performance to ascertain whether a provision for doubtful receivables should be recognised.
- Performed cut-off testing procedures.
- Journal Entry Testing was completed upon adjustments made to revenue accounts within the financial period, along with any adjustments made post year-end.

Key observations communicated to the Audit Committee

- As a result of the procedures performed, we did not identify any evidence of material misstatement in the recording of income from fees and commission and other income.

Risk 2 - misstatement of collective impairment provisions (CIP)

The Collective Impairment Provision (CIP) may be materially misstated due to the complexity of the calculation (Significant Risk). There is a significant risk that the collective impairment provision is materially misstated due to the complexity of the calculation, subjectivity of inputs to models used and model overlays.

Our response to the risk

Our approach focused on:

- Testing the operating effectiveness of controls surrounding the collective provision model, specifically the calculation and approval of risk ratings awarded to facilities.
- Testing the IT application controls surrounding the feed from the data source to the provision model.
- Tested the effectiveness of controls implemented to monitor arrears on loans.
- Gained an understanding of credit trends through analytical review, ratio analysis, as well as corroborating audit findings with discussions with management.
- We utilised data analytics to identify the key risks facing the bank's portfolio and focused our testing on these areas.
- Assess the effectiveness of management's process for the identification and quantification of impairment.
- During our audit procedures we have reviewed the Bank's provision model and ensured that the model was in line with IAS39. We challenged the inputs to the model and the formulae within to verify that the outputs of the model are calculated accurately and appropriately. This included re-performing the risk ratings of material loans, verifying that the historical data and Moody's data used to calibrate the Probability of Default percentages (PD) was inputted correctly, recalculating the Loss Given Defaults (LGD) within the model and verifying that the LGD's were being calculated from historic data.
- Corroborate the appropriateness and adequacy of CIP through i) performing a sample of credit reviews to determine that loans are appropriately classified in the provision model, and ii) challenging the key assumptions and judgements made by management with reference to industry/external data where possible.
- We assessed the adequacy of the CIP model, focusing on the PD and LGD percentages that drive the provision amount.
- Reviewed and challenged the appropriateness of the release of the historical overlay provision ensuring that the release was corroborated by supporting evidence.
- We performed a reconciliation between the data used in the model and underlying documentation.

Key observations communicated to the Audit Committee

- As a result of the procedures performed, we are satisfied that management's judgements are reasonable and that there is no evidence of material misstatement in the collective impairment provision for loans and advances.
- Specifically, we concluded that the release of the overlay provision was appropriate in the current year and that the release was supported by underlying appropriate evidence.

Ahli United Bank (UK) PLC

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

An overview of the scope of our audit

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for both the Bank and the Group. Taken together, this enables us to form an opinion on the consolidated financial statements.

In assessing the risk of material misstatement to the Group financial statements, and to ensure we had substantial quantitative coverage of significant accounts in the financial statements, we selected the Bank which represent the principal business unit within the Group. All other subsidiaries are immaterial.

We performed an audit of the complete financial information of the Bank along with the material aspects of the Group.

Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the Group to be \$2.2 million (2016: \$1.9 million), which is 5% (2016: 5%) of adjusted profit before tax. We believe that the use of profit before tax provides us with the most appropriate measure that reflects the performance of the Group.

Starting basis	• \$48.1m. • Profit before tax.
Adjustments	• (\$5.1m). • Removal of profit realised on the sale of the joint venture and profit realised from the release of the overlay provision.
Materiality	• \$43m (annualised). • Materiality of \$2.2m.

During the course of our audit, we reassessed initial materiality and did not change the approach from the planning phase. The planning phase materiality had to be slightly adjusted as it was based on annualised budgeted profit before tax as opposed to actual year end profit before tax.

Performance materiality

The application of materiality is at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the Group's overall control environment, our judgement was that performance materiality was 50% (2016: 50%) of our planning materiality, namely \$1.1m (2016: \$1m). We have set performance materiality at this percentage based on our past experience with the entity and past experience with the audit.

Reporting threshold

An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of \$0.1m (2016: \$0.1m), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

Ahli United Bank (UK) PLC

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

Other information

The other information comprises the information included in the annual report set out on pages 59-62, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions 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 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 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 the light of the knowledge and understanding of the group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

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

Responsibilities of directors

As explained more fully in the directors' responsibilities statement, 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, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group and Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

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

The objectives of our audit, in respect to fraud, are; to identify and assess the risks of material misstatement of the financial statements due to fraud; to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and to respond appropriately to fraud or suspected fraud identified during the audit. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

Ahli-United Bank (UK) PLC

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

Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the group and determined that the most significant are 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. Also significant are the Financial Conduct Authority ('FCA') & Prudential Regulation Authority ('PRA') regulations. We understood how Ahli United Bank (UK) PLC is complying with those frameworks through the implementation of a corporate governance framework that ensures compliance with laws and regulations.
- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Group and determined that the most significant were the regulations, licence conditions and supervisory requirements of the Prudential Regulation Authority ('PRA') and the Financial Conduct Authority ('FCA').
- We assessed the susceptibility of the group's consolidated financial statements to material misstatement, including how fraud might occur by overstating revenue through the manual override of controls.
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved inquiries of regulatory bodies, legal counsel, executive management, internal audit, and focused testing, as referred to in the Key Audit Matters section above.
- The Bank operates in the banking industry which is a highly regulated environment. As such the Senior Statutory Auditor considered the experience and expertise of the engagement team to ensure that the team had the appropriate competence and capabilities, which included the use of specialists where appropriate.

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.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Other matters we are required to address

We were re-appointed as auditors by the board of directors and signed an engagement letter on 20 July 2017. We were originally appointed by the Group on 13 May 2013 to audit the financial statements for the year ending 31 December 2013 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments is 5 years, covering the years ended 31 December 2013 to 31 December 2017.

- The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Bank and we remain independent of the Group in conducting the audit.
- The audit opinion is consistent with the additional report to the Audit and Compliance Committee.



*Maurice McCormick (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London*

9 February 2018

General notes:

1. The maintenance and integrity of the Ahli United Bank (UK) PLC web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.
2. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Ahli United Bank (UK) PLC

CONSOLIDATED STATEMENT OF INCOME

For the year ended 31 December 2017

	Note	2017 US\$ '000	2016 US\$ '000
Interest income	3 (a)	57,700	56,163
Interest expense	3 (b)	14,663	13,773
Net interest income		43,037	42,390
Net fees and commissions	4	15,717	16,039
Trading income	5	1,320	3,354
Net gains on investments		1,128	1,785
Share of profit from joint ventures		2,257	16
Other operating income & expense	6	9,104	5,961
Fees and other income		29,526	27,155
OPERATING INCOME		72,563	69,545
Net releases / (charges) on loans and advances	11 (f)	3,887	(413)
NET OPERATING INCOME		76,450	69,132
Staff costs	7	17,267	17,830
Depreciation	16	1,454	1,127
Operating expenses	8	9,595	9,518
OPERATING EXPENSES		28,316	28,475
PROFIT BEFORE TAX		48,134	40,657
Tax expense	23	9,032	7,875
NET PROFIT AFTER TAX		39,102	32,782

The attached notes 1 to 35 form part of these consolidated financial statements

Ahli United Bank (UK) PLC

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2017


	Note	2017 US\$ '000	2016 US\$ '000
Net profit after tax for the year		39,102	32,782
Other comprehensive income (OCI)			
Items that will not be reclassified to consolidated statement of income			
Net Pension fund actuarial gains / (losses) during the year	35	2,410	(15,492)
Items that will be reclassified subsequently to consolidated statement of income			
Net change in fair value of cash flow hedges		(781)	304
Net change in fair value of available-for-sale investments		(1,324)	2,411
Other comprehensive income for the year		305	(12,777)
Total comprehensive income for the year		39,407	20,005

The attached notes 1 to 35 form part of these consolidated financial statements

Ahli United Bank (UK) PLC
CONSOLIDATED BALANCE SHEET
At 31 December 2017

	Note	2017 US\$ '000	2016 US\$ '000
ASSETS			
Cash and balances with central banks	9 (a)	276,234	448,831
Treasury bills	9 (b)	40,504	36,852
Deposits with banks	10	348,096	191,610
Loans and advances	11	1,370,409	1,170,198
Reverse repurchase agreements	12	59,990	52,615
Non-trading investments	13	664,241	634,798
Derivative financial instruments	24	5,723	25,350
Investments in joint ventures	14	1,027	1,246
Premises and equipment	16	3,831	4,144
Deferred tax asset	23	3,748	4,735
Interest receivable and other assets	17	11,451	10,593
TOTAL ASSETS		2,785,254	2,580,972
LIABILITIES AND EQUITY			
LIABILITIES			
Deposits from banks	18	8,429	6,928
Customers' deposits	19	2,423,956	2,211,207
Derivative financial instruments	24	7,714	7,576
Current tax liability	23	4,006	3,577
Deferred tax liability	23	2,133	1,291
Retirement benefit scheme	35	18,129	23,715
Interest payable and other liabilities	20	19,054	24,738
Subordinated liabilities	21	9,985	9,541
TOTAL LIABILITIES		2,493,406	2,288,573
EQUITY			
Ordinary share capital	22	200,080	200,080
Reserves		91,768	92,319
TOTAL EQUITY		291,848	292,399
TOTAL LIABILITIES AND EQUITY		2,785,254	2,580,972

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 8th February 2018.

The attached notes 1 to 35 form part of these consolidated financial statements

Ahli United Bank (UK) PLC

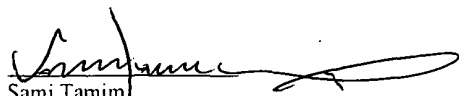
BANK BALANCE SHEET

At 31 December 2017

		2017	2016
	Note	US\$ '000	US\$ '000
ASSETS			
Cash and balances with central banks	9 (a)	274,631	448,080
Treasury bills	9 (b)	40,504	36,852
Deposits with banks	10	348,096	191,610
Loans and advances	11	1,370,409	1,170,198
Reverse repurchase agreements	12	59,990	52,615
Non-trading investments	13	664,241	634,798
Derivative financial instruments	24	5,723	25,350
Investments in joint ventures	14	68	62
Investments in group undertakings	15	67	60
Premises and equipment	16	3,831	4,144
Deferred tax asset	23	3,748	4,735
Interest receivable and other assets	17	10,803	10,126
TOTAL ASSETS		2,782,111	2,578,630
LIABILITIES AND EQUITY			
LIABILITIES			
Deposits from banks	18	8,429	6,928
Customers' deposits	19	2,424,012	2,211,207
Derivative financial instruments	24	7,714	7,576
Current tax liability	23	4,006	3,577
Deferred tax liability	23	2,133	1,291
Retirement benefit scheme	35	18,129	23,715
Interest payable and other liabilities	20	17,421	24,147
Subordinated liabilities	21	9,985	9,541
TOTAL LIABILITIES		2,491,829	2,287,982
EQUITY			
Ordinary share capital	22	200,080	200,080
Reserves		90,202	90,568
TOTAL EQUITY		290,282	290,648
TOTAL LIABILITIES AND EQUITY		2,782,111	2,578,630

The Bank's profit after tax for the year ended 31 December 2017 amounted to \$38.5m (2016: \$32.8m).

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 2018

The attached notes 1 to 35 form part of these consolidated financial statements

Ahli United Bank (UK) PLC

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

		2017	2016
	Note	US\$ '000	US\$ '000
OPERATING ACTIVITIES			
Profit before tax		48,134	40,657
Adjustments for:			
Depreciation		1,454	1,127
Amortisation and revaluation for non-trading investment and pension fund		10,996	(8,844)
Net (releases) / provision charge (from) / for losses on loans and advances		(3,887)	413
Consolidation reserves from subsidiary undertaking		4	4
Share of net profit from investments in joint ventures		(615)	(16)
Proceeds from termination of investment in joint venture		(1,642)	-
Profit on sale of non-trading investments		(1,128)	(1,785)
Operating profit before changes in operating assets and liabilities		53,316	31,556
Changes in:			
Cash and balances with central banks		507	(837)
Reverse repurchase agreements		(7,375)	(52,615)
Repurchase agreements		-	(73,067)
Loans and advances		(196,324)	121,821
Interest receivable		529	2,658
Other assets (including derivative financial instruments)		18,080	92
Deposits from banks		1,501	(23,301)
Customers' deposits		212,749	(34,599)
Interest payable		(3,648)	2,026
Other liabilities (including derivative financial instruments)		(7,482)	(2,200)
Cash from operations		71,853	(28,466)
Tax paid		(6,752)	(6,090)
Net cash used in operating activities		65,101	(34,556)
INVESTING ACTIVITIES			
Purchase of non-trading investments		(221,715)	(322,732)
Proceeds from sale of non-trading investments		193,652	362,551
Purchase of premises and equipment		(1,141)	(940)
Net capital repayments from private equity investments		3,501	1,459
Proceeds from termination of investment in joint venture		1,642	-
Dividend received from investment in joint venture		1,131	-
Net cash used in investing activities		(22,930)	40,338
FINANCING ACTIVITIES			
Dividend paid to parent undertaking		(40,000)	(30,000)
Subordinated liabilities repaid		-	(1,470)
Net cash used in financing activities		(40,000)	(31,470)
Foreign currency translation adjustments		(17,776)	34,243
(DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(15,605)	8,555
Cash and cash equivalents at 1 January		638,187	629,632
CASH AND CASH EQUIVALENTS AT 31 DECEMBER		622,582	638,187
Cash and cash equivalents comprise:			
Cash and balances with central banks (excluding mandatory reserves)	9 (a)	274,486	446,577
Deposits with banks - with an original maturity of three months or less	10	348,096	191,610
		622,582	638,187

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

The attached notes 1 to 35 form part of these consolidated financial statements

Ahli United Bank (UK) PLC

BANK STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

	Note	2017 US\$ '000	2016 US\$ '000
OPERATING ACTIVITIES			
Profit before tax		47,515	40,637
Adjustments for:			
Depreciation		1,454	1,127
Amortisation and revaluation for non-trading investment and pension fund		10,996	(8,844)
Net (releases) / provision charge (from) / for losses on loans and advances		(3,887)	413
Profit on sale of non-trading investments		(1,128)	(1,785)
Proceeds from termination of investment in joint venture		(1,642)	-
Operating profit before changes in operating assets and liabilities		53,308	31,548
Changes in:			
Cash and balances with central banks		507	(837)
Reverse repurchase agreements		(7,375)	(52,615)
Repurchase agreements		-	(73,067)
Loans and advances		(196,324)	121,821
Interest receivable		529	2,658
Other assets (including derivative financial instruments)		18,422	(591)
Deposits from banks		1,501	(23,301)
Customers' deposits		212,805	(34,753)
Interest payable		(3,648)	2,026
Other liabilities (including derivatives instruments)		(8,525)	(1,929)
Cash from operations		71,200	(29,040)
Tax paid		(6,752)	(6,090)
Net cash used in operating activities		64,448	(35,130)
INVESTING ACTIVITIES			
Purchase of non-trading investments		(221,715)	(322,732)
Proceeds from sale of non-trading investments		193,652	362,551
Purchase of premises and equipment		(1,141)	(940)
Net capital repayments from private equity investments		3,501	1,459
Proceeds from termination of investment in joint venture		1,642	119
Dividend received from investment in joint venture		1,131	-
Net cash used in investing activities		(22,930)	40,457
FINANCING ACTIVITIES			
Dividend paid to parent undertaking		(40,000)	(30,000)
Subordinated liabilities repaid		-	(1,470)
Net cash used in financing activities		(40,000)	(31,470)
Foreign currency translation adjustments		(17,976)	34,377
(DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(16,458)	8,234
Cash and cash equivalents at 1 January		637,437	629,203
CASH AND CASH EQUIVALENTS AT 31 DECEMBER		620,979	637,437
Cash and cash equivalents comprise:			
Cash and balances with central banks (excluding mandatory reserves)	9 (a)	272,883	445,827
Deposits with banks - with an original maturity of three months or less	10	348,096	191,610
		620,979	637,437

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

The attached notes 1 to 35 form part of these consolidated financial statements

Ahli United Bank (UK) PLC

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017

	2017				
	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 2017	200,080	128	81,652	10,539	292,399
Profit for the year	-	-	39,102	-	39,102
Net change in fair value of cash flow hedges	-	-	-	(781)	(781)
Net change in fair value of available-for-sale investments	-	-	-	(1,324)	(1,324)
Pension fund actuarial gains/(losses)	-	-	2,410	-	2,410
Consolidation reserves from subsidiary undertakings	-	-	(29)	-	(29)
Currency translation differences	-	-	71	-	71
Dividend paid to parent company	-	-	(40,000)	-	(40,000)
Balance at 31 December 2017	200,080	128	83,206	8,434	291,848

	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 gains/(losses)	-	-	(15,492)	-	(15,492)
Consolidation reserves from subsidiary undertakings	-	-	20	-	20
Currency translation differences	-	-	(94)	-	(94)
Dividend paid to parent company	-	-	(30,000)	-	(30,000)
Balance at 31 December 2016	200,080	128	81,652	10,539	292,399

The attached notes 1 to 35 form part of these consolidated financial statements

Ahli United Bank (UK) PLC

BANK STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017

	2017				
	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 2017	200,080	128	79,901	10,539	290,648
Profit for the year	-	-	38,482	-	38,482
Net change in fair value of cash flow hedges	-	-	-	(781)	(781)
Net change in fair value of available-for-sale investments	-	-	-	(1,324)	(1,324)
Pension fund actuarial gains/(losses)	-	-	2,410	-	2,410
Currency translation differences	-	-	(284)	-	(284)
Dividend paid to parent company	-	-	(40,000)	-	(40,000)
Dividend received from joint ventures	-	-	1,131	-	1,131
Balance at 31 December 2017	200,080	128	81,640	8,434	290,282

	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	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 gains/(losses)	-	-	(15,492)	-	(15,492)
Currency translation differences	-	-	294	-	294
Dividend paid to parent company	-	-	(30,000)	-	(30,000)
Balance at 31 December 2016	200,080	128	79,901	10,539	290,648

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 2017 and 2016. 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 Bank 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 on a historical cost basis, except for available-for-sale investments, derivatives financial instruments held for trading or designated at fair value through profit or loss (FVTPL), all of which have been measured at fair value. 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 1.3515 (2016: 1.2287).

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 the final version of IFRS 9 Financial Instruments in July 2014, which replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

The Bank plans to adopt the new standard on the required effective date from 1 January 2018. The Bank will avail of the exemption allowing it not to restate comparative information for prior periods. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 will be recognised in opening retained earnings and reserves as at 1 January 2018.

During the year 2017, the Bank has performed a detailed impact assessment of IFRS 9. This assessment is based on currently available information and may be subject to changes arising from further reasonable and supportable information being made available to the Bank until the Bank presents its first consolidated financial statements that include the date of initial application.

a. Classification and measurement

IFRS 9 has a new classification and measurement approach for financial assets that reflect the business model in which assets are managed and their cash flow characteristics. IFRS 9 contains three classification categories for financial assets: measured at Amortised Cost, Fair Value through Other Comprehensive Income ("FVOCI") (without recycling of gains or losses to profit or loss on derecognition of equity instruments) and Fair Value Through Profit or Loss ("FVTPL"). The standard eliminates the existing IAS 39 categories of held to maturity, loans and receivables and available for sale.

The Bank has evaluated the classification and measurement criteria to be adopted for various financial assets considering the IFRS 9 requirements with respect to the business model and contractual cash flow characteristics ("CCC") / Solely payment of principal and interest ("SPPI").

The Bank does not expect a significant impact on its consolidated statement of financial position from applying the classification and measurement requirements of IFRS 9 except that for debt instruments held as available-for-sale with fair value gains and losses recorded in OCI, which will instead be measured at amortised cost.

At 31 December 2017, the Bank has equity securities classified as available-for-sale held for long term strategic purposes. Under IFRS 9, the Bank has designated these investments as measured at FVOCI. Consequently, all fair value gains and losses will be reported in OCI, no impairment losses will be recognised in the consolidated statement of profit or loss and no gains or losses will be recycled to consolidated statement of profit or loss on disposal.

There will be no impact on the Bank's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Bank does not have any such liabilities. The de-recognition rules under IAS 39 Financial Instruments: Recognition and Measurement have not been changed.

Ahli United Bank (UK) PLC

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

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

The following table summarises the impact of the Balance Sheet as at 31 December 2017 when applying the categorisation definition in accordance with IFRS9.

US\$ '000	Current IAS39	Restated IFRS9	Impact of new standard	Due to:		
				Categorisation	Impairment	Deferred Tax
ASSETS						
Cash and balances with central banks	276,234	276,234	-	-	-	-
Treasury bills	40,504	40,504	-	-	-	-
Deposits with banks	348,096	348,074	22	-	22	-
Loans and advances	1,370,409	1,373,797	(3,388)	-	(3,388)	-
Reverse repurchase agreements	59,990	59,990	-	-	-	-
Non-trading investments	664,241	657,002	7,239	6,774	465	-
Derivative financial instruments	5,723	5,723	-	-	-	-
Investments in joint ventures	1,027	1,027	-	-	-	-
Premises and equipment	3,831	3,831	-	-	-	-
Deferred tax asset	3,748	3,748	-	-	-	-
Interest receivable and other assets	11,451	11,451	-	-	-	-
TOTAL ASSETS	2,785,254	2,781,381	3,873	6,774	(2,901)	-
LIABILITIES AND EQUITY						
LIABILITIES						
Deposits from banks	8,429	8,429	-	-	-	-
Customers' deposits	2,423,956	2,423,956	-	-	-	-
Derivative financial instruments	7,714	7,714	-	-	-	-
Current tax liability	4,006	4,006	-	-	-	-
Deferred tax liability	2,133	1,335	798	-	-	798
Retirement benefit scheme	18,129	18,129	-	-	-	-
Interest payable and other liabilities	19,054	19,054	-	-	-	-
Subordinated liabilities	9,985	9,985	-	-	-	-
TOTAL LIABILITIES	2,493,406	2,492,608	798	-	-	798
EQUITY						
Ordinary share capital	200,080	200,080	-	-	-	-
Reserves	91,768	88,693	3,075	6,774	(2,901)	(798)
TOTAL EQUITY	291,848	288,773	3,075	6,774	(2,901)	(798)
TOTAL LIABILITIES AND EQUITY	2,785,254	2,781,380	3,873	6,774	(2,901)	-

b. Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with a forward-looking 'expected credit loss' ("ECL") model. This will require considerable judgement about how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis.

The ECL model contains a three stage approach which is based on the change in credit quality of financial assets since initial recognition. Under Stage 1, where there has not been a significant increase in credit risk since initial recognition, an amount equal to 12 months ECL will be recorded. Under Stage 2, where there has been a significant increase in credit risk since initial recognition but the financial instruments are not considered credit impaired, an amount equal to the default probability weighted lifetime ECL will be recorded. Under the Stage 3, where there is objective evidence of impairment at the reporting date these financial instruments will be classified as credit impaired and an amount equal to the lifetime ECL will be recorded for the financial assets.

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 are intended to be more forward-looking than under IAS 39 and the resulting impairment charge will tend to be more volatile.

The Bank has completed the development and testing of operating models and methodologies for the calculation of ECL. The Bank has also performed parallel runs during the year to gain a better understanding of the potential effect of the new standard and for the governance framework to gain experience. The Bank continues to revise, refine and validate the impairment models and related process controls in advance of 31 March 2018 reporting.

For the year ended 31 December 2017, the ECL estimated provision is calculated at \$0.6m, which would result in a release of credit impairment provision of \$2.9m before tax.

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

c. Hedge accounting

The hedge accounting model introduced under IFRS 9 is designed to better align hedge accounting with risk management activities. It has also introduced a greater variety of hedging instruments and risks eligible for hedge accounting. Moreover, it has removed rule based thresholds for testing hedge effectiveness by bringing principle based criteria. Current accounting treatments of fair value, cashflow and net investment hedge accounting have been retained. However, the current hedge accounting requirements under IAS 39 may continue to be applied until the IASB finalises its macro hedge accounting project. The Bank has determined that all existing hedge relationships that are currently designated in effective hedging relationships would continue to qualify for hedge accounting under IFRS 9 and accordingly the Bank will apply IFRS9 hedge accounting (effective 1 January 2018).

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

IFRS 15 was issued by IASB on 28 May 2014, effective for annual periods beginning on or after 1 January 2018. IFRS 15 supersedes IAS 11 Construction Contracts and IAS 18 Revenue along with related IFRIC 13, IFRIC 15, IFRIC 18 and SIC 31 from the effective date. This new Standard removes inconsistencies and weaknesses in previous revenue recognition requirements, provides a more robust framework for addressing revenue issues and improves comparability of revenue recognition practices across entities, industries, jurisdictions and capital markets.

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

In January 2016, the IASB issued IFRS 16 'Leases' with an effective date of annual periods beginning on or after 1 January 2019. IFRS 16 results in lessees accounting for most leases within the scope of the Standard in a manner similar to the way in which finance leases are currently accounted for under IAS 17 'Leases'. Lessees will recognise a 'right of use' asset and a corresponding financial liability on the balance sheet. The asset will be amortised over the length of the lease and the financial liability measured at amortised cost.

The Bank does not expect any significant impact on the Bank's financial position and results, resulting from the application of IFRS 15 & IFRS 16.

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 35 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, 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.

Treasury bills are categorised as available for sale and deposits with central banks are categorised as loans and advances.

(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 statement of income 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 are 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, the investments are valued on a case-by-case basis on the respective net asset value (NAV) provided by the fund managers, taking into account additions, repayments, revaluations less a liquidity discount.

(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.

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.

(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 net interest income against the underlying hedged item.

(ii) Fees and commissions

Commitment fees in relation to residential property lending are reflected in the income statement when payment is received in accordance with the terms of the lending contract.

Arrangement fees in relation to commercial property lending are amortised on a straight line basis to the income statement over the duration of the loan.

Specific fees, comprising fund management and trustee fees, are credited to the income statement on an accruals basis in line with the services being provided.

All other front-end fees are accounted for on a cash basis.

(iii) Dividend income

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

(iv) Operating leases

Rentals 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 33) are not treated as assets of the Group and, accordingly, are not incorporated in the consolidated balance sheet.

(q) Financial guarantees and loan commitments

In the ordinary course of business, the Group gives financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are contracts that require the Group to make specified payments to reimburse the holders for a loss that is incurred because a specified 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 2017

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 & 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 2017					
Net interest income	8,603	5,429	9,341	19,664	43,037
Fees and commissions	1,392	1,504	(56)	12,877	15,717
Trading Income	-	-	1,320	-	1,320
Other operating income and expenses (*)	-	2,256	10,246	(13)	12,489
OPERATING INCOME	9,995	9,189	20,851	32,528	72,563
Net releases / (charges) on loans and advances	515	2,311	36	1,025	3,887
NET OPERATING INCOME	10,510	11,500	20,887	33,553	76,450
Operating expenses	4,052	2,258	5,610	16,396	28,316
PROFIT BEFORE TAX	6,458	9,242	15,277	17,157	48,134
Tax expense	1,243	1,779	2,707	3,303	9,032
NET PROFIT AFTER TAX	5,215	7,463	12,570	13,854	39,102

	<i>Retail banking</i>	<i>Corporate banking</i>	<i>Treasury & 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	463,763	307,606	1,368,797	625,077	-	2,765,243
Investment in joint venture	-	1,027	-	-	-	1,027
Unallocated assets	-	-	-	-	18,984	18,984
TOTAL ASSETS	463,763	308,633	1,368,797	625,077	18,984	2,785,254
Segment liabilities	1,434	14,553	727,592	1,723,023	-	2,466,602
Unallocated liabilities	-	-	-	-	26,804	26,804
TOTAL LIABILITIES	1,434	14,553	727,592	1,723,023	26,804	2,493,406

Note (*) : Other operating income and expenses for segment reporting includes net gain on sale of investments and share of profit/(loss) from investment in 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 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 2017

2 SEGMENT INFORMATION (continued)

Segmental information for the year was as follows:

	<i>Retail banking</i>	<i>Corporate banking</i>	<i>Treasury & 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 recoveries from losses 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	5,098	6,239	8,728	12,717	32,782

	<i>Retail banking</i>	<i>Corporate banking</i>	<i>Treasury & 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	1,361,903	521,207	-	2,559,685
Investment in joint venture	-	1,246	-	-	-	1,246
Unallocated assets	-	-	-	-	20,041	20,041
TOTAL ASSETS	412,281	265,540	1,361,903	521,207	20,041	2,580,972
Segment liabilities	1,631	12,650	510,915	1,743,249	-	2,268,445
Unallocated liabilities	-	-	-	-	20,128	20,128
TOTAL LIABILITIES	1,631	12,650	510,915	1,743,249	20,128	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 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 2017

3 NET INTEREST INCOME

3 (a) INTEREST INCOME

	2017 US\$'000	2016 US\$'000
Deposits with banks and other financial institutions	6,684	4,710
Loans and advances	38,512	39,351
Non-trading investments (including Treasury Bills)	12,504	12,102
	<u>57,700</u>	<u>56,163</u>

3 (b) INTEREST EXPENSE

	2017 US\$'000	2016 US\$'000
Deposits from banks and other financial institutions (including repurchase agreements)	755	517
Customers' deposits	13,726	13,069
Subordinated liabilities	182	187
	<u>14,663</u>	<u>13,773</u>

NET INTEREST INCOME

	<u>43,037</u>	<u>42,390</u>
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4 NET FEES AND COMMISSIONS

	2017 US\$'000	2016 US\$'000
Fees and commission income		
- Transaction banking services	4,516	4,182
- Management, performance and brokerage fees	14,510	14,308
Fees and commission expense	(3,309)	(2,451)
	<u>15,717</u>	<u>16,039</u>

Included in management, performance and brokerage fees is \$4.9 million (2016: \$3.7 million) for fee income relating to trust and fiduciary activities.

5 TRADING INCOME

	2017 US\$'000	2016 US\$'000
Foreign exchange	1,332	3,476
Other trading activities	(12)	(122)
	<u>1,320</u>	<u>3,354</u>

Foreign exchange profits derive from spot and forward foreign exchange contracts.

6 OTHER OPERATING INCOME & EXPENSES

	2017 US\$'000	2016 US\$'000
Dividends and distributions from non trading investments	8,916	3,670
Other operating income	188	2,291
	<u>9,104</u>	<u>5,961</u>

Ahli United Bank (UK) PLC

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

7 STAFF COSTS

	2017 US\$'000	2016 US\$'000
Wages and salaries	11,576	12,471
Social security costs	1,312	1,338
Net interest on net defined benefit liability	600	349
Other pension costs	1,197	1,189
Other staff costs	2,582	2,483
	<u>17,267</u>	<u>17,830</u>

The average monthly number of employees during the year was 115 (2016: 120).

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

Payments of \$29,000 (2016:\$39,000) were made during 2017 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 \$23,437 (2016: nil). The emoluments of the highest paid director in 2017 were \$370,000 (2016: \$403,000).

8 OPERATING EXPENSES

Operating expenses include the following specific charges

	2017 US\$'000	2016 US\$'000
Directors' remuneration	1,201	1,520
Auditor remuneration		
- group statutory audit fee	411	368
- audit related assurances services	206	53

9 (a) CASH AND BALANCES WITH CENTRAL BANKS

	GROUP		BANK	
	2017 US\$'000	2016 US\$'000	2017 US\$'000	2016 US\$'000
Cash and balances with central banks, excluding mandatory reserve deposits	274,486	446,577	272,883	445,826
Mandatory reserve deposits with central banks	1,748	2,254	1,748	2,254
	<u>276,234</u>	<u>448,831</u>	<u>274,631</u>	<u>448,080</u>

9 (b) TREASURY BILLS

	2017 US\$'000	2016 US\$'000
UK Treasury Bills	<u>40,504</u>	<u>36,852</u>

10 DEPOSITS WITH BANKS

	2017 US\$'000	2016 US\$'000
Demand and call	94,785	65,557
Time deposits	253,311	126,053
	<u>348,096</u>	<u>191,610</u>

Ahli United Bank (UK) PLC

NOTES TO THE FINANCIAL STATEMENTS

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II LOANS AND ADVANCES

	2017		2016	
	US\$ '000	%	US\$ '000	%
11 (a) By industry sector				
Consumer/personal	11,257	0.8	10,645	0.9
Residential mortgage	1,173,353	85.4	991,541	84.2
Trading and manufacturing	5,000	0.4	10,000	0.8
Real estate	177,609	12.9	156,137	13.3
Others	6,645	0.5	9,223	0.8
	1,373,864	100.0	1,177,546	100.0
Less: Specific impairment provision	-		(28)	
Less: Collective impairment provision	(3,455)		(7,320)	
	1,370,409		1,170,198	
	2017		2016	
	US\$ '000	%	US\$ '000	%
11 (b) By geographic region				
Kingdom of Bahrain	113,992	8.3	75,163	6.4
State of Kuwait	104,406	7.6	87,212	7.4
Other GCC countries	58,632	4.3	32,945	2.8
United Kingdom	880,055	64.1	787,391	66.8
Europe (excluding United Kingdom)	70,541	5.1	63,425	5.4
Arab Republic of Egypt	47,129	3.4	32,549	2.8
Asia (excluding GCC countries)	21,035	1.5	26,858	2.3
Rest of the world	77,852	5.7	71,763	6.1
USA	222	0.0	240	0.0
	1,373,864	100.0	1,177,546	100.0
Less: Specific impairment provision	-		(28)	
Less: Collective impairment provision	(3,455)		(7,320)	
	1,370,409		1,170,198	

The collateral held against loans and advances comprises commercial and residential properties, with a fair value of \$3.07 billion (2016 : \$2.37 billion). All such collateral held against financial assets is convertible into cash by means of a sale process upon repossession of the underlying financial asset.

No individually impaired loans were restructured during the year. Interest income includes \$9,132 (2016: NIL) recovered on impaired loans.

NOTES TO THE FINANCIAL STATEMENTS

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

		2017					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		12,558	2,051	4,478	2,742	21,829	50,182
Corporate		9,368	34	2,034	3,838	15,274	47,905
		21,926	2,085	6,512	6,580	37,103	98,087
		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
		10,347	4,488	12,021	9,316	36,172	117,041

For a definition of Retail and Corporate refer to Credit Risk note 27.

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

		2017			2016		
		Retail	Corporate	Total	Retail	Corporate	Total
		US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Gross impaired loans		-	-	-	28	-	-
Specific impairment provisions		-	-	-	(28)	-	-
		-	-	-	-	-	-
Impaired loan coverage		-	-	-	100.0%	-	100.0%
Gross loans		712,302	661,562	1,373,864	595,770	581,776	1,177,546
Impaired loan ratio		-	-	-	-	-	-

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NOTES TO THE FINANCIAL STATEMENTS

31-December 2017

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:

	2017 Total US\$ '000	2016 Total US\$ '000
At 1-January	7,348	6,803
Add/(Less):		
Amounts released during the year (including overlay release)	(4,390)	(509)
Charge for the year	497	1,088
Exchange rate and other adjustments	-	(34)
At 31 December	3,455	7,348

11 (f) Net releases / (charges) on loans and advances

	2017 US\$ '000	2016 US\$ '000
Provision released for loans and advances during the year	4,362	509
Impairment charge for the year on loans and advances	(497)	(1,088)
Recoveries from fully provided loans written off in previous years	22	166
Net releases / (charges) on loans and advances	3,887	(413)

12 REVERSE REPURCHASE AGREEMENTS

	2017 US\$ '000	2016 US\$ '000
Banks	59,990	52,615

13 NON-TRADING INVESTMENTS

	2017 US\$ '000	2016 US\$ '000
Quoted investments		
GCC government bonds and debt securities	178,699	81,220
Other government bonds and debt securities	66,736	59,779
Floating rate notes:		
- issued by banks and other financial institutions	354,013	390,264
- issued by corporate bodies	40,457	76,619
	639,905	607,882
Unquoted investments		
Funds at net asset value	23,831	26,542
Other unquoted investments	505	374
	24,336	26,916
	664,241	634,798

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

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31 December 2017

14 INVESTMENTS IN JOINT VENTURES

	Ownership		Profit or loss share after tax	
	2017	2016	2017	2016
Rosefarm Estates PLC	50.0%	50.0%	35.0%	35.0%
City Gates, 2-4 Southgate, Chichester, West Sussex PO19 8DJ, UK				
Swinbury Limited	-	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

The investment in Swinbury was terminated on the 21st February 2017.

	2017			2016		
	Rosefarm US\$ '000	Swinbury US\$ '000	Total US\$ '000	Rosefarm US\$ '000	Swinbury US\$ '000	Total US\$ '000
Cost of investment in joint ventures	68	-	68	62	-	62
Group share of reserves after tax	959	-	959	1,330	(146)	1,184
Total Group carrying value of investment	1,027	-	1,027	1,392	(146)	1,246

The reporting year for Rosefarm Estates PLC is 31st March, and therefore not coterminous with the Group.

15 INVESTMENTS IN GROUP UNDERTAKINGS

	2017 US\$ '000	2016 US\$ '000
Shares at cost	67	60

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
AUB Finance BV *				
Herikerbergweg 238, 1101 CM Amsterdam, The Netherlands.	62576	The Netherlands	100%	Consolidated
AUB Trustees (Guernsey) Limited *				
PO Box 190, Anson Court, La Route des Camps, St Martin, Guernsey GY1 3LD.	23220	Guernsey	100%	Consolidated
The UBK European Property Company Limited				
Trafalgar Court, Les Banques, St Peter Port, Guernsey GY1 3QL.	34514	Guernsey	100%	In liquidation
AUB Investment Holdings				
35 Portman Square, London W1H 6LR	2730977	England, United Kingdom	100%	Dormant
AUB Secretaries Limited				
35 Portman Square, London W1H 6LR	3070486	England, United Kingdom	100%	Dormant

* Consolidation reporting date 30/11/2017.

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16 PREMISES AND EQUIPMENT

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

	2017			2016		
	Leasehold improvements	Fixture, fittings and equipment US\$ '000	Total US\$ '000	Leasehold improvements	Fixture, fittings and equipment US\$ '000	Total US\$ '000
Cost as at 1 January	6,373	17,625	23,998	5,959	17,099	23,058
Additions	19	1,122	1,141	414	526	940
Cost as at 31 December	6,392	18,747	25,139	6,373	17,625	23,998
Depreciation as at 1 January	4,228	15,626	19,854	3,963	14,764	18,727
Charge for year	308	1,146	1,454	265	862	1,127
Depreciation as at 31 December	4,536	16,772	21,308	4,228	15,626	19,854
Net book value as at 31 December	1,856	1,975	3,831	2,145	1,999	4,144

17 INTEREST RECEIVABLE AND OTHER ASSETS

	GROUP		BANK	
	2017 US\$ '000	2016 US\$ '000	2017 US\$ '000	2016 US\$ '000
Interest receivable	5,682	6,212	5,682	6,212
Fees receivable	3,183	2,122	3,183	2,122
Prepayments and others	2,586	2,259	1,938	1,792
	11,451	10,593	10,803	10,126

18 DEPOSITS FROM BANKS

	2017 US\$ '000	2016 US\$ '000
Demand and call	2,429	6,928
Time deposits	6,000	-
	8,429	6,928

19 CUSTOMERS' DEPOSITS

	GROUP		BANK	
	2017 US\$ '000	2016 US\$ '000	2017 US\$ '000	2016 US\$ '000
Current and call accounts	775,085	966,435	775,141	966,435
Saving accounts	5,308	5,767	5,308	5,767
Time deposits	1,643,563	1,239,005	1,643,563	1,239,005
	2,423,956	2,211,207	2,424,012	2,211,207

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20 INTEREST PAYABLE AND OTHER LIABILITIES

	GROUP		BANK	
	2017	2016	2017	2016
	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Accruals and deferred income	9,664	9,470	9,664	9,470
Interest payable	5,371	9,020	5,371	9,020
Other credit balances	4,019	6,248	2,386	5,657
	19,054	24,738	17,421	24,147

21 SUBORDINATED LIABILITIES

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

	2017	2016
	US\$ '000	US\$ '000
- GBP loan stock carrying interest at six months LIBOR plus 3/4%	4,885	4,441
- US\$ loan stock carrying interest at six months LIBOR plus 3/4%	5,100	5,100
	9,985	9,541

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.

22 SHARE CAPITAL

The Bank is a public company limited by shares.

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.

	Authorised		Issued and fully paid	
	2017	2016	2017	2016
	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Authorised				
Ordinary shares at £1 each (50,000 shares)	80	80	80	80
Ordinary shares at \$1 each	500,000	500,000	200,000	200,000
	500,080	500,080	200,080	200,080

A final dividend of \$40.0 million is proposed for 2017 (2016 : \$40.0 million).

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23 TAXATION

	2017 US\$'000	2016 US\$'000
Consolidated balance sheet :		
Deferred tax asset	3,748	4,735
Current tax liability	4,006	3,577
Deferred tax liability	2,133	1,291
	<u>2,391</u>	<u>133</u>
Tax on profit from ordinary activities:		
Current corporation tax on taxable profit		
UK corporation tax at 19.25% (2016: 20%)	8,862	7,275
Adjustments in respect of prior years	(791)	(323)
Total current corporation tax	<u>8,071</u>	<u>6,952</u>
Deferred tax		
Origination and reversal of timing differences	934	920
Adjustments in respect of prior periods	51	-
Effect of a change in tax rates	(24)	3
Total deferred tax	<u>961</u>	<u>923</u>
Total tax on profit from ordinary activities	<u>9,032</u>	<u>7,875</u>

The difference between the total tax charge shown above and the amount calculated by applying the standard rate of UK corporation tax to the profit before tax is as follows:

Profit before Tax	48,134	40,657
Multiplied by effective rate of corporation tax of 19.25% (2016: 20%)	9,266	8,131
Effects of:		
Corporate tax surcharge	633	67
Expenses not deductible for tax purposes	15	12
Income not subject to tax	(118)	(12)
UK corporation tax relating to previous years	(791)	(323)
UK deferred tax relating to previous years	27	-
	<u>9,032</u>	<u>7,875</u>

Tax in other comprehensive income which will be recycled through the income statement in a future period

Current tax in respect of prior years	(1,386)	-
Deferred tax movements in the year	(299)	(2,578)
Deferred tax in respect of prior years	1,166	-
	<u>(518)</u>	<u>(2,578)</u>

Deferred taxation

Deferred tax is determined using tax rates and laws that are expected to apply in the period when the deferred tax asset is realised or deferred tax liability is settled based on rates enacted or substantively enacted at the balance sheet date, including the banking surcharge where applicable. The Finance (No. 2) Act 2015 introduced a surcharge, from 1 January 2016, of 8% payable on taxable profits in excess of £25m (USD Equivalent 2017 : US\$32.5m). The appropriate Finance Acts have confirmed the future period effective corporation tax rates as: 2018: 19%, 2019: 19%, 2020: 17.5% and 2021: 17%.

Deferred tax balances comprise of the following:

Deferred tax asset	
Available for sale reserves	304
Pension reserves	3,444
Total deferred tax asset	<u>3,748</u>
Deferred tax liability	
Available for sale reserves	2,012
Capital allowances	121
Total deferred tax liability	<u>2,133</u>

Ahli United Bank (UK) PLC

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24 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 Liability Committee.

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
Foreign exchange contracts				
2017	309,870	2,916	-	312,786
2016	307,339	-	-	307,339
Interest rate contracts				
2017	330,699	246,630	176,490	753,819
2016	615,918	204,931	127,615	948,464

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

	2017		2016	
	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	262	283	532	561
Forward foreign exchange contracts	134	3,283	17,779	212
<i>Derivatives held as fair value hedges:</i>				
Interest rate swaps	5,323	3,813	4,040	6,803
<i>Derivatives held as cash flow hedges:</i>				
Interest rate currency swaps	-	-	2,265	-
Forward foreign exchange contracts	4	335	734	-
	<u>5,723</u>	<u>7,714</u>	<u>25,350</u>	<u>7,576</u>

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24 DERIVATIVES (continued)

Hedge Accounting

1) Fair Value Hedges

Interest rate risk

At 31 December 2017, the Bank had interest rate swap contracts in place whereby the Bank pays a fixed rate of interest for swaps against an underlying assets (receives for underlying deposits) and thereon receives a variable rate of return (pays for deposits). 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 gain of \$1,574,325 (2016: loss \$2,664,845) has been recognised for the interest rate swaps, with an offsetting loss of \$1,996,333 (2016: gain \$2,264,879) recognised against the associated bond, loan and deposit portfolio, which resulted in a life to date loss of \$422,008 (2016: loss \$399,966) being recognised as ineffective. As such, within the statement of income for the year ending 31 December 2017, a loss of \$22,042 (2016 : gain \$59,981) 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 2018 and 2019 forecast GBP and EUR P&L. These forecast P&L events are highly probable.

2017		2016	
<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>
4	335	734	-

The terms of the foreign currency forward contracts match the terms of the expected highly probable forecast transactions. As a result, a net unrealised loss of \$331,440 (2016: gain \$733,721) 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 2017.

The amount of \$733,721 (2016: \$605,979) 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 2017 will affect the consolidated statement of income in 2018 and 2019.

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.

2017		2016	
<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	-

The Bank has no Interest rate currency swap contracts as at 31 December 2017. A net unrealised loss of \$698 (2016 : loss \$55,013) has been recognised through the consolidated statement of income for the year ending 31 December 2017.

25 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 2017, the Bank had net placements of \$157,392 (2016 : NIL) with swap derivative counterparties.

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. Assets and liabilities classified as Level 2 have been valued using models whose inputs are observable in an active market. Valuations based on observable inputs include derivative financial instruments such as swaps and forward rate agreements which are valued using market standard pricing techniques.

Level 3: Techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data. Unquoted investments classified as Level 3 are valued on a case-by case based on their respective net asset value (NAV) provided by the fund managers, taking into account additions, repayments, revaluation less a liquidity discount.

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25 FAIR VALUE MEASUREMENT (continued)

	2017			
	Level 1	Level 2	Level 3	Total
	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Financial Assets				
Non Trading Investments				
Bonds and Treasury bills	680,409	-	-	680,409
Unquoted investments	-	-	24,336	24,336
Total Non Trading Investments	680,409	-	24,336	704,745
Derivative Assets	-	5,723	-	5,723
Total Financial Assets	680,409	5,723	24,336	710,468
Financial Liabilities				
Derivative Liabilities	-	7,714	-	7,714
Total Financial Liabilities	-	7,714	-	7,714
	2016			
	Level 1	Level 2	Level 3	Total
	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Financial Assets				
Non Trading Investments				
Bonds and Treasury bills	644,734	-	-	644,734
Unquoted investments	-	-	26,916	26,916
Total Non Trading Investments	644,734	-	26,916	671,650
Derivative Assets	-	25,350	-	25,350
Total Financial Assets	644,734	25,350	26,916	697,000
Financial Liabilities				
Derivative Liabilities	-	7,576	-	7,576
Total Financial Liabilities	-	7,576	-	7,576

Derivative assets and liabilities comparatives for 31 December 2016 have been restated to align with 31 December 2017 disclosures.

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NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

25 FAIR VALUE MEASUREMENT (continued)

In relation to level 3 financial assets for unquoted investments, the fair value movements through other comprehensive income for the current financial year are as follows:

	2017 US\$ '000	2016 US\$ '000
Fair Value as at 1 January	26,916	30,164
Currency translation differences	2,831	(1,136)
Additions	4,284	2,119
Repayments	(7,785)	(3,578)
Revaluations	(1,910)	(653)
Fair Value as at 31 December	24,336	26,916

For an explanation of valuation techniques used to value these financial instruments please refer to introduction to note 25.

26 COMMITMENTS AND CONTINGENT LIABILITIES

a) Financial Instruments

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.

	2017 US\$ '000	2016 US\$ '000
- within one year	41,583	40,013
- between one year and five years	53,306	38,323
- over 5 years	42,106	8,407
	136,995	86,743

Contingent liabilities

	2017 US\$ '000	2016 US\$ '000
Guarantees	15,978	3,502
Letter of credit	-	6,144
	15,978	9,646

Maturity of contingent liabilities is as follows:

	2017	2016
- Less than one year	15,893	9,535
- Over one year	85	111
	15,978	9,646

b) Operating Leases

The Bank has the following non-cancellable operating lease commitments.

	2017 US\$ '000	2016 US\$ '000
- within one year	1,967	1,540
- between one year and five years	4,718	5,219
- over 5 years	-	-
	6,685	6,759

RISK MANAGEMENT

27 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 agreement.

One possession order was obtained and enforced in 2017 (2016: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

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27 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.

a) Credit risk - Derivative contacts

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

	2017	2016
	US\$ '000	US\$ '000
Exchange traded contracts		
- for trading purposes	1,984	4,525
- for hedging purposes	276	560
Interest rate contracts		
- for trading purposes	370	350
- for hedging purposes	4,478	1,373

b) Maximum exposure to credit risk without taking account of any collateral and other credit enhancements

	2017	2016
	US\$ '000	US\$ '000
Balances with central banks	273,493	447,055
Treasury bills	40,504	36,852
Deposits and reverse repurchase agreements with banks	408,086	244,225
Loans and advances	1,370,409	1,170,198
Non-trading investments	639,905	607,882
Interest receivable and other assets	20,791	40,732
Total	2,753,188	2,546,944
Contingent liabilities	15,978	9,646
Undrawn loan commitments	136,995	86,743
Total credit related commitments	152,973	96,389
Total credit risk exposure	2,906,161	2,643,333

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27 CREDIT RISK (continued)

c) 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> US\$ '000
	<i>High</i>	<i>Standard</i>	<i>Watch List</i>	
	<i>standard</i> <i>grade</i>	<i>grade</i>		
	US\$ '000	US\$ '000	US\$ '000	US\$ '000
At 31 December 2017				
Balances with central banks	273,493	-	-	273,493
Treasury bills	40,504	-	-	40,504
Deposits with banks (including reverse repos)	406,097	1,989	-	408,086
Loans and advances				
Retail	684,235	22,803	5,264	712,302
Corporate	570,273	60,222	31,067	661,562
Non trading investments	598,741	65,500	-	664,241
Other assets - derivatives	5,723	-	-	5,723
	<u>2,579,066</u>	<u>150,514</u>	<u>36,331</u>	<u>2,765,911</u>

	<i>Neither past due nor impaired</i>			<i>Total</i> US\$ '000
	<i>High</i>	<i>Standard</i>	<i>Watch List</i>	
	<i>standard</i> <i>grade</i>	<i>grade</i>		
	US\$ '000	US\$ '000	US\$ '000	US\$ '000
At 31 December 2016				
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
	<u>2,354,783</u>	<u>167,527</u>	<u>43,488</u>	<u>2,565,798</u>

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28 CONCENTRATION RISK

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

	2017			2016		
	<i>Assets</i>	<i>Liabilities</i>	<i>Contingent liabilities & commitments on behalf of customers</i>	<i>Assets</i>	<i>Liabilities</i>	<i>Contingent liabilities & 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>
Geographic region:						
Kingdom of Bahrain	216,573	136,275	7,700	178,449	108,232	7,846
State of Kuwait	179,987	1,079,492	19,777	87,486	1,212,353	6,465
Other GCC countries	175,734	673,690	2,319	149,711	497,197	16,587
United Kingdom (UK)	1,312,084	219,041	116,923	1,415,358	99,707	63,706
Europe (excluding UK)	472,155	36,869	2,233	437,676	119,344	1,285
United States of America	108,624	1,699	-	109,535	1,434	-
Asia (excluding GCC)	141,414	19,326	851	47,081	13,674	-
Rest of the World	131,542	142,613	-	123,114	166,219	-
Arab Republic of Egypt	47,141	184,401	3,169	32,562	70,413	500
	2,785,254	2,493,406	152,972	2,580,972	2,288,573	96,389
Industry sector:						
Banks and other financial institutions	1,049,088	902,969	20,012	1,114,525	989,129	11,136
Consumer/personal	11,257	747,173	2,716	10,617	520,774	3,264
Trading and manufacturing	-	38,900	-	15,898	16,167	-
Real estate	175,631	26,552	30,572	151,959	25,286	43,831
Residential mortgage	1,171,989	64,631	83,914	988,646	72,066	28,746
Government/public sector	286,241	555,495	15,758	178,080	460,661	9,228
Services	4,579	28,829	-	14,238	7,498	-
Others	86,469	128,857	-	107,009	196,992	184
	2,785,254	2,493,406	152,972	2,580,972	2,288,573	96,389

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29 MARKET RISK

Market risk is the risk of potential financial loss that may arise from adverse changes in the value of financial instruments or portfolios 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/implicit 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 interdependency 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 260 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 \$000	Interest Rate \$000	Effects of covariance \$000
As at 31 December 2017		12	-	-
<i>As at 31 December 2016</i>		<i>40</i>	<i>(1)</i>	<i>-</i>
Average daily	2017	16	2	-
	<i>2016</i>	<i>17</i>	<i>0</i>	<i>-</i>
Minimum	2017	(5)	(14)	-
	<i>2016</i>	<i>5</i>	<i>0</i>	<i>-</i>
Maximum	2017	100	43	-
	<i>2016</i>	<i>87</i>	<i>(9)</i>	<i>-</i>

The Bank is therefore confident within a 99% confidence interval that, given the risks, as at 31 December 2017, it will not incur a one day loss on its trading book of more than \$12,000 for Foreign Exchange risk and \$nil for Interest rate risk (2016: \$40,000 : Foreign Exchange and \$-1,000 : Interest rate) 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.

30 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 2017 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.

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30 LIQUIDITY RISK (continued)

	2017			
	<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>
ASSETS				
Cash and balances with central banks	276,234	-	-	276,234
Treasury bills	40,504	-	-	40,504
Deposits with banks (including reverse repos)	408,086	-	-	408,086
Loans and advances	264,702	1,105,707	-	1,370,409
Non-trading investments	85,880	578,361	-	664,241
Investment in joint ventures	-	-	1,027	1,027
Premises and equipment	-	-	3,831	3,831
Interest receivable and all other assets	10,394	10,528	-	20,922
Total	1,085,800	1,694,596	4,858	2,785,254
LIABILITIES				
Deposits from banks	8,429	-	-	8,429
Customers' deposits	2,423,956	-	-	2,423,956
Interest payable and all other liabilities	26,164	24,872	-	51,036
Subordinated liabilities	-	-	9,985	9,985
Total	2,458,549	24,872	9,985	2,493,406
Net liquidity gap	(1,372,749)	1,669,724	(5,127)	291,848

	2016			
	<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>
ASSETS				
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 joint ventures	-	-	1,246	1,246
Premises and equipment	-	-	4,144	4,144
Interest receivable and all other assets	30,008	10,670	-	40,678
Total	999,516	1,576,066	5,390	2,580,972
LIABILITIES				
Deposits from banks	6,928	-	-	6,928
Customer 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
Total	2,246,858	32,174	9,541	2,288,573
Net liquidity gap	(1,247,342)	1,543,892	(4,151)	292,399

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30 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.

	2017				
	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	8,431	-	-	-	-
Customers' deposits	1,354,832	293,309	777,952	-	-
Subordinated liabilities	-	-	-	-	10,173
Total	1,363,263	293,309	777,952	-	10,173
Derivatives (net)	606	316	2,800	(2,640)	909
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
	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Deposits from banks	6,928	-	-	-	-
Customers' deposits	1,203,292	175,441	834,840	-	-
Subordinated liabilities	-	-	-	-	9,711
Total	1,210,220	175,441	834,840	-	9,711
Derivatives (net)	(1,944)	(7,940)	(9,704)	1,116	698

31 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.

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32 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:

	2017				
	<i>Parent</i>	<i>Direct</i>	<i>Fellow</i>	<i>Directors &</i>	<i>Other</i>
	<i>Undertaking</i>	<i>Subsidiaries &</i>	<i>Associates &</i>	<i>Senior Mgmt</i>	<i>related</i>
	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Interest income	(229)	-	-	-	102
Interest expense	(172)	(12)	(80)	-	(6,476)
Fees and commissions	-	1,746	258	24	1,327
Trading Income / (expense)	(2,669)	-	-	-	-
Deposits with banks and other financial institutions	6,490	-	128	-	-
Loans and advances	-	-	-	-	3,923
Reverse repurchase agreements	59,990	-	-	-	-
Investments in subsidiaries and joint ventures	-	1,040	-	-	-
Deposits from banks and other financial institutions	993	-	6,344	-	-
Customers' deposits	-	3,894	4	780	744,737
Subordinated liabilities	-	-	-	-	9,985
Commitments and contingent liabilities	135	-	-	-	-
Derivatives (notional)	222,917	-	-	-	-
Other assets	128	647	-	-	-
Other liabilities	2,232	1,633	212	-	-
	2016				
	<i>Parent</i>	<i>Direct</i>	<i>Fellow</i>	<i>Directors &</i>	<i>Other</i>
	<i>Undertaking</i>	<i>Subsidiaries &</i>	<i>Associates &</i>	<i>Senior Mgmt</i>	<i>related</i>
	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Interest income	(119)	-	-	-	141
Interest expense	(9)	(1)	(7)	(1)	(7,364)
Fees and commissions	-	1,695	233	-	1,574
Trading Income / (expense)	194	-	-	-	-
Deposits with banks and other financial institutions	13,455	-	329	-	-
Loans and advances	-	-	-	-	5,774
Reverse repurchase agreements	52,615	-	-	-	-
Investments in joint ventures	-	1,246	-	-	-
Deposits from banks and other financial institutions	1,802	-	3,400	-	-
Customers' deposits	-	2,122	4	337	837,504
Subordinated liabilities	-	-	-	-	9,541
Commitments and contingent liabilities	123	-	-	-	-
Derivatives (notional)	23,460	-	-	-	-
Other assets	744	466	-	-	-
Other liabilities	252	590	3,196	-	-

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33 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 2017 was \$1,824 million (2016: \$1,528 million).

34 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.

35 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 the statement of income.

The funding plan for the Fund is to hold assets equal to the value of the benefits earned by members of the Fund, based on a set of assumptions used for funding the Fund. The funding assumptions differ from the assumptions used to calculate the figures in these accounts, and therefore produce different results. Funding assumptions are required to include a margin for prudence that is not present in accounting assumptions, and the funding discount rate is based on the Fund's stated investment strategy (as opposed to the yields available on corporate bonds). If there is a shortfall against the funding plan, then the Bank and Trustees agree on deficit contributions to make good the deficit over a period of time, which ordinarily would span more than one financial accounting period.

The latest triennial actuarial funding valuation was carried out with an effective date of 31 December 2014. This valuation indicated that on a funding basis, there was a deficit of \$30.9m. As a result, deficit contributions of \$5.3m pa payable to 31 March 2020 were agreed.

The estimated amount of total employer contributions expected to be paid to the Fund during 2018 is \$5.3m (2017 actual: \$4.7m). Contributions are set based on funding valuations carried out every three years, with the effective date of the next valuation being December 2017.

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

	2017	2016
Present value of defined benefit obligation	227,479	199,966
Fair value of Fund assets	(209,350)	(176,251)
Net liability recognised in the Balance Sheet	18,129	23,715
	US\$ '000	US\$ '000

The amounts recognised in statement of income (note 7) are as follows:

	2017	2016
Net interest on net defined benefit liability	600	349
	US\$ '000	US\$ '000

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

	2017	2016
Net actuarial losses / (gains) in the year due to :-	10,575	43,649
Changes in demographic assumptions	-	1,470
Changes in financial assumptions	584	(534)
Experience on benefit obligations	(14,134)	(25,219)
Actual return less interest on Fund assets	(2,975)	19,366
Gross amount to recognised in other comprehensive income	565	(3,874)
Implied tax at the respective tax rate over the reporting period	(2,410)	15,492
Net amount recognised in other comprehensive income	(2,410)	15,492
	US\$ '000	US\$ '000

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35 EMPLOYEE BENEFITS (continued)

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

	2017	2016
	US\$ '000	US\$ '000
Balance sheet liability at period start	23,715	12,523
Exchange rate and other adjustments	1,449	(3,313)
	25,164	9,210
Amount recognised in statement of income	600	349
Amount recognised in other comprehensive income	(2,975)	19,366
Contributions paid	(4,660)	(5,210)
Balance sheet liability at period end	18,129	23,715

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

	2017	2016
	US\$ '000	US\$ '000
Opening defined benefit obligation	199,966	192,326
Exchange rate and other adjustments	20,851	(36,509)
	220,817	155,817
Interest on obligation	5,494	6,788
Actuarial (gains) / losses due to:		
Changes in financial assumptions	10,575	43,649
Changes in demographic assumptions	-	1,470
Experience adjustments on obligation	584	(534)
Benefits paid	(9,991)	(7,224)
Closing defined benefit obligation	227,479	199,966

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

	2017	2016
	US\$ '000	US\$ '000
Opening fair value of the Fund assets	176,251	179,803
Exchange rate and other adjustments	19,402	(33,197)
	195,653	146,606
Interest on Fund assets	4,894	6,440
Actual return less interest on Fund assets	14,134	25,219
Contributions by the employer	4,660	5,210
Benefits paid	(9,991)	(7,224)
Closing fair value of Fund assets	209,350	176,251

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

	2017	2016
	US\$ '000	US\$ '000
Equities	148,688	125,921
Corporate bonds	28,374	24,106
Gilts	30,614	23,576
Property	826	772
Other	848	1,876
	209,350	176,251

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35 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:

	2017	2016
Price inflation (RPI)	3.0% pa	3.1% pa
Price inflation (CPI)	2.0% pa	2.1% pa
Discount rate	2.6% pa	2.9% pa
Pension increases in payment	2.9%/5% pa	3.0%/5% pa
Life expectancy of male aged 60 at balance sheet date	28.7 years	28.6 years
Life expectancy of male aged 60 in 20 years' time	30.5 years	30.4 years

Sensitivity analysis of significant assumptions at 31 December 2017

	US\$ '000
Effect on defined benefit obligation of a 0.1% decrease in discount rate	4,460
Effect on defined benefit obligation of a 0.1% increase in inflation (RPI, LPI pension increase and CPI)	946
Effect on defined benefit obligation of a CPI deduction of 0.9% below RPI	(405)
Effect on defined benefit obligation of members living 1 year longer	7,974

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.

35 EMPLOYEE BENEFITS (continued)

Financial assumptions

1. Summary

The key assumptions at 31 December 2017 have been derived consistently with those adopted at 31 December 2016. 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.

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The major risks associated with the Bank's and Group's businesses, together with key risk management objectives and policies, are detailed in notes 27-31 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 21 to the Financial Statements.

	2017 US\$ '000	2016 US\$ '000
Tier 1 capital		
Paid up capital instruments	200,080	200,080
Share premium	128	128
Retained earnings	71,421	55,915
Accumulated other comprehensive income	8,434	7,824
Adjustments to CET1 due to prudential filters (Value adjustments)	(678)	-
	<u>279,385</u>	<u>263,947</u>
Tier 2 capital		
Paid up capital instruments and subordinated loans	9,985	9,541
Standardised Approach (SA) general credit risk adjustments	3,455	7,160
	<u>13,440</u>	<u>16,701</u>
Own Funds	<u>292,825</u>	<u>280,648</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.

	2017 US\$ '000	2016 US\$ '000
Credit and counterparty risk capital requirement (SA)		
Central governments or central banks	2,435	2,599
Multilateral development banks	-	-
Institutions	5,557	7,236
Corporates	7,661	12,795
Secured by mortgages on immovable property	46,611	41,774
Exposures in default	2,910	2,031
Items associated with particular high risk	9,616	3,275
Claims on institutions and corporates with a short-term credit assessment	5,710	3,112
Other items	1,542	1,710
	<u>82,042</u>	<u>74,532</u>
Market risk capital requirement (SA)		
Interest rate PRR	2,547	751
Foreign currency PRR	1,330	782
Credit value adjustment (SA)	543	71
	<u>4,420</u>	<u>1,604</u>
Operational risk capital requirement (Basic indicator approach)	<u>11,058</u>	<u>11,172</u>
	<u>11,058</u>	<u>11,172</u>
Total capital requirement	<u>97,520</u>	<u>87,308</u>

The Bank calculates its credit risk weighted exposure amounts in accordance with the standardised approach (SA). 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.

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

2017				
Credit Quality Step	Risk Weight %	Exposure (post CCF, CRM) US\$ '000	Exposure (post CCF, CRM) US\$ '000	
Central governments or central banks				
1	0	505,512	505,512	
2	20	19,923	19,923	
4	100	5,289	5,289	
Unrated	0	15,542	15,542	
Unrated	100	21,167	21,167	
		567,433	567,433	
Multilateral development banks				
1	0	105,764	155,382	
		105,764	155,382	
Institutions				
1	20	41,346	41,346	
2	20	163	163	
2	50	92,085	92,085	
3	50	30,248	30,248	
		163,842	163,842	
Corporates				
1	0	49,618	0	
1	20	59,827	59,827	
2	50	10,180	70,293	
3	100	62,785	2,672	
4	100	26,539	26,539	
Unrated	100	29,212	19,300	
Unrated	250	53	53	
		238,214	178,684	
Claims on institutions and corporates with a short-term credit assessment				
Institutions				
1	20	106,325	106,325	
2	20	232,306	232,306	
2	50	109	109	
3	50	6,491	6,491	
Unrated	20	1,656	1,656	
Unrated	50	43	43	
		346,930	346,930	
2016				
Credit Quality Step	Risk Weight %	Exposure (post CCF, CRM) US\$ '000	Exposure (post CCF, CRM) US\$ '000	
Central governments or central banks				
1	0	589,695	589,695	
4	100	5,324	5,324	
Unrated	100	27,162	27,162	
		622,181	622,181	
Multilateral development banks				
1	0	160,036	160,036	
		160,036	160,036	
Institutions				
1	20	42,395	42,395	
2	50	122,730	122,730	
3	50	41,209	41,209	
		206,334	206,334	
Corporates				
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	
		233,918	231,713	
Claims on institutions and corporates with a short-term credit assessment				
Institutions				
1	20	2,117	2,117	
2	20	172,925	172,925	
3	20	2,638	2,638	
Unrated	20	1,396	1,396	
Corporates				
Unrated	100	3,090	3,090	
		182,166	182,166	

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Counterparty credit risk

The gross positive fair values of derivative contracts are detailed in note 24 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:

	2017 US\$ '000	2016 US\$ '000
Exchange rate contracts:		
- for trading purposes	3,107	22,627
- for hedging purposes	276	2,801
Interest rate contracts:		
- for trading purposes	380	743
- for hedging purposes	8,131	6,867

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:

	2017					
	Up to 3 months	Over three months to one year	Over one year to five years	Over 5 years	Total	Average
	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Treasury bills	-	40,504	-	-	40,504	8,394
Deposits with banks	348,096	59,990	-	-	408,086	70,048
Loans and advances	134,452	130,251	782,728	322,978	1,370,409	1,198,662
Reverse repurchase agreements	-	59,480	-	-	59,480	59,480
Non-trading investments	46,142	39,738	378,479	199,882	664,241	544,759
Derivative financial instruments	129	45	3,718	1,831	5,723	7,242
Investments in joint ventures	-	-	-	1,027	1,027	1,136
Contingent liabilities	-	15,893	-	85	15,978	4,558
Commitments	9,040	32,543	53,306	42,106	136,995	63,292
	<u>537,859</u>	<u>378,444</u>	<u>1,218,231</u>	<u>567,909</u>	<u>2,702,443</u>	<u>1,957,572</u>
	2016					
	Up to 3 months	Over three months to one year	Over one year to five years	Over 5 years	Total	Average
	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Treasury bills	36,852	-	-	-	36,852	10,637
Deposits with banks	186,052	5,558	-	-	191,610	39,552
Loans and advances	81,717	81,142	749,603	257,736	1,170,198	1,138,907
Reverse repurchase agreements	-	-	52,615	-	52,615	4,385
Non-trading investments	24,825	104,531	358,801	146,641	634,798	571,513
Derivative financial instruments	10,152	10,712	1,877	2,609	25,350	34,852
Investments in joint ventures	-	-	-	1,246	1,246	1,246
Contingent liabilities	-	9,535	-	111	9,646	4,461
Commitments	4,031	36,119	38,186	8,407	86,743	46,903
	<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>

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:

	2017 US\$ '000	2016 US\$ '000
Loans and advances	4,807	2,205
Reverse repurchase agreements	60,113	52,616
	<u>64,920</u>	<u>54,821</u>

The eligible financial collateral is principally cash.

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

	2017				
	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	-	-	-	(22)	6,580
Kuwait	-	-	-	-	-
Other	-	-	-	-	-
	<u>0</u>	<u>0</u>	<u>-</u>	<u>(22)</u>	<u>6,580</u>

	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>

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

	2017				
	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	-	-	-	(22)	6,580
Other	-	-	-	-	-
	<u>0</u>	<u>0</u>	<u>-</u>	<u>(22)</u>	<u>6,580</u>

	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>

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 29 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 2017.

	Fixed US\$ '000	Variable US\$ '000	Total US\$ '000	Number of Code Staff
Corporate Banking	3,153	697	3,850	21
Private Banking & Wealth Management	1,182	293	1,475	9
Total Senior management	<u>4,335</u>	<u>990</u>	<u>5,325</u>	<u>30</u>