

Ahli United Bank B.S.C.

**Supplementary Public Disclosure- Financial Impact of COVID-19 For Period Ended
30 September 2020**

As part of the objective to maintain enhanced transparency amidst the current implications of Coronavirus (COVID-19) and pursuant to the Central Bank of Bahrain instructions under circular: OG/259/2020 dated 14 July 2020, the AUB Group herein provides additional supplementary information pertaining to the financial impact of COVID-19 on its interim condensed consolidated financial statements for the period ended 30 September 2020.

As noted in our H1/2020 supplementary disclosures, the COVID-19 pandemic has severely impacted the global economy, causing wide spread disruption to business and economic activities resulting in significant uncertainties in the operating environment. Global financial markets have also experienced very high levels of volatility. Various governments and central banks have responded with monetary and fiscal interventions to stabilize economic and market conditions. The impact on regional economies was further exacerbated by the collapse in oil and gas prices in 2020.

The Central Bank of Bahrain (CBB) and Central Banks of Kuwait (CBK) announced certain relief measures to combat the effects of COVID-19: These measures included the following:

- Payment holiday for 6 months to eligible customers by CBB and CBK; Further, the modification loss, calculated as the difference between the net present value of the modified cash flows using the original effective interest/profit rate and the current carrying value of the financial assets, on the date of modification, is to be debited to retained earnings;
- Concessionary repo facility to eligible banks at zero percent rate by the CBB;
- Reduction of the cash reserve ratio from 5% to 3% by the CBB;
- Reduction of liquidity coverage ratio (LCR) and net stable funding ratio (NSFR) from 100% to 80% up to 31 December 2020 by the CBB;

- Aggregate of the modification loss and incremental expected credit losses (ECL) provision for stage 1 and stage 2 from March to December 2020 is to be added back to Tier 1 capital for the two years ending 31 December 2020 and 31 December 2021 and to deduct this amount proportionately from Tier 1 capital on an annual basis over the three-year period from 1 January 2022 to 31 December 2024 by CBB;
- Further on 21 September 2020, CBB directed banks to offer customers additional four months' installments deferment options (up to 31 December 2020) with interest charge.

The table below summarizes the overall financial impact of the above for YTD Q3/2020:

Overall Impact on Interim Condensed Consolidated Financial Statements

	Net Impact (In US\$ millions)		
	Consolidated Statement of Income	Consolidated Balance Sheet (Assets)	Group's Equity attributable to Owners
Modification Loss	-	(104.9)	(104.9)
Bahrain Government Grants	-	-	6.5
Reduction in Cash Reserve with CBB	-	63.5	-
CBB Concessionary Repo Facility	Not availed	Not availed	Not availed

Other COVID-19 Impacts:

Pursuant to the COVID-19 pandemic outbreak, whilst funding conditions remained under pressure both regionally and globally, AUB effectively managed its liquidity requirements and maintained healthy liquidity contingency buffers through tapping diversified and multiple sources of funds including utilization of repo lines, albeit at a higher cost. Furthermore, with the downward trend in benchmark interest rates in

AUB's key operating markets in response to the rate cuts by the US Federal Reserve in H2/2019 followed by the COVID -19 induced further steep rate cuts in Q1/2020 together with a weak business environment resulted in a lower Net Interest Income by US\$ 122.8 million (-17.0%), reducing the overall AUB Group NPAT for YTD Q3/2020.

An increase in investment income & others by US\$ 45.0 million (+66.3%) compensated the drop in Fees and Commissions by US\$ 16.8 million (-18.0%) consequent to the overall subdued economic activity levels.

Incremental Stage 1 and Stage 2 ECL gross provision charges of US\$ 78.4 million were taken on performing risk assets as a precautionary measure in accordance with IFRS 9 during YTD Q3/2020 taking into consideration the direction of macro-economic variables and assessed management overlays to cover any inherent Significant Increase in Credit Risk (SICR) in specific sectors and in the overall portfolio given the uncertain and evolving impact of the COVID-19 pandemic.

As a result, AUB Group reported a net profit attributable to its equity shareholders of US\$ 409.3 million for the nine months ended 30 September 2020, representing a decrease of 26.7%, as compared to US\$ 558.4 million achieved in YTD Q3/2019.

Other Comprehensive Loss for YTD Q3/2020 was US\$ 126.7 million as compared to Other Comprehensive income of US\$ 25.5 million in YTD Q3/2019 mainly due to:

- Foreign currency translation loss movement relating to strategic investments of (-) US\$ 54.9 million;
- Reduction in market value of hedges due to fluctuations in interest rate by (-) US\$ 25.1 million;
- Reduction in market value of Debt and Equity investments classified as Fair Value through Other Comprehensive Income FVOCI by (-) US\$ 41.5 million.

The above movements are temporary and variable in nature and unrealized.

The AUB Group also made total donations amounting to US\$ 4.7 million in the region to support humanitarian and relief efforts in the wake of COVID-19 pandemic.

In order to ensure the health and safety of the AUB customers and staff during the COVID-19 pandemic period, major changes to infrastructure in all group-wide offices and branches were made to facilitate implementation of social distancing norms, precautionary equipment and materials as well as health support / advices were provided to customers and staff, periodic disinfection of office and branch premises continue to be undertaken in compliance with respective governmental guidelines and regulations. Additional expenditure incurred for the nine months ended 30 September 2020 for these exceptional measures was US\$ 1.6 million.

The Group has also invested in its operational and technical capabilities to provide easy continuous access to its clients to securely conduct their business needs on a remote basis as well as to enhance the ability and training of its staff to handle their responsibilities from remote locations in a controlled manner as required by pandemic conditions.

The above supplementary information should not be considered as an indication of the results of the entire year 2020 or relied upon for any other purposes. Since the COVID-19 situation is uncertain and its consequences are still evolving, its impact on the financial results of the bank is presented as assessed on the date of preparation of this information. Circumstances may change which may result in this information becoming out of date or requiring appropriate modification. It is also important to note that this information has not been subject to a review by the external auditors and does not form part of the reviewed interim condensed consolidated financial statements for YTD Q3/2020.